

General Market Overview

PUBLIC MARKETS

The biotech sector indices had their ups and downs during the first three quarters and most of them were flat as of early October after a weak third quarter. In Q4, however, the biotech sector outperformed broader markets, fueled by a strong clinical news flow and good M&A activity.

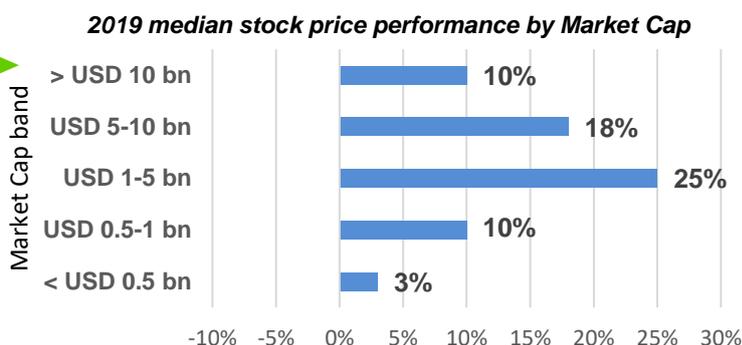
Analysts BioCentury have interviewed see indications that generalist investors are ready to re-enter the biotech sector again after being absent for several years. Stocks have performed well and yet large cap biotechs are at historically very attractive valuations.

Index	Q4 2019	2019
NASDAQ	↑ 12%	↑ 35%
S&P 500	↔ 9%	↑ 29%
NASDAQ Biotech	↑ 21%	↑ 24%
NYSE Arca Biotech	↑ 20%	↑ 20%
BC 100	↑ 18%	↑ 14%

Despite catching up in Q4, the biotech sector gains in Q4 were not enough to beat the broader markets over the year.

Index performance. Source: BioCentury Financial Center

All market cap tiers posted strong gains in Q4, recovering the losses from Q3 and closing the year in positive territory. Small caps gained a median of 7% in Q4, closing the year at a median gain of 3%, a bit behind larger caps.

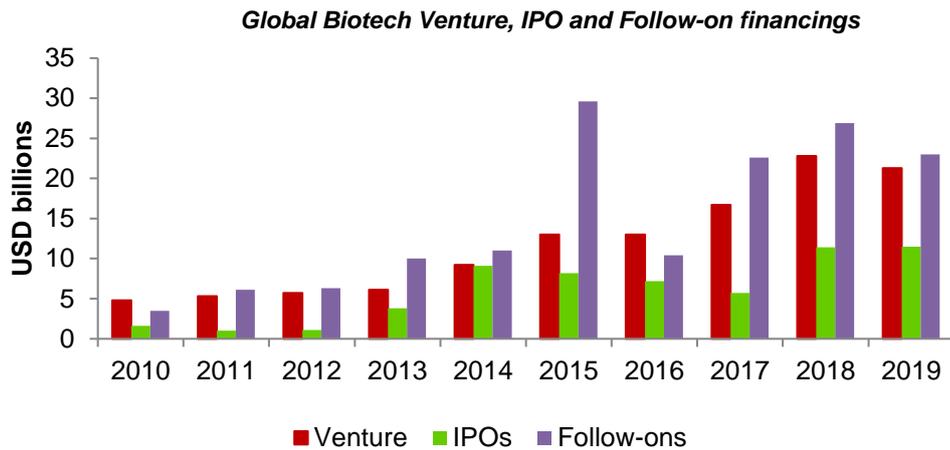


Stock performance by Market Cap. Source: BioCentury Financial Center

Heading into 2020, the market sentiment is positive, much different from a year ago after one of the worst quarters for biotech stocks this century, ending 2018. Now the sector fundamentals remain strong and should be able to resist downward pressure from the uncertainty around the US elections, at least some analysts believe.

