Zacks Small-Cap Research

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PURE Bioscience, Inc. (PURE-OTC)

PURE: Zacks Company Report

PURE: The launch of PURE Control® will accelerate revenue growth in calendar 2017 and beyond.

Current Price (06/12/17)	$01.16
Valuation	**$3.00**

OUTLOOK

PURE develops and markets SDC-based antimicrobial products that provide non-toxic solutions to food safety challenges. SDC is a novel, patented platform technology with superior efficacy and low toxicity and can be used in diverse markets. Current focus is on food safety industry.

With the launch of PURE Control, we expect revenue growth will accelerate in calendar 2017 and beyond. We continue to be bullish on PURE shares.

SUMMARY DATA

52-Week High	**$1.25**
52-Week Low	**$0.85**
One-Year Return (%)	**-30.40**
Beta	**-1.49**
Average Daily Volume (sh)	**25,449**
Shares Outstanding (mil)	**63**
Market Capitalization ($mil)	**$54**
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 (%)	**36.6**
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-Growth**
Industry	**Med Products**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2015	0.12 A	0.27 A	0.11 A	0.23 A	0.73 A
2016	0.19 A	0.18 A	0.40 A	0.52 A	1.29 A
2017	0.53 A	0.45 A	0.34 A	0.75 E	2.07 E
2018					10.00 E

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

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2015	-$0.05 A	-$0.04 A	-$0.05 A	-$0.05 A	-$0.19 A
2016	-$0.04 A	-$0.04 A	-$0.02 A	-$0.01 A	-$0.11 A
2017	-$0.03 A	-$0.01 A	-$0.03 A	-$0.03 E	-$0.10 E
2018					-$0.05 E

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

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WHAT'S NEW

Update on Fiscal Third Quarter Financials

Total revenues for the fiscal third quarter ended April 30, 2017 were $338,000, compared with revenues of $403,000 in the prior year fiscal third quarter ended 2016, a decrease of 16%.

The quarter-over-quarter decline was due solely to the timing of a significant reorder from a large legacy customer. Last year's order was placed in the third quarter of FY 2016, and this year's order was received in the first week of the fourth fiscal quarter in 2017.

However, core food safety revenues for the third quarter increased 27% as compared with food safety revenues in the fiscal third quarter ended 2016.

Gross margin was 61% during the third quarter of fiscal 2017 as compared with 71% during the same period in fiscal 2016 due to product mix.

R&D costs for fiscal third quarter 2017 were $0.22 million, compared to $0.21 million for the same period of last year.

SG&A costs for fiscal third quarter 2017 were $1.3 million, compared to $1.4 million for the fiscal third quarter of 2016.

Net loss for the fiscal third quarter 2017 was ($1.7) million, as compared with net income of $30,000 for fiscal third quarter in 2016.

The adjusted net loss, excluding derivative income/expense and share-based compensation, for the third quarter 2017 and 2016 was ($1.3) and ($1.3) million, respectively.

Balance Sheet Remains Strong

As of April 30, 2017, PURE had a cash balance of $2.7 million with no long-term debt.

In May 2016, PURE raised $1.27 million from the exercise by all of the holders of the 2,820,670 warrants expiring May 23, 2016.

In October, 2015, PURE closed a $6 million private placement with strategic lead investor Franchise Brands LLC. This is Franchise Brands' second investment in PURE.

In November 2015, PURE completed the second and final closing of a follow-on private placement financing with its existing investors, raising $2 million to support its operations.

These financings greatly boosted the company's balance sheet. More importantly, the transactions further validate the company's SDC technology.

With the PURE Control first order in calendar 1Q17, we believe the company could **break even** in the next 12 to 18 months.

Current cash combined with cash flow generated from operations will support the Company's operations and business plan through end of calendar 2017 according to our financial model.

Update on PURE Control Launch

In parallel to its PURE Hard Surface® business, PURE is launching its second business segment **PURE Control**-which utilizes the company's lead compound SDC as direct **food contact processing aid**.

Currently, PURE is targeting three key fields for PURE Control.

Produce (FDA)

PURE **introduced PURE Control** at IPPE (International Production & Processing Expo) **in late Jan 2016**. IPPE is the world's largest annual poultry, meat and feed industry event attended by more than 30,000 industry leaders and their suppliers seeking to learn about the latest technological developments in the industry.

