

Universal Biosensors Inc. (UBI)

Q3 Report – YTD Revenue up 277%; R&D investment steps up

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Recommendation

Buy

Risk Rating	High
24-mth Target Price (AUD)	\$1.57 (was \$1.69)
Share Price (AUD)	\$0.73
12-mth Price Range	\$0.295 - \$0.97
Forecast 24-mth Capital Growth	115.1%
Forecast 24-mth Dividend Yield	0.0%
24-mth Total Shareholder Return	115.1%
Market cap (\$m)	129.8
Net debt (net cash) (\$m)(Jun 21)	(20.0)
Enterprise Value (\$m)	109.8
Gearing (Net Debt/ Equity)	N/a – Net Cash
Shares on Issue (m)	177.8
Options / Perf rights on Issue (m)	16.7
Sector	Healthcare
Average Daily Value Traded (\$)	\$213,700
ASX 300 Weight	n/a

Financial Forecasts

Years ending Dec \$m	19(A)	20(A)	21(e)	22(e)	23(e)
Sales revenue	6.9	3.2	5.9	14.1	30.3
Sales growth	-72%	-54%	84%	139%	115%
Cash operating costs	-16.6	-13.4	-16.4	-22.9	-24.6
EBITDA	-5.0	-6.2	-6.7	-5.0	5.5
NPAT (reported)	-4.8	-7.6	-8.8	-7.3	3.0
NPAT (adjusted)	-4.8	-8.3	-8.8	-7.3	3.0
EPS (adjusted)	-2.7	-4.7	-4.5	-3.8	1.5
EPS growth	8%	71%	-4%	nm	large
DPS	0.0	0.0	0.0	0.0	0.0
OCF / share	18.7	-4.7	-5.8	-2.3	4.0

Valuation Metrics

P/E	-26.7x	-15.6x	-16.2x	-19.3x	47.8x
P / OCF	3.9x	-15.6x	-12.6x	-31.5x	18.4x
EV / Sales	14.1x	33.5x	20.0x	8.8x	3.9x
EV / Ebitda	-19.4x	-17.2x	-17.7x	-24.6x	21.2x
Cash from Operations	33.2	-8.3	-11.3	-4.5	7.7
Net Cash (Net Debt)	37.2	23.9	11.7	6.2	12.8
Enterprise Value	97.1	107.2	118.1	123.6	117.0

UBI SHARE PRICE PERFORMANCE



Summary

Universal Biosensors Inc. (UBI) is a specialist biosensors company focussed on the development, manufacture and commercialisation of a range of point-of-use devices for measuring different analytes across different industries. UBI's strategy is to build a multi-product stable of revenue generating biosensors in large markets which can be used on UBI's hand-held platform technology including Human health (coagulation, oncology), Animal health (diabetes), Food & Beverages (wine) and Environmental.

Historically UBI has developed products for industry majors on a contract R&D basis plus milestones (e.g. novel blood glucose tests for LifeScan / J&J – 10bn tests sold; Coagulation tests for Siemens – 9m tests sold). With a new CEO, UBI now plans to control its own destiny with exciting new products and break-through technology from new partners.

Q3 Appendix 4C report

- Q3 revenue \$1.2m (v \$1.8m Q2) -33%. 9-month YTD revenue \$4.2m (v \$1.1m) +277%.
- Q3 Cash receipts \$1.4m (v \$1.0m Q2) +38%. 9-month YTD \$2.7m (v \$0.4m) +547%.
- Cash costs \$5.3m (v \$3.3m Q2) +\$2.0m +61%, including R&D \$2.0m (v \$0.6m Q2).
- YTD cash costs \$12.4m (v \$9.8m) +\$2.6m +27%.
- Cash burn -\$3.9m (v -\$2.2m Q2). YTD -\$9.4m (v -\$8.6m), \$0.8m worse.
- Cash \$18.7m (v \$22.5m end-June).

Other milestones / progress

- Sentia sales now exceed \$1.0m (launched March); major French distributor appointed (Vivelys SA).
- Tn Antigen cancer biosensor trials commence with patient blood samples from Peter MacCallum Cancer Centre, Vic Cancer Biobank, and CIC bioGUNE in Spain. Results expected 1Q 2022.

Forecasts & Recommendation

We revise our revenue forecasts by -20%, 0% and +7% for CY21, CY22 and CY23 mainly for more conservative forecast sales of Xprecia (blood coagulation strips) transitioning from Siemens. We slightly upgrade our Sentia forecasts given increased confidence.

Costs: We now factor in a temporary increase in R&D for CY21 and CY22, and higher SG&A costs.

CY21 Net loss forecast -\$8.8m (was -\$6.4m); CY22 - \$7.3m (was -\$3.7m); CY23 +\$3.0m (was +\$4.0m).

Our revised valuation range is \$1.44 to \$1.70 (previously \$1.42 to \$1.69). We set our 24-month price target at \$1.57 (was \$1.69) being the mid-point. With a strong R&D and new product release schedule, numerous catalysts and 115% share price upside potential, we maintain our Buy (High Risk) recommendation.

1. Changes in Forecasts

Revenue Forecasts:

We have changed our revenue forecasts by -20%, 0% and +7% for CY21, CY22 and CY23. For Sentia, we factor in a slightly softer start, but we have stronger confidence for CY22 and CY23 following 11 distributors being appointed to date, plus independent validation from some key universities/ wine bodies, and very positive feedback from local channel checks we made.

We factor in more conservative growth assumptions on Xprecia Stride (transitioning from Siemens Diagnostic Healthcare to UBI control) and the Canadian lab business HRL. HRL increases in CY23 as UBI is investing in new equipment to grow this business.

Cost Assumptions:

R&D costs expected to peak in CY22 at \$11m before declining to \$7.3m in CY23. Major items include the development of further Sentia Wine Analyser tests, clinical trials for the new version of Xprecia blood coagulation sensor (Prime), forthcoming trials with LifeScan for the Veterinary blood glucose biosensor, and clinical trials (including overseas) for the Tn antigen cancer biosensor. We note that UBI has a high degree of confidence on these programs.

We also factor in higher SG&A expenses as UBI is putting in additional local sales staff in Europe and the US, business travel and wine industry trade shows are resuming, and we allow for two new 3PL warehouse operations in the Netherlands and USA.

