

August 3, 2011

Stock Rating:

**OUTPERFORM**

12-18 mo. Price Target \$18.50  
GNOM - NASDAQ \$11.25

3-5 Yr. EPS Gr. Rate NM  
52-Wk Range \$18.55-\$6.60  
Shares Outstanding 26.0M  
Float 13.9M  
Market Capitalization \$292.6M  
Avg. Daily Trading Volume 313,981  
Dividend/Div Yield NM/NM  
Fiscal Year Ends Dec  
Book Value \$2.41  
2011E ROE NM  
LT Debt \$7.5M  
Preferred NM  
Common Equity \$63M  
Convertible Available No

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2010A	--	--	(21.87)	(0.69)	(13.60)	NM
2010A	--	--	(21.87)	(0.69)	(13.60)	NM
2011E	(0.48)A	(0.53)	(0.51)	(0.33)	(1.84)	NM
2012E	--	--	--	--	(0.66)	NM

Revenue (\$/mil)	Q1	Q2	Q3	Q4	Year	Mult.
2010E	--	--	4.2A	3.8A	9.4	25.1x
2010E	--	--	4.2A	3.8A	9.4	25.1x
2011E	6.8A	8.1	9.3	13.1	37.4	6.3x
2012E	--	--	--	--	90.0	2.6x

HEALTHCARE/LIFE SCIENCE TOOLS & DIAGNOSTICS

## Complete Genomics, Inc.

### July Contract Wins Impress

#### SUMMARY

GNOM's 2Q11 results were below our expectations due to a faster than forecasted decline in ASPs/genome, as genomes sequenced were in line with our previous estimates and company guidance. On the quarter, the backlog grew at a slower rate than anticipated due to the lumpy nature of the business. To that end, GNOM reported two July contract signings with the National Cancer Institute (NCI) and the Inova Translational Medicine Institute totaling 2,700 genomes for \$14M in revenue. Given the impressive July news, we continue to believe in GNOM's future growth prospects. Our model is under review pending the 2Q11 earnings call.

#### KEY POINTS

- **2Q results.** Revenue of \$5.9M was below our estimate of \$8.1M due to lower ASP/genomes. GNOM recognized revenue from over 900 human genomes, in line with expectations. Expenses were slightly above our forecast led by a greater than expected R&D investment. GNOM posted a loss of \$0.56/share, \$0.03/share below our forecast.
- **Backlog: Look past 2Q to July.** GNOM posted anemic backlog growth in 2Q, as the 2200 genome backlog booked by June 30th didn't change substantially from 1Q11. However, impressive July contract wins from the NCI and Inova Translational Medicine Institute added \$14M in revenue on 2,700 genomes and are a positive indicator of business health.
- **Questions for the call.** On the call, we look for additional insight on the backlog, pricing trends, cadence of capital investments, and an update on the progress on GNOM's next-generation sequencing platform.
- **Earnings call info.** Complete Genomics will host their 2Q11 conference call tomorrow morning at 8:30am ET. The call can be listened to by dialing (877) 844-6890, passcode 87718313.

#### Stock Price Performance



#### Company Description

Complete Genomics is a life sciences tools company that has developed and commercialized what is arguably the most powerful DNA sequencing platform in the industry. GNOM operates on a service model, offering its NGS technology as an innovative, end-to-end, outsourced service to provide customers with data that is immediately ready to be used for genome-based research.

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## Investment Thesis

GNOM has developed a proprietary, innovative sequencing platform including robust bioinformatics tools in order to provide researchers with a complete outsourced human genome sequencing service. Initial data provided by GNOM and early users have demonstrated the company has produced high quality sequence data, validating the platform. Despite a rapidly expanding installed base of NGS instruments we believe demand from the research community and later from the clinical community will continue to outpace the total market sequencing capacity, thus creating an important niche for service providers like GNOM. Our \$18.50 target price assumes no terminal growth on an estimated EBITDA of \$111M in 2022.

