

COMPANY NOTE

Company Update

USA | Healthcare | Life Sciences & Diagnostics

March 11, 2011

Jefferies

Complete Genomics (GNOM) Accelerating Order Trajectory, Process Metric Improvements Promising

Key Takeaway

GNOM's 4Q10 revenue of \$3.8 million was \$200,000 above consensus. Our 2011 forecasts and price target (\$13) remain unchanged.

4Q10 revenue \$200,000 ahead of consensus. GNOM's 4Q10 revenue of \$3.8M was above our \$3.0M forecast. Revenue exceeded expectations on greater genome shipments (~350 vs. our 283 forecast) at a higher ASP (~\$11,000 vs. our \$10,750 forecast). Our 2011 forecasts and price target (\$13) are unchanged.

1Q11 bookings tracking well. GNOM expects to ship over 500 genomes in 1Q11, up sequentially from ~350 in 4Q10. We forecast GNOM to ship 570 genomes in 1Q11 (+65% sequentially). Through March 9, orders booked exceeded 1,400, well above our 1,200 forecast for all of 1Q11. As of 4Q10-end, GNOM's total order backlog exceeded 1,000 genomes (>\$10 million).

Commercial service offering process improvements progressing ahead of plan: GNOM disclosed that its average genome turn-around time has improved to 73 days, far better than the 83 days disclosed in January 2011. Such an improvement suggests it is tracking ahead of the 60 days commitment it previously communicated it would reach by YE11. In addition, it requires a sample size of only 7.5 micrograms, which represents a 50% improvement from the 15 micrograms previously required. Such improvements should remove significant barriers to broader client uptake of its offering, in our view.

Shares should trend higher. Shares of GNOM should trend higher on the accelerating 1Q11 new order bookings trajectory, which demonstrates the commercial viability of its operating model, in our view. Shares of GNOM currently imply a EV/REV of 3.3 times our 2012 forecast, which represents a 50% discount to that awarded to its average relevant peer. Such an arbitrage should narrow as confidence in the economic viability of its business model improves.

Valuation/Risks

Our \$13 PT represents a 10-year discount horizon in our DCF model and implies an EV/REV of 5.3 times our 2012 forecast. Risks include: 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	--	75.0	--	150.7
EV/Rev		14.6x		3.9x		1.8x		0.9x
EPS								
Mar	--	(1.42)	--	(0.56)	--	--	--	--
Jun	--	(1.10)	--	(0.57)	--	--	--	--
Sep	--	(1.05)	--	(0.52)	--	--	--	--
Dec	--	(0.69)	--	(0.41)	--	--	--	--
FY Dec	--	(3.07)	--	(2.06)	--	(0.88)	--	0.70
FY P/E		NM		NM		NM		10.7x

BUY

Price target \$13.00

Price \$7.46

Financial Summary

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

Market Data

52 Week Range:	\$9.00 - \$6.60
Total Entprs. Value (MM):	\$137.6
Market Cap. (MM):	\$193.2
Insider Ownership:	4.0%
Institutional Ownership:	17.8%
Shares Out. (MM):	25.9
Float (MM):	7.0
Avg. Daily Vol.:	85,000

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Price Performance

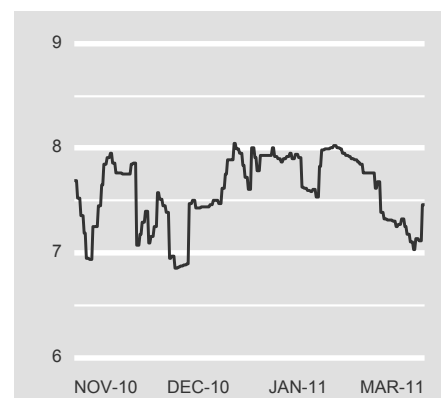


Chart 1: GNOM's historical and Projected Income Statement

(Dollars in millions, except per share amounts)

