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Zacks Small-Cap Research

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CryoPort Inc (CYRX-OTC)

CYRX: Revenue Streak Continues, Positive Gross Profit

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	08/20/2013
Current Price (08/20/13)	$0.33
Target Price	**$1.90**

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. The new deal to manage Pfizer's animal vaccines biz could be significant for CYRX for both financial and reputational reasons. Moving rec to Outperform.

SUMMARY DATA

52-Week High	**$0.57**
52-Week Low	**$0.14**
One-Year Return (%)	**-14.29**
Beta	**-0.27**
Average Daily Volume (sh)	**15,302**
Shares Outstanding (mil)	**38**
Market Capitalization ($mil)	**$11**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**9**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**73.0**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**N/A**
P/E using 2015 Estimate	**11.0**
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)
2013	191 A	234 A	307 A	369 A	1,101 A
2014	$488 A	$671 E	$1034 E	$1352 E	3,545 E
2015					15,662 E
2016					44,184 E

Earnings per Share

	Q1 (June)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2013	-$0.04 A	-$0.04 A	-$0.04 A	-$0.05 A	-$0.17 A
2014	-$0.03 A	-$0.03 E	-$0.02 E	-$0.02 E	-$0.09 E
2015					$0.03 E
2016					$0.17 E

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

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WHAT'S NEW....

Q1 2014 10-Q

CYRX filed their 10-Q for the fiscal first quarter 2014 ending June 30, 2013 on August 14th. Revenue continues to increase on both a sequential and yoy basis, setting another new quarterly record. Q1 revenue of $488k was up 155% yoy and up 32% sequentially and beat our $433k estimate. This now marks the 7th straight quarter of sequential revenue growth. Another highlight was that Q1 was the first period that revenue covered COGS with CYRX generating $55k in positive gross income in the quarter.

We think the continued sequential revenue growth is indicative of increasing the customer base, increasing shipments per customer, and customer "stickiness", all of which bode well for continued growth. And as the recent and new revenue opportunities begin to contribute, the rate of revenue growth should steepen. As we have noted in the past, customer adoption can be a fairly drawn out process but once initially committed, customer retention is high.

Despite the record revenue, operating expenses fell yoy and sequentially and were the lowest of any period since fiscal Q4 2011 (ending 3/31/2011). Fiscal Q1 net income and EPS were ($1.3) million and ($0.03), compared to our ($1.6) million and ($0.04) estimates.

CYRX exited fiscal Q1 with $228k in cash and equivalents, down from $563k at the end of fiscal 2013. Cash used in operations was $1.2 million in Q1, up slightly from $1.1 million used in Q4 and equal to the average quarterly burn rate in fiscal 2013. Subsequent to the end of fiscal Q1 CYRX raised an additional $410k from the issuance of additional unsecured 15% convertible promissory notes ("bridge notes"). In the event CYRX issues common or preferred equity, the notes are convertible into the issued stock. Richard Rathmann, a newly appointed member of CYRX's board of directors, participated in the bridge financing. 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.

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 few months;

> 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 CYRX showcased its shipping offerings at the European Society of Human Reproduction and Embryology in London where they noted they generated several customer leads. Then just this week 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 and included managing domestic and some international shipments of a poultry vaccine, was expanded in July to now include all domestic and international shipments. 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.

Biotech Showcase Presentation

CryoPort's Jerrell Shelton made a presentation in the early-January Biotech Showcase conference in San Francisco, the same conference where we were initially introduced to the company two years prior.

The company presentations are capped at about 20 minutes, which only allows enough time to provide some background and hit on some highlights, much of which was dedicated to CYRX's new agreement with Pfizer as well as some general comments about CryoPort broadening their scope of service offerings (which was first laid out in September 2012 - see our expanded discussion below) to appeal to a larger and broader customer base. Jerry did

note that, in addition to the deal with PFE, they are seeing interest from their expanded suite of service offerings from other potential customers indicating that the recent break from a "one-size-fits-all" approach to a more custom-fit, customer-centric model could pay early dividends. As we've noted recently, we viewed the recent management turnover as a clear positive and one that we thought could bring new direction and greater traction in revenue to the company - broadening the scope of the company's offerings is an example of one of these endeavors that will hopefully show up in the financials in the near-term.

