

Universal Biosensors Ltd

Interim Result not indicative for the Full Year

While the interim loss increased from \$3.0m to \$8.0m on a 2.1% revenue increase, this is not indicative for the CY 2011 result:

- While product sales increased by 94%, this was lower than expected with only a soft launch in Europe in the half. We would expect heavier promotion in 2H CY 2011 with the approval of a new meter and a high profile USA launch.
- A fall in service revenue, mainly from the absence of significant R&D revenue, with completion of a number of projects for LifeScan during 2H CY2010.
- The impact of a stronger A\$, reducing revenue and creating translation losses.
- A 41% increase in R&D related to the final development stages for its PT-INR meter testing system, expected to be launched in CY2012.

UBI retains \$17m in cash (12.2¢ ps), sufficient to cover the commercialisation of its PT-INR meter system.

Imminent US Launch of Verio a Defining Event

The imminent approval by the FDA and launch in the USA of an upgraded OneTouch Verio Blood Glucose meter will be a defining event for UBI, as:

- The USA is the largest market for blood glucose testing, comprising over 40% of global sales and 50% of LifeScan's sales.
- LifeScan is also expected to boost promotion of the new meter in the recently launched European markets and to launch in additional markets.
- This will result in a significant boost to both product sales and service revenue, taking UBI to a cash flow positive and profitable position in CY2013.

Long Term Growth Potential in PT-INR Meter System

UBI is in the final development stages and is in discussion with potential partners, ahead of a regulatory filing in 1H CY2012 and a potential launch in 2H CY2012.

The blood coagulation testing market is large at around US\$400m, but expected to reach \$1.3b by 2020, boosted by a change in US re-imbursing, increasing incidence of DVT and PE and the acceptance of lower cost Point-of-Care devices. UBI's margins will be substantially higher, with UBI responsible for manufacture.

Forecasts

A substantial improvement is expected in 2H CY2011 continuing into CY2012, with increasing product sales and service revenue from the US launch and Europe, commencement of R&D revenue projects and the absence of some one-off costs.

Further growth and the launch of the PT-INR meter will move UBI to a cash flow surplus and profits in CY2013.

Reasons to BUY

Growth Markets – Exposure to large rapid growth Healthcare sectors.

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

Opportunities - Substantial global market potential for a second and subsequent product, underpinned by the successful launch of its first product.

Balance Sheet Strength - A strong Balance Sheet, with net cash of \$17.5m.

Valuation – Current trading at a 56% discount to our valuation of \$2.10 ps.

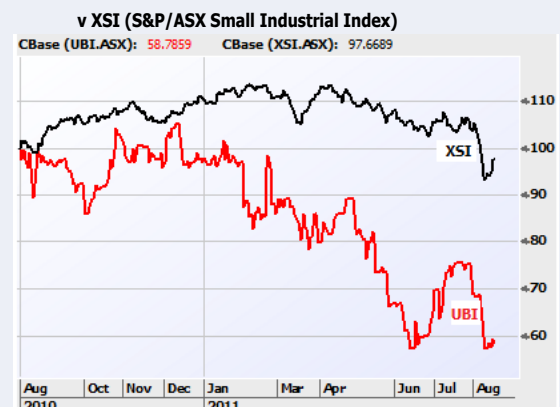
UBI.ASX

Buy

17 August 2011

| | |
|-----------------------|----------------------------|
| Price | 0.92 |
| Target price | 2.10 |
| Valuation method | DCF |
| GICS sector | Healthcare |
| 12 Mth Price Range | \$0.88 - 1.65 |
| Avg monthly t/o | 1m |
| Market Capitalisation | \$146m |
| Shares on issue | 159m |
| Enterprise value | \$123m |
| Previous rating | Initiating Coverage |

| Year Ended Dec 30 | | 09A | 10A | 11E | 12E | 13E | 14E |
|-------------------|-------|------------|-------------|-------------|-------------|------------|-------------|
| Operating Revenue | \$m | 22 | 18 | 20.4 | 38.6 | 56.6 | 77.3 |
| EBITDA | \$m | 3.5 | -4.8 | -6.6 | 1.7 | 9.2 | 20.5 |
| EBITDA margin | % | 495.7 | 32.4 | 36.3 | 36.5 | 40.1 | 46.2 |
| EBIT | \$m | 0.6 | -7.8 | -10.1 | -2.0 | 5.4 | 16.7 |
| EBIT margin | % | 14.6 | -42.9 | -49.7 | -5.2 | 9.5 | 21.5 |
| NPAT | \$m | 1.4 | -6.6 | -9.2 | -1.4 | 5.9 | 17.2 |
| EPS | ¢ps | 0.9 | -4.2 | -5.8 | -0.9 | 3.7 | 10.8 |
| DPS | ¢ps | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 6.0 |
| Franking | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PER | x | na | na | na | na | 24.9 | 8.5 |
| Dividend yield | % | 0.0 | 0.0 | 0.0 | 0.0 | 1.6 | 6.5 |
| NTA/share | \$ ps | 32.7 | 28.5 | 22.7 | 21.8 | 25.5 | 34.8 |
| EV/EBITDA | x | 32.5 | -25.5 | -19.9 | 79.6 | 14.5 | 6.0 |
| Gearing (D:E) | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| P/OCF | x | 49.5 | -37.3 | -22.2 | na | 46.1 | 9.5 |
| ROA | % | 1.2 | -14.5 | -20.6 | -4.3 | 10.5 | 25.9 |
| ROE | % | 2.9 | -13.7 | -22.6 | -4.0 | 15.6 | 35.8 |
| Interest cover | x | na | na | na | na | na | na |



