

April 25, 2011

**Stock Rating:**
**OUTPERFORM**

12-18 mo. Price Target	\$18.50
GNOM - NASDAQ	\$15.60

3-5 Yr. EPS Gr. Rate	NM
52-Wk Range	\$15.71-\$6.60
Shares Outstanding	26.0M
Float	12.9M
Market Capitalization	\$405.2M
Avg. Daily Trading Volume	121,371
Dividend/Div Yield	NM/NM
Fiscal Year Ends	Dec
Book Value	\$2.84
2011E ROE	NM
LT Debt	\$7.5M
Preferred	NM
Common Equity	\$74M
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	(0.52)	(0.53)	(0.50)	(0.33)	(1.88)	NM
Prior (E)	(0.56)	(0.56)	(0.51)	--	(1.95)	NM
2012E	--	--	--	--	(0.66)	NM
Prior (E)	--	--	--	--	(0.70)	NM

Revenue (\$/mil)	Q1	Q2	Q3	Q4	Year	Mult.
2010E	--	--	--	--	9.4	37.0x
2010E	--	--	--	--	9.4	37.0x
2011E	5.8	7.1	9.4	13.1	35.4	9.8x
Prior (E)	5.0	5.7	--	--	33.2	10.5x
2012E	--	--	--	--	90.0	3.9x

**HEALTHCARE/LIFE SCIENCE TOOLS & DIAGNOSTICS**

# Complete Genomics, Inc.

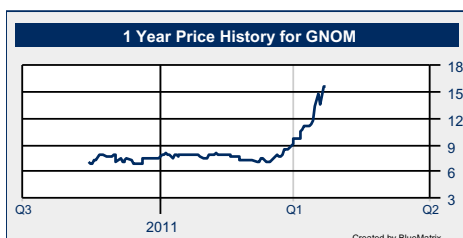
## Service Business Progressing, Raising Price Target to \$18.50

**SUMMARY**

We are reiterating our Outperform rating and raising our price target to \$18.50. Recently, raised guidance for the delivery of more than 600 genomes in 1Q11 underscores the strength of the GNOM business model. Moreover, the addition of more than 1,400 genomes to the backlog in 1Q11 indicates steadily increasing demand for GNOM's whole genome sequencing service. With a backlog of ~3,500 genomes (including NCI), approximately 83% of our 2011 forecast is accounted for, thus we see little risk to our 2011 estimates. Our new \$18.50 target price (was \$13) assumes a 2.5% terminal growth rate on an estimated EBITDA of \$111M in 2022.

**KEY POINTS**

- **Service business humming.** Recent commentary from management guided to delivery of more than 600 genomes in 1Q, above previous guidance for 500 genomes and compared to 350 genomes in 4Q10. GNOM booked over 1400 genome orders in 1Q11 bringing the total to ~3500 (including NCI). Collectively, ~83% of our 2011 forecast is in the backlog.
- **Cost vs data quality unquestioned.** GNOM delivers industry leading coverage and accuracy. In fact, the last 500 genomes delivered averaged 96% coverage. At a cost of between \$5,000 and \$9,000/genome it's hard to rationalize the current \$29,000 cost of sequencing a genome on the ILMN HiSeq.
- **Clinical potential remains a call option.** We believe service providers that specialize in decoding human genomes will be more appropriately positioned to capture the clinical market when it develops in terms of volume and data consistency. Clinical expansion is not included in our estimates.
- **Adjusting Estimates.** We are increasing our 2011 revenue estimate to \$35.4M from \$33.2M to reflect a faster than expected ramp in GNOM's service business. We now forecast GNOM will deliver 4,200 genomes in 2011, up from 3,950. Accordingly, we are lowering our loss per share estimate from \$1.95 to \$1.88.
- **Raising price target to \$18.50.** We are raising our DCF driven price target to \$18.50 to reflect a faster than expected ramp in GNOM's service business. Despite, the stock's recent performance (+100% past 30 days) GNOM trades at a discount on a 2012 EV/Sales multiple compared to peers (3.8x vs. 4x for peers).

