

General Market Overview

HealthCap hosted its 17th annual CEO conference on June 9th, inviting CEO's of portfolio companies, together with other special invitees for a two-day conference. Mark Dempster, managing director at Stifel Financial Corp. shared some observations and thoughts on healthcare public markets and M&A climate, and we would like to share some of them in this Q2 General Market Overview.

PUBLIC MARKETS

Late Q2 declines in the US equity markets led major indices to end flat or in the red. The declines were driven by macro-economic uncertainty in Greece together with shifting US monetary policy as Federal Reserve Chairwoman Janet Yellen expressed a high likelihood of an increase in interest rates later this year. Average market volatility has remained at low levels, despite a spike in late June.

However, biotech and pharma stocks continued to outperform broader indices, extending a six year long bull-run, still with strong generalist participation. Increases continue to be driven by industry fundamentals as innovative science and better clinical development has led to higher success rates (and lower discount rates). The total number of FDA approved new innovative drugs reached 107 for the years 2012-2014, the best three-year-period since 1997-1999. And newly approved drugs perform strongly too, with **Gilead's** Sovaldi/Harvoni Hepatitis C treatment expected to be the third largest franchise drug in 2015, reaching USD 4.6 billion in sales in Q1 of 2015 alone.

Index		Q2 2015		2015
BC 100	↗	6%	↑	26%
NYSE Arca Biotech	↗	5%	↑	22%
BC London	↗	4%	↗	6%
NASDAQ	↗	2%	↗	5%
S&P 500	→	0%	→	0%
FTSE 100	↘	-4%	→	-1%
Dow Jones 30	→	-1%	↘	-1%

Index performance. Source: BioCentury Financial Center

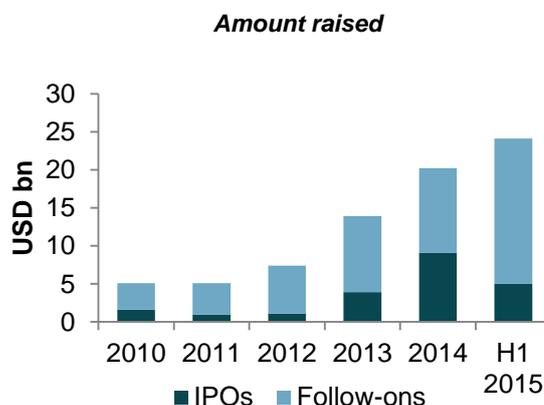
Overall market performance was mixed in Q2, primarily due to macro-economic uncertainty. Biotech and pharma stocks are by a wide margin outperforming broader indices, year to date.

PUBLIC FINANCINGS

As healthcare indices have continued to outperform the broader market, a demand for new issuance have been generated from investors in both IPOs and follow-ons. However, investor selectivity has remained high as capturing investor attention remains a challenge for sub USD 100 million market cap issuers. The amount raised in H1 2015 is unprecedented, reaching almost USD 25 billion

Positive biotech markets have led to significant new issuance with 49 IPOs and 152 follow-on financings during the first six months of 2015.

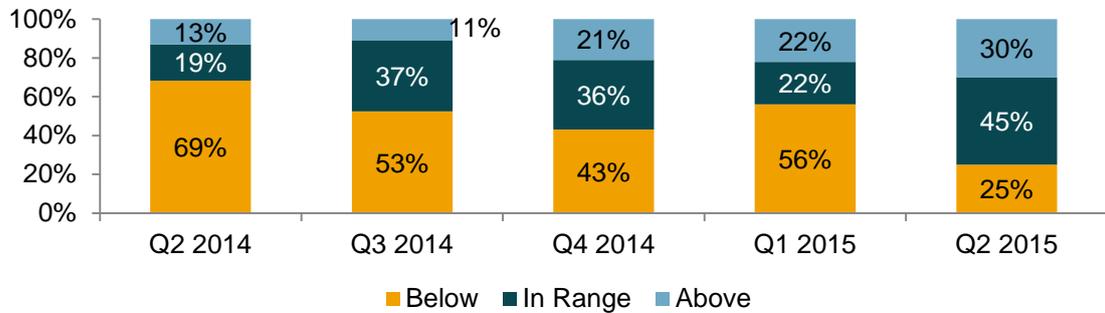
USD 8 billion was raised in follow-ons in Q2, bringing the total for H1 2015 to USD 19 billion, already substantially higher than in the record year of 2014.



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

Compared to a relatively slow Q1, IPO issuance more than doubled during the course of Q2, 2015, with recent high levels of M&A activity creating significant “dry-powder” to be re-deployed into the IPO market. During the last four quarters, the healthcare sector has accounted for one third of all US IPOs. The IPOs closed in Q2 were also to a larger extent than the preceding quarters completed with strong order books as three out of four US IPOs listed in or above its indicated pricing range.

US Biopharma IPO Final Pricing



Source: Stifel Capital Markets

Following listing, post IPO performance of biotech and pharma stocks dominate among the best performing listings in 2015, maintaining a strong interest for biopharma IPOs

US Biopharma IPO Class Performance



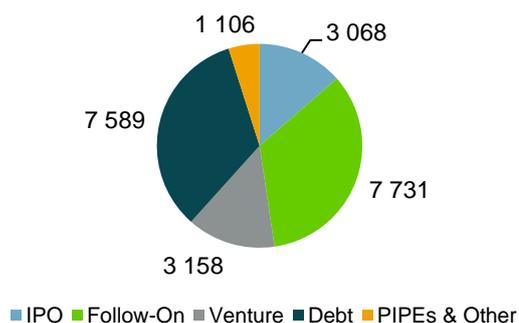
Post-IPO performance of biopharma stocks has turned out a true success story in the current IPO window

Biopharma IPO Class Performance. Source: Stifel Capital Markets May 29, 2015

OTHER FINANCINGS

In total, the biotech industry raised USD 23 billion in Q2 of 2015, some USD 15 billion less than the previous quarter, but the only substantial decrease is found in debt financings, accounting for USD 7.6 billion in Q2, compared to USD 20 billion in Q1 of 2015.

