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CytoSorbents Corporation (NASDAQ/CTSO)

November 4, 2022

BUY: Keep Your Eye on the Ball- The Story was Never About this Quarter

CytoSorbents reports 3Q22 results. Revenues fell to \$8.1M versus \$8.5M in the prior period. Covid related delays continue to plague the system. The net result was a loss of \$12M in the period. The Company closed third quarter with \$24.4M in cash on the balance sheet. Management is prioritizing the U.S. STAR-T study (which has now enrolled 125 patients). Our positive outlook is based on what we believe are the long-term prospects for principally CytoSorb in the U.S.

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Investment Highlights

Revenues: Total revenues were approximately \$8.1 million, down slightly from the prior period. Product sales were \$6.5 million, down from \$7.3M in the prior period. Foreign exchange had an impact in the quarter. The decrease in the average exchange rate of the Euro to the U.S. dollar negatively impacted 2022 product sales by approximately \$.7 million. The Company stated that direct sales declined by roughly \$1.4M, resulting primarily from lower sales in Germany due to COVID-19 pandemic-driven market conditions and unfavorable currency conversions. Although improved, continued staffing shortages, reduction in ICU bed capacity, decreased elective surgical procedures, hospital budgets, and hospital restrictions which at some hospitals continue to limit our access to hospital personnel, continue to impact the hospital market.

The Company presented its operations strategy very clearly:

1. Prioritize completion of the U.S. STAR-T Trial.
2. Pause the U.S. STAR-D Trial.
3. Restore sales growth and product gross margins.
4. Strengthen our cash balance with debt.
5. Control Expenses.

We believe this is the right plan as the Company drives its U.S. clinical program forward.

Valuation. We use a series of therapeutic models across the various indications and geographies and project product revenues for the Company out to the year 2030. In our U.S. therapeutic models, we apply a 30% risk cut (70% success probability) that both U.S. approvals and our market share forecasts can be realized. For us, valuation becomes an interesting question when we discuss the appropriate "r" risk-rate to use in our three-model metrics, free cash flow to the Firm (FCFF), Discounted EPS, and Sum-Of-The-Parts (SOP) models, which are equal-weighted, averaged, and rounded to the nearest whole number. Typically for early-stage companies with no revenues, we use 30%, and for companies with established products and revenues, we use a lower 15%. CytoSorbents arguably is somewhere in the middle, as products are approved and selling in Europe but not yet in the U.S. If we select a conservative 30%, we derive a \$9.00 price target. If we choose a more aggressive 15%, we arrive at a \$26.00 target. We select 25% to balance risk versus reward to derive a \$16.00 target.

Risks to our price target include: market, regulatory, financial, and commercialization risks.

Current Price **\$1.95**
Price Target **\$16.00**



Source: Cytosorbents

Stock Data			
52-Week Range	\$1.18	-	\$6.64
Shares Outstanding (mil.)	43.6		
Market Capitalization (mil.)	\$85		
Enterprise Value (mil.)	\$65		
Debt to Capital	0%		
Book Value/Share	\$0.35		
Price/Book	2.9		
Average Three Months Trading Volume (K)	367		
Insider Ownership	12.3%		
Institutional Ownership	38.4%		
Short interest (mil.)	1.2%		
Dividend / Yield	\$0.00/0.0%		

