

# Universal Biosensors

Q2FY12 – improved disclosure a positive signal



Wilson HTM  
INVESTMENT GROUP

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\$0.60

BUY

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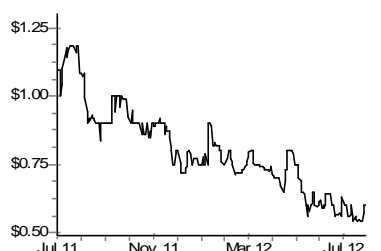
## Recommendation

UBI has commenced disclosing the actual 'service fees' it receives from LifeScan. This is a positive development – these fees are an unequivocal value driver because they give the clearest possible picture of LifeScan's OneTouch Verio sales. Q2 was not as strong as we had forecast, but we remain comfortable with our launch predictions and earnings estimates. UBI's production volumes increased again in Q2 and we understand that LifeScan is building out its 'Verio-IQ' meter footprint in the USA market. UBI remains a preferred stock for WHTM among the smaller Bio/Medtech developers. We maintain a BUY rating and \$1.75 target. Forecasts unchanged. Stay with it.

## Key Points

- **Q2 cash flow** – UBI reported \$7.2M in cash receipts for the quarter. The company closed the 1H with \$14.7M cash, burning just \$380K over the six-month period.
- **Revenue and operations readthrough** – UBI provided clear disclosure on the quantum of 'service fees', which are a direct indicator of LifeScan's strip sales. UBI receives approximately 1 US cent per strip in service fees, whenever LifeScan ships a strip to market.

## Price Performance



## Security/Capital Details

ASX Code	UBI
Market Cap	\$95.4 M
Issued Shares	159.1 M
Avg Mth T'over	1.54 M
12 Mth High – Low	\$1.18 - \$0.54

## Key Data/Ratios – FY 2012

Cash	\$14.7M
Burn	\$6.5 M
EV	\$80.7 M
Interest Cover	14.2 x
ROE	-26.8%
EPS Growth	43.6%
PEG Ratio	x
NTA / Share	\$ 0.17
DCF	\$ 1.52
12 Mth Price Target	\$ 1.75

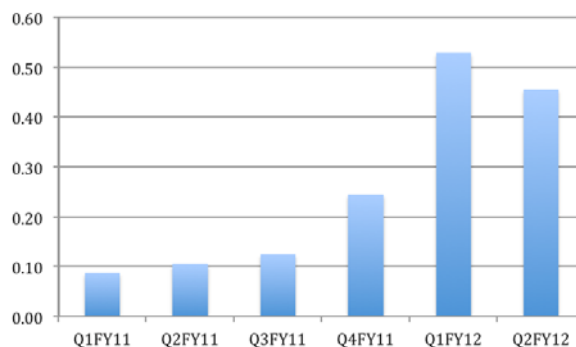


Figure 1: Quarterly 'service fee' revenues from OneTouch Verio strip sales. Units: USDm.

Source: UBI, WHTM Research

- The Q2 service fee was less than for Q1. LifeScan sold c.98.5M strips in 1H (+402% on pcp). This represents c.40% of our FY12 forecast (250M strips). To meet our forecast LifeScan would need to sell c.151M strips in 2H (a 309% increase on pcp). The company did report another increase in production volumes in Q2, so we have left our FY12 forecast unchanged. We expect UBI to release their 1H accounts next Monday, August 6<sup>th</sup>.
- **WHTM View** – we did expect to see the service fee grow again in Q2, so we were disappointed on that front. But putting that into context, these service fee data speak to a US launch that is only 6 months old and did experience an early setback (recall). We understand that LifeScan has commenced rebuilding its OneTouch Verio IQ meter 'footprint' in the US market – so we look forward to the Q3 numbers.
- Although service fees account for only 12% of our revenue forecast in FY12, they are the unequivocal driver of share price in the short term because they are the only window on what LifeScan is doing with UBI's glucose testing strips.
- **Earnings forecasts, valuation and recommendation** – no changes to our FY12 or FY13 forecasts. Maintain a BUY rating with \$1.75 target price. Valuation is DCF based and its basic composition is c.\$1.40/shr for LifeScan/glucose business; and \$0.35/shr for Siemens/coagulation business.

