KeyStone's

U.S. Growth/Value Stock Research Service

DECEMBER 2017

Independent Equity Advisors

Editor: Ryan Irvine, BBA (Finance)

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Discovery Portfolio	Initial Coverage: Zynex Inc.
	Price: $3.00
	Symbol: ZYXI: OTCQB
	Near Term: ▲ SPEC BUY
	Long Term: ▲ SPEC BUY

Summary

Founded in 1996, Headquartered in Lone Tree, Colorado, Zynex Inc. markets and sells its own design of electrotherapy medical devices used for pain management and rehabilitation. The company conducts its operations primarily through Zynex Medical Inc. (ZMI), a wholly-owned Colorado corporation. The company's other subsidiary, Zynex Europe, ApS, a wholly-owned Denmark corporation, did not generate any revenue during the three or nine months ended September 30, 2017, and 2016 from international sales and marketing. Zynex Monitoring Solutions Inc. (ZMS), a wholly-owned Colorado corporation is developing a blood volume monitoring device – the produce remains in the development stage and as a result, ZMS has achieved no revenues to date.

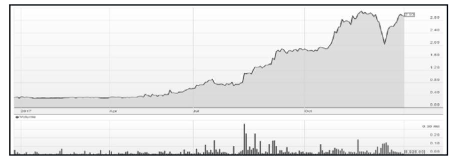
Through ZMI, Zynex designs, manufactures and markets U.S. Food and Drug Administration (FDA) cleared medical devices that treat chronic and acute pain, as well as activate and exercise muscles for rehabilitative purposes with electrical stimulation.

The medical devices are marketed in the U.S. and are subject to U.S. Food and Drug Administration (FDA) regulation and approval. ZMI's products require a physician's prescription before they can be dispensed in the U.S. The company considers the physician's prescription as an "order" and it is on this basis that the company provides the product to the patient and bills the patient directly or the patient's private or government insurer for payment.

Zynex Inc. (ZYXI: OTCQB)

Recommendation: SPEC BUY **Discovery Portfolio**

Current Price (December 22, 2017)...*$3.00*



COMPANY DESCRIPTION

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PRODUCTS & REVENUE MODEL

Zynex Medical designs, manufactures and markets medical devices that treat chronic and acute pain, as well as activates and exercises muscles for rehabilitative purposes with electrical stimulation. The company's devices are intended for pain management to reduce reliance on drugs and medications and provide rehabilitation and increased mobility through the utilization of non-invasive muscle stimulation, electromyography technology, interferential current (IFC), neuromuscular electrical stimulation (NMES) and transcutaneous electrical nerve stimulation (TENS). All of the company's medical devices are intended to be patient friendly and designed for home use. The Zynex Medical devices are small, portable, battery operated and include an electrical pulse generator which is connected to the body via electrodes. The products are cost effective when compared to traditional physical therapy, and often result in better mobility, less pain and increased potential for a patient to return to work and live a fuller life significantly earlier than with traditional therapies alone.

Zynex Medical offers a complete line of electrotherapy pain management devices that are FDA cleared and CE marked. The devices are said to

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Shares Outstanding (diluted)	33,545,000
Average Daily Trading Volume	41,856

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Operating Income	$2,935,000	$622,000	371%
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EPS	$0.07	$0.02	250%
Total Debt	$393,000	$2,771,000	-16%
Shareholder's Equity	$5,232,224	$3,433,039	52%

TABLE 3: ANNUAL FINANCIAL DATA

	2016	2015	Change
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TABLE 4: FINANCIAL RATIOS

	2017 Estimate
Price-to-Earnings	14.60
EV-to-EBITDA	10.71
Debt-to-EBITDA	0.04
Debt-to-Equity	n/a
EBITDA Margin	37%

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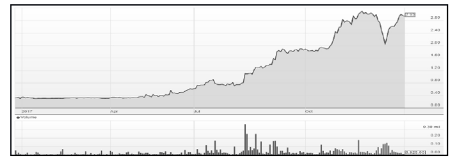

augment healing, alleviate swelling through increased blood circulation, and reduces both acute/chronic pain through the use of electrical currents. The products require a prescription and ongoing consumable supplies, such as electrodes and batteries, which are shipped to patients on a recurring monthly basis, as needed. This provides a potentially stable recurring revenue base. They may be rented or purchased and are reimbursed by health insurance. Management estimates the worldwide industry is worth US$500 million.

