

Reason for report:

EARNINGS

ROKA BIOSCIENCE, INC.

Off to a Good Start in 2Q with Pipeline Updates

• **Bottom Line:** Roka Bioscience reported its first earnings report as a public company with revenue slightly higher than our forecast. Our estimates are little changed. We reiterate our Outperform rating and our \$13 price target. Please see our [initiation](#) (8.11) for more detail on our ROKA investment thesis.

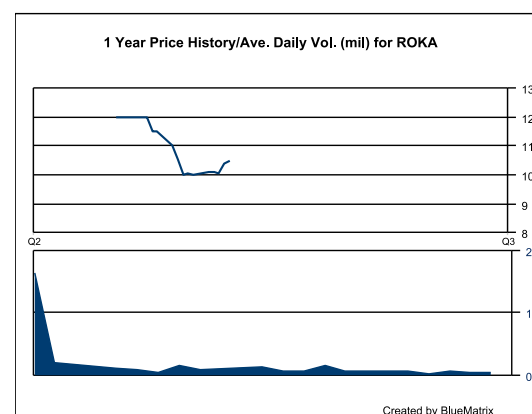
• **2Q tops us slightly; robust growth expected to continue.** Roka reported \$1.4M in revenue, 2% above our forecast, and up 107% y/y. Atlas test volume grew 65% q/q to 163k. Average revenue per Atlas instrument was ~\$38k vs ~\$27k in 1Q14, or an annualized average of ~\$150k. We believe average pull through will continue to increase in future periods, thus we model a steep sequential acceleration in revenue for the remainder of 2014. Our model assumes 22 Atlas installs and 700k tests in 2H14.

• **Pipeline update; new assays in development.** The company plans to launch non-amplified listeria in 1Q15 and a faster version of E. coli O157:H7 by the end of 2015. Roka also has a faster version of its current amplified listeria assay in development along with several other projects. The company has also finalized the development agreement for the mini-Atlas and plans to unveil a prototype in 2015 with commercialization by 2017.

Key Stats:

(NASDAQ:ROKA)

S&P 600 Health Care Index:	1,281.24
Price:	\$10.49
Price Target:	\$13.00
Methodology:	EV on~7.5x revenue for 12-mo ended Jun-16
52 Week High:	\$13.00
52 Week Low:	\$9.15
Shares Outstanding (mil):	17.2
Market Capitalization (mil):	\$180.4
Book Value/Share:	\$4.29
Cash Per Share:	\$3.76
Net Debt to Total Capital:	NM
Dividend (ann):	\$0.00
Dividend Yield:	0.0%



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2013A	\$0.3	\$0.7	\$0.6	\$0.7	\$2.2	(\$0.85)	(\$0.72)	(\$1.19)	(\$0.84)	(\$3.60)	NM
2014E - New	\$0.8A	\$1.4A	\$2.1	\$3.8	\$8.2	(\$11.92)A	(\$11.28)A	(\$0.52)	(\$0.45)	(\$24.16)	NM
2014E - Old	\$0.8A	\$1.4A	\$2.1	\$3.8	\$8.1	(\$0.70)A	(\$0.73)	(\$0.51)	(\$0.45)	(\$2.40)	NM
2015E - New	--	--	--	--	\$24.5	--	--	--	--	(\$1.43)	NM
2015E - Old	--	--	--	--	\$24.4	--	--	--	--	(\$1.42)	NM
2016E - New	--	--	--	--	\$45.4	--	--	--	--	(\$0.92)	NM
2016E - Old	--	--	--	--	\$45.2	--	--	--	--	(\$0.92)	NM

Source: Company Information and Leerink Partners LLC Research
Revenues in \$MM, GAAP EPS, IPO priced 7.17.14

INVESTMENT THESIS

We rate New Jersey-based ROKA Bioscience (ROKA) with an Outperform and a \$13 price target. ROKA is a commercial stage company whose molecular technology platform differentiates itself from legacy food safety testing methods. The company has forged customer relationships with some of the largest food companies, contract food testing labs, as well as regulatory bodies. We believe early adoption by sector trendsetters and secular tailwinds are positive signposts for the company's growth prospects.

VALUATION

Our 12-month price target of \$13 represents an enterprise value, using projected levels of debt and cash, that is ~7.5x our revenue forecast for the twelve months ended June 2016. This multiple is a premium to the median multiple for our broader life science tools and diagnostics coverage (~4x). We believe it reasonable that ROKA be awarded a premium revenue multiple for many reasons. The company is very early in its technology adoption curve, boasts a unique asset in a growth industry, and is not subject to any of the external uncertainties which impact many of the companies in this peer group, namely uncertainties over FDA regulation and reimbursement.

RISKS TO VALUATION

The primary risks to our price target for ROKA include, but are not limited to: the trajectory of the company's revenue ramp, ability to attract new customers and convert traditional testing methods to molecular, competitive pressures from incumbent and emerging food testing technologies, and failure to innovate product lines.

