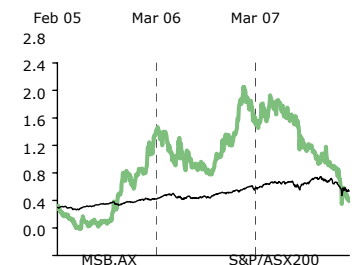


## Buy

**Absolute performance**
**n/a**
**Short term (0-60 days)**
**Pharmaceuticals & Biotechnology  
Australia**
**Price**
**A\$0.79**
**Target price**
**A\$2.20**
**Market capitalisation**
**A\$85.10m (US\$77.65m)**
**Avg (12mth) daily turnover**
**A\$0.12m (US\$0.10m)**
**Reuters**
**MSB.AX**
**Bloomberg**
**MSB AU**
**Price performance (1M) (3M) (12M)**

Price (A\$)	1.0	1.6	2.3
Absolute %	-19.4	-50.0	-64.9
Rel market %	-16.6	-41.9	-62.4
Rel sector %	-12.1	-45.7	-58.9


**Stock borrowing: Easy onshore,  
Impossible offshore**
**Volatility (30-day): 103.73%**
**Volatility (6-month trend): ↑**
**52-week range: 2.39-0.72**
**S&P/ASX200: 5558.40**
**BBG AP Pharm & Biotech: 148.44**
**Source: ABN AMRO, Bloomberg**

## Twice is nice

**MSB has recently released two items that continue to confirm the long-term potential of the business: 1) statistically significant results from a bone fracture trial, and 2) MSB's sister company, Angioblast, entering into an agreement with Abbott. Buy.**

### Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA (A\$m)	-6.75	-7.90	-8.49	-9.12	0.83
Reported net profit (A\$m)	-8.30	-8.73	-9.99	-10.6	-1.14
Normalised net profit (A\$m) <sup>1</sup>	-8.30	-8.73	-9.99	-10.6	-1.14
Normalised EPS (c) <sup>1</sup>	-8.87	-8.20	-9.28	-9.31	-0.95
Normalised EPS growth (%)	498.2	-7.61	13.2	0.28	-89.7
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	n/m	n/m	n/m	n/m	n/m
EV/EBITDA (x)	n/m	n/m	n/m	n/m	78.6
Price/net oper. CF (x)	-23.2	-10.3	-10.4	-10.2	16.4
ROIC (%)	-115.5	-135.7	-70.6	-95.6	-0.53

*1. Pre-goodwill amortisation and exceptional items*
*Accounting Standard: IFRS*
*Source: Company data, ABN AMRO forecasts*
*year to Jun, fully diluted*

### MSB - the adult mesenchymal precursor cell company

MSB aims to capitalise on its patents that relate to the identification, extraction and culture of adult mesenchymal precursor cells (MPCs). MPCs can become any type of cell. MSB hopes to develop treatments for bone, joint and cardiovascular diseases.

### MSB's statistically significant result of non-healing bone fracture trial

MSB recently announced statistically significant results from a clinical trial where MSB's cells were injected into 10 patients with non-healing long bone fractures. Seven of those have achieved union of their long bone defects within a median of 4.9 months, and are now fully weight-bearing. In addition, these results suggest a linear relationship between the dose of cells given and the healing of the defect.

### MSB's sister company, Angioblast, enters into an agreement with Abbott

MSB owns 39.2% of Angioblast Systems. Angioblast's stem cells have been shown to result in significant improvements in heart function. Angioblast recently entered into a collaborative agreement with Abbott, a global cardiac catheter company, for the development and commercialisation of Angioblast's catheter-based cell therapy product. Abbott will provide funding for the collaborative program which, upon completion, is expected to result in an Investigational New Drug (IND) submission from Angioblast to the US FDA for a Phase II clinical trial. Interestingly, Abbott also has a spinal implant business, and Abbott's Humira is a major treatment for joint disease. MSB is currently pursuing opportunities for its stem cells in both the spinal implant (spinal fusion) and joint disease (cartilage regeneration) markets.

### Buy maintained, price target A\$2.20

We believe this reinforces the potential value of the MSB technology, but have not changed our forecasts on the back of this news. Our valuation and 12-month target price for MSB is A\$2.20 per share. We continue to believe MSB is most likely to partner with an orthopaedic firm to take MPC to market. Should the technology prove scaleable, we believe MSB may become an acquisition target for an orthopaedic company.

**Important disclosures can be found in the Disclosures Appendix.**

Priced at close of business 18 February 2008.

## Twice is nice

MSB has recently released two items that we believe continue to confirm the long-term potential of the business: 1) statistically significant results from a bone fracture trial, and 2) MSB's sister company, Angioblast, entering into an agreement with Abbott.

