

## Universal Biosensors Inc

### Price fall due to the release of LifeScan Agreement details

The sharp recent fall in the UBI's Share Price is linked to the provision of additional information of the arrangement with LifeScan, covering:

- Details of the threshold level and the Quarterly Service Fee (QSF) multiplier under an option for LifeScan to purchase the QSF income stream. The option is exercisable when the cumulative QSFs exceed US\$45m, with a graduated multiplier of 3x to 2x, plus the balance of QSF for that calendar year.
- Advise that the strip service fee was graduated, with US1.25¢ received for the first 500m strips pa, then US0.75¢ for the balance.

While UBI has always documented these arrangements, it has been restricted under its contractual arrangements from releasing the metrics. The release at this time relates to their future relevance, with escalating QSFs.

These metrics were lower than the levels assumed by the general market, resulting in cuts to Forecasts and Price Targets by some market participants.

### An Overreaction

We believe the market has overreacted and have retained our \$0.75 ps valuation and BUY recommendation, on the following basis:

- A Valuation for the Blood Glucose operation of A\$80m (45¢ ps), based on forecast EBITDA multiple of 6x for FY2015. This is below a combination of the profit of US\$37m in QSFs until the threshold level and a potential minimum payment of US\$65m, if the option is exercised, which is not certain.
- The current valuation ignores the launch in Q3 2014 of the initial Siemens Blood Coagulation test system, valued on a DCF basis at \$45m (\$0.25 ps). This will be followed by the launch of 2 additional systems and UBI's self-test system in CY2015 and the receipt of US\$6.2m in milestone payments. The potential returns from Blood Coagulation significantly exceed Blood Glucose.
- A value of \$9m (5¢ ps) for other products and establishment of a Universal Point-of-Care platform, based on a 50% discount to R&D expended to date.
- The release of this information and share price movement has no effect on the Athyrium Loan facility.

### The Siemens launch draws near

UBI remains confident that the initial Blood Coagulation test system will be launched in Q3 CY2014, with the possibility that Siemens could reach a market share of at least 20%. These prospects have been boosted by a major recall by the No.2 market participant, who has a market share of 30% to 35%.

### No major change to Forecasts or Valuation

Our forecasts are unchanged with expected losses of \$7.5m for CY2014, falling to \$0.4m in CY2015, with a profit of \$5.7m in CY2016, from:

- A return to stronger growth rates for the take-up of Verio strips.
- Continued funding of R&D by R&D refunds and milestone payments.
- The Siemens launch of its first product in Q3 CY2014, with the further 2 products and UBI's self-test in CY2015.

While retaining a BUY recommendation, we recognize that it may take some time for the market to regain confidence, warranting a return to our valuation levels. However, the release of Q2 CY2014 QSFs in July and the announcement of a strip purchase order from Siemens may provide some short term upside.

### Reasons to BUY

The major reasons for recommending UBI remain, based on UBI's: large growth target markets beyond Blood Glucose; an expected profit surge from the launch of new products; the strength of its technology and opportunity pipeline, supported by a world class manufacturing facility; and the quality partners.

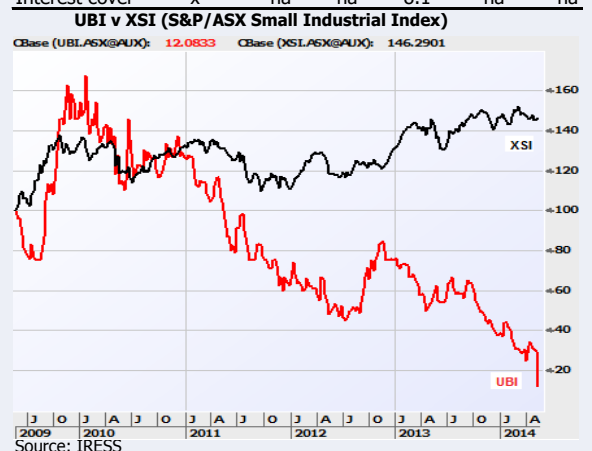
## UBI.ASX

## BUY

15 May 2014

<b>Price</b>	<b>\$0.14</b>
<b>12 Month Price Target</b>	<b>\$0.39</b>
<b>Valuation</b>	<b>\$0.75</b>
Valuation method	Sum of Parts
GICS sector	Healthcare
12 Mth Price Range	\$0.14 - 0.90
Avg monthly t/o	0.5m
Market Capitalisation	\$24m
Shares on issue	175m
Options on Issue	15m
Enterprise value	\$24m
Previous rating	<b>BUY</b>

