Evaluate Vantage

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Big Pharma hunting for bargains have plenty of choice


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GlaxoSmithKline’s move today on Genelabs Technologies, snapping the small biotech up for $57m, is the second example in as many days of a bigger player capitalising on the current weak share prices of their smaller, more innovative, counterparts to grab bargains that could prop up their own ailing pipelines. On Tuesday Clinical Data announced that it was buying Avalon Pharmaceuticals for $10m.

While the price that Glaxo has laid out for Genelabs is more than five times the group’s current market capitalisation of $10m, it is still only just above the $55m that the stock was trading at on the 31 December 2007. Like many small cap biotechs, Genelabs has had its share price hammered by the market turmoil that has seen investors flee from riskier sectors such as biotech.

Avalon’s market cap was also $55m at the end of last year, making the $10m paid by Clinical Data look like a very shrewd, if not opportunistic, move. The company has also been vacuuming up other small companies and in August bought Adenosine Therapeutics for an initial sum of $11m.

Diminishing options

With plenty of cash on its balance sheet the deal for Glaxo is the equivalent of finding small change down the back of the sofa. But for the likes of Genelabs it represents a much needed lifeline, given that the funding window is all but nailed shut.

With many companies having less than a year’s worth of cash the coming months could see more and more biotechs succumb to the charms and deep pockets of big pharma companies on the look out for cheap assets.

Glaxo itself has in recent days made a point of declaring its interest in small distressed companies and groups such as Novartis are believed to be waiting and watching for opportunities.

Bargains galore

For the companies that are on the hunt the pickings are relatively easy. EP Vantage has taken a look at the share performance of 84 micro and 238 nano cap companies, which at the end of last year had market caps above $50m and discovered significant share price declines among both groups.

In the last ten months, on average micro cap companies have seen their share prices decline by 41%, while nano cap stocks have suffered even more with stock prices of the 200 plus businesses dropping on average by 64%. Depressingly, of the combined 322 companies only 4 have managed to keep their share price from falling since the beginning of the year.

In the micro cap stocks most of the falls have been driven by the function of the market, even the five worst performing shares have unusually not reported a major clinical set back and in the case of Theratechnologies, have this week reported positive news. The company yesterday inked a deal with Merck KGaA to commercialise its treatment for excessive stomach fat in HIV and AIDS patients.

		Share Price		Growth	Market Capitalisation ($m)	
		2007	**2008**	**2008**	**2007**	**2008 (latest)**
	Top Five Losers - Micro Cap ($100m-$250m)					
1	MAP Pharmaceuticals	17.51	4.20	(76.01%)	354	86
2	Aurobindo Pharma	13.50	2.94	(78.20%)	158	158
3	Antibiotice	0.85	0.17	(79.95%)	385	77
4	Theratechnologies	11.25	1.92	(82.95%)	613	112
5	Immunosyn	2.95	0.31	(89.49%)	802	84
	Top Five Losers Nano Cap (<$100m)					
1	Gentium	25.72	0.69	(97.33%)	384	8
2	Favrille	1.56	0.03	(97.82%)	64	1
3	Keryx Biopharmaceuticals	8.40	0.16	(98.10%)	367	7
4	Medicure	1.01	0.02	(98.13%)	132	2
5	Cell Therapeutics	18.80	0.30	(98.40%)	117	10

The same can not be said for the bottom five nano caps. Gentium shares were hit hard earlier in the year by regulatory delays on its treatment for veno-occlusive disease, most particularly the DSMB asking a number of questions about trial design; in August the group received another setback when one of its largest shareholders launched legal proceedings against it.

Conversely, Favrille, Keryx and Medicure all owe their 90% plus falls due to the failure of lead candidates to reach their primary end points. Cell Therapeutics owes its bottom spot to its debt levels currently at $229m, compared with its $10m market cap.

The extent to how much the markets have hammered smaller stocks, is demonstrated by the fact that of the five best performing nano stocks only one of them has managed to increase its share price since the beginning of the year, but the gain is only 5% from a low base. The number of share price increases rises to three when the micro caps are examined.

		Share Price		Growth	Market Capitalisation ($m)	
		2007	**2008**	**2008**	**2007**	**2008 (latest)**
	Top 5 winners - Micro Cap ($100m-$250m)					
1	Micromet	2.06	4.55	120.87%	84	186
2	Karo Bio	0.69	0.91	30.27%	81	105
3	Nabi Biopharmaceuticals	3.61	3.73	3.32%	203	194
4	Addex Pharmaceuticals	34.61	34.23	(1.12%)	203	201
5	Synta Pharmaceuticals	6.70	6.54	(2.39%)	227	222
	Top Five Winners Nano Cap (<$100m)					
1	SIGA Technologies	3.08	3.23	4.87%	105	113
2	Proximagen Neuroscience	2.59	2.49	(3.63%)	52	50
3	4SC	4.99	4.66	(6.72%)	95	89
4	MiddleBrook Pharmaceuticals	1.20	1.10	(8.33%)	56	62
5	Curalogic	0.94	0.84	(10.76%)	53	47

The reasons why these companies have escaped the worst of the market turmoil are multiple. Proximagen Neuroscience was earlier this month the beneficiary of a $6m equity investment from partner Upsher-Smith Laboratories, that was a 90% premium of the then share price following positive results from a pre-clinical trial of its Parkinson's treatment PRX1.

Micromet is riding high because of encouraging phase I results for blinatumomab, its treatment for non-Hodgkin's lymphoma that has showed partial and complete responses for this currently incurable disease.

Impressive data is also why Karo Bio has remained in the top five risers. Some in the market think that the Swedish biotechnology company could be another take out target for big pharma thanks to its phase II drug, eprotirome, that treats patients with elevated blood lipid levels.

A string of licensing deals with big pharma and the constant rumours of a take out by one of its partners, while not keeping Addex Pharmaceuticals out of the red has meant that it has been shielded from some of the worst damage of the current markets.

As such, with bad news no longer being the overriding factor for a cheap stock, and good news doing little to bolster values, now it the perfect time for big pharma to spend, spend, spend.