



21 February 2008

Biota Holdings Limited (BTA)

Speculative Buy

Reports 1H NPAT of \$5.5m; 5% Buy-Back Sends the Right Signals

\$1.26

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+61 2 9232 1688**Key Points from 1H08 Result**

Relenza™ royalties of \$16.4m up, 29.9% on pcp and in line with estimates with litigation expense of \$8.6m, 14.1% ahead of estimates.

PBT of \$7.5m, 7.4% ahead of estimates and up 83.8% on pcp, with reported NPAT of \$5.5m up 35.0% on pcp.

Closing cash of \$52m, representing net cash burn of \$9.7m which is expected to reverse strongly in 2H via Relenza™ royalty payment.

Announced an on-market share buy-back of up to 5% of its issued capital over the next 12 months (please see impt disclaimer).

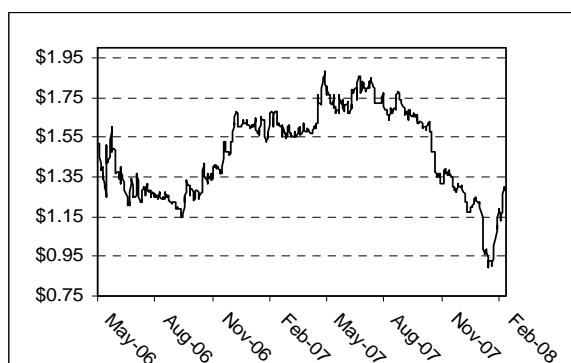
Summary

Market Capitalisation (M)	\$240.0
Share Price	\$1.26
Shares on Issue (M)	183.3
52 Week High	\$1.93
52 Week Low	\$0.85
Valuation Per Share (fully diluted)	\$2.20
12 Month Price Target	\$2.20
Cash (M) as at 31/12/07	\$52.4

Key Financials (A\$'000)

Year End	FY07 Actual	1H08 Actual	FY08 Est.
Relenza Royalties	39,789	16,483	43,970
Partnering Income*	5,726	4,645	5,503
Total Revenue	57,300	30,370	71,351
Litigation Expense	(10,426)	(8,561)	(15,000)
Total Op. Expenses	(29,724)	(16,637)	(41,606)
R&D Expenses	(8,198)	(4,656)	(11,445)
EBITDA	16,871	7,268	14,819
Adj. NPAT**	12,929	5,524	10,166
Reported Profit	20,180	5,524	10,166
Adj. EPS (c)	7.2	3.0	5.6
Reported EPS (c)	11.2	3.0	5.6
Adj. PE Ratio (x)	17.6	n/a	22.4

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

Share Price Graph (A\$)**Our View**

- Biota has reported a strong 1H NPAT of \$5.5m driven primarily by increased Relenza™ royalties and a \$3.4m milestone payment from MedImmune for the RSV phase 1 trial. Aside from the level of Relenza™ royalties (TC est. \$44m for FY08), in our view the second swing factor for FY08 earnings is the timing of the HRV Phase 2 clinical trial costs and R&D expense. Following a management call, we believe we are still too heavy on our 2H product development and R&D expense estimates and have revised them both down by 13.3% and 21.0%, respectively. We note Biota intends taking a very conservative view to utilising tax losses and attributable income tax benefits, and as such we will continue to recognise income tax expense. Realistically, it would make sense for Biota to utilise such losses in the event of a commercial outcome with GSK.
- While a buy-back may be unusual for an Australian drug developer, we view the decision as a prudent use of cash and an implicit endorsement on the outlook for more sustainable Relenza™ royalties to 2014 in light of very positive macro market developments, which has seen the stock rebound strongly off its lows. Further, it provides some degree of management confidence leading into the pending mediation or trial (early 3Q CY08) with GSK and more particularly an acknowledgement the stock is undervalued at current levels despite excellent progress to date in RSV, LANI and HRV clinical trials. Examining Biota's business model, in our view a share buy-back at this time makes sense given the level of partnered programs (HCV, RSV), and offsetting government grants (LANI, FLUNET) with only one program, HRV Phase 2, and more elementary R&D without an offsetting revenue component. Biota expects to partner with pharmaceutical majors for both LANI (ex Japan) and HRV, following Phase 2 clinical trials.
- We are forecasting a revised FY08 NPAT of \$10.2 million, down 9.8% on our previous forecast. We have re-stated our estimates on a tax-effected basis, no longer adjusting for litigation and commercial milestones, which we see as core to Biota's business model of partnering with big pharma and therefore recurring in nature. The outlook for Biota remains solid, particularly given the pending mediation and court case, an expected UK stockpiling order and the commencement of the share buy back (TC est. EPS accretive by 0.1cps in FY08, 0.4 cps in FY09). We continue with our Speculative Buy recommendation and price target of \$2.20.

