

Universal Biosensors Inc

CY15 Result shows escalating growth in Blood Glucose

The results confirm a strong improvement in Blood Glucose profitability, with:

- A 110.4% increase in Verio strip sales in CY15 to 935m, including growth in 2H of 107.9% and Q4 of 96.4%, with an increased marketing push, new meters, free meter promotion in Europe and lower priced meters in the US.
- A 99% increase in Revenue and Operating from strip sales, including growth in 2H of 63.1% and Q4 of 28.9%.

Blood coagulation starts to gain traction.

Sales of \$1.3m in its blood coagulation strips to Siemens, mainly in H2 CY15 with the release of Xprecia Stride in EU countries. Traction will increase with greater marketing and wider adoption in the EU and FDA approval in the US.

Strong R&D to drive new Systems

R&D increased to \$19.8m, mostly devoted to development of 2 further Blood Coagulation systems for Siemens and UBI's own self-test system.

Cash Outflow falls substantially

A \$3.1m fall in Operating Cash Outflows to \$6.4m, with an 88.5% (\$8.3m) rise in Receipts to \$17.6m and a lower \$0.6m increase in Payments to \$24.2m.

Net Cash Outflow fell by \$5.0m to \$3.2m, despite \$3.3m in costs related to the Athyrium facility, with a further \$8.2m R&D Refund and a \$1.1m Siemens milestone payment. Cash on Hand stood at \$14.4m.

Growth to continue in CY16 and CY17

We expect growth to continue in CY16 and CY17 from the:

- Strong growth in Verio QSFs, with rising market share, intense marketing, meter replacement and legislative requirements for accuracy, with EBIT contributions of \$17.0m and \$24.5m in CY16 and CY17.
- Ramp-up in EU marketing of Xprecia Stride, using Siemens' extensive distribution network, a launch in North America and other key markets
- Release of 2 further tests for Siemens and accompanying Milestone payments.
- The approval of UBI's self-test in the 1H CY15 in Europe, with strips expected to sell at a premium to the professional market at significantly higher margins.

We now expect an EBITDA for CY16 and CY17 of \$2.8m and \$11.8m, translating to Profits of \$0.1m and \$9.0m. The Reported Profit in CY17 of \$58.0m is based on LifeScan exercising its buyback option for QSFs, resulting in a lump sum payment to UBI of A\$56.9m (32.3¢ ps).

Retirement of CEO

The current CEO/MD (Paul Wright) is retiring, with the Chairman to assume a role as Acting CEO. A global executive search will commence shortly.

Recommendation

We have a conservative DCF Valuation of \$0.80 per share, assuming exercise of the LifeScan option. If not exercised in CY17, there would be a significant increase in the Valuation and Price Target.

We maintain a Long Term Buy, based on:

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.

Strong Financial Position – Cash Flow positive and rising profit from CY16.

Valuation – Trading at a discount to our Valuation of 47%.

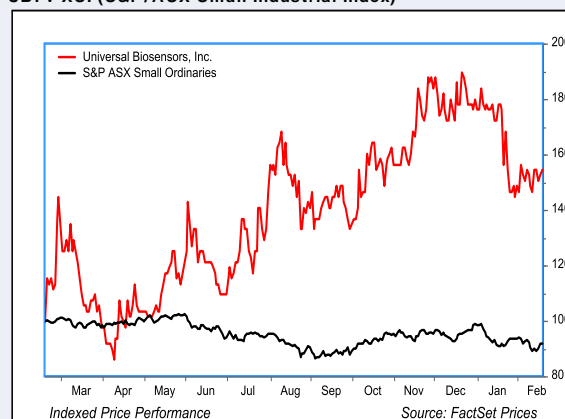
UBI.ASX BUY

26 February 2016

Price	\$0.40
12 Month Price Target	\$0.75
Valuation	\$0.80
Valuation method	DCF
GICS sector	Healthcare
12 Mth Price Range	\$0.22 - 0.50
Avg monthly t/o	4.2m
Market Capitalisation	\$70m
Shares on issue	176m
Options on Issue	13m
Enterprise value	\$73m
Previous rating	BUY

Year Ended Dec 31	13A	14A	15E	16E	17E
Revenue	\$m 15.1	9.5	16.8	20.6	41.4
EBIT	\$m -18.2	-13.8	-10.4	-4.9	14.5
EBIT Growth	% 96.5	-24.4	-24.4	-52.7	na
EBIT margin	% -120.9	-145	-62.1	-24.0	35.1
NPAT	\$m -11.6	-7.2	-5.2	-7.6	11.7
Reported Profit	\$m -11.6	-9.3	-6.6	-8.2	60.8
EPS	¢ ps -6.7	-4.1	-2.9	-4.3	6.7
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 -6.9	-4.2	-14.9	-9.1	5.9
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 16.9	11.6	7.8	3.2	37.7
EV/EBITDA	x -4.6	-2.8	-7.3	-14.9	4.1
Gearing (D:E)	% 0.0	8.2	42.3	211.7	13.7
P/OCF	x na	-5.5	42.2	-17.9	12.2
R&D	\$m -15.5	-17.1	-19.8	-17.0	-13.0
R&D / Revenue	% 102.6	179.8	117.8	82.7	31.4
ROA	% -35.2	-27.0	-22.5	-11.4	19.6
ROE	% -33.7	-28.7	-30.3	-78.6	32.6
Interest cover	x na	-4.1	-2.6	-1.8	5.2

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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EQUITY RESEARCH



Universal Biosensors (UBI)

