

UBS Investment Research

Complete Genomics Inc

Revenues in-line, Order Trends Choppy

■ Sales meet Street estimate, EPS below consensus on higher expenses

Q3 revs of \$4.2m (flat y/y; -29% q/q) were in-line with Street consensus on the delivery of ~700 genomes (UBSe 650, guidance of >600) at an implied avg ASP of ~\$6k (UBS \$5.5k). Total operating expenses were \$13m (+16% q/q), above UBSe \$11m, while COGS of \$8m were well above our \$4m est on capacity build-out costs & excess inventory, as the adj loss/share of ~\$0.65 was below Street (\$0.54).

■ Genome delivery delays in 4Q; order growth remains difficult to forecast

During 3Q, the company booked \$17m in orders (3,400 genomes), but mgmt sees fewer genomes shipped in 4Q than initially expected due to sample prep improvements delays. While operational growing pains are part of the game, 3Q backlog growth of 600-700 genomes excluding the previously announced Inova and NCI follow-on deals highlights order choppiness from qtr to qtr. New offerings for cancer & capacity expansion are positives, but we remain cautious on demand and pricing trends within the current funding environment. We see shares down tomorrow.

■ Genome shipment expectations lowered for '11, we adjust our estimates

Mgmt stated that backlog at qtr-end was 4,800 genomes (for ~\$24 million), and now expects to ship 3,200-3,600 genomes in '11 (down from 4k). We now see '11 sales of \$21.3m down from \$24m, and loss per share of \$2.26 (was \$2.10). In '12, we see sales of \$42m (ASP of \$2.8k) down from \$46m, & loss per share of \$1.85 (was (\$1.56))

■ Valuation: Neutral rating; \$6 price target

Our price target is based on DCF analysis using the UBS VCAM tool.

Highlights (US\$m)	12/09	12/10	12/11E	12/12E	12/13E
Revenues	1	9	21	42	96
EBIT (UBS)	(34)	(48)	(66)	(62)	(25)
Net Income (UBS)	(36)	(58)	(69)	(64)	(25)
EPS (UBS, US\$)	(6.40)	(2.25)	(2.26)	(1.85)	(0.68)
Net DPS (UBS, US\$)	0.00	0.00	0.00	0.00	0.00
Profitability & Valuation	5-yr hist av.	12/10	12/11E	12/12E	12/13E
EBIT margin %	-	<-500	-308.1	-147.5	-26.0
ROIC (EBIT) %	-	<-500	<-500	<-500	(270.3)
EV/EBITDA (core) x	-	-4.6	-1.7	-1.1	>100
PE (UBS) x	-	NM	NM	NM	NM
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$5.05 on 07 Nov 2011 18:42 EST

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Global Equity Research

Americas

Biotechnology

12-month rating **Neutral**
Unchanged

12m price target US\$6.00
Unchanged

Price US\$5.05

RIC: GNOM.O BBG: GNOM US

7 November 2011

Trading data

52-wk range	US\$17.42-4.72
Market cap.	US\$0.13bn
Shares o/s	25.8m (COM)
Free float	3%
Avg. daily volume ('000)	347
Avg. daily value (m)	US\$2.4

Balance sheet data 12/11E

Shareholders' equity	US\$0.11bn
P/BV (UBS)	1.4x
Net Cash (debt)	US\$0.11bn

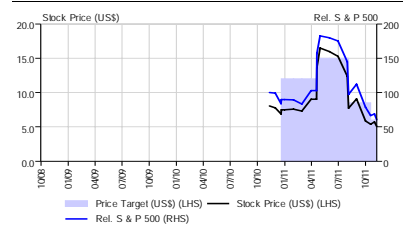
Forecast returns

Forecast price appreciation	+18.8%
Forecast dividend yield	0.0%
Forecast stock return	+18.8%
Market return assumption	5.2%
Forecast excess return	+13.6%

EPS (UBS, US\$)

	12/11E		12/10
	From	To	Cons. Actual
Q1	(0.48)	(0.48)	(0.48) (51.15)
Q2	(0.56)	(0.56)	(0.56) (13.92)
Q3	(0.53)	(0.65)	(0.55) (21.87)
Q4E	(0.51)	(0.55)	(0.51) (0.69)
12/11E	(2.10)	(2.26)	(2.11)
12/12E	(1.56)	(1.85)	(1.61)

