

## Equities

3 October 2011 | 104 pages

# 2011 Supply Chain Playbook and Q3 Preview

## Santa Claus Has Less Money; We Remain Cautious on Holiday Season and Q4'11 Outlooks

- **Risk that Street Estimates Remain Too High** – While most companies at Citi's Tech Conference in early September expressed confidence in attaining 3Q guidance, recent flurry of negative preannouncements (GLW, FCS, ALTR, FSL, XLNX, CALX), downward estimates to global GDP (see, [Global Economic Outlook and Strategy - September 2011](#)) & sluggish demand suggests the technology supply chain, handsets, and telecom equipment sectors will not experience as large as normal seasonal calendar Q4. Note, Citi cut estimates on 08/21 (see, [Technology Supply Chain](#)).
- **Another Recession?** While we do not model another 2008/2009 recession, we do model below seasonal growth for 4Q 2011 and 1Q 2012. However, inside this report we detail the scenario of the impact of another full recession across our covered stocks. Yes we believe Santa Claus will still come this year but will simply have less money to spend coupled with widespread corporate government budget constraints.
- **Q3 Key Focus Items – 1) It's The Economy Stupid:** macro uncertainty & lower consumer/investor confidence drives below normal seasonal Q4'11; **2) Wind Shift:** commodity headwinds become tailwinds as key raw material prices roll over after 1H'11 price increases; **3) D.C. Debates Stalls Defense Spend:** With pending budget cuts in military spending still up for debate, defense order trends remain sluggish with APH, AVX & SANM having highest exposure, see [Whack-a-Mole \(DC-Style\)](#). A cycle rebound in commercial aero may provide a slight offset for slow/flat defense growth. **4) The Distribution Snake Digests 1H'11 Builds:** Following the supply chain disruption caused by the Japanese Earthquakes in 1H'11, inventories across the supply chain increased, most acutely in distribution. Now, this channel is working to align inventory levels and may create a soft patch for specific components & products effecting AVT, ARW, VSH, AVX, TEL, MOLX, APH & ST most acutely. **5) Acquisitions Augment Tepid Growth Expectations:** While growth expectations are being reset, we believe M&A will be an important driver of top line growth in 2012, specifically for ARW, AVT, APH, TEL, ST, VSH & AVX. **6) Putting Your Money Where Your Mouth Is:** With healthy balance sheets & many companies sitting on all time high cash levels, we expect firms to put cash to use in the form of dividends, buybacks & strategic M&A.
- **Stock Picks:** Based on our cycle framework, EMS stocks underperform until demand visibility improves after which time Hold-rated Jabil & Sanmina should outperform. In this current uncertain environment we favor the connector stocks with buy ratings on TEL and APH and distributors ARW and AVT should continue to make accretive M&A. Please see our Handset & Telecom Equipment report for details on Buy-rated Adtran, Sell-rated Research in Motion, & Hold-rated MMI, MSI, PLCM, ARRS, TLAB, PLCM.
- **Essential Reference Guide for Technology Investors** - Citi's [Global Technology Supply Chain Handbook](#) is a 400+ page reference guide with sector charts and supply chain diagrams 100+ hardware, handset, consumer electronics, telecom equipment, semi and semicap equipment companies under Citi's global coverage which is an essential reference during earnings reporting season.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

## Data Summary

| Ticker | Rating |     | Target Price |           | Current Year Earnings Estimates |          | Next Year Earnings Estimates |          |
|--------|--------|-----|--------------|-----------|---------------------------------|----------|------------------------------|----------|
|        | Old    | New | Old          | New       | Old                             | New      | Old                          | New      |
| APH    | 1M     | 1M  | US\$53.00    | US\$53.00 | US\$3.09                        | US\$3.09 | US\$3.40                     | US\$3.40 |
| ARW    | 1H     | 1H  | US\$41.00    | US\$41.00 | US\$4.97                        | US\$4.97 | US\$5.05                     | US\$5.05 |
| AVT    | 1H     | 1H  | US\$34.00    | US\$34.00 | US\$4.15                        | US\$4.15 | US\$4.27                     | US\$4.27 |
| AVX    | 2H     | 2H  | US\$14.00    | US\$12.50 | US\$1.40                        | US\$1.36 | US\$1.30                     | US\$1.13 |
| BHE    | 3S     | 3S  | US\$11.50    | US\$10.50 | US\$1.15                        | US\$1.15 | US\$1.40                     | US\$1.40 |
| CLS    | 3S     | 3S  | US\$7.00     | US\$6.50  | US\$1.00                        | US\$1.00 | US\$1.04                     | US\$1.04 |
| FLEX   | 2S     | 2S  | US\$6.50     | US\$6.00  | US\$0.81                        | US\$0.81 | US\$0.86                     | US\$0.86 |
| JBL    | 2S     | 2S  | US\$22.00    | US\$19.00 | US\$2.53                        | US\$2.53 | US\$2.69                     | US\$2.69 |
| MOLX   | 2H     | 2H  | US\$22.50    | US\$20.50 | US\$1.74                        | US\$1.74 | US\$1.97                     | US\$1.97 |
| PLXS   | 2S     | 2S  | US\$28.00    | US\$23.00 | US\$2.30                        | US\$2.30 | US\$2.36                     | US\$2.36 |
| SANM   | 2S     | 2S  | US\$10.00    | US\$7.50  | US\$1.58                        | US\$1.58 | US\$1.52                     | US\$1.52 |
| ST     | 2S     | 2S  | US\$32.00    | US\$26.50 | US\$2.07                        | US\$2.07 | US\$2.59                     | US\$2.59 |
| TEL    | 1H     | 1H  | US\$40.00    | US\$40.00 | US\$3.08                        | US\$3.08 | US\$3.48                     | US\$3.48 |
| VSH    | 2S     | 2S  | US\$12.00    | US\$9.00  | US\$1.74                        | US\$1.72 | US\$1.54                     | US\$1.48 |

Figure 1. Look Ahead: Calendar of Events

| Monday  | Tuesday                                    | Wednesday                   | Thursday                       | Friday                 |
|---|--|-----------------------------|--------------------------------|------------------------|
| 3-Oct   | 4-Oct                                      | 5-Oct                       | 6-Oct                          | 7-Oct                  |
| Jim Suva Marketing in San Francisco                 |  | Jim Suva Marketing in Texas |                                |                        |
| 10-Oct  | 11-Oct                                     | 12-Oct                      | 13-Oct                         | 14-Oct                 |
|   | Jim Suva marketing in Philly               |                             |                                |                        |
|   |  | ADTN earnings call          |                                | Sony Ericsson earnings |
| CTIA Enterprise and Applications Event in San Diego |  |                             |                                |                        |
| 17-Oct  | 18-Oct                                     | 19-Oct                      | 20-Oct                         | 21-Oct                 |
|   | AAPL earnings                              | APH earnings                | CLS, FLEX earnings             | VZ earnings            |
|   |  |                             | ERIC, NOK, CALX and T earnings |                        |
|   | RIMM Developer Conference in San Francisco |                             |                                |                        |
| 24-Oct  | 25-Oct                                     | 26-Oct                      | 27-Oct                         | 28-Oct                 |
|   | AUO, TLAB and MOLX earnings                |                             | MSI, AVT and PLXS earnings     |                        |
|   |  |                             | TWC earnings                   |                        |

Source: Citi Investment Research and Analysis

Figure 2. Recession Scenarios

| Current CIRA 2012E Assumptions |                |                                 | 2009 Actuals |                | Implied 2012E EPS Assuming Double Recession |        | Median P/NTM During 2008-2009 | Implied Stock Price Under Worst Case Scenario | Current Stock Price | Downside Risk |
|--------------------------------|----------------|---------------------------------|--------------|----------------|---|--------|-------------------------------|---|---------------------|---------------|
|                                | Revenue Growth | Operating Margin Movement (bps) | EPS          | Revenue Growth | Operating Margin Movement (bps)             |        |                               |   |                     |               |
| <b>EMS Companies</b>           |                |                                 |              |                |   |        |                               |   |                     |               |
| FLEX                           | 2.92%          | 0                               | 0.84         | -28%           | -110  | \$0.41 | 9.1                           | \$3.73  | \$5.63              | -34%          |
| JBL                            | 6.71%          | -20                             | 2.58         | -11%           | -60   | \$1.18 | 11.0                          | \$12.98                                       | \$17.79             | -27%          |
| CLS                            | 1.95%          | 0                               | 1.04         | -21%           | na*   | \$0.70 | 6.6                           | \$4.62  | \$7.25              | -36%          |
| BHE                            | 7.16%          | 50                              | 1.40         | -19%           | -40   | \$0.85 | 12.2                          | \$10.37                                       | \$13.01             | -20%          |
| PLXS                           | 11.39%         | 30                              | 2.50         | -14%           | -150  | \$1.28 | 13.7                          | \$17.54                                       | \$22.62             | -22%          |
| SANM                           | 4.22%          | 0                               | 1.59         | -25%           | -70   | \$0.59 | 9.5                           | \$5.61  | \$6.68              | -16%          |
| <b>Connector Companies</b>     |                |                                 |              |                |   |        |                               |   |                     |               |
| APH                            | 6.43%          | 50                              | 3.40         | -13%           | -230  | \$2.25 | 17.6                          | \$39.60                                       | \$40.77             | -3%           |
| MOLX                           | 5.60%          | 80                              | 1.88         | -23%           | -690  | \$0.55 | 16.8                          | \$9.24  | \$20.37             | -55%          |
| TEL                            | 4.59%          | 100                             | 3.61         | -23%           | -516  | \$1.31 | 12.4                          | \$16.24                                       | \$28.14             | -42%          |
| ST                             | 20.66%         | 70                              | 2.59         | -20%           | 274   | \$1.49 | 14.2                          | \$21.16                                       | \$26.46             | -20%          |
| <b>Distributors</b>            |                |                                 |              |                |   |        |                               |   |                     |               |
| ARW                            | -3.04%         | 30                              | 5.05         | -12%           | -100  | \$2.44 | 9.4                           | \$22.94                                       | \$27.78             | -17%          |
| AVT                            | 0.02%          | 0                               | 4.17         | -10%           | -120  | \$2.40 | 9.1                           | \$21.84                                       | \$26.08             | -16%          |
| <b>Passive Components</b>      |                |                                 |              |                |   |        |                               |   |                     |               |
| AVX                            | -0.90%         | -50                             | 1.16         | -21%           | -220**                                      | \$1.03 | 8.2                           | \$8.45  | \$11.87             | -29%          |
| VSH                            | -4.79%         | -240                            | 1.48         | -28%           | -360  | \$0.62 | 10.2                          | \$6.32  | \$8.36              | -24%          |

\*CLS improved margins 2008-2009 due to favorable, easy restructuring which we don't see occurring again  
\*\*AVX had margin compression of 220 in 2008

Source: Citi Investment Research and Analysis

Figure 3. Tech Dashboard – 2010-2012E

|   | 2010           |              | 2011E          |              | 2012E           |             | Comments   |
|---|----------------|--------------|----------------|--------------|-----------------|-------------|--|
|   | Absolute       | Y/Y          | Absolute       | Y/Y          | Absolute        | Y/Y         |  |
| <b>Macro</b>                            |                |              |                |              |                 |             |  |
| Global GDP Growth (Real)                |                | 4.1%         |                | 3.0%         |                 | 2.9%        | Europe ('10 1.7%, '11 1.6%, '12 -0.2%), Japan (4.0%, -0.4%, 2.1%), China (10.4%, 9.0%, 8.7%), Emerging Markets (7.3%, 6.1%, 5.6%)                      |
| Global CPI                              |                | 2.7%         |                | 4.0%         |                 | 3.2%        | Europe ('10 1.6%, '11 2.7%, '12 1.9%), Japan (-0.7%, 0.0%, -0.3%), China (3.3%, 5.3%, 4.2%), Emerging Markets (5.3%, 6.5%, 5.7%)                       |
| US GDP Growth (Real)                    |                | 3.0%         |                | 1.7%         |                 | 1.9%        |  |
| US CPI                                  |                | 1.6%         |                | 3.2%         |                 | 1.9%        |  |
| Euro vs US\$ (Q4 est)                   | 1.32           | -7.8%        | 1.29           | -2.3%        | 1.26            | -2.3%       |  |
| <b>S&amp;P 500 Operating EPS</b>        | <b>\$85.49</b> | <b>37.8%</b> | <b>\$97.00</b> | <b>13.5%</b> | <b>\$101.00</b> | <b>4.1%</b> |  |
| Technology (CIR ests)                   |                | 43.0%        |                | 17.0%        |                 | 9.0%        |  |
| <b>Tech Sector Weighting (Strategy)</b> | <b>19.2%</b>   |              | <b>21.9%</b>   |              |                 |             |  |
| S&P 500 Semis (Over-wt)                 |                | 2.5%         |                | 2.9%         |                 |             |  |
| S&P 500 Software (Market-wt)            |                | 9.8%         |                | 10.4%        |                 |             |  |
| S&P 500 Hardware (Over-wt)              |                | 6.9%         |                | 8.6%         |                 |             |  |
| <b>Micro</b>                            |                |              |                |              |                 |             |  |
| <b>PC</b>                               |                |              |                |              |                 |             |  |
| PC WW Units (Desktop + Portable)        | 347.1M         | 14%          | 354.5M         | 2%           | 372M            | 5%          |  |
| Desktop                                 | 145.9M         | 7%           | 144.4M         | -1%          | 142.5M          | -1%         |  |
| Portable                                | 201.2M         | 19%          | 210.1M         | 4%           | 229.5M          | 9%          |  |
| Tablets                                 | 17.6M          |              | 50M            | 179%         | 75M             | 50%         |  |
| Hard Disk Drive units                   | 651.3M         | 17%          | 707.2M         | 9%           | 794.5M          | 12%         |  |
| <b>Comm Equipment</b>                   |                |              |                |              |                 |             |  |
| Service Provider Routers and Switches   | \$13.6B        | 17%          | \$15.6B        | 14%          | \$17.5B         | 12%         |  |
| Enterprise Routers and Switches         | \$22.10        | 27%          | \$22B          | 0%           | \$23.7B         | 8%          |  |
| Handset Units                           | 1.63B          | 20%          | 1.789B         | 10%          | 2.020B          | 13%         | North America ('10 185m 3%, '11 187m +1%, '12 192m +3%), West Europe (202m -2%, 186m -8%, 187m 1%), China (349m 32%, 381m 9%, 449m 1%)                 |
| Smartphone Units                        | 296.6M         | 72%          | 477.2M         | 61%          | 722.4M          | 51%         | North America ('10 72m 58%, '11 110m 53%, '12 144m 31%), West Europe (86m 89%, 100m 17%, 157m 56%), China (28m 2685%, 68m 143%, 113n                   |
| Global Wireless Capex                   | \$135.1B       | 1%           | \$146.2B       | 8%           | \$147B          | 1%          | Americas ('10 \$33.4B 39.7%, '11 \$36.2B 8.5%, '12 \$35.7B -1.6%), Europe (\$40.6B -4.7%, \$44.6B 9.9%, \$47.4B 6.3%), Asia Pac (\$61.1B -9.3%, \$65.1 |
| Global Wireline Capex                   | \$117.7B       | -2%          | \$127.3B       | 8%           | \$123B          | -3%         | Americas ('10 \$40.8B -4.9%, '11 \$43.7B 7.1%, '12 \$43.3B -1%), Europe (\$41.7B -2.4%, \$46.0B 10.3%, \$43.9B -4.4%), Asia Pac (\$35.2B 2.3%, \$37.6E |
| <b>Enterprise</b>                       |                |              |                |              |                 |             |  |
| Servers (X86)                           | 9.0M           | 18%          | 9.6M           | 8%           | 10.4M           | 8%          |  |
| Virtualized Server Units WW             | 0.56M          | 33%          | 0.64M          | 15%          | 0.78M           | 22%         |  |
| Total Disk-Based Storage Systems        | \$28.7B        | 18%          | \$30.3B        | 5%           | \$32.04B        | 6%          |  |
| Direct Attached Storage (DAS)           | \$2.9B         | -13%         | \$2.6B         | -11%         | \$2.4B          | -8%         |  |
| Storage Area Networking (SAN)           | \$12.5B        | 20%          | \$13.7B        | 10%          | \$14.8B         | 7%          |  |
| Network Attached Storage (NAS)          | \$5.2B         | 49%          | \$6.1B         | 17%          | \$7B            | 16%         |  |
| Software WW (top down)                  | \$292.7B       | 4%           | \$307.3B       | 5%           | \$327.2B        | 6%          |  |
| Citi-covered Software (bottoms-up)      | \$98.5B        | 10%          | \$110.3B       | 10%          | \$119.5B        | 9%          |  |
| Applications                            | \$41.5B        | 8%           | \$48B          | 16%          | \$53.1B         | 9%          |  |
| Infrastructure                          | \$49B          | 10%          | \$53.4B        | 9%           | \$56.9B         | 6%          |  |
| Security                                | \$8.0B         | 5%           | \$8.9B         | 10%          | \$9.5B          | 10%         |  |
| <b>Consumer</b>                         |                |              |                |              |                 |             |  |
| <b>LCD TV</b>                           | <b>191.6M</b>  | <b>32%</b>   | <b>206M</b>    | <b>8%</b>    | <b>227M</b>     | <b>10%</b>  |  |
| Game Entertainment Revs (HW+SW+online)  | \$67.4B        |              | \$73.8B        | 9%           | \$83.2B         | 13%         |  |
| Gaming Hardware                         | \$16.2B        |              | \$17.8B        | 10%          | \$20.4B         | 15%         |  |
| New Video Game Consoles (Shipments)     | 50.9M          | -3%          | 46M            | -10%         | 44.9M           | -3%         | 11 Mkt Share of new shipment: Wii (30%), Xbox (27%), PlayStation3 (32%)  |
| Gaming Software                         | \$36.7B        |              | \$37.4B        | 2%           | \$39.2B         | 5%          | Console market is becoming more software driven  |
| <b>Components/Suppliers</b>             |                |              |                |              |                 |             |  |
| Semi Revenues                           | \$299.4B       | 32%          | \$300.7B       | 0%           | \$318.7B        | 6%          | WFE ('10 \$30.2B 143%), Test (\$4.1B 166%), Assembly (\$3.8B 172%), Facilities/O (\$15.5B 91%)   |
| Semi Capex                              | \$53.7B        | 129%         | \$57.0B        | 6%           | \$51.9B         | -9%         | China surpasses North America for largest TV market. Tablets & touch devices could provide upside; home sales still a headwind                         |
| LCD Panel Supply (MM Sq inch)           | 3.2bln sf      | 29%          | 3.4bln sf      | 6%           | 3.85bln sf      | 15%         |  |
| Global Solar PV Installations (GW)      | 18.1GW         | 162%         | 19.7GW         | 9%           | 18.8GW          | -5%         |  |
| Global Solar Polysilicon Supply (GW)    | 21.0GW         | 97%          | 35GW           | 67%          | 41.3GW          | 18%         |  |

Sources: CIRA, Gartner Dataquest, IDC, World Bank, IMF, Thomson First Call, SIA

Source: Citi Investment Research and Analysis

## Six Major EMS and Supply Chain Investment Themes for 2011

Over the years we have written extensively about the “Four Phases” of the Technology Supply Chain economic and investment cycle. *Given the macro economy it appears we are once again going back to phase one of the cycle.* Economic data is being revised down and soon we expect OEMs to cut orders across the technology supply chain. As a result, we do not recommend investors building new positions in the EMS stocks until we enter phases 3 and 4 when demand order visibility improves. We currently favor the connector stocks given higher profitability and better cash flow characteristics compared to the EMS stocks

*Given the macro economy, it appears we are once again going back to phase one.*

We remind investors of our “Four Phase” framework to the EMS economic cycle below:

- **Phase One:** OEMs cut orders from lower demand. We believe this phase will occur in the coming months which will result in negative EPS surprised from lowering of sales outlooks thereby driving EPS estimate reductions.
- **Phase Two:** OEMs also in-source production (i.e. shift it away from EMS) in the initial stages of a downturn in hopes of increasing utilization rates at company owned factories and keep OEMs employee jobs. By our estimate, this phase has cost the EMS industry \$7B to \$10B in annual revenues in the 2008/2009 recession. As we enter a more tepid growth global macro economic we believe some OEMs may in-source more of their products. An example of this is RIMM who will still use the EMS companies but will look to more fully utilize its internal manufacturing capabilities.
- **Phase Three:** In the third stage of the cycle the OEMs typically engage in restructuring efforts during which they begin to incrementally outsource more and/or try to sell assets to EMS companies in return for the promise of future business. We believe this begins the upward turn in the cycle.

Importantly, we expect EMS fundamentals to bottom and begin improving during this phase as modest levels of incremental outsourcing and asset purchases should bring revenue stability back to the industry. This, combined with restructuring efforts, should also lead to profit stability and/or improvement as well as positive EPS surprises and the best part of the cycle to own EMS stocks.

- **Phase Four:** In the last phase, the economic recovery starts and OEMs find themselves with capacity shortages – thus pushing them to increase their outsourcing efforts. In our view, this is the most profitable phase of the cycle as the pure incremental outsourcing wins (without asset purchases) should push capacity utilization rates and margins higher across the industry. At this point, we would expect a series of positive estimate revisions and for shares of EMS companies to materially appreciate especially in the early part of this phase.

### 1. M&A Activity Continues

M&A activity was relatively light in 2009 given difficult credit conditions, what appears to have been relatively high valuation expectations of potential sellers, and company efforts to focus on internal restructuring initiatives. However, M&A trends picked up during 2010 & 2011 and we believe this trend will continue through 2012 – led by those companies that have historically grown via acquisitions (Amphenol, Arrow and Avnet) and those with ample cash on books (Molex, Tyco, Sensata and Vishay). Of note, we do not expect any transformational acquisitions in the near-term, but rather small tuck-in activity that either adds a new technology or service, or expands a company's geographic reach. Recent announcements include AVT's

acquisition of Prospect Technology (August 2011), Amosdec SAS (May '11), Eurotone Electric (Oct '10), Broadband Integrated Resources (Oct '10), itX Group Limited (Aug '10), Unidux (May '10), Tallard Technologies (May '10), PT Damatamtion Purwana Utama (April '10) and Bell Microproducts (Mar '10); ARW's purchase of Chip One Stop (Aug '11) Seed (June '11), Cross Telecom (May '11), Diasa Informatica (Dec '10), Intechra (Nov '10), Richardson Electronic's Wireless & Power (Oct '10), Nu Horizons Electronics (Sept '10), Shared Technologies (Aug '10), Sphinx Group Limited (June '10) and Converge & Verical (April '10). In connectors, Tyco Electronics announced the acquisition of ADC Telecommunications (July '10) and Sensata Technologies announced the acquisition of Sensor NITE (June '11) and Honeywell's 'Automotive on Board' sensors business (Oct '10).

Figure 4. Distributors & Connectors: Lots of Accretive M&A (Sample of recent acquisitions, contact us for more historical details)

| <b>Avnet</b>  |             |            |                                |                   |
|---|-------------|------------|--------------------------------|-------------------|
| Company Acquired                                    | Announced   | Close Date | Annual Sales                   | Est EPS Accretion |
| J.C. Tally  | 8/1/11      | 8/1/2011   | \$90m                          | n/a               |
| Prospect Technology Corp                            | 8/1/11      | 8/1/2011   | \$157m                         | n/a               |
| Amosdec SAS   | 5/17/11     | 7/5/2011   | \$90m                          | n/a               |
| Eurotone Electric Limited                           | October '10 |            | \$28mil                        | n/a               |
| Broadband Integrated Resources                      | 10/4/10     |            | \$9.5mil                       | n/a               |
| itX Group Limited                                   | 8/13/10     | 1/3/2011   | \$131.5mil                     | \$0.01-\$0.02     |
| Unidux, Inc. (Unidux: TSE 9897)                     | 5/25/10     | 7/19/2010  | \$370.0                        | \$0.1             |
| Tallard   | 5/3/10      | 7/6/2010   | \$250.0                        | \$0.0             |
| PT Datamation Purwana Utama                         | 4/6/10      |            | \$60.0                         | \$0.0             |
| Bell Micro  | 3/29/10     | 7/6/2010   | \$3,021.0                      | \$0.6             |
| <b>Arrow Electronics</b>                            |             |            |                                |                   |
| Company Acquired                                    | Announced   | Close Date | Annual Sales                   | Est EPS Accretion |
| Chip One Stop                                       | 8/8/11      | 9/20/2011  | \$47m                          | ~1c               |
| Pan Systems   | Q2'11       | Q2'11      | n/a                            | n/a               |
| Seed  | 6/27/11     | Q2'11      | \$90m                          | n/a               |
| Cross Telecom                                       | 5/2/11      | 5/2/2011   | \$120m                         | \$0.01-\$0.05     |
| Diasa Informatica                                   | 12/6/10     | 12/6/2010  | \$250m                         | n/a               |
| Intechra  | 11/23/10    | 12/16/2010 | \$75M                          | \$0.03-\$0.05     |
| Wireless & Power Division of Richardson Electronics | 10/1/10     | 3/1/2011   | FY May 2010 total sales \$350M | \$0.10-\$0.20     |
| Nu Horizons Electronics                             | 9/20/10     | 1/3/2011   | 2010 sales of \$671mil         | \$0.05-\$0.10     |
| Shared Technologies Inc                             | 8/5/10      | 9/9/2010   | 2009 sales of \$250mil         | \$0.10-\$0.12     |
| Sphinx Group Limited                                | 6/21/10     | 6/21/2010  | 2009 sales of \$82.5mil        | \$0.01-\$0.02     |
| Converge & Verical                                  | 4/6/10      | 6/1/2010   | n/a                            | \$0.05-\$0.10     |
| <b>Amphenol</b>                                     |             |            |                                |                   |
| Company Acquired                                    | Announced   | Close Date | Annual Sales                   | Est EPS Accretion |
| Cemm Thome  | Q2'11       | Q2'11      | \$50mil                        | n/a               |
| Borisch Manufacturing                               | Q2'10       | Q2'10      | \$100mil                       | n/a               |
| <b>TE Connectivity</b>                              |             |            |                                |                   |
| Company Acquired                                    | Announced   | Close Date | Annual Sales                   | Est EPS Accretion |
| ADC Telecommunications                              | 7/13/10     | 12/9/2010  | \$1.09bil                      | \$0.14+           |
| <b>Sensata</b>                                      |             |            |                                |                   |
| Company Acquired                                    | Announced   | Close Date | Annual Sales                   | Est EPS Accretion |
| Sensor-NITE   | 6/15/11     | exp Q3'11  | \$325mil                       | n/a               |
| Honeywell's "Automotive on Board"                   | 10/28/11    | 1/31/2011  | 130mil                         | n/a               |

Source: Citi Investment Research and Analysis, Company Reports

Figure 5. CIRA View on Supply Chain M&A Prospects

| Company                        | Type of Acquisition Likely   | CIRA Comments on Historic Performance of Acquisitions                                      |
|--------------------------------|--|--|
| <b>Connectors</b>              |  |  |
| Amphenol                       | Tuck-ins focused on acquiring new technology in existing end-markets       | Serial acquirer with proven ability to make EPS and ROIC accretive acquisitions            |
| Molex                          | Tuck-ins focused on expanding end market footprint                         | Prior acquisitions have under-performed expectations, particularly Woodhead                |
| Tyco Electronics               | Tuck-ins focused on expanding end market footprint                         | Little activity since spin from Tyco International   |
| <b>Distribution</b>            |  |  |
| Arrow                          | Tuck-ins focused on geographic expansion, particularly in Asia and Latam   | Acquisitions have driven growth but are often impaired at turn in cycle                    |
| Avnet                          | Tuck-ins focused on geographic expansion, particularly in Asia and Latam   | Acquisitions have driven growth but are often impaired at turn in cycle                    |
| <b>EMS*</b>                    |  |  |
| Benchmark                      | None likely  | Pemstar acquisition under-performed expectations   |
| Celestica                      | Tuck-ins focused on services or bolstering clean-tech capabilities         | Little activity since tech bust of 2001  |
| Flextronics                    | Tuck-ins focused on vertical capabilities                                  | Acquisitions have bolstered capabilities but have failed to boost L-T return profile       |
| Jabil                          | None likely  | TGP acquisition slow to add value but now paying dividends in handset mkt                  |
| Plexus                         | None likely  | Little historic activity   |
| Sanmina-SCI                    | None likely  | Prior acquisitions have under-performed expectations                                       |
| <b>Supply Chain Components</b> |  |  |
| AVX                            | Tuck-ins focused on acquiring new technologies, particularly in connectors | Little historic activity   |
| Smart Modular                  | None likely though company is looking to bolster SSD tech portfolio        | Diversification efforts have largely failed. L-T impact of recent SSD acquisition unknown. |
| Vishay                         | Serial acquirer looking for larger-sized transaction                       | Poor performance given ROIC levels that have remained below WACC                           |

\*EMS comments focus on purchases of companies vs. OEM production facilities

Source: Citi Investment Research and Analysis

## 2. Inventory Update – Red Flag: Inventory Build ahead of Faltering Macro Outlook

We regularly survey relevant electronics hardware end markets and a number of the upstream supply chain partners, such as semiconductor companies, passive components suppliers, and distributors. Our survey analyzes roughly 140 global companies, representing approximately \$1 trillion in trailing 12-month sales.

Aggregate inventory grew +2.7% q/q in the June quarter, which is above the forward sales outlook for +1.0% q/q in September. This sequential inventory build is larger than normal for the June quarter when benchmarked against the 5-year and 10-year averages.

Figure 6. Total Aggregate Supply Chain

|                 | 2Q11 Inventory %Change Q/Q | 3Q11E Sales %Change Q/Q |
|-----------------|----------------------------|-------------------------|
| Current         | 2.7%                       | 1.0%                    |
| 5-year average  | 1.8%                       | 4.4%                    |
| 10-year average | 1.5%                       | 4.1%                    |
|                 | 2Q11 Inventory %Change Y/Y | 3Q11E Sales %Change Y/Y |
| Current         | 16.9%                      | 8.9%                    |
| 5-year average  | 6.1%                       | 4.8%                    |
| 10-year average | 1.2%                       | 6.2%                    |

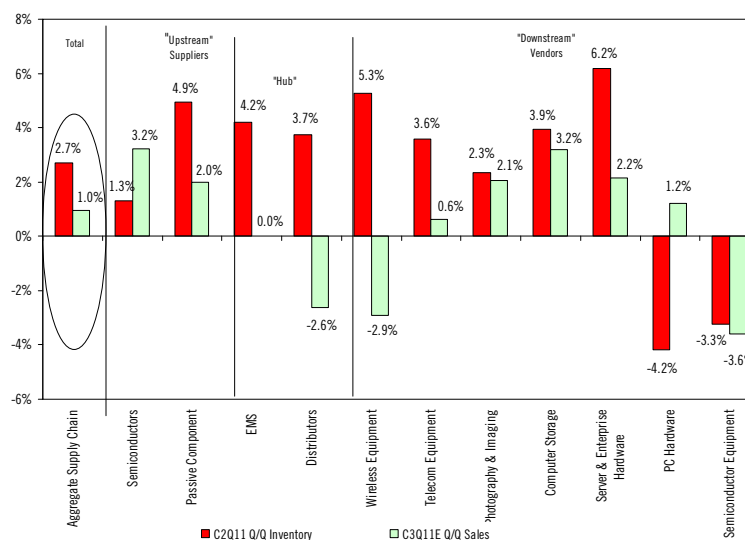
Source: Citi Investment Research and Analysis, Factset, First Call, Bloomberg

From this data, we make the following conclusions:

We recently lowered our sales & EPS estimates below consensus and lowered our target prices across our coverage universe to reflect this more cautious macro view. See, [Handsets and Telecom Equipment - Santa Claus, Labor Day & Hair Cuts: All Common Themes Looking Ahead to the Citi Technology Conference 2011](#) and [Technology Supply Chain - Santa Claus, Labor Day & Hair Cuts: All Common Themes Looking Ahead to the Citi Technology Conference 2011](#).

■ **Q3'11 Sales Forecast Suggest Sluggish Macro Growth** – September revenue forecasts suggest sluggish growth +1.0% q/q, significantly below normal seasonal of +4.4% q/q (5-year average) and +4.1% q/q (10-year average). We have highlighted for several quarters now that a more tempered growth trajectory was an inevitable transition to a mid-cycle normalization of growth rates following the strong move off the March '09 bottom but now believe that companies (and investors alike) are beginning to discount out quarter growth resets more severe than original market expectations. Citi's Macro Economists recently decreased our 2011 & 2012 Global & US GDP forecasts and now expect 2011/2012 Global GDP of 3.1%/3.2% from 3.4%/3.7% and US GDP of 1.6%/2.1% from 1.7%/2.7%, reflecting soft macro datapoints (consumer confidence & jobs data) and reduced confidence given European sovereign debt challenges, current market volatility and lower expectations for US federal spending following the US debt ceiling agreement. See [Global Economic Outlook and Strategy - August 2011](#) and [Evening Comments - Further US Revisions: Cutting 2012 GDP to +2.1%, 2012 S&P EPS Cut to \\$101; Fiscal Path Key Uncertainty, Opportunity](#). We continue to focus on order rates and book-to-bill ratios as the primary litmus test of business trends through 2H'11. For many of our companies, book to bill ratios in the June quarter and month of July fell below 1x for the first time since March '09. In an environment of slowing growth, we believe the supply chain and investors will be more sensitive to sequential builds in inventory levels and thus flag this quarter's inventory build as an incremental negative. However, we still maintain that from a historical context, inventory levels still appear manageable based on several key metrics (provided end-demand remains stable). Days of Inventory at 41 days (unchanged in the quarter) remains below the 5&10-year medians of 42 days. Inventory as a % of sales declined -41bps to 29.7% and remains below the historical quarterly median of 33.3%. Inventory turns increased 10bps from last quarter to 9.0x & remain above the 5-year median of 8.6x (a metric management teams have focused investors on over the past couple earnings calls).

Figure 7. Q2'11 Inventories Q/Q vs. Q3'11E Forward Sales Estimates Q/Q



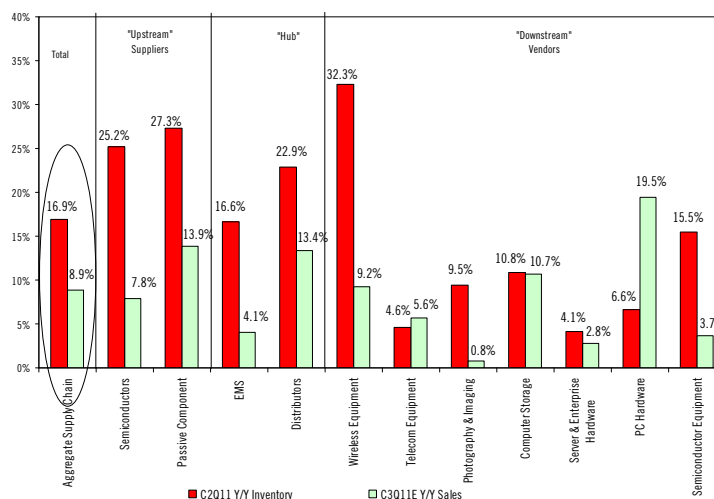
Source: Citi Investment Research and Analysis, Factset, First Call, Bloomberg



- **Sub-segment Analysis** - Trends across the varying sub-segments of the supply chain show 82% (9 of 11) posted deteriorating results in the June quarter (i.e. September sales outlook is below the current quarter inventory build). Hub companies and select sub-segments of downstream vendors showed the most alarming inventory builds q/q vs. respective sales outlooks, which is partially attributed to the supply chain shock from the Japanese earthquakes and will likely cause some sales softness in the September quarter as distributors and end-customers work down temporary & product specific inventory builds. The biggest negative discrepancies occurred in Distributors, EMS, Wireless Equip, Server & Enterprise Hardware, Passive Component & Telecom Equip. Semiconductors showed the most positive trends in the June quarter with revenue forecasts above inventory builds.

Figure 8. Q2'11 Inventories Y/Y vs. Q3'11E Forward Sales Estimates Y/Y

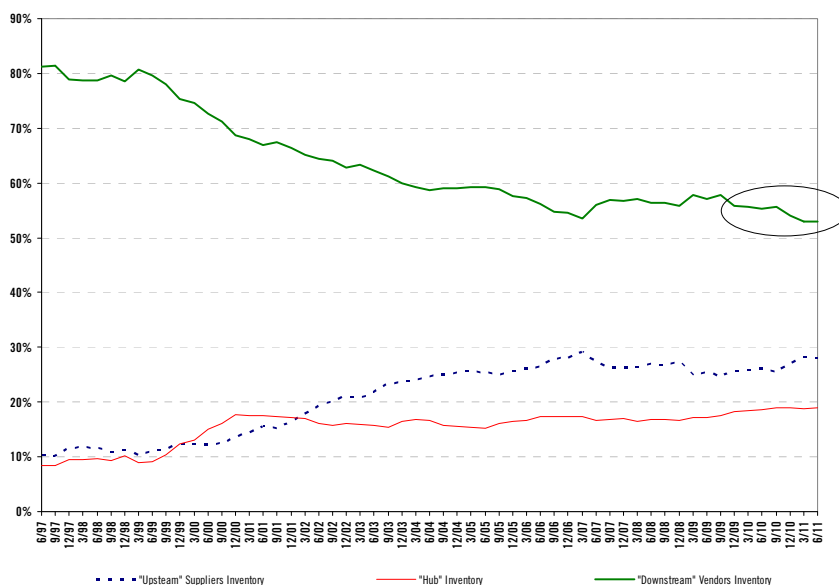
We believe Q/Q is a better analysis, but at this point in the cycle give the Y/Y comps to provide an important perspective of inventory growth from the trough levels post-recession.



