Zacks Small-Cap Research

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Pure Bioscience, Inc. (PURE-NASDAQ)

PURE: Change price target after reverse stock split-- Outperform

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	07/13/2011
Current Price (09/05/12)	$2.51
Twelve- Month Target Price	**$5.00**

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	**$7.68**
52-Week Low	**$1.92**
One-Year Return (%)	**-63.52**
Beta	**0.75**
Average Daily Volume (sh)	**28,102**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$17**
Short Interest Ratio (days)	**2.88**
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 E	1.09 E
2013					2.50 E
2014					7.50 E
2015					12.5 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	-$0.32 E	-$1.48 E
2013					-$1.10 E
2014					-$0.62 E
2015					-$0.21 E

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

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WHAT'S NEW

Price Target Changed after Reverse Stock Split

We change our price target from $0.75 to $5.0 per share after PURE conducted a 1-for-8 reverse stock split.

On August 14, 2012, PURE Bioscience, Inc. (PURE) finalized a 1-for-8 reverse stock split. Pure Bioscience's stockholders approved a reverse stock split at the Company's annual meeting of stockholders convened July 31, 2012. The Company's Board of Directors was authorized to proceed with an amendment to the Company's Certificate of Incorporation to effect a reverse stock split and determine the effective date of the reverse split and the ratio of the split within a range of no less than 1-for-4 or greater than 1-for-10.

The Board of Directors has determined to fix the ratio for the reverse stock split at 1-for-8 effective August 14. The Company's common stock will continue to be reported on the NASDAQ Capital Market under the symbol "PURE". The common stock will have a new CUSIP number (74621T 209) upon the reverse stock split becoming effective.

The reverse stock split will reduce the number of outstanding shares of the Company's common stock currently outstanding from approximately 57.8 million to approximately 7.2 million. The number of authorized shares of the Company's common stock will not be affected by the reverse stock split.

As a consequence of the reverse split, we have changed our price target from previous $0.75 to $5.0 post the split.

Sales Continue to Grow in Fiscal Third Quarter of 2012

On June 12, 2012, PURE Bioscience, Inc. (PURE) reported financial results for its third fiscal quarter ended April 30, 2012.

Revenue for the quarter was $207,000, compared with revenue of $128,000 for the same quarter of the prior year, an increase of 61.2%.

Gross margin as a percentage of net product sales was 82% and 71% for the three months ended April 30, 2012 and 2011, respectively. Going forward, we believe PURE can maintain a gross margin of 75-80% depending on product mix it markets. This is pretty impressive.

The net loss for the quarter was $1.8 million, or $0.04 per share, compared with a net loss of $1.8 million, or $0.05 per share, in the third quarter last year.

Revenue for the nine months ended April 30, 2012 was $685,000, compared with revenue of $220,000 for the nine months ended April 30, 2011. The net loss for the nine months ended April 30, 2012 was $6.4 million, or $0.15 per share, compared with a net loss of $6.3 million, or $0.17 per share, for the nine months ended April 30, 2011.

As of April 30, 2012, the Company had cash and cash equivalents of approximately $289,000.

Our Takeaways:

- Sales continued to pick up steam in the current quarter. Although sales in the current quarter trailed our estimate, it still increased 61% 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.

- The 3Q2012 was the third full quarter of completely and directly controlling the sales and marketing of PURE Hard Surface disinfectant and sanitizer product by the Company itself. PURE has already sold more in the first six months of this fiscal year than in all of last year. We are pleased to see the results of the execution of its business development strategy and marketing activities to date.

- We believe that PURE will do better in fiscal 2013 and onwards due to its diligent and focused marketing efforts. The Company recently added James McClenahan 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 through 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 the past three quarters. 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 three quarters, 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.

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.

The PURE Complete System Introduced to Cover a Wide Range of Applications

On April 11, 2012, PURE Bioscience, Inc. (PURE) announced the launch of the PURE Complete Cleaning, Sanitizing and Disinfecting System. The PURE **Complete System** product line includes PURE Hard Surface disinfectant and food contact surface sanitizer, PURE Multi-Purpose Cleaner Concentrate and PURE Floor Cleaner Concentrate.

