

COMPANY NOTE

Target | Estimate Change

USA | Healthcare | Life Sciences & Diagnostics

April 15, 2011

Jefferies

Complete Genomics (GNOM) Momentum Building; Raising Forecasts, Target

Key Takeaway

GNOM communicated significantly better than expected 1Q11 genome shipments and new order bookings in a conference presentation earlier today. We are raising our 2011 and 2012 revenue forecasts to \$36M (from \$35M) and \$80M (from \$75M), respectively. Our price target moves to \$15.50 (from \$13).

Momentum building in 1Q11. In a conference presentation earlier today, GNOM communicated better than expected 1Q11 shipments of more than 600 genomes, surpassing our ~570 forecast and reflecting a sharp acceleration from ~350 in 4Q10 (>70% sequentially). GNOM also indicated it booked more than 1,400 genomes in 1Q11 (+75% versus 800 genomes ordered in 4Q10) and exited with a backlog in excess of 2,400 genomes (excluding an ~1,100 genome option from the National Cancer Institute).

Raising 2011/2012 forecasts, price target. We are raising our 2011 and 2012 revenue forecasts to \$36M (from \$35M) and \$80M (from \$75M), respectively, on encouraging new order momentum and swelling backlog. Our price target moves to \$15.50 (from \$13) on greater conviction in its intermediate-term revenue and profit margin expansion trajectories.

Clarity on intermediate-term profitability targets. GNOM indicated it expects to achieve positive gross margins on a \$30-35M annualized revenue run-rate and operating margin break-even on ~\$100M of annualized revenue. Our forecasts continue to assume GNOM is able to achieve a positive gross margin in 2H11 and operating income break-even in early-2013. Longer term, we believe GNOM's highly scalable business model should be capable of achieving gross margins of 65% and operating profit margins in excess of 20%.

Plenty of room for additional upside; shares should trend higher. Shares of GNOM currently imply an equity value of only 4.4 times our 2012 revenue forecast, which implies a ~10% discount to a blended average of other life science product manufacturers and diagnostic service providers. Despite recent strength, we believe the shares should continue trending higher on appreciation for its accelerating new order bookings trajectory and greater confidence in the economic viability of its business model.

Valuation/Risks

Our \$15.50 PT represents a 10-year discount horizon in our DCF model and implies an equity value of 5.0x our 2012 revenue forecast. Risks: execution, ability to evolve technology as fast as instrumentation vendors, threats of new competitive technologies, and litigation risks.

USD	Prev.	2010A	Prev.	2011E	Prev.	2012E	Prev.	2013E
Rev. (MM)	--	9.4	35.0	36.0	75.0	80.0	150.7	161.0
Consensus	--	--	--	(1.98)	--	(0.80)	--	--
EPS								
Mar	--	(1.42)	(0.56)	(0.50)	--	--	--	--
Jun	--	(1.10)	(0.57)	(0.53)	--	--	--	--
Sep	--	(1.05)	(0.52)	(0.53)	--	--	--	--
Dec	--	(0.69)	(0.41)	(0.45)	--	--	--	--
FY Dec	(3.07)	(4.14)	(2.06)	(2.00)	(0.88)	(0.80)	0.70	0.75

BUY

Price target \$15.50

(from \$13.00)

Price \$13.44

Financial Summary

Book Value (MM):	\$73.6
Book Value/Share:	\$4.97
Net Debt (MM):	\$(55.6)

Market Data

52 Week Range:	\$11.76 - \$6.60
Total Entprs. Value (MM):	\$292.5
Market Cap. (MM):	\$348.1
Insider Ownership:	4.0%
Institutional Ownership:	23.9%
Shares Out. (MM):	25.9
Float (MM):	7.0
Avg. Daily Vol.:	100,000

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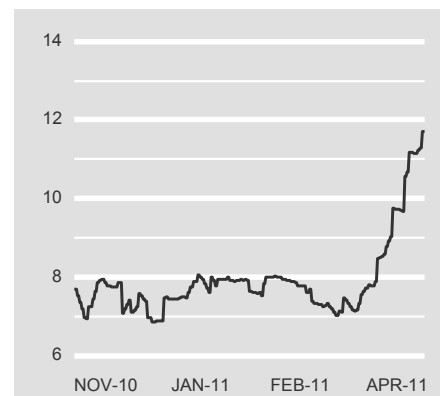
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Price Performance



