

Abaxis, Inc. ABAX (NAS)

Last Close	Industry	Sector
27.89 USD	Diagnostic Substances	Health Care

Profile

Pricing data through 17 Mar 2010

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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 117 **Mkt Cap USD Mil** 616 **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.

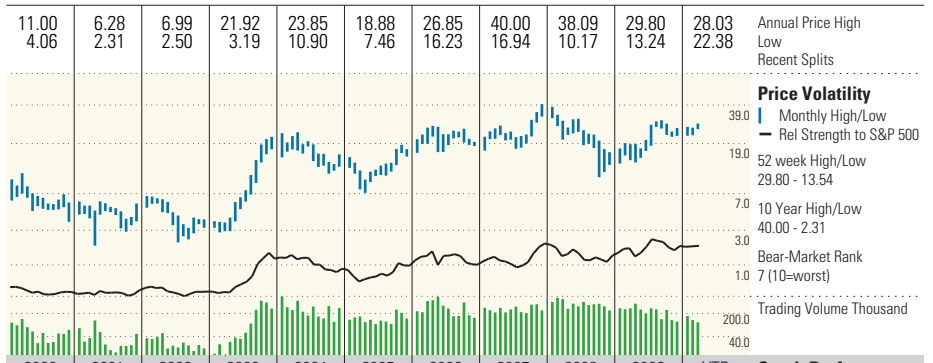
3240 Whipple Road
Union City, CA 94587
Phone: 1 510 675-6500
Website: <http://www.abaxis.com>

Employees: 339

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

— 27.89 — — — —

per share prices in USD



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 %	52.1	6.7	24.6	12.2	
+/- Industry	-2.1	7.4	23.6	26.3	
+/- Market	2.2	12.3	25.0	14.3	

Profitability Analysis	Current			
	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	9.8	11.1	-20.4	19.0
Return on Assets %	8.7	9.6	-10.8	7.3
Fixed Asset Turns	7.9	7.1	3.9	6.8
Inventory Turns	2.8	3.1	3.1	12.1
Revenue/Employee USD K	345.8	306.3*	—	669.6
Gross Margin %	58.0	54.8	63.3	41.0
Operating Margin %	17.3	16.0	-6.5	12.2
Net Margin %	11.1	11.1	-18.7	8.2
Free Cash Flow/Rev %	18.0	9.8	—	0.1
R&D/Rev %	8.7	0.1	—	10.7

Financial Position	03-09 USD Mil		12-09 USD Mil	
Cash	49	48		
Inventories	16	18		
Receivables	22	22		
Current Assets	113	114		
Fixed Assets	15	15		
Intangibles	5	5		
Total Assets	141	160		
Payables	4	8		
Short-Term Debt	—	—		
Current Liabilities	12	17		
Long-Term Debt	—	—		
Total Liabilities	14	18		
Total Equity	127	142		

Valuation Analysis	Current			
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	48.3	47.4	—	19.4
Forward P/E	31.9	—	—	14.4
Price/Cash Flow	26.7	36.6	87.7	7.2
Price/Free Cash Flow	29.8	49.9	—	17.7
Dividend Yield %	—	—	—	1.8
Price/Book	4.3	4.8	4.7	2.3
Price/Sales	5.3	5.4	5.2	1.3
PEG Ratio	1.3	—	—	1.7

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD	Stock Performance
-23.4	-3.8	-29.1	346.7	-19.9	13.7	16.8	86.3	-55.3	59.4	9.2	Total Return %
-13.3	9.2	-5.7	320.3	-28.9	10.7	3.2	82.8	-16.8	36.0	4.6	+/- Market
-44.8	31.7	25.1	296.5	-34.4	10.0	17.3	70.9	-16.7	37.3	-2.0	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
95	93	68	347	286	330	400	772	351	563	616	Market Cap USD Mil

