

Universal Biosensors Inc

Growth Strategy on track, despite meter recall

While the 1H CY2013 Revenue, Net Loss and Cash Flow Reports showed a weaker result, the underlying trend remains positive, with:

- UBI continued to benefit from strong 'period on period' strip service revenue growth, despite the impact of the meter recall. Revenue grew in Q2 CY2013 and 1H CY2013 by 115% and 58%. While total strip sales fell in April and May, they recovered in June to record monthly levels.
- While strip production sales fell as a result of the recall and LifeScan's own escalating production, it remained profitable at an operational profit level. Margins increased in Q2 CY2013 to 7% with lower unit production costs and increased efficiency.
- R&D increased by 47% to \$7.9m with the increased development on the Siemens blood coagulation test strips. However, R&D has peaked in Q1 CY2013, with a decline in Q2 CY2013 of over \$1m. This is expected to decline further in H2 CY2013 and CY2014, as the Siemens products are launched.
- The absence of milestone payments was partially offset by the reimbursement of meter development work for Siemens. With the launch of the Siemens' products, further milestone payments and revenue recognition is expected of \$2.1m in H2 CY2013 and \$5.2m in CY2014.
- The Balance Sheet remains strong, with Net Cash of \$18.1m (10.5¢ ps) and NTA of \$0.18 ps, boosted by the \$12.5m equity issue during Q4 CY2012.

Improving Operating Base

Operating Profit will improve through H2 CY2013 and CY2014, with:

- Continued growth in Blood Glucose Service Revenue, with market expansion and increased substitution of the Verio systems. While the contribution from product sales will be uncertain, the contribution from the service strip revenue will heavily outweigh product sales, reaching over \$40m by CY2018.
- Continued milestone payments from Siemens, as well as initial revenue from the launch of the first Blood Coagulation testing system in H2 CY2013.

UBI will move to overall Cash Flow positive and Net Profit positions over the next 2 years, outweighing the lower levels of R&D costs. However, we now have a more cautious view on product sales to LifeScan and LifeScan's strip sales in 2H CY2013 and CY2014, due to low visibility on forward sales following the recall.

Growth will accelerate in CY2015 onwards, driven by the non-blood glucose testing systems, as the blood coagulation tests strips gains penetration and opportunities in Immunoassay and Molecular Diagnosis tests are realised.

Reasons to BUY

Growth Markets – Exposure to large rapid growth Point-of-Care Healthcare sectors, estimated at US\$15b, growing at 10% pa, with a strong position in Blood Glucose, the imminent launch in Blood Coagulation and 3 development projects.

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 – Expected to be Cash Flow positive and profitable towards CY2014, supported by a strong Balance Sheet.

Valuation – Currently trading at a 43% discount to our valuation of \$1.25 ps.

UBI.ASX

BUY

6 August 2013

Price	\$0.70
Price Target	\$1.25
Valuation method	Sum of Parts
GICS sector	Healthcare
12 Mth Price Range	\$0.00 - 1.15
Avg monthly t/o	3.0m
Market Capitalisation	\$123m
Shares on issue	175m
Options on Issue	10m
Enterprise value	\$109m
Previous rating	BUY

Year Ended Dec 30		11A	12A	13E	14E	15E
Revenue	\$m	14.7	29.6	27.3	45.8	60.3
EBITDA	\$m	-15.4	-9.3	-8.6	7.4	16.5
EBITDA margin	%	11.4	37.1	30.3	48.9	50.3
EBIT	\$m	-15.4	-9.3	-11.5	4.4	13.4
EBIT margin	%	-104.8	-31.3	-42.2	9.7	22.3
NPAT	\$m	-14.7	-9.1	-10.9	5.1	14.2
EPS growth	%	120.2	na	10.1	na	177.6
DPS	¢ ps	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0
PER	x	na	na	-11.2	24.0	8.6
Dividend yield	%	0.0	0.0	0.0	0.0	0.0
NTA/share	¢ ps	20.7	22.6	16.5	19.4	27.6
EV/EBITDA	x	-6.2	na	-12.7	14.2	5.6
Gearing (D:E)	%	0.0	0.0	0.0	0.0	0.0
P/OCF	x	-16.7	na	na	20.7	8.0
ROA	%	-31.1	-19.7	-25.5	10.2	25.3
ROE	%	-36.6	-25.2	-31.9	16.3	34.5
Interest cover	x	na	na	na	na	na

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 (UBI)

