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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 $3.06 — (OTC)

November 20, 2017

	FY2014 A	FY2015 A	FY2016 A	***2017 E***	***2018 E***
Total Revenue (in millions)	$11.1	$11.6	$13.3	***$22.4***	***$29.1***
Earnings (loss) per share	($0.20)	($0.09)	$0.00	***$0.20***	***$0.24****

52-Week range	$3.25 – $0.25	Fiscal year ends:	December
Shares outstanding a/o 11/09/17	32.8 million	Revenue/shares (ttm)	$0.56
Approximate float	19.4 million	Price/Sales (ttm)	5.5X
Market Capitalization	$100 million	Price/Sales (2018) E	3.6X
Tangible Book value/shr	$0.05	Price/Earnings (ttm)	21.8X
Price/Book	NMF	Price/Earnings (2018) E	12.8X

** Includes recognition of federal income taxes in 2H18*

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 increasing 12-month price target to $5.00 per share from $2.30 due to increased sector valuation and 2018 growth forecast.

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.) to $19.4 million in 2018 from $13.4 million in 2017 and $4.3 million in 2016.

In 3Q17 (reported on November 13, 2017), ZYXI reported EPS of $0.07 on 88% sales growth to $6.8 million compared to $0.02 on sales of $3.6 million in the year-ago period. We projected sales of $5.4 million and EPS of $0.06.

For 2017, we increased our EPS forecast to $0.20 (from $0.14) on 68% sales growth to $22.4 million (prior was $18.3 million). Our sales and earnings growth forecast reflects 3Q17 results.

For 2018, we increased our EPS forecast to $0.24 (from $0.19) on 30% sales growth to $29.1 million (prior was $21.9 million). Our sales growth forecast reflects a 45% increase in product supplies to $19.4 million and customer orders reaching a cumulative total in excess of 65,000.

Please view our Disclosures on pages 14 – 16.

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Appreciation Potential

We are maintaining coverage of Zynex, Inc. with a Speculative Buy rating and increasing our 12-month price target to $5.00 per share from $2.30 based on 50.6% pre-tax 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 41.7% 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 $5.00 per share implies shares could appreciate by at least 60% over the next twelve months. The company's current trailing-twelve month and forward P/E multiples are 21.8X and 12.8X, respectively. According to Thomson Reuters, peers in the medical equipment and supplies and distribution industry have a median forward P/E multiple of 23.4X (prior was 19.5X), while ZYXI's current forward P/E multiple is 12.8X (prior was 5.7X) based on our 2018 EPS forecast of $0.24 per share. We believe investors should accord Zynex a multiple in line with the industry, as 2018 earnings growth is forecast at 50.6% compared to 34.7% for the industry. We applied the industry multiple of 23.4X to our 2018 EPS forecast, discounted for execution risk, to obtain a year-ahead value of approximately $5.00 per share.

Zynex Inc. 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 if its growth strategy is successful, we project income of $6.7 million and $8.3 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 generate cash earnings of $7.4 million and $9.1 million in 2017 and 2018, 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 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

Source: Zynex

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 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. 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.

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 2018, we project product supplies will exceed 66% of total sales, up from 32.2% in 2016. The increase in products supplies should enable the company to better leverage the company's operating expenses and drive projected cash earnings to $9.1 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 for clearance in Europe and the US.

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 approximately 65,000 orders for the years 2016 to 2018. We anticipate the company generating orders of in excess of 18,000 and 20,000 in 2017 and 2018, respectively, on top of the 25,420 orders generated in 2016. Our projection reflects the addition of approximately 50 dedicated sales representatives that will be compensated with a base salary plus commission.

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 2018. Our forecast incorporates some seasonality where first and fourth quarter sales will not be as great 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 is received, sales could be greater than we anticipate. Our forecast anticipates that federal tax loss carryforward will be exhausted in the 2H18. We project the company will pay federal tax (no state taxes) of $1.9 million or approximately 18.6% for the full year.

