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Research Report – Update

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

Zynex, Inc.

Rating: Speculative Buy

Howard Halpern

ZYXI $3.05 — (OTC)

May 14, 2018

	FY2015 A	FY2016 A	2017 A	***2018 E***	***2019 E***
Total Revenue (in millions)	$11.6	$13.3	$23.4	***$31.3***	***$39.9***
Earnings (loss) per share	($0.09)	$0.00	$0.22	***$0.28****	***$0.37****

52-Week range	$5.50 – $0.28	Fiscal year ends:	December
Shares outstanding a/o 05/04/18	33.1 million	Revenue/shares (ttm)	$0.79
Approximate float	15.3 million	Price/Sales (ttm)	3.9X
Market Capitalization	$101 million	Price/Sales (2019) E	2.7X
Tangible Book value/shr	$0.16	Price/Earnings (ttm)	11.0X
Price/Book	NMF	Price/Earnings (2019) E	8.2X

** Includes recognition of federal income taxes*

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 products, as well as consumable supplies for electrotherapy products.

Key Investment Considerations:

Maintaining Speculative Buy rating and 12-month price target of $6.35 per share reflecting an increase in our 2019 EPS forecast, offset by diminished sector valuation.

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 by 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, we estimate Empi generated approximately $250 million in revenue. We estimate Empi generated revenue of $140 million in 2015.

We estimate the company's accumulated electrotherapy device revenue should total over $14.2 million for the two-year period ending December 31, 2019. The increase in device placements should drive sales of product supplies (electrodes, batteries, etc.) to $32.5 million in 2019 from an estimated $24.6 million in 2018.

ZYXI reported (on May 8, 2018) 1Q18 EPS of $0.06 on sales growth doubling to $6.9 million compared to EPS of $0.01 on sales of $3.4 million in the year-ago period. We projected sales of $6.5 million and EPS of $0.05.

For 2018, we increased our EPS forecast to $0.28 (from $0.27) on 33.7% sales growth to $31.3 million (unchanged). Our revised EPS forecast reflects 1Q18 results and gross margin expansion to 82.2% compared to our prior forecast of 80%, partly offset by a $2.1 million increase in our SG&A expense to $14.9 million.

In 2019, we project a 32.1% increase in EPS to $0.37 (prior was $0.34) on 27.5% sales growth to $39.9 million (unchanged). Our EPS forecast reflects sales growth and gross margin expansion to 82.6% from 82.2% forecast in 2018, as well as operating margin expense narrowing to 40.4% from 47.6% in 2018.

Please view our Disclosures on pages 13 – 15.

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Appreciation Potential

We are maintaining coverage of Zynex, Inc. with a Speculative Buy rating and a 12-month price target of $6.35 per share reflecting an increase in our 2019 EPS forecast, offset by diminished sector valuation.

Our strong earnings growth is based on the resumption of device sales, which 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 enabled the company to invest in 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 $6.35 per share implies shares could double over the next twelve months. The company's current trailing-twelve month and 2019 P/E multiples are 11X and 8.2X, respectively (prior was 19.8X and 12.8X, respectively). According to MSN Money and Thomson Reuters, peers in the medical device, advanced medical equipment industries have an average trailing twelve-month P/E multiple of 32X (prior was 34.5X). We believe investors should accord Zynex a multiple that could approach that of the industry. However, as multiples have contracted for the industry and for the company since March 2018, we applied a reduced multiple of 20X (23.4X) to our 2019 EPS forecast, discounted for execution risk, to obtain a year-ahead value of approximately $6.35 per share.

Zynex's valuation improvement is contingent upon maintaining consistent profitable growth compared to the significant losses experienced in 2013, 2014, and 2015. In 2016, the company's transition to profitability started, and was reinforced in 2017 with income of $7.4 million. We project income of $9.5 million and $12.7 million, respectively in 2018 and 2019. Valuation improvement could be rapid, as investors see consistent quarterly revenue and earnings growth. We forecast the company generating cash earnings of $9.8 million and $13.1 million in 2018 and 2019, respectively.

