



Biota Holdings Limited (BTA)

Speculative Buy

"Public" UK Order Unlikely Before May 09; Japan Commences Stockpile Build

\$0.35

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

Key Points

The Department of Health (DH) UK has informed us that an announcement on composition of the strategic stockpiling order is unlikely before May 09.

Commercial negotiations for the 14.6m UK anti-viral order continue to "progress well" according to a DH representative.

Likely that an order will be placed before any public announcement, given the allocated DH FY09 budget for influenza runs until the end of March.

In the interim, the UK DH has ordered 0.35m treatments of Relenza™ to stockpile, targeted towards pregnant women.

Japanese government to order 1.33m Relenza™ treatments (1.35m at present), with Relenza™ to 10% of total stockpile, or 5.8m treatments.

Japanese government will also consider influenza drugs in development, positioning LANI (CS-8958) as an attractive alternative.

Summary

Market Capitalisation (M)	\$61.1
Share Price	\$0.35
Shares on Issue (M)	174.6
52 Week High	\$1.38
52 Week Low	\$0.29
Valuation Per Share (fully diluted)	\$1.74
Cash (M) as at 31/10/08	\$59.3

Key Financials (A\$'000)

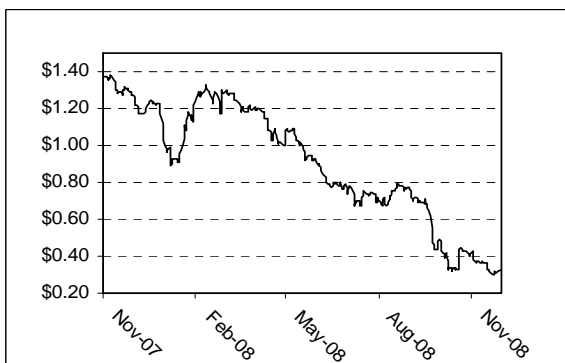
Year End	FY08 Actual	FY09 Est.	FY10 Est.
Relenza Royalties	20,544	17,563	21,975
Partnering Income*	5,871	4,496	22,933
Total Revenue	44,989	34,993	52,058
Total Op. Expenses	(41,397)	(18,283)	(15,900)
R&D Expenses	(10,287)	(15,060)	(11,333)
EBITDA	(9,897)	10,992	21,517
Normalised NPAT	10,735	(736)	21,731
Adj. NPAT	(6,489)	11,448	21,731
Adj. EPS (c)	(3.5)	6.5	12.3
Adj. PE Ratio (x)	n/a	5.4	2.8

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

Our View

- The UK DH has indicated to us that all preparative plans in the event of a pandemic influenza outbreak will be in place before the end of CY08. The composition of Tamiflu® and Relenza™, included in the national stockpile, will not be announced until at least May 09. We believe the UK government will move to order 25-50% Relenza™ into the national stockpile, which currently consists almost entirely of 14.6m Tamiflu® treatments. We understand the Japanese government has not yet determined exactly how to finance the entire stockpile purchase – despite the ¥59.8b (A\$1.0b) allocated to the 2009 influenza preparedness budget. The 10% overall Relenza™ component slated is below expectations; however, this may yet prove beneficial to Biota provided an allocation to stockpile LANI is forthcoming, given Biota has a co-ownership interest in this drug with Daiichi Sankyo. Daiichi possess an option to license LANI for the Japanese market, which we expect to be exercised on completion of the current Phase 3 development program.
- We have cut our FY09 Relenza™ royalty estimates by 23.1% to \$17.6m, owing to the expected timing of the UK/Japanese orders into FY10. Accordingly, we have forecast \$7.0m in FY09 UK royalties representing fulfilment of half the expected order, with the balance in FY10. Total royalties of \$22.0m (previous \$10.2m) for FY10 mostly represents the balance of UK/Japanese stockpiling and seasonal sales. We expect net cash flow of \$2.8m (allowing for the \$5.0m attributable to the recent share buy-back) during FY09 as a result of reduced Relenza™ cash receipts and a decline in payables associated with litigation. We are forecasting a revised FY09 NPAT of \$11.4m (\$16.4m previous). Normalised for litigation/settlement gains, we expect Biota to incur a small NPAT loss of \$0.7m. Despite the FY09 Relenza™ headwinds via a prolonged government tender process out of the UK, given the major decline in EV and therefore value ascribed to the Company's products and pipeline, we maintain our Speculative Buy recommendation and price target of \$1.74.

