

First Cut Stock Study Report

Company Name:	Quality Systems	Ticker:	QSII
Date of Study:	11/23/2008	Price:	\$ 31.30
Your Name:	Jim Crabill		
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City:	Union	State:	IL
Chapter Name (if applicable):	Chicago West		

Discuss why you consider this to be a high quality, growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity, and debt.

During the past 10 years Quality Systems has grown both revenues and earnings at greater than 20% per year. PTP and ROE have been consistent and steady over the same period. The company has no debt.

Briefly describe how the company makes money:

Quality Systems, Inc. develops and markets healthcare information systems in the United States. Its system automates various aspects of medical and dental practices, and networks of practices, such as physician hospital organizations and management service organizations, ambulatory care centers, community health centers, and medical and dental schools. The company offers proprietary electronic medical records software and practice management systems under the NextGen3 product name.

Projected growth rate for sales: 18%

Why did you select this rate? Discuss from where future growth will come.

Yahoo Finance projects revenue growth for FY 09 to be 31% and for FY 10 18.6% while S&P Report project 24% and 17% for the same periods. Manifest Investing is projecting sales growth of 21%. Both presidential candidates supported efforts to computerize medical records and President-elect Obama wants to committ \$10 billion to move the computerization forward. In addition, some estimate that only 25% of medical records have been computerized. QSII is well positioned to successfully win a significant portion of this work. The company's strategy emphasizes organic growth and growth through acquisition where they find companies that adds strength and value to their product line. !8% is conservative, but factors in the current economic downturn.

Projected growth rate for earnings per share: 18%

Why did you select this rate?

This stock study reflects the judgment of the contributor(s) only and no investment recommendation is intended.
 Investors should always conduct their own analysis before making an investment decision.

18% was selected as a conservative projection based on the unknown impact of our economic slowdown. Yahoo, S&P, and Manifest Investing have projections ranging from 18% to 23%.

Projected High P/E: 28

Why did you select this value?

Over the past three years the high P/E has declined. Should that trend continue 28 would be reasonable. Even at 28 and a conservative projected EPS growth rate the potential high price would more than double.

Projected Low P/E: 17

Why did you select this value?

17 reflects the past three year trend.

Projected Low Price: \$26.10

Why did you select this value?

Due to the current economic situation, the recent market low price was selected.

At the current price, the stock is a (check one):

Buy or Hold or Sell

At the current price, the upside-downside ratio is: 11.7 to 1

Projected compounded rate of return: 23%

Your final recommendation (check one):

Buy or Hold or Sell

Explain:

Health care was one of the major issues in the recent presidential campaign. All parties agree that the computerization of medical records has the potential to help control costs and improve patient services. In 2007 President Bush signed a bill supporting this effort. President-elect Obama is also committed to expanding the support. Quality Systems is well positioned to benefit from this initiative. QSII's 52-week low was in January, 2008. During the current downturn in the market, many good, quality companies have been driven down to new lows, but QSII has maintained its price fairly well and at \$31.13 remains above its 52-week low. During the recent conference call management was questioned about the impact of the economic situation and indicated that they had not seen much of a pull-back in their business and believe that the government initiatives would offset any pull-back.



Stock Selection Guide [®]

