

Pressure Biosciences (PBIO-OTCQB)

PBIO: Record revenue reported for 2014, expecting continued revenue growth in 2015 and beyond; valuation very attractive---Buy

OUTLOOK

PBIO is a research products and services provider for the life science industry. We are impressed with and optimistic about the Company's novel, enabling platform technology PCT which has competitive advantages over existing technologies in the sample preparation market. PCT is increasingly gaining recognition by research labs.

PBIO just reported record revenue for fiscal 2014, and we expect to see continued revenue growth in 2015 and beyond.

We continue to be bullish on PBIO shares.

Current Recommendation	Buy
Prior Recommendation	Neutral
Date of Last Change	11/15/2012
Current Price (04/01/15)	\$0.32
Twelve- Month Target Price	\$3.00

SUMMARY DATA

52-Week High	\$0.64
52-Week Low	\$0.19
One-Year Return (%)	-45.76
Beta	1.32
Average Daily Volume (sh)	45,504

Shares Outstanding (mil)	16
Market Capitalization (\$mil)	\$5
Short Interest Ratio (days)	3.01
Institutional Ownership (%)	N/A
Insider Ownership (%)	N/A

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

5-Yr. Historical Growth Rates	
Sales (%)	37.0
Earnings Per Share (%)	N/A
Dividend (%)	N/A

P/E using TTM EPS	N/A
P/E using 2011 Estimate	N/A
P/E using 2012 Estimate	N/A

Zacks Rank	N/A
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Risk Level	High,
Type of Stock	Small-Value
Industry	Med Instruments
Zacks Rank in Industry	N/A

ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2014	0.40 A	0.31 A	0.37 A	0.29 A	1.37 A
2015	0.50 E	0.70 E	1.05 E	1.55 E	3.80 E
2016					8.25 E
2017					12.25 E

Earnings per Share

(EPS is operating earnings before non-recurring items)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2014	-\$0.19 A	-\$0.05 A	-\$0.07 A	-\$0.09 A	-\$0.39 A
2015	-\$0.05 E	-\$0.04 E	-\$0.03 E	-\$0.01 E	-\$0.12 E
2016					-\$0.02 E
2017					\$0.07 E

Zacks Projected EPS Growth Rate - Next 5 Years %	N/A
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WHAT'S NEW

- **PBIO reports record products and services revenue for fiscal 2014;**
- ***NIH SBIR Phase II Grant Boosts Balance Sheet in a Non-dilutive Way;***
- ***PBIO Ready to Accelerate Sales Growth in 2015 and beyond;***
- ***First Purchase Order Received For Barozyme HT48 System;***
- ***PBIO introduces PCT-HD, "The Next Generation Protein Preparation System;***
- **We maintain an Buy rating, and raise our PT to \$3.0 per share from previous \$2.50 per share;**

PBIO Reports Record Product/Service Sales for Fiscal Year 2014

Products and services revenue was \$1,350,150 for fiscal 2014, compared to \$1,046,678 for fiscal 2013, an increase of 29%. Products and services revenue for 2014 was lower than our estimate of \$1.58 million, due to 11.5% decrease in sales in 4Q14.

Sales of consumables were \$167,380 for FY2014, compared to \$157,676 for FY2013, an increase of almost 6%.

Grant revenue for fiscal year 2014 was \$24,594 compared to \$456,610 for the 2013 fiscal year.

Total revenue for fiscal 2014 was \$1,374,744, compared to \$1,503,288 for fiscal 2013, an 8.6% decrease. This decrease was primarily due to the loss of \$432,016 in grant revenue in 2014, offset to a significant degree by the \$303,472 increase in products and services revenue.

Operating loss for fiscal 2014 was \$3,338,350, compared to a loss of \$3,327,192 for 2013.

Loss per common share was \$0.44 for 2014 and for 2013.

We are very pleased to see a record products and services sales for fiscal 2014. Products and services revenue increased 29% year over year.

Although total revenue was down for the year in 2014 due to the loss of \$432,016 in grant revenue, PBIO was able to offset the lost margin through continuing increases in products and services revenue combined with strict control of operating costs.

We are especially impressed by the strong sales of consumables in fiscal 2014, which increased 6%. This is important for the long term revenue growth. Consumables are recurring revenue, which should increase when more and more instruments are installed. This revenue may account for a large portion of total revenue in the future.

As of December 31, 2014, PBIO held \$473,948 in cash, compared to \$98,216 in cash as of September 30, 2014.

NIH SBIR Phase II Grant Boosts Balance Sheet in a Non-dilutive Way

On February 19, 2015, PBIO announced that it has been awarded a \$1.02 million SBIR Phase II grant from the National Human Genome Research Institute of the National Institutes of Health.

