

Equity Research

March 28, 2014

Price: \$14.45 (03/27/2014)

Price Target: \$18.00 (Prior \$20.50)

OUTPERFORM (1)

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Key Data

Symbol	NASDAQ: ICEL
52-Week Range:	\$24.11 - 9.50
Market Cap (MM):	\$227.8
Net Debt (MM):	\$(32.8)
Cash/Share:	\$19.55
Dil. Shares Out (MM):	16.3
Enterprise Value (MM):	\$171.0
ROIC:	NA
ROE (LTM):	NA
BV/Share:	\$4.50
Dividend:	NA

FY (Dec)	2013A	2014E	2015E
Revenue (MM)			
Q1	\$2.4	\$4.0	\$8.2
Prior Q1	-	\$5.1	
Q2	\$2.8	\$4.7	\$9.6
Prior Q2	-	\$6.9	
Q3	\$2.5	\$4.9	\$12.1
Prior Q3	-	\$7.1	
Q4	\$4.2	\$6.8	\$15.1
Prior Q4	\$4.3	\$10.9	
Year	\$11.9	\$20.5	\$45.0
Prior Year	\$12.1	\$30.0	

Earnings Update

Updating Model To Reflect Recent Update

The Cowen Insight

We are updating our model subsequent to recent conversations with management and a model review. We are reducing our PT to \$18 from \$20.50 (~4x our updated 2016 revenue forecast). We believe shares remain interesting for those with a higher risk tolerance and longer-term objective.

Q4 Results Were About As Expected

Q4 revenue of \$4.2MM (+41.3% Y/Y) was about in line with consensus and our forecast for \$4.3MM. Product sales of \$2.5MM (+8.6% Y/Y) was \$0.6MM below our forecast, but we had noted that sales could be lumpy due to the early stages of product rollout and irregular customer demand. Management noted revenue was driven by: (1) increased unit sales of iCell products; (2) significant increases in Collaborations, Partnerships, and Other revenues arising from ICEL's center of excellence agreements with Eli Lilly and AstraZeneca; and (3) sales of new cell types in early release testing with customers. Encouragingly, ICEL's top 10 customers averaged \$830K in revenue for F13 as compared to \$445K last year, indicating increasing traction with existing customers. Further, customer adoption appears to be increasing as well – ICEL sold to 150 customers in FY13 as compared to 128 in FY12.

No Guidance Provided. We Are Reducing Our Forecast

Management did not provide revenue guidance for 2014. Based on recent trends and low visibility, we are reducing our revenue estimates for 2014, 2015, and 2016 from \$30MM to \$21MM, \$56MM to \$45MM, and \$80MM to \$60MM, respectively. We feel it is prudent to make these fairly material cuts given low visibility on the potential revenue ramp. With that said, we note that we are still forecasting >70% Y/Y revenue growth in both 2014 and 2015 and believe there is still potential bias to the upside. Even subsequent to these cuts, shares trade at ~3x our 2016 revenue forecast; given the broad potential applications for ICEL products, we believe shares remain interesting for those with a higher risk tolerance and longer-term objective.

At A Glance

Our Investment Thesis

Cellular Dynamics is a pioneer in the field of using induced pluripotent stem cells (iPSC) to produce potentially any cell type in the human body in a standardized and cost efficient way on an industrial scale. Via its low-cost, high-quality products, we believe CDI is well positioned to address various market opportunities including in vitro therapeutic research, stem cell banking, and in vivo therapeutic use. While we acknowledge visibility on the financial trajectory remains low, we believe these market opportunities are robust and that CDI is well positioned to address these market opportunities via its product offerings and seasoned management team. The company's early success including working with many of the top biopharmaceutical companies in the world is encouraging. Accordingly, we continue to recommend as a longer term Outperform.

