



# Biota Holdings Limited (BTA)

Speculative Buy

Waiting for the Dust to Settle? Look Past the FY08 Result for UK/Japan Stockpiling

\$0.74

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## Key Points

Biota has recently been hit hard by a combination of a surprisingly low settlement with GSK and a poor Relenza™ quarterly.

GSK 2Q CY08 Relenza™ sales of just A\$6.2m, representing a net royalty of A\$0.4m, well below expectations.

GSK settlement of \$20m was well below expectations.

Recent LANI (CS-8958) Japanese Phase 2 influenza result reported by partner Daiichi Sankyo showed very encouraging efficacy results.

Biota announced today that FY08 litigation expense has blown out from guidance of \$15-\$16m to "in excess of \$21m".

Biota is expected to report FY08 results on August 25<sup>th</sup>.

## Summary

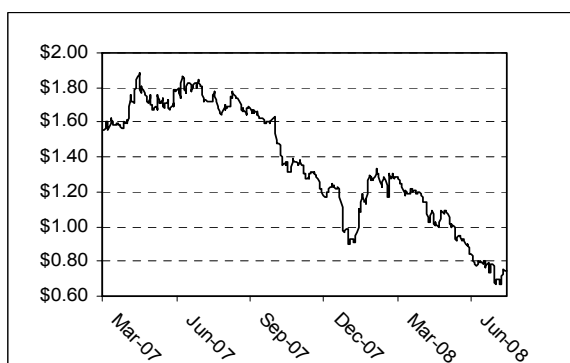
<b>Market Capitalisation (M)</b>	<b>\$132.3</b>
<b>Share Price</b>	<b>\$0.74</b>
Shares on Issue (M)	181.3
52 Week High	\$1.82
52 Week Low	\$0.62
<b>Valuation Per Share (fully diluted)</b>	<b>\$1.85</b>
12 Month Price Target	\$1.85
<b>Est. Cash (M) as at 30/06/08</b>	<b>\$58.9</b>

## Key Financials (A\$'000)

Year End	FY07 Actual	FY08 Est.	FY09 Est.
Relenza Royalties	39,789	20,500	24,982
Partnering Income*	5,726	5,503	5,096
<b>Total Revenue</b>	<b>57,300</b>	<b>48,005</b>	<b>43,719</b>
Litigation Expense	(10,426)	(21,500)	0
Total Op. Expenses	(29,724)	(42,298)	(19,139)
R&D Expenses	(8,198)	(10,041)	(12,167)
<b>EBITDA</b>	<b>16,871</b>	<b>(7,939)</b>	<b>18,655</b>
Adj. NPAT	17,833	(7,016)	19,742
<b>Reported Profit</b>	<b>20,180</b>	<b>(7,016)</b>	<b>19,742</b>
Adj. EPS (c)	9.9	(3.9)	11.4
Reported EPS (c)	11.2	(3.9)	11.4
Adj. PE Ratio (x)	<b>7.5</b>	<b>(19.0)</b>	<b>6.5</b>

