

4 November 2008

Change of target price

## 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

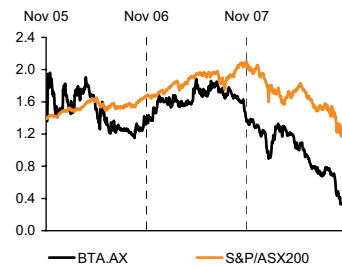
**Target price**  
A\$0.69 (from A\$1.21)

**Price**  
A\$0.33

**Short term (0-60 days)**  
n/a

### Price performance

|                | (1M)  | (3M)  | (12M) |
|----------------|-------|-------|-------|
| Price (A\$)    | 0.67  | 0.79  | 1.36  |
| Absolute (%)   | -50.4 | -58.0 | -75.7 |
| Rel market (%) | -44.8 | -51.2 | -61.5 |
| Rel sector (%) | -41.3 | -48.3 | -67.5 |



**Market capitalisation**  
A\$56.43m (US\$38.57m)

**Average (12 mth) daily turnover**  
A\$0.42m (US\$0.38m)

RIC: BTA.AX, BTA AU  
Priced at close of business 3 Nov 2008.  
Source: Bloomberg

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# Biota Holdings

## Trading at cash backing

**BTA is now trading at cash backing and the R&D portfolio is being ascribed no value by the market. Positive news flow should lift the share price. What is next? Read on.**

### Key forecasts

|   | FY07A  | FY08A | FY09F  | FY10F  | FY11F |
|---|--------|-------|--------|--------|-------|
| EBITDA (A\$m)                             | 16.6   | -9.78 | 9.90 ▼ | 10.6   | 28.4  |
| Reported net profit (A\$m)                | 20.2   | -6.49 | 8.43 ▼ | 8.16   | 20.0  |
| Normalised net profit (A\$m) <sup>1</sup> | 20.2   | -6.49 | 8.43 ▼ | 8.16   | 20.0  |
| Normalised EPS (c) <sup>1</sup>           | 11.2   | -3.79 | 4.93 ▼ | 4.77   | 11.7  |
| Normalised EPS growth (%)                 | n/a    | n/a   | n/a    | -3.18  | 144.6 |
| 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)                         | 2.93   | n/m   | 6.69   | 6.91   | 2.83  |
| EV/EBITDA (x)                             | n/m    | 0.38  | n/m    | n/m    | n/m   |
| Price/net oper. CF (x)                    | 2.83   | 11.7  | 12.4 ▲ | 4.99 ▲ | 2.74  |
| ROIC (%)                                  | 1506.1 | -93.4 | 140.6  | 61.8   | 253.5 |

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

### So, what is next?

We expect BTA to start a Phase III trial for its LANI compound within the next two months. The program is a second-generation influenza treatment (known as CS-8958, or a long-acting neuraminidase inhibitor - LANI) and is partnered with Japanese Group Daiichi-Sankyo. Earlier this year a Phase II study demonstrated that a single inhaled dose of LANI was statistically indistinguishable from 75mg of oseltamivir (Tamiflu, a competitive product) twice a day for five days in patients with confirmed, naturally acquired, influenza A or B. See Table 1 for the upcoming milestones.

### Quarterly Relenza numbers less than our forecast, but hard to estimate

Following the release of the 3Q Relenza sales figures from GlaxoSmithKline (GSK) last week, we have reduced our sales forecasts for FY09. GSK reported GBP12m (about A\$28.9m) in Relenza sales. BTA receives a 7% royalty from GSK and will receive A\$1.9m from GSK in 1Q09 (see Table 2). It is always difficult to estimate quarterly sales reflecting the variability in government tender orders, largely for stockpiling. We have downgraded our FY09F Relenza estimate from A\$26m to A\$20.5m, which has reduced our NPAT by 30.3% to A\$8.4m.

### Solid cash position

At 30 September, BTA's cash reserves stood at A\$55.0m and a milestone payment was received in October of A\$4.2m from collaboration partner AstraZenca. Given this solid cash position, BTA has no funding issues, a positive in this environment.

### Investment view – Buy maintained

Following changes to forecasts our DCF valuation has decreased to A\$1.15 (from A\$1.21). The key assumptions in deriving our valuation include a risk-free rate of 6.5%, a WACC of 14.6% and a terminal growth rate of 3.5%. Our target price is now set at A\$0.69 (was A\$1.21), a 40% discount to the valuation, reflecting the volatility in the life science sector at present. Key risks to our target price include a delay in partnering key projects or a failure to achieve key end points.

