Zacks Small-Cap Research

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ImmunoCellular (IMUC-NYSE)

IMUC: Balance sheet boosted, enrollment of Phase II of ICT-107 completed---maintain Outperform rating.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	02/01/2011
Current Price (11/28/12)	$2.00
Twelve- Month Target Price	**$7.00**

OUTLOOK

IMUC has made great progress in recent months. The Company presented updated ICT-107 Phase I data, has completed enrollment of ICT-107 Phase II trial. An interim analysis, which we think is likely positive, will be conducted by end of 1Q13.

IMUC shares have been listed in NYSE recently and the company is included in Russell indices, which further raised the corporate visibility.

We remain bullish on IMUC and maintain our Outperform rating.

SUMMARY DATA

52-Week High	**$3.88**
52-Week Low	**$1.05**
One-Year Return (%)	**42.86**
Beta	**0.34**
Average Daily Volume (sh)	**421,171**
Shares Outstanding (mil)	**41**
Market Capitalization ($mil)	**$81**
Short Interest Ratio (days)	**9.40**
Institutional Ownership (%)	**15%**
Insider Ownership (%)	**35%**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**N/A**
Type of Stock	**N/A**
Industry	**Med-Biomed/Gene**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	0.00 A	0.00 A	0.00 A	0.00 A	0.00 A
2012	0.00 A	0.00 A	0.00 A	0.00 E	0.00 E
2013					5.00 E
2014					15.00 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	-$0.07 A	-$0.06 A	-$0.07 A	-$0.12 A	-$0.31 A
2012	-$0.09 A	-$0.08 A	-$0.08 A	-$0.07 E	-$0.33 E
2013					-$0.22 E
2014					-$0.11 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW

Balance Sheet Boosted by Recent Financing

IMUC reported third quarter financials on November 8, 2012.

The Company had no revenues during the three months ended September 30, 2012.

Research and development expenses for the three months ended September 30, 2012 and 2011 were $2,378,917 and $1,241,165, respectively. During the three months ended September 30, 2011, IMUC enrolled a total of 39 patients in its ICT-107 Phase II clinical trial and had a total of 53 patients enrolled on a cumulative basis as of September 30, 2011. During the three months ended September 30, 2012, IMUC completed the enrollment by enrolling 39 new patients thereby bringing the total number of patients enrolled to 278. During the three months ended September 30, 2012, IMUC incurred certain expenses associated with the development of ICT-121, to treat solid tumors including glioblastoma multiforme and ICT-140, to treat ovarian cancer.

General and administrative expenses for the three months ended September 30, 2012 and 2011 were $1,004,181 and $634,241, respectively. The increase in expenses reflects the expansion of the Company's infrastructure including the hiring of additional personnel. Additionally, IMUC incurred additional expenses in the areas of investor relations, travel, professional fees and listing fees for the NYSE MKT.

Non-GAAP net loss was $3.4 million ($0.08 per share) for the three months ended September 30, 2012, compared to net loss of $2.2 million ($0.07 per share) during the same period of 2011.

IMUC's balance sheet remains strong. As of September 30, 2012, the Company had $10 million in cash. In October 2012, The Company issued 10 million shares of its common stock, at a price of $2.10 per share, and warrants to purchase up to an aggregate of 4,500,000 shares of common stock. The net offering proceeds to ImmunoCellular from this offering were approximately $19.3 million, after deducting underwriting discounts and commissions and other estimated offering expenses, but excluding the exercise of any warrants. ImmunoCellular intends to use the net proceeds of this offering for its ongoing clinical development of ICT-107 and for general corporate purposes, including research and development activities for other product candidates and any future product candidates that it may develop or acquire.

Including the proceeds from the financing, IMUC should have cash of approximate $27 million, which could last through at least 2013 according to our model. This puts IMUC in a very strong position to advance its clinical programs.

