Fulcrum Pharma plc

INTERIM REPORT

2009

fulcrumpharma

Providing Expert Solutions

What we do

Fulcrum Pharma is a professional service company providing clients with expert solutions for development of therapeutic products.

Contents

> CHAIRMAN'S REPORT

For the period ended 28 February 2009

INTRODUCTION

I am pleased to report my first set of interim results as Chairman of Fulcrum Pharma. The trading highlights for the period from 1 September 2008 to 28 February 2009 are:

- Revenue up by 11% to £8.2 million (compared to H1 2008 of £7.4 million)
- Gross profit increased by 10% to £3.5 million (compared to H1 2008 of £3.2 million)
- Operating profit decreased to £122,000 (compared to H1 2008 of £218,000)
- Reduced EBITDA of £310,000 (compared to H1 2008 of £409,000)
- Net cash position strong at £2.7 million after repayment of £461,000 loans and deferred consideration
- EU & PDC business re-structuring programme implemented to increase operational efficiency in H2 2009

BUSINESS REVIEW

In this reporting period Fulcrum Pharma has continued to pursue the major elements of its business strategy, which are:

- Winning bigger drug development projects in the Product Development Consultancy (PDC) business through building long term relationships with a more diverse group of clients, including pharma companies, biotechnology companies, the neglected diseases sector and the investment community; and
- Building a bigger regulatory business through organic growth and acquisition of complementary regulatory businesses in the EU and US.

The implementation of this strategy has been impacted by more difficult trading conditions, particularly since the beginning of 2009. There has been a lack of funding available to biotechnology companies for development of their product portfolios and or product acquisition. Pharma and biotechnology companies and investors have also been slower to make budget commitments to new projects or project extensions and, in common with other professional service businesses, there has been some erosion of prices as clients seek to reduce costs. However, there is new and increased interest from pharma companies and the investment community in alternative approaches to drug development, and the trend towards strategic outsourcing continues to grow.

FINANCIAL REVIEW

Revenue for the Group increased 11% to £8,246,000 (2008: £7,444,000), driven by currency gains. Gross profit increased 10% to £3,498,000 (2008: £3,178,000), whilst operating profit reduced to £122,000 (2008: £218,000). The retained profit was £120,000 (2008: £66,000).

Selling and administrative expenses increased due to investment in the business development and management capabilities of the US business, in accordance with the Group's strategy, and the impact of exchange rate movements compared to the first half of last year.

Earnings before interest, tax, depreciation and amortisation ('EBITDA') were £310,000 (2008: £409,000). Earnings per share were 0.07p (2008: 0.04p).

The balance sheet remains strong with cash and cash equivalents of £2,744,000 (2008: £2,670,000).

The Directors do not propose a dividend (2008: £nil).

Average headcount for the period increased to 148 from 134, reflecting further recruitment in the US and Japan. 152 staff were in post at the period end.

> Chairman's Report (continued)

For the period ended 28 February 2009

OPERATING REVIEW

- **Group**

Revenue for the Group has increased, despite the more difficult global market conditions. Fulcrum Pharma has been protected to some extent from the full impact of the market downturn by its geographic spread, in particular the proportion of long term contract work in Japan. However, a business re-structuring programme has been implemented in the EU & PDC to increase operational efficiency in H2 2009.

- **EU**

Revenue in the EU declined in H1 2009 by 10% compared to H1 2008. This resulted in an operating loss in the EU for the reporting period. The revenue decline was partially due to large one-off projects in H1 2008 not being repeated in H1 2009. More particularly, it was due to the more difficult market conditions, which have resulted in the cancellation of some contracts, retrenchment of biotechnology companies to focus on a limited number of assets and delayed commitment of budget to projects. Fulcrum Pharma Europe, including PDC, is undertaking a substantial re-structuring programme in H2 2009 to reduce the overall cost base by approximately 10% and improve performance for H2 2009 and for Financial Year 2010.

