Zacks Small-Cap Research

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Applied DNA Sciences (APDN-OTC)

APDN: Record revenue reported for fiscal 1Q15, businesses continue to grow--Outperform

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	08/21/2013
Current Price (02/09/15)	$4.39
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.

APDN reported record revenue for fiscal 1Q15 ended December 31, 2014. We expect to see further growth of revenue in the rest of fiscal 2015 and beyond.

SUMMARY DATA

52-Week High	**$9.81**
52-Week Low	**$2.08**
One-Year Return (%)	**-53.60**
Beta	**1.70**
Average Daily Volume (sh)	**92,240**
Shares Outstanding (mil)	**17**
Market Capitalization ($mil)	**$76**
Short Interest Ratio (days)	**0.28**
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	1.24 A	1.28 E	1.30 E	1.32 E	5.14 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	-$0.25 A	-$0.19 E	-$0.18 E	-$0.18 E	-$0.79 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

- Revenue surpassed the $1 million mark first time in the company's history;
- Business continues to grow;
- We maintain our Outperform rating and our 12-month price target is $10 per share;

APDN Reports 108% Revenue Growth for Fiscal 1Q15

Earlier today (February 10, 2015), Applied DNA Sciences (APDN) reported its first fiscal quarter of 2015 financial results ended December 31, 2014.

APDN reported record revenue of $1.24 million for the fiscal 1Q15, an increase of 108% from fiscal 1Q14 and an increase of 92% compared to the prior quarter ended September 30, 2014. The increased revenue resulted from increased sales of the Company's SigNature® T DNA and government contract revenue.

This is the first time the company's revenue surpassed the $1 million mark in the company's history. First quarter revenue also exceeded our estimate of $1 million.

Total operating expenses were $5.1 million for fiscal 1Q15, compared to $4.4 million for the fiscal 1Q14, an increase of 15%, which was primarily attributable to an increase in non-cash stock-based compensation for grants to employees during the quarter and an increase in expenses related to the Company's uplisting to NASDAQ on November 17, 2014.

Net loss for fiscal 1Q15 was $7.8 million ($ 0.51 per share), compared to a net loss of $6.3 million ($ 0.48 per share) for fiscal 1Q14 ended December 31, 2013. This loss increase was primarily due to a $2.2 million increase in non-cash expenses according to management.

Non-GAAP loss for fiscal 1Q15 was $3.8 million, compared to $3.7 million for fiscal 1Q14.

Excluding the non-cash expenses and interest, the adjusted EBITDA for fiscal 1Q15 ended December 31, 2014 was a negative $1.7 million compared to a negative adjusted EBITDA of $2.6 million for the same quarter last year, an improvement of $0.9 million.

	Quarter Ended December 31,		Variance	
	2014	2013	Dollar	Percentage
Revenues	$ 1,241,802	$ 597,354	$ 644,448	108%
Operating expenses:				
Selling, general and administrative	$ 4,671,490	$ 3,845,578	825,912	21%
Research and development	278,288	459,304	(181,016)	-39%
Depreciation and amortization	109,726	105,215	4,511	4%
Total operating expenses	5,059,504	4,410,097	649,407	15%
LOSS FROM OPERATIONS	(3,817,702)	(3,812,743)	4,959	0%
Other income (expense)	(4,010,942)	(2,478,907)	1,532,035	62%
NET LOSS	$ (7,828,644)	$ (6,291,650)	$ 1,536,994	24%

	Quarter Ended December 31,	
	2014	2013
Net Loss	$ (7,828,644)	$ (6,291,650)
Interest expense (income), net	$ 3,685	$ (155,417)
Depreciation and amortization	$ 109,756	$ 105,215
Loss on change in fair value of warrant liability	$ 2,994,540	$ 2,634,758
Stock based compensation expense	$ 1,998,524	$ 1,103,046
Loss on conversion of promissory notes	$ 980,842	$ -
Bad debt expense	$ 2,779	$ 15,000
Total non-cash items	$ 6,086,441	$ 3,858,019
Consolidated Adjusted EBITDA (loss)	$ (1,738,518)	$ (2,589,048)

We are impressed by the 108% revenue growth for the fiscal 1Q15, which surpassed the $1 million mark for the first time in the company's history. With the recent financing and uplisting to NASDAQ, we believe revenue will continue to grow in the rest of fiscal 2015 and beyond.

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 December 31, 2014, APDN held $2.9 million in cash, which should last into the third quarter of fiscal 2015.

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

New Business Development

On February 9, 2015, APDN announced the launch of an On-Site DNA Authentication Program.

The patent-pending, On-Site Program includes the provision of a desktop-size PCR machine with consumables for testing, complete with supporting software, on-site training, guidance on chain-of-custody protocols, and online customer service support.