Performance (US\$)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

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Additional Information

Third Quarter Review

- Revenues of \$4.2 million were slightly higher than our \$3.6 million and in-line with Street \$4 million, while higher-than-expected operating expenses of \$25 million (vs. our \$18 million) yielded a net loss of \$21.6 million that was substantially above our \$15.3 million.
- COGS of \$8.2 million was above out estimate due to 1) primarily extra capacity that GNOM built, and 2) inventory transfer of unshipped genomes.
- The company recognized over 700 genomes for revenue (vs. our 646 genomes), implying an average price of ~\$5,970 per genome.
- In Q3, GNOM signed orders for about 3,400 genomes, valued at \$17 million in total. This includes the orders of 2,700 genomes (valued at ~\$14 million) with the National Cancer Institute and Inova, announced on the Q2 call.
- Backlog at the end of Q3 was roughly \$24 million with 4,800 genomes. Since the start of 2011, the company has booked orders for approximately 6,100 genomes valued at \$31 million.
- In the quarter, GNOM signed 25 new customers, the highest in a single quarter. The company is also in early talks with several institutions for potential whole-genome and translational sequencing.
- While pricing for whole genome sequencing declined rapidly in 2011, management expects it to moderate in 2012 as translational and clinical markets emerge. In particular, the company believes it will be able to provide value-added services for informatics, as translational customers do not have the informatics infrastructures that research customers do.
- In Q4, the company plans to employ higher density arrays that increase through put on its 24 sequencers to 1.5 genomes from 1 genome per day. In Q2 2012, the company expects to sequence over 1,000 genomes per month.
- In the near future, GNOM hopes to completely transform its currently semi-automated to a fully automated sample prep lab, in order to achieve greater scalability and low cost sample prep operations for substantially greater improvement in sequencing throughput.
- GNOM finished Q3 with approximately \$105 million in cash.

2011 Outlook

- In Q4, GNOM expects to ship between 900 and 1,200 genomes. This expectation brings total shipment for FY of 3,200-3,600 genomes, which is less than previous guidance of over 4,000 genomes for the year. The shortfall is due to issues related to the company's effort at expanding sample prep capacity. In the transition to a new sample prep lab, GNOM lost 30 days in operations time as it later discovered that the quality control (QC) in the new sample prep lab did not meet internal QC standards on the first attempt. The QC issue has been resolved, but the lost time caused a delay that shifted shipments of 700 genomes from Q4 2011 to Q1 2012.
- In addition, turnaround time now increased from 62 days in Q3 to 82-92 days on account of the 30 days of lost operational time.

UBS Estimates

- For FY11, we project total revenues of \$21 million (vs our prior \$23.5 million), with 3,388 (vs. prior 4,011) genomes shipped. We project a net loss of \$2.26 (vs prior \$2.10) per share.
- For FY12, we project total revenues of \$42 million (vs. prior \$46 million), with 15,035 (vs. prior 16,490) genomes shipped at an average ASP of \$2,800 per genome. We project a net loss of \$1.85 (vs. prior loss of \$1.56) per share.

