Rx Safes Inc.

(OTC QB: RXSF)

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Stock Rating: Outperform
1 yr. Target Price: $17.00

Company Overview:

Rx Safes, Inc., incorporated on June 1, 2010, designs, develops, engineers and markets fingerprint medical security storage solutions and controlled substance delivery products for consumers and healthcare professionals. The Company is a provider of biometric medical security solutions in the new controlled substance drug diversion and abuse targeted sector of prescription (Rx) and over-the-counter (OTC) drug security, providing solutions to address Rx and OTC drug diversion and abuse. The Rx DrugSAFE product line of medical safes and drug delivery security products offer consumers and healthcare professionals fingerprint solutions specifically designed to safely and securely store medications within the home, in healthcare facilities, as well as out in the field. These controlled substance security storage products help control access to medications, addressing both loss prevention and safety concerns within a range of healthcare settings. The Company's Rx DrugSAFE product line provides consumers and healthcare professionals with medicine safes, using fingerprint recognition technology. The products are designed to securely store prescription medications to prevent unauthorized access. The Company's Rx DrugSAFE Home Medicine Security Safe can hold up to eight regular size prescription bottles. It can also secure other controlled or potentially dangerous substances, such as cough syrups containing dextromethorphan, morphine vials, insulin and syringes. The Company's product Rx DrugSAFE PRO is designed specifically for use within a range of healthcare environments. It is larger than the Rx DrugSAFE product, comes with adaptable foam inserts to secure pill bottles of range of sizes in the upright position and can store between 16 to 30 pill bottles, and other controlled items and equipment, depending on the configuration used. Additionally, Rx Safes, Inc.'s drug delivery products include SafeDOSE, a fingerprint activated Bolus switch that first confirms authorization and identity prior to activating the PCA pump to administer prescribed medication, and under development is the world's first secure needless injection system, MyDOSE, that allows only prescribed individuals or authorized healthcare workers the ability to administer liquid injectable controlled solutions.

Prior to Rx Safes, Inc., management engaged in biometric security within home security devices such as locks, garage door openers and even thermostats. During 2015, the company engaged in a restructuring and rebranding initiative to enter into the professional healthcare marketplace. Additionally, 2015 was a year for the company to rework its capital structure and has been developing a plan to retire all of its convertible debt and expects to have that plan in place by years end. The company also plans to clear the balance of all outstanding convertible debt through the provision of a less dilutive $5,000,000 equity line. These steps will be taken to make the company a more attractive investment for new

investors, including institutional and retail investors. With plans to up list to a national exchange, the company's board of directors and shareholders approved a 200 for 1 reverse split of the common shares resulting in a very attractive share structure with 1,378,865 shares outstanding and a float of approximately 250,680 (just 18.2%). Lastly, the company now trades on the OTC QB, an exchange considered by the SEC as an "established public market" for the purpose of determining the public market price when registering securities for resale with the SEC. This greatly promotes the company's transparency and financial reporting acumen, setting up a national exchange up-listing in the near future.

Industry Overview:

The United States remains the largest medical device market in the world with a market size of around $110 billion, and it is expected to reach $133 billion by 2016. The U.S. market value represented about 38 percent of the global medical device market in 2012. U.S. exports of medical devices in key product categories identified by the Department of Commerce (DOC) exceeded $44 billion in 2012, a more than 7 percent increase from the previous year. Rx Safes, Inc. targets the medical device market and subsections of this industry through its various products. Asset management and security is an underserved market with a potential size of $29.6 billion by 2020 is served by RXSF through its Rx DrugSAFE storage products. The PCA Pump market, which reached $7.1 billion in 2013, is served through RXSF's SafeDOSE product and the Injectable Drug Delivery Market, expected to reach $574.8 Billion by 2020 from $326.1 Billion in 2015, is served by RXSF's MyDOSE product.

Unauthorized access to medications and prescriptions drugs has become a national epidemic costing $600 billion and 40,000 lives annually. Not only are consumers at stake with toddlers, kids and teenagers becoming addicted to prescription drugs, 25% of medical professionals become addicted to controlled substances as a result of a lack of restricted access. RSXF has integrated its biometric technology into secured and sturdy medical safes and drug delivery solutions that address this national epidemic. RXSF's products are the simple solution to improved healthcare security and a reduction in avoidable loss of life.

Recent Activity:

The stock has recently experienced significant tailwinds with restructuring plans falling into place as outlined by management, favorable external factors and increased interest from investors. As outlined above, the company undertook a substantial restructuring plan in 2015 which has led to an overhaul in product offerings now focusing on a massive, underserved market within healthcare security and access control of prescription and other controlled drugs. A distribution agreement with CVS Health puts RXSF's product within effortless reach of consumers and is expected to generate substantial revenue for the company.