### MSB – the adult mesenchymal precursor cell company

MSB has recently released two items that continue to confirm the long-term potential of the business. MSB aims to capitalise on its patents that relate to the identification, extraction and culture of adult mesenchymal precursor cells (MPCs). MPCs are not fixed as to potential cell-line development (ie, they can become any type of cell, rather than being a mixture of committed types of cells). MSB hopes to develop treatments for bone/joint and cardiovascular diseases.

### MSB's statistically significant result of non-healing long bone fracture trial

MSB recently announced statistically significant results from a clinical trial where MSB's cells were injected into 10 patients with non-healing long bone fractures. Seven of those have achieved union of their long bone defects within a median of 4.9 months, and are now fully weight-bearing. In addition, these results suggest a linear relationship between the dose of cells given and the healing of the defect.

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MSB owns 39.2% of Angioblast Systems. Angioblast's adult stem cells have been shown to result in significant improvements in heart function. Angioblast recently entered into a collaborative agreement with Abbott, a global cardiac catheter company, for the development and commercialisation of Angioblast's catheter-based cell therapy product for heart failure. Under the terms of the agreement, Abbott will provide funding for the collaborative program which, upon completion, is expected to result in an Investigational New Drug (IND) submission from Angioblast to the US FDA for a Phase II clinical trial. In addition, Abbott has made an equity-based investment of US\$5m in Angioblast. Under the terms of the collaborative agreement, Angioblast will retain all its commercial rights associated with the platform adult stem cell technology. Interestingly, Abbott also has a spinal implant business, and Abbott's Humira medication is one of the largest-selling treatments for the treatment of joint disease. MSB is currently pursuing opportunities for its stem cells in both the spinal implant (spinal fusion) and joint disease (cartilage regeneration) markets.

### Buy maintained, price target A\$2.20

We believe this reinforces the potential value of the MSB technology. Our valuation and 12-month target price for MSB is A\$2.20 per share. Over the medium term, we continue to believe MSB is most likely to partner with an orthopaedic firm to take an MPC to market. We think the most likely partners are those with existing market share in orthobiologicals. Should the technology prove scaleable, we believe MSB may become an acquisition target for a large orthopaedic company, one that might include MSB's technology in its bone-graft-substitute offering.

On an industry-wide basis, the chances of getting a product to market from the Phase II stage are in the order of 30%. The reasons for this low rate are numerous. As a result, we believe the risk that MSB will be unable get a product to market are not inconsiderable. MSB's patent position is strong, but we think the company is unlikely to be cash flow positive before 2011. Hence, we believe MSB is an investment opportunity for investors with a higher risk appetite.

