

Biotech bull run leaves few big cap drug stocks down in 2013



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As commentators begin to line up to predict that 2014 will see the biotech rally run out of puff, it is clear that 2013 will be remembered as full steam ahead. A look at the progress of healthcare stocks last year reveals remarkable performances from the world's larger drug makers: companies worth more than \$30bn at the start of the year added a combined \$531bn to their market caps over the 12 months, with not one shrinking in value.

Outside these big beasts of the sector the bull run also benefited a wide range of companies - substantial share price jumps towards the end of the year for Endo and United Therapeutics propelled both into the top five mid cap risers, *EvaluatePharma* data show. Meanwhile drug makers based in developing countries dominated those in negative territory, with Indian firms putting on a particularly bad show over the year (see tables below).

Stock index	% change in 2013
NASDAQ Biotechnology (US)	66%
Dow Jones Pharma and Biotech (US)	43%
TOPIX Pharmaceutical Index (Japan)	37%
S&P Pharmaceuticals (US)	31%
S&P 500	18%
Thomson Reuters Europe Healthcare (EU)	37%
DJIA	26%
Dow Jones STOXX Healthcare (EU)	20%
Euro STOXX 50	14%
FTSE-100	18%

A look at the indices that track drug stocks compared with broader measures of the equity markets reveals just how extensively the sector outperformed, particularly in the US. With the Nasdaq Biotechnology Index (NBI) ending the year at a record high, it is not surprising that various commentators feel confident in calling the top. The huge valuations that even highly speculative companies have achieved are already hard to justify, and it is extremely unlikely that 2014 will see the NBI advance by anything close to last year's 66% gain.

The downgrade of the biotechnology sector by Goldman Sachs from buy to neutral this week marks the first red flag raised by an influential camp in the sell side. The bank's analysts described the sector as "fully valued", and said strong earnings were now needed to justify high stock prices, sparking a dip in many biotech stocks.

The bank also became the first to slap a sell recommendation on last year's top big-cap performer - Celgene was downgraded from neutral to sell - erasing 4% from the company's share price yesterday. Considering that the stock more than doubled last year this will not trouble long-term investors too much, but with several hurdles ahead this year, as Goldman points out, this performance is unlikely to be repeated.

The analysis below shows that Gilead performed almost as strongly last year, giving the antiviral specialist a \$115bn value that far exceeds traditional big pharma names like Bristol-Myers Squibb, AstraZeneca and Eli Lilly, which ended the year valued at \$88bn, \$75bn and \$57bn respectively. With the launch of the lynchpin hepatitis C drug Sovaldi having only just taken place, the product's performance will determine which way

Gilead's valuation shifts this year.

A similar story is playing out at Biogen Idec, which made the top five in 2013 largely on hopes for Tecfidera; the MS pill was launched in March last year and has done very well, but a continuing strong performance will be needed to drive the company's valuation higher in 2014.

As the sole big pharma name in the top five, Bristol-Myers Squibb, will be very pleased with its growth-stock style performance in 2013. Bayer's 49% share price climb across the year and Roche's 39% advance also represent very strong performances for a mature sector normally associated with more moderated growth. They also put the single-digit gains registered by the likes of Lilly, Baxter and Sanofi to shame.

Large cap (\$30bn+) pharma companies: top risers and worst performers in 2013						
Rank	Top 5 risers	Share price (local currency)			Market capitalisation (\$bn)	
		YE 2012	YE 2013	Change	YE 2012	YE 2013
1	Celgene	\$78.47	\$168.97	115%	33.19	69.63
2	Gilead Sciences	\$36.72	\$75.1	105%	55.65	115.15
3	Biogen Idec	\$146.37	\$279.57	91%	34.63	66.04
4	Bristol-Myers Squibb	\$32.59	\$53.15	63%	53.80	87.51
5	Abbvie	\$35.12	\$52.81	50%	55.87	84.01
Rank	5 worst performers					
1	Eli Lilly	\$49.32	\$51.00	3%	55.57	57.46
2	Baxter International	\$66.66	\$69.55	4%	36.62	37.74
3	Teva Pharmaceutical Industries	\$37.34	\$40.08	7%	35.23	37.95
4	Sanofi	€ 71.39	€ 77.12	8%	122.65	139.31
5	Novo Nordisk	DKr916.50	DKr994.00	8%	72.14	80.47

Outside the largest drug developers, investor enthusiasm for the sector is also clearly evident, with all top-five mid cap risers more than doubling in value over the year.

