

## BioCorRx Inc.

### Huge Profits Ahead For Innovative Addiction Treatment Company

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#### BioCorRx Inc. (OTC:QB - BICX - \$0.12)

Price Target: \$0.40

Rating: Speculative Buy

#### COMPANY SNAPSHOT

BioCorRx Inc. is a healthcare solutions company on the leading edge of substance abuse addiction treatment. BioCorRx developed the highly effective Start Fresh Program™ which is sold to and used by addiction clinics across the U.S. The first component of the program consists of an outpatient implant procedure performed by a physician that delivers therapeutic levels of the drug Naltrexone, an opioid antagonist that significantly reduces physical cravings for alcohol and opioids, into the body. The second component is a one-on-one coaching program specifically tailored for the treatment of alcoholism and other substance abuse addictions.

#### KEY STATISTICS

Price as of 7/23/14	\$0.12
52 Week High – Low	\$0.31 – \$0.03
Est. Shares Outstanding	135.8M
Market Capitalization	\$16.3M
3 Mo Avg Vol	82,000
Exchange	OTC:QB

#### COMPANY INFORMATION

##### BioCorRx Inc.

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#### INVESTMENT HIGHLIGHTS

**The alcohol and substance addiction treatment market is huge, with \$23 billion spent annually.** According to the Centers for Disease Control and Prevention, 38 million Americans are considered heavy drinkers, consuming more than three drinks per day. The impact of this disease on our economy is staggering. The CDC estimates that alcoholism costs the U.S. economy \$220 billion each year.

**BioCorRx may have developed the holy grail of alcohol treatment, known as the Start Fresh Program, which is used by clinics across the country.** The program combines an outpatient procedure with one-on-one life coaching specifically tailored for the treatment of alcoholism and other substance abuse addictions. As the number of success stories grows, BioCorRx's Start Fresh Program could become the go-to addiction treatment program of choice.

**The Company's business model should result in major operating profits beginning next year as meaningful market penetration occurs.** Revenue is generated via program sales on a per-patient basis and BICX benefits from clinics' advertising and marketing campaigns.

**Our current projections call for \$2.6M in revenue this year, jumping to \$10.5M in 2015 and \$22.8M in 2016.** Net profit should be recorded in 1H15, with EPS of \$0.02 for the year. We note that these projections assume limited market penetration of just 30 clinics in the next 2 ½ years; the greater the penetration the greater the profits, and thus the valuation.

**In our view, the BICX model is compelling given the top-line growth opportunities and its high operating margins.** Our 6-12 month target of \$0.40 is based upon a very reasonable 20x our 2015 EPS forecast of \$0.02. We rate these shares Speculative Buy.

## COMPANY OVERVIEW

Using a novel approach to battle addiction based on time-honored methods but delivered more effectively, BioCorRx offers to sufferers of alcoholism and opioid use a distinctive way to finally overcome affliction and resume happy, productive lives. Its Start Fresh Program is comprehensive and holistic, treating mind, body and spirit. Physical cravings are significantly reduced and, in many cases, eliminated entirely. BioCorRx was established in early 2010 and is headquartered in Santa Ana, California. In the four years since its inception, over 300 patients have been successfully treated.

Central to the Start Fresh Program is the introduction of a time-release implant of Naltrexone, painlessly inserted into a patient's abdomen under local anesthetic via syringe in a short procedure. The drug works to curb cravings for alcohol and opiates, lasting from six months to one year (and possibly beyond, as statistics are being compiled). Coupled with the implant is BioCorRx's own designed Life Coaching Program, a series of talk therapy sessions. The two components work together to help patients live free of abuse.

