

## Mast Therapeutics (MSTX - \$ 0.14)

### Mast Merger With Savara

MSTX recently announced a merger with privately held Savara, an advanced clinical stage biotech company focusing on the development of rare respiratory diseases. After the merger, the combined company will be named Savara Inc., and led by Savara's current management team, including Chairman and CEO Rob Neville, with headquarter in Austin, TX. The combined pipeline includes three mid to late clinical stage novel inhalation therapies. The transaction is expected to be closed by 2Q17.

- Details.** Current Savara and MSTX stockholders will collectively own approximately 76% and 24% (pro-forma) of the combined company, respectively, based on a pre-transaction valuation of \$115MM of Savara's business and \$36.5MM of MSTX's business. The three assets of the combined company are AeroVanc, Molgradex and AIR001. AeroVanc is an inhaled dry-powder vancomycin for the purpose of treating chronic methicillin-resistant Staphylococcus aureus (MRSA) pulmonary infection in cystic fibrosis (CF). Management indicated that AeroVanc Phase III study (approx. n=200) is expected to start in 3Q17 and potential top-line results could be available in 2019. Molgradex is an inhaled nebulized GM-CSF for treating pulmonary alveolar proteinosis (PAP). It is currently in Phase II/III trial in Europe and Japan with topline result expected in 1Q18. Savara intends to complete discussions with the FDA on the requirements for a pivotal clinical study of Molgradex in the U.S. in 3Q17. AIR001, an inhaled nebulized sodium nitrite solution developed by MSTX for the treatment of heart failure with preserved ejection fraction (HFpEF). It is currently in 100 patient Phase II study being conducted by the Heart Failure Clinical Research Network with top-line data potentially available in 1Q18. AeroVanc and Molgradex have received an orphan designated by the FDA.
- Implications.** We view the merger to Savara positively because it potentially provides an attractive opportunity for the current MSTX shareholders to become part of a company that owns a relatively risk-balanced and clinically advanced product pipeline. As such, share-value of current MSTX shareholders could potentially appreciate.
- Action.** We are reiterating our Neutral rating.

### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-16E</b>	-0.06A	-0.05A	-0.04A	-0.03	-0.18	N.A.
<b>FY-15A</b>	-0.06	-0.06	-0.06	-0.06	-0.25	N.A.
<b>FY-14A</b>	-0.06	-0.06	-0.06	-0.05	-0.23	N.A.
<b>FY-13A</b>	-0.12	-0.09	-0.05	-0.06	-0.28	N.A.

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

Ticker: **MSTX**  
Rating: **Neutral**  
Price Target:

### Trading Data:

Last Price (01/11/2017)	\$ 0.14
52-Week High (9/6/2016)	\$ 0.71
52-Week Low (11/1/2016)	\$ 0.07
Market Cap. (MM)	\$ 35
Shares Out. (MM)	238

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## Major Risks

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**Risks of clinical study failure could have a major impact on MSTX share value.** Given the clinical development focus rests entirely on AIR001 and as such the upside for MSTX shares is based on the assumption that a positive AIR001 in Phase II (INDIE-HFpEF) study outcome could progress clinical development of AIR001 potentially to a pivotal stage; a failure of the INDIE-HFpEF study would have significant impact on MSTX share value.

**Limited product diversity could increase overall risk.** Given the MSTX product portfolio is limited to mid-stage AIR001, majority of the product pipeline value mainly resides on AIR001 in HFpEF development. As such, we believe the company at the current stage has very limited diversification potential in its product pipeline.