FINANCINGS

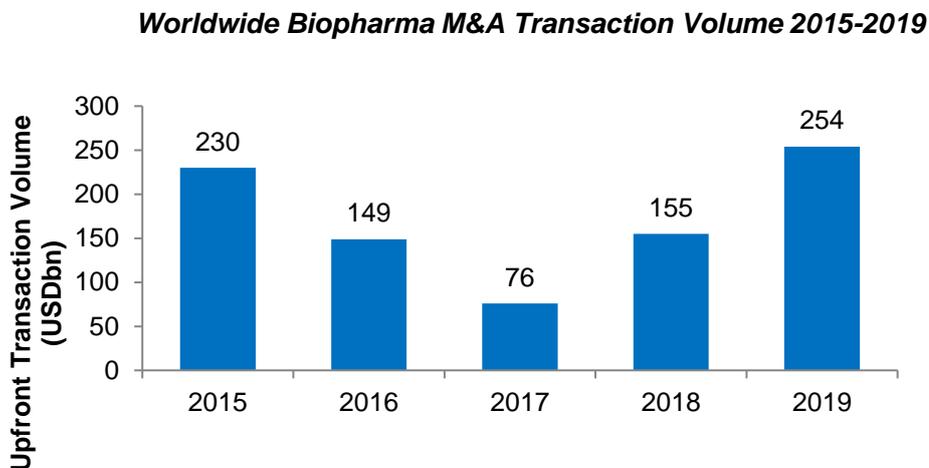
In line with analyst expectations the number of companies raising money through follow-on financings or filing for an IPO increased during the year, ahead of the presidential election. In Q4, 32 IPOs priced, about a third of the total number of IPOs in 2019. Most IPOs completed in Q4 traded successfully up until year end, adding a median of 31% to their market cap. Seven companies even saw their valuations more than double and among the best performing Q4 IPOs was HealthCap portfolio company **Aprea**, climbing 210% from its October 2nd IPO, in which the company raised USD 98 million. Q4 was also the fourth-largest quarter ever in terms of total cash raised in follow-ons, according to BioCentury's analysis. Public companies were in general able to close follow-on rounds at relatively small discounts, with the median discount being 10% in Q4 and even less in bigger deals. Investors expect that early 2020 will continue along the same path, companies are likely to raise money before election seasons hits full stride.



Biotech financings 2010-2019. Source: BioCentury Financial Center

M&A

Already in early January, the M&A activity in the sector got off to a good start as **BMS** announced the acquisition of **Celgene** in a deal valued at almost USD 80 billion. Several large deals followed, and the final quarter of 2019 was no exception as five acquisitions announced in Q4 alone exceeded USD 2 billion in upfront value, with the largest being **Novartis'** acquisition of **Medicines Co** in November for USD 9.7 billion.



Worldwide Biopharma M&A. Source: HBM Pharma/Biotech M&A Report 2020.

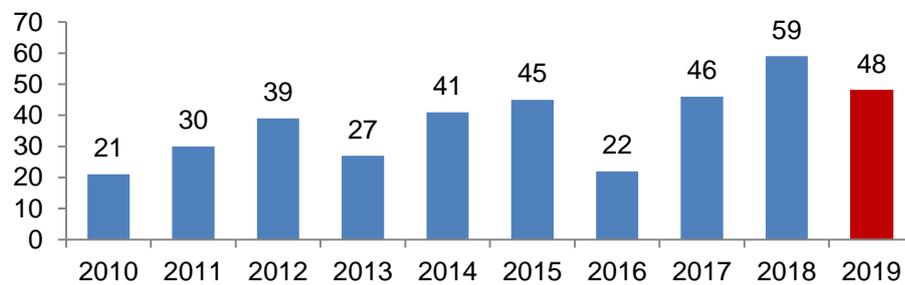
A recent HBM Pharma report summarizes 2019 as a record year in terms of biopharma M&A. The total deal volume of completed and announced deals reached USD 254 billion, some USD 100 billion higher than in 2018. Especially the US biopharma deal activity was strong with twelve USD 1 billion plus deals closed, whereas European deal volume outside the USD 63 billion **Abbvie/Allergan** deal was a more modest USD 10 billion in total.

For public companies, the premiums paid in acquisitions reached an average of almost 100%, as usual with the highest premiums paid for smaller, clinical-stage companies.

DRUG APPROVALS

US novel drug approvals was off to a slow start due to the partial US government shutdown in early 2019. The first new drug approval of 2019 was approved by the FDA in early February, but the pace steadily increased throughout the year and after 21 approvals in Q4, a total of 48 novel drug approvals was reached, clearly above the yearly average of 37 over the decade. Many approvals were considered highly innovative with 42% identified as first-in-class with mechanisms of action often very different from those of existing therapies. Approximately 44% of approvals had orphan drug designation, approved to treat rare diseases, including two treatments for cystic fibrosis and a new medication to treat patients with sickle cell disease.

Number of approved novel drugs by FDA



FDA approved Novel Drugs 2010-2019. Source:FDA