Zacks Small-Cap Research

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Pure Bioscience, Inc. (PURE-NASDAQ)

PURE: balance sheet boosted, but sales may take longer time to gain traction—move to Neutral

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	12/12/2012
Current Price (12/12/12)	$0.85
Twelve- Month Target Price	**$1.75**

OUTLOOK

PURE develops and markets SDC-based antimicrobial products that provide non-toxic solutions to numerous global health challenges. SDC is a novel, patented platform technology with superior efficacy and low toxicity and can be used in diverse markets including personal care, preservatives, industrials, agriculture and pharmaceuticals. Although its lead product PURE Hard Surface is increasingly gaining recognition, sales may take longer to gain traction since PURE is still in its early stage of commercialization of its SDC technology.

SUMMARY DATA

52-Week High	**$4.00**
52-Week Low	**$0.77**
One-Year Return (%)	**-76.99**
Beta	**0.56**
Average Daily Volume (sh)	**65,704**
Shares Outstanding (mil)	**11**
Market Capitalization ($mil)	**$9**
Short Interest Ratio (days)	**1.71**
Institutional Ownership (%)	**9**
Insider Ownership (%)	**13**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**36.6**
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-Growth**
Industry	**Med Products**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2012	0.26 A	0.22 A	0.21 A	0.40 A	1.08 A
2013	0.11 A	0.30 E	0.45 E	0.55 E	1.41 E
2014					5.00 E
2015					9.50 E

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

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2012	-$0.47 A	-$0.41 A	-$0.31 A	-$0.36 A	-$1.53 A
2013	-$0.25 A	-$0.20 E	-$0.19 E	-$0.18 E	-$0.80 E
2014					-$0.50 E
2015					-$0.27 E

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

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WHAT'S NEW

First Quarter Financials Disappointing

On December 12, 2012, PURE Bioscience (PURE) reported financial results for the fiscal first quarter ended October 31, 2012.

Revenues for the fiscal first quarter of 2013 were $110,000, compared with revenues of $257,000 for the fiscal first quarter of 2012, a decrease of 57%. The decrease of $147,000 was primarily attributable to sales to one customer. This customer accounted for zero and $153,000 of net product sales for the three months ended October 31, 2012 and 2011, respectively.

For the three months ended October 31, 2012, two individual customers each accounted for 10% or more of net product sales. One customer accounted for 47% and the other for 16%. No other individual customer accounted for 10% or more of net product sales. The geographic breakdown of net product sales was as follows: 53% U.S. and 47% foreign.

For the three months ended October 31, 2011, two individual customers each accounted for 10% or more of net product sales. One customer accounted for 60% and the other for 17%. No other individual customer accounted for 10% or more of net product sales. The geographic breakdown of net product sales is as follows: 93% U.S. and 7% foreign.

Gross margin percentage, excluding the inventory charge, was 72% and 75% for the three months ended October 31, 2012 and 2011, respectively. This decrease in gross margin percentage was primarily attributable to the sale of higher margin formulations and packaging configurations of products during the quarter ended October 31, 2011 as compared to current year.

Total operating costs and expenses for the fiscal first quarter of 2013 were $1.9 million, a decrease of $0.7 million compared to fiscal first quarter 2012 operating costs and expenses of $2.6 million.

The loss from operations for the fiscal first quarter of 2013 was $1.8 million, a decrease of $0.6 million compared to the fiscal first quarter 2012 loss from operations of $2.4 million.

Net loss for the fiscal first quarter of 2013 was $2.2 million or $0.25 per share, compared with a net loss of $2.4 million, or $0.47 per share, in the fiscal first quarter of 2012.

The financial results for the first fiscal quarter were disappointing. Revenue declined 57% year over year, and was way off our estimate of $0.38 million. Gross margin also decreased to 72% in the current quarter from 75% a year earlier. As a result, we lowered our revenue estimates for the rest of fiscal year of 2013 and beyond.