Source: Citi Investment Research and Analysis

- **Upstream Suppliers Exhibit Inventory Discipline** – Upstream Suppliers grew inventories +2.0% q/q in the quarter, of which mostly occurred in passive components. We note that semiconductor inventory increased +1.3% q/q which was below September revenue projections of +3.2% q/q, a positive datapoint following 6 straight quarters of significant inventory build (additional semi commentary is following pages). For upstream suppliers as a whole, June's +2.0% q/q build was between the 10-year average +3% q/q and 5-year average +0% q/q and compares to a September sales outlook of +3.1% q/q.
- **Hub Inventories Spike Despite Subseasonal Growth Outlook** – Following several quarters of inventory builds in 2010, Hub inventory growth paused last quarter, but Hub companies continued to build inventory in the June quarter despite -1.3% q/q revenue growth outlooks for September. Inventories rose +4.0% q/q above normal seasonal growth of +1.4% (10-year average) and +0% (5-year average). Distribution inventory increased +3.7% q/q vs. a September sales outlook for -2.6% q/q and EMS inventory increased +4.2% vs. a September sales outlook for +0% q/q. We had expected inventories to track end demand through 2011 following large builds in 2010, and believe the supply chain disruptions from the Japanese earthquakes contributed to this quarter's greater than expected inventory builds. Going forward, we believe management teams will focus on inventory work down which may create a temporary soft patch for suppliers into this channel.
- **Broader Supply Chain Shifts in Who Holds Inventories** - Over the past 10+ years, inventory has shifted where it sits in the supply chain from OEMs up the supply chain. Most recently, we have seen more inventories migrate onto Hub balance sheets, coinciding with a decline in "Downstream" inventories as a % of total inventory. We expect this trend to continue with OEM's pressuring Hub and Upstream Suppliers to hold more inventories.

Figure 9. Inventory - % Held At Each Segment Along the Supply Chain: 2Q97-2Q11

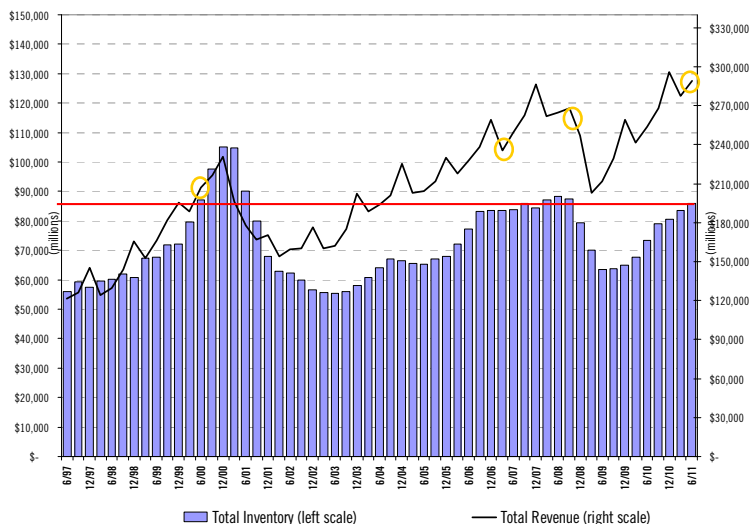


Source: Citi Investment Research and Analysis, Factset, First Call, Bloomberg

- **Analysis Reveals Tech Supply Chain Operating More Efficient** – Below is a chart we have published and discussed often over the past couple quarters. It suggests that while inventory has increased 8 consecutive quarters, higher revenue levels appear to justify this build. More importantly, when we look at a historical comparison of inventory levels vs. total revenue levels, it becomes apparent this cycle's inventory level is supporting a higher revenue level than previous cycles which not only suggests inventories remain appropriate but also the supply chain is becoming more efficient. In the chart below, the red line benchmarks the current level of inventory, the black line is historic revenue levels. Note, in the last 10 years, each successive time the supply chain hit inventory levels similar to the current level, it has been on higher sales. This trend is highlighted by the rising yellow rings. In addition, the chart below highlights inventory builds are often multi-year in duration so long as there is a positive, growing macro-economic backdrop (may be at risk during this juncture).

Figure 10. Total Supply Chain Inventory vs. Revenue Levels

Figure 5 reveals that the technology supply chain is operating more efficiently (higher sales on inventory levels). The red line highlights the current inventory level and when the supply chain had similar inventory levels in the past. The yellow rings indicate corresponding sales levels to historic inventory levels similar to the current inventory level.



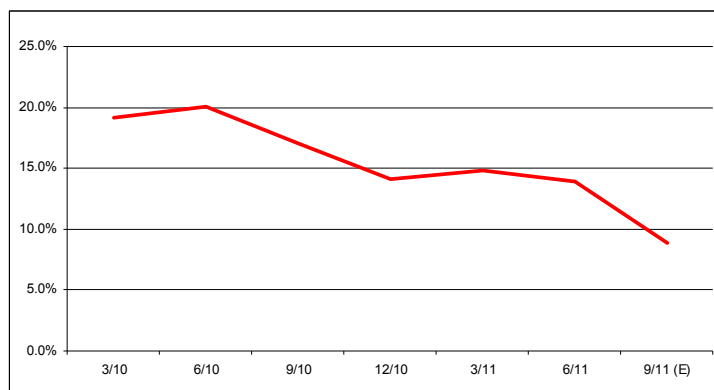
Source: Citi Investment Research and Analysis

- **Supply in Passives Ticks Higher Despite Modest Sales Outlook** – Throughout 2010, there was a shortage of passive components which contributed to a stable pricing environment in this sub-sector. Supply chain disruptions from the Japanese earthquakes further bolstered pricing in 1H'11, however, we note recently supply has begun to catch up with demand and pricing has come in to more normalized levels as lead times have contracted. This trend is apparent when looking at inventory growth in Passive Component companies over the last year, +4.9% q/q in Q2'11, in 5.0% q/q Q1'11, +9.1% q/q in Q4'10 and +5.9% q/q in Q3'10. In the June quarter, inventory increase was roughly +300bps above the Q3'11 revenue outlook of +2% q/q. On a historical basis, days of inventories at 80 days is inline with the sub-sector's 5 year DOI average. Several companies cited inventory builds in Q2'11 at distribution in response to the Japanese earthquakes which will likely cause some softness in 2H'11 (we have already heard order reductions in the distribution channel during July). In general, we expect passive component companies will work down inventories through year end.

## Critical factors to monitor:

- **Demand Seasonality:** The September quarter demand outlook is typically strong with revenues +4.4% q/q using the 5 year average and +4.1% q/q using a 10 year average. The current supply chain outlook is below seasonal, projecting a +1.0% q/q increase. As mentioned above, this is not surprising as growth expectations moderate following nearly 2 years of above average growth associated with the recovery and given the current reset of global macro growth expectations. From a year-over-year perspective, growth trends still remain inflated with next quarter's revenue growth expected to improve +8.9% y/y vs. +4.8% y/y over the past 5 years and +6.2% y/y over the past 10 years. While these y/y growth rates will likely continue through year end given the low sales base in 2010, the chart below highlights this growth rate is tempering (see Figure 6, below). On a more granular level, upstream suppliers expect an increase in revenue +3.1% q/q in September, below normal seasonal growth of +7.3% q/q using the 10 year average. Hub companies are projecting September sales down -1.3% q/q, below normal seasonal +3.4% q/q (10 year average). Sales for downstream vendors are expected to increase +0.8% q/q in the Sept. quarter, slightly below typical seasonality of +3.4% q/q using the 10 year average.

Figure 11. Y/Y Growth Rates, Post-Recession (March 2009 – Present)

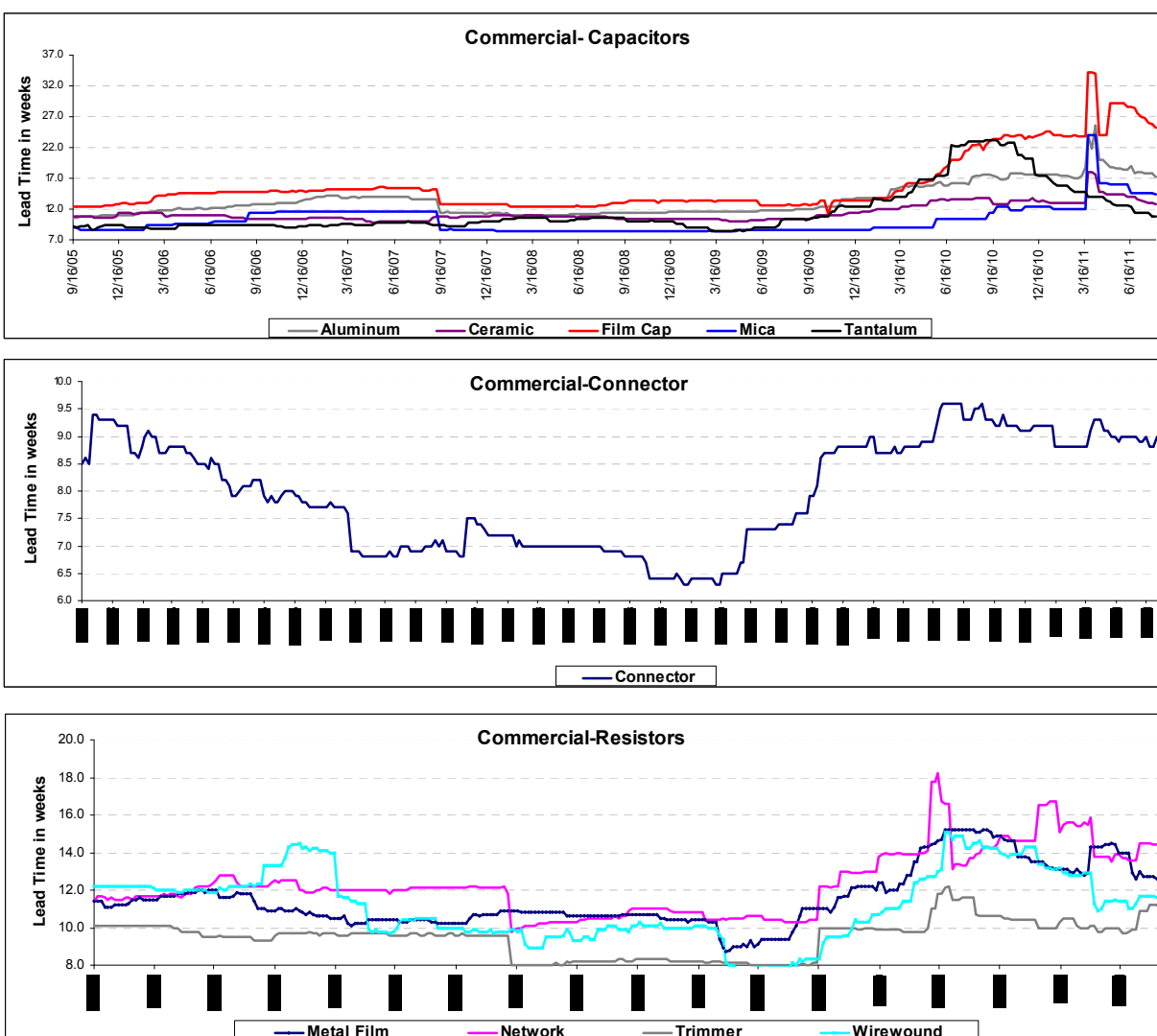


Source: Citi Investment Research and Analysis, Factset, First Call, Bloomberg

- **Pocket Shortages** – We believe the component shortages outlined in 2H'10 by several companies (including EMS) have largely been navigated & should not gate 2H'11 revenues to the same extent. Remember, most acute shortages included capacitors & resistors as well as PLDs, power integrated circuits & specialty memory. In addition, component shortages and supply disruptions due to the Japanese earthquake have been relatively narrow in scope and temporary as the supply chain was able to source shortages from other producers and Japanese production has largely come back online faster than anticipated.
- **Lead-Times** – For most components & products, lead times have come in from all time highs in 2010. We expect this to continue as new capacity comes online in 2H'11 and 2012. While we believe trends will drift toward more normal levels, we do not expect lead times to return to trough levels seen before the global downturn and will likely stay elevated compared to historical averages for some time. Distributors can drive margin expansion during periods of tight supply (i.e. when lead-times extend in a broad manner); however this opportunistic window appears to be closing. Several charts showing weekly lead times for commercial capacitors, connectors & resistors can be found on the following page (Figure 7).

- Utilization Rates:** With the rebound in demand throughout 2010 and additional capacity slow to come online coupled with the Japan earthquake impact, utilization rates rose significantly above historical averages. This was positive for many companies as they were able to expand margins and improve pricing. Lead times, which are a key indicator of utilization rates, appear to be peaking and have come in over the past quarter. We expect lead times to come in further throughout 2H'11 as additional capacity comes online. With more normalized lead times, we would expect supply chain companies to be able to better manage utilization rates and cost structures. As a result, we believe the bias is for utilization rates to trend back to historical averages.

Figure 12. Weekly Lead-Time Trends in EMS



Source: Citi Investment Research and Analysis

### 3. Commodity Costs – Headwind Shift to Tailwinds in 2H'11!

As shown below Tyco Electronics has less raw material exposure compared to Amphenol and Molex.

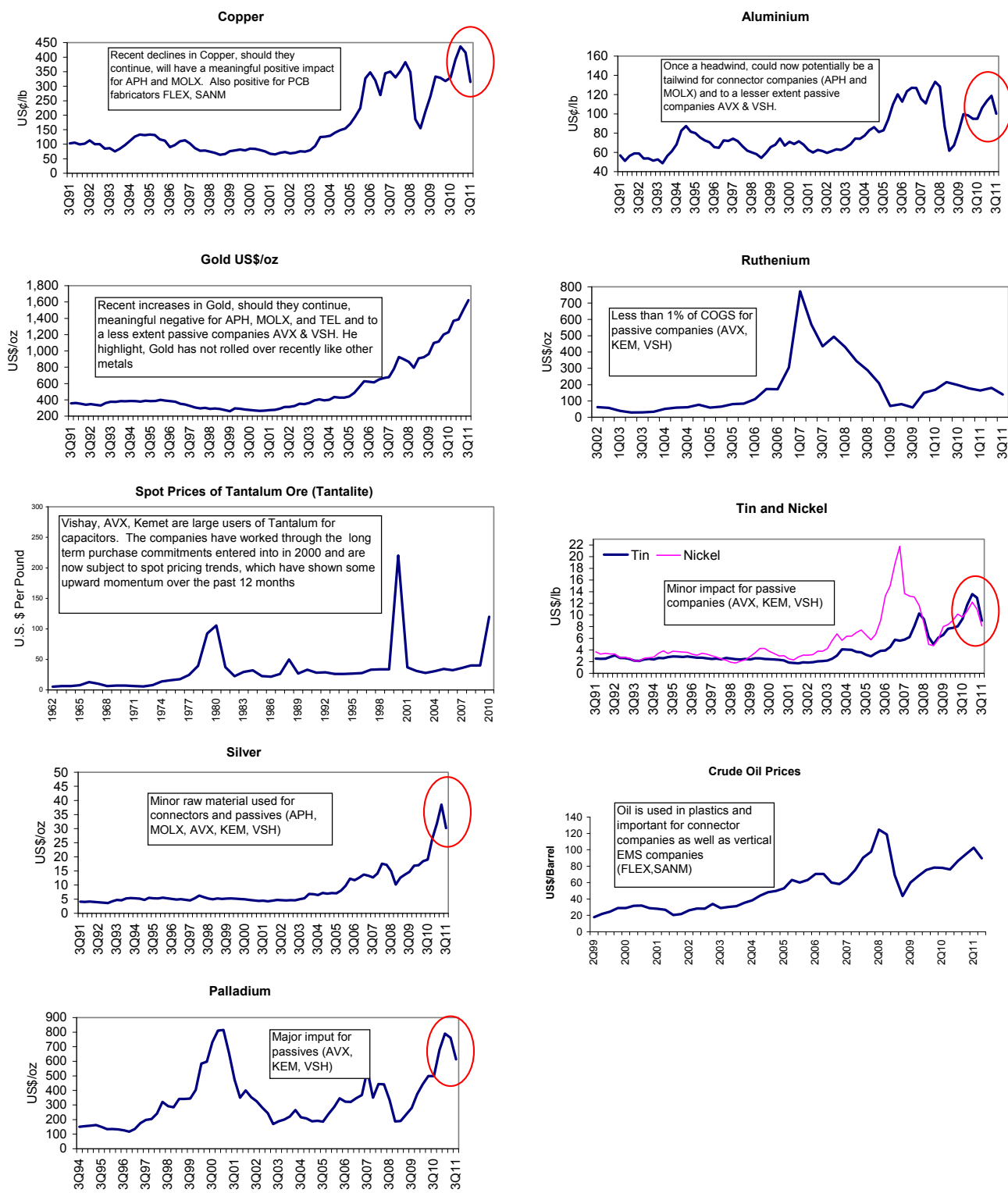
**WIND SHIFT:** After facing severe headwinds from commodity cost rising in 2010/2011, companies now should benefit from raw material prices rolling over with the broader macro environment, especially those who pushed through price increases in 1H'11. The most significant q/q declines (using Sept 30 spot price) occurred in Tin (-30.5% q/q), Nickel (-26.0%), Copper (-24.3%) and Aluminum (-15.7%). On a y/y basis, Nickel has declined -15.8% y/y, Copper -4.7% and Tin -3.6%. This should be a welcomed relief for companies and a margin opportunity in 2012. Given financial & investor uncertainty, Gold (an important electrical conductor) has not tracked the price declines seen in other metals but instead was +>30% y/y and +>7% q/q. In the figures below we outline the major raw material exposures for each of the industry sub-segments in our coverage universe as well as recent pricing trends.

Figure 13. Raw Material Exposures

| Company                        | Important Raw Material Inputs                            | CIRA Comments   |
|--------------------------------|--|---|
| <b>Connectors</b>              |  |   |
| Amphenol                       | Copper, Gold and Aluminum (35% COGS)                     | Price increases to customers possible, but usually lags input cost movements. Cable business (10% of sales) follows pricing trends of Commscope |
| Molex                          | Materials (48% COGS)                                     | Price increases to customers possible, but usually lags input cost movements.   |
| TE Connectivity                | Copper and Gold (7% COGS)                                | Price increases to customers possible, but usually lags input cost movements.   |
| <b>Distribution</b>            |  |   |
| Arrow                          | No direct raw material exposure                          | Rising component prices driven by raw materials potentially positive for revenues and gross profit  |
| Avnet                          | No direct raw material exposure                          | Rising component prices driven by raw materials potentially positive for revenues and gross profit  |
| <b>EMS</b>                     |  |   |
| Benchmark                      | Very little direct raw material exposure                 | Rising component prices driven by raw materials potentially positive for revenues   |
| Celestica                      | Very little direct raw material exposure                 | Rising component prices driven by raw materials potentially positive for revenues   |
| Flextronics                    | Copper, Gold and Oil (Plastics) important for PCBs       | Rising costs likely a near term drag on margins in vertical businesses  |
| Jabil                          | Oil (plastics) important for casings (Taiwan Greenpoint) | Rising costs likely a near term drag on margins in vertical businesses  |
| Plexus                         | Very little direct raw material exposure                 | Rising component prices driven by raw materials potentially positive for revenues   |
| Sanmina-SCI                    | Copper, Gold and Oil (Plastics) important for PCBs       | Rising costs likely a near term drag on margins in vertical businesses  |
| <b>Supply Chain Components</b> |  |   |
| AVX                            | Aluminum, Gold, Silver, Tantalum, Tin, Nickel            | Rising costs a near-term draw but efficiencies and stable pricing help offset over time   |
| Vishay                         | Aluminum, Gold, Silver, Tantalum, Tin, Nickel            | Rising costs a near-term draw but efficiencies and stable pricing help offset over time   |

Source: Citi Investment Research and Analysis

Figure 14. Raw Material Pricing Trends



Source: Citi Investment Research and Analysis, Bloomberg

## 4. End Market Outlook for the Supply Chain

Global demand for electronics is expected to increase in CY11 given expectations for macro economic environments in most key regions. Expectations for the most important end markets for the EMS industry and a discussion of those with the greatest respective exposure are outlined below.

- **Carrier Cap Ex** – Our global carrier capex model, which pulls CIRA estimates on roughly 130 carriers world-wide, suggests wire-line and wireless capex is likely to increase roughly +8.2% y/y in 2011 after declining slightly in 2010 (-0.4%). By our estimate, Flextronics, Sanmina, Plexus, Amphenol, Molex, AVX & Benchmark have the greatest relative exposure these end markets.
- **Handsets** – According to CIRA estimates, global handset units likely increased +20% in 2010 and are likely to increase an additional +10% in 2011E after only a slight increase (+4%) in 2009, relatively flat growth (+1%) in 2008 and +22% in 2007. Smart phone growth in 2011 should be even stronger, estimated at +61% y/y. Flextronics, Jabil, AVX, Molex, Amphenol, and Hon Hai have the most relative exposure to this end market.
- **Semi-Cap Equipment** – In 2009, Semiconductor Capex declined -43% but then rebounded +123% y/y in 2010 and is expected to grow +6% in 2011, according to CIRA estimates. We note that Intel has increased their capex spending forecast for 2011 to \$10.2 billion, if this is on equipment it could bode well for Sanmina, Flextronics and Benchmark.
- **Automotive** – While recent data points suggest mix trends globally (with strength in Japan automotive OEM recovery vs. softness in North America SAAR and ex-Germany Europe) we believe long term market drivers remain intact, including increased electronic content per vehicle with stricter fuel efficiency & safety standards and emerging market growth. Tyco Electronics (33%), Molex (16%), AVX (18%), & Vishay (17%) all have relatively high exposure to autos.
- **PCs and Servers** – CIRA expects over all PC units to increase +2% in 2011 (notebooks +4%; desktops -1%) compared to 14% growth in 2010 (notebooks +19%; desktop +7%). Hon Hai, Molex, Tyco, Smart Modular, Vishay, and AVX all have relatively important portions of their revenue stream tied to PC trends. Citi expects 54m tablets to be sold in 2011 and 75m tablets to be sold in 2012.
- **Consumer Electronics** – Supply chain companies with the greatest relative consumer exposure include Hon Hai, Flextronics, Jabil, Funai, Celestica, AVX and Molex. New tablets have the potential to materially impact the technology supply chain. We see the potential for excess Android tablet production & inventory build in 2H 2011. Recent market volatility and economic uneasiness will make us reassess consumer confidence going into the holiday season and 2012.
- **Military / Aerospace** – With the 2011 DoD budget passed, a substantial overhang for this sector is lifted, however, we believe order trends may remain sluggish in the near term as Washington debates the debt ceiling and potential out year budget cuts. Regardless, we expect the mil/aero end markets to be stable and growing mid-high single digits, and are particularly optimistic about civil aerospace & growth in wide/narrow body aircraft & BizJets. In defense, we highlight the ramping F-35 JSF program. APH, AVX & SANM have high exposures here.



Figure 15. Carrier Capex Investment

| Global Wireless CapEx   |           |                        |           |                         |           |
|---|-----------|------------------------|-----------|-------------------------|-----------|
| North America and Latin America   | 2008      | 2009                   | 2010      | 2011E                   | 2012E     |
| Verizon   | \$6,510   | \$7,152                | \$8,438   | \$8,438                 | \$9,002   |
| AT&T  | \$1,126   | Acquired by Verizon    |           |                         |           |
| AT&T  | \$5,818   | \$5,921                | \$9,171   | \$9,800                 | \$9,500   |
| Sprint Nextel   | \$4,683   | \$2,194                | \$2,394   | \$3,613                 | \$3,400   |
| Metro PCS   | \$939     | \$832                  | \$762     | \$960                   | \$786     |
| Clearwire   | \$534     | \$1,450                | \$2,657   | \$456                   | \$581     |
| US Cellular   | \$586     | \$547                  | \$583     | \$782                   | \$500     |
| Leap Wireless   | \$802     | \$694                  | \$397     | \$439                   | \$514     |
| CALA Providers  | \$6,798   | \$5,101                | \$8,976   | \$11,742                | \$11,376  |
| North America telco   | \$20,997  | \$18,790               | \$24,402  | \$24,488                | \$24,283  |
|   | 1.3%      | -10.5%                 | 29.9%     | 0.4%                    | -0.8%     |
| CALA  | \$6,798   | \$5,101                | \$8,976   | \$11,742                | \$11,376  |
|   | 42.0%     | -25.0%                 | 76.0%     | 30.8%                   | -3.1%     |
| Total Americas  | \$27,795  | \$23,891               | \$33,378  | \$36,230                | \$35,659  |
| y/y growth  | 9.0%      | -14.0%                 | 39.7%     | 8.5%                    | -1.6%     |
| Europe, Africa and Middle East  | 2008      | 2009                   | 2010      | 2011E                   | 2012E     |
| Vodafone  | \$10,362  | \$9,295                | \$8,794   | \$9,832                 | \$10,298  |
| Deutsche Telekom  | \$6,304   | \$6,417                | \$5,659   | \$6,015                 | \$6,179   |
| Telefonica  | \$5,783   | \$5,294                | \$5,451   | \$6,090                 | \$6,210   |
| France Telecom  | \$5,052   | \$3,699                | \$3,663   | \$4,341                 | \$4,509   |
| MTN Group Limited   | \$3,335   | \$3,824                | \$3,048   | \$3,083                 | \$3,090   |
| Mobile Telesystems OJSC   | \$2,284   | \$2,238                | \$2,586   | \$2,176                 | \$2,168   |
| Telecom Italia SpA  | \$4,016   | \$2,736                | \$3,040   | \$3,454                 | \$3,337   |
| Telenor ASA   | \$1,568   | \$1,041                | \$1,063   | \$1,020                 | \$1,046   |
| TeliaSonera AB  | \$1,208   | \$919                  | \$1,011   | \$1,250                 | \$1,153   |
| Virgin Media  | \$888     | \$883                  | \$916     | \$1,072                 | \$1,082   |
| Vodafone Group Limited  | \$868     | \$865                  | \$1,252   | \$1,486                 | \$1,427   |
| Others  | \$4,469   | \$5,416                | \$4,124   | \$4,812                 | \$6,923   |
| Total EMEA  | \$46,138  | \$42,627               | \$40,606  | \$44,630                | \$47,422  |
| y/y growth  | 15.5%     | -7.6%                  | -4.7%     | 9.9%                    | 6.3%      |
| Asia Pacific & Australia  | 2008      | 2009                   | 2010      | 2011E                   | 2012E     |
| China Mobile (includes 3G spend)  | \$20,347  | \$23,127               | \$21,243  | \$21,840                | \$21,230  |
| China Unicom  | \$4,246   | \$11,262               | \$6,410   | \$6,988                 | \$6,381   |
| China Telecom (CDMA, 3G)  | \$3,022   | \$5,536                | \$4,956   | \$3,034                 | \$2,794   |
| NTT DoCoMo  | \$7,155   | \$7,905                | \$7,950   | \$8,731                 | \$9,078   |
| KDDI  | \$4,095   | \$4,177                | \$4,161   | \$4,522                 | \$4,669   |
| Softbank  | \$2,925   | \$2,745                | \$3,658   | \$4,388                 | \$3,997   |
| SK Telecom  | \$1,776   | \$1,814                | \$1,904   | \$2,534                 | \$2,571   |
| PT Telkom   | \$814     | \$989                  | \$859     | \$940                   | \$796     |
| Reliance Communications   | \$5,671   | \$884                  | \$664     | \$598                   | \$527     |
| Others  | \$11,755  | \$8,916                | \$9,306   | \$11,741                | \$11,904  |
| China   | \$27,615  | \$39,925               | \$32,610  | \$31,861                | \$30,406  |
|   | 70%       | 45%                    | -18%      | -2%                     | -5%       |
| Asia Pac+Australia ex China   | \$34,192  | \$27,431               | \$28,503  | \$33,456                | \$33,541  |
|   | 3%        | -20%                   | 4%        | 17%                     | 0%        |
| Total Asia Pacific  | \$61,807  | \$67,356               | \$61,113  | \$65,318                | \$63,947  |
| y/y growth  | 24.7%     | 9.0%                   | -9.3%     | 6.9%                    | -2.1%     |
| Global Wireless Summary   | 2008      | 2009                   | 2010      | 2011E                   | 2012E     |
| Total Americas  | \$27,795  | \$23,891               | \$33,378  | \$36,230                | \$35,659  |
| Total Europe  | \$46,138  | \$42,627               | \$40,606  | \$44,630                | \$47,422  |
| Total Asia Pacific  | \$61,807  | \$67,356               | \$61,113  | \$65,318                | \$63,947  |
| Global Total  | \$135,740 | \$133,873              | \$135,097 | \$146,177               | \$147,027 |
| y/y growth  | 18.0%     | -1.4%                  | 0.9%      | 8.2%                    | 0.6%      |
| Global  | 2008      | 2009                   | 2010      | 2011E                   | 2012E     |
| Total Americas  | \$78,923  | \$66,783               | \$74,154  | \$79,917                | \$78,926  |
| y/y growth  | 7%        | -15.4%                 | 11.0%     | 7.8%                    | -1.2%     |
| Total Europe  | \$97,407  | \$85,348               | \$82,309  | \$90,646                | \$91,390  |
| y/y growth  | 13%       | -12.4%                 | -3.6%     | 10.1%                   | 0.8%      |
| Total Asia Pacific and Australia  | \$98,476  | \$101,764              | \$96,300  | \$102,958               | \$100,324 |
| y/y growth  | 19%       | 3.3%                   | -5.4%     | 6.9%                    | -2.6%     |
| Total Wireless  | \$135,740 | \$133,873              | \$135,097 | \$146,177               | \$147,027 |
|   | 18%       | -1.4%                  | 0.9%      | 8.2%                    | 0.6%      |
| Total Wireline  | \$139,065 | \$120,022              | \$117,666 | \$127,344               | \$123,613 |
|   | 9%        | -13.7%                 | -2.0%     | 8.2%                    | -2.9%     |
| Global Total  | \$274,806 | \$253,895              | \$252,764 | \$273,521               | \$270,641 |
| y/y growth  | 13.4%     | -7.6%                  | -0.4%     | 8.2%                    | -1.1%     |
| y/y growth (prior as of 07/2011)  |           |                        | -0.7%     | 7.4%                    |           |
| y/y growth (prior as of 04/2011)  |           |                        | -1.0%     | 6.8%                    |           |
| Bolded companies represent the top carriers which account for 70% of total capex... |           |                        |           |                         |           |
| Global Wireline CapEx   |           |                        |           |                         |           |
| North America and Latin America   | 2008      | 2009                   | 2010      | 2011E                   | 2012E     |
| AT&T  | \$14,412  | \$11,314               | \$11,031  | \$10,611                | \$9,500   |
| BellSouth   |           | Acquired by AT&T       |           |                         |           |
| Verizon   | \$9,797   | \$8,892                | \$7,269   | \$7,150                 | \$7,200   |
| Qwest   | \$1,777   | \$1,409                | \$1,488   | Acquired by CenturyLink |           |
| CenturyLink   | \$287     | \$755                  | \$864     | \$2,242                 | \$2,902   |
| Embarq  | \$675     | Merged with CenturyTel |           |                         |           |
| Frontier Communications   | \$1,018   | \$814                  | \$783     | \$849                   | \$689     |
| Alltel / Windstream   | \$318     | \$298                  | \$415     | \$630                   | \$626     |
| Equinix   | \$626     | \$432                  | \$595     | \$659                   | \$531     |
| Time Warner Telecom   | \$275     | \$267                  | \$322     | \$350                   | \$300     |
| CALA Providers + Others   | \$8,736   | \$6,664                | \$6,682   | \$9,305                 | \$9,391   |
| Cable Providers   | \$13,208  | \$12,048               | \$11,327  | \$11,892                | \$12,130  |
| North America telco   | \$30,222  | \$24,971               | \$23,730  | \$23,707                | \$22,791  |
|   | 0.2%      | -17.4%                 | -5.0%     | -0.1%                   | -3.9%     |
| Cable MSOs  | \$13,208  | \$12,048               | \$11,327  | \$11,892                | \$12,130  |
|   | 2.7%      | -8.8%                  | -6.0%     | 5.0%                    | 2.0%      |
| CALA  | \$7,698   | \$5,874                | \$5,719   | \$8,089                 | \$8,347   |
|   | 40.4%     | -23.7%                 | -2.6%     | 41.4%                   | 3.2%      |
| Total Americas  | \$51,128  | \$42,892               | \$40,776  | \$43,688                | \$43,268  |
| y/y growth  | 5.4%      | -16.1%                 | -4.9%     | 7.1%                    | -1.0%     |
| Europe, Africa and Middle East  | 2008      | 2009                   | 2010      | 2011E                   | 2012E     |
| Deutsche Telekom  | \$6,304   | \$6,417                | \$5,659   | \$6,015                 | \$6,179   |
| Telefonica  | \$5,783   | \$5,294                | \$5,451   | \$6,090                 | \$6,210   |
| British Telecom   | \$5,727   | \$4,101                | \$4,008   | \$4,200                 | \$4,205   |
| France Telecom  | \$5,052   | \$3,699                | \$3,663   | \$4,341                 | \$4,509   |
| Telecom Italia SpA  | \$4,016   | \$2,736                | \$3,040   | \$3,454                 | \$3,337   |
| KPN NV  | \$2,832   | \$2,464                | \$2,778   | \$2,649                 | \$2,976   |
| Bouygues SA   | \$2,784   | \$1,900                | \$1,875   | \$2,702                 | \$2,717   |
| Telenor ASA   | \$1,568   | \$1,041                | \$1,063   | \$1,020                 | \$1,046   |
| Swisscom AG   | \$1,537   | \$1,467                | \$1,440   | \$1,756                 | \$0       |
| TeliaSonera AB  | \$1,208   | \$919                  | \$1,011   | \$1,250                 | \$1,153   |
| Telekomunikacja Polska SA   | \$1,086   | \$697                  | \$942     | \$1,069                 | \$992     |
| Others  | \$13,371  | \$11,986               | \$10,773  | \$11,470                | \$10,646  |
| Total EMEA  | \$51,269  | \$42,722               | \$41,703  | \$46,016                | \$43,969  |
| y/y growth  | 11.5%     | -16.7%                 | -2.4%     | 10.3%                   | -4.4%     |
| Asia Pacific & Australia  | 2008      | 2009                   | 2010      | 2011E                   | 2012E     |
| Nippon Telegraph and Telephone  | \$8,151   | \$9,859                | \$10,332  | \$10,849                | \$11,088  |
| China Telecom   | \$5,977   | \$4,909                | \$5,370   | \$6,447                 | \$5,937   |
| China Unicom (previously Netcom)  | \$4,786   | \$3,364                | \$3,302   | \$2,455                 | \$2,735   |
| Telstra   | \$4,311   | \$3,324                | \$3,275   | \$3,580                 | \$3,754   |
| KDDI  | \$1,290   | \$1,489                | \$1,596   | \$1,759                 | \$1,816   |
| Korea Telecom   | \$2,026   | \$2,334                | \$2,646   | \$2,804                 | \$2,816   |
| Bharti Airtel   | \$1,458   | \$1,244                | \$927     | \$1,052                 | \$236     |
| Singtel   | \$1,351   | \$1,323                | \$1,458   | \$1,618                 | \$1,579   |
| Others  | \$7,321   | \$6,562                | \$6,282   | \$7,077                 | \$6,417   |
| China   | \$10,763  | \$8,273                | \$8,672   | \$8,902                 | \$8,672   |
|   | 22%       | -23%                   | 5%        | 3%                      | -3%       |
| Asia Pac+Australia ex China   | \$25,906  | \$26,135               | \$26,515  | \$28,738                | \$27,705  |
|   | 8%        | 1%                     | 1%        | 8%                      | -4%       |
| Total Asia Pacific  | \$36,669  | \$34,408               | \$35,187  | \$37,640                | \$36,377  |
| y/y growth  | 11.4%     | -6.2%                  | 2.3%      | 7.0%                    | -3.4%     |
| Global Wireline Summary   | 2008      | 2009                   | 2010      | 2011E                   | 2012E     |
| Total Americas  | \$51,128  | \$42,892               | \$40,776  | \$43,688                | \$43,268  |
| Total Europe  | \$51,269  | \$42,722               | \$41,703  | \$46,016                | \$43,969  |
| Total Asia Pacific  | \$36,669  | \$34,408               | \$35,187  | \$37,640                | \$36,377  |
| Global Total  | \$139,065 | \$120,022              | \$117,666 | \$127,344               | \$123,613 |
| y/y growth  | 9.1%      | -13.7%                 | -2.0%     | 8.2%                    | -2.9%     |

