

# Universal Biosensors

## US Medicare Boost



Wilson HTM  
INVESTMENT GROUP

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\$0.84

BUY

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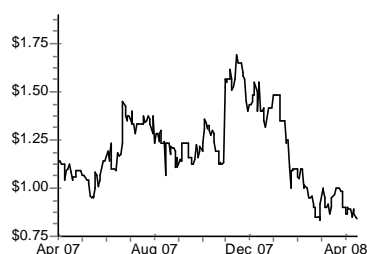
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### Price Performance



### Security/Capital Details

ASX Code	UBI
Market Cap	\$136 M
Issued Shares	161.4 M
Avg Mth T'over	1.05 M
12 Mth High – Low	\$1.70 - \$0.83

### Key Data/Ratios – FY 2008

EBITDA / Sales	-88.8%
EBIT / Sales	-118.1%
Net Debt / Equity	-68.7%
Interest Cover	x
ROE	-9.2%
EPS Growth	42.9%
PEG Ratio	-0.60 x
NTA / Share	\$ 0.35
DCF	\$ 2.40
12 Mth Price Target	\$ 2.76

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

### Recommendation

US Medicare has announced expanded coverage for anticoagulation patients – opening the door for more patients to test themselves at home. The prothrombin time test (PT) is the second lead product under development by the company. The manufacturing process of these test strips is similar to that being used for the glucose test strips for which the company has a master Services and Supply agreement with Lifescan. Approximately 17M prescriptions are written annually for warfarin in the US. We therefore maintain our BUY recommendation with a \$2.40 valuation.

### Key Points

US Medicare has announced expanded coverage for anticoagulation patients – opening the door for more patients to test themselves at home.

US Medicare previously reimbursed expenses for meter training, equipment and supplies for self testers who had mechanical heart valves. The changes now open reimbursement up to include those on anticoagulation medication with:

- Chronic atrial fibrillation (irregular heartbeat which may cause clots to develop)
- Venous thromboembolism (development of clots in parts of the circulatory system)

The medication used to prevent development of clots is warfarin (a blood thinner) which has a narrow therapeutic range. Too high a dose may lead to internal bleeding, while insufficient dosage carries an increased risk of stroke.

- Currently monitoring is performed via a 4-6 weekly blood test carried out a doctors/pathologists/health care professionals consulting rooms. Results are typically received 1-2 days later after which the patient makes any relevant adjustments to dosage levels.
- Studies show that frequent testing leads to improved clinical outcomes, i.e., reductions in strokes, bleeds and deaths. Heneghan *et al.* (Lancet, 2006; 367:404-411) claim that self testing result in a 33% reduction in deaths, 55% reduction in thromboembolism. Major bleeding events also decreased in frequency. It has also been shown that home testing is just as accurate as professional testing and patients prefer fingerstick testing over normal blood collection.
- The prothrombin time test (PT) is the second lead product under development by the company. The manufacturing process of these test strips is similar to that being used for the glucose test strips for which the company has a master Services and Supply agreement with Lifescan (a wholly owned subsidiary of Johnson & Johnson). UBI owns all the intellectual property for PT and we expect the company to be in a position to start selling the product in 2010. Approximately 17M prescriptions are written annually for warfarin in the US.
- We therefore maintain our BUY recommendation with a \$2.40 valuation.

Year to Dec	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2007a	-8.4	-5.7	-22.4	-14.8	-21.0	-10.0	0.0	0.0	0
2008e	-5.3	-3.3	42.9	-25.9	-42.4	-24.9	0.0	0.0	0
2009e	9.7	6.0	285.5	13.9	16.3	7.4	0.0	0.0	0
2010e	24.0	14.9	146.4	5.7	5.9	2.9	0.0	0.0	0

## Universal Biosensors (UBI : \$0.84)

### INVESTMENT FUNDAMENTALS

Yr Ending Dec	2006A	2007A	2008E	2009E	2010E
EPS Reported (c)	-4.5	-5.7	-3.3	6.0	14.9
<b>EPS Normalised (c)</b>	<b>-4.7</b>	<b>-5.7</b>	<b>-3.3</b>	<b>6.0</b>	<b>14.9</b>
EPS Growth (%)	N/A	-22.4%	42.9%	285.5%	146.4%
<b>PER Normalised (x)</b>	<b>-18.1</b>	<b>-14.8</b>	<b>-25.9</b>	<b>13.9</b>	<b>5.7</b>
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

### VALUATION DATA

Yr Ending Dec	2006A	2007A	2008E	2009E	2010E
EV / EBITA (x)	-28.3	-9.2	-18.7	8.1	3.1
EV / EBITDA (x)	-33.9	-10.0	-24.9	7.4	2.9
CFPS (c)	-2.9	-4.0	-2.0	5.2	14.2
<b>Price / CF</b>	<b>-29.0</b>	<b>-21.0</b>	<b>-42.4</b>	<b>16.3</b>	<b>5.9</b>
Book Value / Share (\$)	0.3	0.4	0.3	0.4	0.5
<b>Price / Book (x)</b>	<b>3.2</b>	<b>2.2</b>	<b>2.4</b>	<b>2.1</b>	<b>1.5</b>

