

Universal Biosensors Inc

Momentum building, although not obvious in Q1 Result

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

- Increased strip sales for 1Q CY2013 of 84m (A\$0.84m in Revenue) was 26% above the 4Q CY2012 and around 200% above 1Q CY2012. This reflects strong growth in sales of Verio strips by LifeScan, with increasing take-up of Verio from existing and new users.
- Despite a fall in product sales, the Blood Glucose products remain operationally profitable and Cash Flow positive with improving service margins. This will increase with the escalation in strip sales.
- The substantial escalation in R&D from the development of the Blood Coagulation test strips, with expectations of the launch of the PT/INR strip in the 2H CY2013 and the two further strips in CY2014. This should result in increasing Revenue and further Milestone payments in CY2013 and CY2014.
- The Balance Sheet remains strong, with Net Cash of \$20.2m (11.6¢ ps) and NTAV of \$0.20¢ ps), boosted by the \$12.5m equity issue during Q4 CY2012.

However, we have taken a more cautious view on sales of strips to LifeScan in CY2013, due to a lack of visibility on forward sales and the rapid ramp-up of LifeScan's new plant. While we have reduced our forecasts on this basis, we expect an increase in sales levels by UBI as LifeScan's new plant capacity utilization increases rapidly and it needs to expand capacity.

Improving Operating Base

Operating Profit will improve through 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.
- Some recovery in product sales to LifeScan

These will move UBI to a overall Cash Flow positive and Net Profit position over the next 2 years, outweighing the plateauing levels of R&D costs. However, 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 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, 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 50% discount to our valuation of \$1.30ps.

UBI.ASX

BUY

6 May 2013

Price	\$0.65
Price Target	\$1.30
Valuation method	Sum of Parts
GICS sector	Healthcare
12 Mth Price Range	\$0.52 - 1.15
Avg monthly t/o	2.5m
Market Capitalisation	\$114m
Shares on issue	175m
Options on Issue	10m
Enterprise value	\$97m
Previous rating	BUY