Some investors view the offering as a dilution to existing shareholders, as evidenced by the selloff of the Company's shares after the news release. However, we see this as a positive for the Company's long term growth as it greatly boosts the Company's balance sheet. It also reflects investors' confidence in management's ability to deliver shareholder value

Another positive sign for the relief of cash burn is that IMUC is making efforts to monetize its antibody platform technology and if successful, this could provide the Company with additional cash for its operations. Also, if data from the ongoing Phase II trial of ICT-107 are positive, the Company could land a favorable partnership from big pharma or biotech companies.

Enrollment of Phase II Trial of ICT-107 Completed

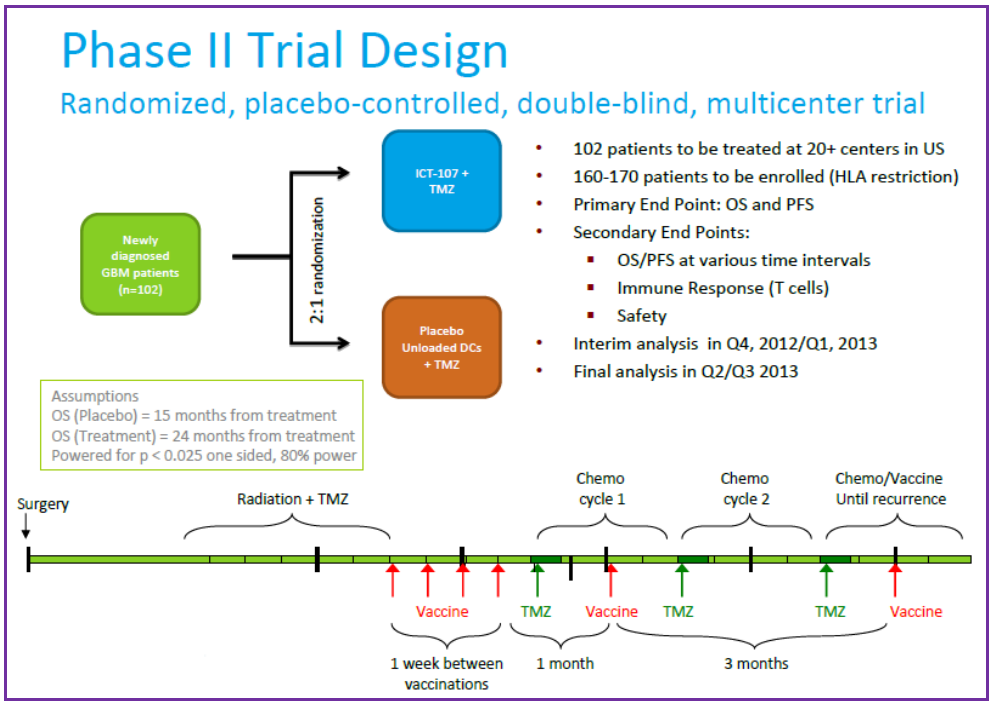
On September 5, 2012, IMUC announced that the Company has completed enrollment for its Phase II randomized, double-blinded, placebo-controlled, multi-center trial of its dendritic cell-based cancer

vaccine ICT-107 for treatment of glioblastoma. A total of 278 patients at 25 participating sites have been enrolled in this trial.

As a reminder, IMUC initiated the **Phase II** trial of ICT-107 for the treatment of newly diagnosed GBM following resection and chemoradiation in January 2011. The Phase II trial is a double-blind, placebo-controlled, 2:1 randomized study designed to evaluate the safety and efficacy of ICT-107 in patients with newly diagnosed GBM. Originally, the trial was expected to enroll approximately 160-200 patients to treat 102 patients with HLA-A1/A2 immunological subtypes.

On July 2, 2012, IMUC announced the expansion of the Phase II trial of ICT-107 from 102 to up to 123 patients with glioblastoma multiforme (GBM) and who are HLA-A1/A2 positive. As the final analysis will be event-driven, increasing the number of patients treated may shorten the trial by a few months compared to treating only 102 patients. This should also provide more information for robust sub-group analysis of the trial results, as differences in age, degree of resection, and other factors can impact overall survival.

