

Universal Biosensors Inc

Q3 CY15 Result shows escalating growth in Blood Glucose

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

- The 10th straight quarter of growth with strip sales of 248m, a 123% increase v pcp and 12% v Q2 CY15. For the 9 months to 30/9/15, strip sales increased by 117% to 648m, from an increased marketing push with new meters in Europe and discounted US meters in the US.
- A 112% increase in Q3 CY15 Revenue from Blood Glucose to \$3.4m. The 6.6% fall from Q2 CY15, was due to the lower tier service fee of US\$0.75 per strip, with total strip sales for the 9 months of CY15 exceeding 500m.
- For the 9 months, strip sales increased by 117.2% to 647.8m to resulting in an increase in Blood Glucose contribution of 137.4% to \$9.9m.

Blood coagulation starts to gain traction

- Sales of its blood coagulation strips to Siemens in Q3 increased by 303% to \$0.55m, 61% above Q2. This is due to the filling of supply pipelines, with the progressive release of Xprecia Stride in 31 EU countries.
- Traction will increase with greater marketing and wider adoption outside the EU and FDA approval in the US.

R&D continues as a plank for the future

R&D of \$5.0m for Q3 and \$14.9m for the 9 months was mostly for the development of further Blood Coagulation systems for Siemens and UBI's own self-test system.

Cash Flow continues to improve

Operating Cash Flow of \$3.9m for the 9 months to 30/9/15 was boosted by a \$1.4m milestone payment and a \$8.2m R&D cash rebate. With a \$1.7m currency gain, Cash increased by \$1m to \$17.4m.

Growth to continue in Q4 and CY16

We expect growth to continue in Q4 CY15 into CY16 from:

- Increased market share for Verio, based on increased marketing, replacement of existing outdated meters and legislative requirements for accuracy.
- The ramp-up marketing of Xprecia Stride in the EU and the introduction into North America and other key markets, with a further 2 blood coagulation tests to be launched in 2H CY16.
- UBI launching its self-test in the 1H CY16 in Europe, with strips to sell at a premium to the professional market at higher margins.

Forecasts adjusted for currency

We have maintained our NPAT forecasts, expecting a Loss in CY15 of 5.0m, falling to \$0.5m in CY16, before rising to a profit of \$10.4m in CY17. The Reported Profit in CY17 of \$72.3m is based on LifeScan exercising its option to buy-back the Quarterly Service Fees, resulting in a lump sum payment to UBI of A\$54m.

Recommendation

We have a conservative DCF Valuation of \$0.70 per share, assuming the LifeScan option is exercised. If the option is not exercised at the first opportunity, 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 relationships 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 Price Target of 42%.

UBI.ASX

BUY

30 October 2015

| | |
|------------------------------|---------------|
| Price | \$0.41 |
| 12 Month Price Target | \$0.70 |
| Valuation | \$0.80 |
| Valuation method | DCF |
| GICS sector | Healthcare |
| 12 Mth Price Range | \$0.15 - 0.44 |
| Avg monthly t/o | 4.0m |
| Market Capitalisation | \$71m |
| Shares on issue | 176m |
| Options on Issue | 10m |
| Enterprise value | \$80m |
| Previous rating | BUY |

| Year Ended Dec 31 | | 13A | 14A | 15E | 16E | 17E |
|-------------------|------|--------------|-------------|-------------|-------------|-------------|
| Revenue | \$m | 15.1 | 9.5 | 18.5 | 29.8 | 43.2 |
| EBIT | \$m | -18.2 | -13.8 | -9.2 | 3.3 | 13.1 |
| EBIT margin | % | -120.9 | -144.7 | -49.5 | 11.0 | 30.3 |
| NPAT | \$m | -11.6 | -7.2 | -5.0 | 0.6 | 10.3 |
| Reported Profit | \$m | -11.6 | -9.3 | -5.0 | -2.3 | 64.3 |
| EPS | ¢ ps | -6.7 | -4.1 | -2.8 | 0.3 | 5.8 |
| EPS growth | % | 17.2 | -38.7 | -30.7 | na | na |
| Franking | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PER | x | -6.9 | -4.2 | -14.3 | 121.7 | 6.9 |
| 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 | 8.8 | 7.5 | 44.0 |
| EV/EBITDA | x | -4.0 | -6.2 | -8.7 | 18.2 | 0.1 |
| Gearing (D:E) | % | 0.0 | 8.2 | 53.5 | 25.7 | 0.0 |
| P/OCF | x | na | -5.5 | -23.7 | 11.2 | 1.2 |
| R&D | \$m | -15.5 | -17.1 | -20.0 | -17.0 | -12.0 |
| R&D / Revenue | % | 102.6 | 179.8 | 107.8 | 57.0 | 27.8 |
| ROA | % | -35.2 | -27.0 | -20.1 | 7.1 | 15.7 |
| ROE | % | -33.7 | -28.7 | -27.8 | 4.1 | 22.7 |
| Interest cover | x | na | -5.7 | -2.4 | 1.2 | 4.7 |

