



Can it ever BLAST off?!

Company/ASX Code	Mesoblast / MSB
AGM date	27 November 2019
Time and location	9:00am, Baker McKenzie, Level 19, 181 William St Melbourne
Registry	LINK Market Services
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Stewart Burn assisted by Mike Robey
Pre AGM Meeting?	Yes, with Director Donal O'Dwyer and Secretary Charlie Harrison

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Mesoblast is a stem cell development company which has developed mesenchymal lineage cells for the treatment of severe inflammation. Mesenchymal lineage cells have the ability to be activated and then counter severe inflammation at various disease sites in the body. Unlike stem cells taken from individuals for their own treatment these ones are suitable for all, providing a major advantage in scale-up.

The relationship with JCR Pharmaceuticals in Japan for its commercial steroid refractory acute graft versus host disease (aGVHD) product "TEMCELL" continues to grow, with sales increasing from A\$3.1m to A\$5.0m. Sales in the quarter ended September 2019 were US\$1.9m. TEMCELL counters the after-effects of transplants where the body's antibodies reject the 'invading' graft.

Mesoblast has also entered into an agreement with Lonza for the commercial manufacture of remestemcel-L for paediatric steroid-refractory acute graft versus host disease (SR-aGVHD) ahead of the planned USA market launch of remestemcel-L.

It has entered a strategic relationship with Grunenthal for the development and commercialisation of an allogeneic cell therapy (allogenic, meaning not derived from a single genetic source donor) for chronic low back pain associated with degenerative disc disease. This agreement resulted in an upfront payment and if successful will lead to a significant income stream.

It has also announced positive outcomes with its discussions with the USFDA for its allogenic cell therapy product candidate Revascor in end-stage heart failure patients implanted with a left ventricular assist device (LVAD) (i.e. artificial heart pump)

Mesoblast continues to bleed cash, although with the recent capital raisings it has enough left to sustain a couple of years. After that, it may need to raise funds into the future to meet its projected spend rate. We have raised the issue of retail shareholder dilution with the company

and how these shareholders were loyal in its early stage and should be considered in any future raisings. The company has said it will take this into account in future.

Mesoblast also pays its directors and chairman at a level higher than comparable companies and continues to reward its CEO and directors with free options, which is counter to ASA recommended practices. Whilst we recognise that in its formulative stages there are extenuating circumstances, we will continue to raise these issues in the future.

Mesoblast now has one female director who was appointed in July 2018, this is still less than that suggested by the ASA. This issue was also raised at last years' AGM. The reasonable response is that the pool of women with direct pre-commercialisation experience in new pharma in the USA is rather shallow. We will continue to raise this as an issue.

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	-128	-48	-100	-78	-119
UPAT (\$m)	-128	-48	-100	-5.6	-119
Share price (\$)	1.46	1.46	2.04	1.06	3.75
Dividend (cents)	0	0	0	0	0
TSR (%)	0	-28	92	-72	-15
EPS (cents)	-25.9	-10.2	-25	21.3	-36.8
CEO total remuneration, actual (\$m)	1.927	2.034	1.85	1.134	1.921

Based on an exchange rate of A\$1 =US\$0.7 on July 1

For 2019, the CEO's total actual remuneration was **21.9 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.12	58%	1.12	53%
STI - Cash	0.808	42%	1.0	47%
STI - Equity	0	0%	0	0%
LTI	0	0%	0	0%
Total	1.927	100.0%	2.12	100%

The decision on the remuneration report has been rather difficult as there are several issues that do not follow ASA recommendations and in some places the remuneration report is difficult to follow. The company did not provide an actual remuneration table.

The current position for the CEO is 50% fixed remuneration and 50% STI and in 2019, 80% of the STI target was paid to the CEO. The board intends to pay 50% of the STI in time-based options. In 2020 the board intends to change the CEO's remuneration to 40% fixed, 20% STI (cash and options) and 40% LTI, with the LTI component in the form of options.

