

Initial Research Report

Investors should consider this report as only a single factor in making their investment decision.

Zynex, Inc.

Rating: Speculative Buy

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August 21, 2017

ZYXI \$1.08 — (OTC)

	FY2014 A	FY2015 A	FY2016 A	2017 E	2018 E
Total Revenue (in millions)	\$11.1	\$11.6	\$13.3	\$18.3	\$21.9
Earnings (loss) per share	(\$0.20)	(\$0.09)	\$0.00	\$0.14	\$0.19

52-Week range	\$1.28 – \$0.10	Fiscal year ends:	December
Shares outstanding a/o 08/09/17	32.0 million	Revenue/shares (ttm)	\$0.47
Approximate float	19.4 million	Price/Sales (ttm)	2.3X
Market Capitalization	\$34.6 million	Price/Sales (2018) E	1.7X
Tangible Book value/shr	(\$0.05)	Price/Earnings (ttm)	12.0X
Price/Book	NMF	Price/Earnings (2018) E	5.7X

Zynex, Inc., headquartered in Lone Tree, Colorado is a provider of FDA-cleared electrotherapy medical devices used for pain management and rehabilitation. The company is primarily focused on selling and marketing its NexWave and InWave electrotherapy product, as well as consumable supplies for electrotherapy products.

Key Investment Considerations:

Initiating with Speculative Buy rating and 12-month price target of \$2.30 per share.

Zynex has substantial growth potential as a provider of FDA-cleared electrotherapy medical devices used for pain management and rehabilitation. Consulting firm Transparency Market Research predicts 7.3% annualized growth in the North American pain management device market to \$3 billion in 2023.

Zynex is in the early stages of filling the void left when Empi shut its US operations at the start of 2016. Empi, part of the recovery sciences division of DJO Global was one of the largest producers of electrotherapy devices. At its peak in 2009, Empi generated approximately \$250 million in revenue. We estimate Empi generated revenue of \$140 million in 2015.

We anticipate the company's accumulated electrotherapy device orders will total at least 65,000 for the three-year period ending December 31, 2018. The increase in customer orders should drive sales of product supplies (electrodes, batteries, etc.) by 56% annually to \$10.4 million in 2018 from \$4.3 million in 2016.

In 2Q17, the company paid off its short-term loan balance of \$2.2 million through improved billing and collection efforts, which provides financial flexibility and the ability to fund sales growth initiatives in 2H17.

For 2017, we project net income of \$4.5 million or \$0.14 per share on 37.1% sales growth to \$18.3 million. Our sales growth forecast reflects 18,800 new device orders and product supplies more than doubling to \$9 million. We anticipated operating expense margin improving to 47.6% from 68.8% due to operating leverage.

For 2018, we project net income of \$6.5 million or \$0.19 per share on 20% total sales growth to \$21.9 million. Our sales growth forecast reflects 20,875 new device orders and 16.1% growth in product supplies to \$10.4 million. Operating expense margin should improve to 46% from and estimated 47.6% in 2017.

Please view our Disclosures pages 15 - 17

Appreciation Potential

We are initiating coverage of Zynex, Inc. with a Speculative Buy rating and 12-month price target of \$2.30 per share based on 43.6% net income growth in 2018 reflecting a resumption of device order growth to nearly 20,875, up from 18,814 in 2017, but down from 25,400 in 2016, as well as operating expense discipline that should enable operating expense margin improvement to 44% from 68.8% in 2016.

The resumption of device order growth reflects improved billing and collection efforts that enabled Zynex to payoff its \$2.2 million loan balance in 2Q17, which unlocked working capital. The improvement in working capital enables the company to produce inventory and deliver product on a timely basis, thus improving customer relationships. The company aims to continue to rapidly expand sales efforts in order to fill the void after Empi, one of the largest producers of electrotherapy devices, ceased producing devices for the US market at the start of 2016. In 2009, we estimate Empi's sales peaked at approximately \$250 million. In 2015, we estimate Empi generated revenue of approximately \$140 million.

Our 12-month price target of \$2.30 per share implies shares could more than double in the next twelve months. The company's current trailing-twelve month and forward P/E multiples are 12X and 5.7X, respectively. According to Thomson Reuters, peers in the medical equipment and supplies and distribution industry have a forward P/E multiple of 19.5X, while ZYXI's current forward P/E multiple is 5.7X based on our 2018 sales forecast of \$0.19 per share. We applied a 15X multiple to our 2018 sales forecast, discounted for execution risk, to obtain a year-ahead value of \$2.30 per share.

Zynex Inc. valuation is likely to remain at a discount relative to the industry due to its transition to consistent profitable growth compared to the significant losses experienced in 2013, 2014, and 2015. In 2016, the company's transition to profitability started, and if its growth strategy is successful, we project income of \$4.5 million and \$6.5 million, respectively in 2017 and 2018. Valuation improvement could be rapid, as investors see consistent quarterly revenue and earnings growth. We forecast the company to generating cash earnings of \$5.3 million and \$7.2 million in 2017 and 2018, respectively.

Due to the company's dependence insurance company reimbursements and/or a patient paying for its NexWave electrotherapy product out of pocket, we believe Zynex, Inc. is most suitable for risk tolerant investors.

Overview

Zynex Inc., headquartered in Lone Tree, Colorado, is a provider of FDA-cleared electrotherapy medical devices used for pain management and rehabilitation primarily in the US. The company's two active subsidiaries are Zynex Medical™, which provides electrotherapy (the use of electric currents passed through the body to stimulate nerves and muscles) products for home use and Zynex Monitoring Solutions™, which is developing a blood volume-monitoring device for use in hospitals and outpatient surgical centers.

History

Zynex Inc., formed in December 2001 after the company's founder (Thomas Sandgaard) combined a number of smaller private companies (he began starting in 1996). Zynex Inc. is the parent company to Zynex Medical, Inc. and Zynex Monitoring Solutions, Inc., the only two subsidiaries that will be manufacturing products (currently and in the future). The company has inactive subsidiaries including Zynex Neurodiagnostics, Inc, Zynex Billing and Consulting, LLC, and Zynex Europe. In January 2016, the company shuttered the operations of Pharmazy, Inc.

