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Volatility returns for big biopharma

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The downs are more pronounced than the ups as the macroeconomic climate turns against big pharma and biotech.

At least the markets have not crashed. This is probably cold comfort to biopharma investors used to times of plenty, but with the first quarter of 2018 in the record books it is clear that volatility has returned with a vengeance.

Some of this is the result of factors beyond companies’ control, including the effects of US tax reform and the still unclear stance of the current administration on drug price increases. The volatile quarter does belie some very good starts to 2018, but while the year has begun nowhere near as badly as 2016 only two of the key indices have managed to tread water (see tables below).

These are the Nasdaq biotechnology and Topix Japanese pharma indices. It is unsual that biotech, which by its very nature is relatively volatile, has proven to be the most stable over the first quarter, while the usual safe havens, such as the S&P, Dow Jones and FTSE-100, all saw declines.

Stock index	Change in Q1 2018
Nasdaq Biotechnology (US)	0%
S&P Pharmaceuticals (US)	(3%)
Dow Jones Pharma and Biotech (US)	(3%)
S&P 500 (US)	(1%)
DJIA (US)	(2%)
Dow Jones STOXX Healthcare (EU)	(6%)
Thomson Reuters Europe Healthcare (EU)	(5%)
Euro STOXX 50 (EU)	(4%)
FTSE-100 (UK)	(8%)
Topix Pharmaceutical Index (Japan)	1%

Perhaps Abbvie best exemplifies big pharma’s volatility: the group’s market cap gained $24bn in January on revelation of single-digit tax guidance, but that surge was wiped out when Rova-T crashed in Trinity, its small-cell lung cancer study.

Thus the first-quarter big pharma crown fell to a resurgent Glaxosmithkline, rewarded for switching from trying to buy Pfizer’s consumer health unit to the equivalent Novartis business. The worst performer wooden spoon was surprisingly picked up by Roche; perhaps after a strong 2017, rounded off with the takeover of Ignyta, investors decided that the stock had peaked.

With Lilly being punished for its 18% 2018 tax rate guidance, and Sanofi unable to offset its struggles in diabetes with ever more desperate takeovers, the rest of the big cap scorecard was dominated by first-line lung cancer.

Big pharma: top risers and fallers in Q1 2018			
	Share price (local currency)	Market capitalisation	
	3-mth chg	Mar 30 ($bn)	3-mth chg ($bn)
Top 3 risers			
Glaxosmithkline	5%	95.5	7.6
Bristol-Myers Squibb	4%	103.4	4.5
Astrazeneca	1%	88.6	0.8
Top 3 fallers			
Roche	(11%)	197.2	(18.1)
Sanofi	(9%)	100.0	(6.7)
Eli Lilly	(8%)	84.5	(8.4)
Source: EvaluatePharma.			

From a low base Bristol-Myers Squibb engineered a win in the Checkmate-227 trial by arguing in favour of a benefit in subjects with a high tumour mutation burden, while Astrazeneca enjoyed the approval of Imfinzi in stage III, non-metastatic disease. The two stocks surprisingly edged out Roche and Merck & Co, whose checkpoint inhibitors are set to dominate first-line NSCLC.

CSL unstoppable

Among large companies that are not big enough to qualify as big pharma the rise of CSL looks unstoppable. The Australian company finished 2017 in first place in this category on the strength of US approval for its hereditary angioedema drug Haegarda, and followed up last year’s 44% stock surge with a 10% climb in the quarter just ended.

This just edged out Vertex, which brushed aside cystic fibrosis challenges from Galapagos and Proteostasis. And Gilead showed a welcome return to form, climbing 5% after scoring US approval of its HIV triple Biktarvy and demonstrating, through acquisitions, that share buybacks are not its only idea for use of cash.

Other big drug stocks ($25bn+): top risers and fallers in Q1 2018			
	Share price (local currency)	**Market capitalisation**	
	3-mth chg	**Mar 30 ($bn)**	**3-mth chg ($bn)**
Top 3 risers			
CSL	10%	56.0	6.2
Vertex	9%	41.4	3.4
Gilead Sciences	5%	98.3	4.6
Top 3 fallers			
Takeda	(19%)	37.2	(8.7)
Celgene	(15%)	67.1	(12.1)
Biogen	(14%)	57.9	(9.4)
Source: EvaluatePharma.			

Apart from Vertex and Gilead, however, big biotech performed badly, with its poster child, Celgene, losing 15% after the latest of several disasters, a US refusal-to-file letter for its multiple sclerosis project ozanimod; this week heads started to roll in its C-suite.

Its peer Biogen got off to a strong start, but went into freefall in late January on concerns over its high tax rate, reliance on Avonex price increases and the patents surrounding Tecfidera. And another volatile company, Takeda, will be one of the most closely watched stocks as the second quarter gets under way.

The Japanese group has until April 25 to make a formal takeover approach to Shire or walk away, and so far its investors have given a proposed move the thumbs down. Doubts abound over whether the group can even afford to pay a premium for Shire, implying more volatility ahead for both companies.

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