## MSB - financial summary

Year to 30 Jun (A\$m)	AIFRS 2006A	AIFRS 2007A	AIFRS 2008F	AIFRS 2009F	AIFRS 2010F	Closing price (A\$)	0.79	Price target (A\$)	2.20	
<b>Income statement</b>						<b>Valuation metrics</b>				
Divisional sales	0.0	0.0	0.0	0.0	16.6	Preferred methodology	DCF	Val'n (A\$)	\$ 2.20	
Total revenue	2.2	0.7	0.7	0.7	17.3	<b>DCF valuation inputs</b>				
EBITDA	-6.8	-7.9	-8.5	-9.1	0.8	Rf	5.75%	10-year rate	5.75%	
Associate income	-1.9	-1.7	-1.7	-1.7	-1.7	Rm-Rf	4.50%	Margin	2.0%	
Depreciation	-0.1	-0.1	-0.1	-0.1	-0.9	Beta	1.50	Kd	7.75%	
EBITA	-6.9	-8.0	-8.6	-9.2	0.0	CAPM (Rf+Beta(Rm-Rf))	12.5%	Ke	12.5%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	E/EV*Ke+D/EV*Kd(1-t)	NPV cash flow (A\$m)			221.3
EBIT	-6.9	-8.0	-8.6	-9.2	0.0	Equity (E/EV)	100.0%	Minority interest (A\$m)	0.0	
EBIT(Incl associate profit)	-8.8	-9.7	-10.3	-10.9	-1.8	Debt (D/EV)	0.0%	Net debt (A\$m)	-12.1	
Net interest expense	0.4	0.9	0.3	0.3	0.6	Interest rate	7.75%	Investments (A\$m)	0.0	
Pre-tax profit	-8.3	-8.7	-10.0	-10.6	-1.1	Tax rate (t)	30.0%	Equity market value (A\$m)	233.4	
Income tax expense	0.0	0.0	0.0	0.0	0.0	<b>WACC</b>				
After-tax profit	-8.3	-8.7	-10.0	-10.6	-1.1	<b>DCF valuation (A\$)</b>				2.17
Minority interests	0.0	0.0	0.0	0.0	0.0	<b>Multiples</b>				
NPAT pre significant items	-8.3	-8.7	-10.0	-10.6	-1.1	Enterprise value (A\$m)	2007A	2008F	2009F	2010F
Significant items	0.0	0.0	0.0	0.0	0.0		73.0	81.3	70.1	65.2
Reported NPAT	-8.3	-8.7	-10.0	-10.6	-1.1	EV/Sales (x)				3.9
<b>Cash flow statement</b>						<b>At target price</b>				
EBITDA	-6.8	-7.9	-8.5	-9.1	0.8	EV/EBITDA (x)	2007A	2008F	2009F	2010F
Change in working capital	0.0	0.0	0.0	0.0	4.3	EV/EBIT (x)	-9.2	-9.6	-7.7	78.6
Net interest (pd)/rec	0.6	0.9	0.3	0.3	0.6	PE (normalised) (x)	-9.2	-9.5	-7.6	-1737.1
Taxes paid	0.0	0.0	0.0	0.0	0.0	PEG (normalised) (x)	-9.6	-8.5	-8.5	-82.8
Other oper cash items	0.0	0.0	0.0	0.0	0.0	<b>Comparable company data (x)</b>				
Cash flow from ops (1)	-3.2	-8.2	-8.2	-8.8	5.8	Alchemia	2008F	2009F	2010F	
Capex (2)	0.0	-0.1	0.0	0.0	-0.9	Year to 30 Jun	EV/EBITDA	-5.8	-44.8	1.7
Disposals/(acquisitions)	-4.1	-3.9	0.0	0.0	0.0	pep.ax	EV/EBIT	-5.0	-19.1	1.8
Other investing cash flow	0.1	-0.3	0.0	0.0	0.0	Year to acl.ax	PE	-5.9	-26.6	1.6
Cash flow from invest (3)	-4.1	-4.3	0.0	0.0	-0.9		PEG	-1.7	-7.6	0.5
Incr/(decr) in equity	0.0	16.8	0.0	20.0	0.0	<b>Per share data</b>				
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	No. shares	2007A	2008F	2009F	2010F
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	EPS (cps)	107.7	107.7	119.7	119.7
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	-8.2	-9.3	-9.3	-1.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	-8.2	-9.3	-9.3	-1.0
Cash flow from fin (5)	0.0	16.8	0.0	20.0	0.0	Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0
Inc/(decr) cash (1+3+5+6)	-7.2	4.3	-8.2	11.2	4.9	<b>Growth ratios</b>				
Equity FCF (1+2+4)	-3.2	-8.3	-8.2	-8.8	4.9	Sales growth	2007A	2008F	2009F	2010F
<b>Balance sheet</b>						Operating cost growth	na	na	na	na
Cash & deposits	7.9	12.1	3.8	15.0	19.9	EBITDA growth	17.0%	7.4%	7.5%	MISSING
Trade debtors	0.2	0.5	0.5	0.5	12.2	EBITA growth	15.8%	7.4%	7.4%	-99.6%
Inventory	0.0	0.0	0.0	0.0	0.0	EBIT growth	15.8%	7.4%	7.4%	-99.6%
Investments	7.5	7.7	7.7	7.7	7.7	Norm. NPAT growth (pre GW)	5.2%	14.5%	5.8%	-89.2%
Goodwill	0.0	0.0	0.0	0.0	0.0	Norm. NPAT growth	5.2%	14.5%	5.8%	-89.2%
Other intangible assets	0.8	0.8	0.8	0.7	0.7	Norm. EPS growth (pre GW)	-7.6%	13.2%	0.3%	-89.7%
Fixed assets	0.0	0.2	0.2	0.2	0.2	Norm. EPS growth	-7.6%	13.2%	0.3%	-89.7%
Other assets	0.0	0.0	0.0	0.0	0.0	<b>Operating performance</b>				
Total assets	16.4	21.2	13.0	24.1	40.6	Asset turnover (%)	2007A	2008F	2009F	2010F
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	0.0	0.0	0.0	12.8
Trade payables	4.4	0.7	0.7	0.7	16.7	EBIT margin (%)	na	na	na	5.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	EBIT margin (%)	na	na	na	-0.2
Provisions	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	na	na	na	-6.9
Other liabilities	0.0	0.0	1.7	3.4	5.1	Return on net assets (%)	-38.8	-81.2	-46.0	-0.2
Total liabilities	4.4	0.7	2.4	4.1	21.8	Net debt (A\$m)	-12.1	-3.8	-15.0	-19.9
Preference shares						Net debt/equity (%)	-58.7	-36.1	-75.0	-105.6
Hybrid equity	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	8.5	30.8	28.0	0.1
Share capital	20.7	37.4	37.4	57.4	57.4	ROIC (%)	-135.7	-70.6	-95.6	-0.5
Other reserves	1.1	1.6	1.6	1.6	1.6	<b>Internal liquidity</b>				
Retained earnings	-9.8	-18.5	-28.5	-39.1	-40.2	Current ratio (x)	2007A	2008F	2009F	2010F
Other equity	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	18.0	1.8	3.8	1.5
Total equity	12.0	20.5	10.5	20.0	18.8	Payables turnover (x)	na	0.0	0.0	2.6
Minority interest	0.0	0.0	0.0	0.0	0.0		na	12.1	13.0	1.8
Total shareholders' equity	12.0	20.5	10.5	20.0	18.8					
Total liabilities & SE	16.4	21.2	13.0	24.1	40.6					

