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## Lineage Cell Therapeutics (NYSE/LCTX)

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### BUY: West Coast R&D & Expansion in Israel

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Lineage recently announced the opening of a new research and development (R&D) facility in Carlsbad, California, and the expansion of its Good Manufacturing Practice (GMP) manufacturing facility based in Jerusalem, Israel.

### Investment Highlights *(press release- adapted)*

Expanding R&D capabilities on the West Coast and Israel should support the development of existing and future allogeneic cell transplant programs. Expansion of the facility in Israel increases the Company's infrastructure, including development and optimization of larger-scale clinical manufacturing processes, and continued execution under its ongoing collaboration with Roche and Genentech for RG6501 (OpRegen).

### 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.

**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.

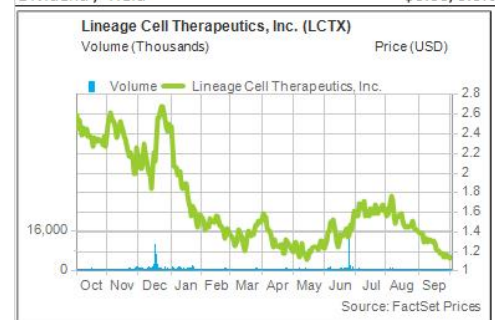
**Risks to our thesis include:** (1) clinical trial; (2) commercial; (3) employee; (4) financial; (5) intellectual property; (6) partnership; and (7) regulatory.



OPC1 Transplant Procedure

Source: Lineage

Stock Data			
Current Price			\$1.14
Price Target			\$6.00
52-Week Range	\$1.10	-	\$2.71
Shares Outstanding (mil.)			169.8
Market Capitalization (mil.)			\$194
Enterprise Value (mil.)			\$174
Debt to Capital			0%
Book Value/Share			\$1.28
Price/Book			4.5
Average Three Months Trading Volume (K)			597
Insider Ownership			0.6%
Institutional Ownership			43.9%
Short interest (mil.)			0.0
Dividend / Yield			\$0.00/0.0%



Source: FactSet Prices

**Exhibit 1. Income Statement**

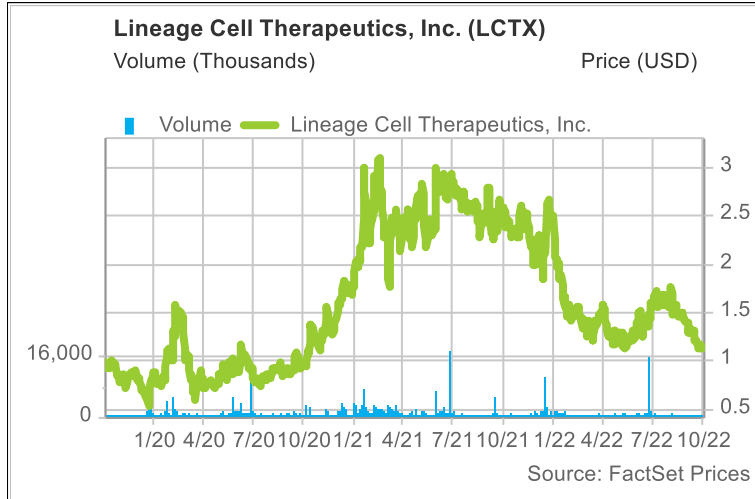
Lineage: Income Statement (\$000)															
YE December 31	2019A	2020A	2021A	1Q22A	2Q22A	3Q22E	4Q22E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Spinal Cord Injury Therapy		-	-	-	-	-	-	-	-	5,965	12,170	18,621	31,660	48,444	97,857
Dry Macular Degeneration										686,712	1,047,204	1,772,071	2,156,441	2,600,414	2,971,902
Renovia									12,034	17,327	23,581	27,067	27,065	27,062	26,791
<b>Net revenue</b>										<b>692,677</b>	<b>1,059,374</b>	<b>1,790,692</b>	<b>2,727,211</b>	<b>2,648,858</b>	<b>3,069,759</b>
<b>Grant Revenues</b>	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
<b>Total Revenue</b>	<b>3,515</b>	<b>3,550</b>	<b>4,341</b>	<b>5,237</b>	<b>4,553</b>	<b>984</b>	<b>(6,839)</b>	<b>3,935</b>	<b>3,974</b>	<b>696,691</b>	<b>1,063,428</b>	<b>1,794,787</b>	<b>2,731,346</b>	<b>2,653,035</b>	<b>3,073,977</b>
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)
<b>Total Expenses</b>	<b>(41,979)</b>	<b>(33,583)</b>	<b>(53,552)</b>	<b>(11,633)</b>	<b>(8,787)</b>	<b>(9,000)</b>	<b>(9,000)</b>	<b>(38,420)</b>	<b>(45,411)</b>	<b>(227,394)</b>	<b>(309,317)</b>	<b>(378,249)</b>	<b>(493,149)</b>	<b>(455,011)</b>	<b>(519,048)</b>
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															
<b>Pretax Income</b>	<b>19,642</b>	<b>(32,647)</b>	<b>(43,270)</b>	<b>(7,093)</b>	<b>(6,782)</b>	<b>(8,016)</b>	<b>(15,839)</b>	<b>(37,730)</b>	<b>(41,437)</b>	<b>469,297</b>	<b>754,111</b>	<b>1,416,538</b>	<b>2,238,197</b>	<b>2,198,024</b>	<b>2,554,930</b>
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
<b>Tax Rate</b>											<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>25%</b>	<b>28%</b>
<b>GAAP Net Income (Loss)</b>	<b>(11,709)</b>	<b>(32,420)</b>	<b>(43,019)</b>	<b>(7,087)</b>	<b>(6,763)</b>	<b>(8,016)</b>	<b>(15,839)</b>	<b>(37,705)</b>	<b>(41,437)</b>	<b>469,297</b>	<b>678,700</b>	<b>1,204,058</b>	<b>1,790,558</b>	<b>1,648,518</b>	<b>1,839,549</b>
			8												
<b>Total comprehensive loss</b>	<b>(11,709)</b>	<b>(32,420)</b>	<b>(43,269)</b>	<b>(7,087)</b>	<b>(6,763)</b>	<b>(8,016)</b>	<b>(15,839)</b>	<b>(37,705)</b>	<b>(41,437)</b>	<b>469,297</b>	<b>678,700</b>	<b>1,204,058</b>	<b>1,790,558</b>	<b>1,648,518</b>	<b>1,839,549</b>
<b>GAAP-EPS</b>	<b>(0.08)</b>	<b>(0.22)</b>	<b>(0.26)</b>	<b>(0.04)</b>	<b>(0.04)</b>	<b>(0.05)</b>	<b>(0.09)</b>	<b>(0.22)</b>	<b>(0.24)</b>	<b>2.74</b>	<b>3.95</b>	<b>6.98</b>	<b>10.33</b>	<b>9.48</b>	<b>10.53</b>
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
- Updated – October 4, 2022 – Price Target \$6.00

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Current as of 20-Sep-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	83%	3	12%
Market Perform (Neutral)	4	13%	1	25%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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