

## Universal Biosensors Inc

### Q1 CY15 Result confirms strong growth in Blood Glucose

The results confirm a strong improvement in Blood Glucose profitability, with:

- Verio strip sales of 179.0m, an 84% increase over Q1 CY2014 and a 19.3% increase over Q4 CY2014. This generated a 141.5% increase in Strip Service Fee revenue to \$2.9m, helped by an increased push by LifeScan, with new meters, free meter promotion in Europe and lower priced meters in the US.
- A 138% increase in Operating Profit from Blood Glucose to \$2.9m, a 36% increase over Q4 CY2014.
- Sales of its blood coagulation strips to Siemens of \$0.1m, with the new system in limited release with key customers.
- R&D was maintained at \$4.9m, mostly devoted to development of the Blood Coagulation systems for Siemens and UBI's self-test system.

### Cash Outflow falls substantially

A \$2.9m fall in Operating Cash Outflows to \$0.5m, with:

- An 87% (\$1.9m) increase in Receipts to \$4.1m, mainly from increased strip sales and receipt of an A\$1.2m (US\$1.0m) milestone payment from Siemens.
- A \$1.3m fall in Payments to \$4.6m, mainly seasonal factors, despite a \$0.3m one-off payment.

Net Cash Outflow fell by \$2.8m to \$1.5m, after \$0.7m positive currency adjustment, despite one-off costs. Cash on hand fell to \$14.8m (8.4¢ ps).

### Siemens launch to boost Revenue

After a successful evaluation period, Siemens has announced the full launch of the 'Xprecia Stride' blood coagulation testing system to 31 countries covered by EU Mark and subsequently to other markets using Siemens' extensive distribution network. FDA approval and a US launch are expected in late CY15 or early CY16, with a further 2 blood coagulation tests to be launched in 2H CY16.

The global market for the PT-INR testing is estimated at US\$650m pa, covering an estimated 200m tests, growing at 9% pa.

UBI expects to launch its self-test in the 2H CY15 in Europe, with strips expected to sell at a premium to the professional market with significantly higher margins.

### Forecasts Updated

Our forecasts have been adjusted for the slower launch and uptake of the 3 Siemens' tests, expected R&D refunds and milestones. Losses in CY15 are expected to fall from \$7.2m to \$1.2m, with a profit of \$5.3m in CY16.

The substantial Reported Profit increase for CY17 is linked to a lump sum payment with the LifeScan buyback option covering Strip Service Fees.

### Recommendation

While we have a DCF Valuation of \$0.60 per share, assuming the LifeScan option is exercised at the first opportunity, we have a 12 month Price Target of \$0.40 ps.

The lower Price Target reflects uncertainty on: the LifeScan Buyout Option; the release and take-up of the various Blood Coagulation tests; ongoing R&D; and options related to the Athyrium Loan facility.

If the option is not exercised at the first opportunity, there would be a substantial increase in the Valuation and Price Target.

We maintain a Long Term Buy, based on:

**Growth Markets** – Exposure to large rapid growth Healthcare sectors.

**Industry Position** – Leading edge technology and a strong IP position.

**Resources** – A modern approved plant meeting future capacity requirements.

**Strong Financial Position** – Cash Flow positive and rising profit from CY16.

## UBI.ASX Long Term BUY

20 May 2015

|                              |               |
|------------------------------|---------------|
| <b>Price</b>                 | <b>\$0.30</b> |
| <b>12 Month Price Target</b> | <b>\$0.40</b> |
| <b>Valuation</b>             | <b>\$0.60</b> |
| Valuation method             | Sum of Parts  |
| GICS sector                  | Healthcare    |
| 12 Mth Price Range           | \$0.14 - 0.38 |
| Avg monthly t/o              | 7.8m          |
| Market Capitalisation        | \$53m         |
| Shares on issue              | 176m          |
| Options on Issue             | 13m           |
| Enterprise value             | \$54m         |
| Previous rating              | <b>BUY</b>    |

| Year Ended Dec 31 | 13A              | 14A         | 15E         | 16E        | 17E         |
|-------------------|------------------|-------------|-------------|------------|-------------|
| Revenue           | \$m 15.1         | 9.5         | 17.8        | 31.1       | 42.7        |
| EBIT              | \$m -18.2        | -13.8       | -7.3        | 7.1        | 15.8        |
| EBIT margin       | % -120.9         | -144.7      | -41.0       | 22.9       | 37.0        |
| NPAT              | \$m <b>-11.6</b> | <b>-7.2</b> | <b>-1.2</b> | <b>5.3</b> | <b>16.0</b> |
| Reported Profit   | \$m <b>-11.6</b> | <b>-9.3</b> | <b>-1.2</b> | <b>2.8</b> | <b>66.0</b> |
| EPS               | ¢ ps -6.7        | -4.1        | -0.7        | 3.0        | 9.1         |
| 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 -6.9           | -4.2        | -44.0       | 9.9        | 3.3         |
| DPS               | ¢ ps 0.0         | 0.0         | 0.0         | 0.0        | 0.0         |
| Dividend yield    | % 0.0            | 0.0         | 0.0         | 0.0        | 0.0         |
| NTA/share         | ¢ ps 16.9        | 11.6        | 10.9        | 12.5       | 50.1        |
| EV/EBITDA         | x -2.8           | -4.7        | -8.7        | 6.6        | -1.1        |
| Gearing (D:E)     | % 0.0            | 8.2         | 56.9        | 22.6       | 0.0         |
| P/OCF             | x na             | -5.5        | -10.7       | 5.9        | 0.8         |
| R&D               | \$m -15.5        | -17.1       | -16.5       | -12.5      | -9.0        |
| R&D / Revenue     | % 102.6          | 179.8       | 92.6        | 40.3       | 21.1        |
| ROA               | % -35.2          | -27.3       | -16.2       | 14.8       | 18.6        |
| ROE               | % -33.7          | -28.7       | -6.1        | 25.8       | 29.1        |
| Interest cover    | x na             | -5.7        | -4.6        | 4.0        | 9.3         |

