

Mesoblast

Cash raised

Funding to deliver key data in 2017

Mesoblast has raised US\$40m (gross) through a placement of 26.25m shares at A\$2.00/share. The cash enables continued funding of the key MPC-150-IM Phase III heart failure (HF) study where an interim futility analysis is underway. We expect Q4 data from the Phase III in paediatric graft vs host disease (GvHD); Mallinckrodt has an option on partnering GvHD. Other projects can also be funded. Also in H2, top-line data from the NIH-funded Phase IIb study in end-stage HF with an LVAD may be reported. The indicative value has been increased to A\$1.72bn from A\$1.67bn to reflect reduced potential FY18 cash needs. The indicative value per share drops to A\$4.02 from A\$4.16 due to the increased dilution.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/15	32.4	(96.2)	(30.0)	0.0	N/A	N/A
06/16	44.2	(87.4)	(0.2)	0.0	N/A	N/A
06/17e	5.8	(82.0)	(20.6)	0.0	N/A	N/A
06/18e	9.0	(81.0)	(18.9)	0.0	N/A	N/A

Note: *PBT and EPS (fully diluted) are normalised, excluding exceptional items and share-based payments.

GvHD and back pain covered by Mallinckrodt option

Mallinckrodt Pharmaceuticals has an exclusive negotiation period, which runs until September, covering Mesoblast's Phase III chronic low back pain (CLBP) and GvHD programmes. A paediatric GvHD Phase III is expected to complete enrolment in mid-2017 and read out top-line data in Q417. The CLBP Phase III is on track to complete recruitment in H217. Mesoblast recently reported that improvements in pain and function after a single intra-disc injection of 6m MPCs in Phase II were maintained for at least 36 months in 84% of responders.

HF interim analysis underway, end-stage HF data Q4

The MPC-150-IM Phase III in HF patients is running well, with the funds raised being used to support the programme. An interim futility analysis on the first 270 patients (of 600 needed) is currently underway. A 150-patient Phase IIb (using Mesoblast MPC, but run and funded by NIH) in end-stage HF patients (with an LVAD pump) is expected to complete enrolment in H117. The NIH may report top-line data in H217. Positive results could potentially lead to an application for accelerated approval under the 21st Century Cures Act. This would have positive implications for Mesoblast's ongoing MPC-150-IM Phase III in moderate HF.

Financials: Cash runway to end of calendar year

The indicative value has been adjusted to A\$1.72bn (A\$4.02/share) from A\$1.67bn to reflect reduced potential FY18 cash needs. The US\$60m in cash raised so far in 2017 comprises US\$21.7m from Mallinckrodt received in January and US\$40m gross in the placement; we estimate US\$59.6m net in total. This adds to the balance of c US\$34m as at 31 December 2016. We now estimate a 30 June 2017 cash balance of US\$59m with an unchanged cash flow/earnings forecast, formerly US\$21m. We forecast a reduced extra cash need of US\$25m (formerly US\$65m) to fund operations until end FY18; this cash could potentially come from partnering agreements or the US\$90m discretionary equity facility with Kentgrove Capital.

Pharma & biotech

5 April 2017

Price **A\$2.46**

Market cap **A\$1053m**

US\$0.76/A\$

Cash (US\$m) at 31 December 2016 33.9

Shares in issue 427.95m

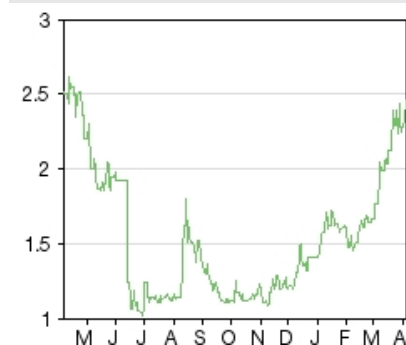
Free float 66.1%

Code MSB

Primary exchange ASX

Secondary exchange NASDAQ

Share price performance



% 1m 3m 12m

Abs 39.4 63.5 (2.8)

Rel (local) 36.5 60.5 (16.4)

52-week high/low A\$2.6 A\$1.0

Business description

Mesoblast is developing adult stem-cell therapies based on its proprietary MPC and culture-expanded MSC platforms. It has multiple late-stage clinical trials across four areas: immunologic/inflammatory (Phase III), spine disease (Phase III), cardiovascular (Phase III) and cancer (Phase III).

