# International Stem Cell Corp. (OTC: ISCO)

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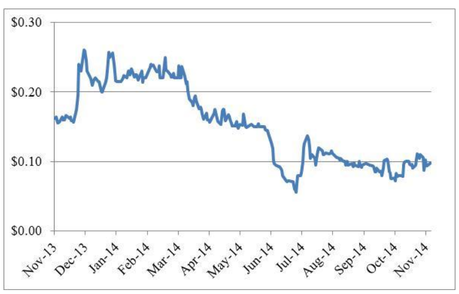
## MARKET STATISTICS

| | |
|---|---|
| Price | $0.11 |
| 52-Week Range | $0.06 - 0.30 |
| Daily Vol. (3 Month Avg.) | 530.647 |
| Market Cap ($M) | $22.1 |
| Enterprise Value ($M) | $21.6 |
| Shares Outstanding (M) | 224.3 |
| Float (M) | 160.2 |
| Insider Ownership | 28.5% |
| Institutional Ownership | 8.8% |

## FINANCIAL SUMMARY

| | |
|---|---|
| **Equity (M)** | $ (0.8) |
| **BV/S** | $ (0.00) |
| **Cash (M)** | $ 0.5 |
| **Debt (M)** | $ - |
| **Debt/Cap** | 0% |

| *FYE: Dec* | 2013 | 2014E | 2015E |
|---|---|---|---|
| *(in $000)* | | | |
| Rev | $ 6,147 | $ 7,387 | $ 9,603 |
| Chng% | 35% | 20% | 30% |
| EBITDA | $ (7,082) | $ (8,076) | $ (7,498) |
| EPS | $ (0.07) | $ (0.05) | $ (0.04) |
| EV/R | 5.7x | 2.9x | 2.3x |
| EV/EBITDA | nm | nm | nm |
| P/E | nm | nm | nm |




## COMPANY DESCRIPTION

International Stem Cell Corporation is a biotechnology company, engaged in the research and commercialization of therapeutic, biomedical, and cosmeceutical products. As part of its therapeutic research, ISCO leverages its hpSC technology to develop different cell types such as liver cells, neural cells, and three-dimensional eye structures. LCT, ISCO's subsidiary, develops and manufactures more than 130 human cell culture products, including frozen human primary cells, stem cells, and the reagents. The Company's other subsidiary, LSC develops and markets cosmetic skin care products using an extract derived from its proprietary stem cells.

## Research Update: ISCO: Commencing one study and preparing for another

The future is promising as ISCO readies for its clinical trial for Parkinson's disease, starts its stroke therapy study, and pens a research agreement with a large Japanese pharmaceutical company.

### Quarterly results slightly above projections

The Company reported topline of $2.0M vs our estimates of $1.9M as the products sales were slightly higher than we expected. Operating expenses were slightly lower than we expected at $3.5M vs $3.7M as the Company was able to control its G&A costs. This resulted in a net loss of $2.0M vs our estimates of a net loss of $1.7M. EPS were $(0.01) and in line with our projections.

### ISCO prepares for clinical trial regarding Parkinson's Disease

ISCO plans to file a regulatory submission by the end of 2014 to commence its stem cell clinical trial regarding Parkinson's disease. The Company expects to begin its clinical trial in Q1FY15 in the UK, Australia, or Sweden where the data collected is the same quality as the US but more cost and time effective. The Phase 1 trial will examine the safety profile with some efficacy endpoints and if successful, a Phase 2 study should follow. We believe if the Company is successful with the Phase 1 trial, it furthers the Company's business strategy of targeting indications with an addressable market and potential for partnerships.

### And commences therapeutic stroke program with Tulane

The Company began a therapeutic stroke program in collaboration with Tulane University. This is the first step toward clinical development of a potential stroke treatment. In addition there is overlap with Parkinson's disease regarding safety datasets and manufacturing methods. Strokes kill roughly 130,000 people every year, and the indirect and direct costs of strokes is roughly $73.7B in the United States alone. We believe stroke is a natural indication for the Company to segue into and has an addressable market that could lead to potential partnerships.

### Signs research agreement with Rohto Pharmaceutical

ISCO signed an agreement with Rohto Pharmaceutical Company (TYO:4527) that allow Rohto to examine and evaluate ISCO's human cells in preclinical animal models that have the goal of developing a cell therapy. Rohto is a global Japanese pharmaceutical company with approximately $1.3B in annual sales. The Company will provide the Rohto with certain human cells derived from the Company's cache of human stem cells. If the research is successful, the Company believes that the research agreement could lead to a licensing agreement. We believe the Rohto agreement gives ISCO greater credibility and could lead to other possible research and licensing agreements.

### Model Updates

There are no changes to our model.

### Valuation

Following our DCF analysis, we value the share price of ISCO in the range of $0.14 to $0.25, with the mid-point of the range at $0.19. A point to note is that successful completion of each stage of clinical trials could offer significant upside to the Company's share price and the DCF valuation does not take this into account.

## INVESTMENT FACTORS

Engaged in the development of therapeutic applications of pluripotent hpSCs, ISCO operates in the areas of brain, liver, and eye diseases. The Company has developed an effective business plan, which has firstly led it to choose a strategic area of operation. Secondly, its proprietary technology is believed to enjoy an edge over other stem cell technologies. Also, in order to bolster its support to its therapeutic program, the Company is focused on expanding its commercial operations. Thus, ISCO is looking at interesting times ahead.

