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

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**BUY: 60-Day ARDS-COVID Data in Patients < 65 Shows Life-Saving (Mortality) Benefit**

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Mesoblast announced the 60-day results from the randomized controlled trial of remestemcel-L in 222 ventilator-dependent COVID-19 patients with moderate/severe acute respiratory distress syndrome (ARDS). Remestemcel-L reduced mortality through day 60 by 46% in the pre-specified group below age 65, but not in patients 65 or older. Remestemcel-L reduced mortality by 75% and increased days alive off mechanical ventilation in patients under age 65 when combined with dexamethasone, in comparison with controls on dexamethasone.

**Investment Highlights:**

**The ARDS Trial:** The trial enrolled N=222 mechanically ventilated COVID-19 patients with moderate/severe ARDS across the US. The patients (217) were randomized 1:1 and received either standard of care alone or standard of care plus 2 intravenous infusions of remestemcel-L at a dose of 2 million cells/kg 3-5 days apart. This was the same remestemcel-L dosing regimen used in the earlier compassionate use program where 11 of 12 patients were younger than 65 and 75% successfully came off ventilatory support.

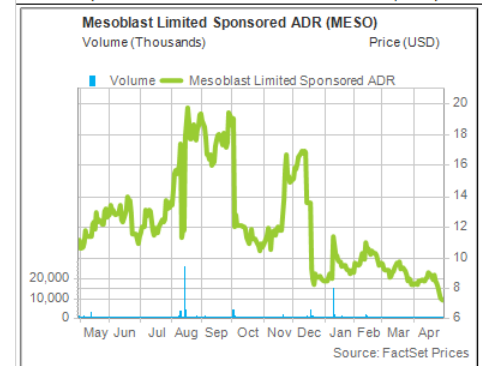
**Partnered with Novartis (NVS-Not Rated):** Recall that Mesoblast entered into a license and collaboration agreement with Novartis for the development, manufacture, and commercialization of remestemcel-L, with an initial focus on the treatment of acute respiratory distress syndrome (ARDS), including that associated with COVID.

**Key findings in the trial were:**

- Remestemcel-L reduced mortality by 46% through day 60 in the pre-specified population of 123 treated patients under age 65, 26% vs 42%, Hazard Ratio (HR) 0.54, 95% CI (0.286, 1.005), p=0.0485,6
- Remestemcel-L had similar treatment effects on mortality in these patients with either moderate ARDS (HR 0.56)6,7 or severe ARDS (HR 0.56)6,7
- Standard of care changed during the course of the trial to incorporate dexamethasone, with only 2% of the first 50 patients enrolled receiving dexamethasone compared with 84% of the subsequent 172 patients; this allowed for additional exploratory analyses of remestemcel-L treatment effects in patients who received dexamethasone as part of their standard of care
- Remestemcel-L reduced mortality through day 60 by 75% compared to controls in patients under 65 who received dexamethasone as part of their standard of care, 14% vs 45%, HR 0.25, 95% CI (0.085, 0.727), p=0.0065,6
- Remestemcel-L increased days alive off ventilator within 60 days and reduced time to discharge from initial hospitalization compared to controls in patients under 65 who received dexamethasone as part of their standard of care, p=0.01 and p=0.005, respectively.

**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	\$7.22
Price Target	\$16.00
<b>Mesoblast's portfolio of Phase 3 product candidates are:</b>	
<ul style="list-style-type: none"> <li>• Remestemcel-L for steroid-refractory acute graft versus host disease (acute GVHD) in children</li> <li>• Remestemcel-L for moderate to severe acute respiratory distress syndrome (ARDS) due to COVID-19 infection</li> <li>• REVASCOR<sup>®</sup> for advanced chronic heart failure</li> <li>• MPC-06-ID for chronic low back pain due to degenerative disc disease</li> </ul>	
52-Week Range	\$7.22 - \$21.28
Shares Outstanding (mil.)	129.7
Market Capitalization (mil.)	\$937
Enterprise Value (mil.)	\$966
Book Value/Share	\$6.02
Price/Book	2.4
Average Three Months Trading Volume (K)	446
Insider Ownership	13.2%
Institutional Ownership	24.6%
Short interest (mil.)	1.0%
Dividend / Yield	\$0.00/0.0%



**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 1. 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 2. Discounted-EPS Model

Year of EPS	2021
Year of EPS	2030
Earnings Multiple	10
Discount Factor	30%
Selected Year EPS	\$ 16.20
NPV	\$ 15

Discount Rate and Earnings Multiple Varies, Year is Constant							
2030 EPS							
Earnings Multiple		10%	15%	20%	25%	30%	35%
		1	\$6.87	\$4.60	\$3.14	\$2.17	\$1.53
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 3. 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 4. 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>
Oper. Inc. (Loss)	(80)	(70)	(20)	(21)	(22)	(24)	(87)	(31)	151	634	1,280	2,980	4,261	5,446	5,481	5,515
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

Grunenthal

JCR Pharma

Juno

Kite

Lonza

Novartis

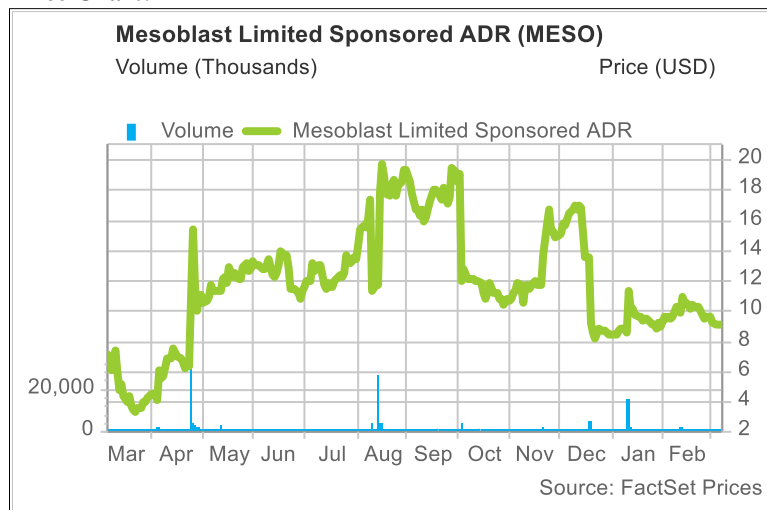
Osiris

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
- Update – Buy – April 30, 2021 – Price Target \$16.00

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- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months;
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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.

As of: 27-Apr-21

	Company Coverage		Investment Banking	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	21	68%	5	24%
Market Perform (Neutral)	10	32%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	31	100%	5	16%

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