Zacks Small-Cap Research

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Nisha Hirani, MD
312-265-9442 / nhirani@zacks.com
David Bautz, PhD
312-265-9471 / dbautz@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Suite 1600, Chicago, IL 60606

OxySure Systems, Inc.

(OXYS-OTCQB)

OXYS: Gaining Momentum with Revenue Growth in 2Q 2015…

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	01/14/2013
Current Price (08/21/15)	$0.45
Target Price	**$1.75**

UPDATE

On August 19, 2015, OxySure Systems (OXYS) reported financial results for the second quarter of 2015. Revenues in the quarter totaled $1.05 million. This was the 12th consecutive quarter of year-over-year revenue growth for OxySure.

As a reminder, OxySure closed a $3 million institutional financing transaction in July 2015, and recently reported plans for adding medical drones to the company's existing product portfolio in addition to being involved with the 2015 Special Olympics World Games.

We continue to believe that OxySure has meaningful potential for growth in the U.S. We are also pleased to see the company expanding its global footprint by signing up exclusive distribution partners to target both emerging and established markets. We continue to see the shares as attractively valued and we are maintaining our target at $1.75.

SUMMARY DATA

52-Week High	**$1.20**
52-Week Low	**$0.08**
One-Year Return (%)	**-40.01**
Beta	**0.55**
Average Daily Volume (sh)	**87,558**
Shares Outstanding (mil)	**32**
Market Capitalization ($mil)	**$14**
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 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Med Instruments**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	0.24 A	0.48 A	0.55 A	0.54 A	1.80 A
2014	0.36 A	0.68 A	0.82 A	0.58 A	2.44 A
2015	0.62 A	1.05 A	1.20 E	1.50 E	4.37 E
2016					6.38 E

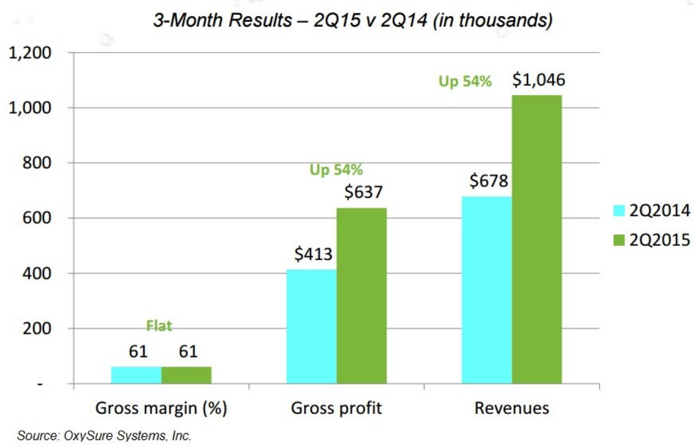
Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.01 A	-$0.01 A	-$0.00 A	-$0.01 A	-$0.03 A
2014	-$0.01 A	-$0.01 A	-$0.02 A	-$0.06 A	-$0.10 A
2015	-$0.05 A	-$0.04 A	-$0.02 E	-$0.02 E	-$0.13 E
2016					-$0.07 E

WHAT'S NEW

Financial Review

On August 19, 2015, OxySure Systems (OXYS) reported financial results for the second quarter of 2015. Revenues in the quarter totaled $1.05 million, which was a 54% increase from the same time period in 2014, and were above our expectations. Revenues were up 67% from the first quarter of 2015 to the second quarter of 2015, and the increase in revenues is primarily attributable to an increase in U.S. product sales and military products. We would like to point out that this was the 12th consecutive quarter of year-over-year revenue growth for OxySure.



Gross profit increased 54% to $0.64 million for the second quarter 2015 as compared to $0.41 million for the prior period. Gross profit increased 64% to $0.93 million for the six months ended June 30, 2015 as compared to $0.56 million for the prior period.

