

## Among smaller biopharmas, US groups take a back seat



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Considering the fast-deflating bubbles under several US biotech stocks, and the lamentable performance of some of the sector's biggest players, it looks like the way to have made money out of biopharma of late was to have switched to stocks outside the US.

In the small and mid-cap space over first nine months of 2015 Swiss, Japanese, Indian and South Korean groups have edged out all but a handful of their US peers. And among the casualties there are US stocks aplenty, many having come unstuck because of company-specific as well as sector woes (see tables below).

For many, negative sector sentiment has exacerbated matters, since failure of a clinical trial, for instance, is felt particularly acutely if it occurs during a downturn. And, if expectations were overblown to begin with, so much the worse.

### Mid cap (\$25-5bn): top risers and fallers in the first 9 months

	Share price (local currency)			Market cap (\$bn)		
	YE 2014	Q3 2015	Chg	Q3'15	9M chg	
<b>Top 5 risers</b>						
Galenica	SFr792.00	SFr1,241.00	57%	8.4	1.2	<a href="#">Daily Market Movers: Global Majors &amp; Industry (11 Aug 2015)</a>
Kyowa Hakko Kirin	¥1,136.00	¥1,778.00	57%	8.3	1.8	<a href="#">Daily Market Movers: Global Majors &amp; Industry (27 Jul 2015)</a>
Incyte	\$73.11	\$110.33	51%	19.9	0.1	<a href="#">Daily Market Movers: Global Majors &amp; Industry (29 Sep 2015)</a>
Eisai	¥4,672.00	¥7,030.00	50%	16.9	7.0	<a href="#">Daily Market Movers: Global Majors &amp; Industry (23 Jul 2015)</a>
Lupin	Rs1,427.55	Rs2,033.35	42%	14.4	3.9	<a href="#">Daily Market Movers: Global Majors &amp; Industry (20 Aug 2015)</a>
<b>Top 5 worst performers</b>						
Puma Biotechnology	\$189.27	\$75.36	(60%)	2.4	(3.3)	<a href="#">Asco - Puma might have to rely on extended follow-up (2 Jun 2015)</a>
Mallinckrodt	\$99.03	\$63.94	(35%)	8.3	(3.3)	<a href="#">After Turing, the industry's biggest price gougers (23 Sep 2015)</a>
Isis Pharmaceuticals	\$61.74	\$40.42	(35%)	4.8	(2.4)	<a href="#">Daily Market Movers: Global Majors &amp; Industry (12 Jun 2015)</a>
Mylan	\$56.37	\$40.26	(29%)	19.8	(1.3)	<a href="#">Summer dealmaking talks turn to autumn hostilities (9 Sep 2015)</a>
Aspen Pharmacare	ZAR406	ZAR294	(28%)	10.8	(6.0)	<a href="#">Daily Market Movers: Global Majors &amp; Industry (30 Jun 2015)</a>

Among the midcap losers of the year so far, Puma, Mallinckrodt and Isis can put the blame squarely on evaporating sector sentiment. Puma had been overvalued for a long time on hopes of a takeout, so uninspiring Asco data put the stock into a downward spiral, while Mallinckrodt's costly takeover of Questcor is starting to look questionable operationally, with possible competition to Acthar.

Mylan, meanwhile, has seen the withdrawal of a takeover approach by Teva, and has pursued its own target, Perrigo, with increasing desperation, most recently taking its bid directly to shareholders. Given the recent crash prompted by concerns over US drug price increases, how much life is left in the takeover-fuelled speciality pharma model is anyone's guess.

But some Japanese midcaps and Indian generics businesses have fared distinctly better. Switzerland's Galenica, meanwhile, has seen a positive response to [plans to split](#) its pharma business off as Vifor Pharma, separate from the Galenica Santé logistics operations, and has allayed concerns over a deal with Fresenius on Velphoro.

Of the top five performing midcap stocks year to date only one is US-based: Incyte has been driven up by expectations for its Lilly-partnered phase III rheumatoid arthritis project baricitinib and numerous non-exclusive oncology collaborations, notwithstanding a big downward dip last month, along with the rest of the market.

## Volatility

Small-cap biopharma groups have naturally been hugely volatile, with gene therapy failures wiping out Celladon and Avalanche, while lead flops of an antibiotic and uveitis project have claimed the scalps of Tetrphase and Xoma respectively. Keryx is still reeling from the disastrous 2014 launch of its phosphate binder, Auryxia – though this still carries blockbuster 2020 sellside consensus forecasts.

Small cap (\$250m-5bn): top risers and fallers in the first 9 months						
	Share price (local currency)		Chg	Market cap (\$m)		
	YE 2014	Q3'15		Q3'15	9M chg	
<b>Top 5 risers</b>						
Hanmi Pharmaceutical	KRW 15,450	KRW 139,000	800%	6,928.3	6,133.8	<a href="#">Oncology latecomers put early assets in partnering frame (28 Jul 2015)</a>
Exelixis	\$1.44	\$5.61	290%	1,264.7	983.6	<a href="#">ECC - Cometriq plays wallflower as Opdivo's dance card fills (25 Sep 2015)</a>
Anacor Pharmaceuticals	\$32.25	\$117.71	265%	5,182.0	3,798.6	<a href="#">Anacor shows the power of positive phase III data (14 Jul 2015)</a>
Jubilant Life Sciences	Rs121.15	Rs379.75	213%	950.9	636.4	<a href="#">Weekly Market Movers: Global Majors &amp; Industry (to 25 Sep 2015)</a>
Heron Therapeutics	\$10.06	\$24.4	143%	870.7	577.2	<a href="#">Heron soars with phase II pain success (23 Sep 2015)</a>
<b>Top 5 worst performers</b>						
Celladon	\$19.53	\$1.05	(95%)	25.1	(430.0)	<a href="#">Celladon spoils the gene therapy party (27 Apr 2015)</a>
Avalanche Biotechnologies	\$54.00	\$8.24	(85%)	211.6	(1001.8)	<a href="#">Avalanche crashes down as gene therapy disappoints (16 Jun 2015)</a>
Tetrphase Pharmaceuticals	\$39.71	\$7.46	(81%)	271.7	(945.7)	<a href="#">End of an era for Tetrphase (9 Sep 2015)</a>
Xoma	\$3.59	\$0.75	(79%)	89.1	(325.4)	<a href="#">Reports of Xoma's demise are only slightly exaggerated (23 Jul 2015)</a>
Keryx Biopharmaceuticals	\$14.15	\$3.52	(72%)	370.2	(930.7)	<a href="#">Keryx and Galenica face a tough battle to build phosphate franchises (10 Sep 2014)</a>

This kind of exposure, however, can be beneficial, and a success or two can completely turn around the fortunes of a small-cap biotech. This has clearly been the case for South Korea's Hanmi, which has licensed oncology projects to Boehringer Ingelheim and Lilly and is now valued at over \$6bn, though it also sells numerous specialty drugs.

Exelixis is basking in the renewed promise of Cometriq in renal cancer, recently reinforced by positive data at the European Cancer Congress, while Anacor's phase III success with AN2728 in atopic dermatitis had some speculating that the group could be bought out, though that was before the recent market turmoil.

Heron, too, was the beneficiary of clinical success, and this was especially noteworthy for having been achieved in post-operative pain, a tough indication. Still, the group's year-to-date climb belies a 40% crash in the last few days of September – volatility that will increasingly be felt by investors who enter the choppy waters of biotech in late 2015.

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