

General Market Overview

PUBLIC MARKETS

The third quarter of 2017 was trading more or less flat until market sentiment was boosted by **Gilead's** late August announcement to acquire **Kite Pharma** in a USD 11.9 billion cash deal. Kite Pharma's post-announcement gain of 29% turned into a USD 2.3 billion increase in market cap and drove biotech indices to outperform broader markets for the third consecutive quarter.

Index		Q3 2017		2017
NYSE Arca Biotech	↔	9%	↑	37%
BC 100	↔	8%	↑	33%
NASDAQ Biotech	↔	8%	↑	26%
BC London	↔	5%	↑	24%
NASDAQ	↔	6%	↑	21%
S&P 500	↔	4%	↑	13%

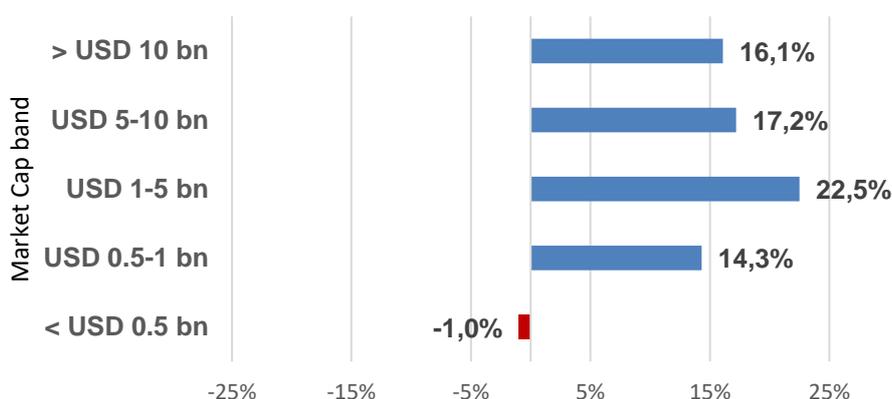
Broader markets performed well, but were outperformed by biotech indices. The NYSE Arca Biotech and the Nasdaq Biotech Index have recovered from the downturn last year and are now only slightly below the 2015 peak levels.

Index performance. Source: BioCentury Financial Center

While the 2015 peak levels were largely driven by investor rotation into the sector and increased generalist investor participation, analysts BioCentury have talked to conclude that current valuations are well rooted in reality, based on strong fundamentals. Bankers do not expect widespread buying in Q4 other than specialist investors putting their Kite Pharma returns to work. Few see the kind of clinical milestones that will bring generalists back, but some see the possibility of increased M&A levels attracting generalist attention.

Companies valued slightly below USD 1 billion were the best performing stocks in Q3 bringing the market cap band between USD 0.5 billion and USD 1 billion almost up on level with large-cap companies, year-to-date. The share price performance of micro-caps valued below USD 0.5 billion is clearly trailing for the first nine months of the year.

