

Universal Biosensors Inc

Strong results underpinned by Blood Glucose growth

For 1H CY17, UBI reported a 36.5% increase in Revenue to \$14.3m and a \$2.7m increase in EBITDA to \$3.9m, from increasing LifeScan Quarterly Service Fees (QSFs) and a positive contribution from the Siemens product. Key Features were:

- A 19.1% increase in 1H CY17 Verio strip sales to 837.2m strips, with an 11.0% increase in QSFs to \$11.5m. The lower growth rate was due to a strong pcp and A\$, and the tiered fee system. The cumulative QSFs reached US\$43.5m, close to the LifeScan Option exercise point of US\$45m (see Page 10).
- Strip sales to Siemens increased by \$2.1m to \$2.3m, boosted by the launch of the Blood Coagulation product in the US in Q2 CY17.
- A \$0.2m increase in Corporate Costs to \$3.2m and a \$1.7m (27.2%) reduction in R&D to \$4.4m, reflecting a refocus of the development pipeline.
- A \$5.4m increase in Operating Cash Flow to \$1.6m with the improved results.
- Gross Cash of \$20.0m (11.3¢ ps) and Net Cash of \$0.7m (0.4¢ ps) at 30/6/17.

Strong growth to continue in CY17 and CY18

- Strong growth expected in strip sales of 27.9% and 37.6% in CY17 and CY18, resulting in an 18.8% increase in LifeScan QSFs to around \$21.2m in CY17 and 29.7% in CY18 to \$27.5m, with rising market share, intense marketing, meter replacement and competitive advantage in terms of accuracy.
- An expected lump sum payment of A\$55.0m from the exercise of LifeScan's QSF buyback option, recognised as Profit in CY18 and received in Q1 CY19.
- An increase in 2H CY17 sales of blood coagulation strips, from the Q2 CY17 launch of the Xprecia Stride in the USA and increased marketing in the EU.
- Strong Cash Flow in CY17, with improving Revenue, control of costs and a further Cash R&D Rebate of around \$7.5m (relating to CY16).

What's UBI worth?

We take a conservative approach, assuming exercise of the LifeScan option at the first opportunity (Q1 CY18), resulting in a DCF Valuation of \$0.74 ps, comprising:

Blood Glucose – DCF Valuation of A\$94.7m (53.7¢ ps), based on combined QSFs for CY17 and CY18 of around A\$38.3m, plus a CY18 A\$54.8m Lump Sum payment.

Blood Coagulation – A combined DCF of A\$87.4m (49.6¢ ps).

R&D & Corporate Costs – A combined DCF of -\$58.0m (-32.9¢ ps) with R&D to the launch of the Blood Coagulation tests in CY18, plus ongoing corporate costs.

Other – Net Debt/Cash, Working Capital and Current Assets of \$4.9m (2.8¢ ps).

If the LifeScan QSF's Option is not exercised in CY18, there would be a substantial increase in the Valuation, with our DCF valuations ranging up to \$1.79 ps.

Forecasts

An EBITDA of \$5.3m in CY17 on Revenue of \$27.5m, escalating to \$73.3m in CY18 on revenue of \$96.9m with the Lump Sum payment, pre-dominantly tax free. UBI will be profitable in CY19 onwards, with escalating Blood Coagulation Revenue.

UBI has also announced a new CEO, effective 1/10/17, and changes to the Board.

Recommendation

BUY, based on a substantial discount to our Valuation of \$0.74 ps, and:

Short Term Gain – A potentially substantial windfall Profit of \$55.0m in CY18, with an even stronger fall-back position.

Growth Markets – Leading edge technology, a strong IP position in large rapid-growth Healthcare sectors and key relationship with global healthcare groups.

Resources – A modern approved plant meeting future capacity requirements.

UBI.ASX

BUY

21 August 2017

Price **\$0.42**

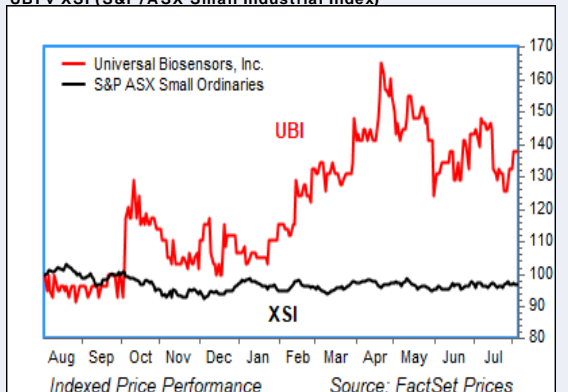
Valuation **\$0.74**

Valuation method DCF
 GICS sector Financials
 12 Mth Price Range \$0.26 - 0.48
 Avg monthly t/o 2.2m
 Market Capitalisation \$73m
 Shares on issue 176m
 Options on Issue 30m
 Enterprise value \$68m

Previous rating **BUY**

Year Ended Dec 31		14A	15A	16A	17E	18E
Revenue	\$m	9.5	16.8	18.8	27.5	96.9
EBITDA	\$m	-2.1	1.3	6.3	5.3	73.3
EBITDA Growth	%	-77.4	na	382.6	-16.4	1293.2
EBITDA margin	%	-22	7.8	33.4	19.1	75.7
EBIT	\$m	-4.6	-1.2	3.9	3.6	71.6
NPAT	\$m	-7.2	-5.2	1.3	2.3	69.7
Reported Profit	\$m	-9.3	-6.6	1.3	2.3	69.7
EPS	¢ ps	-4.1	-2.9	0.7	1.3	39.5
EPS growth	%	-38.7	-28.0	na	na	na
DPS	¢ ps	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0
PER	x	-4.2	-14.9	43.7	32.4	1.1
DPS	¢ ps	0.0	0.0	0.0	0.0	0.0
Dividend yield	%	0.0	0.0	0.0	0.0	0.0
NTA/share	¢ ps	11.6	7.8	8.5	9.8	49.3
EV/EBITDA	x	-14.7	60.6	11.7	13.0	0.0
Gearing (D:E)	%	8.2	42.3	1.7	0.0	0.0
P/OCF	x	-5.5	42.3	7.7	7.3	1.0
R&D	\$m	19.4	-16.8	-12.7	-11.0	-11.0
R&D / Revenue	%	-249.8	113.2	67.3	40.0	30.6
ROA	%	-8.9	-2.5	8.1	7.2	97.4
ROE	%	-28.7	-30.3	8.7	13.9	133.6
Interest cover	x	-1.9	-0.4	1.4	1.5	35.8

UBI v XSI (S&P/ASX Small Industrial Index)



Activities

Development & commercialisation of medical diagnostic devices, especially for point of care in vitro tests.

