Zacks Small-Cap Research

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Pure Bioscience, Inc. (PURE-NASDAQ)

PURE: Strong financial results for fiscal 2012 reported, balance sheet boosted, poised for growth in fiscal 2013-- Outperform

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	07/13/2011
Current Price (11/05/12)	$1.04
Twelve- Month Target Price	**$4.00**

OUTLOOK

PURE develops and markets SDC-based antimicrobial products that provide non-toxic solutions to numerous global health challenges. SDC is a novel, patented platform technology with superior efficacy and low toxicity and can be used in diverse markets including personal care, preservatives, industrials, agriculture and pharmaceuticals. Although PURE is in its early stage of commercialization of SDC technology, its lead product PURE Hard Surface is increasingly gaining recognition by consumers and we believe market adoption will accelerate in the coming years due to its superior efficacy data and safety profile.

SUMMARY DATA

52-Week High	**$4.96**
52-Week Low	**$0.99**
One-Year Return (%)	**-78.07**
Beta	**0.60**
Average Daily Volume (sh)	**434,854**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$8**
Short Interest Ratio (days)	**0.51**
Institutional Ownership (%)	**9**
Insider Ownership (%)	**13**
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)
2012	0.26 A	0.22 A	0.21 A	0.40 A	1.08 A
2013	0.38 E	0.42 E	0.45 E	0.55 E	1.80 E
2014					5.50 E
2015					10.5 E

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

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2012	-$0.47 A	-$0.41 A	-$0.31 A	-$0.36 A	-$1.53 A
2013	-$0.33 E	-$0.31 E	-$0.30 E	-$0.29 E	-$1.23 E
2014					-$0.81 E
2015					-$0.38 E

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

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WHAT'S NEW

PURE Reports Strong Financial Results for fiscal 4Q12 and the Year

On October 30, 2012, PURE Bioscience (PURE) reported financial results for the fiscal year ended July 31, 2012.

Revenue for fiscal 4Q12 ended July 31, 2012 was $0.13 million, down 48% from the same period of last year. But including the shipment of $0.27 million for the fiscal fourth quarter, sales for the quarter were $0.40 million, an increase of 63% from the same period of last year. The fourth quarter sales were in line with our estimate.

Net loss for fiscal fourth quarter was $2.2 million or $0.36 per share, compared to $2.0 million or $0.40 per share in fiscal 2011.

Revenue for fiscal 2012 was $0.81 million, compared with revenue of $0.45 million for the year ended July 31, 2011. The fiscal 2012 revenues of $0.81 million excluded fiscal fourth quarter product shipments of $0.27 million which will be reported to revenues in the future as customer payments are received. Including the $0.27 million shipments, revenue for fiscal year of 2012 was $1.08 million, an increase of 133% from the same period of 2011.

The net loss for fiscal 2012 was $8.6 million or $1.53 per share, compared with a net loss of $8.3 million or $1.79 per share, in fiscal 2011.

Balance Sheet Boosted by Recent Financing

On September 17, 2012, PURE closed an underwritten public offering of 3,784,000 shares of its common stock at an offering price of $1.10 per share. In addition, the Underwriter has exercised the over-allotment option, and purchased an additional 557,615 shares of common stock to cover over-allotments. The gross proceeds to PURE from the offering, including the exercise of the over-allotment option, were approximately $4.8 million, before deducting the underwriting discount and other offering expenses payable by PURE.

This is a great achievement for PURE. The successful financing not only boosts the Company's balance sheet, but also validates the Company's technology and the prospect.

As of July 31, 2012, PURE has about $0.9 million of cash at hand. Plus the new financing, cash balance should be around $5 million at the end of October 2012. With this cash in hand, PURE could increase its marketing efforts for its patented silver dihydrogen citrate (SDC) antimicrobial products. Therefore, we believe sales of its SDC products will grow further in fiscal year 2013.

