



OBN INVESTMENT & TAX SPECIAL INTEREST GROUP

From Seed to Unicorn

A guide to the sources of funding available to life science companies



ABOUT OBN

OBN is the UK's largest and most innovative not-for-profit R&D membership organisation for Life Sciences organisations with over 400-member companies, ranging from start-ups through to unicorns and Big Pharma.

Our goal is to create and develop an environment that nurtures the emergence and growth of innovative and successful Life Sciences companies and new products / services and to create unrivalled opportunities to facilitate collaboration and new business generation.

www.obn.org.uk

We conduct more than 40 high-quality networking events per year throughout the country, including the delivery of four distinct and differentiated flagship conferences:

- **BioTrinity** - Europe's leading Biopartnering and Investment Conference (London)
- **BioForward** - OBN's 'Roadmap for Growth' Life Sciences event, designed to provide the support, skills, know-how and industry connections required to build a commercially successful business
- **BioSeed** - OBN's fast-paced, one-day pitching event where innovative early-stage Life Sciences companies seeking Seed or Series-A funding, showcase to and meet with an extensive audience of active life sciences investors
- **OBN Awards** - celebrating innovation and outstanding achievement across all corners of the life sciences industry

These major events each satisfy a specific need but together provide a comprehensive system that addresses all the various & critical requirements of the UK life sciences sector.

Underpinning this are a wide range of high-quality support services including professional training, market intelligence, purchasing consortium, advisory services, and advocacy, generating a compelling membership proposition to the life sciences sector.

OBN INVESTMENT & TAX SPECIAL INTEREST GROUP (ITSIG)

The OBN Investment & Tax Special Interest Group (ITSIG) has the brief to get the voice of OBN's Members heard in the national and local political arena, with the aim to create a more favourable fiscal environment for emerging, small and medium sized enterprises in the UK life sciences industry.

Established in 2014, the OBN Investment & Tax Special Interest Group is chaired by **Dr Shawn Manning**, Managing Director, **Akesios Associates Limited** and European Adviser to US investment bank, **Outcome Capital LLC**. He is joined by:

Bill Fleming
CFO, **IngenOx Therapeutics**

Dr Matthew Frohn
Partner, **Longwall Ventures**

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Partner (Corporate Tax), **Taylor Wessing LLP**

Mike Shearan
Senior Manager, **James Cowper Kreston**

Howard Sherman
CFO, **Safeguard Biosystems Holdings Ltd**

The objectives of the Group are to:

1) Define and Evolve Policy on Behalf of OBN and its Members: Help to create and define/evolve policy in relation to the OBN position on matters relating to investment, grant funding and taxation as they affect Member companies and the UK, and where relevant, other Health Economies.

2) Advise and Support Life Science Advocates on Issues Impacting Members: Advise and support life science advocates on matters relating to investment, grant funding and taxation as they affect Member companies and the UK Health Economy.

3) Direct Advocacy to Support Members' Interests: On occasion and where appropriate, act as direct advocates on behalf of OBN, for policy where the Group as a whole, or individual Members, have specific expertise or experience that will advance the membership's interests.

4) Support OBN Consultation with, and Notification to, its Membership on Relevant Issues: Support OBN's periodic consultations, surveys and outcome notifications with the membership regarding issues related to ITSIG's areas of expertise.

¹ Including but not limited to EIS, SEIS, 'Patent Box' and R&D tax credits

² Including, but not limited to the BIA, ABPI and the OLS

³ Where appropriate, and with the condition that this support is not detrimental to the effectiveness of the SIG in terms of objectives 1,2, and 3

⁴ Including, but not limited to, policy positions and policy 'wins' with respect to our impact on decision making

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INTRODUCTION

The sixth edition of this booklet aims to bring together the multiple sources of funding opportunities available to OBN Members. In doing so we aim to draw attention not only to traditional equity-based approaches, but also non-dilutive, grant based, debt-based and more innovative methods of fundraising, including routes to maximise the value of existing cash resources through tax credits and matched-funding opportunities.

Much has changed since the third edition, not least Brexit, which brings change to the accessibility of EU programme support but also opportunity, particularly in terms of increased potential flexibility around UK Government support and aid to the sector going forwards.

We also examine the various routes to exit, including trade sale, IPO, and explore the pros and cons of these various approaches.

We anticipate, and hope, that our Members and the wider Life Sciences Community will find this a helpful reference and starting point. However, none of the options outlined are necessarily simple processes, and we have sought to include sufficiently credible information to enable interested SME's to seek the right advice from the right sources.

There is no one size fits all approach and we have endeavoured to provide an introduction to as wide a selection of funding mechanisms as possible from equity to debt and non-dilutive to convertible instruments, and from private equity to public markets. However, in terms of markets our focus is primarily concerned with assisting smaller private companies plot a pathway to an exit point that may or may not include the public Equity Capital Markets.

Each approach has its merits and pitfalls and may play a part at various stages of an SME's evolution and journey to success. The content is not intended to be exhaustive and we welcome ongoing feedback, input and updates from our Members, including direct input to ITSIG. Ultimately SMEs will need to undertake their own thorough due diligence to determine the best approach for them but we hope they may do so armed with sufficient information to do so in a more efficient, informed, and targeted manner.

OVERVIEW OF THE VARIOUS TYPES OF FUNDING

INTRODUCTION – THE BIG PICTURE

The comments in this guide generally assume a private limited company working through its lifecycle. Other legal forms of carrying on a business, for instance as a sole trader, partnership or trust, will all entail rather different considerations in terms of the most effective funding strategy.

Funding the company's development is, of course, much more than securing the necessary cash for working capital, R&D, other operating costs and fixed assets. Funding also drives and reflects fundamental business strategy, in terms of ownership, commercial direction, progression of the 'equity narrative' and ultimately what the 'exit route', in terms of a liquidity event, is for the business owners. As with all businesses the overarching objective of every life science business is the creation of monetary value for shareholders. Whilst the pursuit of innovative science, and the betterment of mankind are laudable objectives, in any company they are at best secondary considerations compared to the creation of wealth for shareholders.

The different forms of finance sources briefly outlined in this booklet all have their own properties in terms of how they operate, how they can be sourced, and what the costs of servicing them are to the business. However, financing should be co-ordinated both in the sense of optimally utilising and orchestrating the various sources of funding over the lifetime of the business.

The importance of planning

A key requirement throughout a business' life cycle, from incorporation through to a liquidity event, is the generation of detailed and realistic financial forecasting and projections. If conducted in a suitably diligent, and as far as possible accurate manner this should ensure that there is a clear understanding of the business's requirements over a projected period of time.

For example, if a company is capable of generating revenue and cash flow this could greatly reduce the requirement for additional funding. This in turn has implications in terms of the requirement to dilute existing equity via funding from additional shareholders, whether in the form of equity or debt, and will ultimately impact the return to existing shareholders in terms of the liquidity event.

The necessity of a credible plan

However, many if not most technology companies (certainly in the Life Sciences sector) may take a long time to achieve significant revenue and will require significant funding and/or cashflow in order to transform themselves from loss making, through 'break even' to profitability.

In reality, very few Life Science companies actually continue long enough to achieve profitability. If their propositions are sufficiently compelling, and offensively positioned in terms of the competitive landscape, an acquisition represents the more probable outcome.

However, it would be an unwise management team that would seek to position a company for M&A without ensuring that a strong, self-fulfilling, growth strategy is planned and ready to be implemented. In the absence of an M&A-based transaction, an initial public offering (IPO) is the most likely liquidity event that will return value to shareholders.

As such, external sources of funding will be a necessary part of every company's ecosystem. Solid and credible financial projections will need to demonstrate future funding needs. It is beyond the scope of this particular report to cover the necessity for realistic and, from an investors point of view, believable forecasts. Suffice it to say that under promising and over delivering should be at the forefront of every management team's minds when constructing a forecast. Revenue forecasts that suddenly leap to a tenfold high one year after a forecast fundraising round do little to inspire confidence in a management team's grasp of reality from an investor's perspective. The goal of a good management team is to appear credible, rather than incredible.

Broad categories of funding

To categorise the types of funding set out in more detail below, there are three broad types:

- **Equity:** Share investment, where there is a balance between cash required by the company and the percentage of ownership which existing shareholders are prepared to give up for any given amount of funds invested;
- **Loan financing:** Which generally does not involve giving up any percentage ownership, but on the other hand brings in both a recurring cost to servicing debt (unlike, typically, equity) **and** of course implies a requirement to repay the underlying loan principal (which needs building into the financial projection); and
- **Non-dilutive capital:** Grant funding or similar types of 'free' funds – where 'free' does not usually imply the absence of any restrictions on either the use of the funds or conditions on the company's further operations, but at least does not imply dilution of shareholder ownership, or an ongoing cost or return of the funds.

EQUITY: HOW MUCH DO I GIVE AWAY?

INTRODUCTION

Equity is the term used to define the value of shares issued by a company, with 'equity funding' representing funds secured by the sale of new shares. Equity funding, i.e. the receipt of investment funds on the issue of share capital, is the core activity of most early stage Life Science companies' fundraising efforts.

Share Capital and the all-important, but often misunderstood, concept of 'ownership'

The typical model here is of a company that is initially 100% owned by the founder(s), with 'dilution' of that ownership, and associated 'share capital', as further rounds of shares are issued. In theory, assuming parity of shares, as each round of investors takes their equity, they are parting with their funds on a full risk basis (in that there is no obligation or requirement for the company or any other party to later refund or make good those funds), but on the upside those investors buy into an 'equitable hope' for future growth of the whole company.

An important consideration of the equity-based model is that possession of share capital is directly proportional to ownership. This concept is often forgotten, or pushed to the back of their minds, by many management teams. It is certainly rarely appreciated at the operational level of most companies, whether they be privately owned or public listed behemoths. As such, distribution of new equity is in fact distribution not only of a potential return 'at some point in the future', but distribution of ownership 'in the here and now'.

