

General Market Overview

PUBLIC MARKETS

In the first quarter of 2020, the stock markets fell heavily in March in a sell-off driven by fear for the consequences of the coronavirus outbreak. The markets started recovering in the ending week of Q1 and the rebound has continued through Q2 as generalist money has returned to the biotech sector. The amounts pouring into biotech in Q2 has been on record-setting levels for a number of reasons, according to analysts BioCentury have been talking to. Healthcare investments are as always seen as a defensive pick in uncertain times, but a combination of low interest rates and stimulus from the Federal Reserve has also driven investors more into equity investments, where biotech is believed to have good growth opportunities as opposed to many other sectors as the global economy is still struggling to restart.

NASDAQ recorded one of its strongest ever June performances. A recent report from Brookline capital markets concludes the NASDAQ Biotech Index (NBI) has jumped nearly 50% since its March 16th low and the top 10 performers in the NBI are all up by more than 175% over the last few months. NBI broke through its all-time high on May 11 and largely stayed above that mark thereafter. A remarkable performance considering that much of the world is still highly afflicted by the virus outbreak.

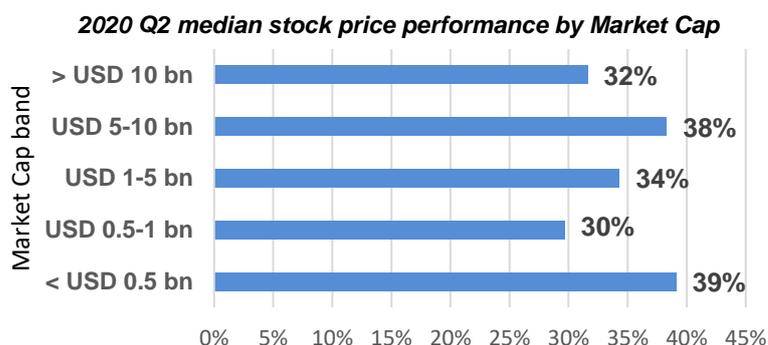
Investors are usually cautious about healthcare investments in a US presidential election year, but many investors believe generalists will remain confident in being overweight in the sector until there are clear signs that the broader economy can start its recovery, which is believed to be triggered by the biotech sector's ability to deliver a broad availability of a COVID-19 vaccine or treatment.

Index		Q2 2020		YTD
BC 100	↑	31%	↑	14%
NASDAQ Biotech	↑	27%	↑	13%
NYSE Arca Biotech	↑	28%	↑	13%
NASDAQ	↑	31%	↑	12%
S&P 500	↑	20%	↓	-4%

All tracked indices performed very strongly in Q2, recovering the lost valuations from Q1, and then adding some. Only the broader S&P 500 is in red numbers year-to-date, as of June 30th.

Index performance. Source: BioCentury Financial Center

All market cap bands rebounded in Q2, putting them back in positive numbers for the year so far. The microcaps had the biggest median gains, but also the highest percentage of companies posting declines, whereas very few companies declined in other market cap bands.



Stock performance by Market Cap. Source: BioCentury Financial Center

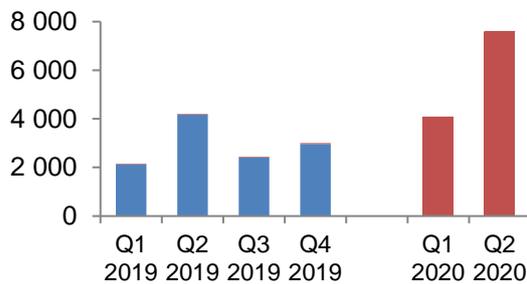
All public HealthCap portfolio companies traded up in Q2 with the median gain being +56%.

