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Biopharma shares shake off the pandemic

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Global drug stocks enthusiastically joined the recovery on the financial markets in the second quarter, more than offsetting earlier declines.

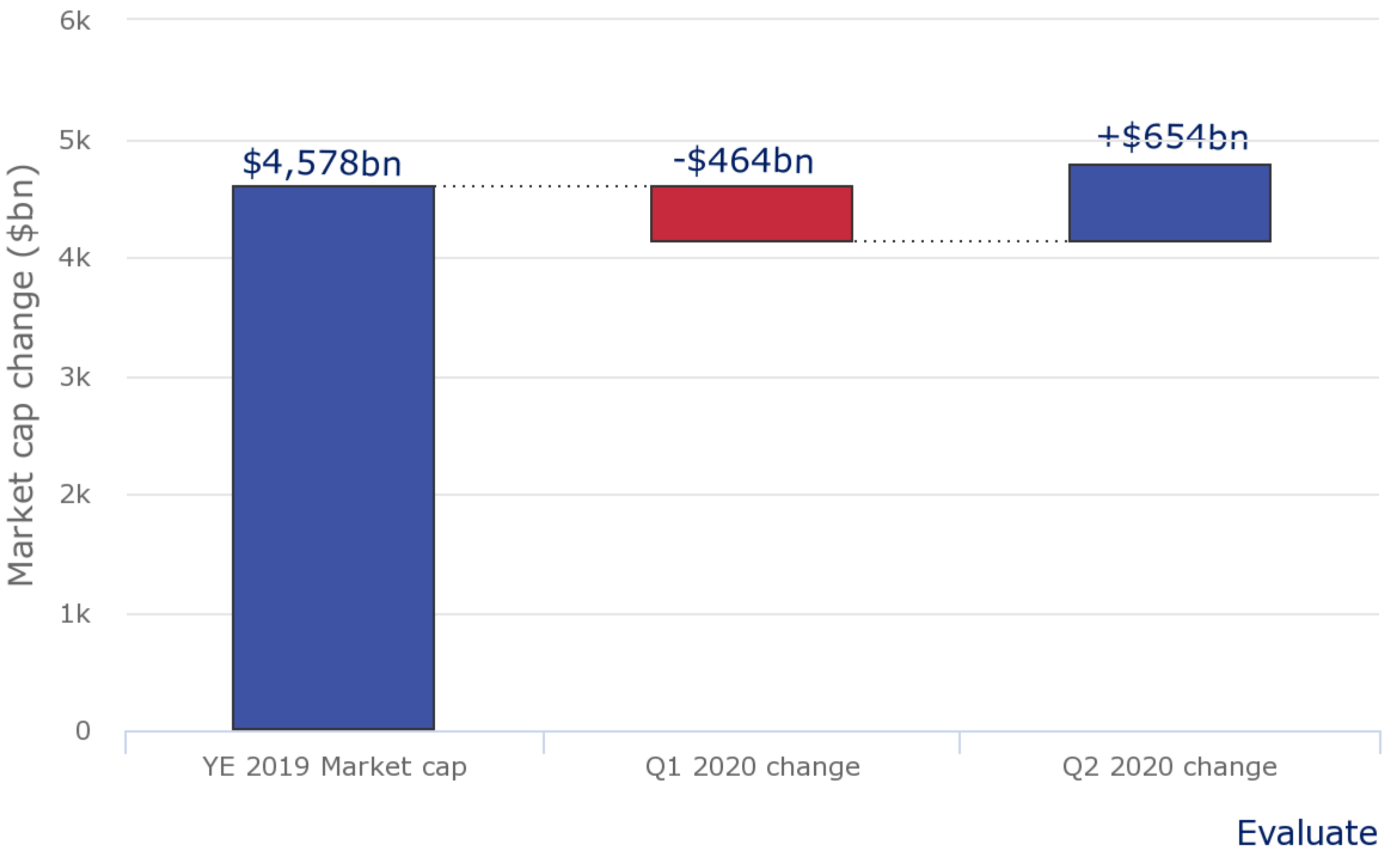
The pandemic was a fleeting affair as far as the stock market was concerned. Biopharma's key role in fighting Covid-19 did not prevent across-the-board declines in the first quarter – with a few notable exceptions – but the second quarter witnessed an unmistakable return to health.

This revival mirrors broader stock market recoveries, of course, and *Evaluate Vantage's* quarterly look at the sector's share prices shows that drug developers of all sizes posted strong gains over the past three months. In fact, at the half-year stage our universe of global stocks had grown in value on the end of 2019, which is remarkable considering that much of the world is still afflicted by the coronavirus outbreak.

This analysis concerns all listed drug makers included in *EvaluatePharma's* database, from across the world – a cohort of 579 companies. Micro-caps, those with a market value of less than $250m at the start of the year, have been excluded, as have subsectors like medtech or diagnostics; only developers of therapeutics are included.

To pinpoint the sector's winners and losers the performance of this universe will be tracked across the year, individually and as four market cap buckets, set at year end-2019 valuation thresholds.

The shifting valuation of global drug makers



As can be seen above, the combined market cap of this group is already greater than at the start of the year. This is real growth: this year's new issues have not been added, to allow a like-for-like comparison; similarly, those firms that float this year will be included from 2021.

