Zacks Small-Cap Research

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Applied DNA Sciences (APDN-OTC)

APDN: Record revenue reported for fiscal 2014, businesses continue to grow. Price target adjusted to $12 per share reflecting recent reverse stock split--Outperform

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	08/21/2013
Current Price (12/15/14)	$2.93
Twelve- Month Target Price	**$12.00**

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.

APDN reported record revenue for fiscal 2014. We expect to see further growth of revenue in fiscal 2015 and beyond.

SUMMARY DATA

52-Week High	**$10.78**
52-Week Low	**$2.08**
One-Year Return (%)	**-72.82**
Beta	**1.65**
Average Daily Volume (sh)	**125,704**
Shares Outstanding (mil)	**17**
Market Capitalization ($mil)	**$49**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**23**
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)
2014	0.60 A	0.64 A	0.84 A	0.65 A	2.72 A
2015	1.00 E	1.10 E	1.20 E	1.25 E	4.55 E
2016					10.00 E
2017					15.00 E

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

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2014	-$0.28 A	-$0.20 A	-$0.14 A	-$0.15 A	-$0.77 A
2015	-$0.18 E	-$0.17 E	-$0.18 E	-$0.19 E	-$0.71 E
2016					-$0.45 E
2017					-$0.15 E

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

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WHAT'S NEW

- Record revenue reported for fiscal 2014;
- New financing boosts balance sheet;
- Business continues to grow;
- We adjust our price target to $12 per share reflecting recent reverse stock split;

APDN Reports Record Revenue for Fiscal Year 2014

On December 16, 2014, Applied DNA Sciences (APDN) reported its year-end results of fiscal 2014 ended September 30, 2014.

For the fiscal year ended September 30, 2014, APDN generated record revenue of $2.72 million, an increase of 33.6% from fiscal 2013 revenues.

Operating expenses for fiscal 2014 were $15 million, compared to $12.2 million for fiscal 2013, an increase of 22.8%. The increase is primarily attributable to salaries and research and development expenditures related to a number of customer-funded development contracts.

Net loss for the fiscal 2014 was $13.1 million ($0.97 per share), compared to net loss of $17.7 million for fiscal 2013, a decrease of 26.1%.

	Year Ended September 30,		Variance	
	2014	2013	Dollar	Percentage
Revenues	$ 2,721,224	$ 2,036,222	$ 685,002	34%
Operating expenses:				
Selling, general and administrative	$ 13,249,753	$ 11,198,505	2,051,248	18%
Research and development	1,300,750	692,480	608,270	88%
Depreciation and amortization	442,262	321,074	121,188	38%
Total operating expenses	14,992,765	12,212,059	2,780,706	23%
LOSS FROM OPERATIONS	(12,271,541)	(10,175,837)	2,095,704	21%
Other income (expense)	(795,120)	(7,510,635)	(6,715,515)	-89%
NET LOSS	$ (13,066,661)	$ (17,686,472)	$ (4,619,811)	-26%

We are pleased to see another record year for revenue growth. According to the conference call, management disclosed that the company has a series of pilot study project ongoing, which are approaching commercialization. We believe revenue will continue to grow in fiscal 2015 and beyond. With the recent financing and uplisting to NASDAQ, we believe the company is better positioned for further growth.

New Financing Boosts Balance Sheet

In November, 2014, APDN closed an underwritten public offering of 2.8 million shares of common stock, and warrants to purchase up to an aggregate of 2.8 million shares of common stock, at an offering price of $3.24 per share and $0.01 per warrant. The warrants have a per share exercise price of $3.50, are exercisable immediately, and expire five years from the date of issuance.

APDN received approximately $9.1 million in gross proceeds before deducting the underwriting discount and other offering expenses. The Company also granted the underwriters a 45-day option to purchase up

to an aggregate of 420,000 additional shares of common stock and/or up to 420,000 additional warrants to cover over-allotments, if any.

This offering is a great boost to the company's balance sheet. As of September 30, 2014, APDN held $1.4 million in cash. With the proceeds from the new financing, the company's current cash balance should last into the end of fiscal 2015.

Also in November, the company's stock was up-listed to NASDAQ, which raised the company's visibility.

New Business Development

In early December, 2014, the Company signed an agreement for use of its SigNature® DNA anti-counterfeiting with a fourth Federal Agency. The initial agreement is valued at upwards of $250,000.

On Oct. 30, 2014, Applied DNA announced that two well-known automakers have chosen to use Applied DNA Sciences' anti-theft DNA marking technology to protect their vehicles imported into at least one EU country. New orders have been received.