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Universal Biosensors (UBI)

Current Price: \$0.42 ps Target Price: \$0.74 ps

FINANCIAL PERFORMANCE							
Year ended 31-Dec		13A	14A	15A	16A	17E	18E
Sales Revenue	\$m	15.1	7.8	14.8	18.8	27.5	36.0
Milestones, Lump Sum*	\$m	0.0	1.8	2.0	0.0	0.0	60.9
Total Revenue	\$m	15.1	9.5	16.8	18.8	27.5	96.9
Cost of Goods Sold	\$m	-11.6	-0.6	-1.4	-1.2	-4.9	-6.0
Gross Operating Profit	\$m	3.4	9.0	15.4	17.7	22.6	90.9
R&D	\$m	-13.2	19.4	-16.8	-12.7	-11.0	-11.0
R&D Refund	\$m	6.3	9.9	9.2	7.6	0.0	0.0
Corporate Costs/Other	\$m	-6.0	-5.7	-6.5	-6.3	-6.3	-6.3
EBITDA	\$m	-9.5	-2.1	1.3	6.3	5.3	73.3
Depreciation	\$m	-2.5	-2.4	-2.5	-2.4	-1.7	-1.7
EBIT	\$m	-12.0	-4.6	-1.2	3.9	3.6	71.6
Interest	\$m	-0.3	-2.4	-3.1	-2.7	-2.3	-2.0
Forex Adjustment	\$m	0.6	-0.2	-0.9	0.1	1.0	0.0
Pre Tax Profit	\$m	-11.6	-7.2	-5.2	1.3	2.3	69.6
Tax	\$m	0.0	0.0	0.0	0.0	0.0	0.1
Normalised Profit	\$m	-11.6	-7.2	-5.2	1.3	2.3	69.7
Significant Items (Net of tax)	\$m	0.0	-2.1	-1.4	0.0	0.0	0.0
Reported Profit	\$m	-11.6	-9.3	-6.6	1.3	2.3	69.7

GROWTH							
		13A	14A	15A	16A	17E	18E
Revenue	%	-49.1	-48.4	90.5	27.1	46.0	31.0
COGS	%	-37.6	-95.2	148.3	-16.6	328	214
Gross Operating Profit	%	-68.6	160.3	71.6	14.8	27.6	302.8
R&D	%	-2.2	-247.4	-186.3	-24.4	-13.2	0.0
EBITDA	%	42.3	-77.4	na	na	na	1293.2
Reported Profit	%	31.1	-38.3	-27.9	-124.2	81	2984
EPS	%	20.6	-38.7	-28.0	-124.1	81	2984

P&L RATIOS							
		13A	14A	15A	16A	17E	18E
Gross Operating Profit / Sales	%	22.8	94.2	91.8	93.9	82.1	93.8
EBIT / Sales	%	-79.2	-47.9	-7.0	20.5	12.9	73.9
Effective Tax Rate	%	0.0	0.0	0.0	0.0	0.0	-0.1
Interest Cover	x	-37.4	-19	-0.4	1.4	1.5	35.8
R&D/Tot Revenue	x	87.4	-249.8	113.2	67.3	40.0	30.6
Expenses/Revenue		39.8	73.9	44.2	33.4	22.9	17.5
Working Cap/Revenue		-13.3	3.7	20.9	5.6	7.9	8.0

Per SHARE							
		13A	14A	15A	16A	17E	18E
Issued Shares (Year End)	m	175.6	175.6	176.1	176.3	176.3	176.4
Issued Shares (Wt Avg)	m	174.4	175.6	175.9	176.2	176.3	176.3
EPS	eps	-6.7	-4.1	-2.9	0.7	1.3	39.5
Operating Cash Flow ps	eps	-9.5	-3.1	1.0	4.0	5.7	39.9
DPS	eps	0.0	0.0	0.0	0.0	0.0	0.0

PARAMETERS							
		13A	14A	15A	16A	17E	18E
Year-End Share price	eps	46	17	44	31	42	42
PE Ratio	x	-6.9	-4.2	-14.9	43.7	32.4	1.1
Enterprise Value / EBITDA	x	-7.7	-14.7	60.6	11.7	13.0	0.0
Cash Flow ratio	x	-4.8	-5.5	42.3	7.7	7.3	10
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0	0.0

SEGMENTS							
		13A	14A	15A	16A	17E	18E
Sales Revenue							
Strip Sales	\$m	10.2	0.2	1.3	0.6	5.0	7.0
QSFs (Lifescan)	\$m	3.4	6.4	12.8	17.9	21.2	27.5
Other (Inc Lump Sum)	\$m	1.5	1.1	0.7	0.4	1.3	56.5
Milestones	\$m	0.0	1.8	2.0	0.0	0.0	5.8
EBITDA							
Strip Sales	\$m	-0.3	-0.1	0.2	-0.4	1.9	2.8
QSFs (Lifescan)	\$m	3.4	6.4	12.8	17.9	21.2	27.5
Other (Inc Lump Sum)	\$m	0.3	0.9	0.4	0.2	-0.3	55.0
Milestones	\$m	0.0	1.8	2.0	0.0	0.0	5.8
R&D	\$m	-13.2	-14.3	-16.8	-12.7	-11.0	-11.0
Admin Fees	\$m	-6.0	-5.7	-6.5	-6.3	-6.5	-6.6
EBIT Growth							
Strip Sales	%	-120.6	na	na	-320.0	-554	49.5
QSFs (Lifescan)	%	52.3	89.3	99.0	39.1	18.8	na
R&D	%	-2.2	8.6	17.1	-24.4	-13.2	0.0
Admin Fees	%	-11.6	-4.2	13.9	-3.9	3.3	15
EBIT Margin							
Strip Sales	%	-2.8	-45.4	14.2	-70.5	37.5	40.1

Source: UBI (Act) and Veritas Securities (Est)