Biota Holdings Limited - Summary of Forecasts

BTA \$1.26

PROFIT & LOSS SUMMARY (A\$'000)						
Period	FY06A	1H07A	FY07A	1H08A	FY08E	FY09E
Relenza Royalties	5,189	12,690	39,789	16,483	43,970	48,594
Partnering (License) Income	2,243	2,447	5,726	4,645	5,503	9,096
Research income (inc Grants)	4,021	3,570	8,740	7,273	18,117	9,167
Total Revenue	14,967	20,223	57,300	30,370	71,351	71,799
<i>Growth (pcp)</i>	196.4%	594.5%	282.8%	0.0%	24.5%	0.6%
Net Operating Revenue	(2,347)	8,753	27,576	13,733	29,745	48,273
R&D Expenses	(7,685)	(3,926)	(8,198)	(4,656)	(11,445)	(12,167)
EBITDA	(12,288)	3,534	16,871	7,268	14,819	31,380
Depreciation	(986)	(551)	(1,228)	(436)	(1,288)	(1,473)
Amortisation	0	0	(317)	(1,121)	(2,990)	(3,304)
EBIT	(13,274)	2,983	15,326	5,711	10,541	26,603
Net Interest	2,256	1,108	2,507	1,809	3,481	4,726
Pre-Tax Profit	(11,018)	4,091	17,833	7,520	14,022	31,329
Tax Expense	0	(1,125)	(4,904)	(1,996)	(3,856)	(8,616)
Minorities	0	0	0	0	0	0
NPAT Adj*	(11,018)	2,966	12,929	5,524	10,166	22,714
<i>Growth (pcp)</i>	n/a	n/a	n/a	86.2%	-21.4%	123.4%
Net Adjustments	(2,442)	1,125	7,251	0	0	0
Reported Profit	(13,460)	4,091	20,180	5,524	10,166	22,714

PER SHARE DATA						
Period	FY06A	1H07A	FY07A	1H08A	FY08E	FY09E
Adjusted EPS (c) *	(6.7)	1.7	7.2	3.0	5.6	13.0
<i>Growth (pcp)</i>	n/a	n/a	n/a	n/a	-21.5%	131.6%
Reported EPS (c)	(8.2)	2.3	11.2	3.0	5.6	13.0
<i>Growth (pcp)</i>	n/a	n/a	n/a	32.5%	-49.7%	131.6%
Dividend (c)	0.0	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%	0%
Gross CF per Share (c)	(5.2)	(2.3)	2.9	(4.8)	6.7	13.9
NTA per share (c)	28.5	28.5	32.2	35.5	38.8	74.1

VALUATION MULTIPLES						
Period	FY06A	1H07A	FY07A	1H08A	FY08E	FY09E
Adjusted PE Ratio (x)*	n/a	n/a	17.6	n/a	22.4	9.7
PE Ratio (x)	n/a	n/a	11.2	n/a	22.4	9.7
Dividend Yield (%)	0.0%	n/a	0.0%	n/a	0.0%	0.0%
EV/EBITDA (x)	(14.8)	n/a	9.8	n/a	10.8	4.5
EV/EBIT (x)	(13.7)	n/a	10.8	n/a	15.2	5.3

CAPITAL RAISING ASSUMPTIONS						
Period	FY06A	1H07A	FY07A	1H08A	FY08E	FY09E
Shares Issued (m)	41.0	0.0	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.76	0.00	0.0	0.0	0.0	0.0
Cash Raised (A\$m)	31.0	0.0	0.0	0.0	0.0	0.0