Activities

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

www.universalbiosensors.com

Brent Mitchell 03 86054830

bmitchell@veritassecurities.com.au

Interim Result

The result was lower than we expected, although not indicative for the CY2011 result, mainly due to:

- Lower revenue from a combination of limited "Verio" penetration and lower R&D related revenue.
- Higher R&D and related costs.

| Profit & Loss | | | | Balance Sheet | | | |
|----------------------|-------------|-------------|--------------|--------------------------|-----------|-----------|--------------|
| 6 Mths to Dec (\$m) | 1H 10 | 1H 11 | % Ch | At Dec 31 (\$m) | 1H 10 | 1H 11 | % Ch |
| Product Sales | 2.9 | 5.6 | 93.7 | Current Assets | 33 | 23 | |
| Service Revenue | 2.9 | 0.7 | -74.7 | Non Current Assets | 20 | 22 | |
| Total Revenue | 6.2 | 6.3 | 2.1 | Total Assets | 53 | 45 | -14.8 |
| Cost of Goods Sold | -4.0 | -6.4 | | Current Liabilities | 2 | 2 | |
| Operating Profit | 2.2 | -0.1 | | Non Current Liabilities | 2 | 2 | |
| R&D | -3.4 | -4.7 | 40.7 | Total Liabilities | 4 | 5 | 15.1 |
| Other Expenses | -1.7 | -1.9 | 12.3 | Shareholder Funds | 49 | 40 | -17.3 |
| EBITDA | -2.8 | -6.7 | 137.8 | Return on Equity (%) | -14.5 | -78.9 | |
| Depreciation | -1.5 | -1.7 | | Return on Assets (%) | -15.6 | -70.1 | |
| EBIT | -4.3 | -8.4 | 96.5 | Net Debt | 0.0 | 0.0 | |
| Interest (Net) | 0.6 | 0.4 | | Ent Value / EBITDA | -25.2 | -9.6 | |
| Pre-Tax Profit | -3.6 | -8.0 | 119.6 | NTAV (cps) | 31.0 | 28.2 | -9.0 |
| Tax | 0.0 | 0.0 | | Net Cash (cps) | 17.3 | 12.2 | -29.2 |
| Profit | -3.6 | -8.0 | 119.6 | Current Ratio (x) | 18.1 | 9.6 | |
| EPS (cps) | -2.3 | -5.0 | 117.3 | Gross Margin (%) | 35.8 | -1.3 | |
| Cash Flow (cps) | -1.9 | -3.2 | 64.9 | EBIT Margins (%) | -68.8 | -132.5 | |
| DPS (cps) | 0.0 | 0.0 | | Effective Tax Rate (%) | 0.0 | 0.0 | |

Key Points

Revenue was lower than expected:

Product revenue up 93.7%

- Although product sales increased by 93.7%, this was below expectations, with a lower penetration of key European markets during 1H CY2011, a result of a low key launch.
- The absence of significant R & D revenue with completion of major projects for LifeScan in CY2010.
- Strength in the A\$:US\$ rate, with the average rate for the half increasing by around 18%.

The increased Net Loss was due to:

- The lower level of revenue.
- A -\$0.4m currency translation impact (1H +\$0.2m).
- A 40.6% increase in R&D and additional costs associated with the PT-INR meter system.

On a quarterly basis, revenue and profit were stronger in 1Q CY2011 with stronger product sales ahead of a major European launch.

Balance Sheet remains strong

The Balance Sheet remains strong with no debt and cash of \$17.5m (12.2¢ ps). While this covers UBI for 20 months, based on a current burn rate of \$0.84 per month, UBI expect an increase in cash flow from the launch in the US and increased promotion in Europe, and milestone payments from a PT-INR distribution deal.

| Division | Revenue (\$m) | | | EBITDA (\$m) | | | Margin (%) | |
|-----------------|---------------|---------|-------|--------------|---------|-------|------------|---------|
| | 1H CY10 | 1H CY11 | % ch | 1H CY10 | 1H CY11 | % ch | 1H CY10 | 1H CY11 |
| Product Sales | 2.9 | 5.6 | 93.7 | -0.6 | -0.6 | 1.5 | -20.5 | -10.7 |
| Service Revenue | 3.3 | 0.7 | -78.1 | 2.8 | 0.5 | -81.5 | 85.0 | 71.7 |
| R&D | | | | -3.4 | -4.7 | 40.6 | | |
| Corporate | | | | -1.8 | -1.9 | 5.5 | | |
| Total | 6.2 | 6.3 | 2.1 | -2.9 | -6.7 | 127.5 | | |

Initial low key launch in Europe

Product Sales – The growth in product sales was due to a build in system inventory ahead of LifeScan’s launch in Germany, UK, Spain, Portugal and Ireland in April 2011. Revenue is recognized on delivery to LifeScan.

