Zacks Small-Cap Research

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CryoPort Inc (CYRX-OTCQB)

CYRX: UPS Deal Another Major Revenue Opportunity

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	08/20/2013
Current Price (11/12/14)	$0.40
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 twelve 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	**$0.30**
One-Year Return (%)	**5.83**
Beta	**-1.00**
Average Daily Volume (sh)	**32,613**
Shares Outstanding (mil)	**60**
Market Capitalization ($mil)	**$27**
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 (%)	**86.0**
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	1210 E	1431 E	4,402 E
2016					15,185 E
2017					40,148 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	-$0.02 E	-$0.02 E	-$0.13 E
2016					-$0.01 E
2017					$0.06 E

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

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WHAT'S NEW....

Q2 2015: CYRX Now Has Deals With "Big 3" Freight Carriers…

CYRX announced results for their 2015 fiscal second quarter ending September 30th. Similar to the recent past, there were no particularly significant surprises. While revenue dipped on a sequential basis (i.e.- from Q1 2014) for the first time in eight quarters, on a yoy basis CYRX continued its long streak of revenue growth. In fact Q2 marked the twelfth straight quarter exhibiting yoy revenue growth. Year-over-year revenue growth through the three and six months ending 9/30/2014 was 42% and 65%, respectively. And with the ongoing progress of expanding the customer base, increasing utilization and consummation of recent high-potential partnerships (such as recent deals with the likes of UPS, DHL and Liventa) which have yet to get fully-geared up, we see no end in sight to this streak of revenue growth.

Revenue is not the only financial metric that has shown fairly consistent improvement, however. Higher revenue levels means the expense base in cost of sales is now more easily absorbed, resulting in gross margin expansion. 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 32% through the first six months of fiscal 2015. CYRX is also starting to see 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 1.8x revenue through the first half of 2015. We continue to think that quarterly break-even can happen before the end of fiscal 2016 (3/31/2016).

Financials
Q2 revenue of $825k was up 42% yoy, down 12% sequentially and lower than our $1,080k estimate. We would not read anything into the sequential decrease or difference relative to our number as quarterly volatility was not unexpected. Importantly Q2 marked the sixth straight quarter that revenue covered COGS and the twelfth straight quarter that revenue increased on a sequential basis. Gross margin of 27% was the second best of all time, was only eclipsed by the 36% posted in Q1 of this year (Q1 revenue was also higher) and was slightly better than our 25% estimate. We continue to expect gross margin to benefit over the long-term with an increase in revenue.

Q2 operating expenses of $1.6M were in-line with our $1.5M 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, Q2 net income and EPS were approximately ($1.5)M and ($0.02), compared to our ($1.3)M and ($0.02) estimates. CYRX exited Q2 with $103k in cash and equivalents, down from $170k at the end of fiscal Q1 2014.

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 earlier this month, 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 beginning early next calendar year 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 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.

Liventa will use CryoPort's shippers and logistic management platform for transportation of AmnioClear and their other cellular products to the U.S. based orthopaedic point of care channel. Shipments commenced in October. Liventa's CEO, Robin Young, a leading expert in stem cells, noted, " After careful research, we concluded that Cryoport's logistics solutions, which include both shipping and information logistics, was by far the most advanced solution available for both our AmnioClear cryopreserved tissue products and other cryopreserved cellular products. Cryoport's system opens up every corner of the orthopedic industry to advanced biologic tissue and cell forms."

We think this partnership with Liventa has the potential to be significant in terms of contribution to CYRX. CYRX notes Liventa's target market in the orthopaedic space represents approximately 108 million patients annually. We also view consummation of this partnership as meaningful from the standpoint of validation of CYRX's cryogenic shipping and logistics as well as validation that management's efforts in scoring high potential customers are paying dividends.

> 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. We expect a greater contribution from this agreement during fiscal 2015.

VALUATION / RECOMMENDATION

While revenue dipped on a sequential basis (i.e.- from Q1 2014) for the first time in eight quarters, on a yoy basis CYRX continued its long streak of revenue growth. In fact Q2 marked the twelfth straight quarter exhibiting yoy revenue growth.