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

## Share Price Graph (A\$)



## Our View

- Biota has been effectively side-lined by the market since the sizeable delay in court proceedings, which no doubt triggered the negotiated settlement that fell well short of expectations given the \$39.5m sunk in legal expenses accrued over the last four years and a further \$9.5m in further payments from the \$20m settlement on our estimates. Legal costs looked to have spiralled well out of control at the time of mediation. Despite the poor legal outcome, we believe the dust has largely settled, particularly given the robust efficacy results LANI displayed in a head to head study with the main influenza drug, Tamiflu® which demonstrated statistical equivalence. Daiichi expect to finalise design for a pivotal Phase 3 registration trial during the northern hemisphere autumn/winter influenza season this year. Provided this influenza season is not overly mild, we expect the Phase 3 to be fully recruited and results potentially during 2Q/3Q CY09. Daiichi has flagged it will seek to file for approval for CS-8958 in late CY09. Biota remains a co-owner of this drug and is completing further Phase 1 studies in the UK, including the elderly, which we expect to complete during 1H CY09.
- Based on our estimates of FY08 closing cash, coupled with our estimates of the net gain on settlement with GSK of ~\$10.5m, Biota's cash backing equates to \$0.38 per share. The market is therefore currently ascribing an EV of \$65.2m (\$0.36 per share) to the PV of its Relenza™ royalties and pipeline comprising 1x Phase 3 asset, 1x Phase 2 asset, 1x Phase 1 asset and several pre-clinical assets, including two partnerships. On our estimates to CY14, we believe the PV of Relenza™ royalties is worth \$0.51 per share and have upgraded our risk-adjusted PV for LANI to \$0.54 per share. We believe the higher than expected legal costs during FY08 will be more or less offset by a reduction in R&D spend and product development, principally due to the HRV Phase 2a trial initiating patients during the current Q. We believe investors should look beyond the FY08 result, which we forecast to be an NPAT loss of \$7.0m, due to lower than expected 2Q CY08 royalties, to further major stockpiling orders.. As a result of the LANI result, settlement and changes to our Relenza™ and pipeline valuation model, we have revised our price target to \$1.85 (\$2.00 previous). We maintain our Speculative Buy recommendation.

## CS-8958 (LANI) Phase 2 Clinical Trial – Efficacious!

*CS-8958 equivalent to Tamiflu® in treating influenza, with major dosing advantage.*

Daiichi Sankyo's first Japanese Phase 2 trial (on several hundred patients) for CS-8958 (LANI) showed that a 1x per week dose of CS-8958 (LANI) was statistically indistinguishable from a cohort consisting of 75mg of Tamiflu® administered 2x daily for 5 days. Therefore, CS-8958 is equivalent in effectiveness to Tamiflu® in treating influenza symptoms; a major efficacy result given dosing.

A parallel Phase 2 study undertaken elsewhere in Asia has also completed dosing. Given the challenges of patient compliance with a 2x per day dosing schedule over 5 days with Tamiflu®/Relenza™, CS-8958 is well placed to capitalise on these shortcomings, which is particularly relevant when it comes to both treatment and prophylaxis regimes.

We maintain our view that if CS-8958 continues to show equivalent or superior data versus Tamiflu®/Relenza™ in reducing fever associated with influenza (the primary endpoint of the study), it should meet the requirements of government regulatory bodies for approval. The recent trial result indicates it has, with a *far superior* dosing regime.

*>1.0 reduction in influenza symptoms sufficient for approval.*

Examining the historical context for the two approved neuraminidase inhibitors, we note the reduction in mean time to alleviation of influenza symptoms (no fever, or self-assessment of none or mild headache etc) was 5.5 days versus 7.0 days for placebo in the case of Relenza™ in one study in adults (1.0 day improvement in children). Another Northern hemisphere study, showed an improvement of 1.0 day in adults versus placebo. For Tamiflu®, the data was similar, with 1.3 days improvement in adults aged 18-65 years, and 1.5 days in children when the drug was administered within 48 hours of diagnosis.

Examining pivotal trial endpoints which facilitated regulatory approval for both zanamivir (Relenza™) and oseltamivir (Tamiflu®), we believe CS-8958 will need to show a reduction in duration of overall classic influenza symptoms, most importantly fever, but also headache, myalgia, cough, sore throat, and chills/sweats as potential co-primary or secondary endpoints.

*Daiichi to commence a Phase 3 pivotal study during 2H CY08.*

Daiichi's development position highlights the drugs potential: Daiichi expect to finalise design for a pivotal Phase 3 registration trial during the northern hemisphere autumn/winter influenza season this year. Provided this influenza season is not overly mild, we expect the Phase 3 to be fully recruited and results potentially during 2Q/3Q CY09. Daiichi has flagged it will seek to file for approval for CS-8958 in late CY09. Biota remains a co-owner of this drug and is completing further Phase 1 studies in the UK, including the elderly, which we expect to complete during 1H CY09.

CS-8958 has been designated as a priority item by the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) - providing priority on things such as clinical trial planning. CS-8958 has shown efficacy against H5N1 avian influenza, as well as influenza A and B, positioning it as an ideal stockpiling and seasonal use drug in our view. However, future prophylaxis (preventative) trials will need to be performed to cement this.

