



22 July 2010

Biota Holdings Limited (BTA)

EV of \$63m for Pipeline and Products

Outperform

\$0.90

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Key Points

4Q10 Relenza sales of £8m (\$12.8m) equating to royalties of \$0.9m, below our expectations.

Adjustment of -\$3.6m in FY10 royalty collections on indicative versus reported (\$67.3m and \$63.7m, respectively) owing to appreciation of A\$ versus a basket of global currencies during the year.

FY10 royalty collections +41.5% ahead of pcp, from a surge on government orders following the declared swine flu pandemic.

Summary

| | |
|-------------------------------------|---------|
| Market capitalisation (M) | \$161.3 |
| Share price | \$0.90 |
| Shares on issue (M) | 179.2 |
| 52 week low | \$0.85 |
| 52 week high | \$3.34 |
| Ave Monthly Vol (M) | 23.9 |
| Valuation Per Share (fully diluted) | \$2.37 |
| Est. Cash (M) as at 30/6/10 | \$102.0 |

Our View

- Relenza Volatility to Continue** – The A\$0.9m collected in the 4Q10 versus our estimate of A\$6.3m highlights the complete fulfilment of pandemic orders by Glaxo occurred during the 3Q10 period. As highlighted previously, we do not expect a material pick up in Relenza sales volumes until 2Q11/3Q11, in-line with the northern hemisphere flu season, so investors should brace for another soft collection period during the Sept quarter. The drivers for Relenza demand are two fold, in our view. Firstly, conversion of the US government “intention” to re-balance its pandemic stockpile to 50/50 Tamiflu:Relenza (currently 80:20), and that of other governments, including the UK and the Japanese seasonal market, which shrunk to just US\$92m in 2009/10 almost entirely due to Tamiflu problems (resistance, prescription bans). Naturally, this represents an opportunity for Relenza, and also LANI.

- Pipeline and Products** – In our view, an EV of just \$63m does not adequately reflect Biota’s attractive product/pipeline assets encompassing Relenza, LANI, HRV, HCV, RSV, and the MaxThera and Prolysis acquisitions. For example, it is worth noting that Relenza royalty collections are expected to continue for at least four more years, with progressive key patent expirations in the US (1Q CY14), Europe (2Q CY15) and Japan (2016 – possibly to 2019). However, we acknowledge the unpredictability of Relenza forecasting. We believe LANI is worth \$1.10 per share, and HRV \$0.28 per share on license deals. Concerns over excessive cash utilisation in FY11/12 we believe are over-stated, as Biota has the capacity to flex its pipeline spend commensurate with Relenza demand and product license deals. However, any push by the Company to self-initiate a Phase 2b study in HRV (i.e. w/out a partner) will materially reduce that ability.

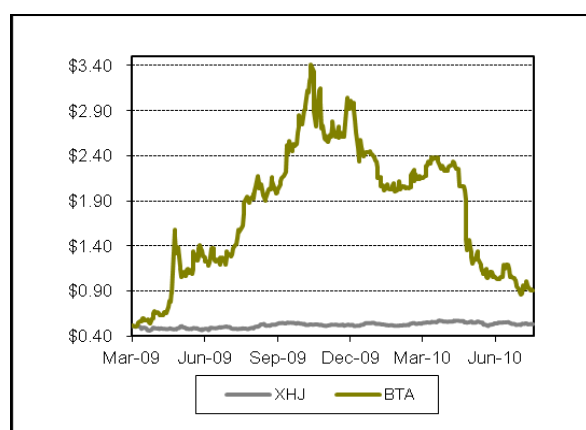
- Outlook** – As a result of the softer than anticipated quarter, coupled with the adjustment to guidance on reported v indicative royalties, we have cut our reported FY10 NPAT estimates by 22.7% to \$15.9m. However, we note the \$13.9m in expected non-cash amortisation charges for the FY10 period, implying free cash flow of \$35.4m during the period, or \$15.4m net cash flow after the \$20m capital return. We have kept our \$2.37 valuation on the stock, and believe at current levels with the stock trading on an EV of \$63m (cash backing \$0.56 per share) there remains solid upside potential. Re-rating catalysts remain Japanese approval for LANI and a rest of world license deal, both expected this half. We retain our Outperform recommendation.

