Zacks Small-Cap Research

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Pressure Biosciences (PBIO-OTC)

PBIO: Zacks Company Report

PBIO: Product and service revenue continued to grow in 3Q17; Significantly expanded sales and marketing capabilities, valuation very attractive

Current Price (11/14/17)	$3.48
Valuation	**$10.00**

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 recently significantly enhanced its sales/marketing capabilities, and we expect to see significant revenue growth in 3Q2017 and beyond.

Our fair valuation is $10.00 per share.

SUMMARY DATA

52-Week High	**$10.10**
52-Week Low	**$0.70**
One-Year Return (%)	**-64.87**
Beta	**1.56**
Average Daily Volume (sh)	**1,837**
Shares Outstanding (mil)	**1**
Market Capitalization ($mil)	**$4**
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)
2016	0.51 A	0.51 A	0.54 A	0.42 A	1.98 A
2017	0.55 A	0.54 A	0.65 A	1.03 E	2.76 E
2018					7.75 E
2019					13.75 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$1.35 A	-$1.23 A	-$0.46 A	-$1.14 A	-$4.09 A
2017	-$0.96 A	-$1.12 A	-0.99 A	-$0.81 E	-$3.85 E
2018					-$1.18 E
2019					$0.01 E

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

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WHAT'S NEW

Update on Third Quarter 2017 Financials

Total revenue for 3Q17 was $646,061, compared to $535,334 in 3Q16, an increase of $110,727 (21%). This increase was primarily attributable to increases in both instrument and consumable sales. Total revenue included product & services revenue and grant revenue.

Products & Services revenue increased to $603,726 in 3Q17, compared to $500,949 for the prior year same period, an increase of 21%. This revenue included instrument sales and consumable sales.

Instrument sales increased to $410,906 in 3Q17 from $383,527 in 3Q16, an increase of 7%.

Consumable sales increased to a record $84,594 in 3Q17 from $32,811 in 3Q16, an increase of 158%.

Grant revenue in 3Q17 increased to $42,335, from $34,385 in the prior year period, an increase of 23%.

Operating loss increased to $1.1 million in 3Q17, from $451,807 for the same period in 2016, an increase of $673,465. This increase was due primarily to a significant one-time credit of approximately $400,000 received in 3Q16 from a former professional service provider.

Adjusted net loss per common share was $0.99, compared to net loss per share of $0.46.

As of September 30, 2017, PBIO held $18,723 in cash and cash equivalents.

We Expect Revenue to Continue to Grow in 4Q2017 and Beyond

In Feb 2017, PBIO announced that the Company has achieved **CE Marking** for the Barocycler 2320EXTREME, the Company's recently released, next-generation PCT-based sample preparation instrument. PBIO is now permitted to begin sales of the Barocycler 2320EXT in the European Economic Area.

When the CE Mark is affixed to a product, it signifies the manufacturer's declaration that the product meets all applicable EU safety, health, or environmental requirements. Achieving CE Marking requires substantial cost, time, and effort from the manufacturer, but allows the product to be marketed and move freely throughout all 31 countries in the EEA that require the CE Mark.

The Barocycler 2320EXT is the most recent addition to, and the next generation of, PBIO's Barocycler family. It is a compact, bench top instrument offering many features and benefits not found in PBIO's earlier Barocycler models, such as data logging options, user-level security, computer-operated control with touch screen programming, and the ability to customize multiple pressure cycling parameters. These and other features have already positioned the Barocycler 2320EXT as an instrument of choice for life science key opinion leaders worldwide, when preparing protein samples for analysis.

Achievement of CE Marking for the Barocycler 2320EXT is an important next step in the company's commercialization plans for this powerful and enabling sample preparation instrument, especially since CE Marking is required prior to selling the Barocycler 2320EXT to the large and potentially lucrative biopharmaceutical market in Europe. The company recently signed agreements with several strong distribution partners in Europe, the SCIEX co-marketing agreement is entering its second year (SCIEX is a global provider of laboratory instrumentation to the life sciences area, with a large presence in Europe).

