

# Biota Holdings (BTA)

## Timetable change

**BTA has announced the court will reset the date for hearing the case with GSK, likely to be in 1H09. We have not placed any value on the outcome of the litigation, so there are no changes to forecasts or valuation.**

### 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) <sup>1</sup> | -11.3 | 17.9   | 0.74  | 4.06  | 14.2  |
| Normalised EPS (c) <sup>1</sup>           | -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   | 10.2   | 234.4 | 42.7  | 12.2  |
| EV/EBITDA (x)                             | n/m   | 6.71   | n/m   | 31.8  | 7.08  |
| Price/net oper. CF (x)                    | -23.8 | 8.71   | 20.6  | 26.4  | 11.0  |
| 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

### Timetable for Court hearing to be reset

The Supreme Court of Victoria has set aside 4 August 2008 as a trial date in the litigation between BTA and GSK to allow the parties more time for pre-trial preparation. It is likely the new trial date will be in 1H09. Mediation between the parties remains scheduled to occur before the end of July 2008 as per the original timetable. We have not factored into our valuation any impact from the trial. We would prefer to adjust our target price on a known outcome.

### Focus on near term milestone

One of BTA's key projects is the long-acting neuraminidase inhibitor (LANI) compound, which has been partnered with Daiichi-Sankyo. LANI is a second generation influenza antiviral. The next milestone we are focused on is the results from the LANI Phase II trial, which are expected in July 2008.

### 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.

### Investment view: Buy recommendation and a A\$1.26 target price

We maintain our A\$1.26 DCF valuation. The key assumptions in deriving our valuation include a risk-free rate of 6.25%, WACC of 14.35% and a terminal growth rate of 3.5%. Our target price is set at the same level. Key strengths of the company include: 1) a solid and experienced management team; 2) a strong cash position; and most importantly 3) a diverse pipeline in late-stage development. Risks to our target price include a delay in partnering key projects or failure to achieve key end points.

### 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 29 May 2008.

## 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.**

### Absolute performance

n/a

### Short term (0-60 days)

### Australia

### Pharmaceuticals & Biotechnology

### Price

A\$1.015

### Target price

A\$1.26

### Market capitalisation

A\$173.57m (US\$166.74m)

### Avg (12mth) daily turnover

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

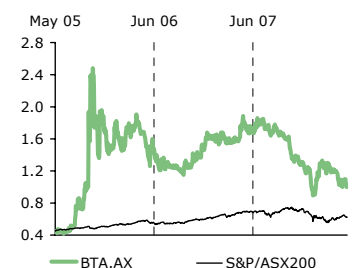
### Reuters

BTA.AX

BTA80530

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

|              |      |       |       |
|--------------|------|-------|-------|
| Price (A\$)  | 1.1  | 1.3   | 1.7   |
| Absolute %   | -6.0 | -21.3 | -39.2 |
| Rel market % | -7.7 | -23.2 | -32.7 |
| Rel sector % | -9.8 | -21.6 | -33.6 |



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

Volatility (30-day): 41.42%

Volatility (6-month trend): ↑

52-week range: 1.92-0.85

S&P/ASX200: 5709.40

BBG AP Pharm & Biotech: 151.59

Source: ABN AMRO, Bloomberg

### Analysts

#### Scott Power

+61 7 3334 4884

scottp@abnamromorgans.com.au

#### Tanya Solomon

+61 7 3334 4521

tsolomon@abnamromorgans.com.au

[www.abnamromorgans.com.au](http://www.abnamromorgans.com.au)

