Vernalis

H117 results

Positive Tuzistra trends

Pharma & biotech

Investment into addressing barriers to higher Tuzistra XR prescribing is starting to translate into higher prescription (Rx) rates. Mid-way through the second season post launch, both Rx and sales are showing positive trends and gathering momentum, although we lower our near-term Tuzistra XR net sales forecasts. Ongoing focus on improved salesforce effectiveness, which will provide a solid foundation for CCP-07 and CCP-08 launches, means the post-season update should better inform the future potential of Vernalis's extended release Rx-only cough cold franchise.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/15**	19.9	(6.9)	(1.0)	0.0	N/A	N/A
06/16	12.0	(16.2)	(3.4)	0.0	N/A	N/A
06/17e	16.0	(26.4)	(4.6)	0.0	N/A	N/A
06/18e	30.3	(30.3)	(5.4)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments. **18-month reporting period, 12 months thereafter.

Initiatives boost momentum in Tuzistra XR sales

Net Tuzistra XR H117 sales of £0.8m indicate that sales growth is materialising as barriers to prescribing are being addressed. Near-term investment in improving physician awareness, pharmacy stocking and patient access have provided momentum (at the expense of a modest decrease to net $/Rx). After the disruption caused by expansion/realignment of the salesforce in the autumn, the focus for H217 is on improving their effectiveness; Tuzistra XR is highly detail sensitive.

Upcoming cough cold catalysts

The season-end management update should enable a more accurate assessment of Tuzistra XR's potential and Vernalis's commercial capabilities. The latter will be leveraged by potential launches of CCP-07 and CCP-08 (April and August PDUFA dates respectively) into the 2017/18 cough cold season. CCP-05 and CCP-06 aim to achieve proof of concept in calendar 2017 (widening of earlier guidance).

Financials: Tuzistra XR run rate prompts revision

We update FY17 forecasts with lower Tuzistra XR net $/Rx and net revenue offset by delivery of an extra Frova API batch and milestone receipts ($3m from Corvus; €2m from Servier). H217 opex will be in line with H1 assuming constant FX. Lower FY17 and FY18 cough cold revenue delays our expectation of sustainable profitability by one year to FY20. With £74.2m of cash and equivalents, Vernalis has sufficient runway to fund ongoing S&M investment and future launches of the remaining four US cough cold programmes ($43m in potential milestones to Tris).

Valuation: DCF valuation of £427m (81p per share)

Our valuation of £427m or 81p/share (from £377m, 72p/share) results from our new financial forecasts (see above), rolling forward our model and updating FX. Our valuation consists of US cough cold and NCE pipeline rNPV, explicit cost modelling and inclusion of cash; we assume zero NPV for the research business. Upside could come from portfolio progress, launches and sales upgrades.

15 March 2017

Price	**23.38p**
Market cap	**£123m**
	US$1.24:£
Net cash (£m) end-December 2016	74.2
Shares in issue	526.4m
Free float	12.4%
Code	VER
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(21.1)	(30.0)	(59.7)
Rel (local)	(22.0)	(34.0)	(65.9)
52-week high/low		59.2p	23.4p

Business description

Vernalis is a UK speciality pharma company with an FDA-approved, prescription-only cough cold treatment, Tuzistra XR; an FDA-approved amoxicillin, Moxatag; and a late-stage US cough cold pipeline of four products. It also has an early- to mid-stage R&D pipeline of CNS and cancer projects. Its primary focus is on commercialising Tuzistra XR in the US.

Next events

CCP-07: PDUFA date	20 April
Tuzistra XR: End 2016/17 season update	June/July
CCP-08: PDUFA date	4 August
FY17 prelims	September

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Update: Tuzistra mid-season

Vernalis's H117 results provided an update on Tuzistra's progress mid-way through its second cough cold season post launch. Operational initiatives to address barriers to prescribing that were identified during the launch season (Exhibit 1) are starting to bear fruit. Increased momentum in Tuzistra XR prescriptions (Rx) has been supported by the refined commercial plan and also a more severe cough cold season compared to 2015/16. This has resulted in material growth in Rx rates to 11,586 in H117, up from 1,976 in H116 and c 10,000 for FY16. However, Rx growth has not been matched by similar revenue growth; for H117, Tuzistra XR net revenues (on a delivered-to-wholesaler basis) were £0.8m (vs £0.6m in H116 and £1.1m for FY16). This is in part due to the cost of Rx growth initiatives (eg pharmacy discounts, patient coupons) which decreased the net dollar per Rx to c $60/Rx (vs $65/Rx at end June 2016 and a longer-term target of $80/Rx) and also the relative importance of patient demand and pharmacy/wholesaler stocking to sales growth.

