Pharmaceuticals & Biotech

Source: Thomson Reuters

Market data	
EPIC/TKR	VRP
Price (p)	2.9
12m High (p)	7.0
12m Low (p)	2.2
Shares (m)	1,009.9
Mkt Cap (£m)	28.8
EV (£m)	26.6
Free Float*	60%
Market	AIM

**As defined by AIM Rule 26*

Description

Verona Pharma plc is a UK-based biopharmaceutical company focused on development of innovative prescription drugs to treat respiratory diseases with significant unmet medical needs, such as COPD, asthma & cystic fibrosis.

Company information	
CEO	Jan-Anders Karlsson
Chairman	David Ebsworth
	0203 283 4200
	www.verona pharma.com

Key shareholders	
Directors	1.2%
Arthurian	20.8%
Aviva	18.0%
Vivo Capital	8.1%
Fidelity	7.6%

Next event	
27 June	AGM
22 July	GM
Sept	Interims
4Q'16	RPL554+SoC combo

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Verona Pharma

Funding secured for Phase IIb trial

VRP is developing first-in-class drugs to treat unmet medical needs in respiratory disease. Over the last two years' VRP has reported positive outcomes from a five stage Phase I/IIa programme which has de-risked RPL554 significantly. This drug has been shown to have strong bronchodilatory and anti-inflammatory effects with minimal side effects. New funds will support a broad programme of Phase II trials for maintenance therapy via a nebulizer and hospital use. It will certainly attract the attention of the drug majors. Median prices paid for Phase II respiratory assets have headline valuations of $285m (£190m), equivalent to 19p per share.

- **Strategy**: Verona is extremely focused on developing and commercialising its lead drug, RPL554, as quickly as possible for maintenance COPD therapy and treatment of exacerbations. To reach this goal, the company has undertaken a series of Phase I/II clinical trials which have concluded with positive outcomes.

- **Phase IIb:** Having shown RPL554 to be safe, well tolerated and with good evidence of efficacy, the next stage is to perform a broad programme of Phase IIb trials to confirm improved lung function and reduced symptoms, together with secondary benefits regarding hospital stays and readmission rates.

- **Funding:** VRP has secured funding commitments to raise gross funds of £44.7m through a conditional Placing at 2.873p per share for the purposes of taking RPL554 through initial Phase II trials in COPD. In addition, VRP has undertaken a commitment to list on NASDAQ in the near future which will raise further funds.

- **Risks:** The main risk is that a product fails in clinical trials. In addition, following clinical development there remains regulatory and commercial risk. However, results from the programme of Phase I/IIa trials have significantly de-risked RPL554 and the new capital has greatly de-risked VRP as an investment.

- **Investment summary:** Efficacy of PDE inhibitors has never been in doubt. However, over the years' putative drugs have failed due to side effects. VRP has overcome this with a new formulation delivered via a nebuliser. With the first tranche of funding secured and a second tranche to be delivered when the company undertakes a listing on NASDAQ, VRP is well positioned for the future.

Financial summary and valuation

Year end Dec (£000)	2013	2014	2015	2016E	2017E	2018E
Sales	0	0	0	0	0	0
Royalties	0	0	0	0	0	0
Underlying EBIT	-2,585	-2,630	-3,601	-8,585	-4,164	-4,418
Reported EBIT	-2,653	-2,817	-3,793	-9,102	-4,556	-4,831
Underlying PTP	-2,565	-2,627	-3,571	-8,543	-4,160	-4,491
Statutory PTP	-2,633	-2,814	-3,763	-9,060	-4,552	-4,902
Underlying EPS (p)	-0.8	-0.7	-0.3	-0.7	-0.3	-0.4
Statutory EPS (p)	-0.8	-0.7	-0.3	-0.8	-0.3	-0.4
Net (debt)/cash	961	604	9,970	2,188	-1,193	-4,579
Shares issued	1,002	1,802	13,103	100	100	100
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	-	-	-

Numbers/forecasts have not been corrected to reflect today's Conditional Placing
Source: Hardman & Co Life Sciences Research

Capital increase

Over the last two years, following the successful capital increase in March 2014, Verona has undertaken a series of Phase I/IIa trials with RPL554 in COPD and asthma and proved that the new commercial formulation, delivered via a nebuliser, is safe, well-tolerated and showed anti-inflammatory effects and a strong bronchodilatory response, significantly de-risking the opportunity. In order to take RPL554 to the next stage – full Phase IIb development in placebo-controlled trials – Verona needed additional capital. The company has announced today a successful Conditional Placing of shares to fund its Phase II programme for RPL554.

