

Universal Biosensors, Inc.

Strong results supported by growth across both operations

EBITDA for the 9 months to 30/9/17 (YTD) increased by \$4.3m to \$4.0m, on a Revenue increase of 50.0% to \$20.7m, from increasing LifeScan Quarterly Service Fees (QSFs) and a positive contribution from Siemens product sales.

This result included a 3Q CY17 increase in EBITDA of \$1.6m to \$0.1m on a Revenue increase of 93.0% to \$6.3m.

Key Features were:

- LifeScan's Verio YTD strip sales increased by 22.2% to 1,284m, including a 3Q CY17 increase of 28.5% to 447.2m strips.
- QSFs YTD increased by 15.7% to A\$15.7m, including a 30.1% increase in 3Q CY17 to A\$4.3m. With the resultant increase in cumulative QSF receipts in Q4, LifeScan will have the option of repurchasing the QSF stream from Q1 CY18.
- YTD strip sales to Siemens increased to A\$4.1m (pcp \$0.2mil), including 3Q CY17 sales of \$1.8m (pcp Nil), boosted by the launch of the Blood Coagulation product in the US in Q2 CY17, further sales in Europe and inventory build.
- Underlying Operating Cash Flow YTD (excluding Cash R&D Rebates) increased by \$3.1m to \$2.2m. This supported ongoing Balance Sheet strength, with Gross Cash of \$19.8m (11.2¢ ps) and Net Cash of \$0.9m. This will be boosted in Q4 with receipt of a \$7.5m R&D Cash Rebate.

Strong growth to continue in Q4 CY17 and CY18

- Continued growth in strip sales of 22.2% in Q4 CY17 and 29.9% in CY18, resulting in increases in QSFs to around \$20.6m in CY17 and \$25.9m in CY18.
- An expected lump sum payment of A\$51.9m from the exercise of LifeScan's QSF buyback option, recognised as Profit in CY18 and to be received in Q1 CY19.
- An increase in CY18 sales of blood coagulation strips, from the Q2 CY17 launch of the Xprecia Stride in the USA, increased EU marketing and continuing stock build.
- Strong Cash Flow in CY18, with improving Revenue and control of costs.

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 \$0.65 ps, comprising:

Blood Glucose – a DCF Valuation of A\$90.0m (51.1¢ ps), based on combined QSFs for 2H CY17 and CY18 of A\$35.1m, plus a Q1 CY18 A\$51.9m Lump Sum payment.

Blood Coagulation – A combined DCF of A\$93.6m (53.1¢ ps).

R&D & Corporate Costs – A combined DCF of -\$73.8m (-41.9¢ ps) with R&D to the launch of the Blood Coagulation tests, plus ongoing corporate costs.

Other – Net Debt/Cash, Working Capital and Current Assets of \$6.2m (3.5¢ ps).

This valuation is conservative, excluding the substantial value associated with UBI's IP, R&D capability and its manufacturing facility. Also, if LifeScan's QSF Option is not initially exercised in CY18 or at a later time, there would be a substantial increase in the Valuation, with our DCF valuations ranging up to \$1.86 ps.

Recommendation

BUY, based on a substantial discount to our Valuation of \$0.66 ps, and:

Short Term Gain – A potentially substantial windfall Profit of \$51.1m 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 relationships with global healthcare groups.

Resources – A modern approved plant meeting future capacity requirements.

UBI.ASX

BUY

6 November 2017

Price	\$0.34
Valuation	\$0.66
Valuation method	DCF
GICS sector	Healthcare
12 Mth Price Range	\$0.29 - 0.48
Avg monthly t/o	2.2m
Market Capitalisation	\$60m
Shares on Issue	176m
Options on Issue	30m
Enterprise value	\$57m
Previous rating	BUY

