

OxySure Systems, Inc. (OTCQB: OXYS), Target Price: \$2.30

OxySure Systems, Inc. (OTCQB: OXYS, "OxySure") provides innovative short duration / emergency medical oxygen and respiratory solutions for mass market use. Using patented technology that combines two dry, inert powders to create medical oxygen, the Frisco, Texas-based company manufactures and markets the **OxySure Model 615**, a portable emergency oxygen system that has been approved by the FDA for sale over the counter without a prescription. OxySure has been accelerating its penetration in the marketplace, reporting fourteen consecutive quarters of top line growth, including record revenues in 3Q15. We see several catalysts ahead for the company as it heads in to 2016E seeking to uplist to a national exchange and aspiring to reach \$10mn in annualized sales and cash flow breakeven.

Investment Highlights

High growth continues in 3Q15

OxySure reported its 14th consecutive quarter of growth in 3Q15, with revenue growing a remarkable 39.1% YoY to reach \$1,138,380, versus \$818,456. For the first three quarters of the year, revenues rose by 52% to reach \$2,809,553, versus \$1,852,796 in the first three quarters of 2014. Impressively, revenue also grew by approximately 9% sequentially from 2Q15, setting a new record for quarterly revenues at the company.

Strong outlook for 2016E as Model 615 gains traction

OxySure issued a strong outlook for continued growth in 2016E. Management plans on reaching a \$10mn annual run rate by the end of the year -- \$2.5mn or more in quarterly revenues -- as it appears that the company's flagship OxySure Model 615 continues to gain traction in the market. OXYS recently added new territory sales managers in Indiana and Colorado, which should help the company's efforts in its drive towards \$10mn in annualized sales. On its 3Q15 earnings call, OxySure management noted that OXYS was approaching \$5mn in annualized revenues in 3Q15 (\$4.6mn), and states that OxySure was "on track" to reach a \$10mn annualized rate in 2016E. Importantly, OXYS management also said that it was targeting cash flow breakeven by the end of 2016E as well. If OXYS achieves both of these goals in the next 4-5 quarters, reaching cash flow generation and a \$10mn annualized run rate, this would be a significant milestone for the company and also prove the powerful underlying earnings leverage inherent in the business.

Pushing towards a national listing

OXYS continues to pursue a national listing such as the NASDAQ or NYSE MKT. The company engaged Donohoe Advisory Associates of Rockville, Maryland to assist in this effort in August, and since that time has appointed two new independent members to OxySure's Scientific Advisory Board. Also, in an attempt to ensure the company meets minimum bid requirements, OxySure's Board of Directors has approved a reverse split in a potential range of 1:2 to 1:100. We would see a listing on a prominent national exchange such as the NASDAQ or NYSE MKT as a major accomplishment for OxySure management. A listing on a national exchange would likely improve the liquidity of OXYS stock as well as raise the company's profile both in its industry and among its growing base of institutional investors.

Price target of \$2.30 for OXYS

We continue to view OxySure as an attractive growth company offering an intriguing high risk / high reward trade-off in the medical device space. The company's innovative medical device utilizing "oxygen from powder" demonstrated strong growth thus far, with 14 consecutive quarters of growth. If achieved, the \$2.30 price target would suggest 820% upside potential.

Stock Details (11/23/2015)

OTCQB	OXYS
Sector / Industry	Healthcare / Medical Devices
Price Target	\$2.30
Recent share price	\$0.25
Shares o/s (mn)	36.2
Market cap (in \$ mn)	14.4
52-week high/low	\$1.12 / \$0.17

Source: Bloomberg, SeeThruEquity Research

Key Financials (\$mn, unless specified)

	FY13	FY14	FY15E
Revenues	1.8	2.4	4.3
EBITDA	(0.4)	(2.0)	(2.9)
EBIT	(0.5)	(2.0)	(3.0)
Reported net income	(0.7)	(2.7)	(4.8)
GAAP EPS	(0.03)	(0.10)	(0.15)

