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**Mesoblast (NASDAQ/MESO, ASX/MSB)**

March 8, 2021

**BUY: Mesoblast Just Raised \$110M – Did Anybody Notice?**
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Mesoblast raised \$110M for 60M shares in a private placement at \$2.30 per share, a 6.5% discount to the price at the close on 2.25.21, in addition to warrants on 15M shares at \$2.88 (for an additional \$34M). The investment was from SurgCenter Development, a group specializing in orthopedics. Our model assumes multiple raises, so for the moment, we are not adjusting our out-year share count.

**Investment Highlights:**

**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 hopes its CLBP product candidate will be part of 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.

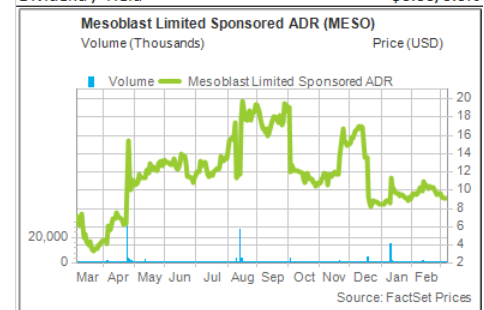
**Trial Data:** A single injection of MPC + Hyaluronic Acid (HA) carrier resulted in:

- Achievement of significant and durable reductions in CLBP through 24 months across the entire evaluable study population (n=391) compared with saline controls.
- Greatest pain reduction observed in the pre-specified population with CLBP of shorter duration than the study median of 68 months (n=194), significantly greater reduction at all time points (1, 3, 6, 12, 18 and 24 months) compared with saline controls.
- Significantly greater pain reduction in the pre-specified patient subset of opioid users (n=168) at all time points compared with saline controls.
- Confirmation of durable pain reduction seen with the combination of rexlemestrol-L + HA in the previous randomized controlled trial, where HA control alone was not significantly different from saline.
- Increased composite outcomes of reduction in pain, together with improvement in function in those with CLBP of shorter duration than 68 months, the median for the study; however, the composite outcomes of pain and function did not reach statistical significance across the entire study.
- No safety concerns over the 24-month period of follow-up in the entire study population.

Mesoblast plans to meet with the FDA to discuss the results from this trial together with the earlier randomized controlled trial of MPC + HA and potential approval pathways for rexlemestrol-L + HA as treatment for durable reduction in CLBP due to DDD with opioid sparing activity.

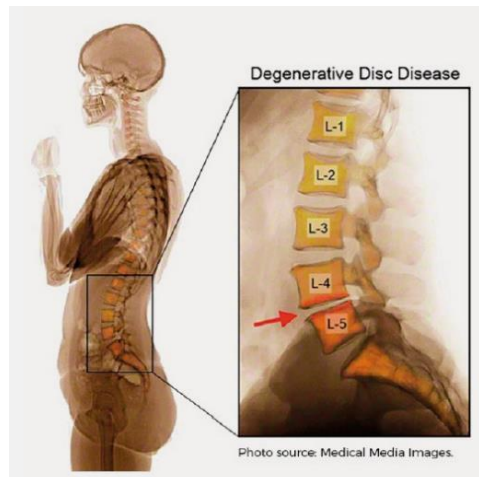
**Risks to our thesis include:** (1) clinical and regulatory; (2) commercial; (3) employee; (4) financial; (5) legal and intellectual property; and (6) partnership.

