Evaluate Vantage

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Big pharma sports smallest late-stage pipeline for a decade

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The number of novel, pivotal-stage projects in big pharma pipelines has plunged – just as Covid-19 put the brakes on deal making.

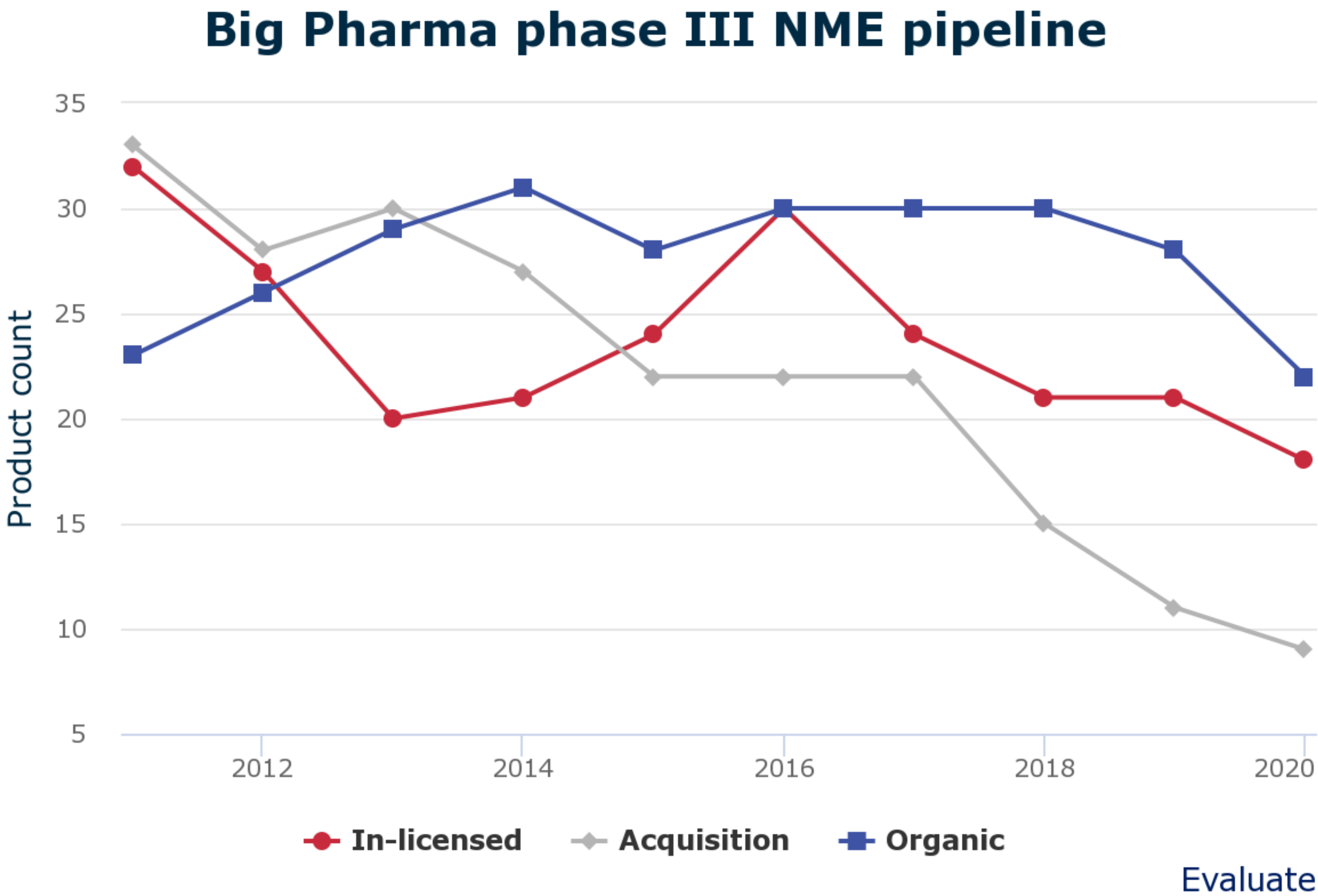
There are few places where evidence of the Covid-19 new world order is more apparent than biopharma M&A. Smaller transactions are getting away – Novo Nordisk's acquisition of Corvidia for example – however deal volumes look set to nose dive this year.

The pandemic could have come at a particularly bad time for big pharma. An *Evaluate Vantage* analysis shows that the number of novel, late-stage assets sitting in the pipelines of the world's biggest drug makers is at a low for the decade, having been in decline for the last four years.

Those hoping to do some form of portfolio building will struggle to follow through on these plans as restrictions on global travel continue to be in place.

The chart below shows that when it comes to novel projects, not only have the numbers fallen from acquisitions and in-licensing, there has also not been any compensatory uplift from organic development.

This analysis was conducted using historical pipeline data from *EvaluatePharma*, with a count conducted in April of every year. This should collect every project that enters phase III – a phase transition in under 12 months is very unlikely – and encompasses the 11 global pharmaceutical majors.

