THE CRUSH: HOW COVID-19 IS IMPACTING MATURE BRAND REVENUE & LONG-TERM VALUE

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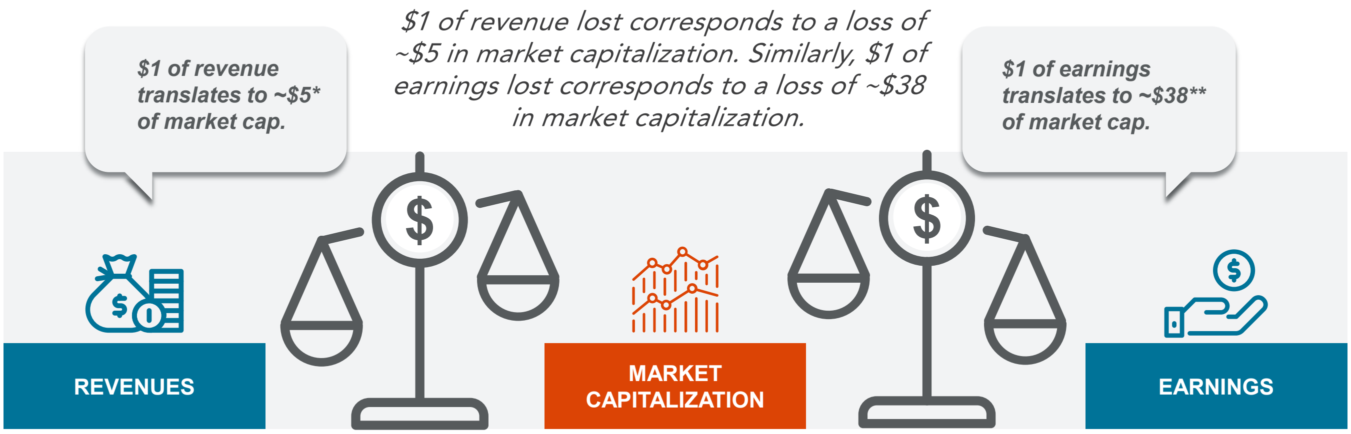
Value Is Being Destroyed … And It Won't Easily Return

Due to COVID-19, hundreds of thousands of patients are not getting proper access to and utilization of therapies that can improve their clinical outcomes. The clinical consequences of this will lead to compromised patient outcomes and further healthcare cost increases. This also leads to negative strategic and financial ramifications for biopharma manufacturers who produce these therapies. Billions of dollars of revenue and tens of billions of dollars of market valuation have been erased over the last year due to COVID-related market conditions, for every dollar of revenue lost can lead to a disproportionate loss in market value (Figure A). The loss of these funds also means fewer funds to reinvest in clinical development, disease state education and other critical efforts that translate to improved healthcare value for patients, providers and payers.

FIGURE A



Source: Yahoo Finance

***Price/sales (trailing 12 months):** Large pharma 1: *4.35*; Large pharma 2: *4.26*; Large pharma 3: *5.53*;
****P/E (trailing 12 months):** Large pharma 1: *31.08*; Large pharma 2: *24.26*; Large pharma 3: *57.31*;

