Zacks Small-Cap Research

May 21, 2015
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OxySure Systems, Inc.

(OXYS-OTCQB)

OXYS: Solid Sales Growth With Continued U.S. Distribution Expansion

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	01/14/2013
Current Price (05/21/15)	$0.65
Target Price	**$1.75**

UPDATE

On May 19, 2015, OxySure Systems (OXYS) reported financial results for the first quarter of 2015. Revenues in the quarter totaled $0.62 million, which was a 75% increase from the same time period in 2014. This was the 11th consecutive quarter of sales growth for OxySure.

We continue to believe that the business has tremendous potential for growth in the United States. Additionally, 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 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	**$0.45**
One-Year Return (%)	**-23.53**
Beta	**0.35**
Average Daily Volume (sh)	**71,819**
Shares Outstanding (mil)	**30**
Market Capitalization ($mil)	**$19**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**4**
Insider Ownership (%)	**12**
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	**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**	**0.82 A**	**0.58 A**	**2.44 A**
2015	**0.62 A**	**0.80 E**	**1.00 E**	**1.50 E**	**3.92 E**
2016					**5.50 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**	**-$0.03 E**	**-$0.03 E**	**-$0.02 E**	**-$0.13 E**
2016					**-$0.09 E**

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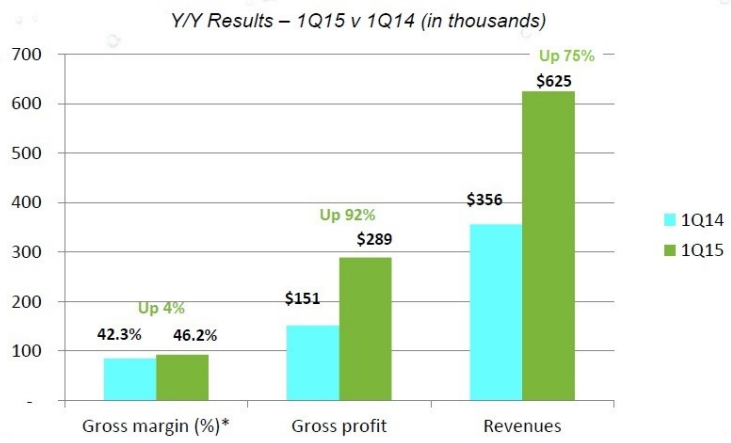
WHAT'S NEW

OxySure Financial & Business Update

On May 19, 2015, OxySure Systems (OXYS) reported financial results for the first quarter of 2015. Revenues in the quarter totaled $0.62 million, which was a 75% increase from the same time period in 2014. Results were slightly above our expectations. This was the 11th consecutive quarter of year-over-year revenue growth for OxySure.



Source: OxySure Systems, Inc.

Total replacement cartridges as a percentage of the Model 615 installed base as of March 31, 2015 was 45%, up from 39% as of March 31, 2014. The fully burdened gross margin on the revenues was up approximately 4%, from 46.2% in the quarter as compared to 42.3% during the prior period in 2014. Gross profit was $0.29 million for the first quarter of 2015, an increase of 92% from $0.15 million for the first quarter of 2014.

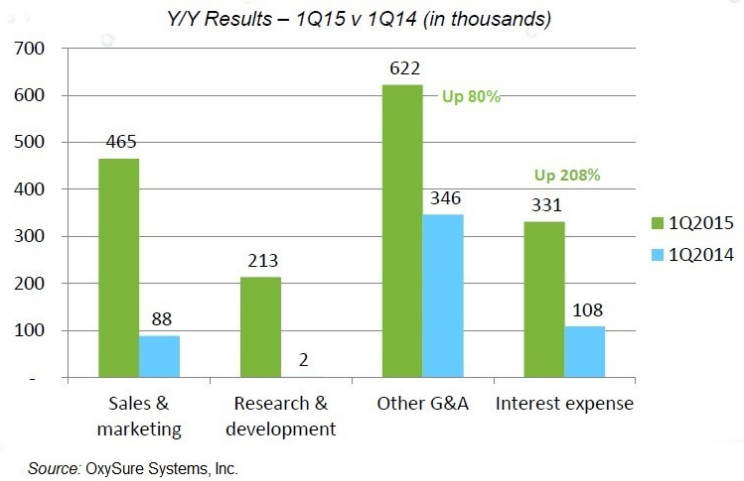


Source: OxySure Systems, Inc.

