Zacks Small-Cap Research

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Protea Biosciences Group (PRGB-OTCBB)

PRGB: Agreement To Acquire vivoPharm

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	07/29/2014
Current Price (04/07/15)	$0.53
Target Price	**$1.80**

OUTLOOK

Protea is at the initial stages of the roll-out of its revolutionary LAESI technology which is used with mass spectrometry and which has substantive advantages over traditional ionization methods. Commercialization of the LAESI instruments is being complemented with the company's molecular information services offerings and collaborations with leading medical institutions and industry partners. These current and additional partnerships and collaborations are expected to help build awareness of LAESI and Protea's capabilities and eventually lead to new product launches and services offerings. With 20+ new customer wins since just 2013, meaningful services-related revenue already booked in 2014, additional services-related sales reps recently hired and consummation of additional collaborative agreements, we think the services business is poised to show a rapidly steepening revenue curve.

SUMMARY DATA

52-Week High	**$5.00**
52-Week Low	**$0.20**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**10,645**
Shares Outstanding (mil)	**67**
Market Capitalization ($mil)	**$35**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**58**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Med Info Sys**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in 000s of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	468 A	347 A	518 A	436 A	1768 A
2015	519 E	819 E	1227 E	1632 E	4197 E
2016					9748 E
2017					14773 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.04 A	-$0.05 A	-$0.07 A	-$0.03 A	-$0.17 A
2015	-$0.03 E	-$0.02 E	-$0.02 E	-$0.02 E	-$0.09 E
2016					-$0.06 E
2017					-$0.04 E

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

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WHAT'S NEW….

Agreement To Acquire vivoPharm

On April 7th PRGB announced an agreement to acquire 100% of the stock of vivoPharm, a privately-held provider of preclinical research services with a focus on oncology, toxicology testing and bioanalytical analysis. Per vivoPharm's website the company specializes in conducting studies to guide drug development.

Purchase price is $11.53M and payable as: $100k upfront deposit, $5.3M in cash at closing and $5.7M in to-be issued 4% convertible preferred stock. Also prior to the closing the company intends to obtain stockholder approval for a reverse stock split (ratio not disclosed). Upon completion of the acquisition, which is contingent on PRGB raising at least $10M in new debt or equity financing, vivoPharm will operate as a business unit of PRGB.

We see this potential acquisition as another move by PRGB towards building its drug-discovery capabilities and one that could significantly accelerate its oncology related focus, an area that the company has recently been aggressively pursuing.

Protea has already scored contract work from cancer research institutions related to biomarker discovery and global biopharmaceutical companies related to preclinical drug development. In 2014 the company entered into a collaboration with Memorial Sloan Kettering Cancer Center (MSKCC) and Dana-Farber Cancer Institute to study lung adenocarcinoma samples with LAESI.

And in January, Protea announced the launch of its newest analytics platform. Dubbed, Histology Guided Mass Spec Imaging (HG-MSI), the service combines traditional optical microscopy with mass spec imaging. This allows pathologists to obtain mass spec chemical information from very precise regions within a sample. This precise targeting provides pathologists and researchers the ability to acquire chemical information from sub-populations of cells, offering potentially significant additional chemical information about the larger sample.

As we noted in a recent investor update, we think HG-MSI, which has already been used in Protea's collaboration with Memorial Sloan Kettering Cancer Center for profiling of cell sub-populations in lung cancer tissue, may have significant utility in biomarker discovery for oncology, as well as other areas.

The addition of vivoPharm, assuming the acquisition is consummated, could be a significant step towards PRGB becoming a leader in oncology drug discovery. We will update our model for the acquisition if and when consummated.

FINANCIAL MODEL

Protea Biosciences

	2014 A	Q1E	Q2E	Q3E	Q4E	2015 E	2016 E	2017 E	2018 E
Total Revenues	$1,768.3	$519.0	$819.0	$1,227.0	$1,632.0	$4,197.0	$9,747.6	$14,772.7	$21,999.6
YOY Growth	*44.5%*	*10.9%*	*136.3%*	*137.1%*	*274.2%*	*137.3%*	*132.3%*	*51.6%*	*48.9%*
COGS	$871.9	$245.22	$407.2	$562.3	$764.2	$1,978.9	$4,265.3	$6,282.3	$9,211.1
Gross Income	$896.4	$273.8	$411.8	$664.7	$867.8	$2,218.1	$5,482.3	$8,490.4	$12,788.5
Gross Margin	*50.7%*	*52.8%*	*50.3%*	*54.2%*	*53.2%*	*52.9%*	*56.2%*	*57.5%*	*58.1%*
SG&A	$8,736.5	$2,188.0	$2,214.0	$2,268.0	$2,315.0	$8,985.0	$10,318.0	$11,266.0	$12,099.8
% SG&A	*494.1%*	*421.6%*	*270.3%*	*184.8%*	*141.9%*	*214.1%*	*105.9%*	*76.3%*	*55.0%*
R&D	$2,853.1	$512.0	$546.0	$481.0	$604.0	$2,143.0	$2,355.0	$2,488.0	$2,881.9
% R&D	*161.3%*	*98.7%*	*66.7%*	*39.2%*	*37.0%*	*51.1%*	*24.2%*	*16.8%*	*13.1%*
Operating Income	($10,693.1)	($2,426.2)	($2,348.2)	($2,084.3)	($2,051.2)	($8,909.9)	($7,190.7)	($5,263.6)	($2,193.2)
Operating Margin	*-604.7%*	*-467.5%*	*-286.7%*	*-169.9%*	*-125.7%*	*-212.3%*	*-73.8%*	*-35.6%*	*-10.0%*
Total Other Income (Expense)	($781.7)	($144.0)	($126.0)	($108.0)	($102.0)	($480.0)	($440.0)	($395.0)	($600.0)
Pre-Tax Income	($11,474.8)	($2,570.2)	($2,474.2)	($2,192.3)	($2,153.2)	($9,389.9)	($7,630.7)	($5,658.6)	($2,793.2)
Tax expense (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Preferred dividends	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Income	($11,474.8)	($2,570.2)	($2,474.2)	($2,192.3)	($2,153.2)	($9,389.9)	($7,630.7)	($5,658.6)	($2,793.2)
YOY Growth	*0.5%*	*-5.9%*	*-28.2%*	*-52.9%*	*18.3%*	*-18.2%*	*-18.7%*	*-25.8%*	*-50.6%*
Net Margin	*-648.9%*	*-495.2%*	*-302.1%*	*-178.7%*	*-131.9%*	*-223.7%*	*-78.3%*	*-38.3%*	*-12.7%*
EPS	($0.17)	($0.03)	($0.02)	($0.02)	($0.02)	($0.09)	($0.06)	($0.04)	($0.02)
YOY Growth	*-33.2%*					*-44.0%*	*-31.8%*		
Diluted Shares O/S	67,763	81,500	100,100	105,000	109,800	99,100	118,000	126,200	129,150

