

23 July 2009

Produced and issued by: ABN AMRO Morgans Limited

# Biota Holdings

## To the moon

### Buy

**Important:** The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

### High Volatility

**Target price**  
A\$2.25 (from A\$1.53)

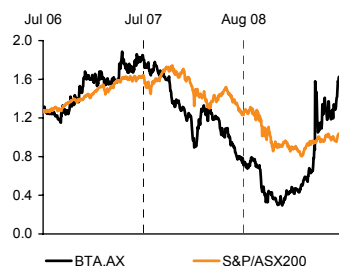
**Price**  
A\$1.76

**Short term (0-60 days)**  
n/a

BTA90723

### Price performance

	(1M)	(3M)	(12M)
Price (A\$)	1.18	0.90	0.79
Absolute (%)	48.5	94.5	124.2
Rel market (%)	43.0	75.3	175.8
Rel sector (%)	45.5	68.5	152.7



**Market capitalisation**  
A\$300.96m (US\$245.37m)

**Average (12M) daily turnover**  
A\$0.86m (US\$0.62m)

RIC: BTA.AX, BTA AU  
Priced at close of business 23 Jul 2009.  
Source: Bloomberg

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**BTA's marketing partner GSK is aiming to triple production to 190m courses of Relenza. We have made significant upward revisions to FY10 and FY11 forecasts. Newsflow on further Government orders and clinical results are expected to maintain investor interest.**

### Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA (A\$m)	16.60	-9.78	42.20 ▲	118.4 ▲	164.6 ▲
Reported net profit (A\$m)	20.20	-6.49	35.10	91.90 ▲	114.0 ▲
Normalised net profit (A\$m) <sup>1</sup>	20.20	-6.49	35.10	91.90 ▲	114.0 ▲
Normalised EPS (c) <sup>1</sup>	11.20	-3.79	20.50	53.70 ▲	66.70 ▲
Normalised EPS growth (%)	n/a	n/a	n/a	161.5	24.10
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	15.70	n/m	8.57	3.28	2.64
EV/EBITDA (x)	14.40	n/m	5.05	1.07	0.10
Price/net oper. CF (x)	15.10	62.50	10.40 ▲	3.43 ▼	2.65 ▼
ROIC (%)	1,506	-93.4	817.7	753.0	673.2

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

year to Jun, fully diluted

1. Pre non-recurring items and post preference dividends

Accounting standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

### GSK triples production capacity

GlaxoSmithKline (GSK) reported GBP60m (A\$125m) in Relenza (zanamivir) sales for the quarter ended 30 June 09. BTA receives a 7% royalty from GSK, and will receive A\$8.9m. From a full-year perspective Relenza royalties were A\$45m, compared with our A\$47.4m forecast. However the new news from the GSK release relates to an intention to more than triple its current production capacity of 60m courses to 190m courses. The increase in capacity (about 100m courses) will be aided by the use of an alternative delivery mechanism (Relenza Rotacaps/Rotahler), which recently received temporary approval by Swedish regulators. GSK is in discussion with other regulatory authorities to secure approvals.

### Material upgrade to FY10 and FY11 forecasts

As a result of the expected increase in production capacity, we have upgraded our FY10 and FY11 forecasts significantly by 257% and 592%, respectively. Details are contained overleaf.

### Upcoming milestones to focus on

We are expecting the release of the Phase III results for the long acting version of Relenza within a month. Assuming positive results, BTA and its partner Daiichi Sankyo will seek regulatory approval for the product, possibly in time for the Japanese 2011 flu season. Global licensing opportunities are also possible post the release of these results.

### Investment view – Buy maintained

Following forecast revision, our DCF valuation and price target have increased to A\$2.25 (was A\$1.53). Risks include a failure to achieve key end points in the LANI program. Given the near-term news flow we maintain the Buy recommendation.

