Universal Biosensors Ltd

CY2011 a watershed year for UBI

While UBI reported an increase Net Loss of $14.0m for the year, it made significant advances in its operations providing a platform for strong future growth, including:

- A move to profits from strip manufacture in Q4 CY2011, with increased volume to LifeScan for the rollout of the Verio system into USA and Canada.
- The start of a $4.5m 12 month development program for LifeScan.
- Development of a second revenue stream, with an Agreement with Siemens Healthcare to develop a blood coagulation testing system. UBI received a initial US$3m payment, with a further 6 milestone payments to be made.
- Continued progress with the development of immunoassay and Molecular diagnostics.

While Revenue fell by 19%, Cash receipts increased by 21.1% to $17.7m, with inclusion of $4.9m treated as accrued revenue. This difference reflects the timing and treatment of the $3m payment from Siemens and work undertaken for LifeScan under the development program.

Outlook

We expect a stronger 2H FY2012, continuing into CY2013, with:

- Increasing sales of strips to LifeScan with the continued rollout of the OneTouch Verio meter in North America, the relaunch into Europe and the introduction into new markets.
- An escalating royalty stream from all Verio strip sales by LifeScan.
- Continued cash flow from the $4.5m LifeScan development program.
- Milestone payments with the development of blood coagulation products for Siemens and the supply of strips for the launch of the first product in CY2013.
- Further advancement of its immunoassay and DNA detection projects.

Forecasts

Our forecasts for CY2012 and CY2013 for the OneTouch Verio are mostly unchanged, while the PT/INR forecasts reflect milestone payments, and a launch date of early CY2013.

With the ramp up of Verio sales, milestone and development payments, UBI will be cash flow positive and profitable in CY2013.

Reasons to BUY

Growth Markets – Exposure to large rapid growth Point-off-Care Healthcare sectors, estimated at US$15b and forecast to grow at around 11% pa, with a strong position in the escalating blood glucose market.

Industry Position – Leading edge technology, a strong IP position, backed by a strong R&D team, strong partnerships and successful management and Board.

Development Pipeline – A strong pipeline, with one product developed, the blood coagulation product in advanced development and a further 3 projects at various stages of development.

Improving Financial Position – UBI is expected to be cash flow positive and profitable in CY2013, supported by a strong Balance Sheet, with cash of $15.1m.

Valuation – Currently trading at a 60% discount to our valuation of $1.97 ps.

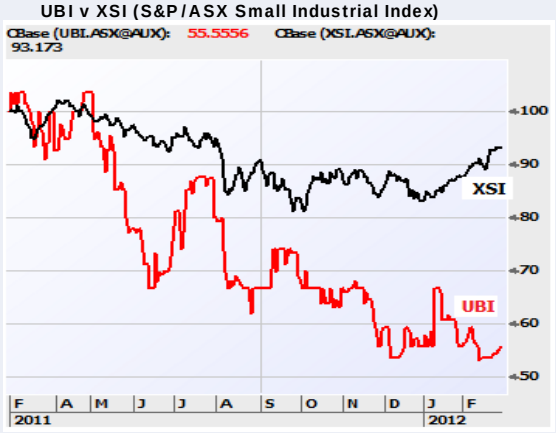
UBI.ASX BUY

5 March 2012

Price	$0.79
Price Target	$1.97
Valuation method	DCF
GICS sector	Healthcare
12 Mth Price Range	$0.70 - 1.42
Avg monthly t/o	1.6m
Market Capitalisation	$125m
Shares on issue	159m
Enterprise value	$102m
Previous rating	**BUY**

Year Ended Dec 30		10A	11A	12E	13E	14E
Revenue	$m	18	14.7	30.3	53.6	80.5
EBITDA	$m	-4.8	-12.1	-0.9	9.0	21.8
EBITDA margin	%	32.4	11.4	44.1	44.4	48.7
EBIT	$m	-7.8	-15.4	-4.6	5.0	17.6
EBIT margin	%	-42.9	-104.8	-15.3	9.3	21.9
NPAT	$m	**-6.6**	**-14.7**	**-4.3**	**5.2**	**17.9**
EPS	¢ ps	-4.2	-9.2	-2.7	3.3	11.3
DPS	¢ ps	0.0	0.0	0.0	1.0	4.0
Franking	%	0.0	0.0	0.0	0.0	0.0
PER	x	na	na	na	24.1	7.0
Dividend yield	%	0.0	0.0	0.0	1.3	5.1
NTA/share	¢ ps	29.7	22.0	19.3	22.6	32.4
EV/EBITDA	x	-21.2	-9.1	na	11.6	4.1
Gearing (D:E)	%	0.0	0.0	0.0	0.0	0.0
P/OCF	x	-37.3	-17.5	na	17.7	6.6
ROA	%	-14.2	-31.1	-9.9	9.8	27.7
ROE	%	-13.4	-35.7	-13.2	15.6	41.1
Interest cover	x	na	na	na	na	na

UBI v XSI (S&P/ASX Small Industrial Index)



Source: IRESS

Activities

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

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CY2011 Report

The Reported Loss of $14.7m was greater than expected (Veritas estimates -$12.4m), due to delays in the North American launch of the blood glucose meter, timing issues and the accounting treatment of some receipts.

