Zacks Small-Cap Research

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OxySure Systems, Inc. (OXYS-OTCBB)

OXYS: Building Momentum Into 2013…

UPDATE

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	01/14/2013
Current Price (04/08/13)	$0.70
Target Price	**$1.75**

We believe that the company's Model 615 Emergency Oxygen System is a potential breakthrough product for the delivery of medical oxygen in a medical emergency required supplemental oxygen, such as a cardiac arrest or acute asthma attack. We see several distinctive advantages of the Model 615 over portal oxygen cylinders, which are typically not designed for emergency use.

We see clear signs of progress and building momentum over the past few quarters. We think that OxySure can turn cash flow positive in 2016, and generate over $10 million in operating cash flow in 2018. Accordingly, we rate the stock 'Outperform' with a $1.75 target.

SUMMARY DATA

52-Week High	**$1.24**
52-Week Low	**$0.59**
One-Year Return (%)	**N/A**
Beta	**0.01**
Average Daily Volume (sh)	**11,959**
Shares Outstanding (mil)	**21**
Market Capitalization ($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 (%)	**18.0**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**N/A**
P/E using 2014 Estimate	**N/A**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	0.03 A	0.06 A	0.10 A	0.08 A	0.27 A
2013	0.09 E	0.13 E	0.17 E	0.21 E	0.60 E
2014					1.50 E
2015					3.50 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.02 A	-$0.01 A	-$0.01 A	-$0.01 A	-$0.04 A
2013	-$0.01 E	-$0.01 E	-$0.00 E	-$0.00 E	-$0.02 E
2014					-$0.01 E
2015					$0.02 E

WHAT'S NEW

Financial Results Continue To Show Improving Fundamentals

On April 1, 2013, OxySure Systems, Inc. reported financial results for the fourth quarter and full year ended December 31, 2012. Total revenues in the quarter were $76K, an increase of 16% over the same period in 2011 and nearly dead-on with our forecast of $75K. For the full year 2012, total revenues were $270K, up 46% year-over-year. Revenues were driven by a combination new customer wins, repeat business with existing customers, and signing new distribution partners both in the U.S. and internationally.

With respect to new distribution partners, the company signed a major contract with Global Industrial, a division of Systemax in 2012. The company also signed distribution agreements with Amazon.com and AED Professionals, this to go along with previous relationships with Grainger and DrugStore.com. We note that AED Professionals is one of the largest distributors of AEDs in the U.S. Business in the U.S. with K-12 schools remains stable, with the company completing the second year of installations in the five-year project with the city of Frisco, Texas. Major wins in 2012 included placements with Halliburton, Kinder Morgan, Oshkosh, and Four Seasons. The Halliburton contract is particularly interesting because the company initially signed a pilot placement with Halliburton and if all goes well, the Model 615 could be placed in all Halliburton facilities. This would be a significant revenue opportunity for OxySure. International revenues grew by 49% in 2012, driven by key international distribution agreements and new partnerships.

We expect the momentum to continue in 2013 with respect to signing new partnerships and distribution agreements. For example, in March 2013 the company signed a deal with Aero Healthcare for Australia, New Zealand, and the U.K. The deal with Aero includes a minimum purchase order of 4,500 units of the Model 615 during the first two years subsequent to CE Marking and TGA approval. We see the Aero Healthcare deal as a model for future international distribution partners in 2013 and beyond.

In February 2013, the company announced it had expanded its product offering to include six brands of Automated External Defibrillators (AEDs), as well as all related AED accessories. We view this as an astute and highly strategic move by the company. The AED market is large and growing handsomely, and OxySure's Model 615 emergency oxygen device is the ideal counterpart to an AED purchase order. Over the next several months, we expect to see OxySure expand the number of distributors and independent sales agents in the field from the current several dozen to over 200. Making available the leading AEDs allows these commission-based independent agents to offer a full solution of life-saving devices that includes both AEDs and emergency oxygen products. The company should benefit from both increased sales of its own Model 615 device and accessories, along with distribution payments on the six brands of AEDs that will become available through the company's expanded network. We believe this can be accomplished at minimal upfront cost to OxySure. We expect to see impact to the revenue line from this strategic move as early as the second quarter 2013.

Operating expenses in the quarter totaled $280K, essentially in-line with expectations. For the full year 2012, operating expenses totaled $1.116 million, comprised of $96K in cost of goods sold and $1.020 million in selling, general, and overhead. We note that gross margin of 64.6% in 2012 improved over 20% from 2011 thanks to improved distribution and repeat orders of higher margin replaceable cartridges during the year. Operating expenses continue to remain under control at the company. We note that SG&A has decreased for the second year in a row at the company.

