



## Small Cap. Research Report 1<sup>st</sup> Update Report – Buy Recommendation

September 16th, 2013

### OxySure Systems, Inc. (OTC: OXYS)

#### Corporate Information

OxySure Systems, Inc.  
10880 John W. Elliot Drive  
Suite # 600  
Frisco, TX. 75033  
(972)-294-6450  
[www.OxySure.com](http://www.OxySure.com)

#### Market Information

<b>Ticker Symbol:</b>	OXYS
<b>Exchange:</b>	OTC BB
<b>Recent Price:</b>	\$0.79
<b>Shares Outstanding:</b>	24,027,346
<b>Estimated Float:</b>	3,600,000
<b>Average Daily Volume</b>	6,975
<b>Market Capitalization:</b>	\$18.98 Million

#### **Opinion & Recommendation:**

Sterling Investment Services is reiterating its Buy Recommendation on the shares of OxySure Systems, Inc., a medical technology company that focuses on the design, manufacture and distribution of specialty medical and respiratory systems.

Sterling Investment Services initiated coverage on OxySure Systems 'OXYS' on December 12<sup>th</sup> of last year, with the price of OxySure's common stock at \$1.07 per share. A copy of our report initiating coverage can be found at: <http://research.sterlinginvestments.com/initiation-coverage-oxyure-systems/>

Since then there have been several significant, and positive developments concerning the OxySure. These developments include:

- The addition of a new member to the Board of Directors
- Distribution agreements for Belgium, Luxemburg, and the Netherlands
- Product approval by the Israeli Ministry of Health
- The initiation of research coverage by Zacks, and Taglich Brothers
- Improving financial performance

We view these developments as further confirmation of our belief that the company is moving in the right direction.

We believe the shares of OxySure Systems are undervalued at the current price levels. We view the shares of OxySure Systems, Inc. (OTC BB: OXYS) to be suitable at the current price levels



to the addition of portfolios as a speculative component; and as a result we are maintaining a Buy Recommendation on the shares of OxySure Systems at the current price levels.

**Company Description:**

OxySure Systems 'OXYS' has developed a unique technology that generates medically pure (USP) oxygen from two dry, inert powders. Other available chemical oxygen generating technologies contain hazards that are believed to make them commercially unviable for broad-based emergency use by lay rescuers or the general public. The company believes that it has the only product on the market that can be safely pre-positioned in public and private venues for emergency administration of medical oxygen by lay persons, without the need for training.

**Products and Services:**

OxySure has been issued nine (9) patents for its technology and has four (4) registered trademarks in the United States. The company's primary product is the Model 615, Portable Emergency Oxygen System. The Model 615 produces medically pure oxygen for use in any medical emergency prior to first responders arriving on the scene. The Model 615 has been approved by the Food and Drug Administration (FDA) for over-the-counter sales, without the need for a prescription.

In addition to the Model 615, the company also produces and sells replacement cartridges that produce the medically pure oxygen, as well as a line of ancillary items including wall mount boxes, pediatric and child masks, and resuscitation bags. The cartridges that produce the oxygen, in general need to be replaced every 2 years or following each use of the Model 615. We believe that the replacement cartridge market will provide a substantial stream of revenue for the company as its installed base grows.

**Oxygen Market Overview:**

While Sterling Investment Services considers the market for emergency placement of oxygen delivery to be in its infancy, we view it as very similar to the Automated External Defibrillator (AED) market.

Automated External Defibrillators (AED) are portable electronic devices that automatically diagnose potentially life threatening cardiac arrhythmias and treat them through defibrillation. They have been on the market since 2001, and it is estimated there are approximately 2 million automated external defibrillators currently positioned or installed within the United States alone. It is our belief that the market for oxygen delivery systems, such as the Model 615, includes not only the market for automated external defibrillators, but also includes additional locations currently not required to have automated external defibrillators. We reason there are circumstances where a person may require oxygen, such as in the case of smoke inhalation, where a person may require oxygen, but has not encountered cardiac arrest where they would be in need of an automated external defibrillator.



The basic idea behind these oxygen delivery systems and automated external defibrillators is to bridge the gap between the onset of the emergency situation and the arrival of 1<sup>st</sup> responders. Within the United States this gap is recognized to be anywhere from six (6) to fifteen (15) minutes. During this period of time critical and possibly irreversible damage can occur to an individual due to a loss of blood flow or low oxygen levels in the bloodstream. Restoring blood flow and maintaining proper oxygen levels is crucial to helping reduce the risk and occurrence of damage to a patient. As a result automated external defibrillators and oxygen delivery systems tend to be placed in areas with a relatively high concentration of people: schools, churches, and office buildings as well as higher risk areas like commercial and manufacturing facilities, and athletic venues.

