Zacks Small-Cap Research

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CytoSorbents Corporation (CTSO-NASDAQ)

CTSO: Fresenius Commences Sales, DSMB Recommends Continuation of REFRESH I

Based on our 10-year DCF model, which uses a 13% discount rate to account for certain risks and uncertainties that CytoSorbents faces, and a 2% terminal growth rate, the shares are valued at approximately $12.50.

Current Price (06/01/16)	$4.48
Valuation	**$12.50**

OUTLOOK

We view 2015 as somewhat of a re-grouping year on the income statement - although "regrouping" should be put into context given that product sales grew 29% – and which would have been almost 50% growth if not for an Fx headwind. And if not for the sales force disruption earlier in the year, product sales growth would likely have been even significantly stronger.

We expect to see accelerating product sales growth as well as more strides on the operational front in 2016. In addition to Fresenius coming online, expansion into other geographic territories (in addition to those detailed by Fresenius), an expected continued regular flow of clinical data (including that from the patient registry as well as REFRESH I), potential additional production gains from the direct sales force, sales through Biocon could also accelerate further. And the cardiac-surgery channel also holds significantly potential. Consummation of a partnering agreement could further this opportunity.

SUMMARY DATA

52-Week High	**$8.10**
52-Week Low	**$3.11**
One-Year Return (%)	**-29.78**
Beta	**-0.02**
Average Daily Volume (sh)	**62,466**
Shares Outstanding (mil)	**25**
Market Capitalization ($mil)	**$114**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**6**
Insider Ownership (%)	**26**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**58.0**
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-Growth**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	723 A	964 A	1344 A	1761 A	4792 A
2016	1810 A	2216 E	2685 E	3114 E	9825 E
2017					15952 E
2018					22649 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-0.19 A	0.06 A	-0.11 A	-0.08 A	-0.33 A
2016	-0.08 A	-0.09 E	-0.09 E	-0.08 E	-0.34 E
2017					-0.26 E
2018					-0.11 E

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

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Fresenius Commences Commercialization.

While delayed from initial expectations, the long-awaited announcement that Fresenius (FMS) has started selling CytoSorb finally came. Fresenius kicked off their CytoSorb introduction at the ISICEM conference in mid-March and yesterday (6/1) CTSO announced the dialysis heavyweight commenced sales of CytoSorb and will be calling on intensive care units, KOL's and current customers and be actively promoting the device at industry conferences and events. FMS's V.P. of International Marketing commented that their goal is a seamless integration of CytoSorb within their dialysis platform.

Fresenius, which has marketing exclusivity of CytoSorb in France, Poland, Denmark, Finland, Norway and Sweden, is the largest dialysis provider in the world, providing dialysis services and dialysis equipment and supplies. As the leader in dialysis, Fresenius has a calling card to the largest and most prestigious hospitals and clinics, employs a highly experienced sales team and has the resources to support ongoing development and clinical case studies of CytoSorb.

But even beyond that Fresenius has a reputation of leadership and quality in the space. The face of Fresenius now includes the face of CytoSorb. As such we view the relationship with Fresenius as one that is likely to provide more than just a significant increase to the geographic distribution footprint for CytoSorb (which alone is highly material). In our opinion, Fresenius also gives both CytoSorbents and CytoSorb an additional significant vote of credibility. And credibility potentially gets CytoSorb used by the leading and most prestigious hospitals in these distribution territories. When it comes to building credible awareness, having influential key opinion leaders, medical institutions and device companies supporting utility of a novel device can provide one of the most effective marketing messages and spur much more widespread uptake.

DSMB Recommends Continuation of REFRESH I

Late last week CTSO announced that, based on an evaluation of safety data of the first 24 patients, that the data safety monitoring board (DSMB) recommended continuation of REFRESH I given no concerns about safety. REFRESH I is the 40-patient, 8 site, randomized cardiac surgery clinical trial. The press release also notes that the study is now more than two-thirds enrolled. As of the Q1 earnings call on May 9th (at which point the study was 63% enrolled) management was guiding for full enrollment to complete around mid-year and for top-line results to be available sometime in Q3 (i.e. by Sept 30th). Based on the most recent enrollment rate we think the full enrollment timeline may slip to sometime in the fall which could push top-line data towards closer to year-end. Nonetheless, the recommendation by DSMB to continue the study with no changes to protocol or design based on acceptable safety data is clearly positive.

