General Market Overview

Public Markets

Biotech indices had a slow last quarter of 2017, but the broad recovery in the first three quarters should leave investors pleased. The BC 100 Index, although trading flat in Q4, climbed 32% in 2017 to recover from its 23% drop in 2016. All tracked biotech indices posted strong gains during the year, outpacing broader indices.

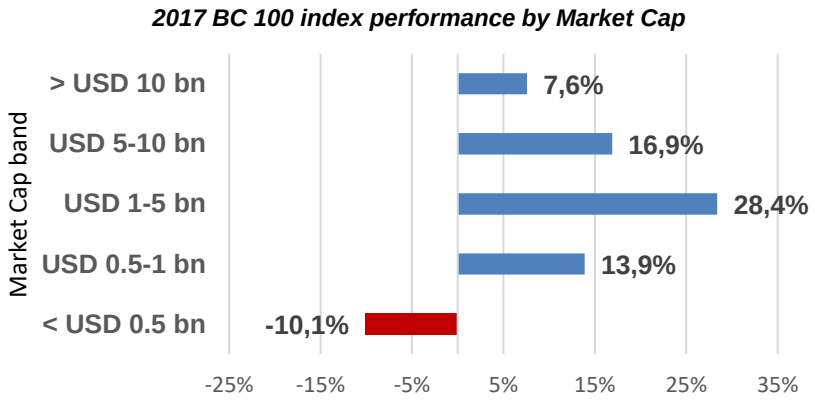
In Q4, however, broader indices climbed with both NASDAQ and S&P 500 posting 6% gains, largely driven by increasing certainty that the Tax Cuts and Jobs Act would be signed into law.

Index	*Q4 2017*	*2017*
BC London	17%	45%
NYSE Arca Biotech	0%	37%
BC 100	0%	32%
NASDAQ	6%	28%
NASDAQ Biotech	-4%	21%
S&P 500	6%	19%

LSE listed **Hutchinson China Meditech** gained 53% in Q4, bringing the BC London index up to top spot for the full year, well ahead of the BC Europe index (not in this table) with its full year 10% increase. The latter index was held back in Q4 by **Genmab A/S**, dropping 26%.

Index performance. Source: BioCentury Financial Center

The biotech sector was mainly held back by large caps in the ending quarter of 2017, in part due to **Celgene Corp.**'s phase III failure with Mongersen to treat Crohn's disease, followed by the reported weak Q3 earnings. Celgene fell 28% in Q4, and large caps ended the year up a median less than 8%, after standing at a 16% median gain through Q3.



2017 BC 100 performance, by Market Cap band. Source: BioCentury Financial Center

Investors BioCentury have interviewed are in general satisfied with the sector valuations and hence less optimistic that the sector will outperform broader markets in 2018, but expected increases in M&A levels could fuel stock performances.

In HealthCap's public portfolio, HealthCap VI portfolio company **Wilson Therapeutics** added 19% in Q4 after reaching an agreement with the FDA to initiate its phase III trial and was later also awarded Fast Track Designation. Wilson climbed 89% during the year. Also in the HealthCap VI portfolio, **Strongbridge Biopharma** added only 5% in Q4, but 202% for the year after acquiring US rights to and launching KEVEYIS, the only FDA approved product to treat orphan disease primary periodic paralysis.

M&A

The biotech sector M&A landscape was surprisingly slow in 2017 with both private and public acquisitions dropping. Only 53 acquisitions were completed with a disclosed deal value of USD 60 billion, the lowest amount since 2013, and excluding **Johnson & Johnson**'s USD 30 billion acquisition of **Actelion** we have to look back to 2010 to find a weaker M&A year. Another notable acquisition was **Gilead**'s USD 12 billion cash deal to acquire **Kite Pharma** in August in order to help revive revenue growth. Gilead's revenue for 2017 was expected to decline by 11% compared to 2016 due to lower prices and shorter treatment periods for its hepatitis C drugs.