Current Price: \$0.71 ps Target Price: \$1.25 ps

Universal Biosensors

FINANCIAL PERFORMANCE							
Year ended 31-Dec		2010A	2011A	2012A	2013E	2014E	2015E
Sales Revenue	\$ m	18.2	14.7	29.6	27.3	45.8	60.3
Cost of Goods Sold	\$ m	-12.3	-13.0	-18.7	-19.0	-23.4	-30.0
Gross Operating Profit	\$ m	5.9	1.7	11.0	8.3	22.4	30.3
R&D	\$ m	-6.5	-9.8	-13.5	-13.5	-11.0	-10.0
Administration Costs	\$ m	-4.2	-7.3	-6.8	-5.5	-6.0	-6.5
Other	\$ m	0.0	0.0	0.3	2.1	2.0	2.7
EBIT	\$ m	-7.8	-15.4	-9.3	-11.5	4.4	13.4
Interest	\$ m	12	0.7	0.2	0.6	0.7	10
Pre Tax Profit	\$ m	-6.6	-14.7	-9.1	-10.9	5.1	14.2
Tax	\$ m	0.0	0.0	0.0	0.0	0.0	0.0
Reported Profit	\$ m	-6.6	-14.7	-9.1	-10.9	5.1	14.2

GROWTH							
		2010A	2011A	2012A	2013E	2014E	2015E
Revenue	%	320.8	-19.2	1017	-8.1	68.2	317
COGS	%	1857.7	6.0	43.3	1.8	23.2	28.2
Gross Operating Profit	%	-72.5	-71.6	555.1	-24.9	17.18	35.3
R&D	%	-56.5	51.4	37.4	0.1	-18.5	-9.1
EBIT	%	na	97.4	-39.7	23.9	-138.5	203.4
Reported Profit	%	na	122.3	-37.8	19.4	-147.0	177.6
EPS	%	na	120.2	-38.4	10.1	-146.6	177.6

P&L RATIOS							
		2010A	2011A	2012A	2013E	2014E	2015E
Gross Operating Profit / Sales	%	32.4	11.4	37.1	30.3	48.9	50.3
EBIT / Sales	%	-42.9	-104.8	-31.3	-42.2	9.7	22.3
Effective Tax Rate	%	0.0	0.0	0.0	0.0	0.0	0.0
Interest Cover	x	na	na	na	na	na	na
R&D/Revenue	x	35.7	66.8	45.5	49.5	24.0	16.6
Working Cap/Revenue		3.6	2.5	21.0	9.7	9.2	8.6

Per SHARE							
		2010A	2011A	2012A	2013E	2014E	2015E
Issued Shares (Year End)	m	158.8	159.0	174.0	175.5	175.5	175.9
Issued Shares (Wt Avg)	m	157.6	159.0	160.4	173.9	175.5	175.5
EPS	eps	-4.2	-9.2	-5.7	-6.3	2.9	8.1
Operating Cash Flow ps	eps	-4.1	-4.5	-2.1	-4.8	3.4	8.7
Free Cash Flow	eps	-5.5	-5.2	-2.5	-6.0	2.2	7.3
DPS	eps	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							
		2010A	2011A	2012A	2013E	2014E	2015E
PE Ratio	x	-36.2	-8.1	-15.9	-11.2	24.1	8.7
Enterprise Value / EBITDA	x	-18.4	-6.3	-10.7	-12.8	14.3	5.6
Enterprise Value / Profit	x	-13.4	-6.6	-10.8	-10.1	20.7	6.6
Cash Flow ratio	x	-37.3	-16.7	-44.0	-14.6	20.9	8.1
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0	0.0

SEGMENTS							
		2010A	2011A	2012A	2013E	2014E	2015E
Sales Revenue							
Product Sales	\$ m	118	12.1	19.4	18.5	25.8	35.9
Service	\$ m	6.4	2.6	6.0	6.3	14.5	23.4
Milestones	\$ m	0.0	0.0	4.2	2.5	5.5	10
EBIT							
Product Sales	\$ m	10	-0.2	14	14	3.6	7.9
Service	\$ m	4.9	2.1	4.7	5.1	12.4	23.0
R&D	\$ m	-6.5	-9.8	-13.5	-13.5	-10.0	-10.0
Milestones	\$ m	0.0	0.0	4.2	2.5	5.5	10
Corporate	\$ m	-7.2	-7.3	-6.8	-7.0	-7.0	-8.5
EBIT Growth							
Product Sales	%	0.0	na	-660.0	2.5	151.6	121.7
Service	%	22.9	-56.7	121.1	7.4	143.4	86.3
R&D	%	-56.5	51.4	37.4	0.1	-25.9	0.0
Corporate	%	na	12	-6.6	3.1	0.0	21.4
EBIT Margin							
Product Sales	%	0.0	0.0	7.1	7.7	13.8	22.0
Service	%	76.9	81.2	78.2	80.6	85.3	98.4