Due to the company's dependence on insurance company reimbursements and/or a patients paying for their NexWave electrotherapy products 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 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™ (pictured on top of the next page), InWave and NeuroMove™ electrotherapy devices.

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 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.

Source: Zynex

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). In February 2017, the company reintroduced the device into its expanding direct sales force in the US market.

The company is developing a Blood Volume Monitor. 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 device uses six independent parameters that 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, as well as the Certificate European or CE mark. The latter is likely to occur before the forma.

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 2014, 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.

While the company stopped disclosing the actual number of orders starting in 2017, it did report new device order growth of 36% in 1Q18 compared to the year-ago period. The large and growing cumulative device customer base should drive sales of consumable supplies. In 2019, we project supplies should approximate 81.3% of total sales, up from 78.4% in 2018. The increase in the sale of supplies should enable the company to better leverage the company's operating and gross margins that should drive projected cash earnings to $13.1 million in 2019, up from $9.8 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.

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).

Projections

Basis of Forecast

Our forecasts reflect the company reaching a combined total of at least 55,000 orders through 2019. We estimate the company could generate orders of at least 15,000 in 2018 and 2019, respectively, on top of an estimated 25,000 orders generated in 2017. Our projection reflects the hiring in 2018 of approximately 50 field sales representatives that will be compensated with a base salary plus commission. Entering 2019, the company should have in excess of 150 field sales representatives.

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 sustained growth in consumables. We anticipate such a surge in device sales will occur in the middle of 2019. Our forecast incorporates some seasonality where first and fourth quarter total sales are unlikely to be as robust as second and third quarter sales.

Our forecast does not incorporate revenue from the sale of its CM-1500 Blood Volume Monitor. If FDA clearance or the European CE market is received, sales could be greater than we anticipate. Our forecast anticipates that federal tax loss carryforward will be exhausted in 2018. We project the company will pay federal and state taxes of $1.2 million or approximately 11.1% in 2018 and $4.1 million or 24.5% in 2019.

Economy

In April 2018, the IMF kept its global economic growth estimate at 3.9% for both 2018 and 2019, unchanged from January 2018. The growth estimates reflect strong momentum, favorable market sentiment, accommodative financial conditions, and expansionary US fiscal policy reflecting the tax cuts signed into law at the end of 2017.

In April 2018, the IMF increased its 2018 and 2019 US economic growth estimates by 0.2% in each period, respectively to 2.9% in 2018 and 2.7% in 2019. The upward revision reflects stronger than expected US economic activity in 2017, firmer external demand, and the expected economic impact from tax policy changes signed into law at the end of 2017 that reduced corporate tax rates and the temporary allowance for full expensing of investments.

IBISWorld projects per capita disposable income will grow 1.9% annually to $44,600 in 2024 from $39,200 in 2017. The increase is based on modest but steady economic growth.

Operations – 2018

We project revenue growth of 33.7% to $31.3 million (unchanged), reflecting $24.6 million in sales of supplies and device sales of $6.8 million.

We forecast gross profit increasing 38.3% to $25.8 million due primarily to increased sales and expansion in gross margin to 82.2% from 79.4% in 2017. We anticipate sales from supplies will account for 78.4% of total sales. We project a 21% increase in operating income to $10.8 million due to higher sales and gross margin expansion, partly offset by operating expense margin increasing to 47.6% from 41.3% in 2017. We anticipate a 54.4% increase in SG&A expense (total expenses) to $14.9 million due primarily to the hiring of at least 50 dedicated sales professionals with a base salary plus commissions, an increase in commissions from its existing non-salaried sales force of 100 representatives, and building an information technology infrastructure to support total sales growth.

Our non-operating expense forecast consists exclusively of interest expense of $160,000 compared to $1.5 million in 2017. In 2018, the company should have eliminated the need to record amortization of debt issuance costs and debt discount related to a private placement of unsecured debt in 1Q17, as well as paying off all outstanding debt in the 2H18. We project net income of $9.5 million or $0.28 per share (prior $0.27 per share), after recording some federal and state income tax expense at a combined rate of 11.1%.

