

OSI Systems, Inc. was founded by Deepak Chopra in 1987 and is headquartered in Hawthorne, CA. OSI Systems is an integrated designer and manufacturer of specialized electronic systems and components for critical applications. OSIS sells its products and provides services in diversified markets, which includes homeland security, healthcare, defense and aerospace. It operates through four different segments: Security, Healthcare, Optoelectronics and Manufacturing, and Corporate.

BUY

Current Price: \$84.16
 Target Price: \$92.56
 Market Cap: \$1.59B
 ROIC: 6.61%
 WACC: 9.0%
 EBITDA Margin: 20%



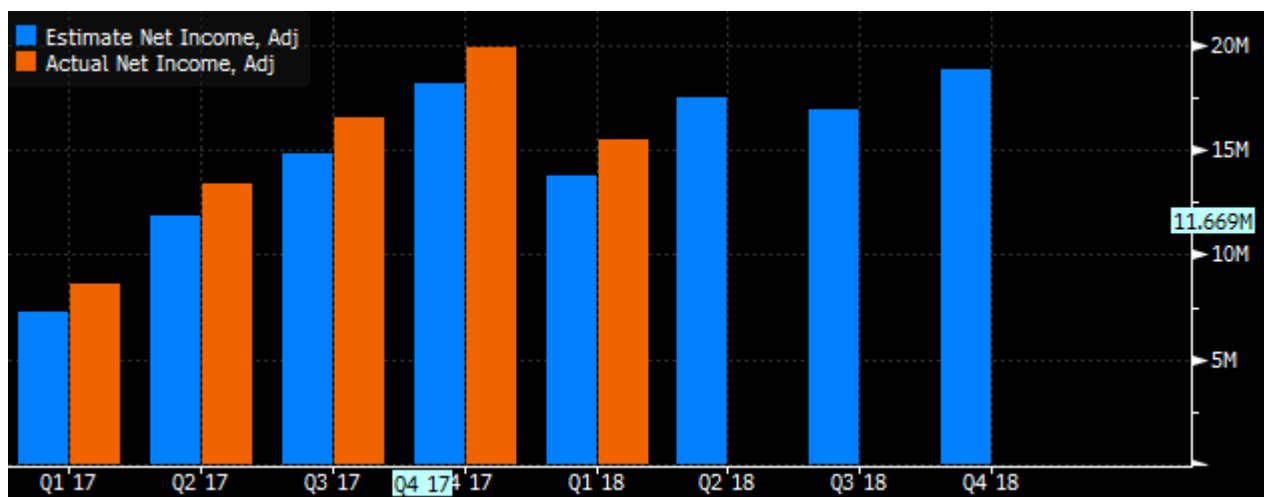
Thesis: OSI Systems, Inc. is looking to and has started to expand by leveraging its electronics and contract manufacturing capabilities into selective end product markets through organic growth and acquisitions. They have started to accomplish this through recent acquisitions and a purchase of a new facility in the middle of the 2017 fiscal year. For their security division they are looking to grow more in the international markets through government agencies. OSIS is also looking to see growth in their healthcare segment through helping developing countries and the increase in aging population. OSIS has many ways to see growth in different segments of their business towards the end of the year and from the last quarterly report, the CEO Deepak Chopra seems excited for 2018.

Catalysts:

- **Short Term(within the year):** Continue to innovate to stay ahead of their competitors.
- **Mid Term(1-2 years):** Finish off paying their purchase of the Billerica Facility.
- **Long Term(3+):** Continue with leveraging in acquiring new companies.

