

General Market Overview

HealthCap hosted its 18th annual CEO conference on June 16, inviting CEOs of portfolio companies, together with other special invitees. Looking back at 20 years in the business, HealthCap shared some thoughts and observations on how the biotech industry has emerged, and the portfolio companies with it. Dominic Hollamby, global head of healthcare at Rothschild, shared some observations and thoughts on healthcare public markets and M&A climate, and we would like to share some of them in this Q2 General Market Overview.

Also celebrating its 20th anniversary this year, monthly journal Nature Biotechnology concludes in a recent edition that biotech is now a major contributor to the US economy, with conservative estimates indicating a contribution to GDP of more than 2% and an annual revenue growth of more than 10% over the last decade. Internationally, at least 20 countries have articulated strategies that explicitly identify biotech as critical to their future economic and employment growth.

PUBLIC MARKETS

As we move into the third quarter, the biotech industry, just like many other sectors, is working on finding out the impact of the Brexit vote. According to analysts BioCentury have been talking to, opinions diverge. There are those who consider the biotech industry as less sensitive to political turbulence and somewhat insulated from economic uncertainty. Others highlight the big pharma sector as the defensive play when markets are volatile, which is why smaller biotech stocks initially fell as investors turned to a safer haven.

The initial stock market reaction to the Brexit was two-sided. Companies with major exposure to the European markets are expected to suffer from the depreciation of the British Pound and the Euro. Companies such as **Alexion**, **BioMarin** and **Amgen** fell by 9%, 8% and 4%, respectively, on the day the Brexit became reality. However, several companies based in the UK, such as **GlaxoSmithKline** posted a slight uptick on the same day as their sales and earnings get denominated to the Pound.

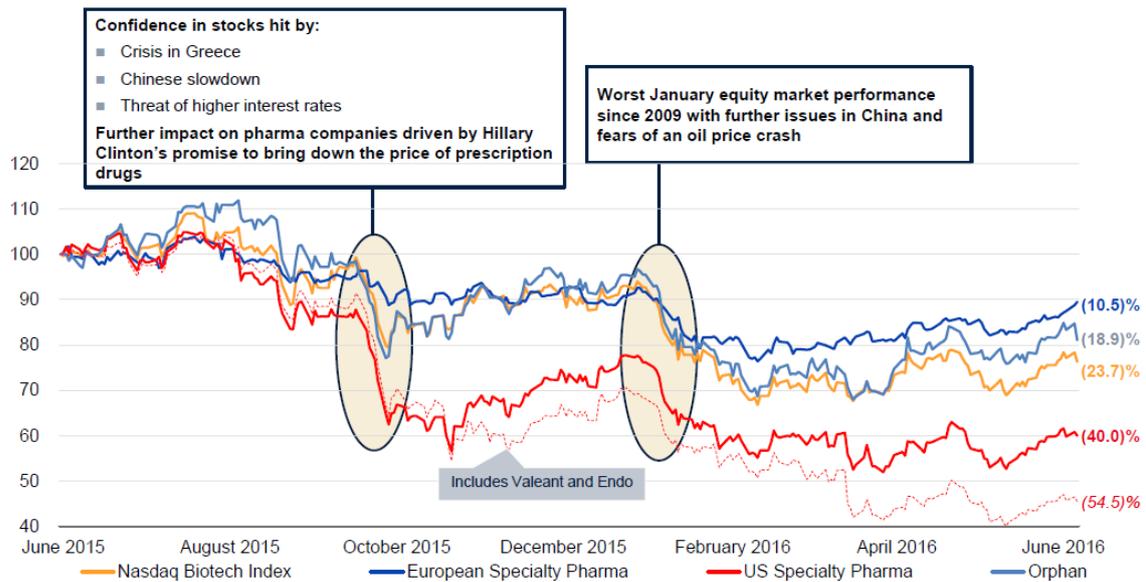
Index		Q2 2016		2016
FTSE 100	↗	5%	↗	4%
Dow Jones 30	↗	1%	↗	3%
S&P 500	↗	2%	↗	3%
BC London	↗	7%	↘	-1%
NASDAQ	↘	-1%	↘	-3%
NYSE Arca Biotech	↗	2%	↘	-21%
BC 100	↗	2%	↘	-25%

Share indices fell as Brexit threw EU into political and economical uncertainty, but bounced back immediately. Still, it is a slow year for biotech, although less so for the European biotechs compared to their US counterparts. Analysts see little upside for the sector until after the US presidential election in November.