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Financials
23	30	31	35	47	53	69	86	101	106	117	Revenue USD Mil
47.7	44.8	47.9	48.9	51.0	53.0	56.4	54.3	54.7	55.5	58.0	Gross Margin %
-1	0	2	2	5	7	11	14	18	18	20	Oper Income USD Mil
-2.7	0.4	4.9	4.5	10.1	13.5	15.6	16.7	17.6	16.9	17.3	Operating Margin %
-1	-1	0	0	24	5	7	10	13	12	13	Net Income USD Mil
-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
14	15	16	17	20	21	21	21	22	22	22	Shares Mil
0.74	0.83	1.28	1.64	3.04	3.41	3.97	4.66	5.58	6.43	6.42	Book Value Per Share USD
-2	-3	3	4	7	6	10	12	15	14	24	Oper Cash Flow USD Mil
-2	-6	-1	-1	-1	-3	-3	-3	-4	-3	-2	Cap Spending USD Mil
-4	-9	2	2	6	4	7	9	11	12	21	Free Cash Flow USD Mil

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Profitability
-4.3	-7.3	1.0	1.3	50.1	7.3	9.7	10.8	11.2	9.2	8.7	Return on Assets %
-10.3	-15.0	2.0	2.4	64.1	8.3	11.3	12.7	13.0	10.4	9.8	Return on Equity %
-2.5	-4.9	0.9	1.2	50.4	9.2	10.9	11.7	12.4	11.4	11.1	Net Margin %
1.72	1.47	1.10	1.12	0.99	0.79	0.89	0.93	0.90	0.81	0.79	Asset Turnover
2.0	2.1	2.0	1.7	1.1	1.1	1.2	1.2	1.2	1.1	1.1	Financial Leverage

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	12-09	Financial Health
4	7	13	18	26	39	50	75	53	102	98	Working Capital USD Mil
1	1	1	0	—	—	—	—	—	—	—	Long-Term Debt USD Mil
7	16	18	22	55	62	71	88	105	127	142	Total Equity USD Mil
0.12	0.12	0.07	0.03	0.00	—	—	—	—	—	—	Debt/Equity

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Valuation
—	—	—	105.3	13.2	54.6	43.9	66.2	28.1	44.3	48.3	Price/Earnings
3.2	3.2	2.1	7.9	6.1	5.6	5.0	8.2	3.4	4.9	5.3	P/E vs. Market
8.1	6.9	3.1	11.1	4.8	4.8	4.8	7.7	2.9	4.0	4.3	Price/Sales
—	70.9	18.1	55.0	49.0	38.6	28.6	66.7	24.8	24.4	26.7	Price/Cash Flow

Quarterly Results						
Revenue	USD Mil	Mar 09	Jun 09	Sep 09	Dec 09	
Most Recent Period		26.3	29.6	30.3	31.0	
Prior Year Period		26.7	24.6	27.7	27.0	
Rev Growth %		Mar 09	Jun 09	Sep 09	Dec 09	
Most Recent Period		-1.5	20.6	9.3	15.0	
Prior Year Period		17.2	7.2	9.9	4.9	
Earnings Per Share	USD	Mar 09	Jun 09	Sep 09	Dec 09	
Most Recent Period		0.12	0.17	0.14	0.15	
Prior Year Period		0.15	0.12	0.15	0.15	

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Abaxis, Inc.	616	117	48.3	9.8
Human Genome Science	5798	276	—	2.2
Idexx Laboratories	3295	1032	28.3	25.7

Major Fund Holders		% of shares
Brown Capital Mgmt Small Co Instl		3.87
American Funds SMALLCAP World A		3.79
Fidelity Small Cap Value		2.31

*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	President,CEO & Board Chairman	455,647	22 Feb 2010	-
OSTOICH VLADIMIR	VP of Govt Affairs & Pac Rim	333,500	22 Feb 2010	-
HANLON BRENTON	VP-Sales & Marketing,Medical	17,400	01 Mar 2010	2,000
SINGH PRITHIPAL	Director	14,500	01 Feb 2010	-
ARON KENNETH	Chief Technology Officer	13,198	01 Mar 2010	3,125
HENKEL ACHIM	Managing Director-Europe	12,750	11 Feb 2010	5,000
TUCKER ERNEST	Director	0	10 Feb 2010	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 Instl	QQQQQ	3.87	3.22	32	31 Dec 2009
American Funds SMALLCAP World A	QQ	3.79	0.14	0	31 Dec 2009
Fidelity Small Cap Value	QQQQ	2.31	0.66	-379	31 Oct 2009
Wasatch Small Cap Growth	QQQQ	2.18	1.34	0	31 Dec 2009
Vanguard Small Cap Index	QQQ	1.35	0.04	21	31 Dec 2009

