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Zacks Small-Cap Research

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CryoPort Inc (CYRX-OTCQB)

CYRX: Revenue Guidance of +150% - 200%!

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	08/20/2013
Current Price (02/05/15)	$0.52
Target Price	**$1.50**

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. With thirteen straight quarters of revenue growth, a recent doubling of the customer base, and consummation of key relationships, these changes are clearly already paying dividends. We expect this record revenue steak to continue. While the company will need to raise additional capital in the near term, we feel that the recent changes, substantial operational progress and improvement in financial results is helping to de-risk an investment in CYRX. We are maintaining our Outperform rating.

SUMMARY DATA

52-Week High	**$0.59**
52-Week Low	**$0.31**
One-Year Return (%)	**14.81**
Beta	**-0.97**
Average Daily Volume (sh)	**25,763**
Shares Outstanding (mil)	**60**
Market Capitalization ($mil)	**$31**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**14**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**86.9**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Rubber&Plastics**

ZACKS ESTIMATES

Revenue
(in '000s of $)

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2014	488 A	580 A	757 A	834 A	2,660 A
2015	936 A	825 A	975 A	1210 E	3,947 E
2016					10,812 E
2017					32,754 E

Earnings per Share

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2014	-$0.03 A	-$0.38 A	-$0.03 A	-$0.02 A	-$0.40 A
2015	-$0.05 A	-$0.05 A	-$0.03 A	-$0.02 E	-$0.15 E
2016					-$0.04 E
2017					$0.05 E

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

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WHAT'S NEW....

Q3 2015: Another Solid Qtr., 2016 Revenue Expected to Grow 150% - 200%!

CYRX announced results for their 2015 fiscal third quarter ending December 31st. While revenue was slightly softer than our estimate, the numbers were far from disappointing and indicate that the business continues to pick up steam. This is evidenced by thirteen straight quarters of yoy revenue growth and eight of the last nine quarters exhibiting a sequential increase in revenue. Couple that with management's revenue guidance of $10M - $12M for fiscal 2016 (ending 3/31/16) – which we estimate will be growth of ~150% - 200% from 2015 - and we think our thesis of ongoing revenue growth for the foreseeable from new customer wins and increased utilization from the existing client base remains solid.

And in addition to the continued revenue growth, importantly gross margins have held up nicely (and are expected to substantially widen with higher sales levels) and operating expenses have remained relatively flat. Gross margin has grown from negative 44% for the fiscal year ending March 2013 to positive 16% for the fiscal year ending March 2014 to positive 29% through the first nine months of fiscal 2015. CYRX is also seeing greater leverage in operating expenses - which were 5.3x revenue for the fiscal year ending March 2013, dropping to 2.2x revenue for the fiscal year ending March 2014 and were down to 1.6x revenue through the first nine months of 2015. We continue to think that quarterly break-even can happen near the end of fiscal 2016.

Management has been quick to act on new opportunities in the cryogenic shipping space, particularly on the product side where accelerated development of novel biologic therapies and a related increase in clinical programs has created a tailwind for demand of reliable cryogenic shipping. On the Q3 call CYRX pointed towards several areas where they are seeing demand blossom including cancer immunotherapies – these are therapies that use the patient's own immune system to fight the disease. And while long looked at by biotechs as a big leap towards eradicating cancer, until just recently immunotherapies have been more hope than reality. This is turning much closer to reality with several biotechs dedicating significant resources towards immunotherapy programs.

Other areas of outsized growth for cryogenic shipping that the company is targeting with greater focus is animal husbandry and in-vitro fertilization. And while all of these have been on CYRX's radar for some time, it is clear the company is now making a more determined and strategic effort to capitalize on the growth in each of these respective markets. This is evident with the announcements in late January that CYRX was bringing on a highly experienced chief commercial officer and five new sales directors. And it's likely no coincidence that the company expects a roughly tripling in revenue from 2015 to 2016 – with the majority of that forecasted to come from the winning of new accounts.

Management was clear on the earnings call that they think the company is now at an inflection point. We agree and see ever-increasing opportunities to expand the customer and geographic footprint, particularly with the advent of novel biologics, both in development and either recently or soon-to-be commercialized. Management's efforts over the last 18 – 24 months have paid significant dividends, not just with obvious financial progress, but perhaps more importantly, strategically and with operational progress. Dis-aggregating their service offerings from a one-size fits all approach to a more customer-centric and customized solution we think has been key with scoring new customers.