**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.

**David Ferreiro, Ph.D.**  
212-667-8163  
David.Ferreiro@opco.com

**Steven Lichtman**  
212-667-8160  
Steven.Lichtman@opco.com

**Rosemary Liu**  
212-667-8251  
Rosemary.Liu@opco.com

Oppenheimer & Co. Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. See "Important Disclosures and Certifications" section at the end of this report for important disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

## GNOM Comparables Analysis (\$millions except per share)

Company (Symbol)	Rating	Ticker	Price 4/21/11	Mkt Cap (\$ in millions)	2010	Sales 2011E	2012E	2010	Sales Growth 2011E	2012E	Sales Growth (‘10-‘12)	2010	EV/Sales 2011E	2012E
Pacific BioSciences (PACB)	P	PACB	\$12.70	671.3	1.7	32.3	87.1	NM	NM	169.5%	NM	231.5	12.0	4.5
Life Technologies (LIFE)	O	LIFE	\$53.55	9,759.6	3,594.8	3,806.9	4,071.7	8.8%	5.9%	7.0%	6.4%	3.3	3.1	2.9
Illumina (ILMN)	P	ILMN	\$69.80	8,837.2	902.7	1,127.9	1,384.8	35.5%	24.9%	22.8%	23.9%	9.9	7.9	6.4
Caliper Life Sciences (CALP)*	NR	CALP	\$6.54	340.5	123.7	141.3	155.9	-5.1%	14.2%	10.4%	12.3%	2.5	2.2	2.0
Sequenom (SQNM)	O	SQNM	\$7.24	715.7	47.5	56.4	122.7	25.3%	18.8%	117.6%	60.8%	12.2	10.3	4.7
<b>Group Average</b>					<b>934.1</b>	<b>1,033.0</b>	<b>1,164.4</b>	<b>16.1%</b>	<b>16.0%</b>	<b>65.4%</b>	<b>11.7%</b>	<b>7.0</b>	<b>5.9</b>	<b>4.0</b>
<b>Complete Genomics (GNOM)</b>	<b>O</b>	<b>GNOM</b>	<b>\$15.60</b>	<b>404.4</b>	<b>9.4</b>	<b>35.4</b>	<b>90.0</b>	<b>NM</b>	<b>NM</b>	<b>154.1%</b>	<b>NM</b>	<b>36.5</b>	<b>9.7</b>	<b>3.8</b>

\* Reuters Consensus

Source: Oppenheimer &amp; Co. estimates for all OPCO covered companies; Bloomberg, FactSet, Reuters for all non-OPCO covered companies

Results presented cannot and should not be viewed as an indicator of future performance. NR = Not Rated; O = Outperform; P = Perform; U = Underperform.