## Quarterly Relenza sales

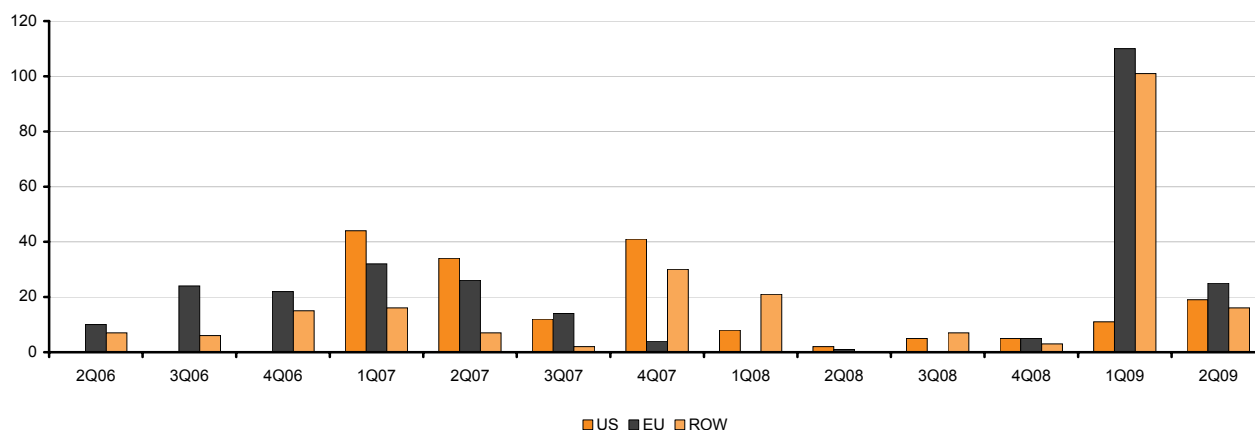
Table 1 : Quarterly Relenza sales (GBPm)

GBP (m)	1Q06	2Q06	3Q06	4Q06	CY06	1Q07	2Q07	3Q07	4Q07	CY07	1Q08	2Q08	3Q08	4Q08	CY08	1Q09	2Q09	% Chg on pp	% Chg on pcp
US		0	0	0	0	44	34	12	41	131	8	2	5	5	20	11	19	73%	850%
EU		10	24	22	62	32	26	14	4	76	0	1	0	5	6	110	25	-77%	2400%
ROW		7	6	15	29	16	7	2	30	55	21	0	7	3	31	101	16	-84%	na
Total	7	17	30	37	91	92	67	28	75	262	29	3	12	13	57	222	60	-73%	1900%

Source: Company data

Shown graphically:

Chart 1 : Quarterly Relenza sales (GBPm)



Source: Company data

## Changes to forecasts

Table 2 : Changes to forecasts

A\$m	FY09F			FY10F			FY11F			FY12F		
	Old	New	% Change	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	85.2	82.6	-3.0%	69.8	153.8	120.4%	46.4	188.5	306.3%	47.4	43.0	-9.3%
EBITDA	38.8	42.2	8.8%	33.9	118.4	249.3%	22.0	164.6	649.0%	39.8	35.9	-9.8%
NPAT	35.0	35.1	0.2%	25.7	91.9	257.2%	16.5	114.0	591.7%	34.7	28.5	-17.8%
EPS	20.5	20.5	0.2%	15.0	53.7	257.2%	9.6	66.7	591.7%	20.3	16.7	-17.8%

Source: ABN AMRO Morgans

- FY09** – we have made minor changes to our corporate expenses forecast and offset this with a higher tax charge. The final result is an immaterial change to our FY09 forecast.
- FY10 and FY11** – we have made a significant upward revisions to our forecasts noted in the table above. The changes to our assumptions include; total capacity being increased from 40m courses to 190m courses in line with GSK announcement. We have assumed that in FY10 50% of the production will be utilised (or 95m courses compared with previous forecast of 28m) and in FY11 70% of production will be utilised (or 133m courses compared with our previous forecast of 28m). This increase in capacity is expected to be on line by the end of CY09. GSK noted that production capacity of Relenza in its standard Diskhaler format will be increased from 60 to 90 m courses. A further 100m courses a year of additional capacity will be available as Relenza Rotacaps/Rotahaler. This alternative Relenza delivery has been granted temporary approval by Swedish regulators and therefore within the EU for distribution during a pandemic. GSK is in discussions with other regulatory authorities to secure further approvals. We have assumed a lower selling price of A\$20 per course (was A\$25.00), which reflects in part a 2m course donation to WHO and possible tiered pricing for significant country orders.

- **FY12** – we assume more normal seasonal patterns return and a full tax rate is incurred. This has reduced our forecast NPAT from A\$34.7m to A\$28.5m.

### Sensitivity Analysis

We believe the current H1N1 influenza pandemic has two years to run and BTA will receive significant royalties during this period. We have run a sensitivity analysis over this two-year period and determined that a A\$1 increase in the selling price of each course increases our valuation by 6cps and an additional 1m courses in FY10 and FY11 increases our valuation by 1cps.

### Other Issues to consider

- In previous notes we have highlighted the growing body of evidence suggesting resistance is emerging to the competing product Tamiflu to certain H1N1 strains. Potentially Governments may look to rebalance their stockpiles with a more equal weighting towards Relenza. Typically global stockpiles are 20% Relenza and 80% Tamiflu.
- BTA's liquidity and market capitalisation have been increasing over the last three months and the stock is a potential candidate for inclusion into the ASX200 in the September or December 2009.
- BTA will have significant cash reserves over the next twelve months. The question arises as to what BTA will do with the funds. Options include; 1) acquisitions or licensing in projects in the anti-infective space, management has demonstrated a high degree of success, or 2) some form of capital management.

