Zacks Small-Cap Research

November 14, 2014
Grant Zeng, CFA
312-265-9466
gzeng@zacks.com

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

Applied DNA Sciences (APDND-OTC)

APDN: Price target adjusted to $12 per share reflecting recent reverse stock split; Record revenue reported for fiscal 3Q14 and first nine months of 2014, businesses continue to grow--Outperform

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	11/13/2014
Current Price (11/13/14)	$4.20
Twelve- Month Target Price	**$12.00**

OUTLOOK

We are optimistic about the Company's unique technology and two principle anti-counterfeiting and product authentication solutions: SigNature DNA and fiberTyping, which can be used in numerous industries. With an ever booming anti-counterfeiting business worldwide, along with its unique technology and broad range of product offering, the Company is well positioned to grow in the coming years.

APDN reported record revenue for fiscal 3Q14 and first nine months of fiscal 2014. We expect to see further growth of revenue in fiscal 4Q14 and beyond.

SUMMARY DATA

52-Week High	**$10.78**
52-Week Low	**$5.11**
One-Year Return (%)	**-20.25**
Beta	**1.63**
Average Daily Volume (sh)	**18,451**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$76**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**23**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
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	**N/A**
Industry	**Protection-Sfty**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2013	0.32 A	0.34 A	0.64 A	0.73 A	2.04 A
2014	0.60 A	0.64 A	0.84 A	0.95 E	3.03 E
2015					4.50 E
2016					10.00 E

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

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2013	-$0.22 A	-$0.28 A	-$0.18 A	-$0.08 A	-$0.56 A
2014	-$0.28 A	-$0.20 A	-$0.14 A	-$0.18 E	-$0.80 E
2015					-$0.75 E
2016					-$0.38 E

Zacks Projected EPS Growth Rate - Next 4 Years % **N/A**

© Copyright 2014, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

- We adjust our price target to $12 per share reflecting recent reverse stock split;
- Business continues to grow;
- Record revenue reported for fiscal third quarter and first nine months;
- We increase our revenue estimates for fiscal fourth quarter and fiscal 2014;

Price Target Adjusted Reflecting Recent Reverse Stock Split

We adjust our price target for Applied DNA Sciences to $12 per share reflecting the Company's recent 1-for-60 reverse stock split.

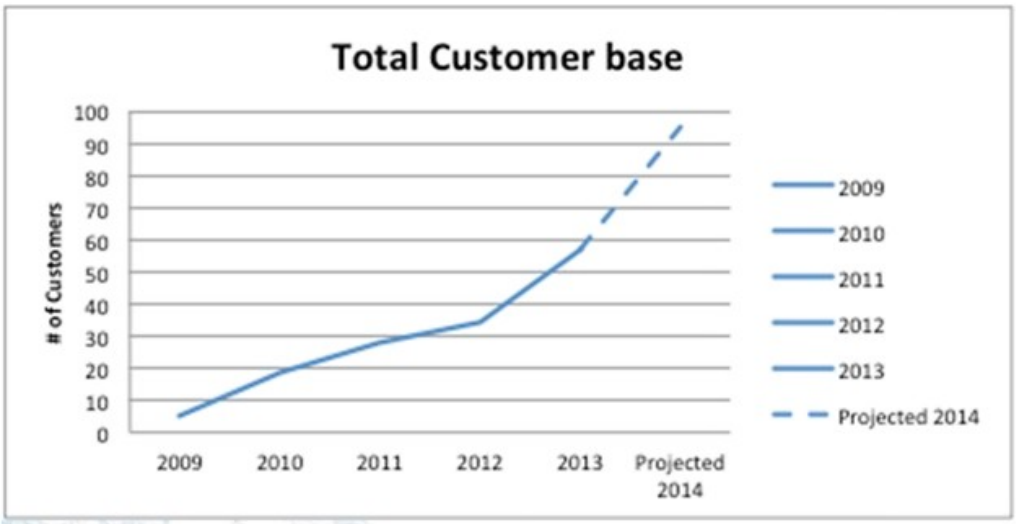
On October 29, 2014, APDN announced a 1-for-60 reverse split of its common stock. The Company's common stock will trade on a split-adjusted basis under new CUSIP number 03815U 201 and temporary symbol "APDND."

