

Foundation Medicine (FMI)

1Q14 Recap - Test Volumes Fine - Reimbursement Solid - Better Heme Product Traction & Accelerated Publication Schedule Is Encouraging - Maintain OP

- **1Q14 sales edge higher and EPS beats estimates.** FMI reported 1Q14 revenue of \$11.5 MM and GAAP EPS loss of (\$0.44), edging past our sales estimate of \$11 MM and our (\$0.48) EPS loss estimate. Consensus estimates were for \$11.3 MM & an EPS of loss of (\$0.48).
- **Clinical volumes of 4,702 were slightly below our 4,852 estimate, but we aren't overly concerned.** We had thought the late 4Q13 bolus of sales reps would be more productive in 1Q14. Clinical revenue was \$500k below our estimate, but more than offset by better pharma revenues. On a more positive note, Foundation One Heme performed strongly in its first full quarter of launch with 715 tests, topping our estimate by 600.
- **Reimbursement holds up. Better Heme traction, accelerating publications and payor discussions represent reimbursement tailwinds.** Reimbursement was in-line with our \$3,400 expectation and consistent with the prior quarter levels. With FoundationOne Heme's impressive traction and its 25% higher list price we see a path to potentially better reimbursement this year. FMI continues to be "paid well" by third party payors and is working to educate all the national payors.
- **Encouraged by the accelerating publication schedule. 18 abstracts expected at ASCO in June.** The magnitude and timing of data is shaping up better than we had thought with 18 abstracts which will include significant clinical outcome data.
- **Better G&A cost control drove better EPS. GMs a little wobbly. Test volume and revenue guidance reiterated. Tweaking estimates slightly lower.**
- **Reaffirming OUTPERFORM rating. Reimbursement fundamentals shaping up better than current sentiment.** We believe sentiment on shares is still medium-low and based primarily on reimbursement concerns. We arrive at our \$50 price target through an EV/sales valuation framework, assuming a ~9x 2016E EV/sales multiple with no net cash and 29 MM shares outstanding, discounted back at 15%. This multiple is justified to us given FMI's hyper growth profile (~83% 3-year CAGR, +60% in 2016), cancer focus and the very early stages of adoption (~10% share in 2016). On a 2015E EV/sales multiple basis, shares of FMI are trading at a premium to the current group median (6.7x vs 3.6x).

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Price
\$27.99

Rating
OUTPERFORM

12-Month Price Target
\$50

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Company Information

Shares Outst (M)	28
Market Cap (M)	\$787
52-Wk Range	\$20 - \$45
Cash/sh	4
Enterprise Value	675
LT Debt/Cap	0
2015 EV/Sales	7 x
Book Value/sh	4.6

Company Description

Foundation Medicine is the leading provider of test services to oncologists for the deep analysis of genetic alterations in cancer. These test results provide clinically actionable information for rare, recurring & stubborn solid tumors and hematologic cancers.

FYE Dec	2013A	2014E			2015E		
REV (M)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$5.2A	\$11.5A	\$11.0A	\$11.3A	\$21.8E	\$22.3E	\$20.3E
Q2 Jun	\$5.9A	\$13.5E	\$13.6E	\$13.1E	\$25.8E	\$26.6E	\$23.2E
Q3 Sep	\$8.2A	\$16.1E	\$16.4E	\$15.8E	\$29.8E	\$31.2E	\$27.3E
Q4 Dec	\$9.7A	\$19.0E	\$19.5E	\$18.6E	\$33.7E	\$35.7E	\$31.8E
Year*	\$29.0A	\$60.1E	\$60.6E	\$58.6E	\$111.0E	\$115.8E	\$108.1E
Change	172%	107%			85%		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	(\$0.64)A	(\$0.44)A	(\$0.48)A	(\$0.48)A	(\$0.40)E	(\$0.38)E	(\$0.38)E
Q2 Jun	(\$0.52)A	(\$0.46)E	(\$0.45)E	(\$0.46)E	(\$0.37)E	(\$0.30)E	(\$0.30)E
Q3 Sep	(\$0.44)A	(\$0.44)E	(\$0.43)E	(\$0.44)E	(\$0.30)E	(\$0.20)E	(\$0.20)E
Q4 Dec	(\$0.48)A	(\$0.44)E	(\$0.38)E	(\$0.43)E	(\$0.29)E	(\$0.17)E	(\$0.17)E
Year*	(\$2.08)A	(\$1.77)E	(\$1.74)E	(\$1.81)E	(\$1.37)E	(\$1.04)E	(\$1.34)E
P/E	NM	NM			NM		
Change	410%	-15%			-23%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.