Year Ended Dec 31		12A	13A	14E	15E	16E
Revenue	\$m	29.6	15.1	12.3	21.6	38.9
EBIT	\$m	-9.3	-18.2	-12.1	0.4	13.5
EBIT margin	%	-31.3	-120.9	-98.4	1.9	34.9
NPAT	\$m	<b>-9.1</b>	<b>-11.6</b>	<b>-7.5</b>	<b>5.9</b>	<b>15.4</b>
EPS	¢ ps	-5.7	-6.7	-4.3	3.4	8.8
EPS growth	%	-38.4	17.2	-35.7	-178.8	na
Franking	%	0.0	0.0	0.0	0.0	0.0
PER	x	na	-6.9	-3.3	4.1	1.6
DPS	¢ ps	0.0	0.0	0.0	0.0	0.0
Dividend yield	%	0.0	0.0	0.0	0.0	1.0
NTA/share	¢ ps	22.6	16.9	12.7	16.1	24.8
EV/EBITDA	x	-0.1	-0.9	-2.0	45.7	-0.7
Gearing (D:E)	%	0.0	0.0	0.0	0.0	0.0
P/OCF	x	na	na	-4.0	3.5	1.5
R&D	\$m	-13.5	-15.5	-15.0	-9.0	-8.5
R&D / Revenue	%	45.5	102.6	122.0	41.6	21.9
ROA	%	-19.7	-35.2	-23.4	0.8	21.3
ROE	%	-25.2	-33.7	-28.9	23.5	43.0
Interest cover	x	na	na	-8.1	na	na



### Activities

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

[www.universalbiosensors.com](http://www.universalbiosensors.com)

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## Universal Biosensors (UBI)

Current Price: \$0.14 ps

Target Price: \$0.75 ps

### FINANCIAL PERFORMANCE

Year ended 31-Dec	2011A	2012A	2013A	2014E	2015E	2016E	
<b>Sales Revenue</b>	\$m	14.7	29.6	15.1	12.3	21.6	38.9
Cost of Goods Sold	\$m	-13.0	-18.7	-11.6	-3.0	-6.0	-7.4
<b>Gross Operating Profit</b>	\$m	1.7	11.0	3.4	9.3	15.6	31.5
R&D	\$m	-9.8	-13.5	-15.5	-15.0	-9.0	-8.5
Administration Costs	\$m	-7.3	-6.8	-6.2	-6.2	-6.2	-6.5
<b>EBIT</b>	\$m	-15.4	-9.3	-18.2	-12.1	0.4	13.5
R&D Refund	\$m	0.0	0.0	6.3	6.1	3.4	0.0
Interest	\$m	0.7	0.2	0.3	-1.5	2.0	1.8
<b>Pre Tax Profit</b>	\$m	-14.7	-9.1	-11.6	-7.5	5.9	15.4
Tax	\$m	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported Profit</b>	\$m	-14.7	-9.1	-11.6	-7.5	5.9	15.4

GROWTH	2011A	2012A	2013A	2014E	2015E	2016E	
Revenue	%	-19.2	101.7	-49.1	-18.5	75.8	79.7
COGS	%	6.0	43.3	-37.6	-74.2	100.0	23.3
Gross Operating Profit	%	-71.6	555.1	-68.6	169.7	67.9	101.4
R&D	%	0.5	37.4	14.8	-3.1	-40.0	-5.6
EBIT	%	97.4	-39.7	96.5	-33.7	-103.5	3139.5
Reported Profit	%	122.3	-37.8	27.4	-35.5	-178.8	160.3
EPS	%	120.2	-38.4	17.2	-35.7	-178.8	160.2

