

Equity Research

May 8, 2015

Price: \$2.80 (05/7/2015)

Price Target: \$5.50

OUTPERFORM (1)

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Key Data

Symbol	NASDAQ: ROKA
52-Week Range:	\$13.00 - 2.75
Market Cap (MM):	\$50.5
Net Debt (MM):	\$(47.1)
Cash/Share:	\$2.48
Dil. Shares Out (MM):	18.0
Enterprise Value (MM):	\$3.4
ROIC:	NM
ROE (LTM):	NM
BV/Share:	\$4.48
FCF Yield:	NM
Dividend:	NA
Short Interest:	NM

FY (Dec)	2014A	2015E	2016E
Earnings Per Share			
Year	\$(1.80)	\$(2.07)	\$(2.00)
Prior Year	-	\$(1.84)	\$(1.76)
Consensus EPS	\$(1.80)	\$(1.93)	\$(1.53)

Consensus source: Thomson Reuters

Revenue (MM)

Q1	\$0.8	\$1.5A	\$3.2
Q2	\$1.4	\$1.6	\$3.7
Q3	\$1.5	\$2.2	\$4.5
Q4	\$1.4	\$2.9	\$5.6
Year	\$5.1	\$8.2	\$16.9

Earnings Update

Listeria Progressing; ROKA on Track for Reacceleration in H2

The Cowen Insight

Q1 results were in line with expectations and importantly, the revamped listeria assay was submitted for AOAC approval with a Q3 launch anticipated. Feedback from beta testing has been encouraging. We continue to view industry fundamentals as attractive, and ROKA's positioning as differentiated, and at <1x 2016E EV/sales, view shares as a compelling LT opportunity.

Q1 Results In Line

Q1 revenue of ~\$1.5MM (+84% Y/Y) was about in line with expectations. 3 instruments were placed in the quarter (all to existing customers), in line with our forecast, bringing the total installed base to 41 instruments. Pull through remains solid, with increases in Salmonella and E. coli utilization being offset by listeria decreases, as customers await the new assay. Margins and EPS were largely in line with expectations.

Solid Progress On Listeria Assay; Focus Remains On Second Half

ROKA made solid progress on the listeria assay in the quarter, beginning beta testing with customers and submitting the assay for AOAC approval. Early feedback from beta customers has been extremely positive, with the internal data ROKA saw prior to beta testing being replicated. As a reminder, during internal studies the new assay was able to significantly reduce false positives (the main issue which caused delay), while maintaining best-in-class sensitivity.

Management continues to target a Q3 AOAC approval and subsequent launch. Feedback from customers has been strong, and management believes the approval of the listeria assay should drive an uptick in placements, conversions and pull through. Lastly, management plans to provide an update on the low throughput platform in development on the Q2 call. This platform has the potential to significantly increase ROKA's TAM, and management indicated that this platform will provide assays for the detection of allergens and mycotoxins (not currently on Atlas), in addition to already commercial pathogen assays.

It Will Take Time, But Fundamentals & Valuation Render Shares Compelling

We remain positive on ROKA's competitive positioning and target market (food pathogen testing), and continue to believe that while the initial placement and validation / implementation cycles will be long and a bit choppy, that the result will be a very sticky, long-duration customer base. The listeria assay issue is not yet completely resolved, but clear progress is being made, and we remain believers in the disruptive potential of this platform. The stock has sold off >35% YTD, and at <1x 2016E EV/Sales, we see clear value here for long term investors.

At A Glance

Our Investment Thesis

We view ROKA as a potential disruptor in the attractive food safety market. The company's flagship Atlas system is clearly best in class and should become the standard for high-volume food pathogen testing; early adopters validate the potential. Further, we view ROKA as employing a capital-efficient model, while investing towards broader opportunities targeting the broader \$2B food testing market. There are clearly risks given the early stage and lengthy selling cycles inherent to this industry, but we believe Roka represents a compelling investment in an attractive macro-investment theme (food safety), and expect shares to Outperform the market over the next 12-18 months.

