Zacks Small-Cap Research

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Pressure Biosciences (PBIO-OTCQB)

PBIO: Record product sales for 1Q14, expecting continued revenue growth in fiscal 2014; valuation very attractive--- Outperform.

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	11/15/2012
Current Price (05/15/14)	$0.47
Twelve- Month Target Price	**$2.00**

OUTLOOK

PBIO is a research products and services provider for the life science industry. We are impressed with and optimistic about the Company's novel, enabling platform technology PCT which has competitive advantages over existing technologies in the sample preparation market. PCT is increasingly gaining recognition by research labs.

PBIO just reported strong financial performance for 1Q14, and we expect to see continued revenue growth in the remainder of 2014 and beyond.

We continue to be bullish on PBIO shares.

SUMMARY DATA

52-Week High	**$0.70**
52-Week Low	**$0.17**
One-Year Return (%)	**37.06**
Beta	**1.23**
Average Daily Volume (sh)	**40,979**
Shares Outstanding (mil)	**13**
Market Capitalization ($mil)	**$6**
Short Interest Ratio (days)	**3.01**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**41**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**37.0**
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-Value**
Industry	**Med Instruments**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	0.37 A	0.36 A	0.42 A	0.35 A	1.50 A
2014	0.40 A	0.35 E	0.40 E	0.50 E	1.65 E
2015					4.50 E
2016					8.00 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.11 A	-$0.10 A	-$0.06 A	-$0.16 A	-$0.44 A
2014	-$0.19 A	-$0.07 E	-$0.09 E	-$0.07 E	-$0.41 E
2015					-$0.15 E
2016					-$0.07 E

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

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WHAT'S NEW

- **Record product revenue reported for 1Q14;**
- **Continued revenue growth expected for the remainder of fiscal 2014;**
- **One new product already launched, another one will be launched in June 2014;**
- **We continue to be bullish on PBIO shares;**

PBIO Reports Strong Financial Performance for 1Q14

On May 15, Pressure BioSciences (PBIO) reported strong financial results for the first quarter ended March 31, 2014.

Product and service revenue for 1Q14 was $404,147, compared to $221,569 for 1Q13, an increase of 82%. This was the record quarterly revenue in the Company's history. It also exceeded our estimate of $300,000.

There was no **grant** revenue in 1Q14, compared to grant revenue of $149,168 for 1Q13.

Sales of consumables in 1Q14 were $54,612, compared to $27,224 for 1Q13, an increase of 101%.

Total revenue for the first quarter of 2014 was $404,147, compared to $370,737 for the first quarter of 2013, a 9% increase.

Due to the lack of grant revenue in 1Q14, operating loss for 1Q14 increased to $782,366 from $725,024 for 1Q13. Therefore, gross margin decreased to 56.1% for 1Q14 from 71.8% for 1Q13.

GAAP net loss was $3.1 million ($0.25 per share) for 1Q14, compared to net loss of $1.4 million ($0.11 per share) for 1Q13. The increase in net loss was due primarily to the change in the fair value of derivative instruments in 1Q14, and a deemed dividend on the Company's convertible preferred stock.

Excluding the non-cash charge for the change in the fair value of derivative instruments, net loss for 1Q14 was $2.4 million ($0.19 per share), compared to net loss of $1.4 million ($0.11 per share) for 1Q13.

As of March 31, 2014, PBIO had cash and cash equivalents of $428,537, compared to $31,417 at December 31, 2013. During the first quarter of 2014, the Company closed $1.8M of Series K PIPE.

We think PBIO is getting off to a good start. Product and service revenue increased 82.4% year over year, and 34.4% sequentially. Even without grant revenue, total revenue still increased 9% in 1Q14 year over year.

We are especially impressed by the strong sales of consumables in 1Q14. Sales of consumables in 1Q14 were $54,612, compared to $27,224 for 1Q13, an increase of 101%. This is important for the long term revenue growth. As we discussed before, consumables are recurring revenue, which should increase when more and more instruments are installed. This revenue may account for a large portion of total revenue in the future.

It should be appreciated that PBIO achieved the revenue growth in 1Q14 while keeping operating expenses close to 2013 levels ($782,366 vs $725,024).

We Expect Continued Revenue Growth In The Remainder of 2014

Based on the strong financial performance for 1Q14, as well as the two new products launch and continued marketing efforts by management, we estimate that revenue will continue to grow in the remainder of 2014.

