

BUY

HOLD

SELL

**ACTION & RECOMMENDATION**

Disruption from LifeScan's OneTouch Verio recall appears to have spilled over into Q3. Separately, UBI and Siemens have chosen to delay the launch of the xPrecia Stride coagulation monitoring system into 1H2014. As a result, we are now forecasting a loss for UBI in FY14, given reduced near term expectations for their glucose business and shifting Siemens milestone payments into later periods. We have cut our price target to \$1.15 per share which is our view on fair value. Valuation headwinds may be difficult for the company to address immediately, but investing in point of care diagnostics at this valuation continues to make sense. BUY rating.

**Catalysts and breakeven both pushed out****What's Changed**

**xPrecia Stride launch delayed to 1H2014** – UBI and Siemens have revised their launch plans for the xPrecia Stride point of care coagulation testing system. UBI has opened additional clinical trial sites in order to recruit more patients with high INR values (ranging 4 < INR < 8) so as to ensure competitiveness with Roche's CoaguChek system. Shifting milestone and product revenues out by six months has contributed to our earnings downgrades.

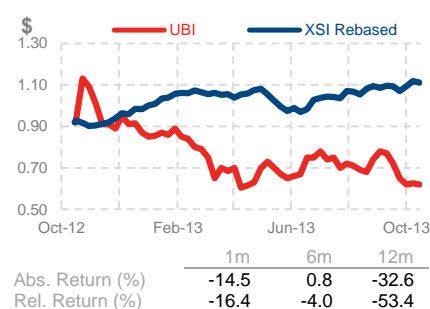
**SepQ saw more recall softness in Verio strip sales** – A\$833K in Q3 service fees were below our forecast of A\$1.2M due to further unexpected disruption from LifeScan's Verio IQ meter recall earlier in the year. Given the risks of further interruptions and the lack of visibility on LifeScan's efforts in promoting Verio, we have downgraded our expectations for near term OneTouch Verio strip sales by LifeScan over the FY14-16 forecast period.

**LifeScan scale-up probably means less volume from Rowville** – having developed additional in-house Verio manufacturing capacity, the outlook for UBI's production is lower, and may even be discontinued. Although this aspect of UBI's business was only marginally profitable, its potential loss may be a drag on stock sentiment.

**BUY rating maintained** – the stock is being marked down for visibility and execution risks. Our fundamental valuation of UBI suggests value in owning the stock, although the lack of near term catalysts limits the performance outlook over the next 3 months. We continue to recommend accumulating UBI, anticipating growth in glucose receipts and new coagulation businesses materialising next year.

<b>12m Target Price (AUD)</b>	<b>\$1.15</b>
Share Price @ 30-Oct-13 (AUD)	\$0.62
Fcst 12m Capital Return	86.2%
Fcst 12m Dividend Yield	0.0%
<b>12m Total S'holder Return</b>	<b>86.2%</b>

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**12m Share Price Performance****WHTM Return Re-investment Matrix**

Return	High	Cash Generator	Champion
	Low	Challenged	Potential
		Low	High
		Re-Investment	

**WHTM Risk Assessment**

		Low	Med	High	Spec
Share Price Risk	High				
	Low				
Business Risk	High				
	Low				

Year-end December (AUD)	FY11A	FY12A	FY13E	FY14E	FY15E
NPAT Rep (\$m)	-14.7	-9.1	-16.1	-6.9	9.0
NPAT Norm (\$m)	-14.7	-9.1	-16.1	-6.9	9.0
Consensus NPAT (\$m)			-8.4	8.4	21.9
EPS Norm (cps)	-8.9	-5.5	-9.3	-3.9	5.2
EPS Growth (%)	-120	39	-71	58	231
P/E Norm (x)	-7.0	-11.4	-6.6	-15.8	12.0
EV / EBITDA (x)	-7.1	-12.3	-6.1	-19.5	7.4
FCF Yield (%)	-7.1	-3.3	-9.1	-1.7	11.6
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

