

## COMPANY NOTE

Target | Estimate Change

USA | Healthcare | Medical Supplies & Devices

September 9, 2014

# Jefferies

## Unilife Corporation (UNIS) Cash Burn Still Acute as UNIS Builds for Commercial Sales

### Key Takeaway

**4Q was a Q of significant spending and little underlying commercial activity. The near-term should remain lumpy as commercial deals mature and UNIS spends to support them. Despite the cash burn, the company looks secure for several quarters at least. The potential for significant commercial sales to come keeps us at Buy.**

**Still setting the table.** Unilife's 4Q was notable for the light commercial activity—nearly all of the \$6.5mm in sales was previously deferred revenue that came off the balance sheet and cash receipts were minimal. Despite the limited inflows, spending in the Q remained high with the operating cash burn close to \$13mn and an additional approximate \$9mn in capital expenditures; overall cash including changes in working capital declined by about \$29mn in the Q. Including the recent ATM, total cash was approximately \$23mn at the end of 4Q. Looking ahead, however, the company should be able to fund operations even in the absence of significant new deal flow as it still has: 1. \$20mm in untapped credit under the Orbimed financing arrangement; 2. a forecasted \$25-\$30mm in upfront payments from existing programs; and 3. \$5-10mn in expected commercial revenue for clinical trial and stability testing on a mix of Unilife products. The cash balance and incoming cash is balanced against a burn that the company expects to stay in the \$12-15mn/Q range. Upside to cash inflows could come as additional deals work through the pipeline resulting in additional upfront/milestone payments. As in past Qs, the company alluded to several new deals that are close to being announced though also like in previous quarters, little detail was given.

**Adjusting model.** Our revised F15 estimates go lower to \$37mm/(\$0.55) from \$61m/(\$0.31) as significant end product revenue flow still seems a year away. The offset comes from upfront/milestone revenues that continue to flow from existing and counting active customer programs. However, with the majority of these programs slated to still be either in the clinical or stability testing phases through F15, we do not model meaningful end market sales of either prefilled syringes or wearable injectors until F16. With the potential for significant revenue growth as these commercial deals mature, we remain at Buy.

### Valuation/Risks

Our new \$5 PT (down from \$6) is 4x 2017E revenues which is supported by the growth expected in coming years. Risks include inability to meet contract requirements, regulatory or quality issues, competition, cash needs.

USD	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	2.7	11.2	14.7	61.5	37.0	--	102.3
<b>EPS</b>								
Sep	--	(0.16)	--	(0.12)	--	(0.15)	--	--
Dec	--	(0.19)	--	(0.17)	--	(0.16)	--	--
Mar	--	(0.17)	--	(0.15)	--	(0.13)	--	--
Jun	--	(0.13)	(0.14)	(0.15)	--	(0.12)	--	--
FY Jun	--	(0.66)	(0.58)	(0.60)	(0.31)	(0.55)	--	(0.06)

**BUY**

Price target \$5.00

(from \$6.00)

Price \$2.39

### Financial Summary

Book Value (MM):	\$6.1
Book Value/Share:	\$0.06
Net Debt (MM):	\$31.8
Long-Term Debt (MM):	\$54.8
Cash & ST Invest. (MM):	\$23.0

### Market Data

52 Week Range:	\$5.80 - \$2.20
Total Entprs. Value (MM):	\$272.5
Market Cap. (MM):	\$240.7
Insider Ownership:	10.1%
Institutional Ownership:	38.0%
Shares Out. (MM):	100.7
Float (MM):	92.5
Avg. Daily Vol.:	627,190

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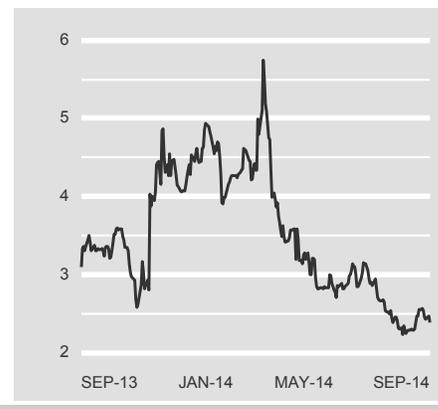
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### Price Performance



## Scenarios

## Target Investment Thesis

- Unifill moves forward with deals known to date.
- PT: \$5 derived using 4.0x EV/Sales multiple on F17 sales.

