

# Universal Biosensors Ltd

## Q3 CY2012 boosted by Blood Glucose growth

The strong Q3 and YTD Operating Profit of \$1.9m and \$4.7m was supported by continued growth in Blood Glucose contributions, and Milestone Payments, with :

**Product Sales** - An increase in strip sales of 139.4% for Q3 to A\$5.2m and 88.8% for YTD to \$14.6m, with escalating sales by LifeScan and inventory build in existing and newly launched countries. With continued improvements in production, margins increased for the 3<sup>rd</sup> consecutive quarter to 16.7%.

**Service Fees** – An increase of 307.7% in Q3 to \$1.3m and by 421.8% in YTD to \$4.4m, a combination of:

*Strip Sales* - An increase in service fees on strip sales by LifeScan of 296.4% to \$0.55m (55m strips) and 367.7% to \$1.6m (160m strips).

*LifeScan Development project* – Revenue of around A\$0.7m, with the project to be completed in Q4 CY12.

**Milestone payment** - A total of \$2.1m in Q3, similar to Q2, reflecting;

- A 2<sup>nd</sup> milestone payment from Siemens of US\$1.5m related to technical feasibility on a 3<sup>rd</sup> blood coagulation strip test.
- Recognition as revenue a further \$0.6m of the US\$3.0m received from Siemens in September 2011 on signing the Development Agreement.

The reduce Net Loss, was a combination of the improved Operating Profit and a reduction in Administrative costs, offset by higher R&D, mostly related to the development of the 3 blood coagulation test strips.

## Blood Glucose underpins a move to profitability

The increasing profitability of the Blood Glucose sector will move UBI to a Cash Flow positive and Net Profit position over the next 18 months, outweighing increased R&D costs.

This will be driven by increasing sales of strips to LifeScan and service fees with the continued rollout of the OneTouch Verio IQ meter in North America and globally, along with continued Cash Flow from LifeScan development programs.

## Blood Coagulation building momentum

Momentum in Blood Coagulation continues to build with:

- Anticipation of a launch of the PT-INR test in CY2013. The PT-INR market is the largest market in blood coagulation, worth over US\$700m.
- Proof of Technical feasibility for a further 2 test strips, to be launched in CY2014. UBI will receive milestone payments as these are developed.

## Reasons to BUY

**Growth Markets** – Exposure to large rapid growth Point-of-Care Healthcare sectors, estimated at US\$15b, growing at 11% pa, with a strong position in the Blood Glucose market and imminent launch of the Blood Coagulation 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 further 3 projects under development.

**Strong Financial Position** – Expected to be Cash Flow positive and profitable during CY2013, supported by a strong Balance Sheet, with Cash of \$13.9m.

**Valuation** – Currently trading at a 48% discount to our valuation of \$1.75ps.

UBI.ASX

BUY

1 November 2012

Price	\$0.91
Price Target	\$1.75
Valuation method	DCF
GICS sector	Healthcare
12 Mth Price Range	\$0.52 - 0.92
Avg monthly t/o	2.5m
Market Capitalisation	\$145m
Shares on issue	159m
Options on Issue	10m
Enterprise value	\$133m
Previous rating	<b>BUY</b>

Year Ended Dec 30		10A	11A	12E	13E	14E
Revenue	\$m	18	14.7	29.7	43.9	70.8
EBITDA	\$m	-4.8	-12.1	-5.7	0.8	17.8
EBITDA margin	%	32.4	11.4	37.8	40.7	49.1
EBIT	\$m	-7.8	-15.4	-8.4	-2.1	14.8
EBIT margin	%	-42.9	-104.8	-28.3	-4.9	20.9
NPAT	\$m	<b>-6.6</b>	<b>-14.7</b>	<b>-8.0</b>	<b>-1.8</b>	<b>15.4</b>
EPS growth	%	-560.5	120.2	na	-76.8	-934.9
DPS	¢ ps	0.0	0.0	0.0	0.0	2.0
Franking	%	0.0	0.0	0.0	0.0	0.0
PER	x	na	na	na	-78.5	9.4
Dividend yield	%	0.0	0.0	0.0	0.0	2.2
NTA/share	¢ ns	29.7	22.0	17.0	15.9	25.5
EV/EBITDA	x	-25.2	-10.7	na	175.5	6.7
Gearing (D:E)	%	0.0	0.0	0.0	0.0	0.0
P/OCF	x	-37.3	-20.2	na	74.0	9.1
ROA	%	-14.2	-31.1	-18.7	-4.8	27.2
ROE	%	-13.4	-35.7	-25.6	-7.1	46.8
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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### Quarterly Data

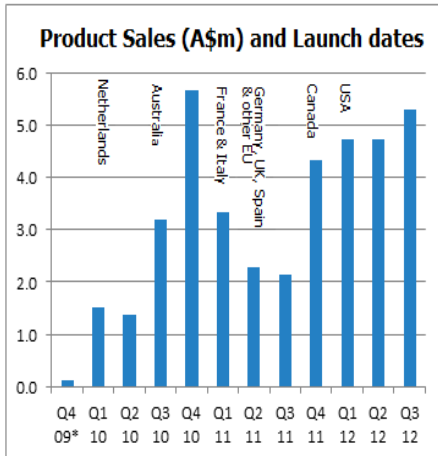
The Operating Profit for UBI continued to improve on a quarterly basis with a Q3 CY2012 Operating Profit of \$4.1m and a Operating Profit for the 9 months to September 2012 (YTD) of \$9.1m.

