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# Biota Holdings Limited (BTA)

Speculative Buy

GSK 3Q08 Relenza™ Sales of £29 Million a Timing Issue

\$1.10

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## Key Points

GlaxoSmithKline (GSK) has reported 3Q08 Relenza™ sales of £29m (A\$63.4m), down sharply on 2Q08 and 68.4% on pcp.

3Q08 US, European and International sales of £8m (A\$17.5m), £0m and £21m (A\$45.9m), respectively.

Biota recognised A\$4.4m in 3Q08 royalties, down 63.3% on 2Q08.

## Summary

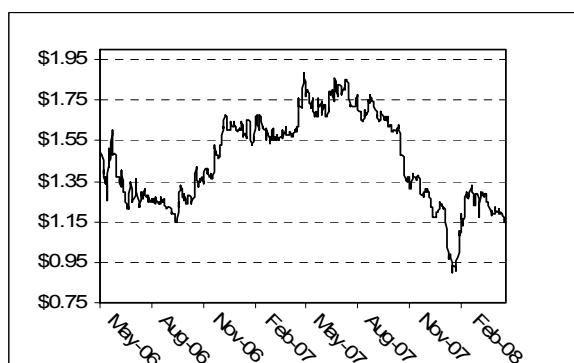
Market Capitalisation (M)	\$201.2
Share Price	\$1.10
Shares on Issue (M)	182.9
52 Week High	\$1.93
52 Week Low	\$0.85
Valuation Per Share (fully diluted)	\$2.00
12 Month Price Target	\$2.00
Cash (M) as at 31/12/07	\$52.5

## Key Financials (A\$'000)

Year End	FY06 Actual	FY07 Actual	FY08 Est.
Relenza Royalties	5,189	39,789	31,890
Partnering Income*	2,243	5,726	5,503
<b>Total Revenue</b>	<b>14,967</b>	<b>57,300</b>	<b>59,271</b>
Litigation Expense	(4,397)	(10,426)	(15,000)
Total Op. Expenses	(17,314)	(29,724)	(41,606)
R&D Expenses	(7,685)	(8,198)	(11,445)
<b>EBITDA</b>	<b>(12,288)</b>	<b>16,871</b>	<b>2,739</b>
Adj. NPAT	(11,018)	12,929	2,003
<b>Reported Profit</b>	<b>(13,460)</b>	<b>20,180</b>	<b>2,003</b>
Adj. EPS (c)	(6.7)	7.2	1.1
Reported EPS (c)	(8.2)	11.2	1.1
<b>Adj. PE Ratio (x)</b>	<b>n/a</b>	<b>15.3</b>	<b>99.1</b>

