

Universal Biosensors Ltd

1H CY2012 boosted by US Launch and Milestone Payments

The result was impressive, demonstrating the building momentum and improving contribution from the blood glucose products and the development progress with the blood coagulation products.

Revenue increased by 133.0% to \$14.7m, with a \$5.1m increase in Operating Profit to \$5.0m and a \$4.7m reduction in Cash Outflow to -\$0.4m. The Reported Loss fell from \$8.0m to \$3.4m.

The revenue growth was due to:

- A 69.3% increase in sales of Strips to LifeScan to \$9.5m.
- A 328.0% increase in service revenue from LifeScan to \$3.1m, comprising 400% increase in royalties on LifeScan's strip sales to \$1.0m and \$2.1m from a development project.
- Milestone payments of \$2.1m from Siemens for the development of blood coagulation test systems.

The strong growth in margins was due to:

- The increase in revenue, particularly the higher margin service revenue and inclusion of milestone revenue from Siemens related to blood coagulation.
- Increased efficiency in strip manufacture and control of corporate costs.

Blood Glucose underpins a move to profitability

The increasing profitability of the Blood Glucose sector of UBI's business 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, the relaunch into Europe and the introduction into new markets.
- 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 and forecast to grow at around 11% pa, with a strong position in the escalating Blood Glucose market and the imminent launch of its Blood Coagulation meter system through Siemens.

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 a further 3 projects under 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 \$14.3m.

Valuation – Currently trading at a 65.7% discount to our valuation of \$1.75ps.

UBI.ASX

BUY

9 August 2012

Price	\$0.60
Price Target	\$1.75
Valuation method	DCF
GICS sector	Healthcare
12 Mth Price Range	\$0.52 - 1.08
Avg monthly t/o	1.5m
Market Capitalisation	\$95m
Shares on issue	159m
Enterprise value	\$72m
Previous rating	BUY

Year Ended Dec 30		10A	11A	12E	13E	14E
Revenue	\$m	18	14.7	31.5	46.3	81.5
EBITDA	\$m	-4.8	-12.1	-6.5	3.7	19.7
EBITDA margin	%	32.4	11.4	38.9	46.3	45.1
EBIT	\$m	-7.8	-15.4	-9.2	0.9	16.8
EBIT margin	%	-42.9	-104.8	-29.4	2.0	20.6
NPAT	\$m	-6.6	-14.7	-8.8	1.1	17.1
EPS	¢ ps	-4.2	-9.2	-5.5	0.7	10.8
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	85.1	5.6
Dividend yield	%	0.0	0.0	0.0	0.0	3.3
NTA/share	¢ ps	29.7	22.0	16.5	17.2	28.0
EV/EBITDA	x	-15.0	-6.6	na	22.7	3.5
Gearing (D:E)	%	0.0	0.0	0.0	0.0	0.0
P/OCF	x	-37.3	-13.3	na	52.4	5.6
ROA	%	-14.2	-31.1	-20.8	2.1	30.1
ROE	%	-13.4	-35.7	-28.7	4.2	47.6
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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1H CY2012 Results

Interim revenue and operating profit up strongly

For 1H CY2012, UBI reported a \$5.1m improvement in Operating Profit to \$5.0m and a 57.1% reduction in Net Losses to (\$3.4m), on a 133% increase in Revenue to \$14.7m.