ZMI's primary product is the NexWave device. The NexWave is marketed to physicians and therapists by the company's primarily commission-based field sales representatives.

NexWave is a multiple mode dual channel device that incorporates three therapy modalities in a single compact and easy to use medical device:

- Interferential Current (IFC)
- Transcutaneous Electrical Nerve Stimulation (TENS)
- Neuromuscular Stimulation (NMES)

Interferential current therapy is frequently called 'deep TENS' or 'deeper TENS' as the IFC currents penetrate deeper into tissues, whilst causing far less discomfort by comparison to traditional TENS therapy. The IFC current reduces swelling and pain, speeds up healing and restores muscles functionality. IFC devices are generally regarded to be more effective and the most frequent users of the IFC are people who have not responded well to pain relief therapy with traditional TENS machines.

Interferential therapy stimulation differs from standard TENS and EMS. During TENS or EMS low frequency electrical signals (i.e. 2 – 200 pulses/second) enter the surface of the skin below the skin electrodes. Interferential stimulation depends on the interference (i.e. interaction) between 2 medium frequency electrical outputs from 2 different channels that differ in frequency. The current produced by one channel interacts (i.e. interferes) with the current of the other channel. The process leads to 'interference current' operating frequency equal to the difference between the 2 interacting currents. The frequencies used in interferential therapy stimulation are much greater than TENS and EMS currents and therefore the interferential currents are capable of reaching tissues at deeper levels.

Revenues

Revenues are comprised of sales (purchased or rented products and consumable supplies) reduced by estimated Third-party Payors reimbursement deductions and an allowance for uncollectible amounts. The reserve for billing allowance adjustments and allowance for uncollectible accounts are adjusted on an ongoing basis in conjunction with the processing of Third-party Payor insurance claims and

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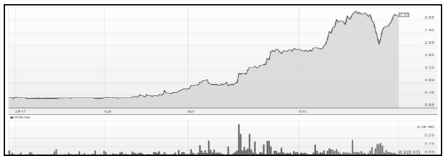

other customer collection history. Net revenue includes the rental of transcutaneous electrical nerve stimulation (TENS) products, the sale of TENS products and consumable supplies.

Zynex's electrotherapy products may be rented on a monthly basis or purchased. Renters and purchasers are primarily patients and healthcare insurance providers on behalf of patients. Electrotherapy products may also be purchased by dealers and distributors. If a patient is covered by health insurance, the Third-party Payor typically determines whether the patient will rent or purchase a unit depending on the anticipated time period for its use. Under certain Third-party Payor contracts, a rental continues until an amount equal to the purchase price is paid then the company transfers ownership of the product to the patient and cease rental charges; while other rentals continue during the period of patient use of the equipment. For all patients using the electrotherapy products, the company also sells consumable supplies, consisting primarily of surface electrodes and batteries. Revenue for the electrotherapy products is reported net, after adjustments for estimated insurance company reimbursement deductions and estimated allowance for uncollectible accounts. The deductions are known throughout the health care industry as "billing adjustments" whereby the healthcare insurers unilaterally reduce the amount they reimburse for the products compared to the rental rates and sales prices charged by the company. The deductions from gross revenue also take into account the estimated denials, net of resubmitted billings of claims for products placed with patients which may affect collectability. As of September 30, 2017, the company believes it has adequate allowance for billing adjustments relating to known insurance disputes and refund requests. However, no assurances can be given with respect to such estimates of reimbursements and offsets or the ultimate outcome of any refund requests.

