

IGNYTA, INC.

Oral Presentation at ASCO to Offer Detailed RXDX-101 Profile; Reiterate BUY

RXDX (NASDAQ)

Company & Market Data

Closing Price (as of May 14, 2014):	\$7.40
Rating:	BUY
Price Target:	\$20.00
52 Week Range:	\$1.00 - \$20.00
Shares Outstanding (MM):	20
Market Capitalization (MM):	\$145
Cash (MM):	\$100.4
Debt (MM):	\$9.0
Fiscal Year End:	Dec

Estimates

EPS	2013A	2014E	2015E
1Q	—	\$(0.28)A	\$(0.31)
2Q	—	\$(0.24)	\$(0.33)
3Q	—	\$(0.27)	\$(0.34)
4Q	—	\$(0.27)	\$(0.34)
Full Year	\$(1.94)	\$(1.06)	\$(1.33)
Revenue (MM)	\$0.0	\$0.0	\$0.0

Ignyta is developing personalized oncology drugs using diagnostic tests to identify patients most likely to respond to therapy. The company's lead product RXDX-101, is a TrkA/B/C, ROS1, ALK inhibitor in Phase I development for the treatment of solid tumors. Ignyta hopes to move the program into Phase II development in 2015 for multiple indications including NSCLC. The San Diego-based company is also in pre-clinical development of other targeted cancer therapies based on proprietary Oncolome molecular expression database.

On 5/14/14, abstracts for the upcoming ASCO meeting were released, including abstract 2502 describing Phase I data for ALKA-372-001, an Italian Phase I study of RXDX-101 in treatment of solid tumors. Importantly, the ASCO abstract released on May 14 was submitted in late January 2014 and, in our view, is unlikely to disclose any new data. However, the oral presentation will contain data through at least mid May and, in our view, may include results from substantially all patients enrolled in the Italian ALKA-372-001 Phase I study. Data in the abstract is almost identical to a presentation in February at the International Association for the Study of Lung Cancer (IASLC) meeting, including safety and efficacy data from 17 patients dosed with 100 mg/m2/day, 400 mg/m2/day or 800 mg/m2/day of RXDX-101. The ASCO abstract does provide incremental data on half life of RXDX-101. The IASLC presentation identified a half life of about 21 hours. The ASCO abstract describes a half life of 21 hours for the 100 mg/m2/day and 400 mg/m2/day cohorts and 32 hours for the 800 mg/m2/day. We look forward to seeing the complete ALKA-372-001 data during an oral presentation at ASCO, Saturday 5/31/14 at 1:39 in Hall D2, to learn more about the pharmacodynamic profile of RXDX-101 and the implications for dosing in STARTRK-1, a U.S. Phase I/II continuous dosing study scheduled to begin enrollment in early 3Q14. Reiterate Buy rating and \$20.00 PT.

- **What's New?** ASCO abstract 2502 was released to the public. The abstract describes data from 17 patients enrolled in the ALKA-372-001 Phase I study of RXDX-101 in treatment of solid tumors. The data is almost identical to a presentation in February at the IASLC meeting. While we view the abstract as a non-event for RXDX shares, we view the related oral presentation at ASCO, which should include data on all patients from the ALKA-372-001 study, as a material potential catalyst for shares of RXDX. The oral presentation will be presented at ASCO Saturday 5/31/14 at 1:39PM.
- **Background on ALKA-372-001 Study Design:** The protocol, which was drafted by partner Nerviano, called for patients to be dosed once daily for 4 days of a weekly cycle and for 3 weeks of a 4 week schedule for a total of 12 days of a 28 day cycle. A total of 11 patients were dosed prior to the program being transferred to RXDX in November 2013. In February 2014 at the IASLC meeting, investigators from Massachusetts General presented preliminary Phase I data suggesting a clean safety profile and signs of clinical activity. A total of 18 patients had been enrolled with 17 in six different dose cohorts receiving at least one dose. A total of 7 patients were still receiving RXDX-101. Investigators reported 2 ALK+ patients in the second dose cohort demonstrated sustained clinical response. A NSCLC patient had stable disease after 12 cycles while a neuroblastoma patient had a partial response after 13 cycles. One ROS1+ pancreatic cancer patient in the 3rd cohort had stable disease after 8 cycles. There were no dose-limiting toxicities with only one case of Grade III toxicity (asthenia). The drug demonstrated a half life of 20 hours and pharmacokinetics consistent with QD dosing. The ASCO abstract, which was submitted in late January, includes nearly identical data.

