

Universal Biosensors Inc. (UBI)

CY21 Results – Numerous product & development milestones expected

Recommendation		Buy		Summary	
Risk Rating		High		<p>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.</p> <p>Historically UBI has developed products for industry majors on a contract R&D basis plus milestones (blood glucose tests for LifeScan / J&J – 10bn tests sold; Coagulation tests for Siemens – 10m tests sold). UBI now plans to launch its own new products and break-through technology from new partners.</p> <h3>CY21 Results</h3> <ul style="list-style-type: none">• Revenue \$5.8m (v \$3.2m) +80%. Sequoia est. \$5.9m.• Gross profit margin 36% (v 19%).• R&D costs \$9.3m (v \$5.0m), 161% of sales (v 157%).• Ebitda loss -\$8.3m (v -\$6.2m).• NLAT -\$10.5m (v -\$8.3m). SEQ -\$8.8m, 20% worse.• Cash from Operations -\$9.9m (v -\$8.3m), 19% worse.• Net Cash \$15.8m (v \$23.9m). <h3>Existing products / progress</h3> <ul style="list-style-type: none">• Xprecia Stride sales up 4%. EU approval received to sell new version of coagulation device & test strips.• Sentia sales \$1.15m (launched March 21); 14 distributors appointed; 13 more under negotiation. 2nd test launched Dec, plus 4 more to launch in CY22.• HRL revenue \$2.0m up 208%. New lab and equipment done; New services planned. <h3>New products / projects / catalysts</h3> <ul style="list-style-type: none">• Tn Antigen cancer biosensor trials complete April.• Petrackr vet blood glucose monitor to launch 4Q22.• Instant Covid Test (ICT) under development	
24-mth Target Price (AUD)		\$1.83 (was \$1.57)			
Share Price (AUD)		\$0.85			
12-mth Price Range		\$0.475 - \$1.04			
Forecast 24-mth Capital Growth		115.3%			
Forecast 24-mth Dividend Yield		0.0%			
24-mth Total Shareholder Return		115.3%			
Market cap (\$m)		151.2			
Net debt (net cash) (\$m)(Dec 21)		(15.8)			
Enterprise Value (\$m)		135.3			
Gearing (Net Debt/ Equity)		N/a – Net Cash			
Shares on Issue (m)		177.8			
Options / Perf rights on Issue (m)		16.2			
Sector		Healthcare			
Average Daily Value Traded (\$)		\$257,200			
ASX 300 Weight		n/a			
Financial Forecasts					
Years ending Dec \$m	20(A)	21(A)	22(e)	23(e)	24(e)
Sales revenue	3.2	5.8	13.1	27.9	42.2
Sales growth	-54%	80%	128%	112%	51%
Cash operating costs	-13.4	-18.5	-21.6	-25.2	-29.9
EBITDA	-6.2	-8.3	-5.6	2.5	12.1
NPAT (reported)	-7.6	-10.5	-8.1	-0.2	9.2
NPAT (adjusted)	-8.3	-10.5	-8.1	-0.2	9.2
EPS (adjusted)	-4.7	-5.9	-4.2	-0.1	4.7
EPS growth	71%	26%	nm	large	-5893%
DPS	0.0	0.0	0.0	0.0	0.5
OCF / share	-4.7	-5.6	-2.0	3.7	8.1
Valuation Metrics					
P/E	-18.2x	-14.4x	-20.5x	-1042.7x	18.0x
P / OCF	-18.2x	-15.3x	-42.6x	22.9x	10.5x
EV / Sales	40.1x	23.4x	10.7x	4.8x	2.8x
EV / Ebitda	-20.7x	-16.4x	-25.1x	52.6x	9.9x
Cash from Operations	-8.3	-9.9	-3.9	7.2	15.7
Net Cash (Net Debt)	23.9	15.8	11.0	17.1	31.7
Enterprise Value	128.5	135.3	140.2	134.1	119.5

UBI SHARE PRICE PERFORMANCE



CY21 Results

- Revenue \$5.8m (v \$3.2m) +80%. Sequoia est. \$5.9m.
- Gross profit margin 36% (v 19%).
- R&D costs \$9.3m (v \$5.0m), 161% of sales (v 157%).
- Ebitda loss -\$8.3m (v -\$6.2m).
- NLAT -\$10.5m (v -\$8.3m). SEQ -\$8.8m, 20% worse.
- Cash from Operations -\$9.9m (v -\$8.3m), 19% worse.
- Net Cash \$15.8m (v \$23.9m).

Existing products / progress

- **Xprecia Stride** sales up 4%. EU approval received to sell new version of coagulation device & test strips.
- **Sentia** sales \$1.15m (launched March 21); 14 distributors appointed; 13 more under negotiation. 2nd test launched Dec, plus 4 more to launch in CY22.
- **HRL** revenue \$2.0m up 208%. New lab and equipment done; New services planned.

New products / projects / catalysts

- Tn Antigen cancer biosensor trials complete April.
- Petrackr vet blood glucose monitor to launch 4Q22.
- Instant Covid Test (ICT) under development.
- Human fertility hormone tests under development.

Forecasts & Recommendation

We lower our forecasts given a slightly softer than expected CY21 result. CY22 Net loss forecast -\$8.1m (was -\$7.3m); CY23 -\$0.2m (was \$3.0m); CY24 +\$9.2m (was +\$13.4m).

Our revised valuation range is \$1.70 to \$1.95 (previously \$1.44 to \$1.70). We set our 24-month price target at \$1.83 (was \$1.57) being the mid-point. With a strong R&D and new product release schedule, numerous catalysts and 115% share price upside potential, we reiterate our Buy (High Risk) recommendation.

1. Changes in Forecasts

UBI: Changes in Estimates Years ending Dec \$m	CY21	Old	CY22e New	Change	Old	CY23e New	Change	Old	CY24e New	Change
Operating revenue										
a. Sentia wine analyser	1.15	7.0	6.2	-12%	16.7	15.3	-9%	27.4	24.0	-12%
b. Xprecia Stride / Prime (coagulation)	2.67	5.0	4.5	-11%	8.0	6.5	-19%	10.0	9.0	-10%
c. New - Petrakr (Animal blood glucose)		0.0	0.0		3.0	3.0	0%	6.6	5.3	-20%
Other					0.0	0.0		0.0	0.0	
Subtotal - Product sales	3.8	12.0	10.6	-12%	27.8	24.8	-11%	44.0	38.3	-13%
d. HRL (lab testing services)	2.0	2.0	2.5	24%	2.5	3.1	24%	3.2	3.9	24%
Sales revenue	5.8	14.1	13.1	-7%	30.3	27.9	-8%	47.1	42.2	-10%
Sales growth	80%	139%	128%		115%	112%		56%	51%	
Cost of sales	-3.7	-5.7	-6.0	6%	-10.8	-11.4	6%	-16.3	-16.3	0%
Gross profit	2.1	8.4	7.1	-15%	19.5	16.5	-15%	30.9	25.9	-16%
Gross profit margin %	36.4%	59.6%	54.3%		64.5%	59.3%		65.4%	61.4%	
Other revenue (Govt grants etc)	4.6	4.0	3.1	-23%	0.0	0.0	nm	0.0	0.0	nm
Product support & O/S logistics	-0.1	-0.1	-0.1	-1%	-0.1	-0.1	-1%	-0.1	-0.1	-1%
SG&A costs	-5.5	-6.1	-6.0	-1%	-6.4	-6.4	0%	-6.7	-6.8	1%
Research & Development	-9.3	-11.0	-9.5	-14%	-7.3	-7.3	0%	-7.7	-6.7	-13%
Share-based payments	-0.1	-0.2	-0.2	0%	-0.2	-0.2	0%	-0.2	-0.2	0%
Operating costs	-15.0	-17.4	-15.8	-9%	-14.0	-14.0	0%	-14.7	-13.8	-6%
Operating costs % of Sales	-259%	-124%	-120%	-3%	-46%	-50%	8%	-31%	-33%	5%
Operating costs + COGS	-18.6	-23.1	-21.8	-5%	-24.8	-25.4	2%	-31.0	-30.1	-3%
R&D % of Revenue	-161%	-78%	-72%		-24%	-26%		-17%	-16%	
EBITDA	-8.3	-5.0	-5.6	11%	5.5	2.5	-54%	16.2	12.1	-25%
Ebitda margin %	-142.9%	-35.7%	-42.5%	-7%	18.2%	9.1%	-9%	-0.2	28.7%	29%
Depn & Amortisation	-2.2	-2.3	-2.4	3%	-2.6	-2.6	3%	-2.8	-2.9	3%
EBIT	-10.4	-7.3	-8.0	9%	3.0	-0.1	-103%	13.4	9.2	-31%
Ebit margin %	-180.6%	-52.2%	-60.7%	-9%	9.8%	-0.3%	-10%	28.3%	21.9%	-6%
NPAT (reported)	-10.5	-7.3	-8.1	10%	3.0	-0.2	-105%	13.4	9.2	-32%
NPAT (normalised)	-10.5	-7.3	-8.1	10%	3.0	-0.2	-105%	13.4	9.2	-31%
NPAT margin %	-182%	-52%	-61%	-9%	10%	-1%	-10%	28%	22%	-7%
EPS (normalised)	-5.9	-3.8	-4.2	10%	1.5	-0.1	-105%	6.9	4.7	-31%
DPS	0.0	0.0	0.0	n/a	0.0	0.0	n/a	0.5	0.5	n/a
Balance Sheet:										
Net cash (debt)	15.8	6.2	11.0	77.0%	12.8	17.1	33%	29.2	31.7	9%
Shares on issue (year-end)	177.8	177.8	177.8	0.0%	177.8	177.8	0%	177.8	177.8	0%
Composite valuation					\$ 1.47	\$ 1.70	15.7%			

Source: Sequoia estimates

Revenue Forecasts:

We have changed our revenue forecasts by -7%,-8% and -10% for CY22, CY23 and CY24, due to a slightly softer CY21 performance by Sentia wine analyser and Xprecia Stride than our prior forecast. HRL lab services was better than expected, and UBI has invested in new facilities and new equipment to increase the range of services offered. We regard these as minor changes, with UBI still in the early stages of new product launch schedule. We expect this will see a 10-fold increase in revenue from \$5.8m in CY21 to \$58.7m in CY25 (4 years away).