Finances – 2018

We project cash earnings of $9.8 million and an increase in working capital of $2.5 million. The increase in working capital is due primarily to an increase in receivables and inventories, as well as decreases in payables. Cash from

operations of $7.3 million should cover capital expenditures, repayment of debt, capital lease obligations, and repurchase of common stock. We project cash will increase by $4.5 million to $10.1 million at December 31, 2018.

Operations – 2019

We project revenue growth of 27.5% to $39.9 million (unchanged), reflecting a 32.1% increase in sales of supplies primarily electrodes and batteries to $32.5 million and device sales growth of 10.5% to $7.5 million due primarily to a sales force in excess of 150 and improved collections and billings from devices sold in 2017 and 2018.

We forecast gross profit increasing 28.1% to $33 million due primarily to increased sales and gross margin expansion. We project gross margin of 82.6%, up from an estimated 82.2% in 2018. We anticipate sales from supplies will account for 81.3% of total sales. We project a 55.6% increase in operating income to $16.8 million due to higher sales, gross margin expansion, and operating expense margin improving to 40.4% from 47.6% in 2018. We anticipate operating margin of 42.2%, up from 34.6% in 2018. We project an 8.1% increase in SG&A expense (total expenses) to $16.1 million due primarily to the hiring of 100 field sales professionals over a two year period with a base salary plus commissions and an increase in commissions from its existing non-salaried sales force.

Our interest expense should be zero compared to $160,000 million in 2018. In 2018, the company should have eliminated its outstanding debt obligations. We project net income of $12.7 million or $0.37 per share (prior was $11.9 million or $0.34 per share), after income tax expense of $4.1 million or a 24.5% rate.

Finances – 2019

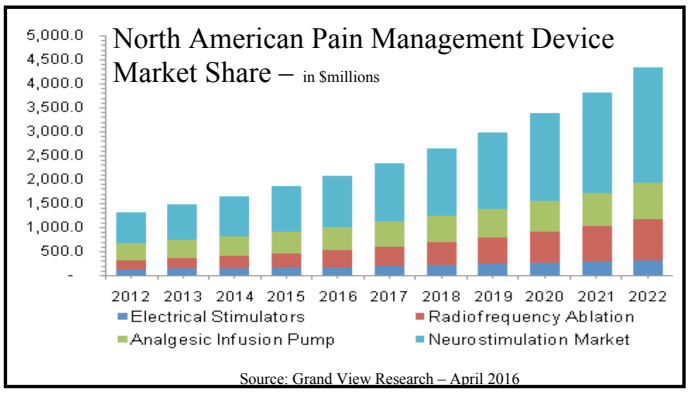
We project cash earnings of $13.1 million and an increase in working capital of $1.1 million. The increase in working capital is due primarily to increases in receivables and inventories, as well as decreases in payables and accruals. Cash from operations of $12 million should cover capital expenditures. We project cash will increase by $11.2 million to $21.3 million at December 31, 2019.

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 2019.

Pain Management Device Market

In July 2017, Transparency Market Research (TMR) predicted the global pain management device market to grow 7.6% annually 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.

