

Fate Therapeutics

(FATE-NASDAQ)

Stock Rating: Outperform**Industry Rating:** Outperform

March 18, 2014

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Broadening Stem Cell Therapeutics Pipeline and Platform

Event

Fate Therapeutics reported 4Q13 operating results yesterday and provided an update on key initiatives. Net loss per share was \$0.29, and FATE ended 4Q13 with \$54 million in cash, sufficient through late 2015. With primary focus on the ex-vivo modulated stem cell product PROHEMA for stem cell transplant in hematologic malignancy, FATE highlighted the commencement of patient enrollment in the PUMA phase 2 trial using the NRM formulation, with clinical update in 2H14 following safety (and preliminary efficacy) reviews after the first 6 and 12 patients have been treated with PROHEMA and final data in mid-2015. FATE plans to amend the existing PROHEMA IND in 2Q14 to commence a study in pediatric patients with hematologic malignancies, and file a new IND in mid-2014 to initiate a study in pediatric patients with demyelinating lysosomal storage disorders that cannot be addressed with enzyme replacement therapy, including Hurler syndrome, Krabbe disease, and certain leukodystrophies. The program for Wnt7a protein analogs in muscle regeneration remains on track for advancing one of two analogs into phase 1 in 2015, with preclinical efforts expanded beyond muscular dystrophy to include other areas of muscle damage. FATE also highlighted its proprietary platform of human induced pluripotent stem cells.

Impact & Analysis

We are maintaining our Outperform rating on shares of FATE following review of 4Q13 results. With the initiation of the PUMA study and expected expanded development of PROHEMA into lysosomal storage disorders, we see multiple opportunities for value creation through year-end 2014 and into 2015. Further leverage of stem cell expertise in the in vivo stimulation of muscle satellite stem cells for muscular dystrophy and other muscle disorders, as well as a broader opportunity for human induced pluripotent stem cells, provides a deep pipeline of opportunity for longer-term upside potential, in our view.

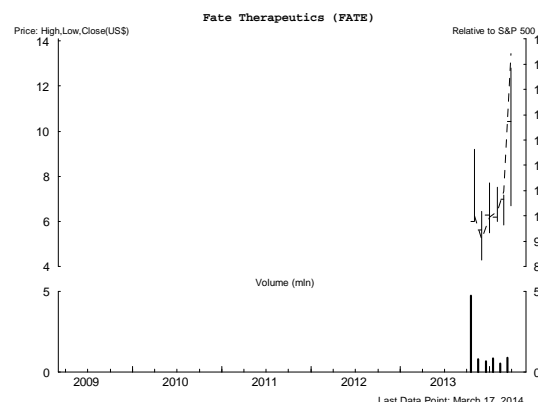
Valuation & Recommendation

We arrive at our \$11 price target by applying a 25x multiple to our 2020 EPS estimate of \$1.68 and discounting at 30%. We rate FATE shares at Outperform.

Securities Info

Price (18-Mar)	\$11.51	Target Price	\$11.00
52-Wk High/Low	\$13/\$4	Dividend	--
Mkt Cap (mm)	\$227	Yield	--
Shs O/S (mm, BASIC)	19.7	Float O/S (mm)	7.6
Options O/S (mm)	na	ADVol (30-day, 000s)	44

Price Performance



Valuation/Financial Data

(FY-Dec.)	2012A	2013A	2014E	2015E
EPS Pro Forma	-\$0.30	-\$3.54	-\$1.43	-\$1.82
P/E			nm	nm
First Call Cons.			-\$1.37	-\$0.89
EPS GAAP	-\$0.30	-\$3.54	-\$1.43	-\$1.82
FCF	na	na	na	na
P/FCF			na	na
EBITDA (\$mm)	-\$14	-\$18	-\$29	-\$42
EV/EBITDA			nm	nm
Rev. (\$mm)	\$3	\$1	\$0	\$0
Quarterly EPS	1Q	2Q	3Q	4Q
2013A	-\$0.57	-\$0.57	-\$4.81	-\$0.29
2014E	-\$0.34	-\$0.35	-\$0.36	-\$0.37

Balance Sheet Data (30-Sep)

Net Debt (\$mm)	-\$54	Total Debt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	nm	Price/Book	-0.2x

Notes: Quarterly EPS may not sum due to share count. All values in US\$.

