



Biota Holdings Limited (BTA)

Speculative Buy

GSK reports A\$74.3 million in 3Q Relenza™ sales; Stays Silent on CY07 Capacity

\$1.42

Thomas Duthy *PhD MBA*
tduthy@taylorcollison.com.au
+61 2 9232 1688

Key Points

GlaxoSmithKline (GSK) reported 3Q Relenza™ sales of £30 million (A\$74.3 million), with 80% of sales emanating from Europe.

No comments pertaining to CY07 manufacturing capacity upgrades (capacity to end CY06 of 15 million treatment courses).

10% share price appreciation over last two days likely a reflection of Biota management comments at AGM on FY07 cash flows and profitability.

Biota re-affirmed intent to out license its hepatitis C (HCV) and LANI programs.

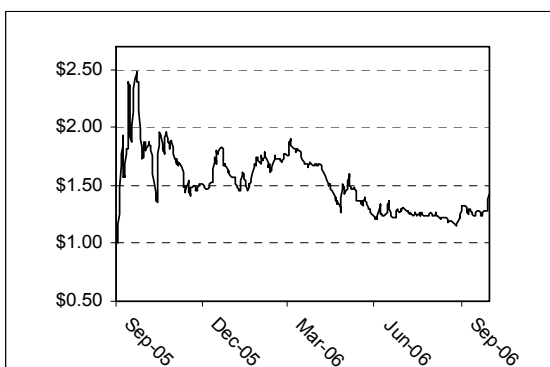
Summary

Market Capitalisation (M)	\$241.0
Share Price	\$1.42
Shares on Issue (M)	179.9
52 Week High	\$2.13
52 Week Low	\$1.13
Valuation Per Share (fully diluted)	\$1.50
12 Month Price Target	\$1.70
Cash (M) as at 30/09/06	\$42.0
Price Volatility	High

Key Financials (A\$'000)

Year End	FY05 Actual	FY06 Actual	FY07 Est.
Revenue	5,049	14,967	42,988
Litigation Expense	(3,700)	(4,397)	(5,000)
Total Op. Expenses	(11,908)	(17,314)	(29,107)
R&D Expenses	(7,337)	(7,685)	(8,537)
EBITD	(15,485)	(12,288)	3,127
EBIT	(16,352)	(13,274)	2,024
NPAT pre Net R&D	(9,020)	(4,716)	12,739
Reported Profit	(15,062)	(11,306)	6,741
EPS (c)	(12.2)	(6.7)	3.8
PE Ratio (x)	n/a	n/a	37.5
EPS pre R&D (c)	(7.3)	(2.9)	7.1

Share Price Graph (A\$)



Our View

- Assuming a price of A\$25 per treatment course, Glaxo's 3Q represents sales of approximately 3 million treatment courses. We believe the European sales of Relenza™ represent the progressive fulfilment of German (1.7 million), Dutch (1.25 million) and French (9.0 million) government stockpiling orders. We believe the international sales largely represent Australian government stockpiling (1.82 million). No US sales were recorded for the quarter, indicating the fulfilment of the substantial US government order of 16.2 million doses may not yet have commenced in earnest. Fulfilment is expected to be met by the end of CY08.
- Biota has previously issued guidance that it expects to be cash flow positive in FY07, though was cautious on profitability. The AGM re-affirmed cash flow expectations and specific comments from management on profitability for FY07. 1Q results indicated a small loss of \$0.8 million, a very significant improvement pcp suggesting the Company is on track to deliver on this guidance. Importantly, management provided an outlook on licensing ambitions for its LANI and HCV programs. For LANI in particular we believe the size of a potential license deal will surprise with its magnitude, given its stage of development and the current limitations of influenza therapeutic treatments at present. Our risk-adjusted NPV of LANI is \$53.5 million.
- We have not altered our financial model on the back of GSK's 3Q Relenza™ numbers. We are forecasting an FY07 NPAT of \$6.7 million, which we expect to increase significantly to \$28.5 million in FY08. Therefore, Biota can continue to expect a recurring revenue stream of Relenza™ royalties as long as government stockpiling continues, and a virtuous replacement market is established. Though Biota trades on 37.5x our forecast FY07 EPS, FY08 earnings will be more significant, driven by further fulfilment of Relenza™ stockpiling orders. Biota continues to remain a quality drug development company with strong growth prospects. We maintain our Speculative Buy recommendation with a base valuation of \$1.50 and a 12 month price target of \$1.70.

