Zacks Small-Cap Research

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BioLife Solutions Inc (BLFS-NASDAQ)

BLFS: *biologistex Launch Imminent, Could Be An Inflection Point…*

Current Recommendation	**Buy**
Prior Recommendation	Neutral
Date of Last Change	02/13/2014
Current Price (08/07/15)	$2.15
Target Price	**$5.00**

OUTLOOK

Demand for biopreservation media is estimated to grow at an annual rate of almost 20% over the next several years, largely driven by rapid growth of the emerging field of regenerative medicine (including cell therapy and tissue engineering). BioLife's strategy is to build greater visibility and awareness of the benefits of their biopreservation products compared to the "home-brews" that currently dominate the market.

Core biopreservation product sales are growing 25%+ due to growing uptake from clinical trial-stage products as well as in the hair restoration field. This is what we expect to be the long-term driver of revenue and earnings. Company also recently entered into a JV – biologistex expected to launch in Q3, revenue from which could be meaningful. Loss of contract manufacturing not hugely impactful given the low margins in that business. We are maintaining our Buy recommendation.

SUMMARY DATA

52-Week High	**$4.44**
52-Week Low	**$1.50**
One-Year Return (%)	**-12.85**
Beta	**0.42**
Average Daily Volume (sh)	**349,358**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$28**
Short Interest Ratio (days)	**1.56**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**8**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**41.6**
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	**Small-Blend**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	2065 A	1212 A	1243 A	1670 A	6191 A
2015	1501 A	1498 A	1548 E	1663 E	6208 E
2016					8435 E
2017					12138 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.10 A	-$0.07 A	-$0.07 A	-$0.08 A	-$0.31 A
2015	-$0.09 A	-$0.08 A	-$0.12 E	-$0.11 E	-$0.42 E
2016					-$0.20 E
2017					-$0.04 E

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

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WHAT'S NEW……

Q2 2015 Results: *Inline w/ Our Numbers. biologistex Launch Still Slated for Q3 - Success Could Be Inflection Point…*

BioLife reported financial results for the second quarter ending June 30. Results, on both the top and bottom lines were very much inline with our numbers. Another solid performance from the proprietary biopreservation media products - and a small "left-over" contribution from a legacy contract manufacturing customer. In aggregate no major surprises although S&M did jump higher and G&A came in lower than we were anticipating. The jump in S&M relates to more hires to support the biologistex roll-out (expenses related to which we didn't begin modeling until Q3) and the tick-down in G&A looks to be more timing related than fundamental - this will come back up where we were expecting in Q3 and Q4. Gross margin continues to hold up nicely near the 55% level - this, of course, has benefitted from the loss of contract manufacturing revenue which contributed very little at the margin.

We have adjusted our model somewhat - which mostly relates to fattening up S&M some more - this line might be tough to get right for the next several quarters, although on the call management did help guide for the remainder of the year - look for S&M to again move higher in Q3 and then come down some in Q4. This, again, relates almost entirely to new personnel and marketing in support of the biologistex launch. One concern we have is the potential for overspend on sales and promotion of biologistex without a commensurate return of revenue and margin - management addressed our related question on the call - indicating they are approaching this in a fashion (including incremental hiring) to avoid inefficient use of money and resources. And certainly having the benefit of large and attentive biopreservation media customer base to detail biologistex to should help from an efficiency aspect.

The other benefit of biologistex and SAVSU containers, as compared to liquid nitrogen, is that it covers the wider swath of temperature requirements - from controlled ambient (on the "warmer" end) to minus 80°Celsius, while liquid nitrogen is at least minus 150°Celsius. So being able to meet wider temperature requirements affords the ability to address more of the cold chain shipping market as much of biological material must be kept cold but not frozen. But notwithstanding these advantages, we think it will be critical that BLFS and biologistex be diligent over sales and support spend as to not let this become problematic or compromise potential profitability of the business.

The biologistex roll-out is still slated to happen in Q3 with a small revenue contribution expected in that period. Management revealed on the Q2 call that their revenue model includes monthly leasing for $200. We continue to model immaterial contribution from this business in 2015 and more conservatively are incorporating initial revenue to happen in Q4. While our estimates may be more conservative than how reality plays out, we feel it is too difficult to comfortably model significant near-term revenue from this business given the obvious lack of history of biologistex and our knowledge of the difficulties experienced by pure-play cold chain shipping companies (packaging and service) in penetrating the market. Clearly our estimates are much more conservative than management's - as (per comments on the Q2 call) they think they will reach cash flow positive sometime in 2016 - by comparison, we model cash flow positive closer to 2H 2017.

