Zacks Small-Cap Research

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Cryoport Inc (CYRX-NASDAQ)

CYRX: Very Solid Quarter. Growing More Confident of Nearing Inflection

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 $0.17 in 2020 - based our valuation methodology, this values the stock at approximately $3 / share.

Current Price (08/18/16)	$1.97
Valuation	**$3.00**

OUTLOOK

CYRX's recent announced move into new and potentially highly synergistic opportunities add a positive wrinkle as we believe these could offer additional and complementary fuel for long-term growth. We believe revenue growth should begin to steepen in the near term, catalyzed by further firming up in the biopharma and regenerative medicine segments including growth in CYRX's clinical trial customer base, progression of clients' trials to later stages and commercialization of new therapies. One recent highlight was the announcement that CYRX will be supporting a $4B (revenue) product from a big pharmaceutical company. And while the animal health business has been soft, this is another area that could incrementally add to the growth curve as the company looks to add new customers. Q1 along with the streak of six straight quarters of sequential revenue growth provides additional validation of the stickiness of customer wins and our theorized incremental notching up of the revenue floor. This is a key step towards initial realization of the leverage that is inherent in Cryoport's business model.

SUMMARY DATA

52-Week High	**$3.20**
52-Week Low	**$1.03**
One-Year Return (%)	**-38.24**
Beta	**-0.06**
Average Daily Volume (sh)	**36,161**
Shares Outstanding (mil)	**15**
Market Capitalization ($mil)	**$30**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**25**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**85.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2017 Estimate	**N/A**
P/E using 2018 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Blend**
Industry	**Shipping**

ZACKS ESTIMATES

Revenue
(in '000s of $)

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2016	1431 A	1437 A	1459 A	1556 A	5,882 A
2017	1918 A	1931 E	2119 E	2308 E	8,275 E
2018					15,208 E
2019					30,869 E

Earnings per Share

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2016	-$1.31 A	-$0.41 A	-$0.42 A	-$0.26 A	-$2.05 A
2017	-$0.28 A	-$0.16 E	-$0.18 E	-$0.19 E	-$0.67 E
2018					-$0.52 E
2019					-$0.17 E

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

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Q1 Fiscal 2017: Record Revenue, Gross Margin and Op Leverage. Growing More Confident of Nearing Inflection…

CYRX reported financial results for their fiscal 2017 first quarter ending June 30th and provided a business update. It was a very solid quarter in many aspects – from record financials, to rapid customer onboarding, increasing the number of clinical trials (as well as number of phase III trials) that they are supporting, scoring a (previously announced) contract to support a "multi-billion dollar commercially launched" biopharma product, the launch of new service and product offerings, shoring up of the cash position and even a reduction in customer concentration.

Q1 revenue, at $1.92M, is up 34% yoy and ahead of our $1.74M estimate by about 10%. It's also a new record and up 23% from the $1.56M generated in Q4 2015 – which was the previous best. Fueled by the consistent addition of new clients, greater overall utilization, progression of customers' clinical trial programs and exponential growth of immunotherapy development, the **biopharma** segment continues to account for the vast majority of CYRX's revenue and drive most of the top-line growth. Biopharma revenue grew almost 60% yoy and accounted for 69% of total revenue. With another 28 customers added during Q1 and expanding the number of clinical trials that CYRX is supporting to 90+ (from 78 as of the end of June), including 14 phase III studies (up from 13 in June), the company continues to build a high-opportunity customer base.

CYRX should not only benefit from onboarding of additional clinical trial clients and progression of currently supported programs to later stages but also, eventually, from supporting these candidates if and when approved and commercialized. Management noted on the Q1 call (which we missed due to a time conflict) that they are in discussions with 6 of 14 current phase III clients related to commercialization and launch requirements – management believes the first of these could come to market in late 2017/early 2018. In the meantime, CYRX will look to further expand awareness, add to their client base and leverage their new offerings as either an upsell opportunity to current customers or as an introduction to potential new clients.

Reproductive medicine segment revenue in Q1 was up 10% yoy and 12% sequentially. While only accounting for about 19% of total revenue, this segment also has room for growth, particularly in the U.S. where robust demand for reproductive services fueled 43% yoy growth. Meanwhile, international sales were down 12% from the prior year period due to continued weakness in certain Asian countries as a result of government regulations surrounding medical tourism.

Animal health has been the weakest of the three segments with revenue falling 6% in fiscal 2016 and 15% in fiscal Q1 2017, although it did post 15% growth from Q4 2016. CYRX has noted that while a slowdown in manufacturing from a key client is the reason for the weakness, that they expect this to be short-lived and believe animal health will return to growth.