Cost Assumptions:

R&D costs are the key swing factor. We expect these to peak in CY22 at \$9.5m before declining to \$6.7m in CY24, a more sustainable 16% of sales. Major projects include the development of further Sentia Wine Analyser tests, clinical trials for the new version of Xprecia blood coagulation sensor (Xprecia Prime), 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.

Composite Valuation:

Our blended valuation increases by 15% due to the roll-forward of our DCF valuation, and increased EV / Sales comparable multiples.

We show below our detailed forecasts for CY25, and some observations.

Universal Biosensors - Sequoia detailed model for CY25e									
Ref:	A	B	C	D	E	F	G	H	I
	Market Penetration	Potential Sales (per UBI) A\$m	Strips Estimated Units (m) sold	Strips Estimated Wholesale Price \$	Strips Revenue FY25e \$m	Devices Estimated new units sold	Devices Estimated Wholesale Price \$	Devices Revenue FY25e \$m	Total Revenue FY25e \$m
1. Sentia Wine Analyser									
(a) Sequoia estimate			9.1	\$ 3.51	32.0	1,953	\$ 1,597	3.1	35.1
(b) UBI management estimate									
5.0%		24.1							
10.0%		44.1							
15.0%		64.0							
20.0%		84.0							
25.0%		106.2							
100.0%		425.0							
2. Xprecia Prime									
(a) Sequoia estimate			3.3	\$ 3.00	10.0	1,000	\$ 500	0.5	10.5
(b) UBI management estimate									
5.0%		21.3							
10.0%		42.6							
15.0%		63.9							
20.0%		85.1							
25.0%		106.5							
100.0%		425.9							
3. Petrackr									
(a) Sequoia estimate			13.5	\$ 0.50	6.8	70,000	\$ 30	2.1	8.9
(b) UBI management estimate									
5.0%		9.6							
10.0%		21.4							
15.0%		35.8							
20.0%		59.2							
25.0%		82.3							
100.0%		329.4							
Total UBI Product Sales			26.0	\$ 1.88	48.7	72,953	\$ 78	5.7	54.4
4. HRL (Services)									
									4.3
Total revenue (Sequoia base case estimate)									58.7

Comments

- Our CY25 forecasts see UBI selling 26m single-use test strips generating revenue of \$48.7m.
- We also forecast 72,000 new device sales generating a further \$5.7m of revenue.
- At end 2025, we forecast UBI will have an installed base of 6,500 Sentia devices in the field, 7,000 Xprecia Prime devices (v 3,500 now), and 130,000 Petrackr devices. These forecast 1.4m devices in the field should continue to generate on-going strip sales, plus a smaller percentage of replacement device sales. Building the installed base of trusted devices is a key part of the UBI business model.
- We forecast total revenue of \$58.7m in CY25, a 10-fold increase on the CY21 actual sales of \$5.8m.
- We have not included any revenue in our estimates for 3 “blue sky” projects – IVF/ human fertility, Tn Antigen cancer biosensor and Instant Covid Test (ICT) which are under development, and still highly uncertain. The latter two projects have very large addressable markets so could be significant revenue opportunities if UBI is successful. We have included a nominal \$50m (0.26 per share) in our valuation for the possible value of these projects.

2. CY21 Results reviewed

UBI - CY21 Results Review Years ended Dec (\$m)	CY19	CY20	1H21	2H21	CY21	Change %	CY21e Sequoia	Variance %	Our Comments
Coagulation (Xprecia Stride)	4.9	2.57	1.99	0.68	2.67	4%	2.99	-11%	Siemens \$1.7m (v \$2.5m -30%); Other custs \$0.9m (v \$0.1m); UBI has taken over distribn.
Sentia Wine Analyser	0.0	0.00	0.58	0.57	1.15	n/a	1.30	-12%	Sentia revenue \$1.15m in first 10 months; 12% below our forecast.
Revenue from products	4.9	2.6	2.57	1.24	3.82	49%	4.3	-11%	
Revenue from services (HRL)	2.0	0.6	0.82	1.14	1.96	208%	1.6	23%	New customer Bayer \$0.9m (v \$0.1m). HRL recovers back to CY19 pre-Covid levels.
Op. Revenue	6.9	3.2	3.39	2.39	5.78	80%	5.9	-2%	80% revenue growth mainly due to the launch of the new Sentia product.
Revenue growth	-72%	-54%	219%	12%	80%		84%	-4%	80% revenue growth was excellent, but 4% below our forecast.
Cost of goods sold	(2.9)	(1.7)	(1.4)	(1.0)	(2.4)	38%	(1.8)	29%	Revenue was lower in 2H. 1H21: \$3.4m (v \$1.1m); 2H: \$2.4m (v \$2.1m).
Cost of services	(0.7)	(0.9)	(0.6)	(0.7)	(1.3)	51%	(1.2)	9%	
Cost of Sales	(3.6)	(2.6)	(2.0)	(1.6)	(3.7)	42%	(3.0)	21%	
Gross profit - products	2.0	0.9	1.2	0.3	1.4	70%	2.5	-41%	
Gross profit - services	1.3	(0.2)	0.2	0.5	0.7	-389%	0.4	64%	HRL back in gross profit
Gross Profit - Total	3.3	0.6	1.4	0.7	2.1	238%	2.9	-26%	\$2.1m gross profit (v \$0.6m pcp), benefitting from new revenue stream from Sentia.
Gross margin - products	41%	33%	45%	23%	38%	5%	57%	-19%	Sentia gross margin probably similar to Coagulation.
Gross margin - services	65%	-36%	24%	40%	33%	69%	25%	8%	HRL gross margin better than we expected.
Gross Profit Margin	48%	19%	40%	31%	36%	17%	48%	-12%	36% gross margin is reasonably strong, but below historical levels.
Other Income	4.2	4.1	1.9	2.7	4.6	12%	4.0	16%	Includes government grants \$3.9m (v \$2.8m pcp)
Product support	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	217%			
R&D costs	(5.5)	(5.0)	(2.8)	(6.5)	(9.3)	84%			84% increase in R&D expense (161% of Revenue v 157%).
Selling, general & admin	(7.0)	(5.9)	(2.5)	(3.1)	(5.6)	-5%	(13.4)	-58%	
Cash Operating Expenses	(13.0)	(10.8)	(5.4)	(9.5)	(14.9)	38%	(13.4)	11%	Cash operating costs up 38%.
Share based payments (non cash)	0.4	(0.2)	0.0	(0.1)	(0.1)	-47%	(0.1)	-8%	
EBITDA	(5.0)	(6.2)	(2.1)	(6.2)	(8.3)	33%	(6.7)	24%	Ebitda loss due to lack of scale; Loss was 1.6m more than our forecast.
Ebitda Margin	-73%	-194%	-62%	-258%	-143%	51%	-113%	-30%	
Depreciation & Amortisation	(1.2)	(2.2)	(1.1)	(1.1)	(2.2)	-2%	(2.1)	3%	
EBIT	(6.2)	(8.5)	(3.2)	(7.3)	(10.4)	23%	-8.8	19%	EBIT loss due to lack of scale post LifeScan buyout of blood glucose contract.
Ebit Margin	-89%	-264%	-94%	-304%	-181%	83%	-149%	-32%	
Interest Income (Expense)	0.000	0.139	(0.033)	(0.039)	(0.072)		0.000	nm	Small interest expense on leases.
Pre-tax profit	(6.2)	(8.3)	(3.2)	(7.3)	(10.5)	26%	(8.8)	20%	Pre-tax loss \$10.5m was \$1.7m worse than our forecast.
Income Tax Credit (Expense)	1.32	0.00	0.00	0.00	0.00		0.0		No tax charge or credit booked; UBI has \$19m of Australian tax losses available.
Tax Rate	-21.4%	0.0%	0.0%	0.0%	0.0%		0.0%		
Abnormal items	0.0	0.7	0.0	0.0	0.0		0.0		CY20: Insurance recovery \$0.7m
NPAT (reported)(incl Abs)	(4.8)	(7.6)	(3.2)	(7.3)	(10.5)	38%	(8.8)	20%	
Add back: Abnormals	0.0	-0.7	0.0	0.0	0.0		0.0		
NPAT (normalised)	(4.8)	(8.3)	(3.2)	(7.3)	(10.5)	26%	(8.8)	20%	Net loss -\$10.5m was \$1.7m (20%) worse than our forecast.
EPS - Reported (cents)	(2.7)	(4.3)	(1.8)	(4.1)	(5.9)	37%	(4.5)	31%	
EPS - Normalised (cents)	(2.7)	(4.7)	(1.8)	(4.1)	(5.9)	26%	(4.5)	31%	EPS loss per share 4.7 cents
Share count (Weighted average)	177.5	177.6	177.6	0.0	177.7	0%	194.5	-9%	Our share count was fully diluted for options.
Share count (Period end)	177.6	177.6	177.6	0.0	177.7	0%	177.8	0%	

Source: Company reports; Sequoia estimates

UBI reported its results for CY21. Key points of the results:

- Group revenue \$5.8m (v \$3.2m) +80%. Sequoia estimate \$5.9m, so 2% below.
- However, the 1H/2H split is somewhat concerning. 1H21 revenue was \$3.4m (v \$1.21m pcp, +219%). 2H21 revenue was 30% lower on 1H21, at \$2.4m (v \$2.1m pcp, up 11.5%).
- Net loss -\$10.5m (v -\$8.3m) 26% worse mainly due to higher R&D expense. This was 20% worse than Sequoia's forecast of -\$8.8m, again mainly due to R&D.

