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Cryoport, Inc.

First Quarter 2019 Earnings Call

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CORPORATE PARTICIPANTS

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Jerrell Shelton, *Chief Executive Officer*

Robert Stefanovich, *Chief Financial Officer*

Mark Sawicki, *Chief Commercial Officer*

CONFERENCE CALL PARTICIPANTS

Andrew D'Silva, *B Riley FBR*

Paul Knight, *Janney Montgomery*

Brendon Couillard, *Jefferies*

Richard Baldry, *Roth Capital*

PRESENTATION

Operator:

Thank you for standing by. This is the conference Operator. Welcome to the Cryoport First Quarter 2019 Earnings Call. As a reminder, all participants are in a listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press the star, and then one on your telephone keypad. Should you need assistance during the conference, you may signal for an Operator by pressing star, then zero. I would now like to hand the conference over to Mr. Todd Fromer; please go ahead.

Todd Fromer:

Thank you, Operator. Good evening, everyone, and good afternoon to everyone on the West Coast.

Before we begin today, I would like to remind everyone that this conference call contains certain forward-looking statements. All statements that address our operating performance, events or developments that we expect or anticipate occurring in the future, are forward-looking statements. These forward-looking statements are based on Management's beliefs and assumptions and not on information currently available to our Management team. Our Management team believes these forward-looking statements are reasonable as and when made. However, you should not place undue reliance on any such forward-looking statements because such statements speak only as of the date when made; we do not undertake

any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results, events and developments to differ materially from our historical experiences and our present expectations or projections. These risks and uncertainties include but are not limited to those described in item 1A, risk factors, and elsewhere in our annual report on Form 10-K filed with the Securities and Exchange Commission, and those described from time to time in other reports which we file with the Securities and Exchange Commission.

With nothing further, I would now like to turn the call over to Mr. Jerrell Shelton, Chief Executive Officer of Cryoport. Jerry, the floor is yours.

Jerrell Shelton:

Thank you, Todd, and thank you, ladies and gentlemen, for joining us this afternoon. With me this afternoon is our Chief Financial Officer, Mr. Robert Stefanovich, and our Chief Commercial Officer, Dr. Mark Sawicki.

As a reminder, as of last quarter, we changed the format of these earnings calls. Instead of delivering prepared remarks, we have uploaded our first quarter 2019 in Review document to the events and presentation page of our Investor Relations website. This document provides a review of our recent financial and operational performance and a general business outlook. If you have not had a chance to read it, I would encourage you to go to our website and download it.

On this conference call, I will provide a brief general update and then we will move into questions and answers, where we will address queries from our shareholders and analysts regarding our Company's results.

For an overview of our first quarter 2019, revenue increased 65% to $6.7 million as compared to the same period in 2018. This growth was primarily driven by another strong quarter in the biopharma market, where we reported $5.6 million in revenue, a 72% increase over the same period in the prior year. Notably, $1.4 million of the quarter revenue was derived from commercial agreements with Novartis and Gilead, representing a 374% increase in commercial revenue compared with the same quarter in the prior year. Revenue from our commercial agreements is now 25% of total biopharma revenue.

During the quarter, we continued to add the number of clinical stage therapies we support. A net addition of 26 new clinical trials were added in the first quarter, bringing the total number of trials we now support to 383, which includes 45 in the EMEA region; 49 of these trials are in Phase 3 in total.

Our progress is reflective of the broader growth in the global regenerative medicine market as it continues its climb.

We're pleased to report that the openings of our two new logistics centers, located in Amsterdam, the Netherlands, and Livingston, New Jersey, have been successful. As we scale the support with our existing clients, both these and clinical and commercial stages, and onboard new clients, the short-term gross margin impact of these (inaudible) operations will decrease.

Our gross margin target remains at 60%.

Today, Gilead, just after the market closed, reported that Yescarta generated $96 million in revenue during the first quarter of 2019, compared to $40 million for the same period in 2018.

Our balance sheet is strong, with a $47 million in cash and cash equivalents reported at the end of the first quarter. As I have mentioned on previous calls, a strong cash position is important to us for several reasons. First, it provides our clients with confidence in our stability in future, and secondly, it provides us with financial flexibility to meet the increasingly complex and diverse requirements of the regenerative medicine market, including potential acquisition activity that has the ability to expand our range of solutions in a meaningful way.

We're pleased to turn in another strong quarter, and we look forward to continuing to build our Company and further enhancing our incomparable supply chain services to the rapidly growing and evolving life sciences industry; we look forward to answering your questions.

Now, I'll return the call to the Operator to open the floor for questions. Operator?

Operator:

Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up the handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

Your first question comes from Andrew D'Silva from B. Riley FBR. Please go ahead.

Andrew D'Silva:

Hi, thank you very much, good afternoon, just a couple quick questions on my end. Very comprehensive report, thanks for putting that out so early in the day.

You touched on M&A as being a potential way to fill in some voids. I was just curious if you could give us a little bit of detail, what you're missing or what you could be looking for as we kind of think about the broader landscape.

