

Fate Therapeutics (FATE)

Q3:13 EPS: New Formulation Ready for the Clinic in H1:14, Two Wnt7a Leads Picked for IND-Enabling Studies, Reiterate OUTPERFORM

- FATE reported pro forma EPS of (\$0.30) compared to our (\$0.33) estimate and ended the quarter with \$19.1 million. After including the proceeds from the IPO that closed in Q4:13, pro forma cash is \$59.1 million. Management stated that cash level is sufficient to fund operations until late 2015.
- Importantly, the company announced that it is on track to resume enrollment in H1:14 of 60 patients into the Phase II ProHema-03 trial. Seven of eight sites have already approved the clinical trial protocol amendment, and the company expects to utilize 10-12 sites to enroll 60 patients for its Phase II.
- Safety data will be available in 2014 after the first six and 12 patients have been treated, which should provide an early indication of efficacy in terms of neutrophil engraftment and survival. Final data is expected in mid-2015, and remains the major catalyst for FATE shares.
- FATE also announced the selection of two Wnt7a analogs for further preclinical evaluation to assess PK and safety profiles, with the intention to advance one into the clinic in 2015 for muscular dystrophy.
- Reiterate OUTPERFORM rating 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.

November 13, 2013

Price
\$5.16

Rating
OUTPERFORM

12-Month Price Target
\$14

David M. Nierengarten, Ph.D.
(415) 274-6862
david.nierengarten@wedbush.com

Gregory R. Wade, Ph.D.
(415) 274-6863
greg.wade@wedbush.com

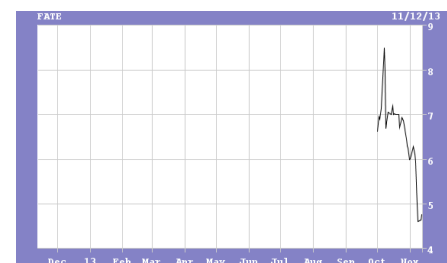
Christopher N. Marai, Ph.D.
(415) 274-6861
christopher.marai@wedbush.com

Company Information

Shares Outst (M)	20.4
Market Cap (M)	\$105.4
52-Wk Range	\$4.30 - \$9.19
Book Value/sh	\$-3.60
Cash/sh	\$2.65
Enterprise Value (M)	\$52.1
LT Debt/Cap %	-0.2
Cash Burn (M)	\$16.6

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	2013E	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	0.0E		\$0.0E	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	0.0E	0.0E		0.0E	0.0E		0.0E
Year*	1.0E	0.0E		\$0.0E	0.0E		\$16.7E
Change	--	-100%			--		
EPS	2013E	2014E			2015E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	(\$0.29)E	(\$0.23)E	(\$0.36)E	(\$0.32)E	(\$0.26)E	N/AE
Q2 Jun	(\$7.41)A	(\$0.32)E	(\$0.26)E	(\$0.38)E	(\$0.33)E	(\$0.26)E	N/AE
Q3 Sep	(\$4.81)A	(\$0.34)E	(\$0.28)E	(\$0.38)E	(\$0.33)E	(\$0.27)E	N/AE
Q4 Dec	(\$0.28)E	(\$0.32)E	(\$0.26)E	(\$0.38)E	(\$0.32)E	(\$0.26)E	N/AE
Year*	(\$12.49)E	(\$1.27)E	(\$1.03)E	(\$1.30)E	(\$1.30)E	(\$1.05)E	(\$0.81)E
P/E	--	--			--		
Change	--	90%			-2%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

Wedbush Securities does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see page 3 of this report for analyst certification and important disclosure information.

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 should resume a Phase II trial in adult patients with hematological malignancies in H1:14 with an improved formulation relative to its Phase I/II study. ProHema is also in the preclinical stage for pediatric hematological malignancies and for certain lysosomal storage disorders (LSD). Fate's SSC platform is initially focused on analogs of Wnt7a proteins, which are in preclinical testing for muscular dystrophies and neuromuscular disorders.

11/13/2013

Ticker: (FATE:Nasdaq)

Fate Therapeutics, Inc

Wedbush PacGrow Life Sciences

David M. Nierengarten, Ph.D.

