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Biota Holdings Limited (BTA)

Speculative Buy

Reports 2Q CY07 Relenza™ Royalties of \$11.1m; FY07 Royalties Hit \$39.8m

\$1.70

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Key Points

GlaxoSmithKline (GSK) has reported 2Q CY07 Relenza™ sales of £67m (A\$160.1m), down 27.2% on the 1Q, and below our estimates.

2Q CY07 US, European and International sales of £34m (A\$80.2m), £26m (A\$61.5m) and £7m (A\$16.5m), respectively.

Total FY07 Relenza™ sales of A\$540.2m versus A\$67.7m in FY06, highlights significant investment in capacity expansion by GSK.

Biota recognised A\$11.1m in 2Q CY07 royalties, down 30.6% on 1Q CY07 with FY07 royalties of A\$39.8m up significantly on pcp of A\$5.2m.

Biota downgraded FY07 PBT from "at least" \$18m to "in excess" of \$17m.

Insight Series held in Melbourne during the week offered no significant update to core programs LANI, HRV, HCV and RSV.

Summary

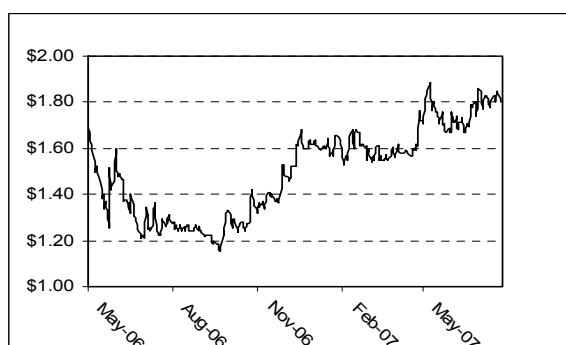
Market Capitalisation (M)	\$310.6
Share Price	\$1.70
Shares on Issue (M)	182.7
52 Week High	\$1.92
52 Week Low	\$1.13
Valuation Per Share (fully diluted)	\$2.61
12 Month Price Target	\$2.61
Cash (M) as at 31/12/06	\$41.9

Key Financials (A\$'000)

Year End	FY06 Actual	FY07 Est.	FY08 Est.
Relenza Royalties	5,189	39,790	57,670
Partnering Income*	2,243	5,234	6,923
Total Revenue	14,967	59,073	87,133
Litigation Expense	(4,397)	(7,750)	(7,750)
Total Op. Expenses	(17,314)	(32,576)	(46,176)
R&D Expenses	(7,685)	(10,579)	(13,872)
EBITD (ex Abs)	(10,134)	16,125	24,611
EBIT	(11,120)	14,939	22,628
Adj. NPAT	(8,864)	17,248	25,928
Reported Profit	(11,306)	19,907	26,382
Adj. EPS (c)	(5.4)	9.6	14.2
Reported EPS (c)	(6.9)	11.1	14.4
Adj. PE Ratio (x)	n/a	15.4	11.8

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

Share Price Graph (A\$)



Our View

- GSK's quarterly Relenza™ sales result was 27.4% below our expectations, which we believed would come in more or less that of the 1Q, given our estimates of the unfilled government stockpiling orders still on hand. It would be fair to speculate the result probably surprised Biota, given its own PBT guidance was based on a similar observation. This led to a revision in guidance, and a 4.5% price decline. Based on our volume estimates at an average selling price of A\$25 (govt stockpiling pricing is invariably kept confidential), we believe GSK progressively fulfilled a further 6.4m treatment courses, which has reduced our estimates of known backlog of stockpiling orders from 21m to 14.6m treatment courses (see Appendix 1). Our quarterly fulfilment quantities track slightly ahead of Biota's implied figures from ASX release, which appears to be predicated on a +11% pricing differential. We note that retail distribution in both the US and Australia commenced during 2Q CY07, which makes forward estimates of backlog fulfilment challenging in the absence of government specific announcements.
- Despite the lower than expected quarterly Relenza™ figures, in our view Biota has unrecognised future royalties from existing known government orders of approximately A\$25.6m which could be progressively released over the next 2Q. We also expect an increased contribution from retail sales moving in to the Northern hemisphere winter. As a result of softer than anticipated 2Q CY07 Relenza™ royalties, we have downgraded our FY07 expectations for Relenza™ by 6.6% to \$39.8m, with resulting adjusted NPAT of \$19.9m. GSK's 3Q CY07 Relenza™ sales will now be a key focus to more definitively ascertain CY07 capacity. At this juncture we are not prepared to downgrade our volume estimates for Relenza™ in FY08, FY09. GSK has previously commented that the majority of CY07 capacity has been pre-sold, with staged capacity increases to between 30m-45m out to CY08, subject to demand. We note Biota is due to report its amended financial claim against GSK this week. We continue with our Speculative Buy recommendation and price target of \$2.61.