Year to Dec	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2011a	-14.7	-8.8	-111.1	-8.2	-16.8	-8.7	0.0	0.0	0
2012e	-8.3	-5.0	43.6	-12.1	-18.2	-14.3	0.0	0.0	0
2013e	-2.2	-1.3	73.1	-45.1	77.9	-1,310.1	0.0	0.0	
2014e	18.6	11.1	936.1	5.4	7.2	3.8	0.0	0.0	

## Universal Biosensors (UBI : \$0.60)

### INVESTMENT FUNDAMENTALS

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
EPS Reported (c)	-4.1	-8.8	-5.0	-1.3	11.1
<b>EPS Normalised (c)</b>	<b>-4.2</b>	<b>-8.8</b>	<b>-5.0</b>	<b>-1.3</b>	<b>11.1</b>
EPS Growth (%)	N/A	-111.1%	43.6%	73.1%	936.1%
<b>PER Normalised (x)</b>	<b>-36.5</b>	<b>-8.2</b>	<b>-12.1</b>	<b>-45.1</b>	<b>5.4</b>
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

### VALUATION DATA

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
EV / EBITA (x)	-27.2	-6.9	-10.3	-34.7	4.4
EV / EBITDA (x)	-43.7	-8.7	-14.3	-1,310.1	3.8
CFPS (c)	-4.0	-4.3	-3.3	0.8	8.4
<b>Price / CF</b>	<b>-38.5</b>	<b>-16.8</b>	<b>-18.2</b>	<b>77.9</b>	<b>7.2</b>
Book Value / Share (\$)	0.3	0.2	0.2	0.2	0.3
<b>Price / Book (x)</b>	<b>5.1</b>	<b>3.3</b>	<b>3.6</b>	<b>3.9</b>	<b>2.2</b>

### PROFIT & LOSS (\$m)

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
Sales Revenue	11.8	14.7	19.8	45.2	83.0
EBITDA	-5.0	-12.1	-6.5	-0.1	20.6
Depreciation	3.0	3.3	2.4	2.6	2.7
<b>EBITA</b>	<b>-7.9</b>	<b>-15.4</b>	<b>-8.9</b>	<b>-2.6</b>	<b>17.9</b>
Amortisation	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>-7.9</b>	<b>-15.4</b>	<b>-8.9</b>	<b>-2.6</b>	<b>17.9</b>
Net Interest Expense	-1.2	-0.7	-0.6	-0.4	-0.7
<b>Pre-tax Profit</b>	<b>-6.6</b>	<b>-14.7</b>	<b>-8.3</b>	<b>-2.2</b>	<b>18.6</b>
Tax	0.0	0.0	0.0	0.0	0.0
Tax rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>-6.6</b>	<b>-14.7</b>	<b>-8.3</b>	<b>-2.2</b>	<b>18.6</b>
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	-6.6	-14.7	-8.3	-2.2	18.6
Revenue Growth (%)	N/A	25.0%	34.6%	128.6%	83.6%
EBIT Growth (%)	N/A	-93.6%	42.0%	70.4%	777.3%
NPAT Growth (%)	N/A	-122.3%	43.6%	73.2%	939.1%

### PROFITABILITY RATIOS

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
<b>EBIT / Sales (%)</b>	<b>-67.6%</b>	<b>-104.6%</b>	<b>-45.1%</b>	<b>-5.8%</b>	<b>21.5%</b>
ROA (%)	N/A	-50.7%	-30.1%	-8.3%	45.7%
<b>ROE (%)</b>	<b>N/A</b>	<b>-35.7%</b>	<b>-26.8%</b>	<b>-8.7%</b>	<b>55.0%</b>
ROFE (%)	N/A	-70.1%	-46.6%	-15.5%	95.9%

