

ROKA BIOSCIENCE, INC.

Estimates and PT Reflect More Conservative View

• **Bottom Line:** We are lowering our forecasts following ROKA's 4Q14 report. Accordingly we are reducing our price target to \$6 (from \$8) but maintain our Outperform rating.

• **Quarter essentially in line.** ROKA reported 4Q14 revenue of \$1.36M, in line with our forecast. The company placed two Atlas instruments during the quarter, including one to a new commercial customer. Total Atlas instruments at year-end were 38 compared to 23 in 4Q13. Relative to our model, cost of goods sold was slightly higher while operating expenses were in line.

• **Revised listeria assay expected in 2H.** ROKA expects to commercially launch its revised listeria assay in 2H15. Recall the existing assay generated periodic false positives. The company is reducing the efficiency of the amplification reagent and increasing the amount sample input required to maintain sensitivity in the new version of the assay. ROKA has completed all internal validation steps and is beginning the AOAC approval process. The company is also working with several customers on the assay design and expects to commence beta testing in April.

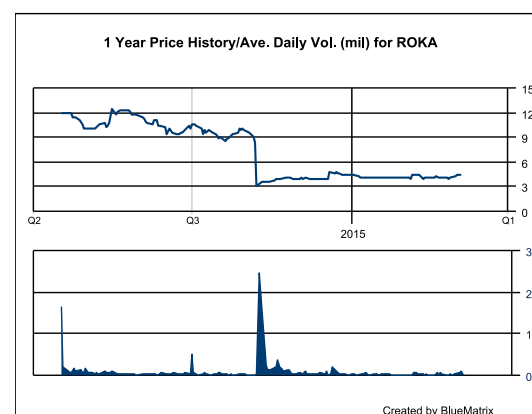
• **Focus on beef vertical continues.** ROKA is making progress in entering the beef industry. Major beef producers have been showing interest as they evaluate the company's E coli O157:H7 assay. During the quarter, ROKA initiated comparative analyses of significant numbers of real world samples with several of the major beef processors. The company plans to expand the scope of these studies during 2015.

• **Lowering forecasts.** ROKA doesn't expect quarterly revenue to meaningfully change from 4Q levels until 2H15. This assumption is below our prior thinking, and we reduced all our revenue forecasts accordingly (2016 - 2018 based on percentage growth from a now lower base). The backbone of our model now assumes ROKA captures 15% of the North American molecular food pathogen testing market by 2018E, down from a prior assumption approaching 20%.

Key Stats:

(NASDAQ:ROKA)

S&P 600 Health Care Index:	1,610.49
Price:	\$3.95
Price Target:	\$6.00 from \$8.00
Methodology:	~6x EV/revenue for 12-mo ended Dec-17E, discounted back at 20%
52 Week High:	\$13.00
52 Week Low:	\$2.97
Shares Outstanding (mil):	17.2
Market Capitalization (mil):	\$67.9
Book Value/Share:	\$4.60
Cash Per Share:	\$3.33
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
2014A	\$0.8	\$1.4	\$1.5	\$1.4	\$5.1	(\$11.92)	(\$11.28)	(\$0.64)	(\$0.43)	(\$3.88)	NM
2015E - New	\$1.4	\$1.5	\$1.7	\$2.2	\$6.7	(\$0.50)	(\$0.51)	(\$0.52)	(\$0.52)	(\$2.06)	NM
2015E - Old	--	--	--	--	\$9.1	--	--	--	--	(\$1.89)	NM
2016E - New	--	--	--	--	\$15.5	--	--	--	--	(\$1.78)	NM
2016E - Old	--	--	--	--	\$22.3	--	--	--	--	(\$1.56)	NM
2017E - New	--	--	--	--	\$28.0	--	--	--	--	(\$1.46)	NM
2017E - Old	--	--	--	--	\$40.3	--	--	--	--	(\$1.07)	NM

Source: Company Information and Leerink Partners LLC Research
Revenues in \$MM.

GAAP EPS, IPO priced 7.17.14.

INVESTMENT THESIS

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, and the automation and performance advantages of its Atlas instrument and tests will enable the company to capture a meaningful share of the molecular food pathogen testing market over time.

