

BUY

HOLD

SELL

ACTION & RECOMMENDATION

UBI has announced a FY13 loss of \$11.6m. Quarterly service fees recovered in Q4, having been denied momentum during the middle periods following LifeScan's global recall. Verio's growth is still short of exciting – LifeScan grew strip sales by c.11% versus Q3. The product has re-attained pre-recall levels, and should grow strongly this year barring further disruptions. There remains pressure for this to happen: the commercial imperative for LifeScan to increase Verio in its mix; regulators and others wanting better accuracy. But, as always, the timing/magnitude of UBI's earnings uplift is speculative. Risked target \$1.04. Un-risked valuation is double that, but depends on Verio sales entering an exponential phase. UBI still a Speculative BUY.

FY13 – a thick black line drawn under annus horribilis

What's Changed

- **Full-year NLAT of \$11.6m lower than WHTMe (\$17.0m) after ~\$6m R&D tax rebate.** LifeScan's OneTouch Verio strip sales grew c.25% on pcp to c.86.3m strips. UBI recorded a 4Q service fee of \$972K (+46%) taking the FY13 tally to \$3.4m (+52%). Reported revenue of \$15.1m was higher than WHTMe (\$12.7m); bonus sales to LifeScan ahead of plant shutdown and unexpected service revenue from Siemens. The balance sheet was strong with \$23.7m cash following a c.\$16m drawdown from the Athyrium facility.
- **xPrecia Stride launch Q3** – UBI has expanded the number of trial sites to complete its clinical testing of this product, partnered with Siemens. We model a European launch in 3Q (was 1H) followed by a US FDA clearance in 4Q. Forecasts therefore unchanged.
- **FDA guidelines on diabetes testing accuracy** – the FDA has moved to tighten accuracy requirements for blood glucose monitoring, a long-term positive for LifeScan/UBI. Short-term impact negligible – new rules likely to apply to novel products seeking approval (existing products "grandfathered"). UBI's Verio is perhaps the only strip on the market capable of satisfying the new rules – potential marketing advantage should LifeScan decide to specifically pursue a label claim.
- **Outlook** – unchanged, looking for 45% growth in service fees in 1H and 60% full year, assuming no recalls/disruptions. Verio is now 8-9% of LifeScan's strip business and likely its only SKU with growth.
- **Valuation unchanged, Speculative BUY rating retained.** Risked valuation (DCF) suggests \$1.04/share (12-month forward). De-risking depends on quarterly service fees entering exponential growth phase. With no visibility on LifeScan's strategy, execution or sales in real time, the timing and magnitude of UBI's earnings uplift is entirely speculative.

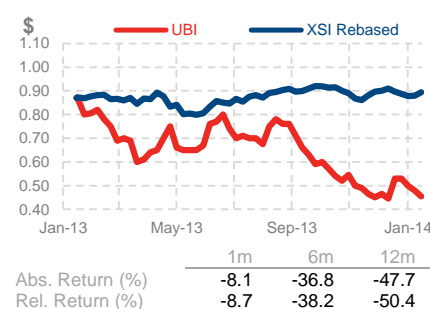
Financial Results

Year-end December (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E
NPAT Rep (\$m)	-9.1	-11.6	-8.2	6.0	15.5
NPAT Norm (\$m)	-9.1	-11.6	-8.2	6.0	15.5
Consensus NPAT (\$m)			-8.5	5.9	
EPS Norm (cps)	-5.5	-6.7	-4.7	3.4	8.9
EPS Growth (%)	39	-23	30	173	159
P/E Norm (x)	-7.9	-6.4	-9.1	12.6	4.9
EV / EBITDA (x)	-10.3	-7.8	-18.6	6.8	3.6
FCF Yield (%)	-4.1	-20.8	-3.7	10.6	20.7
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0
Mkt Cap: \$80m	Enterprise Value: \$71m	Shares: 175m	Sold Short: %		

12m Target Price (AUD)	\$1.04
Share Price @ 14-Feb-14 (AUD)	\$0.43
Fcst 12m Capital Return	142.9%
Fcst 12m Dividend Yield	0.0%
12m Total S'holder Return	142.9%

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12m Share Price Performance



WHTM Return Re-investment Matrix

Return	High	Low
	Cash Generator	Champion
Low		Potential
	Low	High
	Re-Investment	

WHTM Risk Assessment

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Key Changes	13-Jan	After	Var %
NPAT: FY14	-8.7	-8.2	N/A
Norm FY15	6.0	6.0	-0.3%
(\$m) FY16		15.5	
EPS: FY14	-5.0	-4.7	N/A
Norm FY15	3.4	3.4	-0.3%
(cps) FY16		8.9	
DPS: FY14	0.0	0.0	0.0%
(cps) FY15	0.0	0.0	0.0%
FY16		0.0	
Price Target:	1.07	1.04	-2.7%
Rec:	BUY	BUY	
ASX 300 wgt: n/a	Median T'over/Day: \$0.0m		