Disclosures and Analyst Certifications can be found in Appendix A.

570 Lexington Avenue 11th Floor • New York, New York 10022 • Telephone: 212-409-2000 • 800-LAD-THAL

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Table 1.

Ignyta Income Statement											
(In \$ millions)	2013A	1Q14A	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E
Total product revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross profit	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
G&A	3.7	1.8	1.5	1.5	1.4	6.1	1.6	1.8	1.7	1.7	6.8
Research & development	3.2	2.2	3.3	4.0	4.0	13.5	4.7	4.9	5.2	5.2	20.0
Operating profit (loss)	(\$6.9)	(3.9)	(4.8)	(5.5)	(5.4)	(\$19.6)	(6.3)	(6.7)	(6.9)	(6.9)	(\$26.8)
Interest income	0.0	0.0	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.0	0.2
Interest expense	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.7)	(0.2)	(0.2)	(0.2)	(0.2)	(0.7)
Other	(0.1)	(0.0)	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (loss)	(7.2)	(4.1)	(4.9)	(5.6)	(5.5)	(20.1)	(6.4)	(6.8)	(7.1)	(7.0)	(27.3)
Earnings (loss) per share from continuing ops	(\$1.94)	(\$0.28)	(\$0.24)	(\$0.27)	(\$0.27)	(\$1.06)	(\$0.31)	(\$0.33)	(\$0.34)	(\$0.34)	(\$1.33)
One-time gains (expenses)	(\$0.54)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Net income (loss) as reported	(14.2)	(4.1)	(4.9)	(5.6)	(5.5)	(20.1)	(6.4)	(6.8)	(7.1)	(7.0)	(27.3)
Earnings (loss) per share as reported	(\$3.83)	(\$0.28)	(\$0.24)	(\$0.27)	(\$0.27)	(\$1.06)	(\$0.31)	(\$0.33)	(\$0.34)	(\$0.34)	(\$1.33)
Weighted average common shares	3.7	14.5	20.5	20.5	20.5	19.0	20.5	20.5	20.5	20.5	20.5

Source: Company reports and Ladenburg Thalmann estimates

Company and Industry-Specific Risks

We think the primary risks of an investment in RXDX shares include, but are not limited to:

Clinical: While efficacy and safety of other ALK inhibitors for NSCLC has been well characterized in both clinical trials and commercial experience, there can be no assurance RXDX-101 will demonstrate clinically meaningful activity in NSCLC and other solid tumors. Additionally, RXDX-101 also inhibits ROS1 and TrkA/B/C. While there is a theoretical connection between inhibition of these tyrosine kinases and anti-tumor activity for a range of solid tumors including NSCLC, colon and glioblastoma, among others, there can be no assurances that future studies can be designed to evaluate the potential efficacy of co-inhibition of these tyrosine kinases or will confirm a positive impact on disease progression or survival, if a study is conducted. In the absence of clinical outcomes data, there can be no assurance that clinicians will accept or recognize the benefit of RXDX-101 over existing ALK inhibitors such as crizotinib. Additionally, the company is developing additional targeted cancer therapies based on its proprietary Oncolome database. There can be no assurance any future studies of pipeline programs will be adequate to support regulatory approval, reimbursement or commercial acceptance of pipeline programs. Lastly, RXDX relies on a virtual clinical development business model based on a small in-house management group and third party contractors. Loss of one or more executives could have an adverse impact of future clinical trials management.