Revenue trends by Quarter

	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Revenues	103,327	75,595	240,420	476,071	545,819	538,017	356,228	678,112	818,456	584,606	624,514	1,045,693
Growth%	380%	16%	747%	655%	428%	612%	48%	42%	50%	9%	75%	54%

Annual revenues

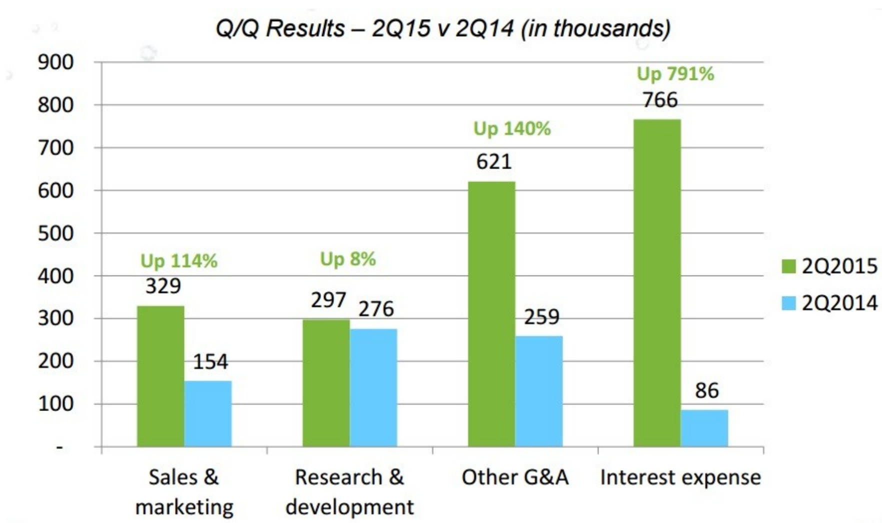
	FY2012	FY2013	FY2014
Revenues	269,697	1,800,327	2,437,402
Revenue Growth	84,488	1,530,630	637,075
Growth%	46%	568%	35%

Source: OxySure Systems, Inc.

Total operating expenses (sales and marketing, research and development, as well as general and administrative) were $1.25 million for the second quarter of 2015, as compared to $0.69 million for the second quarter of 2014, and $1.30 million for the first quarter of 2015. Total operating expenses for the quarter were in-line with expectations. One of management's goals for 2015 was to start the process of increasing awareness about the company, its products and technologies, and thus it has implemented some significant online marketing and television campaigns.

Sales and marketing expenses were $0.33 million during the second quarter of 2015, up from $0.15 million during the second quarter of 2014, as OxySure has expanded its sales and marketing, branding, and investor relations efforts. OxySure has been doing some direct to consumer marketing of both the company and Model 615 in efforts to increase awareness and sales. Management believes that these efforts have been effective, and the company plans to continue to spend on advertising and promotion. OxySure spent $0.30 million on R&D efforts in the quarter, largely to support the company's ongoing work related to military products. As a reminder, OxySure has been working with the U.S. military to develop a battlefield ready version of the device for U.S. Special Forces, and continues to make progress in regards to the hand held oxygen unit for military combat use and HALO jumps. Other general and administrative expenses increased to $0.62 million for the second quarter of 2015 as compared to $0.26 million during the second quarter of 2014, primarily due to increased personnel costs around the company's expanding sales staff, in addition to increases in stock based compensation expense and professional fees.

Interest expense increased to $0.56 million for the second quarter of 2015, as compared to $86k for the prior period, primarily as a result of an increase in the amortization of debt discounts and beneficial conversion features (BCF) and warrant fair values. Additionally, OxySure recorded $0.20 million in derivative expense for the quarter, as compared to zero in the prior period.



Source: OxySure Systems, Inc.

Net loss in the second quarter of 2015 was $1.26 million, or $0.04 per share, as compared to $0.32 million, or $0.01 per share, during the second quarter of 2014.

OxySure exited the second quarter of 2015 with $2.9 million in cash on the books, which is made up of $0.88 of cash and cash equivalents and $2 million of restricted cash that is being held in a U.S. based third party escrow account, and will be released upon an uplisting of the company to a national stock exchange. Actual cash burn in the second quarter of 2015 was approximately $0.69 million.

Other Financial News…

On July 7, 2015, OxySure Systems (OXYS) announced that it closed a $3 million institutional financing transaction. OxySure sold $2.7 million in convertible preferred stock and $300,000 in two convertible notes, totaling $3 million. OxySure received net proceeds comprising a first tranche of $1 million in part from the issuance of 385,000 shares of newly created Series C convertible preferred stock with a stated value of $2.00 per share in cash at the closing on June 30, 2015. The Series C Preferred pays a 6% quarterly dividend in cash or common stock at the OxySure's option, and has a trading volume restriction of 10% of Oxysure's weekly trading volume. The proceeds from the first tranche will be used to pay down existing convertible notes, for uplisting expenses, and for working capital.

