

Foundation Medicine

Pre-Announces 4Q13 Beat; 2014 Guidance Looks Solid - ALERT

This morning, Foundation Medicine pre-announced strong 4Q13 revenues of ~\$9.7M, coming in above JPMe (~\$6M) and consensus (\$8.2M), while the company also stated that it expects to achieve revenues of \$52-58M in 2014, beating current Street estimates of \$53M at the midpoint. While we view the 4Q performance and 2014 outlook as supportive of continued adoption, significant uncertainties remain with regard to the timing of Medicare and private payor contracts, as well as around competitive dynamics. Remain Neutral.

- **4Q13 revenues beat expectations.** FMI announced preliminary 4Q revenues of ~\$9.7M (full-year revenue of ~\$29M), which came in above our estimate of ~\$6M and Street forecasts of \$8.2M. The company also reported ~3,750 tests to ordering oncologists in the quarter, bringing the total clinical tests ordered to over 9,000 for all of 2013. While ASPs were not disclosed, we remind investors that there is still a lag to get paid in many cases, Medicare is ~30%, etc. so it is not clear how sequential pricing trended, but our bias is to assume that there was not significant price erosion from 3Q.
- **2014 outlook looks solid.** Along with 4Q results, FMI also announced that it expects to achieve \$52-58M in revenues in 2014, versus the current consensus forecast of ~\$53M and our estimate of \$45M. The company expects to deliver 22-25K tests (including FoundationOne Heme) over the course of the year.
- **Solid tumor panel expansion coupled with ICE enhancements bode well for continued adoption in 2014.** FMI now plans to expand its solid tumor panel to include additional genes in 1H14, which is in line with prior commentary about updating the panel once a year (typically without an increase in price). FMI also announced planned enhancements to the Interactive Cancer Explorer online portal, including outcomes collection capabilities, for 2H14. We believe these enhancements to the ICE portal should help drive a stronger network effect among the oncologist community, an important tenet of our FMI thesis.
- **Key questions for the presentation/call.** FMI will be presenting at our healthcare conference on Wednesday, January 15 at 11am ET. We hope to get further color on the following issues: (1) updates on initial claims submitted to Medicare; (2) updates on pushback, if any, from private payors on test ASPs; (3) pricing trends in 4Q; (4) early feedback on the FoundationOne Hematologic malignancy launch and expectations for reimbursement and uptake in 2014; (5) competitive dynamics and physician feedback versus other hot-spot panels.

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Neutral

FMI, FMI US

Price: \$24.36 (intraday - 10:53 AM)

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Foundation Medicine (FMI, FMI US) Price Chart



| Date | Rating | Share Price (\$) | Price Target (\$) |
|-----------|--------|------------------|-------------------|
| 21-Oct-13 | N | 33.99 | 38.00 |
| 07-Jan-14 | N | 25.00 | 28.00 |

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Oct 21, 2013.

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