



26 July 2009

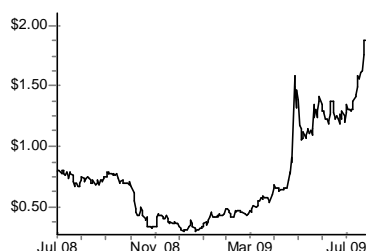
\$1.88

BUY

Shane Storey PhD MBA
07 3212 1351
shane.storey@wilsonhtm.com.au

Graeme Wald PhD MBA
03 9640 3840
graeme.wald@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	BTA
Market Cap	\$328.9 M
Issued Shares	174.6 M
Avg Mth T'over	7.96 M
12 Mth High – Low	\$1.76 - \$0.30

Key Data/Ratios – FY 2009

EBITDA / Sales	40.2%
EBIT / Sales	35.2%
Net Debt / Equity	-95.3%
Interest Cover	n/a
ROE	13.6%
EPS Growth	368.2%
PEG Ratio	x
NTA / Share	\$ 0.48
DCF	\$ 1.81
12 Mth Price Target	\$ 2.09

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

GSK's bullishness about Relenza is a windfall for BTA in FY10 & 11 and we upgrade our target by 41%. However, the consequence we find most satisfying is the consistency it will bring to BTA's cash return metrics. We are now likely to see solid earnings across the remaining life of the Relenza patent rights, which means an end to the 'feast or famine' nature of the royalty stream. BTA will present its FY09 result on Wednesday 19 August, when we expect to find NPAT of \$30.7M. Our target price has moved to \$2.09 per share and we maintain our BUY recommendation and our \$3+ in 2011 stock call. The next catalyst for the stock should be Phase III data from Daiichi-Sankyo's MARVEL study (LANI influenza programme), which we expect in August.

Key Points

- Worldwide Relenza sales were £60M for Q2-2009, which brought BTA's full-FY09 royalty revenue to \$45.0M. BTA is expected to report their FY09 result on Wednesday 19 August. Our FY09 estimates, which are modified slightly by last week's GSK result, suggest reported NPAT of \$30.7M. Core NPAT should be \$12.1M after stripping out the one-off GSK litigation settlement and other adjustments.
- The GSK earnings call revealed that more than 60 governments have signed contracts for Relenza stockpiling, which is firm evidence of new business. We are seeing clear signs that the dual pressures of H1N1 pandemic and seasonal Tamiflu resistance are precipitating stockpile acquisition and rebalancing.
- GSK will increase Relenza manufacturing capacity to 190M courses by the end of 2009; 100M of which are expected to feature a new Rotahaler presentation for the pandemic setting only. Rotahaler does not alter the dosing – a 5-day course of treatment is still required. The production capacity for the regular Diskhaler packs will go from 60M to 90M per year.
- GSK also intimated that the capacity they added through April-June, after the emergence of H1N1, met with vigorous demand. We have put through large upgrades to our FY10 and FY11 estimates as a result. We are now forecasting \$108.7M royalties in FY10 and \$75.2 in FY11.
- FY12-14 looked reasonably good before the GSK earnings call, on account of the expected stockpile replenishment schedule. The FY10-11 lull in royalties that we foreshadowed now looks unlikely thanks to H1N1 pandemic. Our forecasts have BTA realising a consistent cash ROIC of 70-80% over FY10-14.
- The share price at the end of last week's trade reflected just 4.5X FY10e EPS and a significant trading discount to XAO (14.7X). Now that the 'feast or famine' nature of Relenza royalties will normalise, it becomes easier for the market to pay a market multiple for the stock, which holds considerable upside from our call of a \$3+ share price in 2011.
- The next catalyst for BTA should be Daiichi-Sankyo's announcement of data from Phase III CS-8958 trial (MARVEL study; LANI programme). We note that Shionogi/Biocryl announced positive results from their Phase III peramivir study last week. That study was conducted simultaneously with MARVEL, so CS-8958 Phase III data could be quite close.
- Our target price has moved to \$2.09 per share, previously \$1.48; an upgrade of 41%. We maintain our BUY recommendation.

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	30.7	7.1	368.2	26.6	9.1	13.2	0.0	0.0	0
2010e	70.6	41.6	487.3	4.5	3.9	1.8	0.0	0.0	0
2011e	52.3	31.1	-25.3	6.1	5.0	1.3	0.0	0.0	0

GSK in aggressive pursuit of stockpiling market

According to GSK, much of the new Relenza stockpiling business was booked after the June accounts closed. None of the order volumes have been disclosed, but clearly, GSK is likely to have pre-sold the capacity they added during the months of April-June, when they took the annual production rate for the Diskhaler product from ~36M to ~60M. Capacity for that presentation is set to reach 90M by the end of 2009. GSK's Q3 result in October will provide the first quantitative insight into how much of the putative demand growth for Relenza is real and how much of it is GSK getting caught up in the phenomenal success it has enjoyed during the H1N1 pandemic on the vaccine development front. Investors need to retain some sense of scepticism at this stage. That GSK might manufacture 190M courses of Relenza in 2010 does not necessarily mean they will sell it all.