CYRX To Manage Pfizer's Animal Vaccines Shipments

In December 2012 CYRX announced an agreement with Pfizer Inc (PFE) whereby CryoPort will manage all domestic and international frozen shipments of their "primary animal vaccines" for Zoetis, which is the name of PFE's animal health business. In the Q3 10-Q (filed Feb 14, 2013), CYRX notes that the agreement is to manage Zoetis' "key poultry vaccine". Initially the relationship involves CYRX having two of their employees on site at of one of Zoetis' manufacturing sites and managing domestic and international shipments utilizing Zoetis' liquid nitrogen dewars (CYRX noted that Zoetis has about 650 dewars). CYRX will integrate their CryoPortal system with PFE's software. The longer-term plan is for CYRX to systematically phase in their own dry vapor shipper as they phase out use of PFE's liquid nitrogen dewars.

Pfizer's animal health business, named Zoetis and which PFE spun off a portion of through an IPO in early February, is significant with annual revenue of over $4 billion and employing about 3,400 people. The IPO valued the business at about $13B. Zoetis is the largest stand-alone animal health business in existence and sells a variety of products aimed at a diverse market base spanning household pets to livestock in about 70 countries including those in Europe, Asia and Africa. CYRX's dewars, with the longest functional holding times in the passive cryogenic container market, are ideally suited for international shipments - which seems like it may be a perfect fit for Zoetis' international vaccine shipping needs.

CryoPort noted that PFE approached them for help in managing their dewar fleet - which, given PFE's stature as one of the largest pharma's and animal health businesses in the world, is what we view as a meaningful vote of confidence in CryoPort's offerings. We currently have no idea what this relationship will mean in terms of financial contribution for CYRX as the company has not provided details relative to terms of the agreement (i.e. - revenue model) or estimates of things such as shipping volumes, timelines for phasing in their shippers, or anticipated incremental costs among other things. Nonetheless we view this agreement as a potentially very meaningful win for CYRX as we think it provides additional significant credibility to their services and product. CYRX can now count the world's top air freight company (FedEx) and the world's largest pharmaceutical/animal health (PFE) company as partners. We note that we have not updated our model for any potential contribution from this PFE agreement and hope to hear more details about it on the next business update call.

CRL Using CYRX For "Major Clinical Trial" In Europe

In mid-January CYRX announced that Clinical Reference Laboratory (CRL), a major single-site reference lab based in Kansas, will use CYRX's shipping solution to transport patient samples for "a major clinical trial being conducted in four countries across Europe."

Jerrell Shelton named CEO / President *(from our Nov. 11, 2012 update)*

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 *(from our Nov. 11, 2012 update)*

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 2012 to 560 in fiscal Q1 2013 (latest qtr with metrics provided)
- Sequential revenue growth is expected for the foreseeable future

Customers

- Had about 100 customers (some of which may only make 1 shipment/month, others may make 30 shipments/mth) as of fiscal Q1 2013 - expect this to continue to grow sequentially
- Had about 30 customers as of fiscal Q1 2013 that were 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 2012 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 in the near term. 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 seven straight quarters (from fiscal Q3 2012 through Q1 2014) 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. The latest, major news that could end up being a huge positive for CYRX was the deal with Pfizer to manage their animal vaccines shipments - time will tell just how significant this could be for CYRX. The new relationship with The World Egg Bank could also bear fruit and be key to penetrating the large and growing IVF market.

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 look for revenue of $3.5 million in fiscal 2014 and for this to grow to about $70 million in the year 2017.