Figure 1: Income Statement

<b>Mast Therapeutics – Income Statement</b>										
(\$'000)	2012	2013	2014	2015	1Q16	2Q16	3Q16	4Q16E	2016E	2017E
<b>Revenue</b>										
Net sales	0	0	0	0	-	-	-	-	0	0
Licensing revenue	0	0	0	0	-	-	-	-	0	0
Grant revenue	0	0	0	0	-	-	45	-	45	0
Total revenue	0	0	0	0	-	-	45	-	45	0
Costs of goods	0									0
Research and development	8,088	12,902	19,436	28,264	7,875	7,752	5,088	2,798	23,513	6,584
Selling, general and administrative	7,519	8,518	9,487	10,963	2,835	2,439	2,134	1,665	9,073	2,722
Marketing and sales										0
Transaction-related expenses	(70)	80	271	0					0	0
Depreciation and amortization	90	40	84	146	32	30	24	24	110	110
<b>Total Operating Expenses</b>	15,628	21,539	29,279	39,373	10,742	10,221	7,246	4,487	32,696	9,416
Operating Incomes (losses)	(15,628)	(21,539)	(29,279)	(39,373)	(10,742)	(10,221)	(7,201)	(4,487)	(32,651)	(9,416)
Reduction of fair value of warrants	0	0	0	0	0	0	0	0	0	0
Investment income	74	60	67	47	39	0	0	0	39	43
Interest expense	0	0	0	0	(519)	(485)	(951)	(951)	(2,906)	(3,197)
Other income/(expense), net	(5)	(1)	511	(516)	15		0	0	15	(20)
Loss before cumulative effect of change in accounting principle	(15,559)	(21,480)	(28,701)	(39,842)	(11,207)	(10,706)	(8,152)	(5,438)	(35,503)	(12,589)
Cumulative effect of change in accounting principle	0	0	0	0	0	0	0	0	0	0
<b>Income before tax</b>	(15,559)	(21,480)	(28,701)	(39,842)	(11,207)	(10,706)	(8,152)	(5,438)	(35,503)	(12,589)
Tax	0	0	0	0	0	0	0	0	0	0
<b>Net Income (Loss)</b>	(15,559)	(21,480)	(28,701)	(39,842)	(11,207)	(10,706)	(8,152)	(5,438)	(35,503)	(12,589)
Net Income (Loss) Applicable to Common Shareholders	(15,559)	(21,480)	(28,701)	(39,842)	(11,207)	(10,706)	(8,152)	(5,438)	(35,503)	(12,589)
Net Earnings (Losses) Per Share—Basic and Diluted	(\$0.33)	(\$0.28)	(\$0.23)	(\$0.25)	(\$0.06)	(\$0.05)	(\$0.04)	(\$0.03)	(\$0.18)	(\$0.06)
Shares outstanding—basic	47,641	76,586	122,409	162,204	178,115	196,554	214,714	215,714	201,274	202,274
Shares outstanding—diluted	47,641	76,586	122,409	162,204	178,115	196,554	214,714	215,714	201,274	202,274
<b>Margin Analysis (% of Sales/Revenue)</b>										
Costs of goods									9%	9%
R&D	NA	NA	NA	NA	NA	NA	11307%	NA	52252%	NA
MG&A	NA	NA	NA	NA	NA	NA	4742%	NA	20161%	NA
Operating Income (loss)	NA	NA	NA	NA	NA	NA	-16002%	NA	-72558%	NA
Pretax	NA	NA	NA	NA	NA	NA	-18116%	NA	-78895%	NA
Tax Rate										37%
Net Income	NA	NA	NA	NA	NA	NA	-18116%	NA	-78895%	NA
<b>Financial Indicator Growth Analysis (YoY%)</b>										
Licensing revenue				0%					0%	0%
Grant revenue				0%					0%	0%
Total Revenue	NA	-100%								
R&D	40%	60%	51%	45%	30%	0%	-31%	-63%	-17%	-72%
SG&A	5%	13%	11%	16%	-21%	1%	-13%	-34%	-17%	-70%
Marketing and sales										
Operating Income (Losses)	17%	38%	36%	34%	11%	0%	-27%	-54%	-17%	-71%
Net Income	17%	38%	34%	39%	17%	5%	-18%	-46%	-11%	-65%
EPS	-31%	-14%	-16%	5%	4%	-20%	-37%	-59%	-28%	-65%
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Source: Bloomberg LP; Company reports; Laidlaw &amp; Company estimates

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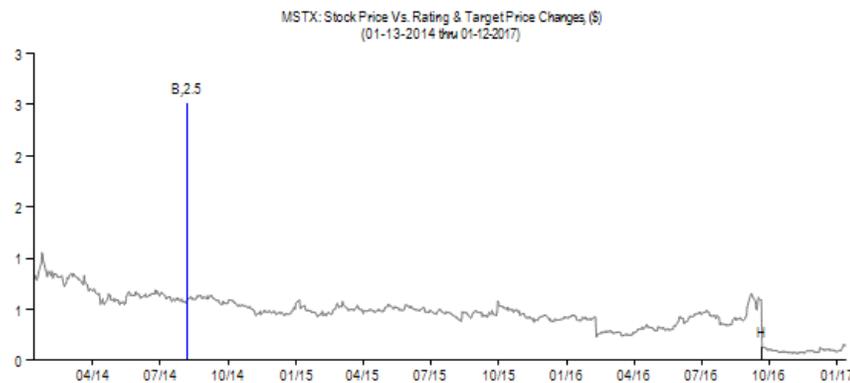
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#### Rating and Price Target Change History



#### 3 Year Rating Change History

Date	Rating	Closing Price (\$)
08/06/2014	Buy (B)	0.60
09/21/2016	Hold (H)	0.12

#### 3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
08/06/2014	2.50	0.60
09/21/2016		0.12

Source: Laidlaw & Company

Created by: Blue-Compass.net

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	2.44%	2.44%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	58.54%	26.83%	2.44%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	4.88%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	4.88%	0.00%	0.00%

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