Zacks Small-Cap Research

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BioLife Solutions Inc (BLFS-NASDAQ)

BLFS: *Record Product Sales, New Revenue Opportunities*

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/13/2014
Current Price (11/07/14)	$2.21
Target Price	**$8.00**

OUTLOOK

Demand for biopreservation media is estimated to grow at an annual rate of almost 20% over the next several years, largely driven by rapid growth of the emerging field of regenerative medicine (including cell therapy and tissue engineering). BioLife's strategy is to build greater visibility and awareness of the benefits of their biopreservation products compared to the "home-brews" that currently dominate the market. The company's contract manufacturing business was providing a source of near-term revenue although loss of their major mfg customer will cause a big hiccup in revenue in 2014. However, the core biopreservation product sales are growing 25%+ due to growing uptake from clinical trial-stage products as well as in the hair restoration field. This is what we expect to be the long-term driver of revenue and earnings. Company also recently signed a new contract mfg agreement and entered into a JV - both of which we see as complementary revenue opportunities.

SUMMARY DATA

52-Week High	**$13.58**
52-Week Low	**$1.75**
One-Year Return (%)	**-83.98**
Beta	**-0.44**
Average Daily Volume (sh)	**28,779**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$26**
Short Interest Ratio (days)	**1.82**
Institutional Ownership (%)	**5**
Insider Ownership (%)	**8**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**53.3**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**N/A**
P/E using 2015 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Blend**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	2160 A	2330 A	2171 A	2289 A	8949 E
2014	2065 A	1212 A	1243 A	1457 E	5977 E
2015					8508 E
2016					12166 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.00 A	-$0.06 A	-$0.06 A	-$0.10 A	-$0.22 A
2014	-$0.10 A	-$0.07 A	-$0.07 A	-$0.08 E	-$0.32 E
2015					-$0.14 E
2016					$0.03 E

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

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WHAT'S NEW……

Q3 Results: *Record Product Sales, Contract Manuf and JV Expected To Start Contributing in 2015*

BioLife announced results for Q3 2014. Revenue, as expected following the company's revenue preannouncement in early October, was in-line with our number. Gross margin, which benefitted from 100% of revenue coming from product sales (as opposed to lower-margin contract manufacturing), came in very strong, slightly better than our estimate and was the highest since Q1 2012. Incremental expense related to the biologistex JV pushed OpEx up moderately from Q2 and just a hair higher than what we modeled. The net result of in-line revenue and the beat on GM offset by the slight miss on OpEx resulted in in-line net income and EPS.

On the operational side BLFS continues to make meaningful progress with stocking their chest with additional revenue opportunities. At the forefront remains expanding their network of customers using their biopreservation media, which is now being used in approximately 130 clinical trials. And along with expansion in the number of customers using their products, BLFS has also been successful in broadening the applications for their biopreservation media. While still largely used in the regenerative medicine market, the hair transplant and cell supplier markets have recently become meaningful growth segments. During Q3 BLFS added RoosterBio and Progenitor Cell Therapy to their growing list of high potential customers.

Other recent significant events include the previously announced contract manufacturing agreement with Somahlution and the formation of biologistex, a joint-venture with SAVSU.

Relative to Somahlution, BLFS is in process of completing process engineering and validation work which the company expects to be completed by the end of the current year. Manufacture of DuraGraft will then commence. Revenue from manufacture of Somahlution's DuraGraft, which just received CE Marking for sale in Europe, is expected to commence shortly and should be a meaningful contributor to revenue beginning in 2015. If and when the product is cleared for sale in the U.S. (FDA clearance would presumably follow the 510k pathway), this could provide an even more significant revenue opportunity for BLFS. The company also noted that they will also continue to look for additional contract manufacturing opportunities.

Meanwhile, biologistex, will generate revenue via the rental of SAVSU's temperature controlled smart containers. The containers transmit location data, payload temperature and environmental data to a cloud-based portal which customers will have access to. BLFS's game plan is to send the EVO shippers to beta customers prior to current year-end and kick off the official launch at an industry conference planned for Q1 2015.

