Zacks Small-Cap Research

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OxySure Systems, Inc.

(OXYS-OTCQB)

OXYS: OxySure to Merge with Privately-Held Estill Medical…

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	01/14/2013
Current Price (10/24/14)	$0.65
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. By merging with Estill Medical, OxySure believes the combined entity creates an emerging medical device leader with strong roots in the emergency medical space. Estill's leading product is the Thermal Angel Blood and IV Fluid Infusion Warmer. We believe there are clear product synergies between Thermal Angel and OxySure's Model 615 emergency oxygen system. We believe the combined company is fairly-valued at $40 million, or roughly $1.00 per share. We maintain our 'Outperform' rating on the shares.

SUMMARY DATA

52-Week High	**$0.89**
52-Week Low	**$0.59**
One-Year Return (%)	**-13.33**
Beta	**-2.14**
Average Daily Volume (sh)	**13,599**
Shares Outstanding (mil)	**26**
Market Capitalization ($mil)	**$17**
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

Merger With Estill Medical

On October 22, 2014, OxySure Systems, Inc. (OXYS) announced an agreement to merge with privately-held Estill Medical Technologies, Inc. By merging with Estill Medical, OxySure believes the combined entity creates an emerging medical device leader with strong roots in the emergency medical space. Estill's leading product is the Thermal Angel Blood and IV Fluid Infusion Warmer. We believe there are clear product synergies between Thermal Angel and OxySure's Model 615 emergency oxygen system. The companies' combined product portfolio addresses critical needs in both first-responder and pre-responder markets, as well as with the military. The combined company plans to be a platform for additional product and market expansion to enhance its market position and appeal on an expedited timeframe. Below we provide a brief background on Estill Medical and Thermal Angel.

…Estill Medical…

Privately-held Estill Medical, located in Dallas Texas, was first conceived by a Texas firefighter / paramedic in 1988 after seeing a young mother suffer and almost die from the sequelae of hypothermia following massive blood and fluid infusion. The inventor believed that disseminated intravascular coagulopathy (DIC) could possibly have been avoided if there had been a means to administer warm IV fluids initially and continuously in a portable, battery-powered configuration. After years of work and research, the Thermal Angel prototype was first exhibited in 1998. Two patents for Thermal Angel were awarded in 2000. Initial sales began in 2001 to the U.S. Military as part of Operation Enduring Freedom, later expanded in 2003 to include Operation Iraqi Freedom. Today, the Thermal Angel is sold to hospitals, EMS, flight services and military installations throughout the world.

In 2007, Estill Medical was recognized as one of Dallas "100 Fastest Growing Companies". Estill Medical is headed-up by President and CEO, Jay Lopez, an entrepreneur and businessman with extensive experience in healthcare, investments, operations, and business cycle management. The company's Chairman is Leonard Lopez, an experienced hospital administrator with roots in Wall Street investment banking. In 2010, Paul K. Carlton, Jr, MD, Lt General, USAF (Ret) joined the company's Board of Advisors. That same year, the company was recognized for providing the "Outstanding Military Product of the Year."

…Thermal Angel Blood and IV Infusion Warmer…

Thermal Angel is an FDA-cleared (July 1999), battery powered, disposable, lightweight and portable device that is used during an IV administration to warm and maintain the temperature of infused fluids. There are an estimated 40 million potential "warming events" per year in the U.S, the majority of which (~75%) occur in the hospital setting where IV and blood warmer devices are readily available. However, there are an estimated 10 million potential warming events that take place outside the hospital setting where emergency medical service (EMS) personnel require a product like Thermal Angel. These include at the site of injury or during ground or air transport to the hospital, or on the battlefield. According to the Joint Theater Trauma System (JTS) Clinical Practice Guidelines, approximately 66% of trauma patients arrive in emergency departments manifesting with some degree of hypothermia. We estimate 75% of these 10 million events occur in ground transportation (ambulances) on the way to the hospital, with potential military / battlefield applications accounting for another 20%.

Potential Warming Events

Category	No. of Events
In Hospital Setting	~30 million
EMS Transportation	~8 million
Military / Battlefield	~2 million
TOTAL	~40 million

Thermal Angel



Estill Medical estimates the addressable U.S. market for the Thermal Angel product is $600 million based on analysis of the "Temperature Management" market. The market is projected to grow at roughly 10% CAGR over the next several years thanks to increase awareness and new product development to meet growing need. We estimate the U.S. opportunity listed above accounts for roughly 50% of the global market.

