



Zynex, Inc. (OTCQB: ZYXI, Target Price: \$5.25)

Based in Lone Tree, CO, Zynex, Inc. (OTCQB: ZYXI, "Zynex" produces medical devices that utilize electrotherapy to treat pain and rehabilitation. The company's flagship product, **NexWave™**, is an FDA-cleared electrotherapy medical device that offers non-invasive, non-addictive treatment of chronic and acute pain. With a growing active installed base of over 50,000 devices, NexWave™ provides Zynex with a high margin revenue stream with recurring attributes from supplies and consumables. Beyond NexWave™, Zynex offers additional solutions for pain management, neuro-monitoring and stroke recovery. Zynex is in the process of completing an impressive turnaround, and appears well-positioned for growth. Upcoming catalysts include continued execution in NexWave™ and possible regulatory clearance for the CM1500, a new class 2 device targeting the large unmet need for post-surgery blood volume monitoring. Zynex has also announced its intention to uplist shares to a national exchange – likely the NYSE American or Nasdaq CM – which has the potential to raise its visibility in its industry as well as among institutional investors restricted from investing in OTC companies.

Investment Highlights

Zynex pre-announces better than expected 4Q17 results

On January 8, 2018, Zynex released a positive pre-announcement for its 4Q17 results, with highlights as follows:

- Revenues are now expected to be in a range of \$7.5mn to \$8.0mn, up sequentially from \$6.8mn in FY3Q17 and more than twice year-ago revenues of \$2.9mn in 4Q16.
- Management increased its full year 2017 revenue outlook to a range of \$22.8mn - \$23.3mn, above the high end of its prior guidance of \$22.3mn- \$22.8mn and our estimate of \$22.5mn.
- The company expects to file its full results by March 31, 2018.

Increasing estimates on strong pre-announcement

Zynex continues to report accelerating momentum in the market as management pre-announced better than expected 4Q17 top line results, which were above the high end of its prior guidance and our estimates. Zynex now expects revenues to be between \$7.5mn and \$8.0mn in 4Q17. The midpoint of this range, \$7.75mn, implies impressive sequential growth of nearly 14% from \$6.8mn in 3Q17, and over 165% YoY growth from \$2.9mn in 3Q16. For the full year, the company is now targeting a range of \$22.8mn to \$23.3mn, the midpoint of which implies annual revenue growth of 73% over 2016. Considering the positive pre-announcement, we are raising our full year 2017 revenue estimate to \$23.1mn, versus our prior estimate of \$22.5mn. For the full year Zynex had previously guided to Adjusted EBITDA, which excludes share compensation, to be in a range of \$8.6mn – \$9.1mn, versus \$1.3mn in 2016. We expect Zynex to be at the top end of this range.

Zynex to repurchase shares

On December 6, 2017, Zynex announced that it would seek to increase shareholder value by instituting a share repurchase program. As part of the announcement, CEO Thomas Sandgaard stated that the company would seek to repurchase up to \$2mn of the

company's common stock with excess free cash flow generated from the company's high earnings leverage.

Raising Price target to \$5.25

We are raising our price target for Zynex to \$5.25 following the positive pre-announcement, which was above our estimates. The target suggests a fair value of 25x 2017E EPS of \$0.21, and potential upside of 62.7% from the recent close of \$3.38.

Stock Details (1/10/18)

OTCQB:	ZYXI
Sector / Industry	Healthcare / Medical Devices
Price target	\$5.25
Recent share price	\$3.38
Shares o/s (mn)	32.8
Market cap (in \$mn)	111.0
52-week high/low	\$3.45 / 0.25

Source: Thomson Reuters, SeeThruEquity Research

Key Financial (\$mn, unless specified)

	FY16	FY17E	FY18E
Revenues	13,313.0	23,100.0	29,774.4
EBITDA	1,075.0	8,999.6	11,484.5
EBIT	640.0	8,665.6	11,314.3
Net income	69.0	6,860.6	9,269.6
EPS (\$)	0.00	0.21	0.28

