

Osim international

[Business](#), [Company](#)



1. Introduction to Osim. International Osim International Ltd. (Osim) is a Singapore listed company; a global leader in the healthy lifestyle products industry. It has been led since its inception by CEO Ron Sim, the company's value driver, instrumental in bringing Osim to where it is today, greatly influencing its vision, mission, and values with his personal touch. The company has expanded to more than 1,100 stores in more than 30 countries worldwide. Within the next 3 to 5 years, they plan to open over 50 outlets and further expand their subsidiaries, GNC and RichLife. Competitive Strategy In view of the current economic situation, Osim seeks to cautiously and optimistically 'focus on building profitability, positive EBITDA, and operating cash flow'. Even though they have exceeded sales expectations so far this year, this may be challenging given that they operate in a niche market easily affected by consumer sentiment and other global events. Osim feels a strong balance sheet is integral to meeting this aim, achievable through enhanced operational efficiency and outlets being leaner and more effective in sales. With Brand Osim, they desire an image that is one with (the) healthy lifestyle'. This demonstrates their aspiration to not only be the market leader but to also be the brand with the best recall and association. Furthermore, Osim adopts a two-pronged approach of innovation and growth; creating demand through innovation and development to support the anticipated US market recovery and the Chinese markets' expansion. There is also a focus on their most important resource, employees; training, and empowering talents with an emphasis on corporate culture alignment.

2. Company value chain Osim's value chain involves two main processes: Innovation and Operations Management. Innovation Research and development (R&D) is a process given much emphasis as Osim strives to release new and relevant products to create demand and to keep a technological edge above its competition, resulting in products such as the iDesire and iMedic amongst others. This has won consumers and its efforts were rewarded in 2008, voted as Asia's most preferred brand for massage chairs. This is also inculcated in its brand image with their desire to include ' intelligent innovation'.
3. Operations management includes Osim's manufacturing and retail arms. Upon subjecting raw material to their respective manufacturing processes, Osim creates a product that it believes will add value for consumers and entice them to pay a premium to obtain their desired quality of life. Its retail arm works with an aggressive marketing department to promote their products. Whilst costs are high, the perceived product value-added is proportionately high.
4. Non-financial analysis
5. Corporate Social Responsibility Osim aims to encourage a positive attitude towards healthy lifestyles. Osim Triathlons in various Asian countries and the Osim Singapore Masters are some sporting events it has sponsored. While Osim promotes itself as a lifestyle brand, for example, through the promotion of the squeeze leg massager which appeals to triathletes, they have also donated to the Children's Cancer Foundation and supported an endowment fund with the NUS Business School. Osim has also demonstrated accountability to society by

recalling its products twice. The urgency to recall defective products has shown Osim's commitment to civic responsibility. However, the recall affected Osim's reputation as customers were put through the hassle of claiming damages. Despite this, Osim's branding remains strong and is still one of the world's most reliable providers in its industry. Accountability to investors was also demonstrated when they came in runners-up in the ' Most Transparent Company Award (Commerce)' in SIAS Investors' Choice Award.

6. Consumer. Sentiments In a 2008 survey by Synovate, Osim attained the ' No. 1 Healthy Lifestyle Products Brand' in consumers' minds across Asia. The findings show Osim's strong Asian customer base and affirm its effective branding as a leading provider of innovative products with design and quality, performance, and safety standards. Furthermore, massage chair sales in China have maintained good growth with easy-to-buy payment schemes.
7. Corporate Culture. A strong corporate culture inculcating positive thinking has been used as a tool to survive market movements. This tool is behind the entrance of new innovations and the extension of Osim's reach into the global market. Besides this, substantial shareholdings by key management ensure management goals are correctly aligned with that of shareholders'.
8. Customer Retention and Growth In 2005, Osim was rated by Nielsen Consumers as the number one brand in seven attributes. Osim is also a member of Superbrands. To date, higher-end products are made in Japan, a country recognized for its quality and precision. Mid-tier to

lower-end products are manufactured in China to reduce costs.

