

FQ1'18 EARNINGS RESULTS CONFERENCE CALL – PREPARED REMARKS

SLIDE 1 – WELCOME

Clay Shorrok, General Counsel

Thank you, Operator. Good afternoon everyone, and thank you for joining us for our first fiscal quarter 2018 financial results conference call. I am Clay Shorrock, General Counsel at Applied DNA. A copy of the company's earnings press release and accompanying PowerPoint presentation to this call are available for download under the 'Events and Presentations' section to the Investors page of the Applied DNA website.

With me on the call today are Doctor James Hayward, chairman and CEO, and Beth Jantzen, chief financial officer.

SLIDE 2 – FORWARD-LOOKING STATEMENT

As a reminder, please note that some of the information you will hear today during our discussion may consist of forward-looking statements, including without limitation those regarding revenue, gross margin, operating expenses, other income and expense, stock based compensation expense, taxes, earnings per share and future products. Actual results or trends could differ materially. For more information please refer to the risk factors discussed in Applied DNA Sciences' Form 10-K filed on December 28, 2017 and our subsequent quarterly report on Form 10-Q filed today. Applied DNA Sciences assumes no obligation to update any forward-looking statements or information.

Before starting the call, I would remind you that Applied DNA will hold its annual meeting of stockholders on February 27 in Stony Brook. Additional details can be found on the 'IR

Calendar' portion of the adnas.com site. Further, management will be presenting at the Roth Capital Markets' 30th annual investor conference in Dana Point, California during the second full week in March. For those unable to attend management's presentation, it will be livestreamed. Clients of Roth should contact their institutional sales representative to schedule a 1:1 with management.

Now it is my pleasure to introduce our first speaker to today's call, Beth Jantzen.

Beth Jantzen, CPA, Chief Financial Officer

Thank you, Clay. Good afternoon everyone and thank you for joining us today.

I would like to begin with a review of the financial performance for our fiscal first quarter 2018, which will include a summary of our financial results as well as our financial condition following the completion of our financing during December 2017. Dr. James Hayward, our President and CEO will then provide you with an update on the company's progress, activities and strategies for the balance of the fiscal year.

SLIDE 3 – QUARTERLY STATEMENT OF OPERATIONS

Starting with the statement of operations, total revenues for the fiscal first quarter ended December 31, 2017 were \$648 thousand. This represents an approximate 28% decrease compared to \$903 thousand reported in the fiscal first quarter of 2017, and down approximately 43% compared to \$1.1 million in the fourth quarter of fiscal 2017 revenues. The year-over-year and quarter-over-quarter decrease in revenues resulted primarily from decreased sales to the textile industry. The decrease in textile revenues was primarily the result of the timing of shipments and the recognition of deferred revenue related to our cotton contracts.

Product revenues declined approximately 50% for the first fiscal quarter of 2018 to \$350 thousand compared to \$704 thousand in the same quarter of fiscal 2017, and decreased approximately 59% compared to the fourth quarter of fiscal 2017. The decrease in year over year and quarter-over-quarter product revenues were driven primarily by decreased sales to the textile industry for protecting cotton supply chains, as mentioned above.

Service revenues increased 50% to approximately \$298 thousand during the fiscal first quarter ended December 31, 2017, compared to approximately \$199 thousand the same period in fiscal 2017, and was flat on a sequential basis with the fiscal fourth quarter 2017. The increase in service revenues on a year-over-year basis was due to an increase in revenue from a government contract award of approximately \$187 thousand, which began during June 2017.

To remind you of the breakout between products and service revenues, service revenues include our pilot projects and any research and/or development contracts as well as authentication and fiber typing services. All other revenues are recorded as product revenues and cost of revenues relates only to product revenues. Cost for service revenues are reflected in R&D and SG&A.

Cost of revenue as a percentage of product revenue in our fiscal first quarter was 95% as compared to 39% for the year-ago period. This increase in cost of revenues as a percentage of product revenues is due to the product sales mix as sales during the prior year's fiscal first quarter consisted primarily of textile sales, which are at a high margin. Also, due to low product revenue during the quarter ended December 31, 2017, our production decreased, and as a result, our fixed production costs, primarily comprised of payroll and other building costs allocated to production were not absorbed by product sales.