Economy

In October 2017, the International Monetary Fund increased its 2017 and 2018 US GDP forecasts by 0.2% and 0.1%, to 2.2% and 2.3%, respectively from its July 2017 forecast. The increase is due in part to better than anticipated 2Q17 GDP growth.

IBISWorld projects per capita disposable income (pictured on right) will grow 3% annually to $48,900 in 2024 from $39,800 in 2017. The increase is based on modest but steady economic growth.

Operations – 2017

We project revenue growth of 68% to $22.4 million (prior was $18.3 million) reflecting product supplies sales more than tripling to $13.4 million from the sale of electrodes and batteries to its established customer base and new orders in 2017. We anticipate flat device sales of $9 million reflecting increased billing and collections offset by a decline in orders to 18,800 from 25,400.

Our forecast anticipates a 79.9% increase in gross profit to $17.6 million due primarily to increased sales and gross margin improving to 78.8% from 73.6% in 2016. We project operating income of $8.3 million compared to $640,000 as operating expense margin improves to 41.8% from 68.8% in 2016. Operating margin should increase to 37% from 4.8% in 2016. We anticipate a 2.2% increase in SG&A expense (total expenses) to $9.4 million to support sales growth, partly offset by a reduction in external staffing that occurring in the 2H16.

Our 2017 non-operating expense forecast consists exclusively of $1.5 million in interest expense. 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 $6.7 million or $0.20 per share (prior was $4.5 million or $0.14 per share) compared to net income of $69,000 or breakeven per share in 2016. Our forecast only includes income taxes recorded by the company on an actual basis. In 9M17, the company recorded income tax expense of $89,000. The company reported income tax expense of $15,000 in 2016. At September 30, 2017, the company had $5.3 million and $14.7 million of net operating loss carryforwards the company has for federal and state purposes, respectively.

Finances – 2017

We project cash earnings of $7.4 million and an increase in working capital of $1.2 million. The increase in working capital is due primarily to a reduction in payables and increase in receivables. Cash from operations of $6.3 million will cover capital expenditures and repayment of debt. We project cash will increase by $3.6 million to $3.9 million at December 31, 2017.

Operations – 2018

We project revenue growth of 30% to $29.1 million, reflecting a 45% increase in product supply (primarily electrodes and batteries) sales to $19.4 million reflecting device sales of approximately 20,800, up from an estimated 18,800 in 2017. We project product revenue growth of 7.8% to $9.7 million due primarily to improved collections and billings from devices sold in 2017 and 2H16.

We forecast gross profit increasing 29.4% to $22.8 million due primarily to increased sales, partly offset by a slight decrease in gross margin to 78.4% from an estimated 78.8% in 2017. We anticipate sales from product supplies will account for in excess of 66% of total sales. We project a 29.2% increase in operating income to $10.7 million due to higher sales and operating expense margin improving to 41.7% from 41.8% in 2017. We anticipate operating margin of 36.7% from 37% in 2017. We anticipate a 29.6% increase in SG&A expense (total expenses) to $12.1 million due primarily to the hiring approximately 50 dedicated sales professional 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 $500,000 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. We project net income of $8.3 million or $0.24 per share (prior was $6.5 million or $0.19 per share), after recording income tax expense (federal only) of $1.9 million or an 18.6% rate.

Finances – 2018

We project cash earnings of $9.1 million and an increase in working capital of $1.5 million. The increase in working capital is due primarily to an increase in receivables and a reduction in payables. Cash from operations of $7.5 million should cover capital expenditures and repayment of debt and capital lease obligations. We project cash will increase by $5.8 million to $9.7 million at December 31, 2018.

