

## UBS Investment Research

### Complete Genomics Inc

#### Downgrading to Neutral on Valuation

##### ■ GNOM shares are up over 90% YTD and over 60% since the IPO

We downgrade GNOM to Neutral from Buy on valuation. Following encouraging Q4 results and mgmt commentary on the Q1 business momentum, the price of GNOM shares has risen dramatically and is now up 97% YTD and 64% since the IPO. As such, we believe it is prudent to move to the sidelines given the above average risk profile. That said, we remain positive on the market for outsourced whole human genome sequencing, and believe the company's first mover advantage and rapidly growing backlog bode well for success going forward.

##### ■ Backlog continues to grow; pricing represents key to volume growth

Last week the company noted that it shipped over 600+ genomes in 1Q11 (up from an initial forecast of 500+) and has visibility into over 3,500 contracted genomes in FY11, which represents ¾ of our total volume estimate (4,665). In '12, as sample volumes increase due to price elasticity (our ASP in FY11 is \$7,100 per genome vs. \$4,250 in FY12), we forecast that GNOM can sequence over 20,000 genomes.

##### ■ Modestly tweaking our current forecast

For FY11-12, we project \$32.5m (up from \$31.1m which now assumes 615 genomes sequenced & 602 shipped in Q1, at an ASP of \$9,200 for \$5.5m in revenues) & \$88.6m in sales, with a loss per share of \$1.83 and \$0.39, respectively.

##### ■ Valuation: Raise target to \$15 from \$12

Our price target is derived through a DCF analysis using the UBS VCM model. We are raising our price target due to a lower discount rate (14% vs. 15%) on greater confidence in the near-term business trajectory.

Highlights (US\$)	12/09	12/10	12/11E	12/12E	12/13E
Revenues	623	9,388	32,485	88,634	145,500
EBIT (UBS)	(34,685)	(45,856)	(49,421)	(11,653)	5,458
Net Income (UBS)	(37,049)	(56,320)	(49,921)	(12,103)	4,842
EPS (UBS, US\$)	(6.59)	(3.80)	(1.83)	(0.39)	0.15
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 %	-	-488.5	-152.1	-13.1	3.8
ROIC (EBIT) %	-	<-500	(259.9)	(36.3)	13.4
EV/EBITDA (core) x	-	-4.9	-10.0	32.5	12.7
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\$14.75 on 18 Apr 2011 16:42 EDT

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## Global Equity Research

Americas

Biotechnology

12-month rating **Neutral**  
*Prior: Buy*

12m price target **US\$15.00**  
*Prior: US\$12.00*

Price **US\$14.75**

RIC: GNOM.O BBG: GNOM US

19 April 2011

#### Trading data

52-wk range	US\$14.75-6.85
Market cap.	US\$0.38bn
Shares o/s	25.8m (COM)
Free float	3%
Avg. daily volume ('000)	109
Avg. daily value (m)	US\$1.0

#### Balance sheet data 12/11E

Shareholders' equity	US\$0.05bn
P/BV (UBS)	7.3x
Net Cash (debt)	US\$0.02bn

#### Forecast returns

Forecast price appreciation	+1.7%
Forecast dividend yield	0.0%
Forecast stock return	+1.7%
Market return assumption	5.7%
Forecast excess return	-4.0%

#### EPS (UBS, US\$)

	12/11E		12/10
	From	To	Cons. Actual
Q1E	(0.45)	(0.48)	(0.53) (2.20)
Q2E	(0.48)	(0.50)	(0.53) (2.29)
Q3E	(0.43)	(0.45)	(0.48) (3.71)
Q4E	(0.39)	(0.41)	(0.40) (0.69)
12/11E	(1.83)	(1.83)	(1.97)
12/12E	(0.39)	(0.39)	(0.80)