Financials
Q3 revenue was $1.24M, down 43% yoy but up 3% sequentially. All of the yoy revenue decrease was a result of the loss of the major contract manufacturing customer (Organ Recovery Systems). BLFS recorded zero contract manufacturing revenue in Q3 (contract manufacturing revenue was $1.2M in Q3 2013 and $135k in Q2 2014). Importantly, product sales (the expected long-term driver of BLFS) growth remains very robust - posting a 24% yoy and 15% sequential increase. In fact Q3 product revenue of $1.24M was an all-time record and was the fifth straight quarter where it breached $1M. And while there is potential for short-term volatility in product sales, we continue to expect revenue from the company's biopreservation media to grow over the long term as BLFS successfully expands their customer base.

OpEx was $1.43MM, up considerably from $1.0M in Q3 2013, flat from Q2 2014 and about 2% higher than our estimate. Terms of the biologistex JV calls for BLFS to pay SAVSU $1M over twelve equal payments. The first of which was made in Q3 and contributed to the yoy increase and accounted for all of the difference relative to our estimate. The remaining eleven payments will push G&A up higher than historical levels and is reflected in our updated model. We also anticipate an increase in sales and marketing expense in support of biologistex as well as other recent opportunities.

Net loss and EPS were $863k and ($0.07) compared to $310k loss and ($0.06) in Q3 2013 (which, again benefitted from $1.1M in contract manuf revenue) and our $850k loss and ($0.07) estimates.

Cash
Q3 cash flow used in operating activities was $698k. Excluding changes in working capital, cash used was $657k. Cash balance (including liquid investments), which was recently bolstered by the $13.6M (net) equity issuance in March, stood at $11.0M at Q3 quarter end. The balance sheet remains debt-free.

BLFS, SAVSU Create JV to Market EVO Smart Shippers

In late September BLFS announced that they and SAVSU will create joint a venture named *biologistex* to market SAVSU's controlled-temperature containers, including the EVO smart shipper. Per terms of this supply and distribution agreement, BLFS will make a $1M upfront payment to SAVSU and will contribute $2.4M in capital to the JV. BLFS and SAVSU will own 52% and 48% of biologistex, respectively. The JV will be managed by a board of managers, to which each party is entitled to appoint two members.

The agreement has an initial term of 20 years. biologistex will purchase at least $2.6M of smart containers from SAVSU over the first 24 months. BLFS will handle sales and marketing activities with the JV reimbursing the company for these expenses. BLFS has minimum (not disclosed) sales targets for 12 and 24 months following the date of this agreement.

biologistex, will generate revenue via the rental of SAVSU's temperature controlled smart containers, including the EVO shipper. The containers, via embedded monitoring sensors, transmit location data, payload temperature and environmental data to a cloud-based portal which customers will have access to. Rentals will be on a monthly basis and the customer will choose their preferred shipping method and service.

BLFS will be addressing a frozen packaging materials market that remains highly antiquated and mostly dominated by the use of dry ice in Styrofoam containers. Relative flimsy and unreliable packaging can often result in temperature excursions inside the container and damage to the container during transport and handling. These can be detrimental to the health of the specimen sample inside. Sample integrity is often critical, particularly in the case of clinical trials where strict protocols means patient samples may not be able to be redone if lost or damaged - which can add more cost and time to potentially already expensive and lengthy trials.

While non-optimized packaging remains common, the industry is shifting towards more reliable containers partly as a result of a major increase in the number of temperature-controlled biological products - which offers an opportunity for biologistex. According to the Biopharma Cold Chain Sourcebook, published by Pharmaceutical Commerce, cold-chain biopharmaceutical distribution is expected to grow 55% from 2010 to 2016.

We view biologistex as a complementary revenue opportunity for BLFS and offering potential synergies with its core cryopreservation customer base - particularly as BLFS's cryopreservation media are being used in about 130 clinical trials. And as each of these markets are closely related and significant in terms of both current size and expected future growth, the marriage of the two offerings under BLFS's umbrella provides the potential to steepen the rate of the company's already robust product revenue growth and leverage their current operational infrastructure.

VALUATION / RECOMMENDATION

Our comparable group used to value BLFS consists of direct competitors as well as small stem cell therapeutics and regenerative medicine companies. Our valuation metrics include enterprise value-to-sales (EV/Sales) and price-to-sales (P/Sales) multiples using sales at trailing twelve months (ttm), estimated 2014, and estimated 2015 (estimates from analyst forecasts).