### PROFIT & LOSS (\$m)

Yr Ending Dec	2006A	2007A	2008E	2009E	2010E
Sales Revenue	0.0	0.0	4.4	31.1	73.3
EBITDA	-2.3	-9.0	-3.9	12.6	25.0
Depreciation	0.5	0.8	1.3	1.1	1.1
<b>EBITA</b>	<b>-2.8</b>	<b>-9.9</b>	<b>-5.3</b>	<b>11.4</b>	<b>24.0</b>
Amortisation	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>-2.8</b>	<b>-9.9</b>	<b>-5.3</b>	<b>11.4</b>	<b>24.0</b>
Net Interest Expense	0.0	-1.4	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>-2.7</b>	<b>-8.5</b>	<b>-5.3</b>	<b>11.4</b>	<b>24.0</b>
Tax	0.2	-0.1	0.0	1.7	0.0
Tax rate (%)	-8.0%	1.6%	0.0%	15.0%	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>-2.9</b>	<b>-8.4</b>	<b>-5.3</b>	<b>9.7</b>	<b>24.0</b>
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	-2.9	-8.4	-5.3	9.7	24.0
Revenue Growth (%)	N/A	N/A	N/A	600.1%	135.7%
EBIT Growth (%)	N/A	-257.0%	46.8%	318.0%	109.5%
NPAT Growth (%)	N/A	-189.8%	37.2%	285.3%	146.5%

### PROFITABILITY RATIOS

Yr Ending Dec	2006A	2007A	2008E	2009E	2010E
<b>EBIT / Sales (%)</b>			<b>-118.1%</b>	<b>36.8%</b>	<b>32.7%</b>
ROA (%)	N/A	-76.3%	-25.8%	41.9%	68.8%
<b>ROE (%)</b>	<b>N/A</b>	<b>-17.8%</b>	<b>-9.2%</b>	<b>16.4%</b>	<b>31.9%</b>
ROFE (%)	N/A	-101.0%	-33.0%	58.9%	104.5%

### INTERIMS (\$m)

Half Yr	Jun 07	Dec 07	Jun 08	Dec 08	Jun 09
Yr Ending Dec	1H A	2H A	1H E	2H E	1H E
Sales Revenue	0.0	0.0	0.0	4.4	15.6
EBIT	-4.6	-5.3	-2.5	-2.8	5.7
<b>Net Profit</b>	<b>-3.9</b>	<b>-4.5</b>	<b>-2.5</b>	<b>-2.8</b>	<b>4.0</b>
EBIT / Sales (%)				-61.9%	36.8%

### BALANCE SHEET (\$m)

Yr Ending Dec	2006A	2007A	2008E	2009E	2010E
Cash	<b>29.2</b>	<b>45.1</b>	<b>37.4</b>	<b>42.4</b>	<b>62.0</b>
Receivables	0.0	0.0	0.9	4.5	5.7
Inventories	0.0	0.5	1.8	9.0	11.3
Other	0.6	1.5	0.0	0.0	0.0
<b>Current Assets</b>	<b>29.8</b>	<b>47.1</b>	<b>40.1</b>	<b>55.9</b>	<b>79.0</b>
Net PPE	6.8	16.4	19.5	18.1	20.4
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	0.0	0.0	0.7	0.0
<b>Non-current Assets</b>	<b>6.8</b>	<b>16.4</b>	<b>19.6</b>	<b>18.8</b>	<b>20.4</b>
<b>Total Assets</b>	<b>36.7</b>	<b>63.5</b>	<b>59.7</b>	<b>74.8</b>	<b>99.4</b>
Current Payables	1.5	0.9	3.6	6.3	12.7
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	0.2	2.9	1.6	4.2	0.6
Other	0.9	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>2.6</b>	<b>3.8</b>	<b>5.2</b>	<b>10.5</b>	<b>13.3</b>
Equity	36.3	66.9	66.9	66.9	64.7
Reserves	0.5	0.0	0.0	0.0	0.0
Retained Profits	-2.7	-7.1	-12.4	-2.6	21.4
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>34.1</b>	<b>59.8</b>	<b>54.5</b>	<b>64.2</b>	<b>86.1</b>
<b>Total Funds Employed</b>	<b>4.9</b>	<b>14.7</b>	<b>17.1</b>	<b>21.8</b>	<b>24.1</b>

### LIQUIDITY & LEVERAGE RATIOS

Yr Ending Dec	2006A	2007A	2008E	2009E	2010E
Net Debt (Cash) (\$m)	-29.2	-45.1	-37.4	-42.4	-62.0
<b>Net Debt / Equity (%)</b>	<b>-85.8%</b>	<b>-75.5%</b>	<b>-68.7%</b>	<b>-66.1%</b>	<b>-72.0%</b>
Interest Cover (x)					
<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	2006A	2007A	2008E	2009E	2010E
EBIT	-2.8	-9.9	-5.3	11.4	24.0
Dep'n and Amort'n	0.5	0.8	1.3	1.1	1.1
Net Int Rec'd (Paid)	0.0	1.4	0.0	0.0	0.0
Tax Paid	0.0	0.2	0.0	0.0	0.0
Dec / (Inc) W'kg Cap	-0.4	0.0	-2.0	-8.0	-5.0
Other	0.8	1.7	2.7	3.8	2.9
<b>Operating Cash Flow</b>	<b>-1.9</b>	<b>-5.9</b>	<b>-3.2</b>	<b>8.3</b>	<b>22.9</b>
Capital Expenditure	-4.1	-8.8	-4.4	-3.3	-3.3
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>-4.1</b>	<b>-8.8</b>	<b>-4.4</b>	<b>-3.3</b>	<b>-3.3</b>
Equity Raised	30.8	35.0	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	-1.8	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>30.8</b>	<b>33.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Cash Flow</b>	<b>24.8</b>	<b>18.6</b>	<b>-7.6</b>	<b>5.0</b>	<b>19.6</b>

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