A second tranche, comprised of the remaining $2 million (issued as 1.05 million shares of newly created series D convertible preferred stock) will be placed in an escrow account to be released to OxySure upon an uplisting to a national exchange such as NasdaqCM or NYSEMKT. The Series D Preferred has a stated value of $2.00 per share, and pays a 6% dividend in cash or common stock at OxySure's option, and has a conversion price which is the higher of: (1) a floor price of $0.49; or (2) the amount that is a 20% discount to the then current market price of OxySure's common stock at the time of conversion.

As a reminder, in January 2015, the company signed an agreement to raise up to $1.575 million through private placement issuance of new equity to an existing accredited, institutional investor. Under terms of the agreement, the financing comprises three tranches of $525,000 and each tranche consists of a 525 units, with each unit consisting of one share of Series B Convertible Preferred Stock and 1,818 warrants at an exercise price of $1.20 per share. The Series B shares have a par value of $1,000 and are convertible at $0.55 per share. To close the first tranche of the financing, OxySure issued 525 units of Series B Convertible Preferred Stock. Under terms of the agreement, the investor has the option to subscribe for the second and third tranche at any time over the twelve-month period expiring December 31, 2015. The company has the right to close additional tranches if the stock trades above $1.05 per share for 10 consecutive trading days, with >25,000 VWAP, for tranche two and above $1.30 per share for 10 consecutive trading days, with >25,000 VWAP, for tranche three. The company has also received the fourth of five economic incentives in the amount of $52k from the Frisco Economic Development Corporation, and OxySure expects to receive the last incentive during the fourth quarter of 2015 to bring the total incentives up to $243k (not including landlord incentives totaling $324k).

Management stated that the financing will allow for OxySure to continue to pursue growth goals for 2015 which include sales force expansion, expansion abroad, preparation of direct to consumer campaign, launching of one or more products, and completing an Uplisting.

Business Update & Recent OxySure Headlines

Special Olympics World Games & More…

As per our first quarter update, we were awaiting two announcements regarding a new add-on product as well as the company's participation in a "major global act." We are happy to report that on June 24, 2015, OxySure was named as a Champion Partner of the Special Olympics World Games, which took place July 25 to August 2, 2015 in Los Angeles, CA. During the 9 days of competition, OxySure provided medical support in the event of any possible medical emergencies. The 2015 Special Olympics World Games involved approximately 7,000 athletes and 3,000 coaches from over 170 countries, in addition to an estimated 500,000 attendees. Additionally, OxySure served as the supplier of emergency oxygen, Automated External Defibrillators (AEDs), OxySure Model 615 units, OxySure Pulse Oximeters, OxySure Thermal Bags, and other medical emergency equipment, supplies and services to sports medicine physicians, nurses, EMTs, overnight nursing staff, and athletic trainers across the 27 sports venues, fields of play, and spectator first aid tents during the World Games. OxySure later reported that the OxySure Model 615 was used eighteen times during the World Games. OxySure's global spokesperson, two-time Olympian Cliff Meidl, provided media interviews and presentations during the World Games. ESPN provided coverage of the Games, and we believe that this was a good opportunity for exposure for the company. We also believe OxySure's involvement shows the company's commitment to health and the community.

We would also like to mention that OxySure recently partnered up with Cardiac Science, a manufacturer and marketer of automated external defibrillators (AEDs) and related services, covering various joint strategic initiatives including jointly supporting the Special Olympics World Games and the recently established Kylee Shea Miracle Foundation. OxySure is also a Gold Level Partner of Cardiac Science.

Medical Drones into Military Markets…

In other news, on June 2, 2015, OxySure announced plans to add drones to its existing emergency medical, resuscitation and trauma portfolio for first responder markets. As per OxySure's petition to the Department of Transportation for exemption from the Federal Aviation Regulations (FAA) pursuant to Section 333 of the FAA Modernization and Reform Act of 2012, the drones will be "utilized in aerial operations in support of emergency response and services, disaster response and recovery, search and rescue, and humanitarian relief efforts." We would like to point out that OxySure has also filed a provisional U.S. patent entitled "System for Enhancing Emergency Response by using Unmanned Aircraft Systems."