It is important to understand the size of the potential market for Oxysure's products, in order to start to understand the potential the company has. In the United States, it is currently estimated that roughly 80 million people suffer from cardiovascular disease, with roughly half of them being undiagnosed. Chronic Obstructive Pulmonary Disease (COPD) is estimated to affect an estimated 30 million people, with slightly less than half of them being undiagnosed, and roughly 5%, or 1.6 million people requiring back-up oxygen. In addition to this, another 22 million people are estimated to suffer from asthma. That is roughly 133 million people in the United States who have some form of a medical condition that could require them to need an emergency oxygen supply. In addition to the people who suffer from medical conditions, there are normal and healthy people who may find themselves in situations that require emergency oxygen. These include people who are involved in general medical and civil emergencies, private pilots, people over 50, and those who travel to higher altitudes.<sup>1</sup>

It is currently estimated by Oxysure, that the potential placement market for its portable oxygen system includes the following:<sup>2</sup>

- 20,000,000 OSHA Compliant Buildings
- 116,000,000 Homes and Apartments
- 7,000+ MRI Centers
- 100,000 K -12 Schools
- 6,000,000 Residential Swimming Pools
- 925,000 Restaurants
- 350,000 Manufacturing Facilities

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<sup>1</sup> Oxysure Systems, Inc. (OXY) 2Q 2013 Financial Results, August 13, 2013 Page 22.  
<http://www.oxysure.com/OxySure%20Earnings%20Presentation%20-%202Q13%20-%20V3.pdf>

<sup>2</sup> Oxysure Systems, Inc. (OXY) 2Q 2013 Financial Results, August 13, 2013 Page 21.  
<http://www.oxysure.com/OxySure%20Earnings%20Presentation%20-%202Q13%20-%20V3.pdf>



- 325,000 Places of Worship
- 16,000 Golf Courses
- Airports, Public Use Facilities, Sports Facilities

The real question is what can this potential need translate into in terms of potential annual sales for Oxysure. It is important to remember that Oxysure Systems is the 1<sup>st</sup> company to bring a tankless portable emergency oxygen system to the market. As a result, the market for the Oxysure product is somewhat new and in some terms yet to be fully developed. This can make efforts at estimating potential annual sales rather difficult at times. However, in the situation concerning Oxysure's portable oxygen system, one has the benefit of being able to look at a companion market in the form of the Automated External Defibrillator (AED) market. In December of 2010 Frost & Sullivan ([www.frost.com](http://www.frost.com)), a global consulting firm, produced a report on the North American External Defibrillator Market following extensive study and research. The report produced several very interesting facts concerning the market for external defibrillators that we feel are relevant for the market for Portable Emergency Oxygen Systems.

- Frost & Sullivan estimated that in 2013, there would be approximately 97,725 AEDs' shipped in North America. It is estimated that the shipments of AEDs' will grow to 105,670 in 2014, and 114,743 units in 2015.<sup>3</sup>
- Frost & Sullivan estimated that the market for AEDs' to Alternate Care facilities would be 20,542 units shipped in 2013, growing to 24,045 units in 2015.<sup>4</sup>

While the Frost & Sullivan study focused exclusively on the North American Market for external defibrillators, it is important to remember that Oxysure's products are effectively being sold on a worldwide basis.

It is important to note that Oxysure is not selling only portable emergency oxygen systems. It is also selling a variety of ancillary items which include wall mount boxes, bags for portable carrying, pulse oxymeters, miscellaneous accessories, and very importantly replacement cartridges. The oxygen generating cartridges contained within the Oxysure Model 615 need to be replaced every 2 years. This means that effectively 50% of the Model 615's that have been sold will need to have a replacement cartridge every year. As the installed base for the Model 615 grows, we expect the sales of the replacement cartridges to make an ever increasing amount of contribution to the total sales of the company.

