Sharebrokers and Investment Advisers
www.taylorcollison.com.au

19 November 2008

Biota Holdings Limited (BTA)

Speculative Buy

Major EV De-Rating Highlights Frustration; LANI moves to Phase 3

$0.40

Thomas Duthy *PhD MBA*
tduthy@taylorcollison.com.au
+61 2 9377 1555

Summary

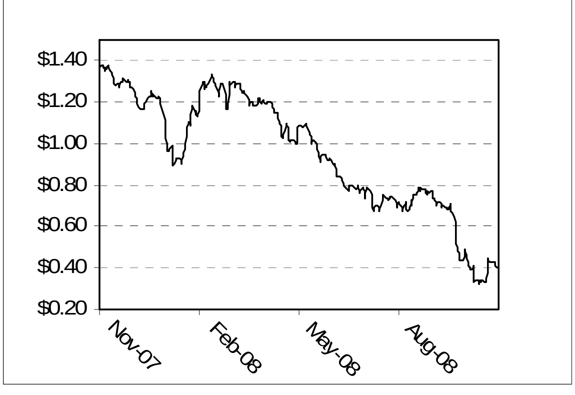
Market Capitalisation (M)	**$69.8**
Share Price	**$0.40**
Shares on Issue (M)	174.6
52 Week High	$1.40
52 Week Low	$0.295
Valuation Per Share (fully diluted)	**$1.74**
Cash (M) as at 31/10/08	**$59.3**

Key Financials (A$'000)

Year End	FY08 Actual	FY09 Est.	FY10 Est.
Relenza Royalties	20,544	22,885	10,198
Partnering Income*	5,871	4,496	22,933
Total Revenue	**44,989**	**40,316**	**40,253**
Total Op. Expenses	(41,397)	(18,283)	(15,900)
R&D Expenses	(10,287)	(15,060)	(11,333)
EBITDA	**(9,897)**	**16,315**	**9,740**
Normalised NPAT	10,735	2,736	10,727
Adj. NPAT	**(6,489)**	**16,409**	**10,727**
Adj. EPS (c)	(3.5)	9.3	6.1
Reported EPS (c)	(3.5)	9.3	6.1
Adj. PE Ratio (x)	**n/a**	**4.3**	**6.6**

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

Share Price Graph (A$)



Key Points

LANI (CS-8958) has commenced a pivotal Phase 3 adult influenza trial and a Phase 2/3 paediatric trial, undertaken by Daiichi Sankyo.

Biota has seen its Enterprise Value (EV) decline to approximately $10.4m from $198m 12 months previous.

Recent AGM highlighted frustration at the current board over GSK settlement in light of major settlement offer, circa $80m, in CY06 (inc. future royalties).

Unaudited 1Q09 PBT of $10.7m, driven by net gain on GSK settlement of $12.5m, in line with previous guidance.

Current cash backing of $0.34 per share.

Guidance of one further licence deal (HRV or LANI) during FY09.

Our View

- The CS-8958 trial design is broadly in-line with the recent Phase 2 study, which relied on a non-inferiority response of influenza symptoms versus Tamiflu®. In the Phase 2 study, CS-8958 was equivalent in effect at 1x dose per week versus 75mg twice daily for five days of Tamiflu®. Completion of these 2x Phase 2/3 trials is largely dependent on the severity or otherwise of the Northern Hemisphere influenza season. Moreover, Daiichi Sankyo will be directly competing for patients with Shionogi's peramivir i.v Phase 3 trial. The dosing and cohort of patients for the Phase 3 studies remains undisclosed by Daiichi Sankyo.

- Biota has been given a very strong signal by shareholders at the recent AGM that the current board needs restructuring, principally in response to new information presented at the AGM address. Three offers of settlement by GSK were rejected up until 4Q CY06, after which time legal costs accelerated significantly, resulting in further legal costs of $41.3m including costs upon settlement. Prior to that date, the Company had incurred legal costs of approximately $7.7m. We consider this to be one of the key reasons for the precipitous sell down in the stock, coupled with the completion of the share buy-back and general market conditions.

