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Lineage Cell Therapeutics (NYSE/LCTX)

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BUY: Lineage Cell Therapeutics enters into an option and license agreement with Eterna Therapeutics

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Lineage Cell Therapeutics announced that it has entered into an exclusive option and license agreement with Eterna Therapeutics (ERNA- Not rated) for the development of novel beta 2 microglobulin (B2M)-deficient induced pluripotent stem cell (iPSC) lines, which Lineage plans to evaluate for development into differentiated cell transplant therapies. The new cell lines to be developed by Eterna will support the potential creation of additional product candidates at Lineage, specifically for the treatment of certain central nervous system (CNS) disorders and other neurology indications. Eterna is the exclusive licensee of the key intellectual property underlying this collaboration from its discovery partner Factor Bioscience.

Investment Highlights

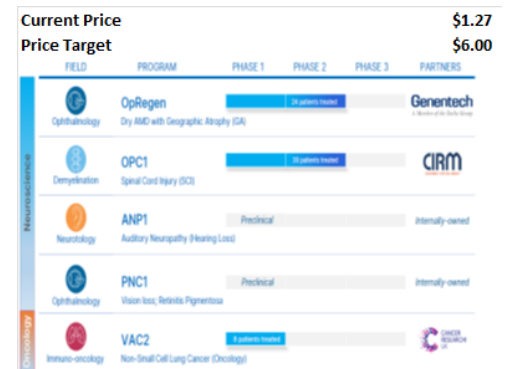
Terms: Under the agreement, Eterna plans to conduct certain gene-editing activities and provide materials to Lineage for evaluation. The agreement provides Lineage an option to obtain an exclusive license to utilize and sublicense the novel gene-edited cell lines for preclinical, clinical, and commercial purposes in the field of CNS diseases. A feature of the starting cell line is the targeted deletion of the B2M gene, which is designed to reduce the immunogenicity of product candidates derived from the lines by inhibiting rejection by CD8+ T cells. Lineage expects this attribute will expand the edited cell lines' overall utility, including for non-immune privileged or non-human leukocyte antigen (HLA) matched indications. Additional planned gene edits may further differentiate the cell line from others currently in use by competitors.

OpRegen: Lineage continues to execute the collaboration with Roche across multiple functional areas, including this P2a study. In addition, the partnership is working on OpRegen's manufacturing – manufacturing runs and supporting Chemistry Manufacturing and Controls (CMC) activities and technology transfer. 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.

The Roche Partnership: Roche? The terms: An \$50 million upfront payment with Lineage eligible to receive up to \$620 million in additional development, approval, and sales milestones, as well as double-digit royalties. Genentech has assumed responsibility for the clinical development and commercialization of the OpRegen program.

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

Stock Data

52-Week Range	\$1.02	-	\$1.79
Shares Outstanding (mil.)	170.0		
Market Capitalization (mil.)	\$216		
Enterprise Value (mil.)	\$197		
Debt to Capital	0%		
Book Value/Share	\$1.28		
Price/Book	4.5		
Average Three Months Trading Volume (K)	273		
Insider Ownership	0.5%		
Institutional Ownership	43.8%		
Short interest (mil.)	0.0		
Dividend / Yield	\$0.00/0.0%		