Key Changes	03-Oct	After	Var %
<b>NPAT: FY13</b>	-8.2	-16.1	N/A
<b>Norm FY14</b>	8.2	-6.9	<-99%
<b>(\$m) FY15</b>	21.5	9.0	-58.0%
<b>EPS: FY13</b>	-4.8	-9.3	N/A
<b>Norm FY14</b>	4.8	-3.9	<-99%
<b>(cps) FY15</b>	12.4	5.2	-58.5%
<b>DPS: FY13</b>	0.0	0.0	0.0%
<b>(cps) FY14</b>	0.0	0.0	0.0%
<b>FY15</b>	0.0	0.0	0.0%
<b>Price Target:</b>	<b>1.51</b>	<b>1.15</b>	<b>-23.4%</b>
<b>Rec:</b>	<b>BUY</b>	<b>BUY</b>	

Mkt Cap: \$100m

Enterprise Value: \$86m

Shares: 175m

Sold Short: %

ASX 300 wgt: n/a

Median T'over/Day: \$0.0m

**Wilson HTM Equities Research – Universal Biosensors Inc.**

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#### PRICE TARGET

	Valuation	Price Target
Discount rate (%)		14
Terminal growth (%)		2
NPV of FCFs (\$M)		70
NPV of perpetuity (\$M)		145
Equity valuation (\$M)		215
Risk discount (%)		40

Target price (A\$ / ) 1.15

#### INTERIMS (\$m)

Half Yr (AUD)	Jun 12	Dec 12	Jun 13	Dec 13
	1H A	2H A	1H E	2H E
Sales	14.7	14.9	9.6	3.1
EBITDA	-2.4	-4.5	-6.7	-7.3
EBIT	-3.6	-5.9	-8.0	-8.6
<b>Net Profit</b>	<b>-3.4</b>	<b>-5.7</b>	<b>-7.7</b>	<b>-8.5</b>
<b>Norm. EPS</b>	<b>-2.0</b>	<b>-3.4</b>	<b>-4.5</b>	<b>-4.8</b>
EBIT/Sales	-24.7	-39.8	-83.2	-274.9
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

#### FINANCIAL STABILITY

Year-end December	FY12A	FY13E	FY14E
Net Debt	-23.6	-14.8	-12.1
Net Debt / Equity (%)	<0	<0	<0
<b>Net Debt / EV (%)</b>	<b>&lt;0</b>	<b>&lt;0</b>	<b>&lt;0</b>
Current Ratio (x)	7.8	4.9	3.3
Interest Cover (x)	21.3	35.9	25.3
<b>Adj. Cash Int. Cover (x)</b>	<b>8.3</b>	<b>20.8</b>	<b>7.2</b>
Debt / CashFlow (x)	0.0	0.0	<0
Net Debt (cash) / share	<0	<0	<0
NTA / share (\$)	0.2	0.1	0.1
Book Value / share (\$)	0.3	0.1	0.1
Payout Ratio (%)	0	0	0
Adj. Payout Ratio (%)	0	0	0

#### EPS RECONCILIATION (\$m)

	FY12A		FY13E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	30	30	13	13
EBIT	-9.6	-9.6	-16.6	-16.6
<b>Net Profit</b>	<b>-9.1</b>	<b>-9.1</b>	<b>-16.1</b>	<b>-16.1</b>
Notional Earn.	0.0	0.0	0.0	0.0
Pref./Conv. Div.	0.0	0.0	0.0	0.0
<b>Profit for EPS</b>	<b>-9.1</b>	<b>-9.1</b>	<b>-16.1</b>	<b>-16.1</b>
Diluted Shrs(m)	167	167	173	173
<b>Diluted EPS (c)</b>	<b>-5.5</b>	<b>-5.5</b>	<b>-9.3</b>	<b>-9.3</b>

#### RETURNS

	FY12A	FY13E	FY14E	FY15E
ROE (%)	-24.5	-51.2	-33.8	42.2
ROIC (%)	-37.6	-94.3	-73.3	156.2
Incremental ROE	-141.7	123.8	-82.4	1,470.5
Incremental ROIC	-98.6	89.2	-120.4	-381.2