The secret to BioCorRx's program success is that once cravings are diminished, the psycho-social aspects of the addiction can be addressed by personalized Life Coaching. Health workers have long agreed that helping patients overcome substance abuse is greatly improved by talking through issues that may lead to overuse of medications. Empowerment of the patient is a core focus to BioCorRx's treatment approach, where family and friends are encouraged to help success in recovery. Life Coaching is personalized and private, thus reducing the stress patients may feel when traveling along their journey to recovery; a true value proposition offered by the company. Life Coaching differs from other talk therapy programs in its individual attention to the patient and a plan for a future drug-free life – as opposed to group sessions where expression of emotions may be inhibited and progress of treatment delayed.

Naltrexone, approved in 1994 for treating alcohol dependence after randomized, controlled studies showed its effectiveness, is typically prescribed in pill form but problematic in that alcoholics and drug users tend toward non-compliance. This is where BioCorRx distinguishes itself – Naltrexone compounded as a marble-sized pellet is implanted in the subcutaneous fat of the patient's lower abdomen by a licensed physician in an outpatient procedure, where it dissolves over time. After implantation, the use of any substance, whether alcohol, morphine, codeine, hydrocodone or even heroin, will not trigger dopamine receptors in the brain and euphoric effects are eliminated. The rationale for using Naltrexone is simple: remove a drug's positive feelings in the brain, and the user will stop taking the drug. Implants also have the benefit of far less frequent dosage requirements, reduced rates of withdrawal and diminished relapse between doses.



Figure I. Small Naltrexone pellets are painlessly inserted in the abdomen.

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The Naltrexone time-released implant is owned by Trinity Rx Solutions LLC, and exclusively licensed to BioCorRx, a relationship that has existed since 2010. In fact, Trinity Rx has taken an equity investment in BioCorRx and receives a small monetary compensation for each program, illustrating Trinity's confidence in the BioCorRx model. At some future point, Trinity and BioCorRx may become a single entity and enjoy synergies that help them grow together in the common goal of treating addiction.

**Clinical Territories and Reach Continue to Expand**

The Company has granted the opportunity to market and distribute the Start Fresh Program to companies currently operating or planning to operate clinics in certain states and territories around the country under an upfront fee for the license, and/or other considerations. Revenue is primarily generated via program sales sold on a fee-for-patient basis to these entities, as the program is quickly gaining recognition as the most innovative method to treat alcoholism. In fact, five new territories have opened up in the past month alone: Minnesota, Oklahoma, Missouri, Ohio and Nevada. Going forward, the overwhelming majority of revenue will be generated almost exclusively via program sales to the licensees and clinics in non-licensed territories, rather than territory license income.

In March 2014, BioCorRx announced expansion of the program to treat opioid dependence, opening up a market worth billions of dollars in the U.S. alone, although addicts of this nature must meet a different type of criteria in which BioCorRx is sensitive and compliant. Because Naltrexone is FDA-approved for both types of substance abuse (and approved in other regulatory jurisdictions around the world), BioCorRx stands to benefit economically in expanding its treatment program beyond alcoholic patients.

Investors should note that BioCorRx does not own clinics where Start Fresh is administered and therefore the Company avoids any financial pitfalls associated with such ventures, including the collection of reimbursement and state-mandated facility audits and any operational expenses. The Company sells Start Fresh to medical establishments offering alcohol and drug addiction services, and rehabilitation units, lending it a wide potential market penetration. To date, BioCorRx's unique program can be found in the following locations:

- Santa Ana, California
- Walnut Creek, California
- Fresno, California
- Phoenix, Arizona
- Scottsdale, Arizona
- Norwalk, Connecticut
- Omaha, Nebraska

Movement to other territories has been rapid with the addition of Georgia, North Carolina, Maryland, Washington, D.C., Virginia, West Virginia, Ohio, Minnesota, Missouri, Oklahoma and most recently, Nevada. Alcohol and drug addiction statistics in these areas are astounding. North Carolina, with a population of 10 million people, has seen a 12% increase in drunk driving fatalities in recent years. West Virginia ranks second

