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EQUITY RESEARCH
Company Report

April 15, 2014

Cytori Therapeutics (CYTX - $ 2.28)

Publication of the PRECISE Trial Full Dataset

Healthcare/Biotechnology

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

Yesterday CYTX reported the publication of the full PRECISE trial results at an upcoming issue of the American Heart Journal. An on-line version was published on April 7, 2014.

- **Details.** The overall results indicated that Celution extracted ADRCs treatment was safe, feasible and showed indications of a favorable benefit to risk profile by preserving cardiac functional capacity in no-option chronic myocardial ischemia (CMI) patients. For the primary endpoint value of maximum oxygen consumption (MVO_2) conducted during treadmill testing to reflect exercise capacity, ADRC treated patients have preserved the value (p=0.8); while value of control group have declined significantly (p=0.001) at 18 months. Several secondary endpoints outcomes at 6 months illustrated 1) left ventricular total mass increased from baseline in ADRC-treated patients (p<0.001) but did not change in the control group (p=0.1); 2) left ventricular infarcted mass were higher in the control group (p=0.01) but were not significantly different in ADRC-treated patients (p=0.8); and 3) wall motion score index (WMSI) improved in ADRC-treated patients (p=0.04) but did not change in control patients (p=0.4). At 18 months, metabolic equivalents (METs) values were preserved in the ADRC-treated group (p=1) but decreased significantly in the control group (p=0.001). No significant differences were observed between the two groups in LVEF or left ventricular volumes.

- **Implications.** Despite that the top-line results of the PRECISE study were already known, the new publication affords more details on several different readouts that have exhibited positive impact on ADRCs therapy in CMI patients. We believe the outcome bodes well for a potential positive outlook of the ongoing ATHENA studies. The ATHENA clinical study potentially completes patient recruitment in 2Q/3Q14 with topline data could be available in 1Q15 – a critical catalyst for CYTX shares.

- **Action.** We reiterate 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-parts analysis. Our recommendation is based on Celution revenue growth and an encouraging outlook for ADRCs in no option CMI.

Trading Data:

Last Price (04/14/2014)	$ 2.28
52–Week High (11/5/2013)	$ 3.93
52–Week Low (11/1/2013)	$ 2.00
Market Cap. (MM)	$ 172
Shares Out. (MM)	75

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-14E	-0.13	-0.11	-0.11	-0.06	-0.42	NM
FY-13AA	-0.11	-0.05	-0.08	-0.14	-0.39	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

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Anticipated milestones in 2014 and beyond

Program	Indication	Event	Timing
Celution	No-option chronic myocardial ischemia	CE Mark expansion for intravascular use based on PRECISE outcomes	**2014**
		Potential completion of patient recuritment of the ATHENA clinical study	**2 /3Q14**
		Potential releases data of ATHENA clinical study	**4Q14**
		Potential completion of patient recuritment of the ATHENA II clinical study	**1Q15**
		Potential releases data of ATHENA II clinical study	**2H15**
		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**
	Hamstring injury	Potential commence an exploratorr study (n=10)	**2014**
		Potential approval in China	**Late '14**
		Product revenue growth	**Quarterly report**

Source: Laidlaw & Company estimates and company presentation

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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 potential for CYTX shares is currently based on the success of ADRCs in no-option chronic myocardial ischemia PMA, a failed study outcome or/and an 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 be less successful than expected, 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 much prefer 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.

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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 CYTX 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.

