

## UBS Investment Research

### Complete Genomics Inc

#### Lowering Ests & Target; Maintain Neutral

##### ■ We reduce our top-line forecasts on a more cautious view of demand

We are lowering our out-year estimates, and reducing our GNOM price target, having taken a more conservative view of demand in the near and mid-term. We maintain our Neutral rating and establish a 12-month price target of \$6 for shares (down from \$8.50).

##### ■ Funding, pricing, & over-capacity concerns create near-term uncertainty

At the recent ASHG conference, we found enthusiasm for both whole genome projects and GNOM's services, but also much uncertainty over the research funding outlook domestically & abroad. Additionally, ILMN's 3Q results suggest a sequencing over-capacity issue in many labs, while price elasticity for GNOM services appears to have not yet fully taken hold. As such, we remain positive on the next-gen sequencing market and genome outsourcing longer-term, but nearer-term believe these factors will pressure the company's top line and GNOM shares.

##### ■ We lower numbers, but remain in-line with Street revenue est for 3Q

We see '11 sales of ~\$24m (genome ASP of \$5.9k), and loss per share of \$2.10 (was (\$2.11)). In '12, we see sales of \$46m (ASP of \$2.8k) down from \$54m, and loss per share of \$1.56 (was (\$1.39)). GNOM has not announced a 3Q11 earnings date; for the quarter we project revenues of ~\$4m - in-line with Street consensus, and loss per share of \$0.53, vs. Street (\$0.54).

##### ■ Valuation: Neutral rating; \$6 price target (was \$8.50)

Our price target is based on DCF analysis using the UBS VCM model, and now incorporates lower sales forecasts for 2012 and beyond.

Highlights (US\$m)	12/09	12/10	12/11E	12/12E	12/13E
Revenues	1	9	24	46	100
EBIT (UBS)	(34)	(48)	(55)	(49)	(12)
Net Income (UBS)	(36)	(58)	(59)	(50)	(12)
EPS (UBS, US\$)	(6.40)	(2.25)	(2.10)	(1.56)	(0.37)
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	-235.2	-105.5	-12.0
ROIC (EBIT) %	-	<-500	<-500	<-500	(129.2)
EV/EBITDA (core) x	-	-4.6	-2.3	-2.9	10.1
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\$5.40 on 18 Oct 2011 18:42 EDT

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## Global Equity Research

Americas

Biotechnology

12-month rating **Neutral**  
**Unchanged**

12m price target US\$6.00  
**Prior: US\$8.50**

Price US\$5.40

RIC: GNOM.O BBG: GNOM US

18 October 2011

#### Trading data

52-wk range	US\$17.42-4.72
Market cap.	US\$0.14bn
Shares o/s	25.8m (COM)
Free float	3%
Avg. daily volume ('000)	349
Avg. daily value (m)	US\$2.8

#### Balance sheet data 12/11E

Shareholders' equity	US\$0.05bn
P/BV (UBS)	2.9x
Net Cash (debt)	US\$0.05bn

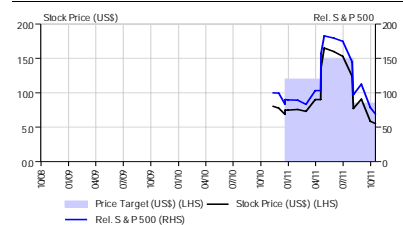
#### Forecast returns

Forecast price appreciation	+11.1%
Forecast dividend yield	0.0%
Forecast stock return	+11.1%
Market return assumption	5.3%
Forecast excess return	+5.8%

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

	12/11E		12/10
	From	To	Cons. Actual
Q1E	(0.50)	(0.48)	(0.48) (51.15)
Q2E	(0.58)	(0.56)	(0.56) (13.92)
Q3E	(0.54)	(0.53)	(0.54) (21.87)
Q4E	(0.46)	(0.51)	(0.49) (0.69)
12/11E	(2.11)	(2.10)	(2.08)
12/12E	(1.39)	(1.56)	(1.60)