KEY RATIOS						
Period	FY06A	1H07A	FY07A	1H08A	FY08E	FY09E
EBITD/Sales Margin %	-82.1%	17.5%	29.4%	23.9%	20.8%	43.7%
EBIT/Sales Margin %	-88.7%	14.8%	26.7%	18.8%	14.8%	37.1%
Current ratio (x)	4.9	4.6	5.3	5.4	8.0	9.4
Net Debt : Equity (%)	-98.5%	-81.7%	-86.9%	-67.6%	-83.9%	-89.0%
ROE (%)	-23.5%	n/a	21.8%	n/a	13.4%	25.4%
Dividend Payout Ratio (%)	0.0%	n/a	0.0%	n/a	0.0%	0.0%

* 1H07 and FY07 are Tax effected, excluding FITB

BALANCE SHEET SUMMARY (A\$'000)							
Period	FY06A	1H07A	FY07A	1H08A	FY08E	FY09E	
Cash	46,183	41,941	62,156	52,481	67,515	87,678	
Receivables	5,864	19,824	9,350	28,423	12,130	13,642	
Inventories	0	0	0	0	0	0	
Other	0	0	0	0	0	0	
Total Current Assets	52,047	61,765	71,506	80,904	79,645	101,319	
Investments	0	0	0	0	0	0	
Inventories	0	0	0	0	0	0	
Property Plant & Equip	5,512	5,270	5,152	5,412	7,364	6,891	
Intangibles	0	0	13,447	12,646	10,457	7,153	
Deferred Tax Assets	0	0	2,349	353	343	500	
Other	0	0	0	0	0	0	
Total Non-Current Assets	5,512	5,270	20,948	18,411	18,164	14,544	
TOTAL ASSETS	57,559	67,035	92,454	99,315	97,809	115,863	
Accounts Payable	4,034	5,242	6,004	4,630	7,135	7,180	
Borrowings	0	0	0	0	0	0	
Provisions	516	574	1,097	686	1,357	1,341	
Other (inc Def Rev)	6,011	7,630	6,457	9,791	1,507	2,274	
Total Current Liab	10,561	13,446	13,558	15,107	9,999	10,795	
Borrowings	0	0	0	0	0	0	
Provisions	100	0	6,339	6,546	6,546	6,546	
Other (inc Def Rev)	0	2,279	1,022	0	767	0	
Total Non-Current Liab	100	2,279	7,361	6,546	7,313	6,546	
TOTAL LIABILITIES	10,661	15,725	20,919	21,653	17,311	17,341	
TOTAL EQUITY	46,898	51,310	71,535	77,662	80,498	98,522	

CASH FLOW SUMMARY (A\$'000)						
Period	FY06A	1H07A	FY07A	1H08A	FY08E	FY09E
EBIT (excl Abs/Extr)	(13,274)	2,983	15,326	5,711	10,541	26,603
Add: Depreciation	986	551	1,228	436	1,288	1,473
Amortisation	0	0	317	1,121	2,990	3,304
Change in Pay.	863	1,208	1,970	(1,374)	1,131	45
Less: Tax paid	0	0	(4,904)	(1,996)	(3,856)	(8,616)
Net Interest	2,256	1,108	2,507	1,809	3,481	4,726
Change in Rec.	(5,374)	(13,960)	(3,486)	(19,073)	(2,780)	(1,512)
Change in Prov.	(20)	42	(6,820)	204	(467)	15
Change in Def Tax Assets	0	0	(2,349)	1,996	2,006	(157)
Change in Inv.	0	0	0	0	0	0
Change in Def. Rev.	6,011	3,898	1,468	2,312	(5,205)	0
Gross Cashflows	(8,552)	(4,170)	5,257	(8,854)	12,119	29,186
Capex	(1,985)	(379)	(893)	(1,023)	(3,500)	(1,000)
Free Cashflows	(10,537)	(4,549)	4,364	(9,877)	8,619	28,186
Re-Purchase of Shares**	0	0	0	0	(3,462)	(8,024)
Net Cash Flow	(10,537)	(4,549)	4,364	(9,877)	5,157	20,162

** Biota announced an on market buy-back of up to 5% (9.17m shares) of its issued capital commencing 10 mar 08

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