TURNAROUND

During the fourth quarter of 2015, the electrotherapy industry experienced a significant development when Zynex's largest competitor (DJO/Empi) announced the closure of their Empi electrotherapy division and exit from TENS market. The Empi product line previously held a large share of the electrotherapy market.

Management believes this presents a significant growth opportunity for Zynex. The company has recruited many former Empi sales representatives, including those in areas where it had no previous representation. In addition, throughout 2016, Zynex orders have been steadily increasing compared to 2015 and the trend has increased over the first three quarters of 2017. To focus on growth and the potential for future positive cash flow, the company has committed further resources primarily from newly generated cash flow to its the new largely commission-based sales force, including the supporting product production and supporting

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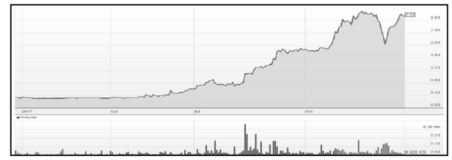

administrative (customer service and billing) personnel. Zynex's CEO estimated that Empi's closure created a $250-$300 million void in the marketplace that the company is in a position to fill. The company is continuing its effort to attract former Empi sales representatives.

Due to its history of losses, the company's balance sheet appeared weak heading into 2016. In fact, the company received a qualified opinion on its 2016 audit which is likely contributing to the low relative multiple on the stock. By December of this year, Zynex had booked five consecutive profitable quarters, cured its debt default by repaying its credit line borrowings in full, and was guiding toward growing profitability for the fourth quarter now in progress. Given the strong cash generation, debt repayment and positive outlook, the audit opinion will likely be unqualified when the 2017 audited results are released. But until 2018, the company will have to live with the "stigma" of a qualified audit opinion as audits in the financial world are only an annual occurrence. Once this occurs, the company could earn the favour of institutional investors.

Additionally, the company has stated that they are looking to up-list to a senior exchange - NYSE MKT or NASDAQ in the midterm. This would also attract further institutional investors and could lead to a higher multiple on the stock.

FINANCIAL OVERVIEW

Zynex reported Q3 2017 net revenue of $6.8 million, an 88% increase over Q3 2016 and a 35% increase compared to Q2 2017. For the nine-months ended September 30, 2017, total revenue increased 47% to $15.3 million from $10.4 million for the nine months ended September 30, 2016. Product device revenue is related to the purchase or rental of the products. Product device revenue increased $0.1 million, or 8%, to $2.3 million for the three months ended September 30, 2017, from $2.2 million for the three months ended September 30, 2016. The increase in product device revenue is primarily related to improvements in billing and collection procedures. Product supplies revenue is related to the sale of supplies, typically electrodes and batteries, for products. Product supplies revenue increased $3.0 million, or 206%, to $4.5 million for the three months ended September 30, 2017, from $1.5 million for the three months ended September 30, 2016. The increase in product supplies revenue is primarily related to an increase in customer base from increased sales in 2016 and improvements in billing and collection procedures.

Cost of revenue increased to $1.3 million from $0.9 million which generated increased gross margins of 80% compared to 76% last year. Gross margins for the nine months ended September 30, 2017, increased to 78% from 73% in 2016.

Net income grew 314% to $2.2 million, or $0.068 per share, in the third

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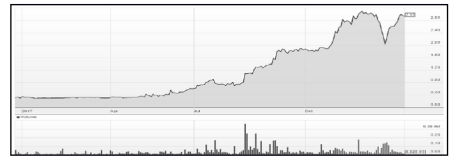

quarter of 2017 compared to $0.5 million, or $0.015 per share, in the third quarter of 2016. For the nine-months ended September 30, 2017, net income grew 3003% to $4.1 million, or $0.127 per share, from a loss of $0.1 million in 2016.

