

Universal Biosensors Ltd

CY2013 confirms strong growth outlook

UBI reported strong growth in underlying operations, with a 555% increase in Operating Profit to \$11.0m, from:

- Blood Glucose, a 69% increase in revenue and a 264% increase in Operating Profit, based on:
 - A 61% increase in product revenue and a \$1.6m increase in profit.
 - A 108% increase in service revenue and a 142% increase in profit.
- From Siemens, a contribution of \$4.9m related to the blood Coagulation meter under development, mainly comprising milestone payments.

This improvement resulted in a substantial reduction in losses from -\$14.1m to -\$9.7m, despite a 37% increase in R&D to \$13.5m. The increase in R&D mostly related to the development of 3 Blood Coagulation testing systems for Siemen, with the first test is expected to be released during CY2013.

Recent Equity Raising to accelerate growth opportunities

The equity raising was vital in accelerating the development of additional point of care testing opportunities. These additional testing systems can become major contributors, some exceeding returns from blood glucose, as:

- They have greater involvement in the value chains, generate higher unit revenue and margins.
- Recent success gives access to a wider high quality partner opportunities and increased leverage.

Improving Operating Base

Operating Profit will continue to improve in CY2013 and CY2014, with:

- Continued growth in Blood Glucose from product sales and service revenue, with market expansion and increased penetration of the Verio systems.
- Continued milestone payments from Siemens, as well as initial revenue from the launch of the first Blood Coagulation testing system.

These will move UBI to a Cash Flow positive and Net Profit position over the next 2 years, outweighing increased R&D costs. However, growth will accelerate in CY2015 onwards, driven by the non-blood glucose testing systems, as the PT-INR blood coagulation gains penetration, the 2 further tests are released, 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 11% 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 for the foreseeable future, 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 47% discount to our valuation of \$1.60ps.

UBI.ASX BUY

19 February 2013

Price	\$0.85
Price Target	\$1.60
Valuation method	Sum of Parts
GICS sector	Healthcare
12 Mth Price Range	\$0.52 - 1.15
Avg monthly t/o	2.5m
Market Capitalisation	\$154m
Shares on issue	181m
Options on Issue	10m
Enterprise value	\$133m
Previous rating	BUY

	Year Ended Dec 30	10A	11A	12A	13E	14E	15E
Revenue	\$m	18.2	14.7	29.6	37.8	68.9	95.0
EBITDA	\$m	-4.8	-15.4	-9.3	-2.1	17.1	32.2
EBITDA margin	%	32.4	11.4	37.1	31.4	50.9	51.8
EBIT	\$m	-7.8	-15.4	-9.3	-5.0	14.1	29.1
EBIT margin	%	-42.9	-104.8	-31.3	-13.2	20.4	30.7
NPAT	\$m	-6.6	-14.7	-9.1	-4.4	14.8	29.9
EPS growth	%	na	120.2	na	-56.8	na	102.9
DPS	¢ ps	0.0	0.0	0.0	0.0	2.0	8.0
Franking	%	0.0	0.0	0.0	0.0	0.0	0.0
PER	x	na	na	na	-34.6	10.4	5.1
Dividend yield	%	0.0	0.0	0.0	0.0	0.0	0.0
NTA/share	¢ ps	29.7	22.0	22.0	19.6	27.8	42.3
EV/EBITDA	x	-23.2	-7.8	na	-63.3	6.9	2.9
Gearing (D:E)	%	0.0	0.0	0.0	0.0	0.0	0.0
P/OCF	x	-37.3	-18.9	na	na	9.1	5.0
ROA	%	-14.2	-31.1	-19.7	-10.4	25.5	37.7
ROE	%	-13.4	-35.7	-24.5	-11.8	34.4	47.2
Interest cover	x	na	na	na	na	na	na



Source: IRESS

Activities

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

www.universalbiosensors.com

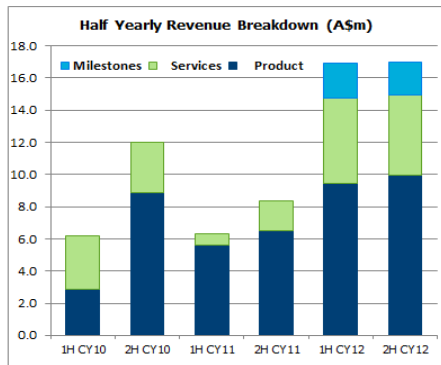
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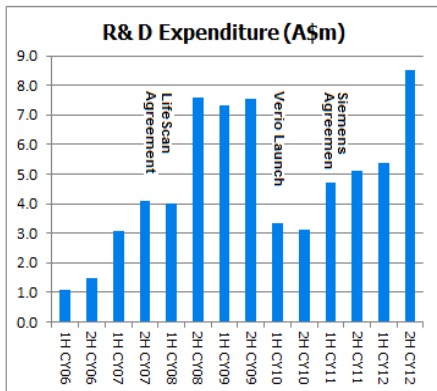
CY2012 Result – Growth meets expectations

