

Strategic investment by big pharma provides further validation for psychedelic sector

Summary

POSITIVE — An Otsuka Pharmaceutical affiliate made a strategic investment in Mindset Pharma (MSET-CSE; not covered), which we believe signals further validation to the psychedelics industry. The investment consists of a \$5m upfront cash payment and resources to partly de-risk the development of two 2nd generation psychedelic families in MSET's pipeline—currently in preclinical—while also positioning the Otsuka affiliate for further collaboration or a transaction post Ph1. We note the investment follows a Series B participation in COMPASS Pathways' financing, which could signal a pivot towards 2nd generation molecules that have better scalability and IP protection potential. Overall, we are encouraged to see big pharma's interest in the sector and believe more partnerships could be forthcoming, with a larger transaction potentially being a catalyst for the sector. We also view this as a positive read-through for companies under coverage (FTRP, CYBN) which are developing novel 2nd generation drugs, expected to enter Ph1 H1/22.

Key Points

MSRD provides financial and operational resources to de-risk MSET's early development. The McQuade Center for Strategic Research and Development (MSRD) made an investment into MSET, consisting of a \$5m upfront cash payment and operational support to develop two families of MSET's novel psychedelic drugs through phase 1a and phase 1b. In exchange for support, MSRD was given the right of first refusal to any exclusive licensing, asset sale, or collaboration of MSET's drugs, along with the right of first negotiation to any sale, merger or acquisition of MSET. MSRD could also receive single-digit percentage royalty payments under certain circumstances when the right of first refusal is not consummated or the agreement is terminated. Recall, MSET is a drug discovery and development company with a pipeline consisting of 4 drug families and one lead candidate (MSP-1014) in preclinical development, all of which are novel 2nd generation psychedelics with the potential for the highest IP protection.

Investment by MSRD provides validation to the psychedelics industry. Established in 1964, Otsuka Pharmaceutical is a global healthcare company and subsidiary of Otsuka Holdings which employs 47,000 people and generated US\$13.3B in 2020 sales. The company has a strong psychology and neurology pipeline and actively pursues investment opportunities in emerging sectors with unmet needs, utilizing MSRD to identify and fund companies which have drugs with the potential to become future Otsuka products. It seems MSRD has considerable experience in the psychedelic sector, having been an investor in CMPS' \$80m Series B financing in April 2020, with MSRD President Robert McQuade sitting on the company's Board as well as being Chief Strategic Officer for Otsuka Pharmaceutical Development & Commercialization. We believe MSRD's strategic positioning with MSET could provide further validation to the sector where investors could be cautioned by the scalability of psychedelic therapy evidenced by the market reaction to CMPS' Phase 2 results.

Important Disclosures and Certifications

I, Andrew Partheniou, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, Andrew Partheniou, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Our European Policy for Managing Research Conflicts of Interest is available at www.stifel.com/institutional/ImportantDisclosures.

The equity research analyst(s) responsible for the preparation of this report receive(s) compensation based on various factors, including Stifel's overall revenue, which includes investment banking revenue.

Investment Rating System

Our investment rating system is defined as follows:

Buy - We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Speculative Buy¹ - We expect a total return of greater than 30% over the next 12 months, with total return equal to the percentage price change plus dividend yield, accompanied by substantially higher than normal risk including the possibility of a binary outcome.

Hold - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Sell - We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Occasionally, we use the ancillary rating of **Suspended (SU)** to indicate a long-term suspension in rating and/or target price, and/or coverage due to applicable regulations or Stifel policies. Alternatively, **Suspended** may indicate the analyst is unable to determine a "reasonable basis" for rating/target price or estimates due to lack of publicly available information or the inability to quantify the publicly available information provided by the company and it is unknown when the outlook will be clarified. **Suspended** may also be used when an analyst has left the firm.

¹ This rating is only utilised by Stifel Canada.

Of the securities we rate, 56% are rated Buy, 1% are rated Speculative Buy, 26% are rated Hold, 1% are rated Sell and 16% are rated Suspended.

Within the last 12 months, Stifel or an affiliate has provided investment banking services for 26%, 6%, 4% and 10% of the companies whose shares are rated Buy (includes Speculative Buy), Hold, Sell and Suspended respectively.

