Zacks Small-Cap Research

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BioLife Solutions Inc (BLFS-NASDAQ)

BLFS: *24% Product Revenue Growth Expected for Q3*

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/13/2014
Current Price (10/06/14)	$2.20
Target Price	**$7.50**

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, although currently unclear what the revenue potential is.

SUMMARY DATA

52-Week High	**$23.94**
52-Week Low	**$1.75**
One-Year Return (%)	**-81.07**
Beta	**-0.38**
Average Daily Volume (sh)	**79,669**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$26**
Short Interest Ratio (days)	**0.94**
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	**High,**
Type of Stock	**N/A**
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	1238 E	1457 E	5972 E
2015					8008 E
2016					11141 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 E	-$0.06 E	-$0.29 E
2015					-$0.10 E
2016					$0.02 E

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

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WHAT'S NEW……

Q3 2014 Revenue Pre-Announcement

This morning BioLife pre-announced expected revenue for the third quarter 2014 of $1.2M, with essentially all of the revenue coming from biopreservation media product sales. As we had expected, following the recent loss of the major contract manufacturing customer (Organ Recovery Systems), little to no revenue was generated from contract manufacturing in Q3. As a reminder, the three-year contract manufacturing services agreement with Somahlution, which was consummated in July, is expected to begin generating revenue for BLFS starting in Q4 of this year.

Q3 product revenue of approximately $1.24M will represent yoy and sequential growth of 24% and 15%, respectively and will be just shy of our $1.3M product sales estimate. Q3 will mark the fifth straight quarter in which product revenue topped $1M. And depending on the exact revenue figure for Q3, it could be an all-time record for product revenue (Q4 2013 product sales were $1.21M, the highest to-date so far). Clearly BLFS continues to gain greater traction in product sales, which as we have noted previously, will be the long-term driver of the top-line and where most of the margin is (as opposed to the contract manufacturing business).

BLFS notes that their biopreservation media are being used in approximately 130 clinical trials (which is up from about 100 at the beginning of this year) and includes over 12 phase III and 60+ phase II trials. If and when one or more of these product candidates is eventually commercialized incorporating BLFS's biopreservation media, revenue could substantially ramp. In the meantime, however, BLFS continues to show consistent product revenue growth as the list of clinical trials using their products expands.

We have updated our model for the pre-announcement, which also implies management's prior full-year product revenue growth guidance in the range of 25% to 35% remains intact. We are maintaining our Outperform rating and $7.50/share price target.

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 in the 8-K filing) sales targets for 12 and 24 months following the date of this agreement.

We anticipate hearing more specifics relative to this agreement, including details surrounding the revenue model on the Q3 conference call.

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 $4/share and $13/share. Average valuation of all six metrics is about $7.50/share. BLFS currently trades at approximately $2.50, which is below what we calculate to be fair value. We are maintaining our Outperform rating. Our price target is $7.50/share.

	TICKER					Implied
METRIC	CYRX	ICEL	PLI	CYTX	Average	BLFS pps
EV/ Sales (ttm)	11.1	12.2	28.6	14.0	16.5	$13.27
EV/ Sales (2014 E)	6.3	7.8	15.7	8.1	9.5	$5.79
EV/ Sales (2015 E)	2.0	3.4	11.6	4.7	5.4	$4.68
P/ Sales (ttm)	10.2	15.5	28.7	13.0	16.8	$12.54
P/ Sales (2014 E)	5.7	3.4	16.1	7.5	8.2	$5.02
P/ Sales (2015 E)	1.8	4.5	11.9	4.4	5.6	$3.84
					Avg.	**$7.52**

FINANCIAL MODEL

BioLife Solutions Inc.