COVID's Impact on Pharma

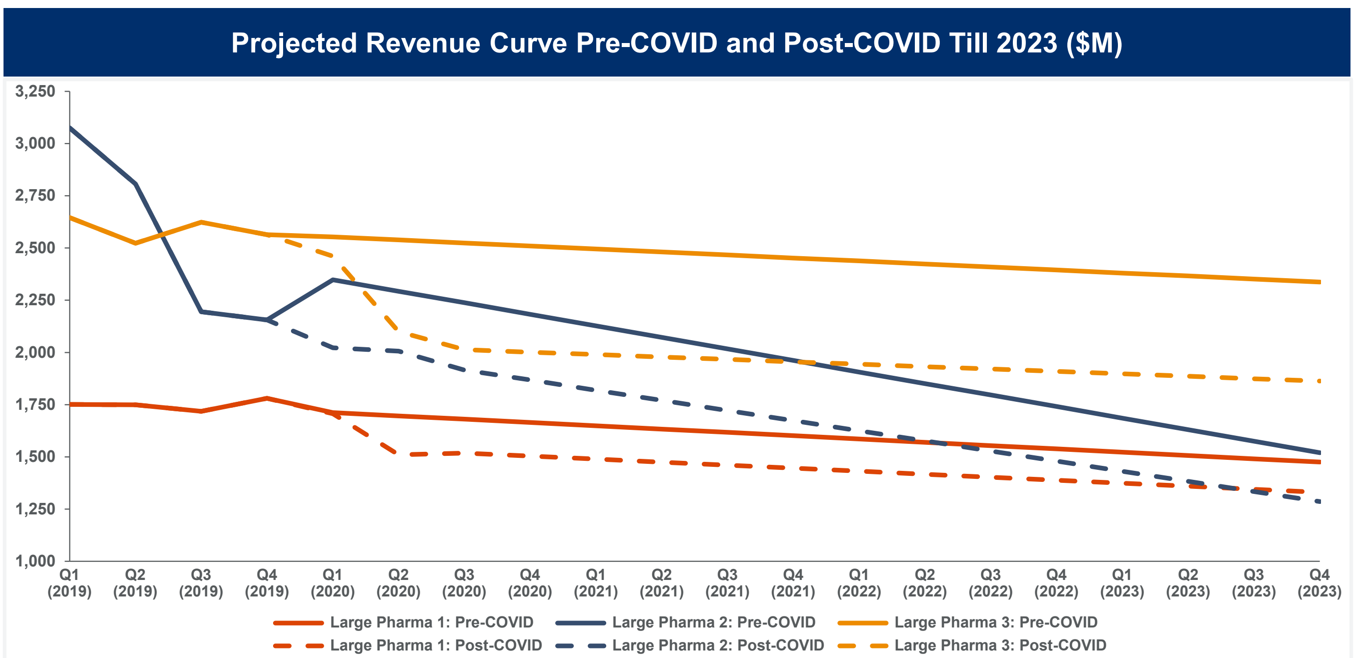
The impact of COVID is reverberating across all aspects of society and business. In the healthcare industry, hospitals are experiencing dramatic consequences in their operations as they deprioritize elective procedures to focus their resources on the deluge of COVID patients they are trying to treat. The pharmaceutical industry has experienced significant challenges in running clinical trials for non-COVID conditions. This is due to safety and travel precautions enacted due to COVID, as well as challenges with clinical trial sites, which are now overwhelmed by treating COVID patients and do not have the resources to sufficiently execute clinical trials. This significant disruption to clinical development is delaying the commercializing of new treatments that can help patients, causing current and future revenue loss for manufacturers.

Pharmaceutical companies are experiencing further loss due to COVID-19 impacts to mature, in-line brands, which are experiencing drastic declines in revenue. Mature, in-line brands normally serve as a reliable cash flow source that biopharma companies depend on to run current operations or investing in new growth areas. These reliable and predictable cash-flow-generating products have been irreparably impacted. The rapid deterioration of mature brand revenue streams, which are essentially passive cash flows given the modest investment required to sustain them, has had severe impacts to pharmaceutical business units that depend on this revenue to support current and future initiatives.

Billions of dollars of "recurring" revenue streams are being eliminated due to COVID-related impacts (Figure B and Figure C). Many biopharma companies have not been able to quickly coordinate resources and capabilities to address this acute issue that will not automatically rebound once a COVID-19 vaccine is in distribution. In fact, if biopharma companies do not act now, this destroyed value can be an irreparable situation resulting in a lower level of financial health moving forward.

Projected revenues of three large pharma companies assuming constant difference in revenues pre-COVID and post-COVID. Shown below the revenue projections are the projected aggregate revenues lost till 2023 and projected market capitalization destruction in 2022.

FIGURE B



Projected **Aggregate Loss of Revenues** (2020 – 2023)	
Large Pharma 1	$2.0B
Large Pharma 2	$3.6B
Large Pharma 3	$6.4B

Projected **Market Capitalization Destruction** in 2022	
Large Pharma 1	$2.4B
Large Pharma 2	$4.3B
Large Pharma 3	$7.8B

