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March 10, 2014

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Fate Therapeutics (FATE - OUTPERFORM): FATE's Technology Found to Rapidly Produce Durable iPSCs, Reiterate OUTPERFORM

Price: $9.04 **12-Month Price Target: $14**

- **FATE announced the publication of studies demonstrating that the company's proprietary cell culture media efficiently derived and maintained human induced pluripotent stem cells (hiPSC) suitable for clinical use.** iPSCs, which are adult somatic stem cells that have been induced to express certain genes, are similar to embryonic stem cells in their ability to differentiate into a variety of cell types. FATE is using its iPSC technology to aid in the development of myogenic progenitor cells and hematopoietic stem cells (HSCs).

- **The studies describe how the company's multistage culture system using fate reprogramming media (FRM) and fate maintenance medium (FMM) enhanced reprogramming kinetics and promoted hiPSC proliferation.** FRM and FMM uses a proprietary combination of small molecule pathway inhibitors that was found to improve the efficiency of generating and maintaining transgene-free hiPSCs, which should enable researchers to quickly generate a greater number of hiPSCs from even minimal starting cell material.

- **"Platform for Induction and Maintenance of Transgene-free hiPSCs Resembling Ground State Pluripotent Stem Cells" was published in the March edition of *Stem Cell Reports*.** In January, the journal published a study showing that optimized culture conditions rapidly and efficiently induce myogenic differentiation of iPSCs and provide a scalable source of myoblasts ("Myogenic Differentiation of Muscular Dystrophy-Specific Induced Pluripotent Stem Cells for Use in Drug Discovery"). The study also found that dystrophic iPSC-derived myoblasts responded to treatment with Wnt7a, a hypertrophic protein that FATE is targeting for therapies to treat degenerative muscle diseases.

- **FATE is currently conducting preclinical studies on two Wnt7a analogs, and intends to advance one into the clinic for muscular dystrophy in 2015.** We continue to view the major upcoming catalyst for FATE to be the resumption of the Phase II ProHema-03 trial in H1:14 and the release of data from the study in mid-2015.

- **Reiterate OUTPERFORM and $14 price target.** We arrive at our $14 price target by applying a 6x multiple to an estimated $380M in revenues in 2019 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.

Analyst Certification
I, David M. Nierengarten, Ph.D., Gregory R. Wade, Ph.D., Christopher N. Marai, Ph.D., 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.

Disclosure information regarding historical ratings and price targets is available at http://www.wedbush.com/ResearchDisclosure/DisclosureQ413.pdf

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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).*

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Wedbush Equity Research Disclosures as of March 10, 2014

Company	Disclosure
Fate Therapeutics	1,3,4,5

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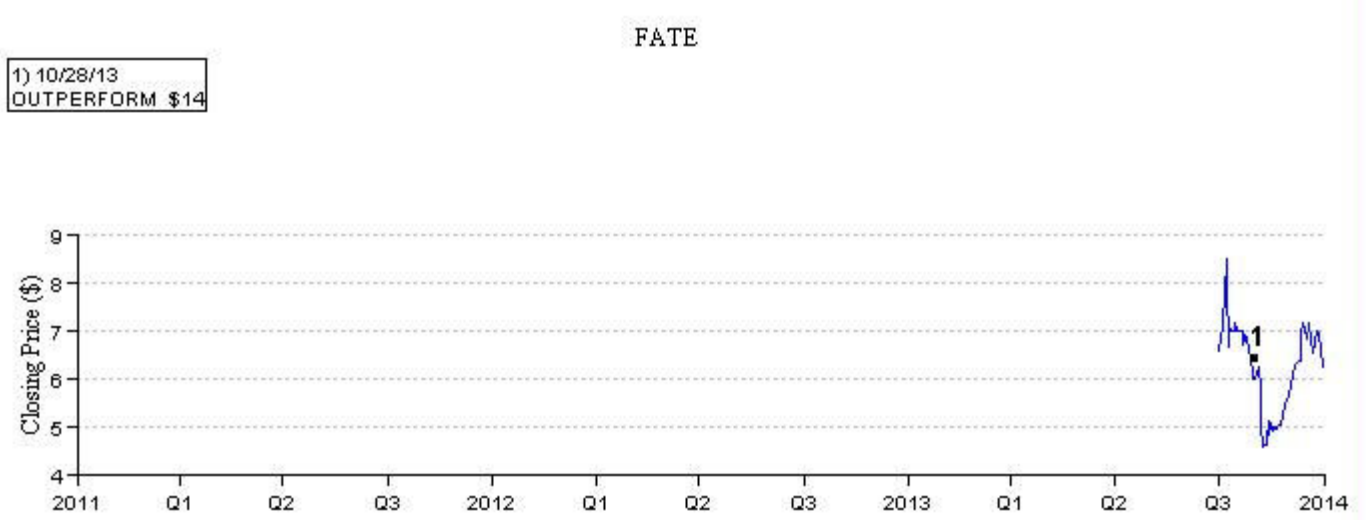

* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.
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