

Acquisitions help define performance of mid and small cap stocks



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While data readouts have played their usual part in shaping the share price winners and losers among mid and small-cap companies in the first nine months of the year, the fortunes of some shares have been firmly based on M&A – or, in the case of Thrombogenics, the lack of it.

Conversely, some in the sector have seen their share prices rocket as companies have either offered to buy rivals to shore up their pipelines, a la Roche and Intermune, or to fend off the unwelcome attention of rivals, a strategy from which Salix Pharmaceuticals has benefited (see tables below).

Buying success

Among the mid-caps, Salix's rise this year has been one of two halves. The group's shares first picked up momentum because of trial success for Xifaxan in diarrhoea-predominate irritable bowel, but in the last few months Salix has been the subject of various share price-moving takeout rumours. The needle was moved most by whispers that Allergan was planning on making an offer, a decision many saw as its own defence against Valeant's interest. Since then Salix has been linked with Actavis and has abandoned its plans to acquire Cosmo Pharmaceuticals. This was the second factor that explains its share price rise.

The relatively unusual appearance of several Indian generic companies including Cipla and Lupin in the risers was largely attributable to hopes they might be recipients of some of the wealth being generated by Gilead Science's Sovaldi, following reports that the US group was looking for manufacturers for cheap versions of the hepatitis C drug in emerging markets.

Mid cap (\$5-25bn) pharma companies: top risers and fallers in 9M

	Share price (local currency)			Market capitalisation (\$bn)		EP Vantage comment and analysis
	YE 2013	9M 2014	Change	End 9M 2014	Change YTD	
Top 5 risers						
Salix Pharmaceuticals	\$89.94	\$156.24	74%	10.0	4.3	Daily Market Movers (19 Aug 2014)
Cipla	Rs400.55	Rs625.70	56%	8.4	3.1	Daily Market Movers (12 Sep 2014)
Lupin	Rs908.60	Rs1394.95	54%	10.4	3.8	Daily Market Movers (3 Feb 2014)
Vertex Pharmaceuticals	\$74.30	\$112.31	51%	26.7	9.4	Traffic Transports Vertex back onto the right track
Sun Pharmaceutical Industries	Rs567.75	Rs857.30	51%	29.6	10.5	Daily Market Movers (27 June 2014)
Top 5 fallers						
AREVA	€19.00	€12.07	(36%)	6.3	(3.7)	Daily Market Movers (1 Aug 2014)
Dainippon Sumitomo Pharma	¥1,645	¥1,397	(15%)	5.5	(1.2)	Daily Market Movers (26 May 2014)
Daiichi Sankyo	¥1,923	¥1,721	(11%)	12.0	(2.0)	
Grifols	€34.77	€32.44	(7%)	9.4	(0.8)	Daily Market Movers (31 July 2014)
Galenica	SFr898.00	SFr841.00	(6%)	6.1	(0.4)	

Companies can also be victims of M&A. One such in the mid-caps was Grifols, which saw its shares slide after it was hurt by larger than expected costs following its purchase of a Novartis diagnostics unit. Another big faller, Dainippon Sumitomo Pharma, decided to disappoint the old-fashioned way. The stock was hit hard after it stopped a phase III trial for colorectal cancer drug BBI608.

By any means

InterMune's elevation to the largest small cap riser come courtesy of the surprisingly large amount of money Roche decided to splash out to buy the company - a whopping \$8.3bn - igniting fears that the industry is again in the grip of biotech fever with its puzzling valuations for companies.

Small cap (\$250m-5bn) pharma companies: top risers and fallers in 9M

	Share price (local currency)			Market capitalisation (\$m)		EP Vantage comment and analysis
	YE 2013	9M 2014	Change	End 9M 2014	Change YTD	
Top 5 risers						
InterMune	\$14.73	\$73.89	402%	8,003	6,700	Roche's pricey move reinvigorates biotech fever
GENFIT	€ 8.92	€ 42.17	373%	1,334	1,083	Daily Market Movers (18 Feb 2014)
AVANIR Pharmaceuticals	\$3.36	\$11.92	255%	2,265	1,754	Avanir's Alzheimer's data prompt unchecked outburst of investor enthusiasm
Intercept Pharmaceuticals	\$68.28	\$236.69	247%	5,022	3,702	Boom! Trial halt turns Intercept into an improbable midcap company
Achillion Pharmaceuticals	\$3.32	\$9.98	201%	976	655	Spotlight on Achillion as post-Sovaldi world takes shape
Top 5 fallers						
Exelixis	\$6.13	\$1.53	(75%)	299	(831)	Exelixis wiped out after Comet-1 crash lands
Kamada	\$14.87	\$4.46	(70%)	160	(374)	Daily Market Movers (16 May 2014)
Prana Biotechnology	AUS\$0.77	AUS\$0.24	(69%)	108	(197)	Weekly Market Movers (to 4 Apr 2014)
Zogenix	\$3.44	\$1.15	(67%)	162	(300)	Daily Market Movers (12 Mar 2014)
ThromboGenics	€20.15	€7.39	(63%)	361	(632)	ThromboGenics turns to plan B after fruitless search for buyer