Profit & Loss			
Year ended 31-Dec ($m)	**2010**	**2011**	**% Ch**
Total Revenue	18.2	14.7	-19.2
Cost of Goods Sold	-12.3	-13.0	6.0
Operating Profit	5.9	1.7	-71.6
Expenses	-10.7	-13.8	28.7
EBITDA	-4.8	-12.1	151.6
Depreciation	-3.0	-3.3	
EBIT	-7.8	-15.4	97.4
Interest (Net)	1.2	0.7	
Pre-Tax profit	-6.6	-14.7	122.3
Tax	0.0	0.0	
Net Profit	**-6.6**	**-14.7**	**122.3**
Significant Items (Net)	0.0	0.0	
Reported Profit	-6.6	-14.7	**122.3**
Gross Operating Margin (%)	32.4	11.4	
EBITDA Margin (%)	-26.5	-82.4	
EBIT Margin (%)	-42.9	-104.8	
Effective Tax Rate (%)	0.0	0.0	
EPS (¢ ps)	-4.2	-9.2	120.2
EPS - Dil (¢ ps)	-4.2	-9.0	114.6
Cash Flow (¢ ps)	-4.1	-4.5	10.6
DPS (¢ ps)	0.0	0.0	
Franking (%)	0.0	0.0	
Dividend Payout Ratio (%)	0.0	0.0	

Balance Sheet			
As at 31-Dec ($m)	**2010**	**2011**	**% Ch**
Current Assets	30.4	24.6	
Non Current Assets	**23.4**	**20.6**	
Total Assets	53.8	45.2	-16.0
Current Liabilities	4.5	7.0	
Non Current Liabilities	2.2	3.2	
Total Liabilities	6.6	10.2	54.0
Shareholder Funds	**47.2**	**35.0**	-25.8
Return on Equity (%)	-13.4	-35.7	
Net Debt ($m)	0.0	0.0	
Current ratio (x)	6.8	3.5	
NTAV (¢ ps)	29.7	22.0	-25.9
Cash (¢ ps)	14.7	9.5	
Inventory Turn (x)	7.0	3.8	
Receivables Turn (x)	9.1	3.5	
Cash Flow	**2010**	**2011**	
Cash Receipts	14.7	17.8	21.2
Cash Payments	-22.3	-25.7	15.1
Net Cash Outgoings	**-7.6**	**-7.9**	**3.4**
Net Interest Received/Paid	1.2	0.7	
Operating Cash Flow	**-6.4**	**-7.2**	**11.6**
Capex	-2.3	-1.1	-52.5
Equity	0.7	0.1	
Net Cash Flow	**-8.0**	**-8.2**	**2.6**

Key Points:

Revenue - The revenue fall was entirely in the service area, which fell by 59%, mostly due to a strong pcp, which included major development work on the Onetouch Verio for Lifescan. Product sales increased by 2.6% with increasing deliveries to LifeScan.

Underlying Revenue was higher, with $4.5m in receipts treated as deferred revenue, comprising: A $3m initial access fee from Siemens received in Q3 CY2011; and $1.5m from LifeScan under the $4.5m 12 month Development Project, included in receivables from LifeScan, of $4.9m.

Reconcilation of EBITDA & Net Cash Outgoings

Item	2010	2011	Ch
EBITDA	**-4.8**	**-12.1**	**152%**
Change Working Capital	-4.7	-2.9	
Deferred Revenue	0.1	4.5	
Share based Payments	1.6	2.3	
Other	0.2	0.3	
Net Cash Outgoings	**-7.6**	**-7.9**	**3%**

Source: UBI Accounts

Cash Receipts – The 21.2% increase in Cash Receipts included the $4.5m of deferred revenue. For revenue purposes, these payments will be recognised over the life of the projects.

Cash Outflows fell from $5.5m in 1H CY2012, to $2.4m in 2H CY2011 with the growth in receipts and $2.3m of employee expenses in share based payments.

Payments - Increased by 15.1% to $27.1m, covered a 5.0% increase in COGS and a 28.7% increase in Expenses, comprising:

- A 51.4% increase in R&D to $9.8m, after a 56% fall in CY2010. The increase was due to the ramp up in blood coagulation development for both the Prothrombin and other tests as part of the Siemens agreement and ongoing R&D on immunoassay and molecular diagnostic point of care tests.
- A slight decline in administrative costs to $4.0m, helped by tight cost control.

The average monthly burn rate increased by 2% to $0.68m in CY2011 ($8.3m).

Working Capital – Increased by $2.9m, reflecting timing issues with cash receipts (-$1.3m) and payments (-$1.2m), and an increase in inventory (+$0.4m), related to expanding product sales. Working Capital improved post result with receipt of the $4.9m from LifeScan.

Balance Sheet - Remains strong with no debt, cash of $15.1m (9.5¢ ps) and no capitalised R&D.

Results by Source

Division	Revenue ($m)			EBITDA ($m)			Margin (%)	
	CY 10	CY 11	% ch	CY 10	CY 11	% ch	CY 10	CY 11
Product Sales	11.8	12.1	2.6	1.0	-0.2	-125.7	8.2	-2.2
Service Revenue	6.4	2.6	-59.0	4.9	1.9	-61.0	76.9	80.4
Milestone Payments	0.0	0.0		0.0	0.0		na	na
R&D	0.0	0.0		-6.5	-9.8	51.4	na	na
Corporate				-4.2	-4.0	-5.3		
Total	**18.2**	**14.7**	**-19.2**	**-4.8**	**-12.1**	**153.3**		

Product Sales – Increased by 2.6% with strip sales in Europe and initial sales in Canada and the USA, ahead of launches in November and January, although not fully reflecting the scale up for the USA. The launch in North America was delayed until LifeScan received approval for an upgraded meter.