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: \$0.31 ps

Target Price: \$0.40 ps

**FINANCIAL PERFORMANCE**

| Year ended 31-Dec             | 2012A     | 2013A | 2014A | 2015E | 2016E | 2017E |
|-------------------------------|-----------|-------|-------|-------|-------|-------|
| <b>Sales Revenue</b>          | \$m 29.6  | 15.1  | 9.5   | 18.1  | 31.6  | 43.5  |
| Cost of Goods Sold            | \$m -18.7 | -11.6 | -0.6  | -2.7  | -6.0  | -11.1 |
| <b>Gross Operating Profit</b> | \$m 11.0  | 3.4   | 9.0   | 15.5  | 25.0  | 32.4  |
| R&D                           | \$m -13.5 | -15.5 | -17.1 | -16.5 | -12.5 | -9.0  |
| Administration Costs          | \$m -6.8  | -6.2  | -5.6  | -6.0  | -6.5  | -7.0  |
| <b>EBIT</b>                   | \$m -9.3  | -18.2 | -13.8 | -7.0  | 7.6   | 16.4  |
| R&D Refund                    | \$m 0.0   | 6.3   | 9.0   | 7.7   | 0.0   | 0.0   |
| Interest                      | \$m 0.2   | 0.3   | -2.4  | -1.6  | -1.8  | -1.7  |
| <b>Pre Tax Profit</b>         | \$m -9.1  | -11.6 | -7.2  | -0.9  | 5.8   | 16.6  |
| Tax                           | \$m 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| <b>Normalised Profit</b>      | \$m -9.1  | -11.6 | -7.2  | -0.9  | 5.8   | 16.6  |
| Significant Items             | \$m 0.0   | 0.0   | -2.1  | 0.0   | -2.5  | 50.0  |
| <b>Reported Profit</b>        | \$m -9.1  | -11.6 | -9.3  | -0.9  | 3.2   | 66.6  |

**GROWTH**

|                        | 2012A   | 2013A | 2014A | 2015E | 2016E  | 2017E |
|------------------------|---------|-------|-------|-------|--------|-------|
| Revenue                | % 101.7 | -49.1 | -36.8 | 90.3  | 74.2   | 37.6  |
| COGS                   | % 43.3  | -37.6 | -95.2 | 381.2 | 125.3  | 83.6  |
| Gross Operating Profit | % 555.1 | -68.6 | 160.3 | 72.3  | 61.7   | 29.6  |
| R&D                    | % 37.4  | 14.8  | 10.7  | -3.7  | -24.2  | -28.0 |
| EBIT                   | % -39.7 | 96.5  | -24.4 | -49.0 | -207.6 | 116.6 |
| Reported Profit        | % -37.8 | 27.4  | -38.3 | -87.1 | -724.4 | 187.6 |
| EPS                    | % -38.4 | 17.2  | -38.7 | -87.1 | -724.2 | 187.5 |

**P&L RATIOS**

|                                | 2012A   | 2013A  | 2014A  | 2015E | 2016E | 2017E |
|--------------------------------|---------|--------|--------|-------|-------|-------|
| Gross Operating Profit / Sales | % 37.1  | 22.8   | 94.2   | 85.3  | 79.1  | 74.5  |
| EBIT / Sales                   | % -31.3 | -120.9 | -144.7 | -38.8 | 24.0  | 37.7  |
| Effective Tax Rate             | % 0.0   | 0.0    | 0.0    | 0.0   | 0.0   | 0.0   |
| Interest Cover                 | x na    | na     | -5.7   | -4.4  | 4.2   | 9.6   |
| R&D/Revenue                    | x 45.5  | 102.6  | 179.8  | 91.0  | 39.6  | 20.7  |
| Working Cap/Revenue            | 210     | -13.3  | 4.6    | 2.4   | 0.4   | 0.3   |

**Per SHARE**

|                          | 2012A    | 2013A | 2014A | 2015E | 2016E | 2017E |
|--------------------------|----------|-------|-------|-------|-------|-------|
| Issued Shares (Year End) | m 174.0  | 175.6 | 175.6 | 175.6 | 175.7 | 175.7 |
| Issued Shares (Wt Avg)   | m 160.4  | 174.4 | 175.6 | 175.6 | 175.6 | 175.7 |
| EPS                      | ¢ps -5.7 | -6.7  | -4.1  | -0.5  | 3.3   | 9.4   |
| Operating Cash Flowps    | ¢ps -2.1 | -9.5  | -3.1  | -2.7  | 5.4   | 36.0  |
| 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**

|                           | 2012A   | 2013A | 2014A | 2015E | 2016E | 2017E |
|---------------------------|---------|-------|-------|-------|-------|-------|
| PE Ratio                  | x -15.9 | -6.9  | -4.2  | -57.9 | 9.3   | 3.2   |
| Enterprise Value / EBITDA | x -4.4  | -2.9  | -4.7  | -9.1  | 6.1   | -1.1  |
| Enterprise Value / Profit | x -3.2  | -3.9  | -7.7  | -69.5 | 8.0   | -1.0  |
| Cash Flow ratio           | x -44.0 | -4.8  | -5.5  | -11.5 | 5.7   | 0.8   |
| 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**