|   |               |               |               |
|---|---------------|---------------|---------------|
| Current Price                           | \$9.17        |               |               |
| Price Target                            | \$16.00       |               |               |
| <b>Estimates</b>                        | <b>F2019A</b> | <b>F2020E</b> | <b>F2021E</b> |
| <b>Expenses (\$000s)</b>                | \$ 97         | \$ 92         | \$ 136        |
| 1Q March                                | \$ 28         | \$ 28         | \$ 31         |
| 2Q June                                 | \$ 27         | \$ 22         | \$ 33         |
| 3Q September                            | \$ 23         | \$ 23         | \$ 34         |
| 4Q December                             | \$ 19         | \$ 19         | \$ 38         |
|   | <b>F2019A</b> | <b>F2020E</b> | <b>F2021E</b> |
| <b>EPS (diluted)</b>                    | \$ (0.72)     | \$ (0.63)     | \$ (0.62)     |
| 1Q March                                | \$ (0.19)     | \$ (0.14)     | \$ (0.14)     |
| 2Q June                                 | \$ (0.05)     | \$ (0.17)     | \$ (0.15)     |
| 3Q September                            | \$ (0.20)     | \$ (0.18)     | \$ (0.15)     |
| 4Q December                             | \$ (0.28)     | \$ (0.14)     | \$ (0.17)     |
| <b>EBITDA/Share</b>                     | (\$0.90)      | (\$0.53)      | (\$0.61)      |
| <b>EV/EBITDA (x)</b>                    | -11.1         | -15.7         | -13.5         |
| <b>Stock Data</b>                       |               |               |               |
| 52-Week Range                           | \$3.12        | -             | \$21.28       |
| Shares Outstanding (mil.)               |               |               | 124.7         |
| Market Capitalization (mil.)            |               |               | \$1,144       |
| Enterprise Value (mil.)                 |               |               | \$1,172       |
| Debt to Capital                         |               |               | 7%            |
| Book Value/Share                        |               |               | \$6.02        |
| Price/Book                              |               |               | 2.4           |
| Average Three Months Trading Volume (K) |               |               | 373           |
| Insider Ownership                       |               |               | 14.6%         |
| Institutional Ownership                 |               |               | 27.3%         |
| Short interest (mil.)                   |               |               | 2.3%          |
| Dividend / Yield                        |               |               | \$0.00/0.0%   |



**Chronic Lower Back Pain (CLBP)** is most commonly caused by disruption to the discs found in between vertebrae. These fluid-filled discs give people movement and stability in their everyday lives. When the nerves surrounding these discs are damaged, causing an inflammatory response, it causes chronic pain and functional disability. This damage can be caused by trauma, genetic predisposition, or aging and affects more than 3.2 million people in the United States alone.

**Exhibit 1. The Effect of Degenerative Disc Disease on Spinal Vertebrae**



**The Current Standard of Care** for CLBP focuses on masking the pain rather than treating the problem at its core. All treatment options provide patients with short-term solutions to their pain with the intention of temporarily minimizing it. Ibuprofen is a common relief to this problem, with more extreme solutions being major back surgery for long-term management. Opioids are commonly prescribed in order to relieve the pain associated with degenerative disc disease. In fact, more than half of the prescriptions for opioids are for people with this condition. Opioids have recently been declared a public health emergency due to their addictive qualities, leading to the need for a non-addictive solution.

**MPC-06-ID** is a Phase 3 drug intended for the treatment of CLBP due to disc degeneration. The product will be injected directly into the patient's damaged disc, using only 6 MPCs. MPC-06-ID will act as an anti-inflammatory, triggering the creation of new proteoglycan and collagen in order to regenerate the disc. Therefore, this drug does not aim to simply cover the pain, but rather, strengthen the disc in order to resolve the problem at its core.

**Phase 3 Trial.** Mesoblast has completed enrollment for the pivotal (Phase 3 trial). The trial is evaluating n~404 patients with CLBP due to disc degeneration. The primary endpoints would be pain relief as well as a 50% reduction in lower back pain. While seemingly subjective, these factors would be measured using Visual Analog Score and a 15-point improvement in the Oswestry Disability Index, ensuring the objective nature of the data. Overall Treatment Success Composites will be measured both at 12 months and 24 months, with no additional treatments over the course of time.

**Phase 2 Trial.** The Phase 2 trial of MPC-06-ID had several primary endpoints: efficacy, medication usage, and quality of life improvement measures. There were 100 patients enrolled; each suffered from CLBP due to disc degeneration for at least sixth months prior to the trial. After the injection of MPC-06-ID, patients saw statistically significant improvements in pain and function up to three years after.

**Modeling Assumptions for Degenerative Disc Disease (DDD)**

1. We assume market share penetration for Back Pain & Related Disc Repair to be 5% in 2023 and increase to 24% in 2030.
2. We assume that the market size will increase by 0.5% annually.
3. We assume the probability of success for all CLBP patients to be 50%.
4. We assume the cost of therapy to be \$10,040 in 2018 and grow 0.2% each year to reach \$10,284 in 2030.