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<sup>3</sup> Frost & Sullivan. North American External Defibrillator Market, December, 2010. Page 70

<sup>4</sup> Frost & Sullivan North American External Defibrillator Market, December, 2010 Page 72



### **Recent Developments:**

There have been several developments since our initial report that we consider to be significant and positive for Oxysure. They include the following:

#### **New Member to the Board of Directors:**

**Jeremy M. Jones, Director.** In March of this year, Mr. Jones joined the Board of Directors of Oxysure as an independent director. Mr. Jones has over 35 years of healthcare experience. Mr. Jones is the former CEO of Apria Healthcare (<http://www.apria.com>) Mr. Jones founded Hemedco Group, a home healthcare provider brought public in 1991, and merged with Apria Healthcare in 1995. Under his leadership, Apria became the larger homecare service provider in the nation before being purchased by the Blackstone Group in 1998 for \$1.7 billion.

#### **W.W. Grainger Distribution Agreement**

On March 20<sup>th</sup>, of this year, Oxysure announced that it had signed a distribution agreement with W.W. Grainger, Inc. (<http://www.grainger.com>) Under the deal, Grainger will include the products of Oxysure in its catalog, sourcing, national branch network, and websites as well as in the sales team. The products will complement the Safety and Security category of Grainger. Based in Illinois, Grainger is a leading North American distributor of material handling equipment, safety and security supplies, lighting and electrical products, power and hand tools, pumps and plumbing supplies, cleaning and maintenance supplies, forestry and agriculture equipment, building and home inspection supplies, vehicle and fleet components and various aftermarket components.<sup>5</sup>

#### **Medizon B.V. Distribution Agreement:**

On May 14<sup>th</sup> of this year, Oxysure announced that it had signed an agreement with Medizon B.V. to be the exclusive distributor of Oxysure's products in the "Benelux" countries of the Netherlands, Belgium, and Luxemburg. The Netherlands is the largest of the Benelux countries with approximately 80,000 AEDs installed.<sup>6</sup>

#### **Israeli Ministry of Health:**

On May 30<sup>th</sup>, of this year, Oxysure announced that the Israeli Ministry of Health approved the Model 615, and all related products and accessories for sale in Israel.<sup>7</sup>

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<sup>5</sup> Press Release: Grainger Partners with Oxysure Sys. Yahoo Finance: <http://finance.yahoo.com/news/grainger-partners-oxysure-sys-150025969.html>

<sup>6</sup> Press Release: Oxysure and Medizon B.V. Sign Distribution Agreement for Netherlands, Belgium and Luxembourg. Yahoo Finance: <http://finance.yahoo.com/news/oxysure-medizon-b-v-sign-204724414.html>

<sup>7</sup> Press Release: Oxysure Announces Ministry of Health Approval in Israel. Yahoo Finance: <http://finance.yahoo.com/news/oxysure-announces-ministry-health-approval-124039419.html>



**Aventric Technologies Distribution Agreement:**

On June 18<sup>th</sup> of this year, Oxysure announced that it had signed a distribution agreement with Aventric Technologies ([www.aventric.com](http://www.aventric.com)) to sell Oxysure's full portfolio of products. Based in Madison Heights, Michigan, Aventric Technologies sells a variety of branded AEDs through its HeartAED division to schools, and businesses, It also sells a variety of medical equipment to hospitals, clinics, and other alternative point of care facilities.<sup>8</sup>

**Additional Research Coverage:**

Sterling Investment Services published its first report on Oxysure Systems, Inc. 'OXYS' on December 12<sup>th</sup> of 2012. Since then two (2) additional firms, Zacks Investment Research, and Taglich Brothers, a FINRA member broker/dealer have initiated research coverage, with subsequently updated reports on Oxysure.

- On January 14<sup>th</sup> of 2013, Zacks Small-Cap Research initiated coverage with an Outperform rating on Oxysure with a then current price of \$0.96, and a stated price target of \$1.75 per share. A copy of the report may be found at: [http://www.oxysure.com/OXYS\\_Zacks\\_Initiation\\_of\\_Coverage\\_2013.01.14.pdf](http://www.oxysure.com/OXYS_Zacks_Initiation_of_Coverage_2013.01.14.pdf)
- On April 8<sup>th</sup> of 2013, Zacks Small-Cap Research updated its coverage on Oxysure Systems maintaining its Outperform rating and reiterated its stated price target of \$1.75 per share. A copy of the report may be found at: <http://www.oxysure.com/OXYSzacks8apr13.pdf>
- On July 24<sup>th</sup> of 2013, Taglich Brothers, Inc. initiated research coverage with a Speculative Buy rating on the shares of Oxysure Systems, with a then current price of \$0.74 per share, and a stated price target of \$2.10 per share within 12 months. A copy of the report may be found at: [http://www.oxysure.com/Taglich\\_Initial\\_Report\\_OXYS\\_20130724.pdf](http://www.oxysure.com/Taglich_Initial_Report_OXYS_20130724.pdf)
- On August 19<sup>th</sup> of this year, following the release of Oxysure's 2<sup>nd</sup> quarter results, Taglich Brothers updated its research coverage on Oxysure Systems, maintaining its Speculative Buy rating, and stated price target of \$2.10 per share. A copy of the report may be found at: [http://www.oxysure.com/Taglich\\_Update\\_Report\\_Reiterate\\_Buy\\_Price\\_Target\\_210\\_2013.08.19.pdf](http://www.oxysure.com/Taglich_Update_Report_Reiterate_Buy_Price_Target_210_2013.08.19.pdf)

