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The attached Report is provided for information as it provides an overview of the Company's activities from an analyst perspective.

The Directors and Biota Management do not endorse any Analyst Report and suggest that investors and potential investors consult their own financial advisor before making all investment decisions. However, where an Analyst has conducted significant research, in our view, and has given permission, Biota will make a copy available on the Biota website.

Damian Lismore
Company Secretary



27 January 2006

Biota Holdings Limited (BTA)

Speculative Buy

12 Month Target of \$2.16; To Hit Significant Profitability in FY07

\$1.57

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Key Points

Biota continues to be positively impacted by the global threat of an H5N1 avian influenza pandemic through royalty revenues from sales and stockpiling of the anti-influenza drug Relenza™.

Biota also recently executed a US\$112.5 million deal with MedImmune to develop therapeutic drugs against Respiratory Syncytial Virus (RSV), including a US\$5 million upfront payment.

Summary

Market Capitalisation (M)	\$280.5
Share Price	\$1.57
Shares on Issue (M)	178.6
Valuation Per Share (fully diluted)	\$1.68
12 Month Price Target	\$2.16
Est. Cash (M) as at 15/01/06	\$49.0
Price Volatility	High
Market Cap: Cash Ratio	5.7
Market Cap: Cash Ratio (Sector)	14.2

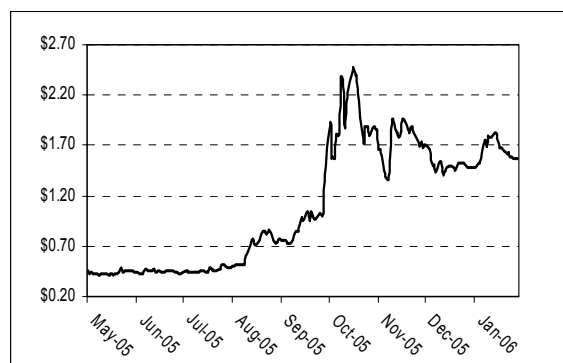
Our View

- While the focus of the market has been predominately on Relenza™, Biota's deal with MedImmune must be considered significant. We believe peak sales of Biota's RSV drug to be US\$420 million. All development costs are to be met by MedImmune. Of Biota's other anti-viral programs, we believe the Hepatitis C Virus (HCV) and Long Acting Neuraminidase Inhibitors ("LANI"), which are related to Relenza™ could be licensed during FY07. Over the last 1-2 years, 3 HCV pre-clinical deals have averaged between US\$81-\$168 million in value, which in our view is a useful proxy for potential deal size for Biota. At present, we believe a LANI deal could command US\$75-125 million in upfront/milestones with a +10% royalty on future sales.
- We have upgraded our estimated FY06 revenues by 93.0% as a result of the US\$5 million upfront from the MedImmune deal, and are forecasting an FY06 NPAT loss of \$7.7 million, down 29.6% pcp. We are forecasting an FY07 NPAT of \$35.3 million, predominately the result of a sizeable uplift in revenues from future milestone payments from MedImmune and royalty payments from confirmed Relenza™ orders seen in 1H FY06. We have also factored into our estimates our expectation that Relenza™ will capture up to 20% of the US\$1 billion that we expect to be available for acquiring drugs for the U.S Stockpile during 1Q CY06. However, we note our FY07 and FY08 revenue and earnings estimates are subject to variability from the timing of royalty payments received, the confidential nature of government stockpiling purchase prices, and the possibility of early stage clinical failure for RSV. Upside to our estimates will come from further license deals for HCV or LANI. However, should only the confirmed government Relenza™ orders materialise into royalty revenue in FY07, we still expect Biota to turn a profit.
- Our base case, risk-adjusted valuation of Biota is \$1.68 (fully diluted), representing a slight premium to the current share price. We see further upside of \$0.24 per share to our valuation should Biota settle its dispute with GlaxoSmithKline (GSK), which we view as likely during CY06. We also believe there is a further \$0.24 upside to our valuation if our Relenza™ production estimates (66.6 million doses to end FY08) are reconciled with actual GSK production, which could be up to 100 million doses for the same

Key Financials (A\$'000)

Year End	FY05 Actual	FY06 Est.	FY07 Est.
Revenue	5,049	16,978	51,793
Litigation Expense	(3,700)	(5,500)	0
Total Op. Expenses	(7,976)	(16,205)	(7,225)
R&D Expenses	(7,337)	(7,500)	(8,300)
EBITD	(15,253)	(9,654)	33,792
EBIT	(16,120)	(10,594)	32,850
NPAT pre Net R&D	(8,526)	(3,406)	40,387
Reported Profit	(14,568)	(7,667)	35,326
EPS (c)	(12.0)	(4.7)	19.8
PE Ratio (x)	n/a	n/a	7.9
EPS pre R&D (c)	(6.9)	(2.1)	22.7

Share Price Graph (A\$)





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27 January 2006

period. This forms the basis of our 12 month target of \$2.16 and Speculative Buy recommendation.

Biota Summary Valuation

The majority of the value associated with Biota is derived from sales of Relenza™. The key Relenza™ patents expire in mid-2014, after which time no further royalties will accrue to Biota. We have summarised the NPV of Biota's government grants, pre-clinical programs, LANI, RSV MedImmune deal, the Flu OIA® diagnostic and all aspects of Relenza™ royalties derived from seasonal sales, confirmed, unconfirmed and potential stockpiling and the replacement market.