This program will enable the on-site testing of unprocessed fiber, yarn or fabric (greige goods) by anyone in the cotton textile supply chain, including growers, ginners, spinners, manufacturers, logistics partners, brand owners, retailers and government agencies. Forensic authentication of the relevant DNA on site will help ensure that companies are compliant with international or in-country label laws.

The On-Site DNA Authentication platform complements the company's multi-modal screening platform. The former provides DNA-based proof of origin or authenticity, while the latter enables rapid screening with higher level of assurances than any visual inspection.

On February 2, 2015, APDN announced that it is working with ITW Pillar Technologies, a business unit of giant ITW, to provide traceable, tamper-proof induction sealing solutions that can be used to protect products from adulteration, counterfeiting and diversion.

ITW Pillar Technologies is a provider of induction cap sealing systems and plasma surface modification systems that can easily incorporate a unique SigNature® DNA taggant, supplied by Applied DNA Sciences, to mark products, and allow for forensic authentication on the seal itself. This value-added solution has the benefit of protecting the tamper-proof seals on original packaging, and subsequently protect original product with the forensic proof needed to demonstrate that the quality and integrity of product are not compromised.

On February 5, 2015, APDN announced that it has completed DNA marking of 10,000 bales of California pima cotton. This project marks the first deployment of APDN's DNA technology solutions in Asia. The project's sponsor is a US-based distributor of fine textiles, which provides finished products to many of America's largest brands and retailers

On February 3, 2015, APDN announced that it has completed customer feedback demonstrations of its new technology for multi-modal, in-field detection and validation of complementary security elements integrated with its primary SigNature® DNA mark. Platform development now moves from prototype toward customer pilots. This new reader platform offers on-the-spot mark detection and validation as stand-alone or as part of the Company's digitalDNA® System. The device can identify the presence of an APDN DNA-mark on products before they are sampled or sent for forensic authentication.

On January 07, 2015, APDN announced that SigNature® T DNA textile marking and authentication program has been initiated by The Crypton Companies, delivering superior, trusted performance textiles and related products since 1993. Signature T® DNA will help to provide Crypton's superior textiles and related products with a comprehensive supply chain solution, assuring that the original ingredients or raw materials used are verified in the finished product. Crypton distributes its performance textiles and related products through more than 50 U.S. distributors and major distributors worldwide.

On January 27, 2015, the US Patent and Trademark Office issued the “Methods for Genotyping Mature Cotton Fibers and Textiles” patent #8,940,485 for the company’s pimaTyping® authentication of extra long staple or pima cotton-based products.

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.

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

Based on the recent achievements, we maintain our Outperform rating for APDN shares and our 12-month price target is $10.00 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 are impressed by the stellar financial performance for the fiscal 1Q15. Revenue increased 108% year over year, and 92% quarter over quarter. The company achieved the highest quarterly revenue ever in the Company’s history, which exceeded the $1 million mark.

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 apply a P/E of 32x to our estimated EPS of $0.80 in fiscal 2020, discounted at 20% for 5 years. This way, we get our price target of $10.00 per share. This values the company at about $170 million in market cap based on 17 million outstanding shares, 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**	**$1.24**	**$1.28**	**$1.30**	**$1.32**	**$5.14**	**$10.00**	**$15.00**	**$20.00**	**$27.50**	**$35.00**
YOY Growth	*9.8%*	*33.6%*	*107.9%*	*100.9%*	*54.5%*	*104.5%*	*89.0%*	*94.5%*	*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**	**1.24**	**1.28**	**1.30**	**1.32**	**5.14**	**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	$4.7	$4.0	$3.8	$4.0	$16.5	$15.0	$15.5	$16.0	$17.5	$18.5
% SG&A	*550.0%*	*486.9%*	*376.2%*	*312.5%*	*292.3%*	*303.0%*	*320.3%*	*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%*	*22.4%*	*25.0%*	*29.2%*	*31.8%*	*27.2%*	*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%*	*8.8%*	*7.8%*	*7.7%*	*7.6%*	*8.0%*	*3.0%*	*2.0%*	*1.5%*	*1.1%*	*0.9%*
Operating Income	**($10.2)**	**($12.3)**	**($3.8)**	**($3.1)**	**($3.0)**	**($3.2)**	**($13.1)**	**($6.8)**	**($2.5)**	**$2.0**	**$7.9**	**$14.3**
Operating Margin	*-499.7%*	*-451.0%*	*-307.4%*	*-245.3%*	*-229.2%*	*-242.4%*	*-255.5%*	*-68.0%*	*-16.3%*	*10.0%*	*28.7%*	*40.7%*
Other Net	($7.5)	($0.8)	($4.0)	$0.0	$0.0	$0.0	($4.0)	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($17.7)**	**($13.1)**	**($7.8)**	**($3.1)**	**($3.0)**	**($3.2)**	**($17.1)**	**($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)**	**($7.8)**	**($3.1)**	**($3.0)**	**($3.2)**	**($17.1)**	**($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*	*15.5*	*16.7*	*17.0*	*17.5*	*16.7*	*15.3*	*16.1*	*16.9*	*17.5*	*17.8*
Reported EPS	**($0.88)**	**($0.97)**	**($0.51)**	**($0.19)**	**($0.18)**	**($0.18)**	**($1.03)**	**($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*	*$4.01*	*$0.00*	*$0.00*	*$0.00*	*$4.01*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($11.4)**	**($10.4)**	**($3.8)**	**($3.1)**	**($3.0)**	**($3.2)**	**($13.1)**	**($6.8)**	**($2.5)**	**$2.0**	**$7.9**	**$14.3**
Non GAAP EPS	**($0.56)**	**($0.77)**	**($0.25)**	**($0.19)**	**($0.18)**	**($0.18)**	**($0.79)**	**($0.45)**	**($0.15)**	**$0.12**	**$0.45**	**$0.80**

