

Valeant's deals and Pfizer's strategy attract admirers in first quarter

The first quarter of 2011 has seen some steady if unspectacular share price growth for big and medium sized pharma companies. Among the big caps, Gilead Sciences posted some much needed gains having struggled throughout 2010, while the divergent paths being taken by the new heads of Pfizer and Merck & Co may be having a similarly divergent impact on investors - Pfizer gained 16% as Merck lost 8%.

Of the mid caps, US biotech and specialty stocks have replaced the once dominant Indian generic companies as the biggest gainers so far this year. Serial dealmaker Valeant is certainly doing its bit to add value to the sector while Vertex has managed to shrug off its lethargic performance last year. Indian healthcare has had a poor start to the year, albeit coming off some record highs achieved towards the end of 2010, dragged down by wider economic weakness (see tables below).

Big pharma analysis

Large cap (\$30bn+) pharma companies: top risers and fallers in Q1 2011						
Rank	Top 5 Risers	Share price (local currency)			Market capitalisation (\$bn)	
		31-Dec-10	31-Mar-11	% change	YE 2010	Q1 2011
1	Gilead Sciences (\$)	36.24	42.47	17%	29.1	33.7
2	Pfizer (\$)	17.51	20.31	16%	140.3	162.3
3	Baxter International (\$)	50.62	53.77	6%	29.3	30.9
4	Novo Nordisk (DKr)	630.28	661.00	5%	64.0	58.4
5	AstraZeneca (\$)	43.68	46.12	6%	61.6	63.8
Top 5 Fallers						
1	Merck & Co (\$)	36.04	33.01	(8%)	128.9	101.8
2	Novartis (\$)	58.95	54.35	(8%)	135.0	120.6
3	Roche (SFr)	137.00	131.20	(4%)	123.0	121.3
4	Johnson & Johnson (\$)	61.85	59.25	(4%)	193.0	162.4
5	GlaxoSmithKline (£)	12.40	11.90	(4%)	100.6	97.2

The contrast in fortunes of Pfizer and Merck since their new chief executives took charge is intriguing ([Struggling Pfizer seeks change of direction, December 6, 2010](#)).

Pfizer's Ian Read appears to have launched himself into quite an aggressive shake-up strategy, from severe cuts to R&D budgets to contemplating a major break-up of the pharmaceutical giant, moves which would have been unthinkable for a company like Pfizer just six months ago ([Has big thinking Pfizer come to a smaller conclusion?, March 15, 2011](#)).

Meanwhile Kenneth Frazier at Merck appears so far to be taking much more cautious steps, somewhat bucking the trend towards significant cost savings to protect the bottom line. The loss of a key pipeline product, anti-clotting drug vorapaxar, knocked out by a major safety signal, has also not helped ([Hopes fading for Merck's anticoagulant, January 14, 2011](#)).

As for Gilead, the company appears to be rebuilding investor confidence, not only in its core HIV franchise, but also through some of its recent moves to once again try and diversify its offering. After some disastrous

excursions into the cardiovascular space, its latest moves on Calistoga, Arresto Biosciences and CGI Pharmaceuticals suggest a determination to try its hand in oncology and inflammation - fields it actually exited a decade ago to focus on HIV ([Gilead making smart early moves in a new direction](#), February 23, 2011).

Stock Market Index	% change in Q1 2011
Dow Jones Healthcare (US)	+6%
S&P Pharmaceuticals (US)	2%
AMEX Pharmaceutical (US)	1%
Dow Jones STOXX Healthcare (EU)	-4%
Thomson Reuters Europe Healthcare (EU)	+1%
TOPIX Pharmaceutical Index (Japan)	-2%
Thomson Reuters India Healthcare (India)	-10%

Mid cap analysis

The mid-cap winners and losers during the first quarter is almost a complete reversal of the trend last year, when an incredible growth in Indian stocks in general meant a number of Indian pharma companies regularly featured as the biggest winners in each quarter.