FINANCINGS

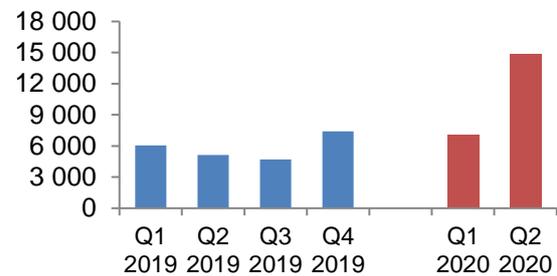
After a few normal months in terms of capital raised by public companies, both IPO and follow-on activity roared in June, driven by the strong returns on the public markets. The amounts raised in Q2, both through IPOs and follow-ons, were higher than in any single quarter in the past decade, according to BioCentury data, and adding venture financings to the totals results in half-year numbers for total financings already almost up to the full-year totals of previous years.

In Q2, USD 7.6 billion was raised in 34 IPOs, beating the previous record from the past decade when 28 companies raised USD 4.2 billion in Q2 of 2019.

Raised in IPOs (USDm)



Raised in Follow-ons (USDm)

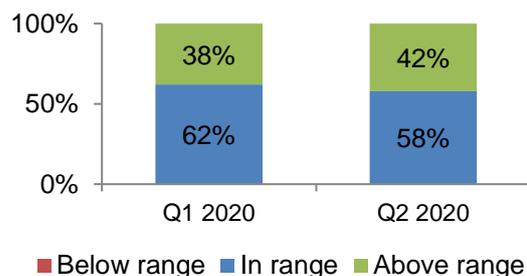


Biotech Financings by quarter. Source: BioCentury Financial Center

Follow-on financings reached equally impressive numbers as USD 14.8 billion was raised in 96 financings in Q2, well above the previous record for the past decade when USD 11.4 billion was raised in Q1 2015.

Lower stock market volatility has helped to attract companies to public fund raising efforts. Even after a record-beating month of IPOs, the IPO queue still consists of almost 60 companies, with more than half joining since June 1st. Strong investor interest in IPOs and solid post-IPO performance bring many companies to test the waters. Nearly every IPO in the past months has been upsized and/or priced above the midpoint and biotech companies in particular have driven the healthcare sector to make up for almost two-thirds of total IPO activity, according to a recent report from Renaissance Capital.

IPO Pricing vs Range (USDm)



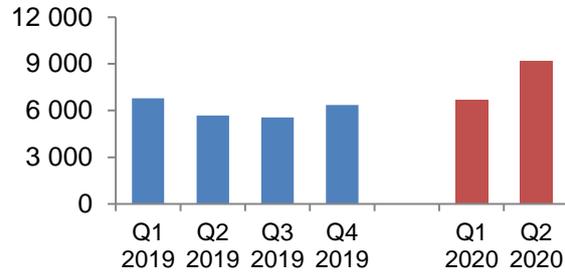
All completed IPOs in the sector in 2020 have priced in or above the initial pricing range. In Q3, so far, half of the companies have priced in range and the other half above.

Pricing of Biopharma IPOs in 2020. Source: RBC Capital Markets

In the HealthCap portfolio, **Fusion Pharmaceuticals** completed its IPO on NASDAQ in late June, raising USD 213 million in an upsized IPO, priced above its range. Public companies **Bonesupport** and **Oncopeptides** completed directed share issues, raising approximately USD 39 million and USD 144 million, respectively.

No slow-down has been observed in venture financings either. More than USD 9 billion was raised in venture rounds in Q2 alone.

Raised in Venture financings (USDm)



Biotech Venture financings by quarter. Source: BioCentury Financial Center

M&A

This year is still very slow in terms of mergers and acquisitions. No more than USD 23 billion in disclosed deal value has been announced so far, with the largest deal in Q2 being **Novo Nordisk's** acquisition of **Covidia Therapeutics** in June for USD 2.1 billion whereof USD 0.7 billion in upfront cash.

DRUG DEVELOPMENT

The restrictions caused by the pandemic have forced companies to adjust how they run their trials, e.g. looking at possibilities to run site-less trials and using remote monitoring. The approval process has so far been managed well by the companies and the FDA. More NMEs have been approved in the first six months of 2020 than in any first six months of the previous five years as the FDA has already approved 25 NMEs, year-to-date. The FDA is however still not performing any pre-approval site inspections, often planned early in the review process, potentially affecting the number of approvals in the second half of the year. The agency is planning to start domestic inspections again in late July though, in selected locations.