Balance Sheet Boosted by Recent Financing

On September 17, 2012, PURE closed an underwritten public offering of 3,784,000 shares of its common stock at an offering price of $1.10 per share. In addition, the Underwriter has exercised the over-allotment option, and purchased an additional 557,615 shares of common stock to cover over-allotments.

Net proceeds to PURE from the offering were approximately $4.2 million.

This is a great achievement for PURE. The successful financing not only boosts the Company's balance sheet, but also validates the Company's technology and the prospect.

As of October 31, 2012, the Company had cash and cash equivalents of approximately $2.5 million.

With this cash in hand, PURE could increase its marketing efforts for its patented silver dihydrogen citrate (SDC) antimicrobial products.

Business Continues to Grow

PURE Partners with Food Safety and Sanitation Leader Chemstar

On November 26, 2012, PURE announced an agreement with Florida-based **Chemstar Corp**. to distribute the PURE Complete System to supermarkets, restaurants, hotels and motels, food service and processing facilities, and healthcare institutions.

For over 30 years Chemstar has been a leading provider of world-class food safety and sanitation products and services to establishments across North America. The company delivers comprehensive services through its highly educated, trained, and motivated team of food safety professionals. Chemstar also develops, implements, and monitors customized food safety and sanitation solutions that best accommodate a retailer's culture, operations and strategic objectives as related to food handling, preparation and sale.

PURE works with Italian export company TICE

On September 27, 2012, PURE announced Italian export company TICE as its general sales agent and distributor for Italy.

TICE is a consortium composed of Italian companies who have as their main philosophy the promotion and sale of 100% made-in-Italy products, with an emphasis on the North American market. The product categories for TICE marketing include food and wine, production and process systems, renewable energy process systems, hospitality and restaurant decoration and design. Started on an experimental level in 2002, the TICE Consortium was officially founded in 2004 with a small number of companies. Over the years this number has grown, which has allowed TICE to create a network of business relationships in Italy, the United States and Mexico to execute innovative business concepts.

TICE will introduce PURE Hard Surface and its many benefits to Italy. During the last six months TICE has laid the groundwork to import PURE into Italy. Preliminary sales efforts have generated considerable interest throughout TICE's business network, most notably in food processing, food service, retail and general commercial applications.

PURE commences testing of SDC in produce

On October 3, 2012, PURE announced it has initiated testing of SDC-based formulas in direct food applications to determine efficacy in reducing food borne pathogens such as Listeria, E. coli and Salmonella. The new testing program builds on the earlier GRAS designation for SDC on food contact surfaces.

Based on promising results from initial tests at Deibel Laboratories, additional testing is underway at the University of Georgia using whole lettuce leaves. These and other planned tests are intended to optimize specific formulas for various intervention steps throughout a food processing program.

Current chemistries are not providing the necessary overall protection to the food supply. SDC has the potential to make a dramatic impact in food processing and reduce overall contamination when implemented as a 360° farm-to-fork solution. SDC is ideally suited for direct food applications because it has broad spectrum efficacy, does not induce bacterial resistance, does not impart an odor or flavors to the food product, and is non-hazardous to food industry workers.

PURE is seeking additional partners to continue development in produce as well as in other food processing segments. Its objective is to gather and present data necessary to gain appropriate regulatory

clearances from the U.S. Food and Drug Administration and the Environmental Protection Agency, as well as to demonstrate SDC's efficacy to the agricultural market and food processing industry.

PURE Hard Surface receives high profile at ISSA Show

On October 16, 2012, PURE Bioscience announced that two of its distributors are featuring the PURE Hard Surface disinfectant and food contact surface sanitizer at the annual ISSA/INTERCLEAN® trade show in Chicago.

PURE Bioscience distributors **Intercon Chemical/Clearly Better Medical** in booth 2241 and **Nilodor, Inc**. in booth 1324 presented to decision makers and buyers from several of PURE's market channels, including facility services companies and contractor cleaners, as well as to distributors and wholesalers. ISSA/INTERCLEAN is the world's largest trade show dedicated to cleaning products and services, attracting nearly 16,000 attendees and more than 650 exhibitors.

