

Universal Biosensors Inc

Q1 CY2014 Result confirms strong growth in Blood Glucose

The Q1 CY2014 results confirm a strong improvement in Blood Glucose profitability following the cessation of strip Manufacture for LifeScan, with:

- Verio strip sales of 121.3m, a 44.4% increase over Q1 CY2013 (prior to the meter recall) and a 24.7% increase over Q4 CY2013. This generated a 44.4% increase in strip service revenue to \$1.2m.
- Operating Profit from Blood Glucose to \$1.2m, a 50.6% increase over the pcp and a 101% increase over Q4 CY2014.

This growth will continue as the Verio meter increases penetration, with escalating diabetes levels, the release of new meters and further promotion.

Overall result still impacted by Development Costs

While the Pre-tax Loss fell by 25.5% over the pcp to -\$3.5m, it increased by 42.2% over Q4 CY2013, comprising:

- A sharp increase in R&D to \$4.9m, with \$4.5m devoted to development of the Blood Coagulation meters for Siemens and UBI's self-test. These are expected to fall substantially with release of the various meters.
- Net Interest charges of \$0.6m related to the US\$15m Athyrium facility and the absence of currency gains (\$1.3m in Q4).
- A partial offset from the recognition of \$2.0m in expected R&D refunds.

With Net Cash Outflow of -\$3.7m, available Cash fell to \$19.5m, more than sufficient to fund ongoing R&D.

A waiting game as the Siemens launch draws near

Although the profitability of the Blood Glucose operations is increasing, the focus remains on the pending launch of Siemens' 'Xpreca Stride' blood coagulation testing system, with the first expected to be launched in Q3 CY2014. The launch and sales ramp up of the initial and 2 other tests for Siemens will substantially boost revenue and profitability.

For its self-test, UBI has signed non-binding term sheets for distribution in 50% of its target markets of USA and Europe (especially Germany), with an expected release in mid-CY2015. The strips will sell at a premium to the professional market, a potential market of \$200m - \$300m with significantly higher margins.

No Change to Forecasts

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.

Reasons to BUY

Growth Markets – Exposure to large rapid growth Point-of-Care Healthcare sectors, estimated at US\$15b, growing at 10% pa. UBI has proven products, strong partners, and an extensive opportunity pipeline.

Industry Position – Leading edge technology and a strong IP position, backed by a strong R&D team and validated by key international healthcare groups.

Resources – A modern approved plant capable of supplying UBI's capacity requirements, backed by successful management and Board.

Strong Financial Position – Cash Flow positive and rising profit from CY2016.

Valuation – Currently trading at a 48% discount to our valuation of \$0.75 ps.

UBI.ASX

BUY

28 April 2014

Price	\$0.39
Price Target	\$0.75
Valuation method	Sum of Parts
GICS sector	Healthcare
12 Mth Price Range	\$0.29 - 0.83
Avg monthly t/o	0.4m
Market Capitalisation	\$68m
Shares on issue	175m
Options on Issue	15m
Enterprise value	\$72m
Previous rating	BUY

Year Ended Dec 31		12A	13A	14E	15E	16E
Revenue	\$m	29.6	15.1	12.3	19.6	30.0
EBIT	\$m	-9.3	-18.2	-12.1	-2.2	7.6
EBIT margin	%	-31.3	-120.9	-98.4	-11.2	25.3
NPAT	\$m	-9.1	-11.6	-7.5	-0.2	6.0
EPS	¢ ps	-5.7	-6.7	-4.3	-0.1	3.4
EPS growth	%	-38.4	17.2	-35.7	-97.2	na
Franking	%	0.0	0.0	0.0	0.0	0.0
PER	x	na	-6.9	-9.1	-330.3	11.5
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	12.6	16.0
EV/EBITDA	x	-4.8	-3.3	-5.9	-33.2	6.9
Gearing (D:E)	%	0.0	0.0	14.9	21.3	0.5
P/OCF	x	na	na	-6.7	71.7	9.1
R&D	\$m	-13.5	-15.5	-15.0	-9.0	-9.0
R&D / Revenue	%	45.5	102.6	122.0	45.9	30.0
ROA	%	-19.7	-35.2	-24.4	-5.0	15.7
ROE	%	-25.2	-33.7	-28.9	-0.9	23.8
Interest cover	x	na	na	-8.1	-1.5	4.7

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



Activities

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

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Universal Biosensors

Universal Biosensors (UBI)

