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NEWSLETTER

MELIOR INSIGHTS

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Melior
CAPITAL MANAGEMENT

Introduction to Melior Capital Management

MELIOR

/me'ljor/
(from Latin)

BETTER, SOUNDER, SUPERIOR

Melior Capital Management is a Swiss domiciled company introducer and advisory firm focused exclusively on the global life science sector.

We specialise in finding funding for medtech, biotech and pharmaceutical companies by applying institutional quality service and process to raise capital.

Our investment approach is to find qualified innovative projects, with proven management teams, promising data, robust IP, strong corporate governance and a likely opportunity for significant commercial upside in a three to five-year horizon.

In the current environment, many existing companies seeking capital for medical trials have encountered a diminishing supply of funding from governments, private equity firms, investment banks and research foundations in favour of start-ups. At Melior, we combine the global reputation of our scientific, management and advisory members to select best in class investment opportunities with credible upside potential.

Our value proposition is attributable to our world class team and their proven track record in the life-science sector, plus the strong emphasis that we place upon due diligence and first-hand experience. Our goal is to offer attractive and diverse investments to both high net worth private clients and larger corporates through their professional advisers. For our business to be truly successful, we consider the needs of all parties, including our investees, investors and professional advisers at introduction and throughout the life of the investment. Our financial success depends on funds raised and the financial return of our investees as we share a common goal.

In this edition of our Melior Insights newsletter, we review 2020, which was marked by the COVID-19 pandemic, which brought unprecedented economic hardships but also new investment opportunities. Understanding the economic context helps to better see maturation of the life sciences sector. The life sciences sector has become a source of hope to deal with the pandemic. We believe that the market dynamic of this sector in 2020 is a good indicator of what will follow in 2021. The attractiveness of this sector is likely to drive further growth with so many tests, drugs, and vaccines now under clinical study. The Melior team is optimistic about 2021.

Melior does not accept enquiries from members of the general public, but we welcome enquiries from professional intermediaries.

Melior Capital Management

MELIOR CAPITAL MANAGEMENT

THE GLOBAL ECONOMY DURING 2020

The consequential effects of the pandemic

In the beginning of 2020, no one could have imagined what would happen as numerous plans were derailed and lives were changed. However, these past 12 months reminded us what resilience is and that times of uncertainty bring incredible opportunities. With more than 80 million confirmed cases of COVID-19 with nearly 2 million attributed deaths, diagnostic tests were quickly developed from scratch with over a billion having already been run. Additionally, multiple vaccines were introduced in early December with 10 million people already inoculated. However, with only 1-2% of the total world population vaccinated, there is still a long way to go.

Each of us sees the effects of the COVID pandemic every day, which impacts travel, restaurants, retailers, and commerce. Consumer demand is being changed and redistributed, while the job market is becoming volatile. According to a January report form the World Bank, the global economy saw a 4.3% contraction in 2020. The pandemic has caused not only illness and deaths, but has also plunged millions into poverty, with potential economic implications for a prolonged period.

Country	Cumulative number of cases	Deaths	Cumulative number of tests	Vaccines (End of 2020)	Vaccines (End of Jan 2021)	Vaccines, % of total population
World	83 537 039	1 819 551	955 572 913 (103 countries reporting)	9 850 774	95 231 702	1.2%
	20 061 049	345 955	251 740 556 (tracked since Apr)	2 794 588 (30 dec)	29 577 902 (29 Jan)	8.9%
	2 496 231	73 622	52 560 089 (tracked since Mar)	996 616 (27 dec)	9 468 382 (30 Jan)	13%
	2 677 666	64 759	35 873 632 (tracked since May)	315	1 525 377 (30 Jan)	2.2%
	1 760 520	33 791	34 219 398 (27 dec, tracked since Mar)	184 053	2 452 659 (30 Jan)	2.8%
	207 822	669	20 890 341 (tracked since Feb)	-	3 114 167 (30 Jan)	31.3%
	452 296	7 645	3 322 672 (tracked since Feb)	-	262 081 (29 Jan)	3%

Key COVID-19 statistics for 2020 (numbers are as of 31st Dec 2020, unless otherwise specified)
Source: Our World in Data

