Canaccord Genuity Capital Markets

Lowering Target Price

Universal Biosensors Inc.

Biomedical Devices and Services

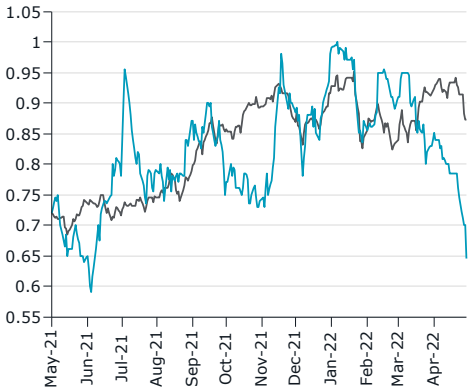
2 May 2022

Rating	Price Target
SPECULATIVE BUY *unchanged*	**A$1.05↓** *from A$1.25*
UBI-ASX	Price **A$0.65**

Market Data

52-Week Range (A$) :	0.58 - 1.04
Market Cap (A$M) :	136.6
Shares Out. (000s) :	212
Dividend /Shr (A$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A$M) :	103
Last Cash Balance (A$) :	37.3
Last Quarter Cash Burn (A$M) :	(5.3)

FYE Dec	2021A	2022E	2023E	2024E
Sales (A$M)	5.8	10.8	21.6	43.8
Gross Profit (A$M)	2.5	5.9	12.1	25.0
EBITDA Adj (A$M)	(7.9)	(7.1)	1.4	9.9
EV/Sales (x)	17.0	9.6	4.9	2.4
EV/EBITDA (x)	(12.5)	(14.7)	73.3	10.6



Source: FactSet

Priced as of close of business 29 April 2022

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Mar'Q report in line - 40% revenue growth qoq

Investment Recommendation

Universal Biosensors (UBI-ASX) reported a solid qtrly result that was in line with expectations. Total revenue increased c.11.3% yoy to c.$1.72m, which was up c.43.6% qoq. Coagulation testing products performed best with growth of c.16.5% yoy and the HRL testing service was up c.15% yoy. The Sentia wine testing business was flat yoy, which reflected only the first of six tests in the market (Free SO2), with the second test for Malic Acid launched in the qtr. UBI is undertaking a $20m entitlement offer, issuing 1:6.85 CDIs at $0.77, following a $6m placement at the same price. The funds are being used to scale up manufacturing and R&D capability, accelerate current product development initiatives and provide working capital support for the current Sentia and Xprecia products as well as expand its HRL laboratory services. The raising reflects a strong investment phase for the business and the opportunities across a diverse group of applications for UBI's platform biosensor technology. We have adjusted our DCF valuation for the c.19% dilution, resulting in a reduction in our PT from $1.25 to $1.05. Within our valuation, we estimate Sentia is worth $0.84/CDI, implying significant optionality for the pipeline products, but particularly the Tn Antigen cancer biomarker based on some initial raw data that was recently released. **SPECULATIVE BUY.**

Headline results. Cash receipts were up c.203% yoy to c.$1m, reflecting the beginning of the reinvigoration of the business. Cash costs included c.$1.9m of non-recurring expenses relating to the development of animal health blood glucose product and the FDA clinical trial for Xprecia Prime. Underlying cash burn of c.$3.3m was in the range of previous qtrs, leaving current cash at c.$12m (pre-raising).

Sales profile gaining momentum. UBI produced the highest qtrly sales growth over the past year with c.40% to c.$1.7m, particularly in the context of COVID-19 generally subduing activity. Coagulation performed strongly at +c.201%, while HRL and Sentia were slightly lower. Sentia's sales reflected recurring orders as compared with initial orders for the pcp. Coagulation should get a further boost in coming qtrs with the recent EU approval (32 countries) of the next generation Xprecia Prime product that can compete with market leader Roche on features but is at a significantly lower price point. HRL is in the process of expanding its offering through blood testing in clinical trials and is seeking to expand into inflammatory diseases, cytokines and a multiplex immunoassay platform. **Sentia's** results still reflect its initial commercialisation phase with one test being in the market. Investors will be looking to the June qtr for a substantial increase in revenue through initial orders of the Malic Acid test. Further, the June qtr marks US harvesting season which should be a catalyst for ordering Sentia test strips. UBI has built a US sales force and distribution centre to support US/global expansion. UBI is also finalising development of its third product (Glucose). We would expect solid qtrly growth through CY22 to enable UBI to meet our FY22E of c.$10.8m.