Source: Thomson Reuters

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Investment Thesis

FMI is a lab services company whose test menu is focused on the genetic analysis of rare, recurring and aggressive tumors. FMI's testing platform leverages next-generation sequencing (NGS) to identify clinically actionable genetic mutations within tumor cells. The company's two tests are FoundationOne, a pan-cancer panel for solid tumors, and FoundationOne Heme, a panel for hematological malignancies (i.e., leukemia, lymphoma & myeloma). These tests are targeted for use by academic and community-based oncologists, as well as biopharmaceutical companies for use in cancer therapeutic R&D. We believe FMI's FoundationOne test represents the first mover and highest-quality test commercially available for detailed genomic workup of tumors. We estimate the company's test volumes and sales will grow above an 85% CAGR for the next three years and we believe FMI has many years of significant growth potential ahead as the opportunity in solid tumors, blood-based cancers and future cancer monitoring products is largely untapped. We believe investors are overly concerned about potential competitive threats and potential challenges to reimbursement near term which are overhangs on the shares currently. We believe continued strong execution by the company, lack of viable competition and continued reimbursement progress with large payors will drive solid financials, thus inspiring confidence and meaningful share price appreciation in the near term. We believe the late 2013 addition of high-quality sales reps, improving sales force efficiency and recent menu expansion, combined with growing physician awareness tees up a strong case for test volume outperformance in the near term. Additionally, we believe sentiment on shares is medium-low and based primarily on reimbursement concerns. Based on our checks, new clinical utility data expected in 2Q14 and 3Q14 and better traction with the higher priced FoundationOne heme test, we believe reimbursement is likely to get easier, representing near term validation for our long term thesis.

Results

FMI reported 1Q14 revenue of \$11.5 MM and GAAP EPS loss of (\$0.44), edging past our sales estimate of \$11 MM and topping our (\$0.48) EPS loss estimate. Consensus estimates were for \$11.3 MM & an EPS of loss of (\$0.48).

Figure 1: 1Q14 Results

	1Q14			
	REV (m)	EPS	Volumes*	Reimbursement**
Actual	12	(\$0.44)	4,702	\$3,400
Wedbush	11	(\$0.48)	4,852	\$3,400
Consensus	11	(\$0.48)	NA	NA

*clinical only

**reimbursement per clinical sample

Source: Company data, Wedbush Securities, Inc.

Top-Line Color

Total revenue of \$11.5 MM was up 120% y/y and up 19% q/q driven primarily by FoundationOne clinical revenue. The company reported \$7.1 MM in clinical revenue, which was slightly below our \$7.7 MM estimate. As a reminder, most of the company's revenue is recorded on a cash basis and the timing between test processing and revenue collection can vary. Pharma services revenue was \$4.4 MM versus our \$3.4 MM estimate.

Clinical test volume of 4,702 during 1Q14 was below our 4,852 estimate. Clinical test volume grew over 312% y/y and 25% q/q. Reimbursement for clinical test volume was approximately \$3,400 in 1Q14, which was consistent with prior quarter levels. The company still expects average reimbursement to vary between periods. Of note, the company grew test volume within its academic customer base as well as community oncology base which were split 46/54 (similar to the prior quarter). FMI continues to submit claims to Medicare using miscellaneous codes, but is still not receiving payment from Medicare as FoundationOne is still not covered by the agency. The company is appealing Medicare claims and is continuing dialogue with its local Medicare administrative contractor and other regional contractors. Of note, the company has obtained Z code identifiers from the McKesson diagnostics exchange for FoundationOne and FoundationOne Heme and believes this is another step toward differentiating its test.

During 1Q14 the company hired 17 new sales reps, which was well above our estimate for six. FMI is well above its plan to have 45-50 account representatives by year end. The company has three people dedicated to international sales and expects to hire three more by year end. The company has received test orders from 40 countries and continues to expand sales through direct sales efforts and distributor relationships.