Adjusted EBITDA grew 319% to $3.1 million in the third quarter of 2017 compared to $0.7 million last year. For the nine months ended September 30, 2017, adjusted EBITDA grew 854% to $5.6 million from $0.6 million in 2016.

The company generated $4.7 million of cash from operations during the first nine months of 2017. As of September 30, 2017, Zynex has working capital of $1.2 million compared to a deficit of $4.3 million at December 31, 2016.

Financial Position:

Zynex has historically financed operations through cash flows from operations, debt and equity transactions. At September 30, 2017, the company's principal source of liquidity was $2.6 million in cash and $2.4 million in accounts receivables, net of allowances. The increased cash balance at September 30, 2017, was due to cash flows from operations of $4.7 million during the first nine months of 2017 which was partially offset by using cash to retire its credit facility with Triumph. The credit facility had been in default since 2014 and the payoff allows the company operating flexibility going forward. Management's anticipates uses of cash in the future will be to fund the expansion of business and debt service related to the private placement with Newbridge in Q1 2017.

Net cash provided by operating activities for the nine months ended September 30, 2017, and 2016 was $4.7 million and $1.2 million, respectively. The increase in cash provided by operating activities for the nine months ended September 30, 2017, was primarily due to the significant increase in profitability in 2017.

KEY AREAS OF GROWTH

Key Competitor Shut-Down:

During the fourth quarter of 2015, the electrotherapy industry experienced a significant development when the Zynex's largest competitor (DJO/Empi) announced the closure of their Empi electrotherapy division and exit from TENS market. The Empi product line previously held a large share of the electrotherapy market.

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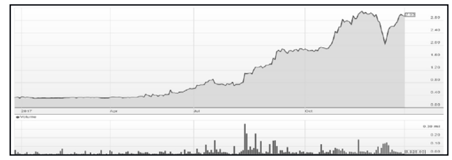

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Potential Increasing Demand for Electrotherapy Amid Opioid Crisis

According to Zynex, the global market for electrotherapy is expected to experience compounded annual growth of 4.2% through 2023, with pain management applications being a major driver of this growth. Driving this new growth is the need for safe, non-addictive means of pain management, a topic that has become especially acute in the U.S. due to its epidemic of opioid abuse. Moreover, growing concerns regarding healthcare costs have led to increasing interest in relatively inexpensive treatment options, such as electrotherapy.

New Product(s) - Zynex's Blood Volume Monitor (ZBVM)

Currently, the most commonly used non-invasive method for detecting internal bleeding is "visual estimation," which basically entails a medical professional eyeballing the patient. This method can be as inaccurate as it sounds.

Zynex has developed a blood volume monitor and the product is complete with its FDA 510(k) application submitted in September 2015. Ongoing clinical evaluation is underway and the patent has been filed for a market that is potentially worth US$3 billion.

The ZBVM monitors five variables linked to internal bleeding and has been shown to be substantially more accurate than visual estimation. Based on an algorithm that interprets readings from sensors applied to patients' skin, the ZBVM considers real-time changes associated with blood loss:

- Reduced bioimpedance (i.e. the body's ability to conduct electricity - water being a better conductor than fat).
- Increased heart rate.
- Decreased peripheral blood flow.
- Decreased skin temperature.
- Increased skin humidity (i.e. clamminess).

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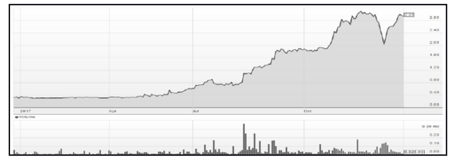

ZBVN can be useful in:

- Detecting the need for transfusions.
- Discerning the proper amount of blood to be transfused.
- Providing an economical and more effective alternative to visual monitoring of post-operative patients by hospital staff.
- Cutting costs by reducing recovery times.

