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# Biota Holdings Limited (BTA)

3Q Relenza Indicative Royalties of \$9.7m Misses the Mark

Market Perform

\$1.92

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## Key Points

GSK has reported quarterly Relenza sales of £84m with US, European and ROW sales of £30m, £2m, and £52m, respectively.

Biota has reported indicative royalties of A\$9.7m for the 3Q10, down 70% on pcp, with indicative royalties of \$66.4m YTD (\$71.7m receivable).

Estimated FY10 closing cash of approximately \$100m guided.

## Summary

Market capitalisation (M)	\$342.8
Share price	\$1.92
Shares on issue (M)	179.0
52 week low	\$1.00
52 week high	\$3.34
Ave Monthly Vol (M)	24.8
Valuation Per Share (fully diluted)	\$2.40
Cash (M) as at 31/12/09	\$52.0

## Our View

- **Relenza Quarterly Result** – The result fell well short of our estimates, principally because the US government has not moved on re-balancing, and based on the European sales, either has the UK. International sales were surprisingly strong, which we attribute most likely to Japan. While ample capacity now exists, governments have clearly put on hold any further procurement of Relenza, given the mild nature of swine flu to date.

## Key Financials (A\$'000)

Year End	FY09 Actual	FY10 Est.	FY11 Est.
Relenza Royalties	45,000	76,715	54,417
Partnering Income*	4,426	800	0
<b>Total Revenue</b>	<b>63,334</b>	<b>86,116</b>	<b>60,793</b>
Total Op. Expenses	(15,810)	(16,516)	(12,252)
R&D Expenses	(13,348)	(24,617)	(32,973)
<b>EBITDA</b>	<b>43,997</b>	<b>42,428</b>	<b>11,336</b>
Normalised NPAT	20,343	33,080	9,502
<b>Adj. NPAT</b>	<b>38,181</b>	<b>33,080</b>	<b>9,502</b>
Adj. EPS (c)	21.7	18.6	5.3
Adj. PE Ratio (x)	<b>8.8</b>	<b>10.3</b>	<b>36.1</b>

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

- **A Word on the US Pandemic Plan** – Cumulative US sales since the H1N1 swine flu pandemic has been £156m, with £62m last Q. This equates to approximately \$20m in royalties to date, which we anticipate relates more to retail v strict government orders. We have previously calculated \$62m-\$85m in potential royalties to Biota from a US pandemic stockpile re-balance to 50%, from the ~20% level. We had anticipated that given the major capacity expansion by GSK in 2H CY09, significant one-off orders were capable of fulfilment, which formed the backbone of our 2H10 Relenza estimates. Based on last night's result it seems apparent the Department of Health and Human Services (HHS) has not yet moved to progress re-balancing, and may not consider this until later in the year, though we await any further HHS news flow in this regard. As a result, we have cut our FY10 Relenza royalty estimates by 40.6% to \$76.7m, with no changes to our FY11 and FY12 expectations for Relenza at this juncture. We note a degree of replacement sales should commence in FY11 as 2004/5 H5N1 avian flu anti-viral stockpiling progressively begins to expire.

## Share Price Graph (A\$)



- **Unencumbered Pipeline Now More Attractive?** – Historically, we had felt Biota was not a logical fit for an acquisitive big pharma because of the multi-faceted license stream (i.e. GSK for Relenza, AstraZeneca for RSV, Boehringer for HCV). We believe one consequence of the return of two license agreements (RSV, HCV) back to Biota during FY10 is a pipeline of clinical/pre-clinical assets now exist which can be internally developed and ultimately marketed by an acquirer, rather than its competitors. Logically, this case grows stronger depending on the ROW partner for LANI, in our view. A deal with GSK on LANI could prove a reasonably attractive trigger for GSK to consider an outright acquisition. Biota's remaining programs are not inconsistent with GSK's focus in infectious diseases.

- **Outlook** – As a result of the 3Q result and commentary we have cut our reported FY10 NPAT estimates by 64.6% to \$24.0m (\$33.1m on an adjusted basis). Biota now trades on a FY10 PER of 14.2x or 5.7x on an EV/EBITDA basis. As a result of lower than anticipated FY10 Relenza collections, our valuation/PT is reduced by 28 cps to \$2.40. With several negatives clouding the stock at present, including guidance on a LANI license deal being recently shifted, we do not anticipate a return of sentiment in the near term, and maintain our Market Perform recommendation.

