

BUY

HOLD

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**ACTION & RECOMMENDATION**

UBI reports continued progress in their glucose business with LifeScan selling c.69M OneTouch Verio strips in Q4. This appears to be the first period where LifeScan has sold more glucose strips than they purchased from UBI. Having sunk OneTouch Verio launch costs now in over 85% of the global market, it is increasingly in LifeScan's interest to build out penetration. Forecasts and valuation unchanged – but both face some risks in 2013, depending on the level of plant utilisation that LifeScan requires of UBI. We assess valuation/earnings sensitivities. Target unchanged - \$1.65 per share.

**Q4FY12 Cash Flow****What's Changed**

- Q4FY12 cash flow update indicates that LifeScan sold 69M OneTouch Verio strips for the quarter, and c.225M strips for the year. Manufacturing volumes appear consistent with the previous three quarters, providing \$4.8M product revenue in Q4 and \$19.4M for FY12.
- Group revenue for FY12 was \$29.6M. Cash costs of \$33.9M were consistent with our FY12 expectations. UBI is expected to report its FY12 results on February 14. Our NPAT forecast is unchanged at a \$9.3M loss.
- No changes to our forecasts which look for continued growth in the service fee revenue component. We are forecasting 77M strip sales in Q1 and 92M in Q2 (service fees c.US\$1.7M). Valuation and price target unchanged at \$1.65 per share.

**Risks & Catalysts**

- The key risks to our forecasts and valuation include a) the pace of LifeScan's global OneTouch Verio roll-out (looking for 550M strip sales in FY13); and b) UBI's plant utilisation increasing in the 2H of FY13, which is ultimately at LifeScan's discretion.
- We present sensitivity analyses of the latter parameter – if UBI's manufacturing was capped at 250M/yr (compared to our base case assumption of 750M/yr) valuation impact is 13% (\$1.44 target). Of course, the impact on earnings is less than that on revenue.
- We remain positive on UBI's catalyst profile in 2013 which offers a mix of technological (immunoassay) and commercial (Siemens PT/INR system launch, coagulation self testing) milestones against the backdrop of their attractive glucose business.

Year-end December (AUD)	FY10A	FY11A	FY12E	FY13E	FY14E
NPAT Rep (\$m)	-6.6	-14.7	-9.3	-2.4	18.0
NPAT Norm (\$m)	-6.6	-14.7	-9.3	-2.4	18.0
Consensus NPAT (\$m)					
EPS Norm (cps)	-4.1	-8.9	-5.6	-1.5	10.8
EPS Growth (%)	60	-120	38	74	836
P/E Norm (x)	-21.5	-9.8	-15.7	-59.5	8.1
EV / EBITDA (x)	-25.5	-10.5	-14.8	-191.6	6.4
FCF Yield (%)	-4.4	-4.9	-4.5	4.1	7.6
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

Mkt Cap: \$146m

Enterprise Value: \$126m

Shares: 174m

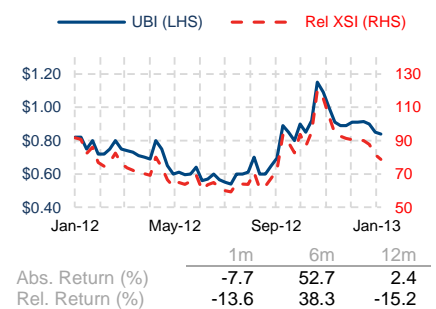
Sold Short: [Click here](#)

<b>12m Target Price (AUD)</b>	<b>\$1.65</b>
Share Price @ 22-Jan-13 (AUD)	\$0.87
Fcst 12m Capital Return	90.0%
Fcst 12m Dividend Yield	0.0%
<b>12m Total S'holder Return</b>	<b>90.0%</b>

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Daniel Sciberras

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Return	High	Low
	High	Cash Generator
Low	Challenged	Potential
	Low	High
	Re-Investment	

