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# Biota Holdings Limited (BTA)

Speculative Buy

UK Dept of Health Orders 10.6m Relenza™ Treatments

\$0.48

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## Key Points

The Department of Health (DH) UK has awarded GSK an order of 10.6m Relenza™ treatments for the national pandemic stockpile.

Total Relenza™ stockpile of ~11.0m treatments, including a 0.35m treatment order for pregnant women in 4Q CY08.

Total UK Relenza™/Tamiflu® order (18.2m) approx 24.7% ahead of expectations, with Relenza™ component of this order (58.2%) well ahead of our expectations.

Timing and pricing of order remain unknown, with Biota estimating net royalties of ~\$18.0m likely.

## Summary

<b>Market Capitalisation (M)</b>	<b>\$83.8</b>
<b>Share Price</b>	<b>\$0.48</b>
Shares on Issue (M)	174.6
52 Week High	\$1.38
52 Week Low	\$0.29
<b>Valuation Per Share (fully diluted)</b>	<b>\$1.74</b>
<b>Cash (M) as at 31/12/08</b>	<b>\$55.4</b>

## Key Financials (A\$'000)

Year End	FY08 Actual	FY09 Est.	FY10 Est.
Relenza Royalties	20,544	17,563	27,801
Partnering Income*	5,871	4,496	22,933
<b>Total Revenue</b>	<b>44,989</b>	<b>34,993</b>	<b>57,883</b>
Total Op. Expenses	(41,397)	(18,283)	(15,900)
R&D Expenses	(10,287)	(15,060)	(11,333)
<b>EBITDA</b>	<b>(9,897)</b>	<b>10,992</b>	<b>27,343</b>
Normalised NPAT	10,735	(736)	27,161
<b>Adj. NPAT</b>	<b>(6,489)</b>	<b>11,448</b>	<b>27,161</b>
Adj. EPS (c)	(3.5)	6.5	15.4
Adj. PE Ratio (x)	n/a	7.4	3.1

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

## Our View

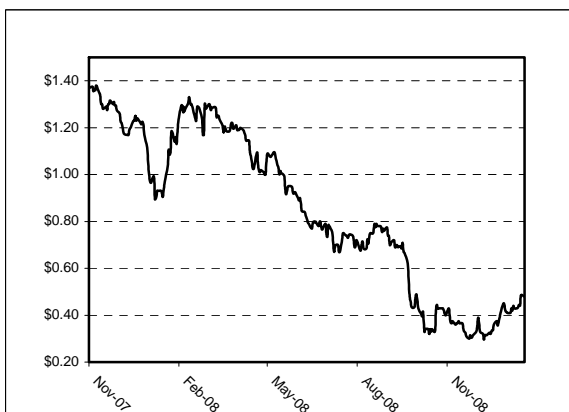
- The announcement by GSK regarding the UK DH order is ahead of our previous expectations of no earlier than May. This was based on discussions with a DH representative. However, we are encouraged by the overall composition of Relenza™ in the stockpile, given our base estimate was for ~25% of the total stockpile. Our total expected royalties of \$18.6m from this order is slightly ahead of Biota's guidance and \$5.2m higher than previous estimates. A summary of the UK anti-viral stockpile is highlighted (below).

### UK Anti-viral stockpile

Anti-Viral	Quantity (M)	Est. \$m Royalty
Tamiflu CY08	14.6	n/a
Relenza CY08	0.35	0.6
Tamiflu CY09	7.6	n/a
Relenza CY09	10.6	18.6
TOTAL	33.15	19.2
<b>UK Population (m)</b>	<b>60.9</b>	
% Relenza in Stockpile	33.0%	

Source: Taylor Collison

## Share Price Graph (A\$)



- While the timing of revenue recognition remains uncertain, we conservatively assume \$7.0m to be recognised in FY09 (inc. pregnancy order), with the balance (\$12.2m) during 1H10. We note Biota receives annual royalty payments for sales on an April FY, calculated at the April GBP/AUD spot rate and paid in June. GSK reports FY Relenza™ sales on Feb 6<sup>th</sup>. Our adjusted FY09 NPAT forecast remains unchanged at \$11.4m, with our adjusted FY10 NPAT estimates upgraded by 25.3% to \$27.2m. This assumes FY10 Relenza™ royalties of \$27.8m, with \$17.6m attributable to both UK and Japanese orders with the balance in seasonal + other pandemic sales. We have also factored into our model milestone payments from Biota's licensees, AstraZeneca and Boehringer Ingelheim during FY10. We maintain our Speculative Buy recommendation and price target of \$1.74, noting that with Daiichi Sankyo's expected filing for approval of LANI (CS-8958) during CY09 in Japan, Biota will effectively have a stake in two of three neuraminidase inhibitors utilised in the global pandemic/seasonal influenza market. This market is now back in focus after the UK order in our view.