As such, a company is owned by its shareholders, its interests being served by the CEO and management team. The latter are purely appointed to serve investors by the creation of financial value. All major strategic decisions must be taken on behalf of, and with the consent of, shareholders.

Whilst founders are usually acutely aware of this fact, and all of its consequent implications, management teams frequently neglect this fact at their own cost. Amongst larger players this ignorance is in part bred by the relatively transient nature of investors in publicly listed companies, where shares may be traded at such a rate that to a large extent management is always playing catch up with the share register. Investors in smaller companies are usually on board for a relatively prolonged period, and as such a company must acknowledge their right as owners to influence strategy, direction and eventual corporate goals. If a company management does not wish to be subject to this level of involvement it may either seek to issue less shares to 'third parties', or deliberately limit the number of shares that can be held by any single investor, in the hope that alliances / 'cartels' are not formed by investors seeking more proactive roles.

However, for an early-stage company, the prospect of balancing an investor register is for many a 'nice problem to have'. The immediate issue is actually finding willing investors. Seeking new capital has been described by some as a form of 'horse trading' over equity value, as founders seek to give away as little equity, for as

much cash as possible, in order to minimise dilution of their own holdings. In contrast, new investors seek to purchase as much equity, for as little cash as possible. At face value the two groups are diametrically opposed, and in circumstances where there is little to tie the two groups together, in terms of common ground and more importantly shared incentive, investments rarely happen.

The Pre-Money Valuation

As such, some generalised 'rules of engagement' have been developed in order to help smooth the process. The most important step, assuming some worth at least has been attributed to a company's initial endeavours, is the agreement on a 'pre-financing' value – referred to as the 'pre-money' valuation. This may take the form of what has been invested in the company to date, supplemented with any additional value created in the process. However, in many cases, value may not have been created or even maintained as markets shift, competitors enter or technologies fail. The alternative approach is to take a view of what the company's long-term potential might be, and then adjust that value based on the time, capital and risk involved in reaching that potential. **Ultimately, however, valuations are based on assumptions and, for a non-publicly traded company, are not a key intrinsic feature of a business itself. Rather, they represent the basis on which two parties agree to transact.**

EQUITY: HOW MUCH DO I GIVE AWAY?

Existing shareholders will always, of course, argue that the pre-money valuation should always be as high as possible in order to optimise the value of their existing investment. In contrast, new investors may seek to deconstruct this perceived value. Excluding initial investment, commonplace drivers of a pre-money valuation may include non-dilutive funding (i.e. grant money), collaborations and / or validation by bigger industry partners and licensing or co-development deals with partners.

Clearly the calculations and assumptions around a pre-money valuation may require many iterations and negotiations. Comparison with commercial peers and risk-adjusted discounted valuations may all play a role, and we would advise companies to seek reliable and experienced third-party counsel where appropriate.

The most important pre-money driver is data

For a Life Science company the most important component of a pre-money valuation (which generally far outweighs any other factor) is good data, with implications for successful product development, commercialisation, and a rapid pathway to a liquidity event. However, it is surprising how many companies attempt to relegate data to a secondary position, behind underlying scientific rational, structural (assets, which may include patents) or funding achievements, when raising money. Sadly, in most of these cases this reflects a paucity of quality data rather than unawareness per se

on behalf of the company. The perceived value of data to management teams is a noticeable difference between the US and European Life Sciences industry, being more highly valued in the case of the former.

Some important observations regarding valuation

In addition to providing the basis for investment, a regularly updated valuation should provide management with a better 'three dimensional' understanding of its business, and as such valuation metrics can greatly assist with internal decision making. The short-comings of any static equity-based valuation is that it is always subjective with respect to representing 'Fair Value' under a particular set of criteria (e.g. discount rate, risk adjustment, speed of execution etc.), and as such represents a 'snapshot' at best. As such regular updates, using a consistent and comparable methodology are essential if valuation is to be properly employed as a decision-making tool.

However, we note that 'one time' valuations may be effectively employed to assess new opportunities (e.g. licensing deals or portfolio management challenges). Moreover, management teams should expect that investors buying equity will nearly always discount internal valuations, as they will likely be biased by factors such as minimum stakes, desire to drive returns and/or management of fund cycles.

What do investors want?

Whilst it is usually very obvious what companies seek from investors, a surprising number of companies are unaware what investors are actually seeking. It is sometimes surprising for a management team when they meet, a well-qualified (perhaps to post-doctoral or professorial level), well connected, technology enthusiast representing an investor company, who 'buys into' the underlying proposition and seems willing, and even excited, at the prospect of helping the company achieve its goals. That this individual is willing to lead the effort to invest cash into the company can be a thrilling proposition.

However, it should never be forgotten that investors are seeking, first and foremost, a return on investment. As owners of the company, investors expect the management team to deliver that return and any considerations around the technology, the personal desires of the team, is very much secondary.

Management alignment with investors

Ideally company management will be aligned with this concept, although they're often not. The principal purpose of all commercial ventures is to deliver shareholder return. Amongst listed companies, this is typically manifested by an increase in equity value, driven by positive news flow, value accretive transactions (particularly acquisitions at a share price premium) or dividend payments. Whilst listed life science companies conform to this established model, for smaller, privately-owned companies a liquidity event in the form of an Initial Public Offering (IPO) or value accretive acquisition is the most common route to shareholder return. Most investors will seek to exit at this liquidity stage, taking cash from either a large 'Corporate' in the event of an acquisition, or cash from larger institutional investors in the case of an IPO.

EQUITY: HOW MUCH DO I GIVE AWAY?



However, some management and employees are inappropriately motivated by factors other than return on investment. Even senior members of management may view their role principally as an opportunity to pursue research interests or career progression as a 'stepping-stone' to greater things. At best, this may manifest itself as ambivalence regarding the timeliness of converting equity to cash, and at worse, an inclination to take a healthy compensation package and senior job title role without delivering growth in equity value. Such an approach is often, but worryingly not always, coupled with an ignorance of shareholder's expectations pertaining to return on capital and risk. A further consideration often ignored is the idea of the right management team for the right stage of a company's development. It is very unusual to see founding, usually scientific executives remaining in the same roles throughout a successful company from seed to sale, IPO or commercialisation. Painful conversations will need to be had at critical points in a successful company's development, usually around further financing round and a high degree of self-awareness is needed.

The situation may be exacerbated in situations where an executive's 'fear of failure', and associated concerns regarding future employment, may act as a barrier to company progress, particularly if shareholder value is dependent on a positive outcome associated with a risky 'binary' event. In contrast, we note that more dynamic

management are often keener to embrace risk, with the intention of either (i) capitalising on equity return, (ii) moving on within a company to a NED or advisory position or leaving entirely on a voluntary or involuntary basis or (iii) failing in as capital efficient manner as possible, learning valuable lessons, and moving onto the next, and more likely successful, venture. In the US, where management failure may be viewed more positively (i.e. 'what did you learn' rather than 'you're a failure'), there are more opportunities and a relative veneration of entrepreneurialism, risk aversion may be much lower.

From a personal tax point of view, a key concern of the founders will be the amount by which successive investments dilute their shareholding. In the UK, Business Asset Disposal Relief (formerly Entrepreneur's Relief) (a lower capital gains tax rate of 10% for the first £1m of lifetime gains) is only available to individuals who have owned the shares for more than 2 years and who own at least 5% of the ordinary share capital of the company (which must entitle them to 5% or more of the voting rights and either: (i) 5% of the profits available for distribution and 5% of the assets on winding up the company or (ii) 5% of the disposal proceeds if the company is sold). There is now a provision to 'bank' Business Asset Disposal Relief where a funding round which completes after the 2nd year holding period dilutes the shareholding below 5%.

It would be advisable to consider introducing some form of share incentive arrangement, which will help to align the interests of investor and senior managers. The most popular UK share scheme is the **Enterprise Management Incentive (EMI)** scheme. This is a tax approved share option scheme. The key benefits are that the growth in value of the shares will not be taxed on exercise of the option (instead they will be taxed to the more favourable capital gains tax on a sale of the shares acquired by a third party). The conditions for qualifying for Business Asset Disposal Relief on a disposal are also relaxed for shares acquired through an enterprise management incentive scheme so that the individual does not need to hold 5% of the fully diluted share capital to qualify and the 2-year ownership period starts from the date the option is granted and not the date that the shares are issued.

An EMI scheme will only be available if a number of conditions relating to the company, the employee to whom options are to be granted and the option documentation are met.

Where tax efficient incentives are offered, poor documentation or failures in implementation (including failures to notify HMRC) may result in the intended tax relief being unavailable. A buyer will typically require indemnities from the sellers for any tax liability arising from the option scheme and will typically refuse to recover these from existing employees even where the option agreement permits the company to recover from the option holder. The box below highlights the importance of getting documentation correct. It should be noted that the numbers are often higher than this.

TYPE OF OPTION	OPTION GRANTED	EXERCISE PRICE	SALE PRICE	TAX ON EXERCISE	TAX ON SALE	TOTAL COST
EMI	10 ordinary shares	£5 per share x 10 = £50	£2,500 per share x 10 = £25,000	£0 (assuming that £5 was the market value at the date of grant)	Gain = £24,950 Less CGT annual allowance (2022 rate = £12,300*) = £12,650 chargeable gain. Taxed @ 10% (assuming option holder is still an employee and granted the option 2 years prior to sale) = £1,265	Total Tax = £1,265 Total exercise price = £50 = £1,315
UNAPPROVED	10 ordinary shares	£5 per shares x 10 = £50	£2,500 per share x 10 = £25,000	Income gain on exercise: £25,000 - £50 = £24,950 • Employer's NICs £3,443.10 (payable by employee) • Employee NICs £499 Net gain (assuming employee to pay E'er NICs) = £21,506.90 • Income Tax £9,678.11 (assuming 45% rate) Total tax/NICs = £13,620.21	£0 (as all taxed on exercise)	Total Tax/NICs = £13,620.21 Total exercise price = £50 = £13,670.71

* The CGT annual allowance will reduce to £6,000 in the 2023/24 tax year. In the 2024/25 tax year it will reduce again to £3,000. This has been notified as a permanent change.

