

Wobbles aside, small pharma shares broadly on the up in 2015



Evaluate Vantage

The smaller the company the bigger the risk of massive shifts in valuation on a single catalyst. This truth is inescapable, and the biggest mid and small-cap share movers of 2015 show the risk and the rewards of investing in this sector.

Last year showed that investors stood to gain more than they lost when buying into these smaller biopharma players generally, although this will come as cold comfort to shareholders in Puma Biotechnology or Celladon, who saw their holdings collapse after clinical disappointments. On the other hand, Galenica and Exelixis were rather surprising risers in 2015, with the former seeing strong performance from its anaemia franchise and the latter looking competitive against immuno-oncology agents in kidney cancer.

Mid cap (\$25-5bn): top risers and fallers in 12 months

	Share price (local currency)			Market cap (\$bn)		
	YE 2014	YE 2015	Chg	YE 2015	12mth chg	
<i>Top 5 risers</i>						
Galenica	SFr792	SFr1574	99%	10.6	5.2	
Incyte	\$73.11	\$108.45	48%	20.2	7.8	Winners and losers - An ASH bloodbath
Alkermes	\$58.56	\$79.38	36%	11.9	3.3	Alkermes' approval injects new life into antipsychotic market
UCB	€63.20	€83.23	32%	18.2	2.6	UCB far from rehabilitated, despite divestment and study success
Lupin	Rs1427.55	Rs1837.8	29%	12.7	2.3	Daily Market Movers: Global Majors & Industry (20 Aug 2015)
<i>Top 5 worst performers</i>						
Zydus Cadila	Rs1598.35	Rs327.80	(79%)	5.2	(0.2)	
Puma Biotechnology	\$189.27	\$78.40	(59%)	2.5	(3.2)	Asco - Puma might have to rely on extended follow-up
Medivation	\$99.61	\$48.34	(51%)*	7.9	0.2	
PT Kalbe Farma	IDR1830	IDR1320	(28%)	4.5	(2.6)	
Aspen Pharmacare	ZAR406.00	ZAR309.48	(24%)	10.5	(6.3)	Daily Market Movers: Global Majors & Industry (30 Jun 2015)

*Reflects 2-for-1 stock split

Speciality pharma was a good place to be, at least for the first half of 2015, after which worries about pricing began to weigh heavy on the shares of big players like Valeant. The second-half decline did not affect Galenica, which has a fairly secure position in iron deficiency anaemia with its agents Injectafer and Velphoro; shares nearly doubled on the year.

The question for the Swiss group in 2016 is how investors will react to the planned separation of its Vifor division, which sells the anaemia drugs, from the Galenica Santé pharmacy wholesale and retail business.

More modest gains were recorded by Incyte and Alkermes, the former rising on hopes for its Lilly-partnered rheumatoid arthritis project baricitinib and the latter on the antidepressant ALKS 5461. Lupin, meanwhile, ended the year on a 29% gain, a contrast to most of its counterparts in India like Aurobindo, Dr Reddy's Laboratories, and the biggest faller, Zydus Cadila.

Joining Zydus in poor share price performance was Puma, down 59% on the year as enthusiasm cooled for its cancer project neratinib on negative adverse events reports. Meanwhile, the South African generics specialist Aspen Pharmacare fell as its growth prospects slowed.

The small swinging pendulum

Investors comfortable with risk and looking to make significant gains again needed to look no further than small caps, with the best performing stocks more than tripling.

Exelixis continued to enjoy the wave of positive clinical results for Cometriq in renal cancer, while positive data for Anacor Pharmaceuticals in the unsexy world of dermatology, spiced up with M&A rumours, left it as one of the industry's biggest gainers in 2015.

The FDA's nod to a generic version of Merck's migraine drug Maxalt-MLT gave Jubilant Life Sciences investors their biggest return in over four years. Galapagos shareholders, on the other hand, had Gilead to thank for their windfall after it licensed the Jak inhibitor filgotinib in RA and Crohn's for an up-front fee of \$300m.

Small cap (\$5bn-250m): top risers and fallers in 12 months						
	Share price (local currency)			Market cap (\$m)		
	YE 2014	YE 2015	Chg	YE 2015	12mth chg	
<i>Top 5 risers</i>						
Exelixis	\$1.44	\$5.64	292%	1281.5	1000.4	Daily Market Movers: Global Majors & Industry (20 Jul 2015)
Galapagos	€16.00	€56.76	255%	2489.7	1875.2	Galapagos turns the tables on AbbVie, courtesy of Gilead
Anacor Pharmaceuticals	\$32.25	\$112.97	250%	4984.7	3601.3	Anacor shows the power of positive phase III data
Jubilant Life Sciences	Rs121.15	Rs410.3	239%	1005.0	690.5	Daily Market Movers: Global Majors & Industry (21 Oct 2015)
Prothena	\$20.76	\$68.11	228%	2147.0	1578.5	Daily Market Movers (20 Mar 2015)
<i>Top 5 worst performers</i>						
Celladon	\$19.53	\$1.47	(92%)	35.2	(420.0)	Celladon spoils the gene therapy party
Synta Pharmaceuticals	\$2.65	\$0.35	(87%)	48.5	(240.1)	Synta will have to go back to find the future
Avalanche Biotechnologies	\$54.00	\$9.52	(82%)	245.2	(968.2)	Avalanche crashes down as gene therapy disappoints
Zafgen	\$30.84	\$6.29	(80%)	171.3	(529.0)	Zafgen's fate hangs on outcome of two part-completed studies
Chimerix	\$40.26	\$8.95	(78%)	413.0	(1,055.5)	Pharma regulatory and development news over Christmas

While the highs in the small cap sector were certainly high, the lows were just as extreme. As ever, the falls from grace for our biggest losers were all down to clinical failures or setbacks.

Chimirex's holiday present to followers was the failure of its phase III cytomegalovirus project brincidofovir.

While Zafgen, which had showed initial promise with its weight-loss project beloranib, found itself in the crosshairs of regulators after a patient death in its Prader-Willi Syndrome trial forced it to halt the study.

The massive risk still attached to gene therapy was highlighted by spectacular crashes for Celladon and Avalanche Biotechnologies. Celladon lost of pretty much all of its value on the failure of Mydicar, its gene therapy for heart failure, while disappointment over the efficacy of Avalanche's wet AMD asset spelled its doom.

These share price movements might be extreme, but with continued scrutiny on pricing, a worsening macro-economic climate and the Nasdaq biotech index already down 7% so far this year, volatility might be the watchword for 2016 ([The biotech whip-rounds start early, January 07, 2016](#)).

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