Sales and marketing, R&D, and G&A expenses all increased substantially in the first quarter of 2015. Selling, general and administrative expenses for the first quarter were $1.3 million compared to $0.44 million for the first quarter of 2014. 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 (note a current campaign on CNBC).

Sales and marketing expenses increased to $0.46 million during the first quarter of 2015 from $87k during the first quarter of 2014, as OxySure has significantly 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 today, and the company plans to continue to spend on advertising and promotion. Other general and administrative expenses increased by approximately 80% to $0.62 million for the quarter primarily due to increases personnel costs around the company's expanding sales staff.

OxySure spent $0.21 million on R&D efforts in the quarter, as compared to only approximately $1.5k in the first quarter of 2014, largely to support the company's ongoing work with the U.S. military to develop a battlefield ready version of the device for U.S. Special Forces. As per management, it has made significant progress in regards to the hand held oxygen unit for military combat use and HALO jumps.



Source: OxySure Systems, Inc.

Net loss in the first quarter of 2015 was $1.34 million, or $0.05 per share, as compared to $0.38 million, or $0.01 per share, during the first quarter of 2014; however, we note a large portion of loss in the quarter was non-cash. Throughout 2014, the company paid off all outstanding capital lease obligations, making them the full owner of all equipment related to the Model 615 manufacturing and production, and the company also extinguished both its long-term debt.

OxySure exited the first quarter of 2015 with $0.1 million in cash on the books. 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).

Actual cash burn in the first quarter of 2015 was approximately $1 million, which was higher than expected. Since sales and marketing, R&D, and G&A expenses were all increased substantially in the first quarter of 2015, we believe that OxySure will need additional cash to fund its operations. We believe that as new reps are trained, they will start to generate additional revenue, which will help to offset the increased costs starting in the second quarter. Additionally, we think that potential strategy acquisitions will present an opportunity for the company to close the second and third tranche of the financing above, or enter into new financings to help fund operations to potential cash flow breakeven in the next year or two.

…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.

In January 2015, the company announced several new staff additions. Key hires included Kathryn Jayne to the position of Director, Regulatory Affairs & Quality Assurance, Richard Bryant to the position of Manufacturing Manager, and Richard Marcus to the position of Engineer, Innovation Solutions Group. The company also made several new staff additions to the U.S. sales force, including hiring new territory sales managers in 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 currently has 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, Minnesota, 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 is 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.

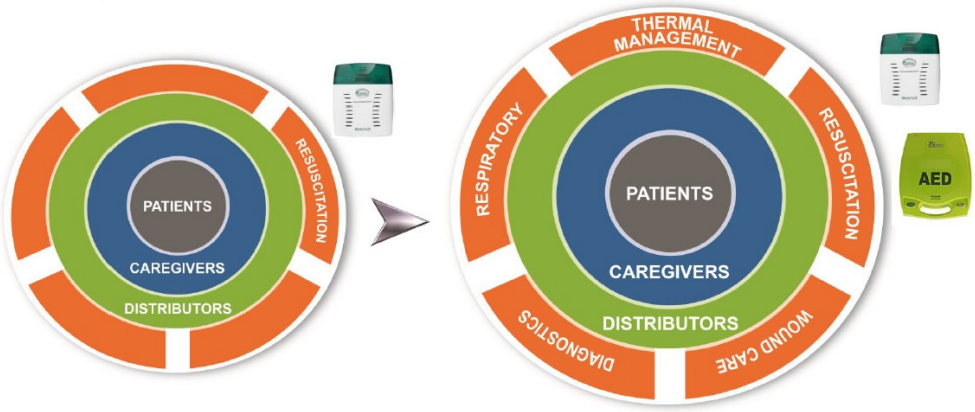
International expansion remains a primary focus for OxySure. For instance, in the U.S., an individual suffering a medical emergency can generally expect first responders to arrive within 5-15 minutes of the initial call for help. However, in some areas overseas, it may take upwards of 45 minutes to 1 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).

