

Research Profile Report | Jan 05th 2011 |**Speculative Buy****Transgenomic Inc. (TBIO.OB)****current stock price: \$0.73****Target Price 12 Months: \$2.50****Robert Rafter/Staff Analyst**

Year Founded : 1997

- Headquarters: Omaha, NE
- Facilities: New Haven, CT, San Jose, CA, Glasgow, Beijing
- Employees: 138
- Exchange: OTCBB: TBIO
- Market Cap \$36.5M
- O/S 49.2 Million
- 2009 Revenue \$22 M
- 2011 Proj. Revenue \$34 – 38 M
- Cash ~\$4.6 million (at 9/30/10)

Executive Summary

Transgenomic, Inc. is a global biotechnology company specializing in high sensitivity genetic variation and mutation analysis, providing products and services in DNA mutation detection and discovery for clinical research, clinical molecular diagnostics and pharmacogenomics analyses.

Transgenomic offers the WAVE[®] System and associated consumables specifically designed for use in genetic variation detection and single- and double-strand DNA/RNA analysis and purification. With broad applicability to genetic research, over 1,450 systems have been shipped to customers in more than 50 countries. The SURVEYOR[®] Mutation Detection Kits and SURVEYOR Check-It Kit provide reagents and protocols for high sensitivity detection of mutations in DNA. In addition, HANABI Metaphase Chromosome Harvester improves laboratory productivity with consistent quality compared to manual methods for cytogenetic analyses.

Service offerings include the Transgenomic Molecular Laboratory, which provides reference laboratory services specializing in molecular diagnostics including Mitochondrial Disorders, Oncology and Hematology, Molecular Pathology and Inherited Diseases. Transgenomic Pharmacogenomic Services is a CRO for pharmacogenomic, translational research and clinical trials.

Products and Services

- **DNA Tools Business:**
 - **WAVE® Mutation Detection Systems, Consumables and SURVEYOR® Mutation Discovery Enzyme**
 - **Cold-PCR/BLOCer kits and applications**
 - **Cancer pathway gene mutation kits**
- **Molecular Clinical Reference Lab**
 - **Familion cardiac genetic test portfolio**
 - **Neuropathy and mitochondrial disorder testing**
- **Pharmacogenomics and Academic Services Lab**
 - **Cold-PCR/BLOCer assessments of cancer mutation profiles in blood**
- **Suite of proprietary biomarkers and tests**

CLIA-certified Reference Lab

Mutation & CGH Testing Services For:

- ✓ **Inherited Diseases**
 - **Familion Cardiac Diseases**
 - **Mitochondrial Diseases**
 - **Epilepsy**
 - ✓ **Cancer**
 - **Solid Tumors**
- K-RAS NPM1
PIK3CA cKIT
BRAF VHL
P53 PTEN

Pharmacogenomics Services

Key cancer gene mutation studies for drug discovery, clinical validation and clinical trials for pharma and academic

- **Studies completed or on-going with 20 of top 25 pharma**
 - **Increasing clinical trial contracts**
 - **Customers demonstrating increasing interest in**
 - **Cold-PCR**
 - **Companion Diagnostics**
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Acquisition of Clinical Data Assets

- Accelerates Transgenomic growth to \$34 million run rate by addition of ~\$12 million in test sales
- Brings state-of-the-art laboratory and key scientific and marketing employees
- Brings biomarker development program with significant potential
- Enables further consolidation of lab services
- Brings 280 million covered lives

Key New Product Strategies

- **Cold-PCR: mutation enrichment and new sequencing technology—**
 - **200-fold improvement in mutation detection**
- **KRAS** mutation detection kit
 - SURVEYOR-based high sensitivity kit with strong performance vs. competing technologies for detecting resistance conferring mutations
- CE-IVD mark – commercial launch in Europe
 - Follow on mutation kits for several key genes in development (BRAF, p53, PIK3CA, others)
- **ARISK**: detection of autism risk
- **mtDNA damage assay**: risk of cardiac events

Mitochondrial DNA Damage Assay

- Exclusively licensed assay to monitor free radical damage level to mtDNA as an indicator of active disease
 - First application: near-term cardiac risk measure
 - Also, potential measurement of drug toxicity for use in drug assessment and development
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Clinical Data Deal Economics

- Purchase price \$15.4 million
 - \$6.0 million cash
 - \$8.6 million 3-year, 10% note
 - \$1.0 million 1-year, 6.5% note
- Accretive to Transgenomic immediately
 - Derive synergies among marketing, R&D and facilities

2011 Revenue Expectations by Product Segment

**DNA Tools WAVE® Mutation Detection Systems,
Consumables and SURVEYOR® Nuclease \$15 M**
Molecular Laboratory Familion \$12 M
Neurology \$4 M
Cytogenetics Instrumentation \$2.5 M
Pharmacogenomic Services \$3 M

Investment Highlights

- Core strength in high sensitivity DNA mutation detection technologies and systems with key focus on Cold-PCR product development into main cancer gene mutation detection kits for pharma and early cancer detection
 - Potential to drive personalized medicine as standard of care in many treatment regimens with proprietary companion diagnostic kits and testing services
 - Acquisition of Clinical Data assets bring \$13 million in revenue, new tests, labs and important DNA biomarker discoveries
 - First-in-kind autism risk test (ARISK) available now
 - Stable DNA tools instrument business
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Management Team

Craig Tuttle - Chief Executive Officer, President

Chad Richards - Senior Vice President, Sales & Marketing

Katrina Fahlin - Vice President of Quality

CLINICAL MANAGEMENT TEAM

Katherine A. Richardson, Ph. D. - Technical Director, Laboratory Services

Eric Johnson, Ph. D. - Director, CLIA Laboratory Services

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RESEARCH AND DEVELOPMENT MANAGEMENT TEAM

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DNASEP® Columns, WAVE® System, WAVEMAKER® Software, TRANSFORMING THE WORLD® for Laboratory Equipment, TRANSGENOMIC® Systems and Reagents and the Globe Logo® MutationDiscovery.com® Website, OLIGOSEP® for Systems and Reagents, OPTIMASE® Polymerase, RNASEP® Columns, WAVE OPTIMIZED® reagents, and WAVE® MD Systems.

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