Evaluate Vantage

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Pharma’s big R&D gamblers and their risk averse brethren

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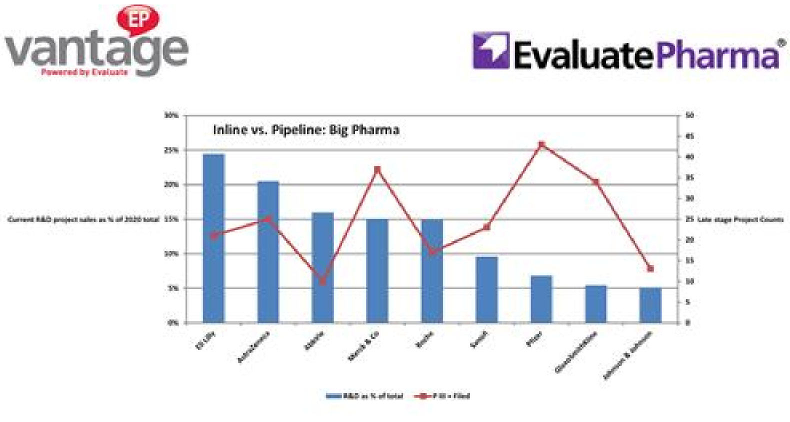
Steady earners or high-risk, high-reward plays? A dependence on patent-protected assets means that big pharma relies on repeated R&D successes, but the risk is not evenly spread throughout the sector.

A look at the share of forecast 2020 sales derived from clinical-stage projects shows that Lilly, AstraZeneca and AbbVie stand out, with big bets on a limited number of clinical assets. On the flip side, Pfizer has a surprising number of phase III projects but a rather modest pipeline forecast, confirming the wider view of its ailing R&D strategy (see tables below).

Place your bets

This analysis covers the 15 companies with a market capitalisation above $25bn that have the biggest share of their forecast 2020 drug sales attributable to projects still in development.

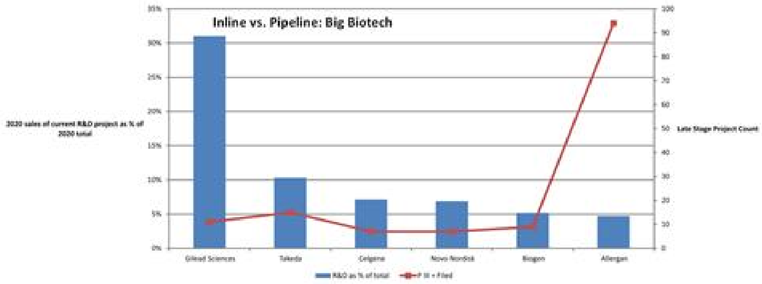


With nearly a quarter of its forecast $19bn in 2020 prescription and over-the-counter sales still subject to clinical and regulatory tests, Lilly is the most vulnerable of the big pharma peer group to setbacks of developmental projects. That quantitative measure looks portentous enough, but a qualitative look at the components of the forecast should give any Lilly investor pause.

Of the $4.7bn in forecast sales attributed to Lilly’s pipeline, the Alzheimer’s disease antibody solanezumab – which has already failed in pivotal studies – accounts for $978m, and the cholesterol-lowering project evacetrapib, which comes from a class with two disastrous failures, accounts for another $612m.

Taken together, those two candidates are a bigger component of the pipeline forecast than the more certain agents ixekizumab and necitumumab, the former filed in psoriasis and the latter in lung cancer.

AstraZeneca is the next more R&D-reliant company, though it has spread its bets more widely, with 17 phase III and filed projects represented in its $5.6bn forecast 2020 sales. Two figure heavily: its anti-PD-L1 MAb durvalumab at $1.1bn, and its EGFR inhibitor AZD9291 at $1.2bn. Being cancer projects these are less risky gambles, but of course nothing is a 100% certainty until regulators have their say.



It could come as a surprise that despite huge sales with its hepatitis C pills Harvoni and Sovaldi Gilead Sciences has the most to lose from pipeline failure among big biotechs. But, as with oncology-focused companies, this is not necessarily as risky a position as it might at first blush appear.

Of the $8.9bn in forecast sales attributable to pipeline projects, tenofovir alafenamide accounts for $3.7bn; as a prodrug of Viread and a component of several combination HIV antivirals now before regulators, this agent would seem to be largely de-risked. The other major pipeline component is the Sovaldi-based triple regimen, which again appears less risky thanks to late-stage data from a new double combination.

M&A the answer?

Aside from those two agents, though, analysts are not according much value to Gilead’s pipeline. This might explain why the group has raised $10bn in debt, signalling that M&A is in its future.

Indeed, the risk of failure goes a long way to explaining why M&A has increasingly become big pharma’s preferred choice for finding new candidates (*Buying in growth beats innovation for pharma, September 18, 2015*). For example, this largely explains how little Allergan has at risk from pipeline failure.

Because of the transitory nature of intellectual property protection, big pharma will always depend on innovation to fill pipelines. Leaving little to chance in the clinic and letting a product portfolio grow stale represents an entirely different type of risk that Pfizer and GlaxoSmithKline, for example, know all too well.

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