INTERSUISSE

INVESTMENT RESEARCH

Biota Holdings Limited

Update February 2007

Positive NPAT $4.1m, Sales up 592% to $20.4m

Price	$1.645
Recommendation	Buy
Stock Code	BTA

STOCK SUMMARY

Market Capitalisation (fully diluted)	$300m
12 Month Price Range	$1.13 – $2.00
Monthly Share Turnover	9.2m
Issued Shares	179.9m
Options @ Various Prices	2.6m

DIRECTORS

John Reginald Grant	Non Executive Chairman
Peter C Cook	Managing Director
Paul Ronald Bell	Director
Barbara June Gibson	Director
Ian David Gust	Director
Grant F Latta	Director

TOP SHAREHOLDERS @ 26 Feb 2007	%
Niako Investments Pty Ltd	7.16
National Nominees Limited	6.49
JP Morgan Nominees Australia Limited	3.64
ANZ Nominees Limited	2.54
Westpac Custodian Nominees Ltd	2.39
Arora Constructions Pty Ltd	1.97
Citicorp Nominees Pty Limited	1.95
AMP Life Limited	1.42
HSBC Custody Nominees (Australia) Limited	1.33

Core Business:

Biota Holdings Limited (Biota) is a Melbourne based company, specialising in development of novel antiviral therapeutics. Biota's first marketed drug, Relenza™ (zanamivir) was licensed to GlaxoSmithKline (GSK) in 1990 and launched in 1999. Relenza™ is approved for the treatment and prophylaxis of influenza, in over 50 countries including the US, the European Union, Japan and Australia.

A number of national governments have commenced (or indicated their intention to commence) stockpiling Relenza™ in preparation for a possible influenza pandemic. The US, France, Canada, Germany, Hong Kong, Holland and Australia have all ordered Relenza™ as part of their pandemic planning strategy. GSK has indicated that its entire 2006 production capacity of 15m courses of Relenza™ has been pre-sold and most 2006 orders have not been filled. GSK will open its North Carolina plant in 2007, capable of 5m units per production line and this facility has multiple lines. However, the number of lines committed to Relenza production is unknown.

The company also has a portfolio of other investigational antiviral drugs; being LANI a second-generation ani-influenza drug, as well as compounds targeting respiratory syncytial virus (RSV), human rhinovirus (HRV) and hepatitis C (HCV).

Financials:

- Half Year revenues were up 592% to $20.4m. Royalties were$12.7m, research revenue was $3.4m, partnering income was $2.4m, diagnostic revenues were down 48% to $0.4m and other income was $1.3m. Most revenue is still to come through to the Cash Flow Statement with operating cash flows at $(3.9)m.
- The company has deferred revenue of $9.9m representing the unamortised balance of the upfront payments (see below) from MedImmune, Boehringer Ingelheim and grants received in advance. This amount will be released to revenue over two years.
- The company receives a 7% royalty upon the sale of Relenza™ of which 1% is returned to the CSIRO and the Pharmacy College of Victoria (Parkville, Victoria).

Key Drivers:

- Stockpiling in preparation of an avian influenza (bird flu) pandemic has been almost the sole driver of Relenza™ sales and the subsequent royalties from sales by GSK.
- Biota's nucleoside based investigational drugs for the treatment of Hepatitis C Virus were licensed to Boehringer Ingelheim in a deal worth up to US$102m (about US$4m to US$6m in the short term).
- 12 Months ago a deal worth up to US$112 was signed with MedImmune to take the RSV investigational drugs forward. RSV compounds have are expected to enter Phase I Clinical trials this year and generated $5.1m in revenue in FY06a
- LANI, co-developed with Sankyo (Japan), should start Phase I trials in a new inhaler in CY07.

Recommendation:

Relenza® royalties will increase and Biota will become NPAT positive in FY07e. We recommend a BUY as significant milestone payments, royalty income and partnering income is expected representing earnings giving a FY07e PE of 32 times earnings. The risk in this stock resides largely in GSK's continual manufacturing and supplying of Relenza to predominantly government clients.