12 month target of
\$2.16

Our preferred, fully-diluted base case valuation for Biota is \$1.68 (fully diluted), with a 12 month target of \$2.16 on the back of potential GSK production upside and settlement of the GSK litigation. A summary of our valuation is shown below.

Biota Valuation Summary

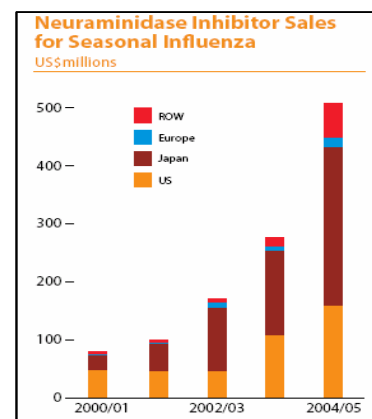
Product/Pipeline		Present Value (A\$m)		
		Low	Base	Best
	FLU OIA® Profit Share	7.1	9.5	10.9
	Government Grants	6.2	6.8	7.6
	Seasonal Influenza Relenza™ (Royalties)	9.1	22.8	40.7
	Stockpiling: Confirmed Government Relenza™ (Royalties)	13.8	18.9	25.1
	Stockpiling: Unconfirmed Government Relenza™ (Royalties)	14.8	19.6	24.9
	Stockpiling: Future Potential Government Relenza™ (Royalties)	14.3	26.6	44.9
	Relenza™ Replacement Market (Royalties)	25.7	47.6	83.9
	Long Acting Neuraminidase Inhibitors, LANI (Biota Profit Share A\$m)	16.4	47.6	149.8
	RSV License and Collaboration Deal with MedImmune	56.0	70.8	93.6
	Other Programs (HCV, HRV)	29.9	36.7	41.9
	TOTAL	193.4	307.0	523.2
	<i>PV GSK Production Shortfall Reconciliation</i>	40.5	44.1	4.0
	<i>PV Settlement of GSK Litigation</i>	30.8	43.0	55.0
	TOTAL	264.7	394.1	582.2
<i>Less</i>	Operating Expenses	(49.4)	(55.5)	(63.7)
	Tax	(25.8)	(36.8)	(74.5)
	Capex	(2.0)	(2.3)	(2.6)
<i>Add</i>	Depreciation & Amortisation	2.7	3.1	3.5
	Change in NWC	6.3	4.8	8.1
	Net Interest	25.9	32.2	41.0
	NPV Valuation (ex. shortfall and litigation settlement)	151.1	252.6	435.1
	NPV Valuation (inc. shortfall and litigation settlement)	222.4	339.7	494.1
	Est. Cash on Hand (A\$m) 15/01/06	49.0		
	Shares on Issue (m)	178.0		
	Value per Undiluted Share (A\$)			
	Cash from Options (A\$m) ¹	1.3	\$1.12	\$1.69
	Fully Diluted Shares (m)	180.5		
	Value per Fully Diluted Share (A\$) (ex. shortfall and settlement)		\$1.12	\$1.68
	Value per Fully Diluted Share (A\$) (inc. shortfall and settlement)		\$1.52	\$2.16
	<i>Upside Value per Fully Diluted Share (A\$)</i>		<i>\$0.40</i>	<i>\$0.48</i>
			<i>\$0.33</i>	

¹Assumes all 2.54 million A\$0.53 ESOP options are exercised; Source: Taylor Collison

A discussion and valuation assumptions for each segment of the Biota business can be found below.

Seasonal Influenza - Expect Increased Market Share

Sales for seasonal influenza reached US\$500 million in 2004/5 (right). The majority of this market is for Tamiflu® (99%) and use is highly dependent on whether the influenza season is considered mild or severe.



Source: Biota

Expect seasonal influenza sales to increase.

The seasonal influenza market represents a second avenue of royalty revenue for Biota. We note that FY05 royalty revenues were \$0.53 million (implying Relenza™ sales of A\$7.6 million) down 6.2% pcp. We believe one key advantage of the embedded fear of an avian influenza pandemic will be that individuals will attempt to stockpile these drugs, whether or not an outbreak has occurred. For example, in Australia, pharmacy stocks of Tamiflu® and Relenza™ are in very short supply due to a surge in retail demand.

Base valuation of A\$22.8 million from royalties associated with seasonal influenza sales of Relenza™.

We believe there is significant upside for Relenza™ in securing an increased market share in this segment, albeit from a low base of only 1%. We do not expect the current litigation between Biota and GSK will serve as an impediment for GSK

Seasonal Influenza - Valuation Parameters

	Low	Base	Best
Market Growth FY06-FY08 (p.a.)	20%	20%	20%
Market Growth FY09-FY14 (p.a.)	5%	5%	5%
Increase in Market Share (% p.a.) to FY14	1%	2%	3%
Total Relenza Market Share FY14	9%	18%	20%
Pricing Structures (A\$)	30	40	50
NPV (A\$m)	9.1	22.8	40.7

Source: Taylor Collison

attempting to increase sales for seasonal influenza. Our valuation parameters are highlighted across and our base valuation is A\$22.8 million. Given the recent propensity for Governments to include Relenza™ doses comprising 20-40% of the stockpile (Germany, France and possibly the US in 1Q CY06), we feel this may translate to increased seasonal use by prospective patients seeking an alternative to Tamiflu®, which has received significant negative press of late, due to resistance concerns and unexplained deaths in Japan.