Share Price Graph (A\$)



Biota Holdings Limited - Summary of Forecasts

BTA \$0.35

PROFIT & LOSS SUMMARY (A\$'000)					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
Relenza Royalties	5,189	39,789	20,544	17,563	21,975
Partnering (Licence) 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	34,993	52,058
<i>Growth (pcp)</i>	196.4%	282.8%	-21.5%	-22.2%	48.8%
Net Gain on GSK Settlement	0	0	0	12,500	0
Net Operating Revenue	(2,635)	27,576	3,592	29,211	36,158
R&D Expenses	(7,685)	(8,198)	(10,287)	(15,060)	(11,333)
EBITDA	(12,576)	16,871	(9,897)	10,992	21,517
Depreciation	(986)	(1,228)	(933)	(1,509)	(1,599)
Amortisation	0	(317)	(1,681)	(1,194)	(1,494)
EBIT	(13,562)	15,326	(12,511)	8,290	18,424
Net Interest	2,256	2,507	3,202	3,159	3,307
Pre-Tax Profit	(11,306)	17,833	(9,309)	11,448	21,731
Tax Expense	0	2,347	2,820	0	0
Minorities	0	0	0	0	0
NPAT Normalised *	(4,836)	21,424	10,735	(736)	21,731
NPAT Adj.	(11,306)	20,180	(6,489)	11,448	21,731
<i>Growth (pcp)</i>	n/a	n/a	-132.2%	-276.4%	89.8%
Net Adjustments	0	0	0	0	0
Reported Profit	(11,306)	20,180	(6,489)	11,448	21,731

PER SHARE DATA					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
Adjusted EPS (c)	(6.9)	11.2	(3.5)	6.5	12.3
<i>Growth (pcp)</i>	n/a	n/a	-131.7%	-282.8%	89.8%
Reported EPS (c)	(6.9)	11.2	(3.5)	6.5	12.3
<i>Growth (pcp)</i>	n/a	n/a	-131.7%	-282.8%	89.8%
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	11.1	41.9
NTA per share (c)	28.5	32.2	28.0	58.3	102.0

VALUATION MULTIPLES					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
Adjusted PE Ratio (x)	n/a	3.1	-9.9	5.4	2.8
PE Ratio (x)	n/a	3.1	n/a	5.4	2.8
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	(1.3)	0.0	(0.2)	(0.0)	(0.7)
EV/EBIT (x)	(1.2)	0.0	(0.2)	(0.1)	(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%	31.4%	41.3%
EBIT/Sales Margin %	-90.6%	26.7%	-27.8%	23.7%	35.4%
Current ratio (x)	4.9	5.3	3.4	4.8	13.5
Net Debt : Equity (%)	-98.5%	-86.9%	-94.8%	-88.0%	-81.7%
ROE (%)	-24.1%	34.1%	-9.6%	17.0%	26.2%
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	62,998	77,481
Receivables	5,864	9,350	4,270	5,249	7,809
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	52,047	71,506	64,434	68,247	85,290
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	10,919	9,424
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	24,082	22,489
TOTAL ASSETS	57,559	92,454	89,258	92,329	107,779
Accounts Payable	4,034	6,004	12,023	9,448	5,206
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	14,104	6,328
Borrowings	0	0	132	132	132
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	20,858	13,082
TOTAL EQUITY	46,898	71,535	63,300	71,471	94,697

CASH FLOW SUMMARY (A\$'000)					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
EBIT (excl Abs/Extr)	(13,562)	15,326	(12,511)	8,290	18,424
Add: Depreciation	986	1,228	933	1,509	1,599
Amortisation	0	317	1,681	1,194	1,494
Change in Pay.	863	1,970	6,019	(2,575)	(4,242)
Less: Tax paid	0	2,347	2,820	0	0
Net Interest	2,256	2,507	3,202	3,159	3,307
Change in Rec.	(5,374)	(3,486)	5,080	(979)	(2,560)
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	9,266	15,984
Capex	(1,985)	(893)	(3,785)	(1,500)	(1,500)
Free Cashflows	(10,825)	11,615	573	7,766	14,484
Re-Purchase of Shares**	0	0	(3,020)	(4,932)	0
Net Cash Flow	(10,825)	11,615	(2,447)	2,834	14,484

** 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: December 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