

Analysis: Which Pharma Companies are Making Their Money Work?

MAY 2024



Analysis: Which Pharma Companies are Making Their Money Work?

Pharma groups must decide how best to invest their cash to generate the biggest returns, and while huge sums can be made with luck and good judgement, strategic missteps can have far-reaching consequences.

Decisions on how to allocate cash to ensure a steady stream of new therapeutics are the bread and butter of drug companies' management teams. How much of a group's revenue should be reinvested into research and development, and how much into buying in promising young companies?

The issue is ensuring that however a company metes out its cash, it makes the money work for it. This is a formidable challenge, and the below analyses clearly show that the greatest spending by no means guarantees the biggest returns.

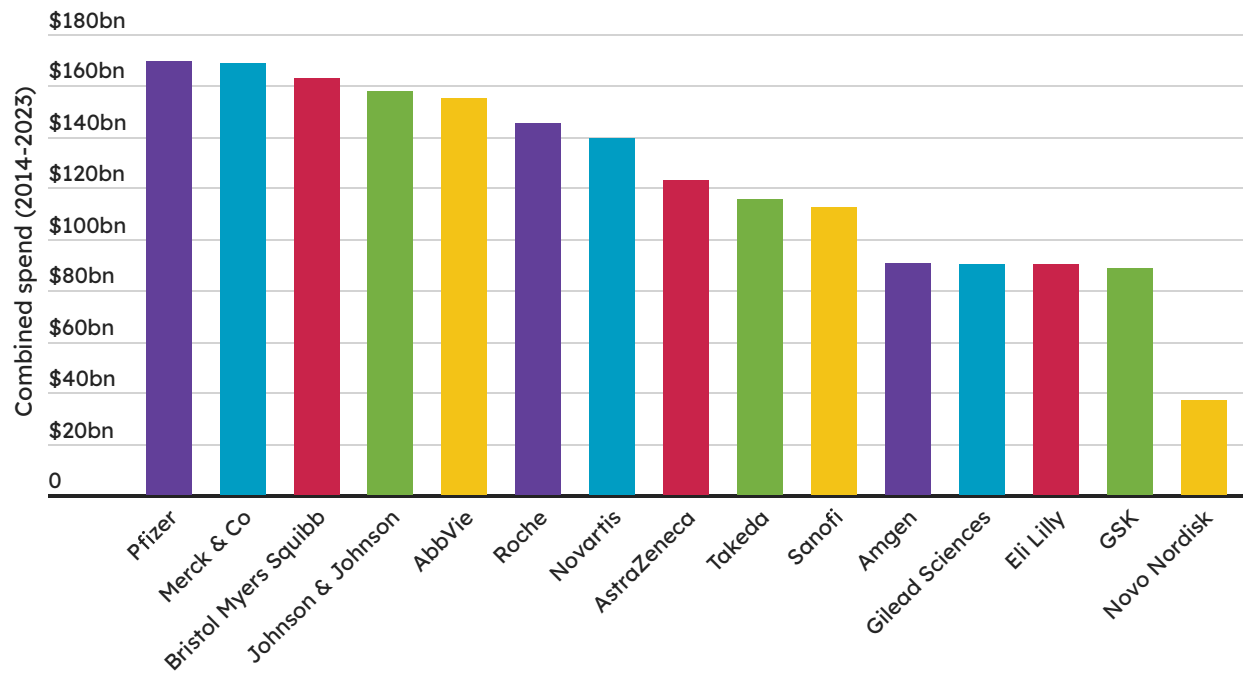
The cohort analysed here consists of the top 15 companies by sales of prescription and over-the-counter drugs in 2023. The analyses consider each company's spending over a decade, on pharmaceutical R&D, acquisitions and licensing deals, as well as the value analysts ascribe to its products, as compiled by Evaluate Pharma.

In terms of raw spending over the past decade, Pfizer Inc., its coffers swollen by hundreds of billions of dollars in COVID-19 revenues, tops the rankings with a cool \$169.2bn. But this figure is very nearly tied by Merck & Co., Inc., with \$169.1bn. This company too has money to burn: over the 2014-2023 period, Keytruda (pembrolizumab) earned Merck a cumulative \$102bn.

