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Health Care

US biogeneric exclusivity extended?

Proposed US legislation would prohibit biogeneric companies from competing with sales of brand-name biologics for at least 12 years. Should it be passed, we believe this potentially gives brand-name biological drugs so many years of exclusivity that it would not be economically feasible to develop generics.

Key recommendations & forecasts

	Reuters	Year end	Recom	Price	Target price	EPS 1fcst	PE 1fcst
CSL Ltd ¹	CSL.AX	Jun 2010	Hold	A\$31.76	A\$36.30	1.93	16.50
Clinuvel ¹	CUV.AX	Jun 2010	Buy	A\$0.31	A\$0.85	-0.05	n/a
Mesoblast ¹	MSB.AX	Jun 2010	Buy	A\$1.42	A\$1.21	-0.10	n/a

1. Normalised EPS - pre non-recurring items and post preference dividends.
Priced at close 3 December 2009.
Source: Company data, RBS forecasts

Sector performance

	(1M)	(3M)	(12M)
Absolute	37.1	65.5	151.6
Absolute (%)	11.2	21.6	70.1
Rel market (%)	5.8	13.0	23.7

ASX All Ordinaries: 4776.70
BBG AP Health: 367.96
Source: Bloomberg

The biogenics class of molecules – what are they?

A generic drug is generally a chemical compound, while a biogeneric drug is a generic version of a previously patented drug that is based on a product produced in the body. Biogenics are not as easy to copy as oral generic drugs. They typically mimic the complex folded shapes of natural proteins, and the molecules of some biologics are thousands of times larger than a typical drug molecule. As a result, going forward the biogenics industry is thought to have higher barriers to entry than the oral generics market. Therefore, only a small number of generics companies are likely to be able to enter this market.

Congress set to debate a 12-year biogeneric exclusivity period in the US

Health-care overhaul legislation in the US Senate and House would, for the first time, set up an approval process that allows generic-drug firms to develop biogenics. However, the legislation would prohibit biogeneric companies from competing with sales of brand-name biologics for at least 12 years.

This is longer than previously expected

The 12-year exclusivity period in the US House and Senate bills is longer than the seven-year exclusivity period that President Obama proposed in his Budget in February. The Senate starts debate next month. If it passes a bill, a House-Senate conference committee would be the final chance to change the exclusivity period. Industry feedback suggests Congress is asking for a new testing standards scheme for any potential biogeneric. We believe this length of exclusivity would give brand-name biological drugs so many years of exclusivity that it might not be economically feasible to develop generics. This would have the effect of protecting brand-name biologics from CSL, CUV and MSB.

CSL is already in the biologicals space with its rFVIII and its R&D projects

For CSL, while we have not changed our assumptions as a result of this news we will continue to monitor the situation, which we believe is relevant for the company's rFVIII (11% of FY10F revenues) and other R&D projects including its GM-CSFR (in Rheumatoid Arthritis) project and Anti-Leukaemia Antibody project. In addition, we believe a positive decision for the brand-name drug producers is a potential positive for CUV, which has developed a biologic called CUV-1647, and for MSB, which is progressing biologic mesenchymal stem cells through clinical trials.

Analysts

Dr David Stanton

Zara Lyons

RBS Equities (Australia) Limited, ABN
84 002 768 701, AFS Licence 240530
Level 29, RBS Tower, 88 Phillip Street,
Sydney NSW 2000, Australia

<http://www.abnamroresearch.com>

Important disclosures can be found in the Disclosures Appendix.

Stretching out the exclusivity period

According to IMS, in 2007, 56% of global biologics sales, or roughly US\$42bn, occurred in the US. Proposed US legislation would prohibit biogeneric companies from competing with sales of brand-name biologics for at least 12 years. Should it be passed, we believe this level of exclusivity gives brand-name biological drugs so many years of exclusivity that it might not be economically feasible to develop generics. This would have the effect of protecting brand-name biologics from CSL, CUV and MSB. In this note, we:

- define biogenics and biosimilars;
- highlight the market opportunity; and
- describe what it means for CSL, CUV and MSB.

1. Definition of biogenics/biosimilars

A **biogeneric** drug is a generic version of a previously patented drug that is based on a product produced in the body. Europeans use the term '**biosimilar**' while the FDA speaks of a '**follow-on protein product**'.

Conventional 'small-molecule' drugs are mass-produced in pharmaceuticals manufacturing plants. Biotech products are made by culturing specially engineered bacteria, yeast or human cells. A different production process yields a variant of the original biotech product, not an exact copy. Process variations may change a product's safety or effectiveness.

Biotech pharmaceuticals are not as easy to copy. They typically mimic the complex folded shapes of natural proteins and the molecules of some biologics are thousands of times larger than a typical drug molecule.

