

THE NOVASECTA EUROPEAN MIDPHARMA REPORT 2019



Novasecta



Novasecta: Specialist Pharmaceutical Strategy Consulting

Novasecta defines European MidPharmas to be R&D-based pharmaceutical companies with sustaining annual revenues of between €50m and €5bn. In our fifth annual report on this sector, we examine how its companies are surviving and thriving. We combine proprietary research from public domain sources with insights from our consulting work.

Executive Summary

The 81 European-headquartered MidPharmas are highly diverse, with interests ranging from rare diseases through to speciality care, primary care, and consumer care.

75% of MidPharmas are privately held or controlled, mostly through families and foundations. This has made many of them long-term conservative players that build for the future and generally tolerate lower profitability than listed companies that utilise abundant global capital to take more risk.

MidPharmas are a focused and resilient group, with each typically choosing one or two focused domains to compete in. They are survivors: only two have been acquired by Big Pharma over the last five years. New entrants are also joining the sector: former pre-revenue biotechs are now MidPharmas successfully commercialising the fruits of their innovation.

Yet MidPharmas are increasingly vulnerable, with their ownership structure often leaving them without the means to invest from their balance sheets to compete in a world of highly liquid capital markets. Larger, smaller and peer rivals with access to capital through venture funds, capital markets, private equity funds or debt financing are deploying significant capital to drive effective R&D and commercial efficiency, in ways that some MidPharmas choose not to do.

MidPharmas are succeeding by drawing on their inherent strengths while adopting only the best habits of smaller biotechs and Big Pharmas. The most successful:

- Strategically focus on one or two domains with deep distinctive capabilities: they acknowledge and build from unique advantages compared to biotech and Big Pharma
- Seek profitability growth through purposeful and selective corporate development: they engage in collaborations to share risk and access complementary capabilities, with highly selective bolt-on M&A
- Reinvent the R&D model to be highly project-focused and externally-wired: they recognise and exploit increasing fragmentation in the industry's innovation sources and capabilities
- Drive increased efficiency and customer orientation in commercial infrastructure: they respond to margin pressure on older product portfolios, particularly in Europe

The top performing MidPharmas in our annual ranking (a composite corporate development, R&D and commercial measure) are focused on a specific therapeutic area or technology, and most have access to public capital by being partly or completely listed.

Novasecta analysed public domain data for European-headquartered companies that have recognisable pharmaceutical interests as part of their business portfolios and revenues between €50m and €5bn. We consider companies that have both on-market pharmaceutical products and clear evidence of R&D investment, and exclude distributors, service companies and companies headquartered in Ireland but with most of their operations in USA. We use data for the years 2013-2018 (calendar years or nearest published business year) sourced from the GlobalData database and supplemented by secondary public domain research for some private companies and where there are insufficient public domain data companies are excluded from the relevant sample sets. In each graphic and the ranking table we show data for the 2018 year or the 2017 year where 2018 data is not available. If a trend is shown, we show the five-year 2013-2018 Compound Annual Growth Rates (CAGRs) based on 2013 – 2018 revenue data in EUR, or for a minimum of 3 years of data where data are unavailable. All reported data in local currencies has been converted to Euros (€) at the calendar average exchange rate for the year that is analysed. We analysed data including group revenue, number of R&D employees, R&D spend, profits (using operating income as a proxy for earnings before interest and tax, EBIT), number of mergers and acquisitions (M&A) and strategic collaboration deals. For the definitions of deals, M&A includes 100% and majority acquisitions; strategic collaborations includes licensing agreements and partnerships.

Focused and Resilient, yet Vulnerable

81 companies fit our 'MidPharma' definition: having on-market pharmaceutical products, being based in a genuine European headquarters (i.e. excluding US companies that domicile in Ireland), investing in R&D (i.e. excluding pure commercial distributors and service companies), and generating sustaining annual revenues of €50m - €5bn.

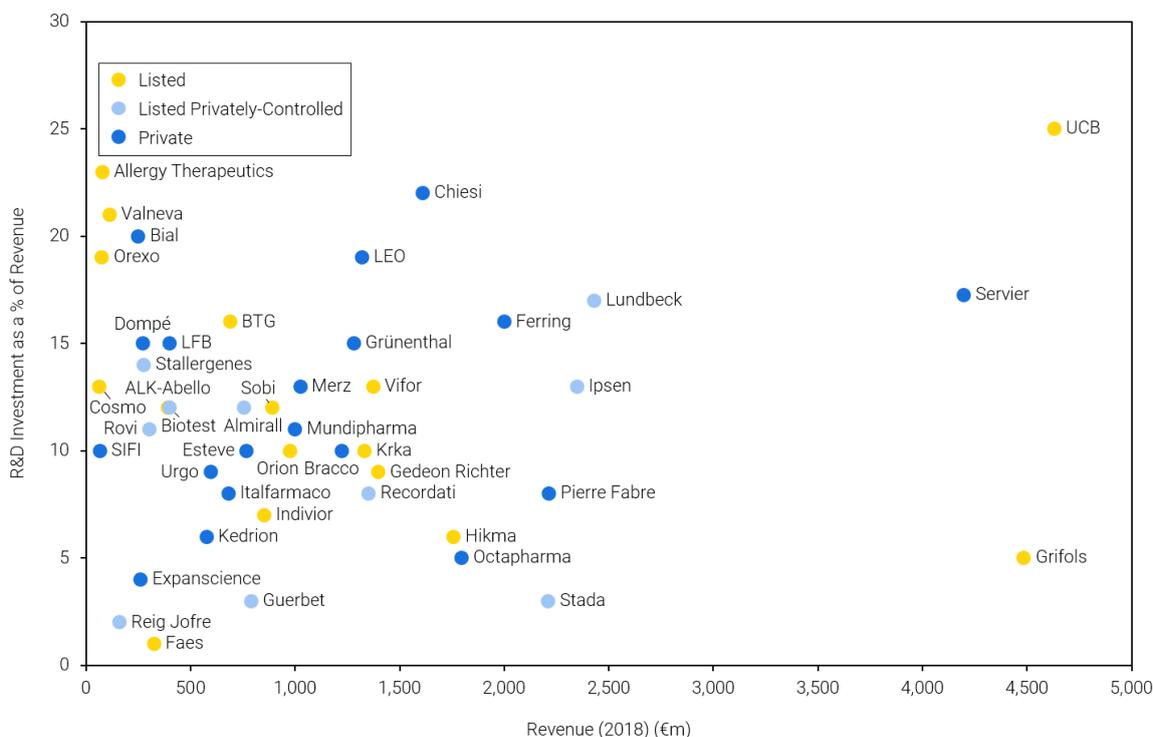
It is the private ownership and control of most of the European MidPharmas that gives this sector its uniqueness. In a global industry dominated by stock market listed Big Pharmas and venture-backed biotechs, three quarters of European MidPharmas (75%) are privately held or controlled, with 63% fully private and 12% privately controlled, having both a dominant shareholder (>50%) and a public listing. Furthermore, the three largest companies all have strong private influence; UCB is not privately controlled by our definition but has a strong family shareholder influence (36%), as does the second largest (Grifols, 40%) and the third largest Servier is wholly owned by a private foundation.