Net loss for the quarter totaled $151K, less than half the loss reported in the fourth quarter 2011. For the full year 2012, OxySure reported a net loss of $828K, a significant improvement from the loss of $1.53 million in 2011. In fact, net loss as improved for the past several quarters. Revenues are increasing and operating expenses are flat to down. Although still not yet profitable, OxySure is clearly moving in the right direction.

The company exited the fourth quarter ended December 31, 2012 with $14K in cash. The company completed some small financings in the first quarter 2013. Thus, we expect to see a dramatically improved financial position when the company files its Form 10Q for the first quarter ended March 31, 2013. We note the company also has $221K in inventory on the books as of the end of year. In 2012, OxySure burned roughly $157K in cash through operating and investing activities, and raised roughly $105K through financing activities. As of December, 2012, the company has a differed tax asset of $4.6 million.

…Balance Sheet Improving…

On October 10, 2012, OxySure announced it hired C.K. Cooper & Company, Inc. (CKCC) as its financial advisor. We suspect that CKCC will be able to help OxySure secure new funding in the next several months that will allow management to execute on its growth strategy, and pursue the expansion of its sales and distribution capabilities and product offerings in 2013 and beyond. We suspect that the company is in the stages of structuring financing to secure long-term funding to the company beyond the “drip financings” that have funded operations for the past several years, including the previous quarter.

To date, the founder, Chairman and CEO, Julian Ross, has put $2.5 million of his own capital into OxySure. The company has an accumulated deficit of $14.3 million and a differed tax asset of $4.6 million. Securing quality long-term funding will allow the company to build out the sales force, increase marketing activities, and fund distribution partnership efforts in 2013 and beyond.

On January 3, 2013, OxySure announced that affiliates Agave Resources, LLC and JTR Investments, Limited converted a total of $2,018,656 in convertible notes to common stock at an aggregate exercise price of $1.50 per common share. The conversion price of $1.50 per share represents a premium of 52% to the share price at the close of market on January 2, 2013. This give us great confidence in our rating and target price. Insiders clearly see improving fundamentals and are willing to invest at significantly higher prices than today.

The company continues to make progress on improving its balance sheet. Below we highlight some of the financial changes from 2011 to 2012 that show clear progress:

	2011	2012	∆
Income Statement			
Revenues	$0.185M	$0.270M	+46%
Gross Margin	44.2%	64.6%	+20.4%
Net Loss	-$1.532M	-$0.828M	+$0.704
Balance Sheet			
Cash	$0.065M	$0.014M	-$0.051M
Total Assets	$0.948M	$1.216M	+$0.268M
Current Liabilities	$2.560M	$1.790M	+$0.770M
Notes Payable	$1.165M	$0.078M	+$1.087M
Total Liabilities	$3.725M	$1.867M	+$1.858M
Stockholders’ Equity	-$0.652M	-$2.777M	+$2.125M
Cash Flow Analysis			
Operating & Investing Burn	$0.734M	$0.157M	+$0.577M

RECOMMENDATION & VALUATION

In January 2013, we initiated coverage of OxySure Systems, Inc. with an Outperform rating and price target of $1.75 per share. We believe that the company’s Model 615 Emergency Oxygen System is a potential breakthrough product for the delivery of medical oxygen in a medical emergency required supplemental oxygen, such as a cardiac arrest or acute asthma attack. We see several distinctive advantages of the Model 615 over portal oxygen cylinders, which are typically not designed for emergency use.

Firstly, with the Model 615 unit, oxygen is generated on demand from two inert dry powders. There is no storage of oxygen, no compressed tanks, no dials, no valves, no regulatory maintenance, no hydrostatic testing, no batteries, no required training, and none of the hazards associated with traditional oxygen provision systems.

Secondly, the OxySure Model 615 is safe and simple to use, and provides oxygen instantly with the turn of a knob. It can be used by any lay person, and bridges the gap between the onset of a medical emergency and the time that the first responders arrive on the scene. In the U.S., that gap between calling 911 and emergency medical professionals arriving is 6 to 15 minutes, depending on traffic conditions and other factors. If the medical emergency is of a cardiovascular nature, this gap can be critical, since irreparable damage to brain tissue can occur starting after only three minutes of oxygen deprivation.

And finally, the OxySure Model 615 is the perfect adjunct product to be placed next to an automated external defibrillator (AED). AED market growth over the past several years has been impressive. In 2012, we estimate that roughly 140,000 units were sold worldwide, generating revenues of $220 million. The market is expected to growth at a CAGR of 6-7% over the next five years (Frost & Sullivan), with uptake being driven by legislative mandates, an aging population, reimbursement, and risk mitigation strategies. OxySure's Model 615 is both more affordable and accessible than AEDs, and data shows a person is up to 100x more likely to require supplemental oxygen in their lifetime than external defibrillation. OxySure is currently looking at piggy-backing on AEF legislation and reimbursement to help facilitate uptake of the Model 615 device. With over 3 million AEDs placed worldwide, acceptance of the Model 615 as a logical supplement to an AED has the potential to create a "hockey-stick" like ramp in revenues.