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



Activities

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

www.universabiosensors.com

Brent Mitchell (03) 86054830

bmitchell@veritassecurities.com.au


Universal Biosensors
Universal Biosensors (UBI)
Current Price: \$0.41 ps
Target Price: \$0.70 ps
FINANCIAL PERFORMANCE

| Year ended 31-Dec | | 13A | 14A | 15E | 16E | 17E |
|-------------------------------|------|-------|-------|-------|-------|-------|
| Sales Revenue | \$ m | 15.1 | 9.5 | 18.5 | 29.8 | 43.2 |
| Cost of Goods Sold | \$ m | -11.6 | -0.6 | -1.4 | -2.5 | -10.6 |
| Gross Operating Profit | \$ m | 3.4 | 9.0 | 17.1 | 27.3 | 32.6 |
| R&D | \$ m | -15.5 | -17.1 | -20.0 | -17.0 | -12.0 |
| Administration Costs | \$ m | -6.2 | -5.6 | -6.3 | -7.0 | -7.5 |
| EBIT | \$ m | -18.2 | -13.8 | -9.2 | 3.3 | 13.1 |
| R&D Refund | \$ m | 6.3 | 9.0 | 8.0 | 0.0 | 0.0 |
| Interest | \$ m | 0.3 | -2.4 | -3.8 | -2.7 | -2.8 |
| Pre Tax Profit | \$ m | -11.6 | -7.2 | -5.0 | 0.6 | 10.3 |
| Tax | \$ m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Normalised Profit | \$ m | -11.6 | -7.2 | -5.0 | 0.6 | 10.3 |
| Significant Items | \$ m | 0.0 | -2.1 | 0.0 | -2.9 | 54.0 |
| Reported Profit | \$ m | -11.6 | -9.3 | -5.0 | -2.3 | 64.3 |

GROWTH

| | | 13A | 14A | 15E | 16E | 17E |
|------------------------|---|-------|-------|-------|--------|--------|
| Revenue | % | -49.1 | -36.8 | 94.6 | 60.7 | 45.0 |
| COGS | % | -37.6 | -95.2 | 156.2 | 76.6 | 321.5 |
| Gross Operating Profit | % | -68.6 | 160.3 | 90.8 | 59.3 | 19.5 |
| R&D | % | 14.8 | 10.7 | 16.7 | -15.0 | -29.4 |
| EBIT | % | 96.5 | -24.4 | -33.4 | -135.8 | 298.3 |
| Reported Profit | % | 27.4 | -38.3 | -30.7 | -111.8 | 1654.8 |
| EPS | % | 17.2 | -38.7 | -30.7 | -111.7 | 1653.9 |

P&L RATIOS

| | | 13A | 14A | 15E | 16E | 17E |
|--------------------------------|---|--------|--------|-------|------|------|
| Gross Operating Profit / Sales | % | 22.8 | 94.2 | 92.3 | 91.6 | 75.5 |
| EBIT / Sales | % | -120.9 | -144.7 | -49.5 | 11.0 | 30.3 |
| Effective Tax Rate | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Cover | x | na | -5.7 | -2.4 | 1.2 | 4.7 |
| R&D/Revenue | x | 102.6 | 179.8 | 107.8 | 57.0 | 27.8 |
| Working Cap/Revenue | | -13.3 | 4.6 | 4.6 | 0.2 | 0.3 |

Per SHARE

| | | 13A | 14A | 15E | 16E | 17E |
|--------------------------|-----|-------|-------|-------|-------|-------|
| Issued Shares (Year End) | m | 175.6 | 175.6 | 176.2 | 176.3 | 176.3 |
| Issued Shares (Wt Avg) | m | 174.4 | 175.6 | 175.6 | 176.2 | 176.3 |
| EPS | ¢ps | -6.7 | -4.1 | -2.8 | 0.3 | 5.8 |
| Operating Cash Flow ps | ¢ps | -9.5 | -3.1 | -1.7 | 3.6 | 33.1 |
| DPS | ¢ps | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