Year Ended Dec 31	16A	17F	18F	19F	20F
Revenue	\$m 18.8	25.4	33.7	17.6	25.7
One-offs*	\$m 0.0	0.0	57.9	0.0	0.0
Gross Profit	\$m 17.7	20.9	85.9	7.7	12.1
Gross Profit growth	% 14.8	8.4	310.4	-91.0	57.1
Gross Profit margin	% 93.9	82.4	254.6	43.9	47.2
EBITDA	\$m 5.3	3.3	68.3	0.4	2.6
EBITDA Growth	% 299.9	-37.5	1946.4	-99.5	593
EBITDA margin	% 28.4	13.1	74.6	2.1	10.1
NPAT	\$m -0.1	-0.4	64.6	0.1	1.9
Reported Profit	\$m 1.3	-0.4	64.6	0.1	1.9
EPS	¢ ps 0.0	-0.2	36.7	0.0	1.1
EPS growth	% -98.7	na	na	-99.9	3489
DPS	¢ ps 0.0	0.0	0.0	0.0	0.0
PER	x -808.8	-165.9	0.9	1142.5	31.8
DPS	¢ ps 0.0	0.0	0.0	0.0	0.0
NTA/share	¢ ps 8.6	8.3	45.0	44.9	45.9
EV/EBITDA	x 11.3	17.1	-0.1	-31.4	-5.9
Gearing (D:E)	% 1.7	0.0	0.0	0.0	0.0
P/OCF	x 7.7	7.5	0.9	8.7	11.6
R&D	\$m -13.7	-11.0	-11.0	-5.0	-5.0
R&D / Revenue	% 72.6	43.3	32.6	28.5	19.5
ROA	% 5.3	2.7	96.2	-1.5	0.7
ROE	% -0.5	-2.4	137.4	0.1	2.4
Interest cover	x 0.9	0.5	33.3	na	na

* Milestones & Lump Sum Payments Subject to rounding errors

UBI v XSO (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: \$0.34 ps Target Price: \$0.66 ps

Universal Biosensors

FINANCIAL PERFORMANCE							
Year ended 31-Dec		*15A	*16A	**17F	18F	19F	20F
Sales Revenue	\$m	14.8	18.8	25.4	33.7	17.6	25.7
Milestones & Option [†]	\$m	2.0	0.0	0.0	57.9	0.0	0.0
Total Revenue	\$m	16.8	18.8	25.4	91.6	17.6	25.7
Cost of Goods Sold	\$m	-14	-12	-4.5	-5.7	-9.9	-13.6
Gross Operating Profit	\$m	15.4	17.7	20.9	85.9	7.7	12.1
R&D	\$m	-16.8	-13.7	-11.0	-11.0	-5.0	-5.0
R&D Refund	\$m	9.2	7.6	0.0	0.0	2.2	0.0
Administration Costs	\$m	-6.6	-6.2	-6.6	-6.6	-4.5	-4.5
EBITDA	\$m	1.3	5.3	3.3	68.3	0.4	2.6
Depreciation	\$m	-2.5	-2.8	-2.0	-1.7	-1.8	-1.9
EBIT	\$m	-1.1	2.5	1.3	66.6	-1.4	0.7
Interest	\$m	-3.1	-2.7	-2.7	-2.0	1.5	2.0
Forex Adjustment	\$m	-0.9	0.1	1.0	0.0	0.0	0.0
Pre Tax Profit	\$m	-5.1	-0.1	-0.4	64.6	0.1	2.7
Tax	\$m	0.0	0.0	0.0	0.0	0.0	-0.8
Normalised Profit	\$m	-5.1	-0.1	-0.4	64.6	0.1	1.9
Significant Items	\$m	-1.4	1.3	0.0	0.0	0.0	0.0
Reported Profit	\$m	-6.6	1.3	-0.4	64.6	0.1	1.9

GROWTH							
		*15A	*16A	**17F	18F	19F	20F
Revenue	%	57.7	25.3	35.0	32.8	-48.0	46.1
COGS	%	148.3	-16.6	289	27.4	72.8	37.5
Gross Operating Profit	%	71.6	14.8	18.4	310.4	-91.0	57.1
R&D	%	235.4	-18.4	-19.6	0.0	-579.0	0.0
EBITDA	%	-148.2	299.9	-37.5	na	-99.5	593.3
Reported Profit	%	-34.1	-98.7	-129	na	-99.9	3500.0
EPS	%	-34.2	-98.7	434	na	-99.9	3489.4

P&L RATIOS							
		*15A	*16A	**17F	18F	19F	20F
Gross Operating Profit / Sales	%	918	93.9	82.4	93.8	43.9	47.2
EBITDA / Sales	%	8.0	28.4	13.1	74.6	2.1	10.1
Effective Tax Rate	%	0.0	0.0	0.0	0.0	30.0	30.0
Interest Cover	x	-0.4	0.9	0.5	na	na	na
R&D / Operating Revenue	x	112.0	72.6	43.3	32.6	28.5	19.5
Expenses/Revenue		43.7	33.0	26.0	-70.5	25.6	17.5