With the addition of PURE Multi-Purpose Cleaner Concentrate, PURE is now offering a comprehensive, cost effective and user-friendly product line to end-users, janitorial service providers and the distributors that supply them. The PURE Complete System strengthens infection control and sustainability programs for a wide range of environments, including hospitals, food processing facilities, restaurants, hospitality, schools, institutions, public facilities, transportation and businesses.

PURE Hard Surface disinfectant and food contact surface sanitizer are EPA-registered product providing a combination of high efficacy and low toxicity with 30-second bacterial and viral kill times and 24-hour residual protection. SDC-based PURE Hard Surface completely kills resistant pathogens like MRSA and Carbapenem-resistant Klebsiella pneumoniae (NDM-1) and also effectively eliminates dangerous fungi and viruses including HIV, Hepatitis B, Hepatitis C, Norovirus, Influenza A, Avian Influenza and H1N1 as well as hazardous food pathogens such as E. coli, Salmonella and Campylobacter. PURE Hard Surface delivers powerful broad-spectrum efficacy while remaining classified as least-toxic (Category IV) by the US EPA, and its active ingredient, SDC, has been determined Generally Recognized as Safe (GRAS) for use as a biocide on food processing equipment, machinery and utensils.

PURE Floor Cleaner and PURE Multi-Purpose Cleaner are non-toxic, environmentally responsible cleaning products, which are based on **silver dihydrogen citrate (SDC)**. SDC is a natural, non-toxic antimicrobial. SDC ensures the quality and safety of PURE Floor Cleaner and PURE Multi-Purpose Cleaner without human or environmental exposure to toxic chemical preservatives. PURE Floor Cleaner and PURE Multi-Purpose cleaner are non-flammable and contain no EDTA, phosphates, ammonia or bleach as well as no VOCs or NPEs. PURE Floor Cleaner and PURE Multi-Purpose Cleaner provide professional strength cleaning in a concentrate formula that yields a 1:128 use dilution that is safe for use on all resilient surfaces.

According to the Company, feedback from early marketing efforts is positive. PURE can now meet the specific needs of its customers by offering distinct product solutions priced competitively as a complete system. This budget-focused approach is opening doors for PURE Complete System as a next generation disinfectant/sanitizer product.

Research Demonstrates the Superior Efficacy of PURE Hard Surface

On April 24, 2012, PURE announced that research conducted by scientists at the University of Arkansas demonstrates the superior efficacy of PURE Hard Surface over **quaternary ammonia** for cleaning and decontaminating food contact surfaces.

The research is scheduled for publication in the May 2012 issue of the Journal of Applied Microbiology.

We think the results further validate the powerful efficacy and practicality of PURE's SDC-based disinfectant and food contact surface sanitizer in a simulated use setting when compared with traditional toxic chemicals. This study will provide significant support for the Company's marketing programs in the food service, hospitality and food processing market sectors.

Partnership Greatly Increases Distribution Channels for PURE Products

On April 30, 2012, PURE Bioscience, Inc. (PURE) announced that it has partnered with **Intercon Chemical Company** for distribution of the PURE Complete System in conjunction with Intercon's Clearly Better Solutions product line.

The **PURE Complete System** product line includes PURE Hard Surface disinfectant and food contact surface sanitizer, PURE Multi-Purpose Cleaner Concentrate and PURE Floor Cleaner Concentrate.

Intercon employees more than 150 people and its established network of more than 200 distributors services approximately 250,000 end-use customers. Intercon is one of the leading players in the cleaning and sanitation chemical manufacturing and service industries with expertise in formulating, manufacturing and marketing liquids, powders and solids as well as packaging and labeling. Intercon provides state-of-the-art chemical products and programs to its network of distributors in multiple markets, including: facility management companies, janitorial supply companies, food service sanitation, healthcare and infection control, commercial floor care, critical process cleaning, food processing facility maintenance, institutional laundry, contract packaging and green products.

Intercon already began to market PURE's products into a wide variety of markets in May. The PURE Complete System is a perfect fit for Intercon's **Clearly Better Solutions** mission of 'providing green solutions which are not just better, but are Clearly Better' than the current technologies.

Intercon has marketing programs underway to showcase PURE Complete System products at several upcoming national tradeshows and industry meetings, including National Restaurant Association Show in Chicago on May 4. The annual NRA Show draws more than 58,000 restaurant and food service industry professionals from all 50 states and more than 100 countries, and presents the newest innovations and latest information on trends and issues.

