Zacks Small-Cap Research

April 6, 2016
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Pressure Biosciences (PBIO-OTC)

PBIO: Balance sheet boosted, partnership with SCIEX will enhance product sales, valuation very attractive---Buy

Current Recommendation	**Buy**
Prior Recommendation	Hold
Date of Last Change	11/15/2012
Current Price (04/05/16)	$0.45
Twelve- Month Target Price	**$2.50**

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 recently boosted its balance sheet through PIPE financing, and we expect to see significant revenue growth in 2016 and beyond.

We continue to be bullish on PBIO shares.

SUMMARY DATA

52-Week High	**$0.51**
52-Week Low	**$0.21**
One-Year Return (%)	**60.36**
Beta	**1.40**
Average Daily Volume (sh)	**56,830**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$10**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
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)
2014	0.40 A	0.31 A	0.37 A	0.29 A	1.37 A
2015	0.44 A	0.41 A	0.58 A	0.36 A	1.80 A
2016					2.75 E
2017					10.25 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.19 A	-$0.05 A	-$0.07 A	-$0.09 A	-$0.39 A
2015	-$0.11 A	-$0.07 A	-$0.03 A	-$0.14 A	-$0.36 A
2016					-$0.15 E
2017					$0.02 E

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

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WHAT'S NEW

Update on 2015 Financials

Total revenue for 2015 was $1.8 million, as compared with $1.4 million for 2014, a 31% increase. The increase was due to 4.4% product sales growth and new government grant supported activities.

Revenue from the sale of products and services for 2015 was $1.4 million, compared with $1.4 million for 2014, a 4.4% increase. Sales of instrumentation increased in 2015 by $36,139 or 5%, from $799,472 for FY 2014 to $835,611 for FY 2015. Sales of consumables were $146,408 for the year ended December 31, 2015 compared to $167,380 for the same period in 2014, a decrease of $20,972 or 13%.

During 2015, PBIO recorded $387,700 of grant revenue as compared with $24,594 in 2014. In December 2014 the Company was awarded a $1,020,969 SBIR Phase II grant (2R44HG007136) from the National Human Genome Research Institute of the National Institutes of Health.

The cost of products and services was $609,054 for the year ended December 31, 2015, compared with $652,438 in 2014.

Gross margin on products and services was 66% for FY 2015 vs. 48% for FY 2014. The favorable margin improvement was helped with the sale of preowned PBI Barocycler instruments that PBIO repurchased, refurbished, and then resold at better than usual gross margins. The relationship between the cost of products and services and revenue depends greatly on the mix of instruments PBIO sells, the quantity of such instruments, and the mix of consumable products and instrument accessories that PBIO sells in a given period.

R&D expenditures were $1.1 million for 2015 compared to $1.0 million in 2014, an increase of 16%. This increase resulted primarily from additional research activities funded through the SBIR Phase II grant, with the aim to develop a new pressure-based system for the extraction of high quality DNA from samples for analysis.

Selling and marketing expenses were $745,574 in 2015 compared to $721,229 in 2014, an increase of $24,345, or 3%. This increase was primarily due to a more aggressive customer outreach program unveiled in 2015.

G&A costs were $2.9 million for 2015, as compared with $2.4 million in 2014, an increase of 22%.

Operating loss was $3.6 million for the year ended December 31, 2015 as compared with $3.3 million for the prior year, an increase of 7%.

Net loss for 2015 was $7.4 million ($0.36 per share), as compared with $6.3 million ($0.44 per share) during the year ended December 31, 2014.

Balance Sheet Boosted by PIPE Financing

As of December 31, 2015, PBIO held $116,783 in cash.

On March 1, 2016, PBIO announced it had closed the first tranche of the over-subscription amount of its $5 million Private Placement following the receipt of $550,000 in gross proceeds from the sixth overall closing of the Offering. This closing increased the total amount raised in the Offering to $5,560,000.

The initial terms of the Offering limited the amount that could be raised in the Offering to $6.25 million ($5 million plus a $1.25 million over-subscription amount). The Company recently approved an increase in

the over-subscription amount to $2.5 million, which increased the capacity of the Offering to a maximum of **$7.5 million**. Following the sixth closing, $1,940,000 remains available in the Offering.

Pursuant to the terms of the Offering, the Company will issue to the investors, senior secured convertible debentures with a fixed conversion price of $0.28 per restricted common share, and common stock purchase warrants exercisable into shares of restricted common stock at an exercise price of $0.40 per share. The Company is under no obligation to file a registration statement to register the shares underlying the Debentures and Warrants.

PBIO received a series of the PIPE proceeds in 2015.

- In Jan, 2016, PBIO received $255,000 in gross proceeds from the fifth closing of the original $5 million Private Placement. This closing increased the total amount raised in the Offering to $5,010,000 and exceeded its original $5 million PIPE goal.