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in the nation with the highest rates of opioid-related drug overdose deaths. Drunk driving deaths cost Missouri taxpayers nearly \$1.5 billion annually. Prescription drug overdose deaths in Georgia have tripled since 1999. According to the most recent available data, Nevada's per capita consumption rate of alcohol ranked fourth highest in the nation. As a result, the state recently saw a 17% increase in drunk driving fatalities resulting in a \$442 million cost to taxpayers. In 2006, Nevada ranked as the state with the highest rate of hydrocodone abuse, and on average Nevada residents consume twice as many prescription painkillers than residents of any other state. Given those statistics, it is not surprising that Nevada ranks third in the nation for drug overdose deaths, according to data from the Centers for Disease Control. Clearly, this could be a key market for Start Fresh program sales.

### Savvy Marketing Strategy Extends Geographical Reach

BioCorRx uses some advertising to bring about awareness of the Start Fresh Program, but as part of its clever business model the company enjoys the advertising leverage of the clinics marketing the program in their own territories. While word of mouth from patients and physician champions like Dr. George Fallieras, Medical Director of a premier Start Fresh Recovery clinic have brought recognition, other means such as television, radio and the Internet have been utilized with far-reaching results. Media representation has included:



Figure II. High-profile media exposure for the Start Fresh Program

Besides its cadre of doctors and licensed therapists that evangelize the Start Fresh concept, BioCorRx has the endorsement of Jeremy Miller, former star of the long-running television series *Growing Pains*, who is a successful graduate of the Program and a dedicated advocate. He appeared on Dr. Drew's *Loveline*, a widely-syndicated broadcast. Through a heartrending retelling of his personal experience with addiction, Miller extolled the virtue of BioCorRx's Program, a marketing effort for the company priceless in its honesty. Further, the Start Fresh Program has been featured on local broadcast news channels in major markets across the United States this year.

BioCorRx licenses are not limited to the U.S., and inquiries for the Company's unique services now come from the United Kingdom, India, China and Canada. There, the Start Fresh Program will be marketed to physicians, clinics and medical groups that treat alcoholism and addiction, as these are pervasive epidemics that extend worldwide. BioCorRx holds rights to a specific compounded Naltrexone pellet, and its proprietary Life Coaching Program, giving the company the ability to sub-license abroad.

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At present, we estimate that between 10 to 15 patients are treated per month under BioCorRx's program, with more expected as new clinics adopt the Start Fresh Program. The value behind its program is that once Naltrexone is implanted, patients can return to work the next business day. A life coach contacts the patient almost immediately to schedule private talk therapy with dedicated attention for up to one year, depending on the patient's schedule. Family and friends are invited into recovery, if the patient chooses so, under conditions of confidentiality to reduce the stress that accompanies this often-painful journey.

The Start Fresh Program is on track to be distributed to additional U.S. clinics every 60-90 days. Some of the nation's largest insurance providers are in active discussions with clinics to provide payment for either all or a portion of treatment fees, where there has already been precedent for reimbursement.

### MARKET/INDUSTRY OVERVIEW

An estimated two-thirds of the U.S. population consumes alcohol. Yet, according to the Centers for Disease Control and Prevention, 38 million Americans are considered heavy drinkers, consuming more than three drinks per day. The impact of this disease on our economy is staggering. The CDC estimates that alcoholism costs our economy an estimated \$220 billion annually due to hospital visits from injury, related physical and mental-health disorders, property damage from vandalism, police involvement and resultant court costs, and loss of work productivity. Worldwide, nearly three million people each year die from alcohol overdose.

Treatment of both alcohol and opioid addiction is an enormous market in the U.S., where upwards of \$23 billion is spent per annum. More than half of Americans have one or more close relatives with alcohol dependency, and nearly 7 million children under the age of 18 live with a parent that struggles with alcohol.

**43%**

... of Americans have someone related to them who is recovering or presently an alcoholic.

Addiction **HURTS** Everyone

There is a strong relationship between crime and substance abuse, which is linked to 35% of all violent offenses occurring annually in the U.S. Most of these offenses are domestic-related but also encompass transgressions that result in misdemeanors and felonies.

