EU Financial accounts reports

David Citron

Cambridge Antibody Technology: Results for the nine months to 30th June, 2003

Cambridge Antibody Technology (CAT), which has been listed on both the London Stock Exchange and NASDAQ since June 2001, specialises in the use of proprietary technologies and capabilities in human monoclonal antibodies for drug discovery and development.

While sales revenues for the nine months to June 2003 were virtually stable at £6.4m compared with the corresponding 2002 period, the operating loss was up by one-fifth at £32.7m. Indeed, if one-off expenses of £8m in the prior period are excluded, the increase in the loss this time was almost 70 per cent. This was largely due to the £11.4m increase in R&D expenses for the nine months, attributed by the company to increased activity on clinical trials. However, when CAT announced its half-year results to March 2003, it referred to the weakened market for early-stage research collaborations between biotechnology and major pharmaceutical companies which, at that time, it thought would lead to some limited redundancies in its research team.

CAT's main product success is HUMIRA, which had been discovered by CAT and then licensed to Knoll Aktiengesellschaft in 1995. Knoll was subsequently acquired by Abbott Laboratories, and Abbott is now responsible for HUMIRA's development and marketing. US Food and Drug Administration approval to market the product as a treatment for rheumatoid arthritis was obtained at the end of 2002, Swiss approval in April 2003 and European Commission approval were announced in September 2003. In May 2003, Abbott's forecast for 2003 sales of HUMIRA was $250m.

Unfortunately CAT is embroiled in a royalty dispute with Abbott in connection with HUMIRA, with Abbott claiming the right, based on the original 1995 agreement, to withhold certain royalty payments as offsets against other amounts due. This apparently could result in a substantial reduction in CAT's royalty receipts. At the time of the publication of the June results in September 2003, CAT stated that it was not anticipating any resolution of the issue in the near future.

This royalty dispute had an undesirable knock-on effect in connection with CAT's attempted acquisition of Oxford GlycoSciences (OGS) in early 2003. An agreed share-for-share exchange had been announced in January and subsequently approved by CAT's shareholders. However, the royalty dispute with Abbott had a sufficiently depressing effect on CAT's share price that a cash offer for OGS by Celltech eventually won the day. CAT's chief executive, Peter Chambre, subsequently announced that the company would aim to grow organically rather than by acquisition.

Having reached a high of 4,400p in autumn 2000, CAT's share price has languished in the 400–600p range over the past year. Abbott has launched clinical trials for additional HUMIRA applications apart for rheumatoid arthritis. CAT's cash plus short-term investments amounted to £113.7m at the end of June 2003. The company was expecting total cash burn for the financial year to be less than £40m. At that rate, however, CAT will need to resort to a fund-raising exercise within the next two to three years, and this without taking account of likely increases in cash outflows as the product pipeline hopefully reaches later stages of development.

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Celltech Group: Results for the six months to 30th June, 2003

Following its merger with Chiroscience in 1999 and acquisition of Medeva in 2000, Celltech expanded further in the first half of 2003 with the £102m cash acquisition of all of the share capital of Oxford GlycoSciences (OGS). Since OGS brought with it almost £127m in cash, Celltech estimates that once integration costs are taken into account the overall impact of the acquisition will be cash neutral. Integration activities are expected to be substantially completed by the end of 2003. As part of this process Celltech intends to dispose of two non-core activities – OGS's proteomics contract service business and its anti-fungals research.

Unusually for a biotechnology acquisition, the OGS deal added no goodwill to Celltech's June 2003 balance sheet. However, this is based on preliminary valuations of the net assets acquired, with the £8m valuation placed on the businesses held for disposal being particularly sensitive and subject to negotiations. Importantly, OGS gives Celltech a new drug, Zavesca, recently approved in the USA, Europe and Israel, which should provide a reasonable royalty cash flow.

OGS has been consolidated into Celltech's financials only from 1st May, 2003, so will have had little impact on the half-year results. Sales grew at 8 per cent (at constant exchange rates) to £158m for the six months to June 2003. This includes £111m of product sales, although these exhibited no growth, partly because of planned destocking by wholesalers.

Celltech focuses attention on its profits before deducting exceptionals or goodwill amortisation. At this level, pre-tax profits of £20.9m for the six months were 76 per cent up on the year before. However, exceptional costs amounted to £18.8m, consisting of the restructuring of the European salesforce and of US manufacturing operations, the integration of OGS and the discontinuation of a Crohn's disease drug. These costs arose from the strategic review of Celltech's business instigated by the April 2003 arrival of a new Chief Executive Officer, Goran Ando, previously head of R&D at Pharmacia.

The second item omitted from Celltech's 'headline' profits, goodwill amortisation, amounted to £46.8m for the six months. So, after deducting both exceptionals and amortisation, the statutory pre-tax result was a loss of £44.7m. It is worth noting that at June 2003 Celltech had £346m goodwill remaining on its balance sheet. This will take over three years to completely amortise at the current annual rate of £94m.

Celltech's most advanced development candidate is CDP 870 for the treatment of Crohn's disease, with the initiation of Phase III development planned for the second half of 2003. Pfizer is conducting a large Phase III programme with CDP 870 in rheumatoid arthritis. In his interim statement, Dr Ando characterised the successful development and commercialisation of CDP 870 in Crohn's disease as Celltech's most critical near-term activity. Indeed, in August 2003 Merrill Lynch was forecasting annual sales in excess of US$1bn for CDP 870 after its launch in 2006, with peak annual revenues to Celltech of £230m under the profit-share agreement with Pfizer (*The Times*, 22nd August, 2003).

Celltech's financial position was strong at the end of June 2003. Net liquid funds totalled £157m, including convertible loan notes of £31m due to be paid by PowderJect in September 2003. The company was not expecting any change in this balance by the end of 2003. Despite this, and despite reporting half-year results ahead of expectations, Celltech's shares fell by over 4 per cent on announcement of its interims. The issue appears to be the predominance of early stage research in the portfolio, with so much hope carried by CDP 870.

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