## Complete Genomics Quarterly Income Statement (\$MMs except per share data)

	2009	3Q10	4Q10	2010E	1Q11	2Q11	3Q11	4Q11	2011E
System Sales	0.62	4.16	3.80	9.39	5.82	7.13	9.35	13.13	35.42
<b>Total Revenue</b>	<b>0.62</b>	<b>4.16</b>	<b>3.80</b>	<b>9.39</b>	<b>5.82</b>	<b>7.13</b>	<b>9.35</b>	<b>13.13</b>	<b>35.42</b>
COGS	5.03	6.01	4.90	19.90	6.11	7.13	7.70	9.27	30.21
General and Administrative	4.95	2.33	2.15	9.35	2.91	3.06	3.27	3.54	12.79
Sales and Marketing	1.80	1.59	1.98	6.11	2.79	3.42	4.21	5.25	15.67
R&D	22.42	4.95	5.64	21.69	7.28	7.13	7.01	6.56	27.98
<b>Operating Income</b>	<b>(33.59)</b>	<b>(10.72)</b>	<b>(10.87)</b>	<b>(47.65)</b>	<b>(13.27)</b>	<b>(13.61)</b>	<b>(12.84)</b>	<b>(11.50)</b>	<b>(51.22)</b>
Interest Expense	(3.47)	(0.91)	(0.78)	(2.83)	(0.50)	(0.40)	(0.40)	(0.30)	(1.60)
Other, net	1.10	(9.23)	1.39	(7.61)	0.20	0.10	0.10	0.00	0.20
<b>Pre-Tax Income</b>	<b>(35.95)</b>	<b>(20.86)</b>	<b>(10.26)</b>	<b>(58.09)</b>	<b>(13.57)</b>	<b>(13.91)</b>	<b>(13.14)</b>	<b>(11.80)</b>	<b>(52.42)</b>
Taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	0.0%
<b>Net Income</b>	<b>(35.95)</b>	<b>(20.86)</b>	<b>(10.26)</b>	<b>(58.09)</b>	<b>(13.57)</b>	<b>(13.91)</b>	<b>(13.14)</b>	<b>(11.80)</b>	<b>(52.42)</b>
<b>Non-GAAP EPS</b>	<b>(\$386.56)</b>	<b>(\$21.87)</b>	<b>(\$0.69)</b>	<b>(\$13.60)</b>	<b>(\$0.52)</b>	<b>(\$0.53)</b>	<b>(\$0.50)</b>	<b>(\$0.33)</b>	<b>(\$1.88)</b>
Avg. Shares Out. - Fully Dil.	0.1	1.0	14.8	4.3	26.0	26.1	26.2	36.2	28.6
<b>Margin Analysis</b>	<b>2009</b>	<b>3Q10</b>	<b>4Q10</b>	<b>2010E</b>	<b>1Q11</b>	<b>2Q11</b>	<b>3Q11</b>	<b>4Q11</b>	<b>2011E</b>
COGS	NM	144.4%	128.9%	NM	105.0%	100.0%	82.4%	70.6%	85.3%
Gross Margin	NM	-44.4%	-28.9%	NM	-5.0%	0.0%	17.6%	29.4%	14.7%
General and Administrative	NM	NM	NM	NM	50.0%	43.0%	35.0%	27.0%	36.1%
Sales and Marketing	NM	NM	NM	NM	48.0%	48.0%	45.0%	40.0%	44.2%
R&D	NM	NM	NM	NM	125.0%	100.0%	75.0%	50.0%	79.0%
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM
Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM
<b>Growth Analysis</b>	<b>2009</b>	<b>3Q10</b>	<b>4Q10</b>	<b>2010E</b>	<b>1Q11</b>	<b>2Q11</b>	<b>3Q11</b>	<b>4Q11</b>	<b>2011E</b>
Revenue	NM	NM	NM	NM	NM	NM	124.7%	245.1%	277.2%
COGS	NM	NM	NM	NM	NM	NM	28.2%	89.1%	51.8%
Selling and Marketing	NM	NM	NM	NM	NM	NM	40.5%	64.6%	36.9%
Selling, General and Administrative	NM	NM	NM	NM	NM	NM	41.6%	16.4%	29.0%
Operating Income	NM	NM	NM	NM	NM	NM	NM	NM	NM
EPS	NM	NM	NM	NM	NM	NM	NM	NM	NM

Source: Oppenheimer Estimates, Company Reports

## 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

**Analyst Certification** - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

### Potential Conflicts of Interest:

Equity research analysts employed by Oppenheimer & Co. Inc. are compensated from revenues generated by the firm including the Oppenheimer & Co. Inc. Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. Oppenheimer & Co. Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Oppenheimer & Co. Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers. In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, Oppenheimer & Co. Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by Oppenheimer & Co. Inc.:

