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Biotech investing: Unmet needs over ‘me too’ drugs

The biotechnology sector offers exciting possibilities for active investors, fueled by persistent demand and remarkable innovation.



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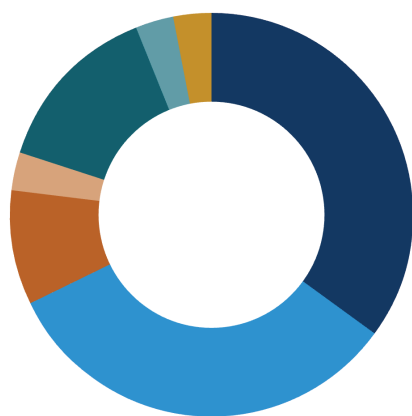
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Despite a challenging few years for biotechnology stocks, the sector continues to offer exciting possibilities—for investors as well as for individuals in need of innovative medical treatments. In the year ahead, trends such as accelerated biotech M&A activity and gradually easing interest rates could help move the sector out of its slump. However, rather than looking for factors that might lift all boats, our focus remains on finding companies with underappreciated assets that target unmet medical needs.

My experience as an emergency medicine physician offers perspective in my research. A significant portion of patients I saw were those whose diseases were not well controlled. While this may have been due to socioeconomic issues or limited access to physicians, most often it was because treatments for their conditions were not ideal—or simply did not exist. With my equity recommendations, I tend to avoid “me too” drugs and treatments. There are so many unmet needs in the practice of medicine that, in my opinion, it doesn’t make sense to focus on businesses that are attempting to enter already saturated categories. Today, however, I believe there are certain areas that biotech investors should pay attention to, including oncology and immunology.

Oncology is a considerable presence in the biotech space. In fact, over one-third of biotech industry acquisitions involved oncology in 2024. Within oncology, I typically screen for businesses that focus on unmet needs. These include cancers that are difficult to treat, such as head and neck cancer, or those that have very limited treatment options, such as pancreatic or ovarian cancer. I’m drawn to companies that are developing treatments that can work with immuno-oncology therapies, like Keytruda—the top-selling immunotherapy drug used for a wide range of cancers. These supplements to Keytruda can specifically target cancers with limited treatment options.

Focus on oncology and immunology is evident in M&A activity



Biopharma M&A in 2024 by therapeutic category

■ Oncology	35%
■ Immunology	33%
■ CNS (central nervous system)	9%
■ Cardiometabolic	3%
■ Rare disease	14%
■ Ophthalmology	3%
■ Other	3%

Sources: CapitalIQ and Stifel as of December 2024.

Impressive innovation in immunology

Immunology has been another hot space within biotech in recent years as multiple advances in treating autoimmune diseases have come to market and have changed patients' lives. Autoimmune diseases, in which the immune system essentially attacks itself, affect large numbers of people through conditions such as psoriasis or rheumatoid arthritis. Most large pharmaceutical and biotech companies are players in this space, but there are also compelling opportunities from small and mid-cap biotech companies. For example, we are seeing emerging therapies that could represent tremendous strides forward in the treatment of inflammatory disease.

Rare disease is another interesting area of biotech that should be unaffected by headline risks. These are diseases that affect a relatively small number of people and for which few treatment options exist. The FDA tends to be more lenient with approval of these treatments, and this is generally an area that is not affected by political affiliations.

We view biotech as a stock-picking sector, where remarkable innovation provides abundant opportunities for investors.



Looking beyond the duopoly in obesity treatment

Finally, in the biotech universe, we cannot ignore obesity treatments. The challenge here is that the space is dominated by a large pharmaceutical duopoly—two companies that have been developing diabetes drugs for decades. Their treatments for Type 2 diabetes—the widely publicized GLP-1 drugs—are now being used to manage obesity. It's hard to imagine a smaller company being able to compete with these giants in terms of clinical trials or building the manufacturing capacity to meet the needs of more than 100 million obese Americans. However, there are definite areas of interest, such as amylin-based therapies or the ability to deliver obesity medications orally that could provide an entree for a smaller biotechnology company into this large therapeutic class.

Innovation and demand continue to generate investment opportunities

The biotech sector has faced its share of headwinds since the March 2021 highs in the midst of the COVID-19 vaccine rollout. While we continuously monitor high-level developments, we view this as a stock-picking sector, where investors can benefit from deep fundamental research of individual companies. In addition, we believe remarkable innovation across the sector provides abundant long-term opportunities for investors.

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