2. Large generic players see biogenics as a driver for growth

Large competitors are trying to get into the biogenics space. An open biogenics market would benefit companies such as Sandoz, Teva, Novartis, Barr Pharmaceuticals, India's Wockhardt and Dr. Reddys, and Germany's Stada and Hospira. These firms expect a biogenics industry to be less competitive and more profitable than the traditional generic business, as the barriers to entry in this market are likely to be higher than in others.

However, it is not easy to get a biogeneric to market

There are two reasons for this:

- **Innovator companies are trying to make it tougher to enter this space** – Innovator companies are adding patents to existing drugs with the aim of increasing the difficulty for new players to enter this space. For instance, Amgen has increased the patent protection around its EPO. The first US patent on Amgen's EPO expired in 2004, but the company has six others that last to 2015. In addition, we expect legal action in this space to increase.
- **It is difficult to make these products** – It is hard to predict how necessary process variations (required to avoid patents) will change a product's safety or effectiveness. Both J&J (with EPO) and Genentech (with Raptiva) suffered lengthy delays when they took over production of the EPO that it sold in international markets.

3. What does this mean for our coverage universe?

CSL does not manufacture its own rFVIII. Rather, Bayer (BAY) manufactures Kogenate, its rFVIII, and CSL rebadges and on-sells this as Helixate. Helixate is used to treat patients with Haemophilia A and makes up 11.0% of CSL's FY10F revenue. Under the terms of a financial agreement, BAY and CSL sell their rFVIII for about the same price. Under the terms of the contract, it is in CSL's interests to sell its rFVIII at the same price as BAY.

In 2007, CSL announced it had concluded an agreement that has extended the arrangements with Bayer (BAY) for the supply of Helixate. The arrangement secured a distribution agreement for a further eight years until the end of 2017.

RBS viewpoint

The 12-year exclusivity period in the US House and Senate bills is longer than the seven-year exclusivity period that President Obama proposed in his Budget in February. The Senate starts debate next month. If it passes a bill, a House-Senate conference committee would be the final chance to change the exclusivity period. Industry feedback suggests Congress is asking for a new testing standards scheme for any potential biogeneric. We believe this level of exclusivity gives brand-name biological drugs so many years of exclusivity that it might not be economically feasible to develop generics. This would have the effect of protecting brand-name biologics from CSL, CUV and MSB.