Source: Citi Investment Research and Analysis

Figure 16. CIRA Global Handset Model

| Global Handset Units (millions) | 2007         | 2008         | 2009         | 2010         | 2011E        | 2012E        | 2013E        |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Asia Pacific                    | 241          | 156          | 171          | 218          | 242          | 273          | 307          |
| China                           | 173          | 246          | 263          | 349          | 381          | 449          | 513          |
| India                           | 99           | 112          | 140          | 188          | 213          | 256          | 299          |
| Japan                           | 52           | 41           | 34           | 34           | 35           | 38           | 36           |
| Eastern Europe                  | 101          | 100          | 92           | 122          | 128          | 146          | 161          |
| Middle East & Africa            | 120          | 137          | 139          | 172          | 204          | 222          | 236          |
| Western Europe                  | 198          | 183          | 206          | 202          | 186          | 187          | 189          |
| North America                   | 176          | 181          | 180          | 185          | 187          | 192          | 193          |
| Latin America                   | 133          | 153          | 135          | 161          | 212          | 258          | 297          |
| <b>Total</b>                    | <b>1,293</b> | <b>1,309</b> | <b>1,362</b> | <b>1,631</b> | <b>1,789</b> | <b>2,020</b> | <b>2,231</b> |

| Annual Growth Rates  | 2007       | 2008      | 2009      | 2010       | 2011E      | 2012E      | 2013E      |
|----------------------|------------|-----------|-----------|------------|------------|------------|------------|
| Asia Pacific         | 50%        | -35%      | 10%       | 27%        | 11%        | 13%        | 12%        |
| China                | 34%        | 42%       | 7%        | 32%        | 9%         | 18%        | 14%        |
| India                | 43%        | 13%       | 25%       | 34%        | 13%        | 20%        | 17%        |
| Japan                | 11%        | -22%      | -17%      | 1%         | 3%         | 9%         | -6%        |
| Eastern Europe       | 24%        | 0%        | -8%       | 33%        | 5%         | 13%        | 10%        |
| Middle East & Africa | 8%         | 14%       | 2%        | 23%        | 19%        | 9%         | 6%         |
| Western Europe       | 11%        | -7%       | 13%       | -2%        |            | 1%         | 1%         |
| North America        | 7%         | 3%        | -1%       | 3%         | 1%         | 3%         | 1%         |
| Latin America        | 10%        | 15%       | -12%      | 19%        | 31%        | 22%        | 15%        |
| <b>Total</b>         | <b>22%</b> | <b>1%</b> | <b>4%</b> | <b>20%</b> | <b>10%</b> | <b>13%</b> | <b>10%</b> |

| Units By Vendor (millions)         | 2007         | 2008         | 2009         | 2010         | 2011E        | 2012E        | 2013E        |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Nokia                              | 437          | 468          | 432          | 453          | 388          | 400          | 415          |
| Samsung                            | 161          | 196          | 227          | 279          | 318          | 363          | 395          |
| LG                                 | 80           | 101          | 118          | 117          | 97           | 93           | 103          |
| Motorola                           | 159          | 100          | 55           | 36           | 43           | 40           | 36           |
| Sony Ericsson                      | 103          | 97           | 57           | 43           | 33           | 38           | 41           |
| Research in Motion                 | 11           | 23           | 34           | 48           | 52           | 59           | 53           |
| Apple                              | 4            | 14           | 25           | 47           | 86           | 120          | 150          |
| HTC                                | 10           | 12           | 12           | 25           | 52           | 68           | 88           |
| Huawei                             |              | 7            | 36           | 58           | 78           | 103          | 134          |
| ZTE                                |              | 14           | 16           | 32           | 54           | 62           | 71           |
| White box                          | 138          | 197          | 250          | 359          | 453          | 549          | 608          |
| Others                             | 189          | 80           | 99           | 134          | 134          | 126          | 136          |
| <b>Total</b>                       | <b>1,293</b> | <b>1,309</b> | <b>1,362</b> | <b>1,631</b> | <b>1,789</b> | <b>2,020</b> | <b>2,231</b> |
| <b>Total - Excluding White box</b> | <b>1,155</b> | <b>1,091</b> | <b>1,059</b> | <b>1,182</b> | <b>1,203</b> | <b>1,306</b> | <b>1,417</b> |
| <b>White Box as a % of Total</b>   | <b>11%</b>   | <b>17%</b>   | <b>22%</b>   | <b>28%</b>   | <b>33%</b>   | <b>35%</b>   | <b>36%</b>   |

| Annual Growth Rates                | 2007       | 2008       | 2009       | 2010       | 2011E      | 2012E      | 2013E      |
|------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Nokia                              | 26%        | 7%         | -8%        | 5%         | -14%       | 3%         | 4%         |
| Samsung                            | 37%        | 22%        | 16%        | 23%        | 14%        | 14%        | 9%         |
| LG                                 | 27%        | 25%        | 17%        | -1%        | -17%       | -4%        | 11%        |
| Motorola                           | -27%       | -37%       | -45%       | -34%       | 19%        | -7%        | -10%       |
| Sony Ericsson                      | 38%        | -7%        | -41%       | -24%       | -24%       | 14%        | 9%         |
| Research in Motion                 | 106%       | 99%        | 50%        | 41%        | 9%         | 12%        | -9%        |
| Apple                              |            | 269%       | 84%        | 89%        | 81%        | 40%        | 25%        |
| HTC                                | 17%        | 23%        | -3%        | 109%       | 111%       | 31%        | 29%        |
| ZTE                                |            |            | 13%        | 100%       | 69%        | 15%        | 15%        |
| White box                          | 94%        | 43%        | 27%        | 43%        | 26%        | 21%        | 11%        |
| Others                             | 21%        | -57%       | 24%        | 35%        | 0%         | -6%        | 8%         |
| <b>Total</b>                       | <b>22%</b> | <b>1%</b>  | <b>4%</b>  | <b>20%</b> | <b>10%</b> | <b>13%</b> | <b>10%</b> |
| <b>Total - Excluding White box</b> | <b>17%</b> | <b>-6%</b> | <b>-3%</b> | <b>12%</b> | <b>2%</b>  | <b>9%</b>  | <b>8%</b>  |

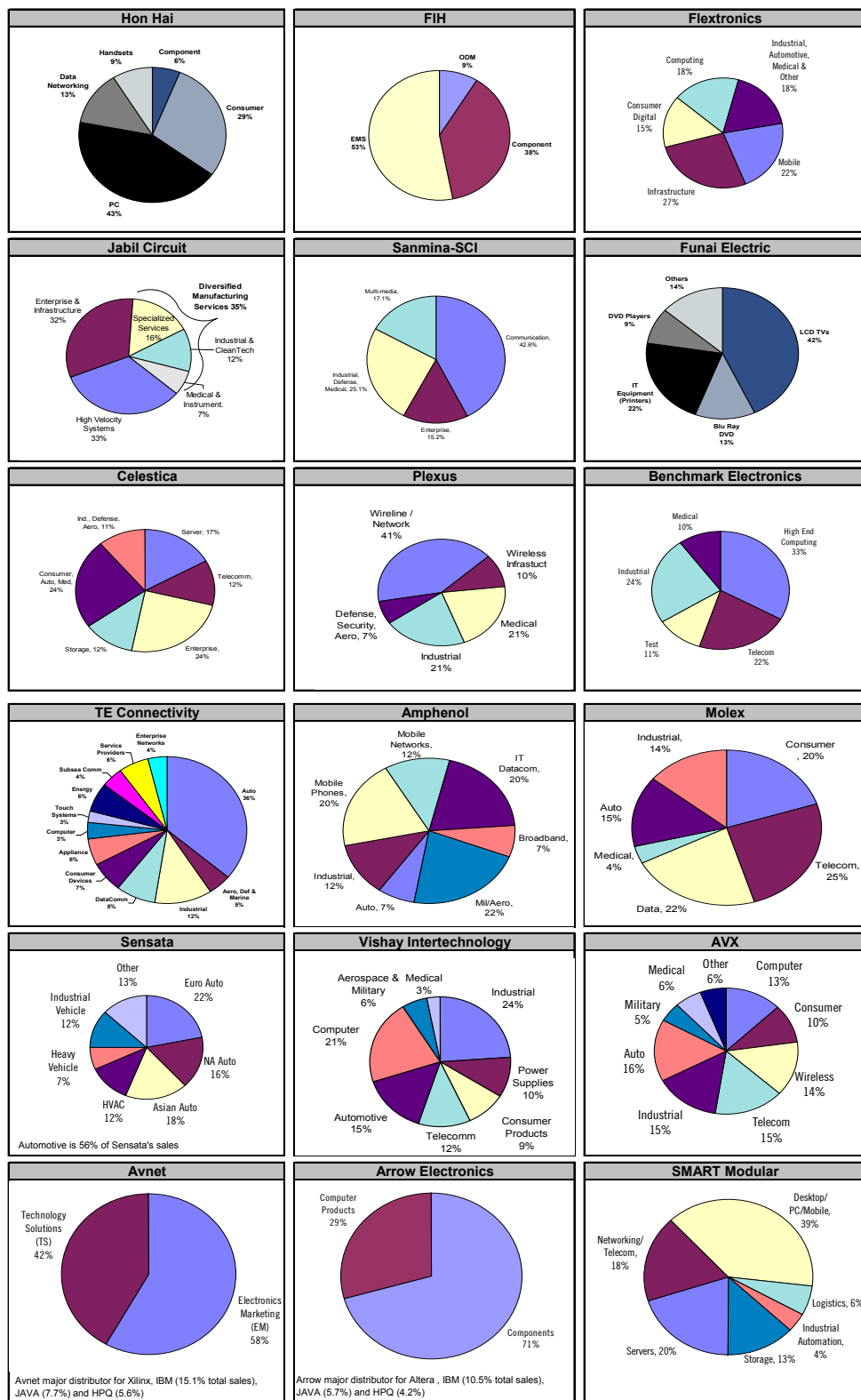
Source: Citi Investment Research and Analysis

Figure 17. CIRA Semiconductor Capital Spending Model

|                         | 1999          | 2000          | 2001          | 2002          | 2003          | 2004          | 2005          | 2006          | 2007          | 2008          | 2009          | 2010          | 2011E         |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>North Amer Total</b> | 11,182        | 20,375        | 16,589        | 10,136        | 9,227         | 11,675        | 14,016        | 15,908        | 15,319        | 13,071        | 8,430         | 11,310        | 18,305        |
| % of WW Total           | 33%           | 33%           | 43%           | 37%           | 30%           | 25%           | 28%           | 28%           | 26%           | 32%           | 36%           | 21%           | 32%           |
| % y/y                   | (6%)          | 82%           | (19%)         | (39%)         | (9%)          | 27%           | 20%           | 13%           | (4%)          | (15%)         | (36%)         | 34%           | 62%           |
| <b>Europe Total</b>     | 2,775         | 6,883         | 4,580         | 2,179         | 2,491         | 4,273         | 3,438         | 3,217         | 2,859         | 1,985         | 575           | 1,825         | 1,050         |
| % of WW Total           | 8%            | 11%           | 12%           | 8%            | 8%            | 9%            | 7%            | 6%            | 5%            | 5%            | 2%            | 3%            | 2%            |
| % y/y                   | 10%           | 148%          | (33%)         | (52%)         | 14%           | 72%           | (20%)         | (6%)          | (11%)         | (31%)         | (71%)         | 217%          | (42%)         |
| <b>Japan Total</b>      | 7,733         | 13,756        | 5,219         | 4,110         | 7,135         | 9,145         | 10,975        | 10,544        | 9,270         | 6,724         | 3,206         | 6,283         | 5,951         |
| % of WW Total           | 23%           | 22%           | 14%           | 15%           | 24%           | 20%           | 22%           | 19%           | 16%           | 16%           | 14%           | 12%           | 10%           |
| % y/y                   | 41%           | 78%           | (62%)         | (21%)         | 74%           | 28%           | 20%           | (4%)          | (12%)         | (27%)         | (52%)         | 96%           | (5%)          |
| <b>Taiwan Total</b>     | 5,582         | 11,490        | 5,683         | 4,560         | 3,545         | 8,264         | 8,020         | 10,325        | 14,167        | 7,736         | 5,425         | 14,130        | 12,563        |
| % of WW Total           | 16%           | 19%           | 15%           | 17%           | 12%           | 18%           | 16%           | 18%           | 24%           | 19%           | 23%           | 26%           | 22%           |
| % y/y                   | 43%           | 106%          | (51%)         | (20%)         | (22%)         | 133%          | (3%)          | 29%           | 37%           | (45%)         | (30%)         | 160%          | (11%)         |
| <b>Korea Total</b>      | 3,567         | 4,249         | 3,316         | 2,795         | 4,279         | 7,151         | 8,739         | 11,347        | 12,142        | 7,833         | 4,204         | 15,166        | 12,945        |
| % of WW Total           | 10%           | 7%            | 9%            | 10%           | 14%           | 15%           | 18%           | 20%           | 21%           | 19%           | 18%           | 28%           | 23%           |
| % y/y                   | 74%           | 19%           | (22%)         | (16%)         | 53%           | 67%           | 22%           | 30%           | 7%            | (35%)         | (46%)         | 261%          | (15%)         |
| <b>SEA/ROW Total</b>    | 1,942         | 3,668         | 2,044         | 2,504         | 2,655         | 5,312         | 3,410         | 3,839         | 3,960         | 2,701         | 1,340         | 4,478         | 5,670         |
| % of WW Total           | 6%            | 6%            | 5%            | 9%            | 9%            | 11%           | 7%            | 7%            | 7%            | 7%            | 6%            | 8%            | 10%           |
| % y/y                   | 103%          | 89%           | (44%)         | 23%           | 6%            | 100%          | (36%)         | 13%           | 3%            | (32%)         | (50%)         | 234%          | 27%           |
| <b>Other Total</b>      | 1,317         | 1,677         | 792           | 1,007         | 930           | 826           | 723           | 1,200         | 1,400         | 800           | 300           | 500           | 500           |
| % of WW Total           | 4%            | 3%            | 2%            | 4%            | 3%            | 2%            | 1%            | 2%            | 2%            | 2%            | 1%            | 1%            | 1%            |
| % y/y                   | (61%)         | 27%           | (53%)         | 27%           | (8%)          | (11%)         | (12%)         | 66%           | 17%           | (43%)         | (63%)         | 67%           | 0%            |
| <b>Total Capex</b>      | <b>34,098</b> | <b>62,098</b> | <b>38,223</b> | <b>27,292</b> | <b>30,261</b> | <b>46,647</b> | <b>49,321</b> | <b>56,381</b> | <b>59,117</b> | <b>40,850</b> | <b>23,479</b> | <b>53,692</b> | <b>56,983</b> |
| % y/y                   | 13%           | 82%           | (38%)         | (29%)         | 11%           | 54%           | 6%            | 14%           | 5%            | (31%)         | (43%)         | 129%          | 6%            |

Source: Citi Investment Research and Analysis

Figure 18. Supply Chain End Market Exposures (2010 data)



Source: Citi Investment Research and Analysis

Figure 19. EMS, Connector, Components & Distributors Revenue Profiles

| REVENUES (\$US M)                               | CY1997 | CY1998 | CY1999 | CY2000 | CY2001 | CY2002 | CY2003 | CY2004 | CY2005 | CY2006 | CY2007 | CY2008 | CY2009 | CY2010 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Electronics Manufacturing Services (EMS)</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Hon Hai   | 727    | 1,241  | 1,853  | 2,954  | 4,393  | 7,475  | 11,727 | 16,242 | 28,377 | 40,601 | 53,276 | 61,843 | 59,331 | 94,169 |
| Flextronics                                     | 1,995  | 3,556  | 5,883  | 11,224 | 12,923 | 13,615 | 13,822 | 16,063 | 15,582 | 17,774 | 24,460 | 33,141 | 23,754 | 27,761 |
| Jabil Circuit                                   | 1,095  | 1,406  | 2,308  | 3,997  | 4,086  | 3,729  | 5,170  | 6,577  | 8,095  | 11,085 | 12,435 | 12,794 | 11,398 | 14,403 |
| Solectron                                       | 4,023  | 6,345  | 10,301 | 16,998 | 16,149 | 12,261 | 11,261 | 11,632 | 10,207 | 11,103 | Acq'd  | Acq'd  | Acq'd  | Acq'd  |
| Sanmina-SCI                                     | 1,006  | 2,109  | 2,855  | 4,887  | 4,975  | 10,168 | 10,795 | 12,487 | 11,344 | 10,872 | 9,383  | 6,849  | 5,237  | 6,503  |
| Celestica                                       | 1,523  | 3,249  | 5,296  | 9,752  | 10,004 | 8,271  | 6,735  | 8,840  | 8,471  | 8,812  | 8,070  | 7,678  | 6,092  | 6,526  |
| Funai Electric                                  |        |        |        |        | 1,466  | 1,897  | 2,722  | 3,034  | 3,567  | 3,192  | 3,394  | 2,433  | 3,026  | 3,395  |
| Benchmark Electronics                           | 325    | 524    | 877    | 1,704  | 1,277  | 1,630  | 1,840  | 2,001  | 2,257  | 2,907  | 2,916  | 2,590  | 2,089  | 2,402  |
| Plexus  | 395    | 420    | 518    | 876    | 980    | 889    | 841    | 1,090  | 1,270  | 1,513  | 1,624  | 1,839  | 1,591  | 2,149  |
| <b>Memory Modules</b>                           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| SMART Modular                                   |        |        |        |        |        |        | 666    | 648    | 611    | 786    | 766    | 629    | 424    | 796    |
| <b>Connectors</b>                               |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Molex   | 1,619  | 1,647  | 1,907  | 2,437  | 1,957  | 1,788  | 1,965  | 2,493  | 2,614  | 3,171  | 3,233  | 3,200  | 2,480  | 3,403  |
| Amphenol  | 884    | 919    | 1,011  | 1,360  | 1,104  | 1,062  | 1,240  | 1,530  | 1,808  | 2,471  | 2,851  | 3,236  | 2,820  | 3,554  |
| Tyco Electronics                                |        |        |        |        |        |        |        |        |        | 12,576 | 13,450 | 13,620 | 9,895  | 11,055 |
| Sensata   |        |        |        |        |        |        |        |        |        |        | 1,403  | 1,423  | 1,135  | 1,540  |
| <b>Components</b>                               |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Vishay Intertechnology                          | 1,125  | 1,573  | 1,760  | 2,465  | 1,655  | 1,823  | 2,171  | 2,414  | 2,295  | 2,581  | 2,833  | 2,822  | 2,042  | 2,725  |
| AVX   | 1,263  | 1,232  | 1,450  | 2,506  | 1,576  | 1,148  | 1,082  | 1,293  | 1,301  | 1,458  | 1,593  | 1,524  | 1,305  | 1,635  |
| Murata  |        |        | 2,889  | 4,140  | 5,293  | 3,162  | 3,243  | 3,674  | 3,953  | 4,341  | 4,849  | 5,545  | 5,237  | 5,723  |
| <b>Component Distributors</b>                   |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Avnet   | 5,637  | 6,165  | 7,454  | 12,977 | 10,556 | 8,880  | 9,490  | 10,766 | 12,611 | 14,766 | 16,993 | 17,864 | 16,656 | 22,921 |
| Arrow Electronics                               | 7,764  | 8,345  | 9,313  | 12,959 | 10,128 | 7,498  | 8,528  | 10,646 | 11,164 | 13,577 | 15,985 | 16,761 | 14,684 | 18,745 |
| REVS Y/Y% CHG                                   | CY1997 | CY1998 | CY1999 | CY2000 | CY2001 | CY2002 | CY2003 | CY2004 | CY2005 | CY2006 | CY2007 | CY2008 | CY2009 | CY2010 |
| <b>Electronics Manufacturing Services (EMS)</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Hon Hai   | 44%    | 71%    | 49%    | 59%    | 49%    | 70%    | 57%    | 39%    | 75%    | 43%    | 31%    | 16%    | -4%    | 59%    |
| Flextronics                                     | 237%   | 78%    | 65%    | 91%    | 15%    | 5%     | 2%     | 16%    | -3%    | 14%    | 38%    | 35%    | -28%   | 17%    |
| Jabil Circuit                                   | 31%    | 28%    | 64%    | 73%    | 2%     | -9%    | 39%    | 27%    | 23%    | 37%    | 12%    | 3%     | -11%   | 26%    |
| Solectron                                       | 37%    | 58%    | 62%    | 65%    | -5%    | -24%   | -8%    | 3%     | -12%   | 9%     | Acq'd  | Acq'd  | Acq'd  | Acq'd  |
| Sanmina-SCI                                     | 67%    | 110%   | 35%    | 71%    | 2%     | 104%   | 6%     | 16%    | -9%    | -4%    | -14%   | -27%   | -24%   | 24%    |
| Celestica                                       |        | 113%   | 63%    | 84%    | 3%     | -17%   | -19%   | 31%    | -4%    | 4%     | -8%    | -5%    | -21%   | 7%     |
| Funai Electric                                  |        |        |        |        |        | 29%    | 43%    | 11%    | 18%    | -11%   | 6%     | -28%   | 24%    | 12%    |
| Benchmark Electronics                           | 62%    | 61%    | 67%    | 94%    | -25%   | 28%    | 13%    | 9%     | 13%    | 29%    | 0%     | -11%   | -19%   | 15%    |
| Plexus  | 19%    | 6%     | 23%    | 69%    | 12%    | -9%    | -5%    | 30%    | 17%    | 19%    | 7%     | 13%    | -14%   | 35%    |
| <b>Memory Modules</b>                           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| SMART Modular                                   |        |        |        |        |        |        |        | -3%    | -6%    | 29%    | -3%    | -18%   | -33%   | 88%    |
| <b>Connectors</b>                               |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Molex   | 13%    | 2%     | 16%    | 28%    | -20%   | -9%    | 10%    | 27%    | 5%     | 21%    | 2%     | -1%    | -23%   | 37%    |
| Amphenol  | 14%    | 4%     | 10%    | 35%    | -19%   | -4%    | 17%    | 23%    | 18%    | 37%    | 15%    | 14%    | -13%   | 26%    |
| Tyco Electronics                                |        |        |        |        |        |        |        |        |        | 5%     | 7%     | 1%     | -27%   | 12%    |
| Sensata   |        |        |        |        |        |        |        |        |        |        |        | 1%     | -20%   | 36%    |
| <b>Components</b>                               |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Vishay Intertechnology                          | 2%     | 40%    | 12%    | 40%    | -33%   | 10%    | 19%    | 11%    | -5%    | 12%    | 10%    | 0%     | -28%   | 33%    |
| AVX   | 13%    | -2%    | 18%    | 73%    | -37%   | -27%   | -6%    | 20%    | 1%     | 12%    | 9%     | -4%    | -14%   | 25%    |
| Murata  |        |        |        | 43%    | 28%    | -40%   | 3%     | 13%    | 8%     | 10%    | 12%    | 14%    | -6%    | 9%     |
| <b>Component Distributors</b>                   |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Avnet   | 6%     | 9%     | 21%    | 74%    | -19%   | -16%   | 7%     | 13%    | 17%    | 17%    | 15%    | 5%     | -7%    | 38%    |
| Arrow Electronics                               | 19%    | 7%     | 12%    | 39%    | -22%   | -26%   | 14%    | 25%    | 5%     | 22%    | 18%    | 5%     | -12%   | 28%    |

Source: Citi Investment Research and Analysis

Figure 20. EMS, Connector, Components & Distributors Margin Profiles

| OPERATING MARGINS                               | CY1997 | CY1998 | CY1999 | CY2000 | CY2001 | CY2002 | CY2003 | CY2004 | CY2005 | CY2006 | CY2007 | CY2008 | CY2009 | CY2010 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Electronics Manufacturing Services (EMS)</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Hon Hai   | 15.5%  | 14.6%  | 12.6%  | 10.7%  | 9.2%   | 7.4%   | 6.6%   | 6.2%   | 5.4%   | 5.7%   | 5.6%   | 3.8%   | 4.3%   | 2.8%   |
| Flextronics                                     | 6.1%   | 5.5%   | 4.4%   | 4.5%   | 3.7%   | 2.3%   | 2.1%   | 3.1%   | 3.3%   | 3.1%   | 3.1%   | 3.1%   | 2.0%   | 2.9%   |
| Jabil Circuit                                   | 8.8%   | 7.7%   | 6.8%   | 6.0%   | 4.1%   | 3.5%   | 4.0%   | 4.1%   | 4.3%   | 3.3%   | 3.0%   | 2.8%   | 2.2%   | 3.9%   |
| Soletron  | 6.4%   | 5.5%   | 5.4%   | 4.8%   | 1.6%   | -0.7%  | -0.1%  | 1.6%   | 1.7%   | 1.5%   | Acq'd  | Acq'd  | Acq'd  | Acq'd  |
| Sanmina-SCI                                     | 12.5%  | 8.6%   | 9.9%   | 11.3%  | 4.6%   | 1.0%   | 1.5%   | 2.2%   | 2.1%   | 2.2%   | 1.6%   | 2.8%   | 2.1%   | 4.0%   |
| Celestica                                       | 12.5%  | 8.6%   | 9.9%   | 11.3%  | 4.6%   | 1.0%   | 1.5%   | 2.2%   | 2.1%   | 2.2%   | 1.6%   | 2.8%   | 2.1%   | 4.0%   |
| Funai Electric                                  |        |        |        |        | 8.4%   | 8.4%   | 10.6%  | 10.7%  | 8.7%   | 6.5%   | 5.2%   | -0.9%  | 0.5%   | 3.5%   |
| Benchmark Electronics                           | 7.7%   | 5.9%   | 3.3%   | 3.1%   | 2.1%   | 3.7%   | 4.6%   | 4.6%   | 4.4%   | 4.5%   | 3.6%   | 3.3%   | 2.9%   | 4.0%   |
| Plexus  | 7.4%   | 9.5%   | 8.6%   | 9.4%   | 4.8%   | 0.9%   | -0.9%  | 1.8%   | 3.1%   | 5.7%   | 5.8%   | 5.1%   | 3.6%   | 5.0%   |
| <b>Memory Modules</b>                           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| SMART Modular                                   |        |        |        |        |        |        | 2.4%   | 3.3%   | 7.9%   | 7.8%   | 8.6%   | 4.9%   | 4.5%   | 11.6%  |
| <b>Connectors</b>                               |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Molex   | 16.7%  | 15.3%  | 12.9%  | 14.9%  | 10.2%  | 7.3%   | 8.3%   | 11.0%  | 9.9%   | 12.1%  | 10.1%  | 9.4%   | 2.5%   | 11.9%  |
| Amphenol  | 17.5%  | 16.3%  | 15.9%  | 18.0%  | 17.9%  | 16.4%  | 16.5%  | 18.1%  | 19.0%  | 18.0%  | 19.4%  | 19.5%  | 17.3%  | 19.7%  |
| Tyco Electronics                                |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Sensata   |        |        |        |        |        |        |        |        |        |        |        | 9.1%   | 21.3%  | 26.9%  |
| <b>Components</b>                               |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Vishay Intertechnology                          | 11.4%  | 8.8%   | 11.0%  | 28.3%  | 9.8%   | 4.9%   | 4.8%   | 7.6%   | 6.5%   | 10.4%  | 9.0%   | 5.0%   | 1.4%   | 15.3%  |
| AVX   | 15.1%  | 6.9%   | 9.0%   | 29.8%  | 14.0%  | -1.6%  | -4.7%  | 5.9%   | 4.8%   | 11.7%  | 10.6%  | 8.3%   | 10.0%  | 18.7%  |
| <b>Component Distributors</b>                   |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Avnet   | 5.8%   | 4.6%   | 3.4%   | 5.1%   | 2.3%   | 1.1%   | 1.8%   | 2.9%   | 3.0%   | 4.1%   | 4.4%   | 3.9%   | 1.7%   | 3.8%   |
| Arrow Electronics                               | 5.7%   | 4.2%   | 3.1%   | 6.1%   | 2.4%   | 2.3%   | 2.8%   | 4.2%   | 4.4%   | 4.6%   | 4.4%   | 3.6%   | 2.6%   | 4.2%   |
| GROSS MARGINS                                   | CY1997 | CY1998 | CY1999 | CY2000 | CY2001 | CY2002 | CY2003 | CY2004 | CY2005 | CY2006 | CY2007 | CY2008 | CY2009 | CY2010 |
| <b>Electronics Manufacturing Services (EMS)</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Hon Hai   | 30.4%  | 29.6%  | 25.2%  | 22.0%  | 18.3%  | 14.7%  | 13.1%  | 12.2%  | 10.2%  | 9.8%   | 9.1%   | 8.8%   | 9.5%   | 8.1%   |
| Flextronics                                     | 12.7%  | 11.6%  | 9.5%   | 8.2%   | 7.1%   | 5.7%   | 5.4%   | 6.6%   | 6.8%   | 5.9%   | 5.8%   | 5.7%   | 4.9%   | 5.6%   |
| Jabil Circuit                                   | 12.7%  | 12.2%  | 11.1%  | 9.9%   | 8.9%   | 9.4%   | 9.1%   | 8.5%   | 8.3%   | 6.9%   | 6.9%   | 6.7%   | 6.4%   | 7.5%   |
| Soletron  | 11.6%  | 9.6%   | 9.8%   | 8.7%   | 8.3%   | 6.8%   | 6.1%   | 5.2%   | 5.8%   | 5.3%   | Acq'd  | Acq'd  | Acq'd  | Acq'd  |
| Sanmina-SCI                                     | 20.6%  | 16.5%  | 16.7%  | 16.9%  | 10.0%  | 4.2%   | 4.6%   | 5.2%   | 5.5%   | 5.8%   | 5.6%   | 7.2%   | 6.8%   | 7.8%   |
| Celestica                                       | 7.4%   | 7.1%   | 7.2%   | 7.1%   | 7.3%   | 6.7%   | 3.9%   | 5.3%   | 5.7%   | 5.2%   | 5.3%   | 6.9%   | 7.3%   | 7.1%   |
| Funai Electric                                  |        |        |        |        | 20.2%  | 19.7%  | 22.3%  | 22.2%  | 20.3%  | 18.5%  | 17.2%  | 15.5%  | 14.7%  | 18.2%  |
| Benchmark Electronics                           | 7.0%   | 7.0%   | 7.0%   | 7.0%   | 7.0%   | 7.0%   | 7.0%   | 7.0%   | 7.0%   | 7.0%   | 7.0%   | 7.0%   | 7.0%   | 7.9%   |
| Plexus  | -8.4%  | 13.2%  | 13.7%  | 14.0%  | 10.2%  | 9.2%   | 6.8%   | 8.2%   | 9.0%   | 11.0%  | 11.1%  | 10.7%  | 9.4%   | 10.1%  |
| <b>Memory Modules</b>                           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| SMART Modular                                   |        |        |        |        |        |        | 8.8%   | 11.2%  | 18.0%  | 17.0%  | 18.7%  | 17.7%  | 21.9%  | 22.8%  |
| <b>Connectors</b>                               |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Molex   | 41.5%  | 40.9%  | 38.5%  | 38.5%  | 33.7%  | 32.7%  | 33.5%  | 34.2%  | 32.3%  | 32.4%  | 30.3%  | 29.7%  | 25.6%  | 30.4%  |
| Amphenol  | 35.3%  | 34.5%  | 34.3%  | 34.8%  | 36.2%  | 34.1%  | 33.8%  | 34.7%  | 35.7%  | 31.9%  | 32.6%  | 32.4%  | 31.4%  | 32.6%  |
| Tyco Electronics                                |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Sensata   |        |        |        |        |        |        |        |        |        | 26.7%  | 26.5%  | 28.7%  | 21.3%  | 23.9%  |
| <b>Components</b>                               |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Vishay Intertechnology                          | 23.6%  | 23.7%  | 25.5%  | 40.3%  | 27.3%  | 22.0%  | 22.4%  | 23.7%  | 22.9%  | 25.9%  | 24.5%  | 21.2%  | 19.0%  | 29.6%  |
| AVX   | 23.9%  | 16.0%  | 16.9%  | 35.5%  | 21.5%  | 6.4%   | 3.2%   | 13.6%  | 13.4%  | 19.8%  | 18.3%  | 16.8%  | 25.7%  | 28.1%  |
| <b>Component Distributors</b>                   |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Avnet   | 17.3%  | 15.7%  | 15.0%  | 15.1%  | 14.6%  | 13.8%  | 13.1%  | 13.5%  | 12.9%  | 13.0%  | 13.0%  | 12.9%  | 11.7%  | 11.9%  |
| Arrow Electronics                               | 15.3%  | 13.9%  | 14.0%  | 15.7%  | 15.0%  | 16.9%  | 16.7%  | 16.2%  | 15.6%  | 15.0%  | 14.3%  | 13.6%  | 11.9%  | 12.9%  |

Source: Citi Investment Research and Analysis

Figure 21. Handset Supply Matrix

|                  | Country   | ODM | PCBA | HDI PCB | FPCB | Optical Lens | Cam Module | Keypad | Plastic cas | Mg alloy | LCD/LCM | Connector | Acoustic | BT/Wi-Fi | Battery cell | Battery Pack |
|------------------|-----------|-----|------|---------|------|--------------|------------|--------|-------------|----------|---------|-----------|----------|----------|--------------|--------------|
| FIH              | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Flextronics      | US        |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Jabil/TGP        | US/TWN    |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Elcoteq          | Fin       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| BYD              | China     |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Cheng Uei        | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Lite-On/Silitech | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Ichia            | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Mogem            | Korea     |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Hi-P             | Singapore |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Jurong Tech      | Singapore |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Catcher          | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Intops           | Korea     |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Merry            | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| AAC Acoustic     | China     |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| BSE Holdings     | Korea     |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Hosiden          | JPN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Largan           | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Asia Optical     | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Career           | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Interflex        | Korea     |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| G-Flex           | China     |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Unimicron        | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |
| Compeq           | TWN       |     |      |         |      |              |            |        |             |          |         |           |          |          |              |              |

Source: Citi Investment Research and Analysis

Figure 22. CIRA Proprietary Customer Matrix Profile

| Top Customers                  | BHE     | CLS  | FLEX | JBL  | PLXS | SANM | Hon Hai | FIH | Funai | Elcoteq |
|--------------------------------|---------|------|------|------|------|------|---------|-----|-------|---------|
| Adaptec                        |         |      |      |      |      | X    |         |     |       |         |
| Adtran                         |         | X    |      | X    |      |      |         |     |       |         |
| Agilent                        |         |      |      | X    |      | X    |         |     |       |         |
| Alcatel                        |         | X    | X    | X    |      | >10% |         |     |       |         |
| Andrew                         |         |      |      |      |      |      |         |     |       | X       |
| Apple                          |         |      | X    | O    |      |      | 35%     | 35% |       |         |
| Applied Materials              | New Acq |      | O    |      |      | X    |         |     |       |         |
| Arris                          |         |      | O    |      | X    |      |         |     |       |         |
| Avaya                          |         | X    |      |      |      |      |         |     |       |         |
| BAE Systems                    |         |      |      |      | X    |      |         |     |       |         |
| Boston Scientific              | New Acq |      |      |      |      |      |         |     |       |         |
| Casio Computer                 |         |      | X    |      |      |      |         |     |       |         |
| Ciena                          | X       |      |      |      |      |      |         |     |       |         |
| Cisco Systems                  |         | ~9%  | 9%   | 15%  |      | X    | 6%      | 6%  |       |         |
| Dell                           | O       | X    | X    |      |      | X    | 10%     | 10% |       |         |
| Denso                          |         |      |      |      |      | X    |         |     |       |         |
| Echostar                       |         |      |      | O    |      | X    |         |     |       |         |
| Dot Hill                       |         |      |      |      |      |      |         |     |       |         |
| Draeger                        |         |      |      |      | X    |      |         |     |       |         |
| EMC                            | 8-9%    | X    | O    | O    |      | X    |         |     |       |         |
| Emerson                        | X       |      |      | X    |      |      |         |     |       |         |
| Emulex                         | X       |      |      |      |      |      |         |     |       |         |
| Ericsson                       |         |      | X    | X    |      | X    |         |     |       | X       |
| Extreme                        |         |      | O    |      |      |      |         |     |       |         |
| F5                             |         |      | O    |      |      |      |         |     |       |         |
| Foxconn International Holdings |         |      |      |      |      |      | 6%      |     |       |         |
| Foundry                        |         | O    |      |      |      | X    |         |     |       |         |
| Fujitsu                        |         |      |      |      |      | X    |         |     |       |         |
| GE (Medical & Industrial)      | New Acq |      |      | X    | <10% |      |         |     |       |         |
| General Dynamics               |         |      |      |      | X    | X    |         |     |       |         |
| Guidant                        | X       |      |      |      |      |      |         |     |       |         |
| Harris                         |         |      |      |      | X    |      |         |     |       |         |
| Hitachi                        |         | X    | O    |      |      | O    |         |     |       |         |
| Harmonic                       |         |      |      |      | X    |      |         |     |       |         |
| Hewlett-Packard                |         | X    | >10% | <10% |      | X    | 15%     | 15% |       |         |
| Honeywell                      |         | O    |      |      | X    |      |         |     |       |         |
| Huawei                         |         |      | X    |      |      |      |         |     |       |         |
| IBM                            | >10%    | ~10% | O    | X    |      | X    | X       |     |       |         |
| iDirect Tech                   |         |      |      |      | X    |      |         |     |       |         |
| Infinera                       |         |      |      | O    |      | O    |         |     |       |         |
| Intermec                       |         |      |      |      | X    |      |         |     |       |         |
| JDS Uniphase                   | X       |      |      |      |      | X    |         |     |       |         |
| Johnson & Johnson              |         |      |      |      | X    |      |         |     |       |         |
| Juniper                        |         | X    | O/X  |      | 17%  |      |         |     |       |         |
| KLA Tencor                     |         |      |      |      | X    |      |         |     |       |         |
| Kodak                          |         |      | O    |      | O    | X    |         |     | O     |         |
| Kyocera                        |         |      | X    |      |      |      |         |     |       |         |
| LeCroy                         |         |      |      |      | X    |      |         |     |       |         |
| Lenovo                         |         |      | X    |      |      | X    |         |     |       |         |
| Lexmark                        |         |      |      |      |      |      |         |     | X     |         |
| LG Electronics                 |         |      | O    |      |      |      |         |     |       |         |
| Lockheed Martin                |         |      |      |      |      | X    |         |     |       |         |
| Lucent                         |         | X    | O    |      |      | X    |         |     |       |         |
| Medtronic                      | 6-7%    |      | O    |      |      |      |         |     |       |         |
| Microsoft                      |         | X    | X    |      |      |      |         |     |       |         |
| Motorola                       | New Acq | X    | 2%   | O    | X    |      |         | X   |       |         |
| NEC                            |         | X    | O    | X    |      |      |         |     |       |         |
| NMS Communications             |         |      |      |      | X    |      |         |     |       |         |
| Network Appliance              |         |      |      | X    |      |      |         |     |       |         |
| Nokia                          |         |      | O    | 4%   |      | X    |         | X   |       | X       |
| Nortel Networks                |         |      | 3%   | X    |      | X    | X       |     |       |         |
| Polycorn                       |         | X    | O    |      |      |      |         |     |       |         |
| Qlogic                         |         |      |      | X    |      |      |         |     |       |         |
| Qualcomm                       |         |      |      | X    |      |      |         |     |       |         |
| Raytheon                       |         | O    |      |      |      | X    |         |     |       |         |
| RIM                            |         | 19%  | 9%   | 15%  |      |      |         |     |       | X       |
| Roche Diagnostics              |         |      |      |      |      | X    |         |     |       |         |
| Royal Philips Electronics      |         |      | O    | X    |      | X    |         |     | X     | X       |
| Samsung                        |         |      |      |      |      |      |         | X   |       |         |
| Siemens                        | New Acq |      |      |      | X    | X    |         |     |       | X       |
| Sony-Ericsson                  |         |      | 3%   | O    |      |      |         | 15% | 15%   | X       |
| Sony                           |         |      | X    |      |      |      |         |     |       |         |
| Sun Microsystems               |         | X    | X    |      |      | X    |         |     |       |         |
| Tekelec                        | X       |      | O    |      |      |      |         |     |       |         |
| Telular                        |         |      |      |      | X    |      |         |     |       |         |
| Tellabs                        |         |      | O    | X    |      | X    |         |     |       |         |
| Teradyne                       |         |      | O    |      |      |      |         |     |       |         |
| Thomson                        |         |      | O    |      |      |      |         |     |       | X       |
| Valeo                          |         |      |      | X    |      |      |         |     |       |         |
| Walmart                        |         |      |      |      |      |      |         |     | X     |         |
| Xerox                          |         |      | O    |      |      |      |         |     |       |         |

