Investing in Biotechnology's (Responsible) Growth Story

Investing in the biotechnology sector means providing financial capital to companies developing new medicines for people suffering from life-threatening diseases. This is easy to lose sight of because as investors we obsess about, by comparison, somewhat abstract notions of investment return, risk and liquidity profiles. In recent times, the research scientists and medical professionals behind the companies we invest in have achieved incredible things by converting that financial capital into innovative new medicines that represent real breakthrough developments for the treatment of a whole range of serious diseases. So far this year, the Food and Drug Administration (FDA) in the United States has approved more than 40 new medicines, including highly effective medicines to treat cystic fibrosis in children and young adults, sickle cell disease, several forms of blood cancer, depression in new mothers, and more.

Over the past few years the pharmaceutical and biotech industry has delivered breakthrough medical innovation that is improving the lives of people in a way that other industries have not, in turn creating new sources of growth and profitability. The industry is turning from something of a speculative investment sideshow to an almost self-sustainable, mainstream, high-growth industry in its own right. True growth and relative outperformance have come from the industry's smaller companies in which medical scientists are using a whole range of exciting new drug discovery tools and technologies to create and develop higher-precision medicines, leveraging their ever-improving understanding of human biology. However, it is also fair to say that the biotech sector as a whole has suffered from an image problem, driven primarily by negative perceptions of the prices at which new medicines are made available.

The pharmaceutical and biotech industries are almost continuously called out by both politicians and the media as bad corporate actors, exploiting the vulnerability of patients and payers who have no other option but to pay for their expensive products. New medicines, though, are not priced to generate astronomical returns on the capital spent to develop and manufacture them; new medicines are priced to reflect the innovative value they bring to specific patients in specific healthcare systems. In the UK where we have the NHS and healthcare is essentially free at the point of access, it is hard to appreciate how expensive the delivery of healthcare actually is. By and large, companies are able to justify the high prices of their medicines on pharmaco-economics grounds – the problem remains one of affordability.

Particularly in the United States, pharmaceutical and biotech companies seem inescapably vulnerable to being blamed for the supposedly ever-increasing out-of-pocket healthcare costs to consumers. Access to healthcare is becoming increasingly harder to afford for the American consumer, but the cost of medicines is not the main driver of increasing healthcare costs. Net prices are starting to trend to down on average, and indeed spending on medicines seems to remain remarkably constant year on year, at just 10% of overall healthcare expenditure. The problem lies in the hideous complexity of how medicines are accessed and paid for, and it also makes it hard for the pharmaceutical and biotech industry to make its case. Furthermore, what is not necessarily widely appreciated is that consolidation among the payers and providers of medicines and healthcare in the US, and the intense competition of companies sometimes bringing very similar new medicines to market almost simultaneously, is effectively driving down prices and controlling overall spending.

Despite perceptions, companies are also behaving responsibly, increasingly working with payers to improve the affordability of the medical innovation they are delivering. Alnylam, for example, recently received FDA approval for a breakthrough medicine to treat porphyria, a rare inherited disease that causes periodic acute pain in patients' abdomen, back or limbs. The gross list price is $575,000 per patient per year which, by any definition, is expensive. But when the medicine – Givlaari – was launched commercially, the company promised payers that if it has underestimated the number of patients who require treatment with the drug, it will offer the drug at a significantly reduced price, materially reducing the overall cost burden to payers. Elsewhere, we have seen companies start to offer rebates and discounts if the real-world efficacy of their medicines falls short of that promised by the experience of clinical trials. This is a side of the pharmaceutical and biotech industries that is often lost behind the noise of the current controversies.

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