

## Abaxis, Inc. ABAX (NAS)

Last Close	Industry	Sector
22.58 USD	Diagnostic Substances	Health Care

### Profile

Pricing data through 19 Nov 2009

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#### Contents

Company Profile	1
Company Data	2
Management & Ownership	3
Industry Focus	4

Abaxis, Inc. develops, manufactures and markets portable blood analysis systems for use in any veterinary or human patient care setting to provide clinicians with rapid blood constituent measurements. The company's primary product is a blood analysis system, consisting of a compact, 5.1 kilogram portable analyzer and a series of single-use plastic discs, called reagent discs, containing all the chemicals required to perform a panel of up to 13 tests on veterinary patients and 14 tests on human patients. The system can be operated with minimal training and performs multiple routine tests on whole blood, serum or plasma samples.

The system provides test results in approximately 12 minutes with the precision and accuracy equivalent to a clinical laboratory analyzer. Its point-of-care blood analyzer products and reagent discs are sold either directly or through distributors depending on the needs of the customer segment. In the delivery of human or veterinary care, there are many kinds of providers and a multitude of sites where Abaxis products could be used as an alternative to relying on a central laboratory for blood test information. As a result of health care reform, the company anticipates a consolidation of providers with more centralized purchasing of medical products based on the standardization of care and the use of patient outcome studies to influence purchase decisions.

# Abaxis, Inc. ABAX

**Sales USD Mil** 113 **Mkt Cap USD Mil** 497 **Industry** Diagnostic Substances **Sector** Health Care

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.

3240 Whipple Road  
Union City, CA 94587  
Phone: 1 510 675-6500  
Website: <http://www.abaxis.com>

Employees: 339

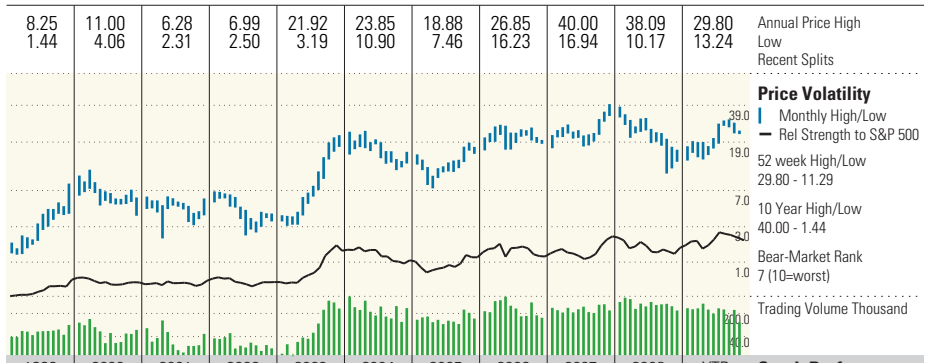
Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	5.0	15.3	17.6	23.0	
Operating Income %	0.5	18.4	30.4	—	
Earnings/Share %	-3.6	15.6	-14.2	—	
Dividends %	—	—	—	—	
Book Value/Share %	20.0	17.9	15.6	35.0	
Stock Total Return %	75.0	3.6	12.4	16.6	
+/- Industry	47.4	10.3	13.6	16.5	
+/- Market	39.2	11.5	13.7	19.3	

Profitability Analysis	Current			
	5 Yr Avg	Ind	Mkt	
Return on Equity %	10.2	11.1	-4.1	15.1
Return on Assets %	9.0	9.6	-2.6	5.9
Fixed Asset Turns	7.8	7.1	3.8	6.8
Inventory Turns	2.9	3.1	3.3	11.3
Revenue/Employee USD K	333.9	306.3*	—	871.2
Gross Margin %	57.2	54.8	63.8	40.7
Operating Margin %	17.4	16.0	-5.9	14.4
Net Margin %	11.4	11.1	-4.7	6.6
Free Cash Flow/Rev %	16.4	9.8	3.4	0.0
R&D/Rev %	8.3	0.1	—	11.0

