

ACTION & RECOMMENDATION

A new Manufacturing and Supply Agreement confirms how UBI and Siemens will share the economics from three coagulation products planned for the global point-of-care haemostasis market. At this stage we are only valuing the prothrombin (PT/INR) test, which should be launched 2013. Those earnings contribute 27 cps or 15% of UBI valuation. The two undisclosed Siemens/UBI coagulation tests and the un-partnered self-testing opportunity for PT/INR could hold a further 40cps in valuation, collectively. We maintain target price at \$1.75 per share for now. A busy catalyst profile between now and Christmas underpins the BUY rating.

New Siemens Agreement (PT/INR approaching)

What's Changed

- UBI has signed a definitive manufacturing and supply agreement with Siemens Healthcare Diagnostics, covering three point-of-care (POC) coagulation tests. This deal confirms the economics underpinning these products, the first of which (prothrombin time, or PT/INR) is likely to be launched 2013. The available detail appears consistent with the Collaboration Agreement signed with Siemens this time last year: UBI to become the exclusive supplier of test strips to Siemens; Siemens to commercialise the products globally in professional coagulation settings (hospitals, clinics).
- We re-iterate the key PT/INR market assumptions: we model a transfer price of US\$1/strip to UBI. We assume a "device-like" gross margin of 70% for that product, which contributes c.27cps or 15% of the UBI valuation. There are at least two further aspects of the coagulation opportunity yet to enter our forecasts or valuation: a) the follow-on Siemens products + the (at present) un-partnered PT/INR opportunity in patient self-testing. We estimate that these hold a further 40 cps in potential target upside, collectively. Target price unchanged at \$1.75 per share.

Risks & Catalysts

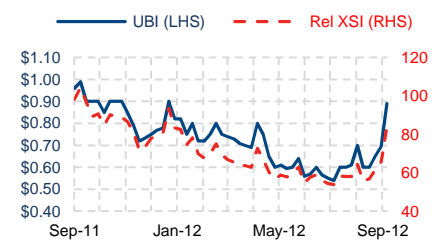
- Catalysts – continued progress on OneTouch Verio Strip sales (Sep Qtr), potential next steps for the LifeScan development pact (research phase due to conclude Sep-12), potential for further commercial deals for patient self-testing (PT/INR), validation of immunoassay strip&meter capabilities which could attract further interest (eg bioMerieux, Alere, Philips, Siemens, Abbott).
- Risks - UBI has a relatively passive role in the development of its earnings on key products. Partners validate the UB 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)	-10.0	-17.3	-66.9	8.3	4.3	
EV / EBITDA (x)	-9.8	-8.9	-43.6	6.9	3.5	
FCF Yield (%)	-5.6	-3.3	0.2	6.2	17.0	
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: \$127m	Enterprise Value: \$118m		Shares: 159m	Sold Short: Click here	ASX 300 wgt: n/a	Median T'over/Day: \$0.0m

12m Target Price (AUD)	\$1.75
Share Price @ 25-Sep-12 (AUD)	\$0.89
Fcst 12m Capital Return	96.3%
Fcst 12m Dividend Yield	0.0%
12m Total S'holder Return	96.3%

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12m Share Price Performance



	1m	6m	12m
Abs Return	43.5%	21.9%	-10.1%
Rel Return	45.0%	26.0%	-21.9%

WHTM Return Re-investment Matrix

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

WHTM Risk Assessment

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

Key Changes	Before	After	Var %
NPAT: FY13	-2.2	-2.2	N/A
(\$m) FY14	17.9	17.9	0.0%
FY15		34.3	
EPS: FY13	-1.3	-1.3	N/A
(cps) FY14	10.7	10.7	0.0%
FY15		20.5	
DPS: FY13	0.0	0.0	0.0%
(cps) FY14	0.0	0.0	0.0%
FY15		0.0	
Price Target:	1.68	1.75	3.8%
Rec:	BUY	BUY	