Year-to-date BC 100 performance by Market Cap

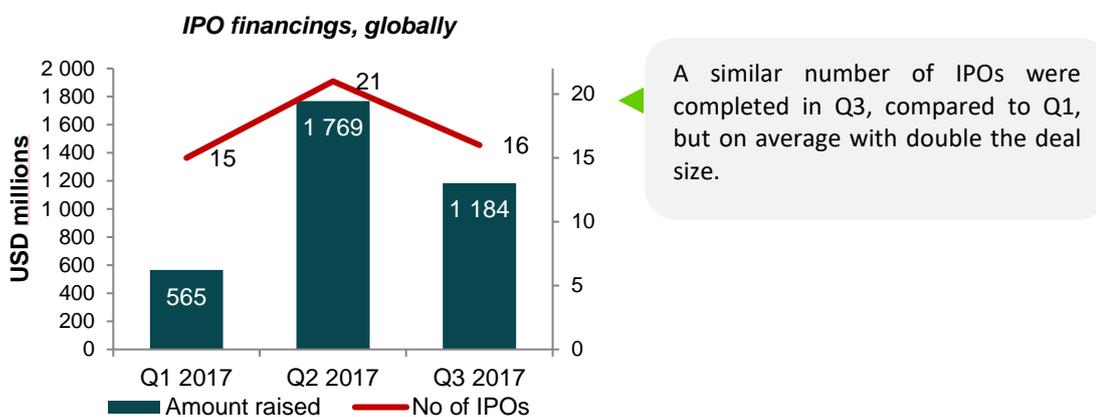


BC 100 YTD performance, by Market Cap band. Source: BioCentury Financial Center

In HealthCap's public portfolio, mostly small changes were observed during the quarter, but notable was **Orexo's** (Nasdaq OMX: ORX.ST) 66% climb after a positive opinion from a committee within the EMA for Zubsolv in the treatment of opioid dependence. After quarter-end, **Wilson Therapeutics** (Nasdaq OMX: WTX.ST) has climbed more than 40% after presenting positive long-term phase II data and reaching an agreement with the FDA to initiate pivotal phase III trial for the treatment of Wilson disease.

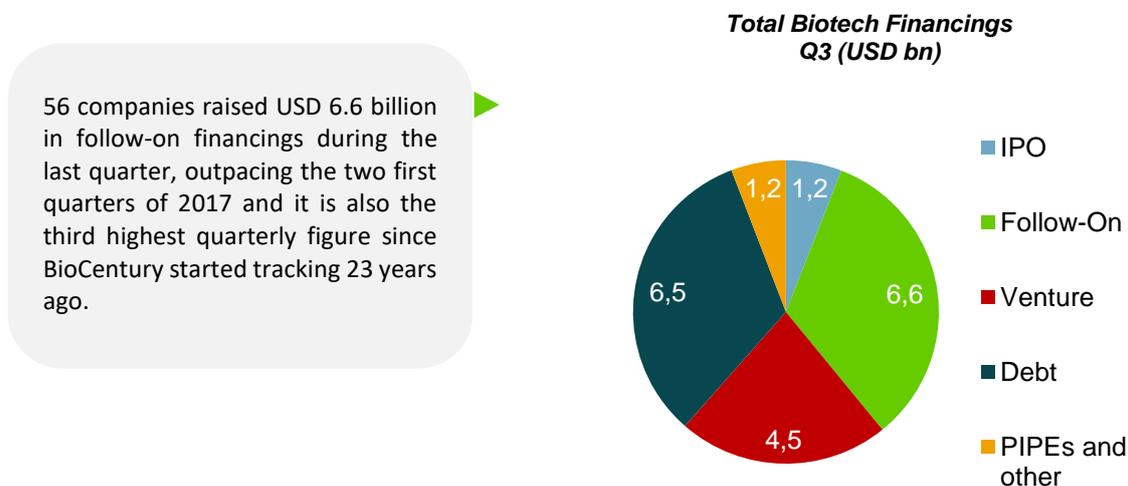
FINANCINGS

During Q3, 16 biotech IPOs were completed, nine of which were completed during the last two weeks of September. The first nine months of 2017 are on track with last year's numbers in terms of both number of IPOs and amount raised, and the median post-IPO performance is +24% for the IPO group of 2017, with the Q3 IPOs posting a very strong median gain of 42%.



Biotech IPO financings. Source: BioCentury Financial Center

Follow-on financings remain at a high level bringing the year-to-date figure to almost USD 17 billion, well above the USD 10 billion raised during the full year of 2016, but also a bit off the record-breaking USD 30 billion raised in follow-ons during 2015.



Q3 biotech financings. Source: BioCentury Financial Center

HealthCap V company **Altimune** (Nasdaq: ALT) completed a USD 15 million offering in August, and HealthCap VI investment **Strongbridge** (Nasdaq: SBBP) raised USD 50 million in July through a credit facility, together with a USD 3 million equity investment.

DRUG APPROVALS

In August, FDA issued a historic action by approving **Novartis'** product Kymriah, the agency's first approved CAR T gene therapy, to treat certain pediatric and young adult patients with a form of acute lymphoblastic leukemia (ALL). Also, in October, the FDA approved the second CAR T therapy as **Gilead's** Yescarta was approved to treat relapsed and refractory large B-cell lymphoma. Yescarta was gained through Gilead's acquisition of **Kite Pharma**. While analysts see no sector-moving clinical milestones in the remainder of Q4, the commercial launches of Kymriah and Yescarta are the most anticipated upcoming commercial milestones near-term.