|                         | 2012A     | 2013A | 2014A  | 2015E  | 2016E | 2017E |
|-------------------------|-----------|-------|--------|--------|-------|-------|
| <b>Sales Revenue</b>    |           |       |        |        |       |       |
| Product Sales           | \$m 19.4  | 10.2  | 0.2    | 3.7    | 11.1  | 20.6  |
| Service Fees (Lifescan) | \$m 6.0   | 4.9   | 7.6    | 12.7   | 16.9  | 22.9  |
| Milestones              | \$m 4.2   | 0.0   | 1.8    | 1.8    | 3.6   | 0.0   |
| <b>EBIT</b>             |           |       |        |        |       |       |
| Product Sales           | \$m 1.4   | 0.7   | -0.1   | 1.3    | 5.1   | 9.5   |
| Service                 | \$m 4.7   | 3.1   | 7.3    | 12.4   | 16.9  | 22.9  |
| R&D                     | \$m -13.5 | -15.5 | -17.1  | -15.0  | -12.0 | -9.0  |
| Milestones              | \$m 4.2   | 0.0   | 1.8    | 1.8    | 3.6   | 0.0   |
| Admin Fees              | \$m -6.8  | -6.2  | -5.6   | -5.5   | -6.0  | -7.0  |
| <b>EBIT Growth</b>      |           |       |        |        |       |       |
| Product Sales           | % -660.0  | -48.5 | -113.7 | -142.0 | 294.3 | 87.4  |
| Service                 | % 145.7   | -35.2 | 138.8  | 69.0   | 36.5  | 35.6  |
| Admin Fees              | % 37.4    | 14.8  | 10.7   | -12.5  | -20.0 | -25.0 |
| Corporate               | % -6.6    | -8.7  | -9.3   | -2.2   | 9.1   | 16.7  |
| <b>EBIT Margin</b>      |           |       |        |        |       |       |
| Product Sales           | % 7.1     | 7.0   | -45.4  | 35.1   | 45.7  | 46.2  |
| Service                 | % 78.2    | 62.3  | 96.8   | 97.6   | 100.0 | 100.0 |

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

**CASH FLOW**

| Year ended 31-Dec          | 2012A     | 2013A | 2014A | 2015E | 2016E | 2017E |
|----------------------------|-----------|-------|-------|-------|-------|-------|
| <b>Operating EBITDA</b>    | \$m 9.8   | 1.7   | 2.9   | 9.5   | 19.1  | 25.4  |
| Net Interest Received/Paid | \$m 0.4   | 0.5   | -2.4  | -1.8  | -1.8  | -1.7  |
| Tax Paid                   | \$m 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Change Working Capital     | \$m 4.4   | -2.5  | -3.2  | -4.3  | -4.1  | -3.4  |
| Other (inc R&D Refund)     | \$m -4.4  | -0.8  | 8.6   | 8.5   | 7.7   | 52.0  |
| <b>Operating Cash Flow</b> | \$m 10.2  | -1.1  | 5.8   | 11.8  | 20.9  | 72.3  |
| R&D                        | \$m -13.5 | -15.5 | -17.1 | -16.5 | -12.5 | -9.0  |
| Capex                      | \$m -0.7  | -0.2  | -1.0  | -2.0  | -3.0  | -3.0  |
| <b>Free Cash Flow</b>      | \$m -4.0  | -16.8 | -12.2 | -6.7  | 5.4   | 60.3  |
| 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 12.5  | 0.4   | 0.0   | 0.0   | 0.0   | 0.0   |
| Debt                       | \$m 0.0   | 16.0  | 0.5   | -0.5  | -1.5  | 0.0   |
| <b>Change in Net Cash</b>  | \$m 8.6   | -0.4  | -11.7 | -7.2  | 3.9   | 60.3  |

**BALANCE SHEET**

|                                | 2012A    | 2013A | 2014A | 2015E | 2016E | 2017E |
|--------------------------------|----------|-------|-------|-------|-------|-------|
| Cash                           | \$m 23.6 | 23.7  | 16.3  | 6.9   | 11.8  | 70.8  |
| Receivables                    | \$m 2.3  | 2.2   | 3.8   | 5.5   | 9.6   | 13.0  |
| Inventory                      | \$m 3.6  | 0.0   | 0.4   | 5.0   | 7.0   | 8.0   |
| Other Current Assets           | \$m 0.9  | 9.9   | 8.6   | 7.5   | 6.3   | 7.5   |
| <b>Current Assets</b>          | \$m 30.5 | 35.8  | 29.1  | 24.9  | 34.7  | 99.3  |
| Property, Plant & Equipment    | \$m 18.3 | 15.9  | 14.3  | 15.5  | 14.0  | 13.5  |
| Intangibles                    | \$m 0.0  | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Other NC Assets                | \$m 0.3  | 2.9   | 2.9   | 4.0   | 4.0   | 6.5   |
| <b>Non Current Assets</b>      | \$m 18.6 | 18.8  | 17.3  | 19.5  | 18.0  | 20.0  |
| <b>Total Assets</b>            | \$m 49.1 | 54.6  | 46.4  | 44.4  | 52.7  | 119.3 |
| Payables                       | \$m 4.5  | 3.3   | 2.1   | 3.0   | 5.0   | 6.0   |
| Current Debt                   | \$m 0.0  | 0.0   | 0.5   | 0.0   | 0.0   | 16.0  |
| Other Current Liabilities      | \$m 1.8  | 2.1   | 3.9   | 4.0   | 6.0   | 6.0   |
| <b>Current Liabilities</b>     | \$m 6.3  | 5.4   | 6.5   | 7.0   | 11.0  | 28.0  |
| Non Current Debt               | \$m 0.0  | 15.9  | 17.5  | 17.5  | 16.0  | 0.0   |
| Other NC Liabilities           | \$m 3.4  | 3.7   | 3.8   | 0.4   | 3.0   | 2.1   |
| <b>Non Current Liabilities</b> | \$m 3.4  | 19.5  | 21.3  | 17.9  | 19.0  | 2.1   |
| <b>Total Liabilities</b>       | \$m 9.7  | 24.9  | 27.8  | 24.9  | 30.0  | 30.1  |
| <b>Shareholder Funds</b>       | \$m 39.4 | 29.7  | 20.4  | 19.4  | 22.7  | 89.3  |

