



1 June 2009

Biota Holdings Limited (BTA)

Speculative Buy

Australian Govt Order Adds \$4.3m to Relenza™ Royalties

\$1.34

Thomas Duthy *PhD MBA*
tduthy@taylorcollison.com.au
+61 2 9232 1688

Key Points

Australian government purchase of \$43m or 1.6m courses of Relenza™ announced.

Will result in additional \$4.3m in royalties to Biota owing to higher royalty rate in Australia.

Government or media confirmed orders for Relenza™ since swine H1N1 outbreak tracking at 4.6m courses.

Approximately \$9.5m in additional royalties could be recognised.

Summary

Market Capitalisation (M)	\$234.0
Share Price	\$1.34
Shares on Issue (M)	174.6
Av. Monthly Volume (Yr Rolling)(M)	14.4
52 Week High	\$1.79
52 Week Low	\$0.29
Valuation Per Share (fully diluted)	\$1.75
Cash (M) as at 31/12/08	\$55.4

Our View

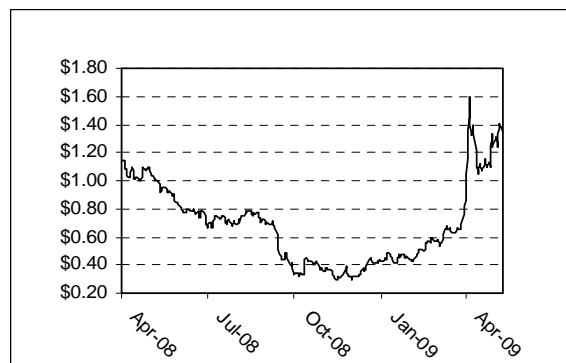
- The Australian government order, while worth \$4.3m in additional royalties to Biota, highlights a rather interesting (and growing) trend in anti-viral stockpiling globally, namely the increased percentage component of Relenza™ with Tamiflu®. We believe this is in response to major resistance issues in seasonal H1N1 viruses currently circulating. As an example, the Australian overall stockpile (disregarding any movement in stockpile via usage to address swine H1N1) now consists of 33% Relenza™, which is in-line with the UK stockpile, prior to an additional 17m anti-viral courses sought more recently. We anticipate the substantial amount of funds requisitioned to fight pandemic influenza in the US will result in additional Relenza™ orders at a minimum that is consistent with its percentage contribution (20%) in the Federal/State stockpile. We note this includes a US\$251m anti-viral purchase for the national stockpile by the Department of Health and Human Services (HHS), and US\$1.5 billion approved by the US senate for pandemic preparedness.
- Apart from tailwinds associated with the additional Relenza™ orders attributable to swine H1N1, we are also expecting the results of Biota's Phase 2a Human Rhinovirus (HRV) challenge study later this month, with Daiichi Sankyo's Phase 3 LANI results also expected over the next several months. We have upgraded our 4Q09 Relenza™ royalty estimates from \$7.6m to \$9.5m, reflecting the sum total of known govt orders, which has a net FY09 Relenza™ royalty impact of +4.4% to \$45.6m and PBT impact of +5.4% to \$33.9m, including an increased non-cash amortisation charge from the VCP/CSIRO royalty buy back, which is booked according to Relenza™ volumes. We are not expecting Biota to recognise tax expense during FY09, inferring an FY09 NPAT of \$33.9m, EPS of 19.4c and a current PE of 6.9x. However, despite surplus retained revenue losses at FY09, we believe the effective future tax rate for FY10, FY11 will approach close to 15%, which has negatively impacted our FY10 and FY11 NPAT estimates by 14.2% and 14.7%, respectively. We maintain our \$1.75 price target and Speculative Buy recommendation.