**Table 1 : Upcoming milestones to watch**

| Product | Timing    | Milestone                                      | Impact   |
|---------|-----------|--|----------|
| LANI    | July 2008 | Results of Phase II trial                      | Achieved |
| HRV     | 3QCY08    | Start Phase IIa challenge trial – dosing stage | Achieved |
| LANI    | 4QCY08    | Start Phase III LANI                           | Positive |
| Relenza | 1QCY09    | Improving Relenza royalties from GSK           | Positive |

Source: ABN AMRO Morgans

**Table 2 : Relenza royalties**

| (£m)  | 1Q07 | 2Q07 | 3Q07 | 4Q07 | 2007 | 1Q08 | 2Q08 | 3Q08 | % change on pcp | % change on pcp |
|-------|------|------|------|------|------|------|------|------|-----------------|-----------------|
| US    | 44   | 34   | 12   | 41   | 131  | 8    | 2    | 5    | 150%            | -58%            |
| EU    | 32   | 26   | 14   | 4    | 76   | 0    | 1    | 0    | nm              | -100%           |
| ROW   | 16   | 7    | 2    | 30   | 55   | 21   | 0    | 7    | nm              | 250%            |
| Total | 92   | 67   | 28   | 75   | 262  | 29   | 3    | 12   | 300%            | -57%            |