After 20 business days, the symbol will revert to the original symbol of "APDN."

We maintain our Outperform rating for APDN shares and adjust our 12-month price target to $12.00 per share reflecting the reverse stock split.

We are impressed by the strong financial performance for the fiscal third quarter and the first nine months of the year. Revenue increased 31% for the fiscal 3Q14 and 59% for the first ninth months of fiscal 2014, respectively, which represented the highest third quarter and first nine month revenue ever in the Company's history.

Customer base has increased greatly from fiscal 2009 to present.



We remain optimistic about APDN's prospect. APDN's fundamentals remain strong. The Company's technology is unique and has competitive advantages over its peers. 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 revenue will grow at a compound annual growth rate (CAGR) of 61% in the next 6 fiscal years from 2014 to 2020. The Company will become profitable in fiscal 2018 with net income of $2.0 million or EPS of $0.12 per share.

APDN is a high growth company. In terms of valuation, we think a P/E of 35x is appropriate for the Company. We apply a P/E of 35x to our estimated EPS of $0.80 in fiscal 2020, discounted at 20% for 5

years, we get our price target of $12.00 per share. This values the company at about $168 million in market cap, which is reasonable in our view. As long as the Company can execute its growth strategy correctly, we believe value should be generated for shareholders.

But Cash burn is still our chief concern at this time.

Since APDN will become profitable in fiscal 2018, the Company still needs to raise funds for its operation until positive cash flow can be generated in 2018. We remind investors that any equity or convertible note financing will dilute the Company's current shareholder base and reduce its per share value.

New Business Development

On Oct. 30, 2014, Applied DNA announced that two well-known automakers have chosen to use Applied DNA Sciences' anti-theft DNA marking technology to protect their vehicles imported into at least one EU country. New orders have been received.

For each vehicle, a unique, botanical DNA-based mark is designed and applied to a vehicle in multiple locations. The SigNature(R) DNA mark provides absolute identification for the vehicle, while also recording the name of the owner of that vehicle in a secure database. The marks are covert and difficult to remove. If found, vehicles and their component parts are traceable back to its owner and location, from anywhere on the globe.

On October 28, 2014, APDN announced a commercial agreement with a textile manufacturer to purchase a SigNature® T DNA mark, in order to protect and authenticate Extra Long Staple Pima cotton starting.

This agreement will enable the textile manufacturer and its large retail partners to assure quality and preserve the integrity of the textile supply chain, starting from the grower to the consumer.

Pima or Extra Long Staple (ELS) cotton is a highly valued, luxuriously long fiber. It represents about 5% of the overall U.S. cotton output, the equivalent of an estimated $1.25 billion-per-year industry in the United States. Production of all types of cotton fiber is a $25 billion-per-year industry in the United States, employing over 200,000 people.

On August 28, 2014, Applied DNA announced that the company has been awarded a two-year development contract by the Office of the Secretary of Defense on behalf of the Defense Logistics Agency (DLA) in the amount of **$2.97 million**.

The project will develop a single authentication platform – APDN's "SigNature® DNA" and complementary technologies – to identify authentic products and deter counterfeits from infiltrating six Department of Defense Federal Supply Groups (FSGs).

APDN will perform services such as development, test and evaluation, field trials, and transition to government operations.

We are pleased to see that APDN's sales pipeline and its customer base continue to grow. We believe these new contracts and partnerships are laying the foundation for continued growth for Applied DNA Sciences. With a strong infrastructure in place and an experienced team of employees and management, APDN is delivering against stronger demands.

Record Revenue Reported for Fiscal Third Quarter 2014

On Aug 12, 2014, Applied DNA Sciences announced results of its third quarter and first nine months of fiscal 2014 ended June 30, 2014.

