

OxySure Systems, Inc. (OTCQB: OXYS), Target Price: \$2.30

OxySure Systems, Inc. (OTCQB: OXYS, "OxySure") provides short duration / emergency medical oxygen and respiratory solutions for mass market use. Using patented technology that combines two dry, inert powders to create medical oxygen, the Frisco, Texas-based company manufactures and markets the **OxySure Model 615**, a portable emergency oxygen system that has been approved by the FDA for sale over the counter without a prescription.

Recent Highlights

Large short position in OxySure shares exposed

We have become aware of significant short selling activity in the stock of OxySure Systems over the last several months. According to data compiled by Buyins.net, between November 18, 2014 and April 30, 2015, there were approximately 5.7mn shares sold short in OxySure stock. Considering that the float in OxySure Systems is just 7.65mn of the total 29.6mn shares outstanding, we find this data eye-opening.

Indeed, the data from Buyins.net suggests that nearly $\frac{3}{4}$ of the float has been sold short from November 18, 2014, through April 30, 2015. During this time period, short sales activity represented 36% of the total volume of 15.9mn shares traded. If a short position of this magnitude were outstanding in its entirety then it would take more than two months of buying to cover at the current average daily trading volume, which averages less than 100,000 shares per day. We note that the company issued a positive update on May 5, 2015, stating that 2015 will be a "watershed year" for the company.

Corporate update highlights progress for OxySure

Meanwhile, on May 5, 2015, OxySure CEO Julian Ross provided a compelling corporate update for the company. Ross highlighted the progress made by OxySure in 2014 and updating investors with progress made during 2015. Importantly, Ross indicated that the company is on track with the hiring and training of new personnel to grow its sales team to include 30 Territory Sales Managers by calendar year-end. Ross also confirmed that OxySure is making progress on the international expansion front, with discussions underway in several areas, including Singapore, Japan, Canada, and South Korea. We see this as an important and necessary step for the company to achieve its growth plan of reaching a revenue run rate of \$10mn by the end of 2015.

Growth story continues as demonstrated by 2014 results

OxySure's year-end 2014 results demonstrated continued strong growth, as the company grew its top line for the 10th consecutive quarter. For the year, revenues increased by 35.4% versus 2013, with revenues coming in at \$2.4mn versus \$1.8mn in 2013. Results were driven by an 83% rise in the United States, as well as a 35% increase in Model 615 replacement cartridge shipments. Model 615 unit shipments increased by 18% YoY. On the bottom line, GAAP EPS came in at a loss of (\$0.10) versus our estimate of (\$0.05). OxySure ended the year with cash on hand of \$647,093.

Maintain price target of \$2.30

Our price target remains \$2.30 for OXYS at this time. We see OxySure as an intriguing speculative medical device company entering what should be a significant growth year with an innovative product targeting a large potential market.

If achieved, the price target of \$2.30 represents potential upside of 210.8% from the recent price of \$0.74 on May 7, 2015.

Stock Details (5/7/2015)

OTCQB	OXYS
Sector / Industry	Healthcare / Medical Devices
Price Target	\$2.30
Recent share price	\$0.74
Shares o/s (mn)	29.6
Market cap (in \$ mn)	21.9
52-week high/low	\$1.40 / \$0.45

Source: Bloomberg, SeeThruEquity Research

Key Financials (\$mn, unless specified)

	FY13	FY14	FY15E
Revenues	1.8	2.4	10.0
EBITDA	(0.4)	(2.0)	0.6
EBIT	(0.5)	(2.0)	0.6
Reported net income	(0.7)	(2.7)	0.6
GAAP EPS	(0.03)	(0.10)	0.02

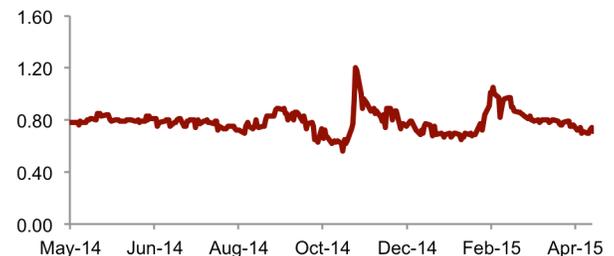
Source: SeeThruEquity Research

Key Ratios

	FY13	FY14	FY15E
Gross margin (%)	72.8	41.8	61.3
Operating Margin (%)	(27.7)	(83.5)	5.8
EBITDA margin (%)	(24.2)	(81.8)	6.3
Net margin (%)	(39.6)	(113.0)	6.4
P/Revenue (x)	12.2	9.1	2.2
EV/EBITDA (x)	NM	NM	NM
EV/Revenue (x)	12.2	9.1	2.2

Source: SeeThruEquity Research

Share Price Performance (\$, LTM)



