



## Zynex, Inc. (OTCQB: ZYXI, Target Price: \$6.50)

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 reports better than expected 4Q17 results

On February 28, 2018, Zynex released positive 4Q17 results, which came in higher than our estimates and the high end of the company's pre-announcement in January. Highlights were as follows:

- 4Q17 revenues grew based on strong product supply sales, rising to \$8.13mn versus \$2.92mn in 4Q16 and above the pre-announced range of \$7.5mn to \$8.0mn.
- Full Year 2017 revenues came in at \$23.4mn, which was ahead of our estimate of \$23.1mn, and up 76% versus FY2016 revenues of \$13.3mn.
- Adjusted EBITDA was \$3.88mn during the quarter, representing an impressive 47.7% of revenues. For the full 2017, Adjusted EBITDA was \$9.53mn, representing 656% YoY growth versus \$1.26mn in FY2016.
- 4Q17 GAAP EPS was \$0.10, versus \$0.01 in 4Q16. For the year GAAP EPS came in at \$0.23 (0.22 on a fully diluted basis).
- The company guided to 1Q18 revenues of \$6.5 – \$7.0mn, which suggests that 1Q18 growth is expected to be in a robust range of 89% to 104% versus 1Q17.

#### Increasing estimates on strong results

Zynex continues to report accelerating momentum in the market as management reported final 2017 results that were above the high end of its pre-announcement, as well as our raised estimates. Zynex grew revenues by 178% annually during 4Q17 to \$8.1mn, and exhibited robust profitability with Adjusted EBITDA margins of nearly 48% and GAAP EPS of \$0.10 per share. Indeed the quarter marked the sixth consecutive quarter of profitability for Zynex, as the company continues to benefit from demand for supplies and new device sales for its lead product **NexWave**. For the full year the company generated revenues of \$23.1mn with Adjusted EBITDA, of \$9.5mn and basic GAAP EPS of \$0.23 (\$0.22 fully diluted).

#### Raising estimates and price target

We are raising our price target and estimates following strong results. We now expect Zynex to generate FY2018 revenues of \$31.5mn with GAAP EPS of \$0.31. Our price target increases to \$6.50, which represents a fair value multiple of 21.3x our 2018E EPS estimate of \$0.31.

#### Stock Details (3/5/18)

|                      |                              |
|----------------------|------------------------------|
| OTCQB:               | ZYXI                         |
| Sector / Industry    | Healthcare / Medical Devices |
| <b>Price target</b>  | <b>\$6.50</b>                |
| Recent share price   | \$4.00                       |
| Shares o/s (mn)      | 32.8                         |
| Market cap (in \$mn) | 131.3                        |
| 52-week high/low     | \$5.50 / 0.26                |

Source: Thomson Reuters, SeeThruEquity Research

#### Key Financial (\$mn, unless specified)

|            | FY16A    | FY17A    | FY18E    |
|------------|----------|----------|----------|
| Revenues   | 13,313.0 | 23,432.0 | 31,466.8 |
| EBITDA     | 1,075.0  | 9,204.0  | 12,119.8 |
| EBIT       | 640.0    | 8,944.0  | 11,957.4 |
| Net income | 69.0     | 7,365.0  | 10,534.1 |
| EPS (\$)   | 0.00     | 0.23     | 0.31     |