Then actually, before you do that, if somebody could also just, while he's answering that question, pull a cash flow from operations item, just stock-based comp was there, but I was missing cap ex and free cash flow information.

Jerrell Shelton:

Those are good questions, Andy, thank you very much.

The M&A we've addressed consistently each quarter and I wouldn't say anything this quarter any differently than we've said. We will—we are looking methodically and carefully at acquisition candidates, and potential candidates, and those candidates would be to have either deepened our solutions or in adjacencies. The natural adjacencies would be in things like storage and other forms of software. That's our M&A activity, we do have a pipeline, and we are vigorously looking into the marketplace. But as you know there's got to be a seller as well as a buyer, so acquisitions generally are opportunistic and we are pursuing that avenue.

As far as the second question in terms of cash flow and expenses, I'm going to turn that to Robert Stefanovich for your answer.

Robert Stefanovich:

Yes, just a couple of data points, and actually we'll be filing our 10-Q next Wednesday on May 8 as well.

We had about cap ex about $1.1 million for the quarter. We've got net cash used in operating activities about $0.2 million. Total financing activities, about $1.3 million, and that's really cash received from the exercise of warrants, primarily, and then you look at overall net cash used in investing activities about $4.6 million, that's really just us investing the cash that we have, we have about $15 million in short-term investments, and total cash balance of $47.3 million.

Andrew D'Silva:

I was trying to translate some of that off the balance sheet, tied into the P&L and everything. But it looks like your cash burn's actually better than we were expecting at this point. Are you guys where you would expect to be, or are you missing some additional overhead cost that we should expect to layer in or is this kind of the real rate we should anticipate?

Robert Stefanovich:

You look at what we did over 2018 and we talked about that in building out the infrastructure, building up quality systems, and also the costs related to setting up the new global logistics centers in Amsterdam and in New Jersey. A lot of that has happened in 2018. You look at kind of going forward in 2019, I'd expect to really see that more flatten out. Certainly we'll make investments as we go but I would expect it to be somewhat flat.

Andrew D'Silva:

Okay. Okay, good. On the commercial partner front, you gave a little bit of color on there. Is there maybe a benchmark or a way to help us think about how many commercial partners you would anticipate having by the end of this year, at least help us kind of set a baseline expectation for how to model going into 2020 and 2021?

Jerrell Shelton:

I'm going to turn that to Mark Sawicki for your answer.

Mark Sawicki:

Just to clarity, you're referring to actual commercialized on market, or filed?

Andrew D'Silva:

On market.

Mark Sawicki:

On market. I think on market, you may have one, maybe. I mean, it depends on timing. Filed is a couple more than that, I would say.

Andrew D'Silva:

Okay. Okay, good. Just a last question on my end is just related to new partners; obviously you brought on Amgen and Celularity and a handful of others this quarter. Is there additional—what is your target right now? I mean, it seems like you have a pretty good footprint around all the major players; is there much more work that needs to be done on that side, or is it just really growing within the market or the partners you already established relationships with?

Mark Sawicki:

To be frank, it's both. I mean, we're always trying to capture as much share as we can in the marketplace, I mean, we think that we're in a very good position from a clinical trial acquisition standpoint, but we're not going to rest on our laurels. We're going to continue to try to drive that number up as quickly and as aggressively as we can, and concurrently try to obviously deepen and broaden the relationships that we already have established to drive per account or per clinical basis revenue up.

Andrew D'Silva:

Okay, great, well, thank you very much. Good luck throughout the rest of this year.

Jerrell Shelton:

Thank you.

Mark Sawicki:

Thank you.

Operator:

Thank you. Your next question comes from Paul Knight from Janney Montgomery. Please go ahead.

Paul Knight:

Hi Jerry. Can you talk about what is driving this commercial? I mean, we see the improved revenue from the sales of these therapeutic lines, of course. Is it they're also accelerating their network? It's obviously exceeding the growth rate of the therapeutics. What's happening in this commercialization channel that you're having to do for them?

Jerrell Shelton:

I want to turn that to Mark to answer, Paul, because he's closer to that than I am.

Mark Sawicki:

I think some of it, if you're talking about the average multiple on a per patient basis, they're diversifying the commercial base of these accounts with additional country launches. Moving material longer distances and into additional countries is more complex and inherently obviously the cost basis would be slightly different than doing it for domestic U.S. distribution. I think that's probably what you're referring to, but clarify with me if that's not the intent you had.

Paul Knight:

Yes. Your growth certainly is even exceeding their revenue ramp, which does seem to be better though.

Mark Sawicki:

Yes, no, I agree. I mean, as I had mentioned before, as these relationships mature, the complexity of the revenue that's generated goes far beyond just strictly per shipment transaction.

Paul Knight:

Then, regarding the clinical trial customer, the Phase 1, 2 3, what are you doing to increase revenue per customer? Are you charging for consulting? What do you do to pick up preclinical per customer revenue? Or are you better at (inaudible) the question?