- In December 2015, PBIO received $730,000 in gross proceeds from the fourth closing of the $5 million Private Placement.

- In November 2015, PBIO received gross proceeds of $745,000 from the third closing of its $5 million Private Placement.

- In late September, 2015, PBIO received gross proceeds of $1.1 million from the second closing of its $5 million Private Placement.

- In July, 2015, PBIO received gross proceeds of $2,180,000 from the initial tranche of the $5 million Private Placement.

As a result of the PIPE financing, PBIO successfully eliminated 100% of the its variable rate (floorless) convertible debt in December 2015 following the receipt of $730,000 in gross proceeds from the fourth closing of its $5 million Private Placement. Since the initial close of the Offering in July 2015, the company has paid off approximately $2.7 million of variable rate loans.

In addition, funds received in the Offering have also been used for expanding its marketing and sales areas while concomitantly increasing its manufacturing and other operating capabilities.

PBIO and SCIEX Team Up Together to Improve Protein Quantitation in Complex Samples

On January 12, 2016, PBIO and SCIEX, a global leader in life science analytical technologies, announced an exclusive co-marketing agreement.

Pursuant to the agreement, PBIO and SCIEX will jointly promote PCT-based sample preparation systems such as PCT-HD from PBIO with SWATH® Acquisition based next-generation proteomics, Triple proteomics, TripleTOF® Systems, QTRAP® Systems, and Triple Quad Systems from SCIEX.

This agreement will position the two companies to address a major challenge in complex sample preparation by marketing a complete solution to increase the depth, breadth, and reproducibility of protein extraction, digestion and quantitation in all tissue types, including challenging samples like tumors.

PCT-HD was developed by PBIO. When combined with SCIEX's SWATH-Mass Spectrometry – with a resulting name of PCT-SWATH, this unique protocol can yield proteome analysis results within 12 hours from the start of processing tissue, much faster than current methods. The net result is more comprehensive protein quantitation from complex samples, increased productivity and higher quality results.

SCIEX is one of the six major mass spectrometry suppliers in the world. They are owned by Danaher Corp with $60 billion in market cap. SCIEX holds the largest market share in the mass spec field for proteomics.

SCIEX enables scientists and laboratory analysts to find answers to the complex analytical challenges they face. The company's global leadership and world-class service and support in the capillary electrophoresis and liquid chromatography-mass spectrometry industry have made it a trusted partner to thousands of the scientists and lab analysts worldwide who are focused on basic research, drug discovery and development, food and environmental testing, forensics and clinical research.

We Expect Significant Revenue Growth in 2016

With the significantly improved balance sheet and expanded sales and marketing capabilities, as well as the newly established multi-national co-marketing partner SCIEX, we continue to believe revenue will grow significantly in 2016 and beyond. Specifically, we believe total revenue for 2016 will surpass the $2.5 million mark.

These increases will be driven by sales from both existing and new products (instruments and consumables), from the Company's expanding distribution network, and from the additional sales and marketing personnel the company is committed to hire.

We Continue to be Bullish on PBIO Shares

We maintain our **Buy** rating on PBIO shares and our twelve-month price target is $2.50 per share.

In terms of valuation, we think PBIO shares are undervalued based on the Company's fundaments. Currently, the Company trades around $0.40 per share with a market cap of $9.0 million based on 23 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 even more optimistic about the Company's prospect than ever. 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 products and services revenue will grow at a compound annual growth rate (CAGR) of 75% in the next five fiscal years from 2015 to 2019. PBIO will become profitable in fiscal 2017 with an EPS of $0.02.

We think PBIO is more like a development stage biotech company. We use a 30x P/E ratio, multiplied by the EPS of $0.18 in 2019, and discount at 25% for 3 years. Then we come up with our price target of $2.50 per share.

Our price target values the company at $58 million in market cap. This valuation is still very conservative in our view. As long as the Company can execute on its growth strategy correctly, we believe this goal is achievable. Patient investors will get rewarded.