- While the stock has rebounded off its lows of $0.295, representing a 13.2% discount to cash backing, we do not see confidence returning to the stock until board refreshment occurs. The lack of transparency with respect to GSK's strategy for Relenza™ may also be of concern; however, we still remain confident of a major order (Japan or the UK, or both) during FY09. Our model for Relenza™ reflects this observation, suggesting at-risk Relenza™ royalties of $14.7m exist, which could result in our FY09E NPAT revision to just $2.7m (versus $16.4m). However, given the aggressive decline in market value and significant discount to our risk-adjusted valuation of $1.72 (previous $1.80), we maintain our Speculative Buy recommendation.

LANI (CS-8958) Multiple Phase 3 Trials Commence

Daiichi investing into 2x Phase 2/3 trials for CS-8958.

Daiichi Sankyo's Phase 3 program for CS-8958 is broader than we had anticipated, with the Company aiming for two simultaneous clinical trials, in adults and children under 9 years of age (Phase 3 and Phase 2/3, respectively). Daiichi has not disclosed the dosing regime for CS-8958 in both clinical trials, though we note the dosing regime for the paediatric study is likely to be significantly lower, in line with that of Tamiflu®. In our view, such studies are seeking to simultaneously broaden the envisaged label claim for CS-8958 in the Japanese market.

We still expect filing for approval at the end of CY09.

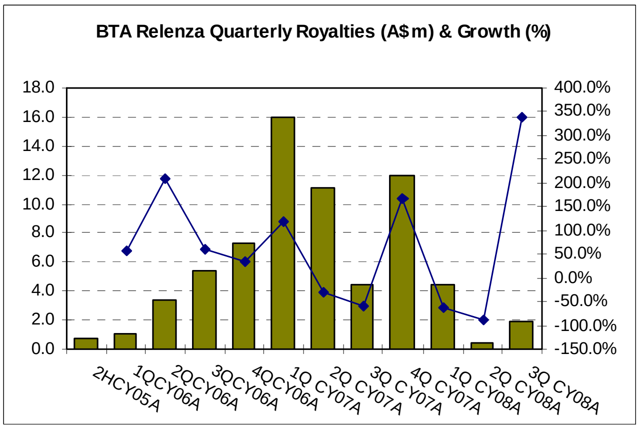
CS-8958 has been designated as a priority item by the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) - providing priority review on matters including clinical trial planning. We note that Daiichi provided no guidance on likely filing dates for CS-8958 in Japan. However, previous guidance indicated an intention to file at the end of CY09. Provided one or both of the current Daiichi trials is fully recruited this influenza season, we so no reason why this historic guidance cannot be met.

We note the National Institutes of Health (NIH) has funded Biota's western clinical trials, and future slated trials with US$5.6m. 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 was equivalent in effectiveness to Tamiflu® in treating influenza symptoms; a major efficacy result given dosing.

Relenza™ – 1Q09 Royalties of $1.9m

1Q09 Relenza™ royalties of $1.9m.

Biota has booked $1.9m in royalties on 1Q09 Relenza™ sales of £12m (A$27.1m). 1Q09 US, European and International sales of £5m, £0m and £7m, respectively were recorded (see across). In the first nine months of CY08, GSK has recorded Relenza™ sales of US$86m. The result was largely unsurprising given we had seen no tangible orders from the UK and Japan particularly. Our FY09E Relenza™ royalties of $22.9m are predicated on at least one major stockpiling order. We have previously estimated that Japan and the UK are the most logical jurisdictions.



Source: Biota

Japanese update – 59.8 billion Yen towards pandemic influenza commencing April 2009.