The company is on track to introduce in 2Q14 the updated version of FoundationOne which improves the success rate for small and low tumor content tissues, proprietary calling algorithms and expands the coverage of the panel to include over 300 genes in total (including over 30 genes involved in gene fusions).

FMI continues to work with all of the national payors and some of the regional payors to educate them on the clinical validity and utility data that the company is generating. The company says it continues to be paid well by third party payors. FMI believes that working collectively with academic medical centers, that are running their own deep tumor profiling tests, will further help to establish attractive reimbursement.

The company appears to be accelerating its pace of data publications. FMI announced that it expects to present at the June ASCO meeting 18 abstracts (authored and co-authored) including a study on clinical outcomes with US Oncology. We had previously expected this US Oncology study to be presented mid-summer.

GMs and Opex

1Q14 gross margins were 53.8%, which missed our estimate by roughly 500 BPs due mainly to the significant number of FoundationOne Heme tests which did not obtain reimbursement in the quarter. Sales and marketing of \$5.7 MM in the quarter was only slightly (3%) above our forecast despite the more significant increase in sales personnel. R&D was roughly in-line with our \$7 MM estimate. G&A was \$5.7 MM in 1Q14, representing a substantial improvement over our estimate (by \$2 MM or ~26%) and which appeared to be driven by lower stock comp expense which was only \$0.7 MM vs \$2.3 MM in the prior quarter.

Figure 2: Variance

	1Q13A	1Q14E	1Q14A	Δ Y/Y	Δ A/E
Revenues:					
Total Revenues	5,200	11,021	11,455	120%	4%
Cost of revenues	2,378	4,298	5,291	122%	23%
Gross profit	2,822	6,723	6,164	118%	-8%
Gross Margins	54.3%	61.0%	53.8%	-1%	-12%
Selling and Marketing	1,811	5,511	5,690	214%	3%
General and administrative	3,150	7,700	5,700	81%	-26%
Research and development	4,982	7,100	6,915	39%	-3%
Total operating expenses	9,944	20,311	18,305	84%	-10%
Operating Income	(7,122)	(13,588)	(12,141)	70%	-11%
Interest income	(76)	311	(25)	-67%	-108%
Other	(6)	0	0		
Income before taxes	(7,204)	(13,277)	(12,166)	69%	-8%
Provision for income taxes	0	0	0		
Tax Rate					
Net income	(7,204)	(13,277)	(12,166)	69%	-8%
Accretion of convertible preferred stock	(50)	0	0	-100%	NA
Net Income	(7,254)	(13,277)	(12,166)	68%	-8%
GAAP EPS -Basic	(\$0.64)	(\$0.48)	(\$0.44)	-31%	-9%
GAAP EPS -Diluted	(\$0.64)	(\$0.48)	(\$0.44)	-31%	-9%
GAAP EPS adjusted -Diluted	(\$0.64)	(\$0.48)	(\$0.44)	-31%	-9%
Weighted average shares - basic	11,339	27,560	27,734	145%	1%
Weighted average shares - diluted	11,339	27,560	27,734	145%	1%
Cash and Equivalents	45,832	115,612	112,000	144%	-3%
Debt	0	0	0	NA	NA
Net Cash	45,832	115,612	112,000	144%	-3%
Net Cash/share	4	4	4	0%	-4%
NOLs		(66,268)	(65,157)	NA	-2%
% of Rev.	1Q13A	1Q14E	1Q14A		
Gross Margins	54%	61%	54%		
Sales and Marketing	65%	50%	50%		
General and administrative	61%	70%	50%		
Research and development	96%	64%	60%		
Total operating expenses	191%	184%	160%		
EBIT	-137%	-123%	-106%		
Tax rate	0%	0%	0%		
Net income	-139%	-120%	-106%		

Source: Company data, Wedbush Securities, Inc.

Valuation

We arrive at our 12-month \$50 price target through EV/sales valuation framework where we assume a 9x 2016E EV/sales multiple with no net cash and roughly 29 MM shares outstanding discounted back at 15%. This multiple is justified to us given the 2016 growth profile (~60% y/y), cancer focus and very early penetration story (<10% share in 2016). On a 2015E EV/sales bases, shares of FMI are trading at 6.7x representing a premium to the current group median multiple of 3.6x. Versus the molecular diagnostics lab service growth comps, FMI is trading at a premium on a 2015 EV/sales multiple basis (6.7x vs. 3.3x median).