Again, we acknowledge certain advantages that biologistex may enjoy and be able to leverage - the next few quarters should provide some insight into receptiveness, adoption rates, support spend, customer retention, and growth and profitability potential. As such, our model is potentially highly dynamic and subject to change. Management noted that they will provide additional metrics on the biologistex business in the future which may help us fine-tune our estimates.

On the biopreservation media side, BLFS continues to churn out nice double-digit growth, is growing the number of clinical trials in which their products are used and is still guiding for 20% - 30% revenue growth through 2015. In the event one of these product candidates currently in clinical trials is eventually approved, it could be a significant revenue opportunity for BLFS. Their media are now being used in ~200 preclinical and clinical trials, a list which continues to expand - which means their shots on goal expands as well. With about 20 of these believed to be phase III studies, it's possible a commercialized opportunity could be on the horizon - on the Q2 call management indicated that late 2016 may be a possibility for one of the candidates.

Financials

Q2 revenue was $1.5M, up 24% yoy and flat from Q1. Product sales were $1.43M, up 33% yoy but down about 5% sequentially. We don't see anything fundamental about the sequential decrease, particularly as management continues to guide to 20% - 30% growth for the full year - which implies Q3 and Q4 will do at least $1.48M each

(growth of ~10% from 2H 2014). In addition, Q2 product sales were within 5% of the all time record - clearly a good indication of continued solid demand.

Q2 OpEx was $2.0M, inline with our $2.0M estimate. However, S&M was about $150k (30%) higher and G&A about $175 lower (15%) lower than our numbers. As noted, the new hires which will directly support biologistex resulted in the difference to S&M. G&A we think is mostly timing related. Look for S&M to go even higher through the remainder of 2015, particularly in Q3 with marketing and sales initiatives heating up for the launch of biologistex. We think this results in pushing operating loss higher in the second half of the year. But the investments, we think, are reasonable to get a big push behind the introduction of biologistex. Key, obviously will be to grow biologistex revenue and gross profit faster than the opex spend supporting it - which could take time but, again, is something that should be more revealing over the next few quarters. If BLFS is successful, this could be an inflection point for the share price.

Q2 net loss and EPS were $1.0M and ($0.08), mostly inline with our $1.1M and ($0.09) estimates. This compares to net loss and EPS of $883k and ($0.07) in the prior year comparable period. The increase in net loss is almost entirely attributable to additional spend on the biologistex business including the JV participation payments and S&M related expenses, partially offset by higher revenue and better GM (from loss of contract manufacturing revenue).

Cash
Q2 cash used in operating activities was $1.2M. Excluding changes in working capital, this was $948k. An additional $497k was used (capitalized) for software development related to biologistex web and mobile applications. BLFS exited Q2 with $6.9M in cash and liquid investments. Management expects to have about $4M in cash at current year end. And they further expect that current cash will be sufficient to get them to cash flow positive - which they think will happen in 2016.

Model revision…
We have made some adjustments to our model following Q2 results. This includes upwardly adjusting S&M expense through the remainder of the year as well as in our out years. While this may be erring on the side of conservative, we think our prior expense estimates related to biologistex may have been slightly low. This is subject to change based on what we see in future periods and when there is more clarity on the level of S&M support that biologistex will require.

We now look for net loss and EPS of $5.1M and ($0.42) in the current year, revised lower from $4.3M and ($0.35). Our out years have moved from $37k loss / ($0.00) in 2017 and $1.7M profit / $0.10 in 2018 to $677k loss / ($0.04) in 2017 and $1.4M profit / $0.08 in 2018.

VALUATION / RECOMMENDATION

Our comparable group used to value BLFS consists of five companies – some direct competitors as well as small stem cell therapeutics and regenerative medicine companies. Our valuation metrics include enterprise value-to-sales (EV/Sales) and price-to-sales (P/Sales) multiples using sales at trailing twelve months (ttm), estimated 2015, and estimated 2016 (estimates from analyst forecasts). As EDTXF has become a high outlier we have removed it and offset this with also removing MBX.TO as a low outlier.