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

CASH FLOW							
Year ended 31-Dec		2010A	2011A	2012A	2013E	2014E	2015E
Operating EBITDA	\$ m	-1.1	1.9	9.8	4.9	18.4	26.5
Net Interest Received/Paid	\$ m	12	0.7	0.2	0.6	0.7	0.8
Tax Paid	\$ m	0.0	0.0	0.0	0.0	0.0	0.0
Change Working Capital	\$ m	-4.7	-0.8	4.4	-1.4	-2.2	-2.0
Other	\$ m	4.7	0.8	-4.2	1.0	0.0	0.0
Operating Cash Flow	\$ m	0.1	2.7	10.2	5.1	16.9	25.3
R&D	\$ m	-6.5	-9.8	-13.5	-13.5	-11.0	-10.0
Capex	\$ m	-2.3	-1.1	-0.7	-2.0	-2.0	-2.5
Free Cash Flow	\$ m	-8.7	-8.3	-4.0	-10.4	3.9	12.8
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	0.7	0.1	12.5	0.5	0.0	0.2
Change in Net Cash	\$ m	-8.0	-8.2	8.6	-9.9	3.9	13.0

BALANCE SHEET							
		2010A	2011A	2012A	2013E	2014E	2015E
Cash	\$ m	23.3	15.1	23.6	13.7	17.6	30.6
Receivables	\$ m	3.6	4.9	2.3	3.0	3.5	5.0
Inventory	\$ m	3.2	3.6	3.6	4.5	5.0	6.0
Other Current Assets	\$ m	0.3	1.0	0.9	1.0	1.1	1.2
Current Assets	\$ m	30.4	24.6	30.5	22.2	27.2	42.8
Property, Plant & Equipment	\$ m	23.1	20.3	18.3	18.8	18.2	17.8
Intangibles	\$ m	0.0	0.0	0.0	0.0	0.0	0.0
Other NC Assets	\$ m	0.3	0.3	0.3	0.0	0.0	0.0
Non Current Assets	\$ m	23.4	20.6	18.6	18.8	18.2	17.8
Total Assets	\$ m	53.8	45.2	49.1	41.0	45.4	60.6
Payables	\$ m	18	2.7	4.5	4.7	3.5	4.0
Current Debt	\$ m	0.0	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	\$ m	2.7	6.4	18	4.5	5.0	5.3
Current Liabilities	\$ m	4.5	9.1	6.3	9.2	8.5	9.3
Non Current Debt	\$ m	0.0	0.0	0.0	0.0	0.0	0.0
Other NC Liabilities	\$ m	2.2	3.2	3.4	2.9	2.9	2.9
Non Current Liabilities	\$ m	2.2	3.2	3.4	2.9	2.9	2.9
Total Liabilities	\$ m	6.6	12.3	9.7	12.1	11.4	12.2
Shareholder Funds	\$ m	47.2	33.0	39.4	29.0	34.1	48.5

BALANCE SHEET RATIOS							
		2010A	2011A	2012A	2013E	2014E	2015E
Receivables turn	x	9.1	3.5	8.3	10.3	14.1	14.2
Inventory turn	x	7.0	3.8	5.2	4.7	4.9	5.5
Net Debt	\$ m	0.0	0.0	0.0	0.0	0.0	0.0
Current Ratio (CA:CL)	x	6.8	2.7	4.8	2.4	3.2	4.6
Net Assets	eps	29.7	20.7	22.6	16.5	19.4	27.6
Net Tangible Assets	eps	29.7	20.7	22.6	16.5	19.4	27.6
Cash	eps	14.7	9.5	13.6	7.8	10.1	17.4
Return On Assets	%	-14.2	-31.1	-19.7	-25.5	10.2	25.3
Return on Equity	%	-13.4	-36.6	-25.2	-31.9	16.3	34.5

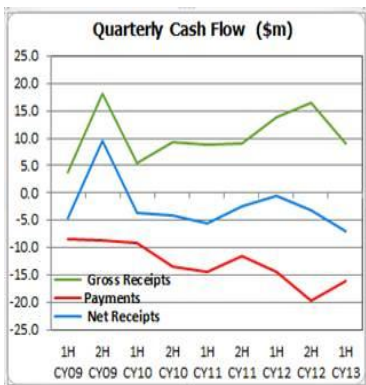
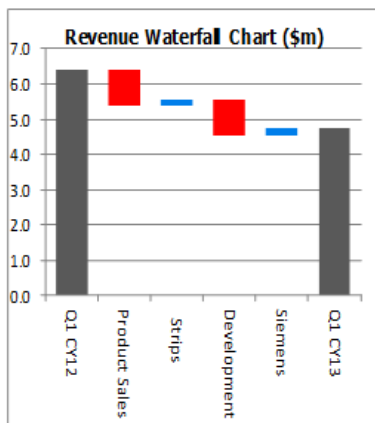
VALUATION		
Valuation Method	\$	Premium(+)/Discount(-) %
DCF	129	-45.3
Sum of the Parts	128	-44.9
Price Target	125	-43.6
Current Price	0.71	
Market Capitalisation	\$ 123.7m	Enterprise Value \$ 110.0m