Profit & Loss	CY2011					CY2012							
	Q1 \$m	Q2 \$m	Q3 \$m	Q4 \$m	CY \$m	Q1 \$m	Ch %	Q2 \$m	Ch %	Q3 \$m	Ch %	YTD \$m	Ch %
<b>Blood Glucose</b>													
Products Revenue	3.3	2.3	2.2	4.3	12.1	4.7	42.3	4.7	108.8	5.2	139.4	14.6	88.8
Services Revenue - Strips	0.1	0.1	0.1	0.4	0.7	0.6	543.4	0.5	314.7	0.6	296.4	1.6	367.7
Services Revenue - Development	0.2	0.4	0.2	1.2	1.9	1.1		1.0		0.7	316.5	2.8	303.8
<b>Total Revenue - Blood Glucose</b>	<b>3.6</b>	<b>2.7</b>	<b>2.5</b>	<b>5.9</b>	<b>14.7</b>	<b>6.4</b>	<b>79.6</b>	<b>6.2</b>	<b>125.1</b>	<b>6.5</b>	<b>161.1</b>	<b>19.0</b>	<b>116.8</b>
Cost of Goods Sold	-3.6	-2.8	-2.4	-4.3	-13.0	-5.1	43.3	-4.7	64.0	-4.5	90.2	-14.3	62.7
<b>Operating Profit - Blood Glucose</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.1</b>	<b>1.7</b>	<b>1.7</b>	<b>1.3</b>		<b>1.5</b>		<b>1.9</b>		<b>4.8</b>	
Operating Margin (%)				28.1	11.4	20.4		24.7		30.0		25.1	
Add Siemens - Milestone Payments	0.0	0.0	0.0	0.0	0.0	0.0		2.1		2.1		4.3	
<b>Total Operating Profit</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.1</b>	<b>1.7</b>	<b>1.7</b>	<b>1.3</b>		<b>3.7</b>		<b>4.1</b>		<b>9.1</b>	
less - Research and Development	-1.7	-3.0	-2.3	-2.8	-9.8	-2.3	29.6	-3.1	5.0	-3.8	62.8	-9.2	30.2
- Corporate Costs	-1.4	-1.8	-2.0	-2.0	-7.3	-1.5	5.7	-1.6	-12.0	-1.6	-20.9	-4.7	-10.7
<b>EBIT</b>	<b>-3.1</b>	<b>-4.9</b>	<b>-4.2</b>	<b>-3.2</b>	<b>-15.4</b>	<b>-2.4</b>		<b>-1.0</b>		<b>-1.3</b>		<b>-4.8</b>	<b>-6.10</b>
Interest and Other	0.1	0.0	0.9	-0.2	0.7	0.1		0.0		-0.1		0.1	-94.3
<b>Pre-Tax Profit</b>	<b>-3.0</b>	<b>-4.9</b>	<b>-3.4</b>	<b>-3.4</b>	<b>-14.7</b>	<b>-2.3</b>		<b>-1.0</b>		<b>-1.4</b>		<b>-4.7</b>	<b>-58.2</b>

Source: UBI

Operating Profit - This improvement has been driven by:

**Blood Glucose (LifeScan)** -The continued improvement in profitability of the blood glucose sector, generating a Gross Operating Profit in Q3 CY2012 of \$1.9m and YTD of \$4.8m. This was a combination of:

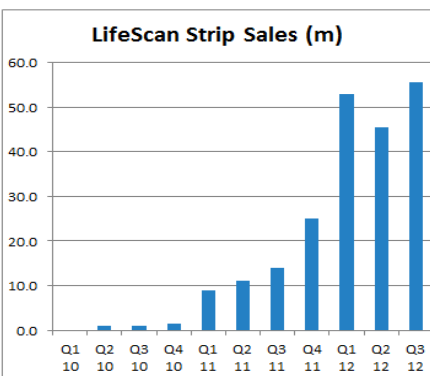


**Product Sales** - An increase in strip sales to LifeScan of 139.4% for Q3 CY2012 to A\$5.2m and 88.8% for YTD to \$14.6m, with escalating sales by LifeScan and inventory build in existing and newly launched countries.

The timing of sales and the various launches can be seen in the table on the left, with inventory builds in Q4 CY2010, ahead of the European launches, and in Q4 CY2011 and Q1 CY2012, ahead of the North American launches.

For CY2012, UBI moved from cost recovery to a normal costing regime, based on increased sales to LifeScan, generating a manufacturing profit of \$0.9m in Q3 and \$1.0m YTD. With continued improvement and efficiency in production, margins improved, from -3.1% in Q1 to 6.1% in Q2 to 16.7% in Q3.

LifeScan has commenced manufacture of strips from its recently commissioned plant at Inverness Scotland, establishing a dual supply.