UBI: Changes in Estimates	CY20	CY21e			CY22e			CY23e		
Years ending Dec \$m		Old	New	Change	Old	New	Change	Old	New	Change
Operating revenue										
Sentia wine analyser	0.0	1.4	1.3	-8.5%	5.9	7.0	19.4%	13.8	16.7	21.7%
Xprecia Stride / Prime (coagulation)	2.6	4.0	3.0	-25.0%	6.0	5.0	-16.7%	9.0	8.0	-11.1%
New - Animal blood glucose	0.0	0.0	0.0		0.0	0.0		3.0	3.0	0.0%
Other								0.0	0.0	
Subtotal - Product sales	2.6	5.4	4.3	-20.7%	11.9	12.0	1.2%	25.8	27.8	7.7%
HRL (lab testing services)	0.6	2.0	1.6	-20.0%	2.2	2.0	-8.4%	2.4	2.5	4.1%
Sales revenue	3.2	7.4	5.9	-20.5%	14.1	14.1	-0.3%	28.2	30.3	7.4%
Sales growth	-54%	131.5%	84.0%		90%	138.6%		100%	115.4%	
Cost of sales	-2.6	-3.7	-3.0	-16.8%	-6.3	-5.7	-10.2%	-12.0	-10.8	-10.6%
Gross profit	0.6	3.8	2.9	-24.1%	7.8	8.4	7.8%	16.2	19.5	20.8%
Gross profit margin %	19.5%	50.7%	48.4%		55.1%	59.6%		57.3%	64.5%	
Other revenue (Govt grants etc)	4.1	2.9	4.0	37.3%	2.0	4.0	100.0%	2.0	0.0	-100.0%
Product support & O/S logistics	-0.0	-0.1	-0.1	0.0%	-0.1	-0.1	5.0%	-0.1	-0.1	10.3%
SG&A costs	-5.7	-4.7	-5.8	23.4%	-4.9	-6.1	25.6%	-5.0	-6.4	27.6%
Research & Development	-5.0	-6.0	-7.5	25.0%	-6.0	-11.0	83.3%	-6.2	-7.3	18.1%
Share-based payments	-0.2	-0.1	-0.1	0.0%	-0.2	-0.2	0.0%	-0.3	-0.2	-33.3%
Operating costs	-11.0	-10.9	-13.5	23.9%	-11.2	-17.4	56.0%	-11.6	-14.0	20.8%
Operating costs % of Sales	-342%	-147%	-229%	56%	-79%	-124%	56%	-41%	-46%	12%
Operating costs + COGS	-13.5	-14.6	-16.5	13.6%	-17.5	-23.1	32.0%	-23.6	-24.8	4.8%
R&D % of product sales	-197%	-111%	-175%		-50%	-91%		-24%	-26%	
R&D % of Revenue	-158%	-81%	-127%		-43%	-78%		-22%	-24%	
EBITDA	-6.2	-4.2	-6.7	57.1%	-1.4	-5.0	263.3%	6.6	5.5	-15.9%
Ebitda margin	-194.3%	-57.2%	-113.1%	-55.9%	-9.8%	-35.7%	-25.9%	23.3%	18.2%	-5.1%
Depn & Amortisation	-2.2	-2.1	-2.1	0.0%	-2.3	-2.3	0.0%	-2.6	-2.6	0.0%
EBIT	-8.5	-6.4	-8.8	38.1%	-3.7	-7.3	98.2%	4.0	3.0	-26.1%
Ebit margin	-263.9%	-85.7%	-148.9%	-63.2%	-26.3%	-52.2%	-25.9%	14.2%	9.8%	-4.4%
NPAT (reported)	-7.6	-6.4	-8.8	38.1%	-3.7	-7.3	98.2%	4.0	3.0	-26.1%
NPAT (normalised)	-8.3	-6.4	-8.8	38.1%	-3.7	-7.3	98.2%	4.0	3.0	-26.1%
EPS (normalised)	-4.7	-3.4	-4.5	32.6%	-2.0	-3.8	90.3%	2.2	1.5	-29.0%
DPS	0.0	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
Balance Sheet:										
Net cash (debt)	23.9	13.9	11.7	-15.6%	11.5	6.2	-46.1%	18.5	12.8	-30.5%
Shares on issue (year-end)	177.6	177.6	177.8	0.1%	177.6	177.8	0.1%	177.6	177.8	0.1%
Composite valuation		\$ 1.42	\$ 1.44	1.6%						

Source: Sequoia estimates

2. What has changed? Recent announcements reviewed

1. **Appendix 4C / Q3 cash flow report** – We review this in detail on the following pages. Changes in our forecasts are shown on page 2.
2. **Xprecia Prime clinical trials commence** (ASX release 27/10/21) – UBI has commenced recruitment for a 200-person clinical trial at 4 US centres. This product is the next generation version of the Xprecia Stride biosensor reader and test strips for blood coagulation monitoring for warfarin patients. It was originally developed by UBI as a contract for Siemens Diagnostics, and received European regulatory approval in December 2014. It has since sold more than 9m tests in 67 countries (test strips manufactured by UBI). UBI acquired the global rights from Siemens in September 2019 for A\$18m, with minimum orders by Siemens continuing through until March 2023 and a progressive handover of customers to UBI. There is an installed base of ~3,500 units in hospitals and clinics around the world which UBI hopes to convert to the new generation product, as well as providing test-strips (consumables) on an on-going basis.

UBI is conducting the trials in the US as Siemens did not receive full US approval, so UBI will effectively double its addressable market with the new improved product. The trials are expected to take ~6 months with US FDA and European regulatory applications in 1H22. Approvals are expected within 3-6 months after that (product launch late 2HCY22). We are forecasting A\$8m of product sales in the first full year (CY23), ~26% of total UBI revenue, so this is a fairly material product for UBI.

3. **Sentia wine analyser – New product update** (25/10/21): UBI has announced that Sentia sales have now reached A\$1.0m, including sales to Vivelys (France, see below). Feedback from distributors and customers continues to be positive. Collaboration/ validation agreements with Dubernet Laboratoires France, and Institute of Vitiscience Germany.
4. **Sentia wins Australian Design Award** (13/10/21) – Sentia received an Australian “2021 Good Design Award” in the Product Design category in recognition for outstanding design and innovation. The Good Design Awards are the highest honour for design and innovation in the country and reward projects across 12 design disciplines and 30 subcategories. The Good Design Awards Jury commented: “A simple to use, a fast, sleek, precision analyser that will change the sulphur dioxide testing process for winemakers. Less time in the lab and results in less than a minute increases efficiencies and reduces costs for winemakers. It’s a clever solution to a usually messy and time-consuming process. The form and user interface are intuitive and it is easy to see how this device will have a big impact in the lives of winemakers.” Source: www.mysentia.com/news/sentia-has-received-an-australian-good-design-award/.
5. **Major new distributor appointed in France for Sentia** (4/10/21) - Vivelys SA, part of Oeneo SA (SABT.PA, market cap A\$1.34bn), established in 1838 with 10,000 clients worldwide. Vivelys SA has 60 staff including 8 in R&D. Pioneer and leader in oak chips and micro-oxygenation tools with 17,000 micro-oxygenation units sold. Refer: www.vivelys.com/fr
Parent company Oeneo SA is a France-based holding company that is primarily engaged in the manufacture of barrels for winemaking and wine corking products.
6. **Additional (3rd) US distributor** - UBI also announced the appointment of another distributor in the USA – Vinmetrica (USA) based in Carlsbad California under a 3-year, non-exclusive agreement. 5 staff on LinkedIn. This makes 11 distributors appointed worldwide to date(counting Aust & NZ as 1), with more expected to be signed in Europe soon. Refer: www.vinmetrica.com/
7. **Tn Antigen cancer biosensor trials** – On 14/9/21 UBI announced an agreement with Peter MacCallum Cancer Centre to supply cancer patient blood samples across

multiple cancer types, commencing October. On 20/9/21 UBI announced 2 additional agreements with Victorian Cancer Biobank (part of Cancer Council Vic) and the internationally recognised Centre for Co-operative Research in Bioscience, CIC bioGUNE – BRTA, (together with its clinical partner, Basurto University Hospital Spain), to extend the trial sites for UBI's Tn Antigen cancer biosensor. 160 prostate patient samples will be studied in Spain, and 120 cancer patient samples will be studied in Melbourne (40 breast, 40 prostate, 40 colorectal). Results should be available in 1Q 2022. UBI's objective is for the hand-held Tn biosensor to accurately measure a patient's cancer status (i.e. monitoring of remission and reoccurrence) in easier, cheaper and more frequent tests – possibly even performed in the home. UBI estimates the value of the blood testing market for cancer remission patients globally at AUD17bn per annum (US \$13bn); 131m patients. This is UBI's initial target market.

Our comment: UBI acquired the Tn cancer biosensor technology from 3 Australian Universities which have already spent 5 years developing it in a lab setting. UBI is working with, and funding three scientists/ professors (Senior Fellow Wren Greene, Professor Simon Moulton and Dr Saimon Silva) to try to take the technology through to commercialisation. Refer: <https://www.deakin.edu.au/research/research-news-and-publications/articles/miracle-protein-biosensor-set-to-transform-early-cancer-detection>

8. **Performance rights** – On 13/9/21 UBI announced the issue of 7.5m performance shares (3.75m to CEO John Sharman; and 3.75m to other senior executives). Tranche 2 (2.5m) vests if there is a change of control of $\geq 50\%$ of the company at a valuation greater than \$500m (v current market cap \$132m). Tranche 1 has 4 tests, which simplistically are:
- (a) Market cap \geq \$300m for 180 days, or
 - (b) Revenue for any 3 x 3-month consecutive or non-consecutive periods $>$ \$5m (e.g \$15m over 9 months would satisfy), or
 - (c) Operating cash inflow \geq \$9m over any consecutive 9 month period, or
 - (d) A change of control of $\geq 50\%$ of the company.