The Japanese Health Ministry has allocated 59.8 billion Yen for the fiscal 2009 budget to fight pandemic influenza, commencing April 1st. We note the intention of the Japanese is to double existing stockpiles (28m Tamiflu®, 1.4m Relenza™), where we expect a 25% overall Relenza™ component, implying potential royalties of A$25m to Biota. Similarly, if the UK government goes the same way with its intention to double its 14.6m Tamiflu® stockpile, Biota could expect royalties of $12.8m. We note the UK government is still at the tender stage for the stockpile and no guidance has been forthcoming as to when likely orders will eventuate.

New Phase 2 Data on Peramivir

I.v. peramivir effective in Japanese study of seasonal influenza.

Shionogi recently reported Phase 2 data from a seasonal influenza study of peramivir, a neuraminidase inhibitor licensed from Biocryst Pharmaceuticals (NASDAQ:BCRX) The Shionogi study found that a single intravenous (i.v) dose of peramivir was effective and well tolerated in patients with acute seasonal influenza versus placebo. Shionogi are preparing for a Phase 3 study for the upcoming influenza season in Japan, placing it in direct competition with the Phase 3 study of LANI (CS-8958).

Non-inferiority Phase 2 study, equivalent to Tamiflu®.

Biocryst also completed a similar exploratory Phase 2 study of i.v peramivir versus Tamiflu®, rather than strict placebo. There was no statistical difference between the three treatment arms in the study (which is similar to the CS-8958 Phase 2 study reported in 3Q CY08). The peramivir study enrolled patients hospitalised for acute serious or potentially life-threatening influenza. Peramivir was administered i.v per day for 5 days in this study. While the data highlights the potential utility of the drug, we remained concerned about resistance to this drug, similar to that of Tamiflu®.

Resistance remains a big concern, likely to limit interest in the drug.

The mutation that has been observed in H1N1 viruses more recently in the field (denoted H274Y) has conferred resistance to Tamiflu®, but not Relenza™. While the wild type strains to our knowledge have yet to be tested, we note that a 2007 scientific study using *in vitro* cultivation techniques had identified H1N1 viruses with the H274Y mutation were resistant to both peramivir and Tamiflu®.

We continue to believe the utility of peramivir is limited to pandemic stockpiling versus seasonal use, simply because the route of administration (i.v, intramuscular) is undesirable in otherwise healthy patients. In more severely ill influenza patients, who are unable to swallow a tablet (Tamiflu®) or inhale (Relenza™), peramivir may also gain traction. However, given the drug suffers from the same resistance issue as Tamiflu®, we believe it unlikely the drug will ever occupy more than several percentage points in strategic stockpiles.

Shelf Life Extensions to Tamiflu® - A Strategic Tactic?

Shelf life of Tamiflu® extended to 7 years.

We note from Roche comments that no significant additional pandemic orders were received in the first nine months with the US, Canadian, South Korean and Hong Kong authorities having extended the shelf life of government stockpiles of Tamiflu® to 7 years (up from 5 years) with data filed to support similar extensions in other countries.

Forward Relenza™ model does not account for Tamiflu® cannibalisation.

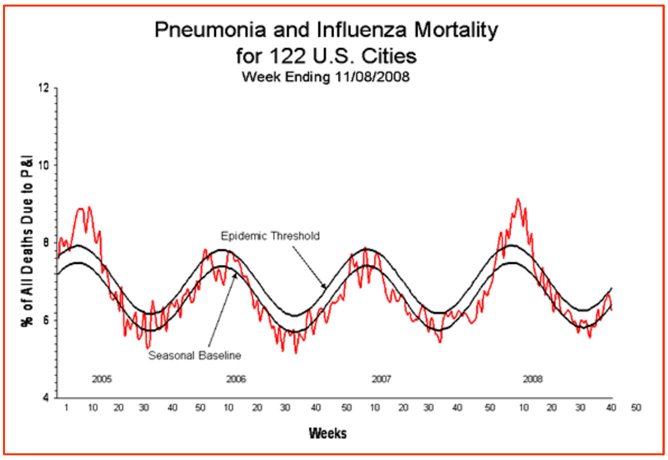
We believe this is a deliberate strategy by Roche to delay active replenishment orders now starting to appear, which may be biased to Relenza™, given current uncertainty with respect to the effectiveness of treatment with Tamiflu®. As an example, we understand from an industry source that the current Dutch stockpile of antiviral has now expired (est. to contain 1.25m Relenza™ treatments and 5m Tamiflu® treatments). We have not factored into our forward model any replenishment cannibalisation by Relenza™ of Tamiflu® stockpiles; only the replenishment of existing Relenza™ stockpiles, though we do view this scenario as a significant swing factor to forward Relenza™ royalties. We note from management that it is unlikely the Relenza™ label will also be extended beyond five years.

