

Universal Biosensors

Revenues expected in 2008



Wilson HTM
INVESTMENT GROUP

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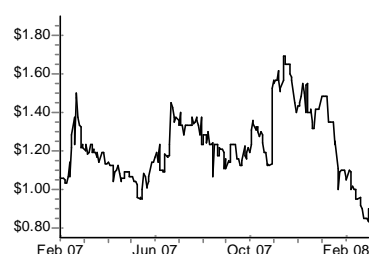
\$0.90

BUY

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Price Performance



Security/Capital Details

ASX Code	UBI
Market Cap	\$145 M
Issued Shares	161.4 M
Avg Mth T'over	1.05 M
12 Mth High – Low	\$1.70 - \$0.83

Key Data/Ratios – FY 2008

EBITDA / Sales	-88.8%
EBIT / Sales	-118.1%
Net Debt / Equity	-68.7%
Interest Cover	x
ROE	-9.2%
EPS Growth	42.9%
PEG Ratio	-0.64 x
NTA / Share	\$ 0.35
DCF	\$ 2.40
12 Mth Price Target	\$ 2.76

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Year to Dec	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2007a	-8.4	-5.7	-22.4	-15.8	-22.5	-11.1	0.0	0.0	0
2008e	-5.3	-3.3	42.9	-27.7	-45.5	-27.4	0.0	0.0	0
2009e	9.7	6.0	285.5	14.9	17.5	8.2	0.0	0.0	0
2010e	24.0	14.9	146.4	6.1	6.3	3.3	0.0	0.0	0

Equities Research – Universal Biosensors

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Recommendation

We maintain our **BUY** recommendation with an increased valuation of **\$2.40** and 12-month price target of **\$2.76** as it appears the engagement with Lifescan since the signing of the Master Service Agreement is proceeding at a strong pace. We are confident that UBI will generate its first operational revenues from this agreement in the second half of 2008. Development of the Prothrombin time test continues along our forecast timeline, but we have delayed development of the immunoassay test due to delays at the NIH. An announcement regarding marketing approval could be expected in Q2-Q3 2008.

Key Points

- UBI's results for fiscal 2007 (the company has a December year end), showed losses greater than we had expected and cash burn higher than forecast.
 - The company finished the year with a cash balance of \$45M.
- We believe that since the master Service Agreement was signed with Lifescan, there has been considerable activity at the UBI plant, and intensive interaction between Lifescan and UBI.
- The company has already received its first milestone payment from Lifescan (US\$1M) and will receive a further US\$250,000 per quarter from Lifescan in the form of R&D grants in 2008.
- We maintain our forecast that operational revenues are expected to be brought to book in the second half of 2008.
- We continue to believe that the Prothrombin time test will be launched in 2010 to assist patients in monitoring of blood thinning drugs to prevent development of blood clots. However, we have delayed the development of the immunoassay product by 12 months.
 - The delay is as a result of the JUPITER study being undertaken by the NIH in the US delaying completion of its study by around 12 months.

Given the company is closer to achieving revenues we are increasing our DCF valuation from \$2.26 to \$2.40, with a 12-month price target of \$2.76. The major piece of news expected to lead to an increase in the share price would be an announcement regarding progress to receiving marketing approval. An announcement in this regard can therefore be expected in Q2-Q3 2008.

- We therefore maintain our **BUY** recommendation.



2008 Results

Development Expenditure

UBI's results for fiscal 2007 (the company has a December year end), showed losses greater than we had expected and cash burn higher than forecast. This has been as a direct result of higher than expected R&D, staffing and capital expenditure. The company finished the year with a cash balance of \$45M.

Prelude to Operational Revenues?

We believe that since the Master Service Agreement was signed with Lifescan, there has been considerable activity at the UBI plant, and intensive interaction between Lifescan and UBI. We therefore believe it is only a matter of time before Lifescan submits a marketing approval application to regulatory authorities, and once approved begins to sell product.

The company has already received its first milestone payment from Lifescan (US\$1M) and will receive a further US\$250,000 per quarter from Lifescan in the form of R&D grants in 2008.

We maintain our forecast that operational revenues are expected to be brought to book in the second half of 2008.