Based on these six metrics, BioLife is valued between approximately $5/share and $13/share. Average valuation of all six metrics is about $8.00/share. BLFS currently trades at approximately $2.12, which is below what we calculate to be fair value. We are maintaining our Outperform rating. Our price target is $8.00/share.

	TICKER					Implied
METRIC	CYRX	ICEL	PLI	CYTX	Average	BLFS pps
EV/ Sales (ttm)	8.1	6.2	44.0	6.0	16.1	$12.98
EV/ Sales (2014 E)	4.4	5.2	30.4	3.2	10.8	$6.36
EV/ Sales (2015 E)	1.7	2.5	20.0	2.7	6.7	$5.76
P/ Sales (ttm)	7.7	8.9	44.0	4.0	16.2	$12.04
P/ Sales (2014 E)	4.2	2.5	30.8	2.0	9.9	$5.52
P/ Sales (2015 E)	1.6	3.6	20.3	1.7	6.8	$4.81
					Avg.	**$7.91**

FINANCIAL MODEL

BioLife Solutions Inc.

	2013 A	Q1A	Q2A	Q3A	Q4E	2014 E	2015 E	2016 E	2017 E
Prdct Sales/Ctrct Manu/JV	$8,340.2	$2,065.0	$1,211.9	$1,243.4	$1,457.1	$5,977.4	$8,508.4	$12,165.7	$16,552.3
YOY Growth	*47.8%*	*33.2%*	*-48.0%*	*-42.7%*	*-36.3%*	*-28.3%*	*42.3%*	*43.0%*	*36.1%*
Licensing Revenue	$609.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
YOY Growth	*2945.8%*	-	-	-	-	-	-	-	-
Total Revenues	$8,949.4	$2,065.0	$1,211.9	$1,243.4	$1,457.1	$5,977.4	$8,508.4	$12,165.7	$16,552.3
YOY Growth	*58.0%*	*-4.4%*	*-48.0%*	*-42.7%*	*-36.3%*	*-33.2%*	*42.3%*	*43.0%*	*36.1%*
Cost of Product Sales	$5,186.5	$1,161.6	$666.6	$655.0	$767.5	$3,250.7	$3,969.5	$5,042.5	$6,275.5
Gross Income	$3,762.9	$903.4	$545.3	$588.4	$689.6	$2,726.7	$4,538.9	$7,123.2	$10,276.7
Gross Margin	*42.0%*	*43.7%*	*45.0%*	*47.3%*	*47.3%*	*45.6%*	*53.3%*	*58.6%*	*62.1%*
R&D	$487.8	$167.3	$192.8	$153.3	$188.0	$701.4	$705.0	$730.0	$825.0
% R&D	*5.5%*	*8.1%*	*15.9%*	*12.3%*	*12.9%*	*11.7%*	*8.3%*	*6.0%*	*5.0%*
Selling & Mktg	$841.5	$241.4	$270.6	$298.3	$315.0	$1,125.3	$1,344.3	$1,642.4	$1,820.7
% Sell&Mktg	*9.4%*	*11.7%*	*22.3%*	*24.0%*	*21.6%*	*18.8%*	*15.8%*	*13.5%*	*11.0%*
G&A	$2,719.0	$863.7	$969.8	$1,011.3	$1,176.0	$4,020.9	$4,628.0	$4,282.3	$5,048.4
% G&A	*30.4%*	*41.8%*	*80.0%*	*81.3%*	*80.7%*	*67.3%*	*54.4%*	*35.2%*	*30.5%*
Operating Income	($285.3)	($369.1)	($887.9)	($874.5)	($989.4)	($3,120.9)	($2,138.4)	$468.5	$2,582.5
Operating Margin	*-3.2%*	*-17.9%*	*-73.3%*	*-70.3%*	*-67.9%*	*-52.2%*	*-25.1%*	*3.9%*	*15.6%*
Total Other Inc. (Exp.)	($798.8)	($190.3)	$4.5	$12.1	$10.9	($162.9)	$50.0	$75.0	$100.0
Pre-Tax Income	($1,084.1)	($559.4)	($883.4)	($862.5)	($978.5)	($3,283.7)	($2,088.4)	$543.5	$2,682.5
Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	-	-	-	-	-	-	-	-	-
Net Income	($1,084.1)	($559.4)	($883.4)	($862.5)	($978.5)	($3,283.7)	($2,088.4)	$543.5	$2,682.5
YOY Growth	*-34.7%*	*7670.5%*	*212.4%*	*178.3%*	*102.1%*	*202.9%*	*-36.4%*	*-126.0%*	*393.6%*
Net Margin	*-12.1%*	*-27.1%*	*-72.9%*	*-69.4%*	*-67.2%*	*-54.9%*	*-24.5%*	*4.5%*	*16.2%*
EPS	($0.22)	($0.10)	($0.07)	($0.07)	($0.08)	($0.32)	($0.14)	$0.03	$0.16
YOY Growth	*-35.1%*					*45.6%*	*-55.8%*	*-124.1%*	*369.2%*
Diluted Shares O/S	5,008	5,569	12,010	12,043	12,050	10,418	15,000	16,200	17,040