Profit & Loss				Cash Flow			
6 Mths to June (\$m)	1H 11	1H 12	% Ch	6 Mths to June (\$m)	1H 11	1H 12	% Ch
Product Sales	5.6	9.5	69.3	Operating Cash Flow	-5.1	-0.4	-92.9
Service Revenue	0.7	3.1	328.0	Capex	-0.8	-0.4	-47.6
Milestone Payments	0.0	2.2		Equity	0.1	0.0	
Total Revenue	6.3	14.7	133.0	Debt	0.0	0.4	
Cost of Goods Sold	-6.4	-9.7	52.5	Dividends	0.0	0.0	
Gross Operating Profit	-0.1	5.0		Net Cash Flow	-5.8	-0.4	-93.4
R&D	-4.7	-5.4	14.1	Balance Sheet			
Expenses	-3.6	-1.9	-47.6	1H 11	1H 12	% Ch	
EBIT	-8.4	-3.6	-56.5	Current Assets	23.1	22.3	
Interest (Net)	0.4	0.2		Non Current Assets	22.0	19.7	
Pre-Tax Profit	-8.0	-3.4	-57.1	Total Assets	45.0	42.0	-6.7
Tax	0.0	0.0		Current Liabilities	2.4	6.7	
Net Profit	-8.0	-3.4	-57.1	Non Current Liabilities	2.2	3.3	
Gross Margin (%)	-1.3	33.7		Total Liabilities	4.7	10.0	114.3
EBITDA Margin (%)	-105.7	-15.6		Shareholder Funds	40.4	32.0	-20.7
EBIT Margins (%)	-132.5	-24.8		Net Cash (cps)	17.3	9.0	-47.9
R&D/Revenue (x)	74.8	36.6		Net Debt	0.0	0.0	
EPS (¢ ps)	-5.0	-2.1	-57.2	NTAV (¢ ps)	25.4	20.1	-20.8
Cash Flow (¢ ps)	-3.2	-0.2	-92.9	Net Assets (¢ ps)	25.4	20.1	-20.8
DPS (¢ ps)	0.0	0.0		Current Ratio (x)	9.6	3.3	
				Revenue/Working Capital (x)	1.5	4.1	

Source:UBI

Blood Glucose revenue boost from product sales and service fees

Revenue - Growth was a combination of:

Blood Glucose (LifeScan) - A 98.9% increase in Revenue to \$12.5m from:

- A 69.3% increase in strip sales to LifeScan, accelerated by the launch of the Verio IQ meter in Canada in November 2011 and the USA in mid-January 2012. With the increased volume, the pricing basis to LifeScan moved from fixed overhead re-imburement to standard cost plus margin.
- A 328% increase in Service Revenue from LifeScan to \$3.1m comprising:
 - A 400% increase in the service fee to \$0.99m from the royalty of 0.1¢ per strip sold by Lifescan.
 - A payment of \$2.1m under the 12 month US\$4.5m LifeScan Development Project.

Blood Coagulation (Siemens) - Milestone payments from Siemens of \$2.2m, related to the development of the blood coagulation testing products, comprising:

- A milestone payment of \$1.5m received in June 2012 on reaching technical feasibility on a second strip.
- A \$0.6m allocation of the \$3.0m received from Siemens in September 2011 under the Development Agreement.

Gross Operating Profit – The \$2.9m improvement to a Gross Operating Profit of \$2.8m was due to:

- Increased product sales, improved operational efficiency and the move in pricing.
- The strong growth in high margin service revenue.

R&D – Increased by 14% to \$5.4m with increased focus on the development of the Blood Coagulation products.

Expenses – fell by 10.1% with control of costs and prepayment of some expenses at a discount.

Cash Flow – The cash outflow fell by \$5.1m to -\$0.4m, with the stronger revenue and control of costs. The difference between Operating Cash Flow and EBITDA (-\$2.3m) was mainly due to a reduction in Working Capital.

Balance Sheet - Remains strong with no net debt and Net Cash of \$14.3m. As all R&D is directly expensed, the Balance Sheet contains no intangibles.

Key milestone payments received from Siemens

Profit growth driven by Revenue increases, efficiency gains and milestones

Balance Sheet Strength remains

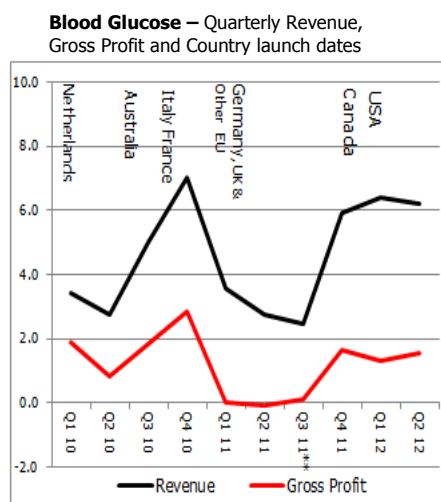
Quarterly Data

The strong ongoing contribution from Blood Glucose can be seen from quarterly data over the last 6 quarters.