With increased volumes in Q3 CY2011, UBI moved from an interim pricing basis to a long term agreed pricing methodology, based on profitable volumes. Increased volume in Q4 CY2011 resulted in revenue of $4.3m and a Gross Profit of $0.5m.

Service Revenue – This Revenue comprised in royalties (around 1¢ per strip) from the sale of strips (90m to 100m) by LifeScan and $1.5m in Accrued Revenue from the LifeScan project. This compares to a particularly strong pcp that included $6.4m in final development revenue for the OneTouch Verio.

Outlook

The outlook for UBI is increasingly positive, with:

The US launch for the Blood Glucose meter

LifeScan has launched the OneTouch Verio IQ in Canada in November 2011 and the USA in January 2012, following FDA approval for an upgraded metering system in September 2012. The new meter includes changes to design and additional features, although the strips are unchanged. This meter has European approval (CE Mark) and will also replace the meter originally launched in Europe during CY2011.

This is a defining event, as:

- It demonstrates LifeScan's ongoing commitment to the "OneTouchVerio", especially as it has struggled to maintain market share against new models and entrants.
- The North American market is the largest global market at around 45%, estimated by GlobalData[1] to grow at a CAGR rate of 11% from $2.87b in 2008 to $5.5b by 2015. As LifeScan holds around 33% of the North American market, entry will significantly boost strip sales and royalty revenue.
- Approval of the new meter is also a pre-cursor for increased promotional level in Europe and the entry into new markets. The fastest growth in diabetes is in Asia and Central and South America, with forecasts of growth of 15.2% and 13% respectively, target markets for LifeScan.
- The US launch will boost UBI's strip sales to LifeScan as well as royalties based on total strip sales.
- It further validates UBI's ability to commercialise a testing system and manufacture strips, adding confidence for the commercialisation of the Coagulation (PT/INR) meter system.

However, total penetration of LifeScan's US and other established markets could take around 4 to 5 years, as existing users adopt the new model or existing meters expire. LifeScan's last model change saw full replacement over 5 years, in line with an expected meter lifespan of 4 to 5 years.

LifeScan has started ramping up supply in CY2012 from its new 750m pa strip facility in Scotland, along with UBI's current capacity of 750m strips pa (from 1 line), under a dual supply policy. While UBI has potential capacity for 2 lines, we expect longer term growth to be supplied from additional LifeScan lines.

1 Source – GlobalData, Global Self Monitoring Glucose Market, Published Nov 2009

Insulet Agreement adds to creditability

Insulet Agreement

LifeScan and Insulet have announced global agreement to integrate the Verio technology into future versions of Insulet's Omnipod Personal Diabetes Manager (PDM). The PDM wireless programs personalises insulin delivery, calculates suggested doses, and has a convenient, built-in FreeStyle® blood glucose meter.

This is important for UBI, as:

- It demonstrates both LifeScan's commitment to the technology and acceptance by other industry players.
- It has potential to increase the sales of strips.

New Technology Feasibility Program adds US$4.5m in Revenue

New Technology Feasibility Program

UBI has commenced a new 12 month research and development program for LifeScan, to determine the feasibility of an innovative blood glucose product. UBI has received US$1.5m of an expected US$4.5m over the 12 months and will also receive an additional service fee on commercialisation of the new strips for a non-specified period of time.

We also expect new R&D programs for LifeScan similar to the recently announced feasibility program, resulting in additional service revenue or milestone payments.

Blood Glucose Forecasts

The forecasts below are conservative in terms of take-up rate. We expect a similar changeover timeframe to the LifeScan's last model change of 5 years, due to economic conditions and a longer lifespan for existing meters, unless LifeScan offers incentives or forces conversion through ceasing manufacture of "Ultra" strips.

Accordingly, we are using a take-up of 60% and 55% in Europe and North America by 2015 and full take-up by 2017, although volumes will also be driven by continual market growth.

Table 1 Blood Glucose Market - Forecasts

	Total	Test Strip Market				Growth	Verio Strip Sales									
	Market			LifeScan		Rate	Verio % of LifeScan Sales[3]					Total Verio Sales				
Country	Size	Test Strips[1,2]		Market Share		pa	CY 11	CY 12	CY13	CY 14	CY15	CY 11	CY 12	CY13	CY14	CY15
	(US$m)	(US$m)	m	%	m	%	%	%	%	%	%	m	m	m	m	m
Europe	3,300	2,805	5,100	20	1,020	8	5	15	30	45	60	51	165	330	496	661
Australia	80	68	170	5	9	5	100	100	100	100	100	9	9	9	9	9
North America	4,520	3,842	6,985	40	2,794	8	1	10	25	40	55	28	302	754	1,207	1,660
Launched Markets	**7,900**	**6,715**	**12,255**	**31**	**3,823**	**8**						87	476	1,094	1,712	2,330
Rest of World[3]	1,900	1,615	3,589	15	538	10		2	5	10	35	0	12	30	59	207
Total	**9,800**	**8,300**	**15,844**	**28**	**4,361**	**8**						**87**	**488**	**1,123**	**1,771**	**2,537**
% Increase													457.8	130.3	57.6	43.3
UBI strip Sales to LifeScan[4]												**87**	**216**	**388**	**519**	**600**
% Increase													147.2	79.4	33.9	15.5

