

Biota Holdings (BTA)

Buy

Important: The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

No sneezing matter

BTA has developed a sustainable business model that, together with an expectation of solid newsflow, should see the share price move closer to our target over the next six months. We recommend Buy in anticipation of success in the clinic and potential licensing deals.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA (A\$m)	-12.6	16.6	-0.02	3.40	13.2
Reported net profit (A\$m)	-11.3	20.2	0.74	4.07	14.2
Normalised net profit (A\$m) ¹	-11.3	17.9	0.74	4.06	14.2
Normalised EPS (c) ¹	-6.28	9.94	0.43	2.38	8.31
Normalised EPS growth (%)	n/a	n/a	-95.6	448.9	249.4
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	n/m	10.5	240.1	43.8	12.5
EV/EBITDA (x)	n/m	6.96	n/m	33.0	7.40
Price/net oper. CF (x)	-24.4	8.92	21.2	27.0	11.3
ROIC (%)	n/a	1506.1	-22.3	10.6	400.2

1. Pre non-recurring items and post preference dividends
Accounting Standard: IFRS
Source: Company data, ABN AMRO Morgans forecasts

year to Jun, fully diluted

Newsflow to drive share price

We have identified a number of near-term catalysts that we believe, if achieved, will drive the share price closer to our A\$1.26 target price. Of most interest to us is the outcome from the upcoming mediation proceedings with GSK (July 2008), the results from the LANI Phase II trial (July 2008) and the start of the dosing stage of the Phase IIa challenge trial for HRV (3QCY08).

Relenza the key, but impressive pipeline following

Biota (BTA) developed a compound known as zanamivir that was subsequently marketed by GSK as Relenza. Relenza is used to treat seasonal influenza and is currently being stockpiled against possible pandemic outbreaks of avian influenza. BTA's development pipeline incorporates: 1) candidate drugs aimed at treatment of respiratory syncytial virus (RSV) disease, licensed to MedImmune Inc; 2) a potential treatment for hepatitis C virus (HCV) infections, licensed to Boehringer Ingelheim; 3) clinical trials are underway with its lead compound for human rhinovirus (HRV) infection in patients with compromised respiration or immune systems; and 4) a key partnership with Daiichi-Sankyo for the development of second generation influenza antivirals, known as long-acting neuraminidase inhibitor (LANI).

Valuation is sensitive to change in royalty rate

We have assumed no success in the legal case against GSK. Our valuation is most sensitive to changes in the royalty rate received from GSK. Every 1% change in the royalty rate alters our valuation by A\$0.13 per share. It is possible one of the outcomes to the legal case is a renegotiation of the royalty rate.

Initiate coverage with a Buy and A\$1.26 target price

We initiate coverage with a Buy recommendation and a DCF-based target price of A\$1.26. Risks to our target price include a delay in partnering key projects or failure to achieve key end points. Key strengths of the company include a solid and experienced management team, a strong cash position, and (most importantly) a diverse pipeline in pre-clinical and clinical-stage projects.

Important disclosures regarding companies that are the subject of this report and an explanation of recommendations and volatility can be found at the end of this document.

Priced at close of business 26 May 2008.

ABN AMRO Morgans Limited (A.B.N. 49 010 669 726) AFSL235410 A Participant of ASX Group

Absolute performance

n/a

Short term (0-60 days)

Pharmaceuticals & Biotechnology

Australia

Price

A\$1.04

Target price

A\$1.26

Market capitalisation

A\$177.84m (US\$170.95m)

Avg (12mth) daily turnover

A\$0.62m (US\$0.54m)

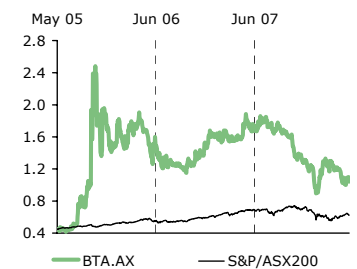
Reuters

BTA.AX

BTA80527

Price performance (1M) (3M) (12M)

	1M	3M	12M
Price (A\$)	1.1	1.3	1.7
Absolute %	-9.2	-21.8	-37.7
Rel market %	-11.1	-22.4	-31.8
Rel sector %	-11.0	-22.5	-31.0



Stock borrowing: **Hard onshore, Moderate offshore**

Volatility (30-day): 40.83%

Volatility (6-month trend): ↑

52-week range: 1.92-0.85

S&P/ASX200: 5707.00

BBG AP Pharm & Biotech: 147.98

Source: ABN AMRO, Bloomberg

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Introducing Biota

Listed in December 1985, Biota (BTA.AX) is a leading anti-infective drug development company based in Melbourne with expertise in respiratory diseases, particularly influenza. Biota developed the first-in-class neuraminidase inhibitor, zanamivir, subsequently marketed by GlaxoSmithKline as Relenza™. Relenza is used to treat seasonal influenza and is currently being stockpiled by various governments for defence against possible pandemic outbreaks of avian (bird) influenza.