CASH FLOW							
Year ended 31-Dec		13A	14A	15A	16A	17E	18E
Operating Profit	\$m	3.7	-21.6	10.1	15.1	16.3	84.3
Net Interest Received/Paid	\$m	0.5	-2.4	-0.2	-2.2	-2.3	-2.0
Tax Paid	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Change Working Capital	\$m	-2.5	-3.2	4.6	-2.6	-0.1	-1.0
Other (inc R&D Refund)	\$m	-5.2	2.3	4.1	9.4	7.2	0.0
Operating Cash Flow	\$m	-3.4	-24.8	18.6	19.7	21.0	81.3
R&D	\$m	-13.2	19.4	-16.8	-12.7	-11.0	-11.0
Capex	\$m	-0.2	-1.0	-1.3	-1.2	-1.6	-1.6
Free Cash Flow	\$m	-16.8	-6.4	0.6	5.8	8.4	68.7
Acquisitions/Asset Sales	\$m	0.0	0.0	0.0	-0.1	0.0	0.0
Dividends Paid	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Equity Change	\$m	0.4	0.0	0.0	0.0	0.0	0.0
Debt	\$m	16.0	0.5	-0.2	0.0	-1.7	-19.0
Other	\$m	0.0	-2.3	-3.6	0.0	-3.2	0.0
Net Cash Flow	\$m	-0.4	-8.2	-3.2	5.8	3.5	49.7
Currency Adjustment	\$m	0.5	0.7	1.2	0.2	0.0	0.0
Net Change in Cash	\$m	0.1	-7.4	-2.0	6.1	3.5	49.7

BALANCE SHEET							
		13A	14A	15A	16A	17E	18E
Cash	\$m	23.7	16.3	14.4	20.4	23.9	73.6
Receivables	\$m	2.2	3.8	3.2	4.8	5.0	6.0
Inventory	\$m	0.0	0.4	0.4	0.8	2.5	3.5
Other Current Assets	\$m	9.9	9.7	11.0	9.2	2.5	3.0
Current Assets	\$m	35.8	30.3	28.8	35.2	33.9	86.1
Property, Plant & Equipment	\$m	15.9	14.3	12.9	11.5	11.5	11.4
Intangibles	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Other NC Assets	\$m	2.9	2.9	3.2	3.2	3.5	0.5
Non Current Assets	\$m	18.8	17.3	16.1	14.7	15.0	11.9
Total Assets	\$m	54.6	47.5	45.0	50.0	48.9	98.0
Payables	\$m	3.3	2.1	2.8	2.3	4.0	5.0
Current Debt	\$m	0.0	0.5	0.3	0.4	19.0	0.0
Other Current Liabilities	\$m	2.1	3.9	1.7	3.2	2.5	2.5
Current Liabilities	\$m	5.4	6.5	4.8	5.9	25.5	7.5
Non Current Debt	\$m	15.9	17.5	19.9	20.3	0.0	0.0
Other NC Liabilities	\$m	3.7	3.8	7.0	10.5	6.1	3.5
Non Current Liabilities	\$m	19.5	21.3	26.9	30.8	6.1	3.5
Total Liabilities	\$m	24.9	27.8	31.7	36.7	31.6	11.0
Shareholder Funds	\$m	29.7	20.4	13.8	15.1	17.3	87.0

BALANCE SHEET RATIOS							
		13A	14A	15A	16A	17E	18E
Receivables turn	x	6.8	2.6	4.3	4.7	5.6	6.5
Inventory turn	x	6.5	2.8	3.7	1.9	3.0	2.0
Net Debt	\$m	0.0	1.7	5.8	0.3	0.0	0.0
Gearing (D:D+E)	%	0.0	7.6	29.7	1.7	0.0	0.0
Current Ratio (CA:CL)	x	6.6	4.7	6.0	5.9	1.3	11.5
Net Tangible Assets	eps	16.9	11.6	7.8	8.5	9.8	49.3
Cash	eps	4.5	0.0	0.0	0.0	2.8	41.7
Return On Assets	%	-23.1	-8.9	-2.5	8.1	7.2	97.4
Return on Equity	%	-33.7	-28.7	-30.3	8.7	13.9	133.6

VALUATION			
Valuation Method	\$	Premium(+)/Discount(-) %	
DCF	0.74	-44.0	
Price Target	0.74	-44.0	
Current Price	0.42		
Market Capitalisation	\$73.2m	Enterprise Value: \$68.2m	

MAJOR SHAREHOLDERS			
Vibumum	m	27.3	15.5% Fund Manager
KFT Investments	m	18.0	10.2% George Kepper
Top 20 (19/4/2016)	m	106.6	60%

DIRECTORS			
		MANAGEMENT	
Craig Coleman	N-E Ch	Rick Legleiter	CEO (as from 1/10/17)
Judith Smith	N-E Dir	Salesh Balak	CFO
Marshall Heinberg	N-E Dir	Garry Chambers	VP Technology D'ment
David Hoey	N-E Dir	Dr Alastair Hodges	Chief Scientist
		Dr Adrian Oates	VBP Quality & Regulatory

* Mostly Siemens' Milestones and LifeScan Option Payment

CY17 Interim Result

The result continued the underlying improvement in both Revenue and Operating Profit resulting in the first half yearly Operating Profit for UBI (excluding Milestones and R&D Cash Rebates).

6 Mths to Jun (\$m)	1H 16	1H 17	% Ch	6 Mths to Jun (\$m)	1H 16	1H 17	% Ch
Strip Sales (m)	703.0	837.2	19.1	Operating Cash Flow	-3.8	1.6	-141.3
QSFs - LifeScan	10.3	11.5	11.0	Capex	-0.2	-0.7	192.2
Product Sales - Siemens	0.2	2.3	1152.2	Equity	0.0	0.0	
Milestones	0.0	0.0		Debt	-0.2	-0.3	
Other	0.0	0.6		Dividends	0.0	0.0	
Total Revenue	10.5	14.3	36.5	Net Cash Flow	-1.0	0.6	-162.3
Cost of Goods Sold	-0.2	-2.4	896.8	Currency Adj	-0.2	-1.0	
Gross Operating Profit	10.3	11.9		Net Cash Flow Change	-1.1	-0.4	
R&D	-6.1	-4.4	-27.2	Balance Sheet	1H 16	1H 17	% Ch
Expenses	-3.0	-3.2	7.4	Current Assets	29.5	36.4	
Other Expenses	0.0	-0.3		Non Current Assets	15.1	14.3	
EBITDA	1.2	3.9	235.9	Total Assets	44.5	50.7	13.8
Depreciation	-1.3	-0.8		Current Liabilities	4.4	7.7	
Interest (Net)	-1.4	-1.4		Non Current Liabilities	29.8	27.0	
Currency Adjustment	0.4	0.8		Total Liabilities	34.2	34.7	1.6
Pre-Tax Profit	-1.2	2.5	-309.5	Shareholder Funds	10.3	16.0	54.4
Tax	0.0	0.0		Cash - Gross (\$m)	13.2	20.0	51.0
Net Profit	-1.2	2.5	-309.5	Net Cash (¢ ps)	17.3	0.4	-97.8
Gross Margin (%)	97.7	83.3		Net Debt	6.5	0.0	
EBITDA Margin (%)	11.2	27.5		Gearing D:D+E (%)	38.8	0.0	
R&D/Revenue (x)	57.9	30.9		NTAV (¢ ps)	5.9	9.0	54.2
EPS (¢ ps)	-0.7	1.4	-309.2	Net Assets (¢ ps)	5.9	9.0	54.2
Cash Flow (¢ ps)	-2.2	0.9	-141.3	Current Ratio (x)	6.7	4.7	
DPS (¢ ps)	0.0	0.0		Revenue/Working Capital (x)	1.6	1.5	