Wilson HTM Equities Research – Universal Biosensors Inc

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PRICE TARGET

	Valuation	Price Target
Discount rate (%)		14.0
Terminal growth (%)		2.5
NPV of FCFs (\$M)		67.6
NPV of perpetuity (\$M)		132.5
Riskd valn (\$M)	200.1	
Risk discount (%)		50
Riskd valn (A\$/share)		1.04

INTERIMS (\$m)

Half Yr (AUD)	Jun 13 1H A	Dec 13 2H A	Jun 14 1H E	Dec 14 2H E
Sales	9.6	5.5	2.4	6.9
EBITDA	-6.7	-2.4	-7.9	4.1
EBIT	-8.0	-3.6	-9.4	2.6
Net Profit	-7.7	-3.9	-10.1	1.8
Norm. EPS	-4.5	-2.3	-5.8	1.1
EBIT/Sales	-83.2	-65.9	-397.0	37.1
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

FINANCIAL STABILITY

Year-end December	FY13A	FY14E	FY15E
Net Debt	-7.9	-8.5	-16.0
Net Debt / Equity (%)	<0	<0	<0
Net Debt / EV (%)	<0	<0	<0
Current Ratio (x)	10.1	2.2	2.5
Interest Cover (x)	<0	<0	5.7
Adj. Cash Int. Cover (x)	<0	<0	7.6
Debt / CashFlow (x)	0.0	<0	1.9
Net Debt (cash) / share	<0	<0	<0
NTA / share (\$)	0.2	0.2	0.2
Book Value / share (\$)	0.2	0.2	0.2
Payout Ratio (%)	0	0	0
Adj. Payout Ratio (%)	0	0	0

EPS RECONCILIATION (\$m)

	FY13A		FY14E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	15	15	9	9
EBIT	-11.6	-11.6	-6.9	-6.9
Net Profit	-11.6	-11.6	-8.2	-8.2
Notional Earn.	0.0	0.0	0.0	0.0
Pref./Conv. Div.	0.0	0.0	0.0	0.0
Profit for EPS	-11.6	-11.6	-8.2	-8.2
Diluted Shrs(m)	173	173	175	175
Diluted EPS (c)	-6.7	-6.7	-4.7	-4.7

RETURNS

	FY13A	FY14E	FY15E	FY16E
ROE (%)	-33.7	-29.6	20.7	39.1
ROIC (%)	-43.3	-24.5	30.5	73.1
Incremental ROE	93.7	-50.5	1,262.9	88.6
Incremental ROIC	-151.1	380.0	-341.1	-919.2

KEY ASSUMPTIONS

Year-end December (AUD)	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue Growth (%)		8,759.9	25.0	101.7	-49.1	-38.7	198.1	43.2
EBIT Growth (%)	17.5	-53.5	93.6	-37.7	21.0	-40.7	-205.9	129.4
NPAT Growth (%)	35.8	-59.4	122.3	-37.8	27.4	-29.1	-172.8	159.2
EPS Growth (%)	35.8	-59.9	119.9	-38.8	23.0	-30.0	-172.8	159.2
EBIT / Sales (%)	12,863.7	-67.5	-104.6	-32.3	-76.8	-74.4	26.4	42.3
Tax Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA (%)	-32.4	-14.6	-32.0	-19.5	-21.2	-12.9	12.4	22.3
ROE (%)	-34.4	-13.5	-36.0	-23.2	-39.2	-31.8	18.8	32.7

PROFIT & LOSS (\$m)

Year-end December (AUD)	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
Sales Revenue	0.1	11.8	14.7	29.6	15.1	9.2	27.6	39.5
EBITDA	-14.2	-5.0	-12.1	-6.9	-9.1	-3.8	10.5	20.1
Depn & Amort	2.9	3.0	3.3	2.6	2.5	3.0	3.2	3.4
EBIT	-17.1	-7.9	-15.4	-9.6	-11.6	-6.9	7.3	16.7
Net Interest Expense	-0.8	-1.2	-0.7	-0.4	0.0	1.4	1.3	1.2
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit pre Sig. Items	-16.3	-6.6	-14.7	-9.1	-11.6	-8.2	6.0	15.5
Abn's / Ext's / Signif.	17.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	1.4	-6.6	-14.7	-9.1	-11.6	-8.2	6.0	15.5

CASHFLOW (\$m)