We continue to value the company based on an industry P/E multiple (currently 17x) and discount this back to the present at 20% / year. We look for EPS of $0.22 in 2017 - based our valuation methodology, this values the stock

at approximately $1.90 / share. We remain steadfast believers in CryoPort's potential and think there's significant upside to the share price, particularly over the longer-term. Based on the recent financial and operational progress we think an investment in CYRX has de-risked to the point where we are moving our recommendation from Neutral to Outperform.

FINANCIAL MODEL

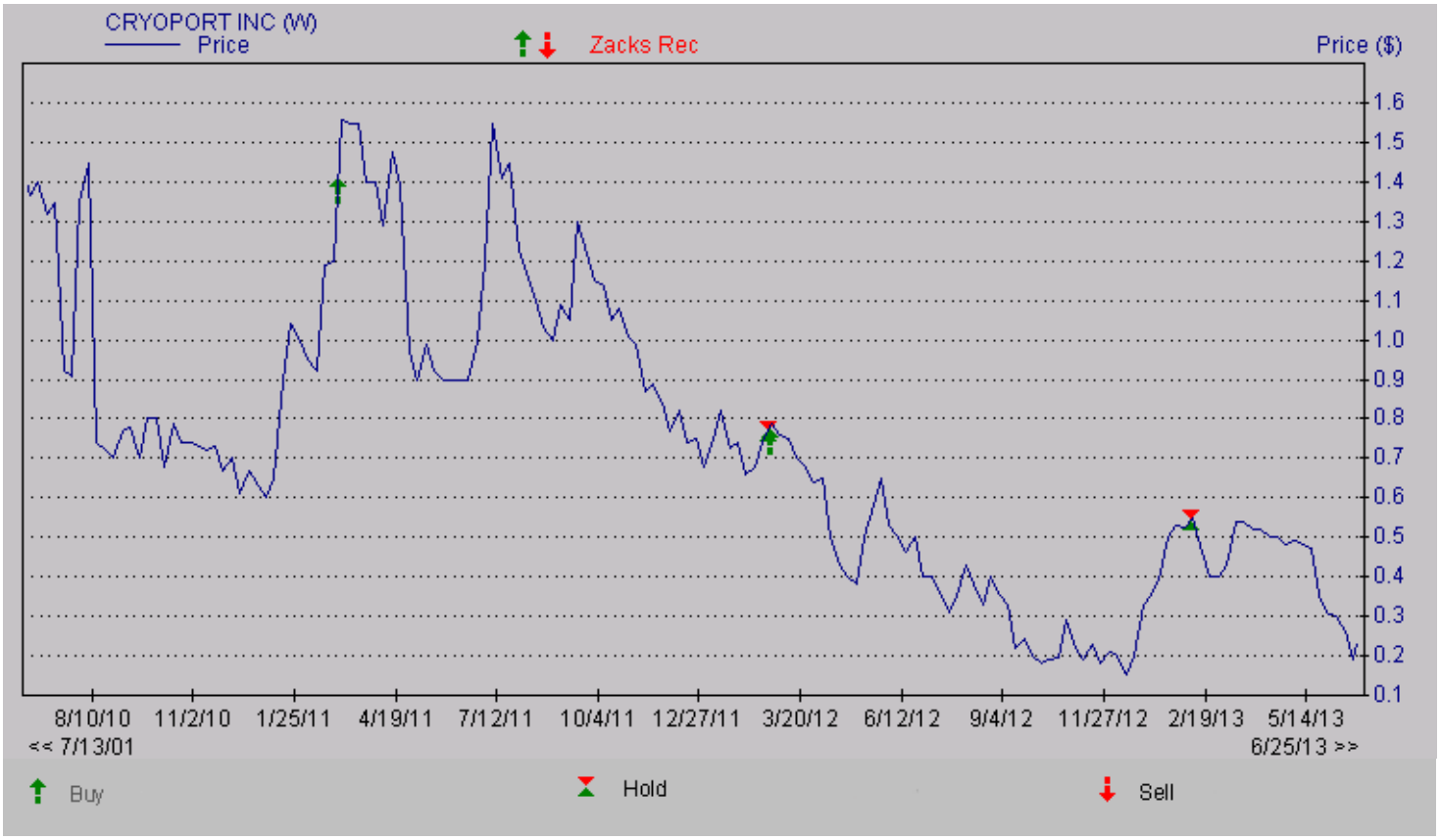
CryoPort Inc.