	2013 A	Q1A	Q2A	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
Product Sales & Ctrct Manuf	$8,340.2	$2,065.0	$1,211.9	$1,238.0	$1,457.1	$5,972.0	$8,008.4	$11,140.7	$14,775.3
YOY Growth	*47.8%*	*33.2%*	*-48.0%*	*-43.0%*	*-36.3%*	*-28.4%*	*34.1%*	*39.1%*	*32.6%*
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	$1,238.0	$1,457.1	$5,972.0	$8,008.4	$11,140.7	$14,775.3
YOY Growth	*58.0%*	*-4.4%*	*-48.0%*	*-43.0%*	*-36.3%*	*-33.3%*	*34.1%*	*39.1%*	*32.6%*
Cost of Product Sales	$5,186.5	$1,161.6	$666.6	$663.3	$767.5	$3,259.0	$3,969.5	$5,042.5	$6,275.5
Gross Income	$3,762.9	$903.4	$545.3	$574.7	$689.6	$2,713.0	$4,038.9	$6,098.2	$8,499.7
Gross Margin	*42.0%*	*43.7%*	*45.0%*	*46.4%*	*47.3%*	*45.4%*	*50.4%*	*54.7%*	*57.5%*
R&D	$487.8	$167.3	$192.8	$190.0	$188.0	$738.1	$705.0	$730.0	$825.0
% R&D	*5.5%*	*8.1%*	*15.9%*	*15.3%*	*12.9%*	*12.4%*	*8.8%*	*6.6%*	*5.6%*
Selling & Mktg	$841.5	$241.4	$270.6	$285.0	$315.0	$1,112.0	$1,209.3	$1,392.6	$1,625.3
% Sell&Mktg	*9.4%*	*11.7%*	*22.3%*	*23.0%*	*21.6%*	*18.6%*	*15.1%*	*12.5%*	*11.0%*
G&A	$2,719.0	$863.7	$969.8	$955.0	$888.0	$3,676.5	$3,688.0	$3,799.0	$4,506.5
% G&A	*30.4%*	*41.8%*	*80.0%*	*77.1%*	*60.9%*	*61.6%*	*43.2%*	*34.1%*	*30.5%*
Operating Income	($285.3)	($369.1)	($887.9)	($855.3)	($701.4)	($2,813.6)	($1,563.3)	$176.6	$1,543.0
Operating Margin	*-3.2%*	*-17.9%*	*-73.3%*	*-69.1%*	*-48.1%*	*-47.1%*	*-19.5%*	*1.6%*	*10.4%*
Total Other Inc. (Exp.)	($798.8)	($190.3)	$4.5	$5.0	$5.0	($175.8)	$75.0	$100.0	$125.0
Pre-Tax Income	($1,084.1)	($559.4)	($883.4)	($850.3)	($696.4)	($2,989.5)	($1,488.3)	$276.6	$1,668.0
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)	($850.3)	($696.4)	($2,989.5)	($1,488.3)	$276.6	$1,668.0
YOY Growth	*-34.7%*	*7670.5%*	*212.4%*	*174.4%*	*43.8%*	*175.7%*	*-50.2%*	*-118.6%*	*502.9%*
Net Margin	*-12.1%*	*-27.1%*	*-72.9%*	*-68.7%*	*-47.8%*	*-50.1%*	*-18.6%*	*2.5%*	*11.3%*
EPS	($0.22)	($0.10)	($0.07)	($0.07)	($0.06)	($0.29)	($0.10)	$0.02	$0.10
YOY Growth	*-35.1%*					*32.6%*	*-65.4%*	*-117.2%*	*473.2%*
Diluted Shares O/S	5,008	5,569	12,010	12,030	12,040	10,412	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