Update on Current Influenza Season

Low level influenza detection at present in the US.

No data on anti-viral resistance.

During the current week (week 44) in the US, a low level of influenza activity was observed (see across), which is below the typical epidemic threshold. Thirteen states reported sporadic influenza activity, with 36 states reporting no influenza activity. This is typical of YOY influenza seasons, with significant influenza cases reported from approximately week 45 onwards. At this juncture, no further information from the Centers for Disease Control and Prevention (CDC) has been given with regards to anti-viral resistance; though we note a low level of typed viruses were in fact H1. We believe a significant recurrence of the resistance observed last influenza season could help drive the Relenza™ stockpiling proposition.



Source: CDC

Outlook

Major EV de-rating highlights frustration over GSK settlement.

Biota is currently trading marginally above cash backing (EV of $10.4m), which is a significant de-rating from an EV of $198m only 12 months ago. We do not consider this rationale pricing for a Company with demonstrable expertise in drug development, partnering and commercialisation. However, the initiation, promulgation and execution of the GSK litigation by the Biota board in our view has resulted in a sharp deterioration in confidence.

The pipeline outlook, in our view, remains robust. As indicated, the Phase 3 LANI study has commenced, suggesting the next event we expect relates to the completion of the HRV Phase 2 study, self-initiated and funded by Biota (see below).

Milestone chart robust, with license deal expected n FY09 for HRV or LANI.

Biota 12 Month Milestone Chart	Timing
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.

While the lack of transparency with respect to GSK's strategy for Relenza™ may be of concern; we remain confident of a major order (Japan or the UK, or both) during FY09, representing a significant milestone. Our model for Relenza™ reflects this observation, suggesting at-risk Relenza™ royalties of $14.7m exist, which could result in our FY09E NPAT revision to just $2.7m (versus $16.4m). However, given the aggressive decline in market value and significant discount to our risk-adjusted valuation of $1.72 (previous $1.80), we maintain our Speculative Buy recommendation.

Biota Holdings Limited - Summary of Forecasts — BTA $0.40

PROFIT & LOSS SUMMARY (A$'000)	FY06A	FY07A	FY08A	FY09E	FY10E
Relenza Royalties	5,189	39,789	20,544	22,885	10,198
Partnering (License) Income	2,243	5,726	5,871	4,496	22,933
Research income (inc Grants)	4,021	8,740	15,042	9,560	3,633
Total Revenue	**14,967**	**57,300**	**44,989**	**40,316**	**40,253**
Growth (pcp)	196.4%	*282.8%*	*-21.5%*	*-10.4%*	*-0.2%*
Net Gain on GSK Settlement	0	0	0	12,500	0
Net Operating Revenue	(2,635)	**27,576**	**3,592**	**34,533**	**24,353**
R&D Expenses	(7,685)	(8,198)	(10,287)	(15,060)	(11,333)
EBITDA	**(12,576)**	**16,871**	**(9,897)**	**16,315**	**9,740**
Depreciation	(986)	(1,228)	(933)	(1,509)	(1,599)
Amortisation	0	(317)	(1,681)	(1,556)	(693)
EBIT	**(13,562)**	**15,326**	**(12,511)**	**13,250**	**7,447**
Net Interest	2,256	2,507	3,202	3,159	3,280
Pre-Tax Profit	**(11,306)**	**17,833**	**(9,309)**	**16,409**	**10,727**
Tax Expense	0	2,347	2,820	0	0
Minorities	0	0	0	0	0
NPAT Normalised *	**(4,836)**	**21,424**	**10,735**	**2,736**	**10,727**
NPAT Adj.	**(11,306)**	**20,180**	**(6,489)**	**16,409**	**10,727**
Growth (pcp)	*n/a*	*n/a*	*-132.2%*	*-352.9%*	*-34.6%*
Net Ajustments	0	0	0	0	0
Reported Profit	**(11,306)**	**20,180**	**(6,489)**	**16,409**	**10,727**