Forthcoming Catalysts

- Quarterly results
- Pipeline updates
- Strategic account announcements
- Food testing market trends

Base Case Assumptions

- Initial strategic accounts ramp in 2015
- Steady new placement trends
- Steady utilization ramp
- No OUS or pipeline contributions included in forecasts

Upside Scenario

- Additional strategic accounts drive further upside potential
- Pipeline progress exceeds expectations
- Faster than expected market growth and share gains

Downside Scenario

- Listeria issue lingers through 2015, further slowing new placement trends and utilization ramp
- Pipeline progress stalls
- Competitive positioning becomes less favorable

Price Performance



Source: Bloomberg

Company Description

Roka Bioscience is a molecular diagnostics company initially focused on providing advanced testing solutions for the detection of foodborne pathogens, which is projected to be the fastest growing segment of the \$2B food safety testing market. The proprietary molecular technology used in Roka's assays enable the company to offer accurate and rapid testing solutions while our fully automated instrument helps its customers reduce labor costs and minimize operator error. Roka recently launched its proprietary Atlas Detection Assays and Atlas instrument in the North American food safety testing market and has worldwide rights to develop and commercialize advanced molecular testing solutions for a wide range of other industrial applications.

Analyst Top Picks

	Ticker	Price (05/7/2015)	Price Target	Rating
Cepheid	CPHD	\$56.06	\$64.00	Outperform
DexCom	DXCM	\$67.48	\$80.00	Outperform

Figure 1 ROKA Earnings Snapshot

Cowen vs. Consensus (\$MM, except EPS)					
	Q1:14A	Q1:15E		Q1:15A	Guidance
		Cowen	Consensus		
Revenue	\$0.8	\$1.5	\$1.4	\$1.5	None Provided
Gross Margin	(53.9%)	(20.0%)	(27.5%)	(30.0%)	
Operating Margin	NM	NM	NM	NM	
EPS	(\$0.46)	(\$0.47)	(\$0.50)	(\$0.51)	
Selected Revenue Metrics (\$MM, except EPS)					
	Q1:14A	Q4:14A	Q1:15E	Q1:15A	Comments
Consumables Revenue	\$0.8	\$0.6	\$1.3	\$1.4	Consumables revenue of ~\$1.4MM was about in line with our model. Management noted that pull through trends for all assays besides listeria continues to be very positive. Pricing was also noted to have not changed. The listeria assay is expected to launch in Q3, and should drive an uptick in utilization.
Growth (Y/Y)	NM	0.0%	NM	NM	
Systems Revenue	\$0.0	\$0.0	\$0.0	\$0.0	ROKA placed 3 instruments in the quarter, all to existing customers, and in line with our forecast. Management noted there is some pent up demand as customers hold off purchasing until the AOAC approves the new listeria assay. This approval is expected to drive an uptick in placements.
Growth (Y/Y)	NM	NM	NM	NM	
Other Revenues	\$0.1	\$0.1	\$0.1	\$0.1	
Growth (Y/Y)	(50.0%)	0.0%	NM	0.0%	
Income Statement (\$MM, except EPS)					
	Q1:14A	Q4:14A	Q1:15E	Q1:15A	Comments
Revenue	\$0.8	\$0.7	\$1.5	\$1.5	Q1 revenue was about in line with our forecast and consensus expectations. The focus continues to be on the new listeria assay, which is expected to launch in Q3, and drive an uptick in both placement and pull through trends.
Growth (Y/Y)	NM	NM	78.6%	83.8%	
Gross Profit	(\$0.4)	(\$1.1)	(\$0.3)	(\$0.5)	Gross margin was a bit below our forecast in the quarter, but notably, COGS decreased ~\$400K Q/Q despite a ~\$150K increase in revenue. Management noted this is sustainable, and increased volume will be the main driver towards break even / positive gross margin.
Margin	(53.9%)	(157.2%)	(20.0%)	(30.0%)	
R&D	\$1.8	\$1.7	\$2.0	\$1.9	Cash burn was in line with our forecast and management guidance. OpEx for the quarter was slightly below our forecast, but largely in line.
% of sales	NM	NM	136.2%	NM	
Growth Y/Y	5.1%	NM	8.6%	2.6%	
Sales and Marketing	\$2.8	\$2.6	\$3.0	\$2.8	
% of sales	NM	NM	204.7%	NM	
Growth Y/Y	14.9%	NM	7.9%	0.0%	
General and Administrative	\$2.3	\$2.0	\$2.4	\$2.3	
% of sales	NM	NM	163.4%	NM	
Growth Y/Y	22.9%	NM	6.4%	0.0%	
Operating Profit	(\$7.4)	(\$7.4)	(\$7.7)	(\$8.4)	
Margin	NM	NM	NM	NM	
Non-Operating Items	\$1.0	\$0.2	\$0.4	\$0.5	
Pre-Tax Income	(\$8.4)	(\$7.6)	(\$8.1)	(\$8.9)	
Taxes	\$0.0	\$0.0	\$0.0	\$0.0	
Rate	(0.1%)	(0.1%)	0.0%	(0.0%)	
Net Income	(\$8.4)	(\$7.6)	(\$8.1)	(\$8.9)	
Margin	NM	NM	NM	NM	
Earnings Per Share	(\$0.46)	(\$0.42)	(\$0.47)	(\$0.51)	
Growth (Y/Y)	NM	NM	NM	NM	
Share Count (MM)	18.1	18.1	17.2	17.2	