P&L RATIOS	2011A	2012A	2013A	2014E	2015E	2016E	
Gross Operating Profit / Sales	%	11.4	37.1	22.8	75.6	72.2	81.0
EBIT / Sales	%	-104.8	-31.3	-120.9	-98.4	1.9	34.9
Effective Tax Rate	%	0.0	0.0	0.0	0.0	0.0	0.0
Interest Cover	x	na	na	na	-8.1	na	na
R&D/Revenue	x	66.8	45.5	102.6	122.0	41.6	21.9
Working Cap/Revenue		2.5	21.0	-13.3	8.2	6.2	0.2

Per SHARE	2011A	2012A	2013A	2014E	2015E	2016E	
Issued Shares (Year End)	m	159.0	174.0	175.6	174.9	174.9	175.0
Issued Shares (Wt Avg)	m	159.0	160.4	174.4	174.9	174.9	174.9
EPS	¢ps	-9.2	-5.7	-6.7	-4.3	3.4	8.8
Operating Cash Flow ps	¢ps	-4.5	-2.1	-9.5	-3.5	4.0	9.2
Free Cash Flow	¢ps	-5.2	-2.5	-9.6	-4.1	2.6	7.5
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	2011A	2012A	2013A	2014E	2015E	2016E	
PE Ratio	x	-8.1	-15.9	-6.9	-3.3	4.1	1.6
Enterprise Value / EBITDA	x	-0.5	-0.1	-0.9	-2.0	45.7	-0.7
Enterprise Value / Profit	x	-0.5	-0.1	-1.4	-3.2	3.2	-0.6
Cash Flow ratio	x	-16.7	-44.0	-4.8	-4.0	3.5	1.5
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	2011A	2012A	2013A	2014E	2015E	2016E	
<b>Sales Revenue</b>							
Product Sales	\$m	12.1	19.4	10.2	1.3	5.2	15.9
Service	\$m	2.6	6.0	4.9	7.9	13.3	23.0
Milestones	\$m	0.0	4.2	0.0	3.1	3.1	0.0
<b>EBIT</b>							
Product Sales	\$m	-0.2	1.4	0.7	-0.7	2.2	5.5
Service	\$m	2.1	4.7	2.9	7.1	13.3	23.0
R&D	\$m	-9.8	-13.5	-15.5	-15.0	-9.0	-8.5
Milestones	\$m	0.0	4.2	0.0	3.1	3.1	0.0
Corporate	\$m	-7.3	-6.8	-6.2	-5.3	-5.5	-6.5
<b>EBIT Growth</b>							
Product Sales	%	na	-660.0	-48.5	-198.3	-416.9	150.1
Service	%	-58.4	130.3	-39.3	147.2	87.3	72.9
R&D	%	51.4	37.4	14.8	0.0	-40.0	-5.6
Corporate	%	1.2	-6.6	-8.7	-14.5	3.8	18.2
<b>EBIT Margin</b>							
Product Sales	%	0.0	7.1	7.0	-53.8	42.5	35.0
Service	%	78.0	78.2	58.4	89.9	100.0	100.0

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

### CASH FLOW

Year ended 31-Dec	2011A	2012A	2013A	2014E	2015E	2016E	
<b>Operating EBITDA</b>	\$m	1.9	9.8	1.7	3.1	9.4	25.0
Net Interest Received/Paid	\$m	0.7	0.4	0.5	2.2	1.8	1.8
Tax Paid	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Change Working Capital	\$m	-0.8	4.4	-2.5	-2.6	-0.9	-2.8
Other (inc R&D Refund)	\$m	0.8	-4.4	-0.8	6.2	5.7	3.4
<b>Operating Cash Flow</b>	\$m	2.7	10.2	-1.1	8.9	16.1	27.4
R&D	\$m	-9.8	-13.5	-15.5	-15.0	-9.0	-8.5
Capex	\$m	-1.1	-0.7	-0.2	-1.0	-2.5	-3.0
<b>Free Cash Flow</b>	\$m	-8.3	-4.0	-16.8	-7.1	4.6	15.9
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	0.1	12.5	0.4	0.0	0.0	0.0
Debt	\$m	0.0	0.0	16.0	0.1	0.0	0.0
<b>Change in Net Cash</b>	\$m	-8.2	8.6	-0.4	-6.9	4.6	15.9

