

Date of issue

04.07.07

## Company Update

### INVESTMENT DATA

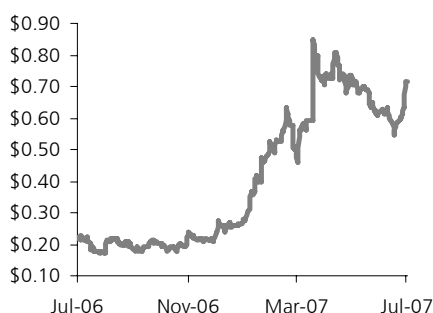
|                       |                 |
|-----------------------|-----------------|
| Share Price           | \$0.715         |
| Issued Capital        |                 |
| Ordinary Shares       | 389.6m          |
| Options               | 9.5m            |
| Fully Diluted         | 399.1m          |
| Market Capitalisation | \$285.4m        |
| 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   | 0.0   | 0.0   | 0.0   |
| EBITDA     | \$m | -11.8 | -25.1 | -28.6 | -28.7 |
| NPAT       | \$m | -17.8 | -24.0 | -24.2 | -25.2 |
| EPS (adj)  | ¢   | -12.9 | -8.3  | -6.2  | -6.5  |
| 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**

#### Bucking the biotech downtrend

#### Another milestone delivered - 6-month component of Phase 2b trial completed

All 50 patients involved in AVX's Phase 2b trial have completed 6 months of treatment. The trial is testing AVX's lead drug, apricitabine (ATC), for the treatment of HIV patients that no longer respond to current HIV drugs. Patients have now progressed into the open-label section of the trial and will continue to stay on the drug for a further 6 months. After patients have been on the drug for 12 months, they can elect to continue to stay on treatment with ATC in an extension study.

#### Drug appears to be successful - 100% of patients in this last round voluntarily continue on extension study

In Mar, AVX reported that patients that were on the drug for 3 weeks experienced a significant drop in their viral loads. We expect AVX will report similar results towards the end of this quarter with patients' viral loads experiencing stabilisation or an even further decline. Our confidence in ATC reporting successful results lies in the number of patients that have voluntarily decided to stay on treatment with ATC having already been on the drug for 12 months. In Mar, AVX reported that 6 of 7 patients had chosen to stay on the extension study. Since then, a further 7 patients have completed 12 months of treatment and all have decided to take part in the extension study. This clearly shows that patients are benefiting from the drug and are also, most likely encouraged by their HIV physician to stay on the treatment. Should ATC be successful in Phase 3 trials, we expect the drug will be well-supported by the HIV community which will translate to strong sales potential.

#### Earnings estimates unchanged

Our earnings estimates continue to be conservative. We estimate ATC's peak market share at 25% however given it is the leading drug to treat HIV drug resistance, higher market penetration is likely. We assume market launch in mid 2010 with an initial 5% market share. Given ATC is moving into the Phase 3 stage of development, we continue to place a probability weighting of 85% to reflect the drug's chance of regulatory approval.

#### Reiterate Buy 2 rating for delivery of further Phase 2b results

We strongly reiterate our Buy 2 rating based on our probability-weighted valuation of \$1.35. We expect AVX to deliver on further key milestones over the next 3-6 months. In our view, the next re-rating events will be the release of 6-month Phase 2b clinical data (expected in Aug/Sep) and announcements relating to the FDA requirements for Phase 3 trial design and approval (expected 3Q 2007). We remind investors that AVX may receive accelerated approval for use in HIV-infected children which would potentially lead to off-label use in adults. These accelerated timelines have not been incorporated into our current valuation. Pending AVX's discussions with the FDA, we expect the company is well on track to starting Phase 3 trials before the end of the year.

