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# Biota Holdings Limited (BTA)

Speculative Buy

Strikes US\$102 million License Deal for Hepatitis C Program

\$1.44

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## Key Points

Biota has executed a US\$102 million license deal with Boehringer Ingelheim (BI), a top 20 global pharmaceutical company.

Hepatitis C virus (HCV) program very early stage, with comparable deals (Appendix 1) suggesting license deal within industry norms.

Second +US\$100 million deal executed by Biota in last 12 months.

Recent developments in the UK may indicate dual stockpiling of Relenza™ and Tamiflu® more likely in near term.

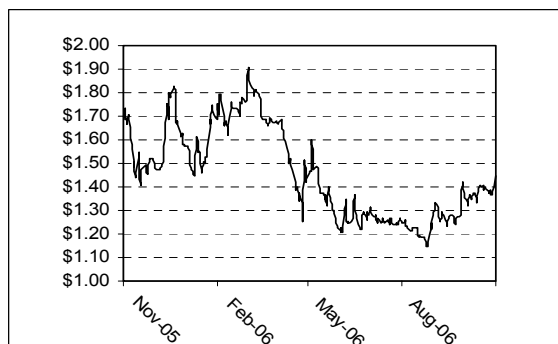
## Summary

Market Capitalisation (M)	\$259.0
Share Price	\$1.44
Shares on Issue (M)	179.9
52 Week High	\$2.00
52 Week Low	\$1.13
Valuation Per Share (fully diluted)	\$1.64
12 Month Price Target	\$1.84
Cash (M) as at 30/09/06	\$42.0
Price Volatility	High

## Key Financials (A\$'000)

Year End	FY06	FY07	FY08
	Actual	Est.	Est.
Revenue	14,967	44,523	62,442
Litigation Expense	(4,397)	(5,000)	(5,000)
Total Op. Expenses	(17,314)	(30,121)	(31,168)
R&D Expenses	(7,685)	(8,737)	(6,634)
EBITD	(12,288)	3,449	21,729
EBIT	(13,274)	2,346	20,667
NPAT pre Net R&D	(4,716)	13,261	32,638
Reported Profit	(11,306)	7,063	26,504
EPS (c)	(6.7)	3.9	14.7
PE Ratio (x)	n/a	36.7	9.8

## Share Price Graph (A\$)



## Our View

- Biota management has once again demonstrated the international value of its R&D pipeline with the license deal to BI for its nucleoside analogues. Interestingly, Biota retains an in-house development program for non-nucleoside analogues against HCV which was not subject to the license deal with BI. Though scant on detail, based on comparable deals we believe the upfront payment will be between US\$3.0-\$5.0 million, with cash to be received during 1H07 and revenue recognition over two years. We believe the majority of milestone payments will be back ended as the drug candidate's progress through clinical development, though we do note a pre-clinical payment embedded into the agreement. In total, Biota has executed license deals potentially worth up to US\$214.5 million over the last 12 months. Such deals have been struck at an early stage developmentally, with the clinical risks transferred to the licensee. Further, the HCV program now joins the RSV program (licensed to MedImmune) in providing Biota with pre-clinical research support, essentially rendering both programs cost neutral to the Company.
- We note some major lobbying of the UK government by the Royal Society (academy of leading scientists) and the Academy of Medical Sciences that the UK stockpile should be supplemented with Relenza™ and not solely Tamiflu® (14.6 million stockpiled to date). On present levels, the stockpile is sufficient for 24.3% of the population, and within World Health Organisation (WHO) guidelines. We await further news on this. With our estimates of 33-34 million treatment courses yet to be fulfilled by GSK, and no indication (yet) of any upgrade to annual capacity of 15 million treatment courses, it is unlikely that an order from the UK will translate to royalties until at least FY08.
- While we expect further revenue recognition of the HCV upfront payment in FY08, we have pushed back our expectations of future potential government stockpiling of Relenza™ into FY09, due to current capacity bottlenecks. As a result of the HCV deal and further expectations on GSK production capacity, we have upgraded our FY07 NPAT by 4.8% to \$7.1 million, and trimmed our FY08 NPAT estimates by 12.4% to \$26.5 million. We have also increased our DCF valuation per share by 3.8% to \$1.64 (fully diluted). Biota remains a high quality anti-viral drug development company. We maintain our Speculative Buy recommendation with a 12 month price target of \$1.84.

## APPENDIX 1

### HCV - Recent Technology Deals

Date	Licensor	Licensee	Drug	Stage at Execution	Upfront (US\$m)	Milestones (US\$m)	Total Value (US\$m)
Oct-06	Intermune	Roche	ITMN-191	Phase 1	60	470	530
Jun-06	Vertex Pharma	Janssen Pharma (J&J)	VX-950	Phase 2	165.0	380.0	545.0
Jun-06	GeneLabs	Novartis	various	Pre-clinical	12.5	182.5	195.0
Jun-06	Human Genome Sciences	Novartis	Albuferon	Phase 2	45.0	507.5	552.5
Mar-06	PTC Therapeutics	Schering-Plough	various	Pre-clinical	12.0	188.0	200.0
Nov-04	Achillion	Gilead	various	Pre-clinical	5.0	105.0	110.0
Nov-04	Medivir	Tibotec (J&J)	various	Pre-clinical	8.0	73.0	81.0