This grant will help fund the development of an automated, high-throughput, high pressure system (instrument and consumables), to enable significantly better control of DNA fragmentation - a critical step in the preparation of samples for Next Generation Sequencing platforms.

Next Generation Sequencing (NGS) is one of the fastest growing segments in the life sciences arena: it has not only revolutionized the study of genomics and molecular biology, but it offers the promise of enabling significant discoveries and improvements in human healthcare, including the burgeoning field of personalized medicine. The global NGS market is a multi-billion dollar business.

The SBIR grant provides over \$1 million in **non-dilutive funding**, payable over two years, to support the development of a high pressure - based system for the preparation of samples for DNA analysis by NGS methods. Further, the grant **validates** the power and usefulness of the company's patented high pressure technology.

We Expect Continued Revenue Growth in 2015 and Beyond

With a boosted balance sheet, P BIO is initiating expansion of marketing, sales, and operations capabilities in anticipation of continued strong sales growth in 2015.

P BIO has set a series of goals for 2015, which include:

- Achieve measureable progress in completing and implementing a sound roadmap toward financial self-sufficiency and future growth and prosperity.
- Increase products and services sales and/or total revenue over same quarter prior year.
- Complete the Barozyme HT48 commercialization plan Phase II (shipment of systems to evaluation sites) in Q2.
- Continue the Barozyme HT48 commercialization plan Phase III (initial sales of high throughput systems) with increasing numbers of systems sold quarter over quarter.
- Secure a strategic marketing and distribution partner for the Barozyme HT48 high throughput system and for the NMR and EPR PCT-based sample preparation systems.
- Make measurable progress on the possible spin-off of selected PCT applications into new, stand-alone businesses designed to generate a revenue stream and favorable visibility for P BI.
- Implement an expanded marketing campaign for the recently released, patent-pending micro-Pestle consumable.
- Continue to expand our sales and marketing capabilities and our reach into new countries, investigators, and fields-of-use.

Based on these efforts and the strong financial performance for 2014, as well as the two new products launch and continued marketing efforts by management, we estimate that revenue will continue to grow in 2015 and beyond.

Specifically, we model product sales will reach \$3.6 million in fiscal 2015, an increase of 167% over \$1.35 million product sales for fiscal 2014.

We think revenue ramp in 2015 will be driven by sales from both existing and new products (instruments and consumables), from the Company's expanding distribution network, and from grants currently being reviewed.

In 4Q14, P BIO shipped three Barozyme HT48 systems to three laboratories for evaluation, which could lead to purchasing. The bench-top Barozyme HT48 is a first-in-class, high throughput PCT-based instrument. It is capable of processing up to 48 samples simultaneously using the Company's new and proprietary BaroFlex 8-well processing strips. We expect significant sales growth from the HT48 system in 2015.

First Purchase Order Received For Barozyme HT48 System

On February 10, 2015, PBIO announced the receipt of the **first purchase order** for its new Barozyme HT48 High-throughput System. The Company also announced the receipt of a request for a quotation for the possible purchase of a second Barozyme HT48 System from an existing European customer.

In September 2014, PBIO announced plans to build and ship nine Barozyme HT48 High-throughput Systems for independent evaluation. In November and December 2014, the Company installed the first three evaluation systems in three labs. They are the laboratory of Dr. William E. Funk of the Feinberg School of Medicine at Northwestern University, the laboratory of Dr. Radoslav Goldman of Georgetown University, and the laboratory of a leading biotechnology company.

PBIO officially launched its much anticipated High Throughput PCT-based **Barozyme HT48** for the enhanced preparation of proteins for mass spectrometry analysis at the American Society for Mass Spectrometry (ASMS) Annual Conference on Mass Spectrometry and Allied Topics held June 15-19, 2014 in Baltimore, Maryland.

The purchase order for the Barozyme HT48 System came from the leading U.S. biotechnology company. This Company already owns and routinely uses two NEP2320 Barocycler instruments.

PBIO plans to install three more evaluation systems in the coming weeks: one at an academic research facility in MA, one at a cancer research company in CA, and one in a well-known, non-profit research center in Sweden.

According to management, due to the rapid success of the evaluation program, PBIO has decided to end the program early, after six installations and not after the planned nine. This will allow the upgrade of the last three systems with improvements dictated by the evaluation data generated thus far, and to have them ready for sale in the 2015 second quarter.

We believe the Barozyme HT48 System is now ready for a focused marketing and sales effort.