*New Japanese initiatives to combat pandemic influenza.*

The timing of this result cannot be understated in light of the Japanese government initiatives announced in the 2Q, which included potentially doubling the Japanese stockpile of influenza drugs to cover 60 million citizens and consideration towards including new drugs in development in Japan, if approved. There are two main drugs we would consider pertinent, namely peramivir (see below) which also released Phase 2 results recently as well, and LANI.

*Revised valuation for LANI of \$0.54 per share.*

The significance of the Daiichi result for CS-8958 result should not be understated in a climate of increasing Tamiflu® resistance (over 40% of cases in some European countries this year) and renewed initiatives by government agencies with respect to stockpiling. We have adjusted our risk-adjusted NPV for LANI, reflecting the significant de-risking of the drug now statistically significant efficacy has been proven in the Phase 2. We now believe LANI is worth up to \$0.54 per share, up \$0.25 per share on previous estimates (see below).

**LANI (CS-8958) - Valuation\***

Parameter	Previous	Revised	Change
Risk-adjusted license (upfront, milestones)	23.9	26.0	9.0%
Risk-adjusted royalties	28.8	71.0	146.7%
Total Risk Adjusted LANI PV (A\$m)	52.7	97.1	84.2%
Per share	\$0.29	\$0.54	\$0.25

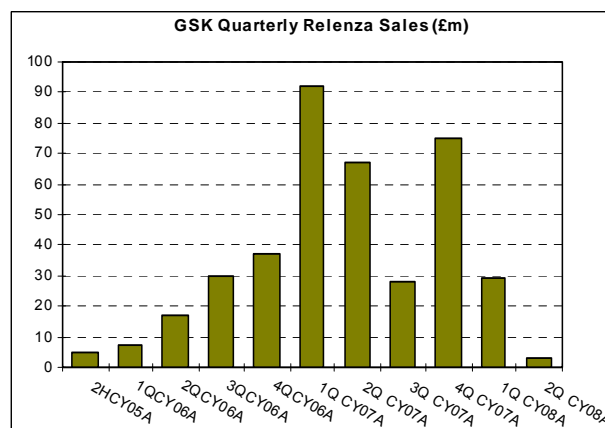
\*Assumes profit share with Daiichi; Source: Taylor Collison estimates

**GSK Quarterly For Relenza™ - Summary**

We expect Relenza™ sales to continue to be volatile on a Q by Q basis. The graphics (see across) are highly suggestive that primary stockpiling in those jurisdictions known to have placed a Relenza™ order, is now largely complete, with the exception of the US, where we believe the unfilled balance to 16.2m treatments under the US pandemic stockpile plan is worth an additional £38.8m in GSK sales (~A\$5.1m in royalties to Biota) during the 1H09. Based on comments made during 1Q CY08, the US stockpile currently consists of 71m treatment courses of Tamiflu® and Relenza™ with the target recently upgraded from 81m to 85m treatments. Primary stockpiling in the US is expected to be completed by the end of CY08. The 2Q CY08 sales of £3m represented US sales of £2m, European sales of £1m, with no international sales recorded for the Q (see below).

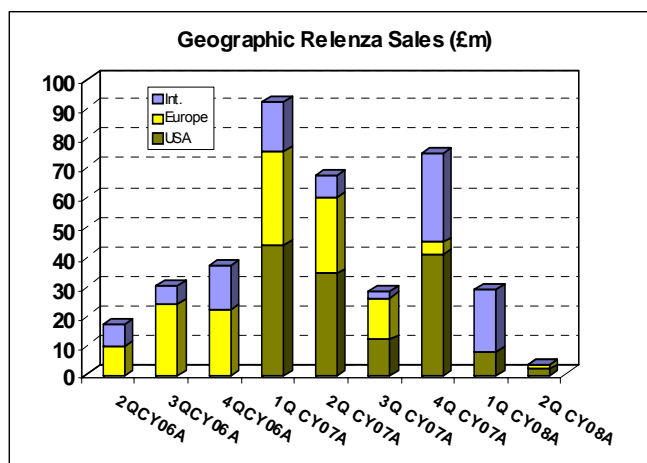
*US stockpiling likely to contribute a further A\$5.1m in FY09 royalty revenues.*