Regulatory: RXDX is subject to oversight by multiple groups at the U.S. FDA including the Oncologic Drugs Advisory Committee for oncology drug development and Office of In Vitro Diagnostic Device Evaluation and Safety for companion diagnostics. There can be no assurance registration studies will be adequate to support regulatory filing with ODAC for RXDX-101 or any other pipeline product. Additionally, we expect the companion to diagnostic for RXDX-101 and other pipeline programs to be commercialized through diagnostic partners. There can be no assurance RXDX or its diagnostic partners will win timely PMA clearance for companion to RXDX-101 or any other pipeline product.

Competition: We are not aware of any other company developing a pan-inhibitor of ALK, ROS1 and TrkA/B/C. Additionally, there are currently no ROS1 or TrkA/B/C inhibitors approved for treatment of solid tumors in the U.S. or Europe. However, several companies have disclosed plans to develop therapies targeting TrkA/B/C. We believe RXDX-101 is currently the most advanced TrkA/B/C program in clinical development. There can be no assurance RXDX will be successful in maintaining its current leadership for timely commercialization of a TrkA/B/C inhibitor. Finally, several companies are developing second-generation ALK inhibitors with better blood-brain barrier than crizotinib. Some of these programs are more advanced than RGDX-101.

Financing: The company believes its financial resources will fund operations into at least 2017. However, depending on the pace of business development, RXDX may need additional capital to fund operations through Phase II proof-of-concept studies of RXDX-101. If Phase II studies are successful, RXDX may need access to additional capital through either internal sources or partnerships to fund registration studies and to fund commercialization. There can be no assurance RXDX will have access to capital in the future on adequate terms, or at all.

Partnership: RXDX will rely on partnerships with CROs, diagnostic product companies and other service providers to support clinical development and U.S. regulatory filings for RXDX-101 and its other pipeline programs. Additionally, we expect the company to seek commercial partners for RXDX-101 and its other pipeline programs in geographies outside the United States including Europe and Asia. There can be no assurance the partners will be successful in maintaining a steady supply of drug product, provide adequate support for clinical trials enrollment, optimize appropriate companion diagnostics or offer appropriate commercialization support in Europe, Asia and other regions outside the U.S. Lastly, the company licensed rights to RXDX-101 and RXDX-102 from Nerviano Medical Sciences. While Nerviano is not responsible for conducting any future clinical development, the two companies have signed a service agreement for additional manufacturing and clinical support services through 2014. There can be no assurance Nerviano will provide adequate support for timely future development of RXDX-101.

Product Liability: Pharmaceutical companies may face potential product liability lawsuits associated with adverse events – both currently identified and identified through future clinical trials and commercial experience. Product liability claims may result in limiting future product promotion, removal of one or more products from the market and potential for financial penalties and fines that may adversely impact RXDX's cash flow and financial position, including cash balance and ability to meet various debt covenants.

Limited Operating History: While the company was formed in 2012, RXDX had limited operations as a drug development company prior to May 2013. This limited operating history may restrict the scope of information available for investors to form an investment opinion. RXDX is classified as an emerging growth company and is entitled to more limited disclosure requirements, which may make shares of RXDX less attractive to investors. The company went public in November 2013 through a reverse merger and trading volume in shares of RXDX has limited due in part to the small number of registered shares. There can be no assurance that there will be a liquid and orderly market for trading of RXDX shares in the near term, or ever. Additionally, if one or more holders of common stock covered by an effective registration statement seeks to sell stock, the share price may be adversely impacted.

Debt Repayment: The company has a \$10M debt facility with Silicon Valley Bank Corp. that matures in December 2017. There can be no assurance RXDX will have adequate funds to repay the loan facility or that alternative debt financing will be available on acceptable terms, if at all.

APPENDIX A: IMPORTANT RESEARCH DISCLOSURES

ANALYST CERTIFICATION

I, Kevin DeGeeter, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report, provided, however, that:

The research analyst primarily responsible for the preparation of this research report has or will receive compensation based upon various factors, including the volume of trading at the firm in the subject security, as well as the firm's total revenues, a portion of which is generated by investment banking activities.

Additional information regarding the contents of this publication will be furnished upon request. Please contact Ladenburg Thalmann, Compliance Department, 570 Lexington Avenue, 11th floor, New York, New York 10022 (or call 212-409-2000) for any information regarding current disclosures, and where applicable, relevant price charts, in regard to companies that are the subject of this research report.