Well received acquisitions by Endo and Jazz, of Paladin and Gentium respectively, in the last couple of months of the year catapulted these companies into top-riser spots, although both had already been performing respectably. Despite soaring valuations these deals show that takeovers can still be done without terrifying investors, although it seems likely that M&A activity will remain muted while share prices remain so bloated.

United Therapeutics was also a late beneficiary, this time of an FDA turnaround; the approval of an oral form of Remodulin sent shares in the company up 30% on December 20. Elsewhere, Alkermes has been rewarded for pipeline progress and Ono Pharmaceuticals represents a survivor of the Japanese biotech bubble, which propelled many of the country's stocks earlier this year but has since been overshadowed by gains in the US.

And while the big cap companies ended the year in positive territory across the board, fallers can be found outside these ranks. In India, Wockhardt and Ranbaxy continue to struggle with FDA compliance issues, while Zydus Cadila's earnings have disappointed. And Korea's Celltrion, despite making Europe's first biosimilar monoclonal antibody to win approval, has struggled to distract investors from concerns about stake sales and weak earnings.

Ariad is the sole US company to make the top fallers, damaged by safety signals that fuelled concerns about the future for its leukaemia treatment Iclusig. It is notable that Ariad was the only US company in this market cap bracket to end the year in negative territory. The next "worst" performer was Allergan with a 21% gain – a graphic illustration of the exuberance of US investors last year.

Share price performances over 2013 will certainly go down as a year to remember for the life science sector. Should the biotech bull be put out to pasture this year it will be interesting to see how these valuations hold up. But for now, optimism remains – the NBI this morning had already bounced back from the Goldman predictions.

Mid cap (\$2.5-30bn+) pharma companies: top risers and fallers in 2013

Rank	Top 5 risers	Share price (local currency)			Market capitalisation (\$bn)		EP Vantage comment and analysis
		YE 2012	YE 2013	Change	YE 2012	YE 2013	
1	Endo Health Solutions	\$26.23	\$67.46	157%	2.99	7.75	Endo engineers Paladin into a return for all
2	Jazz Pharmaceuticals	\$53.25	\$126.56	138%	3.08	7.31	Jazz plays the M&A song again
3	Alkermes	\$18.52	\$40.66	120%	2.44	5.56	BIO 2013 - Alkermes hopes to step out of partners' shadows
4	United Therapeutics	\$53.42	\$113.08	112%	2.71	5.68	A Christmas miracle for United as oral Remodulin approved
5	Ono Pharmaceutical	¥4,405	¥9,210	109%	6.57	11.10	Daily Market Movers (28 Jun 2013)
Rank	Top 5 fallers						
1	Wockhardt	Rs1,572	Rs452.35	(71%)	3.24	0.81	Daily Market Movers (27 Nov 2013)
2	ARIAD Pharmaceuticals	\$19.18	\$6.82	(64%)	3.20	1.27	Future darkens further for Ariad on news of trial termination
3	Celltrion	KRW52,200	KRW38,350	(27%)	4.92	3.61	Daily Market Movers (1 Aug 2013)
4	Zydus Cadila	Rs900.70	Rs807.10	(10%)	3.48	2.68	Daily Market Movers (8 Aug 2013)
5	Ranbaxy Laboratories	Rs502.75	Rs453.10	(10%)	4.00	3.12	Daily Market Movers (16 Sep 2013)

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