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Mesoblast (NASDAQ/MESO, ASX/MSB)

April 17, 2020

BUY: Evidence Continues to Build for REMESTEMCEL's Efficacy in Lung Disease Suggesting a COVID-ARDS Treatment

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Mesoblast announced that the results of using its allogeneic mesenchymal stem cell product candidate remestemcel-L in patients with inflammatory lung disease have been selected for oral presentation at the 2020 International Society of Cell and Gene Therapy (ISCT) annual meeting being held May 28-29, 2020. The virtual presentation is entitled 'Mesenchymal Stem Cell Therapy Improves Pulmonary Function and Exercise Tolerance in Patients with Chronic Obstructive Pulmonary Disease (COPD) and High Baseline Inflammation'.

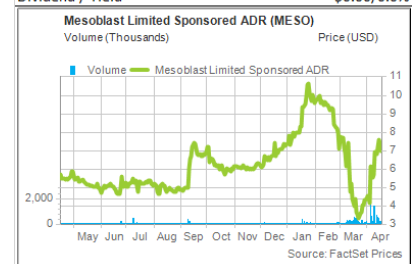
Investment Highlights

Remestemcel-L has potential for use in the treatment of ARDS. Recently published results from an investigator-initiated clinical study conducted in China reported that allogeneic MSCs cured or significantly improved functional outcomes in all seven treated patients with severe COVID-19 pneumonia. Mesoblast also reported that in a post-hoc analyses of a 60-patient randomized controlled study in chronic obstructive pulmonary disease (COPD), remestemcel-L infusions were well tolerated, significantly reduced inflammatory biomarkers, and significantly improved pulmonary function in those patients with elevated inflammatory biomarkers. Since the same inflammatory biomarkers are also elevated in COVID-19, these data suggest that remestemcel-L could be useful in the treatment of patients with ARDS due to COVID-19.

RYONCIL – Pediatric GvHD, PDUFA Sept. 30, 2020. We agree with the CEO, Dr. Itescu, that the filing is yet another milestone for the company. Mesoblast reviewed the timeline with an eye towards commercialization this year. We expect Europe to be a year behind the U.S., followed by expansion from pediatric to the adult marketplace. Additional indications (not included in our model) include Epidermolysis bullosa (EB) and Hypoxic ischemic encephalopathy (HIE). Suffice to say, success in GvHD alone, in our opinion, supports the current valuation of the company.

Hippocratic Oath – Do No Harm. Regenerative Medicine is in a unique space and often is confused and compared to CAR-T and Gene Therapy. One reoccurring theme that differentiates the Regen. Space is Risk versus Reward. We can view this as safety versus efficacy and the commercial potential for clinical success versus valuation. We feel confident that the safety profile of both allogeneic (other people's) cells and autologous (your own cells) has been very well understood and established. We see this as a differentiator in comparison to other cell and gene therapy therapeutics, where we must carefully balance the adverse events versus the efficacy (& its sustainability). We also see distressed valuations often stacked against therapeutics that are addressing blockbuster markets. Mesoblast has established a strong clinical record with a series of Phase 1, Phase 2, and now pivotal trials that have demonstrated the safety profile and which address blockbuster markets such as Heart Failure.

| | | | | |
|---|---------------|---------------|---------------|-------------|
| Current Price | | | | \$7.10 |
| Price Target | | | | \$15.00 |
| Estimates | F2019E | F2020E | F2021E | |
| Expenses (\$000s) | \$ 97 | \$ 92 | \$ 133 | |
| 1Q March | \$ 28 | \$ 21 | \$ 30 | |
| 2Q June | \$ 27 | \$ 22 | \$ 32 | |
| 3Q September | \$ 23 | \$ 23 | \$ 33 | |
| 4Q December | \$ 19 | \$ 26 | \$ 37 | |
| | F2019E | F2020E | F2021E | |
| EPS (diluted) | \$ (0.72) | \$ (0.61) | \$ (0.69) | |
| 1Q March | \$ (0.19) | \$ (0.06) | \$ (0.16) | |
| 2Q June | \$ (0.05) | \$ (0.17) | \$ (0.16) | |
| 3Q September | \$ (0.20) | \$ (0.18) | \$ (0.17) | |
| 4Q December | \$ (0.28) | \$ (0.20) | \$ (0.19) | |
| EBITDA/Share | (\$0.91) | (\$0.53) | (\$0.68) | |
| EV/EBITDA (x) | -7.5 | -10.8 | -8.3 | |
| Stock Data | | | | |
| 52-Week Range | \$3.12 | - | \$10.88 | |
| Shares Outstanding (mil.) | | | | 107.5 |
| Market Capitalization (mil.) | | | | \$763 |
| Enterprise Value (mil.) | | | | \$792 |
| Debt to Capital | | | | 11% |
| Book Value/Share | | | | \$6.02 |
| Price/Book | | | | 1.1 |
| Average Three Months Trading Volume (K) | | | | 48 |
| Insider Ownership | | | | 23.0% |
| Institutional Ownership | | | | 30.9% |
| Short interest (mil.) | | | | 0.2% |
| Dividend / Yield | | | | \$0.00/0.0% |



