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# Biota Holdings Limited (BTA)

Upgrade on Significant Sell-Off

Outperform

\$1.02

Thomas Duthy *PhD MBA*  
tduthy@taylorcollison.com.au  
+61 2 9377 1500

## Summary

Market capitalisation (M)	\$182.8
Share price	\$1.02
Shares on issue (M)	179.2
52 week low	\$1.01
52 week high	\$3.34
Ave Monthly Vol (M)	23.7
Valuation Per Share (fully diluted)	\$2.37
Cash (M) as at 31/12/09	\$52.0

## Key Financials (A\$'000)

Year End	FY09 Actual	FY10 Est.	FY11 Est.
Relenza Royalties	45,000	72,715	54,417
Partnering Income*	4,426	800	0
<b>Total Revenue</b>	<b>63,334</b>	<b>82,116</b>	<b>60,696</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>38,428</b>	<b>11,336</b>
Reported NPAT	38,181	20,570	6,269
<b>Adj. NPAT</b>	<b>38,181</b>	<b>29,680</b>	<b>9,419</b>
Adj. EPS (c)	21.7	16.7	5.3
Adj. PE Ratio (x)	<b>4.7</b>	<b>6.1</b>	<b>19.4</b>

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

## Share Price Graph (A\$)



## Key Points

Market reaction since 3Q10 Relenza result has been aggressive on the downside, with EV now just \$88m for all programs, including Relenza.

Assumes closing cash of approx \$100m at end FY10.

4Q10 Relenza sales also likely to be narrow, around the A\$6.3m mark providing FY10 royalties to Biota of approximately A\$72.7m.

51.6% decline in the stock since last quarterly collection of \$9.7m in Relenza royalties has triggered an upgrade in our recommendation.

## Our View

- 4Q10 Relenza Likely to be Soft Again** – with A\$9.7m collected in the 3Q10, we anticipate a soft June Q of A\$6.3m in royalties. This is commensurate with the general lack of influenza activity in the northern hemisphere over this period and a general lull in swine flu activity in the southern hemisphere. We do not expect a material pick up in Relenza sales volumes until 2Q11/3Q11. We believe the market is not factoring in a large quarterly for Relenza, and as such we do not see such a result as unduly limiting the Company's upside potential from current levels. In short, Biota needs a validation deal for either LANI or HRV (hopefully both) to prove their licensing self-worth. Either drug provides unique challenges in its target market indication (LANI – expensive Phase 3; HRV – Phase 2b trial design complexity) but both in our view are completely open to license.
- Company Continues to Target a License Deal for LANI and HRV Before the 4Q CY10** – We anticipate Biota will execute a partnering deal for LANI (TC est. US\$25m in upfront, US\$175m in milestone payments + 17.5% royalty rate), of which 50% flows to Daiichi Sankyo. We also note the imminent approval of LANI for influenza treatment/prevention in Japan, for which we est. Biota is entitled to a 2.5% royalty on sales. We are targeting a concurrent approval for both treatment and prophylaxis, as evidence indicates the prophylaxis trial also met recruitment over the previous northern hemisphere influenza season, ready for a launch later this year into the Japanese market. We expect a Japanese marketing authorisation for LANI during the 3Q CY10, possibly lagging into the 4Q.
- Outlook** – Owing to the sizeable decline in stock value, coupled with the prospect for imminent Japanese market approvals of LANI and scope for an ex-Japan global license deal plus a global deal for HRV, we have upgraded our Market Perform to an Outperform and a PT of \$2.37. We remain confident all three aspirational goals can be executed over the next 3-5 months, though we feel the ability to license LANI in global markets only becomes more difficult with the passing weeks/months and without a major escalation of swine flu or perhaps a new strain of influenza emerging with a resistant drug profile.

## Changes to Forecasts

Changes to our forecasts are shown below and relate to a reduction in overall 4Q Relenza expectations for FY10 to A\$6.3m in royalties to Biota. The forward P&L does not recognise any contribution from a LANI or HRV license deal. This will be determined if such deals are concluded by Biota, per guidance.

