

UBS Investment Research

Complete Genomics Inc

GNOM Update: New Large Order

■ Third deal with ISB calls for the sequencing of 615 human genomes

This morning, Complete Genomics announced that the company has signed a deal with the Institute for Systems Biology (ISB) for the sequencing of 615 complete human genomes as a part of an ISB study on neurodegenerative diseases. This order follows previous engagements with ISB for the sequencing of 100 human genomes in early 2010 and four genomes in 2009. As evidence of order and backlog growth is central to building investor confidence in GNOM, we see this as a positive.

■ Availability of catalogued genome sequences allows for data comparison

The news follows an announcement last week by GNOM that the company had sequenced the genomes of three Yoruban family members which had been previously analyzed as a part of the International HapMap and 1,000 Genomes Projects, which will facilitate data comparison with other sequencing platforms. Results yielded high (99.6-99.8%) concordance with the 1,000 Genomes Project data and an error rate of approximately 1 error in 300,000 bases, while turn-around time averaged 83 days- down from a mean cycle time of 90-120 days previously.

■ We maintain our forecast going forward

We maintain our current estimates. For FY11, we project total revenues of \$32.4 million, up from our estimate of \$8.7 million in 2010. As of 3Q10, Complete Genomics stated that the company had a backlog of over 800 genomes.

■ Valuation: Buy rating; \$12 price target

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

Highlights (US\$K)	12/08	12/09	12/10E	12/11E	12/12E
Revenues	0	623	8,674	32,431	92,756
EBIT (UBS)	(27,857)	(34,685)	(51,222)	(51,289)	(11,383)
Net Income (UBS)	(28,394)	(37,049)	(53,289)	(52,189)	(11,833)
EPS (UBS, US\$)	(369.36)	(6.59)	(2.06)	(1.99)	(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	<-500	-158.1	-12.3
ROIC (EBIT) %	-	>500	<-500	(227.4)	(35.4)
EV/EBITDA (core) x	-	-	-4.4	-4.5	15.7
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\$7.60 on 10 Jan 2011 19:40 EST

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Global Equity Research

Americas

Biotechnology

12-month rating **Buy**
Unchanged

12m price target **US\$12.00**
Unchanged

Price **US\$7.60**

RIC: GNOM.O BBG: GNOM US

11 January 2011

Trading data

52-wk range	US\$8.04-6.85
Market cap.	US\$0.20bn
Shares o/s	25.8m (COM)
Free float	3%
Avg. daily volume ('000)	169
Avg. daily value (m)	US\$1.3

Balance sheet data 12/10E

Shareholders' equity	US\$0.07bn
P/BV (UBS)	2.7x
Net Cash (debt)	US\$0.06bn

Forecast returns

Forecast price appreciation	+57.9%
Forecast dividend yield	0.0%
Forecast stock return	+57.9%
Market return assumption	5.6%
Forecast excess return	+52.3%

EPS (UBS, US\$)

	12/10E	12/09
	UBS	Cons. Actual
Q1	(2.20)	- (1.68)
Q2	(2.29)	- (1.68)
Q3	(3.71)	- (1.68)
Q4E	(0.62)	(0.59) (1.57)
12/10E	(2.06)	(2.46)
12/11E	(1.99)	(2.03)

Performance (US\$)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities LLC

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6.

