Zacks Small-Cap Research

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CytoSorbents Cp (CTSO-OTCBB)

CTSO: Record Product Sales, Readying for Uplisting…

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/04/2012
Current Price (10/14/14)	$0.22
Target Price	**$0.50**

OUTLOOK

CytoSorb was CE Marked in March 2011 and subsequently commenced its initial commercialization. Initial focus on building awareness appears to be paying off. CTSO now generating clinical outcomes data which is just starting to be used to accelerate adoption and utilization. Mgmt outlined a multi-point plan on Q4 call to use recent cash raise to further accelerate sales as well as generate additional clinical data and build awareness. CTSO now expects to pursue cardiac surgery indication in the U.S. as this may provide the lowest cost, easiest and fastest route to the U.S. market. Cardiac surgery indication has driven substantial interest overseas with successful outcomes. Gov't contracts/grants that CTSO continues to score should benefit near-term revenue and cash flow as well as also 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 continues to increase.

SUMMARY DATA

52-Week High	**$0.35**
52-Week Low	**$0.09**
One-Year Return (%)	**129.32**
Beta	**-1.56**
Average Daily Volume (sh)	**670,457**
Shares Outstanding (mil)	**311**
Market Capitalization ($mil)	**$68**
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 2014 Estimate	**N/A**
P/E using 2015 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**N/A**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	371 A	292 A	881 A	879 A	2423 A
2014	1062 A	1025 A	1406 E	1587 E	5080 E
2015					14210 E
2016					22380 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-0.01 A	-0.01 A	-0.01 A	-0.01 A	-0.03 A
2014	-0.01 A	-0.01 A	-0.01 E	-0.01 E	-0.03 E
2015					-0.01 E
2016					-0.01 E

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

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Q3 Preannouncement: Record Product Sales, Readying for Uplisting

Q3 Product Sales ~$1M Well Ahead of Our Estimate, Preferred Converted to Ready for Uplisting

We have updated our model for this morning's preannouncement that Q3 product sales are expected to be approximately $1 million. This will be well ahead of the $765k we had been modeling and, as indicated in the press release, will be a new record and represent sequential growth of more than 50%.

As we have noted in the recent past, we think it is clear that follow-on orders from existing customers (where the majority of orders are coming from – which we view as particularly positive), use of CytoSorb in an expanded number of critical care applications and in broadening of the geographic commercialization footprint are all contributing to the consistent sequential revenue growth. Awareness-building, clinical data and case studies outlining successful interventions with CytoSorb has been at the heart of CTSO's sales efforts, the fruits of which are being seen in the consistent product revenue growth.

Relative to progress towards management's goal of uplisting by current year-end, CTSO revealed that all of the outstanding Series A and B preferred shares were converted to common as of October 9th. As of June 30, the preferred stock represented approximately 232 million common shares upon conversion.

The updates to our model have pushed forecasted 2014 full year revenue to $5.1M, up from $4.6M previously, which implies 110% yoy growth. Conversion of the preferred has little impact on our model as we had already included this assumption, albeit estimating it would occur in early 2015.

We will provide another update with Q3 earnings.

OUTLOOK / RECOMMENDATION / VALUATION

We model a sequential uptick in revenue throughout 2014 as near-term catalysts, including several of those that management outlined on the recent conference calls, make an increasing contribution over time. And while there's still potential to see some quarterly volatility, we think it is now clear that follow-on orders from existing customers (where the majority of orders are coming from – which we view as particularly positive), use of CytoSorb in an expanded number of critical care applications and in broadening of the geographic commercialization footprint are all contributing to the consistent sequential revenue growth. Awareness-building, clinical data and case studies outlining successful interventions with CytoSorb has been at the heart of CTSO's sales efforts, the fruits of which are being seen in the consistent product revenue growth. CTSO will continue to build on this in 2014 and with the launch of the patient registry documenting real-world successful interventions with CytoSorb, the bulk of clinical evidence will continue to grow which should further enable the marketing message.

Our modeled revenue in 2014 and beyond includes mostly sales of CytoSorb (with a relatively small % contribution from contracts/grants). Assuming positive results from company-sponsored and investigator-led studies as well as supportive feedback from hospitals and critical care professionals, we think 2014 could be more of an inflection point for CytoSorb and mark the beginning of a significantly greater ramp in commercial sales.

