

## General Market Overview

### PUBLIC MARKETS

As analysts BioCentury have been talking to put it; after last year, the life science stock markets had nowhere to go but up. Indeed, sector specialist investors have been seeing opportunities in reduced valuations, reallocating investments into the life science sector and fueling it to outperform broader indices. Several buysiders describe the climb as fragile due to political risk and low level of M&A activity in the first few months of 2017, but also stress that if M&A picks up and the perceived risk decreases, generalist investors will return to the sector after selling heavily in 2016.

All biotech indices outpaced the broader markets. The BioCentury Europe index traded up 21%, again helped by **Actelion**, previously on rumors of a takeout, now on agreeing to a USD 30 billion offer from **Johnson & Johnson**, a 23% market price premium and 72% premium to the price before rumors began circulating last November.

| Index             |   | Q1 2017 |   | 2017 |
|-------------------|---|---------|---|------|
| NYSE Arca Biotech | ↑ | 16%     | ↑ | 16%  |
| BC 100            | ↑ | 13%     | ↑ | 13%  |
| BC London         | ↑ | 11%     | ↑ | 11%  |
| NASDAQ            | ↔ | 10%     | ↔ | 10%  |
| S&P 500           | ↔ | 6%      | ↔ | 6%   |
| Dow Jones 30      | ↔ | 5%      | ↔ | 5%   |
| FTSE 100          | ↔ | 3%      | ↔ | 3%   |

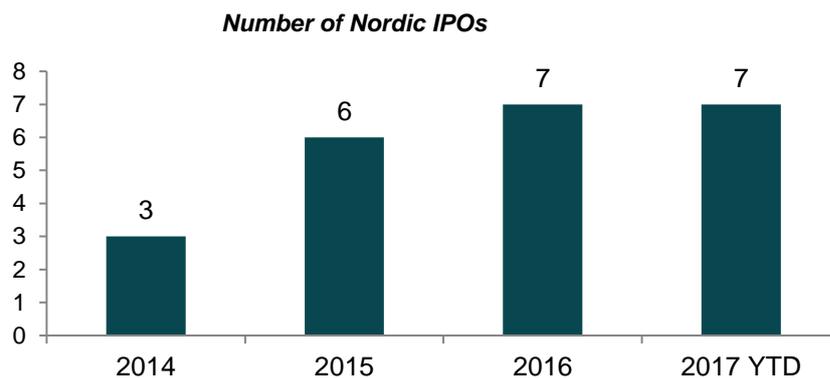
Strong biotech sector performance in Q1 resulted in sector indices outperforming broader markets. The BioCentury 100 climbed 13% with all market cap bands rising, led by large cap companies.

*Index performance. Source: BioCentury Financial Center*

Within the HealthCap portfolio of public companies, HealthCap VI company **Strongbridge** climbed 98% during the quarter after closing a solid financing round in late Q4 last year and at the same time acquiring the US rights to approved product Keveyis. HealthCap V company **Targovax** ended the quarter 76% up after falling back somewhat from its peak in mid March. Targovax presented encouraging top line two-year survival data from its clinical trial in patients with pancreatic cancer and also moved its listing to the Oslo main market.

### FINANCINGS

While there is still plenty of demand for follow-on financings, the global IPO climate has been weak with only 13 companies going public in Q1, raising USD 552 million. Only four listings were completed on NASDAQ in one of the quietest quarters of recent years. There is, however, a bright spot in the Nordic region, continuing to be a marketplace on the rise. During Q1, seven IPOs were successfully completed on the Nordic stock exchanges, creating a buzz and covered in a recent BioCentury article describing Stockholm as one of the hottest European markets for biotech IPOs after a nearly 15-year long deep freeze. HealthCap is joined by other local VCs and bankers in our belief that there are more to come as the sector attractiveness today reflects a process of maturing companies stretching back several years. Companies have, with strong venture backing, been built to attract global capital and to being opportunistic when there is a public financing window.



