

29 August 2008



Investment Data

Share Price (\$)	0.735
Ord Shares (m)	181.2
Market Cap (\$m)	133.2
Enterprise Value (\$m)	73.1
Options (m)	2.1
Net Cash (Jun 2008) (\$m)	60.0
Avg daily vol (3 mths)	357,000
52 week Low/High (\$)	0.62/1.78
NAV/share (Jun 2008)	\$0.35
NTA/share (Jun 2008)	\$0.28

Major Shareholders

Hunter Hall	9.8%
Alleron Investment*	5.1%

*Alleron is an associate of Ascalon, a member of St George Bank.

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Lower Expectation For Relenza

- Following commentaries by Biota after the release of its FY08 results, **we now expect Relenza royalties to grow 16% to \$23.8m in FY09, down 36% from our previous forecast.** It said GSK had referred to announcements from a number of governments that they would increase their stockpiles but it remained unclear when orders would be placed.
- **Other revenues, excluding the \$3.4m milestone payment from its RSV program in FY08, should grow 5% to \$16.1m.** Operating expenses, excluding legal costs, should jump 33% to \$42.7m but at least a third should be reimbursed by licensees and government grants. **At the bottomline, we expect a profit of \$13.2m, or \$4.8m excluding an \$8.4m after-tax gain (imputed 30% tax) from the \$20m settlement with GSK.** It received the \$12m net cash from GSK recently.
- Biota's FY09 revenues include amortised payments on the **US\$3.5m received from Astrazeneca following its acquisition of new territories in Asia Pacific for the RSV program.** Biota has assigned to AstraZeneca its licence deal with MedImmune, which AstraZeneca acquired in 2007.
- **Biota reported a net loss of \$6.5m for FY08,** compared with our forecast loss of \$4.5m and profit of \$20.2m a year ago. A key difference was that the \$21.8m legal costs were higher than our \$18m estimate. Excluding legal costs, Biota would have posted a \$8.7m net profit for FY08.
- **Biota has \$60.2m cash in June** and a \$0.13m property lease loan. It resumed its share buyback yesterday. It has not declared any dividends and is unlikely to do so in future.
- For FY10, we assume Relenza royalties will fall 10% on lower pandemic orders (including replenishment orders) but with increasing orders from the seasonal market. **Biota is trading at FY09 and FY10 PERs of 25.4 and 15.1x respectively.**
- **We have raised our target price by 2% to \$1.15,** based on 1.2x price/book multiple, net present value of Relenza royalties until its patent expiry in 2014 and the \$12m cash from GSK. Biota's quality product pipeline includes 3 programs at the clinical stage. It remains a **Speculative Buy.**

YE June (\$m)	FY07	FY08	FY09F	FY10F
Relenza royalties	39.79	20.54	23.80	21.45
GSK gain	-	-	12.00	-
Other revenue	17.51	24.45	22.40	25.09
Total revenue	57.30	44.99	58.20	46.54
Pretax profit	17.83	(9.31)	15.30	9.64
Net profit	20.18	(6.49)	13.50	8.57
GSK (costs)/gain *	(7.30)	(15.19)	8.40	-
Adj net profit	27.48	8.70	5.10	8.57
Dil EPS (¢)	11.10	(3.51)	2.89	4.86
PER (x)	6.6	n/a	25.4	15.1

* After nominal 30% tax. The \$12m gain in FY09 was tax-free after offset from capital loss under tax account.

BIOTA : EARNINGS SUMMARY & VALUATION

YE June (\$m)	FY06	FY07	FY08	FY09F	YOY	FY10F
<u>Relenza sales</u>						
Mil of courses	2.65	22.46	13.71	14.62	7%	13.18
Official px/course (US\$)		21.72				
Assumed px/course(US\$)	20.00	20.00	20.00	20.00	0%	20.00
US\$:A\$	0.80	0.80	0.90	0.86	-5%	0.86
Unit price (\$)	25.00	25.00	22.21	23.26	5%	23.26
Gross sales (\$m)	66.33	561.40	304.50	340.00	12%	306.50
Royalty rate	7.8%	7.1%	6.7%	7.0%		7.0%
Royalties	5.19	39.79	20.54	23.80	16%	21.45
<u>Relenza Royalties</u>						
Pandemic market	5.19	39.79	20.54	19.60		14.45
Seasonal market	-	-	-	4.20		7.00
Total	5.19	39.79	20.54	23.80	16%	21.45
<u>Collaboration Income</u>						
Research revenues*	2.93	7.27	9.35	9.50	2%	11.00
Partnering income #	2.24	5.73	2.45	2.90	18%	2.00
Milestone payment @	-	-	3.42	-		4.00
Total	5.17	13.00	15.22	12.40	-19%	17.00
Interest income	2.26	2.51	3.20	3.90	22%	4.70
GSK settlement gain				12.00		
Grants, others	2.35	2.01	6.02	6.10	1%	3.39
Total revenues/ income	14.97	57.30	44.99	58.20	29%	46.54
% from Relenza	35%	69%	46%	41%		46%
<u>Expenses</u>						
GSK litigation	(4.40)	(10.43)	(21.82)	-		-
Others	(21.74)	(28.43)	(32.05)	(42.70)	33%	(36.70)
Total	(26.13)	(38.85)	(53.88)	(42.70)	-21%	(36.70)
EBITDA	(12.44)	17.49	(9.36)	14.01	n/a	7.65
Depreciation	(0.99)	(1.55)	(2.73)	(2.41)	-12%	(2.51)
EBIT	(13.42)	15.94	(12.09)	11.60	n/a	5.14
Net interest income	2.12	1.89	2.78	3.70	33%	4.50
Pretax profit	(11.31)	17.83	(9.31)	15.30	n/a	9.64
Tax	-	2.35	2.82	(1.80)	n/a	(1.07)
Net profit	(11.31)	20.18	(6.49)	13.50	n/a	8.57
GSK costs/gain *	(3.08)	(7.30)	(15.19)	8.40		-
Adj Net profit	(8.23)	27.48	8.70	5.10	-41%	8.57
Tax rate	0%	n/a	n/a	12%		11%
No shares (m)	179.3	182.7	180.8	174.2	-4%	174.2
Share buyback (m)			(2.5)	(6.6)		-
Diluted no shares (m)	164.4	181.8	184.9	176.3	-5%	176.3
Dil EPS (¢)	(6.9)	11.1	(3.5)	7.7		4.9
Dil EPS, ex-GSK (¢)	(5.0)	15.1	4.7	2.9		4.9
EPS growth	n/a	n/a	-69%	-39%		68%
PER (x)	n/a	4.9	n/a	25.4		15.1

