Biota Holdings

LANI ... Then What?

7 May 2010

$1.19

BUY

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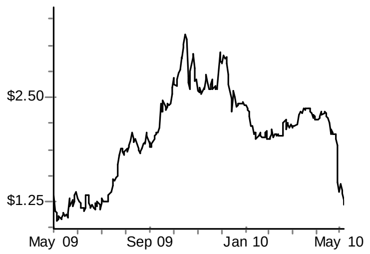
Price Performance



Security/Capital Details

ASX Code	BTA
Market Cap	$213 M
Issued Shares	179.0 M
Avg Mth T'over	24.40 M
12 Mth High – Low	$3.28 - $1.01

Key Data/Ratios – FY 2010

EBITDA / Sales	52.4%
EBIT / Sales	44.1%
Net Debt / Equity	-86.3%
Interest Cover	-12.4 x
ROE	27.7%
EPS Growth	53.8%
PEG Ratio	x
NTA / Share	$ 0.60
DCF	$ 1.54
12 Mth Price Target	$ 1.80

Recommendation

Now is not the time to be bored with Biota. Although Relenza is in decline as an asset, LANI is a worthy replacement. LANI must succeed in the seasonal retail channel and achieve regular growth patterns if Biota is to see steady growth in valuation. If LANI fails in retail, Biota will remain a punt stock, subject to the vagaries of government drug procurement. We think LANI's one-dose feature is why it will succeed in all channels. For the first time LANI's valuation exceeds that of Relenza and will replace it entirely by FY15. Biota needs to look at more later-stage programmes to drive value growth beyond that. The hand-backs of RSV and HCV proved that Biota's lower risk business model is actually quite risky. No changes to $1.80 target – but we present LANI forecasts and valuation. BUY rating.

Key Points

- We provide an updated profile on the LANI programme, forecasts and valuation. For the first time, our valuation of LANI exceeds that of Relenza. We see LANI's one-dose feature as a decisive element in both the seasonal and stockpiling antiviral markets because of greater treatment compliance. We estimate peak global sales of $1,500-1,800M for LANI.
- The market should be focussed on Biota's mission to partner this programme in second half of this calendar year. We model on the basis of $100M in total milestone payments to Biota (uncontroversial – RSV and HCV deals had better terms than that) and a royalty rate of 7.5% in rest-of-world (ROW). Recall that Daiichi and Biota have already agreed terms in Japan – we estimate the royalty at 5% with zero milestones.
- We provide detailed forecasts of our LANI royalty expectations from three markets: Japanese seasonal, ROW seasonal and global stockpiling. LANI royalties should begin to flow in FY12, exceed $50M by FY15 and approach $100M by FY17. LANI patents have a Mar-08 International Filing Date – expiry is 2028 in most jurisdictions.
- Our view is that LANI will provide a stable basis for share price growth over FY11-FY14 inclusive. But from FY15 onwards, we need to see other significant products reach the market. Biota's view is that HRV will deliver that but we do not have as favourable a view of that programme. In our view, the recent programme hand-backs (RSV, HCV) prove there is no such thing as a low risk drug development model. Given the building cash reserves at Biota, it is time for the company to move up the risk chain and bring in more Phase II programmes, now that it has ample funds to finance them.
- We dismiss the idea that Biota is a take-over target. LANI is the only asset on which an investor could pin a credible Biota acquisition hope, but Biota only owns half of the asset. An acquisition would seem to be a lot of hard work to do; to ultimately not control the lead asset.
- In 2008 we said that Biota could become a $3 stock by the end of 2011. We can't support that view now that the RSV and HCV programmes are gone. As we've seen, a pandemic can take the share price to absurd levels without notice. On a fundamentals basis, we do see prospects of $2.25-$2.65 as a target band for FY12-14. But from where we sit now, the value seems constrained at that level unless another significant programme reaches market by 2015 at the latest.
- The current share price levels are very attractive for buying Biota – LANI being the reason for investing. Our valuation is unchanged at $1.54 per share. Our target price is $1.80. BUY rating.