X denotes top customer, O denotes less than 2% rev customer. Avnet distributor for Xilinx. Arrow distributor for Altera.  
Source: Citi Investment Research

Source: Citi Investment Research and Analysis

**Figure 23. Top 10 Connector Manufacturers – 2007-2010**

| \$ Millions  |                           |          |          |          |          | 2007       | 2008       | 2009       | 2010       | 2007         | 2008         | 2009         | 2010         |
|--------------|---------------------------|----------|----------|----------|----------|------------|------------|------------|------------|--------------|--------------|--------------|--------------|
| Rank         | Manufacturer              | 2007     | 2008     | 2009     | 2010     | Y/Y Change | Y/Y Change | Y/Y Change | Y/Y Change | Market Share | Market Share | Market Share | Market Share |
| 1            | TE Connectivity           | \$8,091  | \$8,103  | \$6,042  | \$7,865  | 8%         | 0%         | -25%       | 30%        | 18.9%        | 17.9%        | 17.1%        | 17.3%        |
| 2            | Molex Incorporated        | \$3,233  | \$3,200  | \$2,480  | \$3,403  | 2%         | -1%        | -23%       | 37%        | 7.6%         | 7.1%         | 7.0%         | 7.5%         |
| 3            | Amphenol Corporation      | \$2,569  | \$2,951  | \$2,567  | \$3,293  | 16%        | 15%        | -13%       | 28%        | 6.0%         | 6.5%         | 7.3%         | 7.3%         |
| 4            | Yazaki                    | \$1,298  | \$1,492  | \$1,260  | \$1,777  | 5%         | 15%        | -16%       | 41%        | 3.0%         | 3.3%         | 3.6%         | 3.9%         |
| 5            | FCI                       | \$1,821  | \$1,841  | \$1,306  | \$1,697  | 11%        | 1%         | -29%       | 30%        | 4.3%         | 4.1%         | 3.7%         | 3.7%         |
| 6            | JST                       | \$1,542  | \$1,549  | \$1,364  | \$1,602  | 7%         | 0%         | -12%       | 17%        | 3.6%         | 3.4%         | 3.9%         | 3.5%         |
| 7            | Foxconn (Hon Hai)         | \$1,372  | \$1,468  | \$1,146  | \$1,547  | 10%        | 7%         | -22%       | 35%        | 3.2%         | 3.2%         | 3.2%         | 3.4%         |
| 8            | Delphi Connection Systems | \$1,165  | \$999    | \$887    | \$1,228  | -4%        | -14%       | -11%       | 38%        | 2.7%         | 2.2%         | 2.5%         | 2.7%         |
| 9            | Hirose                    | \$1,022  | \$1,045  | \$939    | \$1,155  | 3%         | 2%         | -10%       | 23%        | 2.4%         | 2.3%         | 2.7%         | 2.5%         |
| 10           | JAE                       | \$992    | \$1,042  | \$786    | \$976    | 11%        | 5%         | -25%       | 24%        | 2.3%         | 2.3%         | 2.2%         | 2.2%         |
| Total Top 10 |                           | \$23,105 | \$23,690 | \$18,776 | \$24,543 | 7%         | 3%         | -21%       | 31%        | 54%          | 52%          | 53%          | 54%          |
| All Others   |                           | \$19,716 | \$21,549 | \$16,528 | \$20,799 | 7%         | 9%         | -23%       | 26%        | 46%          | 48%          | 47%          | 46%          |
| Total Market |                           | \$42,821 | \$45,239 | \$35,304 | \$45,341 | 7%         | 6%         | -22%       | 28%        | 100%         | 100%         | 100%         | 100%         |

Source: Bishop Report and Citi Investment Research

Source: Citi Investment Research and Analysis, Bishop

**Figure 24. Top 10 Connector Manufacturers – Segment Rankings**

| World Rank | Computers and Peripherals | Business Retail Education | Instruments     | Medical Equipment | Industrial Equipment | Automotive Equipment | Transportation Equipment | Military Electronics | Telecom Datacom Equipment | Consumer Electronics | Other           |
|------------|---------------------------|---------------------------|-----------------|-------------------|----------------------|----------------------|--------------------------|----------------------|---------------------------|----------------------|-----------------|
| 1          | Foxconn                   | TE Connectivity           | TE Connectivity | TE Connectivity   | TE Connectivity      | TE Connectivity      | TE Connectivity          | Amphenol             | Amphenol                  | TE Connectivity      | TE Connectivity |
| 2          | Molex                     | SMK                       | Hirose          | 3M                | Molex                | Yazaki               | FCI                      | Glenair              | TE Connectivity           | Molex                | Hirose          |
| 3          | TE Connectivity           | JST                       | Rosenberger     | Molex             | Amphenol             | Delphi               | Delphi                   | Deutsch              | Molex                     | JST                  | Molex           |
| 4          | FCI                       | Foxconn                   | AVX/Elco        | Amphenol          | Harting              | FCI                  | Sumitomo                 | ITT Interconnect     | Hirose                    | JAE                  | FCI             |
| 5          | JST                       | Smiths                    | LEMO            | Samtec            | JST                  | Sumitomo             | Deutsch                  | TE Connectivity      | FCI                       | FCI                  | Multi-Contact   |
| 6          | I-PEX                     | AVX/Elco                  | Samtec          | LEMO              | 3M                   | Molex                | Yazaki                   | Souriau              | JST                       | Rosenberger          | JST             |
| 7          | LOTES                     | Hirose                    | Foxconn         | ODU               | Deutsch              | JAE                  | Molex                    | China Aviation       | Rosenberger               | Yamachi              | 3M              |
| 8          | Amphenol                  | 3M                        | 3M              | Harting           | Weidmuller           | JST                  | Souriau                  | AMETEK               | JAE                       | AVX/Elco             | Sumitomo        |
| 9          | JAE                       | DDK                       | Multi-Contract  | ITT Interconnect  | JAE                  | Korea Electric       | Huber+Suhner             | Radiall              | Samtec                    | Hirose               | JAE             |
| 10         | Foxlink                   | Rosenberger               | Huber+Suhner    | JST               | Phoenix Contact      | Amphenol             | Korea Electric           | Bel Stewart          | Foxconn                   | Foxconn              | ERNI            |

Source: Citi Investment Research and Analysis, Bishop

**Figure 25. Top 10 Connector Manufacturers – Regional Sales Rank**

| World Rank | Manufacturer              | North America | Europe | Japan | China | Asia Pacific | ROW |
|------------|---------------------------|---------------|--------|-------|-------|--------------|-----|
| 1          | TE Connectivity           | 1             | 1      | 1     | 1     | 1            | 1   |
| 2          | Molex                     | 3             | 4      | 4     | 2     | 3            | 83  |
| 3          | Amphenol                  | 2             | 3      | 16    | 3     | 4            | 2   |
| 4          | Yazaki                    | 5             | 13     | 2     | 10    | 6            | 84  |
| 5          | FCI                       | 9             | 2      | 14    | 6     | 5            | 6   |
| 6          | JST                       | 18            | 10     | 3     | 5     | 8            | 61  |
| 7          | Foxconn (Hon Hai)         | 23            | 20     | 21    | 4     | 2            | 5   |
| 8          | Delphi Connection Systems | 4             | 6      | 76    | 92    | 10           | 4   |
| 9          | Hirose                    | 29            | 31     | 6     | 8     | 7            | 12  |
| 10         | JAE                       | 24            | 42     | 5     | 9     | 14           | 85  |

Source: Citi Investment Research and Analysis

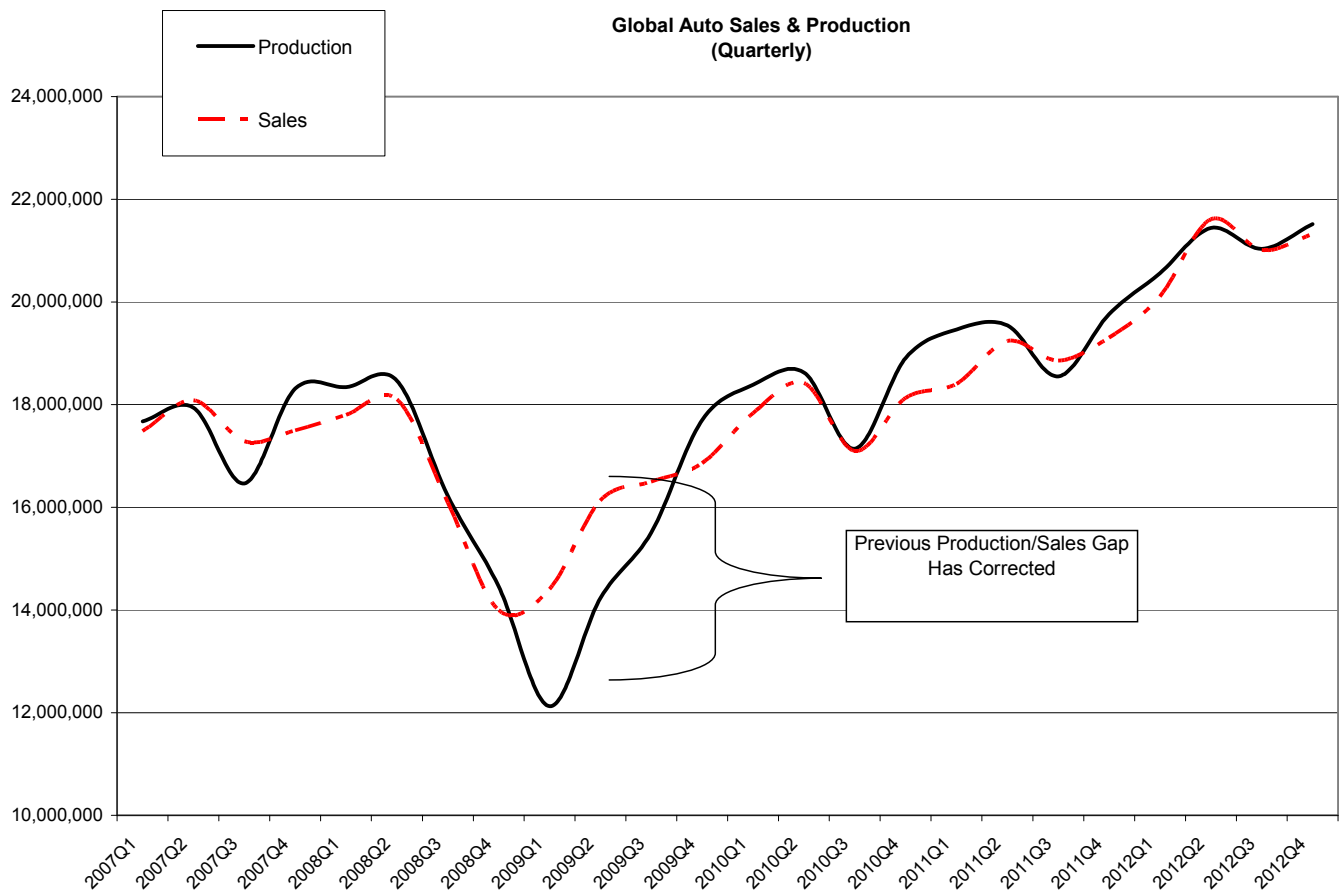


Figure 26. Top Global Technology Component Distributors

| Company Name   | Rank |                |      |      |      | Global Sales |           |           |           |           | % chg Y/Y |      |      |      | Ownership |         |
|--|------|----------------|------|------|------|--------------|-----------|-----------|-----------|-----------|-----------|------|------|------|-----------|---------|
|  | 2009 | 2008 (NA only) | 2007 | 2006 | 2005 | 2009         | 2008      | 2007      | 2006      | 2005      | 2009      | 2008 | 2007 | 2006 | Public    | Private |
| Avnet Inc.   | 1    | 1              | 1    | 1    | 1    | \$ 16,600    | \$ 17,860 | \$ 16,993 | \$ 14,766 | \$ 12,611 | -7%       | 5%   | 15%  | 17%  | X         |         |
| Arrow Electronics, Inc.                                  | 2    | 2              | 2    | 2    | 2    | \$ 14,684    | \$ 16,761 | \$ 15,985 | \$ 13,577 | \$ 11,164 | -12%      | 5%   | 18%  | 22%  | X         |         |
| World Peace Holdings                                     | 3    |                | 3    | 4    | 4    | \$ 5,957     | \$ 4,543  | \$ 4,670  | \$ 3,820  | \$ 3,630  | 31%       | -3%  | 22%  | 5%   | X         |         |
| Future Electronics                                       | 4    | 3              | 4    | 3    | 3    | \$ 3,453     | \$ 5,441  | \$ 4,416  | \$ 4,015  | \$ 3,650  | -37%      | 23%  | 10%  | 10%  |           | X       |
| Bell Microproducts (*acquired by Avnet)                  | 5    | 4              | 5    | 5    | 5    | \$ 3,021     | \$ 4,232  | \$ 4,050  | \$ 3,400  | \$ 3,194  | -29%      | 4%   | 19%  | 6%   | X         |         |
| TTI Inc./Mouser Electronics Inc.                         | 6    | 6              | 8    | 8    | 8    | \$ 1,300     | \$ 1,548  | \$ 1,381  | \$ 1,225  | \$ 973    | -16%      | 12%  | 13%  | 26%  | X         |         |
| Premier Farnell plc (includes Newark in 2007 and 2006)   | 7    |                | 7    | 6    | 6    | \$ 1,265     | \$ 1,440  | \$ 1,489  | \$ 1,345  | \$ 1,455  | -12%      | -3%  | 11%  | -8%  | X         |         |
| Electrocomponents plc (includes Allied in 2007 and 2006) | 8    |                | 6    | 7    | 7    | \$ 1,264     | \$ 1,436  | \$ 1,814  | \$ 1,464  | \$ 1,331  | -12%      | -21% | 24%  | 10%  | X         |         |
| Digi-Key Corporation                                     | 9    | 5              | 9    | 9    | 9    | \$ 927       | \$ 983    | \$ 941    | \$ 829    | \$ 630    | -6%       | 4%   | 14%  | 32%  |           | X       |
| NuHorizons   | 10   | 8              | 10   | 10   | 11   | \$ 641       | \$ 790    | \$ 777    | \$ 727    | \$ 534    | -19%      | 2%   | 7%   | 36%  | X         |         |
| Richardson Electronics, Ltd                              | 11   | 16             | 11   | 11   | 10   | \$ 461       | \$ 566    | \$ 715    | \$ 663    | \$ 603    | -18%      | -21% | 8%   | 10%  | X         |         |
| DAC Group  | 12   | 9              | 12   | 12   | 16   | \$ 388       | \$ 493    | \$ 530    | \$ 478    | \$ 381    | -21%      | -7%  | 11%  | 25%  |           | X       |
| Excelpoint Technology Ltd                                | 13   |                | 13   | 13   | 14   | \$ 357       | \$ 437    | \$ 487    | \$ 454    | \$ 453    | -18%      | -10% | 7%   | 0%   | X         |         |
| Advanced MP Technology                                   | 14   | 23             |      |      | 20   | \$ 219       | \$ 323    |           | \$ 214    |           | -32%      |      |      |      |           | X       |
| Sager  | 15   | 11             | 15   | 16   | 21   | \$ 188       | \$ 346    | \$ 250    | \$ 231    | \$ 210    | -46%      | 39%  | 8%   | 10%  |           | X       |
| A.E. Petsche Co. Inc. (*acquired by Arrow)               | 16   | 18             | 16   | 17   | 24   | \$ 180       | \$ 219    | \$ 195    | \$ 164    | \$ 142    | -18%      | 12%  | 19%  | 16%  |           | X       |
| PEI-Genesis  | 17   | 21             | 18   | 19   | 27   | \$ 145       | \$ 172    | \$ 146    | \$ 114    | \$ 91     | -15%      | 18%  | 28%  | 26%  |           | X       |
| Jaco Electronics Inc.                                    | 18   | 22             | 14   | 14   | 19   | \$ 124       | \$ 178    | \$ 253    | \$ 264    | \$ 218    | -30%      | -30% | -4%  | 21%  | X         |         |
| Dependable Component Supply Corp                         | 19   | 20             | 17   | 18   | 25   | \$ 120       | \$ 270    | \$ 159    | \$ 147    | \$ 134    | -56%      | 70%  | 8%   | 10%  |           | X       |
| Master Distributors                                      | 20   | 24             | 19   | 20   | 26   | \$ 108       | \$ 116    | \$ 113    | \$ 101    | \$ 101    | -7%       | 3%   | 11%  | 0%   |           | X       |
| Powell Electronics Inc.                                  | 21   |                | 21   | 22   | 29   | \$ 90        | \$ 110    | \$ 93     | \$ 86     | \$ 78     | -18%      | 19%  | 8%   | 10%  |           | X       |
| Electro Sonic Inc.                                       | 22   |                | 20   | 21   | 28   | \$ 89        | \$ 105    | \$ 94     | \$ 87     | \$ 79     | -15%      | 12%  | 8%   | 10%  |           | X       |
| Flame Enterprises Inc.                                   | 23   |                |      |      | 33   | \$ 81        | \$ 90     |           | \$ 51     |           | -10%      |      |      |      |           | X       |
| Bisco Industries Inc                                     | 24   | 25             | 23   | 23   | 32   | \$ 80        | \$ 93     | \$ 87     | \$ 80     | \$ 67     | -15%      | 8%   | 8%   | 20%  |           | X       |
| Wesgarde Components Group, Inc.                          | 25   |                | 24   | 24   | 30   | \$ 77        | \$ 94     | \$ 83     | \$ 77     | \$ 70     | -18%      | 13%  | 8%   | 10%  |           | X       |
| Newark   |      | 7              |      |      |      |              | \$ 679    | \$ 629    |           |           |           | 8%   |      |      | X         |         |
| Carlton - Bates  |      | 10             |      |      |      |              | \$ 385    |           |           |           |           |      |      |      |           |         |
| Allied Electronics                                       |      | 12             |      |      |      |              | \$ 340    |           |           |           |           | 5%   |      |      | X         |         |
| Converge (*acquired by Arrow)                            |      | 13             |      |      | 13   |              | \$ 311    |           |           | \$ 462    |           |      |      |      |           | X       |
| N.F. Smith & Associates                                  |      | 14             |      |      | 12   |              | \$ 311    |           |           | \$ 509    |           | 3%   |      |      |           | X       |
| America II   |      | 17             |      |      | 18   |              | \$ 277    | \$ 277    |           | \$ 240    |           | 0%   |      |      |           | X       |
| Fusion Trade   |      | 19             |      |      | 22   |              | \$ 210    |           |           | \$ 172    |           | 5%   |      |      |           | X       |
| All American Semiconductor Inc.                          |      |                | 22   | 14   | 15   |              |           | \$ 90     | \$ 453    | \$ 435    |           |      | -80% | 4%   |           | X       |
| Classic Components                                       |      |                |      |      | 17   |              |           |           |           | \$ 246    |           |      |      |      |           | X       |
| Rand Technology  |      |                |      |      | 23   |              |           |           |           | \$ 148    |           |      |      |      |           | X       |
| RS Electronics   |      |                | 25   | 25   | 31   |              |           | \$ 71     | \$ 70     | \$ 68     |           |      | 1%   | 3%   |           | X       |
| Components International                                 |      |                |      |      |      |              |           |           |           | \$ 38     |           |      |      |      |           | X       |
| Horizon Technology                                       |      |                |      |      |      |              |           |           |           | \$ 30     |           |      |      |      |           | X       |
| TOTALS   |      |                |      |      |      | \$ 61,159    | \$ 56,787 | \$ 48,638 | \$ 44,412 |           |           |      |      |      |           |         |

Source: Citi Investment Research and Analysis

Figure 27. Global Auto Quarterly Sales and Production Trends (millions of units)



Source: Citi Investment Research and Analysis

Figure 28. Boeing & Airbus Order and Delivery Forecast

|               | 2004 | 2005  | 2006  | 2007  | 2008 | 2009 | 2010 | CIRA FORECASTS |       |       |
|---------------|------|-------|-------|-------|------|------|------|----------------|-------|-------|
|               |      |       |       |       |      |      |      | 2011E          | 2012E | 2013E |
| Gross Orders: |      |       |       |       |      |      |      |                |       |       |
| Boeing        | 277  | 1,031 | 1,058 | 1,423 | 669  | 263  | 625  |                |       |       |
| Order Share   | 43%  | 48%   | 56%   | 49%   | 43%  | 46%  | 49%  |                |       |       |
| Airbus        | 370  | 1,111 | 824   | 1,458 | 901  | 310  | 644  |                |       |       |
| Order Share   | 57%  | 52%   | 44%   | 51%   | 57%  | 54%  | 51%  |                |       |       |
| Net Orders:   |      |       |       |       |      |      |      |                |       |       |
| Boeing        | 272  | 1,002 | 1,044 | 1,413 | 662  | 142  | 530  |                |       |       |
| Order Share   | 43%  | 49%   | 57%   | 51%   | 46%  | 34%  | 48%  |                |       |       |
| Airbus        | 366  | 1,055 | 790   | 1,341 | 778  | 271  | 574  |                |       |       |
| Order Share   | 57%  | 51%   | 43%   | 49%   | 54%  | 66%  | 52%  |                |       |       |
| Deliveries:   |      |       |       |       |      |      |      |                |       |       |
| 737NG         | 202  | 212   | 302   | 330   | 290  | 372  | 376  | 375            | 414   | 452   |
| 747           | 15   | 13    | 14    | 16    | 14   | 8    | 0    | 16             | 24    | 24    |
| 767           | 9    | 10    | 12    | 12    | 10   | 13   | 12   | 13             | 24    | 24    |
| 777           | 36   | 40    | 65    | 83    | 61   | 88   | 74   | 74             | 84    | 100   |
| 787           | 0    | 0     | 0     | 0     | 0    | 0    | 0    | 16             | 55    | 84    |
| Other         | 23   | 15    | 5     | 0     | 0    | 0    | 0    | 0              | 0     | 0     |
| Boeing        | 285  | 290   | 398   | 441   | 375  | 481  | 462  | 494            | 601   | 684   |
| % Y/Y Change  | 1%   | 2%    | 37%   | 11%   | -15% | 28%  | -4%  | 7%             | 22%   | 14%   |
|               |      |       |       |       |      |      |      |                |       |       |
| A320          | 233  | 289   | 339   | 367   | 386  | 402  | 401  | 424            | 458   | 472   |
| A330/A340     | 75   | 80    | 86    | 79    | 85   | 86   | 91   | 91             | 102   | 105   |
| A350          | 0    | 0     | 0     | 0     | 0    | 0    | 0    | 0              | 0     | 0     |
| A380          | 0    | 0     | 0     | 1     | 12   | 10   | 18   | 25             | 30    | 35    |
| Other         | 12   | 9     | 9     | 6     | 0    | 0    | 0    | 0              | 0     | 0     |
| Airbus        | 320  | 378   | 434   | 453   | 483  | 498  | 510  | 540            | 591   | 613   |
| % Y/Y Change  | 5%   | 18%   | 15%   | 4%    | 7%   | 3%   | 2%   | 6%             | 9%    | 4%    |
|               |      |       |       |       |      |      |      |                |       |       |
| Narrow        | 458  | 516   | 646   | 697   | 676  | 774  | 777  | 799            | 872   | 924   |
| Wide          | 147  | 152   | 186   | 197   | 182  | 205  | 195  | 235            | 319   | 372   |
| Total         | 605  | 668   | 832   | 894   | 858  | 979  | 972  | 1,034          | 1,192 | 1,297 |

|        |                  | 2003       | 2004       | 2005       | 2006       | 2007       | 2008       | 2009       | 2010E      | 2011E      | 2012E      |
|--------|------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Boeing | Old as of Dec'09 | 281        | 285        | 290        | 398        | 441        | 375        | 481        | 443        | 429        | 429        |
|        | Old as of 2H'10  | 281        | 285        | 290        | 398        | 441        | 375        | 481        | 465        | 532        | 589        |
|        | <b>New</b>       | <b>281</b> | <b>285</b> | <b>290</b> | <b>398</b> | <b>441</b> | <b>375</b> | <b>481</b> | <b>462</b> | <b>494</b> | <b>601</b> |
|        | Delta From 2009  |            |            |            |            |            |            |            | +19        | +65        | +172       |
|        | Delta from 2H'10 |            |            |            |            |            |            |            | -3         | -38        | +12        |
| Airbus | Old as of Dec'09 | 305        | 320        | 378        | 434        | 453        | 483        | 498        | 465        | 429        | 461        |
|        | Old as of 2H'10  | 305        | 320        | 378        | 434        | 453        | 483        | 498        | 498        | 538        | 577        |
|        | <b>New</b>       | <b>305</b> | <b>320</b> | <b>378</b> | <b>434</b> | <b>453</b> | <b>483</b> | <b>498</b> | <b>510</b> | <b>540</b> | <b>591</b> |
|        | Delta From 2009  |            |            |            |            |            |            |            | +45        | +111       | +130       |
|        | Delta from 2H'10 |            |            |            |            |            |            |            | +12        | +2         | +14        |

Source: Citi Investment Research and Analysis

Figure 29. CIRA vs. Street Estimates

|                     | 3Q11E           |                 |               |               | 4Q11E           |                 |               |               | 2011E           |                 |               |               |
|---------------------|-----------------|-----------------|---------------|---------------|-----------------|-----------------|---------------|---------------|-----------------|-----------------|---------------|---------------|
|                     | Revenues        |                 | EPS           |               | Revenues        |                 | EPS           |               | Revenues        |                 | EPS           |               |
|                     | CIR             | STREET          | CIR           | STREET        | CIR             | STREET          | CIR           | STREET        | CIR             | STREET          | CIR           | STREET        |
| <b>EMS</b>          |                 |                 |               |               |                 |                 |               |               |                 |                 |               |               |
| BHE                 | \$597           | \$594           | \$0.31        | \$0.31        | \$615           | \$614           | \$0.34        | \$0.34        | \$2,336         | \$2,332         | \$1.15        | \$1.16        |
| CLS                 | \$1,793         | \$1,801         | \$0.24        | \$0.26        | \$1,793         | \$1,801         | \$0.24        | \$0.26        | \$7,260         | \$7,355         | \$1.00        | \$1.03        |
| FLEX                | \$7,699         | \$7,782         | \$0.21        | \$0.22        | \$7,853         | \$8,080         | \$0.20        | \$0.25        | \$29,958        | \$30,268        | \$0.82        | \$0.89        |
| PLXS                | \$545           | \$542           | \$0.52        | \$0.51        | \$570           | \$565           | \$0.52        | \$0.55        | \$2,242         | \$2,235         | \$2.22        | \$2.23        |
| SANM                | \$1,657         | \$1,668         | \$0.41        | \$0.42        | \$1,707         | \$1,697         | \$0.39        | \$0.44        | \$6,608         | \$6,608         | \$1.52        | \$1.58        |
| <b>Total</b>        | <b>\$12,291</b> | <b>\$12,387</b> | <b>\$1.70</b> | <b>\$1.71</b> | <b>\$12,538</b> | <b>\$12,757</b> | <b>\$1.70</b> | <b>\$1.84</b> | <b>\$48,404</b> | <b>\$48,798</b> | <b>\$6.71</b> | <b>\$6.89</b> |
| y/y growth          |                 |                 |               |               |                 |                 |               |               | 7%              | 8%              | -3%           | 1%            |
| <b>Connectors</b>   |                 |                 |               |               |                 |                 |               |               |                 |                 |               |               |
| APH                 | \$1,010         | \$1,007         | \$0.79        | \$0.78        | \$1,020         | \$1,016         | \$0.80        | \$0.80        | \$3,988         | \$3,982         | \$3.09        | \$3.08        |
| MOLX                | \$895           | \$900           | \$0.42        | \$0.42        | \$918           | \$923           | \$0.43        | \$0.45        | \$3,601         | \$3,611         | \$1.67        | \$1.72        |
| TEL                 | \$3,920         | \$3,938         | \$0.86        | \$0.86        | \$3,657         | \$3,667         | \$0.81        | \$0.79        | \$14,778        | \$14,806        | \$3.15        | \$3.13        |
| <b>Total</b>        | <b>\$5,825</b>  | <b>\$5,845</b>  | <b>\$2.06</b> | <b>\$2.06</b> | <b>\$5,594</b>  | <b>\$5,606</b>  | <b>\$2.04</b> | <b>\$2.04</b> | <b>\$22,367</b> | <b>\$22,399</b> | <b>\$7.92</b> | <b>\$7.94</b> |
| y/y growth          |                 |                 |               |               |                 |                 |               |               | 16%             | 16%             | 13%           | 13%           |
| <b>Distributors</b> |                 |                 |               |               |                 |                 |               |               |                 |                 |               |               |
| ARW                 | \$5,224         | \$5,295         | \$1.14        | \$1.19        | \$5,400         | \$5,600         | \$1.23        | \$1.31        | \$21,387        | \$21,637        | \$4.97        | \$5.08        |
| AVT                 | \$6,479         | \$6,465         | \$0.91        | \$0.91        | \$6,843         | \$6,780         | \$1.04        | \$1.03        | \$26,906        | \$26,829        | \$4.27        | \$4.26        |
| <b>Total</b>        | <b>\$11,703</b> | <b>\$11,760</b> | <b>\$2.05</b> | <b>\$2.10</b> | <b>\$12,243</b> | <b>\$12,380</b> | <b>\$2.27</b> | <b>\$2.33</b> | <b>\$48,293</b> | <b>\$48,466</b> | <b>\$9.25</b> | <b>\$9.34</b> |
| y/y growth          |                 |                 |               |               |                 |                 |               |               | 16%             | 17%             | 18%           | 20%           |
| <b>Components</b>   |                 |                 |               |               |                 |                 |               |               |                 |                 |               |               |
| AVX                 | \$419           | \$422           | \$0.35        | \$0.36        | \$404           | \$411           | \$0.32        | \$0.34        | \$1,680         | \$1,688         | \$1.47        | \$1.50        |
| VSH                 | \$641           | \$641           | \$0.37        | \$0.35        | \$627           | \$624           | \$0.37        | \$0.35        | \$2,673         | \$2,669         | \$1.72        | \$1.66        |
| <b>Total</b>        | <b>\$1,060</b>  | <b>\$1,063</b>  | <b>\$0.72</b> | <b>\$0.71</b> | <b>\$1,031</b>  | <b>\$1,034</b>  | <b>\$0.69</b> | <b>\$0.68</b> | <b>\$4,353</b>  | <b>\$4,357</b>  | <b>\$3.19</b> | <b>\$3.16</b> |
| y/y growth          |                 |                 |               |               |                 |                 |               |               | 0.5%            | 1.1%            | 8.7%          | 9.4%          |

Source: Citi Investment Research and Analysis, Thomson One

Figure 30. CIRA vs. Consensus Ratings and Target Prices (October 2011)

|                     | Citi Rating | Buy | Hold | Sell | Consensus Target Price | Citi Target Price |
|---------------------|-------------|-----|------|------|------------------------|-------------------|
| <b>EMS</b>          |             |     |      |      |                        |                   |
| BHE                 | Sell (3S)   | 25% | 63%  | 13%  | \$15.00                | \$10.50           |
| CLS                 | Sell (3S)   | 59% | 29%  | 12%  | \$10.94                | \$6.50            |
| FLEX                | Hold (2S)   | 53% | 27%  | 20%  | \$5.63                 | \$6.00            |
| JBL                 | Hold (2S)   | 64% | 36%  | 0%   | \$22.92                | \$19.00           |
| PLXS                | Hold (2S)   | 42% | 42%  | 17%  | \$31.17                | \$23.00           |
| SANM                | Hold (2S)   | 33% | 58%  | 8%   | \$12.55                | \$7.50            |
| <b>Distribution</b> |             |     |      |      |                        |                   |
| ARW                 | Buy (1H)    | 85% | 15%  | 0%   | \$41.77                | \$41.00           |
| AVT                 | Buy (1H)    | 85% | 15%  | 0%   | \$34.87                | \$34.00           |
| <b>Connectors</b>   |             |     |      |      |                        |                   |
| APH                 | Buy (1M)    | 69% | 31%  | 0%   | \$54.73                | \$53.00           |
| MOLX                | Hold (2H)   | 44% | 38%  | 19%  | \$23.08                | \$20.50           |
| TEL                 | Buy (1H)    | 67% | 25%  | 8%   | \$39.79                | \$40.00           |
| ST                  | Hold (2S)   | 67% | 33%  | 0%   | \$37.63                | \$26.50           |
| <b>Components</b>   |             |     |      |      |                        |                   |
| AVX                 | Hold (2H)   | 0%  | 100% | 0%   | \$14.00                | \$12.50           |
| VSH                 | Hold (2S)   | 17% | 83%  | 0%   | \$13.33                | \$9.00            |

Source: Citi Investment Research and Analysis, Factset

Figure 31. Total Returns For Our Coverage

|  | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   | YTD<br>2011 |
|--|--------|--------|--------|--------|--------|--------|--------|-------------|
| <b>Handset Companies</b>                 |        |        |        |        |        |        |        |             |
| MMI previously MOT                       | 38.5%  | 32.4%  | -8.2%  | -21.1% | -71.6% | 75.2%  | 16.9%  | 30.4%       |
| RIMM                                     | 146.7% | -19.9% | 93.6%  | 166.2% | -64.2% | 66.4%  | -13.9% | -64.8%      |
| CELL                                     | 13.3%  | 112.9% | -12.7% | 14.2%  | -71.7% | 69.0%  | 18.8%  | 6.5%        |
| <b>Optical/Glass</b>                     |        |        |        |        |        |        |        |             |
| GLW                                      | 12.8%  | 67.0%  | -4.8%  | 28.8%  | -59.8% | 105.6% | 1.2%   | -37.1%      |
| <b>Telecommunications Equipment</b>      |        |        |        |        |        |        |        |             |
| ADTN                                     | -37.7% | 57.5%  | -22.5% | -4.4%  | -29.1% | 54.3%  | 62.7%  | -26.5%      |
| ARRS                                     | -2.8%  | 34.5%  | 32.1%  | -20.2% | -20.3% | 43.8%  | -1.8%  | -8.6%       |
| TLAB                                     | 2.1%   | 26.9%  | -5.9%  | -36.3% | -37.0% | 37.9%  | 20.7%  | -36.6%      |
| PLCM                                     | 19.5%  | -34.4% | 102.0% | -10.1% | -51.4% | 84.8%  | 56.1%  | -5.0%       |
| MSI previously MOT                       | 38.5%  | 32.4%  | -8.2%  | -21.1% | -71.6% | 75.2%  | 16.9%  | 13.5%       |
| <b>Electronic Manufacturing Services</b> |        |        |        |        |        |        |        |             |
| BHE                                      | -2.0%  | -1.4%  | 8.7%   | -27.2% | -28.0% | 48.1%  | -4.0%  | -29.0%      |
| CLS                                      | -6.4%  | -25.2% | -26.0% | -25.7% | -20.5% | 104.8% | 2.8%   | -26.3%      |
| FLEX                                     | -6.6%  | -24.5% | 10.0%  | 5.1%   | -78.8% | 185.5% | 7.4%   | -28.9%      |
| JBL                                      | -9.6%  | 45.0%  | -33.3% | -37.0% | -54.7% | 166.1% | 18.0%  | -9.6%       |
| PLXS                                     | -24.2% | 74.8%  | 5.0%   | 10.0%  | -35.5% | 68.0%  | 8.6%   | -26.8%      |
| SANM                                     | -32.8% | -49.7% | -19.0% | -47.2% | -74.2% | 291.1% | 4.1%   | -42.7%      |
| <b>Distributors</b>                      |        |        |        |        |        |        |        |             |
| ARW                                      | 5.0%   | 31.8%  | -1.5%  | 24.5%  | -52.0% | 57.2%  | 15.7%  | -19.9%      |
| AVT                                      | -15.8% | 31.3%  | 6.6%   | 37.0%  | -47.9% | 65.6%  | 9.5%   | -22.2%      |
| <b>Connectors</b>                        |        |        |        |        |        |        |        |             |
| TEL                                      |        |        |        |        | -55.5% | 56.8%  | 47.5%  | -19.8%      |
| APH                                      | 14.9%  | 20.8%  | 40.6%  | 49.6%  | -48.2% | 92.9%  | 14.4%  | -23.5%      |
| MOLX                                     | -13.7% | -12.9% | 22.9%  | -12.5% | -45.5% | 54.0%  | 8.6%   | -9.1%       |
| ST                                       |        |        |        |        |        |        | 66.0%  | -15.1%      |
| <b>Passive Components</b>                |        |        |        |        |        |        |        |             |
| AVX                                      | -23.4% | 16.3%  | 3.1%   | -8.4%  | -39.9% | 62.1%  | 23.3%  | -23.3%      |
| VSH                                      | -34.4% | -8.4%  | -1.6%  | -15.7% | -70.0% | 144.2% | 95.4%  | -43.4%      |
| <b>Other</b>                             |        |        |        |        |        |        |        |             |
| COMP                                     | 8.6%   | 1.4%   | 9.5%   | 9.8%   | -40.5% | 43.9%  | 16.9%  | -9.2%       |
| SP50                                     | 9.0%   | 3.0%   | 13.6%  | 3.5%   | -38.5% | 23.5%  | 12.8%  | -10.3%      |
| DJI                                      | 3.1%   | -0.6%  | 16.3%  | 6.4%   | -33.8% | 18.8%  | 11.0%  | -6.0%       |
| <b>Summary</b>                           |        |        |        |        |        |        |        |             |
| Handsets                                 | 38.5%  | 32.4%  | -8.2%  | 14.2%  | -71.6% | 69.0%  | 16.9%  | 6.5%        |
| Glass                                    | 12.8%  | 67.0%  | -4.8%  | 28.8%  | -59.8% | 105.6% | 1.2%   | -37.1%      |
| Telecom Equipment                        | 2.1%   | 32.4%  | -5.9%  | -20.2% | -37.0% | 54.3%  | 20.7%  | -8.6%       |
| EMS/Tech Supply Chain                    | -11.6% | 7.5%   | 4.1%   | -10.5% | -48.2% | 68.0%  | 12.0%  | -23.4%      |
| Coverage Universe (Average)              | 3.9%   | 19.4%  | 8.6%   | 2.3%   | -51.2% | 91.3%  | 21.5%  | -20.3%      |
| Coverage Universe (Median)               | -2.8%  | 26.9%  | -1.5%  | -10.1% | -51.7% | 68.5%  | 15.7%  | -23.3%      |