In March 2017, PBIO significantly bolstered its marketing and sales capabilities by contracting with well-known and highly regarded **EKG Sales Associates**, and by hiring two of its planned four additional field sales directors.

Ms. **Rajni Kareer** will serve as the Company's Sales Director covering all of the west coast of the U.S. The other Sales Director Mr. **Nicholas Cobb** will cover upstate New York, northern New England, and all of eastern Canada. He will also have responsibility for field service throughout the U.S. and Canada. Both hires have a strong background in selling capital equipment to research laboratories, including spectrometers and HPLC equipment, as well as laboratory consumables.

The company also has completed the staffing of its new 5-person field sales team and filled Director of Sales North America position.

In early November 2017, PBIO announced that Professor Tiannan Guo's laboratory at Westlake Institute for Advanced Study (WIAS) has been named the Company's first Center of Excellence in China, which is expected to significantly impact PBI's expansion into China.

With the significantly 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 4Q2017 and beyond.

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 has hired.

Valuation is Attractive

We continue to be optimistic about the prospect of PBIO and maintain our fair value for PBIO shares at $10.00 per share post the one-for-thirty reverse split in June 2017.

In terms of valuation, we think PBIO shares are undervalued based on the Company’s fundaments. Currently, the Company trades around $3.5 per share with a market cap of $4 million based on 1.1 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.

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 79% in the next four fiscal years from 2017 to 2020. PBIO will become profitable in fiscal 2019 with an EPS of $0.01.

We think PBIO is more like a development stage biotech company. We use a 35x P/E ratio, multiplied by the EPS of $0.49 in 2020, and discount at 25% for 2.5 years. Then we come up with our price target of $10.00 per share.