At the bottom of the top 15, and a huge outlier with a 10-year spend of just \$36.6bn, sits Novo Nordisk A/S.



10-Year Combined M&A, Licensing And R&D Spend



Source: Evaluate Pharma and Biomedtracker: M&A and licensing spend upfronts only; pharma R&D spend only.

The Spend Trend

A look at this same data over time highlights the disparity in different companies' spending priorities.

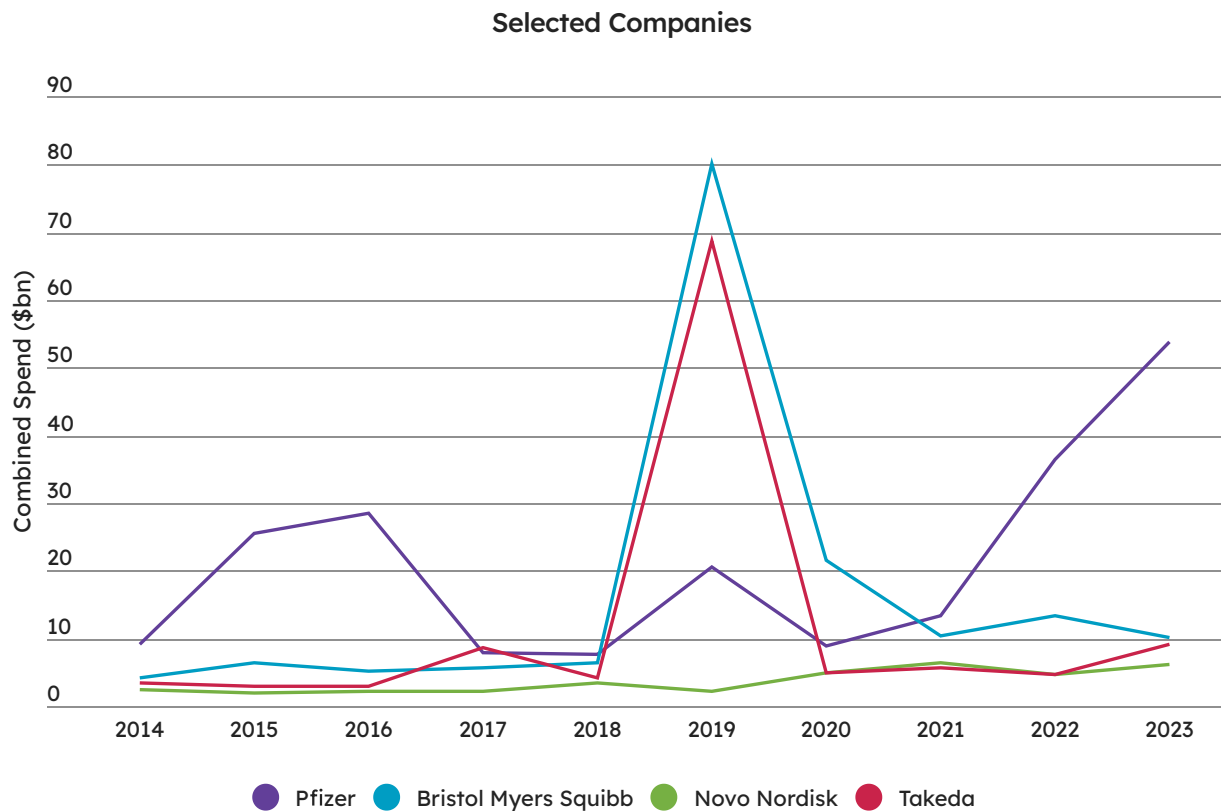
Novo's overall spending shows a definite uptick since 2019, with a slight blip in 2022. This company's dealmaking activity has always been modest, but its spending on R&D has crept up faster since 2019 as it ploughed revenues from Ozempic (semaglutide) back into its labs.

Pfizer is another example of constancy. An uptick in spending may be discerned here, too, but rather later, as the company put the cash it earned from its Covid-19 vaccine Comirnaty and antiviral Paxlovid to use. A huge jump in R&D spending from 2021, and the closure of its \$43bn purchase of Seagen in 2023 as well as three multibillion-dollar deals the year before, kept its spending at the very highest end of the big pharma spectrum in 2022 and 2023.