### Changes to Forecasts

	FY10E			FY11E			FY12E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Relenza Volumes (m)	43.8	41.6	-5.2%	31.1	31.1	0.0%	31.6	31.6	0.0%
Relenza Royalties (A\$m)	76.7	72.7	-5.2%	54.4	54.4	0.0%	55.3	55.3	0.0%
EBITDA	42.4	38.4	-9.4%	11.3	11.3	0.0%	13.1	13.1	0.0%
Reported NPAT	24.0	20.6	-14.2%	6.4	6.3	-1.3%	14.0	13.8	-0.9%
Reported EPS (c)	13.5	11.6	-14.2%	3.5	3.5	-1.3%	7.8	7.7	-0.9%
Adj. NPAT	33.1	29.7	-10.3%	9.5	9.4	-0.9%	14.0	13.8	-0.9%
Adj. EPS (c)	18.6	16.7	-10.3%	5.3	5.3	-0.9%	7.8	7.7	-0.9%

Source: Taylor Collison estimates

## Biota – Sum of Parts Valuation

Our updated sum of parts valuation is highlighted below. As can be seen in the summary figure below, the majority of value in the Company continues to be the Relenza franchise (\$1.26 in share value) and LANI (\$1.10 in share value). Given the unique challenges confronting a developer of the HRV program for the common cold, we have been very conservative with our assumptions for this program and as such based on Biota's own guidance, any deal we think will be worth US\$120m in upfront/milestones (unadjusted for risk) or A\$51m adjusted for risk and incorporating a 15% royalty.

Product/Pipeline	per share (\$) base
FLU OIA® Profit Share	\$0.00
Government Grants	\$0.03
Seasonal Influenza Relenza™ (Royalties)	\$0.32
Stockpiling: Future Potential Government Relenza™ (Royalties)	\$0.22
Relenza™ Replacement Market (Royalties)	\$0.71
Long Acting Neuraminidase Inhibitors, LANI (Biota Profit Share A\$m)	\$1.10
RSV Program	\$0.08
HCV License and Collaboration Deal with Boehringer Ingelheim	\$0.00
HRV License and Collaboration Deal with Third Party	\$0.28
MaxThera Technology Assets	\$0.01
Prolysis Technology Assets	\$0.06
Other Programs (HCV + FLUNET + CMV)	\$0.37
<b>TOTAL</b>	<b>\$3.19</b>
Less Operating Expenses	-\$1.23
Tax	-\$0.37
Capex	-\$0.03
Add Depreciation & Amortisation	\$0.08
Net Interest	\$0.18
<b>NPV Valuation</b>	<b>\$1.82</b>
Cash on Hand (A\$m) FY10	100.4
Shares on Issue (m)	179.2
Value per Undiluted Share (A\$)	\$2.38
Cash from Options (A\$m)	2.9
Fully Diluted Shares (m)	181.6
<b>Value per Fully Diluted Share (A\$)</b>	<b>\$2.37</b>

Source: Taylor Collison estimates

## Biota Holdings Limited - Summary of Forecasts

BTA

\$1.02

PROFIT & LOSS SUMMARY (A\$'000)				
	FY09A	FY10E	FY11E	FY12E
Relenza Royalties	45,000	72,715	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>82,116</b>	<b>60,696</b>	<b>69,191</b>
<i>Growth (pcp)</i>	<i>40.8%</i>	<i>29.7%</i>	<i>-26.1%</i>	<i>14.0%</i>
Net Gain on GSK Settlement	12,756	0	0	0
<b>Net Operating Revenue</b>	<b>60,280</b>	<b>65,600</b>	<b>48,444</b>	<b>56,615</b>
R&D Expenses	(13,348)	(24,617)	(32,973)	(38,364)
<b>EBITDA</b>	<b>43,997</b>	<b>38,428</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>32,362</b>	<b>6,883</b>	<b>11,067</b>
Net Interest	2,935	2,556	4,134	5,128
<b>Pre-Tax Profit</b>	<b>41,817</b>	<b>34,918</b>	<b>11,017</b>	<b>16,196</b>
Tax Expense	(3,636)	(5,238)	(1,597)	(2,348)
Minorities	0	0	0	0
<b>NPAT Normalised *</b>	<b>20,343</b>	<b>29,680</b>	<b>9,419</b>	<b>13,847</b>
<b>NPAT Adj.</b>	<b>38,181</b>	<b>29,680</b>	<b>9,419</b>	<b>13,847</b>
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-22.3%</i>	<i>-68.3%</i>	<i>47.0%</i>
Net Adjustments**	0	(9,110)	(3,150)	0
<b>Reported Profit</b>	<b>38,181</b>	<b>20,570</b>	<b>6,269</b>	<b>13,847</b>

