BELL POTTER

Speculative

See key risks on Page 4 and Biotechnology Risk Warning on Page 7. Speculative securities may not be suitable for Retail Clients.

31 January 2023

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Universal Biosensors (UBI)

Sweet new tests not yet enough to improve revenue

Recommendation
Hold (Buy)
Price
$0.295
Valuation
$0.38 (previously $0.60)
Risk
Speculative

GICS Sector

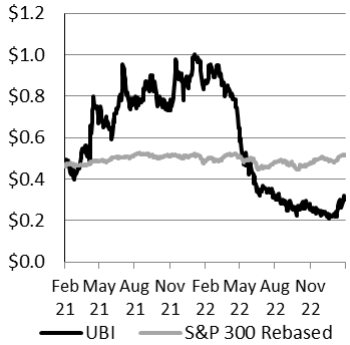
Pharmaceuticals & Biotechnology

Expected Return	
Capital growth	**28.8%**
Dividend yield	**0.0%**
Total expected return	**28.8%**
Company Data & Ratios	
Enterprise value	**$34.2m**
Market cap	**$63.7m**
Issued capital	**212.4m**
Free float	**99%**
Avg. daily val. (52wk)	**$102,419**
12 month price range	**$0.21-$0.97**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.23	0.27	0.86
Absolute (%)	37.78	14.81	-63.74
Rel market (%)	31.88	4.87	-70.96

Absolute Price



SOURCE: IRESS

Quarterly update - transitions continue to affect business

Universal Biosensors (UBI) has released its cash flow report (ASX Appendix 4C) and quarterly activity report for the quarter ended 31 December 2022 (UBI runs on the calendar year – ie: Q4FY22). Receipts from customers was $0.6m, taking the year-to-date to just over $4m (up $51k from FY21, but down from previous quarter - was $1.1m in Q3FY22); net cash (cash & cash equivalents less debt) as at 31 December 2022 was $26.8m (was $28.4m in pcp); and receipt of R&D Tax Incentive for 2021 of $3.9m. After incorporating the R&D incentive, the company spent $0.7m in operating expenses and UBI indicates it is thus funded for another 36 quarters.

Company activities for the quarter:

UBI has been involved in ongoing development of the Sentia wine testing products to include fructose, total acid and titratable acidity. Fructose and glucose tests were launched yesterday – 30th Jan 2023. We expect total acid and titratable acidity to be launched during H1FY23.

UBI indicates it is in the final stages of development and preparations for launch of Petrackr (blood glucose monitoring product for dogs and cats with diabetes). Petrackr is expected to be launched in Q1FY23. UBI also completed its Xprecia Prime study for US regulatory submission and is continuing R&D work for the Tn Antigen sensor for cancer and the aptamer-based sensor (including a COVID-19 test).

Investment view: Valuation reduced to $0.38, Downgrade to Hold (Spec.)

With Siemens still running Xprecia stock levels to zero (recall that the supply deal with UBI ends during 1HFY23), and the new Sentia platform tests only launching this week, we do not expect large increases in revenues until FY24. Reduced services income is expected due to the laboratory upgrade/move during FY22. With such adjustments to our model, we have reduced our valuation to $0.38 from $0.60 per share, representing a 28.8% premium on the current share price of $0.295. The valuation is DCF driven, incorporates an assumed WACC of 11.5% and a 3% terminal growth rate.

Table 1 - Earnings Forecast

December Year End	FY21	FY22e	FY23e	FY24e
Revenues	5.8	5.8	8.4	15.9
EBIT (A$m)	-10.5	-13.0	-11.7	-9.5
NPAT (A$m)	-10.5	-13.2	-11.8	-9.6
EPS (cps)	-5.9	-6.7	-5.5	-4.5
EPS growth (%)	nm	nm	nm	nm
PER (x)	nm	nm	0.0	0.0
FCF yield (%)	nm	nm	0.0	0.0
EV/EBIT (x)	nm	nm	0.0	0.0
Dividend (cps)	0.0	0.0	0.0	0.0
Franking (%)	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	-38%	-53%	0%	0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Quarterly summary

UBI are continuing in a transition stage – while Siemens runs existing stock levels down to zero (recall that the supply deal with UBI ends during 1HFY23). Thus, until UBI regains distribution of all Xprecia products, we do not expect very large increases in receipts from customers. Having said that, the new device has now been approved for use in 32 countries in Europe, and UBI has almost 20 distribution agreements for the new device across the globe, so we await the income generated from the distribution partnerships and agency approvals.