For each vehicle, a unique, botanical DNA-based mark is designed and applied to a vehicle in multiple locations. The SigNature(R) DNA mark provides absolute identification for the vehicle, while also recording the name of the owner of that vehicle in a secure database. The marks are covert and difficult to remove. If found, vehicles and their component parts are traceable back to their owners and locations, from anywhere on the globe.

On October 28, 2014, APDN announced a commercial agreement with a textile manufacturer to purchase a SigNature® T DNA mark, in order to protect and authenticate Extra Long Staple Pima cotton starting.

This agreement will enable the textile manufacturer and its large retail partners to assure quality and preserve the integrity of the textile supply chain, starting from the grower to the consumer.

Pima or Extra Long Staple (ELS) cotton is a highly valued, luxuriously long fiber. It represents about 5% of the overall U.S. cotton output, the equivalent of an estimated $1.25 billion-per-year industry in the United States. Production of all types of cotton fiber is a $25 billion-per-year industry in the United States, employing over 200,000 people.

On August 28, 2014, Applied DNA announced that the company has been awarded a two-year development contract by the Office of the Secretary of Defense on behalf of the Defense Logistics Agency (DLA) in the amount of **$2.97 million**.

The project will develop a single authentication platform – APDN's "SigNature® DNA" and complementary technologies – to identify authentic products and deter counterfeits from infiltrating six Department of Defense Federal Supply Groups (FSGs).

APDN will perform services such as development, test and evaluation, field trials, and transition to government operations.

We are pleased to see that APDN's sales pipeline and its customer base continue to grow. We believe these new contracts and partnerships are laying the foundation for continued growth for Applied DNA Sciences. With a strong infrastructure in place and an experienced team of employees and management, APDN is delivering against stronger demands.

Price Target Adjusted Reflecting Recent Reverse Stock Split

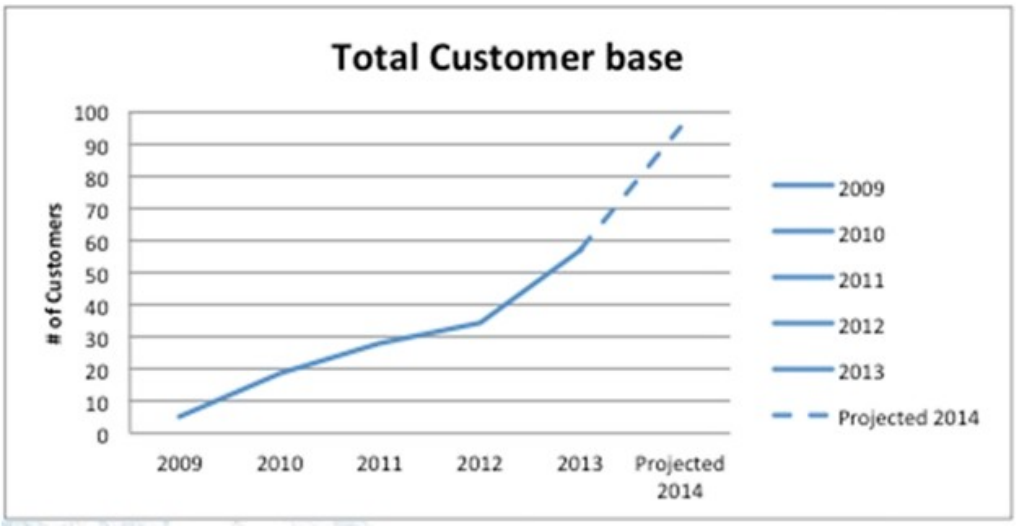
We adjust our price target for Applied DNA Sciences to $12 per share reflecting the Company's recent 1-for-60 reverse stock split.

On October 29, 2014, APDN announced a 1-for-60 reverse split of its common stock.

We maintain our Outperform rating for APDN shares and adjust our 12-month price target to $12.00 per share reflecting the reverse stock split.

We are impressed by the strong financial performance for the fiscal 2014. Revenue increased 33.6% compared to that in fiscal 2013, which represented the highest annual revenue ever in the Company's history.

Customer base has increased greatly from fiscal 2009 to present.



We remain optimistic about APDN's prospect. APDN'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 years. According to our long term financial model, the Company's revenue will grow at a compound annual growth rate (CAGR) of 61% in the next 6 fiscal years from 2014 to 2020. The Company will become profitable in fiscal 2018 with net income of $2.0 million or EPS of $0.12 per share.

