BARCLAYS

Equity Research

Healthcare | U.S. Life Science Tools & Diagnostics

7 November 2018

Myriad Genetics Inc.

More Questions as New GeneSight Risks Emerge; Lower PT to $23

Stock Rating	UNDERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 23.00 lowered -8% from USD 25.00

Price (06-Nov-2018)	USD 36.67
Potential Upside/Downside	-37.3%
Tickers	MYGN

Market Cap (USD mn)	2740
Shares Outstanding (mn)	74.72
Free Float (%)	99.00
52 Wk Avg Daily Volume (mn)	0.8
52 Wk Avg Daily Value (USD mn)	N/A
Dividend Yield (%)	N/A
Return on Equity TTM (%)	11.16
Current BVPS (USD)	13.67

Source: Thomson Reuters

Price Performance	Exchange-Nasdaq
52 Week range	USD 50.44-27.27

Link to Barclays Live for interactive charting

We have more questions related to GeneSight after Myriad's FY1Q19 earnings, as a number of new issues emerged which we believe confirm the concerns embedded in our Underweight thesis. To start, GeneSight revenue of $29.3mm came in 11% below our forecast. Management attributed the weakness to, "Changes requested by Medicare to obtain additional documentation and physician attestation." In addition, a higher portion of non-Medicare patients weighed on quarterly revenues. **Moreover, Myriad acknowledged that it has withdrawn the GeneSight RCT from the American Journal of Psychiatry (AJP) – and has submitted it to another journal. Given our critical view of the GeneSight data, we view the withdrawal of the study as a major concern.** Myriad said the study was withdrawn solely to protect its intellectual property around the GeneSight algorithm. That said, as we noted in our 11/1/2018 report, "*MYGN: The Wait Continues for the GeneSight RCT Publication*", we viewed the bar for publication as high, given the AJP has endorsed views critical of GeneSight twice over the last six months. **Finally, we continue to believe the FDA warning on pharmacogenetic testing in depression could raise risks for GeneSight coverage and volumes as well.** We believe given the profile of the announcement, it will likely be raised to CMS' attention – posing risks for non-coverage of the test.

More broadly, the quality of quarterly revenues was weak. Revenue of $202mm was "only" at the upper end of $200-$202mm guidance, despite historical conservatism embedded in mgmt's outlook. **Most of the flagship molecular diagnostic tests missed our forecast.** Notably, the hereditary cancer testing (HCT) business declined 1% y/y despite the inclusion of Counsyl's HCT revenue. Counsyl prenatal revenues of $18mm also came in below expectations, attributed to the UnitedHealth out-of-network decision – which we've known about since July 2018. There were no updates on the two HHS/OIG investigations, nor the material weakness over internal controls announced last quarter. **Given the new issues with GeneSight, Myriad is lowering its FY2019 revenue forecast 3% at the midpoint to a new range of $855-$865mm.** We position ourselves at the lower end of this range, and remain concerned about broader risks for GeneSight and the durability of HCT. **We lower our PT to $23 (from $25).**

MYGN: Quarterly and Annual EPS (USD)

	2018	2019			2020			Change y/y	
FY Jun	Actual	Old	New	Cons	Old	New	Cons	2019	2020
Q1	0.30A	0.29E	0.43A	0.30E	0.32E	0.38E	0.42E	43%	-12%
Q2	0.36A	0.42E	0.37E	0.43E	0.46E	0.44E	0.47E	3%	19%
Q3	0.36A	0.44E	0.39E	0.46E	0.49E	0.48E	0.50E	8%	23%
Q4	0.45A	0.55E	0.51E	0.53E	0.58E	0.55E	0.53E	13%	8%
Year	1.47A	1.70E	1.70E	1.72E	1.85E	1.85E	1.95E	16%	9%
P/E	24.9		21.5			19.8			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters received on 06-Nov-2018; 14:35 GMT

U.S. Life Science Tools & Diagnostics

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U.S. Life Science Tools & Diagnostics — **Industry View: NEUTRAL**

Myriad Genetics Inc. (MYGN)

Stock Rating: UNDERWEIGHT

Income statement ($k)	2018A	2019E	2020E	2021E	CAGR
Revenue	740,300	855,565	913,633	955,745	8.9%
EBITDA (adj)	125,900	152,857	168,417	168,422	10.2%
EBIT (adj)	110,400	134,124	149,347	148,474	10.4%
Pre-tax income (adj)	108,600	130,640	144,309	146,629	10.5%
Net income (adj)	86,200	109,361	119,776	121,702	12.2%
EPS (adj) ($)	1.47	1.70	1.85	1.95	9.8%
Diluted shares (k)	71,900.0	77,987.5	77,447.9	76,195.4	2.0%
DPS ($)	0.00	0.00	0.00	0.00	N/A

Margin and return data					Average
Gross margin (%)	77.5	74.2	73.2	72.6	74.4
EBITDA (adj) margin (%)	16.3	17.9	18.4	17.6	17.6
EBIT (adj) margin (%)	14.3	15.7	16.3	15.5	15.5
Pre-tax (adj) margin (%)	14.1	15.3	15.8	15.3	15.1
Net (adj) margin (%)	11.2	12.8	13.1	12.7	12.4
ROIC (%)	10.9	11.6	11.0	12.1	11.4
ROA (%)	7.2	7.7	7.5	8.2	7.7
ROE (%)	9.9	10.3	10.4	10.7	10.3

Balance sheet and cash flow ($k)					CAGR
Tangible fixed assets	N/A	N/A	N/A	N/A	N/A
Intangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	211,300	304,057	263,740	230,533	2.9%
Total assets	1,174,100	1,649,725	1,541,212	1,435,920	6.9%
Short and long-term debt	9,300	272,900	172,900	72,900	98.6%
Other long-term liabilities	N/A	N/A	N/A	N/A	N/A
Total liabilities	209,200	492,820	402,061	309,165	13.9%
Net debt/(funds)	-202,000	-31,157	-90,840	-157,633	N/A
Shareholders' equity	964,900	1,156,905	1,139,151	1,126,755	5.3%
Change in working capital	-21,600	-18,664	-5,298	-3,985	N/A
Cash flow from operations	113,800	126,974	169,218	176,767	15.8%
Capital expenditure	-8,400	-8,116	-9,535	-9,974	N/A
Free cash flow	105,400	118,857	159,683	166,792	16.5%

Valuation and leverage metrics					Average
P/E (adj) (x)	24.9	21.5	19.8	18.8	21.3
EV/sales (x)	3.5	3.2	3.0	2.8	3.1
EV/EBITDA (adj) (x)	20.6	18.0	16.0	15.6	17.6
EV/EBIT (adj) (x)	23.4	20.6	18.1	17.7	20.0
FCF yield (%)	4.1	4.3	5.9	6.3	5.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	-1.6	-0.2	-0.5	-0.9	-0.8

Selected operating metrics					Average
SG&A/sales (%)	55.0	49.9	48.4	48.5	50.4
R&D/sales (%)	8.3	8.7	8.6	8.6	8.6
R&D growth (%)	-5.6	16.0	5.6	5.0	5.3
SG&A growth (%)	-2.6	0.6	3.4	4.9	1.6

Source: Company data, Barclays Research
Note: FY End Jun

Price (06-Nov-2018) **USD 36.67**
Price Target **USD 23.00**

Why Underweight? We believe several risks are being discounted and shares have an unfavorable risk/reward. Notably, we see several risks around the GeneSight RCT and IMPACT studies which present risks for payor coverage. Additionally, we are cautious around HCT pricing, see risks from Counsyl moving out-of-network with UNH, and note outstanding HHS/OIG investigations.

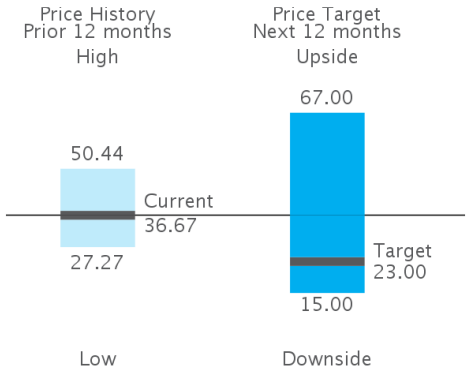
Upside case **USD 67.00**

Our upside case of $67 reflects a normalized 10x EBITDA multiple on our upside 2020 EBITDA forecast of $526mm. Our upside EBITDA forecast assumes that GeneSight earns coverage from a majority of payors (60% of covered lives), and compares to FY18 EBITDA of $125.9mm.

Downside case **USD 15.00**

The downside case of $15 reflects a normalized 10x EBITDA multiple on our downside 2020 EBITDA forecast of $122mm. Our downside EBITDA forecast assumes that GeneSight earns a non-coverage decision from CMS, and earnings contribution from the product is minimal.

Upside/Downside scenarios



Introduction

We have more questions related to GeneSight after Myriad's FY1Q19 earnings, as a number of new issues emerged which we believe confirm the concerns embedded in our Underweight thesis. To start, GeneSight revenue of $29.3mm came in 11% below our forecast. Management attributed the weakness to, "Changes requested by Medicare to obtain additional documentation and physician attestation." In addition, a higher portion of non-Medicare patients weighed on quarterly revenues, which caused pressure given that is essentially the test's only payor at this time. **Moreover, Myriad acknowledged that it has withdrawn the GeneSight RCT from the American Journal of Psychiatry (AJP) – and has submitted it to another journal, with acceptance expected before year end. Given our critical view of the GeneSight data, we view the withdrawal of the study as a major concern**. Myriad said the study was withdrawn solely to protect its intellectual property around the GeneSight algorithm. That said, as we noted in our 11/1/2018 report, "*MYGN: The Wait Continues for the GeneSight RCT Publication*", we viewed the bar for publication as high. The AJP has endorsed views critical of GeneSight twice over the last six months, including on 7/19/2018 that, "*The GeneSight study fell short of statistical significance on its primary outcome—symptom improvement on the HAM-D test. Moreover… the remission rates for both treatment arms (10 and 15 percent) were unusually low even for treatment-resistant depression*." **Finally, we continue to believe the FDA warning on pharmacogenetic testing in depression could raise risks for GeneSight coverage and volumes as well**. The FDA does not have regulatory oversight of LDTs today – that is reserved for CMS. We believe given the profile of the announcement, it will likely be raised to CMS' attention – posing risks for non-coverage of the test.