UBI - Forecasts

	Revenue (US$m)					EBIT (US$m)[6]					Margin (%)				
Verio Sales	CY 11	CY 12	CY 13	CY 14	CY 15	CY 11	CY 12	CY 13	CY 14	CY 15	CY 11	CY 12	CY 13	CY 14	CY 15
Product Sales[5]	7.9	19.5	34.9	46.8	54.0	1.4	3.9	7.0	9.4	10.8	17.5	20.0	20.0	20.0	20.0
Service Revenue - Strips	0.9	4.9	11.2	17.7	25.4	0.9	4.9	11.2	17.7	25.4					
Service Revenue - R&D	2.0	2.5	2.5	3.0	3.0	0.4	0.6	0.6	0.7	0.7	20.0	24.0	24.0	21.7	23.3
Milestone Payments	0.5	0.0	0.0	0.0	0.0										
Total	**11.2**	**26.8**	**48.6**	**67.5**	**82.4**	**2.7**	**9.4**	**18.8**	**27.7**	**36.9**	**23.6**	**34.9**	**38.7**	**41.1**	**44.8**

Source : Industry Sources and Veritas Forecasts

Assumes [1] Test Strip market comprises 85% of Total Mar [3] ROW Launch Q3 CY2012 [5] Strip sales to LifeScan at 9c / strip,
[2] Average Price per strip sold of $0.55 [4] Covers Europe, ROW & Australia, up to a maximum of 600m [6] Strip margin of 1.5c /strip

Partnership with Siemens in blood coagulation meter systems

Blood Coagulation Testing Market - Siemens Agreement

On 9/9/11, UBI announced a Collaboration Agreement with Siemens Healthcare Diagnostics, forming a strategic partnership for development and commercialization of products for the Point-of-Care blood coagulation testing market. The basis of this agreement is:

- UBI will develop a range of test strip and reader (meter) products for the blood coagulation market for the hospital and ambulatory (surgery and clinics) sectors. The first product will be a slightly modified version of UBI's PT/INR test to be followed by other coagulation tests.
- UBI will manufacture and supply the test strips to Siemens, while Siemens will register, market and sell each testing system globally, as well as responsibility for the manufacture and supply of the meter.
- UBI has received an initial US$3m payment and will receive 6 milestone payments relating to feasibility, regulatory submissions and the launch of products. While the milestone payments will be significant, we would expect them to be around half the US$17.5m received from LifeScan.

This agreement is an important announcement for UBI, as:

Siemen's agreement give access to fastest growing segment of Point of Care

- It provides a second revenue stream, unrelated to blood glucose.
- It gives UBI entry into the Point-of-Care blood coagulation testing market, estimated in 2008 at US$750m, but expected to grow to $1.3b in FY2020. This was boosted by a change in 2007 for US Medicare reimbursement of coagulation testing for patients taking warfarin to include uses in atrial fibrillation (~2m US patients), venous thromboembolism (~2m) and mechanical heart valves (~0.4m). Within this market, UBI's target sector around US$600m, with the hospital and clinical sector comprising around US$500m, but expected to grow to US$1,050m by 2020.
- The model for blood coagulation is more profitable for UBI with margins likely to exceed 40%, as UBI will initially be the sole manufacturer of strips and totally controls the Intellectual Property.
- Siemens is a major global healthcare leader, especially in the haemostasis (blood clotting) market. This will enable Siemens to register and market the testing system globally. Siemens has also identified a number of other non-warfarin testing areas in the blood coagulation market.

With the above agreement and the required modifications to the meter systems, we don't expect UBI/Siemens to apply for regulatory approval until mid CY2012, either in the EU or USA, although EU entry may be faster with Self Certification.

UBI to identify partners in the escalating patient self-testing segment

The Self Testing Market

The Siemen's agreement excludes the patient self-testing market, the smallest, but fastest growing segment, expected to grow from $100m currently to $250m by 2020, with the increased convenience and the lower cost of self-test. UBI is looking for separate arrangements on the basis of either: A global partner; or Individual partners in key countries or regions. This may result in additional milestone payments, depending on the final partnership arrangements.

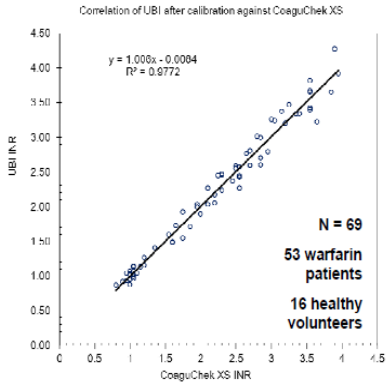
The PT/INR Test

The first product for Siemens will be a modified version of UBI's recently developed PT/INR test strip and meter which performs a prothrombin time (PT) assay on a fingerprick blood sample to measure the clotting tendency of blood, reporting the result as an International Normalised Ratio (INR), to support immediate therapy or dose adjustments for anticoagulants. The test is mainly used by patients measuring the level of blood thinners, such as warfarin in the blood stream, ensuring levels remain within a target therapeutic range (TTR).