CY2012 growth meets expectations and confirms strong growth outlook

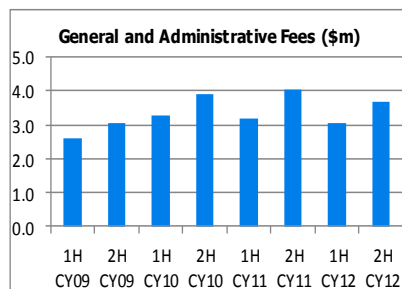
The result was in line with expectations, although continued growth in Blood Glucose was obscured in reported numbers by increased R&D spend on the Blood Coagulation products.



Source: UBI



Source: UBI



Source:UBI

Profit & Loss				Cash Flow			
Year ended 31-Dec (\$m)	2011	2012	% Ch	Year ended 31-Dec (\$m)	2011	2012	% Ch
Product Sales	12.1	19.4	60.6	Operating Cash Flow	-7.2	-3.3	-53.9
Service Revenue	2.6	6.0	129.7	Capex	-1.1	-0.7	-37.7
Milestone Payments	0.0	4.2		Investment/Acquisitions	0.0	0.0	
Total Revenue	14.7	29.6	101.7	Equity	0.1	12.5	
Cost of Goods Sold	-13.0	-18.7	43.3	Debt	0.0	0.0	
Operating Profit	1.7	11.0	555.1	Dividends	0.0	0.0	
R&D	-9.8	-13.5	37.4	Net Cash Flow	-8.2	8.6	-204.6
Expenses	-7.3	-6.8	-6.6	Balance Sheet			
EBIT	-15.4	-9.3	-39.7	Current Assets	24.6	30.5	
Interest (Net)	0.7	0.2		Non Current Assets	20.6	18.6	
Pre-Tax profit	-14.7	-9.1	-37.8	Total Assets	45.2	49.1	8.5
Tax	0.0	0.0		Current Liabilities	7.0	6.3	
Net Profit	-14.7	-9.1	-37.8	Non Current Liabilities	3.2	3.4	
Significant Items (Net)	0.0	0.0		Total Liabilities	10.2	9.7	-4.9
Reported Profit	-14.7	-9.1	-37.8	Shareholder Funds	35.0	39.4	12.5
Gross Operating Margin (%)	11.4	37.1		Net Debt (\$m)	0.0	0.0	
EBIT Margin (%)	-104.8	-31.3		Cash (€ ps)	9.5	9.0	-5.2
Effective Tax Rate (%)	0.0	0.0		NTAV	22.0	22.0	-0.2
R&D/Revenue (%)	66.8	45.5		Net Assets (€ ps)	22.0	22.0	
3 Yr CAGR Revenue (%)	50.7	90.0		Price / Book (x)	4.0	4.0	
EPS (€ ps)	-9.2	-5.7	-38.6	Revenue/Working Capital (x)	1.9	8.8	
Cash Flow (€ ps)	-4.5	-2.1	-54.4	Inventory Turn (x)	3.8	5.2	
DPS (€ ps)	0.0	0.0		Receivables Turn (x)	3.5	8.3	

Key takes from the result:

Revenue – The strong growth of 61% to \$29.6m, included a 2H CY2012 increase of 53% to \$9.9m, a combination of:

- Product Sales - An increase in Product Sales to LifeScan of 61% to \$19.4m, including a 2H CY2012 increase of 53% to \$9.9m.
- Services Revenue – The 128% increase comprises a 50% increase in Service Revenue from LifeScan to \$5.3m and a \$0.7m cost re-imbursement from Siemens for meter development.
- Milestones - Payments from Siemens related to Blood Coagulation of \$4.2m.

COGS – The 43% increase relates to escalating product sales, with improved margins.

Gross Operating Profit – The 555% increase to \$11.0m includes a profit of \$6.1m from Blood Glucose and Payments of \$4.9m from Siemens. The increase in Gross Operating Margins from 11.4% to 37% included a 2H CY2012 margin of 44.5%, and reflects the rapid increase in service revenue and increased efficiency in strip production.

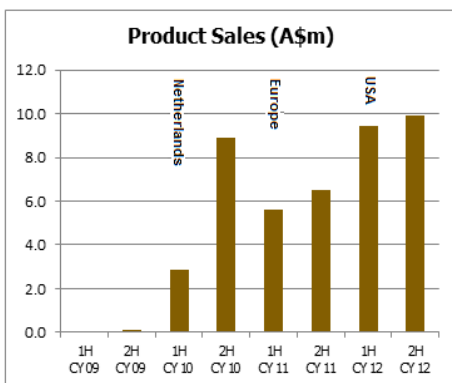
R&D - Increased by 37% to \$13.5m, including a 2H CY2012 increase of 59% to \$8.1m. This mostly relates to the development of the 3 Blood Coagulation products for Siemens. R&D also included \$0.7m in costs on meter development work for Siemens.