MAJOR SHAREHOLDERS			
Principals Cornerstone	m	14%	Related to Directors
CM Capital Investments	m	10%	Healthcare Fund
PFM Cornerstone	m	8%	Related to Directors
Australian Executor Trustees	m	6%	Aust Institution
Australian Ethical	m	5%	Aust Institution
Top 20 (16/3/2012)	m	67%	

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

The Interim Result was impacted in Q2 by the meter recall

Profit & Loss	CY2011			CY2012						CY2013	
	1H \$m	2H \$m	CY \$m	1H \$m	Ch %	2H \$m	Ch %	CY \$m	Ch %	1H \$m	Ch %
Blood Glucose - Products	5.6	6.5	12.1	9.5	69.3	9.9	53.0	19.4	60.6	7.2	-23.9
- Strips	0.2	0.3	0.5	1.0	480.0	1.2	289.0	2.2	357.3	1.6	57.7
- Development	0.5	1.6	2.1	2.1	278.5	1.0	-35.5	3.1	44.6	0.0	-100.0
Total Revenue - Blood Glucose	6.3	8.4	14.7	12.5	98.8	12.2	45.0	24.7	68.1	8.8	-29.8
Cost of Goods Sold	-6.4	-6.6	-13.0	-9.7	52.5	-8.9	34.4	-18.7	43.3	-7.6	-22.5
Blood Glucose - Operating Profit	-0.1	1.8	1.7	2.8	na	3.3	84.7	6.0	260.5	1.2	-55.3
Operating Margin (%)	-1.3	21.0	11.4	22.3		26.7		24.5		14.2	
Add Siemens - Milestone Payments	0.0	0.0	0.0	2.2		2.1		4.2		0.0	
- Other Revenue	0.0	0.0	0.0	0.0		0.7		0.7		0.8	
Total Operating Profit	-0.1	1.8	1.7	5.0		6.0		11.0	554.3	2.03	-59.2
less - Research and Development	-4.7	-5.1	-9.8	-5.4	14.1	-8.1	58.9	-13.5	37.4	-7.9	46.9
- Corporate Costs	-3.6	-3.7	-7.3	-3.1	-14.8	-3.7	14	-6.8	-6.6	-2.8	-8.9
EBIT	-8.4	-7.0	-15.4	-3.5	na	-5.8		-9.3	na	-8.7	149.2
Interest and Other	0.4	0.3	0.7	0.1		0.1		0.2		1.0	1350.4
Pre-Tax Profit	-8.0	-6.7	-14.7	-3.4		-5.7		-9.1		-7.7	125.2
R&D:Revenue (%)	74.8	60.8	66.8	42.9		66.6		54.6		89.8	
Corporate Costs:Revenue (%)	57.1	43.8	49.5	24.5		30.6		27.5		31.8	
Cash Flow											
Receipts	8.8	9.0	17.8	13.9	57.1	16.4	82.9	30.2	70.1	9.0	-35.1
Payments	-14.3	-11.4	-25.7	-14.5	1.1	-19.5	71.5	-33.9	32.3	-16.0	10.6
Net Receipts	-5.5	-2.4	-7.9	-0.6		-3.1	0.0	-3.7		-7.0	
Net Cash Flow	-5.8	-8.2	-33.5	-0.4		8.9		8.6		-6.2	
Net Cash	17.5	15.1	-41.4	14.7		23.6		38.4		18.1	



Summary

The growth strategy remains on track, despite the Interim Result being below a strong pcp, impacted by a changing revenue mix and the Verio meter recall in late March 2013. Key features were:

Revenue – The Revenue fall of 35% (-41.6% Q2 CY2013) was a function of:

- The recall of the Verio meter by LifeScan in March 2013, which along with a ramp-up of LifeScan’s own production, contributed to a 23.9% reduction in product sales of strips to LifeScan. This also limited strip sales by LifeScan, temporarily impacting strip service revenue growth.
- Completion of a US\$4.5m Development Project for LifeScan in CY2012, although partly offset by a \$0.8m contribution from development work on meters for Siemens.

