Wilson HTM INVESTMENT GROUP | *A Leading Wealth Manager and Adviser to Emerging Companies*

11 December 2012

UNIVERSAL BIOSENSORS INC. (UBI)

BUY | HOLD | SELL

ACTION & RECOMMENDATION

The market has likely cleared two of three hurdles to genuinely re-rating this stock. Hurdles cleared relate to the value of the glucose business, and to the quality of the management and IP in building asset value beyond LifeScan. The remaining hurdle is to become certain about when this Group becomes profitable. We think the earnings quality from this business should see a premium PER (15-17x as a base case estimate). Growth in the quarterly LifeScan service fees will likely dominate the stock's movement next year. No changes to our forecasts. Price target $1.65 after recent placement.

12m Target Price (AUD)	**$1.65**
Share Price @ 11-Dec-12 (AUD)	$0.89
Fcst 12m Capital Return	85.9%
Fcst 12m Dividend Yield	0.0%
12m Total S'holder Return	**85.9%**

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Company Update

2013 Catalyst Profile

Risks & Catalysts

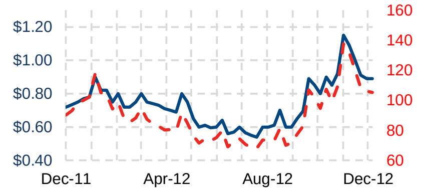
- The LifeScan service fees UBI reports over the next two quarters are principal determinants for stock performance in 2013. Continued growth will help the market see inevitability in LifeScan's Verio-for-Ultra 'platform swap' and increase confidence about Group profitability in FY14. No changes to our forecasts for UBI's glucose business.
- We have updated the valuation for recent $12M placement + SPP; dilution revises target price to $1.65/share (previously $1.75).
- Siemens plans to launch UBI's PT/INR diagnostic next year, although our forecasts for that product are modest in FY13.
- Technological catalysts (including immunoassay) could expand the scope of UBI's 'opposing electrode' platform technology in 2013. This is significant in that it could add to UBI's central investment theme: that the incremental cost of developing and partnering new point-of-care diagnostic products should fall as the design and manufacturing technologies are applied and refined in an iterative manner.

SELECTED CATALYSTS IN 2013 FOR UBI

UNIVERSAL BIONSENSORS INC.

Date	Event	Comments
Jan-13	UBI reports Q3 cash flow	Update on service fee; LifeScan Verio strip sales
Feb-13	UBI reports FY12 results	
Apr-13	UBI reports Q1 cash flow	Update on service fee; LifeScan Verio strip sales
1H 2013	Immunoassay validation	Likely via D-Dimer product
1H 2013	LifeScan new development deal	New LifeScan products in glucose monitoring
1H 2013	PT/INR regulatory filing(s)	Expect Siemens to lodge 510(k) application for PT/INR test
1H 2013	D-Dimer option	Siemens could exercise option on D-Dimer commercialisation
2H 2013	PT/INR approval(s)	FDA approval expected before Sep-13
2H 2013	Other Siemens products	Possibilities ... ACT and APTT tests as follow ups to PT/INR
2H 2013	Homecare coagulation	Distribution deals for coagulation tests (patient self-testing)
2H 2013	DNA detection	Exemplification of this new aspect of the UBI platform

12m Share Price Performance

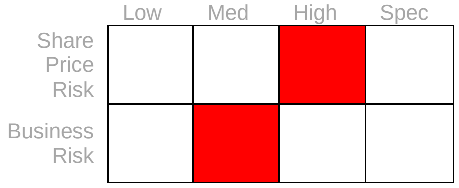


	1m	6m	12m
Abs. Return (%)	-0.1	0.4	0.2
Rel. Return (%)	-0.1	0.3	0.2

WHTM Return Re-investment Matrix

Return \ Re-Investment	Low	High
High	Cash Generator	Champion
Low	Challenged	**Potential**

WHTM Risk Assessment



Year-end December (AUD)	FY10A	FY11A	FY12E	FY13E	FY14E
NPAT Rep ($m)	-6.6	-14.7	-9.3	-2.4	18.0
NPAT Norm ($m)	-6.6	-14.7	-9.3	-2.4	18.0
Consensus NPAT ($m)					
EPS Norm (cps)	-4.1	-8.9	-5.5	-1.4	10.8
EPS Growth (%)	60	-120	38	74	855
P/E Norm (x)	-22.0	-10.0	-16.1	-62.4	8.3
EV / EBITDA (x)	-26.5	-10.9	-15.5	-199.5	6.7
FCF Yield (%)	-4.2	-4.7	-2.8	2.4	7.2
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