### Investment Positives

#### Focused therapeutic efforts could open avenues

ISCO operates in a large therapeutic market with a high potential for rapid growth. In order to make the most of the available opportunities, the Company is strategically venturing into the areas of treatment related to brain, liver, and eye. ISCO has chosen these areas in view of the fact that while cell and tissue therapies have been proven effective here, there is a short supply of safe and efficacious cells for treatment. ISCO is at an advanced stage in its study of Parkinson’s disease where it is on track to seek regulatory approval for a Phase I clinical study. The Company’s pre-clinical non-human primate studies of Parkinson's disease have been showing positive results. It is aiming to file an Investigational New Drug (IND) application with the Food and Drug Administration (FDA) in late 2014 or early 2015 and, upon receiving the approvals, it plans to commence the first-in-man (FIM) Phase I clinical study, in collaboration with Duke University. The Company is also on track with its studies related to liver diseases and cornea blindness. In 2013, ISCO published positive results from its study on Gunn rats, a well-validated model of an inherited metabolic liver disease called Crigler-Najjar syndrome. This work was awarded from the President of the American Association for the Study of Liver Diseases, at the 64th Annual Liver Meeting in Washington, DC. According to the Company, its target markets of Parkinson’s disease, liver diseases, and corneal blindness present an estimated combined revenue potential of more than $5B. Given the attractiveness of the target market, we believe that progress in developing applications for its proprietary hpSC technology should increase the value of ISCO’s business, going forward.

#### Competitive edge through the proprietary hpSC technology

ISCO’s proprietary hpSC technology provides several advantages over other stem cell technologies. First of all, ISCO’s technology is clinically superior for use in allogeneic therapy. Created without male fertilization, hpSCs express fewer parental histocompatibility antigens, thus reducing the risk of immune rejection. This characteristic also empowers hpSCs to offer the potential of treating genetic diseases, as they avert the need to be derived from the same recipient. In addition, hpSCs exhibit high immune-matching capabilities and displays the characteristic to immune-match millions of individuals. The Company thus enjoys the potential to expand its therapeutic treatments with fewer stem cell lines, contrary to the human embryonic stem cells (hESCs), where each stem cell line is unique. Moreover, since hpSCs are derived without the destruction of a human embryo, as is the case with hESCs, hpSCs are shielded from the primary ethical issues associated with stem cell research. We believe these unique characteristics of the proprietary hpSC technology could offer ISCO with significant competitive advantage over its peers.

#### Growing financial support from subsidiaries

ISCO is generating revenues through two wholly-owned operating subsidiaries, LCT and LST. These businesses turned out combined revenue of $6.1M in FY13, unearthing strong growth potential. LCT has been working towards expanding its stem cell lines by creating and banking new clinical-grade hpSC lines as well as by collaborating with several in vitro fertility (IVF) clinics. The Company’s other subsidiary, LSC develops and markets cosmetic skin care products using an extract derived from its proprietary stem cells. Moreover, the Company has been significantly strengthening its sales and marketing efforts in order to further increase revenue from both the subsidiaries. We expect a combined revenue growth from these two subsidiaries at a 25% CAGR for the next five years. These businesses have attractive margins and we believe it has the potential to generate adequate cash over time to reduce the proportion of external capital needed for clinical product development.

## Investment challenges / risks

### Uncertainty about therapeutic product launch

The Company's therapeutic products are still in their pre-clinical stage and are yet to be tested on humans. They need to undergo significant research, development, and testing before receiving regulatory approvals. Human trials however are difficult to design and implement. The clinical trials of ISCO's product candidates are therefore expected to run several years before completion. Also, the Company faces the threat of failure at any stage of its trials and other issues, causing it to abandon or repeat clinical trials. In all, there is no assurance that the Company will be able to successfully develop and commercially launch any therapeutic product.

### ESC research subject to strict government regulations

ISCO's business is primarily focused on human cell therapy, which includes the production of human differentiated cells from stem cells and thus involves human oocytes. Although the Company focuses on parthenogenetic stem cells derived from unfertilized oocytes, certain aspects of its research may involve the use of embryonic stem cells (ESCs). Such research is controversial, and is currently subject to intense scrutiny, particularly in the area of the use of human embryonic material. Moreover, federal law prohibits federal funding for the development of parthenogenetic stem cells. Any future legislation unfavorable to the development of hESCs technology, hpSC technology, or nuclear transfer technology could adversely impact ISCO's operations.

### Insufficient cash for future business operations

ISCO is an early-stage company with a history of losses. We expect the Company to incur substantial net losses in the coming quarters, as it continues to expend its resources towards the identification and development of potential therapeutic products. The Company recorded an average cash burn rate of an estimated $470,000 per month in FY13, excluding the capital expenditure and patent costs that totaled $75,000 per month. During FY13, the Company issued common stock and warrants for approximately $8.1M. The Company had $0.5M of cash on hand as of Sept 2014, which is insufficient for business operations during remainder of FY14. The Company's revenue-generating subsidiaries are also in the early stages of development and would require several years of profitable growth to fund ISCO's therapeutic program. ISCO will thus need additional capital to conduct its operations and develop its products, going forward. The availability of such funding, if at all, on satisfactory terms is uncertain. Any inability to obtain finance will adversely affect the Company's future operations. In addition, if the Company raises capital through convertible debt or equity securities, its runs the risk of dilution.

