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Zacks Small-Cap Research

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CytoSorbents Corporation (CTSO-NASDAQ)

CTSO: Q4 / FY 2018 Preannouncement: Record Product Sales in Q4, Jumps 51% in 2018

Based on our 10-year DCF model, which uses a 10% discount rate and a 2% terminal growth rate, the shares are valued at approximately \$15.

OUTLOOK

CytoSorbents preannounced expected product and total revenue for Q4 and fiscal 2018. For the quarter, product sales are anticipated to come in at \$5.4M, implying growth of 26% yoy and about 6% from Q3. While this is slightly below our \$5.5M estimate, product sales still managed to set a new record high, beating the prior best by about 3%. For the full year, product sales are up 51% (from \$13.4M in 2017) to \$20.2M. Meanwhile, total sales expanded 27% yoy and ~3% from the prior quarter. For the full year, total sales increased 47% (from \$15.2M in 2013) to \$22.3M.

Enrollment of REFRESH 2-AKI and REMOVE clinical studies continues and should further accelerate now with the (slow) holiday season over.

Reiterating \$15/share price target.

Current Price (01/07/19) \$8.61
Valuation \$15.00

SUMMARY DATA

52-Week High \$14.95
52-Week Low \$6.60
One-Year Return (%) 14.18
Beta 0.92
Average Daily Volume (sh) 203,714

Shares Outstanding (mil) 32
Market Capitalization (\$mil) \$271
Short Interest Ratio (days) N/A
Institutional Ownership (%) 26
Insider Ownership (%) 7

Annual Cash Dividend \$0.00
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates
Sales (%) 55.4
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS N/A
P/E using 2018 Estimate N/A
P/E using 2019 Estimate N/A

Zacks Rank N/A

Risk Level

Type of Stock
Industry

Above Avg.,
Small-Growth
Med Products

ZACKS ESTIMATES

Revenue (in '000 of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	3114 A	3566 A	3824 A	4647 A	15151 A
2018	4925 A	5755 A	5743 A	5889 E	22311 E
2019					32586 E
2020					44780 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-0.05 A	-0.04 A	-0.07 A	-0.11 A	-0.32 A
2018	-0.10 A	-0.19 A	-0.10 A	-0.12 E	-0.51 E
2019					-0.35 E
2020					-0.12 E

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

Q4 / FY 2018 Preannouncement: Record Product Sales in Q4, Jumps 51% in 2018...

CytoSorbents preannounced expected product and total revenue for Q4 and fiscal 2018. For the quarter, product sales are anticipated to come in at \$5.4M, implying growth of 26% yoy and up about 6% from Q3. This would also be a new record high, ahead of the prior best by about 3%. And while this is slightly below our \$5.5M estimate, the difference is immaterial and has no effect on our forecasted EPS and little-to-no effect on modeled revenue in our out-years. For the full year, product sales are up 51% (from \$13.4M in 2017) to \$20.2M. Meanwhile, total sales expanded 27% yoy and ~3% from the prior quarter. For the full year, total sales increased 47% (from \$15.2M in 2013) to \$22.3M.

The press release notes that product margin will be “in excess of 72%” for the year – which may imply Q4 product margin might be a hair lower than the average of the first nine months of the year. Nonetheless, management is now guiding for product margin to reach 80% on a quarterly basis during 2019 – which is undoubtedly tied to the new and more efficient manufacturing facility, as well potentially from economies of scale from higher production volumes.

We have made incremental tweaks to our model to reflect the updated numbers. We also note that CTSO mentions that they recently implemented an “aggressive growth strategy” to drive growth in 2019 and beyond, implying that operating expenses may increase from previously anticipated levels. We have also incorporated these assumptions into our model.

In terms of operational progress...

REFRESH 2-AKI is expected to have enrolled 39 patients by the end of this week, up from 20 in early November and 24 at the end of December (the relative lull in enrollment through December likely reflects holiday slowdown). It appears that a number of new sites also recently came online, which should further catalyze the pace of enrollment, which had averaged ~2 patients per site per month but fell closer to 1 patient per site per month during the holidays. While 14 sites had been activated as of early November, 19 sites are now actively recruiting. We continue to estimate that full enrollment could realistically happen by mid-2020.

