

## Verona Pharma plc <sup>\*5a;6a;11</sup>

**Rating: BUY**

**Target Price: €0.15**

**(corresponds to: GBP 0.12 )**

**\*exchange rate: 1.20 GBP/€**

Current price: GBP 0.03

28/06/2016 / London SE

### Key information:

ISIN: GB00B06GSH43

WKN: A0HG7U

Ticker symbol: I9S

Number of shares:

1,009,923,481

Marketcap<sup>3</sup>: 31.51

Enterprise Value<sup>3</sup>: 27.99

<sup>3</sup> in GBP million

Free float: 46.0 %

### 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

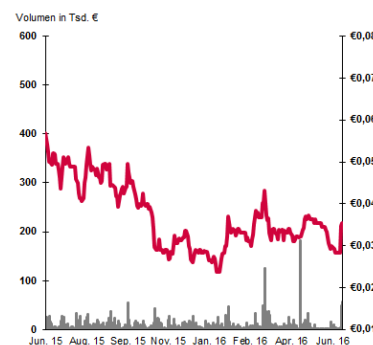
Sector: Biopharmaceuticals

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	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e
Revenue	0.00	0.00	0.00	0.00	0.00	17.27	115.51	173.49	198.40
EBIT	-8.97	-12.95	-21.37	-34.25	-43.54	0.25	89.59	135.84	155.62
Net profit	-7.42	-21.32	-21.37	-34.25	-43.54	0.25	89.59	95.09	108.93

### Ratios in GBP

Earnings per Share	-0.01	-0.01	-0.01	-0.01	-0.02	0.00	0.03	0.04	0.04
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### Ratios

EV/Revenue	n.def	n.def	n.def	n.def	n.def	1.62	0.24	0.16	0.14
EV/EBIT	neg.	neg.	neg.	neg.	neg.	111.94	0.31	0.21	0.18
P/E	neg.	neg.	neg.	neg.	neg.	126.04	0.35	0.33	0.29

### Financial dates

### \*\*last research published by GBC:

Date: Publication / Target Price in EUR / Rating

12.05.16: RS / 0.15 EUR / BUY

22.02.16: RS / 0.15 EUR / BUY

\*\* the research reports can be found on our website [www.gbc-ag.de](http://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

- In the extraordinary general meeting on 22/07/2016, Verona Pharma plc plans to receive approval for the so far largest capital increase in the company's history. Firm subscription commitments for the planned gross issuing proceeds of GBP 44.70m have already been given by existing shareholders and other well-known biotech investors. Furthermore, Verona plans a listing at the NASDAQ (US IPO) and in this context Verona also aims for an additional capital increase in the coming quarters. The largest portion of the raised capital should be used for the further clinical development of RPL554.
- The company focuses on the development of pharmaceuticals to treat respiratory diseases (COPD, cystic fibrosis, and asthma) and currently Verona Pharma plc's lead product RPL554 is in the clinical development phase. The clinical approval for the treatment of COPD (chronic obstructive pulmonary disease), which has significant unmet medical needs and large market volume, is most advanced.
- The focus in the last fiscal year 2015 was on the acceleration of the development and the expansion of clinical trials for RPL554. In three clinical trials new data was gathered and different areas of application were examined. In May 2016, Verona published promising results of the first clinical phase IIa trial (COPD in combination with standard treatment). Both the primary objective (bronchodilator effect) as well as the secondary objective (reduction of trapped air in the lung) were met with high significance.
- We expect, based on the marketing time plan, the first sales from the fiscal year 2020 on. Our estimations focus on the marketing of RPL554 to hospitals and specialists, primarily in the area of COPD. Resulting from the big population of patients, Verona should quickly reach sales of about EUR 200m (fiscal year 2023). The estimations are very conservative, because we initially expect a self-marketing approach and therefore only a small market share. Also, the company has an extremely scalable business model. Hence, we expect a high and sustainable EBIT-margin of 78,3 %. The currently announced capital increase should ensure enough liquidity for the coming years.
- Based on our DCF-valuation model, we determine a fair value (post money) for the company of GBP 308.36m or EUR 0.15 (GBP 0.12) per share. Therefore, we significantly increased our previous fair value of GBP 114.30m (research study from the 22/02/2016). The increase results from the considerable reduction of risk if the capital increase is successful. Hence, the financing of the clinical development of the product RPL554 is virtually secured. The valuation is post money and assumes a successful capital increase. The target price is subjected to a valuation discount of 77.2 %. The valuation discount stems from a risk meta-analysis of pharmaceuticals in phase IIa, which shows that 77,2% of all products in that phase do not reach market approval. This means that if more progress in the clinical trials is made, the discount is reduced and the target price increases. Based on the current share price of GBP 0.03 we give a BUY rating.

## ANNEX

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The analysts responsible for this analysis are:

**Cosmin Filker, Dipl. Betriebswirt (FH), Finanzanalyst**  
**Felix Gode, CFA, Dipl. Wirtschaftsjurist (FH), Deputy Head of research**

Other person involved:

**Manuel Hölzle, Dipl. Kaufmann, Head of research**

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GBC AG  
Halderstraße 27  
D 86150 Augsburg  
Tel.: 0821/24 11 33-0  
Fax.: 0821/24 11 33-30  
Internet: <http://www.gbc-ag.de>

E-Mail: [compliance@gbc-ag.de](mailto:compliance@gbc-ag.de)