**BALANCE SHEET RATIOS**

|                       | 2012A    | 2013A | 2014A | 2015E | 2016E | 2017E |
|-----------------------|----------|-------|-------|-------|-------|-------|
| Receivables turn      | x 8.3    | 6.8   | 3.2   | 3.9   | 4.2   | 3.8   |
| Inventory turn        | x 5.2    | 6.5   | 2.8   | 1.0   | 1.0   | 1.5   |
| Net Debt              | \$m 0.0  | 0.0   | 1.7   | 10.6  | 4.2   | 0.0   |
| Current Ratio (CA:CL) | x 4.8    | 6.6   | 4.5   | 3.6   | 3.2   | 3.5   |
| Net Tangible Assets   | ¢ps 22.6 | 16.9  | 11.6  | 11.1  | 12.9  | 50.8  |
| Cash                  | ¢ps 13.6 | 4.5   | 0.0   | 0.0   | 0.0   | 40.3  |
| Return On Assets      | % -19.7  | -35.2 | -27.3 | -15.5 | 15.6  | 19.1  |
| Return on Equity      | % -25.2  | -33.7 | -28.7 | -4.6  | 27.4  | 29.6  |

**VALUATION**

| Valuation Method             | \$             | Premium(+)/Discount(-) %         |
|------------------------------|----------------|----------------------------------|
| DCF                          | 0.64           | -52.5                            |
| Price Target                 | 0.40           | -23.8                            |
| Current Price                | 0.31           |                                  |
| <b>Market Capitalisation</b> | <b>\$53.6m</b> | <b>Enterprise Value: \$55.2m</b> |

**MAJOR SHAREHOLDERS**

|                            |                |                          |
|----------------------------|----------------|--------------------------|
| Talu Ventures              | m 17.8         | 10% Related to Directors |
| The Principles Cornerstone | m 17.5         | 10% Healthcare Fund      |
| KFT Investments            | m 18.0         | 10% George Klepper       |
| <b>Top 20 (16/3/2015)</b>  | <b>m 121.4</b> | <b>69%</b>               |

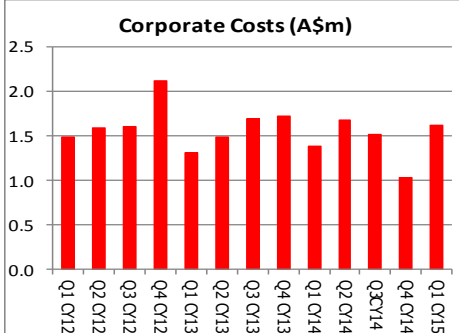
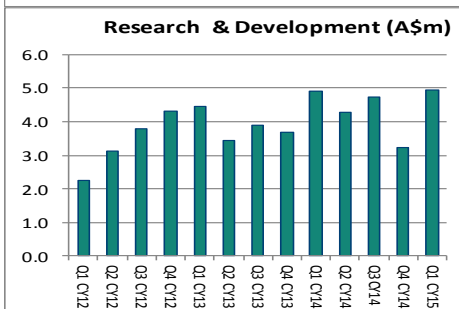
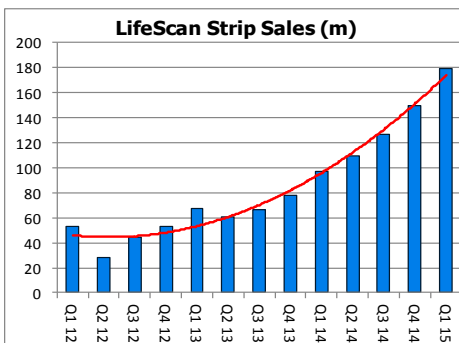
**DIRECTORS**

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

Q1 CY2015 Confirms strong growth in Strip Sales

| Profit & Loss                           | CY2014      |               |             |               |             |               |             |               | CY2015      |              |
|---|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|--------------|
|   | Q1          | Ch            | Q2          | Ch            | Q3          | Ch            | Q4          | Ch            | Q1          | Ch           |
|   | \$m         | %             | \$m         | %             | \$m         | %             | \$m         | %             | \$m         | %            |
| <b>Blood Glucose</b>                    |             |               |             |               |             |               |             |               |             |              |
| Services Revenue - Strips               | 1.2         | 83.5          | 1.4         | 286.9         | 1.6         | 184.5         | 2.3         | 243.2         | 2.9         | 141.5        |
| Services Revenue - Development          | 0.0         | -100.0        | 0.0         | -100.0        | 0.0         | -100.0        | 0.0         | -100.0        | 0.0         | 0.0          |
| <b>Total Revenue - Blood Glucose</b>    | <b>1.2</b>  | <b>-27.7</b>  | <b>1.4</b>  | <b>-2.7</b>   | <b>1.6</b>  | <b>9.2</b>    | <b>2.3</b>  | <b>184.3</b>  | <b>2.9</b>  | <b>141.5</b> |
| Cost of Goods Sold                      | 0.0         | -99.7         | 0.0         | -99.9         | -0.3        | -92.4         | -0.2        | -95.7         | -0.1        | 383.7        |
| <b>Operating Profit - Blood Glucose</b> | <b>1.2</b>  | <b>-135.0</b> | <b>1.4</b>  | <b>-142.0</b> | <b>1.2</b>  | <b>-140.2</b> | <b>2.1</b>  | <b>-158.5</b> | <b>2.9</b>  | <b>138.3</b> |
| Operating Margin (%)                    | 98.7        |               | 99.5        |               | 78.1        |               | 918         |               | 97.3        |              |
| Add Blood Coagulation (Siemens)         |             |               |             |               |             |               |             |               |             |              |
| Product sales                           | 0.0         |               | 0.0         |               | 0.1         |               | 0.1         |               | 0.1         |              |
| Milestone Payments                      | 0.0         |               | 0.0         |               | 0.0         |               | 1.8         |               | 0.0         |              |
| - Other                                 | 0.1         |               | 0.1         |               | 0.2         |               | 0.4         |               | 0.1         |              |
| <b>Total Operating Profit</b>           | <b>1.3</b>  | <b>-138.6</b> | <b>1.5</b>  | <b>-240.4</b> | <b>1.6</b>  | <b>-258.8</b> | <b>4.3</b>  | <b>-249.5</b> | <b>3.0</b>  | <b>129.9</b> |
| less - Research and Development         | -4.9        | 117.0         | -4.3        | 36.9          | -4.7        | 25.0          | -3.2        | -25.2         | -4.9        | 0.5          |
| - Corporate Costs                       | -1.4        | -6.8          | -1.7        | 6.3           | -1.5        | -5.2          | -1.0        | -51.1         | -1.6        | 17.4         |
| Plus - R&D Re-imbursment                | 2.0         |               | 1.7         |               | 3.2         |               | 2.2         |               | 2.3         |              |
| EBIT                                    | -3.0        |               | -2.8        |               | -1.5        |               | 2.2         |               | -1.2        |              |
| Interest and Other                      | -0.6        |               | -0.6        |               | -0.6        |               | -0.6        |               | -1.6        |              |
| Pre-Tax Profit                          | -3.6        |               | -3.3        |               | -2.1        |               | 1.6         |               | -2.9        | -20.3        |
| Operating Cash Flow                     | -3.4        |               | 0.0         |               | 0.0         |               | -4.1        |               | -0.5        | -86.2        |
| Net Cash Flow                           | -3.7        |               | -0.3        |               | -0.7        |               | -3.9        |               | -2.2        | -40.4        |
| <b>Available Cash</b>                   | <b>19.5</b> |               | <b>15.9</b> |               | <b>19.8</b> |               | <b>16.3</b> |               | <b>14.8</b> |              |

