Zacks Small-Cap Research

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Rosetta Genomics (ROSG-NASDAQ)

ROSG: Strong financials reported for 1H15 and, expect continued revenue growth for the full year 2015 and beyond; Strategic acquisition will accelerate substantial revenue growth---Buy

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	02/26/2014
Current Price (10/26/15)	$2.25
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 a variety of cancer tests. 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	**$2.19**
One-Year Return (%)	**-28.34**
Beta	**-4.10**
Average Daily Volume (sh)	**72,554**
Shares Outstanding (mil)	**15**
Market Capitalization ($mil)	**$33**
Short Interest Ratio (days)	**7.03**
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		2.30 A		8.00 E	10.30 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		-$0.62 A		-$0.23 E	-$0.85 E
2016					-$0.53 E
2017					-$0.32 E

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

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WHAT'S NEW

Rosetta Reports Strong Revenue Growth for 1H15

On October 27, Rosetta Genomics reported financial results for the first half ended June 30, 2015.

Total revenue from continuing operations for the first half of 2015 was $2.3 million, an increase of 311% compared to revenues from continuing operations of $554,000 for the first half of 2014.

The company generated revenue of $1.6 million from the recently acquired PersonalizeDx business.

Cost of revenues for the first six months of 2015 increased to $2.3 million from $770,000 a year ago, primarily due to the acquisition of PersonalizeDx leading to a higher volume of processed samples as well as increases in personnel and infrastructure.

R&D expenses for 1H15 increased to $1.4 million from $1.0 million for the first half of 2014, primarily due to increased activities related to the development of the Company's thyroid assay.

Marketing and business development expenses for the first half of 2015 increased to $4.1 million from $3.4 million in the prior-year period due to a larger commercial footprint as a result of the acquisition of PersonalizeDx.

G&A expenses for 1H15 were $3.6 million compared with $2.6 million for the same period in 2014, with the increase primarily due to acquisition-related costs of the PersonalizeDx business.

GAAP net loss for 1H15 was $6.7 million ($0.49 per share), compared with a GAAP net loss of $7.2 million ($0.66 per share) for the same period in 2014.

Non-GAAP net loss for the first six months of 2015 was $8.5 million ($0.62 per share), compared with a Non-GAAP net loss of $6.7 million ($0.62 per share) for the first six months of 2014.

We are pleased to see a very strong period of revenue growth although total revenue was short of our estimate of $3.5 million for the 1H15. We are confident that revenue will grow dramatically in 2H15 and beyond due to the completion of PersonalizeDx acquisition. Rosetta completed the strategic acquisition of **PersonalizeDx (CynoGen)** from Prelude Corporation on April 14, 2015.

Non- consolidated revenue was $1.9 million from PersonalizeDx from the period of January 1, 2015 - April 12, 2015. If incorporating the non-consolidated revenue of $1.9 million from PersonalizeDx, pro forma consolidated revenues for the first half of 2015 assuming a full six months of PersonalizeDx operations were $4.2 million.

Pro forma gross billings for the first half of 2015 were $11.8 million (assuming a full six months of PersonalizeDx operations), which included gross billings for the PersonalizeDx business of $10.5 million. For the same period in 2014, Rosetta Genomics' gross billings were $1.3 million.

Based on the 2014 revenue of $6.9 million and 1H15 revenue of $3.5 million from PersonalizeDx, we still model total revenue of $8 million for the 2H15, which means that total revenue for 2015 will be $10.3 million. This represents an increase of 675%. This increase includes both organic growth and acquired growth from PersonalizeDx.

Accordingly, operating loss will narrow to $3.6 million and $10.3 million respectively for 2H15 and full year 2015, compared to operating loss of $7.0 million and $14.3 million for 2H14 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 2020 since these estimates already incorporated expected acquisitions.

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

Balance Sheet Boosted by recent Financing

On October 14, Rosetta Genomics announced that it entered into definitive agreements with investors to purchase units totaling aggregate of $8,000,000 in a private placement. The units consist of ordinary shares and warrants.