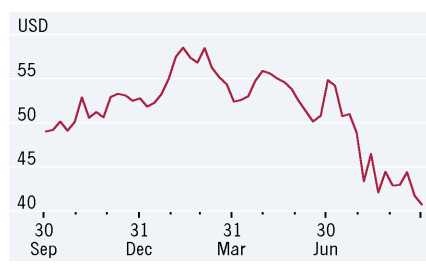
Source: Citi Investment Research and Analysis, Factset

## Company Focus

### ■ Company Update

|                              |              |
|------------------------------|--------------|
| <b>Buy/Medium Risk</b>       | <b>1M</b>    |
| Price (03 Oct 11)            | US\$39.80    |
| Target price                 | US\$53.00    |
| Expected share price return  | 33.2%        |
| Expected dividend yield      | 0.2%         |
| <b>Expected total return</b> | <b>33.3%</b> |
| Market Cap                   | US\$6,763M   |

### Price Performance (RIC: APH.N, BB: APH US)



## Amphenol Corp (APH)

### Defense Headwinds; Focus on M&A, Commercial Aero and Cable Pricing Trends; Declining Raw Material Prices a Welcomed Relief

- **What to Expect for the September Quarter** – We believe Amphenol will report September earnings inline with consensus expectation for Sales of \$1,007m & EPS of \$0.78 and inline with the company's guidance for sales in the range \$1,000m-\$1,015m & EPS in the range \$0.77-\$0.79. Historically, Q3 has been up low single digits sequentially, however, we believe with the defense budget overhang and broader macro issues, q/q revenue growth will be sub-seasonal in Sept. We expect APH will reiterate their full year guidance for sales in the range of \$3,975-\$4,005m and EPS in the range of \$3.07-\$3.11 which we believe will be interpreted as a positive by investors given the difficult macro environment.
- **Key Focus Items** – 1) Update on M&A, which we believe remains a top priority of the company with all time high cash levels. Given the company successful integration track record, we rate APH as the best acquirer in our coverage and believe investors should own APH before any potential M&A deals are announced. Historically, M&A has represented 1/3 of the company's total growth. 2) Update on defense spending given recent weakness attributed to ongoing debates and budget cuts in D.C. We estimate defense represents ~15% of total sales for APH but as a high margin segment represents a larger contributors to overall profits. Importantly, the recommendations from the Senate Appropriations Committee (SAC) suggest a slowing in the Joint Strike Fighter program, which we believe is a significant project for APH. 3) Update on impact of raw materials on margins. Copper and Aluminum prices have declined significantly suggesting raw material prices a welcomed relief after several quarters of commodity price headwinds. 4) Opportunity in commercial aero which currently represents 5% of total revenues but should grow with accelerating orders in current airplane models augmented by the eventual ramping of the Boeing 787. 5) Update on pricing trends in APH's cable business. This segment posted 12.8% operating margins in Q2'11 vs. 13.5% a year ago 15.8% in 2009 due to higher raw material costs and lower sales volumes. Should we expect more disciplined industry pricing now that major competitor Commscope is a private company?
- **Stock View** – We reiterate our Buy (1M) recommendation for Amphenol as the company continues to execute with best in class margins, robust free cash flow and above industry sales growth. We believe potential M&A will be an important driver going forward & highlight both the F-35 Joint Strike Fighter & the Boeing 787 Dreamliner as long term catalysts.
- **Earnings Report** – October 19<sup>th</sup> BMO; Conf Call 1:00pm ET. 1-888-395-9624, Passcode: Reardon.

| EPS          | Q1           | Q2           | Q3           | Q4           | FY           | FC Cons      |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2010A</b> | 0.56A        | 0.68A        | 0.73A        | 0.74A        | 2.71A        | 2.70A        |
| <b>2011E</b> | <b>0.72A</b> | <b>0.79A</b> | <b>0.79E</b> | <b>0.80E</b> | <b>3.09E</b> | <b>3.08E</b> |
| Previous     | 0.72A        | 0.79A        | 0.79E        | 0.80E        | 3.09E        | na           |
| <b>2012E</b> | <b>0.79E</b> | <b>0.84E</b> | <b>0.87E</b> | <b>0.90E</b> | <b>3.40E</b> | <b>3.36E</b> |
| Previous     | 0.79E        | 0.84E        | 0.87E        | 0.90E        | 3.40E        | na           |
| <b>2013E</b> | <b>0.86E</b> | <b>0.92E</b> | <b>0.95E</b> | <b>0.99E</b> | <b>3.72E</b> | <b>3.71E</b> |
| Previous     | 0.86E        | 0.92E        | 0.95E        | 0.99E        | 3.72E        | na           |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 32. Summary of Recent Results and Outlook

|                                 | Revenue (\$MM) |        |       |            |                 | Op. Margin |       | EPS         |        |       |            |               |
|---------------------------------|----------------|--------|-------|------------|-----------------|------------|-------|-------------|--------|-------|------------|---------------|
|                                 | Comment        | Actual | CIR   | First Call | Mgmt Est.       | Actual     | CIR   | Comment     | Actual | CIR   | First Call | Mgmt Est.     |
| APH                             |                |        |       |            |                 |            |       |             |        |       |            |               |
| Jun                             | Beat           | 1,018  | 997   | 995        | \$985-\$1,000   | 19.4%      |       | Beat        | 0.79   | 0.77  | 0.77       | \$0.76-\$0.78 |
| %chg                            |                | 8.2%   | 6.0%  | 5.8%       |                 |            |       |             | 9.3%   | 7.0%  | 7.0%       |               |
| SeptE                           |                |        | 1,010 | 1,007      | \$1,000-\$1,015 |            | 19.6% |             |        | 0.79  | 0.78       | \$0.77-\$0.79 |
| %chg                            |                |        | -0.8% | -1.0%      |                 |            |       |             |        | -0.1% | -0.5%      |               |
| DecE                            |                |        | 1,020 | 1,016      |                 |            | 19.7% |             |        | 0.80  | 0.80       |               |
| %chg                            |                |        | 1.0%  | 0.9%       |                 |            |       |             |        | 1.8%  | 1.9%       |               |
|                                 |                |        |       |            |                 |            |       |             |        |       |            |               |
| CY10                            | In-Line        | 3,554  | 3553  | 3,552      |                 | 19.7%      |       | Slight Beat | 2.71   | 2.70  | 2.70       |               |
| %chg                            |                |        | 26.0% | 26.0%      |                 |            |       |             | 46.9%  | 46.2% | 46.2%      |               |
| CY11E                           |                |        | 3,988 | 3,982      | \$3,955-\$4,000 |            | 19.6% |             |        | 3.09  | 3.08       | \$3.05-\$3.11 |
| %chg                            |                |        | 12.2% | 12.0%      |                 |            |       |             |        | 13.9% | 13.6%      |               |
| CY12E                           |                |        | 4,244 | 4,241      |                 |            | 20.1% |             |        | 3.40  | 3.36       |               |
| %chg                            |                |        | 6.4%  | 6.5%       |                 |            |       |             |        | 10.2% | 9.1%       |               |
| Denotes key investor focus item |                |        |       |            |                 |            |       |             |        |       |            |               |

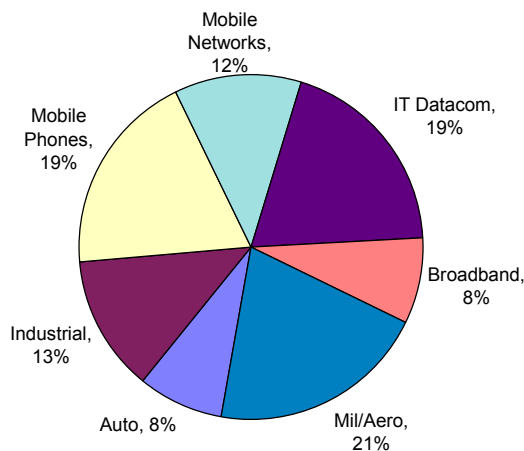
Source: Citi Investment Research and Analysis, Thomson One

Figure 33. APH Business Segmentation

| Revenues (\$ millions)       |       |       |       |       |        |        |       |
|------------------------------|-------|-------|-------|-------|--------|--------|-------|
|                              | 4Q09  | 1Q10  | 2Q10  | 3Q10  | 4Q10   | 1Q11   | 2Q11  |
| Wireless / Telecom / Datacom | 401.9 | 393.2 | 468.9 | 487.5 | 493.9  | 480.2  | 515.8 |
| Broadband                    | 72.0  | 77.1  | 79.6  | 75.9  | 66.5   | 66.5   | 76.5  |
| Industrial / Auto            | 117.5 | 138.8 | 168.1 | 174.5 | 180.5  | 191.2  | 218.9 |
| Military / Aerospace         | 163.0 | 161.9 | 168.1 | 210.6 | 209.0  | 202.7  | 210.8 |
| Q/Q Change                   |       |       |       |       |        |        |       |
|                              | 4Q09  | 1Q10  | 2Q10  | 3Q10  | 4Q10   | 1Q11   | 2Q11  |
| Wireless / Telecom / Datacom | 14.3% | 5.0%  | 19.3% | 4.0%  | 1.3%   | -2.8%  | 7.4%  |
| Broadband                    | -5.0% | 7.0%  | 3.3%  | -4.7% | -12.4% | 0.0%   | 15.0% |
| Industrial / Auto            | 1.0%  | 19.3% | 21.1% | 3.8%  | 3.4%   | 5.9%   | 14.5% |
| Military / Aerospace         | 4.9%  | -0.7% | 8.0%  | 25.2% | -0.8%  | -3.0%  | 4.0%  |
| Y/Y Change                   |       |       |       |       |        |        |       |
|                              | 4Q09  | 1Q10  | 2Q10  | 3Q10  | 4Q10   | 1Q11   | 2Q11  |
| Wireless / Telecom / Datacom | -1.5% | 14.0% | 33.4% | 30.2% | 22.9%  | 22.1%  | 10.0% |
| Broadband                    | 6.0%  | 19.0% | 13.0% | 8.2%  | -7.7%  | -13.8% | -4.0% |
| Industrial / Auto            | -2.7% | 25.9% | 56.3% | 50.0% | 53.6%  | 37.8%  | 30.2% |
| Military / Aerospace         | 2.8%  | 7.0%  | 8.0%  | 35.5% | 28.2%  | 25.2%  | 20.0% |
| % of Sales                   |       |       |       |       |        |        |       |
|                              | 4Q09  | 1Q10  | 2Q10  | 3Q10  | 4Q10   | 1Q11   | 2Q11  |
| Wireless / Telecom / Datacom | 60%   | 51%   | 53%   | 51%   | 52%    | 51%    | 50%   |
| Broadband                    | 10%   | 10%   | 9%    | 8%    | 7%     | 7%     | 8%    |
| Industrial / Auto            | 16%   | 18%   | 19%   | 18%   | 19%    | 20%    | 21%   |
| Military / Aerospace         | 22%   | 21%   | 19%   | 22%   | 22%    | 22%    | 21%   |

Source: Citi Investment Research and Analysis

Figure 34. APH End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis

**Figure 35. Amphenol Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)**

| (\$ in millions, except per-share data)   | CY<br>2007     | CY<br>2008     | CY<br>2009     | Q3/10<br>1Q    | Q6/10<br>2Q    | Q9/10<br>3Q    | Q12/10<br>4Q   | CY<br>2010     | Q3/11<br>1Q    | Q6/11<br>2Q    | Q9/11<br>3Q    | Q12/11<br>4Q   | CY<br>2011E    | CY<br>2012E    | CY<br>2013E    |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net Sales</b>  | <b>2,851.0</b> | <b>3,236.5</b> | <b>2,820.1</b> | <b>771.0</b>   | <b>884.8</b>   | <b>948.5</b>   | <b>949.9</b>   | <b>3,554.1</b> | <b>940.6</b>   | <b>1,017.7</b> | <b>1,009.6</b> | <b>1,019.7</b> | <b>3,987.6</b> | <b>4,243.9</b> | <b>4,613.1</b> |
| Change y/y (%)  | 15.4%          | 13.5%          | -12.9%         | 16.8%          | 29.1%          | 32.4%          | 25.3%          | 26.0%          | 22.0%          | 15.0%          | 6.4%           | 7.3%           | 12.2%          | 6.4%           | 8.7%           |
| Change q/q (%)  | na             | na             | na             | 1.7%           | 14.8%          | 7.2%           | 0.2%           | 0.0%           | -1.0%          | 8.2%           | -0.8%          | 1.0%           | 0.0%           | 0.0%           | 0.0%           |
| Cost of Goods Sold  | 1,920.9        | 2,187.3        | 1,933.5        | 521.8          | 595.5          | 638.7          | 639.9          | 2,395.9        | 636.5          | 696.5          | 686.5          | 690.3          | 2,709.8        | 2,863.0        | 3,112.1        |
| <b>Gross Income</b>   | <b>930.1</b>   | <b>1,049.2</b> | <b>886.6</b>   | <b>249.2</b>   | <b>289.3</b>   | <b>309.7</b>   | <b>310.0</b>   | <b>1,158.2</b> | <b>304.1</b>   | <b>321.2</b>   | <b>323.1</b>   | <b>329.4</b>   | <b>1,277.8</b> | <b>1,380.9</b> | <b>1,501.0</b> |
| Gross Margin  | 32.6%          | 32.4%          | 31.4%          | 32.3%          | 32.7%          | 32.7%          | 32.6%          | 32.6%          | 32.3%          | 31.6%          | 32.0%          | 32.3%          | 32.0%          | 32.5%          | 32.5%          |
| Depreciation and Amortization   | 81.6           | 91.3           | 98.2           | 24.3           | 25.1           | 26.5           | 26.8           | 102.8          | 27.4           | 27.6           | 27.8           | 28.0           | 110.6          | 113.8          | 117.0          |
| SG&A  | 377.3          | 416.9          | 397.6          | 104.1          | 113.7          | 120.6          | 119.5          | 457.9          | 118.0          | 124.2          | 125.2          | 128.5          | 495.9          | 526.0          | 571.7          |
| % of Net Sales  | 13.2%          | 12.9%          | 14.1%          | 13.5%          | 12.8%          | 12.7%          | 12.6%          | 12.9%          | 12.5%          | 12.2%          | 12.4%          | 12.6%          | 12.4%          | 12.4%          | 12.4%          |
| Stock Option Expense (in SG&A)  | 12.0           | 15.2           | 20.5           | 5.4            | 6.2            | 7.0            | 7.0            | 25.5           | 6.3            | 6.3            | 6.3            | 6.3            | 25.3           | 26.5           | 27.9           |
| <b>Operating Income/EBIT</b>  | <b>552.9</b>   | <b>632.2</b>   | <b>488.9</b>   | <b>145.0</b>   | <b>175.6</b>   | <b>189.1</b>   | <b>190.6</b>   | <b>700.4</b>   | <b>186.1</b>   | <b>197.1</b>   | <b>197.9</b>   | <b>200.9</b>   | <b>781.9</b>   | <b>854.9</b>   | <b>929.3</b>   |
| Operating Margin  | 19.4%          | 19.5%          | 17.3%          | 18.8%          | 19.8%          | 19.9%          | 20.1%          | 19.7%          | 19.8%          | 19.4%          | 19.6%          | 19.7%          | 19.6%          | 20.1%          | 20.1%          |
| Interest Expense  | 36.9           | 39.6           | 36.6           | 10.0           | 10.0           | 10.6           | 10.2           | 40.8           | 10.0           | 11.4           | 13.8           | 13.5           | 48.7           | 51.6           | 47.8           |
| Non-Operating Income  | -15.0          | -8.8           | -1.2           | 0.5            | 0.8            | 1.3            | 1.6            | 4.1            | 1.7            | 2.1            | 2.1            | 2.1            | 8.1            | 8.5            | 8.5            |
| <b>Pretax Income</b>  | <b>501.0</b>   | <b>583.8</b>   | <b>451.1</b>   | <b>135.5</b>   | <b>166.4</b>   | <b>179.8</b>   | <b>182.0</b>   | <b>663.7</b>   | <b>177.8</b>   | <b>187.8</b>   | <b>186.2</b>   | <b>189.5</b>   | <b>741.3</b>   | <b>811.8</b>   | <b>890.0</b>   |
| Pretax margin   | 17.6%          | 18.0%          | 16.0%          | 17.6%          | 18.8%          | 19.0%          | 19.2%          | 18.7%          | 18.9%          | 18.5%          | 18.4%          | 18.6%          | 18.6%          | 19.1%          | 19.3%          |
| Provision for Income Taxes  | 147.8          | 163.0          | 120.6          | 35.4           | 45.4           | 49.0           | 49.5           | 179.3          | 48.9           | 50.1           | 50.3           | 51.2           | 200.5          | 219.2          | 240.3          |
| Tax Rate  | 29.5%          | 27.9%          | 26.7%          | 26.1%          | 27.3%          | 27.3%          | 27.2%          | 27.0%          | 27.5%          | 26.7%          | 27.0%          | 27.0%          | 27.0%          | 27.0%          | 27.0%          |
| <b>Net Income before Extraordinaries</b>  | <b>353.2</b>   | <b>419.2</b>   | <b>321.1</b>   | <b>98.4</b>    | <b>119.7</b>   | <b>129.2</b>   | <b>131.1</b>   | <b>478.4</b>   | <b>128.0</b>   | <b>136.5</b>   | <b>134.8</b>   | <b>137.2</b>   | <b>536.5</b>   | <b>588.0</b>   | <b>645.1</b>   |
| Net Margin  | 12.4%          | 13.0%          | 11.4%          | 12.8%          | 13.5%          | 13.6%          | 13.8%          | 13.5%          | 13.6%          | 13.4%          | 13.4%          | 13.5%          | 13.5%          | 13.9%          | 14.0%          |
| Extraordinaries   | 0.0            | 0.0            | 0.0            | 0.0            | -10.0          | -8.0           | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Net Income after Extraordinaries  | 353.2          | 419.2          | 321.1          | 98.4           | 129.7          | 137.2          | 131.1          | 496.4          | 128.0          | 136.5          | 134.8          | 137.2          | 536.5          | 588.0          | 645.1          |
| <b>EBITDA</b>   | <b>671.3</b>   | <b>763.2</b>   | <b>623.7</b>   | <b>179.4</b>   | <b>210.7</b>   | <b>226.2</b>   | <b>227.6</b>   | <b>844.0</b>   | <b>223.5</b>   | <b>236.0</b>   | <b>239.4</b>   | <b>242.3</b>   | <b>941.2</b>   | <b>1,020.4</b> | <b>1,094.1</b> |
| EBITDA Margin   | 23.5%          | 23.6%          | 22.1%          | 23.3%          | 23.8%          | 23.9%          | 24.0%          | 23.7%          | 23.8%          | 23.2%          | 23.7%          | 23.8%          | 23.6%          | 24.0%          | 23.7%          |
| EPS - Basic   | 1.98           | 2.39           | 1.87           | 0.57           | 0.75           | 0.79           | 0.75           | 2.85           | 0.73           | 0.80           | 0.80           | 0.81           | 3.14           | 3.45           | 3.76           |
| EPS - Diluted   | 1.94           | 2.34           | 1.85           | 0.56           | 0.74           | 0.78           | 0.74           | 2.81           | 0.72           | 0.79           | 0.79           | 0.80           | 3.09           | 3.40           | 3.72           |
| Cash EPS  | 1.94           | 2.34           | 1.85           | 0.56           | 0.68           | 0.73           | 0.74           | 2.71           | 0.72           | 0.79           | 0.79           | 0.80           | 3.09           | 3.40           | 3.72           |
| Average Shares Outstanding - Basic  | 178.5          | 175.7          | 171.6          | 173.3          | 173.5          | 173.8          | 174.9          | 173.9          | 175.2          | 171.2          | 169.1          | 169.1          | 171.1          | 170.4          | 171.6          |
| Average Shares Outstanding - Diluted  | 182.5          | 178.8          | 173.9          | 175.6          | 175.9          | 176.2          | 177.6          | 176.3          | 177.9          | 173.6          | 171.5          | 171.5          | 173.6          | 172.8          | 173.5          |
| *APH started stock option expensing in 1Q06, \$0.01/qtr post 2:1 stock split (March 31, 2007) |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                |
| Cash and Short-Term Investments   | 183.6          | 215.0          | 422.4          | 431.7          | 436.7          | 587.8          | 624.2          | 624.2          | 691.4          | 696.6          | 842.9          | 956.5          | 956.5          | 1,400.8        | 1,886.2        |
| Net Receivables   | 510.4          | 516.0          | 449.6          | 572.6          | 645.6          | 727.5          | 718.5          | 718.5          | 744.2          | 793.4          | 787.1          | 794.9          | 794.9          | 864.1          | 939.3          |
| Inventories   | 456.9          | 512.5          | 461.8          | 476.1          | 498.6          | 539.7          | 549.2          | 549.2          | 603.0          | 642.3          | 615.4          | 618.8          | 618.8          | 670.1          | 728.5          |
| Other Current Assets  | 72.9           | 92.4           | 86.7           | 135.9          | 176.9          | 102.7          | 100.2          | 100.2          | 107.3          | 114.4          | 114.1          | 114.5          | 114.5          | 117.7          | 121.1          |
| <b>Total Current Assets</b>   | <b>1,223.8</b> | <b>1,335.9</b> | <b>1,420.4</b> | <b>1,616.3</b> | <b>1,757.7</b> | <b>1,957.7</b> | <b>1,992.1</b> | <b>1,992.1</b> | <b>2,145.9</b> | <b>2,246.7</b> | <b>2,359.5</b> | <b>2,484.8</b> | <b>2,484.8</b> | <b>3,052.8</b> | <b>3,675.0</b> |
| Net Property, Plant and Equipment   | 316.2          | 344.5          | 332.9          | 327.2          | 325.2          | 352.3          | 367.0          | 367.0          | 371.5          | 379.7          | 382.3          | 384.9          | 384.9          | 398.4          | 419.8          |
| Net Goodwill  | 1,091.8        | 1,232.3        | 1,368.7        | 1,371.8        | 1,382.4        | 1,527.8        | 1,533.3        | 1,533.3        | 1,536.5        | 1,577.0        | 1,577.0        | 1,577.0        | 1,577.0        | 1,577.0        | 1,577.0        |
| Other Assets  | 43.9           | 81.4           | 97.2           | 95.2           | 91.5           | 131.0          | 123.4          | 123.4          | 117.3          | 119.3          | 119.0          | 119.4          | 119.4          | 122.8          | 126.3          |
| <b>Total Assets</b>   | <b>2,675.7</b> | <b>2,994.2</b> | <b>3,219.2</b> | <b>3,410.5</b> | <b>3,556.8</b> | <b>3,968.8</b> | <b>4,015.9</b> | <b>4,015.9</b> | <b>4,171.2</b> | <b>4,322.7</b> | <b>4,437.7</b> | <b>4,566.1</b> | <b>4,566.1</b> | <b>5,151.0</b> | <b>5,798.0</b> |
| Debt in Current Liabilities   | 1.1            | 0.4            | 0.4            | 49.4           | 0.4            | 0.4            | 0.4            | 0.4            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            |
| Accounts Payable  | 295.4          | 306.0          | 292.1          | 319.8          | 377.6          | 396.0          | 385.0          | 385.0          | 414.3          | 426.2          | 420.1          | 422.4          | 422.4          | 457.5          | 497.3          |
| Accrued Interest  | 4.3            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Other Current Liabilities   | 219.8          | 328.4          | 210.6          | 223.6          | 218.9          | 290.8          | 269.7          | 269.7          | 267.8          | 221.9          | 221.3          | 222.0          | 222.0          | 228.3          | 234.7          |
| <b>Total Current Liabilities</b>  | <b>520.5</b>   | <b>634.8</b>   | <b>503.2</b>   | <b>592.9</b>   | <b>596.9</b>   | <b>687.1</b>   | <b>655.0</b>   | <b>655.0</b>   | <b>682.4</b>   | <b>648.4</b>   | <b>641.7</b>   | <b>644.7</b>   | <b>644.7</b>   | <b>686.1</b>   | <b>732.3</b>   |
| Long-Term Debt  | 721.6          | 786.0          | 753.1          | 752.5          | 781.6          | 904.0          | 799.6          | 799.6          | 949.4          | 1,157.6        | 1,147.6        | 1,137.6        | 1,137.6        | 1,097.6        | 1,057.6        |
| Deferred Taxes, Invest Tax Credit   | 168.8          | 223.9          | 200.2          | 197.7          | 197.2          | 207.4          | 218.5          | 218.5          | 212.9          | 207.4          | 206.8          | 207.5          | 207.5          | 213.4          | 219.4          |
| <b>Total Liabilities</b>  | <b>1,410.8</b> | <b>1,644.7</b> | <b>1,456.4</b> | <b>1,543.1</b> | <b>1,575.8</b> | <b>1,798.6</b> | <b>1,673.1</b> | <b>1,673.1</b> | <b>1,844.8</b> | <b>2,013.3</b> | <b>1,996.1</b> | <b>1,989.8</b> | <b>1,989.8</b> | <b>1,997.0</b> | <b>2,009.3</b> |
| Total Shareholders' Equity  | 1,264.9        | 1,349.4        | 1,762.8        | 1,867.4        | 1,981.0        | 2,170.2        | 2,342.7        | 2,342.7        | 2,326.5        | 2,309.4        | 2,441.6        | 2,576.3        | 2,576.3        | 3,153.9        | 3,788.7        |
| <b>Total Liab/Shareholders' Equity</b>  | <b>2,675.7</b> | <b>2,994.2</b> | <b>3,219.2</b> | <b>3,410.5</b> | <b>3,556.8</b> | <b>3,968.8</b> | <b>4,015.9</b> | <b>4,015.9</b> | <b>4,171.2</b> | <b>4,322.7</b> | <b>4,437.7</b> | <b>4,566.1</b> | <b>4,566.1</b> | <b>5,151.0</b> | <b>5,798.0</b> |

Source: Citi Investment Research and Analysis and company data



## Company Focus

### ■ Company Update

|                              |              |
|------------------------------|--------------|
| <b>Buy/High Risk</b>         | <b>1H</b>    |
| Price (03 Oct 11)            | US\$25.98    |
| Target price                 | US\$41.00    |
| Expected share price return  | 57.8%        |
| Expected dividend yield      | 0.0%         |
| <b>Expected total return</b> | <b>57.8%</b> |
| Market Cap                   | US\$2,986M   |

### Price Performance (RIC: ARW.N, BB: ARW US)



## Arrow Electronics Inc (ARW)

### Concerned over Components & Soft Macro; Remain Positive on Growth Opportunity in M&A, Particularly After Market Services

- **What to Expect for the September Quarter** – Arrow likely reports sales at the low end of the company's guidance in the range \$5.15-\$5.55b vs. consensus at \$5.30b & could miss the guided EPS range of \$1.17-\$1.29 vs. consensus of \$1.19 as the macro environment has meaningfully deteriorated since the company provided its outlook on July 26th. We expect below normal seasonal weakness in North American components as customers work down inventories and overall macro uncertainty impacts order trends. In early September, major supplier ALTR lowered guidance citing demand weakness in several verticals, specifically Telecom & Wireless (ex. Asia), Industrial Automation, Military and Test. While normal seasonal for Components is flat to +2% q/q, we believe this segment will disappoint and decline -3% q/q. We believe ARW's Computer Products' segment will come in at the low end of its normal seasonal -12% to -8% q/q. We expect ARW's book to bill will remain below 1x.
- **Key Focus Items** – 1) Update on end demand trends, has Components seen some of the softness discussed at major suppliers (i.e. chip companies ALTR, etc)? In Computing, ARW has seen several quarters of strong growth in industry-standard servers, storage and services - does this continue to show strength through 2H'11? 2) Margin opportunity in After Market Services, with ARW's ITAD segment growing >20% y/y with operating margins 2x+ average corporate margins. ARW appears focused on expanding their End of Life products business (specifically in Mil/Aero). 3) Book to Bill in Arrow's component's segment which we believe should remain below 1x. 4) Update on integration of recent acquisitions, including Chip One Stop, Seed International, Cross Telecom, Diasa Informatica, Intechra, Wireless & Power Division of Richardson Electronics, Nu Horizons Electronics & Shared Technologies. 5) Update on the ERP rollout, which appears on track with the completion of ARW has already rolled out Australia, New Zealand & Northern Europe and plans rollout into Central Europe in 2H'11. 6) Priorities in use of Cash as ARW need about \$250m of cash to run their business which suggests the company has another \$250m of excess cash on the balance sheet (not including additional borrowings). Recently, ARW upsized their repurchase program by an additional \$100m authorization.
- **Stock View** – We maintain a Buy (1H) rating on ARW with a \$41 target price as we believe the company will continue to pursue accretive M&A and generate above market growth. We are encouraged by ARW's improvements in profitability and its focus on higher margin segments, particularly in value added services.
- **Earnings Report** – To be determined as ARW has not yet provided a date as of the time of this publication (past history has been a 2 week notification).

| EPS      | Q1    | Q2    | Q3    | Q4    | FY    | FC Cons |
|----------|-------|-------|-------|-------|-------|---------|
| 2010A    | 0.76A | 1.01A | 1.08A | 1.29A | 4.14A | 4.13A   |
| 2011E    | 1.24A | 1.36A | 1.14E | 1.23E | 4.97E | 5.08E   |
| Previous | 1.24A | 1.36A | 1.14E | 1.23E | 4.97E | na      |
| 2012E    | 1.13E | 1.29E | 1.23E | 1.40E | 5.05E | 5.00E   |
| Previous | 1.13E | 1.29E | 1.23E | 1.40E | 5.05E | na      |
| 2013E    | 1.15E | 1.31E | 1.25E | 1.42E | 5.14E | 5.49E   |
| Previous | 1.15E | 1.31E | 1.25E | 1.42E | 5.14E | na      |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 36. Summary of Recent Results and Outlook

|                                 | Revenue (\$MM) |        |        |            |                 | Op.Margin |      | EPS         |        |        |            |               |
|---------------------------------|----------------|--------|--------|------------|-----------------|-----------|------|-------------|--------|--------|------------|---------------|
|                                 | Comment        | Actual | CIR    | First Call | Mgmt Est.       | Actual    | CIR  | Comment     | Actual | CIR    | First Call | Mgmt Est.     |
| <b>ARW</b>                      |                |        |        |            |                 |           |      |             |        |        |            |               |
| Jun                             |                | 5,540  | 5,777  | 5,741      | \$5,550-\$5,950 | 4.6%      |      |             | 1.36   | 1.38   | 1.36       | \$1.30-\$1.40 |
| %chg                            |                | 6.1%   | 10.6%  | 9.9%       |                 |           |      |             | 9.4%   | 11.0%  | 9.4%       |               |
| SeptE                           |                |        | 5,224  | 5,295      | \$5,150-\$5,550 |           | 4.3% |             |        | 1.14   | 1.19       | \$1.17-\$1.29 |
| %chg                            |                |        | -5.7%  | -4.4%      |                 |           |      |             |        | -16.5% | -12.9%     |               |
| DecE                            |                |        | 5,400  | 5,600      |                 |           | 4.5% |             |        | 1.23   | 1.31       |               |
| %chg                            |                |        | 3.4%   | 5.8%       |                 |           |      |             |        | 8.5%   | 10.1%      |               |
| CY10                            | In-Line        | 18,745 | 18,826 | 18,706     |                 | 4.2%      |      | Slight Beat | 4.14   | 4.13   | 4.12       |               |
| %chg                            |                |        | 28.2%  | 27.4%      |                 |           |      |             |        | 146.4% | 145.8%     |               |
| CY11E                           |                |        | 21,387 | 21,637     |                 |           | 4.6% |             |        | 4.97   | 5.08       |               |
| %chg                            |                |        | 14.1%  | 15.4%      |                 |           |      |             |        | 20.0%  | 22.6%      |               |
| CY12E                           |                |        | 20,736 | 21,937     |                 |           | 4.8% |             |        | 5.05   | 5.00       |               |
| %chg                            |                |        | -3.0%  | 1.4%       |                 |           |      |             |        | 1.5%   | -1.6%      |               |
| Denotes key investor focus item |                |        |        |            |                 |           |      |             |        |        |            |               |

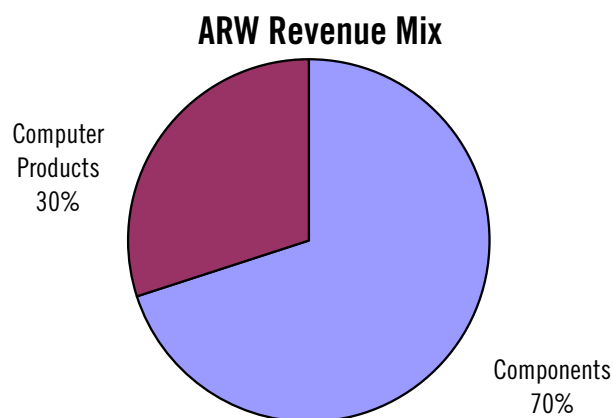
Source: Citi Investment Research and Analysis, Thomson One

Figure 37. Arrow Electronics Segment Sales Growth

| Revenues (\$ millions)   |         |         |         |         |         |         |         |         |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
|                          | 3Q09    | 4Q09    | 1Q10    | 2Q10    | 3Q10    | 4Q10    | 1Q11    | 2Q11    |
| Components               | 2,541.3 | 2,593.4 | 3,128.0 | 3,259.0 | 3,437.6 | 3,343.7 | 3,886.6 | 3,875.3 |
| Computer Products        | 1,130.5 | 1,609.6 | 1,107.3 | 1,354.3 | 1,220.2 | 1,894.5 | 1,336.4 | 1,664.6 |
| <b>% of Sales</b>        |         |         |         |         |         |         |         |         |
|                          | 3Q09    | 4Q09    | 1Q10    | 2Q10    | 3Q10    | 4Q10    | 1Q11    | 2Q11    |
| Components               | 69%     | 62%     | 74%     | 71%     | 74%     | 64%     | 74%     | 70%     |
| Computer Products        | 31%     | 38%     | 26%     | 29%     | 26%     | 36%     | 26%     | 30%     |
| <b>Q/Q Change</b>        |         |         |         |         |         |         |         |         |
|                          | 3Q09    | 4Q09    | 1Q10    | 2Q10    | 3Q10    | 4Q10    | 1Q11    | 2Q11    |
| Components               | 11.9%   | 2.0%    | 20.6%   | 4.2%    | 5.5%    | -2.7%   | 16.2%   | -0.3%   |
| Computer Products        | 0.9%    | 42.4%   | -31.2%  | 22.3%   | -9.9%   | 55.3%   | -29.5%  | 24.6%   |
| <b>Y/Y Change</b>        |         |         |         |         |         |         |         |         |
|                          | 3Q09    | 4Q09    | 1Q10    | 2Q10    | 3Q10    | 4Q10    | 1Q11    | 2Q11    |
| Components               | -15.0%  | 5.8%    | 33.4%   | 43.5%   | 35.3%   | 28.9%   | 24.3%   | 18.9%   |
| Computer Products        | -13.5%  | -1.8%   | 3.3%    | 20.9%   | 7.9%    | 17.7%   | 20.7%   | 22.9%   |
| <b>Operating Margins</b> |         |         |         |         |         |         |         |         |
|                          | 3Q09    | 4Q09    | 1Q10    | 2Q10    | 3Q10    | 4Q10    | 1Q11    | 2Q11    |
| Components               | 3.2%    | 4.0%    | 4.9%    | 5.6%    | 5.7%    | 5.4%    | 5.9%    | 5.8%    |
| Computer Products        | 2.9%    | 4.3%    | 2.2%    | 3.2%    | 2.9%    | 4.7%    | 2.9%    | 3.8%    |

