

May 7, 2015

OUTPERFORM

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Reason for report:

EARNINGS

ROKA BIOSCIENCE, INC.

Progress Towards Fix Continues

• **Bottom Line:** ROKA has completed development of its listeria assay and submitted the assay for regulatory approval. We continue to expect early 3Q approval, followed by a 2H revenue uptick. We maintain our Outperform rating and \$6 price target.

• **1Q revenues ahead of Street, but not materially.** ROKA did exceed Street revenue expectations in 1Q by 12% (\$1.5M vs \$1.3M est), part of which was due to the sale of an Atlas instrument.

• **Three Atlas placements to existing customers in Q.** ROKA's three Atlas instrument placements in the quarter represent its highest level of quarterly placements since 2Q14. The sales process remains stifled, and we anticipate more robust placement velocity following regulatory clearance of its listeria assay.

• **Listeria development complete; assay submitted to regulators.** We believe ROKA remains on track for early 3Q regulatory clearance. The company has already received positive feedback from beta testing sites.

• **2H upward slope projected.** While the sales cycle for new products in the food pathogen testing industry is long, we believe ROKA could see uptake of its new listeria assay more quickly due to pent-up demand. Beta sites are obvious early adopters.

• **No material change to forecast.**

Key Stats:

(NASDAQ:ROKA)

S&P 600 Health Care Index: 1,603.74

Price: \$2.80

Price Target: \$6.00

Methodology: ~6x EV/revenue for 12-mo ended Dec-17E, discounted back at 20%

52 Week High: \$13.00

52 Week Low: \$2.75

Shares Outstanding (mil): 17.2

Market Capitalization (mil): \$48.2

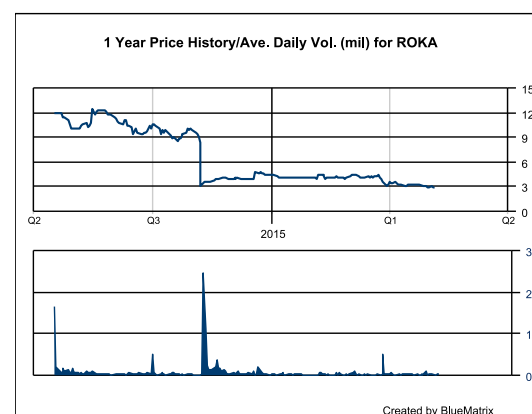
Book Value/Share: \$4.11

Cash Per Share: \$2.90

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	\$1.5A	\$1.5	\$1.7	\$2.1	\$6.7	(\$0.51)A	(\$0.52)	(\$0.52)	(\$0.52)	(\$2.07)	NM
2015E - Old	\$1.4	\$1.5	\$1.7	\$2.2	\$6.7	(\$0.50)	(\$0.51)	(\$0.52)	(\$0.52)	(\$2.06)	NM
2016E - New	--	--	--	--	\$15.3	--	--	--	--	(\$1.77)	NM
2016E - Old	--	--	--	--	\$15.5	--	--	--	--	(\$1.78)	NM
2017E - New	--	--	--	--	\$27.5	--	--	--	--	(\$1.46)	NM
2017E - Old	--	--	--	--	\$28.0	--	--	--	--	(\$1.46)	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. This multiple is consistent with the median emerging growth tools and diagnostics multiple of ~6x 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

