

In this edition...

The week has been turbulent for Biota Holdings as volatile Relenza sales sparked a sell-off in the company's shares, which lost about a third of their value this week.

Relenza sales will continue to be lumpy and this provides entry (and exit) opportunities as investors over-buy and over-sell the stock.

We provide an update at Cogstate, where lumpy revenue has also caused a weakness in that company's shares, however the outlook for that company remains very promising.

We also provide an end of quarter cash analysis. And next week, Bioshares will be providing coverage of the annual BIO conference in Chicago, highlighting the key trends that are occurring in the global biotech industry.

The Editors

Companies Covered: BTA, CGS, Quarterly Cash Flow Summary

	Bioshares Portfolio
Year 1 (May '01 - May '02)	21.2%
Year 2 (May '02 - May '03)	-9.4%
Year 3 (May '03 - May '04)	70.0%
Year 4 (May '04 - May '05)	-16.3%
Year 5 (May '05 - May '06)	77.8%
Year 6 (May '06 - May '07)	17.3%
Year 7 (May '07 - May '08)	-36%
Year 8 (May '08 - May '09)	-7.3%
Year 9 (May '09 - Current)	57.5%
Cumulative Gain	206%
Av Annual Gain (9 yrs)	19.4%

Bioshares is published by Blake Industry & Market Analysis Pty Ltd.

Blake Industry & Market Analysis Pty Ltd
ACN 085 334 292
PO Box 193
Richmond Vic 3121
AFS Licence
No. 258032

Enquiries for *Bioshares*
Ph: (03) 9326 5382
Fax: (03) 9329 3350
Email: info@bioshares.com.au

David Blake
Ph: (03) 9326 5382
Email: blake@bioshares.com.au
Mark Pachacz
Ph: (03) 9671 3222
Email: pachacz@bioshares.com.au

Individual Subscriptions (48 issues/year)
\$350 (Inc.GST)
Edition Number 357 (30 April 2010)
ISSN 1443-850X

Copyright 2010 Blake Industry and Market Analysis Pty Ltd. ALL RIGHTS RESERVED.
Secondary electronic transmission, photocopying, reproduction or quotation is strictly prohibited without written consent of the publisher.

Bioshares

30 April 2010
Edition 357 Extract

Delivering independent investment research to investors on Australian biotech, pharma and healthcare companies.

Biota Holdings Share Price Comes Under Pressure With Volatile Relenza Sales

Biota Holdings has been a volatile stock over the last 18 months. Hitting a low of 29 cents in late 2008, the Mexican swine flu outbreak in March 2009 saw demand accelerate substantially as governments and the public stockpiled Relenza (and the other flu drug Tamiflu) for protection against the deadly pandemic flu strain.

And indeed it was a deadly strain. One frightening aspect of that strain was that 36% of deaths occurred in the normally health population of 18-35 year olds. This was reminiscent of the deadly 1918 flu pandemic that also killed indiscriminately unlike the standard seasonal flu virus that preys on the old and the sick. The arsenal of these neuraminidase inhibitors, which are effective against all flu strains, no doubt saved many lives and helped contain the spread of this pandemic outbreak.

While the world has survived this pandemic outbreak, without the millions of deaths that occurred in 1918, governments' flu drug stockpiles still poorly protect the broader populations. In the US the government has sufficient stockpiles for one week's treatment for 22% of the population (and is moving towards 25% coverage). In the UK that figure is 35% of the population and is moving to 50%. Australia currently has sufficient stockpiles to protect 55% of the population. About 60 countries currently stockpile or intend to stockpile the flu drugs, which need to be replenished every five to seven years.

Around US\$8 billion worth of flu drugs has been stockpiled, which suggests an annual replenishment market worth at least US\$1 billion a year. Although those stockpiles have consisted of an estimated 80% Tamiflu and 20% Relenza, we would argue that replenishment of the stockpiles should be at least 50% Relenza given the resistance issues and side effect profile of Tamiflu. To date 28 H1N1 pandemic virus strains has been shown to be resistant to Tamiflu with the same mutation that remains susceptible to Relenza treatment.

The seasonal market for influenza drugs grew considerably in FY2009 to around US\$800 million, compared to around US\$600 million in the previous year and from around US\$100 million in 2003. Combined with the stockpile and stockpile replenishment market, the total market for these drugs should be at least US\$1.8 billion a year. If we assume Relenza captures 30% of the seasonal market and half of the stockpile replenishment market, then **GlaxoSmithKline**, which sells Relenza, should be generating around US\$740 million in an unexceptional year. From that, Biota should receive approximately US\$52 million in royalties.

The excitement at Biota came last year when GlaxoSmithKline announced it was increasing its annual production capacity to 190 million treatment courses. At US\$20 a course, this would translate to US\$266 million in royalties for Biota if it matched that production capacity with orders.

Biota's share price fell sharply this week (down 34%) as GSK released its quarterly sales results. Relenza sales were down significantly, with Biota standing to receive only \$9.7 million in royalties for the quarter, not bad for most biotechs, but down from \$32.6 million from the December quarter. In the first nine months of this financial year, Biota has accrued \$66 million in royalties.

At the end of this financial year Biota has indicated it expects to have around \$100 million in cash. It has around four years remaining on its patents which should see at least US\$210 million of revenue to Biota if seasonal use doesn't grow and based on the above stockpile replenishment rates (and assuming no growth in the stockpile market).