The product is currently being reviewed by the FDA. Despite the obvious need for a tool with ZBVN's capabilities, revenues from its sale and use are not expected for at least a year.

KEY RISKS

A significant portion of the company's revenues are derived, and the related receivables are due from Third-party Payors. The nature of these receivables within the medical industry has typically resulted in long collection cycles. The process of determining what products will be reimbursed by Third-party Payors and the amounts that they will reimburse is complex and depends on conditions and procedures that vary among providers and may change from time to time. The company maintains an allowance for billing adjustments and an allowance for doubtful accounts. Billing adjustments result from reimbursements from Third-party Payors that are less than amounts claimed and from where the amount claimed by the company exceeds the Third-party Payors usual, customary and reasonable reimbursement rate. The company determines the amount of the allowance and adjusts it at the end of each reporting period, based on a number of factors, including historical rates of collection, the aging of the receivables, trends in the historical rates of collection and current relationships and experience with the Third-party Payors. If the rates of collection of past-due receivables recorded for previous fiscal periods changes, or if there is a trend in the rates of collection on those receivables, the company may be required to change the rate at which it provides for additions to the allowance. A change in the rates of the company's collections can result from a number of factors, including experience and training of billing personnel, changes in the reimbursement policies or practices of Third-party Payors, or changes in industry rates of reimbursement. Management believes the company has a sufficient history of collection experience to estimate the net collectible amounts by payor. However, changes to the allowance for billing adjustments and uncollectible accounts, which are recorded in the income statement as a reduction of revenue, have historically fluctuated and may continue to fluctuate significantly from quarter-to-quarter and year-to-year.

Due to the nature of the medical industry and the reimbursement environment in which the company operates, estimates are required to record net revenues and accounts receivable at their net realizable values

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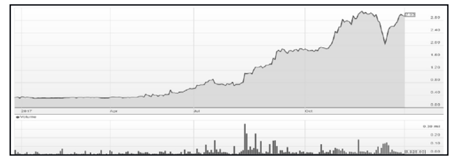
Recommendation: SPEC BUY **Discovery Portfolio**

Current Price (December 22, 2017)..$3.00



(also known as net collectible value). Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of third-party billing arrangements and the uncertainty of reimbursement amounts for certain products or services from payors or unanticipated requirements to refund payments previously received may result in adjustments to amounts originally recorded. Due to continuing changes in the health care industry and third-party reimbursement, as well as changes in billing practices to increase cash collections, it is possible that management's estimates could change in the near term, which could have an impact on the results of operations and cash flows. Any differences between estimated settlements and final determinations are reflected as an increase or a reduction to revenue in the period when such final determinations are known.

Efficacy of Electrotherapy

While there are those in the traditional and non-traditional medical fields that swear by electrotherapy, from our research it is difficult to determine the true efficacy of products using it as a basis for pain relief/ management and or healing. There are detractors of the therapy. As such, there continues to be a risk the therapy is deemed not effective and use decreases.

VALUATION

Management currently estimates fourth quarter revenue to range between $7.0 and $7.5 million with adjusted EBITDA between $3.0 and $3.5 million. Based on the fourth quarter estimate, full year 2017 revenue is projected to range from $22.3 to $22.8 million compared to $13.3 million in 2016. Adjusted EBITDA for 2017 is projected to range from $8.6 to $9.1 million compared to $1.3 million in 2016. The company expects approximately $0.20 in earnings per share for 2017.

Currently the company trades at a price to 2017 expected earnings multiple of 14.75. Zynex's EV/EBITDA based on our 2017 estimate is 10.75 – both multiples are considerably below average and its market segment, even though the company's growth rate and business prospects appear to show strong continued earnings growth potential in 2018.

If we apply a slightly below market equivalent multiple of 20 to the 2017 earnings estimate we arrive at a fair value estimate in the range of $4.00 per share or a 33% increase from the current trading range.

