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Zacks Small-Cap Research

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CryoPort Inc (CYRX-NASDAQ)

CYRX: Big Downward Revision To Guidance. Sales 'Delayed', Not 'Lost'

Current Recommendation	**Buy**
Prior Recommendation	Underperform
Date of Last Change	05/20/2015
Current Price (02/11/16)	$1.15
Target Price	**$3.00**

OUTLOOK

Following a change in management and additions to the Board, CYRX recently revamped their offerings from a one-sized fits all approach to a more tailored, yet sill comprehensive and turn-key solution to appeal to a broader and more diverse set of customers. While revenue remains very strong on a yoy basis, it has nearly flatted q-o-q. Mgmt has characterized the recent big downward revision to revenue as a result of 'delayed' sales not 'lost' sales and related to a trio of mostly temporary customer-centric issues. We remain believers in the shipping and logistics solution and mgmt's ability to execute but have made significant downward revisions to our revenue estimates. Shares sold off following disappointing Q3 results which is below our revised price target.

SUMMARY DATA

52-Week High	**$10.44**
52-Week Low	**$1.07**
One-Year Return (%)	**-82.71**
Beta	**-0.44**
Average Daily Volume (sh)	**18,694**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$14**
Short Interest Ratio (days)	**4.19**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**25**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**81.8**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2016 Estimate	**N/A**
P/E using 2017 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Value**
Industry	**Rubber&Plastics**

ZACKS ESTIMATES

Revenue
(in '000s of $)

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2015	936 A	825 A	975 A	1190 A	3,935 A
2016	1431 A	1437 A	1459 A	1538 E	5,864 E
2017					8,102 E
2018					18,716 E

Earnings per Share

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2015	-$0.61 A	-$0.64 A	-$0.40 A	-$0.79 A	-$2.43 A
2016	-$1.31 A	-$0.41 A	-$0.42 A	-$0.19 E	-$1.95 E
2017					-$0.56 E
2018					-$0.31 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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Q3 Fiscal 2016: Revenue Disappoints, Big Downward Revision to Guidance. Management Indicates Causes Are Mostly Short-Term Issues…

CYRX reported financial results for their fiscal 2016 third quarter ending December 31st. One word sums up results as well as guidance, disappointing. While there continues to be operational positives, a three-quarter streak of relatively flat revenue growth and another one to come with gross margin trending lower and operating expenses ticking up over that period seems to have overshadowed any recent progress in customer onboarding, increasing shipping volumes, broadening capabilities, awareness building and preparation for what management insists will be a greater ramp in demand and resultant revenue growth in the near term.

Q3 revenue was $1.46M, while up 50% yoy (from $975k in Q3 2015), this is barely better than flat from the $1.44M posted in fiscal Q2 2016. Revenue was well below our $2.17M estimate. Gross margin, at 26.3%, was also a disappointment, well below our 33% estimate and, while better than the 24.1% from the year-earlier period, down from 34.1% in Q1 and 30.4% in Q2 of this year. SG&A expense was $2.8M, the highest level of any prior period by almost $700k – although the increase from the prior record ($2.2M in Q2 2016) relates to non-cash stock compensation. To top off the less than exciting Q3 financial results, full-year revenue guidance moved from $10M - $12M to $6M.

While remain believers in the superiority of the shipping and logistics solution CYRX offers as well as management's ability execute and also acknowledge that much, or perhaps all, of the reason that revenue guidance was slashed by 40%+ with only one quarter remaining in the fiscal year may be due to circumstances out of the control of the company and that the guidance revision may indeed reflect 'delayed' and not 'lost' revenue, the recent lack of any top-line growth and no obvious timeline of when these issues (most of which management has categorized as temporary) will no longer be serious headwinds has resulted in a significantly tempering in our revenue growth estimates. However, our model is dynamic and if and when there is more evidence to support likelihood of a steeper than estimated growth curve, it will be considered.

But while most of the news related to Q3 reporting was less than exciting, there was some good news as well. Relative to some of the **good**…

