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Zacks Small-Cap Research

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Verisante Technology Inc. (V.VRS)

V.VRS: Aura Officially Launched In Canada and Europe

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	02/04/2011
Current Price (05/21/13)	$0.38
Target Price	**$2.25**

OUTLOOK

Aura officially launched in Canada and Europe. We model initial sales in 2013 with more substantial revenue towards the back half of the year as the roll-out will likely be measured and drawn out. The initial marketing strategy largely consists of placing the units with key opinion leaders and to increase awareness of the device, the technology and the benefit to patients and healthcare practices.

Comprehensive analysis of the 1,000-lesion study were accepted for publication by *Cancer Research*, a peer-reviewed journal of the American Association of Cancer Research and the most widely cited cancer journal in the world. This should provide additional support for marketing purposes as well as potentially to help support the U.S. regulatory program.

Aura continues to be recognized as one of the leading novel medical technologies throughout the world and has racked up several high-profile awards and accolades over the last 2 years.

SUMMARY DATA

52-Week High	**$0.65**
52-Week Low	**$0.37**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**38,147**
Shares Outstanding (mil)	**65**
Market Capitalization ($mil)	**25**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**N/A**
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 2013 Estimate	**N/A**
P/E using 2014 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**N/A**
Type of Stock	**N/A**
Industry	**Med/Dental-Supp**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2012	0 A	0 A	0 A	0 A	0 A
2013					1,696 E
2014					6,126 E
2015					20,623 E

Earnings per Share

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2012	-$0.01 A	-$0.01 A	-$0.01 A	-$0.02 A	-$0.05 E
2013					-$0.04 E
2014					-$0.03 E
2015					$0.03 E

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

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Q4 Financials

Verisante filed their financials for the year ending 12/31/2012 on April 30th. Q4 operating expenses of $1.1 million were very much in-line with our $1.0 million estimate. Net loss and EPS came in at $1.4 million and ($0.02) compared to our $1.0 million and ($0.02) estimates. The slight difference in net loss mostly related to a $212k asset impairment charge associated with the write-down of certain licenses, patents and capitalized development costs, most of which were related to legacy technologies.

Cash burn (including capitalized R&D) was $1.3 million (similar to Q3) and $5.1 million for the three and twelve months ending 12/31/2012. VRS exited 2012 with $1.7 million in cash and liquid investments. Subsequent to the close of the year, VRS raised $943k (gross) from the sale of common stock w/ warrants.

Meaningful Progress On Several Fronts

Verisante continues to make meaningful progress on several fronts including commercialization of Aura, continued product development, regulatory matters, financing, and product and market awareness initiatives. Below is a quick snapshot of some of these activities over the last few months.

> Capital Raise

In mid-May Verisante raised $943k (gross) from the sale of 2.38 million shares of common stock (@ $0.40/share) with 100% warrant coverage. The warrants have a two-year term and are exercisable at $0.60/share. Verisante has the right to call in the expiration dates of the warrants to within ~30 days of the following events; 50% of warrants if Verisante's volume weighted trading price reaches $0.90 or greater for 10 consecutive days, the other 50% of warrants if Verisante's volume weighted trading price reaches $1.15 or greater for 10 consecutive days.

Verisante exited 2012 with $1.7 million in cash and equivalents and has been burning (including capitalized R&D) roughly $1.3 million per quarter. While this cash raise will provide some operating capital, we expect the company will look to raise additional funds to help catalyze the ongoing roll-out of Aura.

> Distribution Further Beefed Up

On the heels of the ex-U.S. launch of Aura Verisante has significantly expanded their distribution. Over the last few months Verisante has penned agreements with several distributors covering large swaths of Europe including Germany, Switzerland, and Austria. Laserwelt has a substantial footprint throughout Germany, Austria and Lichtenstein and is a top distributor of medical devices. Germany, in particular, is expected to be an important territory for Verisante's Aura as it is the only country with a national skin cancer screening program and one of the largest markets for medical devices in general.

The other recently announced distribution agreements are with Pacifica Handels AG covering Switzerland and an expanded agreement with BO-Pharma which now also covers the Nordic countries of Norway, Denmark, Finland and Iceland in addition to the initial agreement which was for the Benelux region (Belgium, Netherlands, Luxembourg). And as a reminder, Verisante had previously announced a distribution agreement with Clarion Medical Technologies for the Canadian market.

VRS is focused on continuing to expand their distribution footprint and will look to continue to add distributors in other territories.

> Aura Launched

In late January Verisante announced that they received their first orders for Aura from their distributors in Canada and Europe. Manufacturing was up and running and shipping was expected to begin in the following weeks.