And the recent DHL and UPS agreements, while not expected to be substantial revenue-generators, at least in the very near term, are hugely important in our opinion in terms of validation of the quality and reliability of the company's shipping service and products. And management has been patient when it was prudent – implementing cost-control measures in order to right-size the expense base to fit revenues and pick their spots for growth.

All of this has culminated in a sticky and expanding customer base, an impressive track record of revenue growth, a substantial and growing pipeline of potential customers and a burgeoning awareness that they have the best cryogenic shipping solution available.

Financials

Q3 revenue of $975k was up 29% yoy, up 5% sequentially and lower than our $1.2M estimate. Revenue has now posted positive growth thirteen straight quarters on a yoy basis and eight of the last nine quarters on a sequential basis. Gross margin of 24% dipped slightly from Q2 (27%), although we see this as more of a timing factor rather

than anything fundamental. In fact we continue to expect significant expansion in GM with higher levels of sales and note that on the Q3 call management reiterated that they continue to expect GM to run up to ~60% eventually.

Q3 operating expenses of $1.6M were in-line with our $1.6M estimate. As noted, CYRX is not only seeing consistent growth in revenue and gross margin, they are also experiencing consistent improvement in operating expense leverage.

Excluding non-cash expenses related to preferred stock conversion, Q3 net income and EPS were approximately ($1.5)M and ($0.02), compared to our ($1.4)M and ($0.02) estimates. CYRX exited Q3 with $774k in cash and equivalents, up from $103k at the end of fiscal Q2 2015.

CYRX will look to issue a larger financing in the near term. We note that CYRX and Emergent Financial have been very successful in raising capital in the past. The company's improving financial results, committed larger shareholder base, increasing customer count and operational progress with hopefully bode well for a successful near-term larger capital raise.

United Parcel Service Agreement - CYRX Now Has Collaborations With the "Big Three"
On the operational side of the business all of the behind-the-scenes work that management has done to expand their customer base and increase utilization becomes more obvious every quarter. The latest major score for CYRX was consummation of their agreement with UPS. CYRX now has direct agreements with the "big three" freight carriers; FedEx, DHL and UPS.

The UPS agreement, announced in November 2014, provides UPS's life sciences customers with seamless access to CYRX's cryogenic shippers. Dubbed *UPS Temperature True Cryo*, UPS has already begun marketing CYRX's shipping solution with a dedicated page on its website. UPS also has a risk-mitigation platform, called UPS Proactive Response Secure, that will insure shipments made using CYRX's shippers.

UPS ships worldwide to over 220 countries. Similar to the relationship with FedEx and DHL, we view this deal with UPS as significant validation of the quality and reliability of CYRX's shipping solution given that it is trusted by the big three freight carriers.

As the DHL agreement, which was penned in July, and this UPS deal are still in their relative infancy, neither has had the chance to significantly contribute to CYRX's revenue. We expect both of these relationships to get more powered-up over the next couple of quarters when we think the fruits of these deals will become much more obvious.

Progress Continues on Other Fronts As Well…
Following recent successes in building awareness and scoring major collaborations, CYRX has started to methodically build out its sales force to meet growing demand and supplement the opportunities afforded via the freight carrier relationships. The company is starting to see even greater interest in certain specific life sciences areas such as cell therapy, regenerative medicine, IVF and stem cells. The expanded sales force will support these existing relationships but also provide the company with additional shots on goal, calling on institutional life sciences companies and facilitating the adoption of CYRX's shipping solution to high growth areas in healthcare and in high potential areas of the country and world.

Relative to the recent revenue growth, as we have previously noted, customer stickiness, growth in the customer base, increase in per-customer shipping volumes and larger contribution from both the Zoetis and FedEx channels all appear to be facilitators. We also believe implementation of more tailored offerings has both increased adoption and significantly broadened CYRX's target market. This has almost certainly contributed to the recent ramp-up in the customer base as well as facilitated scoring recent engagements with the likes of Zoetis, OCASA, and Liventa. We expect an increase in activity from some of these key customers, most notably Zoetis and Liventa, as well as initial contribution from even more recently consummated customer agreements. Specific to Liventa, CYRX announced in mid-October that they began shipping Liventa's AmnioClear therapy to orthopedic clinics. While we expect initial contribution from this arrangement to be not overly significant, increased adoption of AmnioClear would offer CYRX what we think could be a meaningful and regular revenue stream.