PBIO Announces the Release of PCT-HD, "The Next Generation Protein Preparation System"

On March 12, 2015, PBIO announced the commercial release of the **PCT-HD system**. The Company highlighted PCT-HD at the annual meeting of the US Human Proteomic Organization (US HUPO), being held March 15-18 in Tempe, Arizona.

Key advantages of the PCT-HD System in the application of biomarker discovery were discussed in two separate presentations during the conference.

The PCT-HD System combines two of the Company's unique products: the recently released, patent-pending micro-Pestle consumable with an enhanced Barocycler NEP2320 instrument. This combination enables faster, less cumbersome and higher quality homogenization, extraction, and digestion of proteins.

The introduction of the PCT-HD System to the worldwide proteomics market marks an important milestone for PBIO. In addition to the key advantages of greater speed, easier handling, and increased quality, the PCT-HD System also offers a level of flexibility that will greatly support its adoption and growth across multiple markets, therefore boosting PBIO's top line growth in the coming years.

PBIO Partners with Powertech to Develop China Market

In October 2014, PBIO announced a three-year, exclusive distribution agreement with Powertech Technology Company Ltd.

Based in Xiamen, China, Powertech is one of China's most recognized and prestigious distributors of analytical instruments and other equipment to the biotechnology, pharmaceutical, agricultural, environmental, food safety, and commercial testing laboratory markets. Powertech offers strong distribution and support network of 20 offices/laboratories, over 60 sales/marketing/service/engineering staff, and multiple sub-dealers throughout China. Powertech's current business partners include Dupont, GE Healthcare, Sartorius, Zeiss, and Agilent.

In recent years, China has greatly increased its investment in biotech and pharmaceutical research industry. China will become the largest single country market for PBIO's PCT products outside the US. In the coming quarters, Powertech will introduce the advantages of PCT to its existing customer base, to the overall Chinese life sciences market, and to other markets that can benefit greatly from PCT as well.

We believe the partnership will accelerate revenue growth drastically in the coming quarters.

PBIO Shares are Undervalued, We Raise Our PT to \$3.00 per share

We maintain our **Outperform** rating on PBIO shares and raise our twelve-month price target to \$3.00 per share from previous \$2.50 per share.

PBIO reported 429% increase in products and services revenue in fiscal 2014. We expect continued revenue growth in 2015 and beyond due to three new products launch and continued marketing efforts from management.

In terms of valuation, we think PBIO shares are undervalued based on the Company's fundamentals. Currently, the Company trades around \$0.32 per share with a market cap of \$5.0 million based on 16 million outstanding shares. We believe this deeply undervalues the Company based on the current fundamentals we discussed above. We understand that market discounts the value of the Company because the Company has only limited revenue base and has been losing money since its inception. We also understand that the Company has a relatively weak balance sheet, and further financing will be needed. However, when we look at the Company and the industry in which it operates in detail, we realize that PBIO is a company with huge opportunity and one that can grow its revenue and earnings at a tremendous rate in the next few years.

PBIO operates in the rather large, but underserved research services market. The Company has developed a unique and superior pressure cycling technology (PCT) for the preparation of biological laboratory samples. The Company's PCT platform holds competitive advantages over incumbent technologies in many important aspects related to sample preparation.

Currently, the Company is in the early stage of commercialization of its platform technology. We have realized that sales have not been stellar so far, but this is understandable. Pressure cycling technology is quite new to most customers in the sample preparation market, and the costs for PCT are also higher than those for most existing technologies. Therefore, rollout of the PCT platform will take time. However, once customers become familiar with the new PCT platform, and realize its advantages over existing technologies, uptake of PCT and its consumable products by the industry will increase dramatically in our view.

We are now optimistic about the Company's prospect. With a rapidly growing market worldwide, combined with its unique technology and broad range of product offering, the Company is well positioned to boost its top line and bottom line in the coming years. According to our long term financial model, the Company's revenue will grow at a compound annual growth rate (CAGR) of 75% in the next five fiscal years from 2015 to 2019. PBIO will become profitable in fiscal 2017 with an EPS of \$0.07.

We think PBIO is more like a development stage biotech company. We use a 35x P/E ratio, multiplied by the EPS of \$0.18 in 2019, and discount at 20% for 4 years. Then we come up with our price target of \$3.00 per share.