We believe the low key launch in Europe stems around imminent approval of upgraded meter in the US by the FDA. We now expect increased promotion in Europe to coincide with a US launch later in CY2011.

Margins held back by Interim Pricing

While margins improved, they were held back by only partial recovery of costs for product sales for most of the period under an “interim costing” arrangement. Under this arrangement, UBI recovers most, but not all manufacturing expenses when volumes are below a break-even point.

Service Revenue – The substantially lower revenue reflects the absence of any significant R&D service revenue from LifeScan, with the winding up of a number of programs late in CY2010. New R&D programs for LifeScan are expected to commence in the 2H FY2011.

Royalty revenue continues to grow

Revenue mostly comprised royalty revenue of around US1¢ per strip sold by LifeScan, with revenue recognized on strip sales.

R & D – the 40.6% increase was due to final development of the PT-INR meter system, including additional expenditure items, such as materials and consumables, and meter design.

Corporate Costs – Remained controlled, with only a 5.5% increase.

PT-INR

Development of PT-INR meter system advanced

UBI is in the final stages of development of the PT-INR meter systems and is in partnership discussions with major healthcare groups on marketing and distribution. Due to the nature of the blood coagulation market, UBI may partner with a number of groups across different segments of the market regions.

We expect UBI to reach agreement(s) in 2H CY2011 ahead of a regulatory filing in 1Q CY2012, and receive milestone payments with these agreements and/or various regulatory approvals.

Outlook

Self Monitoring Blood Glucose market (SMBG)

Blood Glucose market continues to grow

The SMBG market continues to grow:

- In January 2011, the International Diabetes Federation has estimated that the global prevalence of diabetes among adults aged 20-79 years will increase from 6.6% in 2010 to 7.8% by 2030.
- In March 2011, Business insights forecast growth in the SMBG market of 5% pa, from US\$9.9b in 2010 to US\$13.3b in 2016. We believe these are conservative, assuming low penetration in emerging countries.

The OneTouch Verio meter received regulatory approval in Europe in December 2009 and has been rolled out by LifeScan in the Netherlands (January 2010), Australia (September 2010), Italy and France (January 2011), and Germany, the UK, Ireland, Spain and Portugal (April 2011), covering 90% of the European Union market.

Approval of an upgraded meter the forerunner to a US launch

While the OneTouch Verio meter received regulatory approval in the USA in February 2011, we believe LifeScan is waiting for the imminent approval of an upgraded meter before launching in the US, probably during 2H CY2011. The promotion will be based on an advantage over competing products, being accurate, precise, and cost effective. We also expect a corresponding increase in promotion in Europe around this meter.

While the Blood Glucose market is around US\$10.0b, this is spread across the sale of meters, strips, lancets and related peripherals. With strips increasing from 85% to 90% of this total, the strip market will increase from US\$8.3b to \$12.1b. Based on an average strip price of \$0.50 (Verio RRP \$0.58 per strip), the strip market should increase from around 16.1b to 24.2b strips.

The USA is the global largest market, currently at around 40% (US\$4b), with Europe at around 30% (US\$3b). However, the fastest growth for diabetes is Asia and Central and South America, with forecasts of growth of 15.2% and 13% respectively, targeted markets for LifeScan.

The global Blood Glucose testing market is dominated by major healthcare groups. Lifescan is the second largest with a global market share of 27.2% across 75 countries, behind Roche (AccuChek) with 30% and ahead of Bayer (Contour and Breeze) and Abbott (Freestyle), each with around 15%. LifeScan generated revenue from diabetes products in CY2010 of US \$2.6b, with around 50% of this revenue generated from within the US, where it's sold through distributors.

On the basis of an estimate of over 16.1b test strips sold annually in LifeScan's markets and a 27.1% market, this equates to current LifeScan sales 4.4b strips pa. Assuming a constant market share, LifeScan strip sales could increase from 4.4b to 6.5b in 2016.

US launch a defining event

Accordingly, the imminent launch into the US market will be a defining event for the UBI's SMBG products, as well as LifeScan, who has struggled to maintain market share against new models and entrants. Our expectations of a launch in 2H CY2011 are based on recent confirmation of commitment to Verio, most recently in March 2011.

Revenue Base

UBI's revenue growth in the SMBG market emanates from 2 sources:

Product Sales – UBI supplies strips to LifeScan on a non-exclusive basis. We estimate that on a full pricing basis, UBI receives around US9¢ per strip, with a cost base of around US7.5¢ per strip. We believe UBI has moved from the "interim costing" program to full pricing in 2H CY2011, with the increased volume.

LifeScan is expected to supply strips in the US from CY2012 from its new 750m pa strip facility in Scotland, leaving UBI to supply other countries from within its current capacity of 750m strips pa (from 1 line). While UBI has potential capacity for 2 lines, we expect longer term growth to be supplied from additional LifeScan lines.

Service Revenue – UBI receives around US1¢ per strip on all strips sold by LifeScan. We also expect new R&D programs for LifeScan to commence in the 2H FY2011.

Forecasts

The forecasts below are conservative in terms of take-up rate. LifeScan's last model change to the "OneTouch Ultra" was replaced over 5 years, corresponding to an expected meter lifespan of 4 to 5 years. This changeover along with market growth saw an increase in strip sales from 1.6b to 4.1b.