Within the last 12 months, Stifel or an affiliate has provided material services for 38%, 67%, 22%, 26% and 19% of the companies whose shares are rated Buy, Speculative Buy, Hold, Sell and Suspended respectively.

Additional Disclosures

Please visit the Research Page at www.stifel.com for the current research disclosures and respective target price methodology applicable to the companies mentioned in this publication that are within Stifel Canada's coverage universe. For a discussion of risks to target price including basis of valuation or methodology, please see our stand-alone company reports and notes for all stocks.

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are as of the date of this publication and are subject to change without notice. These opinions do not constitute a personal recommendation and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of Stifel, or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed within. Stifel or any of its affiliates may have positions in the securities mentioned and may make purchases or sales of such securities from time to time in the open market or otherwise and may sell to or buy from customers such securities on a principal basis; such transactions may be contrary to recommendations in this report. Past performance should not and cannot be viewed as an indicator of future performance. Unless otherwise noted, the financial instruments mentioned in this report are priced as of market close on the previous trading day and presumed performance is calculated always over the next 12 months.

As a multi-disciplined financial services firm, Stifel regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as a placement agent in private transactions.

Affiliate Disclosures

This report has been prepared by Stifel Nicolaus Canada Incorporated. ("**Stifel Canada**"), which is authorized and regulated by the Investment Industry Regulatory Organization of Canada ("**IIROC**"), and also trades under the names "**Stifel GMP**" and/or "**Stifel FirstEnergy**". All relevant disclosures required by regulatory rules (including IIROC) and Stifel Canada's recommendation statistics and research dissemination policies can be obtained at www.Stifel.com/Research or by calling Stifel Canada's Compliance Department. Stifel Canada will provide, upon request, a statement of its financial condition and a list of the names of its Directors and senior officers.

References to “**Stifel**” (collectively “Stifel”) refer to SFC and other associated affiliated subsidiaries including (i) Stifel, Nicolaus & Company, Incorporated (“**SNC**”); (ii) Keefe, Bruyette & Woods, Incorporated (“**KBWI**”), which are both U.S. broker-dealers registered with the United States Securities and Exchange Commission (“**SEC**”) and members of the Financial Industry National Regulatory Authority (“**FINRA**”), respectively; (iii) Stifel Nicolaus Canada, Incorporated. (“**Stifel Canada**”), which is authorised and regulated by Investment Industry Regulatory Organization of Canada (“**IROC**”), and also trades under the names “**Stifel GMP**” and/or “**Stifel FirstEnergy**”; (iv) Stifel Nicolaus Europe Limited (“**SNEL**”), which is authorised and regulated by the Financial Conduct Authority (“**FCA**”) (FRN 190412) and is a member of the London Stock Exchange and also trades under the name Keefe, Bruyette & Woods Europe (“**KBW Europe**”); and (v) Stifel Europe Bank AG (“**SEBA**”), which is regulated by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; “**BaFin**”) and is a member of Deutsche Boerse and SIX Swiss Exchange and (vi) Stifel Schweiz AG (“**STSA**”), which is representative of SEBA in Switzerland and regulated by the Eidgenössische Finanzmarktaufsicht (“**FINMA**”). SNEL, SEBA and STSA are collectively referred to as Stifel Europe.

Registration of non-US Analysts: Any non-US research analyst employed by Stifel contributing to this report is not registered/qualified as a research analyst with FINRA and is not an associated person of the US broker-dealer and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

Global Research Notes: Stifel Global Research (Cross-Border Research) notes are intended for use only by Institutional or Professional Clients. Research analysts contributing content to these reports are subject to different regulatory requirements based on the jurisdiction in which they operate. Clients seeking additional information should contact the Stifel entity through which they conduct business.

SEBA & STSA Sponsored Research: At SEBA & STSA, analysts may produce issuer paid research (‘sponsored research’). This research is produced by analysts in accordance with local regulatory requirements relating to such research. In certain jurisdictions, this issuer paid research may be deemed to be independent research albeit not produced to the same conflicts of interest standards required by all jurisdictions for independent research. Where research has been paid for by an issuer, this will be clearly labelled. Please see our [European Policy for Managing Research Conflicts of Interest](#) for additional information.

