



PHARMACEUTICALS

KaloBios: The frenzied second act for 'the most hated CEO in America'

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The current prime villain of Wall Street has shaken up the biotech space once again.

Turing Pharmaceuticals AG CEO Martin Shkreli gained notoriety in September for raising the price of a parasitic-infection drug to \$750 (U.S.) a tablet from \$13.50.

This time, Mr. Shkreli caused a tiny, failing pharmaceutical company's penny stock to rise by more than 10,000 per cent after he led a team of investors in building a majority stake in KaloBios Pharmaceuticals Inc.

While KaloBios is a perilous stock for the vast majority of individual investors, its frenzied performance over the last week at least makes for good spectator sport.

"On an individual stock basis, the risk is considerable," said Eden Rahim, a portfolio manager at Next Edge Capital, with years of experience investing in biotech stocks. "It's buyer beware."

Investors are understandably skeptical of Mr. Shkreli's motives. He acquired an instant global profile with a price hike on Daraprim, raising the ire of U.S. presidential candidate Hillary Clinton, who called for an examination of the pharmaceutical industry's pricing practices.

Mr. Shkreli has been largely unmoved by his new-found infamy, which earned him the dubious title of "the most-hated CEO in America."

The controversy first sparked by Mr. Shkreli also brought political scrutiny on the entire biotech space, leading to a sector-wide selloff after years of runaway equity performance.

The Nasdaq biotechnology index dropped by 20 per cent in less than two weeks in late September as U.S. legislators began to target drug pricing. That rout came after the index appreciated by about 40 per cent annually over the previous four years, as a new era in biotech innovation attracted investors to the space.

But the primary casualty of the correction was Valeant Pharmaceuticals International Inc., which was previously the largest single listing in Canada, if only briefly. The market lost confidence in Valeant as it faced investigations about drug pricing and its relationship to a mail-order pharmacy called Philidor.

Valeant's stock has declined by almost 70 per cent since its August high, wiping out about \$80-billion (Canadian) in market value, dragging down the S&P/TSX composite index and eating into the returns of Canadian index investors.

Then came Mr. Shkreli's second act. KaloBios started last week as a company on its deathbed. Its drug trials had failed, it was running out of money, most of its staff had been let go, the search for investors turned up nothing and a restructuring firm had been called in to wind everything down.

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Last Monday, the stock dipped to a low of 44 cents (U.S.), giving it a market capitalization of less than \$2-million.

Over the next few trading days, the stock began to advance. The market learned why a week ago, when Mr. Shkreli disclosed that his investor group had acquired 70 per cent of the company's outstanding shares. With Mr. Shkreli himself as CEO, KaloBios would advance the development of a drug called lenzilumab that targets a rare form of leukemia.

The stock exploded, hitting an intraday peak of more than \$45 and raising the market cap to \$190-million for a company that days earlier had been nearly worthless. While the remaining float appeared to be only about 1.3 million shares, total daily volume on the stock reached as high as 15 million, meaning each stock traded about 11 times that day.

"We see that with certain names, with some of these tiny companies," Mr. Rahim said. "The moment these things gain momentum, the day traders come into it. And the shorts get squeezed."

The stock convulsed over subsequent trading sessions, losing more than 50 per cent on Tuesday, the same day short-seller Tim Sykes targeted the stock as set to crash. Then on Wednesday, shares in KaloBios rallied again, rising by 45 per cent.

As of Wednesday's close, the stock sits at 60 times higher than its recent intraday low, while nothing has fundamentally changed in terms of the company's prospects. That kind of spectacle probably wouldn't occur in many spaces other than biotech, Mr. Rahim said. "This is one of the very few sectors that is highly inefficient, so that's where the opportunity lies for specialists."

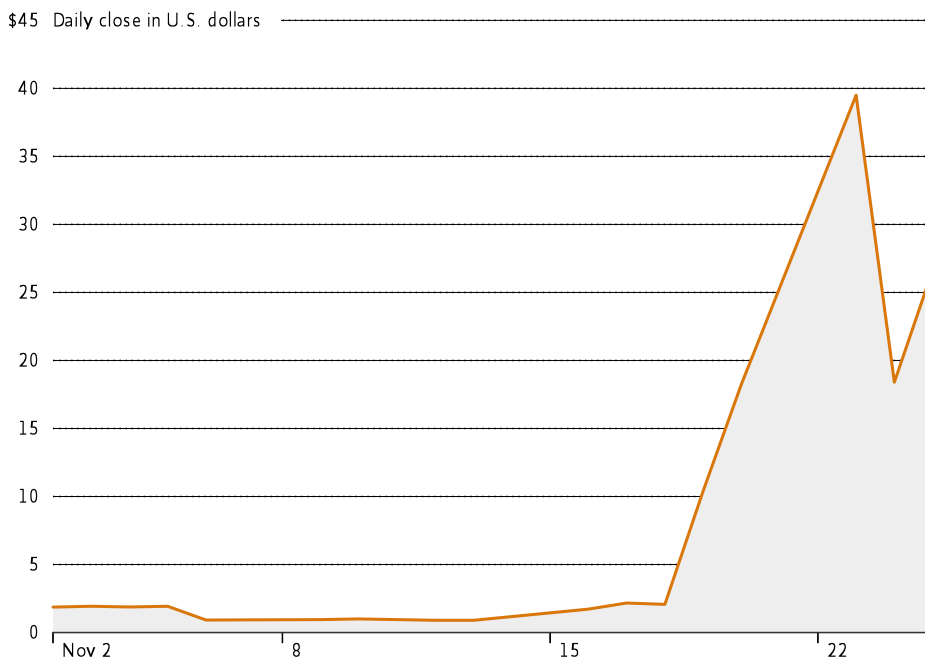
Biotech outcomes tend to be "binary," he said. Drugs either prove effective and are brought to market, or they fail and vanish. The promise of an early-stage drug like lenzilumab is very difficult to assess.

"You need to take [Mr. Shkreli] at face value," Mr. Rahim said. "You don't have clinical data to say that's feasible at this point." Nor little data to say the drug is not feasible.

But Mr. Shkreli has not proven himself capable of bringing a drug from the early stages of development to commercialization, he said. "The hurdle is very high."

Follow Tim Shufelt on Twitter: @tshufelt

KaloBios Pharmaceuticals Inc. (KBIO)



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VRX-N

Valeant Pharmaceuticals International Inc

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\$112.39 **-6.08** **(-5.14%)**

KBIO-Q

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Updated December 16 4:00 PM -5GMT. Delayed by at least 15 minutes.

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