

UBS Investment Research

Complete Genomics Inc

2Q Shortfall for GNOM; Maintain Neutral

■ Results below Street & pricing below our expectations; Bad day for a miss

Q4 revs were \$5.9m (+439% y/y; -14% q/q), below UBS/Street \$8m, on the delivery of ~950 genomes (UBSe 911) at an avg. ASP of ~\$6,200. Total expenses were \$20.8m, below UBSe \$21.5m, but the loss/share of \$0.60 was below Street (\$0.48). In our view, the company-specific portion of today's stock decline was due to the top-line miss, but also considerable pricing erosion. We remain Neutral despite the sell-off, noting that 3Q revenues should be down significantly, & sentiment on names exposed to academic spending remains overwhelmingly negative.

■ Large orders continue to drive backlog, average ASPs now below \$5k

On the call, GNOM announced two new large orders for 2,700 genomes, which brings bookings since 1/1 to 5,700 genomes, or \$30m. This continued solid backlog is encouraging, but we were surprised to see the implied ASPs down more than \$3.5k from 1Q. While we are believers in the power of elasticity of demand for whole genome outsourcing, our new pricing estimates yield lower sales forecasts for '11 & '12, and modeling additional out-year demand is difficult given the low visibility.

■ Mgmt maintains genome shipment forecast for '11; we lower our estimates

Mgmt stated that backlog at the end of 2Q was 2,200 genomes, or \$12m. GNOM expects to ship over 600 genomes in 3Q and 2,400 in 2H11- in line with previous forecasts. We now see '11 sales of \$23.9m (vs. prior \$35m) and loss per share of \$2.11. In '12, we see sales of \$54.2m (vs. prior \$87m) and loss per share of \$1.39.

■ Valuation: Neutral rating; \$8.50 price target (was \$15)

Our PT is derived through DCF analysis, and now incorporates lowers revenue estimates.

Highlights (US\$)	12/09	12/10	12/11E	12/12E	12/13E
Revenues	623	9,388	23,918	54,150	130,950
EBIT (UBS)	(34,685)	(47,841)	(56,284)	(43,299)	1,238
Net Income (UBS)	(37,049)	(58,306)	(58,776)	(44,499)	834
EPS (UBS, US\$)	(6.59)	(3.93)	(2.11)	(1.39)	0.03
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	-235.3	-80.0	0.9
ROIC (EBIT) %	-	<-500	(289.4)	(135.7)	3.1
EV/EBITDA (core) x	-	-4.6	-4.2	-8.4	7.5
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\$7.71 on 04 Aug 2011 18:42 EDT

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Global Equity Research

Americas

Biotechnology

12-month rating **Neutral**
Unchanged

12m price target **US\$8.50**
Prior: US\$15.00

Price **US\$7.71**

RIC: GNOM.O BBG: GNOM US

4 August 2011

Trading data

52-wk range	US\$17.42-6.85
Market cap.	US\$0.20bn
Shares o/s	25.8m (COM)
Free float	3%
Avg. daily volume ('000)	333
Avg. daily value (m)	US\$4.8

Balance sheet data 12/11E

Shareholders' equity	US\$0.06bn
P/BV (UBS)	3.6x
Net Cash (debt)	US\$0.03bn

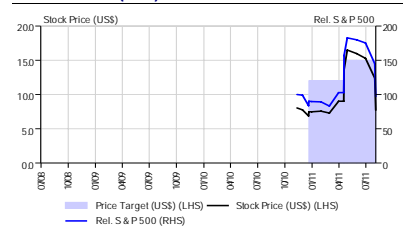
Forecast returns

Forecast price appreciation	+10.2%
Forecast dividend yield	0.0%
Forecast stock return	+10.2%
Market return assumption	5.3%
Forecast excess return	+4.9%

EPS (UBS, US\$)

