



Biotech Daily

Tuesday March 17, 2009

Daily news on ASX-listed biotechnology companies

*** ASX, BIOTECH UP: AVEXA UP 24%; BONE DOWN 20%**

*** GRAEME KAUFMAN RATES MESOBLAST A \$1.65 'BUY'**

*** XCEED APPOINTS STEPHEN BELBEN COMPANY SECRETARY**

MARKET REPORT

The Australian stock market climbed 3.1 percent on Tuesday March 17, 2009 with the S&P ASX 200 up 103.54 points to 3,451.9 points.

Fifteen of the Biotech Daily Top 40 stocks were up, eight fell, eight traded unchanged and nine were untraded.

Avexa was best for the second day in a row, up 2.5 cents or 23.8 percent to 13 cents with 6.1 million shares traded, followed by Circadian Cell up 13.33 percent to 68 cents.

Genetic Technologies climbed 8.8 percent; Pharmaxis was up 7.7 percent; Acrux, Alchemia and Labtech were up more than four percent; Nanosonics, Peplin and Sirtex improved more than three percent; Cellestis, Mesoblast and Viralytics rose more than two percent; Novogen was up 1.2 percent; with Arana, Cochlear and CSL up less than one percent.

Bone led the falls, down five cents or 20 percent to 20 cents with 5,333 shares traded.

Psivida and Starpharma lost more than eight percent; Polartech fell 6.1 percent; Progen was down 3.5 percent; with Biota, Chemgenex, Heartware and Resmed down by one percent or more.

MESOBLAST

Graeme Kaufman has given Mesoblast a 12-month price target of \$1.65 in an analysis of the company for Lodge Partners.

Mr Kaufman is a principal of the Strategic Life Sciences and a former chief financial officer of CSL and a former executive of Circadian.

Mr Kaufman said the key to understanding the value of Mesoblast was “its carefully structured commercialization strategy”.

He said the company understood the need to minimize development lead times through tight management of clinical programs and generation of early supporting data and remained tightly focused on developing and maintaining relationships with industry market leaders. He said these relationships would lead to strategic corporate alliances, from which Mesoblast expected to earn potentially significant short and mid-term milestone payments and, in the longer term, significant royalty revenue.

The commercial strategy is underpinned by the technology strategy, which is based on fast-tracked development programs across multiple indications allowing the opportunity of multiple strategic partnerships.

Mr Kaufman said Mesoblast had “succeeded in demonstrating in human clinical trials that it is able to take cells from one individual and safely transplant them into an unrelated donor – this proof-of-concept is an important validation of the use of allogeneic cells that is the basis of the Mesoblast commercialization strategy”.

“We assess Mesoblast as a ‘buy’, with a spot valuation of \$1.29 and a 12-month price target of \$1.65,” Mr Kaufman said. “The past year has seen a significant de-risking of the portfolio, and we expect this trend to continue over the next 12 months.”

He said the valuation used a traditional probability-adjusted, discounted, cash-flow model based on our estimates of the costs of clinical trials and future milestones and royalty streams for each of the core development programs together with an estimated value of the 38.4 percent stake in Angioblast, determined on a similar basis.

Based on the encouraging results to date, we have assumed an overall 60 percent probability that the products will reach market, although it may appear to be quite low this covers execution risk in addition to technical and commercial risks.

Despite our view that Mesoblast will have few difficulties in securing the human and financial resources to execute on its strategy, we necessarily believe it is prudent in the current climate to take a conservative view of execution risk.

The model is based on the assumption that Mesoblast will fund each indication through phase II clinical trials and then out-licence the remaining development to third parties in exchange for upfront fees, milestone payments and royalties.

Although higher royalty rates may be achieved based on demonstrated safety and efficacy at the end of phase II, the device sector operates at lower rates and we have assumed a conservative royalty rate on end-user sales of 15 percent at that stage.

In addition to probability adjustments to factor in the technical risk, we have used a discount rate of 20 percent to reflect the market risk.

Mr Kaufman said the Mesoblast board had “a balanced blend of technical and commercial expertise, including global industry experience ... [and was] backed by a strong management team with a clear strategic focus as well as ‘hands-on’ operational experience within the industry”.

Mesoblast was up two cents or 2.7 percent to 76 cents.

XCEED CAPITAL

Xceed Capital has appointed Stephen Belben as company secretary, replacing Adela Richards.

Xceed said Mr Belben had been an executive and non-executive director of public and private companies over the past 13 years, prior to which he was a senior partner of Ernst and Young, specializing in corporate and assurance work in Western Australia.

He is qualified as a chartered accountant in both South Africa and Australia and has worked extensively in Africa, the United Kingdom and Australia.

Mr Belben is a director of St George Capital, Greencap and Enerex and holds Bachelor of Accounting and Commerce degrees.

Xceed climbed 0.2 cents or 16.67 percent to 1.4 cents.