

Fate Therapeutics (FATE)

Q1:14 EPS, ProHema IND Amended for Pediatric Patients, PROMPT Study to Start Mid-14, Reiterate OUTPERFORM

- Fate reported a Q1:14 EPS of (\$0.34), below our (\$0.27) estimate, and cash and equivalents of \$47.9M.
- In April, the FDA cleared an amendment to the existing ProHema IND for its use in pediatric patients as young as one year of age, permitting the company to begin in mid-2014 the Phase Ib PROMPT trial in pediatric patients with hematologic malignancies. The open-label study will recruit 18 pediatric patients across three age groups of six patients each, including cohorts of 1-4, 4-12, and 12-18 years of age. Patients will receive a single umbilical cord blood transplant following standard myeloablative conditioning, with the primary endpoint being safety as assessed by neutrophil engraftment. Data from this study and the Phase II PUMA trial in adults with hematologic malignancies are expected in mid-2015, and positive results from both could support a single Phase III registrational study enrolling both adult and pediatric patients.
- FATE is planning to submit its IND this quarter for ProHema in pediatric patients with rare genetic disorders such as lysosomal storage disorders (LSDs). The focus will be on patients with Hurler syndrome, Krabbe disease and certain other leukodystrophies that are characterized by progressive neurocognitive deterioration that are not treatable by enzyme replacement therapy (ERT), but have been treated by stem cell transplants. In animal models, ProHema was found to increase the engraftment of donor hematopoietic stem cells in the brain, which could lead to better outcomes than unmodified stem cell transplantation.
- We expect the next major catalyst for FATE to be the interim update from the PUMA trial in H2:14, which should provide a preliminary sign of efficacy and safety.
- Reiterate OUTPERFORM and \$14 price target. We arrive at our \$14 PT by applying a 6x multiple to 2019 revenues discounted by 35% annually.

Risks to the achievement of our price target include failure to gain approval for ProHema, failure to achieve sales estimates for ProHema and failure to achieve earnings estimates.

May 14, 2014

Price
\$6.60

Rating
OUTPERFORM

12-Month Price Target
\$14

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Company Information

Shares Outst (M)	20.4
Market Cap (M)	\$135.0
52-Wk Range	\$4.30 - \$13.55
Book Value/sh	\$N/A
Cash/sh	\$2.34
Enterprise Value (M)	\$87.1
LT Debt/Cap %	--
Cash Burn (M)	\$31.3

Company Description

Fate Therapeutics, Inc., is based in San Diego, California, and is focused on modulating the activity of adult stem cells used in stem cell transplants for the treatment of hematological cancers, rare diseases and muscular dystrophies.



Source: Thomson Reuters

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	0.0A		\$0.0A	0.0E		\$0.0E
Q2 Jun	0.8A	0.0E		0.0E	0.0E		0.0E
Q3 Sep	0.2A	0.0E		0.0E	0.0E		0.0E
Q4 Dec	0.0A	0.0E		0.0E	0.0E		0.0E
Year*	1.0A	0.0E		\$0.0E	0.0E		\$16.7E
Change	--	-100%			--		
EPS	2013A	2014E			2015E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	(\$0.34)A	(\$0.27)A	(\$0.34)A	(\$0.33)E	(\$0.29)E	(\$0.29)E
Q2 Jun	(\$7.41)A	(\$0.36)E	(\$0.30)E	(\$0.34)E	(\$0.34)E	(\$0.30)E	(\$0.30)E
Q3 Sep	(\$4.81)A	(\$0.37)E	(\$0.32)E	(\$0.35)E	(\$0.34)E	(\$0.31)E	(\$0.31)E
Q4 Dec	(\$0.29)A	(\$0.33)E	(\$0.29)E	(\$0.35)E	(\$0.29)E	(\$0.30)E	(\$0.31)E
Year*	(\$12.50)A	(\$1.40)E	(\$1.18)E	(\$1.37)E	(\$1.30)E	(\$1.19)E	(\$0.87)E
P/E	--	--			--		
Change	--	89%			8%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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Investment Thesis

Fate Therapeutics is a cell therapy company developing two product platforms that modulate the activity of adult stem cells for the treatment of rare diseases. One platform focuses on the ex vivo optimization of hematopoietic stem cells (HSC), and the other focuses on the in vivo activation of satellite stem cells (SSC). ProHema, the lead product from the HSC platform, is derived from modified umbilical cord blood (UCB) and is in the Phase II PUMA trial in adult patients with hematological malignancies. ProHema is also set to enter the clinic for pediatric hematological malignancies and lysosomal storage disorders (LSD) in H2:14. Fate's SSC platform is initially focused on analogs of Wnt7a proteins, which are in preclinical testing for muscular dystrophies and neuromuscular disorders.