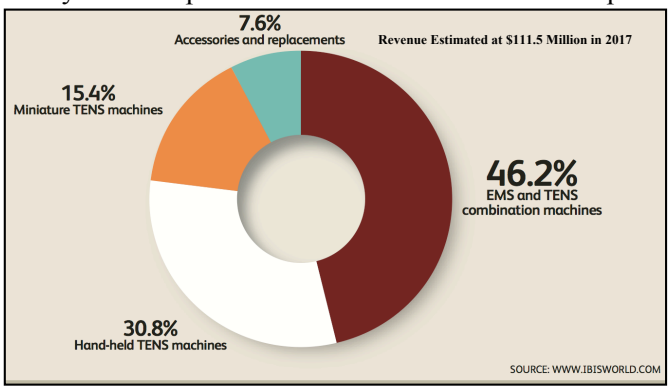


Consulting firm Grand View Research observed that North America dominated the overall pain management device industry in 2014 due to its favorable healthcare infrastructure that facilitated the access to advanced pain management devices. The chart above shows the breakdown of market share by device to 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 market 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 in 2014. Industry revenue decreased to $78.2 million in 2014 from $101.8 million in 2013. 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 three-years for the industry to recover to a revenue level of $109.8 million in 2016. IBISWorld anticipates revenue growth of 2.9% to $132 million in 2023 from an estimated $111.5 million in 2017 (see chart on right). The 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.

The forecast also 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 and pain clinics are an important component of the sales process as they write the prescriptions that are submitted to Zynex for its products, primarily NexWave.

IBISWorld observed 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. IBISWorld projects the number of physical therapy establishments to reach 136,100 in 2023, up from 119,000 in 2017. The number of US employees at physical therapy establishments will increase to 526,000 in 2023 from 458,000 in 2017.

1Q18 Results

<u>1Q18 Results</u>
Total revenue doubled to $6.9 million due primarily to sales of supplies increasing to $5.3 million from $2.1 million in the year-ago period. Sales of devices increased 14.7% to $1.6 million due to growth in the company's sales force to over 125 professionals. The increase in the sale of supplies reflects cumulative growth in the company's customer base in 2016 and 2017, as well as improvements in billing and collections procedures.

Gross profit more than doubled $5.6 million from $2.5 million in the year-ago period. Gross profit growth reflects the expansion of gross margin to 82% from 73.1% in 1Q17. Gross margin improvement was due primarily to sales growth, improved collections on gross billings, and a positive shift in the product mix between supplies and devices. Operating expenses consisting of SG&A increased 81.5% to $3.7 million from $2 million due primarily to increased headcount, incentive compensation and commissions, as well as increases related to rent and relocation to a new facility. Operating income was nearly $2 million compared to $483,000 due to higher sales, gross margin expansion, and operating margin expense improving to 53.6% from 59.1% in 1Q17.

Non-operating interest expense decreased to $115,000 from $121,000 in the year-ago period due to a lower debt balance.

Net income was $1.9 million or $0.06 per share, compared to $353,000 or $0.01 per share. The company recorded a tax benefit of $81,000 versus an expense of $9,000 in 1Q17. We projected net income of $1.7 million or $0.05 per share on total revenue of $6.5 million.

Finances

In 1Q18, cash from operations (the company does not report on a quarterly basis cash earnings and changes in working capital) of $993,000 did not cover capital expenditures, the repurchase of common stock, and repayment of debt. Cash decreased by $1.2 million to $4.4 million at March 31, 2018.

Capital Structure

At March 31, 2018, the company had total outstanding debt (all current) of $7,000, which was paid off subsequent to the end of 1Q18.

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.

Risks

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 of 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 as it was developed internally, competitors could potentially develop more effective devices.

Reliance on Third-Party Manufacturers

The company relies on third-party manufacturers to assemble and manufacture components of the NexWave and NeuroMove and other products. The inability of a manufacturer to ship orders in a timely manner or to meet the company's quality standards could lead to not meeting delivery date requirements of customers, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices.

Sourced Concentration

The company sourced 86% of components for its electrotherapy products from two vendors in 1Q18, compared to 45% from two vendors in the year-ago period. While management believes its relationships with suppliers are good, 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 54.6% of the outstanding voting stock (February 2018). 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 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 2016 was 7,400 shares traded a day, which increased to 30,800 in 2017. During the last three months to May 11, 2018 volume increased to 27,400. The company has a float of 15.3 million shares and shares outstanding of 33.1 million.

