Zacks Small-Cap Research

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OxySure Systems, Inc.

(OXYS-OTCBB)

OXYS: Another Solid Quarter For OxySure – Momentum Continues To Build…

UPDATE

We see clear signs of progress and building momentum over the past few quarters. Revenues in the second quarter 2013 far exceeded our forecast. We believe that the company's Model 615 Emergency Oxygen System is a potential breakthrough product for the delivery of medical oxygen in a medical emergency required supplemental oxygen, such as a cardiac arrest or acute asthma attack. We see several distinctive advantages of the Model 615 over portal oxygen cylinders, which are typically not designed for emergency use. We think that OxySure can turn cash flow positive in 2016, and generate over $10 million in operating cash flow in 2018. Accordingly, we rate the stock 'Outperform' with a $1.75 target.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	01/14/2013
Current Price (08/13/13)	$0.80
Target Price	**$1.75**

SUMMARY DATA

52-Week High	**$1.24**
52-Week Low	**$0.59**
One-Year Return (%)	**N/A**
Beta	**0.04**
Average Daily Volume (sh)	**7,030**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$18**
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 2013 Estimate	**N/A**
P/E using 2014 Estimate	**N/A**

Risk Level	**N/A,**
Type of Stock	**N/A**
Industry	**Med Instruments**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	0.03 A	0.06 A	0.10 A	0.08 A	0.27 A
2013	0.24 A	0.48 A	0.42 E	0.50 E	1.64 A
2014					2.50 E
2015					5.00 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.02 A	-$0.01 A	-$0.01 A	-$0.01 A	-$0.04 A
2013	-$0.01 A	-$0.01 A	-$0.01 E	-$0.01 E	-$0.03 E
2014					-$0.02 E
2015					$0.04 E

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WHAT'S NEW

Big Second Quarter Shows OxySure On The Right Path

On August 13, 2013, OxySure Systems, Inc. reported financial results for the second quarter ended June 30, 2013. Total revenues in the quarter were $476K, an increase of a whopping 657% over the same period in 2012 and 98% sequentially from the first quarter 2013. Revenues doubled our expectations for $200K. Revenues consisted of $364K in products sales and $113K in revenues under licensing and service agreements. Top-line growth at OxySure is being driven by a combination of new customer wins, repeat business with existing customers, military orders, and signing new distribution partners both in the U.S. and internationally.

	Q2-2013	Q2-2012	Δ
Revenue Breakdown			
Product Sales	$364K	$63K	+478%
Licensing / Service Agreements	$113K	$0K	
Total Revenues	**$476K**	**$63K**	+657%

We expect the momentum to continue in 2013 with respect to signing new partnerships and distribution agreements. The company has been very active on this front over the past two quarters. Examples include:

→ In March 2013, the company signed a deal with Aero Healthcare for Australia, New Zealand, and the U.K. The deal with Aero includes a minimum purchase order of 4,500 units of the Model 615 during the first two years subsequent to CE Marking and TGA approval.
→ In May 2013, the company signed a deal with Medizon B.V. Medizon distributes Automated External Defibrillators (AEDs) in the Netherlands, Belgium, and Luxembourg, and will now distribution the Model 615 as well. The deal comes with a minimum purchase order of 2,250 units.
→ In May 2013, OxySure received approval to market the Model 615 and related accessories in Israel.
→ In June 2013, OxySure signed a non-exclusive distribution agreement with Aventric Technologies to sell the company's full portfolio of products. The Madison Heights, Michigan-based Aventric Technologies has a strong presence in the K-12 education market, and also sells imaging and medical equipment, including AEDs, to hospitals, clinics and other alternative point-of-care facilities.

In total, OxySure has now signed distribution agreements for nine countries outside the U.S. We see the Aero Healthcare and Medizon deals as the model for future international distribution partners in 2013 and beyond. The deal with Aventric Technologies is a testament to the company's goal to aggressively grow revenues in the coming year. In July 2013, the company launched a new Double Wall Cabinet for AED's and OxySure's Model 615 (shown to the right).



MSRP: $369.00

We remind investors that in February 2013, the company announced it had expanded its product offering to include six brands of AEDs, as well as all related AED accessories. We view this as an astute and highly strategic move by the company. The AED market is large and growing handsomely, and OxySure's Model 615 emergency oxygen device is the ideal counterpart to an AED purchase order. There are an estimated 2.0 million AEDs placed in the U.S., and another 1.0 million outside the U.S. AED market growth is near 10% per year, and Frost & Sullivan estimated it will hit $1.7 billion in the U.S. alone by 2015.