Exhibit 1: Drivers of increased Rx numbers

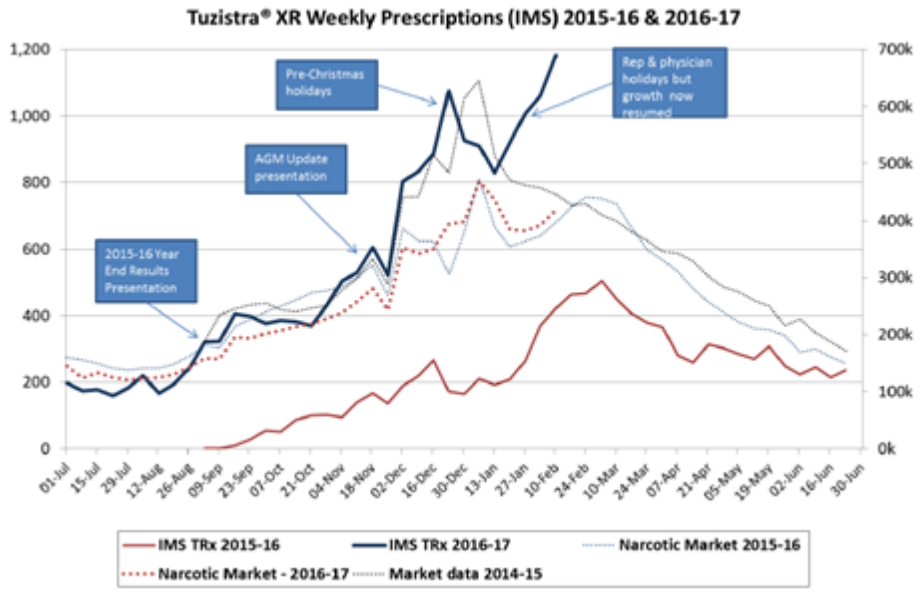
Issue	Initiative	Comment
Need to improve salesforce effectiveness	Salesforce expansion	25% increase in rep head count to cover 100 territories. Vernalis believes it has critical mass to target a prescriber audience from which it can secure a meaningful proportion of Rx for cough cold products. Recruitment of in-house regional sales directors. Changes to head office sales and marketing personnel.
	Salesforce effectiveness	Territory re-alignment. Refined physician targeting and marketing message (all day, all night cough relief). High performing reps across all US regions with deployment, although increasing proportion of high performing sales reps is a key focus. Currently, the top 15 territories account for c 50% of the annualised Rx run rate; 12 territories have a >1k TRx run rate pa, with the highest performing having achieved >3k.
Limited pharmacy stocking	Improve pharmacy stocking	Ongoing discussions with national and regional chains. Stocked at 9k pharmacies (out of potential 16k in territories where reps are deployed). One national chain auto-stocking. Reps promoting consistent message to pharmacies and physicians. Pharmacies more receptive to stocking a commercially attractive product (ie patient/physician demand, benefit to patients, affordable etc). National accounts group responsible for contracting and selective incentivisation/rebating.
Insurance coverage gap	Improve patient access	Tier III unrestricted insurance coverage of Tuzistra XR is now c 75% of US commercial lives (up from c 60%). Major coverage gap addressed with formulary coverage at CVS Caremark from 1 January 17.
Lack of brand awareness	Improve awareness with marketing message and sampling	Physician samples introduced from October 2016. Shipped to c 2k of 17k physician audience and is growing. As a codeine-based drug, some states do not permit sampling, with others require physician authorisation. Provide bridge to Rx with first 24-hour dose.
High out of pocket costs	Patient affordability	Enhanced patient assistance programmes (cash coupon) established. c80% coupon utilisation.