The meter and strips use a similar technology, process and algorithms to the blood glucose meter, based on UBI owned patents. The advantages of the test are:

- The ability to test more often with faster results, allowing continual monitoring and maintenance of patients on a safe and effective dose.
- It allows physicians to adjust patient doses for diet and lifestyle change.
- Cost advantages, both in terms of reduced length of stay in emergency rooms and ongoing testing.

Correlation: UBI & CoaguChek XS®



UBI test has a high correlation to leading market test

Competition

More than 400 million PT tests worldwide are currently conducted each year. The main competition is from approved and marketed products and products under development, both for Point-of-Care (eg Roche Diagnostics, Alere and Abbott) and central laboratory groups with automated analysers (Siemens, Diagnostica, and Beckman Coulter) in the hospital area.

The market leader in Point-of-Care is Roche CoaguChek XS, with a market share of around 66%. Roche's CoagChek increased sales by 20% in CY2009 and 19% in CY2010 to around US$370m, with robust demand in the EU and expanded Medicare reimbursement for home coagulation testing in the US.

A clinical study comparing UBI's prototype PT/INR system with Roche CoaguChek XS in the US and Australia demonstrated a strong performance correlation and reproducibility of results.

With these results, advantages over present competing systems in terms of costs, size, weight and functionality, and Siemens as a partner, there is an opportunity for UBI to achieve a significant market share. However, as a new entrant needing to build customer confidence, the initial penetration rates are likely to be low.

With the agreement and the required modifications to the meter systems, we don't expect UBI/Siemens to apply for regulatory approval until mid CY2012, based on the above clinical study. Launch may be either in the EU or USA or jointly, although EU approval may be faster with Self Certification.

Table 2. Potential PT/INR StripMarket (US$m pa)

	Indicative Earnings per Strip		
Indicative Testing Frequency	$0.50	$1.00	$1.50
Once every 8 weeks (~45M tests/annum)	$23M	$45M	$68M
Once every 2 weeks (~182M tests/annum)	$91M	$182M	$273M
Once per week (~364M tests/annum)	$182M	$364M	$546M

Source:UBI

Blood Coagulation Forecasts

The total potential market for PT/INR is large, with a direct earnings potential across the market of between US$182m and US$546m pa, depending on frequency of testing and indicative earnings per strip, based on:

- A total global Warfarin patient market of over 7m.
- A range of test frequency periods from once weekly to every 8 weeks.
- Earnings per test strip of between $0.50 to $1.50, compared to a sale price of CoaguChek strips in the US of US$5 and US$6 per test strip. In contrast the Medicare Re-imbursement ranges between $3 and $5 for Hospital and Ambulatory and $5.53 per Patient Self-Test.

While our forecasts assume an initial launch in Europe in Q1 CY2013, this may be in the larger US market or jointly, depending on regulatory arrangements. These are conservative assuming:

- Low penetration rates, despite the global position of Siemens.
- These only account for the PT/INR test in the Hospital and Ambulatory markets and assume no launch in the self-testing market or of other blood coagulation testing systems.
- Apply to strips only and assume no revenue contribution from meters.

Table 3 Blood Coagulation Market - Forecasts

	COAG Market CY2012[1]			Growth	UBI Market Share[2]			Revenue[3]					EBIT[4]					Margin[4]		
	Total	Strips	Meters	Rate	CY13	CY14	CY15	CY11	CY12	CY13	CY14	CY15	CY11	CY12	CY13	CY14	CY15	CY13	CY14	CY15
Country	US$m	US$m	US$m	%	%	%	%	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%	%
Europe[5]	225	191	34	6	1.0	3.5	6.0			1.1	4.0	7.6			0.4	1.8	3.6	35.0	45.0	47.0
USA[6]	325	276	49	5	0.5	3.5	6.0			0.8	5.8	9.9			0.3	2.6	4.7	35.0	45.0	47.5
Other[7]	150	128	23	4		1.0	3.5			0.0	0.8	2.7				0.3	1.2		35.0	45.0
Total	**700**	**595**	**105**							**2.0**	**10.6**	**20.2**			**0.7**	**4.7**	**9.5**	35.0	44.3	47.0
Milestone Payments								1.0	3.5	3.0	2.5	2.5	0.0	3.5	3.0	2.5	2.5			

Source: Industry Sources & Veritas Forecasts

Assumes [1] Forecast market for CY2012 with Test Strips representing 85% of Market. [2] Expected UBI Penetration [3] Partner Sales & Marketing 40% of Strips (UBI 60%), 100% of Meters [4] Margins of 50% on Test Strips after ramp up [5] Launch in Europe in Q1 CY2013 [6] Launch in US in 2H CY2013 [7] Launch elsewhere in 1H CY 2014

Molecular Diagnostics

SpeeDX agreement gives entrance to lucrative DNA/RNA market

The SpeeDX Agreement

UBI has signed a non-exclusive licence agreement with SpeeDX Pty Ltd, for its proprietary MNAzyme technology, use for detecting DNA (deoxyribonucleic acid) or RNA (ribonucleic acid). SpeeDX is an Australian medical development company focused on the development of catalytic nucleic acid enzymes for medical diagnostics.

UBI intends to combine this technology with its diagnostic biosensor technology to create a low cost Point-of-Care testing system for the rapidly growing molecular diagnostic platform, mainly in blood screening, infectious disease, genetic and oncology testing.

