General Market Overview

Public Markets

When the third quarter of 2013 came to an end, all market cap segments in the biotech sector closed in the black, for the second time this year. Large caps gained for the fifth consecutive quarter to close at 12% higher than its Q2 closing. The BioCentury 100 index opened the fourth quarter by surpassing its all-time high set during the genomics bubble in March of 2000 and has gained almost 50% during the first nine months of 2013.

The stock markets continue to benefit from a favorable environment for equity investments and a more amenable regulatory environment – one of the most beneficial FDA environments in the last decade or two, according to analysts BioCentury has been talking to. Much of the buyside focus in the time to come will be on news in the cancer and Hepatitis C areas, as there are high expectations on news from clinical meetings and expected PDUFA decisions, as well as some large cap commercial launches. The general market expectation is that the positive run could last yet for a while and that the biotech sector could continue to outperform broader markets.

In Europe, the BC London index was up 18% in Q3 and is starting to pick up, closing the quarter at a 25% increase from last year's closing price. All but one company in the BC London index advanced last quarter, and 16 out of 19 European biotechs advanced in the BC Europe index, led by a 63% increase by **Swedish Orphan Biovitrum AB**.

Index	*Q3 2013*	*YTD*
BC 100	21%	49%
NYSE Arca Biotech	11%	41%
BC London	18%	25%
NASDAQ	11%	25%
S&P 500	5%	18%
Dow Jones 30	1%	15%
FTSE 100	4%	10%

While biotech indices posted double-digit increases in Q3 (the NASDAQ Biotechnology Index also climbed 21%, just like BC 100), the broader S&P 500, Dow Jones 30 and FTSE 100 closed in the black numbers only by a narrow margin.

Index performance. Source: BioCentury Financial Center

HealthCap III company **Orexo** closed the quarter up 124% on the back of two approvals. Early in the quarter, FDA approved Zubsolv for maintenance treatment of opioid dependence and Orexo launched the drug in September. Also in September, Japan approved breakthrough pain drug Abstral from partner **Kyowa Hakko Kirin Co Ltd.**

IPO Markets

It is considered the most encouraging and robust IPO window since the turn of the century. Still in early 2013, companies going public needed steady revenues or products ready to be commercially launched. In 2013, 3 out of 4 companies going public have been therapeutic companies, many of which are early-stage cancer and orphan disease companies. One example is HealthCap IV company **Five Prime Therapeutics Inc**., with the lead program in phase 1b, when its IPO on NASDAQ in September was fully subscribed and within the proposed price range. Five Prime raised USD 62 million at a valuation of USD 208 million. Life science IPOs have outperformed other sectors too. Through September 30, 42 companies have raised USD 2.9 billion and collectively the group has had a median gain of 48%, with 31 companies up overall and 23 up more than 40%. In Q3 alone, 17 IPOs were completed, bringing in USD 1.3 billion. There is still a long line of companies that have proposed an IPO, and some argue that the wide generalist participation would carry the IPO window through year-end.

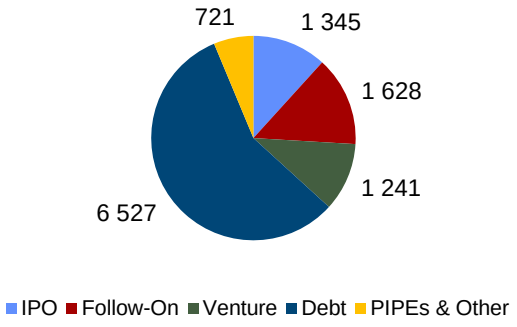
Generalist momentum in Europe has improved, but it comes and goes and varies greatly in different countries, analysts conclude. European companies could start to look like bargains in the face of rising valuations in the US. However, while the generous IPO window in the US has had a negative impact on M&A transactions, many find it unlikely that the US IPO window translates into a good window in Europe. The attractive valuations makes European companies targets for acquisitions.

Other Financings

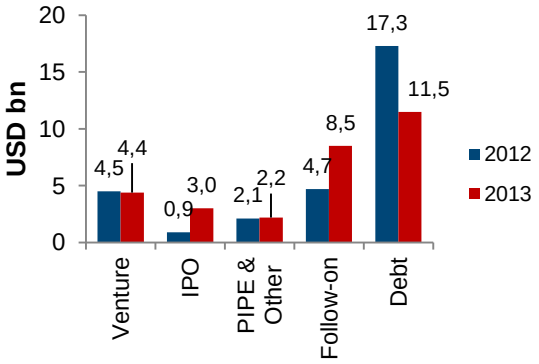
With almost three months left of 2013, the amount raised by the global biotech industry is almost up to the same level as the entire year of 2012, and in Europe the amount raised during the first nine months this year has already surpassed the total amount of 2012.