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	12.6	575.4	15.3	10.4	10.5	0.0	0.0	0
2010e	29.8	19.3	53.8	6.2	5.9	2.9	0.0	0.0	0
2011e	10.5	7.6	-60.8	15.7	8.2	7.3	0.0	0.0	0
2012e	3.1	2.8	-63.0	42.5	51.7	23.2	0.0	0.0	0

Biota Holdings

Our valuation view on Biota has always been grounded in the idea that Relenza royalties underwrite much of the company's cost base while Biota brings additional opportunities to the point of on-licensing to partners for late stage development and commercialisation. Biota is a rare entity – a biotech company that can grow a pipeline (let alone a product) without constantly coming back to shareholders for funds. In fact – even returning cash to shareholders.

We have seen two of those projects handed back in recent times. Astra Zeneca returned BTA-9881 for RSV in Aug-09. Boehringer Ingelheim returned the HCV programme last month. Biota's lower risk business model is proving to be risky indeed. Deals take too long to source, diligence and settle, to bear the high attrition rates we see in early stage drug development.

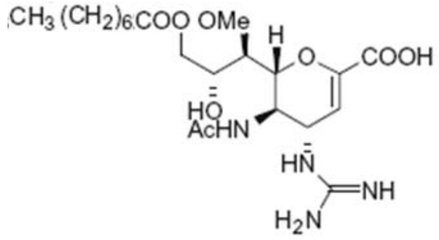
The long-acting neuraminidase inhibitor programme (LANI), co-owned with Daiichi Sankyo, is the focus for this company over the next decade. Relenza is effectively finished as an investment theme; barring another pandemic. But LANI is a higher quality asset than Relenza because it will probably find success in the retail, seasonal antiviral market, which is so lucrative in Japan. The majority of LANI's future earnings will probably come from stockpiling – but its performance in that retail channel, which we will witness from FY12, promises something Relenza never achieved. A stable growth pattern with some visibility into earnings.

For the first time, LANI's contribution to our Biota valuation exceeds that of Relenza. It is timely then, that we provide the formal forecasts behind our LANI valuation. We also discuss the methods we use to value the programme and the underlying assumptions that describe this asset's commercial life. Our view is that LANI will provide a stable basis for share price growth over FY11-FY14 inclusive. But from FY15 onwards, we need to see other significant products reach the market. The company's view is that HRV will deliver that – but as we've said before – we have doubts about that programme. The newly acquired MaxThera and Prolysis programmes are too early. Our sense is that now is the time for Biota to move up the risk scale and bring in more Phase II programmes, now that it has ample funds to finance them.

LANI – an introduction

LANI, also known as CS-8958 and with generic name laninamivir is a derivative of Relenza. It even has a Wikipedia site these days, although they have the structure wrong. The medicinal chemistry that created LANI was performed by Daiichi-Sankyo[1]. Daiichi would not have had freedom to operate over Biota's Relenza patents so an agreement was reached between the parties – Daiichi now has the exclusive right to market the product in Japan and the rest-of-world (ROW) rights are co-owned with Biota. Daiichi exercised its Japanese rights last March and will pay Biota a small (WHTMe ~5%) royalty on sales in that country. Daiichi does not pay Biota any milestone payments because they funded the Japanese Phase III programme. Daiichi and Biota now jointly offer the rest-of-world rights to prospective licensors. One would expect multinational antiviral companies such as GSK, Roche, Merck, Sanofi, Novartis to express an interest in this programme. The global seasonal antiviral market is approximately US$800M annually (dominated by Tamiflu). The global government stockpiling market varies considerably but generally is in the US$2Bn range, annually.

Figure 1: Structural formulae of LANI



Source: Honda et al (2009); WHTM Research

[1] Honda, T. *et al.* (2009) Synthesis and in vivo influenza virus inhibitory effect of ester prodrug of 4-guanidino-7-*O*-methyl-Neu5Ac2en Bioorg. Med. Chem. Lett. 19: 2938 – 2940.