CSL – financial summary

	AIFRS 2008A	AIFRS 2009A	AIFRS 2010F	AIFRS 2011F	AIFRS 2012F	Closing price (A\$)	31.76	Price target (A\$)	36.30	
Income statement						Valuation metrics				
Divisional sales	3556.7	4622.4	4986.4	5168.5	5543.0	Preferred methodology	DCF, EV/EBITDA, PE	Val'n (A\$)	\$ 33.00	
Total revenue	3768.2	4976.0	5162.4	5410.2	5851.7	DCF valuation inputs				
EBITDA	1108.4	1526.4	1610.8	1863.5	1979.6	Rf	5.25%	10-year rate	5.25%	
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	6.00%	Margin	2.0%	
Depreciation/Amortisation	-141.8	-181.6	-195.9	-203.1	-217.8	Equity Beta	1.26	Kd	7.25%	
EBITA	966.6	1344.8	1414.9	1660.5	1761.8	CAPM (Rf+Beta(Rm-Rf))	12.8%	Ke	12.8%	
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	16408.7	
EBIT	966.6	1344.8	1414.9	1660.5	1761.8	Equity (E/EV)	64.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	966.6	1344.8	1414.9	1660.5	1761.8	Debt (D/EV)	36.0%	Net debt (A\$m)	-1810.3	
Net interest expense	-14.6	-5.2	44.0	35.0	67.5	Interest rate	7.25%	Investments (A\$m)	8.4	
Pre-tax profit	952.0	1339.6	1458.9	1695.5	1829.3	Tax rate (t)	30.0%	Equity market value (A\$m)	18227.4	
Income tax expense	-250.2	-319.3	-350.1	-423.9	-457.3	WACC	10.0%	Diluted no. of shares (m)	575.1	
After-tax profit	701.8	1020.3	1108.8	1271.6	1372.0			DCF valuation (A\$)	31.69	
Minority interests	0.0	0.0	0.0	0.0	0.0					
NPAT pre significant items	701.8	1020.3	1108.8	1271.6	1372.0	Multiples	2009A	2010F	2011F	2012F
Significant items	0.0	125.6	0.0	0.0	0.0	Enterprise value (A\$m)	15479.1	16648.3	15981.2	15348.3
Reported NPAT	701.8	1145.9	1108.8	1271.6	1372.0	EV/Sales (x)	3.3	3.3	3.1	2.8
						EV/EBITDA (x)	10.1	10.3	8.6	7.8
Divisional sales revenue	2008A	2009A	2010F	2011F	2012F	EV/EBIT (x)	11.5	11.8	9.6	8.7
CSL Behring	2822.4	3786.4	3955.0	4402.3	4730.1	PE (normalised) (x)	18.6	16.5	13.7	12.7
CSL Bioplasma	253.3	334.0	357.4	382.4	409.2	PEG (normalised) (x)	1.1	1.0	0.8	0.8
CSL Biotherapies	481.0	502.0	674.0	383.7	403.8					
Other revenue	26.2	188.3	25.0	25.0	25.0	At target price	2009A	2010F	2011F	2012F
Intellectual Property Licensing	185.3	165.3	151.0	216.7	283.7	EV/EBITDA (x)	11.8	11.9	9.9	9.0
						PE (normalised) (x)	21.3	18.8	15.7	14.5
Divisional EBIT	2008A	2009A	2010F	2011F	2012F	Comparable company data (x)	2010F	2011F	2012F	
CSL Behring	793.0	1203.0	1172.8	1389.9	1422.1	ResMed Inc	EV/EBITDA	12.4	10.2	8.4
CSL Bioplasma	38.0	50.1	53.6	57.4	61.4	Year to 30 Jun	EV/EBIT	16.0	13.1	10.6
CSL Biotherapies	24.7	-37.9	20.3	-12.9	-13.5		PE	22.7	19.4	16.6
Other	-28.4	-11.5	25.5	19.5	20.3		PEG	1.5	1.3	1.1
Intellectual Property Licensing	139.3	141.2	142.8	206.6	271.6	Cochlear	EV/EBITDA	15.7	13.4	12.2
						Year to 30 Jun	EV/EBIT	17.3	14.5	13.2
Cash flow statement	2008A	2009A	2010F	2011F	2012F		PE	24.1	20.2	18.3
EBITDA	1108.4	1526.4	1610.8	1863.5	1979.6		PEG	1.3	1.1	1.0
Change in working capital	-157.0	-281.3	-137.3	-68.7	-141.3	Per share data	2009A	2010F	2011F	2012F
Net interest (pd)/rec	-11.4	3.7	44.0	35.0	67.5	No. shares	601.6	548.6	548.6	548.6
Taxes paid	-237.9	-294.1	-350.1	-423.9	-457.3	EPS (cps)	191.7	192.8	231.8	250.1
Other oper cash items	-12.9	70.1	0.0	0.0	0.0	EPS (normalised) (c)	170.7	192.8	231.8	250.1