Real GDP evolution (% change from previous year)	2020 (est.)	2021 (for.)
World	-4.3	4.0
Advanced Economies	-5.4	3.3
East Asia and Pacific	0.9	7.4
Europe and Central Asia	-2.9	3.3
Latin America and the Caribbean	-6.9	3.7
Middle East and North Africa	-5.0	2.1
South Asia	-6.7	3.3
Sub-Saharan Africa	-3.7	2.7

Real GDP evolution According to the Jan report of the World Bank *(Global Economic Prospects)*

"By April full or partial lockdown measures had affected almost 2.7 billion workers, representing about 81% of the world's workforce"

Elliott Harris *UN chief economist"*

The UN's landmark paper, World Economic Situation and Prospects, calls this crisis the sharpest contraction in global output since the Great Depression of 1929, being far higher than the 1.7% reduction of the Great Recession of 2009, mentioning that even a 4% growth in 2021 will barely offset 2020 losses. Elliott Harris, UN chief economist said that by April 2020 "full or partial lockdown measures had affected almost 2.7 billion workers, representing about 81% of the world's workforce", also noting that another 131 million people were pushed into poverty. $12.7 trillion was made available in a global fiscal stimulus, with more than half from Germany, Japan and the US. According to the International Labour Organization, 255 million jobs were wiped out by the pandemic. The pandemic added $19.5 trillion to Global Debt, with governments around the world being on the cusp of becoming more indebted than at any point in modern history, surpassing World War II levels. Many companies did not lag behind, tapping into the opportunity of rock-bottom interest rates to accumulate new debt. A situation which may bring future issues for investors heavily exposed to debt instruments as the payment capacity of their debtors is vulnerable to even a slight interest rate growth.

Global foreign direct investment shrunk by 42%, from $1.5 trillion in 2019 to $859 billion in 2020, with most of the decline occurring in developed countries; in the US, it plummeted by 49%, reaching $134 billion. China, on the other hand, rose by 4% in FDI and was the largest recipient, for the first time ever, at a figure of $163 billion. FDI in India rose 13% in 2020, while the European Union saw a two-thirds decrease.

During these trying times, we have seen governments, companies and communities joining efforts to fight the negative effects of the pandemic. Life science companies have managed unprecedented levels of focused work, efficient R&D and synergic collaboration in the development and deployment of tests, protection equipment, therapeutics and vaccines, while finding new ways to work proficiently.

THE LIFE SCIENCE SECTOR IN 2020

How did things change?

One key element that we can take away from 2020 is that the life sciences harnesses science and medicine to bring remedies for various diseases, and improved quality of life which will extend beyond the pandemic. Thus, investors have an opportunity to get in on the ground floor; the early bird catches the worm.

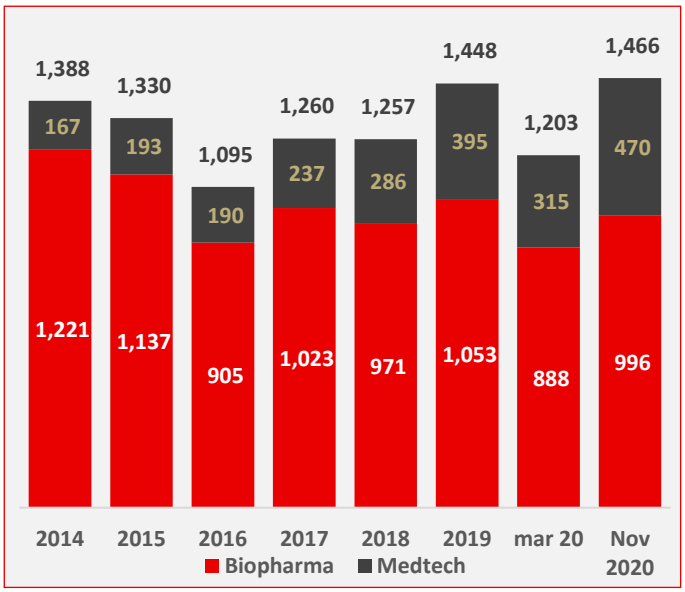
We are definitely seeing the early birds. The UK BioIndustry Association reported that 2020 was a record-breaking year for UK biotech investment, driven by both innovation and the pandemic, with $3.8 billion in equity investment, a 10-fold increase compared to the 2012 number. VC financing secured $1.9 billion, with five companies raising more than $50 million each; IPOs netted $335 million, with two NASDAQ listings of more than $100 million; and other public financing of $1.6 billion. There are more than 6,300 life science companies in the UK, with 80% being SMEs, the UK being the third largest global life science cluster after San Francisco and Boston.