LANI – one puff and you're done

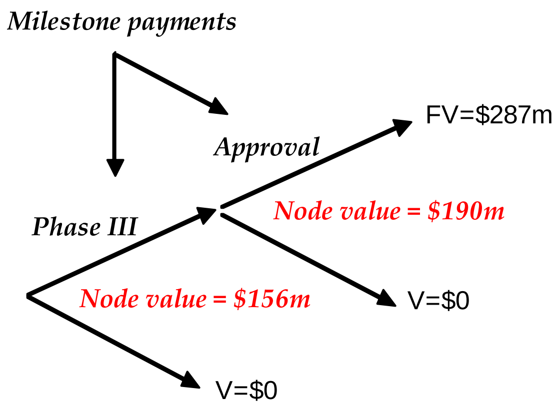
The product characteristic we see as potentially decisive is that LANI is given once only. Tamiflu and Relenza are both administered twice daily for 5 days – a course of 10 doses to be effective. This activity was confirmed in Daiichi's first pivotal Phase III trials of LANI (the MARVEL Study), which tested it as a therapy. One dose of LANI was given to patients with confirmed influenza infections and was seen to clear the infection just as effectively as a 5-day course of Tamiflu. We expect to see LANI perform well in Daiichi's prevention Phase III trial (the SHIELD Study) – where the drug is given to people without an infection, during the influenza season, to show that it can protect people from becoming infected with the virus.

This feature should be attractive in both the seasonal and stockpiling markets because it reads directly on drug compliance. Drugs are effective if and only if the full course is taken. Physicians favour products where compliance is straightforward – because the sub-optimal use of antivirals leads to resistance and other problems.

LANI Valuation Overview

We use an option pricing methodology to value LANI but underneath it, there is a view of the influenza market that needs to be shared. Briefly, the option pricing model is just another way of risk-adjusting a valuation, and is fed by our LANI royalty forecasts from the seasonal and stockpiling markets. Before considering the detailed forecasts it is worth visualising the option framework – which is now centred on two events – the completion of ex-Japan Phase III trials and EU/US approval. We take it for granted that Biota/Daiichi finds a ROW licensing partner. If investors are not 100% convinced that LANI will be partnered, or optioned globally by Daiichi, then Biota's target price would be 80 cps and the recommendation would be a sell. Clearly, we do not think that. We risk the two option events at 80% because the first Phase III confirmed both efficacy and the one-dose usage profile. In all cases, LANI New Drug Applications (to FDA) and Marketing Authorisation Applications (to EMA) will be conducted by Big Pharma. Big Pharma enjoys industry-best success rates.

Figure 2: Option valuation scheme for LANI recognises a future (2014) NPV of $287M for the programme. Our valuation methodology risks Phase III and major market approvals as 80% likely and computes a FY10 value of $156M.



Source: WHTM Research

We expect ex-Japan Phase III trials to report data in just over 2 years' time (late 2012) and for major market approvals to follow in 2014. We discount Biota's after-tax cash flows in years 2014-2020 back to 2014, using a discount rate of 12%. Traditionally we use ~17% for pharmaceutical development products, on top of risk factors. In LANI's case we use 12% because developmentally and commercially, the program is out of Biota's hands. The risk is lower. That is the process by which we arrive at $287M as LANI's value in 2014. Discounting back to FY10 and recognizing the 80% risk factors for each option gets us to a current programme valuation of $156M. Its contribution to target price is computed by rolling the present value forward by one year at the 12% discount rate = $174M.

The actual forecasts are laid out over the page.

Figure 3: LANI royalty expectations FY10-20e. We estimate global peak sales of $1,500-1,800M for LANI.

	FY10e	FY11e	FY12e	FY13e	FY14e	FY15e	FY16e	FY17e	FY18e	FY19e	FY20e
LANI											
Daiichi royalty ($M)	-	-	0.9	4.0	9.8	19.4	28.5	24.5	26.1	28.8	27.0
Ex-JP royalty ($M)	-	-	-	-	0.3	1.8	6.1	12.5	12.3	11.4	11.0
Stockpile royalties ($M)	-	-	-	-	-	58.1	59.3	60.9	64.0	67.2	64.2
Milestone payments ($M)	-	20.0	30.0	-	50.0	-	-	-	-	-	-
LANI Total	**-**	**20.0**	**30.9**	**4.0**	**60.1**	**79.3**	**93.9**	**97.9**	**102.4**	**107.4**	**102.2**

Assumptions		
Japanese seasonal market (Daiichi royalty)		
FY10 Japanese market (total)	510	M, annually
Annual growth	10%	
LANI peak market share	50%	
Years to reach peak penetration	5	
Biota royalty rate	4.8%	
ROW seasonal market (Ex-JP royalty)		
FY10 ROW market (total)	370	M, annually
Annual growth	10%	
LANI peak market share	30%	
Years to reach peak penetration	5	
Biota royalty rate	7.0%	
Stockpiling market (Ex-JP royalty)		
FY10 global market (total)	$ 2,054	M, annually
Annual growth	2%	
LANI peak market share	25%	
Years to reach peak penetration	1	
Biota royalty rate	7.5%	

Source: WHTM Research

Market Notes

We think LANI's first years of commercial life, in Japan, are very important for Biota's share price. The company is now profitable and looks likely to remain so. But Relenza earnings are too volatile to support a market valuation; particularly from an institutional investor's point of view. Japan is the best influenza market in the world and LANI should be able to achieve a growth profile in that market, which will improve the earnings quality of Biota in the period. EPS growth counts.

