

Date of issue

27.02.08

Company Update

INVESTMENT DATA

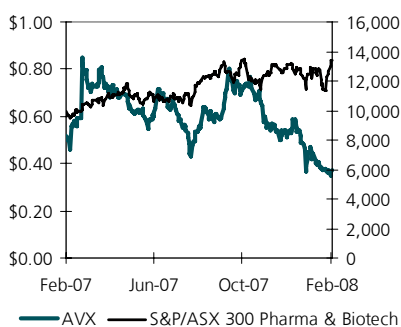
Share Price	\$0.37
Issued Capital	
Ordinary Shares	406.0m
Options	14.8m
Fully Diluted	420.8m
Market Capitalisation	\$155.7m
52 Week Low/High	\$0.23 / \$0.99
Valuation	\$0.77

Top 20 shareholders as at 5 September 2007 own 36% of total shares on issue

Year end	Jun	07a	08f	09f	10f
Revenue	\$m	0	0	0	0
EBITDA	\$m	-16.7	-34.6	-35.6	-7.3
NPAT	\$m	-15.2	-31.0	-33.6	-6.6
EPS (adj)	¢	-7.1	-7.4	-8.0	-1.6
EPS growth	%	N/A	N/A	N/A	N/A
PER	x	N/A	N/A	N/A	N/A

Data is normalised and fully diluted.

Share price chart: AVX



Avexa (AVX)

Speculative Buy

Upcoming Phase 2b trial results

Likely to be a positive result given previous trial data

AVX expect to release the final set of Phase IIb clinical trial results next month. The data will be based on patients who have been treated with ATC for the last two years or more. In our view, the data will be significant as it will likely show the following:

- ATC is superior to 3TC in reducing HIV levels in the blood, especially in the group of patients that were not on ATC during the first 24 weeks
- the higher dose (800 mg) of ATC is safe and well-tolerated in patients who have been taking the drug for this extended period of time
- patients do not experience resistance to ATC over the extended period of time
- potential to increase CD4 cell count (CD4 cells are essential for a healthy immune system, and it is these cells that are primarily destroyed by HIV infection)

To date, 39 patients (out of an eligible 40 patients) have enrolled in the optional extension study. As we have previously highlighted, this provides a good proxy for the upcoming results. In our view, previous results suggest that ATC is likely to achieve at least the first three points mentioned above.

Impact on earnings estimates

The longer-term data is likely to have a positive impact on potential deal negotiations however we are unlikely to change our earnings estimates until a commercial deal has been struck. Although the timing on this is difficult to estimate, we believe that mid 2008 provides a reasonable timeframe. In our view, the deal would be largely driven by the release of longer-term safety data as well as recruitment rates for the Phase III trial.

Speculative Buy rating reiterated

At the current share price, the stock is trading at levels well-below the levels prior to the release of Phase IIb (3 week) clinical trial data in Mar 2007. With the upcoming release of Phase IIb (48 week) trial data and the commencement of the Phase III trial with first patient treatments, we reiterate our Speculative Buy based on our \$0.77 valuation.

Linda Ong

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Background to the trial and the significance of the upcoming results

AVX expect to release further Phase IIb clinical trial results next month. Of the three components to the trial, this will be the final set of results from the 50-patient trial.

1. During the first 21 days (3 weeks), patients were on 600 mg ATC, 800 mg ATC, or 3TC - Results (released Mar 2007) showed ATC significantly reduced HIV levels in the blood compared to competing drug, 3TC
2. From 3 weeks to 24 weeks (21 weeks), patients were on 600 mg ATC, 800 mg ATC, or 3TC - Results (released Sept 2007) showed ATC continued to significantly reduce HIV levels in the blood compared to competing drug, 3TC
3. From 24 weeks to 48 weeks (24 weeks), all patients were on 800 mg ATC - We expect the results (due to be released Mar 2008) will continue to show the following;
 - ATC is superior to 3TC in reducing HIV levels in the blood, especially in the group of patients that were not on ATC during the first 24 weeks
 - the higher dose (800 mg) of ATC is safe and well-tolerated in patients who have been taking the drug for this extended period of time
 - patients do not experience resistance to ATC over the extended period of time
 - potential to increase CD4 cell count (CD4 cells are essential for a healthy immune system, and it is these cells that are primarily destroyed by HIV infection)