Device Portfolio

The company's primary devices sold are NexWave™, InWave and NeuroMove™ electrotherapy devices. We estimate approximately 90% of device sales are from its NexWave device (pictured on the right).



NexWave is a prescription only, Federal Drug Administration (FDA) cleared, three-in-one device that offers patients NeuroMuscular Electrical Stimulation (NMES – provides small electric impulses are used to stimulate muscles that are weak or paralyzed) and Transcutaneous Electrical Nerve Stimulation (TENS – provides an electric current to stimulate the nerves), and high frequency signals of Interferential Stimulation that utilizes the significant physiological effects of low frequency electrical stimulation of nerves without pain. Those three uses have a 30-year history of helping patients manage pain symptoms, as well as enabling patients to reduce or possibly eliminate the need for pain medication. The NexWave device was developed with the intent of managing symptomatic relief of chronic intractable pain, post traumatic and post-surgical pain, relaxing muscle spasms, increasing local blood circulation, maintaining or increasing range-of-motion, preventing or retarding muscle atrophy if those muscles will not be used on a regular basis, and re-educating muscles to work.

The InWave and NeuroMove devices are used for the treatment of incontinence and stroke rehabilitation. InWave (FDA cleared) is a nonsurgical, drug-free therapy offering a conservative treatment to manage incontinence at a relatively low cost to patients. Patients can use the device in combination with biofeedback and Kegel exercises in order to regulate and manage incontinence. The FDA cleared NeuroMove device assists in teaching healthy parts of the brain after a stroke to take over lost functionality through neuroplasticity (a brain's ability to reorganize itself by forming new neural connections).

The company is developing a Blood Volume Monitor (pictured on right). The CM-1500 Blood Volume Monitor is a noninvasive device that monitors a patient's fluid level (primarily blood) during and post-surgery. The device provides index-based alerts for doctors and/or nurses in real time if a patient is losing fluid (blood). The devices uses six independent parameters combine to form a fluid index. It is important to note that the CM-1500 Blood Volume Monitor does not indicate absolute blood volume in a patient, only relative changes to the index. The company filed its complete application for clearance with the FDA in 3Q15, received comments in October 2016, and responded to the FDA in November 2016. The company is waiting for FDA clearance.



Growth Strategy

Grow Customer Base

The company's aim is to sell more electrotherapy devices to establish a large customer base that in turn will purchase consumable supplies such as electrodes and batteries. In 2016, company orders reached 25,421, up from 13,900 and 13,800 in 2015 and 2016, respectively. The order surge reflects Zynex's ability to fill the void when Empi (a large device manufacturer in the electrotherapy industry) announced it was exiting the business in late 2015. Zynex was able to capture accounts previously serviced by Empi by hiring some of their former US sales representatives in order to gain new clients in new locations. The company engaged, both as employees and contractors, approximately 74 former Empi representatives. This enabled the company to average approximately 2,100 orders per month in 2016, up from 1,100 in 2015.

We anticipate that with a large and growing device customer base, sales of consumable product supplies should increase as a percentage of total revenue. In 2016, product supplies accounted for 32.2% of total sales. In 2018, we project product supplies will approach 50% of total sales. The increase in products supplies should enable the company to better leverage the company's operating expenses and drive projected cash earnings to \$7.2 million in 2018.

Product Diversification

To fuel future growth, the company seeks to diversify its product portfolio to provide its sales professionals an opportunity to sell multiple products to a single account. Zynex’s new product under development, the CM-1500 Blood Volume Monitor, most likely will be sold to hospitals or outpatient surgical centers. The CM-1500 is waiting FDA clearance.

In the near-term, we anticipate the company acquiring or signing agreements with third parties to provide more complimentary pain management products (such as cervical braces and hot/cold therapy). The process to acquire or strike deals with third parties should become easier to complete as profitability, cash flow, and a strong balance sheet emerges.

Projections

Basis of Forecast

Our forecasts reflect the company reaching a combined total of at least 65,000 orders for the years 2016 to 2018. We anticipate the company generating orders of 18,814 and 20,875 in 2017 and 2018, respectively, on top of the 25,420 orders generated in 2016.

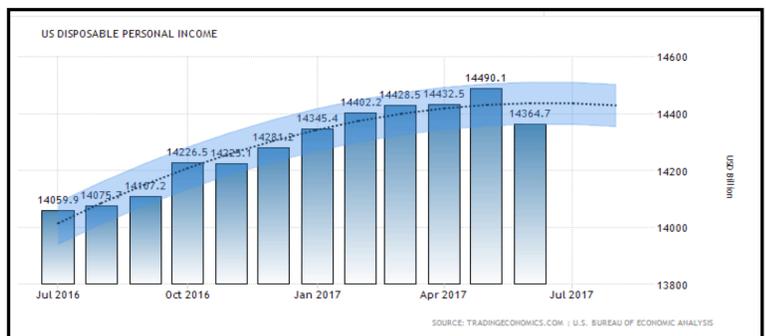
We anticipate those new device orders will increase the company’s customer base, which in turn should result in higher sales of product supplies (consumable electrodes and batteries). There should be a cycle where device sales surge, followed by steady growth in consumables. We anticipate such a surge in device sales will occur in the middle of 2018. Our forecast incorporates some seasonality where the first and fourth quarter sales will not be as great as the second and third quarters’.

Our forecast does not incorporate revenue from the sale of its CM-1500 Blood Volume Monitor. If FDA clearance is received, sales could be greater than we anticipate.

Economy

In July 2017, the International Monetary Fund reduced its 2017 and 2018 US GDP forecasts by 0.2% and 0.4%, respectively to 2.1% in each period from its April 2017 forecast. The reductions are due in part to a less expansionary fiscal policy than previously anticipated.