**Exhibit 2. DDD Model. We apply a 50% risk cut to the model below.**

| Back Pain & Related Disc Repair               | 2018       | 2019       | 2020       | 2021       | 2022       | 2023       | 2024       | 2025       | 2026       | 2027       | 2028       | 2029       | 2030       |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Back Pain Prevalance                          | 30,452,254 | 30,604,515 | 30,757,538 | 30,911,325 | 31,065,882 | 31,221,211 | 31,377,317 | 31,534,204 | 31,691,875 | 31,850,334 | 32,009,586 | 32,169,634 | 32,330,482 |
| Market Size Growth (Annual)                   | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 0.5%       |
| 5% Patients Considered Candidates for Therapy | 1,522,613  | 1,530,226  | 1,537,877  | 1,545,566  | 1,553,294  | 1,561,061  | 1,568,866  | 1,576,710  | 1,584,594  | 1,592,517  | 1,600,479  | 1,608,482  | 1,616,524  |
| Patients which qualify                        | 25.0%      | 25.0%      | 25.0%      | 25.0%      | 25.0%      | 25.0%      | 25.0%      | 25.0%      | 25.0%      | 25.0%      | 25.0%      | 25.0%      | 25.0%      |
| Target Market                                 | 380,653    | 382,556    | 384,469    | 386,392    | 388,324    | 390,265    | 392,216    | 394,178    | 396,148    | 398,129    | 400,120    | 402,120    | 404,131    |
| Market Share Penetration                      | 0.0%       | 0.0%       | 0.0%       | 0.0%       | 0.0%       | 5.0%       | 10.0%      | 15.0%      | 20.0%      | 22.0%      | 24.0%      | 24.0%      | 24.0%      |
| Number of Patients Procedures                 | 0          | 0          | 0          | 0          | 0          | 19,513     | 39,222     | 59,127     | 79,230     | 87,588     | 96,029     | 96,509     | 96,991     |
| Cost of Therapy \$                            | 10,040     | 10,060     | 10,080     | 10,100     | 10,121     | 10,141     | 10,161     | 10,181     | 10,202     | 10,222     | 10,243     | 10,263     | 10,284     |
| Price Growth                                  | 0.2%       | 0.2%       | 0.2%       | 0.2%       | 0.2%       | 0.2%       | 0.2%       | 0.2%       | 0.2%       | 0.2%       | 0.2%       | 0.2%       | 0.2%       |
| Probability of Success                        | 50%        | 50%        | 50%        | 50%        | 50%        | 50%        | 50%        | 50%        | 50%        | 50%        | 50%        | 50%        | 50%        |
| U.S. Annual Sales (M) \$                      | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ -       | \$ 99      | \$ 199     | \$ 301     | \$ 404     | \$ 448     | \$ 492     | \$ 499     |

Source: Dawson James estimates

**Valuation:** Our valuation methodology begins with our projected revenues from our product models, which are adjusted by a “probability of success or risk factor.” 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 3. Free Cash Flow Model**

|                 |      |
|-----------------|------|
| Average \$      | 16   |
| Price Target \$ | 16   |
| Year            | 2021 |

**DCF Valuation Using FCF (mln):**

| units (millions - \$)  | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| EBIT                   | (75)  | (117) | (122) | 21    | 390   | 921   | 2,070 | 2,901 | 3,634 | 3,664 | 3,692 |
| Tax Rate               | 3%    | 0%    | 0%    | 15%   | 25%   | 30%   | 35%   | 36%   | 36%   | 36%   | 36%   |
| EBIT(1-t)              | (73)  | (117) | (122) | 18    | 293   | 645   | 1,345 | 1,857 | 2,326 | 2,345 | 2,363 |
| CapEx                  |       |       |       |       |       |       |       |       |       |       |       |
| Depreciation           |       |       |       |       |       |       |       |       |       |       |       |
| Change in NWC          |       |       |       |       |       |       |       |       |       |       |       |
| FCF                    | (73)  | (117) | (122) | 18    | 293   | 645   | 1,345 | 1,857 | 2,326 | 2,345 | 2,363 |
| PV of FCF              | (95)  | (117) | (94)  | 11    | 133   | 226   | 362   | 385   | 371   | 287   | 223   |
| Discount Rate          |       | 30%   |       |       |       |       |       |       |       |       |       |
| Long Term Growth Rate  |       | 1%    |       |       |       |       |       |       |       |       |       |
| Free Cash Flow         |       | 8,229 |       |       |       |       |       |       |       |       |       |
| Terminal Value YE 2030 |       | 776   |       |       |       |       |       |       |       |       |       |
| NPV                    |       | 2,469 |       |       |       |       |       |       |       |       |       |
| NPV-Debt               |       | 84    |       |       |       |       |       |       |       |       |       |
| Shares out (M)         |       | 146   | 2030E |       |       |       |       |       |       |       |       |
| NPV Per Share          | \$    | 16    |       |       |       |       |       |       |       |       |       |

