Interim Results Presentation

18 November 2014

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Agenda

Highlights	Chris Blackwell
Financial results	Paul Oliver
Business overview & outlook	Chris Blackwell

Highlights

Interim financial results 2014/15

Strong set of results and good operating progress

Financial highlights

- Revenues of £19.4m (H1 2013/14 £17.0m)
  - Increase reflects new royalty streams
  - FY financials weighted towards H2
- EBITDA up to £3.0m (H1 2013/14 £2.3m)
- Loss before tax of £7.1m (H1 2013/14 £1.2m)
  - Includes acquisition amortisation
  - Cash flow from operations; £2m
- Robust balance sheet
  - Cash and cash equivalents of £84.6m

Operational highlights

- Continued progress on VR315 US
  - Further milestones recognised
- VR506 partnered successfully
- Continued roll-out of inhaled assets
  - Novartis' Seebri® & Ultibro® Breezhaler®
  - Sandoz's AirFluSal® Forspiro®
- Portfolio review complete
- Integration on track
- Increased level of business development interest post Activaero acquisition

Financial results

Financial highlights

Revenue growth

Driven by 45% increase in royalties

+ 14%

£19.4m

(H1 2013/14 £17.0m)

EBITDA[1] progression

+ 30%

£3.0m

(H1 2013/14 £2.3m)

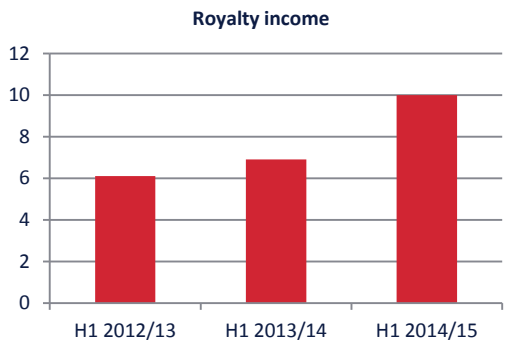
Balance sheet strength

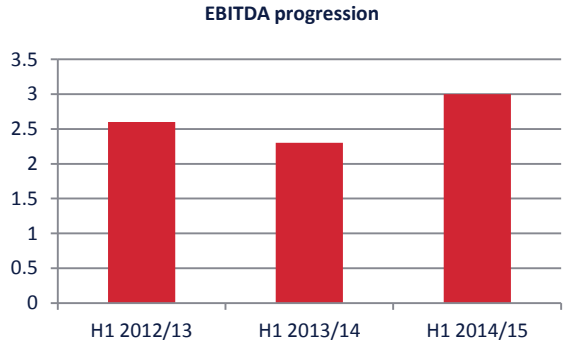
Cash and cash equivalents

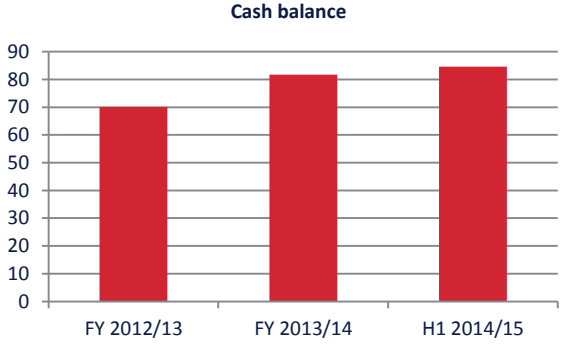
+ £2.9m

£84.6m

(At 31 March 2014 £81.7m)







Growing royalty revenues from newly-marketed products will support EBITDA[1] progression

[1] Earnings before investment income, finance gains, tax, depreciation, amortisation, share-based compensation and adjusted for non-recurring expenditure

Revenue breakdown

£m	H1 2014/15	H1 2013/14	FY 2013/14
Royalties	10.0	6.9	16.3
Product licensing	3.3	7.8	13.3
Technology licensing	2.2	2.1	4.3
Development services	2.2	0.1	1.7
Device sales	1.7	0.1	0.9
Total revenue	19.4	17.0	36.5

Sustained increase in royalty revenues

+ 45%

(H1 2013/14 £6.9m)