	Jun-04a	Jun-05a	Jun-06e	Jun-07e	Jun-08e
Revenues ($m)	7.04	3.67	12.71	41.2	48.0
EBITDA ($m)	(7.14)	(15.25)	(12.44)	10.5	11.9
EBIT ($m)	(8.98)	(16.12)	(13.42)	9.5	10.9
NPAT ($m)	(7.77)	(14.57)	(11.31)	9.4	10.8
PER (times)	NA	NA	NA	31.2	27.9
Diluted EPS (¢)	(8.49)	(10.67)	(6.88)	5.15	5.90
Dividend per share (¢)	0.0	0.0	0.0	0.0	0.0

All currency is quoted in this document is in Australian Dollars, unless otherwise stated

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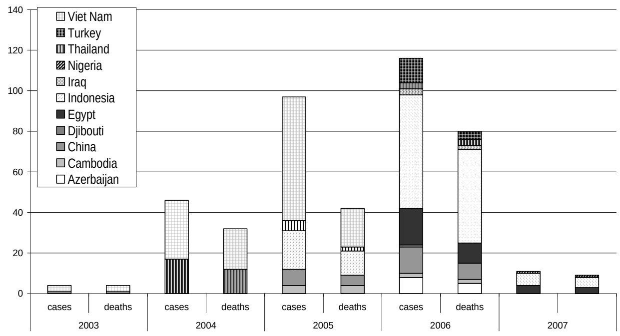
The Current Influenza Situation

Although the H5N1 epidemic has limited popular media coverage compared to twelve months ago, the risk of a global pandemic has escalated. Although the global response to the epidemic has been swift and mostly effective, containment has not been achieved. The lack of containment has not been successful simply because containment of the carrier (i.e. wild birds) is impossible and some governments failed to realise the gravity of the situation. It is now thought that up to 200m birds in Southeast Asia.

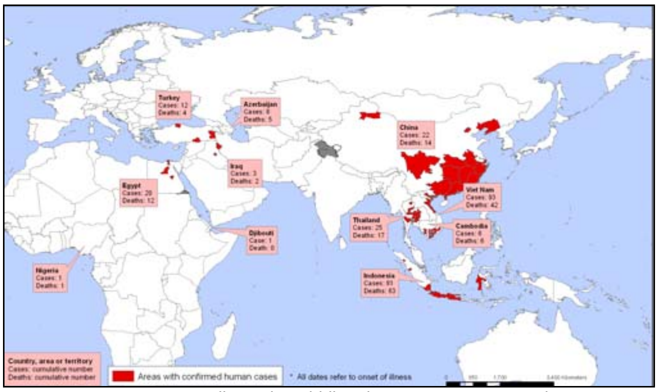
The reason the H5N1 influenza strain is of concern is because is demonstrates two of the three prerequisites required to become a potential pandemic strain. These are 1) the human immune system is naïve to the virus, 2) the virus is capable of replication and causing disease in humans and 3) the virus is readily transmissible between humans. Although there are suspected cases of human-to-human transmission, the virus has not achieved the third prerequisite to become a strain capable of causing a global pandemic, yet.

As of February 2007, there have been 274 reportable cases with a mortality rate of 60.1%. WHO data suggests that containment responses have been mixed. This has increased selection pressure for the evolution of a H5N1 ‘human’ variant. Viet Nam’s response was excellent preventing further human infections in 2006. Indonesia’s response has not been as commendable, with increasing contagion of H5N1 from birds to humans. The situation in Indonesia is causing the greatest concerns because of less than adequate government action on containment. Of the 81 cases confirmed to date in Indonesia, 63 have been fatal. In addition, the Indonesian strain is demonstrating resistance to Tamiflu® and this is of enormous concern.



Source: WHO 13 November 2006

In the event a pandemic occurs, no amount of planning will appear to be adequate because the global death toll will be catastrophic. Various estimates suggest that it could cost anywhere between millions to hundreds of millions of souls, creating economic, social and governmental chaos. Developing nations would be hardest hit because of the lack of healthcare infrastructure and access to appropriate medications other than the front-line therapies donated by the WHO and the international community.



Source: H5N1 Mortality and Morbidity Since 2003. WHO 21 February 2007

Relenza™ Sales

Relenza™ sales have been very weak, with negligible sales per annum up until the beginning of the 2006 calendar year. At the beginning of 2006, GSK informed the market that it would increase Relenza™ production capacity to 15m units (treatment courses) per annum, with a North Caroline plant also opening in 2007.

From public comments made by GSK, their installed capacity for Relenza at the end of 2005 was 1m courses or less. Early in 2006, GSK advised shareholders of its intention to increase capacity to 15m courses by the end of 2006 and with the possibility of that further doubling in 2007.

In addition to the existing production capabilities, in September 2006 GSK sublicensed manufacturing and distribution of Relenza™ to Simcare Pharmaceuticals Inc (Simcare) in China. Simcare’s target counties include China, Indonesia, Thailand, Vietnam and other developing nations. Yet, no sales from Simcare have been reported to date.