*Poor 2Q CY08 Relenza™ sales.*



Source: GSK

Based on publicly available information, we understand approximately 13 jurisdictions have placed orders for Relenza™ over the last two years, with the US, France, Germany, Hong Kong and Australia leading the pack (see previous research for Tabulated order quantities). While the UK government, the US and Japan have all flagged an intention to at least double existing stockpiles of anti-viral drugs, to date no public statements pertaining to actual order quantum or composition (Relenza™, Tamiflu®) has been forthcoming.



Source: GSK

**Japan and the UK – The Next Major Orders?**

In our initial modelling for Relenza, we had made certain assumptions that countries with existing stockpiles of Tamiflu® (>80 to date), would consider supplementing to the 20% level based on population levels with Relenza™, as per World Health Organisation (WHO) recommendations and led by jurisdictions such as the US. We have seen little evidence of this to date, which forms a material component of our FY09/FY10 Relenza™ royalty estimates.

*Lack of new pandemic orders apparent from western governments.*

*Expectation of major Japanese order during FY09.*

Based on discussions with contacts in Japan, it is very likely the health ministry request for stockpile additions (double) will be legislated, in which case a sizeable Relenza™ order may be forthcoming during 2H CY08. Japan currently holds 28 million Tamiflu® treatments and 1.35 million Relenza™ treatments. We would expect the Japanese stockpile to move to 25% Relenza™, inferring an order possibility of 14.65m treatments, which could provide up to A\$25m in additional royalties to Biota.

*UK Order worth potentially \$12.8m-\$26.6m in royalties.*

We note recently the UK government has commenced an initiative to contract with pharmaceutical companies via tender offers to supply anti-virals (read Relenza™ or Tamiflu®, or both) to double the national stockpile of anti-viral drugs from 14.6m treatments (consisting almost entirely of Tamiflu®) to 29.2m treatments. We have previously flagged this intention, and note major advisory bodies (Royal Society) advocating a 50/50 split between the two drugs in the stockpile. However, at this juncture we do not know the splits but expect Relenza™ to comprise 25-50% of the stockpile, inferring \$12.8m-\$26.6m in potential royalties to Biota.

*Downgraded FY09 Relenza™ estimates by 38.0% on lack of further govt stockpiling.*

As a result of the uncertainty with respect to further government orders and a lack of an established replacement market, we have downgraded our FY09 Relenza™ royalty estimates by 38.0% to \$24.9m, which assumes a positive contribution via the completion of the US stockpile order, modest seasonal sales (predominately in Japan) and one government stockpiling order, most likely in Japan or the UK. The US has targeted a total desired anti-viral stockpile of 195m treatments, though quantities over and above the Federal/State stockpile of 85m treatments will be largely funded out of the private sector.

## **Settlement with GSK – What Happened?**

*GSK case settled for A\$20m one-off payment.*

Biota recently announced it had reached a settlement with GlaxoSmithKline (GSK) over its long term litigation over Relenza™, which constituted an A\$564-A\$704m claim for loss and damages under the license agreement. The salient features of the settlement were:

- Conclusion of mediation to result in a A\$20m one-off payment to Biota by GSK on August 18th.
- Senior executive liaison and co-operation between the Companies to be restored and strengthened.
- No change to Relenza royalty rate of 7% in most jurisdictions (10% Aust/NZ).
- No change to master license agreement, which is biased against Biota given cash collection from royalties occurs only once per year.
- No change to best efforts/endeavours provisions in agreement, allowing GSK to market/sell Relenza on their terms.

*Settlement fell well short of expectations.*

Based on historic and estimates for total legal expenses to FY08 and into FY09, namely the \$39.5m sunk in accrued legal expenses and a further \$9.5m in further payments, this implies the settlement amount falls well short of break even for the Company, which is a disappointing result for shareholders given the significant distraction this case has represented over the last four years.

