

# Foundation Medicine, Inc. (FMI)

4Q13 and FY14 Guidance Ahead of Expectations; Reiterate Market Outperform and Price Target of \$33.00

## MARKET DATA

Price	\$26.86
52-Week Range:	\$20.00 - \$41.50
Shares Out. (M):	28.1
Market Cap (\$M):	\$754.8
Average Daily Vol. (000):	198.0
Price: Price as of 12/16/2013	
Source: Thomson Reuters and JMP Securities LLC	

**MARKET OUTPERFORM** | Price: \$26.86 | Target Price: \$33.00

## INVESTMENT HIGHLIGHTS

**We reiterate our Market Outperform rating and \$33 price target on shares of Foundation Medicine.** Yesterday before market open, Foundation Medicine announced preliminary financial results for 4Q13 and FY2013 and issued FY2014 financial guidance. Revenue for 2013 is estimated to total \$29M (+173.6% y/y), compared to consensus of \$27.95M and our \$27.8 estimate. Management projects 2014 revenue to be \$52-\$58M (+79.3-100% y/y) versus consensus of \$53.2M and our estimate of \$50.0M, driven by expected delivery of clinical tests in 2014 between 22K-25K (vs. >9K in 2013). We are raising our FY14 revenue estimate from \$50.0M to \$56.6M and establish a FY15 revenue estimate of \$85.8M. Our \$33 price target implies a 2015E EV/Sales multiple of 11.8x, representing an 18% premium relative to its same peer group. FMI is also being valued as a biotech company and we believe it reasonable that our price target reflects an enterprise value (using projected levels of debt and cash) that is ~13x our revenue estimate for the 12 months ended September 2015, a multiple that is in line with the peer group median.

**A solid 2013 augurs strong momentum going into 2014, in our view.** With the collaboration of the Memorial Sloan-Kettering Cancer Center, the company successfully launched its second clinical product FoundationOne Heme in December 2013 (ahead of an expected launch date of early 2014), demonstrating its commitment to ongoing product innovation. Management estimates that the FoundationHeme ramp is lagging FoundationOne by 18 months. To support clinical adoption and reimbursement efforts, 16 peer-reviewed manuscripts were published in top medical and scientific journals, and more than 40 podium talks and posters were presented at scientific and medical meetings in 2013 - with the latest being the positive data out of ASH. In October 2013, the company added a newly constructed laboratory facility in Cambridge for hematologic sample processing, with room to add another sequencing line, which should readily accommodate sample volumes ramp over the next several quarters.

**Upcoming improvements and features.** In 1H14, FoundationOne's panel test is expected to include more genes than the original 239, solidifying Foundation Medicine's position as a clear first-mover in the high-growth pan-cancer panel market. New features for the company's Interactive Cancer Explorer physician portal are expected for 2H14 and will include outcomes collection capabilities.

FY DEC	2013E	2014E	2015E
Revenue (\$M) 1Q	\$5.2A	\$10.8	\$19.3
	2Q	\$5.9A	\$12.6
	3Q	\$7.2A	\$14.3
	4Q	\$10.7	\$18.9
	<b>FY</b>	<b>\$29.0</b>	<b>\$56.6</b>
EPS 1Q	(\$0.33)A	(\$0.36)	(\$0.44)
	2Q	(\$0.48)A	(\$0.48)
	3Q	(\$0.48)A	(\$0.47)
	4Q	(\$0.49)	(\$0.50)
	<b>FY</b>	<b>(\$1.79)</b>	<b>(\$1.21)</b>
P/E	NM	NM	NM
Previous FY	(\$1.64)	(\$1.57)	NC

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 routine clinical care of patients with cancer.

## Investment Risks

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

Competition is likely to increase. Foundation may have first-mover advantage, but given that the genes found on FoundationOne are not proprietary, 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 and timing remains uncertain. Over the last few years the FDA has stated its intent to more thoroughly regulate laboratory diagnostic tests (LDTs).

