

## FLASH NOTE

Life Science & Diagnostic Tools: Life Science Tools

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Doug Schenkel  
[doug.schenkel@cowen.com](mailto:doug.schenkel@cowen.com) 617.946.3918

Shaun Rodriguez, Ph.D.  
[shaun.rodriguez@cowen.com](mailto:shaun.rodriguez@cowen.com) 617.946.3929

Chris Lin  
[chris.lin@cowen.com](mailto:chris.lin@cowen.com) 617.946.3825

## CELLULAR DYNAMICS INTERNATIONAL INC (NASDAQ:ICEL)

# Key iPSC Patent Issued by USPTO, Further Strengthens ICEL's IP Position

### Recommendation

Rating: Outperform  
Price Target: \$16.00

### Stock Statistics as of 10/01/2013

Price: \$18.87  
52W Range: \$24.11-\$9.50  
Shares Out (MM): 16.3  
Market Cap (MM): \$296.9  
Net Debt (MM): \$28.0



We view USPTO's patent issuance on ICEL's key "footprint free" reprogramming technology for iPSC production as fortifying ICEL's leadership position in the field of iPSC production and associated applications. Our price target is under review.

**Issuance of Patent Further Strengthens ICEL's Strong IP Position.** This morning, Cellular Dynamics (ICEL, \$18.87 – Outperform, also referred to as CDI) announced that the US Patent and Trademark Office (USPTO) issued Patent No. 8,546,140 titled "Methods for the Production of Induced Pluripotent Stem (iPS) Cells Using Non-Viral Approach". We believe the patent issuance will further strengthen CDI's already strong IP position, providing a significant barrier to entry in a field that is heavily researched and rapidly evolving. As outlined in our [initiation report \(see page 13\)](#), CDI owns or has exclusively licensed a broad range of patents related to adult tissue cell reprogramming and iPSC production, including 42 patents/patent applications owned, 16 patents exclusively licensed from Wisconsin Alumni Research Foundation (WARF) and Indiana University Research and Technology Corporation (IURTC), and >50 patents non-exclusively licensed from WARF and iPS Academia Japan (iPSAJ).

**Patent Covers CDI's Footprint Free Reprogramming Technology, Essential for iPSC Production.** Today's issued patent covers CDI's "footprint free reprogramming" technology using episomal vectors, and was invented by CDI's founder and CSO Dr. Thomson in 2009 (published in Science with 275 citations thus far). The technology utilizes reprogramming factor-carrying episomal vectors, which are capable of turning the reprogramming genes on and off, without integrating into the host cells. This technology represents a major improvement over the original method, which requires the integration of reprogramming factors into host cells, leading to concerns over the potential risks associated with the insertion of foreign DNA into the genome of host cells during the process. This "footprint free reprogramming" method has been widely adopted by leaders in the iPSC research community, and is a key foundation for CDI's iCell (differentiated cell lines from iPSCs) and MyCell (customized iPSCs and iCells) products. CDI also sells an episomal reprogramming kit through Life Technologies (LIFE, \$74.87 – Market Perform) since 2012.

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
LIFE	Life Technologies

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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 Dahlgren 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

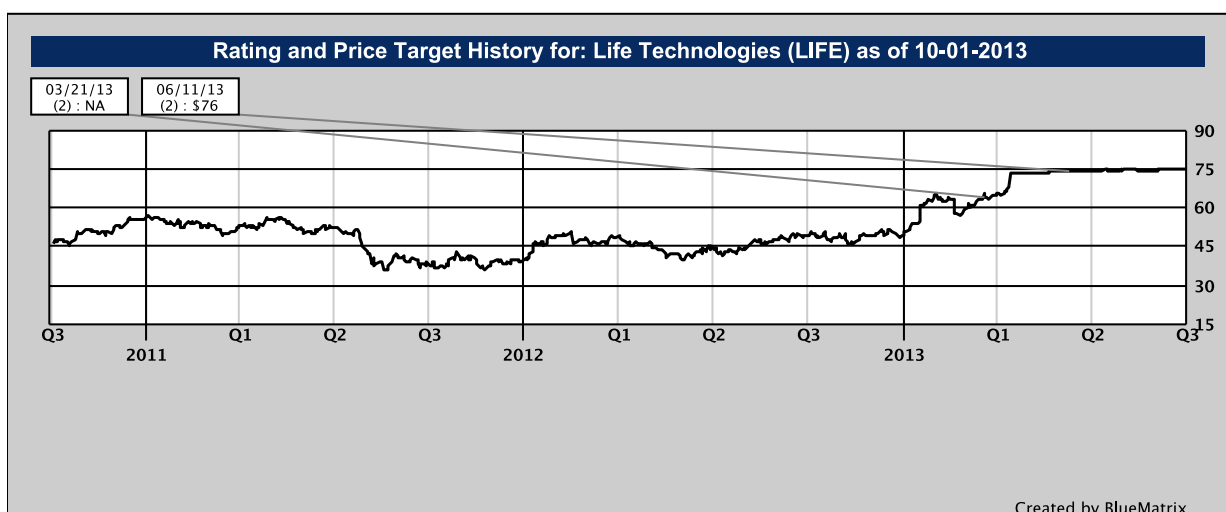
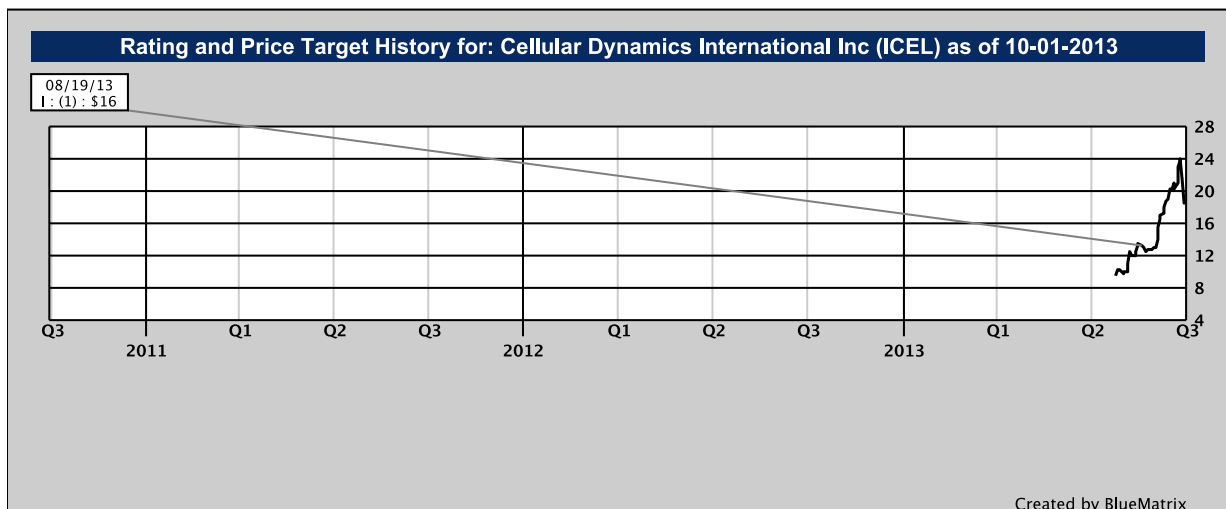
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*Distribution of Ratings/Investment Banking Services (IB) as of 09/30/13*

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 | T = Terminated Coverage | \$xx = Price Target | NA = Not Available