INTERSUISSE INVESTMENT RESEARCH

Biota Holdings BTA Tuesday, 15 May 2007

See "Important Information" on the back page for Disclosures

Forecast FY07 and FY08 PE Multiple at 13.3 and 8.9 Times

Recommendation Buy | 12 Month Price Target $2.58

Acquires Royalty Commitments to CSIRO

This month, Biota and CSIRO will buy-out CSIRO's Relenza'™ royalties.

CSIRO will receive a cash payment and $2m in Biota shares. A further undisclosed payment will be triggered upon predetermined Relenza™ sales.

Previously, CSIRO received 0.75% of revenue and the Victorian College of Pharmacy 0.25%. Now, Biota only has to pay the College a royalty constituting 3.57% of Biota's gross Relenza™ royalty income.

Double the Impact

The agreement has two significant advantages for Biota

- Firstly, Biota receives net 6.75% royalty revenue on Relenza™, up from net 6.00% royalty revenue.
- Secondly, potential revised royalty terms coming from litigation between GSK and Biota would not have to be shared with CSIRO. Biota reported that GSK *withdrew its support for the product, adopting and implementing an exit strategy,* opening a case for damages. In comparison, Gilead (manufacturer of Tamiflu®) re-negotiated its royalty to 18-19% from 14%-18% with Roche after it proceeded against Roche for *failure to use best efforts to commercialise Tamiflu®*. Similarly, Biota and GSK could strike a royalty increase instead of a damages payment.

Relenza™ Sales Strong

GSK's sales of Relenza™ have jumped significantly from £44m in the quarter ending December 2006 to £92m for the quarter ending March 2007 predominantly from £44m sold into the US. Previously, Relenza™ was not sold into the US. This means that the indicative royalty payments estimated to Biota for the FY07e would be in the order of A$43m.

GSK stated that it has expanded Relenza™ production capabilities. We believe that it is in the vicinity of 30m units per annum, up from 15m unit capacity, with the capacity to generate an estimated £370m in annual sales.

Smart Tactical Move

Calculating the anticipated increase in royalty inflow, it is more economically viable for Biota to buy-out CSIRO now than pay a hypothetical royalty of A$7.9m in FY07e, as well as any other future royalties. This partially cleans up the revenue structure of Biota allowing greater flexibility during any negotiations with GSK and increases shareholder value due to increased earnings.

Recommendation

We retain our Buy, because we estimated the FY07e and FY08e PE at 13.3 and 8.9 times respectively. The price of the stock clearly has not fully incorporated the anticipated FY07e $43m in gross royalty payments. In addition, there is significant upside risk over the outcome of the claim against GSK and it also appears the price does not reflect this potential event.

Even when excluding any litigation upside, five valuation tools identify Biota as a Buy or Accumulate, with a valuation range between $2.10 and $3.13 per share

Snapshot

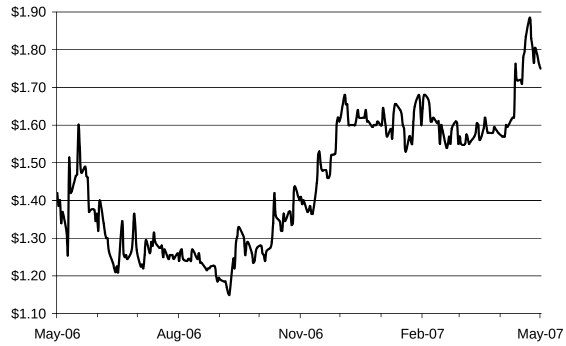
Last Price	$1.76
Market Cap (m)	$320
52 Week High	$1.90
52 Week Low	$1.13
Sector	Biotechnology - 352010

Investment Fundamentals

Year-end June	FY05A	FY06A	FY07E	FY08E
NPAT ($m)	(14.6)	(11.3)	24.1	35.8
EPS (c)	(10.7)	(6.3)	13.3	19.7
EPS Growth (%)	36.8	(40.9)	(307.8)	48.8
DPS (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
PE Ratio (x)	(3.9)	(19.2)	13.3	8.9

Source: Intersuisse Estimates

Price Chart



Business Description

Biota specialises in the discovery and development of pharmaceuticals, focusing on the research of drugs to treat viral respiratory diseases. Relenza™ is currently in the market for the treatment of influenza. Other drugs are in various stages of human and preclinical trials. GlaxoSmithKline has exclusive worldwide distribution rights and commercial stockpile orders from the Australian, German, Dutch, US, UK and French governments