#### KEY ASSUMPTIONS

Year-end December (AUD)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue Growth (%)			8,759.9	25.0	101.7	-57.1	-21.7	201.9
EBIT Growth (%)	47.2	17.5	-53.5	93.6	-37.7	73.3	-57.0	-222.1
NPAT Growth (%)	43.5	35.8	-59.4	122.3	-37.8	76.7	-57.5	-231.5
<b>EPS Growth (%)</b>	<b>23.1</b>	<b>35.8</b>	<b>-59.9</b>	<b>119.9</b>	<b>-38.8</b>	<b>71.2</b>	<b>-57.9</b>	<b>-231.5</b>
EBIT / Sales (%)		12,863.7	-67.5	-104.6	-32.3	-130.5	-71.7	29.0
Tax Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>ROA (%)</b>	<b>-24.3</b>	<b>-32.4</b>	<b>-14.6</b>	<b>-32.0</b>	<b>-19.5</b>	<b>-48.6</b>	<b>-24.3</b>	<b>23.2</b>
<b>ROE (%)</b>	<b>-21.8</b>	<b>-34.4</b>	<b>-13.5</b>	<b>-36.0</b>	<b>-23.2</b>	<b>-68.1</b>	<b>-40.7</b>	<b>34.9</b>

#### PROFIT & LOSS (\$m)

Year-end December (AUD)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Sales Revenue	0.0	0.1	11.8	14.7	29.6	12.7	10.0	30.1
EBITDA	-12.3	-14.2	-5.0	-12.1	-6.9	-14.0	-4.4	11.6
Depn & Amort	2.3	2.9	3.0	3.3	2.6	2.6	2.7	2.9
<b>EBIT</b>	<b>-14.5</b>	<b>-17.1</b>	<b>-7.9</b>	<b>-15.4</b>	<b>-9.6</b>	<b>-16.6</b>	<b>-7.1</b>	<b>8.7</b>
Net Interest Expense	-2.5	-0.8	-1.2	-0.7	-0.4	-0.5	-0.3	-0.3
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit pre Sig. Items</b>	<b>-12.0</b>	<b>-16.3</b>	<b>-6.6</b>	<b>-14.7</b>	<b>-9.1</b>	<b>-16.1</b>	<b>-6.9</b>	<b>9.0</b>
Abn's / Ext's / Signif.	0.0	17.7	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported Net Profit</b>	<b>-12.0</b>	<b>1.4</b>	<b>-6.6</b>	<b>-14.7</b>	<b>-9.1</b>	<b>-16.1</b>	<b>-6.9</b>	<b>9.0</b>

#### CASHFLOW (\$m)

Year-end December (AUD)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
EBITDA	-12.3	-14.2	-5.0	-12.1	-6.9	-14.0	-4.4	11.6
Interest & Tax	2.5	0.8	1.2	0.7	0.5	0.5	0.3	0.3
Working Cap / Other	2.6	15.1	-2.7	4.2	3.2	4.4	2.4	-0.3
<b>Operating Cash Flow</b>	<b>-7.1</b>	<b>1.6</b>	<b>-6.4</b>	<b>-7.2</b>	<b>-3.3</b>	<b>-9.2</b>	<b>-1.7</b>	<b>11.6</b>
Maintenance Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>-7.1</b>	<b>1.6</b>	<b>-6.4</b>	<b>-7.2</b>	<b>-3.3</b>	<b>-9.2</b>	<b>-1.7</b>	<b>11.6</b>
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Growth Capex	-9.6	-3.0	-2.3	-1.1	-0.7	-0.5	-0.9	-1.0
Invest. / Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	-0.6	0.0	0.0	0.0
<b>Cash Flow Pre Financing</b>	<b>-16.8</b>	<b>-1.3</b>	<b>-8.7</b>	<b>-8.3</b>	<b>-4.6</b>	<b>-9.7</b>	<b>-2.7</b>	<b>10.6</b>
Funded by Equity	3.1	0.1	0.7	0.1	13.2	0.2	0.0	0.0
Funded by Debt	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0
Funded by Cash	13.6	1.3	8.0	8.2	-8.6	9.1	2.7	-10.6