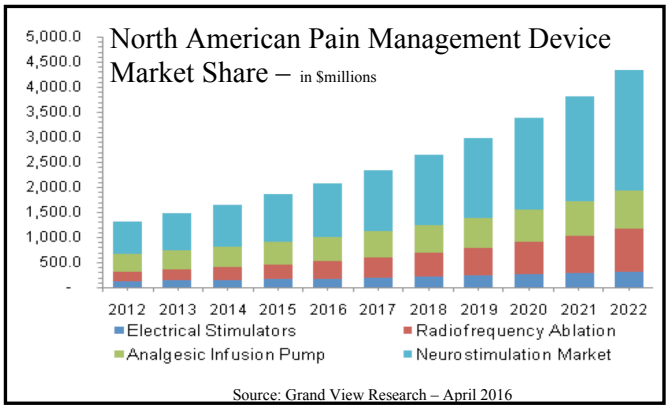
We anticipate the company will continue to use its own billing system in order to be more efficient in collecting and maintaining a relatively stable level of accounts receivables, which should support our cash flow projections to 2018.

Pain Management Device Market

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

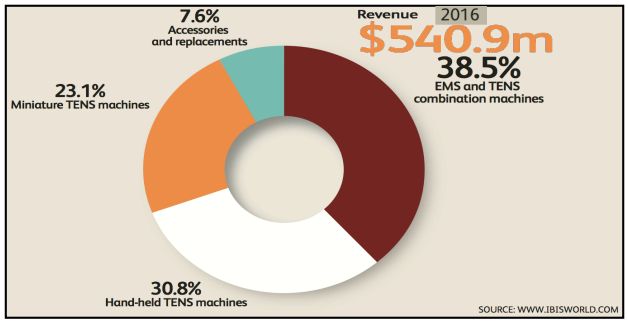
Consulting firm Grand View Research observed that North America dominated the overall pain management device industry in 2014 due to its favorable healthcare infrastructure that facilitated the access to advanced pain management devices. The chart on the right shows the breakdown of market share by device 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 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. 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 prescriptions that are submitted to Zynex 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 projected the number of physical therapy establishments to 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.

3Q17 and 9M17 Results

3Q17

Total sales increased 88% to $6.8 million due primarily to sales of product supplies more than tripling to $4.5 million, as well as a 7.5% increase in product sales to $2.3 million. Increased sales of product supplies such as replacement electrodes and batteries reflect approximately 35,000 new device orders shipped in 2016 and 9M17 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 100 representatives.

Gross profit nearly doubled to $5.5 million due to an expansion of gross margin to 80.2% from 75.7% in the year-ago period. Gross margin improvement was due primarily to sales growth of 88% compared to a 53.1% increase in operations labor and overhead, shipping and depreciation to $1.3 million from $880,000 in the year-ago period.

Operating expenses consisting of SG&A increased 19.4% to $2.5 million from $2.1 million due primarily to higher incentive based compensation. Operating income was $2.9 million compared $622,000 due to higher sales, gross margin expansion, and operating margin expense improving to 37.2% from 58.6% in 3Q16.

Non-operating interest expense increased to $691,000 from $90,000 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.

3Q17 net income was $2.2 million or $0.07 per share, compared to a loss of $532,000 or $0.02 per share. In the current period, the company paid income tax of $44,000 versus none in the year-ago period. We projected net income of $1.9 million or $0.06 per share on sales of $5.4 million.

9M17 Results

Total sales increased 47.2% to $15.3 million due primarily to sales of product supplies more than doubling to $8.7 million, partly offset by a 2.8% decrease in product sales to $6.6 million. Increased sales of product supplies such as replacement electrodes and batteries reflect approximately 35,000 new device orders shipped in 2016 and 9M17 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 58.3% to $12 million due to an expansion of gross margin to 78.5% from 73% in the year-ago period. Gross margin improvement was due primarily to sales growth as operations labor and overhead, shipping and depreciation increased 17.3% to $3.3 million.