Forthcoming Catalysts

- Quarterly earnings report
- Strategic developments
- Announcement of major new customers

Base Case Assumptions

- Customer adoption accelerates, key top accounts exceed \$1MM/year
- Adoption on Hepatocytes and other products in pipeline in line with expectations
- Stem Cell Banking market potential materializes slower than management forecast
- Customized MyCell growth represents upside relative to our forecast

Upside Scenario

- Customer adoption accelerates, multiple key accounts approach \$2MM/year
- Adoption on Hepatocytes and other products in pipeline faster than expected
- Stem Cell Banking market potential materializes in line with management forecast
- Customized MyCell growth represents upside relative to our forecast

Downside Scenario

- Customer adoption slower than anticipated, key top accounts remain under \$1MM/year
- Adoption on Hepatocytes and other products in pipeline slower than expectations
- Stem Cell Banking market potential fail to materialize
- Customized MyCell products gain limited traction

Price Performance



Source: Bloomberg

Company Description

Cellular Dynamics International is a low cost, high quality, high volume developer and manufacturer of standardized, fully functional human cells based on a method using induced pluripotent stem cells (iPSC). The company's products include iCells (Cardiomyocytes, Neurons, Endothelial Cells, Hepatocytes), iPSCs, and MyCells (custom iPSCs and iCells). These products have the potential to transform 3 markets: (1) in vitro drug development - to enable higher R&D success rate; (2) stem cell banking (cost effective manufacture of autologous cells); and (3) in vivo therapeutic use.

Analyst Top Picks

	Ticker	Price (03/27/2014)	Price Target	Rating
Illumina	ILMN	\$142.97	\$195.00	Outperform
Thermo Fisher Scientific	TMO	\$117.67	\$125.00	Outperform