Below we've built, an admittedly aggressive, financial model based on surging sales of the Model 615 device, facilitated by the signing of additional distribution agreements, expanded marketing and promotional efforts by the company, and growing penetration into both the placement and "at risk" market thanks to improving reimbursement and legislative mandates. We are excited about recent distribution agreements such as with Aero Healthcare and the expansion of the product suite by re-selling six of the leading AEDs. The company is also expanding its own product line, looking to create two oxygen products designed specifically for military applications. The first is a oxygen solution for use in high-altitude aircraft and the second is a handheld, smaller version of the Model 615.

We think that OxySure can turn cash flow positive in 2016, and generate over $10 million in operating cash flow in 2018. We built a 10-year discounted cash flow model that pegs fair-valuation between $1.50 and $2.00 per share (assumption to be narrowed once the company secures long-term financing).

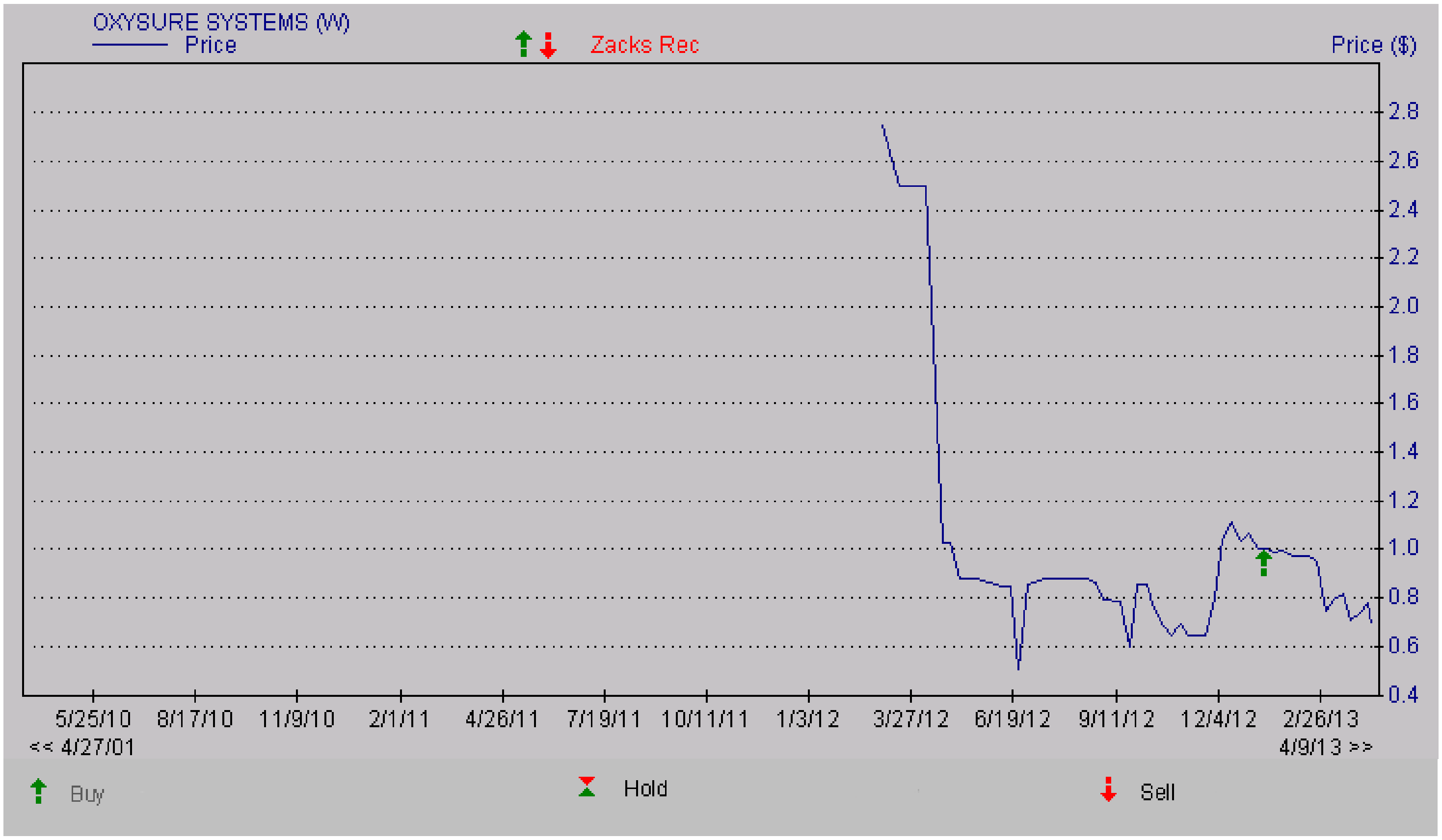
PROJECTED FINANCIALS

OxySure Systems, Inc.
Income Statement

OxySure Systems, Inc.	2011 A	Q1 A	Q2 A	Q3 A	Q4 A	2012 A	Q1 E	Q2 E	Q3 E	Q4 E	2013 E	2014 E	2015 E	2016 E
Direct Product Sales	**$0.185**	**$0.028**	**$0.063**	**$0.103**	**$0.076**	**$0.270**	**$0.090**	**$0.115**	**$0.140**	**$0.155**	**$0.500**	**$1.000**	**$2.500**	**$4.500**
YOY Growth	*41.4%*	*-22.6%*	*0.6%*	*380.5%*	*16.0%*	*45.6%*	*222.8%*	*82.9%*	*35.5%*	*105.0%*	*85.4%*	*100.0%*	*150.0%*	*80.0%*
Distribution Agreements	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0.005**	**$0.015**	**$0.030**	**$0.050**	**$0.100**	**$0.500**	**$1.000**	**$2.000**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	**$0.185**	**$0.028**	**$0.063**	**$0.103**	**$0.076**	**$0.270**	**$0.095**	**$0.130**	**$0.170**	**$0.205**	**$0.600**	**$1.500**	**$3.500**	**$6.500**