Confirmed and Unconfirmed Government Stockpiling

Unconfirmed stockpiling refers to Governments that have announced a strategic stockpile of Relenza™, but the quantum of the order remains unknown. We have previously commented on unconfirmed orders from Hong Kong, the U.S and New Zealand.

Our base revenue estimates for confirmed/unconfirmed orders is A\$50 million, as shown in the table across. The U.S order is the based on the recent U.S government pandemic influenza strategy which sought up to US\$1 billion to fund the purchase of 50 million doses of anti-viral drugs (exclusively Tamiflu® and Relenza™) for the Federal stockpile, with a further 31 million doses available for purchase by the states, utilising a subsidy from the U.S government. The states have absolute discretion with regards to the quantum of Tamiflu® and/or Relenza™ acquired. At this stage, it is unknown what the split will be, but we view any announcement in this regard as the next major driver for Biota in the near term. We believe orders will be placed during 1Q CY06, and as such we expect some clarity on the order split at that time.

Government (Confirmed/Unconfirmed) Stockpiling Estimates

Country/Jurisdiction	Est. Royalty to Biota @ 7% (A\$ million)		
	Low (A\$20)	Base (A\$25)	High (A\$30)
Previous Known Orders	18.8	23.5	28.2
Hong Kong & Holland	4.2	5.3	6.3
USA	17.0	21.3	25.5
Total	40.0	50.0	60.0

*Assumes stockpile ratio of 15% (Low), 20% (Base) and 25% (High); Source: Biota, Taylor Collison

Royalty revenues from confirmed/unconfirmed orders potentially worth A\$50 million.

In our view, the recent confirmed French stockpile order of 9 million doses of Relenza™, tells us several important things about the likely trend of governments in stockpiling:

Tamiflu® issues could drive the Relenza™ proposition.

- (1) Tamiflu® bottlenecks in production are creating a much stronger market for Relenza™,
- (2) Evidence of Tamiflu® resistance and deaths may be driving dual stockpiling efforts,

(3) Overall, Relenza™ is actually a better drug, despite its patient compliance issue of being inhaled versus oral; and

(4) Western government stockpiling is currently exceeding the 25% of population under World Health Organisation (WHO) guidelines.

Future Potential Government Stockpiling

We have examined which wealthy nations are likely to be future stockpilers of Relenza, due to such countries being chronically under stockpiled (according to WHO guidelines). In Europe, we see countries such as Germany (previously the largest stockpiler of Relenza™), Italy and Spain as the next big potential customers in either drug. Moving forward, Japan and South Korea also appear to be potentially big customers.

EU, Asia and Canadian stockpiling could generate royalty revenues of A\$41.6 million to Biota.

We note that traditionally Japan has been a large consumer of Tamiflu®, so it would not be unreasonable to assume any strategic stockpiling will have Tamiflu® as a major component. However, the recent unexplained deaths associated with Tamiflu use in Japan, coupled with some suggestion that Japan may seek coverage of up to 80% of its population certainly aids Relenza's chances of significant incorporation into stockpiles.

Potential Government Stockpiling Estimates

Country/Jurisdiction	Est. Royalty to Biota @ 7% (A\$ million)		
	Low (A\$20)	Base (A\$25)	High (A\$30)
EU	14.3	23.8	35.7
Asia	9.5	15.9	23.8
Canada	1.2	1.9	2.9
Total	25.0	41.6	62.4

*Assumes stockpile ratio of 15% (Low), 20% (Base) and 25% (High); Source: Taylor Collison

We have no estimates for China, but given the country is expected to be the epicentre of any pandemic outbreak, any stockpiling initiative here can be considered significant. Our potential estimates are highlighted above.

Stockpiling Replacement Market – A Virtuous 3 Year Cycle

Three year shelf life ensures current stockpiles must be replaced in three years.

In its present inhaled form, Relenza™ has a shelf life of approximately three years. While this has proved to be a disincentive for government stockpiling given Tamiflu's shelf life is around five years, it does provide Biota with a cyclical three year revenue stream, and further upside that could not be gained through one-off product sales to government. In other words, Relenza™ production and stockpiling today will have to be replaced in three years through further orders.

Base value of A\$47.6 million

We value the net present value of the stockpiling replacement market for Relenza™ out to patent expiry in 2014 to be worth between A\$25.7 – A\$83.9 million in royalties to Biota, with a preferred base case value of A\$47.6 million. Again, the three year replacement cycle is largely dependent on a pandemic influenza outbreak not occurring *per se*, but rather the continued "threat" from sporadic H5N1 outbreaks in poultry associated with occasional human infection and mortality.

Reconciling Estimates with Rumoured GSK Production

Some believe GSK's production is up to 100 million doses.