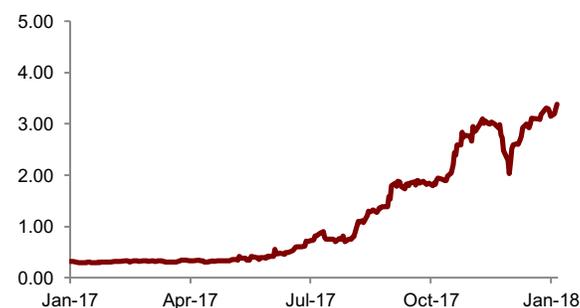
Source: SeeThruEquity Research

Key Ratios

	FY16	FY17E	FY18E
Gross margin (%)	73.6	78.7	80.0
Operating Margin (%)	4.8	37.5	38.0
EBITDA margin (%)	8.1	39.0	38.6
Net margin (%)	0.5	29.7	31.1
P/Revenue (x)	8.3	4.8	3.7
P/E (x)	1,531.8	15.8	12.0
EV/Revenue (x)	8.2	4.7	3.7

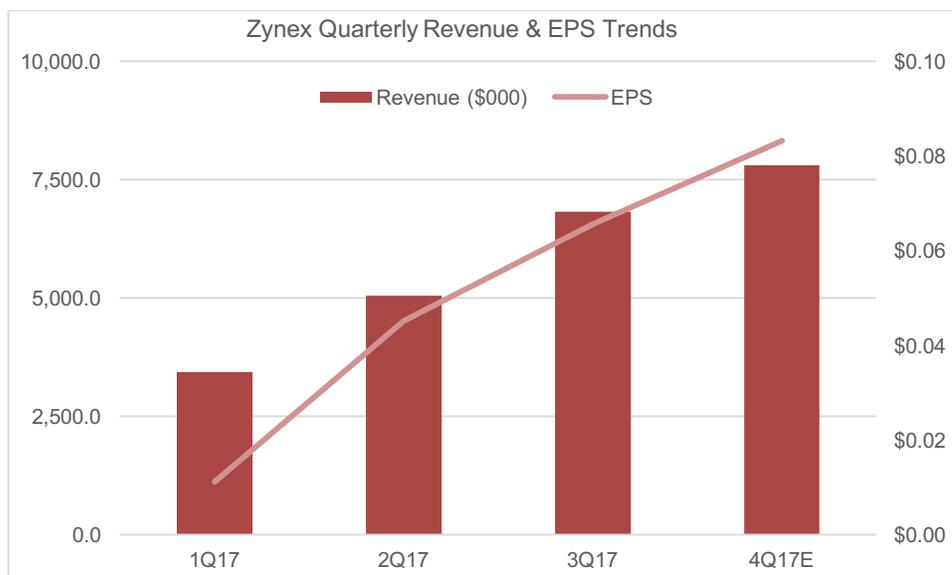
Source: SeeThruEquity Research

Share Price Performance (\$, LTM)



Zynex pre-announces better than expected 4Q17 and FY2017 revenues

- Zynex pre-announces 4Q17 ahead of expectations, raises guidance.** Zynex pre-announced impressive 4Q17 results on January 8, 2018, which were ahead of our estimates and management’s prior outlook. The company continues to report accelerating momentum in the market as management estimates 4Q17 revenues were between \$7.5mn and \$8.0mn, which is above the high end of the guidance issued in November 2017.
- Strong sequential and annual growth to end impressive 2017.** The midpoint of Zynex’s guidance implies 4Q17 revenues of \$7.75mn, which represents sequential growth of nearly 14% from \$6.8mn in 3Q17, and over 165% annual growth versus \$2.9mn in 3Q16.
- For the full year 2017, Zynex is now targeting a range of \$22.8mn to \$23.3mn, the midpoint of which implies annual revenue growth of 73% annual growth over 2016.
- Raising estimates.** Considering the positive pre-announcement, we are raising our full year 2017 estimate to \$23.1mn, versus our prior estimate of \$22.5mn.
- For the full year Zynex had previously guided to adjusted EBITDA, which excludes share compensation, to be in a range of \$8.6mn – \$9.1mn, versus \$1.3mn in 2016. Given the high contribution margin of incremental sales, we now expect the company to be at the high end of this range. As such, we now expect adjusted EBITDA to come in at \$9.1mn for 2017E.
- We expect the company to report final full year results by the end of March 2018; however, we believe the company is experiencing improved demand from improved order processing, reimbursement procedures, and collections, which allowed the company to better service supplies for its installed base of devices.
- Significant earnings leverage.** Given the positive pre-announcement, we expect that 4Q17 will be the sixth consecutive quarter of profitability at the company. We are now forecasting EPS of \$0.08 in 4Q17, ahead of our prior estimate of \$0.07.
- Our 2017E EPS estimate increases to \$0.21 from our prior estimate of \$0.20, versus \$0.00 in FY2016. We estimate that 2017E Net Income will have increased 100-fold to \$6.9mn versus \$69,000 in 2016. As illustrated below, Zynex is benefitting from robust earnings leverage; we are forecasting 2018E revenue and EPS of \$29.8mn and \$0.28, respectively.