Earnings Performance:

OSI Systems, Inc. was excited about their 1Q fiscal 2018 financial report, with CEO Deepak Chopra saying, “We are pleased to report solid fiscal first quarter performance, including record revenues and earnings. Each of our divisions contributed to our outstanding start to fiscal 2018 with year-over-year profit growth. Based on this performance and our strong bookings, we have heightened optimism that fiscal 2018 will be a successful year for OSI.” The Company reported revenues of \$257.1 million for the first quarter of fiscal 2018, an increase of 16% from the \$220.9 million reported for the first quarter of fiscal 2017. Net income for the first quarter of fiscal 2018 was \$10.2 million, compared to net income of \$0.7 million for the first quarter of fiscal 2017. Non-GAAP net income for the first quarter of fiscal 2018 was \$15.5 million compared to non-GAAP net income for the first quarter of fiscal 2017 of \$8.7 million. With the security division making up to 56% of their sales Chopra was even more excited to announce and say in the quarterly report, “Our Security division achieved record first quarter revenues of \$162 million, of which approximately \$22 million was generated by our newly-acquired explosive trace detection business. This business complements well our Security division’s product portfolio, and together with the strong overall start in the rest of the division, leaves us well-positioned to achieve strong results in fiscal 2018.” Chopra also mentioned that their healthcare division saw a 10% increase for sales, which made it the third quarter with great year-over-year growth.



Sectors:

OSI Systems, Inc. is part of the industrial goods sector and OSIS breaks this down into three different operating divisions. A majority of their products are under patents, which keep third parties from making their products. Our current patents will expire at various times between 2017 and 2064. Their first division would be Security, which provides security and inspection systems, turnkey security screening solutions and related services. This division makes almost half of their annual revenues (56% of net sales) with Rapiscan Systems leading the way, which is a private company that focus in transportation. Their security products are used in airports and other transportation systems to inspect baggage, parcels, cargo, people, vehicles and other objects for weapons, explosives, drugs, radioactive and nuclear materials and other contraband. This has

been a major focus for the whole world with terrorist attacks increasing all over the world. Their second division would be healthcare, which provides patient monitoring, diagnostic cardiology, and Anesthesia delivery and ventilation systems. This division makes up 21% of net sales. Within this division, they make four different product lines that are patient monitoring and connectivity, diagnostic cardiology, Anesthesia delivery and ventilation, and medical devices and accessories. OSIS healthcare division designs, manufactures and markets products globally to end users primarily under the Spacelabs and Statcorp. OSIS third division is Optoelectronics and Manufacturing, which provides specialized electronic components and electronic manufacturing services for the Security and Healthcare divisions, as well as to external original equipment manufacturer customers and end users for applications in the defense, aerospace, medical and industrial markets. This division makes up 26% of net sales. In OSIS annual report they say, “We believe that continued advances in technology and reductions in the cost of key components of optoelectronic systems, including computer processing power and memory, have broadened the market by enabling the use of optoelectronic devices in a greater number of applications.” This company is very diverse in all the products that they produce from and X-ray machine to electronic devices that detect and control light (optoelectronics).

<u>PRODUCT LINE</u>	<u>PRODUCT NAME / PRODUCT FAMILY</u>	<u>MARKET SEGMENT</u>
Patient Monitoring and Connectivity	XPRESSON® Qube® Qube® Mini Ultraview® DM3 Dual Monitor Intesys® Clinical Suite (ICS) ICS Xprezz XprezzNet Flexport® Xhibit® Elance® AriaTele® Spacelabs® SafeNSound	Hospital care areas, outpatient surgery centers and physician offices
Diagnostic Cardiology	Ambulatory blood pressure monitors (various) OnTrak ABP Pathfinder® SL CardioCall® Lifecard® EVO™ CardioExpress® ECG machines CardioDirect® Stress Testing Systems Sentinel® Cardiology Data Management	Hospital cardiology care areas and physician offices
Anesthesia Delivery and Ventilation	ARKON® Blease 700 and 900 series ventilators BleaseSirius BleaseSirius EFM BleaseFocus	Ambulatory surgery centers and operating rooms
Medical Devices and Accessories	UltraCheck®, SoftCheck® and Curve Blood Pressure Cuffs Patient Cables and Accessories Fluid Delivery Unifusors	All hospital care areas, outpatient surgery centers and physician offices

Ownership:

OSIS is almost completely owned institutionally with 81.7% coming from investment advisors and another 3.74% coming from hedge fund managers. Many insurance companies have started to invest in this company due to that they know OSIS is becoming a huge contributor in the medical field. OSIS believes the demand for medical products is becoming a big contributor in developing countries where they are located in international land. They are helping a lot of developing nations where health care infrastructures are being built and or expanded.

