

Date of issue

21.03.07

Company Update

INVESTMENT DATA

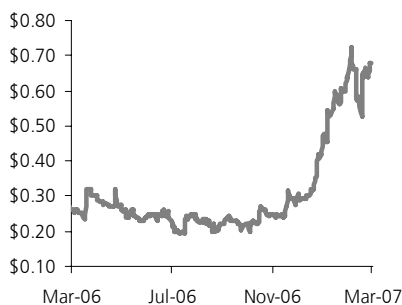
Share Price	\$0.68
Issued Capital	
Ordinary Shares	389.6m
Options	9.5m
Fully Diluted	399.1m
Market Capitalisation	\$271.4m
52 Week Low/High	\$0.195 / \$0.73
Valuation	\$1.35

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

Cashing up to commence phase III

Capital raising of \$75m to fund phase III program

AVX has announced plans to raise \$75.6m to fund its phase III clinical trials program;

- \$15.4m has been raised via a placement to US institutions at an issue price of \$0.53/share
- \$60.2m to be raised via a renounceable rights issue whereby existing shareholders will be offered two new ordinary shares for every five existing shares at an issue price of \$0.53/share

The size of the capital raising is in line with the recent trend in the local biotech sector to raise funds for late-stage drug development. The two most notable raisings have been Pharmaxis' (PXS) \$87m placement in Nov 2005 and Peplin's (PEP) \$40m raise in May 2006.

Impact of changes to earnings estimates softened by lower than expected issue price - valuation downgraded to \$1.35 from \$1.57

The increase to our earnings estimates on 19 Mar 2007 resulted in a valuation upgrade to \$1.57. This was based on an increase to our probability weighting to 85% and peak market share assumption to 25%. In addition, we estimated that AVX would raise \$50m at an issue price of \$0.70/share. Today's capital raising announcement has led us to downgrade our valuation to \$1.35.

Buy 2 rating re-iterated

Despite the valuation downgrade, we re-iterate our 'Buy 2' rating. In its investor road show presentations yesterday, AVX made reference to two important upcoming events we were previously unaware of. We expect these events will drive the price over the next 6 months;

- **Presentation of trial data at IAS (International AIDS Society) conference in July** - AVX will present the full data package for ATC at the fourth IAS conference on HIV Pathogenesis, Treatment and Prevention, to be held in Sydney during July 22 to July 25, 2007. The IAS is the world's leading independent association of HIV/AIDS professionals with its conferences aiming to provide critical platforms for presenting new research, sharing best practice and advancing the fight against HIV/AIDS.
- **Paediatrics trial commencing in 2H 2007 may allow drug launch up to 12 months earlier than expected** - AVX is planning to commence a trial in HIV-infected children during 2H 2007. Although HIV-infected children represent a very niche market (approximately 1m children worldwide are infected with HIV; including 60,000-75,000 children in the US), the regulatory path to approval appears relatively fast compared to registration for use in adults. Our estimates suggest ATC could be approved for use in children by mid 2009. This is based on AVX gaining FDA approval to conduct a trial in approximately 50-100 children and recruiting patients within 12-18 months. AVX is yet to clarify the timelines for this indication but should this plan progress, ATC could be on market at least 6-12 months earlier than expected. Once approved, ATC is likely to be used "off-label" in adults. Our current \$1.35 valuation still assumes market launch in mid 2010 however we will incorporate the earlier launch dates as we receive further clarification from the company.