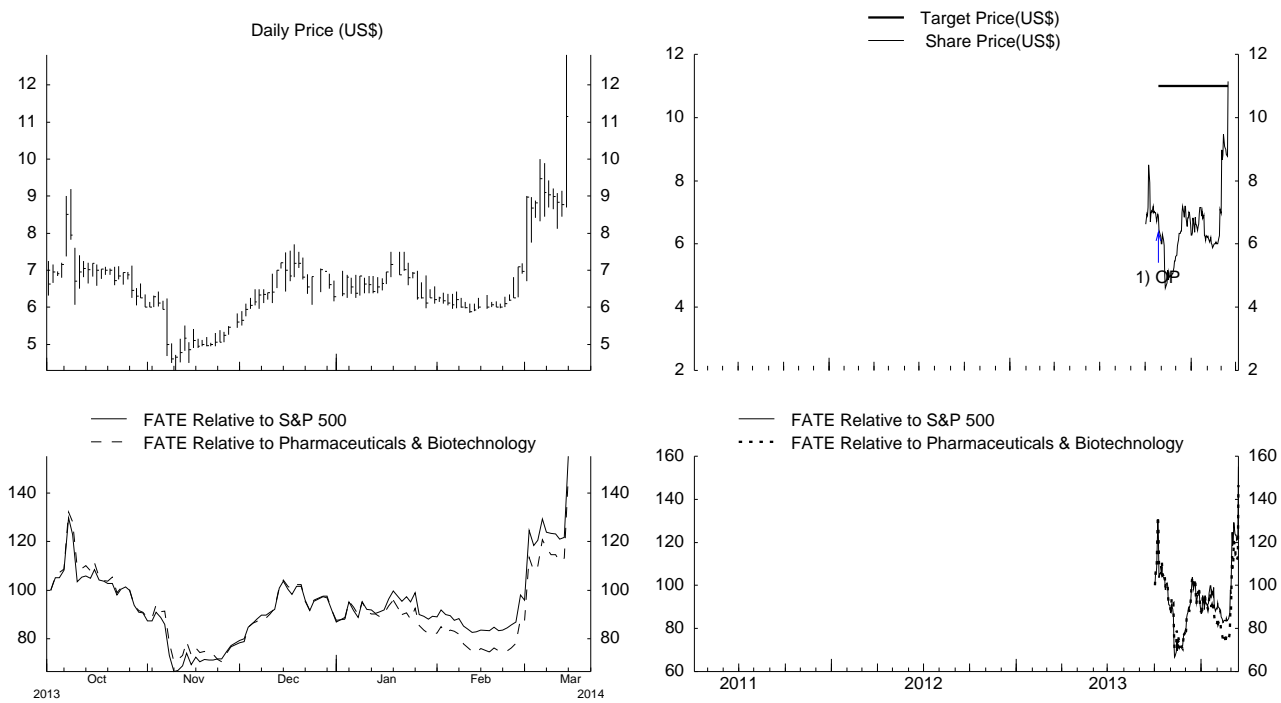
Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

Exhibit 1: FATE Income Statement 2013A-2020E

INCOME STATEMENT (\$M)	2013A	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES												
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12.2	\$ 42.6	\$ 143.7
Collaboration Revenue	0.6	-	-	-	-	-	-	-	-	-	-	-
Other Revenue	0.3	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 1.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12.2	\$ 42.6	\$ 143.7
EXPENSES (GAAP)												
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.8	\$ 4.3	\$ 10.8
R&D Expense	12.0	4.6	4.6	4.7	4.7	18.5	28.0	28.1	28.1	28.7	29.6	32.1
SG&A Expense	6.6	2.1	2.4	2.6	2.9	10.0	14.0	18.0	22.0	26.0	30.0	34.0
Other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	18.6	6.7	7.0	7.3	7.5	28.5	42.0	46.1	50.1	(43.3)	63.8	76.9
Operating Income	(17.7)	(6.7)	(7.0)	(7.3)	(7.5)	(28.5)	(42.0)	(46.1)	(50.1)	(43.3)	(21.2)	66.8
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(17.7)	(6.7)	(7.0)	(7.3)	(7.5)	(28.5)	(42.0)	(46.1)	(50.1)	(43.3)	(21.2)	66.8
Interest and other income	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and other expense	(0.6)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Other Income (Expense)	(1.7)	-	-	-	-	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Interest and Other Income (Expense)	(3.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Pre-Tax Income	(20.9)	(6.8)	(7.1)	(7.4)	(7.6)	(28.9)	(42.4)	(46.5)	(50.5)	(43.6)	(21.5)	66.5
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	\$ (20.9)	\$ (6.8)	\$ (7.1)	\$ (7.4)	\$ (7.6)	\$ (28.9)	\$ (42.4)	\$ (46.5)	\$ (50.5)	\$ (43.6)	\$ (21.5)	\$ 66.5
EPS (GAAP) (basic)	\$ (3.54)	\$ (0.34)	\$ (0.35)	\$ (0.36)	\$ (0.37)	\$ (1.43)	\$ (1.82)	\$ (1.62)	\$ (1.56)	\$ (1.22)	\$ (0.57)	\$ 1.68
EPS (GAAP) (diluted)	\$ (3.54)	\$ (0.34)	\$ (0.35)	\$ (0.36)	\$ (0.37)	\$ (1.43)	\$ (1.82)	\$ (1.62)	\$ (1.56)	\$ (1.22)	\$ (0.57)	\$ 1.68
Total of Reconciliation Items	1.2	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (19.7)	\$ (6.8)	\$ (7.1)	\$ (7.4)	\$ (7.6)	\$ (28.9)	\$ (42.4)	\$ (46.5)	\$ (50.5)	\$ (43.6)	\$ (21.5)	\$ 66.5
Impact of Adjustments to EPS	0.80	-	-	-	-	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (5.44)	\$ (0.34)	\$ (0.35)	\$ (0.36)	\$ (0.37)	\$ (1.43)	\$ (1.82)	\$ (1.62)	\$ (1.56)	\$ (1.22)	\$ (0.57)	\$ 1.68
EPS (Non-GAAP) (diluted)	\$ (5.44)	\$ (0.34)	\$ (0.35)	\$ (0.36)	\$ (0.37)	\$ (1.43)	\$ (1.82)	\$ (1.62)	\$ (1.56)	\$ (1.22)	\$ (0.57)	\$ 1.68
Weighted average shares outstanding (basic)	5.9	19.9	20.1	20.3	20.5	20.2	23.4	28.9	32.4	35.8	37.7	39.2
Weighted average shares outstanding (diluted)	5.9	19.9	20.1	20.3	20.5	20.2	23.4	28.9	32.4	35.8	37.7	39.2

Source: Company reports and BMO Capital Markets

Fate Therapeutics (FATE)



FATE - Rating as of 30-Sep-13 = NR

Date	Rating Change	Share Price
1 25-Oct-13	NR to OP	\$6.93

Last Daily Data Point: March 14, 2014

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Methodology: We arrive at our price target by applying a 25x multiple to 2020 EPS estimate of \$1.68 and discounting at 30%.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

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(S) = Speculative investment;

NR = No rating at this time; and

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