Year Ended Dec 30		10A	11A	12A	13E	14E	15E
Revenue	\$m	18.2	14.7	29.6	27.3	50.4	66.2
EBITDA	\$m	-4.8	-15.4	-9.3	-5.4	10.5	20.5
EBITDA margin	%	32.4	11.4	37.1	30.3	54.6	30.8
EBIT	\$m	-7.8	-15.4	-9.3	-8.3	7.5	17.4
EBIT margin	%	-42.9	-104.8	-31.3	-30.6	14.9	26.3
NPAT	\$m	-6.6	-14.7	-9.1	-7.7	8.2	18.2
EPS growth	%	na	120.2	na	-21.9	na	122.3
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
PER	x	na	na	na	-14.6	13.9	6.3
Dividend yield	%	0.0	0.0	0.0	0.0	0.0	0.0
NTA/share	¢ ps	29.7	20.7	22.6	18.3	23.0	33.4
EV/EBITDA	x	-16.6	-5.7	na	-17.9	8.6	3.6
Gearing (D:E)	%	0.0	0.0	0.0	0.0	0.0	0.0
P/OCF	x	-37.3	-16.7	na	na	12.7	5.9
ROA	%	-14.2	-31.1	-19.7	-17.9	15.7	28.4
ROE	%	-13.4	-36.6	-25.2	-21.6	22.6	36.8
Interest cover	x	na	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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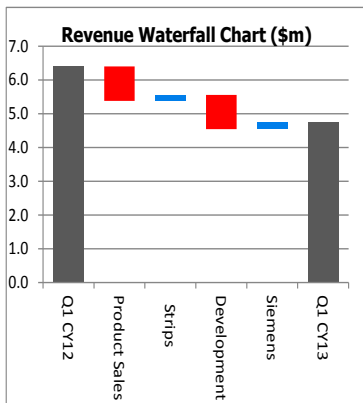
Universal Biosensors (UBI)							Current Price: \$0.65 ps Target Price: \$1.30 ps								
FINANCIAL PERFORMANCE							CASH FLOW								
Year ended 31-Dec	2010A	2011A	2012A	2013E	2014E	2015E	Year ended 31-Dec	2010A	2011A	2012A	2013E	2014E	2015E		
Sales Revenue	\$m	18.2	14.7	29.6	27.3	50.4	66.2	Operating EBITDA	\$m	-1.1	1.9	9.8	8.1	22.5	32.5
Cost of Goods Sold	\$m	-12.3	-13.0	-18.7	-19.0	-22.9	-45.8	Net Interest Received/Paid	\$m	1.2	0.7	0.4	0.6	0.7	0.8
Gross Operating Profit	\$m	5.9	1.7	11.0	8.3	27.5	20.4	Tax Paid	\$m	0.0	0.0	0.0	0.0	0.0	0.0
R&D	\$m	-6.5	-9.8	-13.5	-13.5	-12.0	-12.0	Change Working Capital	\$m	-4.7	-0.8	4.4	-1.4	-2.2	-2.0
Administration Costs	\$m	-4.2	-7.3	-6.8	-5.5	-6.0	-6.5	Other	\$m	4.7	0.8	-4.4	1.0	0.0	0.0
Other	\$m	0.0	0.0	0.0	5.3	1.0	18.6	Operating Cash Flow	\$m	0.1	2.7	10.2	8.3	21.0	31.3
EBITDA	\$m	-4.8	-15.4	-9.5	-5.4	10.5	20.5	R&D	\$m	-6.5	-9.8	-13.5	-13.5	-12.0	-12.0
Depreciation	\$m	-3.0	0.0	0.0	-2.9	-3.0	-3.1	Capex	\$m	-2.3	-1.1	-0.7	-2.0	-2.0	-2.5
EBIT	\$m	-7.8	-15.4	-9.5	-8.3	7.5	17.4	Free Cash Flow	\$m	-8.7	-8.3	-4.0	-7.2	7.0	16.8
Interest	\$m	1.2	0.7	0.4	0.6	0.7	1.0	Acquisitions/Asset Sales	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Pre Tax Profit	\$m	-6.6	-14.7	-9.1	-7.7	8.2	18.2	Dividends Paid	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Tax	\$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
Reported Profit	\$m	-6.6	-14.7	-9.1	-7.7	8.2	18.2	Change in Net Cash	\$m	-8.0	-8.2	8.6	-6.8	7.0	17.0
GROWTH							BALANCE SHEET								
	2010A	2011A	2012A	2013E	2014E	2015E		2010A	2011A	2012A	2013E	2014E	2015E		
Revenue	%	320.8	-19.2	101.7	-8.1	85.0	31.4	Cash	\$m	23.3	15.1	23.6	16.9	23.9	40.9
COGS	%	1857.7	6.0	43.3	1.8	20.5	100.0	Receivables	\$m	3.6	4.9	2.3	3.0	3.5	5.0
Gross Operating Profit	%	-72.5	-71.6	555.1	-24.9	233.3	-25.7	Inventory	\$m	3.2	3.6	3.6	4.5	5.0	6.0
R&D	%	-56.5	51.4	37.4	0.1	-11.1	0.0	Other Current Assets	\$m	0.3	1.0	0.9	1.0	1.1	1.2
EBITDA	%	na	219.5	-38.0	-43.1	-293.5	95.5	Current Assets	\$m	30.4	24.6	30.5	25.4	33.5	53.1
EBIT	%	na	97.0	-38.0	-12.7	-190.1	132.4	Property, Plant & Equipment	\$m	23.1	20.3	18.3	18.8	18.2	17.8
Reported Profit	%	na	122.3	-37.8	-15.4	-206.1	122.3	Intangibles	\$m	0.0	0.0	0.0	0.0	0.0	0.0
EPS	%	na	120.2	-38.4	-21.9	-205.2	122.3	Other NC Assets	\$m	0.3	0.3	0.3	0.0	0.0	0.0
P&L RATIOS							Non Current Assets								
	2010A	2011A	2012A	2013E	2014E	2015E		2010A	2011A	2012A	2013E	2014E	2015E		
