

UBS Investment Research

First Read: Complete Genomics

2Q11 Results: First Impressions

■ Revs & EPS below Street/UBSe, # of genomes shipped above our forecast

GNOM reported 2Q11 total revenues of \$5.9m (+439% y/y; -15% q/q), below UBS and Street estimates of \$8m. The company reported shipping ~1600 genomes during the first half of '11; as such, we estimate that ~1000 genomes were shipped in 2Q (UBSe 911), at an estimated avg. ASP of ~\$6,000 (UBSe \$8,350). Total operating expenses were \$20.8m, below UBSe \$21.5m, consisting of \$6.1m in COGS (UBSe \$8.7m), R&D of \$8m (UBSe \$6.8m) and SG&A of \$6.6m (UBSe \$5.9m). Estimated adj loss per share was \$0.59 vs. Street (\$0.48) & UBSe (\$0.57).

■ New contracts with NCI & Inova Translational Medicine Inst. announced

GNOM announced new contracts which call for the delivery of 2,700 genomes and represent ~\$14m in revenues. Including these orders, GNOM has now booked ~5,700 genomes and ~\$30m in revenues from 1/1 to 7/31. In 2H11, the company expects to ship over 2,400 genomes, including over 600 in 3Q. Additionally, capacity has now been expanded to 600 genomes per month.

■ We look for commentary on pricing, backlog, and technology

On the call, we look for commentary on the outlook for genome ASPs, backlog composition, revenue recognition pacing, improvements to the technology platform, & customer feedback. Conf. call tomorrow at 8:30am EST; Dial-in # 877- 844-6890 (PC: 87718313).

■ Valuation: Neutral rating; \$15 price target

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

Highlights (US\$K)	12/09	12/10	12/11E	12/12E	12/13E
Revenues	623	9,388	34,605	86,573	145,500
EBIT (UBS)	(34,685)	(47,841)	(53,699)	(23,844)	5,458
Net Income (UBS)	(37,049)	(58,306)	(54,933)	(25,044)	4,842
EPS (UBS, US\$)	(6.59)	(3.93)	(2.09)	(0.83)	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 %	-	<-500	-155.2	-27.5	3.8
ROIC (EBIT) %	-	<-500	(284.0)	(74.6)	13.4
EV/EBITDA (core) x	-	-4.6	-6.6	<-100	10.2
PE (UBS) x	-	NM	NM	NM	72.7
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\$11.25 on 03 Aug 2011 17:42 EDT

Daniel Arias

Analyst

daniel.arias@ubs.com

+1-212-713 2467

Global Equity Research

Americas

Biotechnology

12-month rating **Neutral**
Unchanged

12m price target **US\$15.00**
Unchanged

Price **US\$11.25**

RIC: GNOM.O BBG: GNOM US

3 August 2011

Trading data

52-wk range	US\$17.42-6.85
Market cap.	US\$0.29bn
Shares o/s	25.8m (COM)
Free float	3%
Avg. daily volume ('000)	314
Avg. daily value (m)	US\$4.7

Balance sheet data 12/11E

Shareholders' equity	US\$0.05bn
P/BV (UBS)	6.3x
Net Cash (debt)	US\$0.02bn

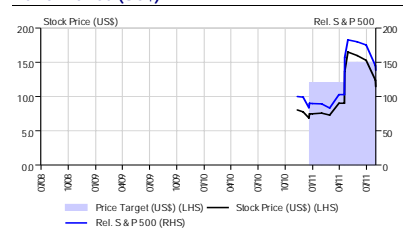
Forecast returns

Forecast price appreciation	+33.3%
Forecast dividend yield	0.0%
Forecast stock return	+33.3%
Market return assumption	5.3%
Forecast excess return	+28.0%

EPS (UBS, US\$)

	12/11E	12/10
	UBS	Cons. Actual
Q1E	(0.50)	(0.48) (51.15)
Q2E	(0.57)	(0.49) (45.83)
Q3E	(0.51)	(0.45) (74.43)
Q4E	(0.51)	(0.41) (0.69)
12/11E	(2.09)	(1.76)
12/12E	(0.83)	(0.89)

Performance (US\$)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6.