Source: Company Reports, Thomson One and Cowen and Company

Figure 2 ROKA Revenue Forecast

SMM	Q1:14	Q2:14	Q3:14	Q4:14	Q1:15	Q2:15E	Q3:15E	Q4:15E	Q1:16E	Q2:16E	Q3:16E	Q4:16E	2014	2015E	2016E	2017E	2018E	2019E	5 Yr.CAGR	Comments
Total Revenues	\$0.8	\$1.4	\$1.5	\$1.4	\$1.5	\$1.7	\$2.2	\$2.9	\$3.2	\$3.7	\$4.5	\$5.8	\$5.1	\$8.3	\$16.9	\$28.9	\$45.4	\$66.3	67.4%	No formal guidance provided
growth (Y/Y)	NM	NM	NM	NM	NM	20.8%	47.7%	NM	NM	NM	NM	NM	NM	63.9%	NM	70.3%	57.4%	46.0%		
growth (Q/Q)	19.4%	69.1%	6.7%	(8.6%)	11.4%	11.1%	30.5%	32.2%	9.2%	16.7%	22.2%	23.9%								
Non-Product Revenues	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.3	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	8.9%	
growth (Y/Y)	(50.0%)	(50.0%)	(50.0%)	0.0%	0.0%	NM	NM	0.0%	NM	0.0%	0.0%	0.0%	(37.5%)	40.0%	14.3%	0.0%	0.0%	0.0%		
% of sales	6.1%	3.6%	3.4%	7.4%	3.3%	6.0%	4.6%	3.5%	3.2%	2.7%	2.2%	1.8%	4.9%	4.2%	2.4%	1.4%	0.9%	0.6%		
Product Revenues	\$0.8	\$1.3	\$1.4	\$1.3	\$1.5	\$1.6	\$2.1	\$2.8	\$3.1	\$3.6	\$4.4	\$5.5	\$4.8	\$7.9	\$16.5	\$28.5	\$45.0	\$65.9	68.0%	
growth (Y/Y)	NM	NM	NM	NM	NM	17.8%	45.9%	NM	NM	NM	NM	NM	NM	65.1%	NM	72.0%	58.2%	46.4%		
% of sales	93.9%	96.4%	96.6%	92.6%	96.7%	94.0%	95.4%	96.5%	96.8%	97.3%	97.8%	98.2%	95.1%	95.8%	97.6%	98.6%	99.1%	99.4%		
System Revenues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2	\$0.0	\$0.3	\$0.6	\$0.7	\$0.7	\$0.7	NM	
Reported Growth (Y/Y)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	71.9%	NM	NM	NM	NM	2.3%	2.3%	2.2%		
% of Product Revenues	0.0%	0.0%	0.0%	0.0%	2.5%	2.3%	4.6%	3.9%	4.4%	4.2%	3.7%	3.6%	0.0%	3.5%	3.9%	2.3%	1.5%	1.0%		
Consumables Revenues	\$0.8	\$1.3	\$1.4	\$1.3	\$1.4	\$1.5	\$2.0	\$2.7	\$2.9	\$3.4	\$4.2	\$5.3	\$4.8	\$7.7	\$15.9	\$27.8	\$44.3	\$65.2	68.5%	
Reported Growth (Y/Y)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	59.4%	NM	74.8%	59.5%	47.1%		
% of Product Revenues	100.0%	100.0%	100.0%	100.0%	97.5%	97.7%	95.4%	96.1%	95.6%	95.8%	96.3%	96.4%	100.0%	96.5%	96.1%	97.7%	98.5%	99.0%		