Source: Edison Investment Research, Vernalis

Emerging Rx trends in the first half of the 2016/17 cough cold season bode well for the latter part of the season, especially given its likely classification as a moderately severe season. The first six weeks of H217 have seen c 6,000 Tuzistra XR Rx, and as pharmacy stocking and patient affordability has improved, the unfilled Rx rate (abandonments/rejections) for Tuzistra XR has declined. With an expanded salesforce and realigned territories, the main focus for H217 is on further improving the effectiveness of the salesforce across the entire sales organisation. Commercial execution is a critical driver of Tuzistra XR performance and Exhibit 2 (overleaf) illustrates both the overall steady progress and also the sensitivity of weekly Rx rates to active promotion. Vernalis's strategy is validated by the presence of high performing sales reps in all US regions; the aim is to improve performance across the 79% of territories which have an annualised run rate <600/Rx.

Continued implementation and execution of Vernalis's commercial plan through H217 should mean that an anticipated end-of-season operational update from management in June/July, and the Rx exit run rate should provide a more meaningful indicator of potential Tuzistra XR performance. More information on the Rx growth trajectory could prompt us to revise our Tuzistra XR forecasts, and could also provide greater visibility regarding the potential for improvements in net price. A more established and effective salesforce should also benefit next season launches of CCP-07 and CCP-08.

Exhibit 2: Tuzistra XR TRx trends



Source: Vernalis analysis, H117 presentation (IMS and Bloomberg Symphony weekly TRx data)

US cough cold portfolio

The foundations laid for Tuzistra XR in the current cough cold season should benefit the potential launches of CCP-07 and CCP-08 into the 2017/18 season, assuming approval around their respective PDUFA goal dates. Vernalis's intention to train the US salesforce on both products at the same time in late summer 2017 should both receive FDA approval. However, due to the need for Tris to manufacture final validation batches, the launch of CCP-08 will be later than CCP-07, which is expected to launch at a similar stage in the season as Tuzistra XR (also an April PDUFA date with launch in September 2015).

Regulatory approval will trigger the disclosure of the active pharmaceutical ingredient(s) (API) in CCP-07 and CCP-08, which will reveal which market segment each drug will target and enable a more meaningful peak sales assessment to be made. Tuzistra XR addresses the narcotic segment of the market, with the rest of the cough cold portfolio (current status summarised in Exhibit 3) understood to cover the other API market segments, excluding dextromethorphan. CCP-05 and CCP-06 remain in active development, in the formulation stage; proof of concept is now targeted before end-December 2017 (CY17) rather than before end-June 2017 (FY17).

Exhibit 3: Vernalis cough cold pipeline

Product	Status	Next news event
CCP-05	Pre-proof of concept (POC)	POC (targeted calendar 2017)
CCP-06	Pre-POC	POC (targeted calendar 2017)
CCP-07	NDA accepted	FDA approval decision (PDUFA date: 20 April 2017); planned launch in 2017/18 season
CCP-08	NDA accepted	FDA approval decision (PDUFA date: 4 August 2017); planned launch in 2017/18 season

Source: Edison Investment Research, Vernalis

Other US products: Moxatag

Net revenues from once daily amoxicillin tablet Moxatag in the first four months of its US launch were £0.1m, reflecting its restricted promotion due to supply constraints following the liquidation of sole source supplier Suir Pharma in 2016. Vernalis has completed wholesaler launches with

inventories available to support sales in a limited number of regions. The main operational focus is on building brand awareness (through product sampling and physician calls) and on securing routine supply from a new manufacturing partner to enable broader promotion by 2018/19.

The recent acquisition of the Suir facility by IQ PharmaTek may represent an opportunity for Vernalis to accelerate this timeline. Vernalis and IQ PharmaTek, who will be re-opening and operating the site under the name AlbyPharma, have had early conversations regarding potential Moxatag supply. While Vernalis is also engaging with other potential manufacturing partner(s), AlbyPharma would likely be the quickest and lowest risk option from a regulatory perspective.

NCE pipeline: further progress by partners

Recent announcement by partners reveal progress with two partnered new chemical entity (NCE) development programmes: CPI-444 (Corvus Pharmaceuticals) and RPL554 (Verona Pharma). Five of Vernalis's NCE pipeline of eight assets are partnered; for these, development timelines and newsflow are subject to partner decisions and disclosures, but they could also be associated with economic benefit to Vernalis without any further internal investment.