Indeed, it can be argued GSK's lack of commitment in front-footing the pandemic/seasonal market for Relenza™ until very recently, particularly in light of the significant problems associated with Tamiflu®, was in part due to the litigation overhang. It would seem counter intuitive for GSK to push Relenza™ knowing ultimately it was the Relenza™ royalty revenues that was funding Biota's case against them. In our view, the settlement amount does not adequately compensate for this observation and the lost opportunity over 4 years of GSK actively rather than reactively responding to government stockpiling initiatives and building seasonal market share.

*Adverse judgment in Supreme Court the likely cause.*

We had only made modest litigation expense estimates for FY09 (\$3.5m), on the premise of a settlement being likely outcome given the adverse judgment outcome in the Supreme Court dated 10/4 (BTA ASX Release 28/5). In our view, this judgment was in part responsible for the erosion in Biota's ability to get the dispute to trial expeditiously. Examination of the Judgment from Justice Whelan highlights 6 witness statements compiled by Biota's lawyers were outside of the pleadings, and as such required amendment and re-filing.

*Major legal costs if the case continued.*

In our view, this ultimately aided GSK in delaying the trial date significantly, therefore sizeably increasing the costs. We remain unsure why the case grew in complexity between this judgment and the recent announcement; given our independent investigations suggested the case was strong. We understand forward legal costs were anticipated to be in the \$2-\$3m per month range representing a significant strain on BTA's financial position and would probably drive the Company to formally suspend the 5% share buy-back and undertake a challenging capital raise in the absence of recurring Relenza™ royalties in the \$30m-\$40m range.

In short, Biota looks to have been caught between a rock and a hard place, which drove a settlement that fell well short of our expectations. We expect the Company to record a one-off gain on settlement of approximately \$10.5m (net of accrued legal fees, no tax) during FY09. As a result of the settlement, we expect greater visibility on GSK pandemic initiatives and sales strategy for Biota, and as such the now unencumbered position on Relenza™ may drive GSK initiatives and conversion to sales (e.g. the recently announced UK stockpiling order).

## Peramivir i.v Efficacy in Japanese Phase 2 Clinical Trial

*Peramivir met its Phase 2 trial endpoints recently in Japan.*

Biocryst Pharmaceuticals (NASDAQ: BCRX) recently announced preliminary results of a Phase 2 study of intravenous (i.v.) peramivir administered via a single dose injection in the outpatient setting for the treatment of seasonal influenza. In the Phase 2 study subjects were randomised to receive an i.v. injection of placebo or one of two doses of peramivir (300 mg and 600 mg) as a single dose administered within 48 hours of symptom onset. Peramivir was previously developed with J&J who pulled out after the parties failed to develop and oral version of the drug.

*I.V administration and resistance remains a major concern for commercial success.*

The trial, by Biocryst's Japanese licensee, Shionogi & Co., Ltd met its primary endpoint of improvement in the median time to alleviation of symptoms in subjects with confirmed, acute, uncomplicated influenza infection, compared to placebo alone. They indicated the result was statistically significant with a generally well tolerated side effect profile. Biocryst indicated Shionogi has commenced preparations for a Phase 3 trial. Biocryst had previously licensed the drug to Shionogi for US\$130m in upfront/milestone payments and a 10-20% royalty rate for the Japanese and Korean markets.

*Peramivir unlikely to garner widespread interest for pandemic planning purposes.*

While the result passed in an efficacy sense, the delivery mechanism of i.v is far from ideal, and reflects the historic problems peramivir has experienced via intramuscular delivery, where needle length appeared to be a primary determinant in appropriate drug delivery and effect. We do not expect a seasonal influenza drug that requires iv administration will ever replace Relenza™/Tamiflu® (and potentially CS-8958) in the Japanese seasonal market. However, in the hospital setting, in the most severe of cases the drug may find a role, particularly in light of continued Tamiflu® resistance. However, we note from published studies that peramivir is also ineffective against the same mutation that confers resistance to Tamiflu® and was the source of major resistance during the last influenza season, particularly in Europe, Canada and the US. Relenza™ retains full potency against this mutation.