This time three of the five biggest mid-cap fallers are Indian, whereas US specialty and biotech stocks are staging an impressive revival.

Winners

Everything that Valeant touches at the moment appears to turn to gold. Investors seem impressed by the company's aggressive M&A strategy, seeking out struggling companies which offer complimentary portfolios and significant synergies.

Cephalon is Valeant's latest target, a hostile approach announced just this week, which also explains Cephalon's presence in the winners enclosure ([Valeant seeks to repeat the growth trick with surprise Cephalon bid](#), March 30, 2011).

Regeneron appears to go from strength to strength, its shares now trading at a ten-year high, on huge expectations for its VEGF Trap-Eye product for a number of eye diseases ([Regeneron ends year on a high note](#), December 20, 2010). Even a recent setback for the same product in a late-stage cancer trial had little negative impact.

Vertex has made a hugely impressive start to the year, driven by renewed enthusiasm for its hepatitis C blockbuster-in-waiting, telaprevir, as well as surprisingly positive pivotal data from its cystic fibrosis treatment, VX-770 (Kalydeco) ([Vertex's cystic fibrosis candidate exceeds hopes](#), February 24, 2011). Shares in the company breached a ten-year high during the first quarter of \$51.07.

Perrigo, a major manufacturer of OTC products, breaks record share price highs on almost a daily basis, closing the quarter at its highest ever price of \$79.52. The company regularly featured as a quarterly winner last year as well, highlighting the value that can be extracted from the OTC market, on which some big pharma companies have bizarrely turned their backs.

Losers

Nearly all Indian healthcare stocks have fallen off the record highs many achieved towards the end of 2010, dragged down by a weaker economic outlook and inflationary pressures. The 10% decline in the Thomson Reuters India Healthcare index during the first quarter highlights the extent of these losses.

Ranbaxy issued a particularly weak outlook for 2011 in February and doubts still linger over whether the company will be able to launch its generic version of Lipitor in November; Mylan recently sued the FDA over its decision to grant Ranbaxy the 180-day generic exclusivity, given Ranbaxy's manufacturing violations a couple of years ago.

The FDA's rejection of Xifaxan for irritable bowel syndrome (IBS) in February was a huge setback to Salix. The share price decline was all the more disappointing and dramatic as the company's stock had posted some

impressive gains ahead of the regulator's decision ([Bad news on Xifaxan gives Salix investors indigestion, February 24, 2011](#)).

Shares in South African healthcare group, Aspen Pharmacare, have been in freefall since the start of the year. A tougher pricing environment in Australia, with the government keen to crackdown on drug prices across the board, is not the ideal start for Aspen's newly acquired generics division of Sigma Pharmaceuticals, for which it paid \$885m.

Mid cap (\$2.5bn-\$30bn) pharma companies: top risers and fallers in Q1 2011						
Rank	Top 5 Risers	Share price (local currency)			Market capitalisation (\$bn)	
		31-Dec-10	31-Mar-11	% change	YE 2010	Q1 2011
1	Valeant Pharmaceuticals International (\$)	28.29	49.81	76%	8.6	15.2
2	Regeneron Pharmaceuticals (\$)	32.83	44.94	37%	2.9	3.9
3	Vertex Pharmaceuticals (\$)	35.03	47.93	37%	7.1	9.8
4	Perrigo (\$)	63.33	79.52	26%	5.8	7.3
5	Cephalon (\$)	61.72	76.08	23%	4.7	5.8
	Top 5 Fallers					
1	Ranbaxy Laboratories (Rs)	598.65	444.05	(26%)	5.5	4.1
2	Salix Pharmaceuticals (\$)	46.96	35.03	(25%)	2.7	2.0
3	Aspen Pharmacare (ZAR)	92.01	79.00	(14%)	5.7	4.9
4	Lupin (Rs)	480.45	415.35	(14%)	4.8	4.1
5	Cipla (Rs)	369.90	321.05	(13%)	6.6	5.7

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