

Universal Biosensors Inc.

Sensing a significant opportunity

May 2021

Recommendation: BUY

- **Proprietary technology platform with strong commercial pedigree**
- **Developing biosensor applications for a range of new global markets**
- **Significant valuation upside from commercialisation of product suite**

ASX: UBI

Share Price: \$0.74

Target Price: \$1.20

M/Cap.: \$131.4M

Valuation: \$1.20/share

Valuation: \$220M

Shares/options: 177.6M

Monthly T/over: \$3.7M



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Petra Capital Pty Ltd

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Figure 1: Top 20 Shareholders (as at 31 March 2021)

	Name	Amount (M)	%
1	JPMorgan	46.0	25.9
2	Sandhurst Trustees Ltd (JMFG)	24.2	13.6
3	HSBC Custody Nominees (Australia)	23.2	13.1
4	KFT Investments Pty Ltd	5.6	3.1
5	Sandhurst Trustees Ltd (Endeavour Asset Management)	4.1	2.3
6	Sandhurst Trustees Ltd (Cyan C3G Fund)	3.5	2.0
7	Annlew Investments	2.9	1.6
8	Citicorp Nominees	2.1	1.2
9	UBS Nominees	1.9	1.1
10	Ronald Chatelier	1.2	0.7
11	Mr Christopher J La Croix & Mrs Kathleen M La Croix	1.2	0.7
12	One Managed Investment Funds Limited (TI Growth)	1.1	0.6
13	Hardgrave Superannuation Pty Ltd	1.1	0.6
14	Mulroy Holdings Pty Ltd	1.1	0.6
15	One Managed Investment Funds Limited (TI Absolute Return)	0.9	0.5
16	Mr Nigel Strong	0.8	0.4
17	Superb Investments Pty Ltd	0.7	0.4
18	BNP Paribas Nominees Pty Ltd	0.7	0.4
19	Mr David Duncan Hisco	0.7	0.4
20	McLean Engineering Pty Ltd	0.7	0.4
	Total	123.5	69.5

Source: Company reports

May 2021

Universal Biosensors Inc. (UBI) BUY Share Price: **A\$0.74**

Sensing a significant opportunity Target Price: **A\$1.20**

We initiate coverage of UBI with a Buy recommendation and a \$1.20ps target price. UBI offers investors exposure to the global biosensor market, which is forecast to exhibit strong growth over the next several years, driven by technological advancements that are creating new market applications for biosensors. We expect UBI to be at the forefront of this growth opportunity, noting its past success in commercialising its biosensor technology and current suite of product development opportunities across wine, animal glucose, coagulation, carcinomas, heavy metals and fertility. This drives our forecast 5-year sales CAGR of 77% and 2025 EBITDA margin of 40%.

A technology platform with commercial pedigree

- While UBI's growth prospects (and our target price) are dependent on its ability to develop an array of new biosensors, we take comfort from the company's past success in commercialising its core technology platform.
- As at December 2020, UBI had net cash of \$23.6m, which we estimate is sufficient to fund the company's near-term product development initiatives to positive free cash generation in 2024.

An enormous market opportunity

- We expect UBI to report a significant improvement in profitability over the next several years, driven primarily by strong revenue growth derived from the rollout of its various product development initiatives.
- The first of these product initiatives (Sentia™) debuted in February 2021, as a medical-grade diagnostics device for wine makers. The customer value proposition is compelling and the addressable market is >A\$600m p.a.
- Beyond other near-term opportunities in animal glucose and coagulation, UBI's partnership with Lubris paves the way for biosensor use in monitoring Tn Antigens (a ~A\$17bn p.a. market), estrogen and heavy metals.

Positive operating leverage

- We expect UBI to exhibit strong earnings growth in excess of the underlying sales run rate, reflecting strong operating leverage, despite the ongoing expensing of R&D. We estimate an EBITDA margin of 40% by 2025.