Source: Dawson James estimates, company reports

**Exhibit 4. Discounted-EPS Model**

|                   |          |
|-------------------|----------|
| Year of EPS       | 2021     |
| Earnings Multiple | 10       |
| Discount Factor   | 30%      |
| Selected Year EPS | \$ 16.20 |
| NPV               | \$ 15    |

|                   |    | Discount Rate and Earnings Multiple Varies, Year is Constant |          |          |         |         |          |
|-------------------|----|--|----------|----------|---------|---------|----------|
|                   |    | 2030 EPS   |          |          |         |         |          |
|                   |    | 10%  | 15%      | 20%      | 25%     | 30%     | 35%      |
| Earnings Multiple | 1  | \$6.87   | \$4.60   | \$3.14   | \$2.17  | \$1.53  | \$ 1.09  |
|                   | 5  | \$34.34  | \$23.02  | \$15.69  | \$10.87 | \$7.64  | \$ 5.44  |
|                   | 10 | \$68.69  | \$46.04  | \$31.39  | \$21.74 | \$15.27 | \$ 10.87 |
|                   | 15 | \$103.03   | \$69.06  | \$47.08  | \$32.61 | \$22.91 | \$ 16.31 |
|                   | 20 | \$137.38   | \$92.08  | \$62.78  | \$43.48 | \$30.55 | \$ 21.75 |
|                   | 25 | \$171.72   | \$115.10 | \$78.47  | \$54.35 | \$38.18 | \$ 27.19 |
|                   | 30 | \$206.06   | \$138.12 | \$94.17  | \$65.22 | \$45.82 | \$ 32.62 |
|                   | 35 | \$240.41   | \$161.14 | \$109.86 | \$76.08 | \$53.46 | \$ 38.06 |

Source: Dawson James estimates

**Exhibit 5. Sum-of-the-Parts Model**

| Mesoblast Sum of the Parts           | LT Gr | Discount Rate | Yrs. to Mkt | % Success | Peak Sales MM's | NPV      |
|--------------------------------------|-------|---------------|-------------|-----------|-----------------|----------|
| Revascor - CHF (Class II - III) U.S. | 1%    | 30%           | 4           | 25%       | \$5,152         | \$17,766 |
| NPV                                  |       |               |             |           |                 | \$5.33   |
| Revascor - CHF - LVAD: Class IV      | 1%    | 30%           | 2           | 25%       | \$361           | \$1,246  |
| NPV                                  |       |               |             |           |                 | \$0.63   |
| Revascor - CHF (Class II - III) EU   | 1%    | 30%           | 5           | 25%       | \$3,895         | \$13,431 |
| NPV                                  |       |               |             |           |                 | \$3.10   |
| Acute Pediatric GvHD - U.S.          | 1%    | 30%           | 0           | 100%      | \$142           | \$490    |
| NPV                                  |       |               |             |           |                 | \$1.68   |
| Acute Adult GvHD U.S.                | 1%    | 30%           | 4           | 100%      | \$319           | \$1,101  |
| NPV                                  |       |               |             |           |                 | \$1.32   |
| Acute Pediatric GvHD - E.U.          | 1%    | 30%           | 3           | 100%      | \$101           | \$350    |
| NPV                                  |       |               |             |           |                 | \$0.55   |
| Acute Adult GvHD E.U.                | 1%    | 30%           | 3           | 100%      | \$383           | \$1,322  |
| NPV                                  |       |               |             |           |                 | \$2.06   |
| CLBD-DDD U.S.                        | 1%    | 30%           | 2           | 30%       | \$984           | \$3,392  |
| NPV                                  |       |               |             |           |                 | \$2.06   |
| TEMCELL                              | 1%    | 10%           | 0           | 75%       | \$20            | \$222    |
| NPV                                  |       |               |             |           |                 | \$0.57   |
| Other Indications                    | 1%    | 30%           | 5           | 30%       | \$0             | \$0      |
| NPV                                  |       |               |             |           |                 | \$0.00   |
| Net Margin                           |       |               |             |           |                 | 50%      |
| MM.Shrs OS                           |       |               |             |           | 2030E           | 146      |
| Total                                |       |               |             |           |                 | \$17     |