Source: Company data, ABN AMRO Morgans

**BTA – financial summary**

| Year to 30 Jun (A\$m)             | AIFRS<br>2007A | AIFRS<br>2008A | AIFRS<br>2009F | AIFRS<br>2010F | AIFRS<br>2011F | Valuation price (A\$)              | 0.330     | Price target (A\$)         | 0.69         |              |              |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|------------------------------------|-----------|----------------------------|--------------|--------------|--------------|
| <b>Income statement</b>           | <b>2007A</b>   | <b>2008A</b>   | <b>2009F</b>   | <b>2010F</b>   | <b>2011F</b>   | <b>Valuation metrics</b>           |           |                            |              |              |              |
| Divisional sales                  | 54.8           | 41.7           | 63.8           | 54.5           | 45.8           | Preferred methodology              | DCF       | Val'n (A\$)                | \$ 1.15      |              |              |
| Total revenue                     | 54.8           | 41.7           | 63.8           | 54.5           | 45.8           | <b>DCF valuation inputs</b>        |           |                            |              |              |              |
| <b>EBITDA</b>                     | <b>16.6</b>    | <b>-9.8</b>    | <b>9.9</b>     | <b>10.6</b>    | <b>28.4</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                      | -1.2           | -2.7           | -3.6           | -3.5           | -3.5           | Beta                               | 1.80      | Kd                         | 8.50%        |              |              |
| EBITA                             | 15.4           | -12.5          | 6.3            | 7.1            | 24.9           | 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)       | 132.5        |              |              |
| EBIT                              | 15.4           | -12.5          | 6.3            | 7.1            | 24.9           | Debt (D/EV)                        | 0.0%      | Minority interest (A\$m)   | 0.0          |              |              |
| EBIT(incl associate profit)       | 15.4           | -12.5          | 6.3            | 7.1            | 24.9           | Interest rate                      | 8.50%     | Net debt (A\$m)            | -63.7        |              |              |
| Net interest expense              | 2.5            | 3.2            | 3.6            | 3.8            | 4.4            | Tax rate (t)                       | 30.0%     | Investments (A\$m)         | 0.0          |              |              |
| Pre-tax profit                    | 17.9           | -9.3           | 9.9            | 11.0           | 29.2           | Franking credit                    | 100.0%    | Equity market value (A\$m) | 196.2        |              |              |
| Income tax expense                | 2.3            | 2.8            | -1.5           | -2.8           | -9.3           | <b>WACC</b>                        | 14.6%     | Diluted no. of shares (m)  | 171.0        |              |              |
| After-tax profit                  | 20.2           | -6.5           | 8.4            | 8.2            | 20.0           |                                    |           | <b>DCF valuation (A\$)</b> | <b>1.15</b>  |              |              |
| Minority interests                |                |                |                |                |                | <b>Multiples</b>                   |           | <b>2008A</b>               | <b>2009F</b> | <b>2010F</b> | <b>2011F</b> |
| <b>NPAT</b>                       | <b>20.2</b>    | <b>-6.5</b>    | <b>8.4</b>     | <b>8.2</b>     | <b>20.0</b>    | Enterprise value (A\$m)            | -3.7      | -7.2                       | -16.6        | -35.3        |              |
| Significant items                 | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | EV/Sales (x)                       | -0.1      | -0.1                       | -0.3         | -0.8         |              |
| NPAT post abnormal                | 20.2           | -6.5           | 8.4            | 8.2            | 20.0           | EV/EBITDA (x)                      | 0.4       | -0.7                       | -1.6         | -1.2         |              |
|                                   |                |                |                |                |                | EV/EBIT (x)                        | 0.3       | -1.1                       | -2.3         | -1.4         |              |
| <b>Cash flow statement</b>        | <b>2007A</b>   | <b>2008A</b>   | <b>2009F</b>   | <b>2010F</b>   | <b>2011F</b>   | PE (pre-goodwill) (x)              | -8.7      | 6.7                        | 6.9          | 2.8          |              |
| EBITDA                            | 16.6           | -9.8           | 9.9            | 10.6           | 28.4           |                                    |           |                            |              |              |              |
| Change in working capital         | -0.5           | 8.6            | -7.5           | -0.4           | -2.9           | <b>At target price</b>             |           |                            |              |              |              |
| Net interest (pd)/rec             | 2.5            | 3.2            | 3.6            | 3.8            | 4.4            | EV/EBITDA (x)                      | -5.9      | 5.5                        | 4.2          | 0.9          |              |
| Taxes paid                        | 2.3            | 2.8            | -1.5           | -2.8           | -9.3           | PE (pre-goodwill) (x)              | -18.1     | 14.0                       | 14.4         | 5.9          |              |
| Other oper cash items             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | <b>Comparable company data (x)</b> |           | <b>2009F</b>               | <b>2010F</b> | <b>2011F</b> |              |
| Cash flow from ops (1)            | 21.0           | 4.8            | 4.5            | 11.3           | 20.6           | Avexa                              | EV/EBITDA | -1.5                       | -33.5        | 3.2          |              |
| Capex (2)                         | -0.9           | -3.8           | -1.0           | -1.9           | -1.8           | Year to 30 Jun                     | EV/EBIT   | -1.5                       | -29.9        | 3.3          |              |
| Disposals/(acquisitions)          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |                                    | PE        | -2.4                       | -104.9       | 4.9          |              |
| Other investing cash flow         | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Pharmaxis                          | EV/EBITDA | -7.2                       | -14.5        | 11.3         |              |
| Cash flow from invest (3)         | -0.9           | -3.8           | -1.0           | -1.9           | -1.8           | Year to 30 Jun                     | EV/EBIT   | -7.0                       | -12.9        | 12.8         |              |
| Incr/(decr) in equity             | 1.4            | -3.0           | 0.0            | 0.0            | 0.0            |                                    | PE        | -12.2                      | -22.1        | 13.8         |              |
| Incr/(decr) in debt               | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | <b>Per share data</b>              |           | <b>2008A</b>               | <b>2009F</b> | <b>2010F</b> | <b>2011F</b> |
