

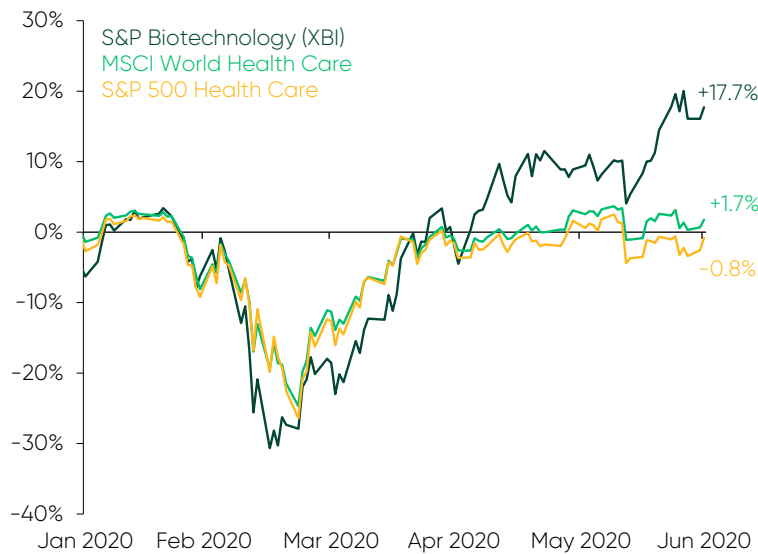
# EXPLAINING RECENT BIOTECHNOLOGY PERFORMANCE

As of June 2020

As the global search for COVID-19 therapeutics and an eventual vaccine intensifies, the biotechnology industry has significantly outperformed the broader Health Care Sector (Exhibit 1). In our view, this is a function of four primary drivers:

- Sentiment tailwinds on potentially streamlined US drug approval process.
- Strong performance of recent IPO's and M&A optimism from large cap drug makers.
- Uptick in 'second wave' fears driven by re-accelerating COVID-19 case counts.
- FTSE Russell Index rebalances boosting the representation of biotechnology companies.

## Exhibit 1: YTD 2020 Performance of the Biotechnology Industry & Headline Health Care Indices



Source: FactSet, USD, daily returns from Jan 2020 to June 2020.

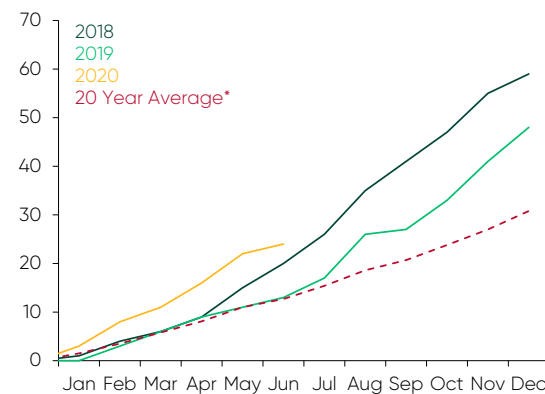
## STREAMLINED APPROVAL PROCESS

We view recent outperformance in biotechnology as potentially signaling wider appreciation of a more streamlined FDA drug approval process moving forward.

In an effort to hasten the search for a working vaccine, "Operation Warp Speed" was introduced to replace the slower, traditional drug approval process. If successful, this effort has been touted as potential 'proof of concept' for more permanent R&D-accelerating measures by current FDA commissioner Stephen Hahn, who has stated this as his "top priority".<sup>1</sup> Nowhere would this new approach have greater impact than biotech, particularly small and mid-sized firms, where a greater portion of the market cap comes from pipeline assets rather than approved drugs.

Exhibit 2 shows there is a strong drug approval trend. The FDA (Food and Drug Administration) has approved 24 new drugs year-to-date. If the historically back-loaded seasonal trend holds in 2020 we may see a new record.

## Exhibit 2: FDA Drug Approvals

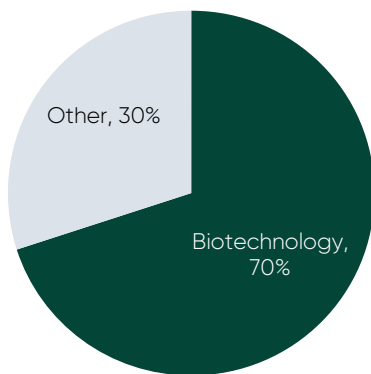


Source: FDA, data as of June 2020. \*Average calculated from 1999 to 2019.

## STRONG IPO AND M&A OPTIMISM

Despite COVID-19 disruptions, the biotechnology industry has had a strong IPO market comprising 70% of all health care offerings year-to-date (Exhibit 3). This robust trend has buoyed industry performance overall, with the group averaging +36% first day returns.<sup>ii</sup> Every biotech IPO year-to-date has either priced above the midpoint or had its offering upsized.<sup>iii</sup> 2020's most notable IPO's include Royalty Pharma (\$19B), Legend Biotech (\$5B) and ADC Therapeutics (\$3B).<sup>iv</sup>

Exhibit 3: YTD 2020 Healthcare IPOs



Source: Renaissance Capital, data as of June 2020.