Trading Economics (a economic consulting and forecasting firm) projects disposable personal income will grow at an annualized rate of 4.5% to \$15.7 trillion in 2020. The EIA (US Energy Information Administration) projects disposable personal income growth to \$13.4 trillion in 2018, up from \$12.7 trillion in 2017. The increase is based on modest but steady economic growth. The EIA projects GDP growth of 2.6% in 2018.



Operations – 2017

We project revenue growth of 37.1% to \$18.3 million reflecting product supplies sales more than doubling from the sale of electrodes and batteries to its established customer base from new orders of at least 44,200 (2016 and 2017 combined). We anticipate revenue growth for device sales will increase 3% to \$9.3 million reflecting the average selling price per device increasing 39% to \$500 as billings and collections as a percentage of each order continues to improve, partly offset by a decline in orders to 18,814 from 25,421.

Our forecast anticipates a 41.3% increase in gross profit to \$13.8 million due primarily to increased sales and gross margin improving to 75.8% from 73.6% in 2016. We project operating income of \$5.2 million compared to \$640,000 as operating expense margin improves to 47.6% from 68.8% in 2016. Operating margin should increase to 28.2% from 4.8% in 2016. We anticipate a reduction of SG&A expense (total expenses) of 5.1% to \$8.7 million due primarily to lower commission expense and a reduction in external staffing that occurred last year.

Our 2017 non-operating expense forecast consists exclusively interest expense of \$600,000. In 2016, the company had non-operating expense of \$556,000 consisting of interest expense of \$352,000 and a \$204,000 loss on disposal of assets. The increase in interest expense stems from the company recording amortization of debt issuance costs and debt discount related the a private placement of unsecured debt in 1Q17, partly offset by the 2Q17 repayment of \$2.2 million in debt.

We project net income of \$4.5 million or \$0.14 per share compared to net income of \$69,000 or breakeven per share. Our forecast will only include income taxes recorded by the company on an actual basis. In 1H17, the company recorded income tax expense of \$45,000. The company reported income tax expense of \$15,000 in 2016. At June 30, 2017, the company had in excess of \$9 million and \$18 million of net operating loss carryforwards the company has for federal and state purposes.

Finances – 2017

We project cash earnings of \$5.3 million and an increase in working capital of \$1 million. The increase in working capital is due primarily to a reduction in payables and increase in receivables. Cash from operations of \$4.3 million will cover capital expenditures and repayment of debt. We project cash will increase by \$2 million to \$2.2 million at December 31, 2017.

Operations – 2018

We project revenue growth of 20% to \$21.9 million, reflecting a 23% increase in device sales from orders increasing to approximately 20,875 from an estimated 18,800 in 2017. We are forecasting the average selling price per device to increase 11.5% to \$550 as billings and collections as a percentage of each order continues to improve. We anticipate a 16.1% increase in sales of product supplies from the sale of electrodes and batteries.

We forecast gross profit increasing 20.4% to \$16.7 million due primarily to increased sales and gross margin expansion to 76.1% from an estimated 75.8% in 2017. Gross margin expansion reflects a higher average selling price per device and an increase in sales of product supplies. We anticipate sales from product supplies will account for nearly 50% of total sales. We project a 27.9% increase in operating income to \$5.6 million due to higher sales, increased gross margin, and operating expense margin improving to 46% from 47.6% in 2017. Operating margin should increase to 30.1% from 28.2% in 2017. We anticipate a 16% increase in SG&A expense (total expenses) to \$10.1 million due primarily to higher commission expense and an increase in salaries to support device order growth of 11% to 20,875.

Our non-operating expense forecast consists exclusively of interest expense of \$120,000 compared to \$600,000 in 2017 due to a lower debt balance. We project net income of \$6.5 million or \$0.19 per share.

Finances – 2018

We project cash earnings of \$7.2 million and an increase in working capital of \$720,000. The increase in working capital is due primarily to a reduction in payables. Cash from operations of \$6.5 million will cover capital expenditures and repayment of debt and capital lease obligations. We project cash will increase by \$4.8 million to \$7.1 million at December 31, 2018.

We anticipate the company will continue to use its own billing system in order to be more efficient in collecting and maintaining a relatively stable level of accounts receivables, which should support our cash flow projections to 2018.

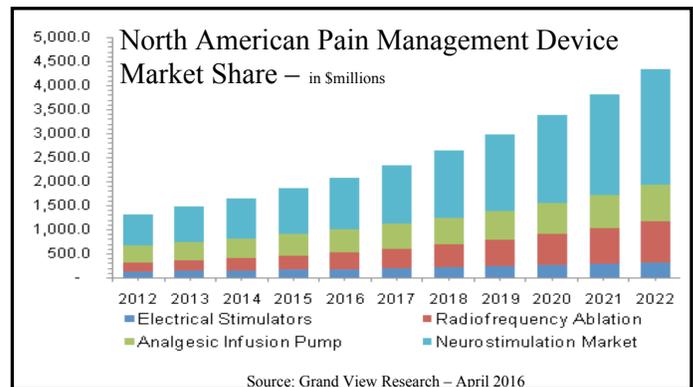
Pain Management Device Market

In July 2017, Transparency Market Research (TMR) predicted the global pain management device market to grow annually by 7.6% to \$6.3 billion by 2023 from approximately \$3.5 billion in 2015.

TMR anticipates North America will be a market leader with 2023 revenue approximating 48.7% of the global market at \$3.1 billion. Growth should be driven by the increasing incidence of sports-related injuries and the presence of advanced healthcare infrastructure. Also supporting growth in North America is the expanding pool of patients suffering from chronic medical conditions such as cancer, diabetes, osteo and rheumatoid arthritis, obesity,

and spinal problems. Anecdotal studies indicate that over 20% of the adult population worldwide suffers from chronic pain.