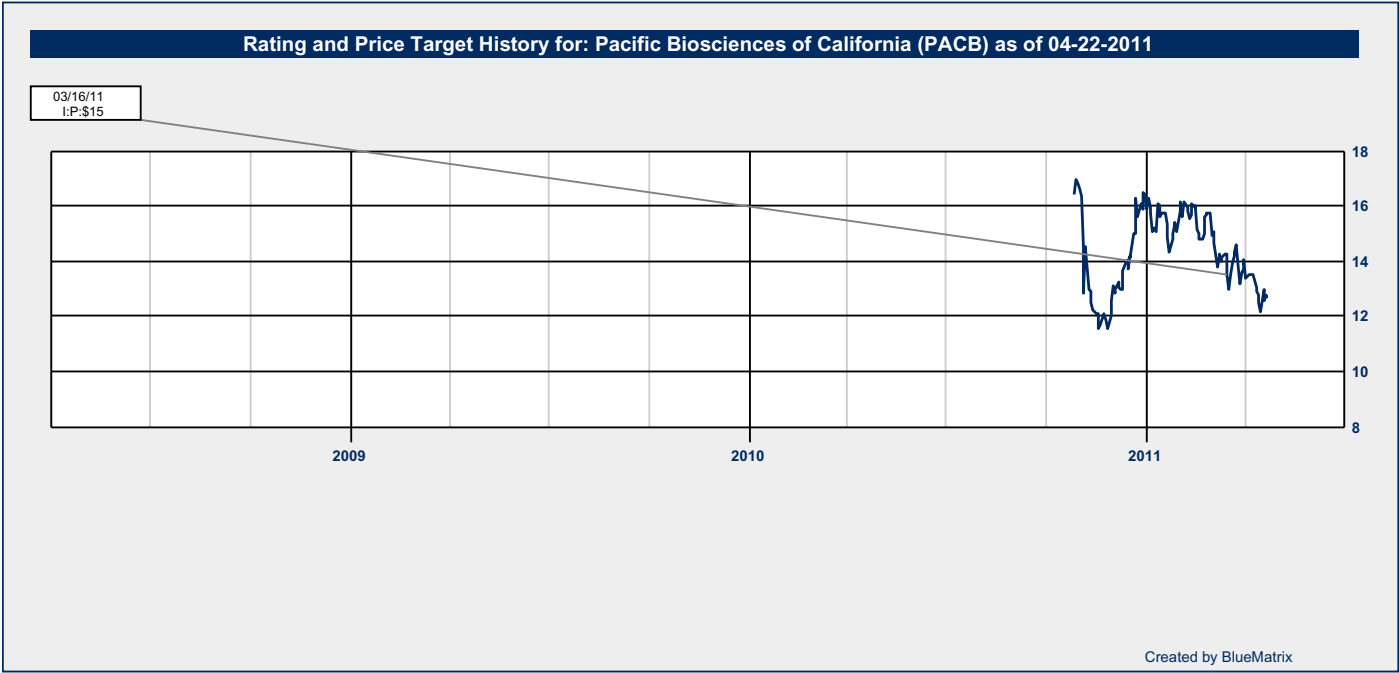
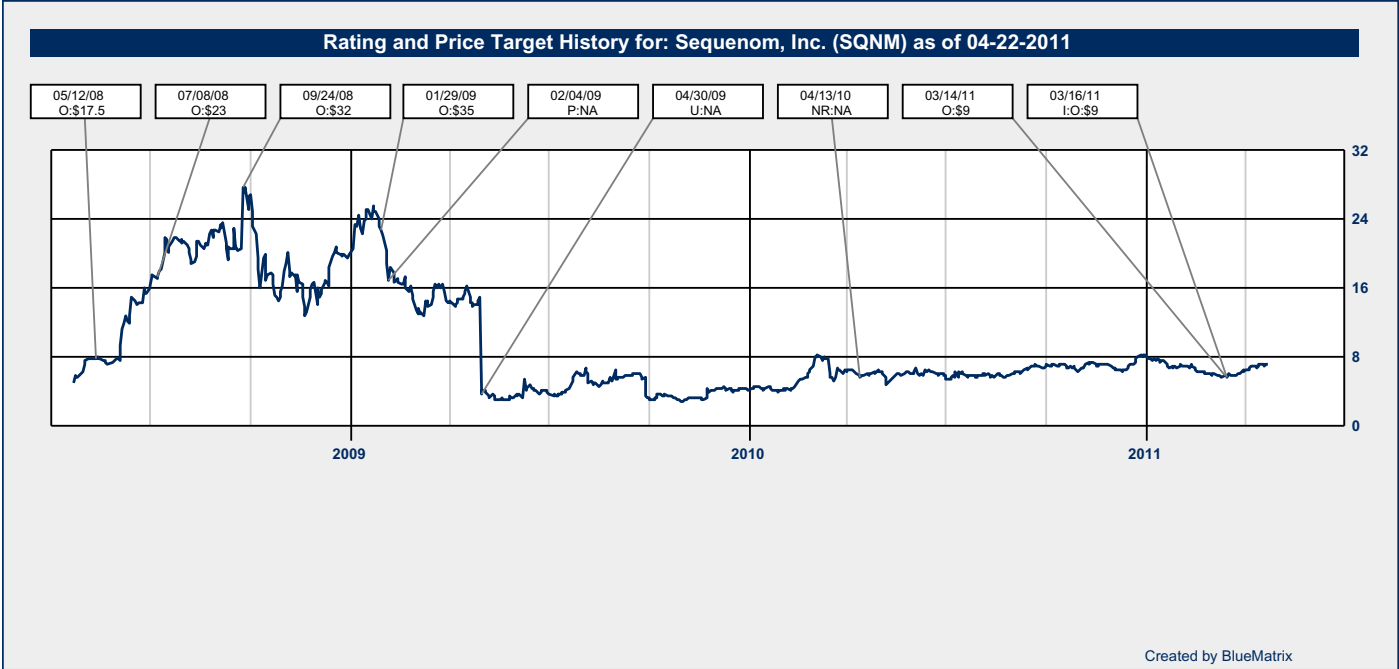
### Stock Prices as of April 25, 2011