Financial Position	03-09 USD Mil		09-09 USD Mil	
Cash	49	—	52	—
Inventories	16	—	16	—
Receivables	22	—	22	—
Current Assets	113	—	113	—
Fixed Assets	15	—	14	—
Intangibles	5	—	5	—
Total Assets	141	—	154	—
Payables	4	—	6	—
Short-Term Debt	—	—	—	—
Current Liabilities	12	—	16	—
Long-Term Debt	—	—	—	—
Total Liabilities	14	—	18	—
Total Equity	127	—	136	—

Valuation Analysis	Current			
	5 Yr Avg	Ind	Mkt	
Price/Earnings	39.2	41.2	—	20.7
Forward P/E	25.8	—	—	16.4
Price/Cash Flow	24.3	41.5	37.3	7.1
Price/Free Cash Flow	27.3	59.9	138.9	18.0
Dividend Yield %	—	—	0.1	2.1
Price/Book	3.6	5.0	4.3	2.2
Price/Sales	4.5	5.7	4.7	1.2
PEG Ratio	1.0	—	—	1.8

**Morningstar Rating** **Last Price** 22.58 **Fair Value** **Uncertainty** **Economic Moat™** **Stewardship Grade**



Stock Performance	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD	
Total Return %	299.9	-23.4	-3.8	-29.1	346.7	-19.9	13.7	16.8	86.3	-55.3	40.9	40.9	Annual Price High
+/- Market	280.4	-13.3	9.2	-5.7	320.3	-28.9	10.7	3.2	82.8	-16.8	19.7	19.7	Low
+/- Industry	41.7	-44.6	31.7	25.1	296.6	-34.3	10.1	17.4	71.0	-16.7	25.0	25.0	Recent Splits
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	0.0	0.0	Price Volatility
Market Cap USD Mil	108	95	93	68	347	286	330	400	772	351	497	497	Monthly High/Low

Financials	TTM											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	
Revenue USD Mil	23	30	31	35	47	53	69	86	101	106	113	Revenue USD Mil
Gross Margin %	47.7	44.8	47.9	48.9	51.0	53.0	56.4	54.3	54.7	55.5	57.2	Gross Margin %
Operating Income USD Mil	-1	0	2	2	5	7	11	14	18	18	20	Operating Income USD Mil
Operating Margin %	-2.7	0.4	4.9	4.5	10.1	13.5	15.6	16.7	17.6	16.9	17.4	Operating Margin %
Net Income USD Mil	-1	-1	0	0	24	5	7	10	13	12	13	Net Income USD Mil
Earnings Per Share USD	-0.05	-0.09	0.02	0.02	1.16	0.22	0.35	0.46	0.56	0.54	0.58	Earnings Per Share USD
Dividends USD	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Dividends USD
Shares Mil	14	15	16	17	20	21	21	21	22	22	22	Shares Mil
Book Value Per Share USD	0.21	0.74	0.83	1.28	1.64	3.04	3.41	3.97	4.66	5.58	6.18	Book Value Per Share USD
Oper Cash Flow USD Mil	-2	-3	3	4	7	6	10	12	15	14	21	Oper Cash Flow USD Mil
Cap Spending USD Mil	-2	-6	-1	-1	-1	-3	-3	-3	-4	-3	-2	Cap Spending USD Mil
Free Cash Flow USD Mil	-4	-9	2	2	6	4	7	9	11	12	19	Free Cash Flow USD Mil

Profitability	TTM											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	
Return on Assets %	-5.4	-7.3	1.0	1.3	50.1	7.3	9.7	10.8	11.2	9.2	9.0	Return on Assets %
Return on Equity %	-13.0	-15.0	2.0	2.4	64.1	8.3	11.3	12.7	13.0	10.4	10.2	Return on Equity %
Net Margin %	-3.1	-4.9	0.9	1.2	50.4	9.2	10.9	11.7	12.4	11.4	11.4	Net Margin %
Asset Turnover	1.72	1.47	1.10	1.12	0.99	0.79	0.89	0.93	0.90	0.81	0.79	Asset Turnover
Financial Leverage	2.0	2.1	2.0	1.7	1.1	1.1	1.2	1.2	1.2	1.1	1.1	Financial Leverage

