Zacks Small-Cap Research

January 22, 2014
Jason Napodano, CFA
312-265-9421
jnapodano@zacks.com

scr.zacks.com
111 North Canal Street, Chicago, IL 60606

Cytomedix, Inc (CMXI-OTCQX)

UPDATE

CMXI: Insights From Meeting With Management…

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	02/14/2013
Current Price (01/22/14)	$0.44
Target Price	**$1.00**

On Sunday, January 12, 2014, we arrived in San Francisco, CA for the annual JP Morgan Healthcare Conference, as well as the parallel Biotech showcase and OneMedForum Conferences. This was the eighth year in a row that we made the trip to San Francisco for these events, which are a must-attend for serious healthcare investors.

During my three days in San Francisco, I conducted 25 one-on-one meetings with various managements of small and mid-cap biotechnology and specialty pharmaceutical companies. Below are some "notes" from our meeting with Cytomedix, Inc.

SUMMARY DATA

52-Week High	**$0.73**
52-Week Low	**$0.36**
One-Year Return (%)	**-37.41**
Beta	**-0.23**
Average Daily Volume (sh)	**203,882**
Shares Outstanding (mil)	**105**
Market Capitalization ($mil)	**$47**
Short Interest Ratio (days)	**1.62**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**14**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**21.7**
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**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	3.0 A	3.7 A	1.8 A	2.1 A	10.6 A
2013	2.3 A	2.4 A	3.4 A	1.9 E	10.0 E
2014					12.6 E
2015					20.9 E

Earnings per Share
(EPS is based on diluted shares)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.07 A	-$0.09 A	-$0.04 A	-$0.04 A	-$0.24 A
2013	-$0.05 A	-$0.05 A	-$0.05 A	-$0.04 E	-$0.18 E
2014					-$0.12 E
2015					-$0.08 E

© Copyright 2014, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

Cytomedix, Inc. (CMXI)
Meeting took place with Martin Rosendale, CEO, Steven Shallcross, CFO, and Dean Tozer, Corporate Development.

It was good to sit down with Cytomedix so recently after the final payment decisions have been put into law by the Center for Medicare & Medicaid Services (CMS), with regards to payment regulations for the Hospital Outpatient Prospective Payment System (HOPPS) and the Medicare Physician Fee Schedule (PFS). For reference, we provide a link to the full news publishes to the federal register below:

- CMS-1600-FC: Revisions to Payment Policies under the Physician Fee Schedule, Clinical Laboratory Fee Schedule and Other Revisions to Part B (PDF: 3.6MB / 1369 pages).
- CMS-1601-FC: Hospital Outpatient Prospective Payment and Ambulatory Surgical Center Payment System (PDF: 2.6MB / 1281 pages).

We believe these new payment rules dramatically enhance the commercial viability of Cytomedix' AutoloGel (autologous platelet-rich plasma) for the treatment of chronic wounds, including diabetic foot ulcers, venous leg ulcers, and pressure ulcers. For example, under the new classification in HOPPS as a Level-2 skin substitute (APC-0327), AutoloGel will be reimbursed at an average rate of $411 per treatment encounter. This is roughly a five-fold increase from the proposed $83 per treatment encounter under the proposed rules that came out earlier in the year that incorrectly classified AutoloGel as a Level-2 debridement product, and a greater-than five-fold increase over the average reimbursement under HOPPS of $74 in 2013. We believe this represents approximately 60% of the Medicare market for the treatment of chronic wounds.

What we learned at our meeting with management is that AutoloGel, reimbursed at $411 average per treatment, is a highly profitable product to both Cytomedix and the hospital outpatient facility or physician's office. We believe Cytomedix was previously selling AutoloGel "at cost" in 2013, which was around $74. Assuming Cytomedix looks to provide around $100 in profit per use to the facility or physician's office, that means they can wholesale AutoloGel around $311 and still capture 70% gross margin. Assuming roughly six treatments to heal a wound, along with two rounds of debridement, AutoloGel should provide over $1,300 in gross profit to Cytomedix and over $1,000 in gross profit to the facility or physician to heal a wound. It's a whole new ballgame for the company in 2014.

Management told us the registry programs required for Coverage with Evidence Development (CED) are also on track at Cytomedix. By the end of the year, management expects to have roughly 1,000 patients enrolled in all four programs combined. The company currently has nine sales representatives out in the field promoting the product, with a goal of 30 by the end of the year. We went back and looked at the magnitude of business that Advanced BioHealing (ABH) was doing with Dermagraft in 2011 prior to its acquisition by Shire Pharmaceuticals. ABH had Dermagraft sales near $150 million annualized at the time of the deal, with about 100 full-time representatives. That equates to around $1.5 million per rep. If Cytomedix can match even half that efficiency, with a goal of 30 reps in the field at year-end 2014, Cytomedix could be doing $15 million in revenue with AutoloGel in 2015. That's an incredible ramp!

