Evaluate Vantage

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Are we there yet?

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Second-quarter share price movements give another glimpse of the dire state of the markets, but there might be reasons for optimism.

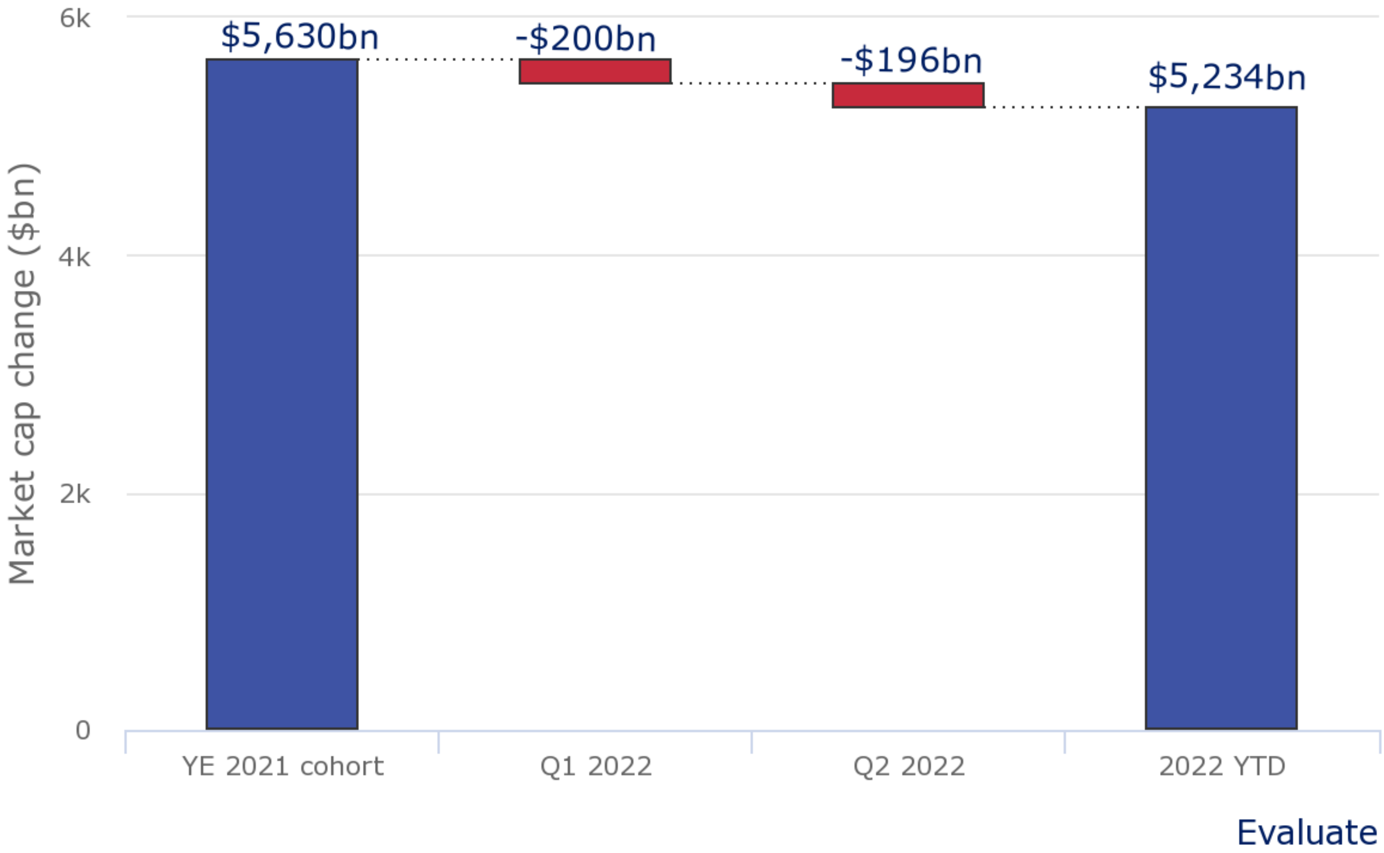
On the face of it global biopharma shed another $200bn of value in the second quarter, matching the $200bn it had lost in the first three months of the year. Look beyond the numbers, however, and there are at least two reasons to suggest that the pain might nearly be over.

The final two weeks of June and the start of the third quarter reveal an uptick that many will find hard to ignore, and on top of this comes increased talk of takeovers. As much of the industry departs for the summer shutdown some will say the bottom has been hit at last, though given the extent of investors' losses it would be premature to expect a bull market to come roaring back just yet.

A recent *Evaluate Vantage* analysis found a significant amount of cash being deployed on M&A. True, this was largely in terms of absolute numbers, and the deal values remain restrained, but many will now look to Merck & Co and Seagen to seal a takeover deal that would drive more investors back into the sector.

