

Fate Therapeutics

(FATE-NASDAQ)

Stock Rating: Outperform
Industry Rating: Outperform

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3Q13 Update, Key Programs on Track

Event

Fate Therapeutics reported 3Q13 operating results yesterday and provided an update on key initiatives. Net loss per share was \$4.81, and FATE ended 3Q13 with \$19.1 mn cash, which did not include \$46.0 mn gross proceeds from the company's IPO (closed on Oct. 4, 2013). FATE believes its cash resources are sufficient to fund operations through late 2015. With primary focus on the resumption of the phase 2 study of the ex-vivo modulated stem cell product ProHema for stem cell transplant (SCT) in hematologic malignancy, FATE reported it has cleared key regulatory and operational milestones and expects to resume the phase 2 ProHema-03 study in 1H14 using the NRM formulation. FATE also reported that seven of the eight clinical sites involved in the study have approved protocol amendment incorporating the NRM formulation, and that it expects to open two to four new clinical sites in the coming months. The final results from the ProHema-03 trial are expected in mid-2015, and an update will be provided upon the completion of initial safety reviews after the first 12 subjects have been treated. With focus on Wnt7a protein analogs for muscular dystrophies, FATE has selected two Wnt7a analogs for advancement into IND-enabling activities, with the goal of advancing one of the analogs into phase 1 clinical development in 2015. FATE also highlighted two recently issued US patents related to the ex vivo modulation of HSCs.

Impact & Analysis

We are maintaining our Outperform rating on shares of Fate Therapeutics following 3Q13 results. We are encouraged by the progress made toward the resumption of the ProHema-03 trial, and continue to believe greater value may exist for earlier-stage programs for ProHema in Hurler's Syndrome as well as Wnt7a protein analogs in muscular dystrophies.

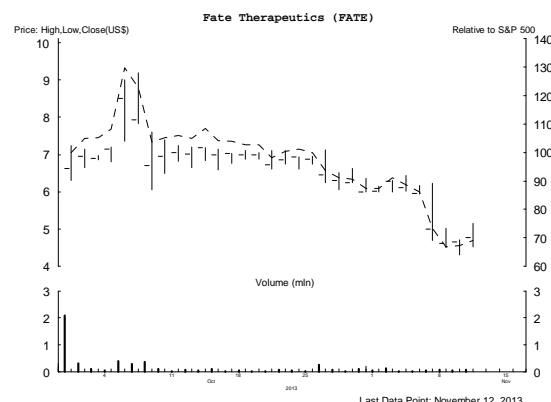
Valuation & Recommendation

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

Securities Info

Price (13-Nov)	\$5.16	Target Price	\$11.00
52-Wk High/Low	\$9/\$4	Dividend	--
Mkt Cap (mm)	\$107	Yield	--
Shs O/S (mm, BASIC)	20.8	Float O/S (mm)	7.6
Options O/S (mm)	na	ADVol (30-day, 000s)	170

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS Pro Forma	-\$2.49	-\$0.30	-\$6.18↓	-\$1.43
P/E			nm	nm
First Call Cons.			-\$1.42	-\$1.30
EPS GAAP	-\$2.49	-\$0.30	-\$6.18	-\$1.43
FCF	na	na	na	na
P/FCF			na	na
EBITDA (\$mm)	-\$13	-\$14	-\$17	-\$30
EV/EBITDA			nm	nm
Rev. (\$mm)	\$1	\$3	\$1	\$0
EV/Rev			57.9x	nm
Quarterly EPS	1Q	2Q	3Q	4Q
2012A	na	na	na	na
2013E	-\$0.57A	-\$0.57A	-\$4.81A	-\$0.23
Balance Sheet Data (30-Jun)				
Net Debt (\$mm)	-\$61	TotalDebt/EBITDA		nm
Total Debt (\$mm)	\$1	EBITDA/IntExp		na
Net Debt/Cap.	nm	Price/Book		-0.1x

Notes: All values in US\$.