| Ordinary dividend paid            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | No. shares                         | 171.0     | 171.0                      | 171.0        | 171.0        |              |
| Preferred dividends (4)           | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | EPS (cps)                          | -3.8      | 4.9                        | 4.8          | 11.7         |              |
| Other financing cash flow         | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | EPS (normalised) (c)               | -3.8      | 4.9                        | 4.8          | 11.7         |              |
| Cash flow from fin (5)            | 1.4            | -3.0           | 0.0            | 0.0            | 0.0            | Dividend per share (c)             | 0.0       | 0.0                        | 0.0          | 0.0          |              |
| Forex and disc ops (6)            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Dividend payout ratio (%)          | 0.0       | 0.0                        | 0.0          | 0.0          |              |
| Incr/(decr) cash (1+3+5+6)        | 21.5           | -2.0           | 3.5            | 9.4            | 18.7           | Dividend yield (%)                 | 0.0       | 0.0                        | 0.0          | 0.0          |              |
| <b>Equity FCF (1+2+4)</b>         | <b>20.1</b>    | <b>1.0</b>     | <b>3.5</b>     | <b>9.4</b>     | <b>18.7</b>    | <b>Growth ratios</b>               |           | <b>2008A</b>               | <b>2009F</b> | <b>2010F</b> | <b>2011F</b> |
|                                   |                |                |                |                |                | Sales growth                       | -23.8%    | 52.9%                      | -14.6%       | -16.0%       |              |
| <b>Balance sheet</b>              | <b>2007A</b>   | <b>2008A</b>   | <b>2009F</b>   | <b>2010F</b>   | <b>2011F</b>   | Operating cost growth              | 35.0%     | 4.7%                       | -18.6%       | -60.3%       |              |
| Cash & deposits                   | 62.2           | 60.2           | 63.7           | 73.0           | 91.8           | EBITDA growth                      |           |                            |              | 166.8%       |              |
| Trade debtors                     | 9.4            | 4.3            | 7.9            | 6.7            | 5.6            | EBITA growth                       |           |                            |              | 248.5%       |              |
| Inventory                         | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | <b>Operating performance</b>       |           | <b>2008A</b>               | <b>2009F</b> | <b>2010F</b> | <b>2011F</b> |
| Investments                       | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Asset turnover (%)                 | 11.5      | 17.4                       | 14.0         | 10.6         |              |
| Goodwill                          |                |                |                |                |                | EBITDA margin (%)                  | -23.4     | 15.5                       | 19.5         | 62.0         |              |
| Other intangible assets           | 13.4           | 12.1           | 10.4           | 8.8            | 7.1            | EBIT margin (%)                    | -30.0     | 9.9                        | 13.1         | 54.3         |              |
| Fixed assets                      | 5.2            | 7.5            | 6.7            | 6.8            | 6.8            | Net profit margin (%)              | -15.5     | 13.2                       | 15.0         | 43.6         |              |
| Other assets                      | 2.3            | 5.2            | 5.2            | 5.2            | 5.2            | Return on net assets (%)           | -19.8     | 8.8                        | 8.9          | 24.9         |              |
| <b>Total assets</b>               | <b>92.5</b>    | <b>89.3</b>    | <b>93.8</b>    | <b>100.4</b>   | <b>116.4</b>   | Net debt (A\$m)                    | -60.2     | -63.7                      | -73.0        | -91.8        |              |
| Short-term borrowings             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Net debt/equity (%)                | -95.0     | -88.7                      | -91.4        | -91.9        |              |
| Trade payables                    | 6.0            | 12.0           | 8.1            | 6.6            | 2.6            | Net interest/EBIT cover (x)        | 3.9       | -1.7                       | -1.9         | -5.7         |              |
| Long-term borrowings              | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | ROIC (%)                           | -93.4     | 140.6                      | 61.8         | 253.5        |              |
| Provisions                        | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | <b>Internal liquidity</b>          |           | <b>2008A</b>               | <b>2009F</b> | <b>2010F</b> | <b>2011F</b> |
| Other liabilities                 | 14.9           | 13.9           | 13.9           | 13.9           | 13.9           | Current ratio (x)                  | 2.5       | 3.2                        | 3.9          | 5.9          |              |
| <b>Total liabilities</b>          | <b>20.9</b>    | <b>26.0</b>    | <b>22.1</b>    | <b>20.5</b>    | <b>16.6</b>    | Receivables turnover (x)           | 6.1       | 10.5                       | 7.5          | 7.4          |              |
| Share capital                     | 161.7          | 159.1          | 167.6          | 175.7          | 195.7          | Payables turnover (x)              | 5.7       | 5.4                        | 6.0          | 3.8          |              |
| Other reserves                    | 0.6            | 1.4            | 1.4            | 1.4            | 1.4            |                                    |           |                            |              |              |              |
| Retained earnings                 | -90.8          | -97.3          | -97.3          | -97.3          | -97.3          |                                    |           |                            |              |              |              |
| Other equity                      | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |                                    |           |                            |              |              |              |
| Total equity                      | 71.5           | 63.3           | 71.7           | 79.9           | 99.9           |                                    |           |                            |              |              |              |
| Minority interest                 |                |                |                |                |                |                                    |           |                            |              |              |              |
| Total shareholders' equity        | 71.5           | 63.3           | 71.7           | 79.9           | 99.9           |                                    |           |                            |              |              |              |
| <b>Total liabilities &amp; SE</b> | <b>92.5</b>    | <b>89.3</b>    | <b>93.8</b>    | <b>100.4</b>   | <b>116.4</b>   |                                    |           |                            |              |              |              |

Source: Company data, ABN AMRO Morgans forecasts

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