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Biota Holdings Limited (BTA)

Speculative Buy

Significant Relenza™ Capacity Expansion & Royalty Buyout Drives Upgrades

\$1.80

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Key Points

GlaxoSmithKline (GSK) recently reported 1Q CY07 Relenza™ sales of £92m (A\$220.8m), up 148.5% on the 4Q.

Biota recognised A\$16m in royalties, up 118% on 4Q CY06 with cumulative royalties of A\$28.6m so far in FY07.

GSK actively engaging governments with new data on Relenza™ to drive new and additional stockpiling, with CY07 capacity “mostly” pre-sold.

1Q US, European and International sales of £44m (A\$105.6m), £32m (A\$76.8m) and £16m (A\$38.4m), respectively.

Biota has bought out CSIRO's royalty right of approx 10.7% to Relenza™ for \$2m in scrip and an undisclosed cash payment, with a future undisclosed payment on agreed Relenza™ sales.

Summary

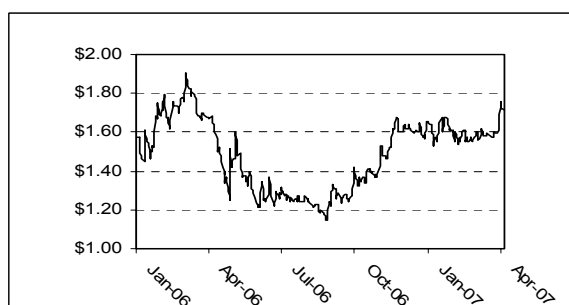
Market Capitalisation (M)	\$324.7
Share Price	\$1.80
Shares on Issue (M)	180.4
52 Week High	\$1.82
52 Week Low	\$1.13
Valuation Per Share (fully diluted)	\$2.53
12 Month Price Target	\$2.53
Cash (M) as at 31/12/06	\$41.9

Key Financials (A\$'000)

Year End	FY06	FY07	FY08
	Actual	Est.	Est.
Relenza Royalties	5,189	42,690	57,670
Partnering Income*	2,243	5,234	6,923
Total Revenue	14,967	61,973	87,262
Total Op. Expenses	(17,314)	(32,680)	(46,176)
R&D Expenses	(7,685)	(10,579)	(13,872)
EBITD (ex Abs/Extr)	(10,134)	18,921	24,611
EBIT	(11,120)	17,736	22,628
Adj. NPAT	(8,864)	20,045	26,057
Reported Profit	(11,306)	23,542	26,513
Adj. EPS (c)	(5.4)	11.2	14.4
Reported EPS (c)	(6.9)	13.1	14.6
Adj. PE Ratio (x)	n/a	13.6	12.2

* Upfront/Milestones only (ex-R&D income)

Share Price Graph (A\$)



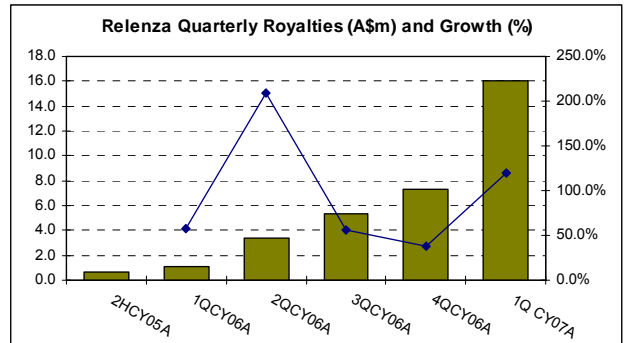
Our View

- The GSK quarterly Relenza™ sales result was well ahead of our expectations and has highlighted the significant capacity expansion by GSK since 4Q CY06. Utilising our base estimate of A\$25 per course, we believe GSK fulfilled 8.8m treatment courses during the quarter (versus 3.6m in 4Q CY06), indicating CY07 annualised capacity of approx 35m treatments (up 133% pcp), which appears broadly in line with GSK's previous guidance (30-45m) in CY07, subject to demand. On our estimates, we believe there is at least 21.3 million treatments on back order yet to be fulfilled, effectively representing approx A\$37m in underwritten future royalty revenues for Biota, which could be progressively recognised over the next 2.5 quarters. Based on this, GSK's comments on the quarterly call, and assertions made by GSK with respect to expected future demand for Relenza™ in the SOC, we are assuming all existing estimated capacity will be sold in CY07 and the majority in CY08.
- As a result of the capacity expansion by GSK, we have upgraded our adjusted FY07 NPAT by 223% to \$20.0 million and upgraded our adjusted FY08 NPAT to \$26.1 million. Our forward volume estimates are revised to 24.4 million (FY07), 32.9 million (FY08). We believe the sizeable uplift in Relenza™ royalties will now require Biota to progressively bring to account FITBs, as R&D will no longer offset expected tax on profit. We view the royalty buyout to be value accretive to Biota, particularly beyond FY07, as future royalty payments Biota makes on its recognised Relenza™ revenues decreases from 14% to approx 3.6%. We have upgraded our risk-adjusted NPV by 14.5% to \$2.53 and removed our \$0.20 upside to base value, which was constructed as our view on potential upside to production by GSK. Baseline capacity is now more certain moving forward in our view. We continue with our Speculative Buy recommendation and revised 12 month price target of \$2.53.