APDN is a high growth company. In terms of valuation, we think a P/E of 38x is appropriate for the Company. We apply a P/E of 38x to our estimated EPS of $0.80 in fiscal 2020, discounted at 20% for 5 years, we get our price target of $12.00 per share. This values the company at about $204 million in market cap, which is reasonable in our view. As long as the Company can execute its growth strategy correctly, we believe value should be generated for shareholders.

But Cash burn is still our chief concern at this time.

Since APDN will become profitable in fiscal 2018, the Company still needs to raise funds for its operation until positive cash flow can be generated in 2018. We remind investors that any equity or convertible note financing will dilute the Company's current shareholder base and reduce its per share value.

PROJECTED INCOME STATEMENT

	2013A (Sep)	2014A (Sep)	2015E (Sep)					2016E (Sep)	2017E (Sep)	2018E (Sep)	2019E (Sep)	2020E (Sep)
$ in million except per share data	FYA	FYA	Q1	Q2	Q3	Q4	FYE	FYE	FYE	FYE	FYE	FYE
Total Revenues	**$2.04**	**$2.72**	**$1.00**	**$1.10**	**$1.20**	**$1.25**	**$4.55**	**$10.00**	**$15.00**	**$20.00**	**$27.50**	**$35.00**
YOY Growth	*9.8%*	*33.6%*	*67.4%*	*72.6%*	*42.7%*	*93.6%*	*67.2%*	*119.8%*	*50.0%*	*33.3%*	*37.5%*	*27.3%*
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
Gross Income	**2.04**	**2.72**	**1.00**	**1.10**	**1.20**	**1.25**	**4.55**	**10.00**	**15.00**	**20.00**	**27.50**	**35.00**
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%*
SG&A	$11.2	$13.2	$3.3	$3.5	$3.8	$4.0	$14.6	$15.0	$15.5	$16.0	$17.5	$18.5
% SG&A	*550.0%*	*486.9%*	*330.0%*	*318.2%*	*316.7%*	*320.0%*	*320.9%*	*150.0%*	*103.3%*	*80.0%*	*63.6%*	*52.9%*
R&D	$0.69	$1.30	$0.28	$0.32	$0.38	$0.42	$1.40	$1.50	$1.65	$1.70	$1.80	$1.95
% R&D	*34.0%*	*47.8%*	*28.0%*	*29.1%*	*31.7%*	*33.6%*	*30.8%*	*15.0%*	*11.0%*	*8.5%*	*6.5%*	*5.6%*
Other	$0.3	$0.4	$0.1	$0.1	$0.1	$0.1	$0.4	$0.3	$0.3	$0.3	$0.3	$0.3
% Other	*15.8%*	*16.3%*	*10.0%*	*9.1%*	*8.3%*	*8.0%*	*8.8%*	*3.0%*	*2.0%*	*1.5%*	*1.1%*	*0.9%*
Operating Income	**($10.2)**	**($12.3)**	**($2.7)**	**($2.8)**	**($3.1)**	**($3.3)**	**($11.9)**	**($6.8)**	**($2.5)**	**$2.0**	**$7.9**	**$14.3**
Operating Margin	*-499.7%*	*-451.0%*	*-268.0%*	*-256.4%*	*-256.7%*	*-261.6%*	*-260.4%*	*-68.0%*	*-16.3%*	*10.0%*	*28.7%*	*40.7%*
Other Net	($7.5)	($0.8)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($17.7)**	**($13.1)**	**($2.7)**	**($2.8)**	**($3.1)**	**($3.3)**	**($11.9)**	**($6.8)**	**($2.5)**	**$2.0**	**$7.9**	**$14.3**
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
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%*
Reported Net Income	**($17.7)**	**($13.1)**	**($2.7)**	**($2.8)**	**($3.1)**	**($3.3)**	**($11.9)**	**($6.8)**	**($2.5)**	**$2.0**	**$7.9**	**$14.3**
YOY Growth	-	-	-	-	-	-	-	-	-	-	*295.00%*	*80.38%*
Net Margin	-	-	-	-	-	-	-	-	-	*10.0%*	*28.7%*	*40.7%*
Shares Out	*20.1*	*13.5*	*15.1*	*16.7*	*17.0*	*17.5*	*16.6*	*15.3*	*16.1*	*16.9*	*17.5*	*17.8*
Reported EPS	**($0.88)**	**($0.97)**	**($0.18)**	**($0.17)**	**($0.18)**	**($0.19)**	**($0.71)**	**($0.45)**	**($0.15)**	**$0.12**	**$0.45**	**$0.80**
YOY Growth	-	-	-	-	-	-	-	-	*-65.8%*	*-177.6%*	*281.8%*	*77.0%*
One time charge	*$6.33*	*$2.63*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($11.4)**	**($10.4)**	**($2.7)**	**($2.8)**	**($3.1)**	**($3.3)**	**($11.9)**	**($6.8)**	**($2.5)**	**$2.0**	**$7.9**	**$14.3**
Non GAAP EPS	**($0.56)**	**($0.77)**	**($0.18)**	**($0.17)**	**($0.18)**	**($0.19)**	**($0.71)**	**($0.45)**	**($0.15)**	**$0.12**	**$0.45**	**$0.80**