PER SHARE DATA					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
Adjusted EPS (c)	**(6.9)**	**11.2**	**(3.5)**	**9.3**	**6.1**
Growth (pcp)	*n/a*	*n/a*	*-131.7%*	*-362.0%*	*-34.6%*
Reported EPS (c)	**(6.9)**	**11.2**	**(3.5)**	**9.3**	**6.1**
Growth (pcp)	*n/a*	*n/a*	*-131.7%*	*-362.0%*	*-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	2.4	10.7	41.8
NTA per share (c)	28.5	32.2	28.0	54.2	97.9

VALUATION MULTIPLES					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
Adjusted PE Ratio (x)*	n/a	3.6	-11.3	4.3	6.6
PE Ratio (x)	n/a	3.6	n/a	4.3	6.6
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	300.0%
EV/EBITDA (x)	(2.4)	0.9	(1.7)	0.9	0.6
EV/EBIT (x)	(2.2)	0.9	(1.3)	1.1	0.8

CAPITAL RAISING ASSUMPTIONS					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
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**	**FY08A**	**FY09E**	**FY10E**
EBITD/Sales Margin %	-84.0%	29.4%	-22.0%	40.5%	24.2%
EBIT/Sales Margin %	-90.6%	26.7%	-27.8%	32.9%	18.5%
Current ratio (x)	4.9	5.3	3.4	7.9	15.0
Net Debt : Equity (%)	-98.5%	-86.9%	-94.8%	-81.2%	-80.5%
ROE (%)	-24.1%	34.1%	-9.6%	23.4%	13.0%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

*Excluding litigation expense and settlement, tax effected at 30%

BALANCE SHEET SUMMARY (A$'000)					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
Cash	46,183	62,156	60,164	62,467	71,150
Receivables	5,864	9,350	4,270	6,047	6,038
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	52,047	71,506	64,434	68,515	77,188
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Property Plant & Equip	5,512	5,152	7,543	7,995	7,896
Intangibles	0	13,447	12,113	10,557	9,863
Deferred Tax Assets	0	2,349	5,168	5,168	5,168
Other	0	0	0	0	0
Total Non-Current Assets	5,512	20,948	24,824	23,720	22,928
TOTAL ASSETS	**57,559**	**92,454**	**89,258**	**92,235**	**100,115**
Accounts Payable	4,034	6,004	12,023	4,032	4,025
Borrowings	0	0	0	0	0
Provisions	516	1,097	1,122	1,122	1,122
Other (Inc Def Rev)	6,011	6,457	6,059	3,533	0
Total Current Liab	10,561	13,558	19,204	8,687	5,147
Borrowings	0	0	0	0	0
Provisions	100	6,339	6,622	6,622	6,622
Other (Inc Def Rev)	0	1,022	0	0	0
Total Non-Current Liab	100	7,361	6,754	6,754	6,754
TOTAL LIABILITIES	**10,661**	**20,919**	**25,958**	**15,441**	**11,901**
TOTAL EQUITY	**46,898**	**71,535**	**63,300**	**76,794**	**88,214**