415-274-6862

	2012	1H:13	Q3	Q4	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues:											
US Product Sales	\$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	27,896	198,672
Grant Revenue	\$2,670	762	209	0	971	0	0	0	0	0	0
Total Revenues	2,670	762	209	0	971	0	0	0	0	71,076	379,896
Cost and Expenses:											
Cost of Sales	0	0	0	0	0	0	0	0	0	7,108	37,990
R&D	11,999	5,598	3,378	3,412	12,388	19,726	22,732	26,488	29,908	32,374	35,042
SG&A	4,228	2,789	1,979	1,999	6,767	8,403	9,027	9,417	10,045	41,189	97,432
Total Operating Expenses	16,227	8,387	5,357	5,411	19,155	28,129	31,759	35,905	39,954	80,670	170,464
Operating Income (Loss)	(13,557)	(7,625)	(5,148)	(5,411)	(18,184)	(28,129)	(31,759)	(35,905)	(39,954)	(9,594)	209,432
Net Interest Income (Expense)	(486)	(187)	0	(252)	(439)	1,320	1,410	1,540	347	156	2,009
Other non-operating Income (Expense)	(196)	(1,270)	(925)	0	0	0	0	0	0	0	0
Income Before Income Taxes	(14,239)	(9,082)	(6,073)	(5,663)	(18,623)	(26,809)	(30,349)	(34,365)	(39,606)	(9,438)	211,441
Provision for Income Taxes	0	0	0	0	0	0	0	0	0	1,090	11,206
Net Income (Loss)	(14,239)	(9,082)	(6,073)	(5,663)	(18,623)	(26,809)	(30,349)	(34,365)	(39,606)	(10,528)	200,234
Non-GAAP EPS	(13.21)	(0.74)	(4.81)	(0.28)	(1.04)	(1.19)	(1.26)	(1.42)	(1.56)	(0.43)	7.59
GAAP EPS	(13.06)	(7.41)	(4.81)	(0.28)	(12.49)	(1.27)	(1.30)	(1.40)	(1.59)	(0.42)	7.61
Total Shares Outstanding	1,090	12,490	1,263	20,425	20,425	23,000	24,540	24,560	25,825	26,306	26,306
Cash Burn	(13,274)	0	0	0	(16,622)	(29,542)	(31,461)	(35,564)	(39,621)	(13,395)	193,962
Cash Balance	9,087	21,313	19,082	54,034	54,034	53,714	58,915	24,890	20,868	6,185	190,197

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., 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/DisclosureQ313.pdf>

Investment Rating System:

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 September 30, 2013)	Investment Banking Relationships (as of September 30, 2013)
Outperform: 55%	Outperform: 14%
Neutral: 41%	Neutral: 2%
Underperform: 4%	Underperform: 0%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

Wedbush Equity Research Disclosures as of November 13, 2013

Company	Disclosure
Fate Therapeutics	1,3,5,7

Research Disclosure Legend

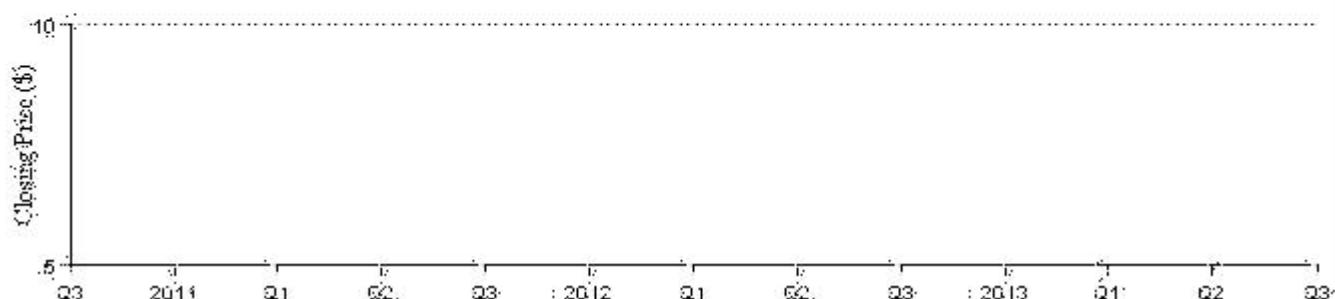
1. WS makes a market in the securities of the subject company.
2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
5. WS provided investment banking services within the last 12 months.
6. WS is acting as financial advisor.
7. WS expects to receive compensation for investment banking services within the next 3 months.
8. WS provided non-investment banking securities-related services within the past 12 months.
9. WS has received compensation for products and services other than investment banking services within the past 12 months.

10. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report has a long position in the common stocks.
11. WS or one of its affiliates beneficially own 1% or more of the common equity securities.
12. The analyst maintains Contingent Value Rights that enables him/her to receive payments of cash upon the company's meeting certain clinical and regulatory milestones.