### Competition from fully-integrated biotechnology and pharmaceutical companies

ISCO operates in the extremely competitive field of biotechnology focused on cell therapy and stem cell biotechnology that is teeming with fully-integrated and more established pharmaceutical, biotechnology, and cosmetic companies. Engaged in the development of stem cell-based products, these companies are placed on a stronger foundation of significantly greater capital resources as well as research and development, manufacturing, testing, and marketing capabilities. Also, many of these competitors are further along in the process of product development and also operate large, company-funded research and development programs. As a result, ISCO's competitors may develop more affordable products, and achieve patent protection or product commercialization before the Company does. Competitive products may then render ISCO offerings or product candidates obsolete.

## VALUATION SUMMARY

ISCO is an early-stage biotechnology company involved in developing therapeutic applications for its proprietary stem cell technology. With drugs for Parkinson's, liver, and cornea diseases in trial phases, the Company is expected to take several years to bring its treatments to commercial development. Given the uncertainty of drug development, we believe it is too early to estimate future revenues from therapeutic products and licensing deals. On the other hand, the Company has two subsidiaries, LSC and LCT that already generate revenue. LSC develops and sells skin care products and LCT produces human cell culture products for testing. Revenue from LSC and LCT subsidiaries is expected to pick up in the coming years, given the Company's expansion plans and marketing efforts. We have arrived at the valuation of the Company's commercial business using the DCF method. In addition, we have attempted to evaluate the future value of the Company by considering the status of its competitors' research. A significantly reduced market cap and anticipated losses in FY15 render ISCO incomparable to its competitors on the basis of multiples.

### ISCO's commercial business (LCT and LSC) - DCF Analysis

Given the existing small revenue base and anticipated sales ramp-up for ISCO's subsidiaries, we expect the Company to register strong revenue growth ranging from 19.2% to 35.0% between FY14 and FY20. Additionally, we have assumed an EBITDA margin peak at about 22%.

For our sensitivity analysis, we have used a range of discount rates from 11% to 13% and terminal growth rates between 0% and 4%. These assumptions result in a valuation range of $0.14 to $0.25, with the mid-point of the range at $0.19.

**Exhibit 1: Sensitivity Analysis**

| | | Terminal Growth Rates | | | | |
|---|---|---|---|---|---|---|
| | | **0%** | **1%** | **2%** | **3%** | **4%** |
| WACC | **11.0%** | $0.18 | $0.21 | $0.24 | $0.28 | $0.33 |
| | **11.5%** | $0.16 | $0.18 | $0.21 | $0.25 | $0.29 |
| | **12.0%** | $0.14 | $0.16 | $0.19 | $0.22 | $0.25 |
| | **12.5%** | $0.13 | $0.14 | $0.17 | $0.19 | $0.22 |
| | **13.0%** | $0.11 | $0.13 | $0.15 | $0.17 | $0.19 |

*Source: Company Reports, Stonegate Securities*

### Therapeutic program – Success could unlock significant additional value

The successful completion of each stage along the Company's therapeutic research is a significant milestone towards attaining its objectives of developing and commercializing its clinical products. ISCO's peers, already in the clinical stage, are trading at a significantly higher market capitalization than that of the Company. While the market cap of the competitors in Phase I clinical study range between $68M and $169M, that of its competitors in Phase II clinical study are between $116.3M and $315.0M.

ISCO plans to file IND application with the FDA in late 2014 or early 2015 and, upon receiving the approvals, it intends to commence the FIM Phase I clinical study. Considering ISCO's peers (in Exhibit 3 below), we believe, success at different stages in developing the applications for the proprietary hpSC technology is expected to increase the value of ISCO's business, going forward.