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

## Share Price Graph (A\$)

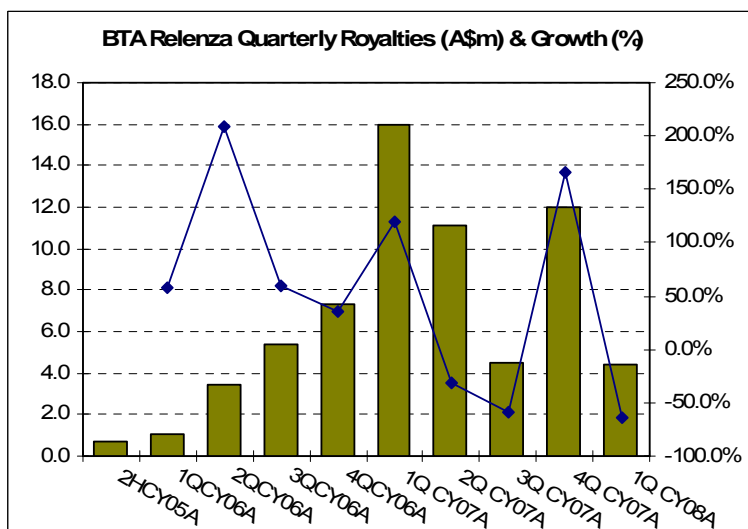
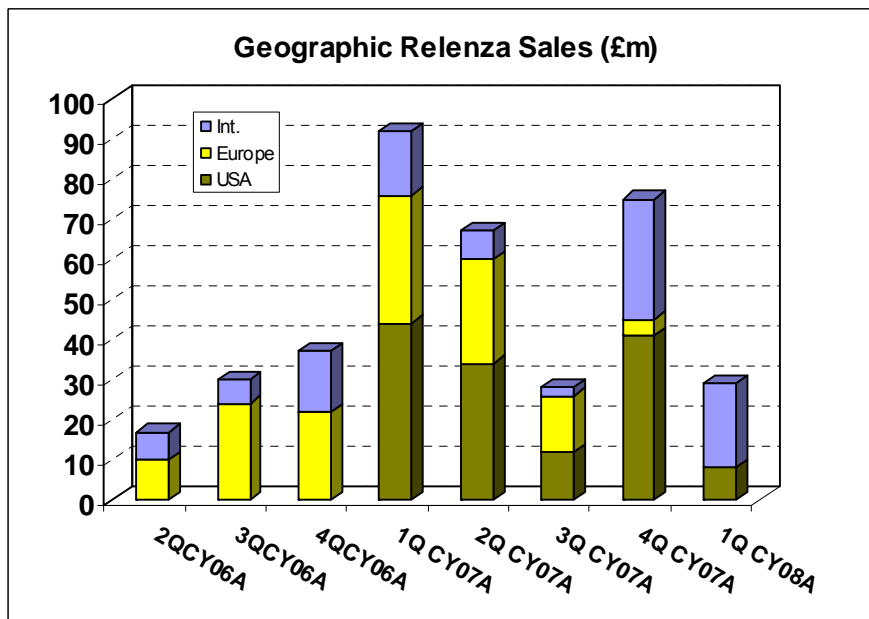
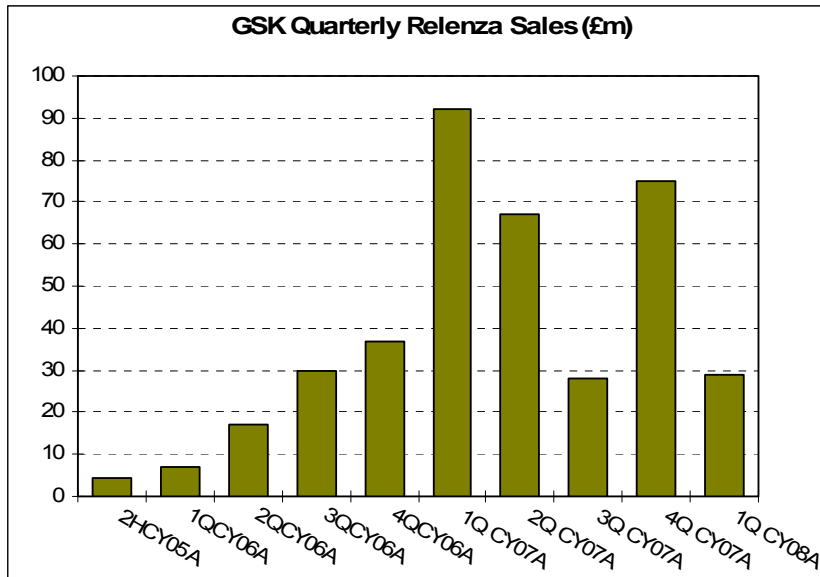


## Our View

- GSK Relenza™ guidance to date has been relatively consistent. At the 2Q08 call, GSK indicated Relenza™ CY08 sales trends would continue (CY07 sales £262m), with ongoing discussions with many governments and large countries for pandemic preparations. During the recent 3Q08 call, GSK indicated the low level Relenza™ sales for the Q were due to variability in the timing of tender orders from government stockpiling. We were also somewhat comforted by GSK comments that Relenza™ sales for the 3Q08 were very low relative to any reasonable expectation for the CY08. For these reasons, we are anticipating a sizeable rebound in Relenza™ sales, particularly for Europe in 4Q08.
- The US sales figure of £8m was very disappointing in light of the major influenza season observed in the US, the ineffectiveness of the seasonal vaccine, and the significant resistance issues that emerged with Tamiflu® (zero resistance to Relenza™ observed). Paradoxically, Roche reported an increase of CHF114m in seasonal Tamiflu® sales for 3Q08 which was equated directly to increased US seasonal demand. From US government stockpiling, we believe there is at least 3m treatment courses of Relenza™ yet to be delivered, equating to ~\$5.5m in royalties for Biota. The £21m in ROW sales is strongly suggestive of seasonal use in Japan, given we have tracked no further government orders ex US and Europe over the last several quarters and fulfilment of existing orders. According to IMS data, Japan typically accounts for >66% of international seasonal influenza sales. In contrast to GSK, Chugai Pharmaceutical Co reported 3Q08 Japanese seasonal sales of Tamiflu® at US\$12.6m, down 73.5% on pcp and pandemic orders of just US\$2.0m down 98.9% on pcp. We believe GSK has gained significant traction in this market with Relenza™ because of Tamiflu® safety concerns.