Specifically, we model product sales will reach $1.65 million in fiscal 2014, an increase of 58% over $1.05 million product sales for fiscal 2013.

We think revenue ramp in 2014 will be driven by sales from both existing and new products (instruments and consumables), from the Company's expanding distribution network, and from grants currently being reviewed.

PBIO plans to release the new High Throughput (HT) PCT-based Platform next month, which will help foster discussions with large, multi-national sales, marketing, and distribution partners. Management indicated that these discussions will lead to at least one major strategic partnership before years' end.

The HUB880 Launched

PBIO released the Barocycler **HUB880** in March 2014, the newest addition to the Company's growing line of high-pressure instrument systems. The Company also announced the sale (and shipment) of its first HUB880 system to Dr. Wayne Hubbell of the University of California Los Angeles (UCLA). PBIO plans to showcase the HUB880 at the upcoming U.S. Human Proteome Organization's 10th Annual Conference to be held at the Westin-Seattle (WA), April 6-9, 2014.

The **HUB880** is a first-in-kind instrument. It is an automated, computer-controlled, bench-top, ultra-high pressure instrument. The HUB880 can generate pressures up to 100,000 psi. This is the type of pressure that will be very helpful to scientists making **vaccines,** to researchers in the **food industry** (pathogen inactivation studies), **material science** applications (quality control of petroleum, hydraulic fluid, plastics, valves, etc.). And it will play an important role in life sciences research, as these pressures will unravel the secrets of many biological substances that are not extracted/inactivated/recovered/etc. at "lower" pressures.

PBIO's HUB880 targets the large market of vaccines, food industry and material science. The HUB880 costs about $75,000 per unit.

There are approximately 500,000 scientists worldwide working with biological samples, such as animal, plant, microbial, and human cells. These cells, and the biomolecules that constitute them (e.g., proteins, lipids, DNA) have historically been controlled using temperature and chemicals. However, studies have shown that cells/biomolecules also respond to specific levels of pressure in unique and reproducible ways. Thus, with its ability to reach ultra-high pressure levels significantly beyond any automated bench-top pressure instrument commercially available today, **the Barocycler HUB880** can potentially offer scientists the unique ability to control certain cells and biomolecules in ways never before achievable.

High Throughput Barocycler Will be Launched in June

The **High Throughput (HT) Barocycler** uses the disposable microwell strips that are universally used by labs worldwide. PBIO's ability to perform PCT with these strips will allow the Company to directly integrate its PCT instruments with the current automated robotically-driven microwell templates used by thousands of labs worldwide.

PBIO remains on target to release this new PCT System as planned at the annual meeting of the American Society for Mass Spectrometry in **mid-June 2014**.

The high throughput system is a **breakthrough technology** for PBIO. PBIO announced in June 2013 that they have achieved and passed proof-of-principle objectives in their multi-year investment into the development of a **high throughput (HT) system** for their patented pressure cycling technology (PCT) platform. The new HT design will allow their PCT platform to integrate with the automated, universally accepted HT sample preparation and analytical system formats installed in tens of thousands of biological research laboratories worldwide.

This breakthrough also has the potential to significantly accelerate its growth in existing and new PCT-based applications and products, and its ability to attract and form new strategic partnerships.

Many research laboratories working with biological samples worldwide use automated, HT sample preparation and analytical systems in their studies. HT systems generally use sample handling robotics and "multiwell" test plates in standardized formats (e.g., 24, 96, or 384 wells per plate) for processing and testing large numbers of samples simultaneously. The multiwell plate is often processed in an automated fashion, allowing scientists to perform other important tasks while samples are being processed unattended.

Although a number of studies have shown significant advantages of the PCT platform in preparing biomolecules (e.g., DNA, proteins, and lipids) for analysis, the PCT platform continues to be used primarily in small but important research studies. Unlike today's popular HT multiwell plates that use an automated, unattended approach, the PCT Platform uses individual test tubes that require a lot of manual sample handling. These manual sample handling requirements have prevented the PCT platform from being better accepted by the research community. To that end, PBIO's new HT multiwell format will substantially enhance and accelerate the acceptance of the PCT platform in the life sciences R&D marketplace. This technology breakthrough is a game-changer for PBIO in our view.