# VALUATION ANALYSIS

**International Stem Cell Corporation**
**Discounted Cash Flow Model**

| Estimates: | 2011 | 2012 | 2013 | 2014 E | 2015 E | 2016 E | 2017 E | 2018 E | 2019 E | 2020 E | 2021 E | 2022 E | 2023 E | Terminal Value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 4,532 | 4,567 | 6,147 | 7,387 | 9,603 | 12,580 | 16,732 | 22,337 | 29,931 | 40,407 | 53,742 | 70,402 | 90,818 | |
| Opearting Income | (11,355) | (9,815) | (7,546) | (8,550) | (7,979) | (4,403) | (3,346) | (1,117) | 1,497 | 4,041 | 8,061 | 11,264 | 15,439 | |
| Less: Taxes (benefit) | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| NOPAT | (11,355) | (9,815) | (7,546) | (8,550) | (7,979) | (4,403) | (3,346) | (1,117) | 1,497 | 4,041 | 8,061 | 11,264 | 15,439 | |
| Plus: Depreciation & Amortization | 494 | 474 | 464 | 474 | 482 | 631 | 839 | 1,098 | 1,441 | 1,905 | 2,534 | 3,320 | 4,282 | |
| Plus: Changes in WC | 42 | 9 | (681) | (1,017) | (260) | (341) | (167) | (223) | (299) | (404) | (537) | (704) | (908) | |
| Less: Capex | (941) | (793) | (896) | (1,069) | (948) | (1,179) | (1,485) | (1,871) | (2,207) | (2,576) | (2,889) | (3,432) | (3,973) | |
| Free Cash Flow | (11,760) | (10,125) | (8,659) | (10,162) | (8,707) | (5,293) | (4,159) | (2,113) | 431 | 2,966 | 7,169 | 10,448 | 14,840 | 151,368 |
| Discount period - months | | | | 3 | 15 | 27 | 39 | 51 | 63 | 75 | 87 | 99 | 111 | |
| Discount period - years | | | | 0.3 | 1.3 | 2.3 | 3.3 | 4.3 | 5.3 | 6.3 | 7.3 | 8.3 | 9.3 | |
| Discount factor | | | | 0.97 | 0.87 | 0.77 | 0.69 | 0.62 | 0.55 | 0.49 | 0.44 | 0.39 | 0.35 | |
| PV of FCF | | | | (9,878) | (7,557) | (4,102) | (2,878) | (1,305) | 238 | 1,461 | 3,152 | 4,102 | 5,202 | 53,060 |
| **Growth rate assumptions:** | | | | | | | | | | | | | | |
| Revenue | | 0.8% | 34.6% | 20.2% | 30.0% | 31.0% | 33.0% | 33.5% | 34.0% | 35.0% | 33.0% | 31.0% | 29.0% | |
| Operating Income | | -13.6% | -23.1% | 13.3% | -6.7% | -44.8% | -24.0% | -66.6% | -234.0% | 170.0% | 99.5% | 39.7% | 37.1% | |
| EBITDA | | -14.0% | -24.2% | 14.0% | -7.2% | -49.7% | -33.5% | -99.2% | -15643.4% | 102.4% | 78.2% | 37.6% | 35.2% | |
| Free Cash Flow | | -13.9% | -14.5% | 17.4% | -14.3% | -39.2% | -21.4% | -49.2% | -120.4% | 588.0% | 141.7% | 45.7% | 42.0% | |
| **Margin assumptions:** | | | | | | | | | | | | | | |
| Operating margin | -250.6% | -214.9% | -122.8% | -115.8% | -83.1% | -35.0% | -20.0% | -5.0% | 5.0% | 10.0% | 15.0% | 16.0% | 17.0% | |
| Depr as a % of sales | 10.9% | 10.4% | 7.5% | 6.4% | 5.0% | 5.0% | 5.0% | 4.9% | 4.8% | 4.7% | 4.7% | 4.7% | 4.7% | |
| EBITDA | -239.7% | -204.5% | -115.2% | -109.3% | -78.1% | -30.0% | -15.0% | -0.1% | 9.8% | 14.7% | 19.7% | 20.7% | 21.7% | |
| Taxes | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Changes in WC | 0.9% | 0.2% | -11.1% | -13.8% | -2.7% | -2.7% | -1.0% | -1.0% | -1.0% | -1.0% | -1.0% | -1.0% | -1.0% | |
| Capex as a % of sales | -20.8% | -17.4% | -14.6% | -14.5% | -9.9% | -9.4% | -8.9% | -8.4% | -7.4% | -6.4% | -5.4% | -4.9% | -4.4% | |

**Valuation:**

| | |
|---|---|
| Shares outstanding | 224,304 |
| PV of FCF | (11,565) |
| PV of Terminal Value | 53,060 |
| Enterprise Value | 41,495 |
| less: Net Debt | (471) |
| Estimated Total Value: | 41,966 |
| **Est Equity Value/share:** | **$0.19** |
| Price | $0.10 |

**Sensitivity Analysis:**

| | | Terminal Growth Rates | | | | |
|---|---|---|---|---|---|---|
| | | **0%** | **1%** | **2%** | **3%** | **4%** |
| WACC | **11.0%** | $0.18 | $0.21 | $0.24 | $0.28 | $0.33 |
| | **11.5%** | $0.16 | $0.18 | $0.21 | $0.25 | $0.29 |
| | **12.0%** | $0.14 | $0.16 | $0.19 | $0.22 | $0.25 |
| | **12.5%** | $0.13 | $0.14 | $0.17 | $0.19 | $0.22 |
| | **13.0%** | $0.11 | $0.13 | $0.15 | $0.17 | $0.19 |

# BALANCE SHEETS

**International Stem Cell Corporation (OTC: ISCO)**
**Consolidated Balance Sheets (in thousands $)**
**Fiscal Year: December**