Heart Failure (HF) is a Blockbuster Opportunity. Advanced stage and end-stage heart failure impact more than eight million people in the U.S. alone. Treatment options today tend to work on easing symptoms with just a modest effect on the therapeutic course of the disease. Advanced stage heart failure has the highest event rate, costing the U.S. healthcare system \$115B per year and accounts for more than two-thirds of all hospital expenditures. Mesoblast is close to completing its Phase 3 trial of Revascor in HF. This is an event-driven trial, and the trial has now surpassed the number of events required (for trial completion). Final study visits for patients should occur this or next month.

A New Treatment Paradigm in Back Pain – Moving Beyond Steroids and Opiates. From the time man crawled out of the primordial ooze and stood upright as a biped, back-pain followed. Chronic lower back pain (CLBP) likely results in more disabilities than just about any other condition. With the recognition of the hazards of prescribing opiates to treat pain (the symptom), versus addressing the underlying cause, such as a herniated disc and in its final stages spinal fusion (surgery), a new modality is needed. Mesoblast's CLBP could be the solution, literally swapping cells for steroids for injection into the intra-vertebral space, supporting repair of the underlying cause, disc herniation, and the resulting inflammation.

The Achilles Heel of Cell Therapy - Manufacturing, Manufacturing, and Manufacturing. Mesoblast has been working with Lonza (LZAGY-Not rated) on developing and perfecting the process for manufacturing. Tightly controlling the doublings and number of passages, without compromising cell integrity. Given the size of the markets (CHF, DDD), the ability to have an off-the-shelf ready product is likely to be a key area of concern for the regulators. We have carefully noted over the years, the effort behind the process, and the time and resources that Mesoblast has allocated with Lonza to achieve production goals. What's important to understand is that as an allogenic product, the process, while arduous, is not comparable to the obstacles presented in gene Therapy and or the CAR-T space.

3 X 3 - Commercialization is Right Around the Corner. With three products in Phase 3 trials, commercialization is coming soon. Add it up, the low risk of adverse events, the ability to manufacture millions of doses, and the unmet medical needs in blockbuster market opportunities such as H.F. and DDD. We could see an industry shift as regenerative Medicine is recognized.

Efficiently Raising the Capital to Get There – Multiple Levers to Pull. Mesoblast has already accomplished what no other regenerative medicine company has done, in terms of capital raising through a range of methods from a who's who list of partnerships, creative loans, and smart raises down under (Australia) with an eye towards managing shareholder value and dilution. Along the way, the company is building institutional relationships from its retail base established in their home country and here too. We are not concerned about the transition we see ahead (retail to institutional), which we believe is data-driven, exactly as it was for the CAR-T companies like Kite (KITE-Not rated), Juno (JUNO-Not rated) and BlueBird (BLUE Not Rated).

Partnerships. The most recent addition to Mesoblast's ever-growing list of partnerships is Grunenthal (ALM-Spain – Not rated) for Europe & Latin America. Roughly Grunenthal agreed to \$150M in upfront payments and milestones (\$45M in year one with \$15M on signing) for DDD indication. The deal follows the Tasly Pharmaceuticals (600535-Shanghai – Not Rated) partnership for China. Back in 2011 a manufacturing partnership with Lonza (facility is on the ground in Singapore) and in 2010, the first partnership with cephalon (CEPH-Not Rated, acquired by Teva-Teva Not rated) which supported the CHF program until Teva as (in our opinion), as result of Teva's own internal chaos, terminated the partnership relinquishing all rights after investing millions and initiating the pivotal CHF program.

