

General Market Overview

PUBLIC MARKETS

During the second quarter, biotech indices struggled to recover from the correction initiated in late February. Between February 27 and April 14, the BioCentury 100 index dropped 22%, but managed to climb back to end the quarter up 2% and up 12% for the first six months of 2014. However, only large caps – companies valued above USD 5 billion - ended in the black with a median gain of 4% over the quarter. Microcaps valued below USD 200 million were hit, dropping a median of 9%. Large cap performance was largely driven by an active M&A climate, with **Shire plc.** increasing 59% after revealing that it had rejected three unsolicited bids from **AbbVie** Inc before accepting the latest offer of USD 54 billion in a transaction to lower the American acquirer's tax rate in the largest inversion deal ever.

Looking forward, most investors have positive expectations on biotech performance in general, and large cap performance in particular, with few major concerns. Investors expect large caps to meet earnings expectations and continue to drive indices back toward February highs, with the most anticipated binary event already in rearview mirror – the positive data from a pair of phase III trials for **Vertex Pharmaceuticals Inc.** in cystic fibrosis, on which its share price climbed some 40%.

Gilead Inc. gained some 35% from its mid-April low, following released sales data for its new Hepatitis C drug Sovaldi, reaching Q1 sales of USD 2.3 billion and Q2 sales of USD 3.5 billion, smashing the old record of USD 1.6 billion of sales for the first year, set by Vertex' Hepatitis C drug Incivek launched in 2011. Analysts are now awaiting the launch of Gilead's all-oral combination therapy, expected in Q4.

<i>Index</i>		<i>Q2 2014</i>		<i>YTD</i>
NYSE Arca Biotech	↗	7%	↑	19%
BC 100	↗	2%	↑	12%
S&P 500	↗	5%	↗	6%
BC London	↗	8%	↗	6%
NASDAQ	↗	5%	↗	5%
Dow Jones 30	↗	2%	↗	2%
FTSE 100	↗	2%	↔	0%

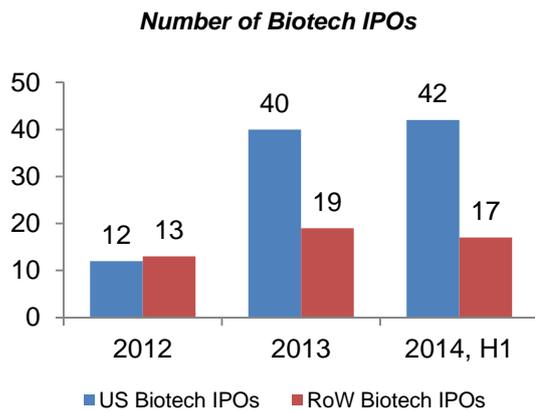
Index performance. Source: BioCentury Financial Center

The BC 100 index was struggling to recover from the earlier downturn, only up 2% in Q2, largely due to big downturns of stocks included in BC 100, that are not in the larger market cap-weighted NYSE Arca Biotech. The small BC London consists of only 14 companies and increased 8% led by two 100%+ increases in Q2.

HealthCap's public portfolio had a tough time to recover into black numbers for the quarter, with the exception of HealthCap IV company **Topotarget**, adding 20%. **Orexo**, however, has after quarter end climbed more than 20%, and is now approaching the levels from the beginning of the year.

IPO MARKETS

Another 23 biotech companies completed their IPOs in the second quarter, which brings up the total to 59 companies raising USD 3.9 billion during the first half of 2014 – more than doubled from the same period in 2013. The median share price increase was 15% for IPOs completed in Q2, whereas the Q1 IPOs are up a median of 5%, struggling to regain their mid-February highs. It must be noted, however, that while Q1 IPOs were often oversubscribed and priced at the higher end of the range or above, the Q2 IPOs had to take a haircut to get done, with only two out of 23 priced above their proposed range.



The number of completed IPOs in H1 matches the numbers from the full year of 2013. Entering Q3, the IPO queue boasted at least 41 names, 30 of which filed during Q2.

