Zacks Small-Cap Research

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Applied DNA Sciences (APDN-OTC)

APDN: Reported record revenue for 4Q15 and fiscal year 2015, entering diagnostic market, balance sheet boosted, businesses continue to grow--Buy

Current Recommendation	**Buy**
Prior Recommendation	Hold
Date of Last Change	08/21/2013
Current Price (12/15/15)	$3.93
Twelve- Month Target Price	**$10.00**

OUTLOOK

We are optimistic about the Company's unique technology and two principle anti-counterfeiting and product authentication solutions: SigNature DNA and fiberTyping, which can be used in numerous industries. With an ever booming anti-counterfeiting business worldwide, along with its unique technology and broad range of product offering, the Company is well positioned to grow in the coming years.

The entry into diagnostic market should accelerate revenue growth in the coming years.

We remain bullish on APDN shares.

SUMMARY DATA

52-Week High	**$8.82**
52-Week Low	**$2.32**
One-Year Return (%)	**33.67**
Beta	**0.98**
Average Daily Volume (sh)	**600,043**
Shares Outstanding (mil)	**24**
Market Capitalization ($mil)	**$95**
Short Interest Ratio (days)	**0.86**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
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 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Protection-Sfty**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2015	1.24 A	1.52 A	2.27 A	3.98 A	9.01 A
2016	2.50 E	3.0 E	3.5 E	4.0 E	13.00 E
2017					17.50 E
2018					25.00 E

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

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2015	-$0.25 A	-$0.11 A	-$0.08 A	-$0.02 A	-$0.42 A
2016	-$0.07 E	-$0.06 E	-$0.04 E	-$0.03 E	-$0.20 E
2017					-$0.06 E
2018					$0.10 E

Zacks Projected EPS Growth Rate - Next 4 Years % **N/A**

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WHAT'S NEW

APDN Reports Record Revenue for Fourth Quarter and Fiscal Year 2015

On December 15, Applied DNA Sciences (APDN) reported financial results for fiscal fourth quarter and fiscal year ended September 30, 2015.

Total revenue for 4Q15 was $4.0 million, as compared to $0.65 million for the same period last year, an impressive increase of 517% and an increase of 76% compared to revenue of $2.3 million for 3Q15. Fourth quarter revenue also easily blew up our estimate of $2.0 million.

The increase in revenue for fourth quarter 2015 resulted primarily from sales to the textile industry for the securing of global cotton supply chains, from two non-recurring government commercialization contract awards and from sales of polymerase chain reaction-generated (PCR) DNA to a global diagnostics company.

	Three Month Period Ended September 30,		Variance	
	2015	2014	$	%
Revenues	$3,980,265	$ 645,526	3,334,739	517%
Operating expenses:				
Selling, general and administrative	3,658,046	3,157,349	500,697	16%
Research and development	673,637	215,333	458,304	213%
Depreciation and amortization	136,496	116,813	19,683	17%
Total operating expenses	4,468,179	3,489,495	978,684	28%
LOSS FROM OPERATIONS	(487,914)	(2,843,969)	(2,356,055)	-83%
Other income (expense)	(8,120)	738,452	747,205	-101%
NET LOSS	$ (496,034)	$ (2,105,517)	(1,609,483)	-76%

	Three Month Period Ended September 30,		
	2015	2014	%
Net Loss	$(496,034)	$(2,105,517)	
Interest expense (income), net	(3,340)	11,812	
Depreciation and amortization	136,496	116,813	
(Gain) loss on change in fair value of warrant liability	-	(755,311)	
Stock based compensation expense	562,933	315,505	
Loss on conversion of promissory notes	-	-	
Bad debt expense	13,246	2,877	
Total non-cash items	709,335	(308,304)	
Consolidated Adjusted EBITDA (loss)	$ 213,301	$ (2,413,821)	-109%

R&D expenses for 4Q15 were $0.67 million, as compared to $0.22 million in 4Q14.

SG&A expenses for 4Q15 were $3.7 million, as compared to $3.2 million in 4Q14.

Total operating expenses for the fourth quarter of 2015 were $4.5 million, compared with $3.5 million in the prior year's quarter, an increase of approximately $0.98 million (28%). The increase was primarily attributable to an increase in R&D expense of approximately $0.46 million as well as an increase in payroll expenses of approximately $0.49 million and in stock-based compensation expense of $0.25 million, offset by decreases in consulting and investor relation expenses.