- As Biota receives royalties on an April FY, we anticipate the Company will receive a minimum \$28.8m cash from GSK for Relenza™ during FY08. As a result of the softer than anticipated Relenza™ number, we have downgraded our FY08 Relenza™ royalty estimates by 27.5% to \$31.9m and FY09 estimates by 17.0% to \$40.3m, resulting in revised NPAT of \$2.0m (FY08) and \$16.6m (FY09). We note the sensitivity of our FY09 Relenza™ estimates to additional govt stockpiling orders, mostly European (80.6% of total) with FY09 NPAT estimates also sensitive to additional litigation expenses should the case against GSK go to trial. Despite the downgrade in revenue and NPAT estimates, we continue with our Speculative Buy recommendation and revised price target of \$2.00 (\$2.20 previous) noting major clinical inflexion points (LANI Phase 2b data) and commencement of mediation with GSK possible during late 4Q08 and into 1Q09.

## GSK Quarterly For Relenza™ - Graphic Summary



## Biota Holdings Limited - Summary of Forecasts

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PROFIT & LOSS SUMMARY (A\$'000)				
	FY06A	FY07A	FY08E	FY09E
Relenza Royalties	5,189	39,789	31,890	40,332
Partnering (License) Income	2,243	5,726	5,503	9,096
Research income (inc Grants)	4,021	8,740	18,117	9,167
<b>Total Revenue</b>	<b>14,967</b>	<b>57,300</b>	<b>59,271</b>	<b>62,870</b>
<i>Growth (pcp)</i>	196.4%	282.8%	3.4%	6.1%
<b>Net Operating Revenue</b>	<b>(2,347)</b>	<b>27,576</b>	<b>17,665</b>	<b>39,344</b>
R&D Expenses	(7,685)	(8,198)	(11,445)	(12,167)
<b>EBITDA</b>	<b>(12,288)</b>	<b>16,871</b>	<b>2,739</b>	<b>23,118</b>
Depreciation	(986)	(1,228)	(1,288)	(1,473)
Amortisation	0	(317)	(2,169)	(2,743)
<b>EBIT</b>	<b>(13,274)</b>	<b>15,326</b>	<b>(718)</b>	<b>18,902</b>
Net Interest	2,256	2,507	3,481	4,059
<b>Pre-Tax Profit</b>	<b>(11,018)</b>	<b>17,833</b>	<b>2,763</b>	<b>22,962</b>
Tax Expense	0	(4,904)	(760)	(6,315)
Minorities	0	0	0	0
<b>NPAT Adj*</b>	<b>(11,018)</b>	<b>12,929</b>	<b>2,003</b>	<b>16,647</b>
<i>Growth (pcp)</i>	n/a	n/a	-84.5%	731.0%
Net Adjustments	(2,442)	7,251	0	0
<b>Reported Profit</b>	<b>(13,460)</b>	<b>20,180</b>	<b>2,003</b>	<b>16,647</b>

PER SHARE DATA				
Period	FY06A	FY07A	FY08E	FY09E
<b>Adjusted EPS (c) *</b>	<b>(6.7)</b>	<b>7.2</b>	<b>1.1</b>	<b>9.6</b>
<i>Growth (pcp)</i>	n/a	n/a	-84.5%	761.4%
<b>Reported EPS (c)</b>	<b>(8.2)</b>	<b>11.2</b>	<b>1.1</b>	<b>9.6</b>
<i>Growth (pcp)</i>	n/a	n/a	-90.1%	761.4%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	(5.2)	2.9	1.2	13.4
NTA per share (c)	28.5	32.2	33.9	64.1

