



Wilson HTM
INVESTMENT GROUP

A Leading Wealth Manager and
Adviser to Emerging Companies

BUY

HOLD

SELL

ACTION & RECOMMENDATION

This stock has the quality to trade at 15x PER if the forecast glucose earnings are delivered over FY13-14. The Q3FY12 results indicate that LifeScan's OneTouch Verio strip sales are on track (230M strips/yr run-rate) and that the mechanics of our model assumptions remain sound. A new inventory analysis suggests that LifeScan has c.300M Verio strips stockpiled as at Q3 (ex-Inverness). No changes to our sales forecasts – ample product available to meet forecasts. A PER approach to valuation supports a 12 month price target of \$1.40 per share and a 24 month price target of \$2.70 per share. We remain consistent with DCF approach: \$1.75 price target. **BUY.**

Q3FY12 Report; LifeScan Inventories

What's Changed

- Q3FY12 report indicates that LifeScan sold c.58m OneTouch Verio strips for the quarter, implying a 230M annualised run-rate. This is consistent with our 2H forecasts and is a pleasing 26% improvement on Q2. UBI is expected to lodge its Q3 SEC filing early next week. We estimate \$8.6M total revenues including c.\$5M in product revenues (assume similar strip production levels to the Q2 update).
- We present new analysis of LifeScan's OneTouch Verio strip inventories. Although FY12's acceleration in Verio sales has reduced the rate of inventory accumulation, we estimate that LifeScan has yet to sell c.300M OneTouch Verio strips purchased from UBI since late 2009.
- We are forecasting cash EPS of 10.7 cps in FY14 and 20.5 cps in FY15. Applying 15x PER to earnings and discounting back at our selected discount rate (14%) implies a 12 month price target of \$1.40 per share and a 24 month price target of \$2.70 per share. We remain consistent with DCF approach: \$1.75 per share target price.

Risks & Catalysts

- Catalysts – potential next steps for the LifeScan development pact (research phase concluded Sep-12); potential for further commercial deals for patient self-testing (PT/INR), validation of immunoassay strip&meter capabilities which could attract further interest (eg bioMerieux, Alere, Philips, Siemens, Abbott); cash flow and profit breakeven events (FY13/14) leading to PER valuation uplift.
- Risks – UBI has a relatively passive role in the development of its earnings on key products. Partners validate the UBI technology, but operational visibility is often low for competitive reasons.

Year-end December (AUD)	FY11A	FY12A	FY13E	FY14E	FY15E
NPAT Rep (\$m)	-14.7	-8.6	-2.2	17.9	34.3
NPAT Norm (\$m)	-14.7	-8.6	-2.2	17.9	34.3
Consensus NPAT (\$m)					
EPS Norm (cps)	-8.9	-5.1	-1.3	10.7	20.5
EPS Growth (%)	-120	42	74	901	92
P/E Norm (x)	-9.5	-16.5	-63.9	8.0	4.2
EV / EBITDA (x)	-10.3	-13.6	-45.9	7.2	3.7
FCF Yield (%)	-5.4	-3.1	0.2	5.9	16.2
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

Mkt Cap: \$134m Enterprise Value: \$124m Shares: 159m Sold Short: [Click here](#)

12m Target Price (AUD)	\$1.75
Share Price @ 22-Oct-12 (AUD)	\$0.85
Fcst 12m Capital Return	105.6%
Fcst 12m Dividend Yield	0.0%
12m Total S'holder Return	105.6%

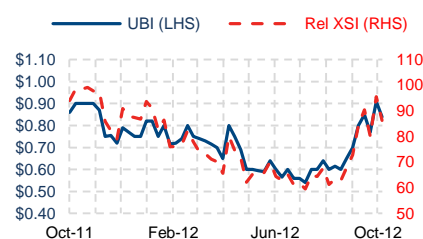
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12m Share Price Performance



	1m	6m	12m
Abs Return	5.0%	5.0%	-2.3%
Rel Return	2.9%	8.0%	-11.5%

WHTM Return Re-investment Matrix

Return	Re-investment	
	Low	High
High	Cash Generator	Champion
Low	Challenged	Potential

WHTM Risk Assessment

Risk	Share Price Risk			
	Low	Med	High	Spec
Share Price Risk			High	
Business Risk		High		

Key Changes	28-Sep	After	Var %
NPAT: FY13	-2.2	-2.2	0.0%
Norm FY14	17.9	17.9	0.0%
(\$m) FY15	34.3	34.3	0.0%
EPS: FY13	-1.3	-1.3	0.0%
Norm FY14	10.7	10.7	0.0%
(cps) FY15	20.5	20.5	0.0%
DPS: FY13	0.0	0.0	0.0%
(cps) FY14	0.0	0.0	0.0%
FY15	0.0	0.0	0.0%
Price Target:	1.75	1.75	0.0%
Rec:	BUY	BUY	

ASX 300 wgt: n/a Median T'over/Day: \$0.0m

Wilson HTM Equities Research – Universal Biosensors Inc.