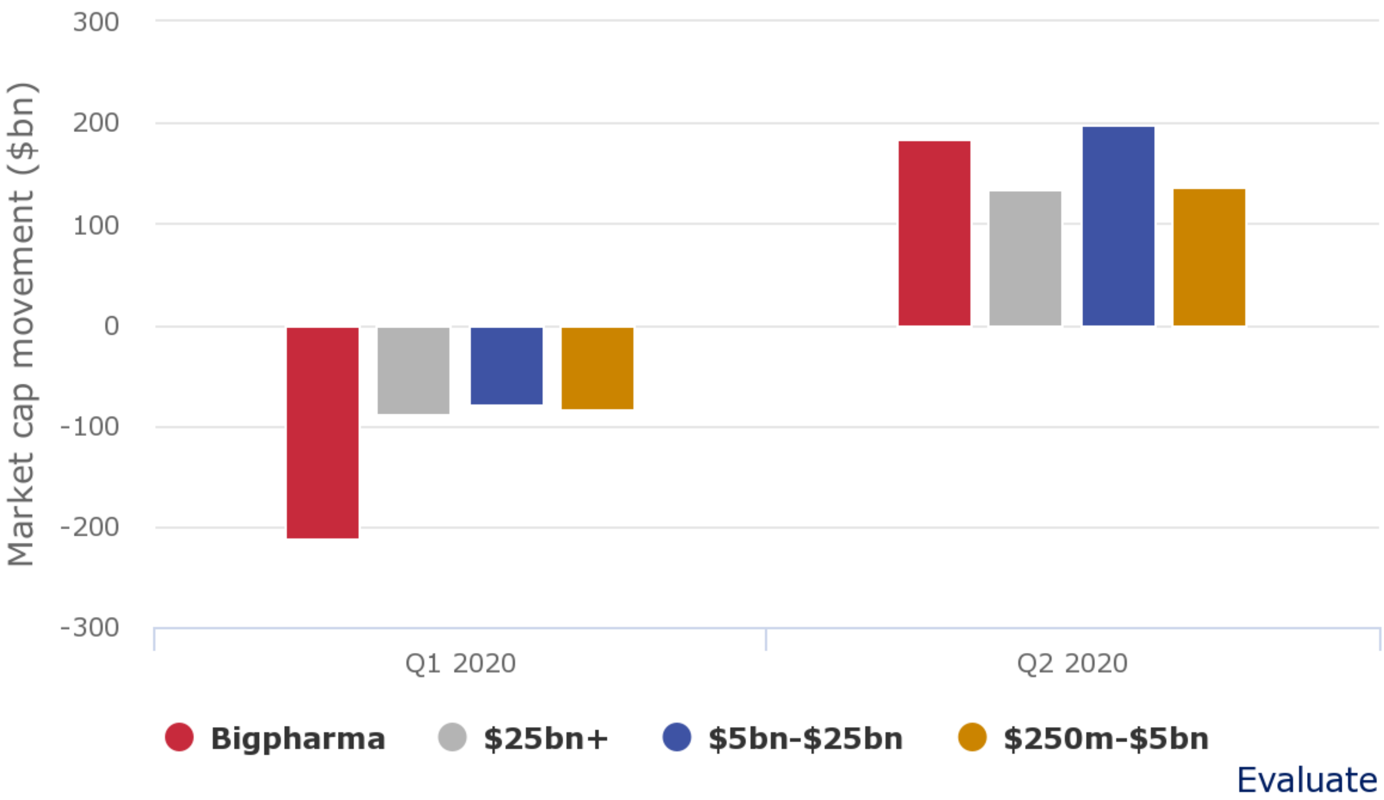
The second quarter is essentially a complete reversal of the first, with all cohorts other than big pharma more than recovering their lost valuations.

The mid-cap group stands out, however: these companies put on more value in the second quarter than big pharma, a remarkable surge considering the relative size of the market caps involved. Largely this has been driven by strong performances by several South Korean companies that sit at the top end of the mid-caps: Samsung Biologics, LG Chem and Celltrion, for example.

Another mid-cap second-quarter winner was Moderna, which added $14bn in market cap in the period, as its share price more than doubled. The RNA researcher has been one of the biggest beneficiaries of interest in Covid-19 research, despite releasing little data to date on its vaccine candidate.

Regeneron, which ranks among the $25bn-plus group, is another huge pandemic play: its valuation grew by $16bn over the second quarter, and with a market cap of $66bn the group is sitting at record highs.

Absolute market cap gains and losses, by size bracket



Of course, considering that the first quarter ended in such negative territory, it is not surprising that so many stocks have climbed out of that trough. A look across the first half of the year provides a more accurate picture of performance, and here companies involved in finding Covid-19 treatments still stand out. Alongside Regeneron and Moderna, Gilead, Vir and Inovio are all sitting on huge gains.

Those that are doing well for non-pandemic reasons include Vertex, whose shares have surged 33% this year, giving it a market cap of $75bn, as investors continue to reward it for complete domination of the cystic fibrosis space. Eli Lilly is also on a strong run, most recently being boosted by a surprise clinical win for its breast cancer therapy, Verzenio.

There are always losers in a biotech market, of course, and despite the recent rally around half of the stocks in our universe were under water at the half year point.

Among the big caps Merck and Pfizer are feeling the heat, down 15% and 17% respectively on the year, largely due to concerns about replacing existing franchises. Biogen is also under pressure on mounting doubts about the approvability of its Alzheimer's antibody; its valuation has been trimmed by $10bn this year.

And of course there are always car crashes to be found in this high-risk sector. Amarin has seen 67%, or $5bn, of its value erode on a surprise patent loss; Intercept has seemingly fallen foul of regulators, which are for now refusing to approve its Nash project, and shares are down 61% on the year.

DBV, Aimmune, Sage Therapeutics – the list of clinical and commercial disappointments goes on, as is usual for any period in the biotech space. The pandemic makes the future more unpredictable than usual, but at least market turbulence is over for now.

Percentage market cap gains and losses, by size bracket