Figure 1 Cellular Dynamics (ICEL) Revenue Model

(MM, except EPS)	Q1:13	Q2:13	Q3:13	Q4:13	Q1:14E	Q2:14E	Q3:14E	Q4:14E	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2013	2014E	2015E	2016E	2017E	2018E	5Y CAGR
TOTAL REVENUE	\$2.4	\$2.8	\$2.5	\$4.2	\$4.0	\$4.7	\$4.9	\$6.8	\$8.2	\$9.6	\$12.1	\$15.1	\$11.9	\$20.5	\$45.0	\$60.0	\$71.3	\$86.4	48.7%
Product Sales (iCells + MyCells)	\$1.8	\$2.0	\$1.8	\$2.5	\$2.2	\$2.4	\$2.4	\$3.7	\$3.6	\$3.8	\$3.9	\$5.6	\$8.0	\$10.6	\$16.8	\$24.8	\$34.8	\$43.5	
Collaborations/Other	\$0.6	\$0.8	\$0.7	\$1.7	\$1.8	\$2.3	\$2.6	\$3.1	\$4.7	\$5.9	\$8.2	\$9.5	\$3.9	\$9.8	\$28.2	\$35.2	\$36.5	\$42.9	
Revenue Growth	109%	123%	105%	41%	89%	68%	95%	63%	104%	105%	145%	122%	81%	72%	120%	33%	19%	21%	
Product Sales	173%	68%	67%	9%	27%	20%	31%	49%	60%	59%	65%	52%	54%	33%	58%	48%	40%	25%	
Collaborations, Other	26%	880%	362%	155%	184%	178%	251%	85%	158%	150%	219%	206%	177%	153%	187%	25%	4%	18%	
Cost of Product Sales	\$0.6	\$0.7	\$0.4	\$0.7	\$0.7	\$0.7	\$0.7	\$1.1	\$1.1	\$1.2	\$1.2	\$1.7	\$2.3	\$3.3	\$5.1	\$7.3	\$10.1	\$12.4	
Gross Profit	\$1.2	\$1.3	\$1.4	\$1.8	\$1.5	\$1.6	\$1.6	\$2.6	\$2.5	\$2.6	\$2.7	\$4.0	\$5.7	\$7.4	\$11.8	\$17.5	\$24.7	\$31.1	
Gross Margin %	67.1%	65.7%	79.3%	72.7%	69.0%	69.0%	69.0%	69.5%	69.5%	69.5%	70.0%	70.5%	71.2%	69.2%	69.9%	70.5%	71.0%	71.5%	
Incremental Margin	39.1%	32.5%	11.7%	(287.2%)	24.0%	14.7%	64.1%	37.0%	29.7%	29.7%	28.5%	27.6%	7.6%	37.0%	28.7%	28.3%	27.8%	26.5%	
Cost of Collaborations/Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Gross Profit	\$0.6	\$0.8	\$0.7	\$1.7	\$1.8	\$2.3	\$2.6	\$3.1	\$4.7	\$5.9	\$8.2	\$9.5	\$3.9	\$9.8	\$28.2	\$35.2	\$36.5	\$42.9	
Gross Margin %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Incremental Margin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
iCells & MyCells	\$1.8	\$2.0	\$1.8	\$2.5	\$2.2	\$2.4	\$2.4	\$3.7	\$3.6	\$3.8	\$3.9	\$5.6	\$8.0	\$10.6	\$16.8	\$24.8	\$34.8	\$43.5	40.3%
Growth	173%	68%	67%	9%	27%	20%	31%	49%	60%	59%	65%	52%	54%	33%	58%	48%	40%	25%	
Volume - cell lines	1,552	1,628	1,307	2,117	1,846	2,014	1,787	2,876	2,648	2,816	2,721	4,243	6,605	8,523	12,428	18,303	25,648	31,744	
Growth	160%	49%	30%	1%	19%	24%	37%	36%	43%	40%	52%	48%	38%	29%	46%	47%	40%	24%	
ASP	\$1,130	\$1,209	\$1,371	\$1,172	\$1,207	\$1,178	\$1,315	\$1,285	\$1,344	\$1,342	\$1,422	\$1,321	\$1,211	\$1,249	\$1,353	\$1,355	\$1,357	\$1,370	
