

21 July 2008

## Change of forecast

**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.**

**Mod-High Volatility**

## Target price

A\$1.29 (from A\$1.26)

## Price

A\$0.755

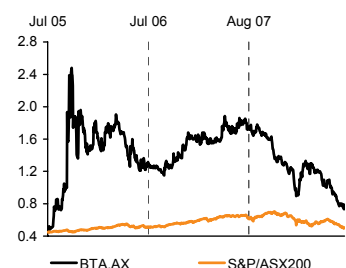
## Short term (0-60 days)

n/a

BTA80721

**Price performance**

	(1M)	(3M)	(12M)
Price (A\$)	0.85	1.19	1.85
Absolute %	-10.7	-36.6	-59.2
Rel market %	0.5	-28.8	-46.6
Rel sector %	-5.7	-35.5	-52.9



## Market capitalisation

A\$128.25m (US\$124.77m)

## Average (12 mth) daily turnover

A\$0.56m (US\$0.50m)

RIC: BTA.AX, BTA AU  
 Priced at close of business 21 Jul 2008.  
 Source: Bloomberg

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# Biota Holdings

## Sound commercial outcome

**BTA announced it has concluded the legal case with GSK at a mediation hearing. In essence, the agreement provides for a payment to BTA of A\$20m. Although this amount is below market expectations, we believe it is a sound commercial outcome.**

**Key forecasts**

	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA (A\$m)	-12.6	16.6	-0.02	23.4 ▲	8.23 ▼
Reported net profit (A\$m)	-11.3	20.2	0.74	24.1 ▲	10.3 ▼
Normalised net profit (A\$m) <sup>1</sup>	-11.3	17.9	0.74	24.1 ▲	10.3 ▼
Normalised EPS (c) <sup>1</sup>	-6.28	9.94	0.43	14.1 ▲	6.00 ▼
Normalised EPS growth (%)	n/a	n/a	-95.6	3149.4	-57.4
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	7.55	173.2	5.33	12.5
EV/EBITDA (x)	n/m	3.98	n/m	1.93	3.82
Price/net oper. CF (x)	-17.6	6.43	15.3	5.32 ▼	8.51
ROIC (%)	n/a	1506.1	-22.3	486.7	86.6

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

year to Jun, fully diluted

1. Pre non-recurring items and post preference dividends

Accounting Standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

**Litigation concluded through mediation**

Following formal mediation, BTA has concluded its litigation against GSK. BTA and GSK have agreed to normalise their relationship to pursue the best interests of Relenza. Going forward, the focus will be on establishing the Relenza franchise particularly in the important market of pre-pandemic influenza risk management, an area of considerable concern to both government and business. The agreement provides for a payment to Biota of A\$20m, with each party bearing their own litigation costs. The payment will be made on 18 August 2008. The existing master agreement between the parties remains unchanged. We view the resolution of this litigation and the cessation of ongoing expenditures on a potentially protracted legal battle to be a positive for the company. While we had looked for a higher payment, it appears to us that GSK has a renewed focus on developing the relationship.

**Next near-term milestone: LANI Phase II trial results**

One of BTA's key projects is the LANI compound, which has been partnered. 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.

**Changes to forecasts reflect BTA's ability to refocus on its pipeline**

We have adjusted our forecasts to reflect the A\$20m settlement and reduced legal costs by A\$10m in FY09 and A\$5m in FY10, although in both years we have increased clinical costs by A\$10m to accelerate the LANI and HRV programs. Our valuation is most sensitive to changes in the probability of success in the LANI program; every 5% change in the probability of success (currently at 10%) alters our valuation by A\$0.09 per share.

**Investment view: target price up slightly**

As a result of these changes, our DCF valuation has increased slightly to A\$1.29 (was A\$1.26).

Our target price is set at the same level. Risks to our target price include a delay in partnering key projects or failure to achieve key end points.