This is a similar pattern to Blood Glucose, where there was a substantial boost in R&D in CY2009 ahead of the launch of Verio in January 2010. (see Chart on left).

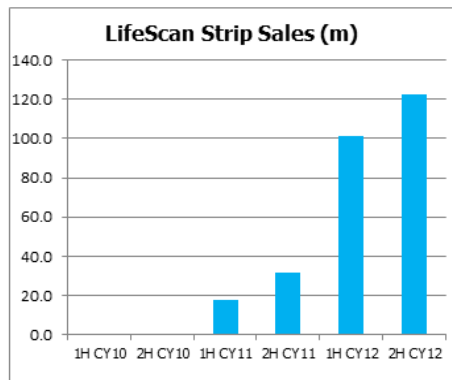
General Expenses – Fell by 7% to -\$6.8m, with falls in both halves, despite the rapid escalation of operations. This confirms the considerable leverage to increasing revenue.

Blood Glucose delivers revenue and profit growth

Type	Revenue (\$m)			Gross Operating Profit (\$m)			Margin (%)	
	CY 11	CY 12	% ch	CY 11	CY 12	% ch	CY 11	CY 12
LifeScan - Product Sales	12.1	19.4	60.6	-0.2	1.4		-2.2	7.1
- Strip Sales	0.5	2.2	357.3	0.5	2.2	357.3	100.0	100.0
- Development Programs	2.1	3.2		1.4	2.5	73.6	67.0	78.8
Total - Blood Glucose	14.7	24.8	68.5	1.7	6.1	264.1	11.4	24.7
Siemens - Milestone Payments	0.0	4.2		0.0	4.2			
- Cost Re-imburement		0.7		0.0	0.7			
Total	14.7	29.6	101.7	1.7	11.0	555.0	12.6	37.1



Source: UBI



Source: UBI

Blood Glucose continues to be the main driver of revenue and operating profit, through:

Product Sales - Product rose by 61% over the 12 months, with increases in each half, despite the ramp-up of production at LifeScan’s own facility at Inverness, Scotland. This was helped by the release of Verio globally, now available in over 85% of the global self-monitored blood glucose market.

UBI also benefits from normal pricing over months of CY2012, with volume exceeding prescribed levels. We estimate product reached around 30% of capacity (750m strips).

Strip Sales – Service Fees on LifeScan strip sales increased by 357% to \$2.2m (223m strips), which based on a Q4 CY2013 rate of 66m strips, equates to an annualised rate of over \$2.7m (270m strips).

Development Project - Increased to \$3.1m with completion of the US\$4.5m feasibility program in 2H CY2012.

Johnson’s & Johnson (JNJ) – While JNJ’s Diabetes Care Operations (LifeScan) reported a 1.4% decline in US\$ sales, sales increased by 1.4% on an original currency basis. This reflected flat US sales (48.8% of total) and a \$2.8% (51.2% of total) increase in International.

This compares to Roche, its main and larger rival, who experienced a 4% decline in Diabetes revenue in constant currency to CHF2.7b, despite the release of new meters.

LifeScan continue to expand its offerings in Diabetes Care, including a one-touch app that will make Verio the first meter to transmit blood glucose results to an Apple iPhone, enabling patients to review and share their results remotely with their caregiver.

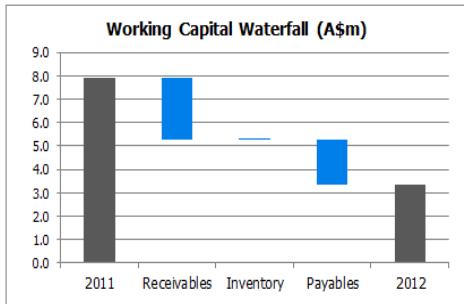
Siemens contributes towards development costs ahead of a CY2013 launch

Siemens contributes re-imburements of \$4.9m ahead of the launch of the blood coagulation tests

The \$4.9m in revenues from Siemens help defray some of the direct R&D costs, comprising:

- Milestone payment of A\$2.9m, comprising a payment of A\$1.5m (US\$1.5m) on technical feasibility of the second Blood Coagulation product in June 2012 and A\$1.4m (US\$1.5m) on technical feasibility of the third product in July 2012. There are 4 remaining milestone payments related to all 3 Blood Coagulation tests.
- Recognised Revenue of A\$1.3m across 2 payments of A\$0.6m linked to the milestone payments. These relate to the US\$3.0m payment made by Siemens in September 2011 on reaching the Collaborative Agreement with Siemens.
- A \$0.7m cost re-imburement related to further development work on the Blood Coagulation Meter, estimated at a total of \$1.7m. The costs associated with this development work are included in R&D expenses.