	12/11E		12/10
	From	To	Cons. Actual
Q1E	(0.50)	(0.50)	(0.48) (51.15)
Q2E	(0.57)	(0.58)	(0.56) (45.83)
Q3E	(0.51)	(0.54)	(0.45) (74.43)
Q4E	(0.51)	(0.46)	(0.41) (0.69)
12/11E	(2.09)	(2.11)	(1.76)
12/12E	(0.83)	(1.39)	(0.89)

Performance (US\$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

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Complete Genomics Inc

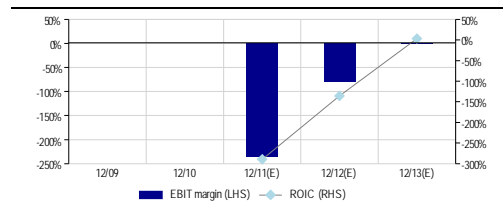
Income statement (US\$)	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Revenues	-	0	623	9,388	23,918	154.8	54,150	126.4	130,950	141.8
Operating expenses (ex deprecn)	-	(25,062)	(30,068)	(49,211)	(62,702)	27.4	(72,450)	15.5	(104,712)	44.5
EBITDA (UBS)	-	(25,062)	(29,445)	(39,823)	(38,784)	-2.6	(18,299)	-52.8	26,238	-
Depreciation	-	(2,795)	(5,240)	(8,018)	(17,500)	118.3	(25,000)	42.9	(25,000)	0.0
Operating income (EBIT, UBS)	-	(27,857)	(34,685)	(47,841)	(56,284)	17.6	(43,299)	-23.1	1,238	-
Other income & associates	-	437	1,101	(9,232)	0	-	0	-	0	-
Net interest	-	(974)	(3,465)	(1,233)	(2,492)	102.1	(1,200)	-51.8	(150)	-87.5
Abnormal items (pre-tax)	-	0	0	0	0	-	0	-	0	-
Profit before tax	-	(28,394)	(37,049)	(58,306)	(58,776)	0.8	(44,499)	-24.3	1,088	-
Tax	-	0	0	0	0	-	0	-	(254)	-
Profit after tax	-	(28,394)	(37,049)	(58,306)	(58,776)	0.8	(44,499)	-24.3	834	-
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)	(58,306)	(58,776)	0.8	(44,499)	-24.3	834	-
Net Income (UBS)	-	(28,394)	(37,049)	(58,306)	(58,776)	0.8	(44,499)	-24.3	834	-
Tax rate (%)	-	0	0	0	0	-	0	-	23	-
Pre-abnormal tax rate (%)	-	0	0	0	0	-	0	-	23	-
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)	(3.93)	(2.11)	-46.5	(1.39)	-33.8	0.03	-
EPS (UBS)	-	(369.36)	(6.59)	(3.93)	(2.11)	-46.5	(1.39)	-33.8	0.03	-
Net DPS	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	-	(333.01)	(5.66)	(3.39)	(1.48)	-56.4	(0.61)	-58.7	0.78	-
BVPS	-	0.02	0.32	2.85	2.13	-25.3	1.37	-35.8	1.94	42.0
Balance sheet (US\$)	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	26,440	-61.6	365	-98.6	5,198	1325.0
Other current assets	-	1,034	7,254	10,102	8,176	-19.1	16,704	104.3	37,666	125.5
Total current assets	-	7,220	15,019	79,020	34,616	-56.2	17,068	-50.7	42,864	151.1
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	-	511	395	297	365	22.9	365	0.0	365	0.0
Total assets	-	15,754	30,278	103,160	74,981	-27.3	59,433	-20.7	93,229	56.9
Trade payables & other ST liabilities	-	6,479	12,055	11,907	12,480	4.8	16,602	33.0	36,049	117.1
Short term debt	-	0	0	5,780	500	-91.3	500	0.0	0	-
Total current liabilities	-	6,479	12,055	17,687	12,980	-26.6	17,102	31.8	36,049	110.8
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	19,980	-32.3	24,102	20.6	43,049	78.6
Equity & minority interests	-	468	8,143	73,636	55,000	-25.3	35,331	-35.8	50,180	42.0
Total liabilities & equity	-	15,754	30,278	103,160	74,981	-27.3	59,433	-20.7	93,229	56.9
Cash flow (US\$)	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Net income	-	(28,394)	(37,049)	(58,306)	(58,776)	0.8	(44,499)	-24.3	834	-
Depreciation	-	2,795	5,240	8,018	17,500	118.3	25,000	42.9	25,000	0.0
Net change in working capital	-	293	1,322	1,697	(6,000)	-	(4,500)	-25.0	(5,000)	11.1
Other (operating)	-	0	0	0	0	-	0	-	0	-
Net cash from operations	-	(25,306)	(30,487)	(48,591)	(47,276)	-2.7	(23,999)	-49.2	20,834	-
Capital expenditure	-	(7,419)	(9,654)	(18,802)	(17,500)	-6.9	(22,000)	25.7	(25,000)	13.6
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)	(17,500)	-6.9	(22,000)	25.7	(25,000)	13.6
Increase/(decrease) in debt	-	0	0	5,780	500	-	500	-	0	-
Share issues / (repurchases)	-	25	4	47,175	20,000	-	15,000	-	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	15,500	-24.4	5,000	-67.7
Cash flow chge in cash & equivalents	-	923	(2,246)	(13,642)	(44,276)	-	(30,499)	-	834	-
FX / non cash items	-	-	3,825	74,795	1,798	-89.9	4,424	-35.0	4,000	-8.6
Bal sheet chge in cash & equivalents	-	-	1,579	61,153	(42,478)	-	(26,075)	-	4,834	-
Core EBITDA	-	(25,062)	(29,445)	(39,823)	(38,784)	-2.6	(18,299)	-52.8	26,238	-
Maintenance capital expenditure	-	(7,419)	(9,654)	(18,802)	(17,500)	-6.9	(22,000)	25.7	(25,000)	13.6
Maintenance net working capital	-	293	1,322	1,697	(6,000)	-	(4,500)	-25.0	(5,000)	11.1
Operating free cash flow, pre-tax	-	(32,188)	(37,777)	(56,928)	(62,284)	9.4	(44,799)	-28.1	(3,762)	-91.6

