

Universal Biosensors Inc.

Biomedical Devices and Services

22 June 2022

Rating
SPECULATIVE BUY
unchanged

Price Target
A\$0.72↓
from A\$1.05

UBI-ASX

Price
A\$0.34

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FY21 AGM - trading update notes delays in Sentia testing rollout

Investment Recommendation

Universal Biosensors (UBI-ASX) provided a trading update within its FY21 AGM release in which it noted a delay in the rollout of the next set of wine analyser tests, being the Total Sugar Test (Glucose and Fructose combination) causing a deferral of c.\$2.2m in expected revenue for FY22. It also indicated there would be a delay of eight weeks on the release of results of the second and third arms of the Cancer biomarker observational study. In both cases there have been technical issues with the chemistry of the test strip, illustrating the complexity of the technology. UBI believes it has sorted out those particular issues. UBI has also referred to COVID-19 impacting the EU Sentia business and supply chain challenges on delivering Xprecia Prime units. We have reduced our FY22E revenues in accordance with guidance. While it appears the delay is timing related, we have refrained from pushing the delayed revenue into FY23E and leave our FY23E estimates unchanged at this stage. Assuming this is a one-time event, it has minimal impact on our DCF valuation; however, we take this opportunity to increase our discount rate to reflect changing risk free rate dynamics and a higher risk profile for loss making businesses. **Our discount rate moves up from 11.5% to 14% and this has a subsequent c.31% reduction to our PT which is now \$0.72/CDI (was \$1.05). Given the penetration that UBI has achieved to date in its Sentia device across Australia, NZ, US and Canada, we believe our medium-term expectations remain on track and therefore retain our SPECULATIVE BUY rating.**

Delays in Sentia test rollout. UBI has been facing technical challenges with the stability beyond three months in the Fructose test which is a key part of the Total Sugar Test, that combines with a Glucose Test. The Total Sugar Test was to be launched in the June half, but is now expected to be released by December. UBI estimates the delay defers c.\$2.2m of revenue into FY23E. UBI has stated it believes it has now stabilised the test strip. UBI noted that the two acid tests remain on track for launch by early FY23 and improvements to the already released Free Sulphur and Malic Acid tests are performing well.

While the timing delay is disappointing, UBI is still laying a solid foundation this year with expectations that penetration of the device into the Australian, NZ, US and Canadian markets is on track to achieve levels of c.15-20%, c.10%, c.6-10% and c.10% by December. Recurring revenue from test strip sales should subsequently follow if utilisation performs as expected. EU penetration of <1% seems to be lagging due to lingering COVID-19 impacts, and UBI has appointed a Head of EU to drive sales in conjunction with its distributors.

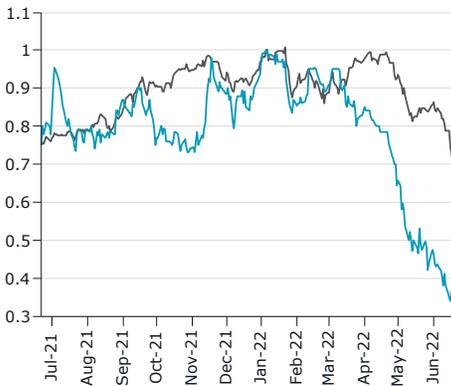
Supply chain challenges impact delivery of Xprecia Prime to UBI. UBI indicated sales were in line with 1H21 (c.\$2.0m), although we are slightly lower at c.\$1.7m, but it expects strong sales growth in 2H22. Over 50% of the old Siemens network has been converted and another c.15% is under negotiation. UBI is also aiming to sign up 60 new distributors for its Xprecia Prime product, given positive feedback from several large providers. Supply chain issues have impacted delivery of the 1,000 units on order, with delivery of 350 units delayed to the September quarter. The path to FDA approval appears to be on track with UBI expecting the clinical trial to be completed in the September quarter and approval targeted for 1QCY23.

HRL Blood Laboratory seems to be performing well and in line with 1H21 (\$0.8m, CG at \$0.9m) despite a six-week shutdown associated with a relocation that will support an expansion in activities to include Inflammatory diseases, Cytokines and a Multiplex Immunoassay Platform. The new premises have been fitted out and UBI is reporting positive sales growth prospects.

