

Interpace Diagnostics (IDXG - \$1.03)

Healthcare / Biotechnology

Top and Bottom Line Beat, Plenty More Room for Growth

IDXG recently reported their 2Q18 results coming in with a top and bottom line beat. Revenues grew 43% vs. 1Q18 coming in at \$5.5M vs. our anticipated \$5.1M and Street consensus of \$5M mostly due to strong volume growth and gains in reimbursement especially in their Thyroid franchise. We are particularly encouraged by the fact that 2Q18 saw 13 new Regional Blue Cross and Blue Shield Plans (27 new BC/BS added from since the beginning of 2018) for ThyGeNEXT and ThyraMIR. With topline growth in 2Q18, we believe IDXG should be able to comfortably attain their FY18 topline guidance of >\$20M. In addition to topline beating our estimates, we view IDXG's ability to limit expenses as positive. They came in ~\$1M below our anticipated SG&A expenses, contributing to their bottom line beat with adjusted EPS of (\$0.02) vs. our anticipated (\$0.07). We were also pleased that former Rosetta Genomics thyroid customers are moving their business to IDXG since Rosetta's bankruptcy filing. To develop their pipeline, they are focused on gaining KOL support for BarreGEN as well as a second clinical validity study to ultimately partner the program, since it is hard to overstate the size of its market opportunity (>\$1B). Finally, we continue to believe their PathFinder platform could be useful in many other diseases and think strategic acquisitions could be a significant value generator. We believe this transition story still has a lot of room to grow and are reiterating our Buy rating and \$4.50 price target.

Ticker:	IDXG
Rating:	Buy
Price Target:	\$4.50

Trading Data:

Last Price (08/09/2018)	\$1.03
52-Week High (10/11/2017)	\$1.80
52-Week Low (08/11/2017)	\$0.72
Market Cap. (MM)	\$28.7
Shares Out. (MM)	27.9

- **Strong revenue growth contributes to top and bottom line beats.** Based on strong volume growth and reimbursement wins, topline grew 43% vs. 1Q18 coming in \$5.5M vs. our anticipated \$5.1M and street consensus of \$5.1M. Additionally, we were encouraged by their operating expenses coming in below our expectations, leading to a bottom line beat of (\$0.02) vs. our anticipated (\$0.07).
- **Transition story gaining steam, more growth to be expected.** With a cleaner balance sheet (no more milestone payments, liens, and royalties related to their 2014 RedPath assets acquisitions), substantial reimbursement wins year to date, new product launch in ThyGeNEXT, potential BarreGEN partnership and incoming Rosetta business; we see many reasons for continued growth at IDXG.
- **Reiterating our Buy rating, \$4.50 PT.** Our price target is based on Thyroid at \$2/share; Pancreas at \$1.50/share; cash (end'18) and tech value at \$1/share

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY19E	(0.04)	(0.04)	(0.04)	(0.03)	(0.16)	NA
FY18E	(0.06)A	(0.02)A	(0.04)	(0.04)	(0.14)	NA
FY17	(0.31)	(0.25)	(0.09)	(0.06)	(0.45)	NA
FY16	(0.13)	(0.13)	(0.22)	(1.82)	(6.87)	NA

Analyst

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Source: Laidlaw & Company estimates

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Figure 1: Sum-of-the-Parts Analysis

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Thyroid Cancer Test	\$57,194	\$2.00
Pancreatic Cancer Test	\$43,985	\$1.50
Cash (end '18) & tech value	\$29,618	\$1.00
	\$130,797	\$4.50
2018 fully diluted shares out (000)		30,801