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Complete Genomics Inc

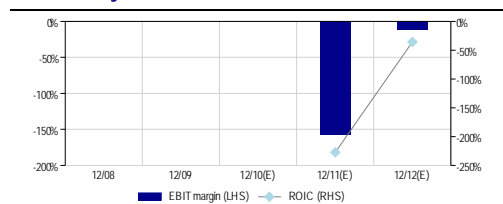
Income statement (US\$K)	-	-	12/07	12/08	12/09	12/10E	% ch	12/11E	% ch	12/12E	% ch
Revenues	-	-	-	0	623	8,674	1292.2	32,431	273.9	92,756	186.0
Operating expenses (ex deprecn)	-	-	-	(25,062)	(30,068)	(51,696)	71.9	(68,720)	32.9	(82,140)	19.5
EBITDA (UBS)	-	-	-	(25,062)	(29,445)	(43,022)	46.1	(36,289)	-15.7	10,617	-
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)	(51,222)	47.7	(51,289)	0.1	(11,383)	-77.8
Other income & associates	-	-	-	437	1,101	0	-	0	-	0	-
Net interest	-	-	-	(974)	(3,465)	(2,067)	-40.3	(900)	-56.5	(450)	-50.0
Abnormal items (pre-tax)	-	-	-	0	0	0	-	0	-	0	-
Profit before tax	-	-	-	(28,394)	(37,049)	(53,289)	43.8	(52,189)	-2.1	(11,833)	-77.3
Tax	-	-	-	0	0	0	-	0	-	0	-
Profit after tax	-	-	-	(28,394)	(37,049)	(53,289)	43.8	(52,189)	-2.1	(11,833)	-77.3
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)	(53,289)	43.8	(52,189)	-2.1	(11,833)	-77.3
Net Income (UBS)	-	-	-	(28,394)	(37,049)	(53,289)	43.8	(52,189)	-2.1	(11,833)	-77.3
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)	(2.06)	-68.7	(1.99)	-3.7	(0.39)	-80.3
EPS (UBS)	-	-	-	(369.36)	(6.59)	(2.06)	-68.7	(1.99)	-3.7	(0.39)	-80.3
Net DPS	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	-	-	-	(333.01)	(5.66)	(1.74)	-69.2	(1.42)	-18.9	0.34	-
BVPS	-	-	-	0.02	0.32	2.83	796.3	1.18	-58.3	1.68	42.8
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	59,860	670.9	2,746	-95.4	7,087	158.0
Other current assets	-	-	-	1,034	7,254	6,638	-8.5	10,729	61.6	27,899	160.0
Total current assets	-	-	-	7,220	15,019	66,498	342.8	13,476	-79.7	34,987	159.6
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	96,863	219.9	53,841	-44.4	77,351	43.7
Trade payables & other ST liabilities	-	-	-	6,479	12,055	11,874	-1.5	15,890	33.8	26,372	66.0
Short term debt	-	-	-	0	0	4,500	-	500	-88.9	500	0.0
Total current liabilities	-	-	-	6,479	12,055	16,374	35.8	16,390	0.1	26,872	64.0
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	23,874	7.9	23,390	-2.0	33,872	44.8
Equity & minority interests	-	-	-	468	8,143	72,989	796.4	30,451	-58.3	43,480	42.8
Total liabilities & equity	-	-	-	15,754	30,278	96,863	219.9	53,841	-44.4	77,351	43.7
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)	(53,289)	43.8	(52,189)	-2.1	(11,833)	-77.3
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)	(43,089)	41.3	(44,189)	2.6	5,667	-
Capital expenditure	-	-	-	(7,419)	(9,654)	(23,000)	138.2	(17,500)	-23.9	(25,000)	42.9
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	(17,500)	-23.9	(25,000)	42.9
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)	56,411	-	(56,189)	-	1,167	-
FX / non cash items	-	-	-	-	3,825	(4,316)	-	(925)	-	3,174	2.8
Bal sheet chge in cash & equivalents	-	-	-	-	1,579	52,095	-	(57,114)	-	4,341	-
Core EBITDA	-	-	-	(25,062)	(29,445)	(43,022)	46.1	(36,289)	-15.7	10,617	-
Maintenance capital expenditure	-	-	-	(7,419)	(9,654)	(23,000)	138.2	(17,500)	-23.9	(25,000)	42.9
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)	(64,022)	69.5	(60,789)	-5.1	(18,883)	-68.9

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.

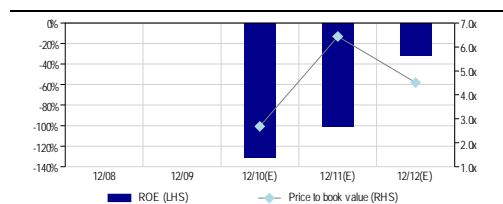
Company profile

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.