Patients will receive at least four intradermal injections of the ICT-107 vaccine and additional doses of vaccine during a maintenance phase until disease progression. The primary endpoint of this trial is overall survival (OS), with secondary endpoints of progression-free survival (PFS), OS and PFS at various time intervals, immune response (T cells) and safety.



An interim analysis by the Data Safety Monitoring Committee is expected in early 2013. Final results will be available in late 2013.

Visibility and Liquidity Increased Through NYSE Listing and Russell Indices Inclusion

On May 24, 2012, ImmunoCellular Therapeutics, Ltd. (IMUC)'s common stock was approved for listing on the NYSE: MKT and began trading on May 30, 2012 under its ticker symbol IMUC.

On June 8, Russell announced list of additions and deletions from the index. IMUC was included in Russell Global Index, 3000 Index, 2000 Index and Russell Microcap. It has become effective on June 25.

We think the NYSE listing and Russell indices addition are important to the Company and its shareholders in the following matters:

- Trading on a major exchange will raise the Company's visibility and gain liquidity at the same time. IMUC shares have been traded OTC for a long time. Trading OTC is often viewed as highly risky and less liquid to most investors especially to institutional investors. As a result, many institutional investors are restricted from buying shares traded OTC.

- The successful upgrade to be listed in the NYSE:MKT exchange increased both visibility and liquidity of the Company. As a result, many institutional investors can buy its shares now.

- Another way to attract institutional investors is through the inclusion in an index. After being listed on NYSE:MKT, IMUC could have the potential to be added into a small cap index, especially in a small cap biotech index. Inclusion in an index will further raise IMUC's visibility and at the same time, IMUC will be automatically included in some index funds which mirror the index which includes IMUC. This makes IMUC more suitable for a broader group of investors.

- Therefore, the inclusion into multiple Russell indices will bring additional liquidity and a lot of buying volume down the road.

Phase I Data from ICT-107 Presented at ASCO 2012

ImmunoCellular (IMUC) presented updated data from its ICT-107 Phase I trial at the ASCO 2012 annual meeting.

In total of 16 newly diagnosed glioblastoma (GBM) patients, two year overall survival (OS) rates were 80.3% in the drug group compared with the historic median two-year survival rate of 26.5% with standard of care (SOC) alone. Median OS exceeded 38 months in the ICT-107 group compared with 14.6 months in the historical standard of care (SOC) group. The study's median progression-free (PFS) survival of 16.9 months also compared favorably to the historic median PFS of 6.9 months. No serious adverse events have been reported and minor side effects have been limited to fatigue, skin rash and pruritis.

		ICT□107 + SOC* (n=16)	SOC (Stupp, NEJM, 2005) (n=287)
PFS (%)	At 6 months	100	53.9
	At 12 months	62.5	26.9
	At 18 months	43.8	18.4
	At 24 months	43.8	10.7
	At 36 months	38.0	6.0
	Median (months)	**16.9**	**6.9**
OS (%)	At 6 months	100	86.3
	At 12 months	100	61.1
	At 18 months	93.7	39.4
	At 24 months	80.3	26.5
	At 36 months	55.6	16.0
	Median (months)	**38.4**	**14.6**

*SOC= Standard of Care (XRT +TMZ)

The following table summarizes the results of individual patients.

DEMOGRAPHICS, SURVIVAL and IMMUNE RESPONSE

Pt #	Age	Sex	Site	Extent of Resection	Time to Progression (months)	Survival Time (months)	Immune Response	Karnofsky Score**
2	64	M	R Temporal Parietal	complete	11.15	28.60	1.8	100
4	46	M	L Frontal	complete	60.95*	60.95*	2.5	90
6	56	F	L Temporal	complete	66.51*	66.51*	1.2	100
7	61	F	R Frontal	complete	60.10*	60.10*	31.8	90
9	51	M	R Anterior Temporal	complete	6.87	19.53	1.0	90
10	47	M	L Frontoparietal	complete	15.98	53.03*	0.7	90
11	53	F	R Temporal	sub-total	12.62	25.91	1.1	90
12	65	M	R Temporal	complete	8.25	22.55	1.0	90
13	60	M	L Temporal	complete	29.0	38.37	4.5	90
14	44	M	R Temporoparietal	complete	49.38*	49.38*	1.2	80
15	34	M	R Parietal	complete	48.66*	48.66*	1.1	90
16	63	M	L Parietal	sub-total	17.72	32.42	0.8	60
17	79	M	R Frontal	sub-total	11.28	15.98	3.3	70
18	52	F	Bifrontal	complete	8.88	33.99	0.3	90
19	48	M	L Frontal	complete	47.64*	47.64*	0.5	80
20	62	M	L Temporal	sub-total	7.27	46.82*	NT	90