Figure 1: Quarterly Relenza sales by GSK 2006-2009e

GBP, M	CY2006				CY2007				CY2008				CY2009e			
	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09e	4Q09e
US	-	-	-	-	44	34	12	41	8	2	5	5	11	19		
EU	-	10	24	22	32	26	14	4	-	1	-	5	110	25		
ROW	7	7	6	15	16	7	2	30	21	-	7	3	101	16		
Total	7	17	30	37	92	67	28	75	29	3	12	13	222	60	202	175

Source: GSK, WHTM Research

Forecast changes – large upgrades to FY10 and FY11

The upgrades we have put through our model represent little more than taking GSK at its word with respect to how much it believes it has presold for 2H-FY09. These are very significant upgrades because before this news, we were forecasting a lull in royalties over FY10-11. The first glut of international stockpile acquisition was essentially finished before H1N1 emerged and by our calculations, stockpile replenishment would not have gained momentum until FY12/3. Now we have a materially better picture over the next two years. In FY10 we are forecasting \$108.7M in Relenza royalties, and \$75.2M in FY11.

At this point we have not put the Rotahaler product into our forecasts. Sweden has granted a limited, temporary approval for pandemic use only, which will be more broadly recognised by the EMEA and should support licensures in other EU countries. GSK is understood to be pursuing a US approval but we would not count on a seamless, 2009 approval there, as FDA takes a more rigorous line with respect to bioequivalence of drug-device combinations for respiratory use. The pandemic waiver may apply there – time will tell.

Our FY09 forecasts have changed by a small amount. WHTH had estimated a \$9.4M royalty in Q2 versus the actual figure of \$8.9M. We have also learned that BTA will recognise a higher tax expense (non-cash) in 2H-FY09 in anticipation of higher FY10 earnings, which leads us to revise our reported NPAT forecast from \$36.1M to \$30.7M. Core NPAT should be ~\$12.1M after stripping out the one-off GSK litigation settlement (\$20M) and making other adjustments. Note that the Relenza windfall will see BTA become a corporate taxpayer, sooner than we originally anticipated. We estimate that net operating losses were ~\$62M as at end-FY09. On our revised Relenza forecasts the company will be reporting retained profits on its balance sheet by the end of FY10 paying 30% from that point onwards.

Figure 2: Key changes to forecasts FY09e-FY12e

AUD, M	FY09			FY10			FY11			FY12		
	Previous	New	Δ	Previous	New	Δ	Previous	New	Δ	Previous	New	Δ
Relenza	45.5	45.0	-1.1%	22.3	108.7	387.3%	12.6	75.2	497.1%	74.0	74.2	0.2%
EBITDA	18.2	18.1	-0.5%	9.9	87.2	780.4%	-1.0	70.2	6915.9%	66.3	66.4	0.2%
NPAT	36.1	30.7	-14.9%	10.2	70.6	592.1%	-0.6	52.3	5134.4%	52.7	51.2	-2.8%
EPS	10.2	8.7	-14.9%	7.0	41.6	494.3%	0.7	31.1	4342.9%	32.0	32.0	0.0%

Source: WHTM Research



GSK missed the boat in US seasonal market?

One of the surprising observations we made over the last quarter was the disappointing performance in the US seasonal market following the H1N1 outbreak in April. IMS data shows that GSK sold just 48,700 Relenza prescriptions April through June – less than they sold before the H1N1 pandemic merged in Mexico.

Figure 3: Monthly US Relenza prescription data suggests GSK missed the H1N1 opportunity in the June quarter.

	Total New Rx ('000s)						
	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	09 YTD
Relenza	14.2	101.6	92.9	23.6	14.3	10.8	257.4
Tamiflu	166	499	352	238	346	441	2042

