Evaluate Vantage

March 26, 2020

Biotech’s balancing act amid Covid-19 delays

Jacob Plieth

A Vantage analysis suggests which small biotechs might seriously have to rethink R&D spending plans in the wake of Covid-19.

Lilly and Galapagos have already shown that the Covid-19 pandemic is severely disrupting big clinical studies. There is nothing to suggest that small biotechs will not be hit at least as hard, and just today Bluebird Bio, Ironwood and Myokardia warned investors of delays as they digested the new reality.

What could be the hard financial impact? If a delay renders a clinical trial void it will mean that its entire cost has been wasted – a worst-case scenario, true, but one that must be considered, however unlikely it is. *Vantage* has identified 10 biotech companies that could be most exposed.

The analysis considers companies’ expected 2020 R&D expenditure, as calculated by *EvaluatePharma* consensus of sellside forecasts, and compares this against market capitalisation. To avoid extreme outliers a minimum market cap of $100m is specified.

According to this analysis the companies with the biggest projected R&D spend versus their market caps are Mallinckrodt, Lexicon and Macrogenics. Of course, setting market cap as the denominator is an imperfect tool, but it provides one measure of companies’ cash need versus their capacity to raise additional funds in straitened times.

Mallinckrodt probably has bigger fish to fry, with a liability in the US opioid crisis and $5.4bn of gross debt on its balance sheet. Lower down the list, Clovis also has a disproportionately large debt position – $645m – and it will carefully be considering its ability to finance further trials as well as the amounts it has already sunk into studies reading out soon.

Lexicon is an interesting case; the group last week halted two massive type 2 diabetes studies and, though the new coronavirus pandemic was just one reason cited, this will for many groups be an important consideration (*Clinical trial delays become reality as Covid-19 risk spreads, March 20, 2020*).

2020 R&D under threat? The most exposed biotechs*				
Company	**2020e R&D spend ($m)**	**R&D vs market cap**	**Pro forma cash ($m)**	**Gross debt ($m)**
Mallinckrodt	342	226%	791	5,375
Lexicon	204	94%	272	245
Macrogenics	222	93%	216	0
Clovis	282	91%	297	645
Fortress Biotech	91	91%	137	85
Autolus	180	78%	211	0
Solid Biosciences	79**	74%	84	0
La Jolla Pharmaceutical	72	63%	88	0
Cytomx	138	61%	376***	0
Agenus	191	59%	62	0

*Source: EvaluatePharma sellside consensus. *Companies with market cap ≥$100m as at Tuesday; **cut a third of its workforce in January, so forecast might be outdated; ***includes $80m up front from Astellas.*

Today the tide of hope continued to recede, as Bluebird, Ironwood and Myokardia revealed delays caused by the spread of Covid-19. In addition to a filing delay Bluebird said it was re-evaluating its operating plan and adjusting planned expenses, and would update investors in its first-quarter report.

Ironwood hinted at problems with its 70%-enrolled phase III trial of IW-3718 for gastro-oesophageal reflux disease, saying some sites had suspended recruitment and citing general lower subject participation; topline data are no longer expected this year. And Myokardia suspended studies that it had planned to start in the second quarter, “until conditions change”.

Earlier, Provention Bio, Iveric and Arrowhead moved to pause study recruitment in the wake of Covid-19.

One bright spot is for sponsors of cancer trials, around which there seems to be an especially strong effort not to delay, given that these will be the last remaining hope for many participants. As such the oncology players in the list above might be less exposed.

Some ongoing trials that are delayed could still be salvaged, if they can either be resumed later or analysed as they are. But there is a real risk that many will have to be written off – and it could be unethical simply to cut funding to those that do end up being terminated prematurely.

Expect more operating priorities to be changed as biotechs scramble to evaluate how much sunk R&D expenditure is under threat.