Zacks Small-Cap Research

November 12, 2015
Grant Zeng, CFA
312-265-9466
gzeng@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Pressure Biosciences (PBIO-OTC)

PBIO: Just reported better than expected financials for 3Q15, expecting significant revenue growth in 2015 and beyond; valuation very attractive---Buy

Current Recommendation	**Buy**
Prior Recommendation	Hold
Date of Last Change	11/15/2012
Current Price (11/11/15)	$0.25
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 just reported strong financials for 3Q15, and we expect to see significant revenue growth in 2015 and beyond.

We continue to be bullish on PBIO shares.

SUMMARY DATA

52-Week High	**$0.42**
52-Week Low	**$0.19**
One-Year Return (%)	**-9.14**
Beta	**1.17**
Average Daily Volume (sh)	**58,431**
Shares Outstanding (mil)	**21**
Market Capitalization ($mil)	**$5**
Short Interest Ratio (days)	**3.01**
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	0.65 E	2.08 E
2016					5.25 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	-$0.04 E	-$0.24 E
2016					-$0.09 E
2017					$0.02 E

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

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WHAT'S NEW

PBIO Reports Better Than Expected Third Quarter Financials

On November 12, 2015, Pressure BioSciences (PBIO) reported financial results for the fiscal third quarter ended September 30, 2015.

Total revenue for 3Q15 was $580,334, compared to $372,545 for the same period in 2014, a 55.8% increase. The increase in total revenue for 3Q15 was primarily driven by increases in products/services and grant revenue.

Products/services revenue for 3Q15 was $481,452, compared to $372,545 for the same quarter of 2014, an increase of 29.2%.

Grant revenue for 3Q15 was $98,882, compared with no grant revenue in the comparable 2014 period.

Operating loss for 3Q15 was $690,728, compared to $797,633 for the same period in 2014, a decrease of 13.4%.

Net loss for 3Q15 was $0.7 million ($0.03 per share), compared to net loss of $1.0 million ($0.07 per share) for the same period of 2014.

We are pleased to see that PBIO had another strong quarter. When combined with previously reported 2015 record six-month results, products/services and total revenue also achieved record levels for the full nine-month period ending September 30, 2015. This growing momentum produced revenue in the first nine months of 2015 that exceeded total revenue for all of 2014.

We are especially pleased to see that PBIO has achieved significant decrease in operating loss in spite of adding important new expenditures in both selling/marketing and research and development. This decrease in operating loss was primarily due to the significant increase in total revenue, combined with tighter control of investor relations, legal, accounting, and other operating costs.

We continue to expect operating loss reductions in the coming quarters, due to expected continued increases in revenue and tight control of expenditures. We also believe the growth and success shown in 2015 is a bellwether of things to come, and that 2016 will provide breakout well beyond those realized in 2015.

Balance Sheet Boosted by Three New Financings

In addition to strong financial results reported for the 3Q15, PBIO also boosted its balance sheet by recent two new financings.

As of September 30, 2015, PBIO held $76875 in cash, as compared to $38,175 at the end of second quarter.

In late September, 2015, PBIO received gross proceeds of $1.1 million from an additional closing of its $5 million Private Placement, increasing the total amount raised to date in the Offering to $3.3 million. One or more additional closings are expected in the near future.

Pursuant to the Subscription Agreement, 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 a total of 1,964,286 shares of restricted common stock at an exercise price of $0.40 per share.

The Company netted $990,000 in cash after taking into account fees related to the Offering.

In August, 2015, PBIO sold 1,000,000 shares of PBIO common stock to a European institutional investor. The shares of PBIO restricted stock were purchased at an approximate 78% premium to market ($0.46/share) by an investment company managed by one of the most recognized and respected portfolio and fund managers in Poland. In lieu of cash, PBIO received 601,500 shares in the investment company, which is publicly-traded on the Main Market of the Warsaw Stock Exchange. The investment company shares were valued at approximately $460,000 on the day of the transaction.

PBIO and recently formed a **joint venture** with Quark Ventures (QV) in Poland, called PBIO Europe, which intends to submit several multimillion dollar grant requests to a special, strategic economic-development investment portfolio of EU grant programs aimed at supporting innovative companies willing to develop and manufacture such products in Poland, and to subsequently commercialize them throughout Poland, the rest of the EU, and beyond. With QV's guidance, PBIO has begun the process of preparing at least two grant applications for submission, based on the Company's powerful and unique PCT platform.

In support of their business partner, QV has announced their intention to purchase up to $250,000 of PBIO common stock in the open market over the next six months.

In July, 2015, PBIO closed on gross proceeds of $2,180,000 from the initial tranche of a $5 million Private Placement. Of the amount invested, $1,520,000 was received in cash and $660,000 was from the conversion of principal and interest on outstanding promissory notes.

