

COMPANY QUICK COMMENT

MSB has been granted patent ownership over MPCs derived from a variety of sources, including dental pulp and fat, in addition to bone marrow. These additional patents may be helpful in developing treatments against neurological disorders and for cosmetic applications. We believe this news adds to the potential future opportunities for MSB.

Price target: 10.45 AUD

Price (23 May 2011): 8.63 AUD

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Research analyst: Zara Lyons

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Granted patents over stem cells from multiple sources

MSB has been granted novel composition of matter claims by the United States Patent and Trademark Office (USPTO) in two patent families. US patents 7,052,907 and 7,947,266 give Mesoblast exclusive ownership over MPCs derived from a variety of sources, including dental pulp and adipose tissue (fat), in addition to bone marrow. The new granted US patents extend Mesoblast's ownership of MPCs through to 2025.

What are MPCs?

Mesenchymal precursor cells (MPCs, also known as mesenchymal stem cells) are adult stem cells that have the ability to become solid organs and tissues such as bone, heart muscle and cartilage. They do not have immunological markers and will therefore cause no immune reaction when injected into a foreign host. This means MPCs can be harvested as a generic product for any recipient from any donor.

The proprietary technology being commercialised by MSB enables the efficient extraction, isolation and scale-up of MPCs. This technology has allowed for the potential application of commercial, off-the-shelf MPCs harvested from relatively few, non-specific donors in a wide range of serious medical issues. MSB aims to capitalise on its patents that relate to the identification, extraction and culture of adult mesenchymal precursor cells.

What does it mean for MSB?

The MPCs derived from dental pulp may be particularly effective for the treatment and prevention of neural degenerative diseases such as Parkinson's disease and Alzheimer's disease, as well as for dental applications. Adipose-derived MPCs may have benefits for reconstructive surgery and cosmetic indications.

In previous scenario analyses, we assume the company will ultimately achieve a 5% market share in the US market, and that this will remain constant. On this basis, we calculate that the NPV of the potential opportunities developed by MSB is A\$17.40. These opportunities do not include neurological disease and cosmetic applications, which we believe are large potential markets. We believe this news adds to the potential future opportunities for MSB. In terms of near-term catalyst, MSB should start a Phase III trial in 3QCY11 for bone marrow transplantation. We continue to believe that should this trial demonstrate significant results, this would be a major positive for the stock.

Valuation Methodology and Investment Risks: Using DCF analysis, we value MSB at A\$10.45 per share, using a WACC of 16.05%. Our assumptions include: 1) Equity beta — due to its inherent risks, MSB will have a higher beta than most other industrial companies. We assume that the company's equity (and asset) beta is 1.80, in line with the average beta for higher-risk biotech opportunities., 2) Nominal long-run growth rate — given the potentially high growth rate of this business, and in line with those of other high-growth companies in the market, we assume a nominal long-run growth rate of 5% and a real long-run growth rate of 2.5%. There is still a good deal of uncertainty around MSB's viability in most of its prospective markets. Pre-clinical trials, although positive, give no firm indication of a product's true viability and full foresight on future market conditions is difficult to obtain. Therefore, we believe this is an attractive investment opportunity for investors with a higher risk appetite.

Note: Ratings and Price Targets are as of the date of the most recently published report (<http://www.nomura.com/research>) rather than the date of this email.

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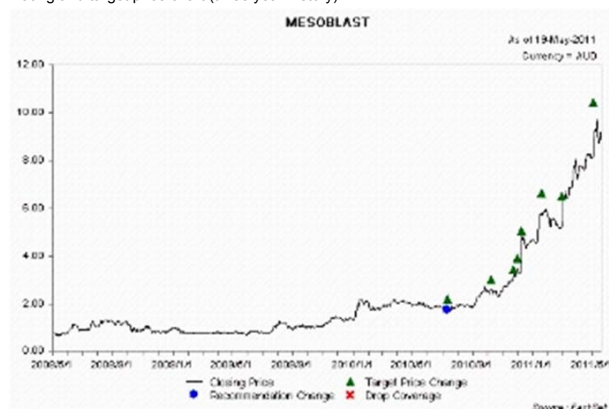
Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Mesoblast	MSB AU	8.63 AUD	23 May 2011	Buy	

Previous Rating

Issuer name	Previous Rating	Date of change
Mesoblast	Not Rated	12 Jul 2010

Mesoblast (MSB AU) 8.63 AUD (23 May 2011) Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
03-May-2011		10.45	8.19
01-Mar-2011		6.51	5.42
18-Jan-2011		6.66	5.76
08-Dec-2010		5.08	4.05
30-Nov-2010		3.92	3.46
22-Nov-2010		3.44	3.19
08-Oct-2010		3.01	2.60
12-Jul-2010	Buy	2.21	1.74
12-Jul-2010			1.74

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value MSB (with a TP of \$10.45) using DCF analysis, with a WACC of 16.05%. Our assumptions include: • Equity beta – due to its inherent risks, MSB will have a higher beta than most other industrial companies. We assume that the company's equity (and asset) beta is 1.80, in line with the average beta for higher-risk biotech opportunities. • Nominal long-run growth rate – given the potentially high growth rate of this business, and in line with those of other high-growth companies in the market, we assume a nominal long-run growth rate of 5% and a real long-run growth rate of 2.5%.

Risks that may impede the achievement of the target price There is still a good deal of uncertainty around MSB's viability in most of its prospective markets. Pre-clinical trials, although positive, give no firm indication of a product's true viability and full foresight on future market conditions is difficult to obtain. In its favour, MSB's base product is found naturally in the body, and we see little reason to believe that injections of concentrated numbers would cause serious health issues or be relatively less effective in doing their natural job.

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As at 31 March 2011.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

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A **'Strong buy'** recommendation indicates that upside is more than 20%.

A **'Buy'** recommendation indicates that upside is between 10% and 20%.

A **'Neutral'** recommendation indicates that upside or downside is less than 10%.

A **'Reduce'** recommendation indicates that downside is between 10% and 20%.

A **'Sell'** recommendation indicates that downside is more than 20%.

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