More broadly, the quality of quarterly revenues was weak. Revenue of $202mm was "only" at the upper end of management's guidance of $200-$202mm, despite historical conservatism embedded in management's outlook. **Most of the flagship molecular diagnostic tests missed our forecast in the quarter**. Notably, the hereditary cancer testing (HCT) business declined 1% y/y despite the inclusion of Counsyl's HCT revenue in that business (we estimate would have declined 2-3% organic). Counsyl prenatal revenues of $18.1mm also came in below expectations, which management attributed to the UnitedHealth out-of-network decision – which we've known about since July 2018. There were no updates on the two HHS/OIG investigations, nor the material weakness over internal controls announced last quarter. **Given the quarterly weakness and new issues with GeneSight, Myriad is lowering its FY2019 revenue forecast 3% at the midpoint to a new range of $855-$865mm**. We position ourselves at the lower end of this range, and remain concerned about broader risks for GeneSight coverage and the durability of the HCT franchise. **We reiterate our Underweight rating and lower our PT to $23 (from $25)**.

For More on our Myriad Genetics Thesis, Please See:

- **Our 9/5/2018** downgrade of Myriad Genetics to Underweight, pages 80-112 of our report, "*Dx Industry Update: Selective Views as Sentiment Surpasses Market Risks*"
- **9/11/2018,** "*Myriad Genetics: New Concerns on IMPACT, PT to $25*"
- **9/27/2018**, "*Myriad Genetics: GeneSight Health Economics Not Optum-al, Reiterate UW and $25 PT*"
- **Our 10/8/2018** industry earnings preview, Myriad Genetics thoughts on page 47, "*3Q18 Preview: Reset Expectations Put Focus on Solid Fundamentals*"
- **10/14/2018**, "*Jack's Tool Kit - Vol. 4, Issue 39: Views on Competitive Environment for Myriad's GeneSight*"

- **10/18/2018,** "*Jack's Tool Kit - Vol. 4, Issue 41: Counsyl Financial Statements 8-K Thoughts for MYGN*"
- **11/01/2018,** "*MYGN: The Wait Continues for the GeneSight RCT Publication. Barclays Life Science Tools & Dx"*
- **11/01/2018,** *"MYGN: GeneSight Laterals from FDA Warning on Pharmacogenetics"*

Actions

We lower our price target to $23 (from $25), and are increasingly cautious on the potential for GeneSight to earn expanded reimbursement coverage. **We continue to believe the most likely outcome for GeneSight coverage is the status quo – but have increased the chances of non-coverage to 15% (from 10%) based on our concerns about the quality of the test's data**. In the chart below, we include a scenario analysis of Myriad's valuation at varying levels of GeneSight reimbursement coverage. Given that the test's ASP is $2K, every 5% change in coverage adds $100 to the ASP. **We only toggle the financial contribution from GeneSight to determine how payor coverage impacts revenue and earnings**. We assume a 100% flow-through of new revenue to EBITDA, but keep volume static with our FY2020 forecast of 437K tests. **The weighted average of all outcomes drives our $23 price target for Myriad**.

- **Base Case**: Myriad currently has coverage from Medicare and CareFirst. Together with code stacking on non-covered lives, Myriad currently generates revenue at around 20% of its list price of $2K (or $400). At a normalized 2020 EV/EBITDA multiple of 10x for the entire business, this implies Myriad's value is around $22 per share at current GeneSight coverage. **With shares trading at $37 as of 11/6/2018, this implies Myriad's coverage expands to around 33% of the patient population**. Myriad touts the coverage of CareFirst BCBS as a sign of more to come following the RCT, but that coverage decision came out in April 2018 (before the RCT).
- **Downside Case: As we described above, we think it is unlikely that Myriad earns broader coverage. The ultimate downside case would be if Medicare issued a non-coverage determination for GeneSight – where we raise our probability to 15% (from 10%)**. A Medicare non-coverage determination would drive GeneSight into a negative EBTIDA contributor. We think Myriad would adjust costs and limit volumes at that point, so the likelihood of it actually flipping negative is unlikely. **Using the 10x multiple on EBITDA for the remaining business ($116 million), this implies a downside case scenario of $15**.

FIGURE 1

Sensitivity Analysis to GeneSight Pricing Drives our New $23 Price Target (FY2020)

Myriad Genetics Valuation Analysis Sensitivity to GeneSight													
GeneSight Coverage	**0%**	**5%**	**10%**	**15%**	**20%**	**25%**	**30%**	**35%**	**40%**	**45%**	**50%**	**55%**	**60%**
ASP	$0	$100	$200	$300	$400	$500	$600	$700	$800	$900	$1,000	$1,100	$1,200
GeneSight Revs at Varying ASPs	$0	$44	$87	$131	$175	$218	$262	$306	$349	$393	$437	$480	$524
GeneSight EBITDA at Varying ASPs				$11	$55	$98	$142	$186	$229	$273	$317	$360	$404
Revenue Forecast for All Other	$748	$748	$748	$748	$748	$748	$748	$748	$748	$748	$748	$748	$748
EBITDA Forecast for All Other	$122	$122	$122	$122	$122	$122	$122	$122	$122	$122	$122	$122	$122
Total Revs	**$748**	**$791**	**$835**	**$879**	**$922**	**$966**	**$1,010**	**$1,053**	**$1,097**	**$1,141**	**$1,184**	**$1,228**	**$1,272**
Total EBITDA	**$122**	**$122**	**$122**	**$133**	**$177**	**$221**	**$264**	**$308**	**$352**	**$395**	**$439**	**$483**	**$526**
Normalized Myriad Multiple on FY20 EBITDA	10x												
Net Debt	$81												
Shares	77												
Implied Stock Price	**$15**	**$15**	**$15**	**$16**	**$22**	**$28**	**$33**	**$39**	**$45**	**$50**	**$56**	**$62**	**$67**
Barclays Probability	**15%**	**0%**	**0%**	**0%**	**70%**	**5%**	**5%**	**5%**	**0%**	**0%**	**0%**	**0%**	**0%**
New Price Target: Weighted Avg	**$23**												

Downside Case is Non-Coverage

Value at Current Coverage

$37 Stock Price on 11/6

Upside Case for Myriad

Source: Thomson One, Company Documents, Barclays Research

Observations

1) Myriad lowered revenue guidance, though maintained EPS expectations for FY2019. FY2019 revenues are expected in the range of $855-$865 million (from $880-$890 million), which represents 16-17% net revenue growth y/y. **Myriad attributed the reduction in revenue guidance to two main factors. First**, the GeneSight Medicare documentation changes are expected to reduce the percentage of samples that meet reimbursement requirements for the remainder of the year. **Second,** expectations for prenatal testing revenue were adjusted with a better understanding of the impact of UnitedHealth's out-of-network status. Guidance now assumes that Counsyl remains out of network with UnitedHealth. **Roughly half of the $25mm reduction in the midpoint of revenue guidance was attributed to lower GeneSight expectations, while the other half was attributed to reduced expectations for Counsyl.**

Cash EPS is forecasted to fall within the range of $1.70-$1.75, representing an increase of 15-19% y/y (adjusting for stock-comp and ASC 606). It's important to note that guidance excludes stock-based compensation from adjusted EPS, which is forecasted to represent $29 million or $0.30 per share in FY2019. The company is guiding to a 17% tax rate and 76 million shares outstanding in FY2019. **The company listed a number of assumptions embedded in FY2019 guidance:**

- Myriad is guiding to "nominal" HCT revenue growth in FY2019. Pricing is expected to remain stable throughout the year with current levels.
- Growth in HCT is expected to be offset by a lower y/y revenue contribution from pharmaceutical services.
- Double-digit revenue growth with new products, including GeneSight, Vectra DA, Prolaris, and EndoPredict.
- Myriad does not embed any reimbursement beyond what it has achieved currently.

- Assumes the sale of the German Clinic in FY1H19, so no revenue in FY2H19. The German Clinic contributed $12.7 million of revenue in FY1H18.
- Guidance does not include any contributions from myPath Melanoma.
- The company expects continued traction with its Elevate 2020 initiative in FY2019.

With the FY4Q17 earnings report, Myriad announced the launch of Elevate 2020, an efficiency program targeted at generating $50 million of annualized operating income savings by 2020. The program has already exceeded Myriads $50mm annual profit goal, with organic quarterly expenses declining greater than $16 million since the program was initiated. The company is not making any changes to customer-facing representatives in order to limit any top-line impact. They see opportunities to improve lab operations, drive better operations, and potentially consolidate the lab footprint over time.

For FY2Q19, Myriad expects revenues in the range of $216 to $218 million and EPS in the range of $0.29 to $0.30. This guidance takes into account revenue recognition changes from ASC 606.