Per SHARE							
		*15A	*16A	**17F	18F	19F	20F
Issued Shares (Year End)	m	176.1	176.2	176.3	176.4	176.9	177.1
Issued Shares (Wt Avg)	m	175.9	176.2	176.2	176.3	176.4	176.9
EPS	¢ps	-2.9	0.0	-0.2	36.6	0.0	1.1
Operating Cash Flow ps	¢ps	1.0	4.0	4.5	43.3	3.9	2.9
DPS	¢ps	0.0	0.0	0.0	0.0	0.0	0.0

PARAMETERS							
		*15A	*16A	**17F	18F	19F	20F
PE Ratio	x	-15.0	-808.8	-165.9	0.9	1142.5	318
Enterprise Value / EBITDA	x	49.2	11.3	17.1	-0.1	-314	-5.9
Cash Flow ratio	x	42.3	7.7	7.5	0.9	8.7	11.6
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0	0.0

SEGMENTS							
		*15A	*16A	**17F	18F	19F	20F
Sales Revenue							
Strip Sales	\$m	13	0.6	4.2	7.2	17.6	25.7
QSFs (Lifescan)	\$m	12.8	17.9	20.6	25.9		
Other	\$m	0.7	0.4	0.6	0.6	0.0	0.0
Milestones/Option exercise	\$m	2.0	0.0	0.0	57.9	0.0	0.0
EBITDA							
Strip Sales	\$m	0.2	-0.4	1.0	2.8	7.7	12.1
QSFs (Lifescan)	\$m	12.8	17.9	20.6	25.9		
Other (Inc R&D Rebate)	\$m	9.6	7.8	-0.7	-0.7	2.2	0.0
Milestones	\$m	2.0	0.0	0.0	57.9	0.0	0.0
R&D	\$m	-16.8	-13.7	-11.0	-11.0	-5.0	-5.0
Admin Fees	\$m	-6.5	-6.3	-6.6	-6.6	-4.5	-4.5
EBITDA Growth							
Strip Sales	%	na	-320.0	-342.6	180.0	0.0	57.1
QSFs (Lifescan)	%	99.0	39.1	15.5	25.8		
R&D	%	17.1	-18.4	-19.6	0.0	-54.5	0.0
Admin Fees	%	13.9	-3.9	4.9	0.0	-31.8	0.0

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

CASH FLOW							
Year ended 31-Dec		*15A	*16A	**17F	18F	19F	20F
Operating EBITDA	\$m	10.2	22.9	14.3	80.1	-1.8	7.6
Net Interest Received/Paid	\$m	-0.2	-2.2	-2.7	-2.0	1.5	2.0
Tax Paid	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Change Working Capital	\$m	4.6	-2.6	-0.1	-1.0	2.9	0.6
Other (inc R&D Refund)	\$m	4.1	9.4	7.5	0.0	2.1	0.0
Operating Cash Flow	\$m	18.6	20.7	19.0	76.3	11.9	10.2
R&D	\$m	-16.8	-13.7	-11.0	-11.0	-5.0	-5.0
Capex	\$m	-1.3	-1.2	-1.6	-1.6	-1.6	-1.6
Free Cash Flow	\$m	0.6	5.8	6.4	63.7	5.3	3.6
Acquisitions/Asset Sales	\$m	0.0	-0.1	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	0.0	0.0	0.0	0.0	0.0	0.0
Debt	\$m	-0.2	0.0	-1.1	-19.6	0.0	0.0
Other	\$m	-3.6	0.0	-3.2	0.0	0.0	0.0
Change in Net Cash	\$m	-3.2	5.8	2.1	44.2	5.3	3.6
Currency Adjustment		12	0.2	0.0	0.0	0.0	0.0