Financial Health	09-09											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	09-09	
Working Capital USD Mil	4	7	13	18	26	39	50	75	53	102	98	Working Capital USD Mil
Long-Term Debt USD Mil	1	1	1	0	0	—	—	—	—	—	—	Long-Term Debt USD Mil
Total Equity USD Mil	7	16	21	22	55	62	71	88	105	127	136	Total Equity USD Mil
Debt/Equity	0.10	0.12	0.07	0.03	0.00	—	—	—	—	—	—	Debt/Equity

Valuation	TTM											
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	
Price/Earnings	—	—	—	—	105.3	13.2	54.6	43.9	66.2	28.1	39.2	Price/Earnings
P/E vs. Market	—	—	—	—	5.0	0.7	3.2	2.6	4.0	2.6	1.9	P/E vs. Market
Price/Sales	4.7	3.2	3.2	2.1	7.9	6.1	5.6	5.0	8.2	3.4	4.5	Price/Sales
Price/Book	36.9	8.1	6.9	3.1	11.1	4.8	4.8	4.8	7.7	2.9	3.6	Price/Book
Price/Cash Flow	—	—	70.9	18.1	55.0	49.0	38.6	28.6	66.7	24.8	24.3	Price/Cash Flow

Quarterly Results	Revenue USD Mil			
	Dec 08	Mar 09	Jun 09	Sep 09
Most Recent Period	27.0	26.3	29.6	30.3
Prior Year Period	25.7	26.7	24.6	27.7
Rev Growth %	Dec 08			
	Mar 09	Jun 09	Sep 09	
Most Recent Period	4.9	-1.5	20.6	9.3
Prior Year Period	16.7	17.2	7.2	9.9
Earnings Per Share USD	Dec 08			
	Mar 09	Jun 09	Sep 09	
Most Recent Period	0.15	0.12	0.17	0.14
Prior Year Period	0.14	0.15	0.12	0.15

Industry Peers by Market Cap	Mkt Cap USD Mil			
	Rev USD Mil	P/E	ROE%	
Abaxis, Inc.	497	113	39.2	10.2
Human Genome Science	4492	236	—	-54.5
Idexx Laboratories	3017	1005	27.3	24.5

Major Fund Holders	% of shares	
Neuberger Berman Genesis Inv	—	4.96
Fidelity Small Cap Value	—	4.03
American Funds SMALLCAP World A	—	3.79

\*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
SEVERSON CLINTON	Chairman, Chief Executive Officer, President, Director	461,179	12 Aug 2009	-
OSTOICH VLADIMIR	Vice President	317,972	05 May 2009	-
BASTIANI RICHARD	Director	61,500	03 Sep 2009	-
INES ALBERTO SANTA	Vice President, Chief Financial Officer	24,206	05 May 2009	-
HANLON BRENTON	Vice President	19,400	06 Nov 2009	6,000
ARON KENNETH	Chief Technology Officer	13,237	14 May 2009	-
SINGH PRITHIPAL	Director	8,500	05 May 2009	-
MULROY MARTIN	Vice President	8,129	05 May 2009	-

\*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
Neuberger Berman Genesis Inv	QQQQQ	4.96	0.35	0	31 Jul 2009
Fidelity Small Cap Value	QQQQ	4.03	1.46	2	31 Jul 2009
American Funds SMALLCAP World A	QQQ	3.79	0.14	0	30 Jun 2009
Brown Capital Mgmt Small Co Instl	QQQQQ	3.72	4.13	-69	30 Jun 2009
Fidelity Small Cap Discovery	QQQQ	0.96	2.87	0	31 Jul 2009