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. Note: For some companies, the data represents an extract of the full company accounts.

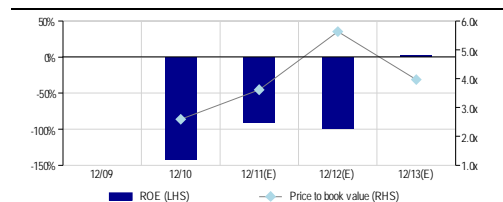
Company profile

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.

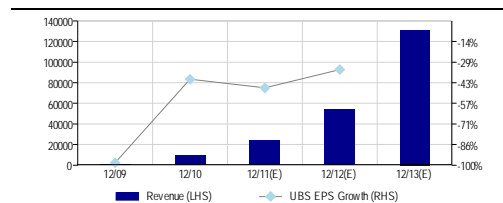
Profitability



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	9.8
Net dividend yield (%)	-	-	0.0	0.0	0.0	0.0
P/BV	-	-	2.6	3.6	5.6	4.0
EV/revenue (core)	-	-	NM	6.8	2.8	1.5
EV/EBITDA (core)	-	-	-4.6	-4.2	-8.4	7.5
EV/EBIT (core)	-	-	NM	NM	NM	NM
EV/OpFCF (core)	-	-	NM	NM	NM	NM
EV/op. invested capital	-	-	NM	8.4	4.8	4.9

Enterprise value (US\$)	12/09	12/10	12/11E	12/12E	12/13E
Average market cap	-	191,082	198,995	198,995	198,995
+ minority interests	-	0	0	0	0
+ average net debt (cash)	-	(6,976)	(35,452)	(44,539)	(2,532)
+ pension obligations and other	-	0	0	0	0
- non-core asset value	-	(395)	(297)	(365)	(365)
Core enterprise value	-	183,810	163,179	154,091	196,098