FIGURE 2
FY2019 Guidance ($MM)

	11/6/2018			Barclays
FY2Q19 Guidance	Low	Mid	High	Research
Revenue	**$216**	**$217**	**$218**	**$216**
Y/Y Change	*16.9%*	*17.5%*	*18.0%*	*17.0%*
Cash EPS	**$0.36**	**$0.37**	**$0.38**	**$0.37**
Y/Y Change	*-0.9%*	*1.8%*	*4.6%*	*2.9%*
Stock Comp	$0.07	$0.08	$0.08	$0.07
Adjusted EPS	**$0.29**	**$0.30**	**$0.30**	**$0.30**
Y/Y Change	*-2.1%*	*-0.4%*	*1.3%*	*2.6%*
Adjustments	$0.23	$0.23	$0.22	
GAAP EPS	$0.06	$0.07	$0.08	

	11/6/2018			Barclays	8/21/2018		
FY2019 Guidance	Low	Mid	High	Research	Low	Mid	High
Revenue	**$855**	**$860**	**$865**	**$856**	**$880**	**$885**	**$890**
Y/Y Change	*15.5%*	*16.2%*	*16.8%*	*15.6%*	*18.9%*	*19.5%*	*20.2%*
Cash EPS	**$1.70**	**$1.73**	**$1.75**	**$1.70**	**$1.70**	**$1.73**	**$1.75**
Y/Y Change	*15.4%*	*17.1%*	*18.8%*	*15.6%*	*15.4%*	*17.1%*	*18.8%*
Stock Comp	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30	$0.30
Adjusted EPS	**$1.40**	**$1.43**	**$1.45**	**$1.40**	**$1.40**	**$1.43**	**$1.45**
Y/Y Change	*17.0%*	*19.1%*	*21.2%*	*17.1%*	*17.0%*	*19.1%*	*21.2%*
Adjustments	$1.00	$1.00	$1.00		$1.00	$1.00	$1.00
GAAP EPS	$0.40	$0.43	$0.45		$0.40	$0.43	$0.45

Source: Company Documents, Barclays Research

2) Revenues in FY1Q19 came in $1.0 million above our estimate, with biopharma & clinical services representing a solid portion of the beat. Hereditary cancer testing also came in modestly better than our model, but was aided by contributions from Counsyl and companion diagnostics. GeneSight, Prolaris, Counsyl and Vectra DA all came below our and street expectations in the quarter. All in, revenues increased 12.5% y/y to $202.3 million, 0.5% above our estimate of $201.3 million. **Comments by product:**

- **Hereditary cancer testing revenues fell -0.6% y/y to $116.3 million, as higher volumes were offset by continued pricing pressure.** As a reminder, negative impacts

from commercial pricing contract negotiations spilled into FY1Q18, so the company saw remnants of pricing pressure in FY1Q19. We estimate that pricing was down ~5% in the quarter. **Myriad noted that volumes grew y/y in the quarter, and noted that riskScore is helping to drive volumes in the preventative care channel.** We estimate that volumes grew 4% y/y, but adjusting for CDx growth and a modest Counsyl HCT contribution, we believe that core HCT volumes could have been down in the quarter.

- **Myriad did not comment on companion diagnostic growth in the quarter.** As a reminder, during FY2Q18, Myriad received FDA approval for BRACAnalysis CDx as a companion diagnostic for AstraZeneca's Lynparza in patients with metastatic breast cancer. This represents the first FDA approval for a PARP inhibitor outside of ovarian cancer, **representing an increase in the annual testing market by 38K lives. Additionally, there is a pool of 125K untested patients that would be eligible for treatment upon approval**. The company has also received approval in Japan, which represents an additional 15K annual patient opportunity. **On October 16, 2018, Myriad received FDA approval of BRACAnalysis CDx as a companion diagnostic for Pfizer's talazoparib.** As a reminder, BRACAnalysis was first approved as a companion diagnostic with Lynparza in 3L+ ovarian cancer patients in December 2015.

- **Counsyl prenatal revenue (NIPT and ECS) was $18.1 million in the quarter, which was $2-3 million below our estimate.** While volume growth was in line with the company's expectations (at 16%), the company recognized lower than expected amounts of revenue as a result of the UnitedHealth out-of-network decision (see observation 5 below).

- **Vectra DA revenue decreased $2.1mm q/q to $13.0 million.** Myriad did not comment on volume trends in the quarter, though we estimate they decreased 1% y/y. Revenue was below our forecast of $14.4mm in the quarter, but showed a strong improvement y/y due a more favorable ASP following the implementation of PAMA (Medicare pricing is $840). **The lower than expected revenue was driven by a new program designed to limit unprofitable volumes in an effort to improve the test's gross margins.**

- **GeneSight revenue in the quarter was $29.3 million, and volumes increased 28% y/y to an estimated 91.5K tests.** Revenue in the quarter was impacted by additional billing requirements that were put in place by Medicare in August 2018. In order to recognize reimbursement, physicians are now required to submit a patient attestation and collect additional patient information. See observation three and the links in the intro for more views on GeneSight. **Revenue came in roughly $3.6 million below our expectations in the quarter.**

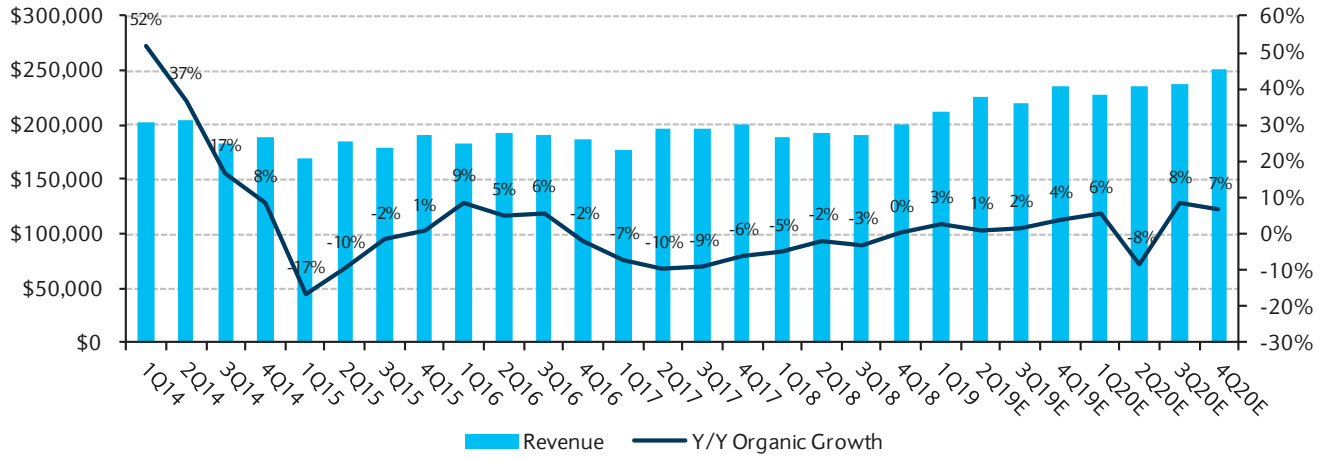
- **Prolaris continues to represent a near-term opportunity, and we estimate that volumes increased 13% y/y.** Prolaris revenues were $6.2 million in the quarter, up 113% y/y, but down $0.8 million sequentially, which we believe was likely driven by seasonality in the quarter. As a reminder, Myriad recently received a positive coverage decision for favorable intermediate risk Medicare patients, which went into effect on September 25, 2017. Additionally, the company noted that it signed on Blue Cross Blue Shield of California in the quarter, bringing total coverage of prostate cancer patients to 56%. **Myriad believes that expanded Medicare coverage as well as the inclusion in the NCCN guidelines will be a catalyst for continued payor adoption.**

- **Myriad is in the late stages of discussions to sell its German clinic, which was expected to contribute $23 million of revenue in FY2018.** **We have pulled any revenue contribution from our model moving forward, though there is no impact to EPS given the segment was breakeven**. Pharmaceutical revenue in the quarter was $13.3 million, up $1.9 million y/y. As a reminder, Myriad entered the business through

the acquisition of Rules-Based Medicine in May 2011, and acquired a German clinic in the March 2015 quarter. **This revenue tends to be lumpy as it depends on the timing of clinical development activities of biopharma partners.**

- **EndoPredict revenue in the quarter was $2.4 million, up 33% y/y.** Myriad noted that the uptick in revenue during the quarter was a result of strong reimbursement and volume trends in the U.S. The company has received positive coverage decisions for 90% of the addressable patient population, and noted its final Medicare LCD (40% of population) became effective on January 30, 2018.
- Myriad received a favorable LCD from Noridian in the quarter for myPath Melanoma.

FIGURE 3
Revenue ($1,000s) Growth Y/Y



Source: Company Documents, Barclays Research

3) We continue to believe the key debate for Myriad is related to GeneSight, where we remain skeptical that the test can earn expanded reimbursement coverage from either commercial payors or Medicare. With earnings, Myriad noted that it has withdrawn the GeneSight RCT from submission at the American Journal of Psychiatry (AJP) and submitted it to another journal. Given our critical view of the GeneSight data, we view the withdrawal of the study as a major concern.

FIGURE 4

CEO Mark Capone Quotes on GeneSight RCT Journal Change

- "For GeneSight, we are anticipating acceptance of the landmark-guided publication by the end of the fiscal second quarter. While we had anticipated this publication earlier, it was delayed because the manuscript was withdrawn and submitted to a second journal. At the end of the review process, the first journal notified the company that as a condition of publication the proprietary GeneSight algorithm would need to be disclosed. Solely based upon the desire to protect our intellectual property, the manuscript was withdrawn and submitted to another journal, and we are anticipating acceptance in the second quarter."

- "The second journal we submitted to is still a very high-quality journal. So we feel very good about the journal selection that the authors have made. I think from the perspective of Myriad and the company perspective, really the only requirement is that we just get this published in a peer-reviewed journal article. That's really all the tech assessment committees are interested in is that they need to be able to have a citation. They evaluate the data on its own merits, and they have people well capable of doing so. And so we just need to get it published in any of peer-reviewed journal and that's, of course, what we're working towards. Obviously, we didn't expect that last minute request from the first journal. So you can never be certain that there might not be something else requested like that. But we have experience with this journal, and so our belief is that a request such as that from this journal would be highly unlikely. It's also highly unlikely for that request to be made for any of our tests. It has happened before with other tests, but it's really highly, highly unusual. So our belief is and we're not expecting a similar request to be made in this particular case."

