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Mereo BioPharma Announces Completion of \$70 Million Private Placement

Plans to Develop Etigilimab (Anti-TIGIT) Alongside Rare Disease Product Portfolio

London and Redwood City, Calif., June 4, 2020 – Mereo BioPharma Group plc (NASDAQ: MREO, AIM: MPH) today announces the completion of a \$70 million (£56 million) private placement (the “Fundraising”) with a number of new and existing U.S based institutional and accredited investors. OrbiMed led the Fundraising with participants including Vivo Capital, Surveyor Capital (a Citadel company), Pontifax Venture Capital, Samsara BioCapital, Commodore Capital, and funds managed by Janus Henderson Investors alongside existing investors Boxer Capital of Tavistock Group and Aspire Capital Fund, LLC.

Highlights

- Private placement completed raising \$70.0 million (£56.0 million) before expenses.
- New Ordinary Shares and Convertible Loan Notes issued provide the Company with certainty of receiving the full amount of the proceeds of the private placement at closing.
 - 89,144,630 new Ordinary Shares have been placed at the Issue Price to raise \$19.4 million (£15.5 million) before expenses, utilising share authorities granted on 2 June 2016 and 19 June 2019 and issued on a non-pre-emptive basis.
 - Convertible Loan Notes have been issued in an aggregate principal amount \$50.6 million (£40.5 million) to complete the Fundraising.
- Price per Placing Share of 17.4 pence.
- Investors have received conditional Warrants to subscribe for further Ordinary Shares in an aggregate number equal to 50 per cent of both the new Ordinary Shares purchased by that investor in the Placing and the Ordinary Shares issuable upon conversion of the Convertible Loan Notes purchased by that investor in the Fundraising, with an exercise price of 34.8 pence per Warrant. The Warrants will be capable of being exercised for a period of 3 years after the date on which the Resolutions are passed.
- SVB Leerink acted as the exclusive placement agent to the Company in connection with the Fundraising.

Mereo is also announcing today plans to advance etigilimab (Anti-TIGIT) into a Phase 1b study in Q4 2020 alongside progressing its rare disease product portfolio. This is based on the Company’s existing promising

clinical data with etigilimab as well as the increasing interest in TIGIT as an immuno-oncology target. The Company intends to complete a strategic partnership for setrusumab for the treatment of osteogenesis imperfecta (“OI”) prior to initiation of the pivotal Phase 3 study and to complete the ongoing Phase 2 study of alvelestat for the treatment of alpha-1 antitrypsin deficiency (“AATD”), with topline data currently expected in 2H 2021.

Dr. Denise Scots-Knight, Chief Executive Officer of Mereo, said, “We are delighted to have attracted the support of such a broad range of high-quality institutional investors. We are pleased to also be announcing today that we plan to progress etigilimab into a Phase 1b study and believe etigilimab has the potential to target a significant unmet need in oncology. We look forward to progressing etigilimab, setrusumab and alvelestat further and believe this Fundraising leaves Mereo extremely well placed to progress on our strategy.”

Etigilimab (Anti-TIGIT)

Etigilimab is an antibody against TIGIT (T-cell immunoreceptor with Ig and ITIM domains). TIGIT is a next generation checkpoint receptor shown to block T-cell activation and the body’s natural anti-cancer immune response. Etigilimab is an IgG1 monoclonal antibody which binds to the human TIGIT receptor on immune cells with a goal of improving the activation and effectiveness of T-cell and NK cell anti-tumor activity. Mereo completed a Phase 1a dose escalation clinical trial with etigilimab in patients with advanced solid tumors and enrolled patients in a Phase 1b study in combination with nivolumab in selected tumor types.

23 patients were treated in the Phase 1a dose escalation study with doses up to 20mg/kg Q2W. Tumor types included colorectal cancer, endometrial cancer, pancreatic cancer and other tumor types. No dose limiting toxicities were observed. In the Phase 1b combination study, a total of ten patients, nine of whom had progressed on prior anti-PD1/PD-L1 therapies were enrolled at doses of 3, 10, and 20 mg/kg. Eight patients were evaluable for tumor growth assessment, and all of these patients had progressed on PD1/PD-L1 therapies with best responses including two patients with a partial response and stable disease. Patients remained on study for up to 224 days. No dose limiting toxicities (DLTs) were observed and the most common related adverse events included fatigue, rash, and pruritis.