With efforts to clean up the capital structure and up list to a national exchange, the company is developing a plan to pay out all outstanding dilutive debt in the form of convertible notes, has obtained shareholder approval for a 200 to 1 reverse stock split and obtained an OTC up listing from 'Pinks' to 'OTC QB – the venture stage marketplace'. All three achievements hold significant weight in the forward

progression of the company to becoming a substantial revenue generator and creator of shareholder value. Initial steps to clean the balance sheet have helped attract new shareholders to provide capital for RSXF's 3 phase growth plan. A total investment of $25 million is what the company seeks for stabilizing inventory, R&D and marketing, growth across product lines leading to positive EBITDA, with $15 million for up-listing to the NASDAQ national exchange.

Investors have responded favorably to the progression management has made in 2015 with the past week experiencing a surge in share price of 177% on heavy volume of 17,847 shares on Dec 18 versus a daily average of 2,085. The rally was sparked by the Congress talks and decision to suspend a 2.3% excise tax on medical devices for the next two years. The decision was reached on Dec 18 which helped sustain the week-long rally RXSF enjoyed. Below is a 6-month chart showing share price activity for RXSF.



Analysis:

From a fundamental qualitative stance, RXSF is a very strong company. Management has extensive industry and marketplace experience with the founding partners pioneering the embedded biometric marketplace and integrating their technology into an underserved market. The management team has 35 years of combined experience with the technology, a proven track record in establishing strategic product development and marketing, and has provided shareholders with concrete, realistic guidance that has been achieved, building credibility and trust with the shareholder base. Continued delivery of results is expected from management leading to growing revenue, an increasing bottom line and shareholders' equity.

Preliminary revenue guidance based on discussion with management, review of distribution agreements, and the extent and timeline of product pipeline, suggests 2016 year-end revenues of upwards of $9 million. Based on current and projected expenses, EBITDA of nearly $4 million is achievable and expected. Valuations in the Medical Devices industry are generally based on EBITDA multiples. Comparable multiples in the industry are in excess of 10x, however these are multiples for large revenue generating companies. Smaller, newer operations normally receive lower multiples due to associated risk/reward characteristics. A more appropriate multiple for a company like RXSF is 6x EBITDA. Below is a sensitivity analysis testing market capitalization for RXSF based on projected EBITDA (in 000's) and multiples ranging from 3x to 9x; well below comparable multiples.

EBITDA Multiple	6
Projected EBITDA	$4,000
Market Cap	$24,000
Outstanding Shares	1,378,865
Shareprice	$17.41

	EBITDA Multiple						
	3	4	5	6	7	8	9
$1,000	3000	4000	5000	6000	7000	8000	9000
$2,000	6000	8000	10000	12000	14000	16000	18000
$3,000	9000	12000	15000	18000	21000	24000	27000
$4,000	12000	16000	20000	24000	28000	32000	36000
$5,000	15000	20000	25000	30000	35000	40000	45000
$6,000	18000	24000	30000	36000	42000	48000	54000
$7,000	21000	28000	35000	42000	49000	56000	63000

The above analysis suggests a market capitalization of $24 million and a share price of $17.41 for fiscal 2016 based on guidance provided by management and a thorough review of revenue generation potential.

Investment Risks:

RXSF is a company entering its growth phase that as an investment comes with several significant risks that need to be understood before considering it as part of your portfolio. Given that Rx

Safes, Inc. is not currently generating significant revenue, there is a risk that it will continue to be a cash user rather than a cash producer. There are several ways the company's management has tackled this risk and greatly reduced it. Through R&D and the development of an impressive pipeline of products, leverage of industry relationships, and extensive marketing efforts by management, the company has secured distribution rights of their products that will directly result in revenue generation. Through controlled costs and smart expense practices, the company will be able to maximize bottom line and become a cash producer. When first inspecting the company's financial statements, this may seem as a difficult task to accomplish, however, the cash flow statement shows a much clearer picture; the company is using just $33,000 for operations in the most recent quarter. With revenue expected to surpass $9 million, operating cash flow on an annual basis will certainly be positive given management guidance is accurate. That brings us to a second risk which is that of management ability to execute and provide achievable guidance. In this case, track record speaks the loudest. Management has extensive industry experience with a combined 35 years and has delivered and over delivered on guidance giving comfort for the future. Additionally, management has recently added to its share position further supporting management's confidence in the company's future profitability.

Conclusions:

Rx Safes, Inc. is a medical device company that has recently entered into the secured access of prescription drugs marketplace with its product pipeline of drug storage and delivery devices with embedded biometric security. RXSF's management has been working with this technology since 2005, but only recently has a stir been generated by this tech. With major smartphone manufacturers (Apple, Samsung) integrating these technologies into their products, the general public has become aware of the technology and has become willing to use it. RXSF has found an underserved market that costs the nation as much as 40,000 lives annually. Prescription drugs are easily accessible by not just toddlers and teenagers, but also medical professionals. Statistics show that 25% of medical professional become addicted to prescription drugs. This opportunity was spotted by the founding partners of RXSF and has led to the restructuring of the company to serve this market. 2015 was a year of restructuring and clean-up for the company. The balance sheet has been cleaned and the share structure revised to help the company attract new shareholders and up list to a national exchange. Efforts have been put in by management and by investors, it is time for the company to begin reaping the rewards of those efforts. Projected revenue and EBITDA suggest favorable valuations; certainly worth a closer look.

Sources:

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