We Continue to be Bullish On PBIO shares

We maintain our **Outperform** rating on PBIO shares and reiterate our twelve-month **price target of $2.00** per share.

Below are the reasons for our call.

PBIO reported record product sales for the first quarter of 2014, and we expect continued revenue growth in the remainder of 2014 and beyond due to two new products launch and continued marketing efforts from management.

In terms of valuation, we think PBIO shares are undervalued based on the Company's fundaments. Currently, the Company trades around $0.47 per share with a market cap of $6.1 million based on 13 million outstanding shares. We believe this deeply undervalues the Company based on the current fundamentals we discussed above. We understand that market discounts the value of the Company because the Company has only limited revenue base and has been losing money since its inception. We also understand that the Company has a relatively weak balance sheet, and further financing will be needed. However, when we look at the Company and the industry in which it operates in detail, we realize that PBIO is a company with huge opportunity and one that can grow its revenue and earnings at a tremendous rate in the next few years.

PBIO operates in the rather large, but underserved research services market. The Company has developed a unique and superior pressure cycling technology (PCT) for the preparation of biological laboratory samples. The Company's PCT platform holds competitive advantages over incumbent technologies in many important aspects related to sample preparation.

Currently, the Company is in the early stage of commercialization of its platform technology. We have realized that sales have not been stellar so far, but this is understandable. Pressure cycling technology is quite new to most customers in the sample preparation market, and the costs for PCT are also higher

than those for most existing technologies. Therefore, rollout of the PCT platform will take time. However, once customers become familiar with the new PCT platform, and realize its advantages over existing technologies, uptake of PCT and its consumable products by the industry will increase dramatically in our view.

We are now optimistic about the Company's prospect. With a rapidly growing market worldwide, combined with its unique technology and broad range of product offering, 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 66% in the next six fiscal years from 2014 to 2019. PBIO will become profitable in fiscal 2018 with an EPS of $0.02.

We think PBIO is more like a development stage biotech company. Our price target of $2.00 per share values the company at 26 million in market cap based on 13 million outstanding shares. This valuation is still very conservative in our view. As long as the Company can execute its growth strategy correctly, we believe this goal is achievable. Patient investors will get rewarded.

