



24 August 2009

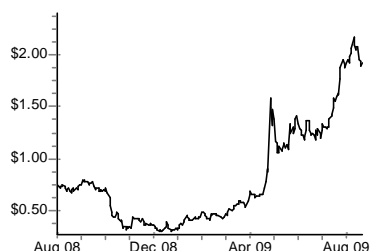
\$1.93

BUY

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Price Performance



Security/Capital Details

ASX Code	BTA
Market Cap	\$334 M
Issued Shares	176.2 M
Avg Mth T'over	7.96 M
12 Mth High – Low	\$2.17 - \$0.30

Key Data/Ratios – FY 2010

EBITDA / Sales	66.4%
EBIT / Sales	63.6%
Net Debt / Equity	n/a
Interest Cover	n/a
ROE	47.7%
EPS Growth	43.0%
PEG Ratio	x
NTA / Share	\$ 0.80
DCF	\$ 1.93
12 Mth Price Target	\$ 2.27

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

Biota's FY09 NPAT result of \$38.2M was ahead of our expectations because we overestimated R&D expenditures and non-cash tax expense. Their decision to return \$20M to shareholders makes a significant point to us – although the Relenza asset value is declining as it approaches patent expiry, it is generating significant cash reserves that the company can reinvest into new programs. Unusually for AU biotechnology companies, cash now seems to be a non-diminishing resource for BTA and we include it in our sum-of-the parts valuation for the first time. We upgrade our target to \$2.27 per share and upgrade recommendation from HOLD to BUY.

Key Points

- Biota's FY09 reported NPAT result of \$38.2M was ahead of our expectations because we overestimated R&D expenditures and the non-cash tax expense. FY09 was a turnaround year for BTA on almost every front, and with FY10 and FY11 seemingly underwritten by renewed vigour in the influenza antiviral stockpiling market, the company looks to have reached sustainable profitability.
- BTA made an EBIT margin of 31.3% once the numbers were adjusted for the one-off \$20M litigation payment from GSK received in 1H-FY09. Cash return on invested capital was 72% and ROE 106% - showing what can be achieved on a relatively low-cost business model grounded in early stage licensing in drug development.
- BTA did not provide any FY10 guidance. Our forecasts for FY10 and FY11 are unchanged. We continue to believe that GSK has pre-sold all the Relenza they will manufacture in 2009. GSK will have the ability to produce around 90M units of Diskhaler product and 100M courses of the Rotahaler product by that time, but we do not count the Rotahaler product at this time. FDA approval may prove more difficult to obtain in the US than was the case in Sweden/EU, which licensed the Rotahaler for pandemic use.
- BTA's decision to return \$20M to shareholders makes a significant point to us – although the Relenza asset value is declining as it approaches patent expiry, it is generating significant cash reserves that the company can reinvest into new programs. Cash now seems to be a non-diminishing resource for BTA and we include it in our sum-of-the parts valuation for the first time. We are expecting R&D and product development costs of ~\$25-30M for FY10 spread over RSV medicinal chemistry, Phase IIb trial design for the HRV inhibitor and preparations for LANI approval and launch. New programs such as CMV and non-nucleoside HCV inhibitors will also become a stronger R&D focus in FY10.
- BTA is trading at only 5.6X WHTMe FY10 EPS and 6.4X FY11. We expect the multiple will expand as the market comes to appreciate greater consistency in Relenza royalties and the company's high cash returns.
- We upgrade our price target to \$2.27 per share and upgrade our recommendation from HOLD to BUY.

Year to June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2009a	38.2	23.9	1,005.3	8.1	10.4	5.8	0.0	0.0	0
2010e	58.2	34.2	43.0	5.6	4.5	2.8	0.0	0.0	0
2011e	51.1	30.1	-11.9	6.4	5.2	1.9	0.0	0.0	0
2012e	36.3	21.7	-28.1	8.9	11.0	2.3	0.0	0.0	0