We note with interest that our current valuation model suggests total volume production of Relenza™ to FY09 is below the rumoured GlaxoSmithKline (GSK) production estimates to the end of CY08 of 100 million doses. Our base forecasts suggest a potential production upside of 33.4 million doses, producing a PV value upside of A\$44.1 million, or \$0.24 per share (fully diluted). We await further information from GSK regarding capacity limits.

All available production demand is met at present.

At present, GSK has commented that all available production demand is being met. GSK has recently re-opened its Boronia, Melbourne manufacturing facility and expects to have manufacturing in place during 1Q-2Q CY06. Speculation also surrounds GSK discussing a manufacturing license with Nicholas Piramal in India for Relenza™. Though Biota has no patent protection in India, we believe that the license agreement is such that Relenza™ sold via manufacturing in India is still subject to a 7% royalty in any jurisdiction the drug is sold (10% in Australia/NZ).

Diagnostic Flu Test OIA®

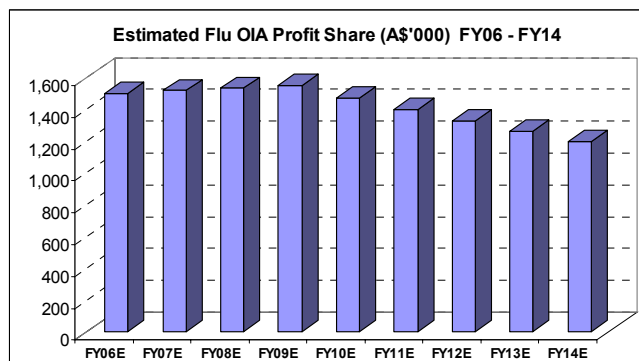
FY05 profit share of A\$1.5 million, on a mild influenza season.

Biota's first product on the market, FLU OIA® was one of the first rapid influenza diagnostics available that gives a result in 15 minutes. Biota has a diagnostic profit share arrangement with its manufacturing, marketing and distribution partner Thermo Electron in the U.S and Europe. FY05 profit share was A\$1.5 million, down 55.5% pcp and largely the result of a mild influenza season. The more severe the influenza season, the higher are the diagnostic sales.

FLU OIA® should continue to provide Biota with A\$1 million plus per annum.

Importantly, FLU OIA® is known to be effective at detecting Avian Influenza, a key reason why we see this diagnostic as providing Biota with some additional revenues in the near term. In the event of pandemic Avian Influenza, we believe it would be imperative that treatment regimes only follow immediately after diagnosis, in order to protect misuse (or prophylactic use). The cost of the test is around US\$18,

which makes the likelihood of use prior to drug treatment more apparent. Though other rapid point-of-care tests are sure to enter the market over the next few years, we believe that sales of FLU OIA® will not peak until FY09 (albeit of soft growth from FY05 and on), prior to declining sales to FY14 and thereafter the product is no longer marketed. Our present valuation for the FLU OIA® test is A\$9.5 million.



GSK Litigation: Lessons Learned from Gilead

Claim of A\$308-\$430 million in damages from GSK

Biota has commenced legal proceedings against GSK, and is seeking damages of between A\$308 and A\$430 million. This is the result of Relenza's market share falling to approximately 1% of worldwide Influenza anti-viral market, when the expectation was 40%. We believe the actual foregone revenue component of the suit is probably around A\$42 million, representing the royalty on a 40% market share of the seasonal influenza drug market from CY00-CY05. The damages appear very significant.

The Roche-Gilead settlement is a suitable proxy for GSK-Biota.

In November 2005, Gilead Sciences and Roche announced they had settled a dispute over Tamiflu® in which Gilead charged that Roche had insufficiently promoted and produced Tamiflu® and demanded the return of the right to the drug. Roche has previously disputed the charges. Similar to Biota and its case against GSK, Gilead was the developer of Tamiflu® and licensed the drug to Roche in 1996. Despite the complete dominance of Tamiflu® in the market, Gilead still instigated proceedings against Roche.

Upfront payment and royalty rate adjustment key features of Gilead settlement.

As a result of the settlement, Gilead receives a blended royalty on sales of Tamiflu®, tiered from 14% to 22% based on Roche's annual net sales. Roche will pay Gilead US\$62.5 million to reimburse Gilead for cost of goods adjustments retroactive to 2004 as well as to update the royalties payable to Gilead for the first nine months of 2005 based on current year royalty rates. We view the Gilead/Roche settlement as a good proxy for the Biota/GSK litigation. Both Gilead and Roche take the view that because of the public concern regarding avian influenza, there is a need to work together moving forward. In our view, GSK will settle with Biota, rather than proceeding through formal court proceedings. Biota has firmed up its cash on hand to approximately A\$45 million, which potentially obviates any strategy by GSK to bleed Biota's cash to facilitate Biota withdrawing its claims.

Good potential for settlement of Biota litigation.

We are forecasting a settlement of A\$30-55 million (upfront) and probably coupled with altered royalty payments, probably in the 10-15 % range, though in our estimates, we have projected future royalties of 7% (10% in Australia and New Zealand) as per the 1991 agreement with GSK. Therefore, any adjustment in the royalty rate will see a significant upgrade to our valuation and 12 month price target (see below). While we have not included any settlement in our valuation methodology, we note a cash settlement along the lines of our estimates will have a \$0.24 (fully diluted) accretive impact on our valuation.

