

## Quick Take

### Complete Genomics — Neutral (2)

**GNOM: \$11.25**

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### Quick Take: Q2 Results Light; Big Order Announced

**Conclusion.** Complete Genomics missed Q2 revenue expectations as average selling prices continued to decline more rapidly than many anticipated. The number of genomes sequenced in the quarter was in line with guidance and management affirmed expectations for >4,000 total genomes sequenced in 2011. We believe the announcement of two new large orders, the company's sequencing of >900 genomes in Q2, and the reaffirmation of full year genomes sequenced guidance should help fortify confidence in the outlook for growing demand for whole genome sequencing. However, we continue to believe that falling ASPs and GNOM's inherent lumpiness render consensus estimates for 2011 and 2012 potentially aggressive.

**Conference Call at 8:30AM ET.** US: (877) 844 - 6890 or International: (760) 298 - 5092 (Conference ID: 87718313).

**Falling ASPs Drive Revenue to Come Up Light of Expectations.** Q2 revenue of \$5.9MM was \$1.8MM light of the consensus average expectation of \$7.7MM. Over 900 genomes were shipped in the quarter, which appears to be consistent with management guidance; we note that it is unclear if the NCI order (100 genomes) was revenue recognized in the quarter. We note that revenue was light of our forecast, which we believe was the Street low. We had expected over 990 genomes at an average selling price (ASP) of just under \$7K; it appears that both the number of genomes and the associated ASP (about \$6,400, assuming NCI was not revenue recognized) were lower than we had anticipated.

**New Orders and End of Q2 Backlog a Bit Lighter Than Expected.** The backlog at the end of Q2 was 2,200 genomes, which is about 150 higher than the backlog at the end of Q1. Assuming that about 900-950 genomes were sequenced in Q2, this suggests that new orders approximated 1,050-1,100 in Q2; this is about 600 fewer than in Q1. The ASP on genomes in backlog is about \$5,455, which is almost \$2,000 below what it was in Q1. This demonstrates how much more quickly ASPs are falling than some anticipated. We estimate that the ASP on new orders taken in Q2 likely approximated \$3,000-4,000.

**Expectation For 4,000 Genomes Shipped In 2011 Reaffirmed.** Management guided expectations for genomes shipped in H2 to "over 2,400"; of these "over 600" are expected to ship in Q3. Thus, full year results are expected to be more back-loaded than previously anticipated.

**New Contracts Announced.** GNOM has entered into important contracts with the

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National Cancer Institute/SAIC-Frederick and the Inova Translational Medicine Institute (part of the Inova Health System, a large, Virginia based hospital network). Together, these contracts represent approximately \$14MM in service. These two contracts call for the delivery of an aggregate of 2,700 genomes. This translates into an ASP of >\$5,000, which is encouraging. Timelines were not provided; details will be an important component of determining expectations for broader demand and concentration of sales in H2 and heading into 2012.

**COMPLETE GENOMICS (GNOM: NEUTRAL) - QUARTERLY SNAPSHOT**

**Cowen vs. Consensus (\$MM, except EPS)**

	Q2:10A	Q2:11E		Q2:11A
		Cowen	Consensus	
Revenue	\$1.1	\$7.0	\$7.7	\$5.9
Gross Margin	NM	2.7%	-1.6%	-4.4%
Operating Margin	NM	NM	-167.4%	NM
EPS	NM	(\$0.36)	(\$0.49)	(\$0.56)

**Selected Revenue Metrics**

	Q2:11E	Q2:11A
<b># of Genomes Shipped</b>	<b>995</b>	<b>920</b>
Growth (Y/Y)		
<b>ASP per Genome Shipped (000's)</b>	<b>\$6.9</b>	<b>\$6.4</b>
Growth (Y/Y)	-31.3%	-51.3%
<b>Deals Closed in the Quarter</b>	<b>1,870</b>	<b>1,070</b>
Growth (Y/Y)	--	--
<b>Backlog</b>	<b>2,925</b>	<b>2,200</b>

Source: Company reports, Thomson One Analytics and Cowen and Company estimates.

## Addendum

### STOCKS MENTIONED IN IMPORTANT DISCLOSURES

Ticker	Company Name
GNOM	Complete Genomics

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(a) Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period.

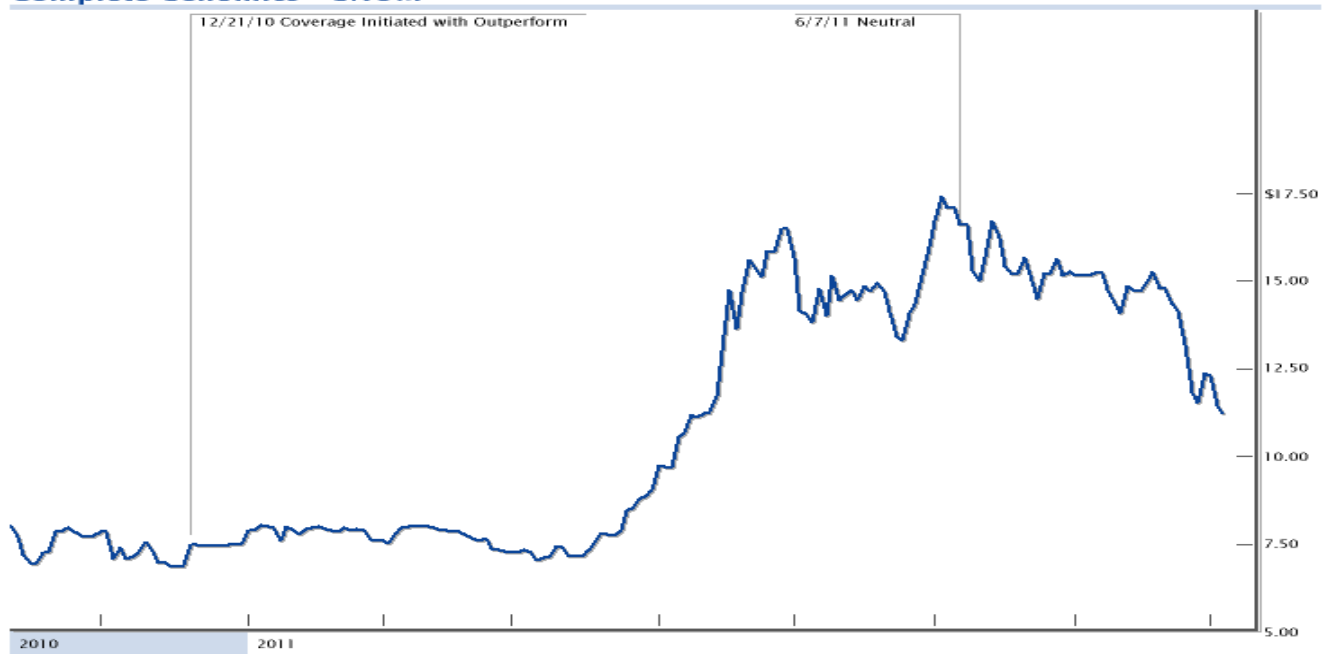
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**Complete Genomics - GNOM**



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