

## General Market Overview

### PUBLIC MARKETS

The stock market performed well, although movements were smaller than in the first quarter of 2013. The strongest performing market cap segment was large caps, which closed 4.4% up, led by **Vertex Pharmaceuticals**, that jumped 46% driven by positive phase II data in treatment of cystic fibrosis. The micro-cap group, despite having four companies that traded up at least 160%, was the only market cap segment trading down during the quarter, finishing down 5.9%.

Japan's biotech sector has benefited from a spike in interest in regenerative medicine. An equal price-weighted index of 27 Japanese biotech is up 164% for the year, despite gaining only 0.3% in Q2 2013.

<i>Index</i>		<i>Q2 2013</i>		<i>YTD</i>
NYSE Arca Biotech	↗	7%	↑	26%
BC 100	↗	6%	↑	23%
Dow Jones 30	↗	2%	↑	14%
NASDAQ	↗	4%	↑	13%
S&P 500	↗	2%	↑	13%
BC London	→	0%	↗	6%
FTSE 100	↘	-3%	↗	5%

Although at a lower growth rate than in Q1, the NYSE Arca Biotech and the BC 100 were the top performers in Q2 and are, year-to-date clearly outperforming the broader US stock indices. The BC London and FTSE 100 are trailing following a slow quarter.

*Index performance. Source: BioCentury Financial Center*

HealthCap IV company **Algeta** announced that Xofigo has been approved by the US FDA to treat castration-resistant prostate cancer in patients with symptomatic bone metastases. The share price jumped 18% during the quarter and closed the quarter 49% above its closing price on December 31 of 2012.

HealthCap III company **Orexo** announced, a few days into the third quarter that the FDA had approved Zubsolv for the maintenance treatment of opioid dependence, and just a couple of days earlier the company entered a partnership with **Publicis Touchpoint Solutions** for the launch of Zubsolv in the US. Orexo's share price climbed 8% in the second quarter, also triggered by the news that they had entered into a phase III trial for future clinical indication expansion of Zubsolv, to also be approved for induction of opioid addiction treatment. The share continued its climb early in the third quarter following the FDA approval.

### IPO MARKETS

Despite a strong follow-on financing market stretching back at least four years, the IPO window has only recently proved to be wide open in the US. Globally, a total of 19 IPO's were completed in the second quarter, that's 13 more than the previous quarter and the most since 22 IPO's were completed in Q2 of 2007. Many of these public offerings were substantially oversubscribed too, indicating a higher level of generalist participation and therefore widening of the investor base. As of June 30, the 25 companies that had completed their IPO's this year were up a median of 26% from their post-money valuations, eight companies posted valuations increases around 70% or more.

According to people BioCentury has been talking to, one of the good things about not having a good IPO market for the last four years is that a lot of mature companies remained private, so there is a good inventory of names evaluating an IPO option. Also, a perception of increased economic stability, strong post-IPO performances and low interest rates make a good platform for a continued attractive IPO market. At the start of the third quarter at least 13 companies were in line to complete an IPO.

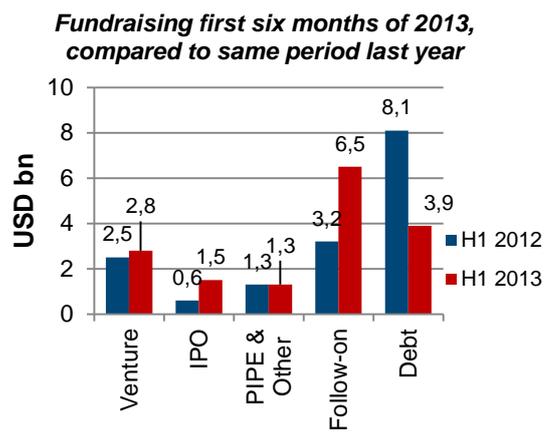
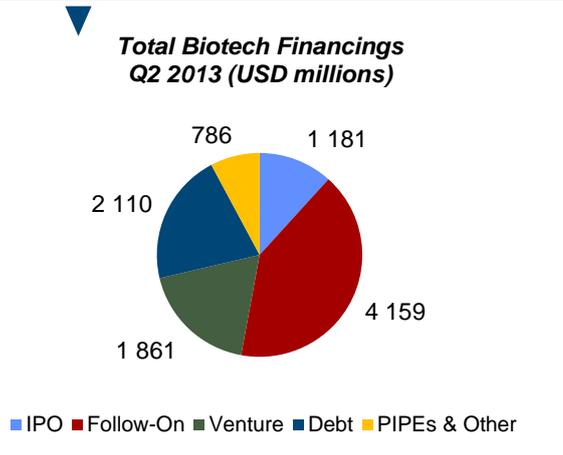
HealthCap III company **PTC Therapeutics** was the 18<sup>th</sup> company to close an IPO during the year, raising USD 126 million and also jumping 10% in its first day of trading. Also, HealthCap IV company **FivePrime Therapeutics** publicly filed its Form S-1 with the SEC at the end of July, intending to compete its IPO on NASDAQ in Q3.