Ownership Type	05/28/17	Curr ↓	Change	
11) Investment Advisor	86.00	81.70	-4.30	<input checked="" type="checkbox"/>
12) Individual	5.29	5.68	+0.39	<input type="checkbox"/>
13) Hedge Fund Manager	2.88	3.74	+0.86	<input type="checkbox"/>
14) Insurance Company	0.32	2.81	+2.49	<input type="checkbox"/>
15) Pension Fund	2.30	2.73	+0.43	<input type="checkbox"/>
16) Sovereign Wealth Fund	1.76	1.67	-0.09	<input type="checkbox"/>
17) Bank	1.02	1.31	+0.29	<input type="checkbox"/>
18) Government	0.20	0.20	0.00	<input type="checkbox"/>
19) Brokerage	0.12	0.08	-0.04	<input type="checkbox"/>
20) Endowment	0.06	0.05	-0.01	<input type="checkbox"/>
21) Holding Company	0.02	0.02	0.00	<input type="checkbox"/>

Debt:

OSI Systems, Inc. total debt is at \$71.5 million and great proportion of this is due to their recent purchase of Billerica Facility and a long seven-year loan they started in 2012, along with other borrowings. OSIS entered into a purchase agreement to acquire the facility in Billerica, MA currently leased by our AS&E subsidiary. The estimated purchase price is around \$20 million, and is expected to be financed with cash on hand, borrowings under our existing revolving bank line of credit and/or other third-party financing. OSIS expected the purchase to be mostly completed during the first quarter 2018. OSIS has shown in the past that they are very capable of paying off their debt with showing how they just recently completed an acquisition of Morpho USA, Inc. in April of 2017. OSIS was able to finance this acquisition of \$80.5 million with cash on hand and borrowings under existing revolving bank line of credit.



Competitors:

OSI Systems, Inc, is part of a smaller market but one that has many big time companies that have already established their spot in the market. This is not giving OSIS any fear for the future since they are currently a vertical integrated company at the moment. They currently leveraging to be able to take on more business and to expand their market share. For their EBITDA margin, the company is right around the median at 15.47% compared to the median of 16.62%. Their gross margin is also right around the median compared to their competitors. Two things they could look to improve in the future is their profit margin and operating margin, which are slightly below most of their competitors.

Name (BICS Best Fit)	Ticker	Mkt Cap	EBITDA to Net Sales:Q	PM LF	GM:Q	OPM LF↓
Median		11.45B	16.62%	12.04%	33.17%	12.66%
100) OSI SYSTEMS INC	OSIS US	1.59B	15.47%	3.95%	35.50%	7.54%
101) HONEYWELL INTERNATIO...	HON US	116.60B	20.61%	13.32%	34.00%	17.79%
102) INGERSOLL-RAND PLC	IR US	21.13B	16.18%	10.00%	32.35%	13.79%
103) JOHNSON CONTROLS INT...	JCI US	34.36B	17.06%	10.75%	30.89%	13.75%
104) ALARM.COM HOLDINGS INC	ALRM US	1.76B	17.47%	16.79%	64.62%	11.56%
105) NL INDUSTRIES	NL US	694.19M	6.64%	64.73%	30.37%	3.19%

Conclusion:

OSI Systems, Inc. is a great buy considering all of the growth that this company expects to see in the future. They are beating estimates for the past three quarters while taking on major debts at the same time. While the security division is leading the way, I can see their health care division take off considering all the new developing countries they entered and decided to help build. OSIS has a great growth strategy in place that involves leveraging with great expertise in charge that believe will increase their price, performance and agility over their competitors. They are a company that continues to innovate and put out an enormous amount of products, while also entering new fields from time to time to build up/diversify their company.

