

PHARMACEUTICAL SECTOR – STILL THE BEST INVESTMENT OPPORTUNITY

OCTOBER 7, 2015

Pharmaceutical Sector – Winners Exist in this Bunch

The pharmaceutical sector has been under heavy pressure in the last several weeks. In August, small pharma firm Turing paid \$55m to buy the rights to Daramprim, the only licensed drug to treat the parasitic infection toxoplasmosis, which affects people with compromised immune systems. Its founder and CEO, ex-hedge fund manager, Martin Shkreli immediately hiked up the price from \$13.50 to \$750 a pill. Unsurprisingly, people noticed, among them US pharmaceuticals lobby PhRMA and Democratic frontrunner Hillary Clinton. Clinton replied with a tweet that likely sent the pharmaceutical stocks tumbling, in some cases by as much as 10%. That's not just a problem for the US industry either, or even the British firms like GlaxoSmithKline and RB that sell to the American market. Healthcare systems all over the world benefit from the relentless innovation of American giants with colossal R&D budgets, and these are only possible because of the vast profits that can be made in the US market. Cutting the margins would effectively be to cut the development of new drugs. This dip in the sector was seen by many as a buying opportunity because pharma generally does not trend like a sector but is strongly dependent on individual company press releases and clinical data. The pharma and biotech sector trade on an independent basis and this allows for picking winners out of the pack.

Geron Corporation – News and Technicals Dictate this Winner

Summary

Geron Corporation (Geron), incorporated on November 28, 1990, is a clinical stage biopharmaceutical company focused on the development of a telomerase inhibitor, imetelstat, in hematologic myeloid malignancies. The Company operates in one segment, the discovery and development of therapeutic products for oncology. The discovery and early development of imetelstat, the Company's sole product candidate, was based on its core experience in telomerase and telomere biology. Telomerase is an enzyme that enables cancer cells, including malignant progenitor cells, to maintain telomere length, which provides them with the capacity for limitless, uncontrolled proliferation. Telomerase consists of at least two essential components: a ribonucleic acid (RNA) template (hTR), which binds to the telomere and a catalytic subunit (hTERT) with reverse transcriptase activity, which adds a specific DNA (deoxyribonucleic acid) sequence to the chromosome ends. Using its nucleic acid chemistry, the Company designed imetelstat to be an oligonucleotide that targets and binds with high affinity to the active site of telomerase, thereby directly inhibiting telomerase activity and impeding malignant cell proliferation. The Company generates its revenues from research support payments under collaboration agreements and milestones royalties and other revenues from its licensing arrangements.

Recent News and Analysis

Geron Corporation (NASDAQ:GERN) ended at \$2.69 by losing 2.54%. The company announced the dosing of the first patient in a Phase 2 clinical trial to evaluate imetelstat in patients with myelofibrosis (MF). This clinical trial, also referred to as the IMbark study, is being conducted by Janssen Biotech, Inc. (Janssen), under the terms of the exclusive worldwide imetelstat license and collaboration agreement between the companies. The purpose of the Phase 2 clinical trial is to assess the efficacy, safety and tolerability of two dose levels of single-agent imetelstat in patients with MF. The trial is designed to enroll approximately 200 patients (approximately 100 patients per dosing

PHARMACEUTICAL SECTOR – STILL THE BEST INVESTMENT OPPORTUNITY

OCTOBER 7, 2015

arm) with DIPSS intermediate-2 or high risk MF who have relapsed after or are refractory to Janus Kinase (JAK) inhibitor treatment. At the time of enrollment, patients must have measurable splenomegaly and symptoms of

MF. Patients will be assigned randomly on a blinded basis on a 1:1 ratio to one of two dosing arms – 9.4 mg/kg every three weeks or 4.7 mg/kg every three weeks. Dose reductions for adverse events are allowed and will follow protocol-specified algorithms. An interim review of data from the trial is planned after approximately 20 patients per arm have been randomized and followed for at least 12 weeks, in order to assess the adequacy of one or both of the initial dosing arms. As a result of this interim review, one or both dosing arms could continue as planned, be stopped or modified, or alternative doses could be selected.

The stock has decent short-term momentum, but it is seeing solid activity on the earnings estimate revision front as well. These positive earnings estimate revisions suggest that analysts are becoming more optimistic on GERN's earnings for the coming quarter and year. In fact, consensus estimates have moved sharply higher for both of these time frames over the past four weeks, suggesting that Geron could be a solid choice for investors. In the past 30 days, 1 estimate has gone higher for Geron while none have gone lower in the same time period. The trend has been pretty favorable too, with estimates increasing from 10 cents a share 30 days ago, to 12 cents, a move of 20%. Meanwhile, Geron's current year figures are also looking quite promising, with 1 estimate moving higher in the past month, compared to none lower. The consensus estimate trend has also seen a boost for this time frame, narrowing from a loss of 7 cents per share 30 days ago to a loss of 5 cents per share, an increase of 28.6%.



