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Biota Holdings Limited (BTA)

Speculative Buy

Searching for the Next Big Influenza Drug – LANI Phase 2b Trial Should Deliver

$1.03

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Summary

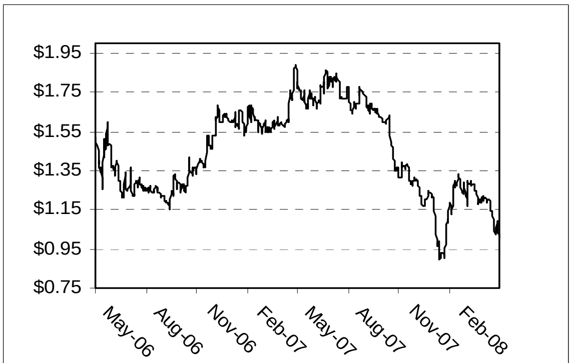
Market Capitalisation (M)	**$188.4**
Share Price	**$1.03**
Shares on Issue (M)	182.9
52 Week High	$1.93
52 Week Low	$0.85
Valuation Per Share (fully diluted)	**$2.00**
12 Month Price Target	$2.00
Cash (M) as at 31/12/07	**$52.5**

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
Total Revenue	**14,967**	**57,300**	**59,271**
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)
EBITDA	**(12,288)**	**16,871**	**2,739**
Adj. NPAT	(11,018)	12,929	2,003
Reported Profit	**(13,460)**	**20,180**	**2,003**
Adj. EPS (c)	(6.7)	7.2	1.1
Reported EPS (c)	(8.2)	11.2	1.1
Adj. PE Ratio (x)	n/a	**15.3**	**99.1**

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

Share Price Graph (A$)



Key Points

International Conference points to urgent need for new anti-viral drugs to treat influenza given Tamiflu® resistance.

LANI (CS-8958) Phase 2b efficacy trial in Japan conducted by Daiichi Sankyo due to report end 4Q08, early FY09.

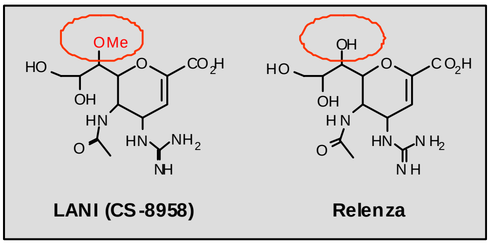
LANI best positioned anti-influenza drug in clinical development, with greatest prospects for clinical success.

Our View

- The International Consortium on Anti-Virals recently held a conference in Canada which indicated that up to 24% of H1N1 influenza in Canada showed resistance to Tamiflu® (67% in Norway, 10% in the USA). Scientists commented that an urgent need to develop new anti-virals was required. The World Health Organization also expects to update its guidelines for pandemic influenza by year's end, which we believe is in direct response to the significant Tamiflu® resistance that emerged in the Northern Hemisphere this year. Viral resistance remains a major threat in the influenza drug space. However, we note that no currently circulating strains have shown resistance to Relenza™ and no significant H5N1 resistance has yet emerged against Relenza™. We believe the best positioned anti-influenza drug in clinical development is Biota/Daiichi Sankyo's co-owned LANI (CS-8958), which will be a once a week, orally inhaled drug for both prophylaxis and treatment of influenza.

- We have examined the pre-clinical safety and efficacy of LANI versus Relenza™, from Daiichi Sankyo presentations. Single administration of LANI results in high efficacy for both prophylaxis and treatment in animal models of influenza, and is superior to that of Relenza™ across all parameters tested (inc. dose). Given the chemical similarities of the active form of LANI and Relenza™ (and their similarity to influenza's natural cellular target, sialic acid), our view is the drug has an excellent chance of success in the Japanese Phase 2b trials, which will report mid year.

LANI & Relenza – Very similar chemical structures



Source: Biota

- With significant teething problems for Biocryst's (Nasdaq: BCRX) peramivir and LANI Phase 2b results due mid year, Biota/Daiichi look to be in the box seat in the second generation influenza drug space. We expect on positive Phase 2b results, Daichii will exercise their option to the Japanese market, commence pivotal Phase 3 trials and file for approval in Japan by end CY09 (as per past guidance). We expect Biota will simultaneously seek a ROW license deal with a pharma major. We continue with our Speculative Buy recommendation and price target of $2.00.