## Upside Scenario

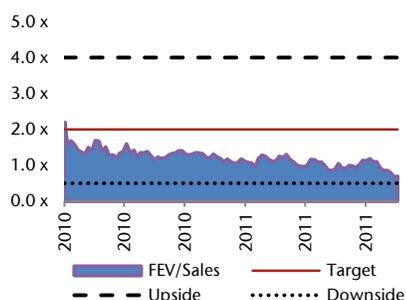
- Additional deals signed
- PT: \$8 derived using 5x EV/Sales multiple on F17.

## Downside Scenario

- Announced deals do not come to fruition
- PT: \$2 derived using a 1x EV/Sales multiple on F17.

## Long Term Analysis

## 1 Year Forward EV/Sales



Source: Capital IQ, Jefferies estimates

## Long Term Financial Model Drivers

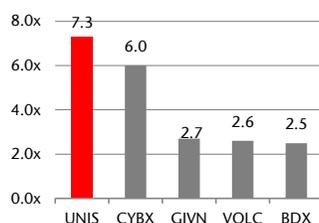
LT Earnings CAGR	60%+
Lt Organic Revenue Growth	40%+
Acquisition Contribution	0%
Annual Operating Margin Expansion	500-1000bps

## Other Considerations

Unilife is still considered in its development phase given limited revenue generation and accumulated losses to date. However, with three deals already signed, including one with Sanofi for Lovenox, the company's revenue ramp could be substantial over the next 2-3 years. Accordingly, the stock price is likely to react to the success or failure of deals requiring its drug-device combo products to be brought to market.

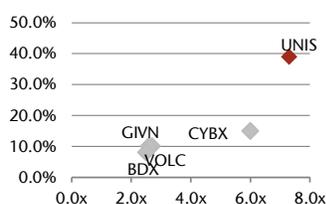
## Peer Group

## Group 2014EV/Sales



Source: Capital IQ, Jefferies estimates

## Sales Growth vs. 2012 EV/Sales x



Source: Capital IQ, Jefferies estimates

## Recommendation / Price Target

Ticker	Rec.	PT
UNIS	Buy	\$5
CYBX	Buy	\$70
VOLC	Buy	\$20
BDX	Buy	\$130

## Catalysts

- Additional deals signed
- Commercial sales to partners
- Capacity expansion

## Company Description

York, PA based UniLife is a medical device company focused on the design, development, and supply of a proprietary range of safety syringes and other drug delivery devices. Unilife's flagship Unifill Syringe incorporates numerous automatic and fully-integrated safety features, including the full retraction of the needle into the glass barrel of the syringe—a feature unmatched in the industry.