#### BALANCE SHEET SUMMARY (\$m)

Year-end December (AUD)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Cash	28.3	31.3	23.3	15.1	23.6	15.2	12.5	23.2
Current Receivables	0.1	0.4	3.6	4.9	2.3	0.5	0.1	0.7
Current Inventories	0.0	0.3	3.2	3.6	3.6	2.0	2.0	0.9
Net PPE	21.9	21.3	23.1	20.3	18.3	16.2	14.4	12.5
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles / Capitalised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	4.3	2.8	0.7	1.3	1.3	0.3	0.3	0.3
<b>Total Assets</b>	<b>54.7</b>	<b>56.1</b>	<b>53.8</b>	<b>45.2</b>	<b>49.1</b>	<b>34.2</b>	<b>29.3</b>	<b>37.5</b>
Current Payables	0.6	0.4	1.8	0.6	2.5	1.6	3.0	1.5
Total Debt	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.4
Other Liabilities	5.4	4.3	4.9	9.6	7.2	8.5	9.1	9.8
<b>Total Liabilities</b>	<b>6.0</b>	<b>4.8</b>	<b>6.6</b>	<b>10.2</b>	<b>9.7</b>	<b>10.5</b>	<b>12.5</b>	<b>11.7</b>
Minorities / Convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholder Equity</b>	<b>48.7</b>	<b>51.3</b>	<b>47.2</b>	<b>35.0</b>	<b>39.4</b>	<b>23.7</b>	<b>16.8</b>	<b>25.9</b>
<b>Total Funds Employed</b>	<b>48.7</b>	<b>51.3</b>	<b>47.2</b>	<b>35.0</b>	<b>39.4</b>	<b>24.1</b>	<b>17.2</b>	<b>26.2</b>



## Universal Biosensors Inc – Q3FY13

### CHANGES TO FORECASTS

We have revisited our modelling for UBI's glucose and coagulation businesses, following recent company updates and subsequent discussions with management. The downgrades to our expectations are documented below.

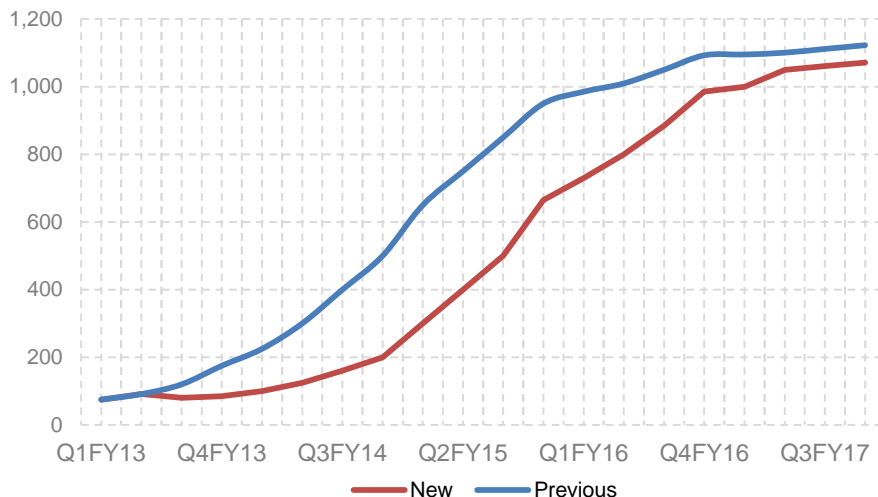
**Siemens/UBI delays the launch of xPrecia Stride** – with a launch now scheduled for the first half of 2014 (previously targeted last quarter of 2013) we have made the following adjustments:

- Shifted the forecast milestones – (WHTMe: \$3.2M) milestone moved from 2HFY13 into 1HFY14. A further \$3.3M milestone payment previously timed for 2HFY14 has now been moved to 1HFY15.
- Delayed xPrecia launch by 6 months – we now have product (strip) sales to Siemens commencing 2HFY14, but the quantum of those sales and product launch/penetration characteristics are unchanged.

