

International Stem Cell

Biomedical sales more than double

Financial update

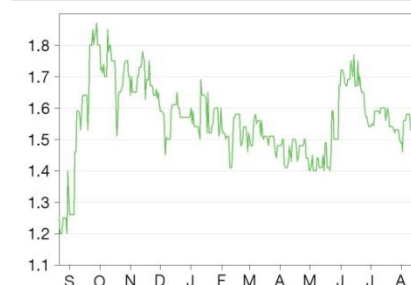
Pharma & biotech

20 August 2018

Price **US\$1.57**
Market cap **US\$10m**

Net debt (\$m) at 30 June 2018 0.6
 Shares in issue 6.3m
 Free float 40%
 Code ISCO
 Primary exchange OTC
 Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(0.6)	5.4	16.3
Rel (local)	(2.0)	0.6	(0.8)
52-week high/low	US\$1.9	US\$1.2	

Business description

International Stem Cell is an early-stage biotechnology company developing therapeutic, biomedical and cosmeceutical applications for its proprietary stem form of pluripotent stem cells – human parthenogenetic stem cells. Its lead candidate is a cell therapy treatment for Parkinson's disease.

Next events

Six-month interim data, second cohort Q318

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International Stem Cell (ISCO) reported Q218 revenues of \$3.0m, up 72.4% compared to Q217 mainly due to the biomedical business, which had quarterly revenues of \$2.7m, up 103.1% compared to the same quarter last year. The operating profit of the biomedical business also increased substantially, up 139.6% to \$1.1m. With regard to the Phase I trial of ISChpNSC in Parkinson's disease (PD), the company has successfully dosed the first patient of the third cohort and expects to release interim six-month results from the second cohort in Q318.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/16	7.2	(4.9)	(1.52)	0.0	N/A	N/A
12/17	7.5	(4.9)	(1.19)	0.0	N/A	N/A
12/18e	11.2	(3.9)	(0.61)	0.0	N/A	N/A
12/19e	12.2	(8.2)	(1.22)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

First patient in third and final cohort dosed

The first patient in the third cohort of four patients has been successfully dosed. As a reminder, patients in the study are being treated in three cohorts with 30m, 50m and 70m stem cells, delivered via intracranial injection. The single-arm, open-label study is being conducted at the Royal Melbourne Hospital in Australia. Clinical assessments are scheduled at six and 12 months following surgery.

Commercial business growth accelerating

ISCO's commercial operations leverage its hpSC technology and generate revenues to partially offset R&D spending for therapeutic development. Lifeline Skin Care develops and sells skincare products and Lifeline Cell Technology (LCT) produces human cell culture products for testing. Together they generated \$3.0m in sales in Q218, up 72.4% compared to the same quarter last year.

Three-dimensional (3D) liver structures developed

Through the use of human pluripotent stem cell derived-liver progenitor cells (hpLPC), the company was able to form liver-like tissue, which consists of hepatocytes, choangiocytes, and hepatic stellate cells. The company expects to license the technology for use in drug development and potentially as therapeutic tissue.

Valuation: \$36m or \$5.72 per basic share

We have increased our valuation to \$36m or \$5.72 per basic share from \$34m or \$5.46 per basic share. The increase is mainly due to higher revenue estimates for the base business (FY18/FY19 total revenue estimates up 27%/28% driven by the biomedical segment) and rolling forward our NPV. It was mitigated by an increase in long-term SG&A expense expectations and lower net cash. We project that the company will need at least \$60m in additional financing before profitability in 2024, of which a total additional \$5m will be required by the end of 2018.

Q218 results review

The company reported Q218 revenues of \$3.0m, up 72.4% compared to Q217 (and up 15.4% sequentially compared to the previous quarter) mainly due to the biomedical business, which had quarterly revenues of \$2.7m, up 103.1% compared to the same quarter last year (and up 24.1% sequentially). The cosmetics business, however, was down 15.1% in the quarter and now represents just 12.8% of total revenues compared to 25.9% in the same quarter last year. The operating profit of the biomedical business also increased substantially, up 139.6% to \$1.1m, although the cosmetic business showed a loss for the quarter. The commercial businesses combined had a profit of \$865,000, up 114.6% compared to Q217. For the company as a whole, the operating loss was only \$366,000 for Q218, a decline of 63.5% compared to last year. We have made some adjustments to our model, increasing our 2018 revenue estimate for the commercial business to \$11.2m from \$8.8m and our 2019 estimate to \$12.2m from \$9.5m due to significant strength in the biomedical segment. We have reduced our 2018 R&D estimate by \$2.0m as the spending rate is lower than we had anticipated, but left future years unchanged. We also increased our SG&A expense estimate by \$0.6m in 2018 and by \$1.2m in 2019 due to a higher than anticipated run rate.