We expect settlement to be 10% of claim, or A\$43 million.

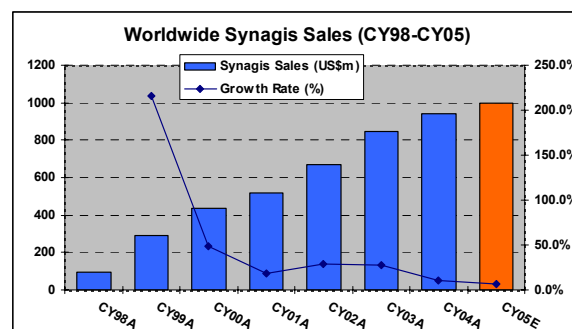
RSV and the US\$112.5 million License Deal with MedImmune

US\$112.5 million pre-clinical license deal for RSV drug candidates.

In mid December, Biota announced it had struck a US\$112.5 million license deal for its small molecule inhibitors of Respiratory Syncytial Virus (RSV). The license deal includes an upfront payment of US\$5 million and potential milestone payments of US\$107.5 million. Though the royalty rate was not disclosed, we estimate it to be between industry norms at this stage of development, namely 7-12%. Furthermore, should the drug be proven effective, Biota retains marketing rights for Australia, New Zealand, China and Southeast Asia (excluding Japan).

Synagis™ is a blockbuster drug for MedImmune.

RSV causes an infection of the lungs and breathing passages. It infects 50-70% of all infants during the first year of life and is the leading cause of infant hospitalization. RSV can also cause severe lower respiratory tract disease at any age, especially among the elderly. Currently the only preventative treatment on the market is MedImmune's Synagis™, which is an injectable drug with sales in CY05 estimated to be approximately US\$1 billion (see chart).



There is currently no treatment on the market to reduce the severity of disease.

R&D and clinical development costs met by MedImmune.

The key advantage of Biota's compounds is they can be delivered orally, not injected. Biota's RSV inhibitors have patent protection until December 23rd 2023, indicating the potential exploitation period post market approval could be lengthy. It is important to recognise that Biota's R&D costs are met in their entirety by MedImmune, quite separate from the US\$112.5 million. Furthermore, the clinical development cost of Biota's RSV program is to be met in its entirety by MedImmune, effectively eliminating all clinical costs.

We also note recent clinical development deals in the RSV space between Arrow Therapeutics and Novartis. Under the terms of the deal Arrow will receive an upfront payment of US\$10 million in addition to milestone payments of up to US\$217 million for success in the ongoing and future development and commercialisation of the product, which is currently in Phase II clinical trials.

We have modelled the deal based on the clinical development timeframes of Synagis™, which saw a Phase I trial commenced in 1994 to market approval from the FDA in 1998, suggesting a clinical development timeline of 4-5 years. We believe Biota's lead RSV compound is will commence human clinical trials during 2H CY06, with market approvals during FY11.

Risk-adjusted PV of A\$70.9 million for MedImmune deal.

In terms of eventual market sales, we believe the compound could closely track Synagis™ in terms of sales, however, we note possible competition from both Synagis™ and Arrow's lead compound should it also reach the market. As a result, we have assumed Biota's lead will capture between 35-50% of that seen with Synagis™, with peak sales of approximately US\$420 million. Our assumptions are highlighted in the table above, and our preferred, risk-adjusted NPV for Biota's RSV program is A\$71.8 million, or \$0.41 per share (fully diluted).

RSV MedImmune Valuation Assumptions

	Low	Base	Best
FY06 Upfront Payment (A\$m)	6.8	6.8	6.8
FY07 Phase I Success Payment (A\$m)	6.7	6.7	6.7
FY08 Phase II Success Payment (A\$m)	13.3	13.3	13.3
FY09 Phase III Success Payment (A\$m)	43.3	43.3	43.3
FY11 Market Approval Payment (A\$m)	66.7	66.7	66.7
TOTAL Milestones (ex. upfront)(A\$m)	130.0	130.0	130.0
PV Risk-adjusted TOTAL Milestones (ex. upfront)(A\$m)	48.5	56.1	65.8
Royalty Rate	8.0%	10.0%	12.0%
PV Risk-adjusted royalties (A\$m)	7.5	14.6	27.8
Total Risk-adjusted NPV (A\$m)	56.1	70.9	93.7

*Assumes part of the US\$107.5m in milestones is tied to sales minimums; Source: Taylor Collison

HCV and HRV Drug Development Programs

Biota currently has two other pre-clinical drug development programs in the area of hepatitis C Virus (HCV) and human rhinovirus (HRV).

Unmet market need in HCV.

HCV is probably the most interesting of programs in the Biota pre-clinical pipeline. At present, the HCV market opportunity is significant (US\$3.5 billion and expected to grow to US\$9.0 billion in 2010). Current treatment regimes are only 40-50% efficacious, consisting of Interferon and ribavirin. Indeed some estimates of HCV patients who actually receive this therapy stand at 10%.

Biota has developed a small molecule inhibitor against the virus's main replication protein (known as polymerase). Inhibitors against this target are generally less effective than protease inhibitors, of which there are at least two in clinical development from Vertex Pharmaceuticals and Schering Plough. We are aware of four polymerase inhibitors in development including two in human trials from Idenix Pharmaceuticals and Boehringer Ingelheim.

