Zacks Small-Cap Research

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CryoPort Inc (CYRX-OTC)

CYRX: YoY and Sequential Revenue Growth Continues

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	03/02/2011
Current Price (11/12/12)	$0.20
Target Price	**$3.00**

OUTLOOK

In addition to the new leadership we see several catalysts to near-term revenue growth including resolution of the issues related to FedEx and the CryoPortal interface, the recent addition of new shipper sizes, a new focus on qualifying customers and identifying the low-hanging fruit, and the newly introduced broader menu of shipper and service offerings to appeal to a more diverse customer base. The long, drawn-out tire-kicking process by potential customers will likely continue to be a necessary evil before some customers adopt the full CryoPort Express Solution (which we still view as CYRX's long-term growth driver) but ancillary offerings should provide a meaningful contribution to the top-line and help cash generation in the near-term. We are maintaining our Outperform rating and $3.00/share price target.

SUMMARY DATA

52-Week High	**$0.95**
52-Week Low	**$0.14**
One-Year Return (%)	**-68.57**
Beta	**-0.55**
Average Daily Volume (sh)	**72,172**
Shares Outstanding (mil)	**38**
Market Capitalization ($mil)	**$7**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**5**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**N/A**
P/E using 2014 Estimate	**N/A**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in '000s of $)

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2012	124 A	111 A	144 A	177 A	556 A
2013	191 A	234 A	626 E	1,418 E	2,469 E
2014					15,621 E
2015					44,184 E

Earnings per Share

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2012	-$0.07 A	-$0.07 A	-$0.07 A	-$0.05 A	-$0.27 A
2013	-$0.04 A	-$0.04 A	-$0.04 E	-$0.03 E	-$0.15 E
2014					-$0.03 E
2015					$0.16 E

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

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WHAT'S NEW....

10-Q Filed: Revenue, expenses, EPS all in-line with our numbers. YOY and sequential revenue growth continues…

On November 9th CryoPort (CYRX) filed their 10-Q for the fiscal 2013 second quarter ending September 30, 2012. Revenue, expenses and EPS were very much in-line with our numbers. And importantly, CYRX extended the streak on revenue growth, on both a yoy as well as sequential basis, to four straight quarters (from fiscal Q3 2012 through Q2 2013) indicating that shipping volume is gaining positive traction, albeit at a modestly increasing rate.

Q2 revenue of $234k was largely in-line with our $273k estimate and was up from $111k at Q2 2012 (+111% yoy) and $191k at Q1 2013 (+23% sequentially). Operating expenses of $1.4 million were slightly lower than our $1.5 million estimate and again benefited from CYRX's recently implemented cost-saving initiatives. Net income and EPS were ($1.55) million and ($0.04), compared to our ($1.59) million and ($0.04) estimates.

CYRX exited Q2 with $1.7 million in cash and equivalents, down from $3.0 million at the end of fiscal Q1 2012. Cash used in operations was $1.2 million. CYRX also repaid (per terms of the notes) $24k of principal on the related party notes ($708k o/s as of 9/30/12, 6% annual interest, principal repaid currently @ $8k/month with remainder due at 3/1/2015 maturity). In the 10-Q CYRX notes that they believe cash on hand and cash from operations should be sufficient to sustain operations through the end of fiscal 2013 (March 31, 2013).

We have made only minor adjustments to our model following Q2 results and continue to model sequential revenue growth throughout the remainder of fiscal 2013. We are maintaining our Outperform rating and $3.00/share price target.

Jerrell Shelton named CEO / President

CYRX's search for a CEO ended with the early November announcement that Jerrell (Jerry) Shelton, who weeks earlier was elected to the company's Board, was named as CryoPort's President and Chief Executive Officer. Mr. Shelton comes with an impressive background including a Harvard MBA and high-level executive positions and board posts at a number of technology and service organizations including IBM, The Thomson Corporation (Thomson Reuters), and Solera Holdings. Mr. Shelton has had consistent operational and financial success for predecessor organizations, much of which we think can potentially translate over to CryoPort including significantly growing revenues, increasing customer contracts, penetration of target markets, implementation of strategic vision, and, ultimately, increasing shareholder value. We had an introductory call with Mr. Shelton last week and came away confident that he shares the belief that CryoPort's shipper and logistics services can be a game-changer in cryogenic shipping and is energized and focused to make that a reality.