Cash flow from ops (1)	689.3	1024.8	1167.3	1406.0	1448.4	Dividend per share (c)	70.0	67.0	81.0	88.0
Capex (2)	-218.1	-285.6	-320.0	-336.0	-352.8	Dividend payout ratio (%)	41.2	34.8	34.7	34.7
Disposals/(acquisitions)	-26.0	-30.9	-31.0	0.0	0.0	Dividend yield (%)	2.2	2.1	2.6	2.8
Other investing cash flow	4.9	-133.0	0.0	0.0	0.0	Growth ratios	2009A	2010F	2011F	2012F
Cash flow from invest (3)	-239.1	-449.5	-351.0	-336.0	-352.8	Sales growth	30.0%	7.9%	3.7%	7.2%
Incr/(decr) in equity	13.1	1805.0	-1591.0	0.0	0.0	Operating cost growth	26.5%	9.0%	-2.1%	7.8%
Incr/(decr) in debt	-36.9	-397.3	0.0	0.0	0.0	EBITDA growth	37.7%	5.5%	15.7%	6.2%
Ordinary dividend paid	-227.4	-319.5	-394.5	-402.8	-462.7	EBITA growth	39.1%	5.2%	17.4%	6.1%
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Divisional EBIT growth				
Other financing cash flow	26.1	-34.0	0.0	0.0	0.0	CSL Behring	51.7%	-2.5%	18.5%	2.3%
Cash flow from fin (5)	-225.1	1054.1	-1985.6	-402.8	-462.7	CSL Bioplasma	31.7%	7.0%	7.0%	7.0%
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	CSL Biotherapies	-253.6%	-153.4%	-163.8%	4.4%
Incr/(decr) cash (1+3+5+6)	225.0	1629.4	-1169.2	667.1	632.9	EBIT growth	39.1%	5.2%	17.4%	6.1%
Equity FCF (1+2+4)	471.2	739.2	847.3	1070.0	1095.6	NPAT growth	45.4%	8.7%	14.7%	7.9%
						Normalised NPAT growth	45.4%	8.7%	14.7%	7.9%
Balance sheet	2008A	2009A	2010F	2011F	2012F	EPS growth	34.6%	12.9%	20.2%	7.9%
Cash & deposits	701.6	2528.1	1358.9	2026.0	2658.9	Normalised EPS growth	34.6%	12.9%	20.2%	7.9%
Trade debtors	709.4	885.9	955.6	1062.3	1062.3	Operating performance	2009A	2010F	2011F	2012F
Inventory	1198.1	1522.0	1641.9	1701.8	1825.2	Asset turnover (%)	19.2	17.9	18.5	17.5
Investments	8.4	8.4	8.4	8.4	8.4	EBITDA margin (%)	33.0	33.0	32.3	36.1
Goodwill	672.5	758.3	758.3	758.3	758.3	EBIT margin (%)	29.1	29.1	28.4	32.1
Other intangible assets	238.0	216.2	191.9	134.5	72.9	Net profit margin (%)	22.1	22.1	22.2	24.6
Fixed assets	975.9	1197.5	1377.0	1567.3	1763.9	Return on net assets (%)	24.6	30.8	30.6	27.9
Other assets	191.0	250.3	250.3	250.3	250.3	Net debt (A\$m)	-1810.3	-641.1	-1308.2	-1941.1
Total assets	4695.0	7366.8	6542.3	7437.2	8400.3	Net debt/equity (%)	-33.1	-14.0	-24.1	-30.7
Short-term borrowings	128.1	332.4	332.4	332.4	332.4	Net interest/EBIT cover (x)	260.4	-32.2	-47.4	-26.1
Trade payables	444.7	663.8	716.1	742.2	796.0	ROIC (%)	29.9	26.3	28.6	29.2
Long-term borrowings	825.1	385.4	385.4	385.4	385.4	Internal liquidity	2009A	2010F	2011F	2012F
Provisions	93.7	108.1	108.1	108.1	108.1	Current ratio (x)	4.0	3.1	3.5	4.0
Other liabilities	397.3	414.3	405.6	444.4	458.1	Receivables turnover (x)	5.8	5.4	5.3	5.4
Total liabilities	1888.8	1903.9	1947.5	2012.4	2080.0	Payables turnover (x)	5.6	4.9	4.5	4.6
Preference shares	0.0	0.0	0.0	0.0	0.0					
Hybrid equity	0.0	0.0	0.0	0.0	0.0					
Share capital	1034.3	2760.2	1169.2	1169.2	1169.2					
Other reserves	-134.3	15.2	15.2	15.2	15.2					
Retained earnings	1906.1	2687.5	3410.4	4240.4	5135.9					
Other equity	0.0	0.0	0.0	0.0	0.0					
Total equity	2806.1	5462.9	4594.8	5424.8	6320.3					
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	2806.1	5462.9	4594.8	5424.8	6320.3					
Total liabilities & SE	4695.0	7366.8	6542.3	7437.2	8400.3					