We suspect the take-up of the Verio will be slower, 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% to 70% by 2016 and full take-up by 2018.

Blood Glucose Market - Forecasts

| Country | Total Blood Glucose Market Size (US\$m) | Test Strip Market | | | | Verio Strip Sales | | | | Total Verio Sales | | | |
|--|---|------------------------------------|---------------|-------------------------|--------------|-------------------|---------|---------|---------|-------------------|------------|------------|--------------|
| | | Test Strips ^{1,2} (US\$m) | m | LifeScan Market Share % | m | CY 11 % | CY 12 % | CY 13 % | CY 14 % | CY 11 m | CY 12 m | CY 13 m | CY 14 m |
| Netherlands | 80 | 68 | 124 | 15 | 19 | 20 | 25 | 30 | 35 | 4 | 5 | 6 | 6 |
| Australia | 80 | 68 | 170 | 3 | 4 | 100 | 100 | 100 | 100 | 4 | 4 | 4 | 4 |
| Italy | 500 | 425 | 773 | 25 | 193 | 15 | 25 | 30 | 35 | 29 | 48 | 58 | 68 |
| France | 475 | 404 | 734 | 25 | 184 | 15 | 25 | 30 | 35 | 28 | 46 | 55 | 64 |
| Germany | 950 | 808 | 1468 | 25 | 367 | 15 | 25 | 30 | 35 | 55 | 92 | 110 | 128 |
| UK | 470 | 400 | 726 | 20 | 145 | 8 | 25 | 30 | 35 | 11 | 36 | 44 | 51 |
| Spain | 420 | 357 | 649 | 20 | 130 | 8 | 20 | 30 | 35 | 10 | 26 | 39 | 45 |
| Portugal & Ireland | 50 | 43 | 77 | 20 | 15 | 8 | 20 | 30 | 35 | 1 | 3 | 5 | 5 |
| Launched Markets | 3,025 | 2571 | 4,721 | 22 | 1,057 | | | | | 141 | 260 | 320 | 373 |
| USA ⁴ | 4,000 | 3400 | 6182 | 40 | 2473 | 5 | 15 | 25 | 40 | 124 | 371 | 618 | 989 |
| Other Europe ⁵ | 600 | 510 | 927 | 20 | 185 | | 10 | 15 | 20 | 0 | 19 | 28 | 37 |
| Approved & Launched | 7,625 | 6481 | 11784 | 32 | 3715 | | | | | 265 | 650 | 966 | 1,399 |
| Rest of World ⁶ | 2,175 | 1849 | 4108 | 15 | 616 | | | 5 | 10 | 0 | 0 | 31 | 62 |
| Total | 9,800 | 8300 | 15,939 | 27 | 4,332 | | | | | 265 | 650 | 997 | 1,461 |
| % Inc | | | | | | | | | | | 145 | 53 | 47 |
| UBI strip Sales to LifeScan⁷ | | | | | | | | | | 141 | 279 | 379 | 471 |
| % Inc | | | | | | | | | | | 97 | 36 | 24 |

UBI Forecasts

| Verio Sales | Revenue ⁸ | | | | EBIT ⁹ | | | | Margin | | | |
|----------------------------|----------------------|-------------|-------------|-------------|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | CY 11 US\$m | CY 12 US\$m | CY 13 US\$m | CY 14 US\$m | CY 11 US\$m | CY 12 US\$m | CY 13 US\$m | CY 14 US\$m | CY 11 % | CY 12 % | CY 13 % | CY 14 % |
| Product Sales ⁷ | 12.7 | 25.1 | 34.1 | 42.4 | 2.7 | 5.5 | 7.8 | 10.2 | 21.5 | 22.0 | 23.0 | 24.0 |
| Service Revenue - Strips | 2.6 | 6.5 | 10.0 | 14.6 | 2.6 | 6.5 | 10.0 | 14.6 | | | | |
| Service Revenue - R&D | 3.0 | 4.0 | 4.0 | 4.0 | 1.1 | 1.6 | 1.7 | 1.7 | 36.7 | 40.0 | 41.3 | 42.5 |
| Total | 18.4 | 35.6 | 48.1 | 61.0 | 6.5 | 13.6 | 19.5 | 26.5 | 35.3 | 38.3 | 40.5 | 43.4 |

Source : Veritas Forecasts and Industry Sources

Assumes ¹ Test Strip market comprises 85% of Total Market

² Average Price per strip sold of \$0.55

³ Initial 20% of LifeScan Sales on Country Launch - to fill supply chain

⁴ US Launch Q3 CY2011

⁵ Other European Launch Q3 CY2012

⁶ ROW Launch Q1 CY2013

⁷ Covers Europe, ROW & Australia

⁸ Strip sales to LifeScan at 9c / strip, margin of 1.5c / strip

PT-INR

UBI is finalizing the development of the PT-INR test and meter and is in discussions with major healthcare groups for partnering arrangements. Due to the nature of this market, these arrangements may be with more than one group, either across different market segments or regions.