Source: Company Documents

Earnings on Tuesday, November 6th, officially marked 129 days after Myriad's first self-imposed deadline to publish the GeneSight randomized control trial (RCT) in a major peer-reviewed medical journal - around the end of the company's fiscal year end of June 30th. The lengthy delay in publication has not gone unnoticed, as one of the top questions we have fielded from investors is, "Where is the GeneSight RCT?" **Here is what we know: A)** Myriad submitted the GeneSight RCT to a major medical journal for publication as late as May 8th, when the company reported FY3Q18 earnings. At that time, the company quoted that they expected publication around June 30th. **B)** As late as a competitor conference on June 12th, Myriad continued to expect publication by around June 30th noting it was, "A near-term activity that we would expect to happen... in the coming weeks ahead." **C)** With earnings on August 21st, Myriad acknowledged the study was late and said they were "encouraged with the publication," which was in the "latter stages of review." Myriad attributed the delay to the summer months and a large number of authors in the review process.

What we also know is that Myriad submitted the GeneSight RCT for initial publication in the American Journal of Psychiatry (AJP), based on a footnote disclosure in the IMPACT Study. The AJP is one of most well-regarded psychiatric medical journals. It would also be a very desirable journal to get the GeneSight RCT published in, as the AJP is the official journal of the American Psychiatric Association (APA) – which sets clinical practice guidelines for psychiatry. **Importantly, it is worth noting that the AJP has endorsed views critical of GeneSight twice over the last six months**. On July 19th, the AJP published that the APA *Task Force on Gene Testing for Antidepressant Efficacy Concludes Tests Not Yet Ready for Widespread Use*, **issuing a negative guideline recommendation** and that, "The GeneSight study fell short of statistical significance on its primary outcome—symptom improvement on the HAM-D test. Moreover… the remission rates for both treatment arms (10 and 15 percent) were unusually low even for treatment-resistant depression." Additionally, on April 25th, the AJP published *Clinical Implementation of Pharmacogenetic Decision Support Tools for Antidepressant Drug Prescribing*, which reached a similar conclusion which was critical of GeneSight. **Given the AJP's historical stance, we believe the bar was raised for publication of the GeneSight RCT**.

FIGURE 5

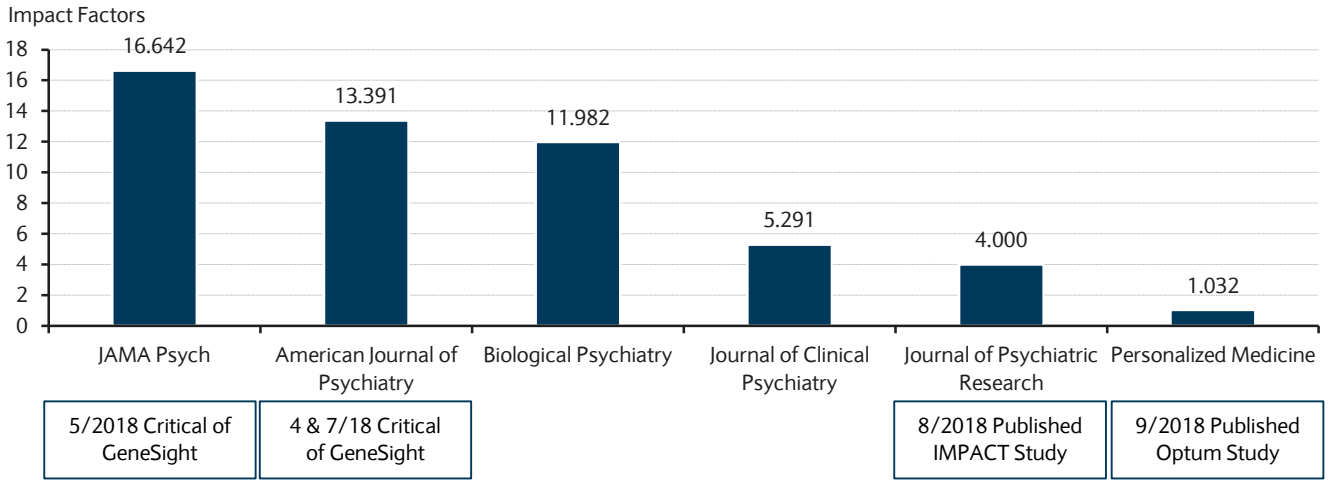
Footnotes of the IMPACT Study Show that the RCT was Submitted to the American Journal of Psychiatry

Greden, J.F., Parikh, S.V., Rothschild, A.J., Thase, M.E., Dunlop, B.W., DeBattista, C., Conway, C.R., Forester, B.P., Mondimore, F.M., Shelton, R.C., Li, J., Brown, K., Gilbert, A., Burns, L., Jablonski, M.R., Dechairo, B., 2018. Combinatorial Pharmacogenomic Testing Improves Outcomes in Major Depression. Am J Psychiatry *submitted*.

Source: The IMPACT Study, *https://www.sciencedirect.com/science/article/pii/S0022395618305569*

FIGURE 6

The Highest Regarded Journals in Psychiatry Have Endorsed Views Critical of GeneSight, whereas Myriad's Studies Have Been Published in Lower Tier Journals (as Measured by 2017 Impact Factors)



Source: Impact Factors Provided by Journals Quoted, Barclays Research

As a reminder, we have several concerns around the GeneSight Randomized Control Trial (RCT) which we think present risks for payor coverage. Our first major concern is that the GeneSight RCT failed its primary endpoint. Nobody designs a landmark clinical trial with the goal of failing their primary endpoint. From our diligence, academic psychiatrists have questioned several factors which led to the RCT failure and think the manuscript could reveal new issues. **Additionally, the APA Task Force for Novel Biomarkers and Treatments has not only issued a negative position statement against including pharmacogenetic testing in guidelines, but is actively refuting the value of GeneSight.** We cannot think of a single example where a specialty diagnostic was reimbursed by a payor without guideline support. To further accentuate this point, we can reference a number of examples where tests have guideline support and still don't get reimbursed. Finally, two major medical journals have published views which are critical of the value GeneSight and pharmacogenetic tests offer to patients**. Finally, we do not believe GeneSight's value proposition is strong enough for payors to reimburse for the test.** In our view, the design of the RCT sheds light on one inherent problem that limits GeneSight's clinical utility – the test is only most helpful for a subset of the population. **We believe that the academic viewpoint is very important in driving guidelines and payor coverage decisions – and these concerns could present risks for payor coverage.**

FIGURE 7

Several Concerns Around the GeneSight RCT Drive our Underweight Rating

	Concern	Issue
1	GeneSight failed the primary endpoint in its Randomized Control Trial (RCT)	**Nobody designs a landmark clinical trial with the goal of failing their primary endpoint**. The RCT primary endpoint was to achieve a statistically significant improvement in symptoms in the GeneSight guided arm relative to TAU after eight weeks (defined as a p<0.05). On average, patients in the GeneSight-guided arm experienced a 27.2% reduction in symptoms (as measured by % reduction in HAMD-17 score), compared to 24.4% for the TAU cohort (p=.11).
2	Leading academic psychiatrists think the primary endpoint failure matters, and there could be broader issues presented in the RCT manuscript.	**Concerns that the academic psychiatrists raised include**: - The GeneSight RCT trial missed its primary endpoint of symptom improvement. - The overall remission and response rates were uncharacteristically low for this type of study. Academics have reason to believe there is something fundamentally wrong with the RCT. - Using a larger patient cohort (n = 1,167) raised the statistical power of the results, allowing the study to meet the secondary endpoints of remission and response. - Patients were selected if they had failed one or more psychotropic medication, versus antidepressants. - Using GeneSight could have led to increased clinical vigilance amount physicians treating the GeneSight-guided cohort. - GeneSight was compared against TAU, vs a protocol-based treatment approach or other genomic tests that look at similar drug metabolism enzymes.
3	The APA Task Force for Novel Biomarkers and Treatments does not endorse GeneSight in guidelines.	**Without guideline support from the academic psychiatry community, we believe it is unlikely that Myriad will earn broader commercial coverage for GeneSight**. We cannot think of a single example where a specialty diagnostic was reimbursed by a payor without guideline support. **In this case, academic psychiatrists actively have a negative statement refuting the value of pharmacogenetic testing**.
4	Two major medical journals have published views which are critical of the value GeneSight & pharmcogenetic tests offer to patients.	In addition to lack of guidance support, **we're concerned that JAMA Psychiatry and the American Journal of Psychiatry (AJP) have recently published and endorsed views critical of the value that GeneSight & pharmacogenetic tests offer to patients**. These are the two most highly regarded medical journals in psychiatry, with a 2017 impact factor of 16.642 and 13.391 respectively. The AJP report specifically references the GeneSight RCT, as well as the failure of the study's primary endpoint. **These journals are well read by managed care payors, and we believe are influential in determining coverage decisions**.
5	We don't believe the GeneSight value proposition is strong enough for payors to reimburse for the test.	**We don't believe GeneSight's value proposition is strong enough for payors to reimburse for the test. In our view, the design of the study sheds light on one inherent problem that limits GeneSight's clinical utility – the test is only most helpful for a subset of the population**. On an annual basis, Myriad estimates that each GeneSight test generates roughly $3,275 in annual savings, which consist of $1,000 in drug spend savings, $1,500 in healthcare savings, and $775 in workplace productivity savings. **The biggest three issues here are that: A)** This does not include the cost of the GeneSight test at roughly $2,000, **B)** It is unclear whether health plans will give Myriad credit for the workplace productivity savings, and **C)** Payors historically only share a fraction of the savings generated from diagnostics with the lab itself.

