Zacks Small-Cap Research

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Pressure Biosciences (PBIO-OTCQB)

PBIO: Strong financials for 4Q13 and 2013, expecting continued revenue growth in fiscal 2014; valuation very attractive--- Outperform.

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	11/15/2012
Current Price (03/31/14)	$0.55
Twelve- Month Target Price	**$2.00**

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 strong financial performance in 4Q13, and we expect to see continued revenue growth in 2014 and beyond.

Valuation is very attractive at this time. Therefore, we maintain our Outperform rating.

SUMMARY DATA

52-Week High	**$0.70**
52-Week Low	**$0.17**
One-Year Return (%)	**120.04**
Beta	**1.59**
Average Daily Volume (sh)	**96,959**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$7**
Short Interest Ratio (days)	**3.01**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**41**
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**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	0.37 A	0.36 A	0.42 A	0.35 A	1.50 A
2014	0.30 E	0.30 E	0.45 E	0.50 E	1.55 E
2015					4.50 E
2016					8.00 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.11 A	-$0.10 A	-$0.06 A	-$0.16 A	-$0.44 A
2014	-$0.09 E	-$0.08 E	-$0.09 E	-$0.07 E	-$0.32 E
2015					-$0.15 E
2016					-$0.08 E

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

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WHAT'S NEW

- **Strong financials reported for 4Q13 and fiscal 2013;**
- **One new product already launched, another one will be launched in June 2014;**
- **Continued revenue growth expected in fiscal 2014;**
- **New application of PCT in protein structure and function;**
- **Valuation is very attractive, we raise our price target to $2.00 per share;**

Strong Fourth Quarter and Fiscal Year 2013 Financial Results

On April 1, 2014, Pressure BioSciences (PBIO) presented strong financial results for 4Q13 and fiscal year ended December 31, 2013.

For 4Q13:

- Total revenue for 4Q13 was $354,052, compared to $216,032 for the same period in 2012, an increase of 64%.
- Product and service revenue was $300,628 for Q413, compared to $122,285 for 4Q12, a 146% increase.
- Grant revenue in Q413 was $53,424, compared to $93,747 for 4Q12.
- Sales of consumables were $52,968 for 4Q13, compared to $18,624 for 4Q12, an increase of 184%.

Operating loss for 4Q13 was $900,110, compared to $1,129,750 for 4Q12, a reduction of 20%. Contributing to this decrease in operating loss was a quarter over quarter decrease in general and administrative expenses of $268,105, or 30%.

Loss per common share was $0.16 for 4Q13, compared to $0.10 for 4Q12. The additional loss per common share was due primarily to the change in the fair value of the derivative instruments in Q4 2013.

For fiscal year 2013:

- Total revenue for the fiscal year 2013 was $1,503,288 compared to $1,238,217 for the fiscal year 2012, a 21% increase.
- Revenue from the sale of products and services was $1,046,678 for FY 2013 compared to $809,308 for FY 2012, a 29% increase.
- Grant revenue in FY 2013 was $456,610 compared to $428,909 for FY 2012.
- Sales of consumables were approximately $157,676 for FY 2013 compared to approximately $85,493 for FY 2012, an increase of 84%.

Operating loss for 2013 decreased to $3,327,192 from $3,463,642 for the fiscal year 2012, a reduction of 4%. .

Loss per common share was $0.44 for 2013 compared to $0.43 for the same period in 2012.

As of December 31, 2013, PBIO had cash and cash equivalents of $31,417.

We are very pleased with the strong financials for both 4Q13 and fiscal 2013. The company reported both record total revenue and product revenue for fiscal 2013. Product revenue reached the $1 million mark first time in the company's history.

We are especially impressed with the increased revenue from **consumables** in the second half of 2013. Sales of PCT-based consumables generated revenue of $51,450 and $52,968 in 3Q and 4Q13, respectively, a record revenue from consumables. This is an increase of 98% and 184% respectively for 3Q and 4Q13 respectively. This is important to PBIO as we always said. As more and more PCT instruments are installed, more consumables will be used on these instruments. Revenue from consumables is **recurring**, which will increase with the number of installed PCT instruments.

The financial success in 2013 was achieved from the company's continued progress in implementing its aggressive sales and marketing plan. PBIO expanded its strategic marketing and sales program with Constant Systems, increased its social media presence, revamped its corporate website, and increased its support of and training programs with its distributors. PBIO increased its marketing presence in the life sciences area, and increased its sales out-reach to potential users of the PCT system. These efforts resulted in record instrument and consumable sales for 2013.