Growth	5%	13%	28%	7%	7%	(3%)	(4%)	10%	11%	14%	8%	3%	12%	3%	8%	0%	0%	1%	
Cardiomyocytes	\$1.1	\$1.2	\$1.0	\$1.4	\$1.2	\$1.3	\$1.2	\$1.7	\$1.7	\$1.8	\$1.8	\$2.3	\$4.8	\$5.4	\$7.6	\$10.2	\$13.3	\$15.9	27.2%
Growth	137%	110%	94%	38%	10%	5%	17%	20%	37%	37%	50%	37%	83%	13%	40%	35%	30%	20%	
Volume - cell lines	987	1,111	752	1,233	1,085	1,167	977	1,480	1,487	1,599	1,466	2,027	4,083	4,709	6,578	8,881	11,545	13,854	27.7%
Growth	126%	104%	115%	15%	10%	5%	30%	20%	37%	37%	50%	37%	70%	15%	40%	35%	30%	20%	
ASP	\$1,130	\$1,105	\$1,365	\$1,150	\$1,130	\$1,105	\$1,230	\$1,150	\$1,130	\$1,105	\$1,230	\$1,150	\$1,172	\$1,151	\$1,152	\$1,150	\$1,150	\$1,150	
Growth	5%	3%	27%	20%	0%	0%	(10%)	0%	0%	0%	0%	0%	8%	(2%)	0%	0%	0%	0%	
Neurons	\$0.6	\$0.4	\$0.6	\$0.8	\$0.7	\$0.8	\$0.7	\$1.2	\$1.0	\$1.0	\$1.0	\$1.9	\$2.4	\$3.5	\$4.8	\$7.4	\$10.4	\$13.3	40.6%
Growth	301%	(24%)	34%	(26%)	31%	89%	11%	54%	30%	30%	40%	50%	8%	43%	39%	52%	42%	28%	
Volume - cell lines	494	378	468	708	617	681	608	992	802	885	852	1,488	2,048	2,898	4,027	6,141	8,689	11,122	40.3%
Growth	282%	(26%)	(22%)	(18%)	25%	80%	30%	40%	30%	30%	40%	50%	(2%)	41%	39%	53%	42%	28%	
ASP	\$1,130	\$1,105	\$1,385	\$1,135	\$1,187	\$1,160	\$1,177	\$1,249	\$1,187	\$1,160	\$1,177	\$1,249	\$1,185	\$1,200	\$1,202	\$1,200	\$1,200	\$1,200	
Growth	5%	3%	26%	(10%)	5%	5%	(15%)	10%	0%	0%	0%	0%	10%	1%	0%	0%	0%	0%	
Other iCells	\$0.1	\$0.2	\$0.1	\$0.2	\$0.2	\$0.2	\$0.2	\$0.5	\$0.4	\$0.4	\$0.5	\$0.8	\$0.6	\$1.1	\$2.1	\$3.8	\$6.3	\$7.9	69.8%
Growth	138%	264%	89%	20%	110%	26%	96%	119%	150%	100%	100%	80%	80%	87%	99%	80%	66%	26%	
Volume - cell lines	72	138	88	176	143	166	202	405	358	332	404	728	474	916	1,823	3,281	5,414	6,768	70.2%
Growth	127%	254%	50%	9%	100%	20%	130%	130%	150%	100%	100%	80%	75%	93%	99%	80%	65%	25%	
ASP	\$1,130	\$1,105	\$1,355	\$1,183	\$1,187	\$1,160	\$1,152	\$1,123	\$1,187	\$1,160	\$1,152	\$1,123	\$1,184	\$1,146	\$1,149	\$1,150	\$1,160	\$1,170	
Growth	5%	3%	26%	10%	5%	5%	(15%)	(5%)	0%	0%	0%	0%	3%	(3%)	0%	0%	1%	1%	
MyCells	\$0.0	\$0.2	\$0.0	\$0.1	\$0.1	\$0.1	\$0.2	\$0.3	\$0.5	\$0.6	\$0.6	\$0.6	\$0.2	\$0.7	\$2.3	\$3.5	\$4.8	\$6.3	
Growth					NA	(41%)	NA	477%	400%	500%	200%	100%		215%	229%	50%	40%	30%	
Collaborations/Other	\$0.6	\$0.8	\$0.7	\$1.7	\$1.8	\$2.3	\$2.6	\$3.1	\$4.7	\$5.9	\$8.2	\$9.5	\$3.9	\$9.8	\$28.2	\$35.2	\$36.5	\$42.9	61.7%