We remind investors of the company's business update call back in September 2012 when management indicated that they believed, based on recent trends of customer growth, customer stickiness and shipping volumes along with ironing out certain issues hampering sales through the FedEx channel, and implementation of a more customer-centric and tailored menu of offerings to appeal to a larger and broader customer base, that revenue would continue to grow sequentially for the foreseeable future. While the recent sequential dip was not unexpected given the potential for short-term volatility, the continued yoy growth is highly encouraging. We think a large part of this success has been implementation of the expanded and tailored, yet comprehensive and turn-key offerings that the company first announced and began rolling out in calendar 2012. Increasing the customer base, broadening customer segmentation, increasing shipments per customer, and customer "stickiness" should all bode well for continued growth.

Recent highlights include partnerships and agreements with Zoetis, Liventa, EMMA, Glaukos, DHL and UPS. We view these as a testament to management's efforts in scoring high potential customers as well as validation of CYRX's cryogenic shipping and logistics. We think a greater contribution from some of these customers, namely Liventa, DHL and UPS will materialize in early calendar 2015.

CYRX continues to score customers and build the customer base. This acceleration in customer wins in a relatively short period of time is likely a direct result of CryoPort recently expanding their service offerings in order to appeal to a broader, more diverse customer base and one that is tailored, comprehensive and turn-key. The company's value proposition has evolved into one that is complete solution that covers the entire logistics transportation process and one that can be tailored to the specific needs of a diverse customer base. This has allowed expansion of their target market, provided more shots on goal and appears to be resulting in more shots going in the net.

We look for revenue of $4.4 million in fiscal 2015 and for this to grow to about $59 million in the year 2018.

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 $0.13 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

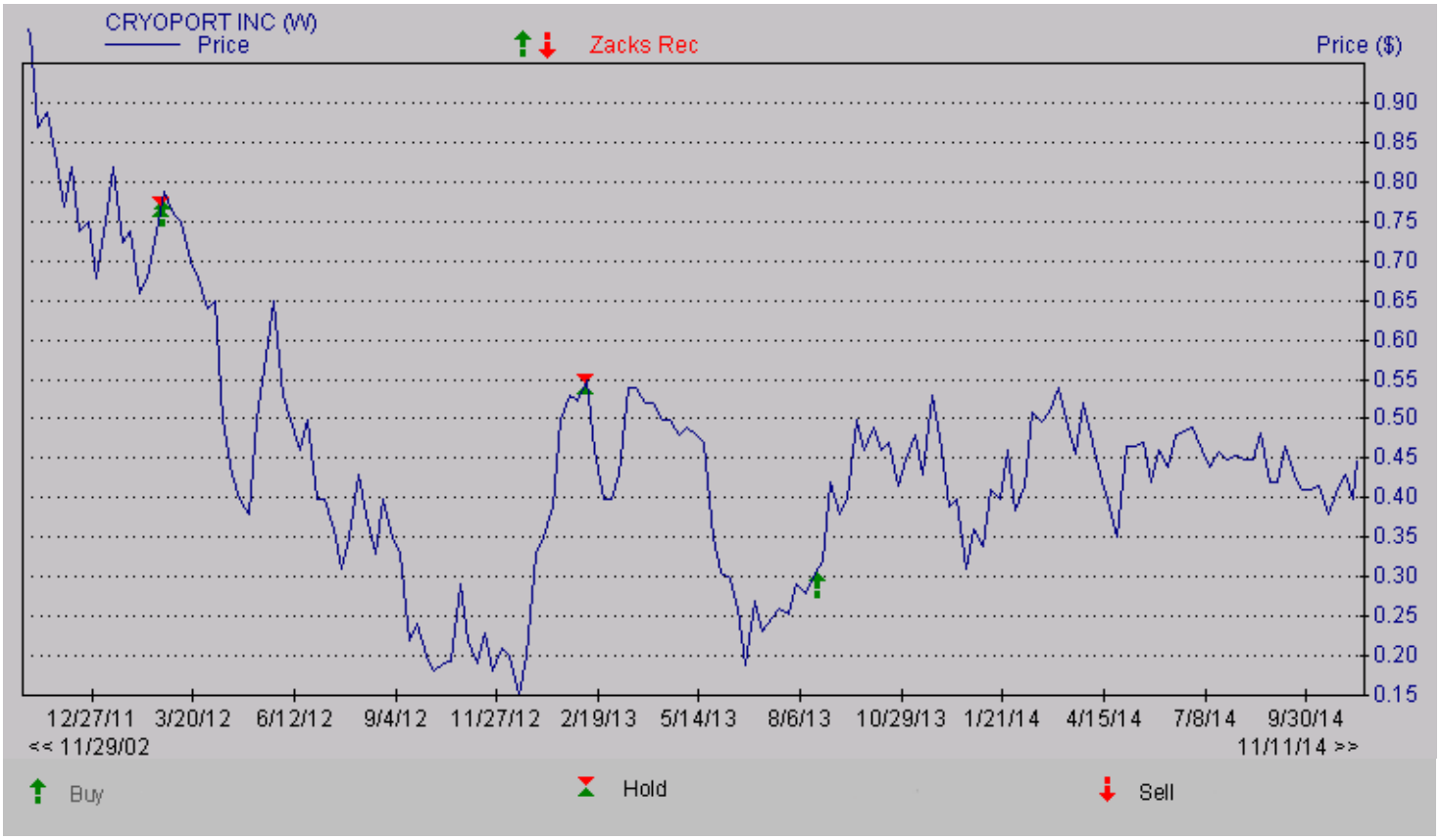
CryoPort Inc.

