General Market Overview

PUBLIC MARKETS

In the second quarter of 2017, biotech indices showed maintained momentum. The market sentiment, previously describing valuation increases as fragile, may be turning positive again after a perceived decrease of the political risk, which has been an overhang on the sector stretching two years back. US president Trump's executive order on drug pricing was considered somewhat friendly to the industry, or at least less of a threat, and could help attract more generalist investor participation to the biotech sector, rotating back from sectors such as tech.

Another contributing factor for increased generalist investor participation would be an uptick in M&A. But M&A has come to a complete halt in Q2, with no deals with corporate buyers announced. However, investors are expecting M&A to take off, as companies are cash rich and in need to fill pipelines.

Large-cap companies continued to drive performance. Within the BioCentury 100 index, companies valued above USD 1 billion are up a median of 17%, year-to-date, whereas companies with market caps below USD 1 billion ended the quarter in red numbers. Micro-caps, below USD 500 million, lost almost 7% in Q2 and are down 2%, year-to-date, despite the BioCentury 100 index closing the first six months of 2017 up 23%.

Index	*Q2 2017*	*2017*
NYSE Arca Biotech	8%	26%
BC 100	8%	23%
BC London	6%	18%
NASDAQ Biotech	6%	17%
NASDAQ	4%	14%
S&P 500	3%	8%

The biotech sector performed well, and is expected to keep doing so. However, outpacing broader markets will require new money to enter the sector from generalist investors, according to bankers BioCentury have talked to.

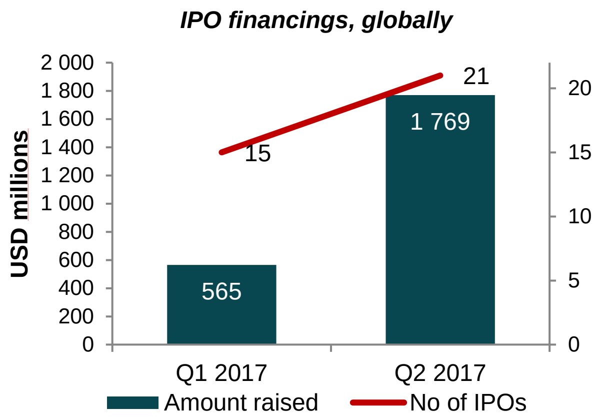
Index performance. Source: BioCentury Financial Center

The strong performance this year has also been fueled by a strong set of clinical milestones. Positive clinical newsflow was accompanied by an encouraging 23 FDA approved New Molecular Entities in the first six months of 2017, compared with 22 in all of 2016.

In HealthCap's public portfolio, several companies saw their valuations increase in high double-digit percentages. HealthCap VI investment **Strongbridge** followed up its 98% Q1 increase by adding 51% in Q2, on the back of launching its FDA approved drug Keveyis and reporting full enrolment to its phase III clinical trial. Also in HealthCap VI, **Wilson Therapeutics** and **Oncopeptides** climbed 67% and 80%, respectively, both listed on the Nasdaq Stockholm main market where also HealthCap V company **MIPS** is found, adding 62% to its valuation during the quarter. HealthCap V investment **Targovax** closed the quarter 3% down, but is still posting a very strong post-listing performance, as can be seen in the IPO segment below.

IPOs

The US IPO market recovered from low levels earlier this year and has, according to bankers, reached a healthy equilibrium where high-quality companies can attract investor interest at reasonable valuations. Eleven companies completed their IPOs on the US markets in Q2, all pricing within their expected valuation ranges. As a reference, about a third of US IPOs in 2014-2016 priced below their respective valuation ranges.



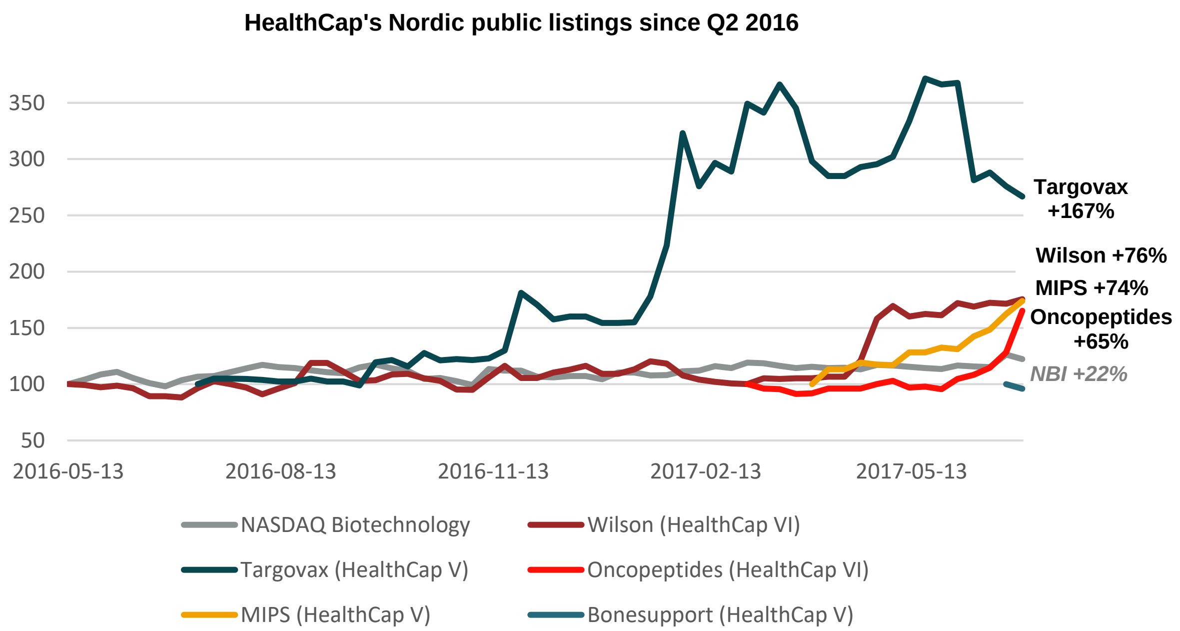
Following the slow first quarter, when only four biotech IPOs were completed on Nasdaq, things were different in Q2 with nine initial offerings on Nasdaq. Globally, the aggregate amount raised in IPOs more than tripled compared to Q1.