Verdict

Geron has been affected by the overall move in the pharmaceutical sector but has a bright future ahead. Recently beginning Phase 2 trials and enrolling patients should keep the news-driven momentum on an uptrend for the foreseeable future. Additionally, the stock has moved below its 50-day SMA, suggesting a reversion to the mean may be forthcoming.

PHARMACEUTICAL SECTOR – STILL THE BEST INVESTMENT OPPORTUNITY

OCTOBER 7, 2015

Idera Pharmaceuticals, Inc. – Definite Potential – Not a Clear-Cut Winner

Summary

Idera Pharmaceuticals, Inc., incorporated on August 24, 2005, is a clinical-stage biopharmaceutical company focused on the discovery, development and commercialization of therapeutics for oncology and rare diseases. The Company uses two drug discovery technology platforms to design and develop drug candidates. Using its Toll-like receptor (TLR) targeting technology, the Company designs synthetic oligonucleotide-based drug candidates to act by modulating the activity of specific TLRs. Using its gene silencing oligonucleotide (GSO) technology, the Company is developing GSOs to turn off the messenger RNA (mRNA) associated with disease causing genes. The Company's drug candidates include IMO-8400 for Waldenstrom's macroglobulinemia and diffuse large B-Cell lymphoma; IMO-2055/IMO-2125 for immune-oncology; IMO-8400 for dermatomyositis and Duchenne Muscular Dystrophy (DMD), and IMO-9200 for selected autoimmune disease. The Company has a collaborative alliance with Merck & Co. to license to third parties its TLR7, TLR8, and TLR9 agonists for use as vaccine adjuvants in the fields of cancer, infectious diseases and Alzheimer's disease. Under its collaborative agreement with Merck & Co., Merck & Co. is responsible for manufacturing the Company's drug candidates. As of December 31, 2014, the Company had a development and commercialization agreement with Abbott Molecular for the development of an in vitro companion diagnostic for use in its clinical development programs to treat certain genetically defined forms of B-cell lymphoma with IMO-8400.

Recent News and Analysis

Idera Pharmaceuticals fended off the biotech sell-off last month by gaining more than 20%. The company, which currently doesn't have any products on the market, is working on an intriguing new cancer therapy for patients with specific genetic mutations and in the fourth quarter, Idera plans to release data showing whether or not IMO 8400 is effective at treating a rare form of cancer known as Waldenstrom's macroglobulinemia. The price has fallen off since the 20% rally as investors await results in Q4. Should the results come in favorably, the stock could set new highs. Speculation is the sole driver for this stock as most non-drug producing pharmaceuticals.



PHARMACEUTICAL SECTOR – STILL THE BEST INVESTMENT OPPORTUNITY

OCTOBER 7, 2015

Verdict

Similar to most clinical-stage pharmaceuticals, Idera has a shallow pipeline of drug candidates, minimal to no revenue and trades on speculation and news. Investors have taken a liking into this stock and are placing all hope on upcoming release of clinical data. Idera is certainly worth watching and riding as the waves leading up to the release of data oscillate between highs and lows.

Sequenom Inc. – Irreversible Downtrend

Summary

Sequenom, Inc. (Sequenom), incorporated on February 14, 1994, is a life sciences company. The Company serves patients and physicians by providing early patient management information. Its testing focus is principally in prenatal health that includes molecular-based laboratory developed tests (LDTs). The Company's diagnostic services are provided through its wholly owned subsidiary, Sequenom Laboratories. Sequenom Laboratories develops and validates its tests for use in, and by Sequenom Laboratories, as a testing service to physicians. Sequenom Laboratories is primarily focused on expanding the commercial use of, and reimbursement for its prenatal LDTs, and developing and offering a menu of tests for prenatal continuum of care. The Sequenom Laboratories' test offerings in the prenatal market include MaterniT21 PLUS LDT, HerediT CF LDT, SensiGene RhD LDT, Visibilit LDT and Test Send-out Agreements

Recent News and Analysis

The company recently announced that it has entered into a clinical collaboration with Seoul National University Hospital (SNUH). SNUH and Sequenom will collaborate to profile circulating cell-free tumor DNA in blood in a series of research studies targeting several hundred patients across a wide variety of cancer types. Sequenom is currently developing a Research Use Only (RUO) assay with an initial focus on the detection and molecular profiling of late stage non-hematologic malignancies in settings where tissue biopsies are not available or are too risky to obtain. The assay will cover a breadth of cancer types by analyzing over 100 cancer-related genes that are included in professional society guidelines, linked to targeted therapies currently in clinical trials, or part of well-documented cancer pathways. This clinical research study will aim to enroll several hundred patients across 10 different cancer types.