Source: UBI

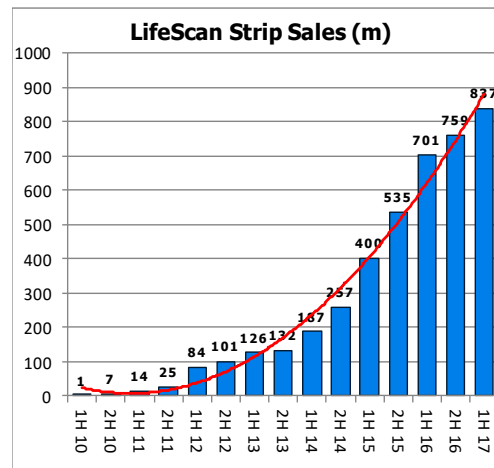
Revenue

LifeScan Strip Sales – 2Q CY17 Strip sales increased by 5.5% to 0.422b, resulting in a 1H CY17 increase in strip sales of 19.1% to 0.837b. On a rolling 12 monthly basis, strip sales increased by 39.7% to 1.596b.

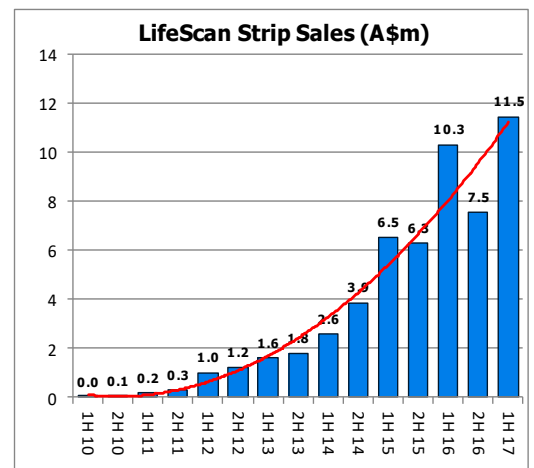
Data for H1 FY16 is not indicative on a comparable basis, due to a significant build in customer inventory in the Q2 CY16, ahead of a major change in logistics within LifeScan in Q3 CY16.

QSFs – QSFs from LifeScan strip sales for Q2 CY17 fell by 13.5% to \$4.7m, reducing the 1H CY17 increase of 11.0% to \$11.5m. The lower growth rate was due to the lower volume growth, a larger impact from the tier fee arrangement and an increase in the A\$:US\$ rate of over 3%.

Cumulative QSFs increased to US\$43.5m, with the option trip level of US\$45m now expected to be achieved in Q3 CY17 and QSFs received by UBI reached in Q4 CY17, for the option to be exercisable from Q1 CY18.



Source:UBI



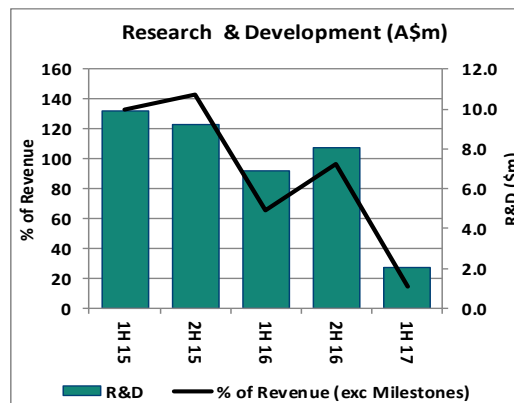
Source:UBI

Siemens – With Q2 CY17 strip sales of \$1.4m (Q2 CY16 Nil), comprising 1.1m strips at US\$1.30¢ per strip, 1H CY17 strip Revenue increased by \$2.1m to A\$2.3m (1.8m strips). This reflects increasing sales in Europe and stocking ahead of a US launch in May 2017.

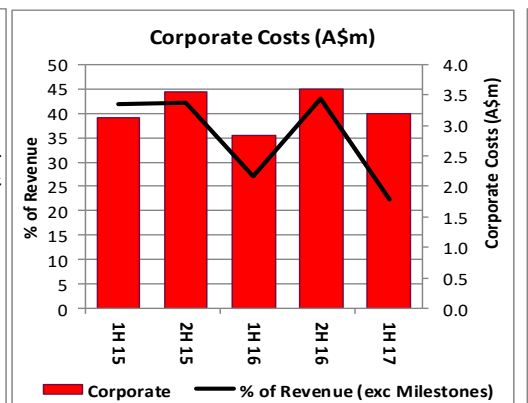
Other – Revenue of \$0.6m included the recently acquired Hemastasis Reference Laboratory (HRL) and work undertaken for Siemens.

EBITDA - Improved by \$2.7m to \$3.9m, due to:

- QSFs - The escalation of strip sales by LifeScan and resultant QSFs.
- An EBITDA contribution of \$0.5m from strip sales and service fees to Siemens.
- R&D - Reduced R&D payments, down 27.2% to \$4.4m from:
 - A refocus of the development pipeline with stricter R&D criteria and a focus on ROI, especially in the absence of a Cash R&D Rebate for CY16.
 - A maturing in the development of the Siemens products. Of the \$4.4m in R&D, \$0.3m relates to Research and \$4.09m to Development.
- Corporate Expenses – Increased by 7.7% to \$3.2m, before adjusting for a share based payments gain of \$0.2m (1H CY16 Loss of -\$1.7m). The greater underlying increase was due to the acquisition of HRL and an expansion of the Siemens’ related activities.
- A charge of \$0.3m, relating to technical support for the blood coagulation product from Siemens.