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Period Ended (\$ thousands)	2012	2013	Mar-14	Jun-14	Sep-14	Dec-14	2014	Mar-15	Jun-15e	Sep-15e	Dec-15e	2015e	2016e	2017e	2018e
Revenue															
Product	\$105	\$2,182	\$828	\$1,390	\$1,483	\$1,356	\$5,057	\$1,511	\$1,467	\$1,710	\$2,059	\$6,747	\$15,250	\$27,548	\$47,794
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	1,511	1,467	1,710	2,059	6,747	15,250	27,548	47,794
COGS	3,186	6,600	1,265	1,573	2,578	2,431	7,847	1,964	1,980	2,309	2,780	9,033	12,200	17,906	26,287
Gross profit	(3,081)	(4,418)	(437)	(183)	(1,095)	(1,075)	(2,790)	(453)	(513)	(599)	(721)	(2,286)	3,050	9,642	21,508
SG&A	16,052	17,651	5,090	4,590	5,356	5,832	20,868	6,050	6,088	6,071	6,075	24,283	24,400	24,793	26,287
R&D	9,584	7,568	1,842	2,227	1,922	1,943	7,934	1,889	1,907	1,881	1,894	7,572	7,930	8,264	9,559
Operating income (loss)	(28,717)	(29,637)	(7,369)	(7,000)	(8,373)	(8,850)	(31,592)	(8,392)	(8,509)	(8,550)	(8,690)	(34,140)	(29,279)	(23,416)	(14,338)
Interest expense (income)	140	3,033	389	378	476	561	1,804	466	402	369	336	1,574	1,478	2,124	2,284
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)	(8,858)	(8,911)	(8,919)	(9,026)	(35,715)	(30,758)	(25,540)	(16,623)
Taxes	(763)	0	6	12	11	(1,980)	(1,951)	2	0	0	0	2	0	0	0
Net income	(\$23,098)	(\$32,670)	(\$7,764)	(\$7,349)	(\$9,083)	(\$7,431)	(\$31,627)	(\$8,860)	(\$8,911)	(\$8,919)	(\$9,026)	(\$35,717)	(\$30,758)	(\$25,540)	(\$16,623)
Basic shares outstanding		9,069	652	652	14,154	17,151	8,152	17,221	17,246	17,271	17,296	17,259	17,359	17,459	17,559
Diluted shares outstanding		9,069	652	652	14,154	17,151	8,152	17,221	17,246	17,271	17,296	17,259	17,359	17,459	17,559
EPS diluted		(\$3.60)	(\$11.92)	(\$11.28)	(\$0.64)	(\$0.43)	(\$3.88)	(\$0.51)	(\$0.52)	(\$0.52)	(\$0.52)	(\$2.07)	(\$1.77)	(\$1.46)	(\$0.95)
EPS growth															
Sales growth		1978.1%	211.2%	107.3%	166.5%	96.8%	131.8%	82.5%	5.5%	15.3%	51.9%	33.4%	126.0%	80.6%	73.5%
Gross margin	(2934.3%)	(202.5%)	(52.8%)	(13.2%)	(73.8%)	(79.3%)	(55.2%)	(30.0%)	(35.0%)	(35.0%)	(35.0%)	(33.9%)	20.0%	35.0%	45.0%
SG&A % of revenue	15287.6%	808.9%	614.7%	330.2%	361.2%	430.1%	412.7%	400.4%	415.0%	355.0%	295.0%	359.9%	160.0%	90.0%	55.0%
R&D % of revenue	9127.6%	346.8%	222.5%	160.2%	129.6%	143.3%	156.9%	125.0%	130.0%	110.0%	92.0%	112.2%	52.0%	30.0%	20.0%
Operating margin	(27349.5%)	(1358.2%)	(890.0%)	(503.6%)	(564.6%)	(652.7%)	(624.7%)	(555.4%)	(580.0%)	(500.0%)	(422.0%)	(506.0%)	(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	\$1,558	\$4,248	\$1,157	\$1,054	\$1,030	\$1,015	\$4,256	\$5,548	\$8,289	\$4,205
EBITDA	(\$26,672)	(\$27,200)	(\$6,708)	(\$6,333)	(\$7,011)	(\$7,292)	(\$27,344)	(\$7,235)	(\$7,455)	(\$7,520)	(\$7,675)	(\$29,885)	(\$23,732)	(\$15,127)	(\$10,134)
Free cash flow															
Operating cash flow	(\$27,774)	(\$27,452)	(\$4,181)	(\$6,217)	(\$7,598)	(\$5,519)	(\$23,515)					(\$29,341)	(\$23,602)	(\$14,853)	(\$8,477)
CapX	(5,929)	(3,410)	12	(75)	(76)	(59)	(198)					(370)	(906)	(2,259)	(5,600)
Free cash flow	(\$33,703)	(\$30,862)	(\$4,169)	(\$6,292)	(\$7,674)	(\$5,578)	(\$23,713)					(\$29,711)	(\$24,507)	(\$17,111)	(\$14,077)

Notes:

Source: Company reports and Leerink Partners estimates

Disclosures Appendix

Analyst Certification

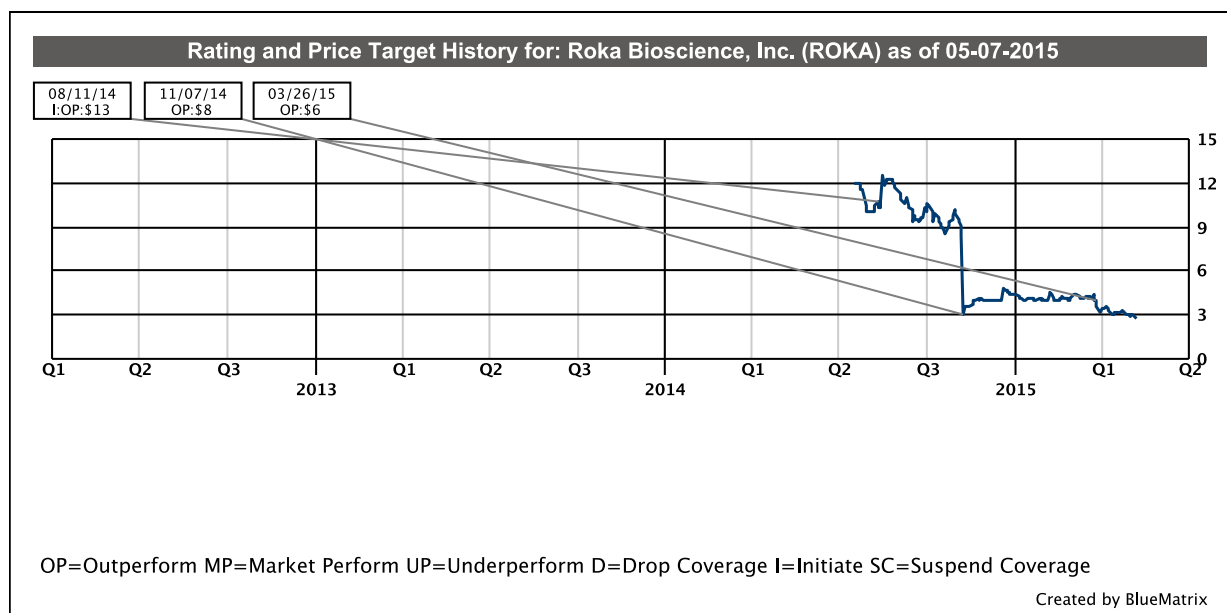
I, Dan Leonard, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

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Distribution of Ratings/Investment Banking Services (IB) as of 03/31/15				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	151	70.20	55	36.00
HOLD [MP]	64	29.80	2	3.00
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

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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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