Source: Recombinant Capital

## Biota Holdings Limited - Summary of Forecasts

BTA \$1.44

PROFIT & LOSS SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
<b>Total Revenue</b>	<b>5,049</b>	<b>14,967</b>	<b>44,523</b>	<b>62,442</b>
<i>Growth (pcp)</i>	-37.3%	196.4%	197.5%	40.2%
<b>Net Operating Revenue</b>	<b>(6,859)</b>	<b>(2,347)</b>	<b>14,403</b>	<b>31,273</b>
R&D Expenses	(7,337)	(7,685)	(8,737)	(6,634)
<b>EBITD</b>	<b>(15,485)</b>	<b>(12,288)</b>	<b>3,449</b>	<b>21,729</b>
Depreciation	(867)	(986)	(1,102)	(1,062)
<b>EBIT</b>	<b>(16,352)</b>	<b>(13,274)</b>	<b>2,346</b>	<b>20,667</b>
Net Interest	1,289	2,256	2,217	2,910
<b>Pre-Tax Profit</b>	<b>(15,063)</b>	<b>(11,018)</b>	<b>4,563</b>	<b>23,577</b>
Tax Expense	0	0	2,500	2,927
Minorities	0	0	0	0
<b>NPAT</b>	<b>(15,063)</b>	<b>(11,018)</b>	<b>7,063</b>	<b>26,504</b>
<i>Growth (pcp)</i>	n/a	n/a	n/a	275.2%
Net Abnormals	0	(288)	0	0
<b>Reported Profit</b>	<b>(15,062)</b>	<b>(11,306)</b>	<b>7,063</b>	<b>26,504</b>
<b>NPAT pre Net R&amp;D</b>	<b>(9,020)</b>	<b>(4,716)</b>	<b>13,261</b>	<b>32,638</b>

PER SHARE DATA				
Period	FY05A	FY06A	FY07E	FY08E
<b>EPS (c)</b>	<b>(12.2)</b>	<b>(6.7)</b>	<b>3.9</b>	<b>14.7</b>
<i>Growth (pcp)</i>	n/a	n/a	n/a	275.2%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	(12.3)	(4.8)	1.8	14.5
NTA per share (c)	21.1	28.5	28.3	46.3

VALUATION MULTIPLES				
Period	FY05A	FY06A	FY07E	FY08E
PE Ratio (x)	n/a	n/a	36.7	9.8
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITA (x)	(14.1)	(16.3)	39.9	6.9
EV/EBIT (x)	(12.6)	(13.8)	77.3	7.6

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%	7.7%	34.8%
EBIT/Sales Margin %	-323.9%	-88.7%	5.3%	33.1%
Current ratio (x)	6.3	4.9	5.1	6.4
Net Debt : Equity (%)	-92.7%	-98.5%	-95.2%	-88.5%
ROE (%)	-57.9%	-23.5%	14.4%	39.5%
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	48,496	73,747
Receivables	972	5,573	9,795	13,737
Inventories	0	0	0	0
Other	0	291	0	0
<b>Total Current Assets</b>	<b>25,725</b>	<b>52,047</b>	<b>58,291</b>	<b>87,484</b>
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	5,427
Other	0	0	0	0
<b>Total Non-Current Assets</b>	<b>4,702</b>	<b>5,512</b>	<b>7,810</b>	<b>10,575</b>
<b>TOTAL ASSETS</b>	<b>30,427</b>	<b>57,559</b>	<b>66,101</b>	<b>98,058</b>
Accounts Payable	3,171	4,034	6,678	9,366
Borrowings	366	0	0	0
Provisions	556	516	516	516
Other (Inc Def Rev)	0	6,011	4,171	3,715
<b>Total Current Liab</b>	<b>4,093</b>	<b>10,561</b>	<b>11,365</b>	<b>13,597</b>
Borrowings	366	0	0	0
Provisions	40	100	58	58
Other (Inc Def Rev)	0	0	3,728	1,096
<b>Total Non-Current Liab</b>	<b>298</b>	<b>100</b>	<b>3,786</b>	<b>1,154</b>
<b>TOTAL LIABILITIES</b>	<b>4,391</b>	<b>10,661</b>	<b>15,152</b>	<b>14,752</b>
<b>TOTAL EQUITY</b>	<b>26,036</b>	<b>46,898</b>	<b>50,949</b>	<b>83,307</b>

CASH FLOW SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
<b>EBIT (excl Abs/Extr)</b>	<b>(16,352)</b>	<b>(13,274)</b>	<b>2,346</b>	<b>20,667</b>
Add: Depreciation	867	986	1,102	1,062
Amortisation	0	0	0	0
Change in Pay.	(78)	863	2,644	2,688
Less: Tax paid	0	0	0	2,927
Net Interest	1,289	2,256	2,217	2,910
Change in Rec.	(361)	(4,778)	(4,527)	(3,942)
Change in Prov.	(568)	(20)	42	0
Change in FITB	0	0	(2,500)	2,927
Change in Inv.	0	0	0	0
Change in Def. Rev.	0	6,011	1,888	(3,088)
<b>Gross Cashflows</b>	<b>(15,203)</b>	<b>(7,956)</b>	<b>3,213</b>	<b>26,151</b>
Capex	(4,323)	(1,985)	(900)	(900)
<b>Free Cashflows</b>	<b>(19,526)</b>	<b>(9,941)</b>	<b>2,313</b>	<b>25,251</b>
Dividends Paid	0	0	0	0
<b>Net Cash Flow</b>	<b>(19,526)</b>	<b>(9,941)</b>	<b>2,313</b>	<b>25,251</b>

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