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Complete Genomics Inc

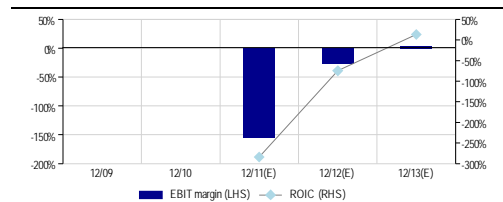
Income statement (US\$K)	-	12/07	12/08	12/09	12/10	12/11E	% ch	12/12E	% ch	12/13E	% ch
Revenues	-	-	0	623	9,388	34,605	268.6	86,573	150.2	145,500	68.1
Operating expenses (ex deprn)	-	-	(25,062)	(30,068)	(49,211)	(73,303)	49.0	(88,416)	20.6	(117,043)	32.4
EBITDA (UBS)	-	-	(25,062)	(29,445)	(39,823)	(38,699)	-2.8	(1,844)	-95.2	28,458	-
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)	(47,841)	(53,699)	12.2	(23,844)	-55.6	5,458	-
Other income & associates	-	-	437	1,101	(9,232)	0	-	0	-	0	-
Net interest	-	-	(974)	(3,465)	(1,233)	(1,234)	0.1	(1,200)	-2.8	(150)	-87.5
Abnormal items (pre-tax)	-	-	0	0	0	0	-	0	-	0	-
Profit before tax	-	-	(28,394)	(37,049)	(58,306)	(54,933)	-5.8	(25,044)	-54.4	5,308	-
Tax	-	-	0	0	0	0	-	0	-	(465)	-
Profit after tax	-	-	(28,394)	(37,049)	(58,306)	(54,933)	-5.8	(25,044)	-54.4	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)	(58,306)	(54,933)	-5.8	(25,044)	-54.4	4,842	-
Net Income (UBS)	-	-	(28,394)	(37,049)	(58,306)	(54,933)	-5.8	(25,044)	-54.4	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)	(3.93)	(2.09)	-46.9	(0.83)	-60.4	0.15	-
EPS (UBS)	-	-	(369.36)	(6.59)	(3.93)	(2.09)	-46.9	(0.83)	-60.4	0.15	-
Net DPS	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	-	-	(333.01)	(5.66)	(3.39)	(1.52)	-55.2	(0.10)	-93.4	0.89	-
BVPS	-	-	0.02	0.32	2.85	1.78	-37.5	1.42	-20.5	1.82	28.3
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	18,525	-73.1	406	-97.8	1,498	269.1
Other current assets	-	-	1,034	7,254	10,102	11,381	12.7	26,106	129.4	41,740	59.9
Total current assets	-	-	7,220	15,019	79,020	29,907	-62.2	26,512	-11.4	43,238	63.1
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	-	0	511	395	297	365	22.9	365	0.0	365	0.0
Total assets	-	-	15,754	30,278	103,160	70,272	-31.9	68,877	-2.0	93,603	35.9
Trade payables & other ST liabilities	-	-	6,479	12,055	11,907	16,760	40.8	24,807	48.0	39,677	59.9
Short term debt	-	-	0	0	5,780	500	-91.3	500	0.0	0	-
Total current liabilities	-	-	6,479	12,055	17,687	17,260	-2.4	25,307	46.6	39,677	56.8
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	24,260	-17.8	32,307	33.2	46,677	44.5
Equity & minority interests	-	-	468	8,143	73,636	46,011	-37.5	36,570	-20.5	46,926	28.3
Total liabilities & equity	-	-	15,754	30,278	103,160	70,272	-31.9	68,877	-2.0	93,603	35.9
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)	(58,306)	(54,933)	-5.8	(25,044)	-54.4	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)	(48,591)	(46,933)	-3.4	(7,544)	-83.9	21,342	-
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)	(13,642)	(48,933)	-	(22,044)	-	(2,658)	-
FX / non cash items	-	-	-	3,825	74,795	(1,460)	-94.2	3,924	2.4	3,750	-3.9
Bal sheet chge in cash & equivalents	-	-	-	1,579	61,153	(50,393)	-	(18,120)	-	1,092	-
Core EBITDA	-	-	(25,062)	(29,445)	(39,823)	(38,699)	-2.8	(1,844)	-95.2	28,458	-
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)	(56,928)	(68,199)	19.8	(31,344)	-54.0	(7,043)	-77.5

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.

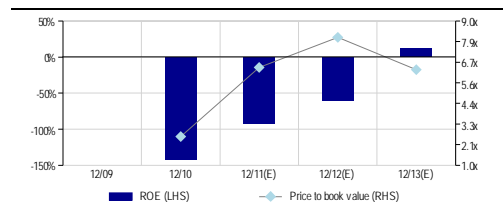
Company profile

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.