In February 2017, Vernalis received a $3m clinical milestone from Corvus on the expansion of the renal cell carcinoma patient cohort in the ongoing CPI-444 Phase I/Ib trial. This monotherapy trial in advanced cancers has an adaptive design which permits expansion of disease-specific cohorts if specific pre-defined endpoints are achieved. Corvus has indicated that a registration trial could start by end calendar 2017 should the initial promising finding be confirmed with longer follow up in a larger group of patients. Under the license deal with Corvus, Vernalis is eligible for up to c $220m in development, regulatory and sales milestones, and mid-single digit sales royalties across all indications and all territories.

Also in February, Verona Pharma announced the start of a 30-patient Phase IIa study of RPL554 as an add-on therapy to tiotropium (Spiriva) to treat COPD (chronic obstructive pulmonary disease). This trial is expected to render top line data in Q417. A new Phase IIb COPD trial of the nebulised formulation to treat severe COPD exacerbations in hospital is expected to start in 2017. Verona also reiterated plans to commence a NASDAQ listing (potentially raising up to $130m) in the first half of 2017 in its FY16 results statement. RPL554 licensing terms are largely undisclosed but include a milestone payment on first regulatory approval, low-to-mid single digit royalties on sales, and a c 25% share of any sub-licensing revenue. The latter is noteworthy as Verona has stated its intention to partner RPL554 to enable future indication expansion.

Sensitivities

Vernalis's transition to commercialisation has shifted the key near-term sensitivities away from development risk towards execution risk for the cough cold portfolio, particularly in relation to initiatives to support Tuzistra XR sales growth. The success of ongoing investment into supporting patient access (pharmacy stocking, insurance coverage) and affordability (supporting coupons to minimise out-of-pocket expenses), brand awareness and driving salesforce effectiveness will be measured by increased growth in prescription levels. Addressing barriers to increased prescribing is a key determinant of the trajectory of Tuzistra XR uptake and both the level of and the timeframe over which it can achieve peak sales. Management has stated that the rate of Tuzistra XR prescribing on exiting the 2016/17 cough cold season would be a more meaningful predictor of future sales as some operational initiatives are still early in their implementation. This second year post-Tuzistra XR launch is also important for laying the foundations for the cough cold franchise ahead of the potential launch of CCP-07 and CCP-08 into the 2017/18 cough cold season.

A SWOT analysis detailing the dynamics of the US cough cold market, Vernalis's opportunity and the key challenges to be addressed can be found in our Outlook note Investing in the commercial platform (published October 2016).

Valuation

We have updated our financial model and valuation, which results in a higher DCF valuation of £427m or 81p/share (previously £377m or 72p/share). Our underlying valuation assumptions are summarised in Exhibit 5, with the following adjustments made since our last note:

- Updated financial forecasts for FY17 and FY18 as outlined in the Financials section below. In summary, the main changes are lower Tuzistra XR net revenues in both years, which are offset by the lower sales and marketing investment in FY17 and a more gradual subsequent growth.
- Rolling forward our model and updating the prevailing FX rate to $1.24/£ (previously $1.29/£) also has a positive effect on valuation. We also update the number of shares outstanding.

We continue to apply a DCF-based rNPV approach to the US cough cold and NCE pipelines, explicitly model costs (R&D, SG&A, capex) and include cash. We do not explicitly value the research business, instead netting off collaborative FTE funding against R&D spending; thus any milestones received from research partners represent pure upside. We use a 12.5% WACC across the R&D portfolio with the exception of the launched products (Tuzistra XR, Moxatag and Frova) where we use 10%, our standard WACC for a commercial-stage product. We also apply a 21% UK corporate tax rate after 2021 to cough cold cash flows only, reflecting accumulated tax losses. Cash flows from the NCE pipeline are untaxed, based on our assumption that these will benefit from the UK patent box, as well as tax loss offset.