Market Data

52-Week Range (A\$) :	0.33 - 1.04
Market Cap (A\$M) :	77.3
Shares Out. (000s) :	212
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	45.6
Last Cash Balance (A\$) :	35.0
Last Quarter Cash Burn (A\$M) :	(5.3)

FYE Dec	2021A	2022E	2023E	2024E
Sales (A\$M)	5.8	8.6↓	21.6	43.8
<i>Previous</i>	-	10.8	-	-
Gross Profit (A\$M)	2.5	4.7	12.1	25.0
EBITDA Adj (A\$M)	(7.9)	(11.1)↓	1.4	9.9
<i>Previous</i>	-	(7.1)	-	-
EV/Sales (x)	7.5	4.4	2.1	1.0
EV/EBITDA (x)	(5.5)	(3.4)	32.8	4.5



Source: FactSet

Priced as of close of business 21 June 2022

UBI focuses on the development, manufacture and commercialisation of point-of-use devices for measuring analytes across a broad range of industries, with in-market devices targeting the wine and blood coagulation segments.

New Animal Health application on track for 1QCY23. UBI has appointed a sales resource in the US to support the launch of its Blood Glucose Monitor product for companion animals. Confirmation of launch timing is still subject to the appointment of distributors and UBI indicate it is in discussions with multiple partner candidates.

Adjusted estimates. We have lowered our FY22E revenue estimates by c.20% or c.\$2.2m to reflect the timing delay on the launch of the Total Sugar Test, as well as increased our R&D expense for the additional equipment purchases related to product development, which UBI advise is non-recurring. This results in a reduction in FY22E EBITDA of c.56% to c.-\$11.1m. Our revised revenue estimate still implies c.48% yoy growth and with 2H22E revenue of c.\$5.3m, implies a c.23% annualised growth rate exiting FY22.

Our FY23E revenue estimates are unchanged as we expect the delay to detract from momentum. We do not include the introduction of the animal health blood glucose product at this stage and are primarily driven by utilisation of Sentia test strips by customers established in the current year.