Clearly the most compelling events in terms of potential to steepen the revenue curve and shipping volume rate were finalizing the agreements with DHL and UPS. DHL, with a massive international presence, appears highly committed to growing its cold-chain shipping segment. The UPS agreement bolts on another high potential customer. We think both of these deals could be big wins for CYRX. And, as we noted following the DHL

announcement, while we think there will be a runway for integration, awareness building and customer adoption via these channels, these relationship have the potential to be a major contributor to CYRX's revenue over the mid-to-long term.

The company has previously noted that they are generating revenues from several end-user segments including reproductive medicine and in-vitro fertilization, in addition to the animal husbandry area. This is in addition to numerous life sciences companies with various product lines as well as freight forwarders that have shown interest in CYRX's shipping and logistics services. So while increasing the customer count is of obvious importance, this broadening of end-user segmentation perhaps provides the best insight into the wide applicability of CYRX's offerings. Prior to the company's shift in strategy from a one-size fits all approach to a more customer-centric and customized solutions type business, there was little diversity in the customer make-up. That has rapidly changed since CYRX has rolled out a much more comprehensive set of offerings and solutions allowing the company to score business in segments that previously would have effectively been out of their scope of expertise. We expect this to set the stage for an accelerated pace of customer wins, contract closes and revenue ramp.

In fact the recent agreement with Cenetron Diagnostics is an example of how CYRX was able to score additional business with their more customer-centric approach. Cenetron, which provides biological sample storage and supplies for clinical trials, will hold a certain amount of CYRX's uncharged shippers on-site and will use and charge them as needed. This arrangement would have been outside the scope of CYRX's prior one-size-fits all business model which involved sending single shippers pre-charged - and would have likely resulted in loss of a potential customer.

Recent New Revenue Opportunities

CryoPort continues to be very active in expanding their network of customers and increasing their revenue opportunities. This includes over the last several quarters;

> In December CYRX announced an agreement with Triangle Research Labs to be that company's exclusive cryogenic services provider. TRL produces hepatocytes (liver cells), human and animal, for use in preclinical testing.

> In early November CYRX announced an agreement with UPS whereby UPS will offer the company's cryogenic shippers to its life sciences customers under a service UPS calls *UPS Temperature True Cryo.* UPS has already begun marketing CYRX's shipping solution with a dedicated page on its website. UPS also has a risk-mitigation platform, called UPS Proactive Response Secure, that will insure shipments made using CYRX's shippers. This deal with UPS now gives CYRX direct access to the "big 3" freight companies.

> In July 2014 CYRX announced that DHL's cold-chain shipping arm, LifeConEx, has chosen CYRX as their sole cryogenic shipping option. Unlike FedEx, DHL has a massive international presence with 220 locations and covering ~120k locations. And since international shipments often involve several days more travel time and additional handling compared to domestic shipments, CYRX's logistics expertise and dewar with 10+ days holding time seems a perfect fit for DHL's customers. For CYRX, this not only adds another potential significant source of revenue, it also speaks to the credibility of the quality of their services and products and ability to meet the requirements and demands of DHL. While we think there will be a runway for integration, awareness building and customer adoption via the DHL and UPS channels, these relationship have the potential to be major contributors to CYRX's revenue over the mid-to-long term.

> In June 2014 CYRX announced that Immudex, a supplier of reagents and diagnostic kits for immunotherapy and vaccine development, will utilize CYRX for shipping of patient blood samples. Immudex indicated that they chose CYRX for their comprehensive shipping solution as well as because they needed a trustworthy shipper that would ensure no loss of integrity of biological samples.

> In May CYRX announced Cenetron Diagnostics, which provides biological sample storage and supplies for clinical trials, will use a tailored solution to meet its cryogenic shipping needs. Cenetron will hold a certain amount of CYRX's uncharged shippers on-site and will use and charge them as needed. This is an example of how CYRX has been able to score additional business by providing a more ala carte menu of services options - this arrangement with Cenetron would have been outside the scope of CYRX's prior one-size-fits all business model which involved sending single shippers pre-charged - and would have likely resulted in loss of a potential customer.