Cash Flow and Working Capital improvements help maintain a strong Balance Sheet



Source: UBI

Cash Flow – The 52% fall in Operating Cash Outflow from \$7.2m to \$3.3m was mainly in 1H CY2012. This included a reduction in base working capital of \$4.5m, with a reduction in receivables and an increase in payables. The lower level of \$3.3m comprised:

- An increase in Receipts of 70% to \$30.2m. The difference to revenue reflects timing issues of cash receipts in Q4 CY2011.
- A lower 32% increase in Payments to \$33.9m, mostly from the increase in R&D spend.

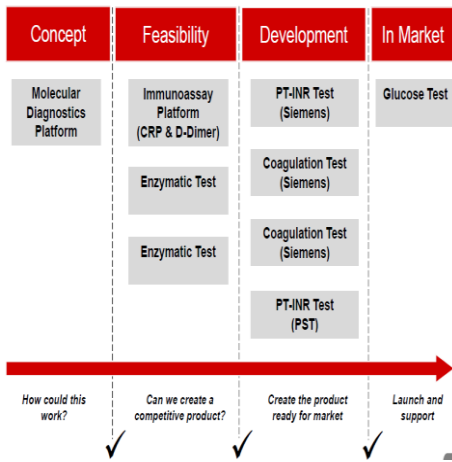
Net Cash improves by \$16.8m to an Inflow of \$8.6m, boosted by the \$12.5m in Net Equity raised through the recent placement and SPP. Adjusting for the raising, net outflow fell from \$8.2m to \$4.0m.

A strong Balance Sheet supports growth initiatives

The Balance Sheet remains strong with:

- Net cash of \$23.3m (13.2¢ ps) at 31/12/13, boosted by the equity raising.
- Net Assets remained constant at 22¢ ps.
- No intangibles.

Equity raising to support strong future growth opportunities



Source: UBI

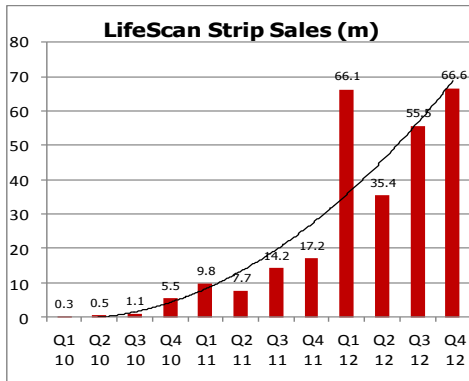
During the 2H CY2013, UBI raised \$12.5m, comprising 14.6m shares at \$0.90 ps, split between a \$12.0m placement and \$1.3m from a Share Purchase Plan. The funds raised are to be used to:

- Provide additional working capital to support growth, particularly glucose and coagulation test strip manufacture and the new product launches.
- Support and accelerate new product development, specifically:
 - The PT-INR patient self-test, including completion of the development of a strip and meter systems, funding production and inventory for regional/global rollouts (page 6).
 - Continue the development of the immunoassay test platform, particularly CRP and D-dimer, which demonstrate commercial feasibility in CY2012 (page 6).
 - Further develop the Molecular Diagnostics test platform, currently in concept stage, but expected to demonstrate feasibility in CY2013 (page 7).
 - Opportunities for other enzymatic testing systems based on the success with blood glucose and blood coagulation.
- Flexibility to develop testing systems further before partnering and to take advantage of market driven opportunities.

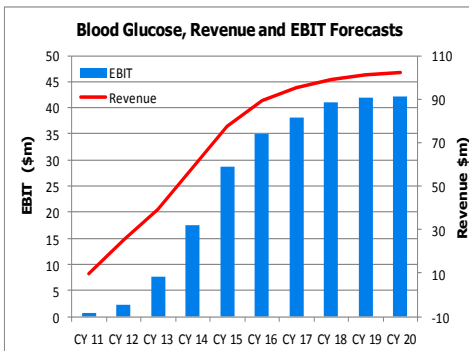
These additional products will generate higher economic returns, through:

- Greater involvement in the value chains, covering meter supply and total strip manufacture and supply.
- These additional tests generate higher unit revenue and margins, with reimbursements increasing from \$0.50 per test for Blood Glucose and \$5.53 per test for PT-INR to a prospective range of \$8 for CRP to \$250 for Molecular Diagnostics (DNA).

Blood Glucose to generate rapidly escalating cash flow



Source: UBI



Source: Veritas Forecasts

Blood Glucose is the short term driver of revenue and profit growth through:

- Service revenue of US1.0¢ per strip from LifeScan’s strip sales, with:
 - Over 85% of LifeScan’s markets now covered, following the launch in North America in early CY2012. This will increase further with the expected launch of Verio in Japan and China during CY2013.
 - The progressive substitution of Verio into LifeScan’s customer base covering over 4bn strips pa. Based on Q4 CY2012 sales of 66.6m strips, or 270m pa, the current penetration is between 6.5% and 7.0%.
 - The potential for LifeScan to increase market share above the current 27%, on the back of Verio and initiatives, such as the potential ability to transmit results to apple devices for simplified management.
 - 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 450m people globally will have diabetes by 2019.
- Further strip sales to LifeScan, increasing to around 500m (total capacity of 750m), despite a ramp-up in manufacture from LifeScans’s own plant.
- Further development work for LifeScan and a possible income stream if LifeScan continues with the novel glucose testing product, for which UBI demonstrated feasibility in CY2012.

