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CryoPort Inc (CYRX-NASDAQ)

CYRX: Q2 A New Revenue Record Although Softer Than Expected. But Revenue Guidance of 150%+ Reiterated.

Current Recommendation	**Buy**
Prior Recommendation	Underperform
Date of Last Change	05/20/2015
Current Price (11/18/15)	$2.18
Target Price	**$9.00**

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 fourteen 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 streak to continue. Recent capital raises being pumped back into sales/mktg. Expect this to result in big revenue push. Management guiding to 2016 revenue growth of 154% - 205%. We are maintaining our Buy rating.

SUMMARY DATA

52-Week High	**$8.88**
52-Week Low	**$2.12**
One-Year Return (%)	**-60.82**
Beta	**-0.70**
Average Daily Volume (sh)	**16,648**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$16**
Short Interest Ratio (days)	**3.42**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**25**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**79.5**
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	**High,**
Type of Stock	**Small-Blend**
Industry	**Rubber&Plastics**

ZACKS ESTIMATES

Revenue
(in '000s of $)

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2015	936 A	825 A	975 A	1190 A	3,935 A
2016	1431 A	1437 A	2168 E	3384 E	8,420 E
2017					22,936 E
2018					42,494 E

Earnings per Share

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2015	-$0.61 A	-$0.64 A	-$0.40 A	-$0.79 A	-$2.43 A
2016	-$1.31 A	-$0.41 A	-$0.30 E	-$0.27 E	-$2.03 E
2017					-$0.29 E
2018					-$0.01 E

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

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Q2 Fiscal 2016: Revenue Sets A New Record, Although Lower Than Expected. But 150%+ Revenue Guidance Affirmed..

CYRX announced financial results for their fiscal 2016 second quarter ending September 30th. While revenue showed growth on both a yoy and sequential basis and set a new record, results were more temperate than what we were expecting.

Revenue missed our number fairly sizably, gross margin was softer than what we were looking for and, while operating expenses were lower than our estimate on an absolute basis, they were higher as a percentage of revenue. Management indicated on the call that Q2 financial results also under-performed their expectations and pointed to some seasonality as well as variability in customers' clinical trial activities as short-term headwinds that negatively impacted revenue in the period. But clearly the company expects these headwinds to quickly dissipate as they reiterated their fiscal 2016 (ending March 31, 2016) full-year revenue guidance of $10M - $12M, implying 2H growth of ~150% or more compared to the first six months of the year.

And despite the miss to our numbers, the outlook remains highly promising. Importantly, the customer count continues to rapidly expand – with management noting that they currently have 550 customers, 60 (11%) of which came onboard over the last six months. The number of clinical trials that they are supporting is also experiencing impressive growth, increasing by ~150% since the same period in fiscal 2015. CYRX is now supporting 52 clinical trials throughout the world.

Reproductive medicine, specifically related to the human IVF market, has become a tremendous opportunity for CYRX. This is illustrated by the 75% yoy revenue growth that CYRX experienced through fiscal Q2 related to reproductive medicine. CYRX credits much of the success in this area with their sales and marketing campaigns. Clearly the company sees this as a segment that they view as holding outsized growth potential and one where they will dedicate an even greater focus.

Regenerative medicine, which has exploded in just the last few years in terms of R&D dollars dedicated to development of new cell-based therapies, is another area where CYRX is seeing increasing demand for their services. Not only are they currently supporting ~20% of all phase 3 regenerative medicine clinical trials including eight of the top ten CAR-T cell therapies, they noted that they are in late-stage discussions with several of their customers about providing the logistics and/or shipping backbone if and when these therapies reach the commercial market. If that happens, it could provide a significant step-up in revenue and perhaps just as important, a regular and predictable stream of income to CYRX.

The company made other progress preparing for the next wave of growth and expanding their capabilities. That includes lease of new facility that will act as the company's headquarters and base of operations. The space, at almost 28,000 sf, is more than double that of their existing facility. Another recent milestone was acquisition of full rights to the Cryoportal-related IP for $400k. Owning the IP allows provides greater flexibility and ease to expand their offerings and services into a broader segment of the market.

