Zacks Small-Cap Research

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BioLife Solutions Inc (BLFS-NASDAQ)

BLFS: *Q2 Results: Core Products Revenue Remains Strong*

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/13/2014
Current Price (08/08/14)	$2.50
Target Price	**$7.50**

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. The company's contract manufacturing business was providing a source of near-term revenue although loss of their major mfg customer will cause a big hiccup in revenue in 2014. However, the 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 signed a new contract mfg agreement, although currently unclear what the revenue potential is.

SUMMARY DATA

52-Week High	**$23.94**
52-Week Low	**$1.75**
One-Year Return (%)	**-55.07**
Beta	**-0.47**
Average Daily Volume (sh)	**183,338**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$30**
Short Interest Ratio (days)	**0.49**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**8**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**54.0**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**N/A**
P/E using 2015 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	2160 A	2330 A	2171 A	2289 A	8949 E
2014	2065 A	1212 A	1357 E	1457 E	6091 E
2015					8158 E
2016					11337 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.00 A	-$0.06 A	-$0.06 A	-$0.10 A	-$0.22 A
2014	-$0.10 A	-$0.07 A	-$0.07 E	-$0.06 E	-$0.28 E
2015					-$0.10 E
2016					$0.02 E

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

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WHAT'S NEW……

Q2 Results: *Core Products Revenue Remains Strong, Look For Total Revenue To P/U Later in 2014…*

BioLife announced results for Q2 2014. While revenue and gross margin were largely in-line with our estimates, operating expenses came in meaningfully higher - at least a portion of which management indicated on the call were related to preparations for launch of their biologistex cold-chain shipping solution. BLFS has also recently made some investments in personnel, including beefing up its sales and marketing initiatives.

Revenue was $1.2M, down 48% yoy and slightly lower than our $1.3M estimate. All of the revenue decrease was a result of the loss of the major contract manufacturing customer (Organ Recovery Systems). Contract manufacturing revenue fell 90% from $1.4M in Q2 2013 to just $135k in Q2 2014. Meanwhile the core products business remained strong, generating $1.08M in revenue (in-line with our $1.2M estimate), representing yoy growth of 14%. Q2 marks the fourth straight quarter where product revenue breached $1M. Management reiterated product sales growth guidance of 25% - 35% for the full year.

As the contract manufacturing business is relatively low-margin (~10% GM), the hit to gross profit with the loss of the great majority of this revenue in Q2 was somewhat muted. Q2 gross margin came in at 45%, up slightly from 43.7% in Q1 of this year but vastly improved from the 35.6% in Q2 2013.

OpEx were $1.43M, up considerably from $912 in Q2 2013 and $1.27M in Q1 2014 and higher than our $1.27M estimate. As noted, the jump in operating expenses mostly relates to operational-related investments, which we think should result in eventual revenue opportunities and related growth. One such opportunity, the biologistex thermal shipping monitoring and tracking service and SAVSU containers, is expected to launch in Q4 of this year. The investments in sales and marketing, including personnel additions, is also already producing results - which includes BLFS's cryopreservation media now being used in approximately 130 clinical trials, which is up from about 100 at the beginning of this year.

BLFS's tenacity in growing revenue also resulted in them scoring a new contract manufacturing customer, Somahlution LLC, a Junipter, FL based biotech company. Under the agreement, BLFS will manufacture Somahlution's DuraGraft, a solution used in the storage of veins harvested for use in heart bypass and other surgeries. And while it's too early to tell what this will mean to BLFS in terms of replacing the totality of the revenue lost from the termination of the manufacturing relationship with ORS, it is clearly a positive event. Somahlution is currently seeking regulatory approvals to market DuraGraft in certain (undisclosed) geographic locations - timing of expected regulatory approvals has also not been made public. BLFS expects to start shipping manufactured product to Somahlution in Q4, although its unclear how meaningful the initial orders may be.

Net loss and EPS were $883k and ($0.07) compared to $283k loss and ($0.06) in Q2 2013 and our $633k loss and ($0.05) estimates. We are maintaining our Outperform rating and $7.50/share price target.