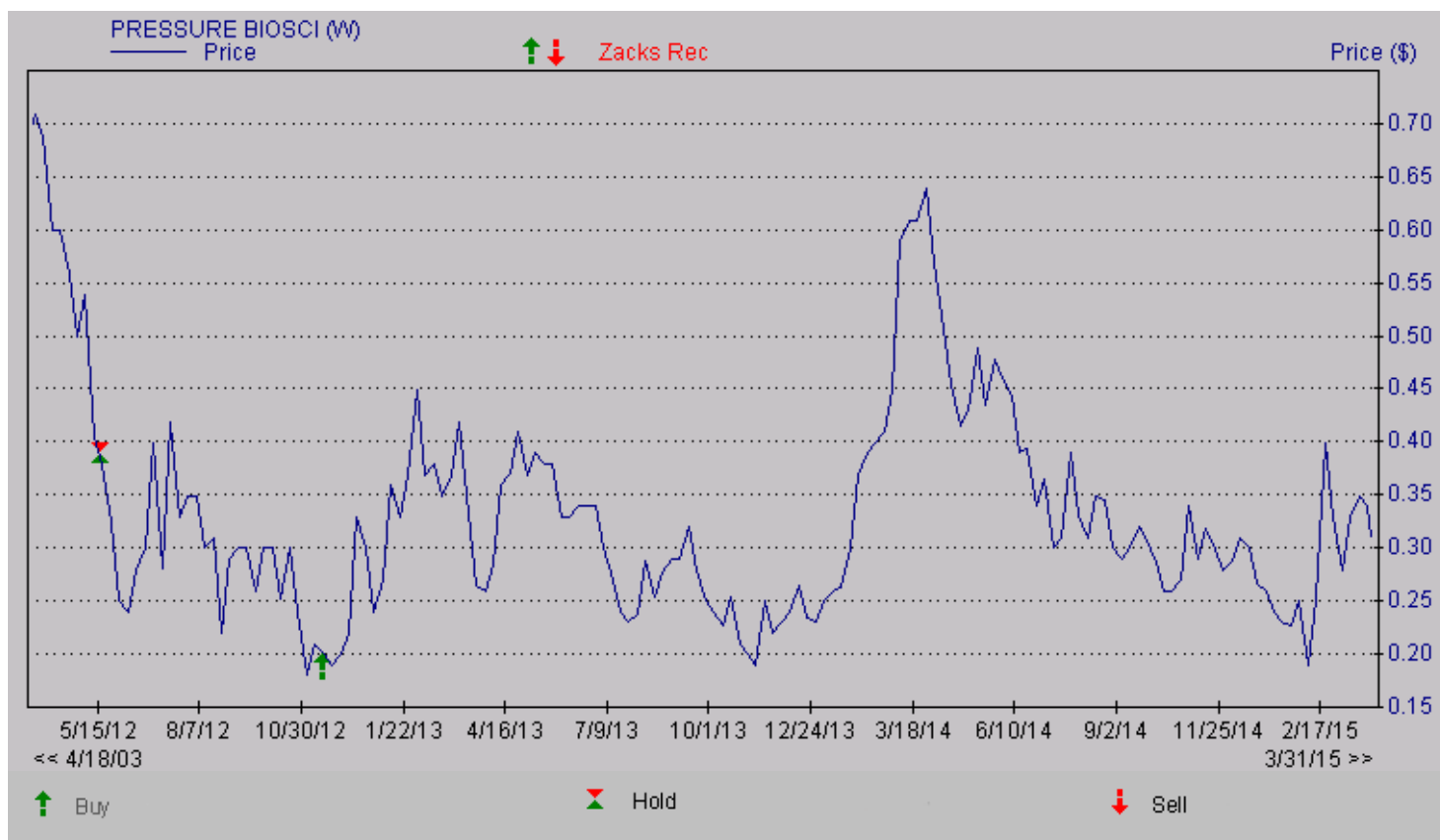
Our new price target values the company at \$48 million in market cap based on 16 million outstanding shares. This valuation is still very conservative in our view. As long as the Company can execute its growth strategy correctly, we believe this goal is achievable. Patient investors will get rewarded.