Index performance. Source: BioCentury Financial Center

Not only Brexit stirred the London market during Q2, the share price drop of **Circassia Pharmaceuticals** may have a lasting effect on the UK biotech sector, according to BioCentury analysis pointing at similar long term effects historically. As late as Q1 of 2014, Circassia became the biggest UK biotech IPO of all, raising GBP 200 million for a post money valuation of GBP 581 million, and the company raised an additional GBP 275 million last year to finance its pipeline of allergy vaccines. The leading phase III study failed, and concerns on how the failure will have implications on the company's trio of allergy vaccines in phase II studies led the share price to drop 66% in one day, dragging the BC London index more than 5%.

Although the biotech indices closed Q2 in positive territory, Rothschild's graph depicts the sell-off in the pharma/biotech space during the past year:



One-year stock performance. Source: Rothschild

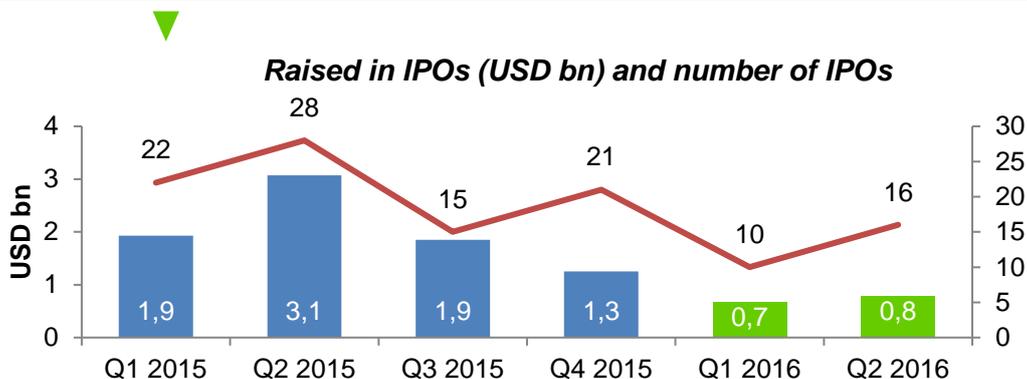
PUBLIC FINANCINGS

The IPO window may not be what it has been the last couple of years, but Rothschild argues that the life science IPO window has continued, whilst it has shut for several other sectors.

HealthCap VI company **Wilson Therapeutics** defied the weakening markets and completed successfully its IPO in May on Nasdaq Stockholm's main market raising SEK 436 million. The proceeds will be used to further advance its asset Decuprate to treat Wilson's disease, recently completing enrollment in a phase II trial.

After the quarter, HealthCap V company **Targovax** listed on the Oslo Axess stock exchange following a NOK 110 million private placement and HealthCap VI company **GenSight Biologics** completed a EUR 40 million IPO on Euronext Paris, which may be increased to EUR 46 million if an over-allotment option is fully exercised.

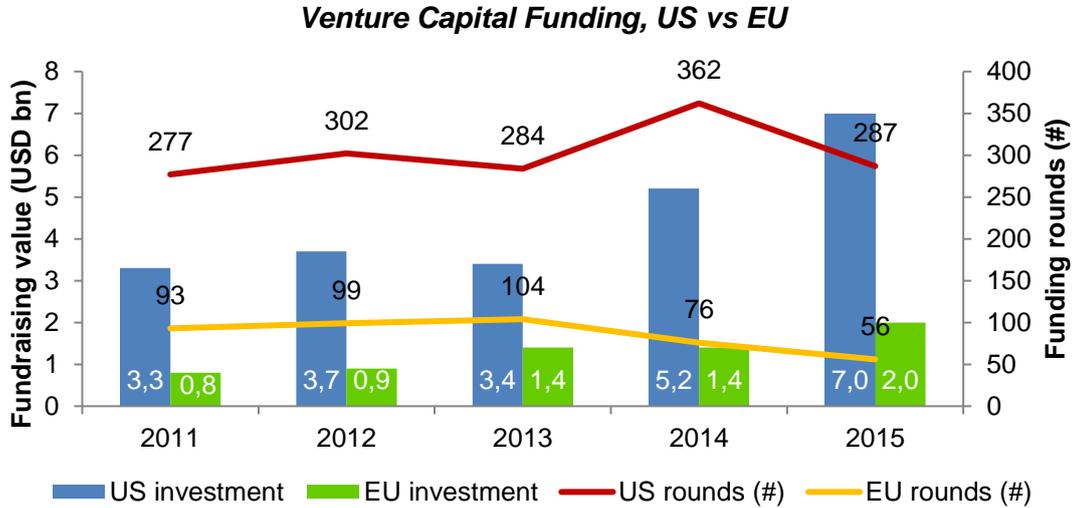
The amount raised by the IPO class of 2016 does not reach the levels from last year, but the 16 companies completing an IPO during last quarter at least outnumbers the companies going public in Q3 of 2015