Although manufactured in China, Osim ensures the reliability and quality of these products. The market share gained from the provision of quality products has been shown in the same Synovate survey as mentioned above. Osim has also invested heavily in marketing, often publishing its advertisements in various media to increase its brand presence. These include center spreads in major newspapers as well as television commercials, reigning in celebrities such as S. H. E and Fiona Xie. This fortifies their brand's credibility, with the aim of converting new customers and retaining current ones. In a way, they have already created a strong and secure customer base and exclusive attention can be placed on gaining additional market share within the region and globally.

9. Global outlook Since the global recession, the market has rebounded with the STI currently trading around 2, 600 points, a level last seen a year ago. We are currently believed to be in the accumulation phase , with economic growth expected in the coming years. Global markets have stabilized while key export markets such as the US and Europe remain fairly weak. Rapid recovery is in line for Asian economies, but continued soft private demand means that fiscal and monetary measures must be sustained to ensure continued growth.
10. Industry outlook of healthy lifestyle products Osim's business efforts are concentrated on an increasingly affluent Asia, especially in countries like Singapore and China, where there is a greater focus on lifestyle and well-being. Health is a greater concern as busier schedules

reduce exercise time. As Asia's aging population finds new ways to improve their living standards, more may turn to increasingly relevant healthcare products. However, the lifestyle industry is most vulnerable to fluctuations in business cycles. With the downturn, spending is either decreased or cheaper alternatives are sought.

11. Comparison between Osim and its competitors Osim's main competitors in the health-food industry provide competition to its subsidiary, Global Active Limited. Its main recognized competitors in the massage products markets include OGAWA, OTO Bodycare, and Panasonic. Osim thus relies heavily on innovation, aggressive marketing, and quality to distinguish its products from its competitors, leveraging on the fact that consumer preferences are easily influenced. Another form of competition comes in the form of imitations and inexpensive Chinese products that respectively devalue Osim's brand and provide viable substitutes. This forces Osim to differentiate itself as a premium product and introduce a secondary brand, NOVO, to woo consumers with its affordability. With the expected future growth in the healthy lifestyle products industry and Osim's stronghold on its base consumer markets, we expect Osim to continue outperforming its competitors, especially in its core business function.

12. Osim Financials

13. Company's Financial Ratios Osim's profitability ratios have been weakening over the last 5 years, with sharp declines from 2006 onwards. Profit margins dropped from the healthy region of 9% to 0.6% in 2007 and finally into the negative in 2008. Other returns ratios

like ROA and ROE have also dropped significantly from 2005 onwards. Osim's sales fell from a high of S\$623million in 2006 to S\$457million in 2008. The low profitability ratios suggest that the company is not effectively utilizing its assets and shareholder investments to generate sales and profit, which is a cause for concern for potential investors. Its dwindling sales and profitability can be attributed to fierce competition from imitations, as mentioned above. Also, Osim spent S\$149million to acquire 55% off Brookstone Inc. in 2005, which did not work out well, as Brookstone's losses dragged down Osim's profitability from 2006 onwards. Osim's liquidity ratios, despite the poor financial performances in the past few years, have remained relatively stable. The current ratio has stayed consistently above 1, bar 2007, which implies that the Group is able to meet its short term liabilities with its short term assets. Interest coverage has been falling sharply, primarily due to the fall in operating profits. In order to continue its repayment of interest charges, profits have to improve.

14. Market Prospects

15. Osim on its own Generally, share prices have been on a strong downward trend since 2006, with MACD crossing below zero for most of the period. Osim's share price plunged 98% from a high of S\$2.06 in 2006 to a low of S\$0.05 at the start of 2009 before showing signs of recovery, rising from below S\$0.10 to the recent stability of around S\$0.45, an increase of more than 400% during the period from March to September 2009. The recent bullish trend has also been reflected in the strong divergence of the MACD over zero.