The NRA Show is an excellent venue to present PURE Hard Surface, as restaurants bear tremendous responsibility for national food safety. The benefits of implementing PURE Hard Surface will resonate with distributors and customers. The quick kill times of PURE's low-toxicity and odorless formula, along with SDC's GRAS status as a contact biocide, set PURE apart from toxic chemicals currently used in restaurants. PURE Hard Surface is as an ideal choice to meet the health and business challenges of food safety in the restaurant industry.

Intercon will also present at the APIC 2012 in San Antonio in June and the October HIDA Conference in Chicago. APIC 2012 is the Annual Conference of the Association for Professionals in Infection Control and Epidemiology. The HIDA Streamlining Healthcare Conference is the largest annual event of the Health Industry Distributors Association.

Intercon has prepared full technical training and support programs for distributors as they market the PURE line of products.

Also in July, PURE announced it has partnered with **PRIDE Industries** for distribution of the PURE Complete System throughout PRIDE's extensive facilities services business segment.

Roseville, California-based PRIDE Industries maintains hundreds of facilities, servicing more than 30 million square feet of university, office, government and military structures every day, including industrial and high tech space. PRIDE offers an integrated approach to facilities maintenance needs with a wide range of superior quality, cost-effective and flexible services tailored to meet customers' specific needs.

PURE's products fit well with PRIDE's goal to deliver outstanding products and services.

Strategic Customer Established in Facilities Services Market

On April 26, 2012, PURE announced Dallas-based AHI Facility Services, Inc. as a regional strategic customer in the contract facilities services market for the PURE Complete System products.

AHI provides integrated facilities services in seven states for commercial, institutional, food processing, technology, retail, educational and medical clients, including several Fortune 500 companies.

AHI already began to present the PURE Complete System to its existing customers and is also leveraging its benefits to attract new business. Some end users in Southwest are switching to PURE products. AHI has a growing base of clients using PURE products which includes the corporate headquarters of Fossil, Inc.; Dr. Pepper Snapple Group, Inc.; McAfee, an Intel Company; and Dell Inc. as well as Metrocrest Hospital Authority, First United Methodist Church of Plano and Northwood Church in Keller, Texas.

The PURE Complete System is competitively priced, which will allows end users to budget for PURE's premium disinfectant without sacrificing cleaning quality. AHI should be an important customer for PURE products because of its broad customer base in a variety of industries and its strong reputation for providing responsible, cost-saving and innovative facility services.

VALUATION AND RECOMMENDATION

We maintain our Outperform rating on PURE. Our 12-month price target is $5.00 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 87% CAGR from fiscal year 2012 to 2017. PURE will become profitable in fiscal 2016 with an EPS of 0.10 based on total revenue of $17.5 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 $0.50 per share in fiscal 2017, discounted at 20% for 5 years, we come up with a target price of $5.00.

But Cash Burn Is a Concern

As of April 30, 2012, the Company had cash and cash equivalents of approximately $0.3 million.

However the Company does not yet have significant cash inflows from product sales or from other sources of revenue to offset its ongoing and planned investments in corporate infrastructure, research and development projects, regulatory submissions, business development activities, and sales and marketing, among other investments.

According to our model, the Company will continue to incur operational losses until fiscal 2016 when PURE will become profitable. We believe the Company may need to tap the capital market later in the next few months. Equity financing will dilute existing shareholder base.