PURE targeted PURE Control as a food safety solution for a broad range of processed vegetables and fruits that are most frequently associated with pathogen contamination. In its regulatory filing, PURE demonstrated materially significant reductions in *Salmonella, Listeria and E. coli* in processed fresh produce, as compared with current processing chemicals.

Produce is the leading source of foodborne illness in the US. Given the immediate market need and the proven superior efficacy of SDC, we believe PURE Control can quickly achieve meaningful market penetration among fruit and vegetable processors.

In March 2017, the Company received its **first order** for PURE Control® antimicrobial from Taylor Farms, a leading produce processor, entering a new +$300 million US produce processing aids market to prevent foodborne illness.

Poultry (FDA/USDA)

In June, 2015, PURE resubmitted a Food Contact Notification (FCN) to the US **FDA** for Silver Dihydrogen Citrate (SDC) as an **online reprocessing** antimicrobial for **raw poultry processing aid**.

In April 2017, PURE received two required key regulatory notifications (**USDA** permission letter and an **FDA** FCN acknowledgement letter) on its path to obtain final regulatory approval of and commercialize PURE Control as a superior **raw poultry processing** aid into the +$350 million US market.

In May 2017, PURE's FDA FCN for use of PURE Control at concentrations up to 160 PPM as a raw poultry processing aid became effective. PURE received a "Letter of No Objection" from the USDA FSIS for use of PURE Control at concentrations up to 160 PPM in pre-OLR and post-chill poultry processing. PURE Control will be listed in FSIS Directive 7120.1. PURE now **has regulatory approval** to commercialize PURE Control for these **non-OLR** poultry processing applications.

On May 29th, PURE began its in-plant poultry processing trial to gain USDA approval for use of PURE Control during online reprocessing (OLR). The trial is expected to be concluded early in calendar Q3. If the plant trial is successful and no additional trials are required by the USDA, PURE anticipates that the USDA-FSIS would issue a "Letter of No Objection" within six weeks of the trial's completion. The Company would then have the regulatory approval necessary to begin commercialization of PURE Control for **OLR** applications.

Once approved and commercialized, poultry processors will be able to use PURE Control in place of the highly toxic interventions currently being used. It is anticipated that the plant trial processors will be among the first customers for PURE Control for poultry processing.

Meats (FDA/USDA)

PURE continues its product development efforts for the application of SDC as processing aid/intervention for beef and pork. Pending positive test results, PURE expects to file the FCN for processing raw beef and pork in calendar **2H2017**.

Go-To-Market Strategies and Programs Underway

With a goal of being positioned to commercialize and execute immediately upon obtaining regulatory approvals, PURE is proactively engaged in both "push" and "pull" sales and marketing initiatives with processors, retailers and distributors to prime demand for PURE Control®. Among these are some of the very largest vegetable and fruit processors, grocery and restaurant chains.

A number of leading processors, in both poultry and produce, are already using PURE Hard Surface disinfectant on plant equipment, and therefore are familiar with the benefits of PURE's superior SDC technology. For this reason, PURE anticipates that it may be able to achieve **accelerated market adoption** with a relatively short sales cycle. Additional market dynamics expected to drive adoption include:

- PURE Control's superior efficacy and dramatically lower toxicity vs. processing aids currently in use, and
- The urgent pressure of increasing regulatory requirements.

Huge Market Opportunity for SDC as a Food Contact Processing Aid

Food contamination, especially by Salmonella, is a global health issue. Salmonella is responsible for an estimated 1.2 million food borne illnesses each year. In testing, the USDA has found that at least 25% of chicken parts in the food supply chain were contaminated with Salmonella.

In order to address the issue, the USDA has initiated a Salmonella Action Plan, which is the top Department priority, aiming to significantly reduce the number of Salmonella-related food borne illnesses in the US. This USDA initiative drives increased scrutiny to poultry inspection and processing practices.

Processing aids or interventions commonly used in the US food industry today are highly toxic chemistries. In addition, pathogens can become increasingly resistant and render current interventions less efficacious. As a result, poultry processors need new, highly effective antimicrobial interventions that can provide a heightened level of control over Salmonella that current interventions are not achieving. The demonstrated ability of SDC to reduce Salmonella to levels below the detection limit (when applied during the on-line reprocessing of raw poultry products) has the potential to play an important role in the solution.

Produce is also a leading source of foodborne illness in the US. The Centers for Disease Control and Prevention (CDC) estimates that produce was responsible for 46% of foodborne illnesses and 23% of foodborne illness-related deaths in the US between 1998 and 2008. Leafy greens were identified as the primary source of foodborne illness.

