

Biota Holdings

BTA

9 August 2007

See "Important Information" on the back page for Disclosures

2007 Profit \$20.2m, up from a 2006 loss of \$11.3m

Recommendation

Buy

12 Month Price Target

\$2.11

Profit after Tax \$20.2m

Biota reported its full year 2007 results and generated a profit of \$20.2m from a combination of royalty income from the sale of Relenza™, Partnering and Research Agreements with MedImmune and Boehringer Ingelheim, as well as a small contribution from the sale of Influenza diagnostics.

The royalty revenue solely comes from the sale of the influenza drug Relenza™ by GSK. These sales are driven by demand by governments stockpiling the drug in preparation of an avian influenza pandemic.

Key Financial Highlights

The company has rapidly progressed from a speculative investment opportunity to an emerging growth company;

- The company has \$62m cash
- NPAT \$20.2m
- Receipts from Customers were \$47.3m.
- The company carries no debt,
- R&D costs for the Hepatitis C Virus programme are funded by Boehringer Ingelheim,
- R&D costs for Respiratory Syncytial Virus programme are funded by MedImmune,

Relenza™ Sales Strong

GSK's sales of Relenza™ have jumped significantly from £44m in the quarter ending December 2006 to £92m and £67m for the quarters ending March and June 2007. To date, at total of £78m of Relenza™ has been sold into the US as part of the national stockpile.

Biota's Clinical Development Highlights

- The Long Active Anti Influenza drug has completed Phase I trials in Japan and Phase I Trials continue in the UK. This is funded under a US\$8.5m NIH grant.
- MedImmune started a Phase Ia study on a Respiratory Syncytial Virus drug,
- The Human Rhinovirus drug Phase Ia study was completed in August 2006

Biota Increased the Relenza Claim against GSK to \$564m-\$704m

Biota increased the loss and damage in its suit against GSK for failing to support Relenza™ to between \$564m and \$704m. The updated damages assessment was filed with the Victorian Supreme Court.

Although we cannot comment on the case, we gain some guidance on how a similar dispute was resolved. In November 2005, Roche (marketer of Tamiflu®) agreed to modify COG calculations and Gilead (inventor of Tamiflu®) received an increase in the royalty rate payable from 14% to 18%-19%, with backdated payments of US\$62.5m. We made no account of the outcome of the dispute with GSK into the valuations or forecast financials

Recommendation

We retain our Buy, because a FY07a and FY08e PE at 16.9 and 7.7 times respectively, represents value given further Relenza™ sales are anticipated to increase as orders remain to be filled. As well, there is significant upside risk over the outcome of the claim against GSK. We believe the stock price does not reflect any outcome from the trial.

Even when excluding any litigation upside, five valuation tools identify Biota as a Buy or Accumulate, with a valuation range between \$2.11 and \$3.37 per share

Snapshot

Last Price	\$1.79
Market Cap (m)	\$322m
52 Week High	\$1.93
52 Week Low	\$1.13
Sector	Biotechnology - 352010

Investment Fundamentals

Year-end June	FY05A	FY06A	FY07A	FY08E
NPAT (\$m)	(14.6)	(11.3)	20.2	42.6
EPS (c)	(10.7)	(6.3)	11.1	23.4
EPS Growth (%)	36.8	(40.9)	276.4	110.1
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)	16.9	7.7

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 for Relenza™.

Previous Intersuisse Research

May 07—Forecast FY07 and FY08 PE Multiple at 13.3 and 8.9 Times

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Historic and Forecast Financials