Total revenue for the third quarter of fiscal 2014 was $841,197, the **highest revenues** reported in the history of the Company. This represents a 31% increase year over year and a 32% increase sequentially. Third quarter revenue also beat our estimate of $0.75 million.

The increase was the results of increased sales of the company's DNAnet® and SigNature®DNA products and others within its cash-in-transit market.

Total operating expenses were $3.3 million for the fiscal third quarter of 2014, as compared to $3.5 million for the fiscal third quarter of 2013, a decrease of $159,869 or 5%. The decrease was primarily attributable to a reduction in stock-based compensation and consulting fees. This decrease was partially offset by an increase in payroll, as well as an increase in research and development expenses.

Net loss for the three months ended June 30, 2014 was $1.9 million ($0.00 per share), as compared to $2.1 million ($0.00 per share) for the three months ended June 30, 2013.

For the first nine months of this fiscal year, the Company generated approximately $2.1 million in revenue, more than the total revenues for any previous entire fiscal year. This reflects an increase of 59% from the same period last fiscal year.

Net loss for the nine months ended June 30, 2014 decreased to $11.0 million from a net loss of $14.0 million for the nine months ended June 30, 2013.

As of June 30, 2014, Applied DNA had $2.0 in cash.

In July 2014, APDN was awarded by the Missile Defense Agency a research project that would expand APDN's technology platform established in the Phase I Small Business Innovation Research (SBIR) contract to accommodate as many as 100 electronic component manufacturers. The contract provides for monthly payments to APDN totaling approximately $975,000 over a two year period.

According to our model, the Company's current cash balance along with its current customer base, projected cash flow and the minimum projected revenues for this remaining fiscal year will allow the company to have sufficient capital resources to meet projected cash flow requirements for the **next twelve months.**

We Increase Our Revenue Estimate for Fiscal Fourth Quarter and Fiscal 2014

We think fiscal third quarter was another strong quarter for APDN in terms of financial performance. APDN reported highest quarterly sales in the Company's history.

We think SG&A expenses will stabilize going forward since the Company has completed the move into new facility. Actually, SG&A expense declined to $2.9 million for 3Q14 from $3.8 million for the 1Q14, a decrease of 23%. APDN is positioned to deliver against high demand while continuing necessary product development without additional major expenditures.

In April, 2014, APDN and a provider of **polyolefins** signed a term sheet for mutual development and cooperation regarding the supply of markers - and related additives - for polyolefin products. With this agreement, APDN has the opportunity to enter a market for a vital industrial material with estimated production of 140 billion kg per year. The cooperation between the parties will explore and test the feasibility of the project. The contract provides for initial payments to APDN, comprised of development and exclusivity fees. The payment of further installments is dependent on achieving specific performance goals over a defined period of less than one year.

The Company is applying SigNature(R) DNA on a greater scale than it has in the past, expanding the universe of DNA-marked products, which in turn should increase the demand for authentications. The

individual size of the Company's customers is also growing with multiple customers having revenues from $3 billion to $30 billion annually.

Therefore we expect continued revenue growth and bottom line improvement in the coming quarters. Specifically, we increased our revenue estimate for fiscal 4Q14 to $0.95 million from previous $0.75 million. As a result, we increase our revenue estimate for fiscal 2014 to $3.03 million from previous $2.83 million. This represents the first time, annual revenue will cross the mark of $3 million in the company's history.