Total operating expenses declined in the first fiscal quarter of 2018 to \$3.5 million, compared with \$4.6 million in the first fiscal quarter of 2017 and remained fairly consistent compared to \$3.7 million in the fourth fiscal quarter of 2017. The decrease on a year-over-year basis is primarily attributable to a decrease in stock-based compensation, offset by an increase in R&D expenses in relation to the government development contract award.

SLIDE 4 – QUARTERLY CONSOLIDATED ADJUSTED EBITDA

For the first fiscal quarter of 2018, adjusted EBITDA was a negative \$2.8 million compared to a negative \$2.3 million in the first fiscal quarter of 2017. The increase in adjusted EBITDA loss year-over-year is primarily attributable to the decreased revenue for the first fiscal quarter of 2018.

SLIDE 5 – COMPARATIVE CONSOLIDATED BALANCE SHEETS

Turning to the balance sheet, cash and cash equivalents totaled approximately \$4.8 million at December 31, 2017, compared with approximately \$3.0 million at September 30, 2017. The increased cash balance is primarily the result of approximately \$4.2 million of net proceeds received from a registered direct offering which closed on December 22nd. The offering strengthened our balance sheet and gives us the capital with which to pursue our goals for this fiscal year. Warrants associated with this offering have a strike price of \$2.00 per warrant and are currently out-of-the-money.

As of December 31, 2017 we had a total accounts receivable balance of approximately \$2.2 million. Of this amount, we collected approximately \$2.0 subsequent to the close of the quarter.

As of December 31, 2017, our average monthly cash burn rate for fiscal 2018, excluding the proceeds from the financing, was approximately \$879 thousand, compared to approximately \$756 thousand for the same period in the prior fiscal year, an increase of approximately 16 percent. The increase in monthly burn rate for the first fiscal quarter 2018 compared to the first fiscal quarter 2017 is mainly due to lower cash receipts and slightly higher disbursements during the first quarter of fiscal 2018. As of January 31, 2018, our cash position is approximately \$5.5 million.

We continue to closely monitor our spending, and intend to remain disciplined and continue to strategically manage costs in line with our current and near future market opportunities.

As of December 31, 2017, we estimate that our cash and cash equivalents along with the collection of our current receivables and the proceeds from the recent financing discussed are sufficient to fund operations for the next twelve months.

Thank you for joining us today and I would now like to turn it over to Jim for his comments.

SLIDE 6 – TEXTILE CERTAIN T®

Thank you, Beth. Good afternoon, everyone, and thank you for attending our quarterly investor call.

To begin, our fiscal first quarter was characterized by significant progress made in executing our growth strategy, including growth within existing verticals like textiles, and expansion into new verticals following the completion of initial pilots such as in pharmaceuticals and cannabis. Our financial results, however, do not yet reflect these recent successes.

On our December call, we provided our first annual financial guidance. Built on a base of recurring revenue, we projected a minimum for revenues of \$6.5 million for fiscal 2018. Included in this guidance is approximately \$4 million of cotton revenue and the seasonality inherent in those revenues.

Seasonality of cotton revenue will abate to a degree with the on-boarding of a new international cotton-producing region, though we anticipate that most of our cotton revenue will be generated in our fiscal third and fourth quarters which are our peak quarters for U.S. cotton.

Although we have started slowly, we still believe our guidance is achievable, and recent contracts serve only to strengthen our belief. With this as a backdrop, I want to share with you the reasons for our continued optimism.

TEXTILES:

Beginning first with our most established vertical, textiles, we moved to broaden our base of activity with our cotton partner Himatsingka and announced our first international foray with the sale of our DNA Transfer System to an overseas cotton market subsequent to the close of the quarter. Like the “Made in the USA” label we are all familiar with and the presumption of quality it stands for, this overseas market’s cotton has quality, environmental, economic and social standards that are derived from its origin. Our DNA Transfer System and protocols will ensure proof of origin and ensure that the tagged cotton fiber stays pure all the way throughout the supply chain to the finished goods. While we are restricted from naming this market, we can say that is a Top-7 global producer of cotton. The implementation of our System puts us in a position to fulfill orders for our molecular taggant as the demand evolves.

We are also making progress in expanding our base of business in non-cotton or synthetic textiles. We recently announced that we will be attending the upcoming New York Home

Fashion week in conjunction with several of our CertainT licensees, including GHCL, and our polyester supplier / partner, Reliance Industries.