The Company

[Mereo BioPharma](#) is a biopharmaceutical company focused on the development and commercialization of innovative therapeutics that aim to improve outcomes for oncology and rare diseases. Mereo’s lead oncology product candidate, etigilimab (“Anti-TIGIT”), has completed a Phase 1a dose escalation clinical trial in patients with advanced solid tumors and has been evaluated in a Phase 1b study in combination with nivolumab in select tumor types. Mereo’s rare disease product portfolio consists of setrusumab, which has completed a Phase 2b dose-ranging study in adults with osteogenesis imperfecta (“OI”), as well as alvelestat, which is being investigated in a Phase 2 proof-of-concept clinical trial in patients with alpha-1 antitrypsin deficiency (“AATD”).

Use of Proceeds

The net proceeds from the Fundraising will be used primarily to fund clinical development activities of the Company’s lead product candidates and for general corporate purposes. The Company will utilise \$13 million (£10.4 million) to reduce current indebtedness (including interest) of \$17.6 million (£14.1 million). In the absence of the receipt of any other income, the Board expects that the resulting net proceeds of the Fundraising will fund the Company into 2022.

None of the proceeds of the Fundraising will be used to make any dividend or distribution, or repurchase shares from any shareholder.

Details of the Fundraising

The Placing comprised the placing of 89,144,630 new Ordinary Shares at the Issue Price to raise up to approximately \$19.4 million (£15.5 million) before expenses, utilising the existing share authorities granted on 2 June 2016 and 19 June 2019, and issued on a non-pre-emptive basis. Application has been made to the London Stock Exchange for the Placing Shares to be admitted to trading on AIM ("Admission"). It is expected that Admission will become effective at 8.00 a.m. (GMT) on 5 June 2020.

Following the issue of the Placing Shares, the Company's issued share capital will comprise 213,652,487 Ordinary Shares. The total number of voting rights in the Company will be 213,652,487. This figure may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in, the share capital of the Company under the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

The Company has also issued 40,533,671 Convertible Loan Notes as part of the Fundraising in an aggregate principal amount of \$50.6 million (£40.5 million). Subject to the passing of the Resolutions to be proposed at the General Meeting, the Convertible Loan Notes will be convertible into a maximum of 232,952,121 new Ordinary Shares. Immediately following the passing of the Resolutions, it is expected that that approximately 21,938,321 Convertible Loan Notes will convert automatically into an additional 126,082,304 Ordinary Shares initially. The Company will issue and allot those additional new Ordinary Shares and will make application to the London Stock Exchange for them to be admitted to trading on AIM.

In the event that the Resolutions are not passed, the Convertible Loan Notes will not be capable of being converted into new Ordinary Shares but will remain outstanding, to be repaid by the Company in accordance with their terms, details of which are set out below.

Further details of the Convertible Loan Notes are set out below.

Arrangements with OrbiMed

In recognition of OrbiMed's participation in, and assistance with, the Fundraising, the Company has agreed to grant OrbiMed certain rights. OrbiMed will have the right to nominate two persons to be appointed to the Board of Directors (out of a maximum number of 9 directors), for a period of 180 days subject to the usual regulatory compliance.

Related Party Transaction

As at June 1, 2020, Aspire Capital Fund, LLC held approximately 11.5 per cent. of Mereo's issued ordinary share capital and as such is considered to be a related party of the Company as defined by the AIM Rules. The participation by Aspire in the Fundraising therefore constituted a related party pursuant to AIM Rule 13.

The Directors of Mereo, having consulted with the Company's nominated adviser, Cantor Fitzgerald Europe, consider that the terms of the participation by Aspire are fair and reasonable insofar as the shareholders of the Company are concerned.

Details of the Loan Notes

The Loan Notes comprise of three potential tranches:

- an initial tranche of 40,533,671 Notes representing \$50.6 million (£40.5 million) issued to all Investors (the "**Tranche 1 Notes**" or "**Convertible Loan Notes**");

- a second tranche of up to £40.0 million representing approximately 115,034,554 ordinary shares which may be issued following the third anniversary of the date on which the Resolutions are passed to certain holders of Tranche 1 Notes in lieu of the holder exercising its subscription rights under the Warrants (the “**Tranche 2 Notes**”) and in return for payment by that holder of the aggregate exercise price of the relevant Warrants; and
- a third tranche of up to £56.0 million, which may be issued, if the Resolutions are not passed at the General Meeting (or at any subsequent general meeting) held on or before 7 August 2020 (the “**Tranche 3 Notes**”).