Valuation. This is a complex discussion in terms of how does one value a company with both a commercially approved product, multiple partnerships, and 3 x 3 (three products in three pivotal trials, GvHD, Back Pain, and CHF). We model each product out to 2030. We provide a detailed explanation of our assumptions (pricing, timing) for each therapeutic model, and then "haircut" our estimates by a probability of success factor, based on the clinical stage of development and our assessment of the indication. For well-established companies with highly predictable revenues, we typically select a risk rate (r) of 10 percent, for early-stage growth companies like Mesoblast, we select our maximum risk rate of 30%. We assume dilution (we never let the projected balance sheet go negative) and use a fully diluted 2030 projected share count. These factors are then applied to our Free Cash Flow to the Firm (FCFF), Discounted EPS (dEPS), and Sum-of-the-Parts (SOP) models, which are equally weighted and rounded to the nearest whole number to derive a \$15.00 price target.

How Does Clinical Success Change the Projected Valuation? For example, we assume just a 40% success probability in the CHF indications (even though the trial is pivotal). If Mesoblast announces positive clinical data, it suggests the probability goes up. At 100%, this change alone would drive a substantially higher valuation target.

Risk to our thesis, include the following: (1) clinical and regulatory; (2) commercial; (3) employee; (4) financial; (5) legal and intellectual property; and (6) partnership. We review these and other risks in the risk section of this report.

Modeling Assumptions for GVHD (Remestemcel-L)

1. We assume a 2% annual market size growth for all patients with GvHD.
2. We assume the cost of therapy for GvHD is \$250,000 in the U.S. and will decrease to \$212,200 by 2030.
3. We assume the cost of therapy for GvHD is \$230,000 in the E.U. and will decrease to \$195,224 by 2030.
4. We assume the cost of therapy for GvHD in Japan will decrease to \$125,000 by 2030.
5. We assume market share penetration for pediatric GvHD in the U.S. will be 3% in 2019 and increase to 85% by 2030.
6. We assume market share penetration for adult GvHD in the U.S. will be 25% beginning in 2022 and will increase to 85% by 2030.
7. We assume market share penetration for pediatric GvHD in the E.U. will be 3% in 2019 and increase to 85% by 2030.
8. We assume market share penetration for adult GvHD in the E.U. will be 25% beginning in 2022 and increase to 85% by 2030.
9. We assume market share penetration for GvHD in Japan to be 30% by 2030.
10. We assume the probability of success for all GvHD patients is 70%.

