

Industry Outlook

Industry Rank: Top 23% (58 out of 250)

Sector: Medical

Sector Rank: Top 7% (1 out of 16)

Medical - Biomedical and Genetics

Industry Description

The Zacks Biomedical and Genetics industry includes biopharmaceutical and biotechnology companies that develop high-profile drugs using path-breaking technology. These biologically processed drugs, which address virology, neuroscience, metabolism and rare diseases, are manufactured using live organisms. As technology becomes paramount to improving global health, biotech companies aim to use innovative technology to create breakthrough treatments rapidly. Quite a few companies in this space are developing drugs and vaccines using modern technology. Given the dynamic and evolving nature of technology, the sector is perceived to be riskier than the large-cap pharma or drug industry.

Top 3 Industry Players (By Market Cap)

Amgen Inc (AMGN)

Bristol Myers Squibb Company (BMY)

Gilead Sciences, Inc (GILD)

Key Metrics	Industry	Sector
YTD Return	-13.73%	-4.02%
1-Year Return	-15.67%	-6.74%
Beta	0.94	0.94
Hist. EPS Growth	2.45%	5.36%
Proj. EPS Growth	11.83%	14.40%
Hist. Sales Growth	14.66%	10.19%
P/E F1	22.48	18.53
PEG	1.43%	1.73%
P/B	1.82	1.86
P/S	6.17	2.97

constantly look to diversify their revenue base in the face of dwindling sales of their high-profile drugs.

Acquisitions also make sense as developing a drug/technology from scratch is costly and risky. After a lull of almost two years, the pace of M&A has picked up from last year and is likely to accelerate in 2025.

Pharma giant Johnson & Johnson recently announced that it would acquire all outstanding shares of biopharmaceutical company Intra-Cellular Therapies for a total equity value of approximately \$14.6 billion. Biotech bigwig Biogen made an unsolicited, non-binding proposal offer to acquire Sage Therapeutics shares that it does not already own for \$7.22 per share.

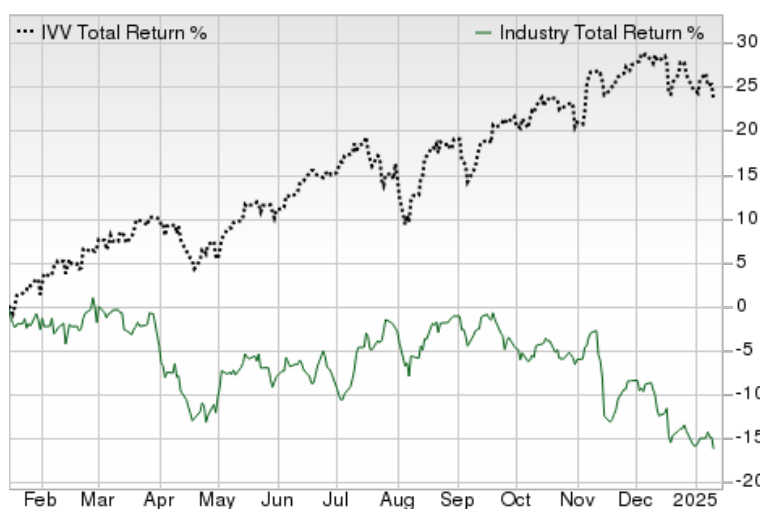
While oncology and immuno-oncology are the key focus areas, treatments for obesity, rare diseases and gene-editing companies have gained traction in recent times, making them lucrative investment areas. An attractive pipeline candidate is the key lure for these companies.

Cost synergies in research and development are added benefits, as quite a few smaller biotech companies are using innovative technologies to develop drugs and treatments.

New Drug Approvals Boost Prospects: New drug approvals witnessed a surge in 2024. This trend is likely to see an acceleration in 2025 due to a continued rise in R&D spending, with most companies looking to diversify their portfolio.