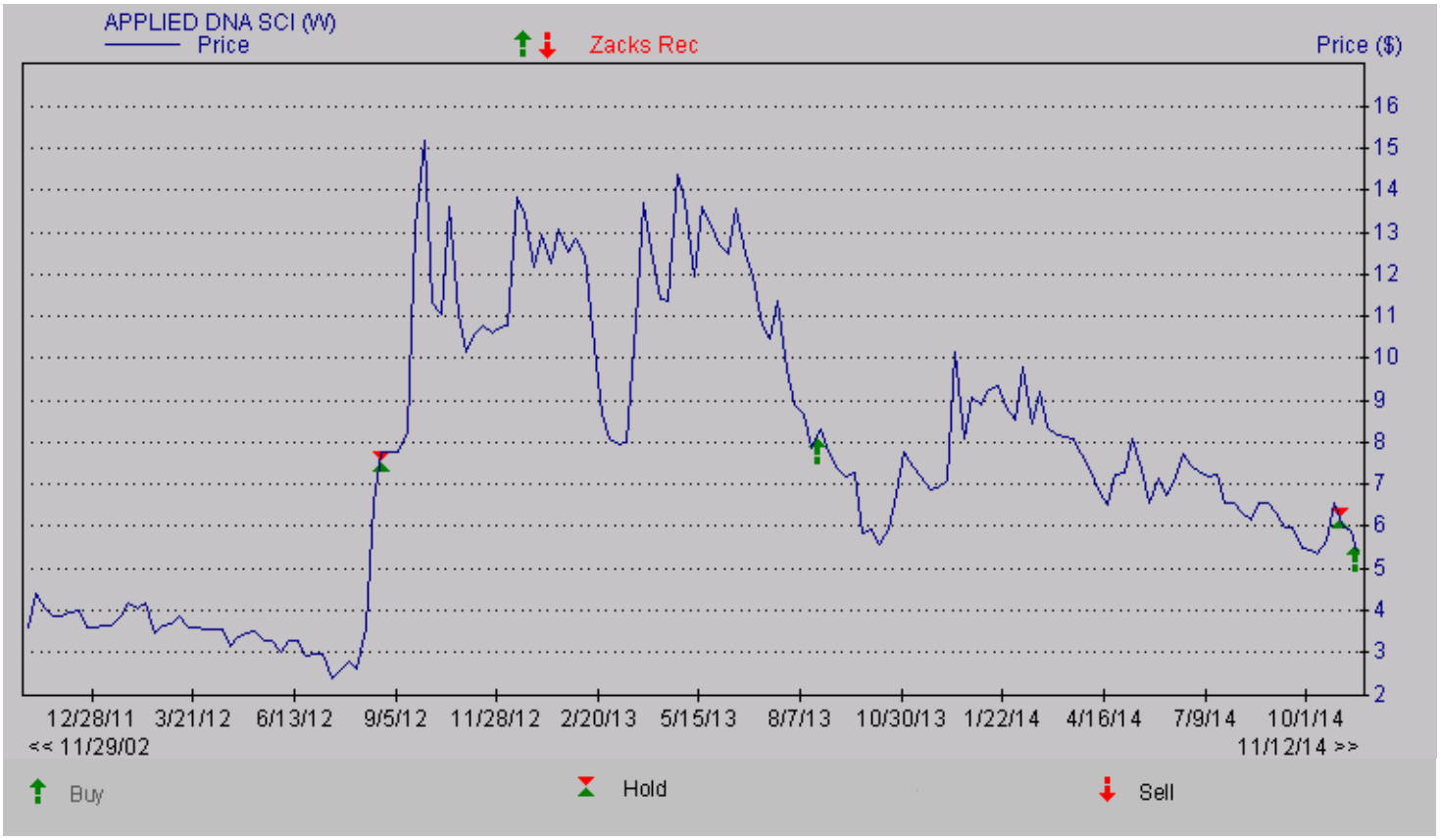
PROJECTED INCOME STATEMENT

	2013E (SEP)	2014E (Sep)					2015E (Sep)	2016E (Sep)	2017E (Sep)	2018E (Sep)	2019E (Sep)	2020E (Sep)
$ in million except per share data	FYA	Q1	Q2	Q3	Q4	FYE	FYE	FYE	FYE	FYE	FYE	FYE
Total Revenues	**$2.04**	**$0.60**	**$0.64**	**$0.84**	**$0.95**	**$3.03**	**$4.50**	**$10.00**	**$15.00**	**$20.00**	**$27.50**	**$35.00**
YOY Growth	*9.8%*	*88.0%*	*84.9%*	*30.5%*	*30.3%*	*48.6%*	*48.7%*	*122.2%*	*50.0%*	*33.3%*	*37.5%*	*27.3%*
CoGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Income	**2.04**	**0.60**	**0.64**	**0.84**	**0.95**	**3.03**	**4.50**	**10.00**	**15.00**	**20.00**	**27.50**	**35.00**
Gross Margin	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
SG&A	$11.2	$3.8	$3.3	$2.9	$2.8	$12.9	$13.5	$14.0	$15.0	$16.0	$17.5	$18.5
% SG&A	*550.0%*	*643.8%*	*517.6%*	*350.5%*	*294.7%*	*426.1%*	*300.0%*	*140.0%*	*100.0%*	*80.0%*	*63.6%*	*52.9%*
R&D	$0.69	$0.46	$0.36	$0.27	$0.30	$1.39	$1.45	$1.50	$1.65	$1.70	$1.80	$1.95
% R&D	*34.0%*	*76.9%*	*56.5%*	*31.7%*	*31.6%*	*45.8%*	*32.2%*	*15.0%*	*11.0%*	*8.5%*	*6.5%*	*5.6%*
Other	$0.3	$0.1	$0.1	$0.1	$0.1	$0.4	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3
% Other	*15.8%*	*17.6%*	*16.8%*	*13.5%*	*10.5%*	*14.1%*	*6.7%*	*3.0%*	*2.0%*	*1.5%*	*1.1%*	*0.9%*
Operating Income	**($10.2)**	**($3.8)**	**($3.1)**	**($2.5)**	**($2.3)**	**($11.7)**	**($10.8)**	**($5.8)**	**($2.0)**	**$2.0**	**$7.9**	**$14.3**
Operating Margin	*-499.7%*	*-638.3%*	*-490.8%*	*-295.7%*	*-236.8%*	*-385.9%*	*-238.9%*	*-58.0%*	*-13.0%*	*10.0%*	*28.7%*	*40.7%*
Other Net	($7.5)	($2.5)	$0.4	$0.6	($0.3)	($1.8)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($17.7)**	**($6.3)**	**($2.8)**	**($1.9)**	**($2.5)**	**($13.5)**	**($10.8)**	**($5.8)**	**($2.0)**	**$2.0**	**$7.9**	**$14.3**