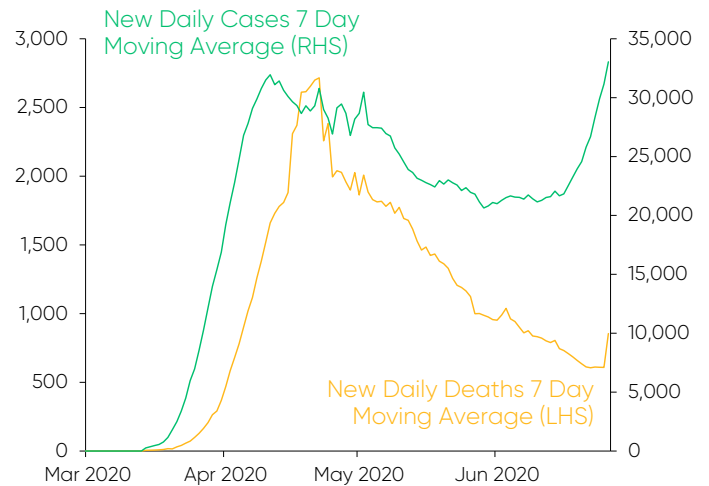
Similarly, M&A optimism continues to build as growth-challenged large caps look to bolster pipelines and mitigate upcoming patent-cliffs amid biosimilar and generic competition. AstraZeneca reportedly approached Gilead about a potential mega-merger, with Biogen rumored as another potential target.<sup>v</sup> Likewise, Sanofi, after divesting a \$13B stake in Regeneron, is searching for new bolt-on investment. Other noteworthy potential buyers include Pfizer, Merck, Eli Lilly & Company, AbbVie and Johnson & Johnson.

## 'SECOND WAVE' CONCERNS

Fears of COVID-19 resurgence have brought renewed focus and interest towards biotechnology companies – particularly names that have outperformed year-to-date including therapeutic/vaccine developers and government contractors.

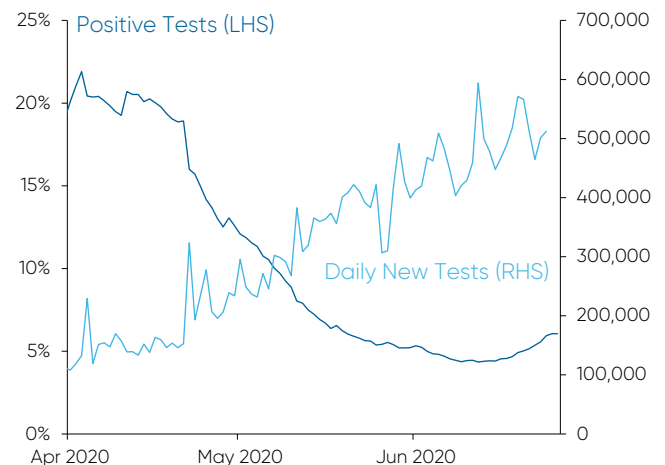
In the US, COVID-19 cases and deaths have clearly begun rising once again (Exhibit 4). However, Exhibit 5 shows only a slight uptick in the daily rate of positive tests which signals that this new trend is partially due to new spread and partially due to increased testing efforts.

Exhibit 4: US COVID-19 New Cases & Deaths



Source: World Bank, Johns Hopkins University, Fisher Investments Research, as of June 2020.

Exhibit 5: US COVID-19 Percentage of Positive Tests



Source: World Bank, Johns Hopkins University, Fisher Investments Research, as of June 2020.

## FTSE RUSSELL INDEX REBALANCE

On a more technical note – Russell growth indices scheduled rebalance becomes official on June 26th 2020, where the majority of COVID-19 winners will see increased representation.<sup>vi</sup> Following the official announcement on June 19th, 2020, many stocks saw sharp intraday moves that accentuated current year-to-date performance trends within the biotechnology industry.

## OUTLOOK

While it is unlikely that biotech will continue the torrid pace of outperformance seen over the past several weeks, our outlook for the space continues to be very positive. The dynamics laid out above paint a constructive picture in both the near-term and long-term as high levels of innovation are accompanied by an increasingly accommodative regulatory environment for drug approvals. Further streamlining of the R&D process in the wake of COVID-19 has the potential to serve as a secular tailwind for years to come, while recent IPO and M&A enthusiasm provides no shortage of funding for today's innovators.

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<sup>i</sup> Source: *Fierce Biotech*, as of June 2020.

<sup>ii</sup> Source: *Renaissance Capital*, as of June 2020.

<sup>iii</sup> *Ibid.*

<sup>iv</sup> Source: *BioPharmCatalyst Biotech Stock IPO Calendar*, as of June 2020.

<sup>v</sup> *Ibid.*

<sup>vi</sup> Source: *New York Times*, as of June 2020.

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