| ASSETS | FY 2012 | Q1 Mar-13 | Q2 Jun-13 | Q3 Sep-13 | Q4 Dec-13 | FY 2013 | Q1 Mar-14 | Q2 Jun-14 | Q3 Sep-14 |
|---|---|---|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | | | | |
| Cash & cash equivalents | 654 | 1,912 | 654 | 1,792 | 2,243 | 2,243 | 991 | 748 | 471 |
| Restricted Cash | - | - | 50 | 50 | 50 | 50 | 50 | 50 | 50 |
| Accounts receivables, net | 273 | 384 | 454 | 398 | 306 | 306 | 501 | 406 | 464 |
| Inventories | 1,199 | 1,206 | 1,370 | 1,360 | 1,369 | 1,369 | 1,357 | 1,470 | 1,533 |
| Prepaid expenses | 456 | 492 | 663 | 407 | 658 | 658 | 636 | 539 | 359 |
| **Total Current Assets** | **2,582** | **3,994** | **3,191** | **4,007** | **4,626** | **4,626** | **3,535** | **3,213** | **2,877** |
| Property and equipment, net | 1,134 | 1,033 | 928 | 851 | 830 | 830 | 742 | 847 | 781 |
| Intangible assets | 1,634 | 1,768 | 1,947 | 2,036 | 2,250 | 2,250 | 2,342 | 2,522 | 2,649 |
| Deposits and other noncurrent assets | 20 | 20 | 32 | 33 | 33 | 33 | 33 | 33 | 57 |
| **Total Assets** | **5,370** | **6,815** | **6,098.0** | **6,927** | **7,739** | **7,739** | **6,652** | **6,615** | **6,364** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | | | | |
| **Current Liabilities** | | | | | | | | | |
| Accounts payable | 969 | 430 | 743 | 522 | 532 | 532 | 518 | 798 | 715 |
| Accrued liabilities | 730 | 746 | 1,389 | 1,056 | 1,290 | 1,290 | 952 | 960 | 1,299 |
| Related party payable | 5 | 5 | 22 | 16 | 21 | 21 | 26 | 31 | 5 |
| Advances | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 |
| Deferred revenue | 233 | 163 | 172 | 156 | 3 | 3 | - | - | - |
| **Total Current Liabilities** | **2,187** | **1,594** | **2,576** | **6,389** | **7,021** | **7,021** | **6,048** | **2,039** | **2,269** |
| **Long-Term Liabilities** | | | | | | | | | |
| Series G Convertible Redeemable | 4,941 | 4,941 | 4,941 | 4,941 | 4,941 | 4,941 | 4,941 | 4,941 | 4,941 |
| **Stockholders' Equity** | | | | | | | | | |
| Issued shares | 87 | 112 | 113 | 134 | 151 | 151 | 157 | 214 | 224 |
| Additional paid-in capital | 69,945 | 73,672 | 74,173 | 74,967 | 77,897 | 77,897 | 79,212 | 87,537 | 89,080 |
| Accumulated deficit | (71,792) | (73,504) | (75,705) | (79,504) | (82,271) | (82,271) | (83,706) | (88,116) | (90,150) |
| **Total Stockholders' Equity (deficit)** | **(1,758)** | **280** | **(1,419)** | **(4,403)** | **(4,223)** | **(4,223)** | **(4,337)** | **(365)** | **(846)** |
| **Total Liabilities and Stockholders' Equity** | **5,370** | **6,815** | **6,098** | **6,927** | **7,739** | **7,739** | **6,652** | **6,615** | **6,364** |
| **Ratios** | | | | | | | | | |
| **Liquidity** | | | | | | | | | |
| Current Ratio | 1.2x | 2.5x | 1.2x | 0.6x | 0.7x | 0.7x | 0.6x | 1.6x | 1.3x |
| Quick Ratio | 0.6x | 1.7x | 0.7x | 0.4x | 0.5x | 0.5x | 0.4x | 0.9x | 0.6x |
| Working Capital | 395 | 2,400 | 615 | (2,382) | (2,395) | (2,395) | (2,513) | 1,174 | 608 |
| **Leverage** | | | | | | | | | |
| Debt To Equity | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Debt To Capital | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Capital Usage -Annualized** | | | | | | | | | |
| A/R Turns | 22.1x | 15.6x | 13.9x | 15.7x | 19.7x | 21.2x | 16.3x | 14.0x | 18.1x |
| Inv Turns | 1.0x | 1.1x | 1.0x | 1.3x | 1.6x | 1.3x | 1.3x | 1.2x | 1.4x |
| A/P Turns | 1.5x | 1.9x | 2.2x | 2.8x | 4.0x | 2.2x | 3.3x | 2.5x | 2.7x |

*Source: Company Reports, Stonegate Securities*

# INCOME STATEMENTS

**International Stem Cell Corporation (OTC: ISCO)**
**Consolidated Statements of Income (in thousands $, except per share amounts)**
**Fiscal Year: December**