In August 2013, Cytomedix partnered its Angel Concentrated PRP system by licensing the rights to Arthrex, Inc. in return for $5 million in cash and future low-teens royalties (we model 13%). We think was a wonderful transaction for Cytomedix, and one where the market really hasn't come to grips with the potential upside Arthrex, Inc. brings to the table. For example, based on analysis of previous quarterly reports, we believe Angel delivered around 15-20% net margin to Cytomedix. On sales of around $8 million over the trailing twelve months, that's a net profit of $1.2 to $1.4 million. At 13% royalty, all that needs to happen for Cytomedix to have essentially made a good decision here is for Arthrex, Inc. to do around $10 million in Angel sales. That's only $2 million more than Cytomedix was doing itself, promoting with 10 contract sale representatives.

Arthrex, Inc. has over 1,500 sales representatives! Arthrex, Inc. also has the potential to package Angel with its existing bone marrow aspirate cell suspension products, its BioCartilage® matrix, its Autograft osteochondral repair system, or its existing PRP autologous systems. Arthrex, Inc. is going to turn Angel from an $8 million product to a $40-50 million product in our view. The royalties to Cytomedix are going to dwarf the previous sales in a few years. This was an amazing transaction by the company to reduce costs and drive the top-line, and investors have completely missed it.

Finally, we touched briefly on RECOVER, the company's Phase 2 clinical trial studying ALD-401 for the treatment of stroke in middle cerebral artery. Early in 2014, Cytomedix put out a press release noting that enrollment has been completed for the study and that data is expected in May 2014. The previous goal was to enroll 100 patients in the study, but management believes that with only 48 enrolled, the statistical powering assumptions still hold. RECOVER is 90% powered to detect a 0.8 drop in modified Rankin scale from baseline to recovery at 90 days.

Data from RECOVER in May is a major catalyst for Cytomedix. If it is positive – meaning the primary endpoint hits and delivered a >0.8 reduction in mRS at 90 days post treatment – the shares skyrocket. We think they could hit $2.00 on the news. Any reduction vs. the shame procedure and we think the stock still doubles in value. No reduction – a complete failure – and we think the stock still goes up in value because that means Cytomedix will probably be done spending money on Aldagen. That's right; we think no matter what happens in May 2014, the stock goes up. The value for AutoloGel and Angel supports 100% of the current valuation. Investors are getting ALD-401 completely free. In fact, we think RECOVER has negative value because it costs money that Cytomedix could be spending on AutoloGel. It's a no-brainer in our view.