## Recap on Biota

Biota (BTA.AX) is a leading anti-infective drug development company based in Melbourne with expertise in respiratory diseases, particularly influenza. Biota developed the flu drug known as Relenza™ and marketed by GlaxoSmithKline (GSK). 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:

- a series of candidate drugs aimed at the 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 (currently underway) for 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).

## Changes to forecasts

**Table 1 : Changes to forecasts**

	FY08F			FY09F			FY10F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue (A\$m)	49.2	49.2	-0.1%	51.9	71.9	38.6%	54.7	54.7	0.1%
EBITDA (A\$m)	0.0	0.0	0.0%	3.4	23.4	588.3%	13.2	8.2	-37.6%
NPAT (A\$m)	0.7	0.7	-0.2%	3.4	24.1	607.8%	14.2	10.3	-27.5%
EPS (c)	0.4	0.4	0.4%	2.4	14.1	491.3%	8.3	6.0	-27.5%

Source: ABN AMRO Morgans

## Milestones

**Table 2 : Milestones to focus on**

Product	Timing	Milestone	Impact
Relenza	Jul 08	Mediation result with GSK	Achieved
LANI	Jul 08	Results of Phase II trial	Positive
HRV	3QCY08	Start Phase IIa challenge trial - dosing stage	Positive