Exhibit 4: Vernalis rNPV valuation summary

Source	rNPV (£m)	rNPV/share (p)	Assumptions
US Rx cough cold portfolio	699.3	132.9	Net of $12-14m of per product milestones due to Tris. 30% COGS (including Tris royalty pay-away). Aggregate sales >$500m by 2024; UK tax rate of 21% from 2021. **Tuzistra XR** (£497.3m rNPV): Peak sales of $240m; launched September 2015. **CCP-07** (£78.4m rNPV): peak sales of $65m; launch 2018; 90% success probability (PDUFA: 20/4/17). **CCP-08** (£73.8m rNPV): peak sales of $65m; launch 2018; 90% success probability (PDUFA: 4/8/17). **CCP-05** (£24.9m rNPV): peak sales of $65m; launch 2021; 65% success probability. **CCP-06** (£24.9m rNPV): peak sales of $65m; launch 2021; 65% success probability.
Moxatag	30.8	5.8	Peak sales of $20m; restricted launch September 2017. Undisclosed royalties/milestones payable to Pragma.
NCE pipeline	10.2	1.9	**RPL554** (£5.3m rNPV): peak COPD sales $200m; launch 2021; 30% success probability, 6% royalty. **Tosedostat** (£1.8m rNPV): peak AML sales $150m; launch 2020; 15% success probability; 5% royalty. **CPI-444** (£2.4m rNPV): peak immuno-oncology sales $200m; launch 2022; 15% success; 7% royalty. **Servier 1** (£0.7m rNPV): peak cancer sales $150m; launch 2023; 10% success probability, 5% royalty.
Frova royalty stream	5.0	1.0	Europe (Menarini): royalties of 25.25%, patent expiry December 2015, generic entry in main markets increasing price and volume pressure. US (Endo): min. sales level not reached; Mylan generic launched May 2016.
Total pipeline rNPV	**745.3**	**141.6**	
R&D	(59.0)	(11.2)	Includes offset for research collaborative funding.
SG&A	(319.4)	(60.7)	Includes cost of US sales infrastructure (included in R&D before Tuzistra launch).
Capex	(13.9)	(2.6)	Tangible assets (intangible capex, ie milestones paid to Tris, captured in cough cold portfolio rNPV).
Cash	74.2	14.1	Reported net cash at end-December 2016.
Valuation	**427.2**	**81.2**	

Source: Edison Investment Research. Note: Assumes WACC of 12.5% for all products with the exception of Tuzistra XR, Frova and Moxatag at 10% WACC, 526.4m shares outstanding and £/$ rate of 1.24.

The largest component of our valuation is the US cough cold portfolio rNPV which is sensitive to the degree of success achieved by operational initiatives to boost prescribing levels. The Tuzistra XR prescription run rate at the end of the 2016/17 cough cold season will inform the growth trajectory and thus potential sales in subsequent years; which could prompt us to revise Tuzistra XR, CCP-07 and CCP-08 forecasts upwards or downwards. Additionally, disclosure of the API(s) following

approval of CCP-07 and CCP-08 will reveal which market segment each drug will be targeting, likely triggering a reassessment of peak sales potential.

We also highlight that unpartnered assets in the NCE pipeline, as well as V2006 (partnered with Juno/Redox) are not included in our current valuation; deal(s) for the former, or clarity on development timelines and strategy for the latter, would unlock potential valuation upside.

Financials

Vernalis's H117 revenues (six months to 31 December 2016) of £5.6m were down 8% on H116 (£6.1m) with increased US commercial net revenues of £0.9m (H115: £0.6m) offset by lower research collaboration income and the expected decline in Frova royalty receipts. US commercial net revenues include sales of Tuzistra XR (£0.8m) and Moxatag (£0.1m) and are reported on the basis of deliveries to wholesalers net of any rebates, discounts and returns provisions. Lower research collaboration income of £3.2m vs £3.8m in H116 was due to reduced FTE income and the absence of milestone receipts. Generic competition has affected frovatriptan in-market sales by Menarini in Europe and Central America in both volume and price terms; sales dropped 31% to €8.7m for H117 (albeit a similar level to H216). Frovatriptan royalties booked by Vernalis correspond to API supply; in both H116 and H117, one 12.5kg batch was delivered although the £0.1m royalty decrease to £1.5m reflected the 18% price reduction offset by positive movement in £/€ FX rates.

US commercial infrastructure costs drove the 14% increase in operating costs to £21.7m (H116: £19.0m pre-exceptional; £16.3m including the £2.65m gain on settlement of an onerous lease obligation). Sales and marketing costs showed the most significant increase (£13.3m vs £10.8m) reflecting salesforce expansion during H117 and only four months of salesforce activity in H116 (following recruitment in August). Broadly flat R&D costs of £5.5m (H116: £5.6m) were mainly associated with internal R&D, while G&A increased modestly to £2.9m (H116: £2.6m).