Product licensing revenues include

£2.4m

initial milestone for VR506

Income statement

£m	H1 2014/15	H1 2013/14	FY 2013/14
Revenue	19.4	17.0	36.5
Cost of sales	(1.5)	(0.1)	(1.0)
Gross profit	17.9	16.9	35.5
Research and development expenses	(13.2)	(13.6)	(28.0)
Administrative costs	(2.2)	(1.6)	(3.4)
Non-recurring costs	-	-	(2.5)
Amortisation	(9.1)	(3.2)	(6.9)
Share-based compensation	(0.5)	(0.4)	(0.9)
Operating loss	(7.1)	(1.9)	(6.2)
Investment income	0.3	1.4	1.6
Finance gains/(losses)	0.2	(0.7)	(0.2)
Share of results of joint venture	(0.5)	-	-
Loss before taxation	(7.1)	(1.2)	(4.8)
Taxation	2.6	0.9	2.5
Loss after taxation	(4.5)	(0.3)	(2.3)

Reconciliation from operating loss to EBITDA - £m	H1 2014/15	H1 2013/14	FY 2013/14
Operating loss	(7.1)	(1.9)	(6.2)
Non-recurring costs	-	-	2.5
Depreciation/amortisation	9.6	3.8	8.0
Share-based compensation	0.5	0.4	0.9
EBITDA	3.0	2.3	5.2
Adjusted basic EPS[1]	0.8p	0.7p	1.6p

[1] Adjusted EPS is calculated using EBITDA and the weighted average number of shares in the period.

Cash flow statement

£m	H1 2014/15	H1 2013/14	FY 2013/14
EBITDA	3.0	2.3	5.2
Working capital	(4.7)	(13.2)	(10.8)
Deferred income	(0.1)	(0.1)	0.4
Exchange gains/(losses)	0.2	(0.7)	(0.2)
R&D tax credits received	3.6	4.7	4.7
Operating cash inflow/(outflow)	2.0	(7.0)	(0.7)
Net capital expenditure	(0.6)	(1.3)	(2.3)
Interest received	0.2	0.2	0.4
Other investment income	-	1.0	1.2
Acquisition of Activaero	-	-	(37.8)
Non-recurring acquisition costs	-	-	(2.5)
Cash inflow/(outflow) before financing	1.6	(7.1)	(41.7)
Proceeds from issue of shares	1.3	2.5	55.3
Cost of raising equity	-	-	(2.0)
Total increase/(decrease) in cash	2.9	(4.6)	11.6

Operating cash inflow

£2.0m

(H1 2013/14 £7.0m outflow)

Cash balance at 30 Sept 2014

£84.6m

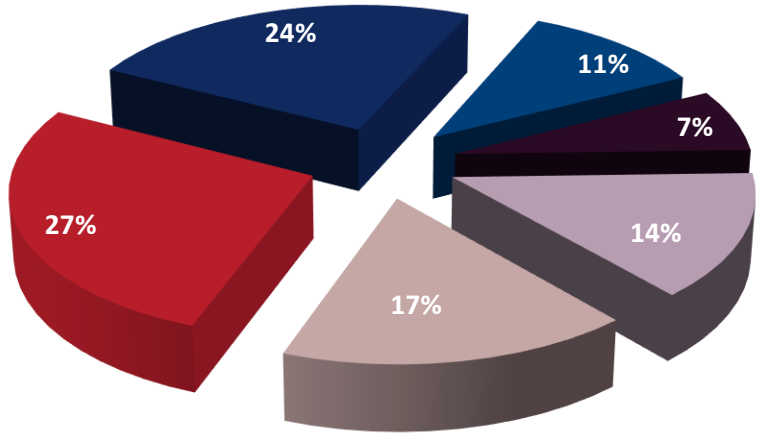
(31 March 2014 £81.7m)

R&D investment breakdown

By programme

Key	Programme	Description	H1 2014 £m
	VR315 US	Asthma (US)	3.5
	VR942	Inflammatory airways disease	3.2
	VR876	Pulmonary hypertension	1.4
	VR475	Severe adult asthma	0.9
	Other programmes		1.9
	Investment in technologies		2.3
	Total investment		13.2

