Zacks Small-Cap Research

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CryoPort Inc (CYRX-OTC)

CYRX: Recent Changes Resulting in Record Revenues….

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	08/20/2013
Current Price (11/22/13)	$0.53
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 eight straight quarters of sequential revenue growth, a doubling of the customer base over the last 6 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	**$0.61**
52-Week Low	**$0.11**
One-Year Return (%)	**131.82**
Beta	**-1.26**
Average Daily Volume (sh)	**53,300**
Shares Outstanding (mil)	**39**
Market Capitalization ($mil)	**$21**
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	$580 A	$725 E	$914 E	2,718 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 E	-$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....

Q2 2014: Revenue Up 148%, New Record, 8th Straight Qtr of Growth. Positive Gross Margin….

CYRX announced results for their fiscal second quarter 2014 ending September 30, 2013 on November 18th. The revenue growth streak, on both a sequential and yoy basis, was extended. Q2 revenue of $580k marks the eighth 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).

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 eight 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 and OCASA.

Increasing the customer base, 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 six months and also that they "are in the early adaption stages with a significant 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 six 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.

We also continue to expect that additional contribution from the recent and new revenue opportunities will steepen the rate of revenue growth. As we have noted in the past, customer adoption can be a fairly drawn out process but once initially committed, customer retention is high.

Financials
Q2 revenue of $580k was up 148% yoy and 19% sequentially, although below our $672k estimate. Another noteworthy highlight is that Q2 is the second straight quarter that revenue covered COGS with CYRX generating $55k (11% gross margin) and $72k (12% gross margin) in positive gross income in fiscal Q1 and Q2, respectively. Over the long-term, gross margin should continue to benefit with an increase in revenue.

Operating expenses of $1.36 million were in-line with our estimate and essentially flat from fiscal Q1. Q2 net income and EPS were ($14.9) million and ($0.38). Excluding $13.1 million non-cash debt conversion expense (related to the conversion of bridge notes into common stock) and $464k non-cash deferred financing expense (also related to the conversion of the bridge notes), net income and EPS would have been approximately ($1.3) million and ($0.03), compared to our ($1.3) million and ($0.03) estimates.

CYRX exited fiscal Q2 with $532k in cash and equivalents, up from $228k at the end of fiscal Q1. Cash used in operations was $1.1 million in Q2, down slightly from $1.2 million used in Q1 and roughly equal to the average quarterly burn rate in fiscal 2013. Cash balance benefitted from the sale of approximately $1.7 million in convertible bridge notes in the quarter. $2.3 million worth of bridge notes were converted to equity prior to quarter end. Subsequent to the end of fiscal Q2, CYRX raised an additional $150k from the sale of bridge notes, which were subsequently converted to equity.

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;

> In September 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 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. 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". 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 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 and OCASA. 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 eight straight quarters (from fiscal Q3 2012 through Q2 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 eight 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, increasing shipments per customer, and customer "stickiness" should all bode well for continued growth.

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 but we believe that this is already contributing to CYRX's top line. The new relationship with The World Egg Bank could also bear fruit and be key to penetrating the large and growing IVF market. The OCASA relationship could also provide some near-term contribution.

Perhaps most importantly is that CYRX continues to score customers and build the customer base, which management indicated has doubled over the last 6 months (through Oct 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	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
Total Revenues	$1,101.0	$488.0	$579.8	$725.4	$914.3	$2,707.5	$12,521.3	$36,967.5	$63,202.5
YOY Growth	*98.2%*	*155.1%*	*148.2%*	*136.2%*	*148.1%*	*145.9%*	*362.5%*	*195.2%*	*71.0%*
Cost of Revenues	$1,588.0	$433.3	$507.7	$616.6	$685.7	$2,243.3	$5,646.9	$14,865.3	$25,281.0
Gross Income	($487.0)	$54.6	$72.1	$108.8	$228.6	$464.2	$6,874.4	$22,102.2	$37,921.5
Gross Margin	*-44.2%*	*11.2%*	*12.4%*	*15.0%*	*25.0%*	*17.1%*	*54.9%*	*59.8%*	
SG&A	$5,411.8	$1,222.1	$1,240.4	$1,233.2	$1,280.0	$4,975.7	$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	$110.0	$110.0	$431.1	$480.0	$625.0	$840.0
% R&D	*38.6%*	*19.0%*	*20.4%*	*15.2%*	*12.0%*	*15.9%*	*3.8%*	*1.7%*	*1.3%*
Operating Income	($6,324.2)	($1,260.1)	($1,286.7)	($1,234.4)	($1,161.4)	($4,942.6)	$259.0	$7,429.5	$15,592.7
Operating Margin	*-574.4%*	*-258.2%*	*-221.9%*	*-170.2%*	*-127.0%*	*-182.6%*	*2.1%*	*20.1%*	*24.7%*
Interest income, net	($72.8)	($82.2)	($512.8)	($20.0)	($15.0)	($630.0)	($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	$18.8	$0.0	$0.0	$0.0
Pre-Tax Income	($6,380.6)	($1,323.5)	($14,960.5)	($1,807.2)	($1,176.4)	($19,267.6)	$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)	($1,807.2)	($1,176.4)	($19,267.6)	$237.0	$7,433.5	$12,694.7
YOY Growth	*18.5%*	*14.4%*	*-863.5%*	*-15.3%*	*31.5%*	*201.9%*	*-101.2%*	*3037.1%*	*70.8%*
Net Margin	*-579.7%*	*-271.2%*	*-2580.2%*	*-249.1%*	*-128.7%*	*-711.6%*	*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%*	*26.4%*	*60.8%*	*103.6%*	*-101.0%*	*2795.8%*	*64.5%*
Diluted Shares O/S	37,761	38,063	39,111	59,200	66,000	56,000	72,000	78,000	81,000

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