Current Price: \$0.40 ps Target Price: \$0.75 ps

FINANCIAL PERFORMANCE

Year ended 31-Dec		13A	14A	15A	16E	17E
Sales Revenue	\$m	15.1	9.5	16.8	20.6	41.4
Cost of Goods Sold	\$m	-11.6	-0.6	-1.4	-2.0	-7.9
Gross Operating Profit	\$m	3.4	9.0	15.4	18.6	33.5
R&D	\$m	-15.5	-17.1	-19.8	-17.0	-13.0
Administration Costs	\$m	-6.2	-5.6	-6.0	-6.5	-6.0
EBIT	\$m	-18.2	-13.8	-10.4	-4.9	14.5
R&D Refund	\$m	6.3	9.9	9.2	0.0	0.0
Interest	\$m	0.3	-3.3	-4.0	-2.7	-2.8
Pre Tax Profit	\$m	-11.6	-7.2	-5.2	-7.6	11.7
Tax	\$m	0.0	0.0	0.0	0.0	0.0
Normalised Profit	\$m	-11.6	-7.2	-5.2	-7.6	11.7
Significant Items	\$m	0.0	-2.1	-1.4	-0.6	49.1
Reported Profit	\$m	-11.6	-9.3	-6.6	-8.2	60.8

GROWTH

		13A	14A	15A	16E	17E
Revenue	%	-49.1	-36.8	76.0	22.6	101.5
COGS	%	-37.6	-95.2	148.3	44.2	297.4
Gross Operating Profit	%	-68.6	160.3	71.6	20.7	80.5
R&D	%	14.8	10.7	15.3	-14.0	-23.5
EBIT	%	96.5	-24.4	-24.4	-52.7	na
Reported Profit	%	27.4	-38.3	-27.9	47.3	-253.7
EPS	%	17.2	-38.7	-27.9	46.9	-253.6

P&L RATIOS

		13A	14A	15A	16E	17E
Gross Operating Profit / Sales	%	22.8	94.2	91.8	90.3	80.9
EBIT / Sales	%	-120.9	-144.7	-62.1	-24.0	35.1
Effective Tax Rate	%	0.0	0.0	0.0	0.0	0.0
Interest Cover	x	na	-4.1	-2.6	-1.8	5.2
R&D/Revenue	x	102.6	179.8	117.8	82.7	31.4
Expenses/Revenue		41.1	59.0	35.9	31.6	14.5
Working Cap/Revenue		-13.3	4.6	23.7	0.3	1.5

Per SHARE

		13A	14A	15A	16E	17E
Issued Shares (Year End)	m	175.6	175.6	176.1	176.2	176.2
Issued Shares (Wt Avg)	m	174.4	175.6	175.6	176.1	176.2
EPS	¢ps	-6.7	-4.1	-2.9	-4.3	6.7
Operating Cash Flow ps	¢ps	-9.5	-3.1	1.0	-2.2	3.2
DPS	¢ps	0.0	0.0	0.0	0.0	0.0

PARAMETERS

		13A	14A	15A	16E	17E
PE Ratio	x	-6.9	-4.2	-14.9	-9.1	5.9
Enterprise Value / EBITDA	x	-4.6	-2.8	-7.3	-14.9	4.1
Enterprise Value / Profit	x	-6.3	-4.4	-14.6	-9.6	5.1
Cash Flow ratio	x	-4.8	-5.5	42.2	-17.9	12.2
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0

SEGMENTS

		13A	14A	15A	16E	17E
Sales Revenue						
Strip Sales	\$m	10.2	0.2	1.3	3.0	12.9
Service Fees (Lifescan)	\$m	3.4	6.4	12.8	17.0	24.5
Other	\$m	1.5	1.1	0.7	0.6	0.0
Milestones	\$m	0.0	1.8	2.0	0.0	4.0
EBIT						
Strip Sales	\$m	-0.3	-0.1	0.2	1.1	5.0
Service Fees (Lifescan)	\$m	3.4	6.4	12.8	17.0	24.5
Other	\$m	0.3	0.9	0.4	0.5	0.0
Milestones	\$m	0.0	1.8	2.0	0.0	4.0
R&D	\$m	-15.5	-17.1	-19.8	-17.0	-13.0
Admin Fees	\$m	-6.2	-5.6	-6.0	-6.5	-6.0
EBIT Growth						
Strip Sales	%	-120.6	na	na	473.1	368.4
Service Fees (Lifescan)	%	52.3	89.3	99.0	32.5	44.1
R&D	%	14.8	10.7	15.3	-14.0	-23.5
Admin Fees	%	-8.7	-9.3	7.2	7.8	-7.7
EBIT Margin						
Strip Sales	%	-2.8	-45.4	14.2	36.2	38.9
Service - LifeScan	%	100.0	100.0	100.0	100.0	100.0

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

CASH FLOW

Year ended 31-Dec		13A	14A	15A	16E	17E
Operating EBITDA	\$m	1.7	2.9	13.1	12.1	27.5
Net Interest Received/Paid	\$m	0.5	-2.4	-0.2	-2.9	-2.8
Tax Paid	\$m	0.0	0.0	0.0	0.0	0.0
Change Working Capital	\$m	-2.5	-3.2	4.6	-5.3	-8.0
Other (inc R&D Refund)	\$m	1.1	11.5	4.1	9.2	2.0
Operating Cash Flow	\$m	0.8	8.7	21.6	13.1	18.7
R&D	\$m	-15.5	-17.1	-19.8	-17.0	-13.0
Capex	\$m	-0.2	-1.0	-1.3	-1.5	-1.6
Free Cash Flow	\$m	-14.8	-9.4	0.6	-5.4	4.1
Acquisitions/Asset Sales	\$m	0.0	0.0	0.0	0.0	0.0
Dividends Paid	\$m	0.0	0.0	0.0	0.0	0.0
Equity Change	\$m	0.4	0.0	0.0	0.0	0.0
Debt	\$m	16.0	0.5	-0.2	-0.2	-1.5
Other	\$m	0.0	-2.3	-3.6	-0.6	-1.4
Change in Net Cash	\$m	1.5	-8.9	0.4	-5.6	2.6