**Service Fees** – Total service fees from LifeScan increased by 307.7% in Q3 to \$1.3m and by 421.8% in YTD to \$4.4m, a combination of:

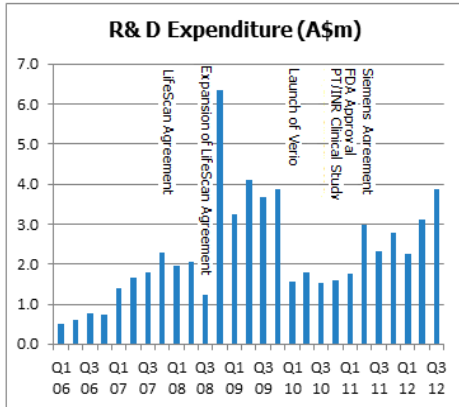
**Strip Sales** - An increase in service fees on strip sales by LifeScan of 296.4% and 367.7% to \$0.55m (55m strips) and \$1.6m (160m strips).

LifeScan is currently undertaking an inventory build, with UBI's supply boosted by LifeScan's own production, ahead of further penetration of LifeScan's client base, new clients and new countries. While for Q3 CY 2012, LifeScan operational sales declined 1.1%, with the U.S. business down 3%, this was due to a decline in the non-Verio sectors of mail order and hospital sales. The business outside the U.S. grew 0.8%, helped by increasing sales of Verio.

**LifeScan Development Project** – Revenue of around A\$0.7m, with the remaining \$0.4m in revenue from the US\$4.5m novel glucose testing product project to be recognized with completion in Q4 CY2012.

**Blood Coagulation (Siemens) Milestone payments** - The receipt of milestone payments from Siemens of \$2.1m in both Q3 CY2012, similar to Q2, from:

- A 2<sup>nd</sup> milestone payment from Siemens of US\$1.5m related to technical feasibility on a 3<sup>rd</sup> blood coagulation strip test.
- Recognition as revenue of a further US\$0.6m of the US\$3.0m received from Siemens in September 2011, on signing the Development Agreement. The remaining \$1.8m in Revenue will be recognised on the attaining of a further milestones related to the 3 blood coagulation products.

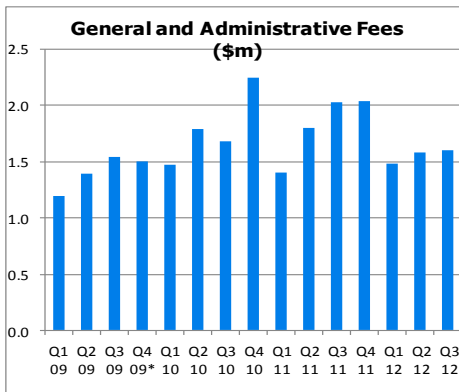


## Research and Development

Increased sharply as UBI moves to the development stage of the 3 blood coagulation meters for Siemens.

UBI had a similar boost to R&D ahead of the initial regulatory approval in Q4, CY2009 and the initial launch of the Verio meter in Q1 CY2010 in the Netherlands.

In the background, UBI has continued development work on its immunoassay and molecular diagnostic projects.



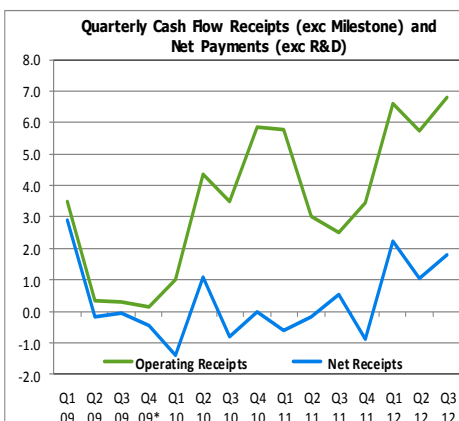
## General and administrative

Costs have fallen significantly over the last 12 months, despite the increase in production and R&D activities with a 20% fall in Q3 to \$1.6m and a 10.7% fall YTD to \$5.2m.

## Cash Flow

Underlying Cash flow (excluding Milestone Payments & R&D) continues to improve, with the improving profitability of blood glucose and a containment of costs.

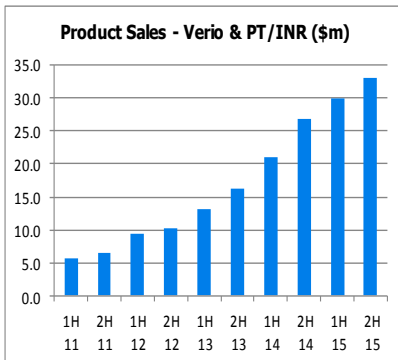
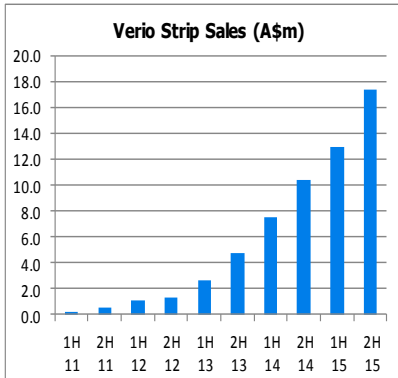
Reported Gross Cash Flow for Q3 CY2012 fell by \$1.8m to -\$0.4m, primarily due to the \$1.5m increase in R&D. For YTD, Cash outflows fell from -\$4.5m to -\$1.1m. UBI has continued to expense all R&D.



## Balance Sheet

UBI maintains a solid Balance Sheet, although net cash fell by -\$0.8m over the quarter to \$13.9m. We expect cash levels to remain around current levels, with expanding blood glucose revenue and a further \$4.5m in milestone payments over the next 12 months from Siemens. Net Tangible Assets fell by 8.8% to \$0.26 ps.