Brian Marckx, CFA

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MANAGEMENT

Michael Rice
Chairman & Chief Executive Officer

Mike Rice became president and chief executive officer and a member of our Board of Directors in August 2006, and Chairman in August 2007. He has more than 20 years of leadership and entrepreneurial experience in the medical and high tech industries. He was most recently the senior business development manager for medical and wireless products at AMI Semiconductor (NASDAQ:AMIS). Mr. Rice also served as the director of marketing and business development at Cardiac Science, Inc., a manufacturer of automated external defibrillators. Prior to that, he was the Vice President, Sales and Marketing for TEGRIS Corporation, a privately held network services provider. Mr. Rice also spent 12 years at Physio Control Corporation in several sales and marketing management roles prior to its acquisition by Medtronic Inc.

Aby J. Mathew, Ph.D.
Sr. Vice President and Chief Technology Officer

Dr. Mathew was part of the founding team of BioLife Solutions, and is a co-developer of BioLife′s biopreservation media solutions. He is a co-inventor on multiple issued and pending patents related to methods, devices, and formulations for the preservation of cells, tissues, and organs. He holds a Ph.D. in Biological Sciences within the Biochemistry, Cell and Molecular Biology Program from Binghamton University and a B.S. in Microbiology from Cornell University. Dr. Mathew has been researching low temperature biopreservation since 1994, and his studies contributed to the development of BioLife′s current commercial HypoThermosol and CryoStor product platforms and intellectual property foundation. Dr. Mathew was part of the scientific team that linked cell death via apoptosis (programmed cell death) to exposure to hypothermic and/or freezing temperatures. These discoveries were integral to the development of BioLife′s improved intracellular-like biopreservation solutions, and also contributed to improvements in cryosurgical ablation of cancer. Dr. Mathew is currently active in, or previously a member of, the International Society for Cell Therapy (ISCT), AABB (formerly the American Association of Blood Banks), BEST (the Biomedical Excellence for Safer Transfusion collaborative), Tissue Engineering & Regenerative Medicine International Society (TERMIS), Society for Cryobiology, International Society for Biological and Environmental Repositories (ISBER), American Society for Cell Biology, and the Society for In Vitro Biology.

Daphne Taylor
Vice President, Finance & Administration, Chief Financial Officer

Daphne Taylor has served as Vice President, Finance & Administration, and Chief Financial Officer since August 2011. She has 20 years experience as a finance professional. Prior to joining BioLife, Ms. Taylor served as Vice President, Corporate Controller and Chief Accounting Officer of Cardiac Science Corporation from November 2005 through January 2009. From April 2002 through November 2005, she held various positions, including Vice President and Corporate Controller for LookSmart, a publicly held Internet technology company. In 2001, Ms. Taylor was Controller at SpeedTrak Communications and prior to that she was Controller for ViroLogic, a publicly held biotechnology company. Ms. Taylor held various finance positions at Core-Mark International, a distribution company, from 1996 to 2000. From 1991 to 1994, she was in public accounting with Coopers & Lybrand and is a licensed CPA. Ms. Taylor holds a B.A. in Management/Accounting from Sonoma State University, California.

Joe Annicchiarico
Chief Operating Officer

Joe joined BioLife Solutions in December 2011 after serving for six years at MediQuest Therapeutics, Inc. in Bothell, Washington, where he was an integral part of the company′s first NDA filing. He spearheaded process scale-up and validation efforts, patent protection, and clinical trial supply chain management. His tenure at MediQuest included time as a Scientist, Formulation Manager, and most recently, as Director of Manufacturing and Clinical Supplies. Prior to his tenure at MediQuest, he worked in speciality chemical sales at Drummond American and spent four years as a formulation development Chemist at a pair of personal care products companies in New Jersey. Joe earned his Bachelor′s Degree in Biology from The Johns Hopkins University in Baltimore, Maryland, in 1997.