Source: Citi Investment Research and Analysis, Company Reports

Figure 38. End Market Segments



Source: Citi Investment Research and Analysis, Company Reports

**Figure 39. ARW Quarterly Income Statement and Balance Sheet**

| (\$ in millions, except per-share data)          | CY<br>2008      | CY<br>2009      | 03/10<br>1Q    | 06/10<br>2Q    | 09/10<br>3Q    | 12/10<br>4Q    | CY<br>2010      | 03/11<br>1Q    | 06/11<br>2Q     | 09/11<br>3Q    | 12/11<br>4Q     | CY<br>2011E     | CY<br>2012E     | CY<br>2013E     |
|--|-----------------|-----------------|----------------|----------------|----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Net Sales</b>                                 | <b>16,761.0</b> | <b>14,684.1</b> | <b>4,235.4</b> | <b>4,613.3</b> | <b>4,657.8</b> | <b>5,238.2</b> | <b>18,744.7</b> | <b>5,223.0</b> | <b>5,539.9</b>  | <b>5,223.9</b> | <b>5,400.2</b>  | <b>21,387.1</b> | <b>20,735.9</b> | <b>20,870.8</b> |
| % change yr/yr                                   | 4.9%            | -12.4%          | 23.9%          | 36.0%          | 26.9%          | 24.6%          | 27.7%           | 23.3%          | 20.1%           | 12.2%          | 3.1%            | 14.1%           | -3.0%           | 0.7%            |
| % change q/q                                     | NM              | NM              | 0.8%           | 8.9%           | 1.0%           | 12.5%          | NM              | -0.3%          | 6.1%            | -5.7%          | 3.4%            | NM              | NM              | NM              |
| Cost of Goods Sold                               | 14,478.3        | 12,933.2        | 3,697.4        | 4,024.8        | 4,049.0        | 4,554.8        | 16,326.1        | 4,500.5        | 4,769.8         | 4,505.5        | 4,668.4         | 18,444.2        | 17,867.7        | 17,963.1        |
| <b>Gross Income</b>                              | <b>2,282.7</b>  | <b>1,750.9</b>  | <b>537.9</b>   | <b>588.5</b>   | <b>608.8</b>   | <b>683.4</b>   | <b>2,418.6</b>  | <b>722.5</b>   | <b>770.1</b>    | <b>718.4</b>   | <b>731.8</b>    | <b>2,942.9</b>  | <b>2,868.2</b>  | <b>2,907.7</b>  |
| Gross Margin (excl Deprec.)                      | 13.6%           | 11.9%           | 12.7%          | 12.8%          | 13.1%          | 13.0%          | 12.9%           | 13.8%          | 13.9%           | 13.8%          | 13.6%           | 13.8%           | 13.8%           | 13.9%           |
| % of Revs  | 9.6%            | 8.9%            | 8.7%           | 8.1%           | 8.4%           | 8.1%           | 8.3%            | 8.9%           | 8.9%            | 9.0%           | 8.6%            | 8.8%            | 8.5%            | 8.5%            |
| Depreciation & Amtz                              | 69.3            | 67.0            | 18.5           | 17.8           | 19.2           | 21.9           | 77.4            | 22.9           | 26.0            | 26.0           | 26.0            | 101.0           | 104.0           | 104.0           |
| <b>Operating Income--EBIT</b>                    | <b>606.2</b>    | <b>378.3</b>    | <b>152.7</b>   | <b>194.8</b>   | <b>198.9</b>   | <b>237.9</b>   | <b>784.3</b>    | <b>234.7</b>   | <b>253.6</b>    | <b>222.2</b>   | <b>241.4</b>    | <b>951.8</b>    | <b>992.9</b>    | <b>1,020.9</b>  |
| Operating Margin                                 | 3.6%            | 2.6%            | 3.6%           | 4.2%           | 4.3%           | 4.5%           | 4.2%            | 4.5%           | 4.6%            | 4.3%           | 4.5%            | 4.5%            | 4.8%            | 4.9%            |
| Interest Expense(Income)                         | 99.9            | 83.3            | 19.1           | 19.4           | 18.9           | 19.2           | 76.6            | 25.8           | 26.5            | 29.5           | 31.1            | 112.8           | 121.1           | 118.6           |
| Non-operating Income (Expense)                   | 6.4             | 4.7             | -0.7           | 0.2            | 1.6            | 1.8            | 2.9             | -2.8           | -0.2            | 0.1            | -0.3            | -3.2            | -1.8            | -1.6            |
| Other  | 0.0             | 0.0             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.0            | 0.0             | 0.0            | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>Pretax Income</b>                             | <b>512.7</b>    | <b>299.7</b>    | <b>132.9</b>   | <b>175.7</b>   | <b>181.6</b>   | <b>220.5</b>   | <b>710.6</b>    | <b>206.1</b>   | <b>226.8</b>    | <b>192.9</b>   | <b>210.1</b>    | <b>835.8</b>    | <b>870.0</b>    | <b>900.7</b>    |
| Pretax Margin                                    | 3.1%            | 2.0%            | 3.1%           | 3.8%           | 3.9%           | 4.2%           | 3.8%            | 3.9%           | 4.1%            | 3.7%           | 3.9%            | 3.9%            | 4.2%            | 4.3%            |
| Income Tax Expense                               | 157.0           | 97.3            | 40.3           | 53.9           | 53.6           | 68.8           | 216.5           | 59.9           | 66.9            | 58.8           | 64.1            | 249.6           | 265.3           | 274.7           |
| Tax Rate (%)                                     | 30.6%           | 32.5%           | 30.3%          | 30.7%          | 29.5%          | 31.2%          | 30.5%           | 29.1%          | 29.5%           | 30.5%          | 30.5%           | 29.9%           | 30.5%           | 30.5%           |
| Minority Interest                                | -0.1            | 0.0             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.2            | 0.1             | 0.0            | 0.0             | 0.3             | 0.0             | 0.0             |
| <b>Net Income</b>                                | <b>355.8</b>    | <b>202.4</b>    | <b>92.6</b>    | <b>121.8</b>   | <b>128.0</b>   | <b>151.6</b>   | <b>494.1</b>    | <b>146.0</b>   | <b>159.8</b>    | <b>134.0</b>   | <b>146.0</b>    | <b>585.9</b>    | <b>604.7</b>    | <b>626.0</b>    |
| Net Margin                                       | 0.0             | 0.0             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.0            | 0.0             | 0.0            | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>EBITDA</b>                                    | <b>675.5</b>    | <b>445.3</b>    | <b>171.2</b>   | <b>212.6</b>   | <b>218.1</b>   | <b>259.8</b>   | <b>861.6</b>    | <b>257.6</b>   | <b>279.6</b>    | <b>248.2</b>   | <b>267.4</b>    | <b>1,052.8</b>  | <b>1,096.9</b>  | <b>1,124.9</b>  |
| EBITDA Margin                                    | 4.0%            | 3.0%            | 4.0%           | 4.6%           | 4.7%           | 5.0%           | 4.6%            | 4.9%           | 5.0%            | 4.8%           | 5.0%            | 4.9%            | 5.3%            | 5.4%            |
| Pro Forma Operating Net EPS - Basic              | 2.94            | 1.69            | 0.77           | 1.02           | 1.09           | 1.31           | 4.20            | 1.27           | 1.38            | 1.16           | 1.25            | 5.06            | 5.14            | 5.23            |
| <b>Pro Forma Operating Net EPS - Diluted</b>     | <b>2.92</b>     | <b>1.68</b>     | <b>0.76</b>    | <b>1.01</b>    | <b>1.08</b>    | <b>1.29</b>    | <b>4.14</b>     | <b>1.24</b>    | <b>1.36</b>     | <b>1.14</b>    | <b>1.23</b>     | <b>4.97</b>     | <b>5.05</b>     | <b>5.14</b>     |
| One-Time Items                                   | 965.42          | 79.01           | 5.55           | 5.65           | 9.51           | -6.26          | 14.44           | 9.73           | 3.58            | 0.00           | 0.00            | 13.31           | 0.00            | 0.00            |
| GAAP Reported EPS - Basic                        | -5.14           | 1.03            | 0.72           | 0.97           | 1.01           | 1.37           | 4.08            | 1.18           | 1.35            | 1.16           | 1.25            | 4.95            | 5.14            | 5.23            |
| GAAP Reported EPS - Diluted                      | -5.13           | 1.02            | 0.71           | 0.96           | 1.00           | 1.34           | 4.02            | 1.16           | 1.33            | 1.14           | 1.23            | 4.86            | 5.05            | 5.14            |
| Average Shares Outstanding - Basic               | 119.4           | 120.0           | 120.2          | 119.2          | 117.0          | 115.5          | 115.5           | 115.2          | 115.4           | 115.9          | 116.4           | 116.4           | 118.4           | 120.4           |
| Average Shares Outstanding - Diluted             | 119.7           | 121.4           | 121.9          | 120.6          | 118.2          | 117.5          | 117.5           | 117.4          | 117.5           | 118.0          | 118.5           | 118.5           | 120.5           | 122.5           |
| Cash and Cash Equivalents                        | 451.3           | 1,137.0         | 810.1          | 576.7          | 509.7          | 926.3          | 926.3           | 521.3          | 531.0           | 915.4          | 1,059.1         | 1,059.1         | 1,555.6         | 2,072.9         |
| Net Receivables                                  | 3,087.3         | 3,136.1         | 3,081.7        | 3,372.9        | 3,602.7        | 4,102.9        | 4,102.9         | 4,124.1        | 4,347.4         | 4,099.4        | 4,237.8         | 4,237.8         | 4,264.4         | 4,291.3         |
| Inventories                                      | 1,626.6         | 1,397.7         | 1,476.6        | 1,805.8        | 2,013.7        | 1,909.0        | 1,909.0         | 2,075.0        | 2,248.0         | 2,047.4        | 2,018.8         | 2,018.8         | 2,080.7         | 2,143.2         |
| Deferred Income Taxes                            | 0.0             | 0.0             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.0            | 0.0             | 0.0            | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>Total Current Assets</b>                      | <b>5,345.8</b>  | <b>5,839.6</b>  | <b>5,551.2</b> | <b>5,970.6</b> | <b>6,341.3</b> | <b>7,085.8</b> | <b>7,085.8</b>  | <b>6,901.9</b> | <b>7,329.3</b>  | <b>7,261.2</b> | <b>7,516.9</b>  | <b>7,516.9</b>  | <b>8,102.7</b>  | <b>8,710.0</b>  |
| Net Property, Plant and Equipment                | 410.5           | 460.7           | 466.5          | 475.8          | 496.5          | 505.5          | 505.5           | 530.0          | 604.1           | 596.3          | 588.5           | 588.5           | 557.2           | 525.8           |
| Goodwill   | 905.8           | 926.3           | 915.6          | 1,073.2        | 1,310.2        | 1,395.8        | 1,395.8         | 1,441.8        | 1,432.6         | 1,432.6        | 1,432.6         | 1,432.6         | 1,432.6         | 1,432.6         |
| <b>Total Assets</b>                              | <b>7,118.3</b>  | <b>7,762.4</b>  | <b>7,454.5</b> | <b>7,988.0</b> | <b>8,708.9</b> | <b>9,600.5</b> | <b>9,600.5</b>  | <b>9,579.5</b> | <b>10,070.0</b> | <b>9,980.8</b> | <b>10,236.4</b> | <b>10,236.4</b> | <b>10,793.3</b> | <b>11,371.7</b> |
| Short-term Borrowings                            | 52.9            | 123.1           | 129.2          | 77.3           | 16.9           | 61.2           | 61.2            | 449.9          | 550.7           | 550.7          | 550.7           | 550.7           | 550.7           | 550.7           |
| Accounts Payable                                 | 2,459.9         | 2,763.2         | 2,460.5        | 3,028.4        | 3,072.8        | 3,645.0        | 3,645.0         | 3,220.8        | 3,414.4         | 3,225.3        | 3,341.9         | 3,341.9         | 3,359.0         | 3,376.2         |
| Accrued Expenses                                 | 455.5           | 445.9           | 425.9          | 496.7          | 626.9          | 637.0          | 637.0           | 630.8          | 657.3           | 644.9          | 652.1           | 652.1           | 654.4           | 656.7           |
| <b>Total Current Liabilities</b>                 | <b>2,968.4</b>  | <b>3,332.2</b>  | <b>3,015.5</b> | <b>3,602.4</b> | <b>3,716.6</b> | <b>4,343.2</b> | <b>4,343.2</b>  | <b>4,301.5</b> | <b>4,622.4</b>  | <b>4,420.9</b> | <b>4,544.6</b>  | <b>4,544.6</b>  | <b>4,564.0</b>  | <b>4,583.5</b>  |
| Deferred Taxes                                   | 0.0             | 0.0             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.0            | 0.0             | 0.0            | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>Total Liabilities</b>                         | <b>4,441.6</b>  | <b>4,845.1</b>  | <b>4,512.6</b> | <b>5,061.9</b> | <b>5,568.2</b> | <b>6,349.3</b> | <b>6,349.3</b>  | <b>6,112.0</b> | <b>6,436.0</b>  | <b>6,229.8</b> | <b>6,356.3</b>  | <b>6,356.3</b>  | <b>6,376.5</b>  | <b>6,396.9</b>  |
| Total Shareholders' Equity                       | 2,676.7         | 2,917.3         | 2,941.9        | 2,926.1        | 3,140.7        | 3,251.2        | 3,251.2         | 3,467.5        | 3,634.0         | 3,751.1        | 3,880.1         | 3,880.1         | 4,416.8         | 4,974.8         |
| <b>Total Liabilities and Shareholders Equity</b> | <b>7,118.3</b>  | <b>7,762.4</b>  | <b>7,454.5</b> | <b>7,988.0</b> | <b>8,708.9</b> | <b>9,600.5</b> | <b>9,600.5</b>  | <b>9,579.5</b> | <b>10,070.0</b> | <b>9,980.8</b> | <b>10,236.4</b> | <b>10,236.4</b> | <b>10,793.3</b> | <b>11,371.7</b> |

Source: Citi Investment Research and Analysis, Company Data

## Company Focus

### ■ Company Update

|                              |              |
|------------------------------|--------------|
| <b>Buy/High Risk</b>         | <b>1H</b>    |
| Price (03 Oct 11)            | US\$24.77    |
| Target price                 | US\$34.00    |
| Expected share price return  | 37.3%        |
| Expected dividend yield      | 0.0%         |
| <b>Expected total return</b> | <b>37.3%</b> |
| Market Cap                   | US\$3,768M   |

### Price Performance (RIC: AVT.N, BB: AVT US)



## Avnet Inc (AVT)

**Expect Inline Quarter; Components Likely Below Normal Seasonal due to Soft Macro; Focus on Margin Improvement in TS**

- **What to Expect for the September Quarter** – We believe Avnet will report September Quarter results inline with consensus for sales of \$6.47b & within the company's guidance range for \$6.25b to \$6.85b (given later than other companies on Aug 10<sup>th</sup>) and will reports EPS inline with consensus of \$0.91 and at the bottom end of AVT's guidance range for \$0.90 to \$0.98. Adjusting for inter company transfer, we estimate EM would decline -5% q/q. We expect Technology Solutions to decline -12% q/q vs. normal seasonal -5% to -1% q/q. Even when adjusting for the LA Computing Components transfer, we estimate this segment declines more than normal seasonal in September.
- **Key Focus Items** – 1) Progress in margin expansion as AVT has grown sales y/y but has not seen EPS growth. June quarter gross margins of 11.9% declined 50bps y/y and operating margins of 3.9% (excluding restructuring charges) were down 30bps from last year. TS operating margins continue to underperform at 2.3% last quarter vs. company targets of 3.4%-3.9%. 2) Inventory levels which we expect to track sales growth given lead times have come in significantly and backlogs have declined. 3) Book to Bill in Avnet's Electronics Marketing segment which will remain below 1x for the September quarter. 4) Update on M&A and the integration of recent deals, including Amosdec SAS, Eurotone Electric, Broadband Integrated Resources, itX Group Limited, Unidux, Tallard, PT Datamation Purwana Utama, Bell Micro etc. In which geographies and verticals is AVT looking to do additional M&A? 5) Update on AVT's growth in the datacenter. In early December, Avnet announced it was the first distributor certified to configure CSCO Blade servers. Avnet believes CSCO will be a \$200-\$300 million relationship in 2-3 years. In addition, AVT was added by Microsoft as their exclusive distributor in North America for its datacenter products. 6) Priorities in use of cash which we believe remain i. organic growth ii. M&A and iii. Share repurchases. Avnet recently announced a \$500m repurchase program which we believe the company will be aggressive in executing.
- **Stock View** – We reiterate our Buy (1H) rating on AVT with a \$34 target price as we believe Avnet will benefit from continued accretive M&A given the fragmented nature of the global distributor market and the company's successful track record for acquisition integration.
- **Earnings Report** – AVT is scheduled to report earnings on October 27<sup>th</sup> BMO with a 2:00pm EST conference call. Dial-In: 201-689-8840.

| EPS          | Q1           | Q2           | Q3           | Q4           | FY           | FC Cons      |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2011A</b> | 0.93A        | 1.07A        | 1.10A        | 1.22A        | 4.32A        | 4.32A        |
| <b>2012E</b> | <b>0.91E</b> | <b>1.04E</b> | <b>1.04E</b> | <b>1.16E</b> | <b>4.15E</b> | <b>4.07E</b> |
| Previous     | 0.91E        | 1.04E        | 1.04E        | 1.16E        | 4.15E        | na           |
| <b>2013E</b> | <b>0.89E</b> | <b>1.09E</b> | <b>1.08E</b> | <b>1.21E</b> | <b>4.27E</b> | <b>4.29E</b> |
| Previous     | 0.89E        | 1.09E        | 1.08E        | 1.21E        | 4.27E        | na           |
| <b>2014E</b> | <b>na</b>    | <b>na</b>    | <b>na</b>    | <b>na</b>    | <b>4.47E</b> | <b>4.72E</b> |
| Previous     | na           | na           | na           | na           | 4.47E        | na           |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 40. Summary of Recent Results and Outlook

|                                 | Revenue (\$MM) |        |        |            |                 | Op. Margin |      | EPS     |        |        |            |               |
|---------------------------------|----------------|--------|--------|------------|-----------------|------------|------|---------|--------|--------|------------|---------------|
| FY=Jun                          | Comment        | Actual | CIR    | First Call | Mgmt Est.       | Actual     | CIR  | Comment | Actual | CIR    | First Call | Mgmt Est.     |
| AVT                             |                |        |        |            |                 |            |      |         |        |        |            |               |
| Jun                             | Inline         | 6,912  | 6,916  | 6,985      | \$6,600-\$7,300 | 3.9%       |      | Beat    | 1.22   | 1.17   | 1.16       | \$1.10-\$1.22 |
| %chg                            |                | 3.6%   | 3.7%   | 4.7%       |                 |            |      |         | 11.4%  | 6.6%   | 5.7%       |               |
| SeptE                           |                |        | 6,479  | 6,465      | \$6,250-\$6850  |            | 3.4% |         |        | 0.91   | 0.91       | \$0.90-\$0.98 |
| %chg                            |                |        | -6.3%  | -6.5%      |                 |            |      |         |        | -25.3% | -25.3%     |               |
| DecE                            |                |        | 6,843  | 6,780      |                 |            | 3.7% |         |        | 1.04   | 1.03       |               |
| %chg                            |                |        | 5.6%   | 4.9%       |                 |            |      |         |        | 13.8%  | 12.5%      |               |
| CY10                            | Beat           | 22,921 | 22,790 | 22,822     |                 | 3.8%       |      | Beat    | 3.67   | 3.63   | 3.64       |               |
| %chg                            |                |        | 36.8%  | 37.0%      |                 |            |      |         |        | 111.9% | 112.5%     |               |
| CY11E                           |                |        | 26,906 | 26,829     |                 |            | 3.7% |         |        | 4.27   | 4.26       |               |
| %chg                            |                |        | 17.4%  | 17.1%      |                 |            |      |         |        | 16.4%  | 16.0%      |               |
| CY12E                           |                |        | 26,912 | 26,851     |                 |            | 3.8% |         |        | 4.17   | 4.14       |               |
| %chg                            |                |        | 0.0%   | 0.1%       |                 |            |      |         |        | -2.4%  | -2.7%      |               |
| Denotes key investor focus item |                |        |        |            |                 |            |      |         |        |        |            |               |

Denotes key investor focus item

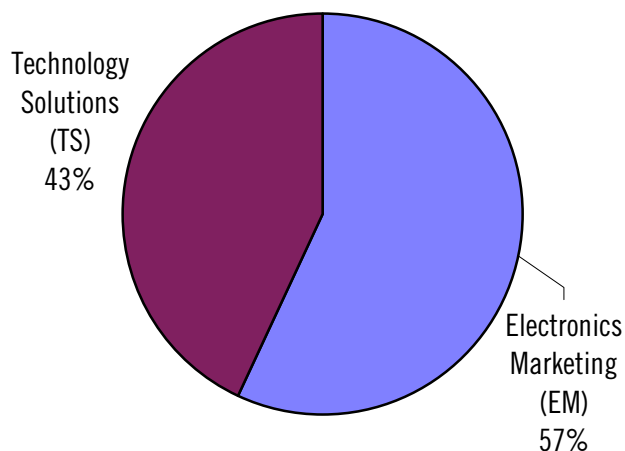
Source: Citi Investment Research and Analysis, Thomson One

Figure 41. AVT Business Segmentation

| Revenues (\$ millions)     |        |       |       |       |        |       |
|----------------------------|--------|-------|-------|-------|--------|-------|
|                            | 3Q10   | 4Q10  | 1Q11  | 2Q11  | 3Q11   | 4Q11  |
| Electronics Marketing (EM) | 2,887  | 3,125 | 3,621 | 3,559 | 3,925  | 3,962 |
| Technology Solutions (TS)  | 1,870  | 2,089 | 2,562 | 3,209 | 2,747  | 2,950 |
| Q/Q Change                 |        |       |       |       |        |       |
|                            | 3Q10   | 4Q10  | 1Q11  | 2Q11  | 3Q11   | 4Q11  |
| Electronics Marketing (EM) | 14.7%  | 8.3%  | 15.9% | -1.7% | 10.3%  | 0.9%  |
| Technology Solutions (TS)  | -19.3% | 11.7% | 22.6% | 25.3% | -14.4% | 7.4%  |
| Y/Y Change                 |        |       |       |       |        |       |
|                            | 3Q10   | 4Q10  | 1Q11  | 2Q11  | 3Q11   | 4Q11  |
| Electronics Marketing (EM) | 37.7%  | 46.9% | 48.5% | 41.4% | 36.0%  | 26.8% |
| Technology Solutions (TS)  | 16.6%  | 27.5% | 33.6% | 38.5% | 46.9%  | 41.2% |
| Operating Margin           |        |       |       |       |        |       |
|                            | 3Q10   | 4Q10  | 1Q11  | 2Q11  | 3Q11   | 4Q11  |
| Electronics Marketing (EM) | 5.0%   | 5.6%  | 5.3%  | 5.2%  | 5.7%   | 5.9%  |
| Technology Solutions (TS)  | 2.7%   | 3.0%  | 2.2%  | 3.3%  | 2.1%   | 2.3%  |
| % of Sales                 |        |       |       |       |        |       |
|                            | 3Q10   | 4Q10  | 1Q11  | 2Q11  | 3Q11   | 4Q11  |
| Electronics Marketing (EM) | 61%    | 60%   | 59%   | 53%   | 59%    | 57%   |
| Technology Solutions (TS)  | 39%    | 40%   | 41%   | 47%   | 41%    | 43%   |

Source: Citi Investment Research and Analysis, Company Reports

Figure 42. AVT End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports

Figure 43. Avnet Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)

| (\$ in millions, except per-share data)          | CY<br>2008      | CY<br>2009      | 03/10<br>1Q    | 06/10<br>2Q    | 09/10<br>3Q    | 12/10<br>4Q    | CY<br>2010      | 03/11<br>1Q    | 06/11<br>2Q    | 09/11<br>3QE   | 12/11<br>4QE   | CY<br>2011E     | CY<br>2012E     | CY<br>2013E     |
|--|-----------------|-----------------|----------------|----------------|----------------|----------------|-----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|
| <b>Net Sales</b>                                 | <b>17,864.3</b> | <b>16,855.7</b> | <b>4,756.8</b> | <b>5,213.8</b> | <b>6,182.4</b> | <b>6,767.5</b> | <b>22,920.5</b> | <b>6,672.4</b> | <b>6,912.1</b> | <b>6,478.8</b> | <b>6,842.8</b> | <b>26,906.1</b> | <b>26,912.5</b> | <b>27,997.2</b> |
| Change y/y (%)                                   | 5.1%            | -6.8%           | 28.5%          | 38.5%          | 42.0%          | 40.0%          | 37.6%           | 40.3%          | 32.6%          | 4.8%           | 1.1%           | 17.4%           | 0.0%            | 4.0%            |
| Change q/q (%)                                   | n/m             | n/m             | -1.6%          | 9.6%           | 18.6%          | 9.5%           | n/m             | -1.4%          | 3.6%           | -6.3%          | 5.6%           | n/m             | n/m             | n/m             |
| Cost of Goods Sold                               | 15,556.3        | 14,698.9        | 4,174.0        | 4,568.0        | 5,459.2        | 5,994.3        | 20,195.6        | 5,885.8        | 6,087.3        | 5,721.9        | 6,057.0        | 23,752.0        | 23,715.9        | 24,643.8        |
| <b>Gross Income</b>                              | <b>2,308.1</b>  | <b>1,956.8</b>  | <b>582.8</b>   | <b>645.8</b>   | <b>723.2</b>   | <b>773.2</b>   | <b>2,724.9</b>  | <b>786.6</b>   | <b>824.8</b>   | <b>756.9</b>   | <b>785.8</b>   | <b>3,154.1</b>  | <b>3,196.6</b>  | <b>3,353.4</b>  |
| Gross Margin                                     | 12.9%           | 11.7%           | 12.3%          | 12.4%          | 11.7%          | 11.4%          | 11.9%           | 11.8%          | 11.9%          | 11.7%          | 11.5%          | 11.7%           | 11.9%           | 12.0%           |
| SG&A   | 1,614.2         | 1,514.1         | 408.2          | 428.7          | 500.6          | 521.8          | 1,859.4         | 529.6          | 553.9          | 534.5          | 533.7          | 2,151.8         | 2,171.2         | 2,258.7         |
| % of Net Sales                                   | 9.0%            | 9.1%            | 8.6%           | 8.2%           | 8.1%           | 7.7%           | 8.1%            | 7.9%           | 8.0%           | 8.3%           | 7.8%           | 8.0%            | 8.1%            | 8.1%            |
| <b>Operating Income--EBIT</b>                    | <b>693.9</b>    | <b>442.7</b>    | <b>174.6</b>   | <b>217.1</b>   | <b>222.5</b>   | <b>251.4</b>   | <b>865.6</b>    | <b>257.0</b>   | <b>270.9</b>   | <b>222.4</b>   | <b>252.0</b>   | <b>1,002.3</b>  | <b>1,025.4</b>  | <b>1,094.7</b>  |
| Operating Margin                                 | 3.9%            | 2.7%            | 3.7%           | 4.2%           | 3.6%           | 3.7%           | 3.8%            | 3.9%           | 3.9%           | 3.4%           | 3.7%           | 3.7%            | 3.8%            | 3.9%            |
| Interest Expense(Income)                         | 70.4            | 62.8            | 15.3           | 15.8           | 22.0           | 24.2           | 77.4            | 23.6           | 22.6           | 19.0           | 19.0           | 84.1            | 75.8            | 75.8            |
| Other Income (Expense)                           | 5.6             | -9.7            | 1.5            | -1.1           | 3.3            | -0.4           | 3.4             | 2.3            | 5.0            | 0.0            | 0.0            | 7.3             | 0.0             | 0.0             |
| <b>Pretax Income</b>                             | <b>629.0</b>    | <b>370.2</b>    | <b>160.7</b>   | <b>200.2</b>   | <b>203.8</b>   | <b>226.8</b>   | <b>791.5</b>    | <b>235.7</b>   | <b>253.3</b>   | <b>203.5</b>   | <b>233.1</b>   | <b>925.5</b>    | <b>949.5</b>    | <b>1,018.9</b>  |
| Pretax Margin                                    | 3.5%            | 2.2%            | 3.4%           | 3.8%           | 3.3%           | 3.4%           | 3.5%            | 3.5%           | 3.7%           | 3.1%           | 3.4%           | 3.4%            | 3.5%            | 3.6%            |
| Income Tax Expense                               | 189.4           | 109.9           | 44.9           | 59.1           | 61.1           | 62.0           | 227.1           | 66.0           | 63.9           | 61.0           | 69.9           | 260.9           | 284.9           | 305.7           |
| Tax Rate   | 30.1%           | 29.7%           | 28.0%          | 29.5%          | 30.0%          | 27.3%          | 28.7%           | 28.0%          | 25.2%          | 30.0%          | 30.0%          | 28.2%           | 30.0%           | 30.0%           |
| <b>Net Income before Extraordinaries</b>         | <b>439.6</b>    | <b>260.3</b>    | <b>115.8</b>   | <b>141.1</b>   | <b>142.7</b>   | <b>164.8</b>   | <b>564.5</b>    | <b>169.7</b>   | <b>189.4</b>   | <b>142.4</b>   | <b>163.1</b>   | <b>664.7</b>    | <b>664.7</b>    | <b>713.2</b>    |
| Net Margin                                       | 2.5%            | 1.6%            | 2.4%           | 2.7%           | 2.3%           | 2.4%           | 2.5%            | 2.5%           | 2.7%           | 2.2%           | 2.4%           | 2.5%            | 2.5%            | 2.5%            |
| <b>EBITDA</b>                                    | <b>748.0</b>    | <b>501.0</b>    | <b>189.5</b>   | <b>232.1</b>   | <b>237.5</b>   | <b>266.3</b>   | <b>925.4</b>    | <b>272.0</b>   | <b>285.8</b>   | <b>237.4</b>   | <b>267.0</b>   | <b>1,062.2</b>  | <b>1,085.2</b>  | <b>1,154.5</b>  |
| Adjusted Operating Net EPS - Basic               | 2.92            | 1.72            | 0.76           | 0.93           | 0.94           | 1.08           | 3.71            | 1.11           | 1.24           | 0.93           | 1.05           | 4.33            | 4.22            | 4.42            |
| <b>Adjusted Operating Net EPS - Diluted</b>      | <b>2.90</b>     | <b>1.71</b>     | <b>0.76</b>    | <b>0.92</b>    | <b>0.93</b>    | <b>1.07</b>    | <b>3.67</b>     | <b>1.10</b>    | <b>1.22</b>    | <b>0.91</b>    | <b>1.04</b>    | <b>4.28</b>     | <b>4.17</b>     | <b>4.37</b>     |
| One-Time Items                                   | 0.1             | -0.3            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.0            | 0.3            | 0.0            | 0.0            | 0.3             | 0.0             | 0.0             |
| GAAP Reported EPS - Basic                        | 3.03            | 1.43            | 0.75           | 0.93           | 0.91           | 1.08           | 3.67            | 1.11           | 1.56           | 0.93           | 1.05           | 4.65            | 4.22            | 4.42            |
| GAAP Reported EPS - Diluted                      | 3.01            | 1.42            | 0.75           | 0.92           | 0.90           | 1.07           | 3.63            | 1.10           | 1.54           | 0.91           | 1.04           | 4.60            | 4.17            | 4.37            |
| Average Shares Outstanding - Basic               | 150.5           | 151.2           | 151.9          | 152.0          | 152.0          | 152.1          | 152.0           | 152.9          | 152.9          | 153.9          | 154.9          | 153.7           | 157.4           | 161.4           |
| Average Shares Outstanding - Diluted             | 151.5           | 152.0           | 153.2          | 153.6          | 153.6          | 154.3          | 153.7           | 154.6          | 154.8          | 155.8          | 156.8          | 155.5           | 159.3           | 163.3           |
| Cash and Cash Equivalents                        | 671             | 895             | 755            | 1,092          | 662            | 757            | 757             | 782            | 675            | 1,091          | 1,292          | 1,292           | 1,914           | 2,585           |
| Net Receivables                                  | 3,201           | 3,439           | 3,324          | 3,575          | 4,416          | 4,816          | 4,816           | 4,707          | 4,764          | 4,466          | 4,491          | 4,491           | 4,595           | 4,699           |
| Inventories                                      | 1,753           | 1,698           | 1,748          | 1,813          | 2,495          | 2,550          | 2,550           | 2,514          | 2,596          | 2,409          | 2,550          | 2,550           | 2,650           | 2,754           |
| Deferred Income Taxes                            | 0               | 0               | 0              | 0              | 0              | 0              | 0               | 0              | 0              | 0              | 0              | 0               | 0               | 0               |
| Pre-paid expenses/other                          | 80              | 136             | 168            | 151            | 268            | 245            | 245             | 213            | 191            | 187            | 191            | 191             | 193             | 196             |
| <b>Total Current Assets</b>                      | <b>5,705</b>    | <b>6,168</b>    | <b>5,995</b>   | <b>6,630</b>   | <b>7,841</b>   | <b>8,368</b>   | <b>8,368</b>    | <b>8,216</b>   | <b>8,227</b>   | <b>8,152</b>   | <b>8,523</b>   | <b>8,523</b>    | <b>9,352</b>    | <b>10,234</b>   |
| Net Property, Plant and Equipment                | 251             | 302             | 303            | 303            | 346            | 367            | 367             | 396            | 419            | 415            | 410            | 410             | 391             | 373             |
| Goodwill   | 485             | 573             | 566            | 566            | 774            | 848            | 848             | 908            | 885            | 885            | 885            | 885             | 885             | 885             |
| Other Assets                                     | 296             | 272             | 294            | 283            | 342            | 320            | 320             | 320            | 374            | 366            | 373            | 373             | 379             | 384             |
| <b>Total Assets</b>                              | <b>6,737</b>    | <b>7,315</b>    | <b>7,158</b>   | <b>7,782</b>   | <b>9,303</b>   | <b>9,904</b>   | <b>9,904</b>    | <b>9,840</b>   | <b>9,906</b>   | <b>9,818</b>   | <b>10,191</b>  | <b>10,191</b>   | <b>11,007</b>   | <b>11,876</b>   |
| Short-term Borrowings                            | 38              | 81              | 55             | 37             | 498            | 777            | 777             | 632            | 243            | 243            | 243            | 243             | 243             | 243             |
| Accounts Payable                                 | 2,149           | 2,735           | 2,535          | 2,862          | 3,455          | 3,610          | 3,610           | 3,413          | 3,562          | 3,348          | 3,544          | 3,544           | 3,683           | 3,828           |
| Payroll and related expenses                     | 0               | 0               | 0              | 0              | 0              | 0              | 0               | 0              | 0              | 0              | 0              | 0               | 0               | 0               |
| Other accrued expenses                           | 460             | 503             | 521            | 541            | 647            | 707            | 707             | 680            | 673            | 659            | 671            | 671             | 681             | 691             |
| Income Taxes Payable                             | 0               | 0               | 0              | 0              | 0              | 0              | 0               | 0              | 0              | 0              | 0              | 0               | 0               | 0               |
| Current portion of long-term debt                | 0               | 0               | 0              | 0              | 0              | 0              | 0               | 0              | 0              | 0              | 0              | 0               | 0               | 0               |
| Other Current Liabilities                        | 0               | 0               | 0              | 0              | 0              | 0              | 0               | 0              | 0              | 0              | 0              | 0               | 0               | 0               |
| <b>Total Current Liabilities</b>                 | <b>2,647</b>    | <b>3,319</b>    | <b>3,110</b>   | <b>3,440</b>   | <b>4,601</b>   | <b>5,094</b>   | <b>5,094</b>    | <b>4,725</b>   | <b>4,478</b>   | <b>4,250</b>   | <b>4,458</b>   | <b>4,458</b>    | <b>4,607</b>    | <b>4,762</b>    |
| Long-Term Debt                                   | 1,183           | 939             | 938            | 1,244          | 1,260          | 1,248          | 1,248           | 1,251          | 1,274          | 1,274          | 1,274          | 1,274           | 1,274           | 1,274           |
| Deferred Taxes                                   | 0               | 0               | 0              | 0              | 0              | 0              | 0               | 0              | 0              | 0              | 0              | 0               | 0               | 0               |
| Deferred Income                                  | 0               | 0               | 0              | 0              | 0              | 0              | 0               | 0              | 0              | 0              | 0              | 0               | 0               | 0               |
| Minority Interest                                | 0               | 0               | 0              | 0              | 0              | 0              | 0               | 0              | 0              | 0              | 0              | 0               | 0               | 0               |
| Other Liabilities                                | 110             | 77              | 89             | 90             | 112            | 119            | 119             | 130            | 98             | 96             | 98             | 98              | 99              | 101             |
| Accrued Pension Costs                            | 0               | 0               | 0              | 0              | 0              | 0              | 0               | 0              | 0              | 0              | 0              | 0               | 0               | 0               |
| <b>Total Liabilities</b>                         | <b>3,941</b>    | <b>4,335</b>    | <b>4,137</b>   | <b>4,773</b>   | <b>5,973</b>   | <b>6,461</b>   | <b>6,461</b>    | <b>6,106</b>   | <b>5,849</b>   | <b>5,620</b>   | <b>5,830</b>   | <b>5,830</b>    | <b>5,980</b>    | <b>6,137</b>    |
| Total Shareholders' Equity                       | 2,796           | 2,981           | 3,021          | 3,009          | 3,330          | 3,442          | 3,442           | 3,734          | 4,056          | 4,198          | 4,362          | 4,362           | 5,026           | 5,740           |
| <b>Total Liabilities and Shareholders Equity</b> | <b>6,737</b>    | <b>7,315</b>    | <b>7,158</b>   | <b>7,782</b>   | <b>9,303</b>   | <b>9,904</b>   | <b>9,904</b>    | <b>9,840</b>   | <b>9,906</b>   | <b>9,818</b>   | <b>10,191</b>  | <b>10,191</b>   | <b>11,007</b>   | <b>11,876</b>   |