PROJECTED FINANCIALS

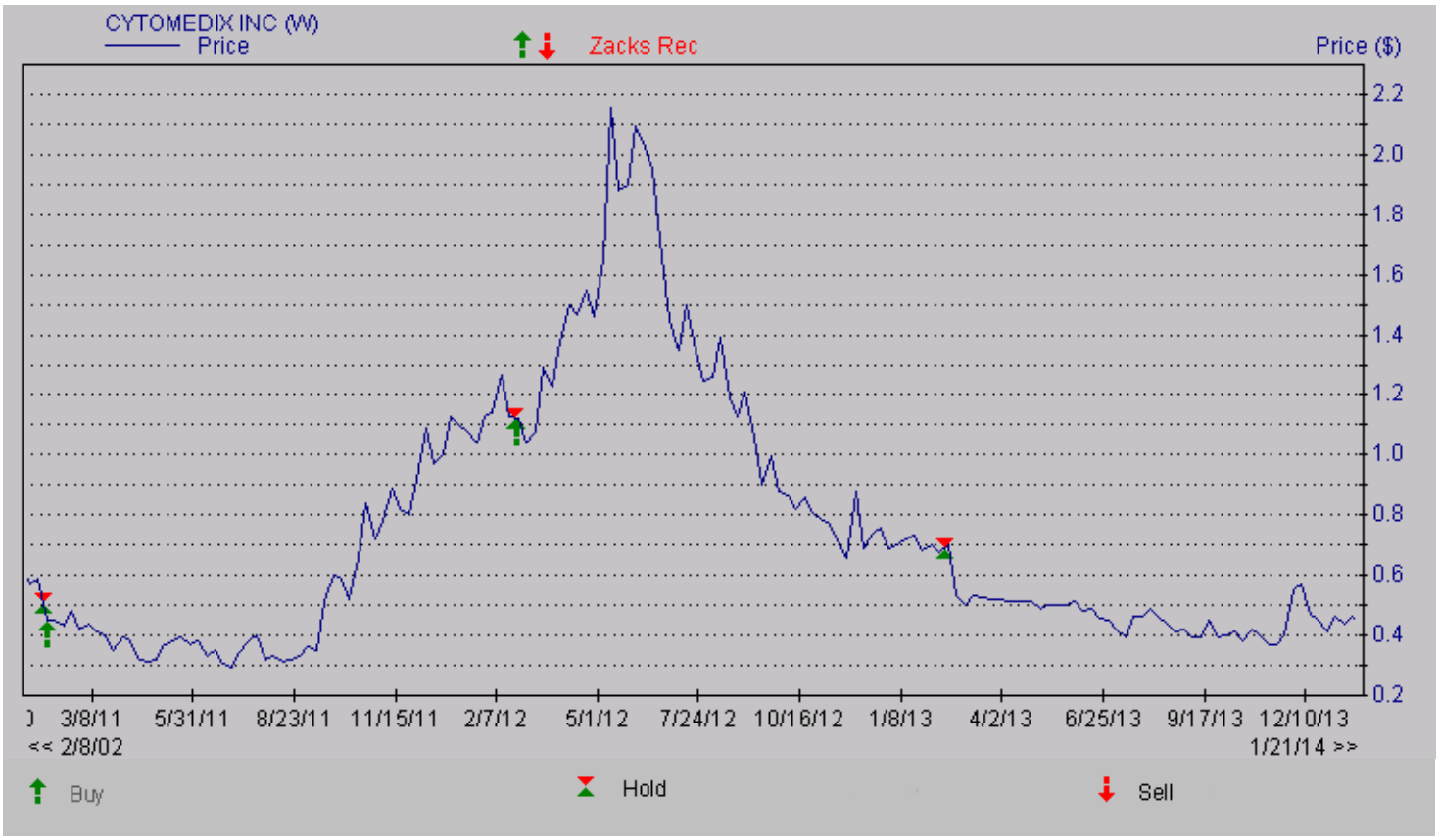
Cytomedix, Inc.
Income Statement

Cytomedix, Inc.	2012 A	Q1 A	Q2 A	Q3 A	Q4 E	2013 E	2014 E	2015 E
Med Product Sales	**$7.24**	**$2.25**	**$2.36**	**$2.93**	**$1.20**	**$8.74**	**$9.40**	**$16.50**
YOY Growth	22.7%	33.6%	27.0%	71.8%	-40.6%	20.7%	7.6%	75.5%
Aldagen Pipeline	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-	-	-	-	-	-	-	-
Royalties & Collabs	**$3.32**	**$0.06**	**$0.06**	**$0.44**	**$0.67**	**$1.24**	**$3.21**	**$4.43**
YOY Growth	-	-	-	-	-	-	-	-
Total Revenues	**$10.56**	**$2.32**	**$2.42**	**$3.37**	**$1.87**	**$9.98**	**$12.61**	**$20.93**
YOY Growth	45.8%	-23.2%	-34.2%	91.3%	-11.0%	-5.6%	26.4%	65.9%
Cost of Sales	$3.90	$1.27	$1.35	$2.82	$1.05	$6.49	$7.15	$11.63
Product Gross Margin	46.2%	43.8%	42.7%	3.7%	12.5%	25.7%	23.9%	29.5%
R&D	$3.39	$0.90	$1.23	$0.92	$1.30	$4.35	$3.00	$3.25
% R&D	32.1%	38.9%	50.6%	27.4%	69.4%	43.6%	23.8%	15.5%
SG&A, Other Fees	$16.16	$5.15	$4.50	$4.20	$3.85	$17.70	$16.50	$17.00
% G&A	152.9%	222.1%	185.7%	124.9%	205.7%	177.4%	130.8%	81.2%
Operating Income	($12.88)	($5.00)	($4.66)	($4.61)	($4.34)	($18.62)	($14.08)	($10.98)
Operating Margin	-121.9%	-	-	-	-	-186.6%	-111.7%	-52.5%
Interest & Other Income	($6.89)	($0.33)	($0.37)	($0.36)	($0.30)	($1.36)	($1.00)	($1.00)
Pre-Tax Income	($19.76)	($5.33)	($5.03)	($4.97)	($4.64)	($19.98)	($15.08)	($11.98)
Taxes	$0.02	$0.005	$0	$0.000	$0	$0	$0	$0
Tax Rate	0%	0%	0%	0%	0%	0%	0.0%	0.0%
Preferred A, B, D, E	$0.01	$0	$0	$0	$0	$0	$0	$0
Net Income	($19.80)	($5.34)	($5.03)	($4.97)	($4.64)	($19.98)	($15.08)	($11.98)
Net Margin	-187.4%	-	-	-	-	-200.2%	-119.6%	-57.3%
Reported EPS	**($0.24)**	**($0.05)**	**($0.05)**	**($0.05)**	**($0.04)**	**($0.18)**	**($0.12)**	**($0.08)**
YOY Growth	217.7%	-	-	-	-	-24.9%	-33.6%	-33.8%
Weighted Ave. Shares Out	81.9	99.1	104.6	104.9	109.0	110.0	125.0	150.0

Source: Zacks Investment Research, Inc. *Jason Napodano, CFA*

© Copyright 2014, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



© Copyright 2014, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Jason Napodano, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities in the issuers which they cover. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1047 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 16.5%, Hold/Neutral- 77.7%, Sell/Underperform – 5.1%. Data is as of midnight on the business day immediately prior to this publication.