Biota Holdings Limited - Summary of Forecasts

BTA

\$1.42

PROFIT & LOSS SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
Total Revenue	5,049	14,967	42,988	63,186
<i>Growth (pcp)</i>	-37.3%	196.4%	187.2%	47.0%
Net Operating Revenue	(6,859)	(2,347)	13,881	36,396
R&D Expenses	(7,337)	(7,685)	(8,537)	(8,872)
EBITD	(15,485)	(12,288)	3,127	24,701
Depreciation	(867)	(986)	(1,102)	(1,062)
EBIT	(16,352)	(13,274)	2,024	23,639
Net Interest	1,289	2,256	2,217	2,823
Pre-Tax Profit	(15,063)	(11,018)	4,241	26,462
Tax Expense	0	0	2,500	2,061
Minorities	0	0	0	0
NPAT	(15,063)	(11,018)	6,741	28,523
<i>Growth (pcp)</i>	n/a	n/a	n/a	323.1%
Net Abnormals	0	(288)	0	0
Reported Profit	(15,062)	(11,306)	6,741	28,523
NPAT pre Net R&D	(9,020)	(4,716)	12,739	36,896

PER SHARE DATA				
Period	FY05A	FY06A	FY07E	FY08E
EPS (c)	(12.2)	(6.7)	3.8	16.0
<i>Growth (pcp)</i>	n/a	n/a	n/a	323.1%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	(12.3)	(4.8)	1.0	16.7
NTA per share (c)	21.1	28.5	29.8	48.1

VALUATION MULTIPLES				
Period	FY05A	FY06A	FY07E	FY08E
PE Ratio (x)	n/a	n/a	37.5	8.9
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITA (x)	(14.1)	(16.3)	43.2	6.0
EV/EBIT (x)	(12.6)	(13.8)	90.3	6.5

CAPITAL RAISING ASSUMPTIONS				
Period	FY05A	FY06A	FY07E	FY08E
Shares Issued (m)	n/a	41.0	0.0	0.0
Issue Price (A\$)	n/a	0.76	0.0	0.0
Cash Raised (A\$m)	n/a	31.0	0.0	0.0

KEY RATIOS				
Period	FY05A	FY06A	FY07E	FY08E
EBITD/Sales Margin %	-306.7%	-82.1%	7.3%	39.1%
EBIT/Sales Margin %	-323.9%	-88.7%	4.7%	37.4%
Current ratio (x)	6.3	4.9	5.1	6.6
Net Debt : Equity (%)	-92.7%	-98.5%	-88.6%	-88.5%
ROE (%)	-57.9%	-23.5%	12.7%	33.3%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

BALANCE SHEET SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
Cash	24,753	46,183	47,054	75,930
Receivables	972	5,573	9,457	13,901
Inventories	0	0	0	0
Other	0	291	0	0
Total Current Assets	25,725	52,047	56,511	89,831
Investments	0	0	0	0
Inventories	0	0	0	0
Property Plant & Equip	4,702	5,512	5,310	5,148
Intangibles	0	0	0	0
Deferred Tax Assets	0	0	2,500	4,561
Other	0	0	0	0
Total Non-Current Assets	4,702	5,512	7,810	9,709
TOTAL ASSETS	30,427	57,559	64,320	99,540
Accounts Payable	3,171	4,034	6,448	9,478
Borrowings	366	0	0	0
Provisions	556	516	516	516
Other (Inc Def Rev)	0	6,011	4,171	3,715
Total Current Liab	4,093	10,561	11,135	13,709
Borrowings	366	0	0	0
Provisions	40	100	58	58
Other (Inc Def Rev)	0	0	0	0
Total Non-Current Liab	298	100	58	58
TOTAL LIABILITIES	4,391	10,661	11,193	13,767
TOTAL EQUITY	26,036	46,898	53,127	85,773

CASH FLOW SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
EBIT (excl Abs/Extr)	(16,352)	(13,274)	2,024	23,639
Add: Depreciation	867	986	1,102	1,062
Amortisation	0	0	0	0
Change in Pay.	(78)	863	2,414	3,030
Less: Tax paid	0	0	0	2,061
Net Interest	1,289	2,256	2,217	2,823
Change in Rec.	(361)	(4,778)	(4,189)	(4,443)
Change in Prov.	(568)	(20)	42	0
Change in FITB	0	0	0	2,061
Change in Inv.	0	0	0	0
Change in Def. Rev.	0	6,011	(1,840)	(456)
Gross Cashflows	(15,203)	(7,956)	1,771	29,777
Capex	(4,323)	(1,985)	(900)	(900)
Free Cashflows	(19,526)	(9,941)	871	28,877
Dividends Paid	0	0	0	0
Net Cash Flow	(19,526)	(9,941)	871	28,877

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Taylor Collison Limited **Sharebrokers and Investment Advisers**

A.B.N. 53 008 172 450
AFSL No. 247083

Participant of the Australian Stock Exchange Group

Level 2, 12 Pirie Street
Adelaide, South Australia, 5000
G.P.O. Box 2046, Adelaide, South Australia, 5001
Telephone: 08 8217 3900 Facsimile: 08 8231 3506
Email: broker@taylorcollison.com.au

Level 2, 55 Hunter Street
Sydney, New South Wales, 2000
G.P.O. Box 4261, Sydney, New South Wales, 2001
Telephone: 02 9232 1688 Facsimile: 02 9232 1677
Email: sydney1@taylorcollison.com.au

www.taylorcollison.com.au

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