

## Lineage Cell Therapeutics (NYSE/LCTX)

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### BUY: Lineage Cell & Cancer Research UK: Topline Phase 1 Data of VAC2 in Advanced NSCLC- Early Data Appears Promising

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Lineage Cell Therapeutics and Cancer Research UK (private) announced results from the recently completed clinical study of VAC2 in advanced non-small cell lung cancer (NSCLC). All eight subjects enrolled and treated completed the full per-protocol vaccination regimen, which consisted of six-consecutive weekly intradermal (ID) injections of  $1 \times 10^7$  viable VAC2 cells. Overall, VAC2 was well-tolerated, there were no unexpected SAEs, and there were no dose-limiting toxicities. Results are provided below, suffice to say the treatment appears to have activity.

### Investment Highlights

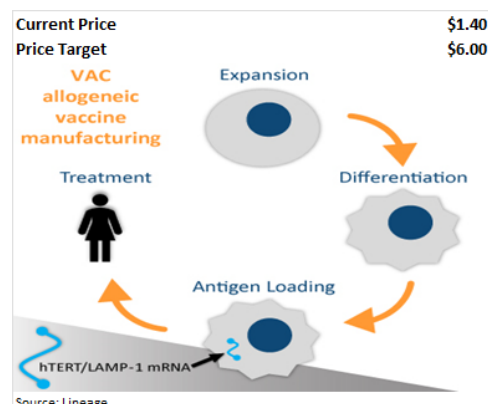
Additional highlights: (Press Release):

- Patients enrolled were diagnosed with refractory, metastatic or locally advanced, non-small cell lung cancer (NSCLC), for whom there were no other suitable treatment options.
- **Five of eight patients treated (62.5%) had a best response of immune-related stable disease, and three (37.5%) demonstrated immune-related progressive disease.**
- No patients had treatment emergent serious adverse events and all patients completed per protocol vaccination.
- Three of eight treated patients (37.5%) reached the 2-year survival endpoint.
- Two patients had durable responses against segments of the tumor antigen human telomerase reverse transcriptase (hTERT) and two other patients had transient responses as assessed via enzyme-linked immunospot (ELISPOT) assays.

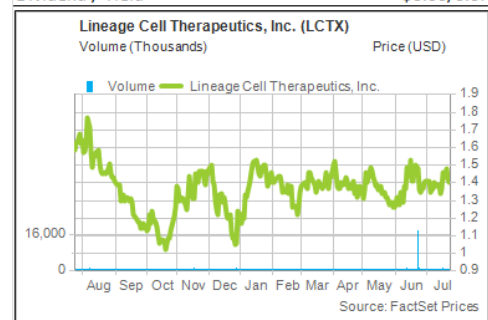
**What is It?** VAC2 is an allogeneic, or non-patient specific, cancer vaccine candidate designed to stimulate patient immune responses to telomerase which is commonly expressed in cancerous cells but not in normal adult cells. VAC2, which is produced from the company's pluripotent cell technology using a directed differentiation method, is comprised of a population of mature dendritic cells. As the most potent type of antigen presenting cell in the body, dendritic cells instruct our body's immune system to attack and eliminate harmful pathogens and unwanted cells. To target cancerous cells, VAC2 is engineered to express the tumor-selective antigen telomerase, which is found in over 85% of all cancers. Because the tumor antigen is loaded exogenously into the dendritic cells prior to administration, VAC2 is a platform technology that can be modified to carry any antigen, including patient-specific tumor neo-antigens.

**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.



Stock Data			
52-Week Range	\$1.02	-	\$1.79
Shares Outstanding (mil.)	174.4		
Market Capitalization (mil.)	\$244		
Enterprise Value (mil.)	\$225		
Debt to Capital	0%		
Book Value/Share	\$1.28		
Price/Book	2.7		
Average Three Months Trading Volume (K)	269		
Insider Ownership	0.4%		
Institutional Ownership	46.5%		
Short interest (mil.)	0.0		
Dividend / Yield	\$0.00/0.0%		



