

# Foundation Medicine, Inc. (FMI)

Illumina Follows Foundation Medicine's Lead; Reiterate Market Outperform Rating

## MARKET DATA

Price	\$22.93
52-Week Range:	\$19.51 - \$45.00
Shares Out. (M):	28.2
Market Cap (\$M):	\$646.6
Average Daily Vol. (000):	78.0

Source: Thomson Reuters and JMP Securities LLC

**MARKET OUTPERFORM** | Price: \$22.93 | Target Price: \$45.00

## INVESTMENT HIGHLIGHTS

**We reiterate our Market Outperform rating and \$45 price target on the shares of Foundation Medicine.** Illumina (ILMN, MO, \$215 PT) recently announced the formation of strategic partnerships with AstraZeneca (AZN, NC), Janssen, and Sanofi (SNY, NC) to develop a universal next-generation sequencing NGS-based oncology test system. The system will be used for clinical trials of targeted cancer therapies with a goal of developing and commercializing a multi-gene panel for therapeutic selection, resulting in a more comprehensive tool for precision medicine. We note that these newly formed partnerships are not exclusive to Illumina. In our view, they represent a broader recognition of the genomic profiling space with pharmaceutical companies, which can only be a positive for the industry. At the moment, it is too early to assess how many genes Illumina's diagnostics panel will contain, and further visibility is needed regarding the timeline of product launches. We continue to believe that Foundation Medicine has first-mover advantage as an applications provider in the oncology space, and should continue to maintain the lead for the next several years, particularly given that the company is working with 20 different biopharma partners and KOLs as part of the broader effort to continuously improve the utility of FoundationOne in the future. Moreover, Foundation Medicine leads the industry in its commitment to providing the comprehensive solution, including bioinformatics and software, not just the kits, reagents or tests, that demonstrates the company's commitment to providing clinically actionable solutions for patients. We believe the Illumina announcement is a clear validation of the value that a Foundation Medicine-like approach has, and we would take this opportunity to rebuild positions on weakness. Our \$45 price target is predicated on an EV/S multiple of 15x 2015E sales, as well as a 10-year DCF analysis, discounting our 2025 revenue estimate by 12%, assuming a 4% growth rate.

FY DEC		2013A	2014E	2015E
Revenue (\$M)	1Q	\$5.2	\$11.4A	\$21.3
	2Q	\$5.9	\$14.5A	\$23.7
	3Q	\$8.2	\$13.5	\$25.8
	4Q	\$9.7	\$16.9	\$28.9
	<b>FY</b>	<b>\$29.0</b>	<b>\$56.3</b>	<b>\$99.7</b>
EPS	1Q	(\$0.33)	(\$0.44)A	(\$0.46)
	2Q	(\$0.48)	(\$0.49)A	(\$0.50)
	3Q	(\$3.51)	(\$0.46)	(\$0.50)
	4Q	(\$0.48)	(\$0.40)	(\$0.55)
	<b>FY</b>	<b>(\$4.64)</b>	<b>(\$1.79)</b>	<b>(\$1.15)</b>

Source: Company reports and JMP Securities LLC

## STOCK PRICE PERFORMANCE



## Company Description

Foundation Medicine is a commercial-stage, molecular diagnostics company. The company's first clinical product, FoundationOne, is the only commercially available, comprehensive molecular information product designed for use in the routine clinical care of cancer patients.

## Investment Risks

Timing of Medicare and commercial payer coverage remains uncertain as FMI does not have a positive coverage decision from any commercial payer.

Competition is likely to increase. Foundation may have the first-mover advantage, but given that the genes found on FoundationOne are not proprietary, we believe it is only a matter of time before another competitor surfaces.

Clinical utility remains unproven. The company has not completed a clinical utility trial to demonstrate the value of FoundationOne beyond current tests.

Regulation is likely to increase and timing remains uncertain. Over the past few years, the FDA has stated its intent to more thoroughly regulate laboratory diagnostic tests (LDTs).

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### JMP Securities Disclosures:

JMP Securities currently makes a market in the securities of Foundation Medicine, Inc. and Illumina, Inc.

### JMP Securities Investment Opinion Definitions:

Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

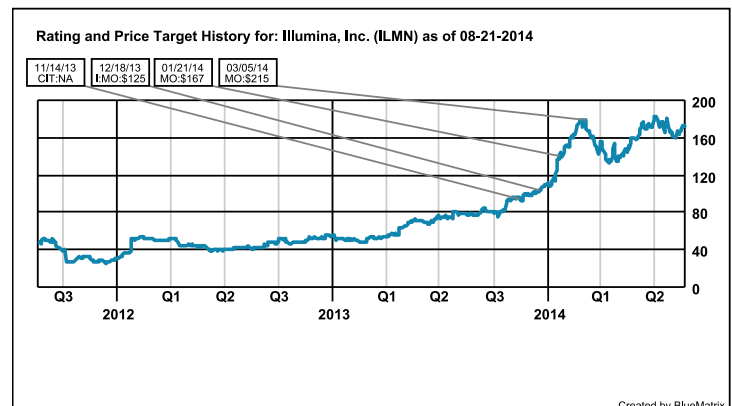
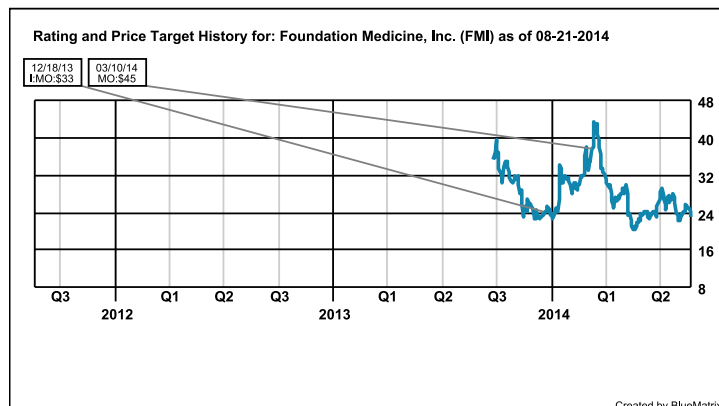
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

### JMP Securities Research Ratings and Investment Banking Services: (as of August 22, 2014)

JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
MARKET OUTPERFORM	Buy	271	60.36%	Buy	271	60.36%	101	37.27%
MARKET PERFORM	Hold	138	30.73%	Hold	138	30.73%	18	13.04%
MARKET UNDERPERFORM	Sell	4	0.89%	Sell	4	0.89%	0	0%
COVERAGE IN TRANSITION		36	8.02%		36	8.02%	0	0%
TOTAL:		449	100%		449	100%	119	26.50%

### Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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