Completion of enrolment for its 360-patient "Xprecia Prime" PT/INR blood coagulation clinical study. The study is designed to provide clinical evidence as to the performance and safety of Xprecia Prime and will be used in UBI's 510K submission to the FDA, which is expected to be lodged during Q1FY23.

The company is in ongoing R&D stages for the Tn Antigen sensor for cancer and the aptamer-based sensor (including a COVID-19 test).

Launch of new Fructose Test for Sentia

UBI yesterday (30th Jan) announced that it has launched its fructose biosensor test for wine makers - the 4th test on the Sentia wine testing platform. In addition, UBI has relaunched its glucose test for the same platform, which is the partner test used with fructose to measure 'Total Residual Sugar' during the winemaking process.

Glucose & fructose are the main fermentable sugars found in wine. They are natural sugars produced by grapes, are indicators of quality, and are converted to ethanol (alcohol) and carbon dioxide by the available yeast during the process, thus playing a key role in the wine making process.

Both sugars are monitored at each stage of the wine making process (particularly during fermentation) with high glucose levels present during ripening and high fructose levels present in over ripe grapes. The ability to monitor and measure both glucose and fructose concentrations in real time at the barrel side will allow wine makers to more accurately determine an endpoint for fermentation.

Mr John Sharman, CEO of UBI said; "The launch of Fructose & Glucose is a very important achievement for our business and means UBI now has 4 important tests on our wine testing platform (Free SO2, Malic Acid, Glucose & Fructose). We estimate the market for Total Sugars to be more than $160m pa……. Now that we have both glucose & fructose available for sale, we are confident the Sentia wine testing platform can deliver strong sales growth during 2023."

Changes to valuation

FY22-FY25 forecasts shifted following Q4 results

The activities described above have impacted our forecasts and valuation, resulting in a new valuation of $0.38 (from $0.60). This is an expected 26.7% total expected return on the current share price of $0.30 p/s and, as a speculative stock, has resulted in a downgraded recommendation from a Buy to a Hold.

We have substantially reduced our forecasted revenues for UBI following a fourth quarter of lower than expected receipts from customers. We had already factored in both the Siemen's contract wind-down and the closure of the Services laboratory as the company upgraded and moved laboratories in FY22. There is yet to be any uptick in growth as a result of the new laboratory facilities or following the approval of Xprecia in 32 European countries.

Changes to our forecasts are summarised in the table below.

Table 2 - key changes to our forecasts

(Note UBI runs on the calendar year - so audited FY22 results are imminent)

	FY22e			FY23e			FY24e		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenues	5.8	8.4	-31%	8.4	13.9	-40%	15.9	25.5	-38%
EBIT	-13	-9.4	-38%	-11.7	-5.6	109%	-9.5	1	-1050%
NPAT	-13.2	-9.5	-39%	-11.8	-5.7	107%	-9.6	0.9	-1167%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Universal Biosensors (UBI)

COMPANY DESCRIPTION

Universal Biosensors first listed on the ASX in 2006, having been established in 2001. In partnership with LifeScan– a diabetes-focussed company that was a Johnson & Johnson subsidiary at the time, UBI first developed a portable, handheld blood glucose monitor (glucometer): the OneTouch Verio that used the electrochemical cell-based biosensing technology that is now synonymous with UBI. UBI now manufactures products based around a their unique and versatile electrochemical sensor technology, including the Sentia™ wine testing device and the Xprecia™ series (Xprecia Stride™ and now the Xprecia Prime™) for the analysis of blood coagulation. Additionally, they are developing a range of new tests that use their proprietary electrochemical sensing technology. The company is also growing its commercial services laboratory (HRL), via contracts with research partners – mostly those running clinical trials.

KEY RISKS

Key risks we consider to be specific to UBI include, but are not limited to:

Commercial risk: Our forecasts assume revenue growth from both the product sales segment of the business, and from the ability of UBI to continue and to grow contract revenues for its specialty laboratory services business. Failure to achieve growth from either division of the revenue base would could see the company's earnings differ from both our forecasts and the company's forecasts.

Competitive risk: There are a number of companies with tests that operate wine testing services or devices (although none of these are as small, accessible, easy to use or inexpensive as the Sentia™. These may be viewed as competition to UBI in certain instances, especially when winemakers have large volumes (of barrels) and already have either an onsite analyser or a long-standing arrangement with a laboratory service. In our view, however, the Sentia™ leads the field in terms of accuracy, reproducibility, price and ease of use.