Segments

- Xprecia Stride** (blood coagulation monitoring for patients on long-term warfarin) – Sales \$2.67m +4%. However, this masked considerable progress by UBI which has been progressively taking over distribution from Siemens. Sales to Siemens were \$1.7m, down -30% as UBI progressively takes control of the Siemens customer accounts which must be completed by March 2023 (under the terms of UBI's acquisition of the business). Sales to other customers (hospitals, clinics and new distributors) were \$0.9m (v \$0.1m) +>800%. 16 new country distributors appointed. European distribution centre and European subsidiary and sales force established. In addition, UBI has the new Xprecia Prime product coming through so some customers might seek to run down inventories ahead of the new improved product due in June.
- Sentia Wine Analyser** (new product launched March 2021, so included for ~10

months). Sales \$1.15m, so a reasonable start for this brand new product in a totally new product area for UBI. Sequoia estimate \$1.3m, so 12% below. Launched with one test only – Free sulphur dioxide (So2). A second test for Malic acid was launched in December, so didn't really contribute. 14 distributors appointed to date, and negotiating on 13 more.

- **HRL Canada** (Hemostasis Reference Laboratory; Coagulation lab testing and calibration services). Sales \$2.0m (v \$0.6m) +208%. Sales bounced back to CY19 pre-Covid levels. Several new clients secured (e.g. Bayer \$0.9m v \$0.1m). HRL moved to new lab premises (418 sq metres) in Hamilton, Ontario Canada and new equipment was installed to allow new services to be offered.

Other P&L items

- Gross profit \$2.1m (v \$0.6m). Gross profit margin 36% (v 19%) shows the benefit of increased volume through the Rowville, Melbourne factory.
- Other income \$4.6m (v \$4.1m) includes government grants \$3.9m (v \$2.8m). UBI's turnover is still well below the Aussie \$20m turnover R&D threshold, so it continues to qualify for R&D tax credits.
- Product developments costs (R&D) - \$9.3m (v \$5.0m), up \$4.3m or 84%. This was 161% of revenue (v 157% pcp). A huge spend by UBI, at least relative to the current small revenue base. The large increase is partly due to US trials of the new Petrackr animal blood glucose monitoring product (~\$4m) which will drop away this year. R&D costs were fully expensed (none capitalised to the balance sheet).
- Selling, general & admin costs \$5.6m (v \$5.9m), down 5%. There would have been little travel and only 2 trade shows late in the year, due to Covid.
- Cash operating costs \$14.9m (v \$10.8m) up \$4.1m or 38%, mainly due to the increase in R&D spend.
- Ebitda loss -\$8.3m (v -\$6.2m). This was \$1.6m worse than our -\$6.7m forecast.
- Net Loss After Tax -\$10.5m (v -\$8.3m). Sequoia est. -\$8.8m, so \$1.7m or 20% worse. Mainly due to higher R&D costs.

UBI - CY21 Results Review	CY19	CY20	1H21	2H21	CY21	Change	CY21e	Variance	Our Comments
Cash Flow items							Sequoia		
Receipts from customers	59.9	0.8	1.3	2.6	4.0	412%			UBI now has normal collections (Siemens prior year prepayment finished). Cash collection not great at 69% due to Siemens prepayment, now "earned".
% of accounting revenue	869%	24%	39%	111%	69%				
Ebitda	(5.0)	(6.2)	(2.1)	(6.2)	(8.3)	33%	(6.7)	24%	
Chge in working capital	47.3	(3.3)	(1.9)	1.3	(0.6)		(1.6)		Minor negative working capital.
Interest paid	0.0	0.1	0.0	(0.1)	(0.1)		0.0		
Income tax paid	(4.4)	0.0	0.0	0.0	0.0		0.0		
Other	(4.7)	1.1	(1.5)	0.5	(0.9)		(3.0)		
Operating cash flow	33.2	(8.3)	(5.5)	(4.4)	(9.9)	19%	(11.3)	-12%	\$9.9m op. cash out-flow. UBI needs new products to boost revenue levels.
Investing cash flow	(10.3)	(0.4)	(0.3)	(0.3)	(0.7)	79%	(0.9)	-26%	
Financing cash flow	0.0	0.0	0.1	0.0	0.1	119%	0.1	-4%	New Lab and new equipment for HRL in Canada, to expand services offered.
Change in cash	23.0	(8.6)	(5.7)	(4.8)	(10.5)	21%	(12.1)	-13%	
OCF per share (cents)	18.7	(4.7)	(3.1)	(2.5)	(5.6)	19%	(5.8)	-4%	Negative operating cash-flow per share

Source: Company reports; Sequoia estimates

Cash Flow

- Receipts from customers \$4.0m (v \$0.8m pcp) was a significant improvement for two reasons. The revenue prepayment by Siemens for Xprecia Stride has now been fully utilised (earned) and Siemens is now ordering regularly again. And UBI now has a third revenue stream from the new Sentia Wine Analyser product launched March 2021.
- Cash receipts from customers was a more "normal" 69% of accounting revenue (v 24% pcp).
- Operating cash flow was an out-flow of \$9.9m (v -\$8.3m) 19% worse.
- Capex \$0.7m (v \$0.4m) included moving HRL to new Lab premises and new equipment fit-out to enable new services to be offered.

Balance Sheet

UBI - CY21 Results Review Years ended Dec (\$m)	CY19	CY20	1H21	2H21	CY21	Change	CY21e Sequoia	Variance	Our Comments
Balance Sheet items									
Net Cash (Debt)(incl. restricted)	37.2	23.9	20.0		15.8	-34%	11.7	35%	Sufficient cash for 1.5 years at current burn rate.
Debtors	0.1	0.1	0.7		0.5	552%	0.5	-11%	
Inventories	1.1	1.9	1.5		2.1	14%	1.1	102%	Inventories up for expected increase for Xprecia and new Sentia products
Creditors	(1.6)	(1.6)	(1.5)		(3.2)	102%	(1.2)	160%	
Working Capital	(0.4)	0.4	0.7		(0.6)	-275%	0.4	-276%	
Inventory days (annualised)	57	214	80		135	-37%	33	309%	
Debtor days (annualised)	6	8	40		30	261%	33	-9%	Debtor days look OK at 30 (v 40 days).
Creditor days (annualised)	86	182	83		205	12%	77	166%	Creditor days extremely high (NB. This includes accruals).
Goodwill	0.0	0.0	0.0		0.0		0.0		No goodwill on the Balance Sheet
Other Intangibles	15.9	14.3	13.5		12.7	-11%	14.3	-11%	Acquired distribution rights to Siemens Xprecia Stride in Sep 2019, less amort.
Total Assets	62.7	56.4	50.1		44.5	-21%	45.6	-2%	
Liabilities include:									
Deferred revenue - current	(2.7)	(1.6)	(0.1)		(0.0)	-98%	0.0		Siemens revenue in advance for coag test strips now fully utilised.
Deferred revenue - non-current	(1.4)	0.0	0.0		0.0		0.0		
Deferred revenue - Total	(4.1)	(1.6)	(0.1)		(0.0)	-98%	0.0		
Def rev as % of sales (annualised)	60%	51%	2%		1%		0%		
Total Liabilities	(17.3)	(18.4)	(15.3)		(16.9)	-8%	(15.5)	9%	
Total Shareholders Funds	45.4	38.0	34.8		27.6	-27%	30.1	-8%	
NTA per share	\$0.166	\$0.133	\$0.120		\$0.084	-37%	\$ 0.09	-5%	NTA 8.4 cents. UBI has minimal net tangible assets per share.

Source: UBI accounts; Sequoia analysis

- Net cash \$15.8m (v \$23.9m pcp) down \$8.1m or -34%. UBI has enough cash for ~1.5 years at the current, elevated burn rate (elevated because of multiple R&D projects, including Petracker biosensor and Tn Antigen cancer biosensor).
- NTA per share 8.4 cents (v 13.3 cents).

Segment / Product update

3. Sentia Wine Analyser

- Launched March 2021 with a single test (Free sulphur dioxide, So2).
- 1H21 sales \$0.58m; 2H21 sales \$0.57m. The CY21 sales total was \$1.15m (devices plus test strips; 10 months) was 12% below our forecast of \$1.3m. The lack of growth in 2H21 was because 1H21 included a large \$0.3m sale to the exclusive Australian & NZ distributor, Grapeworks Pty Ltd which did not repeat (so far).
- We consider this a solid performance considering it is brand new product, outside of UBI's normal medical devices area, and given that Covid severely restricted UBI's ability to conduct international marketing.
- 14 distribution deals concluded (mostly non-exclusive) and initial sales in 14 countries. Another good sign of confidence. Please refer Appendix 1 for details.
- Negotiating further distribution deals in 13 countries (Italy, Austria, Germany, Hungary, Serbia, Poland, Bulgaria, Romania, England, Argentina, Chile, Turkey, USA).
- Independent product reviews and validation of the performance of Sentia against global reference methods underway with globally recognised institutions in France (Dubernet Laboratoires), Germany (Institut für Weinbau und Oenologie (Institute of Vitiscience, Germany) and Chile (Pontificia Universidad Católica de Chile).
- We understand that UBI sold ~700 Sentia devices in CY21, of which we expect about 500 would have been deployed in the field and around 200 held in inventories of the various distributors. UBI stated that 9% of production wineries in Australia have purchased Sentia (~160 wineries of 1,800); 5% in Canada (~35 of 700 wineries) which looks very encouraging to us. As more devices are deployed, it should pull through more and more sales of test strips

(consumables).