Source: IMS Data, WHTM Research

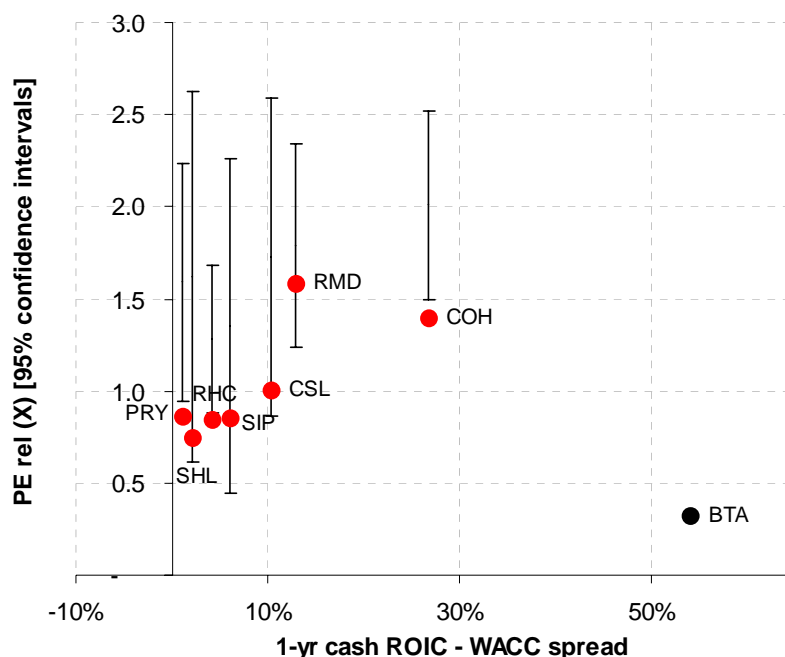
Consistency in Relenza earnings metrics a welcome development

Investors have struggled with the feast or famine nature of Relenza royalties, which have seen BTA lack consistency, alternating between profits and losses. The improvements in FY10-11 are important because the company now looks to have sustained profitability from FY09 through FY14. Furthermore, as the company maintains a relatively low burn rate due to its early-stage licensing business model, the cash returns from the business are actually very high.

BTA stacks up nicely against healthcare portfolio on cash returns

In our wider healthcare (non-biotech) research coverage we often refer to 1-yr prospective cash return on invested capital (CROIC) as our preferred measurement of the efficiency with which companies generate returns. We observe a general relationship between CROIC and the premium paid relative to the market (PE_{rel}, measured against the 12 month forward PE of XAO). Healthcare companies have never appeared so cheap, relative to the XAO, as they do now. As can be seen in Figure 4, most stocks are trading towards the bottom end of the ranges that capture where they have traded, relative to the market, over the past five years. BTA's PE has been so volatile over that period that its relative trading range is too broad to be informative and has been omitted.

Figure 4: Implied excess cash return on invested capital (CROIC) for BTA (black) in excess of its estimated WACC (17%), versus selected healthcare companies on same metrics for FY10E. Error bars capture the last five years' PE_{rel} trading ranges as 95% confidence intervals.



Source: WHTM Research



On our FY10-FY14 forecasts, we see BTA generating consistent cash ROICs of 70-75% - more than 4X its effective WACC (17%) and far in excess of what we measure in the larger cap healthcare area. For example, in FY10, even by our relatively conservative (compared to consensus) estimates, BTA may produce tax-adjusted EBIT of \$67.3M. The invested capital base for the company is very low: non-current assets of just c.\$25M; accumulated depreciation of c.\$7.75M, as at end-FY09. The efficiency of cash generation is quite emphatic, compared to the larger healthcare companies.

The BTA share price at the end of last week's trading reflected just 4.5X FY10e EPS and a significant trading discount to XAO (on 14.7X). If the company achieves cash returns consistent with our forecasts over the next five years, we think the market will be encouraged to pay a market multiple for the stock. We expect to see the stock's position on Figure 4 move closer in line with the linear trend we observe among the healthcare companies that we follow. This prospect holds considerable upside from our stock call of a \$3+ BTA share price in 2011.

Valuation and recommendation

In reality, it will take time for the market to build its confidence about BTA and to achieve the rerating. Confidential, international government stockpiling offers poor visibility, but we have the benefit of quarterly updates through GSK. At the same time, we expect BTA's CROIC to fall moderately as the company makes acquisitions and in-licences additional drug development programs, which looks inevitable, given the company's prospective FY10 cash balance of \$170M.

The next catalyst for BTA should be Daiichi-Sankyo's announcement of data from Phase III CS-8958 trial (MARVEL study; LANI programme). We note that Shionogi/Biocryst announced positive results from their Phase III peramivir study last week. That study was conducted simultaneously with MARVEL, so CS-8958 Phase III data could be quite close. WHTM increases target price by 41% to \$2.09 and maintains its BUY recommendation.