R&D investment weighted towards the second half of FY2014/15



Guidance for full-year expenditure in the range of £40m-£45m is maintained

Financial outlook

FY 2014/15 medium-term guidance maintained

Revenue	Continued growth in royalty revenue from newly-marketed products Significant development milestones expected in current financial year
Research and development expenditure	Anticipated investment in H2 2014/15 • Clinical trial activities • FY guidance of £40m-£45m maintained
Administrative expenses	Administrative expenses expected to increase by c.£1m • In line with FY guidance
Trading	Guidance on positive growth trajectory maintained
Cash	Cash flows will depend upon milestones, royalties and one-off items

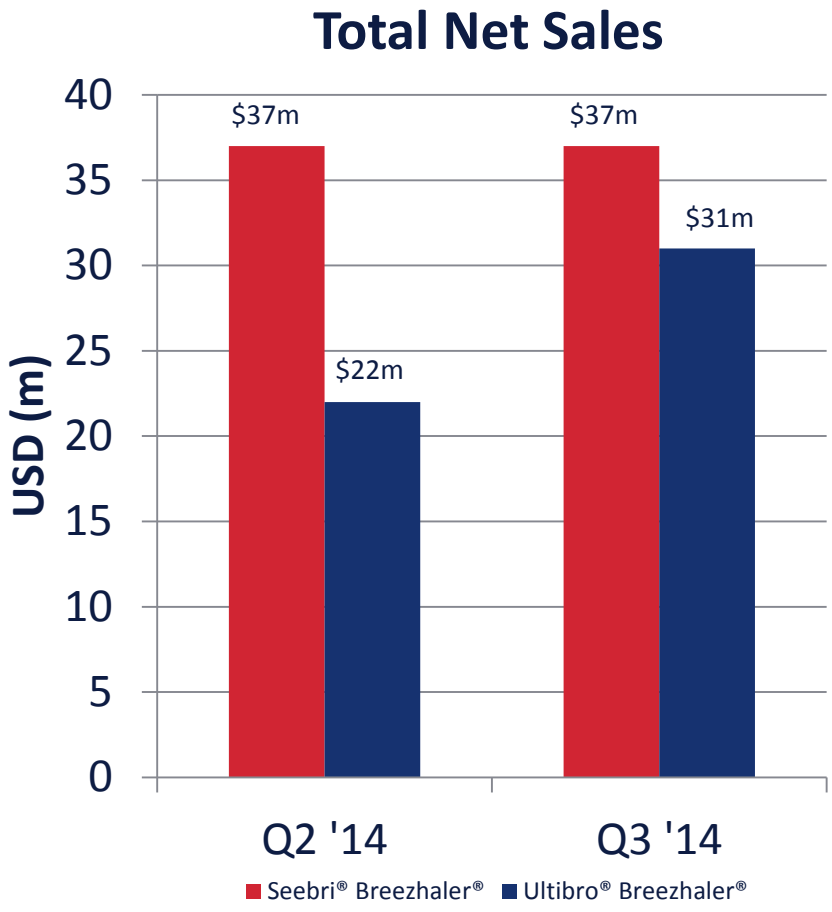
Business overview & outlook

Agenda

1. Operational highlights
2. Business overview
3. Royalties
4. Portfolio overview - reassessing the value proposition
5. Outlook

Operational highlights

- Generics pipeline continues to make good progress
  - Two milestones on VR315 US
    - $3m[1] total
  - US licence agreement for VR506 signed
    - Upfront payment of $4m
- Continued roll-out of Novartis partnered assets
- Branded assets continue to grow year-on-year
  - Roll-out of AirFluSal® Forspiro® continues



Source: Total Net Sales booked by Novartis

[1] $1.5m post period

Vectura today

Our Purpose

"To create value through the development and commercialisation of innovative products for airways diseases with high unmet need"

Our Vision

"To build an innovative, internationally-focused, specialty pharmaceutical business, underpinned by the passion of our people and excellence of our capabilities, to develop and commercialise specialty products to treat airways diseases"

