

Pharma stocks battered in 2016 storm



[Madeleine Armstrong](#)

If 2015 was turbulent for the biopharma industry then 2016 was even more volatile, with the Nasdaq Biotechnology index ending the year in the red for the first time since 2008. With macroeconomic issues and pricing pressure set to continue, as well as uncertainty over President-elect Donald Trump's policies, things could get worse before they get better.

One positive from the fall in valuations could be a surge in M&A as companies become more affordable – or at least this is what industry watchers hope. With only five big pharma companies posting share price growth in 2016, and none of the other big caps showing an increase, investors will be desperate for any improvement in 2017.

Stock index	% change in 2016
NASDAQ Biotechnology (US)	-19%
S&P Pharmaceuticals (US)	-4%
Dow Jones Pharma and Biotech (US)	-9%
S&P 500 (US)	10%
DJIA (US)	13%
Dow Jones STOXX Healthcare (EU)	-11%
Thomson Reuters Europe Healthcare (EU)	-12%
Euro STOXX 50 (EU)	0%
FTSE-100 (UK)	14%
TOPIX Pharmaceutical Index (Japan)	-11%

The best...

Of the handful of risers Glaxosmithkline had the biggest gain, bolstered by the UK's vote to leave the EU in June weakening sterling – the company generates most of its sales overseas.

Its fellow UK group Astrazeneca also benefited from the Brexit result, but these gains were wiped out in the latter half of the year after a lacklustre third quarter, and Astra's mid-term prospects also took a blow with the failure of its blood thinner Brilinta in a new indication, peripheral artery disease. The company faces a nervous wait to see if longer-term projects like the checkpoint inhibitor durvalumab live up to expectations.

Big pharma companies: top risers and fallers in 12 months						
	Share price (local currency)			Market capitalisation (\$bn)		
	YE 2015	YE 2016	Chg	YE 2015	YE 2016	12-mth chg
Top 3 risers						
Glaxosmithkline	£13.73	£15.62	14%	100.12	94.53	(5.60)*
Johnson & Johnson	\$102.72	\$115.21	12%	283.01	313.43	30.42
Merck & Co	\$52.82	\$58.87	11%	146.9	162.31	15.41
Top 3 fallers						
Allergan	\$312.50	\$210.01	(33%)	123.20	78.77	(44.42)
Astrazeneca	\$33.95	\$27.32	(20%)	85.82	69.12	(16.70)
Roche	SFr276.40	SFr232.60	(16%)	239.52	204.02	(35.50)
<i>*Decline due to dollar conversion; in native currency the market cap grew £10bn (\$12bn).</i>						

Glaxo was not the only conglomerate to fare well last year – Johnson & Johnson, a relatively safe haven amid the market turmoil, was also one of the few risers. And Pfizer, which in September scrapped plans to split, was up 1% in 2016, although its biggest boosts came in November when Donald Trump was elected president and in April when its acquisition of Allergan fell through.

...The rest

Allergan's stock, meanwhile, plunged when the deal was called off, and dipped again in November after disappointing third-quarter results. With its chief executive, Brent Saunders, pledging to keep any drug price increases below 10%, the group will have to find real growth drivers among its products.

One company that is growing its top line on volume as well as price is Celgene – but, even though it was the best performer among the large cap companies outside the big pharma universe, its share price was still down 3% overall.

The company has long been heavily reliant on Revlimid, but efforts to expand into new indications took a blow with the failure of the Remarc study in July. However, there are high hopes for Celgene's pipeline, including the oral S1P1 modulator ozanimod, which is due to report phase III results in relapsing multiple sclerosis in the first half.

While Celgene's investors will be disappointed, it could have been much worse. Valeant's fall from grace continued after a disastrous set of fourth-quarter 2015 results that included a \$600m typo in its guidance.

So far Valeant's new chief executive, Joseph Papa, has not managed to stem the bleeding and it is hard to see how the company, burdened as it is with debt, can dig itself out of the hole it is in. If Valeant's market cap stays at its current level it will not be included in this analysis next year.

Other big pharma companies (\$25bn+): top fallers in 12 months

	Share price (local currency)			Market capitalisation (\$bn)		
	YE 2015	YE 2016	Chg	YE 2015	YE 2016	12-mth chg
Top 3 performers						
Celgene	\$119.76	\$115.75	(3%)	94.09	89.73	(4.36)
Astellas Pharma	¥1,731.5	¥1,623.5	(6%)	32.55	33.66	1.10
Biogen	\$306.35	\$283.58	(7%)	68.29	61.7	(6.59)
Top 5 fallers						
Valeant Pharmaceuticals International	\$101.65	\$14.52	(86%)	34.68	4.95	(29.73)
Teva Pharmaceutical Industries	\$65.64	\$36.25	(45%)	66.64	36.77	(29.87)
Vertex Pharmaceuticals	\$125.83	\$73.67	(41%)	30.92	18.27	(12.65)
Novo Nordisk	DKr399.90	DKr254.70	(36%)	120.30	75.88	(44.43)
Alexion Pharmaceuticals	\$190.75	\$122.35	(36%)	42.98	27.44	(15.54)

Other fallers have also brought in new personnel to steady the ship. After Novo Nordisk was the top performer in 2015, its fortunes reversed last year as it battled for share in an increasingly competitive insulin market – not helped by the launch of Lilly’s biosimilar Basaglar. Novo lowered its guidance in October and its new chief executive, Lars Fruergaard Jørgensen, will have a job on his hands to turn things around.

Alexion, meanwhile, was hit by a double whammy after label expansion efforts for its cash cow Soliris failed, followed by allegations of improper sales practices and the resignation of its chief executive and chief financial officers. Astrazeneca’s ex-leader David Brennan is filling in for now.

Teva will also be hoping to put its own scandal behind it after paying \$519m in December to settle US charges of bribery in Ukraine, Mexico and Russia.

After a tough year biopharma sentiment is still in the doldrums, but things could improve in 2017. There is hope that a US tax repatriation holiday could help spur deal making, and several important trial readouts could also give the sector a boost.

But broader issues are not going away, and the alternative – more of the same – is of course also possible.

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