

Cellular Dynamics

1Q14 Quick Take: Bad Ticker - "Natural Volatility" in Cardiomyocyte Volumes Drives Big Top-Line Miss - ALERT

Cellular Dynamics (ICEL) reported weak 1Q14 results, with revenues, which grew 23% y/y, coming in well below JPMe and consensus, due to a drop-off in iCell Cardiomyocytes, while on a more positive note, the company recognized initial sales of iCell DopaNeurons, and total gross margins held up better than expected (85% vs. 76% JPMe). ****Conference call tomorrow at 8:00 a.m. ET, dial-in 877-312-5886, conference ID: 35432190****

- **Revenues fall significantly short of expectations.** Revenues of \$2.9M (+23% y/y) came in well below JPMe and consensus (\$5.3M and \$4.7M, respectively), driven by soft Product Sales, which were impacted by a decrease in Cardiomyocyte volumes, and which more than offset stronger Collaboration and Partnership revenues. We look to the call for color on the drop-off in Cardiomyocyte sales, but remind investors that the overall business remains lumpy at this stage. Beyond that, and on a more positive note, average TTM sales to the top ten customers increased to \$875K vs. \$516K a year ago, while ICEL also recognized initial DopaNeuron revenues during 1Q, and implemented a ~9% price increase on the iCell product line. Moving down the P&L, product gross margins of 69% came in below our estimates of 77%, while total gross margins of 85% were above our estimate of 76%.
- **Questions for the call:** (1) drivers of weak unit volume in Cardiomyocyte sales, including any order timing issues; (2) additional color on customer adoption and market demand for iCell and MyCell products, including DopaNeurons; (3) updates on progress with announced collaborations and partnerships and product pipeline; and (4) further color on the outlook for 2014, including any risk around pharma R&D budgets in light of potential M&A.

Overweight

ICEL, ICEL US

Price: \$11.86

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Figure 1: ICEL – 1Q14 Variance

	1Q13A		1Q14E				1Q14A				Variance vs. JPM Est.	
	Actual		JPM Estimate		Consensus		Actual		Change y/y			
	\$ M	%	\$ M	%	\$ M	%	\$ M	%	Δ \$	Δ margin	\$ M	%
Total Revenue	2.4		5.3		4.7		2.9	23.0%			(2.4)	
Gross Profit	1.8	75.9%	4.0	76.0%			2.5	84.8%	37.5%	897 bp	(1.6)	886 bp
SG&A	(3.6)	152.1%	(4.6)	87.0%			(5.4)	183.4%	48.2%	3126 bp	(0.8)	9640 bp
R&D	(3.9)	161.3%	(4.0)	75.0%			(4.9)	167.3%	27.5%	593 bp	(0.9)	9227 bp
Operating Income	(5.7)	-237.6%	(4.6)	-86.0%			(7.8)	-265.8%		-2822 bp	(3.2)	-17980 bp
EBITDA	(5.3)	-223.3%	(4.1)	-76.7%			(7.3)	-248.8%		-2548 bp	(3.2)	-17217 bp
Pretax Income	(5.7)		(3.8)				(8.1)				(4.3)	
Income Tax	0.0	0.0%	0.0	0.0%			0.0	0.0%		0 bp	0.0	0 bp
Adjusted Net Income	(6)	-237.9%	(4)	-72.1%			(8)	-276.2%	42.8%	-3827 bp	(4)	-20411 bp
Diluted Shares	1.7M		15.9M				15.8M		809.1%		-0.1M	
Adjusted Diluted EPS	(\$3.28)		(\$0.24)		(\$0.34)		(\$0.52)	-84.1%			(\$0.28)	

Source: J.P. Morgan estimates, Company data.

See page 2 for analyst certification and important disclosures.

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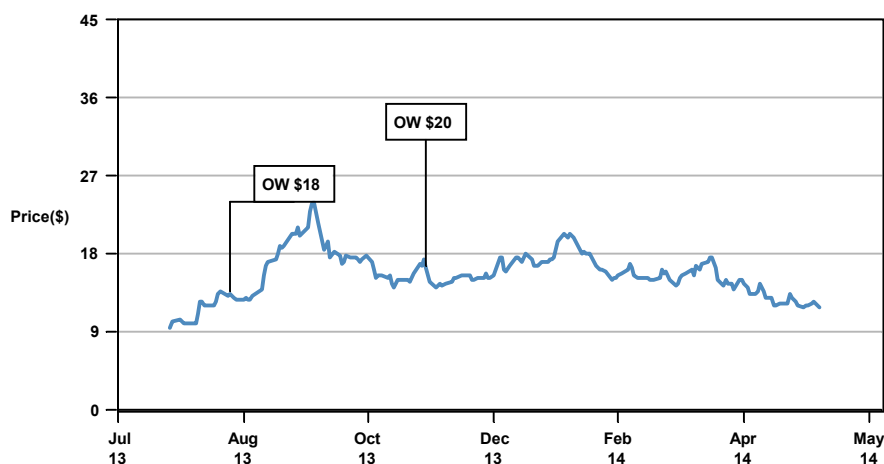
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Cellular Dynamics (ICEL, ICEL US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
19-Aug-13	OW	13.53	18.00
13-Nov-13	OW	16.54	20.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 19, 2013.

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