Diverse business models allow each company to have a special focus

There is no one-size-fits-all business model for European MidPharma. This contrasts with Big Pharmas that are increasingly pursuing similar strategies, typically betting on oncology, specialty care and high-risk technological innovation in the hope of future high prices for relatively small patient populations, primarily in the US market. MidPharmas are much more diverse. Many are involved in innovation, branded generics and consumer markets with geographic interests that are not dominated by the US.

The diversity of business models in MidPharmas is illustrated by the diversity in their R&D intensity: the amount they invest in R&D in a year as a % of revenue in the same year.

European MidPharmas have highly diverse business models



The MidPharmas aiming to secure their futures through innovation are happy to invest accordingly; listed UCB and privately controlled companies such as BIAL, LEO, Chiesi, Ferring, Lundbeck, and Servier all have a higher R&D intensity than the top 25 global pharma companies' median of 16% in 2018.

Other MidPharmas have taken a path that is more reliant on volume, by blending less risky innovation with a mix of branded generics, consumer healthcare, generics and biosimilars.

Focus and stable ownership create resilience

A common feature of this diverse group's business models, particularly the more successful ones, is that of *focus*. This often manifests as a single therapeutic area focus, sometimes not the original one; Merz changed from central nervous system (CNS) to Aesthetics, Almirall from Respiratory to Dermatology. Technologies and products can also provide focus, such as plasma-derived products (Grifols, Kedrion, Octapharma) or diagnostics (Bracco, Guerbet). Focus is not only achieved through tangible assets or technologies. Geographic strength, as Gedeon Richter and Polpharma have in Eastern Europe, provides some companies with unique positions too. Also, while most MidPharmas seek to benefit from a single focus it is not uncommon for them to pursue a "double" focus, for example Pierre Fabre and Expanscience both operate in pharmaceuticals and dermo-cosmetics.

A consequence of stable ownership and focus create the final enduring feature of the MidPharma sector: the *resilience* of the companies that comprise it. While Big Pharma has been pursuing M&A with other Big Pharma and smaller biotechs, MidPharmas have been relatively immune to being acquired or indeed growing substantially to become Big Pharma. The theme has therefore been organic growth rather than the transformative M&A that has infected some of the global listed Big Pharmas with highly mixed results.

Only two MidPharmas have been acquired by Big Pharma since 2014: Meda by Mylan in 2016, and Actelion by J&J in 2017. Both acquired companies were illustrative of the power of independent spirit and strong private control only being ceded through having the combination of a public listing and extraordinarily large financial offers to be acquired. So, while being acquired can never be ruled out in MidPharma, it is unlikely to be a major feature of the landscape in the years to come, except for selected listed players such as BTG, which as we write is in the process of being acquired by Boston Scientific.

Mergers between MidPharmas are also rare with only two notable transactions in the last five years: Meda bought Rottapharm in 2014 before Meda was itself acquired by Mylan in 2016. Sigma-Tau and Alfa Wasserman came together to form AlfaSigma in 2015.

The reason for MidPharmas' resilience therefore lies primarily in ownership: entrepreneurial families who have built substantial pharmaceutical enterprises do not cede control of their equity easily. There is also a less flattering second reason: they are unattractive to Big Pharma. The weaker companies often have a breadth of low-margin commercial coverage across small countries, aging primary care and genericised product portfolios, weak R&D pipelines, and vulnerability to severe price pressure in their home market of Europe. For Big Pharmas that are increasingly betting on high-priced game-changing innovation and the US specialty market, they are undesirable. They are more interesting to private equity players seeking transformative profitability improvement. By contrast the more successful MidPharmas have focused their operations to a point where they are becoming attractive acquisition targets to Big Pharma.

Confronting new vulnerabilities in R&D and commercial domains

MidPharmas compete in a world of abundant low-cost capital in which investors are willing to take the risk of the high returns from game-changing pharmaceutical innovation. This capital is currently being deployed to an ever-growing venture capital and private equity community as well as directly into listed biotechs, particularly in the US. Both of these trends create vulnerabilities for the MidPharmas that choose not to access such capital.

In R&D, the MidPharmas wishing to exploit innovation are vulnerable to venture funds driving up the prices that now need to be paid to access innovative assets and technologies from small biotechs. In turn, biotechs are becoming bolder in their ambitions, preferring to commercialise their own products by raising money in the capital markets rather than providing MidPharmas with valuable partnerships for late stage development and commercialisation.

Commercially, for the MidPharmas playing in areas where there is lower R&D risk, vulnerability comes from margin pressure caused by European payers. Their moves to reduce prices and not reimburse incremental innovation coupled with competition from cheap generics that make a genuine difference to patients are difficult for MidPharmas. The associated drying up of the old co-marketing model, essentially distributing Big Pharma primary care products in specific countries, are adding to this commercial vulnerability.