Exhibit 1. GvHD Model(s)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Pediatric GvHD - USA | | | | | | | | | | | |
| Allogenic Stem Cell Transplants | 16000 | 16320 | 16647 | 16980 | 17319 | 17666 | 18019 | 18379 | 18747 | 19122 | 19504 |
| Market Size Growth (Annual) | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Ped. & Adult Acute GvHD (grades II-IV) | 8679 | 8853 | 9030 | 9210 | 9394 | 9582 | 9774 | 9969 | 10169 | 10372 | 10580 |
| Pediatric Steroid Refractory Acute GvHD (Grades II-IV) | 672 | 686 | 699 | 713 | 728 | 742 | 757 | 772 | 787 | 803 | 819 |
| Market Share Penetration | 0.0% | 25.0% | 50.0% | 75.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% |
| Number of Patients Procedures | 0 | 171 | 350 | 535 | 618 | 631 | 643 | 656 | 669 | 683 | 696 |
| Cost of Therapy | \$ 250,000 | \$ 250,000 | \$ 250,000 | \$ 247,500 | \$ 235,125 | \$ 223,369 | \$ 212,200 | \$ 212,200 | \$ 212,200 | \$ 212,200 | \$ 212,200 |
| Price Change | 0% | 0% | 0% | -1% | -5% | -5% | -5% | 0% | 0% | 0% | 0% |
| Probability of Success | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| Pediatric Acute GvHD Grades II-IV Revenues (M) | \$ - | \$ 30 | \$ 61 | \$ 93 | \$ 102 | \$ 99 | \$ 96 | \$ 97 | \$ 99 | \$ 101 | \$ 103 |
| Adult GvHD - USA | | | | | | | | | | | |
| Allogenic Stem Cell Transplants | 16000 | 16320 | 16647 | 16980 | 17319 | 17666 | 18019 | 18379 | 18747 | 19122 | 19504 |
| Market Size Growth (Annual) | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Ped. & Adult Acute GvHD (grades II-IV) | 8679 | 8853 | 9030 | 9210 | 9394 | 9582 | 9774 | 9969 | 10169 | 10372 | 10580 |
| Adult Steroid Refractory (liver involvement / high risk, Grades II-IV) | 1605 | 1637 | 1670 | 1704 | 1738 | 1772 | 1808 | 1844 | 1881 | 1919 | 1957 |
| Market Share Penetration | 0.0% | 0.0% | 25.0% | 50.0% | 75.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% |
| Number of Patients Procedures | 0 | 0 | 418 | 852 | 1,303 | 1,507 | 1,537 | 1,567 | 1,599 | 1,631 | 1,663 |
| Cost of Therapy | \$ 250,000 | \$ 250,000 | \$ 250,000 | \$ 247,500 | \$ 235,125 | \$ 223,369 | \$ 212,200 | \$ 212,200 | \$ 212,200 | \$ 212,200 | \$ 212,200 |
| Price Change | 0% | 0% | 0% | -1% | -5% | -5% | -5% | 0% | 0% | 0% | 0% |
| Probability of Success | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| Adult Acute GvHD Revenues (M) | \$ - | \$ - | \$ 73 | \$ 148 | \$ 214 | \$ 236 | \$ 228 | \$ 233 | \$ 237 | \$ 242 | \$ 247 |
| Pediatric GvHD - EU | | | | | | | | | | | |
| Allogenic Stem Cell Transplants | 20233 | 20637 | 21050 | 21471 | 21900 | 22338 | 22785 | 23241 | 23706 | 24180 | 24663 |
| Market Size Growth (Annual) | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Ped. & Adult Acute GvHD (grades II-IV) | 10723 | 10938 | 11157 | 11380 | 11607 | 11840 | 12076 | 12318 | 12564 | 12815 | 13072 |
| Pediatric Steroid Refractory Acute GvHD (Grades II-IV) | 555 | 566 | 577 | 588 | 600 | 612 | 624 | 637 | 650 | 663 | 676 |
| Market Share Penetration | 0.0% | 25.0% | 50.0% | 75.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% |
| Number of Patients Procedures | 0 | 141 | 288 | 441 | 510 | 520 | 531 | 541 | 552 | 563 | 575 |
| Cost of Therapy | \$ 230,000 | \$ 230,000 | \$ 230,000 | \$ 227,700 | \$ 216,315 | \$ 205,499 | \$ 195,224 | \$ 195,224 | \$ 195,224 | \$ 195,224 | \$ 195,224 |
| Price Change | 0% | 0% | 0% | -1% | -5% | -5% | -5% | 0% | 0% | 0% | 0% |
| Probability of Success | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| Pediatric Acute GvHD Grades II-IV Revenues (M) | \$ - | \$ 23 | \$ 46 | \$ 70 | \$ 77 | \$ 75 | \$ 73 | \$ 74 | \$ 75 | \$ 77 | \$ 79 |
| Adult GvHD - EU | | | | | | | | | | | |
| Allogenic Stem Cell Transplants | 20233 | 20637 | 21050 | 21471 | 21900 | 22338 | 22785 | 23241 | 23706 | 24180 | 24663 |
| Market Size Growth (Annual) | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Ped. & Adult Acute GvHD (grades II-IV) | 10723 | 10938 | 11157 | 11380 | 11607 | 11840 | 12076 | 12318 | 12564 | 12815 | 13072 |
| Adult Steroid Refractory (liver involvement / high risk, Grades II-IV) | 2094 | 2136 | 2179 | 2223 | 2267 | 2312 | 2359 | 2406 | 2454 | 2503 | 2553 |
| Market Share Penetration | 0.0% | 0.0% | 25.0% | 50.0% | 75.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% | 85.0% |
| Number of Patients Procedures | 0 | 0 | 545 | 1,111 | 1,700 | 1,965 | 2,005 | 2,045 | 2,086 | 2,127 | 2,170 |
| Cost of Therapy | \$ 230,000 | \$ 230,000 | \$ 230,000 | \$ 227,700 | \$ 216,315 | \$ 205,499 | \$ 195,224 | \$ 195,224 | \$ 195,224 | \$ 195,224 | \$ 195,224 |
| Price Change | 0% | 0% | 0% | -1% | -5% | -5% | -5% | 0% | 0% | 0% | 0% |
| Probability of Success | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| Adult Acute GvHD Revenues (M) | \$ - | \$ - | \$ 88 | \$ 177 | \$ 257 | \$ 283 | \$ 274 | \$ 279 | \$ 285 | \$ 291 | \$ 297 |
| GvHD - Japan | | | | | | | | | | | |
| Allogenic Stem Cell Transplants | 4085 | 4167 | 4250 | 4335 | 4422 | 4510 | 4600 | 4692 | 4786 | 4882 | 4980 |
| Market Size Growth (Annual) | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Ped. & Adult Acute GvHD (grades II-IV) | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% |
| Number of Patients Procedures | 1,430 | 1,458 | 1,488 | 1,517 | 1,548 | 1,579 | 1,610 | 1,642 | 1,675 | 1,709 | 1,743 |
| Market Share Penetration | 14.0% | 16.0% | 20.0% | 24.0% | 30.0% | 34.0% | 36.0% | 38.0% | 40.0% | 42.0% | 44.0% |
| Number of Patients Procedures | 200 | 233 | 298 | 364 | 464 | 537 | 580 | 624 | 670 | 718 | 767 |
| Cost of Therapy | \$ 170,000 | \$ 150,000 | \$ 150,000 | \$ 150,000 | \$ 125,000 | \$ 125,000 | \$ 125,000 | \$ 125,000 | \$ 125,000 | \$ 125,000 | \$ 125,000 |
| Revenues | \$ 34 | \$ 35 | \$ 45 | \$ 55 | \$ 58 | \$ 67 | \$ 72 | \$ 78 | \$ 84 | \$ 90 | \$ 96 |
| Japan Annual Royalty/Revenues to Mesoblast: 20% | \$ 6.8 | \$ 7.0 | \$ 8.9 | \$ 10.9 | \$ 11.6 | \$ 13.4 | \$ 14.5 | \$ 15.6 | \$ 16.8 | \$ 17.9 | \$ 19.2 |
| % Growth (qtrly) | 376% | 3% | 28% | 22% | 6% | 16% | 8% | 8% | 7% | 7% | 7% |