Key Financials (A\$'000)

Year End	FY08 Actual	FY09 Est.	FY10 Est.
Relenza Royalties	20,544	45,610	32,784
Partnering Income*	5,871	4,069	23,410
Total Revenue	44,989	64,815	60,875
Total Op. Expenses	(41,397)	(24,398)	(13,119)
R&D Expenses	(10,287)	(14,171)	(11,274)
EBITDA	(9,897)	36,137	33,510
Normalised NPAT	10,735	14,814	27,802
Adj. NPAT	(6,489)	33,899	27,802
Adj. EPS (c)	(3.5)	19.4	15.9
Adj. PE Ratio (x)	n/a	6.9	8.4

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

Share Price Graph (A\$)



Updated Relenza™ Orders Since Swine H1N1 Outbreak

We have provided an update on the level of known government orders for Relenza since the beginning of the swine H1N1 outbreak in Mexico. We note the Table (below) does not include jurisdictions including the US, which includes US\$251m anti-viral purchase for the national stockpile by the Department of Health and Human Services (HHS), and the US\$1.5 billion approved by the US senate for pandemic preparedness. We consider Relenza™ purchases are likely under both funding initiatives, though at present the split of Tamiflu®/Relenza™ remains unknown. We note a Department of Health representative comment to us that indicated the majority of its 17m course order would be Tamiflu® and not necessarily Relenza™.

Relenza Snapshot - Post H1N1 "swine flu" : The World Responds

Country	Purchased?	Royalty Rate (%)	Est.Pricing (A\$m)	Est/Actual Courses (m)	Potential Biota 4Q09 Royalty (\$m)
Finland	Intends to	7.0	22.0	0.9	1.5
Mexico	yes	7.0	2.5	0.1	0.2
Taiwan	yes	7.0	22.5	0.9	1.6
Australia*	yes	10.0	43.0	1.6	4.3
United Arab Emirates	yes	7.0	27.5	1.1	1.9
TOTAL (known via media or govt)	-	-	-	4.6	9.5
GSK Inventory (m)(April 23 09)				6.0	
Output (from Jul 23rd-Aug 7) p/month				5.0	
Est. potential GSK output in 4Q09				11.0	19.25

New orders from governments in response to swine H1N1.

* Confirmed pricing/quantity (BTA royalty 10%)

GSK since 2003 has seen orders from 26 countries comprising on average 13% of overall stockpiles

FY09 Relenza estimates increased by 4.4% to \$45.6m.

Based on these known orders, we have upgraded our 4Q09 Relenza™ royalty estimates from \$7.6m to \$9.5m, which has a preliminary net FY09 Relenza royalty impact of +4.4% to \$45.6m. Our model excludes any contribution from personal stockpiling of anti-viral drugs, including Relenza™. Based on publicly stated GSK inventory in April, coupled with a ramp up to 5m courses per month from Jul-Aug, it is possible GSK has at least 11m courses available to sell in the 4Q09 (assuming incremental +2m production in May, +3m production in June to give 11m available for sale).

Personal stockpiling market remains the key swing factor for estimates.

On our estimates, if sold, Biota will see another very significant quarter for Relenza™ of \$19.3m in royalties - producing further and significant material upside to our 4Q and FY estimates. It remains uncertain if GSK is releasing significant Relenza™ to wholesalers for the retail market or is withholding for pandemic orders (GSK commented it was prioritizing to govt). This, coupled with govt orders not yet made public, could see the \$19.3m hit for 4Q09. However, we await comments from GSK mid July for certainty, or in the interim, confirmation of further orders over and above that observed to date.

Changes to Forecasts

We continue to believe Biota will not recognise income tax expense for FY09, with existing capital and revenue losses more than sufficient to meet expected PBT. However, we expect in FY10 and beyond a claw-back of further revenue losses at approximately a one for two basis, implying Biota will recognise income tax expense at an effective rate of approximately 15%.

Changes to Forecasts

	FY09E			FY10E			FY11E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Relenza Volumes (m)	25.0	26.1	4.3%	18.7	18.7	0.0%	19.8	19.8	0.0%
Relenza Royalties (A\$m)	43.7	45.6	4.4%	32.8	32.8	0.0%	34.6	34.6	0.0%
EBITDA	34.2	36.1	5.7%	33.5	33.5	0.0%	21.9	21.9	0.0%
Adj. NPAT	32.2	33.9	5.3%	32.4	27.8	-14.2%	21.3	18.1	-14.7%
Adj. EPS (c)	18.4	19.4	5.5%	18.6	15.9	-14.4%	12.2	10.4	-14.8%