Cash
Q2 cash flow used in operating activities was $874k. Excluding changes in working capital, cash used was $716k. Cash balance (including liquid investments), which was recently bolstered by the $13.6M (net) equity issuance in March, stood at $11.9M at Q2 quarter end. The balance sheet is also debt-free following the conversion of debt (and interest) to equity which happened in Q1.

BLFS To Launch New Thermal Shipper Tracking & Monitoring Service

In April BioLife announced that they will launch a new thermal shipping monitoring and tracking service called "biologistex".

The service encompasses the SAVSU thermal transport containers (in Q3 2013 BLFS became an exclusive distributor of SAVSU containers) with embedded monitoring sensors and a cloud-based web portal. The SAVSU containers ("EVO") have configurations to maintain temperatures at 2-8^0 C or approximately -80^0 C. The monitoring sensors are embedded in the containers and provide information on temperature, tilt, pressure and location - as well as other information to assure the integrity of the container and biological sample throughout the entire transportation process. The monitoring information is transmitted to a cloud-based web portal where it is available

for direct access to customers. BLFS did not disclose specific details about revenue model but did note that the EVO containers will be available to rent on a monthly basis.

BLFS will be addressing a frozen packaging materials market that remains highly antiquated and mostly dominated by the use of dry ice in Styrofoam containers. Relative flimsy and unreliable packaging can often result in temperature excursions inside the container and damage to the container during transport and handling. These can be detrimental to the health of the specimen sample inside. Sample integrity is often critical, particularly in the case of clinical trials where strict protocols means patient samples may not be able to be redone if lost or damaged - which can add more cost and time to potentially already expensive and lengthy trials.

While non-optimized packaging remains common, the industry is shifting towards more reliable containers partly as a result of a major increase in the number of temperature-controlled biological products - which offers an opportunity for SAVSU and BLFS. According to the Biopharma Cold Chain Sourcebook, published by Pharmaceutical Commerce, cold-chain biopharmaceutical distribution is expected to grow 55% from 2010 to 2016.

In contrast to run-of-the-mill retail coolers, the EVO containers were developed to be highly durable (the company website has a compelling video that demonstrates just how durable), to minimize risk of temperature excursions and, with the available monitoring, customers can be assured of sample health as well as the location of the container in real-time. Availability of the two container configurations provides another advantage as most biotech products (including vaccines and blood products) must be kept cold but not frozen (i.e. $2\text{-}8^{0}$) while others must be kept frozen.

We view biologistex as a possible complementary revenue opportunity for BLFS and offering potential synergies with its core cryopreservation customer base - particularly as BLFS's cryopreservation media are being used in over 100 clinical trials. And as each of these markets are closely related and significant in terms of both current size and expected future growth, the marriage of the two offerings under BLFS's umbrella provides the potential to steepen the rate of the company's already robust product revenue growth and leverage their current operational infrastructure.

VALUATION / RECOMMENDATION

Our comparable group used to value BLFS consists of 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 2014, and estimated 2015 (estimates from analyst forecasts).

Based on these six metrics, BioLife is valued between approximately $4/share and $13/share. Average valuation of all six metrics is about $7.50/share. BLFS currently trades at approximately $2.50, which is below what we calculate to be fair value. We are maintaining our Outperform rating. Our price target is $7.50/share.

	TICKER					Implied
METRIC	CYRX	ICEL	PLI	CYTX	Average	BLFS pps
EV/ Sales (ttm)	11.1	12.2	28.6	14.0	16.5	$13.27
EV/ Sales (2014 E)	6.3	7.8	15.7	8.1	9.5	$5.79
EV/ Sales (2015 E)	2.0	3.4	11.6	4.7	5.4	$4.68
P/ Sales (ttm)	10.2	15.5	28.7	13.0	16.8	$12.54
P/ Sales (2014 E)	5.7	3.4	16.1	7.5	8.2	$5.02
P/ Sales (2015 E)	1.8	4.5	11.9	4.4	5.6	$3.84
					Avg.	**$7.52**

FINANCIAL MODEL

BioLife Solutions Inc.