**Exhibit 1. Income Statement**

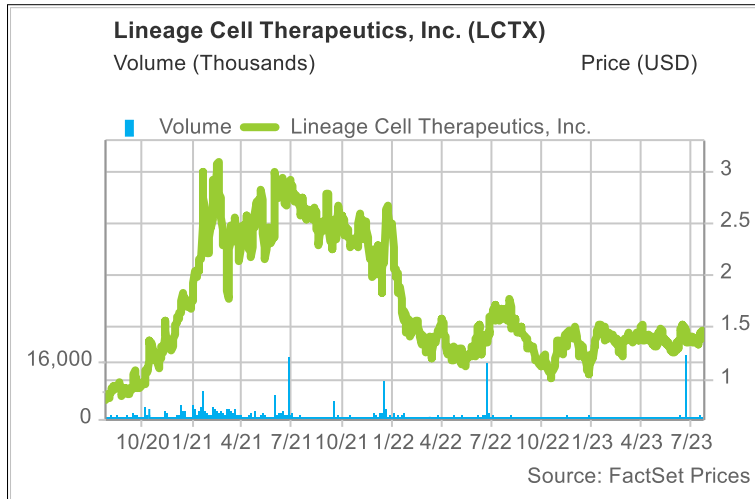
Lineage: Income Statement (\$000)															
YE December 31	2019A	2020A	2021A	2022A	1Q23A	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Spinal Cord Injury Therapy		-	-	-	-	-	-	-	-	-	-	-	-	3,230	32,619
Dry Macular Degeneration			-	-	-	-	-	-	-	-	-	354,414	718,814	1,485,951	2,971,902
Renevia		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net revenue</b>												354,414	898,517	1,489,180	3,004,521
<b>Grant Revenues</b>	2,037	2,057	445		-	-	-	-	-	-	-	-	-	-	-
Royalties from Product Sales and license fees	1,221	1,233	2,776	1,336	265	324	337	423	1,349	1,363	1,376	1,390	1,404	1,418	1,432
Subscription & Advertisement Revenues		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collaboration Revenues	257	260	1,120	13,367	2,121	1,920	2,000	1,959	8,000	8,080	8,161	8,242	8,325	8,408	8,492
<b>Total Revenue</b>	<b>3,515</b>	<b>3,550</b>	<b>4,341</b>	<b>14,703</b>	<b>2,386</b>	<b>2,244</b>	<b>2,337</b>	<b>2,382</b>	<b>9,349</b>	<b>9,443</b>	<b>9,537</b>	<b>364,047</b>	<b>908,246</b>	<b>1,499,007</b>	<b>3,014,445</b>
Cost of Goods (sales)	(412)	(271)	(1,426)	(728)	(119)	28%	28%	28%	#DIV/0!	#DIV/0!	#DIV/0!	(63,795)	(143,763)	(223,377)	(450,678)
Research & Development	(17,948)	(14,358)	(33,914)	(13,987)	(4,185)	(5,035)	(5,245)	(6,515)	(20,981)	(29,373)	(29,960)	(30,559)	(31,171)	(31,794)	(32,430)
Acquired in Process Research & Development															
General & Administrative	(24,031)	(19,225)	(18,212)	(22,508)	(4,724)	(5,456)	(5,683)	(6,870)	(22,733)	(22,960)	(23,190)	(23,422)	(23,656)	(23,893)	(24,132)
<b>Total Expenses</b>	<b>(41,979)</b>	<b>(33,583)</b>	<b>(53,552)</b>	<b>(37,223)</b>	<b>(9,028)</b>	<b>(10,491)</b>	<b>(10,928)</b>	<b>(13,385)</b>	<b>(43,833)</b>	<b>(52,333)</b>	<b>(53,150)</b>	<b>(117,776)</b>	<b>(198,589)</b>	<b>(279,064)</b>	<b>(507,240)</b>
Loss from Operation	(38,876)	(30,304)	(49,211)	(22,520)	(6,642)	(8,247)	(8,591)	(11,003)	(34,483)	(42,890)	(43,613)	246,271	709,657	1,219,943	2,507,206
Interest Income (expense)	1,685			829											
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	(2,194)											
Unrealized Gain on marketable equity securities	(2,898)		205	225											
Other Income (expenses) net	2,532		1,486												
Total other income (expense), net			-		435										
<b>Pretax Income</b>	<b>19,642</b>	<b>(32,647)</b>	<b>(43,270)</b>	<b>(25,812)</b>	<b>(6,207)</b>	<b>(8,247)</b>	<b>(8,591)</b>	<b>(11,003)</b>	<b>(34,048)</b>	<b>(42,890)</b>	<b>(43,613)</b>	<b>246,271</b>	<b>709,657</b>	<b>1,219,943</b>	<b>2,507,206</b>
Tax Benefit	(19,234)			(541)	1,803										
Net loss attributable to non-controlling interest	118	49	251	80	32				32	-	-	-	-	-	-
Taxes	7		-								(4,361)	-	177,414	426,980	1,002,882
<b>Tax Rate</b>											0%	0%	25%	35%	40%
<b>GAAP Net Income (Loss)</b>	<b>(11,709)</b>	<b>(32,420)</b>	<b>(43,019)</b>	<b>(26,353)</b>	<b>(4,372)</b>	<b>(8,247)</b>	<b>(8,591)</b>	<b>(11,003)</b>	<b>(32,213)</b>	<b>(42,890)</b>	<b>(39,252)</b>	<b>246,271</b>	<b>532,242</b>	<b>792,963</b>	<b>1,504,323</b>
			8												
<b>Total comprehensive loss</b>	<b>(11,709)</b>	<b>(32,420)</b>	<b>(43,269)</b>	<b>(25,685)</b>	<b>(4,372)</b>	<b>(8,247)</b>	<b>(8,591)</b>	<b>(11,003)</b>	<b>(32,213)</b>	<b>(42,890)</b>	<b>(39,252)</b>	<b>246,271</b>	<b>532,242</b>	<b>792,963</b>	<b>1,504,323</b>
<b>GAAP-EPS</b>	<b>(0.08)</b>	<b>(0.22)</b>	<b>(0.26)</b>	<b>(0.15)</b>	<b>(0.03)</b>	<b>(0.05)</b>	<b>(0.05)</b>	<b>(0.06)</b>	<b>(0.19)</b>	<b>(0.25)</b>	<b>(0.23)</b>	<b>1.43</b>	<b>3.07</b>	<b>4.56</b>	<b>8.62</b>
GAAP-EPS (Dil)	(0.08)	(0.19)	(0.23)	(0.14)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	0.08	0.32	0.60	0.87	1.12	1.12
Wgtd Avg Shrs (Bas)	145,533	150,268	164,502	169,792	170,127	170,297	170,467	170,638	170,382	171,065	171,750	172,438	173,129	173,823	174,519
Wgtd Avg Shrs (Dil)	145,533	170,114	276,477	292,629	293,361	293,655	293,948	294,242	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  
 Updated – March 13, 2023 – Price Target \$6.00  
 Updated – April 26, 2023 – Price Target \$6.00  
 Updated – July 25, 2023 – 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 17-Jul-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	69%	2	5.50%
Market Perform (Neutral)	11	31%	2	5.50%
Market Underperform (Sell)	0	0%	0	0.00%
Total	36	100%	4	11.00%

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