Biota Holdings (BTA : \$1.88)

INVESTMENT FUNDAMENTALS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EPS Reported (c)	11.2	-3.7	17.6	40.4	30.0
EPS Normalised (c)	11.4	-2.6	7.1	41.6	31.1
EPS Growth (%)	N/A	-123.2%	368.2%	487.3%	-25.3%
PER Normalised (x)	15.8	-29.2	26.6	4.5	6.1
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	13.6	1.8	1.3
EV / EBITDA (x)	14.9	-8.8	13.2	1.8	1.3
CFPS (c)	11.6	2.7	20.8	48.4	37.9
Price / CF	15.4	28.4	9.1	3.9	5.0
Book Value / Share (\$)	0.4	0.4	0.5	1.0	1.3
Price / Book (x)	4.5	2.2	3.5	1.8	1.4

PROFIT & LOSS (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Sales Revenue	39.8	20.5	45.0	108.7	76.3
EBITDA	17.5	-9.4	18.1	87.2	70.2
Depreciation	1.2	0.9	0.6	1.0	1.0
EBITA	16.3	-10.3	17.5	86.2	69.2
Amortisation	0.3	1.8	1.6	2.0	1.9
EBIT	15.9	-12.1	15.9	84.2	67.3
Net Interest Expense	-1.9	-2.8	-3.1	-4.1	-7.1
Pre-tax Profit	17.8	-9.3	18.9	88.2	74.4
Tax	-2.3	-2.8	8.2	17.6	22.0
Tax rate (%)	-13.2%	30.3%	43.3%	20.0%	29.6%
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	10.7	70.6	52.3
Abn's / Extraord's	0.0	0.0	20.0	0.0	0.0
Reported Net Profit	20.2	-6.5	30.7	70.6	52.3
Revenue Growth (%)	N/A	-48.4%	119.1%	141.4%	-29.8%
EBIT Growth (%)	N/A	-175.8%	231.2%	430.5%	-20.1%
NPAT Growth (%)	N/A	-132.2%	265.4%	557.6%	-25.9%

PROFITABILITY RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT / Sales (%)	40.1%	-58.8%	35.2%	77.4%	88.2%
ROA (%)	N/A	-40.6%	53.7%	280.3%	229.1%
ROE (%)	N/A	-9.6%	13.6%	50.9%	25.1%
ROFE (%)	N/A	-164.1%	458.1%	1,220.4	1,889.6

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	41.2	62.8
EBIT	6.1	-18.1	-11.8	27.7	46.4
Net Profit	5.5	-12.0	7.2	23.5	38.6
EBIT / Sales (%)	36.7%	-446.8%	-309.2%	67.2%	73.9%

BALANCE SHEET (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Cash	62.2	60.2	90.2	173.0	237.2
Receivables	9.4	4.3	5.0	5.2	7.9
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	95.2	178.2	245.1
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
Non-current Assets	21.0	24.8	25.0	24.8	20.8
Total Assets	92.5	89.3	120.2	203.0	265.9
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	15.3
Total Liabilities	20.9	26.0	25.5	20.4	31.0
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	-61.3	26.6	78.9
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	71.5	63.3	94.7	182.6	234.9
Total Funds Employed	9.4	3.1	4.5	9.6	-2.3

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Net Debt (Cash) (\$m)	-62.2	-60.2	-90.2	-173.0	-237.2
Net Debt / Equity (%)	-86.9%	-95.0%	-95.3%	-94.7%	-101.0%
Interest Cover (x)	-8.4	4.3	-5.2	-20.6	-9.5
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	15.9	84.2	67.3
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	4.1	7.1
Tax Paid	0.0	0.0	0.0	-0.4	-22.0
Dec / (Inc) W'kg Cap	0.0	9.7	12.0	1.8	-1.7
Other	0.9	1.4	3.4	-8.1	12.6
Operating Cash Flow	21.0	4.8	36.2	84.6	66.2
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
Investing Cash Flow	-6.4	-3.8	-1.2	-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	-4.9	0.0	0.0
Financing Cash Flow	1.4	-3.0	-4.9	0.0	0.0
Net Cash Flow	16.0	-2.0	30.1	82.7	64.2

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 15,071 securities in Biota Holdings. 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 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.



Disclaimer. Whilst Wilson HTM Ltd believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law Wilson HTM Ltd disclaims all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information. Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of Wilson HTM and therefore may not be realised in the future.

The advice contained in this document is general advice. It has been prepared without taking account of any person's objectives, financial situation or needs and because of that, any person should, before acting on the advice, consider the appropriateness of the advice, having regard to the client's objectives, financial situation and needs. If the advice relates to the acquisition, or possible acquisition, of a particular financial product – the client should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product. This communication is not to be disclosed in whole or part or used by any other party without Wilson HTM Ltd's prior written consent.

BRISBANE Ph: 07 3212 1333 Fax: 07 3212 1399	SYDNEY Ph: 02 8247 6600 Fax: 02 8247 6601	MELBOURNE Ph: 03 9640 3888 Fax: 03 9640 3800	GOLD COAST Ph: 07 5509 5500 Fax: 07 5509 5599
DALBY Ph: 07 4660 8000 Fax: 07 4662 4169	HERVEY BAY Ph: 07 4197 1600 Fax: 07 4197 1699	TOWNSVILLE Ph: 07 4725 5787 Fax: 07 4725 5104	GEEELONG Ph: 03 5225 1500 Fax: 03 5225 1599

Our web site: www.wilsonhtm.com.au