COGS – Underlying COGS fell by more than product sales (after adjusting for Siemens reimbursement), with reduced unit costs from increased efficiency in sourcing and production.

Gross Operating Profit – Fell by 55.3% to \$1.2m, comprising a \$0.2m increase in profit on product sales, offset by a \$0.9m fall in services profit to \$1.7m, mostly due to the completion of the development project for LifeScan, and the absence of Milestone payments (\$2.2m in 1H CY2012).

R&D –Increased by 47%, with a ramp-up of development costs for the Siemen’s blood coagulation strips and inclusion of development costs for the Siemens meter.

Corporate Costs- Fell by 8.9% with a reduction in overhead costs and lower share based payments.

Interest and Other – Gain of \$0.9m was from the currency impact of lower A\$:US\$ exchange rates.

Cash Flow - Net Cash Outflow increased by \$5.8m to \$6.2m, with the increased payments and reduced receipts. The outflow was lower in Q2, with increased receipts and reduced R&D and production costs. Adjusting for R&D Net Cash Flow was positive at \$0.5m.

Balance Sheet – With the cash outflow, cash levels fell to \$18.1m (10.4¢ ps).

Siemens – Siemens continues to develop the Xprecia Stride blood coagulation meter for a PT/INR test ahead of an expected launch in Q4 CY13, with 2 further tests expected to be launched in CY14.

Blood Glucose operations building profitability

Blood Glucose operations remain profitable despite recall

The Blood Glucose operations remained profitable on a standalone basis with an operating profit of \$1.9m and positive on an operating cash flow basis at \$0.5m.

Product Sales	1H 12	1H 13	% Ck
Sales	9.5	7.2	-23.9
COGS	-9.3	-6.9	-25.7
Operating Profit	0.1	0.3	
Margin (%)	1.5	3.9	

Product Sales – The fall in product sales to LifeScan of 23.9% (-27.3% v H2 CY2012) reflects:

- Rising production at LifeScan’s Inverness plant, which initially commenced production in CY2012.
- The Meter recall in late March 2013, resulted in a reduction in strip inventory within the system and short term demand for strips.

Service Revenue (\$ m)	1H 12	1H 13	% Ck
Service Fee - Strips	10	16	57.7
Service Fees LifeScan	2.1	0.0	
Total Service Fees	2.1	1.6	-22.7
COGS	-0.7	-0.1	
Operating Profit	1.4	1.6	10.6
Margin (%)	67.7	96.9	

While UBI moved to an ‘interim pricing’ basis in Q2 CY2013, it improved margins, a result of lower unit costs, due to increased efficiency in material sourcing and manufacturings. We expect margins to continue to improve, despite the prospect of some quarters of interim pricing over the next 12 months.

While the volume outlook for product sales to LifeScan remains unclear, with the rapid ramp up of LifeScan’s own facility at Inverness, the increasing service fee does signal the success of the technology transfer and the commitment to Verio.

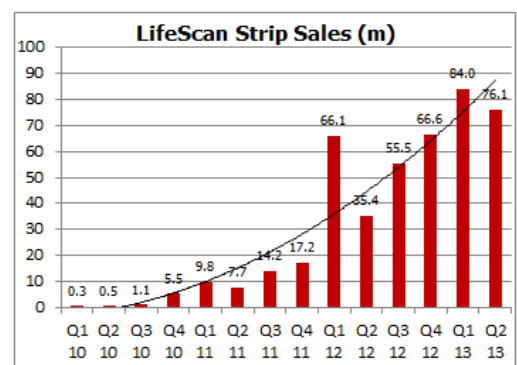
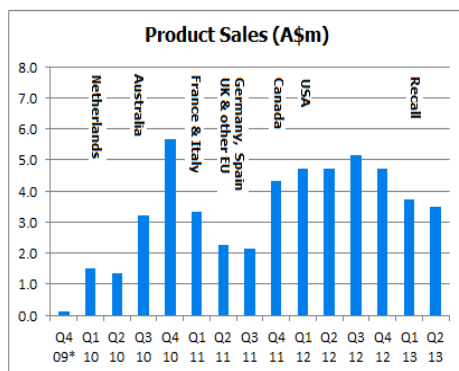
Service Fees – The 57.7% increase in service strip revenue to \$1.6m comprised:

- Growth of 27.1% in Q1 CY2013 to \$0.84m was against an abnormally strong pcp, when LifeScan was filling the pipeline ahead of a launch in the US.
- A 115% increase in Q2 CY2013 to \$0.76m, although 9% below Q1, limited by lower sales by LifeScan in April and May, due to a meter recall in late March. Sales recovered to record levels in June, with the recovery continuing into July.