Figure 3: Potential Catalysts

Catalyst	Timing
Earnings	May-14
ASCO publications	Jun-14
Clinical decisions study with US Oncology	Jun-14
FoundationOne Solid tumor enhancements	2Q14
Additional product launches/enhancements	2014
CMS coverage decision	??

Source: Company data, Wedbush Securities, Inc.

Risks

Risks to attainment of our price target include a fiercely competitive diagnostics and lab service market. Additionally, clinical adoption for new paradigms of testing in diagnostics is difficult to predict and private payor as well as Medicare reimbursement for *FoundationOne* and *FoundationOne Heme* could prove to be more challenging than expected.

FMI is dependent on Illumina (ILMN, NEUTRAL) for equipment and other materials related to next-generation sequencing. If ILMN were to stop supplying the material or were to enter the space as a competitor, it could lead to an interruption in FMI's ability to perform its menu of tests. The near-term risk of this has been mitigated through a five-year supply agreement FMI signed with ILMN in July 2013.

The company operates a CLIA certified lab at their Cambridge, MA headquarters where they conduct *FoundationOne*. Operating as a CLIA lab allows the company to avoid the FDA regulatory 510(k)/PMA pathway for diagnostic devices. The FDA could more tightly regulate CLIA lab-based tests as medical devices, which would likely cause significant disruption to the business.