**Linda Ong**

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| Company (AVX)   |               |               |               |               |               | Share price: \$0.715       |           |           |           |           |           |
|---|---------------|---------------|---------------|---------------|---------------|----------------------------|-----------|-----------|-----------|-----------|-----------|
| As at   | 04/07/07      |               |               |               |               | Market cap (\$m): \$285.4m |           |           |           |           |           |
| Recommendation: BUY 2   |               |               |               |               |               |                            |           |           |           |           |           |
| <b>Income Statement</b>   |               |               |               |               |               | <b>Valuation Data</b>      |           |           |           |           |           |
| Year end June 30  | 2005A         | 2006A         | 2007F         | 2008F         | 2009F         | Year end June 30           | 2005A     | 2006A     | 2007F     | 2008F     | 2009F     |
| Revenue   | \$0.67m       | \$0.74m       | \$0.00m       | \$0.00m       | \$0.00m       | Adjusted net profit        | -\$13.60m | -\$17.83m | -\$24.02m | -\$24.20m | -\$25.21m |
| EBITDA  | -7.59         | -11.78        | -25.08        | -28.57        | -28.68        | Adjusted EPS*              | -9.9c     | -12.9c    | -8.3c     | -6.2c     | -6.5c     |
| EBITA   | -7.60         | -11.83        | -25.08        | -28.57        | -28.68        | EPS growth                 | na        | na        | na        | na        | na        |
| Amortisation  | -6.00         | -6.00         | 0.00          | 0.00          | 0.00          | P/E ratio                  | na        | na        | na        | na        | na        |
| EBIT  | -13.60        | -17.83        | -25.08        | -28.57        | -28.68        | OpCFPS (excl. abnormals)   | -0.4c     | -1.4c     | -7.7c     | -4.4c     | -6.5c     |
| Interest  | 0.00          | 0.00          | 1.06          | 4.37          | 3.47          | Price/OpCFPS               | -164.1x   | -49.8x    | -9.3x     | -16.3x    | -11.0x    |
| 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  | -13.60        | -17.83        | -24.02        | -24.20        | -25.21        | Yield                      | 0.00%     | 0.00%     | 0.00%     | 0.00%     | 0.00%     |
| Tax   | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          | EV/EBITDA                  | na        | na        | na        | na        | na        |
| <b>Reported net profit</b>  | <b>-13.60</b> | <b>-17.83</b> | <b>-24.02</b> | <b>-24.20</b> | <b>-25.21</b> | EV/EBITA                   | na        | na        | na        | na        | na        |
| <b>Adjusted net profit</b>  | <b>-13.60</b> | <b>-17.83</b> | <b>-24.02</b> | <b>-24.20</b> | <b>-25.21</b> | * FY05 Proforma            |           |           |           |           |           |
| <b>Proforma Adjusted net profit</b>   |               |               |               |               |               |                            |           |           |           |           |           |
| (adjusted net profit = pre-tax profit before abnormals and goodwill minus tax at marginal rate) |               |               |               |               |               |                            |           |           |           |           |           |
| <b>Cashflow</b>   |               |               |               |               |               |                            |           |           |           |           |           |
| Year end June 30  | 2005A         | 2006A         | 2007F         | 2008F         | 2009F         |                            |           |           |           |           |           |
| <b>Reconciliation</b>   |               |               |               |               |               |                            |           |           |           |           |           |
| Net profit  | -\$13.60m     | -\$17.83m     | -\$24.02m     | -\$24.20m     | -\$25.21m     |                            |           |           |           |           |           |
| Amortisation  | 6.00          | 6.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Depreciation  | 0.01          | 0.05          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Change in working capital   | 6.72          | 8.94          | 1.60          | 7.09          | 0.00          |                            |           |           |           |           |           |
| Other   | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Net operating cashflow  | -0.86         | -2.84         | -22.42        | -17.11        | -25.21        |                            |           |           |           |           |           |
| <b>Investing cashflow</b>   |               |               |               |               |               |                            |           |           |           |           |           |
| Sale/purchase of PPE  | -0.13         | -0.14         | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Payments for businesses   | 0.00          | 0.00          | 0.00          | 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         | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| <b>Financing activities</b>   |               |               |               |               |               |                            |           |           |           |           |           |