Under the terms of the agreement, Rosetta will sell an aggregate of 3,333,333 units at $2.40 per unit, with each unit consisting of

- one ordinary share,
- a Series A Warrant to purchase one-half of an ordinary share at an exercise price of $2.75 per ordinary share, exercisable for a period of five years from the closing date, and
- a partially pre- funded Series B Warrant. The Series B Warrants have an exercise price of NIS 0.6 (which has been prepaid) plus $0.0001 per share. The Series B Warrants are intended to reset the price of the units, and will be exercisable for an aggregate number of ordinary shares based on a reset price per unit equal to 85% of the arithmetic average of the five lowest weighted average prices calculated during the ten trading days following the effective date of the Company's resale registration statement to be filed for the private placement; provided that the maximum aggregate number of ordinary shares issuable upon exercise of the Series B Warrants will not exceed 2,666,667. The Series B Warrants are exercisable for 60 days following the effective date of the resale registration statement.

This financing immediately boosted the company's balance sheet.

As of June 30, 2015, Rosetta had $13.8 million in cash and cash equivalents, restricted cash and short-term bank deposits.

With the addition of the net proceeds from the private placement, we believe the company's balance sheet is getting strong. We estimate the Company's current cash could last into **2017** based on our financial model.

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.

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.

OncoGxSelect™

In late July 2015, Rosetta Genomics announced that OncoGxSelect™, Admera Health's latest next-generation sequencing (NGS) oncology panel, has been approved for clinical use by The New Jersey Department of Health (NJDH).

OncoGxSelect™ leverages Admera Health's industry-leading NGS technology. It interrogates 5 genes associated with highly-prevalent **lung cancer types** including KRAS, BRAF, EGFR, ROS1 and ALK. It detects point mutations, small insertion/deletions (indels) and gene fusions to provide clinically actionable results. In lung cancer, the addition of OncoGxSelect adds to an already broad, comprehensive lung-specific menu to assist in answering the most difficult clinical questions that face clinicians treating lung cancer patients.

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).

BRAF Mutation Assay

In October, 2015, Rosetta launched a molecular test for **BRAF mutation** analysis to help personalize therapy for melanoma and colon cancer patients.

Rosetta Genomics' BRAF mutation analysis test utilizes highly specific and sensitive Competitive Allele-Specific TaqMan® (CAST) PCR™ technology that can detect as little as 0.5% mutated DNA in a large, normal DNA sample. BRAF mutations occur in up to 50% of malignant melanomas, and several FDA-approved BRAF inhibitor therapies have been introduced to the market for use in patients with late-stage metastatic melanoma.

This newest assay will complement the company's broad offerings so that oncologists can optimize treatment decisions for their cancer patients.

Thyroid Cancer

In late September, Rosetta Genomics announced that the Company has reached an agreement-in-principle with **FNApath** of Little Rock, Arkansas, under which Rosetta Genomics will provide endocrinologists initially testing their patients for **thyroid cancer** with the option of using a pathologist or laboratory of their own choosing, or FNApath, a centralized laboratory with an expertise in diagnosing thyroid cancer. In the event of an indeterminate result, the sample would then be tested with RosettaGx Thyroid Reveal™, the Company's thyroid neoplasia assay for the differential diagnosis of indeterminate fine needle aspirates (FNAs).

On October 21, Rosetta introduced its RosettaGx Thyroid Reveal assay and to reported on its clinical performance at the upcoming 15th International Thyroid Congress (ITC) and 85th Annual Meeting of the American Thyroid Association (ATA) taking place October 18-23, 2015 in Lake Buena Vista, Florida.

Performance data from the study showed that where final diagnosis was unanimously confirmed by three pathologists (n=159), the highest standard reference diagnoses, RosettaGX Reveal demonstrated a Sensitivity of 95%, Specificity of 79%, Negative Predictive Value (NPV) of 98% and Positive Predictive Value (PPV) of 63%.

The overall sample set (n=203 before QA; 192 following QA), where the final diagnoses were agreed to by at least two pathologists, demonstrated a Sensitivity of 84%, Specificity of 72%, NPV of 90% and PPV of 60%.