	CY2011				CY2012			
	Q1	Q2	Q3	Q4	Q1	Ch %	Q2	Ch %
Blood Glucose	\$m	\$m	\$m	\$m	\$m	%	\$m	%
Revenue from Products	3.3	2.3	2.2	4.3	4.7	42.3	4.7	108.8
Revenue from Services	0.2	0.5	0.3	1.6	1.7	582.1	1.4	196.8
Total Revenue - Blood Glucose	3.6	2.7	2.5	5.9	6.4	79.6	6.1	124.0
Cost of Goods Sold	-3.6	-2.8	-2.4	-4.3	-5.1	43.3	-4.7	64.0
Operating Profit - Blood Glucose	0.0	-0.1	0.1	1.7	1.3		1.5	
Operating Margin (%)				28.1			24.3	
Add Siemens - Milestone Payments	0.0	0.0	0.0	0.0	0.0		2.2	
Total Operating Profit	0.0	-0.1	0.1	1.7	1.3		3.7	
less - Research and Development	-1.7	-3.0	-2.3	-2.8	-2.3	29.6	-3.1	5.0
- Corporate Costs	-1.4	-1.8	-2.0	-2.0	-1.5	5.7	-1.6	-12.0
EBIT	-3.1	-4.9	-4.2	-3.2	-2.4		-1.0	
Interest and Other	0.1	0.0	0.9	-0.2	0.1		0.0	
Pre-Tax Profit	-3.0	-4.9	-3.4	-3.4	-2.3		-1.0	

Source: UBI

The strong growth in Q2 CY2012 Operating Profit was a combination of improved returns in Blood Glucose, and increased contribution from Blood Coagulation



Source: UBI

Blood Glucose

Product sales – Product sales were consistent between Q1 and Q2, despite commencement of production of strips from LifeScan’s new facility at Inverness, Scotland.

Based on our estimate of 9¢ per strip, sales to LifeScan totalled around 50m strips in both quarters. This compares to total annual strip sales of all LifeScan meters of over 4.4b pa.

LifeScan reported increases in its Diabetes revenue in US and International markets of 1.2% and 4.6% in Q2, following increases of 13.2% and 0.2% in Q1.

Service revenue - Q2 was lower than Q1, due to a lower level of royalties from strip sales, falling from \$0.53m to \$0.46m, equating to the sales by LifeScan of 53m and 46m strips in Q1 and Q2.

This fall was a combination of LifeScan filling its supply pipeline during Q1, relying mainly on inventory replenishment in Q2, and a minor recall of meters in late January, which slowed the rollout of new meters.

Operating Profit - The contribution from blood glucose moved from losses in Q1 and Q2 CY2011 to gains of \$1.3m and \$1.5m in Q1 and Q2 CY2012. The improved margin in Q2 was due to operational improvements in strip production.

Blood Coagulation

The \$2.1m in Milestones payments related to the development of the blood coagulation testing products, comprising \$1.5m from reaching technical feasibility on a second product and the allocation of \$0.6m of a previous payment of \$3.0m, received on reaching a Development Agreement with Siemens.

R&D

The increase in Q2 is due to the move of PT/INR from the feasibility to development stage, which has a higher cost structure, including the costs of trials, test marketing, final design etc.

Further \$2.1m in milestone payments in the 2H CY2012

R&D ramps up on PT/INR test

Outlook

Blood Glucose (LifeScan) - UBI has foreshadowed a continuing increase in Revenue through CY2012 and beyond, from:

**US sales to further escalate
Relaunch in Europe**

- Additional product (strip) sales to LifeScan, as part of an increase in LifeScan sales above the 99.8m strips sold in 1H CY2012, 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.