From a total revenue perspective, and even more from a biopharma-related revenue perspective we think Q1 is the type of quarter that should provide some confidence that at least the foundation of base demand for the company's offerings, represented by net growth in the customer base, continues to incrementally solidify. As we have indicated in our ongoing coverage of CYRX, solidifying a sufficient customer base foundation is a key step towards initial realization of the leverage that is inherent in Cryoport's business model. While the potential for variability in shipping volumes and related services, particularly as it relates to clinical trials (as well as for commercialized products), presents the possibility that revenue may be somewhat irregular quarter-to-quarter, we think Q1 along with the streak of six straight quarters of sequential revenue growth provides additional validation of the stickiness of customer wins and our theorized incremental notching up of the revenue floor.

We also think there is growing evidence of solidifying pre-operating leverage – as represented by gross margin improvement. Gross margin was almost 41% in Q1, the highest on record for CYRX. The next best was 37.4% which was the prior quarter (i.e. fiscal Q4 2016). On an annual basis, gross margin has exhibited consistent improvement over the last few years – from 16.4% in 2014, to 29.7% in 2015 and to 32.1% in 2016. While we also think there may be some short-term volatility in gross margin, the trends are highly encouraging.

The next major milestone will be to see improvement in operating leverage. Clearly investments in people, processes and technology have shown up in the revenue growth. SG&A expense was $2.63M in Q1, or about 137% of revenue – which is the best in company history. We expect this will move around as well. But, coupled with expectations of consistent revenue growth and firming up in gross margins, we think there are a lot of positive signs that suggest CYRX is creeping ever closer to the inflection point where operating income begins to improve on a regular basis.

Cash…
Cash used in operating activities (ex-changes in working capital) in fiscal Q1 was $1.14M, compared to $1.11M in the year-earlier period and $1.60 in Q4 2016, Investing activities consumed another $194k. CYRX raised approximately $3.5M (net) via a common stock rights offering and warrants tender and exited the quarter with $4.5M in cash and equivalents. Management expects this to be sufficient to fund operations through at least the end of fiscal Q3 2017 (i.e. December 31, 2017).

Operational Progress Continues: Highlights Include Growth in Clinical Trial Pipeline, New Synergistic Ventures…

CYRX's clinical trial pipeline has rapidly grown, from supporting 52 studies as of November 2015 to 59 (including 10 in phase III) at February to 78, including 13 in phase III at June 2016 to 90+ including 14 in phase III, today - which CYRX estimates to be approximately 12% of the global market in these areas and 21% of the phase III programs. Clearly, assuming those estimates are accurate, we think garnering this significant amount of market share in a relatively short period is a powerful endorsement for CYRX's capabilities. Opportunity in this segment is where we continue to see the bulk of CYRX revenue growth emanating from, particularly in the near-to-mid terms.

And while supporting clinical trials can be a meaningful revenue contributor, logistics and shipping support for a commercialized product could be much more significant. For reference management estimates that the potential revenue range for support of a phase I program is $15k - $75k, phase II is $50k - $150k, phase III is $200k - $1M and for a commercialized product is $3M - $20M.

CYRX recently announced that they signed their first commercial product support contract in which they will be supporting a biologic therapy product that currently generates $4B in revenue. While management refrained from providing specifics regarding their specific role or the name of their client company or drug, they did note the customer is "one of the largest pharmaceutical companies in America" and that they expect to reveal more information about their role in the future. CYRX did note, however, that they expect this contract to begin making a contribution to revenue in fiscal Q2 (ending Sept 30, 2016).

In addition, on the Q1 call management noted that of the 14 phase III programs that they are supporting, six companies are potentially interested in product commercialization support. Of these the earliest is expected to launch in late 2017 or early 2018.

We think the impetus for CYRX's recent move into new synergistic ventures including the partnership with Worthington Industries (Taylor-Wharton), launch of a logistics consulting division and entry into the bio-storage market via a partnership with Pacific Bio-Material Management was not just related to increasing the volume of revenue-generating opportunities but also likely to expand their capabilities to better support their existing and growing client base. This $4B biologic relationship fits this theme and potentially allows CYRX to better support a greater portion of the cold shipping and storage value chain. It also affords CYRX opportunity to broaden their marketing and capabilities message to one where they will be involved in the entire end-to-end shipping, bio-storage and logistics process, providing the value-add of one-stop shop and customer security that responsibility for payload remains at a single point of contact.

