

OxySure Systems, Inc.

(OXYS-OTCQB)

OXYS: Another Strong Quarter From OxySure – Breakeven Approaches!

UPDATE

On April 16, 2014, OxySure Systems (OXYS) reported fourth quarter and full year financial results for the period ending December 31, 2013. Revenues in the fourth quarter 2013 totaled \$0.54 million, up 612% from the same period in 2012. Revenues far exceeded our expectations, as we expected a dramatic slowdown in military orders during the fourth quarter 2013 thanks to the government shutdown and sequester that occurred in November 2013. We believe the valuation is still very attractive and the fundamentals at the company are improving. We expect 2014 to be a break-out year for the company as cash flow positive operations is very near.

Current Recommendation	Outperform
Prior Recommendation	N/A
Date of Last Change	01/14/2013
Current Price (04/16/14)	\$0.62
Target Price	\$1.50

SUMMARY DATA

52-Week High	\$0.90
52-Week Low	\$0.59
One-Year Return (%)	-17.33
Beta	-1.62
Average Daily Volume (sh)	19,796

Shares Outstanding (mil)	24
Market Capitalization (\$mil)	\$15
Short Interest Ratio (days)	N/A
Institutional Ownership (%)	0
Insider Ownership (%)	N/A

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 2014 Estimate	N/A
P/E using 2015 Estimate	N/A

Risk Level	Moderate
Type of Stock	N/A
Industry	Med Instruments

ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2013	0.24 A	0.48 A	0.55 A	0.54 A	1.80 A
2014	0.30 E	0.50 E	0.90 E	0.85 E	2.55 A
2015					5.00 E
2016					8.00 E

Earnings per Share

(EPS is operating earnings before non recurring items)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2013	-\$0.01 A	-\$0.01 A	-\$0.00 A	-\$0.01 A	-\$0.03 A
2014	-\$0.02 E	-\$0.01 E	\$0.00 E	-\$0.00 E	-\$0.02 E
2015					\$0.04 E
2016					\$0.15 E

WHAT'S NEW

Strong End To 2013

On April 16, 2014, OxySure Systems (OXYS) reported fourth quarter and full year financial results for the period ending December 31, 2013. Revenues in the fourth quarter 2013 totaled \$0.54 million, up 612% from the same period in 2012. Revenues far exceeded our expectations, as we expected a dramatic slowdown in military orders during the fourth quarter 2013 thanks to the government shutdown and sequester that occurred in November 2013.

However, management noted on the most recent conference call that it takes 90-120 days for orders to flow down from the military to the revenue line, so without a budget appropriations bill in the fourth quarter – which by the way [finally just passed](#) on January 17, 2014 – we now expect a 40% sequential drop in revenues in the first quarter 2014. That being said, business with the U.S. military was going strong prior to the government funding shut-down, so we expect a snap-back in revenues by the start of the second and third quarter 2014.

OxySure is doing some really neat stuff with the military, including working with the Navy on an emergency escape breathing device (EEBD) and with the SEAL team on providing oxygen for high-altitude HALO / HAHO jumps. The company is also working on a device for Navy and Air Force pilot's ejection seats. OxySure is branching out beyond just first-aid devices like the [Model 615](#), and we do not think investors have come to grips with the potential for smaller, more compact device for battlefield use being developed right now by the company.

Beyond the military aspect of the business, the surging revenues tell us management continues to make progress on the distribution front, particularly outside the U.S. We remind investors that the company recently expanded its distribution [footprint into Chile](#), and [Hong Kong and Macau](#). The order from Pacific Medical Systems, Ltd for Hong Kong and Macau, for example, came with a minimum commitment of 11,800 units over the first three years. These deals typically also include ancillary orders of other OxySure products like the wall mounts, travel bags, and replacement cartridges and masks.