Source: Company Reports and Cowen and Company.

Figure 2 Cellular Dynamics (ICEL) Income Statement

(MM, except EPS)	Q1:13	Q2:13	Q3:13	Q4:13	Q1:14E	Q2:14E	Q3:14E	Q4:14E	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2013	2014E	2015E	2016E	2017E	2018E	5Y CAGR	Comments
TOTAL REVENUE	\$2.4	\$2.8	\$2.5	\$4.2	\$4.0	\$4.7	\$4.9	\$6.8	\$8.2	\$9.8	\$12.1	\$15.1	\$11.9	\$20.5	\$45.0	\$80.0	\$71.3	\$86.4	48.7%	
Reported Growth	108.6%	123.2%	104.6%	41.3%	68.8%	67.8%	94.8%	63.5%	103.7%	104.6%	145.2%	122.0%	80.6%	72.2%	119.9%	33.3%	18.8%	21.2%		
Cost of Sales	\$0.6	\$0.7	\$0.4	\$0.7	\$0.7	\$0.7	\$0.7	\$1.1	\$1.1	\$1.2	\$1.2	\$1.7	\$2.3	\$3.3	\$5.1	\$7.3	\$10.1	\$12.4		
Gross Profit	\$1.8	\$2.1	\$2.2	\$3.5	\$3.3	\$4.0	\$4.2	\$5.7	\$7.1	\$8.5	\$10.9	\$13.4	\$9.6	\$17.2	\$40.0	\$62.7	\$61.2	\$74.0	50.5%	
% of sales	75.9%	76.0%	85.3%	83.7%	82.9%	84.4%	85.2%	83.4%	86.8%	88.1%	90.4%	89.0%	80.6%	84.0%	88.8%	87.8%	85.8%	85.7%		Overall gross profit not reflective of product gross margin; Collaboration/other revenue recorded at 100% "GM"
Growth	80.8%	NM	NM	NM	84.4%	86.4%	94.6%	63.0%	NM	NM	NM	NM	NM	79.3%	NM	31.9%	16.1%	21.0%		
Incremental Margin	65.1%	83.4%	93.5%	146.3%	93.1%	96.9%	85.1%	83.0%	90.6%	91.5%	93.9%	93.6%	96.0%	88.6%	92.8%	84.9%	75.3%	84.8%		
Research & Development	\$3.9	\$3.9	\$3.9	\$4.9	\$4.6	\$4.7	\$4.7	\$4.7	\$5.6	\$5.7	\$5.9	\$6.0	\$16.8	\$18.6	\$23.2	\$24.0	\$24.8	\$25.5	8.9%	
% of sales	161.3%	139.1%	154.8%	119.0%	113.5%	98.8%	94.8%	69.7%	68.3%	59.0%	48.6%	39.8%	139.9%	91.1%	51.5%	40.0%	34.5%	29.5%		
Growth	26.1%	3.9%	10.7%	25.3%	18.8%	19.2%	19.3%	(4.2%)	22.6%	22.2%	25.6%	26.9%	16.2%	12.1%	24.4%	3.6%	2.4%	3.7%		
Sales & Marketing	\$1.5	\$1.5	\$1.7	\$1.8	\$1.9	\$2.0	\$2.0	\$2.1	\$2.1	\$2.1	\$2.2	\$2.3	\$8.5	\$7.9	\$8.6	\$9.5	\$10.5	\$11.4	11.8%	
% of sales	63.9%	53.5%	66.5%	43.4%	45.9%	41.3%	40.7%	30.9%	25.6%	21.8%	17.8%	14.9%	54.8%	38.6%	19.1%	15.8%	14.7%	13.2%		
Growth	67.1%	39.5%	55.0%	36.5%	21.2%	29.7%	19.1%	16.3%	13.5%	7.7%	7.5%	7.1%	48.2%	21.2%	8.9%	10.5%	10.0%	9.1%		
General & Administrative	\$2.1	\$1.8	\$3.7	\$3.1	\$3.1	\$3.1	\$3.1	\$3.1	\$3.1	\$3.1	\$3.1	\$3.1	\$10.7	\$12.4	\$12.4	\$12.7	\$13.5	\$14.3	6.0%	MAR 11: 2014 G&A guided to Q4:2013 run rate
% of sales	88.2%	63.2%	147.7%	74.4%	76.7%	65.6%	62.9%	45.5%	37.6%	32.1%	25.7%	20.5%	90.1%	60.5%	27.5%	21.2%	19.0%	16.6%		
Growth	15.9%	(18.2%)	NM	38.9%	46.7%	74.0%	(17.0%)	0.0%	0.0%	0.0%	0.0%	0.0%	33.4%	15.6%	0.0%	2.8%	6.3%	5.9%		
Other/Intangible Amortization	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		
% of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM		
Total Operating Expenses	\$7.5	\$7.2	\$9.3	\$9.8	\$9.5	\$9.7	\$9.8	\$9.9	\$10.8	\$10.9	\$11.1	\$11.4	\$38.8	\$38.9	\$44.2	\$48.2	\$48.6	\$51.2	8.0%	
% of sales	313.5%	255.8%	369.1%	236.8%	236.1%	205.7%	198.4%	146.1%	131.5%	112.8%	92.1%	75.2%	284.8%	190.1%	98.1%	77.0%	68.1%	59.2%		
Growth	29.4%	2.5%	45.1%	31.3%	27.1%	34.9%	4.7%	0.9%	13.5%	12.2%	13.8%	14.3%	26.7%	15.0%	13.5%	4.7%	5.0%	5.4%		
EBITDA	(\$5.3)	(\$4.7)	(\$6.8)	(\$6.0)	(\$5.7)	(\$5.2)	(\$5.1)	(\$3.8)	(\$3.1)	(\$1.8)	\$0.4	\$2.7	(\$22.9)	(\$19.8)	(\$1.9)	\$9.2	\$15.7	\$26.2	-	
% of sales	(223.3%)	(167.8%)	(270.9%)	(144.3%)	(141.4%)	(111.2%)	(103.6%)	(55.7%)	(37.8%)	(18.9%)	3.0%	17.6%	(182.6%)	(96.9%)	(4.2%)	15.2%	22.0%	30.3%		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	71.7%	66.8%		