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PRICE TARGET

	Valuation	Price Target
WACC (%)		14.0
Blood glucose		234.2
Coagulation (Siemens),		43.5

TOTAL (A\$ / Share) 1.47 1.75

INTERIMS (\$m)

Half Yr (AUD)	Jun 12	Dec 12	Jun 13	Dec 13
	1H A	2H A	1H E	2H E
Sales	14.7	11.7	16.4	28.8
EBITDA	-3.6	-5.5	-2.0	-0.7
EBIT	-3.6	-5.5	-2.0	-0.7
Net Profit	-3.4	-5.2	-1.8	-0.4
Norm. EPS	-2.0	-3.1	-1.1	-0.3
EBIT/Sales	-24.7	-47.3	-12.5	-2.3
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

FINANCIAL STABILITY

Year-end December	FY12A	FY13E	FY14E
Net Debt	-10.1	-9.5	-16.5
Net Debt / Equity (%)	<0	<0	<0
Net Debt / EV (%)	<0	<0	<0
Current Ratio (x)	4.6	2.7	3.1
Interest Cover (x)	16.9	5.5	<0
Adj. Cash Int. Cover (x)	8.8	0.4	<0
Debt / CashFlow (x)	0.0	1.3	0.0
Net Debt (cash) / share	<0	<0	<0
NTA / share (\$)	0.2	0.2	0.3
Book Value / share (\$)	0.2	0.2	0.3
Payout Ratio (%)	0	0	0
Adj. Payout Ratio (%)	0	0	0

EPS RECONCILIATION (\$m)

	FY12A		FY13E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	26	26	45	45
EBIT	-9.2	-9.2	-2.7	-2.7
Net Profit	-8.6	-8.6	-2.2	-2.2
Notional Earn.	0.0	0.0	0.0	0.0
Pref./Conv. Div.	0.0	0.0	0.0	0.0
Profit for EPS	-8.6	-8.6	-2.2	-2.2
Diluted Shrs(m)	167	167	167	167
Diluted EPS (c)	-5.1	-5.1	-1.3	-1.3

Notes to accounts

All figures shown using A-IFRS.

KEY ASSUMPTIONS

Year-end December (AUD)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue Growth (%)			8,759.9	25.0	79.5	71.3	80.8	25.4
EBIT Growth (%)	47.2	17.5	-53.5	93.6	-40.5	-70.2	-729.5	96.1
NPAT Growth (%)	43.5	35.8	-59.4	122.3	-41.4	-74.1	-901.2	92.0
EPS Growth (%)	23.1	35.8	-59.9	119.9	-42.3	-74.1	-901.2	92.0
EBIT / Sales (%)		12,863.7	-67.5	-104.6	-34.7	-6.0	21.0	32.8
Tax Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA (%)	-24.3	-32.4	-14.6	-32.0	-23.8	-6.1	25.5	32.9
ROE (%)	-21.8	-34.4	-13.5	-36.0	-32.1	-9.1	42.1	72.0

PROFIT & LOSS (\$m)

Year-end December (AUD)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Sales Revenue	0.0	0.1	11.8	14.7	26.4	45.2	81.7	102.5
EBITDA	-12.3	-14.2	-5.0	-12.1	-9.2	-2.7	17.2	33.7
Depn & Amort	2.3	2.9	3.0	3.3	0.0	0.0	0.0	0.0
EBIT	-14.5	-17.1	-7.9	-15.4	-9.2	-2.7	17.2	33.6
Net Interest Expense	-2.5	-0.8	-1.2	-0.7	-0.5	-0.5	-0.7	-0.6
Tax	0.0	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	-12.0	-16.3	-6.6	-14.7	-8.6	-2.2	17.9	34.3
Abn's / Ext's / Signif.	0.0	17.7	0.0	0.0	0.0	0.0	1.0	1.0
Reported Net Profit	-12.0	1.4	-6.6	-14.7	-8.6	-2.2	17.9	34.3