* Progression/Mortality has not been observed for these patients; ** Karnofsky Score determined at screening

The Phase I data are compelling when compared with the SOC and other clinical trial results. Six of 16 patients (37%) remained free of disease for 48 to 66 months. Among the 50% survivors with a median follow-up of 51.2 months, 6 of 8 patients (75%) continue to be disease-free.

The Stupp trial had about 250 patients on the treatment arm, and only 6 were disease free over 4 years. CLDX-110 (ACT-III) had about 65 patients and only 10-15% disease free over 4 years.

The compelling data may be attributed to the unique mechanism of action for ICT-107 which targets 6 different antigens including cancer stem cell antigens.

ICT-107 PEPTIDES TARGET CANCER STEM CELLS and GBM TUMOR ANTIGENS

Antigen	Epitope	HLA restriction	Sequence	Tumor Expression	CSC Expression
gp100	209 (210M)	A2	IMDQVPFSV	Melanoma, brain cancer	
Trp-2	180	A2	SVYDFFVWL	Melanoma, brain cancer	High
HER2/neu	773	A2	VMAGVGSPYV	Breast, ovarian cancer	High
IL-13αR2	345	A2	WLPFGFILI	Brain cancer	High
MAGE-1	161	A1	EADPTGHSY	Melanoma, brain cancer	
AIM-2	14	A1	RSDSGQQARY	Breast, ovarian, colon, brain cancer	High

Increased PFS and OS were observed with increased expression of MAGE-A1, AIM2, gp100 and HER2. CD133 were down-regulated after vaccine.

The Phase I data were prominently featured at the Society for Immunotherapy of Cancer (SITC) annual meeting, held October 26-28, and in SITC's press briefing, as an exciting new breakthrough in cancer treatment.

Pipeline Has Been Expanded

IMUC is working to move two new cancer vaccines into clinic this year: ICT-140 for ovarian cancer and ICT-121 for multiple cancers.

ICT-140 is also dendritic cell based multi□antigen vaccine targeting cancer stem cells (CSCs). It targets six antigens that are over□expressed in **ovarian cancer**. Several antigens are same as ICT□107 (Her□2/neu, IL13Rα2 and MAGE□1).

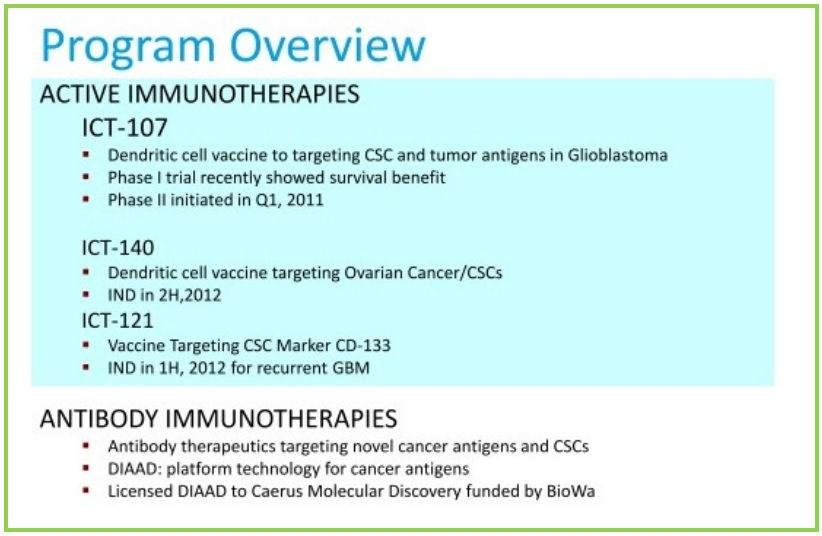
IMUC recently licensed from The Johns Hopkins University (JHU) the tumor-associated antigen **mesothelin**, which is highly expressed in pancreatic cancer, ovarian cancer and mesothelioma. IMUC will use mesothelin in the development and commercialization of ICT-140 for the treatment of **ovarian cancer**, one of multiple tumor types in which mesothelin is over-expressed.