PARAMETERS

| | | 13A | 14A | 15E | 16E | 17E |
|---------------------------|---|------|-------|-------|-------|-----|
| PE Ratio | x | -6.9 | -4.2 | -14.3 | 121.7 | 6.9 |
| Enterprise Value / EBITDA | x | -4.0 | -6.2 | -8.7 | 18.2 | 0.1 |
| Enterprise Value / Profit | x | -5.4 | -10.1 | -16.0 | 101.8 | 0.1 |
| Cash Flow ratio | x | -4.8 | -5.5 | -23.7 | 11.2 | 1.2 |
| Dividend Yield | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

SEGMENTS

| | | 13A | 14A | 15E | 16E | 17E |
|--------------------------|------|-------|--------|--------|-------|-------|
| Sales Revenue | | | | | | |
| Product Sales | \$ m | 10.2 | 0.2 | 1.7 | 6.0 | 17.3 |
| Service Fees (Lifescan)* | \$ m | 3.4 | 6.4 | 13.8 | 19.1 | 25.9 |
| Other | \$ m | 1.5 | 1.1 | 1.0 | 0.6 | 0.0 |
| Milestones | \$ m | 0.0 | 1.8 | 2.0 | 4.1 | 0.0 |
| EBIT | | | | | | |
| Product Sales | \$ m | 0.7 | -0.1 | 0.6 | 3.1 | 8.2 |
| Service Fees (Lifescan)* | \$ m | 3.4 | 6.4 | 13.8 | 19.1 | 25.9 |
| Other | \$ m | 3.1 | 0.9 | 0.7 | 0.5 | 0.0 |
| Milestones | \$ m | 0.0 | 1.8 | 2.0 | 4.1 | 0.0 |
| R&D | \$ m | -15.5 | -17.1 | -20.0 | -17.0 | -14.0 |
| Admin Fees | \$ m | -6.2 | -5.6 | -6.3 | -6.5 | -7.0 |
| EBIT Growth | | | | | | |
| Product Sales | % | -48.5 | -113.7 | -734.2 | 399.9 | 164.0 |
| Service | % | 52.3 | 89.3 | 113.4 | 38.8 | 35.6 |
| Admin Fees | % | 14.8 | 10.7 | 16.7 | -15.0 | -17.6 |
| Corporate | % | -8.7 | -9.3 | 12.0 | 3.2 | 7.7 |
| EBIT Margin | | | | | | |
| Product Sales | % | 7.0 | -45.4 | 35.6 | 51.6 | 47.3 |
| Service | % | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: UBI (Act) and Veritas Securities (Est) *Excludes development revenue for Siemens

CASH FLOW

| Year ended 31-Dec | | 13A | 14A | 15E | 16E | 17E |
|----------------------------|------|-------|-------|-------|-------|-------|
| Operating EBITDA | \$ m | 1.7 | 2.9 | 10.8 | 20.3 | 25.1 |
| Net Interest Received/Paid | \$ m | 0.5 | -2.4 | -2.9 | -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 | -0.8 | -2.0 | -8.0 |
| Other (inc R&D Refund) | \$ m | -0.8 | 8.6 | 9.9 | 8.0 | 56.0 |
| Operating Cash Flow | \$ m | -1.1 | 5.8 | 17.0 | 23.4 | 70.3 |
| R&D | \$ m | -15.5 | -17.1 | -20.0 | -17.0 | -12.0 |
| Capex | \$ m | -0.2 | -1.0 | -1.4 | -1.5 | -1.6 |
| Free Cash Flow | \$ m | -16.8 | -12.2 | -4.4 | 4.9 | 56.7 |
| 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 | 0.1 | 0.0 | 0.0 |
| Debt | \$ m | 16.0 | 0.5 | 0.5 | 0.0 | 0.0 |
| Change in Net Cash | \$ m | -0.4 | -11.7 | -3.8 | 4.9 | 56.7 |

