

Mossberg's Investor Digest

Best Idea Profile:

GSI Group, Inc. (NASDAQ:GSIG)

DESCRIPTION:

Headquartered in Bedford, Massachusetts; GSI Group Inc. manufactures and sells laser-based manufacturing solutions, laser scanning devices, and precision motion control technologies. These technologies help companies meet the demands of extremely precise manufacturing standards of production. GSI technologies are used for a variety of applications in a number of manufacturing sectors, including the electronics, industrial, scientific and medical markets. The Company has three operating segments; laser products, semiconductor systems and manufacturing. GSI products are sold by both a company sales force and distributors in North America, Europe and Asia.

KEY INVESTMENT CONSIDERATIONS:

New Management – Since emerging from bankruptcy in FY2010 the Company has assembled an entirely new team of senior executives. GSI appointed John Roush as Chief Executive Officer in December 2010. Also, during FY2011 the Company announced a new CFO and several other lead management positions. The new team has a significant experience from leading technology and consulting firms including: GE, Honeywell, Honeywell, PerkinElmer, IBM, Millipore, Analog Devices, Boston Scientific, McKinsey, and Bain.

Strategic Restructuring - The Company announced a new reporting structure in 2Q11 and during 4Q11 GSI started a new cost restructuring program. The Company's goal is to reduce annualized costs by \$5.0 million by closing up to 12 facilities. The Company expects to incur cash charges of \$4.0 million to \$5.0 million related to this program, of which \$2.5 million has been recorded through 1Q12.

Major Issues Resolved – GSI concluded a number of issues during FY2011 including an SEC Investigation concerning historical accounting practices and a class action lawsuit related to company contributions to the directors and officers insurance policies.

Debt Refinancing – During 4Q11 GSI announced the refinancing of all of its outstanding 12.25% Senior Secured PIK Election Notes due 2014 with the proceeds from a new \$80 million senior agreement. This refinancing is expected to initially reduce the Company's interest expense by approximately \$6.7 million.

Growth Initiatives – In 4Q11 the Company announced a new 1 Kilowatt Laser product offering. This Laser product is much more efficient from an energy and set up perspective. The Company reported that in 1Q12 demand for the product was very strong with overall revenues from that product line doubled on a Year-Over Year basis.

Positive Outlook - For 1Q12 GSI reported adjusted EBITDA of \$11 million along with the fact that Net Debt was reduced to \$5.1 million. The Company outlined plans for organic growth in the high single digits and EBITDA margin of 20%.

Valuation:

GSI is making clear progress in a turnaround that is a little more than a year old. New management is cleaning up the balance sheet, simplifying operations, and improving efficiencies, while at the same time delivering high single digit top line growth. While shares have appreciated from their October lows, there appears to be more upside potential based on a 9x multiple of next year's earnings estimates. Assuming management can achieve its goals, its vision for \$500 million in revenue with \$100 million in EBITDA is only 3 to 4 years out. At current multiples, shares would be worth nearly twice as much over that time period

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Investment Data (as of 5/13/12)

Recent Price	\$12.36
52-Week Range	\$7.03 - \$12.80
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	33.6MM
Average Trading Volume (3 months)	124K
Market Capitalization	\$415MM
Cash	\$50MM
Long Term Debt	\$56MM
Enterprise Value (EV)	\$419MM
Book Value	\$6.34
TTM Revenue	\$353MM
P/ Revenue	1.2x
TTM EPS	\$0.71
P/ EPS	17.4x
TTM EBITDA	\$56MM
EV/ EBITDA	7.5x

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