



30 October 2007

# Biota Holdings Limited (BTA)

Speculative Buy

Reports Softer than Anticipated 1Q08 Relenza™ Royalties of \$4.5m;

\$1.42

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## Key Points

GlaxoSmithKline (GSK) has reported 1Q08 Relenza™ sales of £28m (A\$66.8m), down 7% on pcp.

1Q08 US, European and International sales of £12m (A\$28.6m), £14m (A\$33.4m) and £2m (A\$4.8m), respectively.

Biota recognised A\$4.5m in 1Q08 royalties, down 57.9% on 4Q07 and 16.7% on pcp, inclusive of GBP/AUD headwind.

## Summary

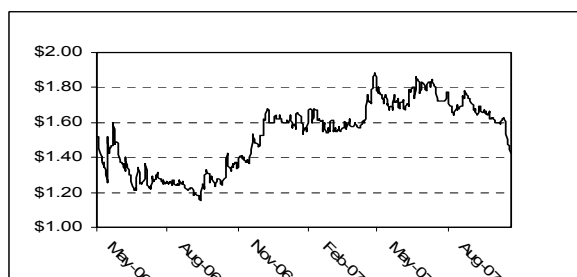
<b>Market Capitalisation (M)</b>	<b>\$260.2</b>
<b>Share Price</b>	<b>\$1.42</b>
Shares on Issue (M)	183.3
52 Week High	\$1.93
52 Week Low	\$1.13
<b>Valuation Per Share (fully diluted)</b>	<b>\$2.30</b>
12 Month Price Target	\$2.30
<b>Cash (M) as at 30/06/07</b>	<b>\$62.2</b>

## Key Financials (A\$'000)

Year End	FY06	FY07	FY08
	Actual	Actual	Est.
Relenza Royalties	5,189	39,789	43,970
Partnering Income*	2,243	5,726	6,923
<b>Total Revenue</b>	<b>14,967</b>	<b>57,300</b>	<b>72,975</b>
Litigation Expense	(4,397)	(10,426)	(15,000)
Total Op. Expenses	(17,314)	(29,724)	(48,283)
R&D Expenses	(7,685)	(8,198)	(13,345)
<b>EBITDA</b>	<b>(10,134)</b>	<b>21,571</b>	<b>16,317</b>
EBIT	(11,120)	20,026	13,108
Adj. NPAT	(8,864)	22,533	16,216
<b>Reported Profit</b>	<b>(11,306)</b>	<b>20,180</b>	<b>9,846</b>
Adj. EPS (c)	(5.4)	12.5	8.8
Reported EPS (c)	(6.9)	11.2	5.4
Adj. PE Ratio (x)	n/a	<b>11.3</b>	<b>16.0</b>

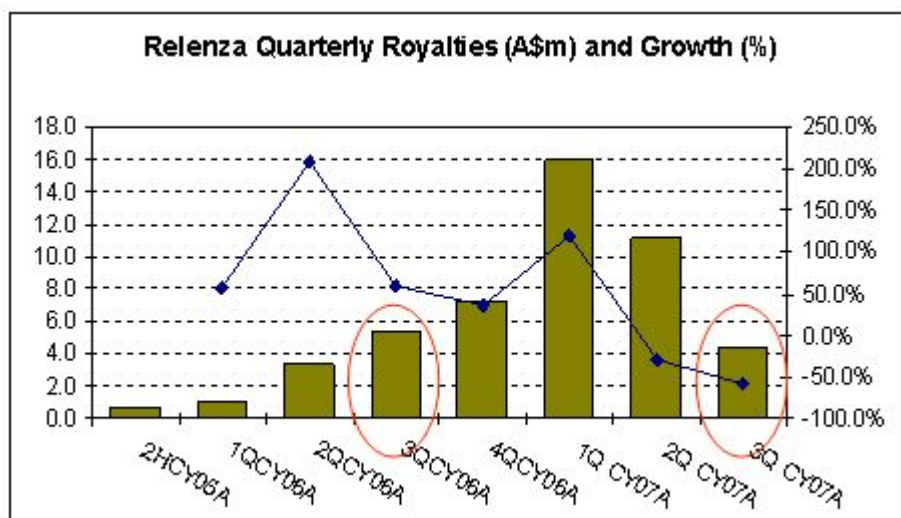
\* Upfront/Milestones only (ex-R&amp;D income)