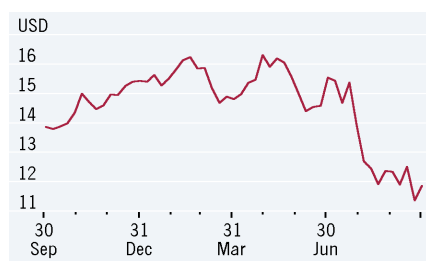
Source: Citi Investment Research and Analysis, Company Reports

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

|                              |                |
|------------------------------|----------------|
| <b>Hold/High Risk</b>        | <b>2H</b>      |
| Price (03 Oct 11)            | US\$11.45      |
| Target price                 | US\$12.50      |
|                              | from US\$14.00 |
| Expected share price return  | 9.2%           |
| Expected dividend yield      | 1.9%           |
| <b>Expected total return</b> | <b>11.1%</b>   |
| Market Cap                   | US\$1,947M     |

### Price Performance (RIC: AVX.N, BB: AVX US)



## AVX Corp (AVX)

### Cautious on Outlook Given VSH's Negative Guidance Revision; Focus on Segment Trends & Inventory Levels at Distribution

- **What to Expect for the September Quarter** – We believe AVX will report results slightly below consensus for sales of \$422m and EPS of \$0.36 which is below the company's guidance for sales to be down -1-2% q/q. We are cautious on AVX's outlook considering key competitor Vishay lowered their guidance intra quarter and expect the same macro pressures and inventory issues in the distribution channel will affect AVX. Distribution is an important channel for AVX representing 42% of total sales and this represents the highest margin segment. By segment, we expect industrials and low end handsets will be weak for AVX while commercial aerospace should offer a bright spot in the macro weakness.
- **Key Focus Items** – 1) Update on distribution inventories as this is a high margin segment and appears to have inflated inventories following the Japanese earthquakes. AVX has made an effort to grow sales through this channel rather than to the EMS providers given the profitability mix, but we believe this could create a soft patch in the near term. 2) Update on Tantalum supply as additional mines are scheduled to come online in Australia over the next couple months which should impact 2H'11 supply and pricing. Tantalum spot pricing represents 50% of COGS for the company's tantalum products which are 25% of total company sales. 3) Update on automotive trends as this has been a source of strength for AVX but management highlighted this segment as a potential risk should macro concerns and consumer confidence cause automotive sales to roll over. 4) Update on potential uses of the company's roughly \$2.00 per share in cash (~\$329mm) as we believe AVX will use its cash to support the 2% dividend which it increased in February of this year. Does AVX see any opportunities in M&A and in what segments would AVX look to do future deals? 5) Update on aerospace & defense orders now that the DoD budget was passed but debate on further cuts to defense spend continues in D.C. We note that military represents only 5% of total sales. We believe orders may still be slow as there remains little visibility around the debt ceiling and out year defense spend plans.
- **Target Price Change & Stock View** – We are adjusting our model to reflect a more tempered macro environment following VSH's negative guide down (model changes on the following page). Our target price goes to \$12.50 from \$14 to reflect a lower market multiple. We maintain our Hold (2H) rating as we are more cautious on the pricing environment in 2H'11 & believe higher raw material costs (tantalum) will present a headwind. Also, inventory builds in distribution following the Japanese earthquake disruptions will likely create a near term overhang.
- **Earnings Report** – To be determined as AVX has not yet provided a date as of the time of this publication (past history has been a 3 week notification).

| EPS          | Q1           | Q2           | Q3           | Q4           | FY           | FC Cons      |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2011A</b> | 0.31A        | 0.40A        | 0.36A        | 0.40A        | 1.46A        | 1.46A        |
| <b>2012E</b> | <b>0.40A</b> | <b>0.35E</b> | <b>0.32E</b> | <b>0.30E</b> | <b>1.36E</b> | <b>1.42E</b> |
| Previous     | 0.40A        | 0.36E        | 0.33E        | 0.31E        | 1.40E        | na           |
| <b>2013E</b> | <b>0.30E</b> | <b>0.29E</b> | <b>0.27E</b> | <b>0.27E</b> | <b>1.13E</b> | <b>1.40E</b> |
| Previous     | 0.32E        | 0.33E        | 0.33E        | 0.32E        | 1.30E        | na           |
| <b>2014E</b> | <b>0.28E</b> | <b>0.29E</b> | <b>0.29E</b> | <b>0.28E</b> | <b>1.14E</b> | <b>1.36E</b> |
| Previous     | 0.34E        | 0.35E        | 0.34E        | 0.34E        | 1.36E        | na           |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 44. Summary of Recent Results and Outlook

|                                 | Revenue (\$MM) |        |       |            |           | Op.Margin |       | EPS         |        |        |            |           |
|---------------------------------|----------------|--------|-------|------------|-----------|-----------|-------|-------------|--------|--------|------------|-----------|
| FY=Mar                          | Comment        | Actual | CIR   | First Call | Mgmt Est. | Actual    | CIR   | Comment     | Actual | CIR    | First Call | Mgmt Est. |
| AVX                             |                |        |       |            |           |           |       |             |        |        |            |           |
| Jun                             | Slight Miss    | 436    | 445   | 443        |           | 21.4%     |       | Slight Beat | 0.40   | 0.39   | 0.39       |           |
| %chg                            |                | 3.9%   | 5.9%  | 5.4%       |           |           |       |             | -1.4%  | -3.0%  | -3.0%      |           |
| SeptE                           |                |        | 419   | 422        |           |           | 19.6% |             |        | 0.35   | 0.36       |           |
| %chg                            |                |        | -4.0% | -3.3%      |           |           |       |             |        | -11.7% | -9.2%      |           |
| DecE                            |                |        | 404   | 411        |           |           | 18.4% |             |        | 0.32   | 0.34       |           |
| %chg                            |                |        | -3.6% | -2.7%      |           |           |       |             |        | -8.6%  | -6.4%      |           |
|                                 |                |        |       |            |           |           |       |             |        |        |            |           |
| CY10                            | In-Line        | 1,600  | 1,607 | 1,606      |           | 19.1%     |       | In-Line     | 1.34   | 1.36   | 1.35       |           |
| %chg                            |                | 32.3%  | 32.9% | 32.8%      |           |           |       |             | 102.1% | 104.5% | 103.0%     |           |
| CY11E                           |                |        | 1,680 | 1,688      |           |           | 19.8% |             |        | 1.47   | 1.50       |           |
| %chg                            |                |        | 5.0%  | 5.5%       |           |           |       |             |        | 9.4%   | 11.7%      |           |
| CY12E                           |                |        | 1,665 | 1,753      |           |           | 16.2% |             |        | 1.16   | 1.50       |           |
| %chg                            |                |        | -0.9% | 3.9%       |           |           |       |             |        | -21.1% | 0.0%       |           |
| Denotes key investor focus item |                |        |       |            |           |           |       |             |        |        |            |           |

Denotes key investor focus item

Source: Citi Investment Research and Analysis, Thomson One

Figure 45. Model Changes

|                              | Sept - 11E |        | CY2011E  |          | CY2012E  |          | Comments  |
|------------------------------|------------|--------|----------|----------|----------|----------|---|
|                              | New        | Old    | New      | Old      | New      | Old      |   |
| Net Sales                    | \$ 419     | \$ 428 | \$ 1,680 | \$ 1,697 | \$ 1,665 | \$ 1,700 | Reducing sales on more tepid global GDP outlook |
| Sales Sequential Change      | -4.0%      | -2.0%  | -4.7%    | -2.7%    | 4.4%     | 4.4%     |   |
| Operating Margin             | 19.6%      | 20.0%  | 19.8%    | 20.0%    | 16.2%    | 17.7%    | Slight compression on lower sales               |
| Tax Rate                     | 29%        | 29%    | 27%      | 27%      | 29%      | 29%      | No meaningful change                            |
| Core EPS                     | \$0.35     | \$0.36 | \$1.47   | \$1.50   | \$1.16   | \$1.29   | Lower on softer demand & sales outlook          |
| Shares Outstanding - Diluted | 170.7      | 170.7  | 170.7    | 170.7    | 171.2    | 171.2    | No change                                       |

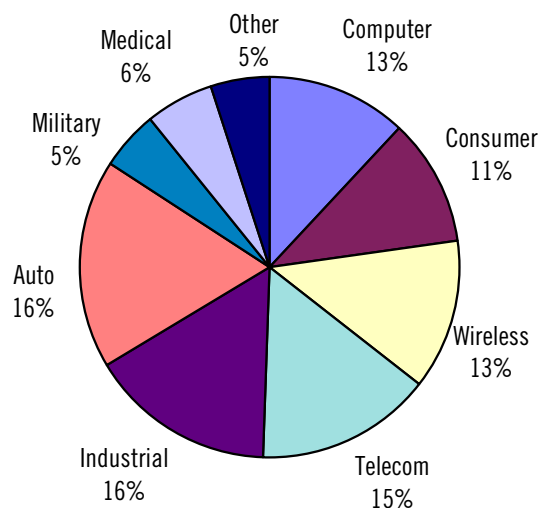
Source: Citi Investment Research and Analysis

Figure 46. AVX Business Segmentation

| Revenues (\$ millions) |        |        |       |       |       |       |       |       |       |
|------------------------|--------|--------|-------|-------|-------|-------|-------|-------|-------|
|                        | 1Q10   | 2Q10   | 3Q10  | 4Q10  | 1Q11  | 2Q11  | 3Q11  | 4Q11  | 1Q12  |
| Passive Components     | 181.1  | 189.4  | 207.7 | 231.5 | 245.8 | 271.3 | 259.8 | 268.9 | 279.3 |
| KED Resale             | 75.9   | 82.3   | 83.7  | 95.5  | 107.1 | 116.3 | 105.5 | 109.2 | 113.5 |
| AVX Connectors         | 35.0   | 38.8   | 43.5  | 40.4  | 43.6  | 43.1  | 40.6  | 42.0  | 48.0  |
| % of Sales             |        |        |       |       |       |       |       |       |       |
|                        | 1Q10   | 2Q10   | 3Q10  | 4Q10  | 1Q11  | 2Q11  | 3Q11  | 4Q11  | 1Q12  |
| Passive Components     | 62%    | 61%    | 62%   | 63%   | 62%   | 63%   | 64%   | 64%   | 64%   |
| KED Resale             | 26%    | 27%    | 25%   | 26%   | 27%   | 27%   | 26%   | 26%   | 26%   |
| AVX Connectors         | 12%    | 13%    | 13%   | 11%   | 11%   | 10%   | 10%   | 10%   | 11%   |
| Q/Q Change             |        |        |       |       |       |       |       |       |       |
|                        | 1Q10   | 2Q10   | 3Q10  | 4Q10  | 1Q11  | 2Q11  | 3Q11  | 4Q11  | 1Q12  |
| Passive Components     | 2.5%   | 4.6%   | 9.6%  | 11.5% | 6.2%  | 10.4% | -4.3% | 3.5%  | 3.9%  |
| KED Resale             | 16.4%  | 8.4%   | 1.8%  | 14.1% | 12.1% | 8.6%  | -9.2% | 3.5%  | 3.9%  |
| AVX Connectors         | 7.4%   | 6.3%   | 7.9%  | 9.7%  | 7.9%  | 8.6%  | -5.8% | 3.5%  | 3.9%  |
| Y/Y Change             |        |        |       |       |       |       |       |       |       |
|                        | 1Q10   | 2Q10   | 3Q10  | 4Q10  | 1Q11  | 2Q11  | 3Q11  | 4Q11  | 1Q12  |
| Passive Components     | -26.4% | -21.1% | 2.8%  | 31.0% | 35.8% | 43.2% | 25.1% | 16.2% | 13.6% |
| KED Resale             | -23.5% | -25.2% | 0.5%  | 46.4% | 41.0% | 41.3% | 26.0% | 14.3% | 6.0%  |
| AVX Connectors         | -32.1% | -23.0% | 23.5% | 35.2% | 24.5% | 10.9% | -6.8% | 3.9%  | 10.1% |

Source: Citi Investment Research and Analysis, Company Reports

Figure 47. AVX End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports



**Figure 48. AVX Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)**

| (\$ in millions, except per-share data)           | CY<br>2007     | CY<br>2008     | CY<br>2009     | Q3/10<br>1Q  | Q6/10<br>2Q  | Q9/10<br>3Q  | Q12/10<br>4Q | CY<br>2010     | Q3/11<br>1Q  | Q6/11<br>2Q  | Q9/11<br>3QE | Q12/11<br>4QE | CY<br>2011E    | CY<br>2012E    | CY<br>2013E    |
|---|----------------|----------------|----------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|---------------|----------------|----------------|----------------|
| <b>Net Sales</b>                                  | <b>1,592.8</b> | <b>1,523.7</b> | <b>1,209.3</b> | <b>367.4</b> | <b>396.5</b> | <b>430.6</b> | <b>405.9</b> | <b>1,600.4</b> | <b>420.1</b> | <b>436.4</b> | <b>419.0</b> | <b>404.4</b>  | <b>1,679.9</b> | <b>1,664.9</b> | <b>1,737.3</b> |
| Change y/y (%)                                    | 9.3%           | -4.3%          | -20.6%         | 35.2%        | 35.8%        | 38.7%        | 21.2%        | 14.3%          | 14.3%        | 10.1%        | -2.7%        | -0.4%         | -4.7%          | 4.4%           | 4.4%           |
| Change q/q (%)                                    | n/m            | n/m            | n/m            | 9.7%         | 7.9%         | 8.6%         | -5.8%        | n/m            | 3.5%         | 3.9%         | -4.0%        | -3.5%         | n/m            | n/m            | n/m            |
| Cost of Goods Sold                                | 1,300.8        | 1,267.6        | 970.2          | 282.6        | 293.9        | 308.3        | 291.3        | 1,176.0        | 302.4        | 311.8        | 305.6        | 298.0         | 1,217.7        | 1,258.3        | 1,332.3        |
| <b>Gross Income</b>                               | <b>292.0</b>   | <b>256.0</b>   | <b>239.2</b>   | <b>84.9</b>  | <b>102.6</b> | <b>122.4</b> | <b>114.6</b> | <b>424.4</b>   | <b>117.8</b> | <b>124.7</b> | <b>113.4</b> | <b>106.4</b>  | <b>462.2</b>   | <b>406.6</b>   | <b>405.0</b>   |
| Gross Margin                                      | 18.3%          | 16.8%          | 19.8%          | 23.1%        | 25.9%        | 28.4%        | 28.2%        | 26.5%          | 28.0%        | 28.6%        | 27.1%        | 26.3%         | 27.5%          | 24.4%          | 23.3%          |
| Depreciation and Amortization Expense             | 51.5           | 58.4           | 55.1           | 13.4         | 10.5         | 10.9         | 10.9         | 45.7           | 10.9         | 11.5         | 11.4         | 11.3          | 45.1           | 45.5           | 46.1           |
| SG&A  | 122.6          | 129.1          | 108.5          | 26.5         | 30.5         | 29.9         | 31.8         | 118.7          | 35.0         | 31.1         | 31.1         | 32.1          | 129.3          | 137.4          | 145.4          |
| % of Net Sales                                    | 7.7%           | 8.5%           | 9.0%           | 7.2%         | 7.7%         | 6.9%         | 7.8%         | 7.4%           | 8.3%         | 7.1%         | 7.4%         | 7.9%          | 7.7%           | 8.3%           | 8.4%           |
| <b>Operating Income--EBIT</b>                     | <b>169.4</b>   | <b>126.9</b>   | <b>130.7</b>   | <b>58.4</b>  | <b>72.1</b>  | <b>92.5</b>  | <b>82.8</b>  | <b>305.8</b>   | <b>82.8</b>  | <b>93.6</b>  | <b>82.3</b>  | <b>74.3</b>   | <b>333.0</b>   | <b>269.2</b>   | <b>259.6</b>   |
| Operating Margin                                  | 10.6%          | 8.3%           | 10.8%          | 15.9%        | 18.2%        | 21.5%        | 20.4%        | 19.1%          | 19.7%        | 21.4%        | 19.6%        | 18.4%         | 19.8%          | 16.2%          | 14.9%          |
| Interest Expense (Income)                         | -43.9          | -30.4          | -8.7           | -1.3         | -2.6         | -2.1         | -2.5         | -8.4           | -2.2         | -1.7         | -2.0         | -2.3          | -8.2           | -10.5          | -14.0          |
| Non-operating Income (Expense)                    | 0.0            | 0.0            | 0.0            | -0.6         | 0.0          | 0.0          | 0.0          | -0.6           | 0.0          | 0.0          | 0.0          | 0.0           | 0.0            | 0.0            | 0.0            |
| Non-recurring Pretax Income (Expense)             | 0.0            | 0.0            | 0.0            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0            | 0.0          | 0.0          | 0.0          | 0.0           | 0.0            | 0.0            | 0.0            |
| <b>Pretax Income</b>                              | <b>213.3</b>   | <b>157.3</b>   | <b>139.5</b>   | <b>59.0</b>  | <b>74.7</b>  | <b>94.6</b>  | <b>85.3</b>  | <b>313.6</b>   | <b>85.0</b>  | <b>95.2</b>  | <b>84.3</b>  | <b>76.7</b>   | <b>341.1</b>   | <b>279.7</b>   | <b>273.7</b>   |
| Pretax Margin                                     | 13.4%          | 10.3%          | 11.5%          | 16.1%        | 18.8%        | 22.0%        | 21.0%        | 19.6%          | 20.2%        | 21.8%        | 20.1%        | 19.0%         | 20.3%          | 16.8%          | 15.8%          |
| Income Tax Expense                                | 56.2           | 34.9           | 26.2           | 10.9         | 22.4         | 26.7         | 24.7         | 84.7           | 16.4         | 27.6         | 24.4         | 22.2          | 90.7           | 81.1           | 79.4           |
| Tax Rate  | 26.4%          | 22.2%          | 18.8%          | 18.5%        | 30.0%        | 28.2%        | 29.0%        | 27.0%          | 19.3%        | 29.0%        | 29.0%        | 29.0%         | 26.6%          | 29.0%          | 29.0%          |
| <b>Net Income (before charges)</b>                | <b>157.1</b>   | <b>122.4</b>   | <b>113.3</b>   | <b>48.1</b>  | <b>52.3</b>  | <b>67.9</b>  | <b>60.6</b>  | <b>228.8</b>   | <b>68.6</b>  | <b>67.6</b>  | <b>59.8</b>  | <b>54.4</b>   | <b>250.4</b>   | <b>198.6</b>   | <b>194.3</b>   |
| Net Margin  | 9.9%           | 8.0%           | 9.4%           | 13.1%        | 13.2%        | 15.8%        | 14.9%        | 14.3%          | 16.3%        | 15.5%        | 14.3%        | 13.5%         | 14.9%          | 11.9%          | 11.2%          |
| <b>EBITDA</b>                                     | <b>220.9</b>   | <b>185.4</b>   | <b>185.8</b>   | <b>71.8</b>  | <b>82.6</b>  | <b>103.4</b> | <b>93.7</b>  | <b>351.5</b>   | <b>93.7</b>  | <b>105.1</b> | <b>93.7</b>  | <b>85.6</b>   | <b>378.1</b>   | <b>314.7</b>   | <b>305.7</b>   |
| EBITDA Margin                                     | 13.9%          | 12.2%          | 15.4%          | 19.5%        | 20.8%        | 24.0%        | 23.1%        | 22.0%          | 22.3%        | 24.1%        | 22.4%        | 21.2%         | 22.5%          | 18.9%          | 17.6%          |
| Core Operating Net EPS - Basic pro forma          | 0.92           | 0.72           | 0.67           | 0.28         | 0.31         | 0.40         | 0.36         | 1.35           | 0.40         | 0.40         | 0.35         | 0.32          | 1.47           | 1.16           | 1.13           |
| <b>Core Operating Net EPS - Diluted pro forma</b> | <b>0.91</b>    | <b>0.72</b>    | <b>0.66</b>    | <b>0.28</b>  | <b>0.31</b>  | <b>0.40</b>  | <b>0.36</b>  | <b>1.34</b>    | <b>0.40</b>  | <b>0.40</b>  | <b>0.35</b>  | <b>0.32</b>   | <b>1.47</b>    | <b>1.16</b>    | <b>1.13</b>    |
| One-Time Items                                    | 0.00           | -0.02          | -0.12          | -0.01        | 0.00         | 0.00         | 0.00         | -0.01          | 0.00         | 0.00         | 0.00         | 0.00          | 0.00           | 0.00           | 0.00           |
| GAAP Reported EPS - Basic                         | 0.91           | 0.70           | 0.55           | 0.27         | 0.31         | 0.40         | 0.36         | 1.34           | 0.40         | 0.40         | 0.35         | 0.32          | 1.47           | 1.16           | 1.13           |
| GAAP Reported EPS - Diluted                       | 0.91           | 0.70           | 0.55           | 0.27         | 0.31         | 0.40         | 0.36         | 1.33           | 0.40         | 0.40         | 0.35         | 0.32          | 1.47           | 1.16           | 1.13           |
| Average Shares Outstanding - Basic                | 171.7          | 170.8          | 170.3          | 170.1        | 170.1        | 170.0        | 169.9        | 170.0          | 170.1        | 170.1        | 170.3        | 170.4         | 170.2          | 170.8          | 171.4          |
| Average Shares Outstanding - Diluted              | 172.3          | 171.0          | 170.4          | 170.3        | 170.5        | 170.2        | 170.3        | 170.3          | 170.6        | 170.6        | 170.7        | 170.9         | 170.7          | 171.2          | 171.8          |
| Cash and Cash Equivalents                         | 575            | 527            | 687            | 416          | 413          | 372          | 332          | 332            | 379          | 329          | 481          | 553           | 553            | 676            | 799            |
| Short-term Investments                            | 165            | 34             | 54             | 272          | 329          | 409          | 395          | 395            | 402          | 462          | 455          | 450           | 450            | 457            | 463            |
| Net Receivables                                   | 228            | 155            | 167            | 196          | 216          | 242          | 216          | 216            | 234          | 253          | 233          | 225           | 225            | 235            | 245            |
| Inventories                                       | 398            | 388            | 342            | 357          | 370          | 408          | 442          | 442            | 496          | 542          | 476          | 464           | 464            | 504            | 526            |
| Pre-paid expenses                                 | 67             | 84             | 69             | 75           | 74           | 86           | 80           | 80             | 91           | 84           | 83           | 82            | 82             | 84             | 85             |
| Deferred Taxes                                    | 0              | 0              | 0              | 0            | 0            | 0            | 0            | 0              | 0            | 0            | 0            | 0             | 0              | 0              | 0              |
| <b>Total Current Assets</b>                       | <b>1,433</b>   | <b>1,189</b>   | <b>1,318</b>   | <b>1,316</b> | <b>1,402</b> | <b>1,518</b> | <b>1,466</b> | <b>1,466</b>   | <b>1,602</b> | <b>1,670</b> | <b>1,728</b> | <b>1,774</b>  | <b>1,774</b>   | <b>1,954</b>   | <b>2,118</b>   |
| Long-term investments                             | 69             | 205            | 174            | 225          | 196          | 170          | 269          | 269            | 225          | 227          | 224          | 221           | 221            | 224            | 228            |
| Net Property, Plant and Equipment                 | 296            | 282            | 259            | 247          | 234          | 241          | 232          | 232            | 236          | 243          | 239          | 235           | 235            | 220            | 209            |
| Goodwill  | 247            | 254            | 250            | 249          | 248          | 247          | 246          | 246            | 245          | 244          | 244          | 244           | 244            | 244            | 244            |
| Other Assets                                      | 10             | 8              | 19             | 13           | 8            | 13           | 9            | 9              | 11           | 11           | 11           | 11            | 11             | 11             | 11             |
| <b>Total Assets</b>                               | <b>2,053</b>   | <b>1,938</b>   | <b>2,021</b>   | <b>2,051</b> | <b>2,088</b> | <b>2,188</b> | <b>2,222</b> | <b>2,222</b>   | <b>2,319</b> | <b>2,396</b> | <b>2,446</b> | <b>2,485</b>  | <b>2,485</b>   | <b>2,654</b>   | <b>2,809</b>   |
| Short-term Borrowings                             | 1              | 0              | 0              | 0            | 0            | 0            | 0            | 0              | 0            | 0            | 0            | 0             | 0              | 0              | 0              |
| Accounts Payable                                  | 139            | 90             | 105            | 104          | 114          | 127          | 116          | 116            | 133          | 131          | 134          | 131           | 131            | 142            | 148            |
| Income Taxes Payable                              | 89             | 76             | 92             | 89           | 96           | 94           | 95           | 95             | 103          | 117          | 115          | 114           | 114            | 115            | 117            |
| Other Current Liabilities                         | 0              | 0              | 0              | 0            | 0            | 0            | 0            | 0              | 0            | 0            | 0            | 0             | 0              | 0              | 0              |
| <b>Total Current Liabilities</b>                  | <b>228</b>     | <b>166</b>     | <b>197</b>     | <b>193</b>   | <b>209</b>   | <b>221</b>   | <b>211</b>   | <b>211</b>     | <b>236</b>   | <b>248</b>   | <b>249</b>   | <b>244</b>    | <b>244</b>     | <b>257</b>     | <b>265</b>     |
| Long-Term Debt                                    | 1.1            | 0.0            | 0.0            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0            | 0.0          | 0.0          | 0.0          | 0.0           | 0.0            | 0.0            | 0.0            |
| Deferred Taxes and Invest Tax Credit              | 0.0            | 0.0            | 0.0            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0            | 0.0          | 0.0          | 0.0          | 0.0           | 0.0            | 0.0            | 0.0            |
| Other Liabilities                                 | 67.9           | 61.5           | 46.1           | 57.2         | 54.7         | 53.5         | 53.1         | 53.1           | 43.9         | 42.9         | 42.3         | 41.9          | 41.9           | 42.5           | 43.1           |
| <b>Total Liabilities</b>                          | <b>297</b>     | <b>228</b>     | <b>243</b>     | <b>250</b>   | <b>264</b>   | <b>274</b>   | <b>264</b>   | <b>264</b>     | <b>280</b>   | <b>291</b>   | <b>291</b>   | <b>286</b>    | <b>286</b>     | <b>300</b>     | <b>308</b>     |
| Total Shareholders' Equity                        | 1,756          | 1,710          | 1,778          | 1,801        | 1,824        | 1,914        | 1,958        | 1,958          | 2,040        | 2,105        | 2,154        | 2,199         | 2,199          | 2,354          | 2,501          |
| <b>Total Liab/Shareholders' Equity</b>            | <b>2,053</b>   | <b>1,938</b>   | <b>2,021</b>   | <b>2,051</b> | <b>2,088</b> | <b>2,188</b> | <b>2,222</b> | <b>2,222</b>   | <b>2,319</b> | <b>2,396</b> | <b>2,446</b> | <b>2,485</b>  | <b>2,485</b>   | <b>2,654</b>   | <b>2,809</b>   |

Source: Citi Investment Research and Analysis, Company Reports

## Company Focus

- Company Update
- Target Price Change

|                              |               |
|------------------------------|---------------|
| <b>Sell/Speculative</b>      | <b>3S</b>     |
| Price (03 Oct 11)            | US\$12.13     |
| Target price                 | US\$10.50     |
| from US\$11.50               |               |
| Expected share price return  | -13.4%        |
| Expected dividend yield      | 0.0%          |
| <b>Expected total return</b> | <b>-13.4%</b> |
| Market Cap                   | US\$723M      |

### Price Performance (RIC: BHE.N, BB: BHE US)



## Benchmark Electronics Inc (BHE) Finding it's Footing after One-Time Restructuring & Program Delay/Reduction; Expect Test & Measurement to Remain Weak

- **What to Expect for the September Quarter** – We believe Benchmark will report September quarter results inline with consensus estimates for sales of \$594m & within the company's guidance range of \$585-\$620m and will report EPS inline with consensus of \$0.31 and at the low end of BHE's guidance range of \$0.31-\$0.36. Last quarter BHE missed EPS guidance due to a disappointing \$3.1m settlement cost relating to the transfer of a major program to a low cost geography which we believe was a one time event and BHE should see a snap back in gross and operating margins for the September quarter. Additionally, last quarter, BHE announced the delay of a large computing program which is now expected in 1H'12 and the project size was reduced to \$100m (from an estimated \$150m). We believe BHE should be able to meet reset expectations for this project following several delays.
- **Key Focus Items** – 1) Update on new win activity and ramps of previously announced wins. Last quarter, Benchmark announced 23 new project wins which management estimated would contribute \$109m to \$132m in annualized sales. 2) Update on order book as BHE noted in early September they have not seen any customer cancellations or push outs. 3) Update on Test & Measurement as we expect BHE's semi cap equipment to remain soft given order cuts and following a June quarter which was down -10% q/q. 4) Priorities in use of cash as BHE repurchased \$20m or 1.2m shares in the June quarter and has \$67m remaining under its current repurchase program. Benchmark does not pay a dividend. 5) Update on margin targets as Benchmark's near-term operating margin goal is 4.5% which BHE believes is achievable on \$675m of sales. In 2010, Benchmark reported an operating margin of 4.0% and we believe 4.5% operating margins may be unrealistic in the near term. When should investors expect BHE to get to the targeted 4.5% operating margins? And outside of revenue growth, how does BHE get there? 6) Inventory levels at Benchmark, which the company is working toward a targeted level of 6-6.5x from a current 5-5.8x. 7) Update on ramp of Computing Programs following the delay/reduction of a major program in June & a \$35-\$55m super computing win in July.
- **Stock View** – We are adjusting our target price to reflect a lower market multiple. Our new target price goes to \$10.50 from \$11.50. We maintain our Sell (3S) rating on Benchmark as we are skeptical about the company's business ramps (have faced several delays) as well as conservative customer forecasts which we have not seen in other EMS contractors (could be indications of double ordering).
- **Earnings Report** – To be determined as BHE has not yet provided a date as of the time of this publication (past history has been a 3 week notification).

| EPS          | Q1           | Q2           | Q3           | Q4           | FY           | FC Cons      |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2010A</b> | 0.30A        | 0.33A        | 0.38A        | 0.37A        | 1.38A        | 1.37A        |
| <b>2011E</b> | <b>0.25A</b> | <b>0.25A</b> | <b>0.31E</b> | <b>0.34E</b> | <b>1.15E</b> | <b>1.16E</b> |
| Previous     | 0.25A        | 0.25A        | 0.31E        | 0.34E        | 1.15E        | na           |
| <b>2012E</b> | <b>0.33E</b> | <b>0.34E</b> | <b>0.36E</b> | <b>0.37E</b> | <b>1.40E</b> | <b>1.37E</b> |
| Previous     | 0.33E        | 0.34E        | 0.36E        | 0.37E        | 1.40E        | na           |
| <b>2013E</b> | <b>0.35E</b> | <b>0.36E</b> | <b>0.37E</b> | <b>0.39E</b> | <b>1.47E</b> | <b>1.54E</b> |
| Previous     | 0.35E        | 0.36E        | 0.37E        | 0.39E        | 1.47E        | na           |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 49. Summary of Recent Results and Outlook

|                                 | Revenue (\$MM)                       |        |       |            |             | Op. Margin |      | EPS         |        |        |            |               |
|---------------------------------|--------------------------------------|--------|-------|------------|-------------|------------|------|-------------|--------|--------|------------|---------------|
|                                 | Comment                              | Actual | CIR   | First Call | Mgmt Est.   | Actual     | CIR  | Comment     | Actual | CIR    | First Call | Mgmt Est.     |
| BHE                             | IBM 11-12%, EMC 8-9%, Medtronic 6-7% |        |       |            |             |            |      |             |        |        |            |               |
| Jun                             | In-Line                              | 586    | 581   | 580        | \$560-\$600 | 3.1%       |      | Miss        | 0.25   | 0.33   | 0.31       | \$0.28-\$0.34 |
| %chg                            |                                      | 8.8%   | 7.9%  | 7.7%       |             |            |      |             | 0.4%   | 32.2%  | 24.2%      |               |
| SeptE                           |                                      |        | 597   | 594        | \$585-\$620 | 2.5%       |      |             |        | 0.31   | 0.31       | \$0.30-\$0.36 |
| %chg                            |                                      |        | 2.0%  | 1.4%       |             |            |      |             |        | 25.1%  | 25.3%      |               |
| DecE                            |                                      |        | 615   | 614        |             |            | 3.5% |             |        | 0.34   | 0.34       |               |
| %chg                            |                                      |        | 3.0%  | 3.4%       |             |            |      |             |        | 8.5%   | 9.6%       |               |
| CY10                            | Slight Beat                          | 2,402  | 2,392 | 2,385      |             | 4.0%       |      | Slight Beat | 1.38   | 1.37   | 1.36       |               |
| %chg                            |                                      | 15.0%  | 14.5% | 14.2%      |             |            |      |             | 51.4%  | 49.8%  | 48.7%      |               |
| CY11E                           |                                      |        | 2,336 | 2,332      |             |            | 3.9% |             |        | 1.15   | 1.16       |               |
| %chg                            |                                      |        | -2.7% | -2.9%      |             |            |      |             |        | -17.0% | -16.2%     |               |
| CY12E                           |                                      |        | 2,504 | 2,455      |             |            | 4.4% |             |        | 1.40   | 1.37       |               |
| %chg                            |                                      |        | 7.2%  | 5.3%       |             |            |      |             |        | 21.7%  | 18.4%      |               |
| Denotes key investor focus item |                                      |        |       |            |             |            |      |             |        |        |            |               |

Denotes key investor focus item

Source: Citi Investment Research and Analysis

Figure 50. BHE Business Segmentation

| Revenues (\$ millions) |       |       |       |       |       |
|------------------------|-------|-------|-------|-------|-------|
|                        | 2010  | 3Q10  | 4Q10  | 1Q11  | 2011  |
| High End Computing     | 188.6 | 190.3 | 206.9 | 145.3 | 164.0 |
| Telecom                | 135.6 | 135.1 | 137.9 | 123.8 | 134.7 |
| Test                   | 58.9  | 67.5  | 69.0  | 70.0  | 64.4  |
| Industrial             | 147.4 | 159.6 | 150.5 | 150.7 | 164.0 |
| Medical                | 58.9  | 61.4  | 62.7  | 48.4  | 58.6  |

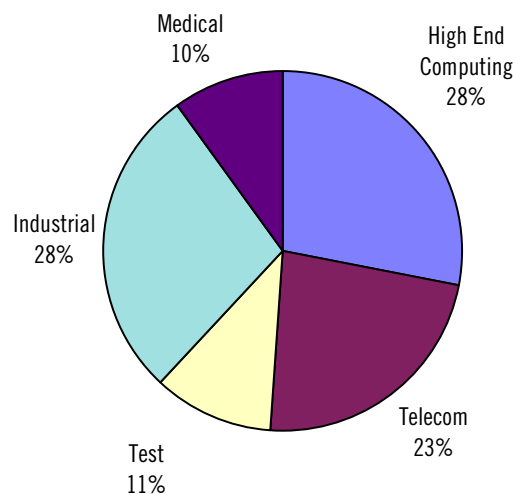
| Q/Q Change         |        |       |       |        |       |
|--------------------|--------|-------|-------|--------|-------|
|                    | 2010   | 3Q10  | 4Q10  | 1Q11   | 2011  |
| High End Computing | 3.1%   | 0.9%  | 8.7%  | -29.7% | 12.8% |
| Telecom            | 3.1%   | -0.4% | 2.1%  | -10.2% | 8.8%  |
| Test               | 14.5%  | 14.6% | 2.1%  | 1.5%   | -8.0% |
| Industrial         | 7.4%   | 8.3%  | -5.7% | 0.2%   | 8.8%  |
| Medical            | -14.1% | 4.1%  | 2.1%  | -22.7% | 20.9% |

| Y/Y Change         |        |        |        |        |        |
|--------------------|--------|--------|--------|--------|--------|
|                    | 2010   | 3Q10   | 4Q10   | 1Q11   | 2011   |
| High End Computing | 3.0%   | 3.6%   | -11.6% | -20.6% | -13.1% |
| Telecom            | 8.2%   | 15.0%  | 9.4%   | -5.9%  | -0.7%  |
| Test               | 307.8% | 164.6% | 64.1%  | 36.0%  | 9.3%   |
| Industrial         | 61.0%  | 48.9%  | 13.9%  | 9.8%   | 11.3%  |
| Medical            | -12.6% | -19.8% | -5.0%  | -29.4% | -0.7%  |

| % of Sales         |      |      |      |      |      |
|--------------------|------|------|------|------|------|
|                    | 2010 | 3Q10 | 4Q10 | 1Q11 | 2011 |
| High End Computing | 32%  | 31%  | 33%  | 27%  | 28%  |
| Telecom            | 23%  | 22%  | 22%  | 23%  | 23%  |
| Test               | 10%  | 11%  | 11%  | 13%  | 11%  |
| Industrial         | 25%  | 26%  | 24%  | 28%  | 28%  |
| Medical            | 10%  | 10%  | 10%  | 9%   | 10%  |