	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	\$5.4	\$7.0	\$9.4	\$13.2	\$35.0	\$16.3	\$17.6	\$18.7	\$22.4	\$75.0
Cost of revenue	\$4.1	\$4.9	\$6.0	\$4.9	\$19.9	\$7.3	\$8.6	\$9.0	\$10.0	\$34.9	\$10.6	\$10.8	\$11.0	\$11.4	\$43.8
Gross profit	(\$3.7)	(\$3.8)	(\$1.8)	(\$1.1)	(\$10.5)	(\$1.9)	(\$1.6)	\$0.4	\$3.1	\$0.1	\$5.7	\$6.8	\$7.7	\$11.0	\$31.1
Research and Development	\$6.2	\$4.9	\$5.0	\$5.6	\$21.7	\$6.3	\$7.0	\$6.9	\$6.8	\$27.0	\$4.9	\$4.9	\$4.9	\$5.4	\$20.0
Commercial expenses	\$1.2	\$1.3	\$1.6	\$2.0	\$6.1	\$3.4	\$3.6	\$3.9	\$4.2	\$15.0	\$4.4	\$4.6	\$4.7	\$4.9	\$18.6
G&A expenses	\$3.1	\$1.8	\$2.3	\$2.2	\$9.3	\$2.7	\$2.7	\$3.1	\$2.7	\$11.1	\$2.4	\$2.6	\$2.8	\$3.1	\$11.0
Operating income	(\$14.2)	(\$11.8)	(\$10.7)	(\$10.9)	(\$47.7)	(\$14.3)	(\$14.8)	(\$13.5)	(\$10.6)	(\$53.1)	(\$6.0)	(\$5.4)	(\$4.7)	(\$2.5)	(\$18.5)
Interest expense	\$0.3	\$0.8	\$0.9	\$0.8	\$2.8	\$0.4	\$0.3	\$0.3	\$0.2	\$1.1	\$1.4	\$1.4	\$1.4	\$1.4	\$5.4
Interest income	(\$0.2)	(\$0.0)	\$8.8	(\$1.4)	\$7.2	(\$0.2)	(\$0.1)	(\$0.1)	(\$0.0)	(\$0.4)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.4)
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)	(\$14.5)	(\$15.0)	(\$13.7)	(\$10.7)	(\$53.9)	(\$7.2)	(\$6.6)	(\$6.0)	(\$3.8)	(\$23.6)
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)	(\$14.5)	(\$15.0)	(\$13.7)	(\$10.7)	(\$53.9)	(\$7.2)	(\$6.6)	(\$6.0)	(\$3.8)	(\$23.6)
Basic shares outstanding	10.1	11.5	19.8	14.8	14.0	25.9	0.19	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)	(\$0.56)	(\$0.57)	(\$0.52)	(\$0.41)	(\$2.06)	(\$0.27)	(\$0.25)	(\$0.22)	(\$0.14)	(\$0.88)
Diluted E.P.S.	(\$1.42)	(\$1.10)	(\$1.05)	(\$0.69)	(\$4.14)	(\$0.56)	(\$0.57)	(\$0.52)	(\$0.41)	(\$2.06)	(\$0.27)	(\$0.25)	(\$0.22)	(\$0.14)	(\$0.88)
EBITDA	(\$12.9)	(\$10.1)	(\$8.2)	(\$8.2)	(\$39.4)	(\$11.4)	(\$11.6)	(\$10.3)	(\$6.5)	(\$39.9)	(\$1.8)	(\$0.9)	(\$0.1)	\$2.3	(\$0.5)
Margin Analysis															
Gross margin	(1,113.4%)	(350.7%)	(44.4%)	(28.9%)	(111.9%)	(35.0%)	(22.1%)	4.2%	23.8%	0.2%	35.0%	38.5%	41.0%	49.0%	41.5%
Research and Development	1,836.0%	452.5%	119.1%	148.3%	231.0%	115.8%	99.7%	74.1%	51.9%	77.3%	30.0%	28.0%	26.0%	24.0%	26.7%
Commercial expenses	364.9%	120.6%	38.2%	52.1%	65.1%	62.7%	50.6%	41.8%	31.6%	43.0%	27.0%	26.0%	25.0%	22.0%	24.8%
G&A expenses	922.3%	161.9%	56.0%	56.6%	99.5%	50.5%	37.8%	32.6%	20.5%	31.9%	15.0%	15.0%	15.0%	14.0%	14.7%
Operating margin	(4,236.6%)	(1,085.7%)	(257.7%)	(285.9%)	(507.5%)	(264.1%)	(210.2%)	(144.3%)	(80.2%)	(151.9%)	(37.0%)	(30.5%)	(25.0%)	(11.0%)	(24.7%)
Income before taxes	(4,266.7%)	(1,159.9%)	(501.3%)	(269.9%)	(618.7%)	(267.6%)	(213.2%)	(146.6%)	(81.2%)	(154.1%)	(44.6%)	(37.6%)	(31.8%)	(16.8%)	(31.4%)
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 margin	(4,266.7%)	(1,159.9%)	(501.3%)	(269.9%)	(618.7%)	(267.6%)	(213.2%)	(146.6%)	(81.2%)	(154.1%)	(44.6%)	(37.6%)	(31.8%)	(16.8%)	(31.4%)
Growth Analysis															
Net sales						1,512.7%	544.6%	124.9%	246.1%	272.4%	200.0%	150.0%	100.0%	70.5%	114.4%
Cost of revenue						79.4%	74.6%	49.3%	104.7%	75.4%	44.4%	25.9%	23.1%	14.0%	25.7%
Gross profit						(49.3%)	(59.4%)	(121.1%)	(384.3%)	(100.6%)	(399.9%)	(535.8%)	1,873.0%	251.7%	45,490.0%
Research and Development						1.7%	42.0%	39.9%	21.2%	24.7%	(22.3%)	(29.8%)	(29.8%)	(21.2%)	(25.9%)
Commercial expenses						177.3%	170.7%	145.8%	109.6%	145.7%	29.1%	28.4%	19.7%	18.9%	23.7%
G&A expenses						(11.7%)	50.4%	31.2%	25.0%	19.2%	(10.9%)	(0.7%)	(8.1%)	16.7%	(1.0%)
Operating income						0.5%	24.8%	26.0%	(3.0%)	11.5%	(58.0%)	(63.7%)	(65.4%)	(76.6%)	(65.1%)
Income before taxes						1.1%	18.5%	(34.2%)	4.1%	(7.3%)	(50.0%)	(55.9%)	(56.6%)	(64.8%)	(56.2%)
Net income						1.1%	18.5%	(34.2%)	4.1%	(7.3%)	(50.0%)	(55.9%)	(56.6%)	(64.8%)	(56.2%)
Diluted E.P.S.						(60.7%)	(47.9%)	(50.3%)	(41.5%)	(50.2%)	(51.1%)	(56.8%)	(57.5%)	(65.5%)	(57.1%)