Next events

Futility analysis MPC-150-IM HF trial Q217

Top-line data GvHD Phase III Q417

Fully enrol MPC-06-ID back pain Phase III H217

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Exhibit 1: Financial summary

	US\$'000s	2015	2016	2017e	2018e	2019e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		32,403	44,183	5,825	9,048	11,288
Cost of Sales		0	0	0	(1,207)	(2,382)
Gross Profit		32,403	44,183	5,825	7,841	8,906
R&D Expenses		(62,649)	(50,013)	(50,013)	(51,013)	(53,054)
Manufacturing & Commercialisation Expenses		(23,783)	(29,763)	(22,025)	(22,245)	(22,912)
SG&A Expenses		(29,636)	(22,500)	(17,881)	(17,820)	(18,355)
EBITDA		(97,977)	(86,319)	(81,292)	(80,320)	(82,377)
Operating Profit (before amort and except)		(99,001)	(88,511)	(83,594)	(82,737)	(84,914)
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	0	0	0
Share-based payments		0	(3,389)	(2,500)	(2,500)	(2,500)
Operating Profit		(99,001)	(91,900)	(86,094)	(85,237)	(87,414)
Net Interest		2,757	1,079	1,619	1,767	101
Profit Before Tax (norm)		(96,244)	(87,432)	(81,975)	(80,970)	(84,814)
Profit Before Tax (FRS 3)		(96,244)	(90,821)	(84,475)	(83,470)	(87,314)
Tax		0	86,694	0	0	0
Profit After Tax (norm)		(96,244)	(738)	(81,975)	(80,970)	(84,814)
Profit After Tax (FRS 3)		(96,244)	(4,127)	(84,475)	(83,470)	(87,314)
Average Number of Shares Outstanding (m)		320.9	360.8	398.2	428.0	428.0
EPS - normalised fully diluted (c)		(29.99)	(0.20)	(20.59)	(18.92)	(19.82)
EPS - normalised (c)		(29.99)	(0.20)	(20.59)	(18.92)	(19.82)
EPS - (IFRS) (c)		(29.99)	(1.14)	(21.22)	(19.50)	(20.40)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		100.0	100.0	100.0	86.7	78.9
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		659,306	595,195	594,893	594,477	593,939
Intangible Assets		650,241	587,823	587,823	587,823	587,823
Tangible Assets		4,398	3,063	2,761	2,345	1,807
Investments		4,667	4,309	4,309	4,309	4,309
Current Assets		122,460	88,823	66,789	11,236	51,960
Stocks		0	0	0	0	0
Debtors		3,972	4,054	4,054	4,054	4,054
Cash		110,701	80,937	58,903	3,350	44,074
Other		7,787	3,832	3,832	3,832	3,832
Current Liabilities		(48,407)	(29,415)	(29,415)	(29,415)	(29,415)
Creditors		(43,246)	(27,155)	(27,155)	(27,155)	(27,155)
Deferred revenue		(5,161)	(2,260)	(2,260)	(2,260)	(2,260)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(265,372)	(126,442)	(126,442)	(151,442)	(276,442)
Long term borrowings		0	0	0	(25,000)	(150,000)
Deferred revenue		(22,505)	0	0	0	0
Other long term liabilities		(242,867)	(126,442)	(126,442)	(126,442)	(126,442)
Net Assets		467,987	528,161	505,826	424,856	340,042
CASH FLOW						
Operating Cash Flow		(104,079)	(89,125)	(81,292)	(80,320)	(82,377)
Net Interest		3,043	1,129	1,619	1,767	101
Tax		0	0	0	0	0
Capex		(2,204)	(922)	(2,000)	(2,000)	(2,000)
Acquisitions/disposals		0	(805)	0	0	0
Financing		45,852	62,066	59,640	0	0
Dividends		0	0	0	0	0
Other		(2,860)	0	0	0	0
Net Cash Flow		(60,248)	(27,657)	(22,034)	(80,553)	(84,276)
Opening net debt/(cash)		(185,003)	(110,701)	(80,937)	(58,903)	21,650
HP finance leases initiated		0	0	0	0	0
Other		(14,054)	(2,107)	0	0	0
Closing net debt/(cash)		(110,701)	(80,937)	(58,903)	21,650	105,926

Source: Mesoblast accounts, Edison Investment Research. Note: Mesoblast reports in US dollars.

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