BTA	Jun-07	Jun-08	Jun-09
	Actual	Forecast	Forecast
Per share (cents)			
Number of Shares (Number)	183.3	183.7	185.2
Basic EPS [adjusted]	11.2	23.4	26.1
Diluted EPS [adjusted]	11.1	23.4	26.2
Growth Rate	(2.8)	1.1	0.1
Operating Cash per share	13.0	20.6	26.0
FCFPS (cents)	9.5	16.4	19.9
Dividend per share	0.0	0.0	0.0
NTA [adjusted] per Share	30.4	51.9	72.0
Profit & Loss (A\$ m)			
Trading Revenue (excl Interest)	53.3	73.7	75.5
Cost of Goods	0.0	0.0	0.0
Gross Profit Margin	1.0	1.0	1.0
Non-Operating Revenue (excl Interest)	0.0	0.0	0.0
EBITDARD	40.7	70.9	74.9
EBITDA	22.2	46.9	50.5
EBITA	21.0	45.6	49.0
EBIT	20.6	45.1	48.5
NPBT	22.5	48.1	51.7
Tax Credits / (Expense)	(2.3)	(5.6)	(3.8)
Minority interests	0.0	0.0	0.0
NPAT	20.2	42.6	47.9
NPAT [pre amortisation]	20.5	43.0	48.4
Operating free cash flow (A\$ m)			
NPAT	20.1	42.6	47.9
Depreciation and Amortisation	1.5	1.8	2.1
Working Capital	2.8	(6.5)	(1.9)
Others	(0.6)	0.0	0.0
Operating Cash Flow	23.8	37.9	48.1
Investing Cash Flow	(6.4)	(7.8)	(11.3)
Free Cash Flow At End of Period	17.4	30.1	36.8
Financing Cash Flow	1.4	0.0	0.0
Change in Cash	16.0	36.5	38.7
Cash At End of Period	62.2	92.2	129.0
Balance sheet (A\$ m)			
Net Cash and Short Term Investments	62.2	92.2	129.0
Current Debtors	9.2	12.4	12.7
Inventory	0.0	0.0	0.0
Other Current Assets	0.1	0.2	0.2
Current Creditors	6.0	13.3	11.6
Current Borrowings	0.0	0.0	0.0
Other Current Liabilities	7.6	1.1	1.1
Net Current Assets	57.9	90.5	129.1
PP&E	5.2	4.8	4.2
Other Non Current Assets	0.0	0.0	0.0
Capitalised Product Development	0.0	0.0	0.0
Intangibles	13.4	19.9	29.7
Non Current Liabilities	7.4	0.0	0.0
Non Current Borrowings	0.0	0.0	0.0
Net Assets	69.2	115.1	163.0
Net Tangible Assets [adjusted]	55.7	95.2	133.3
Minority interests	0.0	0.0	0.0
Convertible and Preference Shares	0.0	0.0	0.0
Total Assets	90.1	129.5	175.7
Total Liabilities	(20.9)	(14.4)	(12.8)
Shareholders Equity	69.2	115.1	163.0

BTA	Jun-07	Jun-08	Jun-09
	Actual	Forecast	Forecast
Profitability Matrices			
EBITDA margin	0.4	0.6	0.7
EBIT margin	0.4	0.6	0.6
NPAT margin [pre-amortisation]	0.4	0.6	0.6
Current Ratio	5.3	7.3	11.1
ROE [DuPont]	23.9%	41.3%	32.1%
ROA [DuPont]	22.9%	34.8%	27.6%
Interest cover (Times)	33.4	71.6	75.4
EBITDA / Operating Cash Flow	(6.9%)	23.7%	5.2%
EBITDA / Free Cash Flow	27.4%	56.0%	37.4%
Productivity Matrices			
Labour / Sales	NA	NA	NA
Expensed R&D / Sales	15.4%	10.7%	10.5%
Depreciation / Sales	(2.3%)	(1.8%)	(2.0%)
Marketing / Sales	NA	NA	NA
Administration / Sales	7.3%	5.4%	5.3%
Occupancy / Sales	NA	NA	NA
Growth Matrices			
Revenue Growth	1,177%	38%	2%
EBITDA Growth	(278%)	111%	8%
EBIT Growth	(254%)	119%	7%
NPAT Growth	(278%)	111%	12%
NPAT Growth [pre goodwill]	(281%)	110%	12%
Diluted EPS growth (cents) [pre amorti.]	(276%)	110%	12%
Dividend growth	NA	NA	NA
Valuation Matrices			
Market capitalisation (A\$ m)	322.7	323.2	325.9
Price @ End Reporting Period	186	179	179
EV	269.3	236.5	202.4
EV/BV	4.8	2.5	1.5
EV/Sales of Goods	5.0	3.2	2.7
EV/EBITDA	12.1	5.0	4.0
EV/EBIT	13.0	5.2	4.2
EV/FCF	15.5	7.9	5.5
FCF/ Investing Cash	(2.7)	(3.8)	(3.3)
FCF Multiple	19.6	10.9	9.0
EBITDA Multiple	15.4	7.0	6.6
EBIT Multiple	16.5	7.3	6.8
PER	16.9	7.7	6.9
PER [Pre-amortisation]	16.6	7.6	6.8
PEG [Pre-amortisation]	(0.1)	0.1	0.6
Valuation		12 Month Target Price	
FCF Valuation		\$2.116	
EVA Valuation		\$3.221	
EV/EBIT Multiple		\$3.376	
PE Multiple		\$3.130	
Future Maintainable Earning		\$2.956	
Current Price		\$1.790	
WACC		14.40%	

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