The Tranche 1 Notes have a maturity date of June 2023 unless otherwise extended, converted or accelerated. The Tranche 2 Notes have a maturity date of three years from their date of issue (i.e. such that they would be anticipated as becoming due in 2026) unless otherwise extended, converted or accelerated. The Tranche 3 Notes have a maturity date of August 2025 unless otherwise extended, converted or accelerated. The Tranche 1 Notes and Tranche 2 Notes may be extended by certain holders beyond the initial maturity date to have a longstop maturity date of 10 years from the date of the Loan Note Instrument.

Tranche 1 Notes will initially bear interest at a fixed rate of 10% per annum, which will be retroactively reduced to a rate of 6% per annum to the date of issue if the Resolutions are passed on or before 7 August 2020. If the Tranche 1 Notes are extended, they cease to bear interest from that extension. Tranche 2 Notes and Tranche 3 Notes do not accrue interest (unless default interest applies). Following an event of default by the Company, default interest will accrue on all Loan Notes at 2% above the applicable rate in force at that time for the relevant Loan Notes.

All the Loan Notes are unsecured and have been contractually subordinated to the Company’s existing senior debt facility with Silicon Valley Bank and Kreos Capital pursuant to the terms of a Subordination Agreement to which all Investors have acceded as part of the Fundraising.

If the Resolutions are not passed on or before 7 August 2020, the holders of Tranche 1 Notes are entitled to an additional fee (the “**Uplift Payment**”). The Uplift Payment is designed to compensate the Tranche 1 Noteholders for being unable to participate in the equity of the Company through the conversion of the Tranche 1 Notes and the exercise of Warrants. The value of the Uplift Payment for each Investor shall be equal to the aggregate principal amount of the Loan Notes held by such investor on 7 August 2020. Any Investor who fails to attend the General Meeting (in person or by proxy) and vote in favor of the Resolutions shall not be entitled to the Uplift Payment. Any Uplift Payment if due is payable on the redemption date of the relevant Notes.

If the Resolutions have not been passed at a time when the Company undergoes a change of control, each Noteholder on the date of such change of control, shall (to the exclusion of the Uplift Payment) be entitled to a payment equal to the amount of consideration they would have received on such change of control had the Resolutions been passed and they had received their full entitlement of Ordinary Shares and all Warrants they held had become exercisable, less the aggregate principal and interest outstanding on the Tranche 1 Notes and certain residual interests in the Warrants (if any) they held on the date of the change of control.

If the Resolutions are not passed on or before 7 August 2020, a holder of the Warrants may elect to convert its Warrants without payment into Tranche 3 Notes with a principal amount equal to the aggregate exercise price of those Warrants, in compensation for the right to exercise those Warrants not having arisen.

Until the Resolutions have been passed, no Loan Notes are capable of conversion. If the Resolutions are passed on or before 7 August 2020, the Tranche 1 Notes will automatically convert into Ordinary Shares, save that no new Ordinary Shares will be issued which would result in any person holding in excess of

9.99% of the aggregate voting rights in the Company as a result of the relevant conversion.

After the Resolutions have been passed, those Tranche 1 Notes not automatically converted and any Tranche 2 Notes will be convertible into Ordinary Shares at the election of the Noteholders at any time prior to their maturity date, and subject to the 9.99% beneficial ownership limit. The Tranche 3 Notes are not capable of conversion.

The Loan Notes are required to be repaid on the earlier of (i) the applicable maturity date; and (ii) a change of control taking place in respect of the Company, and are otherwise not able to be prepaid other than with the consent of a noteholder majority.

The Loan Notes are subject to customary events of default (for example, insolvency events in respect of the Company and default under the Company's material contracts, amongst others) and any principal amount and interest outstanding is capable of being accelerated following the occurrence of such an event of default and the expiry of any cure periods applicable thereto.

Details of the Warrants

All the participants in the Fundraising have received conditional warrants to subscribe for further Ordinary Shares in an aggregate number equal to 50 per cent of both the new Ordinary Shares purchased in the Placing and the Ordinary Shares issuable upon conversion of the Convertible Loan Notes. A total of 161,048,366 Warrants have been issued.