Source: Taylor Collison estimates

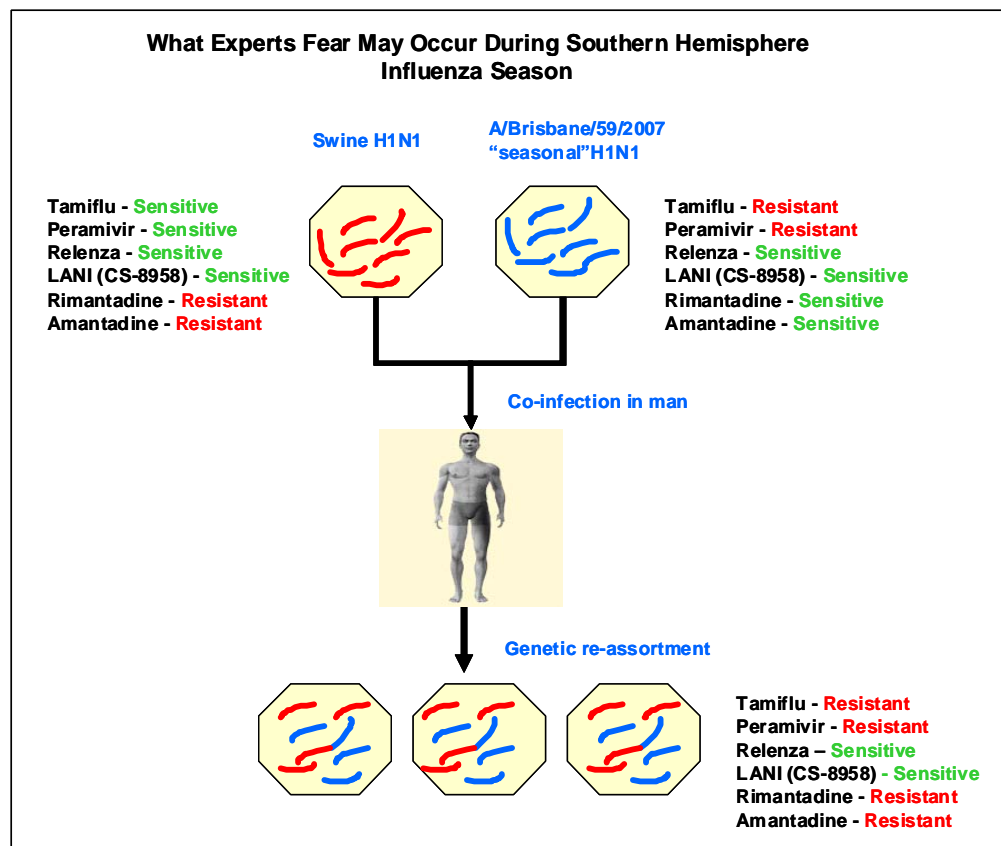
Effective tax rate of approximately 15% from FY10 onwards.

What Might Make Swine H1N1 Resistant to Tamiflu®?

Risk of Tamiflu® resistance emerging this winter from swine H1N1.

We note the very serious situation that could unfold in Australia during the current influenza season. It is largely expected that the so-called A/Brisbane/59/2007 strain of H1N1 will be circulating this season. This strain (along with other strains of the H1N1 class) have exhibited a mutation (known as H275Y) that renders the virus completely resistant to Tamiflu®, with levels of 100% in the US, Korea, Japan during their season which largely ended in April, prior to the swine flu outbreak.

We note the H275Y mutation does not affect the efficacy of Relenza™, and we understand LANI (CS-8958) as well. A second Phase 3 drug, peramivir, is also rendered ineffective by this mutation. Influenza viruses are notorious in replication errors and have the capability to re-assort or "mix" segments of their nucleic acid when co-infection occurs with two different viruses, producing a sudden change in the virus (indeed, this is how swine H1N1 is thought to have originated). We have shown one possible scenario below



Scenario illustrated – a concern for all government health advisors.

Source: Taylor Collison

The Centres For Disease Control (CDC) has been monitoring the circulating influenza viruses, as shown below from this week's report. No evidence of acquired Tamiflu® resistance has yet occurred in the US.

