Zacks Small-Cap Research

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OxySure Systems, Inc.

(OXYS-OTCQB)

OXYS: Merger With Estill Called Off, OxySure Instead Focusing On Organic Growth For 2015…

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	01/14/2013
Current Price (12/23/14)	$0.73
Target Price	**$1.00**

UPDATE

On October 22, 2014, OxySure Systems, Inc. (OXYS) announced an agreement to merge with privately-held Estill Medical Technologies, Inc. A month later, the deal was called off and OxySure instead decided to focus on organic growth for 2015. Since that time, management has been busy signing new distribution agreements and enhancing its marketing platform. We believe the business has tremendous potential for growth in the U.S. Outside the U.S., we are pleased to see the company expanding its footprint in signing up exclusive distribution partners to target both emerging and established markets. We see the shares as attractively valued and our target is$1.00.

SUMMARY DATA

52-Week High	**$1.20**
52-Week Low	**$0.56**
One-Year Return (%)	**-2.65**
Beta	**-1.98**
Average Daily Volume (sh)	**92,750**
Shares Outstanding (mil)	**27**
Market Capitalization ($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**

Risk Level	**Moderate**
Type of Stock	**N/A**
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	0.85 E	1.85 E	3.73 A
2015					10.50 E
2016					15.00 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	-$0.01 E	$0.01 E	-$0.02 E
2015					$0.07 E
2016					$0.08 E

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WHAT'S NEW

OxySure Business Update

On November 14, 2014, OxySure Systems (OXYS) reported financial results for the third quarter 2014. Revenues in the quarter totaled $0.82 million, which was a 50% increase from the same time period in 2013. Product margin in the quarter was 60.7%, in line with the historic range. Shipments of replacement cartridges versus OxySure Model 615 continued to be significant. For the three months ended September 30, 2014, replacement cartridges shipped represented approximately 195% of base units shipped. For the 9 months ended September 30, 2014, replacement cartridges shipped represented 166% of base units shipped.

Sales and marketing, R&D, and G&A expenses were all increased in the third quarter 2014 compared to the second quarter of 2014. Sales and marketing expense was up as the company is undertaking a direct-to-consumer advertising campaign designed to create pull-through demand for the Model 615 product. The large increase in R&D was mostly attributable to an increase in expense associated with products related to military markets. Net loss for the quarter was $0.46 million, or $0.02 per share.

OxySure exited the third quarter with $9,000 in cash on the books, obviously not enough to fund operations. The company has been using drip-financing to fund operations for the past several years. For example, cash burn in the third quarter totaled $0.252 million whereas financing activities generated $0.239 million in cash. For the first nine months of the year, the company has burned $0.855 million in cash. We suspect that OxySure will continue to raise cash at a similar level to operating burn for the foreseeable future.

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 and 2015. 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.

International expansion is a primarily focus for OxySure. 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.

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. 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.

Attractive Valuation

Despite the failed merger with privately-held Estill Medical, OxySure still believes it can double its sales in 2015 through signing new distribution agreements in emerging markets, launching the product around Europe, and continuing to focus on "at risk" and "established" markets in the U.S. For 2015, we model sales approaching $5 million. The current market capitalization is only $21 million, meaning OxySure is trading at roughly 4x projected 2015 revenues. By 2016, with an estimated $7.25 million in revenues, we believe OxySure can post breakeven operations. Our target is $1.00 per share.

PROJECTED FINANCIALS

OxySure Systems, Inc.
Income Statement

OxySure Systems, Inc.	2012 A	2013 A	Q1 A	Q2 E	Q3 A	Q4 E	2014 E	2015 E	2016 E
OxySure Systems	$0.270	$1.800	$0.356	$0.678	$0.818	$0.850	$2.703	$4.550	$7.250
YOY Growth	*45.6%*	*567.5%*	*48.2%*	*42.4%*	*49.9%*	*58.0%*	*50.1%*	*68.3%*	*59.3%*
Pipeline / New Products	$0	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-	-
Total Revenues	**$0.270**	**$1.800**	**$0.356**	**$0.678**	**$0.818**	**$0.850**	**$2.703**	**$4.550**	**$7.250**
YOY Growth	*45.6%*	*567.5%*	*48.2%*	*42.4%*	*49.9%*	*58.0%*	*50.1%*	*68.3%*	*59.3%*
Cost of Goods Sold	$0.096	$0.490	$0.206	$0.265	$0.322	$0.340	$1.132	$1.729	$2.610
Product Gross Margin	*64.6%*	*72.8%*	*42.3%*	*60.9%*	*60.7%*	*60.0%*	*58.1%*	*62.0%*	*64.0%*
Operating Expenses	$1.020	$1.798	$0.435	$0.689	$0.886	$0.850	$2.860	$3.400	$4.000
% SG&A	*378.3%*	*99.9%*	*122.2%*	*101.6%*	*108.3%*	*100.0%*	*105.8%*	*74.7%*	*55.2%*
Operating Income	($0.846)	($0.488)	($0.285)	($0.276)	($0.389)	($0.340)	($1.290)	($0.579)	$0.640
Operating Margin	-	-	-	-	-	-	-	*-12.7%*	*8.8%*
Interest & Other Net	$0.02	($0.224)	($0.092)	($0.044)	($0.073)	($0.125)	($0.125)	($0.100)	($0.050)
Pre-Tax Income	($0.828)	($0.712)	($0.376)	($0.320)	($0.462)	($0.465)	($1.415)	($0.679)	$0.590
Taxes	$0	$0	$0	$0	$0	$0	$0	$0	$0.148
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*25.0%*
Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Income	($0.828)	($0.712)	($0.376)	($0.320)	($0.462)	($0.465)	($1.415)	($0.679)	$0.443
YOY Growth	-	-	-	-	-	-	-	*-52.0%*	*-165.2%*
Net Margin	-	-	-	-	-	-	-	*-14.9%*	*6.1%*
Reported EPS	**($0.04)**	**($0.03)**	**($0.01)**	**($0.01)**	**($0.02)**	**($0.02)**	**($0.05)**	**($0.02)**	**$0.01**
YOY Growth	-	-	-	-	-	-	-	*-63.8%*	*-157.0%*
Shares Outstanding	19.9	23.8	25.9	26.0	26.1	27.5	26.4	35.0	40.0

