Evaluate Vantage

June 20, 2013

Big pharma pipeline health still a mixed picture

Amy Brown

The biotech bubble might still be inflating, with investors seemingly convinced that these high-risk companies are set to bring a swathe of valuable new drugs to market without fail, but are they similarly confident in the abilities of big pharma? One indicator is the value of a company's pipeline, and on this measure big pharma displays wide differences.

An analysis of consensus NPV data from *EvaluatePharma* reveals that Eli Lilly and Bristol-Myers Squibb have the most valuable clinical pipelines, although it appears that investors believe the latter is much more likely to bring products to market. Those at the bottom of the table include AstraZeneca, which unsurprisingly is failing to convince analysts and investors alike that a reversal of its dismal R&D track record is on the horizon (see table below).

The data

The value of a company's pipeline in the table below is derived from the NPV of any product that equity analysts have given a value – this number largely reflects a company's late-stage pipeline, including filed projects.

This in itself suggests clear leaders of the pack, and clear laggards, although it should be remembered that the R&D NPV value only speaks to new products – it does not reflect what can be huge future potential seen in expanding the uses of drugs already on the market.

When expressed as a proportion of a company's overall value it is clear that these pipelines – and their delivery – are considered much more important to some firms than others. Lilly, in particular, and Bristol-Myers have a lot riding on clinical successes over the next few years.

According to analysts, the big projects for Lilly are ramucirumab or IMC-1121B, a gastric cancer antibody that has already been filed with regulators in spite of underwhelming results (*In Regard to ramu, filing looks unlikely until Rainbow's end, January 23, 2013*), the Alzheimer's antibody solanezumab that the company is pushing on with despite disappointing results (*Confirmatory sola study plan takes Lilly down a peg, December 12, 2012*), and a Lantus biosimilar, LY2963016. These three products alone account for more than half of the company's R&D NPV.

The lion's share of Bristol's R&D NPV, meanwhile, rests with nivolumab, which has a huge $10bn valuation. The anti-PD-1 antibody is leading the pack in a class of drug with huge hopes attached; Bristol is also benefiting from evidence suggesting that the agent will work well in combination with another of the company's recent successes, Yervoy, in melanoma.

	NPV of R&D pipeline ($bn)	NPV of R&D pipeline as % of market cap	Market cap ($bn)	NPV of marketed products ($bn)	Implied investor disconnect ($bn)*
Eli Lilly	16.0	28%	58.0	46.6	-4.5
Bristol-Myers Squibb	15.0	20%	75.6	40.6	20.0
GlaxoSmithKline	12.0	10%	125.4	112.1	1.3
Merck & Co	11.6	8%	143.7	106.5	25.5
Sanofi	8.3	6%	140.1	125.7	6.1
Novartis	8.8	5%	164.5	114.2	41.5
Roche	10.0	5%	212.2	162.1	40.1
AstraZeneca	2.9	5%	62.8	80.1	-20.2
AbbVie	3.0	4%	68.2	52.1	13.1
Pfizer	8.8	4%	206.4	136.8	60.8
Johnson & Johnson	1.7	1%	238.4	95.6	141.0
**market cap minus NPVs of marketed and R&D assets*					

Of course equity analyst sales forecasts, the basis of these NPV calculations, do not say anything about whether investors believe the product will actually make it to market and ever achieve that value. Investor sentiment is reflected in the market capitalisation of a company, and this also reflects cash and the value of non-drug assets.

In an attempt to elucidate the extent to which investors might agree with analysts, the final column of the table describes the disconnect between the sellside's NPV valuation and the investor-driven market valuation. This was calculated by subtracting the NPV of a company's marketed and R&D products from its market cap; this is admittedly a crude calculation with numerous caveats, and is less revealing for the large diversified players like Johnson & Johnson and Novartis.

However, for the pure-play drug makers this disconnect calculation does paint a picture of investor sentiment. Lilly, which despite its broad phase III pipeline has much to prove, and AstraZeneca, which has suffered a string of late-stage failures, are both struggling to convince investors that they will be able to deliver the value that equity analysts see in their pipelines. In the case of Astra, investors seem to be suggesting that a major erosion of value could be on the cards.

At the other end of the scale are Bristol-Myers and Merck, both of which are valued substantially higher than their product NPVs. This implies that their investors are expecting value creation.

For companies that derive income from other avenues the picture is less clear. Merck, for example, does have a relatively small animal health division, Roche has a substantial diagnostics arm, GlaxoSmithKline has consumer healthcare and the likes of Novartis, Sanofi and Johnson & Johnson are more broadly diversified.

But it is clear that, for many of these companies spending billions of dollars every year on R&D, their pipeline valuations must be disappointing. Confidence in big pharma's ability to deliver valuable new drugs has improved in the last year or so, but the industry still has much to prove.

To contact the writer of this story email Amy Brown in London at AmyB@epvantage.com or follow @AmyEPVantage on Twitter

Evaluate APAC
+81-(0)80-1164-4754