

## Cytori Therapeutics (CYTX - \$ 2.32)

### BARDA Decision is a Major Positive Development

Yesterday, CYTX reported that BARDA indicated that the agency intended to exercise option 1 of the contract for the development of treatment for thermal burns combined with radiation injury by CYTX.

- Details.** Yesterday, CYTX reported to receive preliminary written notice from BARDA that the agency intended to exercise option 1 of the contract for Cytori to further develop the Celution as potential treatment for thermal burns combined with radiation injury. The contract could extend to September 2016. Two parties are in negotiations on the specifics of the contract and details could be available in several weeks, possibly in August. We estimate option 1 of the contract could worth up to \$32.6MM.
- Implications.** We view the success in receiving option 1 funding to further advance Celution System development in thermal burns combined with radiation injury is a major positive for CYTX shareholders. As such, in our opinion, the two solid value drivers (Phase II in refractory heart failure studies and BARDA development), now have sufficient financial backing to complete critical clinical development and present potential major catalysts to enhance shareholder value. CYTX earlier indicated that option 1 is the major focus of BARDA's decision and we believe potential of option 3 funding (~\$23.4MM) is still in place. Going forward, we anticipate reports of more detailed information regarding the BARDA option 1 contract as near term catalyst. Investors, in our view, will increasingly focus more on the advancement of Celution in no-option chronic myocardial ischemia Phase II developments (ATHENA), which include 1) potential patient recruitment completion in 4Q14; and 2) potential top-line results release in mid-15 or 3Q15. Another point of focus includes continued advancement of the ATHENA II study with top-line results available possibly in 2H15. In addition, additional commercial (especially from Japan) and clinical developments of Celution as well as potential approval and subsequent commercialization in China possibly start in late 2014 also are catalysts for CYTX shareholders.
- Action.** We have tweaked our financial projection with 2Q - 4Q14 net losses to (\$0.15), (\$0.10) and (\$0.06) from (\$0.09), (\$0.09) and (\$0.04), respectively. 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 for ADRCs in no option CMI.

*Healthcare/Biotechnology*

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

#### Trading Data:

Last Price (07/07/2014)	\$ 2.32
52-Week High (11/5/2013)	\$ 3.93
52-Week Low (11/1/2013)	\$ 2.00
Market Cap. (MM)	\$ 184
Shares Out. (MM)	80

#### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-14E</b>	-0.14A	-0.15	-0.10	-0.06	-0.45	NM
<b>FY-13A</b>	-0.11	-0.05	-0.08	-0.14	-0.39	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

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Source: Company data & 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 recruitment of the ATHENA clinical study	4Q14
		Potential releases data of ATHENA clinical study	Mid- to 3Q15
		Potential completion of patient recruitment 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 report details of contract from BARDA	3Q14
	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.

## Major Risks

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**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 perspective 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.