**WHTM Risk Assessment**

Risk	Low	Med	High	Spec
	Share Price Risk			
Business Risk				

Key Changes	12-Dec	After	Var %
<b>NPAT: FY12</b>	-9.3	-9.3	N/A
<b>Norm FY13</b>	-2.4	-2.4	N/A
<b>(\$m) FY14</b>	18.0	18.0	0.0%
<b>EPS: FY12</b>	-5.5	-5.6	N/A
<b>Norm FY13</b>	-1.4	-1.5	N/A
<b>(cps) FY14</b>	10.8	10.8	0.0%
<b>DPS: FY12</b>	0.0	0.0	0.0%
<b>(cps) FY13</b>	0.0	0.0	0.0%
<b>FY14</b>	0.0	0.0	0.0%
<b>Price Target:</b>	<b>1.65</b>	<b>1.65</b>	<b>-0.1%</b>
<b>Rec:</b>	<b>BUY</b>	<b>BUY</b>	

ASX 300 wgt: n/a

Median T'over/Day: \$0.0m

**Wilson HTM Equities Research – Universal Biosensors Inc.**

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#### PRICE TARGET

	Valuation	Price Target
WACC (%)		14.0
Blood glucose		243.1
Coagulation (Siemens),		43.5

**TOTAL (A\$/ Share) 1.40 1.65**

#### INTERIMS (\$m)

Half Yr (AUD)	Jun 11	Dec 11	Jun 12	Dec 12
	1H A	2H A	1H E	2H E
Sales	5.6	9.1	14.7	14.9
EBITDA	-6.3	-5.8	-3.6	-4.9
EBIT	-8.0	-7.4	-3.6	-6.3
<b>Net Profit</b>	<b>-7.6</b>	<b>-7.1</b>	<b>-3.4</b>	<b>-5.9</b>
<b>Norm. EPS</b>	<b>-4.7</b>	<b>-4.2</b>	<b>-2.0</b>	<b>-3.5</b>
EBIT/Sales	-143.3	-80.9	-24.7	-42.1
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

#### FINANCIAL STABILITY

Year-end December	FY11A	FY12E	FY13E
Net Debt	-15.1	-19.7	-24.8
Net Debt / Equity (%)	<0	<0	<0
<b>Net Debt / EV (%)</b>	<b>&lt;0</b>	<b>&lt;0</b>	<b>&lt;0</b>
Current Ratio (x)	6.4	6.3	3.3
Interest Cover (x)	22.5	16.6	3.2
<b>Adj. Cash Int. Cover (x)</b>	<b>11.5</b>	<b>12.0</b>	<b>&lt;0</b>
Debt / CashFlow (x)	0.0	0.0	0.1
Net Debt (cash) / share	<0	<0	<0
NTA / share (\$)	0.2	0.2	0.2
Book Value / share (\$)	0.2	0.2	0.2
Payout Ratio (%)	0	0	0
Adj. Payout Ratio (%)	0	0	0

#### EPS RECONCILIATION (\$m)

	FY11A		FY12E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	15	15	30	30
EBIT	-15.4	-15.4	-9.9	-9.9
<b>Net Profit</b>	<b>-14.7</b>	<b>-14.7</b>	<b>-9.3</b>	<b>-9.3</b>
Notional Earn.	0.0	0.0	0.0	0.0
Prof./Conv. Div.	0.0	0.0	0.0	0.0
<b>Profit for EPS</b>	<b>-14.7</b>	<b>-14.7</b>	<b>-9.3</b>	<b>-9.3</b>
Diluted Shrs(m)	165	165	167	167
<b>Diluted EPS (c)</b>	<b>-8.9</b>	<b>-8.9</b>	<b>-5.6</b>	<b>-5.6</b>

#### Notes to accounts

All figures shown using A-IFRS.

#### KEY ASSUMPTIONS

Year-end December (AUD)	FY07A	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue Growth (%)				8,759.9	25.0	101.3	59.7	78.1
EBIT Growth (%)		47.2	17.5	-53.5	93.6	-35.6	-64.3	-569.4
NPAT Growth (%)		43.5	35.8	-59.4	122.3	-36.7	-73.7	-835.8
<b>EPS Growth (%)</b>		<b>23.1</b>	<b>35.8</b>	<b>-59.9</b>	<b>119.9</b>	<b>-37.6</b>	<b>-73.7</b>	<b>-835.8</b>
EBIT / Sales (%)			12,863.7	-67.5	-104.6	-33.5	-7.5	19.7
Tax Rate (%)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>ROA (%)</b>		<b>-24.3</b>	<b>-32.4</b>	<b>-14.6</b>	<b>-32.0</b>	<b>-20.1</b>	<b>-6.3</b>	<b>21.1</b>
<b>ROE (%)</b>		<b>-21.8</b>	<b>-34.4</b>	<b>-13.5</b>	<b>-36.0</b>	<b>-24.4</b>	<b>-6.9</b>	<b>33.5</b>