We believe that SDC is a significant improvement over current processing chemicals and provides important advantages because SDC does not induce bacterial resistance and is:

- More effective in reducing or eliminating pathogens
- Easier to handle and dilute
- Non-corrosive to processing equipment
- Non-toxic - does not create noxious fumes

Now approved as food contact processing aid, SDC has the opportunity to target the $1+ billion-dollar market and command a big chunk of the market share based on its superior efficacy and safety.

The raw poultry market opportunity is estimated to be in excess of $350 million and the processed produce opportunity is estimated to exceed $300 million. PURE's long term goal to capture a significant

share, at least 10%, of those markets, which means peak annual sales of at least $65 million alone for the two markets.

We Continue to be Bullish on PURE Shares

We continue to be optimistic about the prospect of PURE's SDC technology and reiterate our fair valuation at $3.00 per share.

We are impressed with the recent progress the company has achieved and the positive developments within the company. We think the company's valuation is very attractive at this time.

PURE is a technology-based bioscience company that provides solutions to numerous global health challenges. PURE's proprietary high efficacy/low toxicity **SDC-based antimicrobials** represent innovative advances in diverse markets and lead today's global trend toward industry and consumer use of **"green" products**. Patented SDC is an electrolytically generated source of stabilized ionic silver, which formulates well with other compounds. As a platform technology, SDC is distinguished from competitors in the marketplace because of its **superior efficacy**, **reduced toxicity** and the **inability of bacteria to form a resistance** to it.

PURE's SDC is the first new disinfectant registered with EPA in over 30 years. SDC's competitive advantages in efficacy and safety make it outstanding among its competitors and represent a **paradigm shift** in the disinfectant/sanitizer market place.

Another key feature of SDC is that SDC-based products have broad applicability in diverse markets. The Company's current focus is to expand distribution of currently approved **disinfectant/sanitizer** products to consumers in the **food safety industry**. We believe the launch of PURE Control will greatly accelerate revenue growth in calendar 2017 and beyond.

In terms of valuation, we think PURE shares are undervalued at current market price. Currently, the Company trades around $1.15 per share with a market cap of $73 million based on 63 million shares outstanding. We think this is a deep discount based on the company's fundamentals. According to our model, revenue will grow at 140% CAGR in the next fiscal 4 years. PURE will become profitable in fiscal 2019 with an EPS of 0.09 based on total revenue of $30.0 million. EPS will grow to $0.21 per share in fiscal 2020 based on total revenue of $42.5 million. With this in mind, we think PURE shares should be traded at a P/E ratio of 25 x. Applying this P/E multiple with our estimated EPS of $0.21 per share in fiscal 2020, discounted at 20% for 3 years, we come up with a fair valuation at $3.00 per share. This values PURE at $195 million in market cap, which we think is still conservative.

But keep in mind the risks. We noticed that the company's lead product PURE Hard Surface has been in the market for a few years, but sales so far have not been impressive. This could happen to the company's second product PURE Control. Sales of PURE Control may take longer time to gain traction since PURE is still in its early stage of commercialization of its SDC technology. SDC technology is quite new to most customers in the disinfectant market, and the costs for SDC are also higher than those for most existing technologies. Therefore, rollout of the PURE Control may take longer time.