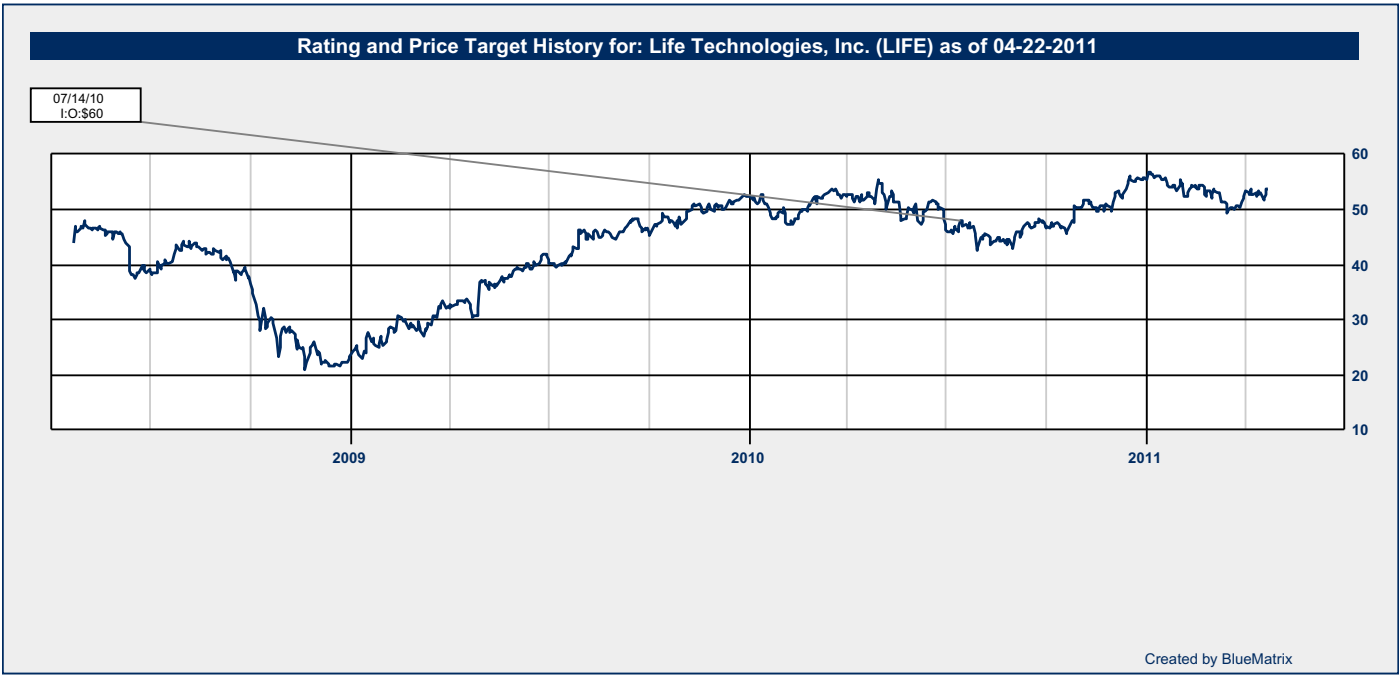
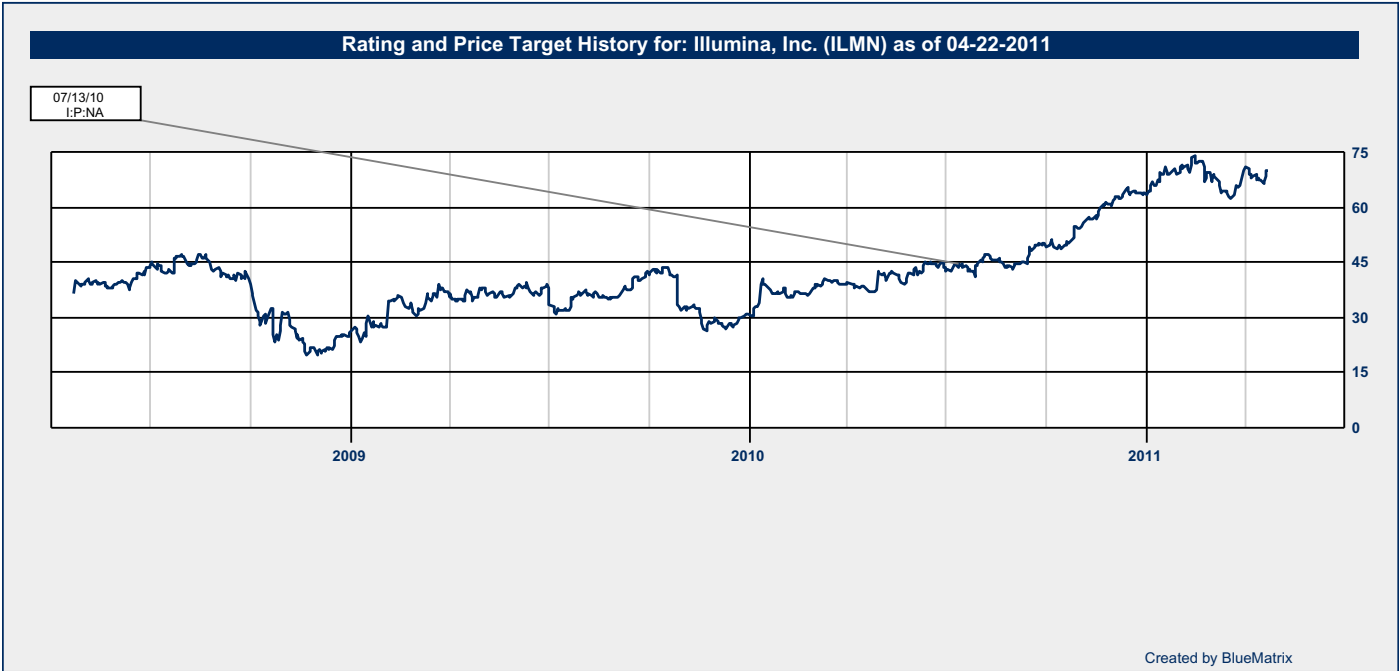
Sequenom, Inc. (SQNM - Nasdaq, 7.24, OUTPERFORM)