- Revenue: it's important to clarify that while revenue has recently been disappointing relative to expectations, it is still exhibiting very strong yoy growth. Revenue growth was 50% and 58% through the three and nine month periods ending December 31, 2015
- Two of the three segments experienced strong double-digit revenue growth. Yoy revenue growth (3 months) was 80% in biopharma (CYRX's largest segment) and 36% in reproductive medicine. Animal health fell 15% due to "temporary reduction in production volume" from one of CYRX's clients
- 98 new biopharma customers were added since the beginning of fiscal 2016
- CYRX is now supporting 59 clinical trials (including 10 phase 3), which is up from 52 when they reported fiscal Q2 earnings in November
- Co is in discussions for long-term support agreements related to 6 programs, 3 of which they had not been involved in at earlier stages
- Continue to support ~20% of all phase III clinical trials in the regenerative therapy segment
- Signed a 3-year extension with FedEx during Q3
- Cleaned up the capital structure with preferred-to-common (w/ warrants) exchange subsequent to Q3 quarter end
- Smart Pak II data logger being tested and expected to launch in early fiscal 2017
- Relocation to larger facility completed. As a reminder, CYRX recently leased a new space in Irvine, CA which is more than double the size of their previous location. The move was done in anticipation of accelerating demand

Now the **bad**…

- Q3 revenue was essentially flat as compared to both Q1 and Q2 of this fiscal year
- Fiscal 2016 revenue guidance was $10M - $12M when issued at the beginning of fiscal 2016 and was reiterated in December. This was reduced to ~$6M with reporting of Q3 results – management provided some details around the revision – see our next section below. Revised guidance is even well below our much more conservative (relative to initial guidance) prior estimate of $8.4M

- This revised guidance implies Q4 revenue will be ~$1.67M, or up ~15% sequentially. We are taking a more conservative approach and assume roughly flat q-o-q growth
- Gross margin, which at one point had hit 36% (fiscal Q1 2015) and started fiscal 2016 at 34%, deteriorated to 26% in the most recent quarter. Management continues to expect GM to trend higher with sales growth and believes 60% is a reasonable future goal (at a point of cash flow break-even)
- While operating expense leverage began to emerge earlier in fiscal 2016, non-cash stock compensation in Q3 caused a spike in SG&A, washing those gains away through the first nine months of 2016. While we acknowledge the non-cash nature, that some investments in S&M have been made that should benefit sales growth and that the recent revenue misses may be recouped in future periods, rising SG&A on flat revenue looks ugly, particularly after there was recent improvement. However, we do believe management remains diligent on expenses and continue to model improving OpEx as a percentage of revenue in fiscal 2017 and beyond

Guidance revision comments. Management provided some details, by segment, related to the guidance revision…

- Biopharma:
    - Management's biopharma-related revenue guidance assumed a certain number of new customer wins and a certain rate of progression of clinical trials of existing and expected new customers. These forecasts turned our incorrect. With significant experience covering the med-tech and biotech spaces, we acknowledge the difficulty in forecasting clinical trial timelines and risk of delays and changes that can effect enrollment, trial progression and regulatory activities
    - "A large part of our Biopharma forecast was centered on a few key revenue generating products which did not launch in timeframes we expected. These delays were unforeseen until this quarter and had a significant impact on our revenue guidance"
    - Management indicated that they believe most of the revenue related to these issues is delayed, but not lost – indicating that these clinical trials are continuing and when enrollment and other activities resume or accelerate, that related revenue will hopefully be realized
    - While biopharma revenue increased $0.4M (80%) yoy in Q3, it came in about $2.5M lower due to these clinical trial related delays

- Reproductive medicine
    - While RM revenue increased by $0.1M (36%) yoy it was below expectations
    - U.S. RM increased 53% but international IVF revenue was negatively affected by the closure of reproductive tourism in India, Nepal and Thailand
    - CYRX hopes to offset some of this by supporting RM clientele in territories which are relatively new to the company including the Czech Republic and in SE Asia. Management noted that they are seeing some recovery in international RM

- Animal Health
    - AH fell $0.2M (15%) yoy due to "a temporary reduction in production volume from one of our clients"
    - Management noted that they have recently seen a pick up to "more normalized activity"

Our comments:
Biopharma came in $2.5M below expectations which represents ~63% of the miss to the low end of prior revenue guidance. Management indicated that they think much, most or maybe all of this is delayed, not lost revenue and should, hopefully or will be eventually recognized when these clinical activities either re-accelerate or get to a further point of progression. We know from experience that clinical trial delays are commonplace and any timelines that are offered by clinical trial sponsors are almost always aggressive. So if this ~$2.5M relates to only (or mostly) delays and not to clinical trial failures, we think it is reasonable that most or all will be recognized in future periods. The bigger question may be when, not if.

Relative to animal health – this issue sounds temporary. As such, we also think it is reasonable that this miss will be recouped. Reproductive medicine – this sounds a little more like a rework situation, whereby lost revenue will hopefully be recouped through entry into new territories.