BALANCE SHEET	2011A	2012A	2013A	2014E	2015E	2016E	
Cash	\$m	15.1	23.6	23.7	16.8	21.4	34.4
Receivables	\$m	4.9	2.3	2.2	2.5	3.5	6.3
Inventory	\$m	3.6	3.6	0.0	1.0	3.0	5.4
Other Current Assets	\$m	1.0	0.9	9.9	8.5	5.0	1.5
<b>Current Assets</b>	\$m	24.6	30.5	35.8	28.8	32.9	47.6
Property, Plant & Equipment	\$m	20.3	18.3	15.9	16.8	17.8	20.8
Intangibles	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Other NC Assets	\$m	0.3	0.3	2.9	3.0	3.5	4.5
<b>Non Current Assets</b>	\$m	20.6	18.6	18.8	19.8	21.3	25.3
<b>Total Assets</b>	\$m	45.2	49.1	54.6	48.6	54.2	72.9
Payables	\$m	2.7	4.5	3.3	2.0	3.0	5.4
Current Debt	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	\$m	6.4	1.8	2.1	2.5	3.5	5.5
<b>Current Liabilities</b>	\$m	9.1	6.3	5.4	4.5	6.5	10.9
Non Current Debt	\$m	0.0	0.0	15.9	16.0	16.0	16.0
Other NC Liabilities	\$m	3.2	3.4	3.7	5.9	3.6	2.5
<b>Non Current Liabilities</b>	\$m	3.2	3.4	19.5	21.9	19.6	18.5
<b>Total Liabilities</b>	\$m	12.3	9.7	24.9	26.4	26.1	29.4
<b>Shareholder Funds</b>	\$m	33.0	39.4	29.7	22.2	28.1	43.5

BALANCE SHEET RATIOS	2011A	2012A	2013A	2014E	2015E	2016E	
Receivables turn	x	3.5	8.3	6.8	5.3	7.2	7.9
Inventory turn	x	3.8	5.2	6.5	6.0	3.0	1.8
Net Debt	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Current Ratio (CA:CL)	x	2.7	4.8	6.6	6.4	5.1	4.4
Net Tangible Assets	¢ps	20.7	22.6	16.9	12.7	16.1	24.8
Cash	¢ps	9.5	13.6	4.5	0.5	3.1	10.5
Return On Assets	%	-31.1	-19.7	-35.2	-23.4	0.8	21.3
Return on Equity	%	-36.6	-25.2	-33.7	-28.9	23.5	43.0

VALUATION		
<b>Valuation Method</b>	\$	Premium(+)/Discount(-) %
DCF	0.81	-82.8
Sum of the Parts	0.75	-81.3
Price Target	0.39	-64.1
Current Price	0.14	
<b>Market Capitalisation</b>	\$24.5m	<b>Enterprise Value: \$23.7m</b>

MAJOR SHAREHOLDERS			
Principals Cornerstone	m	17.5	10% Related to Directors
CM Capital Investments	m	17.8	10% Healthcare Fund
Australian Executor Trustees	m	10.4	8% Aust Institution
Australian Ethical	m	8.7	6% Aust Institution
<b>Top 20 (16/3/2013)</b>	<b>m</b>	<b>121.4</b>	<b>69%</b>

DIRECTORS			
Andrew Denver	N-E Chair	Chris Smith	N-E Dir
Paul Wright	MD & CEO	Marshall Heinberg	N-E Dir
Andrew Jane	N-E Dir	Denis Hanley	N-E Dir

**Summary**

**Valuation of \$0.75 ps**

We believe UBI has been oversold, retaining our valuation of \$0.75 ps and our BUY recommendation, on the basis of:

- The current Valuation (A\$m) and price of \$0.16 ps is below our current valuation of blood glucose. It is also below the combined total from an exercise of the option, being Quarterly Service Fees (QSFs) of US\$38m (US21.7¢ ps) received until the threshold is reached and an estimated Lump Sum of over US\$58m (US32.4¢ ps) on exercise. Our forecasts are included in Appendix 1.
- The current market valuation ignores the substantial impact from the launch of the initial Siemens Test system in Q3 CY2014, which alone generates a base line DCF valuation of \$45m (28¢ ps), as well as the launch of 3 additional systems in CY2015, US\$6m in milestone payment and A\$30m in R&D spent over the last 3 years. UBI has always believed the potential return from Blood Coagulation will exceed those from Blood Glucose
- The valuation ignores the prospects for additional testing systems over areas such as Immunoassay, where UBI has already achieved "Proof of Concept" on additional tests.
- No impact on the Athyrium Loan facility.
- We would not rule out the potential for a major industry taking a stake in UBI or a management Buyout.

