Bell Potter SECURITIES LIMITED

Research

Date of issue

09.08.07

CompanyUpdate

INVESTMENT DATA

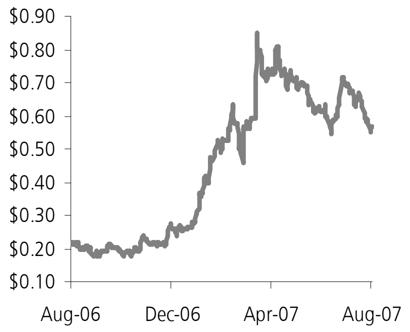
Share Price	**$0.565**
Issued Capital	
Ordinary Shares	**406.0m**
Options	**14.6m**
Fully Diluted	**420.6m**
Market Capitalisation	**$237.6m**
52 Week Low/High	**$0.17 / $0.85**
Valuation	**$1.35**

Top 20 shareholders as at 15 Aug 2006 held 64% of total shares on issue.

Year end Jun		06a	07f	08f	09f
Revenue	$m	0.7	0.3	0.0	0.0
EBITDA	$m	-11.8	-16.7	-28.6	-28.7
NPAT	$m	-17.8	-15.2	-24.5	-25.4
EPS (adj)	¢	-12.9	-5.6	-9.1	-9.4
EPS growth	%	na	na	na	na
PER	x	na	na	na	na

Data is normalised and fully diluted.

Share price chart: AVX



Avexa (AVX) — Buy 2

On track to start Phase 3 before year end

FY07 result broadly in line with expectations

AVX reported a net loss for FY07 of $15.2m, down 15% from $17.8m in FY06. Our estimated net loss of $25.1m treated the upfront payment to Shire for North American marketing rights to ATC as an expense estimated at $10m (versus the reported US$10m). If we exclude this, our estimated net loss of $15.1m is in line with the company's reported result. Research and development costs increased to $7.7m, up 14% from $6.6m during FY06. As a result of the March 2007 capital raising ($64.55m raised at $0.53/share), AVX had a strong cash position of $76.9m.

R&D costs increased as Phase 2b nears completion and Phase 3 commences

During FY07, AVX's R&D costs increased in line with the completion of the Phase 2b trial for the company's lead drug, ATC for the treatment of HIV patients experiencing drug resistance. AVX's study involved a total of 47 patients and took approximately two years to complete. We estimated the trial cost less than $10m.

We expect AVX to commence the Phase 3 trial before the end of the year. The study is likely to involve two Phase 3 studies involving 600-800 patients per study at 150-200 sites worldwide. The cost of the trial is likely to be between $60-70m and will take approximately 24 months to complete. We understand AVX has already appointed a contract research organisation (CRO) to co-ordinate the trial. FDA approval is likely to occur in 2010-2011.

In our view, AVX is likely to accelerate the time to market by gaining approval for use in children before full registration for use in adults. We have previously noted that this would require fewer patients and significantly lesser time. AVX is yet to clarify the timelines for this strategy but should this plan progress, ATC could be on market at least 6-12 months earlier than expected.

Earnings estimates unchanged

Our earnings estimates continue to be based on future sales from ATC only. At this stage, we estimate approximately 60% of HIV cases are treatable with ATC. With average HIV drug treatment costs estimated at $3,500 per annum, first year sales estimates of ATC in the US total $62.5m. This represents 5% market share. We continue to apply an 85% probability-weighting to reflect ATC's Phase 3 stage of development. Given the scope of the HIV market, we believe AVX will require a partner for sales, marketing and distribution. A deal of this nature implies AVX would likely retain 40% of sales.

Buy 2 rating reiterated, probability-weight $1.35 valuation

AVX expect to announce 24 week data from the Phase 2b trial in September. In March, the company announced positive 21 day data. The upcoming results are likely to continue to show ATC's ability to reduce the viral loads of patients with drug-resistant HIV. We understand that AVX is continuing discussions with the FDA about how to conduct its Phase 3 program efficiently and effectively. We expect the outcome of these discussions to be announced over the next few months.

