

OxySure Systems, Inc.

(OXYS-OTCQB)

OXYS: Strong Sales Growth with the First European Launch Imminent...

UPDATE

On August 15, 2014, OxySure Systems (OXYS) reported second quarter financial results for the period ending June 30, 2014. Revenues in the second quarter 2014 totaled \$0.68 million, up 42% from the same period in 2013. This increase was primarily driven by an increase in product sales in the United States. The company is actively preparing for launching overseas after receiving CE Mark approval in Europe and the first of two approvals from the TGA in Australia. We continue to believe the valuation is very attractive and the fundamentals at the company are improving.

Current Recommendation	Outperform
Prior Recommendation	N/A
Date of Last Change	01/14/2013
Current Price (08/15/14)	\$0.79
Target Price	\$1.50

SUMMARY DATA

52-Week High	\$0.85
52-Week Low	\$0.59
One-Year Return (%)	-14.29
Beta	-1.58
Average Daily Volume (sh)	7,542

Shares Outstanding (mil)	26
Market Capitalization (\$mil)	\$19
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	0.36 A	0.68 A	0.90 E	0.85 E	2.78 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	-\$0.01 A	-\$0.01 A	\$0.00 E	-\$0.00 E	-\$0.02 E
2015					\$0.04 E
2016					\$0.15 E

WHAT'S NEW

Financial Update

On August 15, 2014, OxySure Systems (OXYS) reported financial results for the first quarter 2014. Revenues in the quarter totaled \$0.68 million, which was a 42% increase from the same time period in 2013. Product margins increased this quarter to 60.9%, which is more in line with what historic margins had been. Gross margins in the first quarter of 2014 were down to 48.2%, which was due to first quarter sales being mostly composed of third party products, which have lower margins than OxySure products. Product margins in 2013 were higher due to licensing revenue making up a portion of total revenues, and management indicates that gross margins in the 60% range is what they expect in future quarters.

Sales and marketing, R&D, and G&A expenses were all increased in the second quarter 2014 compared to the second quarter of 2013. Sales and marketing expense was up 15%, R&D expense was up 50%, and G&A expense was up 12%. The large increase in R&D was mostly attributable to an increase in expense associated with products related to military markets. Net loss for the quarter was \$0.32 million, or \$0.01 per share, compared to \$0.23 million, or \$0.01 per share, for the second quarter 2013.

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. On the second quarter conference call, management indicated they expect to get the product rolled out in at least one country during the third quarter of 2014. 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.

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.

We continue to believe there is potential for rapid uptake in overseas markets. In the U.S., an individual suffering a medical emergency can generally expect first responders to arrive within 5-15 minutes of the initial call for help. However, in some areas overseas it may take upwards of 45 min to 1 hour before first responders are able to arrive due to insufficient infrastructure or generally poor traffic conditions. Thus, the value proposition offered by the Model 615 product is likely to resonate even more with individuals in certain overseas communities.

Attractive Valuation

As of June 30, 2014, OxySure reported 26.0 million basic shares outstanding. There are another 1.3 million stock options at or very near in-the-money, 2.7 million warrants at \$1.25 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 32.1 million. Thus, at today's price, the stock has a fully-diluted market capitalization of only \$23.1 million. Cash as of June 30, 2014 was \$0.02 million. Exercising of outstanding stock options and warrants could bring in another \$4.0 million in cash to the company.

For 2014, we model revenues of \$2.8 million, up 55% 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 continued solid growth from new business and reorders in the U.S., we think the shares are fairly-valued at \$1.50. This would represent a market capitalization of \$50 million, or around five times our 2016 revenue forecast. In 2016, we model positive EPS of \$0.15 per share, putting the stock trading at only 4.8x this estimate right now. Our target assumes 10x 2016 is fair-value.