ICT-140 is designed to target cancer stem cells as well as daughter cells in ovarian cancer by targeting multiple different antigens including mesothelin, Her-2/neu, IL-13Rα2 and several other undisclosed antigens. Earlier data with several single antigen clinical trials have demonstrated clinical benefits. The Company plans to file an IND for ICT-140 **at the end of 2012**.

ICT-121 is an off-the-shelf, peptide-based vaccine that works by stimulating an immune response to CD-133, a protein that is over-expressed by many CSCs. CD□133 is expressed on GBM, pancreatic, breast, and most solid tumors. The ICT-121 vaccine comprises dendritic cells loaded with two CD-133 peptides. The initial indication IMUC plans to target is **recurrent GBM**.

In late July, the FDA gave clearance to a physician sponsored investigative new drug (IND) application to initiate a **Phase I** clinical trial of ICT-121. The trial, which will be conducted at a leading Los Angeles based medical center, will initially test the vaccine in 20 patients with recurrent glioblastoma multiforme (GBM). This trial will also start before the end of 2012.

With a Phase II trial of IMUC's lead product candidate ICT-107 well under way in treating patients with newly diagnosed GBM, ICT-121 is the Company's second dendritic-cell-based vaccine to enter the clinic to treat recurrent GBM. Like ICT-107, ICT-121 targets the cancer stem cells (CSCs) that are widely believed to be the root cause of many cancers.



VALUATION AND RECOMMENDATION

We remain bullish on IMUC, and maintain our Outperform rating with a twelve-month price target of $7.00.

IMUC has made impressive progresses in the past few months in boosting its balance sheet, advancing its key drug candidate, expanding its pipeline and increasing its visibility and liquidity.

Currently, the Company shares are trading at about $2.0 per share which values the Company at about $100 million based on about 50 million shares outstanding. This is still a huge discount compared to its peers. Most small biotech companies of development stage are valued from $50 million to $500 million depending on how advanced the pipeline is and which indications the company is targeting. IMUC is a mid-stage development biotech company, and its lead candidate ICT-107 is under Phase II clinical trials. ICT-107 currently targets glioblastoma, but has potential for other cancer indications. Market potential is huge even for the glioblastoma market alone.

According to our long term model, ICT-107 could be approved in the US in late 2016. We assume IMUC will partner ICT-107 with a high upfront fee and royalty payment. Revenue from ICT-107 will reach $93 million based on sales of $267 million in fiscal 2018. We model IMUC will become profitable in 2016 with an EPS of $0.12. EPS will increase to $0.82 in 2018. Based on our model, we come up with our price target of $7.00 per share by using 30x multiples and our estimated EPS of $0.82 in 2018, discounted at 30% for 5 years. Our $7.00 per share price target represents a market cap of $350 million, which we think is appropriate at this time.

We noticed recent acquisition of private BioVex by Amgen. The deal was valued at $1 billion with $425 million in upfront and up to $575 million in additional payments upon the achievement of certain regulatory and sales milestones. BioVex is developing OncoVex, an oncolytic vaccine in Phase III clinical development, for the treatment of melanoma and head and neck cancer.

Although BioVex's OncoVex is in more advanced trials (Phase III) than IMUC's ICT-107 (Phase II), we also noticed that IMUC has a broader technology. Therefore, this transaction convinces us that IMUC is undervalued.

