Zacks Small-Cap Research

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OxySure Systems, Inc.

(OXYS-OTCQB)

OXYS: Solid Revenue Growth Should Lead To Profitability By 2015…

UPDATE

We see clear signs of progress and building momentum over the past few quarters. Revenues for the past two quarters 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 medical emergencies requiring 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 2015, 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 (11/18/13)	$0.77
Target Price	**$1.75**

SUMMARY DATA

52-Week High	**$1.24**
52-Week Low	**$0.59**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**8,369**
Shares Outstanding (mil)	**24**
Market Capitalization ($mil)	**$19**
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	**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)
2012	0.03 A	0.06 A	0.10 A	0.08 A	0.27 A
2013	0.24 A	0.48 A	0.55 A	0.55 E	1.81 A
2014					3.00 E
2015					5.50 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	-$0.00 A	-$0.00 E	-$0.02 E
2014					$0.00 E
2015					$0.06 E

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WHAT'S NEW

OxySure On The Right Path

On November 14, 2013, OxySure Systems, Inc. reported financial results for the third quarter ended September 30, 2013. Revenue in the quarter totaled $546K, an increase of a whopping 428% over the same period in 2012 and 15% sequentially from the second quarter 2013. This is the third impressive triple-digit year-over-year quarterly revenue growth posted by the company. Revenues exceeded our expectations by over $100K. Revenues consisted of $287K in direct products sales and $259K 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.

	Q3-2013	Q3-2012	Δ
Revenue Breakdown			
Product Sales	$287K	$103K	+178%
Licensing / Service Agreements	$259K	$0K	
Total Revenues	**$546K**	**$103K**	+428%

We expect the momentum to continue in the fourth quarter and on into 2014. The company has been very active in signing new partnerships and distribution agreements in 2013. 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. These agreements are leading to strong revenue growth in the licensing and service area.

We note the company is also making significant progress expanding its customer base. Specifically, in September 2013, OxySure announced progress with regard to obtaining European CE Mark of the OxySure Model 615 product. The company received notice on September 12, 2013 of an opinion rendered by the Medicines and Healthcare products Regulatory Authority (MHRA) in the United Kingdom related to the classification of the OxySure Model 615 as a medical device. OxySure's U.K distribution partner, Aero Healthcare, has already substantially completed the technical file for the CE Marking process and expects to move forward with the next steps to allow for commercial sale of the Model 615 product in the EU.

In October 2013, the company announced the launch of OxySure Commercial FinanceSM , a service that allows OxySure customers to easily and conveniently lease OxySure's suite of medical devices and products, including the OxySure Model 615, Automated External Defibrillators (AEDs), and other medical equipment, supplies and accessories. The service is powered by LeaseQ, and allows OxySure customers to do comparison shopping for lease quotes from dozens of third party lenders. The service is designed to open new markets to the company by facilitating or fast tracking the purchasing process, as well as providing certain tax advantages to corporate buyers.

Besides expanding the distribution and access to the devices, OxySure is doing a good job in expanding the product suite. For example, in July 2013, the company launched a new Double Wall Cabinet for AED's and OxySure's Model 615 (shown to the right).



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. This was 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. This new growth has been evident over the past two quarters, as licensing and service revenue nearly outpaced direct product sales in the third quarter 2013.

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 and third quarter. We believe the positive momentum clearly evident so far in 2013 carry over to the fourth quarter and on into 2014.

Operating expenses in the quarter totaled $590K, consisting of $111K in cost of goods sold, $79K in sales and marketing, $266K in general and administrative, and $134K in research and development. Despite the solid 428% year-over-year and 15% sequential revenue growth, total operating expenses actually declined from the $664K reported in the second quarter 2013. Over the past two quarters the company has spent $317K on R&D. The company is working diligently on developing a new portable OxySure product for military use on the battlefield. Gross margin in the quarter was nearly 80% in the third quarter, up from 68% in the second quarter 2013.

The strong revenue growth and tight operating expenses control at OxySure lead to lowest loss operating quarters in the past three years. Net loss for the quarter totaled only $83K, an improvement of an improvement of $51K from the third quarter 2012 and $110K from the second quarter 2013. Revenues are growing and net loss is shrinking. Although still not yet profitable, OxySure is clearly moving in the right direction.

	Q3-2013	Q3-2012
Income Statement		
Operating Expenses	$590K	$257K
Net Income	($83K)	($134K)
EPS	**($0.003)**	**($0.006)**

The company exited the third quarter ended September 30, 2013 with $5K in cash. This remains the paramount concern for investors. Despite the improvement evident on the income statement over the past year, the company's balance sheet remains tenuous. Operating and investing cash burn during the third quarter totaled $363K. Cash generated by financing activities totaled $271K. During the quarter the company issued 340K shares of common stock to fund operations. Issuing stock and having investors exercise warrants remains the primary source of capital for the company. These small "drip" financings, though effective, limit the interest from new shareholders.