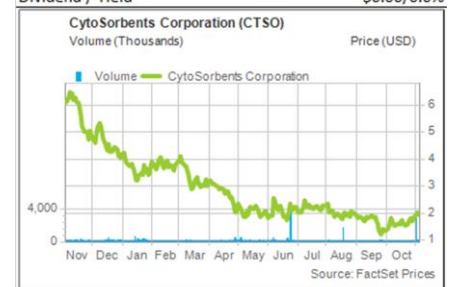


Exhibit 1. Income Statement

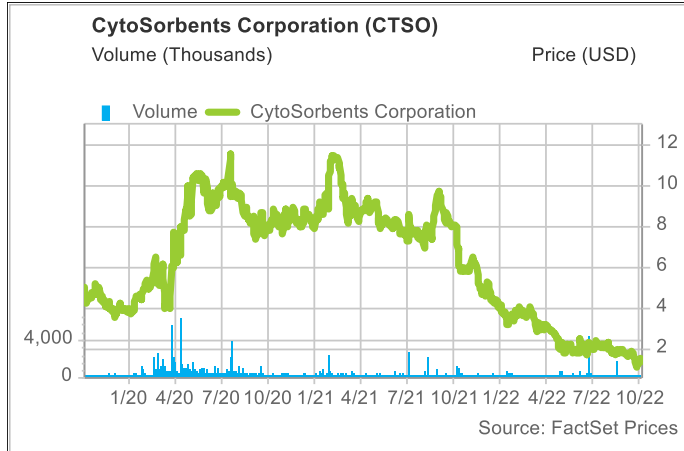
CTSO.: Income Statement (\$000)																
YE December 31	2019A	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue:																
CytoSorb Direct Sales (Germany, Austria, Switzerland)	22,766	25,607	29,354	6,066	5,489	5,218	7,606	28,172	31,046	42,620	49,732	58,030	67,713	79,013	92,198	92,198
CytoSorb Distributor (Rest of EU)		10,240	10,498	1,800	1,500	1,200	3,096	11,468	13,649	15,878	18,472	21,490	25,001	29,085	33,837	33,837
CytoSorb (Cardiac surgery EU)		3,420							11,604	14,022	16,474	16,589	16,705	16,822	16,940	16,940
CytoSorb (Cardiac surgery US)		-	-	-	-	-	-	-	-	21,899	27,593	66,755	67,290	67,829	68,373	68,373
CytoSorb (other US)		-	-	-	-	-	-	-	-	38,459	78,231	190,960	283,238	395,071	602,722	602,722
VetResQ		185	194	58	49	45	55	204		225	236					
Other Sales					293	191										
Total Product Sales	22,766	39,452	40,047	7,924	7,331	6,463	10,758	39,844	56,513	133,103	190,738	353,824	459,947	587,820	814,070	814,070
Royalty (HemoDefend US)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grant revenue	2,184	1,552	3,062	767	1,164	1,649	-	3,580	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	24,950	41,004	43,109	8,691	8,495	8,111	10,758	43,423	56,513	133,103	190,738	353,824	459,947	587,820	814,070	814,070
Expenses:																
Costs of Goods Sold	7,364	11,052	11,047	2,278	3,551	4,494	4,841	15,164	11,303	26,621	38,148	70,765	91,989	117,564	162,814	162,814
	%COGS	25%	28%	32%	20%	48%	55%	45%	20%	20%	20%	20%	20%	20%	20%	20%
Research and Development	12,092	8,810	16,380	4,243	4,183	3,290	4,865	18,018	19,820	21,802	23,982	26,381	29,019	31,920	35,113	38,624
	%R&D	53%	22%	41%	54%	57%	51%	45%	35%	16%	13%	7%	6%	5%	4%	5%
Selling, General and Administrative	22,006	28,463	35,749	9,161	8,439	8,735	10,618	39,324	40,111	40,913	41,731	42,566	43,417	44,285	45,171	46,075
	%SG&A	97%	72%	89%	116%	115%	135%	99%	71%	31%	22%	12%	9%	8%	6%	6%
Legal, financial and other counseling	2,462	3,048	2,731	801	679	610	737	2,731	2,731	2,731	2,731	2,731	2,731	2,731	2,731	2,731
Total Expenses	43,924	51,373	65,907	16,483	16,852	17,129	21,061	75,237	73,964	92,066	106,592	142,442	167,156	196,501	245,828	250,243
Operating Income (Loss)	(18,974)	(10,369)	(22,799)	(7,792)	(8,357)	(9,017)	(10,303)	(31,813)	(17,451)	41,037	84,147	211,383	292,791	391,320	568,242	563,827
Interest income (expense), net				8	24	47										
Gain (loss) on foreign currency transactions	(1,384)	(1,201)	2	30	(2,523)	(3,230)										
Change in warrant liability		2,607	(2,569)													
Other income (expense), net				(1,213)	(23)	(0)										
Total Other Income	(1,384)	1,406	(2,567)	(1,175)	(2,522)	(3,184)	-	-	-	-	-	-	-	-	-	-
Pretax Income	(20,358)	(8,964)	(25,366)	(8,967)	(10,880)	(12,201)	(10,303)	(31,813)	(17,451)	41,037	84,147	211,383	292,791	391,320	568,242	563,827
Income Tax Benefit (Provision)	1,092	1,127	(2,537)							7,387	17,671	50,732	81,982	129,136	187,520	186,063
Tax Rate	5%	8%	10%	12%	12%	12%	12%	12%	15%	18%	21%	24%	28%	33%	33%	33%
GAAP Net Income (Loss)	(19,266)	(7,837)	(22,829)	(8,967)	(10,880)	(12,201)	(10,303)	(31,813)	(17,451)	33,650	66,476	160,651	210,810	262,184	380,722	377,764
GAAP-EPS	(0.62)	(0.20)	(0.57)	(0.21)	(0.25)	(0.28)	(0.24)	(0.73)	(0.40)	0.77	1.51	3.63	4.74	5.87	8.49	8.39
GAAP-EPS (Dil)	(0.60)	(0.20)	(0.53)	(0.21)	(0.25)	(0.28)	(0.24)	(0.73)	(0.40)	0.77	1.51	3.63	4.74	5.87	8.49	8.39
Wgtd Avg Shrs (Bas) - '000s	32,253	38,819	43,358	43,488	43,560	43,607	43,651	43,576	43,760	43,935	44,111	44,288	44,465	44,643	44,822	45,002
Wgtd Avg Shrs (Dil) - '000s	32,253	38,819	43,358	43,488	43,560	43,607	43,651	43,576	43,760	43,935	44,111	44,288	44,465	44,643	44,822	45,002