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

Changes

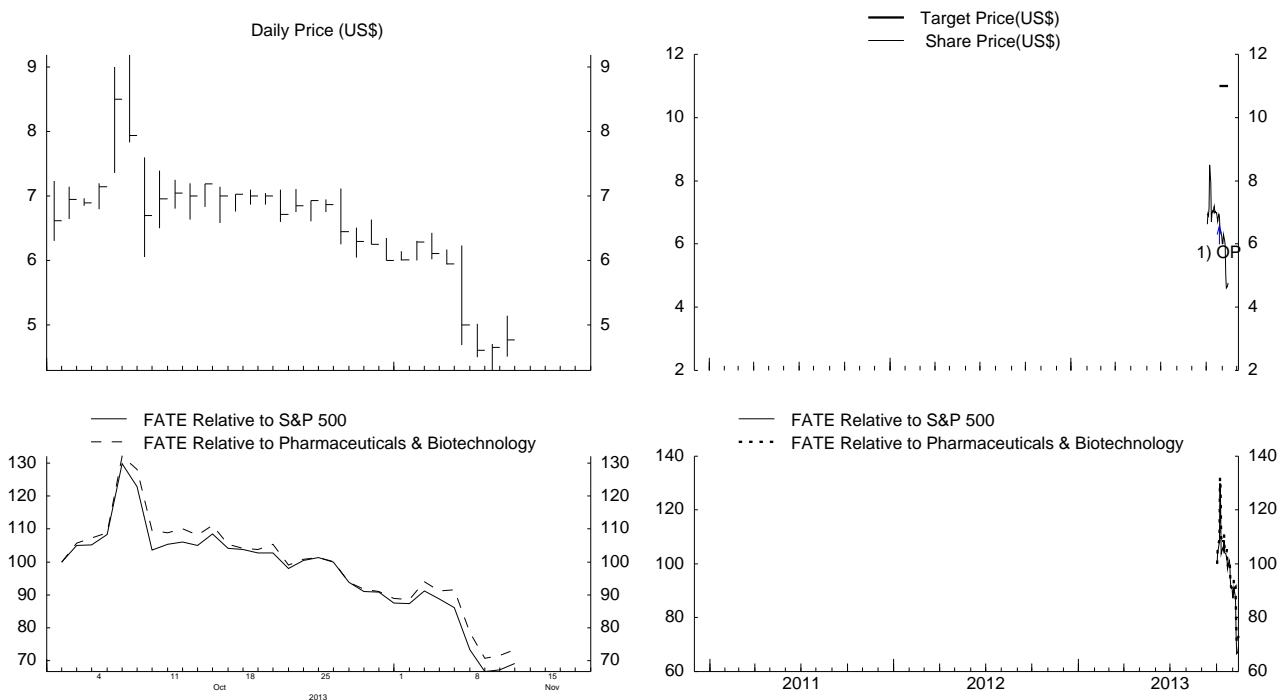
Annual EPS
 2013E -\$1.60 to -\$6.18

Exhibit 1: FATE Income Statement 2012A-2020E

INCOME STATEMENT (\$M)	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES													
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collaboration Revenue	1.3	0.2	0.2	0.2	0.2	0.6	-	-	-	-	-	-	-
Other Revenue	1.4	0.2	0.2	-	-	0.3	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 2.7	\$ 0.4	\$ 0.4	\$ 0.2	\$ -	\$ 1.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENSES (GAAP)													
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
R&D Expense	12.0	2.8	2.8	3.4	2.8	11.7	20.0	30.0	30.0	30.0	30.0	30.0	30.0
SG&A Expense	4.2	1.4	1.4	2.0	1.9	6.7	10.1	14.1	18.1	22.1	26.1	30.1	34.1
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	16.2	4.2	4.2	5.4	4.7	18.4	30.1	44.1	48.1	52.1	56.9	64.4	74.9
Operating Income	(13.6)	(3.8)	(3.8)	(5.1)	(4.7)	(17.4)	(30.1)	(44.1)	(48.1)	(52.1)	(44.7)	(21.7)	68.8
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(13.6)	(3.8)	(3.8)	(5.1)	(4.7)	(17.4)	(30.1)	(44.1)	(48.1)	(52.1)	(44.7)	(21.7)	68.8
Interest and other income	0.0	0.0	0.0	(0.9)	0.0	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and other expense	(0.5)	(0.1)	(0.1)	-	(0.1)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Other Income (Expense)	(0.2)	(0.6)	(0.6)	(0.9)	-	(1.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Interest and Other Income (Expense)	(0.7)	(0.7)	(0.7)	(0.9)	(0.1)	(2.5)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Pretax Income	(14.2)	(4.5)	(4.5)	(6.1)	(4.7)	(19.9)	(30.5)	(44.5)	(48.5)	(52.5)	(45.1)	(22.1)	68.4
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	(14.2)	(4.5)	(4.5)	(6.1)	(4.7)	(19.9)	(30.5)	(44.5)	(48.5)	(52.5)	(45.1)	(22.1)	68.4
EPS (GAAP) (basic)	\$ (0.30)	\$ (0.57)	\$ (0.57)	\$ (4.81)	\$ (0.23)	\$ (6.18)	\$ (1.43)	\$ (1.82)	\$ (1.62)	\$ (1.56)	\$ (1.22)	\$ (0.57)	\$ 1.68
EPS (GAAP) (diluted)	\$ (0.30)	\$ (0.57)	\$ (0.57)	\$ (4.81)	\$ (0.23)	\$ (6.18)	\$ (1.43)	\$ (1.82)	\$ (1.62)	\$ (1.56)	\$ (1.22)	\$ (0.57)	\$ 1.68
Total of Reconciliation Items	0.1	0.1	0.1	-	-	0.2	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (10.0)	\$ (4.4)	\$ (4.4)	\$ (6.1)	\$ (4.7)	\$ (19.7)	\$ (30.5)	\$ (44.5)	\$ (48.5)	\$ (52.5)	\$ (45.1)	\$ (22.1)	\$ 68.4
Impact of Adjustments to EPS	0.01	0.01	0.01	-	-	0.02	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (0.91)	\$ (0.56)	\$ (0.56)	\$ (4.81)	\$ (0.23)	\$ (6.15)	\$ (1.43)	\$ (1.82)	\$ (1.62)	\$ (1.56)	\$ (1.22)	\$ (0.57)	\$ 1.68
EPS (Non-GAAP) (diluted)	\$ (0.91)	\$ (0.56)	\$ (0.56)	\$ (4.81)	\$ (0.23)	\$ (6.15)	\$ (1.43)	\$ (1.82)	\$ (1.62)	\$ (1.56)	\$ (1.22)	\$ (0.57)	\$ 1.68
Weighted average shares outstanding (basic)	48.5	8.0	8.0	1.3	20.8	9.5	21.4	24.6	30.1	33.7	37.1	39.0	40.6
Weighted average shares outstanding (diluted)	48.5	8.0	8.0	1.3	20.8	9.5	21.4	24.6	30.1	33.7	37.1	39.0	40.6

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: November 12, 2013

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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
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Hold	Market Perform	59.4%	13.1%	51.1%	56.9%	50.2%	41.7%
Sell	Underperform	4.9%	3.4%	1.1%	6.4%	1.5%	5.6%

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

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;

(S) = Speculative investment;

NR = No rating at this time; and

R = Restricted – Dissemination of research is currently restricted.

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