EQUITY: HOW MUCH DO I GIVE AWAY?

FUNDING ROUNDS – A BRIEF INTRODUCTION

The stages of a typical Life Sciences company's share issue 'lifecycle' vary immensely from company to company. In addition, the descriptions of each stage may vary by geography (e.g. the concept of Series A, B and C rounds etc. has traditionally been religiously followed in the US, but historically ignored in the UK). However, there is a general pattern that applies for the vast majority of early stage companies:

- 1. Incorporation/initial share issue:** Shares are typically issued at the shares' 'nominal value' (i.e. their face value), simply to get the company incorporated and initial ownership established. The number of shares issued is generally quite low, but sufficient that all founders feel that they have an appropriate 'piece of the action'. For many UK companies spun out of universities or larger companies, a proportion of the incorporation shares may be held by the originating university or company.
- 2. Founder or seed rounds:** these may introduce initial funds into the company, from founders, and 'family and friends'. This round may attract privately wealthy individuals, often described as 'High Net Worths'. It has become fashionable, particularly in the technology industries, for privately wealthy investors to be described as 'Angels'. The term originated on Broadway, where wealthy individuals would literally 'keep the show on the road', but in the late 1970s was

used to describe wealthy patrons of entrepreneurial businesses.

- 3. Seed investment:** If the first investment is made only by founders, a further 'seed round' may seek to widen the circle of existing investors. This round may also include private investors, groups of private investors (so called 'Angel networks'), crowdfunding platforms and even niche investment funds. The latter may include, in the UK and Europe, state-backed business banks. The latter tend to invest alongside privately wealthy investors in order to spur on and incentivise their behaviour and encourage investment into industries viewed as being of strategic and national importance.
- 4. Series A:** This usually represents the first major round of funding, where investment is typically earmarked for a specific task, such as proof of concept. A number of factors may be included in the valuation that are indicators of success to date, whilst additional factors may be taken into account such as the quality of the board and management team. At this level of investment, a 'lead' or 'cornerstone' investor may account for 25-40% of the investment round, with other investors following this lead. Some of these may have frequently invested alongside the lead on previous occasions, and it is possible that some previously 'syndicated' investors, that know each other well from previous deals, may share the weight of some of the required due diligence. The

ability and willingness of investors to 'syndicate' may be a key factor in ensuring that a round is successfully executed.

- 5. Series B and Series C:** There is such variability in progression rates of Life Science companies that all that can be said with any accuracy regarding Series B, C, D or E rounds are that if they occur they will essentially be providing capital, that builds on the previous company investments, to assist it in its path to liquidity. In the UK markets there are some Life Sciences companies that have listed on the public market via IPO after just two or three private investment rounds, whilst there are others that have secured upwards of 8 investment rounds and are still many years away from a liquidity event.
- 6. Investment round prior to Initial Public Offering (IPO):** In an 'ideal world' this may be what could be termed a Series C investment. At this point any long-term investors are likely to be keen to exit with a significant return on capital. As such they are unlikely to be keen to dilute their shareholdings, and if they are capable of doing so (i.e. they have sufficient funding themselves) they are likely to wish to participate in the round prior to IPO. If additional and very substantial investment is required ahead of the event (e.g. to commence an expensive Phase-III trial), additional investors may be sought who fulfil the criteria of supplying capital, but also offer the prospect of some share register stability through the listing process (i.e. 'crossover' funds, or private equity investors that finance both private and public equity). There is a recent, predominantly US, trend towards SPACs (Special Purpose Acquisition Companies). These are existing, mainly NASDAQ listed vehicles that are effectively shell companies that merge or acquire promising privately held companies. A recent example is the 23andme/Virgin SPAC which allowed a large private DNA company to become public via this route. These are specialist transactions however, with complex parameters that are too detailed to review here.



Companies should pay close attention to their advisors. We are aware of an example whereby an advisor informed a listed life science client that it had extensively 'reached out' to the market and reported that there was limited appetite for shares priced at a particular level. This proved not to be the case and whilst the company obtained investment, this was at an insufficient level of funding to successfully execute the value enhancing project that had been planned.

Trust between a company and its advisor(s) is key. However, trust should be demonstrated and earned rather than assumed. It is perhaps wise never to automatically assume that an advisor will act in the best interests of a client company but do your own due diligence to validate what an advisor may be saying. Advisers may have their own reasons for the way they act that are not aligned with those of the corporate client.

For instance, it is not unheard of for advisers to place the interests of key investor clients (with which they do a lot of business across the sector, and even other sectors) above those of a corporate client seeking, for instance, to raise funds. It is possible for the latter to become a pawn in a relatively complex strategy, the prime objective of which is to generate more business from the former. As such discounted valuations may come into play, that whilst serving friendly investors, may sometimes undermine a corporate client.



EQUITY: HOW MUCH DO I GIVE AWAY?

TYPE OF SHARE

The simplest model is for a company to have only a single class of share. However, in the Life Science sector, multiple classes of share are not unusual as a way of flexing the needs and demands of investors seeking to secure their proportion of share capital. Whilst this may attract or secure some investors it can result in potential hurdles as others compete for increasingly preferential classes of share.

Preference shares

The most well-known distinction in classes of share is between 'ordinary' and 'preference' shares, where 'preference' may relate to particular features such as dividends and/or votes. In practice, even ordinary shares can have gradations of 'preference' between them, including preferred returns on exit (for example either earlier or later round investors may demand the first tranche of return on a sale of capital).

Related to different classes of share, there may be other features of individual rounds of investment such as 'anti-dilution', whereby earlier investors may insist on the protection that if later rounds are issued at a lower price than earlier rounds (which in theory ought to be rare), they should be allowed to invest again at that same lower price, or at an even lower price such that their average price of investment is reduced to that of the later round.

Simple as possible for as long as possible

Not surprisingly, dealing with different classes of shares can constitute a real headache for management. Therefore,

many companies adhere to the principal of a single share class, so as to ensure equivalent capital amongst all investors. At the very least we would recommend preference shares only as a last resort. A company issuing shares with any form of preferred returns can potentially have unexpected tax implications, including compromising the availability of Business Asset Disposal Relief or SEIS and EIS tax reliefs (see below).

Sources for Equity Funding

These include:

- Founders, family and friends
- High net worth individuals ('Angels') & Family Offices
- Private equity (PE) investors
- Angel investor networks
- Venture Capital Trusts (VCTs)
- Crowdfunding platforms
- Enterprise Capital Funds (a combination of private and public funding)
- Enterprise Investment Scheme (EIS) funds
- Sovereign wealth funds (state-owned investment funds, eg Singapore's GIC)
- Philanthropic Investors (e.g. The Bill and Melissa Gates Foundation)

Some of these are described in further detail below.

THE CURRENT FUNDING ENVIRONMENT – SUPPRESSED PUBLIC MARKETS BUT BUOYANT ENVIRONMENT FOR UNLISTED COMPANIES

As at Sep 2022, the UK funding environment for life sciences-based SMEs is a mixed bag. The public market remains depressed, reflecting the situation in both the US and elsewhere (see below), and as a poor comparator to 2021 which saw an upsurge in new investment in Life Sciences following the easing of COVID-19, and 2020 which saw a shift of capital into the 'defensive' Life Sciences sector). Whilst AIM continues (perhaps at best) to function as a platform for listing and limited secondary financing, it remains less welcoming for most new Life Sciences companies without a short-term expectation of revenue and/or profitability. Sadly, NASDAQ, which historically has proven a market of choice for companies with sufficient critical mass to demand appropriate pre- and post-money valuations (see below), is currently suppressed (see below), and until recovery is unlikely to represent a viable, and liquidity enhancing, opportunity for all but the most prepared companies.

However, over the past few years the UK industry has continued to mature, with growth, and eventual sale, of privately listed companies setting a good example for their earlier stage peers. The sale of Kymab (to Sanofi for up to \$1.5bn), GW Pharma (to Jazz Pharmaceuticals for \$6.7bn), Inivata (to NeoGeomics for up to \$415m), MiroBio (to Gilead for \$405m) and Diurnal (to Neurocrine for a proposed \$57m) has indicated that there is acquisition

appetite for even relatively early-stage UK assets. However, many of the most appetising potential targets in the UK were beneficiaries of historic investment by the likes of Woodford, Imperial Innovations and IP Group. New sources of funding are replacing these former leaders in the UK sector, whilst government-backed sponsorship (i.e. Innovate UK) continues to be made available at 'grass root' level. Whilst successful transactions demand recognition, we must hope that further over-brokered and overvalued listings (i.e. Circassia or Oxford Nanopore) followed by subsequent share price crashes, do not erode the goodwill that has been built up with life sciences investors over the past few years. However, despite 'public equity market' suppression, we believe that the relatively well-informed unlisted Life Sciences market is now sufficiently robust to weather any such storms, and we maintain a spirit of optimism for credible and agile smaller companies over the short- to mid-term.

Public UK equity markets

The equity markets for funding of publicly listed UK companies has continued to harden over recent years. Historic lack of confidence in the sector by institutional investors has led to declining volumes in shares traded, and a subsequent lack of broker incentivisation. This has been compounded by a decline in 'buy-side' specialist investors, and commercially aware 'sell-side' analysts. Moreover, whilst advisers will readily publish (very often biased) research supporting their corporate clients ('Buy' notes) there is little incentive to raise awareness of less

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successful companies ('Sell' notes), further antagonising investor sentiment for the sector when setbacks (i.e. critical late stage development failures) arise. Other European equity markets have been subject to the same mixture of malaise and sector ambivalence, and the new MIFID-II regulations have made matters worse by reducing the already sparse levels of unbiased, reliable equity research, leaving non-specialist investors increasingly in the dark as to the prospects of a realistic return on a listed life sciences company. Importantly, we believe that the lack of reliable, non-subjective (i.e. independent of broking relationship) equity research has adversely impacted those funds that invest across the sector (i.e. both listed and private companies), potentially assisting to 'wrong-foot' portfolio valuations (see above). As such trading volumes of publicly listed companies have continued to decline, whilst UK IPOs have generally (with the exception of perhaps Oxford Nanopore – see below) offered access to increasingly limited 'pools of capital', whilst share placings have attracted decreasing levels of interest.