## JMP FACTS AND DISCLOSURES

### Analyst Certification:

The research analyst(s) who prepared this report does/do hereby certify that the views presented in this report are in accordance with my/our personal views on the securities and issuers discussed in this report. As mandated by SEC Regulation AC no part of my/our compensation was, is or will be directly or indirectly related to the specific views or recommendations expressed herein. This certification is made under the obligations set forth in SEC Regulation AC. Any other person or entity may not use it for any other purpose. This certification is made based on my/our analysis on the date of this report's publication. I/We assume no obligation to update this certification to reflect any facts, circumstances or events that may subsequently come to my/our attention. Signed J.T. Haresco

### JMP Securities Disclosures:

JMP Securities currently makes a market in the security of Foundation Medicine, 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.

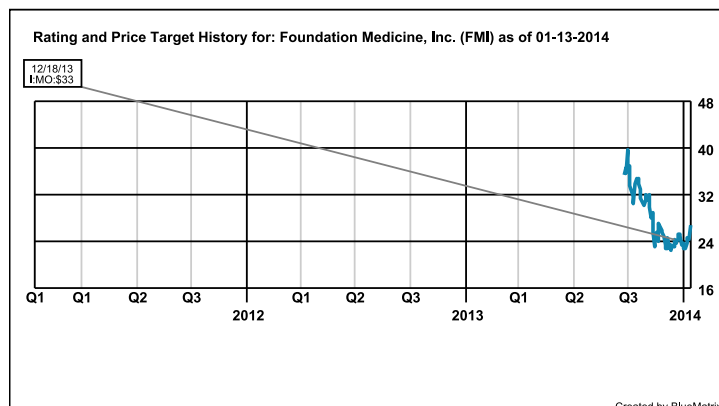
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

### JMP Securities Research Ratings and Investment Banking Services: (as of January 13, 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	243	55.86%	Buy	243	55.86%	92	37.86%
MARKET PERFORM	Hold	143	32.87%	Hold	143	32.87%	26	18.18%
MARKET UNDERPERFORM	Sell	6	1.38%	Sell	6	1.38%	0	0%
COVERAGE IN TRANSITION		43	9.89%		43	9.89%	0	0%
TOTAL:		435	100%		435	100%	118	27.13%

### 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.



**JMP Disclaimer:**

JMP Securities LLC (the "Firm") compensates research analysts, like other Firm employees, based on the Firm's profitability, which includes revenues from the Firm's institutional sales, trading, and investment banking departments as well as on the quality of the services and activities performed that are intended to benefit the Firm's institutional clients. These data have been prepared by JMP Securities LLC for informational purposes only and are based on information available to the public from sources that we believe to be reliable, but we do not guarantee their accuracy or completeness. Any opinions and projections expressed herein reflect our judgment at this date and are subject to change without notice. These data are neither intended nor should be considered as an offer to sell or a solicitation or a basis for any contract for the purchase of any security or other financial product. JMP Securities LLC, its affiliates, JMP Group LLC, Harvest Capital Strategies LLC, and their respective partners, directors, officers, and associates may have a long or short position in, may act as a market maker for, or may purchase or sell a position in the securities mentioned herein. JMP Securities LLC or its affiliates may be performing, have performed, or seek to perform investment banking, advisory, or other services and may have acted as manager or co-manager for a public offering of securities for any company mentioned herein. The reader should assume that JMP Securities LLC will solicit business from the company covered in this report. Members of our Sales and Trading Department provide oral and/or written market opinions and trading strategies to our clients that reflect their personal opinions about stocks that are the subject of the firm's research reports. Our research analysts discuss trading strategies with clients and complete surveys from clients that sometimes reflect short-term expectations for the price of the securities that are the subject of research reports. Those trading strategies and survey responses are distinct from the analysts' fundamental rating for the stock, which is based upon the analysts' view compared to other stocks under coverage for the relevant time period. © Copyright 2013. All rights reserved by JMP Securities LLC. JMP Securities LLC is a member of FINRA, NASDAQ, and SIPC.

