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Stock Watch: Oncology After The Pandemic

Have Oncology Franchises Recovered After Patients Avoided Seeking Treatment?

by Andy Smith

Big pharmaceutical franchises may be recovering from the pandemic, but the extent of the untreated backlog of cancer patients from 2020 is still an important unknown driver even after second-quarter earnings season, and smaller cancer companies may still be bearing the brunt of COVID-19's effects.

The second quarter of 2020 proved the low point of the effects of the COVID-19 pandemic on the industry's sales. A year on, sector revenues appear to have broadly recovered, but for oncology drug developers, the much-touted backlog in cancer patients awaiting treatment is not bolstering sales everywhere.

A Quick Recovery?

The second-quarter 2021 earnings season marked a largely complete recovery from the stock price and revenue lows of about 18 months ago. The early part of the pandemic was marked by patients avoiding routine care as hospitals were swamped with COVID-19 admissions and clinics closed. While elective surgical procedures, for example, bounced back during 2020, there were fears that the backlog of cancer diagnoses could result in a glut of new patients presenting with later-stage, less-treatable disease, which in turn could result in a slower recovery for oncology product sales than in other, more acute therapeutic areas. But the Q2 results offer some reassurance in this respect.

In the first week of second-quarter earnings season, revenues in the oncology therapeutic areas of *Novartis AG* and *Johnson & Johnson* were trumpeted as bright spots in their earnings announcements. Two of J&J's star oncology products (that were not susceptible to generic competition) – its anti-CD38 antibody Darzalex (daratumumab) and BTK inhibitor Imbruvica (ibrutinib) – made up 6% and 5% of J&J's second-quarter reported revenues, and grew by 59%

and by just under 18% on the second quarter of 2020, respectively. In hinting at a recovery in its oncology franchise, J&J's conference call also mentioned a return to more normal, non-pandemic competitive pharmaceutical pressures in the second-quarter sales of Imbruvica. These fell by just under 1% on the first quarter of 2021 after competition from *AstraZeneca PLC*'s BTK inhibitor, Calquence (acalabrutinib), which was launched during the pandemic.

Bigger Oncology Players In Rude Health

AstraZeneca is one of the bigger pure-play pharmaceutical companies with an oncology franchise that is helpfully segmented from other therapeutic areas in its financial reports. Oncology represented 41% of AstraZeneca's second-quarter product sales and grew by over 32% in 2020. More recently, AstraZeneca's Q2 2021 oncology sales grew by 17% compared with the same quarter of 2020, and by just over 10% on the first quarter of 2021. The only fly in AstraZeneca's otherwise peachy oncology ointment was the 35% decline in Faslodex (fulvestrant) sales in 2020, due to generic competition, a trend that continued through the first and second quarters of 2021. This was more than compensated for by Calquence's 162% second-quarter sales growth over the same quarter of 2020, and PARP inhibitor Lynparza's (olaparib) 48% sales growth over the same period. As flattering revenue comparisons with the second quarter of 2020 go, Lynparza ranks highly. This is because Lynparza sales have been endowed since the start of the third quarter of 2020 with the addition of those previously classified as collaboration revenues from *Merck & Co., Inc.*

Merck is another big pharmaceutical company with an oncology franchise that in the second quarter of 2021 made up 46% of its pharmaceutical sales. Though, unlike AstraZeneca's, Merck's oncology franchise is dominated by one product, its PD-1 antibody Keytruda (pembrolizumab), which accounted for 42% of Merck's second-quarter pharmaceutical sales, growing by 23% over the same quarter of 2020, and by 7% on the first quarter of 2021.

Merck's arch competitor PD-1 antibody, *Bristol Myers Squibb Company*'s Opdivo (nivolumab) echoed this theme of a return to normality in oncology, with its revenues growing by just under 16% in the second quarter of 2021 and by 11% between the ends of the first and second quarters of 2021. Bolstered by the acquisition of *Celgene Corporation*, BMS's oncology franchise as a whole – which represented 64% of its second-quarter revenues – grew by over 13% on the same quarter of 2020, and by just under 10% on the first quarter of 2021.

Not All Oncology Franchises Are Blooming

While big pharmaceutical oncology franchises have shrugged off the pandemic-related weakness of 2020, and while their drugs may now be treating some of those patients who had progressed as a result of delays to their diagnosis and treatment, it is in a way some comfort that where there were weaknesses amongst oncology companies, they were not pandemic related. *Roche Holding AG*, once an oncology behemoth, does not segment its oncology revenues as a separate division, but its product-by-product revenue reporting allows that to be done. Reported sales of Roche's eight largest oncology drugs fell by 16% in the second quarter of 2021, by nearly 3% on the first quarter of 2021, and by 17% in 2020. This was due to continued biosimilar erosion of the three antibodies that started 2020 as Roche's largest products.

Reported revenues from Roche's five newer oncology products, however, mirrored the health of other big oncology companies by growing by nearly 24% in 2020 and by 16% in the second quarter of 2021. While these recovered oncology franchises are encouraging, there is also the possibility that the surface of the backlog has only been scratched and may be an additional revenue driver going forward.

Perhaps it is the smaller oncology franchises without the ability to negotiate with payers on a portfolio of products, and with the costs of a commercial infrastructure that are absorbed by a single product, that were hardest hit. *Clovis Oncology, Inc.*'s second-quarter sales of its PARP inhibitor Rubraca (rucaparib) fell by nearly 8% on the same quarter of 2020, and by just over 3% on the first quarter of 2021. The weakness in Clovis's Rubraca was not mirrored in *GlaxoSmithKline plc*'s* PARP inhibitor, Zejula (niraparib), where second-quarter 2021 sales grew over those same time periods. This leads to an interesting question. With only Roche (for obvious biosimilar reasons) and Clovis among these cancer franchises that have not surpassed their fourth-quarter 2019 pre-pandemic oncology revenues (excluding acquisitions and recent launches), perhaps it is the much smaller oncology company that will be a highly sensitive leading indicator of the renewed pandemic pressures brought by the Delta variant. Or perhaps, Clovis's Rubraca is just an uncompetitive product.

*Andy's pensions hold GSK

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