Source: Company Reports; Laidlaw and Company estimates

Figure 2: Quarterly Income Statement

Interpace Diagnostics										
Quarterly income statement										
	2017A				2017A Year	2018E				2018E Year
	1QA	2QA	3QA	4QA		1QA	2QA	3QE	4QE	
(\$000 except per share)										
Revenues										
Total Revenue	\$3,470	\$3,855	\$4,202	\$4,370	\$15,897	\$4,809	\$5,501	\$6,028	\$6,346	\$22,684
Expenses:										
COGS (% of US Revenue)	1,771	1,879	2,069	1,639	7,358	2,580	2,247	2,863	3,014	11,342
Gross Margin	1,699	1,976	2,133	2,731	8,539	2,229	3,254	3,165	3,332	11,342
Sales and Marketing	1,136	1,555	1,816	2,060	6,567	1,991	2,095			
G&A	492	1,680	644	1,524	4,340	791	428			
SG&A	1,628	3,235	2,460	3,584	10,907	2,782	2,523	3,650	3,900	12,855
R&D	306	413	483	259	1,461	501	518	750	750	2,519
Total operating expenses	2,747	4,461	3,756	4,656	15,621	4,096	3,854	4,400	4,650	15,374
Operating income	(1,048)	(2,485)	(1,623)	(1,925)	(7,082)	(1,867)	(600)	(1,235)	(1,318)	(4,032)
Interest expense										
Loss on extinguishing of debt										
other income (expense)	(36)	(8)	(294)	303	(35)	111	33			
Adj. (Loss) income before inc.taxes	(1,084)	(2,493)	(1,917)	(1,622)	(7,117)	(1,756)	(567)	(1,235)	(1,318)	(4,032)
Interest expense	(254)	(216)	(40)		(433)					
Provision (benefit) for income tax	(3)	301	42	55	395	(6)	8	100	100	100
Adj NI	(1,341)	(2,408)	(1,915)	(1,567)	(7,155)	(1,762)	(575)	(1,335)	(1,418)	(4,132)
(Loss) income from discontinued ops	556	(54)	71	(51)	521	(50)	(44)			
NI/(loss) as reported	2,414	(6,306)	(3,316)	(5,007)	(12,217)	(3,193)	(1,917)			
Earning per Share (EPS)	\$0.55	(\$0.65)	(\$0.15)	(\$0.19)	(\$0.77)	(\$0.11)	(\$0.07)			
Adj EPS ex-1x & non-cash	(\$0.31)	(\$0.25)	(\$0.09)	(\$0.06)	(\$0.45)	(\$0.06)	(\$0.02)	(\$0.04)	(\$0.04)	(\$0.14)
Weighted avg. shares (000)	4,384	9,657	22,028	26,874	15,766	27,855	27,933	32,933	33,683	30,601
Fully diluted shares (000)	4,385	9,675	38,945	27,074	20,020	28,055	28,133	33,133	33,883	30,801

Source: Company Reports; Laidlaw & Company estimates

Figure 3: Annual Income Statement

Interpace Diagnostics					
Annual income statement					
(\$000's except per share)	2016A	2017E	2018E	2019E	2020E
Revenues					
Total sales	\$13,085	\$15,897	\$22,684	\$29,974	\$41,213
COGS	6,641	7,358	11,342	14,987	41,213
Gross margin	6,444	8,539	11,342	14,987	20,607
R&D	1,647	1,461	2,519	3,600	4,000
SG&A	12,202	10,907	12,855	17,100	19,000
Adj. Net Income	(10,516)	(7,082)	(4,032)	(5,713)	(2,393)
NI/(loss) as reported	(8,332)				
Adj-EPS ex-non-cash	(\$6.87)	(\$0.45)	(\$0.14)	(\$0.16)	(\$0.04)
EPS as reported	(\$4.59)				
Shares out (000)	1,816	15,766	30,601	36,183	40,808
Fully diluted shares (000)	2,109	20,020	30,801	36,533	41,308

Source: Company Reports; Laidlaw & Company estimates

Major Risks

Exogenous events could impact our outlook. We believe pharmaceutical companies have the least control over competitive, political, and regulatory risks. Although we have incorporated competitive assumptions into our forecasts, there may be other risks beyond the scope of our analysis. Changes in the drug reimbursement system, as well as any political or regulatory amendments, may significantly influence the earnings power of these companies.

Actual clinical results and the FDA's conclusions may deviate from expectations. Many of our assumptions are based on a review of incomplete clinical trial data available in the public domain. Often, our conclusions are drawn from early stage data, which may not be reflected by pivotal studies. Furthermore, the FDA's conclusions may not coincide with our own, materially changing our revenue and earnings assumptions.

Compliance issues, product recalls, and other mandates by regulatory authorities could materially change our expectations. Regulatory compliance issues, ranging from accounting irregularities to defective manufacturing practices, could materially change our assumptions and earnings outlook. Unanticipated product recalls and labeling changes could also have adverse consequences on our earnings assumptions.

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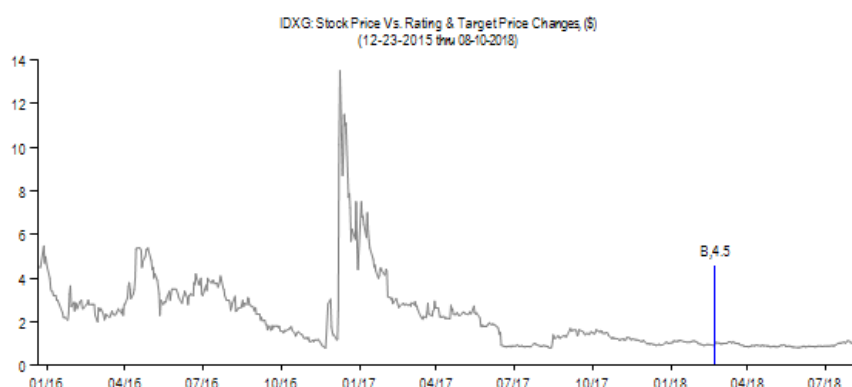
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Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price (\$)
02/22/2018	Buy (B)	1.05

3 Year Price Change History

Date	Target Price (\$)	Closing Price (\$)
02/22/2018	4.50	1.05

Source: Laidlaw & Company

Created by: Blue-Compass.net

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	65.45%	25.45%	3.64%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	1.82%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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