Notes on stockpile marketing

One can conclude that our LANI forecasts are Relenza-like, as far as the stockpiling channel is concerned. There is no case yet, to expect LANI to become the dominant antiviral. Tamiflu, for all its problems, will probably remain a significant force in this market, in both branded and generic forms. Generic Tamiflu is already on the scene – Cipla's Antiflu product (generic oseltamivir) has received approval from the World Health Organization certifying that it is effective as Tamiflu, and Antiflu is now included in the World Health Organization list of prequalified medicinal products. However, Cipla will not be able to tender for stockpile supply contracts until marketing clearances are conferred by FDA and EMA.

There is a general trend now to rebalance stockpiles 50:50 between Relenza and Tamiflu. Essentially we see LANI replacing Relenza in this market from 2015/6, but we have limited LANI's proportion to 25% for now. It may prove to be larger because we doubt that GSK will continue with Relenza in its current format past 2016. Conducting a formal development programme for Rotahaler Relenza also seems unlikely – we struggle to see how they could make a return on that.

Generic Relenza is unlikely to emerge. GSK's Diskhaler is a proprietary device and otherwise commercially unavailable, so developers of generic zanamivir would need to formulate it in an alternative device. From FDA's perspective, for now at least, drug-device combinations are seen as unique products. So a generic developer would probably need to run a Phase III study to show the new product is equivalent. Nor could they access the ANDA process which references data from the branded product's NDA. This is precisely the situation that faces GSK in relation to their Rotahaler Relenza. FDA will not approve it without a supplemental study. LANI's one-dose feature looks like a compelling advantage to stockpiling because of the compliance benefit. Stockpile deployment practice is to mobilize product to entry ports and centres of primary health care. We estimate that the storage and transportation requirements for LANI are a third of what they are for Tamiflu and Relenza (1 dose per person compared with 10).

Notes on retail marketing

We do see LANI doing well in the retail channel, where Relenza failed utterly. GSK largely ignored this channel, because they knew Relenza would never compete with Tamiflu's more convenient oral dosing feature. LANI's single dose feature is a significant improvement; possibly sufficient to damage Tamiflu in that channel.

Figure 4: LANI's commercial presentation will use Hovione's TwinCaps dry powder inhaler device.

Source: Hovione, WHTM Research

Retail pricing could become a tricky issue for LANI because influenza drug reimbursement is scant. Branded drugs now retail for $40-50 per course. When generic copies of Tamiflu become available in 2016, retail prices could be $10 or less, which might still be attractive to some, despite the longer treatment course. The retail market has to be won in the doctors' offices. GPs and physicians are not generally in the habit of discussing drug options on the basis of price. Daiichi and the ROW licensor must convince doctors that LANI offers greater treatment compliance and hence, assured efficacy. That argument appears straightforward to us. If the marketing is successful, patients will leave the doctor's office with a laninamivir prescription; not one for oseltamivir.

