

## Exact Sciences

**Better FY24 profitability driven by topline momentum and OpEx leverage**

Reiterate Rating: BUY | PO: 88.00 USD | Price: 63.29 USD

**4Q23 sales in-line with preliminary results**

Exact Sciences (EXAS) preannounced upside 4Q23 top-line results ([see our earlier note for color](#)) and so there were few surprises in tonight's formal earnings release. Incremental 4Q specific details included an Adj. GM of 73.4% and adj. EBITDA of \$50mn (vs BofAe/Street \$31/35mn), underscoring EXAS's increasing operating leverage.

**'24 guide unchanged; 1Q lower on seasonality**

EXAS already provided FY24 topline guide in January of \$2.83bn at midpoint (+13% yoy; inline) but gave incremental details on segments, including Screening (mostly Cologuard (CG)) revenues of \$2.165bn at the midpoint vs BofAe/Street \$2.16bn (Visible Alpha) and PrecisionOncology (PO) of \$665mn at the midpoint vs BofAe/Street \$667/664mn. On the other hand, 1Q24 guidance calls for sales of \$622.5mn at the midpoint, below Street est of \$661mn, as both segments are impacted from seasonality. Also, much of the \$20mn headwind related to reference lab contracts rolling off is expected to impact 1Q. Screening and PO revenues are expected to be \$465mn and \$157.5mn at the midpoint vs Street est of \$500mn and 164mn, respectively.

**FY24 Adj. EBITDA ~8% ahead despite investments**

On the one hand, EXAS announced that it has reduced its investments in multi-cancer early detection (MCED), given it lacks a clear pathway to reimbursement. On the other hand, as EXAS continues to invest in minimal residual disease (MRD) programs, R&D is expected to be higher in FY24. After ramping down S&M by \$100mn over the last two years, EXAS now looks to add more field reps for the 45-49 age group. Finally, EXAS sees significant operating leverage coming from G&A investments. This flows to Adj. EBITDA of \$337.5mn at the midpoint in FY24 (vs BofAe/Street \$280/313mn), which seems to be pulling ahead of medium-term adj. EBITDA margin target of >20% by 2027.

**Several catalysts ahead; Update ests; Reiterate Buy**

As for upcoming catalysts, after submitting CG 2.0 to the Food and Drug Administration (FDA) in Dec '23, Mgmt. expects approval by early '25 and continues to expect CG Blood readout in mid '24 in the meantime. Within PO, development of OncoLiquid (from Resolution Bio acquisition) is making progress. Also, news from several competitors is expected in 1H24 that could move EXAS shares. We adjust our ests and reiterate our Buy rating on EXAS given the upcoming key catalysts, strong competitive position, improving profitability and attractive valuation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(3.54)	(1.14)	(0.56)	0.10	1.35
EPS Change (YoY)	-2.0%	67.8%	50.9%	NM	NM
Consensus EPS (Bloomberg)			(0.98)	0.07	0.71
DPS	0	0	0	0	0
<b>Valuation (Dec)</b>					
P/E	NM	NM	NM	632.9x	46.9x
EV / EBITDA*	NM	61.8x	39.8x	25.1x	18.3x
Free Cash Flow Yield*	-3.8%	0.3%	0.8%	1.8%	3.8%

\* For full definitions of *IQmethod™* measures, see page 4.

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21 February 2024

## Equity

**Key Changes**

(US\$)	Previous	Current
2026E Rev (m)	NA	3,680.0
2024E EPS	-1.10	-0.56
2025E EPS	0.01	0.10
2026E EPS	NA	1.35

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**Stock Data**

Price	63.29 USD
Price Objective	88.00 USD
Date Established	20-Oct-2023
Investment Opinion	C-1-9
52-Week Range	58.37 USD - 100.77 USD
Mkt Val (mn) / Shares Out (mn)	11,489 USD / 181.5
Free Float	99.0%
Average Daily Value (mn)	114.91 USD
BofA Ticker / Exchange	EXAS / NAS
Bloomberg / Reuters	EXAS US / EXAS.OQ
ROE (2024E)	-3.1%
Net Dbt to Eqty (Dec-2023A)	54.3%
<b>ESGMeter™</b>	<b>Medium</b>

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# iQprofile<sup>SM</sup> Exact Sciences

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-8.9%	-3.3%	-0.3%	1.4%	3.8%
Return on Equity	-19.4%	-6.6%	-3.1%	0.5%	6.1%
Operating Margin	-27.1%	-11.7%	-2.9%	1.5%	6.7%
Free Cash Flow	(438)	32	96	212	434

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	20.8x	2.5x
Asset Replacement Ratio	80.7x	5.6x	5.9x	5.7x	5.4x
Tax Rate	1.4%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	65.5%	54.3%	45.3%	33.1%	16.7%
Interest Cover	-30.2x	-11.1x	-0.3x	1.2x	3.5x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,084	2,500	2,830	3,220	3,680
% Change	17.9%	19.9%	13.2%	13.8%	14.3%
Gross Profit	1,510	1,846	2,102	2,424	2,807
% Change	15.4%	22.2%	13.9%	15.3%	15.8%
EBITDA	(144)	219	339	539	741
% Change	23.6%	NM	55.1%	58.7%	37.5%
Net Interest & Other Income	(39)	13	(80)	(81)	(82)
<b>Net Income (Adjusted)</b>	<b>(624)</b>	<b>(204)</b>	<b>(100)</b>	<b>18</b>	<b>247</b>
<b>% Change</b>	<b>-4.5%</b>	<b>67.3%</b>	<b>50.8%</b>	<b>NM</b>	<b>NM</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(624)	(204)	(100)	18	247
Depreciation & Amortization	100	114	125	135	145
Change in Working Capital	53	(63)	(27)	(31)	(37)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	247	308	248	258	267
Capital Expenditure	(214)	(124)	(150)	(167)	(188)
<b>Free Cash Flow</b>	<b>-438</b>	<b>32</b>	<b>96</b>	<b>212</b>	<b>434</b>
<b>% Change</b>	<b>-84.0%</b>	<b>NM</b>	<b>199.2%</b>	<b>122.1%</b>	<b>104.7%</b>
Share / Issue Repurchase	32	32	80	80	80
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	242	605	785	1,078	1,592
Trade Receivables	158	204	231	262	300
Other Current Assets	582	385	394	402	410
Property, Plant & Equipment	685	698	723	756	799
Other Non-Current Assets	4,560	4,579	4,579	4,579	4,579
<b>Total Assets</b>	<b>6,227</b>	<b>6,471</b>	<b>6,712</b>	<b>7,076</b>	<b>7,679</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	413	515	524	532	541
Long-Term Debt	2,236	2,314	2,314	2,314	2,314
Other Non-Current Liabilities	535	497	497	497	497
<b>Total Liabilities</b>	<b>3,184</b>	<b>3,326</b>	<b>3,335</b>	<b>3,343</b>	<b>3,352</b>
<b>Total Equity</b>	<b>3,043</b>	<b>3,145</b>	<b>3,377</b>	<b>3,733</b>	<b>4,327</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,227</b>	<b>6,471</b>	<b>6,712</b>	<b>7,076</b>	<b>7,679</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Medical Specialty

## Company Description

Exact is a molecular diagnostics (MDx) company with a focus on cancer screening tests. Exact has commercialized a next-generation non-invasive colorectal cancer (CRC) screening test, Cologuard (CG), which received concomitant FDA approval and Medicare coverage in 2014. In 2019, Exact acquired Genomic Health, an MDx company best known for its Oncotype DX portfolio of tests to help optimize treatment decisions for cancer patients.

## Investment Rationale

Exact is a molecular diagnostics company with a focus on cancer screening tests. Exact has commercialized a next-generation non-invasive colorectal cancer (CRC) screening test, Cologuard (CG), which received concomitant FDA approval and Medicare coverage in 2014. Exact continues to gain significant traction with doctors, patients and payers, which we expect to materialize into an industry-leading growth profile long term.

## Stock Data

Average Daily Volume 1,815,685

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.42A	-0.63E
Q2	-0.45A	-0.15E
Q3	0A	0.05E
Q4	-0.27A	0.18E

## Price objective basis & risk

### Exact Sciences (EXAS)

Our \$88 PO is based on a discounted cash flow (DCF) analysis that assumes a 3% terminal growth rate and a 11% WACC.

Upside risks to our estimates are better than expected Cologuard and Oncotype DX products ramp, higher reimbursement levels, and successful pipeline developments.

Downside risks are real or perceived slowdown in the Cologuard ramp, weakness related to COVID-19, declining compliance rates, pricing erosion, and competitive threats from liquid biopsy screening tests.

## Analyst Certification

I, Derik de Bruin, hereby certify that the views expressed in this research report accurately reflect my personal 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 specific recommendations or view expressed in this research report.

### US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
<b>NEUTRAL</b>				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Rewity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
<b>UNDERPERFORM</b>				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin



**US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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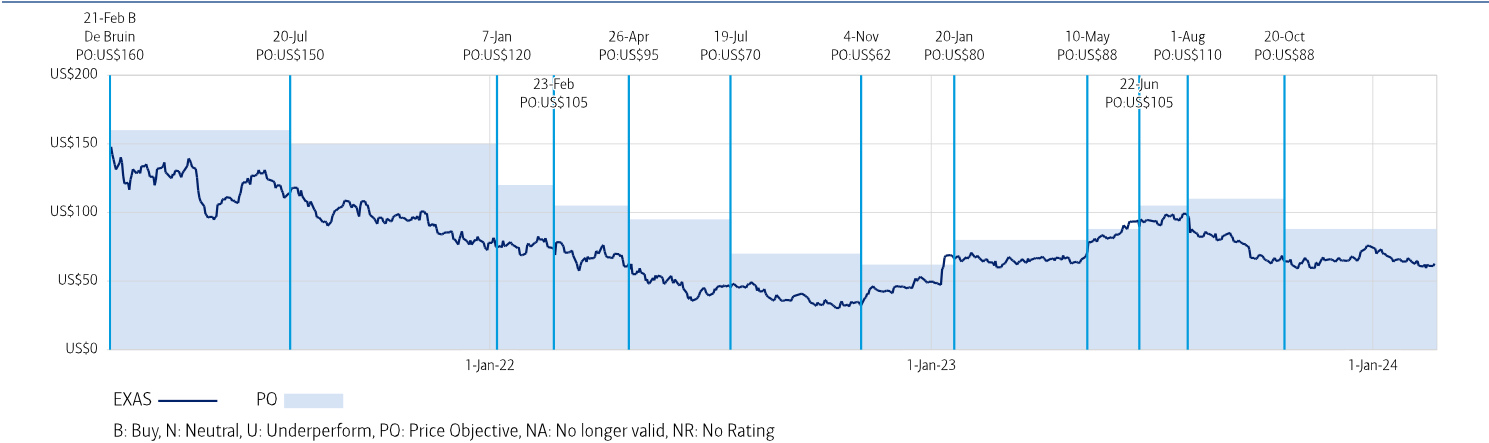
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Exact Sciences (EXAS) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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