The relatively new phenomenon of private equity funds taking stakes in MidPharmas to squeeze margin improvement from revenue-generating businesses such as generics, branded generics and services shows how this might evolve: Bain Capital and Cinven bought out generics player Stada in 2017, then CVC bought a majority stake in branded generics and orphan drugs player Recordati in 2018. Other funds such as Novo Holdings have been taking stakes in MidPharmas and focused life science players for several years, including BTG, Orexo, Oxford Biomedica, Xellia, and Evotec. We expect to see more focused investments by private equity funds into MidPharmas, particularly companies that already have a public market listing, as well as purchases of generics or branded generics businesses out of some MidPharmas that are strategically choosing to focus on innovation.

In this report we explore how MidPharmas are building from their focus and resilience while confronting these vulnerabilities. We discuss in turn the three key value drivers that will ensure they continue to survive and thrive:

- *Corporate: Seek profitability growth through purposeful and selective corporate development*
- *R&D: Reinvent the R&D model to be highly project-focused and externally-wired*
- *Commercial: Drive increased commercial efficiency and customer orientation*

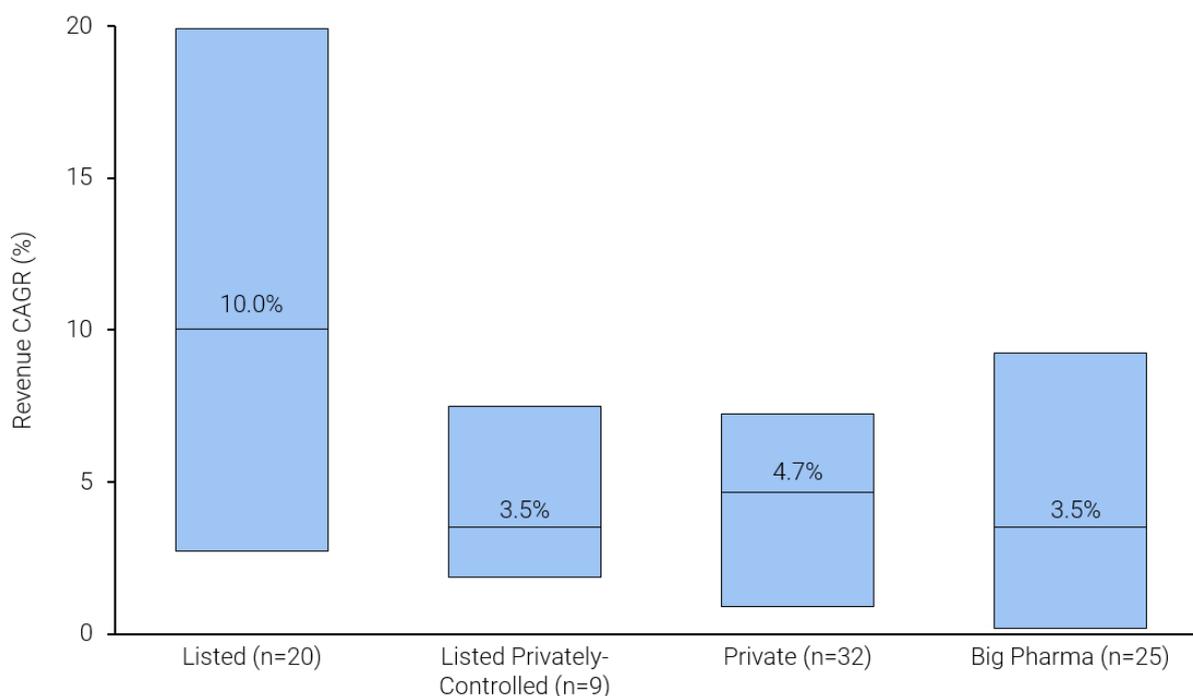
Corporate: Seek Profitability Growth through Purposeful and Selective Corporate Development

MidPharmas are no exception to the rule that sustainability and value creation come from profitability growth. This is in stark contrast to smaller pre-revenue biotechs that can thrive with an ambition of a high-value exit through an IPO or being bought by a larger company, before the reality of commercialisation overwhelms the hope of innovation.

Limits to top-line revenue growth

The corporate development history of many pharma companies has therefore been a drive towards finding top-line revenue growth as a mechanism to grow bottom-line profitability. MidPharmas are no exception to this ambition, lately with some notable exceptions, revenue growth has become increasingly hard to achieve.

Five-year revenue growth has been limited for private MidPharmas



While Big Pharmas have been struggling with top-line growth because of sheer scale and difficulties in justifying transformative M&A, scale is not an excuse for the relatively modest revenue growth performance of the privately held or controlled MidPharmas. Except for some notable companies such as Ipsen (13% 5-year CAGR in EUR) and HRA (20%), most privately controlled companies have achieved 5-year top-line growth of around 4-5%: solid, but not transformative. The pure listed companies have done better with a median 10% CAGR, however this is partly driven by some of these companies being the “newer” MidPharmas starting from a lower base, such as Genmab (35%), Sobi (30%), Valneva (26%), and Clinigen (24%).