Scenarios

Target Investment Thesis

- 2011 revenue: \$36M (+284%); 2012 revenue: \$80M (+122%)
- ~4,600 genomes shipped at an average realized price of ~\$7,850 / genome in 2011
- Achieve gross margin break-even in 2H11, operating income break-even in 1H13
- Target Price: \$15.50 implies an equity value of 5.0 times our 2012 revenue forecast

Upside Scenario

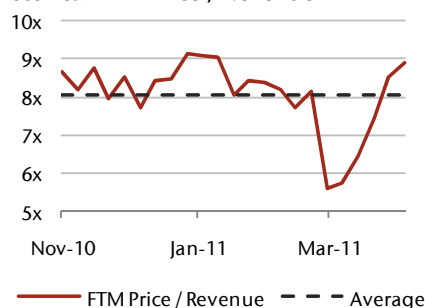
- 2011 revenue: ~\$40M (+326%); 2012 revenue: \$90M (+125%)
- ~5,100 genomes shipped at an average realized price of ~\$7,800 per genome in 2011; ~22,400 genomes shipped at an average price of ~\$4,000 in 2012
- Target Price: \$20; Target multiple: 6.0 times 2012 price/revenue

Downside Scenario

- 2011 revenue: ~\$33M (+253%); 2012 revenue: \$69M (+108%)
- ~4,200 genomes shipped at an average realized price of ~\$7,900 per genome in 2011; ~18,500 genomes shipped at an average price of ~\$3,700 in 2012
- Target Price: \$11.50; Target multiple: 4.5 times 2012 price/revenue

Long Term Analysis

Historical FTM Price / Revenue



Source: Capital IQ, Jefferies estimates

Long Term Financial Model Drivers

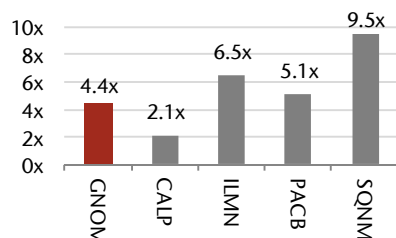
Organic revenue growth	20%
Gross margin (2014E)	65%
Operating margin (2014E)	>20%

Other Considerations

GNOM is the sole pure-play provider of outsourced whole human genome sequencing services in the public arena and is aptly leveraged to favorable secular growth dynamics underway in the DNA sequencing sector of the life science research supply industry.

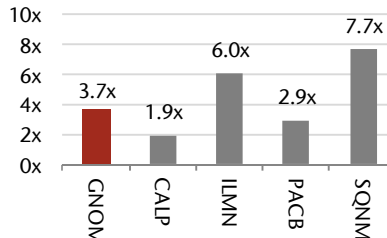
Peer Group

Price / Revenue (2012)



Source: Capital IQ, Jefferies estimates

EV / Revenue (2012)



Source: Capital IQ, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
GNOM	BUY	\$15.50
CALP	BUY	\$8.50
ILMN	NC	-
PACB	NC	-
SQNM	HOLD	\$7

Catalysts

- Sequencing throughput enhancements on new technology, additional instrument capacity expansions
- Incremental visibility on new order wins, uptake in pharmaceutical clinical trials
- Price declines stimulate incremental demand
- Turnaround time improvements

Company Description

Complete Genomics offers proprietary human genome sequencing technology, advanced informatics and data management software to academic and biopharmaceutical researchers as an end-to-end outsourced service solution that is capable of delivering research-ready genomic data at a significantly lower cost.