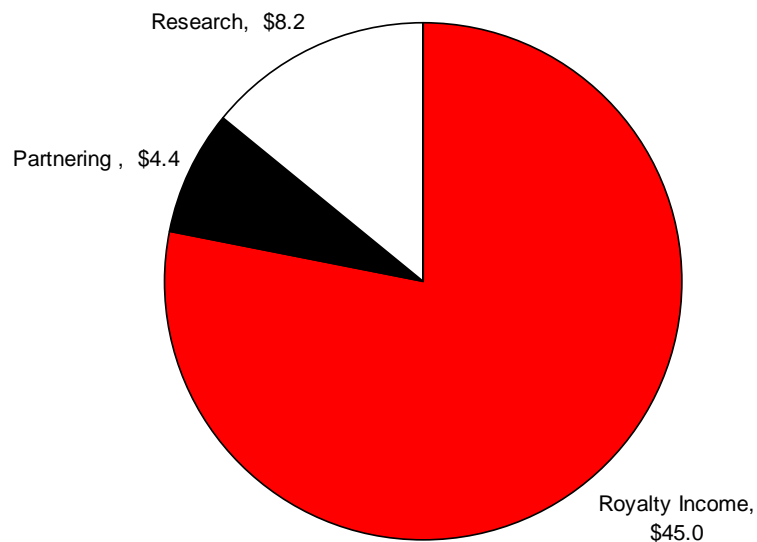
Biota Holdings – FY09 Results Analysis

Key Observations From FY09 Result

Total revenues increased significantly from \$45M to \$83.3M, resulting in PBT of \$41.8M, compared with a \$6.5M loss in 2008. Reported NPAT was \$38.1M (WHTMe \$30.7M) the difference relating to non-cash tax charge and lower than expected R&D costs for the year.

- Relenza royalties increasing from \$20.5M in FY08 to \$45M in FY09;
- A reduction in collaboration income from AstraZeneca and Boehringer Ingelheim from \$15.2M in FY08 to \$12.3M in FY09;
- \$20M from the litigation settlement with GSK;
- Grant income of \$2.8M from the US National Institutes of Health (NIH) for development of LANI programs, compared with \$5.7M in FY08;
- Collaboration payment of \$3.4M from AstraZeneca.

Figure 1: BTA revenue split FY09.



Source: BTA, WHTM Research

Figure 2: Headline financial performance for FY09

Group level		FY08	FY09	Δ% pcp	WHTMe	Δ%
Relenza royalty	\$M	20.5	45.0	119.0%	45.0	0.0%
EBITDA	\$M	-9.4	44.0	570.0%	38.1	-13.4%
EBIT	\$M	-12.1	38.9	421.6%	35.9	-7.8%
PBT	\$M	-9.3	41.8	549.2%	38.9	-6.9%
NPAT	\$M	-6.5	38.2	688.4%	30.7	-19.5%
Core NPAT	\$M	-6.5	38.9	699.1%	34.5	-11.2%
EPS	cps	-3.7	21.7	681.9%	17.5	-19.4%

Source: BTA, WHTM Research

Result features

- Costs decreased from \$54.3M to \$41.5M with litigation costs of \$7.2M, following conclusion of the litigation matter.
- Cash flows from operating activities increased from \$4.8M to \$32.5M, and after accounting for the share buy-back of approximately \$5M, the company has approximately \$86.7M in cash, an increase of \$26.5M compared with FY08 closing balance.
- The stand-out performance though has been Relenza royalties, increasing by 120% to \$45M.

Earnings Features – Group Level

- Core NPAT of \$38.9M was a turn around of some \$44.5M compared with FY08 when the company recorded a loss of \$6.5M. If one strips out the \$20M litigation payment as non-operating NPAT would be \$18.2M.
- EBIT of \$38.9M was up from a loss of \$12.1M in FY08. WHTM prefers to strip out the GSK settlement for margin calculation. The adjusted EBIT margin was 31.3%.
- The business model is to out-licence products at a relatively early stage of development. By recouping the R&D through licensing fees and milestone payments, BTA essentially offers its investors a free option over project upside. We would expect the company's group margin to expand in a stepwise fashion as more products reach market.
- EPS amounted to 21.7 cps, previously a loss of 3.5 cps.
- Directors have decided to return \$20M to shareholders in December 2009 subject to shareholder approval if needed. If approved this would amount to approximately 11.5 cps. BTA is seeking a ruling from the ATO to treat the payment as a return of capital. If not the payment may be an unfranked dividend.
- The company's assessed losses now stand at \$59M, and we expect most if not all these losses to be overcome in FY10.

Figure 3: Margin analysis FY09

Group level		FY08	FY09	Δ pcp
Reported Revenue	\$M	36.1	80.4	123.0%
Reported Revenue (adj.)	\$M	36.1	60.4	67.3%
R&D	\$M	10.3	13.3	29.8%
Product Development	\$M	15.3	11.3	-26.0%
Business Development	\$M	1.0	1.0	-2.1%
Sub-royalties	\$M	1.7	3.7	120.5%
Corporate	\$M	3.8	4.3	12.7%
Litigation	\$M	21.8	7.2	-66.8%
Financing	\$M	0.4	0.1	-71.5%
EBIT	\$M	-12.1	38.9	421.6%
EBIT (adj.)	\$M	-12.1	18.9	256.2%
EBIT Margin		n/a	31.3%	

Source: WHTM Research

- Free cash flows were \$35.9M compared to just \$0.7M in FY08. BTA earned a cash return on invested capital (CROIC) of 72% for the year. ROE was 106%.