**Biotech IPO financings.** Source: BioCentury Financial Center

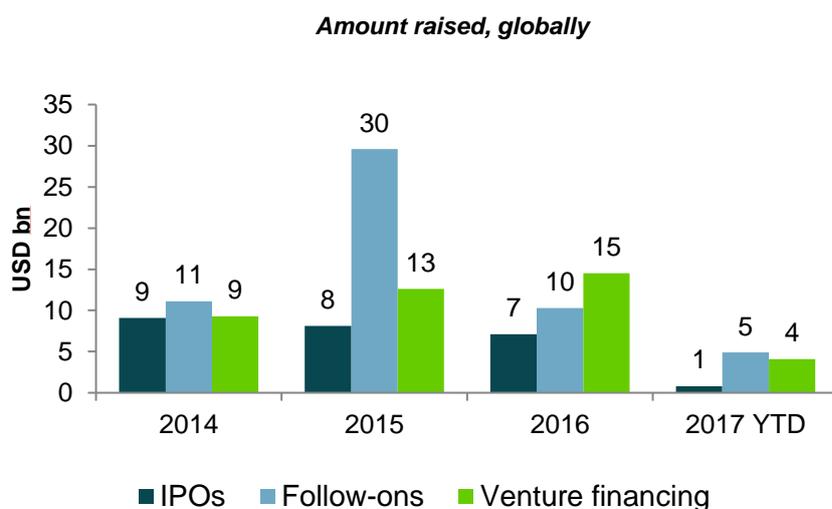


The Nordic stock exchanges are already level with last year's number of IPOs as seven were completed in Q1 alone.

HealthCap VI company **Oncopeptides** raised USD 73 million (excluding over-allotment) in its February IPO on the Stockholm main market, Sweden's largest IPO since the turn of the century when HealthCap I investment **PyroSequencing** completed its USD >100 million IPO in year 2000. Oncopeptides' IPO was also the largest on all European stock exchanges since **Circassia** listed in mid 2015.

Also, HealthCap made its 39<sup>th</sup> public listing as HealthCap V company **MIPS** completed its IPO on Stockholm's main market in March. Total deal size was EUR 59 million, of which the company raised EUR 15 million in gross proceeds. HealthCap and other major investors committed to sell in the IPO shares corresponding to the remaining EUR 44 million.

Globally, the follow-on financing climate has been strong in early 2017, nearly doubling the amount raised compared to the same period last year. Companies have been able to opportunistically raise money without a milestone event, something that has not been possible for the last four quarters without a heavy discount. The post-financing performance has been positive too, with 43 out of 54 companies trading up from their Q1 follow-on financing valuations.

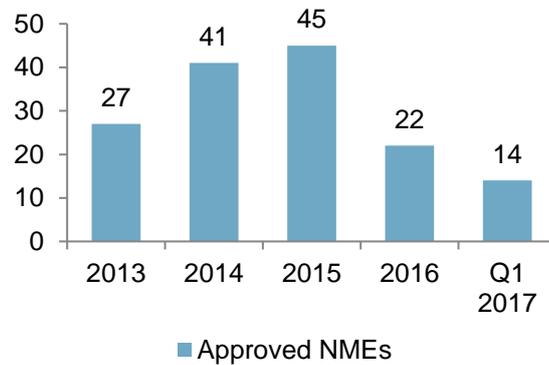


**Biotech financings.** Source: BioCentury Financial Center

## DRUG APPROVALS

A short follow-up on the hot topic of the declining number of approved novel drugs last year. This year has started at a high pace with 14 novel drugs receiving FDA approval during the opening quarter, compared to six and ten approvals in the first quarters of 2016 and 2015, respectively. Among indications receiving better treatment options are Duchenne muscular dystrophy, multiple sclerosis and Parkinson's disease.

**Number of approved novel drugs by FDA**



*FDA approved NMEs. Source: FDA*