

Abaxis, Inc. ABAX (NAS)

Last Close	Industry	Sector
27.49 USD	Diagnostics & Research	Healthcare

Profile

Pricing data through 10 Feb 2012

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Abaxis, Inc. was incorporated in California in 1989. The Company develops, manufactures, markets and sells portable blood analysis systems for use in the human or veterinary patient-care setting to provide clinicians with rapid blood constituent measurements. It manages its business in two operating segments, based on the products sold by market and customer group: the medical market and the veterinary market. It currently markets the blood analysis system in the medical market under the name Piccolo® Xpress. Through October 2006, it marketed the blood analysis system in the medical market as the Piccolo®, now referred to as the Piccolo Classic. It continues to support and service its current population of Piccolo Xpress and Piccolo Classic chemistry analyzers. It currently markets the blood analysis system in the veterinary market under the name VetScan VS2®. Through March 2006, it marketed the blood analysis system in the veterinary market as the VetScan®, now referred to as the VetScan Classic. The Company continues to support and service its current population of VetScan VS2 and VetScan Classic chemistry analyzers. Some of the competitors are Alere, Alfa Wassermann S.P.A, Johnson & Johnson, Polymedco, Inc. and F. Hoffmann-La Roche Ltd.

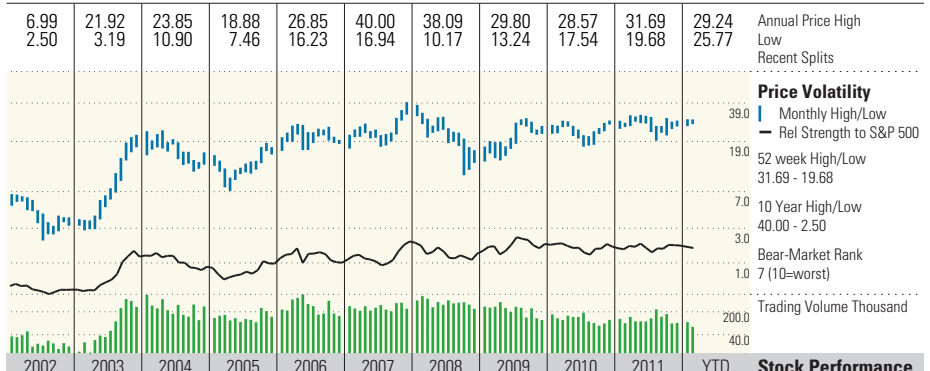
Abaxis, Inc. ABAX

Sales USD Mil 149 **Mkt Cap USD Mil** 596 **Industry** Diagnostics & Research **Sector** Healthcare

Abaxis develops and manufactures medical-diagnostics products. The company's principal product is the Piccolo portable blood-analysis system. The product performs a variety of frequently requested blood tests simultaneously and provides laboratory-quality results in less than 15 minutes. The company markets the system to alternate-care sites, acute-care hospitals, and U.S. governmental agencies in the United States, Japan, and Europe. Abaxis also markets the Piccolo system to veterinary practices under the VetScan trademark.

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 Phone: 1 510 675-6500
 Website: <http://www.abaxis.com> Employees: 388

Morningstar Rating **Last Price** 27.49 **Fair Value** **Uncertainty** **Economic Moat™** **Stewardship Grade**
 — — — — — — per share prices in USD



Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	15.4	12.6	15.8	17.1	
Operating Income %	8.2	8.3	15.9	69.6	
Earnings/Share %	10.3	4.5	12.8	—	
Dividends %	—	—	—	—	
Book Value/Share %	12.2	15.6	16.1	25.6	
Stock Total Return %	3.5	16.6	5.0	15.7	
+/- Industry	-3.0	6.8	4.1	9.7	
+/- Market	1.9	-0.9	6.4	14.2	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	8.4	10.9	2.8
Return on Assets %	7.4	9.6	1.3	9.5
Fixed Asset Turns	7.7	7.7	5.0	7.5
Inventory Turns	3.7	3.0	9.1	16.1
Revenue/Employee USD K	385.2	344.5*	—	1049.9
Gross Margin %	54.5	55.6	46.1	38.3
Operating Margin %	13.1	16.7	8.9	16.7
Net Margin %	8.5	11.2	2.0	11.2
Free Cash Flow/Rev %	8.1	10.0	9.5	0.1
R&D/Rev %	8.1	0.1	—	9.7

Financial Position	03-11 USD Mil		09-11 USD Mil	
Cash	43	38		
Inventories	20	19		
Receivables	28	27		
Current Assets	124	110		
Fixed Assets	20	23		
Intangibles	4	4		
Total Assets	188	170		
Payables	7	7		
Short-Term Debt	—	—		
Current Liabilities	17	18		
Long-Term Debt	1	1		
Total Liabilities	20	22		
Total Equity	169	148		