Complete Genomics Inc

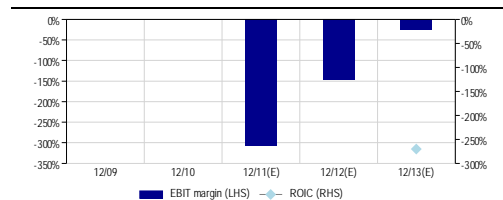
Income statement (US\$m)	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Revenues	-	0	1	9	21	126.9	42	97.6	96	128.1
Operating expenses (ex depn)	-	(25)	(29)	(49)	(76)	54.7	(84)	11.0	(96)	14.0
EBITDA (UBS)	-	(25)	(28)	(40)	(55)	37.6	(42)	-22.8	0	-
Depreciation	-	(3)	(5)	(8)	(11)	38.5	(20)	80.2	(25)	25.0
Operating income (EBIT, UBS)	-	(28)	(34)	(48)	(66)	37.8	(62)	-5.4	(25)	-59.8
Other income & associates	-	0	1	(9)	0	-	0	-	0	-
Net interest	-	(1)	(3)	(1)	(3)	153.3	(1)	-52.6	0	-75.9
Abnormal items (pre-tax)	-	0	0	0	0	-	0	-	0	-
Profit before tax	-	(28)	(36)	(58)	(69)	18.3	(64)	-7.5	(25)	-60.2
Tax	-	0	0	0	0	-	0	-	0	-
Profit after tax	-	(28)	(36)	(58)	(69)	18.3	(64)	-7.5	(25)	-60.2
Abnormal items (post-tax)	-	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	-	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	-	(28)	(36)	(58)	(69)	18.3	(64)	-7.5	(25)	-60.2
Net Income (UBS)	-	(28)	(36)	(58)	(69)	18.3	(64)	-7.5	(25)	-60.2
Tax rate (%)	-	0	0	0	0	-	0	-	0	-
Pre-abnormal tax rate (%)	-	0	0	0	0	-	0	-	0	-
Per share (US\$)	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
EPS (local GAAP)	-	(370.66)	(6.40)	(2.25)	(2.26)	0.6	(1.85)	-18.3	(0.68)	-63.4
EPS (UBS)	-	(370.66)	(6.40)	(2.25)	(2.26)	0.6	(1.85)	-18.3	(0.68)	-63.4
Net DPS	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	-	(334.30)	(5.46)	(1.94)	(1.90)	-2.2	(1.27)	-33.2	(0.01)	-99.3
BVPS	-	0.02	0.32	2.85	3.67	28.5	1.20	-67.2	1.04	-13.5
Balance sheet (US\$m)	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Cash and equivalents	-	6	8	69	105	52.5	31	-70.4	30	-4.3
Other current assets	-	1	7	10	7	-26.8	13	78.7	28	111.1
Total current assets	-	7	15	79	113	42.4	44	-60.6	58	30.1
Net tangible fixed assets	-	8	15	24	34	41.8	29	-14.8	19	-34.7
Net intangible fixed assets	-	0	0	0	0	-	0	-	0	-
Investments / other assets	-	1	0	0	0	22.9	0	0.0	0	0.0
Total assets	-	16	30	103	147	42.2	73	-49.9	77	4.5
Trade payables & other ST liabilities	-	6	12	12	10	-15.7	12	21.1	26	113.5
Short term debt	-	0	0	6	0	-	0	-	0	-
Total current liabilities	-	6	12	18	10	-43.3	12	21.1	26	113.5
Long term debt	-	0	0	0	0	-	0	-	0	-
Other long term liabilities	-	9	10	12	25	114.7	20	-21.0	12	-39.8
Total liabilities	-	15	22	30	35	20.1	32	-9.1	38	18.0
Equity & minority interests	-	0	8	74	111	51.1	41	-62.9	39	-6.0
Total liabilities & equity	-	16	30	103	147	42.2	73	-49.9	77	4.5
Cash flow (US\$m)	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Net income	-	(28)	(36)	(58)	(69)	18.3	(64)	-7.5	(25)	-60.2
Depreciation	-	3	5	8	11	38.5	20	80.2	25	25.0
Net change in working capital	-	0	1	2	1	-41.1	(10)	-	(4)	-63.5
Other (operating)	-	0	0	0	0	-	0	-	0	-
Net cash from operations	-	(25)	(29)	(48)	(57)	17.0	(53)	-5.9	(4)	-92.8
Capital expenditure	-	(7)	(10)	(19)	(18)	-5.2	(15)	-15.8	(15)	0.0
Net (acquisitions) / disposals	-	0	0	0	0	-	0	-	0	-
Other changes in investments	-	0	0	0	(44)	-	0	-	0	-
Cash from investing activities	-	(7)	(10)	(19)	(62)	228.3	(15)	-75.7	(15)	0.0
Increase/(decrease) in debt	-	0	0	6	0	-	0	-	0	-
Share issues / (repurchases)	-	0	0	47	74	-	20	-	20	-
Dividends paid	-	0	0	0	0	-	0	-	0	-
Other cash from financing	-	34	38	0	0	-	0	-	0	-
Cash from financing activities	-	34	38	53	74	39.6	20	-72.9	20	0.0
Cash flow chge in cash & equivalents	-	1	(1)	(14)	(44)	-	(48)	-	1	-
FX / non cash items	-	-	3	75	81	14.6	(26)	-	(2)	-90.3
Bal sheet chge in cash & equivalents	-	-	2	61	36	-	(74)	-	(1)	-
Core EBITDA	-	(25)	(28)	(40)	(55)	37.6	(42)	-22.8	0	-
Maintenance capital expenditure	-	(7)	(10)	(19)	(18)	-5.2	(15)	-15.8	(15)	0.0
Maintenance net working capital	-	0	1	2	1	-41.1	(10)	-	(4)	-63.5
Operating free cash flow, pre-tax	-	(32)	(37)	(57)	(71)	25.8	(67)	-6.4	(19)	-72.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

