

## Cytori Therapeutics (CYTX - \$ 2.47)

### New Japanese Legislature Could Be Tailwind for CYTX Revenue Growth Going Forward

The Japanese legislature recently approved new legislation on pharmaceutical law to include a new branch of regenerative medicine therapies.

#### Details:

The Japanese legislature recently approved new legislation with a change of the Japanese Pharmaceutical Affairs Law (J-PAL) to the Pharmaceuticals and Medical Devices Act, which will include a new branch for Regenerative Medicine Products. The new law will direct the Ministry of Health, Labour and Welfare (MHLW) to adopt new procedures and rules that would accelerate the clinical development of regenerative medicine and cell therapies. Further, the medicine products will be regulated on a Fast Track process that focuses primarily on product safety

#### Implications:

Given more than half of CYTX's product revenues are generated from Japan, increasingly favorable legislation could ultimately translate to a further sales ramp up from the country going forward. In addition, a substantial portion of the clinical studies in various indications funded by government or other resources that use the Celution system are in Japan. A more complimentary environment could boost more studies to come. Should outcomes from some studies be positive, such a scenario could potentially expand the usage of Celution system and further improve the reimbursement landscape going forward.

#### Action:

We reiterate our Buy rating and \$9 target price based on our peer comparison valuation methodology and by our risk-adjusted cash flow sum-of-the-part analysis. Our recommendation based on Celution revenue growth and continued clinical advancement of the encouraging outlook for ADRCs in no option chronic myocardial ischemia.

#### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-14E</b>	-0.11	-0.12	-0.11	-0.07	-0.41	NM
<b>FY-13E</b>	-0.11A	-0.05A	-0.08A	-0.11	-0.35	NM
<b>FY-12A</b>	-0.16	-0.13	-0.19	-0.06	-0.55	NM
<b>FY-11A</b>	-0.23	-0.10	-0.15	-0.12	-0.61	NM

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

Ticker: **CYTX**  
Rating: **Buy**  
Price Target: **\$ 9.00**

#### Trading Data:

Last Price (11/21/2013)	\$ 2.47
52-Week High (11/30/2012)	\$ 4.25
52-Week Low (11/1/2013)	\$ 2.00
Market Cap. (MM)	\$ 164
Shares Out. (MM)	67