Other companies are less consistent. Bristol Myers Squibb Company and Takeda Pharmaceutical Co. Ltd. exemplify this approach, with both showing huge leaps in spending in 2019, thanks to their acquisitions of Celgene and Shire, respectively. This is not necessarily a worse strategy – buying in innovation can work nicely and provide a swift boost to a company's top line if done right.



10-Year Combined Spend Over Time



Source: Evaluate Pharma.

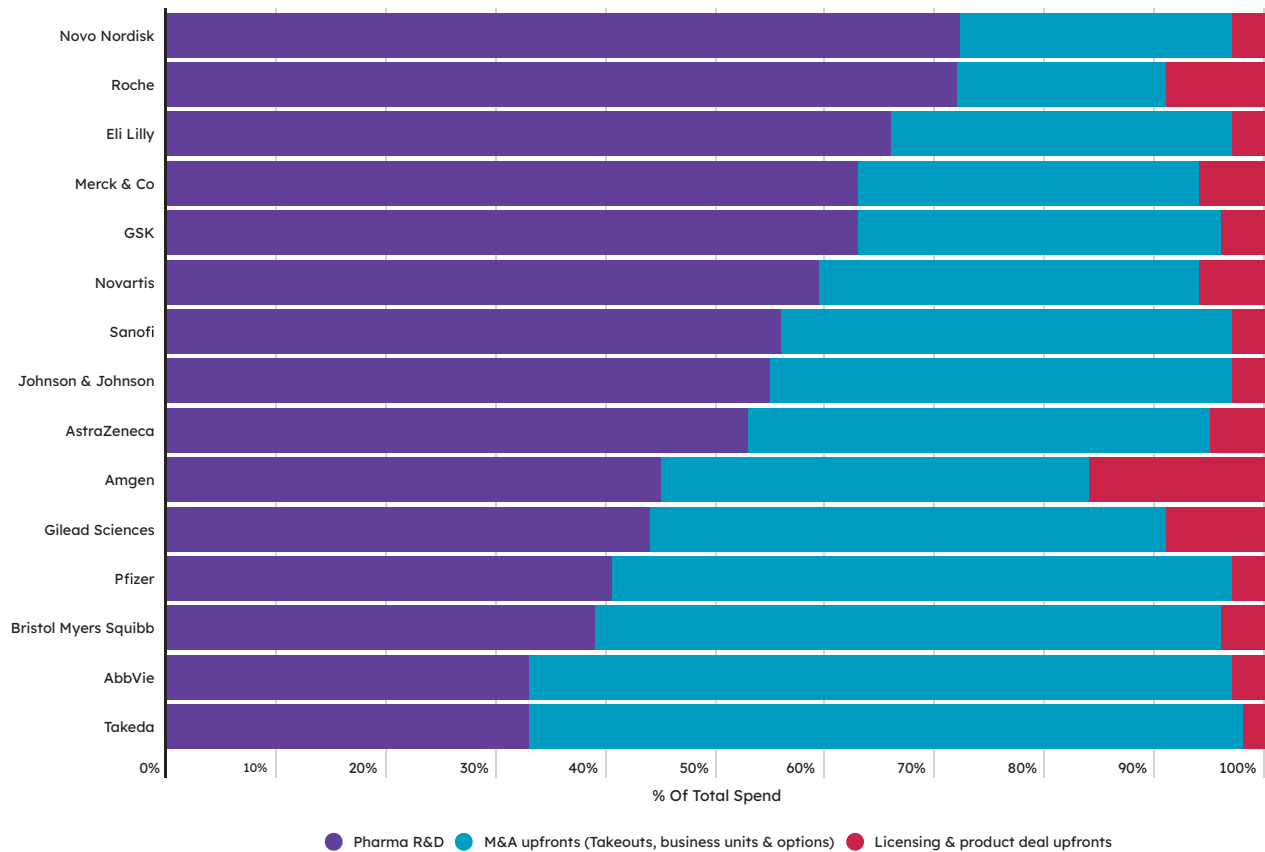
A look at the entire cohort's spending priorities in percentage terms gives a neat overview of where companies like to put their money. This graph, which considers each group's total expenditure from 2014-2023, shows Novo Nordisk and Roche Holding AG prioritising R&D, each putting more than 70% of their total spending towards in-house drug development.

