

UBS Investment Research

Complete Genomics Inc

Solid Start Out Of The Gate

■ Revenues ahead of consensus ests; Shipped genomes above UBSe

Q4 revenues were \$3.8m (+510% y/y), above UBS/Street \$3.1m resulting from the delivery of ~350 genomes (UBSe 301) at an \$ASP of ~\$10.9k. Total operating expenses were \$14.7m, below UBSe \$18.8m, but the loss per share of \$0.69 was just above UBSe (\$0.62)/Street (\$0.65) due to share count. Overall, it was a solid start for the newly public company and we see shares trading up tomorrow.

■ Momentum building for '11 as technology advances and backlog grows

For '11, GNOM is on track to deliver several key milestones, incl. a new cancer analysis product, sequencing capacity of 800-1,200 genomes/month (vs. current 400), with medium turnaround time of <60 days (vs. current <73 days), all of which should help decrease the price per genome below \$5k (vs. current ~\$10k) and drive what we believe is "pent up" demand for whole human genome sequencing. YE10 backlog was 1,000 genomes & as of 3/4/11 the company had signed orders for another 1,400 (ex- the NCI's option for an add'l 1,128 genomes).

■ Issues broad remarks regarding '11; We tweak our FY11-12 estimates

While GNOM did not provide formal FY11 guidance, mgmt indicated that its YE10 backlog is estimated to yield \$10+m in revenues over the next 12 months and, during 1Q11, GNOM expects to recognize revenue from over 500 genomes (UBSe 510). For FY11-12, we project \$32.1m and \$88.6m in sales, with loss per share of \$1.83 (was (\$1.99)) and \$0.39 (no change), respectively.

■ Valuation: Buy rating; \$12 price target

Our price target is derived through DCF analysis using the UBS VCAM model.

Highlights (US\$)	12/08	12/09	12/10E	12/11E	12/12E
Revenues	0	623	9,388	32,063	88,634
EBIT (UBS)	(27,857)	(34,685)	(45,856)	(49,643)	(11,653)
Net Income (UBS)	(28,394)	(37,049)	(47,088)	(50,143)	(12,103)
EPS (UBS, US\$)	(369.36)	(6.59)	(3.18)	(1.83)	(0.39)
Net DPS (UBS, US\$)	0.00	0.00	0.00	0.00	0.00
Profitability & Valuation	5-yr hist av.	12/09	12/10E	12/11E	12/12E
EBIT margin %	-	<-500	-488.5	-154.8	-13.1
ROIC (EBIT) %	-	>500	<-500	(221.1)	(36.3)
EV/EBITDA (core) x	-	-	-4.9	-4.6	15.6
PE (UBS) x	-	-	NM	NM	NM
Net dividend yield %	-	-	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\$7.46 on 10 Mar 2011 18:42 EST

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Global Equity Research

Americas

Biotechnology

12-month rating **Buy**
Unchanged

12m price target US\$12.00
Unchanged

Price US\$7.46

RIC: GNOM.O BBG: GNOM US

10 March 2011

Trading data

52-wk range	US\$8.04-6.85
Market cap.	US\$0.19bn
Shares o/s	25.8m (COM)
Free float	3%
Avg. daily volume ('000)	90
Avg. daily value (m)	US\$0.7

Balance sheet data 12/10E

Shareholders' equity	US\$0.08bn
P/BV (UBS)	2.5x
Net Cash (debt)	US\$0.06bn

Forecast returns

Forecast price appreciation	+60.9%
Forecast dividend yield	0.0%
Forecast stock return	+60.9%
Market return assumption	5.6%
Forecast excess return	+55.3%

EPS (UBS, US\$)

	12/10E		12/09
	From	To	Cons. Actual
Q1	(2.20)	(2.20)	- (1.68)
Q2	(2.29)	(2.29)	- (1.68)
Q3	(3.71)	(3.71)	- (1.68)
Q4E	(0.62)	(0.69)	(0.65) (1.57)
12/10E	(2.06)	(3.18)	(2.46)
12/11E	(1.99)	(1.83)	(1.98)

Performance (US\$)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

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Additional Information

Complete Genomics posted a solid 4Q during the company's first quarter out of the gate following its IPO November. Revenues of \$3.8 million were slightly higher than our \$3.6 million, while operating expenses were kept in check, which yielded a net loss of \$10.3 million that was vs. above our \$16.4 million estimate.