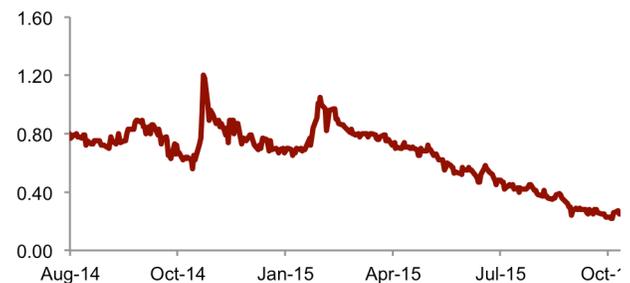
Source: SeeThruEquity Research

Key Ratios

	FY13	FY14	FY15E
Gross margin (%)	72.8	41.8	55.5
Operating Margin (%)	(27.7)	(83.5)	(70.2)
EBITDA margin (%)	(24.2)	(81.8)	(69.1)
Net margin (%)	(39.6)	(113.0)	(110.9)
P/Revenue (x)	5.0	3.8	2.1
EV/EBITDA (x)	NM	NM	NM
EV/Revenue (x)	4.5	3.4	1.9

Source: SeeThruEquity Research

Share Price Performance (\$, LTM)



Source: Reuters

ANNUAL FINANCIAL SUMMARY

Figure 1. Income Statement Summary

Figures in \$'000, unless specified	3Q15	3Q14	9 mos 2015	9 mos 2014
Revenue	1,138,380	818,456	2,809,553	1,852,796
YoY growth	39.09%		51.64%	
Cost of Revenue	580,126	321,932	1,325,165	792,378
as % of total sales	50.96%	39.33%	47.17%	42.77%
Gross Profit	558,254	496,524	1,484,388	1,060,418
Gross margin	49.04%	60.67%	52.83%	57.23%
Research & Development	362,599	155,869	873,450	433,384
as % of net sales	31.85%	19.04%	31.09%	23.39%
Selling & Marketing	437,442	202,825	1,231,581	1,132,276
as % of net sales	38.43%	24.78%	43.84%	61.11%
General & Administrative & Other Items	686,828	527,289	1,930,425	1,132,276
as % of net sales	60.33%	64.42%	68.71%	61.11%
GAAP Operating expenses	1,486,869	885,983	4,035,456	2,010,478
YoY growth	67.82%		100.72%	
Income from operations	(928,615)	(389,459)	(2,551,067)	(950,060)
Operating Margin %	-81.57%	-47.58%	-90.80%	-51.28%
Other Items	(452,138)	(72,890)	(1,428,519)	(208,117)
Net Loss to common	(1,380,753)	(462,349)	(3,979,587)	(1,158,177)
YoY growth	NM		NM	
GAAP EPS	(0.04)	(0.02)	(0.13)	(0.04)
YoY growth	NM		NM	
Avg. Shares Outstanding in Period	32,425,195	26,120,974	30,543,678	26,042,971