Financials

Q2 revenue of $1.4M was up74% yoy and up less than 1% sequentially but 21% lower than our $1.8M estimate. This marks the 16th straight quarter of yoy revenue growth and sequential growth over eleven of the last twelve quarters. We have made some slight adjustments to our model but our estimated $5.6M in revenue for 2H fiscal 2016 remains unchanged. We now look for 2016 full-year revenue of $8.4M, which is adjusted down from $8.8M prior to Q2 results announcement – the entire difference relates to the miss compared to our estimate in Q2. Our estimate remains more conservative than management's guidance, which as noted was reiterated, of $10M - $12M.

Gross margin at 30.4% was significantly healthier than the comparable year-earlier period (27.3%) but down from 34.1% in Q1 of this year and somewhat weaker than our 34.3% estimate. The company noted that increases in freight pricing as well as costs related to new hires to the shipping crews impacted GM. But, as shipping volume grows we continue to expect GM to widen as fixed and semi-fixed costs running through COGS are more easily absorbed. Management continues to look for GM at about 60% at the point of cash flow break-even (which they have in the past ballparked to be at revenue of ~$12M).

Q2 OpEx was $2.3M, slightly lower than our $2.4M estimate although as a percentage of revenue was higher than our forecast (157% A vs 132% E). But OpEx should be super scalable with CYRX's business model as most costs are fixed (such as infrastructure) or semi-fixed (such as personnel and containers) and we expect additional

revenue growth to bear this out. We do, however expect some additional expenses to come online in the near term related to additional hires to the shipping and sales teams as well as higher lease expense for the larger facility. These additional expenses should easily be absorbed, however, if management is able to hit their revenue targets.

Q2 net income and EPS, excluding non-cash amortization of debt discount and fair value of conversion feature (both related to o/s notes), were ($2.1)M and ($0.32) compared to our ($1.8)M and ($0.29) estimates – the difference in net income relates to the miss on revenue while the difference in EPS is from a combination of the top-line miss and o/s share count coming in lower than what we were modeling. We continue to look for significant improvement in both the top-line as well as operating income, particularly as the company heads into fiscal 2017 (April 2016 – March 2017.)

Operational Update: Expanding Customer Base, Clinical Trials, New Sales Reps, Big Opportunity with Growth of Regen and Reproductive Medicine Markets…

CYRX continues to scale the customer base through deeper penetration of existing markets and territories and recent entry into others. We think the long streak of consecutive q-o-q increases in revenue is indicative of the high customer retention rate, growth of the customer base and increasing average utilization. The recent hires and expansion of the sales and marketing infrastructure, facilitated by the recent capital raises, is expected to result in accelerating customer wins and resultant steepening of the revenue curve. We continue to think that a point of much higher scale is reachable in the near term - to a point where revenue grows much faster than OpEx and there's a dual benefit with significant gross margin widening. Management believes this latest sales/marketing push can result in a very rapid and near-term steeping in sales - and push revenue to $10M or more through the end of fiscal 2016 (March 2016).

Activities at CYRX have heated up even more over the last few quarters and have included consummation of new customer relationships, expansion of others, the introduction of new services and products and entry into at least one new geographical territory. Interest in CYRX's services continues to come from several segments including in-vitro fertilization, cell-based therapies and animal husbandry, areas where CYRX has recently seen increasing demand for their cryogenic shipping solution.

Regenerative medicine, a market that is exploding in terms of growth - MarketResearchReports forecasts regenerative medicine to grow from $16B in 2013 to $68B in 2020 (23% CAGR) – is a particular area where CYRX is seeing increasing demand for its services. They currently support ~20% of all phase 3 regenerative medicine clinical trials including 8 of the top 10 CAR-T cell therapies. Human regenerative medicine, specifically the IVF segment, is another area that CYRX has experienced great and growing interest – revenue from this segment has grown by 70% or more through the first half of fiscal 2016.

And in addition to growth in customer segmentation, CYRX is also seeing increasing demand for its various service offerings – from logistics to containers to its full turnkey solution. This broadening in both the types of customers that are increasingly showing interest coupled with demand across their menu of offerings is highly encouraging. It also further demonstrates that the company's recent shift from a one-size-fits all approach focused on only a select end-user profile to more of an ala-carte services and product menu appropriate for a much broader customer base is paying significant dividends.

