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Lineage Cell Therapeutics (NYSE/LCTX)

November 20, 2023

BUY: Reports the Quarter – Stock Makes New Lows, Lowering Price Target from \$6 to \$2

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Lineage spent \$7.1M in the third quarter for a net loss of \$0.03 per share. The company closed the period with \$31M in cash and another \$10M in securities or \$41M in cash and equivalents. The news flow associated with RG6501 (OpRegen) has been positive, so why is the stock making new lows? Good question. It may be that investors see the fact that it is still early days for OpRegen (Phase 2 with relatively small patient numbers) combined with a year plus or minus of operating capital. The progress on OpGen has been slower than we expected, as a result we are pushing our estimates for commercialization out to 2028. We are also assuming dilution as the company is likely to be raising capital next year. The net result is our price target falls from \$6 to \$2.

Investment Highlights

We are adjusting our price target to reflect the fact that the timeline for commercialization is taking longer than we originally anticipated. The company is likely to need additional capital. We assume a capital raise and the associated dilution. The combination has the net effect that our one-year price target falls from \$6 to \$2.

RG6501 (press release adapted);

Continued execution under our collaboration with Roche and Genentech across multiple functional areas, including support for the ongoing Phase 2a multi-center clinical study in patients with GA secondary to AMD.

- Additional sites expected to come online for the Phase 2a study.
- Results of imaging analyses demonstrating rapid improvement in outer retinal structure from patients enrolled in the prior Phase 1/2a clinical study, were presented at the 23rd EURETINA Congress.

OPC1: IND planned. Press release: “In addition, our team continued the necessary work to submit our Investigational New Drug amendment for OPC1 to enable us to initiate the DOSED clinical study in subacute and chronic spinal cord injury patients”.

Valuation: We have increased our shares outstanding to reflect our assumption that the company raises capital next year. We push out our revenue assumptions to 2028. Our valuation for Lineage remains 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 \$2.00 target.

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

Current Price	\$0.95
Price Target	\$2.00



OPC1 Transplant Procedure

Source: Lineage

Stock Data

52-Week Range	\$0.93	-	\$1.58
Shares Outstanding (mil.)	175.0		
Market Capitalization (mil.)	\$166		
Enterprise Value (mil.)	\$147		
Debt to Capital	0%		
Book Value/Share	\$1.28		
Price/Book	2.7		
Average Three Months Trading Volume (K)	471		
Insider Ownership	0.4%		
Institutional Ownership	48.2%		
Short interest (mil.)	0.0		
Dividend / Yield	\$0.00/0.0%		