Source: UBI & Veritas



Source:UBI

Summary

**Strip Sales** – Increased by 84.4% to 179m, a 19.3% increase over 4Q CY14. This follows a Quarter on Quarter increase of 92.8% in Q4 CY14 and 77.3% in CY14. This reflects an increased push by LifeScan, with the launch of new meters, a free meter promotion in Europe and US discounts on meters.

**Strip Service Fees** - Increased by 141.5% to \$2.93m (+84.4% to US\$2.2m), an increase of 28.2% over Q4 CY14. This increases cumulative Service fees to US\$14m.

**Operating Profit Blood Glucose** - With increasing strip service fees and the absence of losses on strip production, the profit from Blood Glucose increased by 138% over the pcp and 36% over Q4 CY2014.

**Siemens** – The \$0.1m in product sales took cumulative product sales to \$0.3m, reflecting the limited launch with selected customers ahead of a wider EU launch.

**R&D** – Flat at \$4.9m, mostly from the development of additional Blood Coagulation testing systems for Siemens and UBI’s patient self-test system. The R&D expenses should fall in CY16 as development of the systems is completed and UBI becomes ineligible for a cash R&D refund.

UBI also recognised expected cash R&D refunds of \$2.3m, reflecting around 45% of eligible R&D expenditure, with the refund to be received in CY16.

**Interest & Other** – The \$0.9m increase from Q4 CY2014 represents:

- Interest and additional outgoings of \$0.5m related to the US\$15m Athyrium facility.
- Currency adjustments of \$0.7m on the facility.

**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 Loan facility in Q4 CY2013.

**Cash Flow** – Operating Cash Outflow fell by \$2.9m to \$0.5m, with increased strip sales and receipt of a \$1.8m milestone payment from Siemens.

Net Cash Outflow of \$2.2m included \$0.3m in Capex and Debt related costs of \$1.5m.

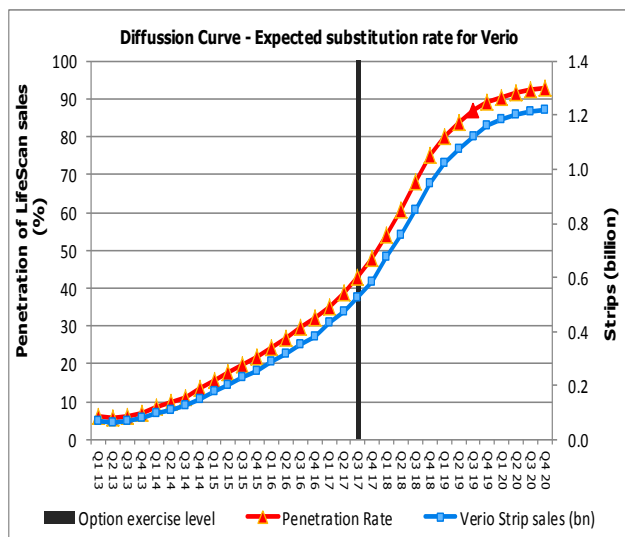
## Outlook

### Blood Glucose

Continued growth in Quarterly Service Fees is expected with strong growth in strip sales, from:

- The continued growth in diabetes sufferers globally.
- The continued substitution of Verio for its existing Ultra range, boosted by:
  - The introduction of new Verio meters with added functionality, making it easier for users to monitor blood glucose levels on a continual bases. This is expected to boost LifeScan’s market share.
  - The introduction in Europe of ISO accuracy standards from July 2015, which precludes the use of older meters not complying with the standard. LifeScan has instituted a program of free replacement of its ‘Ultras’ range of meters with Verio meters.
  - Reduction in the price of Verio meters by LifeScan within the USA, to encourage a switching to Verio and to meet competitive pressures. Also, the FDA is still in the process of outlining an accuracy requirement for new meters in the US. While this will not exclude existing meters in the market, it will focus attention on the high accuracy meters, such as Verio.