Globally, in Q3, follow-on financings dropped by USD 2.5 billion compared to the high level seen the quarter before when two large follow-ons were completed to fund acquisitions. Debt financing recovered to constitute almost 60% of total financings in Q3.

Total Biotech Financings Q3 2013 (USD millions)



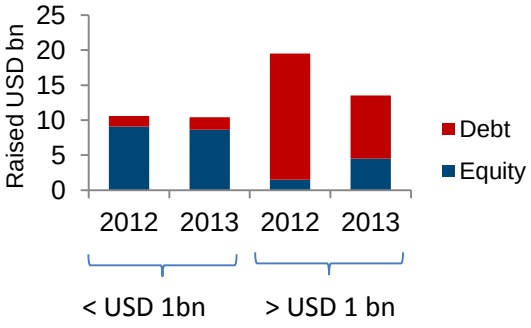
Amount raised 2012 vs 2013



Biotech financings. Source: BioCentury Financial Center.

A week into October, the biotech industry had raised USD 30 billion, year-to-date, compared to the USD 36.3 billion total raised in 2012. Only debt financing is still behind the 2012 total numbers, but all other financings have shown strong momentum, especially IPOs and public follow-on financings.

Funds raised by market cap



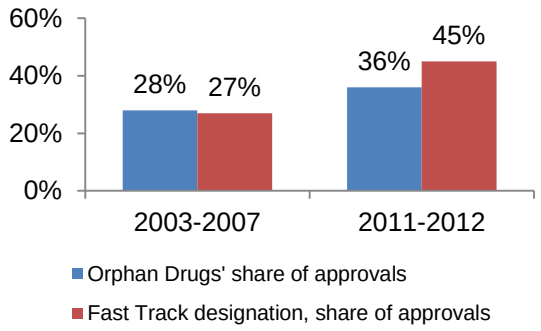
Public companies valued below USD 1 billion in market cap have matched the amount raised in 2012 during the first three quarters of 2013. The heavily debt financed market cap tiers above USD 1 billion are still trailing somewhat, where debt financing has played a less important role, but equity financing has picked up some of the slack.

Funds raised. Source: BioCentury

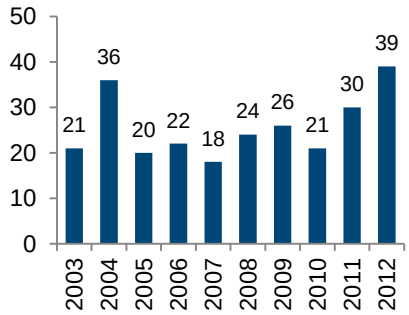
REGULATORY ENVIRONMENT

FDA approved 18 new drugs during the first eight months of this year, including some highly anticipated products, such as **Biogen Idec's** multiple sclerosis drug Tecfidera and **Roche's** breast cancer drug Kadcyla. Another handful of approved drugs have estimated peak sales potential of USD 1 billion or more, among them HealthCap IV company **Algeta's** drug Xofigo. Last year, the FDA approved 39 new molecular entities (NME's), the highest number in more than a decade, 20 of which are considered to be first in class, meaning drugs which use a new and unique mechanism of action. In addition, 22 of the 39 NMEs approved last year received Fast Track designation, Priority Review and/or accelerated approval.
FDA data showed that in 2011 and 2012, first-cycle approval rates were above 70%, compared to average first-cycle approval rates of 25-56% over 2000-2010. The improved, more efficient, review process is attributable to several factors, such as higher quality applications, but most importantly, improved communication and transparency between applicant and review team during review, together with additional review time.

Increase in Orphan Drugs' and Fast Track desginated drugs' share



Number of New Molecular Entities approved by the FDA



NME approvals by the FDA. Source: FDA, HBM

The number of NMEs approved by the FDA has increased in recent years and 2013 looks promising with 18 new NME approvals during the first eight months. The FDA reports that the number of applications is in line with the number of approvals, so the increase is not due to a "backlog effect".