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	49.5	46.5	96.2
Forward P/E	32.8	—	—	13.5
Price/Cash Flow	28.5	37.7	14.1	7.4
Price/Free Cash Flow	52.1	55.7	20.1	16.9
Dividend Yield %	—	—	0.2	2.0
Price/Book	4.0	4.5	2.7	2.0
Price/Sales	4.2	5.0	1.9	1.2
PEG Ratio	1.8	—	—	1.4

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
-29.1	346.7	-19.9	13.7	16.8	86.3	-55.3	59.4	5.1	3.0	-0.7	Total Return %
-5.7	320.3	-28.9	10.7	3.2	82.8	-16.8	36.0	-7.7	3.0	-7.5	+/- Market
-3.0	310.6	-45.8	4.3	5.4	65.0	-22.8	45.4	-1.1	4.1	-11.9	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
68	347	286	330	400	772	351	563	605	600	596	Market Cap USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
31	35	47	53	69	86	101	106	125	144	149	Revenue USD Mil
47.9	48.9	51.0	53.0	56.4	54.3	54.7	55.5	57.9	55.5	54.5	Gross Margin %
2	2	5	7	11	14	18	18	21	22	20	Oper Income USD Mil
4.9	4.5	10.1	13.5	15.6	16.7	17.6	16.9	16.7	15.6	13.1	Operating Margin %
0	0	24	5	7	10	13	12	13	15	13	Net Income USD Mil
0.02	0.02	1.16	0.22	0.35	0.46	0.56	0.54	0.58	0.64	0.56	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	Dividends USD
17	17	20	22	21	22	22	22	23	23	23	Shares Mil
1.10	1.64	3.04	3.41	3.97	4.66	5.58	6.43	7.24	6.85	6.84	Book Value Per Share USD
3	4	7	6	10	12	15	14	23	16	22	Oper Cash Flow USD Mil
-1	-1	-1	-3	-3	-3	-4	-8	-3	-7	-10	Cap Spending USD Mil
2	2	6	4	7	9	11	7	19	9	12	Free Cash Flow USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
1.0	1.3	50.1	7.3	9.7	10.8	11.2	9.2	8.4	8.2	7.4	Return on Assets %
2.0	2.4	64.1	8.3	11.3	12.7	13.0	10.4	9.5	9.2	8.4	Return on Equity %
0.9	1.2	50.4	9.2	10.9	11.7	12.4	11.4	10.5	10.1	8.5	Net Margin %
1.10	1.12	0.99	0.79	0.89	0.93	0.90	0.81	0.81	0.81	0.87	Asset Turnover
2.0	1.7	1.1	1.1	1.2	1.2	1.2	1.1	1.1	1.1	1.1	Financial Leverage

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-11	Financial Health
13	18	26	39	50	75	53	102	89	108	92	Working Capital USD Mil
1	0	—	—	—	—	—	—	—	1	1	Long-Term Debt USD Mil
18	22	55	62	71	88	105	127	147	169	148	Total Equity USD Mil
0.07	0.03	0.00	—	—	—	—	—	—	0.00	0.01	Debt/Equity

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
48.1	88.5	12.9	54.6	43.9	66.2	28.1	44.3	44.3	49.8	49.5	Price/Earnings
—	—	—	—	—	—	—	—	—	2.8	3.4	P/E vs. Market
2.1	7.9	6.1	5.6	5.0	8.2	3.4	4.9	4.4	4.2	4.2	Price/Sales
3.7	11.1	4.8	4.8	4.8	7.7	2.9	4.0	3.7	4.0	4.0	Price/Book
18.1	55.0	49.0	38.6	28.6	66.7	24.8	24.4	43.7	28.7	28.5	Price/Cash Flow

Quarterly Results						
Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	35.9	37.5	36.0	40.0		
Prior Year Period	31.0	33.7	35.0	35.3		
Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	15.8	11.5	3.0	13.5		
Prior Year Period	15.0	27.8	17.9	16.6		
Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	0.17	0.15	0.10	0.15		
Prior Year Period	0.15	0.12	0.16	0.17		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Abaxis, Inc.	596	149	49.5	8.4
Sun Pharma Advanced	—	—	—	—
Sun Pharma Advanced	—	—	—	—

Major Fund Holders	
	% of shares
	—
	—
	—

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.