## Price Target Calculation

We value GNOM by a discounted cash flow (DCF) analysis. Our \$18.50 target price assumes a WACC of 9.6% and a terminal growth rate of 2.5% on an estimated EBITDA of \$111M in 2022.

## Key Risks to Price Target

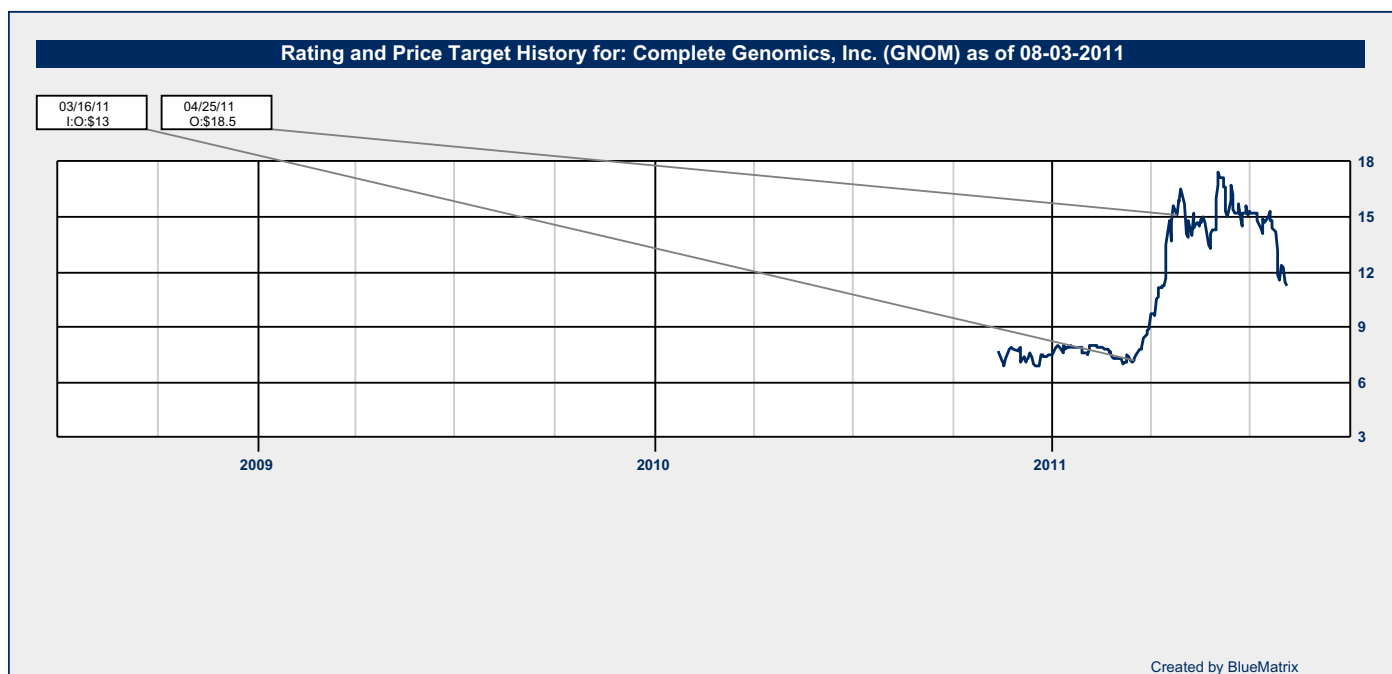
These include: 1) competition from the high throughput NGS installed base, 2) uncertainty over research funding, 3) technology obsolescence, 4) competition from other service providers, 5) the clinical market perhaps taking time to develop, and 6) financing risk.

## Important Disclosures and Certifications

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Rating	Count	IB Serv/Past 12 Mos.		Count	Percent
		Percent	Count		
OUTPERFORM [O]	319	54.50	140	43.89	
PERFORM [P]	256	43.80	84	32.81	
UNDERPERFORM [U]	10	1.70	2	20.00	

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