The company shipped approximately 350 genomes to customers during the quarter, which was better than our 301 projection, and backlog is building. Complete now maintains an order backlog of approximately 1900 genomes, for which revenues will be generated within fiscal 2011 of over 1000 genomes (greater than \$10 million). Since the beginning of the year, the company has signed orders for more than 1,400 genomes to be delivered, including 615 genomes to the Institute for Systems Biology. During the first quarter of the year, management expects to ship 500 genomes to customers and believes that it could receive word on a large follow up order (1,128 genomes) from the National Cancer Institutes (NCI) during the second quarter.

Pricing continues to be a key focus, as technology advancements drive the cost of whole genome sequencing down. While the average ASP per genome was in the \$10-12,000 range during 4Q, the company expects to be taking orders for \$5,000 genomes by the end of the year. This price erosion is significant, but in-line with our projections, and we believe the pricing elasticity that exists within the market will drive volume increases going forward. Indeed, management views pricing to be the most important factor influencing uptake, and notes that breaking the \$5,000 and \$3,000 barriers represent key milestones as customers move from exome sequencing (the sequencing of only protein-encoding DNA) to whole-genome work.

With regards to technology, the company is making important advancements related to GNOM's sequencing system. Base-calling accuracy on assembled reads through mid-February is at the 99.999% level, and the progress on the company's long fragment read length technology (which the company believes will take accuracy to levels acceptable for clinical work) should result in early access customers being offered this capability in 2011. Additionally, improvements related to array density, fluidics, and camera speed will yield significant throughput increases. Management forecasts that by the second half of 2012 the amount of data generated on each instrument is expected to be 10x the 150 gigabases per day throughput being generated now, which will enable 10 full genomes to be sequenced per day. This improvement will positively impact the scalability of the business, and GNOM believes that when combined with the use of additional systems, sequencing capacity will increase from 400 genomes per month today to 800-1200 genomes per month by the end of the year. Additionally, management noted that median turn-around time on projects is 73 days, down from 90-120 days, which should resonate well with customers.

The company finished the year with approximately \$69 million in cash.

UBS Estimates

- For FY11, we project total revenues of \$32.1 million, with 4,582 genomes shipped at an average ASP of \$7,000 per genome. We project a net loss of \$1.83 per share.
- For FY12, we project total revenues of \$88.6 million, with 20,855 genomes shipped at an average ASP of \$4,250 per genome. We project a net loss of \$0.39 per share.