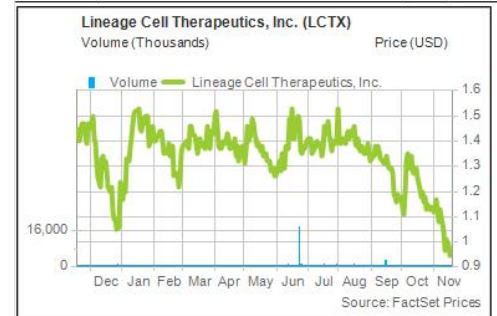


Exhibit 1. Income Statement

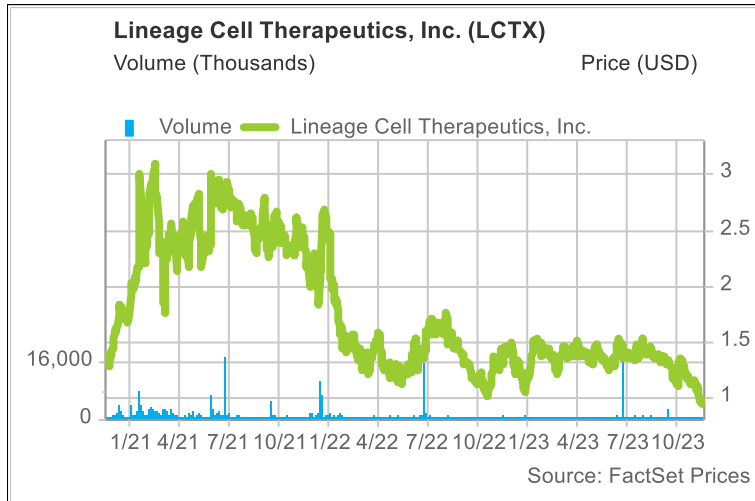
Lineage: Income Statement (\$000)															
YE December 31	2019A	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Spinal Cord Injury Therapy		-	-	-	-	-	-	-	-	-	-	-	-	3,230	32,619
Dry Macular Degeneration												354,414	718,814	1,485,951	2,971,902
Renevia															
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	1,336	265	354	289	441	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	2,871	957	1,000	6,949	7,018	7,089	7,160	7,231	7,303	7,377
Total Revenue	3,515	3,550	4,341	14,703	2,386	3,225	1,246	1,441	8,298	8,381	8,465	362,964	907,152	1,497,902	3,013,330
Cost of Goods (sales)	(412)	(271)	(1,426)	(728)	(119)	(127)	(169)	-	(415)	-	-	(63,795)	(143,763)	(223,377)	(450,678)
					28%	28%	28%	28%	#DIV/0!	#DIV/0!	#DIV/0!	18%	16%	15%	15%
Research & Development	(17,948)	(14,358)	(33,914)	(13,987)	(4,185)	(3,873)	(3,741)	(3,800)	(15,599)	(21,839)	(22,275)	(22,721)	(23,175)	(23,639)	(24,112)
Acquired in Process Research & Development															
General & Administrative	(24,031)	(19,225)	(18,212)	(22,508)	(4,724)	(4,249)	(4,041)	(4,000)	(17,014)	(17,184)	(17,356)	(17,530)	(17,705)	(17,882)	(18,061)
Total Expenses	(41,979)	(33,583)	(53,552)	(37,223)	(9,028)	(8,249)	(7,951)	(7,800)	(33,028)	(39,023)	(39,631)	(104,045)	(184,643)	(264,898)	(492,850)
Loss from Operation	(38,876)	(30,304)	(49,211)	(22,520)	(6,642)	(5,024)	(6,705)	(6,359)	(24,730)	(30,641)	(31,166)	258,919	722,509	1,233,004	2,520,479
Interest Income (expense)	1,685			829		382									
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			(150)								
Other Income (expenses) net	2,532		1,486			(411)									
Total other income (expense), net			-		435		(453)								
Pretax Income	19,642	(32,647)	(43,270)	(25,812)	(6,207)	(5,203)	(7,158)	(6,359)	(24,927)	(30,641)	(31,166)	258,919	722,509	1,233,004	2,520,479
Tax Benefit	(19,234)			(541)	1,803										
Net loss attributable to non-controlling interest	118	49	251	80	32	(26)	48		54	-	-	-	-	-	-
Taxes	7										(3,117)				
Tax Rate											0%	0%	25%	35%	40%
GAAP Net Income (Loss)	(11,709)	(32,420)	(43,019)	(26,353)	(4,372)	(5,229)	(7,110)	(6,359)	(23,070)	(30,641)	(28,050)	258,919	541,882	801,453	1,512,288
			8												
Total comprehensive loss	(11,709)	(32,420)	(43,269)	(25,685)	(4,372)	(5,229)	(7,110)	(6,359)	(23,070)	(30,641)	(28,050)	258,919	541,882	801,453	1,512,288
GAAP-EPS	(0.08)	(0.22)	(0.26)	(0.15)	(0.03)	(0.03)	(0.04)	(0.04)	(0.13)	(0.17)	(0.16)	1.46	3.05	4.49	8.45
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	170,592	174,868	175,043	172,657	175,481	176,184	176,890	177,598	178,310	179,024
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:

- 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
- Updated – September 22, 2023 – Price Target \$6.00
- Price Target Change – November 20, 2023 – Price Target \$6.00 to \$2.00

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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 14-Nov-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	21	61.76%	3	8.80%
Market Perform (Neutral)	13	38.24%	2	5.90%
Market Underperform (Sell)	0	0%	0	0.00%
Total	34	100%	5	14.70%

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