On a bigger picture view, total revenue has been flat the last three quarters and may not be particularly impressive in the coming quarter. Notwithstanding the very recent trifecta of issues affecting each of the segments, flat revenue since the beginning of this fiscal year with a growing customer base and, potentially more activity per customer, is not what would be expected. Management certainly has much more insight into the business than we do and clearly their view is that fundamentals remain strong including customer onboarding and retention as well as ramping activities and related demand from the customer base. And, as noted, we continue to be believers in the

superiority of the shipping and logistics solution CYRX offers as well as management's ability execute and also acknowledge that much, or perhaps all, of the reason that revenue guidance was slashed by 40%+ with only one quarter remaining in the fiscal year may be due to circumstances out of the control of the company and that the guidance revision may indeed reflect 'delayed' and not 'lost' revenue. But the recent lack of any top-line growth and no obvious timeline of when these issues will no longer be serious headwinds has resulted in a significantly tempering in our revenue growth estimates. We reiterate, however, that our model is dynamic and if and when there is more evidence to support likelihood of a steeper than estimated growth curve, it will be considered.

The revisions to our model have had a substantial effect on our price target, moving it from $9 to $3 per share.

The revisions to our model have had a substantial effect on our price target, moving it from $9 to $3 per share. We continue to value the company based on an industry P/E multiple (currently 19x) and discount this back to the present at 15% / year. We look for EPS of $0.16 in 2019 - based our valuation methodology, this values the stock at approximately $3 / share. The shares sold off following Q3 results and the revised revenue guidance and currently trade at a significant discount to our new target price. As such, we continue to rate the stock a Buy.

FINANCIAL MODEL

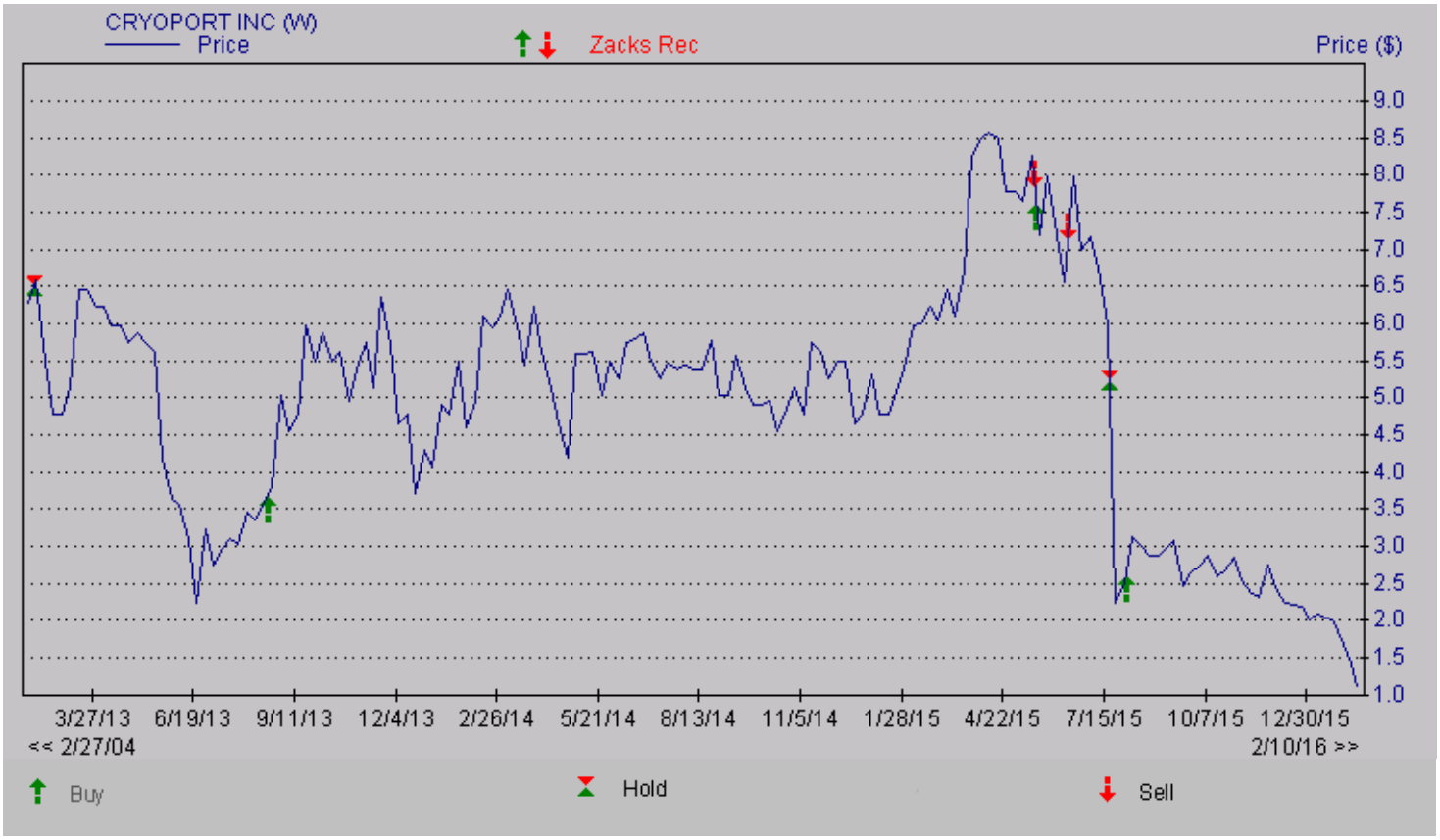
CryoPort Inc.

