Small cap healthcare stocks surge to billion-dollar plays

Yolanda Redrup *Reporter*

Sep 30, 2019 — 12.00am

A series of successful phase two clinical trials and increasing commercial adoption in the US market for Aussie biotech companies have driven the creation of three new billion-dollar healthcare stocks in just a few months.

In the past six months more than $3.25 billion dollars has been added to the valuations of a handful of small and mid cap healthcare stocks like Avita Medical, Opthea, PolyNovo and Paradigm Biopharmaceuticals.

The unique momentum in the sector is in stark contrast to a year ago when some significant phase two clinical trial failures resulted in investors turning away from the risky sector.

The more risk that's taken off the table in terms of investment, the more reward you get.

— Tanushree Jain, Bell Potter

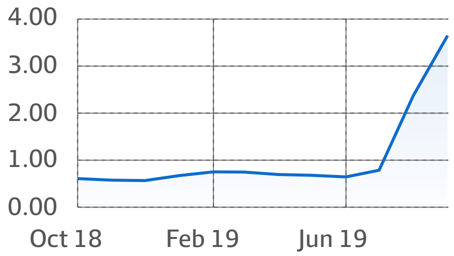
Speaking to *The Australian Financial Review*, Bell Potter healthcare and biotech analyst Tanushree Jain said investors were recognising the growth potential of this next wave of biotech success stories, with some like Opthea also considered potential acquisition targets for big pharmaceutical giants on the back of stellar clinical trial results.

"We're now getting companies that are moving out of the research development phase, starting to generate revenue and having commercial products in the US market," Ms Jain said.

RELATED QUOTES

OPT **$3.35** ▼ -2.33%

1 year 1 day



Updated: Sep 30, 2019 — 4.15pm. Data is 20 mins delayed.

View OPT related articles →

PAR **$2.88** ▲ 13.83%

"Then for companies like Opthea, its re-rating came on the back of a phase 2b clinical trial done out of large centres in the US, Australia and Europe and the results were spectacular.

"It reflects a trend that more of the listed life sciences companies are maturing. The more risk that's taken off the table in terms of investment, the more reward you get."

This, Ms Jain said, had flow on effects for the sector as a whole, with positive results improving the perception of the industry.

"It's a function of the fact that this is a bit of a specialty field and it's quite technical, so there's not that many people that really understand biotech," she said.

Opthea

One of the recent biotech darlings, Opthea had a market capitalisation of only $170.8 million six months ago, but earlier this month hit a high of $999 million.

The company's origins date back to 1983 when Leon Serry founded Circadian Technologies, which acted as an incubator for biomedical research projects. In 2014 it restructured to focus on developing treatments for eye diseases and Dr Megan Baldwin was appointed chief executive.

Renamed Opthea in 2015, its major focus at the moment is developing a treatment using a molecule known as OPT-302 for wet age-related macular degeneration (wet AMD) and diabetic macular edema (DME).

In August it released the results of its most recent clinical trial into the use of OPT-302 for treating wet AMD, which demonstrated that it was superior to other already advanced treatments on the market.

Dr Baldwin said she was not surprised by the market reaction to the trial results.

"Many other companies, including multinational pharmaceutical companies, have failed to achieve what Opthea very successfully demonstrated with OPT-302," Dr Baldwin said.

"The Phase 2b trial was a major de-risking event for the company and given the positive data, the commercial opportunity, the scarcity of other agents in development and the comparative valuation of other international ophthalmology companies ... I believe there is room for further growth as we continue to update the market on the outcomes from the trial."

RELATED

PolyNovo cracks ASX 200 after five-year turnaround pays off

Ms Jain, who has a price target of $4.80 on the stock, agrees with Dr Baldwin, and said there are numerous milestones ahead in 2020 which could drive further upwards momentum.

She said its latest results had also put it on the radar of big pharma companies.

"It was a large trial, randomised, double-blinded and it over-delivered. That's why you haven't seen 30-40 per cent upside, but 300-400 per cent."

Other biotech companies which have had recent booms include PolyNovo, which has gone from a 75¢ share price in late March to $2.15, Fiona Wood's burns treatment company Avita Medical, which has doubled in the past six months to hit a $1 billion market cap this month, and medical disinfection technology business Nanosonics, which hit a $2 billion valuation for the first time this month.

Paradigm Biopharmaceuticals

Another firm which is yet to crack the $1 billion market cap milestone but has gone on a tear this month is Paradigm Biopharmaceuticals, which has jumped from a share price of $1.37 in late August to $2.53 on Friday – a rise of 84.7 per cent.

The company, founded in 2014 by chief executive Paul Rennie, hopes to commercialise a new treatment for osteoarthritis by re-purposing existing drug pentosan polysulphate sodium (PPS), which historically had been used as a mild blood thinner.

Paul Rennie's Paradigm Biopharmaceuticals is developing a treatment for osteoarthritis that helps with pain management, but also stops the disease progressing. **Supplied**

Unlike currently available anti-inflammatory and analgesic therapies, which just relieve the pain of sufferers' symptoms, Mr Rennie believes PPS will not only reduce people's pain but also improve their joint health, reducing the breakdown of cartilage that's associated with the condition.

Like Opthea, it has impressed investors with promising phase two clinical trial results, and it is in the process of making a submission to the US Food and Drug Administration to commence phase three.

The drug is already available to a small group of osteoarthritis patients in Australia who have failed all other forms of treatment, and has permission already from the FDA to run a trial with 10 subjects – largely former NFL players who have severe symptoms. Ultimately, Mr Rennie wants PPS to become the standard of care for all 100 million sufferers globally.