> In May 2014 CYRX announced that Glaukos Corp has chosen CYRX's shipping solution for international transport of tissue samples which are being collected and analyzed as part of a clinical trial for Glaukos' iStent device. iStent, which Glaukos notes is the smallest medical device ever approved by the FDA, has been developed to reduce eye pressure in people with glaucoma undergoing cataract surgery. Tissue samples for the clinical trial will be collected in Armenia and shipped via CYRX's shippers to Glaukos' lab in California.

> In April 2014 CYRX penned an agreement with European Mouse Mutant Archive (EMMA) whereby EMMA will use CYRX's shippers and logistics services for domestic and international transport (with an expected particular focus on Europe) of its mutant mouse strains. EMMA's mouse strains, which are used for biomedical research, have been shipped to over 40 countries.

> In February 2014 a services agreement with Liventa Bioscience, a privately held biotech company. Liventa's lead product, called AmnioClear is a placenta-derived (i.e. - natural) tissue covering used for treatment of difficult to heal wounds, including burns, chronic wounds and surgical openings. AmnioClear differs from many other tissue covering products which are synthetic (i.e. - not human body derived) and can be more prone to rejection. Liventa recently partnered with Medline Inc and CrossLink Orthopaedics which significantly beefed up distribution of AmnioClear. Medline is the U.S.'s largest privately held manufacturer and distributor of health care products and will sell Liventa's products to VA hospitals, non-VA hospitals, home health care and wound centers, among others. CrossLink, which is the largest distributor of orthopaedic implants in the U.S. with over 500 sales reps, is expected to be a key partner in Liventa tapping the massive orthopaedic channel.

> In September 2013 a master services agreement signed with OCASA Inc (Organizacion Courier Argentina SA). OCASA has a global network and accesses wide reaches of the world including the U.S., Latin America, Europe and Asia. The company provides importing/exporting, temperature controlled warehousing, fulfillment and other services to the biotech/pharmaceutical industry. Under the agreement, OCASA will have access to CYRX's full suite of services and shippers and CYRX will be able to leverage OCASA's global logistics network. Both parties will be involved in sales and marketing.

> CYRX is seeing increased interest from the reproductive medicine market and now appears to have an even greater focus to exploit the potential opportunity in this segment. In particular, in-vitro fertilization which requires eggs to be frozen at cryogenic temperatures for storage and transport and where there exists a need for reliable, long cryogenic holding time shipping. Reproductive medicine and in-vitro fertilization is a fast growing market especially overseas which is ideal for CYRX. In August 2013 CYRX showcased its shipping offerings at the European Society of Human Reproduction and Embryology in London where they noted they generated several customer leads. Subsequently CYRX announced an agreement with The World Egg Bank. The World Egg Bank, which provides the world's largest service to match egg donors with recipients, could be a key partner for CYRX in introducing the company to IVF firms.

> The agreement with Zoetis, which was initially penned in December 2012 and included managing domestic and some international shipments of a poultry vaccine, was expanded in July 2013 to now include all domestic and international shipments. In October 2013 it was amended further to include a second poultry vaccine. As we noted following announcement of the initial agreement, given Zoetis' stature as one of the largest animal health businesses in the world, we view this relationship as a meaningful vote of confidence in CryoPort's offerings. This is likely now contributing to CYRX's revenue.

VALUATION / RECOMMENDATION

Revenue has now posted positive growth thirteen straight quarters on a yoy basis and eight of nine of the last nine quarters on a sequential basis. Gross margin has solidified and will expand – likely substantially so – with higher levels of revenue. Operating expenses have leveled off and we are now seeing much more leverage as the top line continues to grow. On the Q3 call management provided revenue guidance for the first time. They look for 2016 revenue between $10M and $12M, implying growth of ~150% - 200% from our 2015 estimate.

Dis-aggregating their service offerings from a one-size fits all approach to a more customer-centric and customized solution we think has been key with scoring new customers. We attribute the expected ramp in revenue to applying this customer-centric service offering to high-potential growth areas. Management has done an impressive job in identifying new opportunities in the cryogenic shipping space, particularly on the product side where accelerated development of novel biologic therapies and a related increase in clinical programs has created a tailwind for demand of reliable cryogenic shipping.