The most widely used aid to good investment judgment

Company QUALITY SYSTEMS INC Date 11/21/08

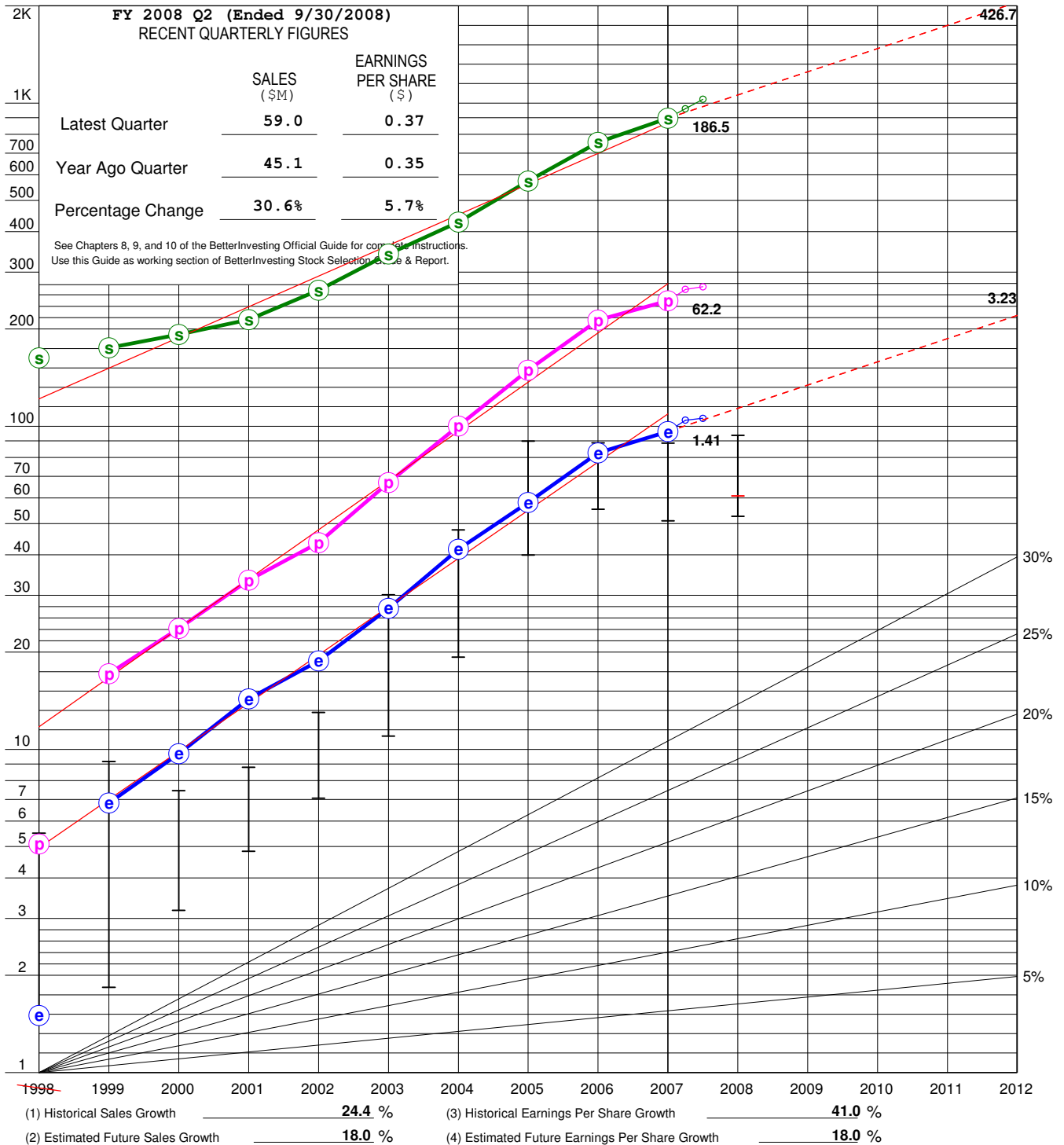
Prepared by J Crabill Data taken from NAIC Data

Where traded NASDAQ Major product/service Systems Sof

CAPITALIZATION --- Outstanding Amounts		Reference	
Preferred (\$M)	0.0	% Insiders	% Institution
Common (M Shares)	28.3	36.0	60.9
Debt (\$M)	0.0	% to Tot.Cap.	0.0
		% Potential Dil.	None

