

Fate Therapeutics

(FATE-NASDAQ)

Stock Rating: Outperform
Industry Rating: Outperform

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Broadening Stem Cell Therapeutics Pipeline and Platform

Event

Fate Therapeutics reported 1Q14 operating results late yesterday and provided an update on key initiatives. Net loss per share was \$0.34, in line with consensus of a loss of \$0.33, and FATE ended 1Q14 with \$47.9 million in cash, sufficient through late 2015. With primary focus on the ex-vivo modulated stem cell product PROHEMA, FATE highlighted the commencement of patient enrollment in the phase 2 PUMA trial in adult patients undergoing double cord blood transplantation for the treatment of hematologic malignancies, with a clinical update expected in 2H14 following interim analysis after the first 6 and 12 patients have been treated, and final data in mid-2015. FATE also expects the initiation of a phase 1b study of PROHEMA in pediatric patients with hematologic malignancies receiving single-cord blood transplantation (PROMPT) in mid-2014, with data in mid-2015. FATE also plans to file a new IND in 2Q14 to initiate a study of PROHEMA in pediatric patients undergoing cord blood transplantation for the treatment of certain inherited metabolic disorders, such as Hurler syndrome, Krabbe disease, and various leukodystrophies.

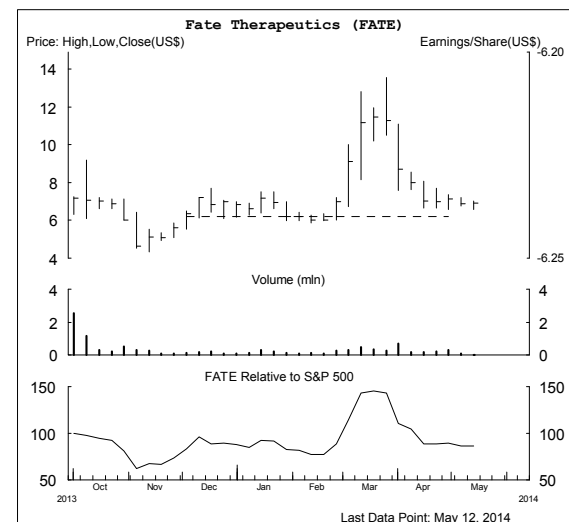
Impact & Analysis

We maintain our Outperform rating on shares of FATE following review of 1Q14 results. With the initiation of PUMA enrollment and expected expanded development of PROHEMA into lysosomal storage disorders, we see multiple opportunities for value creation through year-end 2014 and into 2015. Further leverage of stem cell expertise in the *in vivo* stimulation of muscle satellite stem cells for muscular dystrophy and other muscle disorders, as well as a broader opportunity for human induced pluripotent stem cells, provide a deep pipeline of opportunity for longer-term upside potential, in our view.

Valuation & Recommendation

We arrive at our \$15 price target by applying a 25x multiple to our 2020 EPS estimate of \$1.68 and discounting at 25%. We rate FATE shares at Outperform.

Price (13-May) \$6.55 **52-Week High** \$13.55
Target Price \$15.00 **52-Week Low** \$4.30



(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	-\$13.06	-\$3.38	-\$1.45↓	-\$1.84↓
P/E			na	na
CFPS	na	na	na	na
P/CFPS			na	na
Rev. (\$mm)	\$3	\$1	\$0	\$0
EV (\$mm)	na	\$67	\$180	\$180
EBITDA (\$mm)	-\$14	-\$17	-\$30	-\$43
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2012A	na	na	na	na
2013A	-\$0.57	-\$0.57	-\$4.81	-\$0.29
2014E	-\$0.34a	-\$0.36↓	-\$0.37↓	-\$0.38↓
Dividend	\$0.00			0.0%
Book Value	-\$49.65			-0.1x
Shares O/S (mm)	20.3			Mkt. Cap (mm)
Float O/S (mm)	7.6			\$133
Wkly Vol (000s)	328			Float Cap (mm)
Net Debt (\$mm)	-\$54			\$50
				Wkly \$ Vol (mm)
				\$2.4
				Next Rep. Date
				na

Notes: Quarterly EPS may not sum due to share count. All values in US\$

First Call Mean Estimates: FATE THERAPEUTICS INC (US\$)
 2014E: -\$1.37; 2015E: -\$0.87

