

Cellular Dynamics

3Q13 Quick Take: Solid Product Sales and Record Gross Margins Drive Decent First Quarter Post-IPO - ALERT

Cellular Dynamics (ICEL) reported solid 3Q13 results – its first quarter as a public company – with product revenues in line with expectations, improving customer adoption trends among pharmaceutical manufacturers, and record gross margins. ****Conference call at 8:00 a.m. ET today (11/13), dial-in 877-312-5886, conference ID: 96066198****

- **Product sales in line, while gross margins come in significantly higher.** Revenues of \$2.5M (+100% y/y) came in slightly below JPM and consensus of \$2.9M, with solid Product Sales offset by a modest miss in Collaboration and Partnership revenue. In addition to average sales to top 10 customers increasing more than 100% year/year, management noted that ICEL sold to 142 customers for the trailing twelve months, compared to 115 customers in the same period last year. This suggests a significant and broad-based increase in pharmaceutical customer adoption in research programs, while providing further technical validation of ICEL products, a key tenet of our long-term thesis (see our recent initiation [report](#) for additional thoughts). Total gross margins of 85.3% were well above our estimate (58%) and a company record, driven by lower than expected COGS associated with Product Sales.
- **Questions for the call:** (1) additional color on customer adoption trends; (2) drivers of gross margin strength; (3) progress updates on announced collaborations and partnerships; (4) latest thoughts on the product pipeline; and (5) early thoughts on the outlook for 2014.

Figure 1: ICEL: 3Q13 Variance

	3Q12		3QE				3QA		Variance	
	Actual		JPM Estimate		Consensus		Actual		vs. JPM Est.	
	\$ M	%	\$ M	%	\$ M	%	\$ M	%	\$ M	%
Product Sales	1.1		1.9				1.8	66.8%	(0.1)	
Collaborations & Partnerships	0.2		1.1				0.7	362.0%	(0.3)	
Total Revenue	1.2		2.9		2.9		2.5	104.6%	(0.4)	
Gross Profit	0.9	76.7%	2.2	58.0%			2.2	85.3%	(0.0)	2730 bp
SG&A	(2.9)	234.2%	(3.1)	129.0%			(5.4)	214.3%	(2.3)	8527 bp
R&D	(3.5)	286.2%	(2.3)	100.0%			(3.9)	154.8%	(1.6)	5482 bp
Operating Income	(5.5)	-443.7%	(3.3)	-171.0%			(7.2)	-283.8%	(3.9)	-11279 bp
EBITDA	(5.1)	-416.0%	(3.0)	-160.8%			(6.9)	-271.9%	(3.9)	-11111 bp
Pretax Income	(5.5)		(3.3)				(7.2)		(3.9)	
Income Tax	0.0	0.0%	0.0	0.0%			0.0	0.0%	0.0	0 bp
Adjusted Net Income	(5.5)	(4.4)	(2.9)		(5.3)		(7.5)		(4.6)	
Diluted Shares	1.7M		15.8M				12.1M	600.0%	-3.7M	
GAAP Diluted EPS	\$(3.17)		(\$0.18)		(\$0.39)		\$(0.62)		\$(0.44)	

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

See page 2 for analyst certification and important disclosures.

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Overweight

ICEL, ICEL US

Price: \$16.54

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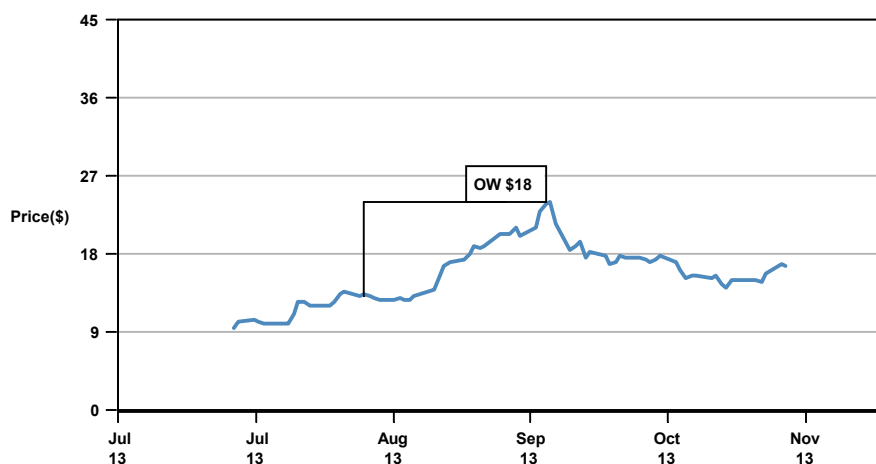
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Cellular Dynamics (ICEL, ICEL US) Price Chart



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

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