| | FY 2012 | Q1 Mar-13 | Q2 Jun-13 | Q3 Sep-13 | Q4 Dec-13 | FY 2013 | Q1 Mar-14 | Q2 Jun-14 | Q3 Sep-14 | Q4 E Dec-14 | FY 2014 E | Q1 E Mar-15 | Q2 E Jun-15 | Q3 E Sep-15 | Q4 E Dec-15 | FY 2015 E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | | | | | | | |
| Revenues | $ 4,567.0 | $ 1,285.0 | $ 1,457.0 | $ 1,670.0 | $ 1,735.0 | $ 6,147.0 | $ 1,649.0 | $ 1,588.0 | $ 1,963.0 | $ 2,186.6 | $ 7,386.6 | $ 2,101.4 | $ 2,052.4 | $ 2,541.3 | $ 2,908.2 | $ 9,603.2 |
| **Total revenue** | **4,567.0** | **1,285.0** | **1,457.0** | **1,670.0** | **1,735.0** | **6,147.0** | **1,649.0** | **1,588.0** | **1,963.0** | **2,186.6** | **7,386.6** | **2,101.4** | **2,052.4** | **2,541.3** | **2,908.2** | **9,603.2** |
| Cost of revenues | | | | | | | | | | | | | | | | |
| Cost of sales | 1,272.0 | 334.0 | 329.0 | 447.0 | 533.0 | 1,643.0 | 439.0 | 409.0 | 518.0 | 568.5 | 1,934.5 | 483.3 | 472.0 | 559.1 | 639.8 | 2,154.2 |
| Total cost of revenues | 1,272.0 | 334.0 | 329.0 | 447.0 | 533.0 | 1,643.0 | 439.0 | 409.0 | 518.0 | 568.5 | 1,934.5 | 483.3 | 472.0 | 559.1 | 639.8 | 2,154.2 |
| **Gross (loss) profit** | **3,295.0** | **951.0** | **1,128.0** | **1,223.0** | **1,202.0** | **4,504.0** | **1,210.0** | **1,179.0** | **1,445.0** | **1,618.1** | **5,452.1** | **1,618.1** | **1,580.3** | **1,982.2** | **2,268.4** | **7,449.0** |
| Operating expenses | | | | | | | | | | | | | | | | |
| Research and development | 3,599.0 | 721.0 | 974.0 | 932.0 | 933.0 | 3,560.0 | 958.0 | 1,411.0 | 1,392.0 | 1,574.4 | 5,335.4 | 1,429.0 | 1,395.6 | 1,677.2 | 1,657.7 | 6,159.5 |
| Selling and marketing | 2,065.0 | 511.0 | 679.0 | 632.0 | 635.0 | 2,457.0 | 669.0 | 679.0 | 745.0 | 721.6 | 2,814.6 | 630.4 | 513.1 | 635.3 | 727.0 | 2,505.9 |
| General and administrative | 7,446.0 | 1,419.0 | 1,667.0 | 1,362.0 | 1,585.0 | 6,033.0 | 1,648.0 | 1,332.0 | 1,342.0 | 1,530.6 | 5,852.6 | 1,513.0 | 1,457.2 | 1,728.1 | 2,064.8 | 6,763.1 |
| Total operating expenses | 13,110.0 | 2,651.0 | 3,320.0 | 2,926.0 | 3,153.0 | 12,050.0 | 3,275.0 | 3,422.0 | 3,479.0 | 3,826.6 | 14,002.6 | 3,572.4 | 3,365.9 | 4,040.6 | 4,449.5 | 15,428.4 |
| **Income (loss) from operations (1)** | **(9,815.0)** | **(1,700.0)** | **(2,192.0)** | **(1,703.0)** | **(1,951.0)** | **(7,546.0)** | **(2,065.0)** | **(2,243.0)** | **(2,034.0)** | **(2,208.5)** | **(8,550.5)** | **(1,954.3)** | **(1,785.6)** | **(2,058.4)** | **(2,181.1)** | **(7,979.4)** |
| Other income (expense): | | | | | | | | | | | | | | | | |
| Interest expense | (2.0) | - | - | - | (3.0) | (3.0) | (1.0) | (1.0) | - | - | (2.0) | - | - | - | - | - |
| Other income/(expense) (1) | (54.0) | (12.0) | (8.0) | (733.0) | (33.0) | (786.0) | 8.0 | 8.0 | - | (12.0) | 4.0 | (12.0) | (12.0) | (12.0) | (12.0) | (48.0) |
| Total other income (expense): | (56.0) | (12.0) | (8.0) | (733.0) | (36.0) | (789.0) | 7.0 | 7.0 | - | (12.0) | 2.0 | (12.0) | (12.0) | (12.0) | (12.0) | (48.0) |
| **Pre-tax income (loss) (1)** | **(9,871.0)** | **(1,712.0)** | **(2,200.0)** | **(2,436.0)** | **(1,987.0)** | **(8,335.0)** | **(2,058.0)** | **(2,236.0)** | **(2,034.0)** | **(2,220.5)** | **(8,548.5)** | **(1,966.3)** | **(1,797.6)** | **(2,070.4)** | **(2,193.1)** | **(8,027.4)** |
| **Net income (loss) (1)** | **$ (9,871.0)** | **$ (1,712.0)** | **$ (2,200.0)** | **$ (2,436.0)** | **$ (1,987.0)** | **$ (8,335.0)** | **$ (2,058.0)** | **$ (2,236.0)** | **$ (2,034.0)** | **$ (2,220.5)** | **$ (8,548.5)** | **$ (1,966.3)** | **$ (1,797.6)** | **$ (2,070.4)** | **$ (2,193.1)** | **$ (8,027.4)** |
| **Net income (loss ) to common stockholders** | **$ (11,375.0)** | **$ (1,712.0)** | **$ (2,200.0)** | **$ (2,436.0)** | **$ (1,987.0)** | **$ (8,335.0)** | **$ (2,058.0)** | **$ (2,236.0)** | **$ (2,034.0)** | **$ (2,220.5)** | **$ (8,548.5)** | **$ (1,966.3)** | **$ (1,797.6)** | **$ (2,070.4)** | **$ (2,193.1)** | **$ (8,027.4)** |
| **Basic EPS (loss)** | **$ (0.13)** | **$ (0.02)** | **$ (0.02)** | **$ (0.02)** | **$ (0.01)** | **$ (0.07)** | **$ (0.01)** | **$ (0.01)** | **$ (0.01)** | **$ (0.01)** | **$ (0.05)** | **$ (0.01)** | **$ (0.01)** | **$ (0.01)** | **$ (0.01)** | **$ (0.04)** |