Year-end December (AUD)	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
EBITDA	-14.2	-5.0	-12.1	-6.9	-9.1	-3.8	10.5	20.1
Interest & Tax	0.8	1.2	0.7	0.5	0.0	-1.4	-1.3	-1.2
Working Cap / Other	15.1	-2.7	4.2	3.2	-7.5	2.2	-0.8	-2.4
Operating Cash Flow	1.6	-6.4	-7.2	-3.3	-16.6	-3.0	8.4	16.5
Maintenance Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	1.6	-6.4	-7.2	-3.3	-16.6	-3.0	8.4	16.5
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Growth Capex	-3.0	-2.3	-1.1	-0.7	-0.2	-0.9	-1.0	-1.0
Invest. / Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	-0.6	-0.6	0.0	0.0	0.0
Cash Flow Pre Financing	-1.3	-8.7	-8.3	-4.6	-17.4	-3.9	7.5	15.5
Funded by Equity	0.1	0.7	0.1	13.2	0.0	4.5	0.0	0.0
Funded by Debt	0.0	0.0	0.0	0.0	16.9	0.0	0.0	0.0
Funded by Cash	1.3	8.0	8.2	-8.6	0.4	-0.6	-7.5	-15.5

BALANCE SHEET SUMMARY (\$m)

Year-end December (AUD)	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
Cash	31.3	23.3	15.1	23.6	23.7	24.3	31.8	47.3
Current Receivables	0.4	3.6	4.9	2.3	2.2	0.1	0.7	1.8
Current Inventories	0.3	3.2	3.6	3.6	0.0	2.0	0.9	2.5
Net PPE	21.3	23.1	20.3	18.3	15.9	13.8	11.5	9.2
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles / Capitalised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	2.8	0.7	1.3	1.3	12.8	13.2	13.6	14.0
Total Assets	56.1	53.8	45.2	49.1	54.6	53.5	58.6	74.8
Current Payables	0.4	1.8	0.6	2.5	1.0	3.0	1.5	1.5
Total Debt	0.0	0.0	0.0	0.0	15.9	15.9	15.9	15.9
Other Liabilities	4.3	4.9	9.6	7.2	8.1	8.7	9.3	10.0
Total Liabilities	4.8	6.6	10.2	9.7	24.9	27.5	26.6	27.3
Minorities / Convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder Equity	51.3	47.2	35.0	39.4	29.7	25.9	31.9	47.5
Total Funds Employed	51.3	47.2	35.0	39.4	45.5	41.8	47.8	63.3



RETURN RE-INVESTMENT MATRIX

Return	High	Cash Generator	Champion
	Low	Challenged	Potential
		Low	High
		Re-investment	

We rate UBI technology highly, noting multiple high-value diagnostic opportunities which can be accessed on modest R&D investment.

RISK MEASURES

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

UBI stock is relatively illiquid. Business risks mitigated by involvement of multinational partners with established presence in UBI's product areas.

BUSINESS DESCRIPTION

Universal Biosensors Inc (UBI) is a developer and manufacturer of molecular diagnostics equipment for point-of-care (PoC) medical settings. It has developed electrochemical cell and manufacturing technologies to produce "strip and meter" diagnostic tools for diabetes care (partnered with JNJ subsidiary LifeScan) and blood coagulation monitoring (partnered with Siemens). It is also growing into new, high value PoC applications such as genetic typing and immunoassay.

INVESTMENT THESIS

Our thesis on UBI is that we see the company becoming a multiple royalty house, continuing to partner new diagnostic products with groups that are ranked either 1 or 2 in their fields. In our view, its partnering success to date has been a function of delivering new product features at low cost of goods, thanks to its proprietary, high yielding "reel-to-reel" manufacturing capabilities.

REVENUE DRIVERS

- LifeScan conducting global launch of UBI's OneTouch Verio glucose monitoring strip for diabetes care – could grow to 4.5Bn strips/year
- Siemens to launch UBI coagulation monitoring product in 2013
- Prospect of further partnering deals based on product pipeline

MARGIN DRIVERS

- Make a modest (c.15%) gross margin on OneTouch Verio strips supplied to LifeScan
- Make a zero cost US1 cent/strip "service fee" on all OneTouch Verio strips sold globally
- We estimate 70% gross margin on coagulation strips sold to Siemens

KEY ISSUES/CATALYSTS

- Upside risks:
 - Quarterly cash-flow and SEC filings indicate LifeScan's progress on OneTouch Verio strip sales
 - Product launches by Siemens
 - New partnering transactions on other products
 - New technology innovation, pipeline development

RISK TO VIEW

- Downside risks:
 - Large partners like LifeScan are slow to move – provide low visibility
 - Medical device risks: difficulties with competitors, product recalls

BALANCE SHEET

- UBI had \$23.7m cash as at end-FY13

BOARD

- Mr Andrew Denver (Chairman, Director)
- Mr Paul Wright (Managing Director, CEO)
- Mr Chris Smith (Director)
- Mr Denis Hanley (Director)
- Mr Marshall Heinberg (Director)
- Mr Andrew Jane (Director)

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Return Reinvestment Matrix and Risk Measures

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

Recommendation Structure and Other Definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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