February 18, 2014

Zacks Small-Cap Research

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CryoPort Inc (CYRX-OTCQB)

CYRX: *Revenue Record Streak Continues. Liventa Deal A Meaningful Revenue Opportunity ….*

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	08/20/2013
Current Price (02/18/14)	$0.51
Target Price	**$1.80**

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 nine straight quarters of sequential revenue growth, a doubling of the customer base over the last 9 months, 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	**$0.12**
One-Year Return (%)	**10.87**
Beta	**-1.43**
Average Daily Volume (sh)	**73,311**
Shares Outstanding (mil)	**59**
Market Capitalization ($mil)	**$30**
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 (%)	**79.9**
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	**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)
2013	191 A	234 A	307 A	369 A	1,101 A
2014	$488 A	$580 A	$757 A	$914 E	2,739 E
2015					12,521 E
2016					36,968 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	-$0.38 A	-$0.03 A	-$0.02 E	-$0.34 E
2015					$0.00 E
2016					$0.10 E

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

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WHAT'S NEW....

Q3 2014: Revenue Record Streak Continues. Liventa Deal Is A Meaningful Revenue Opportunity…

CYRX announced results for their fiscal third quarter 2014 ending December 31, 2013 on February 13th. Results on both the top and bottom lines came in just about dead-on with our estimates. Significant is that the revenue growth streak, on both a sequential and yoy basis, continues to be extended. Also important is that gross margin continues to widen with revenue growth. Q3 revenue of $757k marked the ninth straight period of setting a new quarterly record. Revenue has consistently grown both quarter-over-quarter and year-over-year since fiscal Q3 2012 (ending 12/31/2011). The current quarter also marks the third straight quarter of generating positive gross profit, with gross margin increasing each quarter.

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. With nine quarters of sequential growth, management's efforts are clearly paying dividends and we expect this streak to continue. 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. This has had the benefit of appealing to a broader, more diverse customer base and 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, most recently, with Liventa.

The company notes 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.

We met with CYRX's management (Jerry Shelton, CEO and Robert Stefanovich, CFO) at the JP Morgan healthcare conference in San Francisco in mid-January. We came away highly encouraged by the relative success that the shift to a more customer-centric services offering has had in attracting new customers and broadening the type of customer base. The tangible progress has already begun to show itself in the income statement. The ongoing intangible progress (i.e. - sales efforts, services customization per customer, awareness building, services and product enhancements, etc) that management shared with us is where we expect a steepening revenue ramp to materialize from. The agreement with Liventa, announced earlier this month, was the most recent example of the fruits of CYRX's efforts in turning intangibles into tangibles.

Increasing the customer base, broadening into additional customer segments, increasing shipments per customer, and customer "stickiness" should all bode well for continued growth. Relative to the customer base, the earnings release notes that CYRX has doubled their customer base over the last nine months and also that they "are in the early adoption stages with a number of larger life sciences companies." While CYRX did not disclose the number of customer in the earnings release or 10-Q, on the aforementioned September 2012 update call they noted they had approximately 100 customers at that point. As such, we think a fair estimate, given a doubling over the last nine months, would put the current customer base at 250 or more. While many of these customers may only make relatively few shipments (as has always been the case due in large part to a drawn out adoption process), a doubling of the customer base in such a relatively short period of time suggests the rate of customer wins has accelerated and "stickiness" remains strong.

Financials
Q3 revenue of $757k was up 147% yoy and 31% sequentially, and slightly ahead of our $725k estimate. Q3 also marked the third straight quarter where revenue covered COGS and gross margin has consistently increased over

these three quarters Q1 11%, Q2 12%, Q3 22%). Over the long-term, gross margin should continue to benefit with an increase in revenue.

Operating expenses of $1.42 million were in-line with our estimate and comparable to the first two quarters of the year. Q3 net income and EPS were ($1.8) million and ($0.03), in-line with our ($1.8) million and ($0.03) estimates.

CYRX exited fiscal Q3 with $220k in cash and equivalents, down from $532k at the end of fiscal Q2. Subsequent to quarter end CYRX issued $310k principal of 5% bridge notes. Cash used in operations was $842k in Q3, down from $1.1 million in Q2 and $1.2 million used in Q1.

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 quarters;

> 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. 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 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 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.

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". In October 2013 this was amended to include a second 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 (although we do believe this is now contributing to CYRX's revenue). 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.

CRL Using CYRX For "Major Clinical Trial" In Europe

In mid-January 2013 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."

New and updated customer offerings

As CryoPort first announced on their 9/20/12 Business Update call, the company recently expanded 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 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 shift to tailored and comprehensive solutions have already had the effect of significantly increasing the customer base and likely facilitated the consummation of recent engagements with the likes of Zoetis, OCASA and Liventa. It has also had a direct positive impact on the company's recent financial results.