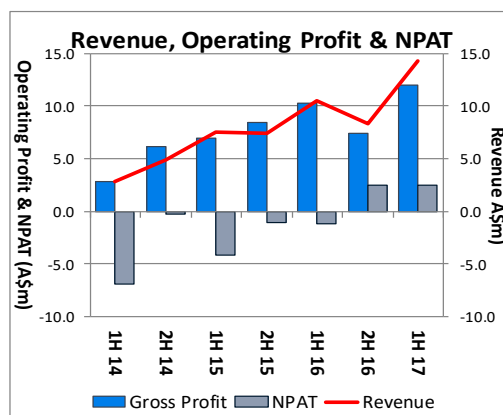
Source: UBI



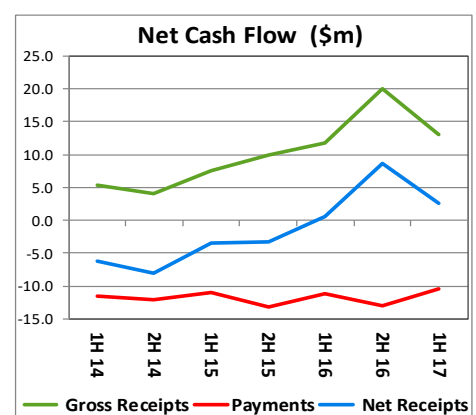
Source: UBI

Net Profit – The \$3.7m improvement in Net Profit to \$2.5m was after flat Net Interest costs of \$1.4m and a Forex gain of \$0.8m (1H CY16 \$0.4m):

Cash Flow - A \$5.4m improvement in Operating Cash Flow to \$1.6m, resulting in modest Net Cash Outflows of \$0.4m, after Capex of \$0.7m, Debt prepayment of \$0.3m and a Forex adjustment of \$1.0m.



Source: UBI



Source: UBI

Balance Sheet - Key Features were:

- **Cash** - Gross Cash of \$20.0m (11.3¢ ps), with Net Cash of \$0.7m. In addition, there is Restricted Cash of \$3.0m (US\$2.0m) required under the Athyrium Agreement and a further \$0.3m of Collateral, classified within Other Non-Current Assets.
- **Other Current Assets** – Other Assets of \$9.1m includes an expected \$7.5m Cash R&D Refund to be received in Q3 CY17.
- **Debt** - Total Debt of \$19.1m (US\$15m), related to the Athyrium facility, to be repaid with a bullet payment in December CY18.
- **Working Capital** – Increased by \$1.7m to \$4.9m with the ramp-up of Siemens activity and the HRL acquisition.
- **Other Non-Current Liabilities** – Covers:
 - Deferred Revenue of \$5.2m, covering the pre-paid Milestone Payment of US\$3.75m received in CY16, and US\$0.9m relating to an allocation of the original Collaboration Agreement paid in CY11, both expected to be recognised in CY18.
 - Asset Retirement Obligations of \$2.6m, related to its Melbourne facility.

Management and Board Changes

Rick Legleiter - Has been appointed Chief Executive Officer, effective 1/10/17, replacing Andrew Denver who was Acting CEO. Rick has an MBA (Harvard), BSc in Nuclear Engineering (Kansas State) and a BSc Applied Mathematics (Kansa State), with 16 years of international healthcare and medical technology experience spanning Europe, Australia, Asia (including China) and the USA experience, which includes coverage of UBI's industry sectors.

Rick has 14 years' experience with Siemens Healthcare in the USA and Germany and was most recently Senior Vice President, Healthcare Account Manager, where he established and led key account management sales function for the full laboratory and point-of-care diagnostics and imaging product range.

Andrew Denver - Has retired as an Executive Chairman and Acting CEO from 7/8/17 and will retire as Acting CEO on 1/10/17, but will remain in an advisory capacity for a minimum of 12 months, ensuring a smooth transition. Andrew has been a director since December 2002 and Chairman since September 2005.

Craig Coleman – Has been appointed a Non-Executive Chairman to succeed Andrew Denver. Craig was appointed a Non-Executive Director in June 2016 and is Executive Chairman of Viburnum Funds, UBI's largest shareholder at 16%.

Dennis Hanley – Has retired as a Non-Executive Director. Dennis had been Director since September 2001.

New Directors – UBI will look to identify new Non-Executive Directors with an appropriate range of skills and experience.

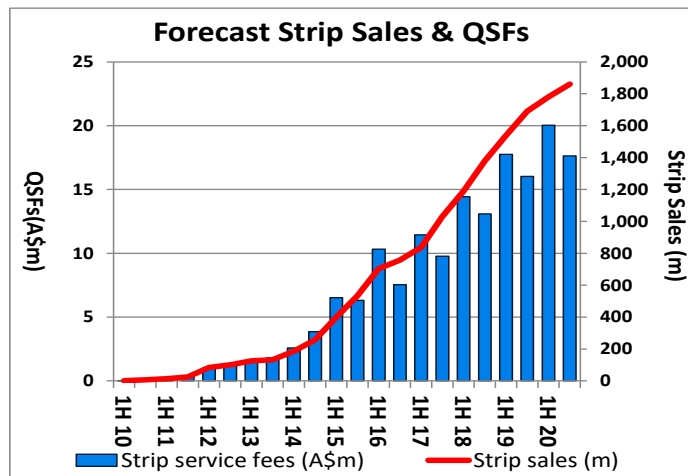
Outlook

Blood Glucose

Continued growth in Quarterly Service Fees is expected with a strong increase in strip sales, from:

- The continued growth in diabetes sufferers globally, with an estimated 20b blood glucose tests annually in the Blood Glucose market estimated by Espicom at \$12.0b in CY16, growing at a CAGR of 3%.
- Further substitution by LifeScan of Verio for its existing Ultra range, accelerated by:
 - Identification of Verio as the market leader and LifeScan’s most competitive product platforms. This has been boosted by the introduction of new Verio meters with added functionality, making it easier for users to monitor blood glucose levels on a continual basis.
 - A recent court case allowing the widespread marketing of a generic strip for LifeScan’s Ultra brand within the US, which impacts the viability of that product range and will increase the substitution of Verio for Ultra.
 - The pending introduction in Europe of ISO accuracy standards, although delayed until mid-CY2018. LifeScan has a program of replacement of its ‘Ultra’ range of meters with Verio meters in some jurisdictions.

With the recent strip sales, we have adjusted our Diffusion Curve covering the substitution of Verio for Ultra strips within LifeScan and expected half yearly strip sales. We now expect the US\$45m in cumulative strip sales required for the LifeScan option to be reached in Q3 CY17 and the LifeScan Option possibly exercised in Q1 CY18.



