

Foundation Medicine, Inc. (FMI)

N-of-1 / Illumina Partnership Reaffirms FMI's Lead

MARKET DATA

Price	\$41.33
52-Week Range:	\$20.00 - \$41.50
Shares Out. (M):	28.1
Market Cap (\$M):	\$1,161.4
Average Daily Vol. (000):	184.0

Source: Thomson Reuters and JMP Securities LLC

MARKET OUTPERFORM | Price: \$41.33 | Target Price: \$45.00

INVESTMENT HIGHLIGHTS

We reiterate our Market Outperform rating and \$45 price target on shares of Foundation Medicine. Foundation shares rose ~9% yesterday on news that N-of-1, a privately held leader in the bioinformatics space and a key component of FMI's software backbone, was launching the Variant Investigator app on Illumina's BaseSpace platform. The announcement noted that Variant Investigator would allow users to only find variations on 30 of the most commonly sequenced cancer genes using publicly available data. We believe shares rose partially in response to the idea that this widely expected development will not be as detrimental to FMI's leadership position as many had feared. The number of genes on the BaseSpace platform should grow (as we also believe FoundationOne will do this year); however, we emphasize that this is not a race defined solely by which company can annotate the most genes, but by the quality and proprietary nature of the data. Therefore, the announcement, as well as FMI's intention to reduce its dependency on N-of-1 by year end, and to continue to curate its own proprietary databases culled from user experiences, strengthens our conviction that FMI will maintain a solid lead over other players in the field. Our \$45 price target is predicated on an EV/S multiple of 15x FY15 sales as well as a 10-year DCF, discounting our 2025 revenue estimates by 12%, assuming a 4% growth rate.

FY DEC		2013A	2014E	2015E
Revenue (\$M)	1Q	\$5.2	\$10.5	\$19.6
	2Q	\$5.9	\$12.0	\$21.2
	3Q	\$8.2	\$13.7	\$23.8
	4Q	\$9.7	\$19.2	\$28.8
	FY	\$29.0	\$55.3	\$93.5
EPS	1Q	(\$0.33)	(\$0.38)	(\$0.45)
	2Q	(\$0.48)	(\$0.41)	(\$0.48)
	3Q	(\$3.51)	(\$0.42)	(\$0.49)
	4Q	(\$0.48)	(\$0.49)	(\$0.54)
	FY	(\$4.64)	(\$1.71)	(\$1.15)
	P/E	NM	NM	NM

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 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 last few years, the FDA has stated its intent to more thoroughly regulate laboratory diagnostic tests (LDTs).

JMP FACTS AND DISCLOSURES

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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.

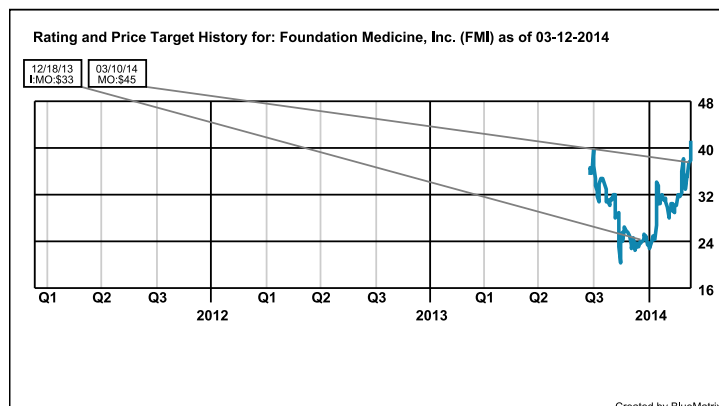
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of March 12, 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	247	56.78%	Buy	247	56.78%	99	40.08%
MARKET PERFORM	Hold	138	31.72%	Hold	138	31.72%	17	12.32%
MARKET UNDERPERFORM	Sell	7	1.61%	Sell	7	1.61%	0	0%
COVERAGE IN TRANSITION		43	9.89%		43	9.89%	0	0%
TOTAL:		435	100%		435	100%	116	26.67%

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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