### Milestones to watch

**Table 3 : Upcoming catalysts**

Milestones	Timing	Impact
LANI results	Aug-09	Positive
GSK Qly results	Oct-09	Positive
Government Orders	Various	Positive
regulatory Approval on Rotacaps	3QCY09	Positive

Source: ABN AMRO Morgans, company data

### BTA Overview

BTA is a leading anti-infective drug development company with expertise in respiratory diseases, particularly influenza. Biota developed the flu drug known as Relenza™ and marketed by GlaxoSmithKline (GSK). Relenza is used to treat seasonal influenza and is currently being stockpiled by various governments for defence against possible pandemic outbreaks of avian (bird) and swine (pig) influenza. BTA receives a 7% royalty on the sale of each course of Relenza.

**BTA – financial summary**

Year to 30 Jun (A\$m)	AIFRS 2007A	AIFRS 2008A	AIFRS 2009F	AIFRS 2010F	AIFRS 2011F	Valuation price (A\$)	1.760	Price target (A\$)	2.25		
<b>Income statement</b>	<b>2007A</b>	<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>	<b>Valuation metrics</b>					
Divisional sales	54.8	41.7	82.6	153.8	188.5	Preferred methodology	DCF	Val'n (A\$)	\$ 2.25		
Total revenue	54.8	41.7	82.6	153.8	188.5	<b>DCF valuation inputs</b>					
<b>EBITDA</b>	<b>16.6</b>	<b>-9.8</b>	<b>42.2</b>	<b>118.4</b>	<b>164.6</b>	Rf	5.25%	10-year rate	5.25%		
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	6.00%	Margin	2.0%		
Depreciation	-1.2	-2.7	-5.5	-5.4	-5.4	Beta	1.80	Kd	7.25%		
EBITA	15.4	-12.5	36.6	113.0	159.2	CAPM (Rf+Beta(Rm-Rf))	16.0%	Ke	16.1%		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	100.0%	NPV cash flow (A\$m)	297.4		
EBIT	15.4	-12.5	36.6	113.0	159.2	Debt (D/EV)	0.0%	Minority interest (A\$m)	0.0		
EBIT(incl associate profit)	15.4	-12.5	36.6	113.0	159.2	Interest rate	7.25%	Net debt (A\$m)	-87.9		
Net interest expense	2.5	3.2	1.8	2.6	5.2	Tax rate (t)	30.0%	Investments (A\$m)	0.0		
Pre-tax profit	17.9	-9.3	38.4	115.6	164.4	Franking credit	100.0%	Equity market value (A\$m)	385.3		
Income tax expense	2.3	2.8	-3.3	-23.8	-50.4	<b>WACC</b>	16.1%	Diluted no. of shares (m)	171.0		
After-tax profit	20.2	-6.5	35.1	91.9	114.0			<b>DCF valuation (A\$)</b>	<b>2.25</b>		
Minority interests						<b>Multiples</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
<b>NPAT</b>	<b>20.2</b>	<b>-6.5</b>	<b>35.1</b>	<b>91.9</b>	<b>114.0</b>	Enterprise value (A\$m)	216.9	189.1	103.3	-8.3	
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	5.2	2.3	0.7	0.0	
NPAT post abnormal	20.2	-6.5	35.1	91.9	114.0	EV/EBITDA (x)	-22.2	4.5	0.9	-0.1	
						EV/EBIT (x)	-17.3	5.2	0.9	-0.1	
<b>Cash flow statement</b>	<b>2007A</b>	<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>	PE (pre-goodwill) (x)	-42.7	7.9	3.0	2.4	
EBITDA	16.6	-9.8	42.2	118.4	164.6						
Change in working capital	-0.5	8.6	-11.8	-9.5	-6.0	<b>At target price</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Net interest (pd)/rec	2.5	3.2	1.8	2.6	5.2	EV/EBITDA (x)	-33.2	7.1	1.8	0.6	
Taxes paid	2.3	2.8	-3.3	-23.8	-50.4	PE (pre-goodwill) (x)	-59.4	11.0	4.2	3.4	
Other oper cash items	0.0	0.0	0.0	0.0	0.0						
Cash flow from ops (1)	21.0	4.8	28.8	87.7	113.4	<b>Comparable company data (x)</b>		<b>2009F</b>	<b>2010F</b>	<b>2011F</b>	
Capex (2)	-0.9	-3.8	-1.0	-1.9	-1.8	Avexa	EV/EBITDA	-0.6	0.5	-0.4	
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-0.6	0.5	-0.4	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0		PE	-2.1	3.3	3.5	
Cash flow from invest (3)	-0.9	-3.8	-1.0	-1.9	-1.8	Pharmaxis	EV/EBITDA	-11.7	-10.6	-12.3	
Incr/(decr) in equity	1.4	-3.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-11.2	-10.1	-11.6	