CASH FLOW SUMMARY (A$'000)					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
EBIT (excl Abs/Extr)	**(13,562)**	**15,326**	**(12,511)**	**13,250**	**7,447**
Add: Depreciation	986	1,228	933	1,509	1,599
Amortisation	0	317	1,681	1,556	693
Change in Pay.	863	1,970	6,019	(7,991)	(6)
Less: Tax paid	0	2,347	2,820	0	0
Net Interest	2,256	2,507	3,202	3,159	3,280
Change in Rec.	(5,374)	(3,486)	5,080	(1,777)	9
Change in Prov.	(20)	(6,820)	(308)	0	0
Change in Def Tax Assets	0	(2,349)	(2,819)	0	0
Change in Inv.	0	0	0	0	0
Change in Def. Rev.	6,011	1,468	(1,420)	(2,526)	(3,533)
Gross Cashflows	(8,840)	12,508	4,358	8,735	10,183
Capex	(1,985)	(893)	(3,785)	(1,500)	(1,500)
Free Cashflows	(10,825)	11,615	573	7,235	8,683
Re-Purchase of Shares**	0	0	(3,020)	(4,932)	0
Net Cash Flow	(10,825)	11,615	(2,447)	2,303	8,683

** Biota announced an on market buy-back of up to 5% (9.17m shares) of its issued capital commencing 10 mar 08

Disclaimer

Warning (General Advice Only): Past performance is not a reliable indicator of future performance. This report is a private communication to clients and intending clients and is not intended for public circulation or publication or for the use of any third party, without the approval of Taylor Collison Limited ABN 53 008 172 450 ("Taylor Collison"), an Australian Financial Services Licensee and Participant of the ASX Group. While the report is based on information from sources that Taylor Collison considers reliable, its accuracy and completeness cannot be guaranteed. This report does not take into account specific investment needs or other considerations, which may be pertinent to individual investors, and for this reason clients should contact Taylor Collison to discuss their individual needs before acting on this report. Those acting upon such information and recommendations without contacting one of our advisors do so entirely at their own risk.

Any opinions, conclusions, forecasts or recommendations are reasonably held at the time of compilation but are subject to change without notice and Taylor Collison assumes no obligation to update this document after it has been issued. Except for any liability which by law cannot be excluded, Taylor Collison, its directors, employees and agents disclaim all liability (whether in negligence or otherwise) for any error, inaccuracy in, or omission from the information contained in this document or any loss or damage suffered by the recipient or any other person directly or indirectly through relying upon the information.

Disclosure: In February 2008, Taylor Collison was appointed to act as broker for the Biota on-market buy back of up to 5% of the issued capital, or 9.17m shares. Analyst remuneration is not linked to the rating outcome. Taylor Collison may solicit business from any company mentioned in this report. For the securities discussed in this report, Taylor Collison may make a market and may sell or buy on a principal basis. Taylor Collison, or any individuals preparing this report, may at any time have a position in any securities or options of any of the issuers in this report and holdings may change during the life of this document.

Analyst Interests: The Analyst(s) may hold the product(s) referred to in this document, but Taylor Collison Limited considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s)' holdings may change during the life of this document.

Analyst Certification: The analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date Prepared: November 2008

Analyst: Thomas Duthy

Release Authorised by: David Whiting

Taylor Collison Limited
Sharebrokers and Investment Advisers
A.B.N. 53 008 172 450 AFSL No. 247083

Level 16, 211 Victoria Square
Adelaide, South Australia, 5000
G.P.O. Box 2046, Adelaide, South Australia, 5001
Telephone: 08 8217 3900 Facsimile: 08 8231 3506
Email: broker@taylorcollison.com.au

Level 10, 167 Macquarie Street
Sydney, New South Wales, 2000
G.P.O. Box 4261, Sydney, New South Wales, 2001
Telephone: 02 9232 1688 Facsimile: 02 9232 1677
Email: sydney1@taylorcollison.com.au

Participant of the Australian Stock Exchange Group
www.taylorcollison.com.au
ESTABLISHED 1928