The RosettaGX Reveal offers a valuable tool for the classification of pre-operative thyroid samples, including those that are presently indeterminate according to cytological evaluation, and is the only assay that can utilize cytology smears. This assay is the first commercial test that interrogates the same thyroid cells that the cytopathologist viewed for the initial indeterminate diagnosis.

Acquisition of PersonalizeDx Will Accelerate Substantial Revenue Growth

The company completed the strategic acquisition of **PersonalizeDx (CynoGen)** 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.

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 multiple cancer testing offerings. 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 $10.30 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 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 $2.3 per share, which values the company at about $34 million in market cap based on 15 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 $195 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**	**$2.28**	**$8.00**	**$10.28**	**$18.50**	**$27.50**	**$50.00**	**$80.00**	**$125.00**
YOY Growth	278.4%	41.3%	101.5%	187.0%	264.6%	227.7%	311.2%	934.9%	674.5%	80.0%	48.6%	81.8%	60.0%	56.3%
CoGS	0.43	0.28	0.71	0.77	0.54	1.31	2.27	1.60	3.87	2.31	3.44	6.25	10.00	15.63
Gross Income	**($0.24)**	**($0.06)**	**($0.30)**	**($0.22)**	**$0.23**	**$0.02**	**$0.01**	**$6.40**	**$6.41**	**$16.19**	**$24.06**	**$43.75**	**$70.00**	**$109.38**
Gross Margin	-124.9%	-29.7%	-75.1%	-39.0%	30.1%	1.3%	0.4%	80.0%	62.4%	87.5%	87.5%	87.5%	87.5%	87.5%
R&D	$0.88	$0.87	$1.74	$1.01	$0.92	$1.93	$1.36	$1.50	$2.86	$5.00	$7.50	$10.00	$13.00	$15.50
% R&SD	454.4%	409.0%	430.6%	182.5%	118.5%	145.2%	59.7%	18.8%	27.8%	27.0%	27.3%	20.0%	16.3%	12.4%
SG&A	$5.55	$5.75	$11.30	$6.01	$6.33	$12.34	$7.72	$8.50	$16.22	$20.00	$22.50	$25.00	$30.00	$45.00
% SG&A	2876.7%	2710.8%	2789.9%	1085.4%	818.8%	930.1%	338.8%	106.3%	157.8%	108.1%	81.8%	50.0%	37.5%	36.0%
Other Expense	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	($2.35)	$0.00	($2.35)	$0.00	$0.00	$0.00	$0.00	$0.00
Operating Income	**($6.7)**	**($6.7)**	**($13.3)**	**($7.2)**	**($7.0)**	**($14.3)**	**($6.7)**	**($3.6)**	**($10.3)**	**($8.8)**	**($5.9)**	**$8.8**	**$27.0**	**$48.9**
Operating Margin	-3456.0%	-3149.5%	-3295.6%	-1306.9%	-907.1%	-1074.0%	-294.9%	-45.0%	-100.4%	-47.6%	-21.6%	17.5%	33.8%	39.1%
Other Net	$0.4	($0.2)	$0.2	$0.1	($0.3)	($0.3)	$0.0	($0.3)	($0.2)	($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)**	**($6.7)**	**($3.9)**	**($10.5)**	**($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%	-0.1%	0.0%	-0.1%	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)**	**($6.7)**	**($3.9)**	**($10.5)**	**($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	13.6	16.9	15.2	17.5	20.0	22.5	25.0	30.0
Reported EPS	**($0.68)**	**($0.69)**	**($1.37)**	**($0.66)**	**($0.63)**	**($1.29)**	**($0.49)**	**($0.23)**	**($0.69)**	**($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*	($2.35)	*$0.00*	*-$2.35*	*$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)**	**($9.0)**	**($3.9)**	**($12.9)**	**($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)**	**($0.62)**	**($0.23)**	**($0.85)**	**($0.53)**	**($0.32)**	**$0.32**	**$0.88**	**$1.31**

Source: Company filing and Zacks estimates

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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.

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