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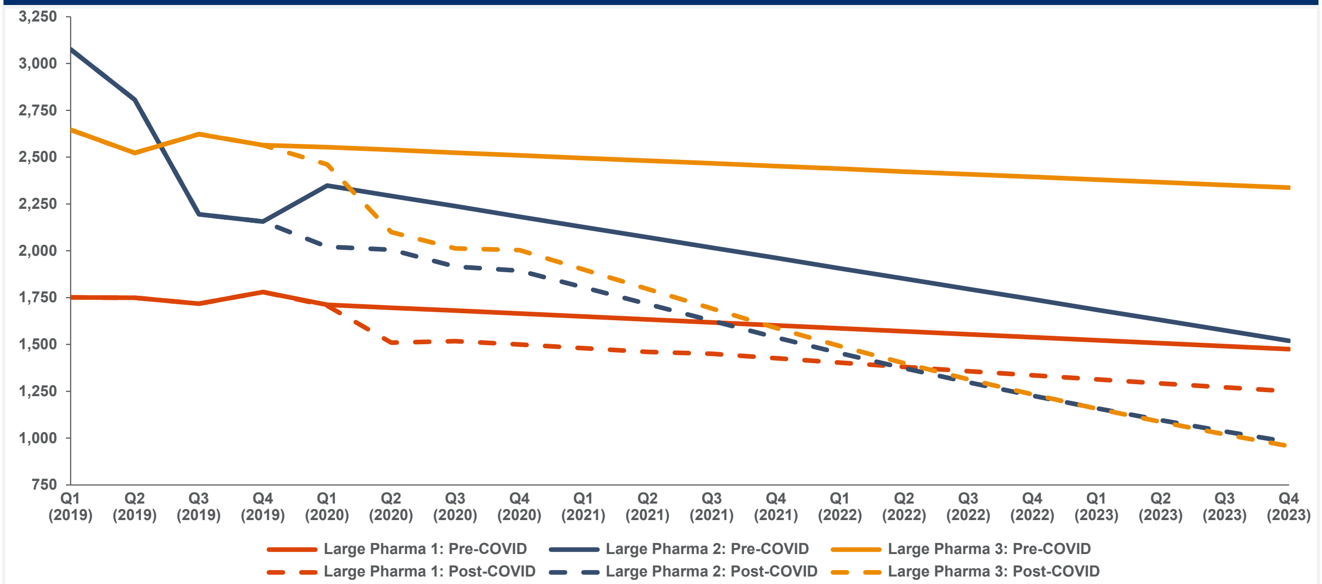
Projected revenues of three large pharma companies assuming increasing decline in revenues pre-COVID and post-COVID. Shown below the revenue projections are the projected aggregate revenues lost till 2023 and projected market capitalization destruction in 2022.

FIGURE C

Projected Revenue Curve Pre-COVID and Post-COVID Till 2023 ($M)



Projected **Aggregate Loss of Revenues** (2020 – 2023)	
Large Pharma 1	$2.5B
Large Pharma 2	$5.9B
Large Pharma 3	$12.9B

Projected **Market Capitalization Destruction** in 2022	
Large Pharma 1	$3.1B
Large Pharma 2	$7.8B
Large Pharma 3	$17.0B

What Is a Vulnerable Mature Brand?

We define a mature brand and, more specifically, a vulnerable mature brand as an in-line product that is promotionally sensitive but does not require significant proactive investment or attention from commercial teams. These brands essentially generate stable revenue streams from the patient base that has a long-standing history of utilizing and gaining benefit from these products. What makes these brands vulnerable is the sensitivity they have relative to patient access to medication and patient utilization.

The COVID-19 pandemic is causing a profound shock to the healthcare system by creating a situation in which patients discontinue product usage or are not going to healthcare providers to determine whether a mature brand would be a good candidate to treat their conditions.

There are several factors that influence the degree of mature brand vulnerability when facing disruptive COVID-19 impacts. Factors such as type of therapy, severity of disease, channel and nature of detailing requirements will help teams understand the degree of risk they have to external shocks that are compromising current mature brand operations (Figure D).

Factors influencing the vulnerability of mature brands.