Depreciation & Amortization	\$0.3	\$0.3	\$0.3	\$0.4	\$0.5	\$0.5	\$0.5	\$0.5	\$0.6	\$0.6	\$0.6	\$0.6	\$1.4	\$1.9	\$2.3	\$2.7	\$3.1	\$3.4		
Operating Profit	(\$5.7)	(\$5.1)	(\$7.2)	(\$6.4)	(\$6.2)	(\$5.7)	(\$5.6)	(\$4.3)	(\$3.7)	(\$2.4)	(\$0.2)	\$2.1	(\$24.3)	(\$21.7)	(\$4.2)	\$6.5	\$12.8	\$22.8	-	
% of sales	(237.6%)	(179.8%)	(283.8%)	(153.1%)	(153.2%)	(121.3%)	(113.2%)	(62.7%)	(44.7%)	(24.8%)	(1.7%)	13.8%	(204.2%)	(106.2%)	(9.3%)	10.8%	17.7%	26.4%		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	95.0%	80.6%		
Incremental Margin	(71.6%)	72.0%	(130.9%)	(46.9%)	(30.5%)	(34.9%)	66.6%	79.8%	59.9%	67.5%	75.1%	76.5%	(38.3%)	29.5%	71.4%	71.1%	54.7%	67.4%		
Other non-Operating Expense	\$0.0	\$0.0	(\$0.0)	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		
Net Interest Expense	\$0.0	\$0.0	\$0.4	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.2	\$0.2	\$0.2	\$0.2	\$0.7	\$1.4	\$1.0	\$0.0	\$0.0	\$0.0		
Earnings Before Taxes	(\$5.7)	(\$5.1)	(\$7.5)	(\$6.7)	(\$6.5)	(\$6.1)	(\$5.9)	(\$4.6)	(\$3.9)	(\$2.6)	(\$0.5)	\$1.8	(\$25.0)	(\$23.1)	(\$5.2)	\$6.5	\$12.8	\$22.8	-	
Margin	(237.9%)	(180.0%)	(297.2%)	(161.4%)	(161.8%)	(128.6%)	(120.3%)	(67.8%)	(47.7%)	(27.3%)	(3.8%)	12.2%	(210.0%)	(112.9%)	(11.5%)	10.8%	17.7%	26.4%		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	95.0%	80.6%		
Income Taxes	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.9	\$3.8	\$6.8		
Rate																30.0%	30.0%	30.0%		
Net Income	(\$5.7)	(\$5.1)	(\$7.5)	(\$6.7)	(\$6.5)	(\$6.1)	(\$5.9)	(\$4.6)	(\$3.9)	(\$2.6)	(\$0.5)	\$1.8	(\$25.0)	(\$23.1)	(\$5.2)	\$4.5	\$8.8	\$16.0	-	
Margin	(237.9%)	(180.0%)	(297.2%)	(161.4%)	(161.8%)	(128.6%)	(120.3%)	(67.8%)	(47.7%)	(27.3%)	(3.8%)	12.2%	(210.0%)	(112.9%)	(11.5%)	7.6%	12.4%	18.5%		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	95.0%	80.6%		
GAAP Earnings Per Share	(\$0.48)	(\$0.42)	(\$0.62)	(\$0.49)	(\$0.41)	(\$0.39)	(\$0.38)	(\$0.29)	(\$0.25)	(\$0.17)	(\$0.03)	\$0.12	(\$1.95)	(\$1.47)	(\$0.33)	\$0.29	\$0.56	\$1.01	-	
Shares Outstanding	12	12	12	16	16	16	16	16	16	16	16	16	13	16	16	16	16	16		
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	95.0%	80.6%		
CELLULAR DYNAMICS - CONSENSUS ESTIMATES																				
(MM, except EPS)	Q1:13	Q2:13	Q3:13	Q4:13	Q1:14E	Q2:14E	Q3:14E	Q4:14E	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2013	2014E	2015E	2016E	2017E	2018E		
Consensus Revenue					\$5.1	\$6.2	\$6.2	\$8.5	\$8.0	\$11.0	\$10.0	\$16.0	\$12.0	\$25.9	\$50.4	\$75.5	\$102.3			
Growth					NM	105.6%	98.4%		75.3%	77.4%	62.2%	89.0%		115.4%	94.2%	50.0%	35.4%			
Actual/Cowen	\$2.4	\$2.8	\$2.5	\$4.2	\$4.0	\$4.7	\$4.9	\$6.8	\$8.2	\$9.8	\$12.1	\$15.1	\$11.9	\$20.5	\$45.0	\$80.0	\$71.3	\$86.4		
Consensus Gross Margin					72.8%	72.8%	72.4%	72.8%	82.2%	82.2%	82.2%	82.2%	72.8%	72.7%	73.3%	72.9%	72.9%	72.9%		
Actual/Cowen	75.9%	76.0%	85.3%	83.7%	82.9%	84.4%	85.2%	83.4%	86.8%	88.1%	90.4%	89.0%	80.6%	84.0%	88.8%	87.8%	85.8%	85.7%		
Consensus Op. Margin																				
Actual/Cowen	(237.6%)	(179.8%)	(283.8%)	(153.1%)	(153.2%)	(121.3%)	(113.2%)	(62.7%)	(44.7%)	(24.8%)	(1.7%)	13.8%	(204.2%)	(106.2%)	(9.3%)	10.8%	17.7%	26.4%		
Consensus EPS					(\$0.29)	(\$0.29)	(\$0.28)	(\$0.28)	(\$0.25)	(\$0.17)	(\$0.03)	\$0.12	(\$2.22)	(\$1.14)	(\$0.45)	\$0.12	\$1.72			
Actual/Cowen	(\$0.48)	(\$0.42)	(\$0.62)	(\$0.43)	(\$0.41)	(\$0.39)	(\$0.38)	(\$0.29)	(\$0.25)	(\$0.17)	(\$0.03)	\$0.12	(\$1.95)	(\$1.47)	(\$0.33)	\$0.29	\$0.56	\$1.01		