Our Valuation remains at \$0.75 per, based on a Sum of Parts valuation, although this is below our adjusted Discounted Cash Flow valuation of \$0.81 ps. The Sum of Parts valuation attributes:

- \$80m (\$0.45 ps) to Blood Glucose, based on a CY2015 EBIT multiple of 6.0x. ie 6x \$13.3m = A\$80m.
- \$45m (\$0.25 ps) to Blood Coagulation, based on a DCF for PT/INR only, assuming launch in 3Q CY2014, based on a discount rate of 12.5% and terminal growth of 3.5% pa. This excludes the launch of 2 other tests and progress on home-test and an expected US\$6m in milestone payments.
- \$12m (\$0.07 ps) to the Immunoassay and Molecular Diagnostics (to increase with acceleration in development), based on estimated expenditure to date discounted by 50%.
- Net Debt of \$3m (-\$0.02 ps) at December 2014.

**It will take time to regain market confidence and return to previous levels.**

our BUY recommendation, but recognize it may take some time to restore market confidence. However, the release of the Q2 CY2014 QSF in July and the announcement of a strip purchase order from Siemens may provide some short term upside.

**Lump Sum Service Fee**

In the Value Drivers Release of 12/3/14, UBI provides specific information on metrics within the LifeScan Agreement not previously available. While UBI has always disclosed the Lump Sum Service Fee option, it had redacted (withheld) the following information on the threshold level and the multiplier:

- The option is exercisable when LifeScan has paid cumulative Quarterly Service Fees of US\$45m.
- The Lump Sum is based on a multiplier range of 3x to 2x the QSF in the quarter the option is exercised.
- UBI will also receive the QSFs for the remaining quarter of that calendar year, ie if exercised in Q1, UBI will receive QSFs for Q2, Q3 and Q4.

The general market had been forecasting a higher threshold and a higher multiplier, around US\$80 to US\$100m and 5x (Veritas \$60m and 3x to 4x).

**UBI to receive US\$38m before option threshold**

**Mechanism**

Our valuation of the receipt for UBI if the option is exercised as follows:

- UBI will receive an extra US\$38m in QSFs before the cumulative QSF threshold of US\$45m.
- On reaching the threshold, UBI will receive a substantial lump sum. Based on our forecasts, we expect the \$45m to be reached in Q1 or Q2 of CY2017, resulting in the following Lump Sum Payment and subsequent QSFs:

**Could receive US\$65m on exercise**

$$Q2\ CY17 = QSF\ Q2\ CY17 \times 4 \times \text{multiplier} + Q3\ QSF + Q4\ CSF = US\$6.4 \times 4 \times 2.2 + US\$6.7m + US\$7.0m = US\$65m$$

If the option exercise period is earlier, the total amount would probably be higher

### Probability of exercise

**Option may not be exercised**

Its very possible the option won't be exercised or exercised by LifeScan at the first opportunity. The Pro 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\$60m. This may not be palatable for LifeScan, given the substantial impact on LifeScan's profitability, especially with the current market pressures, or given LifeScan's outlook on the market or forecast of Verio strip sales at that time.

It will sever all ties with UBI, severely restricting further product research and development, an essential for a global leader in a sector, highlighted by continued innovation. For example, a recent UBI feasibility project for a testing system for a normal glucose sensor, would not be progressed. Also, this new product would change the strip service fee structure for a period.

### Service fee per Strip

Strips Sold m pa	Total strip sales US\$m pa	Av Unit Strip Prices US¢
500	6.3	1.25
1000	10.0	1.00
1500	13.8	0.92
2000	17.5	0.88
3000	25.0	0.83
4000	32.5	0.81

UBI has advised that the QSF per strip is:

- US1.25¢ per strip for the first 500m strips.
- US0.75¢ per strip above 500m strips.

Based on indications from UBI, the general market had been forecasting US0.1¢ per strip over the life of the agreement.