Source: Dawson James Estimates

Valuation: Our valuation methodology begins with our projected revenues from our product models. We apply assumptions for the timing of approval, launch dates, and product attributes to estimate revenues. These estimates feed into our income statement through the year 2030. The result of these projections is then fed into our income statement projections. Our price target is derived from an equal-weighted average of free cash flow to the firm (FCFF), discounted EPS (EPS), and sum-of-the-parts (SOP) models. A 30% discount is then applied and rounded to the nearest whole number to derive our price target. A higher risk rate of 30% is applied (vs. 15% or 10%) since Mesoblast is a microcap company with drug candidates in clinical trials that have yet to gain FDA approval.

Exhibit 2. Free Cash Flow Model

| Average \$ | | 15 | | | | | | | | | | | | |
|-----------------|--|------|--|--|--|--|--|--|--|--|--|--|--|--|
| Price Target \$ | | 16 | | | | | | | | | | | | |
| Year | | 2020 | | | | | | | | | | | | |

| DCF Valuation Using FCF (min): | | | | | | | | | | | | | |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Units (millions - \$) | 2018A | 2019A | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
| EBIT | (66) | (105) | (74) | (96) | (58) | 103 | 499 | 1,025 | 2,396 | 3,419 | 4,374 | 4,402 | 4,429 |
| Tax Rate | 0% | 0% | 3% | 0% | 0% | 15% | 25% | 30% | 35% | 36% | 36% | 36% | 36% |
| EBIT(1-t) | (66) | (105) | (72) | (96) | (58) | 87 | 375 | 717 | 1,557 | 2,188 | 2,800 | 2,817 | 2,835 |
| CapEx | | | | | | | | | | | | | |
| Depreciation | | | | | | | | | | | | | |
| Change in NWC | | | | | | | | | | | | | |
| FCF | (66) | (105) | (72) | (96) | (58) | 87 | 375 | 717 | 1,557 | 2,188 | 2,800 | 2,817 | 2,835 |
| PV of FCF | (111) | (137) | (72) | (74) | (34) | 40 | 131 | 193 | 323 | 349 | 343 | 266 | 206 |
| Discount Rate | 30% | | | | | | | | | | | | |
| Long Term Growth Rate | 1% | | | | | | | | | | | | |
| Free Cash Flow | 9,873 | | | | | | | | | | | | |
| Terminal Value YE 2030 | 716 | | | | | | | | | | | | |
| NPV | 2,387 | | | | | | | | | | | | |
| NPV-Debt | 84 | | | | | | | | | | | | |
| Shares out (M) | 144 | | | | | | | | | | | | |
| NPV Per Share | \$ | 16 | | | | | | | | | | | |

