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Cautious Celgene endorsement turns Mesoblast around

Jacob Plieth

Australia's Mesoblast – faced with the likely prospect of being abandoned by its most important partner, Teva – desperately needed a shot in the arm, so Celgene's $45m investment this morning could not have come soon enough.

That said, the endorsement is a cautious one, coming at a modest share price premium, while operationally being limited to the possibility of a licensing deal over the next six months. But interest from a major biopharma player is not to be sniffed at, and could have an important effect on other stem cell players working outside oncology.

These include Pluristem, Athersys and Vericel, which rose modestly this morning. One key difference, however, is how much bigger Mesoblast is than these micro-cap stocks.

At the end of last week, even after suffering four years of valuation drift that saw it lose 60% of its value, Mesoblast had a market cap of Aus$1bn ($760m). On news of the Celgene investment the stock gained 24% on the Australian stock exchange today.

Big pharma value

Jason Kolbert, an analyst at Maxim who specialises in stem cell companies, said Mesoblast had been losing value in anticipation of a capital raise, but Celgene's investment "should remind investors of the value that big pharma sees in the cell therapy space and in the industry leader, Mesoblast. We hope to see this translate into a significant partnership with Celgene."

Still, market excitement around Mesoblast, much of it retail-driven, was a case of overblown expectations; interestingly, this predated the current US biotech boom, having been triggered in 2010 by a deal with Cephalon covering Mesoblast's adult mesenchymal precursor stem cell therapies.

The tie-up could have been worth over $2bn, and also included a $220m equity investment, but Cephalon was subsequently bought by Teva, which narrowed its R&D interest to respiratory and CNS diseases. Teva remains financially committed to running a 1,730-patient phase III trial of MPC-150 in congestive heart failure.

As for the small players, Athersys had a deal in place with Pfizer covering its lead project, MultiStem, in inflammatory bowel disease, but suffered the failure of a phase II ulcerative colitis study. Prospects for MultiStem now hinge on a phase II trial in ischaemic stroke, due to be presented at a meeting this weekend (*Upcoming events: Data for Athersys in stroke, Celladon in heart failure, Heron in emesis, April 2, 2015*).

In common with Mesoblast, Athersys's stem cell projects are allogeneic, implying important advantages in terms of convenience and cost. Vericel is working on ixmyelocel-T, a multicellular therapy for treating heart failure due to ischaemic dilated cardiomyopathy, though this is an autologous project.

For Mesoblast bulls the hope must be that Celgene, which is unusual among big biopharma names in already having non-oncology cell therapy expertise, will strike a formal licensing deal over the next six months. During this time Celgene will have first refusal rights over the Australian group's graft-vs-host disease, oncology, inflammatory bowel disease and transplant rejection assets – likely putting the focus on Mesoblast's Prochymal.

It is too early to say that this signals a stem cell turnaround, but the space is becoming interesting again, with Celgene's move coming after Roche's Chugai unit last month struck a Japan partnership with Athersys for MultiStem.

And while it would be optimistic for Mesoblast now to boast of having two big partners, what the Celgene endorsement does is give it a potential strong partner to replace an uninterested one.

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