



Biota Holdings Limited (BTA)

Market Perform

Big Pharma Interest in Influenza Intensifies

\$2.65

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Key Points

Johnson & Johnson (NYSE: JNJ) has announced a strategic collaboration with Crucell N.V (NASDAQ: CRXL), predominately in influenza.

Immediate focus on developing a universal monoclonal antibody product (flu-mAB) for preventing and treating influenza and a universal vaccine.

J&J will subscribe for €301.8m (A\$504m) worth of Crucell stock (18%) and will pay development and royalty milestones on commercial success.

Summary

Market Capitalisation (M)	\$463.6
Share price	\$2.65
Shares on issue (M)	174.9
52 week low	\$0.29
52 week high	\$2.70
Ave Monthly Vol (M)	18.7
Valuation Per Share (fully diluted)	\$2.65
Cash (M) as at 30/6/09	\$86.7

Our View

- **No immediate threat** – Crucell's influenza treatment/prevention program (CR6261) is in research/pre-clinical development, and has shown some utility in targeting both H1 and H5 type viruses (H1 - relevant for current swine flu; H5 - relevant for avian flu). We therefore expect human clinical trials are 1-2 years away. Further, CR6261 does not work on the H3 sub-type of the virus, a common seasonal strain. Other targeting antibodies need to be developed from scratch under the collaboration.

- **Universal influenza vaccines/drug therapies have been the Holy Grail for a while now** – more pertinent for vaccines, with the premise that one vaccine will protect against all influenza strains (meaning no more annual flu shots). Such a vaccine is also being trialled by others (ex-Crucell) and in one case has completed a Phase 1 study. In drug therapy, essentially Tamiflu and Relenza are universal - given they target a broad range of influenza viruses (assuming no resistance, as is the case with Tamiflu). Thus, there is nothing really new about CR6261 as another potential drug against influenza, except it targets a different part of the virus, namely hemagglutinin v the "neuraminidase" inhibitors, namely Relenza, Tamiflu, LANI and peramivir.

- **CR6261 likely to be costly, protective effects perhaps 2-4 weeks** – as an antibody therapy, the cost of treatment is likely to be up to 20x that of Tamiflu/Relenza/LANI, at potentially \$1,000 (assuming a one-off administration), which limits its use seasonally. CR6261's protective effects are likely to last longer than current treatments, potentially up to 2-4 weeks. However, like the current influenza drugs, repeat administration will almost certainly be required for a sustained preventative benefit. It is possible the therapy will be no more effective in treating/preventing influenza than other neuraminidase inhibitors on the market, though like its potential resistance profile, this is arguably too early to call at present.

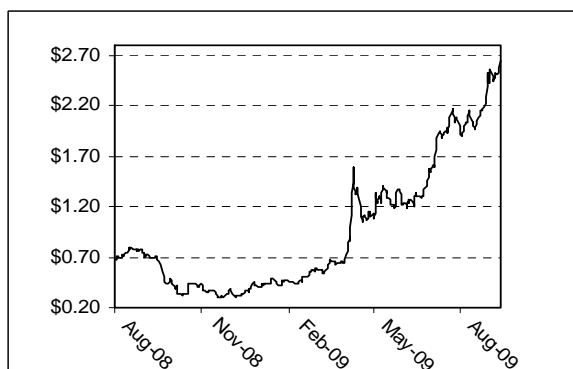
- **Validation of the increased attractiveness of influenza drug development, no change to forecasts** – Biota recently indicated it was in partnering discussions with six big pharma companies regarding the licensing of laninamivir (LANI/CS-8958) which it co-owns with Daiichi-Sankyo. Timing wise, the J&J/Crucell deal provides direct evidence of the increasing importance of the influenza space to big pharma. We anticipate a license deal for LANI in 1H CY10. While the J&J/Crucell deal has no direct financial impact on Biota, we note any executed license deal driven by Biota has the potential to surprise on the upside v TC est. (US\$125m deal ex-royalties). However, as a result of the significant uplift in the stock since the FY09 result (+40.2%) and the stock trading at our valuation/PT, we have moved from an Outperform to a Market Perform recommendation.

Key Financials (A\$'000)

Year End	FY09 Actual	FY10 Est.	FY11 Est.
Relenza Royalties	45,000	134,522	54,417
Partnering Income*	4,426	7,467	10,667
Total Revenue	63,334	149,722	71,352
Total Op. Expenses	(15,810)	(15,772)	(12,217)
R&D Expenses	(13,348)	(17,950)	(13,403)
EBITDA	43,997	113,592	40,889
Normalised NPAT	20,343	88,984	28,703
Adj. NPAT	38,181	88,984	28,703
Adj. EPS (c)	21.7	50.9	16.4
Adj. PE Ratio (x)	12.2	5.2	16.2

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

Share Price Graph (A\$)



Biota Holdings Limited - Summary of Forecasts

BTA \$2.65

PROFIT & LOSS SUMMARY (A\$'000)