Attractive Valuation

OxySure 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 United States. For 2015, we do not quite model a double from 2014 revenues. Instead, we are conservatively modeling revenues up 61% to $3.9 million. However, we note that our model for 2015 and beyond is expected to change dramatically as the company expands its distribution by making strategy acquisitions. For example, we would not be surprised to see the Estill Medical merger back on the table at some point in 2015. We also see several other markets, including wound care, diagnostics, and respiratory emergency products fitting nicely into the company's platform. Management expects 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. As per management, OxySure will be announcing a new add-on product in the next couple of weeks as well as an announcement in the near term regarding OxySure's participation in a "major global act." We look forward to hearing the news and learning more about what the near future holds for OxySure.



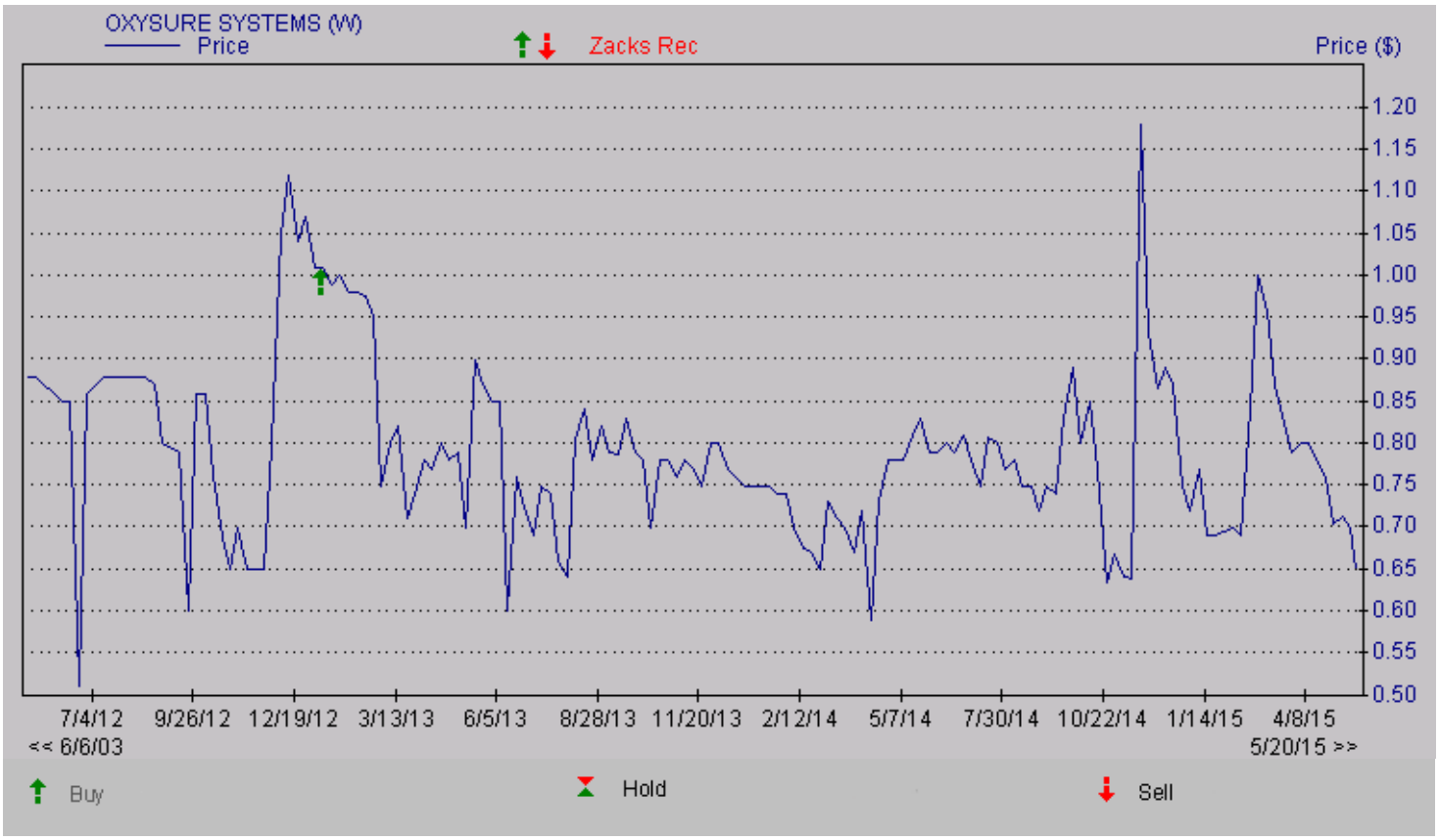
We think OxySure can eventually get total revenues to the $10 million mark in a few years through a combination of organic growth and M&A activities. The current market capitalization is only $19 million, meaning OxySure is trading at roughly 4.8 times our projected 2015 revenues. By 2016, with an estimated $5.5 million in revenues, we believe OxySure can post breakeven operations. Our target is $1.75 per share, which is a market capitalization of $50 million. Given our projected 61% revenue growth for 2015, we believe this is a fair target.