Source: Company Documents, Barclays Research

4) Further to that point, we believe the FDA's warning on the use of pharmacogenetic tests could have a volume impact on GeneSight – and potentially contain risks for coverage of the test with CMS. As a reminder, the FDA issued a statement on 11/1/2018 that, "*The FDA Warns Against the use of Many Genetic Tests with Unapproved Claims to Predict Patient Response to Specific Medications*." The report was subsequently tweeted by FDA Commissioner Scott Gottlieb at 8:20am. Notably, the FDA cautioned that there are genetic laboratory tests with claims around a patient's response to specific medications which have not been reviewed by the FDA and may not be supported by clinical evidence. **Importantly for GeneSight, the FDA highlighted, "Genetic tests with claims to predict whether some medications used to treat depression may be less effective or have an increased chance of side effects."** Myriad's GeneSight is one of several tests in a category of pharmacogenetics used for patients with treatment resistant depression. In addition to other lab developed tests (LDTs), direct-to-consumer offerings have emerged from Color Genomics and 23andMe. **Following the FDA's announcement, we also now see new risks related to the test's volume trajectory.** Technically, the FDA does not have regulatory oversight of LDTs – that is reserved for CMS. That said, we believe given the profile of this announcement, it will likely be raised to CMS' attention as well.

FIGURE 8

CEO Mark Capone Views on Communication with the FDA on Pharmacogenomics

"As many of you are aware the FDA issued a notice for pharmacogenomic testing last week cautioning providers and patients about tests with claims that are not clinically validated. We strongly agree with this position as unlike GeneSight most companies have not published clinical outcomes data supporting their tests. Studies have shown that pharmacogenomic tests are not interchangeable. As an example, a recent study published in the May issue of the Pharmacogenomics Journal compared 4 commercial pharmacogenomics tests for major depressive disorder and found that 19% of the time the test had conflicting clinical recommendations. The FDA has maintained their position to exercise enforcement discretion over LDTs subject to congressional legislation. Myriad continues to support additional oversight of LDTs through legislation to ensure a consistent level of clinical evidence for approved cleared tests. And we believe that GeneSight is the only pharmacogenomic test supported by level 1 evidence, which demonstrates improved patient outcomes."

"I think what the FDA is trying to do is make sure that there is a path for consumers that want to pursue that more consumer type testing, that there is a path for consumers to pursue that. At the same time, they were very clear, the last time, and this time, that those consumer tests are not clinical tests and they should not be used for clinical decision-making. And so that's consistent this time and last time. And so that's, I think, the perspective that we have on this as we've had communications with the FDA a number of times over the years about that. I think the other thing, the color I can add, of course, is we've had a chance to interact with physicians since then to get any perspective from them on questions they may have. A couple of things I would note. First, the awareness generally was relatively low about this. Second, we really haven't seen any impact in their utilization of the test since then. In fact, we had a record week last week for GeneSight orders. Third, the ones that were aware of this were confused about what exactly the 23andMe clearance meant. And I would say the confusion was similar to what we saw with BRCA testing that the language from the FDA regarding its use was confusing to practitioners."

Source: Company Documents

5) Driven by the UnitedHealth out-of-network decision, Counsyl revenue came in below expectations in the quarter. Counsyl generated $30 million of revenue in FY1Q19 (for the full quarter), which was roughly flat y/y, representing a deceleration from the company's prior growth trajectory. While volume growth appeared to be intact in the quarter (up 16% y/y), Myriad wasn't able to recognize as much revenue as it originally anticipated. As a result of the revenue shortfall, dilution from the deal was $0.03 greater than anticipated, at $0.09. **Until now, we've been surprised that the market has shrugged off UnitedHealth's decision that it was moving Counsyl out-of-network in July 2018.** As we reported in our note on 7/2/2018, "*MYGN: Counsyl Moving Out-of-Network with UnitedHealth*." Frankly, we're surprised that this important detail was not discussed on Myriad's acquisition conference call on 5/29/2018 or the earnings call on 8/21/2018. When discussing FY2019 guidance for Counsyl, Myriad did not mention the UnitedHealth out-of-network decision as a risk, citing *"For Counsyl, we are assuming current run rate with approximately $130 million in revenue based upon 11 months of owning the asset in fiscal year 2019. Our Counsyl guidance imply some revenue disruption from sales force integration and assumes no revenue synergies and known reimbursement."*

We believe lost network coverage from the largest US payor changes the economics of the Counsyl acquisition for Myriad. Counsyl's revenue stream is comprised predominantly of commercial payors and Medicaid (there are not many Medicare patients >65 years of age that need carrier screening or NIPT). This contrasts with other areas of specialized testing focused on oncology, where there is a much larger exposure to Medicare. UnitedHealth has almost 27mm US commercially covered lives as of 1Q18, representing 15-20% of the commercial market. Layering on Medicaid, we think UnitedHealth could represent 10-15% of Counsyl's revenue. **Given that base of revenues, UnitedHealth could represent $10-20**

million of Counsyl revenues – although we caveat that cash collection and network status make it difficult to quantify the exact amount.

6) There was also no update on the material weakness related to insufficient controls over financial reporting which Myriad disclosed with FY4Q18 earnings. As a reminder, Myriad re-stated results for FY1Q-3Q18 lower by $6 million, and adjusted EPS was re-stated lower $0.05. As a reminder, Myriad delayed its FY4Q18 earnings by one week due to these issues. During the financial close for fiscal year 2018, Myriad determined that it had not fully and timely taken into account changes in the business environment and experience with ultimate collection from third-party payors in estimating the amount of revenue that could be judged fixed or determinable at the date of performance of tests during 2018 and in previous annual and quarterly periods. **Consequently, Myriad concluded that the cumulative effect of correcting the errors in 2018 would materially misstate its financial statements for the year ended June 30, 2018.** Accordingly, the accompanying prior period results have been revised to reflect the correction of these immaterial errors in each period. **For the years ending June 30, 2017, 2016, and 2015, revenue was reduced by $1.5, $13.3, and $0.6 million, respectively.**

FIGURE 9
Re-Stated Results (Rev in $MM)

	Sep-17 FY1Q18	Dec-17 FY2Q18	Mar-18 FY3Q18	Cumulative Change	Jun-18 FY4Q18
Old Reported Results	$126.7	$126.9	$123.3	$376.9	N/A
Re-stated Results	$124.4	$125.6	$120.9	$370.9	$126.8
HCT Revenues Change	**-$2.3**	**-$1.3**	**-$2.4**	**-$6.0**	**N/A**
% Change	***-1.8%***	***-1.0%***	***-1.9%***	***-1.6%***	***N/A***
Old Reported Results	$190.2	$194.0	$193.5	$577.7	N/A
Re-stated Results	$187.9	$192.7	$191.1	$571.7	$200.9
Total Revs Change	**-$2.3**	**-$1.3**	**-$2.4**	**-$6.0**	**N/A**
% Change	***-1.2%***	***-0.7%***	***-1.2%***	***-1.0%***	***N/A***

	Sep-17 FY1Q18	Dec-17 FY2Q18	Mar-18 FY3Q18	Cumulative Change	Jun-18 FY4Q18
Old Reported Results	$0.26	$0.31	$0.31	$0.88	N/A
Re-stated Results	$0.24	$0.30	$0.29	$0.83	$0.38
Adjusted EPS	**-$0.02**	**-$0.01**	**-$0.02**	**-$0.05**	**N/A**
% Change	***-7.7%***	***-3.2%***	***-6.5%***	***-5.7%***	***N/A***

Source: Company Documents, Barclays Research

7) There was also no update on the outstanding subpoenas Myriad has with the Department of Health and Human Services, Office of the Inspector General – which span the company's hereditary cancer testing and Vectra DA businesses. The two proceedings are still just in discovery mode and Myriad is cooperating. It is impossible to determine the scope or magnitude of the proceedings, at this point we think potential risks should not be discounted.

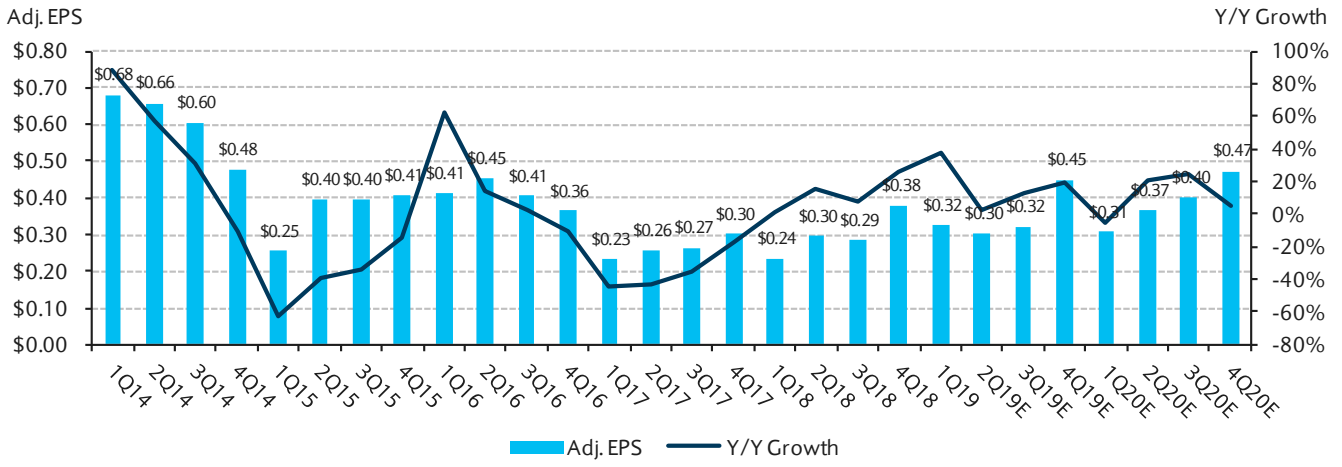
- **As initially disclosed in February 2018, Myriad received a subpoena from the Department of Health and Human Services, Office of Inspector General, in connection with an investigation into possible false or otherwise improper claims submitted for payment under Medicare and Medicaid**. The time period covered by the subpoena is January 1, 2014, through the date of issuance of the subpoena, which related to the company's hereditary cancer testing. Myriad is cooperating with the government's request and is in the process of responding to the subpoena. No claims

have been made against the company. **Myriad is unable to predict what action, if any, might be taken in the future by the Government or any other regulatory authority as a result of the matters related to this investigation**.