Source: Dawson James

Exhibit 3. Discounted-EPS Model

| 2020 | | Discount Rate and Earnings Multiple Varies, Year is Constant | | | | | | |
|-------------------|----------|--|----------|----------|----------|---------|---------|---------|
| Year of EPS | 2030 | 2030 EPS | | | | | | |
| Earnings Multiple | 10 | 10% | 15% | 20% | 25% | 30% | 35% | |
| Discount Factor | 30% | 1 | \$7.57 | \$4.85 | \$3.17 | \$2.11 | \$1.42 | \$0.98 |
| Selected Year EPS | \$ 19.63 | 5 | \$37.84 | \$24.26 | \$15.85 | \$10.54 | \$7.12 | \$4.88 |
| NPV | \$ 14 | 10 | \$75.68 | \$48.52 | \$31.70 | \$21.08 | \$14.24 | \$9.76 |
| | | 15 | \$113.52 | \$72.78 | \$47.55 | \$31.61 | \$21.36 | \$14.64 |
| | | 20 | \$151.36 | \$97.04 | \$63.40 | \$42.15 | \$28.48 | \$19.53 |
| | | 25 | \$189.20 | \$121.30 | \$79.26 | \$52.69 | \$35.60 | \$24.41 |
| | | 30 | \$227.04 | \$145.56 | \$95.11 | \$63.23 | \$42.72 | \$29.29 |
| | | 35 | \$264.88 | \$169.82 | \$110.96 | \$73.77 | \$49.83 | \$34.17 |

Source: Dawson James

Exhibit 4. Sum-of-the-Parts Model

| Mesoblast Sum of the Parts | LT Gr | Discount Rate | Yrs. to Mkt | % Success | Peak Sales MMs | NPV |
|--------------------------------------|-------|---------------|-------------|-----------|----------------|----------|
| Revascor - CHF (Class II - III) U.S. | 1% | 30% | 5 | 25% | \$5,152 | \$17,766 |
| NPV | | | | | | \$4.14 |
| Revascor - CHF - LVAD: Class IV | 1% | 30% | 2 | 25% | \$361 | \$1,246 |
| NPV | | | | | | \$0.64 |
| Revascor - CHF (Class II - III) EU | 1% | 30% | 6 | 25% | \$3,895 | \$13,431 |
| NPV | | | | | | \$2.41 |
| Acute Pediatric GvHD - U.S. | 1% | 30% | 1 | 70% | \$142 | \$490 |
| NPV | | | | | | \$0.91 |
| Acute Adult GvHD U.S. | 1% | 30% | 3 | 70% | \$319 | \$1,101 |
| NPV | | | | | | \$1.21 |
| Acute Pediatric GvHD - E.U. | 1% | 30% | 2 | 70% | \$108 | \$372 |
| NPV | | | | | | \$0.53 |
| Acute Adult GvHD E.U. | 1% | 30% | 3 | 70% | \$383 | \$1,322 |
| NPV | | | | | | \$1.46 |
| CLBD-DDD U.S. | 1% | 30% | 2 | 30% | \$984 | \$3,392 |
| NPV | | | | | | \$2.08 |
| TEMCELL | 1% | 10% | 0 | 75% | \$20 | \$222 |
| NPV | | | | | | \$0.58 |
| Other Indications | 1% | 30% | 5 | 30% | \$0 | \$0 |
| NPV | | | | | | \$0.00 |
| Net Margin | | | | | | 50% |
| MM Shrs OS | | | | | 2030E | 144 |
| Total | | | | | | \$14 |