CDC in US has not observed novel (swine) Tamiflu® resistance at present.

	Isolates tested (n)	Resistant Viruses, Number (%)		Isolates tested (n)	Resistant Viruses, Number (%)
		Osetamivir	Zanamivir		
Seasonal Influenza A (H1N1)	904	899 (99.4%)	0 (0)	914	5 (0.5%)
Influenza A (H3N2)	158	0 (0)	0 (0)	158	145 (100%)
Influenza B	444	0 (0)	0 (0)	N/A*	N/A*
Novel Influenza A (H1N1)	139	0 (0)	0 (0)	119	119 (100%)

*The adamantanes (amantadine and rimantadine) are not effective against influenza B viruses.

In the case of genetic re-assortment, a new virus could result, essentially a hybrid of seasonal H1N1 and swine H1N1, which is resistant to all anti-viral drugs, with the exception of LANI and Relenza, placing Biota in an extraordinary position via collections of 7% from global Relenza sales (10% Aust/NZ) and a co-ownership stake in LANI for the rest of world (ex-Japan) and a royalty right in Japan, which we estimate to be 2.5%.

Outlook

We have upgraded our 4Q09 Relenza™ royalty estimates from \$7.6m to \$9.5m, reflecting the sum total of known govt orders, which has a net FY09 Relenza™ royalty impact of +4.4% to \$45.6m and PBT impact of +5.4% to \$33.9m, including an increased non-cash amortisation charge from the VCP/CSIRO royalty buy back, which is booked according to Relenza™ volumes.

We are not expecting Biota to recognise tax expense during FY09, inferring an FY09 NPAT of \$33.9m, EPS of 19.4c and a PE of 6.9x. However, despite surplus retained revenue losses at FY09, we believe the effective future tax rate for FY10, FY11 will approach close to 15%, which has negatively impacted our FY10 and FY11 NPAT estimates by 14.2% and 14.7%, respectively. We maintain our \$1.75 price target and Speculative Buy recommendation.

*Maintain Speculative Buy,
\$1.75 price target.*

Biota Holdings Limited - Summary of Forecasts

BTA \$1.34

PROFIT & LOSS SUMMARY (A\$'000)					
	FY07A	FY08A	FY09E	FY10E	FY11E
Relenza Royalties	39,789	20,544	45,610	32,784	34,629
Partnering (Licence) Income	5,726	5,871	4,069	23,410	10,000
Research income (inc Grants)	8,740	15,042	12,171	1,624	700
Total Revenue	57,300	44,989	64,815	60,875	49,923
<i>Growth (pcp)</i>	282.8%	-21.5%	44.1%	-6.1%	-18.0%
Net Gain on GSK Settlement	0	0	12,736	0	0
Net Operating Revenue	27,576	3,592	53,153	47,755	37,636
R&D Expenses	(8,198)	(10,287)	(14,171)	(11,274)	(11,903)
EBITDA	16,871	(9,897)	36,137	33,510	21,895
Depreciation	(1,228)	(933)	(1,207)	(1,254)	(1,616)
Amortisation	(317)	(1,681)	(3,877)	(2,787)	(2,943)
EBIT	15,326	(12,511)	31,054	29,470	17,335
Net Interest	2,507	3,202	2,845	2,971	3,839
Pre-Tax Profit	17,833	(9,309)	33,899	32,441	21,173
Tax Expense	2,347	2,820	0	(4,639)	(3,028)
Minorities	0	0	0	0	0
NPAT Normalised *	21,424	10,735	14,814	27,802	18,146
<i>Growth (pcp)</i>	n/a	n/a	n/a	-18.0%	-34.7%
NPAT Adj.	20,180	(6,489)	33,899	27,802	18,146
Net Adjustments	0	0	0	0	0
Reported Profit	20,180	(6,489)	33,899	27,802	18,146

PER SHARE DATA					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Adjusted EPS (c)	11.2	(3.5)	19.4	15.9	10.4
<i>Growth (pcp)</i>	n/a	n/a	n/a	-18.0%	-34.7%
Reported EPS (c)	11.2	(3.5)	19.4	15.9	10.4
<i>Growth (pcp)</i>	n/a	n/a	n/a	-18.0%	-34.7%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	6.9	2.4	14.9	76.8	30.6
NTA per share (c)	32.2	28.0	80.6	153.8	183.2