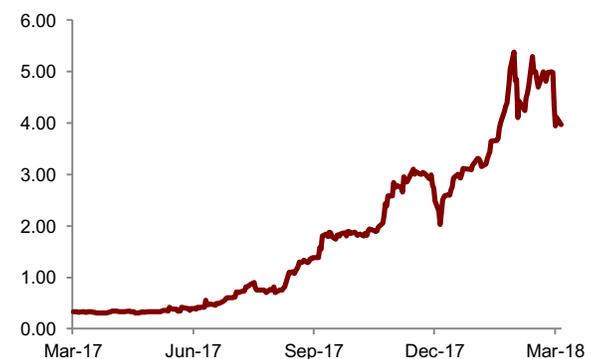
Source: SeeThruEquity Research

#### Key Ratios

|                      | FY16A   | FY17A | FY18E |
|----------------------|---------|-------|-------|
| Gross margin (%)     | 73.6    | 79.4  | 80.0  |
| Operating Margin (%) | 4.8     | 38.2  | 38.0  |
| EBITDA margin (%)    | 8.1     | 39.3  | 38.5  |
| Net margin (%)       | 0.5     | 31.4  | 33.5  |
| P/Revenue (x)        | 9.9     | 5.6   | 4.2   |
| P/E (x)              | 1,812.8 | 17.5  | 13.1  |
| EV/Revenue (x)       | 9.5     | 5.4   | 4.0   |

Source: SeeThruEquity Research

#### Share Price Performance (\$, LTM)



## RECENT FINANCIAL SUMMARY

Figure 1. Income Statement Summary

| Figures in \$000, unless specified  | 4Q17          | 4Q16          | FY17          | FY16          |
|-------------------------------------|---------------|---------------|---------------|---------------|
| <b>Product Devices</b>              | <b>2,113</b>  | <b>2,196</b>  | <b>8,755</b>  | <b>9,032</b>  |
| <i>YoY growth</i>                   | -3.8%         |               | -3.1%         |               |
| <b>Product - Supplies</b>           | <b>6,021</b>  | <b>726</b>    | <b>14,677</b> | <b>4,281</b>  |
| <i>YoY growth</i>                   | 729.3%        |               | 242.8%        |               |
| <b>Total Revenue</b>                | <b>8,134</b>  | <b>2,922</b>  | <b>23,432</b> | <b>13,313</b> |
| <i>YoY growth</i>                   | 178.4%        |               | 76.0%         |               |
| <b>Cost of Goods</b>                | <b>1,529</b>  | <b>712</b>    | <b>4,819</b>  | <b>3,517</b>  |
| <b>Gross Profit</b>                 | <b>6,605</b>  | <b>2,210</b>  | <b>18,613</b> | <b>9,796</b>  |
| <i>Gross Margin (%)</i>             | 81.2%         | 75.6%         | 79.4%         | 73.6%         |
| <b>Selling &amp; Administrative</b> | <b>3,013</b>  | <b>1,692</b>  | <b>9,669</b>  | <b>9,156</b>  |
| <b>Operating Expenses</b>           | <b>3,013</b>  | <b>1,692</b>  | <b>9,669</b>  | <b>9,156</b>  |
| <i>YoY growth</i>                   | 10.2%         |               | 5.0%          |               |
| <b>Adjusted EBITDA</b>              | <b>3,878</b>  | <b>667</b>    | <b>9,525</b>  | <b>1,260</b>  |
| <i>Adj. EBITDA Margin (%)</i>       | 47.7%         | 22.8%         | 40.6%         | 9.5%          |
| <b>Operating Income</b>             | <b>3,592</b>  | <b>518</b>    | <b>8,944</b>  | <b>640</b>    |
| <i>Operating Margin %</i>           | 44.2%         | 17.7%         | 38.2%         | 4.8%          |
| Other items, net                    | -244          | -295          | -1450         | -556          |
| <b>Pre-Tax Income</b>               | <b>3,348</b>  | <b>223</b>    | <b>7,494</b>  | <b>84</b>     |
| Taxes                               | 40            | 15            | 129           | 15            |
| <b>Net income</b>                   | <b>3,308</b>  | <b>208</b>    | <b>7,365</b>  | <b>69</b>     |
| <b>EPS, Basic</b>                   | <b>0.10</b>   | <b>0.01</b>   | <b>0.23</b>   | <b>0.00</b>   |
| <b>EPS, Diluted</b>                 | <b>0.10</b>   | <b>0.01</b>   | <b>0.22</b>   | <b>0.00</b>   |
| <b>Avg Basic Shares in period</b>   | <b>32,831</b> | <b>31,271</b> | <b>32,156</b> | <b>31,271</b> |
| <b>Avg Diluted Shares in period</b> | <b>34,414</b> | <b>31,271</b> | <b>33,196</b> | <b>31,271</b> |

