

# Cellular Dynamics International Inc

**Equity Research** 

January 8, 2014

Price: \$17.37 (01/7/2014)
Price Target: \$20.50

# **OUTPERFORM (1)**

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# ICEL Signs Long-Term Supply Agreement With Nestle

# The Cowen Insight

ICEL announced this morning its first partnership with a food and nutrition company. The long-term supply agreement with Nestle is consistent with our view that ICEL's products will be increasingly used in broader applications beyond biopharma and is supportive of our Outperform thesis.

# **ICEL Signs Long-Term Supply Agreement With Nestle**

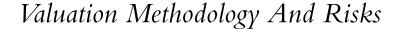
ICEL (\$17.37, Outperform) has entered into a long-term supply agreement with the Nestle Institute of Health Sciences (NIHS). According to a Wall Street Journal report on the development, Nestle is deepening its research into the link between diet and disease via this partnership. Nestle is obtaining brain and liver cells (iCells) from ICEL to study how nutrients found in foods affect these human cells.

While financial terms were not disclosed, this is clearly an important development validating the potential breadth of applications for ICEL's products. The company already served 18 of the top 20 pharmaceutical companies as clients and has a notable number of research partnerships and supply agreements, but Nestle is the first food company to announce its utilization of ICEL's products. Average revenue from the top 5 customers tend to be ~\$0.5-0.6MM in recent years.

While ICEL is at a relatively early stage of development and quarter-to-quarter visibility remains low, we believe this announcement is consistent with the investment thesis we outlined in our Outlook for 2014 report (link). Simply put, this is a name most should own on the potential of the science and products to be applied much more broadly over the next several years.

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# **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.



# **Stocks Mentioned In Important Disclosures**

Ticker	Company Name
ICEL	Cellular Dynamics International Inc

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# Cowen and Company Rating System effective May 25, 2013

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

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.

Note: "Buy", "Hold" and "Sell" are not terms that Cowen and Company, LLC uses in its ratings system and should not be construed as investment options. Rather, these ratings terms are used illustratively to comply with FINRA and NYSE regulations.

# Cellular Dynamics International Inc Rating History as of 01/07/2014

powered by: BlueMatrix



# Legend for Price Chart:

I = Initation | 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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