Changes

Annual EPS

2014E -\$1.43 to -\$1.45
 2015E -\$1.82 to -\$1.84

Quarterly EPS

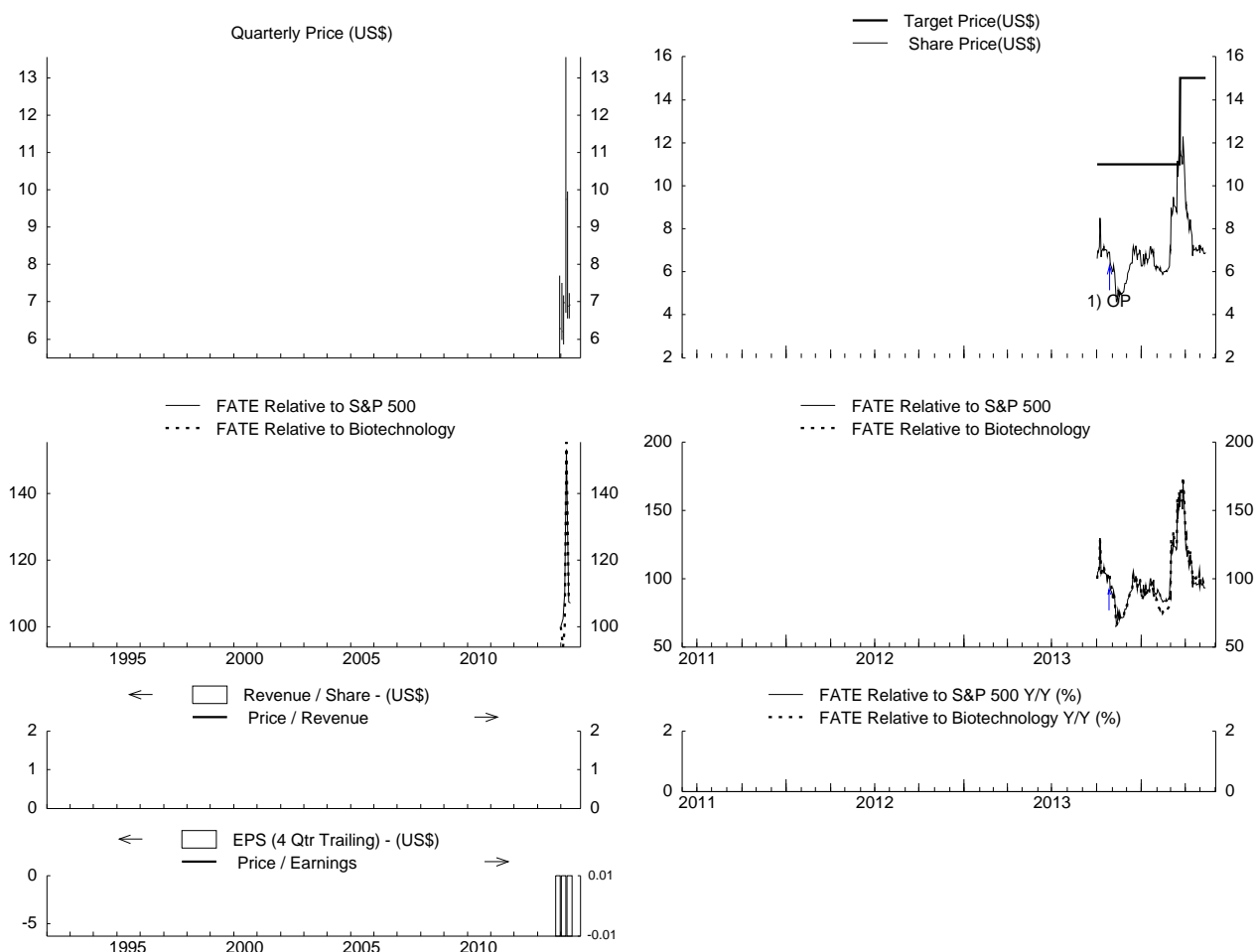
Q2/14E -\$0.35 to -\$0.36
 Q3/14E -\$0.36 to -\$0.37
 Q4/14E -\$0.37 to -\$0.38