OSI Systems, Inc. (OSIS)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Daniel McAvoy
12/5/2017

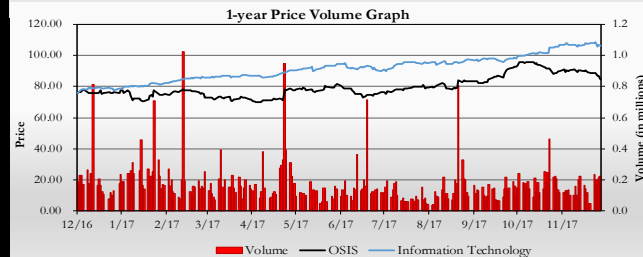
Current Price:
Divident Yield:

\$84.16
0.0%

Intrinsic Value
Target Price

\$79.72
\$92.56

Target 1 year Return: 9.98%
Probability of Price Increase: 85%

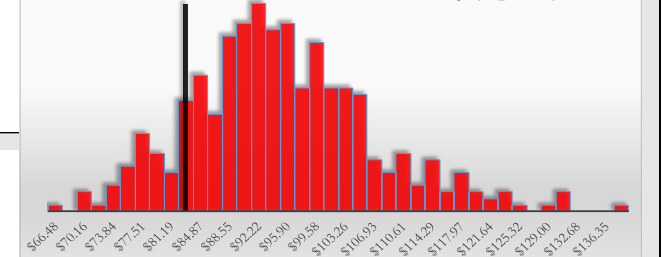


Description	
OSI Systems, Inc. designs, manufactures, and sells electronic systems and components worldwide.	
General Information	
Sector	Information Technology
Industry	Electronic Equipment, Instruments and Components
Last Guidance	November 3, 2015
Next earnings date	January 25, 2018
Estimated Country Risk Premium	6.97%
Effective Tax rate	24%
Effective Operating Tax rate	24%

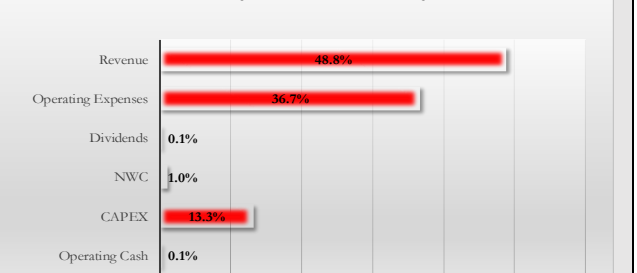
Market Data	
Market Capitalization	\$1,589.56
Daily volume (mil)	0.05
Shares outstanding (mil)	18.97
Diluted shares outstanding (mil)	19.69
% shares held by institutions	116%
% shares held by investments Managers	93%
% shares held by hedge funds	4%
% shares held by insiders	5.03%
Short interest	5.51%
Days to cover short interest	6.67
52 week high	\$96.64
52-week low	\$69.08
Volatility	35.83%