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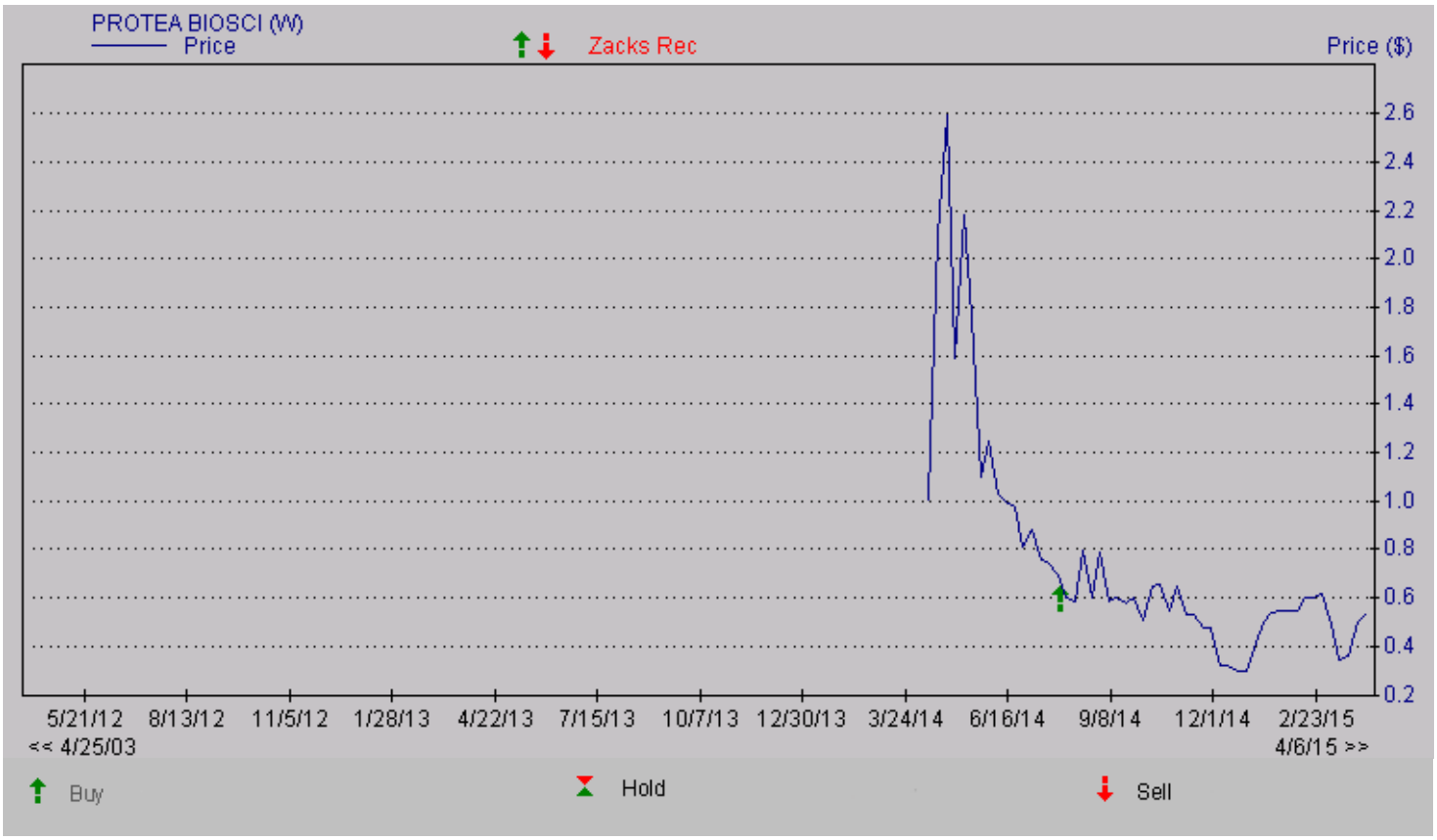

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