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Small and mid-cap share price gains make up for majors



[Edwin Elmhirst](#)



Share price performance 
Biopharma mid/small caps - Q1 2018

Deals were a major driver of mid-cap share movement in the first quarter, but pipeline progress and misfires played their parts too.

The volatility in the markets might have caused big cap stocks to stagnate since the start of the year, but those investing slightly lower down the food chain will have plenty of reasons to be more optimistic about the ongoing health of the sector.

Canny deal making made Nektar the first quarter's mid-cap winner, while ongoing interest in Asian stocks helped Beigene and Celltrion feature in the biggest risers. And the gains in the small-cap stocks, led by Geron and Chemocentryx, showed that US companies are ably holding their own. But the bigger returns afforded by smaller companies are tempered by the greater losses these can experience, as seen by the implosions of Edge Therapeutics and Dermira (see tables below).

Nektar Therapeutics' ascent to the top of the table was fuelled by the eye-watering \$1.85bn up-front payment it raked in from Bristol-Meyers Squibb over the phase I project NKTR-214. Bristol, along with others, must be regretting not making a move for the biotech years ago before its valuation spiralled passed \$16bn.

Deal making was also the share catalyst for Japan's Peptidream, which is still riding the wave of its 2017 collaboration with Bayer. And the move into phase III liver cancer trials by Beigene's anti-PD-1 MAb tislelizumab, which was licensed to Celgene last year, pushed it into the top five gainers.

Agios built on its pipeline momentum in the quarter. After the approval of Idhifa in AML last year, the group followed up with a new filing for ivosidenib, an IDH1 inhibitor. Ivosidenib has been granted a priority review with a PDUFA date of August 21, so there could be more to come for the shares.

Mid cap (\$5-25bn): top risers and fallers in Q1 2018

	Share price (local currency)	Market capitalisation	
	3-mth chg	Mar 30 (\$bn)	3-mth chg (\$bn)
Top 5 risers			
Nektar Therapeutics	78%	17.1	7.5
Celltrion	40%	35.6	10.6
Ipsen	27%	12.9	3.0
Genmab	26%	13.0	3.0
Ono Pharmaceutical	25%	16.1	3.3
Top 5 fallers			
Exelixis	(27%)	6.6	(2.4)
United Therapeutics	(24%)	4.9	(1.5)
Valeant Pharmaceuticals International	(23%)	5.6	(1.7)
Recordati	(19%)	7.7	(1.5)
Aurobindo Pharma	(19%)	5.1	(1.2)
<i>Source: EvaluatePharma.</i>			

But, while some go up, others must come down.

Akorn's fall from grace is due to many believing that Fresenius's acquisition of the generics group is now dead in the water, after Fresenius said it would conduct an independent investigation into allegations of misconduct around product development at Akorn. Akorn shares are trading just above \$19 versus a bid price of \$34, showing what the market thinks of the chances of a successful deal.

Maulings at the hands of regulators were behind falls from both Portola and Puma. Portola plunged after it let slip that the FDA had asked it for a new clinical trial of the blood thinner Andexxa, potentially delaying approval beyond its scheduled May 4 PDUFA date; this bad news came just weeks after a negative opinion from EU regulators over the anticoagulant Bevyxxa.

While Puma might have squeaked its breast cancer drug Nerlynx past the FDA, the rejection from EU regulators has put its shares firmly into negative territory.

Among the other fallers Tesaro must be wondering what it can do to stop the slide in its shares as investors have grown concerned about the competition to its ovarian cancer drug Zejula from Astrazeneca's Lynparza.

Smaller stocks, bigger gains

As ever with biotech stocks, those prepared to take the higher risk offered by smaller companies were handed higher returns, when things worked out.

Small cap (\$250m-5bn): top risers and fallers in Q1 2018

	Share price (local currency)	Market capitalisation	
	3-mth chg	Mar 30 (\$m)	3-mth chg (\$m)
Top 5 risers			
Geron	136%	683	394
Chemocentryx	129%	665	374
Mithra Pharmaceuticals	122%	953	537
Anterogen	117%	746	409
Atara Biotherapeutics	115%	1,514	811
Top 5 fallers			
Edge Therapeutics	(87%)	36	(253)
Dermira	(71%)	334	(829)
Protagonist Therapeutics	(59%)	181	(258)
Melinta Therapeutics	(53%)	232	(263)
Omeros	(43%)	539	(399)

Source: EvaluatePharma.

So far things have been working out for Geron, which more than doubled its share price in the first quarter on no obvious news. But the stock has come off by more than 30% in the past two weeks as some start to question whether claims that its lead asset, imetelstat, is helping patients with myelofibrosis live significantly longer will be backed up by data.

Proving that investors still have an appetite for all things cell-therapy related, Atara saw its shares rocket after the FDA gave it permission to start enrolment into a phase I study for ATA188 in multiple sclerosis.

Success at the FDA, this time with an ANDA filing for Mithra's new contraceptive product, was enough for that group to make it into the top small-cap risers.

For those companies where things did not work out, pipeline failures, the usual curse of drug developers, were to blame.

Both Edge and Protagonist saw their dreams shattered by data-monitoring committees calling a halt to their respective brain haemorrhage and ulcerative colitis projects owing to the improbability of them meeting their primary endpoints.

Dermira's acne treatment olumacostat bombed, with the severity of the fall mirroring the asset's previously high expectations.

While it would be rash to draw too many conclusions about the rest of the year from performances in the first quarter, investors comfortable with risk should continue to fish in mid and small-cap waters.

To contact the writer of this story email Lisa Urquhart in London at lisau@epvantage.com or follow [@ByLisaU](https://twitter.com/ByLisaU) on Twitter

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Evaluate HQ
[44-\(0\)20-7377-0800](tel:44-020-7377-0800)

Evaluate Americas
[+1-617-573-9450](tel:+1-617-573-9450)

Evaluate APAC

[+81-\(0\)80-1164-4754](tel:+81-080-1164-4754)

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