CYRX recently expanded menu of capabilities includes…

- **Bio-Storage**: June 15th CYRX announced a partnership with Pacific Bio-Material Management Inc whereby they will now provide bio-storage. CryoPort Biostorage will provide cryogenic storage, fulfillment and transportation of biological material. We view biostorage as a particularly critical portion of the cold shipping/storage value chain as this provides not only synergistic benefits to CYRX's shipping and logistics capabilities but also means that they maintain possession of customers' cargo from collection, transport and storage - value-add that can be critical to a customer. CryoPort Biostorage launched in June

- **Laboratory Relocation Service**: concurrent with the biostorage announcement, CYRX noted that they will provide a lab relocation service whereby they will provide safe and secure transport of complete laboratories. The lab relocation service launched in June

- **Worthington Industries Partnership**: on April 13th CYRX announced a partnership with Worthington Industries (WOR), a $2B+ (market cap) metals manufacturing company which diversified into cryogenic containers for shipping and storage with the December 2015 purchase of Taylor-Wharton's CryoScience

business. CryoScience's product page can be found at this link (http://worthingtonindustries.com/Products/CryoScience-Products).

While CYRX has not provided specifics what the partnership will entail, they have noted that Worthington "will design and manufacture biostorage and logistics equipment for use in Cryoport's life sciences cryogenic logistics solutions." CYRX has further indicated that Worthington may be involved in manufacturing next-gen Cryo shippers for CYRX as well as potentially biostorage products. Biostorage would move CYRX into another and new (to them) part of the cryogenic value chain. While this is not necessarily in the company's 'wheelhouse' of expertise it is complementary to their core business and represents a potential new revenue opportunity. It also would have synergistic sales/marketing benefits such as being able to detail the offering at the same call points as their shipping and logistics services (i.e. – it's an 'add-to-the-bag' opportunity) .

- **Logistics Consulting Service Launched**: on April 11th CYRX announced formation of a Temperature Controlled Logistics Consulting Division aimed at helping cell-based life sciences companies navigate the intricacies of global cold chain shipping and storage. Tamie Joeckel, who joined CYRX earlier this year and who has significant expertise in pharmaceutical shipping and logistics is heading the newly formed division. We have yet to model any potential contribution from this new logistics consulting business and expect to hear more details about it from the company in the near future. CYRX noted on the Q1 call that the logistics consulting service is now operational

Among the highlighted announcements related to new accounts are;

- **Feb 16**: will manage shipping of solid tumor samples and Perseus PCI's immunotherapy cancer vaccine for their melanoma and ovarian cancer clinical trials from the company's lab in South Carolina to various U.S.-based clinical sites.
  Per clinicaltrials.gov (https://clinicaltrials.gov/ct2/show/NCT02301611), a phase IIb melanoma clinical trial is underway and expected to enroll a total of 120 stage III and IV melanoma patients. Clinicaltrials.gov lists 14 clinical sites that are currently recruiting for this melanoma study. We were unable to find publicly available information (Perseus is privately held) on the ovarian cancer program.

- **March 3**: will support cryogenic logistics of ImmunoCellular Therapeutics' (IMUC) randomized phase III glioblastoma clinical trial of its cancer immunotherapy candidate, ICT-107. The trial will be conducted at 120 clinical sites in North America and Europe. Per clinicaltrials.gov (https://clinicaltrials.gov/ct2/show/NCT02546102?term=ICT-107&rank=2) estimated enrollment is 414 patients. Per CYRX, this is one of the largest clinical trials that the company has supported. Given the relatively large patient size and clinical site diversity, we view this study in particular as another meaningful vote of confidence in CYRX's shipping and logistics capabilities and reliability in maintaining the integrity of clinical trial samples and, importantly, being able to validate this. Assuming CYRX's success in meeting IMUC's requirements, the scope of this type of contract is one which affords 'feather-in-cap' status in our opinion and one which can be influential for marketing the company's capabilities.

- **April 4:**: ProteoGenex will use CYRX's solutions for shipment of their biological specimens. ProteoGenex is a Culver City, CA-based biorepository ("over 200k individual biomaterials") which provides specimens of human tissue and blood and other fluids for clinical trials and other research purposes. ProteoGenex's website touts their quality control program, speed and reliability, size and quality of its biorepository and the fact that its specimens have been used in hundreds of peer-reviewed research publications as reasons why customers should use its products. CYRX's press release announcing the new account states that ProteoGenex will abandon their legacy dry-ice shipping method in favor of CryoPort's and that the two companies are in process of making that transition.

- **May 6**: Cryo Store B.V., a Dutch provider of biostorage, packaging and logistics has agreed to use CYRX for end-to-end cryogenic shipping and logistics for biomaterial shipping to and from its pharmaceutical customers.

- **May 23**: CYRX, utilizing their S. California and Singapore depots, will provide logistics support for International Stem Cell Corp's phase I clinical trial in Australia for their Parkinson's disease candidate.

- **June 8**: Tissue Solutions, a tissue biobank with a global customer base, will use CYRX's logistics, dewars and Smart Pak II monitoring system to ship tissue from collection sites to clients based all across the world.