Source: Company Reports, Thomson One, and Cowen and Company.

Valuation Methodology And Risks

Valuation Methodology

Life Science & Diagnostic Tools:

Price targets are based on several methodologies which may include: analysis of market risk, growth rate, revenue stream, discounted cash flows (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount) / average group EV/EBITDA, premium (discount) / average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Investment Risks

Life Science & Diagnostic Tools:

Risks to the Medical and Life Science Tools sector may include: reduction or delay in research and development budgets and government funding, reduced or delayed purchasing from health care / hospital customers, increased or extended regulatory hurdles or processes for regulated products, increased dependence on volatile emerging markets for revenues and profitability, and general macroeconomic challenges.

Risks To The Price Target

Risks include but are not limited to: product is in early stage and customer adoption could be slower than expected, competition could intensify, market opportunity is difficult to define, and low visibility on financial trajectory.

Addendum

Stocks Mentioned In Important Disclosures

Ticker	Company Name
ICEL	Cellular Dynamics International Inc
ILMN	Illumina
TMO	Thermo Fisher Scientific

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Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

Market Perform (2): The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Rating System until May 25, 2013

Outperform (1): Stock expected to outperform the S&P 500

Neutral (2): Stock expected to perform in line with the S&P 500

Underperform (3): Stock expected to underperform the S&P 500

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

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Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

Cowen And Company Rating Definitions

Distribution of Ratings/Investment Banking Services (IB) as of 12/31/13

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	415	59.20%	68	16.39%
Hold (b)	270	38.52%	4	1.48%
Sell (c)	16	2.28%	1	6.25%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

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Cellular Dynamics International Inc Rating History as of 03/27/2014

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Illumina Rating History as of 03/27/2014

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Thermo Fisher Scientific Rating History as of 03/27/2014

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Legend for Price Chart:

I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | \$xx = Price Target | NA = Not Available

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