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Figure 1: Income Statement

Cytori Therapeutics, Inc. – Income Statement

('000 $)	2012	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Sales to related party	9							
Sales to third parties	8,708	7,122	3,166	2,501	2,076	9,552	17,295	23,348
Product revenues	8,709	7,122	3,166	2,501	2,076	9,552	17,295	23,348
BARDA revenue	360	3,257	490	4,667	4,667	4,667	14,490	18,667
Development, related party	2,882	638	-	-	-	-	0	0
Development	2,529	1,179	-	-	-	-	0	0
Research grant and other	21	0	-	-	-	-	0	0
Development revenues	5,792	5,074	490	4,667	4,667	4,667	14,490	18,667
Total Revenue	**14,501**	**12,196**	**3,656**	**7,168**	**6,743**	**14,219**	**31,785**	**42,015**
Cost of product revenues	4,000	3,421	1,298	1,025	851	3,916	7,091	9,573
Gross profit	4,709	3,701	1,868	1,476	1,225	5,636	10,204	13,776
Research and development	13,628	17,065	4,717	6,604	6,736	6,871	24,927	32,405
Sales and marketing	9,488	9,026	2,599	2,651	2,690	2,798	10,738	11,275
General and administrative	15,672	16,031	3,883	3,922	3,844	3,863	15,511	16,442
Change in fair value of warrant liability	(209)	(418)	0	0	0	0	0	0
Change in fair value of option liability	340	(2,250)	0	0	0	0	0	0
Operaing expense	38,919	39,454	11,199	13,176	13,270	13,531	51,176	60,122
Operating income	(28,418)	(30,679)	(8,841)	(7,034)	(7,378)	(3,229)	(26,482)	(27,680)
Interest income	4	4	1	1	1	1	4	4
Interest expense	(3,386)	(3,396)	(1,094)	(1,094)	(1,094)	(1,094)	(4,376)	(4,420)
Other income (expense), net	(314)	(438)	350	(300)	250	(250)	50	50
Gain on Puregraft divestiture		4,453	-	-	-	-	0	0
Equity loss from investment in joint venture	(165)	4,844	0	-	-	-	0	0
Total other income (expense)	(3,861)	4,502	(743)	(1,393)	(843)	(1,343)	(4,322)	(4,366)
Income (loss) before taxes	(32,279)	(26,177)	(9,584)	(8,427)	(8,221)	(4,572)	(30,804)	(32,046)
Income tax expense	-	-	-				-	-
Net income	(32,279)	(26,177)	(9,584)	(8,427)	(8,221)	(4,572)	(30,804)	(32,046)
Net income attributable to common shareholders	($32,279)	($25,921)	($9,584)	($8,427)	($8,221)	($4,572)	($30,804)	($32,046)
Net Earnings (Losses) Per Share—Basic	($0.55)	($0.39)	($0.13)	($0.11)	($0.11)	($0.06)	($0.42)	($0.41)
Net Earnings (Losses) Per Share—Diluted	($0.55)	($0.39)	($0.13)	($0.11)	($0.11)	($0.06)	($0.42)	($0.41)
Shares outstanding—basic	58,614	67,781	73,762	73,862	73,962	74,062	73,912	78,912
Shares outstanding—diluted	58,614	67,781	73,762	73,862	73,962	74,062	73,912	78,912
Margin Analysis (% of Sales/Revenue)								
COGS	46%	48%	41%	41%	41%	41%	42%	41%
R&D	94%	140%	129%	92%	100%	48%	78%	77%
S&M	109%	127%	71%	37%	40%	20%	62%	48%
G&A	108%	131%	106%	55%	57%	27%	49%	39%
Operating Income (loss)	-196%	-252%	-242%	-98%	-109%	-23%	-83%	-66%
Pretax	-223%	-215%	-262%	-118%	-122%	-32%	-97%	-76%
Tax Rate	NA	NA	NA	NA	NA	NA	NA	NA
Net Income	-223%	-215%	-262%	-118%	-122%	-32%	-97%	-76%
Financial Indicator Growth Analysis (YoY%)								
Product revenues	9%	-18%	127%	78%	28%	253%	143%	35%
BARDA revenue	N.A.	805%	-11%	443%	326%	519%	345%	29%
Total Revenue	45%	-16%	-50%	-51%	79%	527%	161%	32%
Cost of goods sold	4%	-14%	N.A.	-74%	40%	248%	107%	35%
R&D expenses	25%	25%	27%	59%	63%	35%	46%	30%
Sales and marketing	-30%	-5%	15%	10%	51%	9%	19%	5%
G&A	6%	2%	1%	-3%	-11%	1%	-3%	6%
Operaing expense	9%	1%	15%	64%	30%	18%	30%	17%
Operating Incomes (Losses)	-3%	8%	31%	11%	-13%	-65%	-14%	5%
Pretax Income	-1%	-19%	25%	162%	56%	-54%	18%	4%
Net Income	-1%	-19%	25%	162%	56%	-54%	18%	4%
EPS - Basic	-9%	-29%	14%	145%	39%	-55%	6%	-3%
EPS - Diluted	-9%	-29%	14%	145%	39%	-55%	6%	-3%

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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates

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Rating and Price Target Change History

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.	86.67%	33.33%	13.33%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	6.67%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	

ADDITIONAL COMPANIES MENTIONED

Baxter (BAX: NR)
Mesoblast (MBLTY: NR)
Teva (TEVA: NR)

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