PROJECTED FINANCIALS

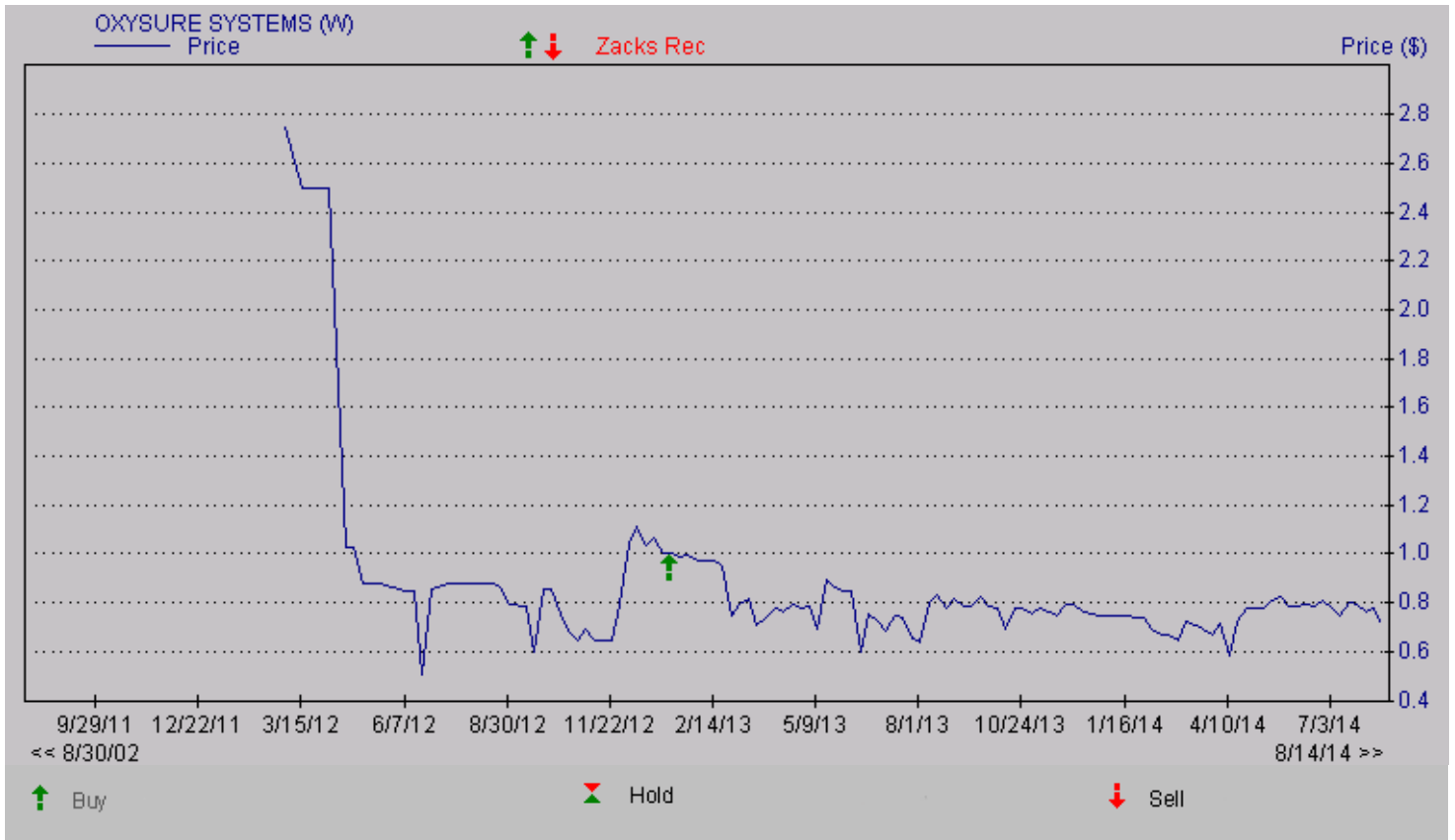
OxySure Systems, Inc. Income Statement

OxySure Systems, Inc.	2012 A	2013 A	Q1 A	Q2 E	Q3 E	Q4 E	2014 E	2015 E	2016 E
Total Revenues	\$0.270	\$1.800	\$0.356	\$0.678	\$0.900	\$0.850	\$2.784	\$5.000	\$10.000
<i>YOY Growth</i>	45.6%	567.5%	48.2%	42.4%	64.9%	58.0%	54.7%	79.6%	100.0%
Cost of Goods Sold	\$0.096	\$0.490	\$0.206	\$0.265	\$0.225	\$0.250	\$0.945	\$1.400	\$2.150
<i>Product Gross Margin</i>	64.6%	72.8%	42.3%	60.9%	75.0%	70.6%	66.0%	72.0%	78.5%
Operating Expenses	\$1.020	\$1.798	\$0.435	\$0.689	\$0.515	\$0.530	\$2.169	\$2.300	\$2.600
<i>% SG&A</i>	378.3%	99.9%	122.2%	101.6%	57.2%	62.4%	77.9%	46.0%	26.0%
Operating Income	(\$0.846)	(\$0.488)	(\$0.285)	(\$0.276)	\$0.160	\$0.070	(\$0.331)	\$1.300	\$5.250
<i>Operating Margin</i>	-	-	-	-	-	-	-	26.0%	52.5%
Interest & Other Net	\$0.02	(\$0.224)	(\$0.092)	(\$0.044)	(\$0.125)	(\$0.125)	(\$0.125)	(\$0.100)	(\$0.050)
Pre-Tax Income	(\$0.828)	(\$0.712)	(\$0.376)	(\$0.320)	\$0.035	(\$0.055)	(\$0.456)	\$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)	(\$0.376)	(\$0.320)	\$0.035	(\$0.055)	(\$0.456)	\$1.200	\$5.200
<i>YOY Growth</i>	-	-	-	-	-	-	-	-	-
<i>Net Margin</i>	-	-	-	-	-	-	-	24.0%	52.0%
Reported EPS	(\$0.04)	(\$0.03)	(\$0.01)	(\$0.01)	\$0.00	(\$0.00)	(\$0.02)	\$0.04	\$0.15
<i>YOY Growth</i>	-	-	-	-	-	-	-	-333.5%	282.4%
Shares Outstanding	19.9	23.8	25.9	26.0	27.0	27.5	26.6	30.0	34.0

Source: Zacks Investment Research, Inc.

Jason Napodano, CFA

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research (“Zacks SCR”), a division of Zacks Investment Research (“ZIR”), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Jason Napodano, CFA, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1084 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
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- 75.3%, Sell/Underperform – 7.2%. Data is as of midnight on the business day immediately prior to this publication.