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Lineage Cell Therapeutics (NYSE/LCTX)

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BUY: Ends the Year with \$55M & Picks up Another \$50M from Roche, That Ain't Bad

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Lineage YE results with plenty of cash runway driven by a \$50M payment from Pharma giant Roche. This plus many milestones supports our positive outlook.

Investment Highlights

How's it Going with Roche? Recall that in December 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. 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.

Expected Milestones (Press Release):

- Announcement of a new pipeline program from the regenerative medicine cell therapy platform anticipated in March;
- Completion of GMP production of OPC1 via an improved and larger-scale manufacturing process and a new thaw-and-inject formulation; anticipated in Q1 2022;
- FDA interaction to discuss recent manufacturing improvements made to OPC1, anticipated in Q3 2022;
- Initiation of clinical performance and safety testing of the novel Parenchymal Spinal Delivery system device for OPC1, with an anticipated Investigational New Drug ("IND") amendment submission in Q3 2022;
- Updates from the ongoing VAC2 Phase 1 non-small cell lung cancer study; anticipated in Q2 2022;
- An anticipated IND submission for VAC2 in 2H 2022;
- Continued development of a cell-based therapeutic for glioblastoma with our strategic partner, Immunomic Therapeutics; ongoing throughout 2022;
- Evaluation of opportunities for new VAC product candidates based on internally identified or partnered tumor antigens; ongoing throughout 2022;
- Evaluation of partnership opportunities and expansion of existing collaborations; ongoing throughout 2022; and
- Continued participation in numerous investor and partnering meetings and medical and industry conferences to broaden the knowledge of our work.

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 | | | \$1.40 |
| Price Target | | | \$6.00 |
| Stock Data | | | |
| 52-Week Range | \$1.26 | - | \$3.00 |
| Shares Outstanding (mil.) | | | 168.6 |
| Market Capitalization (mil.) | | | \$236 |
| Enterprise Value (mil.) | | | \$217 |
| Debt to Capital | | | 0% |
| Book Value/Share | | | \$1.28 |
| Price/Book | | | 2.8 |
| Average Three Months Trading Volume (K) | | | 1,133 |
| Insider Ownership | | | 0.4% |
| Institutional Ownership | | | 49.5% |
| Short interest (mil.) | | | 0.1 |
| Dividend / Yield | | | \$0.00/0.0% |