First tranche

Subject to shareholder approval, Verona has raised £44.7m/$63.3m of gross new capital at a price of 2.873p per share, which represents the average price over the last five trading days. The Placing was well supported by existing shareholders together with the introduction of a number of new institutions, some of which are leading US specialists in Life Sciences investments.

- Issue of 1,555.8m new ordinary shares at 2.875p to raise £44.7m gross funds (£41.9m net)
- The price of 2.873p represents the average mid-market price at close of business on the last five trading days
- Each new Ordinary share will have 0.4 warrants attached, with each warrant exercisable into ordinary shares at a price of 3.4476p (120% of the Placing price) which could result in the issue of a maximum 622.3m shares raising up to a further £21.5m. The warrants will be forfeited if shareholders do not participate in the second tranche (see below)
- The new shares from the Placing will represent 60.6% of the enlarged share capital; and on the assumption that the warrants are exercised, this tranche would then represent 68.3% of the enlarged capital raising total gross funds of £65.1m
- This funding round was led by existing specialist healthcare shareholder, Vivo Capital (currently 8.1%), which helped to attract, amongst others, new specialist funds including OrbiMed, Novo VC, and Edmond de Rothschild Investment Partners
- A General Meeting to approve the funding will be held on 22nd July 2016

Second tranche

One of the conditions stipulated in the Placing is an undertaking from the company to list its shares on NASDAQ and raise a further tranche of funding in the near future. This second tranche is expected (by Hardman & Co) to be at least as big as the first tranche ($63.3m). In the event that Vivo Capital maintains a shareholding of >10%, it has the right to appoint a Board director, and there will be other investor directors.

This second tranche will fully fund Verona through the RPL554 phase IIb programme.

Use of proceeds

The primary aim of the new capital is to fund RPL554 through a Phase IIb clinical trial in chronic obstructive pulmonary disease (COPD) patients. In addition, these funds will be used to fund additional supportive work and to complete the pre-clinical development of a formulation for use in a dry powder inhaler (DPI) and/or metered dose inhaler (MDI). As advancement of the potential use of RPL554 in cystic fibrosis is also expected.

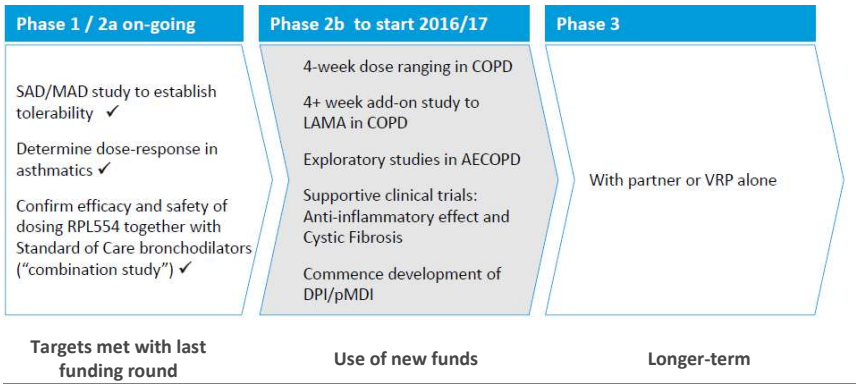
RPL554 development programme

	Indication	Phase 1	Phase 2	Phase 3	Global peak sales forecast
Nebulizer	"Treatment of acute COPD exacerbations"				>$0.5bn
Nebulizer	"Maintenance therapy of COPD"				$1bn
pMDI/DPI	"Maintenance therapy of COPD"				$3bn
Nebulizer	Cystic fibrosis (orphan disease)				$1bn

Source: Verona Pharma

On the back of the excellent results generated from the Phase I/IIa programme that was accomplished over the last two years with the earlier funding round, we would expect Verona to undertake an initial Phase IIb dose-ranging study to identify the optimal dose of the nebulised formulation to be used in extended Phase IIb trials. A summary of the use of funds can be seen in the following graphic.

Use of funds



Source: Verona Pharma; Hardman & Co Life Sciences Research

Conclusion

Verona has accomplished a considerable amount with the last funding round and significantly de-risked the RPL554 project. These new funds, potentially in excess of £100m/$150m if all the warrants are exercised, will take Verona to a completely new level and provide the funding to take the company through a very significant value inflection point.

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