**Outlook**



**Blood Glucose** - UBI has foreshadowed a continuing increase in Revenue in Q4 CY2012 and beyond (our model and assumptions are outlined on Page 6), from:

- Strip Service Revenue – A further increase in strip sales with an increasing take up of OneTouch Verio IQ in the US, the relaunch by LifeScan of the upgraded Verio IQ meter in Europe, accompanied by increased marketing, and the launch in other LifeScan markets. Verio strips are now sold in 85% of world markets. UBI could also benefit from the development of additional products, resulting from the Development Project.
- Product sales - Similar product sales to LifeScan in Q4, with additional sales by LifeScan covered by inventory and increasing production from LifeScan, following the commission of a new strip production facility during 1H CY 2012. Margins on product sales are expected to continue to improve in Q4 onwards, with further efficiencies identified.

While LifeScan will be the major supplier of strips over the medium to longer term, we believe UBI production will continue to increase supply to 500 - 600m strips, to maintain a second supplier and as an infill while LifeScan commits to an expected second and separate production facility, expected in CY2014.

- A part offset from a lower level of recognised revenue from the LifeScan Development Project of \$0.4m in Q4 with its completion. While we would expect further projects once this is completed, the timing is uncertain. There is potential for additional revenue for the development of additional products for LifeScan stemming for the current development project and any future work.

The Verio is important in LifeScan’s strategy of regaining recently lost market share. While there was evidence in 1H CY2012 of a positive impact on LifeScan’s sales and a further recovery in market share, this wasn’t as obvious in Q3 CY2012..

**Blood Coagulation (Siemens)** - We expect revenue to emanate from 2 sources:

**Product Revenue** – Under a recent agreement with Siemens, UBI will be sole supplier of strips for blood coagulation. UBI expects Siemens to launch the PT/INR system in CY2013 (possibly as early as 1H CY2013). This will most likely be in Europe, where UBI/Siemens will be able to self-certify and test-market the device and Siemens has a strong presence, before launch in the US. Our assumptions are outlined on Page 6.

The global blood coagulation market (warfarin, heparin etc) is estimated at over \$7b, forecast to increase to over \$9b by 2014, with the Point of Care market estimated at over \$1b, but growing at over 10% pa. Within this market, PT-INR is the largest test, we estimate at over 70% of total tests and growing at 15% pa.

We would expect the additional 2 tests, which would increase coverage towards 90% of blood coagulation tests, to be launched in CY2014.

**Milestone Payments** - We expect recognition of further milestone payments of \$2.75m in the CY2013 and a further \$2.75m in CY2014, following receipt of \$3.0m YTD, supplemented by progressive recognition of revenue on the \$3.0m received in CY2011.

As the 3 current tests cover around 90% of the blood coagulation market and the initial agreement with Siemens provides for 6 milestone payments (expected to total \$7.5m), we suspect that the remaining milestone payments will relate to events with the current 3 tests, such as regulatory approval, market entry etc.

**PT/INR Home Testing** – UBI continues to pursue channel partners for future entry to this market, which is expected to grow from around US\$200m currently to over \$500m by 2020.

**Immunoassay**

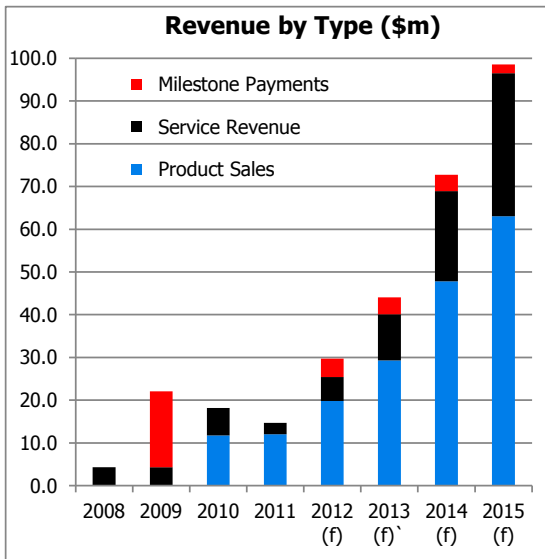
With further development of D-dimer and CRP, and Proof of Concept in CY2012, there is potential for milestone payments with the securing of sales and distribution partners and further development of the testing systems.

**Molecular Diagnostics**

This market was one of the potential markets identified by UBI after Blood Coagulation and development of an Immunoassay platform, as a major global market. The Molecular Diagnostic market was valued by Global Data in 2009 at more than US\$3.5b and is expected to grow at a CAGR of 14% to US\$6.2b by 2015. UBI hope to demonstrate success with its strips in molecular diagnostic tests in CY2013.

Siemens to launch PT/INR in CY2013

Further Payments from Siemens on meeting milestones



Forecasts

**CY 2012**

We expect an increase in Revenue of 102.4% to \$29.7m, with:

- An increase in Product Sales to \$19.8m, including \$5.2m in Q4.
- An increase in Service Revenue to \$5.6m, comprising \$2.3m in strip fees (\$0.7m in Q4) and \$3.3m in Development Project Revenue (\$0.4m in Q4).
- Total Milestone payments of \$4.3m, with no payments in Q4, but some reimbursement of costs for meter development. Any further milestone payments from Siemens to be received in CY2013 and CY2014.