Making available the leading AEDs allows these commission-based independent agents to offer a full solution of life-saving devices that includes both AEDs and emergency oxygen products. The company should benefit from both increased sales of its own Model 615 device and accessories, along with distribution payments on the six brands of AEDs that will become available through the company's expanded network.

We believe growth in the top-line can be accomplished at minimal upfront cost to OxySure. New products and orders from the military was a strong contributor to the top-line in the second quarter. We believe the positive momentum clearly evident in the first half of the year should carry over to the third and fourth quarter.

Operating expenses in the quarter totaled $664K, consisting of $152K in cost of goods sold, $133K in sales and marketing, $195K in general and administrative, and $183K in research and development. We note this was the first quarter with significant R&D in some time for OxySure. The company is working diligently on developing a new portable OxySure product for military use on the battlefield. Gross margin in the quarter was 68% in the second quarter, up from 60% in the same period in 2012.

Operating expenses continue to remain under control at the company. Net loss for the quarter totaled $193K, an improvement of $25K from the second quarter 2012. Revenues are growing and net loss is shrinking. Although still not yet profitable, OxySure is clearly moving in the right direction.

	Q2-2013	Q2-2012	Δ
Income Statement			
Operating Expenses	$664K	$282K	+135%
Net Income	($193K)	($218K)	+$25K
EPS	**($0.008)**	**($0.011)**	**+$0.003**

The company exited the second quarter ended June 30, 2013 with $96K in cash. Operating and investing cash burn during the second quarter totaled $293K; however, the company saw a number of warrants exercised during the quarter to provide approximately $294K in cash. The company continues to fund operations through warrant exercising and small equity “drip” financings. Over the past year, the total number of derivative securities outstanding was reduced by approximately 2.038 million. We note the company also has $288K in inventory on the books as of the end of the second quarter 2013. Total assets increased to $1. 37 million as of June 30, 2013, up from $1.21 million at the end of December 2012.

RECOMMENDATION & VALUATION

In January 2013, we initiated coverage of OxySure Systems, Inc. with an Outperform rating and price target of $1.75 per share. We believe that the company’s Model 615 Emergency Oxygen System is a potential breakthrough product for the delivery of medical oxygen in a medical emergency required supplemental oxygen, such as a cardiac arrest or acute asthma attack. We see several distinctive advantages of the Model 615 over portal oxygen cylinders, which are typically not designed for emergency use.



Firstly, with the Model 615 unit, oxygen is generated on demand from two inert dry powders. There is no storage of oxygen, no compressed tanks, no dials, no valves, no regulatory maintenance, no hydrostatic testing, no batteries, no required training, and none of the hazards associated with traditional oxygen provision systems.

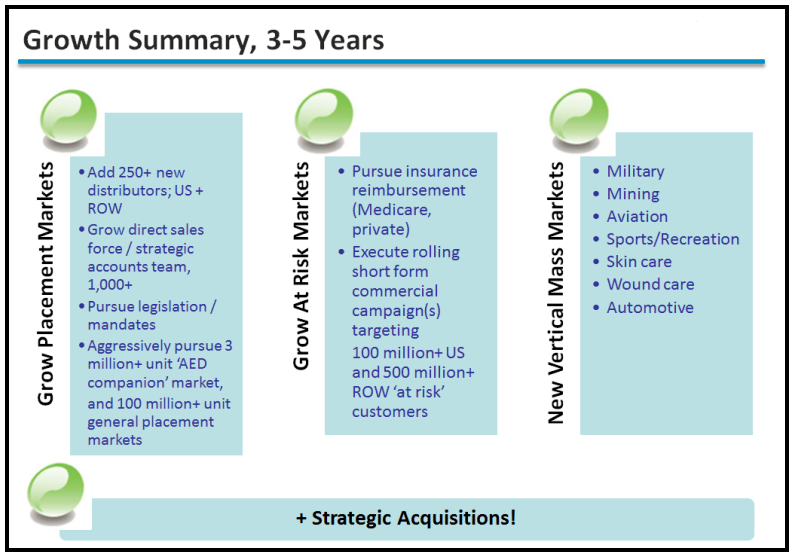
Secondly, the OxySure Model 615 is safe and simple to use, and provides oxygen instantly with the turn of a knob. It can be used by any lay person, and bridges the gap between the onset of a medical emergency and the time that the first responders arrive on the scene. In the U.S., that gap between calling 911 and emergency medical professionals arriving is 6 to 15 minutes, depending on traffic conditions and other factors. If the medical emergency is of a cardiovascular nature, this gap can be critical, since irreparable damage to brain tissue can occur starting after only three minutes of oxygen deprivation.

