

General Market Overview

PUBLIC MARKETS

The stock markets were in general doing well until mid-February, when the COVID-19 outbreak began to impact public markets world-wide. Biotech stocks resisted a little longer and the Nasdaq Biotech Index (NBI) was trading flat until early March, but it was obvious that biotech stocks were not immune to the bear market. The NBI was down as much as 22% and the S&P 500 had dropped more than 30% as of mid-March but the markets have recovered since. The NBI even reached a new all-time-high in early April.

There have been several bright spots among biotech companies, mainly driven by news related to COVID-19 R&D efforts. Many companies have seen their valuations taking dramatic turns in the race to develop treatments for or vaccines against the virus.

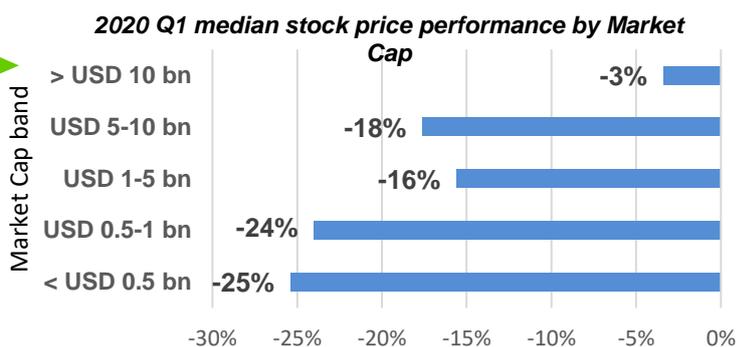
As we enter the second quarter, investors may pay less attention to many otherwise value-driving catalysts in the light of the virus outbreak. Investor focus now lies in seeking signs that the pandemic tide is shifting, as BioCentury concluded the current investor sentiment. Market sentiment could indeed change rapidly if strong evidence of treatment were to be presented. It remains to be seen how broader markets develop going forward as economies around the globe has come to a sudden stop. In a recent Fortune article, both Morgan Stanley and Goldman Sachs have estimated Q2 US GDP drops around 30% and unemployment numbers climbing to 12%. Some analysts argue the world is already in a recession.

<i>Index</i>	<i>Q1 2020</i>	<i>YTD</i>
NASDAQ Biotech	↓ -10%	↓ -10%
NYSE Arca Biotech	↓ -12%	↓ -12%
BC 100	↓ -13%	↓ -13%
NASDAQ	↓ -14%	↓ -14%
S&P 500	↓ -20%	↓ -20%

Stock markets were in red numbers in the first quarter. Biotech indices performed better than broader indices, however, and have climbed further in April to trade flat, or even up, year-to-date.

Index performance. Source: BioCentury Financial Center

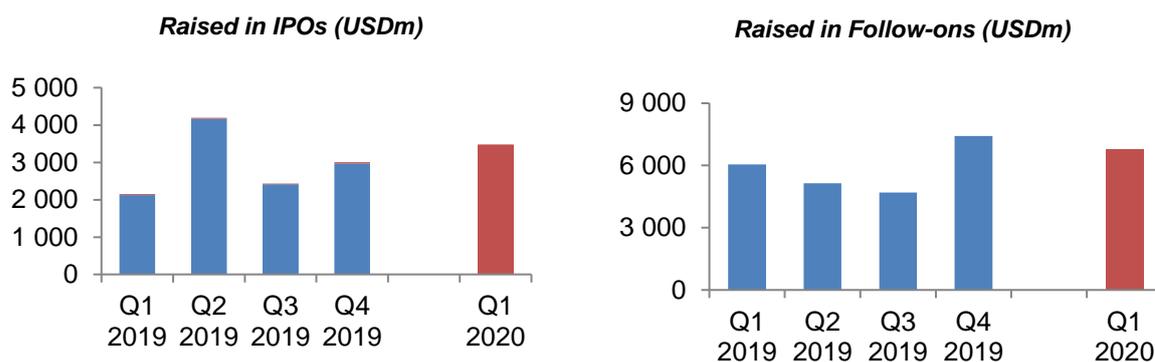
Large cap biotech companies suffered the least on the stock markets in Q1, but mostly saved by a few companies trading up on the back of COVID-19 related clinical news-flow.



Stock performance by Market Cap. Source: BioCentury Financial Center

FINANCINGS

Public financings were off to a good start in early 2020 and the total amounts raised in IPOs and follow-on financings were high in comparison to previous quarters, but only one IPO was completed in March and the Nasdaq IPO queue is short. In a recent survey conducted by BioCentury, a majority of companies said they are deferring their public listings, some are proceeding at a valuation cut and about a quarter are proceeding with their IPO process as planned. HealthCap V company **Pulmonx** recently decided to postpone their planned IPO.



Biotech xxx 2010-2019. Source: BioCentury Financial Center

There have been no clear signs of a slowdown in neither public follow-ons nor venture financings yet, but there is a fear that it is inevitable and almost two out of three companies expressed concerns about ability to raise money near-term. Hence, most companies are taking measurements to extend their runway, through reductions in travel, consultant costs, clinical program spending and lowered senior management salaries. About 20% of companies have had staff layoffs. New projects are often delayed or cancelled, and non-core clinical trials are often put on hold.

As almost every other company has less than one year of cash, many companies are exploring financing alternatives and investors believe the ability to get to value driving milestones will affect ability to get future funding. Most companies refrain from selling off assets, instead preferring out-licensing efforts and debt financing, including government loans to smaller private companies.

DRUG DEVELOPMENT

Besides financing concerns, most companies report difficulties in conducting clinical trials, due to the Corona crisis. Reasons mentioned creating the most concern going forward was ability to enroll patients to clinical trials, difficulties in getting site access, concerns regarding health of workforce and also access to supplies.