

Myriad Genetics, Inc.(MYGN)

\$15.25 (As of 04/10/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/09/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: B

Summary

Myriad Genetics reported strong year-over-year revenue growth in EndoPredict, Polaris and Other testing segments. Pharmaceutical and clinical service segments also witnessed an upside in revenues. The company expects to register uptick in hereditary cancer volumes on account of its contract with UnitedHealthcare. We are upbeat about the FDA approval attained by the company for myChoice CDx and BRACAnalysis CDx as companion diagnostic tests. On the flip side, the company saw a decline in Hereditary Cancer, GeneSight, Vectra and Prenatal revenues and incurred operating loss. A lowered fiscal 2020 guidance indicates chances of continuation of this sluggish trend. It also exhibited a dismal performance in the second-quarter fiscal 2020. Over the past six months, Myriad Genetics has underperformed the industry it belongs to.

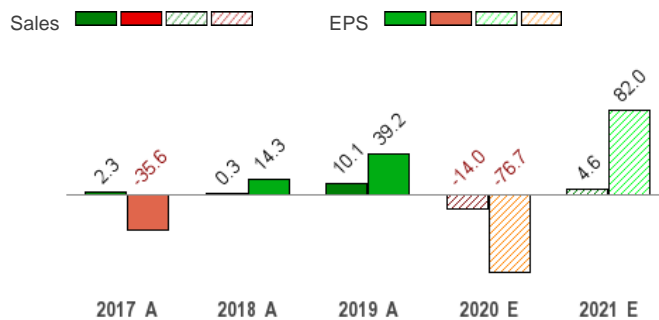
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.40 - \$9.24
20 Day Average Volume (sh)	1,138,572
Market Cap	\$1.1 B
YTD Price Change	-44.0%
Beta	1.43
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Biomedical and Genetics
Zacks Industry Rank	Top 8% (20 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-25.8%
Last Sales Surprise	-6.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/05/2020
Earnings ESP	-100.0%

P/E TTM	12.9
P/E F1	39.1
PEG F1	3.4
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	189 E	193 E	181 E	193 E	766 E
2020	186 A	195 A	171 E	179 E	732 E
2019	202 A	217 A	217 A	215 A	851 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.17 E	\$0.16 E	\$0.13 E	\$0.17 E	\$0.71 E
2020	\$0.08 A	\$0.23 A	\$0.03 E	\$0.09 E	\$0.39 E
2019	\$0.43 A	\$0.38 A	\$0.46 A	\$0.41 A	\$1.67 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/10/2020. The reports text is as of 04/13/2020.

Overview

Myriad Genetics, headquartered in Salt Lake City, UT, employs a number of proprietary technologies to target the genetic basis of human diseases and the role these genes might play in the onset, progression and treatment of the respective diseases. The company currently has 12 proprietary molecular diagnostic products in market.

Currently, Myriad Genetics has so far made significant progress with its five strategic imperatives that include transition and expand the hereditary cancer market, diversify revenues by commercializing its new products, increase the company's international contribution by investing in large countries, gaining reimbursement for new products, increasing international RNA kit revenue and enhancing profitability with Elevate 2020.

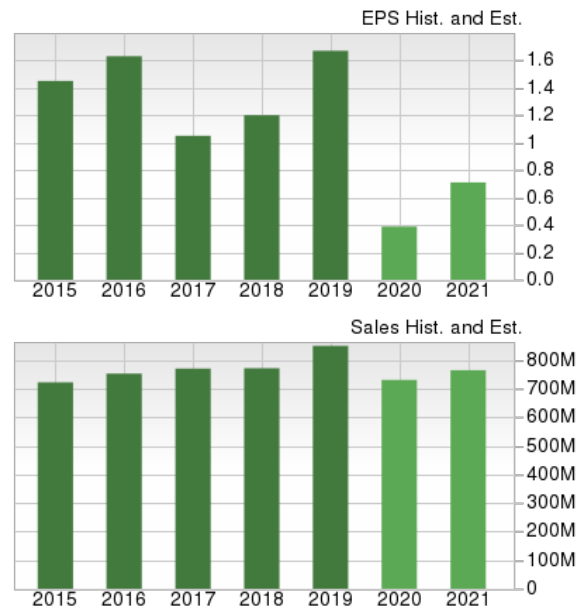
Myriad's flagship product – BRACAnalysis – offers a comprehensive analysis of BRCA1 and BRCA2 genes to assess a woman's risk of hereditary breast and ovarian cancers. In Sep 2013, Myriad launched its major pipeline product myRisk Hereditary Cancer.