Growth (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue	-	-	NM	154.8	126.4	141.8
EBITDA (UBS)	-	17.5	35.2	-2.6	-52.8	-
EBIT (UBS)	-	24.5	37.9	17.6	-23.1	-
EPS (UBS)	-	-98.2	-40.3	-46.5	-33.8	-
Cash EPS	-	-98.3	-40.1	-56.4	-58.7	-
Net DPS	-	-	-	-	-	-
BVPS	-	NM	NM	-25.3	-35.8	42.0

Margins (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBITDA / revenue	-	NM	NM	NM	NM	20.0
EBIT / revenue	-	<-500	<-500	-235.3	-80.0	0.9
Net profit (UBS) / revenue	-	NM	NM	NM	NM	0.6

Return on capital (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBIT ROIC (UBS)	-	NM	NM	NM	NM	3.1
ROIC post tax	-	NM	NM	NM	NM	2.4
Net ROE	-	<-500	(142.6)	(91.4)	(98.5)	1.9

Coverage ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBIT / net interest	-	-	-	-	-	8.3
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (% UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	-	0.3	1.6	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	1.2	1.7	3.3
Revenue / fixed assets	-	0.1	0.5	0.7	1.3	2.8
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
OpFCF / EBIT	-	1.1	1.2	1.1	1.0	NM
Capex / revenue (%)	-	NM	NM	NM	NM	19.1
Capex / depreciation	-	1.8	2.3	1.0	0.9	1.0

Capital structure (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Net debt / total equity	-	(95.4)	(85.7)	(47.2)	0.4	(10.4)
Net debt / (net debt + equity)	-	NM	NM	(89.3)	0.4	(11.6)
Net debt (core) / EV	-	-	(3.8)	(21.7)	(28.9)	(1.3)

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\$7.71 on 04 Aug 2011 18:42 EDT Market cap(E) may include forecast share issues/buybacks.

Daniel Arias

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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	54%	39%
Neutral	Hold/Neutral	39%	35%
Sell	Sell	7%	14%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	25%

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 June 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.

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UBS Securities LLC: Daniel Arias.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Complete Genomics Inc ^{2, 4, 5, 6, 16}	GNOM.O	Neutral	N/A	US\$7.71	04 Aug 2011

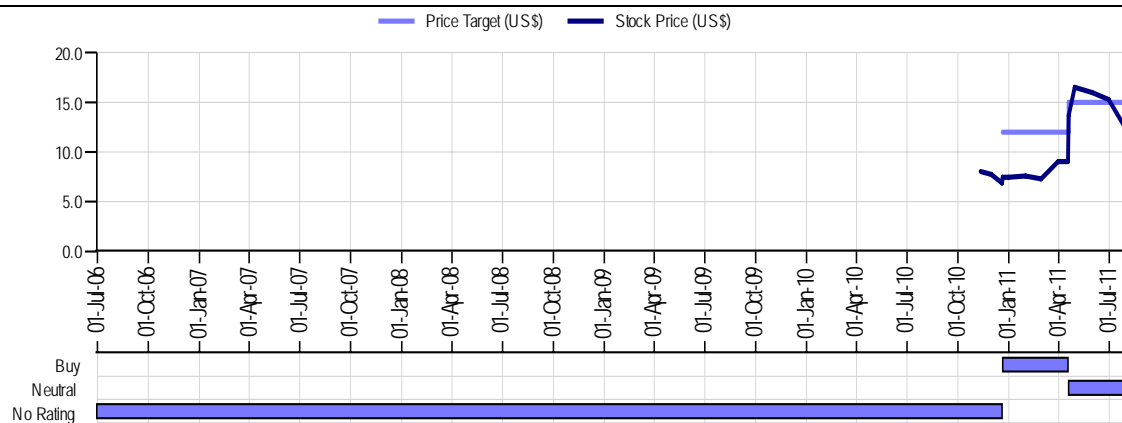
Source: UBS. All prices as of local market close.

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Complete Genomics Inc (US\$)



Source: UBS; as of 04 Aug 2011

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