On April 2, 2014, OxySure announced [CE Mark approval](#) in Europe for the Model 615 device. We expect that management will begin to roll-out the device to the thirteen EEA member states throughout 2014. Above we noted the agreement with Pacific Medical Systems, Ltd for Hong Kong and Macau had a minimum commitment of 11,800 Model 615 units for the first three years. As OxySure signs new exclusive agreements for large countries like Germany, France, and Italy, these minimum orders will be significant revenues to OxySure. The population of Germany (~82 million) is ten-times that of Hong Kong and Macau (~8 million). A minimum commitment from a distributor in Germany alone could be north of \$600,000 in revenues to OxySure. Add in France and Italy and the revenue opportunity in Europe in 2014 could exceed the total revenues reported in all of 2013.

Revenue growth in the second half of 2013 was attributed to a growing customer base with installed markets. For example, unit cartridge shipments exceeded Model 615 shipments for the first time in 2013. Unit cartridge shipments represented 126% of Model 615 units shipped, up from 63% during 2012. Also, replacement cartridges shipped represented 39.3% of the Model 615 installed base, up from 34.9% in 2012. We believe this is consistent with historical trends of rising reorders and a “sticky” relationship as customers become more accustomed to OxySure's products. These types of metrics are stock analysts dream when coupled with the previous discussion of gaining new approvals and entering new markets. OxySure is growing organically through re-orders and new markets, vertically by creating new products for the military, and horizontally by [offering complementary products](#) like automated external defibrillators (AEDs).

In 2014, besides signing new distributor agreements around the world, we believe management may look to expand its U.S. marketing activities by either pursuing a “brick and mortar” strategy and/or undertaking a direct to consumer advertising campaign. We believe the simplicity of use and wide applicability of the Model 615 device lends itself well to retail distribution or direct response television, targeting elderly patients with cardiovascular disease or individuals with asthma or COPD. We also believe increase marketing and brand awareness in schools, shopping malls, gyms, and office buildings still represents an enormous growth opportunity for the company.

Below we provide a break-down on the income statement for the full year 2013, which showed impressive acceleration of revenue growth in the second half of the year.

Income Statement	2013 A	Δ YoY
Total Revenues	\$1.80 million	+567%
<i>U.S. Revenues</i>	<i>\$1.30 million</i>	<i>+787%</i>
<i>RoW Revenues</i>	<i>\$0.50 million</i>	<i>+305%</i>
<i>Military Business</i>	<i>\$0.63 million</i>	<i>∞</i>
Gross Margin	72.8%	+8.2 bp
Net Income	(\$0.712 million)	+\$0.116 million
EPS	(\$0.03)	+\$0.01

The company has also made significant strides in improving the balance sheet and its overall financial position.

Balance Sheet / Cash Flow	2013 A	2012 A
Cash	\$0.66 million	\$0.01 million
Current Assets	\$1.60 million	\$0.22 million
Total Assets	\$2.35 million	\$0.88 million
Notes Payable	\$0.27 million	\$0.40 million
Current Liabilities	\$0.85 million	\$1.72 million
“Current Ratio”	1.9x	0.5x
Total Liabilities	\$0.93 million	\$1.80 million
Stockholders’ Equity	\$2.35 million	(\$0.92 million)

We are very pleased to see the improved financial position. The lack of cash on the balance sheet has always been a major concern in our conversations with investors. But we alert investors to the fact that these balance sheet improvements did not stop at the end of the year. A few weeks later, the company announced the [removal of nearly \\$1 million](#) of claimed indebtedness from the balance sheet by converting notes and other indebtedness to restricted common stock at conversion prices ranging from \$1.50 per share to \$.76 per share.

With an improved liquidity and less debt, we believe OxySure now has enough cash to fund operations into the third quarter 2014. By that time, we believe the company could be posting break-even operations. For example, cash burn from operations in 2013 totaled \$0.88 million. The company financed operations through \$1.5 million in funding activities. However, burn in the fourth quarter from operations totaled only \$0.03 million. Assuming a strong military bounce-back, we believe OxySure may post its first cash-flow positive quarter later this year. This could put an end to the drip-financing and dilution we have seen over the past three years. Besides the low cash balance, shareholder dilution is the other major concern we hear from investors. We believe these issues, cash balance and dilution, are on the mend in 2014. It’s a dramatically improved fundamental story.