Pipeline Setbacks & Competition Hurt: Pipeline setbacks are key deterrents for biotech companies, given the exorbitant cost of developing drugs using expensive technology. Most drugs/therapies take years to gain a regulatory nod. An unfavorable outcome from

Industry Vs. iShares Core S&P 500 ETF - 1 Year



Industry Trends

Innovation, Execution Hold the Key: The primary focus in the biotech industry is on the performance of high-profile drugs and pipeline development, as only a handful of companies in this industry have approved drugs in their portfolios.

Most companies spend millions and billions of dollars to create a drug with path-breaking technology, resulting in significant research and development expenditures. Sometimes, modern treatments come with side effects, which surface with time, and the uptake might fail to meet the expectations. Hence, it takes several years before a biotech company turns profitable.

Successful commercialization is the key to higher drug uptake, as smaller biotechs generally lack the funds and expertise to reach the targeted population. This prompts collaboration deals with either pharma or biotech bigwigs, wherein sales are shared, or royalties are received. Moreover, it may take quite a few years for any newly approved drug to contribute to its company's top line.

M&A in Spotlight: Consolidation has always taken center stage in the biotech industry. This is because leading pharma/biotech companies

a crucial trial on a promising candidate is a huge setback, particularly for smaller biotechs, which are mostly one-trick ponies. The leading biotechs face other headwinds, including declining sales of high-profile drugs due to intensifying competition.

Zacks Industry Rank Indicates Decent Prospects

The group's Zacks Industry Rank is basically the average of the Zacks Rank of all the member stocks.

The Zacks Biomedical and Genetics industry currently carries a Zacks Industry Rank #58, which places it among the top 23% of more than 250 Zacks industries. The rank mirrors a bright outlook for the space due to the consistent demand for better medical drugs/treatments, even though the macroenvironment is challenging. Our research shows that the top 50% of the Zacks-ranked industries outperform the bottom 50% by a factor of more than 2 to 1.

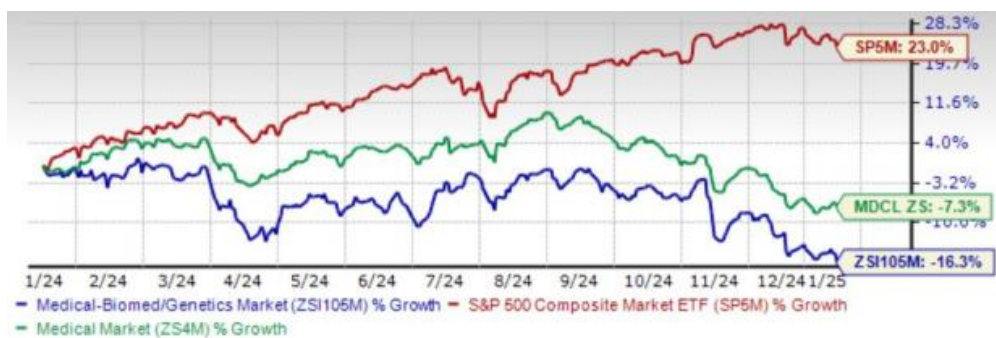
Before we present a few biotech stocks that are well-positioned to beat the industry based on a strong portfolio/pipeline, let's take a look at the industry's stock market performance and current valuation.

Industry Versus S&P 500 & Sector

The Zacks Biomedical and Genetics industry is a 703-stock group within the broader Zacks Medical sector. It has underperformed the S&P 500 composite and the Zacks Medical sector in the past year.

The stocks in this industry have declined 16.3% in the past year compared with the Zacks Medical sector's loss of 7.3%. Meanwhile, the S&P 500 composite has risen 23% in the said time frame.

Price Performance



Industry's Current Valuation

Since most companies in the biotech sector do not have approved drugs, valuing these companies becomes a complex process. On the basis of the trailing 12-month price-to-sales ratio (P/S TTM), which is commonly used for valuing biotech companies with approved portfolios of drugs, the industry is currently trading at 1.94X compared with the S&P 500's 5.59 and the Zacks Medical sector's 3.22.