Our comment: We think these performance rights should provide strong motivation for UBI managers to perform.

3. Q3 Appendix 4C Cash Flow Report

UBI: Analysis of Quarterly Cash Flows												
Years ended Dec (A\$m)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	Change QoQ	Change Vs pcp	FY20 9 months YTD	FY21 9 months YTD	Change Vs pcp
1. Unaudited revenue	0.37	0.53	0.20	1.50	1.16	1.80	1.20	-33%	500%	1.10	4.16	277%
<i>Growth on pcp %</i>					<i>214%</i>	<i>237%</i>	<i>500%</i>				<i>277%</i>	
2. Receipts from customers	0.2	0.1	0.2	0.4	0.3	1.0	1.4	38%	698%	0.42	2.70	547%
2a. Other Revenue (Government Grants)	0.0	0.3	0.4	3.2	0.2	0.1	0.0	-100%	-100%	0.75	0.30	-60%
3. Cash Payments												
Research & development	(0.4)	(0.4)	(0.6)	(0.5)	(0.4)	(0.6)	(2.0)	202%	245%	(1.39)	(3.04)	118%
Product manufacturing / operating costs	(0.1)	(0.2)	(1.0)	(0.1)	(0.4)	(0.4)	(0.9)	134%	-11%	(1.26)	(1.63)	29%
Advertising and marketing	(0.0)	(0.4)	(0.0)	(0.1)	(0.1)	(0.1)	(0.2)	210%	463%	(0.41)	(0.31)	-24%
Lease payments	(0.4)	(0.2)	(0.3)	(0.3)	(0.1)	(0.2)	(0.3)	28%	6%	(0.79)	(0.61)	-23%
Staff costs	(1.6)	(1.5)	(1.8)	(1.8)	(1.6)	(1.6)	(1.8)	11%	-1%	(4.91)	(4.98)	1%
Administration and corporate	(1.2)	(0.4)	(0.5)	(0.6)	(1.2)	(0.5)	(0.3)	-36%	-34%	(2.07)	(2.05)	-1%
Interest received	0.2	0.1	0.0	0.0	0.0	0.0	0.0	-80%	-92%	0.31	0.05	-85%
Other	0.0	0.7	0.0	0.0	0.1	0.1	0.0	-29%	-12%	0.74	0.14	-81%
Cash expenses	(3.5)	(2.3)	(4.0)	(3.2)	(3.8)	(3.3)	(5.3)	61%	32%	(9.79)	(12.42)	27%
4. Operating Cash flow	(3.3)	(1.9)	(3.4)	0.3	(3.2)	(2.2)	(3.9)	76%	15%	(8.6)	(9.4)	9%
5. Investing Cash Flow												
Property Plant & Equipment	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	-9%	138%	(0.26)	(0.48)	84%
Acquisition of Businesses												
Intellectual Property (capitalised R&D)												
Other				0.0								
Total Investing Cash Flow	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	-9%	138%	(0.26)	(0.48)	84%
6a. Cash from Financing - Equity	0.0	0.0	0.0	0.0	0.0	0.1	0.0	nm	nm	0.00	0.07	nm
6b. Cash from Financing - Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	nm	nm	0.04	0.02	nm
7. Net increase (decrease) in cash	(3.4)	(1.9)	(3.5)	0.2	(3.4)	(2.3)	(4.1)	75%	17%	(8.84)	(9.80)	11%
8. Cash at start	37.2	34.9	32.1	28.4	28.1	24.8	22.5			37.2	28.1	
9. FX movements	1.1	(0.8)	(0.3)	(0.6)	0.1	0.1	0.3			0.0	0.4	
10. Cash at end of period	34.9	32.1	28.4	28.1	24.8	22.5	18.7	-17%	-34%	28.4	18.7	-34%

Source: UBI reports

Q3 Appendix 4C / Cash Flow Report analysed.

UBI's revenue and cash receipts were slightly below our expectations, whilst costs were higher than we expected. UBI will report its Q3 Form 10K this Friday, which may be slightly different to the 4C report, as it is prepared on an accruals accounting basis.

- Q3 unaudited revenue was \$1.2m (v \$1.8m Q2) down \$0.6m or -33%. We don't forecasts quarterly for UBI, but we expected this to be equal or higher than Q2.
- 9 months YTD revenue was \$4.16m (v \$1.10m) up 277%.
- Q3 Other Revenue (government grants received) was Nil (v \$0.41m pcp). However UBI said that \$2.8m had been received after September 30, in Q4.

Cash costs

- Q3 cash costs were \$5.3m (v \$3.3m in Q2) up \$2.0m or +61%.
- Q3 R&D costs were \$2.0m (v \$0.6m pcp) + \$1.4m or +202%. This included \$1.4m first payment to LifeScan for certain work done on the new Vet blood glucose product; and \$0.5m purchase of raw materials that will last ~12-months.
- Product manufacturing costs increased \$0.5m (+134%) which would be volume related.
- 9 months YTD cash costs were \$12.4m (v \$9.8m) + \$2.6m or +27%.
- Q3 Operating cash deficit was -\$3.9m (v -\$2.2m in Q2). This includes the \$2.0m R&D item which UBI fully expenses, and also an inventory build to support higher sales volumes.
- 9 months YTD Operating cash deficit was -\$9.4m (v -\$8.6m pcp) +\$0.8m or 9% worse. Again this includes the R&D spend (\$3.0m) which is an investment in future products.

Investing cash flow & cash

- Investing cash flow was modest at \$0.5m for the 9 months YTD (v \$0.260m pcp) +84%, the increase being some new equipment items into the HRL lab services business in Canada, and new larger premises to enable it to take on new types of work, previously turned away. UBI has strong growth plans for this allied services business.
- Closing cash was \$18.7m (v \$22.5m at end-June), down \$3.8m (-17%). However this decline was partly restored with the receipt of \$2.8m R&D tax credit in October.

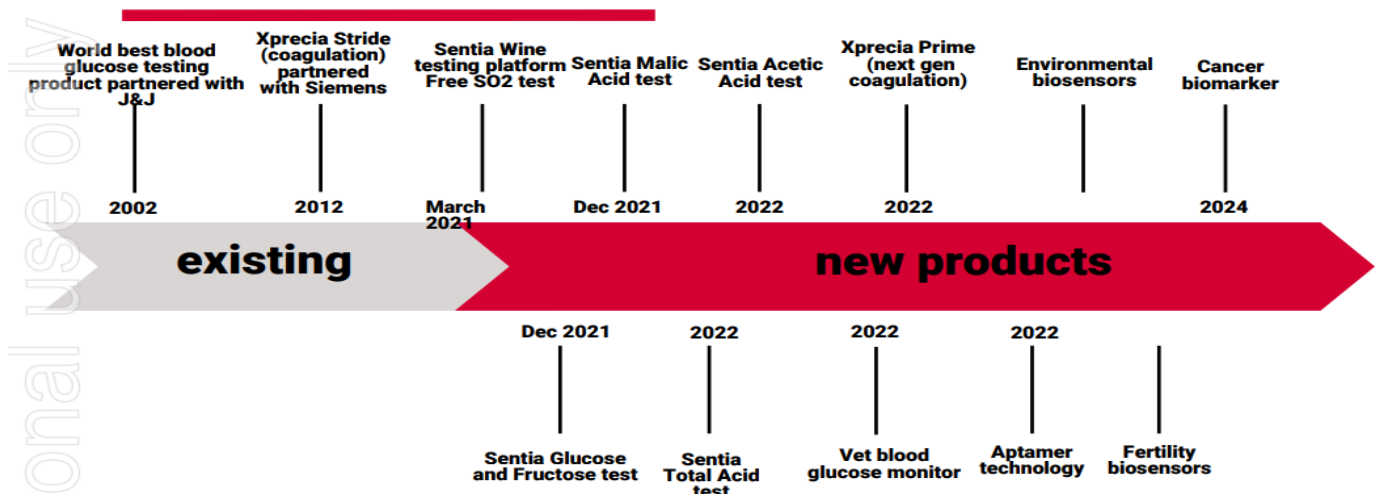
4. Exciting New Product Release Schedule

CY21 Q4: We are expecting the launch of 3 further tests for the Sentia hand-held device by end-December (malic acid, glucose and fructose).