VALUATION

Our 12-month price target assumes an enterprise value (using projected levels of debt and cash) that is ~6x our revenue forecast for the 12 months ended Dec-17. This yields a price of ~\$7 in 2 years. We discount this price back at a rate of 20% to arrive at a \$6 12-month price target. The multiple we're using is a slight premium to the median emerging growth tools and diagnostics multiple of ~5x forward-twelve month revenue.

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, failure to innovate product lines, and financing risk.

Roka Biosciences (ROKA)

Income Statement

Dan Leonard, 212-277-6116

dan.leonard@leerink.com

Period Ended (\$ thousands)	2012	2013	Mar-14	Jun-14	Sep-14	Dec-14	2014	Mar-15e	Jun-15e	Sep-15e	Dec-15e	2015e	2016e	2017e	2018e
Revenue															
Product	\$105	\$2,182	\$828	\$1,390	\$1,483	\$1,356	\$5,057	\$1,354	\$1,467	\$1,710	\$2,160	\$6,691	\$15,483	\$27,970	\$48,525
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total revenue	105	2,182	828	1,390	1,483	1,356	5,057	1,354	1,467	1,710	2,160	6,691	15,483	27,970	48,525
COGS	3,186	6,600	1,265	1,573	2,578	2,431	7,847	1,828	1,980	2,309	2,916	9,033	12,386	18,180	26,689
Gross profit	(3,081)	(4,418)	(437)	(183)	(1,095)	(1,075)	(2,790)	(474)	(513)	(599)	(756)	(2,342)	3,097	9,789	21,836
SG&A	16,052	17,651	5,090	4,590	5,356	5,832	20,868	5,824	5,868	5,985	6,048	23,725	24,773	25,173	26,689
R&D	9,584	7,568	1,842	2,227	1,922	1,943	7,934	1,964	2,054	2,052	1,944	8,014	8,051	8,391	9,705
Operating income (loss)	(28,717)	(29,637)	(7,369)	(7,000)	(8,373)	(8,850)	(31,592)	(8,261)	(8,435)	(8,636)	(8,748)	(34,080)	(29,727)	(23,774)	(14,558)
Interest expense (income)	140	3,033	389	378	476	561	1,804	397	400	367	335	1,500	1,447	2,120	2,279
Other expense, net	(4,996)	0	0	(41)	223	0	182	0	0	0	0	0	0	0	0
Pretax income	(23,861)	(32,670)	(7,758)	(7,337)	(9,072)	(9,411)	(33,578)	(8,658)	(8,836)	(9,003)	(9,083)	(35,580)	(31,174)	(25,894)	(16,836)
Taxes	(763)	0	6	12	11	(1,980)	(1,951)	0	0	0	0	0	0	0	0
Net income	(\$23,098)	(\$32,670)	(\$7,764)	(\$7,349)	(\$9,083)	(\$7,431)	(\$31,627)	(\$8,658)	(\$8,836)	(\$9,003)	(\$9,083)	(\$35,580)	(\$31,174)	(\$25,894)	(\$16,836)
Basic shares outstanding		9,069	652	652	14,154	17,151	8,152	17,201	17,251	17,301	17,351	17,276	17,476	17,676	17,876
Diluted shares outstanding		9,069	652	652	14,154	17,151	8,152	17,201	17,251	17,301	17,351	17,276	17,476	17,676	17,876
EPS diluted		(\$3.60)	(\$11.92)	(\$11.28)	(\$0.64)	(\$0.43)	(\$3.88)	(\$0.50)	(\$0.51)	(\$0.52)	(\$0.52)	(\$2.06)	(\$1.78)	(\$1.46)	(\$0.94)
EPS growth															
Sales growth		1978.1%	211.2%	107.3%	166.5%	96.8%	131.8%	63.6%	5.5%	15.3%	59.3%	32.3%	131.4%	80.6%	73.5%
Gross margin	(2934.3%)	(202.5%)	(52.8%)	(13.2%)	(73.8%)	(79.3%)	(55.2%)	(35.0%)	(35.0%)	(35.0%)	(35.0%)	(35.0%)	20.0%	35.0%	45.0%
SG&A % of revenue	15287.6%	808.9%	614.7%	330.2%	361.2%	430.1%	412.7%	430.0%	400.0%	350.0%	280.0%	354.6%	160.0%	90.0%	55.0%
R&D % of revenue	9127.6%	346.8%	222.5%	160.2%	129.6%	143.3%	156.9%	145.0%	140.0%	120.0%	90.0%	119.8%	52.0%	30.0%	20.0%
Operating margin	(27349.5%)	(1358.2%)	(890.0%)	(503.6%)	(564.6%)	(652.7%)	(624.7%)	(610.0%)	(575.0%)	(505.0%)	(405.0%)	(509.3%)	(192.0%)	(85.0%)	(30.0%)
Tax rate	3.2%	0.0%	(0.1%)	(0.2%)	(0.1%)	21.0%	5.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
D&A	\$2,045	\$2,437	\$661	\$667	\$1,362	\$1,300	\$3,990	\$1,089	\$1,064	\$1,039	\$1,008	\$4,200	\$5,229	\$8,300	\$4,220
EBITDA	(\$26,672)	(\$27,200)	(\$6,708)	(\$6,333)	(\$7,011)	(\$7,550)	(\$27,602)	(\$7,173)	(\$7,371)	(\$7,597)	(\$7,740)	(\$29,880)	(\$24,498)	(\$15,474)	(\$10,338)
Free cash flow															
Operating cash flow	(\$27,774)	(\$27,452)	(\$4,181)	(\$6,217)	(\$7,598)		(\$23,996)					(\$30,215)	(\$24,298)	(\$15,137)	(\$8,571)
CapX	(5,929)	(3,410)	12	(75)	(76)		(258)					(179)	(904)	(2,261)	(5,684)
Free cash flow	(\$33,703)	(\$30,862)	(\$4,169)	(\$6,292)	(\$7,674)		(\$24,254)					(\$30,393)	(\$25,202)	(\$17,398)	(\$14,255)