COMPANY BACKGROUND

Ignyta is developing personalized oncology drugs using diagnostic tests to identify patients most likely to respond to therapy. The company's lead product RXDX-101, is a TrkA/B/C, ROS1, ALK inhibitor in Phase I development for the treatment of solid tumors. Ignyta hopes to move the program into Phase II development in 2015 for multiple indications including NSCLC. The San Diego-based company is also in pre-clinical development of other targeted cancer therapies based on proprietary Oncolome molecular expression database.

VALUATION METHODOLOGY

Our \$20.00 price target is based on a DCF analysis assuming 25% discount rate, 21.5 million shares on a fully diluted basis, terminal year (2022) FCF of \$168M and 15% long-term growth rate.

RISKS

These risk factors (clinical, regulatory, competition, financing, partnership, product liability, limited operating history, and debt repayment) do not constitute all the potential risks of investing in the subject company's shares. Investors should refer to the company's SEC filings including the most recent forms 10-K and 10-Q for further details on the risks associated with an investment in the subject company's shares.

STOCK RATING DEFINITIONS

Buy: The stock's return is expected to exceed 12.5% over the next twelve months.

Neutral: The stock's return is expected to be plus or minus 12.5% over the next twelve months.

Sell: The stock's return is expected to be negative 12.5% or more over the next twelve months.

Investment Ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk, or a change in target price. At other times, the expected returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review.

RATINGS DISPERSION AND BANKING RELATIONSHIPS AS OF (May 15, 2014)

Rating	%	IB %
BUY	74.5	55.7
NEUTRAL	25.5	43.1
SELL	0.0	0.0

COMPANIES UNDER ANALYST'S COVERAGE

ADMA Biologics, Inc. (ADMA)
 BG Medicine, Inc. (BGMD)
 diaDexus, Inc. (DDXS)
 Genetic Technologies, Ltd. (GENE)
 Mesoblast Ltd. (MBLTY)
 Navidea Biopharmaceuticals Inc. (NAVb)
 Opko Health, Inc. (OPK)
 Sequenom Inc. (SQNM)

Aeolus Pharmaceuticals Inc. (AOLS)
 CombiMatrix Corporation (CBMX)
 Exact Sciences Corp. (EXAS)
 Genomic Health Inc. (GHDX)
 Myriad Genetics Inc. (MYGN)
 Novavax, Inc. (NVAX)
 Ignyta, Inc. (RXDX)

COMPANY SPECIFIC DISCLOSURES

Ladenburg Thalmann & Co. Inc. makes a market in Ignyta, Inc..

Ladenburg Thalmann & Co. Inc. has managed or co-managed a public offering for Ignyta, Inc. within the past 12 months.

Ladenburg Thalmann & Co. Inc. expects to receive compensation for investment banking and/or advisory services from Ignyta, Inc. within the next 3 months.

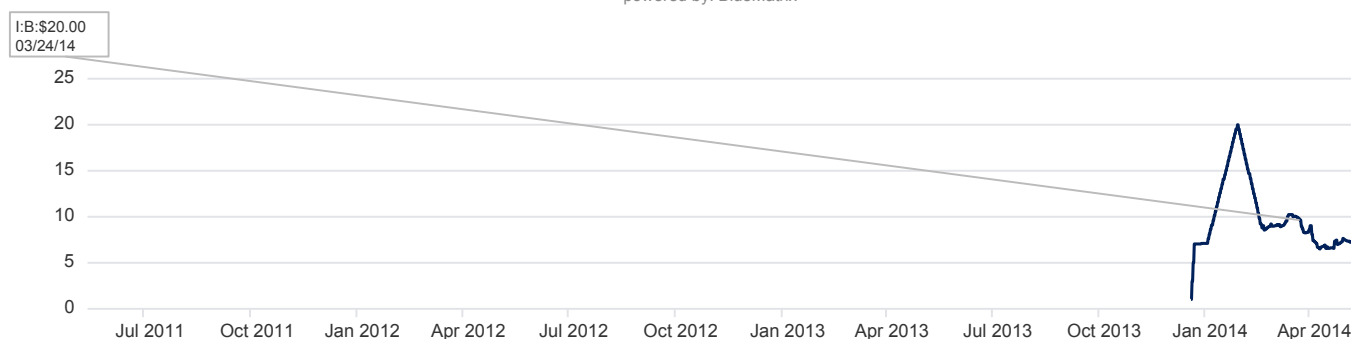
Ladenburg Thalmann & Co. Inc. intends to seek compensation for investment banking and/or advisory services from Ignyta, Inc. within the next 3 months.