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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. CLINTON H. SEVERSON	CEO/Chairman of the Board/President/Director, Director	519,269	05 Dec 2011	9,000
DR. VLADIMIR E. OSTOICH, PHD	Founder/Vice President, Divisional	382,313	28 Oct 2011	-
MR. ALBERTO R. SANTA INES	CFO/Vice President, Divisional	67,569	06 Dec 2011	20,000
DR. RICHARD J. BASTIANI, PHD	Director	46,900	11 Aug 2011	-
DR. KENNETH P. ARON, PHD	Chief Technology Officer	39,170	01 Jun 2011	-
MR. MARTIN V. MULROY	Vice President, Divisional	24,765	26 Oct 2011	-
MR. ACHIM HENKEL	Managing Director, Subsidiary	14,750	15 Nov 2011	5,000

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Brown Capital Mgmt Small Co Inv	QQQQ	7.43	3.24	0	31 Oct 2011
Neuberger Berman Genesis Inv	QQQQQ	5.35	0.26	-21	30 Sep 2011
Wasatch Small Cap Growth	QQQQ	2.53	1.02	0	31 Dec 2011
American Funds SMALLCAP World A	QQQQ	1.79	0.07	0	31 Dec 2011
iShares S&P SmallCap 600 (AU)		1.49	0.12	1	03 Feb 2012
Concentrated Holders					
Virtus Small-Cap Sustainable Growth A	QQQ	0.71	4.38	35	30 Sep 2011
Virtus Small-Cap Growth Series	QQQ	0.52	4.16	-13	30 Sep 2011
Brown Capital Mgmt Small Co Inv	QQQQ	7.43	3.24	0	31 Oct 2011
Virtus Small-Cap Core I	QQQQ	0.85	3.08	0	30 Sep 2011

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
AZL Allianz AGIC Opportunity	Q	0.28	1.04	61	30 Sep 2011
Dreyfus Small Cap Stock Index	QQQQ	0.20	0.12	44	31 Dec 2011
NVIT Multi-Manager Small Company 4	QQQ	0.19	0.27	41	31 Dec 2011
Virtus Small-Cap Sustainable Growth A	QQQ	0.71	4.38	35	30 Sep 2011
Metropolitan Ser NB Genesis A	QQ	0.80	0.41	29	30 Sep 2011
Top 5 Sellers					
Undrly Pru (M&G) Am Bd Life		1.18	0.31	-100	31 Oct 2011
Northern Multi-Manager Small Cap	QQ	0.24	0.30	-56	31 Dec 2011
Neuberger Berman Genesis Inv	QQQQQ	5.35	0.26	-21	30 Sep 2011
Virtus Small-Cap Growth Series	QQQ	0.52	4.16	-13	30 Sep 2011

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Industry Focus: Medical Diagnostics & Research

CROs Still On Sale as Industry Begins Rebound

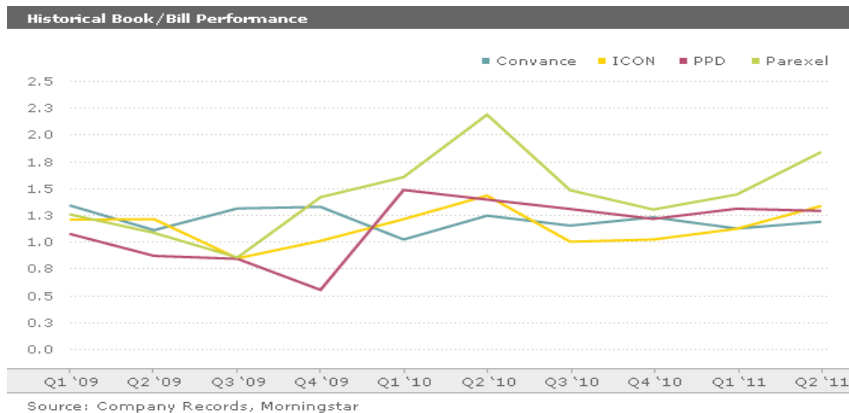
03 October 2011

Lauren Migliore
Stock Analyst

Market uncertainty has uncovered opportunity in this high-growth sector.

We think the contract research organization (CRO) industry has turned a corner, as evidenced by a resurgence in new business activity and revenue growth over the past few quarters. The second quarter marked the first period since the beginning of the drug-development slowdown that the industry saw widespread top-line growth. The emergence of the strategic partnership model, which has seen the world's largest drugmakers pair up with leading CROs as long-term research and development partners, has helped fuel this return to growth in the industry. While these dynamics bode well for the major players' long-term growth and profitability, an unusual amount of projects in startup mode may weigh on results in the near term. However, considering the compelling value proposition the CRO model offers, we expect drugmakers to outsource an increasing portion of their research and development budgets to a select group of preferred providers. We think the industry's leading players--with their global scale and service breadth--have dug themselves narrow economic moats and will benefit from these trends over the long run. Strong revenue and backlog growth indicate a CRO recovery is in