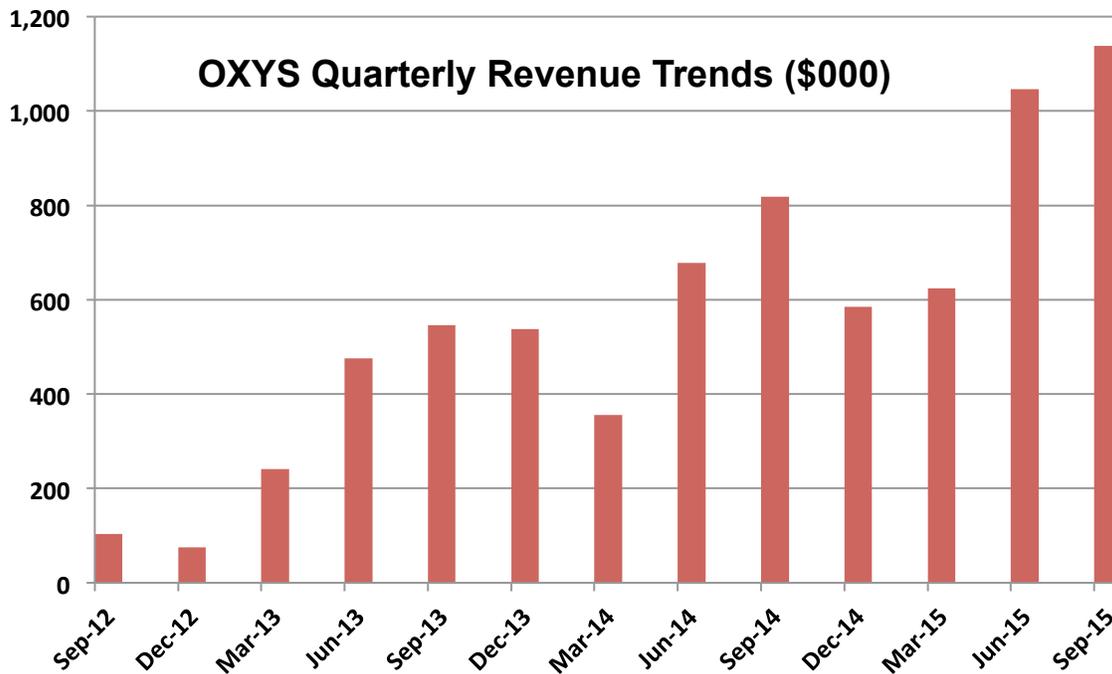
Source: Company filings, SeeThruEquity Research

Detailed review of results:

- Robust revenue growth continues for OxySure in 3Q15:** OxySure reported another quarter of robust revenue growth in its fiscal 3Q15. Revenues climbed by an impressive 39.1% YoY to reach \$1,138,380, versus \$818,456. For the first three quarters of the year, revenues rose by 52% to reach \$2,809,553, versus \$1,852,796 in the first three quarters of 2014.
- Revenues also improved sequentially, up 9% from 2Q15 results of \$1,046,019. The performance has brought the company's annual run rate to \$4.6mn and likely to eclipse \$5mn by year-end. The sequential growth was particularly impressive, in our view, as OXYS was coming off a very strong 2Q15, during which it had achieved 67% sequential growth.
- Fourteen consecutive quarters of growth:** Impressively, 3Q15 marked the 14th consecutive quarter of growth for OxySure.



- As shown in the following graphic, the company's top line has grown nicely over a sustained period heading back to 2012, with quarterly revenues beginning to reach critical mass in recent periods.



Source: Company filings, SeeThruEquity Research

- OXYS gross profit dollars also rose in the period. Gross profit in 3Q15 rose 12% YoY to \$558,254 and is up by approximately 40% in the first nine months of the year versus the comparable period in 2014.
- The company reported GAAP net loss of \$0.04 per share, with an average of 32.4mn shares outstanding during the quarter. Management-adjusted EBITDA loss came in at (\$76,000).
- At the end of the quarter OXYS had \$2mn of cash on hand, and a working capital surplus of \$1.5mn. The company ended the quarter with total assets of \$4.4mn and stockholder's equity of \$2.2mn.

Management continues to be optimistic heading into 2016E

- Still on track for \$10mn run rate in 2016E:** As we have indicated in prior notes, OXYS management has set a bold goal of reaching a \$10mn annualized revenue run rate – or approximately \$2.5mn in quarterly revenues – during 2016E.
- OXYS reiterated this goal during its earning release and conference call with investors, and stated that it was still on track to achieve the \$10mn run rate during 2016E. OxySure recently added two new territory sales managers in Indiana and Colorado, which should help drive the company toward \$10mn in annualized sales, along with a broader expansion of its direct sales force over the next year and its multifaceted direct to consumer campaign, in which the company will be working with medical advisors to target markets such as asthma and immunology. We note that the Model 615 allows a parent, bystander, or victim to administer potentially lifesaving oxygen in the event of a medical emergency, prior to the arrival of first responders.
- Targeting Cash Flow Breakeven in 2016E:** Importantly, OXYS management also stated that the company felt to could achieve cash flow breakeven during 2016E as well.

