

General Market Overview

PUBLIC MARKETS

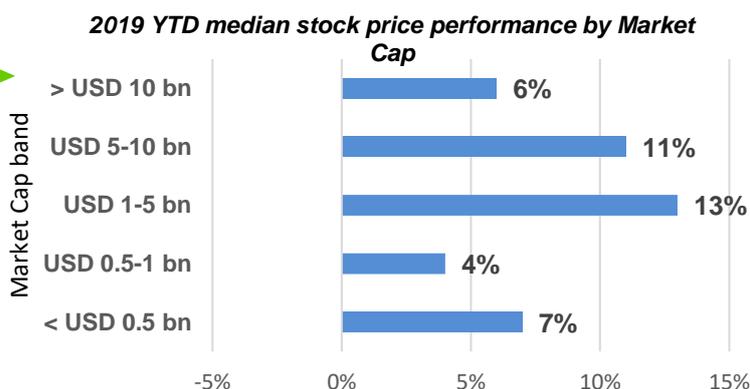
While the public markets were strong in Q1 of 2019, partly recovering the downturn ending last year, the second quarter was more disappointing as the sector continues to struggle to get the attention back of generalist investors. Among analysts that BioCentury have interviewed there is a consensus that the sector fundamentals remain strong, but the M&A activity has so far not been convincing enough to attract broader investors to the sector. There are also macro environment worries regarding political risks and expectations of an increase in the rhetoric on drug pricing, as we are entering the start of the campaigns for the 2020 US presidential election.

Index		Q2 2019		2019 YTD
NASDAQ	↗	4%	↑	21%
S&P 500	↗	4%	↑	17%
NYSE Arca Biotech	↘	-7%	↑	13%
NASDAQ Biotech	↘	-2%	↑	13%
BC 100	↘	-3%	↑	12%

The broader markets NASDAQ and S&P 500 both added 4% in Q2, and although being a slower increase than in Q1, they outperformed biotech indices as the latter all were in red numbers in Q2.

Index performance. Source: BioCentury Financial Center

Six out of ten companies tracked by BioCentury saw their stock prices decline in Q2. However, the same share of companies are still trading above their closing prices from last year.



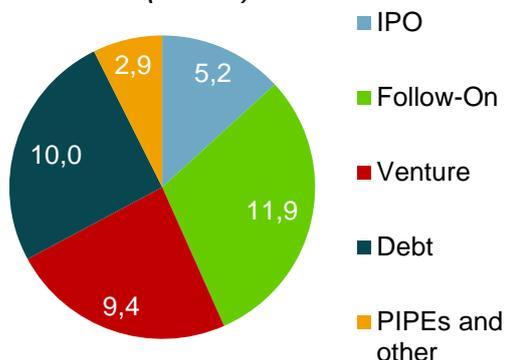
Median stock price performance by market cap band. Source: BioCentury Financial Center

In HealthCap's portfolio, the impact of general sector performance was seen among the public companies as six out of ten companies traded down in Q2, but there were positive exceptions as HealthCap V companies **MIPS** and **Bonesupport** added 38% and 45%, respectively, to trade around all-time-high levels. HealthCap VII company **Vicore** and HealthCap VI company **Oncopeptides** also managed to resist the general downturn, adding 15% and 13% to their respective market caps.

FINANCINGS

After a relatively slow first quarter, IPO financings took off in Q2 and with several large IPOs completed in late Q2 total numbers reached USD 3.7 billion, raised across 23 IPOs. Many companies in hot therapeutic areas were able to price at the top of their proposed range or above it, followed by strong initial stock performance. Genetic diseases company **Stoke Therapeutics** added 42% to its valuation in its first trading day and genomics company **Personalis Inc.** climbed 78% over the two first trading days.