\*\* Source: Company results release, all data in 000s except per share

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

- **Zynex reports 4Q17 above pre-announced range.** Zynex announced final 4Q17 results on February 28, 2018, which were ahead of our estimates as well as the high end of the range previously estimated by the company.
- As part of the announcement, Zynex management reported strong momentum in the market as its sales team continues to execute sales for its flagship NexWave solution for pain management. According to CEO Thomas Sandgaard, the company has had success establishing NexWave as a viable alternative for pain treatment to addictive medications such as opioids. We also believe the company has benefitted from improved order processing, reimbursement procedures, and collections, which has allowed Zynex to better service supplies for its installed base of devices.
- **Strong finish to 2017.** Zynex reported a strong finish to the year with 4Q17 revenues rising to \$8.13mn versus \$2.92mn in 4Q16. We note the final results were above the high end of the pre-announced range of \$7.5mn to \$8.0mn, and represented annual growth of 729%.

- **Revenues climb 76% in 2017.** Zynex reported exceptional growth for the full year 2017. Full-year revenues were \$23.4mn, which was ahead of our recently raised estimate of \$23.1mn, and up an impressive 76% compared to FY2016 revenues of \$13.3mn.
- **Zynex demonstrates strong earnings power.** We note that Zynex has demonstrated robust margin expansion with the growth exhibited in 2017. Adjusted EBITDA was \$3.88mn during 4Q17, representing margins of 47.7%. For the full 2017, Adjusted EBITDA was \$9.53mn, or 40.6% of revenues.
- **Zynex reports FY2017 GAAP EPS of \$0.23.** For 4Q17, Zynex reported diluted GAAP EPS of \$0.10, ahead of our recently raised estimate of \$0.08. We note that this represented the sixth consecutive quarter of positive EPS. For the full year 2017, Zynex reported GAAP EPS of \$0.23 (\$0.22 on a fully diluted basis), also ahead of our estimates.
- **Guidance calls for strong growth in a seasonally challenging first quarter.** We were pleased to see Zynex guide to 1Q18 revenues of \$6.5mn - \$7.0mn, which suggests that 1Q18 growth is expected to be in a range of 89% to 104% versus 1Q17.
- Zynex expects margins to remain healthy, as management called for adjusted EBITDA to be in a range of \$2.0mn – \$2.5mn.
- **Re-launch of NeuroMove™.** In addition to continued new sales execution, future growth in 2018 will be aided by the re-launch of NeuroMove™, a non-invasive device intended to aid stroke survivors regain movement using neuro-plasticity. The device, the NeuroMove™900, has been available in clinics for multiple years but has not been sold through the company's direct sales force. Management expects the product to complement its existing sales efforts and footprint. We expect to learn more about the progress of this initiative throughout 2018.

#### **Increasing Zynex price target to \$6.50, raising estimates on better than expected results**

- **Raising estimates.** Considering the positive pre-announcement, we are raising our full year 2018E estimate to \$31.5mn, versus our prior estimate of \$29.8mn.
- We also increase our 2018E adjusted EBITDA estimate to \$12.1mn, versus our prior estimate of \$11.5mn.
- Our 2018E EPS estimate increases to \$0.31 from our prior estimate of \$0.28, and \$0.23 in FY2017.
- **Price target moves to \$6.50.** We are raising our price target for Zynex to \$6.50 following better than expected results for 4Q17 and a positive outlook for 1Q18. Zynex has clearly moved beyond a turnaround situation and is a growth company with apparent momentum in the market.
- If achieved, the target of \$6.50 suggests potential upside of 62.5% from the recent price of \$4.00. We expect basic EPS to grow from \$0.23 in FY2017 to \$0.31 in 2018E, representing 34.8% earnings growth.
- The new target of \$6.50 implies a valuation of 21.3x our 2018E EPS estimate of \$0.31.
- **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 \$4.00, shares trade at just 13.1x 2018E EPS of \$0.31 despite robust profit growth exhibited in 2017, and significant catalysts on the horizon including new products and progress made by the company towards listing shares on 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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