New and updated customer offerings

As CryoPort first announced on their 9/20/12 Business Update call (which we fully summarized in our 9/21/12 Investor Note and is included below), CryoPort is expanding their service offerings in order to appeal to a broader, more diverse customer base. This is in contrast to only offering customers their full-service CryoPort Express Shipper plus CryoPortal logistics service which had been the case in the past and may have left potential customers on the sideline as that one-size fits all approach didn't always fit with customer needs. The Q2 2013 10-Q describes in more detail CYRX's current customer offerings which we have included below.

Expanded Service Offerings which now include:

- **Cryoport Express Solution**: Cryoport's liquid nitrogen dry vapor shippers (Cryoport Express Shippers) including the Standard shipper (holds 75 2.0 ml vials) and the High Volume shipper (holds 500 2.0 ml vials). The service part of this offering is Cryoport's fully outsourced turn-key logistics solution which provides direct access to the cloud-based Cryoportal for order entry (which can also be done by contacting Cryoport client Care), 24/7/365 logistics services through its Client Care Team, and complete training and process management for each customer.
- **Customer-Staged Solution**: Cryoport ships multiple Cryoport Express Shippers to the customer (uncharged and in bulk) enabling the customer to charge the shippers at their facility, process its orders through the Cryoportal and then return the shippers to Cryoport after each shipment for cleaning, testing and refurbishing. Cryoport provides the 24/7/365 logistics services utilizing its Cryoportal logistics platform.

- **Customer-Managed Solution**: Cryoport ships a fully-charged Cryoport Express Shiiper(s) to the customer enabling them to utilize their internal expertise and manage all or a portion of the logistics services. as with the above solutions, the shippers are returned to Cryoport for cleaning, testing and refurbishing within a pre-determined time period.
- **Customer Integrated Logistics**: The Cryoport Logistics Team provides the full capability of the Cryoportal to provide complete logistics services while enabling the customer to utilize their own packaging solutions.
- **Distribution Partnerships**: Partnership arrangements with freight forwarder, integrators, and other logistics providers to be a part of their solution.

Business Update Call 9/20/12: *(from our 9/21/12 Investor Note)*

Management held a business update call yesterday (9/20/12), providing an overview of the status of operations including the sales/marketing focus, FedEx relationship, financial and shipping metrics, and offering some general outlook guidance. Management's candor in answering the relatively lengthy list of questions from various participants on the call was a breath or fresh air and noticeably different from the past (prior to the recent management changes). While there were no significant surprises relative to our expectations, there were some new revelations that we think bode well for further progress in developing the customer base and growing revenues. Highlights of the call included;

Revenue / Shipments / Financials

- Shipments grew from about 450 in Q4 to 560 in fiscal Q1 (latest qtr)
- Sequential revenue growth is expected for the foreseeable future with fiscal Q3 expected to show a more substantial up-tick

Customers

- Had about 100 customers (some of which may only make 1 shipment/month, others may make 30 shipments/mth) as of fiscal Q1 - expect this to continue to grow sequentially
- Have about 30 customers that are now in some stage of validation
- Have not lost a customer - customers continue to be very sticky
- Key diagnostic company expects to start regular shipping with CYRX in early 2013