The Warrants have an exercise price of 34.8 pence, which is equal to 200% of the Issue Price, and will be capable of being exercised at any time from and after the date the Resolutions are passed at the General Meeting (or at any subsequent general meeting) until the third anniversary of the date the Resolutions are passed. The Warrants can be exercised for cash or on a cashless basis.

If the Resolutions are not passed at the General Meeting (or at any subsequent general meeting), the Warrants remain non-exercisable but will, until 8 August 2025, continue to benefit from rights to participate in certain transactions. These include if the Company is acquired, following which the Company is required to use its best efforts to ensure that Warrant holders receive alternate warrants in the acquirer. In certain circumstances, Warrant holders may require the Company (or the acquirer) pay them (to the extent lawful) the value of the Warrants, determined in accordance with a Black-Scholes valuation provision.

The Warrant exercise price and the number of shares issuable upon exercise of the Warrants will be adjusted in certain circumstances, including if the Company effects a subdivision or consolidation of its Ordinary Shares, declares a dividend or distribution, or there is a reorganisation of its Ordinary Shares.

Registration Rights Agreement

Pursuant to the Securities Purchase Agreement, the Company has entered into a registration rights agreement (the "Registration Rights Agreement") with investors, under which the Company agreed to register the Placing Shares for resale, together with those Ordinary Shares issuable by the Company on the exercise of the Warrants and conversion of the Tranche 1 Notes, under the Securities Act of 1933, as amended (the "Securities Act"). Pursuant to the Registration Rights Agreement, the Company will prepare and file a registration statement with the Securities and Exchange Commission within 30 days of the Fundraising closing date (the "Filing Deadline") and has agreed to use commercially reasonable efforts to have the registration statement declared effective as soon as practicable, but in any event, no later than 45 days after the Filing Deadline, or 75 days if the registration statement is subject to a full review by the Securities and Exchange Commission. If the Company is unable to meet its obligations to have the registration statement declared effective or to maintain the effectiveness of the registration statement for specified time periods, the Company will be obligated to pay certain liquidated damages to investors.

In addition, subject to certain limitations, the investors will have piggy-back registration rights under the Securities Act for the sale of the Company's securities for its own account or for the account of any of its shareholders.

Circular and Notice of General Meeting

The Company expects to publish a circular (the "**Circular**") in due course in connection with the Fundraising, which will contain a notice convening the General Meeting.

Unregistered Shares

The securities sold in the Fundraising have not been registered under the Securities Act of 1933, as amended, or any state or other applicable jurisdiction's securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable state or other jurisdictions' securities laws. The Company has agreed to file a registration statement with the U.S. Securities and Exchange Commission (the "SEC") registering the resale of the Placing Shares and the new Ordinary Shares issuable upon conversion of the Convertible Loan Notes and the Ordinary Shares issuable upon the exercise of the Warrants no later than the 45th day after the closing of the Fundraising.

Non-Solicitation

This press release shall not constitute an offer to sell or the solicitation of an offer to buy any of the Placing Shares, the new Ordinary Shares issuable upon conversion of the Convertible Loan Notes and the Ordinary Shares issuable upon the exercise of the Warrants, nor shall there be any offer, solicitation or sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Any offering of the securities under the resale registration statement will only be made by means of a prospectus.

Additional Information

The person responsible for arranging the release of this information on behalf of the Company is Charles Sermon, General Counsel.

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DEFINITIONS

The following definitions apply throughout this Announcement, unless the context requires otherwise.