Consulting firm Grand View Research observed that North America dominated the overall pain management device industry in 2014 due to its favorable healthcare infrastructure, which facilitated the access to advanced pain management devices. The chart on the right shows the breakdown of market share by device to 2022. The company’s NexWave three-in-one device offers patients NeuroMuscular Electrical Stimulation (NMES) and Transcutaneous Electrical Nerve Stimulation (TENS), and high frequency signals of Interferential Stimulation. The NEMS is large and growing while the electrical stimulator market for TENS is relatively small but stable.

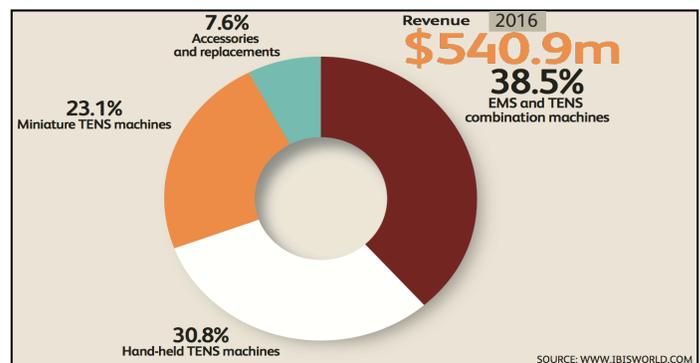


The growth of neurostimulation devices is due to their efficiency compared to traditional methods in terms of sustained reduction in pain.

Transcutaneous Electrical Nerve Stimulation (TENS) Market

According to IBISWorld manufacturers of TENS devices (devices that provide electric currents to nerves to stimulate them for therapeutic purposes), experienced a significant interruption of growth. Industry revenue decreased to \$529 million in 2015 from \$554 million in 2011. The primary cause of the revenue decline stemmed from a 2012 Medicare decision to eliminate coverage of industry devices prescribed for chronic lower back pain. This was the primary reason why Zynex no longer accepts Medicare and Medicaid insurance.

It took five-years for the industry to recover. IBISWorld anticipated revenue growth of 2.3% to \$541 million in 2016 (see chart on right). The 2016 recovery reflects manufacturers adjusting to the changes in Medicare coverage, and finding alternative methods to support the growing elderly population, as well as gaining access to private health insurance.



IBISWorld anticipates annual revenue growth of 1.9% to \$594 million in 2021. Their forecast reflects the expected increase in the US population of people over 65, which should drive sales of industry devices due to that group having the financial resources to pay for devices.

According to the US Census Bureau, the age group of people over 65 is anticipated to grow annually by 3.3% to 2021, which is higher than the total US population annual growth of 0.8%. Therefore, as senior citizens become a larger portion of the total national population, demand for pain management services should support industry growth.

Physical Therapy Market

Physical therapists are an important component of the sales process as they write the prescription that is submitted to Zynex as the order for its products, primarily NexWave.

According to IBISWorld, the role of physical therapists have increased in promoting health and wellness, especially as the population ages and people over the age of 50 are requiring physical rehabilitation in order to improve mobility, relieve pain, and prevent or limit physical disabilities. Research indicates some physical therapists work

with other healthcare providers and assist patients with chronic illnesses by creating individually tailored wellness programs.

As physical therapy plays a larger role in healthcare, the services they provide will increase and include teaching patients about disease management, prescribing home exercise programs, and the devices or machines they will need to buy or rent in order to do the exercise programs.

Zynex will need to have a focused sales force in order to penetrate physical therapy offices in the US. In April 2017, IBISWorld projects the number of physical therapy establishments will reach 131,284 in 2022, up from 114,954 in 2016. The number of US employees at physical therapy establishments will increase to 524,000 in 2022 from 457,000 in 2016.

2Q17 and 1H17 Results

2Q17 total sales increased 53.4% to \$5 million due primarily to sales of product supplies more than doubling to \$2.6 million, as well as a 17.5% increase in product sales to \$2.5 million. Increased sales of product supplies such as replacement electrodes and batteries reflect 30,000 new device orders shipped in 2016 and 1H17 combined. The increase in product and rental sales (electrotherapy devices) reflects improvements to the company's billing and collection procedures, as well as a more productive sales force of approximately 180 representatives.

Gross profit increased 71.5% to \$4 million due to an expansion of gross margin to 79.8% from 71.4% in the year-ago period. Gross margin improvement was due primarily to sales growth of 53.4% compared to an 8.4% increase in operations labor and overhead, shipping and depreciation to \$1 million.

Operating expenses consisting of SG&A decreased 16.3% to \$2.1 million from \$2.5 million due primarily to a reduction in commissions reflecting fewer orders, staff reductions, and elimination of temporary services. Operating income was \$1.9 million compared to a loss of \$150,000 due to higher sales, gross margin expansion, and operating margin expense improving to 41.4% from 75.9% in 2Q16.

Non-operating interest expense increased to \$394,000 from \$77,000 in the year-ago period due to amortization of debt issuance costs and debt discount related the private placement of unsecured subordinated notes completed in 1Q17.

2Q17 net income was \$1.5 million or \$0.05 per share, compared to a loss of \$227,000 or (\$0.01) per share. In the current period, the company paid income tax of \$36,000 versus none in the year-ago period.

1H17 total sales increased 25.4% to \$8.5 million due primarily to sales of product supplies nearly doubling to \$4.2 million, partly offset by a 7.6% decrease in product sales to \$4.3 million. Increased sales of product supplies such as replacement electrodes and batteries reflect 30,000 new device orders shipped in 2016 and 1H17 combined. The decrease in product and rental sales (electrotherapy devices) reflects decreased orders compared to the year-ago period, partially offset by increased billings and collections as a percentage of each order.

Gross profit increased 35% to \$6.5 million due to an expansion of gross margin to 77.1% from 71.6% in the year-ago period. Gross margin improvement was due primarily to sales growth as operations labor and overhead, shipping and depreciation was flat at \$1.9 million.