Concentrated Holders

Virtus Small-Cap Sustainable Growth I	QQQ	0.06	5.84	13	30 Sep 2009
Virtus Small-Cap Core I	QQQ	0.31	3.91	68	30 Sep 2009
Brown Capital Mgmt Small Co Instl	QQQQQ	3.87	3.22	32	31 Dec 2009
Conestoga Small Cap	QQQQ	0.32	2.17	3	31 Jan 2010

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Forward Small Cap Equity Investor	QQQ	0.39	0.53	86	31 Dec 2009
Virtus Small-Cap Core I	QQQ	0.31	3.91	68	30 Sep 2009
Oberweis Emerging Growth	QQ	0.18	0.99	40	30 Sep 2009
Brown Capital Mgmt Small Co Instl	QQQQQ	3.87	3.22	32	31 Dec 2009
Vanguard Small Cap Index	QQQ	1.35	0.04	21	31 Dec 2009

Top 5 Sellers

Fidelity Small Cap Value	QQQQ	2.31	0.66	-379	31 Oct 2009
Scout Small Cap	QQQQ	0.55	0.61	-40	31 Dec 2009
Vanguard Small Cap Growth Index	QQQQ	0.80	0.09	-4	31 Dec 2009
Vanguard Tax-Managed Small Cap Inv	QQQ	0.41	0.14	-2	31 Dec 2009

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Industry Focus: Diagnostics & Medical Research

We Expect Ailing CROs to Recover

25 November 2009

Lauren Migliore
Stock Analyst

The near-term environment remains tough, but we're bullish on the CROs' long-term prospects.

If following the performance of contract research organizations (CROs) is like taking the temperature of the pharmaceutical industry, then drugmakers are still very much under the weather according to third-quarter results. Economic uncertainty and frozen credit markets over the past year have led pharma companies and biotechs alike to delay or cancel drug development plans as firms reorganize their pipelines and focus on near-term revenue opportunities. Capacity underutilization at CROs has given drugmakers significant bargaining power, providing clients with more leeway to dictate contract terms and exert pricing pressure. Although CROs have attempted to combat capacity underutilization with expense control, the high fixed cost nature of the business limits these efforts and top-line declines have mostly fallen to the bottom line.

With drugmakers continuing to delay RD spending, demand for contract research services remained weak in the third quarter, causing revenue and operating margins to deteriorate on a year-over-year basis. Preclinical development work seems to have been hit the hardest, as

drugmakers canceled early-stage plans and directed spending to compounds closer to commercialization. Covance CVD and Charles River Laboratories CRL, both of which specialize in preclinical testing, saw a steep falloff in revenue from early development. It seems late-stage development has held up slightly better, although trial delays were more common in this segment. Most firms have predicted an equally dismal fourth quarter, and with nearly all of the firms' book/bill ratios (net new business authorizations/current sales) falling below 1.0 this quarter, we believe growth prospects will remain rare in the near term.

Third-Quarter Revenue and Profitability Overview by Company

Early-Stage Players

Covance CVD : Covance's financial performance held up relatively well compared with its CRO peers during the third quarter as impressive growth in late-stage testing offset disappointing early-stage performance. Covance's late-stage development segment turned out double-digit revenue growth and record operating margins for the segment. It appears that Covance is gaining a greater share of the dollars spent on drug RD, with most gains coming from clients' increased outsourcing of in-house activities. This strong showing helped the firm's book/bill ratio remain above 1.0 (at 1.3), which is an encouraging signal of future revenue growth. **Charles River Laboratories CRL** : Charles River's third-quarter earnings revealed another quarter of top- and bottom-line deterioration. Although the firm's research models and services held up fairly well, revenue from the firm's preclinical services segment fell sharply from the prior-year period on lower capacity utilization and pricing pressure. Management also noted that, although pricing pressure persists, it is no longer seeing price declines (however, the firm's gross margin slightly contracted from the second quarter). **WuXi PharmaTech WX** : WuXi's reputation for excellence and exposure to the fast-growing

