Zacks Small-Cap Research

July 9, 2015
Grant Zeng, CFA
312-265-9466
gzeng@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Rosetta Genomics (ROSG-NASDAQ)

ROSG: Expecting record revenue for 1H15 and the full year 2015; Strategic acquisition will accelerate substantial revenue growth---Buy

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	02/26/2014
Current Price (07/08/15)	$3.03
Twelve- Month Target Price	**$13.00**

OUTLOOK

Rosetta is a molecular diagnostics company focused on microRNA-based tests for cancers and other indications. The company is currently marketing four cancer assays. The company also has commercial partnerships with two companies. Recent acquisition of PersonalizeDx will greatly accelerate revenue growth.

We are optimistic with its microRNA platform technologies, which serve as the basis of continued development of molecular diagnostics. Revenue will continue to grow in the coming years due to focused marketing strategy. Long term pipeline will provide sustainable growth for the years to come.

We maintain our Buy rating with a price target of $13.0.

SUMMARY DATA

52-Week High	**$4.80**
52-Week Low	**$2.19**
One-Year Return (%)	**-18.77**
Beta	**-3.88**
Average Daily Volume (sh)	**144,564**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$36**
Short Interest Ratio (days)	**2.85**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**N/A**
P/E using 2015 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Value**
Industry	**Med-Biomed/Gene**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014		0.55 A		0.77 A	1.33 A
2015		3.50 E		8.00 E	11.50 E
2016					18.50 E
2017					27.50 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014		-$0.66 A		-$0.63 A	-$1.29 A
2015		-$0.44 E		-$0.27 E	-$0.70 E
2016					-$0.53 E
2017					-$0.32 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

© Copyright 2015, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

- ***Strong revenue growth expected for 1H15 and for the full year 2015;***
- ***Acquisition of PersonalizeDx will accelerate significant revenue growth;***
- ***Three new products launch will increase top line immediately;***
- ***Buy rating maintained, PT reiterated at $13.00***

Strong Revenue Growth Expected for 1H15 and the Full Year 2015

With the filing date for 1H15 financials approaching, we are updating our financial model and expecting strong revenue growth for the 1H15 and the full year 2015.

Rosetta Genomics expects to report its financial results on a quarterly basis starting with the three and nine months ending September 30, 2015.

ROSG reported record revenue of $1.3 million for fiscal 2014, an increase of 228%. With the completed acquisition of PersonalizeDx in April, and recent new products launch, we expect significant revenue growth for fiscal 1H15 and the full year 2015.

Based on the 2014 revenue of $6.9 million from PersonalizeDx, we modified our financial model. Specifically, specifically, we increased our revenue estimate to $3.5 million for 1H15 and $11.5 million for full year 2015, representing an increase of 532% and 767% respectively. These increases include both organic growth and acquired growth from PersonalizeDx.

Accordingly, operating loss will narrow to $5.9 million and $9.5 million respectively for 1H15 and full year 2015, compared to operating loss of $7.2 million and $13.3 million for 1H14 and full year 2014 respectively.

We also increased our estimate of 2016 revenue to $18.5 million from previous $12.5 million. We maintained our estimates from 2017 to 2010 since these estimates already incorporated expected acquisitions.

Acquisition of PersonalizeDx Will Accelerate Substantial Revenue Growth

The company completed the strategic acquisition of **PersonalizeDx** from Prelude Corporation on April 14, 2015.

We think there is a synergy between these two companies since PersonalizeDx is a molecular diagnostics and services company serving community-based pathologists, urologists, oncologists and other reference laboratories across the U.S.

Through this transaction, Rosetta gains proprietary FISH tests in prostate (ERG, launched in 2014), bladder (FGFR3, expected to launch before the end of 2015) and lung cancer, strong commercial and laboratory operations capabilities and a state-of-the-art, high-complexity CLIA laboratory in Lake Forest, California.

In connection with this transaction, Rosetta Genomics also gains certain rights to market Prelude's novel assay for ductal carcinoma in situ (DCIS). Rosetta Genomics expects to market Prelude DCIS as a laboratory developed test within the next six months.

Combining the pipelines from both companies, Rosetta Genomics will be able to launch multiple new assays within the next 12 months. This acquisition and the near term product launches will greatly accelerate revenue growth in the coming years and will make Rosetta an important player in the personalized medicine area in the US and around world.

After the acquisition, Rosetta Genomics has reached an agreement with MultiPlan which allows all plan participants to access the entire suite of PersonalizeDx testing and services effective July 1, 2015.

We think the acquisition greatly de-risks Rosetta in terms of future revenue growth.

New Products Launch Will Contribute to Top Line Immediately

OncoGxOne

In late May, Rosetta Genomics launched **OncoGxOne**, which is its partner Admera Health's next-generation sequencing (NGS) panel that detects a vast number of genetic alterations implicated in cancer to provide clear, concise and actionable clinical recommendations from a single, comprehensive test.