IPO financings. Source: BioCentury Financial Center.

OTHER FINANCINGS

Venture capital funding has increased in recent years in dollar amounts, although the number of financings have remained relatively stable. Funding is still concentrated in the US, according to Rothschild's analysis, with selected large rounds outside.



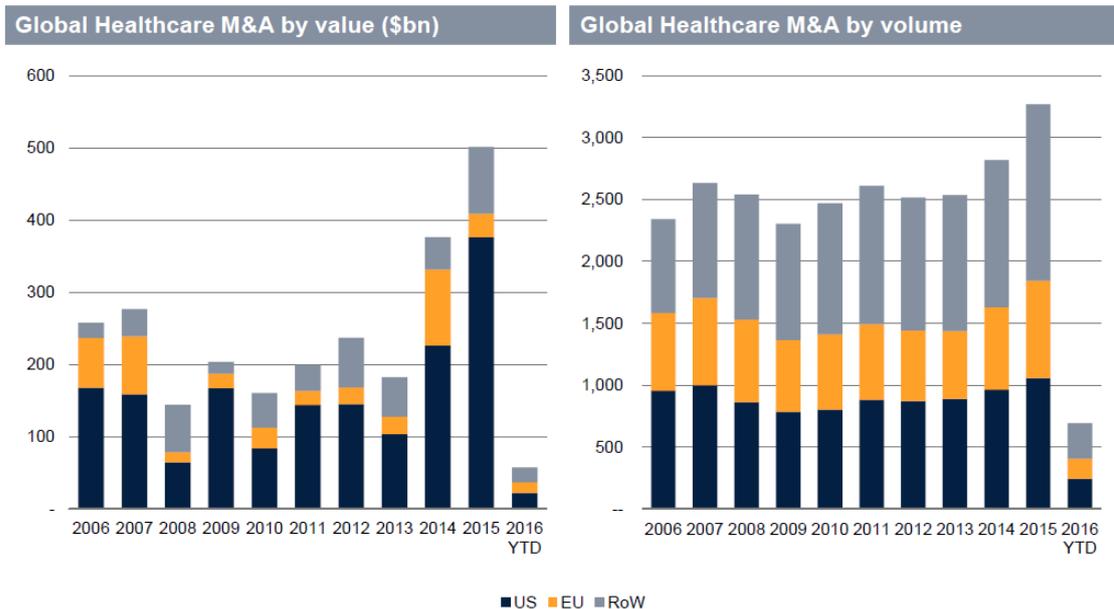
VC funding. Source: Rothschild

Oncology continues to be the largest therapeutic area with more than twice the number of deals than the second-placed therapeutic area (anti-infectives/anti-virals) and almost three times the amount invested than the runner-up (cardio) in 2014-2015.

M&A

A recent analysis by Morgan Stanley, putting M&A appetite in historical context, shows increasing levels of offer intensity following six to twelve months of public market underperformance, and that M&A waves last approximately one year once started. The report forecasts potential for higher healthcare offer intensity in H2 of 2016.

Global healthcare M&A deals are still dominated by the US market and hit a peak in 2015:



Healthcare M&A. Source: Rothschild, from Thomson Reuters database

Rothschild sees M&A trends of targeted strategies to develop market or specialty leadership position. Deals are key to fill commercial development pipelines strategically, also seen in asset swaps.

REGULATORY LANDSCAPE

The European Medicines Agency (EMA), based in London since 1995 and employing more than 600 people, will likely have to move its headquarters following Brexit and officials in Italy, Spain, drugmakers in Sweden and Denmark have already expressed interest in taking over as host country. Among the challenges facing the UK life science industry is finding a way to work together with the EMA, avoiding to create the need for a separate regulatory approval for the UK market.