The company recently beefed up their sales force in order to capitalize on these emerging opportunities. The current base of business should provide a floor on revenue while shipping volume growth from the existing customer portfolio and new customer wins bode well in our opinion for ramping revenue – not just through 2016 but well beyond. With the global cryogenic shipping market aggregating to almost $2B annually and much of this

serviced by antiquated and relatively unreliable dry ice containers, we see significant opportunity for CryoPort to take share and steepen the revenue curve.

We look for revenue of $4.0 million in fiscal 2015 and for this to grow to about $57 million in the year 2018.

We continue to value the company based on an industry P/E multiple (currently 18x) and discount this back to the present at 15% / year. We look for EPS of $0.12 in 2018 - based our valuation methodology, this values the stock at approximately $1.50 / share. We remain steadfast believers in CryoPort's potential and think there's significant upside to the share price, particularly over the longer-term. We are maintaining our Outperform rating.

FINANCIAL MODEL

CryoPort Inc.

	2014 A	Q1 A	Q2 A	Q3 A	Q4 E	2015 E	2016 E	2017 E	2018 E
Total Revenues	$2,659.9	$936.6	$825.0	$975.2	$1,210.4	$3,947.2	$10,811.6	$32,754.0	$57,001.5
YOY Growth	*141.6%*	*91.9%*	*42.3%*	*28.8%*	*45.0%*	*48.4%*	*173.9%*	*203.0%*	*74.0%*
Cost of Revenues	$2,223.0	$597.2	$600.0	$740.7	$865.4	$2,803.4	$5,885.1	$14,416.5	$22,800.6
Gross Income	$437.0	$339.4	$225.0	$234.5	$345.0	$1,143.8	$4,926.5	$18,337.5	$34,200.9
Gross Margin	*16.4%*	*36.2%*	*27.3%*	*24.1%*	*28.5%*	*29.0%*	*45.6%*	*56.0%*	*60.0%*
SG&A	$5,106.2	$1,427.9	$1,510.7	$1,492.7	$1,640.0	$6,071.3	$7,676.2	$12,512.0	$18,639.5
% SG&A	*140.0%*	*152.5%*	*183.1%*	*153.1%*	*135.5%*	*153.8%*	*71.0%*	*38.2%*	*32.7%*
R&D	$409.1	$79.2	$89.3	$99.1	$102.0	$369.6	$421.0	$630.0	$844.0
% R&D	*15.4%*	*8.5%*	*10.8%*	*10.2%*	*8.4%*	*9.4%*	*3.9%*	*1.9%*	*1.5%*
Operating Income	($5,078.4)	($1,167.7)	($1,375.0)	($1,357.2)	($1,397.0)	($5,297.1)	($3,170.8)	$5,195.4	$14,717.4
Operating Margin	*-190.9%*	*-124.7%*	*-166.7%*	*-139.2%*	*-115.4%*	*-134.2%*	*-29.3%*	*15.9%*	*25.8%*
Interest income, net	($784.5)	($1,128.9)	($7.9)	($48.6)	($57.0)	($1,242.3)	($212.0)	($41.0)	$18.0
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	$20.8	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($19,563.8)	($2,295.7)	($1,384.8)	($1,407.8)	($1,454.0)	($6,539.4)	($3,382.8)	$5,154.4	$14,735.4
Taxes	$1.6	$1.6	$0.0	$0.0	$0.0	$0.0	$0.0	$963.9	$4,568.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*18.7%*	*31.0%*
Preferred Stck Conversion Charge		($741.8)	($1,727.0)	($492.9)		($2,961.7)			
Net Income	($19,565.4)	($3,066.8)	($3,183.7)	($1,996.0)	($1,555.0)	($9,797.0)	($3,382.8)	$4,190.6	$10,167.4
YOY Growth	*206.6%*	*-131.7%*	*78.7%*	*-8.5%*	*-7.8%*	*-49.9%*	*-65.5%*	*-223.9%*	*142.6%*
Net Margin	*-735.6%*	*-327.4%*	*-385.9%*	*-204.7%*	*-128.5%*	*-248.2%*	*-31.3%*	*12.8%*	*17.8%*
EPS	($0.40)	($0.05)	($0.05)	($0.03)	($0.02)	($0.15)	($0.04)	$0.05	$0.12
YOY Growth	*137.0%*	*-45.9%*	*86.1%*	*-6.5%*	*13.9%*	*-61.7%*	*-72.5%*	*-220.9%*	
Diluted Shares O/S	48,851	60,443	60,049	60,058	74,655	63,801	80,000	82,000	85,000