**Jeffrey H. Spurr**  
**Director of Research**  
 (415) 835-3903

## RESEARCH PROFESSIONALS

### FINANCIAL SERVICES

#### Alternative Asset Managers

Devin Ryan	(212) 906-3578
Brian McKenna	(212) 906-3545

#### Commercial & Specialty Finance

Christopher York	(415) 835-8965
Hannah Kim, CFA	(415) 835-8962

#### Consumer Finance

David M. Scharf	(415) 835-8942
Jeremy Frazer	(312) 768-1796

#### Financial Processing & Outsourcing

David M. Scharf	(415) 835-8942
Jeremy Frazer	(312) 768-1796

#### Insurance

Matthew J. Carletti	(312) 768-1784
Christine Worley	(312) 768-1786

#### Investment Banks & Brokers

Devin Ryan	(212) 906-3578
Brian McKenna	(212) 906-3545

#### Mortgage Operating Companies

##### REITs: Agency, Hybrid, & Commercial Mortgage

Steven C. DeLaney	(404) 848-7773
Trevor Cranston, CFA	(415) 869-4431
Charter Robinson	(757) 613-8955
Benjamin Zucker	(212) 906-3529

### HEALTHCARE

#### Biotechnology

Liisa A. Bayko	(312) 768-1785
Heather Behanna, PhD	(312) 768-1795
Andrew Prigodich	(312) 768-1788
Jason N. Butler, PhD	(212) 906-3505
Christopher T. Radom, PhD	(212) 906-3519
Caroline Palomeque	(212) 906-3509
Michael G. King, Jr.	(212) 906-3520
Eric Joseph, PhD	(212) 906-3514
Joseph A. Knowles	(212) 906-3525

#### Healthcare Services & Facilities

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Arthur Kwok	(415) 835-8908

#### Life Science Tools & Diagnostics

J. T. Haresco, III, PhD	(415) 869-4477
Marie T. Casey, PhD	(415) 835-3955

#### Medical Devices

J. T. Haresco, III, PhD	(415) 869-4477
Marie T. Casey, PhD	(415) 835-3955

#### Medical Devices & Supplies

David Turkaly	(212) 906-3563
John Gillings	(212) 906-3564

### REAL ESTATE

#### Housing & Land Development

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Bharathwajan Iyengar	(415) 835-3902

#### Lodging

Robert A. LaFleur	(212) 906-3510
Whitney Stevenson	(212) 906-3538

#### Property Services

Mitch Germain	(212) 906-3546
Peter Lunenburg	(212) 906-3537

#### REITs: Healthcare, Residential, & Specialty

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Arthur Kwok	(415) 835-8908

#### REITs: Office, Industrial, & Diversified

Mitch Germain	(212) 906-3546
Peter Lunenburg	(212) 906-3537

#### Residential Services

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Bharathwajan Iyengar	(415) 835-3902

### TECHNOLOGY

#### Communications Equipment & Internet Security

Erik Suppiger	(415) 835-3918
John Lucia	(415) 835-3920

#### Internet & Digital Media

Ronald V. Josey III	(212) 906-3528
Andrew Boone	(415) 835-3957

#### Software

Patrick Walravens	(415) 835-8943
Peter Lowry	(415) 869-4418
Caitlin Schields	(415) 835-8960
Greg McDowell	(415) 835-3934

#### Wireless & Cloud Computing Technologies

Alex Gauna	(415) 835-8998
Michael Wu	(415) 835-8996

## ADDITIONAL CONTACTS

**Thomas R. Wright**  
**Director of Equities**  
 (212) 906-3599

**Dan Wychulis**  
**Director of Institutional Sales**  
 (617) 235-8530

**600 Montgomery Street, Suite 1100**  
 San Francisco, CA 94111  
[www.jmpsecurities.com](http://www.jmpsecurities.com)