**Revised down our near term forecasts for OneTouch Verio rollout to reflect ongoing uncertainty** – the Q3 service fee receipts of A\$833K missed our forecast of c.A\$1.2M following an unexpected, somewhat delayed impact from the global recall of Verio IQ meters. June's reported recovery in strip sales led us to the somewhat premature conclusion that the impact of the recall was 'done'. Not so. Given the risks of further disruption and the lack of visibility on LifeScan's efforts in promoting Verio, we have downgraded our expectations for OneTouch Verio strip sales by LifeScan over the FY14-16 forecast period.

We have halved our FY14 and FY15 Verio strip sales forecasts to 585M and 1,865M respectively, having redrawn the 'diffusion' curve for the launch. The previous launch curve was based on the information we had describing LifeScan's previous global rollout of their OneTouch Ultra platform (Verio's predecessor, launched over the years 2002-2007), which we delayed by 12 months to arrive at our UBI forecasts. We still forecast OneTouch Verio attaining 'flagship' status in LifeScan's product portfolio (ie building to be their dominant strip product, attaining volumes of c.4.3Bn strips per year). If Verio's annualised Verio sales reach 3Bn strips during 2016 and 4Bn during 2017, as we now model, then the Verio launch will have progressed two years behind the Ultra launch and one year behind our previous forecast.

**FIGURE 1: PREVIOUS AND REVISED QUARTERLY ONETOUCH VERIO STRIP SALES FORECASTS (UNITS: MILLIONS OF STRIPS PER QUARTER).**



Source: WTM Research



**LifeScan commissions Inverness-II plant; Rowville's Verio manufacturing future uncertain** – LifeScan has commissioned and validated a second Verio manufacturing line at their facility in Inverness, Scotland. LifeScan's design capacity is now 1.5Bn strips, annually. We see this as a positive development, of course, because it signals a potential increase in LifeScan's sales efforts with Verio.

Adversely, UBI's role as a second source of Verio strip product is in more doubt now, and LifeScan may elect to manufacture all Verio strips 'in-house'. UBI's manufacturing volumes in Q3 supported A\$1.4M in product revenue, down c.60% from the levels we saw in Q2. Management expects Q4 activity levels to be similar to Q3, in which UBI lost money on the exercise.

**TABLE 1: FIXED COSTS RENDERED VERIO MANUFACTURE UNPROFITABLE AT Q3 VOLUMES.**

	1HFY13	3QFY13	FY(YTD)
Product revenue	7.16	1.40	8.56
Gross profit	0.29	(0.37)	(0.09)
gross margin	4.0%	-26.6%	-1.0%

Source: WHTM Research

UBI is now negotiating with LifeScan to try and reach an alternative arrangement. The two scenarios we contemplate are:

- Agree some quarterly minimum strip volume that LifeScan must purchase, at which UBI's exercise makes a modest margin;
- Discontinue Rowville's OneTouch Verio manufacturing, LifeScan switching to their Inverness-I and Inverness-II plants as sole source.

We are surprised by the swiftness with which LifeScan has reduced its demand for Rowville's strip product. We were previously modelling UBI selling c.50M strips/quarter to LifeScan (Q2 activity levels), which was a marginally profitable exercise. We have taken OneTouch Verio 'product revenue' and gross profit out of our forecasts. Of all the changes to earnings made in this note, this was the least significant.

**Lower FY13 and FY14 turnover forecasts brings tax rebates into play** – given that turnover is likely to be below \$20M for both FY13 and FY14, UBI is likely eligible for cash tax rebates in relation to 45% of its eligible R&D expenses. This could provide c\$5-6M 'other revenue' in FY13 and c.\$3-4M in FY14.