	GSK Relenza™ Sales (£m)				Indicative Net Royalty to Biota (A$)*
	US	Europe	ROW	Total	Total
Full Year2005a	NA	NA	NA	5	0.75
Mar 06a	NA	NA	NA	7	1.05
Jun 06a	0	10	7	17	2.55
Sep 06a	0	24	6	30	4.50
Dec 06a	0	28	16	44	6.60

** Assumption 1 Pound Sterling = 2.5 Australian Dollars*

Stockpiling of both antivirals and experimental vaccines is occurring. Tamiflu® is the preferred drug being stockpiled, mostly because it can be manufactured in higher volumes, even though it takes longer to manufacture than Relenza™.

The US National stockpile on order is 81m courses of antiviral drugs, of which Relenza™ represents about 20% of the total. Of the 16.2m doses of Relenza™ on order, 3.6m are to be delivered in December 2006 and the remainder spread over 2007 and 2008.

In Canada, the Government will stockpile 0.7m doses of Relenza™.

France is aiming to have 33m antiviral doses, of which 13.8m doses of Tamiflu® are at hand with another 10m on order. France also has only 0.2m doses of Relenza™ on hand with 9m on order.

Australia is stockpiling enough antiviral drug for 44% of the population, but will only order 1.8m courses of Relenza™.

GSK's Relenza Stock and Orders			
	Relenza™		Indicative Net Royalty to Biota (A$)*
Canada	Orders	0.7m	$1.2m
United States	Stock	0.08m	NA
	Orders	16.2m	$28.2m
France	Stock	0.2m	NA
	Orders	9m	$13.5m
Australia	Orders	1.8m	$2.7m
Ireland	Stock	0.07m	NA
Ireland	Orders	0.7m	$1.2m
German	Orders	1.7m	$2.6m
Unconfirmed orders from Ireland, Holland and Singapore			
Total Known Orders	Orders	30.45 m*	$49.4m

** 34m units is about 2 years of GSK's current manufacturing capability.*

Financials

Historic Financials

Until December 2006, Biota has never turned a profit and has been operationally cash flow negative. The company has relied upon raising capital, sales of the diagnostic and grant revenue each year to fund various R&D programmes.

Forecast Financials

Biota has a number of actual and potential sources of revenue, being from royalties from Relezna™, milestone payments from MedImmune and Boehringer Ingelheim, as well as grant and other income.

- The company indicted that it expects to be operating cashflow and revenue positive in 2007, mostly due to Relezna™ royalty revenue. Royalty revenue will grow in FY07e and FY08e because GSK has only produced and sold a small proportion of its European commitments and almost none of its US stockpiling commitments.
- Future milestone payments from MedImmune and Boehringer Ingelheim are dependent upon the success of the trials, but are anticipated to generate revenue in the range of US$5m for each in the short term [<12 months].
- In the mid term [2-3 years], US$10m to US$20m could be expected to be payable upon the successful completion of various (undisclosed) clinical milestones.
- Biota developed the FLU OIA® influenza diagnostics, currently marketed in the US by Inverness Medical as part of its BioStar range. In FY05 and FY06, revenue from the sale of the diagnostic a part of a profit share agreement was $1.6m and $1.2m respectively. In the Half Year results, sales of the diagnostic decreased about 50% from the previous corresponding period.

The company has received various grant payments, with further payments from existing grants dependent upon success.

Modelling Biota

After first listing on the 20th December 1985, Biota will finally be valued on a PE ratio. We estimated the FY07e PE to be around 32 times.

The table on page one assumes that GSK produces 15m doses, and production is not seen from North Carolina until 2009. Hypothetically, if GSK manufactures 30m doses in 2008, the FY08e PE would be in the range of 7.9 times earnings.

Recommendation

The Biota stock price has been volatile over the last year, with speculators taking a position on the advent of a H5N1 influenza pandemic and the earnings to Biota from governments stockpiling of anti-viral drugs.

The Half-Year results demonstrate that the company is on track to generate revenues of about $40m and NPAT of about $9m in 2007. The company will be the second of Australian biotechnology companies to become NPAT positive on sales of its pharmaceutical after CSL.

Although, there remains a high level of uncertainty in the earning for the company beyond FY08e, the company is most likely to be profitable in FY07e and FY08e due to royalties from the sale of Relenza™ and various other milestone payments for its early stage compounds.

As the result of the improving earnings profile of the company, we recommend Biota as a BUY for investors comfortable with the risk in Life Science investments.

Prepared by Darren John Grubb PhD; Authorised by Peter Russell 26th February 2007