#### Performance (US\$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6.

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# Complete Genomics Inc

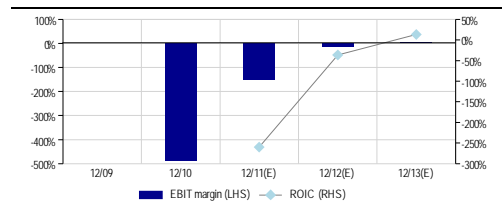
Income statement (US\$K)	-	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Revenues	-	-	0	623	9,388	32,485	246.0	88,634	172.8	145,500	64.2
Operating expenses (ex depn)	-	-	(25,062)	(30,068)	(47,226)	(66,906)	41.7	(78,287)	17.0	(117,043)	49.5
EBITDA (UBS)	-	-	(25,062)	(29,445)	(37,838)	(34,421)	-9.0	10,347	-	28,458	175.0
Depreciation	-	-	(2,795)	(5,240)	(8,018)	(15,000)	87.1	(22,000)	46.7	(23,000)	4.5
Operating income (EBIT, UBS)	-	-	(27,857)	(34,685)	(45,856)	(49,421)	7.8	(11,653)	-76.4	5,458	-
Other income & associates	-	-	437	1,101	(9,232)	0	-	0	-	0	-
Net interest	-	-	(974)	(3,465)	(1,232)	(500)	-59.4	(450)	-10.0	(150)	-66.7
Abnormal Items (pre-tax)	-	-	0	0	0	0	-	0	-	0	-
Profit before tax	-	-	(28,394)	(37,049)	(56,320)	(49,921)	-11.4	(12,103)	-75.8	5,308	-
Tax	-	-	0	0	0	0	-	0	-	(465)	-
Profit after tax	-	-	(28,394)	(37,049)	(56,320)	(49,921)	-11.4	(12,103)	-75.8	4,842	-
Abnormal Items (post-tax)	-	-	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	-	-	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	-	-	(28,394)	(37,049)	(56,320)	(49,921)	-11.4	(12,103)	-75.8	4,842	-
Net Income (UBS)	-	-	(28,394)	(37,049)	(56,320)	(49,921)	-11.4	(12,103)	-75.8	4,842	-
Tax rate (%)	-	-	0	0	0	0	-	0	-	9	-
Pre-abnormal tax rate (%)	-	-	0	0	0	0	-	0	-	9	-
Per share (US\$)	-	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
EPS (local GAAP)	-	-	(369.36)	(6.59)	(3.80)	(1.83)	-52.0	(0.39)	-78.8	0.15	-
EPS (UBS)	-	-	(369.36)	(6.59)	(3.80)	(1.83)	-52.0	(0.39)	-78.8	0.15	-
Net DPS	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	-	-	(333.01)	(5.66)	(3.26)	(1.28)	-60.8	0.32	-	0.86	172.6
BVPS	-	-	0.02	0.32	2.85	2.03	-28.7	2.13	5.0	2.53	18.7
Balance sheet (US\$K)	-	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Cash and equivalents	-	-	6,186	7,765	68,918	24,789	-64.0	18,860	-23.9	19,952	5.8
Other current assets	-	-	1,034	7,254	10,102	10,745	6.4	26,704	148.5	41,740	56.3
Total current assets	-	-	7,220	15,019	79,020	35,534	-55.0	45,564	28.2	61,692	35.4
Net tangible fixed assets	-	-	8,023	14,864	23,843	40,000	67.8	42,000	5.0	50,000	19.0
Net intangible fixed assets	-	-	0	0	0	0	-	0	-	0	-
Investments / other assets	-	0	511	395	297	365	22.9	365	0.0	365	0.0
Total assets	-	-	15,754	30,278	103,160	75,899	-26.4	87,928	15.8	112,057	27.4
Trade payables & other ST liabilities	-	-	6,479	12,055	11,907	15,911	33.6	25,328	59.2	39,677	56.6
Short term debt	-	-	0	0	5,780	500	-91.3	500	0.0	0	-
Total current liabilities	-	-	6,479	12,055	17,687	16,411	-7.2	25,828	57.4	39,677	53.6
Long term debt	-	-	0	0	0	0	-	0	-	0	-
Other long term liabilities	-	-	8,807	10,080	11,837	7,000	-40.9	7,000	0.0	7,000	0.0
Total liabilities	-	-	15,286	22,135	29,524	23,411	-20.7	32,828	40.2	46,677	42.2
Equity & minority interests	-	-	468	8,143	73,636	52,488	-28.7	55,100	5.0	65,380	18.7
Total liabilities & equity	-	-	15,754	30,278	103,160	75,899	-26.4	87,928	15.8	112,057	27.4
Cash flow (US\$K)	-	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Net income	-	-	(28,394)	(37,049)	(56,320)	(49,921)	-11.4	(12,103)	-75.8	4,842	-
Depreciation	-	-	2,795	5,240	8,018	15,000	87.1	22,000	46.7	23,000	4.5
Net change in working capital	-	-	293	1,322	1,697	(7,000)	-	(4,500)	-35.7	(6,500)	44.4
Other (operating)	-	-	0	0	0	0	-	0	-	0	-
Net cash from operations	-	-	(25,306)	(30,487)	(46,605)	(41,921)	-10.1	5,397	-	21,342	295.5
Capital expenditure	-	-	(7,419)	(9,654)	(18,802)	(22,500)	19.7	(25,000)	11.1	(29,000)	16.0
Net (acquisitions) / disposals	-	-	0	0	0	0	-	0	-	0	-
Other changes in investments	-	-	0	0	0	0	-	0	-	0	-
Cash from investing activities	-	-	(7,419)	(9,654)	(18,802)	(22,500)	19.7	(25,000)	11.1	(29,000)	16.0
Increase/(decrease) in debt	-	-	0	0	5,780	500	-	500	-	0	-
Share issues / (repurchases)	-	-	25	4	47,175	20,000	-	10,000	-	5,000	-
Dividends paid	-	-	0	0	0	0	-	0	-	0	-
Other cash from financing	-	-	33,623	37,891	796	0	-	0	-	0	-
Cash from financing activities	-	-	33,648	37,895	53,751	20,500	-61.9	10,500	-48.8	5,000	-52.4
Cash flow chge in cash & equivalents	-	-	923	(2,246)	(11,656)	(43,921)	-	(9,103)	-	(2,658)	-
FX / non cash items	-	-	-	3,825	72,809	(208)	-92.3	3,174	-34.1	3,750	15.7
Bal sheet chge in cash & equivalents	-	-	-	1,579	61,153	(44,129)	-	(5,929)	-	1,092	-
Core EBITDA	-	-	(25,062)	(29,445)	(37,838)	(34,421)	-9.0	10,347	-	28,458	175.0
Maintenance capital expenditure	-	-	(7,419)	(9,654)	(18,802)	(22,500)	19.7	(25,000)	11.1	(29,000)	16.0
Maintenance net working capital	-	-	293	1,322	1,697	(7,000)	-	(4,500)	-35.7	(6,500)	44.4
Operating free cash flow, pre-tax	-	-	(32,188)	(37,777)	(54,943)	(63,921)	16.3	(19,153)	-70.0	(7,043)	-63.2