	2014 A	Q1 A	Q2 A	Q3 E	Q4 E	2015 E	2016 E	2017 E	2018 E
Total Revenues	$2,659.9	$936.6	$825.0	$1,210.4	$1,430.6	$4,402.6	$15,184.5	$40,147.5	$59,227.5
YOY Growth	*141.6%*	*91.9%*	*42.3%*	*59.8%*	*71.4%*	*65.5%*	*244.9%*	*164.4%*	*47.5%*
Cost of Revenues	$2,223.0	$597.2	$600.0	$882.4	$1,022.9	$3,102.5	$8,651.2	$17,629.1	$23,691.0
Gross Income	$437.0	$339.4	$225.0	$328.0	$407.7	$1,300.0	$6,533.3	$22,518.4	$35,536.5
Gross Margin	*16.4%*	*36.2%*	*27.3%*	*27.1%*	*28.5%*	*29.5%*	*43.0%*	*56.1%*	*60.0%*
SG&A	$5,106.2	$1,427.9	$1,510.7	$1,520.0	$1,525.0	$5,983.6	$6,605.3	$15,336.3	$19,367.4
% SG&A	*140.0%*	*152.5%*	*183.1%*	*125.6%*	*106.6%*	*49.0%*	*43.5%*	*38.2%*	*32.7%*
R&D	$409.1	$79.2	$89.3	$96.0	$102.0	$366.5	$625.0	$840.0	$1,055.0
% R&D	*15.4%*	*8.5%*	*10.8%*	*7.9%*	*7.1%*	*8.3%*	*4.1%*	*2.1%*	*1.8%*
Operating Income	($5,078.4)	($1,167.7)	($1,375.0)	($1,288.0)	($1,219.3)	($5,050.0)	($696.9)	$6,342.0	$15,114.1
Operating Margin	*-190.9%*	*-124.7%*	*-166.7%*	*-106.4%*	*-85.2%*	*-114.7%*	*-4.6%*	*15.8%*	*25.5%*
Interest income, net	($784.5)	($1,128.9)	($7.9)	($10.0)	($8.0)	($1,154.7)	($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)	($1,298.0)	($1,227.3)	($6,204.8)	($908.9)	$6,301.0	$15,132.1
Taxes	$1.6	$1.6	$0.0	$0.0	$0.0	$0.0	$0.0	$1,178.3	$4,691.0
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)			($2,468.8)			
Net Income	($19,565.4)	($3,066.8)	($3,183.7)	($1,373.0)	($1,304.3)	($8,925.2)	($908.9)	$5,122.7	$10,441.2
YOY Growth	*206.6%*	*-131.7%*	*78.7%*	*25.4%*	*9.5%*	*-54.4%*	*-89.8%*	*-663.6%*	*103.8%*
Net Margin	*-735.6%*	*-327.4%*	*-385.9%*	*-113.4%*	*-91.2%*	*-202.7%*	*-6.0%*	*12.8%*	*17.6%*
EPS	($0.40)	($0.05)	($0.05)	($0.02)	($0.02)	($0.13)	($0.01)	$0.06	$0.13
YOY Growth	*137.0%*	*-45.9%*	*86.1%*	*37.3%*	*27.8%*	*-66.4%*	*-91.3%*	*-642.7%*	
Diluted Shares O/S	48,851	60,443	60,049	70,214	74,655	66,340	78,000	81,000	83,500

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The current distribution is as follows: Buy/Outperform- 16.0%, Hold/Neutral- 77.7%, Sell/Underperform – 6.1%. Data is as of midnight on the business day immediately prior to this publication.