CY22: 2 further Sentia tests (total acid and acetic acid), new Xprecia Prime blood coagulation device, new Veterinary blood glucose device, and something new on Aptamers (which UBI is excited about).

CY23 & CY24: Environmental sensors, fertility sensors, Tn Antigen cancer biosensor(subject to successful clinical blood sample trials).

Future of UBI
Products and timelines



Source: Market update presentation to ASX, 9/9/21

5. Valuation

UBI: Sequoia Valuation	Comps Median Multiple	Valuation \$m	We Use \$m	Valuation Per Share \$	Weighting
DCF valuation (10.0% WACC; 3.0% terminal growth; 25% tax rate FY26 on)		445.3	445.3	\$ 2.29	33%
Comparable company's Valuation:					
FY22 EV / Sales multiples	8.4x	124.3			
FY23 EV / Sales multiples	5.5x	179.4	179.4	\$ 0.92	33%
FY24 EV / Sales multiples	4.0x	217.8	217.8	\$ 1.12	33%
A. Composite valuation (Base valuation)			280.6	\$ 1.44	100%
Blue sky valuation - Tn Antigen cancer biosensor (could be enormous) (Tn is not in our revenue forecasts as commercialisation is uncertain) (Interesting comp: Grail Inc - being acquired by Illumina Inc for US\$8.0bn / AS\$10.7bn)			50.0	\$ 0.26	
B. Optimistic valuation			330.6	\$ 1.70	
C. We set our 24-mth Price Target at the mid-point Shares on issue (Fully diluted)(m)		194.5		\$ 1.57	

Source: Sequoia estimates; Refinitiv consensus multiples for peers

Our revised valuation range is \$1.44 (base) to \$1.70 (optimistic, including a nominal A\$50m valuation estimate for the Tn Antigen cancer biosensor). We set our 24-month Price Target at the midpoint, \$1.57 per share. (Previously our valuation range was \$1.42 to \$1.69, with our price target set at the top of the range, \$1.69 per share).

As UBI is in the early stages of launching its new Sentia Wine Analyser product, and also in the early stages of expanding the distribution base for the Xprecia Stride coagulation product, and other new biosensor products under development and yet to launch, we think investors need to allow at least 2 years for UBI to achieve its growth. Accordingly, **we set a 24-mth price target (rather than a one-year target) at \$1.57 (previously \$1.69) being the mid-point of our valuation range.**

We do not forecast a dividend for UBI for at least the next few years. Our price target implies a total shareholder return of around 115% over 2 years.

Part A

Refinitiv Code	Company (in Market Cap order)	Market Cap \$m	Net Cash (Debt)	Price A\$	Revenue				Ebitda				Ebitda Margin			
					\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
					FY0	FY1e	FY2e	FY3e	FY0	FY1e	FY2e	FY3e	FY0	FY1e	FY2e	FY3e
UBI.AX	Universal Biosensors Inc	130	24	0.730	3.2	5.9	14.1	30.3	(6.2)	(6.7)	(5.0)	5.5	-194.2%	-113.1%	-35.7%	18.3%
Medical device comps:																
RMD.AX	Resmed Inc	51,983	-480	35.670	3,196.8	3,812.6	4,050.0	4,353.2	1,077.5	1,314.5	1,426.1	1,563.6	33.7%	34.5%	35.2%	35.9%
FPH.AX	Fisher & Paykel Healthcare Co	17,019	238	29.650	1,971.2	1,664.2	1,730.5	1,933.1	797.3	584.4	610.2	692.0	40.4%	35.1%	35.3%	35.8%
COH.AX	Cochlear Ltd	14,987	345	227.850	1,497.6	1,657.3	1,834.8	2,021.8	435.4	452.2	515.0	577.7	29.1%	27.3%	28.1%	28.6%
NAN.AX	Nanosonics Ltd	1,792	94	5.940	103.1	133.3	155.6	177.1	14.2	18.5	28.5	37.3	13.8%	13.9%	18.3%	21.1%
PNV.AX	Polynovo Ltd	1,247	-2	1.885	29.2	47.8	76.6	104.3	(2.0)	1.4	17.1	40.2	-7.0%	3.0%	22.4%	38.5%
MVP.AX	Medical Developments Intern	336	33	4.710	25.3	25.4	43.1	60.1	7.3	(4.7)	2.6	6.2	29.0%	-18.5%	6.0%	10.2%
RHY.AX	Rhythm Biosciences Ltd	324	2	1.550	0.0	NaN	NaN	NaN	(7.6)	NaN	NaN	NaN	nm	NaN	NaN	NaN
IPD.AX	ImpediMed Ltd	269	19	0.180	8.4	18.9	29.4	50.8	(19.8)	(13.6)	(6.3)	5.5	-235.2%	-72.0%	-21.4%	10.9%
SOM.AX	Somnomed Ltd	211	12	2.550	62.7	74.1	84.2	97.5	3.0	(0.1)	7.9	10.4	4.8%	-0.2%	9.4%	10.7%
IMR.AX	Imricor Medical Systems Inc	185	31	1.290	0.7	1.0	8.0	22.4	(11.4)	(15.1)	(17.2)	(5.3)	-1627.6%	-1457.1%	-214.8%	-23.8%
CYC.AX	Cyclopharm Ltd	180	-3	1.930	14.7	17.1	18.3	25.7	(4.6)	(6.5)	(4.7)	(4.8)	-31.1%	-38.3%	-25.8%	-18.8%
MX1.AX	Micro-X Ltd	140	24	0.305	6.8	21.1	42.5	63.0	(11.7)	(11.1)	(3.0)	6.2	-172.8%	-52.6%	-7.1%	9.8%
UBI.AX	Universal Biosensors Inc	130	24	0.730	3.2											
AT1.AX	Atomo Diagnostics Ltd	127	18	0.310	6.7	22.0	32.8	39.3	(4.2)	2.9	8.3	11.1	-61.8%	13.2%	25.3%	28.2%
OVN.AX	Oventus Medical Ltd	28	9	0.115	1.1	6.7	24.4	46.6	(8.6)	(4.7)	1.8	11.0	-792.0%	-70.1%	7.4%	23.6%
Mean Average ASX medical device Comps													-213.6%	-121.7%	-6.3%	16.2%
Median ASX medical device Comps													-7.0%	-0.2%	9.4%	21.1%
International comps:																
		AUD \$m	AUD \$m	Local Curr	Local Curr	Local Curr	Local Curr	Local Curr	Local Curr	Local Curr	Local Curr	Local Curr				
BDX	Becton Dickinson and Co	93,641	-21067	245,000	17,117.0	20,008.1	19,525.6	20,542.4	4,764.0	5,658.4	5,488.5	5,975.0	27.8%	28.3%	28.1%	29.1%
IDXX.O	IDEXX Laboratories Inc	72,520	-682	640,500	2,706.7	3,197.9	3,553.7	3,931.2	793.6	1,024.6	1,147.4	1,316.4	29.3%	32.0%	32.3%	33.5%
MASI.O	Masimo Corp	21,266	833	289,370	1,143.7	1,230.3	1,348.7	1,465.7	284.6	335.7	386.9	445.6	24.9%	27.3%	28.7%	30.4%
HRC	Hill-Rom Holdings Inc	13,547	-2208	154,470	2,881.0	2,973.9	3,062.2	3,215.5	601.6	650.8	679.9	761.9	20.9%	21.9%	22.2%	23.7%
ICUI.O	ICU Medical Inc	6,419	530	227,390	1,271.0	1,249.4	1,297.0	NaN	211.2	255.6	286.6	NaN	16.6%	20.5%	22.1%	NaN
NEOG.O	Neogen Corp	5,885	493	41,140	468.5	511.2	564.3	607.1	95.2	107.7	121.2	134.3	20.3%	21.1%	21.5%	22.1%
MMSI.O	Merit Medical Systems Inc	5,128	-383	68,480	963.9	1,064.9	1,121.5	1,183.5	147.7	207.7	232.2	255.0	15.3%	19.5%	20.7%	21.5%
Mean Average US medical device Comps													22.2%	24.4%	25.1%	26.7%
Median US medical device Comps													20.9%	21.9%	22.2%	26.4%