Pipeline activity is intensifying. UBI has marked out several areas for long-term growth. It is progressing clinical studies in the US to seek FDA clearance for Xprecia Prime, and working through a development study of c.300 patients for its Tn Antigen biosensor targeting monitoring of cancer remission patients. UBI is also working on its aptamer technology that has applications in cancer, fertility, environmental and COVID-19 biosensors. The recent release of the first arm of the **Tn Antigen development study** showed high quality and superior specificity results, with competitive/superior sensitivity results, compared with standard in-market tests for colorectal/prostate cancer, which have a combined c.$6bn in annual sales. The biosensor needs further development/calibration but the initial results were very positive and pave the way for formal clinical trials to commence later in CY22. The other two arms of the development study should be released by June.

Figure 1: Earnings summary

Universal Biosensors (UBI)				$0.65					Year end 31 Dec
Profit & Loss (A$m)	**FY21**	**FY22E**	**FY23E**	**FY24E**	**Ratios**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Sales revenue	**5.8**	**10.8**	**21.6**	**43.8**	**Valuation**				
Gross profit	**2.5**	**5.9**	**12.1**	**25.0**	EPS (norm.)	0.0	-5.9	5.2	9.4
EBITDA	**-7.9**	**-7.1**	**1.4**	**9.9**	P/E (x) (norm.)	-1612.5	-10.9	12.4	6.9
Depreciation	-0.9	-0.9	-1.2	-1.8	PE Rel - XAO	NMF	NMF	0.8	0.4
EBITA	**-8.8**	**-8.0**	**0.3**	**8.2**	PE Rel - XSO	NMF	NMF	0.9	0.5
Amortisation	-1.6	-1.6	-1.6	-1.7	EV/Rev (x)	17.0	9.6	4.9	2.4
EBIT	**-10.4**	**-9.6**	**-1.4**	**6.5**	EV/EBITDA (x)	-12.5	-14.7	73.3	10.6
Net interest	-0.1	0.0	0.0	0.0	EV/EBIT (x)	-9.4	-10.8	-77.3	16.2
Pre-tax profit	**-10.5**	**-9.6**	**-1.4**	**6.5**	DPS (cps)	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	0.0	0.0	Dividend Yield (%)	0.0	0.0	0.0	0.0
NPAT (pre-ISIs)	**-10.5**	**-9.6**	**-1.4**	**6.5**	Franking (%)	0.0	0.0	0.0	0.0
Significant items	0.0	0.0	0.0	0.0	CFPS (cps)	-5.3	-2.6	0.0	2.7
NPAT (reported)	**-10.5**	**-9.6**	**-1.4**	**6.5**	P/CFPS (x)	-12.2	-24.8	9095.9	23.6
NPAT (normalised)	**-10.5**	**-9.6**	**-1.4**	**6.5**	**Profitability**				
					Gross margin (%)	43.2	55.0	56.0	57.1
Cash Flow (A$m)	**FY21**	**FY22E**	**FY23E**	**FY24E**	EBITDA margin (%)	-136.2	-65.6	6.7	22.6
Operating EBITDA	**-7.9**	**-7.1**	**1.4**	**9.9**	EBIT margin (%)	-180.6	-88.9	-6.4	14.9
Interest and tax	0.0	0.0	0.0	0.0	ROE (%)	-38.1	-22.3	-3.3	13.5
Working capital	-1.6	1.6	-1.4	-4.1	ROA (%)	-23.7	-15.6	-2.3	9.4
Other	0.0	0.0	0.0	0.0					
Operating Cashflow	**-9.4**	**-5.5**	**0.0**	**5.8**	**Capital structure**				
Capex	-0.6	-2.5	-3.0	-5.2	Enterprise Value ($m)	98.4	103.2	106.2	105.6
Net acquisitions	0.0	0.0	0.0	0.0	Net Debt (cash)	-16.3	-33.3	-30.4	-30.9
Free Cashflow	**-10.0**	**-8.0**	**-3.0**	**0.6**	Gearing (%)	cash	cash	cash	cash
Dividends	0.0	0.0	0.0	0.0	EFPOWA (m)	177.9	211.7	211.7	211.7
Net equity issued	0.1	25.0	0.0	0.0	**Growth**				
Net Cashflow	**-9.9**	**17.0**	**-3.0**	**0.6**	Sales revenue (%)	78.5	87.0	99.9	103.1
Opening cash	28.1	18.1	35.1	32.1	Gross profit (%)	189.7	138.1	103.5	107.0
Borrowings/other	0.0	0.0	0.0	0.0	EBITDA (%)	48.1	-10.0	-120.5	585.2
Closing cash	**18.1**	**35.1**	**32.1**	**32.7**	EBIT (%)	38.4	-8.0	-85.7	-574.1
					NPAT (norm.) (%)	42.0	-8.6	-85.7	-574.1
Balance Sheet (A$m)	**FY21**	**FY22E**	**FY23E**	**FY24E**	EPS (norm.) (%)	33.3	14662.1	-188.4	79.4
Cash	18.1	35.1	32.1	32.7	DPS (%)	0.0	0.0	0.0	0.0
Receivables	0.5	1.0	2.1	5.0	**Product revenue**				
Inventories	2.1	2.2	2.7	6.1	Wine Testing - Sentia	1.1	4.7	13.6	32.8
PPE	3.8	5.1	6.8	10.0	Blood Coag. - Xprecia	2.7	3.9	5.6	8.4
Intangibles	12.7	11.3	9.9	8.4	Lab Services - HRL	2.0	2.2	2.4	2.6
Other assets	6.9	6.9	7.1	7.3		**5.8**	**10.8**	**21.6**	**43.8**
Total Assets	**44.1**	**61.6**	**60.6**	**69.6**	**Valuation**				**FY24E**
Borrowings	1.8	1.8	1.8	1.8	**Target EBITDA Multiple**				
Payables	3.2	5.4	5.5	7.8	EBITDA (A$m)				9.9
Other Liabilities	11.9	11.5	11.7	11.9	EBITDA Target (x)				20
Total Liabilities	**16.9**	**18.7**	**19.0**	**21.5**	**Per Share**				**$ 0.94**
NET ASSETS	**27.2**	**43.0**	**41.6**	**48.1**					
					Discounted Cash Flow				
					Cost of equity	11.5%	WACC		11.5%
					Cost of debt	3.0%	TGR		3.5%
					Debt weighting	0.0%	**Per Share**		**$1.05**
Board and shareholders			**(m)**	**%**	**Substantial Shareholders**			**(m)**	**(%)**
Craig Coleman			28.8	13.6	Viburnum Funds			28.8	16.2
Judith Smith			0.3	0.1	Bendigo & Adelaide Bank			23.3	13.1
David Hoey			0.6	0.3	JM Financial Asset Management			17.4	9.8
					Jencay Capital			17.0	9.6
					Top 20 shareholders			**103.6**	**48.9**

