EQUITY RESEARCH

Universal Biosensors Inc

1H CY15 Result shows escalating growth in Blood Glucose

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

- Verio strip sales of 400m, a 93.5% increase over 1H CY14 and 45% over 2H CY14. This includes a Q2 CY15 increase of 23% over Q1. This growth was helped by an increased marketing push by LifeScan, with new meters, free meter promotion in Europe and lower priced meters in the US.
- A 153% increase in 1H CY15 Operating Profit from Blood Glucose to $6.5m, a 69% increase over 2H CY14. This includes a Q2 CY15 increase of 162%.

Blood coagulation starts to gain traction.

- Sales of its blood coagulation strips to Siemens of $0.4m, mainly in Q2 CY15 with the release of Xprecia Stride in 31 EU countries. Traction will increase with greater marketing and adoption in the EU and FDA approval in the US.
- R&D was maintained at $9.9m, mostly devoted to development of further Blood Coagulation systems for Siemens and UBI's own self-test system.

Cash Outflow falls substantially

A $2.3m fall in Operating Cash Outflows to $3.3m, with:

- A 260% ($4.6m) increase in Receipts to $7.5m, mainly from increased strip sales and receipt of an A$1.2m (US$1.0m) milestone payment from Siemens.
- A $1.1m fall in Payments and an easing in working capital requirement.

Net Cash Outflow fell by $1.3m to $5.6m, after a $0.7m currency adjustment, despite $1.9m in one-off costs from the Athyrium facility. While Cash on Hand fell to $10.7m, it has been boosted by an $8.2m R&D Refund received in July, with a Siemens milestone payment of a net $1.1m to be received in Q3 CY15.

Growth to continue in 2H

We expect growth to continue in 2H 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- Increased market share for Verio, based on increased marketing, replacement of existing outdated meters and legislative requirements for accuracy.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, using Siemens' extensive distribution network, and the introduction into North America and other key markets. FDA approval and a US launch are expected in late CY15, with a further 2 blood coagulation tests to be launched in 2H CY16.
- UBI expects to launch its self-test in the 2H CY15 in Europe, with strips to sell at a premium to the professional market at significantly higher margins.

Forecasts adjusted for currency

We have adjusted our NPAT forecasts for currency and higher R&D, expecting a Loss in CY15 of 5.0m, falling to $0.5m in CY16, before rising to$10.4m in CY17.

The substantial Reported Profit in CY17 of $72.3m is based on LifeScan exercising its buyback option of Quarterly Service Fees, resulting in a lump sum payment to UBI of A$54m. While not certain, we have adopted this conservative approach.

Recommendation

We have a conservative DCF Valuation of $0.70 per share, assuming the LifeScan option is exercised and taking into account some ongoing uncertainties. 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 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 and NTA of 57% and 22%.

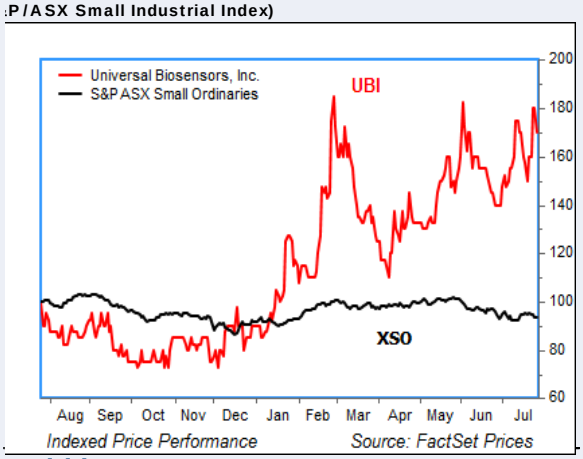
UBI.ASX BUY

30 July 2015

Price	**$0.34**
12 Month Price Target	**$0.70**
Valuation	**$0.80**
Valuation method	DCF
GICS sector	Healthcare
12 Mth Price Range	$0.15 - 0.38
Avg monthly t/o	3.9m
Market Capitalisation	$60m
Shares on issue	176m
Options on Issue	13m
Enterprise value	$71m
Previous rating	**BUY**