Source: Company Reports and Cowen and Company

Figure 3 ROKA P&L Forecast

SMM, except per share data	Q1:14	Q2:14	Q3:14	Q4:14	Q1:15	Q2:15E	Q3:15E	Q4:15E	Q1:16E	Q2:16E	Q3:16E	Q4:16E	2014	2015E	2016E	2017E	2018E	2019E	5 Yr.CAGR	Comments
Net sales	\$0.8	\$1.4	\$1.5	\$1.4	\$1.5	\$1.6	\$2.2	\$2.9	\$3.2	\$3.7	\$4.5	\$5.6	\$5.1	\$8.2	\$16.9	\$28.9	\$45.4	\$68.3	83.5%	No formal guidance provided
Growth	NM	NM	NM	96.9%	83.8%	14.5%	47.7%	NM	NM	NM	NM	92.9%	131.5%	62.1%	107.0%	70.3%	57.4%	46.0%		
Cost of sales	\$1.3	\$1.6	\$2.6	\$2.4	\$2.0	\$2.0	\$2.3	\$2.9	\$3.0	\$3.2	\$3.7	\$4.2	\$7.8	\$9.1	\$14.2	\$20.7	\$27.4	\$36.3		
Gross Profit	(\$0.4)	(\$0.2)	(\$1.1)	(\$1.1)	(\$0.5)	(\$0.4)	(\$0.1)	\$0.0	\$0.2	\$0.5	\$0.8	\$1.4	(\$2.8)	(\$1.0)	\$2.8	\$8.2	\$18.0	\$30.0	NM	
% of sales	(53.9%)	(13.2%)	(73.8%)	(79.3%)	(30.0%)	(25.0%)	(5.0%)	0.0%	5.0%	12.4%	17.6%	24.2%	(55.4%)	(11.7%)	16.3%	28.4%	39.6%	45.2%		Target 55-60% at ~\$100MM revenue
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	66.7%		
Research and Development	\$1.8	\$2.2	\$1.9	\$1.9	\$1.9	\$2.1	\$2.0	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1	\$7.9	\$8.0	\$8.4	\$8.6	\$8.7	\$8.8	2.8%	
% of sales	NM	NM	NM	NM	NM	NM	91.3%	70.8%	64.8%	56.9%	46.6%	37.6%	157.1%	98.2%	49.3%	29.8%	19.2%	13.3%		
Growth	5.1%	14.5%	(10.1%)	12.2%	2.6%	(5.7%)	4.1%	5.5%	8.5%	0.0%	5.0%	2.4%	4.8%	1.3%	3.9%	3.0%	1.2%	1.1%		
Selling, General and Administrative	\$5.0	\$4.5	\$4.6	\$4.9	\$5.1	\$5.4	\$5.4	\$5.4	\$6.0	\$6.0	\$6.0	\$6.0	\$19.1	\$21.3	\$24.0	\$26.0	\$27.0	\$28.0	8.1%	
% of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	378.0%	260.5%	141.6%	90.1%	59.4%	42.2%		
Growth	18.4%	6.4%	5.8%	6.6%	1.5%	18.9%	17.0%	10.6%	17.3%	11.0%	11.0%	11.0%	9.2%	11.7%	12.5%	8.3%	3.8%	3.7%		
Other (Amort. of Intang.)	\$0.0	\$0.0	\$0.7	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$1.8	\$3.7	\$3.7	\$3.7	\$3.7	\$3.7	NM	
% of sales	5.1%	3.0%	49.8%	69.7%	62.0%	58.4%	42.4%	32.1%	29.4%	25.2%	20.6%	16.6%	35.0%	45.5%	21.9%	12.8%	8.1%	5.6%		
Growth	0.1%	0.1%	NM	NM	NM	NM	26.0%	(1.6%)	(0.7%)	0.0%	0.0%	0.0%	NM	NM	(0.2%)	(0.5%)	0.0%	0.0%		
Total Operating Expenses	\$6.9	\$6.8	\$7.3	\$7.8	\$7.9	\$8.4	\$8.3	\$8.4	\$9.0	\$9.0	\$9.0	\$9.0	\$28.8	\$33.1	\$36.1	\$38.3	\$39.4	\$40.5	9.3%	Expected to remain relative flat Q/Q into 2015 (from H2:14)
% of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	132.7%	86.8%	61.1%		
Growth	14.4%	8.9%	11.2%	22.3%	14.7%	23.7%	14.5%	7.9%	13.1%	7.0%	8.3%	7.7%	14.2%	14.9%	9.0%	6.2%	2.9%	2.8%		