**Total Biotech Financings
YTD (USD bn)**

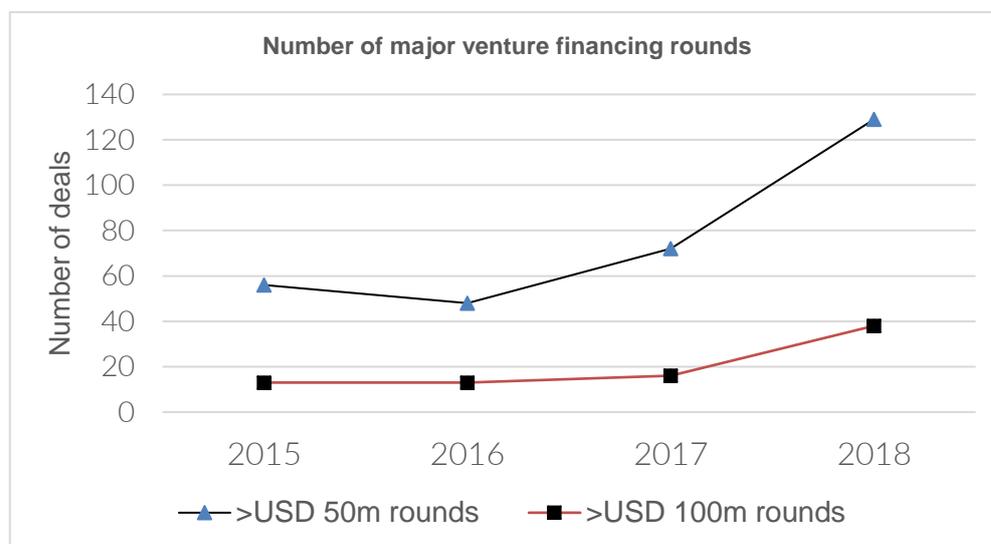


Although public follow-on financings are 20% lower in total amount raised, compared to the same time last year, the impression is that companies raising money have been able to do so without major difficulties. IPO levels are on par with the record numbers of 2018.

Financings H1 2019. Source: BioCentury Financial Center

Public HealthCap VI company **Oncopeptides** closed a EUR 69 million directed share issue on June 28th to allow for preparations for the US market launch of melflufen, following the company's announced intention to apply for accelerated approval in the US after discussions with the FDA.

Venture financings amounted to a bit less than USD 10 billion in the first half of 2019, some USD 2.5 billion short of last year's number for the first six months, but the number of large financings have increased over the last couple of years.



Source: evaluate.com

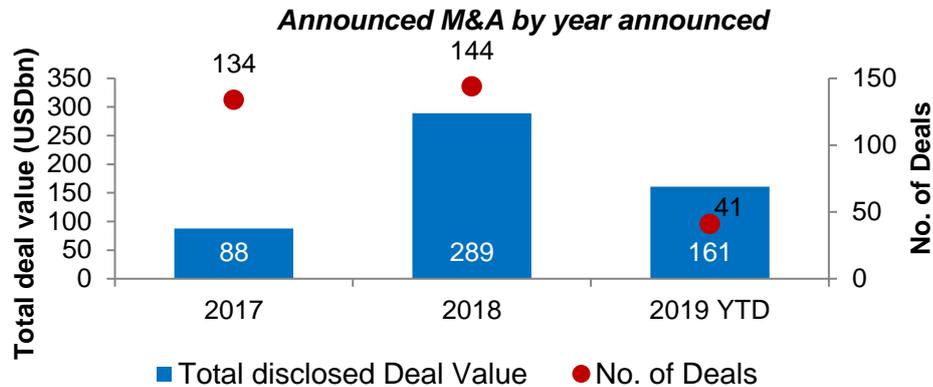
The trend towards larger financings have continued into 2019. BioCentury's financings database reveal that 69 financings above USD 50 million have been completed in the first six months of 2019, and 20 deals above USD 100 million in gross proceeds.

HealthCap V company **Pulmonx** closed an oversubscribed USD 65 million financing enabling an expanded US launch and global commercialization of the Zephyr valve, a less invasive treatment option for severe emphysema/COPD.

M&A

After a good start in Q1, the M&A activity was slow in Q2 until the mid-June announcement by **Pfizer Inc.** that they had reached an agreement to acquire **Array Biopharma Inc.** for USD 11 billion, the innovation-

driven deal many analysts were waiting for, that could attract broader investor interest into the sector if followed-up by a few more similar deals. Another major deal did follow, with the end-of-June USD 62 billion acquisition of **Allergan plc** by **AbbVie Inc**, but analysts do not consider this deal the boost needed to the sector as it, although adding revenues, is not seen in terms of long-term value creation. AbbVie's revenues from Humira are expected to drop in 2023 when biosimilars can enter the US market and Humira sales comprised some 60% of the company's revenues last year, a number that will drop to approximately 41% after Allergan's revenues are added to the top line, BioCentury analysis shows.



M&A. Source: BioCentury Financial Center, as of July 9, 2019

The USD 80 billion BMS-Celgene deal in Q1 and the USD 62 billion AbbVie-Allergan deal in Q2 make up for the lion's share of the total disclosed deal value in 2019 YTD.

Recent acquisitions have included high premiums, driven by strong competition for a few assets and the need among big pharma to fill pipelines. It may also be explained by the market correction at the end of 2018, taking down valuations. As Bloomberg research shows, several deals in 2019 have included premiums well above the five-year average of 57%, e.g. **Merck's** acquisition of **Immune Design** at a 291% premium and the **Roche – Spark Therapeutics** deal at 138%. In June, HealthCap hosted its 21st annual CEO conference where guest speaker Dr. Gil Bar-Nahum, Managing Director and head of biotechnology with Jefferies, showed that the 30 days prior median premium was as high as 95% in 2018 and 75% YTD in 2019 in transactions with deal values above USD 100 million.

In HealthCap's portfolio, private HealthCap VI company **Trimb Holding AB** announced a deal where **Karo Pharma AB** acquires Trimb for SEK 3.4 billion (EUR 319 million), subject to approval from competition authorities.