

Foundation Medicine, Inc. (FMI)

Enhanced Version of FoundationOne Released; Reiterate Market Outperform Rating

MARKET DATA

| | |
|---------------------------|-------------------|
| Price | \$24.38 |
| 52-Week Range: | \$19.51 - \$45.00 |
| Shares Out. (M): | 28.2 |
| Market Cap (\$M): | \$687.5 |
| Average Daily Vol. (000): | 235.0 |

Source: Thomson Reuters and JMP Securities LLC

MARKET OUTPERFORM | Price: \$24.38 | Target Price: \$45.00

INVESTMENT HIGHLIGHTS

We reiterate our Market Outperform rating and \$45 price target on shares of Foundation Medicine following its announcement of an updated version of FoundationOne. This is the first updated version of FoundationOne. It features advancements to several components of the unique, end-to-end solution and will replace the current version starting August 4th. FoundationOne has been expanded to interrogate the entire coding region of 314 genes and select promoter and intronic regions in 29 genes to ensure patients benefit from the latest, clinically relevant developments in cancer biology (vs. a total of 236 genes previously). In addition, performance of the platform has been enhanced by more efficient and robust computational biology algorithms and improvements to drive higher success rates on small tumor samples with low tumor content, such as fine needle aspirates. In our view, the company is clearly maintaining its first-mover advantage by its ongoing commitment to innovation with the goal of further improving patient outcomes. This announcement comes in line with management's plans of regularly updating FoundationOne with new, clinically relevant genes, informed by an exhaustive review of scientific and medical literature, expert consultations and the company's extensive clinical experience. We assume pricing for this panel remains unchanged and further details are expected at the company's 2Q earnings conference call on August 12th. We encourage building positions at current levels and view this announcement as a clear positive for the stock. Our \$45 price target is predicated on an EV/S multiple of 15x FY15E sales as well as a 10-year DCF analysis, discounting our 2025 revenue estimates by 12%, assuming a 4% growth rate.

| FY DEC | | 2013A | 2014E | 2015E |
|---------------|-----------|-----------------|-----------------|-----------------|
| Revenue (\$M) | 1Q | \$5.2 | \$11.4A | \$21.4 |
| | 2Q | \$5.9 | \$12.7 | \$22.8 |
| | 3Q | \$8.2 | \$13.5 | \$25.9 |
| | 4Q | \$9.7 | \$17.0 | \$28.9 |
| | FY | \$29.0 | \$54.6 | \$98.9 |
| EPS | 1Q | (\$0.33) | (\$0.44)A | (\$0.46) |
| | 2Q | (\$0.48) | (\$0.42) | (\$0.49) |
| | 3Q | (\$3.51) | (\$0.42) | (\$0.50) |
| | 4Q | (\$0.48) | (\$0.47) | (\$0.54) |
| | FY | (\$4.64) | (\$1.75) | (\$1.12) |

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).

JMP FACTS AND DISCLOSURES

Analyst Certification:

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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.

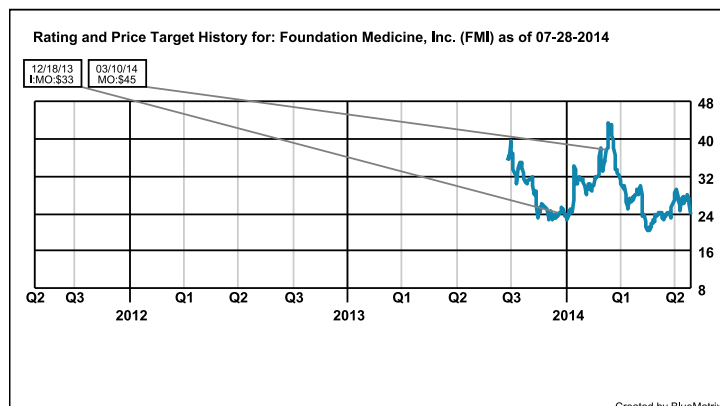
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of July 29, 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 | 266 | 59.51% | Buy | 266 | 59.51% | 98 | 36.84% |
| MARKET PERFORM | Hold | 141 | 31.54% | Hold | 141 | 31.54% | 17 | 12.06% |
| MARKET UNDERPERFORM | Sell | 4 | 0.89% | Sell | 4 | 0.89% | 0 | 0% |
| COVERAGE IN TRANSITION | | 36 | 8.05% | | 36 | 8.05% | 0 | 0% |
| TOTAL: | | 447 | 100% | | 447 | 100% | 115 | 25.73% |

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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Life Science Tools & Diagnostics

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Medical Devices

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Medical Devices & Supplies

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REITs: Healthcare, Residential, & Specialty

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REITs: Office, Industrial, & Diversified

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Residential Services

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TECHNOLOGY

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