Year Ended Dec 31		13A	14A	15E	16E	17E
Revenue	$m	15.1	9.5	17.8	28.7	41.5
EBIT	$m	-18.2	-13.8	-9.9	2.2	13.2
EBIT margin	%	-120.9	-144.7	-55.3	7.7	31.8
NPAT	$m	**-11.6**	**-7.2**	**-5.0**	**-0.5**	**10.4**
Reported Profit	$m	**-11.6**	**-9.3**	**-5.0**	**-3.2**	**64.4**
EPS	¢ ps	-6.7	-4.1	-2.8	-0.3	5.9
EPS growth	%	17.2	-38.7	-31.1	na	na
Franking	%	0.0	0.0	0.0	0.0	0.0
PER	x	-6.9	-4.2	-12.1	-120.1	5.8
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	6.9	43.5
EV/EBITDA	x	-3.3	-5.3	-7.2	31.6	-0.1
Gearing (D:E)	%	0.0	8.2	74.9	105.8	0.0
P/OCF	x	na	-5.5	-10.7	35.9	1.0
R&D	$m	-15.5	-17.1	-20.0	-17.0	-15.0
R&D / Revenue	%	102.6	179.8	112.2	59.3	36.1
ROA	%	-35.2	-27.0	-22.3	5.2	17.3
ROE	%	-33.7	-28.7	-27.7	-3.6	23.4
Interest cover	x	na	-5.7	-2.6	0.8	4.7

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: $0.34 ps **Target Price: $0.70 ps**

FINANCIAL PERFORMANCE

Year ended 31-Dec		2012A	2013A	2014A	2015E	2016E	2017E
Sales Revenue	**$m**	**29.6**	**15.1**	**9.5**	**17.8**	**28.6**	**41.5**
Cost of Goods Sold	$m	-18.7	-11.6	-0.6	-1.4	-2.4	-5.8
Gross Operating Profit	**$m**	**11.0**	**3.4**	**9.0**	**16.4**	**26.2**	**35.7**
R&D	$m	-13.5	-15.5	-17.1	-20.0	-17.0	-15.0
Administration Costs	$m	-6.8	-6.2	-5.6	-6.3	-7.0	-7.5
EBIT	**$m**	**-9.3**	**-18.2**	**-13.8**	**-9.9**	**2.2**	**13.2**
R&D Refund	$m	0.0	6.3	9.0	8.7	0.0	0.0
Interest	$m	0.2	0.3	-2.4	-3.8	-2.7	-2.8
Pre Tax Profit	**$m**	**-9.1**	**-11.6**	**-7.2**	**-5.0**	**-0.5**	**10.4**
Tax	$m	0.0	0.0	0.0	0.0	0.0	0.0
Normalised Profit	**$m**	**-9.1**	**-11.6**	**-7.2**	**-5.0**	**-0.5**	**10.4**
Significant Items	$m	**0.0**	**0.0**	**-2.1**	**0.0**	**-2.7**	**54.0**
Reported Profit	**$m**	**-9.1**	**-11.6**	**-9.3**	**-5.0**	**-3.3**	**64.4**

GROWTH

		2012A	2013A	2014A	2015E	2016E	2017E
Revenue	%	101.7	-49.1	-36.8	86.8	60.7	45.0
COGS	%	43.3	-37.6	-95.2	148.5	77.1	137.1
Gross Operating Profit	%	555.1	-68.6	160.3	83.0	59.3	36.4
R&D	%	37.4	14.8	10.7	16.7	-15.0	-11.8
EBIT	%	-39.7	96.5	-24.4	-28.4	-121.9	510.4
Reported Profit	%	-37.8	27.4	-38.3	-30.7	-89.2	-2034.6
EPS	%	-38.4	17.2	-38.7	-30.7	-89.2	-2033.6

