

Vectura (VEC.L) Share Price Fundamental Factor Event Analysis

Summary

In summary, the **EU VR315 and EU VR362** products play a central role in Vectura company valuation. **EU VR315's failure will have an impact of -21%, while EU VR362's success will have an impact of +5% respectively.** So, the strong negative effects would be mitigated by the potential success of EU VR362 or of one of the other (at least 5) products currently in pre-POC phases.

Assumptions-Methodology

To evaluate the effect of the three Fundamental Factors on the company value we first computed Vectura company value and share price using two different methodologies, both variations of the risk adjusted NPV. Then we computed the average percentage share price for Vectura of these two valuations, when each one of these Fundamental Factor Events takes place for each product in the company pipeline. The summary of the results is presented in Table 1. In Vectura valuation we used the conservative side of Edison Investment Research Ltd and Vectura own estimates in Peak Sales and we ignored products in pre-clinical phases. As input we used information from Vectura's website [1], especially the Pipeline, the last Annual Report and the September 2013 Interim Results. The other main source of information for our analysis was the London Stock Exchange website [2]. Finally we should notice that the percentage changes that we estimate for the events we study may take place in practice gradually and not as one-day jumps.

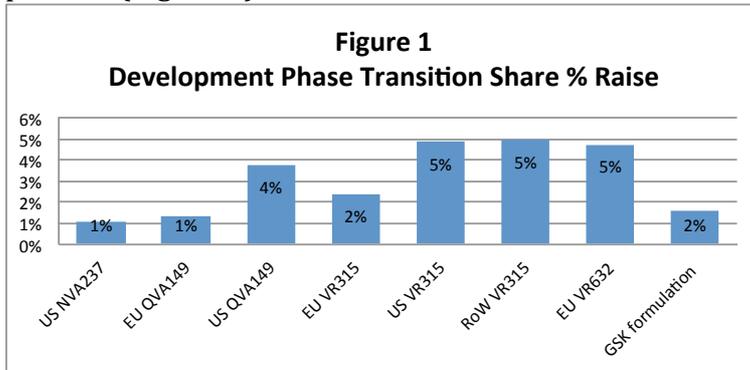
Symbol: VEC.L
Price (18/12/2013): 137.25p
Market Cap: 459.53m
FTSE Sector: Pharmaceuticals & Biotechnology
Primary Exchange: AIM

Business:
 Vectura is a development stage pharmaceutical company with several marketed products, like Advate and Seebri Breezhaler, and a broad pipeline of research and development programs. They currently have a fixed-dose combination of indacaterol maleate and glycopyrronium bromide for the treatment of adult patients with COPD for which a US filing is expected in 2014. Vectura has had collaborations with companies like Novartis, GSK, Baxter, Sandoz and Otsuka Pharmaceutical.

Drug Name	Phase	Phase Transition	1Y Peak Sales Delay	Product Failure	
US NVA237	Phase III		1%	-0,3%	-3%
EU QVA149	Approved		1%	-1,13%	-12%
US QVA149	Phase III		4%	-0,90%	-10%
EU VR315	Registration		2%	-1,95%	-21%
US VR315	Phase III		5%	-1,15%	-13%
RoW VR315	Phase III		5%	-1,17%	-13%
EU VR632	Phase III		5%	-0,87%	-10%
GSK formulation	Phase III		2%	-0,38%	-4%

Event Factor 1: Development Phase Transition

We have evaluated the expected percentage raise in Vectura share price if any of its products under development moves to the next phase in the development process (Figure 1).

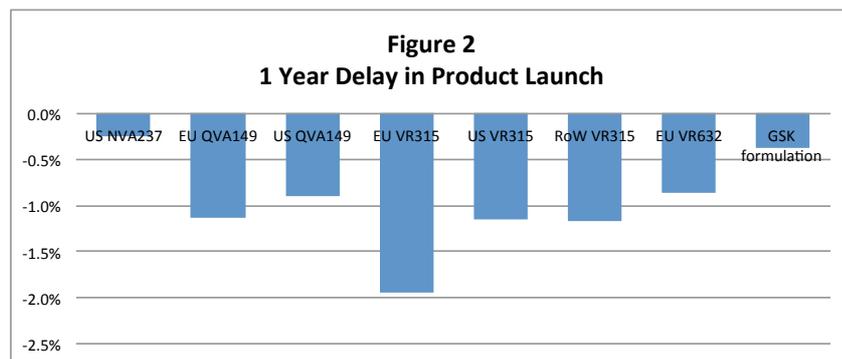


This transition adds value because the expected cashflows from this product become much more likely when moving from one development phase to the next. If one of the critical products (US VR315, EU VR632,

RoW VR315) successfully completes its current phase, we expect that the share price of Vectura will increase by approximately 5%.

