

February 26, 2014

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Fate Therapeutics (FATE - OUTPERFORM): Improved Safety with ProHema, Reiterate OUTPERFORM

Price: \$6.60

12-Month Price Target: \$14

- **Additional data from a completed Phase Ib study showed that exposure to ProHema improved the survival and immunological properties of umbilical cord blood (UCB) T-cells following umbilical cord blood transfer (UCBT).** Given the protective immunity T-cells provide, an improvement in morbidity rates associated with UCBT was also found following ProHema treatment. ProHema-treated patients had lower rates of viral reactivation post-transplant, with 17% of patients having cytomegalovirus reactivation (compared to 36%-56% in historical control) and no patients having post-transplant lymphoproliferative disorders associated with Epstein-Barr virus infection (compared to 16% historical control). Previously released data showed that ProHema treatment improved neutrophil and platelet engraftment and survival compared to historical control, while also reducing GvHD incidence.
- **Our view (confirmed by our checks with hSCT specialists) is that reduction of viral complications and reduction or elimination anti-viral prophylaxis would be a significant benefit and one driver of ProHema adoption, should it be approved.** Anti-viral prophylaxis can also cause myelosuppression, a negative for patients that have received a stem cell transplant. Generally, we would expect improvements in immune reconstitution to contribute to better patient outcomes, as a major cause of morbidity and mortality in hSCT recipients is opportunistic infections.
- **The major upcoming catalyst for FATE remains the resumption of the Phase II ProHema-03 trial in H1:14 and the release of data from the study in mid-2015.** Recall that enrollment in the trial was paused in order to incorporate a new improved formulation of ProHema. The pediatric formulation of ProHema for both childhood hematologic malignancies and lysosomal storage diseases is expected to be ready for the clinic in the mid-14 timeframe.
- **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.

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Company	Disclosure
Fate Therapeutics	1,3,4,5

Research Disclosure Legend

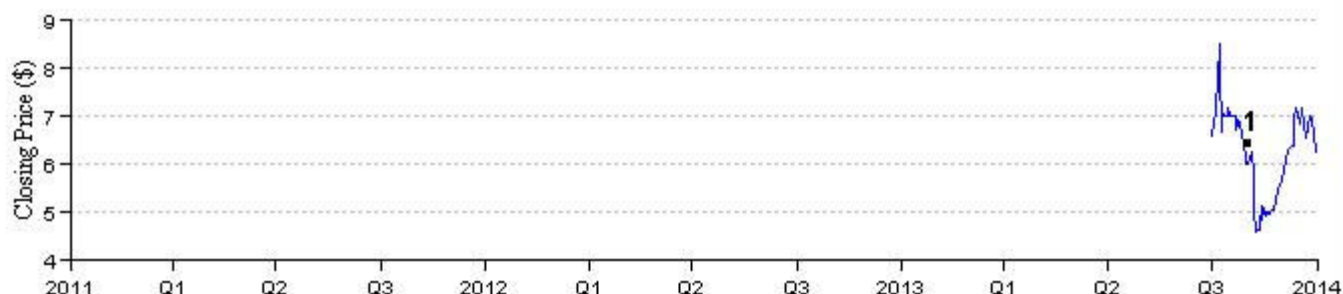
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FATE

1) 10/28/13
OUTPERFORM \$14



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