#### Performance (US\$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6.

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# Complete Genomics Inc

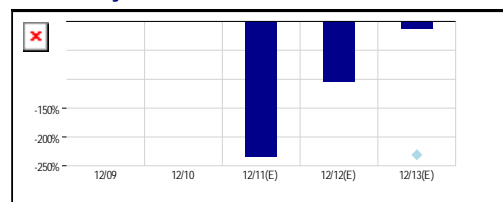
Income statement (US\$m)	-	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Revenues	-	-	0	1	9	24	151.2	46	95.8	100	117.4
Operating expenses (ex depn)	-	-	(25)	(29)	(49)	(68)	38.6	(75)	10.2	(87)	16.8
EBITDA (UBS)	-	-	(25)	(28)	(40)	(44)	11.9	(29)	-35.3	13	-
Depreciation	-	-	(3)	(5)	(8)	(11)	38.5	(20)	80.2	(25)	25.0
Operating income (EBIT, UBS)	-	-	(28)	(34)	(48)	(55)	16.4	(49)	-12.2	(12)	-75.3
Other income & associates	-	-	0	1	(9)	0	-	0	-	0	-
Net interest	-	-	(1)	(3)	(1)	(3)	156.2	(1)	-61.2	0	-91.7
Abnormal items (pre-tax)	-	-	0	0	0	0	-	0	-	0	-
Profit before tax	-	-	(28)	(36)	(58)	(59)	0.8	(50)	-14.8	(12)	-75.7
Tax	-	-	0	0	0	0	-	0	-	0	-
Profit after tax	-	-	(28)	(36)	(58)	(59)	0.8	(50)	-14.8	(12)	-75.7
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)	(59)	0.8	(50)	-14.8	(12)	-75.7
Net Income (UBS)	-	-	(28)	(36)	(58)	(59)	0.8	(50)	-14.8	(12)	-75.7
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)	(2.10)	-6.8	(1.56)	-25.4	(0.37)	-76.4
EPS (UBS)	-	-	(370.66)	(6.40)	(2.25)	(2.10)	-6.8	(1.56)	-25.4	(0.37)	-76.4
Net DPS	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	-	-	(334.30)	(5.46)	(1.94)	(1.70)	-12.4	(0.94)	-44.9	0.39	-
BVPS	-	-	0.02	0.32	2.85	1.87	-34.4	0.65	-65.4	0.49	-24.4
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	49	-29.0	13	-73.6	4	-65.3
Other current assets	-	-	1	7	10	8	-20.1	14	78.2	29	102.3
Total current assets	-	-	7	15	79	57	-27.9	27	-52.1	34	23.1
Net tangible fixed assets	-	-	8	15	24	33	37.8	28	-15.2	23	-18.0
Net intangible fixed assets	-	-	0	0	0	0	-	0	-	0	-
Investments / other assets	-	0	1	0	0	0	22.9	0	0.0	0	0.0
Total assets	-	-	16	30	103	90	-12.6	55	-38.5	57	2.4
Trade payables & other ST liabilities	-	-	6	12	12	11	-8.1	13	20.5	27	105.0
Short term debt	-	-	0	0	6	0	-	0	-	0	-
Total current liabilities	-	-	6	12	18	11	-38.1	13	20.5	27	105.0
Long term debt	-	-	0	0	0	0	-	0	-	0	-
Other long term liabilities	-	-	9	10	12	27	128.1	22	-19.8	14	-36.9
Total liabilities	-	-	15	22	30	38	28.5	35	-8.2	41	16.8
Equity & minority interests	-	-	0	8	74	52	-29.0	21	-60.5	16	-22.0
Total liabilities & equity	-	-	16	30	103	90	-12.6	55	-38.5	57	2.4
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)	(59)	0.8	(50)	-14.8	(12)	-75.7
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)	-	(3)	-71.7
Other (operating)	-	-	0	0	0	0	-	0	-	0	-
Net cash from operations	-	-	(25)	(29)	(48)	(46)	-4.0	(40)	-14.6	10	-
Capital expenditure	-	-	(7)	(10)	(19)	(18)	-5.2	(15)	-15.8	(20)	33.3
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	(20)	33.3
Increase/(decrease) in debt	-	-	0	0	6	0	-	0	-	0	-
Share issues / (repurchases)	-	-	0	0	47	74	-	20	-	5	-
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	5	-75.0
Cash flow chge in cash & equivalents	-	-	1	(1)	(14)	(34)	-	(35)	-	(5)	-
FX / non cash items	-	-	-	3	75	14	-73.4	(1)	-	(4)	162.5
Bal sheet chge in cash & equivalents	-	-	-	2	61	(20)	-	(36)	-	(8)	-
Core EBITDA	-	-	(25)	(28)	(40)	(44)	11.9	(29)	-35.3	13	-
Maintenance capital expenditure	-	-	(7)	(10)	(19)	(18)	-5.2	(15)	-15.8	(20)	33.3
Maintenance net working capital	-	-	0	1	2	1	-41.1	(10)	-	(3)	-71.7
Operating free cash flow, pre-tax	-	-	(32)	(37)	(57)	(61)	7.8	(53)	-12.6	(10)	-81.7

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.

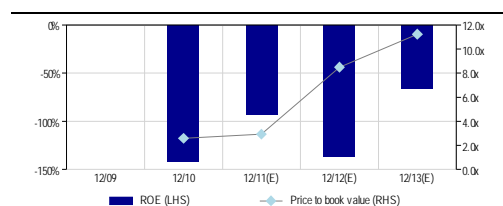
### Company profile

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.