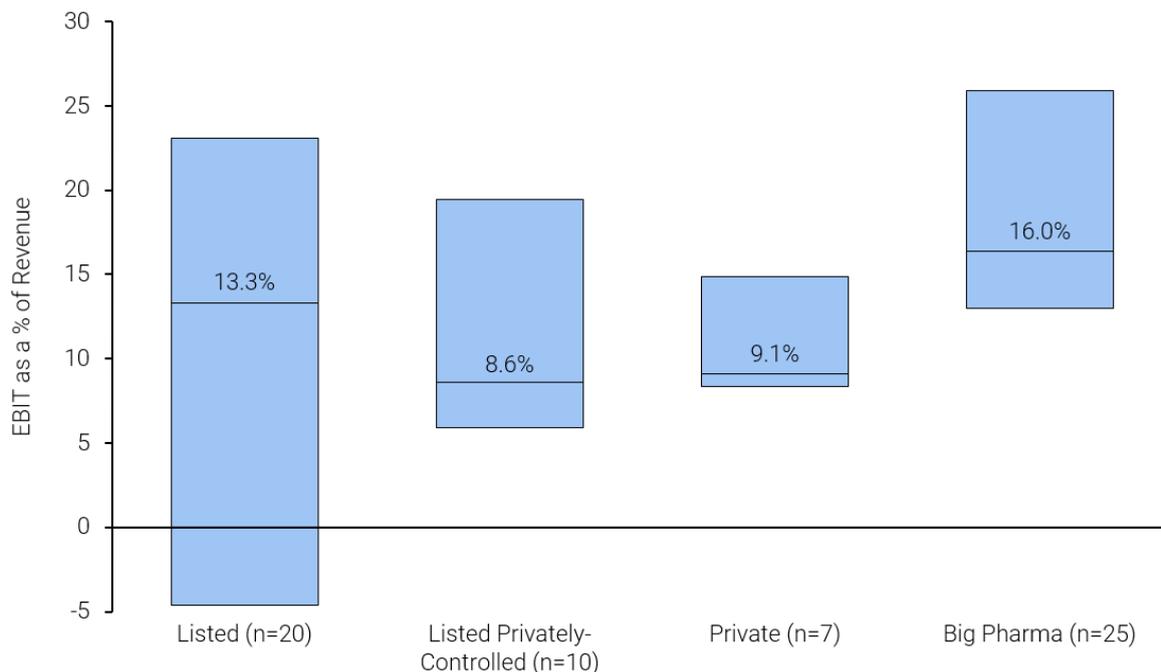
Perhaps the biggest lesson in top-line revenue for European biotechs and MidPharmas is that they now rarely “grow up” to become Big Pharmas. In the US, companies such as Amgen, Genentech, Gilead, Celgene and Biogen have grown independently into Big Pharmas in the last decades through a combination of great technologies, astute bolt-on acquisitions, and amenable capital markets. In the same period there has been no European equivalent. The largest European-headquartered pharma companies today (Roche, Novartis, Bayer and Sanofi) became Big Pharmas years ago in a different capital market environment and through major M&A, when such mega-mergers were considered reasonable and not value-destroying. Even the largest MidPharma, UCB, made its last major acquisitions over a decade ago: Celltech in 2004 and Schwarz Pharma in 2006.

The fact that there are currently only four MidPharmas with revenues over €2.5bn (Menarini, Servier, Grifols and UCB) and the existence of a revenue gap of more than €10bn between the largest MidPharma (UCB, €4.6bn) and the next largest European-headquartered pharma company (Merck KGaA, €14.8bn) further illustrates that becoming or indeed being like a Big Pharma in terms of revenue is not an option for MidPharmas.

Opportunities to grow profitability

Investors care more about *profitability* growth than top-line revenue growth, and here there is a clear opportunity for MidPharmas.

MidPharmas are typically behind Big Pharmas in EBIT margin



The median EBIT margin of MidPharmas was just over 10% in 2018. Like revenue growth, this was solid but not exceptional, particularly when compared to the top 25 Big Pharma median EBIT margin of 16%. This is a clear weakness and opportunity for MidPharmas seeking profitability growth. Growing margin is not straightforward, but it is perhaps the listed nature of almost all Big Pharma that has caused their management teams to be more aggressive than their MidPharma peers in driving cost out of their businesses. Capital

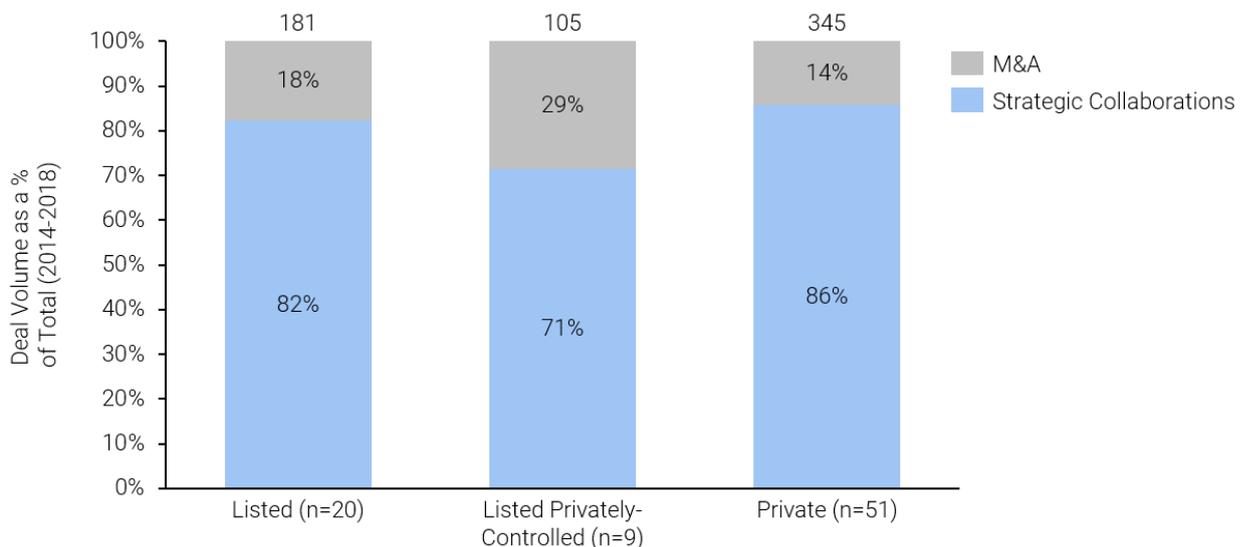
discipline is often not as stringent with family or foundation shareholders who can measure success by top-line revenue and sustaining employment, consequently being more tolerant of lower margins and shareholder value growth.

Purposeful and selective corporate development can drive profitability growth

The implications for corporate development in MidPharma are clear: significant jumps in top-line scale to become a Big Pharma are currently out of reach, and an over-emphasis on sustaining top-line growth through M&A will further damage profitability when investors and Big Pharma are prepared to over-pay in the expectation of driving out significant costs from the acquired companies.

MidPharmas must therefore strive for highly selective corporate development coupled with strong organic profitability growth. Many are already doing this by focusing on what they excel at and supplementing their distinctive capabilities with strategic collaborations and small complementary bolt-on acquisitions that match their unique focus.

