

General Market Overview

PUBLIC MARKETS

The downward trend for public biotechs continued into Q3, falling behind broader indices, which in turn traded flat in Q3. Analysts BioCentury have been talking to fear the sector underperformance will continue in 2020, due to political uncertainty, but see some positive spots in high quality IPOs being completed and interesting data readouts in the ending quarter of 2019.

Index	Q3 2019	2019 YTD
NASDAQ	→ 0%	↑ 21%
S&P 500	→ 1%	↑ 19%
NASDAQ Biotech	↓ -9%	→ 3%
NYSE Arca Biotech	↓ -12%	→ 0%
BC 100	↓ -11%	↓ -3%

The biotech sector indices are down to levels where they started the year, whereas broader indices are stable at levels around all-time-high.

Index performance. Source: BioCentury Financial Center

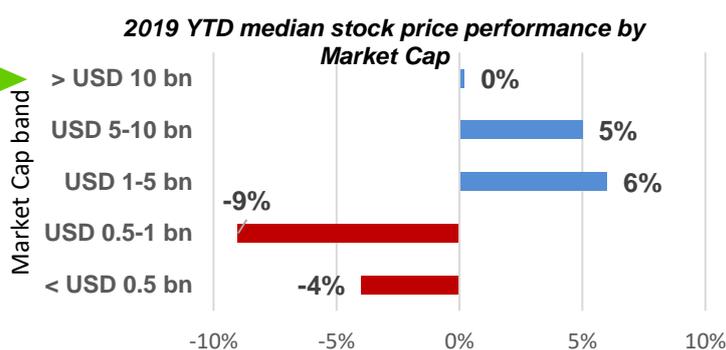
Contrary to the biotech sector, medical technology companies across various markets have outperformed broader indices in 2019 by a wide margin.

Stocks	2019 YTD
Med Tech - Small	↑ 42%
Med Tech - Large	↑ 32%

Medical Technology companies' performance. Source: Canaccord Genuity, September 2019.

Analyst consensus is still that increased M&A levels could attract generalist investor interest back to the sector, but the two major M&A deals announced in Q1 and Q2, **BMS-Celgene** and **AbbVie-Allergan**, still make up for the lion's share of total disclosed deal value in 2019. Another 15 deals were announced in Q3, but none of the eight deals with disclosed deal values was above USD 3 billion.

Companies valued above USD 1 billion are still in positive territories for the first nine months, despite losing value in the last two quarters. Small- and micro-cap companies have fallen into red numbers YTD.



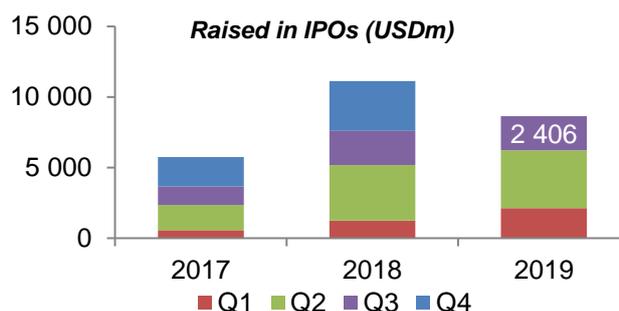
Median stock price performance by market cap band. Source: BioCentury Financial Center

HealthCap's public portfolio companies were also affected by general market sentiment, with the exception of Swedish orthobiologics company **Bonesupport AB**, trading flat during Q3 and closing the quarter 52% up year-to-date.

FINANCINGS

The number of companies filing for an IPO has steadily increased through the year, as expected by many analysts, ahead of the presidential election next year. The IPO queue mostly consists of later-stage companies, to which markets have been most receptive this year. Nine out of ten companies this year have been able to price within of above its proposed range, but the six months of sector underperformance is putting pressure on valuations, and lately many completed IPOs have priced in the lower end of the range.

The IPO market demonstrated strong momentum in the first half of 2019. In Q3, USD 2.4 billion was raised, a number similar to the corresponding quarter last year.

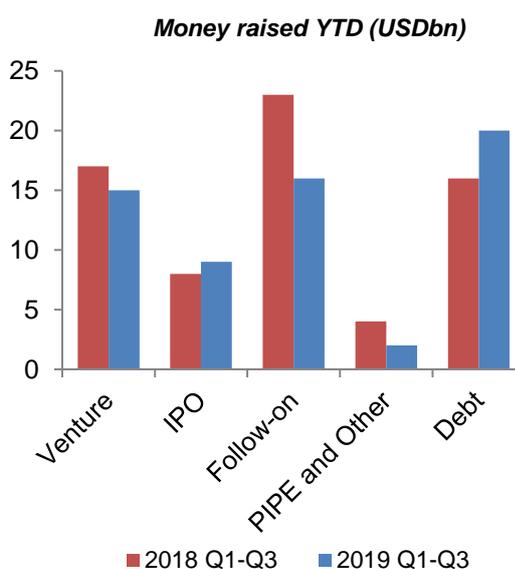


Amount raised in IPOs. Source: BioCentury Financial Center

The median aftermarket performance of completed public listing through Q3 has been -5%, but as many as one-third has traded down 25% or more.

Bankers say that the markets could have weakened, as demonstrated by high-profile offerings posting mediocre performances in mid-October. **Vir Biotechnology Inc** managed to price within the offered range, but traded down 30% in the aftermarket and **BioNTech SE** downsized its IPO offering for a post-IPO valuation about USD 1 billion lower than targeted. Earlier in October, **ADS Therapeutics S.A** pulled its proposed USD 200 million IPO, citing market conditions. However, the same week, HealthCap portfolio company **Aprea Therapeutics** completed an oversubscribed and up-sized IPO on Nasdaq at the midpoint of the pricing range, raising USD 98 million, and climbed 37% in its first day of trading.

While IPO and debt financings are at levels somewhat higher than during the corresponding period last year, other financing types have fallen behind last year's pace.



Amount raised by financing type. Source: BioCentury