UBI finalizing partnership arrangements for PT-INR Metering system

UBI is looking to finalise partnership arrangements before regulatory filing of the meter system either in the EU or USA in Q1 CY2012, although EU entry may be faster with Self Certification. The filing will be based on a clinical study comparing its prototype PT/INR system with Roche CoaguChek XS (the market leader) in the US and Australia, which demonstrated a strong performance correlation and reproducibility of results.

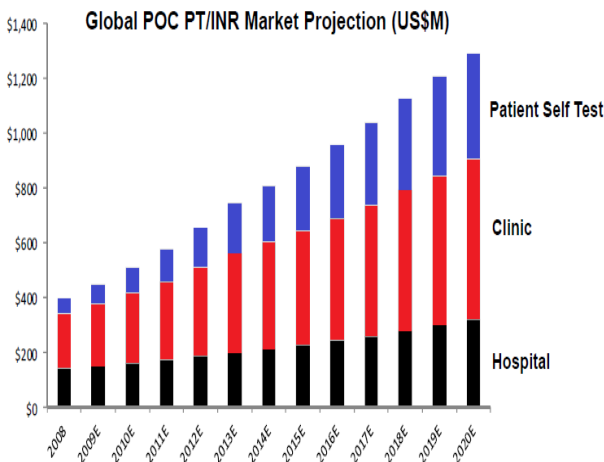
The PT/INR meter developed by UBI performs a prothrombin time (PT) assay on a fingerprick blood sample to measure the clotting tendency of blood, reporting the result as an International Normalised Ratio (INR), to support immediate therapy or dose adjustments for anticoagulants. While the PT test can be used for a number of screenings, it's mainly used to measure the level of blood thinners, such as warfarin, in the blood stream.

The meter and strips use a similar technology to the blood glucose meter, process and algorithms, based on patents owned by UBI. While the process to commercialization will follow the path of the blood glucose meter, the production and revenue model will probably differ, with UBI solely responsible for strip manufacture and possibly the meter, depending on the optimum outcome.

Market Size

Blood coagulation market growing at 12% pa

Coagulation is the second largest Point of Care IVD market after blood glucose, estimated at over US\$1.0b, but set to double over the next 10 years. While there are a range of PT tests currently available, only a few are cleared for patient self-testing.



Within this market, the PT/INR sector is currently around US\$400m, but expected to reach \$1.3b by 2020, boosted by a change in US re-imburement, an increasing incidence of DVT and PE and the replacement of existing technology by lower cost Point-of-Care devices.

Over 400 million PT tests worldwide are currently conducted each year. Roche's CoaguChek (the market leader) increased sales by 20% in CY2009 and 19% in CY2010 to around \$370m with robust demand in the EU and expanded Medicare reimbursement for self testing in the US. Within the US, 30m prescriptions for warfarin are filled annually, with nearly 2m new patients every year.

The costs associated with the PT/INR market are significantly higher than blood glucose, with CoaguChek meters and strips selling in the US for around US\$1,000 per meter and between US\$5 and US\$6 per test strip, against US Medicare reimbursement of \$5.53 per test. We believe this is a function of increased complexity, a smaller market, in terms of volume, a lower level of R&D and less direct competition.

Forecasts

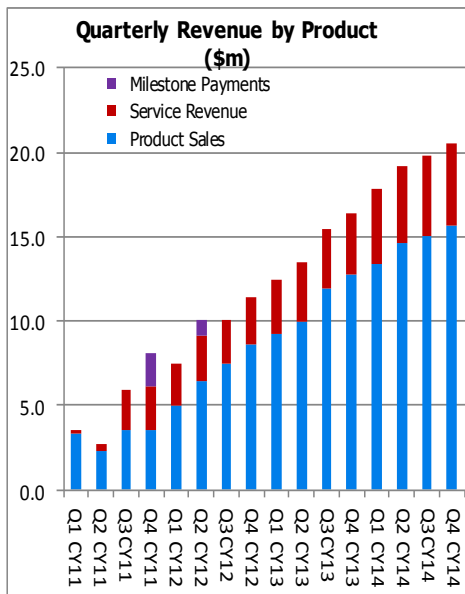
While our forecasts assume initial launch in Europe, this may be in the larger US market, depending on partnership arrangements. These forecasts below are conservative assuming low penetration rates and staggered launches.

Blood Coagulation Market - Forecasts

| Country | COAG Market | | | UBI Market Share ² | | | Revenue ³ | | | EBIT ⁴ | | | Margin ⁴ | | |
|---------------------|-------------|---------------------------|---------------------------|-------------------------------|----------|----------|----------------------|--------------|--------------|-------------------|--------------|--------------|---------------------|----------|----------|
| | Total US\$m | Strips ¹ US\$m | Meters ¹ US\$m | CY2012 % | CY2013 % | CY2014 % | CY2012 US\$m | CY2013 US\$m | CY2014 US\$m | CY2012 US\$m | CY2013 US\$m | CY2014 US\$m | CY2012 % | CY2013 % | CY2014 % |
| Europe ⁵ | 170 | 136 | 34 | 2.0 | 4.0 | 6.0 | 2.0 | 4.1 | 6.1 | 1.0 | 2.0 | 3.0 | 49.0 | 49.0 | 49.0 |
| USA ⁶ | 230 | 184 | 46 | | 2.0 | 4.0 | 0.0 | 2.8 | 5.5 | 0.0 | 1.4 | 2.7 | | 49.0 | 49.0 |
| Other | 100 | 80 | 20 | | | 2.0 | 0.0 | 0.0 | 1.4 | 0.0 | 0.0 | 0.7 | | | 50.0 |
| Total | 500 | 400 | 100 | | | | 2.0 | 6.8 | 13.0 | 1.0 | 3.4 | 6.4 | | 49.0 | 49.1 |