OncoGxOne was recently approved as a Laboratory Developed Test and is the fifth new product introduced by Rosetta Genomics in 2015.

OncoGxOne interrogates all types of genomic aberrations in 64 genes, specifically 56 related to cancer targeted therapy and 8 related to chemotherapy. OncoGxOne is performed on a modest-sized pathology sample in the standard format of FFPE (formalin fixed paraffin embedded) tissue.

Bladder Cancer Assays

In mid-May, Rosetta Genomics commercially introduced two FGFR3 gene mutation assays for **bladder cancer** at the American Urological Association Annual Meeting (AUA 2015) taking place from May 15-19, 2015 in New Orleans. One assay is for diagnostic monitoring using urine samples to detect recurrences of FGFR3-positive low-grade bladder cancers, and the other is in conjunction with Ki67 expression for tissue-based prognostication at initial diagnosis of bladder cancer.

FGFR3 mutation analysis identifies low-grade bladder cancer in both urine- and tissue-based specimens to help urologists better manage patients through improved prognostication and non-invasive recurrence monitoring in urine samples. These assays are used in conjunction with the Company's leading FISH technology to provide highly sensitive and specific assays for all grades of bladder cancer.

The FGFR3 mutation analysis is part of the PersonalizeDx product line.

We believe that the official launch of these three new products will contribute to the company's top line growth immediately (2H15).

Balance Sheet Remains Strong

As of December 31, 2014, Rosetta had $15.6 million in cash and cash equivalents, restricted cash and short-term bank deposits, compared with $24.5 million as of December 31, 2013. The Company used approximately $13.6 million in cash to fund operations during 2014.

During 1Q15, Rosetta raised net proceeds of $9.3 million from the sale of approximately 2.2 million ordinary shares through a new Sales Agreement with Cantor Fitzgerald & Co. in February 2015.

We believe the company's balance sheet is strong. We estimate the Company's current cash could last into **2017** based on our financial model.

We Maintain Our Buy Rating and Reiterate our PT of $13.00

We maintain our Buy rating on Rosetta Genomics (ROSG) shares and reiterate our 12-month price target of $13.00 per share.

Rosetta is a revenue generating, emerging molecular diagnostics biotech company focused on molecular testing of cancers and other life threatening diseases. The company develops its diagnostic products based on the unique and proprietary microRNA platform technology.

Currently Rosetta is marketing four cancer tests with focus on its lead Cancer Origin Test. This Cancer Origin Test is covered by Medicare reimbursement and other payors covering over 170 million lives. The company is negotiating for expanded coverage for the Cancer Origin Test as well as for reimbursement for its three other marketed cancer tests.

In addition to currently marketed tests, Rosetta is also developing other tissue or body fluid based molecular diagnostics using its microRNA technologies. Furthermore, Rosetta is developing microRNA based therapeutics. These long term pipeline will provide sustainable growth for the company in the years to come.

Rosetta is also collaborating with pharmaceutical/biotech companies to assist these companies to develop microRNA based therapeutics. This collaboration creates the third avenue for revenue growth.

The acquisition of PersonalizeDx will greatly accelerate revenue growth in the coming quarters. Specifically, we model 2015 revenue to be $11.50 million, and 2016 revenue to be $18.5 million. Revenue will grow to $125 million in 2020, a tremendous compound annual growth rate (CAGR) of 113%. With accelerated revenue growth, Rosetta will become profitable in fiscal 2018 with earnings per share (EPS) of $0.32 based on total revenue of $50 million. EPS will grow to $1.31 per share in fiscal 2020 based on total revenue of $125 million, a 102% increase in the two year period. Recent two partnerships will also accelerate revenue growth in 2015 and beyond.

Rosetta has a relatively strong balance sheet. Current cash is sufficient to fund operations into 2017 according to our model.

With all these in mind, we think Rosetta's shares are undervalued at current market price. Currently, Rosetta shares are trading at about $3.2 per share, which values the company at about $37 million in market cap based on 12.5 million outstanding shares. This is apparently a huge discount compared to its peers. As we said, Rosetta is a revenue generating diagnostics company targeting the high growth market of molecular diagnostics. The company's microRNA platform technology has broad applications targeting both diagnostics and therapeutics. The acquisition of PersonalizeDx also de-risks Rosetta in terms of revenue growth in the coming years. We don't think the Street has recognized the potential of high revenue growth in the coming years for Rosetta.

Based on the reduced risks and our financial model, we think a P/E multiple of 30x is appropriate for Rosetta. If we apply this P/E coupled with EPS of $1.31 in 2020, discounted at 25% for 5 years, we come up with our price target of $13.0 per share. Our price target values Rosetta at $163 million in market cap, which we think is still conservative.