IPO financings. Source: BioCentury Financial Center.

HealthCap VI portfolio company Nordic Nanovector completed a NOK 250 million pre-IPO placement and has subsequently listed on the Norwegian OTC-market to further broaden its investor base.

M&A AND DEALS

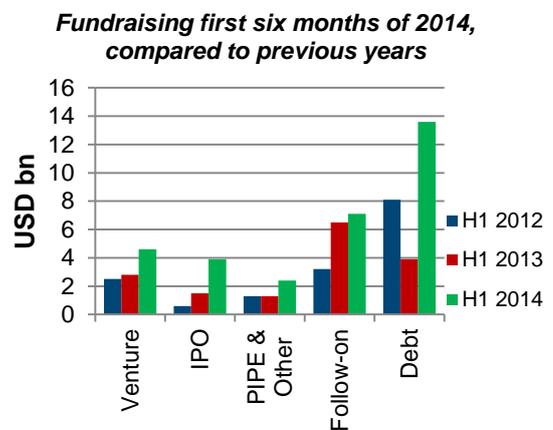
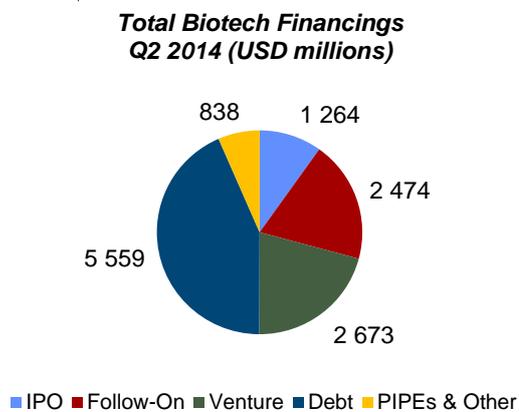
There is continued M&A activity, maintaining investor interest through the summer. According to BioCentury, in the first six months, 40 deals for biopharma companies valued below USD 50 billion were completed for a total value of USD 22 billion, up 52% from the corresponding period last year. In April, **Eli Lilly**, **GlaxoSmithKline** and **Novartis** swapped assets as Novartis took GSK's marketed cancer drugs, GSK got Novartis' vaccines and consumer health businesses and Lilly acquired Novartis' animal health division. And while **Pfizer** has thus far been unable to acquire **AstraZeneca**, **AbbVie** managed to have their latest USD 54 billion offer to acquire **Shire** accepted. Both major bids are primarily driven by tax-inversion benefits, and are not expected to be the last of this type of financial engineering deals in the sector.

In the HealthCap portfolio, shareholders of HealthCap IV company **Topotarget** and **BioAlliance** adopted the merger between the two companies to form **Onxeo**, a leading orphan oncology player.

OTHER FINANCINGS

The strong financing climate continues, fueled by the active M&A window providing investors with cash to re-allocate. Venture financing levels are more than 60% higher year-to-date, compared to H1 of 2013, and many of the companies going public in the current window have taken the opportunity to further strengthen its cash position through follow-on offerings. In H1 of 2014, 95 follow-on offerings were completed, almost up by 50% in number of deals compared to H1 2013, but with a lower average amount raised. The market cap hasn't suffered either with Q2 follow-ons up a median of 10%, led by a 54% gain by **Chimerix**, raising USD 118 million in an April 2013 IPO.

USD 12.8 billion was raised in the second quarter, six billion less than in the first quarter of 2014. The year total for the first six months exceeds USD 30 billion



Biotech financings. Source: BioCentury Financial Center.

Not only have IPO financings more than doubled in the first six months, compared to the corresponding period last year, all other financing classes are also on much higher levels in 2014, despite a slightly slower second quarter

Several HealthCap portfolio companies have recently completed financings, among them HealthCap VI investments **Wilson Therapeutics**, securing a USD 40 million financing co-led by new investors, and **Ultragenyx**, closing a public offering of USD 65 million in July. HealthCap IV investment **OxThera** closed a financing of EUR 8 million, attracting new investors.