

As we enter the second quarter of 2023, we continue to observe a challenging financing market. Still, the life science industry has seen an acceleration of innovation, including gene editing, digital health, radiopharmaceuticals, and AI-driven drug discovery. Companies focusing on diseases with high unmet medical needs and breakthrough therapies remain attractive to the market, aligning with our strategy of investing in precision medicine. During the past quarter, we are proud to report that several portfolio companies have achieved significant milestones.

HealthCap VIII portfolio company Hemab Therapeutics announced a USD 135 million Series B financing at an uptick to advance prophylactic treatments for underserved bleeding and thrombotic disorders and reported dosing of the first patient in a phase I/II study for the treatment of Glanzmann's thrombasthenia. Priothera enrolled their first patient in a pivotal phase IIb/III study for patients with acute myeloid leukemia. Additionally, Spruce Biosciences announced a strategic partnership with Kaken Pharmaceuticals and announced USD 54 million private placement financing to reach topline results for two clinical programs.

In HealthCap VII, radiopharmaceutical company Fusion Pharmaceuticals raised USD 60 million in private placement financing and acquired a phase II program for prostate cancer to widen its pipeline. Fusion also dosed the first patient in a phase I clinical trial of their targeted alpha therapy for the treatment of certain solid tumors, a program developed with strategic partner AstraZeneca. Carisma Therapeutics completed its previously announced merger with public company Sesen Bio. The combined company is listed on NASDAQ under the name Carisma Therapeutics Inc., becoming the third listed company in the HealthCap VII portfolio. Concurrent with the closing of the merger Carisma raised USD 30 million in financing, providing a strong cash position to enable multiple pivotal clinical readouts.

The two remaining commercial stage holdings in HealthCap V both reported strong sales figures during the quarter, with one of the highlights being Bonesupport's sales increase. The company's North America segment reported a sales growth of 78 % during the year, driven by the U.S. launch of Cerament G following its FDA approval in May 2022.

After the quarter, HealthCap VIII portfolio companies Adcendo and Ariceum both announced extensions of their respective Series A financing rounds, demonstrating a growing interest from investors in our precision oncology portfolio companies.

Overall, we are pleased with our portfolio's performance and our companies' abilities to maintain innovation and attract new investors amidst global disruptions. We remain confident in our investment strategy and our companies' capabilities to reach clinical and commercial milestones.

Best regards,

The HealthCap Team

General Market Overview

During the quarter, biotech and pharmaceutical indices underperformed relative to general indices with NASDAQ biotechnology ending the quarter at -2%, whereas NASDAQ composite saw a gain of +15%. The bank run and the following collapse of Silicon Valley Bank and Credit Suisse triggered a downturn and a general shaken market despite limited direct exposure of biotech companies and investors.

Investment in biotech is increasingly focused on companies with strong clinical data, differentiated technology, disciplined spending, and realistic valuation expectations. RNA-based discovery engines, gene-editing, and platform technologies with multiple programs have become fashionable, attracting significant investments. HealthCap VIII portfolio company Hemab was one of the few biotech companies that attracted a large investment during the quarter with a USD 135 million Series B raise, well above the USD 68 million average Series B financing level of 2022.

In general, follow-on financings are increasingly driven by catalysts. During the quarter, 76% of US follow-on financings were raised by companies in phase II or later. Overall, US biotech companies raised over USD 4 billion in Q1 2023. This was in line with historical levels but represents a significant drop from the high levels seen in 2020-2022. BioCentury estimates that close to 50% of US NASDAQ-listed biotech companies now have less than 18 months of operating cash reserves.

IPOs remain rare with just five US biotech IPOs recorded so far in 2023, raising a total of just over USD 430 million. Europe's share of global venture financing and IPOs fell in 2022 with European companies accounting for 11% of global private financing, down from 15% in 2021. According to industry insiders, Europe is undervalued for the science it produces, and European financing and growth-stage funding has improved over the past decade.

The largest M&A deal during the quarter was Pfizer's acquisition of Seagen for USD 43 billion at a 33% premium of the market value. This was the first large M&A deal of 2023 and the largest biopharma deal since 2019. Pfizer expects to reach at least USD 10 billion in revenue from Seagen's approved and pipeline drugs, indicating a strong belief in antibody drug conjugates and a further focus shift away from classical small molecule drugs. More M&A activity is expected during the year, with a focus on late-stage assets. At the end of December 2022, the 23 largest drug developers had combined cash reserves of over USD 200 billion waiting to be deployed.