* Fees for services on the RSV and HCV collaboration deals. # Amortisation of initial payments on the RSV (including subsequent payment by AstraZeneca) and HCV deals.

@ Milestone payments under the RSV program.

BIOTA: CASHFLOW

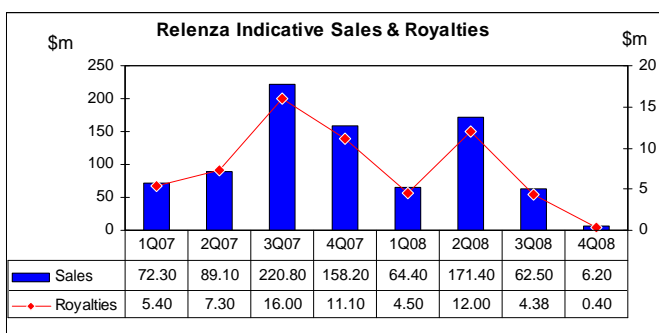
YE June (\$m)	FY06	FY07	FY08	FY09F	YOY	FY10F
Receipts						
Relenza	5.19	38.06	30.49	23.80	-22%	21.45
Other receipts	1.78	9.24	11.57	15.50	34%	14.29
Payments	(23.49)	(34.04)	(43.90)	(36.00)	-18%	(25.00)
Oth rev (upfront paymt)	6.73	5.05	3.42	-		4.00
Interest received	2.11	2.67	3.23	3.60	11%	4.50
Net cash from operation	(7.68)	20.98	4.82	6.90	43%	19.24
GSK settlement						
Share issue (net)	31.84	1.39	0.01	-		-
Payment for intangibles		(5.51)				
Capex	(1.99)	(0.89)	(3.79)	(2.00)		(2.00)
Share buyback			(3.03)	(4.64)		-
Loan repayment	(0.79)	-	-	-		-
Others	0.04	-	-	-		-
Change in cash	21.43	15.97	(1.99)	12.26		17.24
Opening cash	24.75	46.18	62.16	60.16		72.42
Effect of forex	-	-	(0.00)	-		-
Closing cash	46.18	62.16	60.16	72.42	20%	89.67

Biota : Making Progress in Quality Product Pipeline

	In-house		Licensed		In-market
	LANI*	HRV	RSV	HCV	
Marketed					Relenza*
Late Clinical	To start Phase III soon				
Early Clinical	Started Phase II in Nov 07 Completed Phase I in Apr 07	Started Phase IIa in Aug 08 Completed Phase I in Mar 07	Started Phase I in Jul 07. Received US\$3m milestone payment in 1Q08		
Pre-clinical					
Lead					
Late discovery			Licensed to MedImmune in Dec 05	Licensed in Nov 06 to Boehringer Ingelheim	

Note: LANI - Long Acting Neuraminidase Inhibitor (co-owned with Daiichi-Sankyo), a potential replacement for zanamivir (Relenza); HRV - Human Rhinovirus; RSV - Respiratory Syncytial Virus; HCV (Hepatitis C Virus).

* It was reported earlier this month that the first head-to-head comparison study into the use of Relenza and Tamiflu among children in Japan showed that both work equally well to fight the flu symptoms. However, the Japanese government has suspended the use of Tamiflu for teenagers because of reports of psychiatric reactions, leading to Relenza being "prescribed widely for teenaged patients". The study also stated that more than 70% of the total amount of Tamiflu prescribed globally each year is used in Japan.


BTA: Valuation

1.2x Book Value @30 Jun 08 (\$m)	75.96
Net Present Value of royalties (\$m)*	120.00
Net cash from GSK @ Aug 08 (\$m)	12.00
Market cap (\$m)	207.96
No shares (m)	181.19
Target price (\$)	1.15

* from FY09 to FY14, when Biota's patents expires.

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