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

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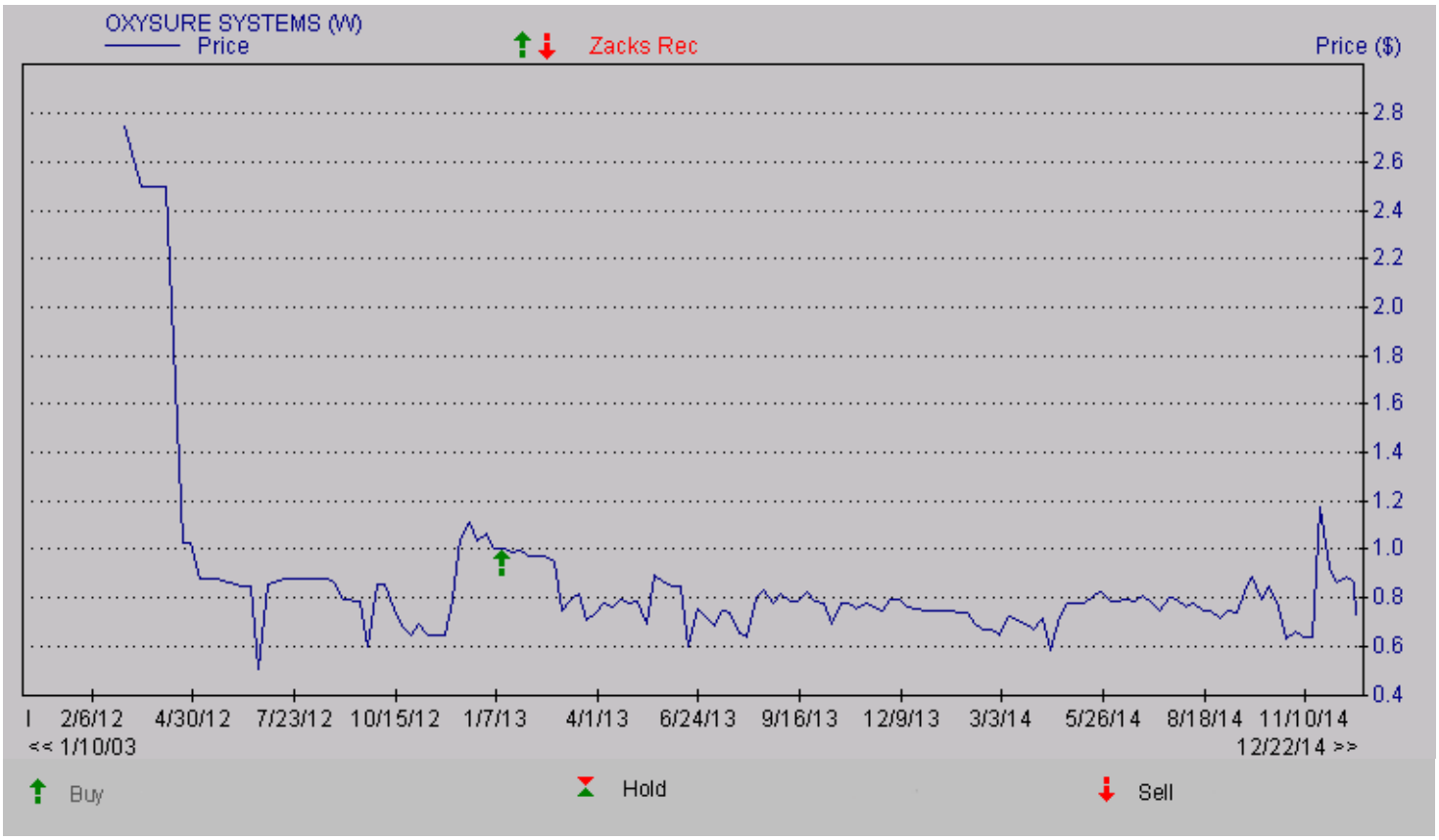

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