CASHFLOW (\$m)

Year-end December (AUD)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
EBITDA	-12.3	-14.2	-5.0	-12.1	-9.2	-2.7	17.2	33.7
Interest & Tax	2.5	0.8	1.2	0.7	0.5	0.5	0.7	0.6
Working Cap / Other	2.6	15.1	-2.7	4.2	4.4	2.5	-9.9	-12.7
Operating Cash Flow	-7.1	1.6	-6.4	-7.2	-4.2	0.3	7.9	21.6
Maintenance Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	-7.1	1.6	-6.4	-7.2	-4.2	0.3	7.9	21.6
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Growth Capex	-9.6	-3.0	-2.3	-1.1	-0.8	-0.9	-0.9	-1.0
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	-16.8	-1.3	-8.7	-8.3	-5.0	-0.6	7.0	20.7
Funded by Equity	3.1	0.1	0.7	0.1	0.0	0.0	0.0	0.0
Funded by Debt	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Funded by Cash	13.6	1.3	8.0	8.2	4.7	0.6	-7.0	-20.7

BALANCE SHEET SUMMARY (\$m)

Year-end December (AUD)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Cash	28.3	31.3	23.3	15.1	10.4	9.8	16.9	37.5
Current Receivables	0.1	0.4	3.6	4.9	3.8	5.0	15.0	26.0
Current Inventories	0.0	0.3	3.2	3.6	2.0	6.8	11.4	13.5
Net PPE	21.9	21.3	23.1	20.3	19.8	20.7	21.6	22.6
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	4.3	2.8	0.7	1.3	2.3	2.4	2.5	2.6
Total Assets	54.7	56.1	53.8	45.2	38.4	44.7	67.4	102.1
Current Payables	0.6	0.4	1.8	0.6	3.5	12.0	16.7	17.0
Total Debt	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4
Other Liabilities	5.4	4.3	4.9	9.6	7.7	7.8	7.9	8.0
Total Liabilities	6.0	4.8	6.6	10.2	11.6	20.1	24.9	25.4
Minorities / Convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder Equity	48.7	51.3	47.2	35.0	26.8	24.6	42.4	47.6
Total Funds Employed	48.7	51.3	47.2	35.0	27.2	25.0	42.8	48.0



Universal Biosensors Inc (BUY) – Q3 Update

This stock has the quality to trade at 15x PER if the forecast glucose earnings are delivered over FY13-14. The Q3FY12 results indicate that LifeScan's OneTouch Verio strip sales are on track (230M strips/yr run-rate) and that the mechanics of our model assumptions remain sound. A new inventory analysis suggests that LifeScan has c.300M Verio strips stockpiled as at Q3 (ex-Inverness). No changes to our sales forecasts – ample product available to meet forecasts.

A PER approach to valuation supports a 12 month price target of \$1.40 per share and a 24 month price target of \$2.70 per share. We remain consistent with DCF approach: \$1.75 price target. BUY.

KEY POINTS FROM 4C

Q3 cash flow – UBI reported \$8.3M in cash receipts for the quarter (+50% on pcp). The company closed Q3 with \$13.9M cash, burning just \$0.8M for the quarter of which approximately half was non-operating cash flow (capex, debt repayments).

TABLE 1: Q3FY13 CASH FLOW SUMMARY

1QFY13 RESULTS			
	1Q12	1Q13	Δpcp%
Cash Receipts (\$m)	5.5	8.3	50
Operating Cash Flow (\$m)	14	-0.4	-130
Operating +Investing Cash Flow (\$m)	13	-0.5	-141
Financial Cash Flow (\$m)	0.0	-0.2	nm
Change in Cash Flow (\$m)	13	-0.8	-158
Ending Cash Balance (\$m)	18.8	13.9	-26