Source: UBI (Act), Veritas (Est)

With continued strong growth in strip sales, the LifeScan Option Agreement becomes an important consideration. While we are uncertain whether or when LifeScan will exercise the Option, we have taken a conservative approach and assumed cumulative QSF’s incurred by LifeScan reach US\$45m in Q3 CY17, received by UBI in Q4CY17, and the option is exercised at the first opportunity (ie as at Q1 CY18).

On our forecasts (assuming a A\$:US\$ rate of 0.79¢), this would result in:

- QSFs to be received for CY17 of A\$21.2m, including \$9.8m in 2H CY17.
- QSFs to be received for CY18 of A\$27.5m.
- A one off payment of US\$43.6m (A\$55m or 31.2¢ ps) in CY18 (to be received within 60 days of Year-end),

Option Exercised ²	Revenue (A\$m)						EBITDA (A\$m)					
	CY 15	CY 16	CY 17	CY 18	CY 19	CY 20	CY 15	CY 16	CY 17	CY 18	CY 19	CY 20
Service Revenue - Strips ¹	0.0	17.9	21.2	27.5			12.8	17.9	21.2	27.5		
Lump Sum ¹										55.0		
Total	0.0	17.9	21.2	27.5	0.0	0.0	12.8	17.9	21.2	82.5	0.0	

Source : UBI (Act), Veritas (Est)

¹ at A\$:US\$ rate of 0.79

²Option exercised at 1st Opportunity

UBI Forecasts for Non-Exercise of the LifeScan Option are outlined in Appendix 1 on Page 9.

An explanation of the option and the likelihood of exercise are outlined in Appendix 2 on Page 10.

Blood Coagulation

PT/INR - Penetration and sales are expected to escalate in 2H CY17 and CY18 from:

- Improvements in the accuracy of the strip, at least to the standard of the competing Roche strip, and increased functionality, including reduced size, a touch screen and a lower blood volume requirement.
- The launch in the US in 2Q CY17 and the previous commercial launch across the majority of the 31 countries in Europe covered by CE Mark and other countries that rely on FDA clearance or CE Mark approval, marketed through Siemens’ distribution network. While 2H strips sales will grow over the pcp, they may fall below 1H, where there was stock ahead of the US launch.
- The recent withdrawal from the market of Alere (the No.2 player) which had an 17% market share.
- A minor contribution from the recently acquired Hemostasis Reference Laboratory, with UBI its major customer.

The Global Point-of Care market for Blood Coagulation testing was estimated at \$1.3b in CY16 with growth forecasts of 9% pa to around US\$1.6b by 2018. PT/INR at around 60% of this market is expected to be worth \$1.0b in CY18.

The current operations are running on a 1 shift basis. UBI is scaling up manufacturing to support volume increases to Siemens, with a target margin of around 40%, which is typical of medical device companies.

Other Blood Coagulation - Following focus changes to the joint product development activities, the two additional Blood Coagulation testing systems for Siemens are not expected to be launched in the EU until early CY2019, although Siemens have advanced prototypes in clinical and reliability testing. Clinical trials are expected to commence in CY18, with regulatory approval sought after completion of these trials. While the markets for these tests are smaller, they are expected to be higher growth markets, with lesser competition and higher margins.

UBI’s Home PT/INR test system – Due to flagged changes in the FDA regulatory requirements, the development of UBI’s PT-INR self-testing device has been delayed, now expected to recommence in 2H CY17 as UBI seeks to enhance the product to meet these changes. The prospects have improved with Centres for Medicare and Medicaid, (covers 100m people in the US) now prepared to fund Point of Care testing as part of an earlier intervention focus.

Combined - Sales from the new Siemens’ tests and UBI’s Home test haven’t been included in our forecasts before CY19. With the US later launch and lower penetration rates for Europe, we have moderated our forecasts to:

Blood Coagulation - Combined

Calendar Year		2014	2015	2016	2017	2018	2019	2020
Strip Revenue	A\$m	0.2	1.3	0.5	5.0	7.0	17.0	24.9
Increase	%		561.5	-59.0	820	39.8	143.7	46.1
EBITDA	A\$m	0.0	0.2	-0.2	1.9	2.8	7.7	12.1
Increase	%		na	-191	-1195	49.5	175.0	57.1
Margin	%		14.1	-31.5	37.5	40.1	45.3	48.7

Source: Veritas

at A\$:US\$ rate of 0.79

Milestone Payments

With changes to the Siemens’ Collaboration Agreement, UBI received US\$2.5m (A\$3.4) in cash Milestone payments in 1H CY16 and US\$1.25 (A\$1.7m) in Q4 CY16. These payments will not be recognised as Revenue until CY18 when approval/launch milestones are reached. Accordingly, we have included US\$4.6m (A\$5.8m) in Revenue in CY18, comprising actual milestones and an allocation of a payment under the original Collaboration Agreement.

Milestones - Revenue Recognition

Calendar Year		2014	2015	2016	2017	2018	2019	2020
Siemens Milestones	US\$m	1.0	1.0			3.8		
Collaboration Revenue	US\$m	0.4	0.4			0.9		
Total Revenue Recognised	US\$m	1.4	1.4			4.6		
Revenue Recognised	A\$m	1.8	2.0			5.8		
less Arthyrium Payments	A\$m	-0.4	-0.4					
Net Revenue	A\$m	1.4	1.5	0.0	0.0	5.8		
Cash Flow impact	A\$m	0.9	0.9	4.7	0.0	0.0		

Source:UBI (Act), Veritas (Est)

at A\$:US\$ rate of 0.79

Other products

Molecular Diagnostics - UBI is continuing with the development of a Point of Care Molecular platform, with proof of concept expected to be demonstrated within 12 months.

Forecasts

LifeScan Option Exercised

If the LifeScan Option is exercised at the first opportunity (as at Q1 CY18), we expect UBI to report an EBITDA of \$4.6m in CY17 and \$73.4m in CY18 from, based on:

- Forecast LifeScan QSFs for CY17 and CY18, based on our Diffusion Curve and a Lump Sum payment based on a 2.0x multiplier of CY18 QSFs.
- Forecasts for Siemens' PT/INR and inclusion of additional Siemens' and UBI's Self-Test from CY18.
- R&D up to completion and clearance of the additional Blood Coagulation tests, with no R&D Cash Rebates in CY17 or CY18, with Revenue expected to be above the A\$20m limit.