Increased investment in US commercial infrastructure increased operating losses to £16.9m (H116: loss of £13.5m pre-exceptional, £10.9m post exceptional gain). Net loss of £11.0m (H116: pre-exceptional loss of £10.2m) again benefitted from unrealised FX gains on cash and equivalents (£4.4m) and tax credits (£1.1m, mainly connected to the CCP-07 and CCP-08 regulatory filing milestones). At 31 December 2016, cash and equivalents stood at £74.2m (£84m at end-June 2016). As at the prior period end, c 73% of cash was held in US$ to hedge against US costs and future milestones to Tris; a translational loss/gain is recognised at the end of each period at the prevailing exchange rate.

Revenue guidance for FY17 includes continued Tuzistra XR and Moxatag sales, albeit with a lower net price per prescription ($/Rx) vs FY16 for the former and continued restricted launch for the latter. Delivery of two additional 12.5kg Frova API batches to Menarini is expected in H217 (vs a previous expectation of one batch in each half year period for FY17). We update our FY17 revenue forecasts on the basis of H117 actuals and full-year guidance and also the prevailing $/£ FX rate. We now expect lower Tuzistra XR revenues of £1.8m (previously £3.7m), Moxatag sales of £0.2m, and frovatriptan royalty receipts of £3.5m (previously £2.5m). Fully recognising the $3m Corvus milestone in collaboration income, and the new Servier collaboration (€2m upfront payment), increases our research collaboration income forecast to £10.2m. Consequently, our new revenue forecast for FY17 is £16.0m (previously £12.9m). For FY18 we also moderate our cough cold net revenue forecast for FY18 to £20m (previously £30m) to reflect growth from a lower FY17 revenue base and our expectation of continued lower $/Rx. Our FY18 revenue forecast is now £30m vs £40m at the time of our last note. We expect to re-visit our longer-term forecasts in the summer following Vernalis's post cough cold season update.

Operating costs for the second half of the financial year are expected to continue at a similar run rate to H117, although any further US$ strengthening will magnify US$-denominated costs when translated back into sterling. We maintain FY17 R&D and G&A forecasts but have moderated our US sales and marketing expectations given lower H117 spend as the increased investment is being phased in more gradually than our earlier assumption. We now model S&M spend of £29m (previously £33m) for FY17, and a total operating cost of £45.9m (vs £49.7m earlier). Changes to our estimates are summarised in Exhibit 5, with updated forecasts presented in Exhibit 6.

Exhibit 5: Changes to estimates

	Revenue (£m)			EBITDA (£m)			EPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change
2017e	12.9	16.0	+24%	(37.7)	(30.9)	+18%	(6.8)	(4.6)	+48%
2018e	40.7	30.3	-26%	(18.2)	(30.3)	-66%	(3.0)	(5.4)	-44%

Source: Edison Investment Research. Note: Normalised PBT includes net financial interest but excludes other financial income from FX gains and losses. FX rate updated to $1.24/£ (previously $1.29/£).

On the basis of our new forecasts we now expect sustainable profitability to be reached one year later in FY20), with Vernalis's cash position reaching a low point of c £10m at end-FY19. However, this is contingent on US cough cold (Tuzistra XR, CCP-07 and CCP-08) sales meeting or exceeding our expectations for FY17-19 and/or the remaining Tris milestones (totalling $43m or c £35m) becoming due in line with, or later than, our estimates. Following latest guidance, we have adjusted our assumptions regarding the timing of payment of milestones to Tris, conservatively delaying CCP-05 and CCP-06 proof of concept milestones ($3m each) into FY18. We now assume the following schedule of payments: in H217 one approval milestone ($7m); in FY18 two POC milestones and one approval milestone, $13m aggregated; in FY19 two NDA acceptance milestones, $6m aggregated, and in FY20 two NDA approval milestones, $14m aggregated.