BALANCE SHEET

| | | 13A | 14A | 15E | 16E | 17E |
|--------------------------------|------|------|------|------|------|-------|
| Cash | \$ m | 23.7 | 16.3 | 10.2 | 15.1 | 70.6 |
| Receivables | \$ m | 2.2 | 3.8 | 5.0 | 6.0 | 13.0 |
| Inventory | \$ m | 0.0 | 0.4 | 2.0 | 4.0 | 6.0 |
| Other Current Assets | \$ m | 9.9 | 9.7 | 7.5 | 6.3 | 7.5 |
| Current Assets | \$ m | 35.8 | 30.3 | 24.7 | 31.4 | 97.1 |
| Property, Plant & Equipment | \$ m | 15.9 | 14.3 | 15.5 | 14.0 | 13.5 |
| Intangibles | \$ m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other NC Assets | \$ m | 2.9 | 2.9 | 3.5 | 4.0 | 6.5 |
| Non Current Assets | \$ m | 18.8 | 17.3 | 19.0 | 18.0 | 20.0 |
| Total Assets | \$ m | 54.6 | 47.5 | 43.7 | 49.4 | 117.1 |
| Payables | \$ m | 3.3 | 2.1 | 3.0 | 4.0 | 5.0 |
| Current Debt | \$ m | 0.0 | 0.5 | 0.0 | 0.0 | 18.5 |
| Other Current Liabilities | \$ m | 2.1 | 3.9 | 4.0 | 6.0 | 6.0 |
| Current Liabilities | \$ m | 5.4 | 6.5 | 7.0 | 10.0 | 29.5 |
| Non Current Debt | \$ m | 15.9 | 17.5 | 18.5 | 18.5 | 0.0 |
| Other NC Liabilities | \$ m | 3.7 | 3.8 | 2.7 | 7.7 | 10.1 |
| Non Current Liabilities | \$ m | 19.5 | 21.3 | 21.2 | 26.2 | 10.1 |
| Total Liabilities | \$ m | 24.9 | 27.8 | 28.2 | 36.2 | 39.6 |
| Shareholder Funds | \$ m | 29.7 | 20.4 | 15.5 | 13.2 | 77.5 |

BALANCE SHEET RATIOS

| | | 13A | 14A | 15E | 16E | 17E |
|-----------------------|------|-------|-------|-------|-----|------|
| Receivables turn | x | 6.8 | 3.2 | 4.2 | 5.4 | 4.5 |
| Inventory turn | x | 6.5 | 2.8 | 1.2 | 0.8 | 2.1 |
| Net Debt | \$ m | 0.0 | 1.7 | 8.3 | 3.4 | 0.0 |
| Current Ratio (CA:CL) | x | 6.6 | 4.7 | 3.5 | 3.1 | 3.3 |
| Net Tangible Assets | ¢ps | 16.9 | 11.6 | 8.8 | 7.5 | 44.0 |
| Cash | ¢ps | 4.5 | 0.0 | 0.0 | 0.0 | 29.6 |
| Return On Assets | % | -35.2 | -27.0 | -20.1 | 7.1 | 15.7 |
| Return on Equity | % | -33.7 | -28.7 | -27.8 | 4.1 | 22.7 |

VALUATION

| Valuation Method | \$ | Premium(+)/Discount(-) % |
|------------------------------|----------------|----------------------------------|
| DCF | 0.80 | -49.4 |
| Price Target | 0.70 | -42.1 |
| Current Price | 0.41 | |
| Market Capitalisation | \$71.1m | Enterprise Value: \$72.8m |

MAJOR SHAREHOLDERS

| | | | | |
|---------------------------|----------|--------------|------------|----------------------|
| Talu Ventures | m | 17.8 | 10% | Related to Directors |
| KFT Investments | m | 18.0 | 10% | George Klepper |
| Top 20 (16/3/2015) | m | 121.4 | 69% | |

DIRECTORS

| | |
|------------------|-----------|
| Andrew Denver | N-E Chair |
| Paul Wright | MD & CEO |
| Judith Smith | N-E Dir |
| Denis Hanley | N-E Dir |
| Marshall Heiberg | N-E Dir |