FINANCIAL MODEL

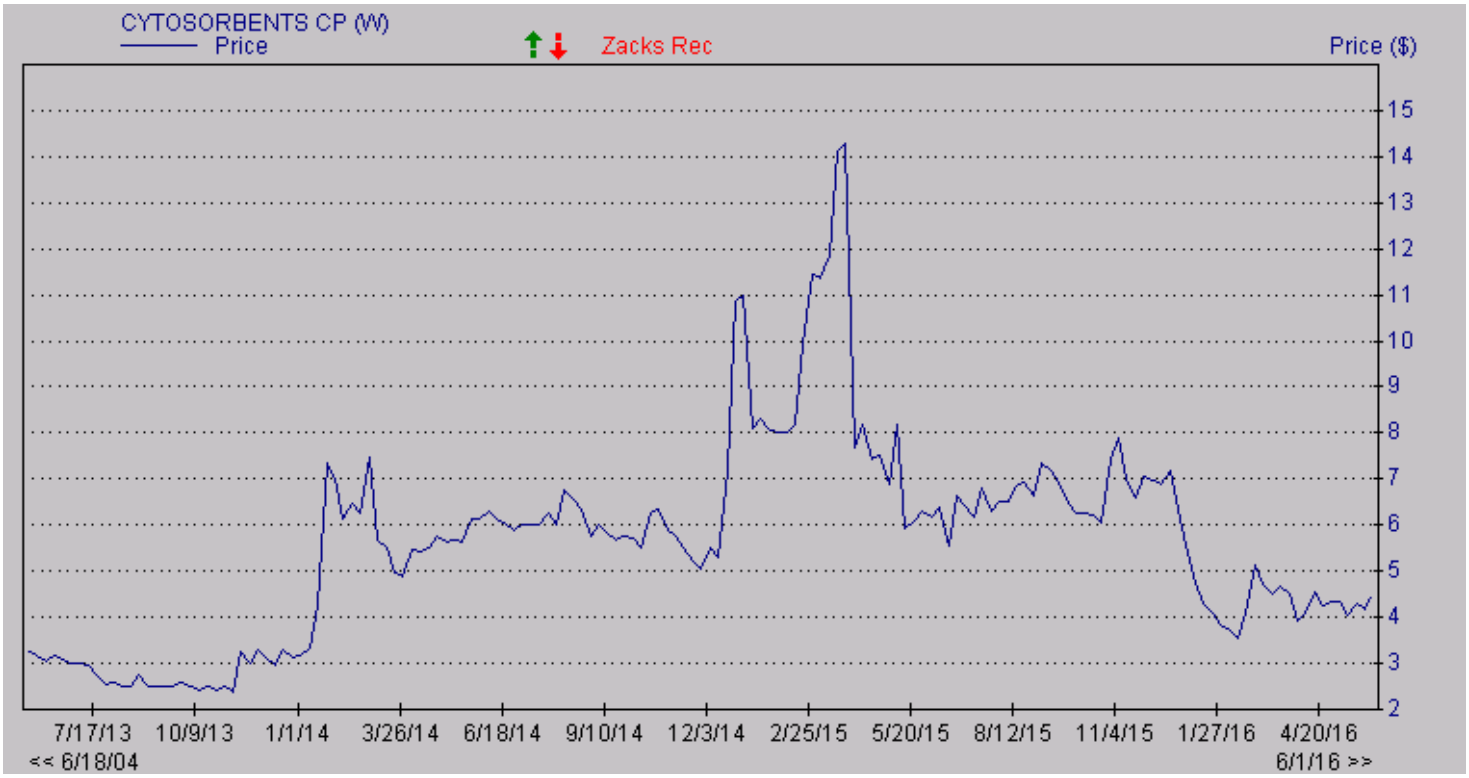
CytoSorbents Inc.