Operating expenses consisting of SG&A decreased 10.8% to $6.7 million from $7.5 million due primarily to a reduction in commissions reflecting fewer orders, staff reductions, elimination of temporary services, partly offset by stock-based compensation and public company expenses reflecting higher audit and publishing fees. Operating income was $5.4 million compared to $122,000 due to higher sales, gross margin expansion, and operating margin expense improved to 43.5% from 71.8% in the year-ago period.

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Product and rental (device) sales	$ 6,642	$ 6,835	**(2.8%)**
Product Supplies	8,656	3,555	**143.5%**
Total Sales	**$ 15,298**	**$ 10,390**	**47.2%**
Total Cost of Sales	3,289	2,803	**17.3%**
Gross Profit	$ 12,009	$ 7,587	**58.3%**
Total Operating Expenses	6,656	7,465	**(10.8%)**
Operating Income	5,353	122	**NMF**
Total Other Income (Expense)	(1,206)	(262)	**NMF**
Pre-Tax Income	4,147	(140)	**NMF**
Income Tax Expense (Benefit)	89	-	
Net Income (loss)	4,058	(140)	
Earnings (loss) per share	$0.12	($0.00)	
Avg Shares Outstanding	32,790	31,271.0	
Margins			
Gross margin - combinded	78.5%	73.0%	
Operating Margin	35.0%	1.2%	
Pre-Tax Margins	27.1%	(1.3%)	
Tax Rate	2.1%	0.0%	

Source: company reports

Non-operating interest expense increased to $1.2 million from $262,000 in the year-ago period due to amortization of debt issuance costs and debt discount related the private placement of unsecured subordinated notes in 1Q17.

Net income was $4.1 million or $0.12 per share, compared to a loss of $140,000 or breakeven per share. In the current period, the company paid income tax of $89,000 versus none in the year-ago period

Finances
In 3Q17 cash from operations of $2.8 million covered capital expenditures and repayment of debt obligations. Cash increased by $2.4 million to $2.6 million at September 30, 2017.

In 9M17 cash from operations of $4.7 million and issuance of $776,000 (net) in unsecured promissory notes covered capital expenditures and repayment debt obligations. Cash increased by $2.3 million to $2.6 million at September 30, 2017.

Capital Structure
At September 30, 2017, the company had total outstanding debt of $393,000. 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 was obligated to issue 776,250 shares of the common stock six months after issuance of the notes to the note holders. The common stock that was issued on August 28, 2017 to the note holder represents additional interest expense and had been initially recorded as a liability.

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.

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 3Q17, the company improved its working capital position to a positive $1.2 million from a deficit of $1.7 million in 2Q17. As the company continues to generate cash from operations, its going concern issue should be alleviated.

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.

Sourced Concentration
The company sourced 52% of components for its electrotherapy products from three vendors in 3Q17, compared to 79% from three vendors in 2016. 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 54.9% 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 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 November 17, 2017 volume increased to 48,100. The company has a float of 19.4 million shares and shares outstanding of 32.8 million.