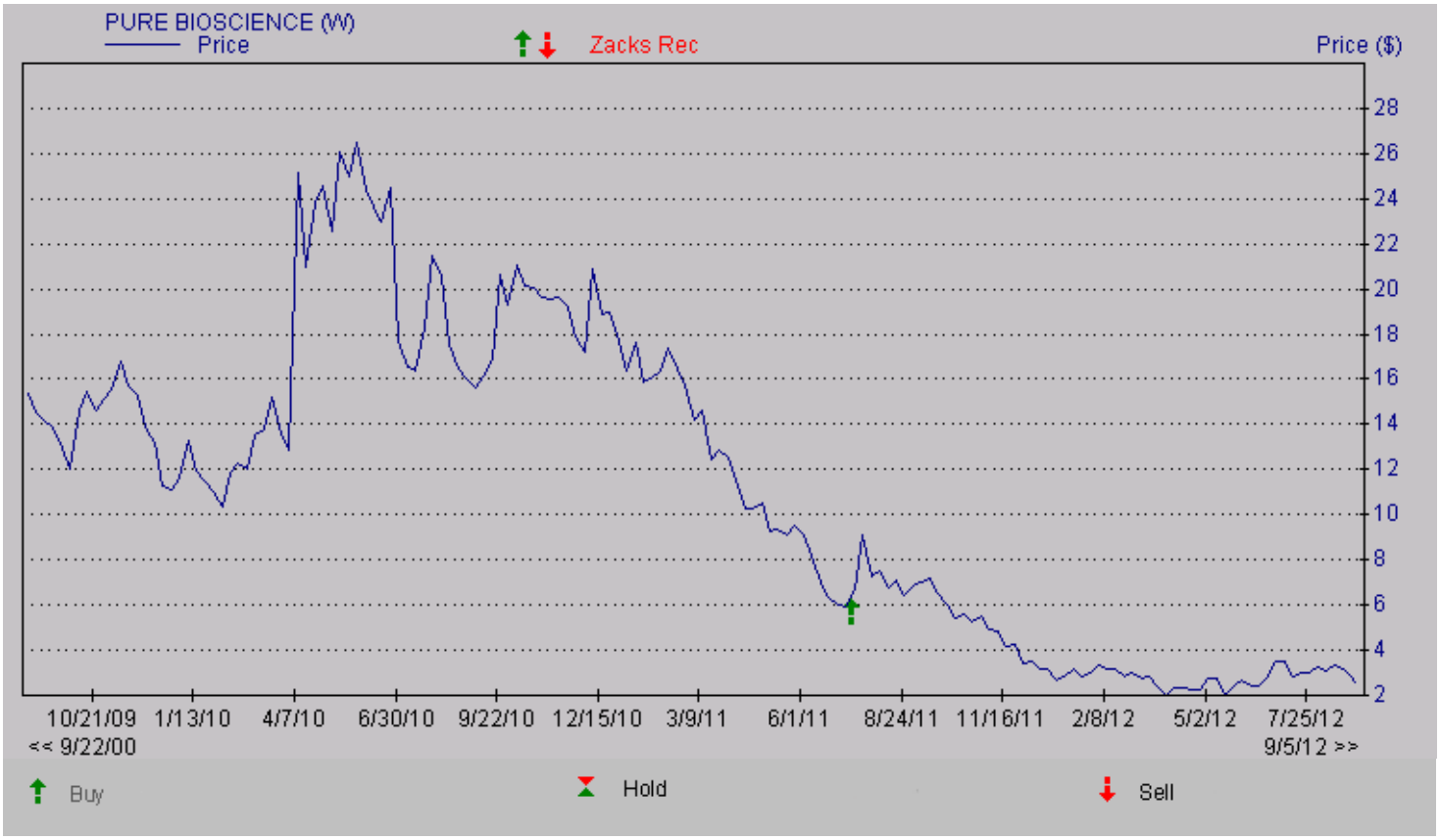
PROJECTED INCOME STATEMENT

	2011E (Jul)					2012E (Jul)					2013E (Jul)	2014E (Jul)	2015E (Jul)	2016 (Jul)	2017 (Jul)
$ in million except per share data	Q1A	Q2A	Q3A	Q4A	FYA	Q1A	Q2A	Q3A	Q4E	FYE	FYE	FYE	FYE	FYE	FYE
Total Revenues	**$0.02**	**$0.07**	**$0.13**	**$0.24**	**$0.46**	**$0.26**	**$0.22**	**$0.21**	**$0.40**	**$1.09**	**$2.50**	**$7.50**	**$12.50**	**$17.50**	**$25.00**
YOY Growth	*-89.6%*	*-79.1%*	*-77.2%*	*-24.6%*	*-67.7%*	*1013.3%*	*223.1%*	*61.2%*	*63.9%*	*133.7%*	*130.4%*	*200.0%*	*66.7%*	*40.0%*	*42.9%*
CoGS	0.01	0.02	0.04	0.07	0.13	0.13	0.04	0.04	0.09	0.29	0.50	1.50	2.50	3.50	5.00
Gross Income	**$0.01**	**$0.05**	**$0.09**	**$0.17**	**$0.33**	**$0.13**	**$0.18**	**$0.17**	**$0.32**	**$0.79**	**$2.00**	**$6.00**	**$10.00**	**$14.00**	**$20.00**
Gross Margin	*57.3%*	*77.8%*	*71.3%*	*71.6%*	*71.6%*	*49.8%*	*81.9%*	*82.1%*	*78.8%*	*73.2%*	*80.0%*	*80.0%*	*80.0%*	*80.0%*	*80.0%*
R&D	$0.50	$0.67	$0.47	$0.53	$2.18	$0.49	$0.49	$0.44	$0.60	$2.02	$2.25	$3.00	$3.50	$4.00	$4.50
% R&D	*2173.1%*	*984.2%*	*368.0%*	*218.1%*	*469.5%*	*191.8%*	*221.3%*	*212.1%*	*150.0%*	*186.3%*	*90.0%*	*40.0%*	*28.0%*	*22.9%*	*18.0%*
SG&A	$1.53	$1.88	$1.44	$1.67	$6.52	$2.00	$1.89	$1.56	$2.00	$7.44	$8.00	$8.25	$8.50	$9.00	$9.50
% SG&A	*6647.9%*	*2741.4%*	*1119.4%*	*685.6%*	*1404.7%*	*777.0%*	*852.9%*	*752.2%*	*500.0%*	*685.6%*	*320.0%*	*110.0%*	*68.0%*	*51.4%*	*38.0%*
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	$0.00
% Other	-	-	-	-	-					-	-	-	-	-	-
Operating Income	**($2.0)**	**($2.5)**	**($1.8)**	**($2.0)**	**($8.4)**	**($2.4)**	**($2.2)**	**($1.8)**	**($2.3)**	**($8.7)**	**($8.3)**	**($5.3)**	**($2.0)**	**$1.0**	**$6.0**
