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Buy or build – big pharma’s freshness dilemma

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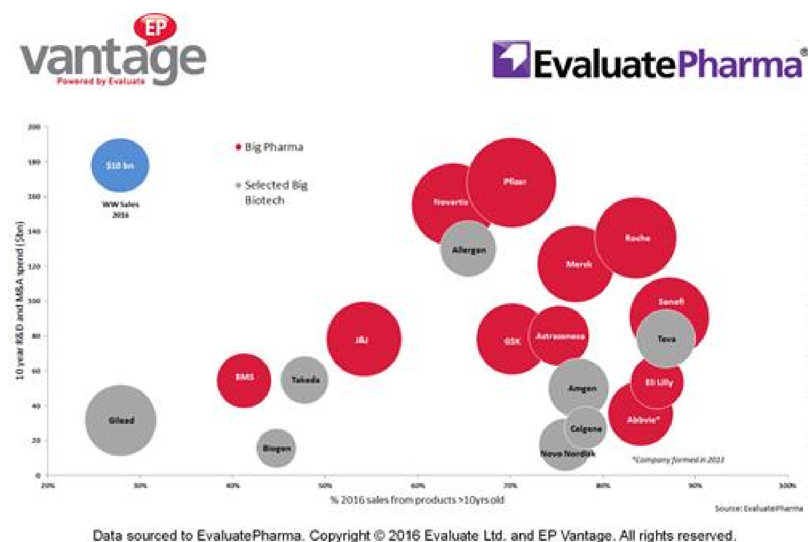
Biopharma’s never-ending challenge of refreshing pipelines is today a tale of three companies, all of which have ageing product lines that are vulnerable to generic competition.

On the one side are Sanofi and Lilly, which have turned largely to their in-house laboratories to refill pipelines in the hopes that billions of dollars a year in R&D spending will help them replace products that are at least 10 years old. On the other side is Roche, which has outspent both on R&D, and at the same time has spent far more than the others to buy companies for their promising developmental assets (see graph below).

Changes at the top

These three companies are among four for which products at least 10 years old account for more than 80% of 2016 pharmaceutical sales. At the top is Sanofi, with 87% of its sales on grey-whiskered products, but the remaining three are close enough to be considered a virtual tie with the French group – Lilly at 86% and Roche and Abbvie at 84%.

This picture has barely changed since the last time *EP Vantage* did this analysis a year ago, when these same four companies also topped the table, but Lilly was most at risk (*Another fail for Lilly’s labs – time to make a deal?, October 13, 2015*).



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What has changed for Lilly? Fresh diabetes products Trulicity and Tradjenta outperformed consensus, and Taltz has been introduced, meaning that the share of sales generated by younger products has risen from 9% in 2015 to 14% in 2016.

Yesterday its chief executive, John Lechleiter, emphasised that new products accounted for nearly all of the group’s sales growth. Sanofi’s contribution of fresh products to sales rose slightly, meanwhile, but not enough to keep it from having the most aged portfolio in all of biopharma.

Of course, big pharma’s model – billion-dollar drugs protected by intellectual property estates – makes it especially vulnerable to ageing product lines, as demonstrated by the fact that only one company in this cohort, Bristol-Myers Squibb, derives more than 50% of its sales from younger products. More important is how these big companies respond to the constant need to refresh portfolios.

Lilly and Sanofi have shown great faith in their own laboratories, while being more reluctant to spend to acquire companies with promising assets. On the other hand, Roche outspends both on R&D, and in addition has been willing to open its chequebook for big strategic acquisitions – spending $47bn to complete a takeover of Genentech, and its suite of oncology antibodies in 2009 representing a huge chunk of its M&A expenditure.

By comparison, Sanofi’s biggest buy in the 2006-15 period was Genzyme at $20bn, and Lilly’s the $6.5bn

takeout of Imclone Systems.

Including Abbvie in this analysis – Humira, launched in 2003, constitutes nearly two thirds of its pharma sales – is more challenging since it was spun out of Abbott Laboratories just three years ago. The fact that in the time since then it has spent more on M&A than R&D, with its $21bn takeout of Pharmacyclics constituting most of the business development expenditure, signals how Abbvie is trying to solve its Humira problem.

Youth

On the more positive end of the spectrum, Bristol has relatively new and growing products in Opdivo, Eliquis, Yervoy and Empliciti, while Johnson & Johnson counts Darzalex, Stelara, Xarelto, Imbruvica and Invokana as its big growth drivers. Neither one is the match of Roche in terms of pipeline investment, something they might want to think about as their big sellers age.

The king of pipeline investment is Pfizer, and it will come as no surprise that its spending is tilted towards M&A.

In this cohort of companies, unsurprisingly, Teva's product lines look the most aged, matching Sanofi in the share of its sales coming from drugs at least 10 years old. Amgen, Celgene and Novo Nordisk, however, do not have the excuse of largely being a generics company and hardly look better, and have spent even less to top up their developmental projects. Novo spent almost nothing on M&A in 2006-15.

On this metric of pipeline investment versus age of products, Gilead Sciences looks well placed given its relatively low pipeline spend and huge share of sales from products launched in the past decade – mainly Harvoni and Sovaldi, launched in 2014 and 2013 respectively. That picture is deceiving, however, as these hepatitis C offerings are now reckoned to have a short shelf life, and as their massive sales fall back to earth the share of sales from older HIV products like Truvada will begin to grow again.

It is no wonder that Gilead's shareholders have been agitating for a big strategic move. Companies with a smaller valuation like Bristol, Astrazeneca and Glaxosmithkline spend more to build their pipelines than Gilead does, and in spite of the immediate success of its youthful hep C offerings Gilead has the same development urgency of its big pharma counterparts.

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