Initiate with a Buy rating and \$1.20ps target price

- Our estimated fair value for UBI is \$1.20ps, with this based entirely on our DCF valuation. This equates to an equity value of \$220m, which compares favourably with the current market value of key company comparatives.
- UBI's near-term share price catalysts are likely to include progress reports on (i) Sentia, including new distribution agreements and test types and (ii) the development of a biosensor for monitoring Tn Antigen.

Company Data

Shares – ordinary (M)	177.6
Dilution (M)	0.0
Total (fully diluted) (M)	177.6
Market capitalisation (\$M)	131.4
12 month low/high (\$)	0.19 - 0.85
Average monthly turnover (\$M)	3.7
GICS Industry	Health Care Equipment & Supplies

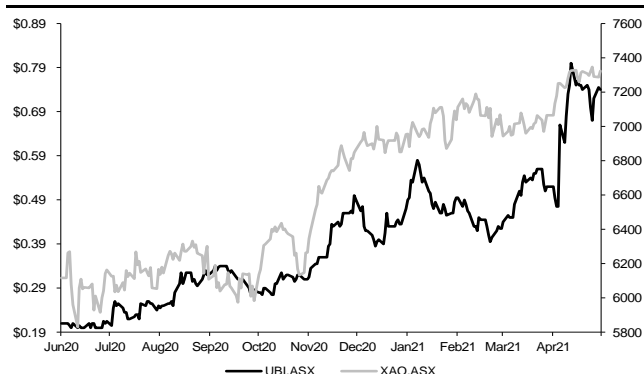
Financial Summary (fully diluted/normalised)

Year End December	2020A	2021F	2022F	2023F	2024F
Revenue (A\$m)	3.2	8.3	15.5	25.7	40.7
Costs (A\$m)	8.8	15.8	20.1	24.3	29.2
EBITDA (A\$m)	-5.6	-7.5	-4.6	1.4	11.5
NPAT (A\$m)	-7.6	-9.6	-6.8	-0.8	9.3
EPS (¢)	-4.1	-5.2	-3.7	-0.4	5.1
EPS Growth (%)	-57.5	-25.4	29.4	88.3	+100.0
PER (x)	-17.8	-14.2	-20.1	-171.4	14.5
FCF (A\$m)	-8.7	-8.1	-7.4	-1.7	7.2
FCF per share (cps)	-4.7	-4.4	-4.0	-0.9	3.9
Price to FCF (x)	-15.7	-16.8	-18.5	-78.1	18.8
EV (A\$m)	106.0	112.7	120.8	128.2	129.9
EV/EBITDA	-19.1	-15.0	-26.2	91.0	11.3
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend (¢)	0.0	0.0	0.0	0.0	0.0
Net Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

Board

Director	Position	Executive	Independent
Mr Craig Coleman	Chairman	No	No
Ms Judith Smith	Director	No	Yes
Mr David Hoey	Director	No	Yes

UBI – performance over one year



Analysis

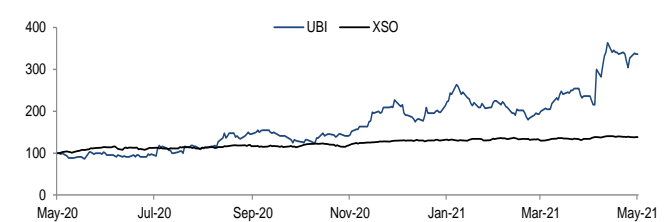
Universal Biosensors

Year End December

MARKET DATA

Recommendation		Buy
Price	\$	0.74
Price target (12-month)	\$	1.20
52 week high / low	\$	0.19 - 0.85
Market capitalisation	\$m	131.4
Shares on issue (basic)	no.	177.6
Performance rights	no.	0.0
Other equity	no.	0.0
Shares on issue (diluted)	no.	177.6

