

General Market Overview

PUBLIC MARKETS

Public biotech stocks performed strongly in the first quarter with all market segments trading up. Mid-caps led the sector and closed up 16% with large cap close behind having traded up 15%. The mid-caps performed well mainly because of product commercialization, examples include **Ironwood Pharmaceuticals Inc.** that launched Linzess lanaclootide and **Isis Pharmaceuticals Inc.** launching Kynamro mipomersen. Micro-caps gained the least but still ended in black having traded up 2%.

Buysiders remain bullish on biotech stocks but are looking for signs that the market's four-year bull run might be topping out. However, we have not yet seen the opening of an IPO window as the number of companies going public is still limited. For 2012, NYSE Arca Biotech came out on top with a 42% increase during the year and has increased another 18% during the quarter. The BioCentury 100 ended 26% up during last year and has also continued to perform, ending the first quarter up 16%. Interest rates are still being held low by the Fed, crisis in the Euro zone, acceleration of money rotating from fixed-income assets to equities indicates market watchers believe the public markets should remain open for at least several more quarters, according to BioCentury. Hike in interest rates, surprisingly weak employment numbers and politician cost control can have a negative effect and are signs that investors keep an eye on.

Along with positive share price performance, financing has continued strongly during the quarter with companies raising a total of USD 5.8 billion. However, according to BioCentury, companies have also increased spending why the industry will require continued access to cash. Overall R&D spending by the industry grew 11% between 2010 and 2012 while at the same time SG&A increased 12%.

<i>Index</i>		<i>Q1 2013</i>		<i>2013</i>
NYSE Arca Biotech	↑	18%	↑	18%
BC 100	↑	16%	↑	16%
Dow Jones 30	↑	11%	↑	11%
S&P 500	↑	10%	↑	10%
FTSE 100	↗	9%	↗	9%
NASDAQ	↗	8%	↗	8%
BC London	↗	6%	↗	6%

Biotech indices all finished the quarter strongly after a weak Q4, with every market cap tier finishing in the black. The NASDAQ Biotechnology Index closed at an all-time high surpassing its previous all-time high set on March 6, 2000. The S&P 500 was up 10% to also close the quarter at an all-time high.

Index performance. Source: BioCentury Financial Center

HealthCap IV company **Algeta** has performed well during the quarter having traded up 26%. During this quarter partner Bayer received notification from the FDA that they were granted priority review on the New Drug Application submitted to the FDA in December for radium-223 for the treatment of castration-resistant prostate cancer with bone metastases.

Another HealthCap company, **Topotarget**, increased 69% during the quarter. Final top-line data confirm that the primary endpoint was met for the belinostat pivotal trial for patients with relapsed or refractory peripheral T-cell lymphoma (PTCL) with an encouraging objective response rate.

Also, public HealthCap Annex Funds company **Aerocrine** signed a license agreement with **Medisoft S.A.** The agreement includes the withdrawal of all patent proceedings between the companies.

IPO MARKETS

The IPO climate in the first quarter continued at the same levels as during 2012 with six biotech companies going public in comparison with 24 in 2012. IPO financing amounted to 6% of the total financing in the quarter. The six companies together raised a total of USD 323 million and were up 15% by the end of the quarter. **Enata Pharmaceuticals** was the last company to go public during the quarter and it jumped 23% on its first day of trading after having raised USD 56 million. It has continued to trade up since then. The company that stands out when it comes to performance is **MedRx Co. Ltd.** (Tokyo) having traded up 254% since its IPO on February 13, 2013.

