

Cytori Therapeutics (CYTX - \$ 2.65)

Continued Confidence after Recent Management Update

After our recent company update by CYTX management, we walked away with renewed confidence as all their development plans are on-track with completion of ATHENA trial patient recruitment in 1H14 and possible BARDA decision in 2Q14.

- Advancement of the two ATHENA trials appears on track.** CYTX is conducting Phase II clinical studies evaluating Celution system driven adipose-derived stem and regenerative cells (ADRCs) as a treatment in no-option chronic myocardial ischemia (CMI). After a slower start, the ATHENA trial seems has resolved several issues and currently all seven sites have already enrolled patients. With the current pace, patient recruitment could potentially complete in mid to late spring with possible top-line results reported by late 2014. Initial work for ATHENA II trial has started and we anticipate patient recruitment could start shortly after completion of patient enrollment of ATHENA trial and with top-line results expected in 2015.
- Next phase BARDA contract decision could occur in 2Q14.** With the completion of the first phase proof-of-concept study for thermal burns, CYTX is in the process for applying for the contract of next phase study potentially could worth up to \$56MM. We anticipate discussion with the FDA and DOD in addition to BARDA to occur over the next 8 to 12 weeks with BARDA decision potentially made in 2Q14. A positive outcome could be a major catalyst for CYTX shareholders.
- Ex-U.S. Celution commercialization continues.** Several tailwinds for Celution commercialization in ex-U.S. markets are in place, including favorable new legislation in Japan; and licensed deal with Lorem Vascular in China and Southeast Asia with potential approval in China in late 2014. Given the time needed for sales ramp up, we believe more substantial sales growth might start in 2015. Noted that Lorem is committed to order \$5MM Celution devices and consumables following regulatory approval in China.
- Action.** We are reiterating our Buy rating and our \$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 encouraging outlook for ADRCs in no option CMI.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-14E	-0.11	-0.12	-0.11	-0.07	-0.41	NM
FY-13E	-0.11A	-0.05A	-0.08A	-0.11	-0.35	NM
FY-12A	-0.16	-0.13	-0.19	-0.06	-0.55	NM
FY-11A	-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 (01/27/2014)	\$ 2.65
52-Week High (11/5/2013)	\$ 3.93
52-Week Low (11/1/2013)	\$ 2.00
Market Cap. (MM)	\$ 176
Shares Out. (MM)	67

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Anticipated milestones in 2014 and beyond

Program	Indication	Event	Timing
Celution	No-option chronic myocardial ischemia	Start recruitment of 2nd Phase II (ATHENA II) trial	1Q14
		CE Mark expansion for intravascular use based on PRECISE outcomes	2014
		Potential releases data of ATHENA clinical study	4Q14
		Potential releases data of ATHENA II clinical study	2015
		Potential commence a pivotal study	2015
	Thermal burns	Potentially to conduct an in-process review (IPR) meeting with BARDA	1Q14
		Potentially to receive a contract from BARDA	2Q14
		Potential approval in China	2014
		Product revenue growth	Quarterly report

Source: Laidlaw & Company estimates and company presentation

Major Risks

Clinical risks of clinical study failure could have a major impact on CYTX share value. Despite an encouraging PRECISE study outcome, which potentially bodes well for a positive outlook of future studies, it remains too early to project the possible success of the ongoing ATHENA, the upcoming ATHENA II and the potential future pivotal studies. Given that the substantial upside for CYTX shares is currently based on the success of ADRCs in no-option chronic myocardial ischemia PMA, a failed study outcome or/and unsuccessful approval application would have a significant negative impact on CYTX share value. In addition, given the primary endpoint of the two more advanced clinical studies (Baxter and Mesoblast/Teva) are different from that of ATHENA and ATHENA II, additional data potentially are needed to support ADRCs to fulfill the possible pivotal studies requirements.