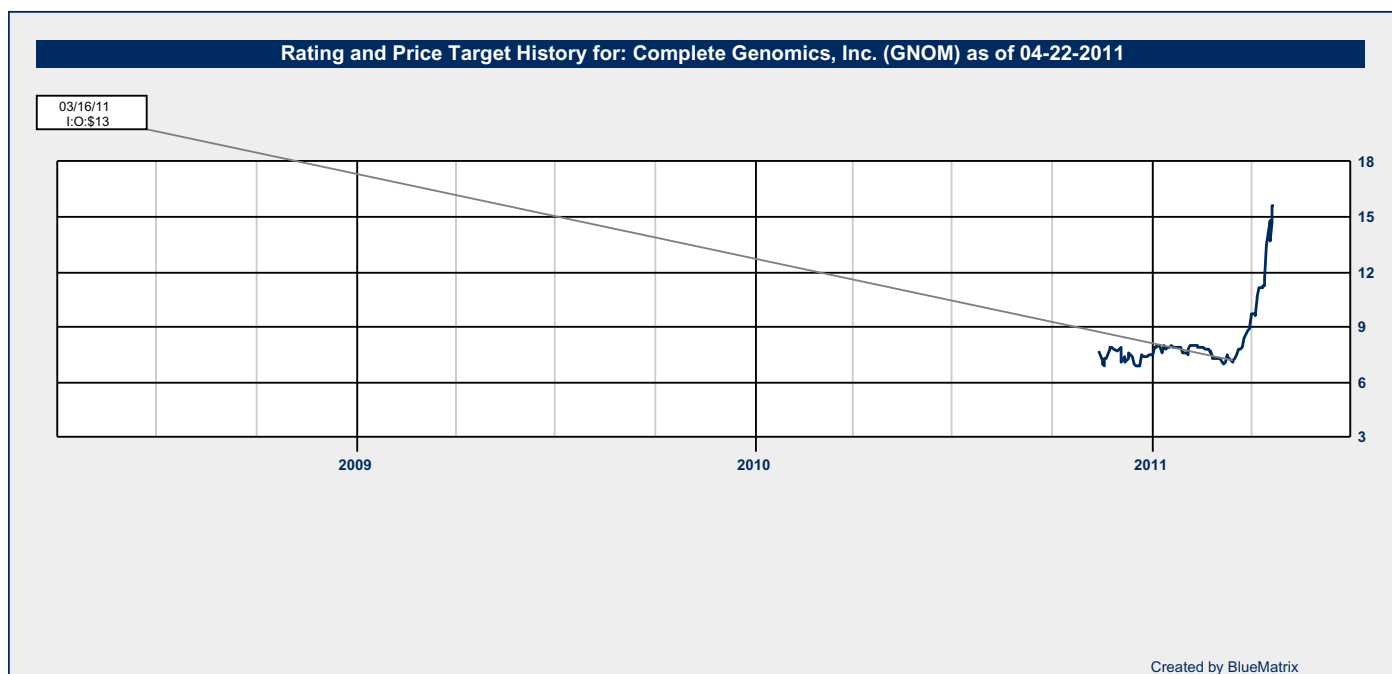
Pacific Biosciences of California (PACB - Nasdaq, 12.70, PERFORM)