While UBI supplied 100m strips to LifeScan in 1H CY2012, LifeScan commissioned a new strip production facility during 1H CY 2012*. This facility will also supply increasing volumes as it ramps up production to meet the expected growth in strip sales.

We believe LifeScan will maintain UBI as a second supplier of strips, but it will separately construct and locate a second plant, when demand nears the capacity of the current 2 plants of 1.5b strips pa, expected in CY2014.

- A part offset from a lower level of recognised revenue from the LifeScan Development Project of \$1.0m in 2H (\$1.6m in 2H CY2011) with its completion in September 2012. While we would expect further projects once this is completed, the timing is uncertain.

**Verio strategic for LifeScan in
building market share**

The Verio is important in LifeScan's strategy of regaining recently lost market share, with evidence in 1H CY2012 of a positive impact on LifeScan's sales and a further recovery in market share. LifeScan reported growth in the USA in 1H CY2012 of 7.6%, with global sales exceeding Roche, the global leader in blood glucose.

Margins on product sales are expected to improve in Q2 onwards, with further efficiencies identified.

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

**Siemens to launch PT/INR
in CY2013**

Product Revenue - 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.

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 to towards 90% of blood coagulation tests, to be launched in CY2014.

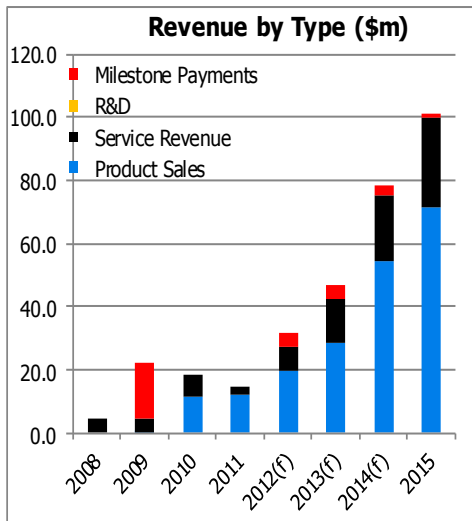
Milestone Payments - We expect recognition of milestone payment of \$2.1m in the 2H CY2012, following receipt of \$1.5m in July 2012, on proof of technical feasibility for a third test strip in the Point of Care blood coagulation area and the allocation of a further \$0.6m of the \$3.0m received in September 2011.

As the 3 current tests cover around 90% of the market and the initial agreement with Siemens provides for 6 milestone payments (expected to total \$7.0m), we suspect that the remaining milestone payments will relate to events with the current 3 tests, such as regulatory approval, market entry etc. Accordingly we expect a further \$2.8m recognized in CY2013 and \$2.8m in CY2014.

Immunoassay – With further development of D-dimer 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 is valued by Global Data 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. UBI hope to demonstrate success with its strips in molecular diagnostic tests in CY2013.

*Note: The differential (LifeScan inventory) is due to product revenue being based on delivery by UBI to LifeScan, while service revenue is on sales by LifeScan.



Forecasts

2012

This improved result for UBI was expected and does not materially affect revenue forecasts, which are based on:

- Escalating growth in revenue for the Blood Glucose division with an increasing take up of the Verio IQ in the US, the relaunch in Europe and the launch in other LifeScan markets.
- A 2H CY2012 contribution of \$1m from the LifeScan development project.
- Milestone payments from Siemens in 2H CY2012 of \$2.1m and the approval in 2H CY2012 of PT/INR testing systems for release in Europe and/or the USA in CY2013. We expect further milestone payments of \$2.8m and \$2.8m in CY2013 and 2014.

UBI is also expected to complete a distribution deal for the patient self testing component of the blood coagulation market, expected to grow from around US\$200m currently to to over \$500m by 2020.

- An initial inclusion of PT/INR revenue at modest levels for 2H CY2013, but no inclusion of the 2 further tests in CY2014.

