



Evaluate

# Risk and Return in Pharma

Risk and return are what the pharmaceutical industry is built around. But so far, few have been able to truly grasp – or measure – the concept effectively. What's your understanding of risk and return, and what characteristics do you need to make sure you can take full advantage?

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# A risky situation

History is littered with entrepreneurial thinkers who attribute their success to taking risks. And in the high-stakes, low success rate world of pharmaceutical research and development, an element of risk is hardwired into every decision.

However, rather than blindly embracing the notion of risk-taking, we should aim to properly understand it, and manage it more effectively.

So ask yourself, where do you really stand on taking risks? Do you have a system to manage the 'risk vs return conundrum'? And what can you do to breed more confidence in your decision-making?

These issues are more pressing than ever before, and with the pharmaceutical industry changing as rapidly as it is, they're only going to become more important.

# Why you need to start (or stop) taking risks

The saying goes that sometimes, the biggest risk you can take is not taking a risk at all. And in pharma, that's a lesson that some of the industry's biggest names have learned all too well.

Leading industry figure Kemal Malik, Bayer's Head of Innovation, has openly said that incremental improvements are no longer acceptable. This is a far cry from previous industry conventions, where small successes proved greater than the sum of their parts.

The reasons for this shift, according to Malik, are spiralling drug development costs and a lack of return on investment<sup>1</sup>. Their combined effect is forcing analysts to pivot away from safer bets to chase bigger wins instead.

This speed of change shouldn't cause every business owner to go running for the hills, though. It's a case of adapting, not panicking. As Nextech Invest partner Thilo Schroeder says, "In this environment, we have to adjust. Science is progressing at an exponential rate, and there are a lot of positives to be found."<sup>2</sup>

And of course, with the potential returns so great and science advancing so quickly, one simple discovery or insight can change everything. Anthony Raeside, Chief Research Officer at Evaluate Ltd says, "If you look at something like Alzheimer's drugs, you can see why lots of experts are still investing huge amounts of money in them, because the potential rewards are just so great. It could change everything."

<sup>1</sup> Armstrong, M. [Solving the incremental innovation dilemma](#). Vantage. 2019.

<sup>2</sup> Brown, A, Gardner, J and Elmhirst, E. [Vantage 2019 Preview](#). 2019.

# A personal guide to managing risk

In 'The Importance of Curiosity in Pharma'<sup>3</sup>, we covered how curiosity is playing a more and more influential role in pharmaceuticals. And much of that growing influence is born out of the need to manage risk.

It's about spotting that nugget that no-one else does. That empowers you to take the risk, which then gets you the returns.

But you can only do it if you think differently. Which is why curiosity leads our list of ways you can manage risk and thrive in a world where returns require more bravery than ever...

## 1 Question everything

"To be successful in our industry you need to be curious," Sejal Patel, Senior Analyst at Evaluate, says. "It's an industry prepared to take risks, so when you do, you need to be able to ask the questions that can get the balance between risk and return."

For Patel, that means always asking questions. "Businesses across pharma, consultancies and finance alike need a clear view of the challenges that lie ahead, so we need to look at the data and constantly ask 'what does it mean?', 'is there an outlier?' and if there is, 'why is this the case?'. We can't just look for obvious answers and we can't just follow protocol."

## 2 Reframe your approach

In many cases, risk is an ambiguous term. And often it's associated with negative issues. But rather than risk mitigation meaning 'avoiding bad things', it should instead be viewed as 'achieving objectives'<sup>4</sup>. If you're advocating taking a risk but find others hesitant, it can help to cite an example where sensible risk-taking positively impacted the bottom line. Or even construct a model where you're sure of the risks you're taking and have a solid, communicable view on the subject.

## 3 Remove personal bias

A big issue when assessing risk and return is an inability to look beyond what you want to see. "It can often mean you keep pursuing something, and then very publicly fail," Raeside says. The issue can be countered by embracing external options.

Johnson & Johnson Innovation's R&D function, JLABS, is run by Melinda Richter, who puts her success down to coming from a business, rather than a scientific, background. It means she sees patterns, trends and frameworks from a different vantage point.<sup>5</sup>

Raeside attributes impartiality as one of the key reasons Evaluate's latest solution, EvaluatePharma Vision, is successful too. "We're fully transparent," he says. "The impartial value we can deliver helps our clients appraise situations in a different way."

## 4 Dig deeper...

Risk assessments take time. And they're often inconsistent. But the equation is simple. The more accurate data you have, the better chance you have in understanding calculated risks. "We look at around over 50 characteristics to see if a drug has potential," Raeside says. "Clients can make bold hunches, so we use machine learning, as well as outside news that may affect success, to prove or dispel them."

## 5 ...and broaden your horizons

Crucially, it's the information that goes beyond the conventional way of judging data that can really make a difference. "You need to look at what's happening elsewhere in the market too," Raeside says. "Only by having a fully-rounded view can you really understand the strategies you should take, and where you should allocate your money." That rounded view also means it must be an ongoing view. One-off assessments are not an option – with so many outside factors having an effect on whether a drug is successful or not, you need to re-evaluate at every stage of the development process and be ready and willing to act accordingly.

<sup>4</sup> Niesche, C. *The rewards of managing risk*. INTHEBLACK. 2013

<sup>5</sup> *Curiosity and Innovation*. Eye for Pharma. 2015

# EvaluatePharma Vision: For the professionally curious


We all know that managing risk and return is the essence of a good analyst. That, and the curiosity to see what no-one else is seeing. At Evaluate we don't tell you what to think. We believe it's more important that you can ask your own questions, and have the information to draw your own conclusions.

EvaluatePharma Vision gives you the only single view of the risk and return of the R&D landscape. Identify and measure assets' risk and return earlier in the development process, to satisfy your curiosity and gain confidence in the decisions you make. If you're curious about how we can help, please [click here](#) to schedule a demo or [download a brochure](#).


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