16. Osim vs. Selected peers (VGO, Best World, Ogawa, Jacks) During the last 5 years, Osim fared poorly compared to its industry peers. It was the worst-performing stock out of the 5 selected companies over the period from 1Q07 to 1Q09. However, focusing our attention on more recent developments, Osim's share price has been outdoing that of its competitors significantly, due to its strong recovery since 1Q09. Osim's stock has risen at a higher rate, and been the best performing in terms of absolute value. Another interesting factor is the recent significant increase in insider trading, with senior management aggressively purchasing the company stock and subscribing to excess shares through the company's rights issue. Together with the hints of recovery from recent financial figures, the purchase of shares by Osim's management and confidence showed in the company might just be the confirmatory signal of their turnaround in fortunes.
17. Osim vs. STI On a 5-year basis, comparing the performance of Osim's share price against the STI, we observe that generally, it has been underperforming relative to the STI. The period between mid-2005 and early 2007, which coincided with Osim's best financial performance, saw the company outperforming the market. Since 1Q07, it has been underperforming by a large margin until the recent superior performance relative to the STI starting from April 2009.
18. Projected Performance Judging from the 9 months 2009 figures, sales appear to continue sluggishly and we estimate the total sales for 2009 to be inferior to that of 2008. However, EBITDA has increased by 16% as compared to the same period last year. Having fully written

down the investment in Brookstone, future losses need not be accounted for, and Osim's profit before tax is expected to improve to around S\$33million for 2009, a marked improvement from 2007 and 2008. Projected profitability ratios also suggest signs of recovery with ROA and ROE estimated to be around 9.02% and 21.36% respectively. Liquidity ratios for the Group remain healthy as well, as at 30 Sept 2009. Post restructuring, Osim has emerged leaner, significantly cutting down expenses over the past 2 years. Hence, if sales pick up in the future, we should see a return of the high-profit margins realized in the past. Osim's current Net Asset Value (NAV) per share is S\$0.14. Compared against the average share price of around S\$0.45 over the past 2 months, the Price-to-book ratio is about 3.25 times, implying that the stock may be overvalued. However, the general price-to-book ratio for an average company is 7 times, showing that Osim's share price may still rise in the future.

19. Conclusion. With Ron Sim at the helm and the alignment of the senior management with company objectives, Osim stands poised to achieve its goals in the short term with its aggressive marketing and focus on a strong balance sheet during this time of economic uncertainty. They have earned the trust of consumers through the provision of quality products and good corporate governance. While they have effectively lowered costs, revenue remains sluggish. They plan to improve this through expansion in emerging markets as well as to take advantage of Brookstone's strategic positioning in American markets. Whilst having derived ways to compete effectively, and with

the industry expected to grow, private consumption will still be depressed amidst this period of economic recovery due to a lag effect. Defining a medium to long term as between two to five years, we thus projected that Osim, on its own will continue to be profitable as a going concern.

While we recognize that outside the industry, there are many superior alternatives that have the potential to generate far better returns, which is beyond the scope of this report, we recommend that with regards to an investment solely in Osim or in the Healthy Lifestyle Products industry, Osim is clearly the worthwhile choice to invest in.

Appendix A Profitability Ratios

Year	2008	2007	2006	2005	2004
Profit Margin (%)	21.780	65.429	299.2	ROA (%)	46.580
ROE (%)	141.921	9619.8728	9726.16	Cash Flow/Operating Revenue (%)	17.984
Profit Margin (%)	21.780	65.429	299.2	Profitability ratios measure the return earned on a company's capital and the financial cushion relative to each dollar of sales. Osim's low profitability ratios in recent years are a cause for concern. However, much can be attributed to the economic crisis and the write-off of Brookstone in 2008.	Liquidity Ratios
Current Ratio	1.090	951.021	111.87	Quick Ratio	0.480
Interest Coverage	19.052	067.751750	95	Current Ratio	1.090
Current Ratio	1.090	951.021	111.87	Generally, despite the poor performance posted in 2007 and 2008, Osim's Liquidity Ratios remained relatively stable.	