Source: ABN AMRO estimates, company data

**Recommendation structure**

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return. This structure applies to research on Asian and European stocks published from 1 November 2005; on Australian stocks from 7 November 2006; on continental European small and mid cap stocks from 23 November 2006; and on Brazilian stocks from 18 June 2007.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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**Distribution of recommendations**

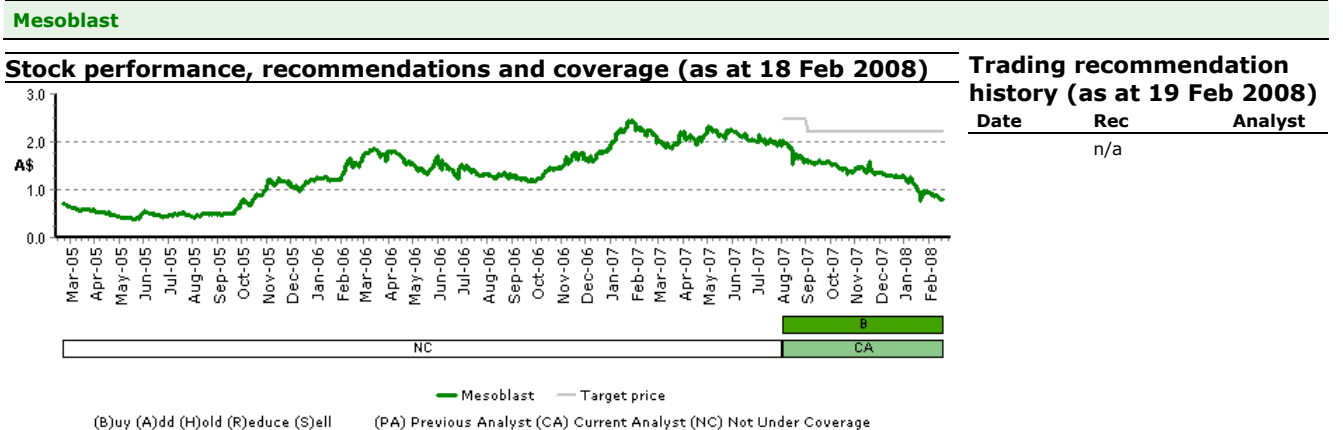
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<b>Long Term recommendations (as at 19 Feb 2008)</b>			
	<b>Global total (IB%)</b>	<b>Asia Pacific total (IB%)</b>	
Buy	614 (15)	399	(4)
Add	0 (0)	0	(0)
Hold	419 (19)	250	(5)
Reduce	0 (0)	0	(0)
Sell	67 (12)	42	(5)
<b>Total (IB%)</b>	<b>1100 (16)</b>	<b>691</b>	<b>(4)</b>

<b>Trading recommendations (as at 19 Feb 2008)</b>			
	<b>Global total (IB%)</b>	<b>Asia Pacific total (IB%)</b>	
Trading Buy	5 (20)	3	(0)
Trading Sell	1 (0)	1	(0)
<b>Total (IB%)</b>	<b>6 (17)</b>	<b>4</b>	<b>(0)</b>

**Valuation and risks to target price**

**Mesoblast (RIC: MSB.AX, Rec: Buy, CP: A\$0.790, TP: A\$2.20):** Our valuation of MSB is based on a discounted cash flow model, from which we derive our target price. Upside risks include the faster-than-expected progression to production of MSB's MPC technology, while downside risks include the lack of scalability of the manufacturing process.



**Trading recommendation history (as at 19 Feb 2008)**

Date	Rec	Analyst
	n/a	

Dr David Stanton started covering this stock on 2 Aug 07  
New recommendation structure from 7 November 2005

**Regulatory disclosures**

Subject companies: **MSB.AX**

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