VALUATION AND RECOMMENDATION

We move to Neutral from Outperform on PURE. Our 12-month price target is $1.75 per share.

PURE is a technology-based bioscience company that provides solutions to numerous global health challenges. PURE's proprietary high efficacy/low toxicity **SDC-based antimicrobials** represent innovative advances in diverse markets and lead today's global trend toward industry and consumer use of "green" products. Patented SDC is an electrolytically generated source of stabilized ionic silver, which formulates well with other compounds. As a platform technology, SDC is distinguished from competitors in the marketplace because of its superior efficacy, reduced toxicity and the inability of bacteria to form a resistance to it.

PURE's SDC is the first new disinfectant registered with EPA in over 30 years. SDC's competitive advantages in efficacy and safety make it outstanding among its competitors and represent a **paradigm shift** in the disinfectant/sanitizer market place.

Another key feature of SDC is that SDC-based products have broad applicability in diverse markets. The Company's current focus is to expand distribution of currently approved **disinfectant/sanitizer** products to institutional customers and consumers in the household, personal care, agriculture, industrial, and preservatives markets. PURE also plans to develop SDC-based products as **pharmaceuticals and API**. SDC is targeting diverse markets worth multi-billion dollars.

But we are concerned about the slow sales ramp for the Company's SDC products. Although its lead product PURE Hard Surface is increasingly gaining recognition, sales may take longer time to gain traction since PURE is still in its early stage of commercialization of its SDC technology. Sales so far have not been impressive. SDC technology is quite new to most customers in the disinfectant market, and the costs for SDC are also higher than those for most existing technologies. Therefore, rollout of the SDC platform will take time.

Without meaningful product revenue growth, PURE will be under great pressure to finance its operations by continuously issuing new shares or convertible notes. Certainly, product sales ramp will take longer than we expected to gain traction. Profitability will take longer to achieve accordingly. Revenue concentration also posts higher operational risk for the Company. As such, the Company is making efforts to diversify its revenue base by partnering with different companies in the industry.

In terms of valuation, currently, the Company trades around $0.80 per share with a market cap of $8.8 million based on 11 million shares outstanding. We think risk/reward profile is balanced for PURE at this time. Our valuation is based on its fundamentals. PURE will become profitable in fiscal 2017 with an EPS

of 0.14 based on total revenue of $22.0 million. We believe PURE shares should be traded at a P/E ratio of 25 x. which is between chemical industry's P/E ratio of 15x and small biotech industry's P/E ratio of 30x. Applying the 25 x P/E multiples with our estimated EPS of $0.14 per share in fiscal 2017, discounted at 20% for 4 years, we come up with a target price of $1.75.

Cash burn is another concern. Current cash will only last for about two quarters and the Company needs to tap the capital market soon. Equity financing will dilute existing shareholder base. A financing deal with a strategic partner should be positive to the Company's long term growth.

