



May 23, 2017

DO NOT BELIEVE CITRON RESEARCH!

**To Reveal the True Value of Exact Sciences
(NASDAQ:EXAS) Listen to the Respected Company that is
the "Science" behind Exact Sciences.**

Short Term Target Reaffirmed at \$20... Long Term Looks Dire.

Needless to say, the past week has been a complete "shit show" for Exact Sciences.

The CEO has been on Television fighting with short sellers and all of the analysts have posted updated research that mimics one another like Wall Street puppets.

Can anyone add some common sense to the Exact Sciences story? With the recent 50% move in the stock who can an investor rely on? Read on for undisputed data points.

The Disclosure that Exact Sciences Didn't Want Anyone to Analyze!!

Citron is surprised that neither investors nor analysts properly analyzed the important disclosure from Exact on April 27th. We have to admit, until an astute reader pointed out its relevance to us persuasively, we did not give the filing much thought.

Background

Cologuard is based on a DNA methylation biomarker, NDRG4, which Exact Sciences originally licensed from a publicly traded Belgian/US company named MDX Health.

MDX Health is a highly regarded PUBLIC company in the field of epigenetic diagnostics. The anchor investors include Biovest and Valiance, both highly regarded investors, plus noted biotech investor Marc Couke, who all have board representation. These are astute and respected biotech investors. MDX is headquartered in Irvine, California and Herstal, Belgium.

There is nobody involved in methylation epigenetic testing (e.g. biomarkers) who has not come across MDX Health.

MDX has licensed out its most promising biomarkers except those that apply in urology which they keep in house. An example is the world's **only** biomarker for Glioblastoma (brain cancer), licensed from MDX to LabCorp and Teva. Various cervical cancer biomarkers are licensed out to Qiagen and Oncognostics.

As stated by Exact ...

“MDxHealth has established itself as a leader in the discovery and development of epigenetic and molecular diagnostics technologies”

-- Dr. Graham Lidgard, CSO and SVP of R&D of Exact Sciences

<http://mdxhealth.com/press-release/mdxhealth-and-exact-sciences-sign-collaboration-agreement>

Exact did not issue a press release, but rather quietly announced the transaction, below the noise of earnings, that it had acquired NDRG4, the “science” behind Cologuard. Why no Press Release? Read on **to find out**.

The Original Licensing Agreement

MDX ‘s licensing agreement with EXAS was for the methylation biomarker NDRG4, and the technology covering the use of FIT (fecal immunochemical test) in combination with methylation.

MDX disclosed that the licensing agreement provided for milestone payments and a royalty expressed as a percentage of Cologuard revenues in the low to mid-single digits. Many close to MDX believe that this was 4%. Citron is going to give Exact the benefit of the doubt, and use **3%** in its analysis below. There were small milestone payments,

which appear to be \$2.3 million from prior public disclosures.

The Transaction Exact Science Does Not Want You To Analyze

As EXAS shares increased in value, Exact has made no secret of the fact that it would like to buy the intellectual property controlling NDRG4. Negotiations were reasonably amicable, although EXAS did threaten to develop an alternative biomarker if a deal could not be reached. Most observers discounted the possibility of EXAS replacing NDRG4 because the FDA approval is based on NDRG4.

If Exact actually changed the biomarker in Cologuard, they would have to go back through FDA; all of their prior efficacy studies regarding Cologuard (NDRG4) would be immediately invalidated. This could also open a Pandora's box that no bio company wants to deal with...

So here is the Transaction....and don't take a shit.

On April 27th MDX Health announced that it had sold the IP for NDRG4 and associated technology for methylation diagnostic testing of fecal matter to EXAS for ... \$8 million.

mdxhealth.com/press-release/mdxhealth-and-exact-sciences-sign-collaboration-agreement

So the board of MDX felt that \$8 million was a reasonable value for the future royalty revenues from Cologuard.

Note: The board of MDX is well connected with a board of smart VCs and a “whose who” of European healthcare who have a keen sense of transaction valuations.

The Disconnect that should concern Investors

Let's forget about milestone payments for these calculations. (We estimate milestone payments **less than** \$3 million, but we can put that aside for now.)

Let's give Exact the benefit of the doubt and assume Kevin Conroy and team could develop an alternative biomarker in 2 years and get FDA

approval and bring it to market, all within 1 year.....so that MDX could only count on 3 years of further royalties from Cologuard.

(This is in truth overly optimistic, because most industry experts we spoke to said it would take a minimum of 5 years to get it tested and approved by FDA...)

Based on royalty income alone, for just 3 years, if the “analyst” community are right about their sales forecasts for Cologuard ... what royalty income would Cologuard generate?

3%	Median Revenue Forecast	Highest Revenue Forecast	Average of Median and Highest	Royalty Income on Median	Royalty Income on Average
2017	206	230	218	6.9	6.54
2018	309	376	342	11.28	10.26
2019	497	540	518	16.2	15.54
Total				34.38	32.34

Investors had better ask themselves why the savvy venture capitalists on the board of MDX, in consultation with the chief scientists and top management of a company that is at the heart of epigenetic testing technology, would take \$8 million when they’re queued up for this rich royalty stream.

The following two points are all that you need to know as an investor in EXAS:

- 1) MDX just accepted \$8 million in lieu of \$32+ million in royalty revenues because they thought \$8 million was more than \$32 million...
- 2) MDX does not believe the street estimates for Cologuard sales because they understand the pipeline of competitive products.

Looked at another way, \$8 million would have been a fair price if Cologuard sales are 1/4th of street expectations AND the company was on track for quick FDA approval for a new biomarker.

The crazy part about this transaction is that it is based on Exact's gross revenues, and has nothing to do with profitability. Meaning that MDX does not expect Cologuard to reach these level of sales **regardless** of their marketing budget.

There are only three scenarios here:

- i) either Exact got the better deal and MDX is stupid,
- ii) either MDX got the better deal and Exact is stupid,
- iii) the deal transacted at fair market value.



The Only Conclusion

Citron admits that right now we cannot predict the next wave of cancer testing, but we know that it is moving fast. In 7 years from now we will be more likely to remember “dick in a box” than “poop in a box”...

For those who are pop culturally challenged:



<http://www.nbc.com/saturday-night-live/video/snl-digital-short-d-in-a-box/3505985?snl=1>

Cautious investing to all.