| Issue of shares   | 23.52         | 14.39         | 85.43         | 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         | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Others  | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Net financing cash flow   | 22.73         | 13.54         | 85.43         | 0.00          | 0.00          |                            |           |           |           |           |           |
| Effects of exchange rate changes  | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| <b>Net change in cash held</b>  | <b>21.74</b>  | <b>10.55</b>  | <b>63.01</b>  | <b>-17.11</b> | <b>-25.21</b> |                            |           |           |           |           |           |
| <b>Balance Sheet</b>  |               |               |               |               |               |                            |           |           |           |           |           |
| Year end June 30  | 2005A         | 2006A         | 2007F         | 2008F         | 2009F         |                            |           |           |           |           |           |
| <b>Assets</b>   |               |               |               |               |               |                            |           |           |           |           |           |
| Cash assets   | \$15.73m      | \$20.23m      | \$83.24m      | \$66.12m      | \$40.91m      |                            |           |           |           |           |           |
| Receivables   | 0.06          | 0.03          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Inventories   | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Other   | 0.08          | 0.11          | 0.19          | 0.46          | 0.46          |                            |           |           |           |           |           |
| Total current assets  | 15.87         | 20.37         | 83.43         | 66.58         | 41.37         |                            |           |           |           |           |           |
| Plant and equipment   | 0.12          | 0.22          | 0.22          | 0.22          | 0.22          |                            |           |           |           |           |           |
| Non-current receivables   | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Intangible assets   | 6.00          | 0.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| 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          | 0.22          | 0.22          | 0.22          |                            |           |           |           |           |           |
| <b>Total assets</b>   | <b>21.99</b>  | <b>20.59</b>  | <b>83.64</b>  | <b>66.80</b>  | <b>41.59</b>  |                            |           |           |           |           |           |
| <b>Liabilities</b>  |               |               |               |               |               |                            |           |           |           |           |           |
| Short term debt   | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Payables  | 0.69          | 3.36          | 4.81          | 11.50         | 11.50         |                            |           |           |           |           |           |
| Current tax liabilities   | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Provisions  | 0.15          | 0.28          | 0.48          | 1.15          | 1.15          |                            |           |           |           |           |           |
| Other liabilities   | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Total current liabilities   | 0.84          | 3.64          | 5.29          | 12.65         | 12.65         |                            |           |           |           |           |           |
| 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          | 0.03          | 0.03          | 0.03          |                            |           |           |           |           |           |
| Total non-current liabilities   | 0.04          | 0.03          | 0.03          | 0.03          | 0.03          |                            |           |           |           |           |           |
| <b>Total liabilities</b>  | <b>0.88</b>   | <b>3.67</b>   | <b>5.32</b>   | <b>12.68</b>  | <b>12.68</b>  |                            |           |           |           |           |           |
| <b>Net assets</b>   | <b>21.11</b>  | <b>16.92</b>  | <b>78.33</b>  | <b>54.12</b>  | <b>28.91</b>  |                            |           |           |           |           |           |
| <b>Equity</b>   |               |               |               |               |               |                            |           |           |           |           |           |
| Contributed equity  | 34.65         | 48.16         | 133.59        | 133.59        | 133.59        |                            |           |           |           |           |           |
| Reserves & outside equity   | 0.00          | 0.00          | 0.00          | 0.00          | 0.00          |                            |           |           |           |           |           |
| Retained earnings   | -13.54        | -31.24        | -55.27        | -79.47        | -104.68       |                            |           |           |           |           |           |
| <b>Total equity</b>   | <b>21.11</b>  | <b>16.92</b>  | <b>78.33</b>  | <b>54.12</b>  | <b>28.91</b>  |                            |           |           |           |           |           |
| Diluted shares on issue   | 197.85        | 197.85        | 389.63        | 389.63        | 389.63        |                            |           |           |           |           |           |
| Weighted ave diluted shares   | 197.85        | 197.85        | 290.34        | 389.63        | 389.63        |                            |           |           |           |           |           |

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