Outlook and changes to forecasts

BTA's outlook statement was bullish on Relenza and GSK's commitment to triple its manufacturing capacity but the company gave no guidance. We continue to believe that GSK has pre-sold the capacity they added during April-June when they increased the annual production rate for the Diskhaler from 36M to approx. 60M units p.a. We believe GSK will have the ability to produce around 90M units of Diskhaler product and 100M courses of the Rotahaler product p.a. by the end of 2009. Our forecasts for Relenza royalties in FY10 and FY11 are \$108.7M in FY10 and \$75.2M, respectively. At the moment we do not have any of the Rotahaler capacity in our Relenza sales forecasts. GSK have added that capacity to ensure they can deliver the ~100M courses that would be required if the US government acts to increase its stockpile. The snag is that it will require a new FDA approval, which may be more difficult to obtain in the US than was the case in Sweden. FDA approval of inhaled drug-device combinations can be difficult to obtain. The idea that the FDA's process will be influenced by the sense of urgency surrounding the H1N1 pandemic is not an investment-grade thesis.

R&D outcomes

We are expecting R&D and product development costs of ~\$25-30M for FY10. As we mentioned in our Preliminary Signals release of 10-08-09, AstraZeneca returned the RSV program (BTA-9881) to BTA and the company now intends to spend \$3M this year in developing back-up compounds for re-licensing. We expect \$3-5M to be spent in preparation for Phase IIb trials of the HRV inhibitor BTA-798. It is not BTA's intention or preference to undertake the Phase IIb studies – but if they are unable to partner the programme in a timely manner, they may have to contemplate that course of action to keep it moving, given the time pressure of finite patent lives. New programs such as CMV and non-nucleoside HCV inhibitors will also become a stronger R&D focus in FY10. Product development costs were \$11.3M in FY08 and are likely to rise modestly as LANI approaches Japanese market approval.

Valuation – what to do with all that cash??

BTA has achieved something that few other Australian biotechnology companies have done before – it has amassed a large amount of cash by commercialising a piece of technology. In our biotechnology practice we generally do not value the cash because in most cases, the cash is insufficient to see the company become profitable. That is clearly not the case for BTA, which has announced its first capital return. Although the outlook for Relenza in FY10 and FY11 is much better thanks to H1N1, it remains a decaying asset on account of its fixed patent life. Rebasng our Relenza royalty NPV valuation out a year reduces the Relenza valuation.

Figure 4: Revised sum-of-the-parts valuation (12 month forward view) for BTA. It is appropriate to value cash given the balance sheet is likely to strengthen with increased Relenza royalties and LANI commercialisation.

Item	Previous Target Value (\$M)	Current Target Value (\$M)
Relenza	\$253.5	\$185.7
RSV (BTA-9881)	\$34.8	\$0.0
HCV	\$23.1	\$24.3
HRV (BTA-798)	\$13.2	\$13.2
LANI (CS-8958)	\$148.3	\$161.2
NPV costs	-\$107.9	-\$127.5
Σ Parts	\$364.9	\$256.9
Share price valuation (-cash)	\$2.09	\$1.47
Cash	\$0.0	\$140.0
Σ Parts	\$364.9	\$396.9
Share price valuation (+cash)	\$2.09	\$2.27

Source: WHTM Research



If we persisted with an ex-cash valuation, our target price for BTA would actually have fallen from \$2.09 to \$1.47, because of the Relenza NPV reduction and the deletion of the RSV program. However, we feel it is appropriate from now to recognise that the cash generation from Relenza is providing the company with a surplus of financial resources to invest in new projects or acquisitions. We expect the company to have approximately \$140M at the end of FY10 and \$203M at the end of FY11 in the absence of M&A or other in-licensing transactions. So as cash has become a non-diminishing resource for BTA, it is appropriate to consider it in our valuation. Our price target is upgraded to \$2.27 per share, which is consistent with our earlier call that the stock price could exceed \$3.00 per share in 2011. BTA is trading at only 5.6X WHTMe FY10 EPS and 6.4X FY11. We expect the multiple will expand as the market comes to appreciate greater consistency in Relenza royalties and the company's high cash returns. We upgrade our recommendation from HOLD to BUY.