Event Factor 2: 1 year Delay in Peak Sales

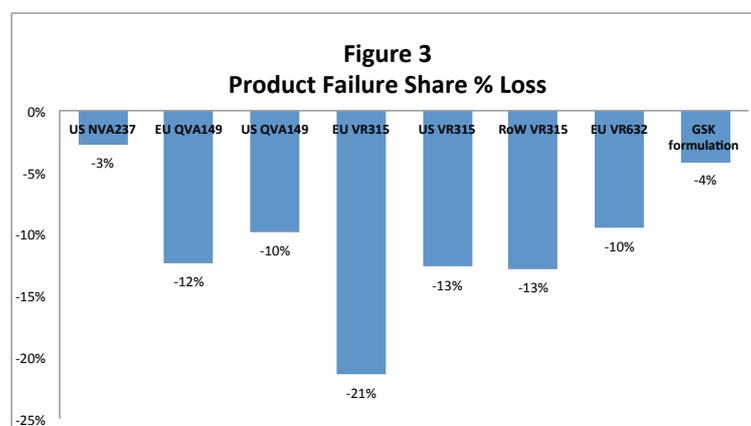
Providing there is enough cash to cover product development and providing there is no effect on market share targets, the share price impact of a potential 1 year delay in product



release would be visible mainly for EU VR315, with five of the other products having an impact of approximately -1% (Figure 2).

Event Factor 3: Product Failure

The impact of a product failure will be significant (-21%) if this is the EU VR315 product (Figure 3) as it is currently at an advanced development phase and therefore has a high weight in Vectura share valuation. Failure of some of the other products, like US VR315 and Row VR315, would also be expected to have a visible effect on the share price.



Some Additional Analysis: Effects on Share Price of Events in 2013

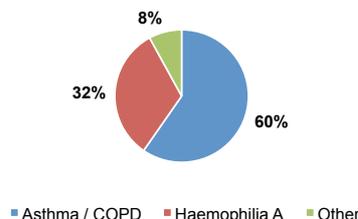
In Table 2 (source: see Reference [2]) we present the effect on Vectura share price of announcements of events by Vectura. A number of event types seem to have noticeable impact on the share price, including “Holding(s) in Company”, “Total Voting Rights”, as well as more result-oriented events. One should notice however that in a small number of cases, a few days before the announcement of an event, there have been significant movements in the share price, which could increase, reduce or even reverse the effect of the event seen in Table 2.

Table 2		
Time/Date	Headline	Impact
17:28 18-Dec-2013	Danish approval of VR315 update	0.00%
11:17 18-Dec-2013	Danish Regulatory Authority approves VR315	0.00%
09:38 16-Dec-2013	Additional Listing	+7.07%
07:00 02-Dec-2013	Total Voting Rights	+5.32%
07:00 19-Nov-2013	Half Yearly Report	-3.80%
07:00 14-Nov-2013	Bruno Angelici joins the Board of Vectura	-2.95%
07:00 08-Nov-2013	Notice of Results	+1.40%
09:02 04-Nov-2013	Total Voting Rights	-2.41%
07:00 01-Oct-2013	Total Voting Rights	-1.12%
07:00 30-Sep-2013	Vectura and UCB to collaborate	0.77%
14:34 23-Sep-2013	Result of AGM	-3.18%
07:00 23-Sep-2013	Board Announcement	-3.18%
07:00 23-Sep-2013	Ultibro Breezhaler (QVA149) approved in Europe	-3.18%
07:04 20-Sep-2013	Approval of Ultibro Inhalation Capsules in Japan	-3.47%
07:00 04-Sep-2013	Presentations at ERS	+7.95%
07:00 02-Sep-2013	Total Voting Rights	+8.79%
13:53 20-Aug-2013	Blocklisting Application	+2.05%
07:00 19-Aug-2013	Notice of AGM	+0.66%
17:38 14-Aug-2013	Director/PDMR Shareholding	+1.03%
14:48 13-Aug-2013	Interim Management Statement - reissued	+2.20%
07:00 06-Aug-2013	Fibrocaps potential royalty and milestone payments	+0.85%
12:52 01-Aug-2013	Holding(s) in Company	+1.01%
07:00 01-Aug-2013	Total Voting Rights	+1.01%
13:16 26-Jul-2013	Ultibro Breezhaler gains positive CHMP opinion	+10.51%
16:17 17-Jul-2013	Holding(s) in Company	+4.31%
07:00 17-Jul-2013	Annual Report and Accounts 2013	+4.31%
15:30 03-Jul-2013	Notification of Share Awards	-1.77%
07:00 01-Jul-2013	Total Voting Rights	-3.23%
07:00 25-Jun-2013	Awards Under Share Incentive Plan	-2.08%
07:00 10-Jun-2013	Directors awards under Long-term Incentive Plan	-0.49%
11:54 04-Jun-2013	Potential Fibrocaps royalty and milestone payments	-5.24%
07:00 03-Jun-2013	Total Voting Rights	-5.59%
07:00 29-May-2013	Presenting at Jefferies 2013 Healthcare Conference	-2.79%
14:00 21-May-2013	New data presented at ATS	-3.47%
13:44 21-May-2013	Holding(s) in Company	-3.47%
07:00 21-May-2013	Board Change	-3.47%