- Testimonials – good US testimonial received from Carol Shelton (Carol Shelton Wines, Santa Rosa California), who has won US Winemaker of the Year five times, has countless gold medals for her wines and was named one of eight Pioneer Women Winemakers of Sonoma County in 2005. Refer:

<https://www.carolshelton.com/about-us/>

“The Sentia free SO2 measurement tool has been a boon to a small winery like us which does not have a full lab. We can get immediate results at lower costs than outside labs.....it was a no-brainer purchase that is going to improve our wine quality by allowing for more frequent testing and thus better SO2 protection of my wines.”

- Malic test released December. Our feedback from winemakers last year was that this was an important test, usually out-sourced to external labs with a consequent time delay and added cost.

Prospects / Outlook

- According to UBI, existing customers are now re-ordering test strips regularly.
- The Glucose test ready for release (as at 2/3/22). Fructose test has been delayed a few months. Acetic Acid and Total Acid tests still to come during CY22, making 6 tests in total. Each test is done using different test strips, but on the same hand-held portable reader device. We believe the availability of more tests significantly increases the value proposition to winemakers.
- Wine trade shows re-starting after most being cancelled during Covid (see below) allowing UBI to properly commence international marketing, now with 3 of the 6 planned tests available.
- UBI has established a distribution centre in Oregon, USA, and recruited a 4-person US sales force all based in the California / Oregon / Washington state area on the west coast. There are ~ 9,500 production wineries in the US (7,000 of them in the California / Oregon / Washington state regions). If UBI can achieve the same 9% penetration rate there as in Australia, there could be ~ 855 devices sold there in CY22 (expected range 600-1,000 units). That would be an excellent outcome.
- We are forecasting 1,000 Sentia device sales worldwide in CY22, and expect Q2 and Q3 to be the peak selling quarters for UBI in the US/ Canada.
- UBI estimates a 10% market penetration would equate to ~\$44.1m of Sentia sales. We are forecasting sales of \$35.1m in CY25.

Wine Trade shows /conferences re-start – UBI exhibited Sentia at the following:

- Nov 2021: France: Sitevi wine trade exhibition, Montpellier France 28-30 November. 935 exhibitors from 18 countries. Visitors from 61 foreign countries.
- Dec 2021: USA: Wine Industry Network (WIN) hosted the 9th Annual North Coast Wine Industry Expo (WIN Expo) at the Sonoma County Fairgrounds on December 2. The trade show and conference was the largest in-person gathering of wine industry professionals since March of 2020.
- Jan 2022: USA: Unified Wine & Grape Symposium, Sacramento California 26-27 Jan. **The largest wine trade event in the USA.** Every January, the Unified Wine & Grape Symposium trade show is home to over 650 suppliers to the wine and grape industry. With nearly 14,000 industry professionals attending and 750 booths, the Symposium is the largest wine & grape industry conference and trade show of its kind in North America.

- Feb: Texas Wine and Grape Growers Conference and Trade Show, Denton Convention Center, Texas, 17-19 February, 2022.
- Mar: Oregon Wine Symposium, Oregon Convention Centre, 8-9 March, 2022. Attracting 1500 industry attendees, increasing each year, it is the Pacific Northwest's largest industry education event and trade show with owners, directors, academics, winemakers, viticulturists, and sales and marketing professionals in attendance.
- Coming up: June - WineTech Adelaide June 26-29, 2022; held bi-annually.
- Nov - Simeu - Milan Nov 15-18, 2022.
- Nov - Vinitech – Bordeaux Nov 20-Dec 1, 2022.



Source: Unified Wine & Grape Symposium, Sacramento California, Jan 2022. LinkedIn.

4a. Xprecia Stride

Blood coagulation monitoring product for patients on long-term warfarin, developed by UBI for Siemens Healthcare Diagnostics on a contract R&D basis 2012 - 2014.

Received European regulatory approval Dec 2014. Launched in Europe 2015 with UBI manufacturing the single-use test strips since then (10m test strips sold to date).

In September 2019, UBI effectively bought out the Siemens partnership for A\$18.2m with UBI to continue supplying Siemens with test strips for 42 months to March 2023, and UBI free to develop new customers. The patents are owned by UBI and were licenced to Siemens. Sold through 50+ distributors in 36 countries (mainly Europe, small USA due to not having full approvals there).

What has changed?

- CY21 result - Sales \$2.67m +4%. However, this masked considerable progress by UBI which has been progressively taking over distribution from Siemens. Sales to Siemens were \$1.7m, down -30% as UBI progressively takes control of the Siemens customer accounts which must be completed by March 2023 (under the terms of UBI's acquisition of the business). Sales to other customers (hospitals, clinics and new distributors) were \$0.9m (v \$0.1m) +>800%.
- 16 new country distributors appointed.
- Average selling price per strip up 27% during CY21 (UBI achieving a higher sales price on new direct accounts). Gross contribution margin up 17% in CY21.
- European distribution centre established (Netherlands) and European subsidiary and sales force established.
- Strong sales expected in 1Q22 (includes Siemens re-ordering).

4b. Xprecia Prime

What has changed?

- New improved product "Xprecia Prime" developed by UBI received European regulatory approval on 24/2/22, allowing it to be sold in 32 countries across Europe. Expected launch June 2022.
- US clinical trial commenced October 2021 expected to take ~6 months across 4 clinical sites (refer ASX announcement 27/10/21). 63 of 360 planned patients recruited as at 2/3/22.
- US regulatory submission (510K) and FDA approval expected 2HCY22 or 1QCY23.
- UBI expects to increase its market share of the global PT/ INR coagulation market with the launch of this new product. In the US, UBI/ Siemens did not previously have full US approvals so US sales historically have been tiny. This will be addressed with the new product. We understand the US is 60% of the world market.
- Potential global sales assuming a 10% market share: \$42.6m pa. (UBI estimates, 2/3/22 presentation page 11). We are forecasting \$10.5m of sales in CY25.

5. HRL, Canada (Hemostasis Reference Laboratory)

What has changed?

- CY21 sales \$2.0m (v \$0.6m) +208%. Sales bounced back to CY19 pre-Covid levels. Several new clients secured (e.g. Bayer \$0.9m V \$0.1m).
- HRL moved to new lab premises in Hamilton Ontario, and new equipment was installed to allow new services to be offered:
- Inflammatory disease,
- Cytokines (cell signalling molecules that aid cell to cell communication in immune responses and stimulate the movement of cells towards sites of inflammation, infection and trauma),
- and Multiplex Immunoassay Platform.

Outlook – UBI believes it has only a small number of competitors in this area, and that there are strong prospects to double or triple this business over the next few years.

6. Petracker (animal blood glucose monitoring)

This product is aimed at the veterinary and home use market, for the detection and monitoring of diabetes in domestic animals (dogs and cats). UBI has licenced the necessary IP from LifeScan, its previous partner for human blood glucose monitoring.

What has changed?

- Trials underway in the USA.
- UBI expects to launch this new product 4QCY22 or early 2023.
- UBI estimates the market opportunity in excess of A\$200m pa.
- UBI is aiming its new product at both the vet and home-use markets, with attractive (low price points for both the device and test strips).
- Potential global sales assuming a 10% market share: \$21.4m pa. (UBI estimates, 2/3/22 presentation page 15). We are forecasting sales of \$8.9m in CY25.

Outlook – Given UBI's historical success in human blood glucose monitoring with Johnson & Johnson/ LifeScan, we believe UBI's prospects in this adjacent sector are good.

7. Next level product developments

On 9/4/21 UBI announced an exclusive perpetual licence and supply agreement with Lubris BioPharma LLC, for all intellectual property, commercialisation, development and manufacturing rights, to all non-therapeutic application of a new material called Lubricin. Lubricin is the key component in the Tn Cancer Antigen biosensor developed by Deakin University, Swinburne University of Technology and University of Wollongong.

Lubricin is a substance that reduces friction and interference on UBI's electrochemical biosensor technology, and increases UBI's detection limits by 1 million times, allowing detection at "Picomolar" levels rather than the previous "Micromolar levels".

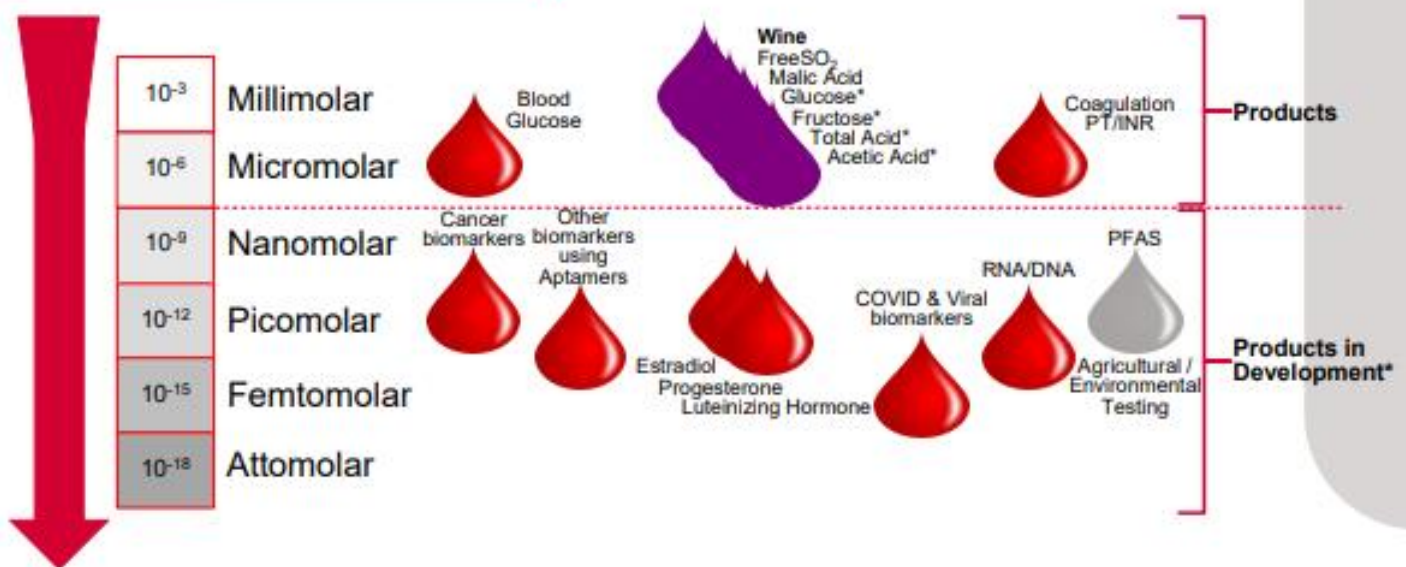
Sentia (wine analyser), Xprecia Prime (blood coagulation PT/INR) and Petrackr (blood glucose monitoring) are all based on historical UBI technology (the items above the red dotted line below).