Execution is the key to achieve expected growth and will have a significant impact on the share price. The fluctuation of the broader market in the US will also have impact on the company's share price in the next 6 to 12 months. In general, we think the company has a **favorable risk/award profile** at this time with downside risk relatively low and high upside potential.

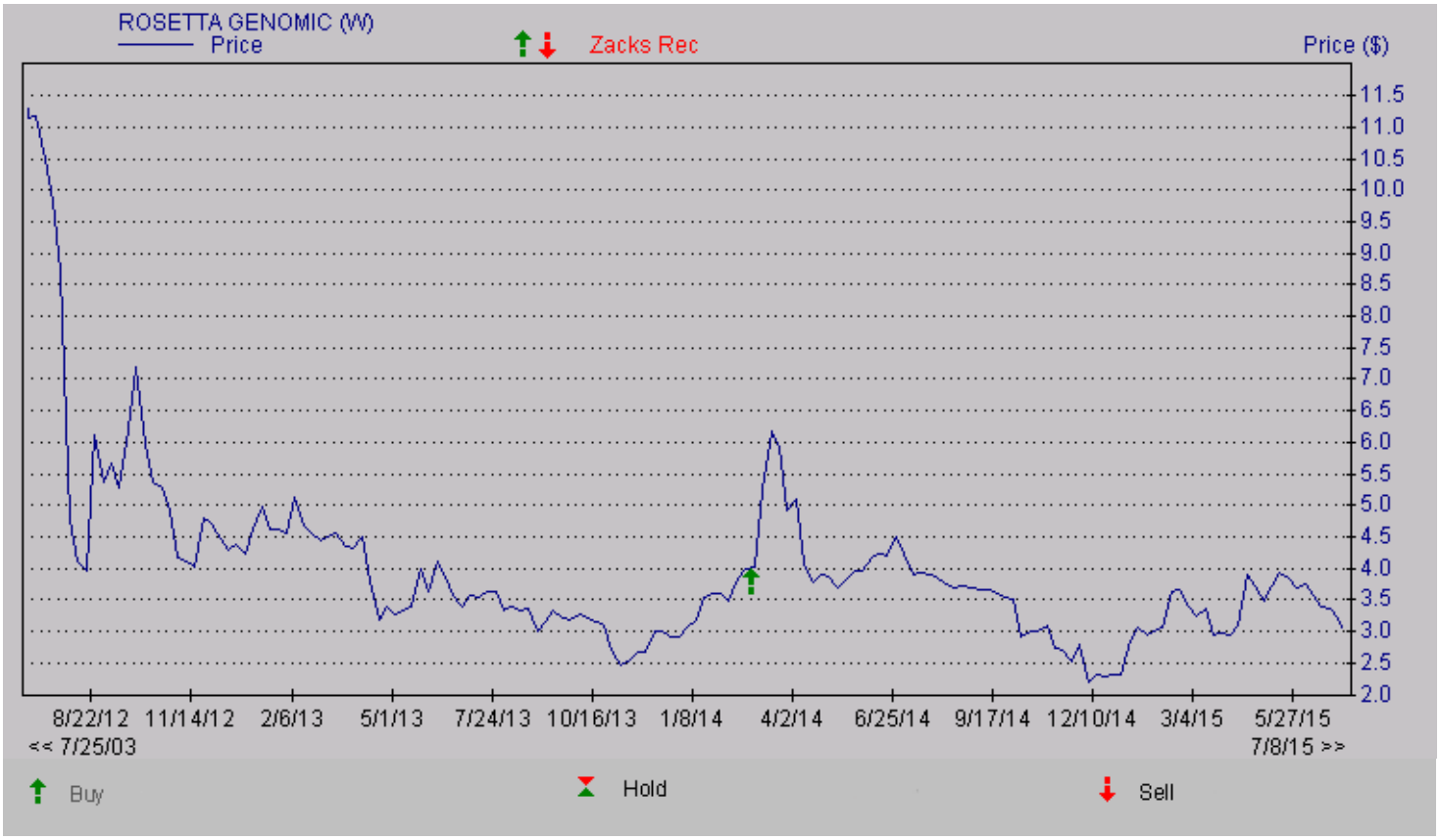
PROJECTED INCOME STATEMENT

	2013A (Dec)			2014A (Dec)			2015E (Dec)			2016E (Dec)	2017E (Dec)	2018E (Dec)	2019E (Dec)	2020E (Dec)
$ in million except per share data	1H13	2H13	FYE	1H14	2H14	FYA	1H15	2H15	FYE	FYE	FYE	FYE	FYE	FYE
Total Revenues	**$0.19**	**$0.21**	**$0.41**	**$0.55**	**$0.77**	**$1.33**	**$3.50**	**$8.00**	**$11.50**	**$18.50**	**$27.50**	**$50.00**	**$80.00**	**$125.00**
YOY Growth	278.4%	41.3%	101.5%	187.0%	264.6%	227.7%	531.8%	934.9%	766.6%	60.9%	48.6%	81.8%	60.0%	56.3%
CoGS	0.43	0.28	0.71	0.77	0.54	1.31	0.70	1.60	2.30	2.31	3.44	6.25	10.00	15.63
Gross Income	**($0.24)**	**($0.06)**	**($0.30)**	**($0.22)**	**$0.23**	**$0.02**	**$2.80**	**$6.40**	**$9.20**	**$16.19**	**$24.06**	**$43.75**	**$70.00**	**$109.38**
Gross Margin	-124.9%	-29.7%	-75.1%	-39.0%	30.1%	1.3%	80.0%	80.0%	80.0%	87.5%	87.5%	87.5%	87.5%	87.5%
R&D	$0.88	$0.87	$1.74	$1.01	$0.92	$1.93	$1.20	$1.50	$2.70	$5.00	$7.50	$10.00	$13.00	$15.50
% R&SD	454.4%	409.0%	430.6%	182.5%	118.5%	145.2%	34.3%	18.8%	23.5%	27.0%	27.3%	20.0%	16.3%	12.4%
SG&A	$5.55	$5.75	$11.30	$6.01	$6.33	$12.34	$7.50	$8.50	$16.00	$20.00	$22.50	$25.00	$30.00	$45.00
% SG&A	2876.7%	2710.8%	2789.9%	1085.4%	818.8%	930.1%	214.3%	106.3%	139.1%	108.1%	81.8%	50.0%	37.5%	36.0%
Other Expense	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Operating Income	**($6.7)**	**($6.7)**	**($13.3)**	**($7.2)**	**($7.0)**	**($14.3)**	**($5.9)**	**($3.6)**	**($9.5)**	**($8.8)**	**($5.9)**	**$8.8**	**$27.0**	**$48.9**
Operating Margin	-3456.0%	-3149.5%	-3295.6%	-1306.9%	-907.1%	-1074.0%	-168.6%	-45.0%	-82.6%	-47.6%	-21.6%	17.5%	33.8%	39.1%
