

# Biota Holdings Limited

## Daiichi Exercises Its LANI Rights



Wilson HTM  
INVESTMENT GROUP

30 March 2009

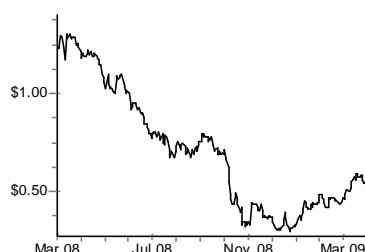
\$0.60

BUY

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### Price Performance



### Security/Capital Details

ASX Code	BTA
Market Cap	\$96.0 M
Issued Shares	174.6 M
Avg Mth T'over	7.96 M
12 Mth High – Low	\$1.25 - \$0.30

### Key Data/Ratios – FY 2009

Cash	\$60.2 M
Burn	\$29.1 M
EV	\$35.8 M
Interest Cover	n/a
ROE	-22.0%
EPS Growth	-170.1%
PEG Ratio	-0.11 x
NTA / Share	\$ 0.31
DCF	\$ 1.15
12 Mth Price Target	\$ 1.30

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

**BTA has increased its share price by 66% this year but investors have not missed out – the market is valuing the cash and the Relenza orders it can see, but is still ignoring LANI. Daiichi Sankyo is not ignoring LANI. The Japanese company has exercised its Japanese market rights to the LANI compound and looks a reasonable chance to register it next year. BTA will earn royalties and other payments. Even better, BTA and Daiichi have the rest-of-world rights to sell, the proceeds of which they will share. BTA has done well getting hooks into a compound that Daiichi discovered, which demonstrates the value of patent rights and solid business development. No changes to forecasts or our SOTP valuation at \$1.15/share. BUY recommendation maintained.**

### Key Points

- Daiichi-Sankyo has signed an agreement with BTA relating to the manufacture and marketing of the long-acting neuraminidase inhibitor (LANI) compound, otherwise known as CS8958. The conferred rights only relate to the Japanese market; pending the successful completion of the pivotal Phase III clinical programme and subsequent product registration.
- The event was expected, given Daiichi's recent momentum in LANI. The consideration for the licence includes an undisclosed royalty and lump sum payments to BTA linked to sales milestones in the Japanese market. We are comfortable that our modelling adequately captures the expected economics from this product in Japan (and elsewhere), though the Japanese milestone component came as a surprise.
- Rest of world (ROW) rights remain available for licensing by partners. We expect that only multinational partners will have the experience and reach to exploit these rights. Candidates, to our mind, include GSK, AstraZeneca, Pfizer/Wyeth, Merck/Schering, Boehringer Ingelheim, Roche, Sanofi, Novartis and Gilead. BTA and Daiichi will share the commercial returns from ROW licensing.
- ROW marketing will require an independent set of Phase III studies and marketing applications in Europe and US. We do not see the drug commercialised ex-Japan until 2H-2014. Our global modelling for CS8958 includes both seasonal and pandemic stockpiling elements.
- BTA confirmed that the CS8958 programme is progressing well. BTA expects Daiichi to release Phase III results mid-year. We expect Daiichi to match their competitor Shionogi (co-developer of peramivir, with BioCryst) in the race to get a new antiviral approved in Japan for the 2010 influenza season.
- We remain confident that the drug will achieve its main objective in Phase III – to prove non-inferior to a course of Tamiflu taken orally, twice-daily for 5 days. Recall that CS8958 given once-only by inhalation achieved this performance in Phase II studies.
- No changes to our valuation – this event was a condition precedent to our investment view on CS8958. Our SOTP valuation of BTA is \$1.15 per share. BUY recommendation maintained.

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	-2.6	-123.2	-29.2	28.4	-8.8	0.0	0.0	0
2009e	5.9	-7.1	-170.1	-6.5	13.1	-1.7	0.0	0.0	0
2010e	1.6	2.1	129.2	22.1	-49.5	8.4	0.0	0.0	0
2011e	6.2	4.6	122.6	9.9	2.9	-0.3	0.0	0.0	0

## Biota Holdings Limited (BTA : \$0.60)

### INVESTMENT FUNDAMENTALS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EPS Reported (c)	11.2	-3.7	3.4	0.9	3.6
<b>EPS Normalised (c)</b>	<b>11.4</b>	<b>-2.6</b>	<b>-7.1</b>	<b>2.1</b>	<b>4.6</b>
EPS Growth (%)	N/A	-123.2%	-170.1%	129.2%	122.6%
<b>PER Normalised (x)</b>	<b>15.8</b>	<b>-29.2</b>	<b>-6.5</b>	<b>22.1</b>	<b>9.9</b>
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
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	-1.6	13.1	-0.3
EV / EBITDA (x)	14.9	-8.8	-1.7	8.4	-0.3
CFPS (c)	11.6	2.7	3.5	-0.9	15.8
<b>Price / CF</b>	<b>15.4</b>	<b>28.4</b>	<b>13.1</b>	<b>-49.5</b>	<b>2.9</b>
Book Value / Share (\$)	0.4	0.4	0.4	0.4	0.4
<b>Price / Book (x)</b>	<b>4.5</b>	<b>2.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.1</b>