New or expanded relationships that have been recently entered into include:

- Agreement (June 2015) with ArunA Biomedical to support shipping of their stem cell kits
- Agreement (June 2015) with Lynden International as that company's preferred cryogenic logistics provider supporting clinical trials in Africa. Lynden is a freight forwarder with over 50 offices throughout the world
- Agreement (June 2015) to provide logistics support for CaRE Arthritis, a Canadian academic research organization which supports arthritis research
- Agreement (June 2015) with ZenBio to support distribution of that company's human cell-based products
- Agreement (July 2015) with HemaCare Corp, a provider of biological material, for logistics support
- Expanded relationship with Sanaria, a biotech focused on the development and production of malaria vaccines. CryoPort is working with Sanaria to provide cold-chain shipping of its vaccines for clinical trials as well as for clinical use in Africa. Vaccines must be kept at specific temperatures in order to maintain their integrity. CYRX's shipping solution provides unparalleled durability, holding time and temperature maintenance, which

are all critical for shipping vaccines internationally and particularly to remote parts of Africa with harsh conditions and where Malaria is most problematic

- Kite Pharma (NASDAQ: KITE), a $2.5B biopharma developing novel cancer therapies, will use CYRX's cryogenic shipping and logistics for clinical trials of its lead candidate, KTE-C19, a CAR-T cell therapy for non-Hodgkin's lymphoma
- CYRX expanded their relationship with Fred Hutchinson Cancer Research Center whereby the company will now support more of the cancer center's labs. CYRX is specifically involved in Fred Hutch's research on cord blood transplants and trials for cell-based therapies
- CombiMatrix (NASDAQ: CBMX), a molecular diagnostics company focused on prenatal and postnatal genetic testing, entered into an agreement for CYRX to provide logistics support for distribution of its recently launched IVF genetic test, CombiPGS. CombiPGS targets physicians and will be used prior to implantation to assess the embryos for chromosomal abnormalities.
  As noted, CYRX has made a strong and dedicated move towards the opportunities in in-vitro fertilization. This relationship with CBMX, as well as their recent entry into Nepal with a focus on IVF, are their most recent efforts in this space. We continue to view IVF as holding potential to become a significant driver of demand for CYRX's cryogenic shipping and logistics.
- Roslin Cells, a major U.K.-based developer of cell therapies, chose CYRX to provide logistics for its pluripotent stem cell reprogramming service
- CYRX will be providing logistics support for Capricor's multi-site clinical trials for its lead candidate CAP-1002, being developed for treatment of cardiovascular disease
- Yancey Farms, (per the company's website) "one of the oldest and most respected warmblood breeders in the United States", chose CYRX to ship equine semen for artificial insemination of top German sport horse stallions. Judy Yancey, the founder of the Farm, was the first person to import and market frozen horse semen in North America – which we think provides credibility to the trustworthiness they place in CYRX shipping capabilities.
  And anecdotally, we see this as a vote of confidence in CYRX's capabilities and the quality of their shipping and logistics. Maintaining the integrity and safety of prized and expensive stud horse semen is important and provides piece of mind and assurance that the sample has not been compromised in any way.
  In March CYRX announced introduction of "Vet Secure" a tamper-proof lock on its shippers which international shipping regulations require for shipment of animal husbandry products (such as horse semen)
- CYRX will be supporting NeoStem's (NASDAQ: NBS) late stage clinical trial for its lead cancer candidate, NBS20, which is being developed for the treatment of metastatic melanoma. The NBS20 program has been granted FDA Fast Track status and Orphan Drug designation

In addition to these new and expanded customer relationships, CYRX has made recent headway elsewhere as well. This includes the recent entry into Nepal to support the burgeoning demand for IVF services in that country which is coming from both the Nepalese population as well as from medical tourism.

The company also recently launched a new services offering. In February the company announced the introduction of services to aid in the relocation of facilities used for cryogenic sample collections. CYRX, which will leverage their logistics capabilities, expertise and shipping resources, has already been engaged by a "leading research laboratory and IVF clinic" to provide relocation assistance.

CYRX is also building out its warehouse infrastructure and staffing, which implies they are scaling up for anticipated greater shipping demand. They recently entered into a lease of new facility that will act as the company's headquarters and base of operations. The space, at almost 28,000 sf, is more than double that of their existing facility. Another recent milestone was acquisition of full rights to the Cryoportal-related IP for $400k. Owning the IP allows provides greater flexibility and ease to expand their offerings and services into a broader segment of the market.

Maintaining Buy Recommendation

Revenue has now posted positive growth for sixteen straight quarters on a yoy basis and eleven of the last twelve quarters on a sequential basis. Gross margin has solidified (although dipped slightly in Q2) and will expand – likely

substantially so – with higher levels of revenue. Operating expenses, while recently increasing from the new hires in sales and marketing, should see much more leverage as the top line continues to grow. Management continues to guide for fiscal 2016 revenue of $10M - $12M, implying yoy growth of 154% to 205%.