Based on these six metrics, BioLife is valued between approximately $3.80/share and $6/share. Average valuation of all six metrics is about $5.00/share. BLFS currently trades at approximately $2.15, which is below what we calculate to be fair value. With the biologistex launch on the horizon, it seems the market is completely discounting any potential contribution from biologistex - which is much more conservative than us. We are maintaining our Buy rating. Our price target is $5.00/share.

	TICKER						Implied
METRIC	CYRX	ICEL	EDTXF	CYTX	MBX.TO	Average	BLFS pps
EV/ Sales (ttm)	2.9	14.3	~~49.0~~	15.0	~~4.9~~	10.7	$6.03
EV/ Sales (2015 E)	6.1	8.8	~~40.0~~	8.8	~~2.6~~	7.9	$4.61
EV/ Sales (2016 E)	3.3	6.1	~~37.9~~	6.2	~~1.8~~	5.2	$4.17
P/ Sales (ttm)	6.1	15.6	~~47.0~~	10.0	~~4.3~~	10.6	$5.39
P/ Sales (2015 E)	9.9	6.1	~~30.0~~	6.0	~~2.3~~	7.3	$4.36
P/ Sales (2016 E)	5.4	6.7	~~28.4~~	4.2	~~1.6~~	5.4	$3.76
						Avg.	**$4.72**

FINANCIAL MODEL

BioLife Solutions Inc.

	2014 A	Q1A	Q2A	Q3E	Q4E	2015 E	2016 E	2017 E	2018 E
Prdct Sales/Ctrct Manu/JV	$6,190.7	$1,500.7	$1,496.8	$1,547.5	$1,662.6	$6,207.6	$8,435.2	$12,138.3	$14,984.0
YOY Growth	*-25.8%*	*-27.3%*	*23.5%*	*24.5%*	*-0.5%*	*0.3%*	*35.9%*	*43.9%*	*23.4%*
Licensing Revenue	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
YOY Growth	-	-	-	-	-	-	-	-	-
Total Revenues	$6,190.7	$1,500.7	$1,496.8	$1,547.5	$1,662.6	$6,207.6	$8,435.2	$12,138.3	$14,984.0
YOY Growth	*-30.8%*	*-27.3%*	*23.5%*	*24.5%*	*-0.5%*	*0.3%*	*35.9%*	*43.9%*	*23.4%*
Cost of Product Sales	$3,155.3	$618.1	$678.1	$673.2	$703.2	$2,672.6	$3,911.3	$5,016.1	$5,764.7
Gross Income	$3,035.4	$882.6	$818.6	$874.3	$959.4	$3,535.1	$4,523.9	$7,122.2	$9,219.4
Gross Margin	*49.0%*	*58.8%*	*54.7%*	*56.5%*	*57.7%*	*56.9%*	*53.6%*	*58.7%*	*61.5%*
R&D	$871.1	$322.2	$301.3	$298.0	$294.0	$1,215.5	$1,121.0	$874.0	$855.0
% R&D	*14.1%*	*21.5%*	*20.1%*	*19.3%*	*17.7%*	*19.6%*	*13.3%*	*7.2%*	*5.7%*
Selling & Mktg	$1,329.7	$500.3	$642.5	$774.0	$682.0	$2,598.7	$2,969.2	$3,168.1	$3,176.6
% Sell&Mktg	*21.5%*	*33.3%*	*42.9%*	*50.0%*	*41.0%*	*41.9%*	*35.2%*	*26.1%*	*21.2%*
G&A	$3,970.3	$1,220.7	$1,030.7	$1,285.0	$1,291.0	$4,827.4	$3,694.6	$3,775.0	$3,820.9
% G&A	*64.1%*	*81.3%*	*68.9%*	*83.0%*	*77.6%*	*77.8%*	*43.8%*	*31.1%*	*25.5%*
Operating Income	($3,135.7)	($1,160.5)	($1,155.9)	($1,482.7)	($1,307.6)	($5,106.6)	($3,260.9)	($694.9)	$1,366.8
Operating Margin	*-50.7%*	*-77.3%*	*-77.2%*	*-95.8%*	*-78.6%*	*-82.3%*	*-38.7%*	*-5.7%*	*9.1%*
Total Other Inc. (Exp.)	($165.1)	$8.2	$5.5	$4.0	$2.5	$20.2	$22.0	$18.0	$41.0
Pre-Tax Income	($3,300.9)	($1,152.3)	($1,150.4)	($1,478.7)	($1,305.1)	($5,086.4)	($3,238.9)	($676.9)	$1,407.8
Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	-	-	-	-	-	-	-	-	-
Net Income	($3,217.8)	($1,031.5)	($994.4)	($1,478.7)	($1,305.1)	($5,086.4)	($3,238.9)	($676.9)	$1,407.8
YOY Growth	*196.8%*	*84.4%*	*12.6%*	*71.4%*	*31.1%*	*58.1%*	*-36.3%*	*-79.1%*	*-308.0%*
Net Margin	*-52.0%*	*-68.7%*	*-66.4%*	*-95.6%*	*-78.5%*	*-81.9%*	*-38.4%*	*-5.6%*	*9.4%*
EPS	($0.31)	($0.09)	($0.08)	($0.12)	($0.11)	($0.42)	($0.20)	($0.04)	$0.08
YOY Growth	*42.6%*					*35.2%*	*-52.1%*	*-80.1%*	*-302.5%*
Diluted Shares O/S	10,425	12,101	12,145	12,202	12,304	12,188	16,200	17,040	17,500