A further gain in Operating Profit to \$11.2m, including \$2.1m in Q4 CY2012. This is entirely from blood glucose (\$1.9m), although higher Q4 product and strip service profit partly offset by lower level of Development Project Profit.

Operating Profit margins to increase from 11.4% to 37.8% with increasing service and milestone revenue. R&D to increase by 32.5% (\$3.2m) to \$13.0m.

**CY2013 – CY2015**

We expect continued strong Revenue growth, with:

- Continued growth in blood glucose service revenue from strip sales of 226%, 134% and 64% for CY2013, 2014 and 2015, as LifeScan achieves increased penetration and releases new blood diagnostic product centred on the Verio technology.
- Further, but lessening product sales to LifeScan of 45%, 33% and 20%, reaching 500m strips in CY2015, the equivalent of full production on a 2 shift basis.
- Initial Sales of the PT/INR strip in 2H CY2013 of \$0.5m, increasing to \$8.7m and \$17.2m in CY2014 and 2015, with a full year's sales of PT/INR and initial sales of the 2 following test strips. UBI will also receive the balance of the \$1.7m re-imbursement of costs for delivering on additional reader requirements.
- Further milestone payments for blood coagulation of \$4.3m in CY2013 and \$4.0 in CY2014 on UBI achieving milestones on the 3 test strips.

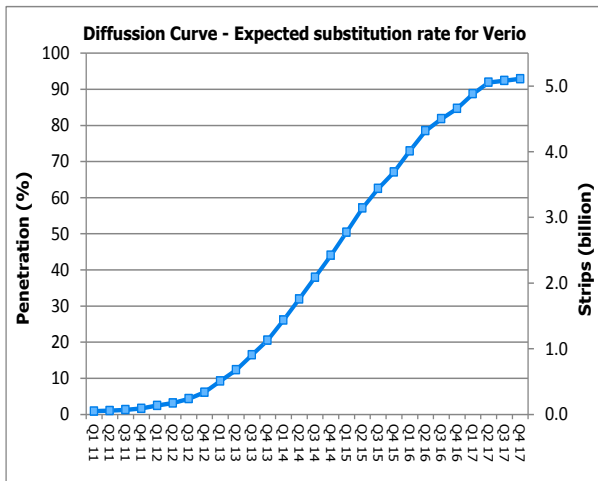
Forecasts		2011A	2012E	2013E	2014E	2015E
<b>Sales Revenue</b>	<b>\$m</b>	<b>14.7</b>	<b>29.7</b>	<b>43.9</b>	<b>70.8</b>	<b>96.9</b>
Increase	%		102.4	47.5	61.4	36.8
<b>Gross Operating Profit</b>	<b>\$m</b>	<b>1.7</b>	<b>11.2</b>	<b>17.9</b>	<b>34.8</b>	<b>50.1</b>
Increase	%		570.0	58.9	94.8	44.1
Margin	%	11.4	37.8	40.7	49.1	51.7
<b>EBIT</b>	<b>\$m</b>	<b>-15.4</b>	<b>-8.4</b>	<b>-2.1</b>	<b>14.8</b>	<b>29.6</b>
% Increase	%		-45.4	-74.5	-790.0	100.3
Margin	%				20.9	30.6

Improving profitability, at both the Operating Profit and EBIT, from:

- The increasing revenue, including a higher proportion of high margin service revenue and milestone payments.
- A flattening in R&D costs, with completion of development of the blood coagulation products.
- Control of costs. With a modern efficient plant with sufficient capacity for blood glucose, blood coagulation and early years of the further 2 test systems, UBI require limited only fixed and working capital requirements.

Valuation

We have maintained our Valuation and Price Target of \$1.75 ps, based on a combination of a Discounted Cash Flow valuation of \$1.81ps and a Sum of the Parts valuation of \$1.70ps. The latter attributes \$1.30 ps to Blood Glucose, \$0.30 ps to Blood Coagulation and \$0.10 ps to the Immunoassay and Molecular Diagnostics. This valuation equates to a CY2014 and CY 2015 Enterprise Value:EBITDA ratios of 14.7x and 7.3x, reasonable given the growth profile.



Models

Blood Glucose

The forecast substitution rates for Verio into the customer base of LifeScan within our model are based on the Diffusion Curve on the left, which simulates LifeScan’s experience with the last change in meter system, adjusted for the staggered release of Vero and the slower EU take-up.

The model assumes a market growth rate of 5.5% pa, with a starting level of LifeScan sales of 4.1 billion strips, increasing to 5.5 billion strips in Q4 CY2017, with a penetration rate of 93%. This based on a constant market share for Lifescan of around 28% and excludes any impact from the development projects for LifeScan.