BALANCE SHEET							
		*15A	*16A	**17F	18F	19F	20F
Cash	\$m	14.4	20.4	22.5	66.7	71.9	75.5
Receivables	\$m	3.2	4.8	5.0	6.0	3.1	4.6
Inventory	\$m	0.4	0.8	2.5	3.5	4.0	4.5
Other Current Assets	\$m	11.0	9.2	2.5	3.0	3.0	3.0
Current Assets	\$m	28.8	35.2	32.5	79.2	82.1	87.6
Property, Plant & Equipment	\$m	12.9	11.5	11.5	11.4	11.2	10.9
Intangibles	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Other NC Assets	\$m	3.2	3.2	3.5	0.5	1.5	1.5
Non Current Assets	\$m	16.1	14.7	15.0	11.9	12.7	12.4
Total Assets	\$m	45.0	50.0	47.5	91.1	94.8	100.0
Payables	\$m	2.8	2.3	4.0	5.0	5.5	8.0
Current Debt	\$m	0.3	0.4	19.6	0.0	0.0	0.0
Other Current Liabilities	\$m	1.7	3.2	2.5	2.5	3.5	4.0
Current Liabilities	\$m	4.8	5.9	26.1	7.5	9.0	12.0
Non Current Debt	\$m	19.9	20.3	0.0	0.0	0.0	0.0
Other NC Liabilities	\$m	7.0	10.5	6.7	4.2	6.4	6.7
Non Current Liabilities	\$m	26.9	30.8	6.7	4.2	6.4	6.7
Total Liabilities	\$m	31.7	36.7	32.8	11.7	15.4	18.7
Shareholder Funds	\$m	13.8	15.1	14.7	79.3	79.4	81.3

BALANCE SHEET RATIOS							
		*15A	*16A	**17F	18F	19F	20F
Receivables turn	x	4.3	4.7	5.2	6.1	3.8	6.7
Inventory turn	x	3.7	1.9	2.7	1.9	2.6	3.2
Net Debt	\$m	5.8	0.3	0.0	0.0	0.0	0.0
Gearing (D:D+E)	%	29.7	1.7	0.0	0.0	0.0	0.0
Current Ratio (CA:CL)	x	6.0	5.9	1.2	10.6	9.1	7.3
Net Tangible Assets	¢ps	7.8	8.6	8.3	45.0	44.9	45.9
Cash	¢ps	0.0	0.0	1.7	37.8	40.7	42.6
Return On Assets	%	-2.5	5.3	2.7	96.2	-1.5	0.7
Return on Equity	%	-30.1	-0.5	-2.4	137.4	0.1	2.4

VALUATION	
Valuation Method	\$ Premium(+)/Discount(-) %
DCF	0.72 -52.6
Price Target	0.75 -54.7
Current Price	0.34
Market Capitalisation	\$60.2m -Enterprise Value: \$15.3m

MAJOR SHAREHOLDERS		
Viburnum	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	
Craig Coleman	N-E Ch
Judith Smith	N-E Dir
Marshall Heinberg	N-E Dir
David Hoey	N-E Dir

Maybe subject to rounding errors

3Q & 9 Month CY17 Result

The result continued the underlying improvement in Revenue, Operating Profit and Cash Flow. The only concern relates to a temporary slowing in the growth rate of LifeScan strip sales, with a fall in the rolling 12 month growth rate from 68.6% to 26.6%.

Profit & Loss			
9 Mths to Sep (\$m)	CY16	CY17	% Ch
LifeScan Strip Sales (m)	1051	1284	22.2
QSFs - LifeScan	13.60	15.73	15.7
Product Sales - Blood Coagulation	0.18	4.06	2114.3
Services	0.00	0.88	
Milestones	0.00	0.00	
Total Revenue	13.79	20.67	50.0
Cost of Goods Sold	-0.27	-4.20	1441.9
Gross Operating Profit	13.51	16.47	21.9
R&D	-9.36	-7.63	-18.6
R&D Refund	0.00	0.00	
Admin Expenses	-4.48	-4.86	8.3
EBITDA	-0.33	3.99	na
Depreciation	-1.92	-1.47	
EBIT	-2.25	2.52	na
Interest (Net)	-2.04	-2.02	
Other (Forex)	0.93	0.82	
Pre-Tax Profit	-3.36	1.32	na
Tax	0.00	0.00	
Net Profit	-3.36	1.32	na
Gross Margin (%)	98.0	79.7	
EBITDA Margins (%)	-2.4	19.3	
R&D/Revenue (%)	67.9	36.9	
Admin Expenses/Revenue (%)	32.5	23.5	