EBITDA	(\$6.6)	(\$6.2)	(\$7.6)	(\$8.1)	(\$7.6)	(\$7.0)	(\$8.5)	(\$8.2)	(\$7.3)	(\$6.8)	(\$6.3)	(\$12.9)	(\$27.9)	(\$27.4)	(\$25.1)	(\$21.1)	(\$11.8)	(\$0.2)	NM	
% of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(334.0%)	(148.1%)	(73.1%)	(25.9%)	(0.3%)		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM		
Depreciation & Amortization	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$1.8	\$1.9	\$2.2	\$1.5	\$1.8	\$1.9	(\$5.2)	\$4.2	\$6.7	\$8.2	\$9.0	\$9.7	\$10.3		
Operating Profit	(\$7.4)	(\$7.0)	(\$8.4)	(\$8.9)	(\$8.4)	(\$8.8)	(\$8.4)	(\$8.4)	(\$8.8)	(\$8.8)	(\$8.2)	(\$7.7)	(\$31.6)	(\$34.1)	(\$33.3)	(\$30.1)	(\$21.4)	(\$10.5)	NM	
% of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(104.3%)	(47.2%)	(15.9%)		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM		
Incremental Margin	NM	NM	NM	NM	NM	NM	(10.2%)	30.2%	(26.0%)	12.4%	9.0%	26.3%	(68.1%)	(78.6%)	8.5%	26.9%	52.5%	52.1%		
Other non-Operating Expense	\$0.6	(\$0.0)	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		
Net Interest Expense	\$0.4	\$0.4	\$0.5	\$0.6	\$0.5	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$1.8	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7		
Earnings Before Taxes	(\$8.4)	(\$7.3)	(\$8.1)	(\$8.4)	(\$8.9)	(\$9.3)	(\$8.9)	(\$8.8)	(\$9.2)	(\$9.0)	(\$8.7)	(\$8.1)	(\$34.2)	(\$35.8)	(\$35.0)	(\$31.8)	(\$23.1)	(\$12.2)	NM	
% of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(110.1%)	(50.8%)	(18.4%)		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM		
Income Taxes	\$0.0	\$0.0	\$0.0	(\$2.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$2.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		
Rate	NM	NM	NM	NM	NM	0.0%	0.0%	(0.1%)	0.0%	0.0%	0.0%	(0.1%)	5.7%	(0.0%)	(0.0%)	0.0%	0.0%	0.0%		
Net Income	(\$8.4)	(\$7.3)	(\$8.1)	(\$7.4)	(\$8.9)	(\$9.3)	(\$8.9)	(\$8.8)	(\$9.2)	(\$9.0)	(\$8.7)	(\$8.1)	(\$32.2)	(\$35.8)	(\$35.0)	(\$31.8)	(\$23.1)	(\$12.2)	NM	
% of sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(110.1%)	(50.8%)	(18.4%)		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM		
Earnings Per Share	(\$0.46)	(\$0.41)	(\$0.50)	(\$0.43)	(\$0.51)	(\$0.54)	(\$0.51)	(\$0.51)	(\$0.53)	(\$0.51)	(\$0.49)	(\$0.46)	(\$1.80)	(\$2.07)	(\$2.00)	(\$1.80)	(\$1.30)	(\$0.68)	NM	
Shares Outstanding	18.1	18.1	18.1	17.2	17.2	17.3	17.3	17.4	17.4	17.5	17.5	17.6	17.9	17.3	17.5	17.6	17.8	17.9		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM		