PROJECTED INCOME STATEMENT

	2012A (Jul)					2013E (Jul)					2014E (Jul)	2015E (Jul)	2016 (Jul)	2017 (Jul)
$ in million except per share data	Q1A	Q2A	Q3A	Q4A	FYA	Q1A	Q2E	Q3E	Q4E	FYE	FYE	FYE	FYE	FYE
Total Revenues	**$0.26**	**$0.22**	**$0.21**	**$0.40**	**$1.08**	**$0.11**	**$0.30**	**$0.45**	**$0.55**	**$1.41**	**$5.00**	**$9.50**	**$14.00**	**$22.00**
YOY Growth	*1013.3%*	*223.1%*	*61.2%*	*62.7%*	*133.1%*	*-57.2%*	*35.7%*	*117.4%*	*38.5%*	*30.3%*	*254.6%*	*90.0%*	*47.4%*	*57.1%*
CoGS	0.13	0.04	0.04	0.06	0.26	0.03	0.08	0.13	0.15	0.39	1.25	2.14	2.80	4.40
Gross Income	**$0.13**	**$0.18**	**$0.17**	**$0.34**	**$0.82**	**$0.08**	**$0.22**	**$0.32**	**$0.40**	**$1.02**	**$3.75**	**$7.36**	**$11.20**	**$17.60**
Gross Margin	*49.8%*	*81.9%*	*82.1%*	*85.4%*	*75.6%*	*71.8%*	*72.0%*	*72.0%*	*73.0%*	*72.4%*	*75.0%*	*77.5%*	*80.0%*	*80.0%*
R&D	$0.49	$0.49	$0.44	$0.44	$1.86	$0.40	$0.46	$0.48	$0.50	$1.84	$3.00	$3.50	$4.00	$4.50
% R&D	*191.8%*	*221.3%*	*212.1%*	*111.3%*	*172.2%*	*359.1%*	*153.3%*	*106.7%*	*90.9%*	*130.1%*	*60.0%*	*36.8%*	*28.6%*	*20.5%*
SG&A	$2.00	$1.89	$1.56	$2.00	$7.44	$1.48	$2.00	$2.10	$2.20	$7.78	$8.25	$8.50	$9.00	$9.50
% SG&A	*777.0%*	*852.9%*	*752.2%*	*503.8%*	*687.5%*	*1341.8%*	*666.7%*	*466.7%*	*400.0%*	*551.5%*	*165.0%*	*89.5%*	*64.3%*	*43.2%*
Other	$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
% Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	**($2.4)**	**($2.2)**	**($1.8)**	**($2.1)**	**($8.5)**	**($1.8)**	**($2.2)**	**($2.3)**	**($2.3)**	**($8.6)**	**($7.5)**	**($4.6)**	**($1.8)**	**$3.6**
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	-	*-12.9%*	*16.4%*
Other Net	$0.0	$0.0	($0.0)	($0.1)	($0.1)	($0.4)	$0.0	$0.0	$0.0	($0.4)	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($2.4)**	**($2.2)**	**($1.8)**	**($2.2)**	**($8.6)**	**($2.2)**	**($2.2)**	**($2.3)**	**($2.3)**	**($9.0)**	**($7.5)**	**($4.6)**	**($1.8)**	**$3.6**
Income 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
Tax Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reported Net Income	**($2.4)**	**($2.2)**	**($1.8)**	**($2.2)**	**($8.6)**	**($2.2)**	**($2.2)**	**($2.3)**	**($2.3)**	**($9.0)**	**($7.5)**	**($4.6)**	**($1.8)**	**$3.6**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	*-300.0%*
Net Margin	-	-	-	-	-	-	-	-	-	-	-	-	*-12.9%*	*16.4%*
Shares Out	*5.0*	*5.3*	*5.8*	*6.3*	*5.6*	*8.7*	*11.0*	*12.0*	*13.0*	*11.2*	*15.0*	*17.5*	*20.0*	*25.0*
Reported EPS	**($0.47)**	**($0.41)**	**($0.31)**	**($0.36)**	**($1.53)**	**($0.25)**	**($0.20)**	**($0.19)**	**($0.18)**	**($0.80)**	**($0.50)**	**($0.27)**	**($0.09)**	**$0.14**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-		
One time charge	*$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	**($2.4)**	**($2.2)**	**($1.8)**	**($2.2)**	**($8.6)**	**($2.2)**	**($2.2)**	**($2.3)**	**($2.3)**	**($9.0)**	**($7.5)**	**($4.6)**	**($1.8)**	**$3.6**
Non GAAP EPS	**($0.47)**	**($0.41)**	**($0.31)**	**($0.36)**	**($1.53)**	**($0.25)**	**($0.20)**	**($0.19)**	**($0.18)**	**($0.80)**	**($0.50)**	**($0.27)**	**($0.09)**	**$0.14**

Source: Company filing and Zacks estimates

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