The drones are expected to be able to carry comprise kits that are specifically designed for different emergency and disaster situations. For example, the kits could include Automated External Defibrillators (AEDs) and accessories for cardiac arrest emergencies, fire, floods, first aid, dehydration, hypothermia, respiratory distress, and chemical spills. The drones are expected to have a number of different features and equipment including digital live streaming capability, control stations, data links, telemetry, autopilot system, GPS navigation, systematic pre-flight checks, failover safety mechanisms such as return-to-home (RTH), auto-land, loiter and flight abort safety features. The goal is for first responders to receive the appropriate training before placing their equipment into service.

On July 23, 2015, OxySure announced the appointment of PP Aviation Corporation (PPA) as a non-exclusive distributor of its medical drones into military markets. As way of background, PPA promotes and sells military products and oxygen equipment for military and aviation applications, including the US Army, US Air Force, US Navy, US Marines, Green Berets, Special Operations forces, and other military organizations and Foreign Military Sales. At this time, we are awaiting news regarding the regulatory approval for commercial drone usage.

The idea is that drones can access emergency situations faster, and thus can respond faster to a crisis situation. In medical emergencies and disaster situations, every second matters, and thus unmanned drones have the potential to respond earlier and in turn, outcomes maybe improved. Through the live digital streaming capability, important pieces of information can be gathered, such as the extent of damage and hazardous conditions. If the drone concept takes off, we believe that this should improve how emergency and disaster situations are addressed, allowing for expedited medical attention even before the arrival of a first responder.

Distribution Expansion Continues…

Recently, OxySure has exhibited its products at several key tradeshows, and plans to exhibit its products at several other tradeshows throughout 2015 including the National Association of School Nurses (NASN) in Philadelphia in June and the International Medical Trade Fair & Conference (FIME) in Miami in August. As per management, OxySure continues to secure marquee customers in various industries, such as Dolese; Lee Lewis Construction and Chatham Worth in the construction industry; Spectrum Resource in the agriculture industry; and Intercontinental Hong Kong in the hospitality industry.

OxySure has also made a significant effort over the past several months to expand its U.S. distribution footprint. We believe this is paramount to driving sales of the Model 615 in the coming years. After all, municipalities, office buildings, shopping centers, hospitals, or schools cannot buy the Model 615 device if they do not know about it! In this regard, we are very pleased to see the company adding both territory sales managers and inking new distribution agreements.

In terms of new personnel, the company appointed Clark Hood in September 2014 to position of Vice President, Resuscitation Sales Worldwide. Mr. Hood has over 25 years of experience in healthcare, medical devices and emergency medical equipment, and specifically in sales and sales management. Prior to joining OxySure, Mr. Hood spent over 16 years with Cardiac Science, a global medical device manufacturer of automated external defibrillation (AED) products and management services in over 100 countries. In December 2014, OxySure signed an exclusive contract with Cliff Meidl, a two-time U.S. Olympian and prolific speaker and passionate advocate for safety, CPR, emergency preparedness, and leadership topics in the safety industry. Mr. Meidl will become a spokesperson for the Model 615 device and help market and promote the product throughout his various endeavors in 2015, which in the past included appearances on Oprah and NBC's "Today Show", as well as at various medical conferences including the American Heart Association annual meeting.

The company has also made several new staff additions to the U.S. sales force over the last several months, including hiring new territory sales managers in Philadelphia, PA, Minneapolis, MN, San Antonio, TX, Chicago, IL, Phoenix, AZ, Atlanta, GA, Pittsburg, PA, Michigan, Colorado, and the Dallas-Fort Worth, TX region. The new reps are coming in with significant commercial sales experience in the emergency medicine and/or the healthcare industry. We are anticipating a significant ramp in direct sales by the company in 2015 thanks to the expanded promotion effort. The company's goal is to have 30 full-time and/or independent representatives in place by the end of 2015, and we believe that the company currently has at least six in place.

