General Market Overview

Public Markets

Although lower than in Q1, high volatility levels characterized the public stock markets in Q2, significantly higher than in 2017. More public market turmoil is expected heading into Q3 as the political environment is perceived risky among investors with the US midterm elections approaching bringing expected debates around drug pricing, along with macroeconomic concerns around trade wars and rising interest rates.

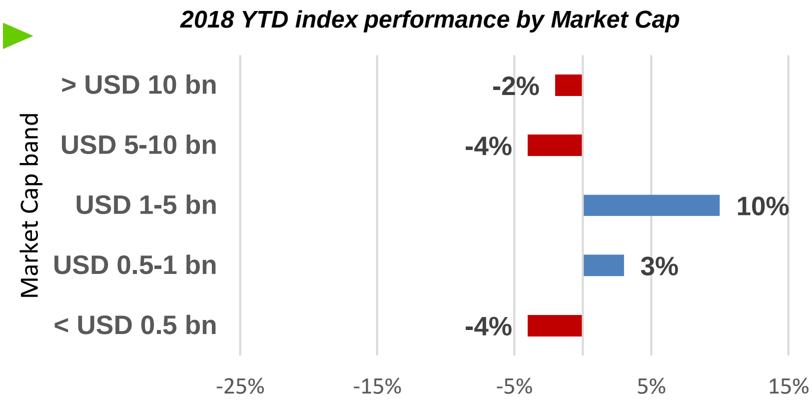
Fifty-seven percent of global biotech stocks tracked by BioCentury saw their equity values decline in Q2, but as winners gained more than losers lost, biotech indices in general added a few percent during the quarter, once again led by small- and mid-caps and with large-caps struggling to get into positive numbers.

Index	Q2 2018	2018 YTD
NYSE Arca Biotech	5%	13%
NASDAQ	6%	9%
BC 100	5%	7%
NASDAQ Biotech	3%	3%
S&P 500	3%	2%

As a volatile quarter came to an end, most stock indices closed with a moderate gain and biotech indices closed in line with broader ones.

Index performance. Source: BioCentury Financial Center

YTD performance is strong among small- and mid-cap companies. For the larger biotechs, investors are still waiting for M&A to take off and boost stock performance.



Index performance by market cap band. Source: BioCentury Financial Center

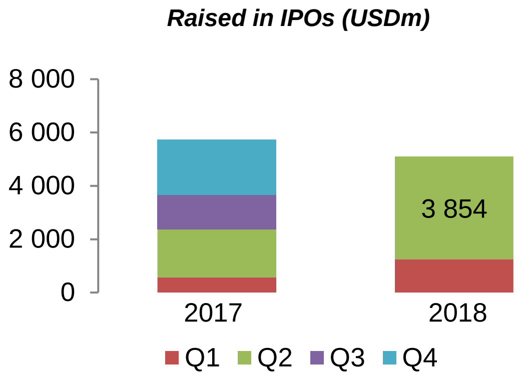
Investors still overweight small- and mid-cap companies in their portfolios as they continue to create value based on strong fundamentals, demonstrating encouraging clinical and regulatory progress and solid commercial execution.

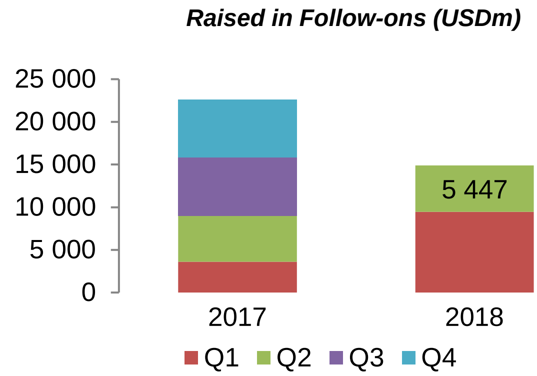
HealthCap's portfolio of public stocks posted a mixed performance in Q2, much in line with general markets. HealthCap VI portfolio company **Oncopeptides** added most, climbing 103% in Q2 and adding an additional 20% in the first week of July after presenting positive clinical data and getting strong buy recommendations by analysts. In HealthCap V, **MIPS** gained 58% and is currently trading close to its 1-year high at a market cap of SEK 2 billion.

