

23rd September 2009

Henderson Morley*

Delivering against expectations while refocusing as a 'pure-play' vaccines business, reiterate stance of long-term Buy

Henderson Morley has today released its interim results, which are in line with our expectations, and a statement which reaffirms that the group remains on track for its structured transformation into a focused pure play vaccine company. During the next two-years that strategy could realise up to £12 million via divestments. Last June's successful Open Offer removed near-term funding concerns and, with the shares at 0.45p, we reiterate our recommendation of **long-term buy**.

The results for the full year ended 30 April 2009 were broadly inline with our expectations with revenues of £80,019, a pre-tax loss of £1,103,106 and earnings per share of 0.17p. However, the historic results, while important, are not the investment driver, it is the fundamental repositioning of the group as a 'pure play' vaccine business by 2011 and clinical trials.

Key Data

EPIC	HML
Share Price	0.45p
Spread	0.4p – 0.5p
NMS	75,000
Total Number of issued shares	1,004.697 million
Market Cap	£4.52m
Net Cash	£0.58 (est.)
12 Month Range	0.25p – 0.7p
Market	AIM
Website	www.henderson-morley.com
Sector	Pharmaceuticals
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Table: Profit & Loss £'000

Year ended 30 April	2009	2008	YoY change
Turnover	80.0	16.5	385.9%
Cost of sales	0.0	(0.5)	-100.0%
Gross profit	80.0	16.0	401.2%
Administration costs	(741.1)	(839.2)	-11.7%
R & D	(451.7)	(528.1)	N/a
Operating profit	(1,112.8)	(1,351.3)	-17.6%
Interest paid	(0.1)	(0.6)	-91.1%
Interest receivable	9.8	47.4	-79.4%
Pre-tax profit	(1,103.1)	(1,304.5)	N/a
EPS (p)	(0.17)	(0.24)	N/a

Source: Company

Historically, the group has worked in three therapeutic areas: Ionic Contra Viral Therapy ('ICVT'; a clinical stage anti-viral platform technology), Animal Healthcare Products ('AHP'), and Vaccine Technology (novel delivery platforms for anti-virals and treatment of specific cancers).

Sometime between now and the end of 2011, the group will have divested its ICVT and AHP divisions realising up to £12 million. ICVT is the most advanced divestment with potential purchasers undertaking due diligence; this division may realise up to £2m (gross) during the current financial year, which together with the £625,000 raised from last June's Open Offer removes immediate funding concerns.

Animal Healthcare, the other non-core activity, requires further drug candidate investment to maximise its disposal potential, which based upon other trade sales suggests the business could be worth in excess of £10 million.

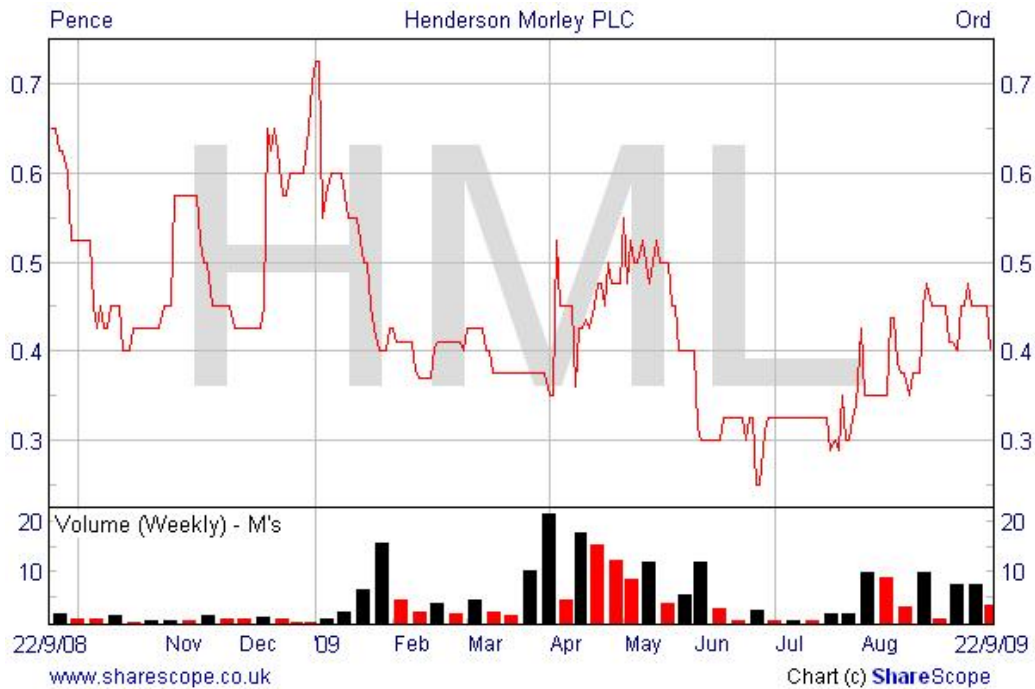
The company's business model remains the development of its proprietary candidates to the point of proof of concept and then licence these to third parties for further development and commercialisation. Licensing agreements should result in upfront and development milestone payments in addition to sales royalties once the products gain marketing approval.

By the end of 2011, the group should be a focused play on the vaccines market, which is one of the fastest growing pharmaceutical sectors; according to Datamonitor (December 2008) the global vaccine market grew by 46% between 2006/07. The group has been assigned the intellectual property rights to the PREPS and L-particles technologies that have broad potential in the treatment of diseases, including cancer, as well as for the prevention of several important virus infections for which there are no vaccines currently available.

Over the past year, Henderson Morley has made good progress with its Koi Herpes Virus ('KHV'), Eel Herpes Virus ('EHV'), Feline Herpes Virus ('FHV'), and Cytomegalovirus Vaccine candidate ('CMV'). A detailed report on the recent positive KHV trial is being compiled and will be presented to potential commercial partner, Schering Plough, for its evaluation shortly. First revenues arising from EHV should begin to arise during the next eel-fishing season, which runs from November to April. The group is in discussions with several parties to out-licence FHV while the Company and its research partner, The Australian Centre for Vaccine Development, have submitted a funding grant application with the US National Institute of Health.

The long-term value potential of Henderson Morley resides within its vaccines operation and it is in the early phases of a fundamental restructuring into a pure-play vaccine company that will take up to two years to complete. The challenges in arriving are considerable, not only in terms of management resources to secure the successful divestment of the ICVT activities but also in terms of sustaining development momentum within the other non-core activity of Animal Healthcare Products until disposal as well as in the Vaccine Technology business.

Our forecasts assume a successful ICVT divestment for up to £2 million (gross) – we understand that interested parties are undertaking due diligence. Moreover, there remains the potential for the company to realise £10 million for Animal Healthcare Products within the next 2 years, which would mean that the group should have sufficient resources to develop and license at least one vaccine. Therefore, following the positive KHV trial and with near-term funding concerns removed, we re-iterate our recommendation of **long-term Buy**.



Forecast Table

Year to 30 April	Sales (£000)	Pre-Tax Profit (£000)	Earnings Per Share (p)	Price Earning Ratio (x)	Dividend (p)	Yield (%)
2007A	19.3	(928.1)	(0.2)	n/a	0.0	0.0
2008A	16.5	(1,304.5)	(0.2)	n/a	0.0	0.0
2009A	80.0	(1,103.1)	(0.2)	n/a	0.0	0.0
2010E	80.0	888.5	0.1	4.8	0.0	0.0
2011E	80.0	(1,108.6)	(0.1)	n/a	0.0	0.0

Source: Company and Growth Equities & Company Research.

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