Source: Company Reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: May 01, 2022, 16:30 ET

Date and time of production: April 30, 2022, 01:08 ET

Target Price / Valuation Methodology:

Universal Biosensors Inc. - UBI

We value UBI at $1.05/CDI using a 10-year, two-stage DCF valuation methodology, with explicit forecasts over the first five years and fading growth of 20% scaling down to 6% over the following five years. We apply a WACC of 11.5% and terminal growth of 3.5%.

Risks to achieving Target Price / Valuation:

Universal Biosensors Inc. - UBI

Turnaround play creates a new set of risks

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

New product market acceptance / cash levels

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

Distribution risks

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

Concentration risk

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

Corporate structure

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

Regulatory risks

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

Key person risk

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

Distribution of Ratings:

Global Stock Ratings (as of 05/01/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	649	68.24%	40.06%
Hold	140	14.72%	18.57%
Sell	10	1.05%	20.00%
Speculative Buy	147	15.46%	53.06%
	951*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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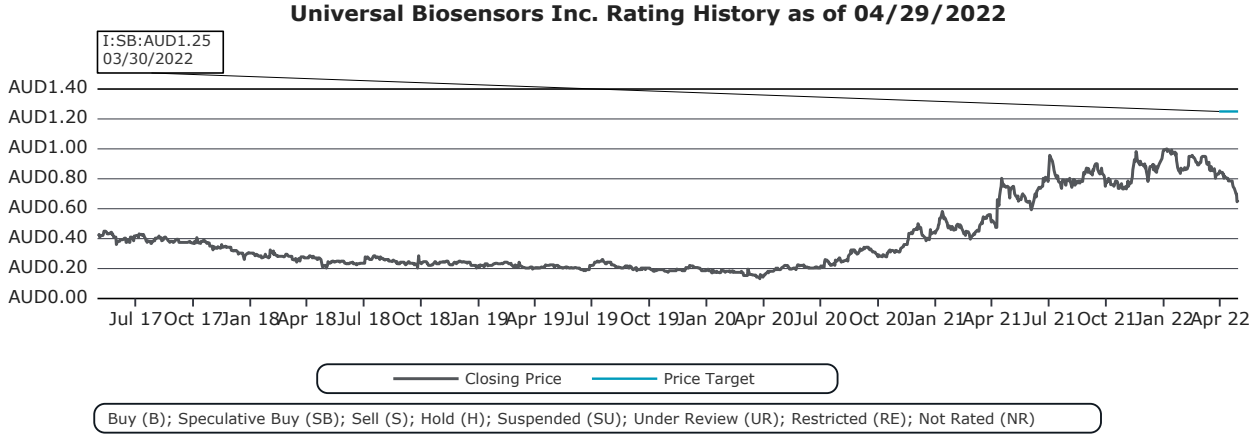
Universal Biosensors Inc. Rating History as of 04/29/2022



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