**TABLE 2: REVISED FORECASTS FY13E-16E**

	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>
<b>SMBG / LifeScan</b>				
Product Revenue (AUDm)	8.6	-	-	-
Service Fees on strips (AUDm)	3.3	6.4	20.8	40.0
Other Revenue (AUDm)	5.8	3.2	-	-
<b>Haemostasis (Siemens)</b>				
PT Milestones (AUDm)	-	3.2	6.5	-
Product Revenues (AUDm)	-	0.4	2.7	9.0
<b>PST INR Opportunity</b>				
	-	-	-	-
<b>REVENUE</b>	<b>12.7</b>	<b>13.2</b>	<b>30.1</b>	<b>49.0</b>
COGS (pre depreciation)	5.2	0.6	0.6	0.7
<b>GROSS PROFIT</b>	<b>7.5</b>	<b>12.6</b>	<b>29.4</b>	<b>48.3</b>
<i>gross margin</i>	<i>31.4%</i>	<i>64.6%</i>	<i>76.9%</i>	<i>82.7%</i>
R&D Expense (A\$m)	13.4	9.0	9.4	9.7
SG&A (A\$m)	7.0	8.0	8.5	9.0
<b>EBITDA</b>	<b>(14.0)</b>	<b>(4.4)</b>	<b>11.6</b>	<b>29.6</b>
D&A	2.6	2.7	2.9	3.0
<b>EBIT</b>	<b>(16.6)</b>	<b>(7.1)</b>	<b>8.7</b>	<b>26.6</b>
Net interest	0.5	0.3	0.3	0.5
<b>PBT</b>	<b>(16.1)</b>	<b>(6.9)</b>	<b>9.0</b>	<b>27.2</b>
Tax	-	-	-	-
<b>NPAT (A\$m)</b>	<b>(16.1)</b>	<b>(6.9)</b>	<b>9.0</b>	<b>43.3</b>

Source: WHTM Research

## SIEMENS COAG DELAY

UBI and Siemens have revised their launch plans for the xPrecia Stride point of care coagulation testing system. Previously, the parties had been working towards a 2H2013 target for some time. UBI is opening additional clinical trial sites in order to recruit more patients with high INR values (ranging 4 < INR < 8) to establish diagnostic performance across the full clinical range. Roche's CoaguCheck system, with which xPrecia will compete is rated for INR values between 0.8 and 8.

We would expect the clinical trial phase for this product to be completed by December. Given that a European approval is a relatively straightforward matter under self-certification provisions, then Siemens could elect to launch in Europe Q1 2014. The US pathway will involve a 510(k) application to FDA and data from a higher number of trial subjects than for European registration. Alternatively, Siemens could wait for that US approval process to complete and launch globally in Q2. UBI has said it will provide an update on its clinical progress and on the revised launch strategy in due course. We would expect to see Siemens place a stocking order at least two months prior to any planned launch.



## VALUATION

We still see DCF analysis as the most appropriate way to model the value of UBI's business, which is a mix of product sales to partners, milestone payments and service fees from LifeScan (in effect, royalties). We use a 14% discount rate to value UBI and apply a 60% risk-factor to account for a) the lack of forward visibility on their glucose business, which remains the dominant component of equity value; and b) risk of further slippage in technical and commercial milestone delivery. Price target cut to \$1.15 per share (previously \$1.51 per share).

**TABLE 3: DCF SUMMARY FOR UBI**

DCF Parameters			
Discount rate	14.0%	Tax rate	30%
Risk adjustment	60.0%	Terminal growth rate	2%
		Forecast horizon	FY23
DCF Valuation			
PV of future cash flows (\$M)	70	Share count	174.6
PV of terminal value (\$M)	145		
Value of operating assets (\$M)	215		
		Diluted share base	186.3
<b>Equity value (\$M)</b>	<b>215</b>	<b>Value/share (\$)</b>	<b>1.15</b>

Source: WTM Research

## RECOMMENDATION, RISKS

We maintain a BUY rating. The stock is being marked down on both visibility and execution risks. Our fundamental valuation of UBI suggests value in owning the stock, although the lack of near term meaningful catalysts and the risk for further earnings downgrades may limit share price performance in the short term. The discounts applied by the market are excessive in our view, notwithstanding the recent string of adverse developments. We recommend accumulating this stock at these levels, anticipating a sustained growth phase in glucose revenue and progress over the next year building the coagulation opportunities (with and without Siemens).