P&L RATIOS

		2012A	2013A	2014A	2015E	2016E	2017E
Gross Operating Profit / Sales	%	37.1	22.8	94.2	92.2	91.4	86.0
EBIT / Sales	%	-31.3	-120.9	-144.7	-55.5	7.6	31.8
Effective Tax Rate	%	0.0	0.0	0.0	0.0	0.0	0.0
Interest Cover	x	na	na	-5.7	-2.6	0.8	4.7
R&D/Revenue	x	45.5	102.6	179.8	112.3	59.4	36.2
Working Cap/Revenue		21.0	-13.3	4.6	4.5	0.2	0.3

Per SHARE

		2012A	2013A	2014A	2015E	2016E	2017E
Issued Shares (Year End)	m	174.0	175.6	175.6	175.9	176.0	176.0
Issued Shares (Wt Avg)	m	160.4	174.4	175.6	175.6	175.9	176.0
EPS	¢ps	-5.7	-6.7	-4.1	-2.8	-0.3	5.9
Operating Cash Flow ps	¢ps	-2.1	-9.5	-3.1	-2.9	3.4	33.2
DPS	¢ps	0.0	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Payout Ratio	%	0.0	0.0	0.0	0.0	0.0	0.0

PARAMETERS

		2012A	2013A	2014A	2015E	2016E	2017E
PE Ratio	x	-15.9	-6.9	-4.2	-12.0	-111.3	5.8
Enterprise Value / EBITDA	x	-5.3	-3.3	-5.3	-7.1	24.7	-0.6
Enterprise Value / Profit	x	-3.9	-4.5	-8.5	-14.1	-99.3	-0.8
Cash Flow ratio	x	-44.0	-4.8	-5.5	-11.7	10.0	1.0
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0	0.0

SEGMENTS

		2012A	2013A	2014A	2015E	2016E	2017E
Sales Revenue							
Product Sales	$m	19.4	10.2	0.2	1.7	5.8	16.7
Service Fees (Lifescan)*	$m	2.2	3.4	6.4	13.2	18.3	24.8
Milestones	$m	4.2	0.0	1.8	2.0	3.9	0.0
EBIT							
Product Sales	$m	1.4	0.7	-0.1	0.6	3.0	7.8
Service Fees (Lifescan)*	$m	2.2	3.4	6.4	13.2	18.3	24.8
R&D	$m	-13.5	-15.5	-17.1	-20.0	-17.0	-13.0
Milestones	$m	4.2	0.0	1.8	2.0	3.9	0.0
Admin Fees	$m	-6.8	-6.2	-5.6	-6.3	-6.5	-7.5
EBIT Growth							
Product Sales	%	-660.0	-48.5	-113.7	-707.1	399.9	164.0
Service	%	310.9	52.3	89.3	104.3	38.8	35.6
Admin Fees	%	37.4	14.8	10.7	16.7	-15.0	-23.5
Corporate	%	-6.6	-8.7	-9.3	12.0	3.2	15.4
EBIT Margin							
Product Sales	%	7.1	7.0	-45.4	35.5	51.1	47.0
Service	%	100.0	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		2012A	2013A	2014A	2015E	2016E	2017E
Operating EBITDA	**$m**	**9.8**	**1.7**	**2.9**	**10.1**	**19.2**	**28.2**
Net Interest Received/Paid	$m	0.4	0.5	-2.4	-2.9	-2.9	-2.8
Tax Paid	$m	0.0	0.0	0.0	0.0	0.0	0.0
Change Working Capital	$m	4.4	-2.5	-3.2	-0.8	-2.0	-8.0
Other (inc R&D Refund)	$m	-4.4	-0.8	8.6	8.5	8.7	56.0
Operating Cash Flow	**$m**	**10.2**	**-1.1**	**5.8**	**14.9**	**23.0**	**73.4**
R&D	$m	-13.5	-15.5	-17.1	-20.0	-17.0	-15.0
Capex	$m	-0.7	-0.2	-1.0	-1.4	-1.5	-1.6
Free Cash Flow	**$m**	**-4.0**	**-16.8**	**-12.2**	**-6.5**	**4.5**	**56.8**
Acquisitions/Asset Sales	$m	0.0	0.0	0.0	0.0	0.0	0.0
Dividends Paid	$m	0.0	0.0	0.0	0.0	0.0	0.0
Equity Change	$m	12.5	0.4	0.0	0.0	0.0	0.0
Debt	$m	0.0	16.0	0.5	0.5	0.0	0.0
Change in Net Cash	**$m**	**8.6**	**-0.4**	**-11.7**	**-6.0**	**4.5**	**56.8**