However, we expect UBI to receive a Non-refundable Tax Offset of around \$4.2m in both CY17 and CY18, which can be offset against the profit from the Option exercise.

- On-going Corporate Costs, mainly lease obligations and staff costs.

Assuming Exercise of Option

Division	Revenue (\$m)					EBITDA (\$m)				
	CY16	CY17	CY18	CY19	CY20	CY16	CY17	CY18	CY19	CY20
QSFs - LifeScan	17.9	21.2	27.5			17.9	21.2	27.5		
Lump Sum - LifeScan			55.0					55.0		
Siemens - Strips	0.6	5.0	7.0	17.0	24.9	-0.4	1.9	2.8	7.7	12.1
Siemens - Other	0.4	1.3	1.5	1.5	1.5	0.2	-0.3	-0.3	-0.4	-0.5
Milestones			5.8			0.0	0.0	5.8		
R&D						-12.7	-11.0	-11.0	-1.0	
R&D Cash Rebate ¹						7.6	0.0	0.0	0.0	
Corporate						-6.3	-6.5	-6.6	-4.5	-4.5
Total	18.8	27.5	96.9	18.5	26.4	6.3	5.3	73.3	1.8	7.1

Source: Veritas Forecasts

¹ UBI will receive and R&D Tax Credit in CY17 and CY18 of around 40% of eligible R&D

Interest – Annual Interest Payments of US\$1.58m pa (A\$2.1m) for CY17 and CY18, with Debt to be repaid from a bullet payment on 18/12/18 or upon receipt of the Lump-Sum payment, as per the Athryium Agreement. However, there is an opportunity to repay this facility in December 2017 at an early repayment penalty rate, which would result in an overall interest saving.

Tax - With Forecast Revenue exceeding \$20m in CY17 and CY18, UBI won't receive a Cash R&D Rebate, but rather a Non-refundable Tax Offset (at 38.5% of applicable R&D) of \$4.2m in both CY17 and CY18. This along with current combined Tax Losses, previous R&D Tax Offsets and US Tax Losses will result in minimal Tax Payable.

Cash Flow – Cash Flow will be boosted in the 2H CY17 by:

- Continued growth in Revenue from both LifeScan and Siemens.
- Receipt of a Cash R&D Refund of \$7.5m in Q3 CY17, relating to R&D in CY16.

UBI Forecasts for Non-Exercise of the LifeScan Option are outlined in Appendix 1 on Page 9

An explanation of the option and the likelihood of exercise is outlined in Appendix 2 on Page 10.

Valuation

We now have a valuation of \$130.0m (\$0.74ps), based on Blood Glucose (assuming exercise of the Options), Blood Coagulation (both Siemens and UBI’s Self-Test) and Liquid Assets across:

Blood Glucose – A DCF Valuation of \$94.7m (53.7¢ ps), derived from a combined Operational Cash Flow for CY17 and CY18 of around \$48.6m, plus the A\$54.8m Lump Sum payment in CY19 (payable in 60 days of CY18 Year-end).

Blood Coagulation – A combined DCF valuation of \$87.2m (49.6¢ ps) for Siemens and UBI’s Self-Test

Corporate/R&D – A combined DCF of -\$58.2m (-33.0¢ ps) for Ongoing Corporate Costs and R&D expense to CY18 and expected Cash R&D Rebates. R&D has only been included to CY18, covering completion of the remaining Blood Coagulation products.

Milestones – No further Cash Milestones expected.

Other – Comprising Working Capital and Current Liabilities, including amounts owed to LifeScan.

Net Cash/Debt – \$3.7m as at 30/6/17, including Restricted Cash (Athyrium requirement) of A\$3.2m.

VALUATION			
Sum of Parts Segment	Valuation Method	Valuation \$m	Valuation ¢ ps
Blood Glucose	DCF	94.7	53.7
Blood Coagulation	DCF	87.4	49.6
Corporate/R&D	DCF	-58.2	-33.0
Operating Assets		124.0	70.3
Other		1.9	1.1
Net Cash/Debt (exc Lump Sum)		4.9	2.8
Valuation		130.8	74.2
Current Price (cps)			41.5

Source: Veritas

If all Options and Warrants with an Exercise Price below the above Valuation are exercised, the Valuation would only fall to \$0.65 ps.

We believe this Valuation is conservative, as:

- Continuation of the LifeScan arrangement beyond the Option exercise date would boost this valuation (see Appendix 2 on Page 10).
- The discount rates are very conservative to reflect the nature of the forecasts, with respect to timing and growth rates and exclude any of the profit sharing arrangements with Siemens. Any further falls in the A\$ would increase this valuation.
- This doesn’t include: any value of IP beyond Blood Coagulation, with over \$115m in R&D spent over the last 13 years; the value of its R&D/manufacturing facility which has been developed at a cost of over \$30m (in the Balance Sheet as \$8.9m net of Asset Retirement Obligations). UBI pays around \$0.6m pa in rent.
- Any potential corporate action. While Siemens has the option to manufacture or have a Third Party manufacture Blood Coagulation strips upon 12 months’ notice or competitors acquiring control of UBI, it would have to reimburse UBI for the gross margin it would otherwise have received.

However, the valuation only assumes continued R&D expenditure to CY18 for completion of all Blood Coagulation products. R&D beyond CY18 has not been included as we are unable to model the revenue from the development of additional products and we are not aware of UBI’s ongoing R&D strategy beyond CY18.

Appendix 1 – Option Not Exercised

Forecasts

Blood Glucose

For information purposes, we have included Forecasts for the continuation of the present arrangements.

Accordingly, the QSF Revenue will escalate with an increase in substitution rate within LifeScan and continued underlining market growth.

Blood Glucose - Forecasts

Option Not Exercised	Revenue (A\$m)						EBIT (A\$m)					
	CY 15	CY 16	CY 17	CY 18	CY 19	CY 20	CY 15	CY 16	CY 17	CY 18	CY 19	CY 20
Service Revenue - Strips¹	12.8	17.9	21.2	27.4	33.6	37.5	12.8	17.9	21.2	27.4	33.6	37.5
<i>Change (%)</i>		<i>39.2</i>	<i>18.5</i>	<i>29.4</i>	<i>22.7</i>	<i>11.5</i>		<i>39.2</i>	<i>18.5</i>	<i>29.4</i>	<i>22.7</i>	<i>11.5</i>

Source : UBI (Act), Veritas (Est) ¹ at A\$:US\$ rate of 0.80

UBI

The only difference relates to inclusion of ongoing Forecast LifeScan QSFs based on our Diffusion Curve.

