

Pharmasset the stand out small cap performer in first quarter



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Leading up to this month's International Liver Congress and the presentation of yet more impressive clinical data on its promising hepatitis C candidates, Pharmasset was the stand out performer from the small, micro and nano stocks during the first quarter. Shares closed at a record high of \$78.71, valuing the New Jersey company with just phase II assets at a very impressive \$2.9bn.

Other notable and perhaps surprising gainers were: Jazz Pharmaceuticals, Depomed, Pernix Therapeutics and KV Pharmaceutical, even after the latter's recent declines on the back of some damaging publicity. Meanwhile the largely predictable regulatory setbacks to Orexigen Therapeutics' obesity candidate and MannKind's inhaled insulin have left the companies assessing their next moves. And late stage clinical failures were particularly severe on Renovo, Inspire Pharmaceuticals and Xoma (see tables below).

Small cap analysis

The clinical data and potential in Pharmasset's hepatitis C candidates are undoubtedly impressive, although the extent of recent gains would suggest some investors are hoping for a big pharma takeover. The company certainly looks an increasingly attractive target; indeed predators may be kicking themselves for not making a move sooner, before the phenomenal share price surge over the past 12 months.

Jazz's performance and valuation continues to surprise, as investors appear to be realising the significant potential in its narcolepsy drug, Xyrem, which should drive the company towards stability and profitability.

FDA approval for Depomed's post-herpetic neuralgia (PHN) treatment Gralise sparked big share price gains, which even the loss of Abbott Laboratories as the product's commercial partner could not dent.

Mesoblast's impressive run since signing a major deal with Cephalon last year continued during the first quarter, while Cytori Therapeutics made gains on the back of deals and clinical development of its stem and regenerative cell therapies for cardiovascular disease and reconstructive surgery.

Small cap (\$250m-\$2.5bn) pharma companies: top risers and fallers in Q1 2011

Rank	Top 5 Risers	Share price (local currency)			Market capitalisation (\$m)		EP Vantage comment and analysis
		31-Dec-10	31-Mar-11	% change	YE 2010	Q1 2011	
1	Pharmasset (\$)	47.19	78.71	67%	1,607	2,914	EASL - Beyond protease inhibitors hep C pipeline filling up
2	Jazz Pharmaceuticals (\$)	19.68	31.85	62%	792	1,283	All that gain for Jazz
3	Depomed (\$)	6.36	10.04	58%	341	538	Depomed gets gabapentin approval as Abbott spat looms
4	Mesoblast (AUS\$)	4.67	7.25	55%	1,299	2,013	Interest in Australian pharma sector continues to grow
5	Cytori Therapeutics (\$)	5.19	7.82	51%	269	406	Daily Market Movers (2 Mar 2011)
	Top 5 Fallers						
1	Orexigen Therapeutics (\$)	8.08	2.84	(65%)	389	136	FDA wipes obesity slate clean with rejection of Orexigen's Contrave
2	MannKind (\$)	8.06	3.64	(55%)	1,058	476	Another major setback for MannKind's inhaled insulin
3	Bavarian Nordic (DKr)	245.0	112.5	(54%)	567	261	Bavarian Nordic misses out on Provenge effect
4	Inspire Pharmaceuticals (\$)	8.40	3.96	(53%)	699	330	Denufosol failure leaves Inspire at strategic crossroads
5	Chelsea Therapeutics (\$)	7.50	3.88	(48%)	462	240	Chelsea reels from another redesign of pivotal Northera trials

Aside from the regulatory setbacks for Orexigen's Contrave and MannKind's Afrezza, Bavarian Nordic was punished by investors for not securing a much-touted partner for ProstVac, its prostate cancer vaccine which had attracted so much interest in the wake of FDA approval for Dendreon's Provenge last year.

Inspire had a nightmare start to the year, its shares lost more than half their value in one day following the failure of its lead pipeline candidate, cystic fibrosis (CF) treatment denufosol.

As for Chelsea, the coming and going over the design and endpoints of its pivotal trial for hypotension therapy, Northera, is clearly starting to make investors nervous about the drug's chances of regulatory approval and commercial success.

Micro cap analysis

KV Pharmaceutical managed to remain the biggest micro-cap risers this quarter, despite the controversy around the pricing plan for its newly approved version of a drug to prevent early labour. The stock actually reached \$13 in March, before the company bowed to pressure to significantly reduce the price of the drug.

ISTA has been on a strong rally since mid-2010 – the eye-care company reported its first annual profits in February, moving into the black in 2010 with two new products on the market.

Meanwhile Pernix's fortunes have been given a boost by a deal to co-promote a newly approved head lice treatment in the US, and more recently by the prospects of the sale of a novel cough therapy.

Achillion has been advancing on hopes for a deal for ACH-1625, a protease inhibitor in development for

hepatitis C.

And Columbia Laboratories has been rallying since December, when the company announced positive phase III results from its drug to prevent preterm labour.