The biggest merger fans over the past decade, meanwhile, were Takeda and AbbVie Inc., which put 65% and 64%, respectively, of their total spending towards acquiring biotechs. The latter's purchase of Allergan in 2020 was its biggest deal.

Licensing makes up a relatively small proportion of this cohort's spend. The only company to allocate more than 10% of its total expenditure to product-level deals is Amgen, Inc., and this is largely down to a single transaction – its acquisition of worldwide rights to Celgene's psoriasis drug Otezla (apremilast) for an astonishing \$13.4bn in 2019.



10-Year Spend By Category



Source: Evaluate Pharma and Biomedtracker; M&A and licensing spend upfronts only; pharma R&D spend only.

Return On Investment

The big question for these companies and their investors is whether this expenditure will pay off. The below analyses consider the net present value (NPV) of each company’s assets – the return on investment analysts expect them to make, translated into today’s dollars – to gain an insight into whether the spending on them was worthwhile.

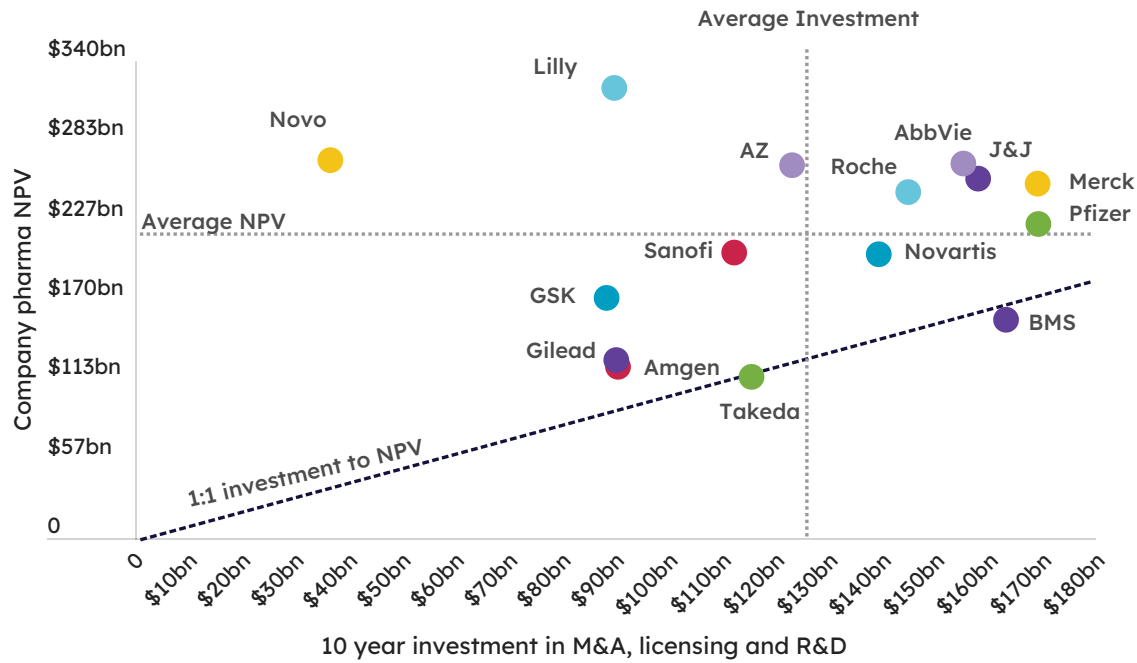
Plotting the NPV of each company’s therapies, both approved and R&D-stage, versus its expenditure gives a sense of efficiency. On this chart the place to be is the upper left quadrant, indicating a higher than average portfolio value for a lower than average spend.

On this measure, the two leading players in the obesity and diabetes space are way out ahead. For every dollar (or Danish krone) Novo Nordisk has spent over the past ten years, analysts believe its drugs will yield a return of \$7.36 – a stupendous payoff no other company comes close to achieving.

The next best is Novo’s metabolic rival Eli Lilly and Company, whose product offering is expected to make \$3.58 for every dollar Lilly has spent on research or business development over the past decade.