## Changes to Forecasts

	FY10E			FY11E			FY12E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Relenza Volumes (m)	73.8	43.8	-40.6%	31.1	31.1	0.0%	31.6	31.6	0.0%
Relenza Royalties (A\$m)	129.2	76.7	-40.6%	54.4	54.4	0.0%	55.3	55.3	0.0%
EBITDA	94.9	42.4	-55.3%	11.3	11.3	0.0%	13.1	13.1	0.0%
Reported NPAT	67.8	24.0	-64.6%	5.3	6.4	20.3%	13.6	14.0	3.1%
Reported EPS (c)	38.2	13.5	-64.7%	3.0	3.5	20.3%	7.6	7.8	3.2%
Adj. NPAT	76.2	33.1	-56.6%	9.4	9.5	0.8%	13.6	14.0	3.1%
Adj. EPS (c)	42.9	18.6	-56.6%	5.3	5.3	0.7%	7.6	7.8	3.2%

Source: Taylor Collison estimates

## Biota Holdings Limited - Summary of Forecasts

BTA \$1.92

PROFIT & LOSS SUMMARY (A\$'000)				
Period	FY09A	FY10E	FY11E	FY12E
Relenza Royalties	45,000	76,715	54,417	55,333
Partnering (Licence) Income	4,426	800	700	8,005
Research income (inc Grants)	10,966	6,020	1,420	700
<b>Total Revenue</b>	<b>63,334</b>	<b>86,116</b>	<b>60,793</b>	<b>69,340</b>
<i>Growth (pcp)</i>	<i>40.8%</i>	<i>36.0%</i>	<i>-29.4%</i>	<i>14.1%</i>
Net Gain on GSK Settlement	12,756	0	0	0
<b>Net Operating Revenue</b>	<b>60,280</b>	<b>69,600</b>	<b>48,541</b>	<b>56,764</b>
R&D Expenses	(13,348)	(24,617)	(32,973)	(38,364)
<b>EBITDA</b>	<b>43,997</b>	<b>42,428</b>	<b>11,336</b>	<b>13,123</b>
Depreciation	(1,184)	(1,316)	(1,322)	(1,357)
Amortisation	(3,931)	(4,750)	(3,132)	(699)
<b>EBIT</b>	<b>38,882</b>	<b>36,362</b>	<b>6,883</b>	<b>11,067</b>
Net Interest	2,935	2,556	4,231	5,277
<b>Pre-Tax Profit</b>	<b>41,817</b>	<b>38,918</b>	<b>11,114</b>	<b>16,345</b>
Tax Expense	(3,636)	(5,838)	(1,612)	(2,370)
Minorities	0	0	0	0
<b>NPAT Normalised *</b>	<b>20,343</b>	<b>33,080</b>	<b>9,502</b>	<b>13,975</b>
<b>NPAT Adj.</b>	<b>38,181</b>	<b>33,080</b>	<b>9,502</b>	<b>13,975</b>
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-13.4%</i>	<i>-71.3%</i>	<i>47.1%</i>
Net Adjustments**	0	(9,110)	(3,150)	0
<b>Reported Profit</b>	<b>38,181</b>	<b>23,970</b>	<b>6,352</b>	<b>13,975</b>

PER SHARE DATA				
Period	FY09A	FY10E	FY11E	FY12E
<b>Adjusted EPS (c)</b>	<b>21.7</b>	<b>18.6</b>	<b>5.3</b>	<b>7.8</b>
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-14.0%</i>	<i>-71.5%</i>	<i>47.1%</i>
<b>Reported EPS (c)</b>	<b>21.7</b>	<b>13.5</b>	<b>3.5</b>	<b>7.8</b>
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-37.7%</i>	<i>-73.7%</i>	<i>120.0%</i>
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	18.4	20.2	9.9	11.5
NTA per share (c)	50.3	62.5	71.4	78.7