## Share Price Graph (A\$)



## Our View

- GSK's quarterly Relenza™ sales result was below our expectations, which we believed would show some consistency with that recorded for 4Q07. Our volume estimates on an average sales price of A\$25 per course suggests only 2.7m courses were fulfilled (as opposed to manufactured) for the Q, with our cumulative CY07 estimates of 17.8m treatments. To date, GSK has made total cumulative sales of ~A\$217.1m to the US market, indicative of approximately 8.7m treatment courses. The US government has indicated it will purchase and build a Relenza™ stockpile consisting of 16.2m treatments by Dec 08, suggesting further upside in the US over the next 12 months.
- The quarterly result contrasts with previous GSK comments at the 1Q CY07 call that indicated "most" of CY07 capacity had already been sold to governments and that GSK was re-contacting governments with new data to increase stockpiling sales. Moreover, GSK cited anticipated orders of 39m treatments in CY07 from Biota's SOC analysis. Biota believes there is significant seasonality associated with pandemic stockpiling, along with seasonal use as evidenced via quarterly trends observed in FY07. Given this observation, and GSK's CY07 capacity expectations, we believe more significant 2Q08, 3Q08 Relenza™ sales are likely.
- Has pandemic stockpiling finished for Relenza™? We believe not. Roche recently downgraded the outlook for Tamiflu® due to a peaking of primary pandemic influenza stockpiling, with little visibility through CY08. We don't believe this translates to a poor outlook for Relenza™, given historic pandemic orders of Tamiflu® of approx 215m treatments across 80 countries, versus our estimates of installed pandemic stockpiles of Relenza™ of 27.8m courses across 11 known countries, which commenced in 1Q CY06. We note the US FDA is scheduled to review the paediatric safety of Tamiflu® on Nov 27<sup>th</sup>.
- Despite the lower than expected quarterly Relenza™ figure, we expect to see a rebound over the next two quarters during the Northern hemisphere influenza season. However, we have downgraded our FY08 royalty expectations for Relenza™ by 17.3% to \$44.0m (representing volumes of 25.1m), with resulting adjusted NPAT of \$16.2m (see overleaf). We have also lightened our FY09 Relenza™ expectations by 7.7%. The net effect is a reduction in our risk-adjusted valuation and 12 month target by 11.7% to \$2.30. We note the court case against GSK is set for the beginning of 1Q09 with potential for mediation this Q, which may be a driver for an out of court settlement. We believe the negative reaction from 1Q08 Relenza™ royalties is overdone and we continue with our Speculative Buy recommendation.



#### Relenza Government Stockpiling\*

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
<b>TOTAL</b>		<b>39.75</b>
<i>less est. orders filled at at end 3Q CY07</i>	<i>-27.8</i>	<b>11.95</b>
<b>Est. Unrecognised Future Royalties (A\$m) @ A\$25</b>		<b>20.91</b>

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

#### Major Changes to Valuation Model

	FY08E			FY09E		
	Previous	Revised	Change	Previous	Revised	Change
Relenza Volumes (m)	30.4	25.1	-17.3%	30.1	27.8	-7.7%
Relenza Royalties (A\$m)	53.2	44.0	-17.3%	52.7	48.6	-7.8%
NPAT adjusted (A\$m)	26.2	16.2	-38.1%	44.6	44.3	-0.7%
EPS adjusted (c)	14.3	8.8	-38.1%	27.8	27.7	-0.5%
Valuation Per Share & Target	\$2.61	<b>\$2.30</b>	-11.7%			