Net loss for 4Q15 was $0.50 million ($0.02 per share), compared with a net loss of $2.1 million ($0.15 per share) for the quarter ended September 30, 2014 and a net loss of $1.7 million ($0.08 per share) for the quarter ended June 30, 2015.

Adjusted EBITDA for 4Q15 was positive $0.21 million compared to a negative adjusted EBITDA of $2.4 million for the same quarter last year and a negative adjusted EBITDA of $0.48 million in the prior fiscal quarter. The improvement in adjusted EBITDA is primarily related to the increased revenues achieved for the quarter ended September 30, 2015.

For the fiscal year ended September 30, 2015:

Total revenue was $9.0 million, as compared to $2.7 million in the prior year, an increase of 231%. The increase was primarily driven by the successful commercialization of pilot projects across the company's

textile vertical as well as revenues from two government contracts and an initial order for DNA manufacturing for the diagnostic market.

Total operating expenses for fiscal 2015 were $16.9 million, compared with $15.0 million in the prior year. The increase was primarily attributable to an increase in SG&A expenses of non-cash stock-based compensation expense of approximately $2.0 million as well as an increase in payroll expense of approximately $0.69 million and approximately $0.34 million in research and development, offset primarily by decreases in legal $0.77 million and consulting expenses of approximately $0.64 million.

Net loss for fiscal 2015 was $11.9 million ($0.63 per share), compared with a net loss of $13.1 million ($ 0.97 per share) in the prior year.

Adjusted EBITDA for fiscal 2015 was negative $3.2 million, as compared to a negative adjusted EBITDA of $9.3 million in the prior year. The improvement in adjusted EBITDA was primarily related to the increase in revenues achieved and a decrease in cash operating expenses.

	Fiscal Year Ended September 30,		Variance	
	2015	2014	$	%
Revenues	$ 9,008,499	$ 2,721,224	6,287,275	231%
Operating expenses:				
Selling, general and administrative	14,736,451	13,249,753	1,486,698	11%
Research and development	1,635,381	1,300,750	334,631	26%
Depreciation and amortization	490,641	442,262	48,379	11%
Total operating expenses	16,862,473	14,992,765	1,869,708	12%
LOSS FROM OPERATIONS	(7,853,974)	(12,271,541)	(4,417,567)	-36%
Other income (expense)	(4,027,163)	(795,120)	3,232,043	406%
NET LOSS	$ (11,881,137)	$ (13,066,661)	(1,185,524)	-9%

	Fiscal Year Ended September 30,		
	2015	2014	%
Net Loss	$(11,881,137)	$(13,066,661)	
Interest expense (income), net	23,468	11,029	
Depreciation and amortization	490,641	442,262	
(Gain) loss on change in fair value of warrant liability	2,994,540	908,005	
Stock based compensation expense	4,158,564	2,370,842	
Loss on conversion of promissory notes	980,842	-	
Bad debt expense	34,996	19,755	
Total non-cash items	8,683,051	3,751,893	
Consolidated Adjusted EBITDA (loss)	$ (3,198,086)	$ (9,314,768)	-66%

We are impressed by the continued revenue growth for the fiscal 4Q15 and the full fiscal year. We continue to believe revenue will grow further in the coming quarters.

Balance Sheet Remains Strong

As of September 30, 2015, The company held $7.3 million in cash and cash equivalents.

In late November, APDN closed a registered direct offering of 2,500,000 shares of common stock at a price of $3.49 per share and its concurrent private placement of warrants to purchase 1,250,000 shares of common stock at a price of $.01 per warrant to certain institutional investors. The warrants have a per share exercise price of $4.30, are exercisable beginning six months from the date hereof and will expire five years from the date on which they become exercisable.

The aggregate gross proceeds to the company from the registered direct offering and concurrent private placement were $8.75 million before deducting the placement agent's fee and other estimated offering expenses.

We welcome this new financing, which not only boosts the company's balance sheet, but more importantly validates the company's technology and commercial efforts. With the boosted balance sheet, APDP is well positioned to accelerate revenue growth in fiscal 2016 and beyond.