Adjusting for the filling of the inventory pipeline in 1H FY2012, revenue was up over 100%.

The strong increase in margins to 96.9% was due to the higher proportion of strip service fees, with a lower proportion of Development Revenue. As these fees are volume based they have-not been impacted by lower prices, competitive pressures and softness in the US retail market.

Service Revenue is expected to continue to grow strongly, heavily outweighing the product profit contribution.



Development Revenue - Fell from \$3.1m to zero with the completion of the US \$4.5m development project in for LifeScan in CY2012.

Siemens revenue contribution lower

Siemens’ revenue contribution fell by \$1.4m to \$0.8m, comprising:

- The absence of \$2.2m from milestone payments.
- A partial offset from \$0.8m in reimbursement on contract development work for Siemens. This is recognized as revenue, with the development costs included in R&D.

With the launch of the Siemens meters and strips, we expect Milestone payments and revenue recognition of \$2.1m in H2 CY2013 and \$5.2m in CY2014.

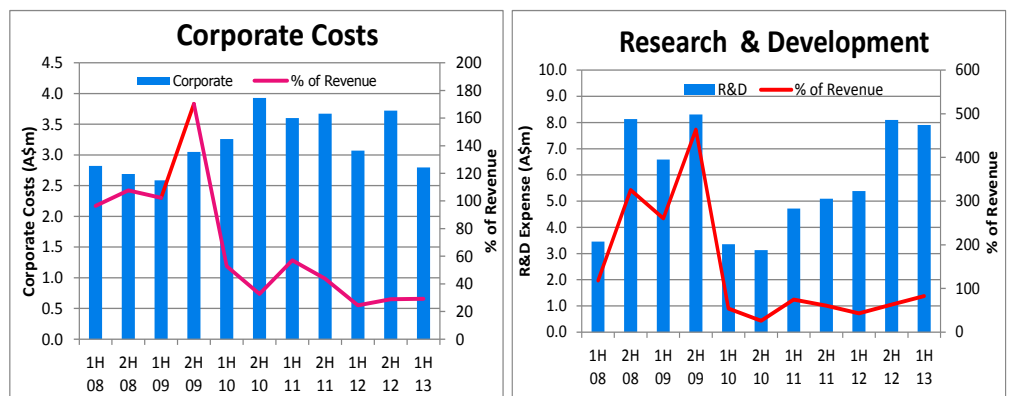
R&D key to launch of Blood Coagulation Products

While heavy R&D is necessary for PT/INR launch, it significantly impacts on short term profitability

Research & Development – R&D increased by 46.9% to \$7.9m, around 82.5% of Revenue, with over 83% related to blood coagulation. These were mainly across developing engineering solutions, with around 50% paid to outside engineering consultants.

R&D did decline by \$1m in the Q2 CY2013 to \$3.4m, after reaching a recent peak of \$4.5m in Q1 CY2013. R&D expenses of \$5.1m in H1 CY2012 was partly offset by Milestone related payments of \$2.2m.

This increase was expected, based on the increase in CY2009 following the agreement with LifeScan and before the launch of the Verio. We expect R&D to fall in subsequent quarters as the various tests are launched. The PT/INR test is expected to be launched in H2 CY2013 and the two additional tests to be launched in CY2014.

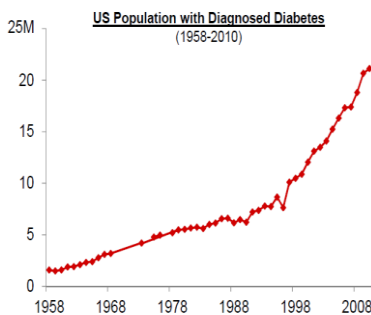


Corporate costs under control

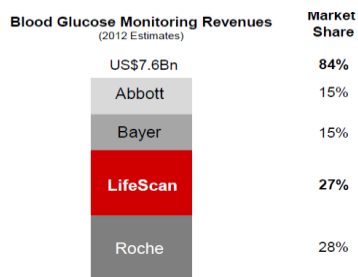
Corporate Costs – Administration and overhead expenses fell by 8.9% to \$2.8m with a reduction in overhead costs and a \$0.2m reduction in share based payments.