Zynex, Inc.
Consolidated Balance Sheets
FY2015 – FY2019E
(in thousands)

	FY15A	FY16A	FY17A	1Q18A	**FY18E**	**FY19E**
ASSETS						
Current assets:						
Cash	$ 8	$ 247	$ 5,565	$ 4,366	**$ 10,069**	**$ 21,258**
Accounts receivable, net	2,426	3,028	2,185	2,668	**3,916**	**4,436**
Inventory	305	107	423	710	**900**	**1,200**
Prepaid expenses	27	40	198	615	**350**	**400**
Total current assets	2,766	3,422	8,371	8,359	**15,235**	**27,294**
Property and equipment, net	801	580	188	575	**667**	**800**
Deposits	55	55	370	375	**380**	**576**
Intangible assets, net	74	34	-	-	**-**	**-**
Total assets	$ 3,696	$ 4,091	$ 8,929	$ 9,309	**$ 16,282**	**$ 28,670**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Line of credit	4,002	2,771	-	-	**-**	**-**
Unsecured subordinated promissory notes	-	-	231	7	**-**	**-**
Capital leases	109	118	123	93	**-**	**-**
Accounts payable	2,477	2,879	2,243	2,112	**1,781**	**1,447**
Deferred revenue	89	54	-	-	**-**	**-**
Deferred insurance reimbursement	-	880	880	880	**880**	**880**
Income taxes payable	79	94	-	-	**-**	**-**
Accrued payroll and payroll taxes	484	732	538	661	**541**	**374**
Other accrued liabilities	299	217	-	-	**-**	**-**
Total current liabilities	7,539	7,745	4,015	3,753	**3,203**	**2,701**
Capitalized leases and Deferred rent	216	136	-	329	**100**	**-**
Warranty liability	12	12	12	12	**12**	**12**
Stockholders' equity:						
Common stock,$.001 par value; authorized 100,000,000 shares;	31	31	33	33	**33**	**33**
Paid-in capital	5,832	6,032	7,612	7,761	**7,953**	**8,228**
Treasury stock	-	-	(243)	(2,000)	**(2,000)**	**(2,000)**
Retained earnings (accumulated deficit)	(9,845)	(9,776)	(2,411)	(490)	**7,070**	**19,785**
Total stockholders' equity	(3,982)	(3,713)	4,991	5,304	**13,056**	**26,046**
Non-controlling interest	(89)	(89)	(89)	(89)	**(89)**	**(89)**
Total liabilities and stockholders' equity	$ 3,696	$ 4,091	$ 8,929	$ 9,309	**$ 16,282**	**$ 28,670**
SHARES OUT	31,271	31,271	32,778	32,607	**33,120**	**33,125**

Source: Company reports and Taglich Brothers estimates

Zynex, Inc.
Annual Income Statement
FY2015 – FY2019E
(in thousands)

	FY15 A	FY16 A	FY17 A*	**FY18 E**	**FY19 E**
Devices	$ 5,434	$ 9,014	$ 8,277	**$ 6,768**	**$ 7,475**
Supplies	5,035	4,281	15,155	**24,558**	**32,450**
Pharmzy and other	1,172	18	-	**-**	**-**
Total Net sales	$ 11,641	$ 13,313	$ 23,432	**$ 31,326**	**$ 39,925**
Total Cost of sales	4,937	3,517	4,819	**5,576**	**6,945**
Gross Profit	6,704	9,796	18,613	**25,750**	**32,980**
Operating Expenses:					
Selling, general, and administrative	9,185	9,156	9,669	**14,925**	**16,140**
Total Operating Expenses	9,185	9,156	9,669	**14,925**	**16,140**
Operating Income (loss)	(2,481)	640	8,944	**10,825**	**16,840**
Interest (expense) income	(503)	(352)	(1,450)	**(160)**	**-**
Other income (expense)	(7)	(204)	-	**-**	**-**
Total Other Income (expense)	(510)	(556)	(1,450)	**(160)**	**-**
Pre-Tax Income (loss)	(2,991)	84	7,494	**10,665**	**16,840**
Income Tax Expense (Benefit)	(57)	15	129	**1,184**	**4,125**
Net income (loss) - attributable to Zynex, Inc.	$ (2,911)	$ 69	$ 7,365	**$ 9,481**	**$ 12,715**
Earning (loss) per share	$ (0.09)	$ 0.00	$ 0.22	**$ 0.28**	**$ 0.37**
Avg Shares Outstanding	31,271	31,271	33,196	**34,424**	**34,448**
EBITDA	$ (1,984)	$ 1,235	$ 9,501	**$ 11,168**	**$ 17,160**
Margin Analysis					
Gross margin	57.6%	73.6%	79.4%	82.2%	82.6%
Selling, general, and administrative	78.9%	68.8%	41.3%	47.6%	40.4%
Operating margin	(21.3%)	4.8%	38.2%	34.6%	42.2%
Pre-tax margin	(25.7%)	0.6%	32.0%	34.0%	42.2%
Tax rate	1.9%	17.9%	1.7%	11.1%	24.5%
YEAR / YEAR GROWTH					
Total Revenues	4.7%	14.4%	76.0%	33.7%	27.5%