Micro cap (\$100m-\$250m) pharma companies: top risers and fallers in Q1 2011							
Rank	Top 5 Risers	Share price (local currency)			Market capitalisation (\$m)		EP Vantage comment and analysis
		31-Dec-10	31-Mar-11	% change	YE 2010	Q1 2011	
1	KV Pharmaceutical (\$)	2.55	5.99	135%	152	358	Daily Market Movers (4 Feb 2011)
2	ISTA Pharmaceuticals (\$)	5.13	10.12	97%	173	340	
3	Pernix Therapeutics (\$)	6.05	11.62	92%	138	264	EP Vantage Interview - Seek and Pernix offer up new cough drug
4	Achillion Pharmaceuticals (\$)	4.15	7.15	72%	242	417	
5	Columbia Laboratories (\$)	2.27	3.77	66%	191	317	Daily Market Movers (28 Feb 2011)
Top 5 Fallers							
1	Renovo (£)	0.70	0.15	(79%)	210	44	Renovo could be fatally wounded by trial failure
2	XOMA (\$)	5.13	2.79	(46%)	152	82	Xoma antibody fails in diabetes
3	Aposense (ILS)	21.78	12.30	(44%)	163	91	
4	Emisphere Technologies (\$)	2.41	1.37	(43%)	125	71	Another major setback for MannKind's inhaled insulin
5	Sunesis Pharmaceuticals (\$)	3.12	1.94	(38%)	144	89	

Clinical failure is the main reason behind the biggest declines. Renovo suffered a huge setback when its lead anti-scarring compound failed in phase III, while Xoma's antibody approach to type I diabetes did not live up to high expectations.

Israeli firm Aposense has been on a steady decline since listing last year, with no big news being announced this year. Emisphere has also been light on news, although continuing delays to MannKind's inhaled insulin, Afressa, could be disappointing investors - the company is due to receive royalties on sales.

Sunesis investors appear disappointed by the company's decision to go it alone with a phase III trial of its lead candidate, vosaroxin, in acute myeloid leukaemia. The company had to complete a 1-for-6 reverse stock split in February in order to maintain its Nasdaq listing.

Nano cap analysis

CBio made huge gains in the first quarter. The stock appears to have risen on hopes for the company's lead product, XToll, a heat shock protein being tested in rheumatoid arthritis. A phase IIa study recently completed recruiting and the Australian drug developer plans to find a partner for the project once the results have been analysed, later this year.

Meanwhile fellow countryman Prana Biotechnology leapt in value at the end of March, after promising pre-clinical research was published on the company's phase II Alzheimer's disease candidate PBT2.

Transition Therapeutics has largely recovered from the setback with Alzheimer's candidate, ELND005, which failed in a phase II study. The company's partner Elan still plans to push on with a phase III trial, however. Transition was required by the Toronto stock exchange to make a comment on its share price rally in February, saying there was no material reason for the uplift.

Fellow Canadian company ProMetic appears to have piqued investor interest following the establishment of a new subsidiary at a manufacturing facility in February, to undertake the development and manufacture of plasma-derived therapeutic biosimilars for clients.

Dusa underwent a significant re-rating at the beginning of March when the dermatology group reported its first annual profit and cash generation, in 2010.

As for the fallers, the failure of a phase III leukaemia candidate AS1413 prompted Antisoma's demise, coming months after another late-stage lung cancer disappointment.

Labopharm has been on a gradual decline, as the launch of antidepressant Oleptro has disappointed.

Meanwhile Silence Therapeutics, Marina Biotech and RXi Pharmaceuticals are all active in the RNAi space, a field that took a confidence knock late last year when Roche announced it was ending all work in the area. Equity fundraisings conducted at a deep discount by the latter two companies have also not helped this year, while a potential takeover bid that went nowhere disappointed some Silence shareholders.

Nano cap (\$25m-\$100m) pharma companies: top risers and fallers in Q1 2011

Rank	Top 5 Risers	Share price (local currency)			Market capitalisation (\$m)		EP Vantage comment and analysis
		31-Dec-10	31-Mar-11	% change	YE 2010	Q1 2011	
1	CBio (AUS\$)	0.22	0.68	214%	31	96	Weekly Market Movers (to 25 Mar 2011)
2	Transition Therapeutics (C\$)	1.90	4.21	122%	46	98	
3	DUSA Pharmaceuticals (\$)	2.45	5.20	112%	60	126	
4	Prana Biotechnology (AUS\$)	0.13	0.25	100%	30	60	Weekly Market Movers (to 25 Mar 2011)
5	ProMetic Life Sciences (C\$)	0.12	0.24	96%	43	85	
	Top 5 Fallers						
1	Antisoma (£)	0.06	0.02	(62%)	63	24	Antisoma's latest setback could prove fatal
2	Marina Biotech (\$)	1.55	0.70	(55%)	53	24	
3	Silence Therapeutics (£)	0.08	0.04	(48%)	33	17	
4	RXi Pharmaceuticals (\$)	2.58	1.38	(47%)	64	34	
5	Labopharm (C\$)	0.95	0.52	(45%)	67	37	