Key Changes		23-Oct	After	Var %
NPAT:	**FY12**	-8.6	-9.3	N/A
Norm	**FY13**	-2.2	-2.4	N/A
($m)	**FY14**	17.9	18.0	0.9%
EPS:	**FY12**	-5.1	-5.5	N/A
Norm	**FY13**	-1.3	-1.4	N/A
(cps)	**FY14**	10.7	10.8	0.9%
DPS:	**FY12**	0.0	0.0	0.0%
(cps)	**FY13**	0.0	0.0	0.0%
	FY14	0.0	0.0	0.0%
Price Target:		**1.75**	**1.65**	**-5.3%**
Rec:		**BUY**	**BUY**	

Mkt Cap: $153m | **Enterprise Value:** $131m | **Shares:** 172m | **Sold Short:** Click here | **ASX 300 wgt:** n/a | **Median T'over/Day:** $0.0m

PRICE TARGET

	Valuation	Price Target
WACC (%)		14.0
Blood glucose		243.3
Coagulation (Siemens),		43.5
TOTAL (A$ / Share)	**1.40**	**1.65**

INTERIMS ($m)

Half Yr (AUD)	Jun 11 1H A	Dec 11 2H A	Jun 12 1H E	Dec 12 2H E
Sales	5.6	9.1	14.7	12.1
EBITDA	-6.3	-5.8	-3.6	-4.8
EBIT	-8.0	-7.4	-3.6	-6.2
Net Profit	**-7.6**	**-7.1**	**-3.4**	**-5.9**
Norm. EPS	**-4.7**	**-4.2**	**-2.0**	**-3.5**
EBIT/Sales	-143.3	-80.9	-24.7	-51.5
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

FINANCIAL STABILITY

Year-end December	FY11A	FY12E	FY13E
Net Debt	-15.1	-22.0	-24.9
Net Debt / Equity (%)	<0	<0	<0
Net Debt / EV (%)	**<0**	**<0**	**<0**
Current Ratio (x)	6.4	6.3	3.3
Interest Cover (x)	22.5	16.6	3.1
Adj. Cash Int. Cover (x)	**11.5**	**8.1**	**<0**
Debt / CashFlow (x)	0.0	0.0	0.1
Net Debt (cash) / share	<0	<0	<0
NTA / share ($)	0.2	0.2	0.2
Book Value / share ($)	0.2	0.2	0.2
Payout Ratio (%)	0	0	0
Adj. Payout Ratio (%)	0	0	0

EPS RECONCILIATION ($m)

	FY11A		FY12E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	15	15	27	27
EBIT	-15.4	-15.4	-9.9	-9.9
Net Profit	**-14.7**	**-14.7**	**-9.3**	**-9.3**
Notional Earn.	0.0	0.0	0.0	0.0
Pref./Conv. Div.	0.0	0.0	0.0	0.0
Profit for EPS	**-14.7**	**-14.7**	**-9.3**	**-9.3**
Diluted Shrs(m)	165	165	167	167
Diluted EPS (c)	**-8.9**	**-8.9**	**-5.5**	**-5.5**

Notes to accounts

All figures shown using A-IFRS.

KEY ASSUMPTIONS

Year-end December (AUD)	FY07A	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue Growth (%)				8,759.9	25.0	82.3	76.3	78.1
EBIT Growth (%)		47.2	17.5	-53.5	93.6	-35.9	-64.1	-569.4
NPAT Growth (%)		43.5	35.8	-59.4	122.3	-36.9	-74.2	-854.8
EPS Growth (%)		**23.1**	**35.8**	**-59.9**	**119.9**	**-37.9**	**-74.2**	**-854.8**
EBIT / Sales (%)			-12,863.7	-67.5	-104.6	-36.8	-7.5	19.7
Tax Rate (%)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA (%)		**-24.3**	**-32.4**	**-14.6**	**-32.0**	**-20.0**	**-6.3**	**21.1**
ROE (%)		**-21.8**	**-34.4**	**-13.5**	**-36.0**	**-24.3**	**-6.7**	**33.5**

PROFIT & LOSS ($m)