**BTA – financial summary**

| Year to 30 Jun (A\$m)             | AIFRS<br>2006A | AIFRS<br>2007A | AIFRS<br>2008F | AIFRS<br>2009F | AIFRS<br>2010F | Closing price (A\$)                | 1.01         | Price target (A\$)         | 1.26         |              |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|------------------------------------|--------------|----------------------------|--------------|--------------|
| <b>Income statement</b>           |                |                |                |                |                | <b>Valuation metrics</b>           |              |                            |              |              |
| 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           | <b>DCF valuation inputs</b>        |              |                            |              |              |
| <b>EBITDA</b>                     | <b>-12.6</b>   | <b>16.6</b>    | <b>0.0</b>     | <b>3.4</b>     | <b>13.2</b>    | Rf                                 | 6.25%        | 10-year rate               | 6.25%        |              |
| 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                |                |                |                |                |                | <b>WACC</b>                        | 14.4%        | Diluted no. of shares (m)  | 171.0        |              |
| After-tax profit                  | -11.3          | 17.9           | 0.7            | 4.1            | 14.2           |                                    |              | <b>DCF valuation (A\$)</b> | <b>1.26</b>  |              |
| Minority interests                |                |                |                |                |                | <b>Multiples</b>                   |              |                            |              |              |
| <b>NPAT</b>                       | <b>-11.3</b>   | <b>17.9</b>    | <b>0.7</b>     | <b>4.1</b>     | <b>14.2</b>    | Enterprise value (A\$m)            | 2007A        | 2008F                      | 2009F        | 2010F        |
| Significant items                 | 0.0            | 2.3            | 0.0            | 0.0            | 0.0            | EV/Sales (x)                       | 111.4        | 113.2                      | 108.0        | 93.7         |
| NPAT post abnormals               | -11.3          | 20.2           | 0.7            | 4.1            | 14.2           | EV/EBITDA (x)                      | 2.0          | 2.3                        | 2.1          | 1.7          |
|                                   |                |                |                |                |                | EV/EBITDA (x)                      | 6.7          | -7117.0                    | 31.8         | 7.1          |
|                                   |                |                |                |                |                | EV/EBIT (x)                        | 7.2          | -37.9                      | 242.8        | 9.1          |
|                                   |                |                |                |                |                | PE (pre-goodwill) (x)              | 10.2         | 234.4                      | 42.7         | 12.2         |
| <b>Cash flow statement</b>        | <b>2006A</b>   | <b>2007A</b>   | <b>2008F</b>   | <b>2009F</b>   | <b>2010F</b>   | <b>At target price</b>             | <b>2007A</b> | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |
| 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            | <b>Comparable company data (x)</b> | <b>2008F</b> | <b>2009F</b>               | <b>2010F</b> |              |
| Other oper cash items             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Alchemia                           | EV/EBITDA    | -4.2                       | -33.5        | 1.2          |
| Cash flow from ops (1)            | -7.7           | 21.0           | 8.4            | 6.6            | 15.7           | Year to 30 Jun                     | EV/EBIT      | -3.6                       | -14.3        | 1.3          |
| Capex (2)                         | -1.9           | -0.9           | -1.2           | -1.4           | -1.4           |                                    | PE           | -4.5                       | -20.5        | 1.2          |
| Disposals/(acquisitions)          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Pharmaxis                          | EV/EBITDA    | -7.3                       | -6.1         | -11.3        |
| Other investing cash flow         | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Year to 30 Jun                     | EV/EBIT      | -7.0                       | -5.7         | -9.6         |
| Cash flow from invest (3)         | -1.9           | -0.9           | -1.2           | -1.4           | -1.4           |                                    | PE           | -11.5                      | -9.8         | -16.8        |
| Incr/(decr) in equity             | 31.8           | 1.4            | -9.0           | 0.0            | 0.0            | <b>Per share data</b>              | <b>2007A</b> | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |
| Incr/(decr) in debt               | -0.8           | 0.0            | 0.0            | 0.0            | 0.0            | No. shares                         | 180.0        | 171.0                      | 171.0        | 171.0        |
| Ordinary dividend paid            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | EPS (cps)                          | 11.2         | 0.4                        | 2.4          | 8.3          |
| Preferred dividends (4)           | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | EPS (normalised) (c)               | 9.9          | 0.4                        | 2.4          | 8.3          |
| Other financing cash flow         | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Dividend per share (c)             | 0.0          | 0.0                        | 0.0          | 0.0          |