With regard to pandemic stockpiling, the drug may provide an alternative to Relenza™/Tamiflu® as a second generation neuraminidase inhibitor (similar to LANI), though ease of distribution and administration remain in question, particularly when longer term prophylaxis is required for essential healthcare or other workers.

## Outlook

*Recent raft of poor news has weighed on stock.*

The soft GSK quarter, coupled with the recent disappointing settlement outcome with GSK, probably represents the darkest period the Company has experienced in recent times. However, the recent CS-8958 (LANI) Phase 2 success typifies the rigor under which Biota's drugs are developed and highlights pipeline potential beyond Relenza™. Our FY08 GSK volume estimates of approximately 11.7m highlights significant under utilisation versus estimated installed capacity for FY07 of 22.7m.

*Market is ascribing negligible cost to pipeline, including future Relenza™ royalties.*

Based on our estimates of FY08 closing cash, coupled with our estimates of the net gain on settlement with GSK of ~\$10.5m, Biota's cash backing equates to \$0.38 per share. The market is therefore currently ascribing an EV of \$65.2m (\$0.36 per share) to the PV of its Relenza™ royalties and pipeline comprising 1x Phase 3 asset, 1x Phase 2 asset, 1x Phase 1 asset and several pre-clinical assets, including two partnerships.

We believe Relenza™ alone is worth \$93.0m, or \$0.51 per share, which does not account for potential future upside from current government initiatives to double anti-viral stockpiles (e.g. UK, USA, Japan). As indicated we have also valued LANI at \$0.54 per share. Despite the lumpy quarterly results, this market, in our view, has become more attractive for Relenza™, given widespread Tamiflu® resistance and the government initiatives cited. However, as a revenue taker, Biota is totally dependent on GSK to deliver on Relenza™.

*Swing factors would be multiple partnerships during FY09.*

With the litigation settlement, and a disappointing quarterly for Relenza™, despite very good macros, the Company has effectively cleared the decks and we believe the dust is close to settling as a result of the Phase 2 results. The stock is currently trading at levels not seen since initial German stockpiling orders in Aug 05. The Company expects further clinical milestones over the next 12-18 months, as denoted below.

The swing factor to our expectations would be a license deal for LANI (ROW – ex Japan) or HRV. Biota has demonstrated an innate ability to license early stage (pre-clinical) compounds (HCV, RSV) for >US\$100m each, which suggests the Company's current clinical stage candidates could well fetch a higher asking price.

*Robust 12 month milestones expected.*

<b>Biota 12 Month Milestone Chart</b>	<b>Timing</b>
Commencement of HRV Phase 2a Dosing	3Q CY08
Completion of RSV Phase 1 Studies	1H CY09
Commencement of RSV Phase 2 Studies	4Q CY09
Completion of multiple LANI Phase 1 (UK) studies	1H CY09
Completion of HRV Phase 2a Study	4Q CY08 / 1Q CY09
Commencement of Daiichi Japanese Phase 3 LANI Study	4Q CY08
Completion of Daiichi Japanese Phase 3 LANI Study	2Q/3Q CY09

*Source: Taylor Collison estimates*

*Maintain Speculative Buy recommendation.*

As highlighted previously, we now expect Biota to report an FY08 NPAT loss of \$7.0m due to the soft Relenza™ result. For FY09, we have downgraded expectations of Relenza™ revenues from \$40.3m to \$25.0m, despite our view that GSK has adequate capacity on hand to produce at least 25-30m treatment courses annually, equating to maximum estimated royalties of \$43.7-\$52.5m at \$25 per treatment course. Our revenues are predicated on 1x major jurisdictional order (most likely the UK or Japan) coupled with final fulfilment of the US stockpile to 85m treatments and modest seasonal sales royalties. We maintain our Speculative Buy and revised price target of \$1.85.