And finally, the OxySure Model 615 is the perfect adjunct product to be placed next to an automated external defibrillator (AED). AED market growth over the past several years has been impressive. In 2012, we estimate that roughly 140,000 units were sold worldwide, generating revenues of $220 million. The market is expected to growth at a CAGR of 6-7% over the next five years (Frost & Sullivan), with uptake being driven by legislative mandates, an aging population, reimbursement, and risk mitigation strategies. OxySure's Model 615 is both more affordable and accessible than AEDs, and data shows a person is up to 300x more likely to require supplemental oxygen in their lifetime than external defibrillation. OxySure is currently looking at piggy-backing on AED legislation and reimbursement to help facilitate uptake of the Model 615 device. With over 3 million AEDs placed worldwide, acceptance of the Model 615 as a logical supplement to an AED has the potential to create a "hockey-stick" like ramp in revenues.



We've built, an admittedly aggressive, financial model based on surging sales of the Model 615 device, facilitated by the signing of additional distribution agreements, expanded marketing and promotional efforts by the company, and growing penetration into both the placement and "at risk" market thanks to improving reimbursement and legislative mandates. We are excited about recent distribution agreements such as with Aero Healthcare, Medizon, and the expansion of the product suite by re-selling six of the leading AEDs. The company is also expanding its own product line, looking to create two oxygen products designed specifically for military applications. The first is an oxygen solution for use in high-altitude aircraft and the second is a handheld, smaller version of the Model 615 for the battlefield. We note the company recorded the first sales of a smaller version of the device to the military in the first quarter 2013, and saw growing revenues from the military in the second quarter 2013.

We think that OxySure can turn cash flow positive in 2016, and generate over $10 million in operating cash flow in 2018. We built a 10-year discounted cash flow model that pegs fair-valuation between $1.50 and $2.00 per share (assumption to be narrowed once the company secures long-term financing).