The effect of this advice is to reduce the Strip Service Fee for sales over 1b strips, with the Fee falling from US1.0¢ to US0.88¢ per strip at the 2b pa level.

As our forecasts have presumed an US\$:A\$ exchange rate for convenience and conservatism, the actual impact will be less, although the extent depends on the exchange rate.

### The Loan Facility

We don't see any impact on the Athyrium Loan Facility, after examining the documentation and given that Athyrium has had full Due Diligence on both the LifeScan and Siemens contracts. To the contrary, we take confidence from Athyrium's ongoing support.

### Why Release Details Now

While the general information on the agreement has always been released, the above metrics has been redacted (withheld) from all documents before the above release. This was a requirement in the original agreement with LifeScan, as it was deemed commercially sensitive, and subsequently approved by the SEC in the USA.

UBI has released this information to better inform the market, on the basis that there is a probability that the cumulative CSFs will reach the threshold. This is based on:

- Strong recent performance, with growth in QSFs of over 40% for the last 4 quarters, following the recall in Q1 CY2013. In our view, this also confirms LifeScan's full commitment to Verio and indicates that the recall has not severely impacted on the Verio penetration growth. Total cumulative QSFs at 31/3/14 were A\$7.4m (US\$7.0m).
- Changes in the regulatory environment requiring greater accuracy, with:
  - Expected guidelines in the USA from the FDA on tighter Blood Sugar meter performance. This will stop the registration of new meters that don't meet these performance criteria, although existing meters can continue to be sold.
  - The IVD Directive to the EU to adopt a new tighter ISO standard from November 2016. Only products approved under the new standard can be sold, eliminating a significant portion of current systems.
  - An FDA advice to stop using some generic test strips.

## Siemens – Blood Coagulation

### What has been redacted (withheld) from the disclosed Siemens' Agreements?

We believe the only relevant data is:

- The transfer price from UBI to Siemens, which is commercially sensitive. However, this price may become evident with release of UBIs quarterly revenue and COGS.
- The quantity of strips supplied to Siemens, before it has", the option exercise won't disadvantage UBI, as it will still receive the same operational profit per strip sold, as compensation. This will be earnings neutral to slightly positive, as UBI will receive the same profit contribution without the corresponding overheads.

### Outlook – PT/INR

**Outlook for Blood Coagulation remains strong**

UBI remain confident of a launch of the PT/INR test system, expected to be in the 3Q CY2014 in Europe, backed by progress in system performance validation, resolution of residual risk and the establishment of related logistics.

This pending launch will be signaled by an announcement from UBI on receipt of a purchase order ahead of self-certification and the European launch. The launch in the US will follow the FDA 510K approval, expected in Q1 CY2015.

**Recall by a competitor opens an opportunity**

The prospects for the PT/INR product have been boosted by the recall by Alere, the No.2 player with a 30% – 35% market share.

#### **Alere INRatio<sup>®</sup>2 PT/INR Professional Test Strip Voluntary Urgent Recall**

Alere is initiating a voluntary urgent product recall of the Alere INRatio<sup>®</sup>2 PT/INR Professional Test Strips. This voluntary urgent product recall only concerns the professional test strips (PN 99008G2) used at the point-of-care, such as in a doctor's office, hospital, or cardiology clinic.

Source: Alere

The recall follows 9 reports of severe adverse events, including 3 patients bleeding to death, a result of readings 3.1 to 12.2 INR units (Normal is 1) lower than official laboratory results. As Alere has been unable to determine the contributing circumstances, it may be a considerable period before the product returns. This leaves an opportunity for Siemens to reach an initial market share in well in advance of our forecasts

Our current base case forecasts have UBI generating Revenue of U\$60.4m and EBIT of US\$29.6m by CY2020. Our current DCF valuation for PT/INR alone is conservative at \$45m (\$0.28 ps), outlined in Appendix 1.