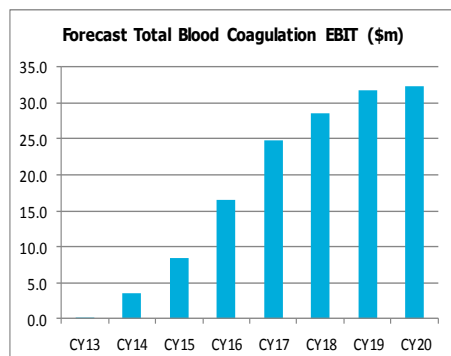
Using a diffusion curve based on previous changes in meter systems to forecast total strip sales, we expect Revenue and EBIT to increase strongly through to CY2018 at \$99.1m and \$54.3m. Beyond CY2019, we expect revenue to increase in line with the service revenue of US1.0¢ per strip.

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 • bioMérieux • 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*

Source: UBI



Source: Veritas Forecasts

At over US\$1.1b, the blood coagulation test market is the second largest segment of the US\$15.5m Point of Care Diagnostic, supported by a global anticoagulant drug market valued in 2012 at around US\$5.7b.

The test market is growing at a compound growth rate of 8%, as a result of:

- An increasing and aging population and increasing use of 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, currently around 80% (US\$800m) of the total, with strips comprising 85% (US\$680m) or around 120m strips pa. Within the PT/INR market, the Hospital and Ambulatory markets being targeted by Siemens are around \$570m.

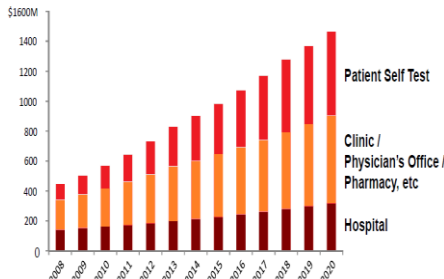
We expect Siemens to launch the PT-INR test in CY2013, initially in Europe, where it can self-certify and Siemens has a strong competitive position. We would expect a US launch later in CY2013, following FDA approval. With technical feasibility of a further 2 Blood Coagulation tests completed in mid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

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.

Although 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.

Patient Self-test, the next Opportunity

Global POC PT/INR Market Projection (US\$M)



Source: Management estimates, Kalorama, The Worldwide Market for In Vitro Diagnostic Tests, 6th Ed., 2008, Trimark, 'Point of Care Diagnostic Testing World Markets', April 2011

UBI has retained the rights to the patient self-test market, currently the smallest area at around \$200m, but growing at a compound rate of 20%, expected to reach US\$600m by 2020.

UBI is in discussion with potential partners, most likely regional. The participants in the self-test market are different from the Hospitals and Ambulatory segments, an area where Siemens is not represented.

UBI will use some of the 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 CY2014. As UBI is responsible for manufacture and inventory, margins will be substantially higher, possibly 70% to 75%.

Immunoassay Opportunities

Immunoassay is the measurement of blood borne biomarkers using ligand binding, the measurement of enzyme activity and other techniques.

C-reactive protein (CRP)

CRP tests are used in systemic inflammation cases, testing for elevated C-reactive protein in the blood serum in key diseases, such as atherosclerosis, rheumatoid arthritis and other autoimmune diseases, cancer, COPD and Alzheimer's disease.

The CRP tests are increasing in importance, with a number of drug companies now developing products to address the inflammatory component of certain autoimmune diseases and a range of cancers. As millions of patients worldwide are affected by these conditions, the accurate monitoring of C-reactive protein levels at the point-of-care would be valuable in managing these patients.

It is estimated that around 80m CRP tests were conducted globally, growing at a CAGR of 7%, with around 70m in the US and Europe. US reimbursements range from \$8.0 per test for the more common low level to \$19.00 for a high level test.

D-dimer

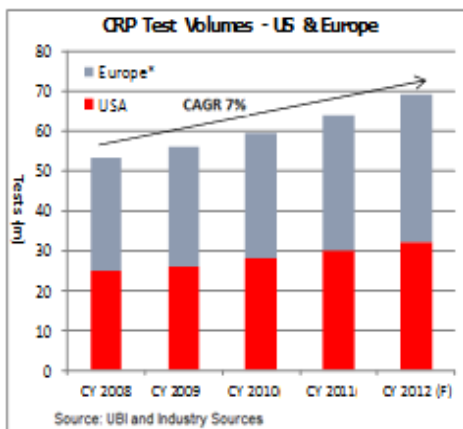
D-dimer tests are used to detect hypercoagulability and monitor conditions associated with thrombotic disease. A positive test indicating a high level of fibrin degradation may be associated with deep vein thrombosis (DVT) and pulmonary embolism (PE). The incidence of thrombotic disease continues to increase with aging and is associated with rising mortality in Western society.