MidPharmas have been collaborating to grow, with more selective use of M&A



Number of M&A Deals	32	30	49
Number of Strategic Collaborations	149	75	296
Total M&A Deal Value	€6.7bn	€4.2bn	€5.2bn

In last year's MidPharma report we showed how MidPharmas' use of M&A had been steadily declining over the previous decade, largely because M&A had become too expensive. The combined effect of cheap capital and patent expiries has pushed the price of deals beyond the reach of disciplined buyers. Our assessment in 2017 (detailed in our White Paper [*Pharma M&A is too expensive: now what?*](#)) has proved to be prescient. MidPharmas' collective decision to broadly steer clear of major M&A is well founded – the sector was the first to recognise the escalating cost of deals and, unlike some of its Big Pharma counterparts, has become much more disciplined in its buying.

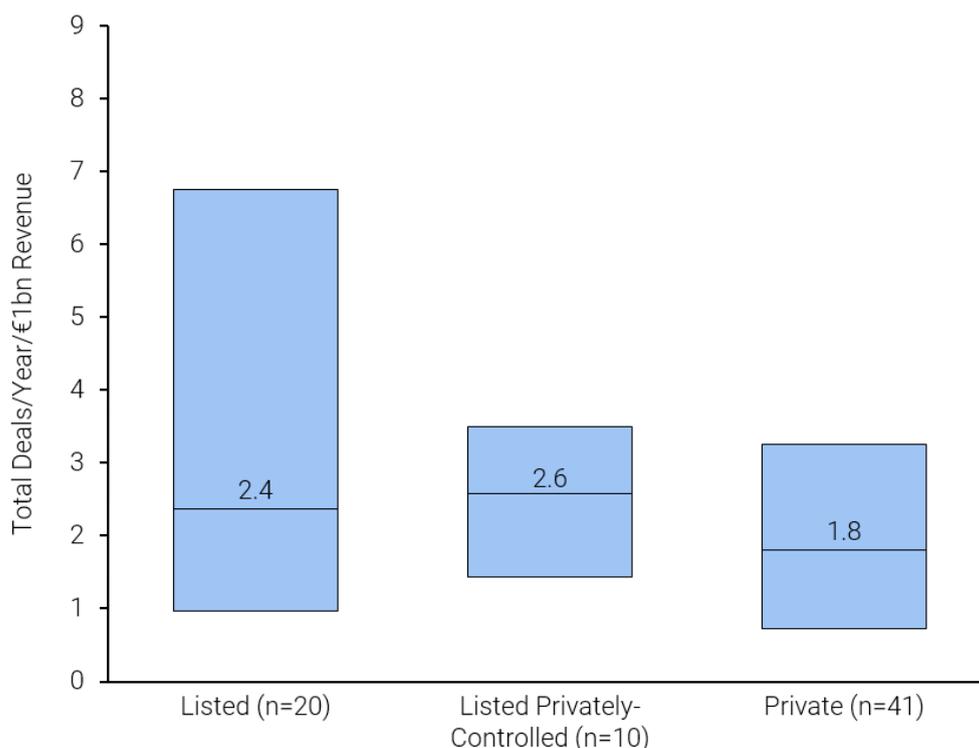
Instead MidPharmas have opted for astute and complementary M&A. Over the last five years the privately controlled companies, in particular, have taken advantage of their listed status to bolt-on acquisitions that fit their unique capability set. Grifols, Ipsen and Recordati are examples of MidPharmas leading the way and being rewarded with shareholder value growth.

Collaborations are still the favoured corporate development path for MidPharmas

The number of strategic collaborations by MidPharmas in the last five years has been substantial. The 41 fully private companies have entered into an impressive 296 strategic collaborations that have been disclosed. This paints a clear picture: while MidPharma may be carrying out less M&A, they have continued to embrace strategic collaborations. As our 2017 paper *Growth through Strategic Collaborations* shows, collaboration offers companies excellent opportunities for transformative growth by establishing a deeper strategic focus and more effective deployment of high-value assets and capabilities.

The sustained use of strategic collaborations is the core driver behind MidPharmas having a median of 2-3 executed deals per year per €1bn of top-line revenue over the last five years.

MidPharmas have been active collaborators over the last five years



The corporate development agenda for MidPharmas therefore needs to be purposeful and selective. Purposeful in the sense of investments being carefully orientated towards retaining and building the companies' unique strategic focus and driving profitability growth rather than solely top-line growth. And selective in the sense of acknowledging there is not a bottomless pit of capital to deploy, so the investments that are made must make a long-term difference. Complementary collaborations supplemented by less frequent bolt-on M&A, where the company knows its target well and can therefore afford to pay more than its competitors, are a great way to achieve this.

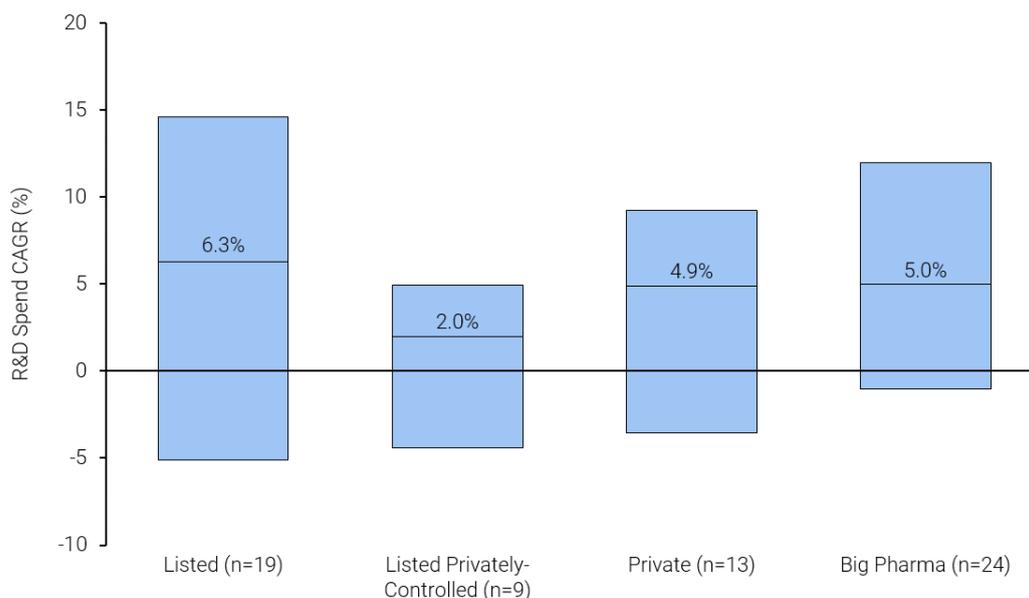
R&D: Reinvent the R&D model to be highly project-focused and externally-wired

A key part of our European MidPharma definition is that companies see R&D as part of their future. While other similar-sized healthcare companies succeed by providing services (e.g. non-clinical, clinical, manufacturing, commercial) or distribute products developed and manufactured by others, the characteristic common to all MidPharmas is their belief in R&D.