BTA's development pipeline incorporates the following:

- A series of candidate drugs aimed at treatment of respiratory syncytial virus (RSV) disease, licensed to MedImmune Inc.
- A potential treatment for hepatitis C virus (HCV) infections, licensed to Boehringer Ingelheim.
- Clinical trials underway with its lead compound for human rhinovirus (HRV) infection in patients with compromised respiration or immune systems.
- A key partnership with Daiichi-Sankyo for the development of second generation influenza antivirals, known as long-acting neuraminidase inhibitor (LANI).

Key strengths

- **Diverse, pipeline targeting large markets** – BTA has a diverse pipeline of products that have been either licensed out to reduce expenditure or selectively moved into the clinic.
- **Solid out licensing track record** – BTA has currently out-licensed or partnered five projects. One further project is held in house which, if successful in the current Phase II trial, will be partnered.
- **Substantial market opportunity** – The influenza market is divided into the pandemic market (estimated at A\$US6.5bn if fully supplied, with the replenishment market estimated at \$US1bn) and the seasonal market (estimated at US\$0.5bn). The LANI and HCV projects are targeted at potentially large markets, whereas the HRV and RSV projects are focused on more niche markets. GSK has a theoretical manufacturing capacity of 30m courses per annum, which represents an estimated market value of A\$0.75bn.
- **Strong management team with solid track record** – Led by CEO Peter Cook, there is a depth of experience in the senior management team.
- **Solid intellectual property position** – Biota has a solid intellectual property position with patents in place providing protection to 2011 in Europe and 2014 in the US for its lead product Relenza.

Key issues/ risks

- **Commercialisation risk** – Delays or lack of success in the clinical programs are an inherent risk for all biotechnology companies, in both the development and registration of new compounds. In our modelling we have attributed a probability of success to the clinical programs that takes account of this risk. As the programs progress through commercialisation, we can adjust our probability rating.
- **Litigation risk** – There is no certainty that BTA will be successful in its litigation against GSK. The legal costs have been significant to date and we assume will be material in FY08, FY09 and FY10. Any success in the litigation will provide potential upside to our valuation.

- **Intellectual property risk** – BTA’s key patent on Relenza expires in Europe in 2011 and in the US in 2014. We have assumed a market share decline of 10% from 2011 and no royalties after 2014 when the patent in the US expires.
- **Financial risk** – BTA is well funded with A\$52.1m in cash as at 31 December 2007. We forecast small profits for FY08, FY09 and FY10, and assume no success in the court case. We believe BTA has sufficient funds on hand to support the group’s clinical program until partnering success. Any delays in partnering of clinical success may result in this being reassessed.

Anticipated news flow

We have identified a number of near-term catalysts that we believe, if achieved, will drive the share price closer to our A\$1.26 target price. Of most interest to us is the outcome from the upcoming mediation proceedings with GSK, the results from the LANI Phase II trial expected mid-year and the start of the Phase IIa challenge trial for HRV.

Table 1 : BTA – key near-term catalysts

Product	Indication	Timing	Milestone	Impact
LANI (CS8958)	Treatment and prevention of influenza	June 2008	Results of Phase II trial	Positive
Relenza™	Treatment and prevention of influenza	Before 31 July	Mediation result with GSK	Positive (hard to call)
HRV (BTA 798)	Treatment and prevention of human rhinovirus (common cold) in high risk patients	3QCY08	Start Phase IIa challenge trial – dosing stage	Positive

Source: Company data, ABN AMRO Morgans

Table 2 summaries the anticipated market launch dates or estimated time to partner projects.