Source: Company data, RBS estimates

CUV – financial summary

Year to 30 Jun (A\$m)	AIFRS 2008A	AIFRS 2009A	AIFRS 2010F	AIFRS 2011F	AIFRS 2012F	Closing price (A\$)	0.31	Price target (A\$)	0.85	
Income statement						Valuation metrics				
Divisional sales	0.0	0.0	0.0	14.6	30.3	Preferred methodology	DCF	Val'n (A\$)	\$ 0.85	
Total revenue	0.0	0.0	0.0	14.6	30.3	DCF valuation inputs				
EBITDA	-17.1	-17.4	-17.9	-8.0	2.9	Rf	6.50%	10-year rate	6.50%	
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	4.50%	Margin	2.0%	
Depreciation/Amortisation	-0.8	-0.8	-0.1	-0.1	-0.1	Beta	1.50	Kd	8.50%	
EBITA	-17.9	-18.3	-18.0	-8.1	2.9	CAPM (Rf+Beta(Rm-Rf))	13.3%	Ke	13.2%	
Goodwill Amortisation	0.0	0.0	0.0	0.0	0.0	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	236.0	
EBIT	-17.9	-18.3	-18.0	-8.1	2.9	Equity (E/EV)	100.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	-17.9	-18.3	-18.0	-8.1	2.9	Debt (D/EV)	0.0%	Net debt (A\$m)	-21.7	
Net interest expense	4.3	2.7	3.8	2.7	2.9	Interest rate	8.50%	Investments (A\$m)	0.0	
Pre-tax profit	-13.6	-15.6	-14.3	-5.4	5.8	Tax rate (t)	30.0%	Equity market value (A\$m)	257.7	
Income tax expense	0.0	0.0	0.0	0.0	-1.7	WACC	13.2%	Diluted no. of shares (m)	303.1	
After-tax profit	-13.6	-15.6	-14.3	-5.4	4.1			DCF valuation (A\$)	0.85	
Minority interests	0.0	0.0	0.0	0.0	0.0					
NPAT pre significant items	-13.6	-15.6	-14.3	-5.4	4.1	Multiples	2009A	2010F	2011F	2012F
Significant items	-1.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)	69.2	83.2	88.2	78.8
Reported NPAT	-14.7	-15.6	-14.3	-5.4	4.1	EV/Sales (x)			6.0	2.6
						EV/EBITDA (x)	-4.0	-4.6	-11.0	26.8
Cash flow statement	2008A	2009A	2010F	2011F	2012F	EV/EBIT (x)	-3.8	-4.6	-10.9	27.6
EBITDA	-17.1	-17.4	-17.9	-8.0	2.9	PE (normalised) (x)	-5.8	-6.4	-16.8	22.4
Change in working capital	0.0	1.8	0.4	0.5	5.4	PEG (normalised) (x)				
Net interest (pd)/rec	4.0	2.9	3.8	2.7	2.9	At target price	2009A	2010F	2011F	2012F
Taxes paid	0.3	0.2	0.0	0.0	-1.7	EV/EBITDA (x)	-13.5	-13.9	-31.7	83.6
Other oper cash items	5.6	1.5	0.0	0.0	0.0	PE (normalised) (x)	-16.5	-18.1	-47.5	63.6
Cash flow from ops (1)	-7.2	-11.0	-13.8	-4.9	9.6	Comparable company data (x)	2010F	2011F	2012F	
Capex (2)	-0.2	0.0	-0.2	-0.2	-0.2	Alchemia	EV/EBITDA	-30.9	9.8	4.1
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-20.7	12.0	4.7
Other investing cash flow	0.0	0.0	0.0	0.0	0.0		PE	-24.4	12.2	5.7
Cash flow from invest (3)	-0.2	0.0	-0.2	-0.2	-0.2		PEG	-7.0	3.5	1.6
Incr/(decr) in equity	0.0	0.1	0.0	0.0	0.0	Mesoblast	EV/EBITDA	-15.8	-13.6	52.1
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-15.7	-13.6	90.4
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0		PE	-14.7	-15.3	-2368.7
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0		PEG			
Other financing cash flow	-0.5	6.6	0.0	0.0	0.0	Per share data	2009A	2010F	2011F	2012F
Cash flow from fin (5)	-0.5	6.7	0.0	0.0	0.0	No. shares	303.1	303.1	303.1	303.1
Forex and disc ops (6)	0.0	0.3	0.0	0.0	0.0	EPS (cps)	-5.1	-4.7	-1.8	1.3
Inc/(decr) cash (1+3+5+6)	-7.9	-4.0	-13.9	-5.1	9.4	EPS (normalised) (c)	-5.1	-4.7	-1.8	1.3
Equity FCF (1+2+4)	-7.4	-11.0	-13.9	-5.1	9.4	Dividend per share (c)	0.0	0.0	0.0	0.0
						Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Balance sheet	2008A	2009A	2010F	2011F	2012F	Dividend yield (%)	0.0	0.0	0.0	0.0
Cash & deposits	25.8	21.7	7.8	2.7	12.1	Growth ratios	2009A	2010F	2011F	2012F
Trade debtors	0.6	0.2	0.2	0.3	0.5	Sales growth	na	na	na	na
Inventory	0.0	0.0	0.0	0.0	0.0	Operating cost growth	na	na	na	na
Investments	0.0	0.0	0.0	0.0	0.0	EBITDA growth	na	na	na	na
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT growth	na	na	na	na
Other intangible assets	1.4	0.7	0.7	0.7	0.7	Norm. NPAT growth	na	na	na	na
Fixed assets	0.4	0.4	0.4	0.5	0.6	Norm. EPS growth	na	na	na	na
Other assets	26.8	18.7	18.7	18.7	18.7	Operating performance	2009A	2010F	2011F	2012F
Total assets	55.0	41.6	27.8	22.8	32.6	Asset turnover (%)	0.0	0.0	14.4	27.4
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	na	na	-55.1	9.7
Trade payables	3.0	4.4	4.8	5.3	11.0	EBIT margin (%)	na	na	-55.6	9.4
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	na	na	-37.2	13.4
Provisions	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	-49.3	-79.0	-46.7	13.3
Other liabilities	0.2	0.2	0.2	0.2	0.2	Net debt (A\$m)	-21.7	-7.8	-2.7	-12.1
Total liabilities	3.2	4.6	5.0	5.5	11.2	Net debt/equity (%)	-58.6	-34.2	-15.8	-56.6
Preference shares						Net interest/EBIT cover (x)	6.9	4.8	3.0	-1.0
Hybrid equity						ROIC (%)	-49.1	-82.2	-37.9	13.7
Share capital	113.2	113.2	113.2	113.2	113.2	Internal liquidity	2009A	2010F	2011F	2012F
Other reserves	1.8	2.2	2.2	2.2	2.2	Current ratio (x)	8.9	5.4	4.0	2.8
Retained earnings	-63.2	-78.3	-92.6	-98.0	-94.0	Receivables turnover (x)	na	0.0	59.7	76.9
Other equity	0.0	0.0	0.0	0.0	0.0	Payables turnover (x)	na	3.9	4.5	3.4
Total equity	51.8	37.1	22.8	17.4	21.4					
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	51.8	37.1	22.8	17.4	21.4					
Total liabilities & SE	55.0	41.6	27.8	22.8	32.6					