We are especially encouraged by Reliance's participation at this bi-annual event as it highlights growing awareness of and interest in our CertainT supply chain authentication platform by synthetic fiber and finished goods manufacturers. Reliance is the world's largest integrated producer of polyester fiber and yarn in the world and they also manufacture the world's most ecofriendly fibers. Reliance is currently creating tagged fiber for GHCL's needs, and our hope is that Market Week will demonstrate that demand will grow.

We are also actively engaged in rayons and other polymers.

To update you on our leather opportunity, we have been developing and demonstrating the methods for tagging and authenticating leather from farm to finished goods in conjunction with BLC Leather Technology Limited on a pilot project sponsored by eight brands and manufacturers. I am pleased to report that the project is on schedule and that results have exceeded everyone's expectations. This project is expected to conclude at the end of March and we are already planning to introduce the technology at a large commercial tannery as a large-scale pilot.

SLIDE 7 – CANNABIS CERTAIN T

An adjacent market opportunity in agriculture is the tagging of legal cannabis and its derivatives. Subsequent to the close of the quarter we announced a \$1 million contract to integrate our molecular tagging and testing technology into TheraCann's blockchain-based, seed-to-sale Enterprise Resource Planning platform for legal cannabis operations. Earlier this week, we announced that we had generated successful initial results of our ability to detect

our taggant through raw materials and some processed goods in the legal cannabis supply chain.

As I noted on our last Investor call, our molecular tags can be the immutable link between the physical and the digital, and our contract with TheraCann demonstrates that we are well positioned to benefit from such a need, be it in the legal cannabis blockchain or any other blockchain that requires a physical link.

BLOCKCHAIN:

We believe the link between digital and physical worlds within distributed ledger implementations is an Achilles heel and open for opportunity. That is, the “bad guy” could counterfeit or switch good product for bad even though the digital transaction would track it as secure from beginning to end.

Our molecular tags sit invisibly in or on the goods through their lifecycle, are designed to be unique to the application, and can provide blocks of “CSI-like” authentication of goods to a distributed ledger at each node.

Over the past year, we focused on prototyping a “blockchain-ready” system and simulating business processes with our partners in our largest supply chain vertical to get a feel for what’s ahead. Separately, we are working with TheraCann International to establish a blockchain-based platform for the legal cannabis industry, from seed-to-sale.

Imagine a molecular-level identity that is applied at the grow stage tracked via an Industrial Internet of Things and cloud-based platform with forensic authentication at processing and dispensary steps. Stakeholders gain confidence in authenticity and law enforcement gains a means to forensically detect origin in criminal situations.

VIDEOJET:

With Videojet, our strategic partnership brings a considerable set of capabilities to amplify the value of our tag, test and track technology in the high-speed inkjet printing market. Ours is a universal platform, in essence a turnkey solution that has been seamlessly integrated into Videojet's newly-introduced secure printing platform for manufacturing lines in industries such as pharmaceuticals, personal care and industrial products. We have begun to jointly approach initial customers on our solution supplemented by lead-generation marketing programs, joint presentations at industry events, and a presence in Videojet's marketing communications, such as our participation in Videojet's WestPack trade show booth this week.

FERTILIZER:

Turning to our fertilizer vertical, the Republic of Turkey's mandate to DNA-tag all domestically produced fertilizer went into effect on January 1, 2018.

We are actively working on sales opportunities in Turkey, both for cotton and for fertilizer, but for strategic reasons we want to ensure we chose our customer and partners wisely.

But the opportunity for tagging fertilizer is much larger than what Turkey offers. The primary driver of demand for tagged fertilizer is the prevention of fertilizer adulteration and the security of supply chains to prevent the use of fertilizer in improvised explosive devices. These are global issues that can be resolved with our technology platform. With our partner Rosier, we have identified initial markets for DNA-tagged fertilizer sales in Turkey, Asia and Africa. Rosier is establishing the team to identify specific demand.