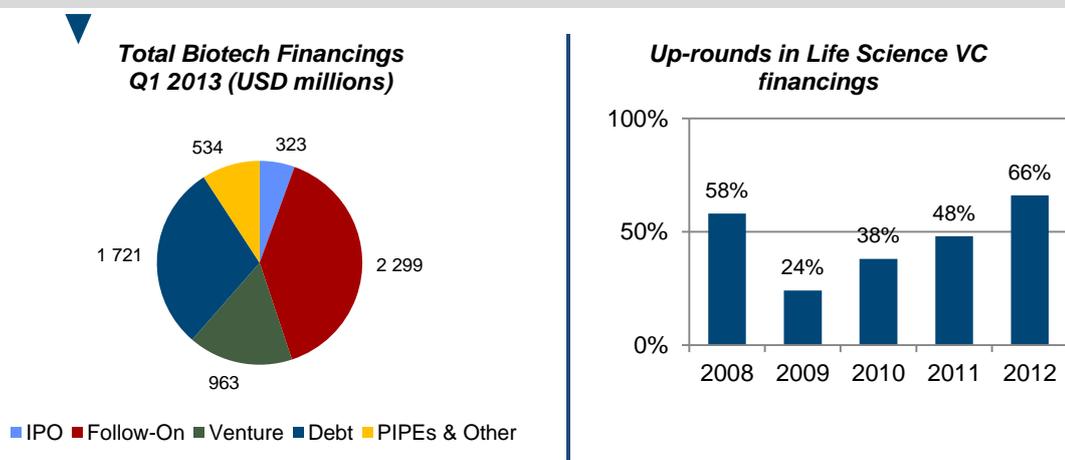
Going forward, at least 12 biotechs have filed for an IPO to go public and the possibility of an IPO is expected to remain open, however still in a questionable market. In total, private equity-backed companies worth an estimated total of EUR 30 billion are considering IPOs this year. Industry experts have forecasted a surge in European IPOs, particularly in the UK, reports the Financial News.

FINANCINGS

Strong share price performance was matched with significant financing, especially high in the follow-on segment. A total of USD 5.8 billion was raised during the quarter with 39% being follow-on financing. The companies raising funds in a follow-on were up a median of 7% with only seven companies trading below their post-money valuations. The performance of deals in the after-market has created a strong sentiment and a broader investor group is seen compared to one year ago.

Venture financing made up 16% of the total, amounting to nearly one billion USD.

A total of USD 5.8 billion was raised during the first quarter. The biotech industry raised USD 2.3 billion in 31 follow-on deals during the first quarter. In contrast, USD 2.1 billion in 35 deals were raised in the first quarter last year.



Biotech financings. Source: BioCentury Financial Center. Cooley/LifeSciVC.com

Law firm Cooley has advised in nearly 400 Life science VC financing transactions the last five years, and has observed a trend in increasing share of up-rounds. Also, the share of deals with pay-to-play provisions has dropped to 5% from 17% in 2010, and they observed a decrease in the number of tranching deals as well as recapitalization transactions, signaling continued investor confidence.

M&A AND DEALS

According to Thomson Reuters data, 77 venture-backed M&A deals were reported for the first quarter of 2013, 10 of which had an aggregate deal value of USD 984 million.

By disclosed value, the life sciences sector led all venture-backed merger activity, with USD 594 million in total deal value in the four deals with disclosed deal values. The largest venture-backed M&A transaction during the quarter was in the biotechnology sector, with **Illumina Inc's** USD 350 million purchase of **Verinata Health Inc**, a developer of non-invasive tests for fetal chromosomal abnormalities. The USD 185 million purchase of pharmaceutical manufacturer **Incline Therapeutics** by **Parsippany**, was the second largest M&A deal this quarter.

Analysts conclude there has not been a lot of M&A over the last few quarters in the biotech sector, but it might just take one big one to get things going again, especially as the cash continues to pile up on the pharma side.

Shire was active in the ophthalmics sector with two deals in as many weeks. The first deal came in March when Shire announced the acquisition of Swedish company **Premacure**, currently in phase II testing to prevent retinopathy of prematurity, a rare disease that primarily affects premature infants and can lead to blindness. Just 13 days later, Shire acquired **SARcode Bioscience Inc.** for USD 160 million up-front, plus undisclosed milestones. The deal provides lifitegrast, an eye drop formulation of a small molecule antagonist in phase III testing for dry eye.

During the quarter, **Bausch + Lomb's** acquisition of HealthCap V company **Technolas Perfect Vision**, a leading ophthalmology laser company, was completed.

UCB and HealthCap IV company **Five Prime Therapeutics** announced that they had entered into a strategic collaboration for the discovery of innovative biologics targets and therapeutics in the areas of fibrosis-related inflammatory diseases and central nervous system (CNS) disorders. This collaboration gives UCB exclusive access to FivePrime's drug discovery platforms in up to five programs to identify new targets and disease mechanisms.

HealthCap VI company **Ultragenyx** announced in-licensing of clinical-stage product Triheptanoin for Treatment of Long-Chain Fatty Acid Oxidation Disorders from **Baylor Research Institute**.