Source: Company data, RBS estimates

MSB – financial summary

Year to 30 Jun (A\$m)	AIFRS 2008A	AIFRS 2009A	AIFRS 2010F	AIFRS 2011F	AIFRS 2012F	Closing price (A\$)	1.42	Price target (A\$)	1.21	
Income statement						Valuation metrics				
Divisional sales	0.0	0.0	0.0	0.0	26.7	Preferred methodology	DCF	Val'n (A\$)	\$ 1.21	
Total revenue	0.0	0.2	0.2	0.2	26.9	DCF valuation inputs				
EBITDA	-8.7	-10.0	-10.9	-12.4	3.2	Rf	5.25%	10-year rate	5.25%	
Associate income	-2.1	-2.9	-2.9	-2.9	-2.9	Rm-Rf	6.00%	Margin	2.0%	
Depreciation	-0.2	-0.1	-0.1	0.0	-1.3	Beta	1.50	Kd	7.25%	
EBITA	-8.8	-10.1	-11.0	-12.4	1.8	CAPM (Rf+Beta(Rm-Rf))	14.2%	Ke	14.2%	
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)	150.1	
EBIT	-8.8	-10.1	-11.0	-12.4	1.8	Equity (E/EV)	100.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	-11.0	-13.0	-13.9	-15.3	-1.0	Debt (D/EV)	0.0%	Net debt (A\$m)	-16.5	
Net interest expense	0.9	0.7	0.7	0.8	0.9	Interest rate	7.25%	Investments (A\$m)	0.0	
Pre-tax profit	-10.1	-12.3	-13.2	-14.5	-0.1	Tax rate (t)	30.0%	Equity market value (A\$m)	166.6	
Income tax expense	0.0	0.0	0.0	0.0	0.0	WACC	14.2%	Diluted no. of shares (m)	137.3	
After-tax profit	-10.1	-12.3	-13.2	-14.5	-0.1			DCF valuation (A\$)	1.21	
Minority interests	0.0	0.0	0.0	0.0	0.0					
NPAT pre significant items	-10.1	-12.3	-13.2	-14.5	-0.1	Multiples	2009A	2010F	2011F	2012F
Significant items	0.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)	177.0	172.1	168.5	165.5
Reported NPAT	-10.1	-12.3	-13.2	-14.5	-0.1	EV/Sales (x)				6.2
						EV/EBITDA (x)	-17.7	-15.8	-13.6	52.1
Cash flow statement	2008A	2009A	2010F	2011F	2012F	EV/EBIT (x)	-17.5	-15.7	-13.6	90.4
EBITDA	-8.7	-10.0	-10.9	-12.4	3.2	PE (normalised) (x)	-14.3	-14.7	-15.3	-2368.7
Change in working capital	0.0	0.0	0.2	0.2	0.3	PEG (normalised) (x)				
Net interest (pd)/rec	0.8	0.7	0.7	0.8	0.9	At target price	2009A	2010F	2011F	2012F
Taxes paid	0.0	0.0	0.0	0.0	0.0	EV/EBITDA (x)	-14.9	-13.3	-11.4	43.5
Other oper cash items	0.0	0.0	0.0	0.0	0.0	PE (normalised) (x)	-12.2	-12.6	-13.2	-2032.7
Cash flow from ops (1)	-5.4	-8.6	-10.0	-11.4	4.4					
Capex (2)	-0.1	-0.2	-0.1	0.0	-1.3	Comparable company data (x)	2010F	2011F	2012F	
Disposals/(acquisitions)	-6.4	-0.2	0.0	0.0	0.0	Alchemia	EV/EBITDA	-30.9	9.8	4.1
Other investing cash flow	0.3	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-20.7	12.0	4.7
Cash flow from invest (3)	-6.2	-0.4	-0.1	0.0	-1.3		PE	-24.4	12.2	5.7
Incr/(decr) in equity	13.6	11.4	15.0	15.0	0.0		PEG	-7.0	3.5	1.6
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Tissue Therapies	EV/EBITDA	-2.6	-2.6	5.5
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-2.6	-2.6	5.5