Earlier we discussed these companies' highly diverse business models, so it is no surprise that there is corresponding diversity in their approaches to R&D. Those that focus primarily on generics or branded generics do not need to invest as much in R&D compared to those that seek to commercialise novel patented pharmaceuticals.

Investing in R&D, and more importantly increasing investment in R&D over time, is a demonstration of management confidence that it will deliver value to the business. Increasing R&D investment is also driven by assets progressing through the R&D pipeline to expensive later stages of development, again a positive sign and value driver for MidPharmas.

MidPharmas have been increasing R&D spend at a similar rate to Big Pharma



The sustained increase in R&D investment in MidPharma is consistent with our findings from previous years, with the exception that private MidPharmas are now close to matching the growth in R&D investment of their listed peers and Big Pharma. Again, the listed privately controlled companies are less willing to increase R&D investment than their peers: perhaps a consequence of investor capital discipline forcing a reduction in discretionary R&D budgets to sustain profitability margins.

Neither Biotech nor Big Pharma: the challenge and opportunity for MidPharma

The issue now for MidPharma is how to reinvent the R&D model to compete in a significantly more fragmented innovation landscape. Applying a venture-like biotech model by investing in multiple high-risk bets is not consistent with the ownership structure or board mentality of most MidPharmas that are typically used to investing in “safer” late stage development and commercial products. Trying to out-bid Big Pharma to secure promising de-risked later stage assets has also become increasingly difficult as prices for such assets have escalated and Big Pharmas have become more desperate to fill their pipelines.

The conundrum for MidPharma in R&D is how to deal with being squeezed at both ends of the innovation spectrum while still needing pipeline products to secure their future and be clearly different to the venture-funded biotechs and Big Pharmas.

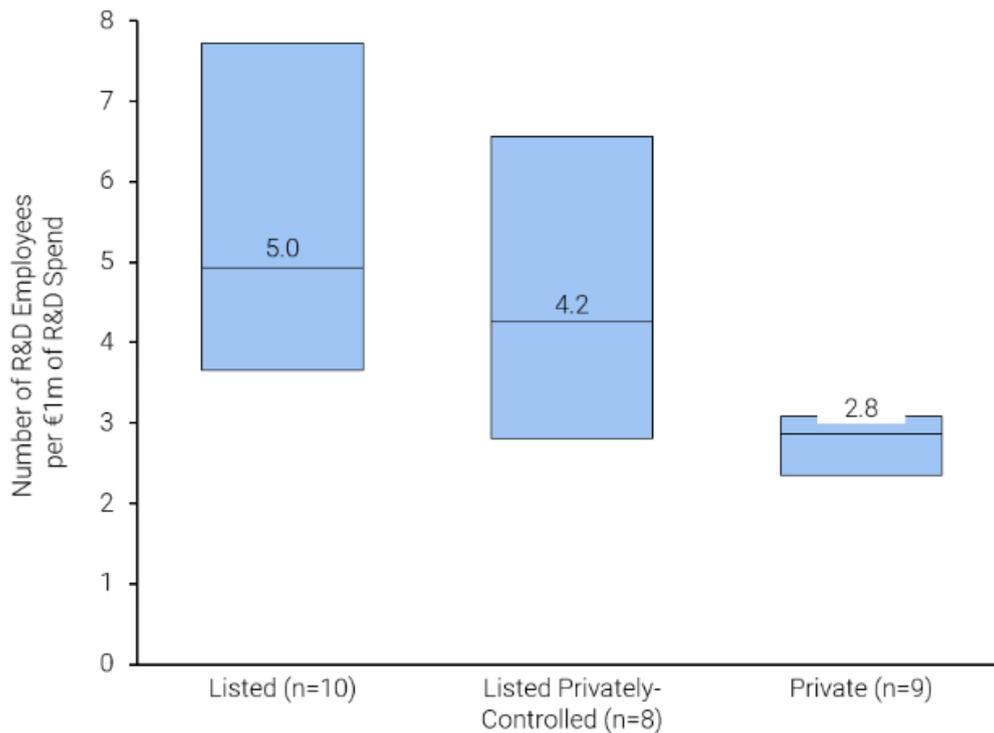
Lessons can be learned from biotechs, as our white paper “*Biotech mentality in MidPharmas, the winning combination?*” alluded to five years ago. This approach can be highly effective for MidPharmas, who can leverage the model better than biotechs by applying a sustained focus and not needing to cut corners to secure exits for venture investors. At the other end of the innovation spectrum, MidPharmas can be more agile than Big Pharmas through their less bureaucratic and complex decision-making processes. When this is coupled with their deep expertise in specific focus areas MidPharmas are more attractive collaboration partners than Big Pharmas, which instead opt for a sometimes stifling portfolio development approach to make the most of their special assets.

Over the last decade, reinventing R&D has been a persistent theme of our consulting work with MidPharmas. Companies that have been successful through small and focused senior-level entrepreneurial teams are now struggling with functional siloes and decision-making complexities that have been created by scale. To respond, R&D models need to be simultaneously highly project-centric and extensively externally connected. This requires a highly contextual organisational approach to make the most of distinctive capabilities, and a serious investment in scientific and leadership talent.

The general industry mindset of targeting R&D spend to be a fixed percentage of revenue is one MidPharmas can break free from. This mindset is simple to execute but not necessarily helpful: R&D is more an investment than a cost, and companies that allow it to fluctuate up and down as a percentage of revenue, in line with pipeline progression, tend to be more successful than those that consider it a cost to be kept capped at a percentage of revenue.