## Biota Holdings Limited - Summary of Forecasts

BTA \$0.48

PROFIT & LOSS SUMMARY (A\$'000)					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
Relenza Royalties	5,189	39,789	20,544	17,563	27,801
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
<b>Total Revenue</b>	<b>14,967</b>	<b>57,300</b>	<b>44,989</b>	<b>34,993</b>	<b>57,883</b>
<i>Growth (pcp)</i>	196.4%	282.8%	-21.5%	-22.2%	65.4%
Net Gain on GSK Settlement	0	0	0	12,500	0
<b>Net Operating Revenue</b>	<b>(2,635)</b>	<b>27,576</b>	<b>3,592</b>	<b>29,211</b>	<b>41,984</b>
R&D Expenses	(7,685)	(8,198)	(10,287)	(15,060)	(11,333)
<b>EBITDA</b>	<b>(12,576)</b>	<b>16,871</b>	<b>(9,897)</b>	<b>10,992</b>	<b>27,343</b>
Depreciation	(986)	(1,228)	(933)	(1,509)	(1,599)
Amortisation	0	(317)	(1,681)	(1,194)	(1,890)
<b>EBIT</b>	<b>(13,562)</b>	<b>15,326</b>	<b>(12,511)</b>	<b>8,290</b>	<b>23,853</b>
Net Interest	2,256	2,507	3,202	3,159	3,307
<b>Pre-Tax Profit</b>	<b>(11,306)</b>	<b>17,833</b>	<b>(9,309)</b>	<b>11,448</b>	<b>27,161</b>
Tax Expense	0	2,347	2,820	0	0
Minorities	0	0	0	0	0
<b>NPAT Normalised *</b>	<b>(4,836)</b>	<b>21,424</b>	<b>10,735</b>	<b>(736)</b>	<b>27,161</b>
<b>NPAT Adj.</b>	<b>(11,306)</b>	<b>20,180</b>	<b>(6,489)</b>	<b>11,448</b>	<b>27,161</b>
<i>Growth (pcp)</i>	n/a	n/a	-132.2%	-276.4%	137.2%
Net Adjustments	0	0	0	0	0
<b>Reported Profit</b>	<b>(11,306)</b>	<b>20,180</b>	<b>(6,489)</b>	<b>11,448</b>	<b>27,161</b>

PER SHARE DATA					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
<b>Adjusted EPS (c)</b>	<b>(6.9)</b>	<b>11.2</b>	<b>(3.5)</b>	<b>6.5</b>	<b>15.4</b>
<i>Growth (pcp)</i>	n/a	n/a	-131.7%	-282.8%	137.2%
<b>Reported EPS (c)</b>	<b>(6.9)</b>	<b>11.2</b>	<b>(3.5)</b>	<b>6.5</b>	<b>15.4</b>
<i>Growth (pcp)</i>	n/a	n/a	-131.7%	-282.8%	137.2%
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	11.4	42.0
NTA per share (c)	28.5	32.2	28.0	61.9	105.7

VALUATION MULTIPLES					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
Adjusted PE Ratio (x)	n/a	4.3	n/a	7.4	3.1
PE Ratio (x)	n/a	4.3	n/a	7.4	3.1
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	(3.2)	1.4	(2.7)	2.1	0.1
EV/EBIT (x)	(3.0)	1.6	(2.1)	2.8	0.1

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%	47.2%
EBIT/Sales Margin %	-90.6%	26.7%	-27.8%	23.7%	41.2%
Current ratio (x)	4.9	5.3	3.4	4.8	13.3
Net Debt : Equity (%)	-98.5%	-86.9%	-94.8%	-88.0%	-82.8%
ROE (%)	-24.1%	34.1%	-9.6%	17.0%	31.6%
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	83,412
Receivables	5,864	9,350	4,270	5,249	8,683
Inventories	0	0	0	0	0
Other	0	0	0	0	0
<b>Total Current Assets</b>	<b>52,047</b>	<b>71,506</b>	<b>64,434</b>	<b>68,247</b>	<b>92,094</b>
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	9,028
Deferred Tax Assets	0	2,349	5,168	5,168	5,168
Other	0	0	0	0	0
<b>Total Non-Current Assets</b>	<b>5,512</b>	<b>20,948</b>	<b>24,824</b>	<b>24,082</b>	<b>22,093</b>
<b>TOTAL ASSETS</b>	<b>57,559</b>	<b>92,454</b>	<b>89,258</b>	<b>92,329</b>	<b>114,187</b>
Accounts Payable	4,034	6,004	12,023	9,448	5,788
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
<b>Total Current Liab</b>	<b>10,561</b>	<b>13,558</b>	<b>19,204</b>	<b>14,104</b>	<b>6,910</b>
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
<b>Total Non-Current Liab</b>	<b>100</b>	<b>7,361</b>	<b>6,754</b>	<b>6,754</b>	<b>6,754</b>
<b>TOTAL LIABILITIES</b>	<b>10,661</b>	<b>20,919</b>	<b>25,958</b>	<b>20,858</b>	<b>13,664</b>
<b>TOTAL EQUITY</b>	<b>46,898</b>	<b>71,535</b>	<b>63,300</b>	<b>71,471</b>	<b>100,523</b>

CASH FLOW SUMMARY (A\$'000)					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
<b>EBIT (excl Abs/Extr)</b>	<b>(13,562)</b>	<b>15,326</b>	<b>(12,511)</b>	<b>8,290</b>	<b>23,853</b>
Add: Depreciation	986	1,228	933	1,509	1,599
Amortisation	0	317	1,681	1,194	1,890
Change in Pay.	863	1,970	6,019	(2,575)	(3,660)
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)	(3,434)
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)
<b>Gross Cashflows</b>	<b>(8,840)</b>	<b>12,508</b>	<b>4,358</b>	<b>9,266</b>	<b>21,914</b>
Capex	(1,985)	(893)	(3,785)	(1,500)	(1,500)
<b>Free Cashflows</b>	<b>(10,825)</b>	<b>11,615</b>	<b>573</b>	<b>7,766</b>	<b>20,414</b>
Re-Purchase of Shares **	0	0	(3,020)	(4,932)	0
<b>Net Cash Flow</b>	<b>(10,825)</b>	<b>11,615</b>	<b>(2,447)</b>	<b>2,834</b>	<b>20,414</b>

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

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