Current Price: \$0.39 ps

Target Price: \$0.75 ps

FINANCIAL PERFORMANCE

Year ended 31-Dec		2011A	2012A	2013A	2014E	2015E	2016E
Sales Revenue	\$m	14.7	29.6	15.1	12.3	19.6	30.0
Cost of Goods Sold	\$m	-13.0	-18.7	-11.6	-3.0	-6.6	-7.4
Gross Operating Profit	\$m	1.7	11.0	3.4	9.3	13.0	22.6
R&D	\$m	-9.8	-13.5	-15.5	-15.0	-9.0	-9.0
Administration Costs	\$m	-7.3	-6.8	-6.2	-6.2	-6.2	-6.5
EBIT	\$m	-15.4	-9.3	-18.2	-12.1	-2.2	7.6
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	-1.4	-1.6
Pre Tax Profit	\$m	-14.7	-9.1	-11.6	-7.5	-0.2	6.0
Tax	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Reported Profit	\$m	-14.7	-9.1	-11.6	-7.5	-0.2	6.0

GROWTH

		2011A	2012A	2013A	2014E	2015E	2016E
Revenue	%	-19.2	101.7	-49.1	-18.5	59.3	53.1
COGS	%	6.0	43.3	-37.6	-74.2	120.0	12.1
Gross Operating Profit	%	-71.6	555.1	-68.6	169.7	39.8	73.8
R&D	%	0.5	37.4	14.8	-3.1	-40.0	0.0
EBIT	%	97.4	-39.7	96.5	-33.7	-81.8	-445.5
Reported Profit	%	122.3	-37.8	27.4	-35.5	-97.2	-2989.8
EPS	%	120.2	-38.4	17.2	-35.7	-97.2	-2982.8

P&L RATIOS

		2011A	2012A	2013A	2014E	2015E	2016E
Gross Operating Profit / Sales	%	11.4	37.1	22.8	75.6	66.3	75.3
EBIT / Sales	%	-104.8	-31.3	-120.9	-98.4	-11.2	25.3
Effective Tax Rate	%	0.0	0.0	0.0	0.0	0.0	0.0
Interest Cover	x	na	na	na	-8.1	-1.5	4.7
R&D/Revenue	x	66.8	45.5	102.6	122.0	45.9	30.0
Working Cap/Revenue		2.5	21.0	-13.3	8.2	5.6	0.2

PER SHARE

		2011A	2012A	2013A	2014E	2015E	2016E
Issued Shares (Year End)	m	159.0	174.0	175.6	174.9	175.3	175.4
Issued Shares (Wt Avg)	m	159.0	160.4	174.4	174.9	174.9	175.3
EPS	¢ps	-9.2	-5.7	-6.7	-4.3	-0.1	3.4
Operating Cash Flow ps	¢ps	-4.5	-2.1	-9.5	-5.8	0.5	4.3
Free Cash Flow	¢ps	-5.2	-2.5	-9.6	-6.4	-0.9	2.6
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	-9.1	-330.3	11.5
Enterprise Value / EBITDA	x	-3.0	-4.8	-3.3	-5.9	-33.2	6.9
Enterprise Value / Profit	x	-3.2	-4.8	-5.2	-9.5	-353.8	8.8
Cash Flow ratio	x	-16.7	-44.0	-4.8	-6.7	71.7	9.1
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
Sales Revenue							
Product Sales	\$m	12.1	19.4	10.2	1.3	3.5	6.0
Service	\$m	2.6	6.0	4.9	7.9	13.0	23.0
Milestones	\$m	0.0	4.2	0.0	3.1	3.1	1.0
EBIT							
Product Sales	\$m	-0.2	1.4	0.7	-0.7	1.5	3.1
Service	\$m	2.1	4.7	2.9	7.1	12.4	22.5
R&D	\$m	-9.8	-13.5	-15.5	-15.0	-9.0	-9.0
Milestones	\$m	0.0	4.2	0.0	3.1	3.1	1.0
Corporate	\$m	-7.3	-6.8	-6.2	-5.3	-5.5	-7.5
EBIT Growth							
Product Sales	%	na	-660.0	-48.5	-198.3	-314.3	106.7
Service	%	-56.7	121.1	-37.8	141.3	74.6	81.5
R&D	%	51.4	37.4	14.8	0.0	-40.0	0.0
Corporate	%	1.2	-6.6	-8.7	-14.5	3.8	36.4
EBIT Margin							
Product Sales	%	0.0	7.1	7.0	-53.8	42.9	51.7
Service	%	81.2	78.2	59.8	89.9	95.4	97.8