Elements that comprise the vision

Progression of our business

Accelerating value delivery

- On a journey to build an innovative specialty pharmaceutical business
  - Will continue to carefully assess M&A opportunities
    - Focus is on accretive, revenue-enhancing deals
- Focus on accelerating value in existing pipeline
  - Disciplined prioritised investment in R&D and business development
  - General shift in development focus away from early-stage deals
    - Potential for value realisation must fall within strategic period
- Expert in airways diseases
  - Technology platform and pipeline improved by M&A and selective investment
  - Attracting considerable interest in business development opportunities

Financial perspectives on our business

Poised to generate significant cash flow per share

- Materially advanced our partnered programmes over the past two years
  - High-quality recurring revenues from a growing number of sources
    - Baxter, Novartis, Sandoz, GSK
  - High gross margins associated with royalties
  - Aim to garner increased economics when our technology can be leveraged
- Robust balance sheet maintained through this period
  - Future R&D spend will be prioritised
    - Current FY guidance of £40m-£45m unchanged
  - Maintain estimated range of £40m-£52m over coming years
    - Increased number of revenue-generating opportunities in the near-term
    - Setting transparent medium-term parameters to re-enforce financial discipline
- Significant tax benefits from the patent box has positive impact on valuation

Royalties

Vectura's blue chip royalty streams

Factors underlying our successful partnerships

- Experienced management team that seeks to leverage our standing as a "partner of choice" and to deliver shareholder value
  - Broad development pipeline provides increased likelihood of success
    - Balanced by annual limits on R&D spend
  - Positioned to generate significant cash flows from appropriate deal structuring
    - Commercial opportunities assessed to provide optimum balance of risk and reward
- Cutting-edge formulation & device technology
  - Development programmes enabling inhaled delivery of complex biomolecules
  - Platform of award-winning devices, spanning dry powder and liquid delivery

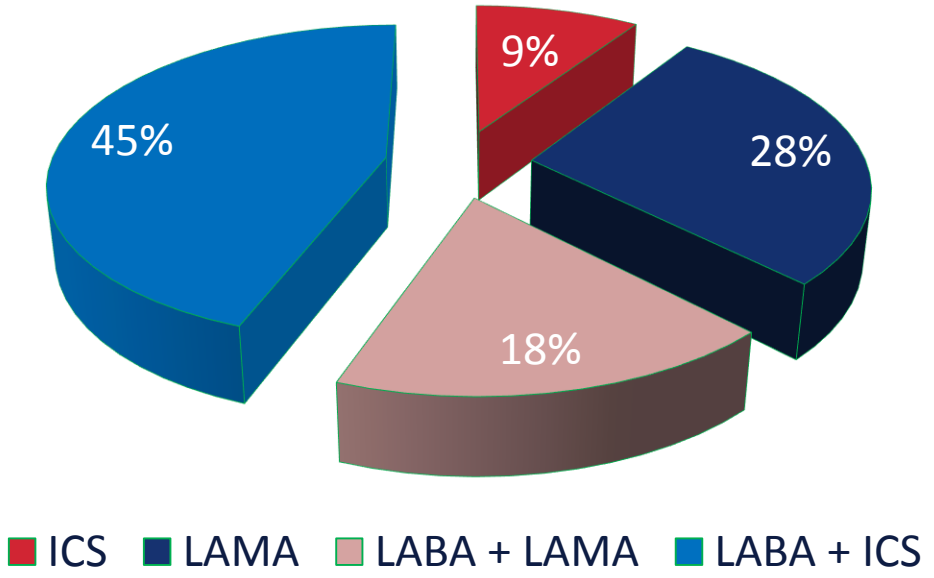
Outlook for revenues

Royalty streams form basis of sustainable growth

Growth drivers

- Products in the growth phase of their launch curve
- Approvals in new geographies
- New product launches