Source: Company reports and Dawson James

Source: Dawson James estimates and company reports

Important Disclosures:

Price Chart:



Price target and rating changes over the past three years:

- Initiated – Buy – July 11, 2019 – Price Target \$15.00
- Update – Buy – August 12, 2019 – Price Target \$15.00
- Update – Buy – August 15, 2019 – Price Target \$15.00
- Update – Buy – August 19, 2019 – Price Target \$15.00
- Update – Buy – November 6, 2019 – Price Target \$15.00
- Update – Buy – February 19, 2020 – Price Target \$15.00
- Price Target Increase – Buy – March 9, 2020 – Price Target \$17.00
- Update – Buy – March 25, 2020 – Price Target \$17.00
- Update – Buy – April 13, 2020 – Price Target \$17.00
- Update – Buy – May 6, 2020 – Price Target \$17.00
- Update – Buy – June 9, 2020 – Price Target \$17.00
- Update – Buy – July 31, 2020 – Price Target \$15.00
- Update – Buy – August 12, 2020 – Price Target \$16.00
- Update – Buy – September 16, 2020 – Price Target \$16.00
- Update – Buy – October 14, 2020 – Price Target \$16.00
- Update – Buy – November 5, 2020 – Price Target \$16.00
- Update – Buy – December 2, 2020 – Price Target \$16.00
- Update – Buy – January 12, 2021 – Price Target \$16.00
- Update – Buy – January 19, 2021 – Price Target \$16.00
- Update – Buy – April 20, 2021 – Price Target \$16.00
- Update – Buy – May 6, 2021 – Price Target \$16.00
- Update – Buy – July 6, 2021 – Price Target \$16.00
- Update – Buy – September 1, 2021 – Price Target \$16.00
- Update – Buy – October 15, 2021 – Price Target \$16.00
- Update – Buy – November 9, 2021 – Price Target \$16.00
- Update – Buy – November 22, 2021 – Price Target \$16.00
- Update – Buy – January 18, 2022 – Price Target \$16.00
- Update – Buy – March 9, 2022 – Price Target \$16.00
- Update – Buy – April 29, 2022 – Price Target \$16.00
- Update – Buy – May 4, 2022 – Price Target \$16.00
- Update – Buy – August 3, 2022 – Price Target \$16.00
- Update – Buy – August 17, 2022 – Price Target \$16.00
- Update – Buy – October 6, 2022 – Price Target \$16.00
- Update – Buy – November 4, 2022 – Price Target \$16.00

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- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 28-Oct-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	24	80%	3	13%
Market Perform (Neutral)	5	17%	1	20%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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