Zacks Small-Cap Research

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CytoSorbents Cp (CTSO-OTCBB)

CTSO: Product Sales Very Strong, Well Ahead of Our Estimate

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/04/2012
Current Price (01/17/14)	$0.19
Target Price	**$0.50**

OUTLOOK

CytoSorb was CE Marked in March 2011 and subsequently commenced its initial commercialization. Near-term game-plan is to build awareness to facilitate broader roll-out in Europe. FDA approval is a longer-term goal, the quest for which is now in the planning stage. Gov't contracts/grants that CTSO continues to score should benefit near-term revenue and cash flow as well as aid their awareness-building efforts, further increase visibility and credibility of the technology, and potentially expand the menu of potential applications of the device. Interest in and use of CytoSorb from key opinion leaders has recently accelerated. Early feedback is positive and encouraging. Investigator-initiated studies and ongoing dosing study will provide add'l data points, facilitate increased uptake, and support quest for U.S.-based study. U.S. pilot study recently approved by FDA.

As near-term revenue and contracts/grants are not expected to be significant enough to fund operations, CTSO will need to continue to raise capital on an ongoing basis which introduces meaningful risk. Despite certain risks, we feel the shares trade cheaper than warranted.

SUMMARY DATA

52-Week High	**$0.20**
52-Week Low	**$0.08**
One-Year Return (%)	**33.61**
Beta	**1.43**
Average Daily Volume (sh)	**780,698**
Shares Outstanding (mil)	**247**
Market Capitalization ($mil)	**$47**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
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	**Med Products**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	17 A	116 A	605 A	604 A	1343 A
2013	371 A	292 A	881 A	836 E	2379 E
2014					5345 E
2015					15370 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-0.01 A	-0.01 A	-0.01 A	-0.01 A	-0.03 A
2013	-0.01 A	-0.01 A	-0.01 A	-0.01 E	-0.03 E
2014					-0.03 E
2015					-0.01 E

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

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Q4 Revenue Pre-Announcement: *Product Sales Very Strong, Well Ahead of Our Estimate…*

CytoSorbents issued a shareholder letter on January 15th and in it provided revenue guidance for Q4 and the full year. While total revenue is expected to come in just shy of our estimate, more importantly is that product sales are expected to be significantly better than what we were looking for. Product sales are expected to be approximately $350k in Q4, an increase of ~300% yoy and 72% sequentially and well ahead of our $200k estimate. Product sales were just $152k in 2012 and should come in at approximately $850k for the full year 2013 (+470%). Gross margins also continue to remain strong with product margins expected to be above 60%.

As a reminder, on the Q3 earnings call management noted that product sales were remaining strong. This week's shareholder letter indicates increasing orders and, perhaps more importantly, increasing re-orders were catalysts behind the product revenue growth. In addition manufacturing is being increased to meet growing demand.

We continue to expect clinical outcomes data and other awareness efforts to remain the major catalysts to driving adoption and product sales. CytoSorbents notes that they expect to continue to incrementally add to their sales and clinical support teams which, along with a greater push from their distributors, should further facilitate product sales going forward.

Indications from management are that CytoSorb has been implemented in various applications in the investigator initiated studies with successful outcomes. We expect the menu of applications and frequency of use to expand with growth in the documented successes with intervention with CytoSorb in critically ill patients. The patient registry could be a real catalyst in this regard.

Interestingly is that while the expected early-adopter market had just recently been characterized as sepsis, intervention with CytoSorb is being applied in various other indications including cardiac surgery and trauma as well as with sepsis. This should afford outcomes data in a broad range of applications representing enormous potential commercial target markets.

We have updated our model for the revenue guidance and will provide a more detailed update on CTSO following the release of fiscal 2013 earnings. Maintaining Outperform rating and $0.50/share price target.

FINANCIAL MODEL

CytoSorbents Inc.

	2012 A	Q1A	Q2A	Q3A	Q4E	2013 E	2014 E	2015 E	2016 E
CytoSorb Sales	$151.6	$176.1	$128.0	$203.6	$350.0	$857.6	$4,300.0	$14,670.0	$24,260.0
y-o-y growth	-	*942.4%*	*287.3%*	*1388.1%*	*297.8%*	*465.8%*	*401.4%*	*241.2%*	*65.4%*
Total Royalties/Grants	$1,191.4	$195.2	$163.5	$677.1	$486.0	$1,521.9	$1,045.0	$700.0	$0.0
y-o-y growth	-	-	*96.2%*	*14.4%*	*-5.9%*	*27.7%*	*-31.3%*	*-33.0%*	*-100.0%*
Revenue	$1,342.9	$371.3	$291.5	$880.7	$836.0	$2,379.5	$5,345.0	$15,370.0	$24,260.0
YOY Growth	-	*2098.1%*	*150.5%*	*45.5%*	*38.3%*	*77.2%*	*124.6%*	*187.6%*	*57.8%*
Cost of Goods Sold	$319.3	$253.5	$199.6	$620.6	$418.4	$1,492.1	$2,373.2	$6,190.6	$9,218.8
Gross Income	$1,023.6	$117.8	$91.9	$260.1	$417.6	$887.4	$2,971.8	$9,179.4	$15,041.2
Gross Margin	*76.2%*	*31.7%*	*31.5%*	*29.5%*	*50.0%*	*37.3%*	*55.6%*	*59.7%*	*62.0%*
SG&A	$1,982.0	$835.9	$790.6	$845.7	$850.0	$3,322.2	$6,062.0	$10,327.0	$13,558.0
% SG&A	*147.6%*	*225.1%*	*271.2%*	*96.0%*	*101.7%*	*139.6%*	*113.4%*	*67.2%*	*55.9%*
R&D	$2,532.4	$704.1	$708.2	$294.2	$585.0	$2,291.5	$5,650.0	$5,500.0	$3,800.0
% R&D	*188.6%*	*189.6%*	*243.0%*	*33.4%*	*70.0%*	*96.3%*	*105.7%*	*35.8%*	*15.7%*
Operating Income	($3,490.8)	($1,422.2)	($1,406.8)	($879.8)	($1,017.4)	($4,726.3)	($8,740.2)	($6,647.6)	($2,316.8)
Operating Margin	-	-	-	-	-	-	-	-	-
Total Other Expense	$564.4	$206.7	$8.1	$84.9	$100.0	$399.8	$90.0	$0.0	$0.0
Pre-Tax Income	($4,055.2)	($1,628.9)	($1,415.0)	($964.8)	($1,117.4)	($5,126.1)	($8,830.2)	($6,647.6)	($2,316.8)
Taxes (benefit)	($391.8)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Preferred Dividend	$2,511.5	$586.4	$616.5	$525.1	$645.0	$2,373.1	$1,500.0	$0.0	$0.0
Net Income	($6,174.9)	($2,215.4)	($2,031.5)	($1,489.9)	($1,762.4)	($7,499.2)	($10,330.2)	($6,647.6)	($2,316.8)
Net Margin	-	*-596.6%*	*-696.9%*	*-169.2%*	*-210.8%*	-	-	*-43.3%*	*-9.5%*
EPS	($0.03)	($0.01)	($0.01)	($0.01)	($0.01)	($0.03)	($0.03)	($0.01)	($0.00)
YOY Growth	-	-	-	-	-	-	-	-	
Diluted Shares O/S	198,228	222,969	231,583	242,512	250,000	236,766	380,000	520,000	550,000