D-dimer test is one of the fastest growing laboratory tests globally. In CY2008 an estimated 27m to 29m D-dimer tests were conducted in the US and Europe, with estimates of CAGR of 10% to 39m to 41m in CY2012. Based on US Medicare Reimbursements of around \$14.40 per test, the current market is around US\$550m, split US\$250m in the USA and \$300m in Europe.

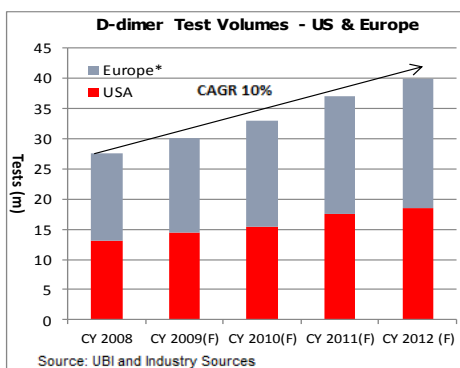
Due to the links with blood coagulation, UBI have granted Siemens the 'right of first bid'.

Other Immunoassay

We expect UBI to use success with CRP and D-Dimer as a leverage platform to develop new immunoassay tests.



* Europe comprises Germany, UK, France, Italy, Spain & Scandinavia



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Other Enzymatic Tests

With success of UBI in Blood glucose and blood coagulation, it has received interest from a number of major healthcare groups with 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.

Molecular Diagnostics – the Blue Sky

UBI intends to use its diagnostic biosensor technology with the in-licensed MNAzyme technology from SpeedX Pty Ltd to create a low cost Point-of-Care testing system, using a portable strip and meter system for the rapidly growing molecular diagnostic platform, mainly in blood screening, infectious disease (HIV/HCV,STD and hospital acquired infections), genetic and oncology testing.

The molecular diagnostic market is valued by GlobalData in Nov 2009 at more than US\$3.5b and is expected to grow at a CAGR of 14% to US\$6.2b by 2015. This growth is due to:

- An aging population and greater incidence of chronic disease, such as cancer.
- The need for earlier diagnosis and faster treatment to reduce healthcare costs.
- Improved understanding of the human genome.
- Advances in chemistry and instrumentation technology.

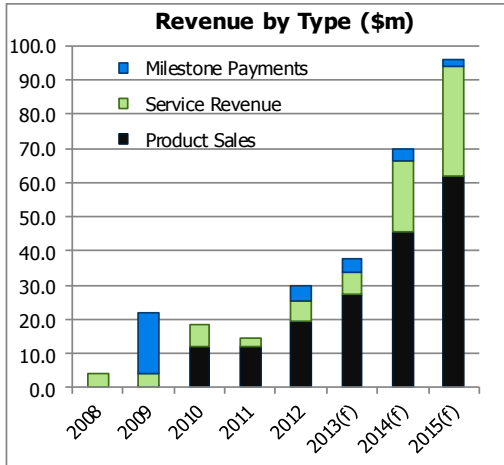
While the main markets are the US at around 60% of the global market, followed by Europe at 20%, Asia is expected to show the greatest growth in the coming decade.

World Market for Molecular Diagnostics, 2009-2015 (US\$m)

	2009	2010	2011	2012	2013	2014	2015
Blood screening	695	799	918	1,056	1,215	1,397	1,606
HIV/HCV testing	726	784	847	915	988	1,067	1,152
STD testing	435	487	546	611	685	767	859
Oncology testing	351	414	488	576	680	802	947
Genetic testing	357	414	480	557	647	750	870
HPV testing	267	307	353	406	467	537	617
Hospital acquired infections	86	99	116	136	159	186	217
Total	2,917	3,304	3,748	4,257	4,841	5,506	6,268

Source: Business Insights report No. BI00021-012. 23 June 2010:

Forecasts



Source: UBI actual, Veritas Forecasts

Forecasts for CY2013 to CY2015

P&L	2011A	2012A	2013F	2014F	2015F
Revenue (\$m)	14.7	29.6	37.8	68.9	95.0
% Ch		101.7	27.3	82.6	37.8
EBIT (\$m)	-15.4	-9.3	-5.0	14.1	29.1
% Ch		-39.7	-46.1	-381.1	107.3
Margin (%)	-104.8	-31.3	-13.2	20.4	30.7
Pre-Tax Profit	-14.7	-9.1	-4.4	14.8	29.9

Source: Veritas

The forecasts have been adjusted for the following:

- 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 \$1m in cost re-imbursement revenue in 1H CY2013 from Siemens for development work on the PT-INR meter. The re-imbursements are treated as Revenue, while the development costs are charged against R&D.
- 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, the level 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 Q3 CY2013 in Europe and Q4 CY2013 in the US and other key countries.
- The remaining 2 blood coagulation tests to be launched in Q2 CY2014.
- The launch of the PT-INR home-test in Q2 CY2014.
- No inclusion of CRP and D-dimer until they move to final development. We would expect these tests to be launched in 2H CY2014.
- Flat general and administrative costs
- Utilisation of Tax Losses to offset profits in CY2014 and CY2015.