- **US**

Revenue in the first half increased by 38% (9% when adjusted for currency effects) compared to H1 2008. There has continued to be consistent demand for non-clinical and manufacturing consultancy services, although early effects of the negative market conditions have become apparent in business development, the inability of sponsors to conduct awarded projects and cancellation of existing projects. In addition to the core development services, the capability of the US organisation has been augmented through an expansion of regulatory operations in the US office. There was strong interest among potential customers and partners for the regulatory document management and publishing services provided by this group and this interest is expect to increase. To accommodate the regulatory operations services and future growth of the US organization, an expansion of the North Carolina office was completed. In addition, the business development capability and management support has been augmented, compared to the first half of the 2008 financial year.

- **Japan**

Domestic revenue and profit grew strongly in H1 2009, with revenue increasing by 67% compared to H1 2008 (13% when adjusted for currency effects). The Group has benefited from the strong Yen. There continues to be a strong demand for Fulcrum Pharma's services in Japan, based on long-term relationships with Japanese companies and with clinical investigators. This has led to longer term contracts which result in a good order book for the next two years. Fulcrum Pharma is expanding the office accommodation in Japan to allow further recruitment of staff and is examining options to further grow the business. There continues to be substantial work generated from Japanese companies for the Fulcrum Pharma EU and US businesses based on the strong local relationships.

- **Product Development Consultancy**

PDC leads the Group's activities to win big projects, through targeted efforts to build strong relationships with clients based on Fulcrum Pharma's 10 year track record in drug development. Two major projects were won in H1 2009. Fulcrum Pharma is progressing a New Drug Application for a neglected diseases project that has been managed by Fulcrum Pharma throughout the development programme. Since the turn of the year, project conversion has been slower, reflecting the more difficult market conditions.

> CHAIRMAN'S REPORT (continued)

For the period ended 28 February 2009

FUTURE STRATEGY AND OUTLOOK

The Board and Management of Fulcrum Pharma remain convinced of the opportunity that exists to substantially grow the business through winning bigger PDC projects and building a substantial regulatory business, and these two limbs of the business strategy are progressing satisfactorily. The harsh market conditions, particularly since the beginning of the year, have impacted Fulcrum Pharma in H1 2009, though the Group has increased revenues and maintained a strong cash position. Fulcrum Pharma continues to be very active in business development with clients and has generated a substantial number of new proposals. In addition, the actions being taken to reduce the cost base should lead to an overall stronger Fulcrum Pharma business.

I would like to acknowledge the contributions of my predecessor, Sir Charles George, who ably served as Chairman for 9 years and I would like to thank the employees of Fulcrum Pharma and my fellow Directors for their contributions in H1 2009.

Grahame Cooke
Chairman

14th May 2009

> Consolidated income statement

For the period ended 28 February 2009

	Note	**Period ended 28 February 2009 Unaudited £'000**	Period ended 29 February 2008 Unaudited £'000	Year ended 31 August 2008 Audited £'000
Revenue	3	**8,246**	7,444	14,826
Cost of sales		**(4,748)**	(4,266)	(7,966)
Gross profit		**3,498**	3,178	6,860
Selling expenses		**(544)**	(359)	(757)
Administrative expenses		**(2,832)**	(2,621)	(5,437)
Other operating income		**—**	20	—
Operating profit		**122**	218	666
Finance income	4	**27**	31	69
Finance costs	4	**(27)**	(155)	(281)
Profit on ordinary activities before taxation		**122**	94	454
Income tax expense	5	**(2)**	(28)	(130)
Profit for the period		**120**	66	324
Earnings per share (pence)				
Basic	7	**0.07p**	0.04p	0.19p
Diluted	7	**0.07p**	0.04p	0.18p

> Consolidated statement of recognised income and expense

For the period ended 28 February 2009

	Note	**Period ended 28 February 2009 Unaudited £'000**	Period ended 29 February 2008 Unaudited £'000	Year ended 31 August 2008 Audited £'000
Fair value (losses)/gains net of tax:				
– Available for sale financial assets	9	**(46)**	(29)	1
Net (loss)/gain recognised directly in equity		**(46)**	(29)	1
Profit for the period		**120**	66	324
Total recognised income for the period		**74**	37	325
Currency translation differences	9	**106**	—	53
Total recognised gains attributable to the shareholders		**180**	37	378

