

## General Market Overview

### PUBLIC MARKETS

2014 was another strong year for the biotech sector. Investors can be pleased with a third straight year of strong returns from biotech with major biotech indices outperforming other general market benchmarks. The strong performance was just like in the previous two years backed up by product launches of highly innovative nature. In 2014, the FDA approved 41 novel new drugs, an annual total not seen since 1996. The average number of novel new drugs over the last ten years is around 25. More than 40% of approvals were identified as “first-in-class”, indicating the highly innovative nature using new or unique mechanisms of action. Bankers and buysiders BioCentury have been talking to see no reason for the biotech sector to slow down in 2015 as a new innovation cycle drives growth and the follow-on market is expected to remain open to small caps that deliver on clinical milestones.

<i>Index</i>		<i>Q4 2014</i>		<i>2014</i>
NYSE Arca Biotech	↑	11%	↑	48%
BC 100	↗	4%	↑	28%
BC London	↗	4%	↑	16%
NASDAQ	↗	5%	↑	13%
S&P 500	↗	4%	↑	11%
Dow Jones 30	↗	5%	↗	8%
FTSE 100	→	-1%	↘	-3%

*Index performance. Source: BioCentury Financial Center*

The NYSE Arca Biotech and the BioCentury 100 indices ended 2014 well ahead of broader indices, adding to the gains of more than 50% in 2013. Since the start of 2012, the BC 100 is up almost 158% and the NYSE Arca Biotech more than 215%. Biotech has outperformed the market in 12 of the past 14 years.

### PUBLIC FINANCINGS

2014 was an exceptional year for biotech financings on the public markets. Almost USD 9 billion raised in 112 successful IPOs is a record high, while the USD 11 billion raised in follow-on financings is just shy of all-time high of USD 11.4 billion in 2000. In Q4, 23 companies raised USD 2.1 billion in IPOs.

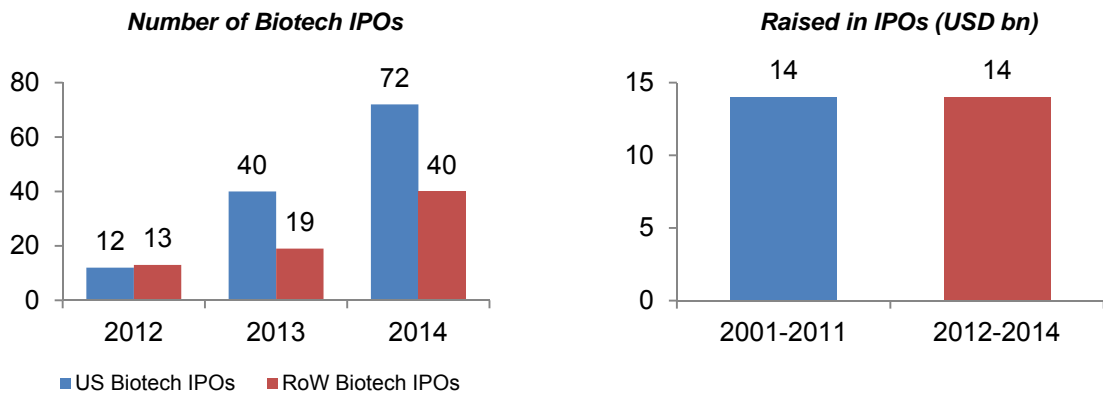
The post-IPO performance, however, was a mixed bag with half of the companies closing the year up and the median IPO closed up only 2%. The spread was between -76% to +453%. However, six companies that each added more than USD 1 billion in market cap drove the aggregate market value for the group up nearly 50%. The weaker post-IPO performance of the IPO class of 2014, compared to that of 2013, has posted some question marks for 2015, but the quality of the companies going public has not been lowered, leading most investors to look optimistically on the IPO market for the year to come, although expecting a slightly lower pace.

HealthCap VI investment **Ultragenyx Pharmaceutical Inc.** completed its highly oversubscribed IPO on NASDAQ in January 2014, raising USD 139 million at USD 21/share. Currently, the share is trading around USD 58/share – up 175% from the listing price and at a total market cap of almost USD 2 billion.

HealthCap V company **Nexstim** successfully completed its IPO in Q4 raising EUR 15 million in a dual listing on the Nasdaq OMX First North in Stockholm and Helsinki.