Notes:

Source: Company reports and Leerink Partners estimates

Balance Sheet (\$ thousands)	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15e	Jun-15e	Sep-15e	Dec-15e
Assets								
Cash, equivalents, and investments*	\$32,699	\$26,013	\$62,849	\$57,100	\$50,299	\$43,322	\$32,426	\$24,307
Accounts receivable	515	566	765	670	594	643	750	947
Inventory	4,180	4,706	4,894	4,930	3,607	3,907	4,554	5,752
Other	<u>3,031</u>	<u>3,819</u>	<u>1,652</u>	<u>2,115</u>	<u>1,354</u>	<u>1,467</u>	<u>1,710</u>	<u>2,160</u>
Total current assets*	40,425	35,104	70,160	64,815	55,853	49,338	39,440	33,166
Property and equipment, net	13,860	13,258	12,688	12,186	11,777	11,285	10,772	10,165
Goodwill	360	360	360	360	360	360	360	360
Other intangibles	1,302	1,260	27,100	26,156	25,656	25,156	24,656	24,156
Other	<u>333</u>	<u>2,823</u>	<u>317</u>	<u>308</u>	<u>308</u>	<u>308</u>	<u>308</u>	<u>308</u>
Total assets	\$56,280	\$52,805	\$110,625	\$103,825	\$93,954	\$86,447	\$75,535	\$68,154
Liabilities and shareholders' equity								
Notes payable and current maturities of long-term debt	\$9,725	\$9,800	\$9,875	\$9,956	\$1,493	\$1,493	\$1,043	\$1,043
Accounts payable	433	882	868	1,134	221	1,000	1,296	1,804
Accruals and other	<u>3,094</u>	<u>6,008</u>	<u>2,929</u>	<u>2,820</u>	<u>2,167</u>	<u>2,347</u>	<u>2,736</u>	<u>3,456</u>
Total current liabilities	13,252	16,690	13,672	13,910	3,882	4,840	5,075	6,303
Long-term debt	0	0	0	0	8,463	8,463	5,913	5,913
Deferred payments	3,212	3,216	10,314	10,457	10,457	10,457	10,457	10,457
Other	<u>1,566</u>	<u>1,524</u>	<u>378</u>	<u>383</u>	<u>383</u>	<u>383</u>	<u>383</u>	<u>383</u>
Total liabilities	\$18,030	\$21,430	\$24,364	\$24,750	\$23,184	\$24,143	\$21,828	\$23,056
Convertible preferred stock	\$127,700	\$127,698	\$0	\$0	\$0	\$0	\$0	\$0
Shareholders' equity	(\$89,450)	(\$96,323)	\$86,261	\$79,075	\$70,770	\$62,304	\$53,708	\$45,099
Total liabilities, shareholders' equity, and minority interest	\$56,280	\$52,805	\$110,625	\$103,825	\$93,954	\$86,447	\$75,535	\$68,154