Commercial success of the Celution system is less predictable. Although the Celution system has been available in the market for several years, with approval as a tool and indication claim expansions in ex-U.S. markets, the revenue has been modest. It might be difficult to project, with greater precision, future Celution system sales growth from China, Japan, Europe and other markets. It is also difficult to predict whether or when China might grant the approval of the Celution system (our projection of 2014). Should the development in China is less successful and sales from other regions do not meet investor expectations, CYTX share value could be negatively impacted.

Other possible bone marrow based cell therapies could potentially outperform ADRCs Celution system. Although ADRCs possess advantages over other cell therapies, in our opinion, it is difficult to predict whether they can outperform other bone marrow based cell therapies in clinical performance. From the development timeline and resource prospective and given several major competitors, such as Baxter and Mesoblast/Teva are already in more advanced stages of development, and with greater resources than Cytori, the development and potential regulatory and commercial success of Cytori's program could be further impacted negatively by the advancements of competitors' programs.

Lack of sufficient cash could impede corporate development. With additional financial needs to support clinical studies and other operating expenses going forward, the company might have to raise additional capital via either financial market or non-dilutive sources to advance its pipeline development. Given it is possible that costs for the pivotal studies for ADRCs in no-option CMI could be very substantial due to sizeable studies, the company might be much more preferable to find non-dilutive financial sources for moving the program forward. It is possible by raising capital at a less favorable term; CYTX's share price could decline.

Risks from international exposure. A substantial portion of Cytori's current revenues are derived from sales outside the U.S., especially from the European

and Asia-Pacific regions. As such, the company is exposed to potential risks of currency fluctuations, as well as pricing controls, regulatory requirements and reimbursement practices that differ from that of the U.S..

Limited trading liquidity limits shareholder options. Given ADMA shares only entered the public market recently; daily trading volume and name recognition are relatively low. With relatively illiquid trading volume, shareholders wanting to increase or reduce their positions in a volatile stock market may face constraints.

Figure 1: 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
Product revenues	8,254	7,983	8,709	1,392	1,408	1,616	4,056	8,472	3,651	1,825	2,008	9,016	16,499	22,274
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
Development revenues	2,373	2,013	5,792	2,366	859	1,095	1,290	5,610	839	4,667	4,667	4,667	14,839	18,667
Total Revenue	10,627	9,996	14,501	3,758	2,267	2,711	5,346	14,082	4,489	6,492	6,674	13,682	31,338	40,941
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
Operating expense	32,042	35,571	38,919	9,739	8,022	10,241	10,366	38,368	10,206	13,495	13,578	13,824	51,103	60,257
Operating income	(25,323)	(29,412)	(28,418)	(6,737)	(6,363)	(8,461)	(6,683)	(28,244)	(7,213)	(7,751)	(7,727)	(3,838)	(26,530)	(28,448)
Interest income	9	9	4	1	1	1	3	1	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)
Income (loss) before taxes	(27,494)	(32,451)	(32,279)	(7,667)	(3,211)	(5,258)	(7,910)	(24,046)	(7,956)	(9,144)	(8,570)	(5,181)	(30,852)	(32,814)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	(27,494)	(32,451)	(32,279)	(7,667)	(3,211)	(5,258)	(7,910)	(24,046)	(7,956)	(9,144)	(8,570)	(5,181)	(30,852)	(32,814)
Net income attributable to common shareholders	(\$27,494)	(\$32,451)	(\$32,279)	(\$7,777)	(\$3,135)	(\$5,366)	(\$7,910)	(\$24,188)	(\$7,956)	(\$9,144)	(\$8,570)	(\$5,181)	(\$30,852)	(\$32,814)
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
Margin Analysis (% of Sales/Revenue)														
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%
Financial Indicator Growth Analysis (YoY%)														
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
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	83.33%	33.33%	16.67%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	16.67%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

ADDITIONAL COMPANIES MENTIONED

Baxter (BAX: NR)

Mesoblast (MBLTY: NR)

Teva (TEVA: NR)

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