BALANCE SHEET

		2012A	2013A	2014A	2015E	2016E	2017E
Cash	$m	23.6	23.7	16.3	8.0	12.5	68.1
Receivables	$m	2.3	2.2	3.8	5.0	6.0	13.0
Inventory	$m	3.6	0.0	0.4	2.0	4.0	6.0
Other Current Assets	$m	0.9	9.9	9.7	7.5	6.3	7.5
Current Assets	**$m**	**30.5**	**35.8**	**30.3**	**22.5**	**28.8**	**94.6**
Property, Plant & Equipment	$m	18.3	15.9	14.3	15.5	14.0	13.5
Intangibles	$m	0.0	0.0	0.0	0.0	0.0	0.0
Other NC Assets	$m	0.3	2.9	2.9	3.5	4.0	6.5
Non Current Assets	**$m**	**18.6**	**18.8**	**17.3**	**19.0**	**18.0**	**20.0**
Total Assets	**$m**	**49.1**	**54.6**	**47.5**	**41.5**	**46.8**	**114.6**
Payables	$m	4.5	3.3	2.1	3.0	4.0	5.0
Current Debt	$m	0.0	0.0	0.5	0.0	0.0	18.5
Other Current Liabilities	$m	1.8	2.1	3.9	4.0	6.0	6.0
Current Liabilities	**$m**	**6.3**	**5.4**	**6.5**	**7.0**	**10.0**	**29.5**
Non Current Debt	$m	0.0	15.9	17.5	18.5	18.5	0.0
Other NC Liabilities	$m	3.4	3.7	3.8	0.6	6.2	8.6
Non Current Liabities	**$m**	**3.4**	**19.5**	**21.3**	**19.1**	**24.7**	**8.6**
Total Liabilities	**$m**	**9.7**	**24.9**	**27.8**	**26.1**	**34.7**	**38.1**
Shareholder Funds	**$m**	**39.4**	**29.7**	**20.4**	**15.4**	**12.1**	**76.5**

BALANCE SHEET RATIOS

		2012A	2013A	2014A	2015E	2016E	2017E
Receivables turn	x	8.3	6.8	3.2	4.0	5.2	4.4
Inventory turn	x	5.2	6.5	2.8	1.2	0.8	1.2
Net Debt	$m	0.0	0.0	1.7	10.5	6.0	0.0
Current Ratio (CA:CL)	x	4.8	6.6	4.7	3.2	2.9	3.2
Net Tangible Assets	¢ps	22.6	16.9	11.6	8.8	6.9	43.5
Cash	¢ps	13.6	4.5	0.0	0.0	0.0	38.7
Return On Assets	%	-19.7	-35.2	-27.0	-22.2	4.9	16.4
Return on Equity	%	-25.2	-33.7	-28.7	-27.8	-3.9	23.5

VALUATION

Valuation Method	**$**	**Premium(+)/Discount(-) %**
DCF	0.80	-57.5
Price Target	0.70	-51.4
Current Price	0.34	
Market Capitalisation	**$59.7m**	**Enterprise Value: $61.4m**