Gross Operating Profit / Sales	%	32.4	11.4	37.1	30.3	54.6	30.8	Total Assets	\$m	53.8	45.2	49.1	44.2	51.7	70.9
EBITDA / Sales	%	-26.5	-104.6	-32.2	-19.9	20.8	31.0	Payables	\$m	1.8	2.7	4.5	4.7	3.5	4.0
EBIT / Sales	%	-42.9	-104.6	-32.2	-30.6	14.9	26.3	Current Debt	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Effective Tax Rate	%	0.0	0.0	0.0	0.0	0.0	0.0	Other Current Liabilities	\$m	2.7	6.4	1.8	4.5	5.0	5.3
Interest Cover	x	na	na	na	na	na	na	Current Liabilities	\$m	4.5	9.1	6.3	9.2	8.5	9.3
R&D/Revenue	x	35.7	66.8	45.5	49.5	23.8	18.1	Non Current Debt	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Working Cap/Revenue	x	3.6	2.5	21.0	9.7	10.1	9.5	Other NC Liabilities	\$m	2.2	3.2	3.4	2.9	2.9	2.9
Per SHARE							Non Current Liabilities								
	2010A	2011A	2012A	2013E	2014E	2015E		2010A	2011A	2012A	2013E	2014E	2015E		
Issued Shares (Wt Avg)	m	157.6	159.0	160.4	173.9	175.5	175.5	Total Liabilities	\$m	6.6	12.3	9.7	12.1	11.4	12.2
EPS	¢ps	-4.2	-9.2	-5.7	-4.4	4.7	10.4	Shareholder Funds	\$m	47.2	33.0	39.4	32.1	40.3	58.7
Operating Cash Flow ps	¢ps	-4.1	-4.5	-2.1	-3.0	5.1	11.0	BALANCE SHEET RATIOS							
Free Cash Flow	¢ps	-5.5	-5.2	-2.5	-4.2	4.0	9.6	Receivables turn	x	9.1	3.5	8.3	10.3	15.5	15.6
DPS	¢ps	0.0	0.0	0.0	0.0	0.0	0.0	Inventory turn	x	7.0	3.8	5.2	4.7	4.8	8.3
Franking	%	0.0	0.0	0.0	0.0	0.0	0.0	Net Debt	\$m	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	Gearing (D:(D+E))	%	0.0	0.0	0.0	0.0	0.0	0.0
PARAMETERS							VALUATION								
	2010A	2011A	2012A	2013E	2014E	2015E		\$	Premium(+)/Discoun (%)						
PE Ratio	x	-36.2	-8.1	-15.9	-14.6	13.9	6.3	DCF	1.36	-52.3					
Enterprise Value / EBITDA	x	-16.6	-5.7	-9.4	-17.9	8.6	3.6	Sum of the Parts	1.30	-50.0					
Enterprise Value / Profit	x	-12.1	-6.0	-9.8	-12.6	11.0	4.0	Price Target	1.30	-50.0					
Cash Flow ratio	x	-37.3	-16.7	-44.0	-21.7	12.7	5.9	Current Price	0.65	-					
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0	0.0	Market Capitalisation	\$114.1m	Enterprise Value	\$97.2m				
SEGMENTS							MAJOR SHAREHOLDERS								
	2010A	2011A	2012A	2013E	2014E	2015E									
Sales Revenue							Principals Cornerstone	m	14%	Related to Directors					
Product Sales	\$m	11.8	12.1	19.4	18.5	25.8	35.9	CM Capital Investments	m	10%	Healthcare Fund				
Service	\$m	6.4	2.6	6.0	6.3	19.1	30.3	PFM Cornerstone	m	8%	Related to Directors				
Milestones	\$m	0.0	0.0	4.2	2.5	5.5	0.0	Australian Executor Trustees	m	6%	Aust Institution				
EBIT							Australian Ethical	m	5%	Aust Institution					
Product Sales	\$m	1.0	2.1	1.4	1.8	4.1	8.0	Top 20 (16/3/2012)	m	67%					
Service	\$m	4.9	2.1	4.7	7.9	16.9	29.9	DIRECTORS							
R&D	\$m	-6.5	-9.8	-13.5	-13.5	-12.0	-12.0	Andrew Denver	N-E Chair	Dr Jane Wilson	N-E Dir				
Milestones	\$m	0.0	0.0	4.2	2.5	5.5	0.0	Paul Wright	MD & CEO	Marshall Heinberg	N-E Dir				
Corporate	\$m	-7.2	-7.3	-6.8	-7.0	-7.0	-8.5	Andrew Jane	N-E Dir						
EBIT Growth							Denis Hanley	N-E Dir							
Product Sales	%	na	120.2	-34.6	28.6	129.1	97.0								
Service	%	22.9	-56.7	121.1	67.0	114.5	76.7								
R&D	%	-56.5	51.4	37.4	0.1	-11.1	0.0								
Corporate	%	na	1.2	-6.6	3.1	0.0	21.4								
EBIT Margin															
Product Sales	%	8.2	17.5	7.1	9.6	15.7	22.3								
Service	%	76.9	81.2	78.2	125.3	88.8	98.8								