Table 2 : Products on market and underdevelopment with anticipated market launch timetable and/or partnering timeline

Product	Indication and description	Jurisdiction	Market Launch or partner
Relenza (Zanamivir)	Treatment and prevention of influenza inhaled small molecule neuraminidase inhibitor	EU/ AU	On market partnered with GSK
OIA FLU	Rapid, point of care diagnostic assay for influenza (A&B)	EU/US	On market partnered with Inverness Medical
LANI (CS8958)	Treatment and prevention of influenza – long-acting (once weekly) neuraminidase inhibitor	EU/US	JV with Daiichi-Sankyo - aim to partner post Phase II – estimate 2010
HRV (BTA798)	Treatment and prevention of human rhinovirus (common cold) in high risk patients. An Oral, small molecule capsid binder.	EU/US	Aim to partner post Phase IIa challenge study – estimate 2010
RSV	Treatment and prevention of RSV – oral, small molecule fusion inhibitor	EU/ AU	Estimate on market Post 2013- partnered with MedImmune Inc
HCV (Hep C)	Treatment of Hepatitis C – novel class of nucleoside HCV polymerase inhibitor	US	Estimate on market Post 2015 – partnered with Boehringer Ingelheim

Source: Company data, ABN AMRO Morgans

Relenza™ – lead product

Relenza has been developed to treat and prevent influenza. Influenza is a contagious and potentially fatal disease. It is caused by a virus that infects the respiratory tract. The incubation period is typically two days, with the patient being infective for a day before experiencing symptoms and up to five days after first experiencing symptoms. Infection usually lasts about a week and symptoms include a high fever, headache, extreme tiredness, a dry cough, sore throat, and a runny or blocked nose.

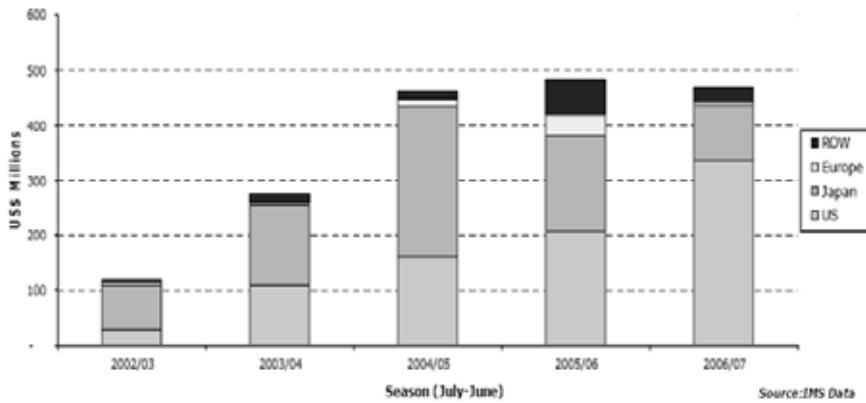
While most people recover from influenza within one or two weeks without medical treatment, the disease can pose a serious risk in the very young and the elderly.

The highest rate of infection and hospitalisation is for people older than 65 and the second highest rate is for children younger than five. People with medical conditions such as lung disease, diabetes, cancer, kidney or heart problems can also be

seriously affected, and in these cases influenza infection can lead to severe complications of the underlying diseases, pneumonia or even death.

Influenza spreads rapidly around the world in seasonal epidemics and each year annual epidemics affect between 5% and 15% of the population. According to the Centers for Disease Control and Prevention (CDC), in the US alone more than 200,000 people are hospitalised on average every year because of influenza complications and about 36,000 people will die because of the disease. The World Health Organisation (WHO) estimates that annual influenza epidemics around the world cause between 3m and 5m cases of severe illness and between 250,000 and 500,000 deaths every year. In 2004, influenza and pneumonia was the fourth leading cause of death in Australia (Australian Bureau of Statistics, 2004). Chart 1 below plots the growth in the seasonal influenza market since 2002. Since 2004 the seasonal market has reached a plateau.

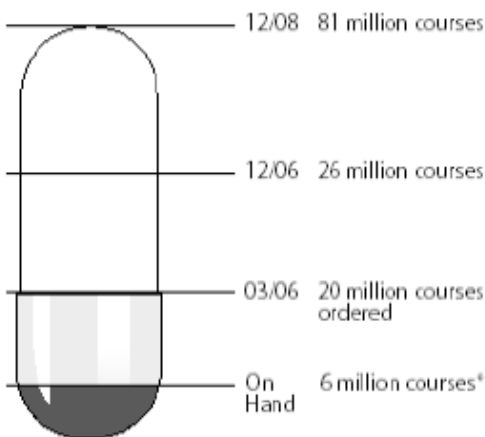
Chart 1 : Neuraminidase inhibitor sales for seasonal influenza