- **In addition, Myriad's subsidiary, Crescendo Bioscience, received in June 2016 a Subpoena from the Department of Health and Human Services, Office of Inspector General**, requesting that it produce documents relating to a designated unrelated company, other third party entities, and healthcare providers who received payment from Crescendo for the collection and processing of blood specimens for testing. In connection with this investigation, the Government has recently requested additional documents. Crescendo is providing the documents requested and continues to cooperate with the Government's requests. **Crescendo is unable to predict what action, if any, might be taken in the future by the Government or any other regulatory authority as a result of the matters related to this investigation. No claims have been made against Crescendo**.

8) Adjusted EPS in the quarter was reported at $0.32, $0.10 above our expectations. Revenue that came in 0.3% ahead of our expectations, coupled with solid expense management from the company's Elevate 2020 efficiency program, drove the earnings beat. The company's tax rate came in 270bps below our expectations at 13.8%.

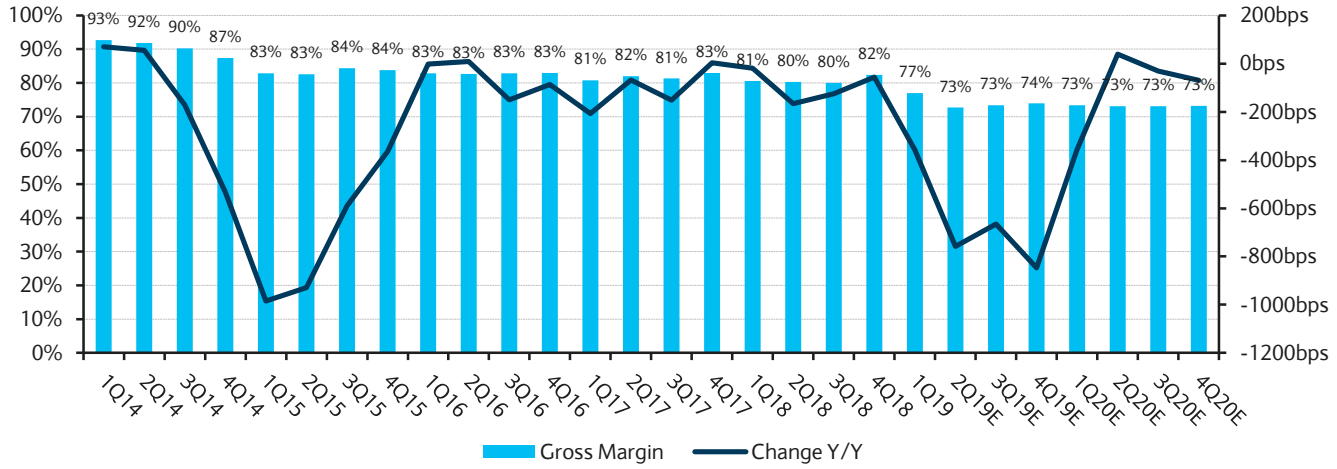
FIGURE 10
Adj EPS Growth Quarterly



Source: Company Documents, Barclays Research

9) Myriad's gross margins decreased 350bps y/y to 77.0% of revenues – although did beat our forecast by 220bps. Specifically, the company attributed gross margin improvements to lab initiatives that reduced reagent costs.

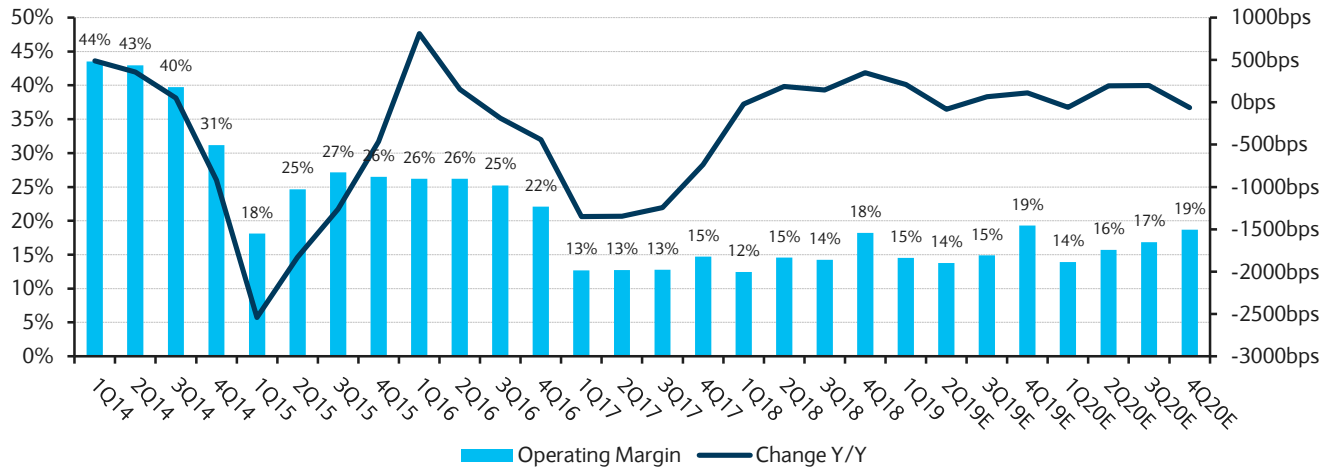
FIGURE 7
Gross Margin Trajectory



Source: Company Documents, Barclays Research

10) Similarly, operating margins improved 235bps y/y. Notably, Myriad's Elevate 2020 initiatives drove a $12 million decrease in expenses year-over-year. R&D expenses increased 20bps y/y to 9.1% of revenues, 170bps below our expectations. Total SG&A expenses declined 340bps to 53.0% of revenue, 10bps below our expectations. **The company anticipates these initiatives to become more prevalent in FY2019.**

FIGURE 11
Operating Margin Historical



Source: Company Documents, Barclays Research

First Look

FIGURE 12
Myriad Genetics First Look

Myriad Genetics - 1Q19										
($ in MM's except EPS)	Reported	Barclays Research			Prior Year			Prior Quarter		
Income Statement	1Q19	1Q19E	+/-	%	1Q18	+/-	% Y/Y	4Q18	+/-	% Q/Q
Revenues	$202.3	$201.3	$1.0	0.5%	$179.9	$22.4	12.5%	$191.8	$10.5	5.5%
Gross Profit Margin	*77.0%*	*74.8%*	*2.20%*		*77.1%*	*-0.15%*		*78.6%*	*-1.68%*	
Core SG&A	$99.6	$99.8	($0.3)	-0.3%	$91.6	$8.0	8.7%	$91.4	$8.1	8.9%
Stock Comp	$7.8	$7.0	$0.7	10.4%	$6.4	$1.4	21.1%	$7.1	$0.7	9.2%
Total SG&A	$107.3	$106.9	$0.4	0.4%	$106.0	$1.3	1.2%	$107.6	($0.3)	-0.3%
% of Revenue	*53.0%*	*53.1%*	*-0.03%*		*56.4%*	*-3.37%*		*53.6%*	*-0.52%*	
R&D ex-Comp	$19.2	$21.8	($2.6)	-12.1%	$16.8	$2.4	14.3%	$15.6	$3.6	23.1%
% of Revenue	*9.1%*	*10.8%*	*-1.76%*		*8.9%*	*0.15%*		*7.8%*	*1.32%*	
Adj. EBITDA	$34.5	$26.4	$8.1	30.4%	$26.4	$8.1	30.7%	$38.7	($4.2)	-10.9%
% EBITDA Margin	*17.1%*	*13.1%*	*3.92%*		*14.1%*	*3.00%*		*19.3%*	*-2.21%*	
Adj. EBIT	$29.4	$22.2	$7.2	32.2%	$22.4	$7.0	31.3%	$34.9	($5.5)	-15.8%
% EBIT Margin	*18.4%*	*11.0%*	*7.32%*		*16.0%*	*2.35%*		*21.9%*	*-3.53%*	
Adj. Pre-Tax Income	$29.0	$20.0	$9.0	45.2%	$21.6	$7.4	34.3%	$35.1	($6.1)	-17.4%
% Pre-Tax Margin	*14.3%*	*9.9%*	*4.42%*		*11.5%*	*2.84%*		*17.5%*	*-3.14%*	
Taxes	$4.0	$3.4	$0.6	17.8%	$5.0	($1.0)	-20.0%	$7.5	($3.5)	-46.7%
% Tax Rate	*13.8%*	*17.0%*	*-3.21%*		*23.1%*	*-9.36%*		*21.4%*	*-7.57%*	
Diluted Shares	77.0	75.2	1.8	2.3%	70.4	6.6	9.4%	72.9	4.1	5.6%
Adj. Net Income	$25.0	$16.6	$8.4	50.8%	$16.6	$8.4	50.6%	$27.6	($2.6)	-9.4%
% Adj. Net Margin	*12.4%*	*8.2%*	*4.13%*		*8.8%*	*3.52%*		*13.7%*	*-1.38%*	
Cash EPS	$0.43	$0.29	$0.14	46.5%	$0.30	$0.13	42.0%	$0.45	-$0.03	-6.2%