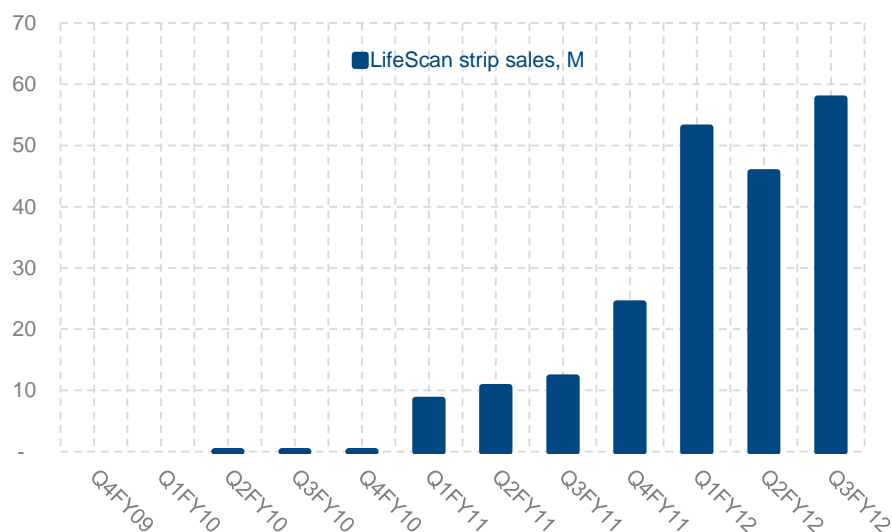
Source: UBI, WHTM Research

Gross profit on strips – 15% UBI disclosed its gross margin on Verio strip manufacturing for the first time. We model on the basis of 1US cent per strip, which indicates a gross margin of 13.3%.

Revenue and operational – Service fee revenue from LifeScan's sales of OneTouch Verio strips was \$555,000 for Q3 (+291% on pcp).



FIGURE 1: ESTIMATED QUARTERLY ONETOUCH VERIO STRIP SALES BY LIFESCAN, IN MILLIONS.



Source: UBI, WHTM Research

We expect the company to lodge its quarterly SEC filing early next week, which will provide greater detail on the composition of the revenue line for Q3. We are expecting to see revenue of approximately \$8.6m, of which product revenue (from sales of Verio strips to LifeScan) ought to comprise c.\$5m. We note the company maintained similar production volumes in Q3 to Q2 (Q2 produced \$4.9m product revenue). Average AUDUSD rate in Q3 was 1.039, which was 3% more favourable to P&L translation compared to Q2.

TABLE 2: ESTIMATED Q3FY13 REVENUE COMPOSITION.

Item	\$M
R&D payments (LifeScan)	1.1
Siemens milestone payments	2.0
Service fees	0.5
Product revenues	5.0
Total	8.6

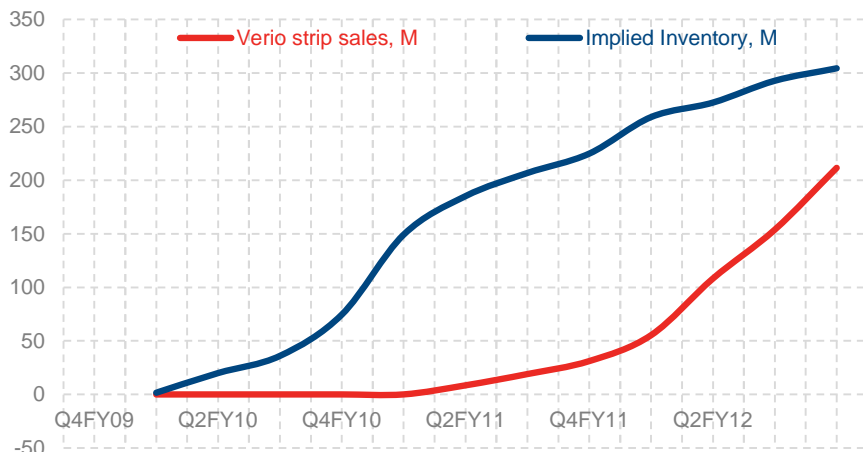
Source: WHTM Research

VERIO LAUNCH NOTES – LIFESCAN INVENTORY LEVELS

UBI began reporting “product revenues” in Q4FY09. Working on the assumption of 7.5 US cents/strip (gross) we have calculated the aggregate number of strips LifeScan have acquired from UBI, to compare with the number of strips they have sold (assuming each strip generates 1USc of ‘service fee’ for UBI). We calculate a running inventory by difference, on a quarterly basis (Figure 2).