CONCLUSION

Zynex reported a very strong 2017 Q3. The company's right sizing of expenses and customer windfall from its two largest competitors exiting

TABLE 1: MARKET DATA

Symbol	ZYXI
Yield	-
Market Capitalization	$94.39 M
Shares Outstanding (basic)	32,327,000
Shares Outstanding (diluted)	33,545,000
Average Daily Trading Volume	41,856

TABLE 2: QUARTERLY FINANCIAL DATA

	Q3 2017	Q3 2016	Change
Revenues	$6,820,000	$ 3,627,000	88%
Operating Income	$2,935,000	$622,000	371%
Net Income	$2,200,000	$532,000	313%
EPS	$0.07	$0.02	250%
Total Debt	$393,000	$2,771,000	-16%
Shareholder's Equity	$5,232,224	$3,433,039	52%

TABLE 3: ANNUAL FINANCIAL DATA

	2016	2015	Change
Revenues	$13,313,000	$11,641,000	14%
Operating Income	$640,000	($2,481,000)	n/a%
Net Income	$69,000	($2,911,000)	n/a%
EPS	$0.00	($0.09)	n/a%

TABLE 4: FINANCIAL RATIOS

	2017 Estimate
Price-to-Earnings	14.60
EV-to-EBITDA	10.71
Debt-to-EBITDA	0.04
Debt-to-Equity	n/a
EBITDA Margin	37%

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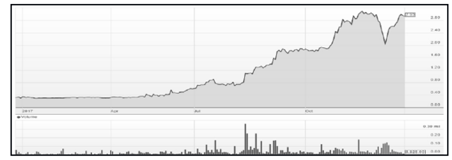

the electrotherapy market pushed revenues 88% higher year-over-year and helped the company post a surge in net income. The company's focus on processing orders more effectively to improve collections and cost controls to keep fixed expenses low is paying off in terms of positive cash flow and profitability.

Management currently estimates fourth quarter revenue to range between $7.0 and $7.5 million with adjusted EBITDA between $3.0 and $3.5 million. Based on this fourth quarter estimate, full year 2017 revenue is projected to range from $22.3 to $22.8 million compared to $13.3 million in 2016. Adjusted EBITDA for 2017 is projected to range from $8.6 to $9.1 million compared to $1.3 million in 2016.

The company believes that its flagship product, the NexWave, is an important technology for physicians to prescribe in today's opioid crisis, allowing patients with debilitating pain access to prescription strength pain relief without side effects. In many cases, the company believes its NexWave device should be prescribed as a first-line-of-defense before prescribing medications such as opioids.

It does appear the company is filling a gaping hole in the market left behind when its primary competitor existed just over 2 years ago and the growth potential appears to be continuing into 2018. With costs more in line with operations, the company is now producing solid cash flow to fund expansion and take advantage of the opportunity in front of it. As it stands, it appears Zynex's future growth will be driven by a combination of sales to Empi's former customers, facilitated by recruitment of former Empi salespeople - for a sales force that has reached 100 and is expected to increase by approximately 50 in 2018. We also see an increasing demand for electrotherapy as a pain management tool, particularly as an alternative to opioids, given the opioid crisis in the U.S. Finally, there is the potential for new product development such as the Blood Volume Monitor. We note that we view most new products as a wildcard – no matter how promising they may look – until sales and profits are actually recorded. The Blood Volume Monitor is no different and may actually increase costs near term, but the potential for growth longer term is there.

The company ranks on the higher end of the risk spectrum in our U.S. coverage. Given its strong financial performance over the past 5 quarters, Zynex's strong outlook for 2017, a further outlook for growth in 2018 and its reasonable relative valuations, the company has piqued our interest. We are initiating coverage with a SPEC BUY rating and placing the stock in our U.S. Small-Cap Discovery Portfolio.

Please note: Zynex Inc.'s shares are relatively illiquid. We advise placing initial limit orders in the $2.75-$3.15 range and stress patience.