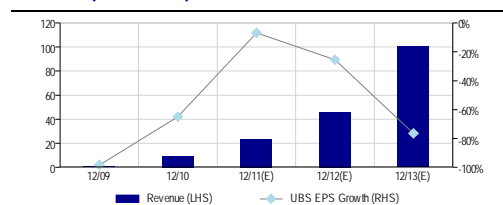
### Profitability



### 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	13.8
Net dividend yield (%)	-	-	0.0	0.0	0.0	0.0
P/BV	-	-	2.6	2.9	8.3	11.0
EV/revenue (core)	-	-	NM	4.4	1.8	1.3
EV/EBITDA (core)	-	-	-4.6	-2.3	-2.9	10.1
EV/EBIT (core)	-	-	NM	NM	NM	NM
EV/OpFCF (core)	-	-	NM	NM	NM	NM
EV/op. invested capital	-	-	NM	NM	NM	NM

Enterprise value (US\$m)	12/09	12/10	12/11E	12/12E	12/13E
Average market cap	-	191	139	139	139
+ minority interests	-	0	0	0	0
+ average net debt (cash)	(7)	(7)	(35)	(56)	(9)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	-	184	104	83	130

Growth (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue	-	-	NM	151.2	95.8	117.4
EBITDA (UBS)	-	12.7	39.8	11.9	-35.3	-
EBIT (UBS)	-	20.1	41.9	16.4	-12.2	-75.3
EPS (UBS)	-	-98.3	-64.8	-6.8	-25.4	-76.4
Cash EPS	-	-98.4	-64.5	-12.4	-44.9	-
Net DPS	-	-	-	-	-	-
BVPS	-	NM	NM	-34.4	-65.4	-24.4

Margins (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBITDA / revenue	-	NM	NM	NM	NM	12.9
EBIT / revenue	-	<-500	<-500	-235.2	-105.5	-12.0
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)	(93.0)	(136.9)	(66.1)

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	1.1	0.4	NM

Efficiency ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue / op. invested capital	-	NM	1.8	3.6	8.9	10.8
Revenue / fixed assets	-	0.1	0.5	0.8	1.5	4.0
Revenue / net working capital	-	NM	NM	NM	NM	61.1

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	0.8
Capex / revenue (%)	-	NM	NM	NM	NM	19.9
Capex / depreciation	-	1.8	2.3	1.6	0.8	0.8

Capital structure (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Net debt / total equity	-	(95.4)	(85.7)	(93.6)	(62.4)	(27.8)
Net debt / (net debt + equity)	-	NM	NM	NM	NM	(38.5)
Net debt (core) / EV	-	-	(3.8)	(34.2)	(67.5)	(6.7)

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\$5.40 on 18 Oct 2011 18:42 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	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
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**

**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:** Daniel Arias; Uy Ear.

**Company Disclosures**

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
<b>Complete Genomics Inc</b> <sup>2, 4, 6, 16</sup>	GNOM.O	Neutral	N/A	US\$5.40	18 Oct 2011

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

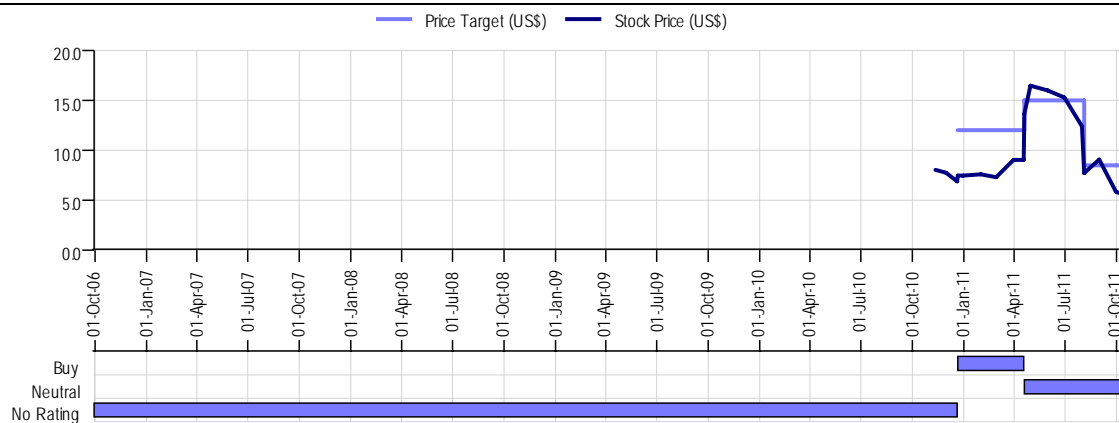
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

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 18 Oct 2011

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