Chart 1: GNOM's Historical and Projected Income Statement

(\$ in millions, except per share)

	Historical results					Projections									
	2010					2011					2012				
	Mar-10	Jun-10	Sep-10	Dec-10	Total	Mar-11	Jun-11	Sep-11	Dec-11	Total	Mar-12	Jun-12	Sep-12	Dec-12	Total
Net sales	\$0.3	\$1.1	\$4.2	\$3.8	\$9.4	\$5.9	\$7.6	\$9.4	\$13.2	\$36.0	\$17.6	\$19.7	\$19.7	\$23.0	\$80.0
Cost of revenue	\$4.1	\$4.9	\$6.0	\$4.9	\$19.9	\$6.5	\$7.6	\$8.9	\$10.8	\$33.8	\$11.3	\$11.8	\$11.0	\$11.5	\$45.6
Gross profit	(\$3.7)	(\$3.8)	(\$1.8)	(\$1.1)	(\$10.5)	(\$0.6)	\$0.0	\$0.5	\$2.4	\$2.3	\$6.4	\$7.9	\$8.6	\$11.5	\$34.4
Research and Development	\$6.2	\$4.9	\$5.0	\$5.6	\$21.7	\$6.3	\$7.0	\$6.9	\$6.8	\$27.0	\$5.6	\$5.5	\$5.5	\$5.5	\$22.2
Commercial expenses	\$1.2	\$1.3	\$1.6	\$2.0	\$6.1	\$3.0	\$3.3	\$3.5	\$3.7	\$13.4	\$4.3	\$4.6	\$4.5	\$4.6	\$18.0
G&A expenses	\$3.1	\$1.8	\$2.3	\$2.2	\$9.3	\$2.7	\$2.7	\$3.1	\$2.7	\$11.1	\$2.6	\$2.9	\$2.9	\$3.2	\$11.8
Operating income	(\$14.2)	(\$11.8)	(\$10.7)	(\$10.9)	(\$47.7)	(\$12.6)	(\$12.9)	(\$13.0)	(\$10.8)	(\$49.3)	(\$6.3)	(\$5.2)	(\$4.3)	(\$1.8)	(\$17.6)
Interest expense	\$0.3	\$0.8	\$0.9	\$0.8	\$2.8	\$0.6	\$1.0	\$1.0	\$1.0	\$3.6	\$1.0	\$1.0	\$1.0	\$1.0	\$3.9
Interest income	(\$0.2)	(\$0.0)	\$8.8	(\$1.4)	\$7.2	(\$0.2)	(\$0.2)	(\$0.1)	(\$0.1)	(\$0.6)	(\$0.0)	(\$0.0)	\$0.0	\$0.0	(\$0.0)
Other income, net	\$0.0	\$0.0	\$0.4	\$0.0	\$0.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Income before taxes	(\$14.3)	(\$12.6)	(\$20.9)	(\$10.3)	(\$58.1)	(\$13.0)	(\$13.8)	(\$13.9)	(\$11.7)	(\$52.3)	(\$7.2)	(\$6.2)	(\$5.2)	(\$2.8)	(\$21.4)
Income tax	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net income	(\$14.3)	(\$12.6)	(\$20.9)	(\$10.3)	(\$58.1)	(\$13.0)	(\$13.8)	(\$13.9)	(\$11.7)	(\$52.3)	(\$7.2)	(\$6.2)	(\$5.2)	(\$2.8)	(\$21.4)
Basic shares outstanding	10.1	11.5	19.8	14.8	14.0	25.9	26.1	26.2	26.4	26.1	26.5	26.6	26.8	26.9	26.7
Diluted shares outstanding	10.1	11.5	19.8	14.8	14.0	25.9	26.1	26.2	26.4	26.1	26.5	26.6	26.8	26.9	26.7
Basic E.P.S.	(\$1.42)	(\$1.10)	(\$1.05)	(\$0.69)	(\$4.14)	(\$0.50)	(\$0.53)	(\$0.53)	(\$0.45)	(\$2.00)	(\$0.27)	(\$0.23)	(\$0.20)	(\$0.11)	(\$0.80)