Table 1 Blood Glucose Market - Forecasts

Country	Total Market Size (US\$m)	Test Strip Market				Growth Rate pa %	Verio Strip Sales									
		LifeScan		Market Share %	m		Verio % of LifeScan Sales <sup>3</sup>					Total Verio Sales				
		Test Strips <sup>1,2</sup> (US\$m)	m				CY 11 %	CY 12 %	CY 13 %	CY 14 %	CY 15 %	CY 11 m	CY 12 m	CY 13 m	CY 14 m	CY 15 m
Europe	3,300	2,805	5,100	20	1,020	8	4	6	10	30	50	41	66	110	330	551
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	5	20	45	70	21	157	604	1,358	2,112
<b>Launched Markets</b>	<b>7,900</b>	<b>6,715</b>	<b>12,255</b>	<b>31</b>	<b>3,823</b>	<b>8</b>						70	232	723	1,697	2,672
Rest of World <sup>3</sup>	1,900	1,615	3,589	15	538	10		2	5	10	35	0	12	30	59	207
<b>Total</b>	<b>9,800</b>	<b>8,300</b>	<b>15,844</b>	<b>28</b>	<b>4,361</b>	<b>8</b>						<b>70</b>	<b>244</b>	<b>752</b>	<b>1,757</b>	<b>2,879</b>
% Increase												247.0	208.6	133.5	63.9	
<b>UBI strip Sales to LifeScan<sup>4</sup></b>												<b>70</b>	<b>220</b>	<b>320</b>	<b>425</b>	<b>510</b>
% Increase												213.1	45.5	32.8	20.0	

UBI - Forecasts

Verio Sales	Revenue (US\$m)					EBIT (US\$m) <sup>6</sup>					Margin (%)				
	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 <sup>5</sup>	6.3	19.8	28.8	38.3	45.9	1.1	4.0	5.8	7.7	9.2	17.5	20.0	20.0	20.0	20.0
Service Revenue - Strips	0.7	2.4	7.5	17.6	28.8	0.7	2.4	7.5	17.6	28.8					
Service Revenue - R&D	2.0	3.3	3.0	3.0	3.0	1.6	2.5	1.8	1.8	1.8	80.0	75.0	60.0	60.0	60.0
Milestone Payments	0.5	0.0	0.0	0.0	0.0										
<b>Total</b>	<b>9.5</b>	<b>25.5</b>	<b>39.3</b>	<b>58.8</b>	<b>77.7</b>	<b>3.4</b>	<b>8.9</b>	<b>15.1</b>	<b>27.0</b>	<b>39.8</b>	<b>35.8</b>	<b>34.7</b>	<b>38.4</b>	<b>45.9</b>	<b>51.2</b>

Source : Industry Sources and Veritas Forecasts

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

Blood Coagulation

The model below is based on a testing frequency of once every 2 weeks and earnings of \$1.00 per strip, assuming modest only market share increases. It also excludes home self-testing, where UBI is yet to identify a partner.

PT-INR Blood Coagulation Market - Forecasts

Country	COAG Market CY2012 <sup>1</sup>			Growth Rate %	UBI Market Share <sup>2</sup>			Revenue <sup>3</sup>					EBIT <sup>4</sup>					Margin <sup>4</sup>		
	Total US\$m	Strips US\$m	Meters US\$m		CY13 %	CY14 %	CY15 %	CY11 US\$m	CY12 US\$m	CY13 US\$m	CY14 US\$m	CY15 US\$m	CY11 US\$m	CY12 US\$m	CY13 US\$m	CY14 US\$m	CY15 US\$m	CY13 %	CY14 %	CY15 %
Europe <sup>5</sup>	225	191	34	6	0.3	2.5	5.0			0.3	3.0	6.1			0.1	1.4	2.9	35.0	45.0	47.0
USA <sup>6</sup>	325	276	49	5	0.2	2.5	5.0			0.2	4.4	8.7			0.1	2.0	4.1	35.0	45.0	47.5
Other <sup>7</sup>	150	128	23	4		1.5	3.0			0.0	0.8	2.4			0.3	1.1			35.0	45.0
<b>Total</b>	<b>700</b>	<b>595</b>	<b>105</b>							<b>0.5</b>	<b>8.2</b>	<b>17.2</b>			<b>0.2</b>	<b>3.6</b>	<b>8.1</b>	35.0	44.0	47.0
Milestone Payments								0.0	4.3	4.0	3.8	2.0	0.0	4.3	4.0	3.8	2.0			

Source : Industry Sources & Veritas Forecasts

Assumes <sup>1</sup> Forecast market for CY2012 with Test Strips representing 85% of Market. <sup>4</sup> Margins of 50% on Test Strips after ramp up <sup>7</sup> Launch elsewhere in 1H CY 2014 <sup>2</sup> Expected UBI Penetration <sup>5</sup> Launch in Europe in Q1 CY2013 <sup>8</sup> Siemens payment in 9/11 included in Cash Flow, but recognised as revenue over the project <sup>3</sup> Partner Sales & Marketing 40% of Strips (UBI 60%), 100% of Meters <sup>6</sup> Launch in US in 2H CY2013