	2013 A	Q1A	Q2A	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
Product Sales & Ctrct Manuf	$8,340.2	$2,065.0	$1,211.9	$1,357.4	$1,457.1	$6,091.4	$8,158.2	$11,337.3	$15,022.6
YOY Growth	*47.8%*	*33.2%*	*-48.0%*	*-37.5%*	*-36.3%*	*-27.0%*	*33.9%*	*39.0%*	*32.5%*
Licensing Revenue	$609.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
YOY Growth	*2945.8%*	-	-	-	-	-	-	-	-
Total Revenues	$8,949.4	$2,065.0	$1,211.9	$1,357.4	$1,457.1	$6,091.4	$8,158.2	$11,337.3	$15,022.6
YOY Growth	*58.0%*	*-4.4%*	*-48.0%*	*-37.5%*	*-36.3%*	*-31.9%*	*33.9%*	*39.0%*	*32.5%*
Cost of Product Sales	$5,186.5	$1,161.6	$666.6	$732.6	$767.5	$3,328.3	$4,049.0	$5,140.2	$6,392.6
Gross Income	$3,762.9	$903.4	$545.3	$624.8	$689.6	$2,763.1	$4,109.2	$6,197.1	$8,630.0
Gross Margin	*42.0%*	*43.7%*	*45.0%*	*46.0%*	*47.3%*	*45.4%*	*50.4%*	*54.7%*	*57.4%*
R&D	$487.8	$167.3	$192.8	$190.0	$188.0	$738.1	$705.0	$730.0	$825.0
% R&D	*5.5%*	*8.1%*	*15.9%*	*14.0%*	*12.9%*	*12.1%*	*8.6%*	*6.4%*	*5.5%*
Selling & Mktg	$841.5	$241.4	$270.6	$285.0	$315.0	$1,112.0	$1,231.9	$1,417.2	$1,652.5
% Sell&Mktg	*9.4%*	*11.7%*	*22.3%*	*21.0%*	*21.6%*	*18.3%*	*15.1%*	*12.5%*	*11.0%*
G&A	$2,719.0	$863.7	$969.8	$955.0	$888.0	$3,676.5	$3,688.0	$3,866.0	$4,581.9
% G&A	*30.4%*	*41.8%*	*80.0%*	*70.4%*	*60.9%*	*60.4%*	*43.2%*	*34.1%*	*30.5%*
Operating Income	($285.3)	($369.1)	($887.9)	($805.2)	($701.4)	($2,763.5)	($1,515.7)	$183.9	$1,570.6
Operating Margin	*-3.2%*	*-17.9%*	*-73.3%*	*-59.3%*	*-48.1%*	*-45.4%*	*-18.6%*	*1.6%*	*10.5%*
Total Other Inc. (Exp.)	($798.8)	($190.3)	$4.5	$5.0	$5.0	($175.8)	$75.0	$100.0	$125.0
Pre-Tax Income	($1,084.1)	($559.4)	($883.4)	($800.2)	($696.4)	($2,939.3)	($1,440.7)	$283.9	$1,695.6
Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	-	-	-	-	-	-	-	-	-
Net Income	($1,084.1)	($559.4)	($883.4)	($800.2)	($696.4)	($2,939.3)	($1,440.7)	$283.9	$1,695.6
YOY Growth	*-34.7%*	*7670.5%*	*212.4%*	*158.2%*	*43.8%*	*171.1%*	*-51.0%*	*-119.7%*	*497.2%*
Net Margin	*-12.1%*	*-27.1%*	*-72.9%*	*-58.9%*	*-47.8%*	*-48.3%*	*-17.7%*	*2.5%*	*11.3%*
EPS	($0.22)	($0.10)	($0.07)	($0.07)	($0.06)	($0.28)	($0.10)	$0.02	$0.10
YOY Growth	*-35.1%*					*30.4%*	*-66.0%*	*-118.2%*	*467.8%*
Diluted Shares O/S	5,008	5,569	12,010	12,030	12,040	10,412	15,000	16,200	17,040