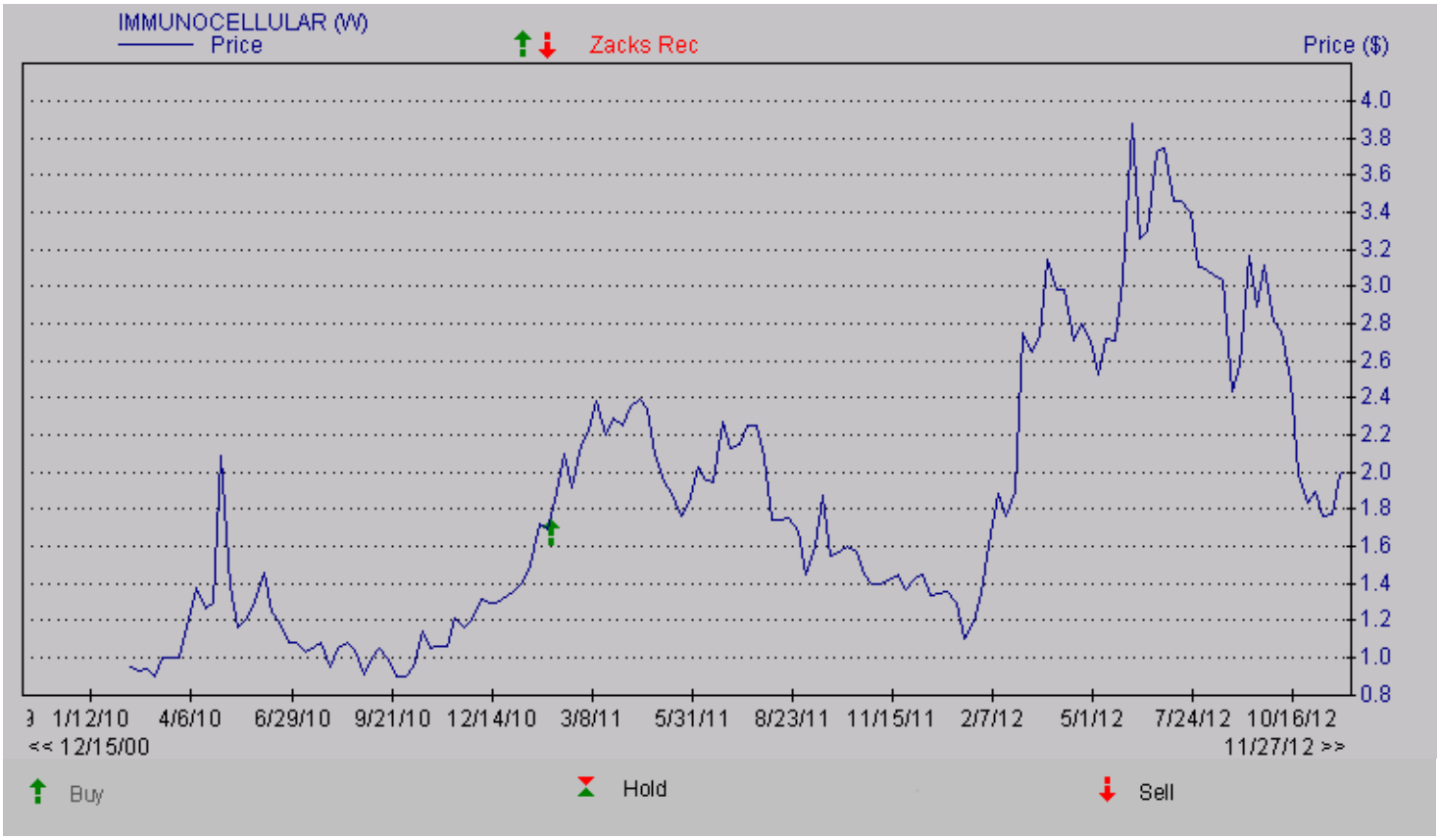
PROJECTED INCOME STATEMENT

	2011A (Dec)	2012E (Dec)					2013E (Dec)	2014E (Dec)	2015E (Dec)	2016E (Dec)	2017E (Dec)	2018E (Dec)
$ in million except per share data	FYA	Q1A	Q2A	Q3A	Q4E	FYE	FYE	FYE	FYE	FYE	FYE	FYE
licensing revenue	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$5.00	$15.00	$20.00	$25.00	$25.00	$25.00
Product revenue	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$11.67	$46.67	$93.33
Total Revenues	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$5.00**	**$15.00**	**$20.00**	**$36.67**	**$71.67**	**$118.33**
YOY Growth	-	-	-	-	-	-	-	*200.0%*	*33.3%*	*83.3%*	*95.5%*	*65.1%*
CoGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.75	7.00	14.00
Gross Income	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$5.00**	**$15.00**	**$20.00**	**$34.92**	**$64.67**	**$104.33**
Gross Margin	-	-	-	-	-	-	-	*100.0%*	*100.0%*	*95.2%*	*90.2%*	*88.2%*
R&D	$4.99	$2.00	$2.19	$2.38	$2.55	$9.12	$11.50	$15.00	$17.50	$15.00	$14.50	$12.50
% SG&A	-	-	-	-	-	-	-	*100.0%*	*87.5%*	*40.9%*	*20.2%*	*10.6%*
SG&A	$2.45	$0.81	$0.84	$1.00	$0.95	$3.60	$4.50	$6.00	$7.50	$9.00	$10.50	$12.00
% R&D	-	-	-	-	-	-	-	*40.0%*	*37.5%*	*24.5%*	*14.7%*	*10.1%*
Other	$1.19	$0.25	$0.10	$0.03	$0.20	$0.58	$1.30	$1.40	$1.50	$1.50	$1.50	$1.50
% Other	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	**($8.6)**	**($3.0)**	**($3.1)**	**($3.4)**	**($3.7)**	**($13.3)**	**($12.3)**	**($7.4)**	**($6.5)**	**$9.4**	**$38.2**	**$78.3**
Operating Margin	-	-	-	-	-	-	-	-	*-32.5%*	*25.7%*	*53.3%*	*66.2%*
