

Japanese biopharma rules mid-cap returns



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Share price performance 

Biopharma mid/small caps - Q4

Some of the big small-cap fallers, meanwhile, have been subject of M&A activity. Is this a sign of things to come in 2019?

The year-end wild ride on the stock exchanges led to some unexpected companies topping the table when it came to mid- and small-cap biopharma. So it was that Japanese groups, led by Sumitomo Dainippon Pharma, were the top mid-cap gainers in 2018.

The big fallers had the usual troubles of clinical failure or strategic misadventures. Perrigo scored a triple this year with an unexpected management shift, an unpopular business unit spin-off and a surprise year-end tax bill from Irish authorities.

No depressing Sumitomo Dainippon

Japan's dominance of the mid-cap biopharma sector was already clear by the end of September, and the fourth quarter sealed it ([Mid-cap investors see Eastern promise in the third quarter, October 10, 2018](#)). In the case of Sumitomo Dainippon, it was settlement of patent disputes over depression drug Latuda that drove shares up at the end of November, as generic competitors could be delayed to 2023.

That positive news allowed it to top even Eisai, the best performer at nine months. Shares in Eisai have been lifted this year by positive-looking, if controversial, data for Alzheimer's project BAN2401.

Mid cap (\$5-25bn): top risers and fallers in 12 months

	12-mth change	Market cap at Dec 31 (\$bn)	12-mth change (\$m)
Top 5 risers			
Sumitomo Dainippon Pharma (¥)	109%	12.3	6,323
Eisai (¥)	33%	22.4	5,193
Taisho Pharmaceutical Holdings (¥)	23%	8.8	1,498
Daiichi Sankyo (¥)	20%	22.1	3,289
Ipsen (€)	13%	10.9	989
Top 5 fallers			
Perrigo Company (\$)	(56%)	5.3	(7,015)
Aspen Pharmacare (ZAR)	(51%)	4.2	(6,139)
Alkermes (\$)	(46%)	4.6	(3,961)
Nektar Therapeutics (\$)	(45%)	5.7	(3,921)
Bluebird Bio (\$)	(44%)	5.4	(3,476)

The only non-Japanese group in the risers was Ipsen, which has benefited from its partnership with Exelixis on Cabometyx as well as strong signals that it intends to expand in oncology and the US market.

Perrigo's plan to spin out its generic drug unit and focus on consumer health was not taken well by investors. But then it went through its third chief executive transition in as many years, with Murray Kessler taking the reins in October. Then Irish tax authorities hit it with a \$1.8bn tax assessment as the year closed, making its domicile there look a little less beneficial.

Speaking of Irish-domiciled companies, Alkermes was hit repeatedly by setback for depression drug ALKS 5461, the last of which was a negative FDA advisory committee vote ([Alkermes gets decisive thumbs down, November 2, 2018](#)). A turnaround could occur if the FDA were to overrule its expert advisors, an unlikely scenario, or with continuing positive news for schizophrenia project ALKS 3831.

Nektar's shares collapsed over the fading promise of its IL-2-stimulating project NKTR-214, which had a disastrous Asco presentation, and failed to recover with fuller data later in the year ([SITC 2018 - Nektar's big reveal falls flat, November 11, 2018](#)). And Bluebird Bio has stumbled as its much-hyped sickle-cell and beta thalassemia gene therapy Lentiglobin faces commercial doubts.

Fish oil and snake oil

Amarin was the winner among small-cap companies, with Vascepa scoring a surprise smash hit in Reduce-It, its cardiovascular outcomes study ([Amarin lands the catch of a lifetime, September 24, 2018](#)). The readout, showing that Vascepa reduced a patient's relative risk of a major cardiovascular event by 25%, compared with placebo - far better than other cardiovascular agents have managed - bumped Amarin's share price up 250%. Forecast 2024 sales for Vascepa have more than doubled since those data were announced.

In keeping with the theme of Japanese biotech outperforming the rest of the world, Sanbio was lifted by data suggesting its stem cell project SB623 showed benefit in traumatic brain injury patients.

Small cap (\$250m-\$5bn): top risers and fallers in 12 months

	12-mth change	Market cap at Dec 31 (\$m)	12-mth change (\$m)
Top 5 risers			
Amarin (\$)	239%	4,480	3,394
Arrowhead Pharmaceuticals (\$)	238%	1,145	870
Mirati Therapeutics (\$)	197%	1,379	965
SanBio (¥)	151%	3,575	2,276
Fate Therapeutics (\$)	110%	828	506
Top 5 fallers			
Synergy Pharmaceuticals (\$)	(95%)	28	(522)
Melinta Therapeutics (\$)	(95%)	46	(449)
GTx (\$)	(94%)	19	(259)
Faron Pharmaceuticals (€)	(93%)	20	(274)
Celldex Therapeutics (\$)	(93%)	34	(367)

On the losing side, it is notable that the biggest faller has already been snapped up: Bausch Health bought Synergy Pharmaceuticals for \$200m in mid-December. Melinta Therapeutics, too, was part of M&A manoeuvring, going public thanks to acquisition of Cemptra.

Nearly all of the value of GTx, Faron and Celldex was destroyed by clinical failure. Celldex's glembatumumab vedotin crashed out of triple-negative breast cancer in April, prompting the group to discontinue research in all indications. This was punished severely by shareholders, who pushed its stock price down below cash levels. If the remaining investors in these three groups are hoping for acquirers to swoop here too, they may be in for a long wait.

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