Our price target values the company at $11 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	12/16A	Q1	Q2	Q3	Q4	12/17E	12/18E	12/19E	12/20E
Product/Service Revenue	$0.45	$0.47	$0.50	$0.37	$1.79	$0.53	$0.48	$0.60	$1.00	$2.61	$7.50	$13.50	$18.50
YOY Growth	*26.4%*	*42.2%*	*4.0%*	*55.0%*	*27.3%*	*15.8%*	*1.3%*	*20.5%*	*173.8%*	*45.4%*	*187.3%*	*80.0%*	*37.0%*
Grant Revenue	$0.06	$0.04	$0.03	$0.05	$0.18	$0.03	$0.06	$0.04	$0.03	$0.15	$0.25	$0.25	$0.25
Total Revenues	**$0.51**	**$0.51**	**$0.54**	**$0.42**	**$1.98**	**$0.55**	**$0.54**	**$0.65**	**$1.03**	**$2.76**	**$7.75**	**$13.75**	**$18.75**
YOY Growth	*16.0%*	*23.7%*	*-7.8%*	*15.3%*	*9.9%*	*8.0%*	*5.8%*	*20.7%*	*144.3%*	*39.8%*	*180.5%*	*77.4%*	*36.4%*
CoGS	$0.2	$0.2	$0.3	$0.1	$0.8	$0.2	$0.3	$0.3	$0.5	$1.4	$4.0	$7.2	$9.9
Gross Income	**$0.29**	**$0.27**	**$0.27**	**$0.31**	**$1.14**	**$0.32**	**$0.25**	**$0.32**	**$0.48**	**$1.37**	**$3.74**	**$6.53**	**$8.85**
Gross Margin	*56.6%*	*52.4%*	*50.9%*	*74.7%*	*57.8%*	*57.2%*	*46.8%*	*49.1%*	*46.9%*	*49.5%*	*48.2%*	*47.5%*	*47.2%*
Gross Margin for PCT revenue	*51.2%*	*48.7%*	*47.5%*	*70.9%*	*53.5%*	*55.1%*	*40.2%*	*45.5%*	*45.5%*	*46.5%*	*46.5%*	*46.5%*	*46.5%*
R&D	$0.3	$0.3	$0.3	$0.3	$1.2	$0.3	$0.2	$0.2	$0.4	$1.1	$1.3	$1.5	$1.7
% R&D	*65.7%*	*62.9%*	*50.1%*	*61.5%*	*59.9%*	*47.8%*	*44.7%*	*37.0%*	*34.1%*	*39.6%*	*16.8%*	*10.9%*	*9.1%*
SG&A	$1.0	$1.0	$0.5	$1.2	$3.7	$1.1	$1.2	$1.2	$1.2	$4.6	$4.8	$5.0	$5.2
% SG&A	*195.8%*	*197.1%*	*85.2%*	*293.7%*	*187.0%*	*190.6%*	*225.0%*	*186.2%*	*115.1%*	*168.3%*	*61.9%*	*36.4%*	*27.7%*
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
% 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%*
Operating Income	**($1.0)**	**($1.1)**	**($0.5)**	**($1.2)**	**($3.7)**	**($1.0)**	**($1.2)**	**($1.1)**	**($1.0)**	**($4.4)**	**($2.4)**	**$0.0**	**$2.0**
Operating Margin	*-204.9%*	*-207.6%*	*-84.4%*	*-280.5%*	*-189.0%*	*-181.2%*	*-222.9%*	*-174.2%*	*-102.3%*	*-158.4%*	*-30.5%*	*0.2%*	*10.4%*
Other Net	($4.90)	$2.02	($0.49)	$4.40	$1.03	($4.60)	$0.62	($1.22)	$0.00	($5.19)	$0.00	$0.00	$0.00
Pre-Tax Income	**($6.0)**	**$1.0**	**($0.9)**	**$3.2**	**($2.7)**	**($5.6)**	**($0.6)**	**($2.3)**	**($1.0)**	**($9.6)**	**($2.4)**	**$0.0**	**$2.0**
Pref. stk Div	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$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
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%*
Reported Net Income	**($6.0)**	**$1.0**	**($0.9)**	**$3.2**	**($2.7)**	**($5.6)**	**($0.6)**	**($2.3)**	**($1.0)**	**($9.6)**	**($2.4)**	**$0.0**	**$2.0**
YOY Growth	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*7196.8%*
Net Margin	*-1165.7%*	*188.2%*	*-176.5%*	*768.8%*	*-136.9%*	*-1014.7%*	*-108.0%*	*-362.7%*	*-102.3%*	*-346.4%*	*-30.5%*	*0.2%*	*10.4%*
Shares Out	*0.8*	*0.9*	*1.0*	*1.0*	*0.9*	*1.0*	*1.1*	*1.1*	*1.3*	*1.1*	*2.0*	*3.0*	*4.0*
Reported EPS	**($7.70)**	**$1.11**	**($0.96)**	**$3.13**	**($2.97)**	**($5.38)**	**($0.54)**	**($2.07)**	**($0.81)**	**($8.41)**	**($1.18)**	**$0.01**	**$0.49**
YOY Growth	*-*	*-*	*-*	*-*	*-*					*-*	*-*	*-*	*-*
One time charge	*$4.90*	*($2.02)*	*$0.49*	*($4.40)*	*($1.03)*	*$4.60*	*($0.62)*	*$1.22*	*$0.00*	*$5.19*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($1.0)**	**($1.1)**	**($0.5)**	**($1.2)**	**($3.7)**	**($1.0)**	**($1.2)**	**($1.1)**	**($1.0)**	**($4.4)**	**($2.4)**	**$0.0**	**$2.0**
Non GAAP EPS	**($1.35)**	**($1.23)**	**($0.46)**	**($1.14)**	**($4.09)**	**($0.96)**	**($1.12)**	**($0.99)**	**($0.81)**	**($3.85)**	**($1.18)**	**$0.01**	**$0.49**

Source: Company filings and Zacks Investment Research Inc. estimates

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HISTORICAL STOCK PRICE



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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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