Some increase in R&D costs over the balance of CY2012, but stable in CY2013. The main determinants of R&D will be a higher level of R&D in 2H CY2012 and into CY2013 and CY2014 as the PT/INR meter undergoes final development and the 2 further products move from feasibility to development. This higher cost structure includes the costs of trials, test marketing etc.

This may be further boosted in CY2013 and 2014 if the Immunoassay test system passes feasibility and there is a high level of commitment to continued development in molecular diagnostics.

While we expect UBI to be loss making and cash flow negative in CY2012 and 2013, UBI has sufficient cash to fund expected development costs.

Valuation

We have a 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.



Universal Biosensors (UBI)

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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	31.5	46.3	81.5	106.1
Cost of Goods Sold	\$m -12.3	-13.0	-19.2	-24.9	-44.7	-55.2
Gross Operating Profit	\$m 5.9	1.7	12.3	21.4	36.8	50.9
R&D	\$m -6.5	-9.8	-14.0	-12.4	-11.0	-11.5
Administration Costs	\$m -4.2	-4.0	-4.3	-4.7	-5.1	-5.5
Other	\$m 0.0	0.0	-0.5	-0.6	-1.0	-0.5
EBITDA	\$m -4.8	-12.1	-6.5	3.7	19.7	33.4
Depreciation	\$m -3.0	-3.3	-2.7	-2.8	-2.9	-3.0
EBIT	\$m -7.8	-15.4	-9.2	0.9	16.8	30.4
Interest	\$m 1.2	0.7	0.5	0.2	0.3	1.0
Pre Tax Profit	\$m -6.6	-14.7	-8.8	1.1	17.1	31.5
Tax	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Reported Profit	\$m -6.6	-14.7	-8.8	1.1	17.1	31.5

GROWTH

	2010A	2011A	2012E	2013E	2014E	2015E
Revenue	% 320.8	-19.2	114.2	47.0	76.2	30.2
COGS	% 1857.7	6.0	47.6	29.3	80.0	23.4
Gross Operating Profit	% -72.5	-71.6	630.7	74.8	71.8	38.4
R&D	% -56.5	51.4	42.7	-11.4	-11.3	4.5
EBITDA	% na	151.6	-46.0	-156.9	429.5	69.6
EBIT	% na	97.4	-40.0	-110.0	1723.2	81.1
Reported Profit	% na	122.3	-40.2	-112.8	1424.9	83.9
EPS	% na	120.2	-40.2	-112.8	1424.9	83.9

P&L RATIOS

	2010A	2011A	2012E	2013E	2014E	2015E
Gross Operating Profit / Sales	% 32.4	11.4	38.9	46.3	45.1	48.0
EBITDA / Sales	% -26.5	-82.4	-20.8	8.0	24.2	31.5
EBIT / Sales	% -42.9	-104.8	-29.4	2.0	20.6	28.7
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	44.5	26.8	13.5	10.8

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	-5.5	0.7	10.8	19.8
Operating Cash Flow ps	¢ps -4.1	-4.5	-1.3	1.1	10.7	20.0
Free Cash Flow	¢ps -5.5	-5.2	-2.6	-0.1	9.4	18.4
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	18.6	40.4

PARAMETERS

	2010A	2011A	2012E	2013E	2014E	2015E
PE Ratio	x -36.2	-6.5	-10.9	85.1	5.6	3.0
Enterprise Value / EBITDA	x -15.0	-6.6	-12.9	22.7	3.5	1.3
Enterprise Value / Profit	x -10.9	-5.5	-9.6	75.4	4.1	1.4
Cash Flow ratio	x -37.3	-13.3	-45.3	52.4	5.6	3.0
Dividend Yield	% 0.0	0.0	0.0	0.0	3.3	13.3