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 and facilitated by the recent sales/mktg build-out. 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 currently model $8.4M in revenue in 2016, slightly more conservative than management's guidance. We think with solid execution this can grow to almost $58M in 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 $0.70 in 2018 - based our valuation methodology, this values the stock at approximately $9 / share. We continue to think the shares trade much cheaper than warranted with current market value under-appreciating the significance of the 16-quarter streak of sequential revenue growth and meaningful improvement in operating fundamentals including the rapidly expanding customer base. We are maintaining our Buy recommendation and $9/share price target.

FINANCIAL MODEL

CryoPort Inc.

	2015 A	Q1 A	Q2 A	Q3 E	Q4 E	2016 E	2017 E	2018 E	2019 E
Total Revenues	$3,935.3	$1,431.1	$1,437.0	$2,167.5	$3,384.4	$8,420.0	$22,936.1	$42,493.5	$57,675.0
YOY Growth	*47.9%*	*52.8%*	*74.2%*	*122.3%*	*182.4%*	*114.0%*	*172.4%*	*85.3%*	*35.7%*
Cost of Revenues	$2,766.4	$943.2	$1,000.7	$1,447.5	$2,152.5	$5,543.8	$13,195.4	$22,748.4	$26,664.3
Gross Income	$1,168.9	$487.9	$436.3	$720.0	$1,231.9	$2,876.2	$9,740.7	$19,745.1	$31,010.7
Gross Margin	*29.7%*	*34.1%*	*30.4%*	*33.2%*	*36.4%*	*34.2%*	*42.5%*	*46.5%*	*53.8%*
SG&A	$6,409.4	$2,026.4	$2,157.8	$2,405.9	$2,849.6	$9,439.7	$12,247.9	$19,079.6	$21,974.2
% SG&A	*162.9%*	*151.0%*	*150.2%*	*111.0%*	*84.2%*	*71.0%*	*53.4%*	*44.9%*	*38.1%*
R&D	$352.6	$77.7	$100.3	$90.0	$92.0	$360.0	$630.0	$844.0	$915.0
% R&D	*9.0%*	*5.4%*	*7.0%*	*4.2%*	*2.7%*	*4.3%*	*2.7%*	*2.0%*	*1.6%*
Operating Income	($5,593.0)	($1,616.2)	($1,821.8)	($1,775.9)	($1,709.7)	($6,923.5)	($3,137.2)	($178.5)	$8,121.5
Operating Margin	*-142.1%*	*-112.9%*	*-126.8%*	*-81.9%*	*-50.5%*	*-82.2%*	*-13.7%*	*-0.4%*	*14.1%*
Interest income, net	($1,428.0)	($303.8)	($601.0)	($80.0)	($80.0)	($1,064.8)	$0.0	$16.0	$24.0
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	($7,025.3)	($1,920.9)	($2,425.5)	($1,857.3)	($1,791.2)	($7,994.9)	($3,137.2)	($162.5)	$8,145.5
Taxes	$1.6	$3.3	$0.0	$0.0	$0.0	$3.3	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*8.1%*	*15.2%*
Preferred Stck Conversion Charge	($4,864.3)	($4,474.3)	$0.0	$0.0	$0.0	($4,474.3)	$0.0	$0.0	$0.0
(Undeclared) preferred dividends	($305.3)	($208.5)	($239.4)	($299.0)	($299.0)	($1,045.9)	$0.0	$0.0	$0.0
Net Income	($12,196.5)	($6,607.1)	($2,664.9)	($2,156.3)	($2,090.2)	($13,518.4)	($3,137.2)	($162.5)	$8,145.5
YOY Growth	*-37.7%*	*115.4%*	*-16.3%*	*8.0%*	*-47.1%*	*10.8%*	*-76.8%*	*-94.8%*	*-5112.6%*
Net Margin	*-309.9%*	*-461.7%*	*-185.4%*	*-99.5%*	*-61.8%*	*-160.6%*	*-13.7%*	*-0.4%*	*14.1%*
EPS	($2.43)	($1.31)	($0.41)	($0.30)	($0.27)	($2.03)	($0.29)	($0.01)	$0.70
YOY Growth	*-49.4%*	*114.6%*	*-35.6%*	*-25.9%*	*-66.0%*	*-16.6%*	*-85.9%*	*-96.6%*	*-335.7%*
Diluted Shares O/S	5,016	5,056	6,505	7,300	7,800	6,665	11,000	11,500	11,700