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

CASH FLOW

Year ended 31-Dec		2011A	2012A	2013A	2014E	2015E	2016E
Operating EBITDA	\$m	1.9	9.8	1.7	3.1	6.8	16.1
Net Interest Received/Paid	\$m	0.7	0.4	0.5	-1.8	-1.6	-1.6
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	-1.9
Other (inc R&D Refund)	\$m	0.8	-4.4	-0.8	6.2	5.7	3.4
Operating Cash Flow	\$m	2.7	10.2	-1.1	4.8	10.0	16.1
R&D	\$m	-9.8	-13.5	-15.5	-15.0	-9.0	-9.0
Capex	\$m	-1.1	-0.7	-0.2	-1.0	-2.5	-3.0
Free Cash Flow	\$m	-8.3	-4.0	-16.8	-11.2	-1.5	4.1
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	0.1	0.0
Debt	\$m	0.0	0.0	16.0	0.1	0.0	0.0
Change in Net Cash	\$m	-8.2	8.6	-0.4	-11.0	-1.4	4.1

BALANCE SHEET

		2011A	2012A	2013A	2014E	2015E	2016E
Cash	\$m	15.1	23.6	23.7	12.7	11.3	15.8
Receivables	\$m	4.9	2.3	2.2	2.5	3.5	5.4
Inventory	\$m	3.6	3.6	0.0	1.0	3.0	4.6
Other Current Assets	\$m	1.0	0.9	9.9	8.5	5.0	1.5
Current Assets	\$m	24.6	30.5	35.8	24.7	22.8	27.3
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
Non Current Assets	\$m	20.6	18.6	18.8	19.8	21.3	25.3
Total Assets	\$m	45.2	49.1	54.6	44.5	44.1	52.6
Payables	\$m	2.7	4.5	3.3	2.0	3.0	4.6
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
Current Liabilities	\$m	9.1	6.3	5.4	4.5	6.5	10.1
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	1.8	-0.5	-1.6
Non Current Liabilities	\$m	3.2	3.4	19.5	17.8	15.5	14.4
Total Liabilities	\$m	12.3	9.7	24.9	22.3	22.0	24.5
Shareholder Funds	\$m	33.0	39.4	29.7	22.2	22.1	28.1

BALANCE SHEET RATIOS

		2011A	2012A	2013A	2014E	2015E	2016E
Receivables turn	x	3.5	8.3	6.8	5.3	6.5	6.8
Inventory turn	x	3.8	5.2	6.5	6.0	3.3	1.9
Net Debt	\$m	0.0	0.0	0.0	3.3	4.7	0.2
Current Ratio (CA:CL)	x	2.7	4.8	6.6	5.5	3.5	2.7
Net Tangible Assets	¢ps	20.7	22.6	16.9	12.7	12.6	16.0
Cash	¢ps	9.5	13.6	4.5	0.0	0.0	0.0
Return On Assets	%	-31.1	-19.7	-35.2	-24.4	-5.0	15.7
Return on Equity	%	-36.6	-25.2	-33.7	-28.9	-0.9	23.8

VALUATION

Valuation Method	\$	Premium(+)/Discount(-) %
DCF	1.11	-64.7
Sum of the Parts	0.75	-48.0
Price Target	0.75	-48.0
Current Price	0.39	
Market Capitalisation	\$68.2m	Enterprise Value: \$71.5m

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
Top 20 (16/3/2013)	m	121.4	69%

