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Lineage Cell Therapeutics (NYSE/LCTX)

December 20, 2021

BUY: An Early Christmas as Roche – Genentech Opts In for \$50M Upfront for the OpGen/Dry AMD

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Lineage announced a deal for the OpRegen program (retinal pigment epithelium cell therapy). Under the terms of the collaboration, agreement Lineage is to complete activities related to the ongoing clinical study, for which enrollment is complete, and perform certain manufacturing activities. Genentech will pay Lineage a \$50 million upfront payment, and Lineage is eligible to receive up to \$620 million in additional development, approval, and sales milestones, as well as double-digit royalties.

Investment Highlights

What Else? Genentech will assume responsibility for further clinical development and commercialization of Lineage's OpRegen program, which is currently being evaluated in a Phase 1/2a open-label, dose-escalation clinical safety and efficacy study in patients with advanced dry AMD with GA. Recall that Genentech (part of Roche) has a dominant franchise in macular degeneration with its Lucentis (Avastin) product.

Is the Data behind OpRegen good? Recent study results (below) show restoration of cells in the RPE layer in the eye. These findings support the Company's view that atrophic AMD is not an irreversible, degenerative condition and that some portion of diseased retinal tissue may be recoverable.

- Retinal restoration, reported in four patients to date, persisted from over 12 months to greater than three years following treatment and continues to be followed.
- Restoration was evidenced by the presence of new areas of RPE monolayer with overlying ellipsoid zone, external limiting membrane, and outer nuclear layer, which were not present at the time of baseline assessment.
- Reductions, or no progression for at least one year, were observed in the total area of GA in all four of these better vision Cohort 4 patients.
- Overall, using the Early Treatment Diabetic Retinopathy Study (EDTRS) assessment of best-corrected visual acuity (BCVA), 7/12 (58%) of each of Cohort 4 patients' treated eye was at baseline or better at 15 months or last time point, which extends beyond three years in some patients. In comparison, at the same time points, 8/12 (67%) were below baseline in those same patients' fellow untreated eyes.
- All four retinal restoration patients reported improvements in their visual acuity, which has been maintained for at least 12 months in all four of those patients.
- Across the study, in patients with previously reported structural improvements in the retina, decreases in drusen density, and a trend toward slower GA progression in treated compared to untreated eyes continue to be present. Evidence of durable engraftment of OpRegen RPE cells has extended to more than five years in the earliest treated patients, supporting the potential for OpRegen to be a one-time treatment.

Valuation: Our valuation for Lineage is principally driven by the opportunity in Dry AMD, narrowed down further by a sub-set of patients with GA. Our model does include modest revenues from the SCI product and from Renevia, but as previously stated, the majority of the valuation is driven by OpRegen. We assume just a 30% probability of success in Dry AMD and SCI, which drives our \$6.00 target.

Risks to our thesis include: (1) clinical trial; (2) commercial; (3) employee; (4) financial; (5) intellectual property; (6) partnership; and (7) regulatory.



OPC1 Transplant Procedure

Current Price			
Current Price			\$2.12
Price Target			\$6.00
Stock Data			
52-Week Range	\$1.55	-	\$3.13
Shares Outstanding (mil.)			168.6
Market Capitalization (mil.)			\$357
Enterprise Value (mil.)			\$338
Debt to Capital			0%
Book Value/Share			\$1.28
Price/Book			2.8
Average Three Months Trading Volume (K)			5,318
Insider Ownership			0.4%
Institutional Ownership			50.4%
Short interest (mil.)			0.0
Dividend / Yield			\$0.00/0.0%