### PROFIT & LOSS (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Sales Revenue	39.8	20.5	19.0	8.5	12.6
EBITDA	17.5	-9.4	-12.0	2.8	7.3
Depreciation	1.2	0.9	0.6	1.0	1.0
<b>EBITA</b>	<b>16.3</b>	<b>-10.3</b>	<b>-12.6</b>	<b>1.8</b>	<b>6.3</b>
Amortisation	0.3	1.8	1.6	2.0	1.9
<b>EBIT</b>	<b>15.9</b>	<b>-12.1</b>	<b>-14.2</b>	<b>-0.2</b>	<b>4.4</b>
Net Interest Expense	-1.9	-2.8	-3.1	-1.8	-1.8
<b>Pre-tax Profit</b>	<b>17.8</b>	<b>-9.3</b>	<b>-11.2</b>	<b>1.6</b>	<b>6.2</b>
Tax	-2.3	-2.8	2.9	0.0	0.0
Tax rate (%)	-13.2%	30.3%	-26.2%	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
<b>Net Profit</b>	<b>20.2</b>	<b>-6.5</b>	<b>-14.1</b>	<b>1.6</b>	<b>6.2</b>
Abn's / Extraord's	0.0	0.0	20.0	0.0	0.0
Reported Net Profit	20.2	-6.5	5.9	1.6	6.2
Revenue Growth (%)	N/A	-48.4%	-7.7%	-55.3%	47.9%
EBIT Growth (%)	N/A	-175.8%	-17.6%	98.6%	2,330.2
NPAT Growth (%)	N/A	-132.2%	-117.1%	111.7%	277.4%

### PROFITABILITY RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
<b>EBIT / Sales (%)</b>	<b>40.1%</b>	<b>-58.8%</b>	<b>-75.0%</b>	<b>-2.3%</b>	<b>35.4%</b>
ROA (%)	N/A	-40.6%	-48.1%	-0.7%	16.6%
<b>ROE (%)</b>	<b>N/A</b>	<b>-9.6%</b>	<b>-22.0%</b>	<b>2.5%</b>	<b>8.9%</b>
ROFE (%)	N/A	-164.1%	-329.3%	25.5%	-

### INTERIMS (\$m)

Half Yr	Dec 07	Jun 08	Dec 08	Jun 09	Dec 09
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	16.5	4.1	3.8	15.1	8.5
EBIT	6.1	-18.1	-11.8	-2.4	-4.9
<b>Net Profit</b>	<b>5.5</b>	<b>-12.0</b>	<b>7.2</b>	<b>-1.3</b>	<b>-3.7</b>
EBIT / Sales (%)	36.7%	-446.8%	-309.2%	-15.9%	-57.4%

### BALANCE SHEET (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Cash	<b>62.2</b>	<b>60.2</b>	<b>60.2</b>	<b>56.7</b>	<b>82.3</b>
Receivables	9.4	4.3	5.0	5.2	2.5
Inventories	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
<b>Current Assets</b>	<b>71.5</b>	<b>64.4</b>	<b>65.2</b>	<b>61.9</b>	<b>84.8</b>
Net PPE	4.9	7.5	7.4	8.2	9.2
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	13.7	12.1	10.6	8.6	6.7
Other	2.4	5.2	7.0	8.0	4.9
<b>Non-current Assets</b>	<b>21.0</b>	<b>24.8</b>	<b>25.0</b>	<b>24.8</b>	<b>20.8</b>
<b>Total Assets</b>	<b>92.5</b>	<b>89.3</b>	<b>90.1</b>	<b>86.7</b>	<b>105.6</b>
Current Payables	6.0	12.0	12.0	14.0	15.0
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	10.7	4.0	17.4
<b>Total Liabilities</b>	<b>20.9</b>	<b>26.0</b>	<b>25.5</b>	<b>20.4</b>	<b>33.1</b>
Equity	161.7	159.1	154.8	154.8	154.8
Reserves	0.6	1.4	1.2	1.2	1.2
Retained Profits	-90.8	-97.3	-91.3	-89.7	-83.5
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>71.5</b>	<b>63.3</b>	<b>64.7</b>	<b>66.3</b>	<b>72.5</b>
<b>Total Funds Employed</b>	<b>9.4</b>	<b>3.1</b>	<b>4.5</b>	<b>9.6</b>	<b>-9.8</b>

### LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Net Debt (Cash) (\$m)	-62.2	-60.2	-60.2	-56.7	-82.3
<b>Net Debt / Equity (%)</b>	<b>-86.9%</b>	<b>-95.0%</b>	<b>-93.0%</b>	<b>-85.5%</b>	<b>-113.5%</b>
Interest Cover (x)	-8.4	4.3	4.7	0.1	-2.5
<b>Debt / CashFlow (x)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### CASHFLOW (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT	15.9	-12.1	-14.2	-0.2	4.4
Dep'n and Amort'n	1.5	2.7	2.2	3.0	2.9
Net Int Rec'd (Paid)	2.7	2.8	2.7	1.8	1.8
Tax Paid	0.0	0.0	0.0	0.0	0.0
Dec / (Inc) W/kg Cap	0.0	9.7	12.0	1.8	3.7
Other	0.9	1.7	3.4	-8.1	14.8
<b>Operating Cash Flow</b>	<b>21.0</b>	<b>4.8</b>	<b>6.1</b>	<b>-1.6</b>	<b>27.6</b>
Capital Expenditure	-0.9	-3.8	-1.2	-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
<b>Investing Cash Flow</b>	<b>-6.4</b>	<b>-3.8</b>	<b>-1.2</b>	<b>-1.9</b>	<b>-2.0</b>
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	-4.9	0.0	0.0
<b>Financing Cash Flow</b>	<b>1.4</b>	<b>-3.0</b>	<b>-4.9</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Cash Flow</b>	<b>16.0</b>	<b>-2.0</b>	<b>0.0</b>	<b>-3.5</b>	<b>25.6</b>

*Disclosure of Interest. The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in 34,080 securities in Biota Holdings Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Biota Holdings Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.*



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