Previous Intersuisse Research

BTA - Feb 07 - Positive NPAT $4.1m, Sales up 592%

Analyst: Darren J. Grubb PhD MBA GDipAppFin

Historic and Forecast Financials

BTA	Jun-06	Jun-07	Jun-08
	Actual	Forecast	Forecast
Per share (cents)			
Number of Shares (Number)	179.3	181.5	181.9
Basic EPS [adjusted]	(6.3)	13.3	19.7
Diluted EPS [adjusted]	(6.3)	13.1	19.5
Growth Rate	(0.4)	(3.1)	0.5
Operating Cash per share	(3.9)	12.8	9.6
FCFPS (cents)	(5.0)	12.2	8.8
Dividend per share	0.0	0.0	0.0
NTA [adjusted] per Share	26.2	39.1	58.7
Profit & Loss (A$ m)			
Trading Revenue (excl Interest)	4.2	52.9	72.2
Cost of Goods	0.0	0.0	0.0
Gross Profit Margin	1.0	1.0	1.0
Non-Operating Revenue (excl Interest)	8.5	0.0	0.0
EBITDARD	4.4	43.0	53.0
EBITDA	(12.4)	19.6	28.9
EBITA	(13.4)	18.4	27.5
EBIT	(13.4)	18.4	27.5
NPBT	(11.3)	20.9	31.1
Tax Credits / (Expense)	0.0	3.1	4.7
Minority interests	0.0	0.0	0.0
NPAT	(11.3)	24.1	35.8
NPAT [pre amortisation]	(11.3)	24.1	35.8
Operating free cash flow (A$ m)			
NPAT	(11.3)	24.1	35.8
Depreciation and Amortisation	1.0	1.2	1.4
Working Capital	2.0	(2.0)	(19.7)
Others	1.3	0.0	0.0
Operating Cash Flow	(7.0)	23.3	17.5
Investing Cash Flow	(1.9)	(1.2)	(1.4)
Free Cash Flow At End of Period	(9.0)	22.1	16.1
Financing Cash Flow	31.0	0.0	0.0
Change in Cash	21.4	24.1	35.8
Cash At End of Period	46.2	68.3	84.3
Balance sheet (A$ m)			
Net Cash and Short Term Investments	46.2	68.3	84.3
Current Debtors	5.6	23.1	31.6
Inventory	0.0	0.0	0.0
Other Current Assets	0.3	0.4	0.3
Current Creditors	4.0	25.8	14.5
Current Borrowings	0.0	0.0	0.0
Other Current Liabilities	6.5	0.6	0.5
Net Current Assets	41.5	65.5	101.3
PP&E	5.5	5.5	5.5
Other Non Current Assets	0.0	0.0	0.0
Capitalised Product Development	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0
Non Current Liabilities	0.1	0.0	0.0
Non Current Borrowings	0.0	0.0	0.0
Net Assets	46.9	70.9	106.7
Net Tangible Assets [adjusted]	46.9	70.9	106.7
Minority interests	0.0	0.0	0.0
Convertible and Preference Shares	0.0	0.0	0.0
Total Assets	57.6	97.3	121.8
Total Liabilities	(10.7)	(26.4)	(15.1)
Shareholders Equity	46.9	70.9	106.7

BTA	Jun-06	Jun-07	Jun-08
	Actual	Forecast	Forecast
Profitability Matrices			
EBITDA margin	(3.0)	0.4	0.4
EBIT margin	(3.2)	0.3	0.4
NPAT margin [pre-amortisation]	(2.7)	0.5	0.5
Current Ratio	4.9	3.5	7.7
ROE [DuPont]	(0.3)	0.2	0.2
ROA [DuPont]	(0.2)	0.2	0.2
Interest cover (Times)	(95.2)	NA	NA
EBITDA / Operating Cash Flow	0.6	(0.2)	0.6
EBITDA / Free Cash Flow	0.3	(0.1)	0.8
Cash Customers / Cash Suppliers	(0.7)	NA	NA
Productivity Matrices			
Labour / Sales	NA	NA	NA
Expensed R&D / Sales	1.8	0.2	0.1
Depreciation / Sales	(0.2)	(0.0)	(0.0)
Marketing / Sales	0.2	0.1	0.0
Administration / Sales	1.0	0.1	0.1
Occupancy / Sales	NA	NA	NA
Growth Matrices			
Revenue Growth	1.3	11.7	0.4
EBITDA Growth	(0.2)	(2.6)	0.5
EBIT Growth	(0.2)	(2.4)	0.5
NPAT Growth	(0.2)	(3.1)	0.5
NPAT Growth [pre goodwill]	(0.2)	(3.1)	0.5
Diluted EPS growth (cents) [pre amorti.	(0.4)	(3.1)	0.5
Dividend growth	NA	NA	NA
Valuation Matrices			
Market capitalisation (A$ m)	315.5	319.5	320.1
Price @ End Reporting Period	121.0	176.0	176.0
EV	273.9	254.5	235.8
EV/BV	5.8	3.6	2.2
EV/Sales of Goods	65.6	4.8	3.3
EV/EBITDA	(22.0)	13.0	8.2
EV/EBIT	(20.4)	13.9	8.6
EV/FCF	(30.6)	11.5	14.7
FCF/ Investing Cash	4.7	(18.3)	(11.2)
FCF Multiple	(24.2)	14.5	19.9
EBITDA Multiple	(17.4)	16.3	11.1
EBIT Multiple	(16.2)	17.4	11.7
PER	(19.2)	13.3	8.9
PER [Pre-amortisation]	(19.2)	13.3	8.9
PEG [Pre-amortisation]	0.5	(0.0)	0.2

Valuation	Percent from Share Price	12 Month Target Price
FCF Valuation	21.78%	$2.143
EVA Valuation	46.66%	$2.581
EV/EBIT Multiple	19.54%	$2.104
PE Multiple	65.72%	$2.917
Future Maintainable Earning	77.78%	$3.129
Current Price		**$1.760**
WACC		**12.99%**

INTERSUISSE

INVESTMENT RESEARCH

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Prepared by *Darren J. Grubb PhD MBA GDipAppFin*