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Lineage Cell Therapeutics (NYSE/LCTX)

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BUY: Reports 2nd QTR: Spending Lower \$70M in Cash

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Lineage reported 2nd Quarter revenues of \$4.6M which was primarily license fees related to the \$50M upfront payment from Roche (not rated). The company spent \$8.8M in the qtr and closed the period with \$70M in cash.

Investment Highlights (press release- adapted)

Events and Milestones Anticipated for the balance of the year (press release):

RG6501 (OpRegen): LCTX continues to execute under the collaboration with Roche across multiple functional areas, including: additional OpRegen manufacturing runs and supporting Chemistry Manufacturing and Controls (CMC) activities and technology transfer activities. Actively participating in both Joint Advisory and Joint Manufacturing Committees, forums for discussion and planning with respect to next steps in clinical development and related activities. Continuing long-term follow-up of patients from the Phase 1/2a clinical study of OpRegen: Enrolled patients have continued to do well, supporting multi-year durability of a treatment effect with RG6501.

OPC1: Results from a Phase 1/2a clinical study in subacute cervical spinal cord injury were published in the Journal of Neurosurgery: Spine; OPC1 demonstrated an excellent safety profile, and at one-year post-treatment, 96% of patients had recovered one or more levels of neurological function on at least one side of their body, and 32% of patients had recovered two or more levels of neurological function on at least one side of their body. Preclinical testing of a new thaw and inject formulation of OPC1, manufactured via an improved and larger-scale process, has demonstrated functional recovery, improvement in gait coordination and motor performance with a reduction of the area of cavitation. A majority of the verification and validation activities for the novel parenchymal spinal delivery (PSD) system, and its preclinical testing in support of a regulatory submission have been completed.

VAC2: Following technology transfer of the program from Cancer Research UK to Lineage and improvement of manufacturing processes, production scale was increased and accordingly the cost of goods has been reduced significantly, along with marked improvements in the purity and functionality of the manufactured material. CRUK continues to follow patients on the Phase 1 NSCLC clinical study; Lineage has received all necessary clinical information from CRUK required to support U.S., or other, regulatory interactions.

Valuation: Our valuation for Lineage is principally driven by the opportunity in Dry AMD, narrowed down further by a subset 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.



Source: Lineage
OPC1 Transplant Procedure

| Current Price | | | |
|---|--------|---|-------------|
| Current Price | | | \$1.45 |
| Price Target | | | \$6.00 |
| Stock Data | | | |
| 52-Week Range | \$1.10 | - | \$2.80 |
| Shares Outstanding (mil.) | | | 169.7 |
| Market Capitalization (mil.) | | | \$246 |
| Enterprise Value (mil.) | | | \$227 |
| Debt to Capital | | | 0% |
| Book Value/Share | | | \$1.28 |
| Price/Book | | | 4.5 |
| Average Three Months Trading Volume (K) | | | 771 |
| Insider Ownership | | | 0.6% |
| Institutional Ownership | | | 43.8% |
| Short interest (mil.) | | | 0.0 |
| Dividend / Yield | | | \$0.00/0.0% |