- **August 2**: "One of the world's foremost (unnamed) contract manufacturers to the biopharma industry ("the Client") will convert its fleet of liquid nitrogen dewars supporting shipping of its contract manufacturing biologics

and cell therapy businesses to Cryoport's industry-leading and comprehensive logistics solutions." CYRX has not disclosed specifics in terms of the scope or expected volume of services related to this relationship although we hope to hear more in the future

- **August 11**: Stemedica Cell Technologies, which has used CYRX services since last year, recently entered an agreement for CYRX to support that company's phase II clinical trial (n=40) for their allogenic stem cell candidate for the treatment of Alzheimer's

Valuation

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 $0.17 in 2020 - based our valuation methodology, this values the stock at approximately $3 / share. We note that we have only incorporated incremental contribution from support of the recently announced $4B biologic customer and other potential commercialization-support opportunities that may arise over the next 12 - 18 months. We have also yet to model the expanded service offerings including biostorage, lab relocation and logistics consulting. Depending on actual contribution, our revenue and earnings estimates - and therefore our price target, could prove conservative. Our model and price target are therefore highly subject to change.

FINANCIAL MODEL

CryoPort Inc.

	2016 A	Q1 A	Q2 E	Q3 E	Q4 E	2017 E	2018 E	2019 E	2020 E
Total Revenues	$5,882.2	$1,917.6	$1,931.3	$2,118.8	$2,307.8	$8,275.3	$15,207.8	$30,868.5	$45,285.4
YOY Growth	*49.5%*	*34.0%*	*34.4%*	*45.3%*	*48.4%*	*40.7%*	*83.8%*	*103.0%*	*46.7%*
Cost of Revenues	$3,991.9	$1,135.6	$1,248.7	$1,347.5	$1,443.3	$5,175.2	$8,263.9	$14,628.2	$19,968.8
Gross Income	$1,890.3	$782.0	$682.5	$771.2	$864.5	$3,100.2	$6,943.9	$16,240.3	$25,316.5
Gross Margin	*32.1%*	*40.8%*	*36.3%*	*37.4%*	*38.5%*	*37.5%*	*46.7%*	*53.6%*	*55.9%*
SG&A	$10,080.9	$2,625.4	$2,916.2	$3,262.9	$3,600.1	$12,404.6	$15,511.9	$18,644.6	$21,284.1
% SG&A	*171.4%*	*136.9%*	*151.0%*	*154.0%*	*156.0%*	*128.0%*	*102.0%*	*60.4%*	*47.0%*
R&D	$550.3	$135.8	$201.0	$212.0	$218.0	$766.8	$740.0	$785.0	$825.0
% R&D	*9.4%*	*7.1%*	*10.4%*	*10.0%*	*9.4%*	*9.3%*	*4.9%*	*2.5%*	*1.8%*
Operating Income	($8,740.9)	($1,979.3)	($2,434.7)	($2,703.7)	($2,953.6)	($10,071.2)	($9,308.0)	($3,189.3)	$3,207.4
Operating Margin	*-148.6%*	*-103.2%*	*-126.1%*	*-127.6%*	*-128.0%*	*-121.7%*	*-61.2%*	*-10.3%*	*7.1%*
Other income, net	($9.9)	($1,931.7)	($2.5)	($4.0)	($1.5)	($1,939.7)	($12.0)	($15.0)	$6.0
Interest income, net	($1,065.9)	($21.2)	($19.8)	($18.3)	($16.8)	($76.1)	$0.0	$2.0	$16.0
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	($9,816.7)	($3,932.2)	($2,457.0)	($2,725.9)	($2,971.9)	($10,147.3)	($9,320.0)	($3,202.3)	$3,229.4
Taxes	$3.6	$2.5	$0.0	$0.0	$0.0	$2.5	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Preferred Stck Conversion Charge	($4,474.3)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Income	($15,057.4)	($3,934.7)	($2,457.0)	($2,725.9)	($2,971.9)	($10,149.8)	($9,320.0)	($3,202.3)	$3,229.4
YOY Growth	*23.5%*	*-40.4%*	*-7.8%*	*-9.1%*	*6.7%*	*-32.6%*	*-8.2%*	*-65.6%*	*-200.8%*
Net Margin	*-256.0%*	*-205.2%*	*-127.2%*	*-128.7%*	*-128.8%*	*-122.7%*	*-61.3%*	*-10.4%*	*7.1%*
EPS	($2.05)	($0.28)	($0.16)	($0.18)	($0.19)	($0.67)	($0.52)	($0.17)	$0.17
YOY Growth	*-15.7%*	*-78.8%*	*-60.8%*	*-57.6%*	*-27.4%*	*-67.3%*	*26.4%*	*-59.4%*	*-163.0%*
Diluted Shares O/S	7,347	14,200	15,300	15,500	15,575	15,144	18,000	19,000	19,500

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