

## General Market Overview

### PUBLIC MARKETS

Through the third quarter, the biotech sector continued the rebound initiated short after the June 23 Brexit vote. BioCentury concludes that, for the first time since Q1 of 2014, all market cap bands within the BC 100 index gained, driven by positive clinical news and a strong M&A climate. Biotechs listed in Europe posted a more moderate climb with the BC London and the broader BC Europe adding 5% and 4%, respectively. However, the European indices are now both in black numbers for the year after nine months, still well ahead of the US biotech indices.

Index	Q3 2016	2016
FTSE 100	↗ 6%	↕ 11%
S&P 500	↗ 3%	↗ 6%
NASDAQ	↗ 10%	↗ 6%
Dow Jones 30	↗ 2%	↗ 5%
BC London	↗ 5%	↗ 4%
NYSE Arca Biotech	↕ 11%	↘ -12%
BC 100	↕ 15%	↘ -14%

The negative effect of the Brexit vote in June was of short duration as all indices posted solid performances in Q3, with the biotech sector ahead of broader indices. The BC 100 added 15%, but is still in red numbers for the first nine months of 2016.

*Index performance. Source: BioCentury Financial Center*

Analyst consensus is that biotech's rebound will continue through the end of the year, but not enough to make up for losses in the first half. Investors are expected to sit on more cash than usual, cautious due to anticipated volatility around the US elections in November and expectations on a gradual increase of interest rates, starting after the Federal Reserve's December meeting.

Looking further down the road, BioCentury sees potential for earnings driven upside as the P/E ratio using 2017 earnings estimates drops to a four-year low of 18.

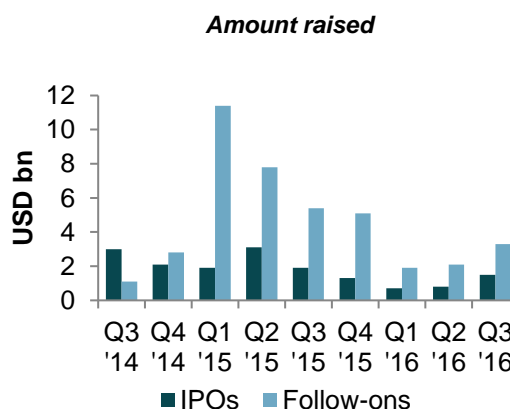
HealthCap's publicly listed holdings generally performed well during Q3, led by HealthCap VI investment **Nordic Nanovector AS**, gaining 107% on the back of good clinical progress and positive analyst reports.

### PUBLIC FINANCINGS

The market for follow-on financings was strong in Q3, fueled by the strong market performance of public stocks post financing. The 106 follow-on financings year-to-date posted a median gain of 9% through Q3, and the IPO class of 2016 is up a median of 11%.

Follow-on financings totaled USD 3.3 billion in Q3, the second best summer quarter in the 22 years BioCentury has tracked.

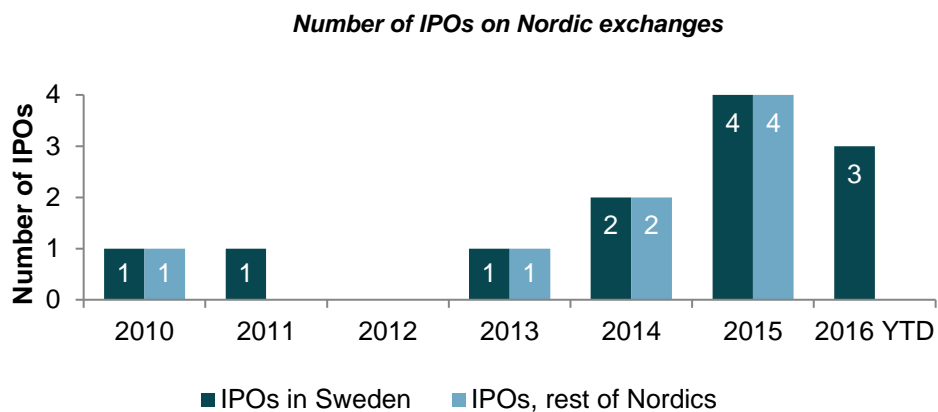
Eighteen companies raised USD 1.5 billion in IPOs in Q3, although excluding the USD 619 million NYSE listing of Dutch company **Patheon N.V** leaves approximately USD 900 million raised, about the same level as the two preceding quarters of 2016.



*IPO and follow-on financings. Source: BioCentury Financial Center.*

HealthCap VI investment **Gensight Biologics SA** successfully listed on Euronext Paris in July in what is the third largest European biotech listing of this year, raising almost USD 50 million. The size is only exceeded by HealthCap VI company **Wilson Therapeutics AB**, raising USD 53 million in its May listing on the Stockholm Stock Exchange, and the largest IPO in Poland this year as Warsaw based **Celon Pharma SA** raised USD 62 million at the end of the third quarter. Gensight traded up some 13% until the end of the quarter.