Complete Genomics Inc

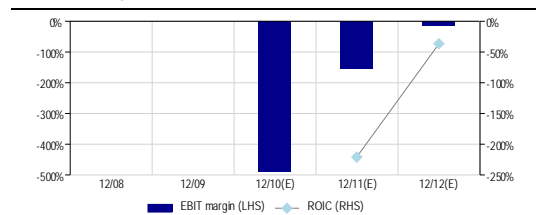
Income statement (US\$ k)	-	-	12/07	12/08	12/09	12/10E	% ch	12/11E	% ch	12/12E	% ch
Revenues	-	-	-	0	623	9,388	1406.9	32,063	241.5	88,634	176.4
Operating expenses (ex deprn)	-	-	-	(25,062)	(30,068)	(47,044)	56.5	(66,706)	41.8	(78,287)	17.4
EBITDA (UBS)	-	-	-	(25,062)	(29,445)	(37,656)	27.9	(34,643)	-8.0	10,347	-
Depreciation	-	-	-	(2,795)	(5,240)	(8,200)	56.5	(15,000)	82.9	(22,000)	46.7
Operating income (EBIT, UBS)	-	-	-	(27,857)	(34,685)	(45,856)	32.2	(49,643)	8.3	(11,653)	-76.5
Other income & associates	-	-	-	437	1,101	0	-	0	-	0	-
Net interest	-	-	-	(974)	(3,465)	(1,232)	-64.4	(500)	-59.4	(450)	-10.0
Abnormal items (pre-tax)	-	-	-	0	0	0	-	0	-	0	-
Profit before tax	-	-	-	(28,394)	(37,049)	(47,088)	27.1	(50,143)	6.5	(12,103)	-75.9
Tax	-	-	-	0	0	0	-	0	-	0	-
Profit after tax	-	-	-	(28,394)	(37,049)	(47,088)	27.1	(50,143)	6.5	(12,103)	-75.9
Abnormal items (post-tax)	-	-	-	0	0	0	-	0	-	0	-
Minorities / pref dividends	-	-	-	0	0	0	-	0	-	0	-
Net income (local GAAP)	-	-	-	(28,394)	(37,049)	(47,088)	27.1	(50,143)	6.5	(12,103)	-75.9
Net Income (UBS)	-	-	-	(28,394)	(37,049)	(47,088)	27.1	(50,143)	6.5	(12,103)	-75.9
Tax rate (%)	-	-	-	0	0	0	-	0	-	0	-
Pre-abnormal tax rate (%)	-	-	-	0	0	0	-	0	-	0	-
Per share (US\$)	-	-	12/07	12/08	12/09	12/10E	% ch	12/11E	% ch	12/12E	% ch
EPS (local GAAP)	-	-	-	(369.36)	(6.59)	(3.18)	-51.8	(1.83)	-42.3	(0.39)	-78.9
EPS (UBS)	-	-	-	(369.36)	(6.59)	(3.18)	-51.8	(1.83)	-42.3	(0.39)	-78.9
Net DPS	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	-	-	-	(333.01)	(5.66)	(2.62)	-53.6	(1.28)	-51.0	0.32	-
BVPS	-	-	-	0.02	0.32	2.97	842.4	1.21	-59.5	1.69	40.4
Balance sheet (US\$ k)	-	-	12/07	12/08	12/09	12/10E	% ch	12/11E	% ch	12/12E	% ch
Cash and equivalents	-	-	-	6,186	7,765	63,841	722.2	3,373	-94.7	7,444	120.7
Other current assets	-	-	-	1,034	7,254	7,102	-2.1	10,619	49.5	26,704	151.5
Total current assets	-	-	-	7,220	15,019	70,943	372.4	13,992	-80.3	34,147	144.1
Net tangible fixed assets	-	-	-	8,023	14,864	30,000	101.8	40,000	33.3	42,000	5.0
Net intangible fixed assets	-	-	-	0	0	0	-	0	-	0	-
Investments / other assets	-	-	0	511	395	365	-7.6	365	0.0	365	0.0
Total assets	-	-	-	15,754	30,278	101,308	234.6	54,357	-46.3	76,512	40.8
Trade payables & other ST liabilities	-	-	-	6,479	12,055	12,571	4.3	15,742	25.2	25,328	60.9
Short term debt	-	-	-	0	0	4,500	-	500	-88.9	500	0.0
Total current liabilities	-	-	-	6,479	12,055	17,071	41.6	16,242	-4.9	25,828	59.0
Long term debt	-	-	-	0	0	0	-	0	-	0	-
Other long term liabilities	-	-	-	8,807	10,080	7,500	-25.6	7,000	-6.7	7,000	0.0
Total liabilities	-	-	-	15,286	22,135	24,571	11.0	23,242	-5.4	32,828	41.2
Equity & minority interests	-	-	-	468	8,143	76,737	842.4	31,114	-59.5	43,684	40.4
Total liabilities & equity	-	-	-	15,754	30,278	101,308	234.6	54,357	-46.3	76,512	40.8
Cash flow (US\$ k)	-	-	12/07	12/08	12/09	12/10E	% ch	12/11E	% ch	12/12E	% ch
Net income	-	-	-	(28,394)	(37,049)	(47,088)	27.1	(50,143)	6.5	(12,103)	-75.9
Depreciation	-	-	-	2,795	5,240	8,200	56.5	15,000	82.9	22,000	46.7
Net change in working capital	-	-	-	293	1,322	2,000	51.3	(7,000)	-	(4,500)	-35.7
Other (operating)	-	-	-	0	0	0	-	0	-	0	-
Net cash from operations	-	-	-	(25,306)	(30,487)	(36,888)	21.0	(42,143)	14.2	5,397	-
Capital expenditure	-	-	-	(7,419)	(9,654)	(23,000)	138.2	(22,500)	-2.2	(25,000)	11.1
Net (acquisitions) / disposals	-	-	-	0	0	0	-	0	-	0	-
Other changes in investments	-	-	-	0	0	0	-	0	-	0	-
Cash from investing activities	-	-	-	(7,419)	(9,654)	(23,000)	138.2	(22,500)	-2.2	(25,000)	11.1
Increase/(decrease) in debt	-	-	-	0	0	4,500	-	500	-	500	-
Share issues / (repurchases)	-	-	-	25	4	118,000	-	5,000	-	20,000	-
Dividends paid	-	-	-	0	0	0	-	0	-	0	-
Other cash from financing	-	-	-	33,623	37,891	0	-	0	-	0	-
Cash from financing activities	-	-	-	33,648	37,895	122,500	223.3	5,500	-95.5	20,500	272.7
Cash flow chge in cash & equivalents	-	-	-	923	(2,246)	62,612	-	(59,143)	-	897	-
FX / non cash items	-	-	-	-	3,825	(6,536)	-	(1,325)	-	3,174	15.7
Bal sheet chge in cash & equivalents	-	-	-	-	1,579	56,076	-	(60,468)	-	4,071	-
Core EBITDA	-	-	-	(25,062)	(29,445)	(37,656)	27.9	(34,643)	-8.0	10,347	-
Maintenance capital expenditure	-	-	-	(7,419)	(9,654)	(23,000)	138.2	(22,500)	-2.2	(25,000)	11.1
Maintenance net working capital	-	-	-	293	1,322	2,000	51.3	(7,000)	-	(4,500)	-35.7
Operating free cash flow, pre-tax	-	-	-	(32,188)	(37,777)	(58,656)	55.3	(64,143)	9.4	(19,153)	-70.1