FIGURE 2: IMPLIED LIFESCAN ONETOUCH VERIO STRIP INVENTORIES



Source: WHTM Research

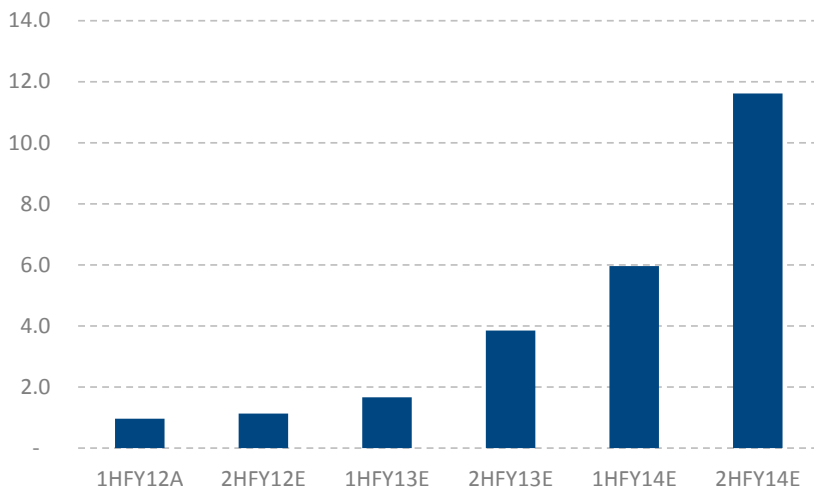
We estimate that LifeScan has approximately 300M OneTouch Verio strips in inventory as at the end of Q3 FY13. In other words, we calculate that UBI has supplied LifeScan with c.516M strips since Q4FY09 and that c.212M of those have been sold, globally.

As LifeScan's strip sales have increased over FY11-12, the rate of implied inventory accumulation has begun to decline. Given that LifeScan's Inverness manufacturing site has only been producing for a matter of months, we assume the vast majority of the LifeScan's Verio sales so far, were manufactured by UBI.

This quarterly analysis could also provide some future visibility into LifeScan's own manufacturing activities. As LifeScan sells more of its own Verio product, there will come a point where UBI's reported service fees can no longer be reconciled with the running inventory balance and UBI's own quarterly product sales to LifeScan.

We forecast a profound acceleration of the service fee component in FY13-14, which is the main driver of our forecast of first HY profit in 1HFY14. It is at this point where the quarterly service fee reaches a magnitude that could be considered strong enough to sustain the wider business (assuming an underlying expenditure level of c.\$15M a year, 40-50% of which is on-going R&D).

FIGURE 3: FORECAST QUARTERLY SERVICE FEES (\$M)



Source: WHTM Research



VALUATION

No changes to the valuation or price target (\$1.75 per share) which is derived from DCF framework. As per last piece the approximate split of our valuation is \$1.47 per share for LifeScan/glucose and \$0.28 per share for Siemens/coagulation.

Our \$1.75 per share target price and implied 105% TSR may appear aggressive but they are consistent with what we see as an appropriate multiple for this business. We think investors can think of 15x PER as a reasonable future multiple for this business, given the growth phase as LifeScan converts more of its global glucose strip portfolio towards OneTouch Verio variants. Furthermore, the protection of those cash flows via patent rights and other forms of intellectual property should demand a premium to the market. Finally, the involvement of motivated, multinational partners.

We are forecasting cash EPS of 10.7 cps in FY14 and 20.5 cps in FY15. Applying 15x PER to those and discounting back at our selected discount rate (14%) implies a 12 month price target of \$1.40 per share and a 24 month price target of \$2.70 per share. A similar forward valuation profile is also supported by DCF so we have elected to remain consistent with that as our preferred means of assessing the stock.

RISKS

The main risk in the business at this point is that UBI has a relatively passive role in the development of its earnings on key products. While large multinational partners validate the strength of the technology and intellectual property, they can be slow to move. Given the competitive nature of their markets, operational visibility is often low. UBI's earnings are also subject to the regulatory and manufacturing risks, in common with all device/diagnostics businesses.



RETURN RE-INVESTMENT MATRIX

Return	High	Cash Generator	Champion
	Low	Challenged	Potential
		Low	High
		Re-investment	

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

RISK MEASURES

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

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

- Mr Andrew Denver (Chairman, Director)
- 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)

MANAGEMENT

- Mr Paul Wright (Managing Director, CEO)
- Mr Satesh Balak (CFO)

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Our web site: www.wilsonhtm.com.au

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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