Mesoblast pays its directors and Chairman at a rate significantly higher than market and issues options to all directors as part of their package. We discussed this strategy with Mesoblast and they indicated that as they are still in the development stage and that as many of their directors are based overseas that the issue of options is an expectation and is an important component of providing competitive benefits. We pointed out that this is at odds with ASA recommendations and they advised that this policy will be reviewed on an ongoing basis and that there is no intention of making options an annual or regular part of NED remuneration. We will continue to raise this as an issue.

Considering these issues, we have decided to vote in favour of the remuneration report this year, but we will take a firmer stance next year, especially on the issue of options which we believe dilutes the shareholdings of retail investors.

Item 3	Re-election of Dr Eric Rose as a Director
ASA Vote	For

Summary of ASA Position

Dr Rose is a medical Doctor based in the USA and was appointed in 2013, he is also the chairman of SIGA Technologies and has significant experience in heart transplant programs. He appears to have suitable experience to add value to Mesoblast. Dr Rose has no shareholding apart from the options that he has been issued as a director which is contrary to ASA recommendations.

The situation with regards to issuing options is different in the USA to Australia and we have recognised this as an issue. We have raised this with Mesoblast and they have stated that the continued issuing of options to directors will be looked at on an ongoing basis. We will revisit the issue of directors shareholdings next year and we will raise this issue at the AGM.

We have noted the poor gender diversity in this company and though this would be an excellent opportunity to propose another female director, we will wait before we raise this issue with the company again.

Item 4	Re-election of Mr William Burns as a Director
ASA Vote	For

Summary of ASA Position

Mr Burns was appointed to the board in 2014 and is also Vice Chairman, he is also the chair of molecular partners. He is based in Switzerland but unlike other overseas directors has a direct shareholding of 30,330 shares which is less than that recommended by the ASA. The issues with Mr Burns are similar to those of Mr Rose and we will monitor this as an ongoing issue.

Item 5	Approval of Options to NED's
ASA Vote	Against

Summary of ASA Position

Mesoblast proposes to issue 300,000 options to Mr Swedish, 100,000 options to Mr Rose and 100,000 options to Mr Burns. Whilst we recognise that the issue of options to overseas directors is common practice, the issue of options to Australian based directors then becomes standard. Mesoblast has followed this practice for several years and we believe it needs to stop. Whilst the ASA wishes directors to have skin in the game, we would like directors to remain independent and purchase shares on-market.

Item 6	Approval of options to the CEO
ASA Vote	For

Summary of ASA Position

For the 2018/19 financial year the CEO's cash STI award is to be paid 50% in cash and 50% in equity, in the form of options. It is thus proposed that issue 538,667 time based options as the STI component for the 2018/19 financial years to be vested in three equal tranches over the next three years and 1,346,667 milestone based options as the LTI component for the 2019/20 financial year, with granting to be based on pre-specified milestones determined by the board.

Whilst this situation is not ideal, and the ASA would prefer to see the CEO receive performance based shares rather than options, in the interim we will support this proposal but we will continue to raise it as an issue with Mesoblast.

Item 7	Approval of Employee Share Option plan
ASA Vote	For

Summary of ASA Position

The ASA does not support the issue of options to employees as it has a dilatory effect on retail shareholders. It prefers that employee share plan purchase shares on market for its employees. However, Mesoblast is still in its formulative stages and is still to make a profit, so such a scheme is not altogether practical. Whilst Mesoblast is in this formative stage we believe that employees should be adequately rewarded and thus support this proposal

Item 8	Ratification of shares to Existing and New Institutional Investors
ASA Vote	For

Summary of ASA Position

At this stage in its life the raising of capital is critical for Mesoblast, we will, however; continue to press for retail shareholders to be offered a significant quantity of shares at a value equivalent to those issued to institutional shareholders.

The individual (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

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