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MESOBLAST BUYS ANGIOBLAST, ANOINTS SILVIU ITESCU, RAISES $37m

BIOGUIDE BRIEF: MESOBLAST MERGER 'VICTORY FOR ALL'

Thursday May 13, 2010

MARC SINATRA'S BIOGUIDE: ANGIOBLAST GETS THE BLOOD PUMPING

MESOBLAST, ANGIOBLAST

Mesoblast says it will acquire the shares in Angioblast it does not own, has appointed founder Prof Silviu Itescu the group chief executive officer and has raised $37 million.

Mesoblast said it had completed a $37 million capital raising to fund the acquisition and advance operations of the expanded Mesoblast group.

The company said the funds comprised $24 million invested immediately and $13 million committed subject to both shareholder approval and completion of the acquisition offer.

Prof Itescu told Biotech Daily that Mesoblast owned about 33 percent of Angioblast, he owned "about 40 percent" of Angioblast and less than 30 percent of Mesoblast.

Mesoblast chairman Brian Jamieson said the company was "delighted to bring the commercial rights to the patented adult stem cell technology platform under one umbrella". "Mesoblast shareholders will derive much greater potential benefit from product commercialization and from the broader strategic partnerships or collaborations Mesoblast will now be able to conclude," Mr Jamieson said.

Mesoblast said the capital was raised from UK and Australian investors at a share price of $1.70, a 12 percent discount to the closing price on May 3, 2010 and was managed by Southern Cross Equities with Lodge Partners.

Mesoblast said that to acquire the remaining 67 percent of Angioblast not owned by Mesoblast, the company would issue 94.6 million of its shares to Angioblast investors.

Together with Mesoblast's current 140.6 million shares on issue, post-acquisition the Mesoblast group will have up to 235.2 million shares outstanding.

Angioblast stockholders will have the choice of either taking Mesoblast shares or up to 15 percent in cash and the balance in Mesoblast shares.

The company said the cash component would enable Angioblast stockholders who are subject to US Federal tax to fund the capital gains tax resulting from the transaction.

The acquisition is subject to conditions including Mesoblast and Angioblast shareholder approvals and satisfactory due diligence.

An extraordinary general meeting of Mesoblast shareholders is expected to be held before the end of June 2010.

Mesoblast said that the share price at the close of trading on May 3, 2010, would result in a capitalization of Mesoblast $455 million, not including today's $37 million capital raising.

Mesoblast's executive director Prof Silviu Itescu has been appointed chief executive officer and managing director of the group effective immediately.

Prof Itescu told Biotech Daily that the changes would have multiple benefits for the company and its investors.

"The synergies between the companies and having the technology in one company allow the investors and shareholder base to take advantage of the potential of both companies," Prof Itescu said. "It also allows us to talk to commercialization partners with one voice."

"Transforming Mesoblast from a biologics company focused on orthopaedic applications to a global leader in the broader regenerative medicine industry should prove to be a pivotal event in the company's evolution," Prof Itescu said in a media release.

Prof Itescu said consolidating the technology and assets would streamline corporate operations, strengthen management and assist the rational deployment of resources.

"Mesoblast is now a mature multi-product company with products in late, mid, and early stage development," Prof Itescu said.

He said the company's pipeline would be extended from orthopaedics, including spinal fusion and osteoarthritis, to include products for treating congestive heart failure, cardiac arrest, eye diseases, diabetes and bone marrow repair.

Mesoblast was up 5.5 cents or 2.8 percent to $1.99.

MARC SINATRA'S BIOGUIDE BRIEF: MESOBLAST, ANGIOBLAST

The advantages of the ASX-listed Mesoblast and its unlisted US sister company Angioblast merging into one listed company are numerous and include:

* the ability of the two companies to progress with a coordinated strategy, so that the nature and timing of their combined activities can maximize shareholder value;

* free and full information flow between the companies in an area where, due to its infancy, knowledge attracts a premium value;

* the removal of potential conflicts of interest due to asymmetries in the interests of common shareholders, directors and employees of the two companies;

* a broader product offering, leading to a greater ability to tailor multiple product licencing deals to potential licencees;

* an improved chance of eliciting a takeover offer, as the present arrangement means any buyer would have to launch takeover offers for both companies; and

* consolidation and clarity with respect to intellectual property ownership.

The disadvantages are few, of which the most prominent is that the inability of investors to choose between the two companies may lead to some value loss, while theoretically, there may also be a loss of some specialization benefits.

The merger also offers benefits to each group of shareholders. For example, Mesoblast's initial public offer and subsequent share price performance has been very strong. Angioblast shareholders will benefit from the goodwill this has created. Mesoblast shareholders, on the other hand, will become owners of the intellectual property on which the products of their company are based, not just a licencee.

Given the already close nature between Mesoblast and Angioblast, the merger implementation should be about as easy as it can get.

Once completed, the merger will have created a very formidable company structured to benefit all shareholders.

It will also have a truly world class pipeline, with four products in phase II trials.