Vectura (VEC.L) Revenue and Market Analysis

Revenue Analysis

Approximately, 60% of Vectura's revenue comes from the Asthma / COPD segment, in the form of royalties and milestones with established partnerships with key industry players, namely Novartis, Sandoz, Sosei Group and GlaxoSmithKline. Additional revenue of the company is generated through its Haemophilia A product, Advate, under a current partnership with Baxter International. The current portfolio of the company and its sources of revenue are summarised in the table below:

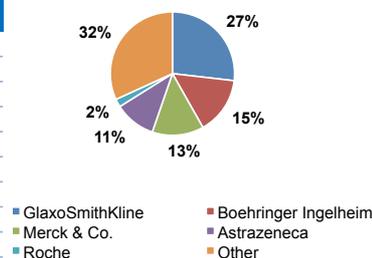


Top 10 Asthma Products / Key Players					
Product	Current Phase	Product Segment	Partner	Revenue Type	Product Revenue (2012) (Amounts in GBP mn.)
Advate	Marketed	Haemophilia A	Baxter International	Royalty	10.6
Extraneal	Marketed	Peritoneal Dialysis	Baxter International	Royalty	1.7
Adept	Marketed	Surgical Adhesions	Baxter International	Royalty	0.9
QVA149	Phase III	COPD	Novartis	Milestone	2.4
VR315	Undisclosed	Asthma / COPD	Sandoz	Milestone	2.3
VR315	Undisclosed	Asthma / COPD	Undisclosed	Milestone	3.9
NVA237	Filed	COPD	Sosei Group Corp	Milestone	3.2
VR632	Undisclosed	Asthma / COPD	Sandoz	Milestone	0.3
Dry powder drug formulation	Phase III	Asthma / COPD	GlaxoSmithKline	Upfront	2.3
Pharmaceutical Development Services	n/a	Asthma / COPD	n/a	n/a	2.8
Gyrohaler	n/a	Asthma / COPD	Undisclosed	n/a	2.3
Total					32.7

Market Analysis

The COPD Asthma market is highly competitive with several blockbuster drugs dominating the sector, including GlaxoSmithKline's Advair that hit approximately USD 8 bn. in 2012, Spiriva of Boehringer Ingelheim that reached USD 4.6 bn. in 2012. The Asthma / COPD sector has grown from USD 24 bn. to an estimated market size of USD 38.0 bn. in 2012 and is forecasted to reach USD 47.0 bn. by 2017, exhibiting a compound annual growth rate (CAGR) of 4.3% during the period 2012 – 2017 (Source: BCC Research). The table below depicts the top 10 products, in terms of revenue, in the Asthma / COPD sector:

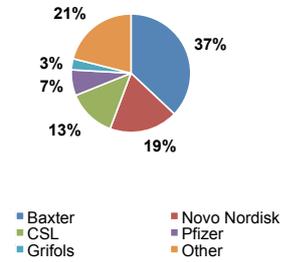
Top 10 Asthma Products / Key Players		
Company	Product	Product Revenue (2012) (Amounts in USD mn.)
GlaxoSmithKline	Seretide/Advair	7,990
Boehringer Ingelheim	Spiriva	4,580
Merck & Co	Singulair	3,853
AstraZeneca	Symbicort Turbuhaler	3,194
Merck & Co	Nasonex	1,268
GlaxoSmithKline	Flixotide/Flovent	1,234
Boehringer Ingelheim	Combivent	1,135
GlaxoSmithKline	Ventolin HFA	999
AstraZeneca	Pulmicort Respules	866
Roche	Xolair	752
Total		25,872



Vectura has secured a licensing agreement related to Advate, the top selling drug in the Haemophilia A sector. The Haemophilia A market size stood at USD 5.6 bn. in 2007 and reached USD 8.3 bn. in 2012, while it is expected to be valued at USD 10.4

bn. by 2017, demonstrating a CAGR of 4.6% (Source: GlobalData). The top 10 products, in terms of revenues (2012) in the Haemophilia A sector is presented in the table below:

Top 10 Haemophilia A Products		
Company	Product	Product Revenue (2012) <i>(Amounts in USD mn.)</i>
Baxter International	Advate	2,075
Novo Nordisk	NovoSeven	1,543
Bayer	Kogenate	1,520
CSL	Humate P	605
Pfizer	ReFacto AF/Xyntha	584
Baxter International	FEIBA VH	575
CSL	Helixate	485
Baxter International	Hemofil M	264
Grifols	Alphanate	251
Baxter International	Recombinate	159
Total		8,061



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- [1] Vectura PLC, 2013, URL: <http://www.vectura.co.uk/>
[2] Vectura PLC @ London Stock Exchange, 2013, URL:
<http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summary.html?fourWayKey=GB00B01D1K48GBGBXSMM>

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