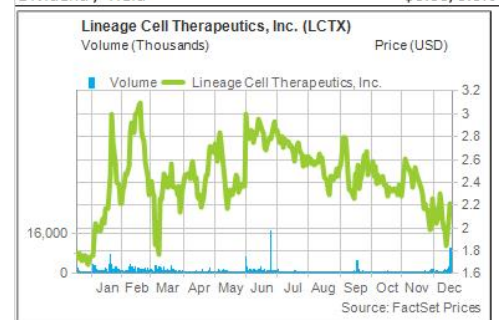


Exhibit 1. Income Statement

Lineage: Income Statement (\$000)															
YE December 31	2019A	1Q20A	2Q20A	3Q20A	4Q20E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Spinal Cord Injury Therapy		-	-	-	-	-	-	-	-	5,965	12,170	18,621	31,660	48,444	97,857
Dry Macular Degeneration									674,532	1,030,069	1,396,272	1,772,071	2,156,441	2,600,414	2,971,902
Renevia		-	-	-	-	-	542	1,504	12,034	17,327	23,581	27,067	27,065	27,062	26,791
Net revenue							-	-	674,532	1,036,034	1,408,442	1,790,692	2,727,211	2,648,858	3,069,759
Grant Revenues	2,037	348	287	229	1,193	2,057	2,078	2,099	2,120	2,141	2,162	2,184	2,206	2,228	2,250
Royalties from Product Sales and license fees	1,221	166	99	342	626	1,233	1,246	1,258	1,271	1,283	1,296	1,309	1,322	1,335	1,349
Subscription & Advertisement Revenues		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales of Research Products & Services	257	-	-	-	260	260	262	265	267	270	273	276	278	281	284
Total Revenue	3,515	514	386	571	2,079	3,550	3,586	3,622	678,189	1,039,728	1,412,173	1,794,461	2,731,017	2,652,702	3,073,641
Cost of Goods (sales)	(412)	(94)	(75)	(102)	-	(271)	-	-	(188,869)	(259,008)	(338,026)	(322,325)	(436,354)	(397,329)	(460,464)
									28%	25%	24%	18%	16%	15%	15%
Research & Development	(17,948)	(3,339)	(2,805)	(3,566)	(4,648)	(14,358)	(14,646)	(19,039)	(28,559)	(39,982)	(40,782)	(41,598)	(42,430)	(43,278)	(44,144)
Acquired in Process Research & Development															
General & Administrative	(24,031)	(4,519)	(3,908)	(3,628)	(7,170)	(19,225)	(34,605)	(69,209.28)	(69,901)	(70,600)	(71,306)	(72,019)	(72,740)	(73,467)	(74,202)
Total Expenses	(41,979)	(7,858)	(6,713)	(7,194)	(11,818)	(33,583)	(49,250)	(88,249)	(287,329)	(369,591)	(450,115)	(435,942)	(551,523)	(514,074)	(578,809)
Loss from Operation	(38,876)	(7,438)	(6,402)	(6,725)	(9,739)	(30,304)	(45,665)	(84,627)	390,860	670,137	962,059	1,358,519	2,179,494	2,138,628	2,494,832
Interest Income (expense)	1,685	405	380	252											
Gain on AgeX shares and deconsolidation of AgeX	-														
Gain on Sale equity method in Ascendance	-	1,258	2,470	120											
Gain / Loss Oncocyte	2,421	(1,338)	(4,146)	(2,003)											
Loss on Equity (Asterias)	6,744	35	(6)	55											
Unrealized Gain on marketable equity securities	(2,898)	(1,350)	1,174	351											
Other Income (expenses) net	2,532														
Total other income (expense), net															
Pretax Income	19,642	(8,428)	(6,530)	(7,950)	(9,739)	(32,647)	(45,665)	(84,627)	390,860	670,137	962,059	1,358,519	2,179,494	2,138,628	2,494,832
Tax Benefit	(19,234)			178											
Net loss attributable to non-controlling interest	118	29	8	12		49	-	-	-	-	-	-	-	-	-
Taxes	7										96,206	203,778	435,899	534,657	698,553
Tax Rate											10%	15%	20%	25%	28%
GAAP Net Income (Loss)	(11,709)	(8,399)	(6,522)	(7,760)	(9,739)	(32,420)	(45,665)	(84,627)	390,860	670,137	865,853	1,154,741	1,743,595	1,603,971	1,796,279
Total comprehensive loss	(11,709)	(8,399)	(6,522)	(7,760)	(9,739)	(32,420)	(45,665)	(84,627)	390,860	670,137	865,853	1,154,741	1,743,595	1,603,971	1,796,279
GAAP-EPS	(0.08)	(0.06)	(0.04)	(0.05)	(0.06)	(0.22)	(0.26)	(0.46)	2.13	3.64	4.69	6.22	9.36	8.58	9.57
GAAP-EPS (Dil)	(0.08)	(0.06)	(0.04)	(0.05)	(0.04)	(0.19)	(0.23)	(0.17)	(0.04)	0.08	0.32	0.60	0.87	1.12	1.12
Wgtd Avg Shrs (Bas)	145,533	149,807	149,821	149,973	151,473	150,268	174,374	182,595	183,327	184,061	184,799	185,539	186,282	187,028	187,778
Wgtd Avg Shrs (Dil)	145,533	149,807	149,821	149,973	230,854	170,114	276,477	292,629	293,802	294,979	296,160	297,347	298,538	299,734	300,935

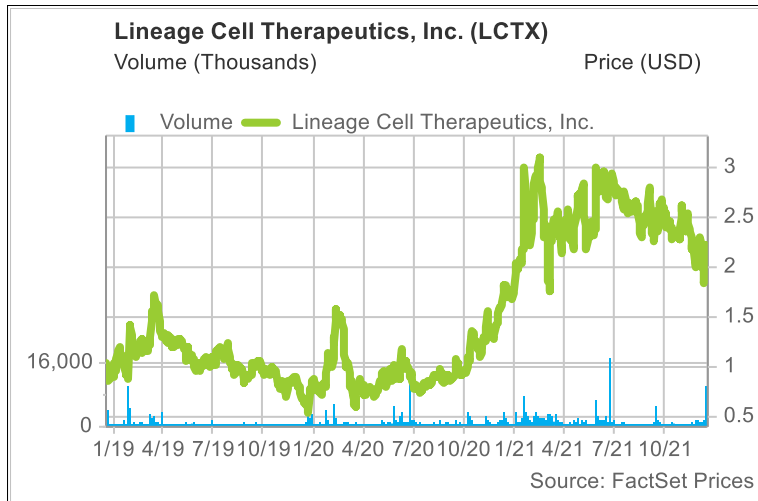
Source: Dawson James estimates, company reports

Companies mentioned in this report:

Roche-Genentech (RHHBY – Not Rated)

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

- Initiated – Buy – February 7, 2019 – Price Target \$6.00
- Updated – May 28, 2019 – Price Target \$6.00
- Updated – August 12, 2019 – Price Target \$6.00
- Updated – September 19, 2019 – Price Target \$6.00
- Updated – October 15, 2019 – Price Target \$6.00
- Updated – January 9, 2020 – Price Target \$6.00
- Updated – November 6, 2020 – Price Target \$6.00
- Updated – March 9, 2021 – Price Target \$6.00
- Updated – March 23, 2021 – Price Target \$6.00
- Updated – May 3, 2021 – Price Target \$6.00
- Updated – June 2, 2021 – Price Target \$6.00
- Updated – June 25, 2021 – Price Target \$6.00
- Updated – July 20, 2021 – Price Target \$6.00
- Updated – November 30, 2021 – Price Target \$6.00
- Updated – December 20, 2021 – Price Target \$6.00

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Current as of... 14-Dec-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	68%	5	20%
Market Perform (Neutral)	12	32%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	37	100%	5	14%

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