Zacks Small-Cap Research

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VolitionRx Ltd (VNRX-NYSE)

VNRX: Triage CE Marked. More Launch Details Next Week at JPM Conference

Based on our DCF model which goes out to year 2026 and uses a 9.5% discount rate (based on CAPM) and 2% terminal growth rate, VNRX is valued at $7/share. Our model and assumptions will be updated if appropriate based on news flow which could also influence valuation

Current Price (01/04/17)	$4.73
Valuation	**$7.00**

OUTLOOK

Data from the various clinical trials continues to be consistently positive. Based on the number of studies anticipated to read out over the near term, this should be a telling year in terms of the potential utility of the NuQ assays in a variety cancers. Triage, the initial CRC assay received CE Mark in late December 2016. More details on launch, marketing strategy expected at JPM presentation next week. Commercial introduction in Europe slated for 1H 2017. We will be eagerly awaiting additional clinical data in several cancers which, assuming positive, could prompt upward revisions to our modeled revenue and related valuation. For example, we have yet to model any contribution from a potential pancreatic cancer panel but will likely do so if high accuracy of the diagnostic is maintained in subsequent studies including recently initiated 750-patient study.. We feel the current market price remains cheaper than warranted and undervalues the company. Our price target is $7/share. We think additional and ongoing positive clinical data should further benefit appreciation of the share price.

SUMMARY DATA

52-Week High	**$5.86**
52-Week Low	**$3.05**
One-Year Return (%)	**11.65**
Beta	**-1.53**
Average Daily Volume (sh)	**51,850**
Shares Outstanding (mil)	**26**
Market Capitalization ($mil)	**$125**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**17**
Insider Ownership (%)	**30**
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 2017 Estimate	**N/A**
P/E using 2018 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue
(in '000)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	$0 A	$0 A	$0 A	$0 A	$0 A
2016	$0 A	$0 A	$0 A	0 E	$0 E
2017					$1481 E
2018					$4517 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$0.12 A	-$0.10 A	-$0.16 A	-$0.15 A	-$0.54 A
2016	-$0.13 A	-$0.13 A	-$0.15 A	-$0.15 E	-$0.55 E
2017					-$0.51 E
2018					-$0.43 E

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

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CE Marking of Nu.Q Colorectal Cancer Screening Triage Test:

VNRX announced that Nu.Q Colorectal Cancer Screening Triage Test, the company's initial to-be commercialized assay (panel), received CE Mark on December 28th. The timing is right within our expectations. As a reminder, Triage consists of two of the three assays that have already received CE Mark and will be positioned for use following a positive result from a fecal immunochemical test (FIT). Management has been aiming to launch the test in their initial targeted European territories sometime in the first half of 2017. The company has previously indicated these initial countries are Ireland, Scotland, the Netherlands, France and Denmark. We may hear more about VNRX's marketing, launch and branding strategy during their presentation (https://yhoo.it/2hQrV2b) at the JP Morgan health care conference next week.

As envisioned by VNRX, Triage will be used following positive FIT results which would reduce the number of colonoscopy referrals for people that do not have CRC - this in-turn will reduce bottlenecks and increase throughput of colonoscopy screening for those people that are most likely to have cancer. Being able to reduce the number of unnecessary colonoscopies could be highly appealing to both the individual and the healthcare systems. On the individual level, colonoscopies are invasive, uncomfortable and time consuming - so being able to safely avoid them is a potentially potent message for Triage. And for the healthcare system, Triage may be able to reduce colonoscopy bottlenecks for more of the people that are most likely to benefit from them while possibly reducing overall healthcare costs.

In a prospective screening study (n=2,000) conducted with Hvidovre Hospital, Triage demonstrated the potential to reduce colonoscopies by 25% while maintaining a 97% detection rate for CRC. The study includes a total of 8,000 patients. Management noted on the Q3 call (mid-November) that the validation study had been completed, results of which will be presented at ENDO 2017 World Congress of GI Endoscopy in mid-February. Results should aid in marketing of the test to the national health care systems and/or screening programs in Europe.