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

	FY14A	FY15A	FY16A	3Q17A	FY17E	FY18E
ASSETS						
Current assets:						
Cash	$ 63	$ 8	$ 247	$ 2,574	$ 3,884	$ 9,732
Accounts receivable, net	3,189	2,426	3,028	2,409	3,417	4,847
Inventory	1,935	305	107	358	355	375
Prepaid expenses	250	27	40	211	215	295
Income tax receivable	268	-	-	-	-	-
Total current assets	**5,705**	**2,766**	**3,422**	**5,552**	**7,871**	**15,249**
Property and equipment, net	1,276	801	580	338	350	355
Deposits	2	55	55	86	86	87
Intangible assets, net	131	74	34	8	8	8
Total assets	**$ 7,114**	**$ 3,696**	**$ 4,091**	**$ 5,984**	**$ 8,315**	**$ 15,699**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Line of credit	4,442	4,002	2,771	-	-	-
Unsecured subordinated promissory notes	-	-	-	393	390	-
Capital leases	78	109	118	118	115	34
Accounts payable	2,544	2,477	2,879	2,092	2,173	2,003
Deferred revenue	112	89	54	-	-	-
Deferred insurance reimbursement	-	-	880	880	575	-
Income taxes payable	79	79	94	-	-	-
Accrued payroll and payroll taxes	342	484	732	905	853	871
Other accrued liabilities	460	299	217	-	-	-
Total current liabilities	**8,057**	**7,539**	**7,745**	**4,388**	**4,106**	**2,908**
Capitalized leases, less current	311	216	136	34	34	-
Warranty liability	13	12	12	12	11	12
Stockholders' equity:						
Common stock,$.001 par value; authorized 100,000,000 shares;	31	31	31	33	33	33
Paid-in capital*	5,702	5,832	6,032	7,324	7,324	7,649
Retained earnings (accumulated deficit)	(6,934)	(9,845)	(9,776)	(5,718)	(3,104)	5,186
Total stockholders' equity	**(1,201)**	**(3,982)**	**(3,713)**	**1,639**	**4,253**	**12,868**
Non-controlling interest	**(66)**	**(89)**	**(89)**	**(89)**	**(89)**	**(89)**
Total liabilities and stockholders' equity	**$ 7,114**	**$ 3,696**	**$ 4,091**	**$ 5,984**	**$ 8,315**	**$ 15,699**
SHARES OUT	31,271	31,271	31,271	32,825	32,850	32,955

* Includes approximately $1 million value of common shares related to the private placement in 2017

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	**$ 8,982**	**$ 9,680**
Product Supplies	4,430	5,035	4,281	**13,381**	**19,400**
Pharmzy and other	1,545	1,172	18	**-**	**-**
Total Net sales	$ 11,117	$ 11,641	$ 13,313	**$ 22,363**	**$ 29,080**
Total Cost of sales	7,612	4,937	3,517	**4,740**	**6,270**
Gross Profit	3,505	6,704	9,796	**17,623**	**22,810**
Operating Expenses:					
Selling, general, and administrative	11,397	9,185	9,156	**9,356**	**12,125**
Other - lease termination	(2,195)	-	-	**-**	**-**
Total Operating Expenses	9,202	9,185	9,156	**9,356**	**12,125**
Operating Income (loss)	(5,697)	(2,481)	640	**8,267**	**10,685**
Interest (expense) income	(536)	(503)	(352)	**(1,506)**	**(500)**
Other income (expense)	(47)	(7)	(204)	**-**	**-**
Total Other Income (expense)	(583)	(510)	(556)	**(1,506)**	**(500)**
Pre-Tax Income (loss)	(6,280)	(2,991)	84	**6,761**	**10,185**
Income Tax Expense (Benefit)	(49)	(57)	15	**89**	**1,895**
Net income (loss) - attributable to Zynex, Inc.	$ (6,199)	$ (2,911)	$ 69	**$ 6,672**	**$ 8,290**
Earning (loss) per share	$ (0.20)	$ (0.09)	$ 0.00	**$ 0.20**	**$ 0.24**
Avg Shares Outstanding	31,208	31,271	31,271	**33,105**	**34,063**
EBITDA	$ (2,288)	$ (1,984)	$ 1,235	**$ 8,663**	**$ 11,370**
Margin Analysis					
Gross margin	31.5%	57.6%	73.6%	78.8%	78.4%
Selling, general, and administrative	102.5%	78.9%	68.8%	41.8%	41.7%
Operating margin	(110.8%)	(21.3%)	4.8%	37.0%	36.7%
Pre-tax margin	(122.1%)	(25.7%)	0.6%	30.2%	35.0%
Tax rate	0.8%	1.9%	17.9%	1.3%	18.6%
YEAR / YEAR GROWTH					
Total Revenues		4.7%	14.4%	68.0%	30.0%