Source: Industry Sources & Veritas Forecasts

Assumes ¹ Test Strips represent 80% of Market ⁴ Margins of 50% on Test Strips & 10% on Meters
² Expected UBI Penetration ⁵ Launch in Europe in 2H CY2012
³ Partner Sales & Marketing 40% (ie UBI 60%) ⁶ Launch in US in 2H CY2013



SEGMENTS 2010A 2011E 2012E 2013E 2014E

| Sales Revenue | | | | | | |
|--------------------|-----|-------|-------|-------|------|------|
| Product Sales | \$m | 118 | 127 | 27.6 | 42.6 | 58.7 |
| Service Revenue | \$m | 6.4 | 5.6 | 10.5 | 14.0 | 18.6 |
| R&D | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Milestone Payments | \$m | 0.0 | 2.0 | 1.0 | 0.0 | 0.0 |
| EBIT | | | | | | |
| Product Sales | \$m | 10 | 2.7 | 6.6 | 11.4 | 17.0 |
| Service Revenue | \$m | 4.9 | 2.6 | 6.5 | 10.0 | 14.6 |
| R&D | \$m | -6.5 | -9.0 | -6.5 | -6.0 | -6.0 |
| Milestone Payments | \$m | 0.0 | 2.0 | 1.0 | 0.0 | 0.0 |
| EBIT Growth | | | | | | |
| Product Sales | % | na | 185.1 | 141.0 | 73.5 | 49.1 |
| Service Revenue | % | 84.2 | -46.3 | 145.2 | 53.5 | 46.5 |
| R&D | % | -52.2 | 38.8 | -27.8 | -7.7 | 0.0 |
| EBIT Margin | | | | | | |
| Product Sales | % | 8.2 | 21.5 | 23.8 | 26.8 | 29.0 |
| Service Revenue | % | 76.9 | 46.9 | 61.9 | 71.4 | 78.5 |

Outlook

A stronger 2H CY2011 is expected, with:

Stronger revenue from:

- Higher Product Sales with increasing deliveries to LifeScan, from an expected US launch and increased European sales. While not certain, LifeScan have publicly stated that they expect to launch in CY2011, when it receives the imminent FDA approval for an upgraded meter. The new meter would be the basis of a US launch and increased promotion in Europe.
- Increased royalty revenue with increased strip sales.
- Higher R&D revenue with the start up of some new programs for LifeScan.

Reduced losses, with:

- Absence of one-off costs (materials and consumables) from the PT-INR development.
- Increased revenue, offsetting its fixed cost base.
- A possible milestone payment on PT-INR.
- A stable or softening A\$.

This strong growth is expected to continue into CY2012, with:

- Strong revenue growth in terms of product sales and royalties from an increasing take-up of Verio in US and Europe and the launch into the remaining European countries.
- The prospective launch of the PT-INR meter system in Q4 CY 2012 in either Europe or the USA.
- The absence of some developmental costs for PT-INR.

This growth to continue in CY2013 and CY2014, with:

- Continued penetration of Verio and the launch into other global markets.
- The launch of the PT-INR meter into a second and subsequent markets.

Over the medium term, UBI will benefit from:

- Development of additional blood glucose products for LifeScan.
- The rollout into the remainder of countries currently serviced by LifeScan.
- A full global launch of the PT-INR test meter.
- The completion of development and launch of the D-dimer and CRP meters.

Valuation

We have a Discounted Cash Flow valuation for UBI of \$342m, or \$2.10 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 56.2% discount to our valuation.



Universal Biosensors

Current Price: \$0.92 ps

FINANCIAL PERFORMANCE

| Year ended 31-Dec | 2010A | 2011E | 2012E | 2013E | 2014E |
|-------------------------------|-----------------|--------------|-------------|-------------|-------------|
| Sales Revenue | \$m 18.2 | 20.4 | 38.6 | 56.6 | 77.3 |
| Cost of Goods Sold | \$m -12.3 | -13.0 | -24.5 | -33.9 | -41.6 |
| Gross Operating Profit | \$m 5.9 | 7.4 | 14.1 | 22.7 | 35.8 |
| R&D | \$m -6.5 | -9.0 | -6.5 | -6.0 | -6.0 |
| Administration Costs | \$m -4.2 | -5.0 | -5.5 | -6.3 | -5.5 |
| EBITDA | \$m -4.8 | -6.6 | 1.7 | 9.2 | 20.5 |
| Depreciation | \$m -3.0 | -3.5 | -3.7 | -3.8 | -3.8 |
| EBIT | \$m -7.8 | -10.1 | -2.0 | 5.4 | 16.7 |
| Interest | \$m 1.2 | 0.9 | 0.6 | 0.5 | 0.5 |
| Pre Tax Profit | \$m -6.6 | -9.2 | -1.4 | 5.9 | 17.2 |
| Tax | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported Profit | \$m -6.6 | -9.2 | -1.4 | 5.9 | 17.2 |