Pursuant to the Subscription Agreement, the Company will issue Senior Secured Convertible Debentures with a fixed conversion price of $0.28 per restricted common share, and Common Stock Purchase Warrants exercisable into a total of 3,892,857 shares of restricted common stock at an exercise price of $0.40 per share.

The Company netted $1,340,000 in cash after taking into account fees related to the Offering and the value of the notes that converted into the Offering.

We welcome these financings as it not only boosts the company’s balance sheet, but further validate the company’s platform PTC technology and commercial potential. Proceeds from these two financings will support expansion of marketing and sales team which will accelerate revenue growth in the coming quarters.

We Expect Significant Revenue Growth in 4Q 2015 and 2016

Although quarterly revenue fluctuates, we see the clear growth trend in the past few quarters.

PBIO has set a series of goals for 2015, which include:

- Achieve measureable progress in completing and implementing a sound roadmap toward financial self-sufficiency and future growth and prosperity.
- Increase products and services sales and/or total revenue over same quarter prior year.
- Continue the Barozyme HT48 commercialization plan Phase III (initial sales of high throughput systems) with increasing numbers of systems sold quarter over quarter.
- Secure a strategic marketing and distribution partner for the Barozyme HT48 high throughput system and for the NMR and EPR PCT-based sample preparation systems.
- Make measurable progress on the possible spin-off of selected PCT applications into new, stand-alone businesses designed to generate a revenue stream and favorable visibility for PBIO.
- Implement an expanded marketing campaign for the recently released, patent-pending micro-Pestle consumable.

- Continue to expand its sales and marketing capabilities and reach into new countries, investigators, and fields-of-use.

Based on these efforts and the strong financial performance for the first nine months of 2015, as well as the two new products launch and continued marketing efforts by management, we continue to believe revenue will grow significantly in 2015 and beyond. Specifically, we believe products and services revenue for 2015 will reach $1.7 million, exceeding the $1.5 million mark first time in the company's history. Total revenue for 2015 will surpass $2.0 million.

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 further believe that the PBIO's new high-throughput Barozyme HT48 instrument and PCT-HD consumable will help the company secure a marketing and distribution deal with one or more major strategic partners.

We Continue to be Bullish on PBIO Shares

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

PBIO reported 55.8% increase in total revenue in 3Q15 while products/services revenue increased 29.2%. We expect significant revenue growth in the rest of 2015 and beyond due to three 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 $0.26 per share with a market cap of $5.4 million based on 21.5 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 35x P/E ratio, multiplied by the EPS of $0.18 in 2019, and discount at 25% for 4 years. Then we come up with our price target of $2.50 per share.

Our price target values the company at $54 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	12/15E	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	$0.55	$1.72	$5.00	$10.00	$15.00	$22.00
YOY Growth	*82.4%*	*56.5%*	*13.6%*	*-11.5%*	*29.0%*	*-11.1%*	*8.5%*	*29.2%*	*106.8%*	*27.7%*	*190.0%*	*100.0%*	*50.0%*	*46.7%*
Grant Revenue	$0.00	$0.00	$0.00	$0.02	$0.02	$0.08	$0.08	$0.10	$0.10	$0.36	$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**	**$0.65**	**$2.08**	**$5.25**	**$10.25**	**$15.25**	**$22.25**
YOY Growth	*9.0%*	*-14.1%*	*-11.5%*	*-17.9%*	*-8.6%*	*8.9%*	*34.4%*	*55.8%*	*123.0%*	*51.4%*	*152.2%*	*95.2%*	*48.8%*	*45.9%*
CoGS	$0.2	$0.1	$0.1	$0.2	$0.7	$0.2	$0.2	$0.2	$0.2	$0.7	$2.0	$4.0	$6.0	$8.8
Gross Income	**$0.23**	**$0.17**	**$0.22**	**$0.10**	**$0.72**	**$0.25**	**$0.24**	**$0.37**	**$0.43**	**$1.39**	**$3.25**	**$6.25**	**$9.25**	**$13.45**
Gross Margin	*56.1%*	*56.3%*	*60.0%*	*34.2%*	*52.5%*	*56.7%*	*57.6%*	*63.8%*	*66.0%*	*66.9%*	*61.9%*	*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%*	*60.0%*	*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	$0.3	$1.2	$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%*	*46.3%*	*56.6%*	*26.7%*	*15.6%*	*11.8%*	*9.0%*
SG&A	$0.8	$0.8	$0.8	$0.8	$3.1	$0.9	$1.0	$0.7	$0.9	$3.5	$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%*	*138.9%*	*168.5%*	*76.2%*	*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)**	**($0.8)**	**($3.3)**	**($2.2)**	**$0.5**	**$2.7**	**$6.3**
Operating Margin	*-193.6%*	*-275.4%*	*-214.1%*	*-313.7%*	*-242.8%*	*-198.8%*	*-257.5%*	*-119.0%*	*-119.1%*	*-158.3%*	*-41.0%*	*4.4%*	*17.4%*	*28.1%*
Other Net	($0.98)	$0.24	($0.16)	($0.38)	($1.27)	($1.17)	($0.32)	$0.03	$0.00	($1.46)	$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)**	**($0.8)**	**($4.8)**	**($2.2)**	**$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)**	**($0.8)**	**($4.8)**	**($2.2)**	**$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%*	*-119.1%*	*-229.4%*	*-41.0%*	*4.4%*	*17.4%*	*28.1%*
Shares Out	*12.1*	*13.6*	*15.2*	*16.1*	*14.3*	*18.8*	*19.7*	*20.7*	*22.0*	*20.3*	*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)**	**($0.04)**	**($0.24)**	**($0.09)**	**$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)**	**($0.8)**	**($4.8)**	**($2.2)**	**$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)**	**($0.04)**	**($0.24)**	**($0.09)**	**$0.02**	**$0.09**	**$0.18**