The attractions of a Point-of-Care testing systems are: The results are received within minutes and the test is more convenient; and the test cost will be substantially lower than currently through laboratories.

UBI will pay a sign-on fee to SpeeDX, milestone payments related to stages of commercialisation and ongoing royalties, although the initial payments are not substantial. While the time horizon is not clear, we would expect at least 2 years to develop the test and a prototype meter, after preliminary feasibility work.

The agreement with SpeeDX is positive, as:

- It expands the growth paths for UBI. This market was one of the potential markets identified by UBI after PT/INR and development of an immunoassay platform for D-dimer and CRP, and is a major global market.
- The molecular diagnostic market is valued by GlobalData in Nov 2009 at more than US$3.5b and is expected to grow at a CAGR of 14% to US$6.2b by 2015. There is a growing use of molecular diagnostics in:
  - Pharmacogenomics, to reduce the drug discovery, development and approval process, including the monitoring of the therapeutic efficacy of pharmaceuticals and toxicity avoidance.
  - Patient stratification, including drug regime testing, therapeutic monitoring and detection of predispositions to disease.

Potential market of US$6.2b by 2015

- It takes UBI into a strong growth and a substantially higher value market, progressing from Blood Glucose ($0.50 per strip) to PT/INR ($3.50 to $5.30) to D-Dimer (around $10) to DNA (Test cost of around $250).

Market Size

The molecular diagnostic market is valued by GlobalData in Nov 2009 at more than US$3.5b and is expected to grow at a CAGR of 14% to US$6.2b by 2015 (see table 4).

Table 5: World Molecular Diagnostics Market by Geography $2010 (US$m)

Region	Market Share	Sales
North America	60%	1,982
Europe	20%	660
Japan	7%	231
ROW	13%	429

Table 4: World Market for Molecular Diagnostics, 2009-2015 (US$m)

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

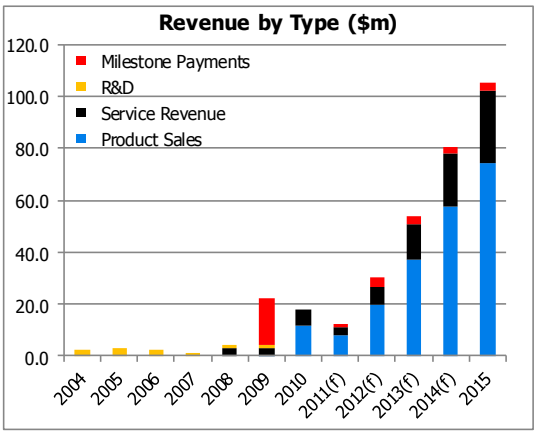
Source: Business Insights report No. BI00021-012. 23 June 2010

North America is clearly the dominant market (Table 5) for tests, although Asia will show the greatest growth in the coming decade.

Outlook

With the LifeScan's US launch and the Siemen's announcement, forecasts have been amended to reflect:

- The US launch of the OneTouch Verio in Q1 CY2012 and the ramp-up of supply and sales during CY2012.
- A later launch of the PT/INR test, now expected in early CY2013.
- Additional R&D expenses as UBI commences development work on other coagulation tests for Siemens.
- Milestone payments of $3.5m in CY2012, US$3m in CY2013 and $2.5m in CY2014 and FY2015. As the timing and total amount of payments are undisclosed, we have assumed $8.75m from Siemens for PT/INR spread over 3 years, the equivalent of 50% of the $17.5m from LifeScan and $5m from other developments.
- More conservative PT/INR penetration levels, despite Siemens as a partner.
- No inclusion for D-dimer, CRP or molecular diagnostics, although there is potential for milestone payments with the securing of sales and distribution partners and further development of the testing systems.



Source : UBI (Hist. & Veritas Securities (F'casts)

The main drivers of Revenue growth over the next 4 years will be:

- Growth in receipts from LifeScan with:
  - Higher Product Sales with increasing deliveries to LifeScan, from the US launch and increased European sales. The new meter is the basis of a US launch and increased promotion in Europe.
  - Launch by LifeScan into other new countries or regions.
  - Increased royalty revenue with increased strip sales and higher R&D revenue with the startup of some new programs for LifeScan, including the new $4.5m development program for LifeScan.
- The launch of the PT/INR test and the development of any subsequent products for Siemens. However, we expect milestone payments to be recognized for revenue over the life of the development phase.

Meanwhile the main drivers of Profit growth will be:

- Volume growth and economies of scale in manufacturing of strips for LifeScan.
- Increasing royalty sales on the sale of strips by LifeScan.
- The ramp-up of manufacturing for Siemens and milestone payments from Siemens. We expect the margins for the PT/INR product to be substantially higher once manufacturing is established.
- Increases in interest received as UBI moves to a cash flow positive position in CY2013.

Price target of $1.97 ps

Valuation

We have a Discounted Cash Flow valuation for UBI of $320m, or $1.97 ps, based on forecast cash flow to 2020, using a discount rate of 12.5%. This is based on the forecasts for the Blood Glucose and Blood Coagulation systems, taking no account of other potential products.

At the current price, UBI is trading at a 60% discount to our valuation.