Whether on an in-patient or intensive out-patient basis, at least two million alcoholics receive treatment daily. Substance co-dependencies, specifically prescription drug use, call for therapy to be more specialized than toward alcohol alone, a reason the Start Fresh Program and its Life Coaching component is so effective. Prescription painkiller abuse is reaching epidemic proportions; some states have reported as much as a 700% rise in treatment for opiate addiction in the last 15 years.



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Making matters worse, up to 12 million people in the U.S. use painkillers off-prescription (non-medically). Numbers are probably higher as many cases go unreported.

Naltrexone is becoming the medicine of choice for those with substance abuse. Its primary alternatives are Antabuse and Campral, which are not preferred by patients. The former works by blocking alcohol's breakdown in the liver and results in highly unpleasant side effects like vomiting when even small amounts of liquor are ingested. Compliance then becomes a vital issue. Campral is believed to stabilize brain chemistry imbalances that contribute to alcoholism, but is not widely used due to serious side effects like diarrhea, irregular heartbeat, and dangerous changes in blood pressure.

**The BioCorRx Team****Kent Emry, CEO, Director**

With over a decade of operational success in the healthcare industry, Mr. Emry has a strong track record of financing and restructuring both rehabilitation and skilled nursing facilities to bring them to profitability, using a clear marketing strategy designed specifically to target demographics that have resulted in increasing patient numbers while controlling expenses. Central to this process, he has effectively negotiated with public, private, federal and state healthcare reimbursement entities including HMOs, Medicare, Medicaid, VA and military contracting and billing, developing policies and procedures for them. Prior to this, Mr. Emry applied the same principles to industries including property management, construction and brokerage, replacing structural efficiencies with strategies that led to greater production and growth.

**Neil Muller, Founder and President, Director**

Mr. Muller brings to BioCorRx over 20 years of experience in business management of residential and commercial property development. His devotion to the Start Fresh Program is a personal one, born from the addiction of a close family member whose success in overcoming affliction speaks to the value of the program. Mr. Muller's own testimony is also evidence that many thousands of dollars can be saved for patients' families that adopt the program intended to break the emotional and economic cycle of substance dependence. His family today is intact, happy, and dedicated to helping others achieve sober, productive lives.

**Brady Granier, COO, Director**

Mr. Granier has extensive experience in media sales and business development, serving as Director of Business Development with Clear Channel Media & Entertainment, and as its Healthcare Category Manager, where new business grew almost 50% and earned him the exclusive Pinnacle Award for his efforts. Mr. Granier's portfolio of marketing campaigns include household names such as AT&T, Neutrogena, Samsung, Coke, MGM and Universal Studios, and endorsement management of popular celebrities. Before his transition into healthcare business and strategy, Mr. Granier performed special nursing functions in emergency, intensive, cardiac and critical care units, and served as emergency room charge nurse in a busy downtown Los Angeles hospital.

**BioCorRx Inc. (OTCQB - BICX)****Lourdes Felix, CFO, Director**

Before joining BioCorRx, Ms. Felix acted as Controller in public accounting, directing the operations and financial management of regional offices, assisting in capital procurement, and overseeing an audit committee. Her corporate finance experience in the private sector, coupled with knowledge of Securities and Exchange Commission requirements and those necessary to implement Sarbanes-Oxley compliance, includes advising corporations in complex restructurings. The range of industries in which Ms. Felix has consulted comprise medical practices, manufacturing, mortgage banking, advertising, marketing, SEC reporting companies and non-profit organizations where she helped improve financial performance, productivity and internal controls.

**RISKS**

Clinics and services catering to substance abuse abound, and competition can be extensive. There are more than 100 facilities in the Northwest and California, 150 in the South and Southwestern U.S., 130 in the Midwest, and approximately 200 in the Northeast. This demographic, however, is an opportunity for the BioCorRx solution, as they are not competing with bricks and mortar but instead offering a program easily matriculated into any particular clinic's curriculum. Pricing may be an issue, however, because some of clinics are free of charge. However, the Company's model offers key benefits including low overhead, since the cost of operating the establishments and marketing the services are borne by BioCorRx's customers. This leverage enables the Company to further penetrate sales with limited marketing expenses.