Management's recent decision to focus on a cardiac surgery indication instead of the previously expected sepsis indication, may provide an easier, lower cost and quicker time to FDA approval. We look forward to hearing more about CTSO's plans for initiating a U.S.-based pivotal study. We will update our assumptions relative to the U.S. market if and when we feel there is enough clarity to make an informed opinion relative to the regulatory pathway requirements and general launch timelines. As it is now, we are maintaining our assumption that meaningful U.S. sales do not materialize prior to 2018.

Based on our 10-year DCF model, which uses a 13% discount rate to account for certain risks and uncertainties that CytoSorbents faces (several of which we detailed in our initiation report), the shares are valued at approximately $0.50. Our model and assumptions will be updated commensurate with news flow which could also influence the valuation. As it is now, we value the company at $0.50/share, implying upside to the current share price and reflecting our Outperform rating.

FINANCIAL MODEL

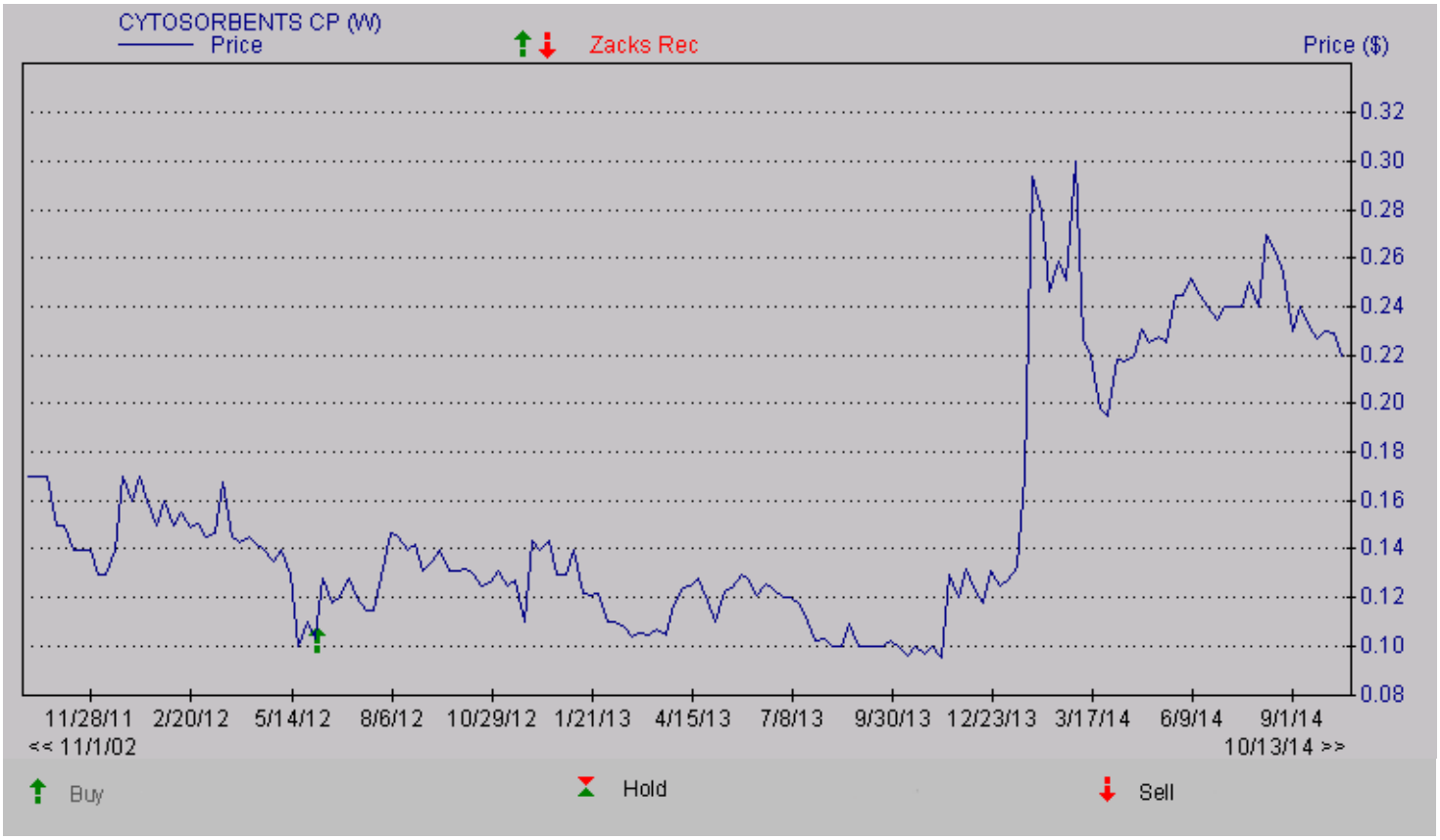
CytoSorbents Inc.