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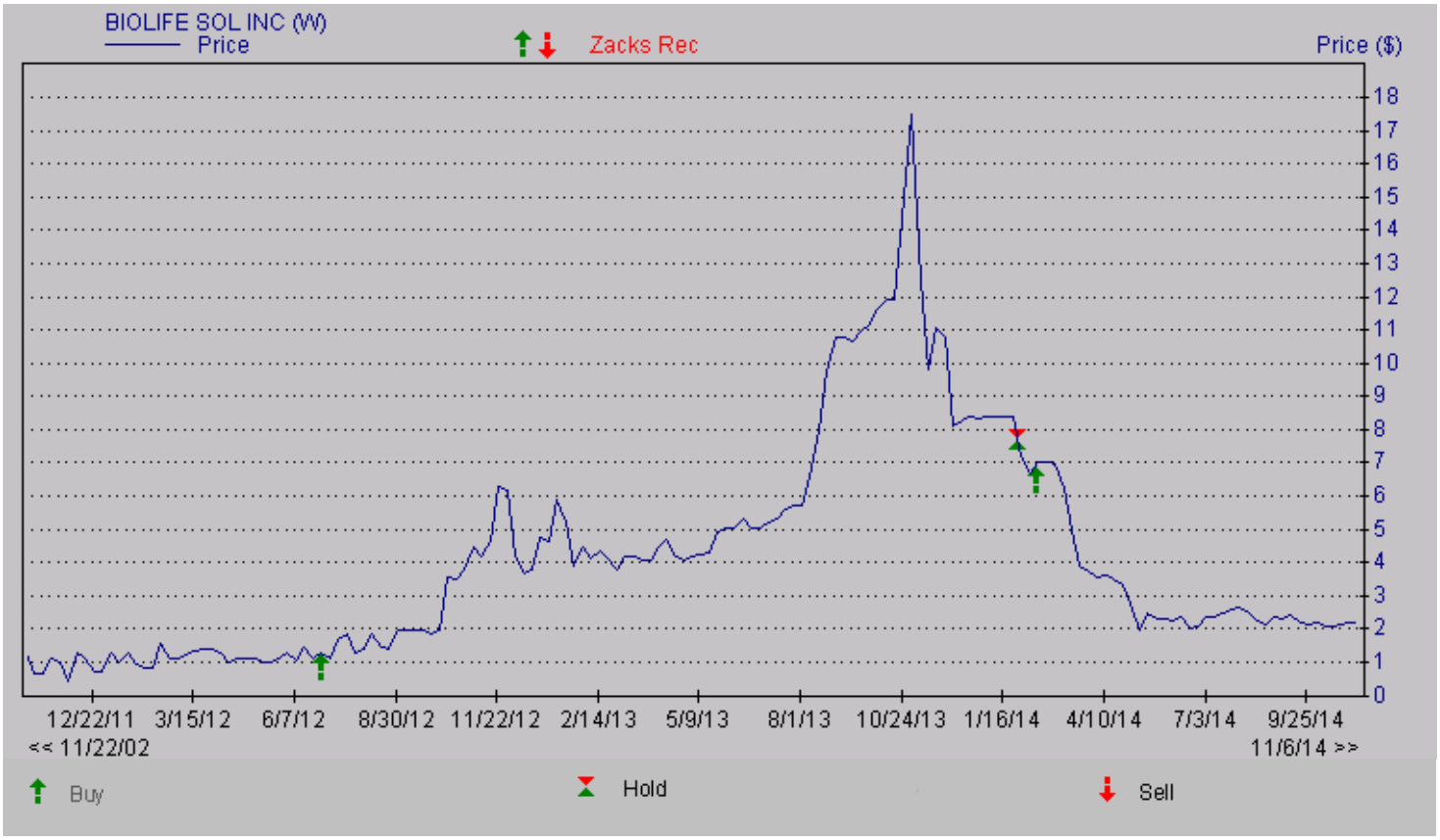

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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