Partly as a consequence of the structural issues noted above, UK market IPOs remain problematical, despite limited success by companies seeking to raise relatively small amounts of capital. A successful IPO requires healthy public equity markets, with sufficient interest, expertise and understanding of often very technical life sciences propositions. Moreover, it needs suitably large amounts of capital to be potentially available, and liquidity sufficient to support and build equity value. At the moment the

level of cash that can be generated by M&A, prior to listing, generally exceeds that which can be generated by an IPO alone, particularly in the UK (see below). However, should a company with specific shareholder requirements, or a desire for a more 'strategic' listing, seek a relatively conservative fundraising and listing, then the UK market continues to offer a relatively straightforward environment for such a transaction. In such cases the company would be well advised to have thoroughly mapped its potential for value accretion post-IPO, and to have acquired a thorough understanding of both the immediate likely aftermarket, and potential for follow-on investment.

Private UK equity markets: There was a sharp reversal of public market appetite over 2020 and 2021, as due diligence of, and investment into, unlisted companies became tougher as a result of COVID, and there was an increased desire to invest in a defensive, and indeed 'relevant', sector during the COVID-19 crisis. Whilst non-listed stocks are relatively illiquid, investment into listed companies is a fast and easy process, acting as a driver for further share placings. For this short period the UK public markets provided an increased level of funding, although 2021 was also characterised by an uplift in VC and private equity funding, partly in response to the lifting of COVID restrictions. Moving into 2022, data suggests that funding of unlisted companies remains buoyant and robust. Although funding levels are lower than 2021, January-July numbers suggest a stronger performance than for any of the three years preceding 2021. Moreover over 2021-2022 a vigorous

'reloading' of relevant private equity funds, including Abingworth (now The Carlyle Group; \$582m, May 2021; \$465m, February 2021), GHO Capital (€2bn; July 2021), Oxford Science Enterprises (£250m; July 2022), Cambridge Innovation Capital (£225m, April 2022) and a plethora of European funds with an interest in the UK market (Apollo, LSP (now EQT), Sofinnova, Newton, Kurma, Forbion, ARCH and Omega Funds). We anticipate further investment into private UK companies through H2 2022. Excluding 2021, we expect a record level of investment to be achieved.

Listing on non-UK exchanges: Historically, the US NASDAQ exchange has offered clear potential for a liquidity event for both UK and European companies seeking an IPO, dual listing or relisting. A large number of (i) publicly traded life sciences companies, (ii) specialist, knowledgeable investors, and (iii) knowledgeable and commercially astute analysts, and (iv) investors with significantly larger pockets than their UK peers, have created an equity capital market environment characterised by mostly buoyant stock prices, relatively large volumes of traded shares and access to significantly larger pools of accessible capital. Moreover, a US listing may offer a potentially more impressive longer-term return to patient companies. We note that the largest UK biotechnology acquisition price to date was achieved subsequent to a listing on NASDAQ (GW Pharma).

However, the US Life Sciences public markets are currently an unattractive option. The warning lights were flashing in 2020, a record-breaking year for NASDAQ, with 102 healthcare IPOs raising approximately \$23.6bn and representing the sector's best ever year. The newly listed companies included 82 biotechnology companies, raising \$15bn (2019 saw 55 biotech IPOs raising just \$5.6bn, slightly down on 2018, which saw 72 listings raising \$6.7bn). However, nearly 30% of these listings were companies with only preclinical pipelines, and it was noted that whilst these flotations undoubtedly generated a return for exiting early-stage investors, and significant fees for bankers and lawyers, there remained a tangible risk of these relatively unvalidated pipelines failing to deliver value to public shareholders. Much of the same continued into 2021, with 109 biopharmaceutical



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IPOs, raising \$14.1bn, with closer of 40% of these listings constituted by companies with relatively early stage pipelines. As predicted, market confidence finally failed, and from September '21 until the end of the year the year the NASDAQ biotech index fell 15% by the end of the year, with this decline increasing to 55% by June '22. To date, there have been less than 20 IPOs over 2022.

However, despite (in many cases warranted) market discounts to IPO valuations, structurally the US Life Science market is in relatively good shape. Following the IPO frenzy of 2020-2021 many US companies have relatively strong balance sheets, whilst maturing US mid-cap companies, many of which are still continuing to hire new employees, continue to demonstrate the growth opportunities available to their earlier-stage peers. However, US public market investors have now become far more discerning (better late than never) and many of the companies with weaker value propositions are likely to perish. A more positive outlook suggests that, historically, Life Science stock sentiment takes approximately two years to recover, suggesting a more positive US public market outlook by H2 2023, with the NASDAQ IPO window transitioning from 'barely open' (currently) to 'open' by 2025. Similarly, US follow-on equity investments (post-IPO) have historically taken three to four years to recover from the sector crashes of 2000/2021 and 2015/2016, and on this basis we might expect to see a stronger supporting US equity market by 2024/2025, coinciding with a return to a larger IPO window.

Traditionally, UK and European Life Science sentiment tracks that of the US although, historically, by the time positive sentiment filters through (typically 12-24 months – see comments above on UK equity markets), US sentiment is on the wain. Given that bad news in the sector tends to travel faster than good news, this has historically resulted in at best 'stunted' European and UK equity market performances versus that of their US counterpart ('all of the downside and only a little of the upside'). Whilst the positive US market over 2020-21 undoubtedly supported investment sentiment for the IPO of Oxford Nanopore, the transaction was so late in the global (i.e. US) cycle, that even allowing for an ambitious valuation at IPO, there has been only limited equity market support (its share price and market capitalisation – £2.35bn versus £4.8bn - is currently less 50% of that at IPO). Moreover there was little opportunity for further significant IPOs into the UK market. Although 2021 was a relatively 'bumper' year for UK IPOs, with seven other UK listings alongside Oxford Nanopore, these additional listings raised an average of just £23.8m each, versus an average of \$130m for US peers (over 2020 average funds raised by UK listings was also £23.8m – albeit with just 3 listings – versus an average of \$183m for US peers). As might be expected, the UK public market is currently unattractive in terms of funding opportunities for Life Science companies. As such, despite the platitudes freely distributed upon the IPO Oxford Nanopore, NASDAQ remains an attractive choice for UK companies seeking an ambitious public listing. Over 2021 we saw five key IPOs of UK companies on NASDAQ (Exscientia; Centessa;

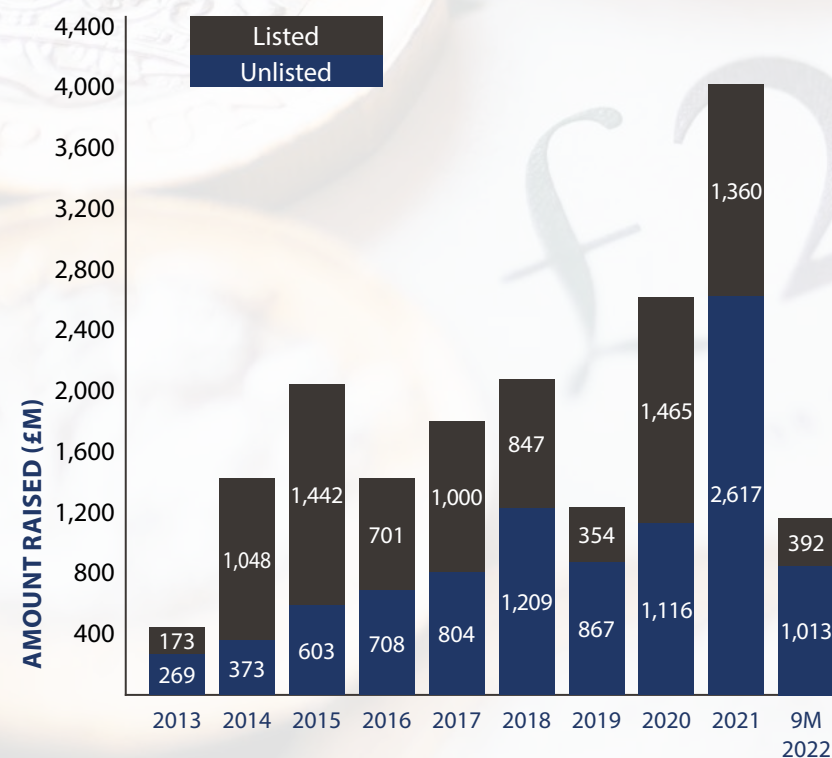
Immunocore; Achilles and Vaccitech), with these listings raising an average of £180m each.