Illumina, Inc. (ILMN - Nasdaq, 69.80, PERFORM)

Life Technologies, Inc. (LIFE - Nasdaq, 53.55, OUTPERFORM)







All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 300 Madison Avenue, New York, NY 10017, Attention: Equity Research Department, Business Manager.

#### Oppenheimer & Co. Inc. Rating System as of January 14th, 2008:

**Outperform(O)** - Stock expected to outperform the S&P 500 within the next 12-18 months.

**Perform (P)** - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

**Underperform (U)** - Stock expected to underperform the S&P 500 within the next 12-18 months.

**Not Rated (NR)** - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

#### Oppenheimer & Co. Inc. Rating System prior to January 14th, 2008:

**Buy** - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

**Neutral** - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

**Sell** - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

## Distribution of Ratings/IB Services Firmwide

Rating	Count	IB Serv/Past 12 Mos.	
		Percent	Count
OUTPERFORM [O]	303	54.30	134
PERFORM [P]	248	44.40	77
UNDERPERFORM [U]	7	1.30	1

Although the investment recommendations within the three-tiered, relative stock rating system utilized by Oppenheimer & Co. Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with FINRA rules, Oppenheimer & Co. Inc. has assigned buy ratings to securities rated Outperform, hold ratings to securities rated Perform, and sell ratings to securities rated Underperform.

## Company Specific Disclosures

Oppenheimer & Co. Inc. expects to receive or intends to seek compensation for investment banking services in the next 3 months from SQNM.

Oppenheimer & Co. Inc. makes a market in the securities of SQNM, PACB, ILMN, LIFE, CALP, and GNOM.

### Additional Information Available

Please log on to <http://www.opco.com> or write to Oppenheimer & Co. Inc., 300 Madison Avenue, New York, NY 10017, Attention: Equity Research Department, Business Manager.

## Other Disclosures

This report is issued and approved for distribution by Oppenheimer & Co. Inc. Oppenheimer & Co. Inc. transacts Business on all Principal Exchanges and Member SIPC. This report is provided, for informational purposes only, to institutional and retail investor clients of Oppenheimer & Co. Inc. and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Oppenheimer & Co. Inc. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. We recommend that investors independently evaluate particular investments and strategies, and encourage investors to seek the advice of a financial advisor. Oppenheimer & Co. Inc. will not treat non-client recipients as its clients solely by virtue of their receiving this report. Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Oppenheimer & Co. Inc. accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or



regulations applicable to Oppenheimer & Co. Inc. All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Oppenheimer & Co. Inc. does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by Oppenheimer & Co. Inc. or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. Oppenheimer & Co. Inc. has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Oppenheimer & Co. Inc. Copyright © Oppenheimer & Co. Inc. 2011.