Biotech IPO financings. Source: BioCentury Financial Center

Post-IPO performance was good too, as the global IPO class of Q2 gained a median of 5% through June 30, but looking only at the Q2 US listings, the median climb is a strong 21%, expected to attract investor interest further down the road.

HealthCap V company **Bonesupport** completed a EUR 51 million (SEK 500 million) IPO on Nasdaq Stockholm in June. Also in HealthCap V, **Altimmune** completed its merger with NYSE listed company PharmAthene, and moved its listing to Nasdaq, under the name Altimmune.

HealthCap has been instrumental in creating and maintaining momentum in the Nordic IPO market with five listings since Q2 of last year. Bonesupport traded sideways during its first week of trading, but all others show strong post-IPO performance numbers, significantly outperforming the Nasdaq Biotech Index.



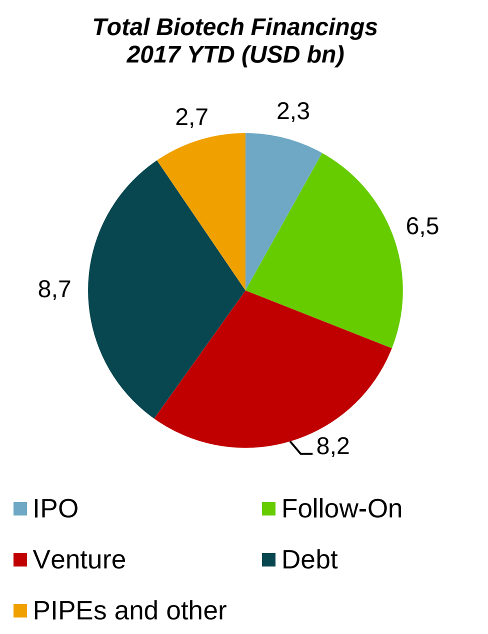
OTHER FINANCINGS

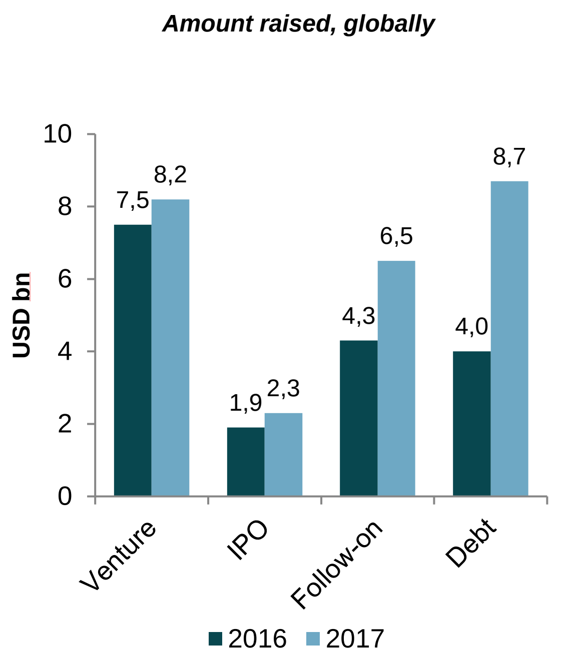
Public follow-on financings had its busiest period since 2015, as 61 companies raised USD 5.2 billion in Q2 although median stock market performance post financing was a modest 1% for both the Q1 and Q2 follow-on classes. Analysts say companies have completed financings on the back of de-risking events such as clinical data, and valuation increases may already be accounted for in the offerings.

Venture financings remains at high levels but there are signs of a focus shift towards earlier stage investments. BioCentury analysis for European venture financings in 2016 showed an 81% increase for funding of preclinical stage companies, compared to the year before, and a recent Silicon Valley Bank report shows that early stage investments (in series A and B rounds) represented more than 80% of deals in the last two years.

HealthCap V company **Targovax** closed a EUR 20 million (NOK 200 million) PIPE in June, supported by HealthCap with EUR 2.6 million, and may raise up to an additional EUR 4 million in the subsequent offering.

Solid financing numbers for H1 2017 as financings of public companies increased in Q2, compared to the previous quarter.





Biotech financings. Source: BioCentury Financial Center

Venture financings are at about the same level for the first six months of 2017, compared to the corresponding period last year. Debt financings have more than doubled and follow-ons are up some 50%.