We think Triage may provide for easier entry into and less disruption to existing CRC screening programs as compared to a first-line screen. This is because Triage is not replacing another current test (such as FIT) and therefore is not asking clinicians and screening programs to make an either/or decision, like a NuQ first line screen might. So it may allow easier foot-in-the-door opportunity. And if Triage can provide foot-in-the-door opportunity, it may help facilitate entry of VNRX's expected follow-on CRC tests, including those for symptomatic populations and a stand-alone first-line screen.

On the potential negative side is that Triage will add incremental cost (i.e. in addition to FIT) to screening programs - although management indicated that expected pricing of ~50 Euro is relatively insignificant to the budgets of these screening programs. And certainly in a bigger-picture view, Triage has the potential to reduce overall cost of colorectal cancer diagnosis and care if it reduces the number of unnecessary colonoscopies and improves detection, particularly at the more treatable early stages of the disease.

VNRX has indicated that they believe effective marketing can be done with a fairly bare-bones program given that European CRC screening programs are largely nationalistic in nature. Targeting KOL's (influential clinicians and screening program leaders) in each of the targeted countries may be a part of the effort. Decideum, VNRX's market access consultants, helped with advising the company on the initial target countries and penetration strategies. These initial countries should also provide somewhat of a litmus test in terms of utility and adoption as well as potentially learning experiences related to steps, procedures and policies for access to national health and screening programs.

FINANCIAL MODEL

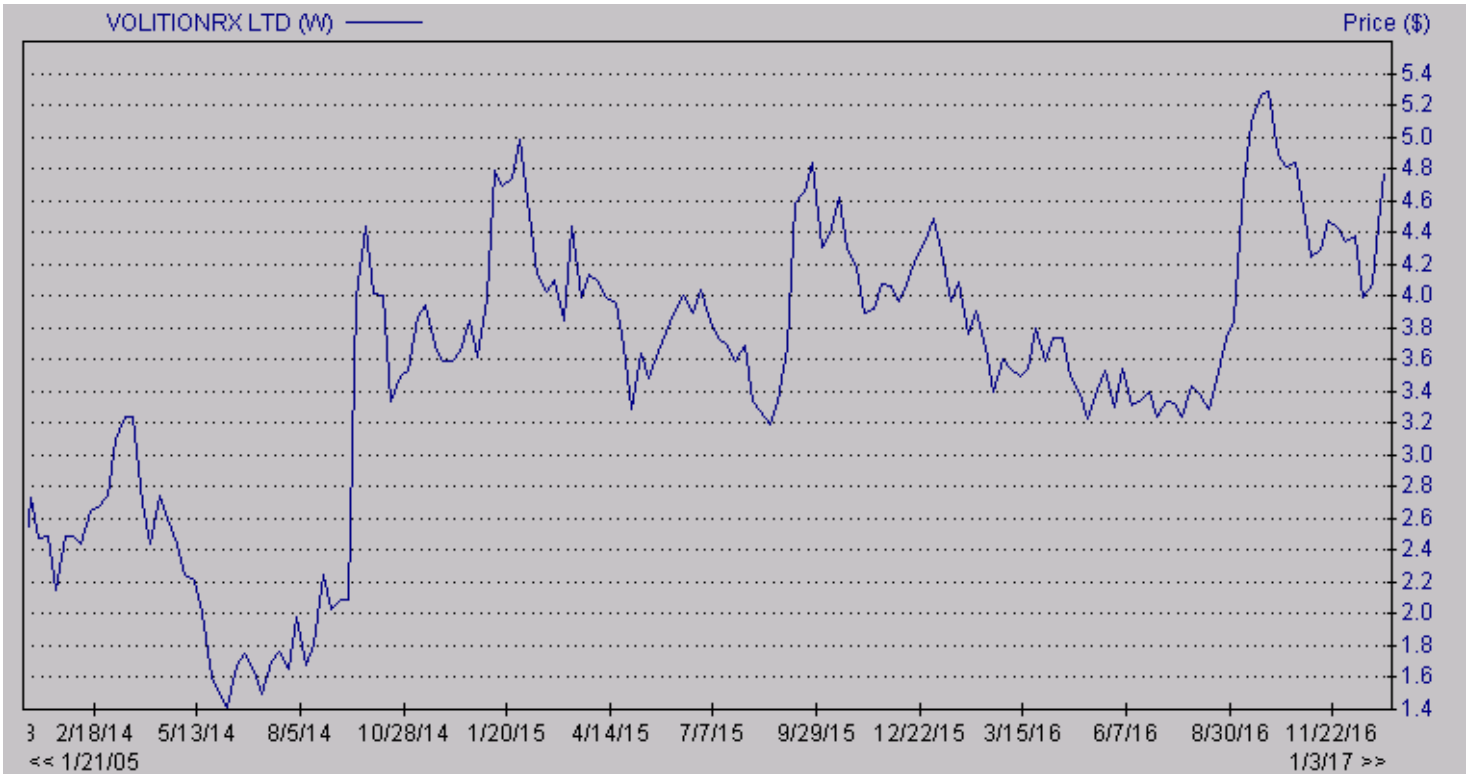
VolitionRx Ltd.