REMOVE, the Germany-based infective endocarditis study, has 87 patients enrolled, up from 62 in early November. CTSO notes that interim analysis of the first 50 patients is scheduled for this month.

Valuation

We are reiterating our \$15/share price target.

FINANCIAL MODEL

CytoSorbents Inc.

	2017 A	Q1A	Q2A	Q3A	Q4E	2018 E	2019 E	2020 E
CytoSorb Sales	\$13,381.9	\$4,433.3	\$5,245.6	\$5,102.7	\$5,396.0	\$20,177.6	\$30,390.0	\$43,006.8
y-o-y growth	63.1%	70.8%	72.5%	48.0%	25.6%	50.8%	50.6%	41.5%
Total Royalties/Grants/Other	\$1,769.7	\$491.4	\$509.9	\$640.2	\$493.0	\$2,133.6	\$2,196.0	\$1,773.0
y-o-y growth	33.9%	-5.0%	-2.9%	70.4%	40.6%	20.6%	2.9%	-19.3%
Revenue	\$15,150.8	\$4,924.7	\$5,755.4	\$5,743.0	\$5,889.0	\$22,311.2	\$32,586.0	\$44,779.8
YOY Growth	59.0%	58.2%	61.4%	50.2%	26.7%	47.3%	46.1%	37.4%
Cost of Goods Sold	\$5,518.4	\$1,567.6	\$1,785.9	\$2,052.7	\$2,100.7	\$7,506.9	\$9,464.1	\$10,108.4
Gross Income	\$9,632.4	\$3,357.0	\$3,969.6	\$3,690.3	\$3,788.3	\$14,804.2	\$23,121.9	\$34,671.4
Gross Margin	63.6%	68.2%	69.0%	64.3%	64.3%	66.4%	71.0%	77.4%
SG&A	\$15,558.7	\$4,677.9	\$6,581.7	\$4,457.5	\$4,866.5	\$20,583.5	\$25,193.3	\$28,986.6
SG&A % of Prod Sales	116.3%	105.5%	125.5%	87.4%	90.2%	87.1%	82.9%	67.4%
R&D	\$3,916.3	\$1,780.3	\$1,575.8	\$1,943.4	\$2,621.0	\$7,920.5	\$8,448.0	\$8,689.0
R&D % Tot Sales	25.8%	36.2%	27.4%	33.8%	44.5%	35.5%	25.9%	19.4%
Operating Income	(\$9,842.6)	(\$3,101.2)	(\$4,187.9)	(\$2,710.6)	(\$3,699.2)	(\$13,699.8)	(\$10,519.4)	(\$3,004.2)
Operating Margin	-	-	-	-	-	-	-	-
Total Other Expense	(\$705.1)	(\$119.1)	\$1,633.3	\$294.1	\$220.6	\$2,028.9	\$1,506.2	\$1,318.6
Pre-Tax Income	(\$9,137.5)	(\$2,982.0)	(\$5,821.2)	(\$3,004.8)	(\$3,919.8)	(\$15,728.7)	(\$12,025.6)	(\$4,322.7)
Taxes (benefit)	(\$676.7)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Tax Rate	7.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred/Othr Dividend	\$335.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	(\$8,796.5)	(\$2,982.0)	(\$5,821.2)	(\$3,004.8)	(\$3,919.8)	(\$15,728.7)	(\$12,025.6)	(\$4,322.7)
Net Margin	-58.1%	-60.6%	-101.1%	-52.3%	-66.6%	-70.5%	-36.9%	-9.7%
EPS	(\$0.32)	(\$0.10)	(\$0.19)	(\$0.10)	(\$0.12)	(\$0.51)	(\$0.35)	(\$0.12)
YOY Growth		-	-	-	-			
Diluted Shares O/S	27,614	29,351	30,302	31,306	31,850	30,702	34,000	35,000

Brian Marckx, CFA

HISTORICAL STOCK PRICE



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