MAJOR SHAREHOLDERS

Talu Ventures	m	17.8	10%	Related to Directors
The Principles Cornerstone	m	17.5	10%	Healthcare Fund
KFT Investments	m	18.0	10%	George Klepper
Top 20 (16/3/2015)	**m**	**121.4**	**69%**	

DIRECTORS

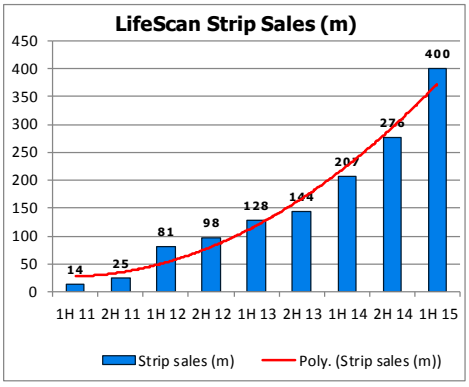
Andrew Denver	N-E Chair
Paul Wright	M D & CEO
Judith Smith	N-E Dir
Denis Hanley	N-E Dir
Chris Smith	N-E Dir
Marshall Heinberg	N-E Dir

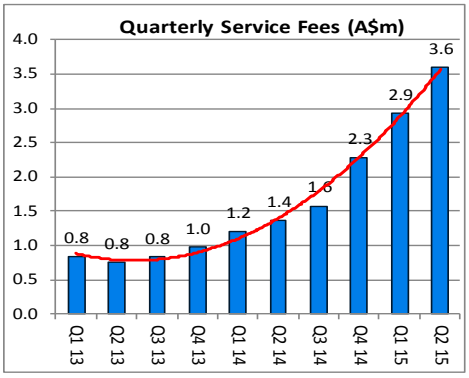
Q2 CY2015 confirms strong growth in Strip Sales

A feature of the result was the continued strong growth in Operating Profit contribution from Blood Glucose (LifeScan) of $6.5m and a move to an Operating Profit for Blood Coagulation (Siemens)

	CY2013						CY2014						CY2015	
Profit & Loss	1H $m	Ch %	2H $m	Ch %	CY $m	Ch %	1H $m	Ch %	2H $m	Ch %	CY $m	Ch %	1H $m	Ch %
LifeScan Strip Sales (m)	128	58	144	48	273		207	61	276	91	483	77	400	93
Total Revenue - Blood Glucose	**8.8**	-29.8	**4.8**	-61	**13.6**	-45	**2.6**	-70.7	**3.9**	-19.0	**6.4**	-53	**6.5**	153
less COGS	-6.9	-29.0	-3.5	-60	-10.5	-44	0.0	-100.0	0.0	-100.0	0.0	-100	0.0	
Blood Glucose - Operating Profit	**1.9**	-33	**1.2**	-62	**3.2**	-47	**2.6**	37	**3.9**	212	**6.4**	100	**6.5**	153
Operating Margin (%)	2138%		26%		24%		100%		100%		100%		100%	
Blood Coagulation - Product Sales									0.2		0.2		0.4	
less COGS									**-0.3**		**-0.3**		**-0.3**	
Operating Profit Product Sales									**-0.1**		**-0.1**		**0.1**	
Other Revenue (net of COGS)	0.1		0.2		**0.3**	-53	0.3		0.6		0.9	168	0.3	27
Add Siemens - Milestone Payments	0.0		0.0		0.0		0.0		1.8		1.8		0.0	
Blood Coagulation Operating Profit	**0.1**		**0.2**		**0.3**		**0.3**		**2.3**		**2.5**		**0.4**	
UBI Total Operating Profit	**2.03**	-59	**1.6**	-70	**3.6**	-65	**2.84**	40	**6.1**	283	**9.0**	147	**6.9**	144
less - Research and Development	-7.9	47	-7.6	-6	-15.5	15	-9.2	16	-8.0	5	-17.1	11	-9.9	8
plus - R&D Refund	3.1		3.1		6.2		3.7		5.3		9.0		4.3	15
less - Corporate Costs	-2.8	-9	-3.4	-8	-6.2	-9	-3.1	10	-2.6	-25	-5.6	-9	-3.1	2
EBIT	**-5.6**	60	**-6.3**	-4	**-11.8**	18	**-5.7**	2	**0.9**	-114	**-4.8**	-60	**-1.8**	-68
Interest and Other (inc Currency)	1.0		-0.8		0.2		-1.3		-1.2		-2.5		-2.3	85
Pre-Tax Profit	**-4.6**	**34**	**-7.0**	**9**	**-11.7**	**19**	**-7.0**	**52**	**-0.3**	**-95**	**-7.4**	**-37**	**-4.1**	-41
R&D:Revenue (%)	90%				114%		356%				266%		152%	
Corporate Costs:Revenue (%)	32%				46%		119%				87%		48%	
Cash Flow														
Receipts	9.0	-35	6.7	-59	15.6	-48	2.9	-68	6.4	-3	9.3	-40	7.5	160
Payments	-16.0	11	-13.4	-31	-29.4	-13	-11.1	-31	-12.5	-7	-23.6	-20	-10.0	-10
Net Receipts	**-7.0**		**-7**		**-13.8**	273	**-8.2**		**-6.0**		**-14.3**	4	**-2.5**	-69
Net Cash Flow	-6.2		-6.2		**-12.4**	-245	-6.9		-6.9		**-13.9**	12	-6.3	-9
Net Cash	14.2		7.9		**7.9**	-79	0.6		0.0		**0.0**	-100	0.0	-100
Net Debt	0.0		0.0		**0.0**		0.0		17		**1.7**		8.2	