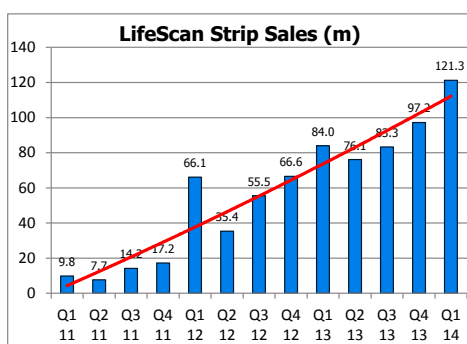
DIRECTORS

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

Q1CY2014 Confirms strong recovery in Strip Sales

Profit & Loss	CY2013								CY2014	
	Q1	Ch	Q2	Ch	Q3	Ch	Q4	Ch	Q1	Ch
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
Blood Glucose										
Products Revenue	3.7	-20.7	3.5	-27.0	1.4	-72.9	1.6	-66.9	0.0	-100.0
Services Revenue - Strips	0.8	27.1	0.8	115.0	0.8	49.9	1.0	46.0	1.2	44.4
Total Revenue - Blood Glucose	4.6	-28.4	4.2	-31.4	2.2	-66.2	2.5	-54.2	1.2	-73.5
Cost of Goods Sold	-3.8	-25.6	-3.8	-19.1	-2.0	-55.9	-2.0	-55.0	0.0	-99.6
Operating Profit - Blood Glucose	0.8	-39.2	0.5	-69.5	0.2	-88.7	0.6	-51.3	1.2	50.6
Operating Margin (%)	17.3		10.8		10.6		22.3		98.7	
Add Siemens - Milestone Payment	0.0		0.0		0.0		0.0		0.0	
- Other	0.2		0.6		0.3		0.2		0.1	
Total Operating Profit	1.0	-22.2	1.0	-72.5	0.5	-87.5	0.8	-59.1	1.5	44.7
less - Research and Development	-4.5	96.8	-3.4	10.6	-3.9	3.5	-3.7	-15.1	-4.9	10.3
- Corporate Costs	-1.3	-11.9	-1.5	-6.1	-1.7	4.9	-2.0	-5.5	-1.4	5.8
Plus - R&D Re-imbursement					4.3		1.2		2.0	
EBIT	-4.7		-3.9		-0.8		-3.7		-2.9	
Interest and Other	0.1		1.6		4.4		1.3		-0.6	
Pre-Tax Profit	-4.6		-2.3		3.6		-2.4		-3.5	-25.5
Operating Cash Flow	-3.9		-5.6		-3.5		-6.4		-3.4	-14.5
Net Cash Flow	-3.4		-2.8		-3.8		9.5		-3.7	8.9
Available Cash	20.2		18.1		14.7		23.7		19.5	

Source: UBI & Veritas



Summary

Strip Service Fees - Increased by 44% on the pcp (the last before the recall of meters) and 25% on Q4 CY2013. This follows increases of 46% and 49% over the previous 2 quarters and demonstrates that the growth in penetration of Verio is back to the strong levels pre-recall.

With increasing strip service fees and the absence of losses on strip production, the profit from Blood Glucose increased by 50% over the pcp and 100% over Q4 CY2014.

R&D - Of the \$4.9m of R&D Expense, \$4.5m related to development of the Siemens Blood Coagulation and patient self-test systems with the first due to be released in Q3 CY2014. The R&D expenses will fall substantially as development of the Siemens systems is completed.

UBI also recognised expected cash R&D refunds of \$2.0m, reflecting around 45% of eligible R&D expenditure, to be received in CY2015.

Corporate Costs - Fell on the cessation of strip manufacture, with related costs taken in Q4 CY2014.

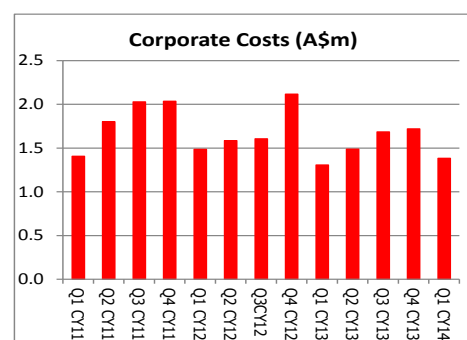
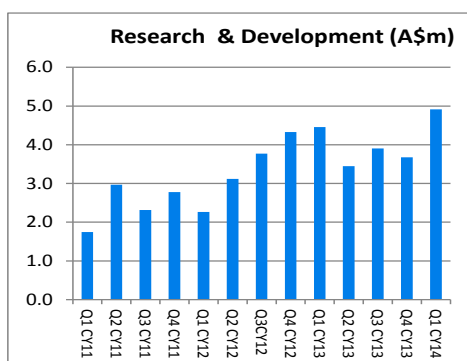
Interest & Other - The \$1.9m turnaround from Q4 CY2013 and the \$5.0m turnaround from Q3 CY2013 represent:

- Interest and outgoings related to the US\$15m Athyrium facility, accessed in Q4 CY2014.
- Currency adjustments of \$1.9m and \$4.3m in Q4 and Q3 CY2013.

Balance Sheet - While Net Cash fell from 11.6¢ ps to 2.1¢ ps over the pcp, available cash was relatively unchanged at \$19.5m, buoyed by a drawdown of the US\$15m from the Athyrium facility in Q4 CY2013.

Cash Flow - Operating Cash Outflow fell from \$3.9m to \$3.4m, with higher R&D, offset by lower administration costs, strip service fees of \$0.97m and strip product sales in Q4 CY2013. While UBI has transferred \$1.9m in inventory to LifeScan with cessation of manufacture, it only received \$0.1m in Q1, with the balance due in Q2.

Cash Flow over the Balance of this year will also be boosted by receipt of R&D refunds and milestone payments.



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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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