In March Verisante, in concert with Laserwelt, announced the official launch of Aura in Germany. The announcement was made at the Annual Dermatology Congress "Dermatological Practice", one of the major dermatology conferences in Europe. The Germany launch was followed in mid-April by VRS's announcement that they were holding an official Canadian launch in Vancouver. There are currently at least nine commercial systems placed throughout Canada and Europe. VRS currently expects to have approximately 100 units produced within roughly the next 9 to 12 months and anticipates " being able to record material revenues in 2013."

The initial roll-out and marketing strategy largely consists of placing the units with key opinion leaders and to increase awareness of the device, the technology and the benefit to patients and healthcare practices. Presentations, word-of-mouth, testimonials and recommendations from physicians and key opinion leaders that have already used Aura can be highly influential for promoting the benefits of the device. This, however, will take some time which means the unit placement curve will likely be somewhat drawn out.

> Aura Continues To Rack Up Awards

Verisante's trophy case continues to fill up with the latest award coming in early February when Aura won the 2013 Prism Award in the Life Sciences and Biophotonics category. The award was presented to VRSEF management during the annual SPIE Photonics West conference which attracts over 1,500 companies and 20,000 attendees and which is billed as the world's largest and most influential photonics and optics event. The award recognized Aura as the best new photonics product on the market and beat out entries from throughout the world including a microscope objective from imaging giant Olympus and an ultrafast laser from Femtolasers, both of which were finalists for the award.

Just days after the SPIE event Aura was named a 2013 finalist for an Edison Award under the Science/Medical, Diagnostic/Analytical Systems category. Per the Edison Awards website describing the awards, *"The Edison Awards™ are among the most prestigious accolades honoring excellence in new product and service development, marketing, human-centered design and innovation. Unique to the world of award programs, the Edison Awards™ are focused on the innovators as much as the innovations. Award winners represent "game changing" products, services and excellence and leadership in innovation around four criteria: Concept, Value, Delivery and Impact. An Edison Award represents significant value to the award winner and to the cause of innovation."*

Verisante and Aura again were in good company as a finalist. The other three finalists in their category were; 3M Molecular Detection System by 3M, AccuVein AV400 by AccuVein Inc, and 3-D Motion Capture System by Dynamic Athletic Research Institute. The award winners were announced in late April with Verisante taking home the bronze.

As a reminder Verisante and their cancer detection products and technology have already racked up a number of high profile accolades over the recent past including Popular Science's Best of What's New Award for 2011, being named as a top cancer breakthrough of 2011 by the Canadian Cancer Society and the company being named as the top ranking technology and life sciences company on the TSX Venture 50.

Valuation

We now model an initial launch of Aura in 2013 with more substantial sales towards the back half of the year as we expect the initial roll-out to be somewhat slow and measured. Pre-IDE submission package related to the U.S. regulatory program and pathway is in process of being finalized. We now model an assumed U.S. launch in late 2015 to early 2016 (pushed back from previous expectations of mid-to-late 2015).

We use 10-yr DCF to value VRS. Key inputs to our 10-year DCF model include a 10% discount rate and 2% terminal growth rate. Our DCF model values VRS at about $2.25/share.

FINANCIAL STATEMENTS

INCOME STATEMENT (CDN $)