	2013 A	Q1A	Q2A	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
CytoSorb Sales	$821.8	$569.2	$663.2	$1,000.0	$1,180.0	$3,412.5	$13,110.0	$22,180.0	$30,090.0
y-o-y growth	*442.1%*	*223.3%*	*418.3%*	*391.3%*	*275.6%*	*315.3%*	*284.2%*	*69.2%*	*35.7%*
Total Royalties/Grants/Other	$1,600.9	$492.9	$361.4	$406.0	$407.0	$1,667.4	$1,100.0	$200.0	$0.0
y-o-y growth	*34.4%*	*152.5%*	*121.0%*	*-40.0%*	*-28.0%*	*4.2%*	*-34.0%*	*-81.8%*	*-100.0%*
Revenue	$2,422.7	$1,062.2	$1,024.7	$1,406.0	$1,587.0	$5,079.8	$14,210.0	$22,380.0	$30,090.0
YOY Growth	*80.4%*	*186.0%*	*251.5%*	*59.6%*	*80.5%*	*109.7%*	*179.7%*	*57.5%*	*34.5%*
Cost of Goods Sold	$1,911.6	$662.5	$666.2	$801.1	$865.3	$2,995.1	$6,285.9	$8,880.2	$11,735.1
Gross Income	$511.1	$399.6	$358.5	$604.9	$721.7	$2,084.7	$7,924.1	$13,499.8	$18,354.9
Gross Margin	*21.1%*	*37.6%*	*35.0%*	*43.0%*	*45.5%*	*41.0%*	*55.8%*	*60.3%*	*61.0%*
SG&A	$3,485.4	$1,317.1	$1,394.6	$1,522.0	$1,664.0	$5,897.7	$9,532.0	$13,070.0	$15,496.4
% SG&A	*143.9%*	*124.0%*	*136.1%*	*108.3%*	*104.9%*	*116.1%*	*67.1%*	*58.4%*	*51.5%*
R&D	$1,738.9	$236.8	$347.0	$518.0	$667.0	$1,768.8	$4,500.0	$4,200.0	$3,100.0
% R&D	*71.8%*	*22.3%*	*33.9%*	*36.8%*	*42.0%*	*34.8%*	*31.7%*	*18.8%*	*10.3%*
Operating Income	($4,713.2)	($1,154.2)	($1,383.1)	($1,435.1)	($1,609.3)	($5,581.7)	($6,107.9)	($3,770.2)	($241.4)
Operating Margin	-	-	-	-	-	-	-	-	-
Total Other Expense	$422.8	($179.1)	$470.5	$39.0	($47.0)	$283.4	$0.0	$0.0	$0.0
Pre-Tax Income	($5,136.1)	($975.1)	($1,853.6)	($1,474.1)	($1,562.3)	($5,865.1)	($6,107.9)	($3,770.2)	($241.4)
Taxes (benefit)	($458.3)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*8.9%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Preferred Dividend	$2,395.5	$1,114.5	$1,374.2	$1,250.0	$1,250.0	$4,988.8	$0.0	$0.0	$0.0
Net Income	($7,073.3)	($2,089.6)	($3,227.8)	($2,724.1)	($2,812.3)	($10,853.8)	($6,107.9)	($3,770.2)	($241.4)
Net Margin	-	*-196.7%*	*-315.0%*	*-193.7%*	*-177.2%*	-	*-43.0%*	*-16.8%*	*-0.8%*
EPS	($0.03)	($0.01)	($0.01)	($0.01)	($0.01)	($0.03)	($0.01)	($0.01)	($0.00)
YOY Growth	-	-	-	-	-	-	-		
Diluted Shares O/S	236,019	265,480	301,196	314,000	545,000	356,419	575,000	590,000	610,000

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