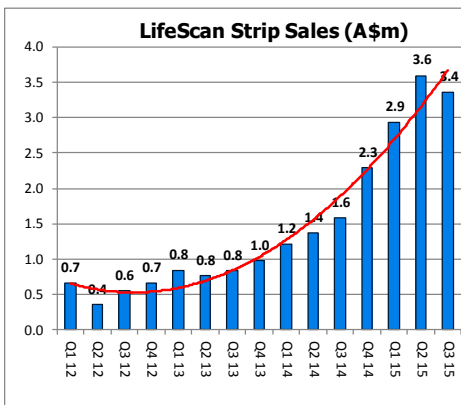
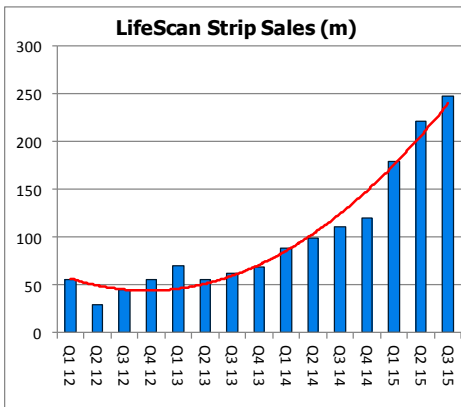
Q3 CY2015 confirms strong growth in Strip Sales

A feature of the result was the continued strong growth in Operating Profit contribution from Blood Glucose (LifeScan) of \$9.9m and a move to an Operating Profit for Blood Coagulation (Siemens).

| Profit & Loss | | | |
|-------------------------------|---------------|--------------|--------------|
| 9 Mths to Sep (\$m) | CY14 | CY15 | % Ch |
| Product Sales | 0.14 | 0.97 | 603.9 |
| Services- Strips | 4.16 | 9.88 | 137.4 |
| Services - Development | 0.65 | 0.65 | |
| Milestones | 0.00 | 1.96 | |
| Total Revenue | 4.95 | 13.46 | 171.7 |
| Cost of Goods Sold | -0.36 | -1.04 | 187.2 |
| Gross Operating Profit | 4.59 | 12.41 | |
| R&D | -13.90 | -14.88 | 7.1 |
| Expenses | -4.59 | -4.66 | 1.5 |
| EBIT | -13.90 | -7.13 | -48.7 |
| Interest (Net) | -1.83 | -2.37 | |
| R&D Refund | 6.86 | 5.19 | |
| Pre-Tax Profit | -8.80 | -4.30 | -51.1 |
| Tax | 0.00 | 0.00 | |
| Net Profit | -8.80 | -4.30 | -51.1 |
| Gross Margin (%) | 92.7 | 92.2 | |
| EBIT Margins (%) | -280.7 | -53.0 | |
| R&D/Revenue (%) | 280.7 | 110.6 | |
| Expenses/Revenue (%) | 92.7 | 34.6 | |

| Cash Flow | | | |
|-----------------------------|--------------|--------------|-------------|
| 9 Mths to Sep (\$m) | CY14 | CY15 | % Ch |
| Operating Cash Flow | -3.82 | -0.55 | na |
| Capex | -0.69 | -1.08 | 56.2 |
| Equity | 0.00 | 0.00 | |
| Debt | 0.6 | 2.65 | |
| Net Cash Flow | -3.91 | 1.02 | na |
| Balance Sheet | | | |
| | CY14 | CY15 | % Ch |
| Current Assets | 29.0 | 29.8 | |
| Non Current Assets | 17.7 | 16.7 | |
| Total Assets | 46.6 | 46.5 | -0.3 |
| Current Liabilities | 6.0 | 5.2 | |
| Non Current Liabilities | 20.1 | 25.8 | |
| Total Liabilities | 26.0 | 31.1 | 19.4 |
| Shareholder Funds | | | |
| | CY14 | CY15 | % Ch |
| Net Cash (¢ ps) | 2.0 | 0.0 | -100.0 |
| Net Debt (¢ ps) | 0.0 | 3.3 | |
| NTAV (¢ ps) | 11.7 | 8.7 | -25.5 |
| Net Assets (¢ ps) | 11.7 | 8.7 | -25.5 |
| Current Ratio (x) | 0.0 | 0.0 | |
| Revenue/Working Capital (x) | 0.0 | 0.0 | |

Source: UBI



Summary

Blood Glucose

Strip Sales – Strip sales for Q3 CY15 grew by 122.8% to 247.8m, with a 12.2% increase over Q2 CY15, continuing the trend of 10 straight quarters of escalating growth. For the 9 months to September 2015, strip sales increased by 117.2% to 647.8m.

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

- 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.