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0		PE	-17.3	-13.1	-13.4	
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0						
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	<b>Per share data</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	No. shares	171.0	171.0	171.0	171.0	
Cash flow from fin (5)	1.4	-3.0	0.0	0.0	0.0	EPS (cps)	-3.8	20.5	53.7	66.7	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-3.8	20.5	53.7	66.7	
Incr/(decr) cash (1+3+5+6)	21.5	-2.0	27.8	85.8	111.6	Dividend per share (c)	0.0	0.0	0.0	0.0	
<b>Equity FCF (1+2+4)</b>	<b>20.1</b>	<b>1.0</b>	<b>27.8</b>	<b>85.8</b>	<b>111.6</b>	Dividend payout ratio (%)	0.0	0.0	0.0	0.0	
						Dividend yield (%)	0.0	0.0	0.0	0.0	
<b>Balance sheet</b>	<b>2007A</b>	<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>	<b>Growth ratios</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Cash & deposits	62.2	60.2	87.9	173.7	285.3	Sales growth	-23.8%	97.9%	86.2%	22.6%	
Trade debtors	9.4	4.3	10.2	19.0	23.2	Operating cost growth	35.0%	-21.5%	-12.5%	-32.4%	
Inventory	0.0	0.0	0.0	0.0	0.0	EBITDA growth				39.0%	
Investments	0.0	0.0	0.0	0.0	0.0	EBITA growth				40.8%	
Goodwill						<b>Operating performance</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Other intangible assets	13.4	12.1	8.5	4.9	1.3	Asset turnover (%)	11.5	19.9	23.4	17.7	
Fixed assets	5.2	7.5	6.7	6.8	6.8	EBITDA margin (%)	-23.4	51.0	77.0	87.3	
Other assets	2.3	5.2	5.2	5.2	5.2	EBIT margin (%)	-30.0	44.4	73.5	84.4	
<b>Total assets</b>	<b>92.5</b>	<b>89.3</b>	<b>118.5</b>	<b>209.6</b>	<b>321.8</b>	Net profit margin (%)	-15.5	42.5	59.7	60.5	
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	-19.8	37.2	59.4	52.3	
Trade payables	6.0	12.0	6.1	5.3	3.6	Net debt (A\$m)	-60.2	-87.9	-173.7	-285.3	
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-95.0	-89.3	-91.3	-93.8	
Provisions	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	3.9	-20.3	-42.8	-30.5	
Other liabilities	14.9	13.9	13.9	13.9	13.9	ROIC (%)	-93.4	817.7	753.0	673.2	
<b>Total liabilities</b>	<b>20.9</b>	<b>26.0</b>	<b>20.0</b>	<b>19.3</b>	<b>17.5</b>	<b>Internal liquidity</b>		<b>2008A</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Share capital	161.7	159.1	194.3	286.1	400.1	Current ratio (x)	2.5	4.9	10.0	17.6	
Other reserves	0.6	1.4	1.4	1.4	1.4	Receivables turnover (x)	6.1	11.4	10.6	8.9	
Retained earnings	-90.8	-97.3	-97.3	-97.3	-97.3	Payables turnover (x)	5.7	4.5	6.2	5.4	
Other equity	0.0	0.0	0.0	0.0	0.0						
Total equity	71.5	63.3	98.4	190.3	304.3						
Minority interest											
Total shareholders' equity	71.5	63.3	98.4	190.3	304.3						
<b>Total liabilities &amp; SE</b>	<b>92.5</b>	<b>89.3</b>	<b>118.5</b>	<b>209.6</b>	<b>321.8</b>						

Source: Company data, ABN AMRO Morgans forecasts

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RECOMMENDATION STRUCTURE

Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Each stock has been assigned a Volatility Rating to assist in assessing the risk of the security. The rating measures the volatility of the security's daily closing price data over the previous year relative to other stocks included in either the S&P/ASX200 Index (large caps) or the Small Ordinaries Index (small caps) of which it is a member. This rating is a quantitative (objective) measure provided as an additional resource and is independent of the qualitative research process undertaken by our research analysts.

A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

REGULATORY DISCLOSURES

Subject companies: BTA.AX.

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