Cash Flow			
9 Mths to Sep (\$m)	CY16	CY17	% Ch
Net Operating C/F	-0.94	2.17	na
Capex	-0.31	-1.00	
Equity	0.00	0.00	
Debt	-0.32	-0.33	
R&D Cash Rebate	9.40	0.00	
Net Cash Flow	7.82	0.84	na
Currency Adj	-0.53	-1.41	
Net Cash Flow Change	7.29	-0.57	
Balance Sheet			
	CY16	CY17	% Ch
Current Assets	26.84	29.83	
Non Current Assets	14.45	16.66	
Total Assets	41.29	46.49	12.6
Current Liabilities	5.35	5.24	
Non Current Liabilities	27.71	25.84	
Total Liabilities	33.06	31.08	-6.0
Shareholder Funds	8.23	15.41	87.2
Cash - Gross (\$m)	21.6	19.8	-8.4
Net Cash (¢ ps)	1.4	0.5	-62.7
Gearing D:D+E (%)	0.0	0.0	
Net Debt	0.0	0.0	
NTAV (¢ ps)	4.67	8.46	81.2
Net Assets (¢ ps)	4.67	8.46	81.2
Revenue/Working Capital (x)	0.90	0.82	

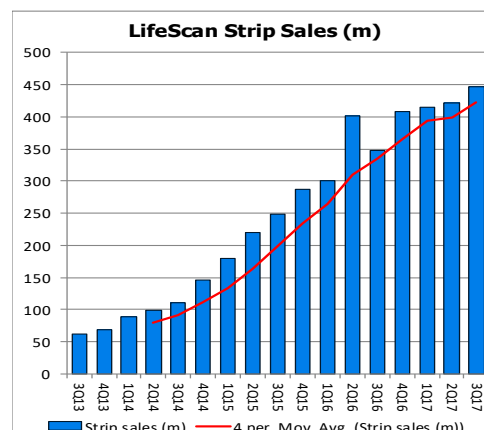
Source: UBI

Revenue

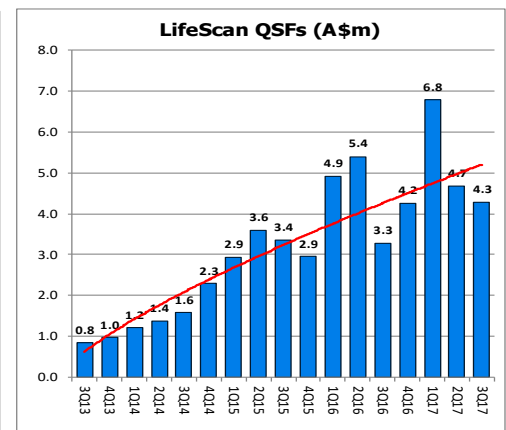
LifeScan Strip Sales – Sales for the 9 months to 30/9/17 increased by 22.2% to 1,284m, which included a 28.5% increase in 3Q CY17 Strip sales to 447.2m. This was boosted by comparison with a weak pcp, impacted by warehouse and delivery problems at LifeScan. On a rolling 12 monthly basis, strip sales increased by 26% to 1,866m.

QSFs – QSFs for the 9 months to 30/9/17 increased by 15.7% to A\$15.7m, which included a 30.1% increase in 3Q CY17 to A\$4.3m. However, the Q3 QSFs were below Q2, due to the tiered fee structure. The stronger Q3 QSF growth (above strip sales growth), was due to a weaker A\$.

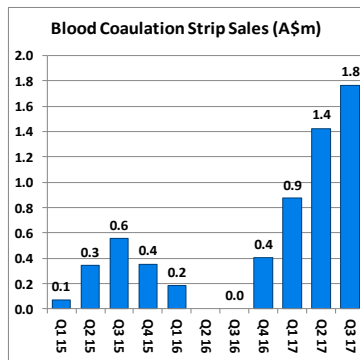
The rolling 12 month QSFs increased by 20.7% to A\$20.0m, with the lower growth due to the short term slowing in strip sales volume growth. Cumulative QSFs received by UBI will increase to US\$46.9m in Q4 CY17, above the option trip level of US\$45m, enabling LifeScan to exercise its QSF buyback option from Q1 CY18.



Source:UBI



Source:UBI



Source: UBI

Siemens – The 9 month Strip Revenue increased to A\$4.1m (9 months CY16 \$0.2m), comprising 2.5m strips at US\$1.30¢ per strip, including Q3 CY17 strip sales of \$1.8m (Q3 CY16 Nil), comprising 1.4m strips. This reflects increasing sales in Europe and initial sales and inventory build in the US, following its launch in May 2017.

Other Services – Revenue of \$0.9m included work undertaken for Siemens and the recently acquired Hemastasis Reference Laboratory (HRL).