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0		PE	-3.1	-3.6	9.6
Other financing cash flow	0.0	0.0	0.0	0.0	0.0		PEG			
Cash flow from fin (5)	13.6	11.4	15.0	15.0	0.0					
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Per share data	2009A	2010F	2011F	2012F
Inc/(decr) cash (1+3+5+6)	2.0	2.4	4.9	3.6	3.0	No. shares	124.2	150.3	164.5	164.5
Equity FCF (1+2+4)	-5.5	-8.8	-10.1	-11.4	3.0	EPS (cps)	-9.9	-9.6	-9.2	-0.1
						EPS (normalised) (c)	-9.9	-9.6	-9.2	-0.1
Balance sheet	2008A	2009A	2010F	2011F	2012F	Dividend per share (c)	0.0	0.0	0.0	0.0
Cash & deposits	14.1	16.5	21.4	25.0	28.0	Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Trade debtors	0.1	0.3	0.4	0.4	0.5	Dividend yield (%)	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.0	0.0					
Investments	12.8	9.3	9.3	9.3	9.3	Growth ratios	2009A	2010F	2011F	2012F
Goodwill	0.0	0.0	0.0	0.0	0.0	Sales growth	na	na	na	na
Other intangible assets	0.5	0.5	0.4	0.4	0.4	Operating cost growth	15.2%	8.6%	14.2%	89.7%
Fixed assets	0.2	0.2	0.2	0.2	0.2	EBITDA growth	15.2%	8.6%	14.2%	na
Other assets	0.1	0.1	0.1	0.1	0.1	EBITA growth	14.5%	8.5%	13.0%	na
Total assets	27.8	27.0	31.9	35.6	38.7	EBIT growth	14.5%	8.5%	13.0%	na
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Norm. NPAT growth (pre GW)	22.1%	7.3%	9.7%	-99.3%
Trade payables	1.6	1.2	1.4	1.7	2.0	Norm. NPAT growth	22.1%	7.3%	9.7%	-99.3%
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Norm. EPS growth (pre GW)	12.3%	-2.9%	-4.3%	na
Provisions	0.0	0.0	0.0	0.0	0.0	Norm. EPS growth	12.3%	-2.9%	-4.3%	na
Other liabilities	0.0	0.0	2.9	5.7	8.6					
Total liabilities	1.6	1.2	4.3	7.4	10.6	Operating performance	2009A	2010F	2011F	2012F
Preference shares						Asset turnover (%)	0.0	0.0	0.0	18.0
Hybrid equity	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	na	na	na	11.9
Share capital	51.0	62.5	77.5	92.5	92.5	EBIT margin (%)	na	na	na	6.8
Other reserves	3.8	4.2	4.2	4.2	4.2	Net profit margin (%)	na	na	na	-0.4
Retained earnings	-28.6	-40.8	-54.0	-68.5	-68.6	Return on net assets (%)	-39.3	-39.8	-44.2	6.5
Other equity	0.0	0.0	0.0	0.0	0.0	Net debt (A\$m)	-16.5	-21.4	-25.0	-28.0
Total equity	26.2	25.8	27.6	28.1	28.0	Net debt/equity (%)	-64.1	-77.6	-88.9	-100.0
Minority interest	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	14.4	16.6	15.3	-2.0
Total shareholders' equity	26.2	25.8	27.6	28.1	28.0	ROIC (%)	-58.5	-83.1	-140.5	41.1
Total liabilities & SE	27.8	27.0	31.9	35.6	38.7					
						Internal liquidity	2009A	2010F	2011F	2012F
						Current ratio (x)	14.3	5.1	3.4	2.7
						Receivables turnover (x)	na	0.0	0.0	55.2
						Payables turnover (x)	na	8.3	7.9	12.5