Interestingly, although from time-to-time UK companies consider listing on exchanges other than UK or US, the alternatives have all uniformly proven relatively ineffective. For example, whilst the Swiss exchange has proven attractive to some companies it functions best for domestic Swiss companies, often those with a relationship to existing key Swiss players. Similarly, Hong Kong, although mooted as an alternative to NASDAQ over 2018, failed to demonstrate sufficient rigour to

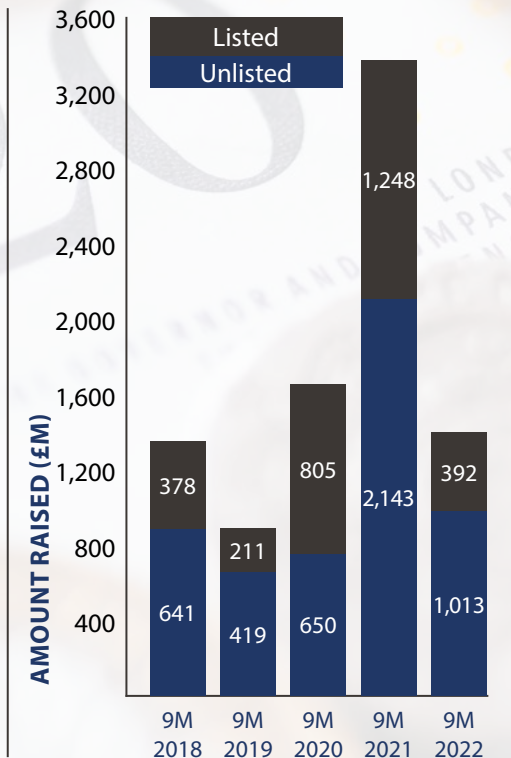
lend confidence of post listing value accretion. The introduction of the Chinese Communist Party-backed Shanghai STAR exchange, established in 2019, has proven somewhat more successful in terms of IPOs, although is principally domestic.

We note that IPO success typically translates into return to VC investors, with potential for sector specialists to re-invest some of this return back into the sector. The recently-boasted critical mass of the sector, including maturing companies, is now likely to ensure ample opportunity for M&A-based shareholder return

THE UK FUNDING ENVIRONMENT FOR SMALL TO MEDIUM UK LIFE SCIENCE COMPANIES, 2013-9M 2022



THE UK FUNDING ENVIRONMENT FOR SMALL TO MEDIUM UK LIFE SCIENCE COMPANIES, 9M (JANUARY TO SEPTEMBER) 2018-2022



Source: Akesios Associates Limited; NB: Chart excludes financing related to UK companies listed on overseas exchanges (e.g. NASDAQ)

LOANS/CONVERTIBLE LOANS

Loan financing has long provided a lifeline for smaller companies that are either deliberately seeking non-dilutive capital, or have struggled to find sufficient equity investment.

It has historically enjoyed a renaissance in the European Life Science industry, catalysed by the European Investment Bank, which strongly promoted life science loans provided by the European Fund for Strategic Investments (EFSI). For larger companies, seeking project-specific financing, this approach was undoubtedly useful. However, for smaller companies, where debt is offered as a more mainstream funding instrument (i.e. not project specific), it should be treated cautiously, as:

1. the balance sheet is subsequently so burdened that new investors are deterred; or
2. (ii) planned royalty-stream payments, common amongst creditors serving the Life Sciences industry, have a significant detrimental impact on time to profitability, or valuation (as in the case of several loans by well-known and aggressive providers to UK Life Science companies in the 2000s).

In the case of corporate valuations, discounted cash flow (DCF)-based valuation models can be subject to disproportionate declines from royalty stream payments, given the 'front loaded' nature of the discount methodology. The effect is compounded if venture debt is also offset against milestones, which again tend to be disproportionately valuable in DCF valuations.

Whilst companies do not plan to go into administration, liquidation preferences (creditors have seniority over shareholders) carried as part and parcel of a loan may cause unrest amongst existing equity investors.

Traditional Venture debt is structured slightly differently, with repayment scheduled over a shorter period (i.e. 18-48 months) although with relatively robust interest rates. These can offer real value in terms of extending a company's cash runway, particularly if this extends to an 'inflection point' when value uplift facilitates further equity investment and/ or offsets the cost of the loan. Nevertheless, there are few investors that will relish the idea of their new funding being employed to repay debt.

Convertible loans, consisting of an interest-bearing bond that can be converted into equity, also remain a popular form of financing, particularly in small public companies, allowing investors who wish to participate in the upside potential of the company made possible by their financing. Interest rates on convertibles are usually relatively inexpensive. However, convertibles carry the risk that if a corporate valuation falls, issuance of additional equity poses a significant threat to share price.

Historically, some UK companies have been exposed to 'bond holder dominance' in this scenario, with the bond becoming the dominant market instrument as investors seek to hedge their exposure to shares. However, amongst smaller, private companies this factor is less of an issue, although we note that bonds that carry a significant preference on conversion, which can act as barriers to attracting new equity investment.

GRANTS

Non-dilutive grant funding can be secured from many potential regional, national and trans-national sources.

These funding bodies are placing an increased emphasis on support for small and medium enterprises (SMEs) developing innovative, high-risk products and services including pharmaceuticals, medical devices and digital health technologies.

The majority of the UK's grant funders (Funders) are seeking to support and accelerate the translation of fundamental scientific research into successful commercial products and services. Many also have goals involving job creation or preservation of high-quality jobs in the technical sectors. Whilst most Funders cannot support research that's perceived to be anti-competitive they are able to offer grant funding to support innovators from initial concept through to clinical testing.

Certain grants are typically geared towards applied research, prototyping and market evaluation, including market intelligence and IP audits. Most Government agencies are also seeking to stimulate inward investment, particularly in the retention and creation of knowledge based roles and supporting facilities, as well as to address perceived market weaknesses.

The level of grant subsidy, or intervention rate, on offer from the Funder is typically determined by the proximity of the product or service to the market. With the exception of micro-funds and specific initiatives such as the Small Business Research Initiative (SBRI), most Funders require the company to provide matching funds.

In addition to providing substantive sums of non-dilutive investment, grant funding can also provide other key benefits including:

- Validation of the Product/Technology/Company: Used as external due diligence by prospective investors/ commercial partners
- Drive Commercialisation: Used to catalyse business development
- Access to Specialist Expertise: Can open doors in both academia and industry

On the flip-side, grant funding is not "free" funding. Securing grant funding, particularly larger sums, is increasingly competitive requiring significant time and resources without guarantee of success. As with all sources of potential investment it should be carefully considered alongside other options when considering company strategy. Equally, the business plan should drive funding applications – in many instances companies repeatedly chase grant funding and diverge from their planned business aims, damaging their longer-term prospects.

It's also important to remember that grants are designed to help initiate and stimulate business growth.

If a company seeks to just live off multiple grants, the awarding bodies will at some point lose confidence and discontinue further support.

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Key considerations to bear in mind include:

- Funds are typically paid in arrears and can't be applied retrospectively therefore sufficient working capital and accompanying cash-flow management is essential
- Funding is in most cases provided to support projects, rather than businesses, therefore if a company wishes to change project focus, it may be required to refund monies
- Fund bureaucracy can be challenging and time consuming to manage: most funds mandate regular reporting to a pre-agreed timetable and, typically, include some element of post-project monitoring
- Some Funders seek a conditional financial return and/or rights to IP
- Grants which are in the category of either 'Notified State Aid' or 'De Minimis State Aid' under EU provisions or Minimal Financial Assistance under the UK Subsidy Control Act 2022 can limit the availability of some tax reliefs, for instance EIS or R&D tax credits (see below), and in some cases this can work the other way round, for instance if the company has offered SEIS relief to investors, this may limit the amount of further grants it can receive in the 'De Minimis State Aid' or Minimal Financial Assistance category.

KEY FUNDERS

Innovate UK is the UK's national innovation agency and part of UK Research and Innovation (UKRI), responsible for investing in high-potential entrepreneurs and businesses across the UK. Innovate UK drives productivity and economic growth by supporting businesses to realise the potential of new ideas.

To-date, Innovate UK has helped 11,800 organisations create more than 100,000 jobs and added £32.2 billion of value to the UK economy. Innovate UK's total core budget in FY20-21 was approximately £667million. In April 2020 and in addition to its core activities, the government charged Innovate UK with delivering a £750m support package to R&D intensive businesses through the COVID-19 pandemic. Innovate UK has played a significant role in "Covid Recovery" investing £449m in 3142 businesses through its Fast Response competition, Continuity Grants, UKRI Covid-19 Open, Sustainable Innovation Fund and Innovation Loans.

Innovate UK's business-focused terms, including 100% IP retention by applicants, broad coverage of project costs and relatively "light touch" monitoring, often make their funding programmes more attractive than comparable sources. In addition to Innovate UK's general funding competitions, recent health-focused funds include the Biomedical Catalyst and UKRI Covid-19 Open Call. Innovate UK also manages the core funding for a network of Catapult centre across the UK, including the Cell &

Gene Therapy Catapult, Medicines Discovery Catapult and Centre for Process Innovation (part of the High Value Manufacturing Catapult).

Two additional funding programmes, geared toward scaling companies, include **Innovation Loans** and **Investment Accelerator Grants**, which come with direct co-investment from private equity investors.

Innovation Loans are designed for SMEs looking to scale-up. They are flexible and patient (with payback periods up to 10 years) and can cover 100% of project costs at favourable interest rates. They are for businesses carrying out later stage R&D projects - still with some risk - with a clear route to commercial success and who are able to take on a loan but who have difficulty in accessing commercial lending.

Investment Accelerator Grants are designed for SMEs looking to establish long term relationships with investors in return for an equity investment. They provide the runway for later stage capital beyond grant funding and enable early-stage companies to get direct access to the commercial acumen, market access and finance opportunities private equity investors provide. The grants can cover 100% of project costs with up to 50% provided through non-diluted grant finance and matched funding provided by private equity investors. Investment Accelerator programmes are run in conjunction with the

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sector teams and delivered as funding competitions with specific application and assessment periods.

In addition to their portfolio of sector-specific and covid-response programmes, Innovate UK also funds a broad range of businesses through Smart Grants (typically up to £2 million per project) for ambitious or disruptive R&D innovations that can make a significant impact on the UK economy.