BALANCE SHEET

		13A	14A	15A	16E	17E
Cash	\$m	23.7	16.3	14.4	8.2	9.4
Receivables	\$m	2.2	3.8	3.2	6.0	62.1
Inventory	\$m	0.0	0.4	0.4	4.0	6.0
Other Current Assets	\$m	9.9	9.7	11.0	6.3	7.5
Current Assets	\$m	35.8	30.3	28.8	24.5	85.0
Property, Plant & Equipment	\$m	15.9	14.3	12.9	14.0	15.0
Intangibles	\$m	0.0	0.0	0.0	0.0	0.0
Other NC Assets	\$m	2.9	2.9	3.2	3.2	6.5
Non Current Assets	\$m	18.8	17.3	16.1	17.2	21.5
Total Assets	\$m	54.6	47.5	45.0	41.7	106.5
Payables	\$m	3.3	2.1	2.8	4.0	5.0
Current Debt	\$m	0.0	0.5	0.3	0.0	18.5
Other Current Liabilities	\$m	2.1	3.9	1.7	6.0	6.0
Current Liabilities	\$m	5.4	6.5	4.8	10.0	29.5
Non Current Debt	\$m	15.9	17.5	19.9	20.0	0.0
Other NC Liabilities	\$m	3.7	3.8	7.0	6.1	10.6
Non Current Liabilities	\$m	19.5	21.3	26.9	26.1	10.6
Total Liabilities	\$m	24.9	27.8	31.7	36.1	40.1
Shareholder Funds	\$m	29.7	20.4	13.8	5.6	66.4

BALANCE SHEET RATIOS

		13A	14A	15A	16E	17E
Receivables turn	x	6.8	3.2	4.8	4.5	12
Inventory turn	x	6.5	2.8	3.7	0.9	1.6
Net Debt	\$m	0.0	1.7	5.8	11.8	9.1
Gearing (D:D+E)	%	0.0	7.6	29.7	67.9	12.1
Current Ratio (CA:CL)	x	6.6	4.7	6.0	2.4	2.9
Net Tangible Assets	¢ps	16.9	11.6	7.8	3.2	37.7
Cash	¢ps	4.5	0.0	0.0	0.0	0.0
Return On Assets	%	-35.2	-27.0	-22.5	-11.4	19.6
Return on Equity	%	-33.7	-28.7	-30.3	-78.6	32.6

VALUATION

Valuation Method	\$	Premium(+)/Discount(-) %
DCF	0.80	-50.6
Price Target	0.75	-47.3
Current Price	0.40	
Market Capitalisation	\$29.9m	Enterprise Value: \$31.5m

MAJOR SHAREHOLDERS

KFT Investments	m	18.0	10.2%	George Kepper
Viburnum	m	19.0	10.8%	Fund Manager
Top 20 (16/3/2015)	m	121.4	69%	

DIRECTORS

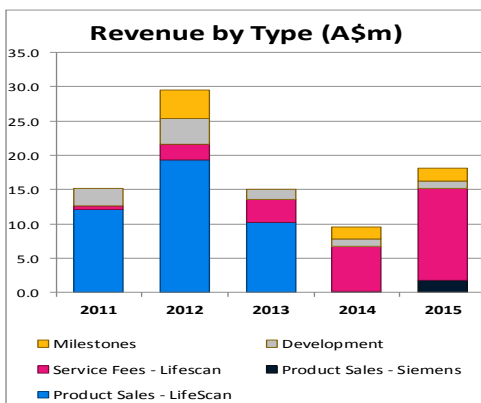
Andrew Denver	Executive Chair & Acting CEO
Judith Smith	N-E Dir
Denis Hanley	N-E Dir
Marshall Heinberg	N-E Dir

CY2015 confirms strong growth in LifeScan Strip Sales

A feature was the continued strong growth in Operating Profit contribution from Blood Glucose (LifeScan) of \$6.5m and an initial Operating Profit for Blood Coagulation (Siemens).

Profit & Loss				Cash Flow			
Year ended 31-Dec (\$m)	2014	2015	% Ch	Year ended 31-Dec (\$m)	2014	2015	% Ch
Product Sales - Siemens	0.2	1.3	514.2	Operating Cash Flow	-5.4	1.8	-133.8
Service Fees (LifeScan)	6.4	12.8	99.0	Capex	-1.0	-1.3	33.1
Milestones	1.8	2.0		Equity	0.0	0.0	
Other (mainly Siemens)	1.1	0.7	-40.2	Debt	0.5	-0.2	
Total Revenue	9.5	16.8	76.0	Dividends	0.0	0.0	
Cost of Goods Sold	-0.6	-1.4	148.3	Other	-2.3	-3.6	
Operating Profit	9.0	15.4	71.6	Net Cash Flow	-8.2	-3.2	-61.1
R&D	-17.1	-19.8	15.3	Balance Sheet			
Corporate	-5.6	-6.0	7.2		2014	2015	% Ch
EBIT	-13.8	-10.4	-24.4	Current Assets	30.3	28.8	
Interest (Net)	-3.3	-4.0		Non Current Assets	17.3	16.1	
Other (R&D Refund & Forex)	9.0	8.3		Total Assets	47.5	45.0	-5.4
Pre-Tax profit	-7.2	-5.2	-27.9	Current Liabilities	6.5	4.8	
Tax	0.0	0.0		Non Current Liabilities	21.3	26.9	
Net Profit	-7.2	-5.2	-27.9	Total Liabilities	27.8	31.7	14.1
Significant Items (Net)	-2.1	-1.4		Shareholder Funds			
Reported Profit	-9.3	-6.6	-29.4		20.4	13.8	-32.2
Operating Margin (%)	94.2	91.8		Net Debt (\$m)	1.7	5.8	
EBIT Margin (%)	-144.7	-62.1		Gearing D:D+E (%)	7.6	29.7	
R&D/Revenue (%)	179.8	117.8		R&D / Revenue (%)	179.8	117.8	
EPS (¢ ps)	-4.1	-2.9	-27.9	NTAV (¢ ps)	11.6	7.8	-32.4
Cash Flow (¢ ps)	-3.1	1.0	-133.8	Net Assets (¢ ps)	11.6	7.8	-32.4
DPS (¢ ps)	0.0	0.0		Revenue/Working Capital (x)	4.6	23.7	
				Inventory Turn (x)	2.8	3.7	
				Receivables Turn (x)	3.2	4.8	