NB: Excludes pandemic stocking.
Source: IMS Data (chart provided by company)

In the last century, three global influenza pandemics occurred when the influenza A virus underwent major genetic changes. The most infamous pandemic, the Spanish Flu in 1918-1919, killed 500,000 people in the US and between 50m and 100m people worldwide, nearly half of whom were between 20 and 40 years old. Notably, pandemic influenza appears to have a greater impact on healthy young adults than seasonal influenza, which tends to affect the young and old. More recently, there have been concerns of another possible pandemic as a result of a new influenza subtype A(H5N1), otherwise known as avian influenza or 'bird flu', being widely distributed globally and cases of transmission from birds to humans.

Figure 1 : US antiviral stockpile



* A course is the number of doses needed to treat one person.
Source: Company data; HHS Pandemic Planning Update (July 2006)

Influenza spreads around the world in seasonal epidemics, killing millions of people in pandemic years and hundreds of thousands in non-pandemic years. Three influenza pandemics occurred in the 20th century and killed tens of millions of people, with each of these pandemics being caused by the appearance of a new strain of the virus in humans. Often these new strains result from the spread of an existing flu virus to humans from other animal species. A deadly avian strain named H5N1 has posed the greatest risk for a new influenza pandemic since it first killed humans in Asia in the 1990s. Fortunately, this virus has not mutated to a form that spreads easily between people.

Types of influenza

Influenza viruses are divided into groups, with A and B being of most concern to humans. All influenza viruses have two different spike-like protein components on their surface, called haemagglutinin (H) and neuraminidase (N), which are both associated with attachment, and release mechanisms the virus uses to infect and subsequently shed from the lung cells.

Through droplets spread by coughing and sneezing, influenza infects the respiratory tract directly, replicates in the cells lining the airways of the lungs and is shed from the lungs.

Neuraminidase is essential for the replication of all influenza viruses. It is an enzyme that breaks down bonds holding new viruses to an infected cell, allowing viruses to release and infect other cells; this extends the influenza infection. Neuraminidase inhibitors block this activity, preventing the release of new viruses from infected cells and stopping the infection from spreading.

Relenza's mode of action

BTA has developed its neuraminidase inhibitor zanamivir (Relenza) to be delivered via an inhaler directly to the site of action, in the lung. Relenza provides a rapid antiviral action and reduced systemic side-effects. The dosage for treatment of influenza is 10mg twice daily for five days and for prevention is 10mg once daily for 10 days. The product was launched in 1999 by its marketing partner, GSK, and is approved for sale in over 64 countries.

Key features and advantages of Relenza include:

- targeted delivery direct to the respiratory tract;
- reduces duration of illness (up to three days);
- reduces severity of symptoms;
- high potency against influenza A&B;
- well tolerated, excellent side-effect profile;
- effective as an adjunct to vaccination in high risk groups; and
- low incidence of resistance in clinical use.

Medical need/target market

Serious disease – Influenza is a serious illness that affects up to 40m Americans every year, causing disruption to their daily lives, and leading to 200,000 hospitalisations and 36,000 deaths annually. Some people, such as the elderly population, young children, and people with certain chronic health conditions, are at high risk of serious flu complications. BTA, through its marketing partner, can currently produce 30m courses of Relenza per annum.

Intellectual property position

BTA's core patents surrounding Relenza expire in 2011 in Europe and 2014 in the US.

Legal proceeding with GSK

In May 2004, BTA filed a lawsuit against GSK in the Victorian Supreme Court, claiming damages for past and future losses, arising from GSK's contractual failure to use its best endeavours in the development and marketing of Relenza. The particulars of loss and damage lodged with the court by BTA are an estimated whole-of-life value of Relenza royalties to be in the range of A\$564m to A\$704m.

The Supreme Court has ordered mediation specifically to try to achieve a settlement without the parties incurring the costs and time of the Court by the end of July 2008 and if this is not successful the case will go to trial on August 4. To the end of December 2007, A\$27m has been expensed in legal costs. BTA has provided guidance that a further A\$7.4m will be spent in 2H08. We have assumed further legal costs of A\$15m and A\$5m in FY09 and FY10. We have not attempted to factor any success into our valuation, preferring to describe any success as upside to our valuation.