Diluted E.P.S.	(\$1.42)	(\$1.10)	(\$1.05)	(\$0.69)	(\$4.14)	(\$0.50)	(\$0.53)	(\$0.53)	(\$0.45)	(\$2.00)	(\$0.27)	(\$0.23)	(\$0.20)	(\$0.11)	(\$0.80)
EBITDA	(\$12.9)	(\$10.1)	(\$8.2)	(\$8.4)	(\$39.6)	(\$10.0)	(\$10.0)	(\$10.0)	(\$7.3)	(\$37.4)	(\$2.5)	(\$1.2)	(\$0.0)	\$2.6	(\$1.1)
Margin Analysis															
Gross margin	(1,113.4%)	(350.7%)	(44.4%)	(28.9%)	(111.9%)	(10.0%)	0.5%	5.0%	18.0%	6.3%	36.0%	40.0%	44.0%	50.0%	43.0%
Research and Development	1,836.0%	452.5%	119.1%	148.3%	231.0%	106.7%	91.7%	74.1%	51.9%	75.0%	32.0%	28.0%	28.0%	24.0%	27.7%
Commercial expenses	364.9%	120.6%	38.2%	52.1%	65.1%	51.0%	43.0%	37.0%	28.0%	37.3%	24.5%	23.5%	22.8%	20.0%	22.5%
G&A expenses	922.3%	161.9%	56.0%	56.6%	99.5%	46.5%	34.7%	32.6%	20.5%	30.9%	15.0%	15.0%	15.0%	14.0%	14.7%
Operating margin	(4,236.6%)	(1,085.7%)	(257.7%)	(285.9%)	(507.5%)	(214.2%)	(168.9%)	(138.7%)	(82.4%)	(136.8%)	(35.5%)	(26.5%)	(21.8%)	(8.0%)	(22.0%)
Income before taxes	(4,266.7%)	(1,159.9%)	(501.3%)	(269.9%)	(618.7%)	(221.0%)	(180.1%)	(148.0%)	(89.2%)	(145.2%)	(40.8%)	(31.3%)	(26.7%)	(12.3%)	(26.8%)
Income tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net margin	(4,266.7%)	(1,159.9%)	(501.3%)	(269.9%)	(618.7%)	(221.0%)	(180.1%)	(148.0%)	(89.2%)	(145.2%)	(40.8%)	(31.3%)	(26.7%)	(12.3%)	(26.8%)
Growth Analysis															
Net sales						1,650.5%	601.0%	124.9%	246.1%	283.8%	200.0%	157.5%	110.0%	75.0%	122.0%
Cost of revenue						58.7%	54.8%	48.0%	120.1%	69.6%	74.5%	55.3%	23.8%	6.7%	35.1%
Gross profit						(84.3%)	(101.0%)	(125.4%)	(315.4%)	(121.8%)	(1,180.0%)	20,500.0%	1,748.0%	386.1%	1,403.2%
Research and Development						1.7%	42.0%	39.9%	21.2%	24.7%	(10.0%)	(21.3%)	(20.6%)	(19.1%)	(18.0%)
Commercial expenses						144.7%	150.0%	117.7%	86.0%	119.8%	44.1%	40.7%	29.1%	25.0%	34.2%
G&A expenses						(11.7%)	50.4%	31.2%	25.0%	19.2%	(3.3%)	11.2%	(3.5%)	19.8%	5.7%
Operating income						(11.5%)	9.1%	21.1%	(0.3%)	3.5%	(50.3%)	(59.6%)	(67.1%)	(83.0%)	(64.3%)
Income before taxes						(9.3%)	8.9%	(33.6%)	14.4%	(9.9%)	(44.7%)	(55.2%)	(62.1%)	(75.9%)	(59.1%)
Net income						(9.3%)	8.9%	(33.6%)	14.4%	(9.9%)	(44.7%)	(55.2%)	(62.1%)	(75.9%)	(59.1%)
Diluted E.P.S.						(64.8%)	(52.1%)	(49.8%)	(35.7%)	(51.6%)	(45.9%)	(56.1%)	(62.9%)	(76.3%)	(59.9%)