Product Development

Besides the glucose system under development with Lifescan, UBI is also developing a Prothrombin time test and an Immunoassay test. Both these products move testing from the pathology laboratory to the point-of-care (PoC) environment, offering all the advantages in terms of rapid patient feedback, improved drug compliance and reduced costs that have been the hallmark of the diabetes market since PoC systems were launched nearly 20 years ago.

We continue to believe that the Prothrombin time test will be launched in 2010 to assist patients in monitoring of blood thinning drugs to prevent development of blood clots. However, we have delayed the development of the immunoassay product by 12 months.

The immunoassay product (C-reactive protein) launch timeline is to a large degree determined by the results of the JUPITER study being conducted by the US National Institute of Health (NIH). The aim of the study is to determine the effectiveness of immunoassay tests in the diagnosis and monitoring of cardiac disease. While this study was expected to report in late 2007 – early 2008, we now believe it is more likely to report its results towards the end of 2008.

Valuation

Given the company is closer to achieving revenues we are increasing our DCF valuation from \$2.26 to \$2.40, with a 12-month price target of \$2.76. The major piece of news expected to lead to an increase in the share price would be an announcement regarding progress to receiving marketing approval. An announcement in this regard can therefore be expected in Q2-Q3 2008.

We therefore maintain our BUY recommendation.

Universal Biosensors (UBI : \$0.90)

INVESTMENT FUNDAMENTALS

Yr Ending Dec	2006A	2007A	2008E	2009E	2010E
EPS Reported (c)	-4.5	-5.7	-3.3	6.0	14.9
EPS Normalised (c)	-4.7	-5.7	-3.3	6.0	14.9
EPS Growth (%)	N/A	-22.4%	42.9%	285.5%	146.4%
PER Normalised (x)	-19.4	-15.8	-27.7	14.9	6.1
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

VALUATION DATA

Yr Ending Dec	2006A	2007A	2008E	2009E	2010E
EV / EBITA (x)	-31.1	-10.2	-20.6	9.0	3.5
EV / EBITDA (x)	-37.2	-11.1	-27.4	8.2	3.3
CFPS (c)	-2.9	-4.0	-2.0	5.2	14.2
Price / CF	-31.0	-22.5	-45.5	17.5	6.3
Book Value / Share (\$)	0.3	0.4	0.3	0.4	0.5
Price / Book (x)	3.4	2.4	2.6	2.2	1.6

PROFIT & LOSS (\$m)

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

PROFITABILITY RATIOS

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

INTERIMS (\$m)

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

BALANCE SHEET (\$m)

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

LIQUIDITY & LEVERAGE RATIOS

Yr Ending Dec	2006A	2007A	2008E	2009E	2010E
Net Debt (Cash) (\$m)	-29.2	-45.1	-37.4	-42.4	-62.0
Net Debt / Equity (%)	-85.8%	-75.5%	-68.7%	-66.1%	-72.0%
Interest Cover (x)					
Debt / CashFlow (x)	0.0	0.0	0.0	0.0	0.0

CASHFLOW (\$m)

Yr Ending Dec	2006A	2007A	2008E	2009E	2010E
EBIT	-2.8	-9.9	-5.3	11.4	24.0
Dep'n and Amort'n	0.5	0.8	1.3	1.1	1.1
Net Int Rec'd (Paid)	0.0	1.4	0.0	0.0	0.0
Tax Paid	0.0	0.2	0.0	0.0	0.0
Dec / (Inc) W'kg Cap	-0.4	0.0	-2.0	-8.0	-5.0
Other	0.8	1.7	2.7	3.8	2.9
Operating Cash Flow	-1.9	-5.9	-3.2	8.3	22.9
Capital Expenditure	-4.1	-8.8	-4.4	-3.3	-3.3
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-4.1	-8.8	-4.4	-3.3	-3.3
Equity Raised	30.8	35.0	0.0	0.0	0.0
Inc / (Dec) in Loans	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other Fin. Flows	0.0	-1.8	0.0	0.0	0.0
Financing Cash Flow	30.8	33.3	0.0	0.0	0.0
Net Cash Flow	24.8	18.6	-7.6	5.0	19.6

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