Competition – Tamiflu

The main competition is Tamiflu (oseltamivir) a product manufactured and marketed by Roche. Roche announced that it has further expanded its global manufacturing network for the production of Tamiflu and by the end of 2006, has the capacity to produce up to 400m treatments annually. In 2007 Roche recorded sales of CHF2,085m (or about US\$2,147m). This represents 93% of the theoretical capacity. Both Relenza and Tamiflu block influenza neuraminidase. Relenza is inhaled twice daily (a 10mg dose), and Tamiflu is taken orally twice daily and is a 75mg dose.

We have taken from the Roche website the following information regarding studies undertaken with Tamiflu. In flu treatment studies of patients who took Tamiflu within 48 hours of the first appearance of symptoms: 1) adults felt better 30% faster (1.3 days) than flu patients who did not take TAMIFLU; 2) children felt better up to 26% faster (1.5 days) than flu patients who did not take Tamiflu; and 3) Tamiflu is indicated for the treatment and prevention of influenza in people one year and older.

Comparing Tamiflu and Relenza, we have referred to a published study in *The Annals of Pharmacotherapy: Vol. 35, No. 1, pp. 57-70. DOI 10.1345/aph.10118*. The conclusion is positive for both products and is outlined below.

"Relenza (zanamivir) and Tamiflu (oseltamivir) are more effective in preventing culture-positive influenza or for treatment of culture-positive influenza in febrile (> or = 37.8 degrees C) individuals. Treatment is more effective if initiated within 30 hours of symptom onset in febrile individuals; however, it is difficult to meet these criteria. More realistically, clinical efficacy is closer to 60-70% and, for treatment started within 48 hours for laboratory-confirmed influenza, symptom reduction is approximately 0.7-1.5 days. If used appropriately to minimize the development of resistance, the neuraminidase inhibitors represent a new and unique class of antiinfluenza agents that can potentially reduce the morbidity associated with influenza."

OIA FLU diagnostic

BTA has an influenza diagnostic that is marketed by Inverness Medical under the Biostar OIA FLU brand. This contributed about A\$0.5m in revenue in 2007. Given the small size of this division and the ageing profile of the product, we have not attempted to value this division.

LANI – second generation product

BTA's second-generation influenza products are long-acting neuraminidase inhibitors (LANIs). Also inhaled, LANIs provide a longer period of action which allows them to be administered only once a week, instead of twice daily as is the case with current products. LANIs' high potency and reduced frequency of administration offers a practical response to the reduced storage bulk needed for pandemic stockpiling.

Biota has a joint venture with Japanese based Sankyo for the development of LANIs. Daiichi-Sankyo's candidate CS8958 has completed Phase I clinical evaluation in a new dry powder inhaler in Japan during April 2007 and completed enrolment in February 2008 for a Phase II trial with results expected by mid 2008. NIH funding of US\$5.6m is in place to undertake three complementary Phase I studies in western subjects in the UK.

It is intended that assuming the successful completion of the Phase II trial the compound will be partnered.

Human rhinovirus (BTA 798)

BTA is developing a product aimed at the treatment and prevention of human rhinovirus (common cold) in high-risk patients. The infection is of little consequence in otherwise healthy individuals, causing minor, self limiting symptoms that are easily and cheaply treated. However, a safe and effective treatment for HRV would be a major breakthrough for sufferers of asthma, chronic obstructive pulmonary disease, and cystic fibrosis.

Following the successful completion of the Phase Ib human safety and tolerability trial of the HRV drug, BTA will now move to a Phase IIa challenge study before partnering the project. The design of the challenge study is complex as it involves managing two materials, the drug itself and the inoculum, which is used to infect an otherwise healthy patient, both of which have associated regulatory issues.

Description of key market opportunities

Asthma – Asthma is a serious condition in which the small airways of the affected person's lungs suddenly constrict when they are exposed to certain triggers, such as dust mites, pollen, exercise, or even dry/cold air. During an asthma attack, the person's airway lining rapidly becomes inflamed and swollen, the muscles around the airways tighten, and excess mucus is produced as the body reacts to the trigger. This reaction causes reduced airflow into and out of the lungs, and the person has to gasp for breath. Asthma is a major public health problem affecting 52m people around the world, including 2m Australians and 15m Americans. We estimate that about 20% would be classed as severe asthmatics.