PROJECTED INCOME STATEMENT

$ in million except per share data	Q1	Q2	Q3	Q4	12/13A	Q1	Q2	Q3	Q4	12/14E	12/15E	12/16E	12/17E	12/18E	12/19E
Product/Service Revenue	$0.22	$0.20	$0.33	$0.30	$1.05	$0.40	$0.35	$0.40	$0.50	$1.65	$4.50	$8.00	$12.00	$15.00	$22.00
YOY Growth	*34.5%*	*-12.4%*	*10.1%*	*145.8%*	*29.3%*	*82.4%*	*78.1%*	*22.0%*	*66.3%*	*58.0%*	*172.0%*	*77.8%*	*50.0%*	*25.0%*	*46.7%*
Grant Revenue	$0.15	$0.16	$0.09	$0.05	$0.46	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Revenues	**$0.37**	**$0.36**	**$0.42**	**$0.35**	**$1.50**	**$0.40**	**$0.35**	**$0.40**	**$0.50**	**$1.65**	**$4.50**	**$8.00**	**$12.00**	**$15.00**	**$22.00**
YOY Growth	*21.3%*	*10.1%*	*7.4%*	*63.9%*	*21.4%*	*9.0%*	*-2.2%*	*-4.9%*	*41.2%*	*10.0%*	*172.0%*	*77.8%*	*50.0%*	*25.0%*	*46.7%*
CoGS	$0.1	$0.1	$0.2	$0.2	$0.6	$0.2	$0.2	$0.2	$0.3	$0.9	$2.4	$4.2	$6.3	$7.8	$11.5
Gross Income	**$0.27**	**$0.27**	**$0.24**	**$0.15**	**$0.94**	**$0.23**	**$0.16**	**$0.18**	**$0.23**	**$0.79**	**$2.15**	**$3.82**	**$5.72**	**$7.16**	**$10.49**
Gross Margin	*71.8%*	*76.6%*	*58.2%*	*42.5%*	*62.2%*	*56.1%*	*45.0%*	*45.0%*	*45.0%*	*47.7%*	*47.7%*	*47.7%*	*47.7%*	*47.7%*	*47.7%*
Gross Margin for PCT revenue	*52.8%*	*57.3%*	*46.3%*	*32.3%*	*45.7%*	*56.1%*	*45.0%*	*45.0%*	*45.0%*	*47.7%*	*47.7%*	*47.7%*	*47.7%*	*47.7%*	*47.7%*
R&D	$0.2	$0.3	$0.3	$0.2	$1.0	$0.2	$0.2	$0.3	$0.3	$1.0	$1.2	$1.4	$1.6	$1.8	$2.0
% R&D	*66.5%*	*72.8%*	*66.6%*	*70.1%*	*68.9%*	*57.2%*	*57.1%*	*75.0%*	*60.0%*	*62.3%*	*26.7%*	*17.5%*	*13.3%*	*12.0%*	*9.1%*
SG&A	$0.7	$0.9	$0.8	$0.8	$3.2	$0.8	$0.8	$0.9	$0.9	$3.4	$3.6	$4.0	$4.2	$4.8	$5.2
% SG&A	*200.9%*	*243.6%*	*192.2%*	*226.6%*	*214.7%*	*192.5%*	*228.6%*	*225.0%*	*180.0%*	*204.2%*	*80.0%*	*50.0%*	*35.0%*	*32.0%*	*23.6%*
Other	$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
% Other	*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%*
Operating Income	**($0.7)**	**($0.9)**	**($0.8)**	**($0.9)**	**($3.3)**	**($0.8)**	**($0.8)**	**($1.0)**	**($1.0)**	**($3.6)**	**($2.7)**	**($1.6)**	**($0.1)**	**$0.6**	**$3.3**
Operating Margin	*-195.6%*	*-239.8%*	*-200.6%*	*-254.2%*	*-221.3%*	*-193.6%*	*-240.7%*	*-255.0%*	*-195.0%*	*-218.8%*	*-59.0%*	*-19.8%*	*-0.6%*	*3.7%*	*15.0%*
Other Net	($0.05)	($0.21)	$0.17	($0.67)	($0.76)	($0.98)	$0.00	$0.00	$0.00	($0.98)	$0.00	$0.00	$0.00	$0.00	$0.00
Pre-Tax Income	**($0.8)**	**($1.1)**	**($0.7)**	**($1.6)**	**($4.1)**	**($1.8)**	**($0.8)**	**($1.0)**	**($1.0)**	**($4.6)**	**($2.7)**	**($1.6)**	**($0.1)**	**$0.6**	**$3.3**
Pref. stk Div	$0.61	$0.11	$0.04	$0.40	$1.16	$1.33	$0.20	$0.20	$0.20	$1.93	$0.00	$0.00	$0.00	$0.00	$0.00
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	**($1.4)**	**($1.2)**	**($0.7)**	**($2.0)**	**($5.2)**	**($3.1)**	**($1.0)**	**($1.2)**	**($1.2)**	**($6.5)**	**($2.7)**	**($1.6)**	**($0.1)**	**$0.6**	**$3.3**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Margin	*-376.0%*	*-328.2%*	*-170.2%*	*-554.5%*	*-349.1%*	*-763.3%*	*-297.9%*	*-305.0%*	*-235.0%*	*-394.3%*	*-59.0%*	*-19.8%*	*-0.6%*	*3.7%*	*15.0%*
Shares Out	*12.1*	*11.5*	*11.7*	*12.0*	*11.8*	*12.1*	*14.0*	*14.0*	*16.0*	*14.0*	*18.0*	*22.0*	*25.0*	*30.0*	*35.0*
Reported EPS	**($0.11)**	**($0.10)**	**($0.06)**	**($0.16)**	**($0.44)**	**($0.25)**	**($0.07)**	**($0.09)**	**($0.07)**	**($0.46)**	**($0.15)**	**($0.07)**	**($0.00)**	**$0.02**	**$0.09**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One time charge	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.73*	*$0.00*	*$0.00*	*$0.00*	*$0.73*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($1.4)**	**($1.2)**	**($0.7)**	**($2.0)**	**($5.2)**	**($2.4)**	**($1.0)**	**($1.2)**	**($1.2)**	**($5.8)**	**($2.7)**	**($1.6)**	**($0.1)**	**$0.6**	**$3.3**
Non GAAP EPS	**($0.11)**	**($0.10)**	**($0.06)**	**($0.16)**	**($0.44)**	**($0.19)**	**($0.07)**	**($0.09)**	**($0.07)**	**($0.41)**	**($0.15)**	**($0.07)**	**($0.00)**	**$0.02**	**$0.09**