In many ways this is a predictable cycle: valuations reach an unrealistic peak, followed by a selloff that causes some groups to be valued so low that their takeout becomes inevitable, M&A picks up, and valuations rise again. The usual caveats apply: trying to catch a falling knife is dangerous, and it cannot be denied that most of this year's M&A has been on buyers' terms.

The shifting valuation of global drug makers

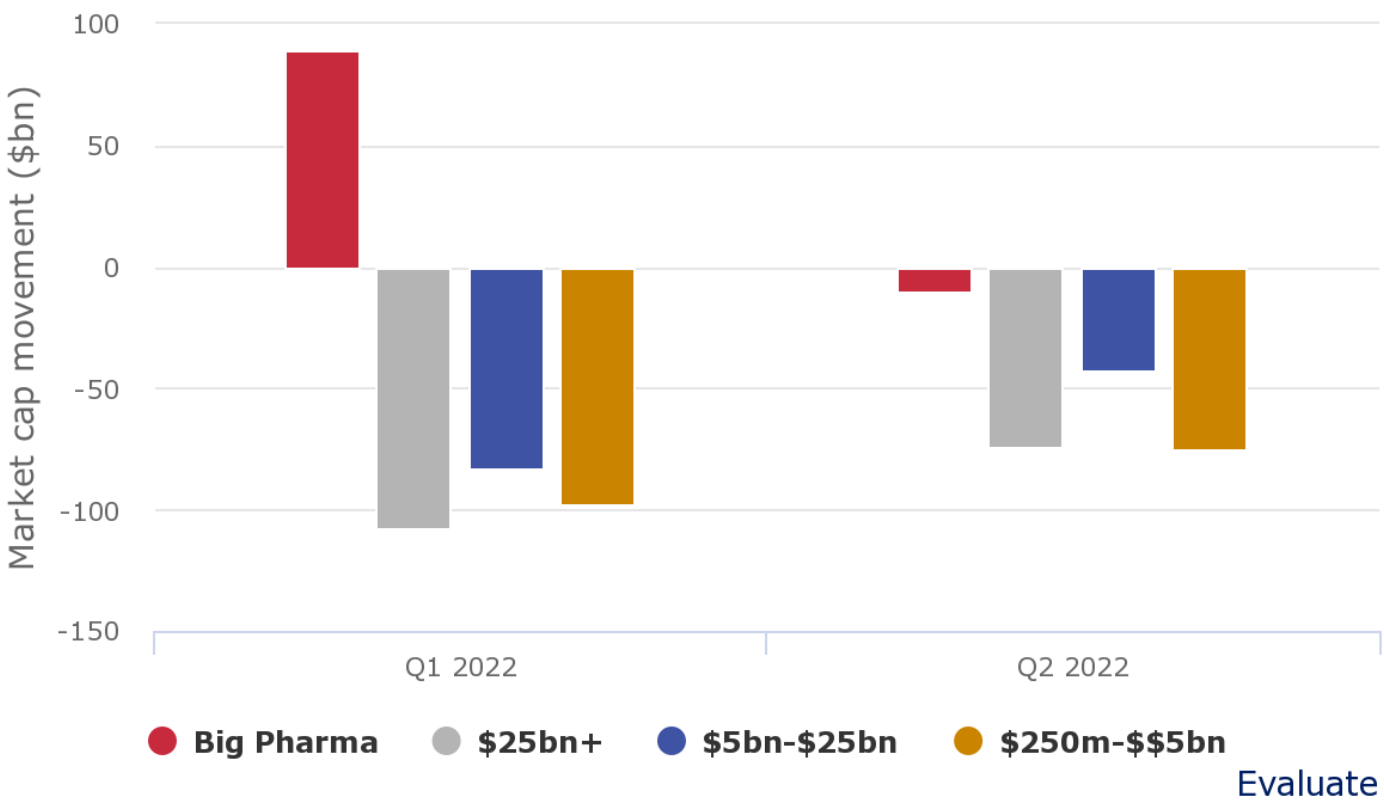


Still, share prices have responded, albeit cautiously. While overall global drug makers lost 3.5% and 3.7% of their market caps in the first two quarters respectively, the Nasdaq biotech market crept up 11% between June 16 and the mid-year point. The following 11 days saw a further 7% gain.

This analysis is constructed from the almost 700 globally listed drug makers covered by *Evaluate Pharma*, sorted into four cohorts based on year-end 2021 valuations (nano-caps worth less than $250m are not considered).