Cystic fibrosis - Cystic fibrosis (CF) is an inherited, life-limiting disease that affects the body's exocrine glands, which produce mucus, saliva, sweat and tears. In CF the delicate balance of sodium, chloride and water within cells is disrupted, causing the exocrine glands to secrete fluids that are poorly hydrated and therefore thicker and stickier than fluids in people without CF. It affects a number of organs in the body, especially the lungs and pancreas by clogging them with a thick, sticky mucus. In patients with CF, the cilia are unable to clear the mucus from the airways leading to repeat bacterial infections and lung dysfunction and deterioration. There are about 75,000 people globally with CF, including, 33,000 in the US, 2,500 in Australia and 20,000 in Europe. The average life expectancy is ~35 years.

Chronic obstructive pulmonary disease (COPD) – COPD encompasses a number of serious conditions affecting the lungs, including emphysema, chronic bronchitis and bronchiectasis. While cigarette smoking is the most common cause of COPD, breathing in other kinds of irritants, like pollution, dust or chemicals, may also cause

or contribute to it. More than 30m people have been diagnosed with COPD worldwide and Datamonitors estimates that this figure is expected to grow by 14% by 2015, primarily due to the ageing population. COPD is responsible for the deaths of more than 100,000 people a year in the US and Western Europe alone, making it the fourth leading cause of death after heart disease, cancer and stroke. Under-diagnosis also remains a major problem with an estimated 50-80% of patients not diagnosed due to limited awareness of the condition and the under-use of a lung function diagnostic tool called spirometry (which measures lung volume and flow).

Valuation underpinned by Relenza

We have initiated coverage of Biota with a A\$1.26 DCF valuation. We have set our target price in line with our valuation, reflecting where we believe the share price will trade upon release of successful clinical trial results in LANI and HRV within six months.

- **DCF based valuation** – Our A\$1.26 DCF valuation is based on a WACC of 14.35% (see Table 3). The expiry of key patents in 2011 and 2014 has resulted in assumed market declines of 10% after 2011 and then no royalty after 2014. Given the ongoing commitment to R&D and the track record in out-licensing projects, we have used a terminal growth rate of 3.5%. Shares on issue used to calculate our DCF valuation are 171m, fully diluted.
- **Strong cash position** – As at 31 December 2007, BTA had A\$52.1m in cash at hand. This cash position will decline over the next half as the receipt for royalties from GSK comes once per year.
- **Relenza** - We have valued Relenza at A\$1.01 per share, details of the assumptions are detailed below in Table 4. GSK has a theoretical capacity of 30m courses per annum. We have assumed 60% capacity in FY08.
- **Valuation of clinical programs** – We have valued LANI and HRV at A\$0.25 per share. We have assumed that both projects will be licensed out after and assuming success in the Phase II trials. We assume the cost of running both trials is A\$10.0m, A\$10.3m and A\$15m in FY08, FY09 and FY10 respectively.
- **Pre Phase I trial** – At this stage we have applied no value to the pre-Phase I trials of respiratory syncytial virus (RSV) and hepatitis C program. Both projects have been partnered so are cost-neutral.
- **FY07 result** – A net profit of A\$20.2m was posted for FY07. Relenza royalties were A\$39.8m and collaboration income was A\$13m. During the year A\$10.4m was spent on legal costs with GSK and the unbooked tax losses were realised.
- **1H08 result** – A net profit of A\$4.1m was recorded. This included A\$16.5m (FY07 A\$12.7m) in Relenza royalties, A\$9.6m (FY07 A\$5.9m) in collaboration income, A\$8.6m in GSK litigation, sub-royalty A\$0 (FY07 A\$1.8m) and amortisation of sub-royalty prepayments of A\$1.1m (FY07 A\$0).

Key assumptions for Relenza – 80% of our valuation

Table 4 : Relenza – key valuation assumptions

Key assumptions	Relenza
Number of courses	18m in FY08, 19.5m in FY09 and 21m in FY10
Cost per courses	A\$25
Royalty rate	7%
Market share growth	Decrease by 10% in 2011 and decrease by 10% in 2014 after expiry of patent

Source: ABN AMRO Morgans estimates

Table 3 : DCF valuation

Assumptions	
WACC	14.35%
Beta	1.80
Equity risk premium	4.5%
Risk-free rate	6.25%
Long run growth rate	3.5%