Deal terms

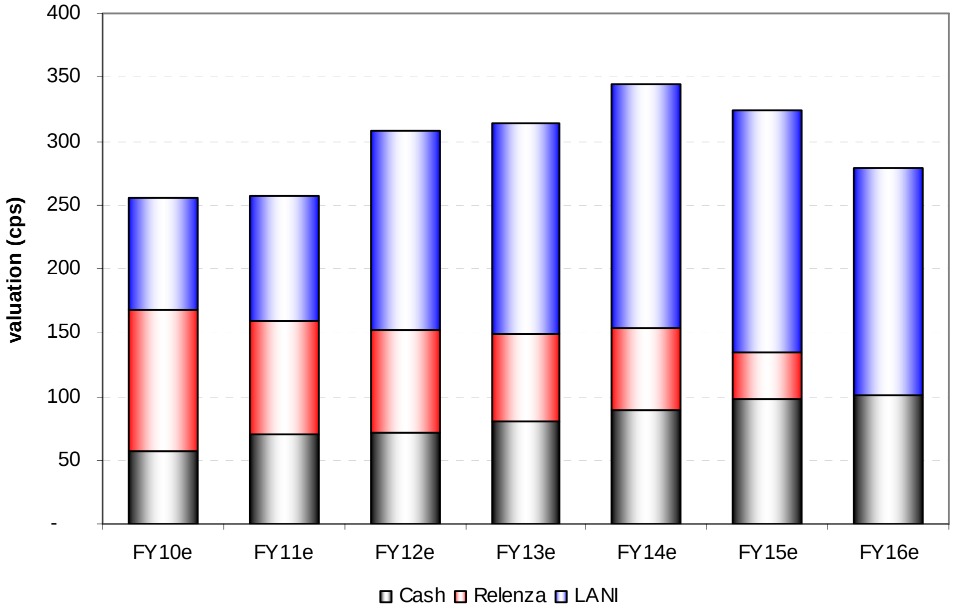
Our forecasts and valuation contemplate Biota/Daiichi signing a deal for LANI's ROW rights in the second half of this year. Operationally, we understand it is the Biota deal team selling the LANI package and negotiating terms. Daiichi obviously has the final say on terms – and there is some risk in that situation, should Daiichi entertain unreasonable expectations.

Our assumption is that ROW licensing revenues (upfronts, milestones, royalties) are shared 50:50 between Daiichi and Biota. The terms of that deal could be anything. We have assumed an upfront payment of $20M – but it could be $10-100M. We have assumed total milestones of $100M. That does not feel controversial given that both the RSV and HCV deals, signed at pre-clinical stage, had >$100M in milestones attached to them. We have assumed a royalty rate of 7.5% to Biota in ROW and ~5% in Japan (under their existing agreement with Daiichi).

Relenza is dying; LANI is just being born

Relenza is a wasting asset by virtue of its fixed patent term. Consequently, Relenza will become less relevant to Biota's valuation over time and be extinguished by FY16. In fact, for the first time, we are now at a point where the LANI valuation exceeds the Relenza valuation. Figure 5 explains how the three main contributors to valuation – Relenza, LANI and cash – will shift over FY10-FY16e.

Figure 5: Biota's prospective valuation profile FY10-FY16e.



Source: WHTM Research

On our estimates Biota stands to collect a further $200-250M of Relenza royalties over the next 5 years and our present value of that revenue stream is $160M or 89 cps in target price terms. Laying out the expected revenues and implied valuations over FY10-20 illustrates that FY11/12 is the transition point for Biota, inasmuch as LANI becomes the dominant investment theme (Figure 6, over). It also shows how important the HRV programme is – which we have not included, so as to make the following point. LANI is good, but alone, it might not be enough to support share price gains past FY14.

Hey honey, I shrunk the pipeline!

HRV needs to be in market and earning royalties for value growth to be sustained beyond FY14. We do not find the HRV programme convincing at this stage – and only recognise a small ($6M) valuation for it. Biota's pipeline has been decimated in recent times with both the RSV and HCV programmes being returned by respective partners. AstraZeneca's reasons were readily accepted – paediatric safety offers a very, very narrow window for drug development. For HCV, Biota offered an explanation that an intellectual property problem hampered Boehringer Ingelheim's progress. It doesn't wash. If programmes are good enough, developers take a licence – as Daiichi did with Biota in the case of LANI.

The MaxThera and Prolysis programmes cannot reach market by FY14. We think the company should be in-licensing or acquiring more mid-stage clinical programmes that could be out-licensed at the end of Phase II and reach markets in 2015/6. Our view is that Biota should be deploying more of its cash stockpile ($126M in FY11 by our estimates) into mid-stage programmes. The HRV programme is exactly what we have in mind – from a risk/expenditure point of view.

Figure 6: Biota's prospective valuation profile FY10-FY20e.