| **Diluted EPS (loss)** | **$ (0.13)** | **$ (0.02)** | **$ (0.02)** | **$ (0.02)** | **$ (0.01)** | **$ (0.07)** | **$ (0.01)** | **$ (0.01)** | **$ (0.01)** | **$ (0.01)** | **$ (0.05)** | **$ (0.01)** | **$ (0.01)** | **$ (0.01)** | **$ (0.01)** | **$ (0.04)** |
| Basic shares outstanding | 85,936.0 | 103,566.0 | 112,410.0 | 128,243.0 | 148,133.0 | 123,088.0 | 153,488.0 | 170,632.0 | 218,278.0 | 180,722.3 | 180,780.1 | 181,115.8 | 182,576.2 | 222,643.6 | 183,433.1 | 192,442.2 |
| Diluted shares outstanding | 85,936.0 | 103,566.0 | 112,410.0 | 128,243.0 | 148,133.0 | 123,088.0 | 153,488.0 | 170,632.0 | 218,278.0 | 180,722.3 | 180,780.1 | 181,115.8 | 182,576.2 | 222,643.6 | 183,433.1 | 192,442.2 |
| EBITDA | (9,341.0) | (1,584.0) | (2,077.0) | (1,587.0) | (1,834.0) | (7,082.0) | (1,949.0) | (2,125.0) | (1,919.0) | (2,083.1) | (8,076.1) | (1,823.5) | (1,666.5) | (1,937.7) | (2,070.2) | (7,497.8) |
| **Margin Analysis** | | | | | | | | | | | | | | | | |
| Gross margin | 72.1% | 74.0% | 77.4% | 73.2% | 69.3% | 73.3% | 73.4% | 74.2% | 73.6% | 74.0% | 73.8% | 77.0% | 77.0% | 78.0% | 78.0% | 77.6% |
| Research and development | 78.8% | 56.1% | 66.8% | 55.8% | 53.8% | 57.9% | 58.1% | 88.9% | 70.9% | 72.0% | 72.2% | 68.0% | 68.0% | 66.0% | 57.0% | 64.1% |
| Selling and marketing | 45.2% | 39.8% | 46.6% | 37.8% | 36.6% | 40.0% | 40.6% | 42.8% | 38.0% | 33.0% | 38.1% | 30.0% | 25.0% | 25.0% | 25.0% | 26.1% |
| General and administrative | 163.0% | 110.4% | 114.4% | 81.6% | 91.4% | 98.1% | 99.9% | 83.9% | 68.4% | 70.0% | 79.2% | 72.0% | 71.0% | 68.0% | 71.0% | 70.4% |
| Intangible amortization | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Operating margin | -214.9% | -132.3% | -150.4% | -102.0% | -112.4% | -122.8% | -125.2% | -141.2% | -103.6% | -101.0% | -115.8% | -93.0% | -87.0% | -81.0% | -75.0% | -83.1% |
| EBITDA margin | -204.5% | -123.3% | -142.6% | -95.0% | -105.7% | -115.2% | -118.2% | -133.8% | -97.8% | -95.3% | -109.3% | -86.8% | -81.2% | -76.2% | -71.2% | -78.1% |
| Pre-tax margin | -216.1% | -133.2% | -151.0% | -145.9% | -114.5% | -135.6% | -124.8% | -140.8% | -103.6% | -101.5% | -115.7% | -93.6% | -87.6% | -81.5% | -75.4% | -83.6% |
| Net income margin | -216.1% | -133.2% | -151.0% | -145.9% | -114.5% | -135.6% | -124.8% | -140.8% | -103.6% | -101.5% | -115.7% | -93.6% | -87.6% | -81.5% | -75.4% | -83.6% |
| Tax rate | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Growth Rate Analysis Y/Y** | | | | | | | | | | | | | | | | |
| Total revenue | 0.8% | 19.3% | 38.0% | 40.7% | 39.1% | 34.6% | 28.3% | 9.0% | 17.5% | 26.0% | 20.2% | 27.4% | 29.2% | 29.5% | 33.0% | 30.0% |
| Total cost of revenues | -21.4% | 3.1% | 5.1% | 39.7% | 69.2% | 29.2% | 31.4% | 24.3% | 15.9% | 6.7% | 17.7% | 10.1% | 15.4% | 7.9% | 12.5% | 11.4% |
| Selling and marketing | 40.0% | 3.0% | 23.9% | 32.5% | 16.7% | 19.0% | 30.9% | 0.0% | 17.9% | 13.6% | 14.6% | -5.8% | -24.4% | -14.7% | 0.8% | -11.0% |
| Research and development | -18.8% | -23.1% | 12.6% | 3.6% | 4.0% | -1.1% | 32.9% | 44.9% | 49.4% | 68.7% | 49.9% | 49.2% | -1.1% | 20.5% | 5.3% | 15.4% |
| General and administrative | -10.9% | -30.4% | -5.0% | -13.2% | -23.9% | -19.0% | 16.1% | -20.1% | -1.5% | -3.4% | -3.0% | -8.2% | 9.4% | 28.8% | 34.9% | 15.6% |
| Operating income | 13.6% | 37.5% | 9.6% | 18.1% | 24.7% | 23.1% | -21.5% | -2.3% | -19.4% | -13.2% | -13.3% | 5.4% | 20.4% | -1.2% | 1.2% | 6.7% |
| EBITDA | 14.0% | 38.9% | 9.8% | 18.9% | 26.2% | 24.2% | -23.0% | -2.3% | -20.9% | -13.6% | -14.0% | 6.4% | 21.6% | -1.0% | 0.6% | 7.2% |
| Pre-tax income | 14.2% | 36.9% | 11.2% | -17.1% | 23.5% | 15.6% | -20.2% | -1.6% | 16.5% | -11.7% | -2.6% | 4.5% | 19.6% | -1.8% | 1.2% | 6.1% |
| Net income | 14.2% | 36.9% | 11.2% | -17.1% | 23.5% | 15.6% | -20.2% | -1.6% | 16.5% | -11.7% | -2.6% | 4.5% | 19.6% | -1.8% | 1.2% | 6.1% |
| EPS - fully diluted | 11.1% | 67.3% | 34.8% | 16.5% | 55.2% | 48.8% | 18.9% | 33.0% | 50.9% | 8.4% | 30.2% | 19.0% | 24.9% | 0.2% | 2.7% | 11.8% |
| Share count - fully diluted | 11.1% | 25.6% | 29.0% | 46.8% | 70.7% | 43.2% | 48.2% | 51.8% | 70.2% | 22.0% | 46.9% | 18.0% | 7.0% | 2.0% | 1.5% | 6.5% |