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

Growth in strip sales an indication for future growth

Profit & Loss	CY2011				CY2012								CY2013	
	Q1 \$m	Q2 \$m	Q3 \$m	Q4 \$m	Q1 \$m	Ch %	Q2 \$m	Ch %	Q3 \$m	Ch %	Q4 \$m	Ch %	Q1 \$m	Ch %
Products Revenue	3.3	2.3	2.2	4.3	4.7	42.3	4.7	108.8	5.2	139.4	4.8	10.0	3.7	-20.7
Services Revenue - Strips	0.1	0.1	0.1	0.2	0.7	574.5	0.4	359.7	0.6	291.1	0.7	287.2	0.8	27.1
Services Revenue - Development	0.1	0.4	0.2	1.4	1.0		1.1		0.9	385.9	0.2	-88.0	0.0	-100.0
Total Revenue - Blood Glucose	3.6	2.7	2.5	5.9	6.4	79.6	6.1	123.9	6.6	165.8	5.6	-5.5	4.6	-28.4
Cost of Goods Sold	-3.6	-2.8	-2.4	-4.3	-5.1	43.3	-4.7	64.0	-4.5	90.2	-4.4	3.3	-3.8	-25.6
Operating Profit - Blood Glucose	0.0	-0.1	0.1	1.7	1.3	na	1.5	na	2.1	na	1.2	-27.9	0.8	-39.2
Operating Margin (%)				28.1	20.4		24.3		31.2		21.4		17.3	
Add Siemens - Milestone Payments	0.0	0.0	0.0	0.0	0.0		2.2		2.1		0.0		0.0	
- Other											0.7		0.2	
Total Operating Profit	0.0	-0.1	0.1	1.7	1.3	na	3.7	na	4.1	na	1.9	14.1	1.0	-22.2
less - Research and Development	-1.7	-3.0	-2.3	-2.8	-2.3	29.6	-3.1	5.0	-3.8	62.8	-4.3	55.8	-4.5	96.8
- Corporate Costs	-1.4	-1.8	-2.0	-2.0	-1.5	5.7	-1.3	-27.4	-1.6	-20.9	-2.4	17.5	-1.3	-11.9
EBIT	-3.1	-4.9	-4.2	-3.2	-2.4		-0.8		-1.3		-4.8		-4.7	
Interest and Other	0.1	0.0	0.9	-0.2	0.0		0.0		-0.1		0.2		0.1	
Pre-Tax Profit	-3.0	-4.9	-3.4	-3.4	-2.4		-0.7		-1.4		-4.6		-4.6	

Source: UBI & Veritas



While the Quarterly Result was down on a strong pcp, impacted by a changing revenue mix, the outlook remained positive. Key features were:

Revenue – The Revenue fall of 29.1% (25.0% v Q4 CY2012) was a function of:

- Reduced product sales of strips to LifeScan of \$3.7m, as LifeScan ramps up production at its new facility in Inverness Scotland to meet increasing strip sales.
- Completion of a US\$4.5m Development Project for LifeScan in CY2012, although partly offset by a small contribution from development work on a meter for Siemens.
- A partial offset from a 27.1% increase in Strip Service revenue from LifeScan, although the underlying growth was stronger with:
 - A particularly strong Q1 CY2012, with LifeScan filling the supply pipeline ahead of the US launch. The underlying increase was around 200%, continuing the strong growth trend.
 - An increase over Q4 CY2012 of 26.1%.

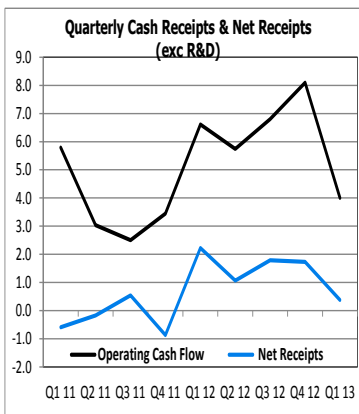
COGS – Fell by more than product sales, with increased efficiency in sourcing and production.