#### PROFIT & LOSS (\$m)

Year-end December (AUD)	FY07A	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Sales Revenue	0.0	0.0	0.1	11.8	14.7	29.6	47.2	84.2
EBITDA	-9.0	-12.3	-14.2	-5.0	-12.1	-8.5	-0.7	19.6
Depn & Amort	0.9	2.3	2.9	3.0	3.3	1.4	2.8	3.0
<b>EBIT</b>	<b>-9.9</b>	<b>-14.5</b>	<b>-17.1</b>	<b>-7.9</b>	<b>-15.4</b>	<b>-9.9</b>	<b>-3.5</b>	<b>16.6</b>
Net Interest Expense	-1.4	-2.5	-0.8	-1.2	-0.7	-0.6	-1.1	-1.4
Tax	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit pre Sig. Items</b>	<b>-8.4</b>	<b>-12.0</b>	<b>-16.3</b>	<b>-6.6</b>	<b>-14.7</b>	<b>-9.3</b>	<b>-2.4</b>	<b>18.0</b>
Abn's / Ext's / Signif.	0.0	0.0	17.7	0.0	0.0	0.0	0.0	1.0
<b>Reported Net Profit</b>	<b>-8.4</b>	<b>-12.0</b>	<b>1.4</b>	<b>-6.6</b>	<b>-14.7</b>	<b>-9.3</b>	<b>-2.4</b>	<b>18.0</b>

#### CASHFLOW (\$m)

Year-end December (AUD)	FY07A	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
EBITDA	-9.0	-12.3	-14.2	-5.0	-12.1	-8.5	-0.7	19.6
Interest & Tax	1.5	2.5	0.8	1.2	0.7	0.6	1.1	1.4
Working Cap / Other	-2.7	2.6	15.1	-2.7	4.2	1.4	5.6	-9.9
<b>Operating Cash Flow</b>	<b>-10.1</b>	<b>-7.1</b>	<b>1.6</b>	<b>-6.4</b>	<b>-7.2</b>	<b>-6.6</b>	<b>6.0</b>	<b>11.1</b>
Maintenance Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>-10.1</b>	<b>-7.1</b>	<b>1.6</b>	<b>-6.4</b>	<b>-7.2</b>	<b>-6.6</b>	<b>6.0</b>	<b>11.1</b>
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Growth Capex	-5.6	-9.6	-3.0	-2.3	-1.1	-0.8	-0.9	-0.9
Invest. / Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow Pre Financing</b>	<b>-15.7</b>	<b>-16.8</b>	<b>-1.3</b>	<b>-8.7</b>	<b>-8.3</b>	<b>-7.4</b>	<b>5.1</b>	<b>10.2</b>
Funded by Equity	34.2	3.1	0.1	0.7	0.1	12.0	0.0	0.0
Funded by Debt	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0
Funded by Cash	-18.5	13.6	1.3	8.0	8.2	-5.0	-5.1	-10.2

#### BALANCE SHEET SUMMARY (\$m)

Year-end December (AUD)	FY07A	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Cash	42.0	28.3	31.3	23.3	15.1	20.1	25.2	35.3
Current Receivables	0.0	0.1	0.4	3.6	4.9	5.5	5.0	15.0
Current Inventories	0.5	0.0	0.3	3.2	3.6	2.9	6.8	11.4
Net PPE	16.4	21.9	21.3	23.1	20.3	18.4	16.5	14.4
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles / Capitalised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.5	4.3	2.8	0.7	1.3	2.3	2.4	2.5
<b>Total Assets</b>	<b>63.5</b>	<b>54.7</b>	<b>56.1</b>	<b>53.8</b>	<b>45.2</b>	<b>49.3</b>	<b>55.8</b>	<b>78.6</b>
Current Payables	0.9	0.6	0.4	1.8	0.6	3.1	12.0	16.7
Total Debt	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.4
Other Liabilities	2.9	5.4	4.3	4.9	9.6	7.7	7.8	7.9
<b>Total Liabilities</b>	<b>3.8</b>	<b>6.0</b>	<b>4.8</b>	<b>6.6</b>	<b>10.2</b>	<b>11.1</b>	<b>20.1</b>	<b>24.9</b>
Minorities / Convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholder Equity</b>	<b>59.7</b>	<b>48.7</b>	<b>51.3</b>	<b>47.2</b>	<b>35.0</b>	<b>38.1</b>	<b>35.7</b>	<b>53.7</b>
<b>Total Funds Employed</b>	<b>59.7</b>	<b>48.7</b>	<b>51.3</b>	<b>47.2</b>	<b>35.0</b>	<b>38.5</b>	<b>36.1</b>	<b>54.1</b>



