

SEQUENOM (SQNM)

RATING:	BUY	PRICE:	\$22.61	PRICE TARGET:	\$34
MARKET CAP:	\$930.3 M	S&P 500:	1,272	SP567:	381

Medical Technology
Update

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SQNM: We believe ACOG will recommend Down test promptly; BUY

- As to when ACOG might recommend the Down test: There is not a hard timeline for such a recommendation.
- Our preliminary estimate, assuming that Sequenom is able to complete a 5000+ patient study with strong data next year, is that the test could be recommended in 2010 or 2011.
- While ACOG can take a short period of time or a long period of time to recommend a test or product, there are several things that we believe point to a quick recommendation:
 1. **This test presumably will save lives.** Invasive testing has about a 0.5% miscarriage rate and we believe ACOG will look favorably on a test that has a 0.0% miscarriage rate so long as it has equivalent or better data.
 2. **As of December 2007, ACOG has recommended that invasive testing for Down Syndrome be offered to all women, not just women 35 and over.** The recommendation, published in a practice bulletin in the December issue of the organization's journal, *Obstetrics & Gynecology*, dramatically expands women's access to prenatal diagnosis, effectively making all prenatal tests and screens available to all American women who get pregnant each year. It will establish a new standard of care, and change expectations for insurance coverage and legal liability involving prenatal screening. Clearly, ACOG is a believer in more available testing.
 3. **ACOG recommended HPV vaccination in September 2006. Merck released strong data on Gardasil in October 2005 and received FDA approval in June 2006.** We believe ACOG will react similarly quickly if Sequenom releases strong data in 2009 and receives CLIA approval during the year as well. Given that Sequenom's test will have no side effects while Gardasil is an invasive drug, ACOG might act even faster.
 4. **Digene's HPV test was recommended for approval by an FDA panel in March 2002. The agency approved the test in March 2003.** ACOG recommended the test for the first time in July 2003, once again showing it can act quickly.
- Our \$34 price target is based on an EV/S model using a 7.2x multiple and 2010E revenue. Risks include FDA regulation, competitors, and IP litigation.

EPS (FY: Dec)		ANNUAL ESTIMATES			
2007	2008E		2009E		
	Prior	Current	Prior	Current	
\$(0.54)		\$(0.72)		\$(0.61)	

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INVESTMENT THESIS

Sequenom provides genetic analysis products that translate genomic science into solutions for biomedical research, agricultural applications, molecular medicine, and noninvasive prenatal testing. The company's proprietary MassARRAY system is a high-performance DNA analysis platform that efficiently and precisely measures the amount of genetic target material and variations therein. The system is able to deliver reliable data from complex biological samples and from genetic target material that is available in trace amounts. Sequenom has exclusively licensed intellectual property for the development and commercialization of non-invasive prenatal genetic tests. We believe these tests may revolutionize prenatal care.