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 A	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	$ 2,153	$ 2,208	$ 9,014	$ 1,862	$ 2,464	$ 2,316	$ 2,340	**$ 8,982**	$ 2,030	$ 2,500	$ 2,550	$ 2,600	**$ 9,680**
Product Supplies	894	1,186	1,474	727	4,281	1,574	2,578	4,504	4,725	**13,381**	4,500	4,650	5,300	4,950	**19,400**
Pharmzy and other	27	3	-	(12)	18	-	-	-	-	**-**	-	-	-	-	**-**
Total Net sales	$ 3,477	$ 3,286	$ 3,627	$ 2,923	$ 13,313	$ 3,436	$ 5,042	$ 6,820	$ 7,065	**$ 22,363**	$ 6,530	$ 7,150	$ 7,850	$ 7,550	**$ 29,080**
Total Cost of sales	983	941	880	713	3,517	923	1,020	1,347	1,450	**4,740**	1,485	1,550	1,635	1,600	**6,270**
Gross Profit	2,494	2,345	2,747	2,210	9,796	2,513	4,022	5,473	5,615	**17,623**	5,045	5,600	6,215	5,950	**22,810**
Operating Expenses:															
Selling, general, and administrative	2,844	2,495	2,125	1,692	9,156	2,030	2,088	2,538	2,700	**9,356**	2,800	3,025	3,125	3,175	**12,125**
Total Operating Expenses	2,844	2,495	2,125	1,692	9,156	2,030	2,088	2,538	2,700	**9,356**	2,355	3,025	3,125	3,175	**12,125**
Operating Income (loss)	(350)	(150)	622	518	640	483	1,934	2,935	2,915	**8,267**	2,690	2,575	3,090	2,775	**10,685**
Interest (expense) income	(94)	(77)	(90)	(91)	(352)	(121)	(394)	(691)	(300)	**(1,506)**	(125)	(125)	(125)	(125)	**(500)**
Other income (expense)	-	-	-	(204)	(204)	-	-	-	-	**-**	-	-	-	-	**-**
Total Other Income (expense)	(94)	(77)	(90)	(295)	(556)	(121)	(394)	(691)	(300)	**(1,506)**	(125)	(125)	(125)	(125)	**(500)**
Pre-Tax Income (loss)	(444)	(227)	532	223	84	362	1,540	2,244	2,615	**6,761**	2,565	2,450	2,965	2,650	**10,185**
Income Tax Expense (Benefit)	-	-	-	15	15	9	36	44	-	**89**	-	-	1,000	895	**1,895**
Net income (loss) - attributable to Zynex, Inc.	$ (444)	$ (227)	$ 532	$ 208	$ 69	$ 353	$ 1,504	$ 2,200	$ 2,615	**$ 6,672**	$ 2,565	$ 2,450	$ 1,965	$ 1,755	**$ 8,290**
Earning (loss) per share	$ (0.01)	$ (0.01)	$ 0.02	$ 0.01	$ 0.00	$ 0.01	$ 0.05	$ 0.07	$ 0.08	**$ 0.20**	$ 0.08	$ 0.07	$ 0.06	$ 0.05	**$ 0.24**
Avg Shares Outstanding	31,271	31,271	31,441	31,441	31,271	31,564	33,262	33,545	34,050	**33,105**	34,055	34,060	34,065	34,070	**34,063**
											-				
EBITDA					$ 1,235	$ 580	$ 1,988	$ 3,055	$ 3,040	**$ 8,663**	$ 2,750	$ 2,635	$ 3,150	$ 2,835	**$ 11,370**
Margin Analysis															
Gross margin	71.7%	71.4%	75.7%	75.6%	73.6%	73.1%	79.8%	80.2%	79.5%	78.8%	77.3%	78.3%	79.2%	78.8%	78.4%
Selling, general, and administrative	81.8%	75.9%	58.6%	57.9%	68.8%	59.1%	41.4%	37.2%	38.2%	41.8%	42.9%	42.3%	39.8%	42.1%	41.7%
Operating margin	(10.1%)	(4.6%)	17.1%	17.7%	4.8%	14.1%	38.4%	43.0%	41.3%	37.0%	41.2%	36.0%	39.4%	36.8%	36.7%
Pre-tax margin	(12.8%)	(6.9%)	14.7%	7.6%	0.6%	10.5%	30.5%	32.9%	37.0%	30.2%	39.3%	34.3%	37.8%	35.1%	35.0%
Tax rate	0.0%	0.0%	0.0%	6.7%	17.9%	2.5%	2.3%	2.0%	0.0%	1.3%	0.0%	0.0%	33.7%	33.8%	18.6%
YEAR / YEAR GROWTH															
Total Revenues					14.4%	(1.2%)	53.4%	88.0%	141.7%	68.0%	90.0%	41.8%	15.1%	6.9%	30.0%