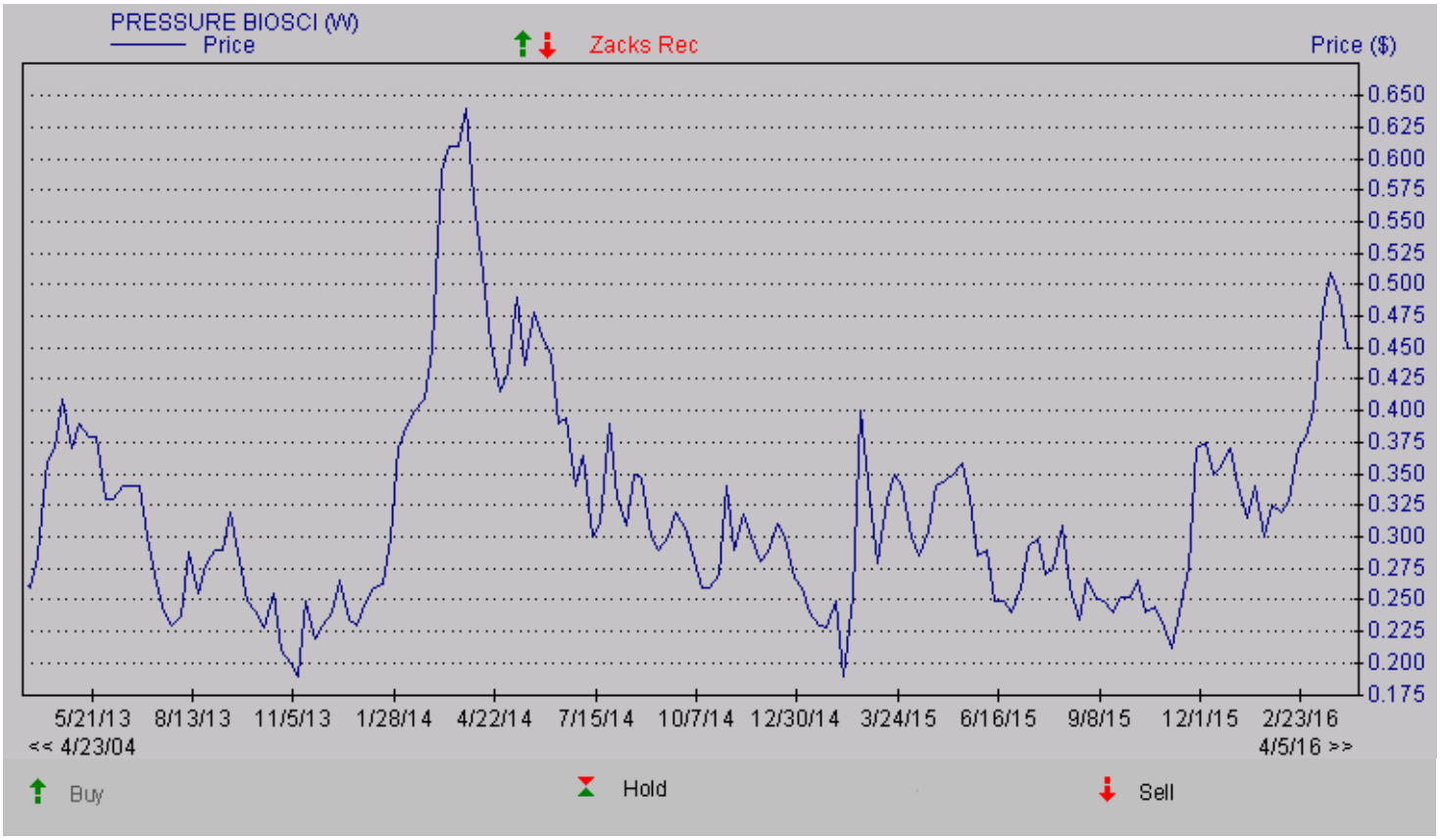
PROJECTED INCOME STATEMENT

$ in million except per share data	Q1	Q2	Q3	Q4	12/14A	Q1	Q2	Q3	Q4	12/15A	12/16E	12/17E	12/18E	12/19E
Product/Service Revenue	$0.40	$0.31	$0.37	$0.27	$1.35	$0.36	$0.33	$0.48	$0.24	$1.41	$2.50	$10.00	$15.00	$22.00
YOY Growth	*82.4%*	*56.5%*	*13.6%*	*-11.5%*	*29.0%*	*-11.1%*	*8.5%*	*29.2%*	*-11.4%*	*4.4%*	*77.3%*	*300.0%*	*50.0%*	*46.7%*
Grant Revenue	$0.00	$0.00	$0.00	$0.02	$0.02	$0.08	$0.08	$0.10	$0.13	$0.39	$0.25	$0.25	$0.25	$0.25
Total Revenues	**$0.40**	**$0.31**	**$0.37**	**$0.29**	**$1.37**	**$0.44**	**$0.41**	**$0.58**	**$0.36**	**$1.80**	**$2.75**	**$10.25**	**$15.25**	**$22.25**
YOY Growth	*9.0%*	*-14.1%*	*-11.5%*	*-17.9%*	*-8.6%*	*8.9%*	*34.4%*	*55.8%*	*25.3%*	*30.8%*	*53.0%*	*272.7%*	*48.8%*	*45.9%*
CoGS	$0.2	$0.1	$0.1	$0.2	$0.7	$0.2	$0.2	$0.2	$0.0	$0.6	$1.0	$4.0	$6.0	$8.8
Gross Income	**$0.23**	**$0.17**	**$0.22**	**$0.10**	**$0.72**	**$0.25**	**$0.24**	**$0.37**	**$0.33**	**$1.23**	**$1.75**	**$6.25**	**$9.25**	**$13.45**
Gross Margin	*56.1%*	*56.3%*	*60.0%*	*34.2%*	*52.5%*	*56.7%*	*57.6%*	*63.8%*	*90.9%*	*68.6%*	*63.6%*	*61.0%*	*60.7%*	*60.4%*
Gross Margin for PCT revenue	*56.1%*	*56.3%*	*60.0%*	*28.1%*	*51.7%*	*46.9%*	*47.5%*	*56.4%*	*85.9%*	*60.0%*	*60.0%*	*60.0%*	*60.0%*	*60.0%*
R&D	$0.2	$0.3	$0.2	$0.2	$1.0	$0.2	$0.3	$0.4	$0.2	$1.1	$1.4	$1.6	$1.8	$2.0
% R&D	*57.2%*	*82.4%*	*62.3%*	*81.3%*	*69.3%*	*52.7%*	*70.5%*	*61.3%*	*62.2%*	*61.5%*	*50.9%*	*15.6%*	*11.8%*	*9.0%*
SG&A	$0.8	$0.8	$0.8	$0.8	$3.1	$0.9	$1.0	$0.7	$1.0	$3.6	$4.0	$4.2	$4.8	$5.2
% SG&A	*192.5%*	*249.3%*	*211.8%*	*266.6%*	*226.1%*	*202.7%*	*244.6%*	*121.6%*	*285.7%*	*203.0%*	*145.5%*	*41.0%*	*31.5%*	*23.4%*
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
% 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%*
Operating Income	**($0.8)**	**($0.8)**	**($0.8)**	**($0.9)**	**($3.3)**	**($0.9)**	**($1.1)**	**($0.7)**	**($0.9)**	**($3.5)**	**($3.7)**	**$0.5**	**$2.7**	**$6.3**