Source: Dawson James

Exhibit 5. Income Statement

| Mesoblast, Inc. Income Statement (M) | Sept. | Dec. | March | June | | | | | | | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Mesoblast: YE June 30 | 2019A | 1Q20A | 2Q20 | 3Q20 | 4Q20 | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
| Milestone / Partnership Revenues | 14 | 15 | | | | | | | | | | | | | | |
| % Sequential Growth | | | | | | | | | | | | | | | | |
| Revasco in CHF U.S. | - | - | - | - | - | - | - | - | - | 204 | 511 | 1,024 | 1,541 | 2,061 | 2,067 | 2,073 |
| % Sequential Growth | | | | | | | | | | | | | | | | |
| Revascor in CHF; EU | - | - | - | - | - | - | - | - | - | - | - | 664 | 1,110 | 1,558 | 1,563 | 1,567 |
| % Sequential Growth | | | | | | | | | | | | | | | | |
| Discogetic Disc Chronic Lower Back (U.S.) | | | | | | | | | 139 | 279 | 421 | 566 | 627 | 689 | 693 | 698 |
| % Sequential Growth | | | | | | | | | | | | | | | | |
| Remestemcel-L GvHD - USA - Pediatric | 1 | - | - | - | - | - | 30 | 61 | 93 | 102 | 99 | 96 | 97 | 99 | 101 | 103 |
| % Sequential Growth | | | | | | | | | | | | | | | | |
| Remestemcel-L GvHD - USA - Acute Adult | - | - | - | - | - | - | - | - | - | 71 | 139 | 201 | 219 | 224 | 228 | 233 |
| % Sequential Growth | | | | | | | | | | | | | | | | |
| Remestemcel-L GvHD - EU Pediatric | - | - | - | - | - | - | - | 19 | 47 | 77 | 75 | 73 | 74 | 75 | 77 | 77 |
| % Sequential Growth | | | | | | | | | | | | | | | | |
| Remestemcel-L GvHD - EU Acute Adult | - | - | - | - | - | - | - | - | - | - | 83 | 161 | 247 | 268 | 274 | 279 |
| % Sequential Growth | | | | | | | | | | | | | | | | |
| Product Revenues | 15 | 15 | - | - | - | 15 | 30 | 80 | 278 | 733 | 1,327 | 2,784 | 3,914 | 4,974 | 5,003 | 5,031 |
| TemCell GvHD - Japan Adult & Pediatric | 1 | 2 | 2 | 2 | 2 | 7 | 7 | 9 | 11 | 12 | 13 | 14 | 16 | 17 | 18 | 19 |
| Product & Royalty Revenues | 17 | 17 | 2 | 2 | 2 | 22 | 37 | 89 | 289 | 745 | 1,341 | 2,799 | 3,930 | 4,991 | 5,021 | 5,050 |
| Expenses | | | | | | | | | | | | | | | | |
| MesoBlast COGS | - | - | - | - | - | - | 9 | 16 | 56 | 110 | 186 | 278 | 391 | 497 | 500 | 503 |
| COGS % Sales | 0% | 0% | 0% | 0% | 0% | 0% | 30% | -20% | -20% | -15% | -14% | -10% | -10% | -10% | -10% | -10% |
| R&D | 60 | 13 | 15 | 16 | 19 | 63 | 66 | 69 | 73 | 76 | 73 | 69 | 65 | 66 | 67 | 67 |
| Manufacturing & Commercialization | 15 | 3 | 4 | 4 | 6 | 16 | 32 | 26 | 21 | 20 | 19 | 18 | 18 | 17 | 16 | 16 |
| Management & Administration | 22 | 5 | 3 | 3 | 1 | 13 | 25 | 36 | 37 | 39 | 38 | 38 | 37 | 36 | 35 | 35 |
| Total expenses | 97 | 21 | 22 | 23 | 26 | 92 | 133 | 147 | 186 | 245 | 316 | 403 | 511 | 617 | 619 | 621 |
| Oper. Inc. (Loss) | (80) | (4) | (20) | (21) | (24) | (70) | (96) | (58) | 103 | 499 | 1,025 | 2,396 | 3,419 | 4,374 | 4,402 | 4,429 |
| Oper Margin | | | | | | | | | | | | | | | | |
| Fair Value Remeasurement (contingent consideration) | (6) | 0 | | | | | | | | | | | | | | |
| Finance Cost/Interest Expense | | 0 | | | | | | | | | | | | | | |
| Changes in the fair value of available-for-sale financial assets | | | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | (1) | | | | | | | | | | | | | | | |
| Interest Payments | (11) | 3 | - | - | - | 3 | - | - | - | - | - | - | - | - | - | - |
| Other comprehensive loss/income for the period, net of tax | | | | | | | | | | | | | | | | |
| Total other income | (20) | 4 | - | - | - | 4 | - | - | - | - | - | - | - | - | - | - |
| Pre-tax income | (105) | (8) | (20) | (21) | (24) | (74) | (96) | (58) | 103 | 499 | 1,025 | 2,396 | 3,419 | 4,374 | 4,402 | 4,429 |
| Pretax Margin | | | | | | | | | | | | | | | | |
| Tax benefit (or expense) | 9 | 2 | - | - | - | 2 | - | - | (15) | (125) | (307) | (838) | (1,231) | (1,575) | (1,585) | (1,595) |
| Tax Rate | | 0% | 0% | 0% | 0% | 3% | 0% | 0% | 15% | 25% | 30% | 35% | 36% | 36% | 36% | 36% |
| Net income | (97) | (6) | (20) | (21) | (24) | (72) | (96) | (58) | 87 | 375 | 717 | 1,557 | 2,188 | 2,800 | 2,817 | 2,835 |
| Net Margin | | | | | | | | | | | | | | | | |
| EPS | \$ (0.72) | \$ (0.06) | \$ (0.17) | \$ (0.18) | \$ (0.20) | \$ (0.61) | \$ (0.69) | \$ (0.41) | \$ 0.62 | \$ 2.66 | \$ 5.07 | \$ 10.96 | \$ 15.33 | \$ 19.54 | \$ 19.59 | \$ 19.63 |
| Non GAAP EPS (dil) | | | | | | | | | | | | | | | | |
| Wgtd Avg Shrs (Bas) - '000s | 106 | 106 | 119 | 119 | 119 | 116 | 139 | 140 | 140 | 141 | 142 | 142 | 143 | 143 | 144 | 144 |
| Wgtd Avg Shrs (Dil) - '000s | 106 | 106 | 119 | 119 | 119 | 116 | 139 | 140 | 140 | 141 | 142 | 142 | 143 | 143 | 144 | 144 |