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
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%*
Reported Net Income	**($17.7)**	**($6.3)**	**($2.8)**	**($1.9)**	**($2.5)**	**($13.5)**	**($10.8)**	**($5.8)**	**($2.0)**	**$2.0**	**$7.9**	**$14.3**
YOY Growth	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-66.38%*	*-202.56%*	*295.00%*	*80.38%*
Net Margin	*-868.6%*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-13.0%*	*10.0%*	*28.7%*	*40.7%*
Shares Out	*20.1*	*13.2*	*13.5*	*13.6*	*13.8*	*13.5*	*14.4*	*15.3*	*16.1*	*16.9*	*17.5*	*17.8*
Reported EPS	**($0.88)**	**($0.48)**	**($0.20)**	**($0.14)**	**($0.18)**	**($1.00)**	**($0.75)**	**($0.38)**	**($0.12)**	**$0.12**	**$0.45**	**$0.80**
YOY Growth	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-68.1%*	*-197.5%*	*281.8%*	*77.0%*
One time charge	*$6.33*	*$2.63*	*$0.00*	*$0.00*	*$0.00*	*$2.63*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($11.4)**	**($3.7)**	**($2.8)**	**($1.9)**	**($2.5)**	**($10.8)**	**($10.8)**	**($5.8)**	**($2.0)**	**$2.0**	**$7.9**	**$14.3**
Non GAAP EPS	**($0.56)**	**($0.28)**	**($0.20)**	**($0.14)**	**($0.18)**	**($0.80)**	**($0.75)**	**($0.38)**	**($0.12)**	**$0.12**	**$0.45**	**$0.80**

Source: Company filing and Zacks Investment Research estimates

© Copyright 2014, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Grant Zeng, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

© Copyright 2014, Zacks Investment Research. All Rights Reserved.

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1070 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 16.7%, Hold/Neutral- 75.9%, Sell/Underperform – 6.5%. Data is as of midnight on the business day immediately prior to this publication.