Notes:

Source: Company reports and Leerink Partners estimates

*Includes long-term investments

Disclosures Appendix

Analyst Certification

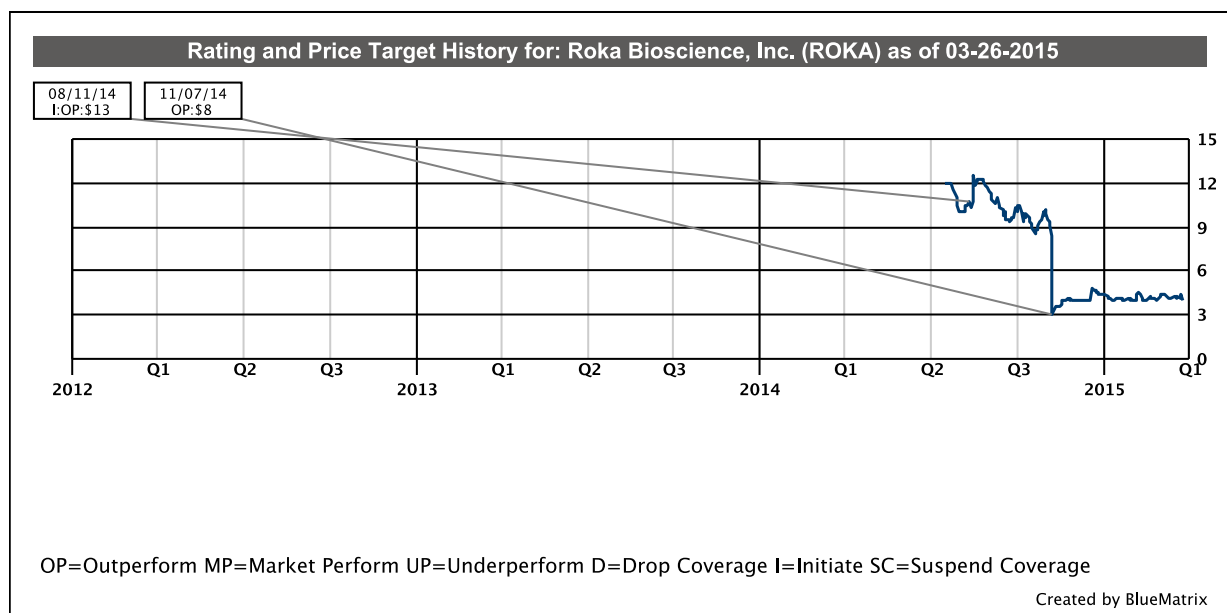
I, Dan Leonard, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

Our 12-month price target assumes an enterprise value (using projected levels of debt and cash) that is ~6x our revenue forecast for the 12 months ended Dec-17. This yields a price of ~\$7 in 2 years. We discount this price back at a rate of 20% to arrive at a \$6 12-month price target. The multiple we're using is a slight premium to the median emerging growth tools and diagnostics multiple of ~5x forward-twelve month revenue.

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, failure to innovate product lines, and financing risk.



Distribution of Ratings/Investment Banking Services (IB) as of 12/31/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	150	70.00	60	40.00
HOLD [MP]	64	30.00	1	2.00
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

This information (including, but not limited to, prices, quotes and statistics) has been obtained from sources that we believe reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All information is subject to change without notice. This is provided for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy any product to which this information relates. The Firm, its officers, directors, employees, proprietary accounts and affiliates may have a position, long or short, in the securities referred to in this report, and/or other related securities, and from time to time may increase or decrease the position or express a view that is contrary to that contained in this report. The Firm's salespeople, traders and other professionals may provide oral or written market commentary or trading strategies that are contrary to opinions expressed in this report. The Firm's proprietary accounts may make investment decisions that are inconsistent with the opinions expressed in this report. The past performance of securities does not guarantee or predict future performance. Transaction strategies described herein may not be suitable for all investors. Additional information is available upon request by contacting the Editorial Department at One Federal Street, 37th Floor, Boston, MA 02110.