Investor risks include the small capitalization of BioCorRx, its relatively low trading volume, and low investor awareness at this early stage. In its favor, BioCorRx has maintained good news flow for a company of its size and relatively short operating history, sure to result in a greater degree of future recognition by Wall Street as the Company approaches a critical mass of sales and profitability.

**FINANCIALS****Solid Balance Sheet after Convertible Debt Elimination**

It should be noted that the Company has executed highly beneficial transactions which enhances the balance sheet and increases the opportunity to penetrate the market, thus generating profitable business. One of the steps just announced is elimination of all convertible debt, which also removes any potential stock dilution that may have resulted from a debt-to-equity conversion of those convertible debentures. The total overall debt and interest, mostly convertible, that has been eliminated in recent transactions is nearly \$750,000. In the first stage of debt-reduction initiatives, the company's debt holders agreed to exchange just over \$600,000 in overall debt for upfront license fees towards territories that will give them the exclusive rights to distribute the company's Start Fresh Program, which is used to treat alcohol and opioid addiction. These additional territories, listed earlier in the report, could generate future income for the company, thereby turning a liability into an asset. Separately, the company paid off debt to another investor in the amount of roughly \$135,000 using company funds. Finally, the company successfully converted its

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remaining \$543,000 of convertible debentures which included interest into a simple interest-bearing a note payable.

**Conservative Forecasts**

While the bulk of revenue for 2013 and part of 2014 has been derived from the sale of territory licenses, the bulk of BioCorRx's revenues going forward will be generated via Start Fresh program sales to the clinics and medical establishments on a per-patient basis that includes a Naltrexone implant and Life Coaching sessions. Ramp-up in the demand of facilities for its services has been gaining significant ground due to advertising, and more importantly, leverage that comes from media coverage, a less costly proposition. Moreover, a number of clinics have just come on line, with an estimated 10 ready to accept patients beginning next month.

To cast revenue projections, we estimated growth in the number of clinics, facilities and patients purchasing the Start Fresh Program over the next two and half years, remaining conservative as brand recognition and efficacy reports are still relatively new. An approximation of the number of patients treated and the growth in number of treated patients per clinic was extrapolated based on current figures, applying a growth trend again held conservative, and using a reasonable calculation of how much BioCorRx will make per patient.

- The forecast assumes that (i) 10 clinics will be fully operational in 2014; (ii) 18 clinics will be operational in 2015 and; (iii) 28 clinics will be fully operational in 2016.
- The operating plan assumes a usage rate of 10 programs per month per clinic, which is projected at 50% of potential output.
- Collections are projected at 90% for programs sold.

Our revenue projections assume that several hundred patients will be treated this year, with the number in the low thousands in 2015, and doubling in 2016. These assumptions are based upon a rise in treated patients per facility each year, given that these facilities will be able to draw on brand recognition and the program's efficacy.

Because the company's overhead is low, gross margins have been and should remain robust. With limited overhead, BioCorRx is expected to turn cash flow positive as early as next year, when net earnings move from a loss to a gain and are projected to increase due to strong revenue growth and controlled operating costs. For 2014, we estimate total revenue of roughly \$2.6M, compared with \$715,000 last year. Our forecast assumes a loss of around \$400,000 versus a \$3.9 million loss in 2013. Looking ahead, we project revenue of \$10.5M and EPS of \$0.02 for 2015, and revenue of \$22.8M with EPS of \$0.07 for 2016.