Source: Dawson James

Risk Analysis

In addition to the typical risks associated with development stage specialty pharmaceutical companies, potential risks specific to Mesoblast are as follows:

Clinical and regulatory risk. Lead products must start and complete clinical trials. Trials may not produce results sufficient for regulatory approval.

Commercial risk. There are no assurances that the company will be able to secure favorable pricing, commercially launch products, and achieve significant market share to become profitable.

Employee risk. Mesoblast has an experienced and dedicated management team, many of whom have been with the company since its founding. The company plans to bring its proposed products to market in the next two years, and as such, transitioning from a clinical to a commercial team will be a critical success factor. The success of the business may depend on the experience, abilities, and continued services of its senior officers, sales staff, and key scientific personnel.

Financial risk. The company may need to raise capital in the marketplace in order to support operations. There are no assurances that the company will be able to successfully raise capital and or do so on favorable terms.

Legal and intellectual property risk. The company may have to defend its patents and technical know-how, and there can be no assurances that the patents will not be infringed or will be held as valid if challenged, and or that the company may infringe on third party's patents.

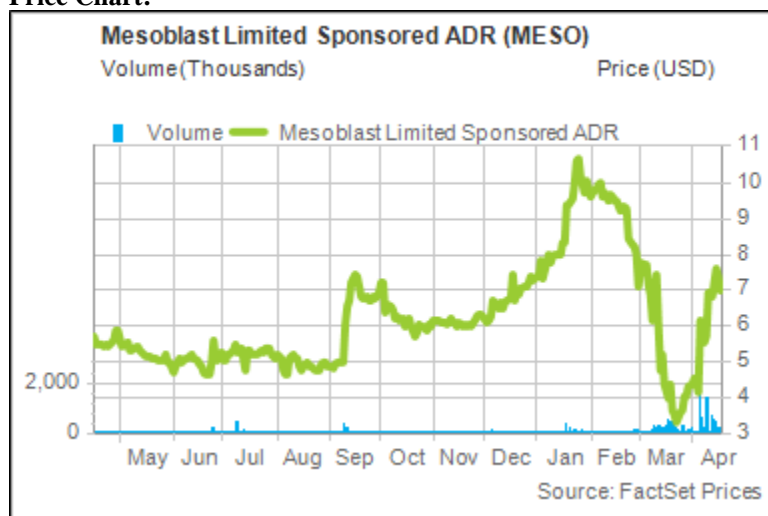
Partnership risk. Mesoblast may seek partnerships for clinical development support and commercialization. We have no specific knowledge of any discussions with possible partners today, and there can be no assurances that the company will be able to secure a favorable partnership.

Important Disclosures:

Companies that May Be Mentioned in this report which Mesoblast has worked with or which maybe relative to Mesoblast include the list below. None of these companies are rated.

BlueBird
Cephalon
Grunethal
JCR Pharma
Juno
Kite
Lonza
Osiris
Takeda (which acquired Tigenix)
Teva
Tasly

Price Chart:



Price target and rating changes over the past three years:

Initiated – Buy – December 19, 2019 – Price Target \$14.00
 Update – Buy – January 16, 2020 – Price Target \$14.00
 Update – Buy – January 28, 2020 – Price Target \$15.00
 Update – Buy – February 3, 2020 – Price Target \$15.00
 Update – Buy – February 28, 2020 – Price Target \$15.00
 Update – Buy – March 10, 2020 – Price Target \$15.00
 Update – Buy – April 1, 2020 – Price Target \$15.00
 Update – Buy – April 6, 2020 – Price Target \$15.00
 Update – Buy – April 17, 2020 – Price Target \$15.00

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Rating Definitions:

- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

| Ratings Distribution | Company Coverage | | Investment Banking | |
|----------------------------|------------------|------------|--------------------|-------------|
| | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 22 | 85% | 3 | 14% |
| Market Perform (Neutral) | 4 | 15% | 1 | 25% |
| Market Underperform (Sell) | 0 | 0% | 0 | 0% |
| Total | 26 | 100% | 4 | 15% |

Analyst Certification:

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.