Source: UBI



Revenue

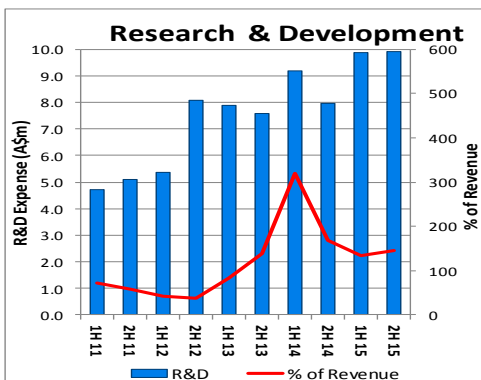
The main Revenue source has changed substantially over the last 5 years, with UBI ceasing the manufacture of strips for LifeScan, rapidly escalating Service Fees from LifeScan and the commencement of sales of strips to Siemens.

The 76.0% increase in CY15 to \$16.8m was mainly due to:

- A 99% increase to \$12.8m in Quarterly Service Fees (QSFs) from LifeScan.
- A \$1.1m increase to \$1.3m from the sales of Blood Coagulation strips to Siemens.
- A \$0.2m increase in Milestones of \$2.0m, reflecting currency changes.
- An offset from a \$0.4m fall in development revenue for Siemens to \$0.7m.

Operating Profit/Margins

The strong increase mainly reflects the escalation of QSFs. Margins fell slightly with inclusion of revenue from Product Sales of the Blood Coagulation strips.



R&D

Increased by 15.3% to \$19.8m, mostly from the development work (\$18.5m) of additional Blood Coagulation testing systems for Siemens and UBI's patient self-test. The R&D expenses should ease after CY16 as development of the 2 projects for Siemens are completed and UBI becomes ineligible for a cash R&D refund.

UBI also recognised expected cash R&D refunds of \$9.2m, reflecting around 45% of eligible R&D expenditure, with the refund to be received in CY16.

Note: Beyond A\$20m in Revenue (likely in CY16), UBI will receive a tax credit equivalent to 40% of eligible claims.



Corporate Costs

Increased slightly with increased activity and the expansion of strip manufacture for Siemens.

Interest

The \$0.7m increase represents interest and additional outgoings of \$3.3m related to the US\$15m Athyrium facility. This includes a second payment of A\$0.4m (US\$0.3m) paid as part of the Credit Agreement which provides for payment of 30% of milestone payments from Siemens, up to US\$0.6m. This sum has now been fully paid

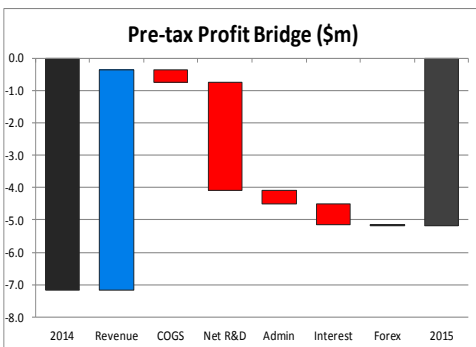
Other

Covers an expected \$9.2m R&D refund from CY15 and a -\$0.9m Currency adjustment related to the Athyrium facility.

Significant (One-off) Items

Patent payments to LifeScan – An A\$1.4m adjustment to the reimbursement due to LifeScan, for patent fees incurred. While UBI provided A\$2.1m in CY14, a reassessment has resulted in a lesser amount of A\$0.7m. This amount will be paid to LifeScan over the next 2 years.

Reimbursement of Marketing Costs – An A\$2.8m Provision for the re-imbursement of marketing fees to LifeScan. With expectations of annual strip sales of over 1b in CY16, UBI must reimburse LifeScan for marketing costs outlaid before the initial launch of the Verio, covering US\$2m to be paid across 2 years. While the liability of US\$2.0m (A\$2.8m) has been recognized in CY15, payment of A\$1.4m pa will be paid in both CY17 and CY18.



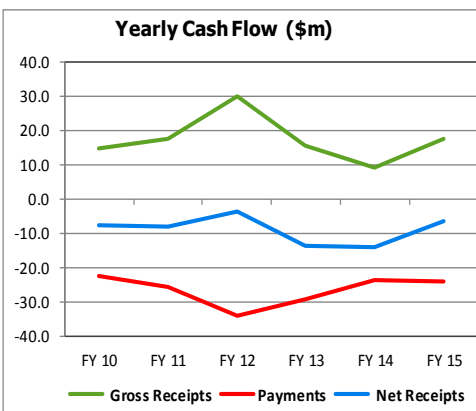
Cash Flow

A \$7.2m improvement in Operating Cash Flows to \$1.8m, with:

- An 88.5% (\$8.3m) increase in Receipts to \$17.8m, mainly from increased strip sales, and receipt of a Net A\$1.2m (US\$1.0m) milestone payment from Siemens.
- A Cash R&D refund of \$8.2m.
- A \$0.6m increase in Payments to \$24.2m with the increase in R&D and the ramp-up of strip production for Siemens, offset by an easing in working capital requirement.

Net Cash Outflow fell by \$5.0m to \$3.2m, despite \$3.6m in costs from the Athyrium Loan Facility and Capex of \$1.3m related to the Blood Coagulation strips.

However, Cash on Hand fell by a lower \$2.0m to \$14.4m (8.1¢ ps) with the benefit of a \$1.2m currency adjustment.