Past Earning Surprises		Peers	
Quarter ending	Revenue	EBITDA	
9/30/2016	17.45%	-6.25%	FLIR Systems, Inc.
12/31/2016	4.14%	-11.19%	Badger Meter, Inc.
3/31/2017	0.88%	-12.73%	Trimble Inc.
6/30/2017	-0.63%	-6.35%	Benchmark Electronics, Inc.
9/30/2017	3.61%	-10.20%	Plexus Corp.
Mean	5.09%	3.4%	Zebra Technologies Corporation
Standard error	3.2%	1.3%	Leidos Holdings, Inc.
Management		Total compensations growth	
Management	Position	Total compensations growth	Total return to shareholders
Chopra, Deepak	Chairman, CEO & President	6.73% per annum over 6y	6.82% per annum over 6y
Edrick, Alan	Executive VP & CFO	5.7% per annum over 6y	6.82% per annum over 6y
Sze, Victor	Executive VP, General Counsel	8.19% per annum over 6y	6.82% per annum over 6y
Mehra, Ajay	Executive VP & Director	6.48% per annum over 6y	6.82% per annum over 6y
Merriitt, Richard	Senior VP & CHRO	N/M	N/M
Alibadi, Manoocher	President of OSI Optoelectro	-100% per annum over 3y	6.41% per annum over 3y
Profitability		Peers' Median (LTM)	
Profitability	OSIS (LTM)	OSIS (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	8.2%	6.03%	9.18%
Operating Margin	6%	5.30%	8.03%
Revenue/Capital (GAAP)	1.33	1.14	1.14
ROE (GAAP)	6.5%	5.1%	10.8%
Net margin	4.4%	3.8%	8.7%
Revenue/Book Value (GAAP)	1.47	1.33	1.24
Invested Funds		Peers' Median (LTM)	
Invested Funds	OSIS (LTM)	OSIS (5 years historical average)	Peers' Median (LTM)
Cash/Capital	17.8%	8.4%	16.2%
NWC/Capital	24.4%	18.7%	17.3%
Operating Assets/Capital	31.1%	60.5%	32.2%
Goodwill/Capital	26.7%	12.3%	34.3%
Capital Structure		Peers' Median (LTM)	
Capital Structure	OSIS (LTM)	OSIS (5 years historical average)	Peers' Median (LTM)
Total Debt/Market Capitalization	0.47	0.12	0.27
Cost of Existing Debt	3.1%	33.2%	4.3%
CGFS Rating (F-score, Z-score, and default Probability)	AA	BBB	BBB
WACC	9.2%	39.6%	10.1%

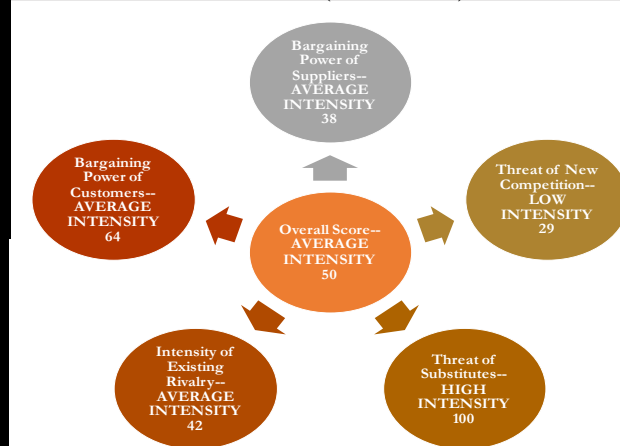
Intrinsic Value Distribution--Probability (Upside)=85%



Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Revenue Growth Forecast		Valuation	
Period	Revenue Growth Forecast	NO PAT Margin Forecast	Revenue to Capital Forecast
Base Year	17%	10.6%	1.10
9/30/2018	9%	5.0%	0.83
9/30/2019	5%	4.5%	0.80
9/30/2020	4%	3.8%	0.79
9/30/2021	4%	4.1%	0.78
9/30/2022	4%	10.9%	0.77
9/30/2023	4%	11.1%	0.73
9/30/2024	4%	11.3%	0.70
9/30/2025	4%	11.5%	0.67
9/30/2026	4%	11.7%	0.64
9/30/2027	4%	11.9%	0.62
Continuing Period	4%	12.1%	0.60
Return on Capital Forecast		Price per share Forecast	
Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	11.6%	9.2%	\$78.34
9/30/2018	4.2%	10.2%	\$90.69
9/30/2019	3.6%	10.1%	\$102.22
9/30/2020	3.0%	9.9%	\$113.68
9/30/2021	3.2%	9.9%	\$125.50
9/30/2022	8.5%	9.8%	\$137.55
9/30/2023	8.1%	9.7%	\$149.75
9/30/2024	7.9%	9.9%	\$162.32
9/30/2025	7.7%	9.8%	\$174.97
9/30/2026	7.5%	9.9%	\$187.89
9/30/2027	7.3%	10.0%	\$201.06
Continuing Period	7.2%	10.1%	