Exhibit 1: Changes to estimates

\$000s	Revenue			Operating profit			Profit after tax		
	Old	New	% change	Old	New	% change	Old	New	% change
2018e	8,790	11,165	27.0%	(6,073)	(3,508)	42.2%	(6,673)	(3,908)	41.4%
2019e	9,527	12,155	27.6%	(7,079)	(6,990)	1.3%	(8,479)	(8,190)	3.4%

Source: Edison Investment Research. Note: Operating profit and profit after tax exclude amortization of acquired intangibles, exceptional items and share-based payments.

The company had \$477,000 in cash on the balance sheet at the end of Q218. There was \$1.1m in a related-party payable stemming from a promissory note that provided cash to the company from its co-chairman and CEO, with the note due and payable on 1 November this year. Subsequent to the quarter end, the principal amount of the note was increased to \$2m as the co-chairman and CEO agreed to provide an additional \$900,000 in increments based on the company's needs. We continue to project that the company will need at least \$60m (previously \$62.5m) in additional financing before profitability (which we include as illustrative long-term debt) in 2024, of which a total additional \$5m (previously \$7.5m) will be required by the end of 2018 and a further \$10m by the end of 2019.

Valuation

We have increased our valuation to \$36m or \$5.72 per basic share from \$34m or \$5.46 per basic share. The increase is mainly due to higher revenue and earnings estimates for the base business and rolling forward our NPV. It was mitigated by an increase in long-term SG&A expense expectations and lower net cash.

Exhibit 2: International Stem Cell valuation

Product	Status	Launch	Peak sales (\$m)	NPV (\$m)	Probability	rNPV (\$m)	NPV/share (\$/share)
Cosmetic and biomedical business	Commercial	Current	18	32	90%	29	4.58
Parkinson's disease (royalties at 12% of sales)	Phase I/IIa	2024	2,800	543	7.5%	41	6.46
G&A expense - after tax					100%	(33)	(5.22)
Net cash (Q218)				(0.6)	100%	(0.6)	(0.10)
Valuation				574		36	5.72

Source: Edison Investment Research

Exhibit 3: Financial summary

	US\$000	2016	2017	2018e	2019e
Year end 31 December		GAAP	GAAP	GAAP	GAAP
PROFIT & LOSS					
Revenue		7,165	7,456	11,165	12,155
Cost of Sales		(1,944)	(2,122)	(3,908)	(4,254)
Gross Profit		5,221	5,334	7,257	7,901
Research and development		(2,856)	(2,658)	(2,500)	(6,500)
EBITDA		(4,520)	(4,616)	(3,236)	(6,718)
Operating Profit (before amort. and except.)		(4,851)	(4,942)	(3,508)	(6,990)
Intangible Amortisation		0	0	0	0
Exceptionals		0	0	0	0
Other		3,772	(1,127)	(27)	0
Operating Profit		(1,079)	(6,069)	(3,535)	(6,990)
Net Interest		0	0	(400)	(1,200)
Profit Before Tax (norm)		(4,851)	(4,942)	(3,908)	(8,190)
Profit Before Tax (reported)		(1,079)	(6,069)	(3,935)	(8,190)
Tax		0	0	0	0
Profit After Tax (norm)		(4,851)	(4,942)	(3,908)	(8,190)
Profit After Tax (reported)		(1,079)	(6,069)	(3,935)	(8,190)
Average Number of Shares Outstanding (m)		3.2	4.2	6.4	6.7
EPS - normalised (\$)		(1.52)	(1.19)	(0.61)	(1.22)
EPS - normalised fully diluted (\$)		(0.34)	(1.46)	(0.61)	(1.22)
EPS - (reported) (\$)		(0.34)	(1.46)	(0.61)	(1.22)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		72.9	71.5	65.0	65.0
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		4,553	4,009	4,830	5,650
Intangible Assets		3,484	2,922	3,538	4,154
Tangible Assets		1,011	1,013	1,217	1,421
Investments		58	74	75	75
Current Assets		2,492	2,855	5,287	7,601
Stocks		1,390	1,307	1,682	2,170
Debtors		574	465	1,614	868
Cash		110	304	1,424	3,996
Other		418	779	567	567
Current Liabilities		(3,601)	(4,800)	(5,665)	(5,606)
Creditors		(3,601)	(4,800)	(5,665)	(5,606)
Short term borrowings		0	0	0	0
Long Term Liabilities		0	0	(5,000)	(15,000)
Long term borrowings		0	0	(5,000)	(15,000)
Other long term liabilities		0	0	0	0
Net Assets		3,444	2,064	(549)	(7,355)
CASH FLOW					
Operating Cash Flow		(4,197)	(2,142)	(2,416)	(5,135)
Net Interest		0	0	(400)	(1,200)
Tax		0	0	0	0
Capex		(944)	(864)	(1,065)	(1,092)
Acquisitions/disposals		0	0	0	0
Financing		4,018	3,200	0	0
Dividends		0	0	0	0
Net Cash Flow		(1,123)	194	(3,880)	(7,427)
Opening net debt/(cash)		(532)	(110)	(304)	3,576
HP finance leases initiated		0	0	0	0
Other		701	0	0	0
Closing net debt/(cash)		(110)	(304)	3,576	11,004

Source: Edison Investment Research, company reports

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