Source: Sequoia estimates for UBI; Refinitiv consensus estimates for all other stocks; FY1 means forecast year 1 (FY21 in most cases); FY2 means forecast year 2 (FY22 mostly). NaN means no available number

Part B

Refinitiv Code	Company (in Market Cap order)	Revenue Growth			EV/ Sales (EVS)				EV/ Ebitda			P/E		
		FY1e	FY2e	FY3e	FY0	FY1e	FY2e	FY3e	FY1e	FY2e	FY3e	FY1e	FY2e	FY3e
UBI.AX	Universal Biosensors Inc	83.9%	138.7%	115.4%	33.47x	20.04x	8.79x	3.86x	-17.7x	-24.6x	21.2x	-16.2x	-19.3x	47.8x
Medical device comps:														
RMD.AX	Resmed Inc	19.3%	6.2%	7.5%	16.4x	10.3x	9.7x	9.1x	30.0x	27.6x	25.2x	42.1x	37.8x	34.0x
FPH.AX	Fisher & Paykel Healthcare Co	-15.6%	4.0%	11.7%	8.5x	10.6x	10.2x	9.1x	30.1x	28.8x	25.4x	50.6x	49.3x	42.7x
COH.AX	Cochlear Ltd	10.7%	10.7%	10.2%	9.8x	8.8x	8.0x	7.2x	32.4x	28.4x	25.3x	53.6x	46.1x	40.6x
NAN.AX	Nanosonics Ltd	29.4%	16.7%	13.8%	16.5x	12.7x	10.9x	9.6x	91.6x	59.6x	45.5x	159.2x	99.0x	72.9x
PNV.AX	Polynovo Ltd	64.0%	60.2%	36.1%	42.8x	26.1x	16.3x	12.0x	868.7x	72.9x	31.1x	NaN	92.0x	38.9x
MVP.AX	Medical Developments Internat	0.2%	69.7%	39.3%	11.9x	11.9x	7.0x	5.0x	NaN	116.9x	49.2x	NaN	NaN	254.6x
RHY.AX	Rhythm Biosciences Ltd	NaN	NaN	NaN	nm	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN
IPD.AX	ImpediMed Ltd	124.2%	55.7%	73.2%	29.8x	13.3x	8.5x	4.9x	NaN	NaN	45.3x	NaN	NaN	90.0x
SOM.AX	Somnomed Ltd	18.1%	13.8%	15.7%	3.2x	2.7x	2.4x	2.0x	NaN	25.0x	19.0x	NaN	68.9x	48.1x
IMR.AX	Imricor Medical Systems Inc	47.7%	671.4%	179.6%	218.7x	119.7x	15.5x	5.5x	NaN	NaN	NaN	NaN	NaN	NaN
CYC.AX	Cyclopharm Ltd	16.4%	7.1%	40.6%	12.5x	9.0x	8.4x	5.9x	NaN	NaN	NaN	NaN	NaN	NaN
MX1.AX	Micro-X Ltd	211.1%	101.4%	48.2%	17.1x	5.5x	2.7x	1.8x	NaN	NaN	18.7x	NaN	NaN	27.7x
UBI.AX	Universal Biosensors Inc				33.2x									
AT1.AX	Atomo Diagnostics Ltd	227.6%	49.1%	19.8%	16.2x	4.9x	3.3x	2.8x	37.5x	13.1x	9.8x	103.3x	28.2x	25.8x
OVN.AX	Oventus Medical Ltd	514.9%	264.2%	91.0%	17.6x	2.9x	0.8x	0.4x	NaN	10.7x	1.7x	NaN	NaN	5.8x
	Mean Average ASX medical d	97.5%	102.3%	45.1%	32.4x	18.3x	8.0x	5.8x	181.7x	42.6x	26.9x	81.8x	60.2x	61.9x
	Median ASX medical device C	29.4%	49.1%	36.1%	16.4x	10.3x	8.4x	5.5x	35.0x	28.4x	25.3x	53.6x	49.3x	40.6x
International comps:														
BDX	Becton Dickinson and Co	16.9%	-2.4%	5.2%	6.7x	4.2x	4.3x	4.1x	15.0x	15.5x	14.2x	19.0x	19.8x	18.0x
IDXX.O	IDEXX Laboratories Inc	18.1%	11.1%	10.6%	27.0x	17.3x	15.5x	14.0x	53.8x	48.1x	41.9x	76.4x	68.3x	58.5x
MASI.O	Masimo Corp	7.6%	9.6%	8.7%	17.9x	12.5x	11.4x	10.5x	45.7x	39.6x	34.4x	75.9x	67.2x	58.6x
HRC	Hill-Rom Holdings Inc	3.2%	3.0%	5.0%	5.5x	3.9x	3.8x	3.6x	17.9x	17.1x	15.3x	25.3x	24.0x	21.6x
ICUI.O	ICU Medical Inc	-1.7%	3.8%	NaN	4.6x	3.5x	3.4x	3.2x	17.0x	15.2x	14.2x	32.3x	29.4x	27.5x
NEOG.O	Neogen Corp	9.1%	10.4%	7.6%	11.5x	7.9x	7.1x	6.6x	37.3x	33.2x	29.9x	61.7x	55.6x	49.9x
MMSI.O	Merit Medical Systems Inc	10.5%	5.3%	5.5%	5.7x	3.8x	3.6x	3.4x	19.6x	17.6x	16.0x	32.1x	28.5x	24.6x
	Mean Average US medical de	9.1%	5.8%	7.1%	11.3x	7.6x	7.0x	6.5x	29.5x	26.6x	23.7x	46.1x	41.8x	37.0x
	Median US medical device Co	9.1%	5.3%	6.6%	6.7x	4.2x	4.3x	4.1x	19.6x	17.6x	16.0x	32.3x	29.4x	27.5x

Source: Sequoia estimates for UBI; Refinitiv consensus estimates for all other stocks; FY1 means forecast year 1 (FY21 in most cases); FY2 means forecast year 2 (FY22 mostly). NaN means r

We forecast UBI's EV/ Sales multiple will fall rapidly from 20x CY21 to 3.9x in CY23 as revenue ramps up on existing products Sentia Wine Analyser (plus the benefit of 5 more tests), Xprecia (blood coagulation monitoring) and HRL (laboratory calibration services).

We expect UBI to become profitable in CY23.

6. UBI - Risks Factors (updated from our 19/5/21 Initiation Report)

1. **Temporary step up in R&D investment in CY21 & CY22** – We forecast an increase in R&D investment from \$5.0m in CY20 to \$7.5m in CY21 and peaking at \$11m in CY22 and then dropping back to \$7.3m in CY23. This is a significant investment by UBI, representing 127% / 78% and 24% of UBI product sales for CY21, CY22 and CY23 (excluding HRL services sales). The increased investment is on highly targeted projects.

UBI will receive a 43.5% R&D tax credit on eligible R&D expenditure until its worldwide revenue exceeds A\$20m, so we think this may have been a factor in UBI going harder on R&D now, before Sentia revenues get too big. UBI also has increased confidence in Sentia, Xprecia and HRL as it approaches the end of CY21.