## Biota Holdings Limited - Summary of Forecasts

BTA \$0.74

PROFIT & LOSS SUMMARY (A\$'000)					
Period	FY06A	FY07A	FY08E	FY09E	FY010E
Relenza Royalties	5,189	39,789	20,500	24,982	10,198
Partnering (License) Income	2,243	5,726	5,503	5,096	22,333
Research income (inc Grants)	4,021	8,740	18,117	9,167	3,633
<b>Total Revenue</b>	<b>14,967</b>	<b>57,300</b>	<b>48,005</b>	<b>43,719</b>	<b>41,399</b>
<i>Growth (pcp)</i>	196.4%	282.8%	-16.2%	-8.9%	-5.3%
<b>Net Operating Revenue</b>	<b>(2,635)</b>	<b>27,576</b>	<b>5,707</b>	<b>35,080</b>	<b>26,316</b>
R&D Expenses	(7,685)	(8,198)	(10,041)	(12,167)	(11,333)
<b>EBITDA</b>	<b>(12,576)</b>	<b>16,871</b>	<b>(7,939)</b>	<b>18,655</b>	<b>9,957</b>
Depreciation	(986)	(1,228)	(1,288)	(1,473)	(1,378)
Amortisation	0	(317)	(1,394)	(1,699)	(693)
<b>EBIT</b>	<b>(13,562)</b>	<b>15,326</b>	<b>(10,621)</b>	<b>15,483</b>	<b>7,885</b>
Net Interest	2,256	2,507	3,605	4,258	5,026
<b>Pre-Tax Profit</b>	<b>(11,306)</b>	<b>17,833</b>	<b>(7,016)</b>	<b>19,742</b>	<b>12,911</b>
Tax Expense	0	0	0	0	0
Minorities	0	0	0	0	0
<b>NPAT Normalised *</b>	<b>(6,909)</b>	<b>28,259</b>	<b>14,484</b>	<b>9,242</b>	<b>12,911</b>
<b>NPAT Adj.**</b>	<b>(11,306)</b>	<b>17,833</b>	<b>(7,016)</b>	<b>19,742</b>	<b>12,911</b>
<i>Growth (pcp)</i>	n/a	n/a	-139.3%	-381.4%	-34.6%
Net Adjustments***	0	2,347	0	0	0
<b>Reported Profit</b>	<b>(11,306)</b>	<b>20,180</b>	<b>(7,016)</b>	<b>19,742</b>	<b>12,911</b>

PER SHARE DATA					
Period	FY06A	FY07A	FY08E	FY09E	FY010E
<b>Adjusted EPS (c) *</b>	<b>(6.9)</b>	<b>9.9</b>	<b>(3.9)</b>	<b>11.4</b>	<b>7.4</b>
<i>Growth (pcp)</i>	n/a	n/a	-139.3%	-391.7%	-34.6%
<b>Reported EPS (c)</b>	<b>(6.9)</b>	<b>11.2</b>	<b>(3.9)</b>	<b>11.4</b>	<b>7.4</b>
<i>Growth (pcp)</i>	n/a	n/a	-134.8%	-391.7%	-34.6%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(5.4)	6.9	1.2	11.7	44.0
NTA per share (c)	28.5	32.2	28.8	59.7	105.7

VALUATION MULTIPLES					
Period	FY06A	FY07A	FY08E	FY09E	FY010E
Adjusted PE Ratio (x)*	n/a	7.5	-19.0	6.5	10.0
PE Ratio (x)	n/a	6.6	(19.0)	6.5	10.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	300.0%
EV/EBITDA (x)	(14.5)	9.8	(21.3)	8.5	14.7
EV/EBIT (x)	(13.4)	10.8	(16.0)	10.3	18.6

CAPITAL RAISING ASSUMPTIONS					
Period	FY06A	FY07A	FY08E	FY09E	FY010E
Shares Issued (m)	41.0	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.76	0.0	0.0	0.0	0.0
Cash Raised (A\$m)	31.0	0.0	0.0	0.0	0.0

KEY RATIOS					
Period	FY06A	FY07A	FY08E	FY09E	FY010E
EBITD/Sales Margin %	-84.0%	29.4%	-16.5%	42.7%	24.1%
EBIT/Sales Margin %	-90.6%	26.7%	-22.1%	35.4%	19.0%
Current ratio (x)	4.9	5.3	5.2	9.4	18.1
Net Debt : Equity (%)	-98.5%	-86.9%	-91.9%	-85.8%	-86.4%
ROE (%)	-24.1%	30.1%	-10.4%	27.3%	14.7%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