The Thermal Angel product is distributed by BoundTree Medical, a specialty distributor of emergency medical equipment, supplies, pharmaceuticals and product expertise for EMS professionals who provide pre-hospital, emergency care, including First Responders, EMTs and Paramedics. BoundTree supports the public safety community with its team of EMS-experienced sales and support representatives, backed by strong vendors and a national distribution network. The company offers thousands of products, including common disposable items to extensive capital equipment from hundreds of leading device manufacturers. BoundTree's Airway / Oxygen Delivery business includes distribution of hundreds of potential synergistic products with OxySure's Model 615 device.

Thermal Angel Product Suite

Product	Item #	List Price
 **Thermal Angel Ultra Battery 1, Rechargeable** - ESTILL MEDICAL TECHNOLOGIES, INC The Thermal Angel Ultra Battery 1 is specifically designed to address the unique needs (weight, size and space restrictions) of the medical equipment carried by the SOF Medic....1/EA 5EA/CS	TA-UB1	$1,692.29 EA
 **Thermal Angel Blood and IV Fluid Infusion Warmer, Disposable and Portable** - ESTILL MEDICAL TECHNOLOGIES, INC Thermal Angel is an in-line, battery-powered disposable and lightweight and completely portable blood and IV fluid warming device, capable of intravenous and irrigation warming....1/EA 60EA/CS	TA-200	$180.99 EA
 **Thermal Angel Extension Set, Needlefree, 9inch** - ESTILL MEDICAL TECHNOLOGIES, INC The Thermal Angel Extension Set is used to connect the Thermal Angel IV Warmer to an IV catheter....1/EA 50EA/CS	TA-9EXTNF	$10.19 EA
 **Thermal Angel Standard Battery, Rechargeable** - ESTILL MEDICAL TECHNOLOGIES, INC The Thermal Angel Standard Battery is the rechargeable battery for the Thermal Angel Blood and IV Fluid Infusion Warmer....1/EA 5EA/CS	TA-BCE	$404.39 EA
 **Thermal Angel Standard Power Cable, 10 Foot** - ESTILL MEDICAL TECHNOLOGIES, INC The Thermal Angel Power Cable is used to connect the Thermal Angel Blood and IV Fluid Infusion Warmer to the Thermal Angel Standard Battery....1/EA 25EA/CS	TA-CDC	$76.89 EA
 **Thermal Angel Standard Battery Charger** - ESTILL MEDICAL TECHNOLOGIES, INC The Thermal Angel Standard Battery Charger is designed to properly charge the Thermal Angel Standard Battery....1/EA 24EA/CS	TA-CAC	$89.99 EA
 **Thermal Angel Standard Battery Bag, Nylon, Black** - ESTILL MEDICAL TECHNOLOGIES, INC The Thermal Angel Battery Bag is designed to carry the Thermal Angel Standard Battery in a convenient over-the-shoulder format or from an IV stand....1/EA 25EA/CS	TA-CC	$62.99 EA
 **Thermal Angel Ultra Battery Charger** - ESTILL MEDICAL TECHNOLOGIES, INC The Thermal Angel Ultra Battery Charger allows charging of the Thermal Angel Ultra Battery (TA-UB1) from 90-264 VAC....1/EA 24EA/CS	TA-UBC	$257.99 EA
 **Thermal Angel Ultra Power Cable, 3 Foot** - ESTILL MEDICAL TECHNOLOGIES, INC The Thermal Angel Ultra Power Cord is a three foot reusable power cable that is designed to connect the Thermal Angel (TA-200) to the Ultra 1 Battery (TA-UB1)....1/EA 25EA/CS	TA-UPC	$93.49 EA
 **Thermal Angel Ultra Vehicle Charger** - ESTILL MEDICAL TECHNOLOGIES, INC The Thermal Angel Ultra Vehicle Charger allows the charging of the Thermal Angel Ultra Battery (TA-UB1) from 10-36 VDC, connecting to vehicle DC cigarette lighter port....1/EA 25EA/CS	TA-UVC	$49.99 EA
 **Thermal Angel Ultra Pigtail Charger** - ESTILL MEDICAL TECHNOLOGIES, INC The Thermal Angel Ultra Pig Tail charger allows the ability to charge the Thermal Angel Ultra Battery (TA-UB1) from 10-36 VDC using the (+) and (-) battery post.	TA-UPT	$49.99 EA
 **Thermal Angel Standard Emergency Pack** - PARENT PRODUCTION BOM Single patient use. Resupply with Thermal Angel Emergency Pack Reload Kit (TA-DEP) as needed.	TA-SEP	$1,264.79 KT
 **Thermal Angel Ultra Emergency Pack** - ESTILL MEDICAL TECHNOLOGIES, INC Single patient use. Resupply with Thermal Angel Emergency Pack Reload Kit (TA-DEP) as needed.	TA-UEP	$2,219.99 KT
 **Thermal Angel Disposable Emergency Pack Reload Kit** - ESTILL MEDICAL TECHNOLOGIES, INC Single patient use. To resupply the Thermal Angel Standard Emergency Pack (TA-SEP) or the Thermal Angel Ultra Emergency Pack (TA-UEP).	TA-DEP	$683.39 BX