2. **New product launches / High risk / High reward** - UBI is effectively at the starting blocks again, with LifeScan buying out its interests in the very successful blood glucose monitoring business, and Siemens relinquishing the blood coagulation business having failed to achieve satisfactory market share against Roche. UBI now has control of that coagulation business, but needs to develop an improved version of Xprecia Stride by March 2023 to take on Roche successfully. UBI's other major opportunities are all start-ups – Wine Analyser, Animal blood glucose monitoring, and the cancer Tn test. There is a risk that UBI will not be able to create superior products. There is a risk that UBI will not be able to compete successfully against much larger, better funded, more established incumbents like Roche in coagulation, and Zoetis (Pfizer spin-out) in animal health. The portable wine analyser is a new product creating a brand new category to compete against bricks & mortar laboratories. There is a risk that the market may not accept UBI's innovative new products or their pricing.
3. **HRL Canada has a narrow customer base** – UBI's 4th product area, HRL performs mandatory calibration tests for the Siemens (now UBI controlled) coagulation business, Bayer, Abbott and Ionis. It was founded in 1994 and was loss-making when acquired by UBI in 2016 but the addition of the Siemens / UBI work put the business into profit in 2020 and it has since won \$1.3m of initial work for Bayer. UBI has a strategy to grow this business which is complementary to UBI's other products / businesses, and to broaden its customer base. It is not yet a firmly established business in our opinion.
4. **Forecasting risk** – Obviously with 3 of UBI's 4 businesses/ products being new, there is a high risk of the actual revenue and profit results differing materially from our forecasts. We do not have much of a comparable history to guide us. Having multiple products coming on stream aimed at separate market segments does provide some diversification benefit and should in theory reduce risk going forward.
5. **New product risk** is partly mitigated by having 17 years' experience in electrochemical biosensors, and having \$20m of net cash (including restricted cash) at end-June to see it through this new product launch and development phase.
6. **Selling & Distribution is new to UBI** – Excluding the small HRL calibration services business in Canada, UBI has historically serviced only two customers – LifeScan (ex-Johnson & Johnson) and Siemens Healthcare Diagnostics. UBI is now required to service the Siemens client base (120 hospitals and distributors, mainly in Europe) and find new distribution partners and clients for all of its other products (i.e. Wine analyser, PT-INR blood coagulation product, Animal blood glucose test). UBI has already signed 11 new distribution deals for the Wine Analyser since early December 2020 and new CEO John Sharman has 10 years' experience managing large, medium and small distributors locally and overseas when he was CEO of Medical Developments International (MVP). So this should not be a major problem.

7. **Financing risk** – We expect UBI to become Ebitda and NPAT profitable in CY23, and also become cash flow positive in CY23.
8. **Key person risk** – UBI is a small company with just 60 staff (46 staff in Australia and 14 overseas). Accordingly, there is significant key person risk with such a small organisation. E.g. the CEO, CFO and product and technology heads.
9. **Dual listed structure / CDIs / US centric reporting** – Because UBI is listed in Australia, and incorporated in Delaware USA, it has to comply with US SEC regulations. It prepares its accounts in US reporting format (e.g. SEC Form 10-k's for quarterly and annual results). Fortunately UBI reports in Australian dollars, but we find the US reporting format to be considerably different and difficult for Australian investors. For example, directors shareholdings and remuneration are not included in the Annual Report, but are provided in the AGM notice several months' later. Balance sheet and P&L have no references to notes to the accounts making navigation time consuming. We presume this structure was chosen originally with global ambitions in mind. We understand it is unlikely to change as there are A\$28m of Australian tax losses & \$0.9m CAD tax losses to protect and possibly recoup.

7. Possible Share Price Catalysts

We identify the following possible share price catalysts for UBI:

1. **Sentia - Progress with distributors and customers in the global wine-making industry** – UBI has announced distribution partners for Australia, Canada, USA, NZ and South Africa. Further distribution deals are expected to be announced over the balance of 2021. Beyond these initial deals, we will look for evidence of on-going traction such as further device sales and accelerating consumables re-orders demonstrating traction with customers. Customer testimonials would be well received. Timing: 2H21.
2. **Sentia - New tests (products) for Sentia platform** – So far, UBI has only launched the “Free Sulphur Dioxide” test. 5 further tests are under development and expected to be launched over the next 12 months. These new tests will use different consumable test strips, but the same reading device. So the value to the winemaker should increase as more tests become available. Timing: Malic acid and G&F (glucose & fructose) 4Q21; Acetic acid and Total acid 1H22.
3. **Tn Cancer biosensor** – Results from patient blood trials, initially with cancer remission patients. Timing: 1Q 2022.
4. **PT / INR (coagulation tests) - New distributors** - Progress with expanding the distribution of the Xprecia Stride coagulation product, beyond Siemens' current customer and distribution base. Timing: Underway.
5. **PT / INR (coagulation tests) – Next generation product** – Timing: Product completion, regulatory approvals and launch in 2022.
6. **Animal blood glucose monitoring – new product.** Timing: 1HCY2022.
7. Other new products - we don't know much about yet (e.g. IVF, Covid-19).
8. **Possible acquisitions** – With net cash of \$18m currently, UBI is expected to consider further complementary partnerships or acquisitions, to accelerate its range of biosensor products and applications.

Appendix 1 - Sentia – Wine testing platform (device + test strip consumables)



Product Description

Sentia is a hand held, portable testing device which UBI thinks will change the nature of laboratory testing in the wine making industry. The Sentia device, with its first test strip application, was released in March 2021.

Sentia measures the concentration of Free Sulphur Dioxide (Free SO₂) in post-fermentation wine. It is called free SO₂ because winemakers are only measuring the sulphur dioxide that has not bound with other chemicals in the wine (such as aldehydes, pigments, or sugars).

Sulphur dioxide is an additive used during the production of wine. In bottled wine, free SO₂ acts as a preservative but there is a balance to strike: too much free SO₂ can taint the consumer experience; too little could mean the wine spoils in the bottle. For this reason, measuring free SO₂ is important to winemakers.

Further tests for use are currently under development by UBI and are expected to be released in the next 18 months. These will use the same reader device, but require different strips (consumables):

1. Free S₂ (sulphur dioxide – launched March 2021)
2. Malic acid, Glucose & Fructose – expected launch Q4 2021
3. Total acid - expected launch 1H2022
4. Acetic acid - expected launch 1H2022

Measuring range: 3 to 50 mg per litre for free SO₂ (which UBI says is within 2% of the \$75k leading competitor product (Thermo Gallery which is the current industry gold standard).

Retail pricing for the reader device is approximately A\$2,000 for domestic / US\$2,000 (A\$2,600) for USA and international and A\$3.00 to \$4.00 for each test strip. Different tests are expected to have varied pricing.

Advantages

- Time – on the spot results within 1 minute (Vs competitors at 10-20 mins, and external lab testing 2+ days).
- Accuracy & repeatability.
- Portability – genuine at the wine barrel testing.
- Efficiency / costs – improved processing efficiency and associated labour cost savings, and no internal or external lab costs.
- Quality – in-built quality control checks for each test.
- Convenience - No messy reagents. Automatically calibrated. Data automatically stored for upload.