OxySure currently is looking at over a dozen potential cities and major metropolitan areas to join the company, and these include cities in Florida, California, Missouri, as well as other areas in Texas, and along the East Coast. The most recent class of territory managers completed training in April 2015 and should start contributing to second quarter sales. The next class of reps was scheduled for early June 2015 training. We think it is realistic that each of these representatives can generate up to $500,000 in revenues for the company per annum, but we don't expect these reps to be at that run rate immediately, instead it will take at least 3 to 6 months to ramp up to this, and the $500,000 per annum will be achieved over time. OxySure has also implemented a new customer relationship management (CRM) software platform for its sales team to utilize.

Besides hiring internal sales representatives and territory managers, OxySure is inking new distribution agreements all over the U.S. In December 2014, the company signed a distribution agreement with Cardiac Life, a Rochester, NY distributor of AEDs. Management at OxySure believes that Cardiac Life gives the company strong representation in the northeast. By adding OxySure to its product portfolio, Cardiac Life can now offer a unique and proprietary resuscitation product to their existing and new customers. In January 2015, the company inked a deal with Cardio Partner Resources, an Illinois-based distributor of AED's and other medical devices throughout the Midwest.

The company signed two more distribution agreements in February 2015. The first was with Chris Gardner and Associates, a Connecticut-based authorized distributor of automated external defibrillators (AEDs) for companies such as Cardiac Science, HeartSine, Philips Medical, Physio-Control, and Zoll. The company is headed up by Chris Gardner, a former EMT and EMS Instructor and American Heart Association BLS (Basic Life Support) Instructor. OxySure's Model 615 will fit in nicely with the company's current suite of AED products and gives OxySure its first distribution agreement for the Northeast. Later in February, OxySure signed an agreement with Stop Heart Attack, an Alabama-based distributor of AEDs and other emergency response products. The deal gives OxySure its first key distribution agreement for the Southeast.

In March 2015, OxySure signed its first distribution agreement in California, with Menlo Park-based Health Education Services. Health Education Services (HES), founded in 1979, focuses on turn-key implementation of Philips automated external defibrillator (AED) programs as well improving safety, health, and quality of life by providing services, classes, and consulting for medical practitioners as well as the general community. Founder & Managing Partner, Julianne Brawner, brings over 18 years of AED experience to the table.

Oxysure signed a distribution agreement with New Jersey Team Life in April 2015, which has three locations throughout the state. OxySure's Model 615 is a great compliment to Team Life's existing AED installed base. TEAM LIFE has emergency health and safety training experience in the United States as well throughout the world, and offers hundreds of training courses per year. The TEAM LIFE sales division distributes CARDIAC SCIENCE brand AEDs, first aid kits, emergency medical equipment, and teaching supplies for CPR classes. Jim Schatzle, Founder & President, has over 30 years of experience in the Emergency Medical Services as an EMT, Firefighter, and Paramedic.

On June 15, 2015, OxySure announced the signing of a distribution agreement with Z-Medica, LLC, a developer of hemostatic devices like QuikClot Combat Gauze® that stop bleeding wherever it occurs, especially in emergency situations, such as on the battlefield. Management believes that such bleeding control devices are a natural fit to the current Model 615 and AED portfolio, and allow for expansion of its critical life-saving emergency response products in the first responder, school, and public access markets.

International expansion remains a primary focus for OxySure. For instance, 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 minutes to 1 hour before first responders are able to arrive due to insufficient infrastructure or 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 recently expanded its distribution footprint into Chile, Hong Kong and Macau, and Singapore. 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. The deal with HTM Medico Pte Ltd in Singapore requires an annual minimum purchase commitment of 1,250 units of Model 615, valuing the contract at $1.3 million in the first 5 years. We remind investors that in September 2014, the company signed a $2.46 million, 3-year, 18,000 minimum unit contract with Ajad Medical to be the company's exclusive distributor in Saudi Arabia. We continue to believe there is potential for rapid uptake in overseas markets.