Various handheld PT/INR devices are currently on the market (see Figure 6). The most comparable product to the Xprecia Prime™ is the Roche CoaguCheck® Plus, and UBI will quite easily undercut this product with Xprecia Prime™ on price. UBI have already captured part of the market with their first iteration of the device (the Xprecia Stide™) and thus have a suitable track record for marketing and distribution of PT/INR devices. In addition, UBI has set up new distribution centres and associated sales force teams in The Netherlands and now the US.

Clinical and regulatory risk: UBI have commenced a clinical trial for the Xprecia Prime™ to fulfil FDA requirements for approval in the US. 160 patients have been recruited onto the trial thus far (out of a total of 360) and completion is expected mid CY22 – with approval likely to follow in 2HCY22 or early CY23. We do not anticipate any issues given the European CE mark has already been awarded to UBI for this same device. Nevertheless, this is a potential source of regulatory risk for the product.

Funding risk: The company is not yet profitable and yet to generate cash flow from operations. Future profitability is dependent upon successful commercialisation of existing and future products. Shareholders may yet be required to contribute further equity in order to fund the company's operations.

Universal Biosensors
as at 31 January 2023

Recommendation	Hold, Speculative
Price	$0.295
Valuation	$0.38

Table 3 - Financial summary

A$m	FY20	FY21	FY22e	FY23e	FY24e
Year Ending 30 June					
Revenue	**3.2**	**5.8**	**5.8**	**8.4**	**15.9**
Change	*-54%*	*80%*	*0%*	*45%*	*91%*
	0.0	0.0	0.0	0.0	0.0
Cost of sales	-2.6	-3.7	-3.7	-5.3	-10.1
Gross profit	**0.6**	**2.1**	**2.1**	**3.1**	**5.8**
Gross margin	*19%*	*36%*	*36%*	*36%*	*36%*
	0.0	0.0	0.0	0.0	0.0
Other income/(expense)	4.9	4.5	2.0	3.0	3.0
Expenses (excl. D&A, int.)	**-11.0**	**-15.0**	**-15.0**	**-15.5**	**-16.1**
% of revenue	*-342%*	*-259%*	*-259%*	*-185%*	*-101%*
	0.0	0.0	0.0	0.0	0.0
EBITDA	**-5.4**	**-8.3**	**-10.9**	**-9.5**	**-7.3**
Depreciation and amortisation	-2.2	-2.2	-2.2	-2.2	-2.2
EBIT	**-7.6**	**-10.5**	**-13.0**	**-11.7**	**-9.5**
Net interest (expense)/revenue	0.0	0.0	-0.1	-0.1	-0.1
Pre-tax profit	**-7.6**	**-10.5**	**-13.2**	**-11.8**	**-9.6**
Income tax expense	0.0	0.0	0.0	0.0	0.0
NPAT	**-7.6**	**-10.5**	**-13.2**	**-11.8**	**-9.6**

Cashflow (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Net loss	-7.6	-10.5	-13.2	-11.8	-9.6
D&A and other non cash items	3.0	2.1	2.2	2.2	2.2
Change in w orking capital	-3.6	-1.5	0.5	-0.8	-2.2
Operating cash flow	**-8.3**	**-9.9**	**-10.5**	**-10.4**	**-9.7**
Proceeds from sale of PPE	0.0	0.0	0.0	0.0	0.0
Purchases of PPE	-0.4	-0.7	-0.5	-0.5	-0.5
Proceeds from gov grants and insurance	0.0	0.0	0.0	0.0	0.0
Acquisition of assets	0.0	0.0	0.0	0.0	0.0
Investing cash flow	**-0.4**	**-0.7**	**-0.5**	**-0.5**	**-0.5**
Reypayment/proceeds of borrow ings	0.0	0.0	0.0	0.0	0.0
Borrow ing costs	0.0	0.0	0.0	0.0	0.0
Proceeds from stock options exercised	0.0	0.1	0.0	0.0	0.0
Financing cash flow	**0.0**	**0.1**	**25.2**	**0.0**	**0.0**
Net change in cash	**-8.6**	**-10.5**	**14.2**	**-10.9**	**-10.2**
Cash at start of period	37.2	28.1	18.1	32.3	21.4
Exchange rate impact	-0.5	0.5	0.0	0.0	0.0
Cash at end of period	**28.1**	**18.1**	**32.3**	**21.4**	**11.2**