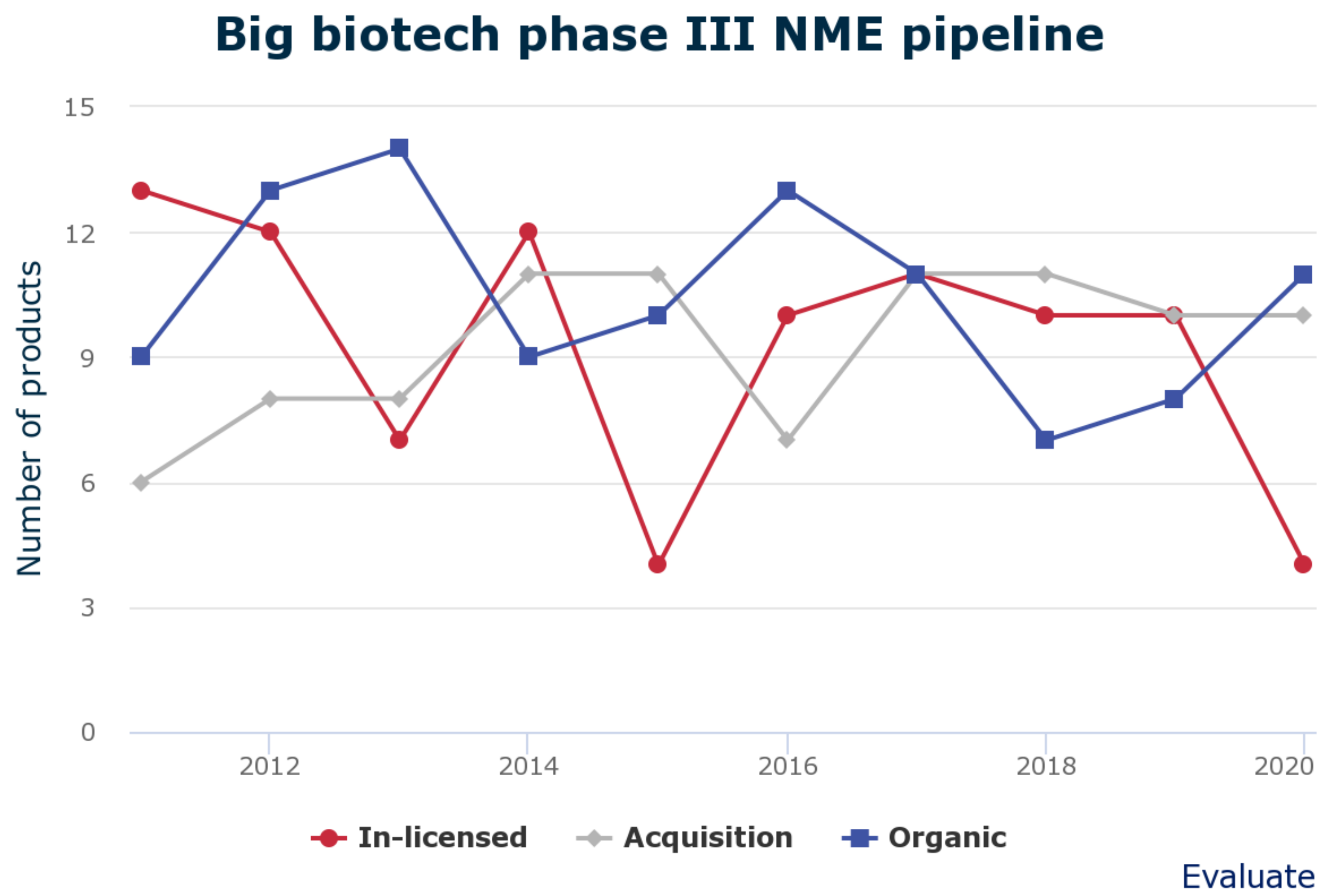


In April 2016 there were 82 novel projects sitting in these pipelines, a figure that dropped to 49 the same month this year. One explanation is the streamlining of portfolios that has happened at several companies under new management – Glaxosmithkline and Sanofi, for example.

A focus on oncology at many groups could be another reason, with research teams increasingly focusing on brand extensions rather than new approvals: think of the huge number of indications that Keytruda is sold in.

Notably, this declining trend is not seen in the pipelines managed by other big drug makers. The chart below includes any company whose market cap averaged at $30bn over the period, and includes those that have been acquired over the period.

Here, rates seem fairly steady over the decade in question, suggesting that the late-stage shrinkage is a big pharma phenomenon. This raises the question of whether the analysis reflects a deliberate focusing of resources, or the fact that assets are becoming harder to acquire.



Easy access to financing is allowing younger developers to hold on to their assets – and pushing valuations up. A look at transactions announced so far this year shows that 2020 had already started slowly – throw in the pandemic, and the outlook for deal-making this year is pretty dire.