- We see the company's outlook for 2016E and strong recent revenue growth as confirming that its flagship OxySure Model 615, which produces medically pure oxygen in an emergency and has been medically cleared by the FDA for over-the-counter sale without the need for a prescription, continues to be well received in the market.
- We would see the accomplishment of these two goals as a significant milestone for OXYS, which would demonstrate the leverage possible in OxySure's business model.

Recent moves suggest the company is aggressively pursuing an uplisting

- As we indicated in our last note, we believe OXYS is aggressively pursuing an uplisting to a national exchange such as the NASDAQ or NYSE. The company hired Donohoe Advisory Associates of Rockville, MD, in August, to assist with this process.
- On September 17 2015, OxySure's Board took an important step toward qualifying for an uplisting to the NASDAQ by increasing its authorized shares and authorizing a reverse stock split within a range of 1:2 and 1:100, which should enable OXYS to meet minimum bid requirements.
- The company also added Christopher Kaplan to its Strategic Advisory Board in October. Kaplan is an experienced healthcare executive with a track record in pharmaceutical sales and marketing, including holding leadership roles at Boehringer Ingelheim and Novartis, as well as experience at Bristol Meyers Squibb Company. The company also added Dr. Joseph Chalil to its Strategic Advisory Board. Dr. Chalil also holds a leadership position at Boehringer Ingelheim. He is also the Chairman of Global Clinical Research and Trial Network of the American Association of Physicians of Indian Origin (AAPI) and has served as Scientific Advisor to AAPI for the past five years. AAPI
- The company also approved a name change to OxySure Therapeutics, which management believes will better reflect OXYS and its business,
- In our view, a successful listing on a prominent national exchange would be a significant accomplishment for OxySure. A listing on the NASDAQ or NYSE Mkt would likely improve liquidity in the stock and raise the company's profile in its industry and among the investing community – in addition to expanding its potential investor base to include institutions that do not invest in stocks that trade on the OTC markets.

Pure growth story continues to develop at OXYS; price target of \$2.30

- We continue to see OxySure as an attractive pure growth company. With 14 consecutive quarters of growth, OXYS clearly appears to be gaining traction in the market. In our view, the company offers an attractive high risk / high reward tradeoff in the medical device space.
- OxySure offers an innovative medical device that offers a safe and easy to use "oxygen from powder" technology, which is proprietary and supported by numerous patents. The technology makes it easier and safer for emergency medical professionals to have access to oxygen in life saving situations than existing methods.
- Attractive valuation: At the recent price of \$0.25, OXYS trades at just 0.8x EV/Revenue using the company's targeted annual revenue run rate of \$10mn, which management expects to achieve during 2016E.
- If achieved, the price target of \$2.30 suggests potential upside of 820% from the recent price of \$0.25. At our target price, OxySure would trade at 8.2x the \$10mn estimate for annualized revenues in 2016E, which we believe is fair considering the rapid growth required to accomplished this feat.



About OxySure Systems, Inc.

OxySure Systems, Inc. (OXYS) is a medical technology company that focuses on the design, manufacture and distribution of specialty respiratory and medical solutions. The company pioneered a safe and easy to use solution to produce medically pure (USP) oxygen from inert powders. The company owns numerous issued patents and patents pending on this technology which makes the provision of emergency oxygen safer, more accessible and easier to use than traditional oxygen provision systems. OxySure's products improve access to emergency oxygen that affects the survival, recovery and safety of individuals in several areas of need: (1) Public and private places and settings where medical emergencies can occur; (2) Individuals at risk for cardiac, respiratory or general medical distress needing immediate help prior to emergency medical care arrival; and (3) Those requiring immediate protection and escape from exposure situations or oxygen-deficient situations in industrial, mining, military, or other "Immediately Dangerous to Life or Health" (IDLH) environments. In addition to oxygen products for public/lay responder usage, OxySure also markets emergency medical solutions including AEDs (Cardiac Science, Philips, Zoll, Physio Control, Defibtech, and HeartSine), Quickclot Bleeding Control solutions, resuscitation products and pulse oximetry products. www.OxySure.com



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