Key Financials (A\$'000)

| Year End | FY09 Actual | FY10 Est. | FY11 Est. |
|----------------------|----------------|---------------|---------------|
| Relenza Royalties | 45,000 | 63,700 | 54,417 |
| Partnering Income* | 4,426 | 800 | 0 |
| Total Revenue | 63,334 | 73,101 | 60,632 |
| Total Op. Expenses | (15,810) | (16,516) | (12,252) |
| R&D Expenses | (13,348) | (21,417) | (32,974) |
| EBITDA | 43,997 | 32,613 | 11,336 |
| Reported NPAT | 38,181 | 15,919 | 6,214 |
| Adj. NPAT | 38,181 | 25,029 | 9,364 |
| Adj. EPS (c) | 21.7 | 14.1 | 5.2 |
| Adj. PE Ratio (x) | 4.2 | 6.4 | 17.2 |

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

Share Price Graph (A\$)



Changes to Forecasts

Changes to Forecasts

| | FY10E | | | FY11E | | | FY12E | | |
|--------------------------|----------|---------|--------|----------|---------|--------|----------|---------|--------|
| | Previous | Revised | Change | Previous | Revised | Change | Previous | Revised | Change |
| Relenza Volumes (m) | 41.6 | 36.4 | -12.5% | 31.1 | 31.1 | 0.0% | 31.6 | 31.6 | 0.0% |
| Relenza Royalties (A\$m) | 72.7 | 63.7 | -12.4% | 54.4 | 54.4 | 0.0% | 55.3 | 55.3 | 0.0% |
| EBITDA | 38.4 | 32.6 | -15.1% | 11.3 | 11.3 | 0.0% | 13.1 | 13.1 | 0.0% |
| Reported NPAT | 20.6 | 15.9 | -22.7% | 6.4 | 6.2 | -2.2% | 14.0 | 13.7 | -2.1% |
| Reported EPS (c) | 11.6 | 9.0 | -22.7% | 3.5 | 3.5 | -2.2% | 7.8 | 7.6 | -2.1% |
| Adj. NPAT | 29.7 | 25.0 | -15.7% | 9.5 | 9.4 | -1.5% | 14.0 | 13.7 | -2.1% |
| Adj. EPS (c) | 16.7 | 14.1 | -15.6% | 5.3 | 5.2 | -1.5% | 7.8 | 7.6 | -2.1% |

Source: Taylor Collison estimates

Biota Holdings Limited - Summary of Forecasts

BTA \$0.90

| PROFIT & LOSS SUMMARY (A\$'000) | | | | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | FY09A | FY10E | FY11E | FY12E |
| Relenza Royalties | 45,000 | 63,700 | 54,417 | 55,333 |
| Partnering (Licence) Income | 4,426 | 800 | 700 | 8,005 |
| Research income (Inc Grants) | 10,966 | 6,020 | 1,420 | 700 |
| Total Revenue | 63,334 | 73,101 | 60,632 | 68,990 |
| <i>Growth (pcp)</i> | <i>40.8%</i> | <i>5.4%</i> | <i>-17.1%</i> | <i>13.8%</i> |
| Net Gain on GSK Settlement | 12,756 | 0 | 0 | 0 |
| Net Operating Revenue | 60,280 | 56,585 | 48,380 | 56,414 |
| R&D Expenses | (13,348) | (21,417) | (32,974) | (38,364) |
| EBITDA | 43,997 | 32,613 | 11,336 | 13,123 |
| Depreciation | (184) | (1316) | (1322) | (1357) |
| Amortisation | (3,931) | (4,750) | (3,132) | (699) |
| EBIT | 38,882 | 26,547 | 6,882 | 11,067 |
| Net Interest | 2,935 | 2,556 | 4,070 | 4,927 |
| Pre-Tax Profit | 41,817 | 29,103 | 10,953 | 15,994 |
| Tax Expense | (3,636) | (4,074) | (1,588) | (2,319) |
| Minorities | 0 | 0 | 0 | 0 |
| NPAT Normalised * | 20,343 | 25,029 | 9,364 | 13,675 |
| NPAT Adj. | 38,181 | 25,029 | 9,364 | 13,675 |
| <i>Growth (pcp)</i> | <i>n/a</i> | <i>-34.4%</i> | <i>-62.6%</i> | <i>46.0%</i> |
| Net Adjustments** | 0 | (9,110) | (3,150) | 0 |
| Reported Profit | 38,181 | 15,919 | 6,214 | 13,675 |