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Product and rental (device) sales	\$ 4,326	\$ 4,682	(7.6%)
Product Supplies	4,152	2,081	99.5%
Total Sales	\$ 8,478	\$ 6,763	25.4%
Total Cost of Sales	1,943	1,924	1.0%
Gross Profit	<u>\$ 6,535</u>	<u>\$ 4,839</u>	35.0%
Total Operating Expenses	4,118	5,339	(22.9%)
Operating Income	2,417	(500)	(583.4%)
Total Other Income (Expense)	(515)	(172)	NMF
Pre-Tax Income	1,902	(672)	NMF
Income Tax Expense (Benefit)	45	-	
Net Income (loss)	1,857	(672)	
Earnings (loss) per share	\$0.06	(\$0.02)	
Avg Shares Outstanding	32,413	31,271.0	
Margins			
Gross margin - combined	77.1%	71.6%	
Operating Margin	28.5%	(7.4%)	
Pre-Tax Margins	22.4%	(9.9%)	
Tax Rate	2.4%	0.0%	
Source: company reports			

1H17, operating expenses consisting of SG&A decreased 22.9% to \$4.1 million from \$5.3 million due primarily to a reduction in commissions reflecting fewer orders, staff reductions, elimination of temporary services, and a reduction in stock-based compensation, partly offset by an increase in public company expenses reflecting higher audit and publishing fees. Operating income was \$2.4 million compared to a loss of \$500,000 due to higher sales, gross margin expansion, and operating margin expense improving to 48.6% from 78.9% in 1H16.

Non-operating interest expense increased to \$515,000 from \$172,000 in the year-ago period due to amortization of debt issuance costs and debt discount related the private placement of unsecured subordinated notes completed in 1Q17.

1H17 net income was \$1.9 million or \$0.06 per share, compared to a loss of \$672,000 or (\$0.02) per share. In the current period, the company paid income tax of \$45,000 versus none in the year-ago period

Finances

In 2Q17 cash from operations of \$1.9 million did not cover capital expenditures and repayment of the company's line of credit. Cash decreased by \$322,000 to \$140,000 at June 30, 2017.

In 1H17 cash from operations of \$1.9 million and issuance of \$880,000 (net) in unsecured promissory notes did not cover capital expenditures and repayment of the company's line of credit. Cash decreased by \$107,000 to \$140,000 at June 30, 2017.

Capital Structure

At June 30, 2017, the company had total outstanding debt of \$518,000. The debt reflects a February 2017 closing on an offering of 12% unsecured subordinated promissory notes due June 28, 2018. Under the terms of the debt agreement the company is obligated to issue 776,250 shares of the common stock, six months after issuance of the notes to the note holders. The common stock to be issued to the note holders represents additional interest expense and had been initially recorded as a liability and will be adjusted each reporting period based upon the fair value of the underlying stock to be issued until settled at the end of August 2017.

In 2Q17 Zynex announced it paid off the entire remaining loan balance (approximately \$2.2 million) to Triumph Healthcare Finance.

Competition

Competition is based on price, which is important to patients, clinicians, and insurance companies. Most electrotherapy TENS devices perform the same function and are produced by a large number of manufacturers. This market segment is highly competitive and fragmented with competitors having substantial research and development, sales and marketing, and manufacturing capabilities. The NexWave prescription only, 3-in-1 device, is a potential advantage for Zynex. In one device, NexWave provides customers with Interferential therapy, Transcutaneous Electrical Nerve Stimulation (TENS), and NeuroMuscular Electrical Stimulation (NMES).

In 2016, a significant change in the competitive landscape occurred when the largest producer in the electrotherapy industry, Empi, stopped selling its products. In 2015, it is estimated Empi had revenue of approximately \$140 million. The exit of the largest electrotherapy device producer should enable Zynex to grow its future sales. The company's primary domestic competitors include RS Medical, Richmar, and Mettler Electronics.

Industry participants can differentiate themselves through technological innovation. Providing products that are lightweight, user-friendly and as powerful as their larger predecessors is of strategic importance in order to gain consumer acceptance. Manufacturers in the industry will need to continue to innovate new products in order to maintain a share of the shrinking domestic and foreign markets, which will, in turn, require operators to continue to hire and retain skilled research and development personnel. Zynex's NexWave three-in-one device should enable the company to grow and satisfy customer demand.

Management

Thomas Sandgaard – Founder, CEO, President and Chairman of the Board. Prior to founding the company in 1996, Sandgaard held various management positions with ITT, Siemens, GN Danavox, Dataco and Philips. His experience includes international sales and distribution, technology transfers, mergers and marketing management in the semiconductor, telecommunications, data communications and medical equipment industries. Bachelor's degree in electrical and electronics engineering from The University of Southern Denmark. MBA from Copenhagen Business School.

Dan Moorhead – Chief Financial Officer since June 2017. Previously served as CFO and senior VP of Finance and Administration. Prior experience includes serving in various financial management positions since 2002. B.B.A. in Accounting from the University of Northern Colorado and is a CPA.

Risks

In our view, these are the principal risks underlying the stock.

Going Concern

Due to substantial losses sustained in 2013, 2014, and 2015, followed by a small profit in 2016, there was substantial doubt about the company's ability to continue as a going concern as of June 30, 2017. However, in 2Q17, the company improved its working capital position by \$1.7 million, as well as retiring its outstanding credit facility with Triumph with cash from operations. The company must continue to generate cash from operations in order to grow operations and expand its product portfolio.

Dilution

If the company were to raise capital in order to accelerate product development, hire a more dedicated sales force, and acquire third party products, it may dilute existing stockholders.

Reimbursements

A significant portion of the company's revenues comes from insurance company and health care reimbursement programs. Once the product is delivered to the customer, Zynex directly bills the customers' private insurance company for reimbursement. If the billed insurance companies do not pay on a timely basis, or if they change their policies to exclude or reduce coverage Zynex's products, the company would experience a decline in revenue, as well as cash flow.

In order to mitigate reimbursement risk, the company no longer accepts Medicare and Medicaid orders.