Valuation

Price target of \$1.60

We have maintained Valuation and Price Target of \$1.60 ps, based on a Sum of the Parts valuation, although below our Discounted Cash Flow valuation of \$1.75 ps.

The Sum of the Parts valuation attributes:

- \$1.10 ps to Blood Glucose.
- \$0.30 ps to Blood Coagulation (to increase with progress on home-test)
- \$0.10 ps to the Immunoassay and Molecular Diagnostics (to increase with acceleration in Development).
- \$0.10 ps in Cash (at December 2012).

This valuation equates to a CY2014 and CY 2015 Enterprise Value : EBITDA ratios of 15.5x and 7.5x, reasonable given the growth profile.



Universal Biosensors (UBI)

Current Price: \$0.85 ps Target Price: \$1.60 ps

Universal Biosensors

FINANCIAL PERFORMANCE

Year ended 31-Dec	2010A	2011A	2012A	2013E	2014E	2015E
Sales Revenue	\$m 18.2	14.7	29.6	37.8	68.9	95.0
Cost of Goods Sold	\$m -12.3	-13.0	-18.7	-25.9	-33.9	-45.8
Gross Operating Profit	\$m 5.9	1.7	11.0	11.9	35.1	49.2
R&D	\$m -6.5	-9.8	-13.5	-13.5	-12.0	-12.0
Administration Costs	\$m -4.2	-7.3	-6.8	-5.5	-6.0	-6.5
Other	\$m 0.0	0.0	0.0	5.0	0.0	1.6
EBITDA	\$m -4.8	-15.4	-9.3	-2.1	17.1	32.2
Depreciation	\$m -3.0	0.0	0.0	-2.9	-3.0	-3.1
EBIT	\$m -7.8	-15.4	-9.3	-5.0	14.1	29.1
Interest	\$m 1.2	0.7	0.2	0.6	0.7	1.0
Pre Tax Profit	\$m -6.6	-14.7	-9.1	-4.4	14.8	29.9
Tax	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Reported Profit	\$m -6.6	-14.7	-9.1	-4.4	14.8	29.9

GROWTH

	2010A	2011A	2012A	2013E	2014E	2015E
Revenue	% 320.8	-19.2	101.7	27.3	82.6	37.8
COGS	% 1857.7	6.0	43.3	38.8	30.8	35.2
Gross Operating Profit	% -72.5	-71.6	555.1	7.8	195.8	40.2
R&D	% -56.5	51.4	37.4	0.1	-11.1	0.0
EBITDA	% na	220.1	-39.7	-77.4	-912.2	89.0
EBIT	% na	97.4	-39.7	-46.1	-381.1	107.3
Reported Profit	% na	122.3	-37.8	-51.8	-435.3	102.9
EPS	% na	120.2	-38.6	-56.8	-432.5	102.9

P&L RATIOS

	2010A	2011A	2012A	2013E	2014E	2015E
Gross Operating Profit / Sales	% 32.4	11.4	37.1	31.4	50.9	51.8
EBITDA / Sales	% -26.5	-104.8	-31.3	-5.6	24.7	34.0
EBIT / Sales	% -42.9	-104.8	-31.3	-13.2	20.4	30.7
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	35.8	17.4	12.6

Per SHARE

	2010A	2011A	2012A	2013E	2014E	2015E
Issued Shares (Wt Avg)	m 157.6	159.0	160.8	179.3	180.8	180.8
EPS	¢ps -4.2	-9.2	-5.7	-2.5	8.2	16.6
Operating Cash Flow ps	¢ps -4.1	-4.5	-2.1	-0.7	9.4	17.2
Free Cash Flow	¢ps -5.5	-5.2	-2.5	-1.9	8.3	15.8
DPS	¢ps 0.0	0.0	0.0	0.0	2.0	8.0
Franking	% 0.0	0.0	0.0	0.0	0.0	0.0
Dividend Payout Ratio	% 0.0	0.0	0.0	0.0	24.5	48.3

PARAMETERS

	2010A	2011A	2012A	2013E	2014E	2015E
PE Ratio	x -36.2	-9.2	-15.0	-34.6	10.4	5.1
Enterprise Value / EBITDA	x -23.2	-7.8	-13.9	-63.3	6.9	2.9
Enterprise Value / Profit	x -16.9	-8.2	-14.1	-30.2	8.0	3.1
Cash Flow ratio	x -37.3	-18.9	-41.4	-114.5	9.1	5.0
Dividend Yield	% 0.0	0.0	0.0	0.0	2.4	9.4