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	-	-	*5.7%*	*24.0%*
Other Net	$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	$0.0
Pre-Tax Income	**($2.0)**	**($2.5)**	**($1.8)**	**($2.0)**	**($8.3)**	**($2.4)**	**($2.2)**	**($1.8)**	**($2.3)**	**($8.7)**	**($8.3)**	**($5.3)**	**($2.0)**	**$1.0**	**$6.0**
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	$0.0
Tax Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reported Net Income	**($2.0)**	**($2.5)**	**($1.8)**	**($2.0)**	**($8.3)**	**($2.4)**	**($2.2)**	**($1.8)**	**($2.3)**	**($8.7)**	**($8.3)**	**($5.3)**	**($2.0)**	**$1.0**	**$6.0**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*500.0%*
Net Margin	-	-	-	-	-	-	-	-	-	-	-	-	-	*5.7%*	*24.0%*
Shares Out	*4.5*	*4.6*	*4.7*	*5.0*	*4.7*	*5.0*	*5.3*	*5.8*	*7.2*	*5.9*	*7.5*	*8.5*	*9.5*	*10.0*	*12.0*
Reported EPS	**($0.45)**	**($0.54)**	**($0.39)**	**($0.40)**	**($1.78)**	**($0.47)**	**($0.41)**	**($0.31)**	**($0.32)**	**($1.48)**	**($1.10)**	**($0.62)**	**($0.21)**	**$0.10**	**$0.50**
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*	*$0.00*
Non GAAP Net Income	**($2.0)**	**($2.5)**	**($1.8)**	**($2.0)**	**($8.3)**	**($2.4)**	**($2.2)**	**($1.8)**	**($2.3)**	**($8.7)**	**($8.3)**	**($5.3)**	**($2.0)**	**$1.0**	**$6.0**
Non GAAP EPS	**($0.45)**	**($0.54)**	**($0.39)**	**($0.40)**	**($1.78)**	**($0.47)**	**($0.41)**	**($0.31)**	**($0.32)**	**($1.48)**	**($1.10)**	**($0.62)**	**($0.21)**	**$0.10**	**$0.50**

Source: Company filing and Zacks estimates

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HISTORICAL ZACKS RECOMMENDATIONS



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