	2015 A	Q1 A	Q2 A	Q3 A	Q4 E	2016 E	2017 E	2018 E	2019 E
Total Revenues	$3,935.3	$1,431.1	$1,437.0	$1,458.6	$1,537.5	$5,864.2	$8,101.5	$18,715.5	$34,993.5
YOY Growth	*47.9%*	*52.8%*	*74.2%*	*49.6%*	*28.3%*	*49.0%*	*38.2%*	*131.0%*	*87.0%*
Cost of Revenues	$2,766.4	$943.2	$1,000.7	$1,074.3	$1,059.3	$4,077.5	$5,204.0	$10,376.9	$17,880.5
Gross Income	$1,168.9	$487.9	$436.3	$384.3	$478.2	$1,786.7	$2,897.5	$8,338.6	$17,113.0
Gross Margin	*29.7%*	*34.1%*	*30.4%*	*26.3%*	*31.1%*	*30.5%*	*35.8%*	*44.6%*	*48.9%*
SG&A	$6,409.4	$2,026.4	$2,157.8	$2,835.4	$2,229.4	$9,248.9	$10,369.9	$12,539.4	$13,647.5
% SG&A	*162.9%*	*151.0%*	*150.2%*	*194.4%*	*145.0%*	*157.7%*	*128.0%*	*67.0%*	*39.0%*
R&D	$352.6	$77.7	$100.3	$227.8	$92.0	$497.8	$585.0	$740.0	$785.0
% R&D	*9.0%*	*5.4%*	*7.0%*	*15.6%*	*6.0%*	*8.5%*	*7.2%*	*4.0%*	*2.2%*
Operating Income	($5,593.0)	($1,616.2)	($1,821.8)	($2,678.9)	($1,843.2)	($7,960.0)	($8,057.4)	($4,940.7)	$2,680.5
Operating Margin	*-142.1%*	*-112.9%*	*-126.8%*	*-183.7%*	*-119.9%*	*-135.7%*	*-99.5%*	*-26.4%*	*7.7%*
Interest income, net	($1,428.0)	($303.8)	($601.0)	($79.9)	($80.0)	($1,064.7)	$0.0	$16.0	$24.0
Loss on asset sale	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Change in derivative value	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($7,025.3)	($1,920.9)	($2,425.5)	($2,760.1)	($1,924.6)	($9,031.2)	($8,057.4)	($4,924.7)	$2,704.5
Taxes	$1.6	$3.3	$0.0	$0.3	$0.0	$3.6	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*8.1%*	*15.2%*
Preferred Stck Conversion Charge	($4,864.3)	($4,474.3)	$0.0	$0.0	$0.0	($4,474.3)	$0.0	$0.0	$0.0
Net Income	($12,196.5)	($6,607.1)	($2,664.9)	($2,999.8)	($2,004.6)	($14,276.4)	($8,057.4)	($4,924.7)	$2,704.5
YOY Growth	*-37.7%*	*115.4%*	*-16.3%*	*50.3%*	*-49.3%*	*17.1%*	*-43.6%*	*-38.9%*	*-154.9%*
Net Margin	*-309.9%*	*-461.7%*	*-185.4%*	*-205.7%*	*-130.4%*	*-243.5%*	*-99.5%*	*-26.3%*	*7.7%*
EPS	($2.43)	($1.31)	($0.41)	($0.42)	($0.19)	($1.95)	($0.56)	($0.31)	$0.16
YOY Growth	*-49.4%*	*114.6%*	*-35.6%*	*4.1%*	*-75.9%*	*-20.0%*	*-71.4%*	*-24.9%*	*-138.3%*
Diluted Shares O/S	5,016	5,056	6,505	7,225	10,558	7,336	14,500	16,000	17,000

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