VALUATION MULTIPLES				
Period	FY09A	FY10E	FY11E	FY12E
Adjusted PE Ratio (x)	8.8	10.3	36.1	24.5
PE Ratio (x)	8.8	14.2	54.0	24.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	5.8	5.7	19.8	15.7
EV/EBIT (x)	6.6	6.6	32.7	18.6

CAPITAL RAISING ASSUMPTIONS				
Period	FY09A	FY10E	FY11E	FY12E
Shares Issued (m)	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.0	0.0	0.0	0.0
Cash Raised (A\$m)	0.0	0.0	0.0	0.0

KEY RATIOS				
Period	FY09A	FY10E	FY11E	FY12E
EBITDA/Sales Margin %	69.5%	49.3%	18.6%	18.9%
EBIT/Sales Margin %	61.4%	42.2%	11.3%	16.0%
Current ratio (x)	7.6	8.6	10.3	10.3
Net Debt : Equity (%)	-89.4%	-86.1%	-91.7%	-97.2%
ROE (%)	47.6%	30.8%	7.7%	10.4%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

\*FY09: Excluding litigation expense and GSK settlement, tax effected at 30%

\*\* Amortisation charges for MaxThera and Prolysis acquisitions in 4Q CY09

BALANCE SHEET SUMMARY (A\$'000)				
Period	FY09A	FY10E	FY11E	FY12E
Cash	86,704	101,540	117,803	136,932
Receivables	8,067	15,501	15,198	10,401
Inventories	0	0	0	0
Other	0	0	0	0
<b>Total Current Assets</b>	<b>94,771</b>	<b>117,041</b>	<b>133,001</b>	<b>147,333</b>
Inventories	0	0	0	0
Property Plant & Equip	6,924	6,608	6,787	6,929
Intangibles	8,402	6,980	699	0
Other	1,532	992	992	992
<b>Total Non-Current Assets</b>	<b>16,858</b>	<b>14,581</b>	<b>8,477</b>	<b>7,921</b>
<b>TOTAL ASSETS</b>	<b>111,629</b>	<b>131,621</b>	<b>141,478</b>	<b>155,254</b>
Accounts Payable	5,631	2,583	6,079	6,934
Borrowings	0	0	0	0
Provisions	1,561	1,122	1,131	835
Other	5,262	9,940	5,714	6,472
<b>Total Current Liab</b>	<b>12,454</b>	<b>13,645</b>	<b>12,924</b>	<b>14,241</b>
Borrowings	0	0	0	0
Provisions	2,143	86	86	86
Other	0	0	0	0
<b>Total Non-Current Liab</b>	<b>2,143</b>	<b>86</b>	<b>86</b>	<b>86</b>
<b>TOTAL LIABILITIES</b>	<b>14,597</b>	<b>13,731</b>	<b>13,010</b>	<b>14,327</b>
<b>TOTAL EQUITY</b>	<b>97,032</b>	<b>117,890</b>	<b>128,469</b>	<b>140,927</b>

CASH FLOW SUMMARY (A\$'000)				
Period	FY09A	FY10E	FY11E	FY12E
<b>EBIT (excl Abs/Extr)</b>	<b>38,882</b>	<b>36,362</b>	<b>6,883</b>	<b>11,067</b>
Add: Depreciation	1,184	1,316	1,322	1,357
Amortisation	3,931	13,860	6,282	699
Change in Pay.	(6,392)	(3,048)	3,496	855
Less: Tax paid	0	(5,838)	(1,612)	(2,370)
Net Interest	2,935	2,556	4,231	5,277
Change in Rec.	(3,797)	(7,434)	303	4,797
Other	(8,191)	(6,638)	(6,273)	(1,752)
<b>Gross Cashflows</b>	<b>32,483</b>	<b>35,886</b>	<b>17,763</b>	<b>20,629</b>
Capex	(798)	(1,000)	(1,500)	(1,500)
<b>Free Cashflows</b>	<b>31,685</b>	<b>34,886</b>	<b>16,263</b>	<b>19,129</b>
Buy-Back/Cap. Return**	(5,145)	(20,007)	0	0
<b>Net Cash Flow</b>	<b>26,540</b>	<b>14,879</b>	<b>16,263</b>	<b>19,129</b>

\*\* 5% buyback, ending 7th Oct 2008; \$20m capital return in Nov 09

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