| PER SHARE DATA | | | | |
|-------------------------|-------------|---------------|---------------|--------------|
| Period | FY09A | FY10E | FY11E | FY12E |
| Adjusted EPS (c) | 21.7 | 14.1 | 5.2 | 7.6 |
| <i>Growth (pcp)</i> | <i>n/a</i> | <i>-34.9%</i> | <i>-62.9%</i> | <i>46.0%</i> |
| Reported EPS (c) | 21.7 | 9.0 | 3.5 | 7.6 |
| <i>Growth (pcp)</i> | <i>n/a</i> | <i>-58.6%</i> | <i>-61.3%</i> | <i>20.0%</i> |
| Dividend (c) | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking | 0% | 0% | 0% | 0% |
| Gross CF per Share (c) | 18.4 | 20.5 | 5.1 | 11.3 |
| NTA per share (c) | 50.3 | 58.9 | 66.8 | 74.0 |

| VALUATION MULTIPLES | | | | |
|-----------------------|-------|-------|-------|-------|
| Period | FY09A | FY10E | FY11E | FY12E |
| Adjusted PE Ratio (x) | 4.2 | 6.4 | 17.2 | 11.8 |
| PE Ratio (x) | 4.2 | 10.0 | 25.9 | 11.8 |
| Dividend Yield (%) | 0.0% | 0.0% | 0.0% | 0.0% |
| EV/EBITDA (x) | 17 | 18 | 4.6 | 2.5 |
| EV/EBIT (x) | 19 | 2.2 | 7.5 | 3.0 |

| 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% | 44.6% | 8.7% | 9.0% |
| EBIT/Sales Margin % | 61.4% | 36.3% | 11.4% | 16.0% |
| Current ratio (x) | 7.6 | 9.5 | 9.7 | 9.9 |
| Net Debt : Equity (%) | -89.4% | -91.4% | -91.1% | -96.9% |
| ROE (%) | 47.6% | 24.0% | 8.1% | 10.8% |
| 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 | 102,019 | 109,637 | 128,330 |
| Receivables | 8,067 | 6,579 | 5,558 | 10,348 |
| Inventories | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Total Current Assets | 94,771 | 108,598 | 124,795 | 138,678 |
| 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 |
| Total Non-Current Assets | 16,858 | 14,581 | 8,477 | 7,921 |
| TOTAL ASSETS | 111,629 | 123,179 | 133,273 | 146,599 |
| Accounts Payable | 5,631 | 2,193 | 6,063 | 6,899 |
| Borrowings | 0 | 0 | 0 | 0 |
| Provisions | 1,561 | 1,122 | 1,131 | 705 |
| Other | 5,262 | 8,176 | 5,690 | 6,421 |
| Total Current Liab | 12,454 | 11,491 | 12,884 | 14,025 |
| Borrowings | 0 | 0 | 0 | 0 |
| Provisions | 2,143 | 86 | 86 | 86 |
| Other | 0 | 0 | 0 | 0 |
| Total Non-Current Liab | 2,143 | 86 | 86 | 86 |
| TOTAL LIABILITIES | 14,597 | 11,577 | 12,970 | 14,111 |
| TOTAL EQUITY | 97,032 | 111,602 | 120,303 | 132,488 |

| CASH FLOW SUMMARY (A\$'000) | | | | |
|-----------------------------|---------------|---------------|--------------|---------------|
| Period | FY09A | FY10E | FY11E | FY12E |
| EBIT (excl Abs/Extr) | 38,882 | 26,547 | 6,882 | 11,067 |
| Add: Depreciation | 184 | 1316 | 1322 | 1357 |
| Amortisation | 3,931 | 3,860 | 6,282 | 699 |
| Change in Pay. | (6,392) | (3,438) | 3,870 | 836 |
| Less: Tax paid | 0 | (4,074) | (1,588) | (2,319) |
| Net Interest | 2,935 | 2,556 | 4,070 | 4,927 |
| Change in Rec. | (3,797) | 1,488 | (8,579) | 4,810 |
| Other | (8,191) | (6,638) | (6,273) | (1,882) |
| Gross Cashflows | 32,483 | 36,365 | 9,118 | 20,192 |
| Capex | (798) | (1,000) | (1,500) | (1,500) |
| Free Cashflows | 31,685 | 35,365 | 7,618 | 18,692 |
| Buy-Back/Cap. Return** | (5,145) | (20,007) | 0 | 0 |
| Net Cash Flow | 26,540 | 15,358 | 7,618 | 18,692 |

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

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Date Prepared: June 2010

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