Exhibit 1: FATE Income Statement 2013A-2020E

INCOME STATEMENT (\$M)	2013A	1Q14A	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES												
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12.2	\$ 42.6	\$ 143.7
Collaboration Revenue	0.6	-	-	-	-	-	-	-	-	-	-	-
Other Revenue	0.4	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 1.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12.2	\$ 42.6	\$ 143.7
EXPENSES (GAAP)												
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.8	\$ 4.3	\$ 10.8
R&D Expense	11.7	4.5	4.6	4.7	4.7	18.4	28.0	28.1	28.1	28.7	29.6	30.0
SG&A Expense	6.5	2.4	2.7	2.9	3.2	11.2	15.2	19.2	23.2	27.2	31.2	35.2
Other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	18.3	6.9	7.3	7.6	7.8	29.6	43.2	47.3	51.3	56.6	65.0	75.9
Operating Income	(17.2)	(6.9)	(7.3)	(7.6)	(7.8)	(29.6)	(43.2)	(47.3)	(51.3)	(44.4)	(22.3)	67.8
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(17.2)	(6.9)	(7.3)	(7.6)	(7.8)	(29.6)	(43.2)	(47.3)	(51.3)	(44.4)	(22.3)	67.8
Interest and other income	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and other expense	(0.8)	(0.0)	(0.1)	(0.1)	(0.1)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Other Income (Expense)	(1.9)	-	-	-	-	-	-	-	-	-	-	-
Interest and Other Income (Expense)	(2.7)	(0.0)	(0.1)	(0.1)	(0.1)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Pre-Tax Income	(19.9)	(7.0)	(7.4)	(7.7)	(7.9)	(29.9)	(43.5)	(47.6)	(51.6)	(44.8)	(22.7)	67.4
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	\$ (19.9)	\$ (7.0)	\$ (7.4)	\$ (7.7)	\$ (7.9)	\$ (29.9)	\$ (43.5)	\$ (47.6)	\$ (51.6)	\$ (44.8)	\$ (22.7)	\$ 67.4
EPS (GAAP) (basic)	\$ (3.38)	\$ (0.34)	\$ (0.36)	\$ (0.37)	\$ (0.38)	\$ (1.45)	\$ (1.84)	\$ (1.63)	\$ (1.57)	\$ (1.24)	\$ (0.60)	\$ 1.68
EPS (GAAP) (diluted)	\$ (3.38)	\$ (0.34)	\$ (0.36)	\$ (0.37)	\$ (0.38)	\$ (1.45)	\$ (1.84)	\$ (1.63)	\$ (1.57)	\$ (1.24)	\$ (0.60)	\$ 1.68
Total of Reconciliation Items	1.6	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (18.3)	\$ (7.0)	\$ (7.4)	\$ (7.7)	\$ (7.9)	\$ (29.9)	\$ (43.5)	\$ (47.6)	\$ (51.6)	\$ (44.8)	\$ (22.7)	\$ 67.4
Impact of Adjustments to EPS	0.89	-	-	-	-	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (7.71)	\$ (0.34)	\$ (0.36)	\$ (0.37)	\$ (0.38)	\$ (1.45)	\$ (1.84)	\$ (1.63)	\$ (1.57)	\$ (1.24)	\$ (0.60)	\$ 1.68
EPS (Non-GAAP) (diluted)	\$ (7.71)	\$ (0.34)	\$ (0.36)	\$ (0.37)	\$ (0.38)	\$ (1.45)	\$ (1.84)	\$ (1.63)	\$ (1.57)	\$ (1.24)	\$ (0.60)	\$ 1.68
Weighted average shares outstanding (basic)	5.9	20.3	20.6	20.8	21.0	20.7	23.9	29.3	32.9	36.3	38.2	39.8
Weighted average shares outstanding (diluted)	5.9	20.3	20.6	20.8	21.0	20.7	23.9	29.3	32.9	36.3	38.2	39.8

Source: Company reports and BMO Capital Markets

Fate Therapeutics (FATE)



FYE (Dec.)	EPS US\$	P/E		DPS US\$	Yield%		Payout %	BV US\$	P/B		ROE %
2013	-3.54	na	na	0.00	0.0	0.0	0	2.5	3.7	1.7	
Range*		na	na		0.0	0.0			3.7	1.7	
Current*	-6.24	na		0.00	0.0		0	-49.7	-0.1	13	

FATE - Rating as of 30-Sep-13 = NR

Date	Rating Change	Share Price
1 25-Oct-13	NR to OP	\$6.87

* Current EPS is the 4 Quarter Trailing to Q4/2013.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (May 12, 2014): \$6.91
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology: We arrive at our price target by applying a 25x multiple to 2020 EPS estimate of \$1.68 and discounting at 25%.

Risks: There are a number of risks associated with investment in biotechnology companies. These risks include, but are not limited to, risk of clinical trial delay or failure, adverse regulatory decisions including product non-approval, unanticipated adverse effects of drugs which may result in removal from market, risk of manufacturing difficulties, capital market risk which may impair the ability to fund product discovery, research, regulatory filing, manufacture and/or commercialization, risk in attaining and retaining appropriate development or commercial partners, lower-than-expected product adoption, difficulties in gaining appropriate reimbursement for products from payors, unforeseen generic and branded competition, risk to patents being invalidated, and failure to meet earnings and revenue expectations.

Distribution of Ratings (March 31, 2014)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	42.0%	21.5%	60.7%	40.8%	53.6%	53.6%
Hold	Market Perform	52.8%	10.8%	38.2%	52.8%	43.8%	40.8%
Sell	Underperform	5.2%	3.2%	1.1%	6.3%	2.7%	5.6%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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