Successful innovation is also about collaboration and networks. Through its programmes and partners, Innovate UK can connect your company with support, facilities, public bodies, investors and the UK's world-class research base. By working with partners, such as the KTN and Innovate UK EDGE, they have created a system of financial and non-financial support that stimulates successful innovation, boosts competitiveness and

delivers economic growth. Delivering growth at scale is at the heart of Innovate UK's emerging strategy and through their partners at Innovate UK EDGE, they offer Innovation & Growth Advisory services and Scaleup Programmes, to position high-potential businesses for long term success <https://www.innovateukedge.ukri.org/>

Innovate UK provides grant funding in line with the UK's obligations and commitments to Subsidy Control. It is unable to award grant funding to organisations that are considered to be in financial difficulty. Further information about the UK Subsidy Control requirements can be found within the EU-UK Trade and Cooperation agreement and the subsequent BEIS guidance.

Full details on all current Innovate UK support opportunities can be found on the Innovate UK website at: <https://www.ukri.org/councils/innovate-uk/>

- **Research Councils (Medical Research Council (MRC), Biotechnology and Biological Sciences Research Council (BBSRC); and Engineering and Physical Sciences Research Council (EPSRC))** The majority of government research grants are orientated towards academia. However, at the interface between fundamental and applied research, grants are available to companies to fund research (albeit that the work is typically carried out at the academic partner). Such grants can effectively offset external R&D costs and enable access to specialist expertise and facilities.
- **Private Foundations & Charities** (Wellcome Trust, X-Prize and the Bill and Melinda Gates Foundation). Foundations are increasingly important as a non-dilutive source of R&D funds, particularly for products or services that address significantly underserved needs e.g. orphan diseases, developing world challenges. The funding that these sources provide varies substantively as do their specific criteria, requiring careful selection to maximise a company's chances of successfully accessing them. In some cases, funding is channelled via particular centres of excellence which take on the mantle of distributing funds. For some companies, it may be possible to seek funding from DFID if there is a perceived overseas aid benefit.
- **Small Business Research Initiatives** SBRI's have been encouraged by UK Government to catalyse departmental procurement. They can provide attractive terms to those who have products or technologies that can be tailored to fit within the competition scope as funding is provided in the form of a contract which permits 100% reimbursement of project costs and upfront payment (unlike the majority of UK funders who are restricted by state aid rules and paid quarterly in arrears).

The most predictable and enthusiastic adopters of SBRI's are the NHS (SBRI Healthcare) and MoD/Centre for Defence Enterprise (Enduring Challenge).
- **National Institute of Healthcare Research (NIHR)** NIHR offers a variety of grant funding programmes including those focused on product development (Investment for Innovation (i4i); SME Connect and later stage clinical evaluation (Health Technology Assessment (HTA); Efficacy and Mechanism Evaluation (EME)). These are typically run 1-2 times per annum and usually mandate collaboration between industry, NHS and/or academia.
- **Horizon European funding** remains accessible to UK companies and is targeted at all types of innovative SMEs showing a strong ambition to grow but only 'for profit' SMEs can apply for funding, and the focus is on market-orientated, close-to-market activities embedded in societal challenges and key enabling technologies.



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UK is expected to become an associated country to the EU's R&I Framework Programme Horizon Europe (the successor to Horizon 2020). The UK will therefore have the same rights and obligations as other countries associated to the Programme.

Through the Trade and Cooperation Agreement between the EU and the UK (TCA), all aspects of UK association to Horizon Europe were agreed on 24 December 2020 in the TCA. Association will enter into force through the formal adoption of a Protocol that is already agreed in principle, after the Horizon Europe Regulation has been adopted, and no additional negotiations are foreseen.

When the Protocol enters into force, the UK will be formally associated to the full Horizon Europe programme excluding the EIC Fund (which is the loan/equity instrument of the EIC). The scope of association includes the European Research Council (ERC), the Marie Curie-Skłodowska Actions, the six 'Global Challenges' clusters and Missions, the partnerships, the European Institute of Innovation and Technology, etc.

UK entities including universities, research centres, scientists, innovative businesses, industry, etc. will have full rights to participate in the first calls for proposals of Horizon Europe as soon as they are published on the European Commission's website.

Further information at: https://ec.europa.eu/info/files/qa-uks-participation-horizon-europe_en

Eurostars is the first European funding and support programme to be specifically dedicated to R&D performing SMEs and projects are funded by the respective partners' national funding bodies – Innovate UK in our case.

The US National Institutes of Health (NIH) and various parts of the US military have many grant programmes. These generally require a presence of some sort in the USA and are most relevant for somewhat more mature companies. Highly specialist expertise is required to leverage, but the amounts available are considerable so certainly worthwhile considering if appropriate.



LEVERAGING INNOVATE UK GRANTS TO TRIGGER EQUITY INVESTMENT (Independent case study)

Company X is a small, early stage Biotech located in the "Golden Triangle". A new CEO was appointed who selected a very high-risk but high reward disease area as the company's second priority. Rather than spend shareholders' equity on the risky project, the CEO secured an Innovate UK, Biomedical Catalyst grant funding 60% of the new research, reducing the risk to a small, closely held company. The board agreed to a higher risk strategy on the basis of the grant being awarded. This was a classic "valley of death" bridging project in a company with conservative shareholders involving a higher risk but potentially considerably higher return project.

The £1m research project that was part funded by the grant was ultimately successful in three ways: new staff were hired who brought considerable additional expertise to the company, a new avenue of pre-clinical research was opened and most importantly, the research

was successful. Within six months of receiving the Innovate UK grant, Company X secured many millions in equity investment. The largest new shareholder, who invested 33% of the raise, did so precisely because of the new disease area enabled by the grant. The original main priority indication for the company failed within one year of the "high risk" research project starting. The original grant-funded project is now one of the company's three equal first priorities. Company X has secured a further five Innovate UK or EU grants since then, and the majority of the company's blue-sky research is enabled either by other grants or by HMRC R&D tax credits. The company actively uses all incentives available in the UK to foster innovation and intends to apply for the HMRC Patent Box corporation tax rate of 10% when taxable profits start to accrue in the year of its first out-licensing deal. Intimate knowledge of these incentives can make a real difference to company strategy as exemplified here.



INVESTMENTS WITH TAX RELIEF

ATTRACTING INVESTORS WITH SPECIAL TAX ENHANCEMENTS

This section covers sources of funding which are given special tax reliefs by the Government, and are widely discussed in the investment community. It is important to understand that they are not really separate funding mechanisms, as they are generally delivered by share issues as part of 'normal' equity rounds.

EIS & SEIS TAX RELIEF ON SHARE INVESTMENTS – FOR INDIVIDUAL INVESTORS

Many companies will raise funds by the issue of shares to investors. In themselves, share investments do not give tax reliefs to the investors, however where they meet certain conditions, share investments can give very valuable tax reliefs, under the Enterprise Investment Scheme (EIS) or the related Seed Enterprise Investment Scheme (SEIS) provisions. As explained briefly below, SEIS are targeted more at very early stage companies.

The main benefit is that the investor can receive 30% relief from their annual income tax bill in the case of EIS, and 50% in the case of SEIS, and in both cases when the investor ultimately sells their shares (after a three-year period) any capital gain they make may be completely free of tax. Dividends from the shares held are taxable in

the normal way. The intention of these reliefs on share investments is to alleviate the perceived 'equity gap' or 'valley of death' which earlier stage companies experience in fundraising. They are very much aimed at attracting investment into such companies, and the tax reliefs available may mean that many prospective investors will prefer to put their money into companies which can offer these reliefs.

There are a number of conditions to be met by the company, the shares being invested in, the investment process, and the investors themselves. For example, the investor must have an individual holding of no more than 30% of the company's shares; and the company must meet conditions as to the number of employees, the extent of its assets, its age, and the type of trade it will carry on (though most early-stage technology based companies are likely to qualify).

One of the numerous conditions that HMRC scrutinise is the 'financial health' of the company. This may be more complicated than it sounds as it can rely on a narrow definition of whether a company has simply spent more than half of the funds it has raised and this has created an accounting loss.

A 'KIC' start for Biotech companies

A more recent aspect of EIS is a higher level of relief available and more relaxed conditions for 'Knowledge Intensive Companies' or KICs. Essentially, the Government

has decided to give these more generous reliefs for these KICs, in the context of its focus on technology companies within its current Industrial Strategy. KICs are those companies which meet an 'operating costs condition' (for instance it must have spent at least 15% of its operating costs on innovation and R&D in at least one out of three preceding years); and it must meet an 'innovation condition' (so it must be intending to develop and then exploit intellectual property) or meet a 'skilled employees' condition, where at least 20% of its employees hold a relevant higher education qualification which is being applied to the company's work.

If a company is a KIC, then it now has more relaxed conditions around its age when it is raising funds qualifying for EIS reliefs, and also the maximum it can raise under these reliefs. The lifetime limit for a KIC is £20m instead of £12m for a non-KIC company. Further, since early 2018, any individual investor can now invest up to £2m in any one year under EIS reliefs (as opposed to £1m into non KIC companies); and the company itself can raise up to £10m under EIS and related reliefs in any 12-month period (as opposed to £5m otherwise).

The limits on the amount that a company can raise (both the annual and lifetime limits) are reduced by other investments into the company which count as State Aid.

Although the conditions to qualify as a KIC are complex, clearly, many biotech companies will have a strong chance of falling under this KIC status, which will help

them be more attractive to individual investors or funds for a longer period of their lifecycle.

As noted above, SEIS is targeted at smaller and younger companies (less than two years old (rising to three years from April 2023), and with net assets of less than £200k (rising to £350k from April 2023). Conversely, EIS offers a lower income tax relief but on a higher maximum amount invested (£1m annually per person or £2m if the investment is made into a KIC) and is allowed for companies more than two years old, and with assets of up to £15m immediately prior to the investment and £16m immediately after.

Because these EIS and SEIS tax reliefs only operate in full if the shares are held for at least three years, this will need to be borne in mind in terms of the company's 'exit horizon'. Investors looking for these reliefs will typically require a high level of confidence that the company and the investment will meet the various HMRC criteria. There is currently an 'advance assurance' process whereby the company or its advisors can request a formal letter of assurance from HMRC before the shares are issued that the company is a qualifying company and that the shares proposed to be issued are qualifying shares.