## Universal Biosensors Inc – Q4FY12 Review

UBI reports continued progress in their glucose business with LifeScan selling c.69M OneTouch Verio strips in Q4. This appears to be the first period where LifeScan has sold more glucose strips than they purchased from UBI. Having sunk OneTouch Verio launch costs now in over 85% of the global market, it is increasingly in LifeScan's interest to build out penetration. Forecasts and valuation unchanged – but they face some risks in 2013, depending on the level of plant utilisation that LifeScan requires of UBI. We assess valuation/earnings sensitivities. Target unchanged - \$1.65 per share.

### KEY POINTS FROM 4C RELEASE

**Q4 cash flow** – UBI reported \$8.1M in cash receipts for the quarter. The company closed FY12 with \$23.6M cash, using just \$2.7M for the quarter and c.\$4M for the full year.

**TABLE 1: Q4FY12 CASH FLOW SUMMARY**

4QFY12 CASH FLOWS	4QFY11	4QFY12	Δpcp%
Cash Receipts (\$m)	3.4	8.1	135.4
Operating Cash Flow (\$m)	-3.5	-2.5	27.9
Operating +Investing Cash Flow (\$m)	-3.7	-2.7	28.5
Financial Cash Flow (\$m)	2.5	12.4	391.7
Change in Cash Flow (\$m)	-1.2	9.7	902.2
Ending Cash Balance (\$m)	15.1	23.6	56.7

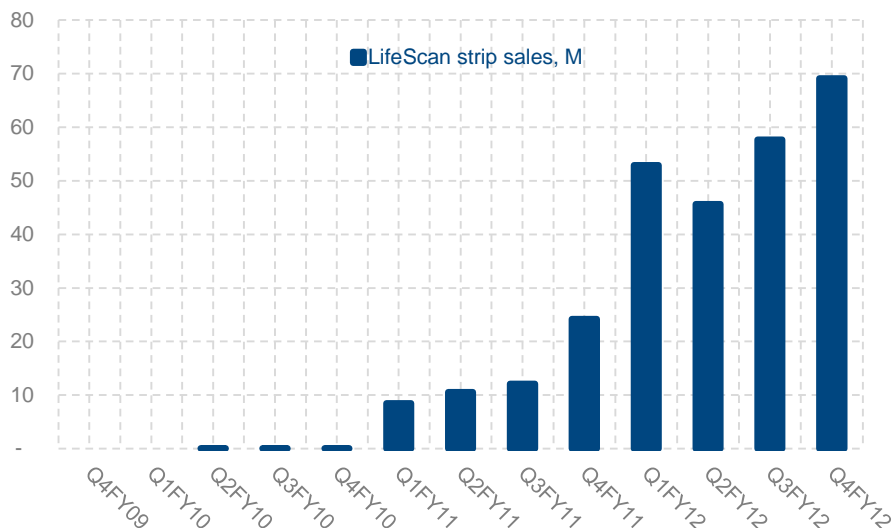
Source: UBI, WHTM Research

**Revenue and operational** – Service fee revenue from LifeScan's sales of OneTouch Verio strips was \$666,000 for Q4 (+288% on pcp). Given that the average AUDUSD rate for Q4 was 1.038 we estimate that this service fee represents approximately 69M OneTouch Verio glucose test strips sold (by LifeScan) for the quarter. We estimate 225M strips were sold in FY12. Full year service fees totalled \$2.2M (+311% on FY11). We are forecasting 77M strip sales in the first quarter of 2013 and 92M in Q2 (1H service fees c.US\$1.7M).

Product revenue was c.\$4.8M for the quarter indicating that production volumes were similar to the previous three quarters. We estimate that UBI manufactured and sold c.270M OneTouch Verio strips to LifeScan in FY12.