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## Income Statement

### Cytori Therapeutics, Inc. – Income Statement

('000 \$)	2010	2011	2012	1Q13	2Q13	3Q13	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Sales to related party	590		9											
Sales to third parties	7,664	7,983	8,708	1,392	1,408	1,616	4,056	8,472	3,651	1,825	2,008	9,016	16,499	22,274
<b>Product revenues</b>	<b>8,254</b>	<b>7,983</b>	<b>8,709</b>	<b>1,392</b>	<b>1,408</b>	<b>1,616</b>	<b>4,056</b>	<b>8,472</b>	<b>3,651</b>	<b>1,825</b>	<b>2,008</b>	<b>9,016</b>	<b>16,499</b>	<b>22,274</b>
BARDA revenue			360	549	859	1,095	1,290	3,793	839	4,667	4,667	4,667	14,839	18,667
Development, related party	2,122	1,992	2,882	638	-	-	-	638	-	-	-	-	0	0
Development			2,529	1,179	-	-	-	1,179	-	-	-	-	0	0
Research grant and other	251	21	21	-	-	-	-	0	-	-	-	-	0	0
<b>Development revenues</b>	<b>2,373</b>	<b>2,013</b>	<b>5,792</b>	<b>2,366</b>	<b>859</b>	<b>1,095</b>	<b>1,290</b>	<b>5,610</b>	<b>839</b>	<b>4,667</b>	<b>4,667</b>	<b>4,667</b>	<b>14,839</b>	<b>18,667</b>
<b>Total Revenue</b>	<b>10,627</b>	<b>9,996</b>	<b>14,501</b>	<b>3,758</b>	<b>2,267</b>	<b>2,711</b>	<b>5,346</b>	<b>14,082</b>	<b>4,489</b>	<b>6,492</b>	<b>6,674</b>	<b>13,682</b>	<b>31,338</b>	<b>40,941</b>
Cost of product revenues	3,908	3,837	4,000	756	608	931	1,663	3,958	1,497	748	823	3,696	6,765	9,132
Gross profit	4,346	4,146	4,709	636	800	685	2,393	4,514	2,154	1,077	1,185	5,319	9,735	13,142
Research and development	9,687	10,904	13,628	3,720	4,150	4,123	4,205	16,198	3,911	7,118	7,261	7,406	25,695	33,404
Sales and marketing	11,040	13,560	9,488	2,257	2,410	1,786	1,790	8,243	1,915	1,953	1,982	2,062	7,912	8,308
General and administrative	12,570	14,727	15,672	3,846	4,046	4,332	4,371	16,595	4,380	4,424	4,335	4,357	17,495	18,545
Change in fair value of warrant liability	(1,285)	(4,360)	(209)	(334)	(84)	0	0	(418)	0	0	0	0	0	0
Change in fair value of option liability	30	740	340	250	(2,500)	0	0	(2,250)	0	0	0	0	0	0
<b>Operating expense</b>	<b>32,042</b>	<b>35,571</b>	<b>38,919</b>	<b>9,739</b>	<b>8,022</b>	<b>10,241</b>	<b>10,366</b>	<b>38,368</b>	<b>10,206</b>	<b>13,495</b>	<b>13,578</b>	<b>13,824</b>	<b>51,103</b>	<b>60,257</b>
<b>Operating income</b>	<b>(25,323)</b>	<b>(29,412)</b>	<b>(28,418)</b>	<b>(6,737)</b>	<b>(6,363)</b>	<b>(8,461)</b>	<b>(6,683)</b>	<b>(28,244)</b>	<b>(7,213)</b>	<b>(7,751)</b>	<b>(7,727)</b>	<b>(3,838)</b>	<b>(26,530)</b>	<b>(28,448)</b>
Interest income	9	9	4		1	1	1	3	1	1	1	1	4	4
Interest expense	(2,052)	(2,784)	(3,386)	(709)	(652)	(1,094)	(1,094)	(3,549)	(1,094)	(1,094)	(1,094)	(1,094)	(4,376)	(4,420)
Other income (expense), net	23	(55)	(314)	(173)	(124)	(96)	(134)	(527)	350	(300)	250	(250)	50	50
Gain on Puregraft divestiture			-	-	-	4,392	-	4,392	-	-	-	-	0	0
Equity loss from investment in joint venture	(151)	(209)	(165)	(48)	4,892	0	0	4,844	-	-	-	-	0	0
Total other income (expense)	(2,171)	(3,039)	(3,861)	(930)	3,152	3,203	(1,227)	4,198	(743)	(1,393)	(843)	(1,343)	(4,322)	(4,366)
<b>Income (loss) before taxes</b>	<b>(27,494)</b>	<b>(32,451)</b>	<b>(32,279)</b>	<b>(7,667)</b>	<b>(3,211)</b>	<b>(5,258)</b>	<b>(7,910)</b>	<b>(24,046)</b>	<b>(7,956)</b>	<b>(9,144)</b>	<b>(8,570)</b>	<b>(5,181)</b>	<b>(30,852)</b>	<b>(32,814)</b>
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net income</b>	<b>(27,494)</b>	<b>(32,451)</b>	<b>(32,279)</b>	<b>(7,667)</b>	<b>(3,211)</b>	<b>(5,258)</b>	<b>(7,910)</b>	<b>(24,046)</b>	<b>(7,956)</b>	<b>(9,144)</b>	<b>(8,570)</b>	<b>(5,181)</b>	<b>(30,852)</b>	<b>(32,814)</b>