Biota Holdings (BTA : \$1.93)

INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	-3.7	21.7	33.0	29.0	20.6
EPS Normalised (c)	-2.6	23.9	34.2	30.1	21.7
EPS Growth (%)	N/A	1,005.3	43.0%	-11.9%	-28.1%
PER Normalised (x)	-29.2	8.1	5.6	6.4	8.9
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	2008A	2009A	2010E	2011E	2012E
EV / EBITA (x)	-8.0	5.9	2.8	2.0	2.4
EV / EBITDA (x)	-8.8	5.8	2.8	1.9	2.3
CFPS (c)	2.7	18.4	43.0	36.7	17.5
Price / CF	28.4	10.4	4.5	5.2	11.0
Book Value / Share (\$)	0.4	0.6	0.8	1.1	1.3
Price / Book (x)	2.2	3.5	2.3	1.7	1.4

PROFIT & LOSS (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	20.5	45.0	108.7	76.3	76.2
EBITDA	-9.4	44.0	72.2	70.2	46.4
Depreciation	0.9	1.2	1.0	1.0	0.6
EBITA	-10.3	42.8	71.2	69.2	45.8
Amortisation	1.8	3.9	2.0	1.9	1.9
EBIT	-12.1	38.9	69.2	67.3	43.9
Net Interest Expense	-2.8	-2.9	-3.6	-5.8	-7.9
Pre-tax Profit	-9.3	41.8	72.8	73.0	51.8
Tax	-2.8	3.6	14.6	21.9	15.5
Tax rate (%)	30.3%	8.7%	20.0%	30.0%	30.0%
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
Net Profit	-6.5	38.2	58.2	51.1	36.3
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	-6.5	38.2	58.2	51.1	36.3
Revenue Growth (%)	N/A	119.0%	141.5%	-29.8%	-0.1%
EBIT Growth (%)	N/A	421.6%	77.9%	-2.7%	-34.7%
NPAT Growth (%)	N/A	688.4%	52.5%	-12.2%	-29.1%

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	-58.8%	86.4%	63.6%	88.2%	57.6%
ROA (%)	N/A	144.0%	264.4%	251.9%	169.7%
ROE (%)	N/A	47.6%	47.7%	29.6%	16.7%
ROFE (%)	N/A	635.2%	841.1%	8,434.2	-

INTERIMS (\$m)

Half Yr	Dec 08	Jun 09	Dec 09	Jun 10	Dec 10
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	3.8	41.2	62.8	45.8	46.1
EBIT	-11.8	50.7	46.4	22.7	49.9
Net Profit	-12.8	51.0	38.5	19.7	36.9
EBIT / Sales (%)	-309.2%	123.1%	73.9%	49.5%	108.3%

BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	60.2	86.7	140.5	203.2	231.7
Receivables	4.3	8.1	5.2	7.9	11.5
Inventories	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Current Assets	64.4	94.8	145.7	211.0	243.2
Net PPE	7.5	6.9	7.8	8.8	10.5
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	12.1	8.4	6.4	4.5	2.6
Other	5.2	1.5	8.0	4.9	1.0
Non-current Assets	24.8	16.9	22.2	18.2	14.1
Total Assets	89.3	111.6	167.9	229.2	257.3
Current Payables	12.0	5.6	14.0	15.0	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	1.3	1.6	2.8	0.7	3.5
Other	12.7	7.4	4.0	15.3	4.3
Total Liabilities	26.0	14.6	20.8	31.0	22.8
Equity	159.1	154.6	134.6	134.6	134.6
Reserves	1.4	1.5	3.8	3.8	3.8
Retained Profits	-97.3	-59.1	8.8	59.9	96.2
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	63.3	97.0	147.1	198.3	234.5
Total Funds Employed	3.1	10.3	6.6	-4.9	2.8

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) (\$m)	-60.2	-86.7	-140.5	-203.2	-231.7
Net Debt / Equity (%)	-95.0%	-89.4%	-95.5%	-102.5%	-98.8%
Interest Cover (x)	4.3	-13.2	-19.1	-11.6	-5.6
Debt / CashFlow (x)	0.0	0.0	0.0	0.0	0.0

CASHFLOW (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT	-12.1	38.9	69.2	67.3	43.9
Dep'n and Amort'n	2.7	5.1	3.0	2.9	2.5
Net Int Rec'd (Paid)	2.8	2.8	3.6	5.8	7.9
Tax Paid	0.0	0.0	-2.7	-21.9	-15.5
Dec / (Inc) W'kg Cap	9.7	-11.3	11.2	-1.7	-3.7
Other	1.4	-3.0	-8.7	12.3	-4.3
Operating Cash Flow	4.8	32.5	75.7	64.7	30.8
Capital Expenditure	-3.8	-0.8	-1.9	-2.0	-2.3
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-3.8	-0.8	-1.9	-2.0	-2.3
Equity Raised	0.0	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	-3.0	-5.1	-20.0	0.0	0.0
Financing Cash Flow	-3.0	-5.1	-20.0	0.0	0.0
Net Cash Flow	-2.0	26.5	53.8	62.7	28.5

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