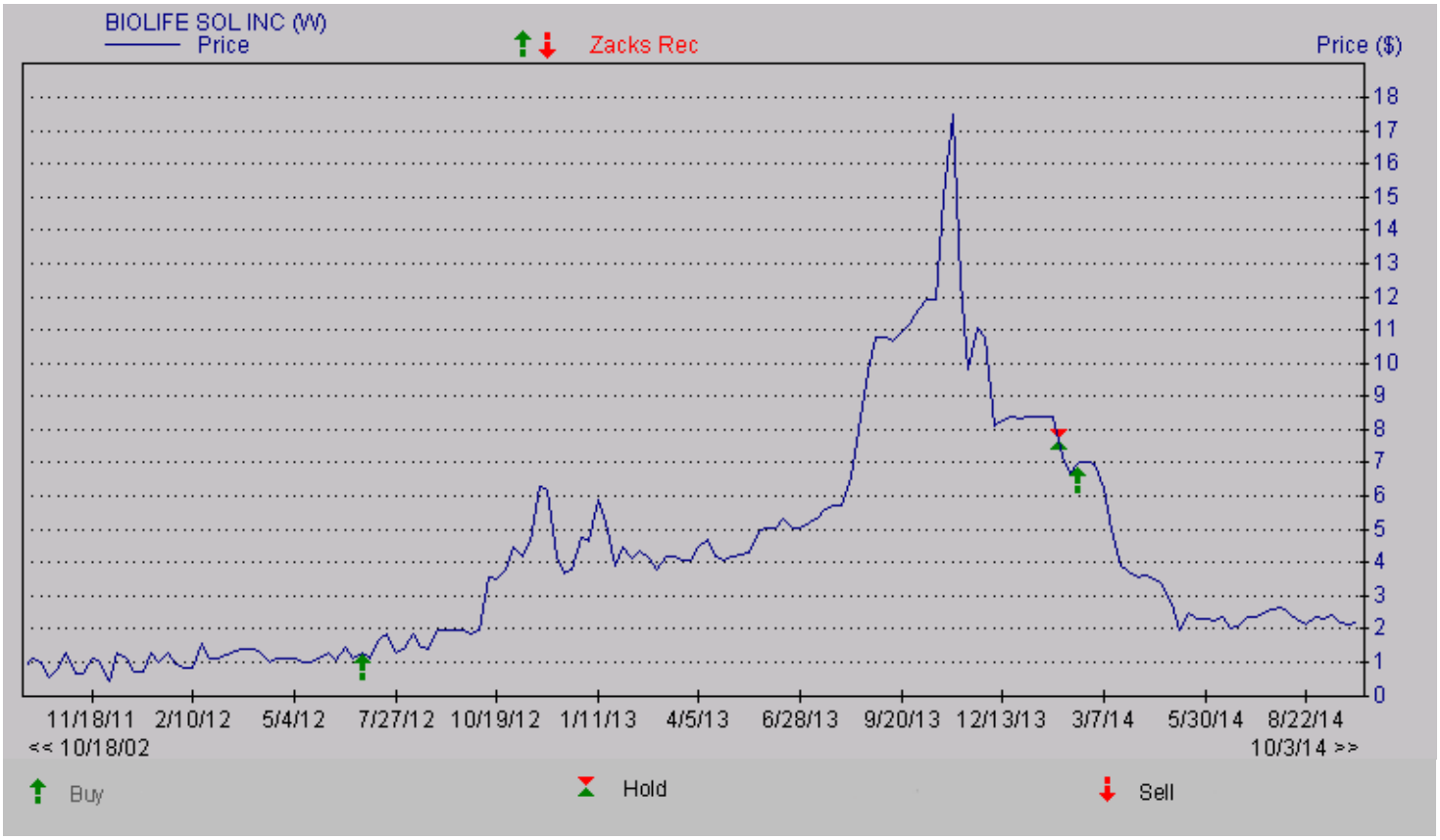
Daphne Taylor has served as Vice President, Finance & Administration, and Chief Financial Officer since August 2011. She has 20 years experience as a finance professional. Prior to joining BioLife, Ms. Taylor served as Vice President, Corporate Controller and Chief Accounting Officer of Cardiac Science 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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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- 16.4%, Hold/Neutral- 77.5%, Sell/Underperform – 5.7%. Data is as of midnight on the business day immediately prior to this publication.