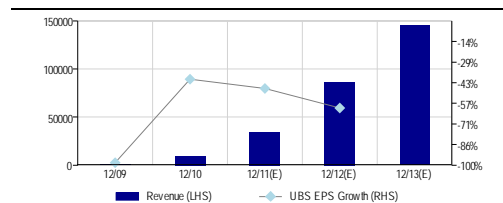
Profitability



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	72.7
P/E (UBS)	-	-	NM	NM	NM	72.7
P/CEPS	-	-	NM	NM	NM	12.6
Net dividend yield (%)	-	-	0.0	0.0	0.0	0.0
P/BV	-	-	2.6	6.3	7.9	6.2
EV/revenue (core)	-	-	NM	7.4	2.9	2.0
EV/EBITDA (core)	-	-	-4.6	-6.6	<-100	10.2
EV/EBIT (core)	-	-	NM	NM	NM	NM
EV/OpFCF (core)	-	-	NM	NM	NM	NM
EV/op. invested capital	-	-	NM	NM	7.8	7.1

Enterprise value (US\$)	12/09	12/10	12/11E	12/12E	12/13E
Average market cap	-	191,082	290,362	290,362	290,362
+ minority interests	-	0	0	0	0
+ average net debt (cash)	(6,976)	(6,976)	(35,452)	(40,582)	(702)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(395)	(297)	(365)	(365)	(365)
Core enterprise value	-	183,810	254,546	249,416	289,296

Growth (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue	-	-	NM	NM	150.2	68.1
EBITDA (UBS)	-	17.5	35.2	-2.8	-95.2	-
EBIT (UBS)	-	24.5	37.9	12.2	-55.6	-
EPS (UBS)	-	-98.2	-40.3	-46.9	-60.4	-
Cash EPS	-	-98.3	-40.1	-55.2	-93.4	-
Net DPS	-	-	-	-	-	-
BVPS	-	NM	NM	-37.5	-20.5	28.3

Margins (%)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
EBITDA / revenue	-	NM	NM	NM	NM	19.6
EBIT / revenue	-	<-500	<-500	-155.2	-27.5	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	(142.6)	(91.8)	(60.7)	11.6

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	1.6	0.5	NM	NM

Efficiency ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
Revenue / op. invested capital	-	NM	1.8	1.8	2.7	3.6
Revenue / fixed assets	-	0.1	0.5	1.1	2.1	3.2
Revenue / net working capital	-	NM	NM	NM	NM	86.5

Investment ratios (x)	5Yr Avg	12/09	12/10	12/11E	12/12E	12/13E
OpFCF / EBIT	-	1.1	1.2	1.3	1.3	NM
Capex / revenue (%)	-	NM	NM	NM	28.9	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)	(39.2)	0.3	(3.2)
Net debt / (net debt + equity)	-	NM	NM	(64.4)	0.3	(3.3)
Net debt (core) / EV	-	-	(3.8)	(13.9)	(16.3)	(0.2)

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\$11.25 on 03 Aug 2011 17:42 EDT Market cap(E) may include forecast share issues/buybacks.

Daniel Arias

Analyst

daniel.arias@ubs.com

+1-212-713 2467

■ 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	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.

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.

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\$11.46	02 Aug 2011

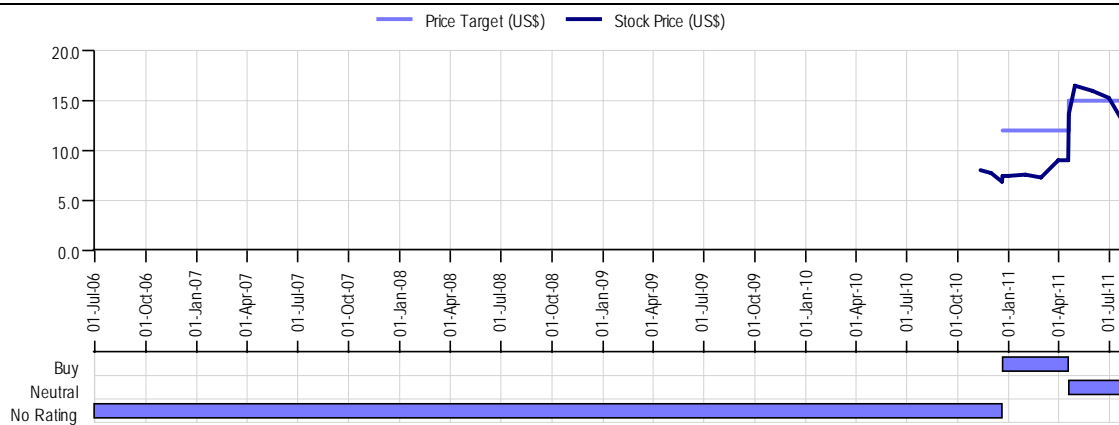
Source: UBS. All prices as of local market close.

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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Complete Genomics Inc (US\$)



Source: UBS; as of 02 Aug 2011

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