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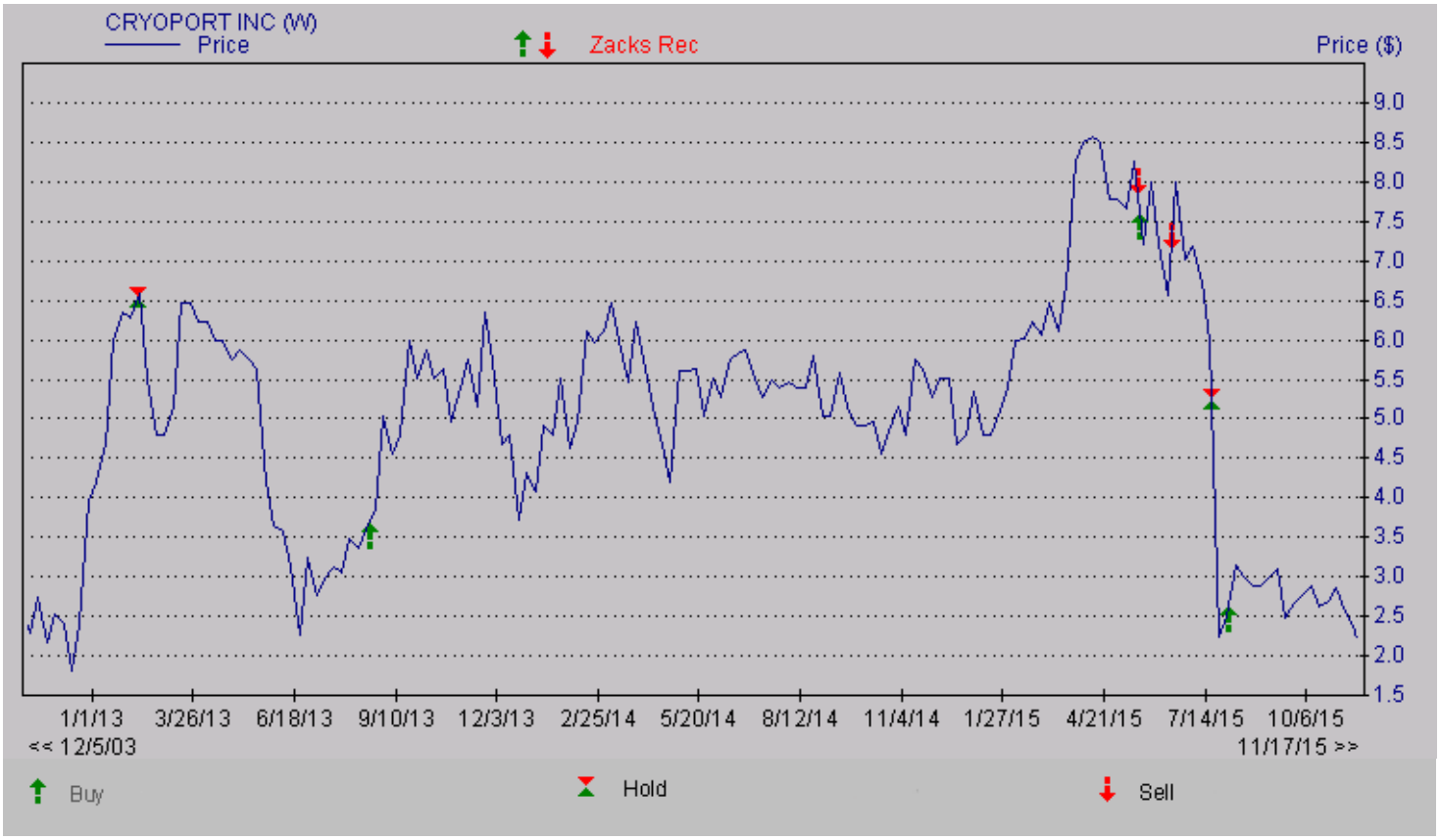

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The current distribution is as follows: Buy/Outperform- 25.9%, Hold/Neutral- 54.4%, Sell/Underperform – 16.0%. Data is as of midnight on the business day immediately prior to this publication.