Expanded Service Offerings encompass: (per company filings)

- **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 an inventory of Cryoport Express Shippers to the customer (uncharged and in bulk) enabling the customer to charge the shippers at their facility, process their orders through the Cryoportal which permits Cryoport Client Care to oversee the logistics of each shipment and the return of the shippers to Cryoport for

cleaning, testing and refurbishing. Cryoport Client Care provides the 24/7/365 logistics services utilizing its Cryoportal logistics platform.

- **Customer-Managed Solution**: Cryoport ships a fully-charged Cryoport Express Shipper(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 a tailored and full range of logistics support solutions. In addition to tailoring a management solution, the robust, enterprise grade Cryoportal is used to provide complete logistics services while enabling the customer to utilize their own packaging solutions or Cryoport Express Shippers. Cryoport can provide onsite logistics personnel allowing the customer to fully outsource their cold chain logistics needs to Cryoport and focus on its core competencies.
- **Distribution Partnerships**: "Powered by Cryoport" is an important partnership arrangement with integrators, freight forwarders and other logistics providers, enabling partners to expand their solutions offering by adding the total Cryoport Express Shipper solution to their customer offering.

VALUATION / RECOMMENDATION

Through the most recent reporting period CYRX extended the streak on revenue growth, on both a yoy as well as sequential basis, to nine straight quarters (from fiscal Q3 2012 through Q3 2014) indicating that shipping volume is gaining positive traction, albeit at a modestly increasing rate. 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. With nine quarters of sequential growth, management's efforts are clearly paying dividends and we expect this streak to continue. 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 OCASA, The World Egg Bank, Zoetis and Liventa. 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.

CYRX continues to score customers and build the customer base, which management indicated has doubled over the last 9 months (through Dec 2013). 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 $2.7 million in fiscal 2014 and for this to grow to about $63 million in the year 2017.

We continue to value the company based on an industry P/E multiple (currently 19x) and discount this back to the present at 20% / year. We look for EPS of $0.16 in 2017 - based our valuation methodology, this values the stock at approximately $1.80 / 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.

	2013 A	Q1A	Q2A	Q3A	Q4E	2014 E	2015 E	2016 E	2017 E
Total Revenues	$1,101.0	$488.0	$579.8	$757.3	$914.3	$2,739.4	$12,521.3	$36,967.5	$63,202.5
YOY Growth	*98.2%*	*155.1%*	*148.2%*	*146.6%*	*148.1%*	*148.8%*	*357.1%*	*195.2%*	*71.0%*
Cost of Revenues	$1,588.0	$433.3	$507.7	$590.3	$685.7	$2,217.0	$5,646.9	$14,865.3	$25,281.0
Gross Income	($487.0)	$54.6	$72.1	$167.1	$228.6	$522.4	$6,874.4	$22,102.2	$37,921.5
Gross Margin	*-44.2%*	*11.2%*	*12.4%*	*22.1%*	*25.0%*	*19.1%*	*54.9%*	*59.8%*	
SG&A	$5,411.8	$1,222.1	$1,240.4	$1,305.6	$1,280.0	$5,048.0	$6,135.4	$14,047.7	$21,488.9
% SG&A	*491.5%*	*322.0%*	*189.0%*	*170.0%*	*140.0%*	*140.0%*	*49.0%*	*38.0%*	*34.0%*
R&D	$425.5	$92.6	$118.4	$118.5	$110.0	$439.6	$480.0	$625.0	$840.0
% R&D	*38.6%*	*19.0%*	*20.4%*	*15.6%*	*12.0%*	*16.0%*	*3.8%*	*1.7%*	*1.3%*
Operating Income	($6,324.2)	($1,260.1)	($1,286.7)	($1,257.0)	($1,161.4)	($4,965.2)	$259.0	$7,429.5	$15,592.7
Operating Margin	*-574.4%*	*-258.2%*	*-221.9%*	*-166.0%*	*-127.0%*	*-181.3%*	*2.1%*	*20.1%*	*24.7%*
Interest income, net	($72.8)	($82.2)	($512.8)	($31.8)	($15.0)	($641.8)	($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	$1.2	$0.0	$20.0	$0.0	$0.0	$0.0
Exting/Cnvrsn of debt	$0.0	$0.0	($13,161.0)	($552.8)	$0.0	($13,713.8)	$0.0	$0.0	$0.0
Pre-Tax Income	($6,380.6)	($1,323.5)	($14,960.5)	($1,840.3)	($1,176.4)	($19,300.7)	$237.0	$7,433.5	$15,614.7
Taxes	$1.6	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$2,919.9
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)	($14,960.5)	($1,840.3)	($1,176.4)	($19,300.7)	$237.0	$7,433.5	$12,694.7
YOY Growth	*18.5%*	*14.4%*	*-863.5%*	*-17.4%*	*31.5%*	*202.4%*	*-101.2%*	*3037.1%*	*70.8%*
Net Margin	*-579.7%*	*-271.2%*	*-2580.2%*	*-243.0%*	*-128.7%*	*-704.6%*	*1.9%*	*20.1%*	*20.1%*
EPS	($0.17)	($0.03)	($0.38)	($0.03)	($0.02)	($0.34)	$0.00	$0.10	$0.16
YOY Growth	*37.5%*	*15.1%*	*-830.3%*	*24.8%*	*60.8%*	*103.9%*	*-101.0%*	*2795.8%*	*64.5%*
Diluted Shares O/S	37,761	38,063	39,111	58,996	66,000	56,000	72,000	78,000	81,000