PROJECTED FINANCIALS

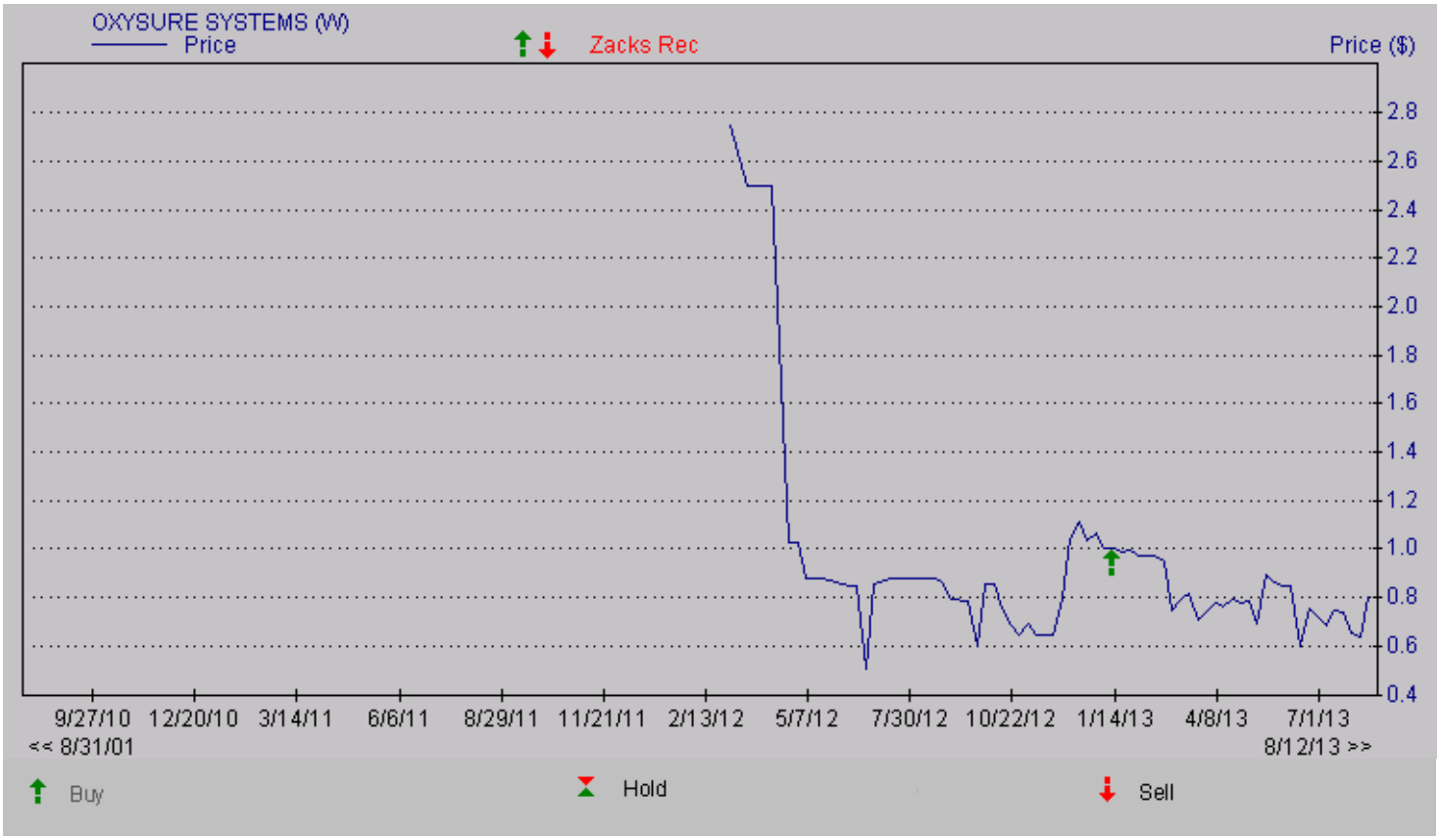
OxySure Systems, Inc.
Income Statement

OxySure Systems, Inc.	2011 A	2012 A	Q1 A	Q2 A	Q3 E	Q4 E	2013 E	2014 E	2015 E	2016 E
Direct Product Sales	**$0.185**	**$0.270**	**$0.115**	**$0.364**	**$0.300**	**$0.350**	**$1.129**	**$1.500**	**$3.000**	**$5.000**
YOY Growth	*41.4%*	*45.6%*	*313.9%*	*478.1%*	*190.3%*	*363.0%*	*318.6%*	*32.9%*	*100.0%*	*66.7%*
Distribution Agreements	**$0**	**$0**	**$0.125**	**$0.113**	**$0.125**	**$0.150**	**$0.513**	**$1.000**	**$2.000**	**$3.000**
YOY Growth	-	-	-	-	-	-	-	*95.1%*	*100.0%*	*50.0%*
Total Revenues	**$0.185**	**$0.270**	**$0.240**	**$0.476**	**$0.425**	**$0.500**	**$1.641**	**$2.500**	**$5.000**	**$8.000**
YOY Growth	*-48.0%*	*45.6%*	*762.2%*	*657.0%*	*311.3%*	*561.4%*	*508.6%*	*52.3%*	*100.0%*	*60.0%*
Cost of Goods Sold	$0.103	$0.096	$0.053	$0.152	$0.135	$0.147	$0.488	$0.720	$1.380	$2.150
Product Gross Margin	*44.2%*	*64.6%*	*77.9%*	*68.0%*	*68.2%*	*70.6%*	*70.3%*	*71.2%*	*72.4%*	*73.1%*
Operating Expenses	$1.151	$1.020	$0.331	$0.512	$0.450	$0.480	$1.773	$2.100	$2.250	$2.500
% SG&A	*621.3%*	*378.3%*	*137.8%*	*107.5%*	*105.9%*	*96.0%*	*108.0%*	*84.0%*	*45.0%*	*31.3%*
Operating Income	($1.069)	($0.846)	($0.144)	($0.188)	($0.160)	($0.127)	($0.619)	($0.320)	$1.370	$3.350
Operating Margin	-	-	-	-	-	-	-	-	*27.4%*	*41.9%*
Interest & Other Net	($0.463)	$0.02	($0.025)	($0.004)	($0.050)	($0.050)	($0.129)	($0.125)	($0.100)	($0.050)
Pre-Tax Income	($1.532)	($0.828)	($0.169)	($0.193)	($0.210)	($0.177)	($0.749)	($0.445)	$1.270	$3.300
Taxes	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Income	($1.532)	($0.828)	($0.169)	($0.193)	($0.210)	($0.177)	($0.749)	($0.445)	$1.270	$3.300
YOY Growth	*-2.9%*	-	-	-	-	-	-	-	-	-
Net Margin	-	-	-	-	-	-	-	-	*25.4%*	*41.3%*
Reported EPS	**($0.10)**	**($0.04)**	**($0.01)**	**($0.01)**	**($0.01)**	**($0.01)**	**($0.03)**	**($0.02)**	**$0.04**	**$0.09**
YOY Growth	*-4.2%*	*-56.6%*	-	-	-	-	*-24.2%*	*-49.7%*	*-342.2%*	*138.2%*
Shares Outstanding	15.930	19.862	22.666	23.167	24.100	24.800	23.683	28.0	33.0	36.0

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

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