Exhibit 6: Financial summary

£'000s	2013	2015**	2016	2017e	2018e
Year end 30 June (from 2015) previously December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	14,084	19,882	12,034	16,009	30,288
of which: Cough/cold portfolio & Moxatag	0	0	1,100	2,010	20,599
Frova royalties	6,684	6,648	2,894	3,500	1,389
Collaborative income (R&D funding and milestones)	7,150	13,022	8,035	10,200	8,000
Other	250	212	5	300	300
Cost of Sales	(2,244)	(1,373)	(2,004)	(2,558)	(8,409)
Gross Profit	11,840	18,509	10,030	13,452	21,879
Sales, General & Admin	(3,299)	(8,635)	(25,717)	(35,141)	(43,668)
Research & Development	(14,416)	(22,563)	(10,932)	(10,995)	(11,105)
Other	180	611	396	233	0
Operating Profit reported	(5,695)	(11,835)	(23,572)	(32,452)	(32,894)
Intangible Amortisation	(1,349)	(571)	(713)	(1,045)	(2,090)
Exceptionals	1,608	243	2,651	0	0
Share-based payment	(876)	(1,855)	(984)	(247)	(247)
EBITDA	(4,652)	(8,855)	(23,919)	(30,858)	(30,253)
Operating Profit (norm)	(5,078)	(9,652)	(24,526)	(31,160)	(30,557)
Net Interest	420	2,733	8,315	4,757	248
Other financial income	(999)	(157)	(42)	(57)	0
Profit Before Tax (norm)	(4,658)	(6,919)	(16,211)	(26,403)	(30,309)
Profit Before Tax (as reported)	(6,274)	(9,259)	(15,299)	(27,752)	(32,646)
Tax	2,273	2,858	804	2,013	1,881
Profit from discontinued operations	0	0	0	0	0
Profit After Tax (norm)	(2,385)	(4,061)	(15,407)	(24,390)	(28,428)
Profit After Tax (as reported)	(4,001)	(6,401)	(14,495)	(25,739)	(30,765)
Average Number of Shares Outstanding (m)	442.1	442.3	449.9	526.4	526.4
EPS - normalised (p)	(0.8)	(1.0)	(3.4)	(4.6)	(5.4)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	84.1%	93.1%	83.3%	84.0%	72.2%
EBITDA Margin (%)	-33.0%	-44.5%	-198.8%	-192.8%	-99.9%
Operating Margin (before GW and except.) (%)	-36.1%	-48.5%	-203.8%	-194.6%	-100.9%
BALANCE SHEET					
Fixed Assets	7,730	15,066	19,949	28,858	38,545
Intangible Assets	6,292	12,895	17,645	27,050	36,587
Tangible Assets	1,438	1,637	1,673	1,692	1,842
Other	0	534	631	116	116
Current Assets	83,298	71,509	92,541	60,986	26,297
Stocks	130	0	233	1,401	2,304
Debtors	4,443	7,017	7,225	7,895	6,638
Cash	76,918	61,258	84,018	49,625	15,290
Other (tax and derivatives)	1,807	3,234	1,065	2,065	2,065
Current Liabilities	(4,501)	(5,215)	(7,711)	(11,082)	(16,598)
Creditors	(3,384)	(3,373)	(5,175)	(5,263)	(4,979)
Other creditors	0	(5)	(80)	0	0
Short term borrowings	0	0	0	0	0
Deferred income	(962)	(1,688)	(922)	(657)	(657)
Provisions and other current liabilities	(155)	(154)	(1,614)	(5,162)	(10,962)
Long Term Liabilities	(4,283)	(4,254)	(2,048)	(1,986)	(1,986)
Long term borrowings	0	0	0	0	0
Deferred income	(156)	(744)	(1,459)	(1,408)	(1,408)
Provisions and other long-term liabilities	(4,127)	(3,510)	(589)	(578)	(578)
Net Assets	82,244	77,106	102,731	76,776	46,258
CASH FLOW					
Operating Cash Flow	(3,486)	(12,135)	(23,682)	(29,395)	(24,383)
Net Interest	446	353	230	4,757	248
Tax	1,929	1,887	2,912	1,013	1,881
Capex	(646)	(1,005)	(212)	(320)	(454)
Purchase of intangibles	(1,976)	(7,474)	(71)	(10,450)	(11,627)
Acquisitions/disposals	0	0	(3,677)	0	0
Financing	0	13	39,236	2	0
Dividends	0	0	0	0	0
Other	0	1,644	0	0	0
Net Cash Flow	(3,733)	(16,717)	14,736	(34,393)	(34,335)
Opening net debt/(cash)	(81,555)	(76,918)	(61,258)	(84,018)	(49,625)
HP finance leases initiated	0	0	0	0	0
Exchange rate movements	(904)	1,057	8,024	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(76,918)	(61,258)	(84,018)	(49,625)	(15,290)

Source: Edison Investment Research, Vernalis accounts. Note: **18-month reporting period, thereafter 12-month reporting.

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