Continued strong growth in strip sales is expected, as outlined below, bringing into play the LifeScan Option Agreement.



Source: UBI (Act), Veritas (Forecast)

### LifeScan Option Agreement

LifeScan has an option to terminate the Master Services Agreement by converting the Quarterly Service Fees (QSFs) into a lump sum payment, once the cumulative Quarterly Service Fees reach US\$45m. As at 31/3/15, cumulative QSFs had reached US\$14m.

With our forecasts of cumulative QSFs reaching US\$45m in Q3CY17, exercise of the option at that time will result a total future payments of US\$75.2m (A\$94.0m), through:

- Receipt of a further US\$31.0m in QSFs up to the exercise date.
- A further US\$4.2m for Q4 CY17.
- A lump sum fee of US\$40.0m (A\$50.0m), being the sum of total QSFs for CY17 of US\$18.2m by 2.2x, being the multiplier for the Calendar Year in which the option is exercised.

A shorter time in reaching the trigger level would result in a higher total Lump Sum payment, due to the multiplier effect on a higher Calendar Year fees.

However, we make the following points around LifeScan alternatives at option exercise date:

**Continuation** - It’s very possible the option won’t be exercised or exercised by LifeScan at the first opportunity. The Pros and Cons are:

**Pros** – It will increase LifeScan’s ongoing margins and cash flow and eliminate the requirement to provide strip sales data.

**Cons** – It will involve a substantial lump sum payment, possibly over US\$45m. This may not be palatable for LifeScan, given the substantial impact on LifeScan’s profitability, especially with the current market pressures, or given LifeScan’s outlook on the market or forecasts of Verio strip sales at that time.

It will also limit further potential collaboration with UBI, severely restricting further product research and development, an essential for a global leader in a sector, highlighted by continued innovation. For example, a recent UBI feasibility project for a novel glucose sensor would not be progressed.

**Renegotiate** – Its possible LifeScan may seek to renegotiate the QSFs to a lower level, continuing the current payment and arrangements with UBI.

**Early Payment** – Its possible LifeScan may seek an agreement with UBI for early termination on a “to be determined” basis.

## Blood Coagulation

### PT/INR

While cumulative strip revenue is only \$0.3m, strip sales are expected to escalate over the next 18 months, with:

- The full commercial launch in mid-May across the 31 countries in Europe covered by CE Mark, following a limited release and evaluation by key customers.
- The launch in other countries which rely on CE Mark approval, marketed through Siemens's extensive sales and distribution network.
- The expected launch in the US in 1H CY16, following FDA 510(k) approval expected in late CY15 or early CY16. A 510(k) is a premarketing submission made to FDA to demonstrate that the device to be marketed is substantially equivalent to a legally marketed device that is not subject to premarket approval.



The Xprecia is now actively promoted by Siemens to:

*"Primary care, urgent care, and hospitals demand fast, reliable PT/INR testing for oral anticoagulation therapy. That's why Siemens is introducing the Xprecia Stride™ Coagulation Analyzer,\* a truly handheld device that tests PT/INR with lab accuracy.*

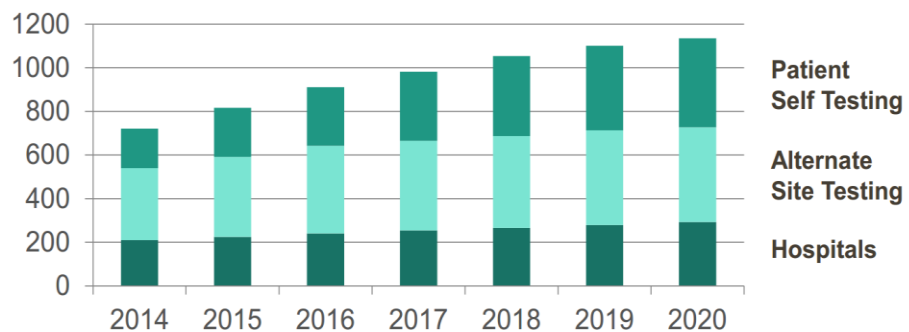
*The Xprecia Stride analyzer is ergonomically designed, with a large, intuitive touchscreen to enhance the user experience, simplify work flow, and improve overall testing accuracy. Together, these features make the testing process seamless and help minimize errors"*

Source: Siemens.

The Xprecia has also received the prestigious Red Dot Award for high design quality. The Red Dot Award is the largest and most recognized international product competition in the world.

The end market for Point of Care Coagulation Testing has been estimated at US\$1.0b in 2014, expected to grow by 9% pa to US\$1.4b in 2018. Of this market PT-INR is around 70%, covering around 20m tests per year.

### Global POC PT-INR Testing Market Projection (US\$M)



Source: UBI

The prospects for the PT/INR product have been boosted by the recent recall by Alere, the No.2 player with an 18% market share.

### Other Blood Coagulation

**Siemens** - In late CY2016, 2 additional Blood Coagulation testing systems for Siemens are expected to be launched, using 2 different strips within a common meter. The launch has been delayed by 12 months, with Siemens requiring some added features, expected to add to the appeal of the tests. However, Siemens has some advanced prototypes in clinical and reliability testing. The development of the additional features will be funded by Siemens.

While the markets for these tests are smaller, they are expected to be higher growth markets, with lesser competition.

**UBI's Home PT/INR test system** – While UBI is currently planning design verification and clinical trials for the system, it is in ongoing discussions with distributors in key markets, with non-binding term sheets in 50% of the markets and receipt of inbound enquiries in key markets of USA and Europe. The strips are likely to sell at a premium to the professional market, a potential market of \$200m - \$300m with significantly higher margins.

Launch date is target for late CY15, with no major revenue impact until CY2017.