Linda Ong

▪long@bellpotter.com.au

Company (AVX)						Share price:	$0.565
As at	09/08/2007	Recommendation:	BUY 2			Market cap ($m):	$237.6m

Income Statement					
Year end June 30	2005A	2006A	2007A	2008F	2009F
Revenue	$0.67m	$0.74m	$0.29m	$0.00m	$0.00m
EBITDA	-7.59	-11.78	-16.73	-28.57	-28.68
EBITA	-7.60	-11.83	-16.81	-28.57	-28.68
Amortisation	-6.00	-6.00	0.00	0.00	0.00
EBIT	-13.60	-17.83	-16.81	-28.57	-28.68
Interest	0.00	0.00	1.59	4.04	3.27
Abnormals	0.00	0.00	0.00	0.00	0.00
Pre-tax profit	-13.60	-17.83	-15.22	-24.54	-25.42
Tax	0.00	0.00	0.00	0.00	0.00
Reported net profit	**-13.60**	**-17.83**	**-15.22**	**-24.54**	**-25.42**
Adjusted net profit	**-13.60**	**-17.83**	**-15.22**	**-24.54**	**-25.42**
Proforma Adjusted net profit					

(adjusted net profit = pre-tax profit before abnormals and goodwill minus tax at marginal rate)

Valuation Data					
Year end June 30	2005A	2006A	2007A	2008F	2009F
Adjusted net profit	-$13.60m	-$17.83m	-$15.22m	-$24.54m	-$25.42m
Adjusted EPS*	-9.9c	-12.9c	-5.6c	-5.8c	-6.0c
EPS growth	na	na	na	na	na
P/E ratio	na	na	na	na	na
OpCFPS (exl. abnormals)	-0.6c	-1.9c	-6.0c	-3.5c	-6.0c
Price/OpCFPS	-98.6x	-29.9x	-9.4x	-16.2x	-9.3x
DPS	0.0c	0.0c	0.0c	0.0c	0.0c
Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA	na	na	na	na	na
EV/EBITA	na	na	na	na	na

* FY05 Proforma

Cashflow					
Year end June 30	2005A	2006A	2007A	2008F	2009F
Reconciliation					
Net profit	-$13.60m	-$17.83m	-$15.22m	-$24.54m	-$25.42m
Amortisation	6.00	6.00	0.00	0.00	0.00
Depreciation	0.01	0.05	0.08	0.00	0.00
Change in working capital	6.72	8.94	-1.07	9.86	0.00
Other	0.00	0.00	0.00	0.00	0.00
Net operating cashflow	-0.86	-2.84	-16.21	-14.68	-25.42
Investing cashflow					
Sale/purchase of PPE	-0.13	-0.14	-0.21	0.00	0.00
Payments for businesses	0.00	0.00	-12.90	0.00	0.00
Investments & others	0.00	0.00	0.00	0.00	0.00
Proceeds from sale of PPE/other	0.00	0.00	0.00	0.00	0.00
Net investing cash flow	-0.13	-0.14	-13.10	0.00	0.00
Financing activities					
Issue of shares	23.52	14.39	89.20	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	-0.79	-0.85	-3.83	0.00	0.00
Others	0.00	0.00	0.00	0.00	0.00
Net financing cash flow	22.73	13.54	85.37	0.00	0.00
Effects of exchange rate changes	0.00	0.00	0.00	0.00	0.00
Net change in cash held	**21.74**	**10.55**	**56.06**	**-14.68**	**-25.42**