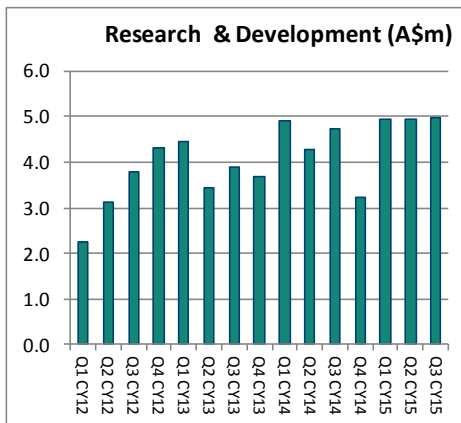
Strip Service Fees – While Fees for Q3 CY15 increased by 112.6% to A\$3.4m, they fell by 6.6% compared to Q2. This was due to cumulative sales exceeding 500m, where the fee falls from US1.25¢ to US0.75¢ per strip. This fall was partly offset by a lower A\$ during Q3. For the 9 months to 30/9/15, Revenue increased by 137.4% to \$9.88m, with the stronger strip sales and a fall in the A\$:US\$ rate from 0.88¢ to 70.0¢.

The Cumulative Strip Service fees increased to US\$19.1m, still well short of the option exercise hurdle of US\$45m.

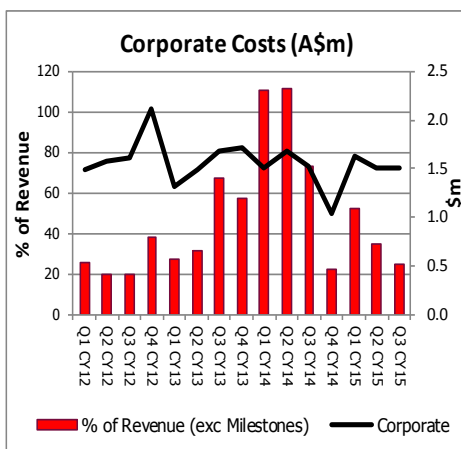
Blood Coagulation - Siemens strip sales for Q3 CY15 increased to \$0.55m and \$1.00m for the 9 months to 30/9/15. The majority of the increase was in Q3 with an extended launch across 31 EU countries in May. UBI continued to undertake development work for Siemens on 2 additional blood coagulation testing systems.

Milestone Payment – UBI received its 4th milestone payment of US\$1m (A\$1.36m), 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 UBI recognised the A\$1.36m payment in Cash Flow, it recognised A\$2.0m as Revenue, including a part allocation of the original \$3.0m payment from Siemens as part of the original Technology Access Agreement in September 2012.



Source: UBI



Source: UBI

R&D – Increased by 5.8% to \$5.0m, mostly for the development of additional Blood Coagulation testing systems for Siemens and UBI’s patient self-test, with R&D for the 9 months increasing by 7.1% to \$14.9m. 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 \$2.42m (\$6.72m for 9 months), 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 – Remained steady despite the increased activity and the commencement of strip manufacture for Siemens.

Interest & Other – The \$0.5m increase represents:

- Interest and additional outgoings related to the US\$15m Athryium facility.
- Currency adjustments of \$0.7m on the US\$15m facility.

Cash Flow – For Q3 CY15, Operating Cash Flow was \$7.1m, with inclusion of a R&D Refund of \$8.2m and a net \$1.0m Milestone Payment from Siemens and after borrowing costs/arrangements under the Athryium facility. Net Cash Flow of \$6.6m, was after Capex of \$0.3m, Debt repayment of \$0.1m, resulting in Cash at 30/9/15 of \$17.35m.

For the 9 months to 30/9/15, Operating Cash Outflow fell by \$3.2m to \$0.6m, with a Net Cash Flow of \$1.02, after Capex of \$1.1m and a \$2.6m increase in Gross Debt.

Balance Sheet – While positive Cash Flow increased Cash to \$17.4m, this was offset by a Total Debt to \$20.6m, resulting in Net Debt of \$3.3m (1.9¢ ps). The US\$15m facility is repayable with a bullet payment by the end of CY2018.

Outlook

Blood Glucose

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

- The continued growth in diabetes sufferers globally.
- 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. This is expected to boost LifeScan’s market share.
 - The introduction in Europe of ISO accuracy standards from July 2016, which precludes the use of older meters not complying with the standard.
 - Reduction in the price of Verio meters by LifeScan within the USA, to encourage a switching to Verio and to meet competitive pressures, along with the possible introduction of accuracy requirements for new meters.

