Celgene offers healthy returns

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"Healing is a matter of time, but it is sometimes also a matter of opportunity." — Hippocrates

Health care makes up almost 18 percent of the U.S. economy, and it is one of the largest sectors in the S&P 500 index. As such, many local investors frequently ask my opinion on some of the large, well-known pharmaceutical stocks, such as Bristol Myers Squibb, Merck and Pfizer.

These are fine companies and solid investments. However, I usually encourage local investors to also consider some of the faster-growing biotechnology companies that have significantly greater upside.

Celgene Corporation (symbol: CELG) is a growing, best-of-breed biotechnology company that offers local investors broad exposure to the biopharmaceutical industry. In fact, many of its drugs — such as Otelza for arthritis and psoriasis, and Abraxane, a cancer drug — are used by folks in our community.

Celgene was started in 1986 and is based in Summit, N.J. It is the world's second-largest pure biotechnology company behind Amgen and, at the time of this writing, sells at $125 per share, or approximately 7 percent below its all-time high of $134.90.

Celgene's current stock price may offer the rare opportunity to buy a great company at a relative discount, as the biopharmaceutical stocks have suffered from being a political target of both major presidential candidates in the 2016 election cycle as well as President Donald Trump's recent tweets on drug prices. But, with health care legislation now in the background, healthy returns may lie ahead.

When considering a new investment, the first step is always to evaluate the company's earnings history. Celgene has been a powerful earnings growth machine. According to Yahoo Finance, over the last five years, the company's earnings have grown on average over 22 percent per year. Not surprisingly, owners of Celgene's stock have had a very healthy return, up 26.2 percent per year over that same time, essentially twice the return of the S&P 500's already impressive 13.3 percent.

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Celgene has a strong balance sheet and a robust pipeline of 10 potential blockbuster drugs (meaning sales of $1 billion or more) expected to come to market over the next five years. Particular drugs of interest include Augment and Relevance, which are intended to treat lymphoma and follicular lymphoma.

Celgene's blockbuster drug Revlimid, which contributes more than 60 percent of total revenues, was recently approved by the FDA to provide maintenance treatment for multiple myeloma, thereby expanding its usage and possibly warding off the potential development of generic biosimilars of the drug.

Celgene has since raised both its earnings and revenue guidance for fiscal 2017, including sales above $1 billion for each of its four major drugs — Revlimid, Abraxane, Pomalyst, and Otelza. This year, the company is projected to have a 40 percent net profit margin — amongst the best in the industry.

Celgene's focus has largely been on the development of therapies to treat cancer and immune-inflammatory related diseases. With about $6 billion in cash on its balance sheet, Celgene has been making savvy acquisitions to expand its treatment options. Earlier this year, Celgene announced that it will be acquiring biotech firm Delinia, which specializes in developing novel therapeutics for autoimmune diseases. Additionally, Celgene acquired Acetylon Pharmaceuticals in December 2016, which will give the company additional strongholds in oncology and autoimmune research and development.

The risks to a Celgene investment include political legislation regulating drug prices, growing generic competition, and disappointing results in their product pipeline.

Along these lines, biotechnology stocks are historically volatile depending on the "hits" or "misses" of a company's particular drug pipeline. However, Celgene's unique investments in various publically traded biotechnology companies should lower their risk and offer a potentially significant boost to returns.

Barron's Magazine recently reported that Celgene actually has public holdings of more than $1 billion spread across 12 smaller biotechs, giving the company a stake of 10 percent or more in each of them. In effect, this provides investors with a diversified biotechnology mutual fund, headed by the proven management team at Celgene.

As Barron's stated in the Celgene article, "In a market where the winners keep winning, the investment choices of the winners are certainly of interest." Celgene has been a winner — and will keep on winning. Buy the stock.

Jim Burns is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment.