



BUY	12 Month Target	\$11.75	Mesoblast Ltd (MSB)
	Price	\$8.16	
	Implied Return	44%	

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Key manufacturing plank place

Company Data

ASX Code	MSB
Shares on issue	280,425,258
Market capitalisation	\$2.3b
12 month price range	\$1.72 - \$9.95
ASX turnover (monthly rolling)	16.7m

Board of Directors

Brian Jamieson	Chairman (Non-Exec)
Silviu Itescu	MD & CEO
Michael Spooner	Non-Exec. Dir.
Donal O'Dwyer	Non-Exec. Dir.
Kevin Buchi	Non-Exec. Dir.

Major Shareholders

Silviu Itescu	24.3%
Cephalon Inc	19.9%
M&G Investment Funds	8.0%
Thorney Holdings	6.2%

Share Price Chart



Source: Iress Market Technology

Mesoblast's technology has **received further strong validation** with its global manufacturing deal for its adult stem cell-based products with Lonza Group (SWS:LONN).

The deal could be worth in-excess of AU200M to Mesoblast.

Lonza (market cap:AU3.4 billion) is a global supplier to various life science industries and maintains a highly renown biologics contract manufacturing business – the area under which Mesoblast's products fall.

The Agreement

- Long-term supply arrangement
- Criteria in place for purpose built facility (circa \$150M)
- Mesoblast may buy facility at a pre-agreed price two years post-accreditation
- Mesoblast gains immediate exclusive access to Lonza's US Food and Drug Administration approved Singaporean Cell Therapy facilities, with some exceptions (presumably related to work already on-going at the facility)
- Improvement in cost efficiencies captured by both companies

Analysis

This agreement clearly represents a positive for Mesoblast. Scale-up and manufacturing of any new product can be difficult and involvement of such an experienced company as Lonza in this process may prove invaluable. Importantly, the deal gives Mesoblast access to Lonza's intellectual property and to an existing near-purpose built facility that may otherwise cost in the neighbourhood of \$50M to reproduce.

A further highlight is that should Mesoblast be able to add more value to the manufacturing process or that the newly developed manufacturing technology is better kept "in house", Mesoblast will have the option to purchase the new purpose built facility.

The deal also looks to be appropriately structured such that the capital will be committed by Lonza as Mesoblast's products prove their worth. Large early commitments to manufacturing have been seen by investors as strong signals of a technologies success. As the formally ASX-listed Chemeq and the more recent example of Dendreon (NASDAQ:DNDN) attest, this sort of signal can lead investors down an unpleasant road.

An additional point is that the Singaporean Government is keen to establish/build on its life science manufacturing industry and that Mesoblast would likely receive considerable tax breaks for their efforts.

Looking Ahead

Two coming events: (1) presentation of the full trial data from Mesoblast's phase II congestive heart failure trial in Nov 2011; (2) release of results from a type II diabetes study of their cells in monkeys, which we expect at the end of year, may provide potential upside to our valuation.

Valuation

While the manufacturing deal with Lonza is clearly a *positive*, clinical trial results are still the main game for Mesoblast, thus, for the sake of prudence, we maintain Mesoblast as a **BUY** with our existing **12-month price target of \$11.75**.

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Recommendations are assessments of each Lodge Partners Analyst's view of potential total returns over a 1 year period.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main categories:

Buy: Expected Total Return in excess of 15% over a 1 year period.

Hold: Expected Total Return between 0% and 15% over a 1 year period.

Sell: Expected Total Return less than 0% over a 1 year period.

Analyst Verification

I verify that I Marc Sinatra, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

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