Source: Dawson James estimates

**Exhibit 6. Income Statement**

| Mesoblast, Inc. Income Statement (M)                             |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Mesoblast: YE June 30  | 2019A            | 2020E            | 1Q21             | 2Q21             | 3Q21             | 4Q21             | 2021E            | 2022E            | 2023E          | 2024E          | 2025E          | 2026E           | 2027E           | 2028E           | 2029E           | 2030E           |
| Milestone / Partnership Revenues                                 | 14               |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| % Sequential Growth  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Revasco in CHF U.S.  | -                | -                | -                | -                | -                | -                | -                | -                | -              | 255            | 638            | 1,280           | 1,926           | 2,576           | 2,584           | 2,592           |
| % Sequential Growth  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Revascor in CHF; EU  | -                | -                | -                | -                | -                | -                | -                | -                | -              | -              | -              | 830             | 1,387           | 1,948           | 1,953           | 1,959           |
| % Sequential Growth  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Disogenic Disc Chronic Lower Back (U.S.)                         |                  |                  | -                | -                | -                | -                | -                | -                | 139            | 279            | 421            | 566             | 627             | 689             | 693             | 698             |
| % Sequential Growth  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Remestemcel-L GvHD - USA - Pediatric                             | 1                | -                | 10               | 10               | 11               | 12               | 43               | 87               | 132            | 145            | 141            | 137             | 139             | 142             | 145             | 148             |
| % Sequential Growth  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Remestemcel-L GvHD - USA - Acute Adult                           | -                | -                | -                | -                | -                | -                | -                | -                | -              | 102            | 198            | 288             | 313             | 319             | 326             | 332             |
| % Sequential Growth  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Remestemcel-L GvHD - EU Pediatric                                | -                | -                | -                | -                | -                | -                | -                | 27               | 67             | 110            | 107            | 104             | 106             | 108             | 110             | 110             |
| % Sequential Growth  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Remestemcel-L GvHD - EU Acute Adult                              | -                | -                | -                | -                | -                | -                | -                | -                | -              | -              | 119            | 230             | 352             | 383             | 391             | 399             |
| % Sequential Growth  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| <b>Product Revenues</b>  | <b>15</b>        | <b>12</b>        | <b>10</b>        | <b>10</b>        | <b>11</b>        | <b>12</b>        | <b>43</b>        | <b>114</b>       | <b>338</b>     | <b>891</b>     | <b>1,624</b>   | <b>3,434</b>    | <b>4,850</b>    | <b>6,164</b>    | <b>6,202</b>    | <b>6,238</b>    |
| TemCell GvHD - Japan Adult & Pediatric                           | 1                | 7                | 2                | 2                | 2                | 2                | 7                | 9                | 11             | 12             | 13             | 14              | 16              | 17              | 18              | 19              |
| <b>Product &amp; Royalty Revenues</b>                            | <b>17</b>        | <b>22</b>        | <b>11</b>        | <b>12</b>        | <b>12</b>        | <b>14</b>        | <b>50</b>        | <b>123</b>       | <b>349</b>     | <b>903</b>     | <b>1,638</b>   | <b>3,448</b>    | <b>4,866</b>    | <b>6,181</b>    | <b>6,220</b>    | <b>6,257</b>    |
| <b>Expenses</b>  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| MesoBlast COGS   | -                | -                | 3                | 3                | 3                | 4                | 13               | 23               | 68             | 134            | 227            | 343             | 485             | 616             | 620             | 624             |
| COGS % Sales   | 0%               | 0%               | 30%              | 30%              | 30%              | 30%              | 30%              | -20%             | -20%           | -15%           | -14%           | -10%            | -10%            | -10%            | -10%            | -10%            |
| R&D  | 60               | 63               | 15               | 16               | 16               | 18               | 66               | 69               | 73             | 76             | 73             | 69              | 65              | 66              | 67              | 67              |