Mark Sawicki:

Yes, I mean—so, that's absolutely right. I mean, what we're trying to do is we're trying to provide a broader base of support, and so consulting activity is a very good example, program management activity, other things along those lines in addition to obviously the transactional distribution elements of a given clinical trial.

Paul Knight:

Okay. Thank you very much.

Jerrell Shelton:

Thank you, Paul.

Operator:

Thank you. Your next question comes from Brendon Couillard from Jefferies. Please go ahead.

Brendon Couillard:

Thanks, good afternoon.

Jerrell Shelton:

Hi Brendon, how are you?

Brendon Couillard:

Super. Jerry, I'd like to start on the new logistics centers in Livingston and Amsterdam. Could you just sort of elaborate on the revenue pull-through you're seeing at those sites and whether you're really starting to actually pick up incremental business from the key customers at those sites, perhaps with Bristol out in New Jersey? Looking ahead, what are kind of your plans and priorities as far as adding additional logistics sites globally over the next 12 months?

Jerrell Shelton:

Well, broadly, we're in the position now to—that we're actually creating a logistics network, and that network effect is our way of de-risking the process even further. That's what we're all about, we're about de-risking the process and providing certainty to our clients. Now we have five logistics centers and at some point in the future we definitely will add to that. It'll be client-driven, however, and we aren't building things prospectively, we're building them based on demand and based on visibility of our client demand.

As far as the two new logistics centers, they're right on track. Our demand is growing and both of those centers are right on track in terms of the volume increases and the volume uptake, when, in fact, we're looking—we may have to look at expanding our footprint in both those locations at some point in the not too distant future.

Mark Sawicki:

Let me just add to that. The sites definitely are contributing to bringing business in directly in the door from a proximity basis as well.

Brendon Couillard:

Okay, thanks, and then would like to touch on Amgen if we could, just for a moment. Could you sort of speak to the type of ramp you would expect with that customer, how long it takes you to sort of get integrated into the trials? If you could speak to perhaps the number of trials you think you might be involved in with Amgen specifically and then would be curious to know exactly what type of solution they were previously using before your agreement.

Jerrell Shelton:

It's a good question. Mark will answer that question.

Mark Sawicki:

Yes, so, just a couple high-level. Obviously we can't comment on clinical trial strategy for Amgen; you'll have to look at what Amgen's predicting from that perspective. What I can tell you is that we're very confident in this becoming a significant relationship, and I would anticipate within the next 12 months, it'll probably be a top ten account pretty quickly. We're actively supporting all of their cryogenic distribution throughout the entire network, and this is picking up site by site, program by program, and extends beyond just clinical trial support and also extends into their research networks and all their infrastructure related to R&D that may not have anything to do with cell and gene therapy.

Brendon Couillard:

Okay. Super. One more, would like to touch on, if you can, just share with us an update on the C3 shipper and the adoption levels you've kind of seen so far, whether or not it's been a material contributor to revenues yet, and perhaps the number of customers with trials that have adopted that solution so far.

Mark Sawicki:

Yes, so we're definitely seeing adoption. This is the challenge of any new product, is it takes time to get it written into clinical trial protocols and initiated, but we are absolutely seeing it supporting an increasing number of clinical trials and we anticipate that to continue to accelerate significantly.

Brendon Couillard:

All right, thank you.

Jerrell Shelton:

Thank you. Thank you, Brendon.

Operator:

Thank you. Once again, if you have a question, please press star, then one. Your next question comes from Richard Baldry, from Roth Capital. Please go ahead.

Richard Baldry:

Thanks. One of the bigger investment areas in the quarter looked like sales and marketing, which was up about 20% sequentially. You got pretty deep reach into the clinical trial areas. Could you maybe talk to us about where those additional resources are targeting, sort of what you feel we should expect for how fast the new marketing areas can be productive or generate incremental growth over the existing group you've got. Appreciate that. Thanks.

Jerrell Shelton:

Rich, thank you, that's a good question and Robert has an answer for you.

Robert Stefanovich:

Generally, as you know, we have a direct sales force here in the U.S., we also started ramping up the sales force in Europe. We've expanded marketing activities and as part of sales and marketing, we have also the parts of our logistics that are underlying and supporting the efforts, and so we've ramped up the logistic support within that organization as well.

Richard Baldry:

Okay. Great. Thanks.

Jerrell Shelton:

Thank you.

Operator:

Thank you. This concludes the question-and-answer session. I would like to hand the call back for closing remarks.

Jerrell Shelton:

Thank you, Operator. Thank you for your questions and thank you for joining us today. We appreciate the opportunity to report to you, and to have a dialogue.

In closing, I'd like to say we were pleased with the quarter and the position that we occupy today. We're building a strong global logistics network and are uniquely positioned to meet the global demands of our biopharma clients, both in clinical and commercial settings.

It's also important to note that industry commercializations are just beginning, and revenue from our commercial agreements is rapidly ramping, and it is just the beginning.

Our pledge to our long-term shareholders is that we will continue to work diligently to grow our client base across all of our markets, and further build our value to the life sciences industry in a lasting and meaningful way.

Until our best call, I bid you good evening.