Thinking of “R&D as investment” is helpful for times when projects fail or require significant investment. This needs to be coupled with a highly flexible approach to keeping fixed costs down and outsourcing effectively. In this respect, many MidPharmas are competitive when it comes to the number of internal R&D employees required to support €1m of R&D spending.

Private MidPharmas prefer a leaner R&D model than their listed peers



The reluctance of private MidPharmas to increase R&D headcount is both a frustration to many R&D heads and a strength for companies that need to flex investment up and down as the portfolio evolves. However, keeping the amount of fixed cost in the R&D system to a level where expertise is retained and resources are not idle is a significant challenge, particularly when companies need to add and extend their capabilities in new areas.

The global R&D ecosystem is constantly evolving, and leading MidPharmas are reinventing their R&D models to make the most of this. They are not trying to out-biotech nimble and venture-funded biotechs or out-Big the largest pharma companies. To win at R&D as a MidPharma means building from two inherent advantages of focus and flexibility. Focus enables MidPharmas to become a magnet for talent within their specific domain, and flexibility enables excellent cross-functional project-centric collaborations. The best internal talent coupled with the best collaboration partners are indeed the hallmark of R&D winners.

Commercial: Drive increased commercial efficiency and customer orientation

In our [White Paper on Ownership Structure](#) we found that listed pharma companies tend to be more commercially successful than their private counterparts. We revealed that, across the industry, listed companies generate more revenue per New Drug Application (NDA), and twice as much revenue per new molecular entity (NME), than private organisations. For MidPharma, where most companies are privately controlled, this is apparently bad news. However, as discussed earlier the 5-year compound annual revenue growth of MidPharmas has broadly matched or exceeded their Big Pharma competitors while profitability margins have been poorer.

The commercial issue for MidPharmas is therefore more subtle than top-line growth. Making more from new (or improved) products is often the focus of commercial organisations that are seeking to create value from innovation. In this case, leveraging R&D strength and preparing for an excellent launch can drive significant value. However, when the new product flow decreases or even dries up, commercial organisations need to be more creative. In this case leading MidPharmas are finding ways to pay more attention to profitability, by re-thinking their customer orientation in sales and marketing efforts, and adjusting their deployment of resources to recognise new payer, physician and patient realities.

Leverage R&D strength and focus for new product launches

When it comes to new product launches, many MidPharmas are at an inherent disadvantage, as they are typically less used to driving growth from new products than Big Pharma, often simply because of their scale and the associated reality of new products coming less frequently.

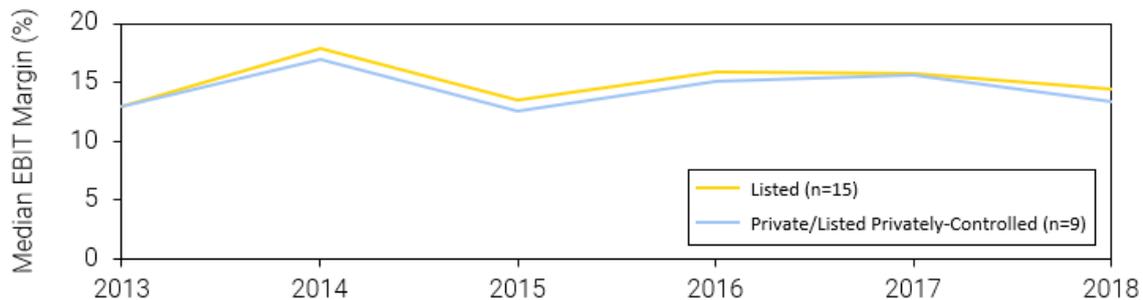
While this relative lack of experience can be a disadvantage, the smaller scale and subsequent focus of some of the newer MidPharmas like Genmab can be an advantage, as it was for MidPharma Actelion helping it grow prior to being acquired by Johnson & Johnson (J&J). MidPharmas can win at commercialising new products through deeper connections with their customers, particularly investigators and physicians, which have been nurtured for years through R&D and focus on the specific needs of patient groups, payers and physicians.

Pay more attention to the commercial profitability challenge than the top line

Earlier in this report we showed how MidPharma profit margins are generally lower than those achieved by their Big Pharma counterparts. Commercial functions are one of the biggest cost drivers in pharma companies, and these functions must shoulder some of the responsibility for profit margins.

Examining MidPharma profitability margins in more depth illustrates a phenomenon we are increasingly finding in our interactions with CEOs and owners of MidPharmas: profitability is now a serious issue. Low profitability limits both further growth by not generating enough free cash to invest and creates vulnerability to further price pressure from payers. It must be addressed.

As a group, MidPharmas have been struggling to grow their EBIT margin



The commercial profitability challenge is compounded by the fact that many MidPharmas have portfolios of mature brands that they have traditionally been adept at maximising in less aggressive payer environments. They have typically achieved this through reformulation, new delivery mechanisms and licence extensions. Without these macro value creation activities, commercial success would be very difficult for MidPharmas. Their products are well established in the mind of the customer, and performance is driven more by patient dynamics than by commercial activity. This legacy portfolio structure means top line growth moves effectively beyond the control of the commercial teams; senior leaders should therefore turn their commercial attention to the bottom line of profitability.

Improving profitability is undoubtedly difficult for MidPharma. Many companies in the sector have been built on the success of one or two products, with processes and structures put in place to maximise the potential of those products. However, this can lead to a "burden of legacy" where old products and ways of working can stifle commercial innovation. Sales teams are a particularly good example of this: many MidPharmas were successful in developing and promoting primary care products. Now, products have matured and even lost patent protection, and companies have been slow to adjust the resources placed behind them. This has led to large sales teams 'promoting' products whilst having little impact on top-line growth, to the detriment of bottom line performance.

It is the responsibility of senior leaders to address this and challenge their commercial teams, as improving bottom line performance can, over time, enable capital to be deployed on an innovation agenda. Teams should start by going back to first principles and creating a solid and objective understanding of their customers and what they really want. This can be difficult for companies that have achieved success from one or two products and as a result feel that they already 'know' what the customer wants. Yet the customer (in practice a mix of payers, physicians and patients) is constantly changing, so a complacent mentality can be damaging: "We've always done it this way" is not enough.