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Relenza Royalties	20,544	45,000	134,522	54,417	55,333
Partnering (Licence) Income	5,871	4,426	7,467	10,667	12,000
Research income (inc Grants)	15,042	10,966	5,300	700	700
Total Revenue	44,989	63,334	149,722	71,352	82,354
<i>Growth (pcp)</i>	-21.5%	40.8%	136.4%	-52.3%	15.4%
Net Gain on GSK Settlement	0	12,756	0	0	0
Net Operating Revenue	3,592	60,280	133,950	59,135	69,817
R&D Expenses	(10,287)	(13,348)	(17,950)	(13,403)	(13,688)
EBITDA	(9,897)	43,997	113,592	40,889	49,838
Depreciation	(933)	(1,184)	(1,108)	(1,463)	(1,471)
Amortisation	(1,681)	(3,931)	(4,750)	(3,265)	(387)
EBIT	(12,511)	38,882	107,734	36,160	47,980
Net Interest	3,202	2,935	2,408	4,844	6,291
Pre-Tax Profit	(9,309)	41,817	110,143	41,004	54,271
Tax Expense	2,820	(3,636)	(21,159)	(12,301)	(16,281)
Minorities	0	0	0	0	0
NPAT Normalised *	8,761	20,343	88,984	28,703	37,990
NPAT Adj.	(6,489)	38,181	88,984	28,703	37,990
<i>Growth (pcp)</i>	n/a	n/a	133.1%	-67.7%	32.4%
Net Adjustments	0	0	0	0	0
Reported Profit	(6,489)	38,181	88,984	28,703	37,990

PER SHARE DATA

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Adjusted EPS (c)	(3.5)	21.7	50.9	16.4	21.7
<i>Growth (pcp)</i>	n/a	n/a	134.7%	-67.7%	32.4%
Reported EPS (c)	(3.5)	21.7	50.9	16.4	21.7
<i>Growth (pcp)</i>	n/a	n/a	134.7%	-67.7%	32.4%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	2.6	18.4	48.5	20.6	24.2
NTA per share (c)	28.0	50.3	92.8	111.1	133.0

VALUATION MULTIPLES

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Adjusted PE Ratio (x)	n/a	12.2	5.2	16.2	12.2
PE Ratio (x)	n/a	12.2	5.2	16.2	12.2
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	8.6	2.8	6.8	4.8
EV/EBIT (x)	n/a	9.7	2.9	7.7	5.0

CAPITAL RAISING ASSUMPTIONS

Period	FY08A	FY09A	FY10E	FY11E	FY12E
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	FY08A	FY09A	FY10E	FY11E	FY12E
EBITDA/Sales Margin %	-22.0%	69.5%	75.9%	57.3%	60.5%
EBIT/Sales Margin %	-27.8%	61.4%	72.0%	50.7%	58.3%
Current ratio (x)	3.4	7.6	14.7	15.8	17.2
Net Debt : Equity (%)	-94.8%	-89.4%	-90.4%	-94.8%	-96.9%
ROE (%)	-9.6%	47.6%	67.7%	15.9%	17.8%
Dividend Payout Ratio (%)	n/a	0.0%	0.0%	0.0%	0.0%

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

BALANCE SHEET SUMMARY (A\$'000)

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Cash	60,164	86,704	150,051	184,589	225,403
Receivables	4,270	8,067	14,972	13,557	12,353
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	64,434	94,771	165,023	198,146	237,756
Inventories	0	0	0	0	0
Property Plant & Equip	7,543	6,924	7,316	7,353	7,382
Intangibles	12,113	8,402	3,652	387	0
Other	5,168	1,532	1,532	1,532	1,532
Total Non-Current Assets	24,824	16,858	12,501	9,272	8,914
TOTAL ASSETS	89,258	111,629	177,523	207,418	246,671
Accounts Payable	12,023	5,631	5,989	7,135	8,235
Borrowings	0	0	0	0	0
Provisions	1,122	1,561	1,122	1,330	1,473
Other	6,059	5,262	4,102	4,102	4,102
Total Current Liab	19,204	12,454	11,213	12,567	13,810
Borrowings	132	0	0	0	0
Provisions	6,622	2,143	295	133	152
Other	0	0	0	0	0
Total Non-Current Liab	6,754	2,143	295	133	152
TOTAL LIABILITIES	25,958	14,597	11,507	12,700	13,962
TOTAL EQUITY	63,300	97,032	166,016	194,718	232,708

CASH FLOW SUMMARY (A\$'000)

Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBIT (excl Abs/Extr)	(12,511)	38,882	107,734	36,160	47,980
Add: Depreciation	933	1,184	1,108	1,463	1,471
Amortisation	1,681	3,931	4,750	3,265	387
Change in Pay.	6,019	(6,392)	358	1,146	1,100
Less: Tax paid	2,820	0	(21,159)	(12,301)	(16,281)
Net Interest	3,202	2,935	2,408	4,844	6,291
Change in Rec.	5,080	(3,797)	(6,905)	1,415	1,204
Other	(4,090)	(8,191)	(8,197)	(3,219)	(225)
Gross Cashflows	4,815	32,483	84,847	36,039	42,314
Capex	(3,785)	(798)	(1,500)	(1,500)	(1,500)
Free Cashflows	1,030	31,685	83,347	34,539	40,814
Buy-Back/Cap. Return**	(3,022)	(5,145)	(20,000)	0	0
Net Cash Flow	(1,992)	26,540	63,347	34,539	40,814

** 5% buy back, ending 7th Oct 2008; \$20m capital return est. in Nov 09

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Date Prepared: September 2009

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