Source: Company data, ABN AMRO Morgans

**BTA – financial summary**

Year to 30 Jun (A\$m)	AIFRS 2006A	AIFRS 2007A	AIFRS 2008F	AIFRS 2009F	AIFRS 2010F	Valuation price (A\$) 0.755	Price target (A\$)	1.29		
<b>Income statement</b>	<b>2006A</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	<b>Valuation metrics</b>				
Divisional sales	12.7	54.8	49.2	71.9	54.7	Preferred methodology	DCF	Val'n (A\$) \$ 1.29		
Total revenue	12.7	54.8	49.2	71.9	54.7	<b>DCF valuation inputs</b>				
<b>EBITDA</b>	<b>-12.6</b>	<b>16.6</b>	<b>0.0</b>	<b>23.4</b>	<b>8.2</b>	Rf	6.50%	10-year rate 6.50%		
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 8.50%		
EBITA	-13.6	15.4	-3.0	20.4	5.3	CAPM (Rf+Beta(Rm-Rf))	14.6%	Ke 14.6%		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	100.0%	NPV cash flow (A\$m) 159.6		
EBIT	-13.6	15.4	-3.0	20.4	5.3	Debt (D/EV)	0.0%	Minority interest (A\$m) 0.0		
EBIT(incl associate profit)	-13.6	15.4	-3.0	20.4	5.3	Interest rate	8.50%	Net debt (A\$m) -60.3		
Net interest expense	2.3	2.5	3.7	3.6	5.0	Tax rate (t)	30.0%	Investments (A\$m) 0.0		
Pre-tax profit	-11.3	17.9	0.7	24.1	10.3	Franking credit	100.0%	Equity market value (A\$m) 220.0		
Income tax expense						<b>WACC</b>	14.6%	Diluted no. of shares (m) 171.0		
After-tax profit	-11.3	17.9	0.7	24.1	10.3		<b>DCF valuation (A\$)</b>	<b>1.29</b>		
Minority interests						<b>Multiples</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
<b>NPAT</b>	<b>-11.3</b>	<b>17.9</b>	<b>0.7</b>	<b>24.1</b>	<b>10.3</b>	Enterprise value (A\$m)	72.1	73.9	51.2	37.4
Significant items	0.0	2.3	0.0	0.0	0.0	EV/Sales (x)	1.3	1.5	0.7	0.7
NPAT post abnormal	-11.3	20.2	0.7	24.1	10.3	EV/EBITDA (x)	4.3	-4645.0	2.2	4.5
						EV/EBIT (x)	4.7	-24.7	2.5	7.1
						PE (pre-goodwill) (x)	7.9	181.3	5.6	13.1
<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	23.4	8.2	EV/EBITDA (x)	9.5	-10032.9	5.8	15.0
Change in working capital	2.6	-0.5	4.7	-2.9	1.8	PE (pre-goodwill) (x)	12.9	297.0	9.1	21.4
Net interest (pd)/rec	2.3	2.5	3.7	3.6	5.0	<b>Comparable company data (x)</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	
Taxes paid	0.0	2.3	0.0	0.0	0.0	Avexa	EV/EBITDA	-1.9	-3.5	-32.5
Other oper cash items	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-1.9	-3.5	-31.6
Cash flow from ops (1)	-7.7	21.0	8.4	24.1	15.1		PE	-3.7	-4.9	-66.9
Capex (2)	-1.9	-0.9	-1.2	-1.4	-1.4	Pharmaxis	EV/EBITDA	-5.8	-5.1	-9.5
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-5.6	-4.7	-8.1
Other investing cash flow	0.0	0.0	0.0	0.0	0.0		PE	-9.9	-8.4	-14.4
Cash flow from invest (3)	-1.9	-0.9	-1.2	-1.4	-1.4	<b>Per share data</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Incr/(decr) in equity	31.8	1.4	-9.0	0.0	0.0	No. shares	180.0	171.0	171.0	171.0
Incr/(decr) in debt	-0.8	0.0	0.0	0.0	0.0	EPS (cps)	11.2	0.4	14.1	6.0
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	9.9	0.4	14.1	6.0
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Cash flow from fin (5)	31.0	1.4	-9.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	<b>Growth ratios</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Incr/(decr) cash (1+3+5+6)	21.4	21.5	-1.8	22.7	13.7	Sales growth	331.1%	-10.3%	46.4%	-23.9%
<b>Equity FCF (1+2+4)</b>	<b>-9.6</b>	<b>20.1</b>	<b>7.2</b>	<b>22.7</b>	<b>13.7</b>	Operating cost growth	51.0%	28.8%	-1.3%	-4.2%
						EBITDA growth				-64.8%
						EBITA growth				-74.2%
<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	83.1	96.8	Asset turnover (%)	18.3	13.8	18.4	11.9
Trade debtors	5.9	9.4	6.1	8.9	6.7	EBITDA margin (%)	30.3	0.0	32.5	15.0
Inventory	0.0	0.0	0.0	0.0	0.0	EBIT margin (%)	28.1	-6.1	28.4	9.6
Investments	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	32.7	1.5	33.5	18.7
Goodwill						Return on net assets (%)	21.5	-4.7	23.4	5.4
Other intangible assets	0.0	13.4	11.9	10.3	8.6	Net debt (A\$m)	-62.2	-60.3	-83.1	-96.8
Fixed assets	5.5	5.2	5.0	5.0	5.0	Net debt/equity (%)	-86.9	-95.4	-95.1	-99.1
Other assets	0.0	2.3	2.3	2.3	2.3	Net interest/EBIT cover (x)	-6.1	0.8	-5.6	-1.1
<b>Total assets</b>	<b>57.6</b>	<b>92.5</b>	<b>85.6</b>	<b>109.6</b>	<b>119.6</b>	ROIC (%)	1506.1	-22.3	486.7	86.6
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	7.0	Current ratio (x)	3.4	3.0	4.1	4.7
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	7.2	6.4	9.6	7.0
Provisions	0.0	0.0	0.0	0.0	0.0	Payables turnover (x)	7.6	7.3	6.6	6.5
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>21.9</b>					
Share capital	158.0	161.7	153.4	177.5	187.8					
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	87.3	97.6					
Minority interest										
Total shareholders' equity	46.9	71.5	63.3	87.3	97.6					
<b>Total liabilities &amp; SE</b>	<b>57.6</b>	<b>92.5</b>	<b>85.6</b>	<b>109.6</b>	<b>119.6</b>					

Source: Company data, ABN AMRO Morgans forecasts

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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%.

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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).

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Subject companies: BTA.AX.

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