UBI's new development products all incorporate the step-change in detection limits made possible by combining Lubricin with UBI's electrochemical platform. New 3-electrode strips (rather than 2 electrodes) are also required. These are the projects shown below the dotted red horizontal line below.

- Cancer biomarkers – e.g. Tn Antigen cancer biosensor.
- Other biomarkers – Aptamers – e.g. Human fertility hormone monitoring for IVF and advanced fertility treatments (estradiol, progesterone, luteinizing hormone).
- Other biomarkers – Aptamers – e.g. Covid-19.
- Other applications – PFAS (environmental contamination from fire-fighting foam), Agricultural testing (e.g. a problematic cattle disease), RNA/ DNA (Ribonucleic acid (RNA) is a molecule similar to DNA. Unlike DNA, RNA is a single-stranded molecule. An example of RNA is a chain of cells that carries genetic information of many viruses from the cell to the cytoplasm), others we don't know about yet. We understand these are temporarily on hold to allow UBI to focus on the 3 priority projects above).

New Technology

Detection Limits Increased by ≈ 1 Billion Times



What are Biomarkers?

Biomarkers are "chemicals" that can indicate both normal and abnormal processes in the body. One of the most famous is prostate-specific antigen (PSA). The PSA test, which detects abnormally high blood levels of PSA, has been used for decades to screen for prostate cancer and potentially catch it early. It was discovered in the late 1970's by Dr T Ming Chu at Roswell Park Comprehensive Cancer Centre in the USA, patented in 1984, and PSA screening approved by the FDA in the early 1986. Every year, 20m American men & similar number overseas take the PSA test as an early warning system for prostate cancer.

According to Vantage Market Research (found on Google), the global PSA testing market was worth US\$3.12 bn in 2021 (and projected to be US\$5.83bn in 2028). So these are potentially very lucrative markets for UBI to go after.

Companies operating in this space include:

- Abbott Laboratories (USA) (NYSE: ABT, market cap US\$204bn).
- F. Hoffman - La Roche AG (Switzerland), unlisted.
- Genomic Health Inc (USA), unlisted. 38 employees on LinkedIn.
- MDx Health (USA), unlisted. 171 employees on LinkedIn.
- Myriad Genetics Inc (USA) (Nasdaq: MYGN.O, market cap US\$2.0bn).
- OPKO Health Inc (USA)(Nasdaq OPK.O, market cap US\$2.1bn).
- Siemens Healthineers AG (Germany)(SHLG.DE, market cap EUR 61.7bn).

8. Blue sky opportunity No. 1 – Tn Antigen Cancer Biomarker

UBI acquired the IP for the Tn Antigen Cancer Biomarker in April 2021 from Deakin University's Institute for Frontier Materials (DIFM) and Swinburne University of Technology (Refer ASX announcement 13/4/21), and agreed to fund the further development and commercialisation of the technology including continuing access to 3 of the senior university scientists involved. According to the announcement, the universities had already spent over 5 years developing the technology with over 1,000 clinical patient samples tested and researched which linked Tn Antigen to the first mutation process of a healthy human cell as it becomes a cancer cell.

UBI's ambition here is:

- To develop a finger prick blood test which can be used by oncologists in clinics, hospitals, GP clinics or at home.
- For the handheld Tn biosensor to accurately measure a patient's cancer status (monitoring of remission and reoccurrence) in easier, cheaper and more frequent tests.
- Ultimately the Tn cancer biomarker test may be used for cancer screening and staging.

What has changed?

- A 338 patient (plus ~ 40 placebo patients) development clinical study is underway with Peter MacCallum Cancer Centre, Victorian Cancer Biobank and CIC bioGUNE in Spain (Basurto University Hospital). Commenced October 2021, expected completion April 2022 with results shortly thereafter (Refer ASX announcements 14/9/21 and 20/9/21).
- The trial involves blood samples taken from 338 patients, with 3 different types of cancer (~160 prostate cancer samples will be studied in Spain; plus >40 prostate, >40 breast cancer, >40 colorectal cancer from the Victorian Cancer biobank will be studied in Melbourne). UBI is running these 338 samples (plus ~40 placebo blood samples) across ~10 different UBI test strips, containing different chemistries, to work out which test strips have the best detection capabilities for these 3 cancers. Further, each patient's blood samples will be run 3 times. This should generate 6,000 -10,000 proof points.

- Note, according to UBI this is a development study, of technology already proven to work by the universities. The stated objectives of the trial are:
The aim is each patient blood sample will be used to:
 - (a) Determine the clinically relevant range of Tn concentrations;
 - (b) Confirm the role of Tn antigen in multiple cancer types;
 - (c) Validate the performance of UBI's handheld point-of-care device & test strip;
 - (d) Determine the sensitivity and specificity of the Tn Antigen biosensor; and
 - (e) Benchmark the performance of the Tn Biosensor against existing biomarker performance.

Next likely steps

On 11/11/21, UBI announced a 3-year Master Collaboration Agreement (MCA) with Mayo Clinic Biopharma Diagnostics for multiple projects, including to test and validate the Cancer Tn antigen biosensor (assuming the Peter MacCallum results above are positive). Mayo Clinic is one of the world's most prestigious oncology research and treatment institutions based in Rochester Minnesota USA. Mayo Clinic is the largest not-for-profit hospital and medical research group in the world with ~ 38,000 staff.

If UBI's Tn Antigen Cancer biomarker / biosensor proceeds from Peter Mac to the Mayo Clinic for further trials, we would regard these as major milestones towards commercialisation.

Assessing the commercial opportunity

UBI believes the Tn Antigen biomarker / biosensor has the following potential use cases:

- To monitor the State of Cancer Remission.
- To measure the Aggressiveness and Progression of Cancer.
- To measure the Effectiveness of Cancer Treatment.
- As a biomarker for Early Detection of Cancer.
- In Research and Development markets.

UBI's current thinking is that the cancer remission market would be the first, large segment to tackle. UBI estimates the cancer remission monitoring addressable market for this could be 78m patients x 12 monthly tests = 936m tests pa.

If we assumed a wholesale price to UBI of say A\$12 per test, that would be A\$11.2 bn potential revenue to UBI (assuming 100% market share). So a more realistic 1% market share would be \$112m of revenue to UBI. Still eye-watering.

Mayo Clinics opportunity

We understand that Mayo has at least 6 other bio-markers that may be suitable for the UBI biosensor platform technology, hence the broad collaboration agreement.

9. Blue sky opportunity No. 2 - Covid-19 screening

On 24/12/21, UBI announced that it had secured a global exclusive licence for the commercialisation of a SARS-CoV-2 N-Protein detection test (Covid-19) from IQ Science Limited of New Zealand. UBI said in the announcement that it had been working with Dr. Shalen Kumar of IQ Science for 6 months, performing due diligence on the aptamer technology and the performance of IQ Science products. IQ Science was founded by Dr Kumar in 2020. Dr Kumar is a leader in the field of aptamers and a specialist in the generation of ssDNA aptamers capable of binding small molecules for applications in diagnostics platforms. He has over 12 years' experience in the field of aptamers with 8 patent inventions and has successfully developed ELONA assays, Microfluidic systems, Electrochemical biosensing and lateral flow assays. IQ Science has a small number of highly specialised staff working exclusively in the field of aptamer development.

The planned COVID-19 Test will use UBI's proprietary electrochemical strip and device technology designed to provide a positive or negative result as to a patient's viral status within 30 seconds (based on internal validation work performed to date) from a small saliva sample. UBI's electrochemical test method also has the potential to measure the relative viral load associated with a patient's infection status.

UBI said a COVID-19 Test offering an accurate result within 30 seconds of the patient sample will be the first of its kind globally. Dr Shalen Kumar said; "While aptamers have been in development for many years, the UBI platform is expected to be the first of its kind to offer advanced aptamer-sensing in a handheld portable device. In addition, it is possible the UBI platform will be able to quantify the amount of the virus in the sample which will lead to incredibly valuable data being generated for patients, physicians and governments around the world."

Current rapid antigen tests for COVID-19 have limited sensitivity and take 15 to 20 minutes to prepare a sample and get a result. PCR testing is much more sensitive and accurate but can take days and is very expensive. This makes current tests impractical to use in situations where a COVID-19 Test result is needed instantly in order to make better decisions about safety. This includes when frontline workers and first responders initially engage members of the public, or for high-throughput, broad-based screening at public venues, airports, within the workplace, and at schools and universities. A COVID-19 Test that could be performed in 30 seconds with high-sensitivity and accuracy would represent a fundamentally new capability to improve public health and safety.

UBI quoted Fortune Business Insights' estimate of the COVID-19 testing market at US\$19 billion in 2021. Recent events, including the response to Omicron, suggest that the demand for COVID-19 testing (or future variants) will remain significant at least for the next 5 years.