APDN Enters Diagnostics Market

In early November 2015, APDN announced that it has shipped its first orders of DNA used as a **diagnostic reagent** to reagent suppliers and two international diagnostics customers. The total value of these shipments, which were made in its fiscal 2015 fourth quarter and the current fiscal first quarter, is over $400,000.

This marks the official entry into the lucrative **diagnostic market** by the company.

In September, APDN announced the acquisition of private **Vandalia Research**, Inc., whose core technology and intellectual property portfolio allows for the large-scale production of specific DNA sequences using polymerase chain reaction (PCR). As part of the acquisition, Applied DNA assumed Vandalia's backlog of orders.

The acquisition provides APDN with established supply relationships across key companies in the biotechnology, pharmaceutical and diagnostic markets where Vandalia DNA is already used as a business-critical therapeutic, diagnostic and reagent and provides the company the opportunity to cross-sell its DNA-based supply chain security solutions.

As APDN continues to provide contract production of DNA to clients in these markets, the company plans to also introduce them to its DNA-based security solutions to protect their products against theft of their IP and the invasion of counterfeits into their supply chains.

DNA-based diagnostic reagents may be used in the early detection of cancer, or the diagnosis of genetic, metabolic or infectious diseases. DNA-based therapeutics may be used in gene therapies, DNA vaccines, and other therapies that are generally in the early stage of development. By providing the production of DNA for diagnostics and therapeutics, APDN expects to gain access to pharmaceutic customers who will likely have supply chain concerns, and need to protect themselves against the potential of counterfeit infiltration and comply with FDA efforts to eliminate counterfeits.

We Maintain Our Buy rating with a 12-Month Price Target of $10.00

Based on the strong financial performance and recent operational achievements, we maintain our Buy rating for APDN shares and reiterate our 12-month price target of $10.00 per share.

We are impressed by the stellar financial performance for the fiscal 4Q15 and the fiscal year of 2015. Revenue in fiscal 4Q15 increased 517% year over year, and 76% quarter over quarter. The company achieved the highest quarterly revenue ever in the Company's history, which exceeded the $3.0 million mark.

We are especially pleased to see that APDN has entered into the lucrative molecular diagnostic market. This is a huge market with high growth potential in the next decade for the company.

We remain optimistic about APDN's prospect. The company's fundamentals remain strong. The Company's technology is unique and has competitive advantages over its peers. The Company is well positioned to boost its top line and bottom line in the coming quarters. According to our long term financial model, the Company's revenue will grow at a compound annual growth rate (CAGR) of 38% in the next 4 fiscal years from 2016 to 2020. APDN will become profitable in fiscal 2018 with net income of $2.9 million or EPS of $0.10 per share. EPS will grow to $0.60 per share in fiscal 2020 based on total revenue of $45 million.

APDN is a high growth company. In terms of valuation, we apply a P/E of 35x to our estimated EPS of $0.60 in fiscal 2020, discounted at 20% for 4 years. This way, we get our price target of $10.00 per share. This values the company at about $240 million in market cap based on 24 million outstanding shares, which is reasonable in our view. As long as the Company can execute on its growth strategy correctly, we believe value should be generated for shareholders.