In Oct 2013, Myriad launched its myPlan Lung Cancer, a gene expression test that helps in predicting the aggressiveness of a patient's lung cancer catering to leading oncologists throughout the U.S. In Nov 2013, the company launched its molecular diagnostic test – myPath Melanoma, which detects malignancy in skin biopsy.

In the global market that is worth \$18 billion, myChoice HRD/BRACAnalysis CDx/Tumor BRACAnalysis CDx holds an opportunity of 33.3%, myRisk of 27.8%, Vectra DA of 27.5%, Prolaris of 11.1% and both myPlan Lung Cancer and myPath Melanoma of 5.6% each.

The company currently reports through two operating segments: Molecular diagnostic (92.7% of revenues in fiscal 2019) and Pharmaceutical and clinical services(7.2%).

In fiscal 2019, **Molecular diagnostic** tests segment registered 14% growth and **Pharmaceutical and clinical services** segment registered 16% growth from fiscal 2018.



Reasons To Buy:

▲ **Progress in Five-Pronged Strategy:** Myriad Genetics has so far made significant progress with its five strategic imperatives that include transition and expansion of the hereditary cancer market, diversify revenues by commercializing its new products, increase the company's international contribution by investing in large countries, gaining reimbursement for new products, increasing international RNA kit revenue and enhancing profitability with Elevate 2020.

Myriad is making significant progress in its portfolio expansion. The company's impressive five-year plan also encourages us.

▲ **Huge Potential of Hereditary Cancer Testing:** The company continues to witness year-over-year growth in Hereditary Cancer volumes. The company registered mid-single-digit growth in hereditary cancer volumes on a year-over-year basis in the second quarter of fiscal 2020. This marked the tenth consecutive quarter of year-over-year Hereditary cancer volume growth for the company.

Going ahead, Myriad Genetics expects to register an uptick in hereditary cancer volumes on account of its contract with UnitedHealthcare. The company expects to witness a stable pricing trend in Hereditary Cancer testing through fiscal 2020.

In second-quarter fiscal 2020, the company achieved significant milestones within the hereditary cancer testing space. The company registered solid progress with myPath Melanoma. The company is in the preliminary stages of commercialization for myPath Melanoma. It completed the first phase of the expanded launch and the product is being promoted to approximately 35% of the targeted market.

From a companion diagnostic perspective, the company witnessed significant progress with both BRACAnalysis CDx and myChoice CDx. In December 2019, the company attained FDA approval for BRACAnalysis CDx in pancreatic cancer. Around the same time, it received FDA approval for myChoice CDx as the companion diagnostic in ovarian cancer patients.

In January 2020, the company submitted its application for BRACAnalysis CDx in castrate resistant metastatic prostate cancer, with the FDA approval anticipated to come in the latter half of fiscal 2020.

These developments are expected to result in a clinical impetus for patients of these two cancer types which comprise approximately 90000 incident patients in the United States per year.

Thus, we believe that the company is boding well to cash on the huge potential in the breast cancer screening market. Also, per a report by DPI Research on Medium, the breast cancer screening market in the United States is expected to reach a value of roughly \$5.8 billion by 2022.

▲ **New Products Bode Well:** Myriad Genetics continues to record strong testing volumes from new products.

In the fiscal second quarter, Prolaris tests revenues were up 12% year over year, while EndoPredict testing revenues rose 18% year over year. Other testing revenues surged 380% year on year. Pharmaceutical and clinical service revenues in the quarter under review inched up 1% on a year-over-year basis.