Exhibit 4. Sequenom Income Model in Millions

	2005A	2006A	Fiscal Year End, December 2007				2007A	Fiscal Year End, December 2008				2008E	2009E	2010E
			1QA	2QA	3QA	4QA		1QA	2QA	3QE	4QE			
Revenue														
Consumables	11.01	12.88	4.20	3.76	4.03	4.58	16.53	4.66	4.94	5.10	5.50	20.20	23.30	27.50
MassArray	8.06	14.18	4.91	5.45	4.93	5.52	20.84	4.50	6.64	6.20	7.60	24.94	27.00	32.00
Services	0.00	1.02	0.77	0.94	0.89	0.92	3.52	1.36	1.19	1.60	1.80	5.95	7.50	9.20
Research and Other	0.35	0.42	0.01	0.00	0.00	0.10	0.11	0.06	0.08	0.10	0.10	0.33	0.50	0.70
Non-Invasive Diagnostics	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.10	0.13	27.86	180.62
Total Revenue	19.42	28.50	9.89	10.15	9.84	11.11	41.00	10.57	12.85	13.03	15.10	51.55	86.16	250.02
YoY % growth		47%	43%	41%	51%	41%	44%	7%	27%	32%	36%	26%	67%	190%
Cost of Sales	10.37	11.89	4.10	4.16	4.47	5.03	18.08	4.67	5.46	5.55	6.35	22.03	30.45	61.50
Gross Profit	9.05	16.61	5.79	6.00	5.37	6.09	22.92	5.90	7.38	7.48	8.75	29.52	55.71	188.52
Operating Expenses														
Research and Development	11.76	11.94	2.88	4.26	2.76	4.49	14.38	4.89	6.41	6.50	6.90	24.70	32.50	34.50
Selling and Marketing	10.93	10.99	3.46	3.90	4.59	5.03	16.97	5.81	6.33	6.40	6.50	25.04	38.50	50.00
General and Administrative	11.31	11.43	3.18	3.05	3.86	3.97	14.10	3.37	4.25	4.30	4.30	16.22	19.50	24.50
Restructuring and other charges	2.92	1.52	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Operating Expenses	36.92	35.89	9.52	11.21	11.20	13.49	45.45	14.07	16.99	17.20	17.70	65.96	90.50	109.00
EBIT	-27.87	-19.28	-3.72	-5.21	-5.83	-7.40	-22.53	-8.17	-9.61	-9.72	-8.95	-36.44	-34.79	79.52
Interest income and other	0.40	1.08	0.34	0.40	0.34	0.60	1.66	-0.45	-0.08	0.70	0.58	0.76	1.30	1.50
Pre-tax income	-27.47	-18.20	-3.38	-4.80	-5.49	-6.80	-20.87	-8.61	-9.69	-9.02	-8.37	-35.69	-33.49	81.02
Deferred Income Tax Benefit	0.93	0.62	-	-	-	-	-	-0.01	-0.06	-	-	-	-	-
Net income	-26.54	-17.58	-3.38	-4.80	-5.49	-6.80	-20.89	-8.61	-9.74	-9.02	-8.37	-35.69	-33.49	81.02
EPS - as reported	-0.67	-0.71	-0.10	-0.13	-0.14	-0.16	-0.54	-0.19	-0.21	-0.17	-0.16	-0.72	-0.61	1.45
Diluted shares outstanding	39.83	24.84	33.43	38.01	40.26	43.62	38.86	45.33	47.15	52.80	53.20	49.62	54.80	56.00
EBIT	-26.54	-17.58	-3.38	-4.80	-5.49	-6.80	-20.89	-8.61	-9.74	-9.02	-8.37	-35.69	-33.49	81.02
Depreciation and amortization	5.04	3.57	0.43	0.44	0.53	0.53	1.94	0.55	0.60	0.65	0.70	2.50	2.80	3.30
EBITDA	-21.50	-14.01	-2.95	-4.36	-4.96	-6.27	-18.95	-8.06	-9.14	-8.37	-7.67	-33.19	-30.69	84.32
	2005A	2006A	Fiscal Year End, December 2007				2007A	Fiscal Year End, December 2008				2008E	2009E	2010E
MARGINS			1QA	2QA	3QA	4QA		1QA	2QA	3QE	4QE			
Gross profit		58.3%	58.6%	59.1%	54.6%	54.8%	55.9%	55.8%	57.5%	57.4%	57.9%	57.3%	64.7%	75.4%
EBIT	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	31.8%
Pre-tax Income	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	32.4%
NI	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	32.4%
EXPENSES														
Cost of sales as a % of revenue	nm	41.7%	41.4%	40.9%	45.4%	45.2%	44.1%	44.2%	42.5%	42.6%	42.1%	42.7%	35.3%	24.6%
S,G&A as a % of revenue	nm	78.7%	67.1%	68.5%	85.8%	80.9%	75.8%	86.8%	82.4%	82.1%	71.5%	80.0%	67.3%	29.8%
R&D as a % of revenue	nm	41.9%	29.1%	41.9%	28.0%	40.4%	35.1%	46.2%	49.9%	49.9%	45.7%	47.9%	37.7%	13.8%
Total Operating Expenses	nm	125.9%	96.2%	110.4%	113.8%	121.4%	110.9%	133.0%	132.3%	132.0%	117.2%	128.0%	105.0%	43.6%
Tax Expense	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company reports, LCM Research estimates

ANALYST CERTIFICATION

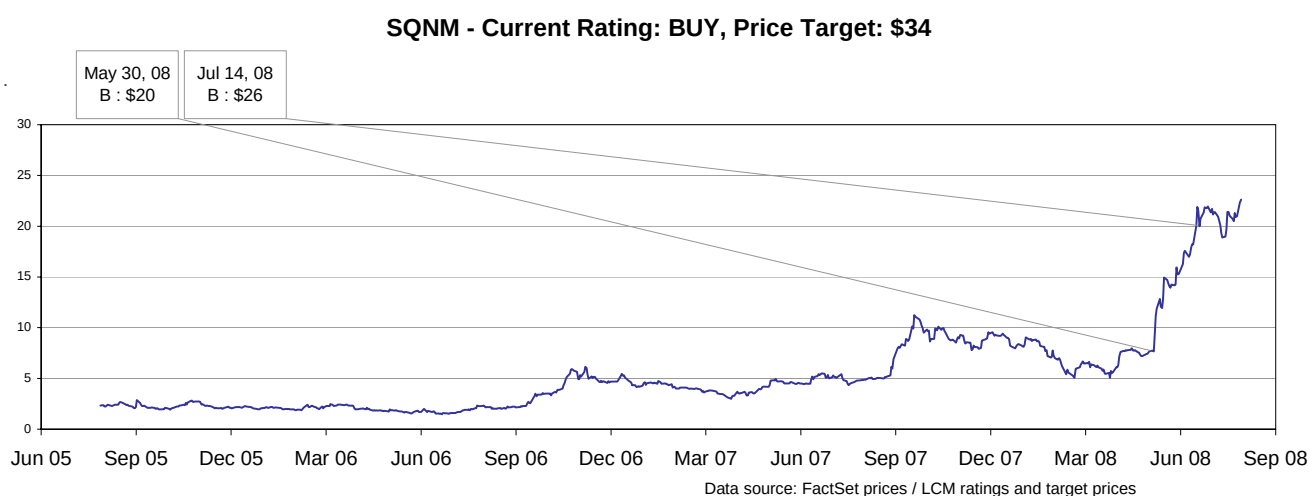
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OVERALL DISTRIBUTION			BANKING CLIENT DISTRIBUTION*		
BUY	HOLD	SELL	BUY	HOLD	SELL
65%	33%	2%	8%	3%	0%

* Indicates the percentage of each category in the Overall Distribution that were banking clients of Lazard Frères in the previous 12 months.

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BUY	Expected to produce a total return of 15% or better in the next 12 months.
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SELL	Stock is expected to decline by 10% or more in the next 12 months.

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