SEGMENTS

	2010A	2011A	2012E	2013E	2014E	2015E
Sales Revenue						
Product Sales	\$m 11.8	12.1	19.8	28.8	54.4	71.2
Service Revenue	\$m 6.4	2.6	7.4	13.2	23.7	33.4
Milestone Payments	\$m 0.0	0.0	4.3	4.3	3.4	1.5
EBIT						
Product Sales	\$m 1.0	1.4	2.0	5.8	12.0	18.3
Service Revenue	\$m 4.9	1.3	5.5	11.3	21.4	31.1
R&D	\$m -6.5	-9.8	-14.0	-13.0	-12.0	-12.0
Milestone Payments	\$m 0.0	0.0	4.3	4.3	3.4	1.5
Corporate	\$m -7.2	-7.3	-7.0	-7.5	-8.0	-8.5
EBIT Growth						
Product Sales	% na	42.9	44.4	194.9	106.0	52.0
Service Revenue	% 22.9	-74.3	331.2	106.0	89.5	45.7
R&D	% -56.5	51.4	42.7	-7.1	-7.7	0.0
Corporate	% 27.5	1.2	-3.7	7.1	6.7	6.3
EBIT Margin						
Product Sales	% 8.2	11.4	10.0	20.3	22.1	25.7
Service Revenue	% 76.9	48.2	74.2	85.6	90.1	93.1

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

CASH FLOW

Year ended 31-Dec	2010A	2011A	2012E	2013E	2014E	2015E
Operating EBITDA	\$m -4.8	-12.1	-6.5	3.7	19.7	33.4
Net Interest Received/Paid	\$m 1.2	0.7	0.5	0.2	0.3	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	-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	-2.1	1.8	17.0	31.8
Capex	\$m -2.3	-1.1	-2.0	-2.0	-2.0	-2.5
Free Cash Flow	\$m -8.7	-8.3	-4.1	-0.2	15.0	29.3
Acquisitions/Asset Sales	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Dividends Paid	\$m 0.0	0.0	0.0	0.0	0.0	-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
Change in Net Cash	\$m -8.0	-8.2	-4.1	-0.2	15.0	26.1

BALANCE SHEET

	2010A	2011A	2012E	2013E	2014E	2015E
Cash	\$m 23.3	15.1	11.0	10.8	25.8	51.9
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	14.3
Other Current Assets	\$m 0.3	1.0	0.9	1.0	1.0	1.0
Current Assets	\$m 30.4	24.6	23.9	27.3	47.8	80.2
Property, Plant & Equipment	\$m 23.1	20.3	19.6	18.8	17.9	17.4
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	19.6	18.8	17.9	17.4
Total Assets	\$m 53.8	45.2	43.5	46.1	65.7	97.6
Payables	\$m 1.8	0.6	8.1	9.5	12.0	15.6
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	22.6
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 Liabilities	\$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	26.2	27.4	44.5	72.7

BALANCE SHEET RATIOS

	2010A	2011A	2012E	2013E	2014E	2015E
Receivables turn	x 9.1	3.5	5.8	6.6	9.1	9.2
Inventory turn	x 7.0	3.8	4.0	3.7	4.8	4.4
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	1.9	1.8	2.6	3.5
Net Assets	¢ps 29.7	22.0	16.5	17.2	28.0	45.6
Net Tangible Assets	¢ps 29.7	22.0	16.5	17.2	28.0	45.6
Cash	¢ps 14.7	9.5	6.9	6.8	16.2	32.5
Return On Assets	% -14.2	-31.1	-20.8	2.1	30.1	37.3
Return on Equity	% -13.4	-35.7	-28.7	4.2	47.6	53.7

VALUATION

Valuation Method	\$	Premium/(Discount)	(%)
DCF	1.80		-66.7
Sum of the Parts	1.70		-64.7
Price Target	1.75		-65.7
Current Price	0.60		
Market Capitalisation	\$95.4m	Enterprise Value	\$84.4m

MAJOR SHAREHOLDERS

Principals C'stone/Directors	m 14%
CM Capital Investments	m 11%
Johnson & Johnson	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 Heinberg	N-E Dir
Denis Hanley	N-E Dir		

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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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