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 2015. As OxySure signs new exclusive agreements for large countries like Germany, France, and Italy, these minimum orders will be significant revenues to OxySure. Above we noted the size and terms of the distribution agreement in Saudi Arabia, a country with a population of around 30 million. Italy, for example, has a population twice that size. The population of Germany (~81 million) is ten-times that of Hong Kong and Macau (~8 million). The population of France (~66 million) is ten-times that of Singapore (~6 million). It is for this reason that we believe international Model 615 sales could skyrocket in the coming years. A minimum commitment from a distributor in Germany alone could be north of $1 million in upfront revenues to OxySure. Oxysure is also in discussions with other distributors in South Korea, Singapore, as well as Latin America. As per management, the plan is to negotiate an exclusive with an overseas distributor in exchange for a minimum sales commitment (usually two to three years out).

Conclusion

At the end of 2014, OxySure believed it could double its sales in 2015 through signing of new distribution agreements in emerging markets, launching the product around Europe, and continuing to focus on "at risk" and "established" markets in the United States. We believe that Oxysure is on the right track, especially if the company can continue to see increases in revenues like it did in the second quarter of 2015. We have adjusted our model slightly, and we are now modeling revenues up to $4.4 million for 2015, and $6.4 million for 2016. However, we note that our model for 2015 and beyond is expected to change dramatically as the company expands its distribution by making strategic acquisitions. For example, we would not be surprised to see the Estill Medical merger back on the table at some point in the second half of 2015 or 2016. We also see several other markets, including wound care, diagnostics, and respiratory emergency products fitting nicely into the company's platform. Management expects to continue to add new products to its catalog during 2015, with an emphasis on products that compliment the existing portfolio that currently target the following responder and pre-responder markets: emergency; resuscitation; trauma; short-duration oxygen market; and the pre-hospital medical emergency market. We view the recent news of the emergency medical drone line as well as Oxysure's participation in the 2015 Special Olympics World Games as good news for the company. We look forward to hearing additional news and learning more about what the near future holds for OxySure.

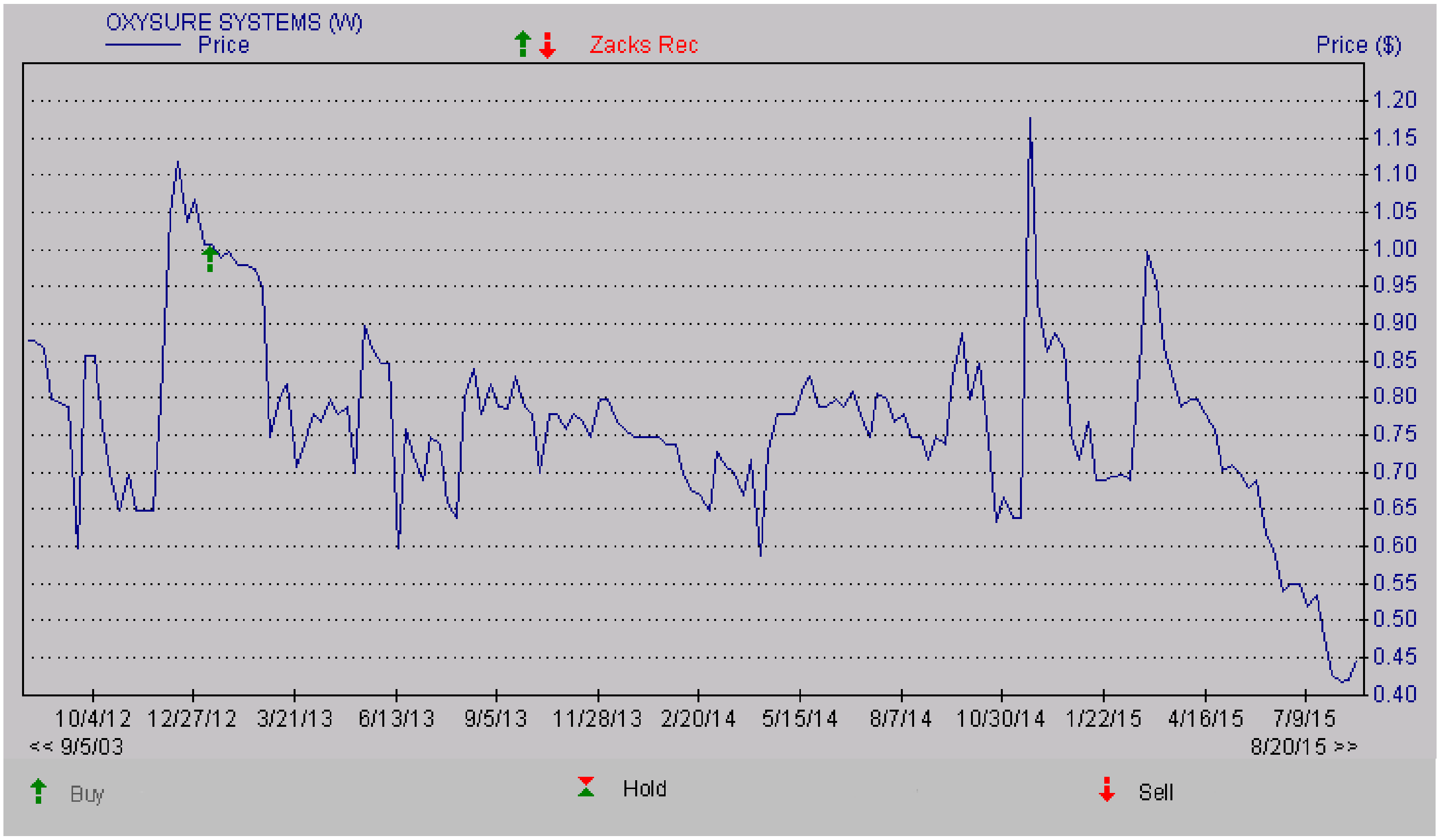
We continue to believe that OxySure can eventually get total revenues to the $10 million mark in a few years through a combination of organic growth and M&A activities. The current market capitalization is only $14.5 million, meaning OxySure is trading at roughly 3.3 times our projected 2015 revenues. Our target is $1.75 per share, which is a market capitalization of over $50 million. Given our projected 79% revenue growth for 2015, we believe this is a fair target.