Source: Company data, RBS estimates

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 UK-based Investment Funds research the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. 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.

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.

Distribution of recommendations

The tables below show the distribution of ABN AMRO's recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where ABN AMRO has an investment banking relationship.

Long Term recommendations (as at 03 Dec 2009)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	607 (10)	390 (1)
Add	0 (0)	0 (0)
Hold	401 (6)	222 (0)
Reduce	0 (0)	0 (0)
Sell	116 (0)	72 (0)
Total (IB%)	1124 (7)	684 (0)

Source: ABN AMRO

Trading recommendations (as at 03 Dec 2009)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	4 (0)	4 (0)
Trading Sell	1 (0)	1 (0)
Total (IB%)	5 (0)	5 (0)

Source: ABN AMRO

Valuation and risks to target price

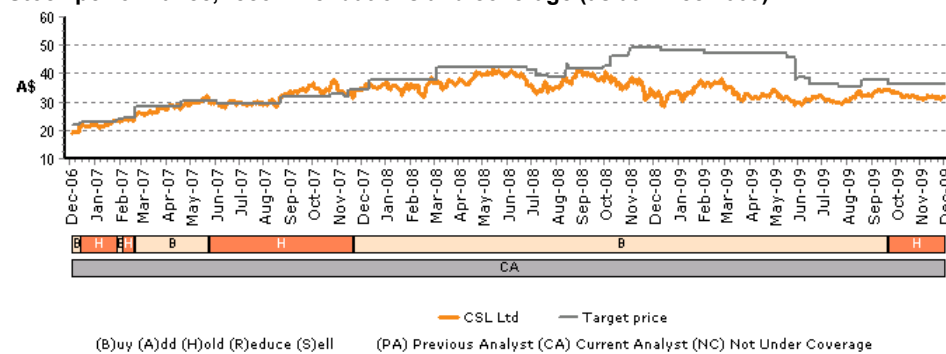
CSL Ltd (RIC: CSL.AX, Rec: Hold, CP: A\$31.76, TP: A\$36.30): Our target price is set at a premium to our blended DCF, PE, EV/EBITDA valuation to account for potential upside from a possible global pharma bid. Downside risks to our target price relate to irrational industry behaviour leading to potential oversupply of IVIG, which in turn could lead to price weakness, and lower-than-expected HPV revenues from Merck. Upside could come from IVIG demand in Alzheimer's disease.

Clinuvel Pharmaceuticals (RIC: CUV.AX, Rec: Buy, CP: A\$0.300, TP: A\$0.85): Our valuation of CUV 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 CUV's photoprotective technology, while downside risks include any delay or failure to progress clinical trials.

Mesoblast (RIC: MSB.AX, Rec: Buy, CP: A\$1.410, TP: A\$1.21): 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.

CSL Ltd coverage data

Stock performance, recommendations and coverage (as at 2 Dec 2009)



Trading recommendation history (as at 03 Dec 2009)

Date	Rec	Analyst
01 May 2009	n/a	CA
17 Mar 2009	Trading Buy	CA
13 Jan 2008	Trading Buy	CA

Source: ABN AMRO

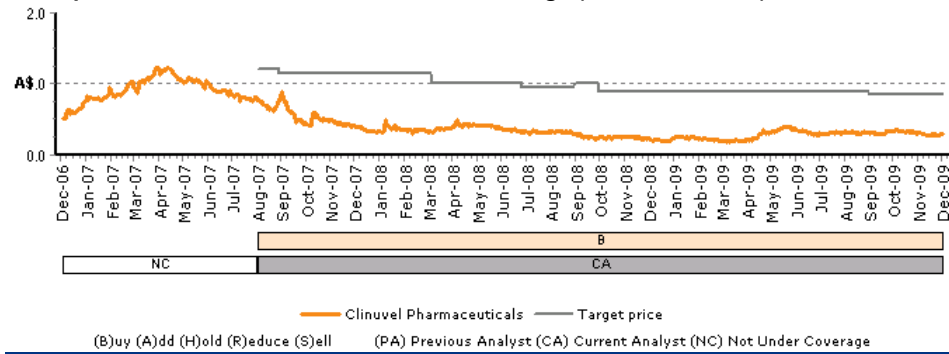
Dr David Stanton started covering this stock on 10 Nov 04

New recommendation structure from 7 November 2005

Source: ABN AMRO

Clinuvel Pharmaceuticals coverage data

Stock performance, recommendations and coverage (as at 2 Dec 2009)



Trading recommendation history (as at 03 Dec 2009)

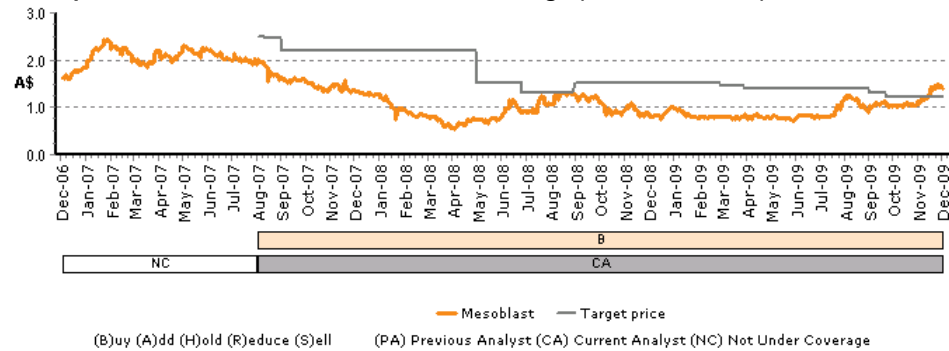
Date	Rec	Analyst
	n/a	

Source: ABN AMRO

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

Mesoblast coverage data

Stock performance, recommendations and coverage (as at 2 Dec 2009)



Trading recommendation history (as at 03 Dec 2009)

Date	Rec	Analyst
	n/a	

Source: ABN AMRO

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

Regulatory disclosures

Subject companies: **CSL.AX**, **CUV.AX**, **MSB.AX**

ABN AMRO Morgans Limited was a broker to the placement of shares by CSL Limited in August 2008 and received fees in this regard.: **CSL.AX**

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