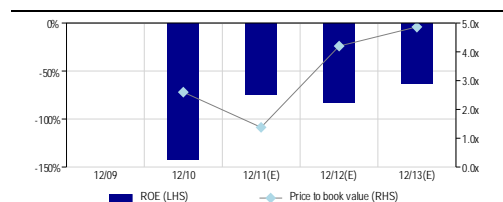
Company profile

Established in 2006 and headquartered in Mountain View, CA, Complete Genomics is a next generation genetic analysis company that offers whole human genome DNA re-sequencing and data analysis services. Unlike other next generation DNA sequencing companies that sell instruments and consumables directly to customers, Complete Genomics has commercialized its proprietary DNA sequencing platform via an end-to-end genomic services model.

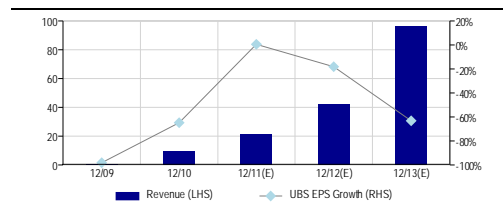
Profitability



ROE v Price to book value



Growth (UBS EPS)



Complete Genomics Inc

Valuation (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
P/E (local GAAP)	-	-	NM	NM	NM	NM
P/E (UBS)	-	-	NM	NM	NM	NM
P/CEPS	-	-	NM	NM	NM	NM
Net dividend yield (%)	-	-	0.0	0.0	0.0	0.0
P/BV	-	-	2.6	1.4	4.2	4.9
EV/revenue (core)	-	-	NM	4.4	1.1	1.0
EV/EBITDA (core)	-	-	-4.6	-1.7	-1.1	>100
EV/EBIT (core)	-	-	NM	NM	NM	NM
EV/OpFCF (core)	-	-	NM	NM	NM	NM
EV/op. invested capital	-	-	NM	NM	5.9	NM

Enterprise value (US\$m)	12/09	12/10	12/11E	12/12E	12/13E
Average market cap	-	191	130	130	130
+ minority interests	-	0	0	0	0
+ average net debt (cash)	-	(7)	(7)	(84)	(30)
+ pension obligations and other	-	0	0	0	0
- non-core asset value	-	0	0	0	0
Core enterprise value	-	184	95	46	100

Growth (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue	-	-	NM	126.9	97.6	128.1
EBITDA (UBS)	-	12.7	39.8	37.6	-22.8	-
EBIT (UBS)	-	20.1	41.9	37.8	-5.4	-59.8
EPS (UBS)	-	-98.3	-64.8	0.6	-18.3	-63.4
Cash EPS	-	-98.4	-64.5	-2.2	-33.2	-99.3
Net DPS	-	-	-	-	-	-
BVPS	-	NM	NM	28.5	-67.2	-13.5

Margins (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBITDA / revenue	-	NM	NM	NM	NM	0.0
EBIT / revenue	-	<-500	<-500	-308.1	-147.5	-26.0
Net profit (UBS) / revenue	-	NM	NM	NM	NM	NM

Return on capital (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBIT ROIC (UBS)	-	NM	NM	NM	NM	NM
ROIC post tax	-	NM	NM	NM	NM	NM
Net ROE	-	<-500	(142.1)	(74.3)	(83.3)	(63.2)