Source: Company Documents, Barclays Research

Myriad Genetics Model Update

FIGURE 13

Myriad Genetics Income Statement

Income Statement ($ 1,000s)	2016 6/30/2016	2017 6/30/2017	1Q18 9/30/2017	2Q18 12/31/2017	3Q18 3/31/2018	4Q18 6/30/2018	2018 6/30/2018	1Q19 9/30/2018	EST 2Q19 12/31/2018	EST 3Q19 3/31/2019	EST 4Q19 6/30/2019	EST 2019 6/30/2019	EST 2020 6/30/2020	EST 2021 6/30/2021
Molecular diagnostic testing	705,700	722,100	176,500	177,900	177,300	187,600	719,300	198,000	211,943	212,940	229,228	852,111	923,801	966,263
% Y/Y Growth	*1.5%*	*2.3%*	*6.9%*	*-3.3%*	*-4.3%*	*-0.2%*	*-0.4%*	*12.2%*	*19.1%*	*20.1%*	*22.2%*	*18.5%*	*8.4%*	*4.6%*
% Q/Q Growth			*-6.1%*	*0.8%*	*-0.3%*	*5.8%*		*5.5%*	*7.0%*	*0.5%*	*7.6%*			
Pharmaceutical and clinical services	48,100	49,300	11,400	14,800	13,800	13,300	53,300	13,300	13,500	7,000	7,000	40,800	29,700	31,185
% Y/Y Growth	*73.8%*	*2.5%*	*-8.1%*	*17.5%*	*17.9%*	*5.6%*	*8.1%*	*16.7%*	*-8.8%*	*-49.3%*	*-47.4%*	*-23.5%*	*-27.2%*	*5.0%*
% Q/Q Growth			*-9.5%*	*29.8%*	*-6.8%*	*-3.6%*		*0.0%*	*1.5%*	*-48.1%*	*0.0%*			
Gross Revenue	**$753,800**	**$771,400**	**$187,900**	**$192,700**	**$191,100**	**$200,900**	**$772,600**	**$211,300**	**$225,443**	**$219,940**	**$236,228**	**$892,911**	**$953,501**	**$997,448**
% Y/Y Growth	*4.2%*	*2.3%*	*5.9%*	*-1.9%*	*-2.9%*	*0.2%*	*0.2%*	*12.5%*	*17.0%*	*15.1%*	*17.6%*	*15.6%*	*6.8%*	*4.6%*
% Organic Growth	***4.2%***	***-8.1%***	***-5.0%***	***-1.9%***	***-2.9%***	***0.2%***	***-2.3%***	***2.8%***	***1.0%***	***1.6%***	***4.0%***	***2.4%***	***3.0%***	***4.6%***
% Q/Q Growth			*-6.3%*	*2.6%*	*-0.8%*	*5.1%*		*5.2%*	*6.7%*	*-2.4%*	*7.4%*			
Bad Debt Expense	33,300	37,300	8,000	8,000	7,200	9,100	32,300	9,000	9,359	8,287	10,700	37,346	39,868	41,702
% Y/Y Growth	*5.7%*	*12.0%*	*11.1%*	*-26.6%*	*-21.7%*	*-9.0%*	*-13.4%*	*12.5%*	*17.0%*	*15.1%*	*17.6%*	*15.6%*	*6.8%*	*4.6%*
% of Gross Revs	*4.4%*	*4.8%*	*4.3%*	*4.2%*	*3.8%*	*4.5%*	*4.2%*	*4.3%*	*4.2%*	*3.8%*	*4.5%*	*4.2%*	*4.2%*	*4.2%*
Net Revenue	**$720,500**	**$734,100**	**$179,900**	**$184,700**	**$183,900**	**$191,800**	**$740,300**	**$202,300**	**$216,084**	**$211,653**	**$225,528**	**$855,565**	**$913,633**	**$955,745**
% Y/Y Growth	*4.2%*	*1.9%*	*5.6%*	*-0.5%*	*-2.0%*	*0.7%*	*0.8%*	*12.5%*	*17.0%*	*15.1%*	*17.6%*	*15.6%*	*6.8%*	*4.6%*
Cost of MDx testing (ex-Dep/Comp)	118,000	129,100	32,000	33,600	32,600	31,300	129,500	33,900	47,262	48,086	50,262	179,509	209,498	225,105
% of MDx revenue	*16.7%*	*17.9%*	*18.1%*	*18.9%*	*18.4%*	*16.7%*	*18.0%*	*17.1%*	*22.3%*	*22.6%*	*21.9%*	*21.1%*	*22.7%*	*23.3%*
% of MDx revenue (inc-Dep/Comp)	***18.8%***	***20.1%***	***20.5%***	***21.2%***	***20.6%***	***18.8%***	***20.3%***	***19.8%***	***24.5%***	***24.7%***	***24.1%***	***23.4%***	***24.8%***	***25.5%***
Cost of pharma and clinical services	24,100	25,700	6,700	6,700	7,200	7,700	28,300	7,400	6,953	3,605	3,605	21,563	15,296	16,060
% of Pharma/Clinical Revs	*50.1%*	*52.1%*	*58.8%*	*45.3%*	*52.2%*	*57.9%*	*53.1%*	*55.6%*	*51.5%*	*51.5%*	*51.5%*	*52.8%*	*51.5%*	*51.5%*
Gross Profit	**$611,700**	**$616,600**	**$149,200**	**$152,400**	**$151,300**	**$161,900**	**$614,800**	**$161,000**	**$161,869**	**$159,963**	**$171,661**	**$654,493**	**$688,839**	**$714,580**
% Gross Margin	*81.1%*	*79.9%*	*79.4%*	*79.1%*	*79.2%*	*80.6%*	*79.6%*	*76.2%*	*71.8%*	*72.7%*	*72.7%*	*73.3%*	*72.2%*	*71.6%*
% Gross Margin (inc-Dep/Comp)	***79.1%***	***77.8%***	***77.1%***	***77.0%***	***77.0%***	***78.6%***	***77.5%***	***77.0%***	***72.7%***	***73.4%***	***73.9%***	***74.2%***	***73.2%***	***72.6%***
R&D Expense ex-Stock Based Comp	64,800	68,000	16,800	15,400	16,400	15,600	64,200	19,200	19,250	18,450	17,550	74,450	78,653	82,585
% R&D of Revenue	*8.6%*	*8.8%*	*8.9%*	*8.0%*	*8.6%*	*7.8%*	*8.3%*	*9.1%*	*8.9%*	*8.7%*	*7.8%*	*8.7%*	*8.6%*	*8.6%*
% Y/Y Growth	*-7.8%*	*4.9%*	*-4.5%*	*-9.9%*	*1.9%*	*-9.3%*	*-5.6%*	*14.3%*	*25.0%*	*12.5%*	*12.5%*	*16.0%*	*5.6%*	*5.0%*
Bad Debt	33,300	37,300	8,000	8,000	7,200	9,100	32,300							
% Bad Debt	*4.4%*	*4.8%*	*4.3%*	*4.2%*	*3.8%*	*4.5%*	*4.2%*							
Core SG&A	288,400	369,000	91,600	91,300	91,100	91,400	365,400	99,550	102,940	100,108	101,178	403,775	418,544	436,916
% SG&A ex-Comp	*38.3%*	*47.8%*	*48.7%*	*47.4%*	*47.7%*	*45.5%*	*47.3%*	*47.1%*	*47.6%*	*47.3%*	*44.9%*	*47.2%*	*45.8%*	*45.7%*
Stock Based Comp	31,600	29,900	6,400	6,900	6,600	7,100	27,000	7,750	5,472	5,482	4,708	23,412	23,226	26,657
% Stock Comp	*4.2%*	*3.9%*	*3.4%*	*3.6%*	*3.5%*	*3.5%*	*3.5%*	*3.8%*	*2.5%*	*2.6%*	*2.1%*	*2.7%*	*2.5%*	*2.8%*
Total SG&A	353,300	436,200	106,000	106,200	104,900	107,600	424,700	107,300	108,411	105,590	105,886	427,187	441,770	463,573
% SG&A of Revenue	*46.9%*	*56.5%*	*56.4%*	*55.1%*	*54.9%*	*53.6%*	*55.0%*	*53.0%*	*50.2%*	*49.9%*	*47.0%*	*49.9%*	*48.4%*	*48.5%*
% Y/Y Growth	*3.8%*	*23.5%*	*7.5%*	*-4.9%*	*-7.0%*	*-4.9%*	*-2.6%*	*1.2%*	*2.1%*	*0.7%*	*-1.6%*	*0.6%*	*3.4%*	*4.9%*
Adj. EBITDA	**$193,600**	**$112,400**	**$26,400**	**$30,800**	**$30,000**	**$38,700**	**$125,900**	**$34,500**	**$34,208**	**$35,923**	**$48,226**	**$152,857**	**$168,417**	**$168,422**
% EBITDA Margin	*25.7%*	*14.6%*	*14.1%*	*16.0%*	*15.7%*	*19.3%*	*16.3%*	*17.1%*	*15.8%*	*17.0%*	*21.4%*	*17.9%*	*18.4%*	*17.6%*
% Y/Y Growth	*7.7%*	*-41.9%*	*3.9%*	*13.2%*	*8.3%*	*20.6%*	*12.0%*	*30.7%*	*11.1%*	*19.7%*	*24.6%*	*21.4%*	*10.2%*	*0.0%*
Depreciation Expense	13,900	15,200	4,000	3,900	3,800	3,800	15,500	5,100	4,509	4,399	4,725	18,732	19,070	19,949
% of Revenue	*1.84%*	*1.97%*	*2.13%*	*2.02%*	*1.99%*	*1.89%*	*2.01%*	*2.41%*	*2.00%*	*2.00%*	*2.00%*	*2.10%*	*2.00%*	*2.00%*
Cash EBIT	**$211,300**	**$127,100**	**$28,800**	**$33,800**	**$32,800**	**$42,000**	**$137,400**	**$37,150**	**$35,171**	**$37,006**	**$48,209**	**$157,536**	**$172,573**	**$175,131**
% EBIT Margin	*29.3%*	*17.3%*	*16.0%*	*18.3%*	*17.8%*	*21.9%*	*18.6%*	*18.4%*	*16.3%*	*17.5%*	*21.4%*	*18.4%*	*18.9%*	*18.3%*
% Y/Y Growth	*7.2%*	*-39.8%*	*-2.0%*	*9.0%*	*4.1%*	*19.3%*	*8.1%*	*29.0%*	*4.1%*	*12.8%*	*14.8%*	*14.7%*	*9.5%*	*1.5%*
Operating Income (EBIT)	**$179,700**	**$97,200**	**$22,400**	**$26,900**	**$26,200**	**$34,900**	**$110,400**	**$29,400**	**$29,699**	**$31,524**	**$43,501**	**$134,124**	**$149,347**	**$148,474**
% EBIT Margin	*23.8%*	*12.6%*	*11.9%*	*14.0%*	*13.7%*	*17.4%*	*14.3%*	*14.5%*	*13.7%*	*14.9%*	*19.3%*	*15.7%*	*16.3%*	*15.5%*
% Y/Y Growth	*7.3%*	*-45.9%*	*3.7%*	*14.0%*	*9.2%*	*24.6%*	*13.6%*	*31.3%*	*10.4%*	*20.3%*	*24.6%*	*21.5%*	*11.3%*	*-0.6%*
Interest Expense		(4,000)	(900)	(700)	(500)	(1,100)	(3,200)	(2,200)	(2,558)	(2,558)	(2,558)	(9,875)	(9,063)	(5,687)
% Interest Expense		*-8.1%*	*-0.5%*	*-0.4%*	*-0.3%*	*-0.5%*	*-6.0%*	*-1.1%*	*-1.2%*	*-1.2%*	*-1.1%*	*-1.2%*	*-1.0%*	*-0.6%*
% of Debt Outstanding		*3.34%*	*1.81%*	*1.41%*	*0.99%*	*2.11%*	*2.57%*	*4.16%*	*3.75%*	*3.75%*	*3.75%*	*3.85%*	*3.85%*	*4.20%*
Interest income	900	1,200	400	400	500	500	1,800	700	479	517	595	2,291	3,025	2,842
% Interest Income	*0.1%*	*0.2%*	*0.2%*	*0.2%*	*0.3%*	*0.2%*	*0.2%*	*0.3%*	*0.2%*	*0.2%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*
% of Invested Assets	*0.42%*	*0.55%*	*0.80%*	*0.81%*	*0.99%*	*0.96%*	*0.88%*	*1.33%*	*1.00%*	*1.00%*	*1.00%*	*0.89%*	*1.07%*	*1.15%*
Other	1,200	(1,300)	(300)	(400)	(500)	800	(400)	1,100	1,000	1,000	1,000	4,100	1,000	1,000
Pre-Tax Income	**$181,800**	**$93,100**	**$21,600**	**$26,200**	**$25,700**	**$35,100**	**$108,600**	**$29,000**	**$28,620**	**$30,482**	**$42,538**	**$130,640**	**$144,309**	**$146,629**
% Pre-Tax Margin	*24.1%*	*12.1%*	*11.5%*	*13.6%*	*13.4%*	*17.5%*	*14.1%*	*14.3%*	*13.2%*	*14.4%*	*18.9%*	*15.3%*	*15.8%*	*15.3%*
% Y/Y Growth	*7.9%*	*-48.8%*	*8.5%*	*11.5%*	*13.2%*	*30.0%*	*16.6%*	*34.3%*	*9.2%*	*18.6%*	*21.2%*	*20.3%*	*10.5%*	*1.6%*
Income tax provision	62,300	20,900	5,000	4,900	5,000	7,500	22,400	4,000	4,865	5,182	7,231	21,279	24,532	24,927
% Tax Rate	*34.3%*	*22.4%*	*23.1%*	*18.7%*	*19.5%*	*21.4%*	*20.6%*	*13.8%*	*17.0%*	*17.0%*	*17.0%*	*16.3%*	*17.0%*	*17.0%*
Adj. Net income	**$119,500**	**$72,400**	**$16,600**	**$21,300**	**$20,700**	**$27,600**	**$86,200**	**$25,000**	**$23,755**	**$25,300**	**$35,306**	**$109,361**	**$119,776**	**$121,702**
% Net Margin	*15.9%*	*9.4%*	*8.8%*	*11.1%*	*10.8%*	*13.7%*	*11.2%*	*12.4%*	*11.0%*	*12.0%*	*15.7%*	*12.8%*	*13.1%*	*12.7%*
% Y/Y Growth	*10.8%*	*-39.4%*	*3.8%*	*21.7%*	*14.4%*	*32.7%*	*19.1%*	*50.6%*	*11.5%*	*22.2%*	*27.9%*	*26.9%*	*9.5%*	*1.6%*
Weighted average shares:														
Basic Shares	70,025	68,325	68,600	69,300	69,800	70,100	69,450	73,000	74,167	74,317	74,467	73,988	73,448	72,195
Diluted Shares	72,950	68,575	70,400	71,900	72,400	72,900	71,900	77,000	78,167	78,317	78,467	77,988	77,448	76,195
Adj. EPS	**$1.64**	**$1.06**	**$0.24**	**$0.30**	**$0.29**	**$0.38**	**$1.20**	**$0.32**	**$0.30**	**$0.32**	**$0.45**	**$1.40**	**$1.55**	**$1.60**
% Y/Y Growth	*12.7%*	*-35.5%*	*1.4%*	*15.6%*	*7.9%*	*25.4%*	*13.3%*	*37.7%*	*2.6%*	*13.0%*	*18.8%*	*17.1%*	*10.4%*	*3.3%*
Stock Based Comp	**$0.28**	**$0.34**	**$0.06**	**$0.07**	**$0.07**	**$0.07**	**$0.28**	**$0.10**	**$0.07**	**$0.07**	**$0.06**	**$0.30**	**$0.30**	**$0.35**
Cash EPS	**$1.92**	**$1.39**	**$0.30**	**$0.36**	**$0.36**	**$0.45**	**$1.47**	**$0.43**	**$0.37**	**$0.39**	**$0.51**	**$1.70**	**$1.85**	**$1.95**
% Y/Y Growth	*12.4%*	*-27.4%*	*-7.5%*	*7.9%*	*1.0%*	*18.9%*	*5.6%*	*42.0%*	*2.9%*	*10.4%*	*12.4%*	*15.6%*	*8.6%*	*5.4%*