Continued strong growth in strip sales is expected, bringing into play the LifeScan Option Agreement. While we are uncertain whether LifeScan will exercise the Option, we have taken a conservative approach and assumed exercise.

Blood Coagulation - PT/INR

While cumulative strip revenue is only \$1.0m, strip sales are expected to escalate over the next 18 months, from:

- The progressive 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’ distribution network.
- The expected launch in the US in 1H CY16, following FDA 510(k) approval expected in early CY16.
- 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. UBI will also receive 2 further milestone payments related to the launch of these 2 further tests.

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 markets and receipt of inbound enquiries in the key markets of USA and Europe. The strips are likely to sell at a premium to the professional market, a potential market of \$200m - \$300m with significantly higher margins.

To launch the meter, UBI will need to successfully complete trials. While UBI can self-certify its meter in Europe to obtain EU mark, it will need to receive FDA 510(k) approval for a US launch. The launch date in the EU is targeted for 1H CY16, although there will be no major revenue impact until 2H 2016.

Forecasts

Mostly unchanged, despite further A\$ weakness, with:

Blood Glucose - Continued strong growth in in strip sales and assuming the exercise of the LifeScan Option.

Blood Coagulation – Continued ramp-up of the PT/INR test and the launch of 2 further tests in CY16. UBI will also receive 2 milestone payments of around US\$1.0m (A\$1.4m) each related to the launch of the further 2 tests. However, UBI will recognise \$2.0m as Revenue from these milestones, including a part allocation of the original \$3.0m Technology Access Agree payment from Siemens. Our forecasts make no allowance for the profit sharing arrangements with Siemens.

UBI Patient Self-Test - The forecasts are based on the launch in Q1 CY16 and a modest ramp-up over CY16, given the novel nature of the test.

Research & Development - R&D is expected to continue at a lower run rate in CY16 with completion of the development work for the 2 additional Siemens’ tests. Beyond CY16, UBI is expected to focus on immunoassay, molecular diagnostics and other identified opportunities.

| Year Ended Dec | | 13A | 14A | 15E | 16E | 17E |
|-----------------|------|--------------|-------------|-------------|-------------|-------------|
| Revenue | \$m | 15.1 | 9.5 | 18.5 | 29.8 | 43.2 |
| EBIT | \$m | -18.2 | -13.8 | -9.2 | 3.3 | 13.1 |
| EBIT margin | % | -120.9 | -144.7 | -49.5 | 11.0 | 30.3 |
| NPAT | \$m | -11.6 | -7.2 | -5.0 | 0.6 | 10.3 |
| Reported Profit | \$m | -11.6 | -9.3 | -5.0 | -2.3 | 64.3 |
| EPS | ¢ ps | -6.7 | -4.1 | -2.8 | 0.3 | 5.8 |

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 \$54m Lump Sum payment in CY17. Accordingly this comprises over \$0.55 ps.

Blood Coagulation - Operational Cash Flow for CY15 to CY20 for both Siemens’ and UBI’s testing system, then terminal growth of 3%.

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

Milestones – All milestones and any outgoing related to those milestones.

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 revenue or return. A significant reduction or cessation of R&D spend would substantially increase the valuation.
- 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 \$0.70 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.

Sales

Robert Scappatura +61 2 8252 3240
 Andrew McCauley +61 2 8252 3260
 Patrick Ford +61 2 8252 3211
 Clay Melbourn +61 2 8252 3220
 Bryce Reynolds +61 2 8252 3210
 Stephen Murphy +61 403 023 014

Research

Industrials
 Brent Mitchell +61 3 8605 4830
 Levi Hawker +61 3 8676 0689

Resources
 Piers Reynolds +61 3 8601 1196

RATING

BUY – anticipated stock return is greater than 10%
 SELL – anticipated stock return is less than -10%
 HOLD – anticipated stock return is between -10% and +10%
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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Veritas Securities Limited
 A.B.N. 94 117 124 535
 AFSL No. 297 043
 GPO Box 4877, Sydney, NSW, 2001
 www.veritassecurities.com.au

Sydney
 Level 4, 175 Macquarie Street
 Sydney, NSW, 2000
 Tel: (02) 8252 3200
 Fax: (02) 8252 3299

Melbourne
 Level 8, 350 Collins Street
 Melbourne, VIC, 3000
 Tel: (03) 8601 1196
 Fax: (03) 8601 1180