"We hope to start phase three trials in the first or second quarter of calendar year 2020," he said. "Re-purposing a drug lets us move through the process much faster than if it was a drug never used in humans before. This has been around for 70 years already."

Mr Rennie said the company had started to bring on more institutions to its register, but none were significant holders yet.

He said there had been a change in perception of the sector in the past six to 12 months and fund managers were recognising the growth opportunities in the field, rather than seeing it as risky and difficult.

"We're going to see the next phase of Cochlears, CSLs and ResMeds emerge because we now have these innovative, well-prepared business cases that big pharma companies need to see."

How the next wave of biotech successes are maturing

	Market cap Jun 29 ($m)	Current market cap ($m)	% change	Commercialisation stage
Opthea	170.8	856.8	+401.0	Completed stage two clinical trial
PolyNovo	495.8	1420.0	+186.0	Selling first product into 6 countries, second in development
Avita Medical	531.4	1040.0	+95.0	Selling into major markets, investigating new use cases
Paradigm	264.4	487.2	+84.0	Completed stage two clinical trial
Nanosonics	1300.0	1930.0	+48.5	First product selling well, poised to announce its second product in 2020

SOURCE: ASX

The next wave

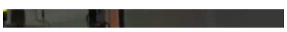
Post-phase two trials is considered a sweet spot for big pharma companies looking to make acquisitions, as the new therapies or products have already had some rigorous testing and there's data suggesting its likelihood of success. Once stage three trials have been completed, the assets are much more expensive to buy.

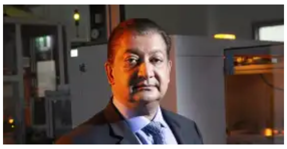
There is also another wave of small cap biotech stocks going through stage two trials at the moment which investors could look at closely in the next few years, including Dimerix, Immutep, Starpharma and Antisense Therapeutics.

Antisense Therapeutics, which already counts Platinum Asset Management and Australian Ethical as investors, has the same origins as Opthea, having been born out of Circadian Technologies and spun out.

It is aiming to commercialise treatments for an uncommon growth disorder called acromegaly and a rare genetic disorder typically affecting young boys called Duchenne Muscular Dystrophy (DMD). It has an average mortality age of 25.

It has already completed a phase two trial of its drug to treat acromegaly, but is still going through the phase two trial for its DMD drug, which is expected to be completed in November.





RELATED

From Rhodesia's guerrilla war to heading Australia's lab giant

"I have been in the sector for 18 years as a CEO and I don't think that I have seen this level of significant and sustained value creation across multiple and diverse businesses," Antisense chief executive Mark Diamond said.

"For many years it was felt that local biotechs were chronically undervalued compared to their US peers, and so the only way to get fair value was a move to list on an US exchange, so I think this is really a very exciting development for both local companies and investors alike to see such outcomes on the local bourse."

TOPICS Healthcare Biotech Pharmaceuticals Opthea Limited Paradigm Biopharmaceuticals

Yolanda Redrup writes on technology from our Melbourne newsroom. *Connect with Yolanda on Twitter. Email Yolanda at yolanda.redrup@afr.com.au*

MOST VIEWED IN COMPANIES

1 **Deloitte warns partners bullying, harassment will not be tolerated**

2 **TPG-Vodafone decision will have 'considerable implications'**

3 **Small cap healthcare stocks surge to billion-dollar plays**

4 **How Sanjeev Gupta's empire is fuelled by opaque funding**

5 **AUSTRAC warns fintechs, pubs to 'harden their systems'**

LATEST STORIES

Super wars

ACTU calls for government to rule out changes to super increases

5 mins ago

Childcare

Jenny Hutson accused of using childcare cash for ANZ share buy

7 mins ago

Hong Kong protests

Hong Kong cleans up ahead of sensitive Chinese anniversary

13 mins ago

Mortgage brokers

Liar loans are back as royal commission risk fades: UBS

16 mins ago

RECOMMENDED

Morrison a 'man of flexible carbon alloy' rather than...

Private equity sees money in rubbish

Wall Street's favourite steakhouse has a new owner

Road to redemption: Inside Kidman's $776m deal with...

powered by plista

PROMOTED

The Changing Nature of Investing

Australian space tech firms primed for trip to the moon

Footy boxes and birdcage tickets on the wane post-Hayne

NDIS slammed over treatment of mentally ill

Christian Porter tops Australia's 5 most powerful people in...

IOOF bid to blame lawyers for trustee breaches falls flat

powered by plista

The Australian Financial Review Magazine

The five most powerful people in consulting

'The most feared man in Australian business'

Life on the frontline in Hong Kong

Meet Australia's most powerful dealmaker in 2019

The ruling fashion king of Rome

BOSS

Top-ranked business schools revealed

BOSS MBA ranking 2019: how we did it

Adelaide universities jump up BOSS MBA Ranking

'This was probably the last decent chance AMP had'

MBAs must be agile

Life & Leisure

Tiffany & Co unveils its first collection for him

Flamenco makes the world go round for Law Society president

Flamenco makes the world go round for Law Society president

Three Blue Ducks lands in the Maldives

How the Australian Ballet aims to compete with Netflix

Range Rover's Evoque gets a high-tech makeover

Special Reports

Generating yield in a low interest rate environment

Start-ups offer enormous rewards but skill and patience required

Property investors thinking beyond the home

Social impact integral to entrepreneurial success, say young

Switching to the latest technology part of strategy

My Premium AFR

Subscription Terms

Contact & Feedback

Markets Data

Brands

Our Network

Reprints & Permissions

Privacy Policy

Terms & Conditions Of Use