#### Concentrated Holders

Virtus Small-Cap Sustainable Growth I	QQQ	0.13	5.84	0	30 Jun 2009
Brown Capital Mgmt Small Co Instl	QQQQQ	3.72	4.13	-69	30 Jun 2009
Virtus Small-Cap Core I	QQQ	0.31	3.85	12	30 Jun 2009
Fidelity Small Cap Discovery	QQQQ	0.96	2.87	0	31 Jul 2009

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Ohio National Bryton Growth	QQQ	0.27	1.44	60	30 Jun 2009
Vanguard Small Cap Growth Index	QQQQQ	0.77	0.09	28	30 Jun 2009
Virtus Small-Cap Core I	QQQ	0.31	3.85	12	30 Jun 2009
Wells Fargo Advantage Diversified Sm Adm	QQQ	0.04	0.05	10	30 Jun 2009
Northern Small Cap Index	QQQ	0.03	0.06	6	30 Jun 2009

#### Top 5 Sellers

Scout Small Cap	QQQQ	0.55	0.52	-180	30 Jun 2009
Manning & Napier Life Sciences	QQQ	0.77	1.88	-114	31 Aug 2009
Brown Capital Mgmt Small Co Instl	QQQQQ	3.72	4.13	-69	30 Jun 2009
Manning & Napier Pro-Blend Extnrd Term S	QQQQQ	0.05	0.06	-19	31 Aug 2009

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### Industry Focus: Diagnostics & Medical Research

#### Is It Time to Test Contract Research Organizations?

22 June 2009

Jeffrey Stafford  
Stock Analyst

Despite near-term challenges, we think contract research providers are set for long-run gains.

Contract research organizations (CROs) were not spared in the recent downturn, as fears of slower growth crept into stock prices. In this industry update, we'll briefly discuss outsourcing's role in the drug development process, map out several causes of the precipitous drop in CRO stock prices, and talk about why we think contract research providers are set to rebound over the coming years.

#### Drug Development and Outsourcing

It generally takes more than a decade to move a new drug from discovery to commercialization, with many hurdles along the way. CROs assist drug companies in the drug development process by designing, conducting, and managing studies and clinical trials required for approval. Studies begin in test tubes and laboratory animals before moving to clinical trials in humans.

Pharma firms outsource development work for a variety of reasons. In the case of large pharmaceutical firms, management may want to outsource clinical work so it can focus on discovery and marketing. For a small biotechnology

company, outsourcing may be necessary because the firm lacks the global infrastructure required to conduct a large clinical trial.

#### What Happened to CRO Stock Prices?

Investors sold CRO stocks--along with the rest of the market--toward the end of 2008. During this period, large drug companies began to delay clinical trials, cancel studies at a higher rate, and request fewer new trials. Additionally, funding for smaller biotech firms dried up, further denting the top line of CROs. A round of pharma megamergers also caused some delays in outsourcing, as companies reprioritized and reorganized drug pipelines. With less business, the risk of capacity underutilization increased, as industry infrastructure was built up over the last several years to accommodate high demand. While unused capacity is a concern, we believe potential price competition to fill that capacity is more alarming. However, up to this point, we have not seen significant margin deterioration related to lower prices. First-quarter results showed a few signs that demand is bottoming, but it is difficult to predict the nadir. CROs may still have a few rough quarters ahead, and the longer demand is depressed, the greater the likelihood of industry-damaging price competition. Therefore, we currently assign high and very high uncertainty ratings to CROs.