Linda Ong

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Company (AVX)					Share price: \$0.680				
As at	20/03/2007				Recommendation:	BUY 2			Market cap (\$m): \$271.4m
Income Statement					Valuation Data				
Year end June 30	2006A	2007F	2008F	2009F	Year end June 30	2006A	2007F	2008F	2009F
Revenue	\$0.74m	\$0.00m	\$0.00m	\$0.00m	Adjusted net profit	-\$17.83m	-\$24.02m	-\$24.20m	-\$25.21m
EBITDA	-11.78	-25.08	-28.57	-28.68	Adjusted EPS*	-12.9c	-8.3c	-6.2c	-6.5c
EBITA	-11.83	-25.08	-28.57	-28.68	EPS growth	na	na	na	na
Amortisation	-6.00	0.00	0.00	0.00	P/E ratio	na	na	na	na
EBIT	-17.83	-25.08	-28.57	-28.68	OpCFPS (excl. abnormals)	-1.4c	-7.7c	-4.4c	-6.5c
Interest	0.00	1.06	4.37	3.47	Price/OpCFPS	-47.4x	-8.8x	-15.5x	-10.5x
Abnormals	0.00	0.00	0.00	0.00	DPS	0.0c	0.0c	0.0c	0.0c
Pre-tax profit	-17.83	-24.02	-24.20	-25.21	Yield	0.00%	0.00%	0.00%	0.00%
Tax	0.00	0.00	0.00	0.00	EV/EBITDA	na	na	na	na
Reported net profit	-17.83	-24.02	-24.20	-25.21	EV/EBITA	na	na	na	na
Adjusted net profit	-17.83	-24.02	-24.20	-25.21	* FY05 Proforma				
Proforma Adjusted net profit									
(adjusted net profit = pre-tax profit before abnormals and goodwill minus tax at marginal rate)									
Cashflow									
Year end June 30	2006A	2007F	2008F	2009F					
Reconciliation									
Net profit	-\$17.83m	-\$24.02m	-\$24.20m	-\$25.21m					
Amortisation	6.00	0.00	0.00	0.00					
Depreciation	0.05	0.00	0.00	0.00					
Change in working capital	8.94	1.60	7.09	0.00					
Other	0.00	0.00	0.00	0.00					
Net operating cashflow	-2.84	-22.42	-17.11	-25.21					
Investing cashflow									
Sale/purchase of PPE	-0.14	0.00	0.00	0.00					
Payments for businesses	0.00	0.00	0.00	0.00					
Investments & others	0.00	0.00	0.00	0.00					
Proceeds from sale of PPE/other	0.00	0.00	0.00	0.00					
Net investing cash flow	-0.14	0.00	0.00	0.00					
Financing activities									
Issue of shares	14.39	85.43	0.00	0.00					
Buy backs	0.00	0.00	0.00	0.00					
Dividends paid	0.00	0.00	0.00	0.00					
Debt	-0.85	0.00	0.00	0.00					
Others	0.00	0.00	0.00	0.00					
Net financing cash flow	13.54	85.43	0.00	0.00					
Effects of exchange rate changes	0.00	0.00	0.00	0.00					
Net change in cash held	10.55	63.01	-17.11	-25.21					
Balance Sheet									
Year end June 30	2006A	2007F	2008F	2009F					
Assets									
Cash assets	\$20.23m	\$83.24m	\$66.12m	\$40.91m					
Receivables	0.03	0.00	0.00	0.00					
Inventories	0.00	0.00	0.00	0.00					
Other	0.11	0.19	0.46	0.46					
Total current assets	20.37	83.43	66.58	41.37					
Plant and equipment	0.22	0.22	0.22	0.22					
Non-current receivables	0.00	0.00	0.00	0.00					
Intangible assets	0.00	0.00	0.00	0.00					
Other / financial assets	0.00	0.00	0.00	0.00					
Deferred tax assets	0.00	0.00	0.00	0.00					
Total non-current assets	0.22	0.22	0.22	0.22					
Total assets	20.59	83.64	66.80	41.59					
Liabilities									
Short term debt	0.00	0.00	0.00	0.00					
Payables	3.36	4.81	11.50	11.50					
Current tax liabilities	0.00	0.00	0.00	0.00					
Provisions	0.28	0.48	1.15	1.15					
Other liabilities	0.00	0.00	0.00	0.00					
Total current liabilities	3.64	5.29	12.65	12.65					
Long term debt	0.00	0.00	0.00	0.00					
Payables	0.00	0.00	0.00	0.00					
Provisions	0.03	0.03	0.03	0.03					
Total non-current liabilities	0.03	0.03	0.03	0.03					
Total liabilities	3.67	5.32	12.68	12.68					
Net assets	16.92	78.33	54.12	28.91					
Equity									
Contributed equity	48.16	133.59	133.59	133.59					
Reserves & outside equity	0.00	0.00	0.00	0.00					
Retained earnings	-31.24	-55.27	-79.47	-104.68					
Total equity	16.92	78.33	54.12	28.91					
Diluted shares on issue	197.85	389.63	389.63	389.63					
Weighted ave diluted shares	197.85	290.34	389.63	389.63					

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