| Cash flow from fin (5)            | 31.0           | 1.4            | -9.0           | 0.0            | 0.0            | Dividend payout ratio (%)          | 0.0          | 0.0                        | 0.0          | 0.0          |
| Forex and disc ops (6)            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Dividend yield (%)                 | 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           | <b>Growth ratios</b>               | <b>2007A</b> | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |
| <b>Equity FCF (1+2+4)</b>         | <b>-9.6</b>    | <b>20.1</b>    | <b>7.2</b>     | <b>5.2</b>     | <b>14.4</b>    | Sales growth                       | 331.1%       | -10.3%                     | 5.7%         | 5.4%         |
|                                   |                |                |                |                |                | Operating cost growth              | 51.0%        | 28.8%                      | -1.3%        | -14.5%       |
|                                   |                |                |                |                |                | EBITDA growth                      |              |                            |              | 288.9%       |
|                                   |                |                |                |                |                | EBITA growth                       |              |                            |              | 2208.8%      |
| <b>Balance sheet</b>              | <b>2006A</b>   | <b>2007A</b>   | <b>2008F</b>   | <b>2009F</b>   | <b>2010F</b>   | <b>Operating performance</b>       | <b>2007A</b> | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |
| Cash & deposits                   | 46.2           | 62.2           | 60.3           | 65.5           | 79.9           | Asset turnover (%)                 | 18.3         | 13.8                       | 14.8         | 14.2         |
| Trade debtors                     | 5.9            | 9.4            | 6.1            | 6.4            | 6.7            | EBITDA margin (%)                  | 30.3         | 0.0                        | 6.5          | 24.2         |
| Inventory                         | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | EBIT margin (%)                    | 28.1         | -6.1                       | 0.9          | 18.8         |
| Investments                       | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Net profit margin (%)              | 32.7         | 1.5                        | 7.8          | 25.9         |
| Goodwill                          |                |                |                |                |                | Return on net assets (%)           | 21.5         | -4.7                       | 0.7          | 12.6         |
| Other intangible assets           | 0.0            | 13.4           | 11.9           | 10.3           | 8.6            | Net debt (A\$m)                    | -62.2        | -60.3                      | -65.5        | -79.9        |
| Fixed assets                      | 5.5            | 5.2            | 5.0            | 5.0            | 5.0            | Net debt/equity (%)                | -86.9        | -95.4                      | -97.3        | -98.0        |
| Other assets                      | 0.0            | 2.3            | 2.3            | 2.3            | 2.3            | Net interest/EBIT cover (x)        | -6.1         | 0.8                        | -0.1         | -2.6         |
| <b>Total assets</b>               | <b>57.6</b>    | <b>92.5</b>    | <b>85.6</b>    | <b>89.6</b>    | <b>102.7</b>   | ROIC (%)                           | 1506.1       | -22.3                      | 10.6         | 400.2        |
| Short-term borrowings             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | <b>Internal liquidity</b>          | <b>2007A</b> | <b>2008F</b>               | <b>2009F</b> | <b>2010F</b> |
| Trade payables                    | 4.0            | 6.0            | 7.4            | 7.3            | 6.3            | Current ratio (x)                  | 3.4          | 3.0                        | 3.2          | 4.1          |
| Long-term borrowings              | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Receivables turnover (x)           | 7.2          | 6.4                        | 8.3          | 8.3          |
| Provisions                        | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Payables turnover (x)              | 7.6          | 7.3                        | 6.6          | 6.1          |
| Other liabilities                 | 6.6            | 14.9           | 14.9           | 14.9           | 14.9           |                                    |              |                            |              |              |
| <b>Total liabilities</b>          | <b>10.7</b>    | <b>20.9</b>    | <b>22.3</b>    | <b>22.2</b>    | <b>21.2</b>    |                                    |              |                            |              |              |
| Share capital                     | 158.0          | 161.7          | 153.4          | 157.5          | 171.6          |                                    |              |                            |              |              |
| Other reserves                    | -0.1           | 0.6            | 0.6            | 0.6            | 0.6            |                                    |              |                            |              |              |
| 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           |                                    |              |                            |              |              |
| <b>Total liabilities &amp; SE</b> | <b>57.6</b>    | <b>92.5</b>    | <b>85.6</b>    | <b>89.6</b>    | <b>102.7</b>   |                                    |              |                            |              |              |