	FY10e	FY11e	FY12e	FY13e	FY14e	FY15e	FY16e	FY17e	FY18e	FY19e	FY20e
Relenza											
GSK royalty ($M)	**73.9**	**42.3**	**46.7**	**29.2**	**69.4**	**75.5**	-	-	-	-	-
Relenza NPV (unrisked, $M)	199.9	160.0	144.8	122.8	114.5	64.5	-	-	-	-	-
Relenza value (unrisked, cps)	112	89	81	69	64	36	-	-	-	-	-
Relenza value (risked, cps)	112	89	81	69	64	36	-	-	-	-	-
LANI											
Daiichi royalty ($M)	-	-	0.9	4.0	9.8	19.4	28.5	24.5	26.1	28.8	27.0
Ex-JP royalty ($M)	-	-	-	-	0.3	1.8	6.1	12.5	12.3	11.4	11.0
Stockpile royalties ($M)	-	-	-	-	-	58.1	59.3	60.9	64.0	67.2	64.2
Milestone payments ($M)	-	20.0	30.0	-	50.0	-	-	-	-	-	-
LANI Total	**-**	**20.0**	**30.9**	**4.0**	**60.1**	**79.3**	**93.9**	**97.9**	**102.4**	**107.4**	**102.2**
LANI NPV (unrisked, $M)	219.0	256.2	279.7	296.4	342.8	341.0	319.6	280.1	229.8	166.5	200.0
LANI value (unrisked, $M)	122	143	156	166	192	190	179	156	128	93	112
LANI value (risked, $M)	88	98	156	166	192	190	179	156	128	93	112
Influenza franchise (Relenza + LANI)											
Influenza NPV (unrisked, $M)	418.8	416.1	424.6	419.2	457.3	405.5	319.6	280.1	229.8	166.5	200.0
Influenza value (unrisked, cps)	234	232	237	234	255	227	179	156	128	93	112
Influenza value (risked, cps)	199	187	237	234	255	227	179	156	128	93	112
Cash											
End-FY cash	101.8	125.7	127.5	143.8	158.9	175.0	180				
Cash value (cps)	57	70	71	80	89	98	101				
Costs											
Valuation impact of R&D, costs	(84)	(78)	(78)	(80)	(81)	(82)	(85)				
Biota target price	172	179	230	235	263	242	194				

Source: WHTM Research

Putting the acquisition question to bed

LANI is the only asset on which an investor could pin a credible Biota acquisition hope, but Biota only owns half of the asset. An acquisition would seem to be a lot of hard work to do; to ultimately not control the lead asset. Daiichi could look at buying out Biota's LANI interests – but they would be more likely to do that with cash, in a one-off transaction. We doubt that the Biota Board would contemplate that. Firstly, shareholders would agitate for the cash windfall. Second, the stock has no growth story without LANI. Furthermore, Daiichi commenced Phase III when Biota's share price was 41cps – Biota was worth less then, than what Daiichi spent on the trial!

Valuation and recommendation

In 2008 we said that Biota could become a $3 stock by the end of 2011. We can't support that view now that the RSV and HCV programmes are gone. As we've seen, a pandemic can take the share price to absurd levels without notice. On a fundamentals basis, we do see prospects of $2.25-$2.65 as a target band for FY12-14. But where we sit now, in 2010, the valuation seems constrained at that level unless another significant programme reaches market by 2015 at the latest.

The current share price levels are very attractive for buying Biota – LANI being the reason for investing. Our valuation is unchanged at $1.54 per share. Our target price is $1.80.

Biota Holdings (BTA : $1.19)

INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	-3.7	21.7	16.6	5.9	1.7
EPS Normalised (c)	**-2.6**	**12.6**	**19.3**	**7.6**	**2.8**
EPS Growth (%)	N/A	575.4%	53.8%	-60.8%	-63.0%
PER Normalised (x)	**-29.2**	**15.3**	**6.2**	**15.7**	**42.5**
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	11.1	3.0	8.2	39.1
EV / EBITDA (x)	-8.8	10.5	2.9	7.3	23.2
CFPS (c)	2.7	18.4	20.3	14.5	2.3
Price / CF	**28.4**	**10.4**	**5.9**	**8.2**	**51.7**
Book Value / Share ($)	0.4	0.6	0.7	0.7	0.7
Price / Book (x)	**2.2**	**3.5**	**1.8**	**1.7**	**1.6**