#### Will CROs Eventually Bounce Back?

Despite our short-term concerns, the long-term fundamentals of the industry remain intact, in our opinion. We think it is only a matter of time before large pharmaceutical firms come back into the fold and funding for smaller biotech returns. Even if total RD spending for smaller biotech slows from historical levels, we think an increase in outsourcing penetration will lead to solid CRO growth over the long run. With drugmakers struggling to cut costs, we believe big pharma will outsource a larger portion of its drug development work. By using a lower-cost workforce, CROs can provide savings to pharmaceutical firms. According to a 2006 study by the Tufts Center for the Study of Drug Development, clinical

Name	Ticker	Economic Moat™	Uncertainty	Fair Value	Current Price	Morningstar Star Rating	P/FV
Covance	CVD	Narrow	High	67.00	44.55	★★★★★	0.66
Charles River Laboratories	CRL	Narrow	High	52.00	30.09	★★★★★	0.58
Pharmaceutical Product Development	PPDI	Narrow	High	36.00	21.79	★★★★★	0.61
Parexel International	PRXL	Narrow	Very High	20.00	12.85	★★★	0.64
ICON	ICLR	Narrow	Very High	31.00	21.46	★★★	0.69
Kendle International	KNDL	None	Very High	21.00	14.08	★★★	0.67

Data as of close 16 Jun 2009

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### Industry Focus: Diagnostics & Medical Research

outsourcing offers shorter development times with comparable quality to in-house research departments.

Dollars spent per new drug registration have been increasing for years, but in the past, the sales potential of those drugs was also increasing, as many turned into blockbusters. Today RD spending is still increasing, but the sales potential of new drugs is declining, giving drug companies reason to outsource to more-efficient CROs. As drugmakers re-evaluate pipelines in the wake of large mergers, we think pharma companies will ultimately decide to outsource more.

Furthermore, we don't predict pricing pressure will be a major issue for CROs over the long term. As drug companies delay studies, CROs may be forced to compete more on price in the near future to win contracts. However, we think drugmakers will return to selecting CROs based on quality and reputation once markets have settled, and we therefore predict rational pricing and only moderate pricing competition over the long run.

#### Top-Tier CROs Stand to Benefit

Our next question then becomes, which CROs have the most to gain in our predicted scenario? In our opinion, large, global CROs with solid reputations for quality will win the bulk of new development work and continue to take share from their smaller counterparts. The table below details our CRO coverage and ratings:

The globalization of clinical trials has led to an uptick in business for CROs that have the necessary staff and infrastructure to recruit patients for and conduct trials all over the world. A handful of CROs have become experts in worldwide patient recruitment and logistics. These same companies also have strong knowledge of the regulatory and approval processes across many countries. Today, many top CROs generate more than a third of their revenue overseas, led by Parexel International PRXL, with more

than 60% of sales outside the United States.

Additionally, we believe a strong brand and quality reputation will be vital to future success in the industry. Long-standing relationships built over time are beginning to pay off in the form of strategic alliances between CROs and drugmakers. In 2008, Covance CVD entered a strategic collaboration with Eli Lilly Co LLY. Under the agreement, Covance bought a clinical trial site from Lilly and entered a \$1.6 billion, 10-year deal to provide Lilly with early-stage drug development services. We believe Covance and Charles River Laboratories CRL, another well-respected provider of preclinical services, will benefit as more early-stage work is outsourced. Covance and Charles River are two of the few CROs with the scale and resources to warrant strategic partnerships for preclinical services. In the late-stage world, we think Pharmaceutical Product Development PPD is positioned to benefit from industry trends. PPD is one of the largest providers of late-stage clinical trial development to drug companies. The firm's vast infrastructure and significant experience in highly profitable late-stage trials make it an attractive partner for drug companies looking to outsource large and geographically broad trials. In January 2009, PPD entered into a strategic collaboration with Merck MRK involving vaccine testing and assay development. While CROs that commit to long-term contracts with sponsors may lose some flexibility and expose themselves to unforeseen slowdowns in the drugmaker's pipeline--and may even take a discounted price to lock up work for many years--we think strategic partnerships will increase CRO revenue, and we expect to see more of these collaborations in the future.

When signs of increased growth and outsourcing penetration return to the CRO industry, we believe CRO stocks will jump. Although it may not be as soon as the second quarter of 2009, we think several CRO stocks are attractively priced for patient long-term investors.