**Forecasts**

We have adjusted our forecasts as follows:

**Blood Glucose (LifeScan):**

**UBI - Forecasts**

| Option Not Exercised                | Revenue (A\$m) |             |             |            |            |            | EBIT (A\$m) |             |             |       |       |       |
|-------------------------------------|----------------|-------------|-------------|------------|------------|------------|-------------|-------------|-------------|-------|-------|-------|
|                                     | CY 15          | CY 16       | CY 17       | CY 18      | CY 19      | CY 20      | CY 15       | CY 16       | CY 17       | CY 18 | CY 19 | CY 20 |
| Service Revenue - Strips            | 12.0           | 16.6        | 22.5        | 30.6       | 36.3       | 40.2       | 12.0        | 16.6        | 22.5        | 30.6  | 36.3  | 40.2  |
| <b>Option Exercised<sup>1</sup></b> |                |             |             |            |            |            |             |             |             |       |       |       |
| Service Revenue - Strips            | 12.0           | 16.6        | 22.5        |            |            |            | 12.0        | 16.6        | 22.5        |       |       |       |
| Lump Sum                            |                |             |             |            |            |            |             |             | 50.0        |       |       |       |
| <b>Total</b>                        | <b>12.0</b>    | <b>16.6</b> | <b>22.5</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>12.0</b> | <b>16.6</b> | <b>72.5</b> |       |       |       |

Source : Industry Sources and Veritas Forecasts <sup>1</sup> Option exercised at 1st opportunity

The above forecasts are based on the diffusion curve outlined on Page 4, which reflects the increasing substitution of Verio for the existing Ultra range. The substitution effect in Europe is expected to be initially stronger, due to the new accuracy requirements.

**Inclusion of Patent Costs** – With the release of the Siemens Xprecia, there is a requirement for UBI to reimburse LifeScan for 50% of accumulated patent registration fees for the periods 2001 to 2014. UBI have indicated that this is around US\$1.75m (A\$2.3m) recognized in CY14 as a Significant Item, but impacting Cash Flow in CY15. UBI will also have to cover 50% of ongoing annual patent fees of around \$0.12m, treated as an ongoing expense.

**Reimbursement of Marketing Costs** – With our forecasts of annual strip sales of over 1b strips in a CY16, UBI must reimburse LifeScan for US\$2m across 2 years for marketing costs outlaid before the initial launch of the Verio. While the liability of US\$2.0m will be recognized in CY16, payment of \$1m will be paid in both CY17 and CY18. These are included as Significant Items in both CY17 and CY18.

**Blood Coagulation**

**Siemens Strip Sales** – Forecasts for strip sales have been reduced to reflect the slower full launch of the PT/INR test, which commenced in May 2015 and delays in the launch of the 2 additional tests. Forecasts are initially based on a strip price of around US\$1.50, declining with volume towards a low of US\$0.50.

**Siemens Blood Coagulation**

| Calendar Year |       | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Assumptions   |
|---------------|-------|------|------|------|------|------|------|------|---|
| Market        | US\$m | 602  | 656  | 716  | 780  | 850  | 927  | 1010 | Strips represent 85% of Market                                  |
| Penetration   | %     | 0.1  | 0.9  | 2.2  | 3.6  | 5.5  | 8.0  | 10.0 | UBI revenue represents 50% of end strip Revenue                 |
| Revenue       | US\$m | 0.2  | 2.8  | 7.7  | 14.1 | 23.4 | 37.1 | 50.5 | Strip prices falling from US\$1.50 towards US\$0.50 with volume |
| EBIT          | US\$m | 0.0  | 1.0  | 3.5  | 6.4  | 9.9  | 15.8 | 20.2 | EBIT margins range from 35% to 45%                              |
| Revenue       | A\$m  | 0.3  | 3.5  | 9.6  | 17.5 | 28.9 | 45.9 | 62.5 | No profit share from Siemens                                    |
| EBIT          | A\$m  | 0.0  | 1.2  | 4.3  | 8.0  | 12.3 | 19.5 | 25.0 | Current A\$/US\$ exchange rates                                 |

Source: Veritas

Our forecasts only include a slow ramp-up from the 2 subsequent tests for FY17 and make no allowance for the profit sharing arrangements with Siemens.

**UBI Patient Self Test**

The forecasts are based on the launch of the test in Q4 CY15 and a modest ramp-up in CY16, given the novel nature of the test.

To launch the meter, UBI will need to successfully complete trials. While UBI can self-certify its meter in Europe to obtain EU mark, it will need to receive FDA 510(k) approval for a US launch.

**Blood Coagulation Self Test**

| Calendar Year  |             | 2014 | 2015       | 2016       | 2017       | 2018       | 2019       | 2020       | Assumptions   |
|----------------|-------------|------|------------|------------|------------|------------|------------|------------|---|
| Market         | US\$m       | 250  | 256.3      | 263        | 269        | 276        | 283        | 290        | Strips represent 85% of Market                      |
| Penetration    | %           |      | 0.05       | 0.5        | 1          | 1.5        | 2          | 2.5        | UBI revenue represents 60% of end value             |
| Revenue        | US\$m       |      | 0.1        | 1.3        | 2.7        | 4.1        | 5.7        | 7.2        | Strip prices of US\$1.50 to \$2.00, based on volume |
| EBIT           | US\$m       |      | 0.0        | 0.5        | 1.1        | 1.9        | 2.5        | 3.6        | EBIT margins increasing from 40% to 50%             |
| <b>Revenue</b> | <b>A\$m</b> |      | <b>0.2</b> | <b>1.6</b> | <b>3.3</b> | <b>5.1</b> | <b>7.0</b> | <b>9.0</b> | Current A\$/US\$ exchange rates                     |
| <b>EBIT</b>    | <b>A\$m</b> |      | <b>0.0</b> | <b>0.6</b> | <b>1.3</b> | <b>2.3</b> | <b>3.1</b> | <b>4.5</b> |   |