ROKA BIOSCIENCE DIAGNOSTICS - CONSENSUS ESTIMATES																			
SMM, except per share data	Q1:14	Q2:14	Q3:14	Q4:14	Q1:15	Q2:15E	Q3:15E	Q4:15E	Q1:16E	Q2:16E	Q3:16E	Q4:16E	2014	2015E	2016E	2017E	2018E	2019E	
Consensus Revenue	N/A	N/A	\$2.2	\$1.4	\$1.4	\$1.5	\$2.0	\$2.6	\$3.2	\$3.7	\$4.5	\$5.6	\$5.1	\$7.6	\$16.3	\$28.4	\$47.0	\$66.3	
Growth							(10.8%)	80.3%	122.1%	139.9%	125.3%	115.6%		48.0%	114.5%	74.9%	65.2%	41.2%	
Actual / Cowen	\$0.8	\$1.4	\$1.5	\$1.4	\$1.5	\$1.6	\$2.2	\$2.9	\$3.2	\$3.7	\$4.5	\$5.6	\$5.1	\$8.2	\$16.9	\$28.9	\$45.4	\$66.3	
Consensus Gross Margin	N/A	N/A	(13.2%)	1.5%	(27.5%)	(22.5%)	(17.5%)	(15.0%)	10.0%	15.0%	22.0%	26.8%	(7.5%)	(19.4%)	19.9%	33.5%	42.5%	47.0%	
Actual / Cowen	(53.9%)	(13.2%)	(73.8%)	(79.3%)	(30.0%)	(25.0%)	(5.0%)	0.0%	5.0%	12.4%	17.6%	24.2%	(55.4%)	(11.7%)	16.3%	28.4%	39.6%	45.2%	
Consensus Op. Margin	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NM	NM	N/A	N/A	N/A	
Actual / Cowen	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	(104.3%)	(47.2%)	(15.9%)	
Consensus EPS	N/A	N/A	(\$0.49)	(\$0.52)	(\$0.50)	(\$0.50)	(\$0.49)	(\$0.48)	(\$0.47)	(\$0.48)	(\$0.43)	(\$0.40)	(\$2.19)	(\$1.97)	(\$1.85)	(\$1.50)	(\$1.01)	(\$0.41)	
Actual / Cowen	(\$0.46)	(\$0.41)	(\$0.50)	(\$0.43)	(\$0.51)	(\$0.54)	(\$0.51)	(\$0.51)	(\$0.53)	(\$0.51)	(\$0.49)	(\$0.46)	(\$1.80)	(\$2.07)	(\$2.00)	(\$1.80)	(\$1.30)	(\$0.68)	

Source: Company Reports, Thomson One and Cowen and Company

Valuation Methodology And Risks

Valuation Methodology

Life Science & Diagnostic Tools:

Price targets are based on several methodologies which may include: analysis of market risk, growth rate, revenue stream, discounted cash flows (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount) / average group EV/EBITDA, premium (discount) / average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Investment Risks

Life Science & Diagnostic Tools:

Risks to the Medical and Life Science Tools sector may include: reduction or delay in research and development budgets and government funding, reduced or delayed purchasing from health care / hospital customers, increased or extended regulatory hurdles or processes for regulated products, increased dependence on volatile emerging markets for revenues and profitability, and general macroeconomic challenges.