Brian Marckx, CFA

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MANAGEMENT

Michael Rice
Chairman & Chief Executive Officer

Mike Rice became president and chief executive officer and a member of our Board of Directors in August 2006, and Chairman in August 2007. He has more than 20 years of leadership and entrepreneurial experience in the medical and high tech industries. He was most recently the senior business development manager for medical and wireless products at AMI Semiconductor (NASDAQ:AMIS). Mr. Rice also served as the director of marketing and business development at Cardiac Science, Inc., a manufacturer of automated external defibrillators. Prior to that, he was the Vice President, Sales and Marketing for TEGRIS Corporation, a privately held network services provider. Mr. Rice also spent 12 years at Physio Control Corporation in several sales and marketing management roles prior to its acquisition by Medtronic Inc.

Aby J. Mathew, Ph.D.
Sr. Vice President and Chief Technology Officer

Dr. Mathew was part of the founding team of BioLife Solutions, and is a co-developer of BioLife′s biopreservation media solutions. He is a co-inventor on multiple issued and pending patents related to methods, devices, and formulations for the preservation of cells, tissues, and organs. He holds a Ph.D. in Biological Sciences within the Biochemistry, Cell and Molecular Biology Program from Binghamton University and a B.S. in Microbiology from Cornell University. Dr. Mathew has been researching low temperature biopreservation since 1994, and his studies contributed to the development of BioLife′s current commercial HypoThermosol and CryoStor product platforms and intellectual property foundation. Dr. Mathew was part of the scientific team that linked cell death via apoptosis (programmed cell death) to exposure to hypothermic and/or freezing temperatures. These discoveries were integral to the development of BioLife′s improved intracellular-like biopreservation solutions, and also contributed to improvements in cryosurgical ablation of cancer. Dr. Mathew is currently active in, or previously a member of, the International Society for Cell Therapy (ISCT), AABB (formerly the American Association of Blood Banks), BEST (the Biomedical Excellence for Safer Transfusion collaborative), Tissue Engineering & Regenerative Medicine International Society (TERMIS), Society for Cryobiology, International Society for Biological and Environmental Repositories (ISBER), American Society for Cell Biology, and the Society for In Vitro Biology.

Daphne Taylor
Vice President, Finance & Administration, Chief Financial Officer

Daphne Taylor has served as Vice President, Finance & Administration, and Chief Financial Officer since August 2011. She has 20 years experience as a finance professional. Prior to joining BioLife, Ms. Taylor served as Vice President, Corporate Controller and Chief Accounting Officer of Cardiac Science Corporation from November 2005 through January 2009. From April 2002 through November 2005, she held various positions, including Vice President and Corporate Controller for LookSmart, a publicly held Internet technology company. In 2001, Ms. Taylor was Controller at SpeedTrak Communications and prior to that she was Controller for ViroLogic, a publicly held biotechnology company. Ms. Taylor held various finance positions at Core-Mark International, a distribution company, from 1996 to 2000. From 1991 to 1994, she was in public accounting with Coopers & Lybrand and is a licensed CPA. Ms. Taylor holds a B.A. in Management/Accounting from Sonoma State University, California.