## Chart 1: UNIS Income Statement

## Unilife Corporation

Income Statement  
In Millions, Except Per Share Data  
FYE Jun 30

## Jefferies

	F2012 A Jun 30-Jun-12	F2013 A Jun 30-Jun-13	F1Q14 A Sept 30-Sep-13	F2Q14 A Dec 31-Dec-13	F3Q14 A Mar 31-Mar-14	F4Q14 A Jun 30-Jun-14	F2014 A Jun 30-Jun-14	F1Q15 E Sept 30-Sep-14	F2Q15 E Dec 31-Dec-14	F3Q15 E Mar 31-Mar-15	F4Q15 E Jun 30-Jun-15	F2015 E Jun 30-Jun-15	F2016 E Jun 30-Jun-16	F2017 E Jun 30-Jun-17
Upfront & milestone payments	5.5	2.6	3.2	3.6	1.4	6.5	14.7	3.0	3.0	5.0	6.0	17.0	18.0	17.0
Product sales & other	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	1.5	5.8	12.8	20.0	84.3	117.4
<b>Total Revenue</b>	<b>\$5.5</b>	<b>\$2.7</b>	<b>\$3.2</b>	<b>\$3.6</b>	<b>\$1.4</b>	<b>\$6.5</b>	<b>\$14.7</b>	<b>\$3.0</b>	<b>\$4.5</b>	<b>\$10.8</b>	<b>\$18.8</b>	<b>\$37.0</b>	<b>\$102.3</b>	<b>\$134.4</b>
Year-to-Year Growth	-17%	-50%	362%	411%	102%	881%	436%	-6%	26%	677%	186%	152%	176.4%	31.4%
Total Cost of Sales	0.6	0.1	0.0	0.0	0.0	0.0	0.0	1.7	2.3	4.8	7.9	16.6	44.0	53.8
<b>Gross Profit</b>	<b>4.9</b>	<b>2.6</b>	<b>3.2</b>	<b>3.6</b>	<b>1.4</b>	<b>6.5</b>	<b>14.7</b>	<b>1.4</b>	<b>2.3</b>	<b>5.9</b>	<b>10.9</b>	<b>20.4</b>	<b>58.3</b>	<b>80.6</b>
Gross Margin	89.4%	95.3%	100.0%	100.0%	100.0%	100.0%	100.0%	45.0%	50.0%	55.0%	58.0%	55.1%	57.0%	60.0%
<b>Operating Expenses:</b>														
R&D	23.1	21.7	6.4	7.8	8.0	11.9	34.1	7.0	8.0	8.2	12.0	35.2	36.8	37.6
% of Sales	419.2%	792.9%	200.0%	218.5%	579.8%	181.6%	232.0%	233.3%	177.8%	76.3%	64.0%	95.1%	36.0%	28.0%
SG&A	24.1	26.3	6.5	6.7	6.6	8.0	27.9	7.0	7.2	7.3	7.1	28.6	29.7	30.9
% of Sales	436.5%	960.6%	203.8%	187.6%	480.8%	122.5%	189.7%	233.3%	160.0%	68.0%	38.0%	77.4%	29.0%	23.0%
Depreciation & Amortization	4.0	5.4	1.0	1.0	1.0	1.0	4.1	1.0	1.0	1.5	2.0	5.6	8.0	9.0
% of Sales	72.6%	198.1%	32.6%	28.0%	74.2%	15.4%	27.7%	34.2%	22.8%	14.0%	10.7%	15.0%	7.8%	6.7%
Total Operating Expenses	51.2	53.5	13.961	15.510	15.7	20.9	66.1	15.0	16.2	17.0	21.1	69.4	74.5	77.5
<b>Operating Income</b>	<b>(46.3)</b>	<b>(50.9)</b>	<b>(10.8)</b>	<b>(11.9)</b>	<b>(14.3)</b>	<b>(14.4)</b>	<b>(51.4)</b>	<b>(13.7)</b>	<b>(14.0)</b>	<b>(11.1)</b>	<b>(10.3)</b>	<b>(49.0)</b>	<b>(16.2)</b>	<b>3.1</b>
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	2.3%
<b>EBITDA</b>	<b>(42.3)</b>	<b>(45.5)</b>	<b>(9.7)</b>	<b>(10.9)</b>	<b>(13.3)</b>	<b>(13.4)</b>	<b>(47.3)</b>	<b>(12.7)</b>	<b>(13.0)</b>	<b>(9.6)</b>	<b>(8.3)</b>	<b>(43.4)</b>	<b>(8.2)</b>	<b>12.1</b>
EBITDA % of Sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	9.0%
Net Interest Expense & Other	(1.2)	(2.1)	(0.5)	(4.4)	(0.8)	(0.9)	(6.5)	(1.8)	(1.8)	(1.7)	(1.7)	(7.0)	10.0	19.6
Earnings (Loss) Before Taxes	(47.5)	(53.1)	(11.2)	(16.3)	(15.1)	(15.3)	(57.9)	(15.5)	(15.8)	(12.8)	(12.0)	(56.0)	(6.2)	22.7
Pre-Tax Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	16.9%
Income Tax Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income, adj. [1]	(47.5)	(53.1)	(11.2)	(16.3)	(15.1)	(15.3)	(57.9)	(15.5)	(15.8)	(12.8)	(12.0)	(56.0)	(6.2)	22.7
Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	16.9%
<b>Adjusted EPS</b>	<b>(\$0.68)</b>	<b>(\$0.66)</b>	<b>(\$0.12)</b>	<b>(\$0.17)</b>	<b>(\$0.15)</b>	<b>(\$0.15)</b>	<b>(\$0.60)</b>	<b>(\$0.15)</b>	<b>(\$0.16)</b>	<b>(\$0.13)</b>	<b>(\$0.12)</b>	<b>(\$0.55)</b>	<b>(\$0.06)</b>	<b>\$0.22</b>
Year-to-Year Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Net income taxed at 35%	(47.5)	(53.1)	(11.2)	(16.3)	(15.1)	(15.3)	(57.9)	(15.5)	(15.8)	(12.8)	(12.0)	(56.0)	(4.0)	14.8
<b>EPS taxed</b>	<b>(\$0.68)</b>	<b>(\$0.66)</b>	<b>(\$0.12)</b>	<b>(\$0.17)</b>	<b>(\$0.15)</b>	<b>(\$0.15)</b>	<b>(\$0.60)</b>	<b>(\$0.15)</b>	<b>(\$0.16)</b>	<b>(\$0.13)</b>	<b>(\$0.12)</b>	<b>(\$0.55)</b>	<b>(\$0.04)</b>	<b>\$0.14</b>
Diluted Shares Outstanding	68.4	81.3	93.8	95.8	97.8	99.0	96.6	100.0	101.0	102.0	103.0	101.5	103.0	105.0