Source: www.boundtree.com

Estill's leading customer is the U.S. Military, with sales of the Thermal Angel product for both general Army and Special Forces applications. We estimate there are approximately 2 million potential "warming events" that occur in the U.S. military each year, which corresponds to a potential $150 million total market based on distributor pricing. We believe Thermal Angel has the ideal characteristics for U.S. military use:

- ✓ Disposable: No cleaning, maintenance or calibration required
- ✓ Simple: 30 second set up, warms up quickly
- ✓ Portable: Operates from rechargeable battery
- ✓ Compact: 9 inches / 9 ounces; placed near the infusion site for minimal heat loss through tubing
- ✓ Fast: High flow rate (KVO to 150 ml/min)
- ✓ Effective: Measures and adjusts to normothermic output temperature
- ✓ Compatible: Standard luer connections





…Financials…

In consideration for the merger, OxySure Systems will pay the owners of Estill Medical Technologies 12.516 million shares of restricted common stock. The transaction is structured as a tax-free reverse subsidiary merger and the shares will be locked-up for 12 months. At today's price for OxySure stock (OXYS), the deal is valued at approximately $8.75 million (12.5 million shares x $0.70 per share). Shareholders of Estill Medical will also receive 2.5 million warrants to purchase additional shares of OXYS at $1.20 per share. More information can be found in the company's Form 8K filed on October 24, 2014.

As of June 30, 2014, OxySure Systems, Inc. had 26.075 million basic shares outstanding plus 2.663 million warrants at $1.25 per share and 1.327 million options at $0.25 per share. The combined company will now have a basic sharecount of approximately 38.6 million, with roughly 5.2 million warrants at $1.20 to $1.25 per share. The basic market capitalization as of the close of the transaction is estimated to be $27.0 million. OxySure believes it will have the necessary balance sheet and shareholders' equity to qualify for an uplisting to the NASDAQ or NYSE. Minimum requirements for an uplisting include having positive shareholders' equity of at least $3 million and a stock price above $3.00 per share. As such, we believe if OxySure seeks to uplist in the near-future, at a minimum, a 1-for-5 reverse stock split is likely to occur.

According to company filings, Estill had revenues in the $5 million range for 2012 and 2013. Guidance for the combined entity is to have in excess of $10 million in revenues in 2015. We had previously modeled OxySure posting revenues in 2015 of $5 million, so this is consistent with our thinking for the combined company. Estill Medical is EBITDA positive, with estimated margins in the 55-57% range. The company is also cash flow positive. Our model has predicted OxySure Systems would become cash flow positive in 2015 based on $5 million in revenue and $3.7 million in operating expenses. OxySure and Estill believe they can realize annual cost-saving synergies in the $2 to $3 million range. Thus, with an estimated $10 million in revenue for 2015, we believe a realistic goal for EBITDA is in the $3 million range for 2015. We note this figure includes no added revenue synergies between Thermal Angel and Model 615. For example, BoundTree is one of the largest providers of emergency medical equipment in the U.S., and we would expect a significant increase in sales of the Model 615 device should BoundTree look to start distributing the device.