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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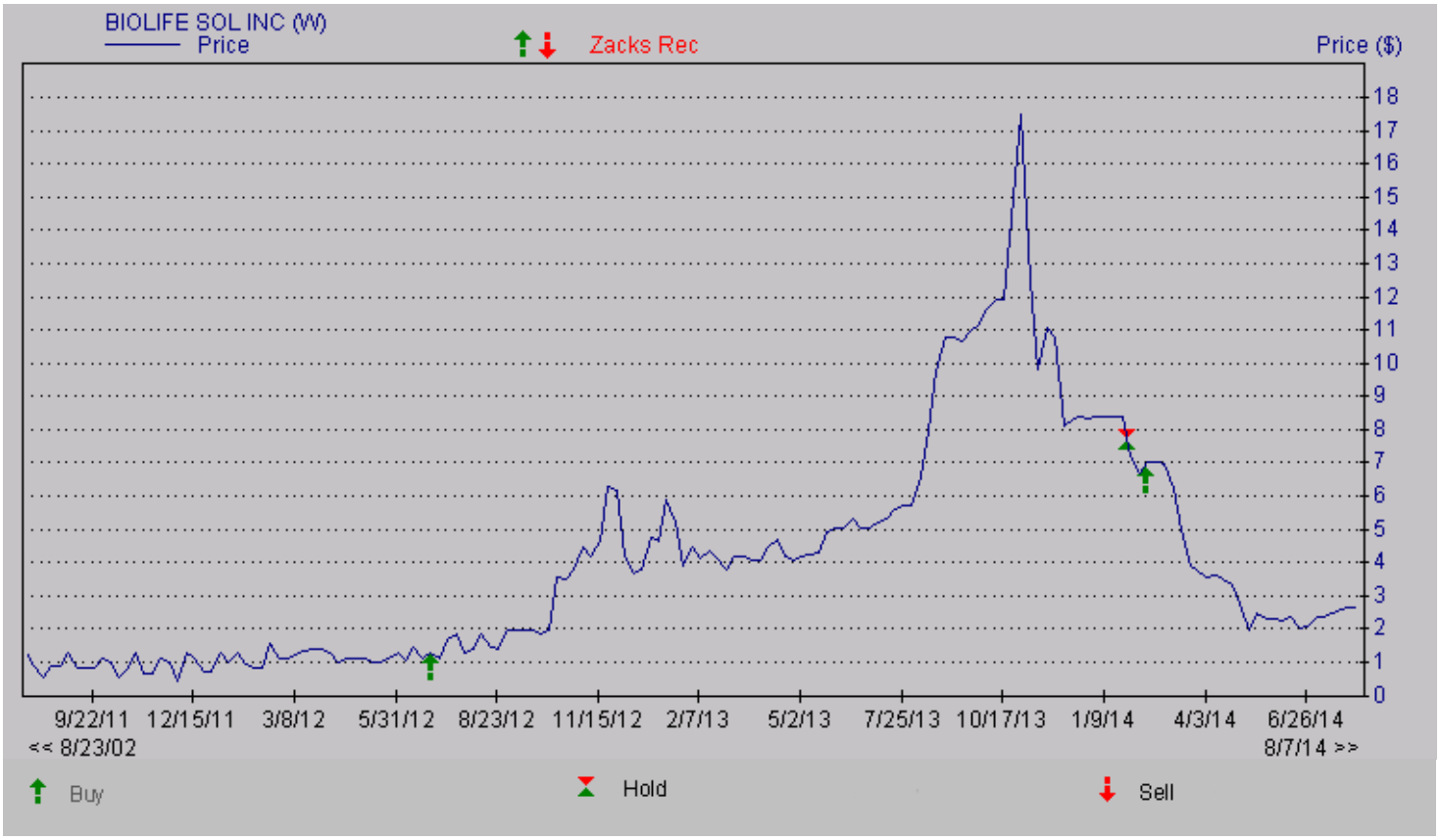

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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