### OTHER FINANCINGS

Just like in the previous quarter, follow-on financings contribute with approximately 40% of the total amount raised. The total amount raised in Q2 was more than USD 10 billion, with almost USD 4.2 billion stemming from follow-on financings – the third largest follow-on amount raised during a single quarter since BioCentury started tracking industry financings in 1994. The largest follow-on was **Valeant Pharmaceuticals'** USD 2.3 billion financing in June to fund its acquisition of **Bausch + Lomb**, the company that in Q1 completed its acquisition of HealthCap V investment **Technolas Perfect Vision**. But even excluding that, the other 32 follow-on financings still raised a respectable USD 1.9 billion, or 72% more than during the corresponding period last year.

Life science companies outside the US accounted for almost a third of the total financing amount during the quarter, nearly doubling its share of total financing from one year ago.

More than USD 10 billion was raised during Q2. Compared to Q1 2013, the amount raised in IPO financings almost trebled, and the amounts in venture and follow-on financings were twice the amounts in the previous quarter.



*Biotech financings. Source: BioCentury Financial Center.*

Compared to the first half of 2012, healthy levels of follow-on financings and an open IPO window can be observed. The amount raised in debt financings has dropped significantly, and is second to follow-on financings by a wide margin.

Among the listed HealthCap portfolio companies, we note that:

HealthCap III company **ChemoCentryx** raised net proceeds of USD 64 million in a fully subscribed public financing in April, and share price increased 18% from the financing up until end of quarter, up to USD 603 million market cap.

HealthCap Annex Funds company **Aerocrine** completed a USD 50 million debt and equity financing to fund continued expansion and launch of new products. Based on the company's long-term forecast, the financing will be sufficient to take the company into sales generating positive cash flow.

HealthCap IV company **Tengion** closed a USD 34 million financing in which both new and existing investors participated, including a USD 15 million strategic equity investment by **Celgene Corporation**, to advance its organ regeneration platform

## **M&A AND DEALS**

Big pharma companies are rich on cash and still in need of broadening their pipelines, so many analysts believe the number of acquisitions will increase from the levels we have seen this far in 2013, which lags the pace of 2012. The largest dozen of big pharma companies sit on almost USD 150 billion in cash, but M&A activity is down about 10% in 2013 compared to the corresponding period last year.

Public companies have taken advantage of the strong follow-on market to further strengthen their cash position, and to finance acquisitions. **Thermo Fisher Scientific's** announced USD 13.6 billion acquisition of DNA sequencing player **Life Technologies** is helped by a USD 2.5 billion financing that is not yet closed, and **Valeant Pharmaceuticals'** USD 2.3 billion follow-on offering helped them pay for its USD 8.7 billion cash acquisition of eye care products maker **Bausch + Lomb**.

In June, Irish drugmaker **Elan Corporation** rejected a hostile bid by **Royalty Pharma** worth up to USD 8 billion, and instead put itself up for sale to find a rival buyer.

Global deal-making activity was substantial during the first half of 2013. Almost half of the 99 deals with disclosed deal values included large companies gaining access to highly innovative drugs in clinical pipeline, and those deals accounted for most of the deal value, indicating that large pharma and biotech companies are willing to pay to get access to breakthrough therapies.