Figure 4: Income Statement

	2011	2012	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E
Product Revenue	2,057	10,645	28,990	11,455	13,534	16,099	19,000	60,088	21,772	25,760	29,807	33,692	111,032	178,510
Total Revenues	2,057	10,645	28,990	11,455	13,534	16,099	19,000	60,088	21,772	25,760	29,807	33,692	111,032	178,510
Cost of revenues	258	5,681	11,659	5,291	6,090	7,244	8,550	27,176	8,709	10,304	11,923	13,477	44,413	66,647
COGS as % of sales			36%											
Gross profit	1,799	4,964	17,331	6,164	7,444	8,854	10,450	32,912	13,063	15,456	17,884	20,215	66,619	111,862
Gross Margins	87.5%	46.6%	59.8%	53.8%	55.0%	55.0%	55.0%	54.8%	60.0%	60.0%	60.0%	60.0%	60.0%	62.7%
Selling and Marketing	1,555	3,454	12,508	5,690	7,308	7,244	7,600	27,843	8,491	9,789	9,836	11,455	39,572	55,172
General and administrative	6,992	8,644	21,865	5,700	6,000	6,400	7,500	25,600	7,600	7,700	7,800	7,850	30,950	35,200
Research and development	9,023	14,777	24,901	6,915	7,300	7,600	7,700	29,515	8,300	8,600	8,900	9,200	35,000	36,000
Total operating expenses	17,570	26,875	59,275	18,305	20,608	21,244	22,800	82,958	24,391	26,089	26,536	28,505	105,522	126,372
Operating Income	(15,771)	(21,911)	(41,944)	(12,141)	(13,165)	(12,390)	(12,350)	(50,046)	(11,328)	(10,633)	(8,652)	(8,290)	(38,903)	(14,509)
Interest income	(421)	(421)	(1,452)	(25)	280	257	225	737	183	166	135	108	593	209
Other	(845)	(61)	269	0	0	0	0	0	0	0	0	0	0	0
Income before taxes	(17,037)	(22,393)	(43,127)	(12,166)	(12,885)	(12,133)	(12,125)	(49,308)	(11,144)	(10,467)	(8,517)	(8,182)	(38,310)	(14,300)
Provision for income taxes	0	0	-	0	0	0	0	0	0	0	0	0	0	10
Tax Rate														(0)
Net income	(17,037)	(22,393)	(43,129)	(12,166)	(12,885)	(12,133)	(12,125)	(49,308)	(11,144)	(10,467)	(8,517)	(8,182)	(38,310)	(14,310)
Accretion of convertible preferred stock	(296)	(286)	(139)	0	0	0	0	0	0	0	0	0	0	0
Net Income	(17,333)	(22,679)	(43,268)	(12,166)	(12,885)	(12,133)	(12,125)	(49,308)	(11,144)	(10,467)	(8,517)	(8,182)	(38,310)	(14,310)
GAAP EPS - Basic	(\$3.52)	(\$0.41)	(\$2.09)	(\$0.44)	(\$0.46)	(\$0.44)	(\$0.44)	(\$1.77)	(\$0.40)	(\$0.37)	(\$0.30)	(\$0.29)	(\$1.37)	(\$0.51)
GAAP EPS -Diluted	(\$3.52)	(\$0.41)	(\$2.08)	(\$0.44)	(\$0.46)	(\$0.44)	(\$0.44)	(\$1.77)	(\$0.40)	(\$0.37)	(\$0.30)	(\$0.29)	(\$1.37)	(\$0.51)
Non-GAAP EPS -Diluted	(\$3.52)	(\$0.41)	(\$2.08)	(\$0.44)	(\$0.46)	(\$0.44)	(\$0.44)	(\$1.77)	(\$0.40)	(\$0.37)	(\$0.30)	(\$0.29)	(\$1.37)	(\$0.51)
Weighted average shares - basic	4,930	55,642	21,577	27,734	27,775	27,817	27,859	27,796	27,914	27,956	27,998	28,040	28,040	28,223
Weighted average shares - diluted	4,930	55,642	21,778	27,734	27,775	27,817	27,859	27,796	27,914	27,956	27,998	28,040	28,040	28,223
Cash and Equivalents	10,852	54,838	124,293	112,000	102,983	89,905	73,348	73,348	66,378	54,005	43,318	28,159	28,159	2,204
Net Cash	10,852	54,838	124,293	112,000	102,983	89,905	73,348	73,348	66,378	54,005	43,318	28,159	28,159	2,204
Net Cash/share			5	4	4	3	3	3	2.38	1.93	1.55	1.00	1	0
NOLs			(52,991)	(65,157)	(78,042)	(90,174)	(102,299)	(102,299)	(113,444)	(123,911)	(132,428)	(140,609)	(140,609)	(154,920)
% of Sales	2011	2012	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E
Gross Margins	87%	47%	60%	54%	55%	55%	55%	55%	60%	60%	60%	60%	60%	63%
Sales and Marketing	76%	32%	43%	50%	54%	45%	40%	46%	39%	38%	33%	34%	36%	31%
General and administrative	340%	81%	75%	50%	44%	40%	39%	43%	35%	30%	26%	23%	28%	20%
Research and development	439%	139%	86%	60%	54%	47%	41%	49%	38%	33%	30%	27%	32%	20%
Total operating expenses	854%	252%	204%	160%	152%	132%	120%	138%	112%	101%	89%	85%	95%	71%
EBIT	-767%	-206%	-145%	-106%	-97%	-77%	-65%	-83%	-52%	-41%	-29%	-25%	-35%	-8%
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net income	-843%	-213%	-149%	-106%	-95%	-75%	-64%	-82%	-51%	-41%	-29%	-24%	-35%	-8%
Free Cash Flow	-1015%	-199%	-132%	-59%	-86%	-70%	-77%	-74%	-22%	-39%	-27%	-37%	-32%	-7%
y/y Δ	2011	2012	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E
Total Revenues	NA	418%	172%	120%	129%	96%	97%	107%	90%	90%	85%	77%	85%	61%
Cost of revenues	NA	2102%	105%	122%	174%	153%	103%	133%	65%	69%	65%	58%	63%	50%
Gross Margins	NA	-47%	28%	-1%	-12%	-16%	-3%	-8%	12%	9%	9%	9%	10%	4%
Sales and Marketing	NA	122%	262%	214%	139%	138%	65%	123%	49%	34%	36%	51%	42%	39%
General and administrative	NA	24%	153%	81%	26%	-1%	0%	17%	33%	28%	22%	5%	21%	14%
Research and development	NA	64%	69%	39%	20%	9%	13%	19%	20%	18%	17%	19%	19%	3%
Total operating expenses	NA	53%	121%	84%	48%	29%	20%	40%	33%	27%	25%	25%	27%	20%
EBIT	NA	39%	91%	70%	29%	11%	-8%	19%	-7%	-19%	-30%	-33%	-22%	-63%
Tax rate	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net income	NA	31%	91%	68%	24%	-3%	-7%	14%	-8%	-19%	-30%	-33%	-22%	-63%

Source: Company data, Wedbush Securities, Inc.

