

## Company Update

# OCULUS INNOVATIVE SCIENCES, INC.

## Great 1Q12 Results; Raising Estimates

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August 8, 2011

### OCULUS INNOVATIVE SCIENCES, INC. (NASDAQ:CM – OCLS - \$1.43)

Price Target: \$3.50

Rating: Speculative Buy

#### COMPANY SNAPSHOT

Oculus is a healthcare company noted for its safe and effective tissue care products based upon the Microcyn® Technology platform which significantly reduces the need for antibiotics while reducing infections and accelerating healing. The Microcyn® Technology addresses the need for improved solutions in dermatology, oral care, cosmeceutical, wound care and other markets. It features a biocompatible, shelf-stable solution that is currently approved and commercialized in many of the world's largest markets. Several solutions derived from this platform have, in various studies, demonstrated the ability to treat antibiotic-resistant strains of bacteria (including MRSA and VRE), viruses; increase blood flow to the wound site; and reduce both inflammation and pain while assisting in faster wound closure.

#### KEY STATISTICS

Price as of 8/5/11	\$1.43
52 Wk High – Low	\$2.65 – 1.41
Est. FD Shares Out.	26.5M
Market Capitalization	\$37.9M
3 Mo Avg Vol	66,000
Exchange	NASDAQ:CM

#### COMPANY INFORMATION

Oculus Innovative Sciences, Inc.  
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#### INVESTMENT HIGHLIGHTS

##### Key Takeaways

**Oculus recently reported 1Q12 results in line with our expectations. Revenue of \$2.94 and a loss per share of (\$0.05) matched our expectations.**

**Oculus achieved gross margin improvement with a major increase in sales in the U.S., which grew by 61%.** Much of the U.S. sales increase was attributed to Innovacyn's *Vetericyn* line.

**Management's initiatives with key partners including AMNEAL, Precision Dermatology, Eloquest, and Innovacyn, should result in increased or new product sales over the next 9 months.** Key offerings include the podiatry, dermatological, OTC and RX wound care segments. Potential new approvals such as the pending acne treatment, which would be marketed through AMNEAL, also offers revenue potential.

**Oculus plans to introduce new products with existing partners, along with new platforms and technology that address current and new markets.** Untapped markets such as urinary tract infections and the surgical market offer tremendous opportunities, as do additional segments in the consumer, dermatological and wound care segments.

**The Company raised 2Q12 guidance and a revenue range for the Firm's segments and the Company as a whole.** Driven by Innovacyn and RX sales in the U.S., management projects Innovacyn sales of 70-90% in FY12 and 50-100% in U.S-RX sales. We believe that the biggest contributor will remain the animal products segment.

**We have increased our revenue estimate by 5% per quarter and revised our operating expenses modestly lower.** Our new projections call for revenue of \$14.6M and a loss of (\$0.20) for FY12 versus our prior forecast of \$14.0M and the same loss per share. For FY13 we project sales of \$26.2M versus a previous estimate of \$25M with little change to operating income and EPS.

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## Looking Ahead

The Company's strategy of multiple products, multiple partners, and multiple markets has resulted in critical mass of sales. The next generation of products will likely provide the Company and investors with similar outcomes, thereby valuing the stock even higher. In the interim, we believe that meaningful market penetration of the current multi-billion dollar market opportunities will result in substantial revenue growth. We should note that management' has forecasted of 40-80% sales growth in FY12. Since our forecast represents less than 50% top-line growth, significant upside to our estimates exists.

In our view, Oculus' shares represent a tremendous opportunity for investors and that the stock is worth \$2.25 today, or 57% higher than Friday's closing price. With its projected hockey-stick type growth and upcoming milestone events, such as higher gross margin in its fastest-growing segment, new product penetration, and new technology, we believe that OCLS can reach \$3.50 in the next 6 months. Our preliminary 12-month target remains \$5.00.

Our methodology is based on a conservative 5x revenue multiple on estimated forward 12-month revenue forecasts. In addition, when valuing the Company based on operating income excluding non-cash compensation, FY13 results could appear to be stellar.

We rate these shares Speculative Buy.