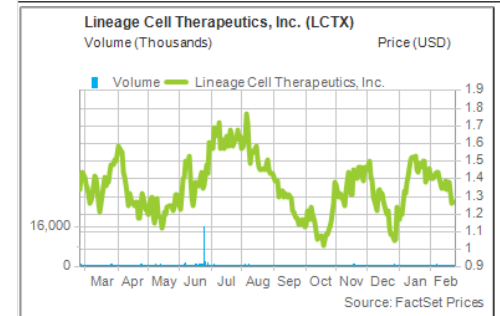


Exhibit 1. Income Statement

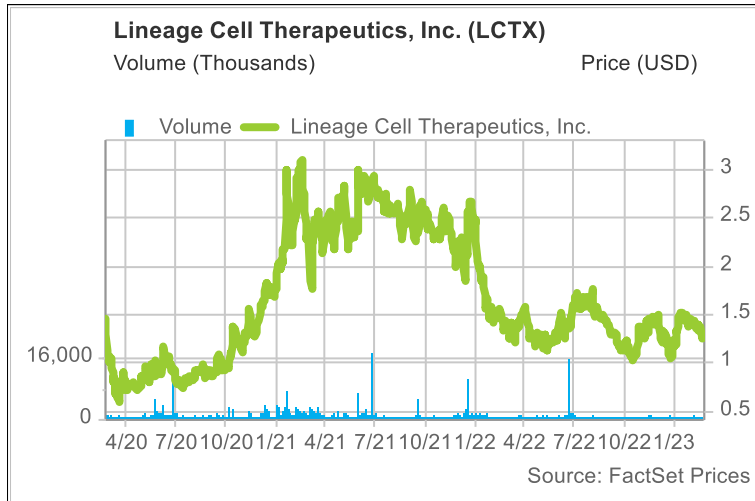
Lineage: Income Statement (\$000)															
YE December 31	2019A	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Spinal Cord Injury Therapy		-	-	-	-	-	-	-	-	-	-	-	-	3,230	32,619
Dry Macular Degeneration												354,414	718,814	1,485,951	2,971,902
Renevia															
Net revenue												354,414	898,517	1,489,180	3,004,521
Grant Revenues	2,037	2,057	445												
Royalties from Product Sales and license fees	1,221	1,233	2,776	372	405	406	217	1,400	1,414	1,428	1,442	1,457	1,471	1,486	1,501
Subscription & Advertisement Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collaboration Revenues	257	260	1,120	4,865	4,148	2,592	2,500	14,105	8,000	8,080	8,161	8,242	8,325	8,408	8,492
Total Revenue	3,515	3,550	4,341	5,237	4,553	2,998	2,717	15,505	9,414	9,508	9,603	364,113	908,313	1,499,075	3,014,514
Cost of Goods (sales)	(412)	(271)	(1,426)	(176)	(215)	(235)	(200)	(826)	-	-	-	(63,795)	(143,763)	(223,377)	(450,678)
				29%	29%	29%	29%		#DIV/0!	#DIV/0!	#DIV/0!	18%	16%	15%	15%
Research & Development	(17,948)	(14,358)	(33,914)	(2,988)	(3,302)	(3,592)	(3,500)	(13,382)	(20,073)	(28,102)	(28,664)	(29,238)	(29,822)	(30,419)	(31,027)
Acquired in Process Research & Development															
General & Administrative	(24,031)	(19,225)	(18,212)	(8,469)	(5,270)	(4,422)	(4,400)	(22,561)	(22,787)	(23,014)	(23,245)	(23,477)	(23,712)	(23,949)	(24,188)
Total Expenses	(41,979)	(33,583)	(53,552)	(11,633)	(8,787)	(8,249)	(8,100)	(36,769)	(42,860)	(51,117)	(51,909)	(116,509)	(197,297)	(277,745)	(505,894)
Loss from Operation	(38,876)	(30,304)	(49,211)	(6,396)	(4,234)	(5,251)	(5,383)	(21,264)	(33,446)	(41,609)	(42,306)	247,604	711,016	1,221,330	2,508,620
Interest Income (expense)	1,685														
Gain on AgeX shares and deconsolidation of AgeX	-		2	1	51	384									
Gain on Sale equity method in Ascendance	-		6,027	(735)	(709)	(233)									
Gain / Loss Oncocyte	2,421		(2,299)	221	2										
Loss on Equity (Asterias)	6,744		523	(184)	(1,892)	(475)									
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)	(5,575)	(5,383)	(24,833)	(33,446)	(41,609)	(42,306)	247,604	711,016	1,221,330	2,508,620
Tax Benefit	(19,234)					47									
Net loss attributable to non-controlling interest	118	49	251	6	19	(541)		(516)	-	-	-	-	-	-	-
Taxes	7										(4,231)		177,754	427,465	1,003,448
Tax Rate											0%	0%	25%	35%	40%
GAAP Net Income (Loss)	(11,709)	(32,420)	(43,019)	(7,087)	(6,763)	(6,069)	(5,383)	(25,302)	(33,446)	(41,609)	(38,075)	247,604	533,262	793,864	1,505,172
			8												
Total comprehensive loss	(11,709)	(32,420)	(43,269)	(7,087)	(6,763)	(6,069)	(5,383)	(25,302)	(33,446)	(41,609)	(38,075)	247,604	533,262	793,864	1,505,172
GAAP-EPS	(0.08)	(0.22)	(0.26)	(0.04)	(0.04)	(0.04)	(0.03)	(0.15)	(0.20)	(0.24)	(0.22)	1.44	3.08	4.57	8.62
GAAP-EPS (Dil)	(0.08)	(0.19)	(0.23)	(0.02)	(0.02)	(0.04)	(0.05)	(0.14)	(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	169,786	169,956	169,780	170,381	171,064	171,749	172,437	173,128	173,821	174,518
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 rating 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
- Updated – November 21, 2022 – Price Target \$6.00
- Updated – December 9, 2022 – Price Target \$6.00
- Updated – February 8, 2023 – Price Target \$6.00
- Updated – February 24, 2023 – 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.

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Current as of 22-Feb-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	68%	1	4%
Market Perform (Neutral)	11	32%	2	18%
Market Underperform (Sell)	0	0%	0	0%
Total	34	100%	3	9%

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