### Other

In CY2015, 3 additional Blood Coagulation testing systems will be launched:

- An additional 2 testing systems for Siemens. While the market for these tests has been estimated at around US\$300m, we expect it to be a higher growth market, with lesser competition.
- UBI's home PT/INR test system. UBI has made considerable progress, with:
  - Completion of a 2<sup>nd</sup> generation prototype and the establishment of manufacturing underway.
  - Accelerating the distributor arrangement, with non-binding term sheets in 50% of the markets and receipt of inbound enquiries in key markets of USA and Europe. The strips will sell at a premium to the professional market, a potential market of \$200m - \$300m with significantly higher margins.

Our preliminary estimate for these forecast combined revenue of US\$36m in Year 4, generating EBIT of US\$18m. These won't be included in our valuation until the launch date becomes clear.

## Universal Point-of-Care

UBI continues to use its ground breaking technology to access further Point-of-Care tests in a market worth over US\$3.5b, and establish a universal platform that is low cost, high performance and has broad applications. UBI has already proved feasibility for a number of immunoassay tests, such as CRP.

As part of this process, it continues to shorten the development time for further tests.

Appendix 1 - Forecasts

**Blood Glucose** – These forecasts assume the Option is not exercised:

**UBI - Forecasts**

Verio Sales	Revenue (US\$m)					EBIT (US\$m) <sup>6</sup>					Margin (%)				
	CY 11	CY 12	CY 13	CY 14	CY 15	CY 11	CY 12	CY 13	CY 14	CY 15	CY 11	CY 12	CY 13	CY 14	CY 15
Product Sales <sup>5</sup>	5.6	19.8	10.0	0.0	0.0	1.0	4.0	2.0	0.0	0.0	17.5	20.0	20.0		
Service Revenue - Strips	0.6	2.1	3.2	5.8	13.1	0.6	2.1	3.2	5.8	13.3	100	100	100	100	100
Service Revenue - R&D	2.1	3.1	0.0	0.0	0.5	1.4	2.5	0.0	0.0	0.0	67.0	80.9			
<b>Total</b>	<b>8.4</b>	<b>25.0</b>	<b>13.2</b>	<b>5.8</b>	<b>13.6</b>	<b>3.0</b>	<b>8.6</b>	<b>5.2</b>	<b>5.8</b>	<b>13.3</b>	<b>36.3</b>	<b>34.3</b>	<b>39.3</b>	<b>100.0</b>	<b>97.6</b>

Verio Sales	Revenue (US\$m)					EBIT (US\$m) <sup>6</sup>					Margin (%)				
	CY 16	CY 17	CY 18	CY 19	CY 20	CY 16	CY 17	CY 18	CY 19	CY 20	CY 16	CY 17	CY 18	CY 19	CY 20
Product Sales <sup>5</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Service Revenue - Strips	18.6	25.3	30.3	31.1	32.9	18.6	25.3	30.3	31.1	32.9	100.0	100.0	100.0	100.0	100.0
Service Revenue - R&D	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	60.0	60.0	60.0	60.0	60.0
<b>Total</b>	<b>19.1</b>	<b>25.8</b>	<b>30.8</b>	<b>31.6</b>	<b>33.4</b>	<b>18.9</b>	<b>25.6</b>	<b>30.6</b>	<b>31.4</b>	<b>33.2</b>					

Source : Industry Sources and Veritas Forecasts

- Assumes <sup>1</sup> Test Strip market comprises 85% of Total Mar <sup>3</sup> ROW Launch Q3 CY2012
- <sup>2</sup> Average Price per strip sold of \$0.55
- <sup>4</sup> Covers Europe, ROW & Australia, up to a maximum of 600m
- <sup>5</sup> Strip sales to LifeScan at 9c / strip,
- <sup>6</sup> Strip margin of 1.5c /strip

**Blood Coagulation**

Our forecasts are based on 2 different methods, generating similar revenue forecasts:

**Siemens Sales Basis**- Based on:

- Around 7 million Warfarin Patients worldwide, growing at 5% pa.
- Testing on an average 30x pa per patient.
- A UBI price of US\$1.50 to \$0.50 per strip graduated with volume (assuming average of \$1.00 per strip), against reimbursement of in the US at \$5.53 per test.
- An initial market of: 7m x 30 x US\$1.00 = US\$210m increasing to US\$295m by 2020.