Country Specific and Jurisdictional Disclosures

United States: Research produced and distributed by Stifel Canada is distributed by Stifel Canada to “Major US Institutional Investors” as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended. SNC may also distribute research prepared by Stifel Canada directly to US clients, including US clients that are not Major US Institutional Investors. In these instances, SNC accepts responsibility for the content. Stifel Canada is a non-US broker-dealer and accordingly, any transaction by a US client in the securities discussed in the document must be effected by SNC. US clients wishing to place an order should contact their SNC representative.

UK: This report is distributed in the UK by SNEL, which is authorised and regulated by the Financial Conduct Authority (FCA). In these instances, SNEL accepts responsibility for the content. Research produced by Stifel Europe is not intended for use by and should not be made available to retail clients as defined by the FCA.

European Economic Area (EEA): This report is distributed in the EEA by SEBA, which is authorized and regulated by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; “BaFin”). In these instances, SEBA accepts responsibility for the content. Research produced by Stifel Europe is not intended for use by and should not be made available to retail clients as defined under MiFID II.

The complete preceding 12-month recommendations history related to recommendation(s) in this research report is available at <https://stifel2.bluematrix.com/sellside/MAR.action>

Australia: Research produced by Stifel is distributed by SNEL under the Australian Securities and Investments Commission (“ASIC”) Class Order [CO 03/1099] exemption from the requirement to hold an Australian Financial Services Licence (“AFSL”). This research may only be distributed to a “Wholesale Client” within the meaning of section 761G of the Corporations Act 2001 (Cth).

Brunei: This document has not been delivered to, registered with or approved by the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance or the Autoriti Monetari Brunei Darussalam. This document and the information contained within will not be registered with any relevant Brunei Authorities under the relevant securities laws of Brunei Darussalam. The interests in the document have not been and will not be offered, transferred, delivered or sold in or from any part of Brunei Darussalam. This document and the information contained within is strictly private and confidential and is being distributed to a limited number of accredited investors, expert investors and institutional investors under the Securities Markets Order, 2013 (“Relevant Persons”) upon their request and confirmation that they fully understand that neither the document nor the information contained within have been approved or licensed by or registered with the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance, the Autoriti Monetari Brunei Darussalam or any other relevant governmental agencies within Brunei Darussalam. This document and the information contained within must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the document or information contained within is only available to, and will be engaged in only with Relevant Persons.

Canadian Distribution: Stifel Canada is a member of IROC and a participant of the TSX, and TSX Venture Exchange. 145 King Street West, Suite 300 Toronto, Ontario M5H 1J8 Tel: (416) 367-8600.

Republic of South Africa: Research produced by Stifel is distributed by SNEL to "Clients" as defined in FSCA FAIS Notice 20 of 2018 (the "FAIS Notice") issued by the Financial Sector Conduct Authority. Research distributed by SNEL is pursuant to an exemption from the licensing requirements under Section 7(1) of the Financial Advisory and Intermediary Services Act, 2002.

In jurisdictions where Stifel is not already licensed or registered to trade securities, transactions will only be affected in accordance with local securities legislation which will vary from jurisdiction to jurisdiction and may require that a transaction is carried out in accordance with applicable exemptions from registration and licensing requirements. Non-US customers wishing to effect transactions should contact a representative of the Stifel entity in their regional jurisdiction except where governing law permits otherwise. US customers wishing to effect transactions should contact their US salesperson.

The securities discussed in this report may not be available for sale in all jurisdictions and may have adverse tax implications for investors. Clients are advised to speak with their legal or tax advisor prior to making an investment decision.

The recommendation contained in this report was produced at 6 January 2022 20:30EST and disseminated at 6 January 2022 20:30EST.

Additional Information Is Available Upon Request

© 2022 Stifel Canada. This report is produced for the use of Stifel Canada customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Stifel Canada. Stifel Nicolaus Canada Inc., 145 King Street West, Suite 300, Toronto, Ontario M5H 1J8.