

## General Market Overview

### PUBLIC MARKETS

Identical to the second quarter, all market cap segments except large caps fell back, whereas the over USD 5 billion segment was up 9% with gainers outnumbering decliners 22-9. In other market cap segments, decliners led by nearly two to one. Leading large cap performers were **Sigma-Adrich Corp.**, finishing up 34% on an announcement that **Merck** would buy the company for USD 17 billion, and also **Pharmacyclics Inc.**, closing the quarter up 31% following FDA's approval of chronic lymphocytic leukemia drug Imbruvica.

The price-to-earnings ratio (P/E) for biotech and big pharma has narrowed notably during the year. While big pharma's average Q3 P/E is identical to the number in Q1 of 2014 at 17.3, the biotech industry's P/E has declined to 21.9 from 27.4 in Q1, largely attributable to higher earnings estimates. The gap between the two groups is the smallest since Q4 of 2010.

Investors BioCentury have talked to think a key ingredient for continued sector performance will be that large caps maintain the momentum of new product launches into the fourth quarter. In Q3, the FDA approved **Gilead's** Harvoni, a fixed-dose combination of Sovaldi and ledipasvir for treatment of Hepatitis C (HCV), which was recently priced at USD 95,000 and USD 63,000 for 12-week and 8-week treatments in the US, respectively. Sovaldi alone, criticized for its pricing since being approved less than a year ago, costs USD 84,000 for a course of treatment, but adding supplemental therapies brings the number up to around USD 100,000 for a treatment. The competition in the HCV field is about to turn fiercer, as **AbbVie's** direct-acting antiviral regimen to treat HCV is expected to be approved in late November, together with **Bristol-Myers Squibb's** combination therapy, which has a November 30 PDUFA date.

While there are macro and geopolitical concerns affecting the financial markets and the IPO window, the sector specific risks are few and investors may scout ahead for opportunities, in particular in the small- and mid-cap spaces, where prices have lagged behind large cap performance.

| Index             |   | Q3 2014 |   | YTD |
|-------------------|---|---------|---|-----|
| NYSE Arca Biotech | ↑ | 11%     | ↑ | 33% |
| BC 100            | ↗ | 10%     | ↑ | 23% |
| BC London         | ↗ | 5%      | ↑ | 11% |
| NASDAQ            | ↗ | 2%      | ↗ | 8%  |
| S&P 500           | → | 1%      | ↗ | 7%  |
| Dow Jones 30      | ↗ | 1%      | ↗ | 3%  |
| FTSE 100          | ↘ | -2%     | ↘ | -2% |

Index performance. Source: BioCentury Financial Center

Biotech indices posted a strong Q3 performance, continuing the recovery initiated in the late half of Q2 after falling back in March and early April. The BC 100 surpassed its February highs in late August. Over the last 12 months, BC London is up 45% and BC 100 31%, while NASDAQ is up 19% over the same time period.

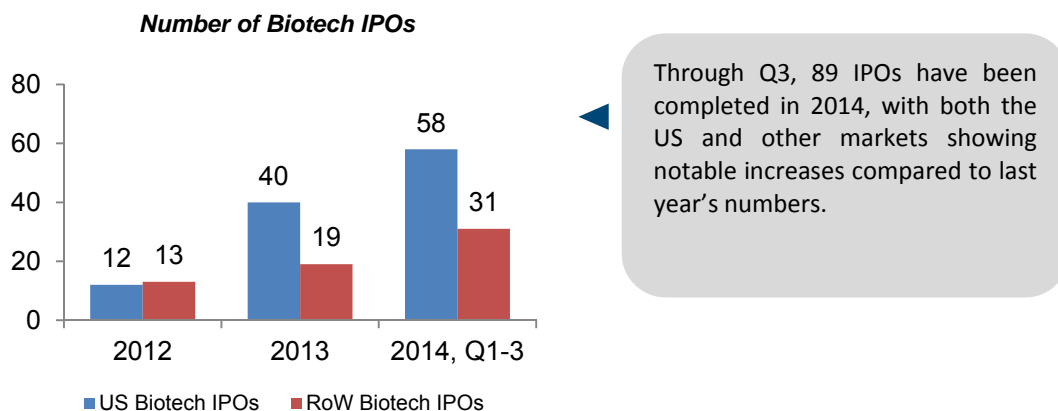
### IPO MARKETS

Thirty companies raised more than USD 3 billion in IPOs in Q3. Even excluding the USD 871 million raised by drug supply and services company **Catalent Inc.** in its NYSE listing, and the USD 510 million raised in Hong Kong by **Luye Pharma Group Ltd.**, Q3 IPOs collectively still raised more than USD 1.6 billion, ahead of the USD 1.3 billion raised in Q2 of 2014.