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
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 numbers reported 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	-13.2	-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	-13.2	-2.7	17.2	33.7
Interest & Tax	2.5	0.8	1.2	0.7	0.5	0.5	0.7	0.6
Dec / (Inc) W'kg Cap	-2.3	-3.6	-4.7	-2.1	4.9	2.5	-9.9	-12.7
Other	4.9	18.6	2.0	6.3	3.6	0.0	0.0	0.0
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
Invest. / Disposals	-9.6	-3.0	-2.3	-1.1	-0.8	-0.9	-0.9	-1.0
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 / Cash	13.6	1.3	8.0	8.2	5.0	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



UBI – New Siemens Agreement

UBI has signed a manufacturing and supply agreement with Siemens Healthcare Diagnostics, covering three point-of-care (POC) coagulation tests. This agreement follows the Collaboration Agreement signed one year ago, which described the potential global commercialisation of these tests by Siemens in professional settings (hospitals, coagulation clinics).

The key provisions of the agreement are consistent with our understanding of what was agreed in principle with Siemens last year, ie:

- UBI to become the exclusive manufacturer of the products on behalf of Siemens. The economics of the agreement are not disclosed but our assumptions on the market and the “per strip” economics to UBI are described below.
- UBI stands to receive a further four milestone payments under the standing Collaboration Agreement (we assume c.A\$8M over next two years);
- UBI may receive ‘profit sharing payments’ if Siemens’ annual sales forecasts are exceeded by a fixed (undisclosed) percentage (not in our modelling).
- UBI retains rights to manufacture and commercialise outside the professional settings (home care, patient self-testing).

A BRIEF REMINDER ON COAGULATION MONITORING AND “PT/INR” ...

The first product under the Siemens agreement will be a “prothrombin time test”. Prothrombin time (PT) testing (or PT/INR¹) is a diagnostic tool to determine the clotting tendency of blood. This is an important piece of information for patients at risk of developing life-threatening blood clots, such as those with mechanical heart valves or those who suffer from conditions like atrial fibrillation (AF²). These patients use anti-coagulant medicines such as warfarin to ‘thin’ their blood and protect themselves from the risk of stroke and other complications. The therapeutic effects of warfarin are sensitive to diet, alcohol consumption, exercise and interactions with other drugs. Warfarin also has a complicated pharmacokinetic profile, so PT/INR testing is required to guide doctors on how to modify dosing the maintain patients in a safe, recommended therapeutic range.

The evolutionary direction that PT/INR testing has taken over the last two decades is towards more frequent testing. The relationship between frequency of testing and time spent in the safe therapeutic INR range is well established, showing that people who self-monitor weekly had 30-50% reductions in the risk of thromboembolism, major haemorrhagic stroke and death³.

In clinical practice today most patients are tested just every 4-6 weeks. There has also been a clear movement to make PT/INR testing and anticoagulant management more systematic.

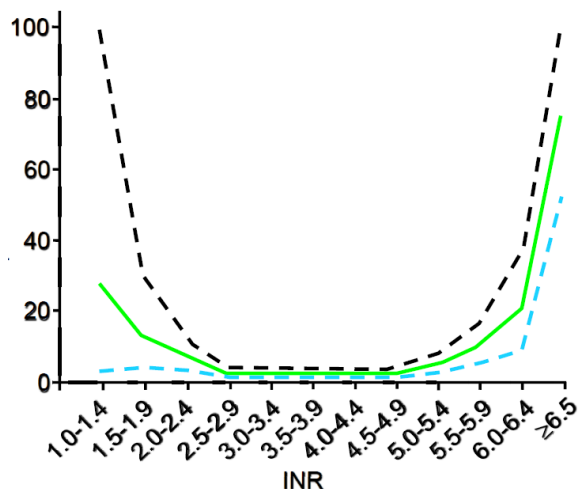
¹ INR = international normalised ratio. INR is derived from prothrombin time test results and was introduced to standardise the diagnostic measurement.