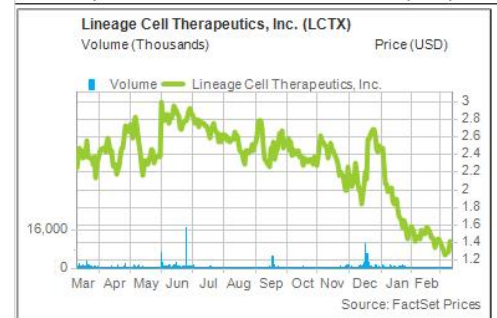


Exhibit 1. Income Statement

| Lineage: Income Statement (\$000) | | | | | | | | | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| YE December 31 | 2019A | 2020A | 2021A | 1Q22E | 2Q22E | 3Q22E | 4Q22E | 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 | | - | - | 346 | 361 | 376 | 421 | 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 | 2,057 | 445 | 103 | 108 | 112 | 126 | 449 | 454 | 458 | 463 | 468 | 472 | 477 | 482 |
| Royalties from Product Sales and license fees | 1,221 | 1,233 | 2,776 | 645 | 673 | 701 | 785 | 2,804 | 2,832 | 2,860 | 2,889 | 2,918 | 2,947 | 2,976 | 3,006 |
| Subscription & Advertisement Revenues | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Collaboration Revenues | 257 | 260 | 1,120 | 260 | 271 | 283 | 317 | 1,131 | 1,143 | 1,154 | 1,165 | 1,177 | 1,189 | 1,201 | 1,213 |
| Total Revenue | 3,515 | 3,550 | 4,341 | 1,008 | 1,052 | 1,096 | 1,228 | 4,384 | 678,960 | 1,040,506 | 1,412,959 | 1,795,255 | 2,731,819 | 2,653,512 | 3,074,459 |
| Cost of Goods (sales) | (412) | (271) | (1,426) | - | - | - | - | - | (188,869) | (259,008) | (338,026) | (322,325) | (436,354) | (397,329) | (460,464) |
| | | | | 29% | 29% | 29% | 29% | | 28% | 25% | 24% | 18% | 16% | 15% | 15% |
| Research & Development | (17,948) | (14,358) | (33,914) | (10,140) | (10,581) | (11,022) | (12,345) | (44,088) | (66,132) | (92,585) | (94,437) | (96,326) | (98,252) | (100,217) | (102,222) |
| Acquired in Process Research & Development | | | | | | | | | | | | | | | |
| General & Administrative | (24,031) | (19,225) | (18,212) | (8,378) | (8,742) | (9,106) | (10,199) | (36,424.00) | (36,788) | (37,156) | (37,528) | (37,903) | (38,282) | (38,665) | (39,051) |
| Total Expenses | (41,979) | (33,583) | (53,552) | (18,518) | (19,323) | (20,128) | (22,543) | (80,512) | (291,789) | (388,750) | (469,991) | (456,553) | (572,888) | (536,211) | (601,737) |
| Loss from Operation | (38,876) | (30,304) | (49,211) | (17,509) | (18,271) | (19,032) | (21,316) | (76,128) | 387,170 | 651,756 | 942,969 | 1,338,702 | 2,158,931 | 2,117,301 | 2,472,722 |
| Interest Income (expense) | 1,685 | | | | | | | | | | | | | | |
| Gain on AgeX shares and deconsolidation of AgeX | - | | 2 | | | | | | | | | | | | |
| Gain on Sale equity method in Ascendance | - | | 6,027 | | | | | | | | | | | | |
| Gain / Loss Oncocyte | 2,421 | | (2,299) | | | | | | | | | | | | |
| Loss on Equity (Asterias) | 6,744 | | 523 | | | | | | | | | | | | |
| Unrealized Gain on marketable equity securities | (2,898) | | 205 | | | | | | | | | | | | |
| Other Income (expenses) net | 2,532 | | 1,486 | | | | | | | | | | | | |
| Total other income (expense), net | | | - | | | | | | | | | | | | |
| Pretax Income | 19,642 | (32,647) | (43,270) | (17,509) | (18,271) | (19,032) | (21,316) | (76,128) | 387,170 | 651,756 | 942,969 | 1,338,702 | 2,158,931 | 2,117,301 | 2,472,722 |
| Tax Benefit | (19,234) | | | | | | | | | | | | | | |
| Net loss attributable to non-controlling interest | 118 | 49 | 251 | - | | | | - | - | - | - | - | - | - | - |
| Taxes | 7 | | - | | | | | | | | 94,297 | 200,805 | 431,786 | 529,325 | 692,362 |
| Tax Rate | | | | | | | | | | | 10% | 15% | 20% | 25% | 28% |
| GAAP Net Income (Loss) | (11,709) | (32,420) | (43,019) | (17,509) | (18,271) | (19,032) | (21,316) | (76,128) | 387,170 | 651,756 | 848,672 | 1,137,896 | 1,727,145 | 1,587,976 | 1,780,360 |
| | | | 8 | | | | | | | | | | | | |
| Total comprehensive loss | (11,709) | (32,420) | (43,269) | (17,509) | (18,271) | (19,032) | (21,316) | (76,128) | 387,170 | 651,756 | 848,672 | 1,137,896 | 1,727,145 | 1,587,976 | 1,780,360 |
| GAAP-EPS | (0.08) | (0.22) | (0.26) | (0.10) | (0.11) | (0.11) | (0.13) | (0.45) | 2.29 | 3.84 | 4.98 | 6.66 | 10.06 | 9.22 | 10.29 |
| GAAP-EPS (Dil) | (0.08) | (0.19) | (0.23) | (0.04) | (0.04) | (0.04) | (0.05) | (0.17) | (0.04) | 0.08 | 0.32 | 0.60 | 0.87 | 1.12 | 1.12 |
| Wgtd Avg Shrs (Bas) | 145,533 | 150,268 | 164,502 | 167,959 | 168,127 | 168,296 | 168,464 | 168,212 | 168,885 | 169,562 | 170,241 | 170,923 | 171,608 | 172,295 | 172,986 |
| Wgtd Avg Shrs (Dil) | 145,533 | 170,114 | 276,477 | 292,191 | 292,483 | 292,775 | 293,068 | 292,629 | 293,802 | 294,979 | 296,160 | 297,347 | 298,538 | 299,734 | 300,935 |

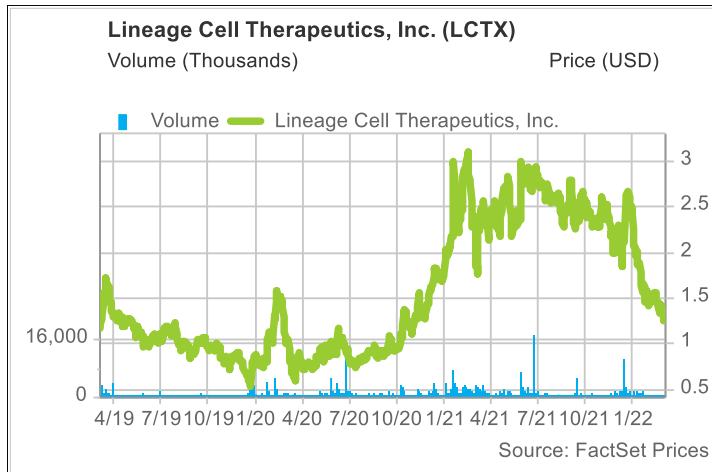
Source: Dawson James estimates, company reports

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
- Updated – March 7, 2022 – Price Target \$6.00
- Updated – March 11, 2022 – Price Target \$6.00

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- 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.

Current as of... 3-Mar-22

| | Company Coverage | | Investment Banking | |
|-----------------------------|-------------------------|-------------|---------------------------|-------------|
| Ratings Distribution | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 31 | 76% | 4 | 13% |
| Market Perform (Neutral) | 10 | 24% | 0 | 0% |
| Market Underperform (Sell) | 0 | 0% | 0 | 0% |
| Total | 41 | 100% | 4 | 10% |

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