Large Pharma R&D Spend Efficiency



Source: Evaluate and Biomedtracker; M&A and licensing spend upfronts only; Pharma R&D spend only

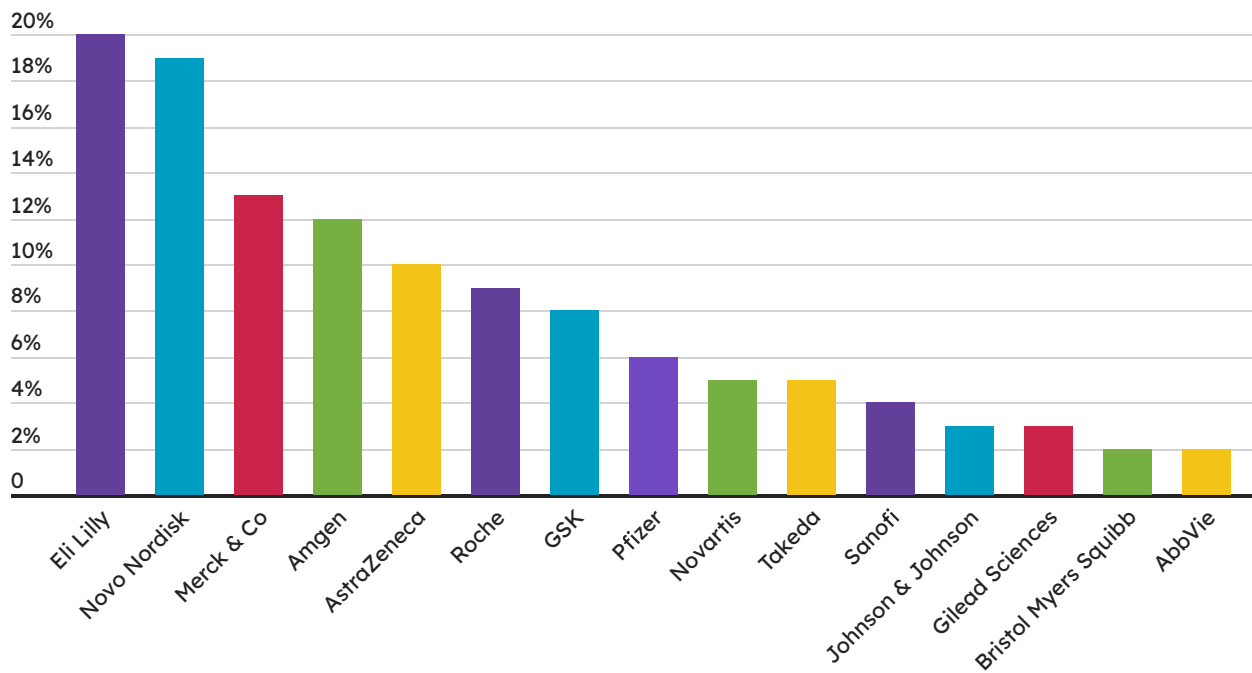
Takeda and BMS are doing markedly less well. The sellside sees their therapies making a negative return compared with the cash these companies invested. In fairness, it should be noted that there is some caprice involved here, since the analysis is dependent on the sellside's view of assets' potential, and forecasting is not an exact science. For instance, early-stage assets rarely carry forecasts.

But the \$74bn Celgene deal has not worked out as well as BMS and its shareholders might have hoped, and BMS's marketed drugs are aging – around 70% of its total revenues come from drugs more than ten years old. This week BMS tacitly acknowledged its difficulties, outlining a cost-cutting program aimed at boosting its growth.

Big spending on megamergers for minimal return is a problem, however, and the sector has largely backed away from these huge deals. With the exception of Pfizer's move on Seagen, no acquisition since the start of 2023 has been worth more than \$20bn.



Proportion Of Current NPV Held In Pipeline Assets



Source: Evaluate Pharma.

The Winners Keep On Winning

If that is how things stand now, the next analysis aims to give a sense of which groups might win out in future thanks to the drugs they have in the offing. The chart below examines the NPV of a each group's R&D-stage assets as a proportion of the value of all its products.

It offers little hope for the companies currently at the bottom of the efficiency analysis. Once again, the sellside sees Novo and Lilly as the coming champions.