Once a team has a solid understanding of what the customer wants, the profitability challenge can be addressed by shifting attention to more effective delivery of customer needs. It is likely that by understanding the customer better, more efficient communication channels can be identified, which allows a move away from sales force led promotion towards an effective multichannel approach, thereby maintaining top line growth and significantly improving the bottom line.

MidPharmas therefore need to drive increased efficiency through an improved customer orientation in their commercial infrastructure and leverage their strength of focus right through the value chain to improve profitability. For some private companies whose mission extends beyond improving patient's lives to providing consistent employment for their 'family' of employees, such change can be particularly challenging. In this case securing assets for their commercial teams to promote is a logical step, as it allows leverage of team experience while retaining staff. Yet the availability and often high price that needs to be paid to acquire or in-license these assets is making this path a tough one to follow for MidPharmas, particularly in primary care. Making the tough calls to re-imagine commercial infrastructure through a deeper customer orientation is the only sustainable route to profitability.

Our Integrated Performance Ranking of MidPharmas

We conclude this report with our MidPharma Performance Ranking. Here we rank MidPharmas on three fundamental attributes that are indicators of long-term strength: R&D investment growth (5-year revenue CAGR), business development activity (number of deals in last 5 years per €10m revenue), and commercial performance (5-year revenue CAGR). We take public domain data on each of these three attributes, for the companies that disclose such data (41 out of 81), and rank the companies based on the combination of all three.

Novasecta's European MidPharma Performance Ranking 2019

Rank	Company	R&D	Commercial	BD
1	Genmab	●	●	●
2	Allergy Therapeutics	●	●	●
2	Sobi	●	●	●
4	Valneva	●	●	●
5	Rovi	●	●	●
6	Hikma	●	●	●
7	Vifor	●	●	●
8	PharmaMar	●	●	●
9	Ipsen	●	●	●
10	BTG	●	●	●
11	Recordati	●	●	●
12	Chiesi	●	●	●
12	Ferring	●	●	●
14	LEO	●	●	●
15	Grifols	●	●	○
16	Orexo	○	●	●
17	Faes	○	●	●
18	Octapharma	●	●	○
19	Grünenthal	●	●	●
20	UCB	●	●	●
21	Cosmo	○	●	●
21	Italfarmaco	●	●	○
23	Stallergenes	●	●	●
24	Kedrion	●	●	○
25	Pierre Fabre	●	●	●
26	Esteve	●	○	●
27	Lundbeck	●	●	●
28	ALK Abello	○	●	●
29	Bavarian Nordic	○	○	●
30	Guerbet	○	●	○
31	Stada	●	●	●
32	Orion	●	○	●
33	Krka	●	●	○
33	Merz	●	●	●
35	Servier	●	○	●
36	LFB	●	○	●
37	Almirall	○	○	●
38	Dompé	●	○	●
39	Gedeon Richter	●	●	○
40	Biotest	●	○	●
41	Indivior	○	○	○

Key: = Listed = Listed Privately Controlled = Private

Notes

- The 41 ranked companies were assigned to 5 equal groups with integer scores from 0 to 4 representing the number of quadrants of the Harvey balls displayed
- R&D ranking uses R&D investment CAGR (2013-2018, or where at least three years' worth of data is available)
- Commercial ranking uses Revenue CAGR (2013-2018, or where at least three years' worth of data is available)
- BD ranking uses number deals (2014-2018) per €10m of average revenue across 2014-2018 and mergers, 100% and majority acquisitions, and strategic alliances from the GlobalData deal database
- Total rank is based on sum of all three sub-rankings (lowest sum is highest total rank)

As with previous years our ranking has some important caveats; the R&D measure naturally favours R&D-based companies, while the BD measure is quantitative and can favour those that have done many deals of variable quality rather than those that have taken a selective approach to bringing in high quality assets and capabilities. The commercial measure using top-line growth rate could be argued to favour those that have grown inorganically rather than those that have focused on profitability, where public domain data are less available. Finally, it is important to note that the nature of private companies is such that many do not disclose their financial data, so some private businesses that are performing strongly cannot be ranked. The ranking table, therefore, unavoidably favours listed and part-listed companies.

Despite our caveats the ranking does the companies towards the higher end of the ranking are typically those that have always been strong or have transformed themselves in one or more areas over the last 5 years. By contrast several of the companies at the lower end of the ranking have been initiating fundamental transformations recently and we would expect see the results reflected in the rankings in future years. The clear message is that MidPharmas need to keep moving and transforming to recognise shifts in industry and market dynamics.

For the second year running Genmab tops our list. It is the quintessential successful European biotech that has entered the European MidPharma space with a bang. Its highly productive antibody platform coupled with an initially astute commercial partnership with J&J generated impressive revenue growth and then enabled own-commercialisation to yield further growth. Other “newer” MidPharmas, Sobi and Valneva, have also fared well. The impressive performance of the privately controlled larger €1bn+ MidPharmas (Ipsen, Recordati, Chiesi, Ferring and LEO) is a testament to each one’s relentless strategic focus: Ipsen in oncology, Recordati in European commercialisation, Chiesi in respiratory, Ferring in Women’s Health, and LEO in dermatology. Focus clearly works.

Conclusion: Resilience, Vulnerability and an Inspiration

The diversity, focus and resilience of MidPharmas should be no surprise to those that have followed our MidPharma report for the last five years. Yet this year we have also highlighted an increasing vulnerability from two sources: firstly some formidable innovative competitors have been created by an explosion in capital market liquidity, increasing the entry cost of innovative R&D, and secondly commercial margin difficulties caused by ever-decreasing product prices, particularly in the home market of Europe.

While some MidPharmas will struggle, others will use their long-term orientation and scale to their advantage. The leaders are using strategic focus to beat larger pharma competitors and smaller biotechs across the corporate, R&D and commercial domains. They are applying purposeful and selective corporate development, reinventing their R&D models, and increasing commercial efficiency. Through this they can be an inspiration for the entire pharmaceutical industry, and we look forward to continuing to support them in this quest.

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