OxySure Systems, Inc. – INCOME STATEMENT

OxySure Systems, Inc.	2014 A	Q1 A	Q2 A	Q3 E	Q4 E	2015 E	2016 E
OxySure Systems	$2.44	$0.62	$1.05	$1.20	$1.50	$4.37	$6.38
YOY Growth	*35.4%*	*75.3%*	*54.3%*	*46.6%*	*156.6%*	*79.3%*	*46.0%*
Pipeline / New Products	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-
Total Revenues	**$2.44**	**$0.62**	**$1.05**	**$1.20**	**$1.50**	**$4.37**	**$6.38**
YOY Growth	*35.4%*	*75.3%*	*54.3%*	*46.6%*	*156.6%*	*79.3%*	*46.0%*
Cost of Goods Sold	$1.42	$0.34	$0.41	$0.60	$0.75	$2.10	$3.19
Product Gross Margin	*41.8%*	*46.2%*	*60.9%*	*50.0%*	*50.0%*	*52.1%*	*50.0%*
Total Operating Expenses	$3.05	$1.30	$1.25	$1.30	$1.30	$5.15	$5.46
% SG&A	*125.3%*	*208.2%*	*119.3%*	*108.3%*	*86.7%*	*117.8%*	*85.6%*
Operating Income	($2.03)	($1.01)	($0.61)	($0.70)	($0.55)	($2.87)	($2.27)
Operating Margin	-	-	-	-	-	*-65.7%*	*-35.6%*
Interest & Other Net	($0.72)	($0.33)	($0.65)	($0.10)	($0.10)	($1.18)	($0.50)
Pre-Tax Income	($2.75)	($1.34)	($1.26)	($0.80)	($0.65)	($4.05)	($2.77)
Taxes	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Other Expenses	$0	$0	$0	$0	$0	$0	$0
Net Income	($2.75)	($1.34)	($1.26)	($0.80)	($0.65)	($4.05)	($2.77)
YOY Growth	-	-	-	-	-	*47.0%*	*-31.6%*
Net Margin	-	-	-	-	-	*-92.6%*	*-43.4%*
Reported EPS	**($0.10)**	**($0.05)**	**($0.04)**	**($0.02)**	**($0.02)**	**($0.13)**	**($0.07)**
YOY Growth	-	-	-	-	-	*24.9%*	*-44.1%*
Shares Outstanding	26.4	29.0	30.2	32.0	33.0	31.0	38.0

Source: Company Filing // Zacks Investment Research, Inc. Estimates

HISTORICAL ZACKS RECOMMENDATIONS



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