

OxySure Systems, Inc.

(OXYS-OTCQB)

OXYS: Another Strong Quarter As Company Preps for European Market

UPDATE

Current Recommendation	Outperform
Prior Recommendation	N/A
Date of Last Change	01/14/2013
Current Price (05/16/14)	\$0.81
Target Price	\$1.50

On May 16, 2014, OxySure Systems (OXYS) reported first quarter financial results for the period ending March 31, 2014. Revenues in the first quarter 2014 totaled \$0.36 million, up 48% from the same period in 2013. This increase was primarily driven by a 161% increase in product sales in the United States. The company is actively preparing for launching overseas after receiving CE Mark approval in Europe. We continue to believe the valuation is very attractive and the fundamentals at the company are improving.

SUMMARY DATA

52-Week High	\$0.90
52-Week Low	\$0.59
One-Year Return (%)	2.53
Beta	-1.76
Average Daily Volume (sh)	17,844

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

Shares Outstanding (mil)	24
Market Capitalization (\$mil)	\$20
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

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	0.50 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	-\$0.01 A	-\$0.01 E	\$0.00 E	-\$0.00 E	-\$0.02 E
2015					\$0.04 E
2016					\$0.15 E

WHAT'S NEW

Financial Update

On May 16, 2014, OxySure Systems (OXYS) reported financial results for the first quarter 2014. Revenues in the quarter totaled \$0.36 million, which was a 48% increase from the same time period in 2013. Product margins decreased this quarter to 42.3%, while they had been above 67% for all four quarters in 2013. Management indicated that first quarter sales were mostly composed of third party products, which have lower margins than OxySure products. This was due to a re-design effort of the company's molds for the European market, and that margins should be back up as the OxySure products come back on-line.

Sales and marketing as well as R&D expenses were decreased in the first quarter 2014, with sales and marketing expense down 18% and research and development expense down 96%. These decreases were offset by a 35% increase in G&A expense to \$0.35 million and an increase in interest expense to \$0.11 million. Net loss for the quarter was \$0.38 million, or \$0.01 per share, compared to \$0.24 million, or \$0.01 per share for the first 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. 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.

An important point mentioned during the recent conference call had to do with potential 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.

The company noted that for the Model 615 product, unit cartridge reorder rates continued to increase along with the number of installed bases of Model 615. This is indicative of a "sticky" customer relationship with the product unit adoption. For the first quarter 2014, unit cartridge shipments represented 201% of Model 615 units shipped, which was up from 94% during the first quarter 2013. As of March 31, 2014, replacement cartridges shipped represented 44.2% of the known Model 615 installed base, up from 35.7% as of March 31, 2013. These types of metrics are great news for investors, especially 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, and horizontally by [offering complementary products](#) like automated external defibrillators (AEDs).

On the recent conference call management indicated it is getting closer to expanding its U.S. marketing activities by 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 increased marketing and brand awareness in schools, shopping malls, gyms, and office buildings still represents an enormous growth opportunity for the company.

Attractive Valuation

As of May 16, 2014, OxySure reported 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 \$26.2 million. Cash as of March 31, 2014 was \$0.15 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 \$2.6 million, up 45% 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 five times our 2016 revenue forecast. In 2016, we model positive EPS of \$0.15 per share, putting the stock trading at only 5.4x this estimate right now. Our target assumes 10x 2016 is fair-value.