OxySure Systems, Inc. – INCOME STATEMENT

OxySure Systems, Inc.	2013 A	2014 A	Q1 A	Q2 E	Q3 E	Q4 E	2015 E	2016 E
OxySure Systems	$1.80	$2.44	$0.62	$0.80	$1.00	$1.50	$3.92	$5.50
YOY Growth	*567.5%*	*35.4%*	*75.3%*	*18.0%*	*22.2%*	*156.6%*	*61.0%*	*40.1%*
Pipeline / New Products	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-
Total Revenues	**$1.80**	**$2.44**	**$0.62**	**$0.80**	**$1.00**	**$1.50**	**$3.92**	**$5.50**
YOY Growth	*567.5%*	*35.4%*	*75.3%*	*18.0%*	*22.2%*	*156.6%*	*61.0%*	*40.1%*
Cost of Goods Sold	$0.49	$1.42	$0.34	$0.48	$0.60	$0.90	$2.32	$3.30
Product Gross Margin	*72.8%*	*41.8%*	*46.2%*	*40.0%*	*40.0%*	*40.0%*	*41.0%*	*40.0%*
Operating Expenses	$1.80	$3.05	$1.30	$1.30	$1.30	$1.30	$5.20	$5.46
% SG&A	*99.9%*	*125.3%*	*208.2%*	*162.5%*	*130.0%*	*86.7%*	*132.5%*	*99.3%*
Operating Income	($0.49)	($2.03)	($1.01)	($0.98)	($0.90)	($0.70)	($3.59)	($3.26)
Operating Margin	-	-	-	-	-	-	*-91.5%*	*-59.3%*
Interest & Other Net	($0.22)	($0.72)	($0.33)	($0.10)	($0.10)	($0.10)	($0.63)	($0.50)
Pre-Tax Income	($0.71)	($2.75)	($1.34)	($1.08)	($1.00)	($0.80)	($4.22)	($3.76)
Taxes	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0
Net Income	($0.71)	($2.75)	($1.34)	($1.08)	($1.00)	($0.80)	($4.22)	($3.76)
YOY Growth	-	-	-	-	-	-	*53.3%*	*-10.9%*
Net Margin	-	-	-	-	-	-	*-107.5%*	*-68.4%*
Reported EPS	**($0.03)**	**($0.10)**	**($0.05)**	**($0.03)**	**($0.03)**	**($0.02)**	**($0.13)**	**($0.09)**
YOY Growth	-	-	-	-	-	-	*25.4%*	*-28.2%*
Shares Outstanding	23.8	26.4	29.0	31.0	33.5	35.5	32.2	40.0

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

HISTORICAL ZACKS RECOMMENDATIONS



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