HCV deals in same area as Biota have been valued between US\$81-US\$168 million at pre-clinical stage.

Interestingly, over the last 1-2 years there have been three pre-clinical deals in HCV for inhibitors of polymerase and protease. Deal size has been significant, with the Roche/Pharmasset deal valued at US\$168 million for a polymerase inhibitor and two deals between Gilead/Achillion and Medivir/J&J valued at US\$110 million and US\$81 million, respectively. We therefore view the ability of Biota to license its HCV drug candidates as likely, and estimate a deal could be struck within 6-12 months.

HRV is the virus primarily behind the common cold. While therapeutic drug intervention for healthy patients can be deemed unnecessary given the infection is not life-threatening, HRV can have more serious consequences for sufferers of Chronic Obstructive Pulmonary Disease (COPD) and asthma. The Company anticipates conducting several Phase I studies of the compound over the next 1-2 years prior to licensing discussions. We believe clinical trials will commence 1Q-2Q CY06.

HCV worth A\$20.8 million and HRV valued at A\$16.4 million.

Our valuation summary for each of the pre-clinical programs is based on the sunk investment into each project, coupled with an IP/exploitation premium based on the ability to do deals at that stage of development (see Table). For example, HCV has averaged upfront payments of US\$10 million in the last three deals, suggesting at the pre-clinical stage, all things being equal, the IP/exploitation potential is around US\$10 million. Our total base assumption for HCV is A\$20.3 million. Though technically the most advanced, we believe the HRV program is commercially likely to be the more challenging to evoke the interest of significant licensees. As such our total base exploitation/sunk cost assumption is lower than for HCV, being A\$16.4 million.

Pre-Clinical Program Valuation: HCV, HRV

	Low (A\$m)	Base (A\$m)	Best (A\$m)
Sunk Cost			
Hepatitis C Virus (HCV)	7.0	7.0	7.0
Human Rhinovirus (HRV)	6.4	6.4	6.4
Intellectual Property/Exploitation Uplift			
Hepatitis C Virus (HCV)	10.0	13.3	16.0
Human Rhinovirus (HRV)	6.5	10.0	12.5
TOTAL			
Hepatitis C Virus (HCV)	17.0	20.3	23.0
Human Rhinovirus (HRV)	12.9	16.4	18.9

Source: Taylor Collison

Partnering of the LANI Program

LANI would be an excellent prophylactic candidate.

Biota's Long Acting Neuraminidase Inhibitor (LANI) program aims to address many of the current shortcomings of Relenza™ and Tamiflu®. These shortcomings are due to the extensive dosing regime required to both treat disease (twice daily) and prevent disease (once daily). There have also been numerous reports of intended prophylactic use Relenza™ and Tamiflu® in the event of a pandemic. Such use would require huge quantities of the drugs, which at present are simply unavailable. This is the absolute core benefit of LANI drugs, as they can be administered prophylactically, to provide an envisaged benefit for up to one week. It is also expected the drug will be suitable for stockpiling in a bulk powdered form, which is pertinent for mass treatment through nebulisers.

Partnership with Japan's Sankyo.

Biota and its Japanese partner Sankyo have found the drug to be active in the lungs for up to one week in a Phase I clinical trial. Importantly, in animal models of influenza, protection from disease was up to one week, from a single inhaled dose. Sankyo and Biota will share equally all licensing revenues, milestone payments and royalties from partnership arrangements. We believe Biota/Sankyo's lead LANI, CS-8958, is the only compound of its type in the world in clinical development.

De-risked drug development as LANI is derived from Relenza™.

Biota currently has no evidence the drug could be effective against avian influenza; however, given the LANI drugs are derivations of Relenza™ which does treat avian influenza effectively, there is a strong chance these drugs will work in humans. To this end, in 2004 Biota received a US\$5.6 million grant from the National Institutes of Health (NIH) to accelerate LANI development. We expect CS-8958 could be expedited through clinical trials in some way to fast-track efficacy studies.

We believe, given the present strong interest in influenza anti-viral drug development, that the value proposition for LANI has increased substantially. Indeed, the project in our view is a de-risked drug development project given the LANI program harnesses the obvious benefits of Relenza™ and simply increases the duration of the effect. A completed Phase I study also verifies to us early stage safety of the drug. This would be highly appealing to major pharmaceutical companies seeking second generation neuraminidase inhibitors, and even more so presently for reasons we have discussed.

Based on the results achieved to date, we believe Biota/Sankyo could execute a license deal for CS-8958 and the LANI program during CY06. Though it may be tempting to take LANI further through the clinical development pipeline, in our view the environment is such to warrant a high asking price for a license right now.

We believe a deal worth US\$75-US125 million is possible.

We assume the deal will provide both milestone and royalty payments to Biota. Our base case figures assume an upfront and milestone package of US\$75-125 million, predominately back-ended towards later stage clinical and regulatory success. Given the existing partnership between Biota and Sankyo, commercialisation payments are expected to be split 50/50. AS with most Japanese pharmaceutical companies, we expect Sankyo will wish to retain Japanese rights, with Biota unencumbered to seek licensees for rest of world.