Gross Operating Profit – Mostly from Blood Glucose, with margins impacted mainly by a lower level of Development Revenue, partly offset by a higher proportion of Revenue from Strip Sales.

Cash Flow – The \$4.0m fall in Operating Cash Flow to -\$3.9m, was a function of:

- Receipts – Cash Receipts fell by 40% to \$4.0m as a result of lower products sales and less contract R&D work, partly offset by an increase in Strip Service Revenue.
- Outflows – A 21.5% increase in outgoings, mainly the doubling of R&D to \$4.5m and prepayment of \$0.6m in insurance premiums, with costs recognized over the next 4 quarters. This was partly offset by a reduction in COGS.

Net Cash Outflow was reduced to \$3.4m by the take-up of short term debt of \$0.6m, used to fund the prepayment of insurance. However, adjusting for R&D spend, the net receipts remained positive at \$0.5m. Following the injection from the equity raising of \$12.5m in Q4 CY2012, retained net cash was \$20.2m (11.6¢ ps).



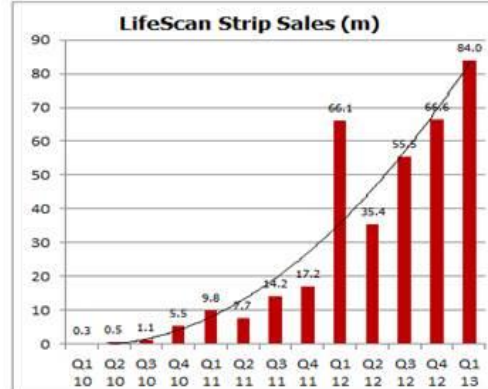
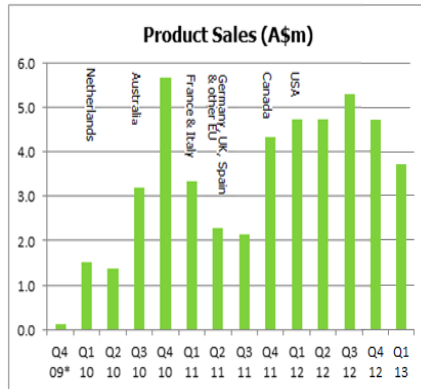
Blood Glucose operations building profitability

Product			
\$m	Q1 CY12	Q1 CY13	% Ch
Sales	4.7	3.7	-20.7
COGS	-4.9	-3.7	27.1
Operating Profit	-0.1	0.0	na
Margin (%)		0.9	

Services			
\$m	Q1 CY12	Q1 CY13	% Ch
Sales	1.7	1.1	-36.6
COGS	-0.2	-0.1	-65.6
Operating Profit	1.5	1.0	-32.1
Margin (%)	86.5	92.7	

The Blood Glucose operations remained profitable on a stand alone basis and positive on an operating cash flow basis.

Product Sales – The fall in product sales to LifeScan of 20.7% (21.2% v Q4 CY2012) reflects a ramp up of production at LifeScan’s Inverness plant, which initially commenced production in CY2012. The underlying margin in Q1 CY2013 was held back by lower yield in January, although recovering in February and March. Should volumes be maintained at current levels, UBI expect to further increase margins over the balance of CY2013.



An escalation in strip supports profitability in blood coagulation

Services – The strong increase in margins to 92.7% was due to the higher proportion of strip service fees, with a lower proportion of Development Revenue. Service Revenue is expected to continue to grow strongly, heavily outweighing the product contribution.

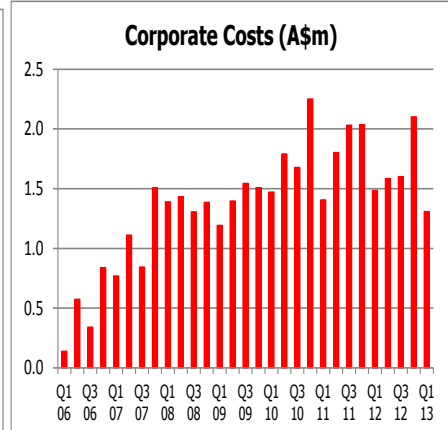
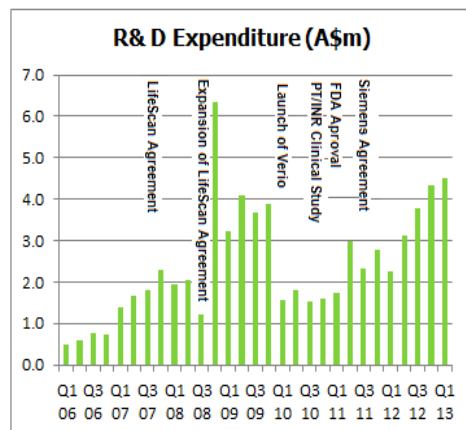
While the volume outlook for product sales to LifeScan diminished with the rapid ramp up of LifeScan’s own facility at Inverness, the increasing service fee does signal the success of the technology transfer and the commitment to Verio.