Source: Taylor Collison estimates

## Biota Holdings Limited - Summary of Forecasts

BTA \$1.42

PROFIT & LOSS SUMMARY (A\$'000)					
Period	FY05A	FY06A	FY07A	FY08E	FY09E
Rolenzia Royalties	530	5,189	39,789	43,970	48,594
Partnering (License) Income	0	2,243	5,726	6,923	9,096
Research income (inc Grants)	1,554	4,021	8,740	18,539	9,500
<b>Total Revenue</b>	<b>5,049</b>	<b>14,967</b>	<b>57,300</b>	<b>72,975</b>	<b>72,252</b>
<i>Growth (pcp)</i>	<i>-37.3%</i>	<i>196.4%</i>	<i>282.8%</i>	<i>27.4%</i>	<i>-1.0%</i>
<b>Net Operating Revenue</b>	<b>(6,859)</b>	<b>(2,347)</b>	<b>27,576</b>	<b>24,693</b>	<b>57,945</b>
R&D Expenses	(7,337)	(7,685)	(8,198)	(13,345)	(12,500)
<b>EBITDA*</b>	<b>(11,785)</b>	<b>(10,134)</b>	<b>21,571</b>	<b>16,317</b>	<b>40,831</b>
Depreciation	(867)	(986)	(1,228)	(1,288)	(1,473)
Amortisation	0	0	(317)	(1,921)	(1,921)
<b>EBIT*</b>	<b>(12,652)</b>	<b>(11,120)</b>	<b>20,026</b>	<b>13,108</b>	<b>37,438</b>
Net Interest	1,289	2,256	2,507	3,108	4,614
<b>Pre-Tax Profit*</b>	<b>(11,363)</b>	<b>(8,864)</b>	<b>22,533</b>	<b>16,216</b>	<b>42,051</b>
Tax Expense	0	0	2,347	1,707	2,257
Minorities	0	0	0	0	0
<b>NPAT Adj.*</b>	<b>(11,363)</b>	<b>(8,864)</b>	<b>22,533</b>	<b>16,216</b>	<b>44,308</b>
<i>Growth (pcp)</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>-28.0%</i>	<i>173.2%</i>
Net Adjustments	(3,700)	(2,442)	(2,353)	(6,370)	6,368
<b>Reported Profit</b>	<b>(15,063)</b>	<b>(11,306)</b>	<b>20,180</b>	<b>9,846</b>	<b>50,676</b>

PER SHARE DATA					
Period	FY05A	FY06A	FY07A	FY08E	FY09E
<b>Adjusted EPS (c) *</b>	<b>(9.2)</b>	<b>(5.4)</b>	<b>12.5</b>	<b>8.8</b>	<b>24.2</b>
<i>Growth (pcp)</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>-29.3%</i>	<i>173.2%</i>
<b>Reported EPS (c)</b>	<b>(12.2)</b>	<b>(6.9)</b>	<b>11.2</b>	<b>5.4</b>	<b>27.7</b>
<i>Growth (pcp)</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>-52.0%</i>	<i>414.7%</i>
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(9.3)	(3.9)	9.6	8.3	9.1
NTA per share (c)	21.1	28.5	32.2	43.0	84.0

VALUATION MULTIPLES					
Period	FY05A	FY06A	FY07A	FY08E	FY09E
Adjusted PE Ratio (x)*	n/a	n/a	11.3	16.0	5.9
PE Ratio (x)	n/a	n/a	12.6	26.3	5.1
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITD (x)	(21.7)	(23.5)	8.7	10.6	3.3
EV/EBIT (x)	(18.7)	(19.3)	9.9	14.3	3.7

CAPITAL RAISING ASSUMPTIONS					
Period	FY05A	FY06A	FY07A	FY08E	FY09E
Shares Issued (m)	n/a	41.0	0.0	0.0	0.0
Issue Price (A\$)	n/a	0.76	0.0	0.0	0.0
Cash Raised (A\$m)	n/a	31.0	0.0	0.0	0.0

KEY RATIOS					
Period	FY05A	FY06A	FY07A	FY08E	FY09E
EBITD/Sales Margin %	-233.4%	-67.7%	37.6%	22.4%	56.5%
EBIT/Sales Margin %	-250.6%	-74.3%	34.9%	18.0%	51.8%
Current ratio (x)	6.3	4.9	5.3	7.5	8.4
Net Debt: Equity (%)	-92.7%	-98.5%	-86.9%	-81.8%	-95.6%
ROE (%)	-43.6%	-18.9%	38.1%	20.0%	40.4%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

