

20 February 2008



### Investment Data

Share Price (\$)	1.265
Ord Shares (m)	183.33
Market Cap (\$m)	216.3
Enterprise Value (\$m)	154.2
Options (m)	1.0
Net Cash (Dec 2007)(\$m)	52.5
Avg daily vol (3 mths)	391,700
52 week Low/High (\$)	0.85/1.925
NAV/share (Dec 2007)	\$0.42
NTA/share (Dec 2007)	\$0.35

### Major Shareholders

Hunter Hall	5.2%
Alleron Investment	5.1%

Note: Alleron emerged as a substantial shareholder on 8 Feb 2008, followed a few days later by Hunter Hall. Alleron is an associate of Ascalon, a member of St George Bank.

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## Signalling Undervalued Status With Buyback

- **Biota plans to buy back up to 5% (or 9.2m) of its shares, which would cost about \$12m based on the current price.** Management said the stock is undervalued and it is also confident of its forward cash position. Debt-free Biota has \$52.5m cash as at 31 Dec 2007. Its net operating cash outflow more than doubled to \$8.7m, because of higher cost of its legal action against GSK and R&D and product development costs. Biota expects "very strong operating cashflow in 2H08 from the receipt of Relenza royalties" and to be "at least cash neutral for the year overall." (It ended FY07 with \$62m cash.)

- **Biota's pretax profit surged 84% to \$7.52m in 1H08 as revenue climbed 49% to \$30.4m.** Relenza royalties grew 30% to \$16.5m while income from collaboration projects jumped 63% to \$9.6m, including a \$3.4m milestone payment for its Respiratory Syncytial Virus (RSV) drug program.

- The results were broadly in line with our expectation. However, **Biota's growth at the bottom line was a lower 35%, to \$5.5m, following a \$2m tax charge (26% effective tax rate), compared with none in 1H07.** Most of the tax adjustments for claims and deferred tax assets are normally made at year-end accounts.

- **Biota's legal costs rose to \$8.6m from \$7m in 2H07 and \$3.4m a year ago. Management expects full-year cost to be \$15-16m, subject to the timing of further development.** A mediation meeting is expected by 31 July 2008, with the trial scheduled for 4 Aug 2008. Excluding the legal cost, Biota's cash expenses were flat at \$12.8m. Most its variable costs on R&D and product development are reimbursed under licensee programs.

- We have lowered our pretax profit estimates for FY08 and FY09 by 5%, mostly due to higher legal costs estimates and have imputed tax rates of 11% and 12% for the two years respectively. **We maintain our \$1.48/share valuation of Biota, based on a 1.0x price/book multiple, which excludes potential premium arising from the progress in its product pipeline that includes 3 programs at the clinical stage. A successful claim outcome could offer another \$0.52 upside. Biota remains a Speculative Buy.**

YE June (\$m)	1H07	2H07	2007	1H08	2008F	2009F
Revenue	20.41	36.89	57.30	30.37	62.26	52.88
Expenses	(16.20)	(22.65)	(38.85)	(22.51)	(45.68)	(36.74)
Pretax profit	4.09	13.74	17.83	7.52	15.89	15.44
<b>Net profit</b>	<b>4.09</b>	<b>16.09</b>	<b>20.18</b>	<b>5.52</b>	<b>14.16</b>	<b>13.51</b>
Dil EPS (¢)	2.25		11.10	2.90	8.08	7.71
EPS growth			n/a		-27%	-5%
PER (x)			11.4		15.6	16.4
DPS (¢)			-		-	-

**BIOTA : EARNINGS SUMMARY & VALUATION**

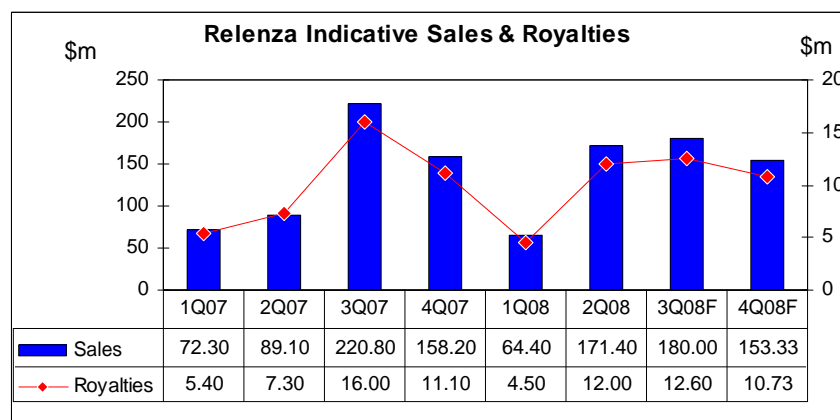
Shr price: \$1.265  
 No. shares (m): 183.3  
 Mkt Cap (\$m): 231.9  
 Net cash (Dec 2007) (\$m): 52.5  
 Enterprise value (\$m): 179.4