PBIO has reported four consecutive quarters with total revenue exceeding the prior year period. Based on the two new products launch and continued marketing efforts by management, we estimate product sales will reach $1.5 million in fiscal 2014, an increase of 48% over $1 million product sales for fiscal 2013.

The HUB880 Launched

In our previous report, we predicted that **PBIO** is going to launch two new products in the first half of 2014.

Specifically, we predicted that the **HUB880** will be launched during 1Q14 and the **High Throughput Barocycler** will be launched in June 2014.

On March 19, 2014, PBIO announced the commercial release of the Barocycler HUB880, the newest addition to the Company's growing line of high-pressure instrument systems. The Company also announced the sale (and shipment) of its first HUB880 system to Dr. Wayne Hubbell of the University of California Los Angeles (UCLA). PBIO plans to showcase the HUB880 at the upcoming U.S. Human Proteome Organization's 10th Annual Conference to be held at the Westin-Seattle (WA), April 6-9, 2014.

The **HUB880** is a first-in-kind instrument. It is an automated, computer-controlled, bench-top, ultra-high pressure instrument. The HUB880 can generate pressures up to 100,000 psi. This is the type of pressure that will be very helpful to scientists making **vaccines,** to researchers in the **food industry** (pathogen inactivation studies), **material science** applications (quality control of petroleum, hydraulic fluid, plastics, valves, etc.). And it will play an important role in life sciences research, as these pressures will unravel the secrets of many biological substances that are not extracted/inactivated/recovered/etc. at "lower" pressures.

PBIO's HUB880 targets the large market of vaccines, food industry and material science. The HUB880 costs about $75,000 per unit.

There are approximately 500,000 scientists worldwide working with biological samples, such as animal, plant, microbial, and human cells. These cells, and the biomolecules that constitute them (e.g., proteins, lipids, DNA) have historically been controlled using temperature and chemicals. However, studies have shown that cells/biomolecules also respond to specific levels of pressure in unique and reproducible

ways. Thus, with its ability to reach ultra-high pressure levels significantly beyond any automated bench-top pressure instrument commercially available today, **the Barocycler HUB880** can potentially offer scientists the unique ability to control certain cells and biomolecules in ways never before achievable.

High Throughput Barocycler Will be Launched in 1H14

The HUB880 is the first new product PBIO promised to launch in 1H14, and the company did it. Now PBIO has another big one to be launched in Q2 2014. The company remains on track to meet this guidance.

The second one is the **High Throughput Barocycler, which** will be launched in June 2014.

The **High Throughput (HT) Barocycler** uses the disposable microwell strips that are universally used by labs worldwide. PBIO's ability to perform PCT with these strips will allow the Company to directly integrate its PCT instruments with the current automated robotically-driven microwell templates used by thousands of labs worldwide. This instrument is expected to be launched **in June 2014**.

The high throughput system is a **breakthrough technology** for PBIO. PBIO announced in June 2013 that they have achieved and passed proof-of-principle objectives in their multi-year investment into the development of a **high throughput (HT) system** for their patented pressure cycling technology (PCT) platform. The new HT design will allow their PCT platform to integrate with the automated, universally accepted HT sample preparation and analytical system formats installed in tens of thousands of biological research laboratories worldwide.

This breakthrough also has the potential to significantly accelerate its growth in existing and new PCT-based applications and products, and its ability to attract and form new strategic partnerships.

Many research laboratories working with biological samples worldwide use automated, HT sample preparation and analytical systems in their studies. HT systems generally use sample handling robotics and "multiwell" test plates in standardized formats (e.g., 24, 96, or 384 wells per plate) for processing and testing large numbers of samples simultaneously. The multiwell plate is often processed in an automated fashion, allowing scientists to perform other important tasks while samples are being processed unattended.

Although a number of studies have shown significant advantages of the PCT platform in preparing biomolecules (e.g., DNA, proteins, and lipids) for analysis, the PCT platform continues to be used primarily in small but important research studies. Unlike today's popular HT multiwell plates that use an automated, unattended approach, the PCT Platform uses individual test tubes that require a lot of manual sample handling. These manual sample handling requirements have prevented the PCT platform from being better accepted by the research community. To that end, PBIO's new HT multiwell format will substantially enhance and accelerate the acceptance of the PCT platform in the life sciences R&D marketplace. This technology breakthrough is a game-changer for PBIO in our view.