We think OxySure is slowly approaching breakeven operations. Burn during the first nine months of 2013, cash burn has been $849K. This has been nearly entirely offset by financings totaling $841K. Over the next twelve months, we believe the company requires between $500K and $1.0 million in cash to fund operations. It is likely, given the current trajectory of the top-line, that OxySure can achieve cash flow positive operations by the end of 2014. Therefore, we think new investors that have previously shunned the story due to the weak cash position and drip financings may start to be attracted to the story starting in 2014.

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 medical emergencies requiring 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.

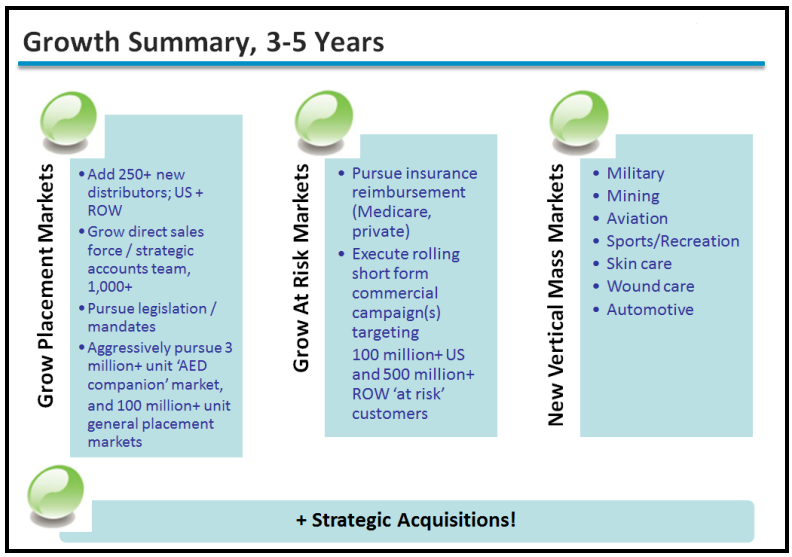
Secondly, the OxySure Model 615 is safe and simple to use, and provides oxygen instantly with the turn of a knob. It can be used by any lay person, and bridges the gap between the onset of a medical emergency and the time that the first responders arrive on the scene. In the U.S., that gap between calling 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 by the end of 2014, 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