Blood Glucose to generate rapidly escalating Cash Flow

Blood Glucose will continue as the short term driver of Revenue and Profit growth, through:



Source: Centre for Disease Control & Prevention - National Diabetes Surveillance System



Source: Company Financial Reports, analyst estimates, management estimates

- Service Revenue of US1.0¢ per strip from LifeScan’s strip sales, with:
 - Over 95% of LifeScan’s markets are now covered. This will increase further with the launch of Verio in Japan and China during H2 CY2013 and South America in CY2014.
 - Continued growth in the blood glucose testing market of around 5% pa, although volume growth in strips is considerably higher at around 10%. LifeScan estimates around 500m people globally will have diabetes by 2020.
 - The progressive substitution of Verio into LifeScan’s customer base covering over 4.5bn strips pa. Based on Q1 CY2013 sales of 84m strips (336m pa), the current penetration is around 7.5%. Until Q2 CY2013, actual sales of Verio strips has roughly tracked our expectations, based on prior launches.
- The potential for LifeScan to increase market share above the current 27%. LifeScan has lost market share recently, with its Ultra range (now 12 years old) suffering volume falls to other new systems and generic strip sales, greater than the Verio take-up. LifeScan is actively marketing Verio to recover market share, based on its accuracy and features.
- Continued strip sales to LifeScan, despite a ramp-up in manufacturing from LifeScans’s own plant. We expect sales to LifeScan to recover with ongoing sales and industry growth, although there is no forward visibility.
- Further development work for LifeScan and a possible income stream if LifeScan continues with the novel glucose testing product.

Launch of Blood Coagulation the next major Profit Driver

PT/INR Segments:	Hospital POC	Ambulatory	Patient Self-Testing
Market	• Established	• Large & fragmented	• Emerging
Growth (CAGR)	• 5-7%	• 13%	• >20%
Leading PT Products	• ISTAT • Hemochron	• CoaguChek	• CoaguChek
Reimbursement	• \$3-5/test	• \$3-5/test	• \$5-30/test
End Users	• Professional	• Professional	• Patient (physician supervised)
Examples of Leading Channel Players	• Abbott • Siemens • Trinity Biotech • Becton Dickinson • Danaher • bioMerieux • Ortho	• Roche • Siemens • Danaher • Alere • Arkray • Instrumentation Lab • Becton Dickinson	• Roche • Alere • Philips • Home health care

UBI and Siemens
In discussions with other potential partners

At over US\$1.1b, the blood coagulation test market is the second largest segment of the US\$15.5b Point of Care Diagnostic market, growing at a compound growth rate of 8%, as a result of:

- An increasing and aging population using warfarin, with over 7m users.
- An increasing testing regime, with the benefits of regular testing, helped by an increase in US Medicare re-imburement, now at \$5.53 per test.

Within the blood coagulation sector, the PT/INR test is the largest, around 80% (US\$800m) of the total, with the target Hospital/Ambulatory markets around \$570m.

We expect Siemens to launch the PT-INR test in Q4 CY2013, initially in Europe, where it can self-certify and has a strong competitive position. We would expect a US launch later in early 2014, following FDA approval. With technical feasibility of a further 2 Blood Coagulation tests completed CY2012, these will be launched in CY2014.

It has recently showcased the new meter (see left) at the 20th European Congress of Clinical Chemistry and Laboratory Medicine in Milan, Italy.

Based on a testing regime of once every 2 weeks and earnings per strip of \$1.0 per strip, UBI estimate the total market at \$182m. While Roche dominate the ambulatory and self-testing segments, with a market share of over 60%, we expect Siemens to obtain a market share of around 20% by CY2019.

As the tests are developed and launched, we expect a further 4 milestone payments of US\$1.5m each, as well as the recognition as revenue of the remaining US\$1.7m from the \$3.0m initial technology access fee received in September 2011.

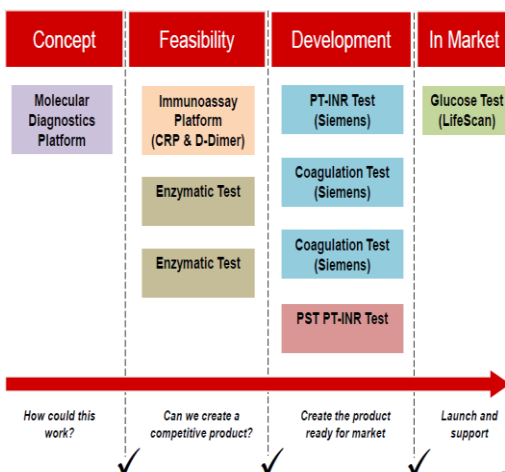
Source: UBI

Xprecia Stride Coagulator Analyser



Source: UBI

Other Opportunities



UBI has retained the rights to the patient blood coagulation self-test market, currently the smallest part at around \$200m, but growing at a compound rate of 20%, expected to reach US\$600m by 2020. UBI will use some of the recent raising to complete development of a meter and fund meter manufacture and inventory. However, we would not expect a launch of the self-test until H2 CY2014.