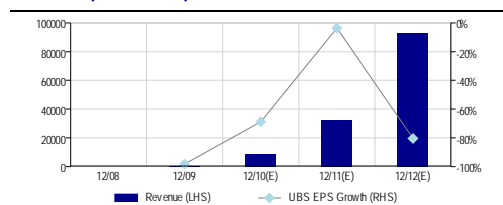
Profitability



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	22.6
Net dividend yield (%)	-	-	-	0.0	0.0	0.0
P/BV	-	-	-	2.7	6.4	4.5
EV/revenue (core)	-	-	-	NM	5.1	1.8
EV/EBITDA (core)	-	-	-	-4.4	-4.5	15.7
EV/EBIT (core)	-	-	-	NM	NM	NM
EV/OpFCF (core)	-	-	-	NM	NM	NM
EV/op. invested capital	-	-	-	NM	7.3	5.2

Enterprise value (US\$)	12/08	12/09	12/10E	12/11E	12/12E
Average market cap	-	-	196,156	196,156	196,156
+ minority interests	0	0	0	0	0
+ average net debt (cash)	(6,976)	(6,976)	(6,976)	(31,563)	(28,803)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(511)	(395)	(365)	(365)	(365)
Core enterprise value	-	-	188,815	164,228	166,988

Growth (%)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
Revenue	-	-	-	NM	NM	186.0
EBITDA (UBS)	-	-	17.5	46.1	-15.7	-
EBIT (UBS)	-	-	24.5	47.7	0.1	-77.8
EPS (UBS)	-	-	-98.2	-68.7	-3.7	-80.3
Cash EPS	-	-	-98.3	-69.2	-18.9	-
Net DPS	-	-	-	-	-	-
BVPS	-	-	NM	NM	-58.3	42.8

Margins (%)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
EBITDA / revenue	-	-	NM	NM	NM	11.4
EBIT / revenue	-	-	<-500	<-500	-158.1	-12.3
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	(131.4)	(100.9)	(32.0)

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	1.3	0.1	NM

Efficiency ratios (x)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
Revenue / op. invested capital	-	-	NM	1.0	1.4	2.9
Revenue / fixed assets	-	-	0.1	0.4	0.9	2.3
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	1.2	1.2	1.7
Capex / revenue (%)	-	-	NM	NM	NM	27.0
Capex / depreciation	-	2.7	1.8	2.8	1.2	1.1

Capital structure (%)	5Yr Avg	12/08	12/09	12/10E	12/11E	12/12E
Net debt / total equity	-	NM	(95.4)	(75.8)	(7.4)	(15.1)
Net debt / (net debt + equity)	-	NM	NM	NM	(8.0)	(17.9)
Net debt (core) / EV	-	-	-	(3.7)	(19.2)	(17.2)

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.

Valuations: based on an average share price that year, (E): based on a share price of US\$7.60 on 10 Jan 2011 19:40 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	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).

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.

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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, 5, 6, 13, 16}	GNOM.O	Buy	N/A	US\$7.60	10 Jan 2011

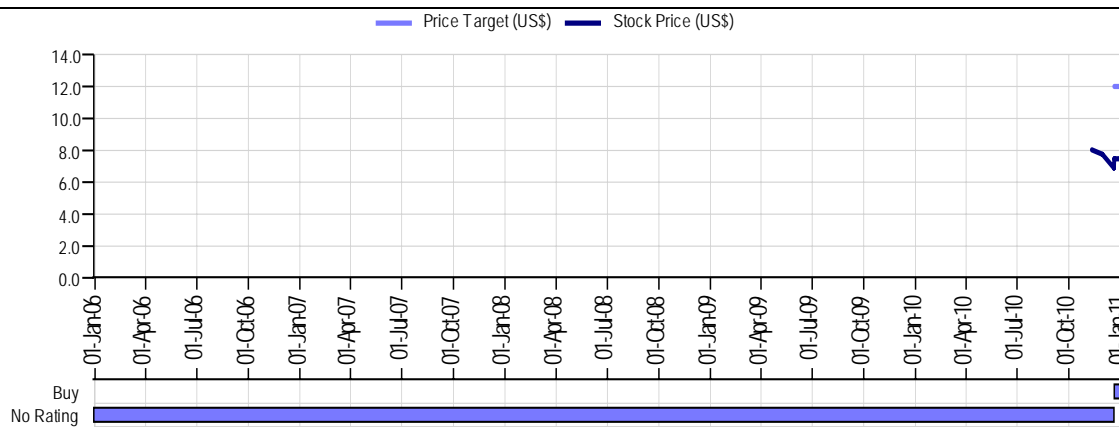
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
6. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and investment banking services are being, or have been, provided.
13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).
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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Complete Genomics Inc (US\$)



Source: UBS; as of 10 Jan 2011

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