Universal Biosensors (UBI)

Current Price: $0.79 ps

FINANCIAL PERFORMANCE

Year ended 31-Dec		2010A	2011A	2012E	2013E	2014E	2015E
Sales Revenue	$m	18.2	14.7	30.3	53.6	80.5	105.1
Cost of Goods Sold	$m	-12.3	-13.0	-17.0	-29.8	-41.3	-51.0
Gross Operating Profit	**$m**	**5.9**	**1.7**	**13.4**	**23.8**	**39.2**	**54.1**
R&D	$m	-6.5	-9.8	-9.0	-8.5	-8.5	-8.5
Administration Costs	$m	-4.2	-4.0	-5.5	-6.3	-5.5	-6.0
Other	$m	0.0	0.0	0.2	0.0	-3.4	-4.2
EBITDA	**$m**	**-4.8**	**-12.1**	**-0.9**	**9.0**	**21.8**	**35.4**
Depreciation	$m	-3.0	-3.3	-3.7	-4.0	-4.2	-4.4
EBIT	**$m**	**-7.8**	**-15.4**	**-4.6**	**5.0**	**17.6**	**31.0**
Interest	$m	1.2	0.7	0.3	0.2	0.3	1.5
Pre Tax Profit	$m	-6.6	-14.7	-4.3	5.2	17.9	32.5
Tax	$m	0.0	0.0	0.0	0.0	0.0	0.0
Reported Profit	**$m**	**-6.6**	**-14.7**	**-4.3**	**5.2**	**17.9**	**32.5**

CASH FLOW

Year ended 31-Dec		2010A	2011A	2012E	2013E	2014E	2015E
Operating EBITDA	**$m**	**-4.8**	**-12.1**	**-0.9**	**9.0**	**21.8**	**35.4**
Net Interest Received/Paid	$m	1.2	0.7	0.3	0.2	0.3	1.5
Tax Paid	$m	0.0	0.0	0.0	0.0	0.0	0.0
Change Working Capital	$m	-4.7	-2.9	4.0	-2.1	-3.0	-2.7
Other	$m	1.9	7.1	0.0	0.0	0.0	0.0
Operating Cash Flow	**$m**	**-6.4**	**-7.2**	**3.4**	**7.1**	**19.1**	**34.1**
Capex	$m	-2.3	-1.1	-2.0	-2.0	-2.0	-2.5
Free Cash Flow	**$m**	**-8.7**	**-8.3**	**1.4**	**5.1**	**17.1**	**31.6**
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	-2.4	-9.5
Equity Change	$m	0.7	0.1	0.0	0.0	0.0	0.0
Debt Change	$m	0.0	0.0	0.0	0.0	0.0	0.0
Change in Net Cash	**$m**	**-8.0**	**-8.2**	**1.4**	**5.1**	**14.8**	**22.1**

GROWTH

		2010A	2011A	2012E	2013E	2014E	2015E
Revenue	%	320.8	-19.2	106.4	76.8	50.2	30.5
COGS	%	1857.7	6.0	30.3	75.7	38.5	23.5
Gross Operating Profit	%	-72.5	-71.6	696.9	78.1	64.8	37.8
R&D	%	-56.5	51.4	-8.3	-5.6	0.0	0.0
EBITDA	%	na	151.6	-92.3	-1067.7	142.5	62.1
EBIT	%	na	97.4	-69.9	-208.1	252.3	75.8
Reported Profit	%	na	122.3	-70.5	-220.2	244.6	80.9
EPS	%	na	120.2	-70.5	-220.2	244.6	80.9

BALANCE SHEET

		2010A	2011A	2012E	2013E	2014E	2015E
Cash	$m	23.3	15.1	16.4	21.6	36.3	58.4
Receivables	$m	3.6	4.9	6.0	8.0	10.0	13.0
Inventory	$m	3.2	3.6	6.0	7.5	11.0	14.4
Other Current Assets	$m	0.3	1.0	0.9	1.0	1.0	1.0
Current Assets	**$m**	**30.4**	**24.6**	**29.3**	**38.1**	**58.3**	**86.8**
Property, Plant & Equipment	$m	23.1	20.3	18.6	16.6	14.4	12.5
Intangibles	$m	0.0	0.0	0.0	0.0	0.0	0.0
Other NC Assets	$m	0.3	0.3	0.0	0.0	0.0	0.0
Non Current Assets	**$m**	**23.4**	**20.6**	**18.6**	**16.6**	**14.4**	**12.5**
Total Assets	**$m**	**53.8**	**45.2**	**47.9**	**54.6**	**72.7**	**99.3**
Payables	$m	1.8	0.6	8.1	9.5	12.0	15.7
Current Debt	$m	0.0	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	$m	2.7	6.4	4.5	6.0	6.5	7.0
Current Liabilities	**$m**	**4.5**	**7.0**	**12.6**	**15.5**	**18.5**	**22.7**
Non Current Debt	$m	0.0	0.0	0.0	0.0	0.0	0.0
Other NC Liabilities	$m	2.2	3.2	4.7	3.3	2.8	2.3
Non Current Liabities	**$m**	**2.2**	**3.2**	**4.7**	**3.3**	**2.8**	**2.3**
Total Liabilities	**$m**	**6.6**	**10.2**	**17.3**	**18.8**	**21.3**	**24.9**
Shareholder Funds	**$m**	**47.2**	**35.0**	**30.7**	**35.9**	**51.5**	**74.4**