| Manufacturing & Commercialization                                | 15               | 16               | 7                | 8                | 8                | 9                | 32               | 26               | 21             | 20             | 19             | 18              | 18              | 17              | 16              | 16              |
| Management & Administration                                      | 22               | 13               | 6                | 6                | 6                | 7                | 25               | 36               | 37             | 39             | 38             | 38              | 37              | 36              | 35              | 35              |
| <b>Total expenses</b>  | <b>97</b>        | <b>92</b>        | <b>31</b>        | <b>33</b>        | <b>34</b>        | <b>38</b>        | <b>136</b>       | <b>153</b>       | <b>198</b>     | <b>269</b>     | <b>357</b>     | <b>468</b>      | <b>605</b>      | <b>736</b>      | <b>739</b>      | <b>741</b>      |
| <b>Oper. Inc. (Loss)</b>   | <b>(80)</b>      | <b>(70)</b>      | <b>(20)</b>      | <b>(21)</b>      | <b>(22)</b>      | <b>(24)</b>      | <b>(87)</b>      | <b>(31)</b>      | <b>151</b>     | <b>634</b>     | <b>1,280</b>   | <b>2,980</b>    | <b>4,261</b>    | <b>5,446</b>    | <b>5,481</b>    | <b>5,515</b>    |
| Oper Margin  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Fair Value Remeasurement (contingent consideration)              | (6)              |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Finance Cost/Interest Expense                                    |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Changes in the fair value of available-for-sale financial assets |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Exchange differences on translation of foreign operations        | (1)              |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Interest Payments  | (11)             | (0)              | -                | -                | -                | -                | -                | -                | -              | -              | -              | -               | -               | -               | -               | -               |
| Other comprehensive loss/income for the period, net of tax       |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Total other income   | (20)             | 5                | -                | -                | -                | -                | -                | -                | -              | -              | -              | -               | -               | -               | -               | -               |
| <b>Pre-tax income</b>  | <b>(105)</b>     | <b>(75)</b>      | <b>(20)</b>      | <b>(21)</b>      | <b>(22)</b>      | <b>(24)</b>      | <b>(87)</b>      | <b>(31)</b>      | <b>151</b>     | <b>634</b>     | <b>1,280</b>   | <b>2,980</b>    | <b>4,261</b>    | <b>5,446</b>    | <b>5,481</b>    | <b>5,515</b>    |
| Pretax Margin  |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Tax benefit (or expense)   | 9                | 2                | -                | -                | -                | -                | -                | -                | (23)           | (158)          | (384)          | (1,043)         | (1,534)         | (1,960)         | (1,973)         | (1,986)         |
| Tax Rate   |                  | 3%               | 0%               | 0%               | 0%               | 0%               | 0%               | 0%               | 15%            | 25%            | 30%            | 35%             | 36%             | 36%             | 36%             | 36%             |
| <b>Net income</b>  | <b>(97)</b>      | <b>(73)</b>      | <b>(20)</b>      | <b>(21)</b>      | <b>(22)</b>      | <b>(24)</b>      | <b>(87)</b>      | <b>(31)</b>      | <b>128</b>     | <b>475</b>     | <b>896</b>     | <b>1,937</b>    | <b>2,727</b>    | <b>3,485</b>    | <b>3,508</b>    | <b>3,530</b>    |
| Net Margin   |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| <b>EPS</b>   | <b>\$ (0.72)</b> | <b>\$ (0.63)</b> | <b>\$ (0.14)</b> | <b>\$ (0.15)</b> | <b>\$ (0.15)</b> | <b>\$ (0.17)</b> | <b>\$ (0.62)</b> | <b>\$ (0.22)</b> | <b>\$ 0.90</b> | <b>\$ 3.34</b> | <b>\$ 6.27</b> | <b>\$ 13.49</b> | <b>\$ 18.92</b> | <b>\$ 24.08</b> | <b>\$ 24.14</b> | <b>\$ 24.20</b> |
| Non GAAP EPS (dil)   |                  |                  |                  |                  |                  |                  |                  |                  |                |                |                |                 |                 |                 |                 |                 |
| Wgtd Avg Shrs (Bas) - '000s                                      | 106              | 117              | 141              | 141              | 141              | 141              | 141              | 141              | 142            | 142            | 143            | 144             | 144             | 145             | 145             | 146             |
| Wgtd Avg Shrs (Dil) - '000s                                      | 106              | 117              | 141              | 141              | 141              | 141              | 141              | 141              | 142            | 142            | 143            | 144             | 144             | 145             | 145             | 146             |