VALUATION MULTIPLES					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Adjusted PE Ratio (x)	12.0	n/a	6.9	8.4	12.9
PE Ratio (x)	12.0	n/a	6.9	8.4	12.9
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%
EV/EBITDA (x)	10.2	n/a	4.1	3.6	4.4
EV/EBIT (x)	11.2	n/a	4.8	4.1	5.6

CAPITAL RAISING ASSUMPTIONS					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Shares Issued (m)	0.0	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.0	0.0	0.0	0.0	0.0
Cash Raised (A\$m)	0.0	0.0	0.0	0.0	0.0

KEY RATIOS					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBITDA/Sales Margin %	29.4%	-22.0%	55.8%	55.0%	43.9%
EBIT/Sales Margin %	26.7%	-27.8%	47.9%	48.4%	34.7%
Current ratio (x)	5.3	3.4	5.2	12.1	13.2
Net Debt : Equity (%)	-86.9%	-94.8%	-86.6%	-90.0%	-95.7%
ROE (%)	34.1%	-9.6%	42.2%	25.0%	13.5%
Dividend Payout Ratio (%)	n/a	n/a	0.0%	0.0%	0.0%

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

BALANCE SHEET SUMMARY (A\$'000)					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Cash	62,156	60,164	84,226	112,558	137,040
Receivables	9,350	4,270	16,204	11,566	9,485
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	71,506	64,434	100,430	124,124	146,525
Inventories	0	0	0	0	0
Property Plant & Equip	5,152	7,543	7,836	8,082	7,966
Intangibles	13,447	12,113	8,236	5,450	2,506
Other	2,349	5,168	6,888	5,168	5,168
Total Non-Current Assets	20,948	24,824	22,960	18,700	15,640
TOTAL ASSETS	92,454	89,258	123,390	142,824	162,165
Accounts Payable	6,004	12,023	14,908	9,131	7,488
Borrowings	0	0	0	0	0
Provisions	1,097	1,122	1,122	1,122	921
Other (Inc Def Rev)	6,457	6,059	3,125	0	2,733
Total Current Liab	13,558	19,204	19,155	10,253	11,143
Borrowings	0	132	0	0	0
Provisions	6,339	6,622	6,991	7,524	7,830
Other (Inc Def Rev)	1,022	0	0	0	0
Total Non-Current Liab	7,361	6,754	6,991	7,524	7,830
TOTAL LIABILITIES	20,919	25,958	26,146	17,777	18,973
TOTAL EQUITY	71,535	63,300	97,245	125,047	143,193

CASH FLOW SUMMARY (A\$'000)					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBIT (excl Abs/Extr)	15,326	(12,511)	31,054	29,470	17,335
Add: Depreciation	1,228	933	1,207	1,254	1,616
Amortisation	317	1,681	3,877	2,787	2,943
Change in Pay.	1,970	6,019	2,885	(5,776)	(1,643)
Less: Tax paid	2,347	2,820	0	(4,639)	(3,028)
Net Interest	2,507	3,202	2,845	2,971	3,839
Change in Rec.	(3,486)	5,080	(11,934)	4,638	2,081
Change in Prov.	(6,820)	(308)	(369)	(533)	(105)
Change in Def Tax Assets	(2,349)	(2,819)	0	0	0
Change in Inv.	0	0	0	0	0
Change in Def. Rev.	1,468	(1,420)	(2,934)	(3,125)	0
Gross Cashflows	12,508	4,358	30,507	29,832	25,982
Capex	(893)	(3,785)	(1,500)	(1,500)	(1,500)
Free Cashflows	11,615	573	29,007	28,332	24,482
Re-Purchase of Shares**	0	(3,020)	(4,945)	0	0
Net Cash Flow	11,615	(2,447)	24,062	28,332	24,482

** Biota bought back 9.17m shares, or 5% of its issued capital, ending 7th Oct 2008

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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

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www.taylorcollison.com.au
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