Balance Sheet

With Net Cash Outflow of \$2.0m resulting in Cash on Balance Sheet falling to \$14.4m (8.2¢ ps) and a \$2.2m increase in Gross Debt to \$20.2m, Net Debt increased to \$4.1m. This resulted in an increase in Gearing (D+E:E) of 29.7%.

The US\$15m (A\$19.9m) in debt is mostly with Athyrium and is repayable with a bullet payment by the end of CY2018.

Other Current Assets of \$11.0m mainly comprises the R&D Cash Rebate expected for CY15.

Other Non-Current Liabilities of \$7.0m mainly include the \$2.8m due to LifeScan for reimbursement of marketing expenses, the \$0.4m due to LifeScan for part reimbursement of patent fees and Asset retirement obligations of \$2.6m.

Retirement of CEO

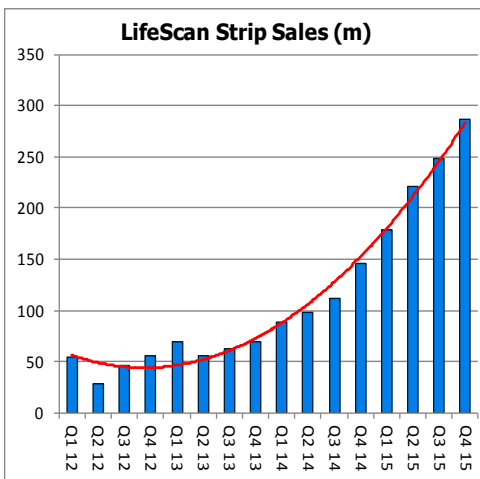
The current CEO/MD (Paul Wright) is retiring, with the Chairman (Andy Denver) to assume a role as Acting CEO. A global executive search will commence shortly.

Andy Denver has been with UBI since inception, has an extensive background in the sector and filled the role on a temporary basis prior to the appointment of Paul Wright.

Summary by Product

Following the cessation of strip sales to LifeScan in CY14 and key milestones from Siemens in CY12, the main driver of the recent move to an Operating Profit has been QSFs from LifeScan.

	CY11	CY12	C h	CY13	C h	CY14	C h	CY15	C h
	\$ m	\$ m	%	\$ m	%	\$ m	%	\$ m	%
Profit & Loss									
Blood Glucose (LifeScan) -									
Strip Sales (m)	39.1	185.0	373.0	257.8	39.3	444.2	72.3	934.6	110.4
Products	12.1	19.4	60.6	10.2	-47.5	0.0	-100.0	0.0	
Service (Strips)	0.5	2.2	357.3	3.4	52.3	6.4	89.3	12.8	99.0
Development	2.1	3.1	44.6	0.0	0.0	0.0		0.0	
Revenue - Blood Glucose	14.8	24.7	68.1	13.6	-45.0	6.4	-52.5	12.8	99.0
COGS	-12.8	-18.5	43.3	-10.5	-44.0	0.0	-100.0	0.0	
Operating Profit - Blood Glucose	1.9	6.2	260.5	3.1	-46.7	6.4	106.6	12.8	99.0
Operating Margin (%)	13.2	25.2		23.0		100.0		100.0	
Blood Coagulation (Siemens)									
Products	0.0	0.0	0.0	0.0	0.0	0.2		1.3	514.2
Milestones	0.0	4.2	0.0	0.0	0.0	1.8		2.0	117
Development	0.5	0.7	38.6	1.5	123.2	1.1	-26.3	0.7	-40.2
Revenue - Blood Coagulation	0.5	4.9	0.0	1.5	-69.2	3.1	103.7	3.9	28.1
COGS	-0.2	-0.2		-1.2		-0.6		-1.4	
Operating Profit- Blood Coagulation	0.3	4.7		0.3		2.5	675.4	2.6	16
Operating Margin (%)	-9.8	-13.5		-15.5		82.0		65.0	



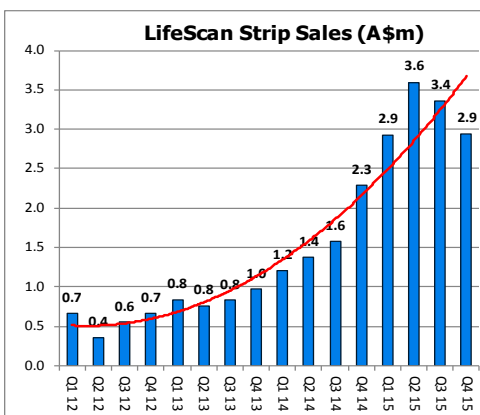
Summary

Blood Glucose

Strip Sales – Strip sales for CY15 grew by 110.4% to 935m, with increases in 1H and 2H of 113.9% and 107.9%. This included an increase in Q4 of 96.4% to 287m, a 15.8% increase over Q3 CY15, continuing a trend of 10 straight quarter on quarter growth of over 10%.

This growth was due to a combination of a continually expanding market and increased market share, as a result of:

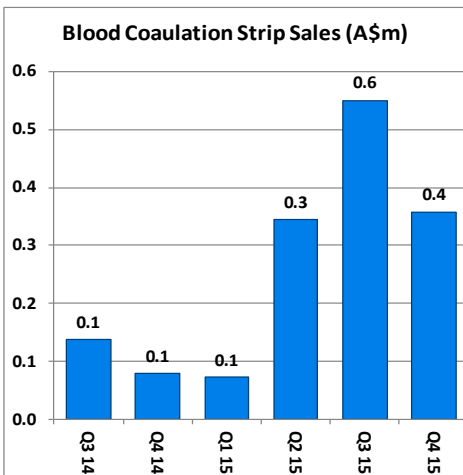
- An increasing incidence of diabetes.
- An increased push by LifeScan, with the launch of new Verio meters, free meter promotion in Europe and US discounts on meters.
- Verio having met new ISO accuracy standards required for the EU by mid-2016. A substantial number of competitors and some older LifeScan meters are unable to meet this standard.



