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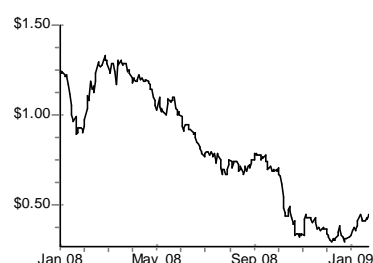
\$0.43

BUY

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Price Performance



Security/Capital Details

ASX Code	BTA
Market Cap	\$75.1 M
Issued Shares	174.6 M
Avg Mth T'over	7.96 M
12 Mth High – Low	\$1.33 - \$0.30

Key Data/Ratios – FY 2009

Cash	\$62.3 M
Burn	\$28.0 M
EV	\$12.8 M
Interest Cover	n/a
ROE	19.0%
EPS Growth	414.5%
PEG Ratio	0.02 x
NTA / Share	\$ 0.35
DCF	\$ 1.27
12 Mth Price Target	\$ 1.42

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Recommendation

Newsires suggest that Daiichi-Sankyo is close to finishing the recruitment of its Phase III trial for CS-8958, the long-acting neuraminidase inhibitor (LANI) it co-owns with BTA. The MARVEL study commenced in November and now looks likely to be completed this flu season. Given the high proportion of Tamiflu resistant H1N1 virus circulating in the northern hemisphere this year, we expect CS-8958 to outperform in this trial, which will compare a single, inhaled dose of CS-8958 to a 5-day, twice-daily course of oral Tamiflu. That being the case, the drug may launch in the Japanese market 1H-2011. Progress is in line with our expectations and no valuation changes are warranted. BUY recommendation retained with DCF of \$1.27/shr.

Key Points

- Newsires report Daiichi-Sankyo officials saying that the company is close to completing the recruitment of its Phase III trial for CS-8958, the long-acting neuraminidase inhibitor (LANI) it co-owns with BTA. The MARVEL study commenced in November. If progress has been this rapid, it looks likely that Phase III will be completed this flu season. The news is surprising to us, given a November start, a "slow" flu season (comparatively, thus far) and that we have still not seen the peak of the northern hemisphere influenza season.
- Given the high proportion of Tamiflu resistant H1N1 virus circulating in the northern hemisphere this season, we do expect to see CS-8958 outperform in this trial, which will compare a single, inhaled dose of CS-8958 with a 5-day, twice-daily regimen of oral Tamiflu. This trial has a similar design to the successful Phase II study we reviewed last August.
- A Japanese CS-8958 approval looks to be a 1H-2011 event, assuming Phase III success, with FY12 to see the first full fiscal year of royalties to BTA. Japan dominates the seasonal market for influenza drugs. In recent years Japan has dispensed ~5-6M prescriptions for Tamiflu during its flu season; down substantially from its peaks of >10M. The US filled ~356,000 Tamiflu prescriptions in 2008, which was 82% of all US seasonal influenza scripts. Daiichi expects to commence prophylactic (preventative) studies during next year's flu season. We may see off-label prophylactic use, once approved as a therapeutic agent.
- WHTM estimates that 50% penetration of CS-8958 into the Japanese seasonal market could correspond to ~\$30M annual royalties to BTA. Rest-of-world commercialisation (seasonal + pandemic stockpiling) unlikely to come into play before mid-2014. Daiichi/BTA will seek to licence rest-of-world development rights to a major Pharma, who will then need to sponsor further Phase III trials to support licensure in the US and elsewhere.
- We remain confident that the Japanese trial program will not spill over into the next influenza season. However, we must also presume that the competing Phase III program, peramivir (Shionogi/Biocryst) will have enjoyed similar success in recruitment.
- Valuation unchanged at \$1.27 per share. BUY recommendation retained, though we reiterate that BTA is a long-term play.

Year to June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2008a	-6.5	-2.7	-123.7	-28.6	27.9	-8.8	0.0	0.0	0
2009e	12.8	8.5	414.5	6.2	10.6	2.5	0.0	0.0	0
2010e	10.1	6.9	-18.3	7.5	22.9	3.5	0.0	0.0	0
2011e	8.2	5.8	-16.5	9.0	3.4	0.4	0.0	0.0	0

Biota Holdings (BTA : \$0.43)

INVESTMENT FUNDAMENTALS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EPS Reported (c)	11.2	-3.7	7.3	5.8	4.7
EPS Normalised (c)	11.4	-2.7	8.5	6.9	5.8
EPS Growth (%)	N/A	-123.7%	414.5%	-18.3%	-16.5%
PER Normalised (x)	15.8	-28.6	6.2	7.5	9.0
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