In my opinion, such a merger represents a victory for shareholders in both companies and Australian biotech, where corporate action is often driven by necessity or a small, but significant, group of shareholders looking for an easy exit.

Marc Sinatra
Analyst

*** This brief was derived from a research note contemplating a merger between Mesoblast and Angioblast prepared by Marc Sinatra, under contract, for Lodge Partners.**
Neither Marc Sinatra nor Biotech Daily editor David Langsam own shares in Mesoblast, yet.

MARC SINATRA'S BIOGUIDE: ANGIOBLAST SYSTEMS

Overview: A successful float, post-float share price performance and an ability to hit milestones has made Mesoblast a very successful Australian biotech. However, the market knows little about its closely-related sister, Angioblast Systems.

In fact, Angioblast is the older of the two companies and owns the intellectual property that both companies are developing. In addition to sharing technology, the companies share certain shareholders, directors and employees. They are about as close to each other as they can be without being a single company.

So, who is Angioblast and what sort of valuation would it attract if it were listed?

Angioblast & Mesoblast: Like Mesoblast, Angioblast is developing a range of tailored, off-the-shelf, adult, stem cell-based products for a range of indications. Angioblast is initially targeting the cardiac and bone marrow transplant markets. Mesoblast, via a licence from Angioblast, is developing the same technology, but for application to bone and joint diseases only.

Directors: Non-executive chairman, Carter Eckert; chief executive officer, Dr Silviu Itescu; non-executive directors, Robert Campbell, Donal O'Dwyer and Michael Esposito.

Angioblast has an excellent board, providing a solid mix of management, commercialization and scientific skills.

Products in Development:
1) Congestive heart failure (CHF): The product, Revascor, is in phase II trials for congestive heart failure and CHF patients fitted with a mechanical heart assist device. Early results have been positive and full results should be released in the not-too-distant future;

2) Cord blood expansion (CBE): Currently in a phase I/II trial, the product is aimed at expanding the number of haematopoietic cells collected from umbilical cord blood. Cord blood is the preferred source of cells for bone marrow transplant, but the low yield of cells limits their usefulness;

3) Myocardial infarction: Presently being studied in a phase II trial, initiated on the back of a successful pre-clinical study in sheep. It is progressing more slowly than expected, although a protocol change should speed up recruitment;

4) Macular degeneration and diabetic retinopathy: Scheduled to enter human trials soon, a 2008 animal study showed the combination of Angioblast's adult stem cells and Lucentis, a drug for macular degeneration, significantly reduced blood vessel leakage in the eye by 25 percent compared to Lucentis alone;

5) Type II diabetes: Also due to enter human trials soon. The indication is being investigated following a mouse model trial of type II diabetes, which showed mice treated with Angioblast's stem cells had significantly more insulin-producing cells 21 days after chemical destruction of the pancreas than controls.

Significant Product Markets: Angioblast's later stage products are aimed at a combination of large and small markets.

Congestive heart failure affects 5.7 million Americans with 550,000 new cases each year. $US6.7 billion is spent each year for drugs and other therapies to treat the disease. Many cases of CHF are the result of the 1.1 million cardiac arrests each year in the US.

The US CBE market is small, with 19,000 bone marrow transplants in 2005, with costs from $US50,000 to $US200,000 each, making transplants a solid orphan indication.

Valuation: Using a standard, risk-adjusted, discounted cash-flow method, I have arrived at a market capitalization valuation for Angioblast between $237 million and $292 million or $113 to $140 a share. While this valuation seems high for an unlisted company, it is hard to argue with it, after performing a series of reality checks.

Osiris Therapeutics, the other major adult stem cell company, has a market capitalization of $250 million, despite numerous trial failures. Mesoblast has a market cap of $280 million owns 33 percent of Angioblast and has product markets distinct from Angioblast.

Angioblast has added significant value after capital raisings. Following a $5.6 million placement to Abbott Laboratories at $84 a share, Angioblast gained orphan status and produced positive preliminary phase I/II results for its CBE product and returned positive preliminary results from its phase II CHF trial, among other achievements. An August 2009 convertible note issue was followed by positive results from the CBE trial, the low-dose CHF trial and type II diabetes animal data.

Opinion: Angioblast is of equivalent quality to its sister company Mesoblast although it is probably a higher risk - higher return proposition.

Two important factors distinguish Angioblast from Osiris's disappointing trial results. First, Angioblast uses a decidedly different, more defined, adult stem cell population. Second, while Osiris by-passed animal trials and moved straight into human trials, Angioblast has chosen products based on positive animal data, reducing the risk of future trial failures.

Angioblast is also tailoring its products on an indication-by-indication basis, whereas Osiris is a two-products-fits-all company. Again, this also reduces the risk of trial failures, but it also allows for differential pricing of products and prevents cannibalism between Angioblast's products.

The proposed merger of Angioblast and Mesoblast values Angioblast at $240 million, an acceptable price at the lower end of my $237 to $292 million range.

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*** This BioGuide was derived from a research note on Angioblast Systems prepared by Marc Sinatra, under contract, for Lodge Partners Pty Ltd.**