**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.

Figure 1: Income Statement

<b>Cytori Therapeutics, Inc. – Income Statement</b>								
(‘000 \$)	2012	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Sales to related party	9							
Sales to third parties	8,708	7,122	1,031	2,214	1,838	8,676	13,760	18,575
<b>Product revenues</b>	<b>8,709</b>	<b>7,122</b>	<b>1,031</b>	<b>2,214</b>	<b>1,838</b>	<b>8,676</b>	<b>13,760</b>	<b>18,575</b>
BARDA revenue	360	3,257	403	359	3,622	3,622	8,006	14,489
Development, related party	2,882	638	-	-	-	-	0	0
Development	2,529	1,179	-	-	-	-	0	0
Research grant and other	21	0	-	-	-	-	0	0
<b>Development revenues</b>	<b>5,792</b>	<b>5,074</b>	<b>403</b>	<b>359</b>	<b>3,622</b>	<b>3,622</b>	<b>8,006</b>	<b>14,489</b>
<b>Total Revenue</b>	<b>14,501</b>	<b>12,196</b>	<b>1,434</b>	<b>2,573</b>	<b>5,460</b>	<b>12,298</b>	<b>21,766</b>	<b>33,064</b>
Cost of product revenues	4,000	3,421	421	908	754	3,557	5,640	7,616
Gross profit	4,709	3,701	610	1,307	1,084	5,119	8,120	10,959
Research and development	13,628	17,065	4,292	5,794	5,910	6,028	22,025	28,632
Sales and marketing	9,488	9,026	1,928	1,967	1,996	2,076	7,967	8,365
General and administrative	15,672	16,031	4,340	3,575	3,504	3,521	14,941	15,837
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
<b>Operating expense</b>	<b>38,919</b>	<b>39,454</b>	<b>10,560</b>	<b>11,336</b>	<b>11,410</b>	<b>11,626</b>	<b>44,932</b>	<b>52,834</b>
<b>Operating income</b>	<b>(28,418)</b>	<b>(30,679)</b>	<b>(9,547)</b>	<b>(9,671)</b>	<b>(6,703)</b>	<b>(2,885)</b>	<b>(28,805)</b>	<b>(27,386)</b>
Interest income	4	4	2	1	1	1	5	5
Interest expense	(3,386)	(3,396)	(941)	(1,094)	(1,094)	(1,094)	(4,223)	(4,265)
Other income (expense), net	(314)	(438)	86	(300)	250	(250)	(214)	(214)
Gain on Puregraft divestiture		4,453	-	-	-	-	0	0
Equity loss from investment in joint venture	(165)	4,844	0	0	-	-	0	0
Total other income (expense)	(3,861)	4,502	(853)	(1,393)	(843)	(1,343)	(4,432)	(4,474)
<b>Income (loss) before taxes</b>	<b>(32,279)</b>	<b>(26,177)</b>	<b>(10,400)</b>	<b>(11,064)</b>	<b>(7,546)</b>	<b>(4,228)</b>	<b>(33,237)</b>	<b>(31,860)</b>
Income tax expense	-	-	-	-	-	-	-	-
<b>Net income</b>	<b>(32,279)</b>	<b>(26,177)</b>	<b>(10,400)</b>	<b>(11,064)</b>	<b>(7,546)</b>	<b>(4,228)</b>	<b>(33,237)</b>	<b>(31,860)</b>
<b>Net income attributable to common shareholders</b>	<b>(\$32,279)</b>	<b>(\$25,921)</b>	<b>(\$10,450)</b>	<b>(\$11,064)</b>	<b>(\$7,546)</b>	<b>(\$4,228)</b>	<b>(\$33,237)</b>	<b>(\$31,860)</b>
Net Earnings (Losses) Per Share—Basic	(\$0.55)	(\$0.39)	(\$0.14)	(\$0.15)	(\$0.10)	(\$0.06)	(\$0.45)	(\$0.40)
Net Earnings (Losses) Per Share—Diluted	(\$0.55)	(\$0.39)	(\$0.14)	(\$0.15)	(\$0.10)	(\$0.06)	(\$0.45)	(\$0.40)
Shares outstanding—basic	58,614	67,781	74,102	74,202	74,302	74,402	74,252	79,252
Shares outstanding—diluted	58,614	67,781	74,102	74,202	74,302	74,402	74,252	79,252
<b>Margin Analysis (% of Sales/Revenue)</b>								
COGS	46%	48%	41%	41%	41%	41%	42%	41%
R&D	94%	140%	299%	225%	108%	49%	101%	87%
S&M	109%	127%	134%	76%	37%	17%	58%	45%
G&A	108%	131%	303%	139%	64%	29%	69%	48%
Operating Income (loss)	-196%	-252%	-666%	-376%	-123%	-23%	-132%	-83%
Pretax	-223%	-215%	-725%	-430%	-138%	-34%	-153%	-96%
Tax Rate	NA	NA	NA	NA	NA	NA	NA	NA
Net Income	-223%	-215%	-725%	-430%	-138%	-34%	-153%	-96%
<b>Financial Indicator Growth Analysis (YoY%)</b>								
Product revenues	9%	-18%	-26%	57%	14%	221%	93%	35%
BARDA revenue	N.A.	805%	-27%	-58%	231%	380%	146%	81%
Total Revenue	45%	-16%	-80%	-82%	45%	442%	78%	52%
Cost of goods sold	4%	-14%	N.A.	-77%	24%	216%	65%	35%
R&D expenses	25%	25%	15%	40%	43%	19%	29%	30%
Sales and marketing	-30%	-5%	-15%	-18%	12%	-19%	-12%	5%
G&A	6%	2%	13%	-12%	-19%	-8%	-7%	6%
Operating expense	9%	1%	8%	41%	11%	2%	14%	18%
Operating Incomes (Losses)	-3%	8%	42%	52%	-21%	-68%	-6%	-5%
Pretax Income	-1%	-19%	36%	245%	44%	-58%	27%	-4%
Net Income	-1%	-19%	36%	245%	44%	-58%	27%	-4%
EPS - Basic	-9%	-29%	23%	220%	27%	-59%	14%	-10%
EPS - Diluted	-9%	-29%	23%	220%	27%	-59%	14%	-10%
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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

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			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.	94.12%	35.29%	11.76%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	5.88%	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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