Novel Use of PCT Platform Offers New Insights into Protein Structure and Function

On Aug. 1, 2013, PBIO announced that data supporting important advantages of PBIO's powerful and enabling Pressure Cycling Technology (PCT) platform were presented at the 27th Annual Symposium of the Protein Society held July 20-23, 2013 in Boston, Massachusetts.

The use of highly sophisticated analytical instrument systems by research scientists worldwide has resulted in a greater understanding of complex biological molecules, including proteins. One such instrument system, Electron Paramagnetic Resonance (**EPR**) spectroscopy, has been shown to provide key information on the structure, flexibility, and function of proteins. This information is crucial to the development of new and better diagnostics, therapeutics, and vaccines.

At this year's annual Protein Society symposium, researchers from UCLA reported on the development of an improved EPR system based on the use of high pressure. This novel system combined (for the first time ever) two cutting-edge EPR methods: site directed spin labeling (SDSL) and double electron-electron resonance (DEER). This strategy allowed the investigation of dynamic events in proteins that would be difficult or even impossible to study by conventional EPR technology.

These and other data reported by researchers using pressure-based EPR and NMR systems strongly indicate that PCT can enhance the recovery, detection, and measurement of proteins from a wide variety of samples. In turn, this information has the potential to help accelerate the design and manufacture of new and better diagnostics, therapeutics, and vaccines. We believe that the advantages of pressure-based spectroscopic methods are just now beginning to be realized by scientists, and that as the body of data continues to grow from high pressure-based spectroscopic studies, that PBIO has the potential to become a major provider of high pressure equipment into the exciting and growing spectroscopy area.

Valuation Is Very Attractive

We maintain our Outperform rating on PBIO shares and raise our twelve-month price target to $2.00 per share from previous $1.25 per share.

Our call is based on three factors: strong 4Q and fiscal year 2013 financial results, business development are improving and valuation is very attractive.

PBIO reported record product sales and total revenue for 2013, and we expect continued revenue growth in fiscal 2014 and beyond due to two new products launch and continued marketing efforts from management.

In terms of valuation, we think PBIO shares are undervalued based on the Company's fundaments. Currently, the Company trades around $0.60 per share with a market cap of $7.2 million. We believe this deeply undervalues the Company based on the current fundamentals mentioned 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 more detail, we realize that this 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 especially optimistic about the Company's collaboration programs which will generate great awareness of the PCT platform among researchers in the sample preparation market. We are also impressed with the potential of the PCT technology in new application areas such as in the forensic, oil spill clean-up, agricultural applications and lipids extraction.

PBIO has established extensive distribution partnerships with leading companies in the life science industry. With continued marketing efforts and a clear growth strategy in place, sales should pick up steam in the coming quarters.

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 66% in the next six fiscal years from 2014 to 2019. PBIO will become profitable in fiscal 2018 with an EPS of $0.01.