Figure 5: Balance Sheet
Current assets:

Total Cash and Cash Equivalents

Accounts Receivable

Inventory

Prepaid expenses and other Current Assets

Total current assets

Property, Plant and Equipment

Accumulated Depreciation

Restricted cash and other non-current assets

Total assets
LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:

Accounts Payable and accrued expenses

Deferred revenue and Other Current Liabilities

Total current liabilities
Long-term liabilities:

Long Term Debt

Other long term liabilities

Total liabilities
Stockholders' equity:

Preferred Stock

Common Stock, APIC, RE

Total liabilities and stockholders' equity

	2011	2012	2013E	2014E	2015E	2016E
Total Cash and Cash Equivalents	10852	54,838	124,293	73,348	28,159	2,204
Accounts Receivable	278	2,195	6,262	9,500	16,846	26,412
Inventory	318	803	1,763	1,583	2,808	4,402
Prepaid expenses and other Current Assets	313	550	992	992	992	992
Total current assets	11,761	58,386	133,310	85,423	48,805	34,010
Property, Plant and Equipment	7,902	12,154	22,104	25,108	30,660	39,586
Accumulated Depreciation	(1,796)	(4,689)		(4,615)	(10,003)	(16,731)
Restricted cash and other non-current assets	198	188	1,854	1,854	1,854	1,854
Total assets	18,065	66,039	157,268	107,771	71,316	58,719
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts Payable and accrued expenses	2,408	5,072	7,007	6,818	8,673	10,387
Deferred revenue and Other Current Liabilities	1,832	3,458	8,752	8,752	8,752	8,752
Total current liabilities	4,240	8,530	15,759	15,570	17,425	19,139
Long-term liabilities:						
Long Term Debt	3,041	1,441	0	0	0	0
Other long term liabilities	632	807	9,798	9,798	9,798	9,798
Total liabilities	7,913	10,778	25,557	25,368	27,223	28,937
Stockholders' equity:						
Preferred Stock	32,455	98,658	0	0	0	0
Common Stock, APIC, RE	(22,303)	(43,397)	131,711	82,403	44,093	29,782
Total liabilities and stockholders' equity	18,065	66,039	157,268	107,771	71,316	58,719

Source: Company data, Wedbush Securities, Inc.

Figure 6: Cash Flow Statement

	2011	2012	2013	2014E	2015E	2016E
Cash Flows from Operating Activities:						
Net (loss) income	(17,037)	(22,393)	(42,944)	(49,308)	(38,310)	(14,310)
Depreciation	1,520	2,894	5,006	4,615	5,388	6,728
change in FV of investor rights obligation	1,067	0	0	0	0	0
change in FV of warrant liability	34	131	1,380	0	0	0
Stock-based compensation expense	73	1,535	7,316	0	0	0
common stock issued for services	0	0	4	0	0	0
non-cash interest expense/impairment	111	104	497	0	0	0
Change in working capital	99	480	(2,025)	(3,247)	(6,716)	(9,447)
Net cash provided by operating activities	(14,133)	(17,249)	(30,766)	(47,941)	(39,637)	(17,030)
Cash Flows from Investing Activities:						
Purchase of property and equipment	(5,410)	(3,183)	(6,930)	(3,004)	(5,552)	(8,925)
increase in restricted cash	0		(1,564)	0	0	0
Net cash used in investing activities	(5,410)	(3,183)	(8,494)	(3,004)	(5,552)	(8,925)
Cash Flows from Financing Activities:						
Proceeds from Issuance of Restricted Stock	114	70	49	0	0	0
proceeds from issuance of preferred stock	26,338	65,917	(10)	0	0	0
proceeds from issuance of common stock	0	0	110,381	0	0	0
change in notes payable	2,534	(1,569)	(1,705)	0	0	0
Net cash provided by financing activities	28,986	64,418	108,715	0	0	0
Net increase (decrease) in cash and cash equivalents	9,443	43,986	69,455	(50,945)	(45,189)	(25,955)
Cash and cash equivalents, beginning of period		10,852	54,838	124,293	73,348	28,159
Cash and cash equivalents, end of period	10,852	54,838	124,293	73,348	28,159	2,204

Source: Company data, Wedbush Securities, Inc.

