

## First Take

### Mindset Pharma Inc. (MSSTF)

January 5, 2022

Price: \$0.68; Market Cap (M): \$59; 1/3/2022 Close

Rating: Buy; Price Target: \$5.00

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### Announces Collaboration With Otsuka on Novel Psychedelics; Reiterate Buy

**Collaboration provides initial external validation of novel psychedelics in psychiatry, in our view.** Earlier today, Mindset Pharma announced a collaboration with the McQuade Center for Strategic Research and Development (MSRD), which was established in 2019 by the Otsuka pharmaceutical business in the U.S., to support the development of Mindset's "Family 2" and "Family 4" potential novel short-acting psychedelic compounds. Broadly, we view the announcement as being very positive, providing initial validation to not only the Mindset novel psychedelic discovery effort, though also contributing enthusiasm to the psychedelic space that has potential to provide disruptive innovation in areas such as depression and anxiety where discovery of New Chemical Entities (NCEs) is scarce and the unmet medical need remains very high; as such, we reiterate our \$5 price target and Buy rating on MSSTF shares.

**Collaboration terms.** MSRD is expected to financially and operationally support the development of Mindset's novel psychedelic compounds through Phase 1a and Phase 1b clinical trials, after which MSRD would have a right of first refusal regarding future development of the compounds. MSRD has made an upfront cash payment of \$5M to Mindset; MSRD also has the ability to receive single-digit percentage royalty payments under certain circumstances when the right of first refusal is not consummated or the agreement is terminated. As noted, the focus of the collaboration is expected to be on Family 2 and Family 4 novel compounds, which are primarily potential short-acting novel psychedelics; lead compound MSP-1014, a psilocybin-based analog in preclinical development for treatment-resistant depression (TRD), is not included. For additional details on MSP-1014 as well as Family 2 and 4 compounds, refer to our November 3 initiation of coverage report entitled *Pioneering Next Generation Psychedelic-Enhanced Therapies: Initiating With a Buy and \$5 Price Target*.

**Otsuka background.** Otsuka established a presence in the U.S. in 1973; its U.S. affiliates develop and commercialize medicines in the areas of mental health, nephrology, and cardiology, using cutting-edge technology to address unmet healthcare needs. Otsuka, headquartered in Tokyo, Japan, generated global revenues of approximately \$13.3B in 2020. We note that Otsuka also has a collaboration with Perception Neuroscience, an atai Life Sciences (ATAI; Buy) company, for the development, manufacture, and commercialization of PCN-101 in Japan as a potential treatment for mood disorders such as major depressive disorder (MDD) and TRD. PCN-101, also known as arketamine, is being developed as a nonpsychedelic approach to treating depression. For additional details on PCN-101, refer to our November 22 report entitled *COMP360 TRD Data Validates atai Model; Multiple Potential Positive Events Near-Term; Upping PT to \$50; Reiterate Buy*.

**Valuation and risks.** We value Mindset Pharma using a discounted cash flow (DCF)-based methodology. We assume a probability of success of 25% for MSP-1014 in TRD and end of life cancer angst. We model equity raises of C\$20-100M annually from F2022 to F2028 to fund clinical development and the potential therapy launch, which could dilute existing shareholders. We employ a 12% discount rate and a terminal multiple of 6.0x. We note that Mindset Pharma trades on the U.S. OTC, which could bring with it increased risk of investment including though not limited to liquidity risk and regulatory disclosure risk. Additional risks include though are not limited to: (1) clinical development risk tied to lead program MSP-1014 and the next generation programs to follow; (2) competitor risk in relevant therapeutic areas; (3) government regulatory risk, such as in the need to reschedule psychedelics, which are often classified as illegal substances in countries around the world; (4) capital market and dilution risk; (5) commercialization risk, and in particular the build out of a therapist network to deliver psychedelic-assisted therapy in accordance with a potential FDA label; (6) reimbursement risk; (7) pricing risk; (8) business development risk; and (9) risk from COVID-19 should a renewed wave lead to re-enactment of broad lock-downs globally.



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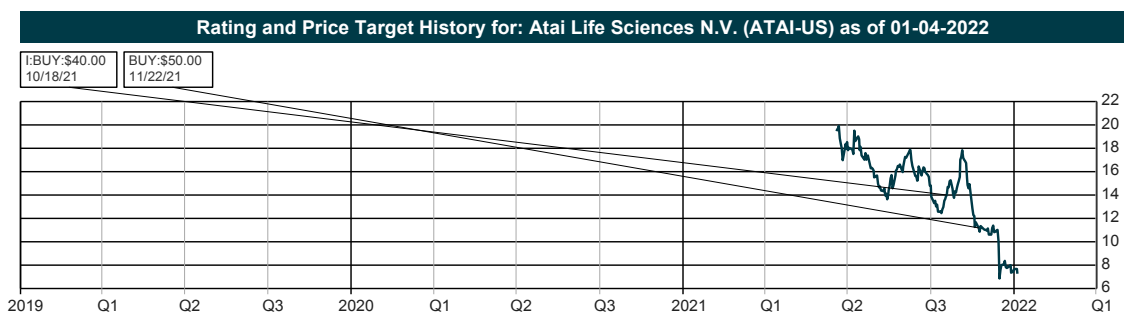
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Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
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Neutral	47	7.48%	13	27.66%
Sell	1	0.16%	0	0.00%
Under Review	3	0.48%	1	33.33%

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