SEGMENTS

	2010A	2011A	2012A	2013E	2014E	2015E
Sales Revenue						
Product Sales	\$m 11.8	12.1	19.4	27.5	45.6	62.2
Service Revenue	\$m 6.4	2.6	6.0	6.3	19.6	30.8
Milestone Payments	\$m 0.0	0.0	4.2	4.0	3.8	2.0
EBIT						
Product Sales	\$m 1.0	0.8	1.4	4.2	11.2	17.3
Service Revenue	\$m 4.9	2.1	4.7	9.0	19.1	30.3
R&D	\$m -6.5	-9.8	-13.5	-13.5	-12.0	-12.0
Milestone Payments	\$m 0.0	0.0	4.2	4.0	3.8	2.0
Corporate	\$m -7.2	-7.3	-6.8	-7.0	-8.0	-8.5
EBIT Growth						
Product Sales	% na	-19.5	79.0	206.2	164.5	55.0
Service Revenue	% 22.9	-56.7	120.8	91.1	111.3	58.9
R&D	% -56.5	51.4	37.4	0.1	-11.1	0.0
Corporate	% 27.5	1.2	-6.6	3.1	14.3	6.3
EBIT Margin						
Product Sales	% 8.2	6.4	7.1	15.4	24.6	27.9
Service Revenue	% 76.9	81.2	78.1	143.2	97.4	98.4

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

CASH FLOW

Year ended 31-Dec	2010A	2011A	2012A	2013E	2014E	2015E
Operating EBITDA	\$m -4.8	-15.4	-9.3	-2.1	17.1	32.2
Net Interest Received/Paid	\$m 1.2	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	-2.9	4.5	-0.8	-0.8	-2.0
Other	\$m 1.9	10.4	1.3	1.0	0.0	0.0
Operating Cash Flow	\$m -6.4	-7.2	-3.3	-1.3	17.0	31.0
Capex	\$m -2.3	-1.1	-0.7	-2.0	-2.0	-2.5
Free Cash Flow	\$m -8.7	-8.3	-4.0	-3.3	15.0	28.5
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	-3.6
Equity Change	\$m 0.7	0.1	12.5	0.5	0.0	0.2
Debt Change	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Change in Net Cash	\$m -8.0	-8.2	8.6	-2.9	15.0	25.1

BALANCE SHEET

	2010A	2011A	2012A	2013E	2014E	2015E
Cash	\$m 23.3	15.1	23.6	20.8	35.7	60.8
Receivables	\$m 3.6	4.9	2.3	3.0	3.5	5.0
Inventory	\$m 3.2	3.6	3.6	4.2	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	29.0	45.3	73.0
Property, Plant & Equipment	\$m 23.1	20.3	18.3	17.8	18.0	18.2
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	17.8	18.0	18.2
Total Assets	\$m 53.8	45.2	49.1	46.8	63.3	91.2
Payables	\$m 1.8	0.6	2.5	3.0	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	3.8	4.5	5.0	5.3
Current Liabilities	\$m 4.5	7.0	6.3	7.5	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	3.8	4.6	5.2
Non Current Liabilities	\$m 2.2	3.2	3.4	3.8	4.6	5.2
Total Liabilities	\$m 6.6	10.2	9.7	11.3	13.1	14.5
Shareholder Funds	\$m 47.2	35.0	39.4	35.5	50.2	76.7

BALANCE SHEET RATIOS

	2010A	2011A	2012A	2013E	2014E	2015E
Receivables turn	x 9.1	3.5	8.3	14.3	21.2	22.3
Inventory turn	x 7.0	3.8	5.2	6.6	7.4	8.3
Net Debt	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Gearing (D:D+E)	% 0.0	0.0	0.0	0.0	0.0	0.0
Current Ratio (CA:CL)	x 6.8	3.5	4.8	3.9	5.3	7.9
Net Assets	¢ps 29.7	22.0	22.0	19.6	27.8	42.3
Net Tangible Assets	¢ps 29.7	22.0	22.0	19.6	27.8	42.3
Cash	¢ps 14.7	9.5	13.2	11.5	19.8	33.5
Return On Assets	% -14.2	-31.1	-19.7	-10.4	25.5	37.7
Return on Equity	% -13.4	-35.7	-24.5	-11.8	34.4	47.2

VALUATION

Valuation Method	\$	Premium(+)/Discount(-)	(%)
DCF	1.75		-51.4
Sum of the Parts	1.60		-46.9
Price Target	1.60		-46.9
Current Price	0.85		
Market Capitalisation	\$152.4m	Enterprise Value	\$128.8m

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 65%	

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		

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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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