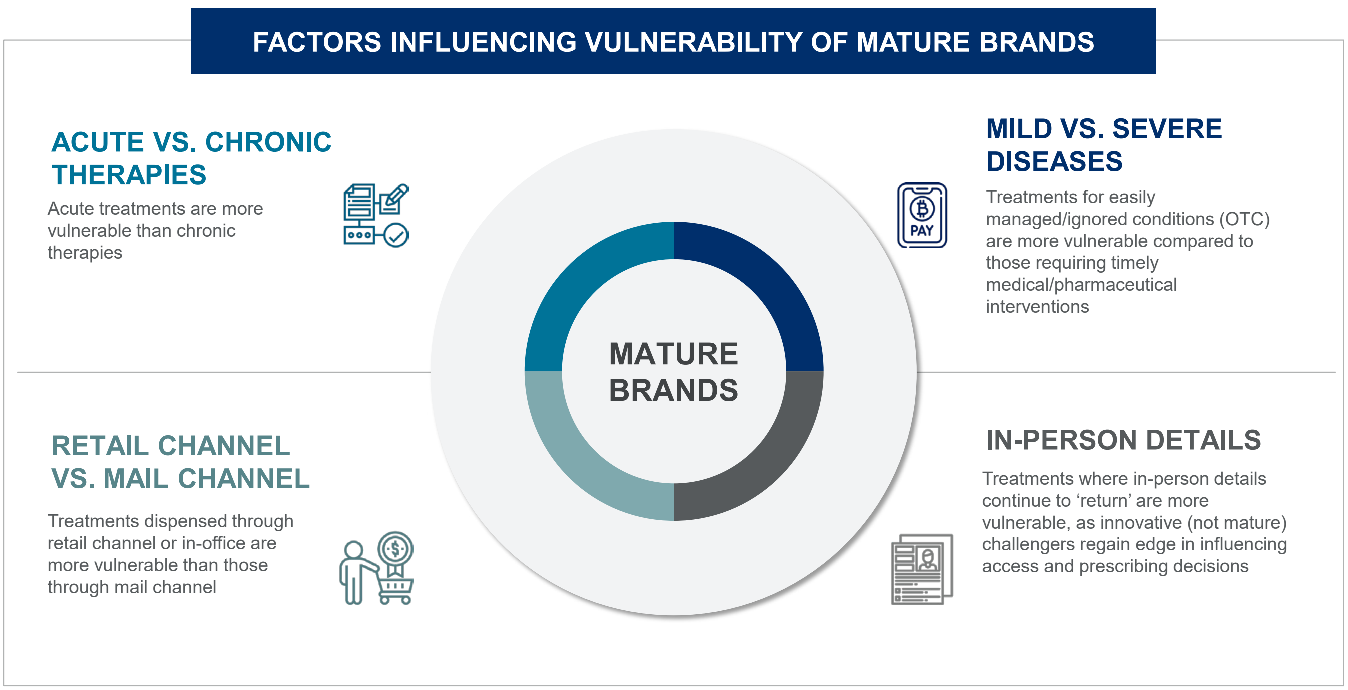


FIGURE D

The Impact Is Severe — and Don't Expect an Automatic Rebound

We examined a subset of vulnerable mature brands to quantify the revenue drop they experienced during the initial onset and ongoing spread of the COVID-19 pandemic. The results indicated a massive reduction in revenue that persisted during the course of the pandemic. For example, three samples of large pharma companies with mature brands that we analyzed are facing significantly diminished revenue post-COVID-19. Assuming a constant rate of decline into the future, the aggregate loss in revenue was in the billions of dollars. The analysis also revealed that the revenue drop was not a single negative drop but also a fundamental lower trendline of revenue.

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A natural assumption would be that once a COVID-19 vaccine is widely distributed and society returns to previous levels of travel and healthcare utilization, these revenue trend lines would naturally bounce back to their pre-pandemic performance. However, there are two challenges to this assumption.

The first challenge is timing. Even with access to a COVID-19 vaccine, a significant amount of time will be required for vaccines to be distributed, populations to be fully vaccinated and social norms to return to something resembling a pre-pandemic, steady state. This could go well through 2021, which would keep vulnerable mature brands' revenue profile further depressed through that time frame.

The second challenge is product adoption. Vulnerable mature brands require a certain degree of market awareness, disease education and patient interaction with HCPs to understand and identify these products for appropriate use. As these brands' revenue profiles continue to deteriorate during the course of the pandemic, so do the attention and investment they receive from manufacturers, as well as the already limited brand awareness they have in the healthcare ecosystem. This is not something that should be assumed will automatically return once the pandemic is "under control."

OPTION TO CONSIDER

Manufacturers have several options available to them to maximize the value of their mature brand portfolio.

1 Option 1: Divest/Spin Off

Companies can sell their mature assets or create company spin-outs to secure initial value from the purchase/spin out. This also allows the company to repurpose internal resources to other aspects of their portfolio they feel will yield a better return for their efforts and add significant patient value. The downside to this option is that selling these mature assets at such depressed revenue levels will lead to sub-optimal valuations.

