

Sage soars higher into the share price stratosphere



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Might Sage Therapeutics become a victim of its own success? With every fresh piece of good news the company's valuation adds another billion or so, putting the takeout that many investors are waiting for further out of reach.

Yesterday's 20% surge, prompted by the US FDA's rubber-stamping of a speedy approval pathway for its experimental depression drug, took Sage's market cap to \$8.2bn. This figure puts in the territory of the likes of Neurocrine, Nektar and Bluebird Bio, companies that have also arguably become too costly to buy.

Of course takeouts by desperate buyers willing to pay almost anything for a new growth story can never be completely ruled out. And there are plenty of examples of acquisitions where the price tag prompted head scratching – the premium that a buyer is willing to pay frequently has little to do with fundamental valuation. Remember Medimmune? Or even Actelion?

But as valuations go up and up investors need to remember that, generally speaking, M&A has been an area of disappointment for the last couple of years. Since the biotech boom peaked in 2017, transaction volume has been dimming, a couple of standout deals notwithstanding.

It is surely no coincidence that at the same time, the share prices of small and medium-sized drugmakers have been performing very strongly. This is partly because they are delivering step changes in innovation that larger companies are failing to foster, but also because, as a result of their successes, investors expect them to be bought.

While these companies can easily raise money their continued independence is perhaps not so much of a worry. But it is worth remembering that as these experimental projects approach regulators and the market, areas larger companies are perhaps more skilled at navigating, missteps will be visible.

Sage and its market cap cousins

	Market cap (\$bn)	2024e WW Revenues * (\$bn)	NPV of pipeline (\$bn)
Seattle Genetics	11.0	2.4	7.0
Alnylam	10.6	2.6	7.1
Genmab	9.9	1.9	10.5
bluebird bio	9.3	2.5	7.5
Nektar	9.2	1.7	3.2
Neurocrine	9.1	2.3	4.5
Sage Therapeutics	8.2	1.7	2.5
Alkermes	7.7	2.2	7.0
Sarepta	6.5	1.7	3.9
Ionis	5.9	1.6	6.7

**Includes sales and royalties. Source: EvaluatePharma.*

So is Sage overvalued at this point? The sellside does not think so. Equity analysts widely recommend that investors keep buying the stock, with some setting share price targets as high as \$225 – this morning, Sage stock opened at \$172.

If all goes to plan Sage will have its first product on the market next year; brexanolone is a reformulation of allopregnanolone and is under review in the US for postnatal depression. The big prize is SAGE-217, a first-in-class neuroactive steroid GABA modulator that Sage is positioning as a “revolutionary” acute depression treatment.

Analysts predict that SAGE-217 will become a blockbuster in its second year on the market. Consensus for sales in 2024 sits at \$1.7bn, according to *EvaluatePharma*, a number that will be risk-adjusted since further trials are needed

to confirm the project's potential.

Perhaps a buyer out there is willing to buy Sage's hubris, and its valuation. Little recent innovation in depression means that if the clinical data remain strong SAGE-217 could certainly become a very successful product.

But \$8bn plus premium is a lot of money – even for the big beasts of the sector. And few investors would be delighted with a mere licensing deal. Nektar's huge deal with Bristol-Myers Squibb over its lead asset prompted a lukewarm response, and shareholders would probably prefer not to bear the brunt of a clinical dataset that looks to be weakening (*Asco 2018 - Loxo receives accolades but Nektar's sweetness fades, June 3, 2018*).

Those driving the valuation of Sage ever higher should bear this in mind as the company approaches some crucial events. By the end of the year potentially pivotal data in postnatal depression on SAGE-217 will be reported and the US regulator will deliver its verdict on of brexanolone.

Success on these fronts would presumably make Sage even more attractive to buyers. But by then, the company would almost certainly be even more expensive.

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