Myriad genetics also signed a master service deal with a large pharmacy benefit manager in the United States to offer GeneSight to its commercial payer and self-funded employer customers.

The company expects to see double-digit growth in new product volumes in fiscal 2020, along with a significant expansion in reimbursement coverage.

For the rest of fiscal 2020, management anticipates consistent revenues in Vectra, Prolaris and EndoPredict. For GeneSight and the prenatal businesses, the company expects consistent volume growth despite revenue decline during the fiscal quarter.

▲ **Increased Focus on International Revenues:** In line with one of its strategies, the company earlier stated that it aims to boost international revenues to 10% by fiscal 2020. Further, the company informed that they have switched to focus on a kit-based strategy to grow globally. In this regard, the company's EndoPredict, Prolaris, and myPath Melanoma tests can be performed on Thermo Fisher's QuantStudio 5.

Fortifying its foothold internationally, the company has been receiving encouraging response for its BRACAnalysis CDx in Japan for metastatic breast cancer. In this regard, the company has received Japanese approval for BRACAnalysis CDx as the companion diagnostic in first line ovarian cancer with olaparib. The company is optimistic about the scope of this test in Japan on the fact that, every year roughly 22,000 cancer patients in Japan are eligible for companion diagnostic testing. The company also recently filed for regulatory approval of myChoice CDx in Japan for its potential use in ovarian cancer, which comprises approximately 9000 patients per year.

The company is pursuing myChoice CDx in PARP inhibitor indications in Europe, Japan and China and have already filed for approval of myChoice CDx in Japan.

Further, Myriad Genetics announced the inclusion of EndoPredict by the United Kingdom's National Institute for Health and Care Excellence (NICE) in its recommendations for guiding adjuvant chemotherapy decisions for patients with ER-positive, HER2-negative early breast cancer and are lymph node-negative. Per management, this development provides the company access to a new market opportunity of roughly 25,000 patients per year.

▲ **Impressive Reimbursement Update:** During the fiscal second quarter, Myriad Genetics saw continued progress with respect to commercial payers' ongoing GeneSight technical assessments. According to the company, its GeneSight and Vectra coverage saw positive momentum with the announcement of GeneSight coverage by Kroger. During the first quarter of fiscal 2020, the company announced coverage decision from UnitedHealthcare, the largest commercial payer in the United States, for its GeneSight patients.

An expansion in the GeneSight Medicare LCD to primary care is awaited, which is expected to add approximately \$30 million annually to the

company's revenues. With GeneSight, management expects the finalization of MoIDX LCD in the third quarter of fiscal 2020 which could result in the coverage for tests ordered by primary care physicians who are responsible for 60% of antidepressant prescriptions.

Earlier, four state Medicaid programs, including Florida, Minnesota, Ohio and Pennsylvania, added average risk coverage to their medical policies. Altogether, this represented an additional 18% of Medicaid lives.

With regard to EndoPredict test, this test got included in the National Comprehensive Cancer Network (NCCN) guidelines. With myPath Melanoma, during the last fiscal, the company received reimbursement from eight commercial payers and a final local coverage determination from Meridian Healthcare Solutions or Medicare Administrative Contractor. This test has also been recognized in the American Academy of Dermatology and NCCN guideline. Per management, with this development, 100,000 patients with uncertain melanoma diagnosis annually are supposed come under the scope of myPath Melanoma test.

Reasons To Sell:

- ▼ **Share Price Performance:** Over the past six months, Myriad Genetics underperformed the industry it belongs to. The stock fell 48.6% against the industry's 11.3% rise. Myriad Genetics saw a decline in Hereditary Cancer, GeneSight, Vectra as well as Prenatal revenues in the second quarter of fiscal 2020. Management is anticipating a \$10-million sequential decline in hereditary cancer revenues due to seasonality and PAMA. The company incurred operating loss incurred during the quarter. The lowered fiscal 2020 guidance is indicative of the continuation of this sluggish trend. Foreign-exchange headwinds and escalating expenses continue to be dampeners.
- ▼ **Escalating Expenses Dent Growth:** In the second quarter of fiscal 2020, gross margin contracted 139 basis points (bps) to 74.6%. Research and development (R&D) expenses fell 16.1% year over year to \$18.8 million while selling, general and administrative (SG&A) expenses rose 0.3% to \$135.6 million in the reported quarter. Adjusted operating loss was \$9 million against adjusted operating profit of \$7.1 million in the year-ago quarter.
- ▼ **Foreign Exchange Headwinds:** Myriad receives a considerable portion of its revenues and pays a portion of its expenses in foreign currencies. As a result, the company remains at risk of exchange rate fluctuations between foreign currencies and the U.S. dollar. If the dollar strengthens against foreign currencies, the translation of these foreign currency denominated transactions will result in decreased revenues, operating expenses and net income. Management fears this may not be significantly outweighed through increased revenues. Moreover, management does not currently utilize hedging strategies to mitigate foreign currency risk. This is also worrying given that currently the dollar has strengthened, affecting many U.S. companies trading in foreign currencies in some of the previous quarters.
- ▼ **Increasing Competition:** With the entry of new players, imminent price competition is another cause of concern. Per management, Myriad is currently facing competition in its key BRACAnalysis market. The company expects competition to intensify in its current fields with recently observed advancements in technology. Further, Myriad anticipates that other companies may also launch their own molecular diagnostic tests which may compete with its testing products and services. In our opinion, competitive headwinds might push down prices for the high-priced tests provided by Myriad. This might deter margin improvement going forward.
- ▼ **Adverse Impact of new Regulations:** CMS has lately adopted a new coding set for diagnoses, commonly known as ICD-10-CM, which significantly expands the current coding set. Myriad fears that the company may have to incur considerable expense in implementing ICD-10-CM, and, in failure of its adequate implementation, Myriad's business might suffer a setback. In addition, as a result of the new coding set, if physicians fail to provide appropriate codes for desired tests, Myriad may not be reimbursed for tests it performs; which in turn might drag down the demand for its tests.

Emerging competitors and pricing pressure may plague Myriad's stock in the near future. Additionally, macroeconomic uncertainty and higher expenses owing to extensive pipeline of some tests still remain a matter of concern.

Last Earnings Report

Myriad Genetics Misses Q2 Earnings & Revenue Estimates

Myriad Genetics, Inc. reported adjusted earnings per share of 23 cents in the second quarter of fiscal 2020, down 39.5% year over year. Adjusted EPS also lagged the Zacks Consensus Estimate by 25.8%. Sharp year-over-year decline in revenues stemming from disappointing performance within prenatal business put pressure on the bottom line.

On a reported basis, loss per share was 11 cents against the prior-year quarter's earnings of 3 cents.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	-6.76%
EPS Surprise	-25.81%
Quarterly EPS	0.23
Annual EPS (TTM)	1.18

Revenues

Total revenues dropped 10% year over year to \$195.1 million in the quarter under review. The figure also missed the Zacks Consensus Estimate by 6.7%. In fiscal second quarter, the company saw lower-than-expected cash collections from its prenatal business. Prenatal cash collections were affected by issues in billing operations that occurred during the conversion of the homegrown Counsyl billing system to an industry standard system used by Myriad Genetics.

Quarter in Detail

Segment-wise, Molecular diagnostic tests recorded total revenues of \$181.1 million, down 11% year over year.

Within this segment, Hereditary Cancer testing revenues fell 7% year over year to \$117.7 million. EndoPredict testing revenues rose 18% year over year to \$2.6 million. Vectra testing revenues were \$10.3 million, down 13% year over year. Other testing revenues surged 380% to \$4.8 million year on year.

Further, GeneSight testing revenues fell 6% year over year to \$22.5 million in the reported quarter. Prolaris tests raked in revenues of \$6.8 million, up 12% year over year. Prenatal testing revenues came in at \$16.4 million, down 47%.

Pharmaceutical and clinical service revenues in the quarter under review totaled \$14 million, up 1% on a year-over-year basis.

Margin Trends

Gross margin in the quarter under review contracted 139 basis points (bps) to 74.6%. Research and development (R&D) expenses fell 16.1% year over year to \$18.8 million along with 0.3% increase in selling, general and administrative (SG&A) expenses to \$135.6 million in the reported quarter. Adjusted operating loss was \$9 million against adjusted operating profit of \$7.1 million in the year-ago quarter.

Financial Position

Myriad Genetics exited second-quarter of fiscal 2020 with cash and cash equivalents of \$81.2 million compared with \$89.9 million at the end of the first quarter of fiscal 2020. Cumulative cash flow from operating activities at the end of the second quarter was \$13.9 million compared with \$45.6 million at the end of the year-ago quarter.

2020 Guidance

Myriad Genetics lowered the guidance for fiscal 2020 revenues. The company expects fiscal 2020 revenues to be \$735 million compared with the previous guidance of \$800-810 million. The Zacks Consensus Estimate for the metric is pegged at \$806.5 million.

On the bottom-line front, the company lowered adjusted earnings to 45 cents from the earlier projection of \$1.00-\$1.10. The current consensus mark for the metric is at \$1.06.

Management has also provided the guidance for third-quarter fiscal 2020. The company estimates adjusted earnings per share of 2 cents and total revenues of 172 million. The Zacks Consensus Estimate for adjusted earnings per share is pegged at 32 cents. The same for revenues is at \$201.8 million.

Recent News

On **Apr 6, 2020**, Myriad Genetics announced the receipt of reimbursement and the subsequent launch of the BRACAnalysis Diagnostic System in Japan.

On **Mar 30, 2020**, Myriad Genetics announced its submission of a supplementary application with the Japanese Ministry of Health Labour and Welfare for its BRACAnalysis in March. The application was regarding the use of the BRACAnalysis as a companion diagnostic to help in the identification of people with metastatic pancreatic or metastatic castration-resistant prostate cancer, having germline BRCA1 and BRCA2 mutations.

On **Feb 14, 2020**, Myriad Genetics announced the presentation of its study, where it was established that Prolaris precisely predicts which men with intermediate or high-risk prostate cancer will benefit from multi-modality therapy and which can avoid unnecessary treatment.

On **Feb 11, 2020**, Myriad Genetics submitted a supplementary premarket approval (sPMA) application to the FDA for its myChoice CDx test, to enable the identification of women suffering from advanced ovarian cancer who are prospective candidates for maintenance therapy with Lynparza (olaparib) in combination with bevacizumab.

On **Jan 22, 2020**, Myriad Genetics submitted a sPMA application to the FDA for its myChoice CDx test to enable the prediction of outcomes of women affected with first-line platinum responsive advanced ovarian cancer, treated with GSK's PARP inhibitor Zejula (niraparib).

Valuation

Myriad Genetics shares are down 44% in the year to date period and down 54.1% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 6.6% while the Zacks Medical sector fell 9.5% in the year to date period. Over the past year, the Zacks sub-industry is down 8% and sector is down 6.4%.

The S&P 500 index is down 13.4% in the year to date period and fell 4.3% in the past year.

The stock is currently trading at 23.8X Forward 12-months earnings, which compares to 319X for the Zacks sub-industry, 19.8X for the Zacks sector and 18.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 94.6X as low as 11X, with a 5-year median 21.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$16 price target reflects 24.9X forward 12-months earnings.

Valuation Multiples - MYGN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.78	319.00	19.76	18.16
	5-Year High	94.56	319.00	21.10	19.34
	5-Year Low	11.02	20.63	15.81	15.19
	5-Year Median	21.07	40.37	18.84	17.45
P/S F12M	Current	1.50	2.93	2.53	3.08
	5-Year High	4.30	3.18	3.84	3.44
	5-Year Low	0.96	2.05	2.26	2.54
	5-Year Median	2.67	2.62	2.96	3.01
P/B TTM	Current	1.06	3.64	3.49	3.71
	5-Year High	4.66	5.46	5.05	4.55
	5-Year Low	0.68	2.45	2.90	2.84
	5-Year Median	2.36	3.33	4.30	3.63