1 VISUAL ANALYSIS of Sales, Earnings and Price

QSII



2 EVALUATING MANAGEMENT

Company **QUALITY SYSTEMS INC (QSII)**

11/21/08

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
A % Pre-tax Profit on Sales (Net Before Taxes + Sales)	3.8	12.0	15.1	19.1	20.3	24.0	28.7	31.8	34.5	33.4	30.5	UP	
B % Earned on Equity (E/S ÷ Book Value)	1.8	7.7	10.0	12.8	14.2	16.6	25.5	31.4	36.0	34.0	31.7	UP	

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

		PRESENT PRICE		31.130	HIGH THIS YEAR		47.940	LOW THIS YEAR		26.900
Year		PRICE		C Earnings Per Share	D Price Earnings Ratio		F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100	
		HIGH	LOW		HIGH A ÷ C	LOW B ÷ C				
1	2003	15.4	5.6	0.40	38.5	14.0	0.000	0.0	0.0	
2	2004	24.5	9.9	0.61	40.2	16.2	0.750	123.0	7.6	
3	2005	46.0	20.4	0.85	54.1	24.0	0.875	102.9	4.3	
4	2006	45.4	28.3	1.21	37.5	23.4	1.000	82.6	3.5	
5	2007	45.4	26.1	1.41	32.2	18.5	1.000	70.9	3.8	
6	TOTAL		90.3		69.7	96.1		379.4		
7	AVERAGE		18.1		34.8	19.2		94.8		
8	AVERAGE PRICE EARNINGS RATIO				27.0	9 CURRENT PRICE EARNINGS RATIO				20.1

4 Proj. P/E [17.02] Based on Next 4 qtr. EPS [1.83] Current P/E Based on Last 4 qtr. EPS [1.55] PEG=95

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E ~~34.8~~ 28.0 X Estimate High Earnings/Share 3.23 = Forecast High Price \$ 90.4 (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E ~~19.2~~ 17.0 X Estimated Low Earnings/Share ~~1.41~~ 1.55 = \$ 26.3

(b) Avg. Low Price of Last 5 Years = 18.1 (3B7)

(c) Recent Severe Market Low Price = 26.1

(d) Price Dividend Will Support Present Divd. = 1.200 = 15.8
Selected Estimate Low Price High Yield (H) 0.076

= \$ 26.1 (4B1)

C ZONING

90.4 (4A1) High Forecast Price Minus 26.1 (4B1) Low Forecast Price Equals 64.3 (C) Range. 1/3 of Range = 16.1 (4CD)

(4C2) Lower 1/3 = 26.1 (4B1) to 42.2 (Buy) Note: Ranges changed to 25%/50%/25%

(4C3) Middle 1/3 = 42.2 to 74.3 (Maybe)

(4C4) Upper 1/3 = 74.3 to 90.4 (4A1) (Sell)

Present Market Price of 31.130 is in the Buy (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 90.4 Minus Present Price 31.130

Present Price 31.130 Minus Low Price (4B1) 26.1 = 59.3 = 11.7 To 1 (4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 90.4 = (2.904) X 100 = (290.4) - 100 = 190.4 % Appreciation (4E)

Present Market Price 31.130

Relative Value: 74.4% Proj. Relative Value: 63.0%

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend \$ 1.200
Present Price of Stock \$ 31.130 = 0.039 X 100 = 3.9 Present Yield or % Returned on Purchase Price (5A)

B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 2.32 X Avg. % Payout ~~(3G) 94.8~~ 102.8 = 238.5 = 7.7 % (5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) <u>190.4</u>					
5	<u>38.1</u>	%	Average Yield	<u>4.6%</u>	Tot. Ret.
Average Yield (5B) -----	<u>7.7</u>	%	Annual Appreciation	<u>18.5%</u>	<u>3.7%</u>
Average Total Annual Return Over the Next 5 Years (5C)	<u>45.8</u>	%	% Compd Ann Rate of Ret	<u>23.0%</u>	<u>27.4%</u>