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	2020A	2021F	2022F	2023F	2024F	2025F
Underlying net profit	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0
Reported net profit	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0
Reported EPS (diluted)	¢ (4.1)	(5.2)	(3.7)	(0.4)	5.1	10.9
Normalised EPS (diluted)	¢ (4.1)	(5.2)	(3.7)	(0.4)	5.1	10.9
...Growth	% (57.5)	(25.4)	29.4	88.3	+100.0	+100.0
Normalised diluted PER	x (17.8)	(14.2)	(20.1)	(171.4)	14.5	6.8
Adjusted Op. CF per share	¢ (4.5)	(4.1)	(3.7)	(0.7)	4.2	10.1
Adjusted FCF per share	¢ (4.7)	(4.4)	(4.0)	(0.9)	3.9	9.8
Price to free cash flow per share	x (15.7)	(16.8)	(18.5)	(78.1)	18.8	7.5
Free cash flow yield	% (6.4)	(6.0)	(5.4)	(1.3)	5.3	13.3
Dividend per share	¢ 0.0	0.0	0.0	0.0	0.0	0.0
Payout ratio	% 0.0	0.0	0.0	0.0	0.0	0.0
Yield	% 0.0	0.0	0.0	0.0	0.0	0.0
Franking	% 0.0	0.0	0.0	0.0	0.0	0.0
Enterprise value	\$m 106.0	112.7	120.8	128.2	129.9	122.7
EV/EBITDA	x (19.1)	(15.0)	(26.2)	91.0	11.3	5.6
EV/EBIT	x (13.6)	(11.7)	(18.0)	(184.4)	13.8	6.1
Price to book (NAV)	x 3.5	4.6	6.1	6.4	4.5	2.7
Price to NTA	x 5.5	8.3	12.4	11.5	6.0	3.1

KEY RATIOS

	2020A	2021F	2022F	2023F	2024F	2025F
EBITDA margin	% (173.3)	(90.5)	(29.8)	5.5	28.2	39.9
EBIT margin	% (242.8)	(115.8)	(43.4)	(2.7)	23.0	36.1
Underlying net profit margin	% (238.5)	(115.4)	(43.7)	(3.1)	22.9	36.1
Return on average equity	% (18.3)	(28.9)	(27.0)	(3.7)	36.5	49.8
Return on average assets	% (13.3)	(18.8)	(15.5)	(2.1)	19.3	30.8
Net tangible assets per share	¢ 13.3	8.9	6.0	6.4	12.3	23.9
Net debt / (cash)	\$m (23.6)	(15.4)	(8.1)	(6.4)	(13.5)	(31.5)
Interest cover (EBIT / net interest)	x N/A	N/A	(144.5)	(7.2)	125.4	N/A
Leverage (net debt / EBITDA)	x N/A	N/A	N/A	N/A	N/A	N/A
Gearing (net debt / net debt plus equity)	% N/A	N/A	N/A	N/A	N/A	N/A

DUPONT ANALYSIS

	2020A	2021F	2022F	2023F	2024F	2025F
Net Profit Margin	% (238.5)	(115.4)	(43.7)	(3.1)	22.9	36.1
Asset Turnover	x 0.1	0.2	0.3	0.6	0.9	0.9
Return on Assets	% (12.8)	(18.4)	(15.2)	(1.9)	19.6	31.2
Financial Leverage	x 1.4	1.6	1.8	2.0	1.9	1.6
Return on Equity	% (18.3)	(28.9)	(27.0)	(3.7)	36.5	49.8