We also think it is important to mention, officers and directors of the company currently own 62.2% of the outstanding shares, with Chairman and CEO, Julian T. Ross, owing 59.9% of the company. As such, shareholder interests are aligned nicely with management.

Attractive Valuation

As of April 14, 2014, OxySure reports 26.0 million basic shares outstanding. There are another 1.5 million stock options at or very near in-the-money, 3.0 million warrants at \$1.13 per share, and roughly 2.1 million shares that could be issued for convertible securities (preferred shares and notes). That puts the fully-diluted share count at 32.5 million. Thus, at today's price, the stock has a fully-diluted market capitalization of only \$21.7 million. Cash as of March 31, 2014 is estimated around \$0.3 million. Exercising of outstanding stock options and warrants could bring in another \$4.0 million in cash to the company. As noted above, assuming a strong military bounce-back, we believe OxySure may post its first cash-flow positive quarter later this year.

For 2014, we model revenues of \$2.55 million, up 40% from 2013 levels. We believe this is very conservative and only assumes one major distribution agreement deal in Europe. The signing of additional deals in Europe could add \$0.5 per agreement. For 2015, we believe OxySure can post revenues of \$5.0 million. Based on the growth trajectory and the opportunity to sign sizable new distribution agreements in Europe and Asia in 2014 and beyond, along with continues solid growth from new business and reorders in the U.S., we think the shares are fairly-valued at \$1.50. This would be market capitalization of \$50 million, or around fives our 2016 revenue forecast. In 2016, we model positive EPS of \$0.15 per share, putting the stock trading at only 4.5x this estimate right now. Our target assumes 10x 2016 is fair-value.