Source: Company reports and Taglich Brothers estimates

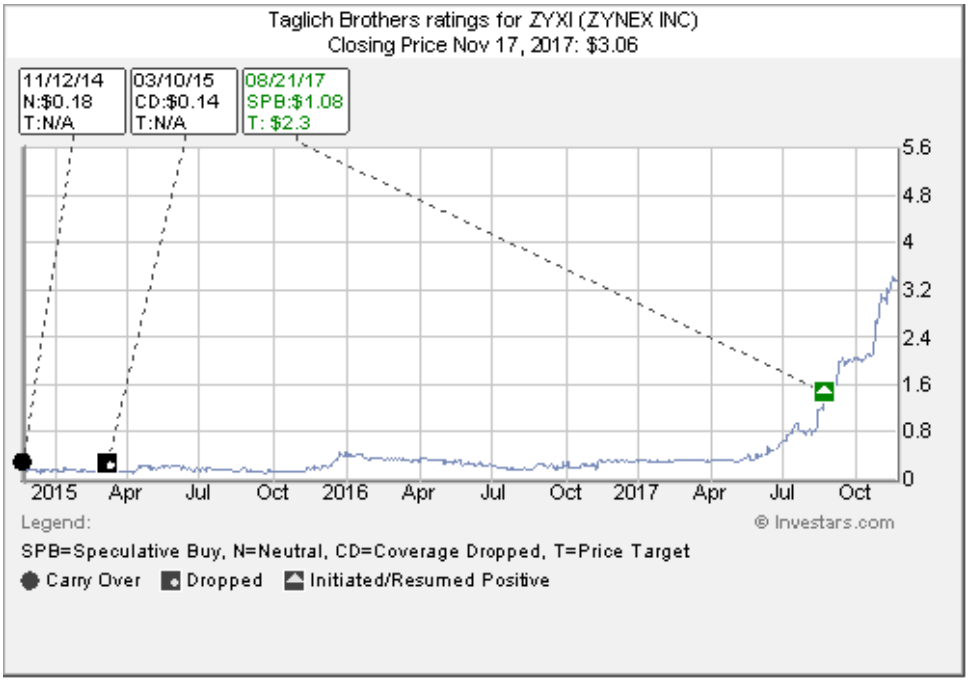
Zynex, Inc.
Cash Flow Statement
FY2014 – FY2018E
(in thousands)