Source: UBI & Veritas





Summary

Blood Glucose

Strip Sales – Strip sales for 1H CY15 grew by 93.5% to 400m, with a 44.7% increase over 2H CY14. This included an increase in Q2 of 101.5% to 220m, a 23.4% increase over Q1 CY15, continuing a trend of 5 straight quarters of escalating growth.

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.

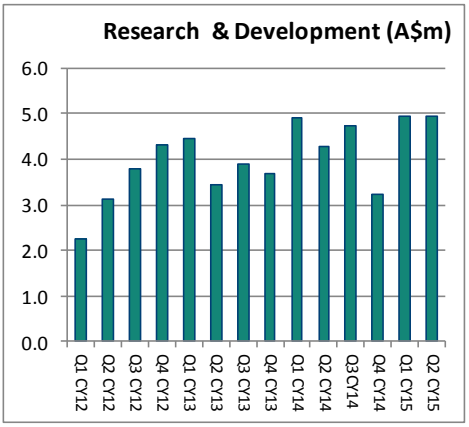
Strip Service Fees – Fees for 1H CY15 increased by 152.6% to A$6.5m, exceeding CY14 and representing an increase of 44.7% over 2H CY14. This 1H increase was a combination of the strong growth in strip sales and a fall in the A$:US$ rate from 90.5¢ to 76.6¢.

This growth included an increase in Q2 of 162.3% to $3.6m, with an increase of 22.7% over Q1, helped by a continuing fall in the A$.

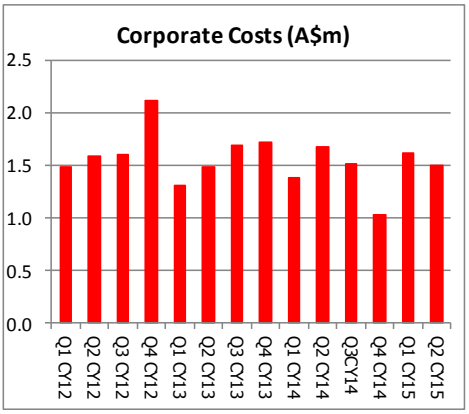
The Cumulative Strip Service fees increased to US$16.8m, still well short of the option exercise hurdle of US$45m.