GSK 1Q Synopsis

Strong growth in quarterly Relenza royalties.

GSK's 1Q Relenza™ sales clearly indicate a committed effort by GSK to expand capacity to meet demand, particularly from western government stockpiling initiatives. Recognised quarterly royalties by Biota has grown strongly since 1Q CY06, when capacity was approximately 1m treatment courses (see across). Of the known stockpiling orders, we believe there is a further 21.3 million treatment courses that have yet to be fulfilled by GSK. GSK has indicated most of the CY07 capacity has already been sold. In the absence of



further capacity upgrades, we are forecasting that GSK will sell all estimated CY07 capacity of 35m. We note that GSK has now also commenced retail pharmacy distribution in the US of Relenza™ and moving forward, we expect penetration into the US\$1b seasonal influenza market.

GSK actively re-engaging governments to drive future stockpiling orders.

GSK commented that it is now re-contacting governments with new data to increase stockpiling sales, but would not comment on future expectations or existing Relenza™ treatments on order. It commented on its intention to leverage off the problems with Tamiflu® at present, which include a number of teenage suicides in Japan that has led to label changes in most major jurisdictions and evidence of viral resistance emerging to the drug. Neither of these problems has been seen with Relenza™ use to date. For these reasons, coupled with expectations regarding future sales contained within the Statement of Claim (SOC), we believe the majority of CY08 capacity (assuming no further evidence of capacity expansion) will also be sold.

Outlook

In our model, we now provide an adjusted and reported NPAT. Our adjusted NPAT strips out non-recurring items including revenues from upfront/milestones from Biota's 2x license deals (worth US\$112.5m and US\$102m) and GSK litigation expense to examine underlying earnings based on Relenza™

Biota - Main Adjustments to Model

	Relenza Royalties	Partnering & Research Income	Early Stage R&D	Reported NPAT	Reported EPS (c)	Adjusted NPAT*	Adjusted EPS (c)
FY07E							
Previous	25.1	17.9	(8.7)	8.2	4.5	6.2	3.4
Revised	42.7	16.0	(10.6)	23.5	13.1	20.0	11.2
Change	70.1%	-10.3%	21.6%	187.1%	190.4%	223.3%	228.6%
FY08E							
Previous	26.6	28.1	(6.6)	21.9	12.2	10.0	5.6
Revised	57.7	23.7	(13.9)	26.5	14.6	26.1	14.4
Change	116.8%	-15.6%	110.2%	21.1%	19.7%	160.6%	156.3%

* Excludes Income tax benefits, litigation and upfront/milestone license payments; Source: Taylor Collison

royalties. We have made significant changes to our assumptions for FY07 and FY08 as a result of the royalty buyout with CSIRO and capacity expansion by GSK (across).

Accelerated expenditure in R&D expected.

Based on the expected uplift in royalties, Biota expects to accelerate expenditure in FY08 towards its earlier stage R&D programs and product development with Boehringer and MedImmune due to the capacity upgrade, coupled with set up costs associated with HRV Phase 2 challenge trials. We have also lowered our expectations for partnering income, as it is now likely that recognition of milestone payments from MedImmune based on Biota's progress will fall into FY08/9.

FY07 adjusted NPAT of \$20.0m.

As a result of the significant capacity expansion by GSK, we have upgraded our adjusted FY07 NPAT by 223% to \$20.0 million and upgraded our adjusted FY08 NPAT to \$26.1 million. Our forward volume estimates are revised to 24.4 million (FY07), 32.9 million (FY08). We believe the sizeable uplift in Relenza™ royalties will now require Biota to progressively bring to account FITBs, as R&D will no longer offset expected tax on profit.

Price target of \$2.53.

We view the royalty buyout to be value accretive to Biota, particularly beyond FY07, as future royalty payments Biota makes on its recognised Relenza™ revenues decreases from 14% to approx 3.6%. We have upgraded our risk-adjusted NPV by 14.5% to \$2.53 and removed our \$0.20 upside to base value, which was constructed as our view on potential upside to production by GSK. Baseline capacity is now more certain moving forward in our view. We continue with our Speculative Buy recommendation and revised 12 month price target of \$2.53.