Estimated total value of drug classes in 2018[1] >$22bn

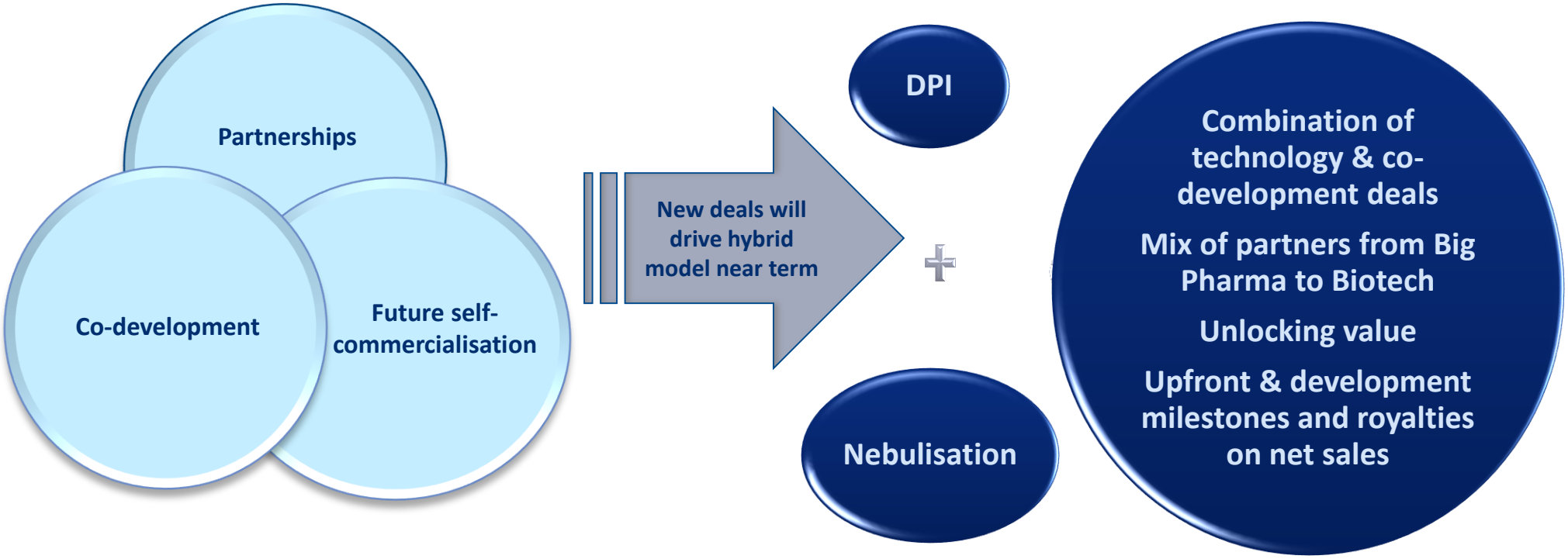


Vectura will benefit from partnered products competing for a share of these major respiratory drug classes globally

[1] Source: Bloomberg analyst consensus estimates

Business development accelerating

Significant increase in active leads post Activaero acquisition



Portfolio overview

Reassessing the value proposition

Delivering on the pipeline expectations

Linking clinical progress with financial objectives

- Nine pipeline assets expected to launch over period to 2021
  - Estimated target market sizes total >$25bn[1]
    - Vectura will compete for share within market segments
- Over $200m in potential milestones from existing deals
    - Approx. $40m related to sales milestones and $160m to development milestones
- Potential revenue CAGR >25% through 2014-2021
  - Operational leverage achieved by maintaining expenses within tight limits
    - R&D to be kept within stated range
  - Portfolio prioritisation assists in controlling R&D annual spend

[1] Source Decision Resources 2014 Pharmacor series. Note NVA237 & QVA149 potential includes global sales

Portfolio review

Aligning resources with the strategy

- Near-term priorities to becoming a specialty pharmaceutical company
  - Accelerate the overall value of our existing pipeline
  - Demonstrate value realisation in our pipeline
- Development focus will change over time
  - Current partnered programmes unaffected, partner obligations are contractual and must be supported
  - Seek to focus on value realisation from later-stage products
  - Development support (both device & technology) of deal opportunities are paramount
- How does that impact our existing pipeline?