5/14/2014

Ticker: (FATE:Nasdaq)

Fate Therapeutics, Inc

Wedbush PacGrow Life Sciences

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	2012A	2013A	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E	2019E
Revenues:												
US Product Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$43,180	\$181,224
ex-US Product Sales	0	0	0	0	0	0	0	0	0	0	27,896	195,124
Licensing and Other Revenues	2,670	971	0	0	0	0	0	0	0	0	0	0
Total Revenues	2,670	971	0	0	0	0	0	0	0	0	71,076	376,348
Cost and Expenses:												
Cost of Sales	0	0	0	0	0	0	0	0	0	0	4,318	18,122
R&D	11,999	12,007	4,522	5,200	5,460	5,733	20,916	24,103	28,086	31,713	34,327	37,156
SG&A	4,228	6,639	2,415	2,463	2,513	2,563	9,954	10,693	11,155	11,899	37,343	55,288
Total Operating Expenses	16,227	18,646	6,937	7,664	7,973	8,296	30,870	34,797	39,240	43,612	75,988	110,567
Operating Income (Loss)	(13,557)	(17,675)	(6,937)	(7,664)	(7,973)	(8,296)	(30,870)	(34,797)	(39,240)	(43,612)	(4,911)	265,781
Net Interest Income (Expense)	(486)	(562)	(43)	395	330	266	948	1,662	2,868	1,611	2,217	4,821
Other non-operating Income (Expense)	(196)	0	0	0	0	0	0	0	0	0	0	0
Income Before Income Taxes	(14,239)	(18,237)	(6,980)	(7,269)	(7,643)	(8,030)	(29,921)	(33,135)	(36,372)	(42,001)	(2,694)	270,602
Provision for Income Taxes	0	0	0	0	0	0	0	0	0	0	1,541	14,342
Net Income (Loss)	(14,239)	(18,237)	(6,980)	(7,269)	(7,643)	(8,030)	(29,921)	(33,135)	(36,372)	(42,001)	(4,235)	256,260
Non-GAAP EPS	(13.21)	(1.05)	(0.34)	(0.35)	(0.37)	(0.33)	(1.25)	(1.15)	(1.26)	(1.31)	(0.15)	7.75
GAAP EPS	(13.06)	(12.50)	(0.34)	(0.36)	(0.37)	(0.33)	(1.40)	(1.30)	(1.24)	(1.39)	(0.14)	7.78
Total Shares Outstanding	1,090	20,425	20,450	20,475	20,500	24,500	24,500	29,540	29,560	32,575	32,953	32,953
Cash Burn	(13,274)	(17,834)	(6,950)	(8,591)	(7,758)	(8,017)	(31,316)	(34,474)	(38,875)	(43,252)	(9,398)	245,774
Cash Balance	9,087	54,036	47,881	40,017	32,257	62,442	62,442	99,804	64,129	84,198	75,261	311,174

Analyst Biography

David Nierengarten, Ph.D.

David is an Analyst covering stocks in the Biotechnology/Biopharmaceuticals/BioDefense sector. His prior sell-side research experience at Robert W. Baird & Co. covered biotechnology companies of all market capitalizations, with a focus on oncology and rare diseases.

David received his B.S. (Biochemistry) from the University of Wisconsin-Madison and Ph.D. (Molecular and Cell Biology) from the University of California-Berkeley.

David's Edge: David's early stage venture capital investing experience gives him a balanced perspective on developmental-stage biotechnology companies and their ultimate risk/reward potential. His experience on the other side of that equation in a clinical-stage, venture backed biotechnology company provides him with insights into corporate operations. The combination of experiences creates a focus on value creation in this event-driven space.

Analyst Certification

I, David M. Nierengarten, Ph.D., Christopher N. Marai, Ph.D., Dilip Joseph, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of March 31, 2014)	Investment Banking Relationships (as of March 31, 2014)
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Neutral: 43%	Neutral: 2%
Underperform: 3%	Underperform: 0%

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Wedbush Equity Research Disclosures as of May 14, 2014

Company	Disclosure
Fate Therapeutics	1,3,4,5

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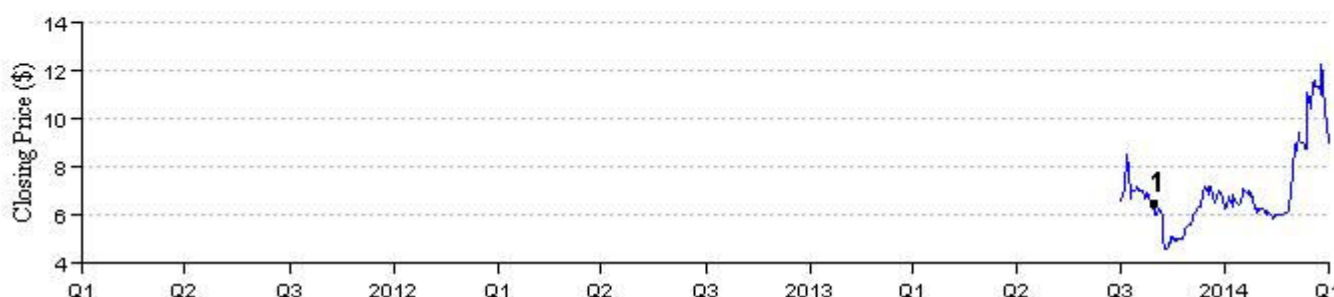
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FATE

1) 10/28/13
OUTPERFORM \$14



* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

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