	2015 A	Q1 A	Q2 A	Q3 A	Q4 E	2016 E	2017 E	2018 E	2019 E
Revenue	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1,481.4	$4,517.3	$12,403.4
YOY Growth	-	-	-	-	-	-	*#DIV/0!*	*204.9%*	*174.6%*
Cost of Goods Sold	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$743.1	$2,032.8	$5,072.6
Gross Income	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$738.3	$2,484.5	$7,330.8
Gross Margin	-	-	-	-	*#DIV/0!*	*#DIV/0!*	*49.8%*	*55.0%*	*59.1%*
SG&A	$3,903.8	$1,029.8	$1,183.2	$1,484.3	$1,561.0	$5,258.3	$6,740.0	$7,820.0	$8,660.0
%SG&A	-	-	-	-	-	*#DIV/0!*	*455.0%*	*173.1%*	*69.8%*
R&D	$6,101.7	$1,462.8	$1,792.1	$1,994.8	$2,215.0	$7,464.7	$9,250.0	$9,550.0	$9,400.0
% R&D	-	-	-	-	-	*#DIV/0!*	*624.4%*	*211.4%*	*75.8%*
Asset Impairment	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($10,005.5)	($2,492.6)	($2,975.3)	($3,479.1)	($3,776.0)	($12,723.0)	($15,251.7)	($14,885.5)	($10,729.2)
Operating Margin	-	-	-	-	-	-	*-1029.5%*	*-329.5%*	*-86.5%*
Total Other Expense (Income)	($502.2)	$0.0	($25.9)	$0.0	$4.5	($21.4)	$23.2	$23.2	$23.2
Pre-Tax Income	($9,503.3)	($2,492.6)	($2,949.4)	($3,479.1)	($3,780.5)	($12,701.6)	($15,274.9)	($14,908.7)	($10,752.4)
Taxes (benefit)	($4.6)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
FX translation	$12.0	($18.4)	$67.4	$0.0	$0.0	$49.0	$0.0	$0.0	$0.0
Net Income	($9,510.6)	($2,474.2)	($3,016.8)	($3,479.1)	($3,780.5)	($12,750.7)	($15,274.9)	($14,908.7)	($10,752.4)
Net Margin	*#DIV/0!*	-	-	-	-	*#DIV/0!*	*-1031.1%*	*-330.0%*	*-86.7%*
EPS	($0.54)	($0.13)	($0.13)	($0.15)	($0.15)	($0.55)	($0.51)	($0.43)	($0.28)
YOY Growth	-	-	-	-	-	-	-	-	
Diluted Shares O/S	17,734	19,289	23,412	23,525	25,800	23,007	30,000	35,000	39,000

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