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.

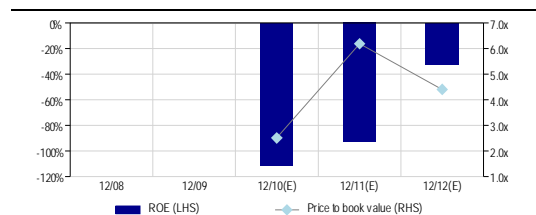
Company profile

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.

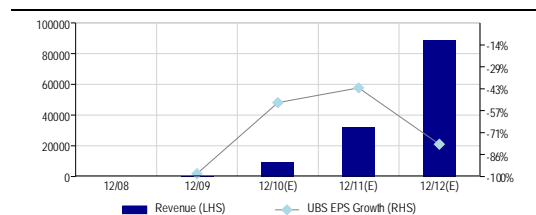
Profitability



ROE v Price to book value



Growth (UBS EPS)



Complete Genomics Inc

Valuation (x)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
P/E (local GAAP)	-	-	-	NM	NM	NM
P/E (UBS)	-	-	-	NM	NM	NM
P/CEPS	-	-	-	NM	NM	23.6
Net dividend yield (%)	-	-	-	0.0	0.0	0.0
P/BV	-	-	-	2.5	6.2	4.4
EV/revenue (core)	-	-	-	NM	4.9	1.8
EV/EBITDA (core)	-	-	-	-4.9	-4.6	15.6
EV/EBIT (core)	-	-	-	NM	NM	NM
EV/OpFCF (core)	-	-	-	NM	NM	NM
EV/op. invested capital	-	-	-	NM	7.1	5.0

Enterprise value (US\$)	12/08	12/09	12/10E	12/11E	12/12E
Average market cap	-	-	192,543	192,543	192,543
+ minority interests	0	0	0	0	0
+ average net debt (cash)	(6,976)	(6,976)	(6,976)	(33,553)	(31,107)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(511)	(395)	(365)	(365)	(365)
Core enterprise value	-	-	185,202	158,625	161,071