Source: Dawson James estimates, company reports

**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 parties' 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 may be relative to Mesoblast include the list below. None of these companies are rated.**

BlueBird

Cephalon

Grunethal

JCR Pharma

Juno

Kite

Lonza

Novartis

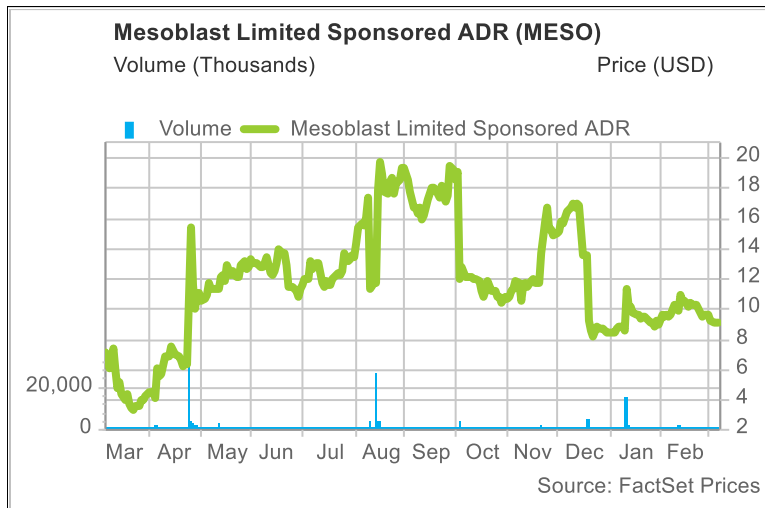
Osiris

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
- Update – Buy – April 24, 2020 – Price Target \$15.00
- Update – Buy – May 1, 2020 – Price Target \$15.00
- Update – Buy – May 6, 2020 – Price Target \$15.00
- Update – Buy – May 26, 2020 – Price Target \$15.00
- Update – Buy – May 28, 2020 – Price Target \$15.00
- Update – Buy – July 30, 2020 – Price Target \$15.00
- Price Target Change – Buy – August 24, 2020 – Price Target Increased to \$20.00 from \$15.00
- Update – Buy – September 2, 2020 – Price Target \$20.00
- Update – Buy – October 2, 2020 – Price Target \$20.00
- Update – Buy – October 13, 2020 – Price Target \$20.00
- Update – Buy – November 20, 2020 – Price Target \$20.00
- Update – Buy – December 8, 2020 – Price Target \$20.00
- Update – Buy – December 15, 2020 – Price Target \$20.00
- Update – Buy – December 18, 2020 – Price Target \$20.00
- Price Target Change – Buy – January 22, 2021 – Price Target lowered to \$16.00 from \$20.00
- Update – Buy – February 11, 2021 – Price Target \$16.00
- Update – Buy – March 8, 2021 – Price Target \$16.00

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**Information about valuation methods and risks can be found in the "VALUATION" and "RISK ANALYSIS" sections of this report.**

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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)    | 21               | 72%        | 6                  | 29%         |
| Market Perform (Neutral)   | 8                | 28%        | 0                  | 0%          |
| Market Underperform (Sell) | 0                | 0%         | 0                  | 0%          |
| Total                      | 29               | 100%       | 6                  | 21%         |

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