

FLASH NOTE

Life Science & Diagnostic Tools: Life Science Tools

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Doug Schenkel
doug.schenkel@cowen.com 617.946.3918

Shaun Rodriguez, Ph.D.
shaun.rodriguez@cowen.com 617.946.3929

Chris Lin
chris.lin@cowen.com 617.946.3825

Recommendation

Rating:	Outperform
Price Target:	\$20.50

Stock Statistics as of 11/12/2013

Price:	\$16.54
52W Range:	\$24.11-\$9.50
Shares Out (MM):	16.3
Market Cap (MM):	\$260.3
Net Debt (MM):	\$(32.8)



CELLULAR DYNAMICS INTERNATIONAL INC (NASDAQ:ICEL)

Revenue Doubles Y/Y; More Details At 8AM ET

Conclusion. Q3 revenue doubled relative to Q3:12, driven by robust growth at top-10 accounts. Although the performance was marginally below our forecast, Product Sales growth remained strong at ~70% in the quarter, and gross margin of 85% was significantly higher than historical levels. Therefore, our annual revenue forecasts remain largely unchanged, as does our investment thesis.

Conference Call at 8AM ET. Dial-in: 877.312.5886; Passcode: 96066198.

Revenue Doubles Year Over Year

In Q3, Cellular Dynamics' revenue increased 105% Y/Y to \$2.5MM, although we note that this was slightly below our expectations and consensus estimates. Growth was driven by higher Product Sales (\$1.8MM, 67% Y/Y) and Collaborations/Other sales (\$0.7MM, ~3.5x growth). Relative to our forecast, Product Sales were \$0.2MM light, and Collaboration/Other revenue was \$0.3MM light. As expected given the nature of the company's products and the stage of development, revenue will likely be a bit choppy from quarter-to-quarter. Notably, average revenue per top-10 customer grew to \$704K, more than doubling vs. Q3:12

Gross Margin Encouraging; Operating Spend Ticks Up Post-IPO

Gross margin was 85%, significantly higher than 76% seen in Q2:13 and also higher than our forecast. This was attributable to iCell price increase (26% Y/Y), favorable product mix, and a lower royalty payment. Operating expenses were \$9.3MM, \$2.1MM higher than our expectations. Combined, this led to a total net loss of \$7.5MM, higher than our estimated \$5.3MM, in part driven by IPO-related expenses recognized in Q3.

Growth Trajectory On Track; CIRM Revenue Could Boost Q4 Results

Total revenue growth of >100% Y/Y and product growth of ~70% driven by iCell unit sales and pricing improvement are in line with our expectations, and we remain confident in our FY:13 revenue forecast of ~\$12MM. For Stem Cell Banking, Cellular Dynamics announced last week that it has received the Notice of Grant Award (NGA) from the California Institute of Regenerative Medicine (CIRM) for the \$16MM stem cell banking project, and plans to start recognizing CIRM revenues in Q4:13. This will likely provide support to our Q4 revenue forecast.

Please see addendum of this report for important disclosures.



Valuation Methodology & Investment Risks

Valuation Methodology

Life Science & Diagnostic Tools:

Price targets are based on several methodologies which may include: analysis of market risk, growth rate, revenue stream, discounted cash flows (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount) / average group EV/EBITDA, premium (discount) / average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Investment Risks

Life Science & Diagnostic Tools:

Risks to the Medical and Life Science Tools sector may include: reduction or delay in research and development budgets and government funding, reduced or delayed purchasing from health care / hospital customers, increased or extended regulatory hurdles or processes for regulated products, increased dependence on volatile emerging markets for revenues and profitability, and general macroeconomic challenges.

Company Specific Risks

Risks include but are not limited to: product is in early stage and customer adoption could be slower than expected, competition could intensify, market opportunity is difficult to define, and low visibility on financial trajectory.



Addendum

STOCKS MENTIONED IN IMPORTANT DISCLOSURES

Ticker	Company Name
ICEL	Cellular Dynamics International Inc

Analyst Certification

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Cowen and Company Rating System effective May 25, 2013

Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

Market Perform (2): The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Rating System until May 25, 2013

Outperform (1): Stock expected to outperform the S&P 500

Neutral (2): Stock expected to perform in line with the S&P 500

Underperform (3): Stock expected to underperform the S&P 500

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

Sell – The fundamentals/valuations of the subject company are deteriorating and the investment return is expected to be 5 to 15 percentage points lower than the general market return

Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

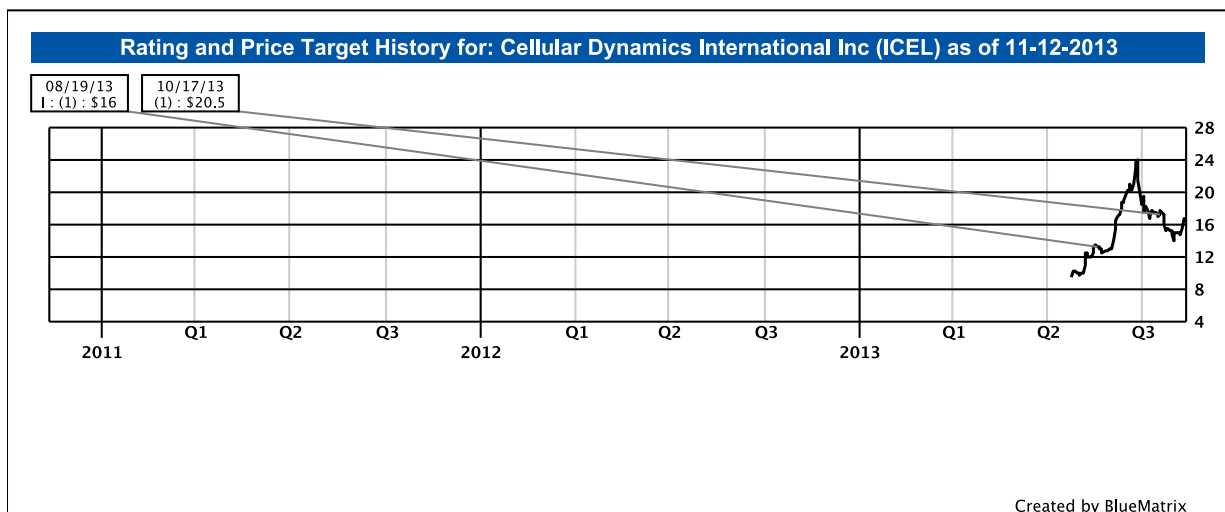
COWEN AND COMPANY RATING ALLOCATION

Distribution of Ratings/Investment Banking Services (IB) as of 09/30/13

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	394	58.72%	54	13.71%
Hold (b)	255	38.00%	5	1.96%
Sell (c)	22	3.28%	1	4.55%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

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Legend for Price Chart:

I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | \$xx = Price Target | NA = Not Available