Operating Margin	*-193.6%*	*-275.4%*	*-214.1%*	*-313.7%*	*-242.8%*	*-198.8%*	*-257.5%*	*-119.0%*	*-257.0%*	*-195.8%*	*-132.7%*	*4.4%*	*17.4%*	*28.1%*
Other Net	($0.98)	$0.24	($0.16)	($0.38)	($1.27)	($1.17)	($0.32)	$0.03	($2.39)	($3.85)	$0.00	$0.00	$0.00	$0.00
Pre-Tax Income	**($1.8)**	**($0.6)**	**($1.0)**	**($1.3)**	**($4.6)**	**($2.0)**	**($1.4)**	**($0.7)**	**($3.3)**	**($7.4)**	**($3.7)**	**$0.5**	**$2.7**	**$6.3**
Pref. stk Div	$1.33	$0.12	$0.04	$0.15	$1.64	$0.02	$0.00	$0.00	$0.00	$0.02	$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
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%*
Reported Net Income	**($3.1)**	**($0.7)**	**($1.0)**	**($1.4)**	**($6.3)**	**($2.1)**	**($1.4)**	**($0.7)**	**($3.3)**	**($7.4)**	**($3.7)**	**$0.5**	**$2.7**	**$6.3**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Margin	*-763.3%*	*-234.4%*	*-269.1%*	*-496.9%*	*-454.8%*	*-469.0%*	*-335.6%*	*-113.7%*	*-914.1%*	*-411.3%*	*-132.7%*	*4.4%*	*17.4%*	*28.1%*
Shares Out	*12.1*	*13.6*	*15.2*	*16.1*	*14.3*	*18.8*	*19.7*	*20.7*	*23.6*	*20.7*	*25.0*	*27.0*	*30.0*	*35.0*
Reported EPS	**($0.25)**	**($0.05)**	**($0.07)**	**($0.09)**	**($0.44)**	**($0.11)**	**($0.07)**	**($0.03)**	**($0.14)**	**($0.36)**	**($0.15)**	**$0.02**	**$0.09**	**$0.18**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One time charge	*$0.73*	*$0.00*	*$0.00*	*$0.00*	*$0.73*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($2.4)**	**($0.7)**	**($1.0)**	**($1.4)**	**($5.5)**	**($2.1)**	**($1.4)**	**($0.7)**	**($3.3)**	**($7.4)**	**($3.7)**	**$0.5**	**$2.7**	**$6.3**
Non GAAP EPS	**($0.19)**	**($0.05)**	**($0.07)**	**($0.09)**	**($0.39)**	**($0.11)**	**($0.07)**	**($0.03)**	**($0.14)**	**($0.36)**	**($0.15)**	**$0.02**	**$0.09**	**$0.18**

Source: Company filings and Zacks Investment Research Inc. 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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