Number of biotech acquisitions and aggregate disclosed deal value 2000-2017. Source: BioCentury

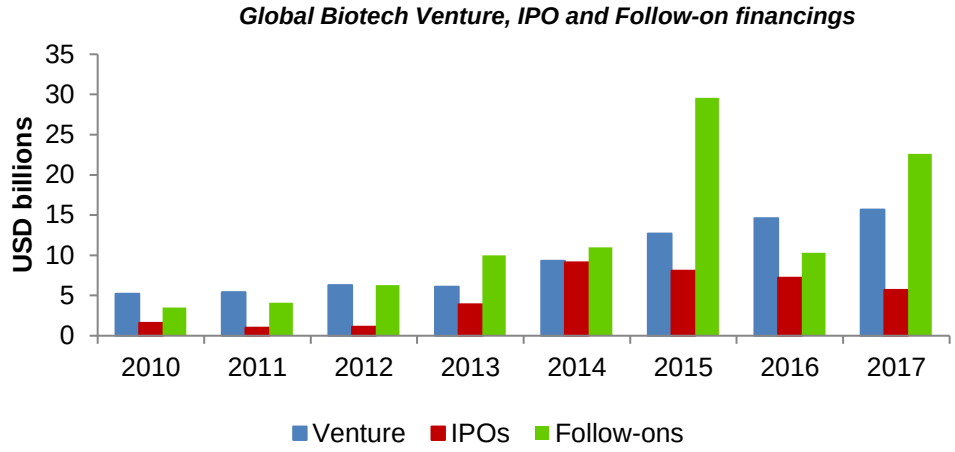
Investors generally predict M&A levels to rebound up in 2018 and the year is certainly off to a good start, also highlighting high premiums paid. **Sanofi S.A.** announced it will acquire hematology company **Bioverativ Inc.** for almost USD 12 billion, at a 64% price premium, followed by the announced EUR 3.9 billion acquisition of Belgian biotech company **Ablynx**, at a 50% premium. **Celgene Corp.** also announced it will acquire **Juno Therapeutics** for about USD 9 billion, a 91% premium to the last trading price before it was reported the companies were in talks.

FINANCINGS

2017 turned out to be eventful in terms of financings. In Q4, 20 more companies completed its IPO, raising USD 2 billion and bringing the full-year total to 75 IPOs. The post-IPO performance was generally good too, with a median gain of 15%.

A few of HealthCap's Swedish portfolio companies took advantage of the positive Nordic IPO climate with HealthCap VI company **Oncopeptides** and HealthCap V companies **MIPS** and **BoneSupport** all completing oversubscribed IPOs on the Stockholm Stock Exchange's main market, with **Oncopeptides**' being the largest, raising EUR 73 million. Another notable Nordic listing was the first biotech listing in Copenhagen since 2010 as **Orphazyme** completed its EUR 80 million IPO in November.

Public company follow-on financings reached almost USD 23 billion in 2017, more than double the amount raised in any year since 1994 according to BioCentury, with the exception of 2015 when equity-financed M&A levels were high.

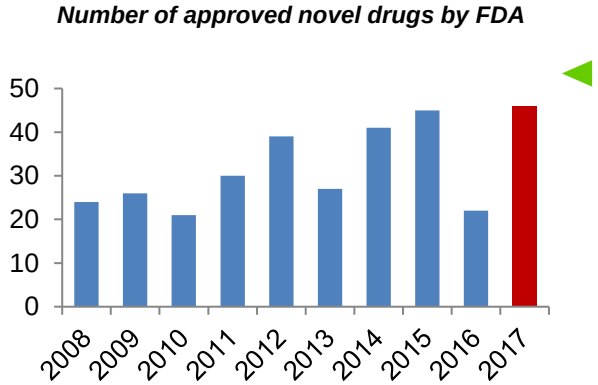


Biotech financings 2010-2017. Source: BioCentury Financial Center

As the graph shows, the venture financing climate in the biotech sector is no exception to overall sector growth, with steadily increasing levels over the last eight years and reaching almost USD 16 billion in 2017.

DRUG APPROVALS

The FDA reported a total of 46 novel drugs approved in 2017, of which 15 were identified as first-in-class and 18 were approved to treat orphan diseases. Former HealthCap portfolio company **Ultragenyx'** drug Mepsevii was included in both categories as it was approved in 2017 to treat rare genetic disorder Sly syndrome. Among many other scientific leaps forward, gene therapy finally became a clinical reality as the FDA approved the two first CAR-T therapies ever.



46 novel drugs were approved in 2017, above the average of approximately 31 yearly approvals over the last decade and even reaching one more than in 2015, up until then the highest number since 1996.

FDA approved Novel Drugs 2008-2017. Source:FDA

The US congress recently decided to cut the Orphan Drug tax credit in half, to 25%, in a trimmed version of the earlier proposal to cut the bill altogether. The industry impact, however, has been toned down by drug developers BioCentury have talked to, quoting that other more powerful incentives remain in place as orphan designation continued so confer seven years of exclusivity and a waiver for FDA user fees.