

## Zynex Inc

(ZYXI-OTC)

**ZYXI: Including Backorders, Revenue Has Mostly Stabilized**

<b>Current Recommendation</b>	<b>Neutral</b>
Prior Recommendation	Outperform
Date of Last Change	08/08/2012
Current Price (09/25/14)	\$0.15
<b>Target Price</b>	<b>\$0.20</b>

## OUTLOOK

Both revenue and gross margins have taken a big hit in the electrotherapy business, which remains the bulk of ZYXI revenue. It's now obvious that recent healthcare reform measures and changes to reimbursement are the culprit - something we had been concerned about. ZYXI will now have to have a more determined focus on diversifying revenue sources and reducing exposure to third-party reimbursement. New product launches, a new medical billing and consulting segment, and collaborations may now be where the growth opportunities exist - but may not materialize for some time. Another key to maximize EPS is controlling op expenses, which has been an issue for Zynex. Electrotherapy revenue finally looks to be stabilizing and incremental sales coming from ancillary businesses. Liquidity is very tight, is a concern and needs to be addressed

## SUMMARY DATA

52-Week High	\$0.51
52-Week Low	\$0.14
One-Year Return (%)	0.00
Beta	0.71
Average Daily Volume (sh)	23,047

Shares Outstanding (mil)	31
Market Capitalization (\$mil)	\$5
Short Interest Ratio (days)	N/A
Institutional Ownership (%)	0
Insider Ownership (%)	N/A

Annual Cash Dividend	\$0.00
Dividend Yield (%)	N/A

5-Yr. Historical Growth Rates	
Sales (%)	N/A
Earnings Per Share (%)	N/A
Dividend (%)	N/A

P/E using TTM EPS	N/A
P/E using 2014 Estimate	N/A
P/E using 2015 Estimate	N/A

Zacks Rank	N/A
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Risk Level	High,
Type of Stock	Small-Blend
Industry	Med Products

## ZACKS ESTIMATES

## Revenue

(in '000 of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2013	7,668 A	5,472 A	5,191 A	3,353 A	21,684 A
2014	3,167 A	1,349 A	3,821 E	3,540 E	11,877 E
2015					12,866 E
2016					14,245 E

## Earnings per Share

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2013	-\$0.01 A	-\$0.06 A	-\$0.02 A	-\$0.15 A	-\$0.23 A
2014	-\$0.05 A	-\$0.18 A	-\$0.06 E	-\$0.07 E	-\$0.33 E
2015					-\$0.25 E
2016					-\$0.21 E

Zacks Projected EPS Growth Rate - Next 4 Years % **NA**

## Q2 2014 Results: *Including Backlog, Revenue In-Line With Our Number*

Zynex reported financial results for the second quarter ending June 30, 2014. While reported revenue of \$1.35M was down 75% yoy, down 57% sequentially and well below our \$3.2M estimate, revenue would have been approximately \$2.99M had a \$1.6M backlog of consumables shipped. The backlog, management explained, was due to their inability to fill orders as a result of their tight cash situation. Including the backorders in Q2, revenue fell 45% yoy but was down just 6% sequentially and was largely in-line with our estimate. Importantly, it appears revenue has begun to stabilize. Management provided guidance for Q3 of \$4.0M - \$4.2M and Q4 of \$3.5M - \$3.7M. The guidance assumes the backorders from Q2 are shipped in Q3. If ZYXI can hit their guidance, revenue is trending at a quarterly run rate of just under \$3M.

And while the electrotherapy business has been significantly crimped by adverse Medicare reimbursement policies, the company's relatively new pain cream segment appears to be showing nice growth (although aggregate revenue from pain creams remains at only ~8% of total company sales).

Zynex announced that they will be mothballing some of their electrotherapy products and as a result, took a \$2.66M charge in COGS related to inventory write downs. Excluding the write-down, GM was approximately 13%. The company indicated on the call that they think GM can return to historical levels (low-to-mid 60%) with further growth in revenue.

Management further noted that they will look to cut additional operating expenses and have been in negotiations with their landlord to vacate 50ksf (of the roughly 75k sf space that they currently occupy) of office space which would reduce annual rent expense by about \$1M.

ZYXI exited the quarter with \$311k in cash and equivalents. The company noted that they are in default of the terms of their credit facility but that the lender continues to advance funds based on cash collections. The lender has called the loan and ZYXI is looking for a new lender. Clearly the company's liquidity position is dire although it's not unrealistic that the company could obtain additional financing in order to continue operations.