Joe Annicchiarico
Chief Operating Officer

Joe joined BioLife Solutions in December 2011 after serving for six years at MediQuest Therapeutics, Inc. in Bothell, Washington, where he was an integral part of the company′s first NDA filing. He spearheaded process scale-up and validation efforts, patent protection, and clinical trial supply chain management. His tenure at MediQuest included time as a Scientist, Formulation Manager, and most recently, as Director of Manufacturing and Clinical Supplies. Prior to his tenure at MediQuest, he worked in speciality chemical sales at Drummond American and spent four years as a formulation development Chemist at a pair of personal care products companies in New Jersey. Joe earned his Bachelor′s Degree in Biology from The Johns Hopkins University in Baltimore, Maryland, in 1997.

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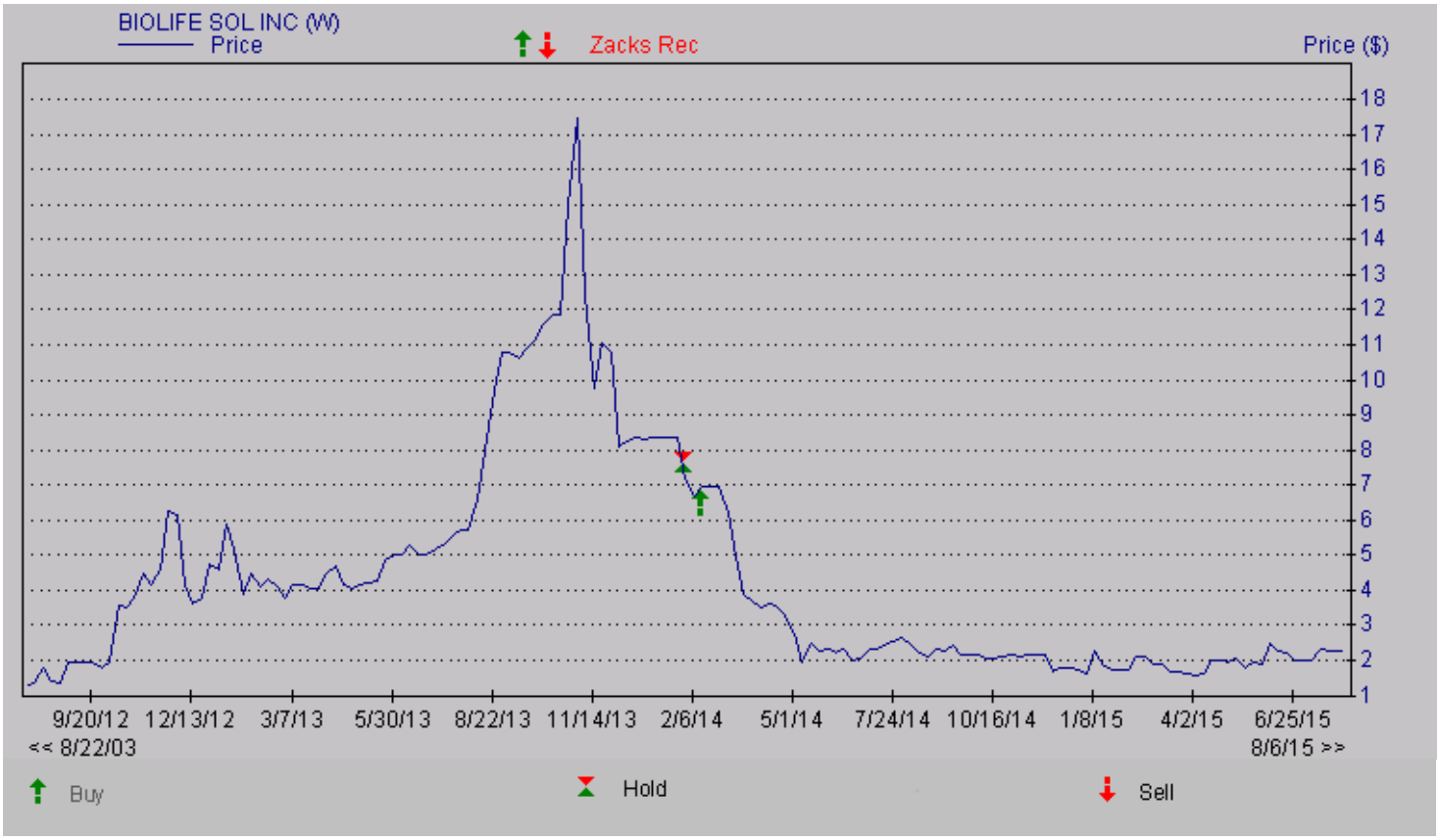

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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