PROJECTED INCOME STATEMENT

\$ in million except per share data	12/12A	12/13A	12/14A	Q1	Q2	Q3	Q4	12/15E	12/16E	12/17E	12/18E	12/19E
<i>Product/Service Revenue</i>	\$0.81	\$1.05	\$1.35	\$0.45	\$0.65	\$1.00	\$1.50	\$3.60	\$8.00	\$12.00	\$15.00	\$22.00
<i>YOY Growth</i>	5.4%	29.3%	29.0%	11.3%	111.4%	168.4%	463.9%	166.6%	122.2%	50.0%	25.0%	46.7%
<i>Grant Revenue</i>	\$0.43	\$0.46	\$0.02	\$0.05	\$0.05	\$0.05	\$0.05	\$0.20	\$0.25	\$0.25	\$0.25	\$0.25
Total Revenues	\$1.24	\$1.50	\$1.37	\$0.50	\$0.70	\$1.05	\$1.55	\$3.80	\$8.25	\$12.25	\$15.25	\$22.25
<i>YOY Growth</i>	25.4%	21.4%	-8.6%	23.7%	127.7%	181.8%	433.4%	176.4%	117.1%	48.5%	24.5%	45.9%
<i>CoGS</i>	\$0.4	\$0.6	\$0.7	\$0.2	\$0.3	\$0.4	\$0.6	\$1.4	\$3.2	\$4.8	\$6.0	\$8.8
Gross Income	\$0.82	\$0.94	\$0.72	\$0.32	\$0.44	\$0.65	\$0.95	\$2.36	\$5.05	\$7.45	\$9.25	\$13.45
<i>Gross Margin</i>	66.4%	62.2%	52.5%	64.0%	62.9%	61.9%	61.3%	62.1%	61.2%	60.8%	60.7%	60.4%
<i>Gross Margin for PCT revenue</i>	48.5%	45.7%	51.7%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
<i>R&D</i>	\$1.0	\$1.0	\$1.0	\$0.2	\$0.3	\$0.3	\$0.3	\$1.1	\$1.4	\$1.6	\$1.8	\$2.0
<i>% R&D</i>	78.0%	68.9%	69.3%	48.0%	37.1%	26.7%	19.4%	28.4%	17.0%	13.1%	11.8%	9.0%
<i>SG&A</i>	\$3.3	\$3.2	\$3.1	\$0.8	\$0.9	\$0.9	\$0.9	\$3.5	\$4.0	\$4.2	\$4.8	\$5.2
<i>% SG&A</i>	268.1%	214.7%	226.1%	166.0%	121.4%	82.9%	58.1%	90.8%	48.5%	34.3%	31.5%	23.4%
<i>Other</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>% Other</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income	(\$3.5)	(\$3.3)	(\$3.3)	(\$0.8)	(\$0.7)	(\$0.5)	(\$0.3)	(\$2.2)	(\$0.4)	\$1.7	\$2.7	\$6.3
<i>Operating Margin</i>	-279.7%	-221.3%	-242.8%	-150.0%	-95.7%	-47.6%	-16.1%	-57.1%	-4.2%	13.5%	17.4%	28.1%
<i>Other Net</i>	\$0.01	(\$0.76)	(\$1.27)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pre-Tax Income	(\$3.5)	(\$4.1)	(\$4.6)	(\$0.8)	(\$0.7)	(\$0.5)	(\$0.3)	(\$2.2)	(\$0.4)	\$1.7	\$2.7	\$6.3
<i>Pref. stk Div</i>	\$0.95	\$1.16	\$1.64	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<i>Taxes (Benefit)</i>	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>Tax Rate</i>	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Reported Net Income	(\$4.4)	(\$5.2)	(\$6.3)	(\$0.8)	(\$0.7)	(\$0.5)	(\$0.3)	(\$2.2)	(\$0.4)	\$1.7	\$2.7	\$6.3
<i>YOY Growth</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Net Margin</i>	-355.4%	-349.1%	-454.8%	-150.0%	-95.7%	-47.6%	-16.1%	-57.1%	-4.2%	13.5%	17.4%	28.1%
<i>Shares Out</i>	10.2	11.8	14.3	16.5	17.5	18.5	20.0	18.1	22.0	25.0	30.0	35.0
Reported EPS	(\$0.43)	(\$0.44)	(\$0.44)	(\$0.05)	(\$0.04)	(\$0.03)	(\$0.01)	(\$0.12)	(\$0.02)	\$0.07	\$0.09	\$0.18
<i>YOY Growth</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>One time charge</i>	(\$0.18)	\$0.00	\$0.73	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Non GAAP Net Income	(\$4.6)	(\$5.2)	(\$5.5)	(\$0.8)	(\$0.7)	(\$0.5)	(\$0.3)	(\$2.2)	(\$0.4)	\$1.7	\$2.7	\$6.3
Non GAAP EPS	(\$0.45)	(\$0.44)	(\$0.39)	(\$0.05)	(\$0.04)	(\$0.03)	(\$0.01)	(\$0.12)	(\$0.02)	\$0.07	\$0.09	\$0.18

Source: Company filings and Zacks Investment Research Inc. estimates

HISTORICAL ZACKS RECOMMENDATIONS



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Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.

Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.

Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 15.7%, Hold/Neutral- 78.3%, Sell/Underperform – 5.8%. Data is as of midnight on the business day immediately prior to this publication.