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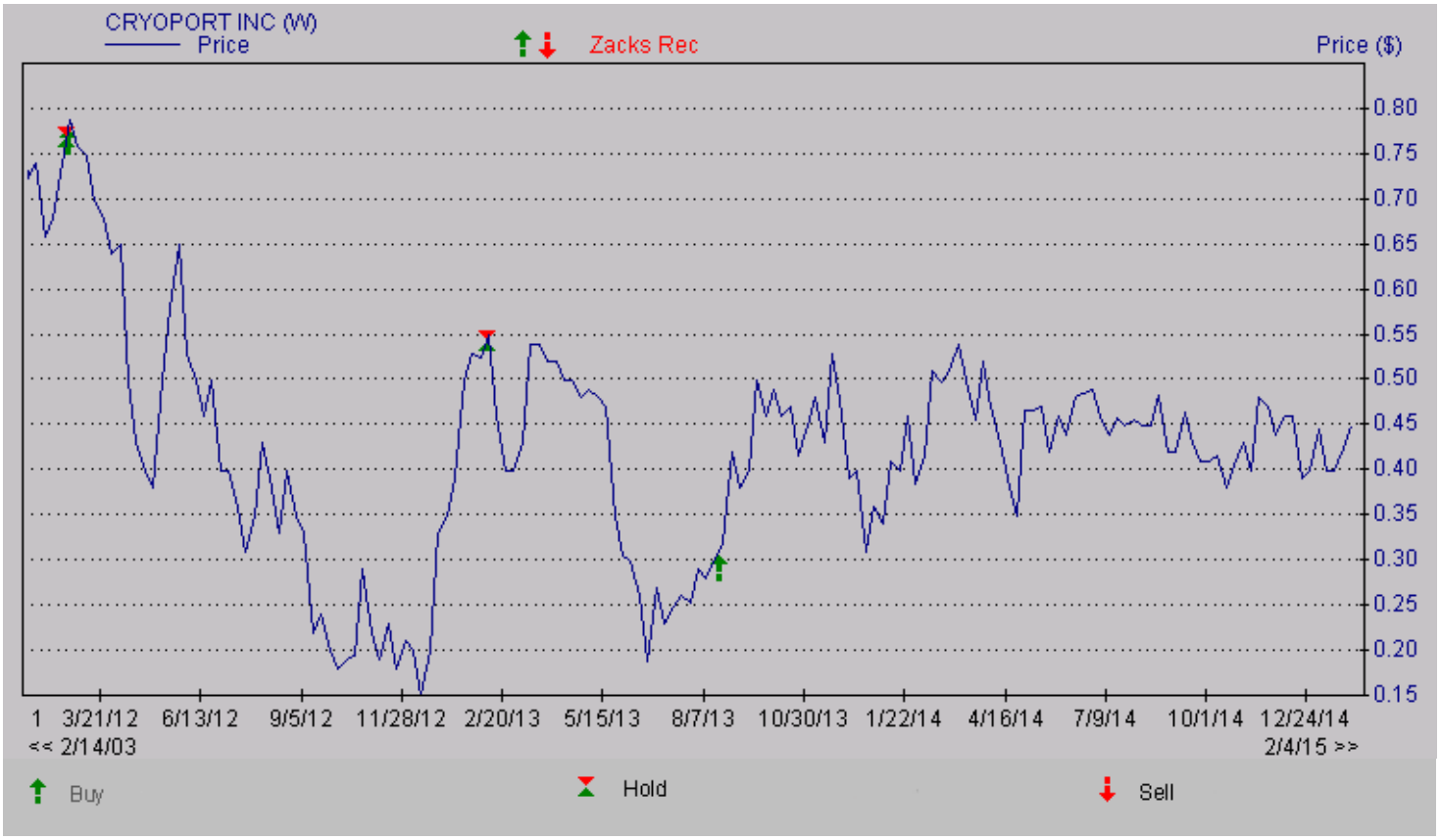

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The current distribution is as follows: Buy/Outperform- 15.5%, Hold/Neutral- 76.9%, Sell/Underperform – 6.9%. Data is as of midnight on the business day immediately prior to this publication.