Balance Sheet (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Cash & restricted cash	28.1	18.1	32.3	21.4	11.2
Inventories	1.9	2.1	2.0	2.9	5.6
Accounts receivable	0.1	0.5	0.3	0.4	0.8
PPE	4.4	4.1	4.6	5.1	5.6
Intangibles	14.3	12.7	10.5	8.3	6.1
Right-of-use assets	4.0	2.1	2.1	2.1	2.1
Other assets	8.2	7.8	7.8	7.8	7.8
Total assets	**56.4**	**44.5**	**56.7**	**45.3**	**36.4**
Accounts payable	0.4	0.4	0.6	0.9	1.7
Accrued expenses	1.2	2.8	2.8	2.8	2.8
Contingent consideration	1.9	2.1	2.1	2.1	2.1
Current Lease liabilities	0.5	0.5	0.5	0.5	0.5
Asset retirement obligations	2.7	2.7	2.7	2.7	2.7
Lease liabilities	3.6	1.7	1.7	1.7	1.7
Other Lliabilities	8.0	6.7	6.7	6.7	6.7
Total liabilities	**18.4**	**16.9**	**17.1**	**17.4**	**18.2**
Net Assets	**38.0**	**27.6**	**39.6**	**27.9**	**18.2**
Share capital	93.6	93.7	93.7	93.7	93.7
Accumulated deficit	-47.7	-55.3	-55.3	-55.3	-55.3
Current year losses	-7.9	-10.8	-24.0	-35.8	-45.4
Total shareholders' equity	**38.0**	**27.6**	**39.6**	**27.9**	**18.2**

Valuation Ratios (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Reported EPS (cps)	-4.3	-5.9	-4.5	0.0	0.0
Normalised EPS (cps)	-4.3	-5.9	-4.5	0.0	0.0
EPS grow th (%)	nm	nm	nm	0.0	0.0
PE(x)	nm	nm	nm	0.0	0.0
EV/EBIT (x)	nm	nm	nm	0.0	0.0
Total assets	56.4	44.5	36.4	0.0	0.0
Net Assets	38.0	27.6	18.3	0.0	0.0
NTA	23.7	15.0	12.1	0.0	0.0
NTA/share cps	0.1	0.1	0.1	0.0	0.0
Book value per share	0.0	0.0	0.0	0.0	0.0
P/NTA (x)	224.9	356.5	524.7	0.0	0.0
Book Value Per Share (cps)	0.2	0.2	0.1	0.0	0.0
Price/Book (x)	140.3	193.2	349.3	0.0	0.0
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Payout ratio %	0.0	0.0	0.0	0.0	0.0
Dividend Yield %	0.0	0.0	0.0	0.0	0.0
Franking %	0.0	0.0	0.0	0.0	0.0
FCF yield %	nm	nm	nm	0.0	0.0
Net debt/(Cash)	-23.5	-15.3	-8.4	0.0	0.0
Net debt/Equity %	0%	0%	0%	0%	0%
Net debt/Assets %	0%	0%	0%	0%	0%
Gearing %	0%	6%	6%	0%	0%
Net debt/EBITDA (x)	Net Cash	Net Cash	Net Cash	0.0	0.0
Interest cover (x)	na	na	na	0.0	0.0
ROE %	-20%	-38%	-53%	0%	0%

Segmentals (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Revenue					
Sale of Goods	2.6	3.8	3.8	5.7	11.4
Services Income	0.6	2.0	2.0	2.6	4.5
Total revenue	**3.2**	**5.8**	**5.8**	**8.4**	**15.9**
Growth					
Sales of goods	-47%	49%	0%	50%	80%
Services income	-69%	208%	0%	35%	70%
Total growth	**-54%**	**80%**	**0%**	**45%**	**91%**

Interim Results	1H21	2H21	1H22	2H22e
Revenues	3.4	2.4	3.1	2.7
EBIT	-2.6	-7.9	-5.1	-7.9
NPAT	-2.6	-7.9	-5.1	-8.1

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

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Biotechnology Risk Warning

The fact that the intellectual property base of a typical biotechnology company lies in science not generally regarded as accessible to the layman adds further to the riskiness with which biotechnology investments ought to be regarded. Clinical and regulatory risks are inherent in biotechnology stocks. Biotechnology developers usually seek U.S. FDA approval for their technology which is a long and arduous three phase process to prove the safety, effectiveness and appropriate application or use of the developed drug and even after approval a drug can be the subject of an FDA investigation of subsequently discovered possible links between the drug and other diseases not previously diagnosed. Furthermore, the Australian exchange listed biotechnology sector is subject to influence by the global biotechnology sector, particularly that in the USA. Consequently, Australian exchange listed biotechnology stocks can experience sharp movements, both upwards and downwards, in both valuations and share prices, as a result of a re-rating of the sector both globally and in the USA, in particular. Investors are advised to be cognisant of these risks before buying such a stock.

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