Total Biotech Financings Q2 2015 (USD millions)



The follow-on market is still exceptionally robust and accounts for the largest share of the financing pie for Q2 of 2015.

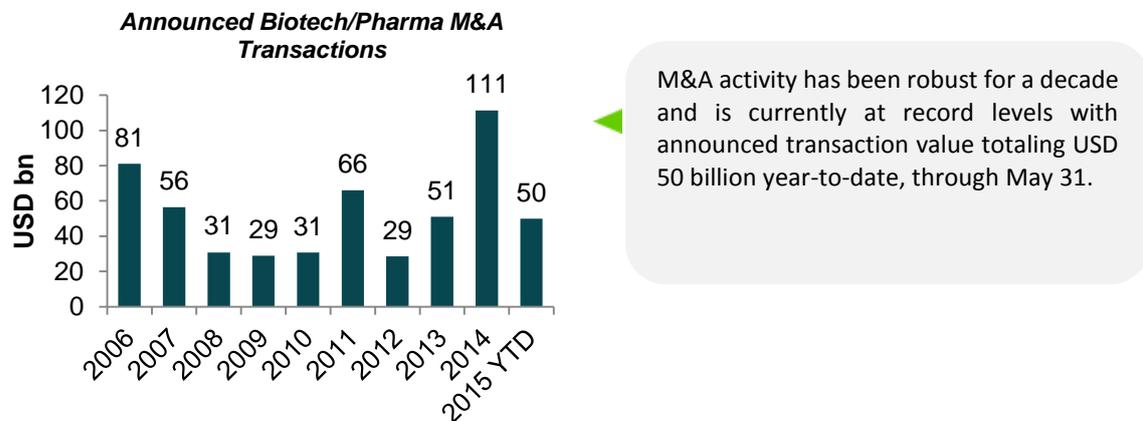
Biotech financings. Source: BioCentury Financial Center.

As biotech post-IPO performance continues to be encouraging, public market investors look more into companies near the end of their private life to maximize returns. Stifel sees how the crossover round has become more commonplace and that it is threatening to be a new “must-have” in a successful public offering.

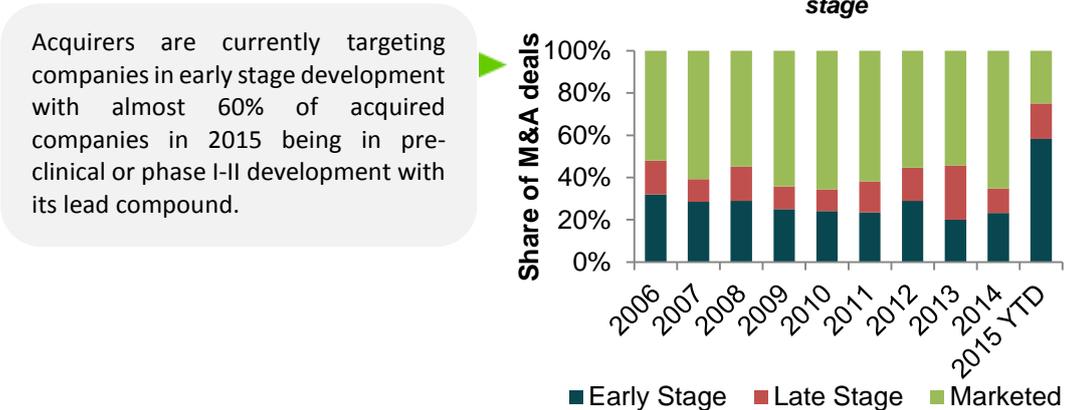
During the quarter, HealthCap VI company **Cortendo** raised USD 33 million in a private placement, attracting leading crossover investors, and HealthCap V company **Bonesupport** raised SEK 120 million at the end of Q1, also attracting a new crossover investor.

M&A AND DEALS

The current M&A environment is the strongest in years and has added strength to overall healthcare equity market – significant cash returned to investors is being re-deployed. Stifel’s research shows that recent M&A activity trends towards acquisition targets in early stage development, i.e. companies with lead compound in pre-clinical and phase I-II development. This is following a decade when a majority of targets were companies with marketed products.



Aggregate M&A Deal Value. Only including companies with products that have a therapeutic focus. Source:SDC and FactSet as of May 31 2015



Biopharma acquisition targets by product development stage. Only including companies with products that have a therapeutic focus. Source:SDC and FactSet as of April 30 2015

Notable deals during the quarter include **AbbVie Inc.’s** completed purchase of cancer company **Pharmacyclis Inc.** for USD 21 billion and the two acquisitions in the midcap space attracting over a 100% premium to pre-offer market cap: **Alexion Pharmaceuticals Inc.** announced plans to acquire **Synageva BioPharma Corp.** for USD 9 billion, and **Celgene Corp.’s** deal to access **Juno Therapeutics Inc.’s** cancer and autoimmune disease pipeline for USD 1 billion.