Source: Company reports, Jefferies & Company, Inc. estimates

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Company Description

Complete Genomics offers proprietary human genome sequencing technology, advanced informatics and data management software to academic and biopharmaceutical researchers as an end-to-end outsourced service solution that is capable of delivering research-ready genomic data at a significantly lower cost.

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In May 2010, Jefferies & Company acted as Sole Lead Placement Agent in connection with a private placement of equity for Sequenom, Inc. In December 2010, Jefferies & Company acted as Lead Bookrunner in connection with a follow-on offering for Sequenom, Inc.

Jefferies makes a market in Complete Genomics.

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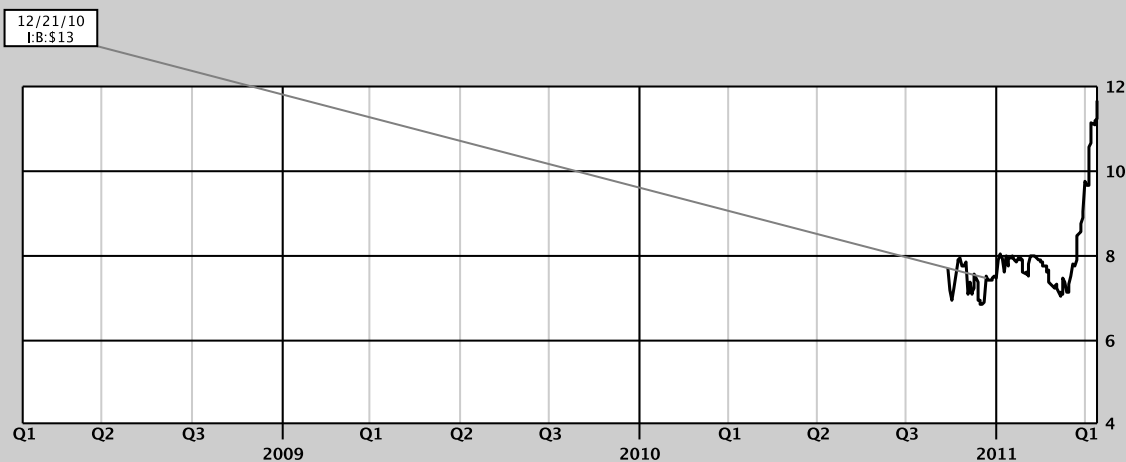
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Other Companies Mentioned in This Report

- Caliper Life Sciences (CALP: \$6.27, BUY)
- Complete Genomics (GNOM: \$13.44, BUY)
- Sequenom Inc. (SQNM: \$7.09, HOLD)

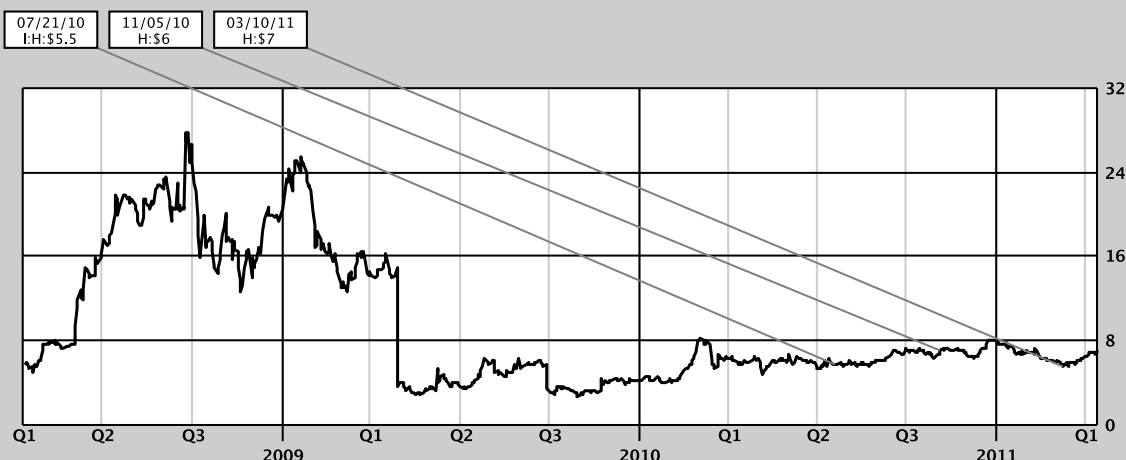
Rating and Price Target History for: Complete Genomics (GNOM) as of 04-14-2011



Rating and Price Target History for: Caliper Life Sciences (CALP) as of 04-14-2011



Rating and Price Target History for: Sequenom Inc. (SQNM) as of 04-14-2011



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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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HOLD	503	43.50%	29	5.77%
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