

## **Citron Explains Long Position on Invitae (\$NVTA) – The most exciting company you have not heard of.**

### **Citron's \$100 price target validated and explained**

As noted in Citron Capital's [1H'19 investor letter](#), the fund has been long shares of Invitae (\$NVTA) and will continue to stay long until the stock hits at least \$65 as we believe it is on its way to \$100.

The “goings on” of this week has made us compelled to explain our investment thesis to the public.

Citron's conviction on Invitae was strengthened by this week's purchase of Genomic Health (\$GHDX) by Exact Sciences (\$EXAS) in a \$2.8 billion deal. The stock of \$EXAS immediately went lower only to recover in a matter of hours. Wall St has spoken – the consensus is that \$EXAS is on the right path with the purchase of this legacy genetic testing company.

In almost 20 years of publishing at Citron Research, one of the biggest mistakes was betting against \$EXAS. While Citron was making arguments about lack of profitability and newer technologies that might displace \$EXAS, the company continued to grow test volumes and the stock surged from \$30 to \$115 in two years.

The key to the Exact Sciences success was their initiative to take clinical grade colorectal cancer screening direct to consumer. This DTC model made volumes explode and stock price followed.

### **Invitae**

For those not familiar with the company, Invitae has become the leading company in the explosive area of diagnostic genetic testing, focused on conditions like cancer, heart disease, and rare disorders, as well as infertility and pregnancy. The company uses proprietary AI to constantly get a better understanding of genetic makeup to deliver more accurate results at an increasingly lower cost. This massive database of customer tests has become their indestructible moat.

As best explained by Invitae CEO Sean George in [his own words](#):

*“If it’s about your health, if it’s about the health of for yourself looking forward or for your children or for your family, Invitae is providing the answers. Invitae is bringing the same genetic information that the world’s experts across all disease areas all stages of life are relying on. Indeed, we are becoming the #1 brand with these key opinion leaders and experts. We are the one providing this information. We are the company to go to.”*

Right out of the Exact Science Playbook

\$NVTA has now realized that genetic testing will become a cornerstone of healthcare and has taken a page out of the \$EXAS playbook by going direct to consumer with a clinical grade product that requires a clinician.

This is Exact Sciences – only better with a significantly larger TAM and moat that gets bigger by the test.

### **Back of the envelope math**

\$NVTA is growing twice as fast as \$EXAS and can be considered “high science”. If it were to trade at the same multiple that would put \$NVTA at \$80 – TODAY!

Or

Think about it this way. Last year, genomic testing company Foundation Medicine was acquired for 18x NTM EV/Sales. If it were to trade at the same multiple that would put \$NVTA at \$100!



2020 Sales	\$500	\$500	\$500
EV/Sales Multiple	14x	16x	18x
Enterprise Value	\$7,000	\$8,000	\$9,000
Debt	\$125	\$125	\$125
Minority Interest	\$0	\$0	\$0
Cash	\$281	\$281	\$281
Market Cap	\$7,157	\$8,157	\$9,157
Shares Outstanding	90	90	90
<b>NVTA Price Target</b>	<b>\$80</b>	<b>\$91</b>	<b>\$102</b>

This is not like the “other” genetic tests.

Citron is not going to spend too much time explaining why \$NVTA is in a class of its own and how their recent acquisitions have only widened their moat.

Interested investors should read their [recent presentation from the William Blair conference](#).

However, investors should be aware of noninvasive prenatal screening (NIPS), which is a recurring revenue model that addresses every pregnant woman. Currently, \$NVTA notes that there are 6M pregnancies a year in the U.S. and with the recent acquisition of SingularBio in June of this year, CEO Sean George revealed to analysts of record that within 18 months the NIPS business can also

become a 50% gross margin business due to the acquired technology and IP while lowering COGS to levels unseen in the industry.

In a nutshell, we refer to Dr. Susan Klugman, vice president for clinical genetics at the American College of Medical Genetics and Genomics, who made the comparison to 23andMe and \$NVTA as if it were a spellcheck:

*“Whereas 23andMe looks for errors in a few paragraphs, the Invitae analysts used more advanced genetic technology to search through 25 chapters.”*

## Conclusion

The market’s reaction to the \$EXAS acquisition of \$GHDX is all we need to know. \$NVTA shareholders are some of the savviest healthcare investors who understand the network effect that has been created by \$NVTA as it positions itself in the exciting growing field of genetic diagnostic testing.

We are not concerned about next week’s earnings as we would happily buy more on any dip – we have seen this movie before and have learned from our mistakes. Our only question is who will acquire \$NVTA?

\* Big shout out to Capital Market Laboratories who introduced the name to Citron months ago.

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