Like all Firm employees, analysts receive compensation that is impacted by, among other factors, overall firm profitability, which includes revenues from, among other business units, Institutional Equities, and Investment Banking. Analysts, however, are not compensated for a specific investment banking services transaction. MEDACorp is a network of healthcare professionals, attorneys, physicians, key opinion leaders and other specialists accessed by Leerink and it provides information used by its analysts in preparing research.

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.

©2015 Leerink Partners LLC. All rights reserved. This document may not be reproduced or circulated without our written authority.

Leerink Partners LLC Equity Research

Director of Equity Research	John L. Sullivan, CFA	(617) 918-4875	john.sullivan@leerink.com
Associate Director of Research	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink.com
Healthcare Strategy	John L. Sullivan, CFA	(617) 918-4875	john.sullivan@leerink.com
	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink.com
Biotechnology	Howard Liang, Ph.D.	(617) 918-4857	howard.liang@leerink.com
	Joseph P. Schwartz	(617) 918-4575	joseph.schwartz@leerink.com
	Michael Schmidt, Ph.D.	(617) 918-4588	michael.schmidt@leerink.com
	Gena Wang, Ph.D., CFA	(212) 277-6073	gena.wang@leerink.com
	Paul Matteis	(617) 918-4585	paul.matteis@leerink.com
	Jonathan Chang, Ph.D.	(617) 918-4015	jonathan.chang@leerink.com
	Richard Goss	(617) 918-4059	richard.goss@leerink.com
Life Science Tools and Diagnostics	Dan Leonard	(212) 277-6116	dan.leonard@leerink.com
	Justin Bowers, CFA	(212) 277-6066	justin.bowers@leerink.com
	Kevin C. Chen	(212) 277-6045	kevin.chen@leerink.com
Pharmaceuticals/Major	Seamus Fernandez	(617) 918-4011	seamus.fernandez@leerink.com
	Aneesh Kapur	(617) 918-4576	aneesh.kapur@leerink.com
Specialty Pharmaceuticals	Jason M. Gerberry, JD	(617) 918-4549	jason.gerberry@leerink.com
	Derek C. Archila	(617) 918-4851	derek.archila@leerink.com
Medical Devices, Cardiology & Orthopedics	Danielle Antalffy	(212) 277-6044	danielle.antalffy@leerink.com
	Puneet Souda	(212) 277-6091	puneet.souda@leerink.com
	Richard Newitter	(212) 277-6088	richard.newitter@leerink.com
	Ravi Misra	(212) 277-6049	ravi.misra@leerink.com
Healthcare Services	Ana Gupte, Ph.D.	(212) 277-6040	ana.gupte@leerink.com
Healthcare Technology & Distribution	David Larsen, CFA	(617) 918-4502	david.larsen@leerink.com
	Christopher Abbott	(617) 918-4010	chris.abbott@leerink.com
Digital Health	Steven Wardell	(617) 918-4097	steven.wardell@leerink.com
Sr. Editor/Supervisory Analyst	Mary Ellen Eagan, CFA	(617) 918-4837	maryellen.eagan@leerink.com
Supervisory Analysts	Robert Egan		bob.egan@leerink.com
	Amy N. Sonne		amy.sonne@leerink.com
Editorial	Cristina Diaz-Dickson	(617) 918-4548	cristina.diaz-dickson@leerink.com
Research Associate	Carmen Augustine	(212) 277-6012	carmen.augustine@leerink.com

New York
299 Park Avenue, 21st floor
New York, NY 10171
(888) 778-1653

Boston
One Federal Street, 37th Floor
Boston, MA 02110
(800) 808-7525

San Francisco
255 California Street, 12th Floor
San Francisco, CA 94111
(415) 905-7200