\*Excluding litigation expenses and settlement

\*\* Excluding Litigation Costs

\*\*\* FY07 income tax credit

BALANCE SHEET SUMMARY (A\$'000)					
Period	FY06A	FY07A	FY08E	FY09E	FY010E
Cash	46,183	62,156	58,736	69,319	81,690
Receivables	5,864	9,350	1,440	6,558	6,210
Inventories	0	0	0	0	0
Other	0	0	0	0	0
<b>Total Current Assets</b>	<b>52,047</b>	<b>71,506</b>	<b>60,176</b>	<b>75,877</b>	<b>87,900</b>
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Property Plant & Equip	5,512	5,152	7,364	6,891	6,063
Intangibles	0	13,447	12,053	10,354	9,661
Deferred Tax Assets	0	2,349	2,349	2,349	2,349
Other	0	0	0	0	0
<b>Total Non-Current Assets</b>	<b>5,512</b>	<b>20,948</b>	<b>21,766</b>	<b>19,594</b>	<b>18,073</b>
<b>TOTAL ASSETS</b>	<b>57,559</b>	<b>92,454</b>	<b>81,942</b>	<b>95,471</b>	<b>105,973</b>
Accounts Payable	4,034	6,004	5,761	4,372	4,140
Borrowings	0	0	0	0	0
Provisions	516	1,097	887	789	727
Other (Inc Def Rev)	6,011	6,457	4,841	2,933	0
<b>Total Current Liab</b>	<b>10,561</b>	<b>13,558</b>	<b>11,489</b>	<b>8,094</b>	<b>4,867</b>
Borrowings	0	0	0	0	0
Provisions	100	6,339	6,546	6,546	6,546
Other (Inc Def Rev)	0	1,022	0	0	0
<b>Total Non-Current Liab</b>	<b>100</b>	<b>7,361</b>	<b>6,546</b>	<b>6,546</b>	<b>6,546</b>
<b>TOTAL LIABILITIES</b>	<b>10,661</b>	<b>20,919</b>	<b>18,035</b>	<b>14,640</b>	<b>11,413</b>
<b>TOTAL EQUITY</b>	<b>46,898</b>	<b>71,535</b>	<b>63,907</b>	<b>80,831</b>	<b>94,560</b>

CASH FLOW SUMMARY (A\$'000)					
Period	FY06A	FY07A	FY08E	FY09E	FY010E
<b>EBIT (excl Abs/Extr)</b>	<b>(13,562)</b>	<b>15,326</b>	<b>(10,621)</b>	<b>15,483</b>	<b>7,885</b>
Add: Depreciation	986	1,228	1,288	1,473	1,378
Amortisation	0	317	1,394	1,699	693
Change in Pay.	863	1,970	(243)	(1,389)	(232)
Less: Tax paid	0	2,347	0	0	0
Net Interest	2,256	2,507	3,605	4,258	5,026
Change in Rec.	(5,374)	(3,486)	7,910	(5,118)	348
Change in Prov.	(20)	(6,820)	3	98	62
Change in Def Tax Assets	0	(2,349)	0	0	0
Change in Inv.	0	0	0	0	0
Change in Def. Rev.	6,011	1,468	(2,638)	(1,908)	(2,933)
<b>Gross Cashflows</b>	<b>(8,840)</b>	<b>12,508</b>	<b>2,091</b>	<b>16,296</b>	<b>12,921</b>
Capex	(1,985)	(893)	(3,500)	(1,000)	(550)
<b>Free Cashflows</b>	<b>(10,825)</b>	<b>11,615</b>	<b>(1,409)</b>	<b>15,296</b>	<b>12,371</b>
Re-Purchase of Shares**	0	0	(2,213)	(4,712)	0
<b>Net Cash Flow</b>	<b>(10,825)</b>	<b>11,615</b>	<b>(3,622)</b>	<b>10,583</b>	<b>12,371</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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