VALUATION MULTIPLES				
Period	FY06A	FY07A	FY08E	FY09E
Adjusted PE Ratio (x)*	n/a	15.3	99.1	11.5
PE Ratio (x)	n/a	9.8	99.1	11.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	(14.8)	9.8	62.1	6.7
EV/EBIT (x)	(13.7)	10.8	(237.1)	8.2

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

KEY RATIOS				
Period	FY06A	FY07A	FY08E	FY09E
EBITD/Sales Margin %	-82.1%	29.4%	4.6%	36.8%
EBIT/Sales Margin %	-88.7%	26.7%	-1.2%	30.1%
Current ratio (x)	4.9	5.3	8.0	8.7
Net Debt : Equity (%)	-98.5%	-86.9%	-80.1%	-86.3%
ROE (%)	-23.5%	21.8%	2.8%	21.2%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

\* 1H07 and FY07 are Tax effected, excluding FITB

BALANCE SHEET SUMMARY (A\$'000)				
Period	FY06A	FY07A	FY08E	FY09E
Cash	46,183	62,156	57,991	73,110
Receivables	5,864	9,350	10,076	11,945
Inventories	0	0	0	0
Other	0	0	0	0
<b>Total Current Assets</b>	<b>52,047</b>	<b>71,506</b>	<b>68,067</b>	<b>85,055</b>
Investments	0	0	0	0
Inventories	0	0	0	0
Property Plant & Equip	5,512	5,152	7,364	6,891
Intangibles	0	13,447	11,278	8,536
Deferred Tax Assets	0	2,349	1,589	500
Other	0	0	0	0
<b>Total Non-Current Assets</b>	<b>5,512</b>	<b>20,948</b>	<b>20,232</b>	<b>15,927</b>
<b>TOTAL ASSETS</b>	<b>57,559</b>	<b>92,454</b>	<b>88,298</b>	<b>100,982</b>
Accounts Payable	4,034	6,004	5,927	6,287
Borrowings	0	0	0	0
Provisions	516	1,097	1,115	1,176
Other (Inc Def Rev)	6,011	6,457	1,507	2,274
<b>Total Current Liab</b>	<b>10,561</b>	<b>13,558</b>	<b>8,549</b>	<b>9,737</b>
Borrowings	0	0	0	0
Provisions	100	6,339	6,546	6,546
Other (Inc Def Rev)	0	1,022	767	0
<b>Total Non-Current Liab</b>	<b>100</b>	<b>7,361</b>	<b>7,313</b>	<b>6,546</b>
<b>TOTAL LIABILITIES</b>	<b>10,661</b>	<b>20,919</b>	<b>15,862</b>	<b>16,283</b>
<b>TOTAL EQUITY</b>	<b>46,898</b>	<b>71,535</b>	<b>72,436</b>	<b>84,699</b>

CASH FLOW SUMMARY (A\$'000)				
Period	FY06A	FY07A	FY08E	FY09E
<b>EBIT (excl Abs/Extr)</b>	<b>(13,274)</b>	<b>15,326</b>	<b>(718)</b>	<b>18,902</b>
Add: Depreciation	986	1,228	1,288	1,473
Amortisation	0	317	2,169	2,743
Change in Pay.	863	1,970	(77)	360
Less: Tax paid	0	(4,904)	(760)	(6,315)
Net Interest	2,256	2,507	3,481	4,059
Change in Rec.	(5,374)	(3,486)	(726)	(1,869)
Change in Prov.	(20)	(6,820)	(225)	(61)
Change in Def Tax Assets	0	(2,349)	760	1,089
Change in Inv.	0	0	0	0
Change in Def. Rev.	6,011	1,468	(5,205)	0
<b>Gross Cashflows</b>	<b>(8,552)</b>	<b>5,257</b>	<b>2,155</b>	<b>23,124</b>
Capex	(1,985)	(893)	(3,500)	(1,000)
<b>Free Cashflows</b>	<b>(10,537)</b>	<b>4,364</b>	<b>(1,345)</b>	<b>22,124</b>
Re-Purchase of Shares**	0	0	(3,022)	(7,005)
<b>Net Cash Flow</b>	<b>(10,537)</b>	<b>4,364</b>	<b>(4,367)</b>	<b>15,119</b>

\*\* 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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