**FIGURE 1: ESTIMATED QUARTERLY ONETOUCH VERIO STRIP SALES BY LIFESCAN, IN MILLIONS.**



Source: UBI, WHTM Research

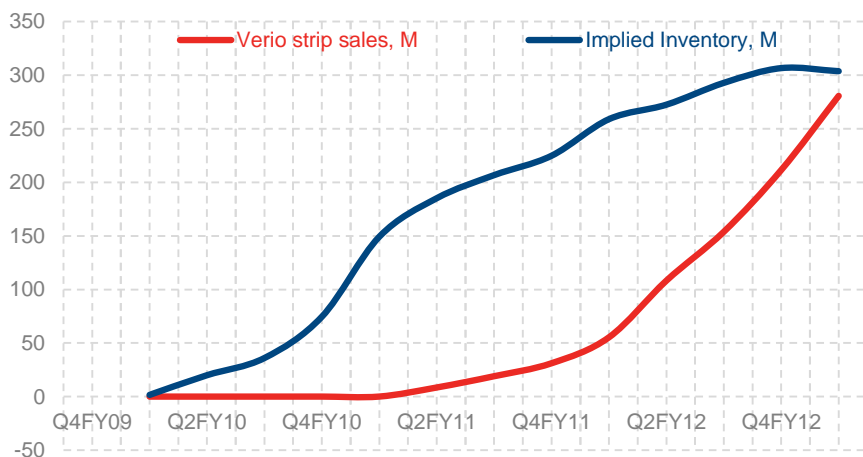
We expect the company to lodge its unaudited FY12 results on the 14<sup>th</sup> of February. FY12 revenue of \$29.6M is slightly ahead of our expectations and implies \$6.2M revenue in Q4. Cash costs for FY12 were \$33.9M (+32% on pcp) which is in line with our forecasts. We expect UBI to report a FY12 loss of c.\$9.3M.

**VERIO LAUNCH NOTES - LIFESCAN INVENTORY LEVELS**

UBI reports that OneTouch Verio strips are now available in over 85% of the global self-monitored blood glucose market. UBI began reporting “product revenues” in Q4FY09. Working on the assumption of 7.5 US cents/strip (gross) we have calculated the aggregate number of strips LifeScan has acquired from UBI, to compare with the number of strips they have sold in the diabetes market (assuming each strip generates 1USc of ‘service fee’ for UBI). We calculate a running inventory balance by difference, on a quarterly basis (Figure 2). Our estimates suggest that Q4FY12 was the first period where LifeScan sold more OneTouch Verio strips than they acquired from UBI.



**FIGURE 2: ESTIMATES OF CUMULATIVE ONETOUCH VERIO STRIP SALES AND LIFESCAN'S STRIP INVENTORY BALANCE FY09-12.**



Source: WHTM Research

It is too early to say anything quantitative about LifeScan's own OneTouch Verio strip manufacturing. We know their Inverness facility is producing commercial product and expect that this will make an increasing contribution to the service fees this year.

This quarterly analysis could provide some future visibility into LifeScan's own manufacturing activities. As LifeScan sells more of its own Verio product, there will come a point where UBI's reported service fees can no longer be reconciled with the running inventory balance and UBI's own quarterly product sales to LifeScan.

**FORECASTS – SENSITIVITY TO UBI MANUFACTURING REQUIREMENTS**

Our revenue outlook for FY13 is predicated on LifeScan authorising UBI to increase its manufacturing output, reaching full capacity on one line by the end of this year (750M strips per annum). Neither LifeScan nor UBI have said anything to suggest this will be the case and it is possible that ultimately LifeScan could elect to shoulder more or even all of the manufacturing for OneTouch Verio. Our view is that UBI is likely to retain a significant manufacturing role as the technology originator and LifeScan's global supply chain likely benefits from a southern hemisphere product source.

If LifeScan did elect to curb UBI's participation as manufacturer, then the impact on earnings would be less than that on revenue. For instance (referring to the Table below) cutting UBI manufacturing back to 250M strips/annum in FY15 would reduce our revenue forecast by 40% but NPAT by just 16% (keeping total strip volumes constant and shifting the manufacturing load to LifeScan). The relationship between manufacturing levels and NPAT is not linear though, because we estimate that there is a \$6-7M fixed cost base attached to the facility. So if the manufacturing was set to zero, then the impact of those costs would be felt and the revenue/earnings deficits would be more pronounced.



