

Vectura Group plc Acquisition of Activaero

Chippenham, UK – 13 March 2014: Vectura Group plc (LSE: VEC; “Vectura” or the “Company”) announces the acquisition of Activaero GmbH (“Activaero”) for a total consideration of €130 million (£108 million) to be funded through a combination of existing cash and equity.

Activaero is a private German pharmaceutical company focused on the development of products for the treatment of respiratory diseases. Its proprietary smart nebuliser-based technology (FAVORITE) allows drug deposition into targeted areas of the lung and is currently utilised in seven clinical and several preclinical stage programmes.

The acquisition of Activaero fulfills a number of strategic priorities in a single transaction, creating a therapeutic area specialist for airways diseases. The combined entity will benefit from:

- diversified income streams with long term value-creation for Vectura’s shareholders
- a balanced pipeline of late-stage and early-stage assets across a spectrum of indications
- access to revenue generating, proprietary, smart nebuliser-based technology that enables targeting of inhaled drugs into pre-selected areas of the lung
- the opportunity to develop a wide range of molecular entities, ranging from small molecules to biologics
- a broader partnership base

In addition, Vectura will benefit from:

- enhanced medium and long-term growth profile; accelerated revenue growth with EBITDA growth profile remaining broadly in-line over a five year period
- double digit returns on investment
- near-term synergies of approximately €1.5 million, resulting from reducing duplicate head office and administrative costs

Dr. Chris Blackwell, Chief Executive of Vectura:

“We are determined to build further value in our Company and this transaction represents an important step towards building a sustainable specialty pharma business. The acquisition is highly complementary to Vectura’s core capabilities, in-line with our strategic priorities and, I believe, will enable us to build a therapeutic specialist in airways diseases. With this transaction, we create a much stronger entity with a balanced offering of products and technologies, both partnered and un-partnered. Our considerably deeper pipeline and new partnerships will provide us with the opportunity to drive organic growth. We see significant value in the combination of our respective respiratory expertise and believe that the combined company is well positioned to extract even more value from our broader technology base and potentially retain greater economics from pipeline assets.”

Dr. Gerhard Scheuch, Founder and Chief Executive Officer of Activaero:

“Vectura is well positioned to develop Activaero’s assets using its development expertise and building on its success in deriving value from its products. Our corporate partners and patients will greatly benefit from the new joint organisation. It will allow us to even better serve our clients by offering a broader spectrum of innovative therapeutic options and services going forward. I am pleased to be able to continue my involvement in this organisation.”

Transaction rationale:

The acquisition provides new product development opportunities, including products in late-stage development. It extends Vectura's technology platform into smart nebuliser-based technology, broadening Vectura's therapeutic offering by opening up possibilities for new drug-device products and partnerships.

The smart, nebuliser-based technology is well suited to patients with severely compromised respiratory function and to those at both ends of the age spectrum, i.e. children and the elderly.

- FAVORITE (Flow And VOLUME Regulated Inhalation TEchnology) is a smart nebuliser-based inhalation technology that provides for more efficient drug utilisation and targeting through pre-selection of drug into the desired deposition area
- Three device families, AKITA[®] JET, APIXNEB and FOX, cover both desktop and portable inhaler segments and provide patient benefits such as improved delivery efficiency, consistent and reproducible dosing and treatment tailored to each patient's breathing capacity
- Broad, multi-layered IP protections with patent protection anticipated through to 2033

The lead asset, FAVOLIR[®], provides Vectura an un-partnered late-stage product with peak sales potential which exceeds the total deal consideration.

- A marketing authorisation application will be filed following the successful completion of an additional clinical trial in Europe, which will also support a US filing
- EU filing expected by late 2017 with US to follow in 2020; possibility of German launch in 2015 (dependent upon discussions with regulator)
- Self-commercialisation opportunity requiring only a small, specialist sales force that targets an addressable global market size of approximately \$2 billion

The product and technology proposition is supported by existing partnerships with the potential to generate future revenues and which provide validation of their commercial attractiveness. This market segment is additive to Vectura's current focus on dry powder inhaler (DPI) products and opens up a wider target patient population across a broader range of airways diseases.

- Supplements the existing pipeline with a number of mid-and late-stage assets across a broad therapeutic scope within the airways disease sector (seven clinical and several pre-clinical programmes)
- Additional un-partnered late-stage opportunity, SCIPE, a treatment for paediatric asthma, looking to address an estimated 1.1 million mild/moderate asthmatics under the age of 12¹
- Disclosed commercial partnerships with Grifols, sterna biologicals, Ablynx and an undisclosed late-stage asset partnered with big pharma

Principal terms of the acquisition:

The consideration of the transaction, to be funded through a mix of existing cash and equity, will be €130 million (£108 million), consisting of:

- €95 million (£79 million) payable at completion, comprising €45 million (£38 million) in cash and €50 million (£42 million) in new Vectura ordinary shares; and
- €35 million (£29 million) deferred (non-contingent) cash consideration payable on 1st August 2015 (or the next business day thereafter)

In addition, the existing shareholders of Activaero may receive additional payments (up to a cap of €6 million (£5 million) (in aggregate)) in relation to future transactions involving Activaero's technology.

