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Cannabis, M&A and data spur strong gains among small and midcaps



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Share price performance 
Biopharma mid/small caps - Q2 2019

The usual story of positive data and clinical failure influencing company stock performance was given added interest in the second quarter with price fixing allegations decimating some shares.

With the exception of Daiichi Sankyo, this quarter saw companies listed on western exchanges wrest back the crowns for top share price gainers this quarter. Many of the advances were based on either strong clinical data, such as that of Galapagos or, as in the case of Sarepta, strong data alongside rivals falling short with their clinical efforts.

The bottom end of the midcap table, however, was spiced up by price fixing allegations, which put further pressure on Mylan's already ailing shares and helped knock 40% off Teva's valuation.

Hands in the cookie jar

The decision by 44 US states to launch an investigation looking into alleged [price fixing](#) among big pharma and generic companies wiped tens of billions off the market caps of the companies named in the investigation.

Mylan had already suffered a 24% share price drop in the first quarter thanks to its lacklustre financial performance, so being named and shamed in the investigation only added to that company's woes. Meanwhile Teva was one of the biggest casualties after it was identified as one of the central players in the price fixing activities. With a settlement expected in the next 12-24 months the shares of the companies involved will almost certainly experience more volatility.

Mid cap (\$5-25bn): top risers and fallers in H1 2019

	Share price	Market capitalisation (\$m)	
	6-mth change	30 June 2019	6-mth change
Top 5 risers			
Daiichi Sankyo	60%	35,784	13,711
Aurora Cannabis	51%	7,799	2,603
Galapagos	41%	6,987	1,948
Sarepta Therapeutics	39%	1,268	3,573
Bausch Health Companies	37%	8,875	2,414
Top 5 fallers			
Biocon	(60%)	4,328	(801)
Sumitomo Dainippon Pharma	(42%)	7,281	(5,050)
Teva Pharmaceutical Industries	(40%)	10,083	(6,715)
Mylan	(31%)	9,815	(4,313)
Hisamitsu Pharmaceutical	(30%)	3,627	(1,495)

Mixed fourth-quarter numbers, including lower-than-expected sales, were partly behind the fall in Biocon's shares. The stock was also weighed down by pricing pressure on biosimilars in Europe and an expected margin squeeze as the group scales up its business.

Dealing with clinical and regulatory failure is part and parcel of life for most pharma companies, but Sumitomo Dainippon Pharma has been on a particularly [long losing streak](#). Alongside two complete response letters in the past 10 months, the group has recently been hit with a failure in stroke, and this month also saw the discontinuation of napabucasin in a phase III study in pancreatic ductal adenocarcinoma.

On the up

On a more positive note, even the FDA's refusal to approve Daiichi's leukaemia drug quizartinib last month was not enough to take the lustre off the Japanese group's stock this quarter. Daiichi shares, which received a massive lift at the start of the year from a \$1.35bn licensing deal with AstraZenca, were given a further boost from [positive results from DS-8201](#) in a phase II breast cancer trial. Investors might also be in for more gains as the trial is expected to form the basis of a regulatory filing in the second half.

The 41% lift in Galapagos shares can be almost exclusively put down to the ongoing benefit from the strong showing of the company's rheumatoid arthritis project filgotinib in the Finch 1 and Finch 3 trials. Partner Gilead's decision to go ahead with an earlier-than-expected filing for the Jak inhibitor this week could further boost Galapagos's shares.

While the green fever that gripped the cannabis industry at the start of 2018 might have cooled for many stocks, it continued for Aurora Cannabis. The group is now one of the biggest cannabis producers in Canada, but it is Aurora's growing position in medical rather than recreational marijuana that has helped it record a 51% lift in its shares.

At one point Pfizer's PF-06939926 had looked like it might be a threat not only to Sarepta Therapeutics' gene therapy project for DMD, but also its approved exon-skipping product Exondys. However, [toxicity concerns](#) and unimpressive efficacy with the Pfizer project have allayed concerns about Sarepta being usurped in a space it has made its own and given the latter a share price boost.

Small companies, big moves

As usual, the performance of smaller companies largely depended on their fortunes in the clinic, with promising data rewarded handsomely and failure punished.

Array Biopharma's meteoric rise was triggered by the company fulfilling the biotech dream and being acquired, but it had already begun its climb after a win in the Beacon trial of Braftovi/Mektovi in colorectal cancer. Pfizer agreed to [buy the smaller company for \\$11.4bn](#), chiefly for the combo's blockbuster potential in this setting.

Picking the next acquisition target is never easy, but Arqule investors must also believe that group is also attracting interest after presenting promising data on its BTK inhibitor ARQ 531 at the European Hematology Association. An [impressive partial remission](#) rate in chronic lymphoblastic leukaemia/lymphoma put Arqule's stock on an upward trajectory, but its market cap of \$1.4bn would still make it an easily-digestible bolt-on.

Small cap (\$250m-\$5bn): top risers and fallers in H1 2019			
	Share price	Market capitalisation (\$m)	
	6-mth change	30 June 2019	6-mth change
Top 5 risers			
Arqule	297%	1,308	1,006
Array Biopharma	225%	10,336	7,300
Ziopharm Oncology	212%	947	681
Sosei	196%	1,621	1,080
Voyager Therapeutics	190%	1,003	697
Top 5 fallers			
Inflarx	(92%)	82	(861)
Insys Therapeutics	(91%)	22	(238)
Novavax	(85%)	133	(571)
Aptinyx	(80%)	121	(433)
Solid Biosciences	(79%)	185	(765)

Sosei was also up on data; specifically trials showing the Novartis-partnered asthma triplet QVM149 was superior to Glaxosmithkline's Advair. Novartis has said the project is one of its potential pipeline blockbusters.

Ziopharm did not even need data; the group's shares got a bump after it got the [nod to start clinical trials](#) of its personalised T-cell receptor project. While investors must be pleasantly surprised that the asset has finally made some progress, there are still questions about its economic viability.

Falling

Meanwhile, the first-half fallers were led by Inflarx, which plummeted after the [spectacular failure](#) of its lead project, the anti-C5a MAb IFX-1, in hidradenitis suppurativa; the group took its rival Chemocentryx down with it.

Novavax, Aptinyx and Solid Biosciences have not recovered from [clinical trial flops](#) that sent their stock down in the first quarter; indeed, the latter followed a February blow up with its Duchenne muscular dystrophy gene therapy, SGT-001, with more toxicity concerns in May.

The future is looking dim for Insys Therapeutics, which filed for bankruptcy in June after settling claims it paid doctors kickbacks to prescribe its pain drugs, helping to fuel the US opioid epidemic. The group is now worth a paltry \$20m.

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