\* Excluding litigation expense, HCV/RSV license upfront/milestone payments, FITB (ex FY09)

BALANCE SHEET SUMMARY (A\$'000)					
Period	FY05A	FY06A	FY07A	FY08E	FY09E
Cash	24,753	46,183	62,156	73,820	123,524
Receivables	972	5,864	9,350	11,676	11,560
Inventories	0	0	0	0	0
Other	0	0	0	0	0
<b>Total Current Assets</b>	<b>25,725</b>	<b>52,047</b>	<b>71,506</b>	<b>85,496</b>	<b>135,085</b>
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Property Plant & Equip	4,702	5,512	5,152	7,364	6,891
Intangibles	0	0	13,447	11,526	9,605
Deferred Tax Assets	0	0	2,349	4,054	0
Other	0	0	0	0	0
<b>Total Non-Current Assets</b>	<b>4,702</b>	<b>5,512</b>	<b>20,948</b>	<b>22,944</b>	<b>16,496</b>
<b>TOTAL ASSETS</b>	<b>30,427</b>	<b>57,559</b>	<b>92,454</b>	<b>108,440</b>	<b>151,581</b>
Accounts Payable	3,171	4,034	6,004	7,298	10,838
Borrowings	366	0	0	0	0
Provisions	556	516	1,097	699	1,353
Other (Inc Def Rev)	0	6,011	6,457	3,418	3,851
<b>Total Current Liab</b>	<b>4,093</b>	<b>10,561</b>	<b>13,558</b>	<b>11,414</b>	<b>16,042</b>
Borrowings	366	0	0	0	0
Provisions	40	100	6,339	6,339	6,339
Other (Inc Def Rev)	0	0	1,022	433	0
<b>Total Non-Current Liab</b>	<b>298</b>	<b>100</b>	<b>7,361</b>	<b>6,772</b>	<b>6,339</b>
<b>TOTAL LIABILITIES</b>	<b>4,391</b>	<b>10,661</b>	<b>20,919</b>	<b>18,186</b>	<b>22,381</b>
<b>TOTAL EQUITY</b>	<b>26,036</b>	<b>46,898</b>	<b>71,535</b>	<b>90,254</b>	<b>129,200</b>

CASH FLOW SUMMARY (A\$'000)					
Period	FY05A	FY06A	FY07A	FY08E	FY09E
<b>EBIT (excl Abs/Extr)</b>	<b>(12,652)</b>	<b>(11,120)</b>	<b>20,026</b>	<b>13,108</b>	<b>37,438</b>
Add: Depreciation	867	986	1,228	1,288	1,473
Amortisation	0	0	317	1,921	1,921
Change in Pay.	(78)	863	1,970	1,294	3,540
Less: Tax paid	0	0	2,347	1,707	2,257
Net Interest	1,289	2,256	2,507	3,108	4,614
Change in Rec.	(361)	(5,374)	(3,486)	(2,326)	116
Change in Prov.	(568)	(20)	(6,820)	398	(654)
Change in FITB	0	0	(2,349)	(1,705)	0
Change in Inv.	0	0	0	0	0
Change in Def. Rev.	0	6,011	1,468	(3,628)	0
<b>Gross Cashflows</b>	<b>(11,503)</b>	<b>(6,398)</b>	<b>17,208</b>	<b>15,164</b>	<b>50,704</b>
Capex	(4,323)	(1,985)	(893)	(3,500)	(1,000)
<b>Free Cashflows</b>	<b>(15,826)</b>	<b>(8,383)</b>	<b>16,315</b>	<b>11,664</b>	<b>49,704</b>
Dividends Paid	0	0	0	0	0
<b>Net Cash Flow</b>	<b>(15,826)</b>	<b>(8,383)</b>	<b>16,315</b>	<b>11,664</b>	<b>49,704</b>

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