Zynex initiates \$2mn share buyback

- On December 6, 2017, Zynex announced that it would seek to increase shareholder value by instituting a share repurchase program.
- As part of the announcement, CEO Thomas Sandgaard stated that the company would seek to repurchase up to \$2mn of the company's common stock. We were pleased to see this announcement, as the company looks to deploy excess free cash flow to return value to shareholders.
- As of November 30, 2017, Zynex had 32.8mn shares of common stock outstanding.

Increasing Zynex price target to \$5.25 on positive pre-announcement

- We are raising our price target for Zynex to \$5.25 following the positive pre-announcement for strong 4Q17 results that were above guidance and ahead of our expectations. Zynex has clearly moved beyond a turnaround situation and is a growth company with apparent momentum in the market.
- If achieved, the target of \$5.25 suggests potential upside of 62.7% from the recent price of \$3.38. The new target implies a valuation of 25x our new 2017E EPS estimate of \$0.21 and 18.8x estimated 2018E EPS of \$0.28.
- **Compelling valuation.** We note that Zynex shares trade an attractive valuation in light of the company's strong performance and large market opportunity. At the recent price of \$3.38, shares trade at just 12x 2018E EPS of \$0.28 despite robust profit growth exhibited in 2017, and significant catalysts on the horizon.
- Upcoming catalysts for Zynex include continued sales growth, an update on the regulatory status of CM1500, a new class 2 device targeting the large unmet need for post-surgery blood monitoring, and progress made by the company towards an uplisting to a national exchange, such as the Nasdaq CM or NYSE American.

Management Team

Thomas Sandgaard, Chairman, President and Chief Executive Officer

Thomas Sandgaard has been the Chairman of the Board, President and Chief Executive Officer of Zynex, Inc. since founding the company in 1996. He has previously held management positions with companies such as ITT, Siemens, GN Danavox, Dataco and Philips. Most of his work has been in the areas of international sales and distribution, technology transfers, mergers and marketing management in the semiconductor, telecommunications, data communications and medical equipment industries. Mr. Sandgaard has a degree in electronics engineering from Denmark's Odense University of Engineering and an MBA from Copenhagen Business School. Mr. Sandgaard has an in-depth knowledge of the industry and is the driving force of the Company strategies.

Dan Moorhead, Chief Financial Officer

Dan Moorhead is the Chief Financial Officer and responsible for all finance and accounting functions. Prior to joining Zynex, Mr. Moorhead was Chief Financial Officer of Evolving Systems, Inc. (Nasdaq: EVOL) from January 2016 until June 2017, after having served as Vice President of Finance & Administration from December 2011 through December 2015 and in other financial management roles from 2002-2005 and 2008-2011. Mr. Moorhead is a CPA and holds a B.B.A. in Accounting from the University of Northern Colorado.

Robert Bird, VP, Marketing

Robert Bird is the VP of Marketing responsible for all marketing, in-side sales and compounding products within the rehabilitation and pain management markets for the Zynex Medical division of Zynex. Mr. Bird has over 20 years of sales and management experience and holds a B.S. Degree in Business Administration from California State University, Hayward.

Michael Frabotta, VP, Sales

Michael Frabotta the VP of sales and is responsible for Zynex Medical's sales organization promoting electrotherapy and compound pharmacy products throughout the United States. Mr. Frabotta has over 14 years of successful sales and management experience with RS Medical and ERMI, Inc. At RS Medical a once national competitor in the electrotherapy arena he successfully served as a Director of Sales, National Director of Payor Contracting, Regional Manager, and Sales Representative. Mr. Frabotta received a Bachelor of Science in Nursing from the University of Pittsburgh where he specialized in Orthopaedics.

About Zynex, Inc.

Zynex, founded in 1996, markets and sells its own design of electrotherapy medical devices used for pain management and rehabilitation; and the company's proprietary NeuroMove device designed to help recovery of stroke and spinal cord injury patients. Zynex is also developing a new blood volume monitor for use in hospitals and surgery centers. Zynex.com.

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