VALUATION DATA

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EV / EBITA (x)	16.0	-8.0	2.8	4.0	0.5
EV / EBITDA (x)	14.9	-8.8	2.5	3.5	0.4
CFPS (c)	11.6	2.8	4.9	2.3	15.2
Price / CF	15.4	27.9	10.6	22.9	3.4
Book Value / Share (\$)	0.4	0.4	0.4	0.5	0.5
Price / Book (x)	4.5	2.1	1.3	1.1	1.0

PROFIT & LOSS (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Sales Revenue	39.8	20.5	21.3	27.6	32.4
EBITDA	17.5	-9.4	11.3	7.6	4.9
Depreciation	1.2	0.9	1.0	1.0	1.0
EBITA	16.3	-10.3	10.3	6.6	3.9
Amortisation	0.3	1.8	2.0	2.0	1.9
EBIT	15.9	-12.1	8.3	4.6	2.0
Net Interest Expense	-1.9	-2.8	-4.5	-5.5	-6.2
Pre-tax Profit	17.8	-9.3	12.8	10.1	8.2
Tax	-2.3	-2.8	0.0	0.0	0.0
Tax rate (%)	-13.2%	30.3%	0.0%	0.0%	0.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	20.2	-6.5	12.8	10.1	8.2
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	20.2	-6.5	12.8	10.1	8.2
Revenue Growth (%)	N/A	-48.4%	3.7%	29.7%	17.4%
EBIT Growth (%)	N/A	-175.8%	168.4%	-44.3%	-56.0%
NPAT Growth (%)	N/A	-132.2%	296.7%	-21.1%	-18.8%

PROFITABILITY RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT / Sales (%)	40.1%	-58.8%	38.8%	16.7%	6.3%
ROA (%)	N/A	-40.6%	27.9%	15.3%	7.2%
ROE (%)	N/A	-9.6%	19.0%	13.2%	9.6%
ROFE (%)	N/A	-164.1%	171.9%	51.6%	45.4%

INTERIMS (\$m)

Half Yr	Dec 07	Jun 08	Dec 08	Jun 09	Dec 09
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	16.5	4.1	8.5	12.8	11.1
EBIT	6.1	-18.1	3.1	5.2	2.4
Net Profit	5.5	-12.0	6.1	6.7	5.6
EBIT / Sales (%)	36.7%	-446.8%	36.3%	40.5%	22.1%

BALANCE SHEET (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Cash	62.2	60.2	62.3	64.4	88.8
Receivables	9.4	4.3	5.0	5.2	5.1
Inventories	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Current Assets	71.5	64.4	67.3	69.6	94.0
Net PPE	4.9	7.5	8.0	8.9	9.9
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	13.7	12.1	10.1	8.1	6.2
Other	2.4	5.2	7.0	8.0	4.9
Non-current Assets	21.0	24.8	25.2	25.0	21.0
Total Assets	92.5	89.3	92.5	94.6	115.0
Current Payables	6.0	12.0	8.3	7.0	7.5
Current Debt	0.0	0.0	0.0	0.0	0.0
Non-Current Debt	0.0	0.0	0.0	0.0	0.0
Provisions	7.4	1.3	2.8	2.4	0.7
Other	7.5	12.7	10.2	4.0	17.4
Total Liabilities	20.9	26.0	21.3	13.4	25.6
Equity	161.7	159.1	154.2	154.2	154.2
Reserves	0.6	1.4	1.4	1.4	1.4
Retained Profits	-90.8	-97.3	-84.5	-74.4	-66.2
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	71.5	63.3	71.1	81.2	89.4
Total Funds Employed	9.4	3.1	8.8	16.8	0.5

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Net Debt (Cash) (\$m)	-62.2	-60.2	-62.3	-64.4	-88.8
Net Debt / Equity (%)	-86.9%	-95.0%	-87.6%	-79.3%	-99.4%
Interest Cover (x)	-8.4	4.3	-1.8	-0.8	-0.3
Debt / CashFlow (x)	0.0	0.0	0.0	0.0	0.0

CASHFLOW (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT	15.9	-12.1	8.3	4.6	2.0
Dep'n and Amort'n	1.5	2.7	3.0	3.0	2.9
Net Int Rec'd (Paid)	2.7	2.8	4.5	5.5	6.2
Tax Paid	0.0	0.0	0.0	0.0	0.0
Dec / (Inc) W'kg Cap	0.0	9.7	-4.5	-1.5	0.6
Other	0.4	2.7	-2.7	-7.6	14.8
Operating Cash Flow	21.0	4.8	8.6	4.0	26.4
Capital Expenditure	-0.9	-3.8	-1.5	-1.9	-2.0
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-5.5	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-6.4	-3.8	-1.5	-1.9	-2.0
Equity Raised	1.4	0.0	0.0	0.0	0.0
Inc / (Dec) in Loans	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other Fin. Flows	0.0	-3.0	-5.0	0.0	0.0
Financing Cash Flow	1.4	-3.0	-5.0	0.0	0.0
Net Cash Flow	16.0	-2.0	2.1	2.1	24.4

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