EBITDA - Improved by \$4.32m to \$3.99m, due to:

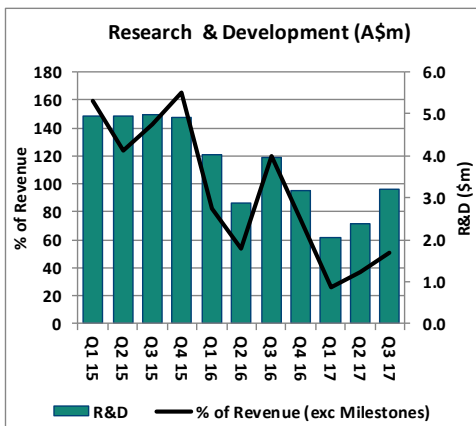
- QSFs - The escalation of strip sales by LifeScan and resultant QSFs.
- A flat EBITDA contribution from strip sales and service fees to Siemens after adjusting for \$0.47m in Product Support Fees.
- R&D - Reduced R&D payments, down 18.6% to \$7.6m from:
 - A refocus of the development pipeline with stricter R&D criteria and a focus on ROI, especially in the absence of a Cash R&D Rebate for CY17.
 - A maturing in the development of the Siemens products. Of the \$7.6m in R&D, \$0.4m relates to Research and \$7.2m to Development.

However, R&D will increase as UBI prepares for Clinical trials for the 2 additional Siemens products.

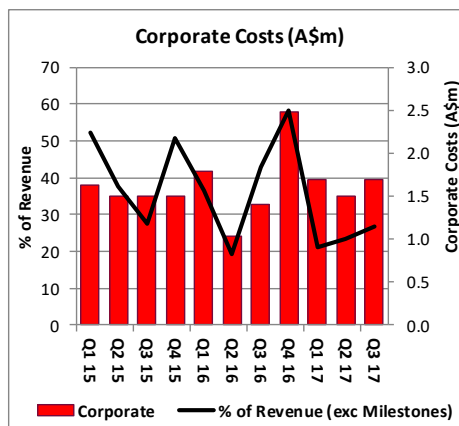
- Corporate Expenses – Increased by 8.3% to \$4.9m. The greater underlying increase was due to the acquisition of HRL and an expansion of the Siemens’ related activities.

Net Profit – The \$4.6m improvement in Net Profit to \$1.3m was after flat Net Interest costs of \$2.0m and a gain in Other Expenses of \$0.8m (CY16 \$0.9m), mainly Forex.

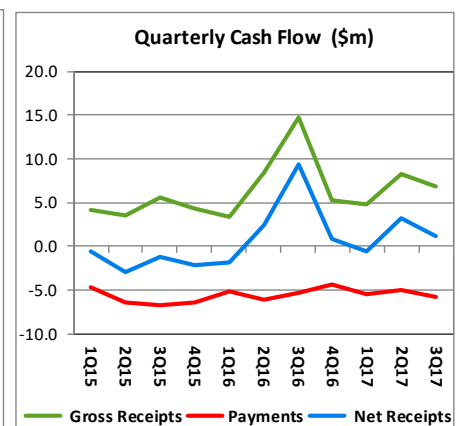
Cash Flow - A \$3.1m improvement in Operating Cash Flow to \$2.2m, resulting in modest Net Cash Outflows of \$0.6m, after Capex of \$1.0m, Debt prepayment of \$0.3m and a Forex adjustment of -\$1.4m. The increase in Capex is related to UBI gearing up for increased production for Siemens existing PT/INR product and its 2 new products.



Source: UBI



Source: UBI



Source: UBI

Balance Sheet - Key Features were:

- **Cash** - Gross Cash of \$19.8 m (11.2¢ ps), with Net Cash of \$0.9m (0.5¢ ps). In addition, there is Restricted Cash of \$3.0m (US\$2.0m) required under the Athryrium 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 Q4 CY17.
- **Debt** - Total Debt of \$18.9m (US\$15m), related to the Athryrium facility, to be repaid with a bullet payment by December CY18. However, with receipt of the \$7.5m Cash R&D Refund in Q4 CY17, there is the possibility of early repayment, with the savings in interest costs outweighing any earlier repayment penalties.

Outlook

Blood Glucose

Continued growth in QSFs 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.
 - Introduction of new Verio meters with additional features.
 - 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. While we expect the US to impose an ISO accuracy standard for new strips and meters systems, it's unlikely to be mandated for existing systems.