In a sense this is a feedback loop. The incredible sales racked up by incretins like Ozempic and Lilly's Mounjaro (tirzepatide) has led analysts to set expectations for these groups' clinical-stage metabolic products sky-high.

Novo's cagrisema, a combination of the molecule behind Ozempic and Wegovy with the amylin analogue cagrilintide, carries the single highest NPV of any asset currently in development, at \$45bn. It is currently in Phase III trials in both diabetes and obesity. Cagrisema helps drive the combined NPV of Novo's pipeline to 19% of the value of all the group's products.



Lilly can outdo this. The NPV of its oral GLP-1 agonist orforglipron sits at \$30.8bn, and its triple-action incretin retatrutide and Alzheimer's therapy donanemab are also in the top five unapproved products by biggest NPV. It's pipeline is worth 20% of its entire offering, the sellside believes.

Seven of the top 15 companies have pipelines that make up 5% or less of their total portfolio's combined NPV. BMS and AbbVie sit at the bottom on this measure, despite both being in the top five on expenditure.

For the winners and the losers on efficiency, luck plays a part as well as judgement. Shareholders must ask themselves how much of a role management's choices play in each company's fortunes, and this question will be much more pressing for the groups showing poorer returns.

Notes on methodology: The upfront fee for an M&A deal was used as its value; where no upfront fee was disclosed the total value was used. For licensing deals, if no upfront was disclosed it has been left as zero. Deals are counted in the year the transaction closes; where a deal is still open, the announcement date is used. All R&D and M&A numbers are unadjusted for inflation.

NPV is computed by [Evaluate Omnium](#) from sellside consensus forecasts.


This article originally appeared on Scrip. [FIND OUT MORE HERE.](#)


Evaluate


a norstella company


Evaluate provides trusted commercial intelligence for the pharmaceutical industry. We help our clients to refine and transform their understanding of the past, present and future of the global pharmaceutical market to drive better decisions. When you partner with Evaluate, our constantly expanding solutions and our transparent methodologies and datasets are instantly at your disposal, along with personalised, expert support.


Evaluate gives you the time and confidence to turn understanding into insight, and insight into action.

Evaluate Pharma  offers a global view of the pharmaceutical market's past, present and future performance with best-in-class consensus forecasts to 2028, unique broker forecasts, and the application of proprietary methodologies to support highly robust, detailed and accurate analysis.

Evaluate Omnium  provides a complete, dynamic view of development risk and commercial return across all phases of the clinical lifecycle – including early-phase and privately-developed drugs not covered by analysts' forecasts. With product-specific data including Predicted Peak Sales, Probability of Technical and Regulatory Success (PTRS), R&D Costs, Net Present Value, Time-to-Peak and more, Evaluate Omnium makes it easier than ever to quantify and compare risk and return across the full pipeline landscape.

Evaluate Epi  is curated by epidemiology experts and delivers comprehensive, global epidemiological data in granular detail, on a highly interrogatable platform. Customers have access to impartial data for 15 therapeutic areas, and over 230 indications and 9,500 sub-populations across 27 core markets (up to 49 for some countries).

Evaluate Medtech  provides a transparent and trusted source of market intelligence and consensus forecasting for the global medical device and diagnostic landscape, using the same proprietary methodologies as Evaluate Pharma. Customers can quickly understand how the market views products and portfolios – and where their opportunities, risks and priorities lie.

Evaluate Consulting & Analytics  are specialists in solving unique and complex biopharma pipeline, portfolio and commercialisation challenges with best-in-class datasets, powerful analytical capabilities, and deep therapy and commercialisation expertise.

www.evaluate.com |  [@EvaluatePharma](https://twitter.com/EvaluatePharma)

Evaluate Headquarters

Evaluate Ltd.
Floor 3, 3 More London
London SE1 2AQ
United Kingdom
T +44 (0)20 7377 0800

Evaluate Americas

EvaluatePharma USA Inc.
265 Franklin, Suite 1101
Boston, MA 02109
USA
T +1 617 573 9450

Evaluate Asia Pacific

Evaluate Japan KK
Shin Marunouchi Center Building
6-2 Marunouchi 1-chome, Chiyoda-ku,
Tokyo 105-0001, Japan
T +81 (0)70 4131 0112