**TABLE 2: DECREASING UBI'S MANUFACTURING OUTPUT HAS A MUTED IMPACT ON EARNINGS, COMPARED TO THAT ON REVENUES**

	FY13			FY14			FY15		
Manufacturing output (Mstrips/yr)	<b>441</b>	<b>250</b>	<b>zero</b>	<b>750</b>	<b>250</b>	<b>zero</b>	<b>750</b>	<b>250</b>	<b>zero</b>
Revenue (A\$m)	47.7	33.8	15.6	85.8	46.8	27.3	107.1	64.7	43.5
Gross profit (A\$m)	19.9	18.0	15.2	34.6	29.4	26.8	50.6	45.0	42.1
<i>gross margin</i>	42%	53%	97%	40%	63%	98%	47%	69%	97%
EBITDA (A\$m)	(0.7)	(7.0)	(10.8)	19.6	13.9	7.0	33.7	29.0	22.6
<i>EBITDA margin</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	23%	30%	26%	31%	45%	52%
NPAT (A\$m)	(2.4)	(8.8)	(12.7)	18.0	11.9	4.7	32.2	26.9	20.2
EPS (cps)	(1.5)	(5.0)	(7.7)	10.8	7.1	3.1	19.8	16.6	10.4

Source: WHTM Research

## PROGRAMME UPDATE

**Immunoassay** – this project appears to have slipped marginally (expected Q4F12) but that timing is not important. A working concept has been established for both D-Dimer and C-Reactive Protein (CRP) immunoassays for some time. The residual issues are technical and relate to delivering the required diagnostic performance to ensure that the end product is competitive. For the most part, these products will compete with benchtop analysers. To our knowledge, there is no handheld D-Dimer analyser on the market that operates from a finger-stick sample.

**LifeScan Projects** – UBI successfully concluded a feasibility project for LifeScan in September 2012, which although distinct and separate from OneTouch Verio, is in the field of blood glucose monitoring. LifeScan paid UBI US\$4.5M for this project. LifeScan may invite UBI to conduct a 'development' campaign, which we would expect to have milestone payments attached and perhaps an ongoing role in product manufacture.

**Coagulation (Patent Self Test)** – work continues on producing a simplified meter compared to that developed for professional settings. The company aims to secure one or more partners this year but we do not anticipate a launch until 2014 for this programme.

**Coagulation (Professional Settings; Siemens)** – no specific update with respect to this program other than to reiterate our expectation of milestone payments in 2013. The remaining milestones may relate to finalisation of the PT/INR system and completing the development work on the two remaining products under the Siemens agreement. The tests are not disclosed but we speculate Activated Clotting Time (ACT) and Activated Partial Thromboplastin Time (APTT) as potential candidates given their common availability on other point-of-care coagulation analyser platforms.



**TABLE 3: REVENUE AND GROSS PROFIT FORECASTS FOR UBI, FLOWING FROM SIEMEN'S PT/INR COMMERCIALISATION ACTIVITIES FY13-20E.**

	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
Hospital Market (US\$M)	200	216	233	249	266	282	299	315
Clinics Markets (US\$M)	380	409	439	468	497	526	556	585
Strip market (90%)	522	563	604	645	687	728	769	810
Global Strip volumes (M)*	100	108	116	124	132	140	148	156
Siemens market share	0.5%	1.5%	3.5%	8.0%	13.0%	18.0%	20.0%	20.0%
UBI PT/INR strips (M)	0.5	1.6	4.1	9.9	17.2	25.2	29.6	31.2
<b>UBI Revenue (US\$M)**</b>	<b>0.5</b>	<b>1.6</b>	<b>4.1</b>	<b>9.9</b>	<b>17.2</b>	<b>25.2</b>	<b>29.6</b>	<b>31.2</b>
<b>UBI Gross profit (@70%)</b>	<b>0.4</b>	<b>1.1</b>	<b>2.8</b>	<b>7.0</b>	<b>12.0</b>	<b>17.6</b>	<b>20.7</b>	<b>21.8</b>

\* Assume US\$5.20 per strip

\*\* Assume ASP of US\$1/strip to UBI

Source: WHTM Research

## VALUATION

No changes to the valuation or price target (\$1.65 per share) which is derived from our DCF framework. The manufacturing scenarios described earlier (setting UBI's output to 250M or even zero strips per year) would obviously have a negative impact on our valuation. Under the 250M strip/yr scenario our valuation would be \$1.44/share (13% lower from base case). If we 'mothballed' the glucose line and transferred 100% of strip manufacturing over to LifeScan, then our valuation would become \$1.30 per share (-21%).