A casual glance at this more detailed breakdown could give further reason for optimism: in the second quarter big pharma was apparently no longer the safe haven it was in the first, and suffered a net loss of value along with its smaller brethren, whose own market cap losses were somewhat more restrained than in the first three months of 2022.

Absolute market cap gains and losses, by size bracket

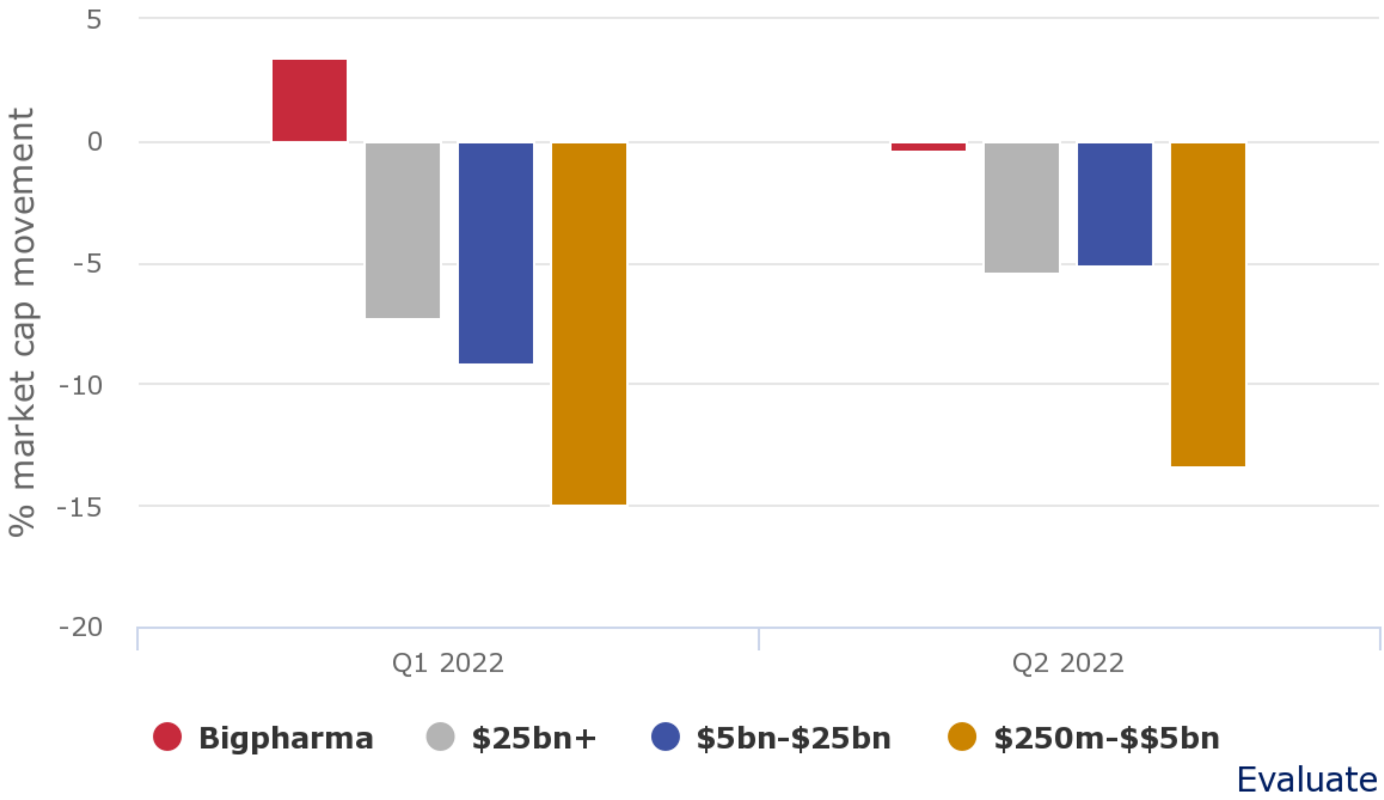


However, it would clearly be premature to suggest that risk was suddenly back on investors' agendas. Indeed, big pharma's second-quarter valuation fall was largely down to three companies, Roche, Novartis and Abbvie, experiencing significant market cap declines; Abbvie had put on 20% in the first quarter.

Meanwhile, on the big biotech side of the equation, Q2 was about containing Q1's losses rather than making huge gains. The Covid vaccine players Moderna and Biontech illustrate this, falling "only" 18% and 12% respectively in April to June, after haemorrhaging 33% and 34% of their market caps in the year to March. Gilead, a stock with which Wall Street has fallen out of love, put on 3% after falling 18% in the first quarter.

The dangers of picking bottoms notwithstanding, some investors might now be excused for wondering whether biopharma valuations do not have much further to fall.

Percentage market cap gains and losses, by size bracket



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