Source: Jefferies estimates, Company data

## Company Description

York, Pennsylvania-based Unilife is a medical device company focused on the design, development, and supply of a proprietary range of retractable safety syringes and other drug-delivery devices including ready-to-fill lyophilized safety syringes, autoinjectors, and autoinfusers.

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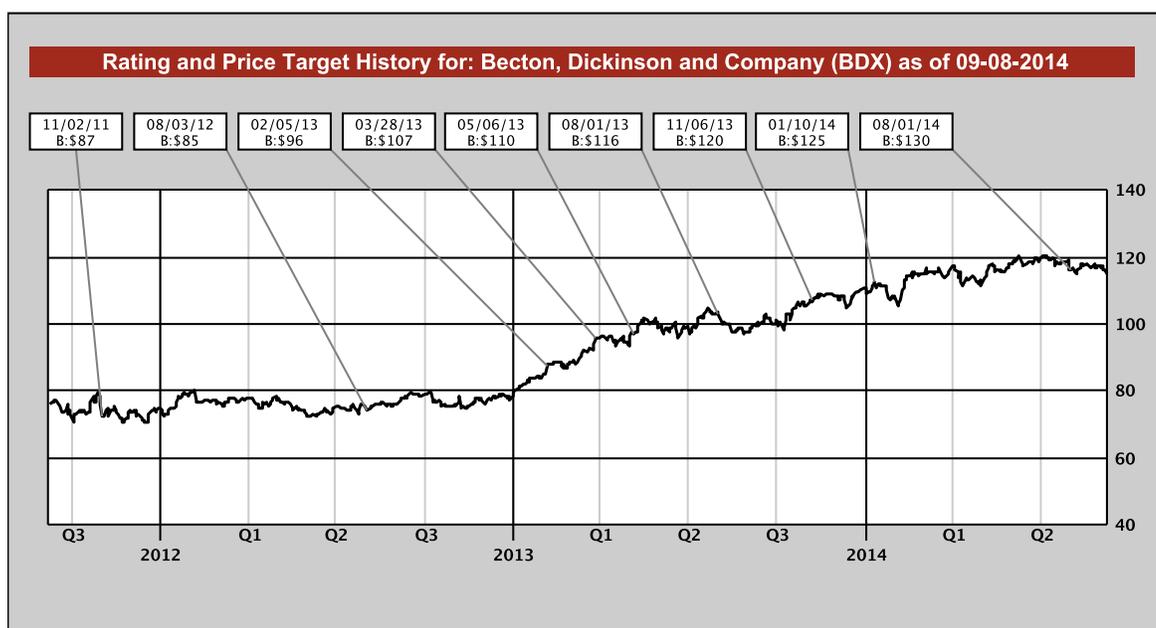
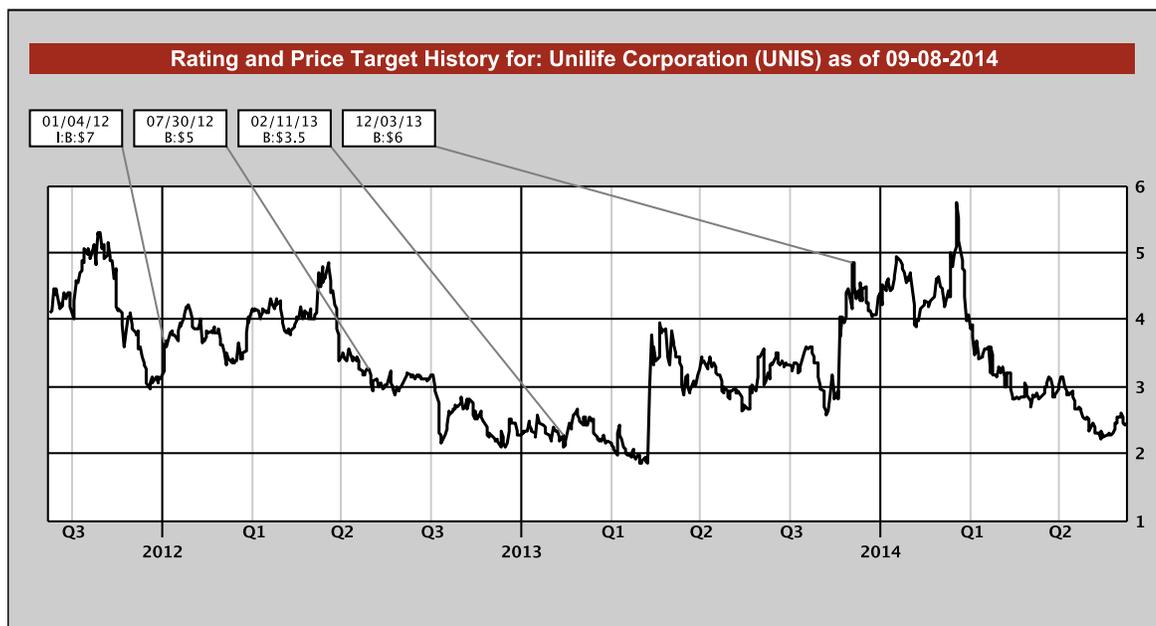
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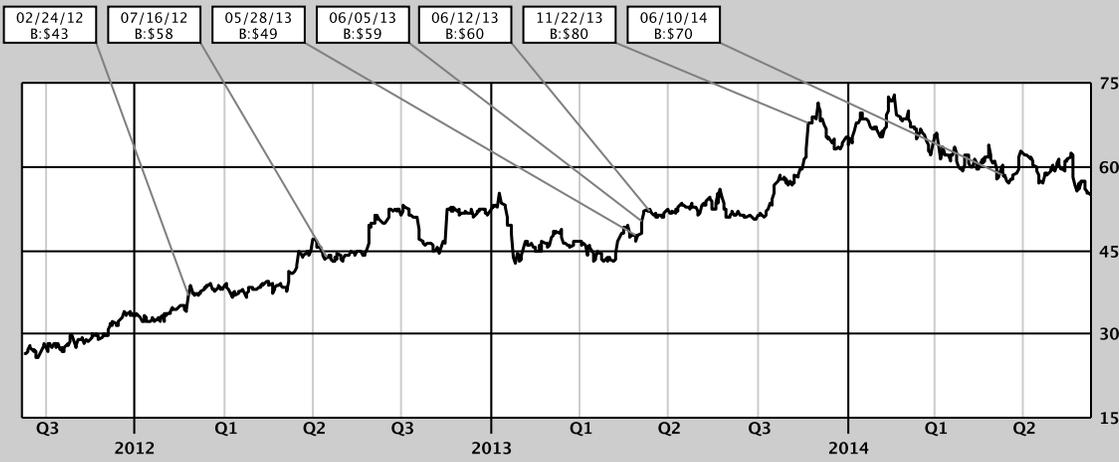
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- Becton, Dickinson and Company (BDX: \$115.55, BUY)
- Cyberonics, Inc. (CYBX: \$54.20, BUY)
- Volcano Corp. (VOLC: \$11.70, BUY)



**Rating and Price Target History for: Cyberonics, Inc. (CYBX) as of 09-08-2014**



**Rating and Price Target History for: Volcano Corp. (VOLC) as of 09-08-2014**



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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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