Growth (%)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
Revenue	-	-	-	NM	NM	176.4
EBITDA (UBS)	-	-	17.5	27.9	-8.0	-
EBIT (UBS)	-	-	24.5	32.2	8.3	-76.5
EPS (UBS)	-	-	-98.2	-51.8	-42.3	-78.9
Cash EPS	-	-	-98.3	-53.6	-51.0	-
Net DPS	-	-	-	-	-	-
BVPS	-	-	NM	NM	-59.5	40.4

Margins (%)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
EBITDA / revenue	-	-	NM	NM	NM	11.7
EBIT / revenue	-	-	<-500	-488.5	-154.8	-13.1
Net profit (UBS) / revenue	-	-	NM	NM	NM	NM

Return on capital (%)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
EBIT ROIC (UBS)	-	-	NM	NM	NM	NM
ROIC post tax	-	-	NM	NM	NM	NM
Net ROE	-	<-500	<-500	(111.0)	(93.0)	(32.4)

Coverage ratios (x)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (% UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	-	0.2	0.3	1.6	0.1	NM

Efficiency ratios (x)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
Revenue / op. invested capital	-	-	NM	1.1	1.4	2.8
Revenue / fixed assets	-	-	0.1	0.4	0.9	2.2
Revenue / net working capital	-	-	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
OpFCF / EBIT	-	1.2	1.1	1.3	1.3	1.6
Capex / revenue (%)	-	-	NM	NM	NM	28.2
Capex / depreciation	-	2.7	1.8	2.8	1.5	1.1

Capital structure (%)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
Net debt / total equity	-	NM	(95.4)	(77.3)	(9.2)	(15.9)
Net debt / (net debt + equity)	-	NM	NM	NM	(10.2)	(18.9)
Net debt (core) / EV	-	-	-	(3.8)	(21.2)	(19.3)

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.

Valuations: based on an average share price that year, (E): based on a share price of US\$7.46 on 10 Mar 2011 18:42 EST Market cap(E) may include forecast share issues/buybacks.

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■ Complete Genomics Inc

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.

■ 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	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

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 31 December 2010.

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).

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Equity Price Targets have an investment horizon of 12 months.

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UBS Securities LLC: Derik de Bruin, Ph.D.; Daniel Arias; Rafael Tejada.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Complete Genomics Inc ^{2, 4, 6, 13, 16}	GNOM.O	Buy	N/A	US\$7.46	10 Mar 2011

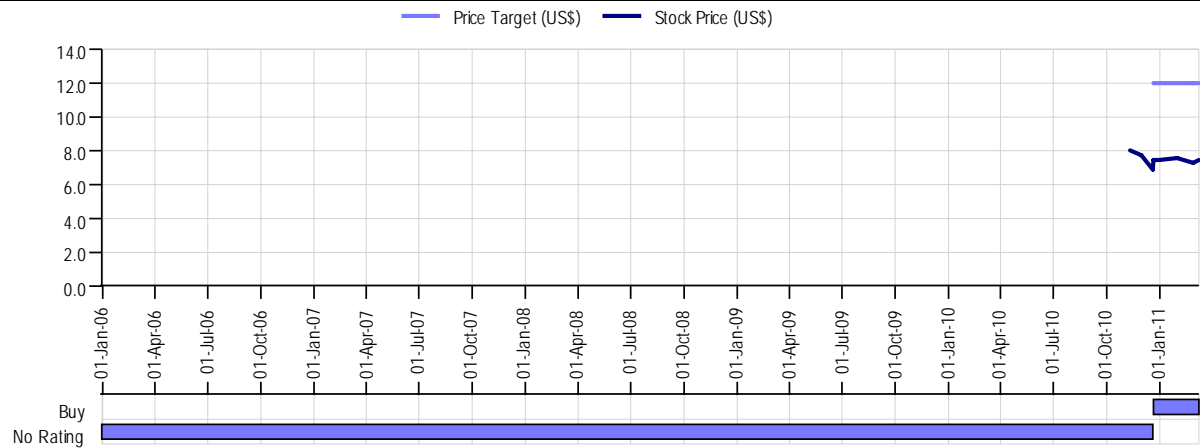
Source: UBS. All prices as of local market close.

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Complete Genomics Inc (US\$)



Source: UBS; as of 10 Mar 2011

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