Biota Holdings Limited - Summary of Forecasts BTA $1.03

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
Total Revenue	14,967	**57,300**	**59,271**	**62,884**
Growth (pcp)	196.4%	*282.8%*	*3.4%*	*6.1%*
Net Operating Revenue	(2,347)	**27,576**	**17,665**	**39,357**
R&D Expenses	(7,685)	(8,198)	(11,445)	(12,167)
EBITDA	**(12,288)**	**16,871**	**2,739**	**23,118**
Depreciation	(986)	(1,228)	(1,288)	(1,473)
Amortisation	0	(317)	(2,169)	(2,743)
EBIT	**(13,274)**	**15,326**	**(718)**	**18,902**
Net Interest	2,256	2,507	3,481	4,073
Pre-Tax Profit	**(11,018)**	**17,833**	**2,763**	**22,975**
Tax Expense	0	(4,904)	(760)	(6,318)
Minorities	0	0	0	0
NPAT Adj.*	**(11,018)**	**12,929**	**2,003**	**16,657**
Growth (pcp)	*n/a*	*n/a*	*-84.5%*	*731.5%*
Net Ajustments	(2,442)	7,251	0	0
Reported Profit	**(13,460)**	**20,180**	**2,003**	**16,657**

PER SHARE DATA				
Period	FY06A	FY07A	FY08E	FY09E
Adjusted EPS (c) *	**(6.7)**	**7.2**	**1.1**	**9.6**
Growth (pcp)	*n/a*	*n/a*	*-84.5%*	*761.9%*
Reported EPS (c)	**(8.2)**	**11.2**	**1.1**	**9.6**
Growth (pcp)	*n/a*	*n/a*	*-90.1%*	*761.9%*
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	34.0	64.5

VALUATION MULTIPLES				
Period	FY06A	FY07A	FY08E	FY09E
Adjusted PE Ratio (x)*	n/a	14.4	92.8	10.8
PE Ratio (x)	n/a	9.2	92.8	10.8
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	(236.9)	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	8.8
Net Debt : Equity (%)	-98.5%	-86.9%	-80.1%	-86.4%
ROE (%)	-23.5%	21.8%	2.8%	21.1%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

*FY07 is Tax effected, excluding FITB

BALANCE SHEET SUMMARY (A$'000)				
Period	FY06A	FY07A	FY08E	FY09E
Cash	46,183	62,156	58,183	73,756
Receivables	5,864	9,350	10,076	11,948
Inventories	0	0	0	0
Other	0	0	0	0
Total Current Assets	52,047	71,506	68,259	85,704
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
Total Non-Current Assets	5,512	20,948	20,232	15,927
TOTAL ASSETS	**57,559**	**92,454**	**88,490**	**101,631**
Accounts Payable	4,034	6,004	5,927	6,288
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
Total Current Liab	10,561	13,558	8,549	9,738
Borrowings	0	0	0	0
Provisions	100	6,339	6,546	6,546
Other (Inc Def Rev)	0	1,022	767	0
Total Non-Current Liab	100	7,361	7,313	6,546
TOTAL LIABILITIES	**10,661**	**20,919**	**15,862**	**16,284**
TOTAL EQUITY	**46,898**	**71,535**	**72,629**	**85,347**

CASH FLOW SUMMARY (A$'000)				
Period	FY06A	FY07A	FY08E	FY09E
EBIT (excl Abs/Extr)	**(13,274)**	**15,326**	**(718)**	**18,902**
Add: Depreciation	986	1,228	1,288	1,473
Amortisation	0	317	2,169	2,743
Change in Pay.	863	1,970	(77)	361
Less: Tax paid	0	(4,904)	(760)	(6,318)
Net Interest	2,256	2,507	3,481	4,073
Change in Rec.	(5,374)	(3,486)	(726)	(1,872)
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
Gross Cashflows	(8,552)	5,257	2,155	23,132
Capex	(1,985)	(893)	(3,500)	(1,000)
Free Cashflows	(10,537)	4,364	(1,345)	22,132
Re-Purchase of Shares**	0	0	(2,830)	(6,559)
Net Cash Flow	(10,537)	4,364	(4,175)	15,573

** 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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