Source: Veritas

**A further US\$3m in Cash Milestones to be received From Siemens**

**Timing of Milestones**

We have adjusted the milestone payments to reflect the delayed release of the other Siemens tests, now expecting:

- A US\$1m milestone expected to be received on the registration of the Xprecia in the US by the FDA, most likely in Q4 CY15. While UBI will receive this milestone in cash, it will recognise US\$1.4m as Revenue, with the allocation of a US\$0.4m portion of the original deferred US\$3.0m upfront payments received in Q4 CY11.
- A further 2 cash milestone payments of US\$1.0m (Revenue impact of US\$1.4m) relating to the launch of the 2 additional Blood Coagulation tests for Siemens. These are likely to be received in CY16.
- Payment to Athyrium under the Loan Agreement, with it entitled to receive 30% of the Siemens milestone of US\$1.0m related to the US registration of the Xprecia Blood Coagulation meter. Athyrium also received US\$0.3m in CY14 of the Milestone received on the launch of the Xprecia in the EU.

**Potential for A\$0.6m in outgoings to Planet Innovations**

**Payment to Planet Innovation** - UBI has undertaken to pay Planet A\$0.6m for development work undertaken on a second meter for Siemens for the remaining 2 blood coagulation tests and a meter for UBI's self-test. Payment is across 2 Milestones of A\$0.3m included in CY16 with the expected launch sign-off of the meters and offset against milestone payments received.

The Net Cash received from the milestones will be less than the Net Revenue reported due to the recognition of the additional US\$0.4m with each milestone that was part of the original US\$3.0m upfront payment.

**Milestones - Revenue Recognition**

| Calendar Year                    |             | 2014       | 2015       | 2016       | 2017                  | 2018 | 2019 | 2020 | Assumptions  |
|----------------------------------|-------------|------------|------------|------------|-----------------------|------|------|------|--|
| Siemens Milestones               | US\$m       | 1.4        | 1.4        | 2.8        | No Further Milestones |      |      |      | No delays in the launch of new meters<br>Current A\$/US\$ exchange rates |
| Less Arhythmium payments         | US\$m       | -0.3       | -0.3       |            |                       |      |      |      |  |
| <b>Net Receipts from Siemens</b> | <b>A\$m</b> | <b>1.4</b> | <b>1.4</b> | <b>3.5</b> | or Payments           |      |      |      |  |
| less Planet Payments             | A\$m        |            | -0.3       | -0.3       |                       |      |      |      |  |
| <b>Net</b>                       | <b>A\$m</b> | <b>1.4</b> | <b>1.1</b> | <b>3.2</b> |                       |      |      |      |  |
| <b>Cash Flow impact</b>          | <b>A\$m</b> | <b>0.9</b> | <b>0.7</b> | <b>2.5</b> |                       |      |      |      |  |

Source:UBI

**R&D Cash Refund expected for FY15**

**Research & Development**

The high levels of R&D are expected to continue in CY15, forecast at \$16.5m with:

- The need to complete development of the 3 Blood Coagulation tests.
- Continued development of the Immunoassay and Molecular testing platforms.

With completion of the majority of the Blood Coagulation test in CY15, R&D is expected to fall to \$12.5m in CY16 and \$8.5m in CY17.

With our Revenue forecast for UBI of \$17.8m, it will most likely be able to claim a cash refund of up to 45% of relevant R&D for CY15 to be pro-rated quarterly.

As a result, we expect a Cash Refund of around \$8.5m in CY15, relating to CY14 R&D and a Cash Refund in CY16 of \$7.5m related to R&D in CY15.

**Balance Sheet**

While our forecasts see cash on Balance Sheet over the next 2 years above the minimum requirement of US\$2.0m under the Athyrium loan facility, UBI has an additional drawdown option expiring 31/7/15, where it can:

- Draw down a further US\$5m, as Quarterly Service Fees (QSFs) have exceeded US\$1.8m.
- Draw down a further US\$5m if QSFs and Xprecia revenue in Q2 CY15 exceed US\$2.5m (forecast).

We are unsure whether UBI will exercise the option to access part or all of the available funds, to provide an additional cash buffer or continue the high R&D component, or let the option lapse, avoiding additional high cost debt.

**Long Term Valuation of  
A\$0.60 ps**

**Valuation**

We now have a Discounted Cash Flow valuation of \$123m (\$0.60ps), using a discount rate of 12.5% and a Terminal Growth Rate of 3%, based on:

**Blood Glucose** - Operational Cash Flow for CY15 to CY17, plus the \$50m Lump Sum payment in CY17.

**Blood Coagulation** - Operational Cash Flow for CY15 to CY20, then terminal growth of 3%

**Expenses** - Corporate Costs and R&D for CY15 to CY20, then terminal growth of 3%.

**Milestones** – All milestones and any outgoings related to those milestones.

We believe this is conservative, as:

- Continuation of the LifeScan arrangement beyond the Option trigger point would substantially boost this valuation.
- The valuation assumes continued R&D expenditure beyond CY17, focused on the Immunoassay and Molecular Testing platforms, with no corresponding cash flow included. A significant reduction or cessation of R&D spend or additional income derived from this R&D would substantially increase the valuation.

**12 months price target of  
\$0.40 ps**

**Price Target**

While we have a Valuation of \$0.60ps, we have discounted our 12 month Price Target by a third to \$0.40 ps. The lower price target is a reflection of the following uncertainties:

- The timing of any exercise of the LifeScan option and the lump sum payment to be received.
- The take-up of the Siemens PT/INR test and UBI's self-test, as well as delays experienced with the remaining 2 Siemens' tests.
- The level of continuing R&D and the development of the Immunoassay or any further testing platforms.
- Whether UBI will exercise its option to draw down further funds under the Athyrium Finance facility, which is a high cost facility.

Elimination or a lessening of these uncertainties would result in a higher Valuation, lower discount and an increased Price Target.



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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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