

# Mossberg's Investor Digest

## Best Idea Profile:

## GenMark Diagnostics, Inc. (NASDAQ:GNMK)

### DESCRIPTION:

GenMark Diagnostics Inc. is a molecular diagnostics company focused on developing and marketing its biomarker detection technology. The Company's XT-8 system can simultaneously perform an array of molecular diagnostic tests at a single workstation using efficient and disposable test cartridges. This enables reference laboratories and hospitals to conduct multiple molecular diagnostic tests from a single patient sample. GenMark offers diagnostic tests including a Cystic Fibrosis Genotyping Test, a Warfarin Sensitivity Test, a Hepatitis C Genotyping test and a Thrombophilia Risk Test. It also has a Respiratory Viral Panel Test that covers approximately 20 viruses, including influenza A, influenza B, and various other upper respiratory viruses. GenMark's headquarters are in Carlsbad, California.

### KEY INVESTMENT CONSIDERATIONS:

**Fast Growing Market** – The global molecular diagnostic market is \$4.5 billion and growing at 15% per year. There are solid factors driving this growth: 1) clinical needs increasingly require concurrent detection of multiple targets within a single patient sample in order to better guide therapy, 2) molecular testing is rapidly decentralizing (becoming more available at smaller labs), and 3) reimbursement for molecular testing is very strong. Within this market, GenMark's multiplex molecular opportunity is about \$2.3 billion and growing at a 20% annual rate. With the launch of its next-generation system, GenMark will be able to access its full market opportunity.

**Technology Differentiation** – None of its competitors can achieve GenMark's level of multiplexing in testing because of its use of electronic versus optical or other technologies. GenMark can detect up to 72 targets at once, versus optical's limitations of 5 targets before encountering interference. It also does not involve the complexities of optical testing, which helps its customers drive down costs and achieve efficient work flow. Additionally, the Company is well armed with over 100 patents issued and more pending in the U.S.

**Management Known for Creating Value** – GenMark has assembled an impressive management team that has created value in other big and small diagnostic companies. Formerly, the CEO led Ventana Medical Systems for 10 years prior to its sale to Roche for \$3.4 Billion. GNMK also has board members with backgrounds in global, public companies in the diagnostic field.

**Key Financials Improving Rapidly** – In the third quarter, the Company generated more revenue than the entire year of 2011, and is on track to achieve \$18 million in sales in 2012, compared with \$5 million in 2011. Going from negative gross margin in 2011, the company recorded gross margin of 42% in the third quarter with a long-term goal of 75%. As it adds systems at an exponential rate, its revenue per installed system has more than doubled.

**Expect Further Penetration with New System** – GenMark's next generation system will open up the number of labs the company can target from its current 1,200 to over 5,000. GenMark is decentralizing testing by helping smaller labs who would like to do these complex tests but are unable because of the difficulty of sample preparation. GenMark's next-generation system will address this issue and bring testing closer to the patients.

### VALUATION:

The valuation appears to be based on the Company's ability to become a market leader in the diagnostic testing field and for its products to help smaller labs take market share. The Company clearly is well positioned to execute against this, with over \$50 million in the bank and what appears to be rapid market acceptance.

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Investment Data (as of 1/30/13)

<b>Recent Price</b>	<b>\$11.11</b>
52-Week Range	\$3.63 - \$11.56
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	32.7 M
Average Trading Volume (3 mos)	187 K
Market Capitalization	\$363 M
Cash	\$54 M
Long-term Debt	\$919 K
Enterprise Value (EV)	\$309 M
Book Value	\$1.84
TTM Revenue	\$13.1 M
P/ Revenue	28x
TTM EPS	\$(0.98)
P/ EPS	NA
TTM EBITDA	\$(21.4)M
EV/ EBITDA	(14.8)

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