Biota Holdings Limited - Summary of Forecasts

BTA

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PROFIT & LOSS SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
Relenza Royalties	530	5,189	42,690	57,670
Partnering (License) Income	0	2,243	5,234	6,923
Research income (inc Grants)	1,554	4,021	10,815	18,539
Total Revenue	5,049	14,967	61,973	87,262
<i>Growth (pcp)</i>	-37.3%	196.4%	314.1%	40.8%
Net Operating Revenue	(6,859)	(2,347)	29,293	41,087
R&D Expenses	(7,337)	(7,685)	(10,579)	(13,872)
EBITD*	(11,785)	(10,134)	18,921	24,611
Depreciation	(867)	(986)	(1,102)	(1,984)
EBIT*	(12,652)	(11,120)	17,819	22,628
Net Interest	1,289	2,256	2,309	3,430
Pre-Tax Profit*	(11,363)	(8,864)	20,045	26,057
Tax Expense	0	0	6,013	1,283
Minorities	0	0	0	0
NPAT Adj.*	(11,363)	(8,864)	20,045	26,057
<i>Growth (pcp)</i>	n/a	n/a	n/a	30.0%
Net Adjustments*	(3,700)	(2,442)	3,497	456
Reported Profit	(15,063)	(11,306)	23,542	26,513

PER SHARE DATA				
Period	FY05A	FY06A	FY07E	FY08E
Adjusted EPS (c) *	(9.2)	(5.4)	11.2	14.4
<i>Growth (pcp)</i>	n/a	n/a	n/a	28.5%
Reported EPS (c)	(12.2)	(6.9)	13.1	14.6
<i>Growth (pcp)</i>	n/a	n/a	n/a	11.8%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	(9.3)	(3.5)	12.8	11.2
NTA per share (c)	21.1	28.5	40.5	55.4

VALUATION MULTIPLES				
Period	FY05A	FY06A	FY07E	FY08E
Adjusted PE Ratio (x)*	n/a	n/a	16.1	12.5
PE Ratio (x)	n/a	n/a	13.7	12.3
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITD (x)	(27.1)	(29.9)	12.6	8.8
EV/EBIT (x)	(23.4)	(24.6)	14.2	10.4

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 %	-233.4%	-67.7%	30.5%	28.2%
EBIT/Sales Margin %	-250.6%	-74.3%	28.6%	25.9%
Current ratio (x)	6.3	4.9	4.8	5.8
Net Debt : Equity (%)	-92.7%	-98.5%	-93.9%	-85.0%
ROE (%)	-43.6%	-18.9%	33.4%	30.0%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

* Excluding litigation expense, HCV/RSV license upfront/milestone payments, FITB

BALANCE SHEET SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
Cash	24,753	46,183	68,599	85,480
Receivables	972	5,573	13,634	19,198
Inventories	0	0	0	0
Other	0	291	0	0
Total Current Assets	25,725	52,047	82,233	104,678
Investments	0	0	0	0
Inventories	0	0	0	0
Property Plant & Equip	4,702	5,512	5,668	7,816
Intangibles	0	0	0	0
Deferred Tax Assets	0	0	6,013	7,296
Other	0	0	0	0
Total Non-Current Assets	4,702	5,512	11,681	15,113
TOTAL ASSETS	30,427	57,559	93,914	119,791
Accounts Payable	3,171	4,034	9,296	13,089
Borrowings	366	0	0	0
Provisions	556	516	620	838
Other (Inc Def Rev)	0	6,011	7,220	4,181
Total Current Liab	4,093	10,561	17,136	18,108
Borrowings	366	0	0	0
Provisions	40	100	0	0
Other (Inc Def Rev)	0	0	3,728	1,096
Total Non-Current Liab	298	100	3,728	1,096
TOTAL LIABILITIES	4,391	10,661	20,865	19,205
TOTAL EQUITY	26,036	46,898	73,049	100,586

CASH FLOW SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
EBIT (excl Abs/Extr)	(12,652)	(11,120)	17,736	22,628
Add: Depreciation	867	986	1,102	1,984
Amortisation	0	0	83	0
Change in Pay.	(78)	863	5,262	3,793
Less: Tax paid	0	0	6,013	1,283
Net Interest	1,289	2,256	2,309	3,430
Change in Rec.	(361)	(4,778)	(8,366)	(5,564)
Change in Prov.	(568)	(20)	(4)	(218)
Change in FITB	0	0	(6,013)	(1,283)
Change in Inv.	0	0	0	0
Change in Def. Rev.	0	6,011	4,938	(5,671)
Gross Cashflows	(11,503)	(5,802)	23,059	20,382
Capex	(4,323)	(1,985)	(1,500)	(3,500)
Free Cashflows	(15,826)	(7,787)	21,559	16,882
Dividends Paid	0	0	0	0
Net Cash Flow	(15,826)	(7,787)	21,559	16,882

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