YOY Growth	*-48.0%*	*-22.6%*	*0.6%*	*380.5%*	*16.0%*	*45.6%*	*240.7%*	*106.7%*	*64.5%*	*171.2%*	*122.5%*	*150.0%*	*133.3%*	*85.7%*
Cost of Goods Sold	$0.103	$0.013	$0.025	$0.050	$0.007	$0.096	$0.040	$0.047	$0.056	$0.062	$0.205	$0.480	$1.125	$1.890
Product Gross Margin	*44.2%*	*54.4%*	*60.0%*	*51.2%*	*90.4%*	*64.6%*	*58.3%*	*63.7%*	*67.1%*	*69.8%*	*65.9%*	*68.0%*	*67.9%*	*70.9%*
Operating Expenses	$1.151	$0.283	$0.257	$0.207	$0.273	$1.020	$0.275	$0.260	$0.265	$0.270	$1.070	$1.500	$1.750	$2.000
% SG&A	*621.3%*	*1016.7%*	*408.3%*	*200.2%*	*361.5%*	*378.3%*	*289.5%*	*200.0%*	*155.9%*	*131.7%*	*178.3%*	*100.0%*	*50.0%*	*30.8%*
Operating Income	($1.069)	($0.268)	($0.219)	($0.154)	($0.205)	($0.846)	($0.220)	($0.177)	($0.151)	($0.127)	($0.675)	($0.480)	$0.625	$2.610
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	-	*17.9%*	*40.2%*
Interest & Other Net	($0.463)	($0.057)	$0.001	$0.0202	$0.054	$0.02	$0.050	$0.040	$0.040	$0.030	$0.160	$0.15	$0.10	$0.10
Pre-Tax Income	($1.532)	($0.325)	($0.218)	($0.134)	($0.151)	($0.828)	($0.170)	($0.137)	($0.111)	($0.097)	($0.515)	($0.330)	$0.725	$2.710
Taxes	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Income	($1.532)	($0.325)	($0.218)	($0.134)	($0.151)	($0.828)	($0.170)	($0.137)	($0.111)	($0.097)	($0.515)	($0.330)	$0.725	$2.710
YOY Growth	*-2.9%*	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Margin	-	-	-	-	-	-	-	-	-	-	-	-	*20.7%*	*41.7%*
Reported EPS	**($0.10)**	**($0.02)**	**($0.01)**	**($0.01)**	**($0.01)**	**($0.04)**	**($0.01)**	**($0.01)**	**($0.00)**	**($0.00)**	**($0.02)**	**($0.01)**	**$0.02**	**$0.08**
YOY Growth	*-4.2%*	-	-	-	-	*-56.6%*	-	-	-	-	*-48.6%*	*-48.7%*	*-288.3%*	*273.8%*
Shares Outstanding	15.930	17.844	19.807	20.762	21.035	19.862	22.500	23.500	24.500	25.500	24.000	30.0	35.0	35.0

Source: Zacks Investment Research, Inc. *Jason Napodano, CFA*

HISTORICAL ZACKS RECOMMENDATIONS



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