Balance Sheet					
Year end June 30	2005A	2006A	2007A	2008F	2009F
Assets					
Cash assets	$15.73m	$20.23m	$76.87m	$62.19m	$36.77m
Receivables	0.06	0.03	0.15	0.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00
Other	0.08	0.11	0.08	0.46	0.46
Total current assets	15.87	20.37	77.10	62.65	37.23
Plant and equipment	0.12	0.22	0.35	0.35	0.35
Non-current receivables	0.00	0.00	0.00	0.00	0.00
Intangible assets	6.00	0.00	16.54	16.54	16.54
Other / financial assets	0.00	0.00	0.00	0.00	0.00
Deferred tax assets	0.00	0.00	0.00	0.00	0.00
Total non-current assets	6.12	0.22	16.88	16.88	16.88
Total assets	**21.99**	**20.59**	**93.98**	**79.53**	**54.11**
Liabilities					
Short term debt	0.00	0.00	0.00	0.00	0.00
Payables	0.69	3.36	2.21	11.50	11.50
Current tax liabilities	0.00	0.00	0.00	0.00	0.00
Provisions	0.15	0.28	0.35	1.15	1.15
Other liabilities	0.00	0.00	0.09	0.09	0.09
Total current liabilities	0.84	3.64	2.65	12.74	12.74
Long term debt	0.00	0.00	0.00	0.00	0.00
Payables	0.00	0.00	0.00	0.00	0.00
Provisions	0.04	0.03	0.04	0.04	0.04
Total non-current liabilities	0.04	0.03	0.04	0.04	0.04
Total liabilities	**0.88**	**3.67**	**2.69**	**12.78**	**12.78**
Net assets	**21.11**	**16.92**	**91.29**	**66.75**	**41.33**
Equity					
Contributed equity	34.65	48.16	137.19	137.19	137.19
Reserves & outside equity	0.00	0.00	0.00	0.00	0.00
Retained earnings	-13.54	-31.24	-45.90	-70.44	-95.86
Total equity	**21.11**	**16.92**	**91.29**	**66.75**	**41.33**
Diluted shares on issue	197.85	197.85	420.96	420.49	420.49
Weighted ave diluted shares	150.40	150.40	270.34	420.49	420.49

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BELL POTTER OFFICES

www.bellpotter.com.au

info@bellpotter.com.au

TOLL FREE 133 788

ABN 25 006 390 772

AFS Licence No. 243480

ADELAIDE
LEVEL 6, DA COSTA BUILDING
68 GRENFELL STREET
ADELAIDE SA 5000
TEL: 08 8224 2722
FAX: 08 8224 2799

BRISBANE
LEVEL 17, 10 EAGLE STREET
BRISBANE QLD 4000
TEL: 07 3295 2600
FAX: 07 3295 2688

CAIRNS
CNR SPENCE & GRAFTON STREETS
CAIRNS QLD 4870
TEL: 07 4047 4188
FAX: 07 4047 4199

GEELONG
LEVEL 1, 122 YARRA STREET
GEELONG VIC 3220
TEL: 03 5227 7000
FAX: 03 5227 7099

GOLD COAST
LEVEL 8, 50 CAVILL AVENUE
SURFERS PARADISE QLD 4217
TEL: 07 5554 4333
FAX: 07 5554 4399

HOBART
LEVEL 9, AMP BUILDING
86 COLLINS STREET
HOBART TAS 7000
TEL: 03 6231 1677
FAX: 03 6231 3744

MACKAY
CITY COURT, 78 VICTORIA STREET
MACKAY QLD 4740
TEL: 07 4957 6996
FAX: 07 4951 4114

MELBOURNE
LEVEL 29, 101 COLLINS STREET
MELBOURNE VIC 3000
TEL: 03 9256 8700
FAX: 03 9256 8787

MORNINGTON
SUITE 1, 330 MAIN STREET
MORNINGTON VIC 3931
TEL: 03 5970 0101
FAX: 03 5970 0199

PERTH
LEVEL 37, EXCHANGE PLAZA
2 THE ESPLANADE
PERTH WA 6000
TEL: 08 9326 7666
FAX: 08 9326 7676

SYDNEY
LEVEL 33, 225 GEORGE STREET
SYDNEY NSW 2000
TEL: 02 9255 7200
FAX: 02 9255 7227

TOOWOOMBA
3 DUGGAN STREET
TOOWOOMBA QLD 4350
TEL: 07 4638 5988
FAX: 07 4639 2608