UBI has continued to develop Immunoassay tests to measure enzyme activity and other techniques, and a molecular diagnostic testing platform, supported by R&D of \$1.1m during Q1 CY2013.

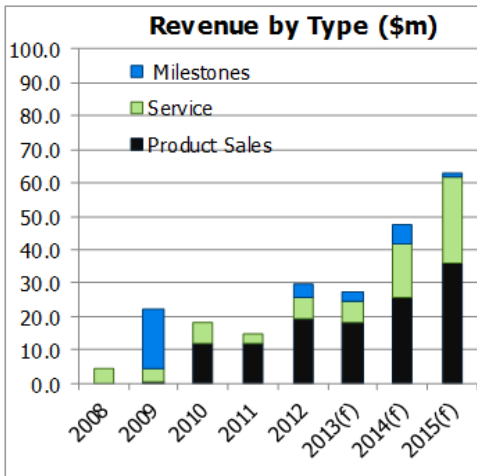
While initial tests in Immunoassay will initially focus on feasibility of the C-Reactive Protein and D-dimer testing, we expect UBI to use success with these as a leverage platform to develop new immunoassay tests.

UBI has received a grant from the Victorian Government's Technology Voucher Programs for CSIRO support to enhance the platform for Cardiac applications. The initial grant was \$0.25m, with a further \$2.0m expected in CY2013, defraying some R&D costs.

With success of UBI in Blood Glucose and Blood Coagulation, it has received interest from a number of major healthcare groups with a view to using its technology to develop other enzymatic Point of Care tests.

We would expect similar arrangements to blood coagulation, with some upfront funding and milestone payments.

Forecasts



Source: UBI actual, Veritas Forecasts

Forecasts for CY2013 to CY2015

P&L	2011A	2012A	2013F	2014F	2015F
Revenue (\$m)	14.7	29.6	27.3	45.8	60.3
% Ch		101.7	-8.1	68.2	31.7
EBIT (\$m)	-15.4	-9.3	-11.5	4.4	13.4
% Ch		-39.7	23.9	-138.5	203.4
Margin (%)	-104.8	-31.3	-42.2	9.7	22.3
Pre-Tax Profit	-14.7	-9.1	-10.9	5.1	14.2

Source: UBI (A) & Veritas (F)

The forecasts have been adjusted for the following:

- A reduction in product sales of Blood Glucose strips, with the more rapid ramp-up of production by LifeScan.
- A modest reduction in revenue from the slower launch of the blood coagulation self-test, offset by lower costs from production, pre-production sales of strips and inventory build ahead of supply to partners.
- Inclusion of Milestone payments from Siemens and Revenue recognition of \$2.1m in H2 CY2013 and \$5.2m in CY2014. As a result of the above development work, an increase in R&D in CY2013 to \$13.5m, as a result of the increased development activity, but still within the range of \$9m to \$15m. While a lower amount is expected in CY2014 and CY2015, it will depend on development success and partnership arrangements.
- A modest increase in interest received with high cash balances.

Our Forecasts are based on:

- Launch of the PT-INR in Q4 CY2013 in Europe and Q1 CY2014 in the US and other key countries. The remaining 2 blood coagulation tests to be launched in H1 CY2014 and the PT-INR home-test in H2 CY2014.
- No inclusion of CRP and D-dimer until they move to final development. We would expect these tests to be launched in H2 CY2014.
- Flat general and administrative costs
- Utilisation of Tax Losses to offset profits in CY2014 and CY2015.
- Exclusion of potential re-imburement charges of 50% of the patent fees paid by LifeScan on non-glucose product estimated at \$1.3m, or a marketing support payment of around \$2m payable on LifeScan reaching sales of 1b strips. We have excluded these as we expect these due to uncertainty on reaching targets and appropriate accounting treatment (ie capitalised or expensed).

Valuation

Price target of \$1.25

We have reduced our Valuation and Price Target to \$1.25 ps, based on a revised Sum of the Parts valuation, although this is below our Discounted Cash Flow valuation of \$1.29 ps.

The Sum of the Parts valuation attributes:

- \$0.75 ps to Blood Glucose.
- \$0.20 ps to Blood Coagulation (to increase with launch and progress on home-test)
- \$0.12 ps to the Immunoassay and Molecular Diagnostics (to increase with acceleration in Development).
- \$0.18 ps in Cash (at June 2014).

This valuation equates to a CY2014 and CY 2015 Enterprise Value : EBITDA ratios of 19x and 9.0x, reasonable given the growth profile.

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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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