PROJECTED INCOME STATEMENT

	2014A (Sep)	2015E (Sep)					2016E (Sep)					2017E (Sep)	2018E (Sep)	2019E (Sep)	2020E (Sep)
$ in million except per share data	FYA	Q1	Q2	Q3	Q4	FYA	Q1	Q2	Q3	Q4	FYE	FYE	FYE	FYE	FYE
Total Revenues	**$2.72**	**$1.24**	**$1.52**	**$2.27**	**$3.98**	**$9.01**	**$2.50**	**$3.00**	**$3.50**	**$4.00**	**$13.00**	**$17.50**	**$25.00**	**$35.00**	**$45.00**
YOY Growth	*33.6%*	*107.9%*	*138.4%*	*169.6%*	*516.6%*	*231.0%*	*101.3%*	*97.5%*	*54.3%*	*0.5%*	*44.3%*	*34.6%*	*42.9%*	*40.0%*	*28.6%*
CoGS	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
Gross Income	**2.72**	**1.24**	**1.52**	**2.27**	**3.98**	**9.01**	**2.50**	**3.00**	**3.50**	**4.00**	**13.00**	**17.50**	**25.00**	**35.00**	**45.00**
Gross Margin	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
SG&A	$13.2	$4.7	$2.9	$3.5	$3.7	$14.7	$3.7	$3.8	$4.0	$4.2	$15.7	$16.5	$19.0	$20.0	$22.0
% SG&A	*486.9%*	*376.2%*	*191.0%*	*154.7%*	*91.9%*	*163.6%*	*148.0%*	*126.7%*	*114.3%*	*105.0%*	*120.8%*	*94.3%*	*76.0%*	*57.1%*	*48.9%*
R&D	$1.30	$0.28	$0.37	$0.31	$0.67	$1.64	$0.40	$0.45	$0.50	$0.55	$1.90	$2.20	$2.80	$3.00	$3.50
% R&D	*47.8%*	*22.4%*	*24.6%*	*13.7%*	*16.9%*	*18.2%*	*16.0%*	*15.0%*	*14.3%*	*13.8%*	*14.6%*	*12.6%*	*11.2%*	*8.6%*	*7.8%*
Other	$0.4	$0.1	$0.1	$0.1	$0.1	$0.5	$0.1	$0.1	$0.1	$0.1	$0.4	$0.3	$0.3	$0.3	$0.3
% Other	*16.3%*	*8.8%*	*8.1%*	*5.4%*	*3.4%*	*5.4%*	*4.0%*	*3.3%*	*2.9%*	*2.5%*	*3.1%*	*1.7%*	*1.2%*	*0.9%*	*0.7%*
Operating Income	**($12.3)**	**($3.8)**	**($1.9)**	**($1.7)**	**($0.5)**	**($7.9)**	**($1.7)**	**($1.4)**	**($1.1)**	**($0.9)**	**($5.0)**	**($1.5)**	**$2.9**	**$11.7**	**$19.2**
Operating Margin	*-451.0%*	*-307.4%*	*-123.7%*	*-73.7%*	*-12.3%*	*-87.2%*	*-68.0%*	*-45.0%*	*-31.4%*	*-21.3%*	*-38.5%*	*-8.6%*	*11.6%*	*33.4%*	*42.7%*
Other Net	($0.8)	($4.0)	($0.0)	$0.0	($0.0)	($4.0)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($13.1)**	**($7.8)**	**($1.9)**	**($1.7)**	**($0.5)**	**($11.9)**	**($1.7)**	**($1.4)**	**($1.1)**	**($0.9)**	**($5.0)**	**($1.5)**	**$2.9**	**$11.7**	**$19.2**
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	$0.0
Tax Rate	*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	**($13.1)**	**($7.8)**	**($1.9)**	**($1.7)**	**($0.5)**	**($11.9)**	**($1.7)**	**($1.4)**	**($1.1)**	**($0.9)**	**($5.0)**	**($1.5)**	**$2.9**	**$11.7**	**$19.2**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	*303.45%*	*64.10%*
Net Margin	-	-	-	-	-	-	-	-	-	-	-	-	*11.6%*	*33.4%*	*42.7%*
Shares Out	*13.5*	*15.5*	*17.4*	*21.4*	*21.5*	*18.9*	*24.0*	*24.5*	*25.0*	*25.5*	*24.8*	*27.0*	*29.0*	*30.0*	*32.0*
Reported EPS	**($0.97)**	**($0.51)**	**($0.11)**	**($0.08)**	**($0.02)**	**($0.63)**	**($0.07)**	**($0.06)**	**($0.04)**	**($0.03)**	**($0.20)**	**($0.06)**	**$0.10**	**$0.39**	**$0.60**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	*-72.5%*	*-280.0%*	*290.0%*	*53.8%*
One-time charge	*$2.63*	*$4.01*	*$0.00*	*$0.00*	*$0.00*	*$4.01*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($10.4)**	**($3.8)**	**($1.9)**	**($1.7)**	**($0.5)**	**($7.9)**	**($1.7)**	**($1.4)**	**($1.1)**	**($0.9)**	**($5.0)**	**($1.5)**	**$2.9**	**$11.7**	**$19.2**
Non GAAP EPS	**($0.77)**	**($0.25)**	**($0.11)**	**($0.08)**	**($0.02)**	**($0.42)**	**($0.07)**	**($0.06)**	**($0.04)**	**($0.03)**	**($0.20)**	**($0.06)**	**$0.10**	**$0.39**	**$0.60**

Source: Company filing and Zacks Investment Research estimates

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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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