Licence Terms

There are no up-front payments. UBI will be responsible for funding development and obtaining all regulatory approvals and all commercialisation activities. A pre-commercialisation fee of \$50k per year will be paid for a maximum of 3 years. A commercialisation fee is triggered on the earlier of receiving a regulatory approval for the Covid-19 Test or generating \$1.0m of sales from the sale of the Covid-19 Test. The commercialisation fee is a percentage of sales typical of a transaction of this nature, with certain minimums (complicated). UBI has a buy-out option under certain circumstances at 6 times the maximum commercialisation fees paid in any year over the previous 5 years.

Timing

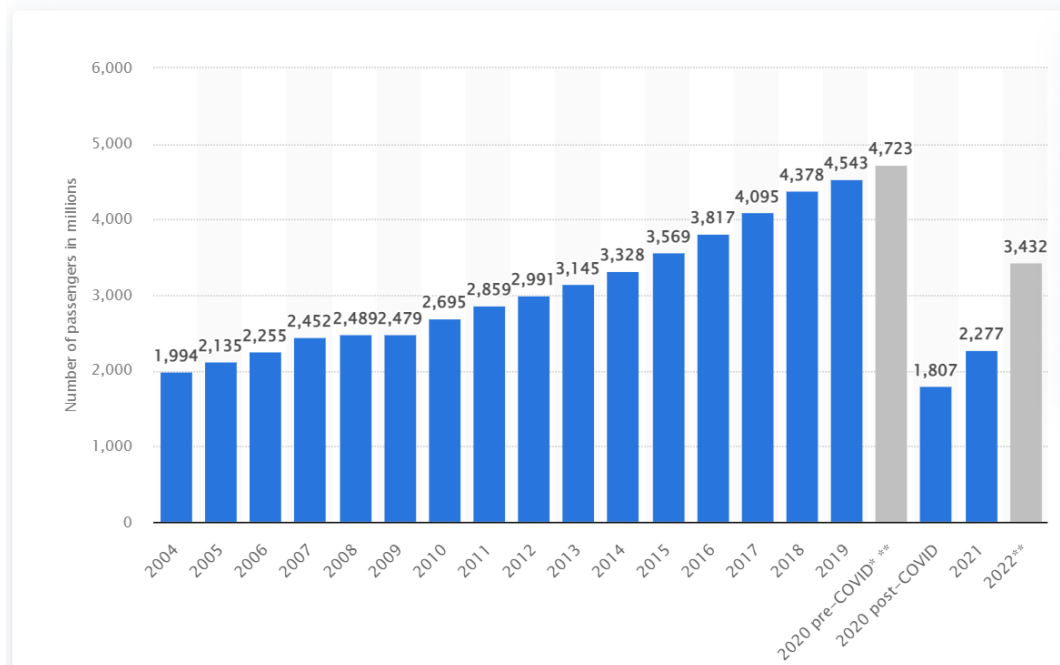
Subject to further internal and clinical testing, UBI's initial estimate is that it could have a product ready for market in the next 9-18 months.

Opportunity – mass passenger screening at Airports

UBI gave us an interesting example use case of possible mass-screening of passengers before they boarded international flights, if this could be done in ~ 5 seconds, like the current security X-raying procedure at the flight gate. According to Statista, there were

4.5 billion scheduled passengers boarding flights in 2019 (pre-Covid). There were 1.85 bn international passengers (41%).

Number of scheduled passengers boarded by the global (in millions)



Source: Statista

Opportunity – Hospitals admissions (and visitors)

Another potential opportunity is for the UBI test to screen patients, staff and visitors to hospitals (or aged care facilities). According to AIHW, Australia had 746 public and 601 private hospitals in 2020 making 1,347 in total.

In 2019–20 in Australia, there were 11.1 million hospitalisations for admitted patient care—6.7 million in public hospitals and 4.4 million in private hospitals. Between 2018–19 and 2019–20, the number of hospitalisations in Australia decreased by 2.8%, whereas previous year-to-year changes indicated a consistent upward trend. (Source: www.aihw.gov.au/reports-data/myhospitals). We expect that hospital visitor numbers would double or treble these numbers.

According to the American Hospital Association, there were 6,093 hospitals in the USA, with 33.4m hospital admissions in 2020. (Refer: www.aha.org/statistics/fast-facts-us-hospitals).

Impact on Valuation

Whilst this looks a potentially exciting licencing deal and new development opportunity for UBI, we already have a \$50m nominal allowance (26 cents per share) for the Tn Antigen cancer biosensor blue sky opportunity. We will consider the Instant Covid Test (ICT) opportunity as part of that allowance for the time being.

10. 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)		475.3	475.3	\$ 2.45	33%
Comparable company's Valuation:					
FY22 EV / Sales multiples	7.2x	218.0			
FY23 EV / Sales multiples	4.5x	221.6	221.6	\$ 1.14	33%
FY24 EV / Sales multiples	4.0x	291.8	291.8	\$ 1.50	33%
A. Composite valuation (Base valuation)			329.2	\$ 1.70	100%
Blue sky valuation - Tn Antigen cancer biosensor & Covid-19 Test (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 / A\$10.7bn)			50.0	\$ 0.26	
B. Optimistic valuation			379.2	\$ 1.95	
C. We set our 24-mth Price Target at the mid-point Shares on issue (Fully diluted)(m)		194.0		\$ 1.83	

Source: Sequoia estimates; Refinitiv consensus multiples for peers

Our revised valuation range is \$1.70 (base) to \$1.95 (optimistic, including a nominal A\$50m valuation estimate for the Tn Antigen cancer biosensor & Covid-19 Test). We set our 24-month Price Target at the midpoint, \$1.83 per share. (Previously our valuation range was \$1.44 to \$1.70, with our price target set at the top of the range, \$1.57 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 \$1.83 (previously \$1.57) 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	151	15	0.850	5.8	13.1	27.9	42.2	(8.3)	(5.6)	2.5	12.1	-142.9%	-42.5%	9.1%	28.7%
Medical device comps:																
RMD.AX	Resmed Inc	49,648	-480	34.250	3,196.8	3,748.0	4,154.2	4,402.0	1,077.5	1,264.1	1,454.3	1,582.2	33.7%	33.7%	35.0%	35.9%
FPH.AX	Fisher & Paykel Healthcare Co	14,770	238	25.700	1,971.2	1,762.6	1,742.0	1,938.2	797.3	634.6	622.4	718.5	40.4%	36.0%	35.7%	37.1%
COH.AX	Cochlear Ltd	14,557	345	221.310	1,497.6	1,641.1	1,812.9	2,005.4	435.4	469.7	504.0	571.7	29.1%	28.6%	27.8%	28.5%
NAN.AX	Nanosonics Ltd	1,132	94	3.750	103.1	115.3	145.9	165.5	14.2	1.0	20.5	29.7	13.8%	0.9%	14.0%	18.0%
PNV.AX	Polynovo Ltd	675	-2	1.020	29.3	42.3	67.0	92.1	(2.0)	1.0	11.5	28.4	-6.9%	2.2%	17.1%	30.8%
MVP.AX	Medical Developments Interna	274	33	3.840	25.3	22.3	33.5	55.4	7.3	(13.3)	(10.0)	1.2	29.1%	-59.6%	-29.9%	2.2%
RHY.AX	Rhythm Biosciences Ltd	270	2	1.260	#VALUE!	NaN	NaN	NaN	(7.6)	NaN	NaN	NaN	nm	NaN	NaN	NaN
IPD.AX	ImpediMed Ltd	249	19	0.140	8.4	14.1	23.5	40.6	(19.8)	(17.9)	(12.6)	(2.2)	-235.2%	-126.6%	-53.8%	-5.4%
CYC.AX	Cyclopharm Ltd	152	25	1.625	17.7	18.1	20.0	29.5	(3.8)	(2.4)	(5.5)	0.5	-21.2%	-13.3%	-27.5%	1.7%
UBI.AX	Universal Biosensors Inc	151	15	0.850	4.3											
SOM.AX	Somnomed Ltd	145	12	1.750	62.7	72.5	81.9	94.1	3.0	0.1	7.9	10.5	4.8%	0.1%	9.6%	11.1%
MX1.AX	Micro-X Ltd	76	24	0.165	3.8	12.2	42.5	63.0	(11.7)	(14.2)	(3.0)	6.2	-310.8%	-116.4%	-7.1%	9.8%
IMR.AX	Imricor Medical Systems Inc	57	25	0.400	0.7	3.1	12.6	30.5	(19.6)	(18.4)	(9.0)	0.4	-2811.8%	-593.0%	-71.3%	1.2%
AT1.AX	Atomo Diagnostics Ltd	49	18	0.120	6.7	13.5	18.6	34.3	(4.2)	(4.8)	(1.6)	6.9	-61.8%	-35.6%	-8.6%	20.1%
OVN.AX	Oventus Medical Ltd	11	9	0.044	1.1	1.3	3.0	9.9	(8.6)	(7.5)	(9.0)	(7.4)	-791.7%	-576.9%	-300.0%	-74.7%
Mean Average ASX medical device Comps													-314.5%	-109.2%	-27.6%	8.9%
Median ASX medical device Comps													-6.9%	-13.3%	-7.1%	11.1%
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	102,373	-21194	258.690	20,248.0	19,682.5	20,566.7	21,646.3	5,494.0	5,507.8	5,922.3	6,792.6	27.1%	28.0%	28.8%	31.4%
BSX.N	Boston Scientific Corp	84,580	-9835	42.660	11,888.0	12,838.1	13,791.0	14,839.5	2,921.0	3,722.8	4,175.0	4,545.3	24.6%	29.0%	30.3%	30.6%
IDXX.O	IDEXX Laboratories Inc	58,882	-1073	502.930	3,215.4	3,545.5	3,943.3	4,371.7	1,043.8	1,180.9	1,319.0	1,494.8	32.5%	33.3%	33.4%	34.2%
MASI.O	Masimo Corp	10,674	1027	138.740	1,239.2	1,494.4	1,635.5	1,655.6	311.4	368.8	423.6	512.1	25.1%	24.7%	25.9%	30.9%
ICUI.O	ICU Medical Inc	7,472	778	226.030	1,316.3	2,394.3	2,478.0	NaN	231.8	469.2	528.5	NaN	17.6%	19.6%	21.3%	NaN
NEOG.O	Neogen Corp	5,123	493	34.210	468.5	754.4	568.0	605.1	95.2	154.0	119.3	129.5	20.3%	20.4%	21.0%	21.4%
MMSI.O	Merit Medical Systems Inc	4,944	-241	62.890	1,074.8	1,127.6	1,188.0	1,255.5	160.2	238.6	255.5	NaN	14.9%	21.2%	21.5%	NaN
Mean Average US medical device Comps													23.2%	25.2%	26.0%	29.7%
Median US medical device Comps													24.6%	24.7%	25.9%	30.9%

