

## Cellular Dynamics

### 4Q13 Quick Take: Modest Top-Line Shortfall, But Expanding Gross Margins Are Notable - ALERT

Cellular Dynamics (ICEL) reported 4Q13 results, with revenues slightly below JPMe and consensus, but overall performance notable for improving customer adoption and better than expected product and total gross margins. **\*\*Conference call tomorrow at 8:00 a.m. ET, dial-in 877-312-5886, conference ID: 3865935\*\***

- **Lighter than expected product sales offset by higher collaboration revenues.** Revenues of \$4.2M (+100% y/y) came in slightly below both JPMe and consensus (\$4.5M and 4.3M, respectively), driven by unit sales growth of iCell products. The company sold to 150 customers in 2013 compared to 128 in 2012, with the top 10 customers averaging \$830k each in revenue compared to \$445k in the prior year, again signifying growing customer adoption. Growth in the quarter was also attributable to better than expected collaboration and partnership sales (\$1.7M), with over \$2M in revenue for the year from the Eli Lilly partnership and products sold under the supply agreement with Nestle S.A., while the company also recognized initial revenues under the CIRM contract. Moving down the P&L, product and total gross margins of 73% and 84% were well above our estimates of 68% and 75%, as cost of product sales as a percentage of product sales declined from 54% in 4Q12 to 27% in 4Q13, while higher than expected SG&A and R&D expenses (primarily due to sales staffing and IPO expenses) drove softer than expected operating and net income.
- **Questions for the call:** (1) additional color on increasing customer adoption; (2) updates on progress with announced collaborations and partnerships and product pipeline; and (3) further color on the outlook for 2014.

## Overweight

ICEL, ICEL US

Price: \$16.04

10 March 2014

### Life Science Tools & Diagnostics

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Figure 1: ICEL: 4Q13 Variance

	4Q12A		4Q13E				4Q13A				Variance	
	Actual		JPM Estimate		Consensus		Actual		Change y/y		vs. JPM Est.	
	\$ M	%	\$ M	%	\$ M	%	\$ M	%	Δ \$	Δ margin	\$ M	%
Product Sales	2.3		3.5				2.5	8.6%			(1.0)	
Collaborations & Partnerships	0.7		1.1				1.7	155.3%			0.6	
<b>Total Revenue</b>	<b>2.9</b>		<b>4.5</b>		<b>4.3</b>		<b>4.2</b>	<b>41.3%</b>			<b>(0.4)</b>	
Gross Profit	1.7	57.8%	3.4	75.4%			3.5	83.7%	104.5%	2587 bp	0.1	832 bp
SG&A	(3.6)	120.6%	(3.8)	84.1%			(4.9)	117.8%	38.0%	-283 bp	(1.1)	3365 bp
R&D	(3.9)	134.1%	(3.2)	70.0%			(4.9)	119.0%	25.4%	-1515 bp	(1.8)	4899 bp
Operating Income	(5.8)	-196.9%	(3.6)	-78.8%			(6.4)	-153.1%		4385 bp	(2.8)	-7433 bp
EBITDA	(5.4)	-185.1%	(3.4)	-74.6%			(6.2)	-148.5%		3658 bp	(2.8)	-7395 bp
Pretax Income	(5.8)		(2.8)				(6.7)				(4.0)	
Income Tax	0.0	0.0%	0.0	0.0%			0.0	0.0%		0 bp	0.0	0 bp
Adjusted Net Income	(6)	-197.2%	(3)	-60.6%			(7)	-161.4%	15.7%	3580 bp	(4)	-10078 bp
Diluted Shares	1.7M		12.2M				15.8M	812.5%			3.6M	
<b>Adjusted Diluted EPS</b>	<b>(\$3.36)</b>		<b>(\$0.23)</b>		<b>(\$0.30)</b>		<b>(\$0.43)</b>	<b>-87.2%</b>			<b>(\$0.20)</b>	

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

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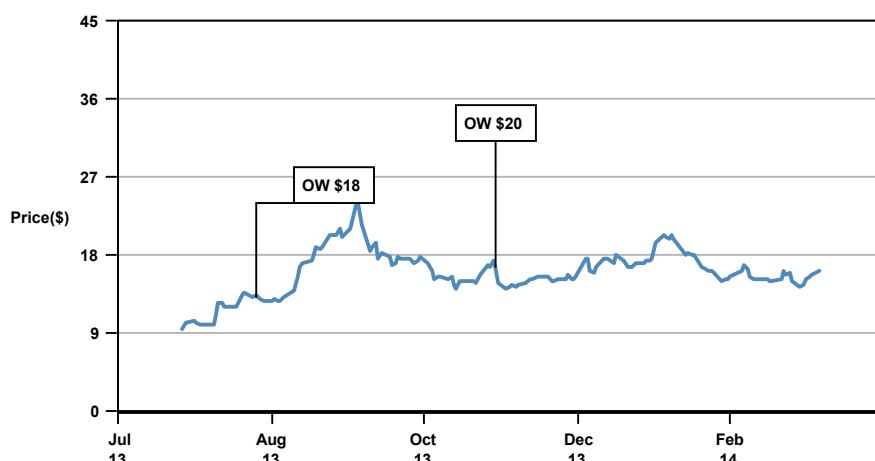
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Cellular Dynamics (ICEL, ICEL US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
19-Aug-13	OW	13.13	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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