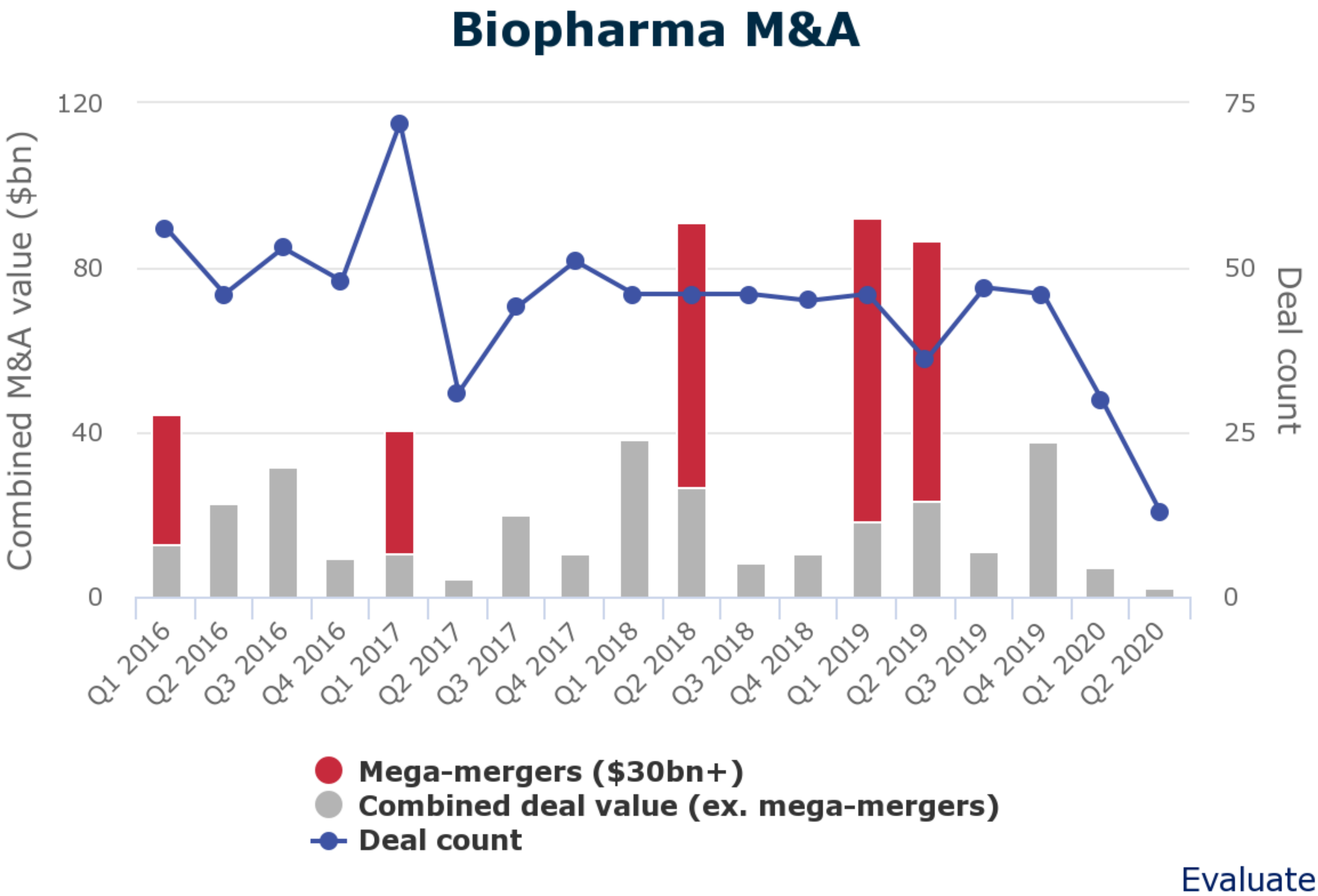
Stephanie Léouzon, partner and head of Torreya Europe, a global investment bank, believes that earlier-stage deals will be favoured over later-stage transactions this year: “These type of deals are easier to complete, if you have to do M&A,” she says. “What we are also seeing is where M&A is declining, partnering and licensing across the industry continues to be very active.”

Evan Lippman, Takeda’s head of corporate development, M&A and valuation believes that quick fixes in the form of mega mergers are off the table for now due to current market uncertainty.

Any large acquisitions that do happen might also look different. “Companies are very mindful of their capital structures right now, so we might see more structured deals rather than outright M&A, with more use of contingent value rights,” he says.

Still, few believe that old fashioned deal making is over. “While there might be a short-term impact in terms of M&A from Covid you have to remember most companies are making long-term bets,” says Andy Pasternak, chief business officer at Horizon Therapeutics.

Perhaps these longer-term bets will boost the size of late-stage pipelines in a few years time. But if the deal trends below are anything to go by, big pharma's phase III portfolio is set to stay relatively small for a while.


Biopharma M&A
120
80
40
0
75
50
25
0
Combined M&A value ($bn)
Deal count
Q1 2016
Q2 2016
Q3 2016
Q4 2016
Q1 2017
Q2 2017
Q3 2017
Q4 2017
Q1 2018
Q2 2018
Q3 2018
Q4 2018
Q1 2019
Q2 2019
Q3 2019
Q4 2019
Q1 2020
Q2 2020
Mega-mergers ($30bn+)
Combined deal value (ex. mega-mergers)
Deal count
Evaluate