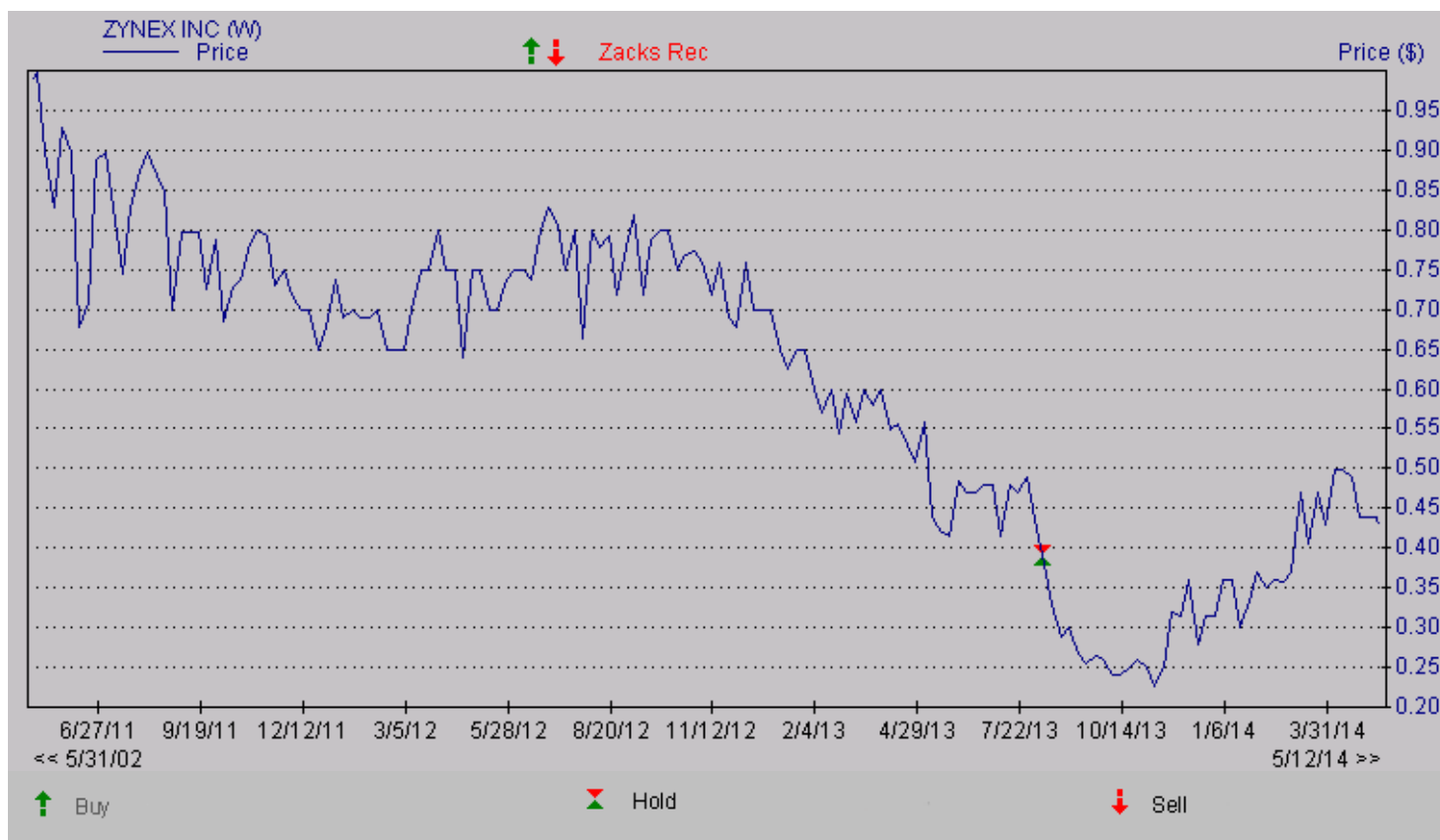
## FINANCIAL MODEL

### Zynex Inc.

	2013 A	Q1A	Q2A	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
Total Revenues	\$21,684.0	\$3,167.0	\$1,349.0	\$3,821.0	\$3,540.0	\$11,877.0	\$12,866.0	\$14,245.0	\$15,118.0
<i>YOY Growth</i>	-45.3%	-58.7%	-75.3%	-26.4%	5.6%	-45.2%	8.3%	10.7%	6.1%
Cost of Revenues	\$8,140.0	\$997.0	\$3,826.0	\$2,458.0	\$2,218.0	\$9,499.0	\$8,225.0	\$8,378.0	\$8,412.0
Gross Income	\$13,544.0	\$2,170.0	(\$2,477.0)	\$1,363.0	\$1,322.0	\$2,378.0	\$4,641.0	\$5,867.0	\$6,706.0
<i>Gross Margin</i>	62.5%	68.5%	-183.6%	35.7%	37.3%	20.0%	36.1%	41.2%	44.4%
SG&A	\$21,144.0	\$3,456.0	\$2,947.0	\$3,518.0	\$3,692.0	\$13,613.0	\$13,258.0	\$13,574.0	\$13,875.0
<i>% SG&amp;A</i>	97.5%	109.1%	218.5%	92.1%	104.3%	114.6%	103.0%	95.3%	91.8%
Operating Income	(\$7,600.0)	(\$1,286.0)	(\$5,424.0)	(\$2,155.0)	(\$2,370.0)	(\$11,235.0)	(\$8,617.0)	(\$7,707.0)	(\$7,169.0)
<i>Operating Margin</i>	-35.0%	-40.6%	-402.1%	-56.4%	-66.9%	-94.6%	-67.0%	-54.1%	-47.4%
Net Income	(\$7,301.0)	(\$1,430.0)	(\$5,553.0)	(\$2,315.0)	(\$2,530.0)	(\$11,828.0)	(\$9,437.0)	(\$8,607.0)	(\$8,269.0)
<i>YOY Growth</i>	-571.6%	370.4%	221.5%	209.1%	-44.0%	62.0%	-20.2%	-8.8%	-3.9%
<i>Net Margin</i>	-33.7%	-45.2%	-411.6%	-60.6%	-71.5%	-99.6%	-73.3%	-60.4%	-54.7%
EPS	(\$0.23)	(\$0.05)	(\$0.18)	(\$0.06)	(\$0.07)	(\$0.33)	(\$0.25)	(\$0.21)	(\$0.20)

Brian Marckx, CFA

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