² AF is the most common form of irregular heart beat, which increases the risk of stroke.

³ Heneghan, C. et al. (2006) *Self-monitoring of oral anticoagulation: a systematic review and a meta-analysis* **Lancet** 367: 404 – 411.



FIGURE 1: THE RISKS OF THROMBOEMBOLISM, MAJOR BLEEDING EVENTS AND STROKE INCREASE OUTSIDE THE “SAFE” BOUNDARIES OF INR.



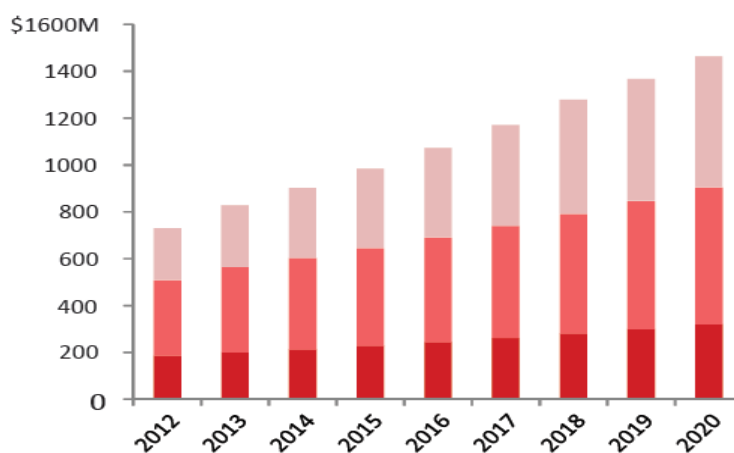
Source: after Cannegeiter (1995)⁴. Note that adverse event risks expressed as a percentage (y-axis). Broken lines denote 95% confidence intervals.

If a subject’s INR reading is too low, there is an increased risk of that individual developing unwanted blood clots (stroke risk) which can be life threatening. If their INR reading is too high, they are at an increased risk of experiencing a bleeding event, such as internal haemorrhage.

BASIS FOR FORECASTING PT/INR REVENUES AND EARNINGS

UBI has provided some market estimates to help size the PT/INR opportunity they will address with Siemens. The hospital and ‘coagulation clinic’ segments of the PT/INR market are expected to support sales of approximately US\$500M in 2012, growing to US\$900M by 2020.

FIGURE 2: HOSPITAL AND CLINIC POC PT/INR MARKET PROJECTIONS FY12-20E.



Source: UBI estimates, Kalorama⁵, Trimark⁶

We assume an average selling price of US\$5.20 per PT/INR test strip for calculating forecast strip volumes⁷.

⁴ Cannegeiter, S. C. *et al* (1995) Optimal oral anticoagulant therapy in patients with mechanical heart valves **NEJM** 333: 11-17.

⁵ Kalorama: The worldwide market for in vitro diagnostic tests (6th Ed., 2008).

⁶ Trimark: Point of care diagnostic testing world markets (April 2011).

⁷ Roche’s CoaguCheck strips sell for c.US\$250 for a pack of 48.



TABLE 1: PT/INR-DERIVED REVENUE FORECASTS FOR UBI FY13-20E (PROFESSIONAL SETTINGS)

PT/INR forecasts FY13-20E								
	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Hospital Market (US\$M)	200	216	233	249	266	282	299	315
Clinics Markets (US\$M)	380	409	439	468	497	526	556	585
Strip market (90%)	522	563	604	645	687	728	769	810
Global Strip volumes (M)*	100	108	116	124	132	140	148	156
Siemens market share	0.5%	1.5%	3.5%	8.0%	13.0%	18.0%	20.0%	20.0%
UBI PT/INR strips (M)	0.5	1.6	4.1	9.9	17.2	25.2	29.6	31.2
PT Revenue (US\$M)**	0.5	1.6	4.1	9.9	17.2	25.2	29.6	31.2
PT Gross profit (@70%)	0.4	1.1	2.8	7.0	12.0	17.6	20.7	21.8

* Assume US\$5.20 per strip

** Assume ASP of US\$1/strip to UBI

Source: WHTM Research

UBI has provided an indicative range of transfer prices they may receive from Siemens for strips, ranging from 50c to \$1.50 per strip⁸. We are modelling on the basis of UBI receiving US\$1 per strip supplied to Siemens under the manufacturing supply agreement. We assume that UBI's COGS will be c.30% of the AUD value of PT/INR strip sales.