It is always nice when another firm picks up research coverage on a stock following our initiation of coverage. However, what is important, is that other research firms and investment

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<sup>8</sup> Press Release: Oxysure Systems Signs New Distributor. Yahoo Finance. <http://finance.yahoo.com/news/oxysure-systems-signs-distributor-122133340.html>



banks are essentially agreeing with our conclusion that the shares of Oxysure Systems are undervalued at the current price levels.

**Improved Financial Performance:**

Oxysure Systems has demonstrated continued improvement in its sales and financial performance since our initiation of coverage in December of 2012.

For the quarter ended June 30<sup>th</sup> of 2013, Oxysure Systems reported gross sales of \$476,971 an increase of 665% from the prior year’s 2<sup>nd</sup> quarter when sales were just under \$63,000. Gross profit for the quarter was \$323,599 and increase of 757% from the prior year’s 2<sup>nd</sup> quarter gross profit of \$37,735. Very importantly, the net loss for the quarter decreased to approximately \$192,000 from a net loss of approximately \$218,000 in the 2<sup>nd</sup> quarter of 2012. In addition to the increasing sales, we consider it very significant that Cost of Goods Sold as a percentage of sales has declined from roughly 39% to approximately 32%. The numbers for the 1<sup>st</sup> half of the year were equally, if not more impressive with overall Cost of Goods Sold decreasing to approximately 29% for the 1<sup>st</sup> six months of 2013.<sup>9</sup>

	2 <sup>nd</sup> Quarter			1 <sup>st</sup> Half		
	2013	2012	% Change	2013	2012	% Change
<b>Sales</b>	\$476,071	\$62,981	655%	\$716,491	\$90,775	689%
<b>Cost of Goods Sold</b>	152,472	25,156	506%	205,653	37,859	443%
<b>Gross Profit</b>	323,599	37,735	757%	510,838	52,916	865%
<b>Net Income (Loss)</b>	(\$192,609)	(\$218,472)	(11.8%)	(\$361,958)	(\$543,958)	(33%)

**Our Analysis:**

Our analysis of the improved financial performance and the recent developments concerning Oxysure Systems leads us to believe that the company is well managed and that its products are seeing growing acceptance in the market place. Based upon our review of the relevant market information, we have concluded that there is substantial demand for the products of Oxysure Systems, Inc.

Sterling Investment Services is of the opinion that the shares of Oxysure Systems are undervalued at their current price levels. Sterling Investment Services is reiterating its Speculative Buy Rating on the shares of Oxysure Systems, Inc. Sterling Investment Services is placing a 12 month upside price target on the shares of Oxysure Systems of \$1.90 per share.

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<sup>9</sup> Oxysure Systems, Inc. Form 10-Q for the quarter ended June 30, 2013.  
[http://www.sec.gov/Archives/edgar/data/1413797/000121390013004227/f10q0613\\_oxysure.htm](http://www.sec.gov/Archives/edgar/data/1413797/000121390013004227/f10q0613_oxysure.htm)



### **Product Videos:**

Recently the company has received increased media attention, as a result the company has posted the videos online for viewing. The videos explain the uses and benefits of the company's products.

Oxysure Product Demonstration Video:

<http://www.oxysure.com/aed/index.php/product-video>

OxySure Video News Clip on WFAA/Channel 8

(Alt. Link: <http://www.youtube.com/watch?v=YC1vSUcycyI&feature=plcp>)

Matt Lauer of the Today Show Interview of Kylee Shae and Family

(Alt. Link: <http://www.youtube.com/watch?v=ndiNz7WyKz0&feature=plcp>)

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