“Admission”	admission of the Placing Shares to trading on AIM, in accordance with Rule 6 of the AIM Rules;
“AIM”	a market operated by London Stock Exchange;
“AIM Rules”	the AIM Rules for Companies as published by London Stock Exchange from time to time;
“Announcement”	this announcement;
“Board” or “Directors”	the board of directors of the Company;
“Circular”	the circular expected to be published in due course in connection with the Fundraising and containing notice of the General Meeting;
“Company” or “Mereo”	Mereo BioPharma Group plc, a company incorporated in England & Wales and with registered number 9481161;
“Convertible Loan Notes”	\$50.6 million (£40.5 million) £1 convertible loan notes issued as part of the Fundraising
“Existing Ordinary Shares”	the 124,507,857 Ordinary Shares in issue at the date of this Announcement;
“FCA”	the Financial Conduct Authority;
“Fundraising”	the issue of the Placing Shares and the Convertible Loan Notes
“General Meeting”	the general meeting of the Company to be convened in due course;
“Group”	the Company and its subsidiary undertakings;
“Issue Price”	17.4 pence per new Ordinary Share;
“London Stock Exchange”	London Stock Exchange plc;
“MAR”	Market Abuse Regulation (596/2014);
“Notice of General Meeting”	the notice of the General Meeting to be set out at the end of the Circular;
“Ordinary Shares”	ordinary shares of £0.003 each in the capital of the Company;
“Placing”	the placing of the Placing Shares at the Issue Price;
“Placing Shares”	89,144,630 new Ordinary Shares which are to be placed pursuant to the Placing;
“Resolutions”	the resolutions to be proposed at the General Meeting, details of

which are to be set out in the notice of General Meeting;

“Shareholders”

holders of Ordinary Shares; and

“Warrants”

the 161.0 million conditional warrants to subscribe for 161.0 million new Ordinary Shares at a price of 34.8 pence per new Ordinary Share

Exchange Rate: £1:\$1.249

KEY STATISTICS

Number of Placing Shares	89,144,630
Ordinary Shares in issue following the issue of the Placing Shares ⁽¹⁾	213,652,487
Proceeds of the Fundraising (before expenses)	\$70 million (£56 million)
Principal amount of Convertible Loan Notes issued	\$50.6 million (£40.5 million)
Number of Ordinary Shares resulting from full conversion of Convertible Loan Notes ⁽²⁾	232,952,121
Number of Ordinary Shares resulting from full exercise of Warrants	161,048,366
Proceeds of full exercise of Warrants ⁽³⁾	\$70 million (£56 million)
Aggregate number of Fundraising shares ⁽⁴⁾	483,145,117
Maximum percentage of enlarged Ordinary Share capital represented by the New Fundraising ⁽⁵⁾	79.5%

Notes

- (1) As at June 2, 2020, being the latest practicable date prior to the publication of this Document.
- (2) Assumes conversion of entire principal amount of Convertible Loan Notes (but not interest).
- (3) Assumes exercise of all Warrants at £0.348 per new Ordinary Share with no cashless exercise
- (4) Being the Placing Shares, the new Ordinary Shares resulting from conversion of the Convertible Loan Notes and the Ordinary Shares resulting from exercise of the Warrants, assuming the resolutions are passed, conversion of the entire principal amount of Convertible Loan Notes (but not interest) and exercise of all Warrants.
- (5) Assumes conversion of the entire principal amount of Convertible Loan Notes (but not interest) and exercise of all Warrants, and there is no further issue of shares between Admission and the date of exercise of all the Warrants. The percentage of the enlarged share capital represented by the Ordinary Shares resulting from the exercise of the Warrants will be lower than the maximum number referred to above to the extent that the Company issues additional Ordinary Shares in the future.

Forward-Looking Statements

This Announcement contains "forward-looking statements." All statements other than statements of historical fact contained in this Announcement are forward-looking statements within the meaning of Section 27A of the United States Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements usually relate to future events and anticipated revenues, earnings, cash flows or other aspects of our operations or operating results. Forward-looking statements are often identified by the words "believe," "expect," "anticipate," "plan," "intend," "foresee," "should," "would," "could," "may," "estimate," "outlook" and similar expressions, including the negative thereof. The absence of these words, however, does not mean that the statements are not forward-looking. These forward-looking statements are based on the Company's current expectations, beliefs and assumptions concerning future developments and business conditions and their potential effect on the Company. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting the Company will be those that it anticipates.

All of the Company's forward-looking statements involve known and unknown risks and uncertainties (some of which are significant or beyond its control) and assumptions that could cause actual results to differ materially from the Company's historical experience and its present expectations or projections. The foregoing factors and the other risks and uncertainties that affect the Company's business, including those described in its Annual Report on Form 20-F, Reports on Form 6-K and other documents filed from time to time by the Company with the United States Securities and Exchange Commission (the "SEC") and those described in other documents the Company may publish from time to time should be carefully considered. The Company wishes to caution you not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly update or revise any of our forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise, except to the extent required by law.

Mereo's shareholders will be able to obtain a copy of the Circular (when available) from the Company's website at www.mereobiopharma.com.