Source: Company reports and 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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Jefferies makes a market in Complete Genomics.

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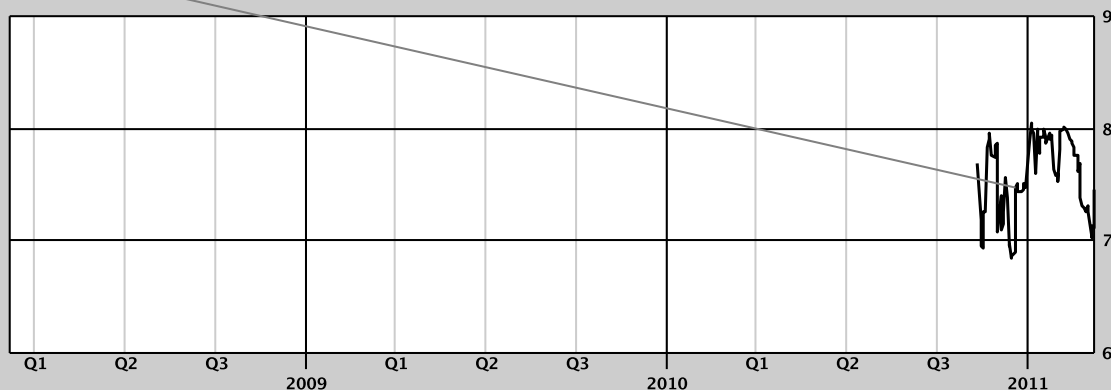
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Rating and Price Target History for: Complete Genomics (GNOM) as of 03-10-2011

12/21/10
I:B:\$13

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	598	51.90%	41	6.86%
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