

A good scheme for biotech companies

CAMBRIDGE ANTIBODY TECHNOLOGY

Pharmaceuticals and Biotechnology
 Granta Park, Cambridge and
 Palo Alto, California
 300 staff
 2005 Turnover £49.2m
 2005 R&D £37m
<http://www.cambridgeantibody.com/html/>

KEY ISSUES IN THIS CASE STUDY

- ▶ Tax credits help fund early-stage loss-making Biotech companies
- ▶ Handling transition from SME to larger company R&D tax credit scheme [see Sidenote]

The company

Cambridge Antibody Technology (CAT) is a biopharmaceutical company committed to developing human monoclonal antibody therapeutics to bring improvements to seriously ill patients' lives.

For example, the rheumatoid arthritis treatment HUMIRA®, licensed to Abbott and isolated and optimised in collaboration with Abbott is already approved and marketed in 57 countries worldwide and nine further human monoclonal antibodies originating from CAT are in clinical trials.

CAT develops products independently and in collaboration with partners. It also licenses its technologies to enable other organisations to develop new medicines. Based near Cambridge, and with a new site in Palo Alto, California, CAT currently employs 300 people.

In the summer of 2006 CAT was acquired by AstraZeneca, following a successful collaboration between the two companies for the development of antibody medicines, initially in the area of respiratory and inflammation, which commenced in 2004.



For the company's financial year ending 30 September 2005, turnover was £49.2m with an R&D expenditure of £37.0m. The R&D as % of sales was 75%.

CAT found out that they were eligible for R&D tax credits from Budget publicity. They established which of their costs would be eligible through the study of the legislation and with input from specialist tax advisors.

The benefits

"... additional cash for a cash consuming business is very beneficial"

John Aston, Chief Finance Officer, said: "Our R&D tax credit claims are successful. We transparently disclose the amounts of tax credit received in our annual reports. Using the SME scheme, we obtained £3.6m in 2002 and £2.6m in 2003. With continuing growth in the company, we were ineligible after 2003 for the SME scheme. The receipt of additional cash for a cash consuming business is very beneficial."



Technical Note: Definition of SME

For accounting periods ending on or after 1 January 2005, there is a new definition of Small or Medium Enterprise. Such a company must have:

- (i) fewer than 250 employees, and
- (ii) either annual turnover of less than 50m Euros or an annual balance sheet total of less than 43m Euros.

Where an enterprise is not autonomous it may be necessary to take account of the headcount, turnover and balance sheet totals of other enterprises to which it has connections.

Advice to newcomers

"a good scheme for biotech companies"

John said: "Our advice to newcomers to the R&D tax credits is that the SME scheme is a good scheme for biotech companies in that it provides cash back. The larger company scheme was less relevant to us as we did not have taxable profits against which to offset the enhanced losses available. We would recommend other companies who qualify as SMEs to look closely at the cash benefits available from R&D tax credits."



Technical Note: R&D tax credits where large and small company schemes interact

For a growing company there is normally a year of grace before it loses its SME status. For the first accounting period in which it goes over the employee or financial thresholds at the closing balance sheet date, it will normally still qualify as a SME over the whole period. But it will not do so for the next accounting period if the thresholds are also exceeded at the end of that period. This year of grace does not apply if the company loses its SME status because it is taken over by a large company, although it will qualify for the accounting period in which the takeover happens.