PER SHARE DATA				
Period	FY09A	FY10E	FY11E	FY12E
<b>Adjusted EPS (c)</b>	<b>21.7</b>	<b>16.7</b>	<b>5.3</b>	<b>7.7</b>
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-22.8%</i>	<i>-68.5%</i>	<i>47.0%</i>
<b>Reported EPS (c)</b>	<b>21.7</b>	<b>11.6</b>	<b>3.5</b>	<b>7.7</b>
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-46.5%</i>	<i>-69.8%</i>	<i>120.9%</i>
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Gross CF per Share (c)	18.4	19.6	8.6	11.4
NTA per share (c)	50.3	60.9	69.4	76.7

VALUATION MULTIPLES				
Period	FY09A	FY10E	FY11E	FY12E
Adjusted PE Ratio (x)	4.7	6.1	19.4	13.2
PE Ratio (x)	4.7	8.8	29.1	13.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	2.2	2.1	6.0	3.8
EV/EBIT (x)	2.5	2.5	9.9	4.5

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%	46.8%	18.7%	19.0%
EBIT/Sales Margin %	61.4%	39.4%	11.3%	16.0%
Current ratio (x)	7.6	8.8	10.0	10.1
Net Debt : Equity (%)	-89.4%	-87.2%	-91.5%	-97.1%
ROE (%)	47.6%	28.0%	7.8%	10.6%
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	100,382	114,335	133,289
Receivables	8,067	13,139	15,174	10,379
Inventories	0	0	0	0
Other	0	0	0	0
<b>Total Current Assets</b>	<b>94,771</b>	<b>113,521</b>	<b>129,508</b>	<b>143,668</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>128,101</b>	<b>137,986</b>	<b>151,589</b>
Accounts Payable	5,631	2,463	6,070	6,919
Borrowings	0	0	0	0
Provisions	1,561	1,122	1,131	795
Other	5,262	9,340	5,699	6,450
<b>Total Current Liab</b>	<b>12,454</b>	<b>12,925</b>	<b>12,900</b>	<b>14,165</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>13,011</b>	<b>12,986</b>	<b>14,251</b>
<b>TOTAL EQUITY</b>	<b>97,032</b>	<b>115,090</b>	<b>125,000</b>	<b>137,338</b>

CASH FLOW SUMMARY (A\$'000)				
Period	FY09A	FY10E	FY11E	FY12E
<b>EBIT (excl Abs/Extr)</b>	<b>38,882</b>	<b>32,362</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)	(3,168)	3,606	850
Less: Tax paid	0	(5,238)	(1,597)	(2,348)
Net Interest	2,935	2,556	4,134	5,128
Change in Rec.	(3,797)	(5,072)	(2,035)	4,795
Other	(8,191)	(6,638)	(6,273)	(1,792)
<b>Gross Cashflows</b>	<b>32,483</b>	<b>34,728</b>	<b>15,452</b>	<b>20,455</b>
Capex	(798)	(1,000)	(1,500)	(1,500)
<b>Free Cashflows</b>	<b>31,685</b>	<b>33,728</b>	<b>13,952</b>	<b>18,955</b>
Buy-Back/Cap. Return**	(5,145)	(20,007)	0	0
<b>Net Cash Flow</b>	<b>26,540</b>	<b>13,721</b>	<b>13,952</b>	<b>18,955</b>

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

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**Analyst:** Thomas Duthy

**Release Authorised by:** David Whiting

Taylor Collison Limited  
Sharebrokers and Investment Advisers  
A.B.N. 53 008 172 450 AFSL No. 247083

Level 16, 211 Victoria Square  
Adelaide, South Australia, 5000  
G.P.O. Box 2046, Adelaide, South Australia, 5001  
Telephone: 08 8217 3900 Facsimile: 08 8231 3506  
Email: broker@taylorcollison.com.au

Level 10, 167 Macquarie Street  
Sydney, New South Wales, 2000  
G.P.O. Box 4261, Sydney, New South Wales, 2001  
Telephone: 02 9377 1500 Facsimile: 02 9232 1677  
Email: sydney1@taylorcollison.com.au

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www.taylorcollison.com.au  
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