Siemens currently does not have a handheld POC coagulation analyser on the market. Historically their coagulation business has been as a (perhaps *the*) leading supplier of high-throughput diagnostic equipment used in central and hospital laboratory settings for coagulation analysis. The UBI product offers an opportunity to use their influence in those professional channels to take share from incumbent players like Roche, Abbott and Alere.

We are forecasting on the basis that Siemens is successful in taking as much as 20% of the market, and that it will take at least six years to build that position.

TABLE 2: NOTABLE COMPETITORS IN THE POC COAGULATION MARKET

PT/INR systems for professional POC settings						
Manufacturer	Roche	Alere	ITC	Abbott	Helena	Instr. Lab
Product	CoaguChek XS	INRatio	Hemochron	i-STAT 1	Cascade POC	Gem PCL Plus
Launch year	2006	2003	2005	2000	2008	2003
Tests other than PT/INR?	-	-	ACT, APTT	ACT	ACT, APTT	ACT, APTT
Model type	portable	portable	portable	portable	portable	portable
Specimen volume (µL)	8	15	15	20-40	50-100	50
Integrated QC?	yes	yes	no	yes	no	no
Time for result (minutes)	<1	1	2	3+	2	2
List price (USD)	2,250	1,595	5,250-8,000	6,500	3,590	5,329

ACT = activated clotting time

APTT = activated partial thromboplastin time

Source: WHTM Research

⁸ UBI Investor Presentation, August 2012, p.23.



TABLE 3: NOTABLE COMPETITORS IN THE PT/INR SELF-TEST PT/INR MARKET

PT/INR systems for patient self-testing				
Manufacturer	Roche	Alere	ITC	Abbott
Product	CoaguChek XS Plus/Pro	INRatio2	ProTime	CoaguSense
Launch year	2010	2008	2006	2010
Tests other than PT/INR?	-	-	-	-
Model type	handheld/portable	handheld/portable	handheld/portable	handheld/portable
Specimen volume (µL)	8	15	25	10
Integrated QC?	yes	yes	yes	no
Time for result (minutes)	<1	1	< 5	<1
List price (USD)	2,250	1,995	2,350	1,062

Source: WHTM Research

We maintain the UBI valuation (target price) at \$1.75 per share but note an additional 40 cps potential (\$2.15 per share) if we were to recognise the full potential of the PT/INR and other haemostasis tests developed under the Siemens collaboration.

RECOMMENDATION

We retain a BUY rating. Catalysts – plenty set to happen for this company before Christmas.

- September quarterly – expect to see continued progress on OneTouch Verio Strip sales and growth in the ‘service fee’ component.
- D-Day approaches for “profound” new product advance on glucose. The US\$4.5M research project funded by LifeScan is scheduled to complete this month. If successful, this could translate into a ‘development’ deal for UBI.
- PST opportunity in PT/INR is still “in play” – this is not part of the Siemens deal and could support an additional 15-20 cps in valuation if the right partnerships are put in place to commercialise.
- Immunoassay platform – we expect to see technical validation of this in the form of the D-Dimer test. We see the development of a broad-based strip & meter offering in immunoassay as potentially very valuable for UBI. We would expect that such a development would attract interest from groups such as bioMerieux, Alere, Philips, Siemens, Abbott and others.

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.
- No 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 Saleshe Balak (CFO)

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Return Reinvestment Matrix and Risk Measures

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

Recommendation Structure and Other Definitions

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