Blood Coagulation

Siemens strip sales increased to $0.4m, following its initial limited launch in 2H CY14, taking total accumulated receipts to $0.6m. The majority of the increase was in Q2 with an extended launch across the 31 EU countries in May. UBI continued to undertake development work for Siemens on two additional blood coagulation testing systems. No milestones were received during the half year.



Source: UBI



Source:UBI

R&D – Increased by 7.7% to $9.9m, mostly from the development of additional Blood Coagulation testing systems for Siemens and UBI's patient self-test ($9.4m). 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 $4.3m, reflecting around 43.5% of eligible R&D expenditure, with the refund to be received in CY16.

Note: Milestone Payments are excluded from the A$20m Revenue cut-off level for cash rebate eligibility. 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 $1.0m increase from 1H CY2014 represents:

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

Cash Flow – Operating Cash Outflow fell by $2.3m to $3.3m, with increased strip sales and receipt of a $1.8m milestone payment from Siemens.

Net Cash Outflow of $6.3m included $0.7m in Capex and Debt related costs of $1.9m.

Balance Sheet - While Cash fell to $10.7m and Net Debt increased to $8.2m, UBI received a R&D refund of $8.2m in July 2015 and will receive a net A$1.1m milestone payment from Siemens in Q3 CY15.

On the expectations of continuing growth in Cash Flow, UBI allowed to lapse its option to draw down an extra US$10m under the Athyrium Loan facility. 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. 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. While this will not exclude existing meters in the market, it will focus attention on the high accuracy meters, such as Verio.

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. An explanation of the option is outlined in Appendix 1 on Page 8.

Blood Coagulation - PT/INR

While cumulative strip revenue is only $0.6m, strip sales are expected to escalate over the next 18 months, from:

- The full commercial launch in mid-May across the 31 countries in Europe covered by CE Mark.
- The launch in other countries which rely on CE Mark approval, marketed through Siemen's extensive sales and distribution network.
- The expected launch in the US in 1H CY16, following FDA 510(k) approval expected in late 2H CY15 or 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.

The Xprecia Stride has also received the prestigious Red Dot Award for high design quality. The Red Dot Award is the largest and most recognized international product competition in the world.

Other Blood Coagulation

Siemens – The 2 additional Blood Coagulation testing systems for Siemens are expected to be launched in late CY2016. The launch has been delayed by 12 months, with Siemens requiring some added features, expected to add to the appeal of the tests. However, Siemens has some advanced prototypes in clinical and reliability testing. The development of the additional features will be funded by Siemens. While the markets for these tests are smaller, they are expected to be higher growth markets, with lesser competition.

UBI will also receive milestone payments related to:

- The PT/INR test, triggered by the recent lodging of a FDA 510(k) submission. While UBI will recognise revenue of around A$2m, the Cash Flow impact will be around A$1.1m, after payment of US$0.3m to Athyrium.
- The 2 further tests to be launched in CY16 in the EU in CY16.

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. Launch date in the EU is targeted for late CY15, although there will be no major revenue impact until CY2016.

Forecasts

Blood Glucose (LifeScan) - We have adjusted our forecasts for CY15 to reflect the faster take-up, but retained forecasts for subsequent years currency adjusted:

	Revenue (A$m)						EBIT (A$m)					
Option Not Exercised	**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	13.2	18.3	24.8	33.8	40.1	44.3	13.2	18.3	24.8	33.8	40.1	44.3
Option Exercised[1]												
Service Revenue - Strips	13.2	18.3	24.8				13.2	18.3	24.8			
Lump Sum									54.0			
Total	**13.2**	**18.3**	**24.8**	**0.0**	**0.0**	**0.0**	**13.2**	**18.3**	**78.8**			

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

Blood Coagulation (Siemens) - Forecasts reflect the slower full launch of the PT/INR test, which commenced in May 2015 and delays in the launch and a slow ramp-up of the 2 additional tests for CY17 only. Our forecasts make no allowance for the profit sharing arrangements with Siemens.

Forecasts are based on an initial strip price of around US$1.50, declining with volume towards a low of US$0.50.