**Universal Biosensors (UBI)**

Current Price: \$0.91 ps Target Price: \$1.75 ps

Universal Biosensors

FINANCIAL PERFORMANCE							
Year ended 31-Dec	2010A	2011A	2012E	2013E	2014E	2015E	
Sales Revenue	\$m	18.2	14.7	29.7	43.9	70.8	96.9
Cost of Goods Sold	\$m	-12.3	-13.0	-18.5	-26.0	-36.0	-46.7
<b>Gross Operating Profit</b>	<b>\$m</b>	<b>5.9</b>	<b>1.7</b>	<b>11.2</b>	<b>17.9</b>	<b>34.8</b>	<b>50.1</b>
R&D	\$m	-6.5	-9.8	-12.0	-12.0	-12.0	-12.0
Administration Costs	\$m	-4.2	-4.0	-4.1	-4.7	-5.0	-5.4
Other	\$m	0.0	0.0	-0.8	-0.4	0.0	0.0
<b>EBITDA</b>	<b>\$m</b>	<b>-4.8</b>	<b>-12.1</b>	<b>-5.7</b>	<b>0.8</b>	<b>17.8</b>	<b>32.7</b>
Depreciation	\$m	-3.0	-3.3	-2.7	-2.9	-3.0	-3.1
<b>EBIT</b>	<b>\$m</b>	<b>-7.8</b>	<b>-15.4</b>	<b>-8.4</b>	<b>-2.1</b>	<b>14.8</b>	<b>29.6</b>
Interest	\$m	1.2	0.7	0.5	0.3	0.6	1.0
Pre Tax Profit	\$m	-6.6	-14.7	-8.0	-1.8	15.4	30.7
Tax	\$m	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported Profit</b>	<b>\$m</b>	<b>-6.6</b>	<b>-14.7</b>	<b>-8.0</b>	<b>-1.8</b>	<b>15.4</b>	<b>30.7</b>

GROWTH							
	2010A	2011A	2012E	2013E	2014E	2015E	
Revenue	%	320.8	-19.2	102.4	47.5	61.4	36.8
COGS	%	1857.7	6.0	42.1	40.5	38.5	29.8
Gross Operating Profit	%	-72.5	-71.6	570.0	58.9	94.8	44.1
R&D	%	-56.5	51.4	22.3	0.0	0.0	0.0
EBITDA	%	na	151.6	-52.9	-113.3	2251.5	83.9
EBIT	%	na	97.4	-45.4	-74.5	-790.0	100.3
Reported Profit	%	na	122.3	-45.9	-76.8	-934.9	99.2
EPS	%	na	120.2	-45.9	-76.8	-934.9	99.2

P&L RATIOS							
	2010A	2011A	2012E	2013E	2014E	2015E	
Gross Operating Profit / Sales	%	32.4	11.4	37.8	40.7	49.1	51.7
EBITDA / Sales	%	-26.5	-82.4	-19.2	1.7	25.1	33.8
EBIT / Sales	%	-42.9	-104.8	-28.3	-4.9	20.9	30.6
Effective Tax Rate	%	0.0	0.0	0.0	0.0	0.0	0.0
Interest Cover	x	na	na	na	na	na	na
R&D/Revenue	x	35.7	66.8	40.4	27.4	16.9	12.4

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	-5.0	-1.2	9.7	19.3
Operating Cash Flow ps	¢ps	-4.1	-4.5	-0.7	1.2	10.0	22.7
Free Cash Flow	¢ps	-5.5	-5.2	-1.9	0.0	8.7	21.2
DPS	¢ps	0.0	0.0	0.0	0.0	2.0	8.0
Franking	%	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Payout Ratio	%	0.0	0.0	0.0	0.0	20.7	41.5

PARAMETERS							
	2010A	2011A	2012E	2013E	2014E	2015E	
PE Ratio	x	-36.2	-9.8	-18.2	-78.5	9.4	4.7
Enterprise Value / EBITDA	x	-25.2	-10.7	-23.3	175.5	6.7	2.7
Enterprise Value / Profit	x	-18.3	-8.8	-16.7	-72.0	7.7	2.9
Cash Flow ratio	x	-37.3	-20.2	-135.6	74.0	9.1	4.0
Dividend Yield	%	0.0	0.0	0.0	0.0	2.2	8.8

SEGMENTS							
	2010A	2011A	2012E	2013E	2014E	2015E	
<b>Sales Revenue</b>							
Product Sales	\$m	11.8	12.1	19.8	29.3	46.4	63.1
Service Revenue	\$m	6.4	2.6	5.6	10.5	20.6	31.8
Milestone Payments	\$m	0.0	0.0	4.3	4.0	3.8	2.0
<b>EBIT</b>							
Product Sales	\$m	1.0	1.1	2.0	4.5	11.6	17.5
Service Revenue	\$m	4.9	2.3	4.8	9.3	19.4	30.6
R&D	\$m	-6.5	-9.8	-13.0	-13.0	-12.0	-12.0
Milestone Payments	\$m	0.0	0.0	4.3	4.0	3.8	2.0
Corporate	\$m	-7.2	-7.3	-6.5	-7.0	-8.0	-8.5
<b>EBIT Growth</b>							
Product Sales	%	na	17.0	76.4	129.0	156.4	50.8
Service Revenue	%	22.9	-53.4	109.1	93.6	107.7	58.0
R&D	%	-56.5	51.4	32.5	0.0	-7.7	0.0
Corporate	%	27.5	1.2	-10.6	7.7	14.3	6.3
<b>EBIT Margin</b>							
Product Sales	%	8.2	9.3	10.0	15.5	25.0	27.8
Service Revenue	%	76.9	87.5	85.4	88.6	94.2	96.2