We have adjusted our Forecasts for strip sales to reflect a slowing in the growth rate of LifeScan strip sales, with a fall in the rolling 12 month growth rate to Q3 CY17 from 68.6% to 26.6%. As we are unsure whether this is temporary, especially with the changes in Europe, or a permanent slowing, we have been conservative in our Forecasts. We now expect:

CY17 - A 22.2% increase in strip sales for Q4 and CY17, in line with the 9 month increase resulting in CY17 QSF's of A\$20.6m.

CY18 - A 29.9% increase in strip sales for CY 18, and a 25.8% increase in QSFs to \$25.9m. The difference in the growth rates relates to the tiered QSF structure.

With the key US\$45m cumulative QSF receipt level for UBI to be reached in Q4 CY17 and the LifeScan Option Agreement exercisable from Q1 CY18, this becomes an important consideration. While we are uncertain whether or when LifeScan will exercise the Option, we have taken a conservative approach and assumed the option is exercised at the first opportunity (Q1 CY18). This will result in:

- QSFs of A\$20.6m for CY17, including A\$4.8m in Q4 CY17, and A\$25.9m for CY18.
- A one off payment of US\$39.8m (A\$51.9m or 29.4¢ ps) in CY18, to be received within 60 days of Year-end.

Blood Coagulation

PT/INR – While penetration and sales are expected to rise in CY18, the volume will remain volatile as a portion of strips sold in CY17 partly represents an inventory build-up to seed the supply Chain, the longer term drivers remain:

- Improvements in the accuracy of the strip, at least to the standard of the competing Roche strip, and increased meter functionality, including reduced size, a touch screen and a lower blood volume requirement.
- The US launch in 2Q CY17 and previously across the majority of Europe covered by CE Mark and other countries that rely on FDA clearance or CE Mark approval, marketed through Siemens' distribution network.
- The recent withdrawal from the market of Alere (the No.2 player) which had a 17% market share.

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.

Other Blood Coagulation - 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 1H CY18, 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.

Forecasts

CY17 - We expect a CY17 EBITDA of \$3.3m, on Revenue of \$25.4m. This includes a Q4 CY17 EBITDA loss of \$0.7m, with a low level of strip sales to Siemens, following and inventory build in previous quarters.

CY18 onwards - With the LifeScan Option exercised as at Q1 CY18, we expect UBI to report an EBITDA of \$68.3m in CY18 from both LifeScan and Siemens, with FY19 onwards reverting to a contribution from Siemens (PT/INR) alone, across:

- A total of \$77.8m from Blood Glucose, comprising a 25.8% increase in QSFs to A\$25.9m and a Lump Sum payment of A\$51.9m, based on a 2.0x multiplier of CY18 QSFs.

Blood Glucose - Forecasts

Option Exercised ²	Revenue (A\$m)						EBITDA (A\$m)					
	CY 15A	CY 16A	CY 17F	CY 18F	CY 19F	CY 20F	CY 15A	CY 16A	CY 17F	CY 18F	CY 19F	CY 20F
Service Revenue - Strips ¹	0.0	17.9	20.6	25.9			12.8	17.9	20.6	25.9		
Lump Sum ¹										51.9		
Total	0.0	17.9	20.6	25.9	0.0	0.0	12.8	17.9	20.6	77.8	0.0	

Source : UBI (Act), Veritas (Est)

¹ at A\$:US\$ rate of 0.77

²Option exercised at 1st Opportunity

- Forecasts for Siemens' PT/INR in FY18 of \$2.8m, to increase to \$7.7m in CY19 and \$12.1m in CY20, with inclusion of additional Siemens' and UBI's Self-Tests from CY19. In addition, UBI will include around \$5.9m in Milestone Revenue, relating the additional Siemens' tests, with the cash already received.