* The company will reclassify sales between device and supplies revenue for 2017. The change will not impact total net revenue.

Source: Company reports and Taglich Brothers estimates

Zynex, Inc.
Income Statement Model
Quarters FY2017A – 2019E
(in thousands)

	Q1 17 A	Q2 17 A*	Q3 17 A*	Q4 17 A*	FY17 A*	Q1 18 A	Q2 18 E	Q3 18 E	Q4 18 E	**FY18 E**	Q1 19 E	Q2 19 E	Q3 19 E	Q4 19 E	**FY19 E**
Devices	$ 1,384	$ 2,464	$ 2,316	$ 2,113	$ 8,277	$ 1,588	$ 1,635	$ 1,725	$ 1,820	**$ 6,768**	$ 1,625	$ 1,850	$ 1,950	$ 2,050	**$ 7,475**
Supplies	2,052	2,578	4,504	6,021	15,155	5,288	6,095	6,430	6,745	**24,558**	5,900	7,350	9,300	9,900	**32,450**
Pharmzy and other	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Total Net sales	$ 3,436	$ 5,042	$ 6,820	$ 8,134	$ 23,432	$ 6,876	$ 7,730	$ 8,155	$ 8,565	**$ 31,326**	$ 7,525	$ 9,200	$ 11,250	$ 11,950	**$ 39,925**
Total Cost of sales	923	1,020	1,347	1,529	4,819	1,236	1,350	1,465	1,525	**5,576**	1,315	1,645	1,935	2,050	**6,945**
Gross Profit	2,513	4,022	5,473	6,605	18,613	5,640	6,380	6,690	7,040	**25,750**	6,210	7,555	9,315	9,900	**32,980**
Operating Expenses:															
Selling, general, and administrative	2,030	2,088	2,538	3,013	9,669	3,685	3,715	3,750	3,775	**14,925**	3,765	3,875	4,200	4,300	**16,140**
Total Operating Expenses	2,030	2,088	2,538	3,013	9,669	3,685	3,715	3,750	3,775	**14,925**	3,765	3,875	4,200	4,300	**16,140**
Operating Income (loss)	483	1,934	2,935	3,592	8,944	1,955	2,665	2,940	3,265	**10,825**	2,445	3,680	5,115	5,600	**16,840**
Interest (expense) income	(121)	(394)	(691)	(244)	(1,450)	(115)	(45)	-	-	**(160)**	-	-	-	-	**-**