Over the past five years, the industry has traded as high as 3.70X, as low as 1.84X and at a median of 2.33X, as depicted in the chart below.



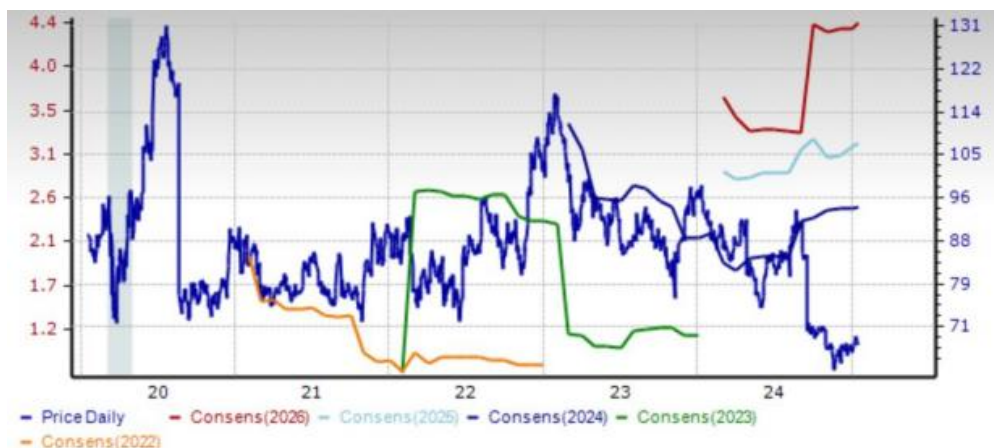
5 Biotech Stocks Worth Buying

BioMarin Pharmaceutical's key drugs, especially dwarfism drug Voxzogo, are witnessing strong demand, which is fueling sales. The label expansion of the drug in the United States and Europe for use in infants with achondroplasia is likely to boost sales further. BioMarin has an attractive early-stage pipeline with a focus on multiple diseases.

The company currently sports a Zacks Rank #1 (Strong Buy).

The Zacks Consensus Estimate for 2024 earnings per share (EPS) has increased 5 cents to \$3.29 in the past 90 days. The same for 2025 has risen 6 cents in this timeframe.

Price and Consensus: BMRN



Incyte's lead drug, Jakafi, maintains momentum on strong underlying demand. The FDA's approval of the ruxolitinib cream under the brand name Opzelura has boosted sales. The robust uptake of the drug is fueled by continued strong patient demand.

The uptake of Pemazyre and other drugs like Monjuvi and Tavegyl has diversified the portfolio. The pipeline progress has also been good.

Incyte currently carries a Zacks Rank #2 (Buy). Shares of the company have rallied 15.4% in a year.