Regulatory

The company's devices need a clearance letter by the Food and Drug Administration (FDA) primarily through the 510(k) review process in order to be marketed and sold in the US. When the FDA determines that the device is substantially equivalent, the agency issues a "clearance" letter that authorizes marketing of the product. The FDA also regulates the company through its Good Manufacturing Process and Quality Systems Regulation. The company received 510(k) clearance in November 2001, September 2011, and August 2012, respectively for its NeuroMove, NexWave, and InWave devices. Failure to comply with FDA requirements could limit company growth.

Affordable Care Act

Effective 2013, there was a 2.3% excise tax on the sale of medical devices, with certain exceptions. The company anticipates most of its products will not be subject to this tax. However if the company were to be taxed, it is uncertain that it would be able to pass it on to third parties, which would ultimately hurt future growth prospects.

There is some doubt as to the continuation of the Affordable Care Act (ACA). If the current administration were to take regulatory actions to negatively impact the ACA, customers might be unwilling to buy products that may or may not be covered by future health care benefits.

Lack of Patents

Zynex's technology is not protected by patents but is protected by trademarks and trade secrets. While its software is proprietary since it was developed and is maintained internally, competitors could potentially develop more effective devices.

Sourced Concentration

The company sourced approximately 65% of components for its electrotherapy products from three vendors in 2Q17, compared to 35% from one vendor in 2016. While management believes its relationships with suppliers are good, the company has in the past delayed and extended payments to many of its vendors resulting in vendors requiring pre-payment for products or services. If current supplier relationships were replaced, there would likely be short-term disruption to the company's operations.

Shareholder Control

The Founder Chairman and CEO of Zynex, owns approximately 54.9% of the outstanding voting stock (March 2017). This officer could potentially greatly influence the outcome of matters requiring stockholder approval, which decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

Based on our calculations, the average daily-volume in 2015 was 9,400 shares traded a day, which decreased to 7,400 in 2016. During the last three months to August 18, 2017 volume increased to 37,600. The company has a float of 19.4 million shares and shares outstanding of 32.1 million.

Zynex, Inc.
Consolidated Balance Sheets
FY2014 – FY2018E
(in thousands)

	FY14A	FY15A	FY16A	2Q17A	FY17E	FY18E
ASSETS						
Current assets:						
Cash	\$ 63	\$ 8	\$ 247	\$ 140	\$ 2,242	\$ 7,071
Accounts receivable, net	3,189	2,426	3,028	2,505	3,296	3,652
Inventory	1,935	305	107	178	225	200
Prepaid expenses	250	27	40	125	175	175
Income tax receivable	268	-	-	-	-	-
Total current assets	5,705	2,766	3,422	2,948	5,938	11,098
Property and equipment, net	1,276	801	580	497	495	490
Deposits	2	55	55	55	55	55
Intangible assets, net	131	74	34	21	18	8
Total assets	\$ 7,114	\$ 3,696	\$ 4,091	\$ 3,521	\$ 6,506	\$ 11,651
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Line of credit	4,442	4,002	2,771	-	-	-
Unsecured subordinated promissory notes	-	-	-	518	500	-
Capital leases	78	109	118	120	115	100
Accounts payable	2,544	2,477	2,879	2,447	2,268	1,748
Deferred revenue	112	89	54	-	-	-
Deferred insurance reimbursement	-	-	880	880	880	-
Income taxes payable	79	79	94	-	-	-
Accrued payroll and payroll taxes	342	484	732	659	789	920
Other accrued liabilities	460	299	217	-	180	-
Total current liabilities	8,057	7,539	7,745	4,624	4,732	2,768
Long-term - Unsecured subordinated promissory notes and debt	-	-	-	-	-	365
Obligation to issue common stock to private placement noteholders	-	-	-	466	718	677
Capitalized leases, less current	311	216	136	73	60	50
Warranty liability	13	12	12	12	12	12
Stockholders' equity:						
Common stock, \$.001 par value; authorized 100,000,000 shares;	31	31	31	32	32	32
Paid-in capital	5,702	5,832	6,032	6,322	6,310	6,635
Retained earnings (accumulated deficit)	(6,934)	(9,845)	(9,776)	(7,919)	(5,269)	1,201
Total stockholders' equity	(1,201)	(3,982)	(3,713)	(1,565)	1,073	7,868
Non-controlling interest	(66)	(89)	(89)	(89)	(89)	(89)
Total liabilities and stockholders' equity	\$ 7,114	\$ 3,696	\$ 4,091	\$ 3,521	\$ 6,506	\$ 11,651
SHARES OUT	31,271	31,271	31,271	32,048	32,050	32,755

Source: Company reports and Taglich Brothers estimates

Zynex, Inc.
Annual Income Statement
FY2014 – FY2018E
(in thousands)