**Potential catalysts** – a) our downgrades to Verio rollout may prove too aggressive, in which case UBI's quarterly service fees could begin to consistently beat our forecasts; b) UBI may negotiate a better outcome on Verio manufacturing than the position we now model; c) milestones payable under the Siemens deal are unknown and may prove higher than we forecast; d) receipt of a stocking order for xPrecia strips by Siemens, ahead of launch; e) delivery on technical milestones such as immunoassay development.

**Downside risks** – a) our downgrades to Verio rollout may prove too light, leading to further downgrades; b) milestones payable under the Siemens deal are unknown and may prove lower and later than we forecast; c) adverse clinical and regulatory outcomes in relation to UBI's products.



## RETURN RE-INVESTMENT MATRIX

Return	High	Cash Generator	Champion
	Low	Challenged	Potential
		Low	High
		Re-investment	

We rate UBI technology highly, noting multiple high-value diagnostic opportunities which can be accessed on modest R&D investment.

## RISK MEASURES

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

UBI stock is relatively illiquid. Business risks mitigated by involvement of multinational partners with established presence in UBI's product areas.

## BUSINESS DESCRIPTION

Universal Biosensors is a developer and manufacturer of molecular diagnostics equipment for point-of-care (PoC) medical settings. They have developed electrochemical cell and manufacturing technologies to produce 'strip and meter' diagnostic tools for diabetes care (partnered with JNJ subsidiary LifeScan) and blood coagulation monitoring (partnered with Siemens). They are also growing into new, high value PoC applications such as genetic typing and immunoassay.

## INVESTMENT THESIS

Our thesis on UBI is that we see the company becoming a multiple royalty house, continuing to partner new diagnostic products with groups who are ranked either 1 or 2 in their fields. In our view, their partnering success to date has been a function of delivering new product features at low cost of goods, thanks to their proprietary, high yielding 'reel-to-reel' manufacturing capabilities.

## REVENUE DRIVERS

- LifeScan conducting global launch of UBI's OneTouch Verio glucose monitoring strip for diabetes care - could grow to 4.5Bn strips/year;
- Siemens to launch UBI coagulation monitoring product in 2013;
- Prospect of further partnering deals based on product pipeline.

## MARGIN DRIVERS

- Make a modest (c.15%) gross margin on OneTouch Verio strips supplied to LifeScan
- Make a zero cost US1 cent/strip 'service fee' on all OneTouch Verio strips, sold globally
- We estimate 70% gross margin on coagulation strips sold to Siemens

## KEY ISSUES / CATALYSTS

- Upside risks
- Quarterly cash-flow and SEC filings indicate LifeScan's progress on OneTouch Verio strip sales;
- Product launches by Siemens;
- New partnering transactions on other products;
- New technology innovation, pipeline development.

## RISK TO VIEW

- Downside risks
- Large partners like LifeScan are slow to move - provide low visibility
- Medical device risks: difficulties with competitors, product recalls.

## BALANCE SHEET

- We estimate that UBI will have c.\$15.6M cash as at end-FY13.
- Negligible debt.

## BOARD

- Mr Andrew Denver (Chairman, Director)
- Mr Paul Wright (Managing Director, CEO)
- Mr Chris Smith (Director)
- Mr Denis Hanley (Director)
- Mr Marshall Heinberg (Director)
- Mr Andrew Jane (Director)

## MANAGEMENT

- Mr Paul Wright (Managing Director, CEO)
- Mr Satesh Balak (CFO)

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#### Return Reinvestment Matrix and Risk Measures

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

#### Recommendation Structure and Other Definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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