

Teva comments on MSB's pipeline

First Look

Breaking news, market events and company announcements

November 3, 2011

Rating Remains	Buy
Target price Remains	AUD 10.15
Closing price November 2, 2011	AUD 8.03

Summary

Commentary from the Teva (TEVA IL, not rated) 3Q11 results call suggests that the MSB product portfolio is attractive, in their view. Teva have made specific reference to the recently acquired Cephalon pipeline, with MSB's potential products being part of this pipeline. We believe the commentary from Teva regarding MSB is further confirmation of Teva's interest in the MSB opportunity.

Background

As part of a deal signed in December 2010, Cephalon made an upfront payment to MSB totalling US\$130mn and regulatory milestone payments of up to US\$1.7bn, and became a 19.9% shareholder in MSB. Cephalon is responsible for the conduct and expenses of Phase IIb and III clinical trials in bone marrow transplant, cardiac and neurological disease, and subsequent commercialisation of the products. MSB is likely to retain a significant percentage of the transfer price of net sales from any commercialised products. Importantly, MSB has retained all manufacturing rights for MPCs. Hence, we believe Cephalon will effectively perform back-end sales and marketing for MSB in select indications.

On 2 May 2011, Teva and Cephalon announced that their Boards of Directors had unanimously approved a definitive agreement under which Teva acquired all of the outstanding shares of Cephalon for c\$81.50 per share in cash, or a total enterprise value of cUS\$6.8Bn. The transaction is now completed.

Short-term catalyst for MSB – Final Phase II CCF trial result due November 14

MSB is in the midst of performing clinical trials in three types of ischaemic heart disease: chronic refractory angina, acute myocardial infarction (heart attack) and congestive cardiac failure (CCF). We note that MSB will present Final Phase II CCF trial result (Revascor) at the American Heart Association meeting on November 14. In line with management commentary, we believe MSB will initiate a Phase III clinical trial in congestive cardiac failure by start 2HFY12F. Finally, we include edited highlights of the 3QFY11 Teva conference call.

Management present:

- Shlomo Yanai, President and Chief Executive Officer
- Eyal Desheh, Chief Financial Officer
- William S. Marth, President and Chief Executive Officer of Teva Americas
- Kevin C. Mannix, Vice President, Investor Relations

Management comments

"We further expanded our specialty branded business on October 14 when we closed on the acquisition of Cephalon. Our newly expanded portfolio in CNS, oncology, respiratory and women's health has, together

Research analysts

Australia Health Care & Pharmaceuticals

Dr David Stanton - NAL
david.stanton@nomura.com
+61 2 8062 8410

Zara Lyons - NAL
zara.lyons@nomura.com
+61 2 8062 8407

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

with our robust pipeline of more than 30 late stage products, positioned us as a leader in specialty pharma. We are very excited about opportunities that lay ahead.

Q and A session

Q: *On the Cephalon pipeline, I know it's too early but could you give us any sense of what are some of the key products that you're excited about in the pipeline?*

A: What I would tell you right now is we're right in the middle of that evaluation right now. Kevin Buchi and his team are doing extensive work there. We actually put the two pipelines together. I think a lot of exciting things in that pipeline from those that are more challenging such as Revascor that perhaps have potential to really be transformational in the market place to products like hydrocodone that we think are maybe a little bit easier to get into the market on although they are very important products to get to market. So there's a lot there, there's a lot for us to growth through. I think at this time, we would reserve discussion of that pipeline and potentially we'll be able to talk to you sometime in 2012 about how we see the whole pipeline for Teva.

Q: *And then if we look at just the Cephalon acquisition, can you just confirm that the Revascor, Mesoblast and Cinquil molecules are still in the pipeline?*

A: With Cephalon I think you said Mesoblast and you broke up there.

Q: *Yeah, the Mesoblast, Revascor product opportunity, you said you were excited about it, I assume it's still part of the pipeline and actively being developed?*

A: Yes, that is still part of the pipeline at this time.

END OF PRESENTATION

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Appendix A-1

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Mesoblast	MSB AU	AUD 8.03	02-11-2011	Buy	Not rated	

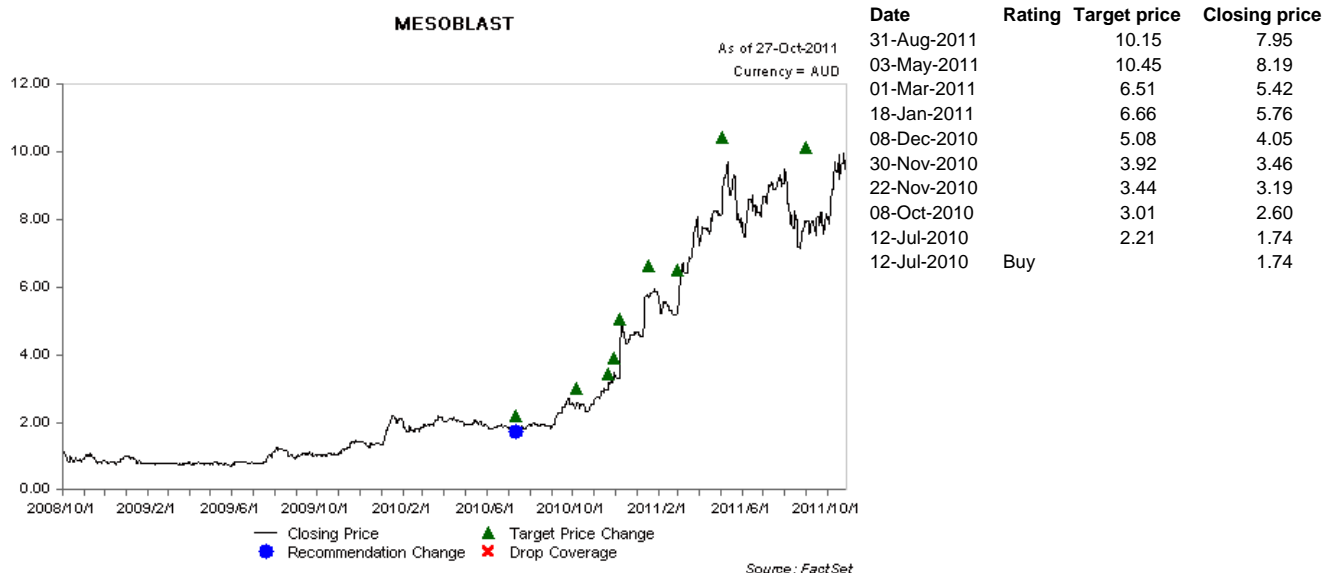
Previous Rating

Issuer name	Previous Rating	Date of change
Mesoblast	Not Rated	12-7-2010

Mesoblast (MSB AU)

AUD 8.03 (02-11-2011) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



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

Valuation Methodology We calculate that the NPV of the potential near-term opportunities developed by MSB is A\$29.79. We believe the probability of MSB getting its product onto market depends on its clinical trial stage. Hence, our risk-weighted valuation is A\$10.15.

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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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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