GROWTH

| | 2010A | 2011E | 2012E | 2013E | 2014E |
|--------------------------|----------|-------|--------|--------|-------|
| Revenue | % 320.8 | 12.0 | 89.7 | 46.5 | 36.6 |
| COGS | % 1857.7 | 5.7 | 89.1 | 38.1 | 22.7 |
| Gross Operating Profit % | -72.5 | 25.2 | 90.8 | 61.1 | 57.5 |
| R&D | % -56.5 | 38.8 | -27.8 | -7.7 | 0.0 |
| EBITDA | % na | 37.5 | -125.5 | 445.5 | 122.3 |
| EBIT | % na | 29.6 | -80.1 | -368.2 | 208.3 |
| Reported Profit | % na | 38.9 | -84.5 | -513.3 | 192.1 |
| EPS | % na | 37.9 | -84.5 | -513.3 | 192.1 |

P&L RATIOS

| | 2010A | 2011E | 2012E | 2013E | 2014E |
|--------------------------------|---------|-------|-------|-------|-------|
| Gross Operating Profit / Sales | 32.4 | 36.3 | 36.5 | 40.1 | 46.2 |
| EBITDA / Sales | % -26.5 | -32.5 | 4.4 | 16.3 | 26.4 |
| EBIT / Sales | % -42.9 | -49.7 | -5.2 | 9.5 | 21.5 |
| Effective Tax Rate | % 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Cover | x na | na | na | na | na |

Per SHARE

| | 2010A | 2011E | 2012E | 2013E | 2014E |
|---------------------------|----------|-------|-------|-------|-------|
| Issued Shares (Wt Av m) | 157.6 | 158.8 | 158.9 | 158.9 | 158.9 |
| EPS | ¢ps -4.2 | -5.8 | -0.9 | 3.7 | 10.8 |
| EPS (dil C/Notes & O) ¢ps | -4.2 | -5.8 | -0.9 | 3.7 | 10.8 |
| Operating Cash Flow ¢ps | -4.1 | -4.1 | -0.5 | 2.0 | 9.6 |
| Free Cash Flow ¢ps | -5.5 | -5.4 | -1.7 | 0.7 | 8.4 |
| DPS | ¢ps 0.0 | 0.0 | 0.0 | 1.5 | 6.0 |
| Franking | % 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend Payout Ratio % | 0.0 | 0.0 | 0.0 | 40.5 | 55.5 |

PARAMETERS

| | 2010A | 2011E | 2012E | 2013E | 2014E |
|-----------------------------|---------|-------|--------|-------|-------|
| PE Ratio | x -36.2 | -15.9 | -102.8 | 24.9 | 8.5 |
| Enterprise Value / EBIT x | -25.5 | -19.9 | 79.6 | 14.5 | 6.0 |
| Enterprise Value / Profit x | -18.6 | -14.3 | -94.3 | 22.6 | 7.1 |
| Cash Flow ratio | x -37.3 | -22.2 | -202.2 | 46.1 | 9.5 |
| Dividend Yield | % 0.0 | 0.0 | 0.0 | 1.6 | 6.5 |

SEGMENTS

| | 2010A | 2011E | 2012E | 2013E | 2014E |
|----------------------|----------|-------|-------|-------|-------|
| Sales Revenue | | | | | |
| Product Sales | \$m 11.8 | 12.7 | 27.6 | 42.6 | 58.7 |
| Service Revenue | \$m 6.4 | 5.6 | 10.5 | 14.0 | 18.6 |
| R&D | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Milestone Payments | \$m 0.0 | 2.0 | 1.0 | 0.0 | 0.0 |
| EBIT | | | | | |
| Product Sales | \$m 1.0 | 2.7 | 6.6 | 11.4 | 17.0 |
| Service Revenue | \$m 4.9 | 2.6 | 6.5 | 10.0 | 14.6 |
| R&D | \$m -6.5 | -9.0 | -6.5 | -6.0 | -6.0 |
| Milestone Payments | \$m 0.0 | 2.0 | 1.0 | 0.0 | 0.0 |
| EBIT Growth | | | | | |
| Product Sales | % na | 185.1 | 141.0 | 73.5 | 49.1 |
| Service Revenue | % 84.2 | -46.3 | 145.2 | 53.5 | 46.5 |
| R&D | % -52.2 | 38.8 | -27.8 | -7.7 | 0.0 |
| EBIT Margin | | | | | |
| Product Sales | % 8.2 | 21.5 | 23.8 | 26.8 | 29.0 |
| Service Revenue | % 76.9 | 46.9 | 61.9 | 71.4 | 78.5 |