	FY14 A	FY15 A	FY16 A	FY17 E	FY18 E
Product and rental (device) sales	\$ 5,142	\$ 5,434	\$ 9,014	\$ 9,286	\$ 11,495
Product Supplies	4,430	5,035	4,281	8,967	10,415
Pharmzy and other	1,545	1,172	18	-	-
Total Net sales	<u>\$ 11,117</u>	<u>\$ 11,641</u>	<u>\$ 13,313</u>	<u>\$ 18,253</u>	<u>\$ 21,910</u>
Total Cost of sales	<u>7,612</u>	<u>4,937</u>	<u>3,517</u>	<u>4,413</u>	<u>5,245</u>
Gross Profit	<u>3,505</u>	<u>6,704</u>	<u>9,796</u>	<u>13,840</u>	<u>16,665</u>
Operating Expenses:					
Selling, general, and administrative	11,397	9,185	9,156	8,688	10,075
Other - lease termination	(2,195)	-	-	-	-
Total Operating Expenses	<u>9,202</u>	<u>9,185</u>	<u>9,156</u>	<u>8,688</u>	<u>10,075</u>
Operating Income (loss)	<u>(5,697)</u>	<u>(2,481)</u>	<u>640</u>	<u>5,152</u>	<u>6,590</u>
Interest (expense) income	(536)	(503)	(352)	(600)	(120)
Other income (expense)	(47)	(7)	(204)	-	-
Total Other Income (expense)	<u>(583)</u>	<u>(510)</u>	<u>(556)</u>	<u>(600)</u>	<u>(120)</u>
Pre-Tax Income (loss)	<u>(6,280)</u>	<u>(2,991)</u>	<u>84</u>	<u>4,552</u>	<u>6,470</u>
Income Tax Expense (Benefit)	<u>(49)</u>	<u>(57)</u>	<u>15</u>	<u>45</u>	<u>-</u>
Net income (loss)	<u>(6,231)</u>	<u>(2,934)</u>	<u>69</u>	<u>4,507</u>	<u>6,470</u>
Non-controlling interest	32	23	-	-	-
Net income (loss) - attributable to Zynex, Inc.	<u>\$ (6,199)</u>	<u>\$ (2,911)</u>	<u>\$ 69</u>	<u>\$ 4,507</u>	<u>\$ 6,470</u>
Earning (loss) per share	<u>\$ (0.20)</u>	<u>\$ (0.09)</u>	<u>\$ 0.00</u>	<u>\$ 0.14</u>	<u>\$ 0.19</u>
Avg Shares Outstanding	31,208	31,271	31,271	33,037	34,063
EBITDA	\$ (2,288)	\$ (1,984)	\$ 1,235	\$ 5,413	\$ 6,875
Margin Analysis					
Gross margin	31.5%	57.6%	73.6%	75.8%	76.1%
Selling, general, and administrative	102.5%	78.9%	68.8%	47.6%	46.0%
Operating margin	(110.8%)	(21.3%)	4.8%	28.2%	30.1%
Pre-tax margin	(122.1%)	(25.7%)	0.6%	24.9%	29.5%
Tax rate	0.8%	1.9%	17.9%	1.0%	0.0%
YEAR / YEAR GROWTH					
Total Revenues		4.7%	14.4%	37.1%	20.0%

Source: Company reports and Taglich Brothers estimates

Zynex, Inc.
Income Statement Model
Quarters FY2016A – 2018E
(in thousands)

	Q1 16 A	Q2 16 A	Q3 16 A	Q4 16 A	FY16 A	Q1 17 A	Q2 17 A	Q3 17 E	Q4 17 E	FY17 E	Q1 18 E	Q2 18 E	Q3 18 E	Q4 18 E	FY18 E
Product and rental (device) sales	\$ 2,556	\$ 2,097	\$ 2,149	\$ 2,212	\$ 9,014	\$ 1,862	\$ 2,464	\$ 2,525	\$ 2,435	\$ 9,286	\$ 2,330	\$ 3,080	\$ 3,285	\$ 2,800	\$ 11,495
Product Supplies	894	1,186	1,475	726	4,281	1,574	2,578	2,920	1,895	8,967	2,045	2,965	3,215	2,190	10,415
Pharmzy and other	27	3	3	(15)	18	-	-	-	-	-	-	-	-	-	-
Total Net sales	\$ 3,477	\$ 3,286	\$ 3,627	\$ 2,923	\$ 13,313	\$ 3,436	\$ 5,042	\$ 5,445	\$ 4,330	\$ 18,253	\$ 4,375	\$ 6,045	\$ 6,500	\$ 4,990	\$ 21,910
Total Cost of sales	983	941	880	713	3,517	923	1,020	1,275	1,195	4,413	1,175	1,350	1,425	1,295	5,245
Gross Profit	2,494	2,345	2,747	2,210	9,796	2,513	4,022	4,170	3,135	13,840	3,200	4,695	5,075	3,695	16,665
Operating Expenses:															
Selling, general, and administrative	2,844	2,495	2,125	1,692	9,156	2,030	2,088	2,250	2,320	8,688	2,400	2,450	2,675	2,550	10,075
Other - lease termination	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	2,844	2,495	2,125	1,692	9,156	2,030	2,088	2,250	2,320	8,688	2,355	2,450	2,675	2,550	10,075
Operating Income (loss)	(350)	(150)	622	518	640	483	1,934	1,920	815	5,152	845	2,245	2,400	1,145	6,590
Interest (expense) income	(94)	(77)	(90)	(91)	(352)	(121)	(394)	(40)	(45)	(600)	(30)	(30)	(30)	(30)	(120)
Other income (expense)	-	-	-	(204)	(204)	-	-	-	-	-	-	-	-	-	-
Total Other Income (expense)	(94)	(77)	(90)	(295)	(556)	(121)	(394)	(40)	(45)	(600)	(30)	(30)	(30)	(30)	(120)
Pre-Tax Income (loss)	(444)	(227)	532	223	84	362	1,540	1,880	770	4,552	815	2,215	2,370	1,115	6,470
Income Tax Expense (Benefit)	-	-	-	15	15	9	36	-	-	45	-	-	-	-	-
Net income (loss) - attributable to Zynex, Inc.	\$ (444)	\$ (227)	\$ 532	\$ 208	\$ 69	\$ 353	\$ 1,504	\$ 1,880	\$ 770	\$ 4,507	\$ 815	\$ 2,215	\$ 2,370	\$ 1,115	\$ 6,470
Earning (loss) per share	\$ (0.01)	\$ (0.01)	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.05	\$ 0.06	\$ 0.02	\$ 0.14	\$ 0.02	\$ 0.07	\$ 0.07	\$ 0.03	\$ 0.19
Avg Shares Outstanding	31,271	31,271	31,441	31,441	31,271	31,564	33,262	33,270	34,050	33,037	34,055	34,060	34,065	34,070	34,063
EBITDA					\$ 1,235	\$ 580	\$ 1,988	\$ 1,975	\$ 870	\$ 5,413	\$ 905	\$ 2,305	\$ 2,460	\$ 1,205	\$ 6,875
Margin Analysis															
Gross margin	71.7%	71.4%	75.7%	75.6%	73.6%	73.1%	79.8%	76.6%	72.4%	75.8%	73.1%	77.7%	78.1%	74.0%	76.1%
Selling, general, and administrative	81.8%	75.9%	58.6%	57.9%	68.8%	59.1%	41.4%	41.3%	53.6%	47.6%	54.9%	40.5%	41.2%	51.1%	46.0%
Operating margin	(10.1%)	(4.6%)	17.1%	17.7%	4.8%	14.1%	38.4%	35.3%	18.8%	28.2%	19.3%	37.1%	36.9%	22.9%	30.1%
Pre-tax margin	(12.8%)	(6.9%)	14.7%	7.6%	0.6%	10.5%	30.5%	34.5%	17.8%	24.9%	18.6%	36.6%	36.5%	22.3%	29.5%
Tax rate	0.0%	0.0%	0.0%	6.7%	17.9%	2.5%	2.3%	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%
YEAR / YEAR GROWTH															
Total Revenues					14.4%	(1.2%)	53.4%	50.1%	48.1%	37.1%	27.3%	19.9%	19.4%	15.2%	20.0%