Peak sales of US\$380 million.

As with the MedImmune RSV deal, we expect clinical development costs to be met by the licensee. We believe sales could reach US\$380 million, purely for the seasonal influenza market. At this stage, we have not factored any stockpiling composition to our estimates, as we are unable to ascertain if the threat of H5N1 avian influenza will be present throughout the world. We note that any pandemic avian influenza outbreak is likely to negatively impact the value proposition for LANI.

LANI NPV valuation of A\$47.6 million.

Given the stage of development of the LANI drugs, we expect the royalty structure to be 15-20% should the compounds be licensed during FY07,

LANI Valuation

	Low	Base	Best
Pricing Structures (US\$)	75	100	125
PV Risk-Adjusted Upfront/Milestone Payments (A\$m)	13.4	20.9	28.9
Royalty Rate	15.0%	17.5%	20.0%
PV Risk-adjusted Royalties (A\$m)	3.0	26.8	120.9
NPV (A\$m)	16.4	47.6	149.8

Source: Taylor Collison

immediately prior to Phase II clinical trials. We believe this renewed vigour in licensing the LANI program has been timed to perfection, given the current environment. Our base case risk-adjusted NPV for LANI is A\$35.6 million.

An H5N1 Outbreak or Elimination is Bad News For Biota

The continued threat of a pandemic is a benefit for Biota, while an actual pandemic or H5N1 elimination is bad news.

An influenza pandemic is a global outbreak of disease that occurs when a new influenza virus appears or “emerges” in the human population, causes serious illness, and then spreads easily from person to person worldwide. Pandemics are different from seasonal outbreaks or “epidemics” of influenza. Seasonal outbreaks are caused by subtypes of influenza viruses that already circulate among people, whereas pandemic outbreaks are caused by new subtypes. A good predictor of the future devastation caused by pandemic influenza is the high levels of illness, death, social disruption, and economic loss seen in the three pandemics last century, namely 1918-1919, 1957-1958 and 1968-1969.

Governments will continue to stockpile Relenza™ and Tamiflu® in preparation of a pandemic influenza outbreak associated with H5N1. As we have identified, given the shelf life of Relenza™ is three years, a significant replacement market will become established over the next 3+ years alongside continued primary government stockpiling. In our view, the threat of pandemic influenza is a positive for Relenza™, while an actual outbreak, which may last up to a year, will see existing stockpiles consumed and current manufacturing utilised at full

capacity. Indeed, we view the elimination of H5N1 from the environment through measures such as culling infected poultry and the completion of the natural infection cycle in migratory birds to also be a negative, as H5N1 is considered highly pathogenic (disease causing).

Downside of 23.8% to our valuation in the event of a pandemic arising.

Because of the “once in a 30 year” life cycle of a pandemic, once the pandemic is over, there is no further need to stockpile anti-viral drugs, nor to maintain existing stockpiles. This will dramatically impact upon Biota’s earnings through to FY14 from Relenza™. We view an outbreak of pandemic influenza within the next 1-2 years as causing \$0.40 per share erosion (or 23.8% downside) to \$1.28 from our base case valuation of \$1.68, primarily in potential stockpiling and the replacement market. We note it may also impact upon future development of LANI, as potential licensees may decide not to pursue the opportunity through development.

Revenue Breakdown Estimates: FY06-FY08

We have summarised our revenue breakdown estimates for FY06-FY08 (excluding interest and other revenues) in the Table across. Though the majority of revenues are derived from royalty payments resulting from Relenza™ sales, in our view the Company will reap

Healthy revenues from FY06-FY08 expected.

Revenue Breakdown Estimates: FY06-FY08

	FY06E (A\$m)	FY07E (A\$m)	FY08E (A\$m)
Relenza Royalties (govt stockpiling confirmed)	1.1	20.8	6.8
Relenza Royalties (govt stockpiling unconfirmed)	0.0	15.4	8.1
Relenza Royalties (govt stockpiling potential)	0.0	0.0	13.7
Relenza Royalties Replacement Market	0.0	0.0	0.0
Relenza Royalties (seasonal)	0.9	1.1	2.2
Research Revenues	0.2	0.2	0.2
Diagnostic Profit Share	1.8	1.8	1.9
Research Grants	3.2	3.2	0.5
RSV MedImmune Deal	6.8	6.7	13.3
Total Program Revenues	14.0	49.3	46.8

Source: Taylor Collison

further milestone payments as its RSV drugs are moved progressively from Phase I and into Phase II clinical development. Further revenue upside could result from license deals for Biota’s HCV and LANI program, both of which could be forthcoming during FY07 (i.e. 6-12 months from now), though we have excluded them from our revenue estimates.

Summary

The recent significant events regarding both outbreaks of avian influenza and announcements of Government stockpiling of Relenza™ has driven interest in the Biota story. We view continued Government stockpiling to be the absolute key driver for the Company over the medium term.

As long as the threat of a global avian influenza pandemic remains, Biota should see further traction in its share price. We believe that Government stockpiles of both vaccine and drugs are here to stay, which suggests a recurring revenue stream for Biota in the form of royalties from GSK, to 2014. We view the competitive threat of vaccine development to be at best minimal and recent trends suggest Relenza™ stockpiling will continue and the drug may be more effective than Tamiflu®. In short, there will always be a need for therapeutic drugs.