	FY2014A	FY2015A	FY2016A	9 Mos. 17A*	**FY2017E**	**FY2018E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (6,231)	$ (2,934)	$ 69	$ -	**$ 6,672**	**$ 8,290**
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 dispposl 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)	(3,730)	(1,312)	2,189	-	**7,415**	**9,055**
Changes In:						
Accounts receivable	2,436	(277)	(2,018)	-	**(389)**	**(1,430)**
Inventory	1,642	1,602	198	-	**(248)**	**(20)**
Prepaid expenses	96	223	(14)	-	**175**	**80**
Income taxe receivable	625	268	-	-	**-**	**-**
Deposits and other current assets	122	(53)	-	-	**31**	**1**
Deferred revenue	112	(23)	845	-	**(54)**	**-**
Accounts payable	(199)	(67)	402	-	**(707)**	**(170)**
Accrued liabilities	(126)	(20)	167	-	**121**	**18**
Income taxes payable	(17)	-	-	-	**(94)**	**-**
(Increase)/decrease in Working Capital	4,691	1,653	(420)	-	**(1,164)**	**(1,521)**
Net cash Provided by Operations*	961	341	1,769	4,738	**6,251**	**7,534**
Cash Flows from Investing Activities						
Disposal (purchase) of equipment, net	(272)	9	-	-	**-**	**-**
Change in inventory used for rental	285	99	-	(149)	**(200)**	**(250)**
Purchases used for rental	-	-	(226)	-	**-**	**-**
Payment on contingent consideration	(3)	-	-	-	**-**	**-**
Cash Flows from Investing Activities	10	108	(226)	(149)	**(200)**	**(250)**
Cash Flows from Financing Activities						
Net repayments on line of credit	(1,378)	(440)	(1,232)	(2,771)	**(2,771)**	**-**
Proceeds from unsecured suborndinated promissory notes, net of fees	-	-	-	766	**766**	**-**
Proceeds from notes payable, capital leases	207	-	-	-	**-**	**-**
Payment of commission and placement agent frees and related expenses	-	-	-	(155)	**(155)**	
Payments on notes payable and capital lease obligations	(60)	(64)	(72)	(102)	**(254)**	**(1,436)**
Net cash provided by Financing	(1,231)	(504)	(1,304)	(2,262)	**(2,414)**	**(1,436)**
Net change in Cash	(260)	(55)	239	2,327	**3,637**	**5,848**
Cash Beginning of Period	323	63	8	247	**247**	**3,884**
Cash End of Period	$ 63	$ 8	$ 247	$ 2,574	**$ 3,884**	**$ 9,732**

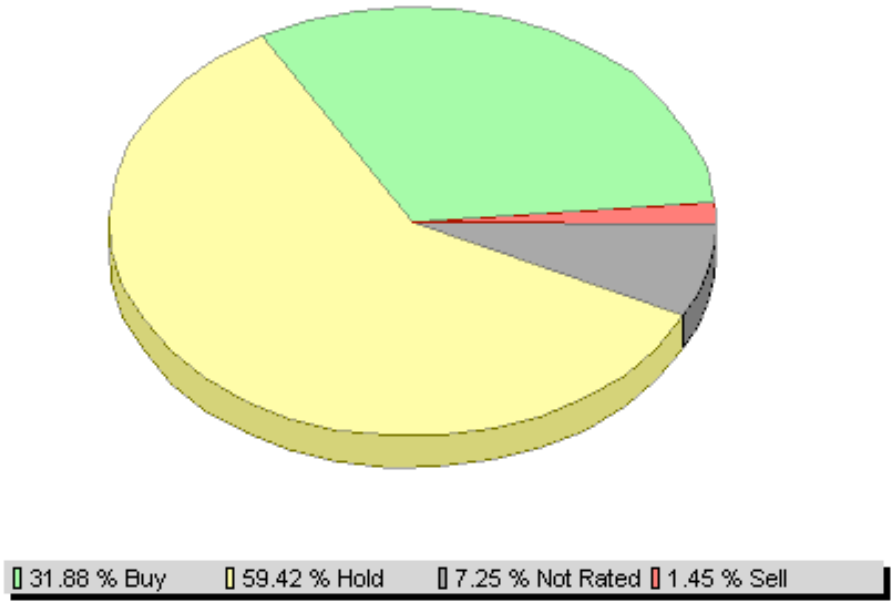
*Company does not provide a quarterly breakdown of how its arrives at net cash used or provided by operations

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	10
Hold		
Sell		
Not Rated	1	33

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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.