SLIDE 8 – LARGE SCALE PCR

Pharma and Bio-Pharma

Tagging

Our pharmaceutical market initiative is moving ahead with mounting momentum. We have completed our Drug Master File and are now awaiting Colorcon's review before filing it with the FDA. Although our filing date is later than expected, Colorcon's review is necessary as our DMF is a reference linked to their product offering, among others. To remind you, ours will be a type IV DMF filing that will consist of confidential information about our product, its stability in varied environmental conditions and our manufacturing process. The DMF requires no FDA review and resides with the FDA until such time as a prospective pharmaceutical customer indicates that it will DNA-tag one of its drugs, at which point we give FDA permission to review the proprietary information in our DMF, before the FDA grants permission for the pharmaceutical company to implement our technology.

In parallel, we are working on securing a definitive agreement with Colorcon that will trigger certain revenue to Applied DNA. The longer-term revenue opportunity with Colorcon, however, has the potential to be much more substantial and impactful on Applied DNA. Colorcon is the market leader in tablet coatings with approximately a 60% market share. By integrating our DNA Molecular Taggant with Colorcon's film coatings, we will be able to offer a seamless solution to pharmaceutical customers who are already using Colorcon's film coatings. Once the Definitive Agreement is signed, the next step is to partner with Colorcon to secure the first customer, which will represent another source of recurring revenues for Applied DNA.

We are beginning our deep dive commercial engagement with Colorcon this month to layout the customer landscape together with their sales and marketing colleagues who work with all of Big Pharma. This process (already well under way with our Sales leadership), will begin to position us in a credible way with the right decision makers within pharmaceutical companies. Tablets represent one of two ways to deliver solid oral dosage forms, the second way is by capsule. We have recently finalized our initial discussions with one of the world's largest

pharmaceutical and nutraceutical capsule manufacturers. We expect to announce news about this complementary direction shortly.

Diagnostics:

On the flip side of the pharma coin, sometimes approaching the same customers, is our bio-pharma practice, which holds the potential to be a large, long-term opportunity for Applied DNA.

On our December investor call we spoke of opportunities and current pilot projects for functional DNA in gene therapies and for vaccines. Last year we entered into an agreement to supply bulk DNA to a leading chemical company serving the in vitro diagnostics market. We began shipping product in the fourth quarter and are making large-scale shipments each quarter. We expect our relationship with this customer to grow as our customer's solutions expand into new markets.

Biotherapeutics

Our agreement with Evvivax announced in the fourth fiscal quarter of 2017 is progressing well, and we expect that our success in demonstrating our competitive differentiation in this project will open up opportunities in the growing DNA vaccine market for animals and eventually humans. The DNA vaccine market for animals is greater than \$2 billion per year and growing at a double-digit compound annual growth rate.

In therapeutics, there is a need for more complex DNAs, such as those used in the field of immuno-oncology. Companies are entering this field with novel therapies that require immune cells to be removed from a patient, armed to produce new proteins that allow them to recognize cancer, and given back to the patient in large numbers. These cells persist in the body, becoming "living drugs." These therapies are time-limited, and if you don't put the therapeutic DNA back into the patient as quickly as possible, you don't have a viable therapy

and, therefore, a viable company. We are cultivating opportunities in immune-oncology for our PCR-produced DNA that is cleaner, faster, and more easily modified than DNA made from legacy technologies.

SLIDE 9 – DNA LAB IN INDIA

DNA Lab in India

As you can hear, there are many reasons for our continued optimism. This is reflected in the establishment of a DNA laboratory in India that will officially open next week. This is a strategically important facility for us given the amount of business we conduct in the region already and the amount of business potential available to us in the region. Its proximity to customers should incent them to test more while enabling faster quality control and assurance, and at a lower cost than is currently associated with shipping samples to Stony Brook. In addition, it will also free up some of our skilled scientists in the US for other opportunities.

SLIDE 10 – JIM WATSON

Conclusion

In conclusion, business development is active, awareness is growing, and market dynamics and customer demands are increasingly shifting in our favor. We have a base of recurring business and our every effort seeks to add to that base to the benefit of the company and its shareholders. To quote Dr. James Watson, the Nobel laureate and co-discoverer of the structure of DNA who recently visited our Stony Brook facility, “Imagine, an American company whose fundamental selling premise is the honesty of DNA tags. The honest world needs Applied DNA.”

SLIDE 11 – THANK YOU

Thank you for your time, attention and continued support. Operator, please open the call to questions from our audience.

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