Calendar Year		**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Revenue	A$m	0.3	1.6	4.5	14.0	32.0	50.8	69.2
EBIT	A$m	0.0	0.5	2.3	6.4	13.6	21.6	27.7

Source: Veritas

UBI will also receive milestone payments related to the PT/INR test, triggered by the lodging of a FDA 510(k) submission in Q3 CY15, and related to the launch of 2 further tests to be launched in CY16, as follows:

Milestones - Revenue Recognition

Calendar Year		**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Net Revenue	A$m	1.5	1.5	3.2				
Cash Flow impact	A$m	1.0	1.1	2.4				

Source:UBI

UBI Patient Self-Test - The forecasts are based on the launch in Q4 CY15 and a modest ramp-up in CY16, given the novel nature of the test.

Calendar Year		**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Revenue	A$m		0.2	1.8	3.7	5.7	7.8	9.9
EBIT	A$m		0.1	0.7	1.5	2.6	3.5	5.0

Source: Veritas

Research & Development

R&D is expected to continue at the same run rate in 2H CY15 as 1H CY15, with UBI required to undertake clinical trials on its Blood Coagulation Self-Test and continued development work for the 2 additional Siemens' tests.

While the level of R&D in CY16 will fall, it will remain substantial, as UBI undertakes clinical trials for the 2 additional Siemens' tests. Beyond CY16, UBI is expected to focus on immunoassay, molecular diagnostics and other identified opportunities.

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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 $54m Lump Sum payment in CY17. Accordingly this comprise 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 outgoings 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.

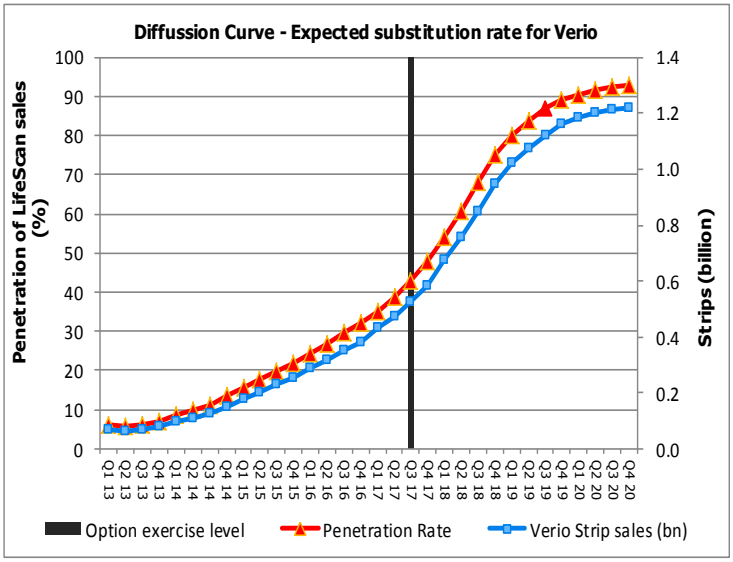
Price Target

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.

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 (QSTs) into a lump sum payment, once the cumulative Quarterly Service Fees reach US$45m. As at 30/6/15, cumulative QSFs had reached US$16.8m.

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$72.4m (A$98.8m), through:

- Receipt of a further US$32.4m (A$44.5m) in QSFs up to the exercise date, including US$4.5m for Q4 CY17.
- A lump sum fee of US$40.0m (A$54.0m), being the sum of total QSFs for CY17 of US$18.2m by 2.2x, being the multiplier for the Calendar Year in which the option is exercised.

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 very possible 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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Andrew McCauley	+61 2 8252 3260	Brent Mitchell	+61 3 8605 4830
Patrick Ford	+61 2 8252 3211	Levi Hawker	+61 3 8676 0689
Clay Melbourn	+61 2 8252 3220		
Bryce Reynolds	+61 2 8252 3210	Resources	
Stephen Murphy	+61 403 023 014	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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