Source: ABN AMRO Morgans

Key assumptions for HRV and LANI– 20% of our valuation

Table 5 : HRV and LANI – key valuation assumptions

Key assumptions	HRV	LANI
Number of patients (m)	13	330
Cost per patient (A\$ pa)	25	25
Market size (A\$m)	260	6,600
Market growth rate (% pa)	8	8
Estimated time of partnering	2012	2011
Market share (%)	100	5
Probability of success (%)	15	15

Source: ABN AMRO Morgans estimates

Sensitivity analysis

- We have assumed no success in the legal case against GSK. Our valuation is most sensitive to changes in the royalty rate received from GSK. Every 1% change in the royalty rate alters our valuation by A\$0.13 per share. It is possible one of the outcomes to the legal case is a renegotiation of the royalty rate. At this stage we prefer to make no assessment as to the likely outcome of the proceedings, given the mediation is due before the end of July 2008.
- If we increase the probability of success of the two in house projects by 1%, this alters our valuation by 1c per share. Our current assessment is a conservative probability of success of 15%. With results due on both trials within six months, we will monitor this assessment closely.
- If we reduce our terminal growth rate by 1% to 2.5%, this reduces our valuation by A\$0.03 to A\$1.23. Similarly, if we increase our risk premium from 4.5% to 5.5% this reduces our valuation from A\$1.26 to A\$1.12.

Shareholders and board

There is a 5% share buyback in place. At 31 December 2007 there were 183m shares on issue and we have assumed that by 30 June 2008 there will be 171m shares on issue.

Table 6 : Company details

Major shareholders:		Board:
Hunter Hall	7.4%	John Grant – Chairman, Barbara Gibson, Ian Gust, Grant Latta, Paul Bell, Peter Cook – Managing Director, Damian Lismore – CFO
Alleron	5.0%	

