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In this edition...
Sales of Relenza have zoomed ahead in the March quarter, and with it so have royalties that are to be received by Biota. We regard Biota as one of the most important Australian biotech stocks to watch, with revenues and profitability among the many reasons for investors considering this stock as an essential biotech portfolio holding.
Alchemia, another stock closely followed by Bioshares announced developments on several fronts this week, including the preliminary results of its Phase II trial of HyCAMP, a program that came to it through the acquisition of Meditech Research. The signing of a new marketing and manufacturing partner for Alchemia resolves a key question hanging over the future of its synthetic generic heparin product.

The editors

Companies covered:ACL, BTA, BDM, CGS

	Bioshares Portfolio
Year 1 (May '01 - May '02)	21.2%
Year 2 (May '02 - May '03)	-9.4%
Year 3 (May '03 - May '04)	70.0%
Year 4 (May '04 - May '05)	-16.3%
Year 5 (May '05 - May '06)	77.8%
Year 6 (from 5 May '06)	14.6%
Cumulative Gain	**219%**
Average Annual Gain	**26.3%**

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Bioshares

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Delivering independent investment research to investors on Australian biotech, pharma and healthcare companies.

Relenza Royalty Stream Gains Traction For Biota

Sales of Relenza are starting to accelerate. Sold by **GlaxoSmithKline (GSK)**, Relenza delivers a 7% royalty stream to Biota Holdings (BTA: $1.72). GSK sold $220 million (US$183 million) worth of Relenza in the last three months, which put in perspective, is about same sold during all of 2006. Of that, Biota will receive $16 million, a 120% increase over the December quarter (note that 1% of the royalties Biota is commercially obliged to pass to other parties involved in the development of Relenza).

What is of interest is that GSK appears to ramping up its production capacity more quickly that previously anticipated. We estimate that its capacity has now exceeded 30 million courses a year. To date for this financial year, Biota should receive $28.7 (net $24.6 million) million for the first nine months alone. And there appears to be continued growth ahead. It's a surprising development as GSK's estimated capacity at the end of last year was only 15 million courses.

Roche sells that competing product, Tamiflu, which has secured about 90% of stockpiling orders. To date, Roche has received orders for 215 million treatment courses of Tamiflu. If we assume a sale price of US$20 per course, then the government stockpiling of Tamiflu is valued at US$4.3 billion.

With the expectation that this stockpile will need to be turned over every four to five years, then it represents an annual stockpile replenishing market of around US$1 billion. With the seasonal market approaching US$1 billion as well (although it can be assumed that some of the seasonal sales have gone towards individual stockpiling), then it represents an annual market size of up to US$2 billion a year.

Gilead Sciences, which receives royalties from Tamiflu sales from Roche, received royalties last year of US$364 million! Roche's capacity to manufacture Tamiflu has now exceeded demand, reaching 400 million treatments a year.

Since 2006 GSK has sold about US$360 million of Relenza, largely for government stockpiling, which is less that 10% of the government orders placed for Tamiflu. Whilst Roche may have satisfied government demand for its Tamiflu, we expect demand for Relenza will continue.

There are acknowledged concerns over the potential resistance of the flu virus to Tamiflu and resistance concerns are far lower for Relenza because of the nature of the bonding of the drug to the virus. Also health concerns emerging in Japan with Tamiflu which remain unexplained argue for a more representative stockpiling of the two neuraminidase inhibitor drugs. There are also some drug interaction restrictions with Tamiflu that do not exist with Relenza.

Cont'd over

Although Roche has been able to satisfy government demand for its drug now, we expect the proportion of Relenza stockpiling will increase, up to 30%, as GSK capacity increases and as governments turnover stockpiles and seek a more representative mix of drugs. Currently Ireland's proportion of Relenza stockpiling of neuraminidase inhibitors sits at 40%, France at 30% and the US at 20%.

Patents

The Gilead patent over Tamiflu expires in 2016. Biota's patents expire between 2011 - 2103, which gives Biota a royalty income stream from Relenza sales for the next four to six years.

Institutional investor interest

Excluding current royalties payable, Biota Holdings had $42 million in cash at the end of last year. The company is now capitalized at $310 million. With Biota now a profitable biotech company, institutional investors are taking stakes in this company, which has previously retained a primarily retail shareholder base. At the current level of Relenza sales, Biota will receive $55 million in net royalties annually, and this may continue to increase as GSK manufacturing capacity continues to increase.

Other assets and activities

It appears that almost no value is being attributed to the current litigation claim against GSK, which at this stage sits at over $400 million in claims. Biota also has three key development assets. Its next generation long acting neuraminidase inhibitor (LANI) program is being developed with **Daiichi-Sankyo** in Japan (which has annualized sales of $10 billion a year) and has recently completed Phase I trials. Its LANI lead has also shown in *in vitro* studies recently conducted to be effective against the avian flu strain (H5N1). Phase II trials are expected to begin in October this year. The company has partnered its preclinical programs for respiratory syncytial virus therapeutics with **MedImmune** (in December 2005) and its Hepatitis C program is partnered with Boehringer Ingelheim (in November last year). Biota's rhinovirus program, aimed at developing antiviral drug to treat the common cold, is currently unpartnered in Phase I clinical trials.

Biota has also been awarded two NIH grants, valued at US$14.1 million to develop LANI and aerosol forms of LANI as part of preparation for a flu pandemic.

Summary

Biota is forming the complete biotech company which makes it an attractive asset to retail and institutional investors. We believe the stock is undervalued with significant growth opportunities ahead that are not acknowledged in the current market price.

Bioshares recommendation: **Buy**

Bioshares

How Bioshares Rates Stocks

For the purpose of valuation, *Bioshares* divides biotech stocks into two categories. The first group are stocks with existing positive cash flows or close to producing positive cash flows. The second group are stocks without near term positive cash flows, history of losses, or at early stages of commercialisation. In this second group, which are essentially speculative propositions, *Bioshares* grades them according to relative risk within that group, to better reflect the very large spread of risk within those stocks.

Group A

Stocks with existing positive cash flows or close to producing positive cash flows.

Buy	CMP is 20% < Fair Value
Accumulate	CMP is 10% < Fair Value
Hold	Value = CMP
Lighten	CMP is 10% > Fair Value
Sell	CMP is 20% > Fair Value

(CMP–Current Market Price)

Group B

Stocks without near term positive cash flows, history of losses, or at early stages commercialisation.

Speculative Buy – Class A
These stocks will have more than one technology, product or investment in development, with perhaps those same technologies offering multiple opportunities. These features, coupled to the presence of alliances, partnerships and scientific advisory boards, indicate the stock is relative less risky than other biotech stocks.

Speculative Buy – Class B
These stocks may have more than one product or opportunity, and may even be close to market. However, they are likely to be lacking in several key areas. For example, their cash position is weak, or management or board may need strengthening.

Speculative Buy – Class C
These stocks generally have one product in development and lack many external validation features.

Speculative Hold – Class A or B or C

Sell

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