Quarterly Service Fees (QSFs) – QSFs for CY15 increased by 98.9% to A\$12.8m, a combination of the strong growth in strip sales and a fall in the average A\$:US\$ rate from 86.1¢ to 79.9¢. In US\$ terms, QSFs increased by 71.1% to US\$9.5m.

The fall in Quarter on Quarter Service Fees in Q3 and Q4 of 14.7% and 8.6% and an overall fall in average Fee per strip in CY15 from 1.25¢ to 1.0¢ per strip is due to the Tiered nature of the Quarterly Service fees. UBI receives 1.25¢ per strip for the first 500m strips pa on a cumulative basis and 0.75¢ per strip for sales above 500m pa. Fees will revert to 1.25¢ per strip in Q1 CY16.

The Cumulative Strip Service Fees increased to US\$21.3m, still well short of the option exercise hurdle of US\$45m (see page 10).



Blood Coagulation

Strip sales to Siemens increased by \$1.1m to \$1.3m, mainly in H2 CY15 with the release in May of Xprecia Stride in some of the 31 EU countries where it's approved. A significant element of the increase in Q3 reflects the filling of the supply pipeline, which resulted in lower sales in Q4.

The next major release will be in the USA, with the expected FDA approval in 1H CY16, to be followed by a release in other key markets.

UBI received a further \$0.7m from Siemens to cover additional development work for two additional blood coagulation testing systems.

Milestone Payments

In July 2015, UBI received its 4th milestone payment of US\$1m (A\$1.4m), with the lodging of a pre-market 510(k) submission to the US FDA for regulatory clearance of the Siemens Xprecia Stride Blood Coagulation System.

While the A\$1.4m milestone payment was included in Cash Flow, UBI recognised A\$2.0m as Revenue, including a part allocation of the original US\$3.0m payment from Siemens in September 2012 as part of the original Technology Access Agreement.

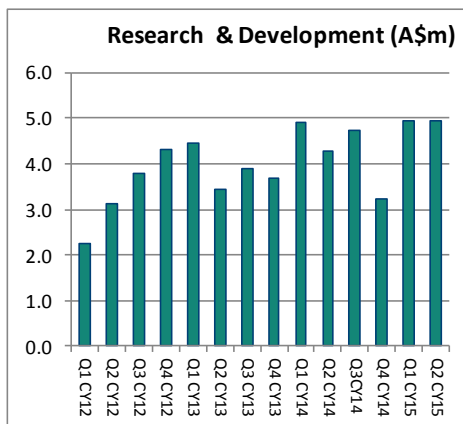
The Net Cash payment received was \$1.1m, after adjusting for the US\$0.3m (A\$0.4m) due to Athrium as part of the Loan Agreement. No further amounts are payable to Athrium.

R&D

R&D increased by 15.3% to \$19.8m, mostly from the development work (\$18.5m) of additional Blood Coagulation testing systems for Siemens and UBI's patient self-test. The R&D expenses should ease after CY16 as development of the 2 projects for Siemens and UBI's meter systems are completed and UBI becomes ineligible for a cash R&D refund.

UBI also recognised expected cash R&D refunds of \$9.2m, reflecting around 45% of eligible R&D expenditure, with the refund to be received in CY16.

Note: Beyond A\$20m in Revenue (likely in CY16), UBI will receive a tax credit equivalent to 40% of eligible claims.



Source: UBI

Outlook

Blood Glucose

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

- The continued growth in diabetes sufferers globally, with an estimated 20b blood glucose tests annually.
- The continued substitution by LifeScan of Verio for its existing Ultra range, boosted by:
 - The introduction of new Verio meters with added functionality, making it easier for users to monitor blood glucose levels on a continual bases. Most recently, LifeScan has introduced the OneTouch Verio Flex into Canada and Europe, which incorporates wireless integration to a mobile phone via a mobile app.
 - The introduction in Europe of ISO accuracy standards from July 2016, which precludes the use of older meters not complying with the standard. LifeScan has instituted a program of free replacement of its 'Ultra' range of meters with Verio meters in some jurisdictions.
 - Reduction in the price of Verio meters by LifeScan within the USA, to encourage a switching to Verio and to meet competitive pressures. Also, the FDA is still in the process of outlining an accuracy requirement for new meters in the US, which may restrict the release of new competing meters.

With continued strong growth in strip sales, the LifeScan Option Agreement becomes an important consideration. While we are uncertain whether LifeScan will exercise the Option, we have taken a conservative approach and assumed exercise. On our forecasts this would result in a one off payments of \$56.9m in CY17. An explanation of the option is outlined in Appendix 1 on Page 10.

Blood Coagulation - PT/INR

While cumulative strip revenue is only \$1.5m, strip sales are expected to escalate over the next 12 months, from:

- Growth in use, with over 20m tests annually.
- The benefit of the recent commercial launch across the 31 countries in Europe covered by CE Mark.
- The launch in other countries that rely on CE Mark approval, marketed through Siemens's distribution network.
- The expected launch in the US in 2H CY16, following FDA 510(k) approval expected in early CY16. The US is expected to be a key market, given the population size and projected market.
- The prospects have been boosted by the recent recall by Alere, the No.2 player with an 18% market share.
- UBI also has the prospect of a profit share in Siemens revenue above pre-agreed targets.

Other Blood Coagulation

Siemens – The 2 additional Blood Coagulation testing systems for Siemens are expected to be launched in late CY2016 in the EU, with Siemens having some advanced prototypes in clinical and reliability testing. While the markets for these tests are smaller, they are expected to be higher growth markets, with lesser competition and higher margins. We also would not rule out further testing systems for Siemens.