Price Charts

Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.

FATE



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

Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cmg/equities-division/research/equity-research> Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

OTHER DISCLOSURES

RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com

EQUITY TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * **EQUITY SALES** Los Angeles (800) 444-8076

CORPORATE HEADQUARTERS (213) 688-8000

The information herein is based on sources that we consider reliable, but its accuracy is not guaranteed. The information contained herein is not a representation by this corporation, nor is any recommendation made herein based on any privileged information. This information is not intended to be nor should it be relied upon as a complete record or analysis; neither is it an offer nor a solicitation of an offer to sell or buy any security mentioned herein. This firm, Wedbush Securities, its officers, employees, and members of their families, or any one or more of them, and its discretionary and advisory accounts, may have a position in any security discussed herein or in related securities and may make, from time to time, purchases or sales thereof in the open market or otherwise. The information and expressions of opinion contained herein are subject to change without further notice. The herein mentioned securities may be sold to or bought from customers on a principal basis by this firm. Additional information with respect to the information contained herein may be obtained upon request.

WEDBUSH

EQUITY RESEARCH DEPARTMENT (213) 688-4529

DIRECTOR OF RESEARCH

Mark D. Benson (213) 688-4435

MANAGER, RESEARCH OPERATIONS

Ellen Kang (213) 688-4529

RETAIL AND CONSUMER

Consumer Products

Rommel T. Dionisio (212) 938-9934
Kurt M. Frederick, CFA CPA (415) 274-6822

Footwear, Apparel and Accessories

Corinna Freedman (212) 688-9876
Alicia Reese (212) 938-9927

Healthy Lifestyles

Kurt M. Frederick, CFA CPA (415) 274-6822

Restaurants

Nick Setyan (213) 688-4519
Colin Radke (213) 688-6624

Specialty Retail: Hardlines

Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Seth Basham, CFA (212) 938-9954

RETAIL/CONSUMER MARKET RESEARCH

Gabriella Santaniello (213) 688-4557

INDUSTRIAL GROWTH TECHNOLOGY

Clean Technology

Craig Irwin (212) 938-9926
Min Xu (212) 938-9925

Environmental Services / Building Products

Al Kaschalk (213) 688-4539
Taryn Kuida (213) 688-4505

Industrial Biotechnology

Liana Moussatos, Ph.D. (415) 263-6626
Christopher N. Marai, Ph.D. (415) 274-6861

Water and Renewable Energy Solutions

David Rose, CFA (213) 688-4319

TECHNOLOGY, INTERNET, MEDIA & SOCIAL MEDIA

Communications and Application Software / Internet

Shyam Patil, CFA (213) 688-8062

Communications Equipment

Rohit Chopra (212) 688-9871
Sanjit Singh (212) 938-9922
Ryan Flanagan (212) 938-9942

Computer Services: Financial Technology

Gil B. Luria (213) 688-4501
Aaron Turner (213) 688-4429

Enterprise Software

Steve Koenig (415) 274-6801
Kevin Ikeda (213) 688-4423

Entertainment: Retail

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Entertainment: Software

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Social Internet and E-Commerce

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Media

James Dix, CFA (213) 688-4315

Movies and Entertainment

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Semiconductors

Betsy Van Hees (415) 274-6869
Ryan Jue, CFA (415) 263-6669

LIFE SCIENCES

Biotechnology/Biopharmaceuticals/BioDefense

Gregory R. Wade, Ph.D. (415) 274-6863
David M. Nierengarten, Ph.D. (415) 274-6862
Christopher N. Marai, Ph.D. (415) 274-6861

Emerging Pharmaceuticals

Liana Moussatos, Ph.D. (415) 263-6626
Richard Lau, CFA (415) 274-6851
Christopher N. Marai, Ph.D. (415) 274-6861

Healthcare Services - Managed Care

Sarah James (213) 688-4503

Medical Devices

Tao Levy (212) 938-9948

Medical Diagnostics and Life Sciences Tools

Zarak Khurshid (415) 274-6823

EQUITY SALES

Los Angeles (213) 688-4470 / (800) 444-8076
San Francisco (415) 274-6800
New York (212) 938-9931
Boston (617) 832-3700

EQUITY TRADING

Los Angeles (213) 688-4470 / (800) 421-0178
San Francisco (415) 274-6811
New York (212) 344-2382
Boston (617) 832-3700

CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465

Tel: (213) 688-8000 www.wedbush.com