full swing. For the first time since the beginning of the drug-development slowdown in 2009, all the CROs in our coverage universe turned in top-line growth on both a sequential and year-over-year basis (with the exception of Charles River Laboratories CRL, which saw flat sales compared with the second quarter of 2010). Covance CVD and Pharmaceutical Product Development PPD were the biggest top-line gainers during the quarter, which we think attests to the growing importance of incremental revenue derived from new strategic alliances. As the two largest publicly traded CROs, Covance and PPD boast a wide range of services and formidable central laboratory capabilities that have helped them land lucrative contracts with some of the world's largest drugmakers. We expect growth in the CRO industry to continue to accelerate going into 2012. Firms continue to turn in book/bill ratios of at least 1.0, with Parexel PRXL leading the pack during the second quarter with a stellar 1.8 ratio. A high hit rate and low cancellations seem to be the primary drivers behind Parexel's stellar new business wins during the quarter. Additionally, strategic partnerships, which until now have been mostly in a loss-driving start-up mode, are gaining traction and starting to benefit the company's bookings numbers. For instance, Pfizer PFE recently named Parexel as one of its two primary contract research providers (in addition to ICON ICLR), and the firm expects at least \$200 million in additional annual revenue from the deal. Management also noted an uptick in activity from clients in the small and emerging biotech market, which we think signals that a large amount of the uncertainty surrounding the drug-development industry has dissipated. Strong new bookings are a testament to our thesis that drugmakers are beginning to unfreeze their pipelines and limit cancellations, as evidenced by a 15.2% increase in total industry backlog over year-ago levels. Strategic investment requirements limit firms' ability to translate top-line gains to the bottom line. We think strong bookings and a string of new strategic deal announcements bode well for future growth. A combination of revenue gains from established partnerships, extensive cost-cutting measures, and robust share buyback programs led to robust EPS growth for



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Industry Focus: Medical Diagnostics & Research

industry leaders like Charles River, Covance, and PPD during the second quarter. However, resource buildups to support recently signed partnerships, which require substantial new costs without an immediate increase in compensating revenue, have weighed on earnings for some firms. Despite revenue growth on both a sequential and year-over-year basis, Parexel's adjusted earnings fell steeply from the prior-year period as up-front investment in staff and infrastructure in anticipation of future demand weighed on earnings. We believe the firm's earnings hit a low point this quarter (fourth quarter of fiscal year 2011). We also think profitability will improve starting in fiscal 2012 as strategic partnerships mature, productivity improves, and restructuring initiatives begin to bear fruit. Similarly, although ICON's earnings were flat on a sequential basis, year-over-year operating income declined sharply from the prior-year period. Two culprits are behind ICON's near-term earnings pressure: the firm's underutilized central lab business and its continued investment in the Asia-Pacific region. However, we expect these constraints to dissipate soon, allowing ICON to fully participate in the recovery that most of its peers already have begun to experience. We expect revenues to pick up in the fourth quarter and grow meaningfully into 2012, allowing leverage benefits to return ICON to double-digit operating margins next year. The CRO Industry remains undervalued; MA activity could provide additional upside to shares. Overall market uncertainty has pushed shares of CROs back to depressed levels. The industry now trades at a greater than 25% discount to our fair value estimates, and all the firms we cover in the sector carry our 4-star or 5-star rating. While we think the entire industry is attractively valued, ICON and Charles River trade at the steepest discount to our estimate of their intrinsic value, and these two names represent our best ideas in the space. Both firms stand to benefit from significant industry tail winds, and we think these names will see both earnings and multiple expansion in the coming quarters. ICON's earnings growth is set to accelerate beginning in 2012 as central lab revenue and capacity utilization improve. Demand normalization and capacity reduction should help Charles River return to top-line growth in 2011, and we expect earnings to fall near the

top of management's guidance range as revenue is spread over a leaner cost base. We expect ICON and Charles River to yield high-single-digit revenue growth during the next five years as the firms benefit from an industrywide shift toward drug-development outsourcing. Finally, a recent flurry of acquisition activity in the sector could provide additional upside for CRO investors. PPD's shares have risen sharply on reports that the firm was putting itself up for sale. We think a private equity firm would be the most likely buyer for PPD, and Carlyle Group is reported to be in talks to acquire the firm at a price right around our fair value estimate. Private equity firms have historically demonstrated a strong interest in the sector, which has been out of favor in the market for some time and ripe for restructuring efforts. Industry giant Quintiles was taken private in 2003 by a team consisting of the firm's founder and a private equity group. We think this type of buyout scenario would make the most sense for PPD, given the active role that founder Fred Eshelman retains in the company. As the only CRO to pay a dividend, and with no debt on its balance sheet, PPD is on strong financial footing. We think the firm's clean balance sheet could allow buyers some flexibility with regard to financing options for the firm.