OxySure Business Update

On August 15, 2014, OxySure Systems (OXYS) reported financial results for the second quarter 2014. Revenues in the quarter totaled $0.68 million, which was a 42% increase from the same time period in 2013. Product margins increased this quarter to 60.9%, which is more in line with what historic margins had been. Sales and marketing, R&D, and G&A expenses were all increased in the second quarter 2014 compared to the second quarter of 2013. Sales and marketing expense was up 15%, R&D expense was up 50%, and G&A expense was up 12%. 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 $0.32 million, or $0.01 per share, compared to $0.23 million, or $0.01 per share, for the second quarter 2013.

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. On the second quarter conference call, management indicated they expect to get the product rolled out in at least one country during the third quarter of 2014. The company recently expanded its distribution footprint into Chile, and Hong Kong and Macau. 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.

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. 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.

Attractive Valuation

We have revised our financial model to incorporate revenue forecasts for the Thermal Angel product. We note model revenues in 2015 of $10.5 million with positive EBITDA of $2.9 million. For 2016, we believe revenues can grow to $15.0 million, with positive net income of $3.6 million, or $0.08 per share. Paramount to executing on the company's combined business model will be the ability to access new capital. As such, uplisting to the NASDAQ or NYSE is extremely important to the new OxySure Systems. Management guidance is that the new balance sheet will have the necessary shareholders' equity to qualify for an uplisting. However, with the stock price at $0.70 per share, a reverse stock split is required to get the share price above the $3.00 minimum. At today's price, the market capitalization of the combined entity is approximately $27.0 million. This equates to 2.5x our projected 2015 revenue figure. The medical device industry average is 4.0x projected revenues. Therefore, we see OxySure Systems fairly valued at roughly $40 million in market capitalization, or approximately $1.00 per share.

PROJECTED FINANCIALS

OxySure Systems, Inc.
Income Statement

OxySure Systems, Inc.	2012 A	2013 A	Q1 A	Q2 E	Q3 E	Q4 E	2014 E	2015 E	2016 E
OxySure Systems	$0.270	$1.800	$0.356	$0.678	$0.850	$0.850	$2.734	$5.000	$7.500
YOY Growth	*45.6%*	*567.5%*	*48.2%*	*42.4%*	*55.7%*	*58.0%*	*51.9%*	*82.9%*	*50.0%*
Thermal Angel	$0	$0	$0	$0	$0	$1.000	$1.000	$5.500	$7.500
YOY Growth	-	-	-	-	-	-	-	*450.0%*	*36.4%*
Total Revenues	**$0.270**	**$1.800**	**$0.356**	**$0.678**	**$0.850**	**$1.850**	**$3.734**	**$10.500**	**$15.000**
YOY Growth	*45.6%*	*567.5%*	*48.2%*	*42.4%*	*64.9%*	*243.9%*	*107.4%*	*181.2%*	*42.9%*
Cost of Goods Sold	$0.096	$0.490	$0.206	$0.265	$0.340	$0.640	$1.450	$3.400	$4.575
Product Gross Margin	*64.6%*	*72.8%*	*42.3%*	*60.9%*	*62.2%*	*65.4%*	*61.2%*	*67.6%*	*69.5%*
Operating Expenses	$1.020	$1.798	$0.435	$0.689	$0.650	$0.850	$2.624	$4.200	$5.500
% SG&A	*378.3%*	*99.9%*	*122.2%*	*101.6%*	*72.2%*	*45.9%*	*70.3%*	*40.0%*	*36.7%*
Operating Income	($0.846)	($0.488)	($0.285)	($0.276)	($0.140)	$0.360	($0.341)	$2.900	$4.925
Operating Margin	-	-	-	-	-	-	-	*27.6%*	*32.8%*
Interest & Other Net	$0.02	($0.224)	($0.092)	($0.044)	($0.125)	($0.125)	($0.125)	($0.100)	($0.050)
Pre-Tax Income	($0.828)	($0.712)	($0.376)	($0.320)	($0.265)	$0.235	($0.466)	$2.800	$4.875
Taxes	$0	$0	$0	$0	$0	$0	$0	$0	$1.219
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)	($0.265)	$0.235	($0.466)	$2.800	$3.656
YOY Growth	-	-	-	-	-	-	-	*-701.4%*	*30.6%*
Net Margin	-	-	-	-	-	-	-	*26.7%*	*24.4%*
Reported EPS	**($0.04)**	**($0.03)**	**($0.01)**	**($0.01)**	**($0.01)**	**$0.01**	**($0.02)**	**$0.07**	**$0.08**
YOY Growth	-	-	-	-	-	-	-	*-515.3%*	*23.3%*
Shares Outstanding	19.9	23.8	25.9	26.0	27.0	38.5	29.3	42.5	45.0