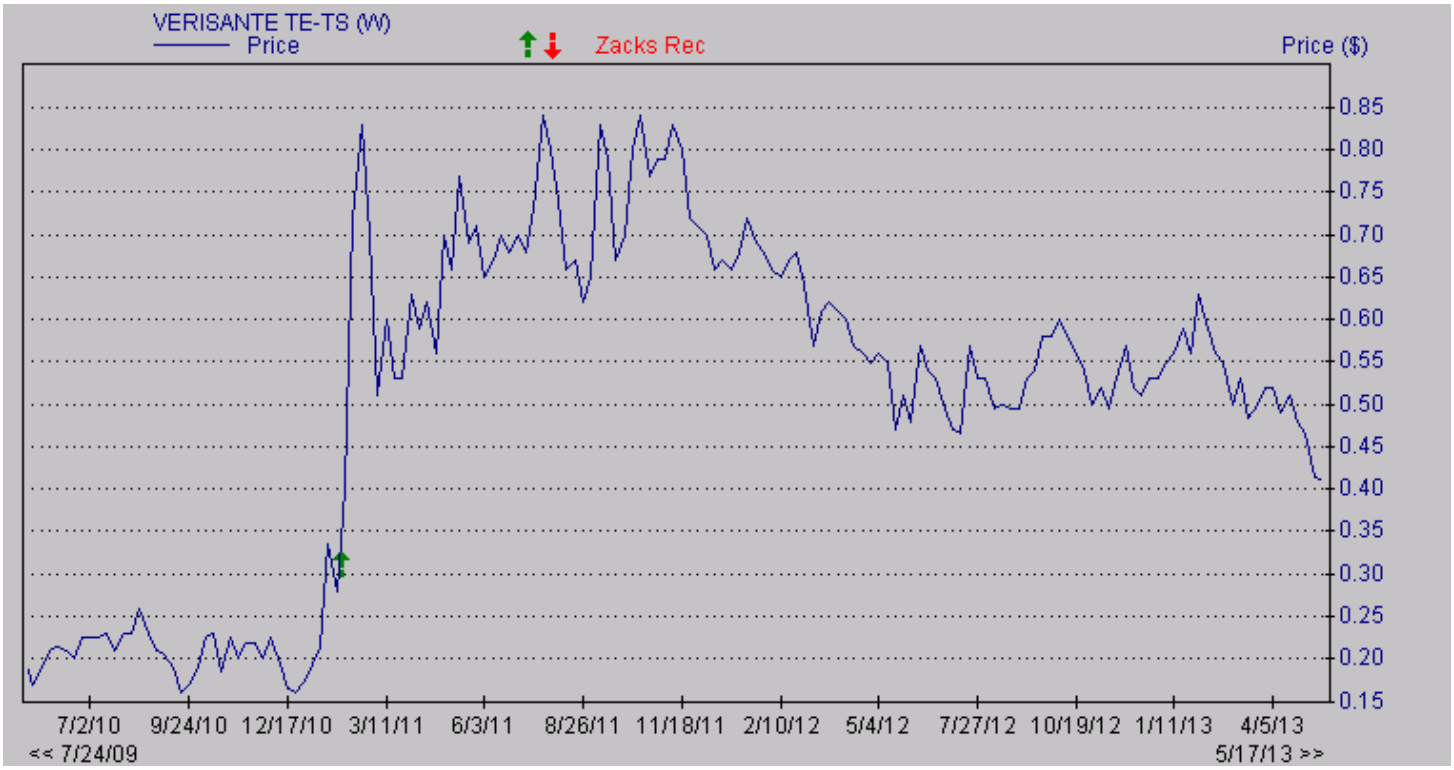
Verisante Technology

	2011 A	2012 A	2013 E	2014 E	2015 E	2016 E
Device sales	$0	$0	$1,575	$5,009	$16,380	$31,456
% total sales	-	-	*92.9%*	*81.8%*	*79.4%*	*76.5%*
Cap sales	$0	$0	$121	$1,117	$4,243	$9,676
% total sales	-	-	*7.1%*	*18.2%*	*20.6%*	*23.5%*
Revenue	$2	$0	$1,696	$6,126	$20,623	$41,132
YOY Growth	-	-	-	*261.3%*	*236.7%*	*99.4%*
Cost of sales	$0	$0	$1,141	$3,135	$8,638	$16,212
Gross Income	$2	$0	$555	$2,991	$11,985	$24,921
Gross Margin	-	*#DIV/0!*	*32.7%*	*48.8%*	*58.1%*	*60.6%*
SG&A	$3,435	$3,201	$3,620	$5,250	$8,305	$13,270
% SG&A	-	*#DIV/0!*	*213.5%*	*85.7%*	*40.3%*	*32.3%*
R&D	$7	$52	$0	$0	$0	$221
% R&D	-	*#DIV/0!*	*0.0%*	*0.0%*	*0.0%*	*0.5%*
Interest expense (income), net	($41.0)	($33.6)	$0.0	$0.0	$0.0	($10.0)
Operating Income	($3,399)	($3,219)	($3,065)	($2,259)	$3,680	$11,440
Operating Margin	-	-	*-180.8%*	*-36.9%*	*17.8%*	*27.8%*
Total Other Income	($153)	($291)	($126)	($368)	($1,237)	($2,468)
Pre-Tax Income	($3,551)	($3,510)	($3,191)	($2,626)	$2,442	$8,972
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$1,345.7
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*15.0%*
Net Income	($3,551)	($3,510)	($3,191)	($2,626)	$2,442	$7,626
Net Margin	-	-	*-188.2%*	*-42.9%*	*11.8%*	*18.5%*
EPS	($0.06)	($0.05)	($0.04)	($0.03)	$0.03	$0.08
YOY Growth	*54.3%*	*-17.0%*	*-21.2%*	*-25.5%*	*-188.7%*	*201.8%*
Diluted Shares O/S	54,651	65,112	75,125	83,000	87,000	90,000

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