Source: Company reports and Taglich Brothers estimates

Zynex, Inc.
Cash Flow Statement
FY2014 – FY2018E
(in thousands)

	<u>FY2014A</u>	<u>FY2015A</u>	<u>FY2016A</u>	<u>6 Mos. 17A*</u>	<u>FY2017E</u>	<u>FY2017E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ (6,231)	\$ (2,934)	\$ 69	\$ -	\$ 4,507	\$ 6,470
Depreciation	613	367	395	-	425	400
Non-core inventory write-off	2,005	-	-	-	-	-
Write-off rental units	650	-	30	-	-	-
Net gain on lease termination	(2,195)	-	-	-	-	-
Loss on the disposal of property and equipment	-	-	22	-	-	-
Provision for losses on accounts receivable	1,406	1,040	1,433	-	-	-
Amortization of intangible assets	47	57	40	-	40	40
Amortization of financing fees	48	-	-	-	-	-
Issuance of common stock for services	23	-	-	-	-	-
Provision for obsolete inventory	(580)	28	-	-	-	-
Deferred rent	391	-	-	-	-	-
Employee stock-based compensation and warrant expense	93	130	200	-	278	325
Cash earnings (burn)	<u>(3,730)</u>	<u>(1,312)</u>	<u>2,189</u>	<u>-</u>	<u>5,250</u>	<u>7,235</u>
<i>Changes In:</i>						
Accounts receivable	2,436	(277)	(2,018)	-	(268)	(356)
Inventory	1,642	1,602	198	-	(118)	25
Prepaid expenses	96	223	(14)	-	135	-
Income tax receivable	625	268	-	-	-	-
Deposits and other current assets	122	(53)	-	-	-	-
Deferred revenue	112	(23)	845	-	(54)	-
Accounts payable	(199)	(67)	402	-	(611)	(519)
Accrued liabilities	(126)	(20)	167	-	57	130
Income taxes payable	(17)	-	-	-	(94)	-
(Increase)/decrease in Working Capital	<u>4,691</u>	<u>1,653</u>	<u>(420)</u>	<u>-</u>	<u>(953)</u>	<u>(720)</u>
Net cash Provided by Operations*	<u>961</u>	<u>341</u>	<u>1,769</u>	<u>1,890</u>	<u>4,297</u>	<u>6,515</u>
<i>Cash Flows from Investing Activities</i>						
Disposal (purchase) of equipment, net	(272)	9	-	-	-	-
Change in inventory used for rental	285	99	-	(45)	-	-
Purchases used for rental	-	-	(226)	-	(157)	(250)
Payment on contingent consideration	(3)	-	-	-	-	-
Cash Flows from Investing Activities	<u>10</u>	<u>108</u>	<u>(226)</u>	<u>(45)</u>	<u>(157)</u>	<u>(250)</u>
<i>Cash Flows from Financing Activities</i>						
Net repayments on line of credit	(1,378)	(440)	(1,232)	(2,771)	(2,771)	-
Proceeds from unsecured subordinated promissory notes, net of fees	-	-	-	880	880	-
Proceeds from notes payable, capital leases	207	-	-	-	-	-
Payments on notes payable and capital lease obligations	(60)	(64)	(72)	(61)	(254)	(1,436)
Net cash provided by Financing	<u>(1,231)</u>	<u>(504)</u>	<u>(1,304)</u>	<u>(1,952)</u>	<u>(2,145)</u>	<u>(1,436)</u>
Net change in Cash	(260)	(55)	239	(107)	1,995	4,829
Cash Beginning of Period	<u>323</u>	<u>63</u>	<u>8</u>	<u>247</u>	<u>247</u>	<u>2,242</u>
Cash End of Period	<u>\$ 63</u>	<u>\$ 8</u>	<u>\$ 247</u>	<u>\$ 140</u>	<u>\$ 2,242</u>	<u>\$ 7,071</u>

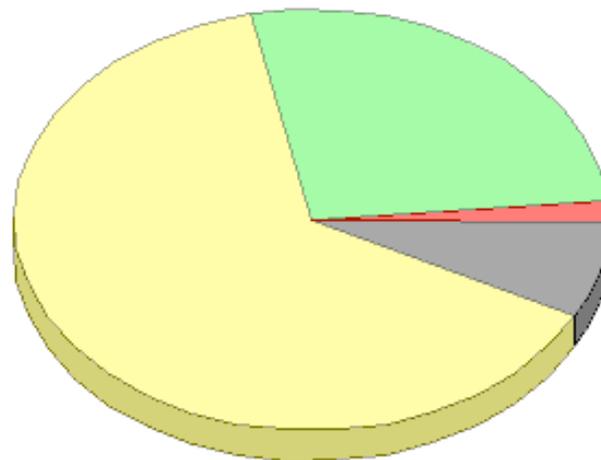
*Company does not provide a quarterly breakdown of how its arrives at net cash used or provided by operations

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



■ 26.87 % Buy ■ 64.8 % Hold ■ 7.46 % Not Rated ■ 1.49 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	10
Hold	1	33
Sell		
Not Rated		

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I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.