Ladenburg Thalmann & Co. Inc received compensation for investment banking services from Ignyta, Inc. within the past 12 months.

Ladenburg Thalmann & Co. Inc had an investment banking relationship with the Ignyta, Inc. within the last 12 months.

INVESTMENT RATING AND PRICE TARGET HISTORY**Ignyta, Inc. Rating History as of 05/14/2014**

powered by: BlueMatrix



B=Buy N=Neutral S=Sell D=Drop Coverage I=Initiate NR=Not Rated

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EQUITY RESEARCH

ENERGY, POWER & INFRASTRUCTURE

Power & Electric Utilities

Brian J. Russo, CFA	(646) 432-6312	brusso@ladenburg.com
---------------------	----------------	----------------------

Energy Exploration & Production, Master Limited Partnerships, Upstream

Noel A. Parks	(212) 409-2023	nparks@ladenburg.com
Michael Schmitz, CFA	(212) 409-2028	mschmitz@ladenburg.com

Master Limited Partnerships, Midstream

Eduardo Seda	(212) 409-2034	eseda@ladenburg.com
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Master Limited Partnerships, Downstream & Others

Richard A. Verdi	(212) 409-2060	rverdi@ladenburg.com
------------------	----------------	----------------------

Closed-End MLP Funds

Eduardo Seda	(212) 409-2034	eseda@ladenburg.com
--------------	----------------	---------------------

Water & Sustainable Infrastructure

Richard A. Verdi	(212) 409-2060	rverdi@ladenburg.com
------------------	----------------	----------------------

HEALTHCARE

Biotechnology

Matthew L. Kaplan	(212) 891-5247	mkaplan@ladenburg.com
-------------------	----------------	-----------------------

Biotechnology (BioPharmaceuticals)

Robert C. Hazlett, III (Bert)	(212) 409-2062	rhazlett@ladenburg.com
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Biotechnology (Personalized Medicine)

Kevin DeGeeter	(212) 409-2027	kdegeeter@ladenburg.com
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Healthcare Equipment & Medical Technologies

Jeffrey S. Cohen	(305) 572-4110	jcohen@ladenburg.com
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FINANCIAL INSTITUTIONS

Financial Services – Business Development Cos. & Specialty Finance

Mickey M. Schleien, CFA	(305) 572-4131	mschleien@ladenburg.com
-------------------------	----------------	-------------------------

Financial Services – Equity REITs

Daniel P. Donlan	(212) 409-2056	ddonlan@ladenburg.com
John J. Massocca	(212) 409-2543	jmassocca@ladenburg.com

Financial Services – Mortgage REITs

David Walrod, CFA	(212) 409-2031	dwalrod@ladenburg.com
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TECHNOLOGY

Internet & Software Services

Jon R. Hickman	(510) 918-4045	jhickman@ladenburg.com
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TECHNICAL ANALYSIS

Adolfo R. Rueda, CMT	(212) 409-2039	arueda@ladenburg.com
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ADDITIONAL CONTACTS

Kenneth Brush, Head of Trading	(212) 409-2011	kbrush@ladenburg.com
Eric Novotny	(212) 409-2011	enovotny@ladenburg.com

570 Lexington Avenue 11th Floor New York, NY 10022 (212) 409-2000

NEW YORK, NY MELVILLE, NY BOSTON, MA MIAMI, FL NAPLES, FL BOCA RATON, FL HOUSTON, TX