Year-end December (AUD)	FY07A	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Sales Revenue	0.0	0.0	0.1	11.8	14.7	26.8	47.2	84.2
EBITDA	-9.0	-12.3	-14.2	-5.0	-12.1	-8.5	-0.7	19.6
Depn & Amort	0.9	2.3	2.9	3.0	3.3	1.4	2.8	3.0
EBIT	**-9.9**	**-14.5**	**-17.1**	**-7.9**	**-15.4**	**-9.9**	**-3.5**	**16.6**
Net Interest Expense	-1.4	-2.5	-0.8	-1.2	-0.7	-0.6	-1.1	-1.4
Tax	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit pre Sig. Items	**-8.4**	**-12.0**	**-16.3**	**-6.6**	**-14.7**	**-9.3**	**-2.4**	**18.0**
Abn's / Ext's / Signif.	0.0	0.0	17.7	0.0	0.0	0.0	0.0	1.0
Reported Net Profit	**-8.4**	**-12.0**	**1.4**	**-6.6**	**-14.7**	**-9.3**	**-2.4**	**18.0**

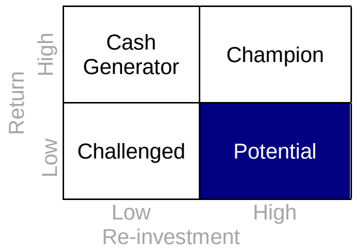
CASHFLOW ($m)

Year-end December (AUD)	FY07A	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
EBITDA	-9.0	-12.3	-14.2	-5.0	-12.1	-8.5	-0.7	19.6
Interest & Tax	1.5	2.5	0.8	1.2	0.7	0.6	1.1	1.4
Working Cap / Other	-2.7	2.6	15.1	-2.7	4.2	3.7	3.2	-9.9
Operating Cash Flow	**-10.1**	**-7.1**	**1.6**	**-6.4**	**-7.2**	**-4.2**	**3.7**	**11.1**
Maintenance Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	**-10.1**	**-7.1**	**1.6**	**-6.4**	**-7.2**	**-4.2**	**3.7**	**11.1**
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Growth Capex	-5.6	-9.6	-3.0	-2.3	-1.1	-0.8	-0.9	-0.9
Invest. / Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Pre Financing	**-15.7**	**-16.8**	**-1.3**	**-8.7**	**-8.3**	**-5.1**	**2.9**	**10.2**
Funded by Equity	34.2	3.1	0.1	0.7	0.1	12.0	0.0	0.0
Funded by Debt	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0
Funded by Cash	-18.5	13.6	1.3	8.0	8.2	-7.3	-2.9	-10.2

BALANCE SHEET SUMMARY ($m)

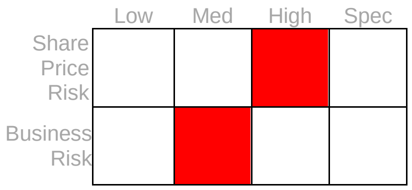
Year-end December (AUD)	FY07A	FY08A	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Cash	42.0	28.3	31.3	23.3	15.1	22.4	25.3	35.4
Current Receivables	0.0	0.1	0.4	3.6	4.9	4.0	5.0	15.0
Current Inventories	0.5	0.0	0.3	3.2	3.6	2.1	6.8	11.4
Net PPE	16.4	21.9	21.3	23.1	20.3	18.4	16.5	14.4
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles / Capitalised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.5	4.3	2.8	0.7	1.3	2.3	2.4	2.5
Total Assets	**63.5**	**54.7**	**56.1**	**53.8**	**45.2**	**49.3**	**55.9**	**78.7**
Current Payables	0.9	0.6	0.4	1.8	0.6	3.1	12.0	16.7
Total Debt	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.4
Other Liabilities	2.9	5.4	4.3	4.9	9.6	7.7	7.8	7.9
Total Liabilities	**3.8**	**6.0**	**4.8**	**6.6**	**10.2**	**11.1**	**20.1**	**24.9**
Minorities / Convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder Equity	**59.7**	**48.7**	**51.3**	**47.2**	**35.0**	**38.2**	**35.8**	**53.8**
Total Funds Employed	**59.7**	**48.7**	**51.3**	**47.2**	**35.0**	**38.6**	**36.2**	**54.2**

RETURN RE-INVESTMENT MATRIX



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

RISK MEASURES



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

BUSINESS DESCRIPTION

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

INVESTMENT THESIS

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

REVENUE DRIVERS

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

MARGIN DRIVERS

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

KEY ISSUES / CATALYSTS

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

RISK TO VIEW

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

BALANCE SHEET

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

BOARD

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

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Return Reinvestment Matrix and Risk Measures

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

Recommendation Structure and Other Definitions

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

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