Assuming Continuation of LifeScan QSFs

Division	Revenue (\$m)					EBITDA (\$m)				
	CY16	CY17	CY18	CY19	CY20	CY16	CY17	CY18	CY19	CY20
QSFs - LifeScan	17.9	21.2	27.5	33.8	37.7	17.9	21.2	27.5	33.8	37.7
Siemens/Strips & other	1.0	5.0	7.0	17.0	24.9	-0.2	1.4	2.5	7.4	11.8
Siemens - Other	0.0	0.0	0.0	0.0	0.0	45.1	0.0	0.0	0.0	0.0
Milestones			5.8					5.8		
R&D						-12.7	-11.0	-11.0	-1.0	
R&D Cash Rebate ¹						7.6				
Corporate/Other						-6.3	-7.2	-7.4	-4.5	-4.5
Total	18.8	26.2	40.3	50.8	62.5	51.4	4.5	17.4	35.7	45.0

Source: Veritas Forecasts ¹ UBI will receive and R&D Tax Credit in CY17 and CY18 of around 40% of eligible R&D

Interest - Annual Interest Payments of US\$1.58m pa (A\$2.1m) for CY16, CY17 and CY18 with a Bullet repayment in December 2018. We would expect this to be met by increasing Cash Flow.

Tax - We would expect UBI to provide for tax in CY17 onwards and offset tax payable against Deferred Tax Assets and any Carried Forward R&D tax credits.

Valuation

Should the Option not be exercised at all, the valuation increases sharply to a Maximum of \$362m (\$2.05 ps):

VALUATION			
Sum of Parts Segment	Valuation Method	Valuation \$m	Valuation ¢ ps
Blood Glucose	DCF	284.0	161
Blood Coagulation	DCF	87.4	50
Corporate/R&D	DCF	-58.2	-33
Operating Assets		313.3	178
Other		-1.3	-1
Net Debt (exc Lump Sum)		5.7	3
Valuation		317.7	180
Current Price (¢ps)			42

Source: Veritas Securities

If all Options and Warrants with a lower Exercise Price to the above Valuation are exercised, the Valuation would only fall to \$1.63 ps.

However, if the option is not immediately exercised, but exercised at a later date, an indicative Lump Sum and QSFs applicable to that year are outlined in Appendix 2 on Page 10, based on QSF flow meeting our forecasts.

Appendix 2 - LifeScan Option Agreement

LifeScan has an option to terminate the Master Services Agreement by converting the QSFs into a lump sum payment, once the cumulative QSFs **received** by UBI reach US\$45m. As at 30/6/17, cumulative QSFs incurred by LifeScan had reached US\$43.5m, with QSFs received by UBI reaching \$40.0m (ie paid 3 months in arrears).

With our forecasts of cumulative QSFs received by UBI reaching US\$45m in **Q3 CY17**, the funds received in Q4 CY17, and the exercise of LifeScan's option in the following quarter (ie Q1 CY18), this will result in total payments through CY17 and CY18 of around US\$81.8m (A\$103.3m), comprising:

Calculator		US\$m	A\$m	¢ ps
Received as revenue				
QSFs for 1H CY17 (Act)		8.8	11.5	
QSFs for 2H CY17 (Est)		7.7	9.8	
QSFs for CY18		21.8	27.5	
		38.3	48.7	27.6
Multiplier				
QSFs for CY18	US\$22 2.0x	43.6	55.0	31.2
Total		81.8	103.8	58.8

Source: Veritas

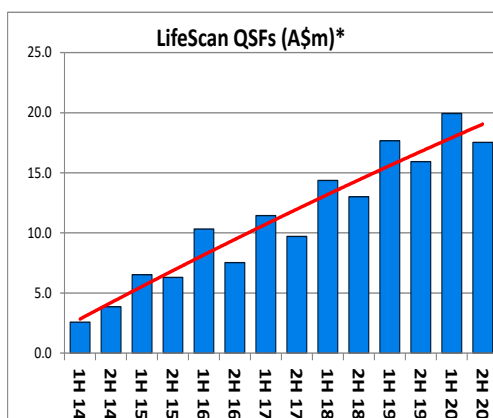
at A\$:US\$ rate of 0.79

Note: As UBI receives the QSFs in the following quarter and LifeScan can only exercise its option in the subsequent quarter, UBI would receive QSFs for both CY17 and CY18, and a multiple of CY18 QSFs.

However, we make the following points around alternatives at option exercise date:

Continuation - It's possible the option won't be exercised or exercised by LifeScan at the first opportunity. The Pros and Cons on the exercise are:

Pros – It will increase LifeScan's margins and Cash Flow and eliminate the requirement to provide strip sales data. The size of the payment increases significantly over time. As an example, exercise of the Option in CY19 would result in receipt of Revenue in that year of A\$136.7m (77.3¢ ps), comprising Revenue for that year of A\$33.6m and a Lump sum payment of A\$67.2m. Total Revenue received to that point would be around A\$149.4m (84.4¢ ps).



Revenue Forecasts	2017	2018	2019	2020
Yearly	A\$m	A\$m	A\$m	A\$m
Received as Revenue	21.2	27.4	33.6	37.5
Multiplier (One-Off)*		54.8	67.2	74.9
Total for Year of Exercise	21.2	82.1	100.8	112.4
<i>Increase</i>		288%	22.7%	11.5%
¢ ps	12.0	46.6	57.0	63.5
Cumulative until Year of Exercise				
Cumulative Revenue	21.2	48.5	82.1	119.6
Cumulative Total	21.2	103.3	149.4	194.6
¢ ps	12.0	58.6	84.4	109.8

Source: Veritas

*Multiplier falls from 2.2x to 2.0x

Cons – It will initially involve a substantial lump sum payment of over US\$43m. This may not be palatable for LifeScan, given the substantial impact on LifeScan's Balance Sheet and Profit & Loss, especially with the current market pressures within the key US market, or given LifeScan's outlook on the market around forecasts of Verio strip sales.

It will also sever all ties with UBI, severely restricting further Blood Glucose product research and development, essential for a global leader in a sector highlighted by continued innovation. For example, a recently completed UBI feasibility project for a testing system for a normal glucose sensor would not be progressed.

Renegotiate – LifeScan may seek to renegotiate the QSFs to a lower level, or introduce a further tier, continuing a development relationship with UBI.

Early Payment – LifeScan may seek an agreement with UBI for early termination on a "to be determined" basis.

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