Source: Sequoia estimates for UBI; Refinitiv consensus estimates for all other stocks; FY1 means forecast year 1 (FY22 in most cases); FY2 means forecast year 2 (FY23 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	127.6%	112.2%	51.3%	23.42x	10.66x	4.80x	2.83x	-25.1x	52.6x	9.9x	-20.5x	-1042.7x	18.0x
Medical device comps:														
RMD.AX	Resmed Inc	17.2%	10.8%	6.0%	15.7x	9.7x	8.7x	8.2x	28.6x	24.9x	22.9x	40.3x	34.4x	31.2x
FPH.AX	Fisher & Paykel Healthcare Co	-10.6%	-1.2%	11.3%	7.4x	8.8x	8.9x	8.0x	24.5x	24.9x	21.6x	39.6x	40.4x	34.3x
COH.AX	Cochlear Ltd	9.6%	10.5%	10.6%	9.5x	8.7x	7.9x	7.1x	30.4x	28.3x	25.0x	50.8x	46.0x	40.1x
NAN.AX	Nanosonics Ltd	11.9%	26.5%	13.5%	10.1x	9.1x	7.2x	6.3x	1026.5x	51.1x	35.2x	544.3x	110.9x	72.4x
PNV.AX	Polynovo Ltd	44.1%	58.5%	37.5%	23.1x	16.1x	10.2x	7.4x	717.9x	59.6x	24.0x	3090.9x	56.1x	32.3x
MVP.AX	Medical Developments Intern	-11.8%	50.2%	65.2%	9.5x	11.1x	7.4x	4.5x	NaN	NaN	207.0x	NaN	NaN	NaN
RHY.AX	Rhythm Biosciences Ltd	NaN	NaN	NaN	nm	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN
IPD.AX	ImpediMed Ltd	68.2%	66.4%	72.7%	27.3x	14.0x	8.4x	4.9x	NaN	NaN	NaN	NaN	NaN	NaN
CYC.AX	Cyclopharm Ltd	2.2%	10.5%	47.5%	7.2x	7.0x	6.3x	4.3x	NaN	NaN	254.0x	NaN	NaN	NaN
UBI.AX	Universal Biosensors Inc				31.4x									
SOM.AX	Somnomed Ltd	15.6%	13.0%	14.9%	2.1x	1.9x	1.7x	1.4x	1354.3x	17.1x	13.0x	NaN	56.5x	38.0x
MX1.AX	Micro-X Ltd	223.5%	248.4%	48.2%	13.7x	5.0x	1.4x	1.0x	NaN	NaN	9.9x	NaN	NaN	15.0x
IMR.AX	Imricor Medical Systems Inc	346.9%	304.7%	142.0%	46.8x	7.5x	1.9x	0.8x	NaN	NaN	64.4x	NaN	NaN	NaN
AT1.AX	Atomo Diagnostics Ltd	101.0%	37.8%	84.4%	4.6x	2.7x	1.9x	1.0x	NaN	NaN	5.2x	NaN	NaN	24.0x
OVN.AX	Oventus Medical Ltd	19.3%	130.8%	230.0%	1.9x	5.2x	2.2x	0.7x	NaN	NaN	NaN	NaN	NaN	NaN
	Mean Average ASX medical d	64.4%	74.4%	60.3%	15.0x	8.2x	5.7x	4.3x	530.4x	34.3x	62.0x	753.2x	57.4x	35.9x
	Median ASX medical device C	17.2%	37.8%	47.5%	9.8x	8.7x	7.2x	4.5x	374.1x	26.6x	24.0x	50.8x	51.0x	33.3x
International comps:														
BDX	Becton Dickinson and Co	-2.8%	4.5%	5.2%	6.1x	4.5x	4.3x	4.1x	16.2x	15.1x	13.1x	20.0x	18.6x	16.8x
BSX.N	Boston Scientific Corp	8.0%	7.4%	7.6%	7.9x	5.3x	4.9x	4.6x	18.3x	16.3x	15.0x	24.1x	21.3x	18.9x
IDXX.O	IDEXX Laboratories Inc	10.3%	11.2%	10.9%	18.6x	12.2x	10.9x	9.9x	36.5x	32.7x	28.9x	53.1x	46.2x	39.4x
MASI.O	Masimo Corp	20.6%	9.4%	1.2%	7.8x	4.6x	4.2x	4.2x	18.8x	16.4x	13.5x	34.2x	30.3x	24.6x
ICUI.O	ICU Medical Inc	81.9%	3.5%	NaN	5.1x	2.0x	1.9x	1.9x	10.3x	9.1x	8.1x	23.4x	19.7x	17.4x
NEOG.O	Neogen Corp	61.0%	-24.7%	6.5%	9.9x	4.4x	5.8x	5.4x	21.4x	27.6x	25.5x	27.8x	45.6x	42.2x
MMSI.O	Merit Medical Systems Inc	4.9%	5.4%	5.7%	4.8x	3.3x	3.1x	3.0x	15.6x	14.6x	NaN	25.3x	22.8x	20.6x
	Mean Average US medical de	26.3%	2.4%	6.2%	8.6x	5.2x	5.0x	4.7x	19.6x	18.8x	17.3x	29.7x	29.2x	25.7x
	Median US medical device Co	10.3%	5.4%	6.1%	7.8x	4.5x	4.3x	4.2x	18.3x	16.3x	14.3x	25.3x	22.8x	20.6x

Source: Sequoia estimates for UBI; Refinitiv consensus estimates for all other stocks; FY1 means forecast year 1 (FY22 in most cases); FY2 means forecast year 2 (FY23 mostly). NaN means no

We forecast UBI's EV/ Sales multiple will fall rapidly from 10.6x CY22 to 2.8x in CY24 as revenue ramps up on existing products Sentia Wine Analyser (plus the benefit of 4 more tests), Xprecia Prime (new second-generation blood coagulation monitoring product coming) and HRL (laboratory calibration services, being expanded).

We expect UBI to become profitable in CY24 (NPAT \$9.2m).

11. 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 R&D expense (discretionary investment) of \$9.5m in CY22 (v \$9.3m in CY21) but then dropping back to \$7.3m in CY23 and \$6.7m in CY24. This is a significant investment by UBI, representing 72% / 26% and 16% of UBI product sales for CY22, CY23 and CY24. 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. We forecast 1 more year of government R&D grants for CY22 of \$3.1m.

2. **New product launches / High risk / High reward** - UBI is effectively at the starting blocks again, following 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 launch the improved version of Xprecia Stride (Xprecia Prime) to take on Roche successfully. UBI's other major opportunities are all start-ups – Wine Analyser, Animal blood glucose monitoring, the Tn Antigen cancer test, and Instant Covid Test (ICT). 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 \$16m of net cash (including restricted cash) at end-December 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 14 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 profitable in CY23 and NPAT profitable in CY24, 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\$19m of Australian tax losses & \$0.9m CAD tax losses to protect and possibly recoup.

12. Possible Share Price Catalysts

We identify the following possible share price catalysts for UBI:

1. **Tn Antigen Cancer biosensor** – Results from patient blood trials, initially with cancer remission patients. Timing: Completion April 2022; Results soon thereafter.
2. **Sentia - Progress with distributors and customers in the global wine-making industry** – UBI has announced 14 international distribution partners so far, with further distribution deals expected to be announced soon. 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: 1H22.
3. **Sentia - New tests (products) for Sentia platform** – Test #2 (Malic acid launched Dec) and Test #3 (Glucose) ready for launch. 3 further tests to come (Total acid, Acetic Acid and Fructose). These new tests will use different consumable test strips, but the same reading device. So the value proposition to the winemaker should increase as more tests become available. Timing: Glucose (imminent); Fructose, Acetic Acid and Total Acid CY22.
4. **Xprecia Stride (PT / INR blood coagulation tests) - New distributors** - Progress with expanding the distribution of the Xprecia Stride coagulation product, beyond Siemens' current customer and distribution base. Timing: Underway and ramping up.
5. **Xprecia Prime (PT / INR blood coagulation tests) – Next generation product** – Timing: **European launch expected June**. US trial completion: Mid 2022. FDA submission and approval expected 2HCY22 or 1QCY23. US launch 1HCY23.
6. **Petrackr (Animal blood glucose diabetes monitoring) – new product**. Timing: 4QCY2022 (was 1HCY2022).
7. **Aptamers / Human fertility trials** – 2QCY22.
8. **Aptamers / Instant Covid Test (ICT)** - Preparing for human trials soon.
9. **Possible acquisitions** – With net cash of \$16m 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 (launched December 2021).
3. Glucose – ready for launch (at 2/3/22); Fructose – temporarily delayed.
4. Total acid - expected launch 2022.
5. Acetic acid - expected launch 2022.

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.