PROJECTED FINANCIALS

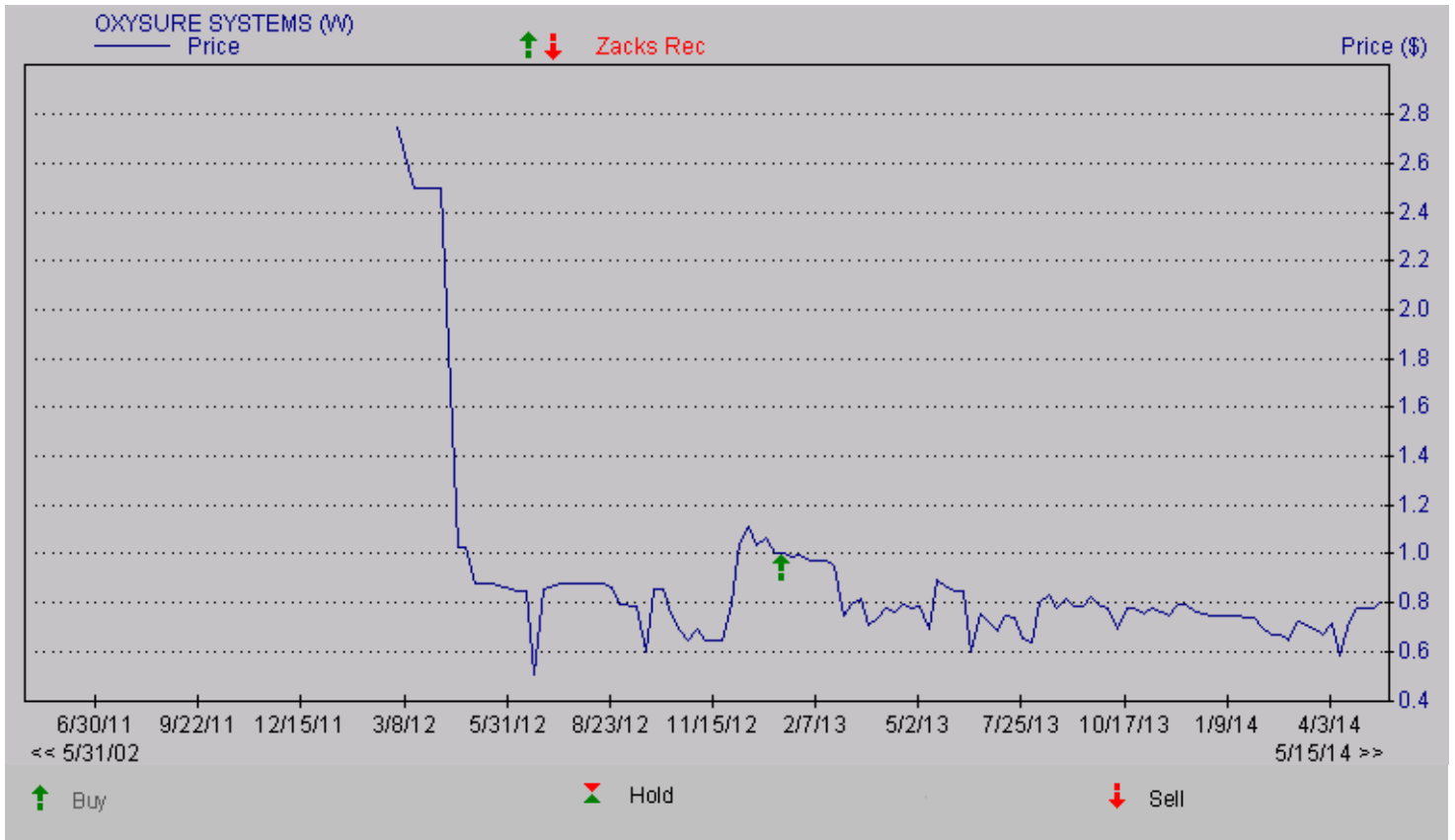
OxySure Systems, Inc. Income Statement

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	\$0.500	\$0.900	\$0.850	\$2.606	\$5.000	\$10.000
<i>YOY Growth</i>	45.6%	567.5%	48.2%	5.0%	64.9%	58.0%	44.8%	91.8%	100.0%
Cost of Goods Sold	\$0.096	\$0.490	\$0.206	\$0.200	\$0.225	\$0.250	\$0.881	\$1.400	\$2.150
<i>Product Gross Margin</i>	64.6%	72.8%	42.3%	60.0%	75.0%	70.6%	66.2%	72.0%	78.5%
Operating Expenses	\$1.020	\$1.798	\$0.435	\$0.495	\$0.515	\$0.530	\$1.975	\$2.300	\$2.600
<i>% SG&A</i>	378.3%	99.9%	122.2%	99.0%	57.2%	62.4%	75.8%	46.0%	26.0%
Operating Income	(\$0.846)	(\$0.488)	(\$0.285)	(\$0.195)	\$0.160	\$0.070	(\$0.250)	\$1.300	\$5.250
<i>Operating Margin</i>	-	-	-	-	-	-	-	26.0%	52.5%
Interest & Other Net	\$0.02	(\$0.224)	(\$0.092)	(\$0.125)	(\$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)	(\$0.375)	\$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)	(\$0.375)	\$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)	(\$0.01)	\$0.04	\$0.15
<i>YOY Growth</i>	-	-	-	-	-	-	-	-385.3%	282.4%
Shares Outstanding	19.9	23.8	25.9	26.5	27.0	27.5	26.7	30.0	34.0

Source: Zacks Investment Research, Inc.

Jason Napodano, CFA

HISTORICAL ZACKS RECOMMENDATIONS



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