> "Europe is seen as very attractive currently because good quality assets can be sourced 40% cheaper compared to equivalent US assets and the cost of running a biotech business in Europe is 50% lower compared to the US"
>
> **Sander Slootweg**
> *Managing Partner at Forbion*

Life science investment across Europe has also seen a boom in 2020. The Danish BioInnovation Institute bagged a $566 million ten-year investment from the Novo-Nordisk Foundation to develop an ecosystem for life science upstarts. The Dutch VC firm Forbion closed a $554 million fund for life science companies in December, the fundraise having started in October – this being the fastest ever closing for the company. Sander Slootweg, Managing Partner at Forbion says that "Europe is seen as very attractive currently because good quality assets can be sourced 40% cheaper compared to equivalent US assets and the cost of running a biotech business in Europe is 50% lower compared to the US". In March, during the high-point of the pandemic, Life Sciences Partners have raised a fund of $636 million.

The early birds have been feeding. In the US, VC investments into life science also had a solid year, with 44 rounds of more than $100 million raised in the first half of 2020, an all-time record. Global investments into Series A and beyond, in the first half of the year, totalled $16.6 billion and over 450 deals, compared to $13.4 billion and 600 deals in the first half of 2019.

The birds found new food sources. Despite the pandemic, which shifted priorities for many companies, added new challenges of conducting diligence and closing deals virtually, life science M&A activity in 2020 was on par with 2017 and 2018 levels at $159 billion. 2019 was an exceptional year for life science M&A with 4 megadeals and a total value of US$306 billion, as expected, some of the companies involved in larger deals, were less active in 2020, needing more time to absorb previous acquisitions. Experts foresee another active year in 2021 as new life science companies emerge and as existing companies grow; E&Y confirmed record growth levels showing the company's capacity to do M&A based on the strength of its balance sheet.



Biopharma and Medtech Firepower throughout the years
(in $ billion)

> "The entire industry is experiencing that a new level of speed is possible if you really want to get something done. There is an enhanced awareness of threats to mankind and society, and of the need for biotech … to meet significant future challenges"
>
> **Stefan Oschmann**
> *CEO of Merck*

The birds found new ways to hunt. In the early days of the pandemic, many Wall Street analysts were worried that there might be significant delays in life science research and development with the shift towards social distancing and remote work, and a reticence to participate in clinical trials. There were also concerns that drugs, particularly new therapies, would see major revenue slowdowns, due to postponed doctor visits. However, the reality proved to be better-than-expected, with robust supply-chains and solid contingency actions, reiterating the importance of the life science sector to global society. Furthermore, 2020 has proven the resilience of this sector, Stefan Oschmann, CEO of Merck, said that "the entire industry is experiencing that a new level of speed is possible if you really want to get something done. There is an enhanced awareness of threats to mankind and society, and of the need for biotech … to meet significant future challenges".

The birds became bigger. Listed biopharma companies were acquired at an average of 74% premium compared to the share price on the previous day of the deal's announcement. Such high premiums, while beneficial for the investors of target companies, puts much pressure on acquirers, leaving very little room for error either clinically or commercially. This also makes private and earlier-stages assets more attractive for investments.

The birds joined forces to hunt in teams. Strategic alliances were used by mature life science companies to achieve focused growth and future innovations while balancing risk. Biopharma alone, in 2020 through 30 November, saw 261 partnerships worth close to $140 billion in upfront and milestone payments. This trend will likely continue to expand in 2021 and beyond as confirmed by the Pfizer's Group President and Chief Business Officer, John Young, who said "We are generally seeking out early- to mid-stage clinical assets in our core therapeutic areas, where the potential for value creation is significant."

