

# Mossberg's Investor Digest

## Best Idea Profile:

## Unilife Corporation (NASDAQ:UNIS)

### DESCRIPTION:

Unilife designs, develops, and manufactures injectable drug delivery systems. It supplies these to pharmaceutical and biotechnology companies to enhance delivery of their drug therapies. Its product platforms range from prefilled syringes and automatic injectors, to easy-to-use injectors that can be worn by patients to deliver the drugs in a controlled constant or variable rate. Its products are customizable to be used by customers to deliver a variety of drug therapies. Unilife was founded in 2002 and is headquartered in York, Pennsylvania.

### KEY INVESTMENT CONSIDERATIONS:

**The Contracts Keep Flowing** – In October Unilife announced a wearable injector supply agreement with Sanofi that will be worth \$750 million per year by the sixth year of the contract. It is the largest and longest supply agreement ever done in this industry, according to the company. In addition to an upfront payment, Unilife will receive revenue during the customization and commercial sale of its wearable injectors for use with each target drug. This exclusive endorsement by one of the largest pharmaceutical companies, good for a minimum of 15 years, is a “quantum shift” for Unilife in terms of demonstrating long-term viability and increasing the likelihood of bringing in other monster contracts. Management’s comments indicate there are at least two other contracts that could be announced in the short term, and which could be “of similar magnitude to those we have already signed...or greater in size.” The company’s recent contracts are beginning to impact revenue and will be more apparent beginning in the new year. Unilife’s cash position can support the production ramp-up that these new contracts will require.

**Changing Industry Trend** – The pharmaceutical industry has been moving towards modular device platforms that can deliver drugs, which address multiple diseases, through wearable injectors. Wearable injectors are projected to grow at a 105% rate over the next ten years, comparable with 8% for prefilled syringes. The Sanofi contract isn’t the first big indicator of success. Unilife also has a long-term supply agreement with MedImmune, the biologics arm of AstraZeneca.

**Annuity-Like Business Model** – The long-term customer supply agreements provide continuity of supply to customers and predictable recurring revenue to Unilife. It also provides multiple revenue sources from upfront fees to royalties on drug sales.

**Attractive Margins** – Management expects blended operating margins will eventually exceed 40% because of the uniqueness of the business model and the annuity business model. In addition, sales and marketing costs are fairly negligible. The scale-up to commercial launch is underway with a clear path to profitability.

### VALUATION:

Patient investors will benefit from not getting caught up in the lumpy nature of revenues during 2015, because the early revenue will be based on the timing of various upfront payments and milestone-based fees. Some investors were jittery over risks that appear to be resolved: uncertainty over CFO resignation and a financing deal. It’s important to point out that each of the company’s supply agreements could alone sustain Unilife. Together, the wearable injector business is on the pathway to generate over a billion dollars in annual revenue. The stock should respond as these contracts are implemented.

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Investment Data (as of 12/15/14)

<b>Recent Price</b>	<b>\$2.76</b>
52-Week Range	\$2.00 - \$5.80
Fiscal Year End	June 30
Dividend	NA
Yield	NA
Shares Outstanding	107 M
Average Trading Volume (3 mos)	1.2 M
Market Capitalization	\$300 M
Cash	\$4 M
Long-term Debt	\$58 M
Enterprise Value (EV)	\$371 M
Book Value	\$(0.02)
TTM Revenue	\$13 M
P/ Revenue	24x
TTM EPS	\$(0.68)
P/ EPS	NA
TTM EBITDA	\$(55) M
EV/ EBITDA	-7 x

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