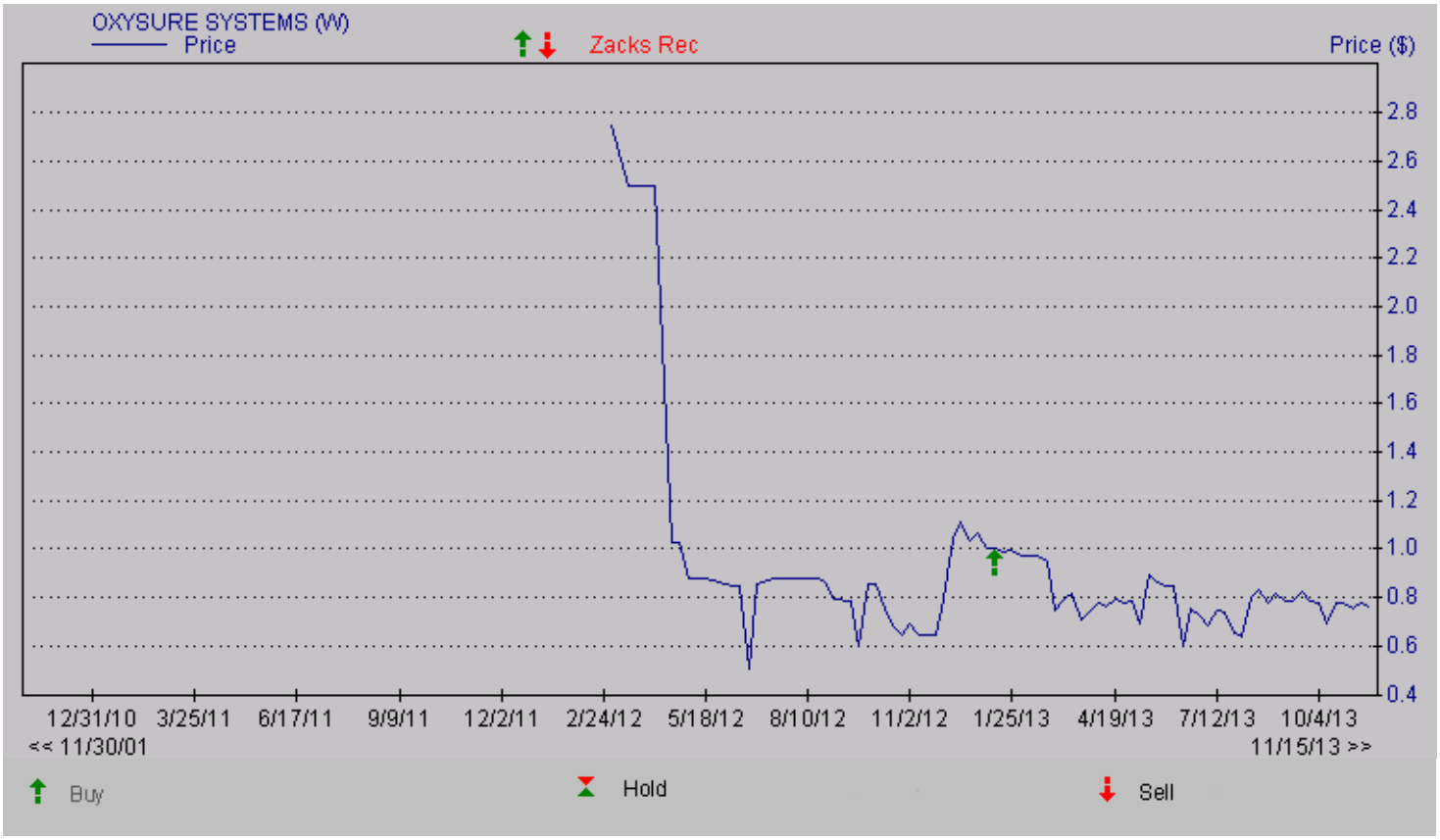
OxySure Systems, Inc.
Income Statement

OxySure Systems, Inc.	2011 A	2012 A	Q1 A	Q2 A	Q3 A	Q4 E	2013 E	2014 E	2015 E	2016 E
Direct Product Sales	**$0.185**	**$0.270**	**$0.115**	**$0.364**	**$0.287**	**$0.300**	**$1.066**	**$1.500**	**$3.000**	**$5.000**
YOY Growth	*41.4%*	*45.6%*	*313.9%*	*478.1%*	*177.8%*	*296.9%*	*295.3%*	*40.7%*	*100.0%*	*66.7%*
Distribution Agreements	**$0**	**$0**	**$0.125**	**$0.113**	**$0.259**	**$0.250**	**$0.746**	**$1.500**	**$2.500**	**$3.500**
YOY Growth	-	-	-	-	-	-	-	*101.0%*	*66.7%*	*40.0%*
Total Revenues	**$0.185**	**$0.270**	**$0.240**	**$0.476**	**$0.546**	**$0.550**	**$1.812**	**$3.000**	**$5.500**	**$8.500**
YOY Growth	*-48.0%*	*45.6%*	*762.2%*	*657.0%*	*428.2%*	*627.6%*	*572.0%*	*65.5%*	*83.3%*	*54.5%*
Cost of Goods Sold	$0.103	$0.096	$0.053	$0.152	$0.111	$0.126	$0.443	$0.720	$1.290	$1.950
Product Gross Margin	*44.2%*	*64.6%*	*77.9%*	*68.0%*	*79.6%*	*77.1%*	*75.6%*	*76.0%*	*76.5%*	*77.1%*
Operating Expenses	$1.151	$1.020	$0.331	$0.512	$0.479	$0.480	$1.802	$2.100	$2.250	$2.500
% SG&A	*621.3%*	*378.3%*	*137.8%*	*107.5%*	*87.7%*	*87.3%*	*99.4%*	*70.0%*	*40.9%*	*29.4%*
Operating Income	($1.069)	($0.846)	($0.144)	($0.188)	($0.044)	($0.056)	($0.432)	$0.180	$1.960	$4.050
Operating Margin	-	-	-	-	-	-	-	-	*35.6%*	*47.6%*
Interest & Other Net	($0.463)	$0.02	($0.025)	($0.004)	($0.039)	($0.050)	($0.118)	($0.125)	($0.100)	($0.050)
Pre-Tax Income	($1.532)	($0.828)	($0.169)	($0.193)	($0.083)	($0.106)	($0.551)	$0.055	$1.860	$4.000
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)	($0.083)	($0.106)	($0.551)	$0.055	$1.860	$4.000
YOY Growth	*-2.9%*	-	-	-	-	-	-	-	-	-
Net Margin	-	-	-	-	-	-	-	-	*33.8%*	*47.1%*
Reported EPS	**($0.10)**	**($0.04)**	**($0.01)**	**($0.01)**	**($0.00)**	**($0.00)**	**($0.02)**	**$0.00**	**$0.06**	**$0.11**
YOY Growth	*-4.2%*	*-56.6%*	-	-	-	-	*-44.2%*	*-108.4%*	*2769.4%*	*97.1%*
Shares Outstanding	15.930	19.862	22.666	23.167	24.077	24.800	23.677	28.0	33.0	36.0

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

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