Distribution

Ref	UBI - Sentia wine analyser - Distributors Announced Distributor / Region	Date Announced	Website	Contact	Est. Staff
1	Australia (exclusive) Grapeworks Pty Ltd Dingley, Melbourne	7/12/20	www.grapeworks.com.au	Malcolm Wilson (MD)	
2	USA - East Coast Enartis Inc Windsor, Sonoma County, California & Trecate Italy	27/01/21	www.enartis.com	José Alberto Santo (CEO)	92
3	USA - West Coast Wine & Beer Supply Ashland, Virginia	15/04/21	www.wineandbeersupply.com	Dave Robertson CEO	10
4	Canada Vines to Vintages Pelham, Ontario	1/04/21	www.vinestovintages.ca	Natalie Spytzkowsky (President)	5
5	Chile Singularity SP	14/04/21			
6	South Africa Vicard SA Cape Town	26/04/21	www.groupe-vicard.com	Michael Fernandes	
7	New Zealand (exclusive) Grapeworks NZ	29/04/21	www.grapeworks.com.au	Malcolm Wilson (MD)	
8	Switzerland XC Oenologie Sarl Cartigny, Geneva	7/06/21	www.xcoenologie.ch/	Xavier Chevallay (CEO)	4
9	France & Italy Vinventions SA Thimister-Clermont, Belgium	7/06/21	www.vinventions.com	Denis Van Roey (CEO)	188
10	Spain & Portugal AZ3 Oeno Hernani, Spain	7/06/21	www.az3oeno.com/equipo-az3	Inaki Kamio (Manager)	18
11	France Vivelys SAS (SABT.PA) Languedoc-Roussillon, France	4/10/21	www.vivelys.com/fr	Karine Herrewyn (CEO)	49
12	USA Vinmetrica (USA) Carlsbad, California	25/10/21	www.vinmetrica.com/	Dr Richard Sportsman (CEO)	5

Source: UBI announcements; All deals are non-exclusive except Australia & NZ
Staff numbers from LinkedIn (may be under-stated, as not all staff members are likely to be on LinkedIn)

NB. Additional agreements to be announced for rest of world during CY2021 per UBI.

Total Addressable Market

If we assume that UBI can achieve a 20% market share, the wine analyser market could become a ~\$100m per annum opportunity for UBI (see below). The hardware device and the first test (for free sulphur dioxide) have been launched, with 5 further tests to be developed and launched over the next 18 months.

UBI - Oenology - Revenue Scenarios to UBI	Retail Value (A\$m)				Wholesale Value
	A & NZ	USA	RoW	Worldwide	
Assumed 10% market share	3.8	16.7	64.1	84.6	50.8
Assumed 20% market share	7.6	33.5	128.1	169.3	101.6
Assumed 25% market share	9.6	41.8	160.2	211.6	126.9
Assumed 30% market share	11.5	50.2	192.2	253.9	152.3
Assumed 40% market share	15.3	66.9	256.3	338.5	203.1
Assumed 50% market share	19.1	83.7	320.3	423.1	253.9
100% market share (UBI estimated value)	38.2	167.4	640.7	846.3	507.8

Source: Sequoia calculations using UBI retail market value estimates

Appendix 2: Free SO₂ test Background

(Source: TerlatoWines.com)

Sulphur Dioxide (SO₂) is the most common chemical compound used in winemaking. Its preservative and anti-bacterial qualities were discovered thousands of years ago, and because it is non-toxic it has been used in foods and wine since antiquity. Sulphur is naturally present on the grape skins, and though it is typically not enough to ensure against spoilage for winemaking purposes, it means that no wine is entirely sulfite-free.

SO₂ is added periodically throughout the winemaking process and plays a critical role in quality winemaking. Sulphur serves two main purposes.

- It prevents the wine from reacting with oxygen which can cause browning and off-odours (oxidation),
- It inhibits the growth of bacteria and undesirable wild yeasts in the grape juice and wine.

The grapes are not rinsed before crushing because some of the grapes have already leaked juice and this would potentially dilute this high quality free-run juice. The unwashed skins have bacteria and wild yeast on them that can unpredictably influence fermentation and some winemakers therefore choose to use sulphur dioxide before they are loaded into the crusher / de-stemmer.

Sulphur may be added again at the time of racking or anytime the wine could potentially be exposed to oxygen. Because a small percentage of the population is potentially allergic to sulphur dioxide, winemakers are required by law to keep the levels of SO₂ in their wines below 200 parts per million for dry wines (many wines have far less), and only a little higher for dessert wines. The laws have become more stringent with regards to admissible sulphur content in all food products, however, regardless of the international regulations, winemakers avoid the addition of sulphur because of its unpleasantly pungent smell and impact on the natural development of wine.

Without a complete understanding of the amount typically employed in winemaking and the reasons for its use, Americans have reacted strongly to sulphur content in wines as they have to any substances or foods that could potentially cause allergic reactions. For this reason "Contains Sulfites" is now required language on all wine labels sold in the US. Because all wines contain naturally occurring sulphur compounds, no other country, aside from Australia, has this requirement, and many, in fact, find this regulation laughable.

Source: <https://www.terlatowines.com/knowledge/sulfur-dioxide-and-its-role-winemaking>

Appendix 3: Malic Testing

Malolactic fermentation (or secondary fermentation, MLF, ML or “Malo” for short), is the process in which malic acid in wine is converted to lactic acid. Mostly all red wines and various white wines go through ML after the initial fermentation is complete. Contrary to regular or primary fermentation (where yeast converts sugar into alcohol), ML is caused by the bacteria *oenococcus oeni*. While ML occurs naturally, wines are often inoculated with the bacteria culture to kick-start the process. Malolactic fermentation softens the taste and texture of the wine, adds complexity and character, and stabilizes wines prior to bottling.

Malic acid is the tart acid in grapes also found in green apples. Lactic acid, on the other hand, is the more creamy acid found in milk, cheese, and yogurt. Chardonnay is a classic example where the fuller mouth-feel and creamy texture is the direct result of malolactic fermentation and barrel aging. The buttery flavour in many chardonnays comes from a compound called diacetyl, which is derived from the ML process.

For crisp whites that do not benefit from ML such as Riesling and Gewürztraminer, ML is prevented through chilling, filtering, and/or adding of fining agents or enzymes. Even some chardonnay producers prefer a crisp style, skipping the barrels and fermenting entirely in temperature controlled tanks to keep the wine light and fruity. Occasionally, the two styles are combined and tank wine is blended with wine that has gone through ML in barrel. This results in a wine with both crispness and nuance of butter and toasty oak.

Red wines - prior to malolactic fermentation, tend to be harsh and astringent on the palate. After the malic acid is converted to lactic, the wine becomes noticeably softer and more approachable. Wines are perceivably heavier and rounder on the palate and will continue to gain weight through the aging process.

The status of the MLF in a wine must be monitored quite attentively. To check if ML is working, we literally put our ear to an open barrel and listen for CO2 bubbles being released. The crackling sound lets you know that the wine is alive and well. Once the bubbles have ceased, wines are checked in the lab for acid levels. When ML is finished and all of the malic acid has been consumed, SO2 (sulphur) can now be added to help preserve the wine and minimize microbial activity.