BUSINESS SEGMENTS

	2020A	2021F	2022F	2023F	2024F	2025F
Revenue	\$m 3.2	8.3	15.5	25.7	40.7	55.4
- Oenology (Sentia)	\$m 0.0	2.2	6.7	16.9	27.2	37.5
- Blood coagulation	\$m 2.6	4.1	6.0	5.5	8.9	12.1
- Veterinary	\$m 0.0	0.0	0.4	0.8	1.7	2.6
- HRL	\$m 0.6	2.0	2.3	2.6	2.8	3.1
Gross profit	\$m 0.6	3.7	8.8	15.8	26.6	37.9
- Oenology (Sentia)	\$m 0.0	1.7	5.0	12.8	20.6	28.7
- Blood coagulation	\$m 0.9	1.9	3.1	2.0	4.3	7.0
- Veterinary	\$m 0.0	0.0	0.2	0.4	0.8	1.3
- HRL	\$m (0.2)	0.2	0.5	0.6	0.8	0.9
Gross profit margin	% 19.5	44.9	56.6	61.4	65.3	68.5
Non-sales income	\$m 4.9	3.0	0.0	0.0	0.0	0.0

PROFIT AND LOSS

	2020A	2021F	2022F	2023F	2024F	2025F
Total revenue	\$m 3.2	8.3	15.5	25.7	40.7	55.4
EBITDA	\$m (5.6)	(7.5)	(4.6)	1.4	11.5	22.1
Depreciation & amortisation	\$m 2.2	2.1	2.1	2.1	2.1	2.1
EBIT	\$m (7.8)	(9.6)	(6.7)	(0.7)	9.4	20.0
Net interest	\$m (0.1)	(0.0)	0.0	0.1	0.1	(0.0)
Non-operating income	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0
Tax expense	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Minorities	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0
Significant items	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m (7.6)	(9.6)	(6.8)	(0.8)	9.3	20.0

GROWTH PROFILE

	2020A	2021F	2022F	2023F	2024F	2025F
Operating revenue	% (53.6)	159.2	86.5	66.2	58.2	36.0
EBITDA	% 4.8	(35.3)	38.6	+100.0	+100.0	92.2
EBIT	% (11.3)	(23.6)	30.1	89.7	+100.0	+100.0
Operating NPAT	% (57.6)	(25.4)	29.3	88.3	+100.0	+100.0
Normalised EPS	% (57.5)	(25.4)	29.4	88.3	+100.0	+100.0
DPS	% 0.0	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET

	2020A	2021F	2022F	2023F	2024F	2025F
Cash	\$m 23.6	15.4	8.1	6.4	13.5	31.5
Receivables	\$m 0.1	1.2	2.8	4.6	7.3	10.0
Inventory	\$m 1.9	1.7	2.9	4.9	7.7	10.5
Other	\$m 5.9	5.9	5.9	5.9	5.9	5.9
Current	\$m 31.4	24.2	19.7	21.8	34.5	57.9
Prop. plant & equip	\$m 4.4	4.4	4.4	4.4	4.4	4.5
Goodwill	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$m 20.6	18.8	17.3	15.8	14.3	12.8
Non current	\$m 25.0	23.2	21.7	20.2	18.7	17.2
Total assets	\$m 56.4	47.5	41.4	42.0	53.2	75.1
Accounts Payable	\$m 0.4	1.2	1.9	3.1	4.9	6.6
Borrowings	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$m 18.0	17.8	17.9	18.1	18.2	18.3
Total liabilities	\$m 18.4	19.1	19.8	21.1	23.1	24.9
Net assets	\$m 38.0	28.4	21.6	20.8	30.1	50.2
Equity	\$m 38.0	28.4	21.6	20.8	30.1	50.2
Minorities	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m 38.0	28.4	21.6	20.8	30.1	50.2
Shares on issue	m 177.6	177.6	177.7	179.0	181.8	184.1

CASH FLOW

	2020A	2021F	2022F	2023F	2024F	2025F
EBITDA	\$m (5.6)	(7.5)	(4.6)	1.4	11.5	22.1
Change in working capital	\$m (0.9)	(0.2)	(2.2)	(2.6)	(3.7)	(3.7)
Net interest	\$m 0.0	0.0	(0.0)	(0.1)	(0.1)	0.0
Tax paid	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$m (1.8)	0.0	0.0	0.0	0.0	0.0
Operating cash flow	\$m (8.3)	(7.6)	(6.9)	(1.3)	7.7	18.5
Capital expenditure	\$m (0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Acquisitions/divestment/other	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m (0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Free cash flow	\$m -8.7	-8.1	-7.4	-1.7	7.2	18.0
Equity	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Dividend/other	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Financing cash flow	\$m 0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	\$m (8.6)	(8.1)	(7.4)	(1.7)	7.2	18.0