Appendix 1 – Government Stockpiling Order Quantities

Country	Order Date	Quantity (m)
Germany	Aug-05	1.70
France	Nov-05	15.0
Australia	Feb-06	1.82
USA	Various	16.20
Hong Kong	n/a	2.00
Netherlands	Sep-05	1.25
Czech Republic	Nov-05	0.20
Singapore	Jan-06	0.05
Malaysia	Jul-06	0.13
Canada	Nov-06	0.70
Ireland	Dec-06	0.70
TOTAL		39.75
<i>less est. orders filled at at end 2Q CY07</i>	<i>(25.1 m)</i>	14.60
Est. Unrecognised Future Royalties (A\$m) @ A\$25		25.55

* Est. on actual known orders. Source: Biota SOC, Taylor Collison estimates

Biota Holdings Limited - Summary of Forecasts	BTA	\$1.70
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PROFIT & LOSS SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
Relenza Royalties	530	5,189	39,790	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	59,073	87,133
<i>Growth (pcp)</i>	-37.3%	196.4%	294.7%	47.5%
Net Operating Revenue	(6,859)	(2,347)	26,497	40,957
R&D Expenses	(7,337)	(7,685)	(10,579)	(13,872)
EBITD*	(11,785)	(10,134)	16,125	24,611
Depreciation	(867)	(986)	(1,102)	(1,984)
EBIT*	(12,652)	(11,120)	15,022	22,628
Net Interest	1,289	2,256	2,309	3,300
Pre-Tax Profit*	(11,363)	(8,864)	17,248	25,928
Tax Expense	0	0	5,174	1,282
Minorities	0	0	0	0
NPAT Adj.*	(11,363)	(8,864)	17,248	25,928
<i>Growth (pcp)</i>	n/a	n/a	n/a	50.3%
Net Adjustments	(3,700)	(2,442)	2,659	455
Reported Profit	(15,063)	(11,306)	19,907	26,382

PER SHARE DATA				
Period	FY05A	FY06A	FY07E	FY08E
Adjusted EPS (c) *	(9.2)	(5.4)	9.6	14.2
<i>Growth (pcp)</i>	n/a	n/a	n/a	47.5%
Reported EPS (c)	(12.2)	(6.9)	11.1	14.4
<i>Growth (pcp)</i>	n/a	n/a	n/a	30.7%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	(9.3)	(3.5)	11.4	11.0
NTA per share (c)	21.1	28.5	38.5	52.6

VALUATION MULTIPLES				
Period	FY05A	FY06A	FY07E	FY08E
Adjusted PE Ratio (x)*	n/a	n/a	17.7	12.0
PE Ratio (x)	n/a	n/a	15.4	11.8
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITD (x)	(26.0)	(28.6)	14.0	8.5
EV/EBIT (x)	(22.4)	(23.5)	16.2	9.9

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%	27.3%	28.2%
EBIT/Sales Margin %	-250.6%	-74.3%	25.3%	26.0%
Current ratio (x)	6.3	4.9	4.7	5.6
Net Debt : Equity (%)	-92.7%	-98.5%	-95.1%	-85.8%
ROE (%)	-43.6%	-18.9%	29.7%	31.3%
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	66,005	82,563
Receivables	972	5,573	12,996	19,169
Inventories	0	0	0	0
Other	0	291	0	0
Total Current Assets	25,725	52,047	79,001	101,733
Investments	0	0	0	0
Inventories	0	0	0	0
Property Plant & Equip	4,702	5,512	5,668	7,184
Intangibles	0	0	0	0
Deferred Tax Assets	0	0	5,174	6,456
Other	0	0	0	0
Total Non-Current Assets	4,702	5,512	10,842	13,640
TOTAL ASSETS	30,427	57,559	89,844	115,373
Accounts Payable	3,171	4,034	8,861	13,070
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	16,701	18,089
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	20,430	19,185
TOTAL EQUITY	26,036	46,898	69,414	96,187

CASH FLOW SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
EBIT (excl Abs/Extr)	(12,652)	(11,120)	14,939	22,628
Add: Depreciation	867	986	1,102	1,984
Amortisation	0	0	83	0
Change in Pay.	(78)	863	4,827	4,209
Less: Tax paid	0	0	5,174	1,282
Net Interest	1,289	2,256	2,309	3,300
Change in Rec.	(361)	(4,778)	(7,728)	(6,173)
Change in Prov.	(568)	(20)	(4)	(218)
Change in FITB	0	0	(5,174)	(1,282)
Change in Inv.	0	0	0	0
Change in Def. Rev.	0	6,011	4,938	(5,671)
Gross Cashflows	(11,503)	(5,802)	20,466	20,058
Capex	(4,323)	(1,985)	(1,500)	(3,500)
Free Cashflows	(15,826)	(7,787)	18,966	16,558
Dividends Paid	0	0	0	0
Net Cash Flow	(15,826)	(7,787)	18,966	16,558

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