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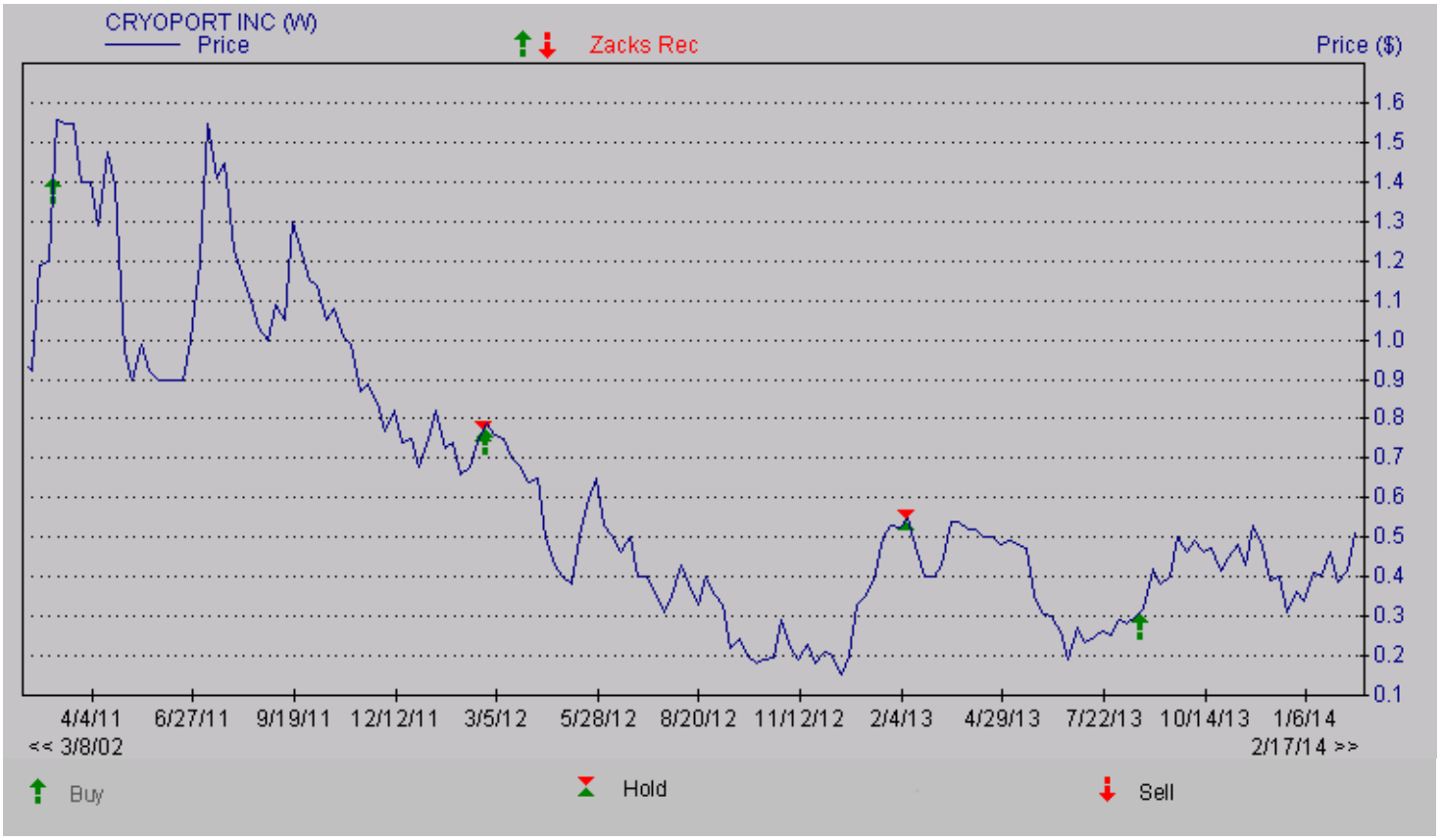

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The current distribution is as follows: Buy/Outperform- 17.5%, Hold/Neutral- 75.5%, Sell/Underperform – 6.3%. Data is as of midnight on the business day immediately prior to this publication.