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

CASH FLOW							
Year ended 31-Dec	2010A	2011A	2012E	2013E	2014E	2015E	
<b>Operating EBITDA</b>	<b>\$m</b>	<b>-4.8</b>	<b>-12.1</b>	<b>-5.7</b>	<b>0.8</b>	<b>17.8</b>	<b>32.7</b>
Net Interest Received/Paid	\$m	1.2	0.7	0.5	0.3	0.6	1.0
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	-0.1	-2.5	2.4
Other	\$m	1.9	7.1	0.2	1.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>\$m</b>	<b>-6.4</b>	<b>-7.2</b>	<b>-1.1</b>	<b>2.0</b>	<b>15.9</b>	<b>36.2</b>
Capex	\$m	-2.3	-1.1	-2.0	-2.0	-2.0	-2.5
<b>Free Cash Flow</b>	<b>\$m</b>	<b>-8.7</b>	<b>-8.3</b>	<b>-3.1</b>	<b>0.0</b>	<b>13.9</b>	<b>33.7</b>
Acquisitions/Asset Sales	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Dividends Paid	\$m	0.0	0.0	0.0	0.0	0.0	-3.2
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
<b>Change in Net Cash</b>	<b>\$m</b>	<b>-8.0</b>	<b>-8.2</b>	<b>-3.1</b>	<b>0.0</b>	<b>13.9</b>	<b>30.5</b>

BALANCE SHEET							
	2010A	2011A	2012E	2013E	2014E	2015E	
Cash	\$m	23.3	15.1	12.0	12.0	25.9	56.4
Receivables	\$m	3.6	4.9	6.0	7.0	10.0	11.0
Inventory	\$m	3.2	3.6	6.0	7.0	8.5	9.5
Other Current Assets	\$m	0.3	1.0	0.9	1.0	1.0	1.0
<b>Current Assets</b>	<b>\$m</b>	<b>30.4</b>	<b>24.6</b>	<b>24.9</b>	<b>27.0</b>	<b>45.4</b>	<b>77.9</b>
Property, Plant & Equipment	\$m	23.1	20.3	19.6	18.7	17.7	17.1
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
<b>Non Current Assets</b>	<b>\$m</b>	<b>23.4</b>	<b>20.6</b>	<b>19.6</b>	<b>18.7</b>	<b>17.7</b>	<b>17.1</b>
<b>Total Assets</b>	<b>\$m</b>	<b>53.8</b>	<b>45.2</b>	<b>44.5</b>	<b>45.7</b>	<b>63.1</b>	<b>95.0</b>
Payables	\$m	1.8	0.6	8.1	10.0	12.0	16.4
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
<b>Current Liabilities</b>	<b>\$m</b>	<b>4.5</b>	<b>7.0</b>	<b>12.6</b>	<b>16.0</b>	<b>18.5</b>	<b>23.4</b>
Non Current Debt	\$m	0.0	0.0	0.0	0.0	0.0	0.0
Other NC Liabilities	\$m	2.2	3.2	4.9	4.5	4.0	3.5
<b>Non Current Liabilities</b>	<b>\$m</b>	<b>2.2</b>	<b>3.2</b>	<b>4.9</b>	<b>4.5</b>	<b>4.0</b>	<b>3.5</b>
<b>Total Liabilities</b>	<b>\$m</b>	<b>6.6</b>	<b>10.2</b>	<b>17.5</b>	<b>20.5</b>	<b>22.5</b>	<b>26.9</b>
<b>Shareholder Funds</b>	<b>\$m</b>	<b>47.2</b>	<b>35.0</b>	<b>27.1</b>	<b>25.2</b>	<b>40.6</b>	<b>68.1</b>

BALANCE SHEET RATIOS							
	2010A	2011A	2012E	2013E	2014E	2015E	
Receivables turn	x	9.1	3.5	5.5	6.7	8.3	9.2
Inventory turn	x	7.0	3.8	3.8	4.0	4.6	5.2
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	2.0	1.7	2.5	3.3
Net Assets	¢ps	29.7	22.0	17.0	15.9	25.5	42.7
Net Tangible Assets	¢ps	29.7	22.0	17.0	15.9	25.5	42.7
Cash	¢ps	14.7	9.5	7.6	7.5	16.3	35.3
Return On Assets	%	-14.2	-31.1	-18.7	-4.8	27.2	37.5
Return on Equity	%	-13.4	-35.7	-25.6	-7.1	46.8	56.4

VALUATION			
Valuation Method	\$	Premium/(Discount)	(%)
DCF	1.80		-49.4
Sum of the Parts	1.70		-46.5
Price Target	1.75		-48.0
Current Price	0.91		
<b>Market Capitalisation</b>	<b>\$144.7m</b>	<b>Enterprise Value</b>	<b>\$132.7m</b>

MAJOR SHAREHOLDERS	
Principals C'stone/Directors	m 14%
CM Capital Investments	m 11%
National Noms	m 9%
PFM Cornerstone	m 7%
Top 20 (16/3/2011)	m 74%

DIRECTORS			
Andrew Denver	N-E Chair	Andrew Jane	N-E Dir
Paul Wright	MD & CEO	Dr Jane Wilson	N-E Dir
Dr Colin Adam	N-E Dir	Marshall Heineberg	N-E Dir
Denis Hanley	N-E Dir		

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**RATING**

BUY – anticipated stock return is greater than 10%  
 SELL – anticipated stock return is less than -10%  
 HOLD – anticipated stock return is between -10% and +10%  
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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