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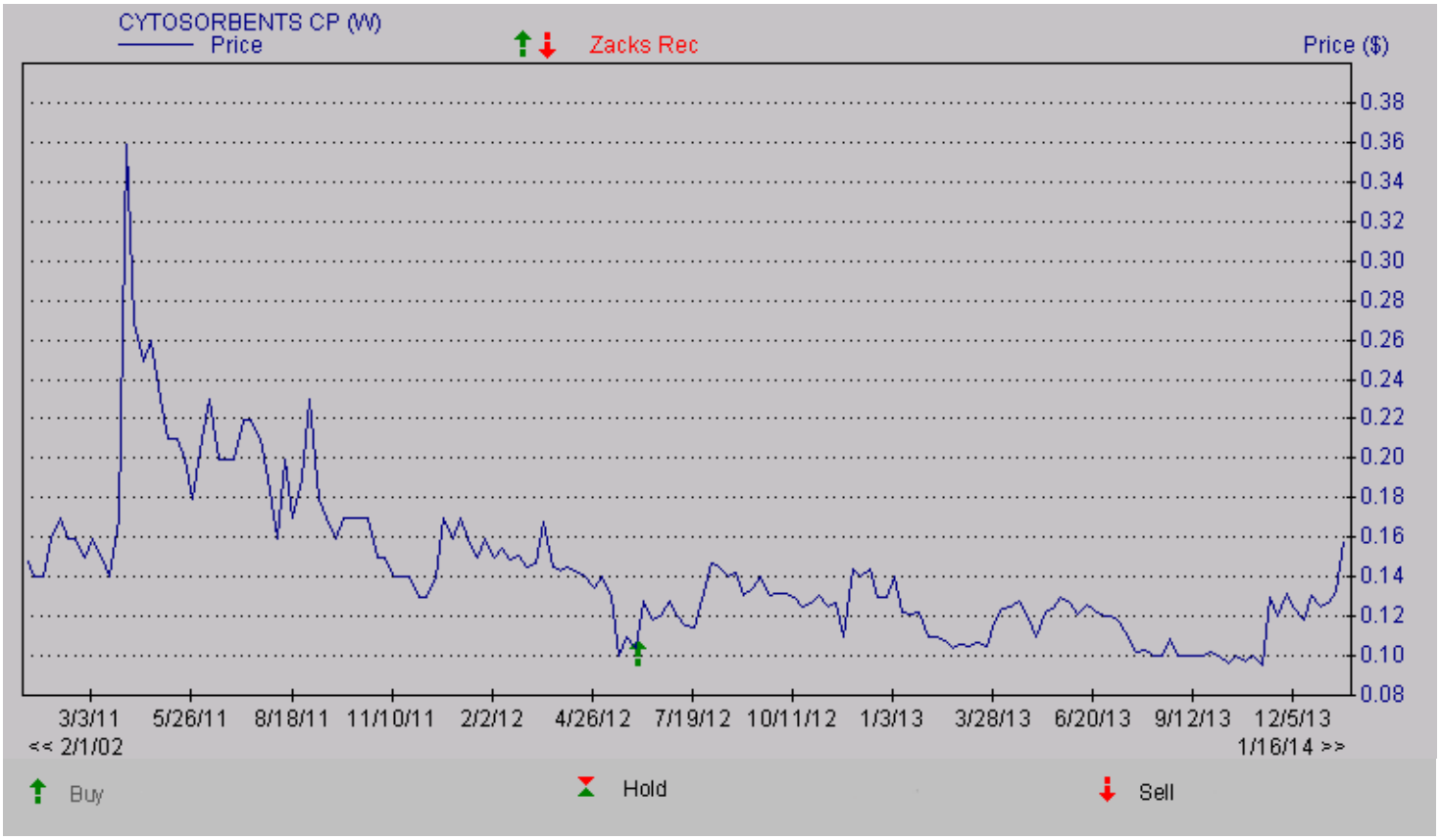

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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