Positive impact on licensing negotiations

The longer-term data is likely to have a positive impact on potential deal negotiations between AVX and large pharmaceutical companies with an active HIV drug portfolio. As at Dec 31, 2007, AVX had \$66.6m in cash. We continue to believe that AVX will out-license or co-develop ATC with a partner rather than raise further cash to develop ATC through the entire Phase III process. The two key events that may lead to a successful deal include:

1. long-term safety data of ATC (results due in Mar 2008)
2. recruitment rate for the Phase III trial (likely to be reported on a quarterly basis).

Key drivers

Event	Impact on valuation	Expected due date
First patients treated in Phase III trial	Med	Early 2008
Phase IIb (48-week data) results	Med - High	1Q 2008
Update on patient recruitment for Phase III trial	Med - High	1H 2008
Co-development deal	High	2008

Key risks

Risks to our valuation include: (1) failure to successfully complete Phase III trials; (2) failure to secure a partnering deal; and (3) changes to the regulatory environment / delays in gaining FDA approval.

Avexa (AVX)						Share price: \$0.370					
As at: 27/02/2008						Market Cap: \$155.7m					
Recommendation: Speculative Buy											
Income Statement						Valuation Data					
Year end June 30	2006A	2007A	2008F	2009F	2010F	Year end June 30	2006A	2007A	2008F	2009F	2010F
Reported revenue	\$0m	\$0m	\$0m	\$0m	\$0m	Adjusted net profit	-23.83	-15.22	-31.01	-33.56	-6.64
EBITDA	-12.52	-16.73	-34.60	-35.65	-7.26	Adjusted EPS	-15.8c	-7.1c	-7.4c	-8.0c	-1.6c
EBITA	-18.57	-16.81	-34.69	-35.75	-7.38	EPS growth	N/A	N/A	N/A	N/A	N/A
Amortisation	-6.00	0.00	0.00	0.00	0.00	P/E ratio	N/A	N/A	N/A	N/A	N/A
EBIT	-24.57	-16.81	-34.69	-35.75	-7.38	OpCFPS (excl. abnormals)	-5.9c	-7.3c	-4.8c	-7.9c	-4.6c
Net interest	0.74	1.59	3.67	2.20	0.74	Price/OpCFPS	N/A	N/A	N/A	N/A	N/A
Abnormals	0.00	0.00	0.00	0.00	0.00	DPS	0.0c	0.0c	0.0c	0.0c	0.0c
Pre-tax profit	-23.83	-15.22	-31.01	-33.56	-6.64	Yield	0.00%	0.00%	0.00%	0.00%	0.00%
Tax	0.00	0.00	0.00	0.00	0.00	EV/EBITDA	N/A	N/A	N/A	N/A	N/A
Equity-accounted profits	0.00	0.00	0.00	0.00	0.00	Profitability Ratios					
Reported net profit	-23.83	-15.22	-31.01	-33.56	-6.64	Year end June 30	2006A	2007A	2008F	2009F	2010F
Adjusted net profit	-23.83	-15.22	-31.01	-33.56	-6.64	EBITDA/sales	N/A	N/A	N/A	N/A	N/A
(adjusted net profit = pre-tax profit before abnormals and goodwill minus tax at marginal rate)						EBITA/sales	N/A	N/A	N/A	N/A	N/A
Cashflow						Return on assets (avg.)	-119.3%	-17.9%	-47.1%	-89.1%	-35.8%
Year end June 30	2006A	2007A	2008F	2009F	2010F	Return on equity (avg.)	-140.8%	-16.7%	-51.4%	-125.4%	-33.0%
Reconciliation						Dividend cover	N/A	N/A	N/A	N/A	N/A
Net profit	-\$23.83m	-\$15.22m	-\$31.01m	-\$33.56m	-\$6.64m	Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Amortisation	6.00	0.00	0.00	0.00	0.00	Liquidity & Leverage					
Depreciation	6.05	0.08	0.09	0.11	0.12	Year end June 30	2006A	2007A	2008A	2009F	2010F