Other income (expense)	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Total Other Income (expense)	(121)	(394)	(691)	(244)	(1,450)	(115)	(45)	-	-	**(160)**	-	-	-	-	**-**
Pre-Tax Income (loss)	362	1,540	2,244	3,348	7,494	1,840	2,620	2,940	3,265	**10,665**	2,445	3,680	5,115	5,600	**16,840**
Income Tax Expense (Benefit)	9	36	44	40	129	(81)	250	440	575	**1,184**	490	850	1,330	1,455	**4,125**
Net income (loss) - attributable to Zynex, Inc.	$ 353	$ 1,504	$ 2,200	$ 3,308	$ 7,365	$ 1,921	$ 2,370	$ 2,500	$ 2,690	**$ 9,481**	$ 1,955	$ 2,830	$ 3,785	$ 4,145	**$ 12,715**
Earning (loss) per share	$ 0.01	$ 0.05	$ 0.07	$ 0.10	$ 0.22	$ 0.06	$ 0.07	$ 0.07	$ 0.08	**$ 0.28**	$ 0.06	$ 0.08	$ 0.11	$ 0.12	**$ 0.37**
Avg Shares Outstanding	31,564	33,262	33,545	34,414	33,196	34,414	34,415	34,430	34,435	**34,424**	34,440	34,445	34,450	34,455	**34,448**
						-					-				
EBITDA	$ 580	$ 1,988	$ 3,055	$ 3,878	$ 9,501	$ 2,043	$ 2,750	$ 3,025	$ 3,350	**$ 11,168**	$ 2,525	$ 3,760	$ 5,195	$ 5,680	**$ 17,160**
Margin Analysis															
Gross margin	73.1%	79.8%	80.2%	81.2%	79.4%	82.0%	82.5%	82.0%	82.2%	82.2%	82.5%	82.1%	82.8%	82.8%	82.6%
Selling, general, and administrative	59.1%	41.4%	37.2%	37.0%	41.3%	53.6%	48.1%	46.0%	44.1%	47.6%	50.0%	42.1%	37.3%	36.0%	40.4%
Operating margin	14.1%	38.4%	43.0%	44.2%	38.2%	28.4%	34.5%	36.1%	38.1%	34.6%	32.5%	40.0%	45.5%	46.9%	42.2%
Pre-tax margin	10.5%	30.5%	32.9%	41.2%	32.0%	26.8%	33.9%	36.1%	38.1%	34.0%	32.5%	40.0%	45.5%	46.9%	42.2%
Tax rate	2.5%	2.3%	2.0%	1.2%	1.7%	(4.4%)	9.5%	15.0%	17.6%	11.1%	20.0%	23.1%	26.0%	26.0%	24.5%
YEAR / YEAR GROWTH															
Total Revenues	(1.2%)	53.4%	88.0%	178.3%	76.0%	100.1%	53.3%	19.6%	5.3%	33.7%	9.4%	19.0%	38.0%	39.5%	27.5%