¹ Decision Resources patient base Year 2012 (accessed 18 February 2014)



Both the upfront and deferred cash consideration will be met by existing cash resources. The 25,641,398 new Vectura ordinary shares are being issued to the vendors of Activaero at completion at a price of 160.9 pence per share. Pursuant to the acquisition, major shareholders of Activaero will be subject to lock-up agreements of 12 months. Any trading in respect of the shares held by Activaero's shareholders during the 6 months following the lock-up period shall be through Vectura's brokers. Application will be made to the London Stock Exchange for these shares to be listed on the premium segment of the Official List and admitted to trading on the main market and it is expected that dealings will commence on 18 March 2014. These shares will rank pari passu in all respects with the existing issued ordinary shares in Vectura.

Unless otherwise specified, this announcement contains certain translations of Euros into amounts in Pounds Sterling for the convenience of the reader based on the exchange rate of £1.00 = €1.20, being the published exchange rate by the Bank of England at the close of business on 11 March 2014 (the latest practicable date prior to the date of this announcement).

Rothschild is acting as sole financial adviser to Vectura.

Investor Day

As previously announced, Vectura will be hosting an investor day for research analysts and institutional investors on Wednesday 26th March 2014 at 13.30 GMT. It will be held in London at the new offices of FTI Consulting (9th Floor, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD) – contact Victoria Foster Mitchell at FTI: +44 (0)20 3077 0486.

A live webcast of the presentations, with the slides, will be available on Vectura's website: <http://www.vectura.com/investors/reports-presentations/2014.aspx>. The webcast will also be available following the event.

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About Vectura

Vectura is a product development company that focuses on the development of pharmaceutical therapies for the treatment of airways-related diseases. This growing market includes asthma and chronic obstructive pulmonary disease (COPD) and is estimated to be worth in excess of \$46 billion worldwide.²

Vectura has eight products marketed by its partners and a portfolio of drugs in clinical development, a number of which have been licensed to major pharmaceutical companies. Vectura has development collaborations and licence agreements with several pharmaceutical companies, including Novartis, Sandoz (the generics arm of Novartis), Baxter, GlaxoSmithKline, UCB and Tianjin KingYork Group Company Limited.

Vectura seeks to develop certain programmes itself where this will optimise value. Vectura's formulation and inhalation technologies are available to other pharmaceutical companies on an out-licensing basis where this complements Vectura's business strategy. For further information, please visit Vectura's website at www.vectura.com.

About Activaero

Activaero is a private, venture capital backed, company based in Germany that employs a proprietary smart nebulisation-based technology that allows for targeting of drug into areas of the lung via inhalation. It is a therapeutic area specialist with a focus on developing products to treat severe respiratory diseases (e.g. Asthma, Chronic Obstructive Pulmonary Disease (COPD), Cystic Fibrosis, Pulmonary Arterial Hypertension (PAH), Influenza and Idiopathic Pulmonary Fibrosis (IPF)). Activaero employs a multidisciplinary team of approximately 50 employees. As at December 31, 2012 Activaero had gross assets of €11.7 million and PBT of €1.2 million. Activaero recorded revenues (unaudited under German GAAP) for the year ended December 31, 2013 of approximately €10.2 million, including device sales of €0.2 million, licensing fees and milestones of €2.5 million and fee for service (contract revenue) of €2.4 million.

About FAVOLIR[®]

FAVOLIR[®], Activaero's lead product, is targeting an area of unmet need in severe asthma with the aim of reducing or eliminating the burden of oral corticosteroid treatment. Using the proprietary AKITA[®] JET nebuliser, budesonide is administered to the patient using Activaero's FAVORITE technology.

About SCIPE

The SCIPE (Safe Corticosteroid Inhalation in Paediatrics) programme focuses on improving the delivery and safety profile of nebulised budesonide for mild/moderate asthmatics 12 years old and under. It seeks to prove equivalent efficacy to the currently nebulised budesonide at lower doses, with potentially better safety. Further, administration time would be significantly reduced which would provide for further differentiation.

Forward-looking statements

This press release contains forward-looking statements, including statements about the discovery, development and commercialisation of products. Various risks may cause Vectura's actual results to differ materially from those expressed or implied by the forward-looking statements, including: adverse results in clinical development programmes; failure to obtain patent protection for inventions;

² Pharmaview Commercial Landscape Series Respiratory Decision Resources 2014



*commercial limitations imposed by patents owned or controlled by third parties; dependence upon strategic alliance partners to develop and commercialise products and services; difficulties or delays in obtaining regulatory approvals to market products and services resulting from development efforts; the requirement for substantial funding to conduct research and development and to expand commercialisation activities; and product initiatives by competitors. As a result of these factors, prospective investors are cautioned not to rely on any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Neither the Company nor N M Rothschild & Sons Limited ("**Rothschild**") undertake any obligation nor do they intend to revise or update any document (except, in the case of the Company, to the extent required by the Financial Conduct Authority (the "**FCA**"), the London Stock Exchange or by applicable law including the Listing Rules or the Disclosure Rules and Transparency Rules).*

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