Source: Company filings and Zacks Investment Research Inc. estimates

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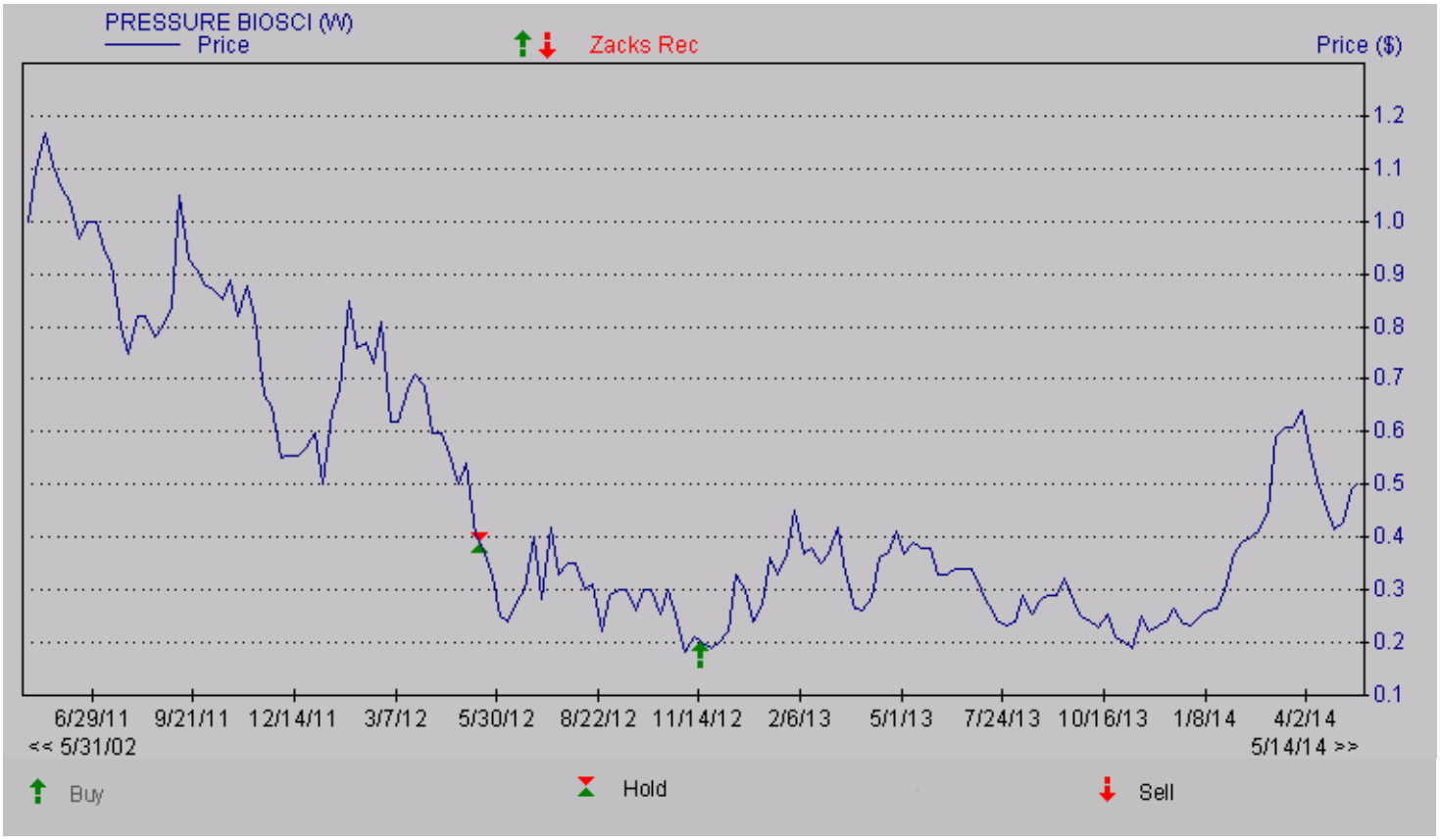

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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