Source: Company filing and Zacks Investment Research estimates

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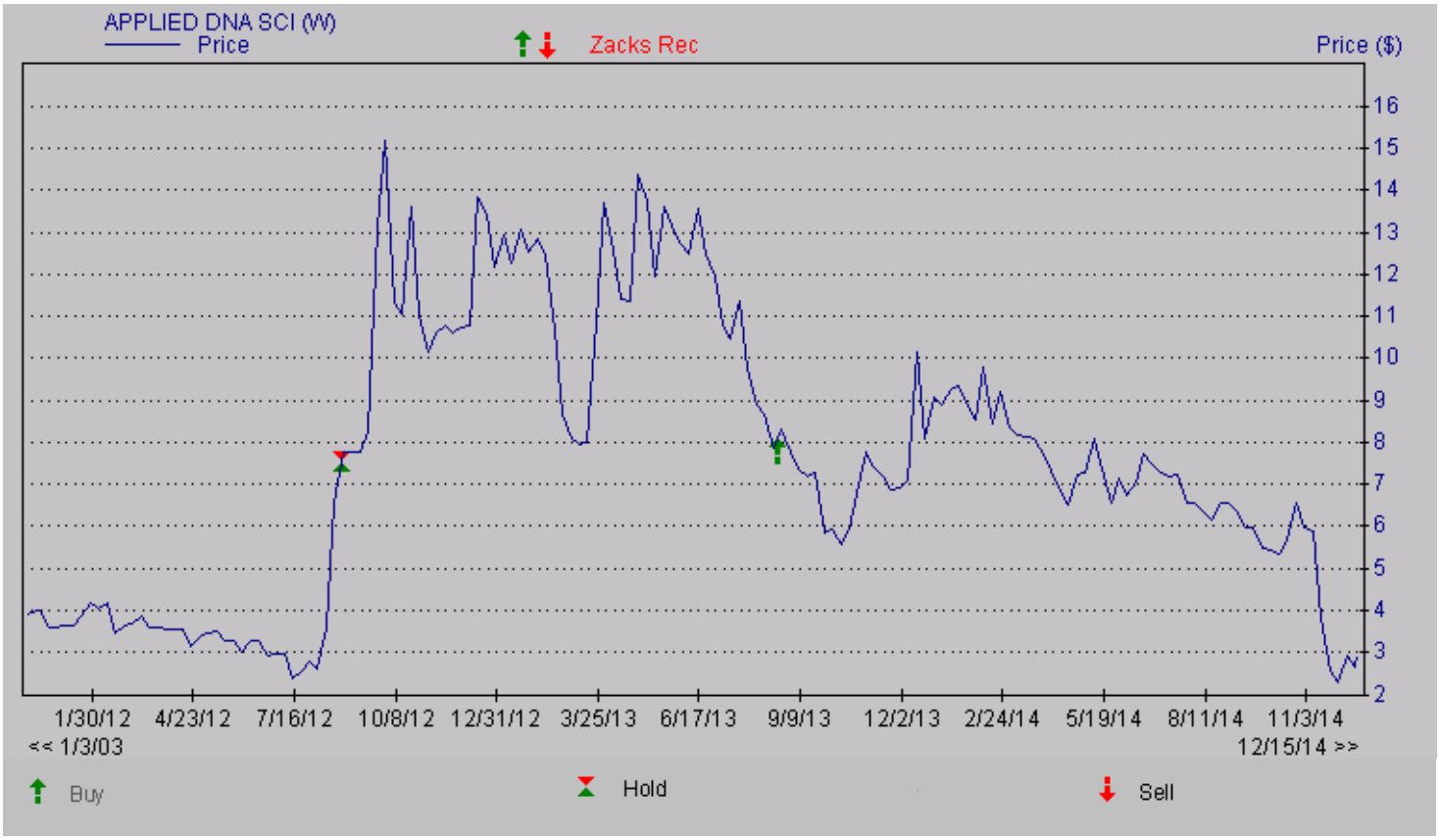

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Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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