We think PBIO is more like a development stage biotech company. Our price target of $1.50 per share values the company at 18 million in market cap based on 12 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	Q1	Q2	Q3	Q4	12/13A	Q1	Q2	Q3	Q4	12/14E	12/15E	12/16E	12/17E	12/18E	12/19E
Product/Service Revenue	$0.81	$0.22	$0.20	$0.33	$0.30	$1.05	$0.30	$0.30	$0.45	$0.50	$1.55	$4.50	$8.00	$12.00	$15.00	$22.00
YOY Growth	*5.4%*	*34.5%*	*-12.4%*	*10.1%*	*145.8%*	*29.3%*	*35.4%*	*52.7%*	*37.2%*	*66.3%*	*48.1%*	*190.3%*	*77.8%*	*50.0%*	*25.0%*	*46.7%*
Grant Revenue	$0.43	$0.15	$0.16	$0.09	$0.05	$0.46	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Revenues	**$1.24**	**$0.37**	**$0.36**	**$0.42**	**$0.35**	**$1.50**	**$0.30**	**$0.30**	**$0.45**	**$0.50**	**$1.55**	**$4.50**	**$8.00**	**$12.00**	**$15.00**	**$22.00**
YOY Growth	*25.4%*	*21.3%*	*10.1%*	*7.4%*	*63.9%*	*21.4%*	*-19.1%*	*-16.1%*	*6.9%*	*41.2%*	*3.1%*	*190.3%*	*77.8%*	*50.0%*	*25.0%*	*46.7%*
CoGS	$0.4	$0.1	$0.1	$0.2	$0.2	$0.6	$0.2	$0.2	$0.2	$0.3	$0.9	$2.5	$4.4	$6.6	$8.3	$12.1
Gross Income	**$0.82**	**$0.27**	**$0.27**	**$0.24**	**$0.15**	**$0.94**	**$0.14**	**$0.14**	**$0.20**	**$0.23**	**$0.70**	**$2.03**	**$3.60**	**$5.40**	**$6.75**	**$9.90**
Gross Margin	*66.4%*	*71.8%*	*76.6%*	*58.2%*	*42.5%*	*62.2%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*
Gross Margin for PCT revenue	*48.5%*	*52.8%*	*57.3%*	*46.3%*	*32.3%*	*45.7%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*	*45.0%*
R&D	$1.0	$0.2	$0.3	$0.3	$0.2	$1.0	$0.2	$0.2	$0.3	$0.3	$1.0	$1.2	$1.4	$1.6	$1.8	$2.0
% R&D	*78.0%*	*66.5%*	*72.8%*	*66.6%*	*70.1%*	*68.9%*	*66.7%*	*66.7%*	*66.7%*	*60.0%*	*64.5%*	*26.7%*	*17.5%*	*13.3%*	*12.0%*	*9.1%*
SG&A	$3.3	$0.7	$0.9	$0.8	$0.8	$3.2	$0.8	$0.8	$0.9	$0.9	$3.4	$3.6	$4.0	$4.2	$4.8	$5.2
% SG&A	*268.1%*	*200.9%*	*243.6%*	*192.2%*	*226.6%*	*214.7%*	*266.7%*	*266.7%*	*200.0%*	*180.0%*	*219.4%*	*80.0%*	*50.0%*	*35.0%*	*32.0%*	*23.6%*
Other	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
% Other	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*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)**	**($0.7)**	**($0.9)**	**($0.8)**	**($0.9)**	**($3.3)**	**($0.9)**	**($0.9)**	**($1.0)**	**($1.0)**	**($3.7)**	**($2.8)**	**($1.8)**	**($0.4)**	**$0.2**	**$2.7**
Operating Margin	*-279.7%*	*-195.6%*	*-239.8%*	*-200.6%*	*-254.2%*	*-221.3%*	*-288.3%*	*-288.3%*	*-221.7%*	*-195.0%*	*-238.9%*	*-61.7%*	*-22.5%*	*-3.3%*	*1.0%*	*12.3%*
Other Net	$0.01	($0.05)	($0.21)	$0.17	($0.67)	($0.76)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Pre-Tax Income	**($3.5)**	**($0.8)**	**($1.1)**	**($0.7)**	**($1.6)**	**($4.1)**	**($0.9)**	**($0.9)**	**($1.0)**	**($1.0)**	**($3.7)**	**($2.8)**	**($1.8)**	**($0.4)**	**$0.2**	**$2.7**
Pref. stk Div	$0.95	$0.61	$0.11	$0.04	$0.40	$1.16	$0.20	$0.20	$0.20	$0.20	$0.80	$0.00	$0.00	$0.00	$0.00	$0.00
Taxes (Benefit)	($0.0)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*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)**	**($1.4)**	**($1.2)**	**($0.7)**	**($2.0)**	**($5.2)**	**($1.1)**	**($1.1)**	**($1.2)**	**($1.2)**	**($4.5)**	**($2.8)**	**($1.8)**	**($0.4)**	**$0.2**	**$2.7**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Margin	*-355.4%*	*-376.0%*	*-328.2%*	*-170.2%*	*-554.5%*	*-349.1%*	*-355.0%*	*-355.0%*	*-266.1%*	*-235.0%*	*-290.5%*	*-61.7%*	*-22.5%*	*-3.3%*	*1.0%*	*12.3%*
Shares Out	*10.2*	*12.1*	*11.5*	*11.7*	*12.0*	*11.8*	*12.0*	*14.0*	*14.0*	*16.0*	*14.0*	*18.0*	*22.0*	*25.0*	*30.0*	*35.0*
Reported EPS	**($0.43)**	**($0.11)**	**($0.10)**	**($0.06)**	**($0.16)**	**($0.44)**	**($0.09)**	**($0.08)**	**($0.09)**	**($0.07)**	**($0.32)**	**($0.15)**	**($0.08)**	**($0.02)**	**$0.01**	**$0.08**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One time charge	*($0.18)*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($4.6)**	**($1.4)**	**($1.2)**	**($0.7)**	**($2.0)**	**($5.2)**	**($1.1)**	**($1.1)**	**($1.2)**	**($1.2)**	**($4.5)**	**($2.8)**	**($1.8)**	**($0.4)**	**$0.2**	**$2.7**
Non GAAP EPS	**($0.45)**	**($0.11)**	**($0.10)**	**($0.06)**	**($0.16)**	**($0.44)**	**($0.09)**	**($0.08)**	**($0.09)**	**($0.07)**	**($0.32)**	**($0.15)**	**($0.08)**	**($0.02)**	**$0.01**	**$0.08**