Sales / Mktg

- Management acknowledged mistakes had been made in the past in qualifying customers and in identifying the low hanging fruit. Instead of a one-size fits all solution, CYRX's sales/mktg focus is now centered on a more tailored approach based on customer needs
    - In addition to their full-service offering (containers and tracking/logistics) CYRX will now also offer the option of just the outsourced logistics/tracking to customers that wish to use their own (or another provider's)
    - CYRX will introduce a much small dewar (container) later this year. The smaller container will hold up to 6 vials (compared to the larger containers which hold 75 and 500 vials) and is expected to be popular with customers with lower volume shipments. The smaller dewar is also much easier for customers to store onsite and quickly reuse than is the larger containers
    - Management noted that they've learned from mistakes made in the past where they had identified what they thought could be high volume croygenic shipping customers and only after long validation periods did it become apparent that some of these prospects mostly shipped biological material that required cold but not necessarily cryogenic shipping (we assume that this has now been sufficiently addressed)

- CYRX sales targeting is now heavily focused on biotech and pharmaceutical companies and less so on CRO's. Biotech/pharma offers a more consistent and regular shipping base than do CRO's, the shipping demand from which is largely dependent on clinical trials - which can be lumpy and not in the direct control of the CRO

FedEx

- CYRX management's day-long meeting with FedEx in April was very productive and helped build on recently implemented changes which CYRX believes will spark a greater rate of sales generated through their partner
- One of these critical changes (which had been announced previously) allows FedEx customers to access CYRX's CryoPortal directly through the FedEx website interface - prior to this customers had to access the CryoPortal separately which sales reps reported was a hindrance for customers. The interface updates also now allow FedEx sales reps the ability to track their CryoPort-related sales information and metrics - which potentially helps incentivize sales efforts as it provides easier insight relative to commissions. The portal interface should be fully operational in October

- CYRX management clearly indicated that they believe sales via FedEx will begin to show much more promise than what has been the case in the past, which by all accounts have been disappointing

Cash / Financing

- Management remains focused on controlling costs and limiting cash burn
- Expect to need financing by Q1 2013 (in-line with our prior expectations). Considering various options to do so. We note CYRX and their investment bank (Emergent Financial) have been very successful in raising capital when needed in the past
- Management estimates they could reach cash flow positive at about 5k shipments/month - which is about 1/2 the shipping volume that they had previously thought it would take. Management thinks it's possible they could reach cash flow positive in about 18 months

VALUATION / RECOMMENDATION

Management indicates that they continue to add customer accounts and are getting increased interest from clinical research organizations and pharmaceutical companies - these are the customer classes that potentially represent very significant opportunity for CryoPort, particularly over the long-term. This has recently started to translate into greater revenue traction. Through the most recent reporting period CYRX extended the streak on revenue growth, on both a yoy as well as sequential basis, to four straight quarters (from fiscal Q3 2012 through Q2 2013) indicating that shipping volume is gaining positive traction, albeit at a modestly increasing rate. Recent highlights include the addition of ACM Global and ImClone Systems as new customers beginning in late 2011. In addition, other life sciences companies, including diagnostic testing organizations are also showing meaningful interest. We view the recent turnover in CYRX's leadership which included the appointment of individuals with backgrounds of success in turnaround situations, growing customer count and revenues, implementation of strategy, and increasing shareholder value as highly positive. In addition to the new leadership we see several catalysts to near-term revenue growth including resolution of the issues related to FedEx and the CryoPortal interface, the recent addition of new shipper sizes, a new focus on qualifying customers and identifying the low-hanging fruit, and the newly introduced broader menu of shipper and service offerings to appeal to a more diverse customer base.

While the long, drawn-out tire-kicking process by potential customers which includes including running multiple test shipments will likely continue to be a necessary evil before some customers adopt the full CryoPort Express Solution, CYRX's new menu of offerings should now allow them to generate revenue from ancillary sources such as customers that only want the shippers or only logistics for (example) maybe a small volume cell line and may not require the long test-shipment process. Longer-term we still see the full shipper and service offering as the major driver of CYRX's revenue but, in the meantime, these ancillary offerings should provide a meaningful contribution to the top-line and help cash generation.

We have only made minor adjustments to our model following Q2 results. We look for revenue of $2.5 million in fiscal 2013 and for this to grow to about $70 million in the year 2016.