(1) For analytical purposes we have moved net gains of sales & disposal of assets to other income(exp) from operating expense; Historical financials also exclude 1x items such as goodwill impairments and asset write-downs etc.

*Source: Company Reports, Stonegate Securities estimates*

## CASH FLOWS

**International Stem Cell Corporation (OTC: ISCO)**
**Consolidated Statements of Cash Flows (cumulative)**
**Fiscal Year: December**

| | Q1 | Q2 | Q3 | FY 2013 | Q1 | Q2 | Q3 |
|---|---|---|---|---|---|---|---|
| **Cash Flow from Operations** | **Mar-13** | **Jun-13** | **Sep-13** | | **Mar-14** | **Jun-14** | **Sep-14** |
| Net income (loss) | (1,712) | (3,913) | (7,712) | (10,479) | (1,435) | (5,845) | (7,879) |
| Adjustments to reconcile net income to net cash : | | | | | | | |
| Amortization of debt discount | - | - | - | - | - | - | - |
| Depreciation and amortization | 116 | 231 | 347 | 464 | 116 | 234 | 349 |
| Stock-based compensation expense | 409 | 849 | 1,291 | 1,693 | 347 | 721 | 1,212 |
| Common stock issued for services | 68 | 137 | 180 | 240 | 39 | 85 | 139 |
| Fair value of warrant liability in excess of proceeds | - | - | 1,390 | 1,390 | - | - | 3,445 |
| Financing transaction costs | - | - | 738 | 738 | - | 3,445 | - |
| Change in fair value of warrants | - | - | (27) | 754 | (623) | (1,894) | (1,894) |
| Allowance for doubtful accounts | - | 22 | 22 | 23 | - | - | - |
| Allowance for inventory obsolescence | 4 | 8 | 40 | 90 | 4 | 22 | 30 |
| Allowance for sales returns | - | - | - | 10 | - | - | - |
| Loss on disposal of fixed assets | - | 16 | 16 | 68 | - | - | 8 |
| Impairment of intangible assets | 19 | 19 | 32 | 52 | 36 | 36 | 39 |
| Changes in operating assets and liabilities: | | | | | | | |
| Accounts receivable | (111) | (203) | (148) | (55) | (195) | (100) | (158) |
| Inventories | (11) | (179) | (201) | (260) | 8 | (123) | (194) |
| Prepaid expenses and other current assets | (36) | (207) | 49 | (202) | 22 | 119 | 299 |
| Restricted cash | - | (50) | (50) | (50) | - | - | - |
| Deposites | - | (12) | (13) | (13) | - | - | (24) |
| Accounts payable | (539) | (226) | (447) | (437) | (14) | 226 | 184 |
| Accrued expenses | 16 | 659 | 326 | 550 | (338) | (330) | 9 |
| Deferred revenue | (70) | (61) | (77) | (230) | (3) | (3) | (3) |
| Related party payable | - | 17 | 11 | 16 | 5 | 10 | (16) |
| **Net cash provided by operating activities** | **(1,847)** | **(2,893)** | **(4,233)** | **(5,638)** | **(2,031)** | **(3,357)** | **(4,454)** |
| **Cash Flow from Investing** | | | | | | | |
| Purchase of property and equipment | | (11) | (34) | (167) | (13) | (218) | (262) |
| Proceeds from sale of fixed assets | | - | - | - | - | 1 | 1 |
| Payments for patent licenses and trademarks | (168) | (362) | (480) | (729) | (143) | (341) | (485) |
| Other | | | | | - | - | - |
| **Net cash used by investing activities** | **(168)** | **(373)** | **(514)** | **(896)** | **(156)** | **(558)** | **(746)** |
| **Cash Flow from Financing** | | | | | | | |
| Proceeds from issuance of common stock | 3,289 | 3,289 | 6,289 | 6,538 | 1,104 | 2,638 | 3,646 |
| Proceeds from exercise of warrants and options | - | - | 242 | 2,386 | - | - | - |
| Payment of stock issuance stock | (16) | (23) | (646) | (801) | (169) | (218) | (218) |
| **Net cash provided (used) by financing activities** | **3,273** | **3,266.0** | **5,885** | **8,123** | **935** | **2,420** | **3,428** |
| Net increase (decrease) in cash | 1,258 | - | 1,138 | 1,589 | (1,252) | (1,495) | (1,772) |
| Cash and cash equivalents, beginning of year | 654 | 654 | 654 | 654 | 2,243 | 2,243 | 2,243 |
| Cash and cash equivalents, end of period | 1,912 | 654 | 1,792 | 2,243 | 991 | 748 | 471 |

*Source: Company Reports, Stonegate Securities*

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b) The Research Analyst principally responsible for the preparation of this report has received compensation that is based upon, among other things, Stonegate's investment banking revenues.
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