Valuation of \$1.68 per share, with 12 month target of \$2.16.

Our current risk-adjusted NPV valuation of Biota is \$1.68 per share (fully diluted). We see further upside of up to \$0.48 per share should Biota settle litigation with GSK and reconciliation of our production estimates to GSK’s internal capacity, which is speculated to be up to 100 million doses by CY08. This could see an upgrade in our valuation to \$2.16 (fully diluted). On expectation of these events, and a potentially large U.S stockpiling order imminent, we continue to recommend Biota as a Speculative Buy.

Biota Holdings Limited - Summary of Forecasts

BTA \$1.59

PROFIT & LOSS SUMMARY (A\$'000)					
	FY04A	FY05A	FY06E	FY07E	FY08E
Total Revenue	8,048	5,049	16,978	51,793	51,527
<i>Growth (pcp)</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Net Operating Revenue	1,665	(6,627)	773	44,568	44,243
R&D Expenses	(7,943)	(7,337)	(7,500)	(8,300)	(4,650)
EBITD	(7,143)	(15,253)	(9,654)	33,792	34,882
Depreciation	(1,834)	(867)	(940)	(942)	(864)
EBIT	(8,977)	(16,120)	(10,594)	32,850	34,018
Net Interest	865	1,289	2,927	2,476	4,712
Pre-Tax Profit	(8,112)	(14,831)	(7,667)	35,326	38,729
Tax Expense	0	0	0	0	(6,394)
Minorities	341	263	0	0	0
NPAT	(8,112)	(14,831)	(7,667)	35,326	32,335
<i>Growth (pcp)</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Net Abnormals	0	0	0	0	0
Reported Profit	(7,771)	(14,568)	(7,667)	35,326	32,335
NPAT pre Net R&D	(959)	(8,526)	(3,406)	40,387	36,485

PER SHARE DATA					
Period	FY04A	FY05A	FY06E	FY07E	FY08E
EPS (c)	(8.9)	(12.0)	(4.7)	19.8	18.1
<i>Growth (pcp)</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(3.4)	(10.6)	(4.6)	24.2	18.6
NTA per share (c)	23.6	21.1	31.5	52.7	70.8

VALUATION MULTIPLES					
Period	FY04A	FY05A	FY06E	FY07E	FY08E
PE Ratio (x)	n/a	n/a	n/a	8.0	8.7
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITA (x)	(47.4)	(17.3)	(25.9)	5.3	4.2
EV/EBIT (x)	(28.0)	(15.4)	(21.3)	5.6	4.4

CAPITAL RAISING ASSUMPTIONS					
Period	FY04A	FY05A	FY06E	FY07E	FY08E
Shares Issued (m)	n/a	n/a	41.0	0.0	0.0
Issue Price (A\$)	n/a	n/a	0.76	0.0	0.0
Cash Raised (A\$m)	n/a	n/a	31.0	0.0	0.0

BALANCE SHEET SUMMARY (A\$'000)					
Period	FY04A	FY05A	FY06E	FY07E	FY08E
Cash	22,896	24,753	47,165	89,743	122,340
Receivables	882	972	1,648	5,026	5,001
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	23,778	25,725	48,812	94,769	127,340
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Property Plant & Equip	2,058	4,702	4,712	4,319	4,005
Intangibles	0	0	0	0	0
Other	339	0	0	0	1
Total Non-Current Assets	2,397	4,702	4,712	4,319	4,006
TOTAL ASSETS	26,175	30,427	53,524	99,089	131,347
Accounts Payable	3,249	3,727	1,698	5,179	5,153
Borrowings	443	366	0	0	0
Provisions	0	0	0	0	0
Other	0	0	0	0	0
Total Current Liab	3,692	4,093	1,698	5,179	5,153
Borrowings	443	366	0	0	0
Provisions	0	0	0	0	0
Other	0	0	0	0	0
Total Non-Current Liab	863	298	0	0	0
TOTAL LIABILITIES	4,555	4,391	1,698	5,179	5,153
TOTAL EQUITY	21,620	26,036	51,826	93,909	126,194

CASH FLOW SUMMARY (A\$'000)					
Period	FY04A	FY05A	FY06E	FY07E	FY08E
EBIT (excl Abs/Extr)	(6,169)	(16,120)	(10,594)	32,850	34,018
Add: Depreciation	285	867	940	942	864
Amortisation	830	0	0	0	0
Change in Pay.	2,061	478	(2,029)	3,481	(27)
Less: Tax paid	0	0	0	0	(6,394)
Net Interest	10	1,289	2,927	2,476	4,712
Change in Rec.	(149)	361	1,158	3,379	(26)
Change in Prov.	0	12	(40)	0	0
Change in Inv.	0	0	0	0	0
Gross Cashflows	(3,132)	(13,113)	(7,638)	43,128	33,147
Capex	(555)	(4,323)	(950)	(550)	(550)
Free Cashflows	(3,687)	(17,436)	(8,588)	42,578	32,597
Dividends Paid	0	0	0	0	0
Net Cash Flow	(3,687)	(17,436)	(8,588)	42,578	32,597

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