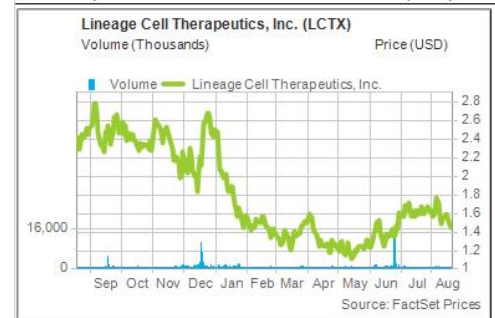


Exhibit 1. Income Statement

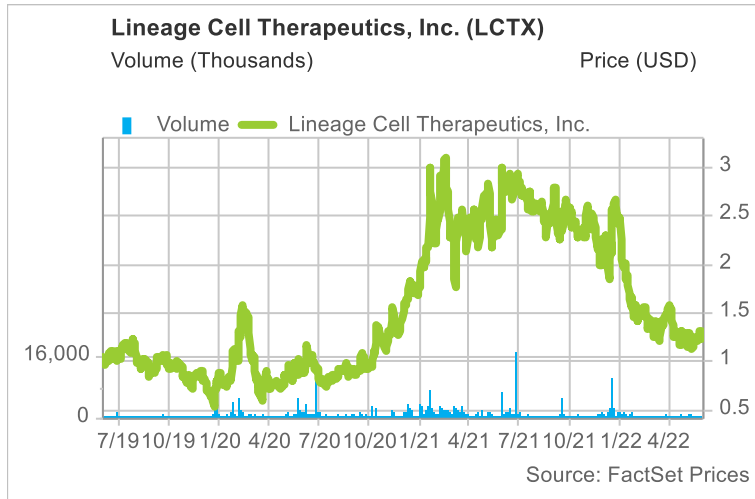
| Lineage: Income Statement (\$000) | | | | | | | | | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|----------------|----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|
| YE December 31 | 2019A | 2020A | 2021A | 1Q22A | 2Q22A | 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 | | | - | - | - | - | - | - | - | 686,712 | 1,047,204 | 1,772,071 | 2,156,441 | 2,600,414 | 2,971,902 |
| Renovia | | - | - | - | - | - | - | - | 12,034 | 17,327 | 23,581 | 27,067 | 27,065 | 27,062 | 26,791 |
| Net revenue | | | | | | | | | | 692,677 | 1,059,374 | 1,790,692 | 2,727,211 | 2,648,858 | 3,069,759 |
| Grant Revenues | 2,037 | 2,057 | 445 | | | | | | - | - | - | - | - | - | - |
| Royalties from Product Sales and license fees | 1,221 | 1,233 | 2,776 | 372 | 405 | 701 | 1,326 | 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 | 4,865 | 4,148 | 283 | (8,165) | 1,131 | 1,143 | 1,154 | 1,165 | 1,177 | 1,189 | 1,201 | 1,213 |
| Total Revenue | 3,515 | 3,550 | 4,341 | 5,237 | 4,553 | 984 | (6,839) | 3,935 | 3,974 | 696,691 | 1,063,428 | 1,794,787 | 2,731,346 | 2,653,035 | 3,073,977 |
| Cost of Goods (sales) | (412) | (271) | (1,426) | (176) | (215) | - | - | (391) | - | (173,169) | (254,250) | (322,325) | (436,354) | (397,329) | (460,464) |
| Research & Development | (17,948) | (14,358) | (33,914) | (2,988) | (3,302) | (4,000) | (4,000) | (14,290.00) | (21,435) | (30,009) | (30,609) | (31,221) | (31,846) | (32,483) | (33,132) |
| Acquired in Process Research & Development | | | | | | | | | | | | | | | |
| General & Administrative | (24,031) | (19,225) | (18,212) | (8,469) | (5,270) | (5,000) | (5,000) | (23,739.00) | (23,976) | (24,216) | (24,458) | (24,703) | (24,950) | (25,199) | (25,451) |
| Total Expenses | (41,979) | (33,583) | (53,552) | (11,633) | (8,787) | (9,000) | (9,000) | (38,420) | (45,411) | (227,394) | (309,317) | (378,249) | (493,149) | (455,011) | (519,048) |
| Loss from Operation | (38,876) | (30,304) | (49,211) | (6,396) | (4,234) | (8,016) | (15,839) | (34,485) | (41,437) | 469,297 | 754,111 | 1,416,538 | 2,238,197 | 2,198,024 | 2,554,930 |
| Interest Income (expense) | 1,685 | | | | | | | | | | | | | | |
| Gain on AgeX shares and deconsolidation of AgeX | - | | 2 | 1 | 21 | | | | | | | | | | |
| Gain on Sale equity method in Ascendance | - | | 6,027 | (735) | (709) | | | | | | | | | | |
| Gain / Loss Oncocyte | 2,421 | | (2,299) | 221 | 2 | | | | | | | | | | |
| Loss on Equity (Asterias) | 6,744 | | 523 | (184) | (1,862) | | | | | | | | | | |
| 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) | (7,093) | (6,782) | (8,016) | (15,839) | (37,730) | (41,437) | 469,297 | 754,111 | 1,416,538 | 2,238,197 | 2,198,024 | 2,554,930 |
| Tax Benefit | (19,234) | | | | | | | | | | | | | | |
| Net loss attributable to non-controlling interest | 118 | 49 | 251 | 6 | 19 | | | 25 | - | - | - | - | - | - | - |
| Taxes | 7 | | | | | | | | | | 75,411 | 212,481 | 447,639 | 549,506 | 715,380 |
| Tax Rate | | | | | | | | | | | 10% | 15% | 20% | 25% | 28% |
| GAAP Net Income (Loss) | (11,709) | (32,420) | (43,019) | (7,087) | (6,763) | (8,016) | (15,839) | (37,705) | (41,437) | 469,297 | 678,700 | 1,204,058 | 1,790,558 | 1,648,518 | 1,839,549 |
| | | | 8 | | | | | | | | | | | | |
| Total comprehensive loss | (11,709) | (32,420) | (43,269) | (7,087) | (6,763) | (8,016) | (15,839) | (37,705) | (41,437) | 469,297 | 678,700 | 1,204,058 | 1,790,558 | 1,648,518 | 1,839,549 |
| GAAP-EPS | (0.08) | (0.22) | (0.26) | (0.04) | (0.04) | (0.05) | (0.09) | (0.22) | (0.24) | 2.74 | 3.95 | 6.98 | 10.33 | 9.48 | 10.53 |
| 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 | 169,647 | 169,731 | 169,901 | 170,071 | 169,837 | 170,496 | 171,179 | 171,865 | 172,553 | 173,245 | 173,939 | 174,636 |
| 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:

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
- Updated – May 3, 2022 – Price Target \$6.00
- Updated – June 2, 2022 – Price Target \$6.00
- Updated – August 19, 2022 – Price Target \$6.00

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- 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.

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Current as of 16-Aug-22

| | Company Coverage | | Investment Banking | |
|----------------------------|------------------|------------|--------------------|-------------|
| Ratings Distribution | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 27 | 90% | 4 | 15% |
| Market Perform (Neutral) | 2 | 7% | 0 | 0% |
| Market Underperform (Sell) | 1 | 3% | 0 | 0% |
| Total | 30 | 100% | 4 | 13% |

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