UBI will also receive 2 further milestone payments related to the launch of these 2 further tests of around US\$1m (A\$1.4m) each currently expected in either Q4 CY16 or Q1 CY17. However, UBI will recognise A\$2.0m each as Revenue, including a part allocation of the original US\$3.0m payment from Siemens in September 2012 as part of the original Technology Access Agreement.

UBI's Home PT/INR test system – While UBI is currently planning design verification and clinical trials for the system, it is in ongoing discussions with distributors in key markets, with non-binding term sheets in 50% of the relevant markets and receipt of inbound enquiries in the key markets of USA and Europe.

We expect the strips are to sell at a premium to the professional market, into a potential market of \$200m - \$300m (75m strips), with significantly higher margins. Marketing will initially be to health professionals, especially GPs, who are expected to advocate use, before targeting the retail market. Accordingly the rollout will be slow to build momentum.

While UBI can self-certify its meter in Europe to obtain EU mark, it needs FDA 510(k) approval for a US launch. The launch date in the EU is targeted for 2H CY16, although there will be no major revenue impact until 1H 2017.

Forecasts

Blood Glucose (LifeScan) - We have adjusted our forecasts for CY16 to reflect the faster take-up, but retained forecasts for subsequent years currency adjusted:

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	17.0	24.5	32.8	37.8	40.6	12.8	17.0	24.5	32.8	37.8	40.6
<i>Change (%)</i>		32.5	44.1	34.0	15.2	7.3		32.5	44.1	34.0	15.2	7.3
¹ CY16 onwards at current exchange rates												
Option Exercised ²	Revenue (A\$m)						EBIT (A\$m)					
Service Revenue - Strips	12.8	17.0	24.5				12.8	17.0	24.5			
Lump Sum									56.9			
Total	12.8	17.0	24.5	0.0	0.0	0.0	12.8	17.0	24.5			

Source : Industry Sources and Veritas Forecasts ² Option exercised at 1st opportunity

Blood Coagulation (Siemens)

Forecasts include the 2 new testing systems in CY17 only.

Calendar Year		2014	2015	2016	2017	2018	2019	2020	Assumptions
Market Value	US\$m	580	609	640	672	705	740	777	Strips represent 85% of Market,
Applicable UBI Market	US\$m	319	335	352	369	388	407	428	55% of End Value
Market - Strips	m	193	203	213	224	235	247	259	Growing at 5% pa
Penetration	%	0.1	0.3	0.5	2.0	5.0	8.0	12.0	Strip prices falling from US\$1.50
Revenue - UBI	US\$m	0.1	0.9	1.6	6.7	15.3	23.7	31.1	towards US\$0.50 with volume
EBIT	US\$m	0.0	0.2	0.6	2.5	6.1	10.7	15.5	EBIT margins range from 35% to 50%
Revenue	A\$m	0.2	1.3	2.2	9.4	21.3	33.1	43.4	No profit share from Siemens
EBIT	A\$m	0.0	0.2	0.8	3.5	8.5	14.9	21.7	Current A\$/US\$ exchange rates
Margin	%	-5.0	14.1	35.0	37.5	40.0	45.0	50.0	

Source: Veritas

UBI Patient Self-Test - The forecasts are based on the launch in 2H CY16 and a modest ramp-up in CY16, given the novel nature of the test and the marketing strategy.

Calendar Year		2014	2015	2016	2017	2018	2019	2020	Assumptions
Market value	US\$m	250	256.3	263	269	276	283	290	Strips represent 85% of Market
Applicable UBI Market	US\$m	163	167	171	175	179	184	188	65% of End Value
Market - Strips	m	75	79	83	87	91	96	101	Growing at 2.5%
Penetration	%		0.0	0.1	0.5	1.3	2.5	5.0	
Revenue	US\$m		0.0	0.5	2.6	6.2	12.0	23.2	Strip prices of US\$1.50 to \$2.00,
EBIT	US\$m		0.0	0.2	1.1	2.8	5.7	11.6	Margins increasing from 40% to 50%
Revenue	A\$m		0.0	0.7	3.6	8.7	16.8	32.4	Current A\$/US\$ exchange rates
EBIT	A\$m		0.0	0.3	1.5	3.9	8.0	16.2	
Margin	%			40.0	42.5	45.0	47.5	50.0	

Milestones

We expect a further 2 milestone payments of US\$1.0m (A\$1.4m) relating to the launch of the 2 additional Blood Coagulation tests for Siemens, likely to be received in Q4 CY16 or Q1 CY17. For conservatism, we have assumed receipt in CY17.

The Net Cash received will be less than Reported Revenue due to the recognition of the additional US\$0.4m with each milestone that was part of the original US\$3.0m upfront payment from Siemens as part of the original Collaboration Agreement in CY13.

Payments to Planet Innovation - UBI has undertaken to pay Planet A\$0.6m for development work undertaken on a second meter for Siemens for the remaining 2 blood coagulation tests and a meter for UBI's self-test. No provision will be made until sign-off on the meters, expected in CY16.

Milestones - Revenue Recognition

Calendar Year		2014	2015	2016	2017	2018	2019	2020
Siemens Milestones	US\$m	1.4	1.4		2.8	No Further		
Less Athyrium payments	US\$m	-0.3	-0.3			Milestones or Payments		
Net Receipts from Milestones	A\$m	1.4	1.5	0.0	3.9			
less Planet Payments	A\$m				-0.6			
Net Revenue	A\$m	1.5	1.5	0.0	3.3			
Cash Flow impact	A\$m	1.0	1.0		2.2			

Source:UBI (Act), Veritas (Est)

Research & Development

R&D is expected to fall to \$17m and \$14 m in CY16 and CY17, with completion of the development of the 3 blood coagulation systems. The focus will then move to development of a Point of Care Immunoassay testing platform, with an R&D focus on Troponin assay to demonstrate capability.