**Company Update**
**Table I. Projected Income Statement**
**Oculus Innovative Sciences, Inc.**

(in thousands)

	<u>FY11A</u>	<u>1Q12A</u>	<u>2Q12E</u>	<u>3Q12E</u>	<u>4Q12E</u>	<u>FY12E</u>	<u>FY13E</u>
<b>Revenue</b>							
Product	\$8,826	\$2,710	\$2,800	\$3,600	\$4,500	\$13,610	\$25,200
Services	<u>\$928</u>	<u>\$230</u>	<u>\$250</u>	<u>\$250</u>	<u>\$250</u>	<u>\$980</u>	<u>\$1,000</u>
<b>Total Revenue</b>	<b>\$9,754</b>	<b>\$2,940</b>	<b>\$3,050</b>	<b>\$3,850</b>	<b>\$4,750</b>	<b>\$14,590</b>	<b>\$26,200</b>
<b>Cost of Sales</b>							
Product	\$2,876	\$790	\$812	\$1,044	\$1,305	\$3,951	\$6,804
Service	<u>\$737</u>	<u>\$201</u>	<u>\$218</u>	<u>\$218</u>	<u>\$218</u>	<u>\$854</u>	<u>\$870</u>
<b>Total Cost of Sales</b>	<b>\$3,613</b>	<b>\$991</b>	<b>\$1,030</b>	<b>\$1,262</b>	<b>\$1,523</b>	<b>\$4,805</b>	<b>\$7,674</b>
<b>Gross Profit</b>	<b>\$6,141</b>	<b>\$1,949</b>	<b>\$2,021</b>	<b>\$2,589</b>	<b>\$3,228</b>	<b>\$9,786</b>	<b>\$18,526</b>
<b>Operating Expenses</b>							
R&D	\$2,046	\$436	\$473	\$616	\$736	\$2,261	\$2,489
SG&A	<u>\$11,600</u>	<u>\$2,694</u>	<u>\$2,715</u>	<u>\$3,273</u>	<u>\$3,420</u>	<u>\$12,101</u>	<u>\$12,707</u>
<b>Total Operating Expenses</b>	<b>\$13,646</b>	<b>\$3,130</b>	<b>\$3,187</b>	<b>\$3,889</b>	<b>\$4,156</b>	<b>\$14,362</b>	<b>\$15,196</b>
<b>Operating Income (Loss)</b>	<b>(\$7,505)</b>	<b>(\$1,181)</b>	<b>(\$1,167)</b>	<b>(\$1,300)</b>	<b>(\$929)</b>	<b>(\$4,577)</b>	<b>\$3,330</b>
Interest Expense	\$406	\$162	\$177	\$187	\$187	\$713	\$1,000
Interest Income	\$3	\$1	\$5	\$5	\$5	\$16	\$25
Change in Der. Liab	<b>(\$135)</b>	<b>(\$96)</b>	<b>(\$125)</b>	<b>(\$125)</b>	<b>(\$125)</b>	<b>(\$471)</b>	<b>(\$300)</b>
Other Exp. (Inc.,) Net	<u>\$175</u>	<u>\$72</u>	<u>\$150</u>	<u>\$150</u>	<u>\$150</u>	<u>\$522</u>	<u>\$200</u>
<b>Net Loss</b>	<b>(\$7,948)</b>	<b>(\$1,318)</b>	<b>(\$1,364)</b>	<b>(\$1,507)</b>	<b>(\$1,136)</b>	<b>(\$5,325)</b>	<b>\$2,455</b>
<b>Net Loss per Share</b>	<b>(\$0.30)</b>	<b>(\$0.05)</b>	<b>(\$0.05)</b>	<b>(\$0.06)</b>	<b>(\$0.04)</b>	<b>(\$0.20)</b>	<b>\$0.08</b>
<b>Est. Shares Outstanding</b>	26,374	26,711	26,800	27,000	27,300	26,953	30,000

# OCULUS INNOVATIVE SCIENCES, INC. (NASDAQ:CM – OCLS)

## Analyst: Robert Goldman

Rob Goldman has 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

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