P&L RATIOS

		2010A	2011A	2012E	2013E	2014E	2015E
Gross Operating Profit / Sales	%	32.4	11.4	44.1	44.4	48.7	51.5
EBITDA / Sales	%	-26.5	-82.4	-3.1	16.8	27.1	33.7
EBIT / Sales	%	-42.9	-104.8	-15.3	9.3	21.9	29.5
Effective Tax Rate	%	0.0	0.0	0.0	0.0	0.0	0.0
Interest Cover	x	na	na	na	na	na	na

BALANCE SHEET RATIOS

		2010A	2011A	2012E	2013E	2014E	2015E
Receivables turn	x	9.1	3.5	5.6	7.7	8.9	9.1
Inventory turn	x	7.0	3.8	3.5	4.4	4.5	4.0
Net Debt	$m	0.0	0.0	0.0	0.0	0.0	0.0
Gearing (D:D+E)	%	0.0	0.0	0.0	0.0	0.0	0.0
Current Ratio (CA / CL)	x	6.8	3.5	2.3	2.5	3.2	3.8
Net Assets	¢ps	29.7	22.0	19.3	22.6	32.4	46.6
Net Tangible Assets	¢ps	29.7	22.0	19.3	22.6	32.4	46.6
Cash	¢ps	14.7	9.5	10.3	13.6	22.8	36.6
Price to Book Value	x	2.7	3.6	4.1	3.5	2.4	1.7
Return On Assets	%	-14.2	-31.1	-9.9	9.8	27.7	36.1
Return on Equity	%	-13.4	-35.7	-13.2	15.6	41.1	51.6

Per SHARE

		2010A	2011A	2012E	2013E	2014E	2015E
Issued Shares (Wt Avg)	m	157.6	159.0	159.0	159.1	159.1	159.1
EPS	¢ps	-4.2	-9.2	-2.7	3.3	11.3	20.4
Operating Cash Flow ps	cps	-4.1	-4.5	2.1	4.5	12.0	21.5
Free Cash Flow	¢ps	-5.5	-5.2	0.9	3.2	10.8	19.9
DPS	¢ps	0.0	0.0	0.0	1.0	4.0	8.0
Franking	%	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Payout Ratio	%	0.0	0.0	0.0	30.5	35.5	39.2

PARAMETERS

		2010A	2011A	2012E	2013E	2014E	2015E
PE Ratio	x	-36.2	-8.6	-29.0	24.1	7.0	3.9
Enterprise Value / EBITDA	x	-21.2	-9.1	-117.3	11.6	4.1	1.9
Enterprise Value / Profit	x	-15.5	-7.5	-25.2	20.0	5.0	2.1
Cash Flow ratio	x	-37.3	-17.5	37.4	17.7	6.6	3.7
Dividend Yield	%	0.0	0.0	0.0	1.3	5.1	10.1

VALUATION

Valuation Method	$	Premium/Discount (%)
DCF	1.97	60.0
Current Price	0.79	

SEGMENTS

		2010A	2011A	2012E	2013E	2014E	2015E
Sales Revenue							
Product Sales	$m	11.8	12.1	19.5	36.9	57.3	57.3
Service Revenue	$m	6.4	2.6	7.4	13.7	20.7	20.7
R&D	$m	0.0	0.0	0.0	0.0	0.0	0.0
Milestone Payments	$m	0.0	0.0	3.5	3.0	2.5	2.5
EBIT							
Product Sales	$m	1.0	1.7	3.9	7.7	14.3	14.3
Service Revenue	$m	4.9	1.3	5.5	11.8	18.4	18.4
R&D	$m	-6.5	-9.8	-9.0	-8.5	-8.5	-8.5
Milestone Payments	$m	0.0	0.0	3.5	3.0	2.5	2.5
Corporate	$m	-7.2	-7.3	-8.5	-9.0	-9.0	-9.0
EBIT Growth							
Product Sales	%	na	80.3	125.0	97.2	86.2	86.2
Service Revenue	%	84.2	-74.2	329.8	116.0	55.1	55.1
R&D	%	-52.2	51.4	-8.3	-5.6	0.0	0.0
EBIT Margin							
Product Sales	%	8.2	14.3	20.0	20.8	24.9	24.9
Service Revenue	%	76.9	48.4	74.2	86.2	88.7	88.7

MAJOR SHAREHOLDERS

Directors	m	14%
Johnson & Johnson	m	11%
CM Capital Investments	m	11%
PFM Cornerstone	m	7%
Top 20 (16/3/2011)	m	70%

DIRECTORS

Andrew Denver	N-E Chair	Andrew Jane	N-E Dir
Paul Wright	M D & CEO	Dr Jane Wilson	N-E Dir
Dr Colin Adam	N-E Dir	Marshall Heinberg	N-E Dir
Denis Hanley	N-E Dir		

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

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Robert Scappatura	+61 2 8252 3240
Tony Bonello	+61 2 8252 3230
Andrew McCauley	+61 2 8252 3260
Patrick Ford	+61 2 8252 3211
Sam Streeter	+61 2 8252 3235
Willem Ter Avest	+61 2 8252 3270
Clay Melbourn	+61 2 8252 3220
Bryce Reynolds	+61 2 8252 3215
Stephen Murphy	+61 8 9380 8351

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Levi Hawker	+61 3 8676 0689

Resources

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Matt Baillie	+61 2 8252 3275

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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