YE June (\$m)	1H07	2H07	2007	1H08	YOY	2008F	2009F
<b>Relenza sales</b>							
Mil of courses	6.46	16.00	22.46	10.61	64%	25.61	20.88
Official px/course (US\$)			21.72				
Assumed px/course(US\$)			20.00			20.00	20.00
US\$:A\$			0.80			0.90	0.90
Unit price (\$)	25.00	25.00	25.00	22.22		22.22	22.22
Gross sales (\$m)	161.40	400.00	561.40	235.80	46%	569.13	464.00
Royalty rate	7.9%	6.8%	7.1%	7.0%		7.0%	7.0%
Royalties	12.69	27.10	39.79	16.48	30%	39.82	32.48
<b>Relenza Royalties</b>							
Pandemic market	12.69	27.10	39.79	16.48		39.82	4.48
Seasonal market	-	-	-	-		-	28.00
Total	12.69	27.10	39.79	16.48	30%	39.82	32.48
<b>Collaboration Income</b>							
Research revenues*	3.43	3.84	7.27	4.92	43%	9.92	10.50
Partnering income #	2.45	3.28	5.73	1.23	-50%	2.73	4.00
Milestone payment @	-	-	-	3.42	n/a	3.42	-
Total	5.88		13.00	9.56		16.06	14.50
Interest income	1.29	1.21	2.51	1.81	40%	3.61	4.20
Diagnostic profit share	0.41	0.13	0.54	0.12	-71%	0.32	0.30
Grants, others	0.14	1.33	1.47	2.40		2.46	2.00
<b>Total revenues/ income</b>	<b>20.41</b>	<b>36.89</b>	<b>57.30</b>	<b>30.37</b>	<b>49%</b>	<b>62.26</b>	<b>53.48</b>
% from Relenza	62%	73%	69%	54%		64%	61%
<b>Expenses</b>							
GSK litigation	(3.40)	(7.02)	(10.43)	(8.56)	152%	(16.00)	(1.00)
Others	(12.80)	(15.63)	(28.43)	(13.94)	9%	(29.68)	(35.74)
Total	(16.20)	(22.65)	(38.85)	(22.51)	39%	(45.68)	(36.74)
EBITDA	3.52	13.97	17.49	7.61	116%	16.15	16.18
Depreciation	(0.61)	(0.94)	(1.55)	(1.56)	157%	(3.18)	(3.64)
EBIT	2.92	13.03	15.94	6.06	108%	12.97	12.54
Net interest income	1.18	0.71	1.89	1.46	25%	2.91	3.50
Pretax profit	4.09	13.74	17.83	7.52	84%	15.89	16.04
Tax	-	2.35	2.35	(2.00)	n/a	(1.73)	(2.06)
<b>Net profit</b>	<b>4.09</b>	<b>16.09</b>	<b>20.18</b>	<b>5.52</b>	<b>35%</b>	<b>14.16</b>	<b>13.97</b>
Tax rate	n/a	n/a	n/a	27%		11%	13%
No shares (m)	180.0		182.7	183.3		174.2	174.2
Wtd avg no shares (m)	179.8		180.2	183.2		180.3	174.2
Diluted no shares (m)	181.9		181.8	190.1		175.2	175.2
Dil EPS (¢)	2.2		11.1	2.9		8.1	8.0
EPS growth			n/a	29%		-27%	-1%
PER (x)			11.4			15.6	15.9
EV/EBITDA (x)			10.3			11.1	11.1

\* Fees for services on the RSV and HCV collaboration deals.

# Amortisation of initial payments on the RSV and HCV deals.

@ US\$3m milestone payment received in 1Q08 under the RSV program.



**Biota : Product Pipeline**

	In-house		Licensed		In-market
	LANI*	HRV	RSV	HCV	
Marketed					Relenza
Late Clinical					
Early Clinical	Started Phase II in Nov 07 Completed Phase I in Apr 07	To start Phase IIa by end-FY08 Completed Phase I in Mar 07	Started Phase I in Jul 07. Received US\$3m milestone payment in 1Q08		
Pre-clinical					
Lead					
Late discovery			Licensed to MedImmune in Dec 05	Licensed in Nov 06 to Boehringer Ingelheim	

Note: LANI - Long Acting Neuraminidase Inhibitor (co-owned with Daiichi-Sankyo), a potential replacement for zanamivir (Relenza); HRV - Human Rhinovirus; RSV - Respiratory Syncytial Virus; HCV (Hepatitis C Virus).

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