Figure 1: Earnings summary

Universal Biosensors (UBI)					\$0.34	Year end 31 Dec				
Profit & Loss (A\$m)	FY21	FY22E	FY23E	FY24E	Ratios	FY21	FY22E	FY23E	FY24E	
Sales revenue	5.8	8.6	21.6	43.8	Valuation					
Gross profit	2.5	4.7	12.1	25.0	EPS (norm.)	-5.9	-7.0	-0.7	3.1	
EBITDA	-7.9	-11.1	1.4	9.9	P/E (x) (norm.)	-5.7	-4.8	-48.5	10.9	
Depreciation	-0.9	-0.9	-1.2	-1.8	PE Rel - XAO	NMF	NMF	-3.0	0.7	
EBITA	-8.8	-12.0	0.2	8.1	PE Rel - XSO	NMF	NMF	-3.4	0.8	
Amortisation	-1.6	-1.6	-1.6	-1.7	EV/Rev (x)	7.5	4.4	2.1	1.0	
EBIT	-10.4	-13.6	-1.5	6.5	EV/EBITDA (x)	-5.5	-3.4	32.8	4.5	
Net interest	-0.1	0.0	0.0	0.0	EV/EBIT (x)	-4.1	-2.9	-30.4	6.8	
Pre-tax profit	-10.5	-13.6	-1.5	6.5	DPS (cps)	0.0	0.0	0.0	0.0	
Tax expense	0.0	0.0	0.0	0.0	Dividend Yield (%)	0.0	0.0	0.0	0.0	
NPAT (pre-ISIs)	-10.5	-13.6	-1.5	6.5	Franking (%)	0.0	0.0	0.0	0.0	
Significant items	0.0	0.0	0.0	0.0	CFPS (cps)	-5.3	-3.4	-1.1	2.7	
NPAT (reported)	-10.5	-13.6	-1.5	6.5	P/CFPS (x)	-6.3	-9.8	-31.0	12.4	
NPAT (normalised)	-10.5	-13.6	-1.5	6.5	Profitability					
					Gross margin (%)	43.2	55.0	56.0	57.1	
Cash Flow (A\$m)	FY21	FY22E	FY23E	FY24E	EBITDA margin (%)	-136.2	-128.9	6.3	22.6	
Operating EBITDA	-7.9	-11.1	1.4	9.9	EBIT margin (%)	-180.6	-158.2	-6.8	14.8	
Interest and tax	0.0	0.0	0.0	0.0	ROE (%)	-38.1	-34.9	-3.9	14.7	
Working capital	-1.6	3.9	-3.6	-4.2	ROA (%)	-23.7	-22.9	-2.6	9.9	
Other	0.0	0.0	0.0	0.0						
Operating Cashflow	-9.4	-7.2	-2.3	5.7	Capital structure					
Capex	-0.6	-2.5	-3.0	-5.2	Enterprise Value (\$m)	43.3	39.3	44.6	44.1	
Net acquisitions	0.0	0.0	0.0	0.0	Net Debt (cash)	-16.3	-31.6	-26.3	-26.9	
Free Cashflow	-10.0	-9.7	-5.3	0.5	Gearing (%)	cash	cash	cash	cash	
Dividends	0.0	0.0	0.0	0.0	EFPOWA (m)	177.9	211.7	211.7	211.7	
Net equity issued	0.1	25.0	0.0	0.0	Growth					
Net Cashflow	-9.9	15.3	-5.3	0.5	Sales revenue (%)	78.5	48.8	151.2	103.1	
Opening cash	28.1	18.1	33.4	28.1	Gross profit (%)	189.7	89.5	155.8	107.0	
Borrowings/other	0.0	0.0	0.0	0.0	EBITDA (%)	48.1	40.8	-112.3	629.0	
Closing cash	18.1	33.4	28.1	28.6	EBIT (%)	38.4	30.3	-89.2	-542.8	
					NPAT (norm.) (%)	42.0	29.4	-89.2	-542.8	
Balance Sheet (A\$m)	FY21	FY22E	FY23E	FY24E	EPS (norm.) (%)	33.3	14662.1	18.1	-90.1	
Cash	18.1	33.4	28.1	28.6	DPS (%)	0.0	0.0	0.0	0.0	
Receivables	0.5	0.9	2.1	5.0	Product revenue					
Inventories	2.1	1.7	2.7	6.1	Wine Testing - Sentia	1.1	2.5	13.6	32.8	
PPE	3.8	5.1	6.8	10.0	Blood Coag. - Xprecia	2.7	3.9	5.6	8.4	
Intangibles	12.7	11.3	9.9	8.4	Lab Services - HRL	2.0	2.2	2.4	2.6	
Other assets	6.9	6.9	7.1	7.3		5.8	8.6	21.6	43.8	
Total Assets	44.1	59.3	56.6	65.5	Valuation				FY24E	
Borrowings	1.8	1.8	1.8	1.8	Target EBITDA Multiple					
Payables	3.2	7.1	5.6	7.8	EBITDA (A\$m)				9.9	
Other Liabilities	11.9	11.5	11.7	11.9	EBITDA Target (x)				20	
Total Liabilities	16.9	20.3	19.1	21.5	Per Share				\$ 0.94	
NET ASSETS	27.2	39.0	37.5	44.0	Discounted Cash Flow					
					Cost of equity	14.0%	WACC		14.0%	
					Cost of debt	4.0%	TGR		3.5%	
					Debt weighting	0.0%	Per Share		\$0.72	
Board and shareholders			(m)	%	Substantial Shareholders			(m)	(%)	
Craig Coleman			56.1	26.5	Viburnum Funds			56.1	26.5	
Judith Smith			0.3	0.2	Bendigo & Adelaide Bank			23.3	11.0	
David Hoey			0.6	0.3	Jencay Capital			15.4	7.2	
					JM Financial Asset Management			13.4	6.3	
					Top 20 shareholders			103.6	48.9	

Source: Company reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: June 21, 2022, 16:30 ET

Date and time of production: June 21, 2022, 02:46 ET

Target Price / Valuation Methodology:

Universal Biosensors Inc. - UBI

We value UBI at \$0.72/CDI using a 10-year, two-stage DCF valuation methodology, with explicit forecasts over the first five years and fading growth of 20% scaling down to 6% over the following five years. We apply a WACC of 14% and terminal growth of 3.5%.

Risks to achieving Target Price / Valuation:

Universal Biosensors Inc. - UBI

Turnaround play creates a new set of risks

Through LifeScan buying out the successful blood glucose monitoring business and Siemens giving up on the coagulation testing business, having failed to compete with Roche, UBI is forced to start again. UBI starts from a low base, with an existing coagulation product testing and services business that needs new life, and several start-up opportunities with wine testing being the first to reach commercialisation. So the question to be answered by UBI is whether it can compete with Roche in coagulation, large operators like Zoetis (Pfizer spin-off) in animal health, and the major wine labs / internal wine labs in wine testing. There is an expectation that enhancements to the electrochemical biosensor technology (lubricin) and new focus breathes new life into UBI's opportunity set, but confirmation that past disappointment is behind it remains to be answered.