We continue to value the company based on an industry P/E multiple (21x) and discount this back to the present at 20% / year. We look for EPS of $0.27 in 2016 - based our valuation methodology, this values the stock at approximately $3.00 / share. We are maintaining our Outperform rating.

FINANCIAL MODEL

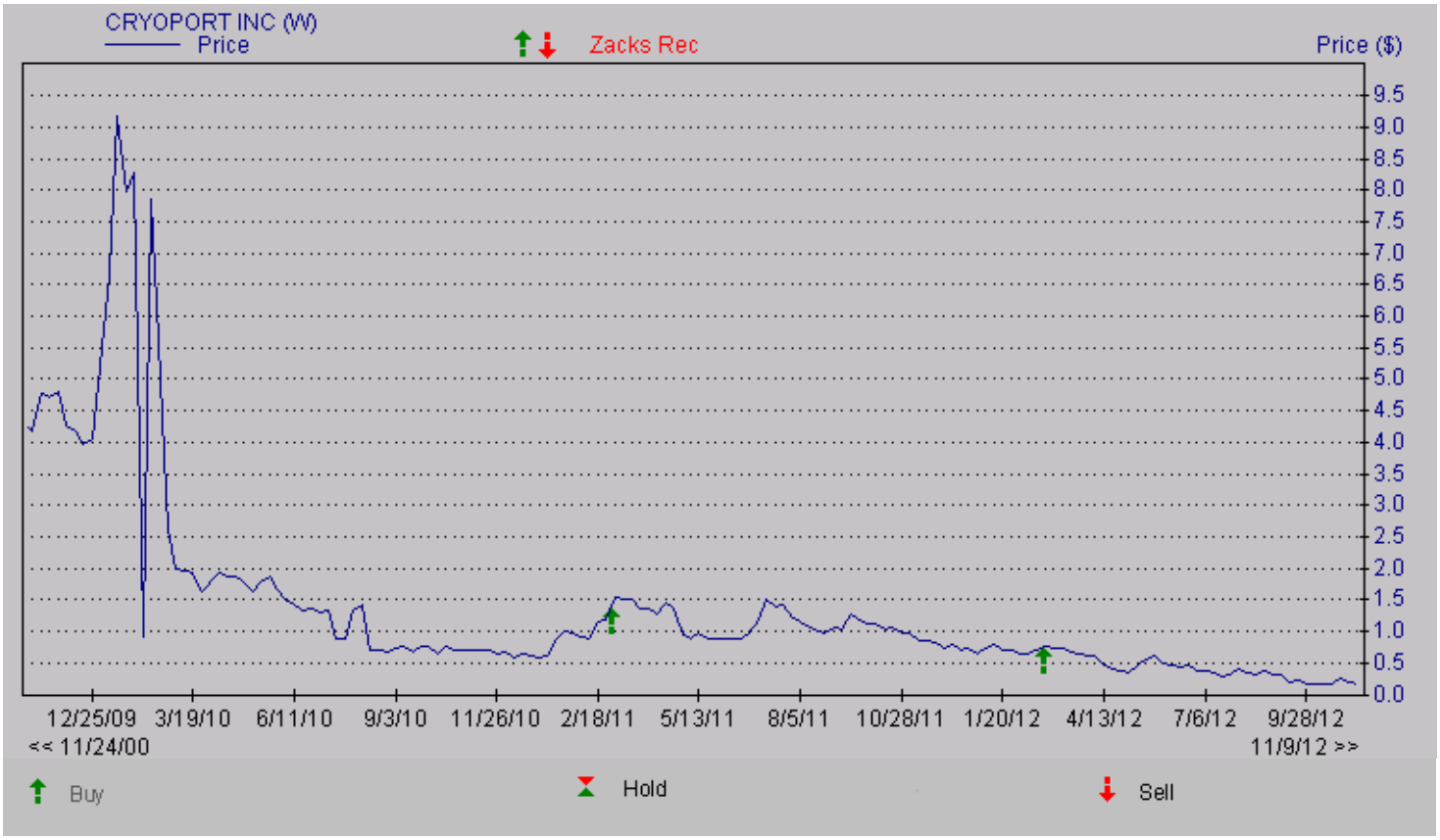
CryoPort Inc.