	2015 A	Q1A	Q2E	Q3E	Q4E	2016 E	2017 E	2018 E	2019 E
CytoSorb Sales	$4,043.8	$1,597.4	$1,865.5	$2,310.3	$2,788.8	$8,561.9	$15,206.8	$22,648.8	$27,772.0
y-o-y growth	*29.0%*	*127.0%*	*141.3%*	*115.6%*	*86.5%*	*111.7%*	*77.6%*	*48.9%*	*22.6%*
Total Royalties/Grants/Other	$747.8	$212.7	$350.0	$375.0	$325.0	$1,262.7	$745.0	$0.0	$0.0
y-o-y growth	*-24.3%*	*995.7%*	*83.4%*	*37.8%*	*22.5%*	*68.9%*	*-41.0%*	*-100.0%*	-
Revenue	$4,791.7	$1,810.2	$2,215.5	$2,685.3	$3,113.8	$9,824.7	$15,951.8	$22,648.8	$27,772.0
YOY Growth	*16.2%*	*150.3%*	*129.8%*	*99.9%*	*76.8%*	*105.0%*	*62.4%*	*42.0%*	*22.6%*
Cost of Goods Sold	$2,212.6	$819.5	$1,049.6	$1,229.8	$1,329.0	$4,427.8	$6,219.4	$8,040.3	$9,720.2
Gross Income	$2,579.1	$990.7	$1,165.9	$1,455.5	$1,784.8	$5,396.9	$9,732.4	$14,608.5	$18,051.8
Gross Margin	*53.8%*	*54.7%*	*52.6%*	*54.2%*	*57.3%*	*54.9%*	*61.0%*	*64.5%*	*65.0%*
SG&A	$8,011.9	$2,224.7	$2,202.0	$2,397.0	$2,466.0	$9,289.7	$11,297.0	$11,890.6	$12,441.9
% SG&A	*167.2%*	*122.9%*	*99.4%*	*89.3%*	*79.2%*	*94.6%*	*70.8%*	*52.5%*	*44.8%*
R&D	$3,871.1	$856.1	$1,166.0	$1,441.0	$1,550.0	$5,013.1	$5,751.0	$5,866.0	$6,120.0
% R&D	*80.8%*	*47.3%*	*52.6%*	*53.7%*	*49.8%*	*51.0%*	*36.1%*	*25.9%*	*22.0%*
Operating Income	($9,303.9)	($2,090.1)	($2,202.1)	($2,382.5)	($2,231.2)	($8,905.9)	($7,315.6)	($3,148.1)	($510.1)
Operating Margin	-	-	-	-	-	-	-	-	-
Total Other Expense	($847.3)	($253.8)	($2.0)	($2.0)	($2.0)	($259.8)	$0.0	$0.0	$0.0
Pre-Tax Income	($8,456.6)	($1,836.3)	($2,200.1)	($2,380.5)	($2,229.2)	($8,646.1)	($7,315.6)	($3,148.1)	($510.1)
Taxes (benefit)	($324.6)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*3.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Preferred Dividend	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Income	($8,132.0)	($1,836.3)	($2,200.1)	($2,380.5)	($2,229.2)	($8,646.1)	($7,315.6)	($3,148.1)	($510.1)
Net Margin	*-169.7%*	*-101.4%*	*-99.3%*	*-88.7%*	*-71.6%*	*-88.0%*	*-45.9%*	*-13.9%*	*-1.8%*
EPS	($0.33)	($0.08)	($0.09)	($0.09)	($0.08)	($0.34)	($0.26)	($0.11)	($0.02)
YOY Growth	-	-	-	-	-				
Diluted Shares O/S	24,886	24,401	25,408	25,720	26,500	25,507	27,700	28,900	29,500

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