<b>Net income attributable to common shareholders</b>	<b>(\$27,494)</b>	<b>(\$32,451)</b>	<b>(\$32,279)</b>	<b>(\$7,777)</b>	<b>(\$3,135)</b>	<b>(\$5,366)</b>	<b>(\$7,910)</b>	<b>(\$24,188)</b>	<b>(\$7,956)</b>	<b>(\$9,144)</b>	<b>(\$8,570)</b>	<b>(\$5,181)</b>	<b>(\$30,852)</b>	<b>(\$32,814)</b>
Net Earnings (Losses) Per Share—Basic	(\$0.60)	(\$0.61)	(\$0.55)	(\$0.11)	(\$0.05)	(\$0.08)	(\$0.11)	(\$0.35)	(\$0.11)	(\$0.12)	(\$0.11)	(\$0.07)	(\$0.41)	(\$0.41)
Net Earnings (Losses) Per Share—Diluted	(\$0.60)	(\$0.61)	(\$0.55)	(\$0.11)	(\$0.05)	(\$0.08)	(\$0.11)	(\$0.35)	(\$0.11)	(\$0.12)	(\$0.11)	(\$0.07)	(\$0.41)	(\$0.41)
Shares outstanding—basic	45,948	53,504	58,614	66,991	67,201	67,248	71,248	68,172	75,348	75,448	75,548	75,648	75,498	80,498
Shares outstanding—diluted	45,948	53,504	58,614	66,991	67,201	67,248	71,248	68,172	75,348	75,448	75,548	75,648	75,498	80,498
<b>Margin Analysis (% of Sales/Revenue)</b>														
COGS	47%	48%	46%	54%	43%	58%	41%	47%	41%	41%	41%	41%	42%	41%
R&D	91%	109%	94%	99%	183%	152%	79%	115%	87%	110%	109%	54%	82%	82%
S&M	134%	170%	109%	60%	106%	66%	33%	97%	43%	30%	30%	15%	48%	37%
G&A	118%	147%	108%	102%	178%	160%	82%	118%	98%	68%	65%	32%	56%	45%
Operating Income (loss)	-238%	-294%	-196%	-179%	-281%	-312%	-125%	-201%	-161%	-119%	-116%	-28%	-85%	-69%
Pretax	-259%	-325%	-223%	-204%	-142%	-194%	-148%	-171%	-177%	-141%	-128%	-38%	-98%	-80%
Tax Rate	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net Income	-259%	-325%	-223%	-204%	-142%	-194%	-148%	-171%	-177%	-141%	-128%	-38%	-98%	-80%
<b>Financial Indicator Growth Analysis (YoY%)</b>														
Product revenues	41%	-3%	9%	-6%	-28%	23%	2%	-3%	162%	30%	24%	122%	95%	35%
BARDA revenue	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	258%	954%	0.5273224	4.4326737	3.261796	262%	291%	26%
Total Revenue	-28%	-6%	45%	32%	-77%	83%	22%	-3%	-39%	-55%	78%	504%	123%	31%
Cost of goods sold	15%	-2%	4%	N.A.	-84%	-10%	18%	-1%	N.A.	-81%	35%	122%	71%	35%
R&D expenses	-21%	13%	25%	31%	29%	16%	5%	19%	5%	72%	76%	76%	59%	30%
Sales and marketing	-832%	23%	-30%	-5%	-7%	-27%	-14%	-13%	-15%	-19%	11%	15%	-4%	5%
G&A	21%	17%	6%	-2%	7%	15%	4%	6%	14%	9%	0%	0%	5%	6%
Operating expense	-3%	11%	9%	8%	-22%	-6%	20%	-1%	5%	68%	33%	33%	33%	18%
Operating Incomes (Losses)	18%	16%	-3%	-19%	-9%	-18%	142%	-1%	7%	22%	-9%	-43%	-6%	7%
Pretax Income	18%	16%	-1%	-18%	-59%	-53%	107%	-26%	4%	185%	63%	-34%	28%	6%
Net Income	18%	18%	-1%	-18%	-59%	-53%	107%	-26%	4%	185%	63%	-34%	28%	6%
EPS - Basic	-7%	1%	-9%	-29%	-65%	-58%	73%	-36%	-8%	160%	42%	-38%	15%	0%
EPS - Diluted	-7%	1%	-9%	-29%	-65%	-58%	73%	-36%	-8%	160%	42%	-38%	15%	0%
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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates

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##### 3 Year Rating Change History

Date	Rating	Closing Price (\$)
11/19/2013	Buy (B)	2.33

##### 3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
11/19/2013	9.00	2.33



Source: Laidlaw & Company

Created by: Blue-Compass.net

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			Investment Banking	Brokerage
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	90.00%	40.00%	10.00%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	10.00%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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