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Topsy turvy times for industry's mid and small cap stocks in the first quarter



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Share price performance 
Biopharma mid/small caps - Q1 2019

What was up is now down as smaller biotech stocks deal with clinical trial failure and acquisitions.

What a difference three months makes. Some of the mid-cap stocks that were riding high at the end of last year have come down to earth with big bumps, while others have completely reversed their loser status. The start of the year also saw Japanese companies become less dominant among the biggest risers, following strong performances in 2018.

Notably Sumitomo Dainippon Pharma and Eisai, which were the best-performing companies in the fourth quarter, are now in the ignominious position of being in the bottom five owing to a mixture of clinical trial failure and pricing pressure. But the notoriously fickle Asian markets still delivered two of the top five gainers of the quarter in Japan's Daiichi Sankyo and China's Sino.

Conversely, Bluebird Bio, which finished last quarter in the bottom five, is leading the risers this time around. The group appears to have shaken off some of the commercial doubts around its sickle cell and beta-thalassaemia gene therapy candidate Lentiglobin. A recent spate of deal activity for cell and gene therapy companies is also almost certain to have played a part in the company's resurgence since the start of 2019.

Mid cap (\$5-25bn): top risers and fallers in Q1 2019

	3-mth chg	Market capitalisation (\$m)	
		29 Mar 2019	3-mth chg
Top 5 risers			
Bluebird Bio	59%	8,645	3,219
Ionis Pharmaceuticals	50%	11,234	3,797
Daiichi Sankyo	45%	33,189	11,116
Alexion Pharmaceuticals	39%	30,321	8,600
Sino Biopharmaceutical	39%	11,494	3,194
Top 5 fallers			
Eisai	(27%)	16,912	(5,445)
Sumitomo Dainippon Pharma	(22%)	9,996	(2,335)
Hisamitsu Pharmaceutical	(16%)	4,446	(676)
Hypera Pharma	(14%)	4,381	(695)
Lupin	(13%)	4,727	(473)

Reasons to be gloomy part one

Shares in Eisai, whose holding had been bolstered by apparently positive data for its Biogen-partnered Alzheimer's project BAN2401 last year, were poetically brought down to earth by another Alzheimer's failure. Last month's flameout of aducanumab, which was also being developed by the partners, represented one of the industry's biggest clinical failures, making it no surprise that Eisai was the biggest mid-cap faller in the quarter.

Sumitomo's reversal of fortunes was down to lacklustre sales of its schizophrenia drug Latuda, following strong gains last year after it fended off generic competition for the same product. Things could get worse for Sumitomo after the January launch of a generic version of Latuda by the Indian company Lupin, which itself was one of the big mid-cap first-quarter fallers.

Hisamitsu Pharmaceutical's problems have stemmed from the Japanese government's efforts to rein in healthcare costs, while Hypera Pharma, Brazil's largest listed producer of over-the-counter drugs, found itself in the bottom five because of a brush with the law. The group has been tainted by a number of corruption charges relating to the activities of some of its former executives.

On the up

Other Asian stocks might have come off the boil, but Sino Biopharmaceutical continued to run at full steam ahead during the first quarter. The Hong Kong-based group saw its revenues increase more than fourfold in 2018, but investors might want to see how changes to government procurement procedures impact the company as they are rolled out country wide.

Daiichi Sankyo also continued to fly the flag for Asian biopharma as a [cancer deal with Astrazeneca](#), complete with a \$1.35bn up-front fee, gave the former's shares a welcome boost in the dying days of March.

Among the other risers, Alexion's ambitions of reducing its reliance on its cash cow Soliris and growing its presence rare diseases paid off last quarter as investors appeared to respond well the group's [franchise building efforts](#).

As always those looking to make the biggest returns in the biopharma should look to smaller stocks, with the obvious caveat that the possibility of huge gains is tempered with a risk of equally large losses.

This time around the biggest gains in the quarter came from companies that might not be here in a year. The growing interest in gene therapy has seen both Spark and Nightstar succumb to the advances of larger companies, while the rare disease player [Clementia was taken off the board](#) with a \$1.04bn offer from Ipsen.

Biogen looked like it got a bargain in March when it [hoovered up Nightstar](#) for \$877, while [Roche has bid \\$4.8bn for Spark](#). But, with only 29% of Spark investors giving up their shares, Roche was yesterday forced to extend its tender offer into May.

The fellow gene-therapy company Uniqure benefited by association from the recent spate of M&A, with speculation that it might be next helping to bolster the group's share price, alongside [encouraging data](#) with its haemophila B gene therapy project AMT-061.

Small cap (\$250m-\$5bn): top risers and fallers in Q1 2019			
		Market capitalisation (\$m)	
	3-mth chg	29 Mar 2019	3-mth chg
Top 5 risers			
Spark Therapeutics	191%	4,323	2,846
Clementia Pharmaceuticals	122%	993	548
Insmed	122%	2,254	1,243
Nightstar Therapeutics	120%	713	389
Uniqure	107%	2,244	1,170
Top 5 fallers			
Novavax	(70%)	243	(461)
Solid Biosciences	(66%)	326	(624)
Sanbio	(65%)	1,304	(2271)
Tyme Technologies	(52%)	183	(198)
AC Immune	(47%)	341	(296)

As ever with the small-cap fallers, clinical missteps were the root of all their problems. Novavax, Solid Biosciences and AC Immune all disappointed investors with their various blow-ups.

For Novovax failure came in the form of a pivotal miss for its RSV vaccine Resvax, leaving the company little to show for the 24 years it has spent on Nasdaq. And for all the excitement around gene therapy Solid Biosciences' [failure in Duchenne muscular dystrophy](#) might provide a salutary warning for investors in this high-risk space.