New product market acceptance / cash levels

UBI has extensive experience in electrochemical biosensors, with an 18-year history and success in the blood glucose product before the LifeScan buyout. UBI has c.\$18m in cash, which should be sufficient to re-build the coagulation business and launch the various wine tests being launched through CY22. However, cash is down from c.\$37m two years ago, and UBI has a pipeline of development opportunities including animal health, cancer and fertility, which will require cash to develop and launch. UBI will need to succeed in rebuilding the coagulation business and the launch of the wine testing business to either avoid or mitigate the capital call required from the product pipeline.

Distribution risks

UBI was historically an R&D-focused business that had two customers. It now has to show it can build distribution capability. It has to convert and service the former Siemens customers (120 hospitals and distributors), as well as build new distribution partners and customers for its new suite of products. UBI is showing signs of progress with 14 distribution deals across 14 countries, with another 16 deals pending for the wine testing business in the first year of launch. It has also converted 16 / 50 Siemens' distributors. UBI has also established a sales force in the US where a majority of the SME wineries are located.

Concentration risk

UBI has one product with a reasonable level of experience, albeit with limited success to date, while the wine testing business has only recently launched. Over the medium-to-long term, investors should see a range of new products come to market that are unrelated to one another and diversify the risk profile of UBI.

Corporate structure

UBI is listed on the ASX with CDIs on issue via the incorporation being in Delaware, USA. This was probably due to global ambitions at the time, but now there are c.A\$28m and c.C\$0.9m in tax losses, so the structure is not going to change. UBI reports in AUD but has to use US reporting formats, which is different to local reporting structures and less efficient for domestic investors.

Regulatory risks

UBI is currently seeking FDA approval for its next generation coagulation testing product. It just received EU approval and is aiming to achieve US FDA approval by early CY23. UBI is also pursuing an FDA approval for its Tn antigen biomarker product, for which initial studies are expected to be revealed before 30 June 2022. While the coagulation product seems relatively low risk, being a next generation of an existing product and approval already being provided for the EU, the Tn antigen application carries significant risk for investors for the concept itself and for investors that see this product having material blue sky potential.

Key person risk

UBI employs c.77 staff (56 in Australia/21 overseas), and it is in turnaround mode. Therefore, the CEO that joined in late CY20 to turn around the business is key to the mission

Distribution of Ratings:

Global Stock Ratings (as of 06/21/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	648	68.57%	36.73%
Hold	126	13.33%	16.67%
Sell	11	1.16%	18.18%
Speculative Buy	155	16.40%	42.58%
	945*	100.0%	

*Total includes stocks that are Under Review

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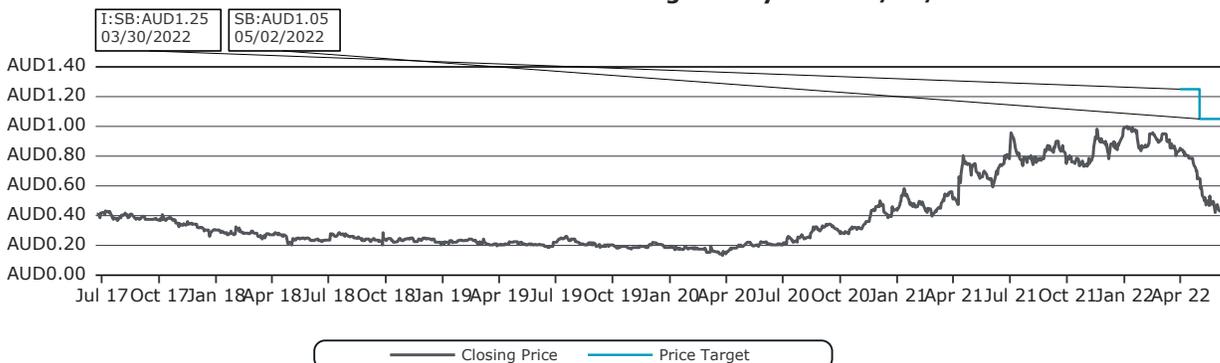
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Universal Biosensors Inc. Rating History as of 06/20/2022



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