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## **VALUATION AND CONCLUSION**

BioCorRx has created one of the most innovative and comprehensive recovery programs offered in the world of alcohol and opiate abuse, blending a minimally-intrusive medical procedure with individualized coaching incorporating a network of family and friends for added support and care for the patient that continues until healing is complete. Success of the Start Fresh Program is evident in patient testimony and will push forward growth of this unique approach. Until now, addiction-recovery tools have been limited, giving BioCorRx a wide-open landscape in which to effectively compete. Markets for its services are immense and expanding as more people each year succumb to the afflictions caused by substance abuse. Moreover, the Company's model should result in unique market penetration and profitability, beginning in 2015. Shares of BioCorRx at current prices are greatly undervalued and should move to higher levels as word of the Start Fresh Program reaches more patients, their families and every type of recovery worker.

Our 12-month price target of \$0.40 is based upon a conservative P/E multiple of 20x the expected \$0.02 in EPS for 2015, although we note that this figure could be shattered if the growth in treated patients exceeds our forecast. Even at \$0.40, the stock could be considered inexpensive, as the price/sales multiple would hover around 1.4x. Plus, given the BioCorRx model, operating and net margins of 30+%, the shares could ultimately be afforded a premium valuation. We rate these shares Speculative Buy.

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<b>BioCorRx, Inc.</b> <b>Historical and Projected Income Statement</b>				
	<u>2013A</u>	<u>2014E</u>	<u>2015E</u>	<u>2016E</u>
Net Program Sales	\$574,258	\$2,400,000	\$10,260,000	\$22,572,000
License Income	\$140,704	\$221,000	\$230,000	\$230,000
<b>Total Revenue</b>	<b>\$714,962</b>	<b>\$2,621,000</b>	<b>\$10,490,000</b>	<b>\$22,802,000</b>
Cost of Program Sales	<u>\$160,187</u>	<u>\$504,000</u>	<u>\$2,052,000</u>	<u>\$4,514,400</u>
Total Gross Profit	\$554,775	\$2,117,000	\$8,438,000	\$18,287,600
Operating expenses:				
Selling, general and administrative	\$2,919,625	\$2,160,000	\$4,924,800	\$6,771,600
Depreciation and amortization	<u>\$135,515</u>	<u>\$135,000</u>	<u>\$135,000</u>	<u>\$135,000</u>
Total Operating Expenses	\$3,055,140	\$2,295,000	\$5,059,800	\$6,906,600
<b>Operating Income (Loss)</b>	<b>(\$2,500,365)</b>	<b>(\$178,000)</b>	<b>\$3,378,200</b>	<b>\$11,381,000</b>
Other income (expenses):				
Interest Income	\$ -	\$36,693	\$62,258	\$31,440
Interest Expense	(\$310,403)	(\$215,000)	(\$100,000)	(\$75,000)
Loss in Change of Derivative Liability	(\$1,051,254)	(\$50,000)	(\$50,000)	(\$50,000)
Pretax Income (Loss)	(\$3,862,022)	(\$406,307)	\$3,290,458	\$11,287,440
Income Taxes	<u>\$1,600</u>	=	=	<u>\$1,693,116</u>
<b>Net Income (Loss)</b>	<b>(\$3,863,622)</b>	<b>(\$406,307)</b>	<b>\$3,290,458</b>	<b>\$9,594,324</b>
<b>Earnings Per Share</b>	<b>(\$0.03)</b>	<b>(\$0.00)</b>	<b>\$0.02</b>	<b>\$0.07</b>
Average Shares Outstanding	135,814,501	135,864,501	135,914,501	135,964,501
<b>MARGIN ANALYSIS</b>				
Cost of Program Sales	28%	21%	20%	20%
Total Gross Profit	97%	88%	82%	81%
SG&A	508%	90%	48%	30%
Operating Income	N/A	N/A	33%	50%
Net Income	N/A	N/A	32%	43%
Tax Rate	NMF	NMF	NMF	15%

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**Recent Trading History For BICX**

(Source: [www.Stockta.com](http://www.Stockta.com))



**Senior Analyst: Robert Goldman**

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

**Analyst Certification**

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal



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views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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