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 98% to \$4.5m, 95% of Revenue, with \$3.4m in development work on the Blood Coagulation tests for Siemens, the PT/INR test to be launched in CY2013 and the two additional tests to be launched in CY2014. This follows an escalation to \$13.5m in CY2012 with a significant proportion related to the Blood Coagulation Products although partly offset by Milestone related payment of \$4.2m

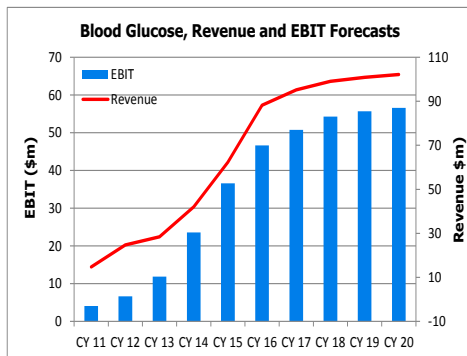
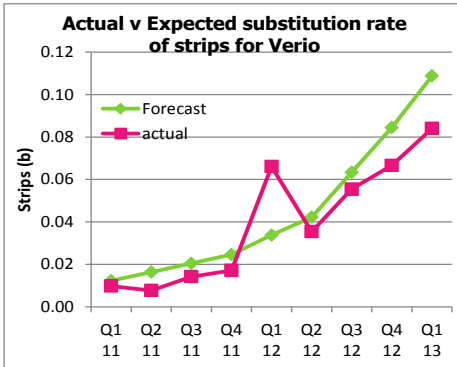
This was expected, based on the increase following the previous agreement with LifeScan and before the launch of the Verio. We expect R&D to fall in subsequent quarters as the various tests are released.



Corporate costs under control

Corporate Costs – Administration and overhead expenses were well, despite the previous ramp-up in strip production and ongoing development work.

Blood Glucose to generate rapidly escalating Cash Flow



Source: Veritas Forecasts

BGM Revenues (2012 Estimates)	Change 2012/2011	Market Share
US\$7.6Bn	(5)%	84%
Abbott	(3)%	15%
Bayer	(5)%	15%
LifeScan	(2)%	27%
Roche	(10)%	28%

Source: Company Financial Reports, analyst estimates, management estimates

Blood Glucose will continue as 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. This will increase further with the launch of Verio in Japan and China during CY2013.
 - 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.
 - The progressive substitution of Verio into LifeScan’s customer base covering over 4bn strips pa. Based on Q1 CY2013 sales of 84m strips (336m pa), the current penetration is between 6.5% and 7.0%. However, 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%, on the back of Verio and initiatives, such as the potential ability to transmit results to apple and android devices for simplified management.
- Continued strip sales to LifeScan, despite a ramp-up in manufacture from LifeScan’s own plant. We expect sales to LifeScan to recover with ongoing sales and industry growth, although not certain.
- Further development work for LifeScan and a possible income stream if LifeScan continues with the novel glucose testing product.

Using a diffusion curve based on previous changes in meter systems to forecast total strip sales, we expect Total Revenue (Product and service) and EBIT to increase strongly through to CY2018 at \$85m and \$48.3m. Beyond CY2019, we expect Revenue to increase in line with the Service Revenue of US1.0¢ per strip.

Verio is important for LifeScan in arresting market share loss and subsequent revenue falls, especially with pricing pressure in the US Market and the prospect of a generic strip competitor for the preceding Ultra range. This competitor could challenge the still substantial margin on Ultra strip sales, forcing an increased emphasis by LifeScan on conversion to Verio.

This has been exacerbated in the short term by One Touch meter recalls in Europe and the US (March 2013), although Abbott has suffered a similar recall in April 2013. This impact of the meter recalls, although not affecting a material number of users is not clear, and may lead to a temporary slowing in Verio strip sales.