This HMRC advance assurance is a valuable enhancement to attracting EIS investors, whether individually or in EIS funds, but the timescale to achieve this must be built into the investment process and timelines.

INVESTMENTS WITH TAX RELIEF

ATTRACTING INVESTORS WITH SPECIAL TAX ENHANCEMENTS

A lot of the focus on making EIS investment work relates to the conditions that the company needs to meet, both before and after the time of the investment.

But at the end of the day these reliefs are personal to the individual investors and it's crucial that they follow through with the steps at their end in order to benefit from them.

After the investment shares are issued, the company needs to formally obtain authority from HMRC to issue individual certificates for each EIS investor (there is usually a time limit of two years from the end of the tax year when the investment happens for it to do this) and then the investors must use their certificate to reduce their income tax bill on their tax return. They have to do that no later than six years after the end of the tax year of their investment. This sounds like a long timescale but unless both the company and the investors carry out their part of the process quite soon after the investment round, one or other of these aspects can easily be forgotten.

In one case a third party approached a company to make a sale offer just as three years was about to pass since the last major investment round which would have allowed the investors to enjoy all the EIS reliefs in full. However, it was only this approach which reminded the company that it hadn't already initiated its part of the EIS claim process outlined above. It was able to do this just in time (with days to spare). So, the message is with EIS reliefs – **follow up as well as prepare**.

See further:

<https://www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme>

<https://www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme>

For very detailed HMRC commentary on the schemes:

<https://www.gov.uk/hmrc-internal-manuals/venture-capital-schemes-manual>

INVESTMENTS BY VENTURE CAPITAL TRUSTS – SPECIALIST CORPORATE INVESTORS

Venture Capital Trusts (VCTs) are pooled investment companies. Individual investors take shares in the VCT, which then has a pool of funds to invest in unquoted trading companies (which themselves broadly need to meet the same conditions as for the EIS and SEIS reliefs).

Therefore, if your company is invested in by a VCT, it will be one of a portfolio of other investments held by it.

Individuals who invest in VCTs receive tax reliefs on that investment, in this case at 30% of the amount invested. They can receive dividends tax-free from the VCT, and when they sell their shares in it these can be free from capital gains tax.

The VCT cannot control any one of its investee companies and there are other limits over its 'exposure' to any single investment.

VCTs will not generally invest in the earliest stage companies, although there are exceptions. They do not have to have all their investment in the form of ordinary shares in their investee companies, i.e. they are allowed to make loans to them.

See further:

<http://www.theaic.co.uk/guide-to-investment-companies/venture-capital-trusts-vcts>

ENTERPRISE CAPITAL FUNDS

Enterprise Capital Funds (ECFs) are another form of funding based on Government legislation, also aimed at filling a perceived gap in funding (the 'equity gap'). The ECF programme is administered by the British Business Bank (BBB), the government-owned 'investment bank' that aims to make the finance markets work better for small businesses. ECFs combine private and public money to make equity investments in high growth businesses. The programme aims to increase the supply of equity to UK growth companies and to lower the barriers to entry for fund managers looking to operate in the VC market.

ECFs are structured as traditional Limited Partnership funds – usually with a ten-year life span. They raise their money from a mix of private investors (both individuals and institutions) and BBB itself. Unlike Venture Capital Trusts (VCTs), or the Enterprise Capital Scheme (EIS), there are no tax incentives for investing in an ECF. As a result, investors in ECFs may well be UK tax-payers, but equally

may be overseas individuals or institutions.

Without the obvious attraction of up-front tax reliefs, private investors in ECFs nevertheless benefit from a magnified profit share as a result of BBB (usually) foregoing a material portion of its profit share in return for a preference coupon on its invested capital (which gets paid out ahead of other returns). In other words, BBB invests in funds on terms that improve the outcome for private investors when those funds are successful.

By March 2020, over £1.4bn had been committed to over 30 funds, with about £800m of this invested by BBB itself. These include established venture capital fund managers and new teams of fund managers, often started by serial entrepreneurs with a track record of exiting their own businesses. In 2017, the government committed up to a further £1bn in funding for the ECF programme for the following ten years.

The various ECFs will each have different strategies and target areas for investment (digital; healthcare; software; generalist etc.) – however, they will all have a general requirement to invest substantially in UK-based SMEs, and with certain constraints that will mean that they will tend to focus on start-up; pre-revenue; or early growth stage companies.

Further information on the programme can be found at: <https://british-business-bank.co.uk/ourpartners/enterprise-capital-funds/>

MISCELLANEOUS SOURCES OF FINANCE

RESEARCH & DEVELOPMENT TAX CREDITS – ENHANCED TAX FLOW BASED ON R & D SPEND

This is not strictly a source of external funding at the shareholder/lending level, but the Government scheme of Research & Development Tax Credits (R&D Tax Credits) is a valuable cash flow for many research-intensive companies.

There are two levels of R&D tax credits, but the most familiar one to early stage technology companies is likely to be the Small and Medium Enterprise (SME) type.

This is for companies (or groups) with:

- Turnover below Euros 100m; or
- Assets below Euros 86m

The R&D projects concerned must not have received certain forms of external grant funding or other forms of subsidy.

For companies at this level, companies are given an ‘uplift’ for tax purposes for every £1 spent on qualifying R&D. At current rates of corporation tax (19%), if they are profitable, this could generate a corporate tax saving of 24.7p for every £1 spent. However, loss making companies (which most early-stage technology companies are likely to be), can surrender their ‘uplifted’ tax losses for a repayable tax credit that equates to £3,335 for £10k of qualifying expenditure. The tax credit is paid back to such companies in cash and relatively promptly.

Given that this is a form of ‘reverse taxation’, it comprises an important form of cash benefit from the Government for research-intensive companies.

There is another form of the relief which applies to non-SMEs and also in the case of SMEs where the receipt of grant funding means that they may not qualify for the ‘uplift’ described above. This other form, known as ‘RDEC’ (Research & Development Expenditure Credit), operates by including an extra income amount in the company’s accounts, but also leads to a corresponding tax credit that is payable from HMRC provided various conditions are met, including that the company’s other tax liabilities have been settled.

Note that the Autumn Statement of November 2022 has announced changes to the rates of R&D relief for both SMEs and under the RDEC scheme referred to above, expected to take effect from April 2023. Under those changes, the SME level would reduce from the saving of 24.7p for every £1 spent to 21.5p assuming the revised 25% corporation tax rate is applicable; and the credit for surrendered tax losses would reduce from £3,335 for every £10K spent to £1,860. However, the rates for the RDEC category are actually proposed to increase, from a rate of 13% to 20%.

The company needs to meet various tests in relation to measuring whether it is in fact an SME as measured above, for instance if it has significant corporate shareholders, and there are guidelines to consider in terms of whether its activities do meet certain definitions of ‘qualifying’ R&D.



The amount of its expenditure which is then subject to the tax credit also needs to be worked through in some detail, particularly in the area of spending ‘indirectly’ on R&D; but nevertheless, the repayable tax credit is an important cash flow advantage for many early stage companies, and a form of funding that is not dependent on shareholders or similar stakeholders.

It should be noted that certain types of third-party conducted research can also benefit from R&D tax credits, but usually at a reduced rate.

HMRC have shown themselves to be very helpful in guiding many technology SMEs through the rules in this area, and in some instances, have helped them to optimise their claims.

For further detail, see: <https://www.gov.uk/guidance/corporation-tax-research-and-development-rd-relief>

This link is to HMRC’s more user-friendly description of the relief, and they have much more detailed technical content on other pages.

In recent periods, it should be noted that HMRC have been tightening up some aspects of the relief. For instance, they have already introduced a cap on the repayable form of R&D tax credits, equal to £20,000 plus three times the amount of PAYE and NICs that have been paid over by the company to HMRC for any particular accounting period. A company is exempt from the cap if:

its employees are creating, preparing to create or managing Intellectual Property (IP); and

less than 15% of its total R&D expenditure is on work subcontracted to or using employees of connected persons

Also, there is now draft legislation in place to restrict, for accounting periods beginning on or after April 2023, the ability of companies to claim costs of subcontracted work where this takes place outside the UK. There are some exceptions to this, such as where there are particular factors relating to the research that are not present in the UK, or where there are regulatory or other legal requirements that research activities must take place outside the UK, for example clinical trials. However, companies intending to claim R&D tax reliefs must now be even more careful that they are meeting these and other conditions. They should, therefore, ensure that they keep suitable supporting documentation to demonstrate that they do fall within the exceptions.

MISCELLANEOUS SOURCES OF FINANCE

THE PATENT BOX – A LOWER RATE OF TAX FOR INNOVATIVE COMPANIES

Not strictly an investment source, but rather a reduction from the current corporation tax rate of 19%, Patent Box allows a reduced tax rate of 10% for companies which commercially exploit their patented products or processes and so provides an incentive for companies to commercialise their patents and R&D in the UK.

The reduced rate primarily applies to a proportion of the profits derived from the sale of any products protected by a patent or which incorporate a product protected by a patent. A company can also benefit if it acquires a profit from the use of a patented process. Therefore, the Patent Box regime is clearly relevant only to companies that are actually making profits as a result of exploiting their intellectual property.

The reduced rate of tax to be applied is determined by calculating the qualifying Patent Box profit obtained by the company and by applying a specific formula to calculate their deduction in the company's overall corporation tax liability.

Companies can benefit from the regime if they own or exclusively licence patents granted by the UK Intellectual Property Office, the European Patent Office, or a number of major countries in the European Economic Area. They must also have made a significant contribution to either the creation of the patented invention, or to the product incorporating it. Indeed, there has to be a link between the R&D work undertaken and the patent itself. This is in the form of an R&D fraction applied to the calculation.