Troponin is a useful diagnostic marker or therapeutic target for various heart disorders, in particular for myocardial infarction (heart attack) or heart muscle cell death. A successful Troponin assay is highly prospective, as it is rapid, highly sensitive, widely used and low cost per test. Similar to blood coagulation, UBI would benefit both from strip production and sales.

Tax

With Revenue exceeding \$20m in CY16, we expect a tax credit of around \$6.0m, related to 40% of applicable R&D in CY16, along with in excess of \$40m in Deferred Tax Assets as a result of prior years' tax losses.

With UBI reaching Net profitability in CY17 with the improvement in operations and the Lump Sum, we would expect UBI to offset a large element of tax payable in FY17 from any R&D credit and Tax Losses. UBI has around \$38m in Tax Losses and a further \$5m related to R&D. Should LifeScan not exercise its option, UBI will provide for tax and offset tax payable against Deferred Tax Assets.

Balance Sheet

We expect the Athyrium Debt facility to be repaid by a bullet payment in CY18, to be met from either the lump sum payment from LifeScan or strong Cash Flow in the case of non-exercise of the LifeScan option.

Valuation

We now have a Discounted Cash Flow valuation of \$140m (\$0.80ps), based on:

Blood Glucose - Operational Cash Flow for CY15 to CY17, plus the \$56.9m Lump Sum payment in CY17 (payable within 60 days of year-end). Accordingly these combined comprise a value over \$0.53 ps.

Blood Coagulation - Operational Cash Flow for CY15 to CY20 for both Siemens' and UBI's testing system, then terminal growth of 3%. However, this does not include a profit share in Siemens revenue above pre-agreed targets.

Expenses - Corporate Costs and R&D (Net of tax credits) for CY15 to CY20, then terminal growth of 3%.

Milestones – All milestones and any outgoings related to those milestones, with expectations of a Net \$2.2m in FY16.

We believe this is conservative, as:

- Continuation of the LifeScan arrangement beyond the Option exercise date would boost this valuation.
- The valuation assumes continued R&D expenditure beyond CY17, focused on the Immunoassay and Molecular Diagnostics Testing platforms, with no corresponding inclusion in revenue or return.
- This doesn't include the value of its R&D/manufacturing facility which has been developed at a cost of over \$30m. Also, depreciation is a component of Operating Costs and R&D.
- Any further falls in the A\$ or potential corporate action would increase this valuation.

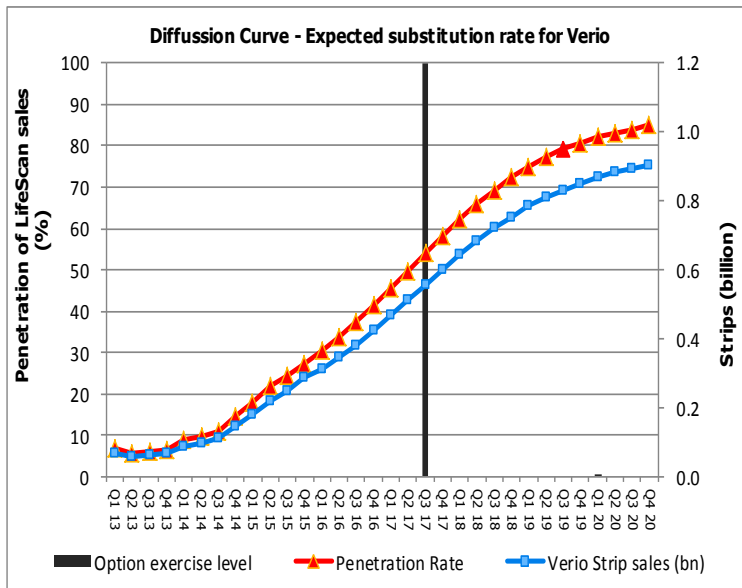
Price Target

While we have a Valuation of \$0.80 ps, we have a 12 month Price Target of \$0.75 ps. The discount reflects the following uncertainties:

- The timing of any exercise of the LifeScan option and the lump sum payment to be received.
- The take-up rate for the Siemens PT/INR test and UBI's self-test, as well as delays experienced with the remaining 2 Siemens' tests.
- The level of continuing R&D and the development of the Immunoassay or any further testing platforms.

As Revenue from Siemens ramps up and the new testing systems are released, we would expect the valuation to increase and Price Target to converge.

Appendix 1 LifeScan Option to acquire Quarterly Service Fee



Source: UBI (Act), Veritas (Forecast)

LifeScan Option Agreement

LifeScan has an option to terminate the Master Services Agreement by converting the quarterly service fees (QSFs) into a lump sum payment, once the cumulative Quarterly Service Fees reach US\$45m. As at 31/12/15, cumulative QSFs had reached US\$21.3m.

With our forecasts of cumulative QSFs reaching US\$45m in **Q3 CY17** and the option exercise at that time, it will result in total future payments of US\$72.8m (A\$101.5m), or 58¢ ps through:

- Receipt of a further US\$32.0m (\$44.6m) comprising US\$23.7m (A\$44.5m) in QSFs up to the exercise date, plus US\$8.3m (A\$11.6m) for part of Q3 and Q4 CY17.
- A lump sum fee of US\$40.8m (A\$57.6m), being the sum of total QSFs for CY17 of US\$18.5m by 2.2x, being the multiplier for the Calendar Year in which the option is exercised. The lump sum is payable within 60 days of year-end.

A shorter time in reaching that agreement would result in a higher total, due to the multiplier effect on a higher Calendar Year.

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

Continuation - It's a possibility that the option won't be exercised or exercised by LifeScan at the first opportunity.

The Pros and Cons are:

Pros – It will increase LifeScan's ongoing margins and cash flow and eliminate the requirement to provide strip sales data.

Cons – It will involve a substantial lump sum payment, possibly over US\$54m. This may not be palatable for LifeScan, given the substantial impact on LifeScan's profitability, 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 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 the current development arrangements with UBI.

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

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