	2012 A	Q1A	Q2A	Q3E	Q4E	2013 E	2014 E	2015 E	2016 E
Total Revenues	$555.6	$191.3	$233.6	$626.4	$1,417.5	$2,468.9	$15,621.2	$44,184.1	$70,184.6
YOY Growth	*16.9%*	*54.6%*	*111.0%*	*334.1%*	*701.4%*	*344.3%*	*532.7%*	*182.8%*	*58.8%*
Cost of Revenues	$1,392.5	$353.6	$344.4	$431.0	$816.5	$1,945.4	$7,288.6	$18,249.8	$28,255.5
Gross Income	($836.8)	($162.3)	($110.8)	$195.4	$601.0	$523.5	$8,332.6	$25,934.3	$41,929.0
Gross Margin	*-150.6%*	*-84.9%*	*-47.5%*	*31.2%*	*42.4%*	*21.2%*	*53.3%*	*58.7%*	*59.7%*
SG&A	$6,106.0	$1,269.3	$1,341.3	$1,487.0	$1,682.0	$5,779.6	$9,622.7	$15,641.2	$20,002.6
% SG&A	*1098.9%*	*663.5%*	*574.2%*	*237.4%*	*118.7%*	*234.1%*	*61.6%*	*35.4%*	*28.5%*
R&D	$491.8	$109.0	$101.7	$127.0	$144.0	$481.6	$525.0	$550.0	$875.0
% R&D	*88.5%*	*57.0%*	*43.5%*	*20.3%*	*10.2%*	*19.5%*	*3.4%*	*1.2%*	*1.2%*
Operating Income	($7,434.7)	($1,540.5)	($1,553.8)	($1,418.6)	($1,225.0)	($5,737.8)	($1,815.1)	$9,743.2	$21,051.4
Operating Margin	*-1338.0%*	*-805.3%*	*-665.2%*	*-226.5%*	*-86.4%*	*-232.4%*	*-11.6%*	*22.1%*	*30.0%*
Interest income, net	($515.8)	($24.6)	($11.8)	($11.0)	($11.0)	($58.4)	($45.0)	($22.0)	$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	$119.2	$19.3	$14.5	$0.0	$0.0	$33.8	$0.0	$0.0	$0.0
Pre-Tax Income	($7,831.3)	($1,545.8)	($1,551.1)	($1,429.6)	($1,236.0)	($5,762.3)	($1,860.1)	$9,721.2	$21,069.4
Taxes	$1.6	$0.0	$1.6	$0.0	$0.0	$1.6	$0.0	$0.0	$2,359.8
Tax Rate	*0.0%*	*0.0%*	*-0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*11.2%*
Net Income	($7,832.9)	($1,545.8)	($1,552.7)	($1,429.6)	($1,236.0)	($5,763.9)	($1,860.1)	$9,721.2	$18,709.7
YOY Growth	*-27.3%*	*24.7%*	*23.5%*	*31.3%*	*26.0%*	*26.4%*	*-67.7%*	*-622.6%*	*92.5%*
Net Margin	*-1409.7%*	*-808.1%*	*-664.7%*	*-228.2%*	*-87.2%*	*-233.5%*	*-11.9%*	*22.0%*	*26.7%*
EPS	($0.27)	($0.04)	($0.04)	($0.04)	($0.03)	($0.15)	($0.03)	$0.16	$0.27
YOY Growth	*41.6%*	*44.8%*	*43.4%*	*51.3%*	*42.5%*	*45.5%*	*-77.4%*	*-578.2%*	*67.1%*
Diluted Shares O/S	28,975	37,761	37,761	39,877	41,222	39,155	56,000	61,200	70,510

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