FINANCINGS

The sector has benefited from strong interest from public equity investors for a long time, and Q2 of 2018 was no exception with the ending weeks being among the busiest ever and no less than five Nasdaq IPOs priced on the same day on June 20th. Despite market turmoil, good-quality biotechs have shown no problems going public with strong support from top-quality VC funds and crossover investors. USD 3.9 billion was raised in 27 IPOs, bringing the year total almost on par with the full year of 2017. Post-IPO performance in the healthcare sector has been encouraging too, with the IPO class of 2018 gaining on average 17%, according to a recent JP Morgan analysis. The largest IPO of Q2 was completed by Chinese digital healthcare provider **Ping An Healthcare and Technology**, raising USD 1.1 billion in its IPO in May.

The usual market cool-off is expected during summer months, according to investors BioCentury have talked to, but the optimism is there for a strong IPO market after summer.





IPO and follow-on financings. Source: BioCentury Financial Center

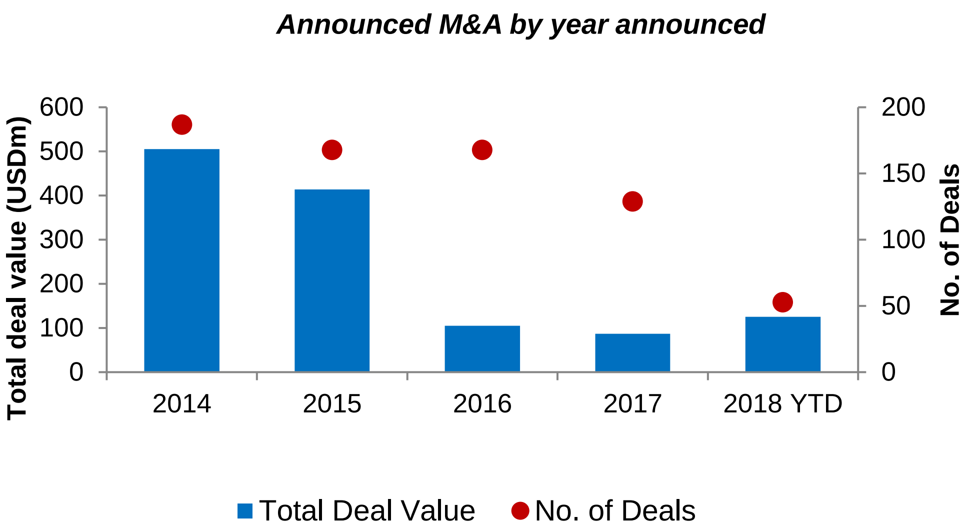
The follow-on financing market was equally impressive as 65 rounds closed for USD 5.4 billion in proceeds. Most follow-ons were completed by US companies, with **Integra LifeSciences** and **Madrigal Pharmaceuticals** both raising more than USD 300 millions. However German **MorphoSys AG** and French **Cellectis S.A** were also able to close significant financings raising USD 239 million and USD 175 million, respectively. JP Morgan concluded a very solid 32% uptick post financing for the follow-ons completed in the first half of 2018.

Venture financings posted another strong quarter with 140 closed financings rounds totaling USD 5.8 billion. Among HealthCap portfolio companies, HealthCap VII companies **Carisma** and **InCarda** completed their private financings rounds with solid investor syndicates, raising USD 53 million and USD 42 million, respectively.

M&A

Already noted in Q1, the M&A landscape has been lighter than hoped for in 2018, despite a good start in the opening month of the year. After **Takeda's** massive USD 62 billion acquisition of **Shire**, announced in Q1, the only deal in Q2 that stood out was **Novartis'** acquisition of gene therapy company **AveXis** for USD 8.7 billion in cash at a 88% percent premium to its prior day closing price.

On a very positive note, the tender offer from **Alexion Pharmaceuticals Inc**. to acquire HealthCap VI company **Wilson Therapeutics** for approx. EUR 690 million was accepted and completed during the quarter. HealthCap was the largest shareholder with 24% of the fully diluted holdings in the company.



M&A. Source: BioCentury Financial Center

There is a positive outlook among investors for increasing M&A deal flow on the horizon. Evercore ISI senior analyst Umer Raffat was attending the annual HealthCap CEO conference in June, giving his view on the M&A landscape, among many other things. Reasons mentioned for why M&A has not taken off was policy uncertainties and possible valuation discrepancies as many public companies are well funded and has benefited from a recent valuation increase. However, in a recent survey conducted by Evercore ISI among 122 investors, some 73% responded that they were expecting large M&As in the therapeutic space in the near future, with a significant upside potential for small- and mid-caps, benefiting from sector consolidation.