Some birds were more aggressive than others. Medtech was more conservative in 2019 and the first half of 2020, with companies preferring to return more cash to shareholders over doing deals. The trend changed in the second half of 2020; in August, German Siemens Healthineers acquired Varian Medical Systems in a $16.4 billion megadeal. In late September, American Illumina announced the $8 billion 100% acquisition of GRAIL, a leader in liquid biopsy that it originally spun out in 2017. EY highlights that the sector's Firepower indicator expanded 41% in 2020 and is at an all-time high, suggesting that an increase in the number and value of deals is very likely in 2021.

Sources: EY, Melior Insights Team

WHAT TO EXPECT IN 2021 FOR LIFE SCIENCE?

The future is now.... the need is there

Despite the COVID-19 pandemic, the outlook for the life science sector is very positive for a number of reasons:

- Growing recognition of the critical role of the life science sector with government funding and implementation of policies to support its development
- Creation of life science incubators to foster innovation
- Advancement, streamlined and alternative ways to do research and development
- Increasing interest from investors pre-IPO and in publicly traded companies
- Science and medical breakthroughs which attract funds
- Public awareness of life science benefits
- Workarounds to address supply chain issues

PwC's Health Research Institute, in a recent report, based on the survey of leading US life science executives and health service providers, highlighted 6 key life science trends for 2021:

- Virtual health reshapes healthcare delivery, with 95% of large US employers covering telehealth, up from 56% in 2016. Providers balance revenue with customer experience and understanding which are more lucrative areas via virtual visits.
- Clinical trials are changing, with 38% of life science executives expecting more than a quarter of their clinical trials to be virtual by 2025 to reduce costs, simplify participation, speed-up data collection, allow sample size adaptation, and accelerated approval paths.
- Improvements in clinician workloads, with 73% of provider executives committing their organisations to automating more of the physician's administrative tasks, like electronic health records systems (EHRs) and remote data capture.
- Boosting healthcare forecasting capabilities, with 74% of health executives planning to invest more in predictive modelling for better strategic planning and obtaining advanced analytics in order to reduce uncertainties and unanticipated issues.
- Health portfolios predisposed for growth, with a 12% growth in payers' risk-based capital levels, expecting more investment in resources for deferred care and an improved understanding of diversified revenue streams and manufacturing capabilities.
- More resilience and responsiveness for supply chains, with 94% of life science executives and 86% of provider executives prioritising such developments by looking for solutions that would allow redundancy, scaled-up flexibility and ensure supply.

The IDC Future Scape Worldwide Health Industry 2021 Predictions highlight some key areas:

- During 2021, 20% of healthcare organisations will embrace integrated care to boost treatment effectiveness
- By the end of 2021, 70% of the wrist-worn wearables companies will release algorithms capable of early-

detection of infectious diseases, including the flu and COVID-19

- By 2022, life science and healthcare providers will increase investments by 50% in AI and advanced analytics to prevent supply chain disruptions
- By 2023, 65% of patients will be accessing care digitally, allowing improved access, engagement and experiences across all services
- By 2023, there will be a 70% growth in spending on connected health technologies by life science companies and providers
- By 2024, 60% of healthcare organisations' IT infrastructure will be responsible for employing the vast amounts of data generated with AI and will improve process automation and decision-making
- By 2025, 65% of providers will move to Augmented Reality / Virtual Reality technologies to enable immersive training for healthcare workers
- By 2026, 65% of medical imaging workflows will use AI to detect disease and guide treatment

Sources: The World Bank, The United Nations, The Associated Press, Forbes, The Wall Street Journal, Bloomberg, Our World in Data, Healthcare IT News, European Pharmaceutical Review, Labiotech, Crunchbase, PwC and the Melior Insights Team

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MELIOR CAPITAL MANAGEMENT:
PIONEERING LIFE SCIENCE INVESTMENT

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II. The views and opinions expressed within this document reflect those of our professional advisers, and are not necessarily those of Melior. Professional advisers should ensure that their clients seek independent and suitably qualified advice before entering into such investment.

III. Members of the Melior Scientific Team have worked on and taken to market a large number of life science projects during their careers, which spans over the past forty years. Some projects added additional revenue streams to an existing big pharma patent portfolio, some were trade-sales and some were IPOs.