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

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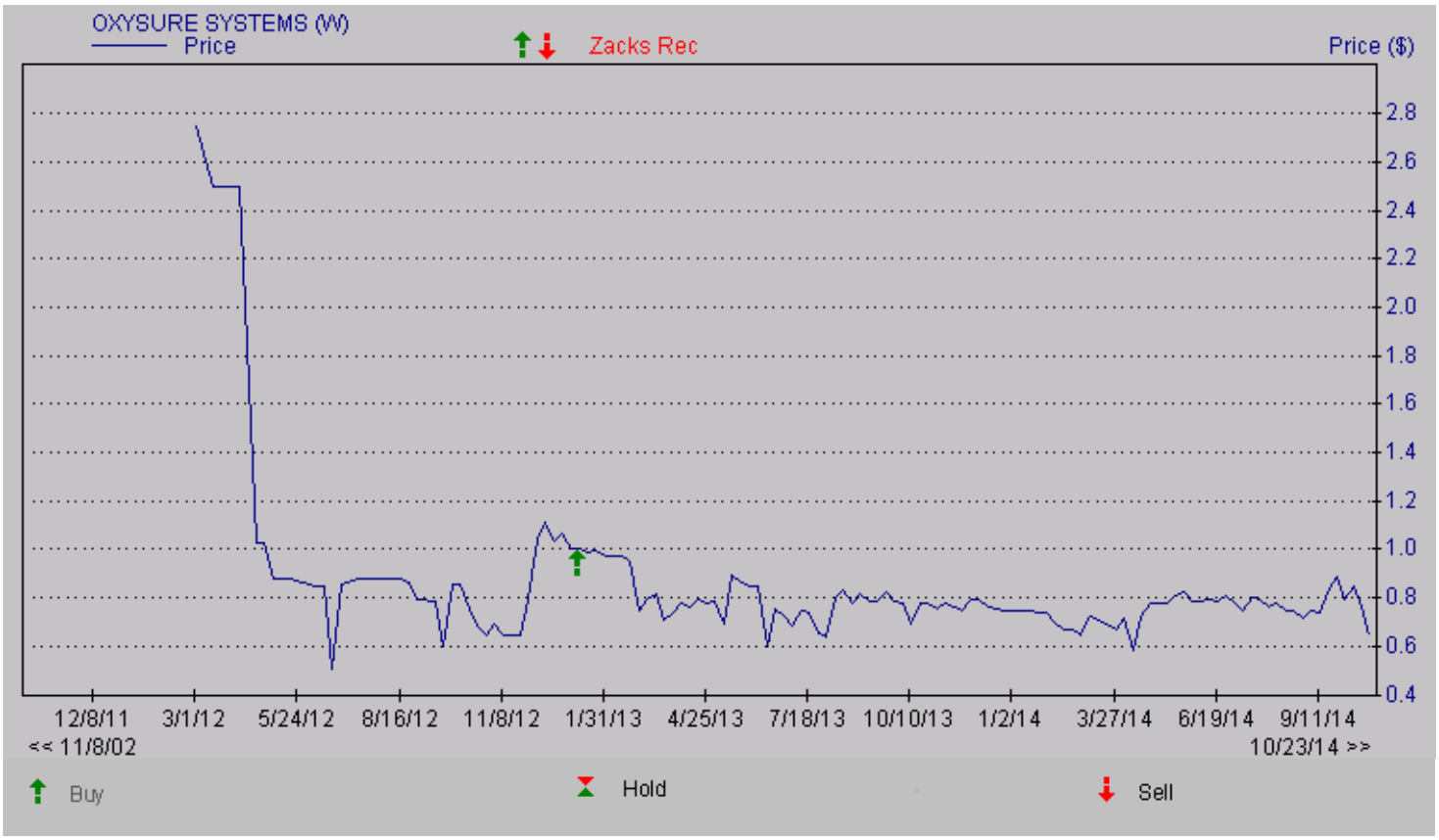
HISTORICAL ZACKS RECOMMENDATIONS



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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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