Source: Company filings and Zacks Investment Research Inc. estimates

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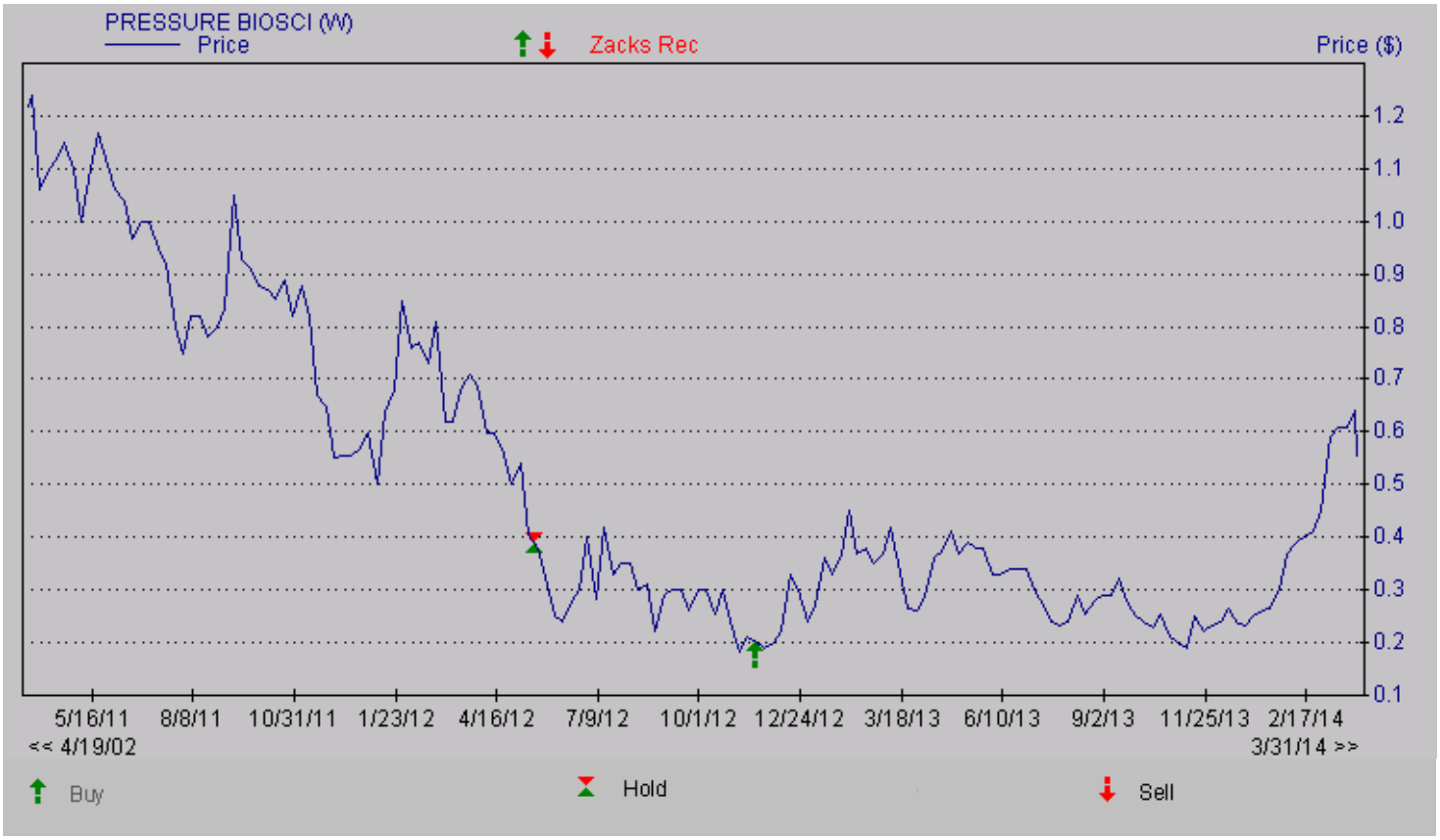
HISTORICAL ZACKS RECOMMENDATIONS



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The current distribution is as follows: Buy/Outperform- 16.9%, Hold/Neutral- 77.4%, Sell/Underperform – 5.0%. Data is as of midnight on the business day immediately prior to this publication.