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Top 8% (20 out of 253)



Top Peers

Abbott Laboratories (ABT)	Neutral
Becton, Dickinson and Company (BDX)	Neutral
Danaher Corporation (DHR)	Neutral
Hologic, Inc. (HOLX)	Neutral
Illumina, Inc. (ILMN)	Neutral
Laboratory Corporation of America Holdings (LH)	Neutral
QIAGEN N.V. (QGEN)	Neutral
Thermo Fisher Scientific Inc. (TMO)	Neutral

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	MYGN Neutral	X Industry	S&P 500	ILMN Neutral	LH Neutral	TMO Neutral
VGM Score	C	-	-	D	B	C
Market Cap	1.14 B	168.11 M	19.66 B	42.28 B	14.25 B	126.58 B
# of Analysts	5	3	13	9	8	9
Dividend Yield	0.00%	0.00%	2.18%	0.00%	0.00%	0.28%
Value Score	B	-	-	D	B	C
Cash/Price	0.16	0.31	0.06	0.09	0.03	0.02
EV/EBITDA	15.05	-2.48	11.72	28.99	9.63	20.11
PEG Ratio	3.37	1.67	2.04	3.19	2.79	1.80
Price/Book (P/B)	1.05	3.22	2.66	9.17	1.88	4.29
Price/Cash Flow (P/CF)	6.55	14.18	10.44	34.94	7.55	17.55
P/E (F1)	39.08	28.54	17.51	44.44	14.67	25.16
Price/Sales (P/S)	1.40	13.32	2.12	11.93	1.23	4.96
Earnings Yield	2.56%	-19.23%	5.65%	2.25%	6.82%	3.98%
Debt/Equity	0.26	0.02	0.70	0.40	0.86	0.58
Cash Flow (\$/share)	2.33	-1.02	7.01	8.23	19.44	18.08
Growth Score	F	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	-9.38%	18.12%	10.92%	19.06%	10.73%	13.63%
Proj. EPS Growth (F1/F0)	-76.77%	5.37%	-1.14%	-1.49%	-11.61%	2.16%
Curr. Cash Flow Growth	21.53%	13.65%	5.93%	13.10%	12.16%	6.99%
Hist. Cash Flow Growth (3-5 yrs)	-3.44%	8.18%	8.55%	16.75%	17.70%	10.08%
Current Ratio	3.25	4.82	1.24	6.69	1.12	1.92
Debt/Capital	20.85%	4.33%	42.36%	28.47%	46.20%	36.53%
Net Margin	-3.22%	-229.34%	11.64%	28.27%	7.13%	14.47%
Return on Equity	5.42%	-65.95%	16.74%	22.34%	15.37%	17.24%
Sales/Assets	0.52	0.20	0.54	0.49	0.65	0.45
Proj. Sales Growth (F1/F0)	-14.01%	7.16%	0.45%	6.25%	-0.75%	2.37%
Momentum Score	B	-	-	D	D	D
Daily Price Chg	6.94%	1.82%	2.48%	2.36%	4.00%	3.33%
1 Week Price Chg	-12.94%	-3.64%	-4.40%	-2.06%	-11.96%	2.87%
4 Week Price Chg	21.61%	10.40%	11.26%	28.82%	7.24%	11.63%
12 Week Price Chg	-47.27%	-24.59%	-20.02%	-11.76%	-17.41%	-5.75%
52 Week Price Chg	-54.56%	-31.22%	-11.31%	-12.45%	-7.01%	13.14%
20 Day Average Volume	1,138,572	247,708	3,931,994	1,730,094	1,351,308	2,947,777
(F1) EPS Est 1 week change	0.00%	0.00%	-0.12%	-2.07%	1.00%	-0.43%
(F1) EPS Est 4 week change	0.00%	0.00%	-5.78%	-5.48%	-16.53%	-7.20%
(F1) EPS Est 12 week change	-82.07%	-1.74%	-7.64%	-8.26%	-16.27%	-7.20%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-10.13%	-12.69%	-39.58%	-13.49%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	F
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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