Source: Company data

BTA – financial summary

Year to 30 Jun (A\$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Closing price (A\$)	1.04	Price target (A\$)	1.26	
Income statement	2006A	2007A	2008F	2009F	2010F	Valuation metrics				
Divisional sales	12.7	54.8	49.2	51.9	54.7	Preferred methodology	DCF	Val'n (A\$)	\$ 1.26	
Total revenue	12.7	54.8	49.2	51.9	54.7	DCF valuation inputs				
EBITDA	-12.6	16.6	0.0	3.4	13.2	Rf	6.25%	LT growth	3.5%	
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	4.50%	Margin	2.0%	
Depreciation	-1.0	-1.2	-3.0	-3.0	-3.0	Beta	1.80	Kd	8.25%	
EBITA	-13.6	15.4	-3.0	0.4	10.3	CAPM (Rf+Beta(Rm-Rf))	14.4%	Ke	14.4%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	100.0%	NPV cash flow (A\$m)	154.5	
EBIT	-13.6	15.4	-3.0	0.4	10.3	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	-13.6	15.4	-3.0	0.4	10.3	Interest rate	8.25%	Net debt (A\$m)	-60.3	
Net interest expense	2.3	2.5	3.7	3.6	3.9	Tax rate (t)	30.0%	Investments (A\$m)	0.0	
Pre-tax profit	-11.3	17.9	0.7	4.1	14.2	Franking credit	100.0%	Equity market value (A\$m)	214.9	
Income tax expense						WACC	14.4%	Diluted no. of shares (m)	171.0	
After-tax profit	-11.3	17.9	0.7	4.1	14.2			DCF valuation (A\$)	1.26	
Minority interests						Multiples				
NPAT	-11.3	17.9	0.7	4.1	14.2	Enterprise value (A\$m)	2007A	2008F	2009F	2010F
Significant items	0.0	2.3	0.0	0.0	0.0	EV/Sales (x)	115.7	117.5	112.3	97.9
NPAT post abnormal	-11.3	20.2	0.7	4.1	14.2	EV/EBITDA (x)	2.1	2.4	2.2	1.8
						EV/EBITDA (x)	7.0	-7385.7	33.0	7.4
						EV/EBIT (x)	7.5	-39.3	252.4	9.5
						PE (pre-goodwill) (x)	10.5	240.1	43.8	12.5
Cash flow statement	2006A	2007A	2008F	2009F	2010F	At target price	2007A	2008F	2009F	2010F
EBITDA	-12.6	16.6	0.0	3.4	13.2	EV/EBITDA (x)	9.2	-9713.8	43.9	10.2
Change in working capital	2.6	-0.5	4.7	-0.4	-1.4	PE (pre-goodwill) (x)	12.6	290.1	52.9	15.1
Net interest (pd)/rec	2.3	2.5	3.7	3.6	3.9					
Taxes paid	0.0	2.3	0.0	0.0	0.0	Comparable company data (x)				
Other oper cash items	0.0	0.0	0.0	0.0	0.0	Alchemia	2008F	2009F	2010F	
Cash flow from ops (1)	-7.7	21.0	8.4	6.6	15.7	EV/EBITDA	-4.2	-33.5	1.2	
Capex (2)	-1.9	-0.9	-1.2	-1.4	-1.4	Year to 30 Jun	EV/EBIT	-3.6	-14.3	1.3
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	PE	PE	-4.5	-20.5	1.2
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Pharmaxis	EV/EBITDA	-5.5	-4.8	-9.2
Cash flow from invest (3)	-1.9	-0.9	-1.2	-1.4	-1.4	Year to 30 Jun	EV/EBIT	-5.3	-4.5	-7.8
Incr/(decr) in equity	31.8	1.4	-9.0	0.0	0.0	PE	PE	-9.5	-8.1	-13.9
Incr/(decr) in debt	-0.8	0.0	0.0	0.0	0.0					
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Per share data	2007A	2008F	2009F	2010F
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	No. shares	180.0	171.0	171.0	171.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	EPS (cps)	11.2	0.4	2.4	8.3
Cash flow from fin (5)	31.0	1.4	-9.0	0.0	0.0	EPS (normalised) (c)	9.9	0.4	2.4	8.3
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0
Incr/(decr) cash (1+3+5+6)	21.4	21.5	-1.8	5.2	14.4	Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Equity FCF (1+2+4)	-9.6	20.1	7.2	5.2	14.4	Dividend yield (%)	0.0	0.0	0.0	0.0
						Growth ratios	2007A	2008F	2009F	2010F
Balance sheet	2006A	2007A	2008F	2009F	2010F	Sales growth	331.1%	-10.3%	5.7%	5.4%
Cash & deposits	46.2	62.2	60.3	65.5	79.9	Operating cost growth	51.0%	28.8%	-1.3%	-14.5%
Trade debtors	5.9	9.4	6.1	6.4	6.7	EBITDA growth				288.9%
Inventory	0.0	0.0	0.0	0.0	0.0	EBITA growth				2208.8%
Investments	0.0	0.0	0.0	0.0	0.0	Operating performance	2007A	2008F	2009F	2010F
Goodwill						Asset turnover (%)	18.3	13.8	14.8	14.2
Other intangible assets	0.0	13.4	11.9	10.3	8.6	EBITDA margin (%)	30.3	0.0	6.5	24.2
Fixed assets	5.5	5.2	5.0	5.0	5.0	EBIT margin (%)	28.1	-6.1	0.9	18.8
Other assets	0.0	2.3	2.3	2.3	2.3	Net profit margin (%)	32.7	1.5	7.8	25.9
Total assets	57.6	92.5	85.6	89.6	102.7	Return on net assets (%)	21.5	-4.7	0.7	12.6
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net debt (A\$m)	-62.2	-60.3	-65.5	-79.9
Trade payables	4.0	6.0	7.4	7.3	6.3	Net debt/equity (%)	-86.9	-95.4	-97.3	-98.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	-6.1	0.8	-0.1	-2.6
Provisions	0.0	0.0	0.0	0.0	0.0	ROIC (%)	1506.1	-22.3	10.6	400.2
Other liabilities	6.6	14.9	14.9	14.9	14.9	Internal liquidity	2007A	2008F	2009F	2010F
Total liabilities	10.7	20.9	22.3	22.2	21.2	Current ratio (x)	3.4	3.0	3.2	4.1
Share capital	158.0	161.7	153.4	157.5	171.6	Receivables turnover (x)	7.2	6.4	8.3	8.3
Other reserves	-0.1	0.6	0.6	0.6	0.6	Payables turnover (x)	7.6	7.3	6.6	6.1
Retained earnings	-111.0	-90.8	-90.8	-90.8	-90.8					
Other equity	0.0	0.0	0.0	0.0	0.0					
Total equity	46.9	71.5	63.3	67.3	81.5					
Minority interest										
Total shareholders' equity	46.9	71.5	63.3	67.3	81.5					
Total liabilities & SE	57.6	92.5	85.6	89.6	102.7					

Source: Company data, ABN AMRO Morgans forecasts

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