Patent Box provides a useful cash flow advantage and incentive for technology companies, including Biotechs once they have started to make profits.

As the relevant UK legislation had to previously take into account EU law and regulation around 'State Aid', it remains to be seen whether, following the departure of the UK from the EU, Patent Box may be adapted to provide even greater tax incentives to UK businesses.

BRITISH PATIENT CAPITAL

In July 2018, following the government's Patient Capital Review, the British Business Bank ("BBB") launched a £2.5bn Patient Capital programme, known as British Patient Capital, initially seeded with £400m of capital. The aim of the programme is to provide long-term 'patient' finance to a generation of companies seeking to grow to billion-dollar valuations. The BBB-administered programme is substantially a fund-of-funds and not necessarily a direct investment vehicle for specific companies. However, by watching carefully where British Patient Capital makes its investments (and these will be a matter of public record and should be in the BBB website news flow), it will be possible to identify which investment funds have fresh capital designed to invest in, amongst other places, ambitious life science companies. The British Patient Capital Fund is also able to co-invest directly in companies that are investees of funds which it has already backed.

FORMERLY AVAILABLE AND FUTURE SOURCES OF FINANCE – THE FUTURE FUND AND FUTURE FUND: BREAKTHROUGH

Future Fund – a missed opportunity for early-stage companies?

As part of its response to the COVID-19 crisis in 2020, the government and the BBB implemented a ground-breaking fund, the Future Fund. Through the scheme, the government made funding available by way of direct co-investment into eligible UK companies. The Future Fund scheme provided matched funding in the form of convertible loan notes to UK start-ups and scale-ups. Companies could apply for £125k to £5m in matched funding from the Future Fund based on various eligibility criteria which included the company:

The terms of the convertible loan notes issued under the scheme provided for a conversion into equity at a 20% discount and an annual interest rate of 8%. If private investors negotiated more onerous terms with the company, then the government and all other private investors would automatically be upgraded to those better terms. Whilst the expectation was that the loans would convert into equity, if that did not occur then the funding would be repayable at maturity with the amount to be repaid being double the original investment amount.

The Future Fund closed to new applications on 31 January 2021. Over 2,200 applications were made, of which over half were accepted with a total value of convertible loans in excess of £1.124bn. Despite these figures (considerably higher than the £250m initially earmarked for the fund), the Future Fund was not seen by all as a resounding success. One key reason for this was that, as a result of the relevant terms, the matched private investors were not able to obtain S/EIS tax reliefs, nor qualify as a VCT investment. A prohibition on payment of any financial advisory fees in connection with participation in the scheme also effectively meant that companies had to reach out to existing investors, or wait for an approach from prospective investors.

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Other conditions were also perceived as onerous and the withholding tax implications of conversions caught a number of companies and investors unawares.

Future Fund: Breakthrough – a future opportunity for high-growth, innovative firms?

In its March 2021 Budget, the government announced the launch of a new £375m UK-wide scheme (known as “Future Fund: Breakthrough”), which seeks to encourage private investors to co-invest with government in high-growth, innovative firms. Launched in summer 2021, Future Fund: Breakthrough is run by the BBB’s British Patient Capital arm (see above). It enables the BBB to take direct equity in companies, on the same terms as other private investors. The fund focuses on R&D intensive companies that are UK based and with significant UK operations. Whilst the published literature indicates that Future Fund: Breakthrough will only participate in minimum investment round sizes of £30m, we understand that in certain circumstances it may be available for smaller round sizes. The maximum Future Fund: Breakthrough share of a funding round is 30%, meaning that the minimum amount of private sector funding in a round of £30m would need to be £21m.

The “Breakthrough” element of the fund’s name derives from the focus on companies that seek to accelerate the deployment of breakthrough technologies that can be transformative to major industries or in the development of new medicines. As a result of high R&D costs, such breakthrough technology companies often require more capital and investment than other technology companies

to launch the later stages of their growth. Future Fund: Breakthrough is not available for companies looking to develop or employ products with a short time-to-market, as there is perceived to be a sufficiently strong private sector market for such investments.

In addition to the fundraising round size requirements, various conditions need to be met for a company to be eligible:

- the company receiving investment should be UK based (UK incorporated) with significant UK operations (meaning at least half of its overall employment base and half of its research employees are based in the UK);
- the company must be carrying out R&D activity in the UK by meeting all three of the following criteria:
 - R&D spending must have been at least 10% of total operational cost base on average over the last 3 years or at least 15% in one of the past 3 years;
 - the company must be developing defensible IP in the UK which is expected to be the company’s main revenue source; and
 - the company must intend that 20% or more employees will be carrying out research for at least 3 years from the date of investment, in roles that require a relevant master’s degree or higher; and
- the company must have raised at least £5m of equity investment from third-party investors in previous funding rounds in the last five years.

In focusing on later stage financing rounds there is not the equivalent rigid set terms for investment that were involved with the Future Fund. Previous participation in the Future Fund does not impact eligibility for the new fund. Applications for Future Fund: Breakthrough can only be made via a sponsor investor, which needs to be:

- any fund managed or advised by an FCA (or equivalent) authorised firm with private sector investment making up greater than 50% of the total fund size and who is currently managing an active fund greater than £100m (and meeting certain other criteria);
- any fund or investment vehicle with an appropriate investment strategy, managed or advised by a fund manager which has applied to and obtained an investment from a member of the British Business Bank group; or
- other equivalent investment vehicles i.e. those with greater than £100m of investment capital, a broad range of independent investors, and an appropriate investment strategy (where these have been approved by Future Fund: Breakthrough).

Special Purpose Acquisition Company (“SPAC”)

An Initial Public Offering (“IPO”) via Special Purpose Acquisition Company (“SPAC”) has been an alternative route to market in the US for many years, although has seen a recent expansion in popularity with 298 US SPAC IPOs during the first three months of 2021 raising \$97.3bn alone (2020: 248, \$83.4bn) (source: SPAC Research 31 March 2021). Over 2019-2021, there was increasing interest in these vehicles within the European market, with a large number of European companies looking to IPO through this alternative route via an acquisition by a US SPAC. However, as noted in the 2021 edition of this Guide, SPACs, although attractive to investors often failed to correctly align the interests of the latter with those of the companies that were ‘SPACed’. As such the usefulness of this investment vehicle in obtaining access to the US capital markets is viewed as questionable, and a path pursued by relatively few UK Life Science companies (ref the 2021 edition of the Guide for further details).



REFERENCES AND OTHER LINKS

- Guide to Venture Capital Trusts:
<http://www.theaic.co.uk/guide-to-investment-companies/venture-capital-trusts-vcts>
- Guide to Enterprise Capital Funds:
<https://british-business-bank.co.uk/ourpartners/enterprise-capital-funds/>
- Innovate UK :
www.gov.uk/government/organisations/innovate-uk
- EIS & SEIS Tax Relief on Share Investments – For Individual Investors
<https://www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme>
<https://www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme>
- For detailed HMRC commentary on the schemes:
<https://www.gov.uk/hmrc-internal-manuals/venture-capital-schemes-manual>
- R & D Tax Credits:
<https://www.gov.uk/guidance/corporation-tax-research-and-development-rd-relief>
- The following general guide to business finance is provided by the Corporate Finance Faculty of the Institute of Chartered Accountants in England & Wales, and the British Business Bank:
<https://thebusinessfinanceguide.co.uk/partners/>
- British Patient Capital:
<https://www.british-business-bank.co.uk/2-5bn-british-patient-capital-programme-launched-enable-long-term-investment-innovative-companies-across-uk/>
<https://www.britishpatientcapital.co.uk/>

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APPENDIX

FURTHER DETAILED POINTS

This Appendix picks up on some more detailed technical areas of funding which may only arise in specialist situations.

CONVERTIBLE DEBT PAYING INTEREST IN SHARES – THE FUNDING BOND RULES

Companies can raise debt from various sources including convertible loans. They may be secured or unsecured.

The terms of convertible loans in turn can be myriad and are largely dictated by the lender. Interest terms again are by negotiation but can include paying interest in shares or cash at the borrower's/lender's option. It is a judgement call at the time as to whether it is in the corporate borrower's interests to deplete its cash reserves.

Where the UK company has the option to pay "interest" in the form of shares, rules are in place from HM Revenue & Customs ("HMRC") to accommodate the tax treatment of such. These are known as the Funding Bond rules.

At the date of settlement by the corporate borrower of the interest (as with a cash interest payment) the company must provide an interest certificate to the lender. The certificate must show the cash value even though shares are issued in settlement. N.B. Even if the borrower elects to pay the lender's interest in shares the borrower has the option of paying HMRC in either cash or shares.

Example:

Loan for 1 year with 10% interest:	£100k
Conversion rate:	£1 of debt = 1 share
Interest due:	£10k

For payment to individuals, trusts, partnerships, and overseas investors the company must deduct UK withholding tax at the basic rate of income tax, currently at 20%. Double taxation arrangements may apply to overseas lenders in some jurisdictions, see below:

On conversion where withholding tax applies:

- 100,000 shares are issued to settle the debt (converted at £1 per share)
- 8,000 shares are issued to the lender in settlement of the interest (converted at £1 per share)
- 2,000 shares are issued to HMRC in settlement of the interest. This represents the 20% withholding tax. The shares are paid to HMRC under the quarterly return procedures by the borrower.

Valuation of the interest shares

HMRC has a specialist valuation unit which will want to value the shares they receive for interest, albeit that this may take place sometime after the issue of the shares. This may give rise to a difference to the amount of interest shown on the certificate. The interest shown on the certificate is the specified value of the convertible transaction.

Withholding tax/Double taxation

Whether interest is paid in cash or shares overseas lenders may be based in a jurisdiction that enables them to make a reclaim from HMRC of some or all of the shares lodged with them in the form of UK withholding tax. The reclaim process differs from country to country and the lender would need to take specific advice'

As with most investments it is recommended that professional advice is sought.



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