Price and Consensus: INCY

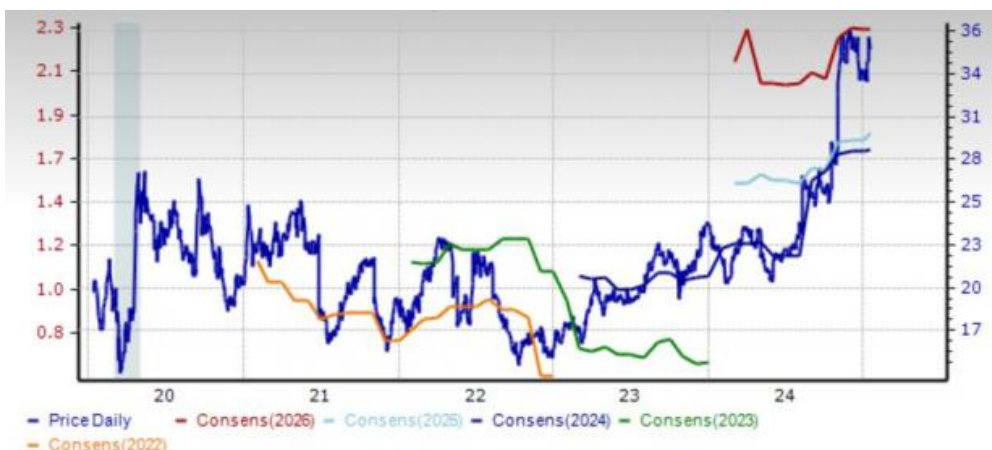


Exelixis' lead drug, Cabometyx, continues to be the leading tyrosine kinase inhibitor for the treatment of renal cell carcinoma (RCC). The drug's use in combination with Opdivo in the first-line setting for RCC is driving demand and boosting sales.

The potential label expansion of the drug into additional indications should boost sales. The pipeline progress has been impressive as well, as Exelixis looks to expand its oncology portfolio beyond Cabometyx.

Exelixis currently carries a Zacks Rank #2. The Zacks Consensus Estimate for 2024 EPS has increased 10 cents to \$1.94 and 18 cents to \$2.03 for 2025 in the past 90 days. Shares of the company have surged 55.6% in the past 12 months.

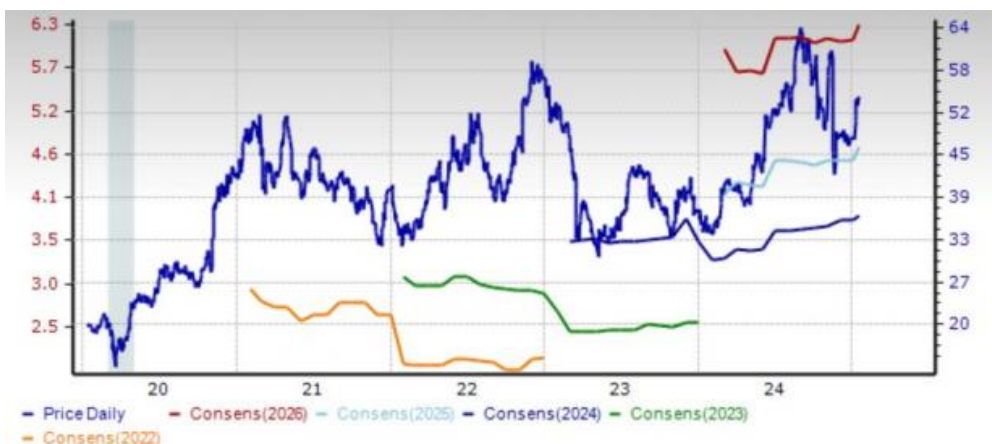
Price and Consensus: EXEL



Halozyyme Therapeutics has collaboration deals related to its ENHANZE technology with several large pharma companies that generate milestone payments, driving the top line. Robust demand for the subcutaneous formulation of Darzalex and Phesgo is boosting royalties and the top line. The momentum is likely to continue in future quarters. Halozyyme is also focused on signing new collaboration deals to aid growth, which bodes well.

Halozyyme currently carries a Zacks Rank #2. The Zacks Consensus Estimate for 2024 EPS has increased 15 cents to \$4.13 and 23 cents to \$4.99 for 2025 in the past 90 days. Shares of the company have surged 57.3% in the past 12 months.

Price and Consensus: HALO



Blueprint's lead drug Ayvakit's sales have witnessed a strong uptake in the U.S. market. The drug was initially approved for treating gastrointestinal stromal tumors, and its label has since been expanded to treat adult patients with advanced and indolent systemic mastocytosis in both the U.S. and EU markets. The label expansion of the drug has been boosting its sales. Other promising candidates in the pipeline are also progressing well.

Blueprint currently carries a Zacks Rank #2. Estimates for 2024 loss per share have narrowed to 96 cents from \$1.29 in the past 90 days. Estimates for 2025 loss per share have also narrowed 37 cents. Shares of the company have rallied 24.6% in the past year.

Price and Consensus: BPMC