We make investment recommendations on early stage and pre-commercial LS&DT companies based upon an assessment of their technology, the probability of market success (competitive, regulatory, reimbursement, etc), and the potential market opportunity in the event of success. However, because these companies lack traditional and/or more mature financial metrics, we do not believe there are good methodologies for assigning a specific target price to such stocks.

Risks To The Price Target

Risks to our price target include: Regulatory delays / challenges, key account exposure / revenue concentration, new product performance challenges, competitive pressures, financing risk.

Addendum

Stocks Mentioned In Important Disclosures

Ticker	Company Name
CPHD	Cepheid
DXCM	DexCom
ROKA	Roka Bioscience

Analyst Certification

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Cowen and Company Rating System effective May 25, 2013

Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

Market Perform (2): The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Rating System until May 25, 2013

Outperform (1): Stock expected to outperform the S&P 500

Neutral (2): Stock expected to perform in line with the S&P 500

Underperform (3): Stock expected to underperform the S&P 500

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

Sell – The fundamentals/valuations of the subject company are deteriorating and the investment return is expected to be 5 to 15 percentage points lower than the general market return

Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

Cowen And Company Rating Definitions

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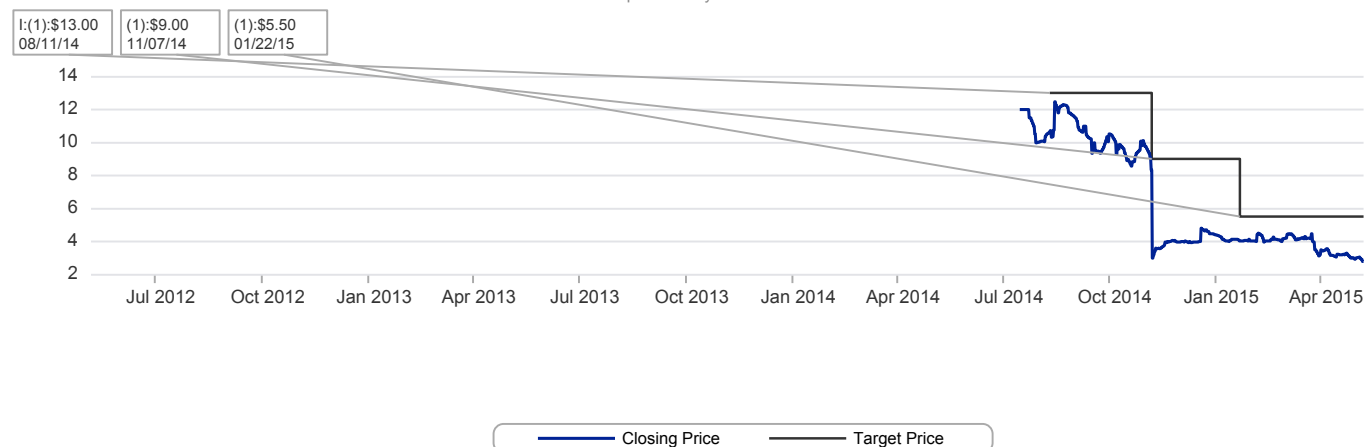
Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	450	58.67%	103	22.89%
Hold (b)	302	39.37%	8	2.65%
Sell (c)	15	1.96%	0	0.00%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

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Roka Bioscience Rating History as of 05/07/2015

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Cepheid Rating History as of 05/07/2015

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DexCom Rating History as of 05/07/2015

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Legend for Price Chart:

I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | \$xx = Price Target | NA = Not Available | S=Suspended

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