The risks of prolonged strength in AUD does also lead investors to assess the impact of running 'spot' AUD rates through the valuation model. As policy, we adopt the WHTM 'house' rates in our model which look for long run AUDUSD = 0.85. If we substitute AUDUSD=1.06 through our UBI model our valuation would turn out 19% lower at \$1.34 per share.

**TABLE 4: DUAL VALUATION SENSITIVITIES: UBI MANUFACTURING OUTPUT AND FORWARD FX APPROACH**

	<b>Manufacturing output (Mstrips/yr)</b>		
	<b>750</b>	<b>250</b>	<b>zero</b>
<b>WHTM FX</b>	1.65	1.44	1.30
<b>Spot FX</b>	1.34	1.13	1.03

Source: WHTM Research



## RETURN RE-INVESTMENT MATRIX

Return	High	Cash Generator	Champion
	Low	Challenged	Potential
		Low	High
		Re-investment	

We rate UBI technology highly, noting multiple high-value diagnostic opportunities which can be accessed on modest R&D investment.

## RISK MEASURES

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

UBI stock is relatively illiquid. Business risks mitigated by involvement of multinational partners with established presence in UBI's product areas.

## BUSINESS DESCRIPTION

Universal Biosensors is a developer and manufacturer of molecular diagnostics equipment for point-of-care (PoC) medical settings. They have developed electrochemical cell and manufacturing technologies to produce 'strip and meter' diagnostic tools for diabetes care (partnered with JNJ subsidiary LifeScan) and blood coagulation monitoring (partnered with Siemens). They are also growing into new, high value PoC applications such as genetic typing and immunoassay.

## INVESTMENT THESIS

Our thesis on UBI is that we see the company becoming a multiple royalty house, continuing to partner new diagnostic products with groups who are ranked either 1 or 2 in their fields. In our view, their partnering success to date has been a function of delivering new product features at low cost of goods, thanks to their proprietary, high yielding 'reel-to-reel' manufacturing capabilities. Demonstrating immunoassay capabilities in 2012 a major catalyst.

## REVENUE DRIVERS

- LifeScan conducting global launch of UBI's OneTouch Verio glucose monitoring strip for diabetes care - could grow to 4.5Bn strips/year;
- Siemens to launch UBI coagulation monitoring product in 2013;
- Prospect of further partnering deals based on product pipeline.

## MARGIN DRIVERS

- Make a modest (c.15%) gross margin on OneTouch Verio strips supplied to LifeScan
- Make a zero cost US1 cent/strip 'service fee' on all OneTouch Verio strips, sold globally
- We estimate 70% gross margin on coagulation strips sold to Siemens

## KEY ISSUES / CATALYSTS

- Upside risks
- Quarterly cash-flow and SEC filings indicate LifeScan's progress on OneTouch Verio strip sales;
- Product launches by Siemens;
- New partnering transactions on other products;
- New technology innovation, pipeline development.

## RISK TO VIEW

- Downside risks
- Large partners like LifeScan are slow to move - provide low visibility
- Medical device risks: difficulties with competitors, product recalls.

## BALANCE SHEET

- We estimate that UBI will have c.\$10M cash as at end-FY12.
- Negligible debt.

## BOARD

- Mr Andrew Denver (Chairman, Director)
- Mr Paul Wright (Managing Director, CEO)
- Dr Colin Adam (Director)
- Mr Denis Hanley (Director)
- Mr Marshall Heinberg (Director)
- Mr Andrew Jane (Director)
- Dr Elizabeth (Jane) Wilson (Director)

## MANAGEMENT

- Mr Paul Wright (Managing Director, CEO)
- Mr Saleshe Balak (CFO)

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#### Return Reinvestment Matrix and Risk Measures

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

#### Recommendation Structure and Other Definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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