	2013 A	Q1A	Q2E	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
Total Revenues	$1,101.0	$488.0	$671.9	$1,033.5	$1,351.5	$3,544.9	$15,661.5	$44,184.1	$70,184.6
YOY Growth	*98.2%*	*155.1%*	*187.6%*	*236.5%*	*266.7%*	*222.0%*	*341.8%*	*182.1%*	*58.8%*
Cost of Revenues	$1,588.0	$433.3	$571.1	$775.1	$878.5	$2,657.7	$6,449.6	$17,764.8	$28,073.8
Gross Income	($487.0)	$54.6	$100.8	$258.4	$473.0	$887.2	$9,211.9	$26,419.3	$42,110.8
Gross Margin	*-44.2%*	*11.2%*	*15.0%*	*25.0%*	*35.0%*	*25.0%*	*58.8%*	*59.8%*	
SG&A	$5,411.8	$1,222.1	$1,269.9	$1,260.9	$1,324.5	$5,077.4	$6,891.1	$12,592.5	$19,651.7
% SG&A	*491.5%*	*322.0%*	*189.0%*	*122.0%*	*98.0%*	*140.0%*	*44.0%*	*28.5%*	*28.0%*
R&D	$425.5	$92.6	$110.0	$110.0	$110.0	$422.6	$480.0	$625.0	$840.0
% R&D	*38.6%*	*19.0%*	*16.4%*	*10.6%*	*8.1%*	*11.9%*	*3.1%*	*1.4%*	*1.2%*
Operating Income	($6,324.2)	($1,260.1)	($1,279.1)	($1,112.5)	($961.4)	($4,612.8)	$1,840.8	$13,201.9	$21,619.1
Operating Margin	*-574.4%*	*-258.2%*	*-190.4%*	*-107.6%*	*-71.1%*	*-130.1%*	*11.8%*	*29.9%*	*30.8%*
Interest income, net	($72.8)	($82.2)	($55.0)	($55.0)	($15.0)	($207.2)	($22.0)	$4.0	$22.0
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	$16.5	$18.8	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($6,380.6)	($1,323.5)	($1,334.1)	($1,167.5)	($976.4)	($4,820.1)	$1,818.8	$13,205.9	$21,641.1
Taxes	$1.6	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$4,046.9
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*18.7%*
Net Income	($6,382.2)	($1,323.5)	($1,334.1)	($1,167.5)	($976.4)	($4,820.1)	$1,818.8	$13,205.9	$17,594.2
YOY Growth	*18.5%*	*14.4%*	*14.1%*	*25.5%*	*43.1%*	*-24.5%*	*-137.7%*	*626.1%*	*33.2%*
Net Margin	*-579.7%*	*-271.2%*	*-198.6%*	*-113.0%*	*-72.2%*	*-136.0%*	*11.6%*	*29.9%*	*25.1%*
EPS	($0.17)	($0.03)	($0.03)	($0.02)	($0.02)	($0.09)	$0.03	$0.17	$0.22
YOY Growth	*37.5%*	*15.1%*	*33.8%*	*51.5%*	*66.4%*	*-49.1%*	*-130.2%*	*551.6%*	*29.9%*
Diluted Shares O/S	37,761	38,063	49,000	58,000	64,000	56,000	70,000	78,000	80,000

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