* The company will reclassify sales between device and supplies revenue for all of the quarters ended during 2017, as well as the full year. The change will not impact total net revenue.

Source: Company reports and Taglich Brothers estimates

Zynex, Inc.
Cash Flow Statement
FY2015 – FY2019E
(in thousands)

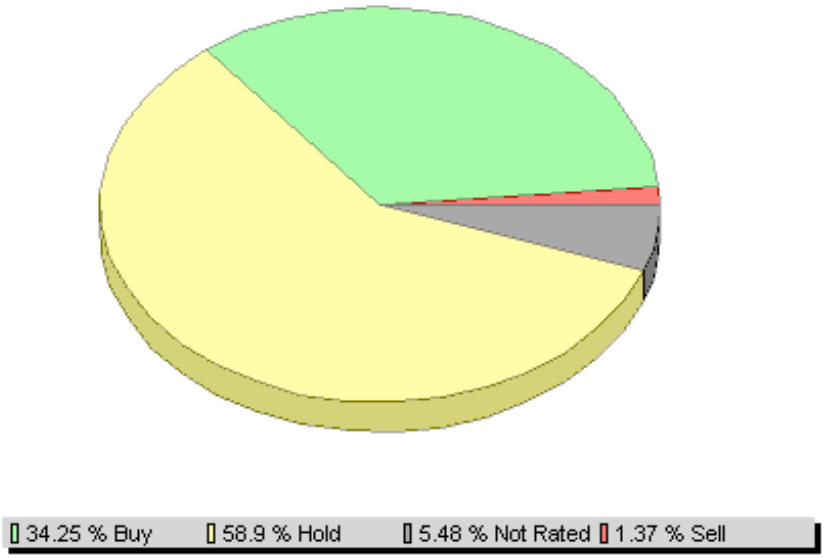
	FY2015A	FY2016A	FY2017A	1Q17A*	**FY2018E**	**FY2019E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (2,934)	$ 69	$ 7,365	$ -	**$ 9,481**	**$ 12,715**
Depreciation	367	395	252	-	**100**	**125**
Write-off rental units	-	30	227	-	**-**	**-**
Loss on the dispposl of property and equipment	-	22	-	-	**-**	**-**
Provision for losses on accounts receivable	1,040	1,433	-	-	**-**	**-**
Amortization of intangible assets	57	40	34	-	**-**	**-**
Amortization of financing fees	-	-	511	-	**-**	**-**
Issuance of common stock for services	-	-	228	-	**-**	**-**
Provision for obsolete inventory	28	-	-	-	**-**	**-**
Interest expense related to common stock issued with private placement	-	-	739		**-**	**-**
Employee stock-based compensation and warrant expense	130	200	66	-	**255**	**275**
Cash earnings (burn)	(1,312)	2,189	9,422	-	**9,836**	**13,115**
Changes In:						
Accounts receivable	(277)	(2,018)	843	-	**(1,731)**	**(520)**
Inventory	1,602	198	(316)	-	**(477)**	**(300)**
Prepaid expenses	223	(14)	(473)	-	**152**	**50**
Income taxe receivable	268	-	-	-	**-**	**-**
Deposits and other current assets	(53)	-	-	-	**10**	**196**
Deferred revenue	(23)	845	-	-	**-**	**-**
Accounts payable	(67)	402	(1,216)	-	**(462)**	**(334)**
Accrued liabilities	(20)	167	-	-	**3**	**(168)**
(Increase)/decrease in Working Capital	1,653	(420)	(1,162)	-	**(2,504)**	**(1,076)**
Net cash provided by Operations*	341	1,769	8,260	993	**7,332**	**12,039**
Cash Flows from Investing Activities						
Disposal (purchase) of equipment, net	9	-	-	-	**-**	**-**
Change in inventory used for rental	99	-	-	-	**-**	**-**
Purchase of property and equipment	-	(226)	(87)	(160)	**(650)**	**(850)**
Payment on contingent consideration	-	-	-	-	**-**	**-**
Cash Flows from Investing Activities	108	(226)	(87)	(160)	**(650)**	**(850)**
Cash Flows from Financing Activities						
Net repayments on line of credit	(440)	(1,232)	(2,771)	-	**-**	**-**
Repayment of unsecured subordinated promissory notes, net	-	-	(650)	(331)	**(384)**	**-**
Proceeds from notes payable, capital leases	-	-	1,035	-	**-**	**-**
Purchase of treasury stock	-	-	(222)	(1,757)	**(1,757)**	**-**
Proceeds from the issuance of stock	-	-	39	86	**86**	**-**
Payment of commission and placement agent frees and related expenses	-	-	(155)	-	**-**	**-**
Payments on notes payable and capital lease obligations	(64)	(72)	(131)	(30)	**(123)**	**-**
Net cash provided (used) by Financing	(504)	(1,304)	(2,855)	(2,032)	**(2,178)**	**-**
Net change in Cash	(55)	239	5,318	(1,199)	**4,504**	**11,189**
Cash Beginning of Period	63	8	247	5,565	**5,565**	**10,069**
Cash End of Period	$ 8	$ 247	$ 5,565	$ 4,366	**$ 10,069**	**$ 21,258**

* Quarterly details in operating activity or changes in are not provided by the Company

Source: Company reports and Taglich Brothers estimates

Price Chart

Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	3	12
Hold		
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.