Other Net	$2.9	($4.8)	($3.3)	$2.8	$0.0	($5.4)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($5.7)**	**($7.9)**	**($6.5)**	**($0.6)**	**($3.7)**	**($18.7)**	**($12.3)**	**($7.4)**	**($6.5)**	**$9.4**	**$38.2**	**$78.3**
Income taxes(benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
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%*
Reported Net Income	**($5.7)**	**($7.9)**	**($6.5)**	**($0.6)**	**($3.7)**	**($18.7)**	**($12.3)**	**($7.4)**	**($6.5)**	**$9.4**	**$38.2**	**$78.3**
YOY Growth	-	-	-	-	-	-	-	-	-	-	*305.3%*	*105.2%*
Net Margin	-	-	-	-	-	-	-	-	*-32.5%*	*25.7%*	*53.3%*	*66.2%*
Deluted Shares Out	*27.5*	*37.0*	*39.9*	*41.1*	*49.4*	*41.9*	*55.0*	*65.0*	*75.0*	*80.0*	*90.0*	*95.0*
Reported EPS	**($0.21)**	**($0.21)**	**($0.16)**	**($0.02)**	**($0.07)**	**($0.45)**	**($0.22)**	**($0.11)**	**($0.09)**	**$0.12**	**$0.42**	**$0.82**
YOY Growth	-	-	-	-	-	-	-	-	-			
One time charge	*(2.90)*	*4.47*	*3.32*	*(2.78)*	*0.00*	*5.02*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Non GAAP Net Income	**($8.6)**	**($3.4)**	**($3.1)**	**($3.4)**	**($3.7)**	**($13.7)**	**($12.3)**	**($7.4)**	**($6.5)**	**$9.4**	**$38.2**	**$78.3**
Non GAAP EPS	**($0.31)**	**($0.09)**	**($0.08)**	**($0.08)**	**($0.07)**	**($0.33)**	**($0.22)**	**($0.11)**	**($0.09)**	**$0.12**	**$0.42**	**$0.82**

Source: Company filings and Zacks Investment Research

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HISTORICAL ZACKS RECOMMENDATIONS



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