Coverage ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (% UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	-	0.3	1.6	1.9	0.7	NM

Efficiency ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue / op. invested capital	-	NM	1.8	2.7	5.4	10.4
Revenue / fixed assets	-	0.1	0.5	0.7	1.3	4.0
Revenue / net working capital	-	NM	NM	NM	NM	64.0

Investment ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
OpFCF / EBIT	-	1.1	1.2	1.1	1.1	0.7
Capex / revenue (%)	-	NM	NM	NM	NM	15.6
Capex / depreciation	-	1.8	2.3	1.6	0.8	0.6

Capital structure (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Net debt / total equity	-	(95.4)	(85.7)	(94.5)	(75.4)	(76.7)
Net debt / (net debt + equity)	-	NM	NM	NM	NM	NM
Net debt (core) / EV	-	-	(3.8)	(37.5)	NM	(30.6)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$5.05 on 07 Nov 2011 18:42 EST Market cap(E) may include forecast share issues/buybacks.

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■ Complete Genomics Inc

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■ Statement of Risk

As a service business, Complete Genomics future hinges on sample volumes accelerating at a pace fast enough to offset anticipated price erosion. As such, if the market for whole human genome sequencing does not develop as anticipated, then it could be difficult for Complete Genomics to grow its business. While Complete Genomics' technology is competitive today and has room for advancement, the pace of technology development in next generation DNA sequencing has so far exceeded most expectations, and so it is difficult to assess if the company's platform can remain competitive going forward. Moreover, in order to advance its platform the company needs to invest in R&D, which in turn could hamper profitability. If the company cannot expand capacity fast enough to meet anticipated demand, then the business could suffer. The attractiveness of the genomics outsourcing market has lured a number of new entities to begin offering similar services, and if one or more of these players price their offerings below Complete Genomics, it could be difficult for the company to either compete or reach profitability. Declines or delays in government funding to academic laboratories, as well as slowdowns in R&D spending by pharmaceutical and biotechnology companies, could negatively impact Complete Genomics' business. As an unprofitable genomics company, Complete Genomics' share price is likely to experience significant volatility, especially if, in the future, the company needs to raise additional capital. As such, we view GNOM shares as better suited for sophisticated investors with a high tolerance for risk as part of a broadly diversified investment portfolio.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	20%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Complete Genomics Inc ^{2, 4, 6, 16}	GNOM.O	Neutral	N/A	US\$5.05	07 Nov 2011

Source: UBS. All prices as of local market close.

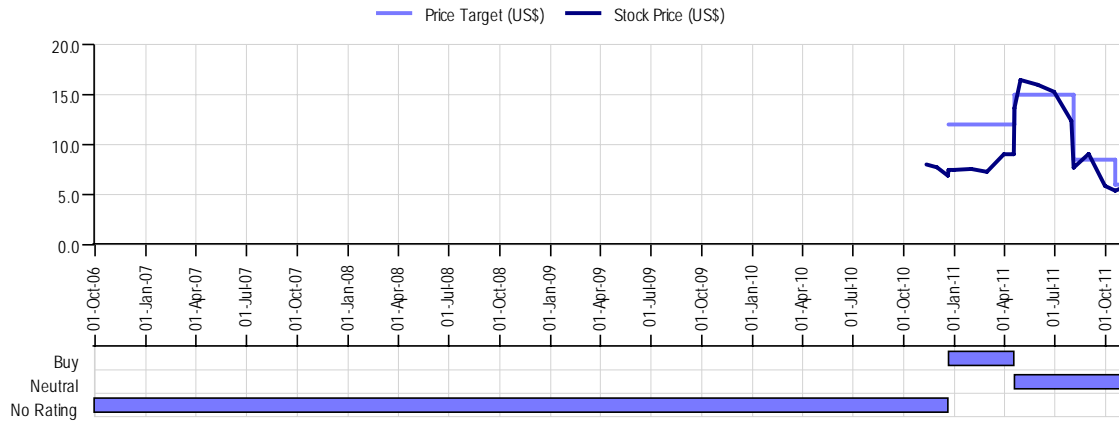
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Complete Genomics Inc (US\$)



Source: UBS; as of 07 Nov 2011

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