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.

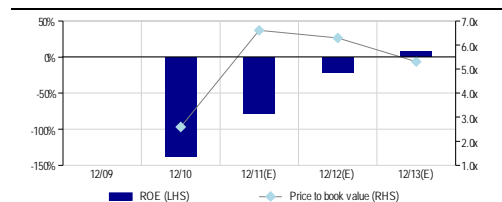
### Company profile

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.

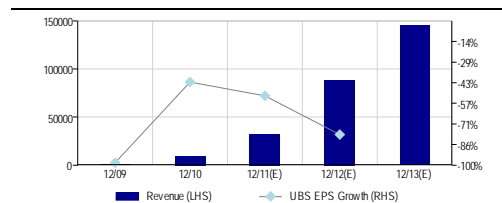
### Profitability



### 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	46.7	17.1
Net dividend yield (%)	-	-	0.0	0.0	0.0	0.0
P/BV	-	-	2.6	7.3	6.9	5.8
EV/revenue (core)	-	-	NM	NM	3.8	2.5
EV/EBITDA (core)	-	-	-4.9	-10.0	32.5	12.7
EV/EBIT (core)	-	-	NM	NM	NM	NM
EV/OpFCF (core)	-	-	NM	NM	NM	NM
EV/op. invested capital	-	-	NM	NM	NM	8.9

Enterprise value (US\$)	12/09	12/10	12/11E	12/12E	12/13E
Average market cap	-	191,082	380,697	380,697	380,697
+ minority interests	-	0	0	0	0
+ average net debt (cash)	(6,976)	(6,976)	(35,452)	(43,714)	(19,156)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(395)	(297)	(365)	(365)	(365)
Core enterprise value	-	183,810	344,881	336,619	361,177

