

Verona Pharma plc ^{*5a;5b;11}

Rating: BUY

Target Price: €0.15

(corresponds to: **GBP 0.11**)

*exchange rate: **1.28 GBP/€**

Current price: GBP 0.033

16/02/2016 / London SE

Key information:

ISIN: GB00B06GSH43

WKN: A0HG7U

Ticker symbol: I9S

Number of shares:

1,009,923,481

Marketcap³: 33.33

Enterprise Value³: 27.24

³ in GBP million

Free float: 36.0 %

Transparency level:

OTC

Market segment:

Open Market

Accounting standard:

IFRS

Financial year-end: 31/12

Designated Sponsor:

Oddo Seydler Bank AG

Analyst:

Cosmin Filker

filker@gbc-ag.de

Company Profile

Sector: Biopharmaceuticals

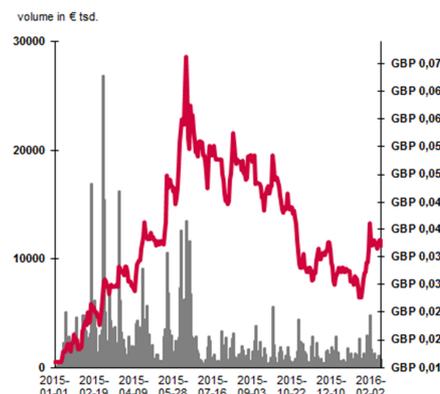
Specialty: Development and marketing of products for pulmonary diseases

Founded: 2006

Registered Office: Cardiff

Board of Directors: Dr. David Ebsworth,
Dr. Jan-Anders Karlsson, Dr. Ken Cunningham,
Dr. Patrick Humphrey, Dr. Anders Ullman

Verona Pharma plc is a bio-pharmaceutical company founded in 2006. The company develops innovative prescription medicines to treat respiratory diseases. Verona Pharma's lead drug, RPL554, is a first-in-class drug currently in Phase II trials as a treatment for COPD (chronic obstructive pulmonary disease), for both exacerbation and maintenance use). The second indication area is cystic fibrosis. COPD is wide spread with significant unmet medical needs, whereas cystic fibrosis is a comparably rare medical condition (orphan drug status). The innovative effect of the drug is a dual phosphodiesterase (PDE) 3 / 4 inhibitor and therefore has both bronchodilator and anti-inflammatory effects. A total of eight clinical studies were conducted with more than 240 patients in total. The medical studies have shown the tolerability and effectiveness of the innovative drug. On basis of the same treatment also asthma could be a future indication for RPL554. Verona Pharma is further pursuing its drug development of RPL554 to obtaining an approvable, marketable and reimbursable drug.



P&L in million GBP	2014	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
Revenue	0.00	0.00	0.00	0.00	0.00	0.00	17.27	115.51	173.49
EBIT	-3.74	-7.30	-12.95	-21.37	-34.25	-43.54	0.25	89.59	135.84
Net profit	-7.25	-12.90	-21.32	-21.37	-34.25	-43.54	0.25	89.59	95.09

Kennzahlen in GBP

Earnings per Share	-0.01	-0.01	-0.02	-0.02	-0.03	-0.04	0.00	0.09	0.09
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Kennzahlen

EV/Revenue	n.def	n.def	n.def	n.def	n.def	n.def	1.58	0.24	0.16
EV/EBIT	neg.	neg.	neg.	neg.	neg.	neg.	108.95	0.30	0.20
P/E	neg.	neg.	neg.	neg.	neg.	neg.	133.31	0.37	0.35

Financial dates

**last research published by GBC:

Date: Publication / Target Price in EUR / Rating

** the research reports can be found on our website www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

* catalogue of potential conflicts of interests on page 4

EXECUTIVE SUMMARY

- Verona Pharma plc is a bio-pharmaceutical company founded in 2006. The company develops innovative prescription medicines to treat respiratory diseases. Verona Pharma's lead drug, RPL554, is a first-in-class drug currently in Phase II trials as a treatment for acute exacerbations of COPD (chronic obstructive pulmonary disease) and cystic fibrosis. COPD is comparably wide spread with significant unmet medical needs, whereas cystic fibrosis is rare medical condition (orphan drug status). RPL554 as a treatment for asthma shall be addressed in the future.
- In contrast to existing treatments, RPL554 is a dual phosphodiesterase (PDE) 3 / 4 inhibitor and therefore has both bronchodilator and anti-inflammatory effects. A total of eight clinical studies were conducted with more than 240 patients in total. The medical studies have shown the tolerability and effectiveness of the both effects.
- The treatment of the COPD with RPL554 has been progressed furthest and in Phase 2a trials the drug has shown good tolerability without significant side effects. All trials showed an improved lung function. Furthermore, a clinical study is conducted to evaluate the tolerance with salbutamol and ipratropium, which are the current treatment standard for COPD. The treatment of cystic fibrosis with RPL554 is still in preclinical testing but has a great significance for the company.
- We expect RPL554 to achieve marketing approval in 2020, based on the progress of the clinical trials and the statistical approval rate of similar products. The Verona product is expected to be used as stabilization treatment for COPD in 2021. The high prevalence of COPD can generate high revenue levels even with a small market share. Especially acute treatments should have a high demand for RPL554, because the drug can drastically shorten the length of hospital stays.
- **Based on our DCF analysis, we concluded that the fair value of the company is GBP 114.30m, respectively GDP 0.11 per share (EUR 0.15 per share). The price target is calculated with a valuation haircut of 77.2 %. The valuation haircut takes a meta-analysis of trial 2a outcomes in consideration, where 77.2% of trial 2a did not reach market approval. The risk of failed market approval will decrease directly related to the clinical progress and therefore the target price. Hence, we recommend 'BUY' for 'Verona Pharma plc' at the current market price of GBP 0.03.**

ANNEX

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