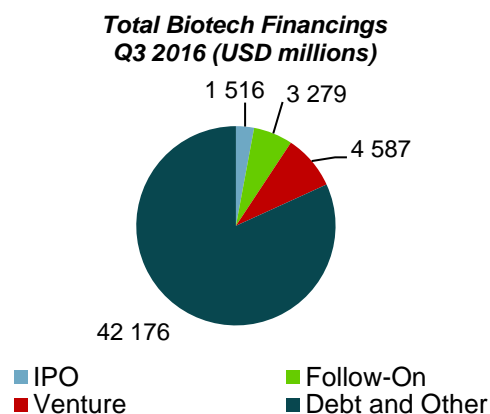
While the global IPO climate has somewhat cooled down in recent quarters, there seems to be a window for Nordic biotechs to list locally following a few slow years when IPO ready companies in general turned to Nasdaq instead. In Sweden, in particular, there seems to be an attractive opening, and several HealthCap portfolio companies are in preparations for a listing on the Swedish stock exchange, markets allowing.



*Nordic IPOs. Source: BioCentury Financial Center.*

### OTHER FINANCINGS

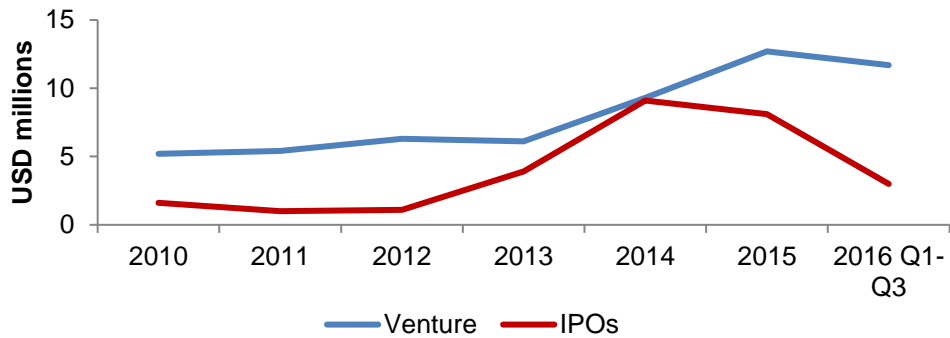
Despite being a strong quarter for several financings classes, biotech financing in Q3 was dominated by debt financings, benefiting from continued low interest rates, with some major contributions by major players **Teva Pharmaceuticals**, **Shire** and **Gilead Sciences**, all using debt financing to enable for acquisitions.



*Biotech financings. Source: BioCentury Financial Center*

Venture financing amounted to USD 4.6 billion in Q3, a high level bringing the total venture financing for the first three quarters of 2016 to USD 11.7 billion, set to surpass the USD 12.7 billion raised in venture financings for the full year of 2015. We have traditionally seen a stable level of venture financing, through economic cycles, whereas IPO financings have been of cyclical nature. In recent years, venture financing has increased, with the Nordic region highlighted in particular in a BioCentury analysis.

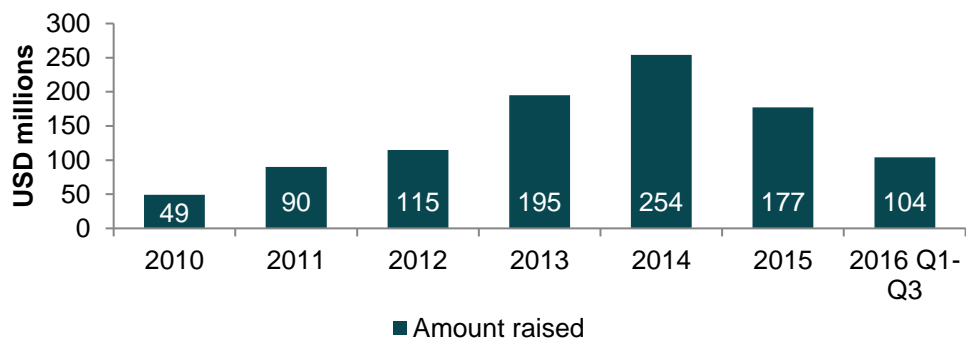
### Global Venture and IPO financings



Venture and IPO financings. Source: BioCentury Financial Center

Yearly venture financing in the Nordic region crossed the USD 100 million mark for the first time in 1999 and then worked its way up to more than USD 190 million in each of the years 2005-2007, only to drop again to low levels when many venture investors went out of business. The recent increase is to a higher extent attributed to increased attention of international investors, as exemplified in HealthCap VII's first investment **Aprea AB**, completing a EUR 46 million financing round in early 2016, with the support of a strong international investor syndicate.

### Venture Financings in Nordic Countries



Nordic venture financings. Source: BioCentury Financial Center