### INTERIMS (\$m)

Half Yr	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13
Yr Ending Dec	1H A	2H A	1H E	2H E	1H E
Sales Revenue	5.6	9.1	8.3	11.5	16.2
EBIT	-8.0	-7.4	-4.1	-4.8	-1.7
<b>Net Profit</b>	<b>-7.6</b>	<b>-7.1</b>	<b>-3.8</b>	<b>-4.5</b>	<b>-1.5</b>
EBIT / Sales (%)	-143.3%	-80.9%	-49.5%	-41.9%	-10.7%

### BALANCE SHEET (\$m)

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
Cash	23.3	15.1	8.5	8.7	21.6
Receivables	3.6	4.9	5.7	8.2	15.0
Inventories	3.2	3.6	3.0	7.5	11.4
Other	0.7	1.0	1.0	1.1	1.1
<b>Current Assets</b>	<b>30.7</b>	<b>24.6</b>	<b>18.2</b>	<b>25.5</b>	<b>49.1</b>
Net PPE	23.1	20.3	18.9	17.4	15.9
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.3	0.3	0.3	0.3
<b>Non-current Assets</b>	<b>23.1</b>	<b>20.6</b>	<b>19.2</b>	<b>17.7</b>	<b>16.2</b>
<b>Total Assets</b>	<b>53.8</b>	<b>45.2</b>	<b>37.4</b>	<b>43.2</b>	<b>65.3</b>
Current Payables	1.8	0.6	5.3	13.2	16.7
Current Debt	0.0	0.0	0.0	0.0	0.0
Non-Current Debt	0.0	0.0	0.0	0.0	0.0
Provisions	4.9	6.6	2.4	2.5	2.5
Other	0.0	3.0	3.0	3.0	3.0
<b>Total Liabilities</b>	<b>6.6</b>	<b>10.2</b>	<b>10.7</b>	<b>18.7</b>	<b>22.2</b>
Equity	77.1	79.4	79.4	79.4	79.4
Reserves	-0.3	-0.2	-0.2	-0.2	-0.2
Retained Profits	-29.5	-44.2	-52.5	-54.7	-36.1
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>47.2</b>	<b>35.0</b>	<b>26.7</b>	<b>24.5</b>	<b>43.1</b>
<b>Total Funds Employed</b>	<b>23.9</b>	<b>19.9</b>	<b>18.2</b>	<b>15.8</b>	<b>21.5</b>

### LIQUIDITY & LEVERAGE RATIOS

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
Net Debt (Cash) (\$m)	-23.3	-15.1	-8.5	-8.7	-21.6
<b>Net Debt / Equity (%)</b>	<b>-49.3%</b>	<b>-43.1%</b>	<b>-31.9%</b>	<b>-35.6%</b>	<b>-50.2%</b>
Interest Cover (x)	6.7	22.5	14.2	6.3	-24.0
<b>Debt / CashFlow (x)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### CASHFLOW (\$m)

Yr Ending Dec	2010A	2011A	2012E	2013E	2014E
EBIT	-7.9	-15.4	-8.9	-2.6	17.9
Dep'n and Amort'n	3.0	3.3	2.4	2.6	2.7
Net Int Rec'd (Paid)	1.2	0.7	0.6	0.4	0.7
Tax Paid	0.0	0.0	0.0	0.0	0.0
Dec / (Inc) W'kg Cap	-4.7	-2.1	0.3	0.9	-7.3
Other	1.9	6.3	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>-6.4</b>	<b>-7.2</b>	<b>-5.5</b>	<b>1.3</b>	<b>14.0</b>
Capital Expenditure	-2.3	-1.1	-1.1	-1.1	-1.1
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-2.3</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-1.1</b>
Equity Raised	0.7	0.1	0.0	0.0	0.0
Inc / (Dec) in Loans	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>0.7</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Cash Flow</b>	<b>-8.0</b>	<b>-8.2</b>	<b>-6.6</b>	<b>0.2</b>	<b>12.9</b>



### Recommendation Structure

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

### Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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### Wilson HTM Investment Group Ltd is a substantial securities holder of Universal Biosensors (UBI.ASX).

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