

Financial review

Summary of results

The financial results for the year ended 31 March 2009 show total revenue of £31.2m (2007/08: £25.2m), a 24% increase on the previous year. The operating loss for the year was £20.9m (2007/08: £25.1m) after deduction of £12.1m (2007/08: £12.9m) of non cash amortisation and share option costs. The loss before tax was £19.6m (2007/08: £21.4m) and the loss after tax £16.7m (2007/08: £19.2m).

Revenue

In the 12 months to 31 March 2009, total revenue increased compared to the prior year by 24% to £31.2m. Revenue includes fee income from royalties, product licensing, technology licensing, development fees and device sales.

Royalties increased by 37% to £12.5m (2007/08: £9.1m) – 21% of this increase was due to increased product sales and the balance of 16% was due to favourable exchange movements. ADVATE[®] contributed 65% (£8.1m; 2007/08: £5.8m) of the royalties generated in the year. ADVATE[®] sales are continuing to grow and with current sales levels of approximately \$1.5bn, Vectura is receiving a net royalty of just under 1% at these high levels of cumulative annual sales. Extraneal[®] contributed 27% or £3.4m (2007/08: £2.5m) of royalties in the year and benefited from £0.4m of one-off revenues in the period. The majority of the remaining royalties were generated from Adept[®] with contributions from products delivered in Clickhaler[®].

Product licensing revenues in the period were £4.2m (2007/08: £2.8m), all of which was released from deferred income, with £1m generated from VR315, £2.3m from Duohaler[®] and £0.9m from Clickhaler[®]. A further £0.9m is expected to be released from deferred income in relation to VR315 in 2009/10. 2009/10 revenues will also benefit from the €2.5m (£2.2m) milestone receipt on VR315 EU. We also believe that two additional milestone payments of \$7.5m each could be generated on the initiation of the NVA237 and QVA149 Phase III studies.

Technology licensing revenues of £6.1m (2007/08: £2.9m) comprises £1.1m generated from a 2003 licence on Innovata technology, and £5m released from deferred income in relation to the Boehringer Ingelheim milestones of €10m (£7.2m) received in December 2007 and €7.5m (£6.2m) received in November 2008. A further £5.5m is expected to be released from deferred income in relation to these milestones in 2009/10, with the final £1.8m expected to be released in the year ending 31 March 2011.

Pharmaceutical Development Services (PDS) revenues were £6.6m, a 26% reduction from the £8.9m received in 2007/08. These revenues principally represent contractual development fees charged to licensing partners for work carried out during the period on Vectura's generic programmes. As previously reported, we expect these revenues to continue to decline as we complete our work on these generic programmes. The level of PDS revenues in the future will depend on new licensing deals. The development of inhalation products is a very specialist area. When a partner licenses one of our products, they frequently require Vectura's involvement in the continuing development of that product and Vectura continues to charge for these services as part of the licensing agreement.

Device sales revenue of £1.8m (2007/08: £1.5m) was derived from the sale of devices to licensees.

Gross profit

The gross profit in the period to 31 March 2009 was £27.3m, a £6.5m improvement on the prior year (£20.8m). Gross margin in the year to 31 March 2009 represents 88% of revenue (2007/08: 83%) with the improvement arising from the increased proportion of royalties and milestones earned during the year.

Research and development

Total investment in research and development was £32.3m, a 9% increase on the prior year (£29.7m). Research and development costs include primarily clinical trial costs, salary costs for scientists and scientific support staff, intellectual property costs, laboratory running costs and depreciation. We expect our investment in this area to increase significantly as some of our key products and devices move to late-stage development, with 2009/10 investment likely to be approximately 25% in excess of the current year.

Other administrative expenses

Other administrative expenses for the period were £3.2m, in line with the previous year.

Investment income

Investment income of £3.6m (2007/08: £4.5m) for the period is expected to reduce significantly in 2009/10 due to the fall in interest rates. The Board operates an investment policy, under which the primary objective is to invest in a diverse portfolio of low risk cash or cash equivalent investments to safeguard the principal. These investments do not offer above-market rates of interest.

Loss after taxation and loss per share

The loss for the period after taxation was £16.7m (2007/08: £19.2m) giving a loss per ordinary share of 5.2p (2007/08: 6.1p).

Non-current assets

Non-current assets were £106.1m, compared with £117m on 31 March 2008, including goodwill (£49.6m), intangible assets (£52.2m), and property, plant and equipment (£3.5m).

Financial liability

Financial liabilities total £6.6m (\$9.4m), which represents a liability to Royalty Securitization Trust in respect of a loan secured against US dollar denominated royalty streams. \$9m was paid to Royalty Securitization Trust during the year ended 31 March 2009. The exchange loss recorded in the year on this liability is due to the depreciation of sterling against the US dollar. Vectura's exchange loss on this US dollar liability is naturally offset by royalty streams being received in US dollars. This loss is offset by the gains made on these income streams, the majority of which flow directly into the revenue line.

Deferred income

Deferred income relates to milestones received in cash but not yet recognised as revenue. The £10.4m to be recognised as part of revenue in later periods includes £0.9m for VR315, £7.3m relating to Boehringer Ingelheim and £2.2m relating to other licensing deals.

Cash flow

The net cash outflow from operating activities in the year was £0.7m compared to a net cash outflow of £1.5m in 2007/08. After investing and financing activities, the net cash outflow was £4.8m compared to a net inflow of £1.3m in 2007/08. At 31 March 2009, Vectura had cash and cash equivalents of £74m (31 March 2008: £78.8m).

Capital expenditure

Capital expenditure in the period was £1.6m (2007/08: £0.7m) and includes the expansion of our manufacturing facilities at Chippenham. These new facilities were completed on time and below the £2m originally budgeted as no contingencies were required.

Foreign exchange rates

The following foreign exchange rate was used on 31 March 2009:

£/\$1.43 (31 March 2008: £/\$1.99)

The following foreign exchange rate was the average for the year ended 31 March 2009:

£/\$1.72 (31 March 2008: £/\$2.01)



Anne Hyland
Chief Financial Officer

18 May 2009