Danish company **Forward Pharma A/S** completed its October IPO raising USD 221 million, the largest Nasdaq IPO in the sector in 2014. The company is in phase III trials with its drug to treat Multiple Sclerosis.

Generalist investors have dropped out during the last two quarters, compared to the time around the end of last year. As a consequence, new issues have seen prices fall slightly, both during the road show, and after pricing. The median post-IPO performance among the 89 IPOs in 2014 is -7%. HealthCap VI investment **Ultragenyx** is still the top performer among larger IPOs during the year and is currently only second to **Catalent** in terms of market cap in the 2014 IPO class.

The pace of IPOs is expected to remain high through year end, with some banner names expected to make their debuts. Twenty companies have announced plans to go public since the start of Q3, bringing the queue to at least 39. IPO pricing is anticipated to remain on rational levels, as it has for last two quarters.



*IPO financings. Source: BioCentury Financial Center.*

HealthCap VI portfolio company **Nordic Nanovector** closed a subsequent repair offering of NOK 50 million, increasing the total size of its pre-IPO financing to NOK 300 million. Also, the company received the remaining, committed, NOK 25 million from HealthCap's initial investment at NOK 15 per share. Nordic Nanovector shares are currently traded at the Norwegian OTC listing, closing the quarter at NOK 30.90.

HealthCap V company **Nexstim** launched its IPO plans, seeking to raise EUR 20-25 million, and applying for a dual listing on the Nasdaq OMX First North in Stockholm and Helsinki in Q4.

## M&A AND DEALS

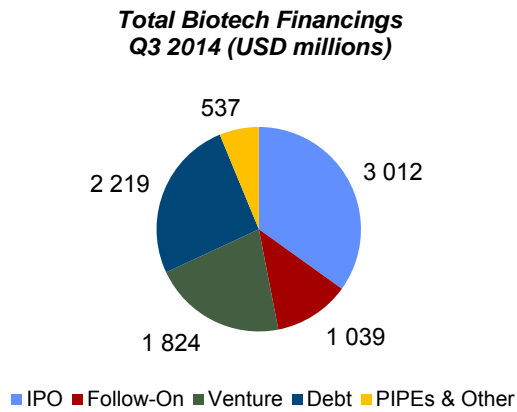
The total aggregate value of completed acquisitions in 2014 already surpasses last year, with USD 86 billion in deals, year-to-date, compared to USD 61 billion in 2013.

BioCentury reports that more action from the US Treasury to limit inversion deals could blunt some of the M&A enthusiasm. One deal has become a casualty of political pressure in the US to end tax inversion deals, as on October 3, **Salix Pharmaceuticals Ltd** and **Cosmo Pharmaceuticals** said they ended their merger agreement due to greater uncertainty around the potential benefits of the deal.

## OTHER FINANCINGS

Only USD 1 billion was raised via 21 follow-ons in Q3, the lowest amount in any quarter in the last three years. However, Q3 follow-ons were up a median of 10% from their post-money valuations, where the second strongest performance was posted by HealthCap VI investment **Ultragenyx**, climbing 42% from its September 7 public offering of USD 65 million at a post-money valuation of USD 1.3 billion.

Most investors attribute the falloff to the fact that companies are well financed, following the solid follow-on financing climate stretching back some three years. The amount raised by public biotech companies since the beginning of 2012 exceeds the total amount during the entire six-year bull run of 2003-2008.



USD 8.6 billion was raised in the third quarter, four billion less than in the second quarter of 2014. IPOs is the only financing segment increasing compared to last quarter. Debt financing declined by more than USD 3 billion from last quarter.

*Biotech financings. Source: BioCentury Financial Center.*

Public HealthCap investment **Orexo** completed a private placement of SEK 347 million in August, whereof almost SEK 156 million were shares held in treasury by the company.