Source: <https://www.winc.com/blog/malolactic-fermentation-simplified>

Universal Biosensors Inc (UBI)						\$ 0.730					
Profit & Loss						Per share & Ratio data					
Years ended Dec \$m	FY19	FY20	FY21e	FY22e	FY23e	Years ended Dec	FY19	FY20	FY21e	FY22e	FY23e
Op. Revenue	6.9	3.2	5.9	14.1	30.3	Shares on Issue - Wavge (f/c	177.5	177.6	194.5	194.5	194.5
Revenue growth %	-72.2%	-53.6%	84.0%	138.6%	115.4%	Shares on Issue - at y/end	177.6	177.6	177.8	177.8	177.8
Cost of Goods Sold	(3.6)	(2.6)	(3.4)	(6.9)	(12.9)	EPS - Reported (cents)	(2.7)	(4.3)	(5.3)	(5.0)	(2.1)
Gross Profit	3.3	0.6	2.5	7.2	17.4	Growth	-112.9%	57.5%	22.5%	-4.6%	-58.8%
Gross Profit Margin	48.2%	19.5%	42.1%	51.3%	57.6%	P/E ratio (x)	-26.7x	-17.0x	-13.9x	-14.5x	-35.3x
Other Income	4.2	4.1	4.0	4.0	1.0	EPS (normalised)(cents)	(2.7)	(4.7)	(5.3)	(5.0)	(2.1)
Cash Operating Expenses	(13.0)	(10.8)	(14.5)	(18.5)	(19.7)	Growth	7.6%	71.4%	12.6%	-4.6%	-58.8%
Share-based payments	0.4	(0.2)	(0.1)	(0.2)	(0.2)	P/E ratio (x)	-26.7x	-15.6x	-13.9x	-14.5x	-35.3x
EBITDA	-5.0	-6.2	-8.1	-7.5	-1.5	DPS (cents)	0.0	0.0	0.0	0.0	0.0
Ebitda Margin	-72.6%	-194.3%	-138.0%	-53.0%	-4.8%	Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation & Amort	(1.2)	(2.2)	(2.1)	(2.3)	(2.6)	OCF per share (cents)	18.7	-4.7	-6.6	-3.6	0.4
EBIT	-6.2	-8.5	-10.2	-9.8	-4.0	Price/OCF (x)	3.9x	-15.6x	-11.1x	-20.5x	197.0x
Ebit Margin	-89.4%	-263.9%	-173.8%	-69.5%	-13.3%	Enterprise Value \$m	97.1	107.2	119.6	127.5	127.8
Interest Income (Expense)	0.0	0.1	0.0	0.0	0.0	EV/ Sales	14.1x	33.5x	20.3x	9.1x	4.2x
Share of Assoc NPAT	0.0	0.0	0.0	0.0	0.0	EV/EBITDA	-19.4x	-17.2x	-14.7x	-17.1x	-87.0x
Pre-tax profit	(6.2)	(8.3)	(10.2)	(9.8)	(4.0)	EV/EBIT	-15.8x	-12.7x	-11.7x	-13.0x	-31.8x
Income Tax Credit (Expense)	1.3	0.0	0.0	0.0	0.0	Liquidity & Leverage					
Tax Rate	-21.4%	0.0%	0.0%	0.0%	0.0%	Net Cash (Debt) \$m	37.2	23.9	10.2	2.3	1.9
Minorities (share of loss)	0.0	0.0	0.0	0.0	0.0	Net Debt / Equity %	n/a	n/a	n/a	n/a	n/a
Abnormals	0.0	0.7	0.0	0.0	0.0	Net Debt / EBITDA	n/a	n/a	1.3x	0.3x	1.3x
NPAT (reported)	-4.8	-7.6	-10.2	-9.8	-4.0	ROA (EBIT / T.Assets) %	-9.8%	-15.0%	-23.2%	-25.1%	-9.7%
Adjustments (Abnormals)	0.0	-0.7	0.0	0.0	0.0	ROE (NPAT / T.Equity) %	-10.7%	-21.9%	-35.8%	-51.8%	-27.1%
NPAT (normalised)	-4.8	-8.3	-10.2	-9.8	-4.0	Cash Flow					
Balance Sheet						EBITDA	-5.0	-6.2	-8.1	-7.5	-1.5
Cash	37.2	28.1	14.5	6.6	6.2	Chge in Working Capital	47.3	-3.3	-1.6	0.5	2.2
Receivables	0.1	0.1	0.5	1.3	0.7	Interest Received (Paid)	0.0	0.1	0.0	0.0	0.0
Inventories	1.1	1.9	1.1	1.5	3.3	Income taxes paid	-4.4	0.0	0.0	0.0	0.0
Other	3.6	3.7	4.8	4.8	4.8	Other	-4.7	1.1	-3.0	0.0	0.0
Total current assets	42.0	33.7	20.9	14.2	15.1	Operating cash flows	33.2	-8.3	-12.8	-6.9	0.7
PP&E	4.8	8.4	9.0	9.7	10.5	Capex	-0.1	-0.4	-0.9	-1.0	-1.1
Invests (Restricted cash)	0.0	0.0	0.0	0.0	0.0	Acquisitions	0.0	0.0	0.0	0.0	0.0
Intangibles	15.9	14.3	14.3	15.1	15.9	Investments	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	Other (Capitalised R&D)	-10.1	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	Net investing cash flows	-10.3	-0.4	-0.9	-1.0	-1.1
Total non-current assets	20.7	22.7	23.3	24.8	26.3	Equity raised (bought back)	0.0	0.0	0.1	0.0	0.0
Total Assets	62.7	56.4	44.2	38.9	41.4	Dividends paid	0.0	0.0	0.0	0.0	0.0
Payables	-1.6	-1.6	-1.2	-3.0	-6.4	Change in Debt	0.0	0.0	0.0	0.0	0.0
Interest bearing liabs -current	0.0	-0.5	-0.6	-0.6	-0.6	Other	0.0	0.0	0.0	0.0	0.0
Deferred revenue - current	-2.7	-1.6	0.0	0.0	0.0	Financing cash flow	0.0	0.0	0.1	0.0	0.0
Provisions	-0.8	-0.6	-0.6	-0.6	-0.6	Change in Cash	23.0	-8.6	-13.6	-7.9	-0.3
Other	-5.1	-4.6	-5.6	-1.4	-1.4	Revenue by Product					
Total Current Liabilities	-10.2	-9.0	-8.1	-5.6	-9.0	Blood glucose(sold Dec18)	0.2	0.0			
Interest-bearing liabs (Non-cu)	0.0	-3.6	-3.6	-3.6	-3.6	Blood Coag (PT-INR tests)	4.9	2.6	3.0	5.0	8.0
Deferred revenue (non-current)	-1.4	0.0	0.0	0.0	0.0	Sentia Wine Analyser (03/21)		0.0	1.3	7.0	16.7
Provisions	-2.6	-2.8	-2.8	-2.8	-2.8	Animal blood glucose	0.0	0.0	0.0	0.0	3.0
Other	-3.1	-3.1	-1.0	-8.1	-11.2	Services - HRL Canada	1.1	0.6	1.6	2.0	2.5
Total Non-current Liabilities	-7.1	-9.4	-7.4	-14.5	-17.6	Services - Contract R&D / (0.8	0.0	0.0	0.0	0.0
Total Liabilities	-17.3	-18.4	-15.5	-20.1	-26.6	Total Revenue	6.9	3.2	5.9	14.1	30.3
Total Shareholders' Equity	45.4	38.0	28.6	18.9	14.8	Directors Shareholdings		Shares (m)		% of coy	Options/Perf.Rts(m)
Interims						Craig Coleman, Chairman (app NED 30/6/16, Chai		27.466		15.4%	0.0
Year end June	1H20	2H20	1H21	2H21e	FY21e	Judith Smith, NED (appointed: 12/3/15)		0.300		0.2%	0.0
Sales	1.1	2.1	3.4	2.5	5.9	David Hoey, NED, O/s-based (appointed 2/3/16):		0.566		0.3%	0.0
Sales Growth (%)	-73%	-27%	219%	17%	84%	Senior Management:					
EBITDA profit (loss)	-4.1	-2.1	-2.1	-6.0	-8.1	John Sharman, CEO (commenced 8/6/20)		0.000		0.0%	10.8
EBITDA Margin	-388.3%	-97.9%	-62.0%	-241.0%	-138.0%	Salesh Balak, CFO (commenced Nov 2006)		0.267		0.1%	2.2
EBIT	-5.3	-3.2	-3.2	-7.1	-10.2	Major Shareholders		Shares (m)		% of coy	
Equity Share of Assocs NPAT	0.0	0.0	0.0	0.0	0.0	Viburnum Funds		27.250		15.3%	
NPAT (Reported)	-4.5	-3.1	-3.2	-7.0	-10.2	JM Financial Group Ltd		21.968		12.4%	
NPAT (Adjusted)	-5.1	-3.2	-3.2	-7.0	-10.2	Jency Capital Pty Ltd		17.020		9.6%	
EPS (adjusted)(cents)	-2.9	-1.8	-1.8	-3.5	-5.3	Richmond Hill Capital Pty Ltd (2 mgrs ex Viburnum		8.370		4.7%	
EPS Growth	128.0%	22.6%	-37.4%	92.8%	12.6%	KFT Investments Pty Ltd		7.430		4.2%	
DPS (cents)	0.0	0.0	0.0	0.0	0.0						

Source: Sequoia estimates

Source: ASX announcements, Refinitiv

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Buy	Accumulate	Hold	Reduce	Sell
>20%	10% – 20%	0% – 10%	0% to -10%	>-10%

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