Source: Company filings and Zacks Investment Research Inc. estimates

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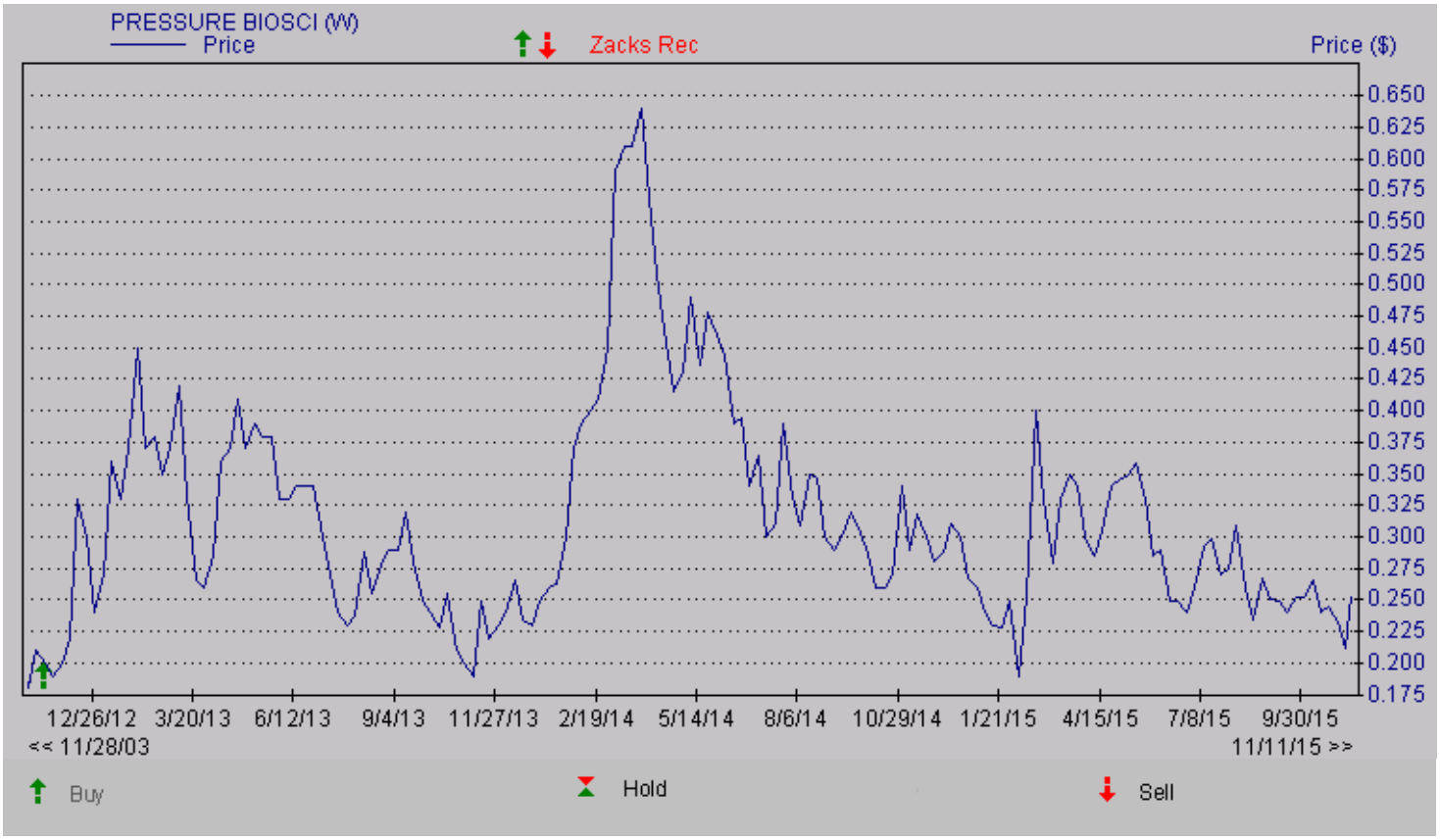

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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