Global 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)	14
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 Spytkowsky (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	Spain & Portugal AZ3 Oeno Hernani, Spain	7/06/21	www.az3oeno.com/equipo-az3	Inaki Kamio (Manager)	18
10	France Vivelys SAS (SABT.PA) Languedoc-Roussillon, France	4/10/21	www.vivelys.com/fr	Karine Herrewyn (CEO)	49
11	USA Vinmetrica (USA) Carlsbad, California	25/10/21	www.vinmetrica.com/	Dr Richard Sportsman (CEO)	5
12	USA Astoria-Pacific (USA) Clackamas, (Portland) Oregon	4Q2021	www.astoria-pacific.com	Winston Pavitt (CEO)	25
13	Portugal A Freitas Vilar (Portugal) Lisbon	4Q2021	www.afreitasvilar.com		4
14	Greece Biodynamics SA (Greece) Athens	4Q2021	www.biodynamics.gr		24

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 two tests (for free sulphur dioxide & malic acid) have been launched, with 4 further tests to be developed and launched during CY22.

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) \$ 0.850

Profit & Loss

Years ended Dec \$m	FY20	FY21	FY22e	FY23e	FY24e
Op. Revenue	3.2	5.778	13.148	27.903	42.204
Revenue growth %	-53.6%	80.4%	127.6%	112.2%	51.3%
Cost of Goods Sold	(2.6)	(3.7)	(6.0)	(11.4)	(16.3)
Gross Profit	0.6	2.1	7.1	16.5	25.9
Gross Profit Margin	19.5%	36.4%	54.3%	59.3%	61.4%
Other Income	4.1	4.6	3.1	0.0	0.0
Cash Operating Expenses	(10.8)	(14.9)	(15.6)	(13.8)	(13.6)
Share-based payments	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
EBITDA	-6.2	-8.3	-5.6	2.5	12.1
Ebitda Margin	-194.3%	-142.9%	-42.5%	9.1%	28.7%
Depreciation & Amort	(2.2)	(2.2)	(2.4)	(2.6)	(2.9)
EBIT	-8.5	-10.4	-8.0	-0.1	9.2
Ebit Margin	-263.9%	-180.6%	-60.7%	-0.3%	21.9%
Interest Income (Expense)	0.1	(0.1)	(0.1)	(0.1)	(0.1)
Share of Assoc NPAT	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	(8.3)	(10.5)	(8.1)	(0.2)	9.2
Income Tax Credit (Expense)	0.0	0.0	0.0	0.0	0.0
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%
Minorities (share of loss)	0.0	0.0	0.0	0.0	0.0
Abnormals	0.7	0.0	0.0	0.0	0.0
NPAT (reported)	-7.6	-10.5	-8.1	-0.2	9.2
Adjustments (Abnormals)	-0.7	0.0	0.0	0.0	0.0
NPAT (normalised)	-8.3	-10.5	-8.1	-0.2	9.2

Balance Sheet

Cash	28.1	18.1	13.2	19.3	33.9
Receivables	0.1	0.5	1.1	0.3	0.5
Inventories	1.9	2.1	3.9	8.2	12.4
Other	3.7	4.9	4.9	4.9	0.0
Total current assets	33.7	25.7	23.1	32.8	46.8
PP&E	8.4	6.2	6.9	7.6	8.5
Invests (Restricted cash)	0.0	0.0	0.0	0.0	0.0
Intangibles	14.3	12.7	13.5	14.3	15.1
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Total non-current assets	22.7	18.8	20.3	21.9	23.6
Total Assets	56.4	44.5	43.5	54.7	70.4
Payables	-1.6	-3.2	-7.4	-15.6	-23.6
Interest bearing liabs -current	-0.5	-0.6	-0.6	-0.6	-0.6
Deferred revenue - current	-1.6	0.0	0.0	-0.1	-0.1
Provisions	-0.6	-0.7	-0.7	-0.7	-0.7
Other	-4.6	-4.9	-1.4	-1.4	-1.4
Total Current Liabilities	-9.0	-9.4	-10.0	-18.3	-26.3
Interest-bearing liabs (Non-cu)	-3.6	-1.7	-1.7	-1.7	-1.7
Deferred revenue (non-current)	0.0	0.0	0.0	0.0	0.0
Provisions	-2.8	-2.8	-2.8	-2.8	-2.8
Other	-3.1	-3.1	-10.1	-11.2	-9.7
Total Non-current Liabilities	-9.4	-7.5	-14.6	-15.6	-14.1
Total Liabilities	-18.4	-16.9	-24.6	-33.9	-40.5
Total Shareholders' Equity	38.0	27.6	18.9	20.8	29.9

Interims

Year end June	1H20	2H20	1H21	2H21	FY21
Sales	1.1	2.1	3.4	2.4	5.8
Sales Growth (%)	-73%	-27%	219%	12%	80%
EBITDA profit (loss)	-4.1	-2.1	-2.1	-6.2	-8.3
EBITDA Margin	-388.3%	-97.9%	-62.0%	-258.0%	-142.9%
EBIT	-5.3	-3.2	-3.2	-7.3	-10.4
Equity Share of Assocs NPAT	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	-4.5	-3.1	-3.2	-7.3	-10.5
NPAT (Adjusted)	-5.1	-3.2	-3.2	-7.3	-10.5
EPS (adjusted)(cents)	-2.9	-1.8	-1.8	-4.1	-5.9
EPS Growth	128.0%	22.6%	-37.4%	128.6%	26.3%
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Source: Sequoia estimates

Per share & Ratio data

Years ended Dec	FY20	FY21	FY22e	FY23e	FY24e
Shares on Issue - Wavge (f/c)	177.6	177.7	194.0	194.0	194.0
Shares on Issue - at y/end	177.6	177.8	177.8	177.8	177.8
EPS - Reported (cents)	(4.3)	(5.9)	(4.2)	(0.1)	4.7
Growth	57.5%	37.5%	-29.7%	-98.0%	-5893.2%
P/E ratio (x)	-19.8x	-14.4x	-20.5x	-1042.7x	18.0x
EPS (normalised)(cents)	(4.7)	(5.9)	(4.2)	(0.1)	4.7
Growth	71.4%	26.3%	-29.7%	-98.0%	-5893.2%
P/E ratio (x)	-18.2x	-14.4x	-20.5x	-1042.7x	18.0x
DPS (cents)	0.0	0.0	0.0	0.0	0.5
Yield	0.0%	0.0%	0.0%	0.0%	0.6%
OCF per share (cents)	-4.7	-5.6	-2.0	3.7	8.1
Price/OCF (x)	-18.2x	-15.3x	-42.6x	22.9x	10.5x
EV/ Sales	40.13x	23.42x	10.66x	4.80x	2.83x
EV/EBITDA	-20.7x	-16.4x	-25.1x	52.6x	9.9x
EV/EBIT	-15.2x	-13.0x	-17.6x	-1555.9x	12.9x
Liquidity & Leverage					
Market cap \$m	151.2	151.2	151.2	151.2	151.2
Less: Net Cash (Debt) \$m	23.9	15.8	11.0	17.1	31.7
Enterprise Value \$m	128.5	135.3	140.2	134.1	119.5
Net Debt / Equity %	n/a	n/a	n/a	n/a	n/a
Net Debt / EBITDA	n/a	1.9x	2.0x	n/a	n/a
ROA (EBIT / T.Assets) %	-15.0%	-23.4%	-18.4%	-0.2%	13.1%
ROE (NPAT / T.Equity) %	-21.9%	-38.1%	-41.2%	-0.8%	32.1%

Cash Flow

EBITDA	-6.2	-8.3	-5.6	2.5	12.1
Chge in Working Capital	-3.3	-0.6	1.8	4.7	3.7
Interest Received (Paid)	0.1	-0.1	-0.1	-0.1	-0.1
Income taxes paid	0.0	0.0	0.0	0.0	0.0
Other	1.1	-0.9	0.0	0.0	0.0
Operating cash flows	-8.3	-9.9	-3.9	7.2	15.7
Capex	-0.4	-0.7	-1.0	-1.1	-1.1
Acquisitions	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other (Capitalised R&D)	0.0	0.0	0.0	0.0	0.0
Net investing cash flows	-0.4	-0.7	-1.0	-1.1	-1.1
Equity raised (bought back)	0.0	0.1	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing cash flow	0.0	0.1	0.0	0.0	0.0
Change in Cash	-8.6	-10.5	-4.9	6.1	14.6

Revenue by Product

Blood Coag (PT-INR tests)	2.6	2.7	4.5	6.5	9.0
Sentia Wine Analyser (03/2)	0.0	1.2	6.2	15.3	24.0
Blood Glucose / Vet	0.0	0.0	0.0	3.0	5.3
Services - HRL Canada	0.6	2.0	2.5	3.1	3.9
Services - Contract R&D / t	0.0	-0.1	0.0	0.0	0.0
Total Revenue	3.2	5.8	13.1	27.9	42.2

Directors Shareholdings	Shares (m)	% of coy	Perf.Rts(m)
Craig Coleman, Chairman (app NED 30/6/16, Chai	27.466	15.4%	0.0
Judith Smith, NED (appointed: 12/3/15)	0.300	0.2%	0.0
David Hoey, NED, O/s-based (appointed 2/3/16):	0.566	0.3%	0.0
Graham McLean, NED (appointed: 7/3/22)	0.000	0.0%	0.0
Senior Management:			
John Sharman, CEO (commenced 8/6/20)	0.000	0.0%	10.8
Salesh Balak, CFO (commenced Nov 2006)	0.267	0.1%	2.2

Major Shareholders	Shares (m)	% of coy
Viburnum Funds	27.250	15.3%
JM Financial Group Ltd	21.968	12.4%
Jencay Capital Pty Ltd	17.020	9.6%
Richmond Hill Capital Pty Ltd (2 mgrs ex Viburnum	8.370	4.7%
KFT Investments Pty Ltd	7.430	4.2%

Source: ASX announcements, Refinitiv

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Recommendation Criteria

Investment View

The Sequoia Wealth Management (SWM) Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

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

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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