Contract Research Organization Overview Q3 2009

Company	Ticker	YOY Sales Growth (%)	Book/Bill ¹	Operating Margins (%)	Operating Margins Q3 2008 (%)	Operating Margins YOY Δ (bps)
Charles River Laboratories*	CRL	13.1	—	14.9	19.9	-500
Covance	CVD	8.0	1.3	12.2	15.9	-370
ICON	ICLR	-2.3	0.8	13.8	12.0	180
Kendle	KNDL	-16.2	0.8	11.6	8.8	280
Pharmaceutical Product Development	PPDI	13.5	0.8	13.8	17.7	-390
Parexel ²	PRXL	-1.2	0.9	7.1	8.4	-130
WuXi Pharma Tech*	WX	9.8	—	20.9	17.0	390

¹ Net new business authorization/current sales

² First quarter of fiscal year 2010

* Firms do not provide book/bill metrics due to faster turnaround time associated with early-stage testing

Source: Morningstar estimates and company reports

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Industry Focus: Diagnostics & Medical Research

Chinese market shone through in the third quarter as the firm bucked the industry's recent trend of negative top- and bottom-line growth. Unlike its peers who are feverishly attempting to cut head count to combat underutilization, WuXi expanded its staff by over 10%, indicating its confidence in the success of its business model. Additionally, the firm is enhancing its future growth opportunities by bulking up its toxicology and large-scale manufacturing capabilities. Late-Stage Players

Pharmaceutical Product Development PPD : PPD's decline in revenue and profitability was due to a spike in cancellations in its Phase I segment and trial delays and down-scoping in its late-stage business. The firm's book/bill ratio fell for the third sequential period, indicating that near-term revenue growth will remain weak. Despite PPD's lackluster earnings, we found signs of growth potential in the firm's report. The firm was selected as a strategic outsourcing partner by five sponsors, saw requests for proposal activity improving, and made strides to expand its reach into the fast-growing Chinese market. **ICON ICLR** : Although ICON's third-quarter revenue remained relatively flat on a sequential and year-over-year basis, the firm's operating margin rose to an all-time high as cost-reduction measures gained traction. Margin improvement came primarily from the firm's selling, general, and administrative expense line, although we're watching ICON's gross margin (which declined 100 basis points from the year-ago quarter) for signals of price competition. **Parexel PRXL** : Parexel's clinical research services division, which brings in the bulk of revenue, remained stagnant as weakness in its early-phase business offset mild growth in the late-stage portion of the business. Management also noted that while the pricing environment remained weak, it did not worsen from the previous period (the firm's gross margin slightly improved from the fourth quarter of 2009). In the effort to further curtail costs, Parexel will reorganize its global cost structure to better match near-term demand. We expect tailwinds from the firm's restructuring initiatives to pay off in upcoming quarters. **Kendle KNDL** : Kendle's third-quarter results revealed another quarter of weak top-line

growth, although the firm was able to boost its profit margins through expense control. Net revenue for the quarter fell sharply on soft demand in both the early- and late-stage businesses. On a positive note, cost-control initiatives more than offset the impact of the sales decline on the firm's profitability. **After Near-Term Ailments, Healthy Long-Run Prospects for CROs**

Despite these near-term headwinds, we are bullish on the industry's long-run prospects as pharmaceutical companies seek to outsource noncritical aspects of drug development to improve profitability. We contend that CROs will take a larger share of the drug development market over time as drug discovery efforts come back on line and steady trial volumes return. The companies remain optimistic about 2010 and the industry's future opportunities, especially as Big Pharma approaches a historic patent cliff (requiring new compounds to plug the sales drain), large pharma mergers close (unfreezing many drug development plans), health-care reform gains clarity (dissolving a great deal of uncertainty in the market), and the biotech funding crunch continues to ease (freeing up funds for biotechs that have shuttered operations in the absence of liquidity). With pharma companies looking to ramp up the percentage of trial work that is outsourced, accelerating trial volumes and increased penetration rates should help cure this ailing industry.