Change in working capital	2.77	-1.04	10.82	0.00	-12.89	Net debt	-\$20.2m	-\$76.9m	-\$56.7m	-\$23.2m	-\$3.6m
Other	0.12	0.56	0.00	0.00	0.00	Net debt/equity	-119.6%	-84.2%	-94.0%	-87%	-18%
Net operating cashflow	-8.89	-15.62	-20.10	-33.45	-19.40	Interest cover (EBITDA / interest)	17.0x	10.5x	9.4x	16.2x	9.8x
Investing cashflow						Risk-adjusted DCF Valuation					
Sale/purchase of PPE	-0.14	-0.21	-0.09	-0.11	-0.12	WACC: 15%			\$m	\$/share	
Payment for intangibles	0.00	-12.90	0.00	0.00	0.00	Ramp up: 3yrs	Operations	255.3		0.61	
Investments & acquisitions	0.00	0.00	0.00	0.00	0.00	Life-span: 9yrs	+ net cash	70.8		0.17	
Net investing cash flow	-0.14	-13.10	-0.09	-0.11	-0.12	Current risk mitigated: 85%	Total	326.2		0.77	
Financing activities						Risk-Adjusted Net Present Value (Operations)					
Issue of shares	14.39	89.20	0.04	0.00	0.00						
Buy backs	0.00	0.00	0.00	0.00	0.00						
Dividends paid	0.00	0.00	0.00	0.00	0.00						
Debt	0.00	0.00	0.00	0.00	0.00						
Others	-0.85	-3.83	0.00	0.00	0.00						
Net financing cash flow	13.54	85.37	0.04	0.00	0.00						
Net change in cash held	4.50	56.65	-20.15	-33.56	-19.53						
Balance Sheet						DCF Valuation (no risk adjustment)					
Year end June 30	2006A	2007A	2008F	2009F	2010F	WACC: 15%			\$m	\$/share	
Assets						Ramp up: 3yrs	Operations	297.1		0.71	
Cash assets	\$20.23m	\$76.87m	\$56.73m	\$23.17m	\$3.64m	Life-span: 9yrs	- net debt	70.8		0.17	
Term deposits	0.00	0.00	0.00	0.00	0.00	Total	Total	367.9		0.87	
Receivables	0.03	0.15	0.00	0.00	0.00						
Other	0.11	0.08	0.08	0.08	0.08						
Total current assets	20.37	77.10	56.80	23.25	3.72						
Liabilities											
Property, plant & equipment	0.22	0.35	0.35	0.35	0.35						
Deferred tax assets	0.00	0.00	0.00	0.00	0.00						
Financial assets	0.00	0.00	0.00	0.00	0.00						
Intangible assets and goodwill	0.00	16.54	16.54	16.54	16.54						
Other	0.00	0.00	0.00	0.00	0.00						
Total non-current assets	0.22	16.88	16.88	16.88	16.88						
Total assets	20.59	93.98	73.68	40.13	20.60						
Payables	3.36	2.21	12.89	12.89	0.00						
Short-term debt	0.00	0.00	0.00	0.00	0.00						
Income tax payable	0.00	0.00	0.00	0.00	0.00						
Provisions	0.00	0.00	0.00	0.00	0.00						
Other	0.28	0.44	0.44	0.44	0.44						
Total current liabilities	3.64	2.65	13.32	13.32	0.44						
Bank debt	0.00	0.00	0.00	0.00	0.00						
Deferred tax liabilities	0.00	0.00	0.00	0.00	0.00						
Provisions	0.03	0.04	0.04	0.04	0.04						
Total non-current liabilities	0.03	0.04	0.04	0.04	0.04						
Total liabilities	3.67	2.69	13.36	13.36	0.48						
Net assets	16.92	91.29	60.32	26.77	20.12						
Equity											
Contributed equity	48.16	137.19	137.24	137.24	137.24						
Reserves & outside equity	0.00	0.00	0.00	0.00	0.00						
Retained earnings	-31.24	-45.90	-76.92	-110.47	-117.11						
Total equity	16.92	91.29	60.32	26.77	20.12						
Diluted shares on issue	197.85	420.96	420.85	420.85	420.85						
Weighted ave diluted shares	150.40	212.95	420.83	420.85	420.85						

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