However, the focus by regulators on improved performance and accuracy is positive for Verio, limiting any potential loss of market share.

While pricing pressure have impacted on LifeScan, Revenue for UBI is unaffected, as the Service Strip Fee is based on volume. However, this pressure may have a positive effect, stimulating greater volume.

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*

At over US\$1.1b, the blood coagulation test market is the second largest segment of the US\$15.5m Point of Care Diagnostic, 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.

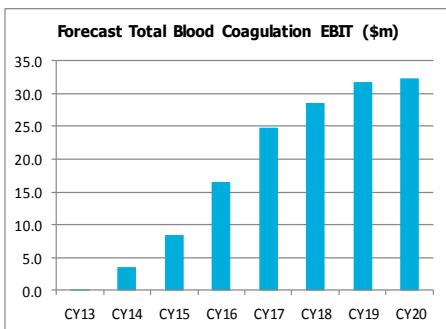
Within the blood coagulation sector, the PT/INR test is the largest, around 80% (US\$800m) of the total, with the target Hospital/Ambulatory markets around \$570m.

We expect Siemens to launch the PT-INR test in Q3 CY2013, initially in Europe, where it can self-certify and 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 CY2012, these will 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. 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.

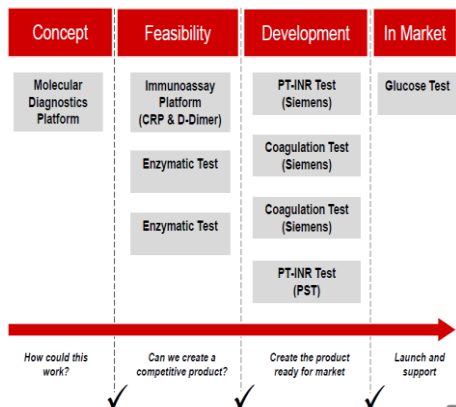
As the tests are developed and launched, we expect further 4 milestone payments of US\$1.5m each, as well as recognition as revenue of the remaining of US\$1.7m from the \$3.0m initial technology access fee.

Source: UBI



Source: Veritas Forecasts

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 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.

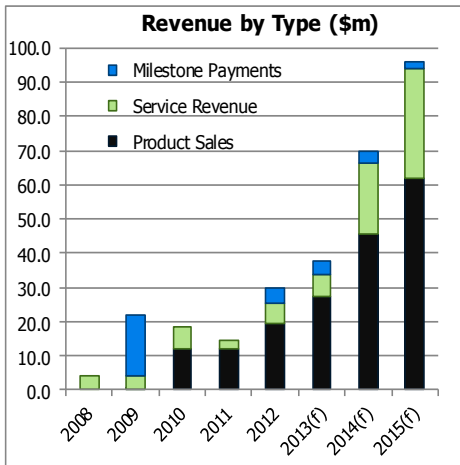
While initial tests in Immunoassay will initially focus on feasibility of the C-reactive protein and D-dimer testing, we expect UBI to use success with these as a leverage platform to develop new immunoassay tests.

UBI has received a grant from the Victorian Governments 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 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	50.4	66.2
% Ch		101.7	-8.1	85.0	31.4
EBIT (\$m)	-15.4	-9.5	-8.3	7.5	17.4
% Ch		-38.0	-12.7	-190.1	132.4
Margin (%)	-104.6	-32.2	-30.6	14.9	26.3
Pre-Tax Profit	-14.7	-9.1	-7.7	8.2	18.2

Source: Veritas

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. While future sales are difficult to predict, given a lack of visibility on LifeScan's strip production capacity and strategy, we expect \$18m in CY2013 and a recovery in sales during CY2014 to previous levels of around \$19 to \$20m pa at improved margins, with further increases in CY2015.
- 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 2H 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 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 and 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.
- Exclusion of potential re-imbursment 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 expenses).

Valuation

Price target of \$1.30

We have reduced our Valuation and Price Target to \$1.30 ps, based on a Sum of the Parts valuation, although above our Discounted Cash Flow valuation of \$1.35 ps.

The Sum of the Parts valuation attributes:

- \$0.95 ps to Blood Glucose.
- \$0.23 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).

➤ \$0.12 ps in Cash (at March 2013).

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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