

Back to the future for small caps, but not all benefit



[Jacob Plieth](#)



Share price performance[↑]
Biopharma mid/small caps - Q3 2017

Oncology-focused smaller biotechs reap rich rewards, but generics groups face hard times.

Biopharma's climb back from the winter doldrums to a post-bubble peak carried with it some notable names like Vertex, Kite and Puma, and has made 2017 a year when winners outnumber losers when it comes to share prices.

Clinical failure or a rivals' surprising durability has defined the big fallers of the year, with Otonomy hitting the rocks in phase III and Hikma struggling to get a generic version of Advair to market. In the absence of outright failure, the companies in these cohorts should continue to be pulled along by reignited investor enthusiasm in biopharma.

Mid-cap glory

Vertex Pharmaceuticals shares are now above their previous 2015 peak as the company appears to be in a position to dominate the cystic fibrosis space ahead of rivals like Galapagos and Abbvie, and this has spurred takeout speculation.

The Massachusetts group is a model of how biopharmas can build and expand a franchise in an orphan disease; the question for enthusiastic investors is how sustainable the pricing strategy can be as spending on rare diseases becomes a bigger part of healthcare budgets.

Mid-cap drug stocks (\$25-5bn): top risers and fallers in 9 months

	Market capitalisation (\$bn)		
	9-mth chg	Sep 29 market cap (\$bn)	9-mth chg (\$bn)
<i>Top 5 risers</i>			
Vertex Pharmaceuticals	106%	38.3	20.1
Ipsen	64%	10.1	3.8
Recordati	45%	8.7	2.5
Chugai Pharmaceutical	39%	23.7	5.6
Jazz Pharmaceuticals	34%	8.8	2.3
<i>Top 5 worst performers</i>			
Hikma Pharmaceuticals	(36%)	3.7	(1.9)
Lupin	(32%)	7.1	(2.9)
Sumitomo Dainippon Pharma	(27%)	5.3	(2.4)
Opko Health	(26%)	3.8	(1.3)
Mallinckrodt	(25%)	3.7	(1.6)

Ipsen had a good year positioning itself as an oncology player, both in its takeout of Merrimack and its partnership with Exelixis. Jazz benefited from the same gusto for oncology by getting approval for Vyxeos and then striking a deal with Immunogen to develop antibody-drug conjugates in haematological cancers.

On the negative side, Hikma along with its bigger generics counterpart Mylan has been hurt by the US FDA's tough line on Advair generics. Generics are a theme here – like the rest of the sector Lupin is suffering from pricing pressure.

Sumitomo Dainippon Pharma saw its cancer stem cell-targeting agent napabucasin fail around mid-year, although its shares have been off since about April. Likewise, Mallinckrodt investors have not shown much keenness all year, but the situation was exacerbated by an article in the Journal of the American Medical Association in September claiming that H.P. Acthar gel was being overused by some physicians.

Pulled along

Small-cap risers featured groups that had had vicarious successes, such as Kite, which on the back of the US approvability of Novartis's rival CAR-T therapy CTL019 attracted an \$11.9bn buyout from Gilead. Puma, meanwhile, benefited from poor data in Roche's Aphinity trial and subsequent US approval of its own adjuvant Her2-positive breast cancer treatment, Nerlynx.

Small-cap drug stocks (\$5bn-250m): top risers and fallers in 9 months			
		Market capitalisation (\$m)	
	9-mth chg	Sep 29 (\$m)	9-mth chg (\$m)
<i>Top 5 risers</i>			
Sangamo Biosciences	425%	1,254	1,038
Kite Pharma	301%	10,315	8,079
Esperion Therapeutics	300%	1,288	1,006
Puma Biotechnology	290%	4,455	4,081
Immunomedics	281%	2,115	1,412
<i>Top 5 worst performers</i>			
Otonomy	(80%)	98	(320)
Novan Therapeutics	(79%)	90	(321)
Adocia	(72%)	112	(293)
Depomed	(68%)	365	(1,949)
Sorrento Therapeutics	(65%)	130	(1,312)

However, the quarter had an unexpected leader in Sangamo Biosciences, whose transformation was endorsed in May with a partnership with Pfizer, and whose stock continued to surge into September, currently up 457% since the start of 2017. Esperion attracted takeover chatter, while Immunomedics surged on phase II data for its colorectal cancer project labetuzumab govitecan.

As is often the case, clinical setbacks did for many of the small cap fallers. A phase III failure for Otonomy's lead project, Otividex, sent the company's stock into freefall in August, while Novan will need to carry out another pivotal trial of its acne candidate SB204 – both groups look to be at risk of running out of cash. And Adocia has never recovered from Lilly's decision in January to ditch its ultra-rapid insulin BioChaperone Lispro.

It has been broadly a good year for smaller players, but this could change if the US government renews its calls for price controls.

An EP Vantage staff report. To contact the writers of this story email news@epvantage.com or follow [@EPVantage](https://twitter.com/EPVantage) on Twitter

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