Roka Biosciences (ROKA)

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Income Statement											
Period Ended (\$ thousands)	2012	2013	Mar-14	Jun-14	Sep-14e	Dec-14e	2014e	2015e	2016e	2017e	2018e
Revenue											
Product	\$105	\$2,182	\$828	\$1,390	\$2,125	\$3,825	\$8,168	\$24,531	\$45,382	\$66,472	\$92,900
Other	0	0	0	0	0	0	0	0	0	0	0
Total revenue	105	2,182	828	1,390	2,125	3,825	8,168	24,531	45,382	66,472	92,900
COGS	3,186	6,600	1,265	1,573	2,486	2,945	8,270	17,662	25,868	33,236	41,805
Gross profit	(3,081)	(4,418)	(437)	(183)	(361)	880	(102)	6,869	19,514	33,236	51,095
SG&A	16,052	17,651	5,090	4,590	5,695	6,082	21,457	23,304	26,322	28,583	30,657
R&D	9,584	7,568	1,842	2,227	2,231	2,372	8,672	7,359	8,169	8,641	9,290
Operating income (loss)	(28,717)	(29,637)	(7,369)	(7,000)	(8,288)	(7,574)	(30,230)	(23,795)	(14,976)	(3,988)	11,148
Interest expense (income)	140	3,033	389	378	397	389	1,554	1,580	1,617	1,639	1,638
Other expense, net	(4,996)	0	0	(41)	0	0	(41)	0	0	0	0
Pretax income	(23,861)	(32,670)	(7,758)	(7,337)	(8,685)	(7,963)	(31,743)	(25,375)	(16,593)	(5,627)	9,510
Taxes	(763)	0	6	12	0	0	18	0	0	0	3,328
Net income	(\$23,098)	(\$32,670)	(\$7,764)	(\$7,349)	(\$8,685)	(\$7,963)	(\$31,761)	(\$25,375)	(\$16,593)	(\$5,627)	\$6,181
Basic shares outstanding		9,069	652	652	16,862	17,632	8,949	17,757	17,957	18,157	18,357
Diluted shares outstanding		9,069	652	652	16,862	17,632	8,949	17,757	17,957	18,157	19,357
EPS diluted		(\$3.60)	(\$11.92)	(\$11.28)	(\$0.52)	(\$0.45)	(\$24.16)	(\$1.43)	(\$0.92)	(\$0.31)	\$0.32
EPS growth											
Sales growth		1978.1%	211.2%	107.3%	281.8%	455.2%	274.3%	200.3%	85.0%	46.5%	39.8%
Gross margin	(2934.3%)	(202.5%)	(52.8%)	(13.2%)	(17.0%)	23.0%	(1.2%)	28.0%	43.0%	50.0%	55.0%
SG&A % of revenue	15287.6%	808.9%	614.7%	330.2%	268.0%	159.0%	262.7%	95.0%	58.0%	43.0%	33.0%
R&D % of revenue	9127.6%	346.8%	222.5%	160.2%	105.0%	62.0%	106.2%	30.0%	18.0%	13.0%	10.0%
Operating margin	(27349.5%)	(1358.2%)	(890.0%)	(503.6%)	(390.0%)	(198.0%)	(370.1%)	(97.0%)	(33.0%)	(6.0%)	12.0%
Tax rate	3.2%	0.0%	(0.1%)	(0.2%)	0.0%	0.0%	(0.1%)	0.0%	0.0%	0.0%	35.0%
D&A	\$2,045	\$2,437	\$661	\$0	\$1,190	\$1,206	\$3,057	\$8,663	\$6,927	\$7,202	\$7,624
EBITDA	(\$26,672)	(\$27,200)	(\$6,708)	(\$7,000)	(\$7,098)	(\$6,367)	(\$27,173)	(\$15,132)	(\$8,050)	\$3,214	\$18,772
Free cash flow											
Operarating cash flow	(\$27,774)	(\$27,452)	(\$4,181)				(\$22,750)	(\$15,420)	(\$7,959)	\$4,243	\$17,619
CapX	(5,929)	(3,410)	12				(3,660)	(4,772)	(6,629)	(7,972)	(9,331)
Free cash flow	(\$33,703)	(\$30,862)	(\$4,169)				(\$26,409)	(\$20,192)	(\$14,588)	(\$3,728)	\$8,288

Notes:

Source: Company reports and Leerink Partners estimates

Balance Sheet (\$ thousands)	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14e	Dec-14e
Assets						
Cash, equivalents, and short-term investments	\$17,964	\$32,728	\$32,699	\$26,013	\$64,604	\$57,618
Accounts receivable	241	277	515	566	815	1,467
Inventory	3,786	3,879	4,180	4,706	3,542	4,196
Other	<u>1,218</u>	<u>5,572</u>	<u>3,031</u>	<u>3,819</u>	<u>850</u>	<u>1,530</u>
Total current assets	23,209	42,456	40,425	35,104	69,812	64,811
Property and equipment, net	15,115	14,510	13,860	13,258	13,600	13,784
Goodwill	360	360	360	360	360	360
Other intangibles	1,386	1,344	1,302	1,260	1,260	1,260
Other	<u>264</u>	<u>444</u>	<u>333</u>	<u>2,823</u>	<u>2,823</u>	<u>2,823</u>
Total assets	\$40,334	\$59,114	\$56,280	\$52,805	\$87,855	\$83,038
Liabilities and shareholders' equity						
Notes payable and current maturities of long-term de	\$0	\$4,919	\$9,725	\$9,800	\$1,470	\$1,470
Accounts payable	941	1,226	433	882	869	2,367
Accruals and other	<u>1,760</u>	<u>2,720</u>	<u>3,094</u>	<u>6,008</u>	<u>1,870</u>	<u>3,366</u>
Total current liabilities	2,701	8,865	13,252	16,690	4,209	7,203
Long-term debt	0	0	0	0	8,330	8,330
Deferred payments	3,196	3,205	3,212	3,216	0	0
Other	<u>528</u>	<u>591</u>	<u>1,566</u>	<u>1,524</u>	<u>1,524</u>	<u>1,524</u>
Total liabilities	\$6,425	\$12,661	\$18,030	\$21,430	\$14,063	\$17,057
Convertible preferred stock	\$124,030	\$127,797	\$127,700	\$127,698	\$0	\$0
Shareholders' equity	(\$90,121)	(\$81,344)	(\$89,450)	(\$96,323)	\$73,791	\$65,981
Total liabilities, shareholders' equity, and minority inter	\$40,334	\$59,114	\$56,280	\$52,805	\$87,855	\$83,038

Disclosures Appendix

Analyst Certification

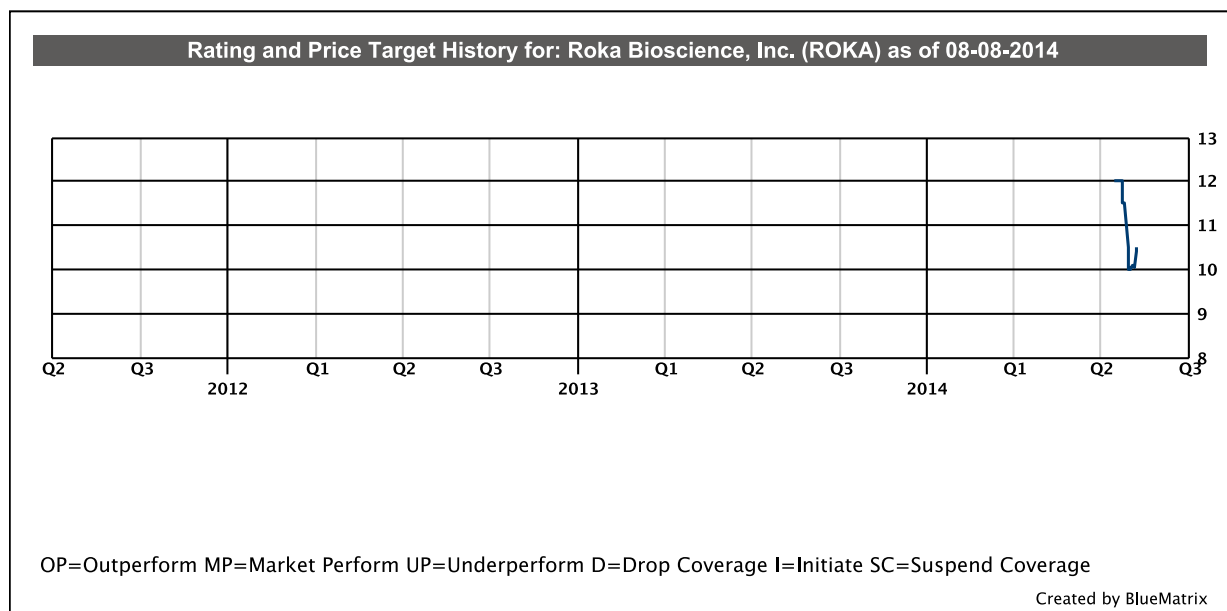
I, Dan Leonard, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

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Distribution of Ratings/Investment Banking Services (IB) as of 06/30/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	138	69.00	50	36.20
HOLD [MP]	62	31.00	2	3.20
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months. The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than \$2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over \$2 billion.

Important Disclosures

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In the past 12 months, the Firm has received compensation for providing investment banking services to Roka Bioscience, Inc. .

Leerink Partners LLC makes a market in Roka Bioscience, Inc.

Leerink Partners LLC has acted as the manager for a public offering of Roka Bioscience, Inc. in the past 12 months.

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