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2008a; 2009e
The term (a) refers to the actually results that a company has posted on its financial statements. The term (e) refers to analyst estimates of future results.

Book value (BV)
The total value of a company's assets, on its Balance Sheet, less any liabilities. Also referred to as Shareholder Equity. (The value of a companies assets, on its Balance Sheet, does not necessarily reflect the true value of assets).

Cash Flow from Operations (CFO; Operating Cash Flow)
The cash inflow that a company recieves during a period, resulting from operating activities (does not include Cash Flow from Investing or Financing).

Current ratio
One of many ratios designed to evaluate short-term liquidity of a company. Calculated as current assets divided by current liabilities, this ratio gauges the level of cash resources relative to current liabilities as a measure of cash obligations (the ratio should be greater than 1).

D/E: Debt-to-equity ratio
A measure of a company's financial leverage calculated by dividing long term debt by shareholders equity. It indicates what proportion of equity and debt the company is using to finance its assets (a lower ratio indicates lower relative debt ratios).

EBITDA
Earnings before interest, taxes, depreciation, and amortization. EBITDA is calculated as revenue minus expenses (excluding tax, interest, depreciation, and amortization).

EPS: Earnings per share
A company's earnings available to common shareholders, also known as net income or net profit, divided by the number of shares outstanding.

Fair Value
The price at which an analyst believes a companies stock should be priced. Although this value is based on intelligent analysis, it in no way is a representation of what the companies share price will be trading at given any period of time. The analysis used to determine Fair Value is based on numerous assumptions and uncertainties. Fair Value should be used only as a general guide to investing and should not be depended upon.

FCFE: Free cash flow to equity
Cash flow from operations less working capital requirements, sustaining capital expenditures and scheduled debt repayments. FCFE consists of cash inflows that are available to the shareholders of the company.

Net working capital surplus (deficiency)
A measure of the company's ability to carry on its normal business comfortably and without financial stringency, to expand its operations without the need of new financing, and to meet emergencies and losses. Calculated by deducting current liabilities from the current assets (as positive figure is a surplus, whereas a negative figure is a deficiency).

P/B: Price-to-book ratio
Calculated as a stock's market value (current closing price) divided by its latest quarter's book value. While a lower P/B ratio could mean that the stock is undervalued, it could also serve as a sign of weak fundamentals, and as with most ratios, this varies a fair amount by industry.

P/CF: Price-to-cash flow ratio
Calculated as a company's current share price divided by its cash flow per share (i.e., free cash flow divided by the number of company's shares outstanding) over the last four quarters (called "TTM," or "trailing 12 months" calculation). It is a measure of the market's expectations regarding a firm's future financial health.

P/S: Price-to-sales ratio
It is calculated as a stock's current market price divided by its sales (revenue) per share. When calculating this ratio, we use the company's revenue from its latest four quarters, or on a TTM basis.

ROE: Return on equity
A measure of a corporation's profitability, calculated as net income divided by shareholder's equity. ROE is often useful in comparing the profitability of a company to other firms in the same industry.

Tangible Book Value (TBV)
The total value of a company's assets, on its Balance Sheet, less any liabilities and intangible assets such as goodwill. Also referred to as Shareholder Equity. (Also true asset values likely differ from Balance Sheet Values, Tangible Book Value is generally considered a more accurate representation of value).

Times Interest Earned
The multiple of Net Income (before interest and taxes) to interest payments during the period. This assesses a companies ability and margin of safety, with respect to meeting its interest obligations (a higher number is more attractive).

Yield
The investment return resulting from income distributions. Calculated as the annual or annualized interest or dividend distribution, divided by the cost of the original investment.

Disclosure					
Stock Holding				Other	
Companies	KeyStone	KeyStone Employees	Related Companies	Investment Banking Client	Related Company Business Relationship
Zynex Inc.	NO	NO	NO	NO	NO