Investors bite the big pharma hands that feed them

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Spending heavily on buybacks and dividends does not mean sector-leading share price performance, Evaluate Vantage finds.

The world’s 11 largest drug developers spent $110bn on share buybacks and dividends last year, with this investment hitting least a five-year high, according to Evaluate Vantage’s latest analysis of big phama investment trends.

That is more than these companies’ combined R&D bill, which in recent years has typically been the higher number. Certain one-off events played a role to boost buybacks last year, but it is worth remembering that in-house research spending is also at a record high.

It was Novartis’s sale of its stake in Roche back to its Swiss rival, followed by Roche’s massive share repurchase, that substantially swelled big pharma’s combined buyback spend last year. Roche’s annual results show that share repurchases cost it $22.3bn in 2021, the largest annual expenditure over the last five years by any of these groups, by some margin.

The last time big phama splashed out on buybacks was in 2018/19, when the Trump administration temporarily cut tax on the repatriation of foreign earnings. US developers including Abbvie, Merck & Co and Pfizer subsequently spent much of their windfalls on repurchases, ploughing more than $10bn each into these programmes.
This analysis is constructed from annual reports, which detail the sums spent on share repurchases and dividends each year. R&D and deal investments were previously detailed by Evaluate Vantage (*Big pharma's biggest spenders revealed*, May 16, 2022).

Dividends will always be the main way in which these companies distribute profits, though some investors are in favour of buybacks as a tax-free way to boost earnings per share. The opposing view is that management teams should instead be investing in the business – and in the drug development sector, this means R&D or deal-making.

These hugely cash-generative businesses are mostly able to pursue both business development and redistribute excess profits, of course. The chart below illustrates the various cash deployment strategies adopted by these big pharma groups.

Roche and Pfizer, two of the largest companies in this cohort, stand out as having spent the same sort of sums over the last five years on their shareholders as they have on internal and external R&D (where external R&D consists of licensing deals and M&A). Johnson & Johnson, another huge corporation, has invested roughly the same on dividends as it has on internal R&D.

For the remainder of the pack internal development and external business development has been the priority, in terms of where the cash has been deployed.
So, does a generous shareholder return policy correlate with strong investor support, in the form of share price appreciation? Not always, the chart below suggests, although big pharma stocks are of course influenced by many other factors.

Pipeline progress, or otherwise, is the main influence; hence Lilly and Astrazeneca are sitting pretty in terms of strong stock gains relative to their peers. These groups are also among the least generous to investors in absolute terms – Astra has actually issued more shares than it bought back over the period – though it should also be remembered that these two companies are among the smaller of these big pharma names.