Blood Coagulation - Combined

Calendar Year		2014	2015	2016	2017	2018	2019	2020
Strip Revenue	A\$m	0.2	1.3	0.6	4.2	7.2	17.6	25.7
Increase	%		561.5	-57.7	650	71.6	143.7	46.1
EBITDA	A\$m	0.0	0.2	-0.4	1.0	2.8	7.7	12.1
Increase	%		na	-320	-343	180.0	175.0	57.1
Margin	%		14.1	-73.6	23.8	38.9	43.9	47.2
Net Other Revenue	A\$m	1.8	2.0			6.0		

Source: Veritas

at A\$:US\$ rate of 0.77

Net Other Revenue comprises Milestones and Collaboration Revenue, offset by payments to Arthryrium. The Cash Flow impact in \$0.9m in both CY 14 and CY15, with no further Cash to be received in CY18

- A reduced rate of R&D in FY19 onwards, with completion of the Siemens development and a 38% R&D Tax Credit only in CY17 and CY18, as Revenue is expected to be above the A\$20m limit. However, we do expect a Cash Rebate in CY19, based on 43.5% of eligible R&D.
- On-going Corporate Costs, mainly lease obligations and staff costs.

Assuming Exercise of Option

Division	Revenue (\$m)					EBITDA (\$m)				
	CY16A	CY17F	CY18F	CY19F	CY20F	CY16A	CY17F	CY18F	CY19F	CY20F
QSFs - LifeScan	17.9	20.6	25.9			17.9	20.6	25.9		
Lump Sum - LifeScan			51.9					51.9		
Siemens - Strips	0.6	4.2	7.2	17.6	25.7	-0.4	1.0	2.8	7.7	12.1
Siemens - Other	0.4	0.6	0.6	0.0	0.0	0.2	-0.7	-0.7	0.0	0.0
Milestones			6.0			0.0	0.0	6.0		
R&D						-13.7	-11.0	-11.0	-5.0	-5.0
R&D Cash Rebate ¹						7.6	0.0	0.0	2.2	
Corporate						-6.3	-6.6	-6.6	-4.5	-4.5
Total	18.8	25.4	91.6	17.6	25.7	5.3	3.3	68.3	0.4	2.6

Source: Veritas Forecasts

¹ UBI will receive and R&D Tax Credit in CY17 and CY18 of around 38% of eligible R&D

Valuation

We now have a valuation of \$116.1m (\$0.66ps), 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 \$90.0m (51.1¢ ps), from a combined Operational Cash Flow for Q4 CY17 and CY18 of around \$45.9m, plus a A\$51.1m Lump Sum payment in CY19 (payable in 60 days of CY18 Year-end).

Blood Coagulation – A combined DCF valuation of \$93.6m (53.1¢ ps) for Siemens and UBI's Self-Test, with no further Cash Milestones expected

Corporate/R&D – A combined DCF of -\$73.8 (-41.9¢ ps) for Ongoing Corporate Costs and R&D expense and expected Cash R&D Rebates to be received in Q4 CY17 and CY20 (based on CY19 R&D).

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

Net Cash/Debt – \$4.4m (2.5¢ ps) as at 31/12/17, including Restricted Cash (Athyrium requirement) of A\$3.2m.

VALUATION Segment	Sum of Parts	
	Valuation Method	Valuation \$m ¢ ps
Blood Glucose	DCF	90.0 51.1
Blood Coagulation	DCF	93.6 53.1
Corporate/R&D	DCF	-73.8 -41.9
Operating Assets		109.8 62.4
Other		1.8 1.0
Net Cash/Debt (exc Lump Sum)		4.4 2.5
Valuation		116.1 65.9
Current Price (¢ps)		34.0

Source: Veritas

If the Options and Warrants with an Exercise Price below this Valuation are exercised, the Valuation falls to \$0.56 ps.

This Valuation is conservative, excluding the substantial value associated with IP, R&D capability and its manufacturing facility. If LifeScan's QSF Option is not initially exercised in CY18 or at a later time, there would be a substantial increase in the Valuation.

The table below shows the impact on future Revenue and Profit at different years of exercise of the LifeScan Option;

Revenue Forecasts	2017	2018	2019	2020
Yearly	A\$m	A\$m	A\$m	A\$m
Received as Revenue	4.9	25.9	30.5	34.4
Multiplier (One-Off)*		51.9	61.1	68.8
Total for Year of Exercise	4.9	77.8	91.6	103.2
<i>Increase</i>		1491%	17.7%	12.6%
¢ ps	2.8	44.1	51.8	58.2
Cumulative until Year of Exercise				
Cumulative Revenue	4.9	30.8	61.4	95.7
Cumulative Total	4.9	82.7	122.4	164.5
¢ ps		46.9	69.2	92.9
DCF Valuation (¢ ps)		50.4	64.2	82.3

Source: Veritas

*Multiplier falls from 2.2x to 2.0x

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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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