Company	Ticker	Rating	Price Target	Current Price
Illumina	ILMN	NEUTRAL	\$140	\$142

Analyst Biography

Zarak Khurshid is a senior equity research analyst covering the Medical Diagnostics and Life Science Tools sectors. Prior to joining Wedbush in January 2010, Mr. Khurshid was Vice President and senior equity research analyst with Caris & Company where he covered the Medical diagnostics and Life Sciences Tools sectors from 2006 to 2010. Mr. Khurshid's aggressive risk/reward focused investment style is supported by data points from a diverse network of contacts from industry, hospitals, clinical labs, and academia. Mr. Khurshid was ranked #1 in the Life Science Tools and Services sectors and #4 on Wall Street for earnings accuracy in 2012 by *Starmine*. Prior to his start on Wall Street with Pacific Growth Equities in 2004, Mr. Khurshid was a Research Associate with Cytokinetics and an Associate Bioengineer with Aurora Biosciences. Mr. Khurshid received a BS in Bioengineering and a BA in Economics from the University of California, San Diego.

Analyst Certification

I, Zarak Khurshid, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

Disclosure information regarding historical ratings and price targets is available at <http://www.wedbush.com/ResearchDisclosure/DisclosureQ114.pdf>

Investment Rating System:

Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of March 31, 2014)	Investment Banking Relationships (as of March 31, 2014)
Outperform: 54%	Outperform: 22%
Neutral: 43%	Neutral: 2%
Underperform: 3%	Underperform: 0%

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The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

Wedbush Equity Research Disclosures as of May 8, 2014

Company	Disclosure
Foundation Medicine	1
illumina	1

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1. WS makes a market in the securities of the subject company.
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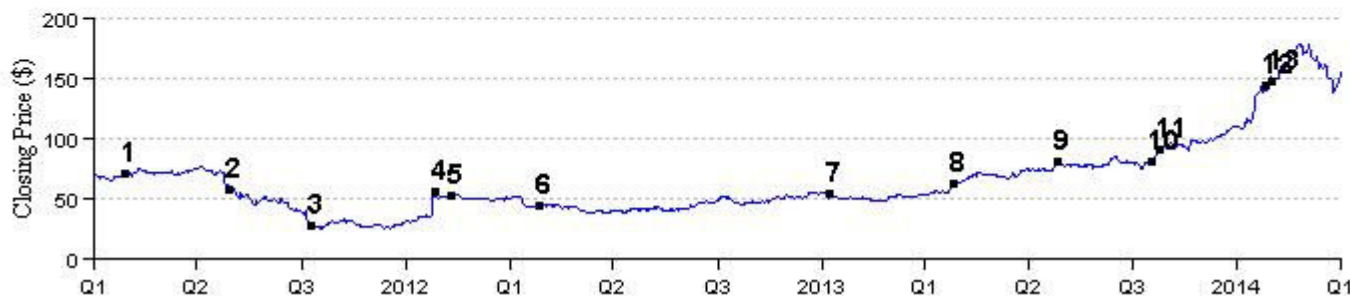
FMI

1) 03/04/14
OUTPERFORM \$50



ILMN

1) 04/27/11	2) 07/27/11	3) 10/07/11	4) 01/25/12	5) 02/08/12	6) 04/24/12	
OUTPERFORM \$80	OUTPERFORM \$78	OUTPERFORM \$35	OUTPERFORM \$50	OUTPERFORM \$65	OUTPERFORM \$52	
7) 01/04/13	8) 04/23/13	9) 07/24/13	10) 10/15/13	11) 10/22/13	12) 01/23/14	13) 01/29/14
NEUTRAL \$52	NEUTRAL \$55	NEUTRAL \$60	NEUTRAL \$65	NEUTRAL \$72	NEUTRAL \$130	NEUTRAL \$140



* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cmg/equities-division/research/equity-research> Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

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