PROJECTED FINANCIALS

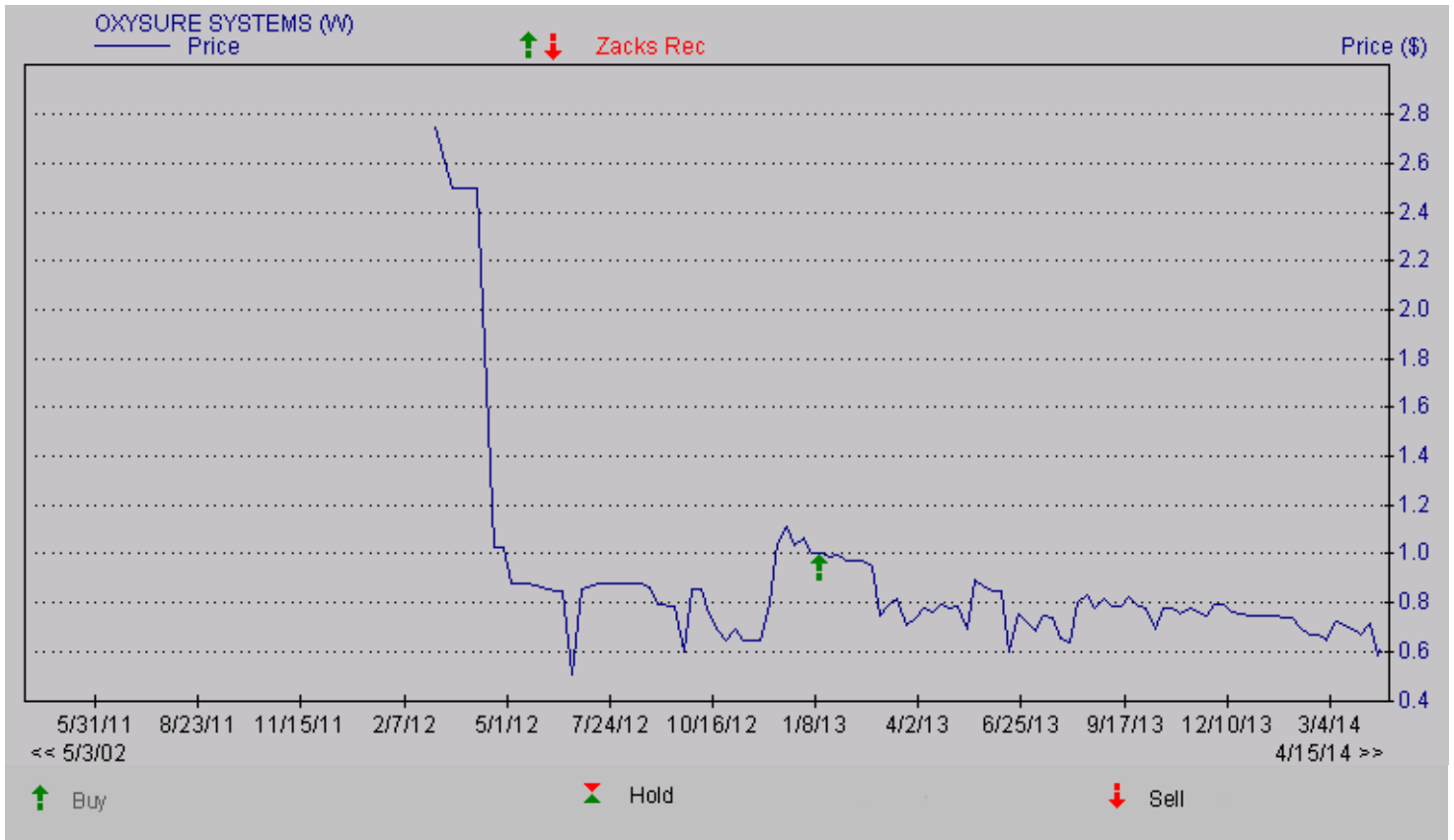
OxySure Systems, Inc. Income Statement

OxySure Systems, Inc.	2012 A	2013 A	Q1 E	Q2 E	Q3 E	Q4 E	2014 E	2015 E	2016 E
Total Revenues	\$0.270	\$1.800	\$0.300	\$0.500	\$0.900	\$0.850	\$2.550	\$5.000	\$10.000
<i>YOY Growth</i>	45.6%	567.5%	24.8%	5.0%	64.9%	58.0%	41.6%	96.1%	100.0%
Cost of Goods Sold	\$0.096	\$0.490	\$0.175	\$0.200	\$0.225	\$0.250	\$0.850	\$1.400	\$2.150
<i>Product Gross Margin</i>	64.6%	72.8%	41.7%	60.0%	75.0%	70.6%	66.7%	72.0%	78.5%
Operating Expenses	\$1.020	\$1.798	\$0.550	\$0.495	\$0.515	\$0.530	\$2.090	\$2.300	\$2.600
<i>% SG&A</i>	378.3%	99.9%	183.3%	99.0%	57.2%	62.4%	82.0%	46.0%	26.0%
Operating Income	(\$0.846)	(\$0.488)	(\$0.425)	(\$0.195)	\$0.160	\$0.070	(\$0.390)	\$1.300	\$5.250
<i>Operating Margin</i>	-	-	-	-	-	-	-	26.0%	52.5%
Interest & Other Net	\$0.02	(\$0.224)	(\$0.125)	(\$0.125)	(\$0.125)	(\$0.125)	(\$0.125)	(\$0.100)	(\$0.050)
Pre-Tax Income	(\$0.828)	(\$0.712)	(\$0.550)	(\$0.320)	\$0.035	(\$0.055)	(\$0.515)	\$1.200	\$5.200
Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>Tax Rate</i>	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	(\$0.828)	(\$0.712)	(\$0.550)	(\$0.320)	\$0.035	(\$0.055)	(\$0.515)	\$1.200	\$5.200
<i>YOY Growth</i>	-	-	-	-	-	-	-	-	-
<i>Net Margin</i>	-	-	-	-	-	-	-	24.0%	52.0%
Reported EPS	(\$0.04)	(\$0.03)	(\$0.02)	(\$0.01)	\$0.00	(\$0.00)	(\$0.02)	\$0.04	\$0.15
<i>YOY Growth</i>	-	-	-	-	-	-	-	-307.8%	282.4%
Shares Outstanding	19.9	23.8	26.0	26.5	27.0	27.5	26.8	30.0	34.0

Source: Zacks Investment Research, Inc.

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HISTORICAL ZACKS RECOMMENDATIONS



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