Source: Company data, ABN AMRO Morgans forecasts

## RESEARCH TEAM

|                  |   |  |                    |   |                 |
|------------------|---|--|--------------------|---|-----------------|
| ROGER LEANING    | - | Head of Research                       | ROSS MACLEOD CAREY | - | Analyst         |
| ROBERT BITOMSKY  | - | Analyst                                | BELINDA MOORE      | - | Senior Analyst  |
| CHRIS BROWN      | - | Senior Analyst                         | SCOTT POWER        | - | Senior Analyst  |
| FIONA BUCHANAN   | - | Senior Analyst                         | TOM SARTOR         | - | Analyst         |
| NICK HARRIS      | - | Analyst                                | TAMARA STRETCH     | - | Analyst         |
| MICHAEL KNOX     | - | Director of Strategy & Chief Economist | TANYA SOLOMON      | - | Analyst         |
| JAMES LAWRENCE   | - | Fixed Interest Analyst                 | REBECCA SULLIVAN   | - | Retail Strategy |
| JOSEPHINE LITTLE | - | Analyst                                |                    |   |                 |

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|                 |                |                  |                |
|-----------------|----------------|------------------|----------------|
| <b>BRISBANE</b> | (07) 3334 4888 | CHATSWOOD        | (02) 9411 8988 |
| BUNDABERG       | (07) 4153 1050 | COFFS HARBOUR    | (02) 6651 5700 |
| BURLEIGH HEADS  | (07) 5520 8788 | GOSFORD          | (02) 4325 0884 |
| CAIRNS          | (07) 4052 9222 | HURSTVILLE       | (02) 9570 5755 |
| CALOUNDRA       | (07) 5491 5422 | MERIMBULA        | (02) 6495 2869 |
| CAPALABA        | (07) 3245 5466 | NEUTRAL BAY      | (02) 8969 7500 |
| CHERMSIDE       | (07) 3350 9000 | NEWCASTLE        | (02) 4926 4044 |
| EMERALD         | (07) 4988 2777 | NEWPORT          | (02) 9998 4200 |
| GLADSTONE       | (07) 4972 8000 | ORANGE           | (02) 6361 9166 |
| GOLD COAST      | (07) 5592 5777 | PARRAMATTA       | (02) 9615 4500 |
| IPSWICH         | (07) 3202 3995 | PORT MACQUARIE   | (02) 6583 1735 |
| MACKAY          | (07) 4957 3033 | SCONE            | (02) 6544 3144 |
| MILTON          | (07) 3114 8600 | WOLLONGONG       | (02) 4227 3022 |
| MISSION BEACH   | (07) 4088 6188 | <b>MELBOURNE</b> | (03) 9947 4111 |
| NOOSA           | (07) 5449 9511 | BERWICK          | (03) 9796 2676 |
| REDCLIFFE       | (07) 3897 3999 | BRIGHTON         | (03) 9519 3555 |
| ROCKHAMPTON     | (07) 4922 5855 | CAMBERWELL       | (03) 9813 2945 |
| SPRING HILL     | (07) 3833 9333 | GEELONG          | (03) 5222 5128 |
| SPRINGWOOD      | (07) 3808 7588 | TRARALGON        | (03) 5176 6055 |
| SUNSHINE COAST  | (07) 5479 2757 | WARRNAMBOOL      | (03) 5559 1500 |
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| TOWNSVILLE      | (07) 4771 4577 | <b>ADELAIDE</b>  | (08) 8464 5000 |
| YEPPON          | (07) 4939 3021 | <b>PERTH</b>     | (08) 9261 0888 |
| <b>SYDNEY</b>   | (02) 8215 5000 | BUNBURY          | (08) 9791 9188 |
| ARMIDALE        | (02) 6770 3300 | <b>DARWIN</b>    | (08) 8981 9555 |
| BALLINA         | (02) 6686 4144 | <b>HOBART</b>    | (03) 6236 9000 |
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Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Each stock has been assigned a Volatility Rating to assist in assessing the risk of the security. The rating measures the volatility of the security's daily closing price data over the previous year relative to other stocks included in either the S&P/ASX200 Index (large caps) or the Small Ordinaries Index (small caps) of which it is a member. This rating is a quantitative (objective) measure provided as an additional resource and is independent of the qualitative research process undertaken by our research analysts.

A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

## REGULATORY DISCLOSURES

Subject companies: BTA.AX.

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