Source: Reuters

ANNUAL FINANCIAL SUMMARY

Figure 1. Income Statement Summary

Figures in \$'000, unless specified	2014	2013
Revenue	2,437,402	1,800,327
YoY growth	35.4%	
Cost of Revenue	1,419,047	592,986
as % of total sales	58.2%	32.9%
Gross Profit	1,018,355	1,207,341
Gross margin	41.8%	67.1%
Research & Development	583,435	356,015
as % of net sales	23.9%	19.8%
Selling & Marketing	718,705	353,156
as % of net sales	29.5%	19.6%
General & Administrative & Other Items	1,751,006	986,468
as % of net sales	71.8%	54.8%
GAAP Operating expenses	3,053,146	1,695,639
YoY growth	80.1%	
Income from operations	(2,034,791)	(488,298)
Operating Margin %	(83.5%)	(27.1%)
Other Items	(718,768)	(224,154)
Net Loss to common	(2,753,560)	(712,452)
YoY growth	NM	
GAAP EPS	(0.10)	(0.03)
YoY growth	NM	NM

Source: Company filings, SeeThruEquity Research

Detailed review of results:

Strong revenue growth continues at OxySure: OxySure reported year-end 2014 results that showed continued strong growth. 4Q14 marked the 10th consecutive quarter of growth, setting up 2015 as a possible breakthrough year in our view. Driven by a strong 83% rise in shipments in the United States, revenue grew by over 35% from 2013 levels. For the year, revenues came in at \$2.4mn, up from \$1.8mn in 2013. Model 615 replacement cartridge unit shipments increased in 2014 by 35%, with model 615 units rising by 18% YoY.

GAAP EPS came in at (\$0.10) versus (\$0.03) in 2013 and our estimate of (\$0.05). The company experienced higher expenses in SG&A as part of its expansion strategy and also had higher rent and fixed operating expenses.

OxySure ended the year with cash on hand of \$647,093 and a working capital surplus of \$418,734. The company used \$1.1mn of cash in operations during 2014, and we do expect the company will seek to raise additional capital in 2015E to fund growth and other corporate endeavors.

Overall we see 2014 as a strong year for OxySure as the company accomplished its goal of driving growth, expanding its distribution both in the United States and internationally, and Received CE Mark Approval for the OxySure Model 615 Portable Emergency Oxygen Device, a critical step toward launching the product into the 30 countries belonging to the European Economic Area (EEA)

Sizeable short position in OxySure shares creates potential for volatility

- We have become aware of a sizeable short position in OxySure shares. According to data from Buyins.net, over 5.7mn shares of OxySure were sold short from November 18, 2014, to April 30, 2015, representing 36% of the volume traded in OxySure, as shown in the following table.

Analysis of Trading Activity 11/18/14 thru 4/30/15				
Trade Type	Buy Volume	Sell Volume	Short Sale Volume	Total Volume
OXYS Shares	4,599,568	5,134,056	5,722,289	15,885,248

Source: Buyins.net, Company

- Considering that the tradable float in OxySure Systems is just 7.65mn of the total 29.6mn shares outstanding, we find this data eye-opening. Indeed, the short activity of 5.7mn shares represents nearly $\frac{3}{4}$ of the tradable float. OxySure management issued a positive investor update on May 5, 2015, stating that 2015 will be a “watershed year” for the company.
- Clearly there is building tension in the name in the market, potentially setting the stage for violent price activity. We note that if a short position of this magnitude were outstanding in its entirety, then it would take more than two months of buying to cover at the current average daily trading volume, which averages less than 100,000 shares per day.

Encouraging update from CEO signifies 2015 has potential to be a watershed year for OxySure

- OxySure CEO Julian Ross released a corporate update on May 5, 2015, which leads us to believe the year could be a significant one for OxySure.
- We note that OxySure has previously issued a goal of exiting 2015E with annual sales running at a rate of \$10mn, and the company is pursuing expansion efforts aggressively through both new distribution and the expansion of its sales team.
- OxySure has outlined a goal of increasing its sales leadership to 30 Territory Managers by the end of the year, and Ross indicated that the company is on track to accomplish this, with the first group of trainees in the field and another group scheduled for training in June. We look forward to hearing metrics from the company to track the performance of this initiative in the future.
- With regard to expanding its international distribution, which we see as a key goal for the year, Ross also confirmed that OxySure is making progress, with discussions underway in several areas, including Singapore, Japan, Canada, and South Korea.

Maintaining price target of \$2.30

- We are maintaining our price target of \$2.30 for OxySure. If achieved, our price target suggests potential upside of 210.8% from the recent price of \$0.74.
- We continue to view OxySure as an intriguing high risk / high reward investment in the medical device space. The company’s innovative medical device utilizing “oxygen from powder” technology has demonstrated strong growth thus far, and OxySure management has guided for 2015E to be a pivotal year for growth and expansion.

About OxySure Systems, Inc.

OxySure Systems, Inc. (OXYS) is a medical technology company that focuses on the design, manufacture and distribution of specialty respiratory and medical solutions. The company pioneered a safe and easy to use solution to produce medically pure (USP) oxygen from inert powders. The company owns numerous issued patents and patents pending on this technology, which makes the provision of emergency oxygen safer, more accessible and easier to use than traditional oxygen provision systems. OxySure's products improve access to emergency oxygen that affects the survival, recovery and safety of individuals in several areas of need: (1) Public and private places and settings where medical emergencies can occur; (2) Individuals at risk for cardiac, respiratory or general medical distress needing immediate help prior to emergency medical care arrival; and (3) Those requiring immediate protection and escape from exposure situations or oxygen-deficient situations in industrial, mining, military, or other "Immediately Dangerous to Life or Health" (IDLH) environments. www.OxySure.com

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