CASH FLOW

| Year ended 31-Dec | 2010A | 2011E | 2012E | 2013E | 2014E |
|----------------------------|------------------|-------------|-------------|------------|-------------|
| Operating EBITDA | \$m -4.8 | -6.6 | 1.7 | 9.2 | 20.5 |
| Net Interest Received/Paid | \$m 1.2 | 0.9 | 0.6 | 0.5 | 0.5 |
| Tax Paid | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change Working Capital | \$m -4.7 | -0.9 | -3.0 | -6.5 | -5.6 |
| Other | \$m 4.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating Cash Flow | \$m -8.3 | -6.6 | -0.7 | 3.2 | 15.3 |
| Capex | \$m -2.3 | -2.0 | -2.0 | -2.0 | -2.0 |
| Free Cash Flow | \$m -10.7 | -8.6 | -2.7 | 1.2 | 13.3 |
| Acquisitions/Asset Sales | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends Paid | \$m 0.0 | 0.0 | 0.0 | 0.0 | -2.4 |
| Equity Change | \$m 0.7 | 0.1 | 0.0 | 0.0 | 0.0 |
| Debt Change | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Net Cash | \$m -9.9 | -8.5 | -2.7 | 1.2 | -2.4 |

BALANCE SHEET

| | 2010A | 2011E | 2012E | 2013E | 2014E |
|--------------------------------|-----------------|-------------|-------------|-------------|-------------|
| Cash | \$m 23.3 | 14.8 | 12.0 | 13.2 | 24.2 |
| Receivables | \$m 3.6 | 5.2 | 9.5 | 13.9 | 19.0 |
| Inventory | \$m 3.2 | 5.8 | 7.5 | 11.0 | 15.0 |
| Other Current Assets | \$m 0.7 | 0.8 | 0.9 | 1.0 | 1.0 |
| Current Assets | \$m 30.7 | 26.6 | 29.9 | 39.1 | 59.2 |
| Property, Plant & Equipment | \$m 21.1 | 19.6 | 17.9 | 16.1 | 14.3 |
| Intangibles | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other NC Assets | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non Current Assets | \$m 21.1 | 19.6 | 17.9 | 16.1 | 14.3 |
| Total Assets | \$m 51.8 | 46.2 | 47.9 | 55.2 | 73.5 |
| Payables | \$m 1.8 | 5.1 | 8.1 | 9.5 | 13.0 |
| Current Debt | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Current Liabilities | \$m 2.7 | 3.5 | 4.5 | 6.0 | 6.5 |
| Current Liabilities | \$m 4.5 | 8.6 | 12.6 | 15.5 | 19.5 |
| Non Current Debt | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other NC Liabilities | \$m 2.2 | 1.5 | 0.6 | -0.8 | -1.3 |
| Non Current Liabilities | \$m 2.2 | 1.5 | 0.6 | -0.8 | -1.3 |
| Total Liabilities | \$m 6.6 | 10.1 | 13.2 | 14.7 | 18.2 |
| Shareholder Funds | \$m 45.2 | 36.1 | 34.7 | 40.5 | 55.3 |

BALANCE SHEET RATIOS

| | 2010A | 2011E | 2012E | 2013E | 2014E |
|-------------------------|----------|-------|-------|-------|-------|
| Receivables turn | x 9.1 | 4.6 | 5.3 | 4.8 | 4.7 |
| Inventory turn | x 7.0 | 2.9 | 3.7 | 3.7 | 3.2 |
| Net Debt | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gearing (D:D+E) | % 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio (CA / CL) | x 6.9 | 3.1 | 2.4 | 2.5 | 3.0 |
| Net Assets | ¢ps 28.5 | 22.7 | 21.8 | 25.5 | 34.8 |
| Net Tangible Assets | ¢ps 28.5 | 22.7 | 21.8 | 25.5 | 34.8 |
| Cash | ¢ps 14.7 | 9.3 | 7.6 | 8.3 | 15.2 |
| Price to Book Value | x 3.2 | 4.1 | 4.2 | 3.6 | 2.6 |
| Return On Assets | % -14.5 | -20.6 | -4.3 | 10.5 | 25.9 |
| Return on Equity | % -13.7 | -22.6 | -4.0 | 15.6 | 35.8 |

VALUATION

| Valuation Method | \$ | Premium/Discount (%) |
|------------------|------|----------------------|
| DCF | 2.10 | 56.2 |
| Current Price | 0.92 | |

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 | MD & CEO | Dr Jane Wilson | N-E Dir |
| Dr Colin Adam | N-E Dir | Marshall Heinberg | N-E Dir |
| Denis Hanley | N-E Dir | | |

Sales

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
 Clay Melbourne +61 2 8252 3220
 Bryce Reynolds +61 2 8252 3215
 Stephen Murphy +61 8 9380 8351

Research

Industrials
 Brent Mitchell +61 3 8605 4830
 Levi Hawker +61 3 8676 0689

Resources
 Piers Reynolds +61 3 8601 1196
 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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|---------------------------------|-------------------------------|-----------------------------|-------------------------|
| Veritas Securities Limited | Sydney | Melbourne | Perth |
| A.B.N. 94 117 124 535 | Level 4, 175 Macquarie Street | Level 8, 350 Collins Street | Suite 5, 531 Hay Street |
| AFSL No. 297 043 | Sydney, NSW, 2000 | Melbourne, VIC, 3000 | Subiaco, WA, 6008 |
| GPO Box 4877, Sydney, NSW, 2001 | Tel: (02) 8252 3200 | Tel: (03) 8601 1196 | Tel: (08) 9380 8351 |
| www.veritassecurities.com.au | Fax: (02) 8252 3299 | Fax: (03) 8601 1180 | Fax: (08) 9380 8300 |