Other Net	$0.4	($0.2)	$0.2	$0.1	($0.3)	($0.3)	($0.3)	($0.3)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)
Pre-Tax Income	**($6.3)**	**($6.9)**	**($13.2)**	**($7.2)**	**($7.3)**	**($14.5)**	**($6.2)**	**($3.9)**	**($10.0)**	**($9.3)**	**($6.4)**	**$8.3**	**$26.5**	**$48.4**
Income taxes(benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1.0	$4.5	$9.0
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	12.1%	17.0%	18.6%
Reported Net Income	**($6.3)**	**($6.9)**	**($13.2)**	**($7.2)**	**($7.4)**	**($14.5)**	**($6.2)**	**($3.9)**	**($10.0)**	**($9.3)**	**($6.4)**	**$7.3**	**$22.0**	**$39.4**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-212.6%	203.4%	79.0%
Net Margin	-	-	-	-	-	-	-	-	-	-	-23.4%	14.5%	27.5%	31.5%
Diluted Shares Out	9.2	10.0	9.6	10.8	11.7	11.2	13.9	14.5	14.2	17.5	20.0	22.5	25.0	30.0
Reported EPS	**($0.68)**	**($0.69)**	**($1.37)**	**($0.66)**	**($0.63)**	**($1.29)**	**($0.44)**	**($0.27)**	**($0.70)**	**($0.53)**	**($0.32)**	**$0.32**	**$0.88**	**$1.31**
One time charge	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($6.3)**	**($6.9)**	**($13.2)**	**($7.2)**	**($7.4)**	**($14.5)**	**($6.2)**	**($3.9)**	**($10.0)**	**($9.3)**	**($6.4)**	**$7.3**	**$22.0**	**$39.4**
Non GAAP EPS	**($0.68)**	**($0.69)**	**($1.37)**	**($0.66)**	**($0.63)**	**($1.29)**	**($0.44)**	**($0.27)**	**($0.70)**	**($0.53)**	**($0.32)**	**$0.32**	**$0.88**	**$1.31**

Source: Company filing and Zacks estimates

© Copyright 2015, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Grant Zeng, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand per annum.

POLICY DISCLOSURES

© Copyright 2015, Zacks Investment Research. All Rights Reserved.

Zacks SCR Analysts are restricted from holding or trading securities in the issuers which they cover. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1052 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 16.7%, Hold/Neutral- 77.5%, Sell/Underperform – 5.2%. Data is as of midnight on the business day immediately prior to this publication.