Source: Company filing and Zacks Investment Research estimates

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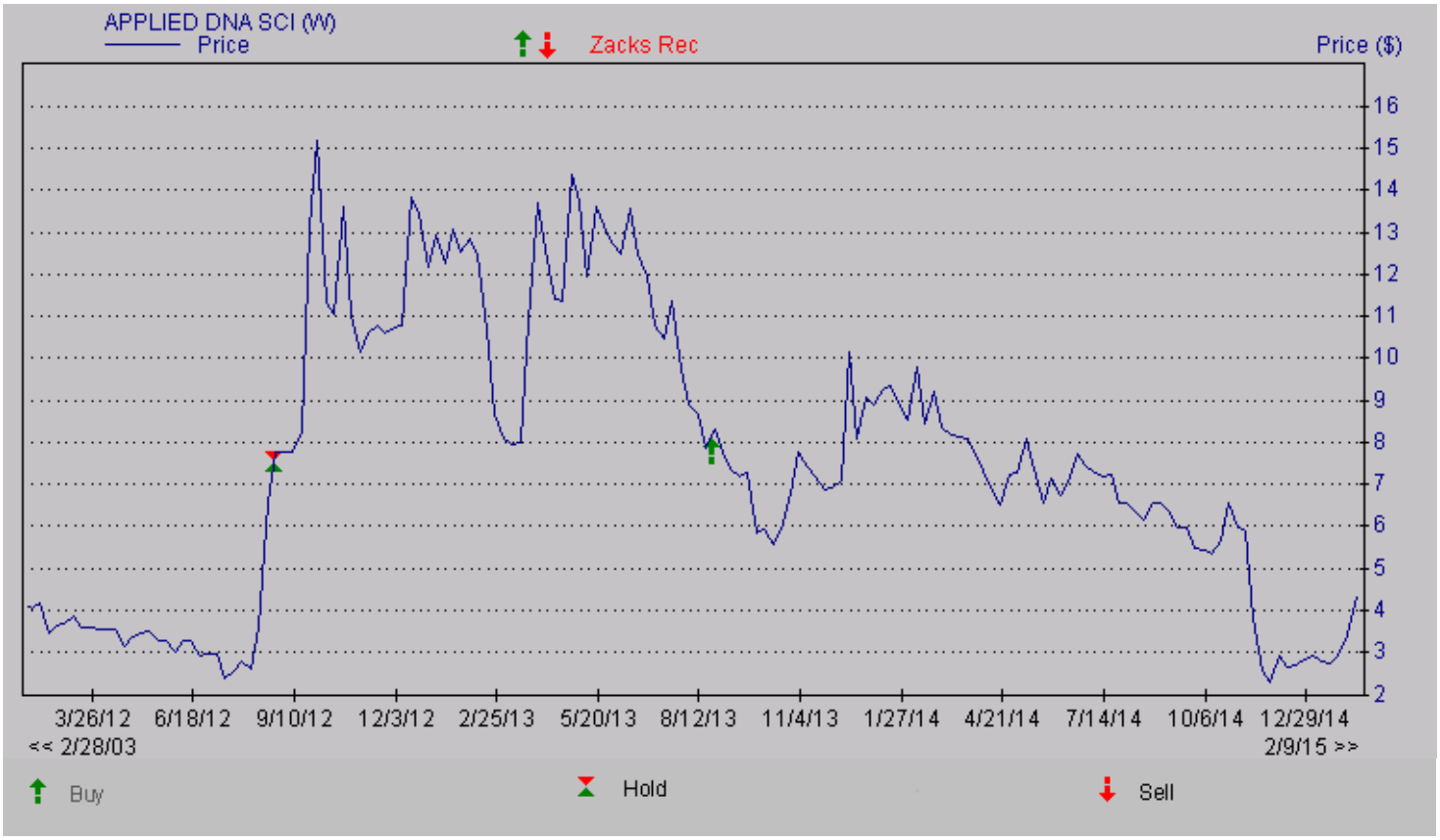

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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