> Consolidated balance sheet

As at 28 February 2009

	Note	28 February 2009 Unaudited £'000	29 February 2008 Unaudited and restated £'000	31 August 2008 Audited £'000
Assets				
Non current assets				
Intangible assets		**3,932**	3,548	3,973
Property, plant and equipment		**740**	670	627
Available-for-sale financial assets		**332**	446	378
Deferred tax assets		**219**	—	57
		5,223	4,664	5,035
Current assets				
Trade and other receivables		**5,718**	5,036	5,704
Cash and cash equivalents		**2,744**	2,670	2,903
		8,462	7,706	8,607
Liabilities				
Current liabilities				
Trade and other payables		**(5,404)**	(5,186)	(5,520)
Current tax liabilities		**(161)**	(4)	(102)
Bank and other borrowings	8	**(457)**	(329)	(337)
Convertible loan notes	8	**(295)**	(136)	(148)
Deferred cash consideration		**(122)**	(114)	(372)
		(6,439)	(5,769)	(6,479)
Net current assets		**2,023**	1,937	2,128
Non current liabilities				
Bank loans and other borrowings	8	**(693)**	(772)	(599)
Convertible loan notes	8	**(148)**	—	(295)
Deferred tax liabilities		**(73)**	—	(73)
		(914)	(772)	(967)
Net assets		**6,332**	5,829	6,196
Equity				
Share capital	9	**1,779**	1,779	1,779
Share premium account	9	**6,082**	6,082	6,082
Merger reserve	9	**(454)**	(454)	(454)
Retained earnings	9	**(1,075)**	(1,578)	(1,578)
Total equity		**6,332**	5,829	6,196

> Consolidated cash flow statement

For the period ended 28 February 2009

	Period ended 28 February 2009 Unaudited £'000	Period ended 29 February 2008 Unaudited £'000	Year ended 31 August 2008 Audited £'000
Continuing operations			
Profit before tax	**122**	94	454
Adjustments for:			
Depreciation of property, plant and equipment	**146**	138	283
Amortisation of intangible assets	**42**	53	191
Share based payments	**36**	30	38
Loss on disposal of fixed assets	**1**	—	—
Net finance costs	**—**	124	212
Changes in working capital:			
Decrease in trade and other receivables	**529**	631	335
(Decrease)/increase in payables	**(695)**	5	(20)
Cash generated by operations	**181**	1,075	1,493
Operating activities			
Interest received	**12**	34	72
Interest paid – bank and other loans	**(31)**	(72)	(108)
Taxation paid	**(52)**	(49)	(64)
Net cash absorbed by operating activities	**(71)**	(87)	(100)
Investing activities			
Purchase of property, plant and equipment	**(218)**	(90)	(180)
Acquisition of a subsidiary	**(250)**	155	135
Net cash used in investing activities	**(468)**	65	(45)
Financing activities			
Increase in bank borrowings	**369**	52	43
Repayment of bank loans	**(211)**	(168)	(282)
Repayment of obligations under finance leases	**(3)**	(6)	(10)
Loan note repayments	**—**	(450)	(450)
(Purchase)/sale of shares for Employee Share Option Plan Trust	**(44)**	(17)	1
Net cash generated from/(used by) financing activities	**111**	(589)	(698)
Effect of foreign exchange rate changes on cash and cash equivalents	**88**	(11)	36
Net (decrease)/increase in cash and cash equivalents	**(159)**	453	686
Cash and cash equivalents at the beginning of the period	**2,903**	2,217	2,217
Cash and cash equivalents at the end of the period	**2,744**	2,670	2,903

> Notes to the financial statements

For the period ended 28 February 2009

1. GENERAL INFORMATION

Fulcrum Pharma plc ("the Company") and its subsidiaries (together "the Group") are professional service companies providing clients with expert solutions for the development of therapeutic products. The Company is a public limited company incorporated and domiciled in England. The address of its registered office is Hemel One, Boundary Way, Hemel Hempstead, Herts, HP2 7YU, UK.