PROFIT & LOSS ($m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	20.5	45.0	73.9	42.3	47.5
EBITDA	-9.4	24.0	38.7	12.0	3.7
Depreciation	0.9	1.2	1.4	1.4	1.5
EBITA	**-10.3**	**22.8**	**37.3**	**10.6**	**2.2**
Amortisation	1.8	3.9	4.8	3.0	1.9
EBIT	**-12.1**	**18.9**	**32.6**	**7.6**	**0.3**
Net Interest Expense	-2.8	-2.9	-2.6	-4.6	-5.1
Pre-tax Profit	**-9.3**	**21.8**	**35.2**	**12.2**	**5.4**
Tax	-2.8	3.6	5.4	1.7	2.3
Tax rate (%)	30.3%	16.7%	15.3%	13.9%	42.5%
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**	**18.2**	**29.8**	**10.5**	**3.1**
Abn's / Extraord's	0.0	20.0	0.0	0.0	0.0
Reported Net Profit	-6.5	38.2	29.8	10.5	3.1
Revenue Growth (%)	N/A	119.0%	64.3%	-42.7%	12.3%
EBIT Growth (%)	N/A	256.2%	72.5%	-76.6%	-96.3%
NPAT Growth (%)	N/A	380.2%	63.8%	-64.7%	-70.5%

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	**-58.8%**	**42.0%**	**44.1%**	**18.0%**	**0.6%**
ROA (%)	N/A	69.9%	119.9%	30.4%	1.3%
ROE (%)	**N/A**	**22.7%**	**27.7%**	**8.5%**	**2.4%**
ROFE (%)	N/A	338.4%	282.2%	112.6%	64.2%

INTERIMS ($m)

Half Yr	Dec 08	Jun 09	Dec 09	Jun 10	Dec 10
Yr Ending June	**1H A**	**2H A**	**1H A**	**2H E**	**1H E**
Sales Revenue	3.8	41.2	56.7	17.2	27.5
EBIT	-11.8	30.7	39.9	-7.3	13.8
Net Profit	**-12.8**	**51.0**	**33.5**	**-3.7**	**15.3**
EBIT / Sales (%)	-309.2%	74.5%	70.3%	-42.6%	50.2%

BALANCE SHEET ($m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	60.2	86.7	101.8	125.7	127.5
Receivables	4.3	8.1	10.2	3.9	7.0
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**	**112.0**	**129.6**	**134.6**
Net PPE	7.5	6.9	6.9	7.5	8.3
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	12.1	8.4	11.2	8.2	6.3
Other	5.2	1.5	1.2	1.2	1.2
Non-current Assets	**24.8**	**16.9**	**19.2**	**16.8**	**15.7**
Total Assets	**89.3**	**111.6**	**131.3**	**146.4**	**150.3**
Current Payables	12.0	5.6	2.5	7.2	8.0
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	10.8	10.7	10.7
Other	12.7	7.4	0.0	0.0	0.0
Total Liabilities	**26.0**	**14.6**	**13.3**	**17.9**	**18.7**
Equity	159.1	154.6	145.8	145.8	145.8
Reserves	1.4	1.5	1.4	1.4	1.4
Retained Profits	-97.3	-59.1	-29.3	-18.8	-15.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	**63.3**	**97.0**	**118.0**	**128.5**	**131.6**
Total Funds Employed	**3.1**	**10.3**	**16.1**	**2.8**	**4.0**

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) ($m)	-60.2	-86.7	-101.8	-125.7	-127.5
Net Debt / Equity (%)	**-95.0%**	**-89.4%**	**-86.3%**	**-97.9%**	**-96.9%**
Interest Cover (x)	4.3	-6.4	-12.4	-1.7	-0.1
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	18.9	32.6	7.6	0.3
Dep'n and Amort'n	2.7	5.1	6.2	4.4	3.4
Net Int Rec'd (Paid)	2.8	2.8	2.6	4.6	5.1
Tax Paid	0.0	0.0	2.5	-1.7	-2.3
Dec / (Inc) W'kg Cap	9.7	-11.3	53.7	11.0	-2.4
Other	1.4	17.0	-61.1	-0.1	0.0
Operating Cash Flow	**4.8**	**32.5**	**36.4**	**25.9**	**4.1**
Capital Expenditure	-3.8	-0.8	-1.2	-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**	**-1.2**	**-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**	**15.2**	**23.9**	**1.8**

Recommendation Structure

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

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.
NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

Disclosure of Interest. Biota Holdings

The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests 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.

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