PHARMACEUTICAL SECTOR – STILL THE BEST INVESTMENT OPPORTUNITY

OCTOBER 7, 2015

Verdict

Sequenom has witnessed a significant price decline in the past four weeks, and it has seen negative earnings estimate revisions for the current quarter and the current year. A key reason for this move has been the negative trend in earnings estimate revisions. For the full year, we have seen 3 estimates moving down in the past 30 days, compared with no upward revisions. This trend has caused the consensus estimate to trend lower, going from a loss of 19 cents a share a month ago to its current level at the loss of 22 cents. The stock also has seen some pretty dismal trading lately, as the share price has dropped 18.5% in the past month. It may not be a good decision to keep this stock in your portfolio, at least if you don't have a long time horizon to wait.

Mast Therapeutics, Inc. – Headwinds may be Reversing

Summary

Mast Therapeutics, Inc., incorporated on December 1, 1995, is a clinical-stage biopharmaceutical company. The Company develops therapies for serious or life-threatening diseases with unmet needs. The Company leverages its Molecular Adhesion and Sealant Technology (MAST) platform, to develop MST-188 (vepoloxamer) Injection, the Company's lead product candidate. The Company also develops AIR001, a sodium nitrite solution for intermittent inhalation through nebulizer. Vepoloxamer is a purified poloxamer 188, a nonionic; block copolymer consisted of a central linear chain of hydrophobic polyoxypropylene flanked on both sides by linear hydrophilic polyoxyethylene chains. Vepoloxamer is being tested in a Phase III clinical study called EPIC for the treatment of vaso-occlusive crisis in patients with sickle cell disease. Vepoloxamer has demonstrated multiple pharmacologic effects that provide clinical benefit in a range of diseases and conditions characterized by impaired microvascular blood flow and damaged cell membranes. The Company is also developing vepoloxamer for the treatment of sickle cell disease, arterial disease (in combination with thrombolytics), and heart failure. The Company is developing AIR001, a sodium nitrite solution for intermittent inhalation through nebulizer. AIR001 has demonstrated positive hemodynamic effects in patients with pulmonary hypertension and the Company is developing it for the treatment of heart failure with preserved ejection fraction (HFpEF). AIR001 is being tested in multiple institution-sponsored Phase IIa clinical studies that provide the Company with data on AIR001's potential to treat patients with HFpEF.

Recent News and Analysis

On the trading floor, shares of Mast Therapeutics Inc. dropped 3.57% to close at \$0.559. The company announced that it signed an amendment to the Company's existing Loan and Security Agreement with Hercules Technology Growth Capital, Inc. (HTGC). The agreement provides for a \$15 million debt facility, \$5 million of which was funded to the Company on August 11, 2015. Prior to the amendment, the Company was only able to access the second advance of \$10 million if it achieved certain clinical development and financial milestones by December 31, 2015, which included receipt of \$15 million in net cash proceeds from a strategic partnership and/or equity financing. The amendment removed those funding conditions and the Company drew the second advance on September 28, 2015. Under the amended agreement, the net cash proceeds condition is deferred until April 30, 2016, a date which is expected to follow top-line data from EPIC, and this requirement would be eliminated entirely upon

PHARMACEUTICAL SECTOR – STILL THE BEST INVESTMENT OPPORTUNITY

OCTOBER 7, 2015

achievement of positive data from EPIC. If the clinical and updated financial conditions are not met, the second advance of \$10 million would be repaid on April 30, 2016, without any prepayment penalty.



Verdict

As of late, it has definitely been a great time to be an investor Mast Therapeutics Inc (MSTX). The stock has moved higher by 19% in the past month, while it is also above its 20 Day SMA too. This combination of strong price performance and favorable technical, could suggest that the stock may be on the right path. It is certainly believed that this might be the case, particularly if you consider MSTX's recent earnings estimate revision activity. From this look, the company's future is quite favorable.

Conclusion

The pharmaceutical sector has faced pricing pressure caused by ridiculous price increases on drugs by Turing Pharmaceuticals. This action by Turing caused a stir in the market and reactions from presidential frontrunner Hilary Clinton, sent many stocks tumbling as much as 10%. Though Turing has detracted their action and revised the price of their drug, the damage has been done and many companies have suffered. This is lead to an investment opportunity for patient investors. Many stocks in the sector are now undervalued and are worth consideration. Of the four stocks presented here, it is believed that Geron Corporation presents the best investment opportunity based on technicals and analyst earnings estimate revisions. There is potential for this stock to perform and is certainly worth taking a closer look.

PHARMACEUTICAL SECTOR – STILL THE BEST INVESTMENT OPPORTUNITY

OCTOBER 7, 2015

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PHARMACEUTICAL SECTOR – STILL THE BEST INVESTMENT OPPORTUNITY

OCTOBER 7, 2015

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