The Company is listed on the London AIM stock exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim results for the six months ended 28 February 2009 are unaudited and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 August 2008 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS and have been reported on by the Company's auditors, PricewaterhouseCoopers LLP, and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act.

The accounting policies adopted are consistent with those of the Financial Statements for the year ended 31 August 2008.

3. SEGMENTAL REPORTING

Primary reporting format – Business segments

Based on the risks and returns, the Directors consider that the primary reporting format is by business segment. The Directors consider that there is only one business segment, being professional services to the pharmaceutical industry. Therefore, the disclosures for the primary segment have already been given in the financial statements.

Secondary reporting format – Geographical segments

Although the Group is located in several different geographical areas, sales and costs are cross-charged around the group to such an extent that the results of each location are significantly dependent on the activities of the others. The geographical segments are therefore considered to be the secondary reporting format.

Revenue analysis

	Revenue by origin			Revenue by destination		
	Period ended 28 February 2009 Unaudited £'000	Period ended 29 February 2008 Unaudited £'000	Year ended 31 August 2008 Audited £'000	**Period ended 28 February 2009 Unaudited £'000**	Period ended 29 February 2008 Unaudited £'000	Year ended 31 August 2008 Audited £'000
United Kingdom	**4,677**	5,045	9,831	**1,859**	2,589	4,779
Europe	**—**	—	—	**1,682**	1,343	2,656
North America	**1,525**	1,198	2,431	**1,419**	1,672	2,787
Japan	**2,044**	1,201	2,564	**2,978**	1,837	3,999
Other countries	**—**	—	—	**308**	3	605
	8,246	7,444	14,826	**8,246**	7,444	14,826

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period ended 28 February 2009

Total assets by asset location

	Segment assets			Capital expenditure		
	As at 28 February 2009 Unaudited £'000	As at 29 February 2008 Unaudited £'000	As at 31 August 2008 Audited £'000	**Period ended 28 February 2009 Unaudited £'000**	Period ended 29 February 2008 Unaudited £'000	Year ended 31 August 2008 Audited £'000
United Kingdom and Europe	**9,465**	9,598	10,239	**91**	78	164
North America	**2,195**	1,513	1,968	**97**	12	16
Japan	**2,025**	1,221	1,435	**29**	—	—
	13,685	12,332	13,642	**218**	90	180

4. FINANCE INCOME AND COSTS

	Period ended 28 February 2009 Unaudited £'000	Period ended 29 February 2008 Unaudited £'000	Year ended 31 August 2008 Audited £'000
Interest income:			
– Bank interest	**27**	31	69
Finance income	**27**	31	69
Interest expense:			
– On bank loans and overdrafts	**(26)**	(47)	(74)
– On convertible loan stock	**—**	(8)	(8)
– In respect of finance leases	**(1)**	(1)	(2)
Fair value losses on financial instruments			
– Impairment of available-for-sale financial assets	**—**	(99)	(197)
Finance costs	**(27)**	(155)	(281)
Net finance income/(costs)	**—**	(124)	(212)

5. INCOME TAX EXPENSE

	Period ended 28 February 2009 Unaudited £'000	Period ended 29 February 2008 Unaudited £'000	Year ended 31 August 2008 Audited £'000
Current taxation	**160**	28	111
Adjustments in respect of prior periods	**(1)**	—	(3)
Total current taxation	**159**	28	108
Deferred taxation	**(157)**	—	22
Taxation charge	**2**	28	130

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period ended 28 February 2009

6. DIVIDENDS

The Directors do not propose to pay an interim dividend (2008: £Nil per share).