PROJECTED INCOME STATEMENT

	2016 (Jul)						2017 (Jul)					2018 (Jul)	2019 (Jul)	2020 (Jul)
$ in million except per share data	Q1A	Q1	Q2	Q3	Q4	FYA	Q1	Q2	Q3	Q4	FYE	FYE	FYE	FYE
Total Revenues	**$0.12**	**$0.19**	**$0.18**	**$0.40**	**$0.52**	**$1.29**	**$0.53**	**$0.45**	**$0.34**	**$0.75**	**$2.07**	**$10.00**	**$30.00**	**$42.50**
YOY Growth	*4.5%*	*59.0%*	*-35.5%*	*269.7%*	*127.8%*	*76.8%*	*185.5%*	*154.0%*	*-16.1%*	*43.1%*	*60.3%*	*384.0%*	*200.0%*	*41.7%*
CoGS	0.04	0.05	0.05	0.12	0.22	0.44	0.26	0.13	0.13	0.30	0.83	2.00	6.00	8.50
Gross Income	**$0.08**	**$0.13**	**$0.13**	**$0.29**	**$0.30**	**$0.85**	**$0.27**	**$0.31**	**$0.21**	**$0.45**	**$1.24**	**$8.00**	**$24.00**	**$34.00**
Gross Margin	*68.7%*	*71.0%*	*72.7%*	*71.2%*	*57.4%*	*65.8%*	*50.5%*	*70.0%*	*60.9%*	*60.0%*	*59.9%*	*80.0%*	*80.0%*	*80.0%*
R&D	$0.23	$0.24	$0.24	$0.21	$0.25	$0.93	$0.25	$0.21	$0.22	$0.30	$0.98	$1.10	$1.45	$1.50
% R&D	*203.5%*	*126.9%*	*135.2%*	*50.9%*	*47.3%*	*71.9%*	*46.7%*	*47.9%*	*65.7%*	*40.0%*	*47.6%*	*11.0%*	*4.8%*	*3.5%*
SG&A	$0.99	$1.09	$1.39	$1.39	$1.22	$5.08	$1.34	$1.33	$1.30	$1.60	$5.57	$8.50	$12.50	$13.50
% SG&A	*863.5%*	*583.9%*	*787.5%*	*343.7%*	*232.6%*	*393.8%*	*251.8%*	*298.2%*	*385.2%*	*213.3%*	*269.7%*	*85.0%*	*41.7%*	*31.8%*
Other	$2.68	$0.67	$0.76	$0.19	$0.28	$1.90	$0.28	$0.17	$0.28	$0.28	$1.00	$2.00	$3.50	$4.00
% Other	*2333.9%*	*361.3%*	*433.5%*	*46.2%*	*53.6%*	*147.6%*	*52.4%*	*38.0%*	*81.4%*	*37.3%*	*48.5%*	*20.0%*	*11.7%*	*9.4%*
Operating Income	**($3.8)**	**($1.9)**	**($2.3)**	**($1.5)**	**($1.4)**	**($7.1)**	**($1.6)**	**($1.4)**	**($1.6)**	**($1.7)**	**($6.3)**	**($3.6)**	**$6.6**	**$15.0**
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	*-36.0%*	*21.8%*	*35.3%*
Other Net	($0.0)	($1.0)	($8.6)	$1.5	$0.8	($7.3)	($0.1)	$0.5	($0.1)	$0.0	$0.2	$0.0	$0.0	$0.0
Pre-Tax Income	**($3.8)**	**($2.8)**	**($10.9)**	**$0.0**	**($0.7)**	**($14.4)**	**($1.7)**	**($0.9)**	**($1.7)**	**($1.7)**	**($6.1)**	**($3.6)**	**$6.6**	**$15.0**
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
Tax Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reported Net Income	**($3.8)**	**($2.8)**	**($10.9)**	**$0.0**	**($0.7)**	**($14.4)**	**($1.7)**	**($0.9)**	**($1.7)**	**($1.7)**	**($6.1)**	**($3.6)**	**$6.6**	**$15.0**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	*-41.4%*	*-281.9%*	*129.0%*
Net Margin	-	-	-	-	-	-	-	-	-	-	-	*-36.0%*	*21.8%*	*35.3%*
Shares Out	*20.7*	*43.0*	*58.7*	*71.3*	*54.3*	*56.8*	*64.8*	*63.6*	*62.7*	*66.0*	*64.3*	*68.0*	*70.0*	*72.0*
Reported EPS	**($0.19)**	**($0.07)**	**($0.19)**	**$0.00**	**($0.01)**	**($0.25)**	**($0.03)**	**($0.01)**	**($0.03)**	**($0.03)**	**($0.10)**	**($0.05)**	**$0.09**	**$0.21**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	*-44.6%*	*-276.7%*	*122.6%*
One-time charge	*$2.68*	*$0.96*	*$8.64*	*($1.52)*	*$0.00*	*$8.08*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non-GAAP Net Income	**($1.2)**	**($1.9)**	**($2.3)**	**($1.5)**	**($0.7)**	**($6.3)**	**($1.7)**	**($0.9)**	**($1.7)**	**($1.7)**	**($6.1)**	**($3.6)**	**$6.6**	**$15.0**
Non-GAAP EPS	**($0.06)**	**($0.04)**	**($0.04)**	**($0.02)**	**($0.01)**	**($0.11)**	**($0.03)**	**($0.01)**	**($0.03)**	**($0.03)**	**($0.10)**	**($0.05)**	**$0.09**	**$0.21**

Source: Company filing and Zacks estimates

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HISTORICAL STOCK PRICE



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