Year	2013	2014	2015	2016	2017	2018	2019	2020
Market mstrips	210	221	232	243	255	268	281	295
Penetration %		0.8	2.7	5.4	8.4	12	17	21
Revenue US\$m		1.8	6.2	13.2	21.3	33.1	48.1	60.6

**Share of Market Model**

We previously used this model to forecast the Initial PT/INR revenue and EBIT. While this model factors in growth in strips of around 5%, it also recognizes that the introduction of Siemens' lower cost strips, will reduce the overall US\$ value of the market.

**PT-INR Blood Coagulation Market - Forecasts**

Country	COAG Market CY2012 <sup>1</sup>			UBI Market Share <sup>2</sup>				Revenue <sup>3</sup>				EBIT <sup>4</sup>				Margin <sup>4</sup>			
	Total US\$m	Strips US\$m	Meters US\$m	CY13 %	CY14 %	CY15 %	CY16 %	CY13 US\$m	CY14 US\$m	CY15 US\$m	CY16 US\$m	CY13 US\$m	CY14 US\$m	CY15 US\$m	CY16 US\$m	CY13 %	CY14 %	CY15 %	CY16 %
Europe <sup>5</sup>	225	191	34	0.0	1.5	3.5	7.0	0.0	1.6	3.6	7.1	0.0	0.7	1.7	3.3		45.0	47.0	47.0
USA <sup>6</sup>	325	276	49	0.0	0.0	2.0	5.0	0.0	0.0	1.4	7.7	0.0	0.0	0.7	3.7		47.5	47.5	
Other <sup>7</sup>	150	128	23		1.5	3.0	4.0	0.0	0.0	0.2	1.0	0.0	0.0	0.1	0.5		45.0	45.0	
<b>Total</b>	<b>700</b>	<b>595</b>	<b>105</b>		<b>0.8</b>	<b>2.7</b>	<b>5.4</b>	<b>0.0</b>	<b>1.6</b>	<b>5.2</b>	<b>15.9</b>	<b>0.0</b>	<b>0.7</b>	<b>2.5</b>	<b>7.5</b>		<b>45.0</b>	<b>47.1</b>	<b>47.1</b>
Milestone Payments								0.0	3.1	3.1		3.1	3.1						

Country	UBI Market Share <sup>2</sup>				Revenue <sup>3</sup>				EBIT <sup>4</sup>				Margin <sup>4</sup>			
	CY17 %	CY18 %	CY19 %	CY20 %	CY17 US\$m	CY18 US\$m	CY19 US\$m	CY20 US\$m	CY17 US\$m	CY18 US\$m	CY19 US\$m	CY20 US\$m	CY17 %	CY18 %	CY19 %	CY20 %
Europe <sup>5</sup>	11.0	15.0	20.0	22.0	10.8	14.5	18.8	20.3	5.4	7.2	9.4	10.1	50.0	50.0	50.0	50.0
USA <sup>6</sup>	9.0	13.0	17.0	20.0	13.6	19.2	24.6	28.3	6.8	9.6	12.3	14.1	50.0	50.0	50.0	50.0
Other <sup>7</sup>	3.0	7.0	13.0	19.4	2.0	4.5	8.2	11.9	0.9	2.0	3.7	5.4	45.0	45.0	45.0	45.0
<b>Total</b>	<b>8.4</b>	<b>12.4</b>	<b>17.1</b>	<b>20.5</b>	<b>26.4</b>	<b>38.2</b>	<b>51.6</b>	<b>60.4</b>	<b>13.1</b>	<b>18.9</b>	<b>25.4</b>	<b>29.6</b>	<b>49.6</b>	<b>49.4</b>	<b>49.2</b>	<b>49.0</b>
Milestone Payments																

Source: Industry Sources & Veritas Forecasts

- Assumes <sup>1</sup> Forecast market for CY2012 with Test Strips representing 85% of Market. <sup>4</sup> Assumes an average of \$1.00 per strip
- <sup>2</sup> Expected UBI Penetration
- <sup>3</sup> Partner Sales & Marketing 40% of Strips (UBI 60%), 100% of Meters
- <sup>5</sup> Margins of 50% on Test Strips after ramp up
- <sup>6</sup> Launch in Europe in Q3 CY2014
- <sup>7</sup> Launch in US in Q1 CY2015
- <sup>8</sup> Launch elsewhere in 1H CY 2015

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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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