7. EARNINGS PER SHARE

	Period ended 28 February 2009 Unaudited	Period ended 29 February 2008 Unaudited	Year ended 31 August 2008 Audited
Basic earnings per share	**0.07p**	0.04p	0.19p
Diluted earnings per share	**0.07p**	0.04p	0.18p

	As at 28 February 2009 Unaudited Number	As at 29 February 2008 Unaudited Number	As at 31 August 2008 Audited Number
Weighted average number of shares	**177,940,743**	177,940,743	177,940,745
Weighted average number of shares held by the ESOP Trust	**(5,068,172)**	(4,588,929)	(4,264,364)
Weighted average number of shares for basic earnings per share	**172,872,571**	173,351,814	173,676,381
Number of dilutive shares under option	**1,903,153**	2,888,501	2,107,702
Weighted average number of shares for diluted earnings per share	**174,775,724**	176,240,315	175,784,083

The basic earnings per ordinary share is based on the Group's profit for the period of £120,000 (2008: £66,000) divided by the weighted average number of ordinary shares in issue, excluding those shares held by the ESOP Trust.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted for the effects of potentially dilutive potential ordinary shares.

8. BORROWINGS

	As at 28 February 2009 Unaudited £'000	As at 29 February 2008 Unaudited £'000	As at 31 August 2008 Audited £'000
Current:			
Bank loans	**455**	318	332
Finance lease obligation	**2**	11	5
Convertible loan notes	**295**	136	148
	752	465	485
Non-Current:			
Bank loans	**693**	772	598
Finance lease obligation	**—**	—	1
Convertible loan notes	**148**	—	295
	841	772	894
	1,593	1,237	1,379

Bank loans and overdrafts are unsecured. There is no difference between the fair value and carrying value of borrowings.

> Notes to the financial statements (continued)

For the period ended 28 February 2009

9. STATEMENT OF CHANGES IN EQUITY

				Retained earnings			
	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Available-for-sale assets £'000	Translation £'000	Retained earnings £'000	Total £'000
At 1 September 2007	1,779	6,082	(454)	104	12	(1,744)	5,779
Retained profit for year	—	—	—	—	—	66	66
Fair value gains/(losses) on available for sale assets	—	—	—	(29)	—	—	(29)
IFRS 2 charge	—	—	—	—	—	30	30
Sale/(purchase) of shares for ESOP Trust	—	—	—	—	—	(17)	(17)
Unrealised exchange profit/(loss) on consolidation	—	—	—	—	—	—	—
At 28 February 2008	**1,779**	**6,082**	**(454)**	**75**	**12**	**(1,665)**	**5,829**
Retained profit for year	—	—	—	—	—	258	258
Fair value gains/(losses) on available for sale assets	—	—	—	30	—	—	30
IFRS 2 charge	—	—	—	—	—	8	8
Sale/(purchase) of shares for ESOP Trust	—	—	—	—	—	18	18
Unrealised exchange profit/(loss) on consolidation	—	—	—	—	53	—	53
At 31 August 2008	**1,779**	**6,082**	**(454)**	**105**	**65**	**(1,381)**	**6,196**
Retained profit for year	—	—	—	—	—	120	120
Fair value gains/(losses) on available for sale assets	—	—	—	(46)	—	—	(46)
IFRS 2 charge	—	—	—	—	—	—	—
Sale/(purchase) of shares for ESOP Trust	—	—	—	—	—	(44)	(44)
Unrealised exchange profit/(loss) on consolidation	—	—	—	—	106	—	106
At 28 February 2009	**1,779**	**6,082**	**(454)**	**59**	**171**	**(1,305)**	**6,332**

10. RESTATEMENT OF THE OPENING BALANCE SHEET

The financial statements for the year ended 31 August 2008 were the Group's first financial statements prepared under IFRS. In the preparation of the full year accounts, some of the IFRS accounting treatments were revised from those presented in the Interim Report for the period ended 29 February 2008, resulting in a restatement to the opening balance sheet as presented in the unaudited Interim Report to 28 February 2009.

The adjustments relate primarily to IFRS 3 Business Combinations, resulting in a decrease in goodwill and an increase in intangible assets, and an increase in available-for-sale financial assets. The increase in net assets at 29 February 2008 was £73,000.

No changes have been made to the comparative income statement.

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