Source: Company Documents, Barclays Research

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Primary Stocks (Ticker, Date, Price)

Myriad Genetics Inc. (MYGN, 06-Nov-2018, USD 36.67), Underweight/Neutral, CE/J

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U.S. Life Science Tools & Diagnostics

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PerkinElmer Inc. (PKI)	PRA Health Sciences (PRAH)	QIAGEN N.V. (QGEN)
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IMPORTANT DISCLOSURES CONTINUED

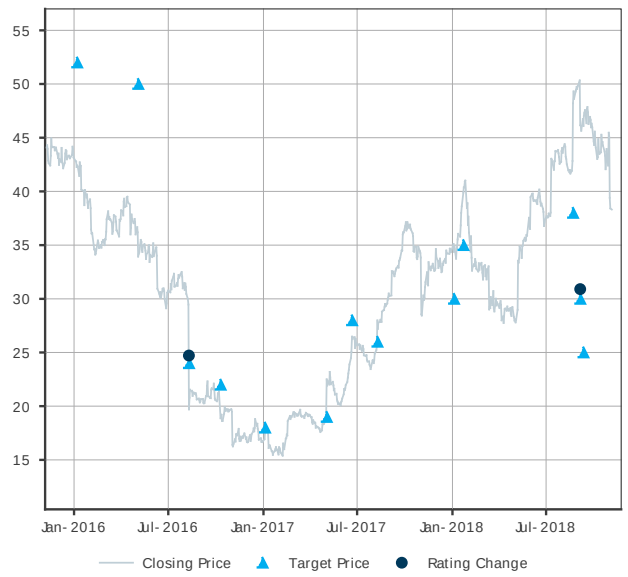
Myriad Genetics Inc. (MYGN / MYGN)

USD 36.67 (06-Nov-2018)

Stock Rating
UNDERWEIGHT

Industry View
NEUTRAL

Rating and Price Target Chart - USD (as of 06-Nov-2018)



Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
11-Sep-2018	46.09		25.00
05-Sep-2018	46.16	Underweight	30.00
22-Aug-2018	48.20		38.00
22-Jan-2018	39.88		35.00
04-Jan-2018	34.38		30.00
09-Aug-2017	27.98		26.00
21-Jun-2017	26.47		28.00
03-May-2017	22.50		19.00
04-Jan-2017	17.62		18.00
10-Oct-2016	18.87		22.00
10-Aug-2016	19.70	Equal Weight	24.00
04-May-2016	33.94		50.00
07-Jan-2016	42.42		52.00

On 06-Nov-2015, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 50.00.

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

CE: Barclays Bank PLC and/or an affiliate is a market-maker in equity securities issued by Myriad Genetics Inc..

J: Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities by Myriad Genetics Inc. and/or in any related derivatives.

Valuation Methodology: Our $23 PT is based on a payor coverage scenario analysis. This also represents 12x our CY2019 EBITDA estimate of $159mm.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Competition in the Hereditary Cancer Testing business is the primary concern, as new entrants look to gain share and decentralize the market away from Myriad. Additionally, the company's new product portfolio carries risks around commercialization, with greater scrutiny from regulators and payors. Finally, reimbursement remains a concern for the company's entire portfolio, with pressure on pricing a risk to margins and profitability given the fixed cost nature of Myriad's business.

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