Pipeline

Partnered
Wholly owned
Generic

VR588
Severe Inflammatory Airways Disease (Global)

VR611
Airways Inflammation & Chronic Cough (Global)

VR942 (UCB)
Inflammatory Airways disease (Co-development global)

VR475
Severe Adult Asthma (US)

VR465 (Ablynx)
RSV Infection (Global)

VR647
Paediatric Asthma (Global)

VR179 (Grifols)
Cystic Fibrosis (Global)

VR736 (Ventaleon)
Severe Influenza (Global)

NVA237 (Novartis)
COPD (US)

QVA149 (Novartis)
COPD (US)

VR475
Severe Adult Asthma (EU)

VR876 (partnered, undisclosed)
Pulmonary Hypertension (Global)

VR315 (undisclosed partner)
Asthma (US)

VR506 (undisclosed partner)
Asthma (US)

VR632 (Sandoz)
Asthma (EU)

Pre-clinical | Phase 1 | Phase 2 | Phase 3 | Full development | Filed

Assets impacted by portfolio review

- VR475 EU (FAVOLIR®)
  - Phase III study anticipated to start in H1 2015 with filing anticipated in Q2 2018
  - Expanded commercial opportunity
- VR647 (SCIPE) and VR475 US
  - Analysis suggests a larger opportunity by combining both projects
  - Development plan will be discussed with FDA
  - Evaluating incoming licensing requests to expedite value return
- VR588 (Pan-JAK kinase inhibitor)
  - Focus on the asthma indication; multiple additional indications possible
  - Minimise investment and focus on activities that support licensing
- VR611 (TRPV1 receptor modulator)
  - Minimise investment and focus on activities that support licensing

VR475: Clinical Phase III trial design

Inhaled, add-on therapy to improve asthma control in patients with severe, uncontrolled, persistent asthma who continue to experience exacerbations

Phase III double-blind, placebo-controlled study of patients with severe, uncontrolled, persistent asthma	
Parameters	
Patients	Approximately 500 GINA step 4 and 5 patients with a history of exacerbations
Treatments	Two doses VR475 (1mg & 0.5mg); placebo and conventionally nebulised budesonide
Endpoints	Exacerbations; OCS-sparing, asthma control (FEV_1) and QoL
Duration	52-week treatment period, 4-week follow-up
Sites	c.100 sites across EU

US Market for nebulised ICS

Commercial opportunity for specialist patient populations

- Budesonide is the only nebulised ICS approved in the US
  - Paediatric label only
  - Maintenance treatment of asthma
- The FAVORITE technology may provide a number of advantages compared with current nebuliser technology
  - In children, significant reduction in the time to deliver a dose
    - VR647 (SCIPE) programme
  - Potentially more effective deposition within the lung leading to improved efficacy in adults
    - VR475US (FAVOLIR®) programme

Current plans for the US market

Combine VR647 and VR475 development in the US

- US regulatory environment is complex for combination of nebuliser and specific drug
  - Current drug product approved is for unit doses of budesonide inhalation suspension (no specific nebuliser)
  - Development of the product will require 505(b)(2) NDA delivery path
- Advantages of combining both development plans
  - Clinical programme designed to address broader population with fewer studies
    - Efficient use of time and resources
  - Clarity of the development pathway
- Meeting with the FDA to clarify development requirements – H1 2015
- Business development team evaluating incoming licensing requests

Outlook

Success factors

Foundations for the next stage of our journey

- Broad and deep pipeline
  - Risk/reward balanced by robust portfolio of partnered programmes
- Depth and breadth of technology/device platform
- Partner of choice
  - Leader in cutting-edge technologies that support products
- Portfolio has been augmented through successful licensing deals and M&A
  - Novartis, Sandoz, UCB, GSK
  - M&A has brought assets and new partners
    - Baxter, Kinnovata, Grifols, Ablynx

Evolving business model

Near term focus on deal flow

- We aim to operate a hybrid model focused on:
  - Driving R&D to earliest inflection point for value realisation
    - Partnering, co-development and potential self-commercialisation
  - Continuing to evaluate the landscape for attractive opportunities
- Royalty model has been demonstrably successful
  - High-margin, high-growth, recurring revenue
  - Patent box tax incentives
- Continued disciplined cash control augmented by portfolio prioritisation
  - Will enable R&D costs to be contained within limits over a period of time
  - Broad portfolio diversity enhances chances of success
- Transitioning to becoming a specialty pharmaceutical company