Source: Petra Capital

Executive Summary

Universal Biosensors (UBI) is a US registered medical-grade hand-held diagnostics company with its primary operating base located in Melbourne, Australia. The company's key asset is its proprietary technology platform for portable biosensors, which have to date delivered, via strategic partnerships with third parties, in excess of 10 billion glucose and coagulation diagnostic tests to patients worldwide.

UBI's success thus far stems from the value (i.e. primarily time and cost efficiencies relative to incumbent processes) its customers derive from using its biosensors. UBI achieves this by combining its proprietary electrochemical cell technology and signal processing systems, with a hand-held touch-screen user interface to deliver cost effective, accurate and real-time adjuncts to lab-based diagnostics tests.

Having historically been an R&D led business, UBI is now pivoting to a product development led growth strategy that seeks to maximise the value of its existing IP through strategic partnerships and M&A. Key in this regard was the recent agreement with US-based life sciences business Lubris for exclusive rights to its antifouling coating Lubricin, which increases UBI's biosensor specificity to 200 picomolar (10^{-12}).

Multiple growth opportunities available

The Lubricin enabled increase to UBI's biosensor detection limit means that the company can now target new applications in a number of other large global markets. Of particular note are diagnostic testing/monitoring of (i) Tn Antigen, which is expressed in a wide range of human carcinomas (ii) luteinizing hormone and estrogen, which are key biomarkers for fertility/ovulation and (iii) heavy metals.

These potential new market applications for UBI's biosensor are in addition to the company's current product development pipeline, which comprises (i) Sentia™, which is a proprietary biosensor for wine makers that will offer six tests, the first of which is now being rolled out across key markets (ii) an animal glucose biosensor for veterinary practices and (iii) the next generation of its coagulation biosensor.

Leveraging UBI's established track record in new global markets

While UBI is targeting a number of very large global markets, there are a number of advantages which we believe make its prospects for success higher than a typical start-up. First and foremost is the fact that UBI's core biosensor technology platform already has commercial pedigree, established through its strategic partnership with Johnson & Johnson's Lifescan (glucose) and Siemens (coagulation).

As a result of these strategic partnerships, UBI's has gained vast experience in commercialising its core technology platform, with two of its products having (i) received FDA clearance for use in the US, the rights to one of which have since been sold to Lifescan, and (ii) generated significant patient data sets that may be used to fast track future FDA product applications.

Furthermore, and as a means to maximising UBI's near-term revenue opportunity, the company is also limiting its near-term focus to markets where regulatory barriers are relatively low. In general, this means non-medical device platforms such as Sentia™ (i.e. oenology) and veterinary, and (ii) medical-grade devices used for monitoring (rather than detection), such as Tn Antigen monitoring in patient remission.

With a high fixed cost base

Assuming UBI adopts a third-party distributor model for all of its products and notwithstanding our expectation that the company will continue to expense its R&D/capex through the Profit & Loss, we forecast strong operating leverage off a high fixed cost base. This is evident in our forecast EBITDA margin, which transitions from loss making to 40% in 2025, off a 5-year revenue CAGR of 77%.

We initiate coverage with a Buy rating and \$1.20ps target price

Our 12-month target price is \$1.20 per share. This is derived entirely from our Base case DCF valuation, with attainment of higher market shares across its product suite resulting in a Bull case DCF valuation of \$1.93ps. Our Base case equates to an equity value of \$220m, which compares to (i) UBI's current market value of ~\$131m and (ii) the ~\$200m market value ascribed to key company comparatives.



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