Follow-on issuers in early 2015 have so far raised almost USD 4 billion, well ahead of the previous record of USD 3 billion for one month from June 2013, with broad investor participation including generalists and specialist investors.

A total of 112 biotech IPOs were completed in 2014. The IPO market for European companies opened up, accounting for 30 IPOs, compared to only 9 in 2013. However, 3 out of 4 IPOs in 2014 were made on NASDAQ.



*IPO financings. Source: BioCentury Financial Center.*

The total amount raised in the current IPO window equals the cumulative total of the prior decade.

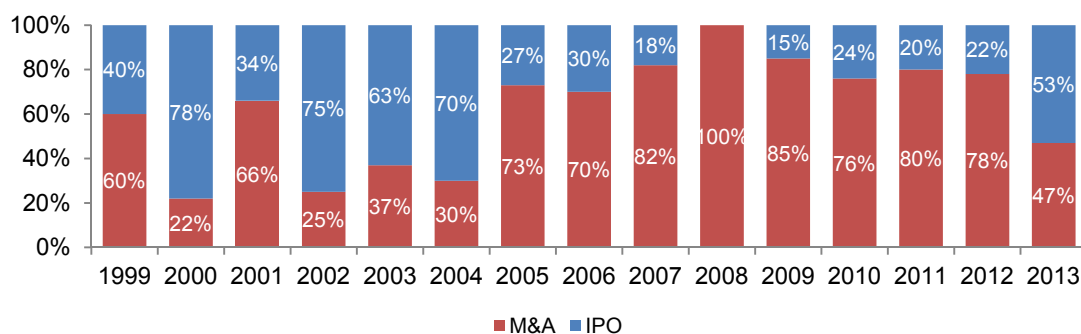
## M&A AND DEALS

In 2014, completed deals with disclosed aggregate deal value reached a record USD 86 billion, the highest since BioCentury started tracking in 2000, of which USD 67 billion accounted for public companies. Total upfront payments for acquisitions of public companies was at least USD 66 billion, meaning there should be plenty of capital available for financings in the year to come.

Three major deals accounted for nearly two-thirds of the value with the largest being the USD 28 billion takeout of **Forest Laboratories Inc.** by **Actavis plc.** In the private sector, a record 67 private companies were acquired, beating the 65 acquisitions in 2011. The 46 private acquisitions with disclosed financial terms totaled USD 18.5 billion. This includes the USD 9 billion acquisition of **Bausch + Lomb** by **Valeant Pharmaceuticals International Inc.**

As the M&A market has remained steady for a long period of time, it seems healthy for biotech companies to pursue with a dual track exit path including both a potential IPO as well as building an attractive acquisition candidate, as HealthCap's portfolio companies often do.

### US Venture-backed biotech acquisitions and IPOs, total offering size



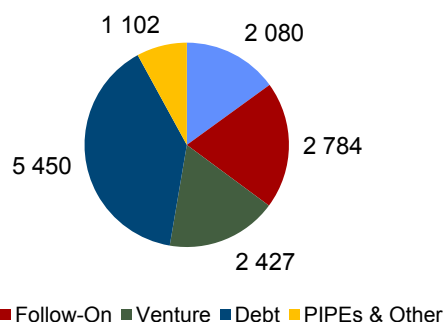
US VC-backed Biotech Acquisitions and IPOs. Source: NVCA Yearbook 2014

Often overlooked as a driver of liquidity in the sector, M&A has emerged to play a more important role over the last 15 years.

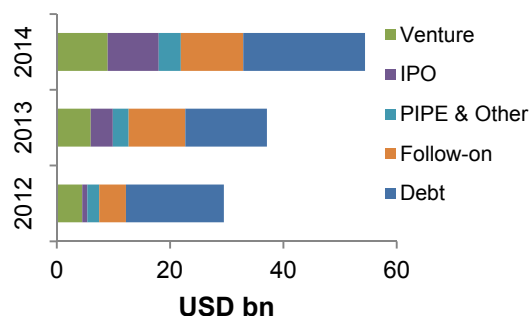
### OTHER FINANCINGS

In 2014, a total of USD 55 billion was raised, including 22 billion in debt

Total Biotech Financings Q4 2014 (USD millions)



Amount raised 2012 vs 2013 vs 2014



Biotech financings. Source: BioCentury Financial Center.