As for the rest, it was a mixture of either clinical or regulatory success, largely in liver-related treatments, that drove their stock movements. Achillion was able to shake of some of its 'also-ran' label in the hep C race after the FDA announced it was lifting the clinical hold on lead project sovalprevir, which in turn reignited hopes that the company might follow in the footsteps of Idenix Pharmaceuticals and fall into the arms of a big pharma player. Unfortunately, Achillion remains the bridesmaid of the hep C drug developers.

Intercept continued to ride the wave of success for its liver disease drug, while GENFIT saw the FDA grant fast track designation to its non-alcoholic steato-hepatitis treatment, GFT505. Avanir scored a big win that had investors laughing all the way to bank, for apparent progress in the tricky field of Alzheimer's, using its pseudobulbar treatment Nuedexta to treat agitation.

Although there were grounds for suspicion that Exelixis' Cometriq might not do well in prostate cancer when the Comet-1 trial was not stopped early, news last month that the drug had failed to show any benefit over prednisone, not only caused the shares to tank, but 70% of the workforce to lose their jobs.

Clinical failures were also behind Kamada and Prana Biotechnology's share price declines, while Thrombogenics' failure to find a buyer was the reason for more than half a billion being wiped off its valuation.

How many zeros?

Even with the volatility to which smaller stocks are prone, and which can cause stratospheric gains and losses, anyone who invested in Santhera Pharmaceuticals at the start of the year might be surprised by the 2,237% rise in the shares over the last nine months. The stock has benefited from the company showing that idebenone helped preserve respiratory function in Duchenne muscular dystrophy.

The more modest 530% rise from Adocia was due to positive phase IIa results for its ultra-fast formulation of insulin lispro.

<\$250m pharma companies: top risers and fallers in 9M

	Share price (local currency)			Market capitalisation (\$m)		EP Vantage comment and analysis
	YE 2013	9M 2014	Change	9M 2014	Change YTD	
Top 5 risers						
Santhera Pharmaceuticals	SFr3.72	SFr86.95	2237%	478.70	463	As Duchenne winds change, PTC and Santhera score surprise wins
Adocia	€5.96	€37.55	530%	315.64	265	Daily Market Movers (15 Sep 2014)
Collectis	€2.30	€10.55	359%	397.77	334	Pfizer partners with Collectis, but why not buy the company?
DBV Technologies	€10.86	€36.74	238%	764.13	541	DBV hopes US investors will go nuts for \$96m fund raising
IGI Laboratories	\$3.05	\$9.32	206%	489.14	356	Daily Market Movers (25 Sep 2014)
Top 5 fallers						
QRxPharma	AUS\$0.745	AUS\$0.023	(97%)	3.54	(113)	Daily Market Movers (23 Apr 2014)
Cytos Biotechnology	SFr3.05	SFr0.18	(94%)	6.12	(97)	Cytos bows out as asthma drug bombs
OncoGenex Pharmaceuticals	\$8.34	\$2.67	(68%)	56.44	(66)	Daily Market Movers (28 Apr 2014)
KaloBios Pharmaceuticals	\$4.42	\$1.55	(65%)	51.13	(94)	KaloBios takes its medicine and cuts losses in asthma
Oncolytics Biotech	\$1.55	\$0.575	(63%)	50.74	(81)	Daily Market Movers (17 Sep 2014)

On the other end of the scale QRxPharma saw its shares tank after an FDA advisory panel said a unanimous no to the group's opioid combo Moxduo. Clinical failure was the reason Oncolytics joined the fallers, following the failure of Reolysin to show any progression free survival advantage in a phase II study.

Although the moves at the smaller end of the market have so far been due to the usual drivers of clinical success and failure, future share price movement here may be more driven by big pharma continuing to feed pipelines through M&A, and asset prices continuing to rise.

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