Growth (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue	-	-	NM	NM	172.8	64.2
EBITDA (UBS)	-	17.5	28.5	-9.0	-	175.0
EBIT (UBS)	-	24.5	32.2	7.8	-76.4	-
EPS (UBS)	-	-98.2	-42.4	-52.0	-78.8	-
Cash EPS	-	-98.3	-42.4	-60.8	-	172.6
Net DPS	-	-	-	-	-	-
BVPS	-	NM	NM	-28.7	5.0	18.7

Margins (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBITDA / revenue	-	NM	NM	NM	11.7	19.6
EBIT / revenue	-	<-500	-488.5	-152.1	-13.1	3.8
Net profit (UBS) / revenue	-	NM	NM	NM	NM	3.3

Return on capital (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBIT ROIC (UBS)	-	NM	NM	NM	NM	13.4
ROIC post tax	-	NM	NM	NM	NM	12.2
Net ROE	-	<-500	(137.7)	(79.2)	(22.5)	8.0

Coverage ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBIT / net interest	-	-	-	-	-	NM
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (% UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	-	0.3	1.7	0.7	NM	NM

Efficiency ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue / op. invested capital	-	NM	1.8	1.7	2.8	3.6
Revenue / fixed assets	-	0.1	0.5	1.0	2.2	3.2
Revenue / net working capital	-	NM	NM	NM	NM	84.6

Investment ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
OpFCF / EBIT	-	1.1	1.2	1.3	1.6	NM
Capex / revenue (%)	-	NM	NM	NM	28.2	19.9
Capex / depreciation	-	1.8	2.3	1.5	1.1	1.3

Capital structure (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Net debt / total equity	-	(95.4)	(85.7)	(46.3)	(33.3)	(30.5)
Net debt / (net debt + equity)	-	NM	NM	(86.1)	(50.0)	(43.9)
Net debt (core) / EV	-	-	(3.8)	(10.3)	(13.0)	(5.3)

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\$14.75 on 18 Apr 2011 16:42 EDT 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 <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	52%	41%
Neutral	Hold/Neutral	40%	37%
Sell	Sell	8%	20%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	30%
Sell	Sell	less than 1%	17%

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 March 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**

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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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
<b>Complete Genomics Inc</b> <sup>2, 4, 5, 6, 16</sup>	GNOM.O	Buy	N/A	US\$13.44	15 Apr 2011

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

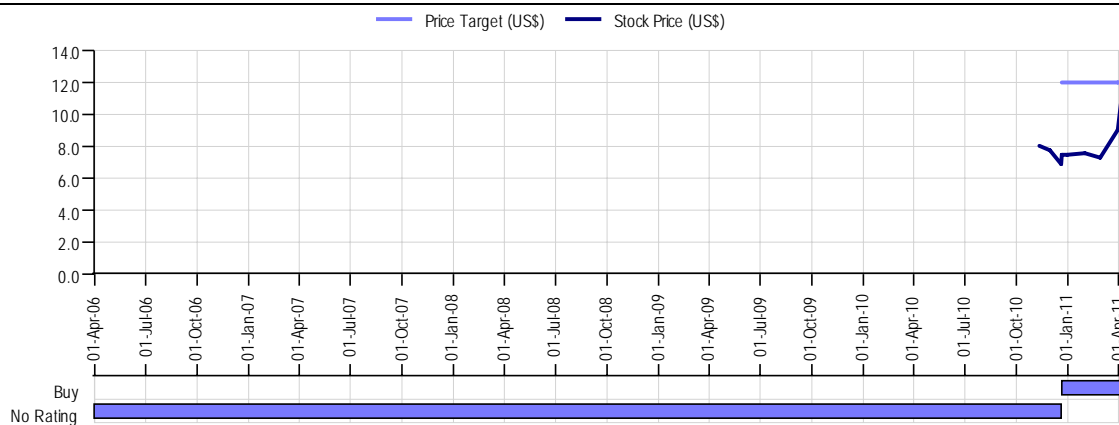
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## Complete Genomics Inc (US\$)



Source: UBS; as of 15 Apr 2011

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