PURE is Poised to Grow Further in Fiscal 2013

Our Takeaways from the earnings report:

- Sales continued to pick up steam in the current quarter, which increased 63% year over year. The Company continues to recover from sales slump during fiscal 2011 due to poor sales performance and material breach of the agreement of its marketing partner Richmont Sciences, LLC.

- Fiscal 2012 was the first year of completely and directly controlling the sales and marketing of PURE Hard Surface disinfectant and sanitizer product by the Company itself. Compared to sales

in fiscal 20122, sales for 2012 increased 133%. We are pleased to see the results of the execution of its business development strategy and marketing activities to date.

- We believe that PURE is poised to grow in fiscal 2013 and onwards due to its diligent and focused marketing efforts. Balance sheet has been boosted by recent financing. The Company also added James McClenahan recently to spearhead its initiatives in the janitorial service industry, which is a key element to the Company's aggressive 'push-pull' marketing effort. Sales will accelerate in the coming quarters which will be driven by the janitorial suppliers while also reaching out directly to end-users such as restaurants, hotels, food processing facilities, hospitals, schools and institutions to create awareness and demand.

We are pleased with the progresses PURE has made in fiscal year of 2012 ended July 31, 2012. The Company took direct control of SDC-based product sales recently from its marketing partner Richmont Sciences, LLC due to Richmont's poor sales performance and material breach of the agreement. PURE ever since restructured its sales, marketing and distribution strategy and operation.

During the past fiscal year, PURE worked to establish the marketing groundwork necessary to develop awareness and acceptance in key markets for PURE Hard Surface in janitorial services for healthcare facilities, institutions and schools, as well as for use in food processing and oil and gas. The technical sales cycle required to elicit a change from entrenched products to PURE Hard Surface is a process that often includes additional testing, introductory trials and extensive education and guidance. In addition, the long evaluation process is often followed by a complex approval process.

PURE is currently underway with several programs addressing large markets, including conducting validation tests with major food retailers and processors to ensure food safety, and below-ground field studies with oil and gas companies to demonstrate the effectiveness of SDC in preventing water contamination. The Company plans to continue to broaden its base of national and regional distributors in the sanitation and janitorial market, and expand its work with development partners to create opportunities in other target markets including medical devices, pharmaceuticals, food processing, and oil and gas.

We believe PURE's comprehensive marketing efforts are establishing a foundation for meaningful future sales in multiple channels, and the Company is beginning to show positive results. We believe PURE is poised to grow more in fiscal 2013.

Business Development Updates

PURE partners with Italian export company TICE

On September 27, 2012, PURE announced Italian export company TICE as its general sales agent and distributor for Italy.

TICE is a consortium composed of Italian companies who have as their main philosophy the promotion and sale of 100% made-in-Italy products, with an emphasis on the North American market. The product categories for TICE marketing include food and wine, production and process systems, renewable energy process systems, hospitality and restaurant decoration and design. Started on an experimental level in 2002, the TICE Consortium was officially founded in 2004 with a small number of companies. Over the years this number has grown, which has allowed TICE to create a network of business relationships in Italy, the United States and Mexico to execute innovative business concepts.

TICE will introduce PURE Hard Surface and its many benefits to Italy. During the last six months TICE has laid the groundwork to import PURE into Italy. Preliminary sales efforts have generated considerable interest throughout TICE's business network, most notably in food processing, food service, retail and general commercial applications.

PURE commences testing of SDC in produce

On October 3, 2012, PURE announced it has initiated testing of SDC-based formulas in direct food applications to determine efficacy in reducing food borne pathogens such as Listeria, E. coli and Salmonella. The new testing program builds on the earlier GRAS designation for SDC on food contact surfaces.

Based on promising results from initial tests at Deibel Laboratories, additional testing is underway at the University of Georgia using whole lettuce leaves. These and other planned tests are intended to optimize specific formulas for various intervention steps throughout a food processing program.

Current chemistries are not providing the necessary overall protection to the food supply. SDC has the potential to make a dramatic impact in food processing and reduce overall contamination when implemented as a 360^{o} farm-to-fork solution. SDC is ideally suited for direct food applications because it has broad spectrum efficacy, does not induce bacterial resistance, does not impart an odor or flavors to the food product, and is non-hazardous to food industry workers.

PURE is seeking additional partners to continue development in produce as well as in other food processing segments. Its objective is to gather and present data necessary to gain appropriate regulatory clearances from the U.S. Food and Drug Administration and the Environmental Protection Agency, as well as to demonstrate SDC's efficacy to the agricultural market and food processing industry.

PURE Hard Surface receives high profile at ISSA Show

On October 16, 2012, PURE Bioscience announced that two of its distributors are featuring the PURE Hard Surface disinfectant and food contact surface sanitizer at the annual ISSA/INTERCLEAN® trade show in Chicago.

PURE Bioscience distributors **Intercon Chemical/Clearly Better Medical** in booth 2241 and **Nilodor, Inc**. in booth 1324 presented to decision makers and buyers from several of PURE's market channels, including facility services companies and contractor cleaners, as well as to distributors and wholesalers. ISSA/INTERCLEAN is the world's largest trade show dedicated to cleaning products and services, attracting nearly 16,000 attendees and more than 650 exhibitors.

VALUATION AND RECOMMENDATION

We maintain our Outperform rating on PURE. Our 12-month price target is $4.00 per share.

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 institutional customers and consumers in the household, personal care, agriculture, industrial, and preservatives markets. PURE also plans to develop SDC-based products as **pharmaceuticals and API**. SDC is targeting diverse markets worth multi-billion dollars.

In terms of valuation, we think PURE is undervalued based on its fundamentals. Currently, PURE is trading at about $2.50 per share, which values the Company at about $17 million in terms of market capitalization. This is certainly a discount considering the great potential the Company has in diverse markets. We understand that the Street undervalues PURE because the Company has only limited revenue source currently. This is because SDC-based technology is a brand new platform. It will take a while for it to be accepted by the market.

We remind investors that, currently, the Company is in the early stage of commercialization of its SDC platform technology. We realize that sales in the past few quarters have not been impressive, but this is understandable. 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 SDC platform will take time. However, once customers become familiar with the new SDC platform, and realize its advantages over existing technologies, uptake of SDC-based products by various industries will increase dramatically in our view. We are pleased to see that SDC is increasingly gaining recognition by industrials and consumers and we believe market adoption will accelerate in the coming years due to its superior efficacy data and safety profile.

Revenue growth should accelerate in the next few years when SDC gradually obtains market acceptance. According to our model, total revenue will increase 83% CAGR from fiscal year 2012 to 2017. PURE will become profitable in fiscal 2017 with an EPS of 0.33 based on total revenue of $22.5 million. We believe PURE shares should be traded at a P/E ratio of 25 x. which is between chemical industry's P/E ratio of 15x and small biotech industry's P/E ratio of 30x. Applying the 25 x P/E multiples with our estimated EPS of $0.33 per share in fiscal 2017, discounted at 20% for 5 years, we come up with a target price of $4.00.

PROJECTED INCOME STATEMENT

	2012A (Jul)					2013E (Jul)					2014E (Jul)	2015E (Jul)	2016 (Jul)	2017 (Jul)
$ in million except per share data	Q1A	Q2A	Q3A	Q4A	FYA	Q1E	Q2E	Q3E	Q4E	FYE	FYE	FYE	FYE	FYE
Total Revenues	**$0.26**	**$0.22**	**$0.21**	**$0.40**	**$1.08**	**$0.38**	**$0.42**	**$0.45**	**$0.55**	**$1.80**	**$5.50**	**$10.50**	**$15.50**	**$22.50**
YOY Growth	*1013.3%*	*223.1%*	*61.2%*	*62.7%*	*133.1%*	*47.9%*	*90.0%*	*117.4%*	*38.5%*	*66.4%*	*205.6%*	*90.9%*	*47.6%*	*45.2%*
CoGS	0.13	0.04	0.04	0.06	0.26	0.11	0.13	0.14	0.17	0.54	1.10	2.10	3.10	4.50
Gross Income	**$0.13**	**$0.18**	**$0.17**	**$0.34**	**$0.82**	**$0.27**	**$0.29**	**$0.32**	**$0.39**	**$1.26**	**$4.40**	**$8.40**	**$12.40**	**$18.00**
Gross Margin	*49.8%*	*81.9%*	*82.1%*	*85.4%*	*75.6%*	*70.0%*	*70.0%*	*70.0%*	*70.0%*	*70.0%*	*80.0%*	*80.0%*	*80.0%*	*80.0%*
R&D	$0.49	$0.49	$0.44	$0.44	$1.86	$0.45	$0.46	$0.48	$0.50	$1.89	$3.00	$3.50	$4.00	$4.50
% R&D	*191.8%*	*221.3%*	*212.1%*	*111.3%*	*172.2%*	*118.4%*	*109.5%*	*106.7%*	*90.9%*	*105.0%*	*54.5%*	*33.3%*	*25.8%*	*20.0%*
SG&A	$2.00	$1.89	$1.56	$2.00	$7.44	$2.00	$2.00	$2.10	$2.20	$8.30	$8.25	$8.50	$9.00	$9.50
% SG&A	*777.0%*	*852.9%*	*752.2%*	*503.8%*	*687.5%*	*526.3%*	*476.2%*	*466.7%*	*400.0%*	*461.1%*	*150.0%*	*81.0%*	*58.1%*	*42.2%*
Other	$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	$0.00
% Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	**($2.4)**	**($2.2)**	**($1.8)**	**($2.1)**	**($8.5)**	**($2.2)**	**($2.2)**	**($2.3)**	**($2.3)**	**($8.9)**	**($6.9)**	**($3.6)**	**($0.6)**	**$4.0**
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	-	*-3.9%*	*17.8%*
Other Net	$0.0	$0.0	($0.0)	($0.1)	($0.1)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($2.4)**	**($2.2)**	**($1.8)**	**($2.2)**	**($8.6)**	**($2.2)**	**($2.2)**	**($2.3)**	**($2.3)**	**($8.9)**	**($6.9)**	**($3.6)**	**($0.6)**	**$4.0**
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	**($2.4)**	**($2.2)**	**($1.8)**	**($2.2)**	**($8.6)**	**($2.2)**	**($2.2)**	**($2.3)**	**($2.3)**	**($8.9)**	**($6.9)**	**($3.6)**	**($0.6)**	**$4.0**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	*-766.7%*
Net Margin	-	-	-	-	-	-	-	-	-	-	-	-	*-3.9%*	*17.8%*
Shares Out	*5.0*	*5.3*	*5.8*	*6.3*	*5.6*	*6.6*	*7.0*	*7.5*	*8.0*	*7.3*	*8.5*	*9.5*	*10.0*	*12.0*
Reported EPS	**($0.47)**	**($0.41)**	**($0.31)**	**($0.36)**	**($1.53)**	**($0.33)**	**($0.31)**	**($0.30)**	**($0.29)**	**($1.23)**	**($0.81)**	**($0.38)**	**($0.06)**	**$0.33**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-		
One time charge	*$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*	*$0.00*
Non GAAP Net Income	**($2.4)**	**($2.2)**	**($1.8)**	**($2.2)**	**($8.6)**	**($2.2)**	**($2.2)**	**($2.3)**	**($2.3)**	**($8.9)**	**($6.9)**	**($3.6)**	**($0.6)**	**$4.0**
Non GAAP EPS	**($0.47)**	**($0.41)**	**($0.31)**	**($0.36)**	**($1.53)**	**($0.33)**	**($0.31)**	**($0.30)**	**($0.29)**	**($1.23)**	**($0.81)**	**($0.38)**	**($0.06)**	**$0.33**

Source: Company filing and Zacks estimates

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HISTORICAL ZACKS RECOMMENDATIONS



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