Stockpile sales to governments should be expected to be lumpy as governments place orders for Relenza. Biota, in conjunction with its Japanese partner, **Daiichi Sankyo**, could see the next generation flu drug, CS8958, on the market in Japan by year's end. CS8958 is delivered as one dose which lasts for the whole week, compared to Relenza (and Tamiflu) which need to be taken twice a day for five days. In Phase III studies, CS8958 taken once was as effective as Tamiflu taken twice daily for five days.

Biota is currently seeking to partner CS8958 for the rest of the world (outside of Japan) where it equally shares the rights with Daiichi Sankyo. In Japan, Biota will receive a royalty from sales, which we estimate to be around 4% of sales. The Japanese market is the largest in the world, making up just under US\$500 million of the global US\$800 million seasonal flu drug market.

In recent weeks, Biota had its second collaboration cancelled in eight months with **Boehringer Ingelheim** ending the early stage Hepatitis C collaboration. In August last year **Astrazeneca** ended the collaboration with Biota for development of a drug to treat the respiratory syncytial virus.

In November last year, Biota beefed up its preclinical program, acquiring development assets from two companies, **MaxThera** and **Prolysis**, working on novel antibacterial drugs.

Summary

Biota's is capitalised at \$242 million. The share price fall this week looks excessive. The company will have \$100 million in cash at the end of this financial year. We expect it to continue to generate revenue from Relenza royalties in excess of US\$50 million a year for the next four years. Its long acting flu drug candidate, CS8958, may see its way onto the Japanese market by year's end and there are rest-of-world rights for this drug candidate for which Biota is currently seeking to license.

Bioshares recommendation: **Buy**

Bioshares

How Bioshares Rates Stocks

For the purpose of valuation, *Bioshares* divides biotech stocks into two categories. The first group are stocks with existing positive cash flows or close to producing positive cash flows. The second group are stocks without near term positive cash flows, history of losses, or at early stages of commercialisation. In this second group, which are essentially speculative propositions, *Bioshares* grades them according to relative risk within that group, to better reflect the very large spread of risk within those stocks.

Group A

Stocks with existing positive cash flows or close to producing positive cash flows.

- Buy** CMP is 20% < Fair Value
- Accumulate** CMP is 10% < Fair Value
- Hold** Value = CMP
- Lighten** CMP is 10% > Fair Value
- Sell** CMP is 20% > Fair Value
(CMP–Current Market Price)

Group B

Stocks without near term positive cash flows, history of losses, or at early stages commercialisation.

Speculative Buy – Class A

These stocks will have more than one technology, product or investment in development, with perhaps those same technologies offering multiple opportunities. These features, coupled to the presence of alliances, partnerships and scientific advisory boards, indicate the stock is relative less risky than other biotech stocks.

Speculative Buy – Class B

These stocks may have more than one product or opportunity, and may even be close to market. However, they are likely to be lacking in several key areas. For example, their cash position is weak, or management or board may need strengthening.

Speculative Buy – Class C

These stocks generally have one product in development and lack many external validation features.

Speculative Hold – Class A or B or C

Sell

Corporate Subscribers: Pharmaxis, Starpharma Holdings, Cogstate, Bionomics, ChemGenex Pharmaceuticals, Circadian Technologies, Biota Holdings, Halcygen Pharmaceuticals, Impedimed, QRxPharma, Patrys, Labtech Systems, Hexima, Tyrian Diagnostics, Mesoblast, Atcor Medical, CathRx, BioMd, Tissue Therapies, Viralytics

Disclaimer:

Information contained in this newsletter is not a complete analysis of every material fact respecting any company, industry or security. The opinions and estimates herein expressed represent the current judgement of the publisher and are subject to change. Blake Industry and Market Analysis Pty Ltd (BIMA) and any of their associates, officers or staff may have interests in securities referred to herein (Corporations Law s.849). Details contained herein have been prepared for general circulation and do not have regard to any person's or company's investment objectives, financial situation and particular needs. Accordingly, no recipients should rely on any recommendation (whether express or implied) contained in this document without consulting their investment adviser (Corporations Law s.851). The persons involved in or responsible for the preparation and publication of this report believe the information herein is accurate but no warranty of accuracy is given and persons seeking to rely on information provided herein should make their own independent enquiries. Details contained herein have been issued on the basis they are only for the particular person or company to whom they have been provided by Blake Industry and Market Analysis Pty Ltd. The Directors and/or associates declare interests in the following ASX Healthcare and Biotechnology sector securities: ACL, ACR, ADO, BNO, BTA, CGS, COH, CSL, CXD, CUV, CZD, FLS, HGN, HXL, IDT, IMU, PAB, PBP, PXS, SHC, SPL, TIS, UBI. These interests can change at any time and are not additional recommendations. Holdings in stocks valued at less than \$100 are not disclosed.

Subscription Rates (inc. GST)

48 issues per year (electronic distribution): **\$350**

For multiple email distributions within \$550 2-3 email addresses
 the same business cost centre, our \$750 4-5 email addresses
 pricing structure is as follows: \$950 6-10 email addresses

To subscribe, post/fax this subscription form to:

Bioshares
PO Box 193 Richmond VIC 3121
Fax: +61 3 9671 3633

I enclose a cheque for \$ _____ made payable to **Blake Industry & Market Analysis Pty Ltd**, or

Please charge my credit card \$ _____ MasterCard Visa

Card Number

Signature _____ Expiry date _____

Subscriber details

Name _____

Organisation _____

Ph () _____

Emails _____