2 Option 2: Maintain

Companies can continue to maintain their mature brand portfolio. They will be able to continue to receive the reliable annual revenue generated from these assets, even if this revenue is deteriorating over time. The degree of investment and internal attention may continue to be modest for these brands, but certain companies may feel this is sufficient for their expectations of these products. However, what they lose out on is recovering the lost market share and patient utilization these products once had (pre-COVID).

3 Option 3: Reignite

Companies also have the option of facing the issue head-on by shaping and executing a path to turn the performance of these brands around and generate significant value from a clinical and financial perspective. Depending on the market characteristics of each brand, potentially high return-on-investment (ROI) tactics can be deployed to blunt the revenue impact these brands are experiencing as a result of the pandemic and reverse their revenue trajectory (Figure E). The key is to understand how to restore these mature, in-line brands without drawing too much internal resources and without wasting productivity on strategies and tactics that don't meaningfully move the patient adoption and revenue needle for these brands.

Projected revenues pre-COVID and post-COVID (with and without active steps taken to curb revenue decline) till 2023.

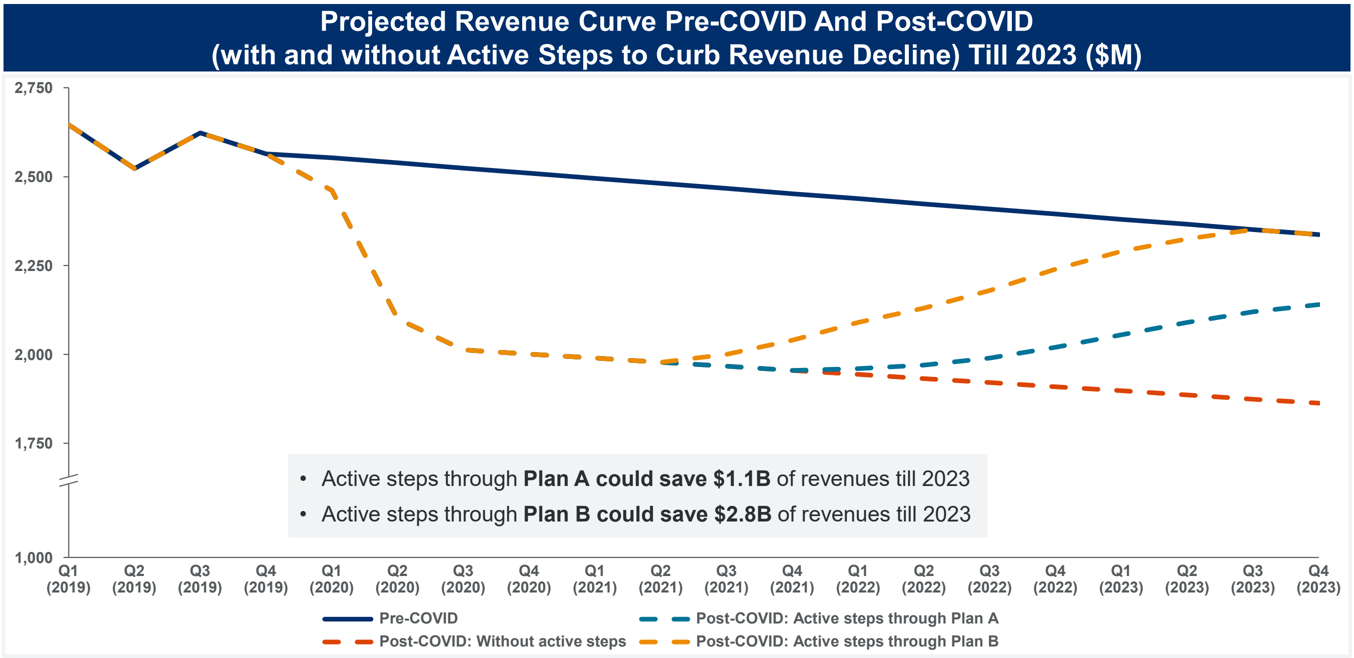

FIGURE E

Conclusion

Although the impact the pandemic is having on vulnerable mature brands is profound, manufacturers do not have to sit back and accept their fate. Rather, they have a clear option to recover the value destroyed by the pandemic and generate economic and clinical value for the healthcare system. Just as the rest of society will find a way to recover and come out of the pandemic stronger, so, too, do manufacturers have an opportunity to do the same for their mature brand portfolio.