Source: Citi Investment Research and Analysis, Company Reports

Figure 51. BHE End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports

Figure 52. Benchmark Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)

| (\$ in millions, except per-share data) | CY<br>2007     | CY<br>2008     | CY<br>2009     | 03/10<br>1Q    | 06/10<br>2Q    | 09/10<br>3Q    | 12/10<br>4Q    | CY<br>2010     | 03/11<br>1Q    | 06/11<br>2Q    | 09/11<br>3QE   | 12/11<br>4QE   | CY<br>2011E    | CY<br>2012E    | CY<br>2013E    |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net Sales</b>                        | <b>2,915.9</b> | <b>2,590.2</b> | <b>2,089.3</b> | <b>571.9</b>   | <b>589.4</b>   | <b>613.9</b>   | <b>626.9</b>   | <b>2,402.1</b> | <b>538.3</b>   | <b>585.5</b>   | <b>597.3</b>   | <b>615.2</b>   | <b>2,336.3</b> | <b>2,503.6</b> | <b>2,640.6</b> |
| Change y/y (%)                          | 0.3%           | -11.2%         | -19.3%         | 15.1%          | 22.3%          | 20.3%          | 4.4%           | 15.0%          | -5.9%          | -0.7%          | -2.7%          | -1.9%          | -2.7%          | 7.2%           | 5.5%           |
| Change q/q (%)                          |                |                |                | -4.7%          | 3.1%           | 4.1%           | 2.1%           |                | -14.1%         | 8.8%           | 2.0%           | 3.0%           |                |                |                |
| Cost of Sales                           | 2,717.0        | 2,413.8        | 1,942.7        | 526.6          | 542.6          | 566.1          | 578.2          | 2,213.5        | 499.9          | 547.8          | 553.4          | 569.1          | 2,170.1        | 2,315.9        | 2,442.6        |
| <b>Gross Profit</b>                     | <b>198.9</b>   | <b>176.3</b>   | <b>146.6</b>   | <b>45.3</b>    | <b>46.9</b>    | <b>47.7</b>    | <b>48.7</b>    | <b>188.7</b>   | <b>38.5</b>    | <b>37.8</b>    | <b>43.9</b>    | <b>46.1</b>    | <b>166.2</b>   | <b>187.7</b>   | <b>198.0</b>   |
| Gross Margin                            | 6.8%           | 6.8%           | 7.0%           | 7.9%           | 8.0%           | 7.8%           | 7.8%           | 7.9%           | 7.1%           | 6.4%           | 7.3%           | 7.5%           | 7.1%           | 7.5%           | 7.5%           |
| Depreciation                            | 43.0           | 40.5           | 39.9           | 10.5           | 10.1           | 9.8            | 9.6            | 40.0           | 8.4            | 9.0            | 9.0            | 9.0            | 35.4           | 37.0           | 38.0           |
| SG&A                                    | 93.9           | 89.5           | 85.1           | 22.5           | 23.0           | 23.4           | 23.3           | 92.2           | 21.8           | 23.1           | 23.0           | 23.4           | 91.3           | 94.5           | 99.0           |
| % of Net Sales                          | 3.2%           | 3.5%           | 4.1%           | 3.9%           | 3.9%           | 3.8%           | 3.7%           | 3.8%           | 4.1%           | 3.9%           | 3.9%           | 3.8%           | 3.9%           | 3.8%           | 3.7%           |
| <b>Operating Income/EBIT</b>            | <b>105.0</b>   | <b>86.4</b>    | <b>61.1</b>    | <b>22.8</b>    | <b>23.9</b>    | <b>24.3</b>    | <b>25.4</b>    | <b>96.4</b>    | <b>16.6</b>    | <b>14.6</b>    | <b>20.9</b>    | <b>22.7</b>    | <b>74.9</b>    | <b>93.2</b>    | <b>99.0</b>    |
| Operating margin                        | 3.6%           | 3.3%           | 2.9%           | 4.0%           | 4.0%           | 4.0%           | 4.1%           | 4.0%           | 3.1%           | 2.5%           | 3.5%           | 3.7%           | 3.2%           | 3.7%           | 3.7%           |
| Interest & Other Income                 | 11.9           | 8.7            | 2.2            | 0.4            | 0.4            | 0.4            | 0.4            | 1.6            | 0.4            | 0.4            | 0.4            | 0.4            | 1.6            | 2.6            | 2.9            |
| Interest & Other (FX) Expense           | -2.2           | -1.5           | -1.4           | -0.3           | -0.3           | -0.3           | -0.3           | -1.4           | -0.3           | -0.3           | -0.3           | -0.3           | -1.3           | -1.3           | -1.3           |
| Other Income(Expense)                   | 0.0            | 1.8            | -1.7           | -0.4           | -0.7           | 1.2            | -1.9           | -1.7           | -0.4           | 0.7            | 0.0            | 0.0            | 0.3            | 0.0            | 0.0            |
| <b>Pretax Income</b>                    | <b>114.7</b>   | <b>95.3</b>    | <b>60.2</b>    | <b>22.5</b>    | <b>23.3</b>    | <b>25.6</b>    | <b>23.7</b>    | <b>95.0</b>    | <b>16.3</b>    | <b>15.5</b>    | <b>20.9</b>    | <b>22.8</b>    | <b>75.5</b>    | <b>94.5</b>    | <b>100.5</b>   |
| Pretax Margin                           | 3.9%           | 3.7%           | 2.9%           | 3.9%           | 4.0%           | 4.2%           | 3.8%           | 4.0%           | 3.0%           | 2.6%           | 3.5%           | 3.7%           | 3.2%           | 3.8%           | 3.8%           |
| Tax Provision                           | 12.0           | 11.1           | 1.7            | 3.4            | 2.5            | 2.2            | 1.1            | 9.2            | 0.9            | 0.3            | 1.9            | 2.1            | 5.1            | 8.5            | 9.0            |
| Tax Rate (%)                            | 10.4%          | 11.7%          | 2.8%           | 15.1%          | 10.8%          | 8.8%           | 4.5%           | 9.7%           | 5.6%           | 2.0%           | 9.0%           | 9.0%           | 6.8%           | 9.0%           | 9.0%           |
| <b>Net Income (before charges)</b>      | <b>102.8</b>   | <b>84.2</b>    | <b>58.5</b>    | <b>19.1</b>    | <b>20.8</b>    | <b>23.4</b>    | <b>22.6</b>    | <b>85.8</b>    | <b>15.3</b>    | <b>15.2</b>    | <b>19.0</b>    | <b>20.7</b>    | <b>70.3</b>    | <b>86.0</b>    | <b>91.5</b>    |
| Net Margin                              | 3.5%           | 3.3%           | 2.8%           | 3.3%           | 3.5%           | 3.8%           | 3.6%           | 3.6%           | 2.9%           | 2.6%           | 3.2%           | 3.4%           | 3.0%           | 3.4%           | 3.5%           |
| <b>EBITDA</b>                           | <b>148.0</b>   | <b>127.3</b>   | <b>101.4</b>   | <b>33.3</b>    | <b>34.0</b>    | <b>34.1</b>    | <b>35.0</b>    | <b>136.4</b>   | <b>25.0</b>    | <b>23.6</b>    | <b>29.9</b>    | <b>31.7</b>    | <b>110.3</b>   | <b>130.2</b>   | <b>137.0</b>   |
| EBITDA Margin                           | 5.1%           | 4.9%           | 4.9%           | 5.8%           | 5.8%           | 5.6%           | 5.6%           | 5.7%           | 4.6%           | 4.0%           | 5.0%           | 5.2%           | 4.7%           | 5.2%           | 5.2%           |
| EPS - Basic                             | 1.42           | 1.26           | 0.91           | 0.30           | 0.33           | 0.38           | 0.37           | 1.38           | 0.25           | 0.25           | 0.32           | 0.34           | 1.16           | 1.40           | 1.48           |
| EPS - Diluted                           | 1.42           | 1.26           | 0.91           | 0.30           | 0.33           | 0.38           | 0.37           | 1.38           | 0.25           | 0.25           | 0.31           | 0.34           | 1.15           | 1.40           | 1.47           |
| <b>Core EPS</b>                         | <b>1.34</b>    | <b>1.26</b>    | <b>0.91</b>    | <b>0.30</b>    | <b>0.33</b>    | <b>0.38</b>    | <b>0.37</b>    | <b>1.38</b>    | <b>0.25</b>    | <b>0.25</b>    | <b>0.31</b>    | <b>0.34</b>    | <b>1.15</b>    | <b>1.40</b>    | <b>1.47</b>    |
| Extraordinary Item                      | -0.13          | -3.37          | -0.08          | -0.01          | 0.00           | -0.01          | -0.06          | -0.08          | 0.00           | -0.01          | 0.00           | 0.00           | -0.01          | 0.00           | 0.00           |
| Reported EPS-Basic                      | 1.29           | -2.11          | 0.83           | 0.29           | 0.33           | 0.37           | 0.31           | 1.30           | 0.25           | 0.24           | 0.32           | 0.34           | 1.15           | 1.40           | 1.48           |
| Reported EPS-Diluted                    | 1.28           | -2.11          | 0.83           | 0.29           | 0.33           | 0.37           | 0.31           | 1.30           | 0.25           | 0.24           | 0.31           | 0.34           | 1.14           | 1.40           | 1.47           |
| Shares O/S - Basic                      | 72.1           | 67.1           | 64.8           | 63.4           | 62.7           | 61.7           | 60.8           | 62.1           | 60.9           | 60.2           | 60.4           | 60.6           | 60.5           | 61.1           | 61.9           |
| Shares O/S - Diluted                    | 72.7           | 67.3           | 65.1           | 64.0           | 63.2           | 62.1           | 61.2           | 62.6           | 61.5           | 60.6           | 60.8           | 61.0           | 60.9           | 61.5           | 62.3           |
| Cash and Equivalents                    | 382.0          | 359.7          | 421.2          | 400.6          | 351.5          | 346.3          | 346.3          | 346.3          | 333.5          | 306.5          | 306.1          | 319.0          | 319.0          | 357.5          | 407.2          |
| Accounts Receivable                     | 485.9          | 422.1          | 417.3          | 407.7          | 413.4          | 426.9          | 455.9          | 455.9          | 419.1          | 453.0          | 462.1          | 475.9          | 475.9          | 507.1          | 534.9          |
| Inventories                             | 362.0          | 343.2          | 315.7          | 362.0          | 389.0          | 380.6          | 362.2          | 362.2          | 395.7          | 396.3          | 407.2          | 406.2          | 406.2          | 432.9          | 456.6          |
| Prepaid & Other Expenses                | 75.4           | 39.5           | 48.7           | 46.5           | 48.7           | 53.2           | 54.5           | 54.5           | 50.8           | 48.3           | 48.6           | 49.1           | 49.1           | 50.1           | 51.1           |
| <b>Total Current Assets</b>             | <b>1,305.3</b> | <b>1,164.4</b> | <b>1,202.9</b> | <b>1,216.8</b> | <b>1,202.6</b> | <b>1,207.1</b> | <b>1,219.0</b> | <b>1,219.0</b> | <b>1,199.1</b> | <b>1,204.1</b> | <b>1,224.0</b> | <b>1,250.3</b> | <b>1,250.3</b> | <b>1,347.7</b> | <b>1,449.7</b> |
| PP&E, net                               | 144.2          | 142.8          | 126.3          | 172.0          | 172.7          | 165.4          | 162.7          | 162.7          | 148.0          | 151.5          | 153.2          | 154.9          | 154.9          | 160.7          | 165.5          |
| Goodwill, net                           | 283.7          | 37.9           | 37.9           | 37.9           | 37.9           | 60.0           | 58.1           | 58.1           | 37.9           | 37.9           | 37.9           | 37.9           | 37.9           | 37.9           | 37.9           |
| Other Assets, net                       | 29.7           | 94.0           | 101.9          | 57.5           | 57.8           | 37.9           | 37.9           | 37.9           | 92.8           | 88.5           | 89.1           | 90.0           | 90.0           | 91.9           | 93.6           |
| <b>Total Assets</b>                     | <b>1,762.8</b> | <b>1,439.2</b> | <b>1,469.0</b> | <b>1,484.1</b> | <b>1,471.0</b> | <b>1,470.4</b> | <b>1,477.7</b> | <b>1,477.7</b> | <b>1,477.8</b> | <b>1,482.0</b> | <b>1,504.1</b> | <b>1,533.0</b> | <b>1,533.0</b> | <b>1,638.1</b> | <b>1,746.6</b> |
| Current portion of LT Debt              | 0.4            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | 0.4            | 0.4            | 0.4            | 0.4            | 0.4            | 0.4            | 0.4            | 0.4            | 0.4            |
| Accounts Payable                        | 359.4          | 288.0          | 275.9          | 296.7          | 281.5          | 264.1          | 257.3          | 257.3          | 245.5          | 255.9          | 258.5          | 265.8          | 265.8          | 283.2          | 298.7          |
| Accrued Liabilities                     | 59.5           | 54.2           | 60.7           | 59.7           | 57.4           | 65.2           | 63.7           | 63.7           | 57.8           | 55.0           | 55.3           | 55.9           | 55.9           | 57.1           | 58.1           |
| <b>Total Current Liabilities</b>        | <b>421.1</b>   | <b>342.5</b>   | <b>336.9</b>   | <b>356.7</b>   | <b>339.2</b>   | <b>329.6</b>   | <b>321.3</b>   | <b>321.3</b>   | <b>303.6</b>   | <b>311.2</b>   | <b>314.2</b>   | <b>322.0</b>   | <b>322.0</b>   | <b>340.7</b>   | <b>357.2</b>   |
| Deferred Income Taxes & Other           | 41.2           | 29.3           | 23.9           | 24.2           | 25.2           | 24.1           | 24.4           | 24.4           | 24.6           | 25.2           | 25.4           | 25.7           | 25.7           | 26.2           | 26.7           |
| <b>Total Liabilities</b>                | <b>474.3</b>   | <b>383.5</b>   | <b>372.2</b>   | <b>392.2</b>   | <b>375.6</b>   | <b>364.8</b>   | <b>356.7</b>   | <b>356.7</b>   | <b>339.1</b>   | <b>347.3</b>   | <b>350.4</b>   | <b>358.5</b>   | <b>358.5</b>   | <b>377.7</b>   | <b>394.7</b>   |
| Shareholder's Equity                    | 1,288.5        | 1,055.7        | 1,096.8        | 1,091.9        | 1,095.4        | 1,105.6        | 1,121.0        | 1,121.0        | 1,138.7        | 1,134.7        | 1,153.7        | 1,174.5        | 1,174.5        | 1,260.4        | 1,351.9        |
| <b>Total Liab/Shareholders' Equity</b>  | <b>1,762.8</b> | <b>1,439.2</b> | <b>1,469.0</b> | <b>1,484.1</b> | <b>1,471.0</b> | <b>1,470.4</b> | <b>1,477.7</b> | <b>1,477.7</b> | <b>1,477.8</b> | <b>1,482.0</b> | <b>1,504.1</b> | <b>1,533.0</b> | <b>1,533.0</b> | <b>1,638.1</b> | <b>1,746.6</b> |

Source: Citi Investment Research and Analysis, Company Reports

## Company Focus

- Company Update
- Target Price Change

|                              |              |
|------------------------------|--------------|
| <b>Sell/Speculative</b>      | <b>3S</b>    |
| Price (03 Oct 11)            | US\$6.94     |
| Target price                 | US\$6.50     |
| from US\$7.00                |              |
| Expected share price return  | -6.3%        |
| Expected dividend yield      | 0.0%         |
| <b>Expected total return</b> | <b>-6.3%</b> |
| Market Cap                   | US\$1,588M   |

### Price Performance (RIC: CLS.N, BB: CLS US)



## Celestica Inc (CLS)

### Expect Near Term Buoyancy in RIMM Given 2H Product Launches; Focus on Growth in Industrials/Aero/Defense

- **What to Expect for the September Quarter** – We believe CLS will report revenues inline with consensus at \$1.8b and the company's guidance range for \$1.725b-\$1.875b and EPS below consensus of \$0.26 but within the company's guidance range \$0.23-\$0.29. CLS should benefit from 2H'11 product launches at RIMM (19% of total sales) and we note RIMM unit expectations was inline with consensus but we believe RIMM has severe challenges ahead due to carrier promotion that favors Android & Apple vs. Blackberry. We believe these cracks in RIMM will weigh on CLS in Q4'11 and into 2012.
- **Key Focus Items** – 1) Update on order trends at Research in Motion which is a 19% customer for Celestica. With RIMM launching several new products, we believe CLS is a manufacturer and should mitigate some near term concern. 2) Update on order trends given the general macro weakness. Is CLS still comfortable with growth goals for 15% y/y sales in 21011 vs. consensus at 12% and 6-8% y/y growth in 2012 vs. consensus at 8% y/y? 3) Update on margin targets as CLS has a goal for 3.5%- 4.0% in 2H'11 driven by growth in higher margin Industrial segments. 4) Update in Industrials/Aero/Defense which represents 13% of total sales in Q2'11 and CLS expects to grow to 16-17% of sales by Q3'11 and to 19-20% of sales by the end of the year. CLS has noted a strong commercial aerospace backlog with Boeing and Airbus. The Industrials/Aero/Defense segment has a longer life cycle & higher operating margins, typically in the range of 5-7% 5) Priorities in use of cash with \$550 million of cash on the balance sheet and no long term debt. Following the Brooks acquisition, is Celestica still looking at potential M&A? 6) Growth opportunity in Healthcare following the Allied Panels acquisition (July 2010) and management's focus on this low turn/high mix segment. 7) Update on the integration of Brooks Automation, a semiconductor equipment contract manufacturer with a higher margin profile (>5% operating margins vs. 3.6% for CLS). Has CLS seen a drop off in order trends in Semiconductor Equipment given cycle timing and current macro weakness?
- **Target Price Change & Stock View** – We are adjusting our target price to \$6.50 from \$7.00 to reflect a lower market multiple. We reiterate our Sell (3S) rating on Celestica (CLS) as we believe continued problems at RIMM will be a significant headwind for CLS in achieving their targeted 10-15% 2011E revenue growth.
- **Earnings Report** – Thursday, October 20 AMC, conf call 4:30pm ET.

| EPS      | Q1    | Q2    | Q3    | Q4    | FY    | FC Cons |
|----------|-------|-------|-------|-------|-------|---------|
| 2010A    | 0.19A | 0.22A | 0.18A | 0.27A | 0.86A | 0.85A   |
| 2011E    | 0.25A | 0.27A | 0.24E | 0.24E | 1.00E | 1.03E   |
| Previous | 0.25A | 0.27A | 0.24E | 0.24E | 1.00E | na      |
| 2012E    | 0.24E | 0.25E | 0.27E | 0.28E | 1.04E | 1.11E   |
| Previous | 0.24E | 0.25E | 0.27E | 0.28E | 1.04E | na      |
| 2013E    | 0.24E | 0.27E | 0.27E | 0.27E | 1.05E | 1.22E   |
| Previous | 0.24E | 0.27E | 0.27E | 0.27E | 1.05E | na      |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 53. Summary of Recent Results and Outlook

|                                 | Revenue (\$MM)                                |        |       |            |                 | Op. Margin |      | EPS         |        |       |            |               |
|---------------------------------|---|--------|-------|------------|-----------------|------------|------|-------------|--------|-------|------------|---------------|
|                                 | Comment                                       | Actual | CIR   | First Call | Mgmt Est.       | Actual     | CIR  | Comment     | Actual | CIR   | First Call | Mgmt Est.     |
| CLS                             | Top customers: CSCO ~10%, IBM ~10%, RIMM ~19% |        |       |            |                 |            |      |             |        |       |            |               |
| Jun                             | Slight Beat                                   | 1,829  | 1,791 | 1,819      | \$1,750-\$1,900 | 3.7%       |      | Slight Beat | 0.27   | 0.23  | 0.25       | \$0.22-\$0.28 |
| %chg                            |   | 1.6%   | -0.5% | 1.0%       |                 |            |      |             | 6.9%   | -7.8% | 0.2%       |               |
| SeptE                           |   |        | 1,793 | 1,801      | \$1,725-\$1,875 |            | 3.5% |             |        | 0.24  | 0.26       | \$0.23-\$0.29 |
| %chg                            |   |        | 0.1%  | -1.0%      |                 |            |      |             |        | 5.7%  | 2.0%       |               |
| DecE                            |   |        | 1,793 | 1,801      |                 |            | 3.3% |             |        | 0.24  | 0.26       |               |
| %chg                            |   |        | 0.0%  | 0.0%       |                 |            |      |             |        | 0.0%  | 0.0%       |               |
| CY10                            | Beat  | 6,526  | 6428  | 6,429      |                 | 3.4%       |      | Beat        | 0.86   | 0.82  | 0.83       |               |
| %chg                            |   | 7.1%   | 5.5%  | 5.5%       |                 |            |      |             | 34.4%  | 28.0% | 29.6%      |               |
| CY11E                           |   |        | 7,260 | 7,355      |                 |            | 3.5% |             |        | 1.00  | 1.03       |               |
| %chg                            |   |        | 11.2% | 12.7%      |                 |            |      |             |        | 15.9% | 19.7%      |               |
| CY12E                           |   |        | 7,402 | 7,708      |                 |            | 3.5% |             |        | 1.04  | 1.11       |               |
| %chg                            |   |        | 2.0%  | 4.8%       |                 |            |      |             |        | 4.0%  | 7.2%       |               |
| Denotes key investor focus item |   |        |       |            |                 |            |      |             |        |       |            |               |

Denotes key investor focus item

Source: Citi Investment Research and Analysis, Thomson One

Figure 54. CLS Business Segmentation

| Revenues (\$ millions) |       |       |       |       |       |
|------------------------|-------|-------|-------|-------|-------|
|                        | 2Q10  | 3Q10  | 4Q10  | 1Q11  | 2Q11  |
| Server                 | 222.0 | 201.0 | 318.9 | 270.0 | 311.0 |
| Telecomm               | 206.1 | 216.5 | 225.1 | 198.0 | 164.6 |
| Enterprise             | 380.5 | 386.6 | 450.2 | 455.4 | 457.4 |
| Storage                | 190.2 | 185.6 | 225.1 | 216.0 | 201.2 |
| Consumer/Auto/Med      | 412.2 | 371.2 | 450.2 | 462.6 | 457.4 |
| Ind./Defense/Aero      | 174.4 | 185.6 | 206.4 | 198.0 | 237.8 |

| % of Sales        |      |      |      |      |      | Customers                                       |
|-------------------|------|------|------|------|------|---|
|                   | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 |   |
| Server            | 14%  | 13%  | 17%  | 15%  | 17%  | SUNW, IBM (<10%), HPQ                           |
| Telecomm          | 13%  | 14%  | 12%  | 11%  | 9%   | ALU (7-8%), NEC, NT, PWAV, CTV, ADTN            |
| Enterprise        | 24%  | 25%  | 24%  | 25%  | 25%  | SUNW, CSCO (<10%), IBM (<10%), ALU (7-8%), HPQ, |
| Storage           | 12%  | 12%  | 12%  | 12%  | 11%  | SUNW, EMC, IBM, Hitachi, HP                     |
| Consumer/Auto/Med | 26%  | 24%  | 24%  | 26%  | 25%  | RIMM (21% as of 1Q11), IBM, MSFT, Panasonic, HP |
| Ind./Defense/Aero | 11%  | 12%  | 11%  | 11%  | 13%  | HON, CMI, DBD, RTN, ROK                         |

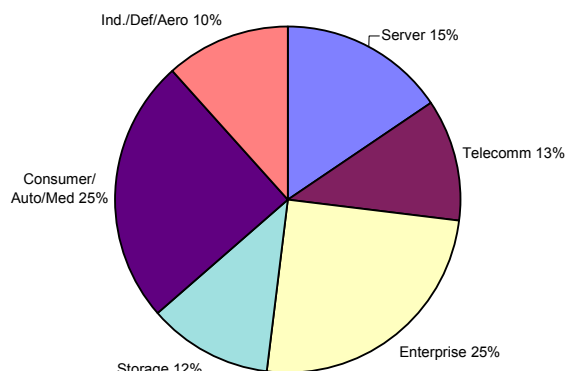
| Q/Q Change        |      |      |      |      |      |        |       |       |       | Seasonality based on 5 yr trends |  |  |  |
|-------------------|------|------|------|------|------|--------|-------|-------|-------|----------------------------------|--|--|--|
|                   | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 | 1Q     | 2Q    | 3Q    | 4Q    |                                  |  |  |  |
| Server            | 22%  | -9%  | 59%  | -15% | 15%  | -23.0% | 15.0% | -3.0% | 19.0% |                                  |  |  |  |
| Telecomm          | -3%  | 5%   | 4%   | -12% | -17% | -12.0% | 2.2%  | 3.0%  | -2.0% |                                  |  |  |  |
| Enterprise        | 14%  | 2%   | 16%  | 1%   | 0%   | -6.6%  | 2.2%  | 1.6%  | 2.0%  |                                  |  |  |  |
| Storage           | -10% | -2%  | 21%  | -4%  | -7%  | -17.0% | -6.8% | 8.3%  | 7.0%  |                                  |  |  |  |
| Consumer/Auto/Med | -3%  | -10% | 21%  | 3%   | -1%  | -21.0% | -1.1% | 37.0% | 10.5% |                                  |  |  |  |
| Ind./Defense/Aero | 15%  | 6%   | 11%  | -4%  | 20%  | -7.2%  | 10.0% | -6.0% | 7.0%  |                                  |  |  |  |

| Y/Y Change        |        |        |        |       |        |       |        |        |        |  |  |  |  |
|-------------------|--------|--------|--------|-------|--------|-------|--------|--------|--------|--|--|--|--|
|                   | 2Q10   | 3Q10   | 4Q10   | 1Q11  | 2Q11   | 1Q    | 2Q     | 3Q     | 4Q     |  |  |  |  |
| Server            | 31.9%  | -0.6%  | 36.9%  | 48.2% | 40.1%  | -0.4% | 2.5%   | -0.6%  | 2.9%   |  |  |  |  |
| Telecomm          | -26.5% | 15.9%  | 23.0%  | -6.8% | -20.1% | -6.8% | -20.1% | -14.6% | -14.0% |  |  |  |  |
| Enterprise        | 13.1%  | 12.9%  | 28.8%  | 36.4% | 20.2%  | 1.6%  | -6.4%  | -6.1%  | -16.2% |  |  |  |  |
| Storage           | 13.1%  | -8.3%  | 4.0%   | 1.6%  | 5.8%   | 1.6%  | 5.8%   | -2.4%  | 4.0%   |  |  |  |  |
| Consumer/Auto/Med | 40.0%  | -20.5% | -12.7% | 8.8%  | 11.0%  | 8.8%  | 11.0%  | -0.6%  | 1.0%   |  |  |  |  |
| Ind./Defense/Aero | 13.1%  | 19.3%  | 24.0%  | 30.4% | 36.4%  | -6.1% | 13.1%  | -1.9%  | -4.4%  |  |  |  |  |

Source: Citi Investment Research and Analysis, Company Reports

Figure 55. CLS End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports

Figure 56. Celestica Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)

| (\$ in millions, except per-share data)       | CY<br>2008   | CY<br>2009   | 03/10<br>1Q  | 06/10<br>2Q  | 09/10<br>3Q  | 12/10<br>4Q  | CY<br>2010   | 03/11<br>1Q  | 06/11<br>2Q  | 09/11<br>3Q  | 12/11<br>4Q  | CY<br>2011E  | CY<br>2012E  | CY<br>2013E  |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Sales</b>                              | <b>7,678</b> | <b>6,092</b> | <b>1,518</b> | <b>1,585</b> | <b>1,547</b> | <b>1,876</b> | <b>6,526</b> | <b>1,800</b> | <b>1,829</b> | <b>1,793</b> | <b>1,838</b> | <b>7,260</b> | <b>7,402</b> | <b>7,604</b> |
| Change y/y (%)                                | -4.9%        | -20.7%       | 3.3%         | 13.1%        | -0.6%        | 12.7%        | 7.1%         | 18.6%        | 15.4%        | 15.9%        | -2.0%        | 11.2%        | 2.0%         | 2.7%         |
| Change q/q (%)                                | nm           | nm           | -8.8%        | 4.4%         | -2.5%        | 21.3%        | nm           | -4.0%        | 1.6%         | -2.0%        | 2.5%         | nm           | nm           | nm           |
| Cost Of Goods Sold                            | 7,145        | 5,650        | 1,409        | 1,474        | 1,439        | 1,748        | 6,070        | 1,680        | 1,704        | 1,669        | 1,714        | 6,767        | 6,895        | 7,071        |
| <b>Gross Income</b>                           | <b>532.7</b> | <b>442.2</b> | <b>109.2</b> | <b>111.7</b> | <b>107.4</b> | <b>128.0</b> | <b>456.3</b> | <b>120.1</b> | <b>125.9</b> | <b>123.4</b> | <b>123.7</b> | <b>493.1</b> | <b>506.8</b> | <b>532.6</b> |
| Gross Margin                                  | 6.9%         | 7.3%         | 7.2%         | 7.0%         | 6.9%         | 6.8%         | 7.0%         | 6.7%         | 6.9%         | 6.9%         | 6.7%         | 6.8%         | 6.8%         | 7.0%         |
| SG&A + Other R&D and other operating expenses | 302.2        | 230.1        | 56.8         | 54.8         | 59.0         | 61.7         | 232.3        | 60.7         | 58.0         | 61.0         | 62.5         | 242.1        | 246.1        | 267.9        |
| % of Net Sales                                | 3.9%         | 3.8%         | 3.7%         | 3.5%         | 3.8%         | 3.3%         | 3.6%         | 3.4%         | 3.4%         | 3.4%         | 3.4%         | 3.3%         | 3.3%         | 3.5%         |
| <b>Operating Income/EBIAT</b>                 | <b>230.5</b> | <b>212.1</b> | <b>52.4</b>  | <b>56.9</b>  | <b>48.4</b>  | <b>66.3</b>  | <b>224.0</b> | <b>59.4</b>  | <b>67.9</b>  | <b>62.4</b>  | <b>61.2</b>  | <b>251.0</b> | <b>260.7</b> | <b>264.7</b> |
| Operating Margin (ex options)                 | 2.8%         | 3.3%         | 3.5%         | 3.6%         | 3.1%         | 3.5%         | 3.4%         | 3.3%         | 3.7%         | 3.5%         | 3.3%         | 3.5%         | 3.5%         | 3.5%         |
| Interest Income (Expense)                     | -42.5        | -35.0        | -4.1         | -0.9         | -1.2         | -0.7         | -6.9         | -1.4         | -1.3         | -1.7         | -1.7         | -6.1         | -6.2         | -5.6         |
| Income Before Tax, Amortiz and OTC            | 188.0        | 177.1        | 48.3         | 56.0         | 47.2         | 65.6         | 217.1        | 58.0         | 66.6         | 60.7         | 59.5         | 244.8        | 254.5        | 259.1        |
| Intangible Amortization                       | 15.1         | 13.1         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Integration Costs Related to Acquisitions     | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Pretax Income</b>                          | <b>172.9</b> | <b>164.0</b> | <b>48.3</b>  | <b>56.0</b>  | <b>47.2</b>  | <b>65.6</b>  | <b>217.1</b> | <b>58.0</b>  | <b>66.6</b>  | <b>60.7</b>  | <b>59.5</b>  | <b>244.8</b> | <b>254.5</b> | <b>259.1</b> |
| Pretax Margin                                 | 2.3%         | 2.7%         | 3.2%         | 3.5%         | 3.1%         | 3.5%         | 3.3%         | 3.2%         | 3.6%         | 3.4%         | 3.2%         | 3.4%         | 3.4%         | 3.4%         |
| Provision For Income Taxes (recovery)         | 17.4         | 16.0         | 4.8          | 5.6          | 4.7          | 4.3          | 19.4         | 3.3          | 7.9          | 7.2          | 7.1          | 25.5         | 25.5         | 25.9         |
| Tax Rate                                      | 10.1%        | 9.8%         | 9.9%         | 10.0%        | 10.0%        | 6.6%         | 8.9%         | 5.7%         | 11.9%        | 11.9%        | 11.9%        | 10.4%        | 10.0%        | 10.0%        |
| <b>Core Net After Tax (before charges)</b>    | <b>155.5</b> | <b>148.0</b> | <b>43.5</b>  | <b>50.4</b>  | <b>42.5</b>  | <b>61.3</b>  | <b>197.7</b> | <b>54.7</b>  | <b>58.7</b>  | <b>53.5</b>  | <b>52.5</b>  | <b>219.4</b> | <b>229.1</b> | <b>233.2</b> |
| Net Margin                                    | 2.0%         | 2.4%         | 2.9%         | 3.2%         | 2.7%         | 3.3%         | 3.0%         | 3.0%         | 3.2%         | 3.0%         | 2.9%         | 3.0%         | 3.1%         | 3.1%         |
| <b>EBITDA</b>                                 | <b>339.7</b> | <b>312.5</b> | <b>74.9</b>  | <b>79.2</b>  | <b>70.0</b>  | <b>87.7</b>  | <b>311.8</b> | <b>78.5</b>  | <b>77.8</b>  | <b>72.5</b>  | <b>71.5</b>  | <b>300.4</b> | <b>303.9</b> | <b>311.1</b> |
| EBITDA Margin                                 | 4.4%         | 5.1%         | 4.9%         | 5.0%         | 4.5%         | 4.7%         | 4.8%         | 4.4%         | 4.3%         | 4.0%         | 3.9%         | 4.1%         | 4.1%         | 4.1%         |
| <b>Core EPS</b>                               | <b>0.74</b>  | <b>0.64</b>  | <b>0.19</b>  | <b>0.22</b>  | <b>0.18</b>  | <b>0.27</b>  | <b>0.86</b>  | <b>0.25</b>  | <b>0.27</b>  | <b>0.24</b>  | <b>0.24</b>  | <b>1.00</b>  | <b>1.04</b>  | <b>1.05</b>  |
| *Before Goodwill/Intangible Amort. & OTC      |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| GAAP Operating Net EPS - Basic                | 0.68         | 0.65         | 0.19         | 0.22         | 0.19         | 0.28         | 0.88         | 0.25         | 0.27         | 0.25         | 0.24         | 1.01         | 1.06         | 1.08         |
| GAAP Operating Net EPS - Diluted              | 0.68         | 0.64         | 0.19         | 0.22         | 0.18         | 0.27         | 0.86         | 0.25         | 0.27         | 0.24         | 0.24         | 1.00         | 1.04         | 1.05         |
| One-Time Items                                | -3.84        | -0.41        | -0.07        | -0.16        | -0.09        | -0.10        | -0.42        | -0.11        | -0.05        | 0.00         | 0.00         | -0.16        | 0.00         | 0.00         |
| GAAP Reported EPS - Basic                     | -3.16        | 0.24         | 0.12         | 0.06         | 0.10         | 0.18         | 0.46         | 0.14         | 0.22         | 0.25         | 0.24         | 0.85         | 1.06         | 1.08         |
| GAAP Reported EPS - Diluted                   | -3.16        | 0.23         | 0.12         | 0.06         | 0.09         | 0.17         | 0.44         | 0.14         | 0.22         | 0.24         | 0.24         | 0.84         | 1.04         | 1.05         |
| Avg. Shares Out. (Mil.)—Basic                 | 229.6        | 229.5        | 229.9        | 230.3        | 229.6        | 221.4        | 227.8        | 215.4        | 216.6        | 216.6        | 216.8        | 216.4        | 217.3        | 218.1        |
| Avg. Shares Out. (Mil.)—Diluted               | 229.6        | 230.8        | 232.8        | 232.8        | 231.5        | 223.5        | 230.2        | 219.2        | 220.0        | 220.0        | 220.2        | 219.9        | 220.7        | 221.5        |
| Cash and Equivalents                          | 1,201        | 938          | 712          | 684          | 706          | 633          | 633          | 584          | 553          | 585          | 648          | 648          | 855          | 977          |
| Accounts Receivable                           | 1,074        | 828          | 800          | 789          | 780          | 945          | 945          | 842          | 825          | 878          | 900          | 900          | 992          | 1,033        |
| Inventories                                   | 787          | 676          | 724          | 677          | 764          | 846          | 846          | 981          | 1,011        | 929          | 916          | 916          | 884          | 922          |
| Other Assets                                  | 109          | 101          | 100          | 87           | 101          | 108          | 108          | 136          | 134          | 133          | 134          | 134          | 138          | 139          |
| <b>Total Current Assets</b>                   | <b>3,172</b> | <b>2,543</b> | <b>2,336</b> | <b>2,237</b> | <b>2,351</b> | <b>2,531</b> | <b>2,531</b> | <b>2,543</b> | <b>2,522</b> | <b>2,525</b> | <b>2,597</b> | <b>2,597</b> | <b>2,869</b> | <b>3,070</b> |
| Capital Assets                                | 468          | 394          | 380          | 373          | 368          | 369          | 369          | 333          | 331          | 343          | 357          | 357          | 418          | 483          |
| Intangible Assets                             | 20           | 32           | 37           | 30           | 50           | 44           | 44           | 47           | 41           | 41           | 41           | 41           | 41           | 41           |
| Other Assets                                  | 127          | 137          | 139          | 146          | 149          | 160          | 160          | 75           | 127          | 126          | 127          | 127          | 130          | 131          |
| <b>Total Assets</b>                           | <b>3,786</b> | <b>3,106</b> | <b>2,892</b> | <b>2,785</b> | <b>2,918</b> | <b>3,104</b> | <b>3,104</b> | <b>2,997</b> | <b>3,021</b> | <b>3,035</b> | <b>3,122</b> | <b>3,122</b> | <b>3,458</b> | <b>3,725</b> |
| Current Portion of Long-Term Debt             | 1            | 223          | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Accounts Payable                              | 1,091        | 927          | 978          | 857          | 946          | 1,176        | 1,176        | 1,161        | 1,135        | 1,099        | 1,128        | 1,128        | 1,214        | 1,237        |
| Accrued Liabilities                           | 463          | 332          | 251          | 276          | 300          | 331          | 331          | 222          | 235          | 234          | 236          | 236          | 242          | 244          |
| Income Taxes Payable                          | 14           | 38           | 41           | 50           | 55           | 55           | 55           | 100          | 92           | 92           | 92           | 92           | 95           | 95           |
| Deferred Income Taxes                         | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Total Current Liabilities</b>              | <b>1,568</b> | <b>1,520</b> | <b>1,270</b> | <b>1,183</b> | <b>1,301</b> | <b>1,563</b> | <b>1,563</b> | <b>1,483</b> | <b>1,462</b> | <b>1,424</b> | <b>1,456</b> | <b>1,456</b> | <b>1,551</b> | <b>1,577</b> |
| Long-Term Debt                                | 732          | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Other Liabilities                             | 120          | 111          | 110          | 110          | 116          | 120          | 120          | 181          | 174          | 173          | 174          | 174          | 179          | 180          |
| <b>Total Liabilities</b>                      | <b>2,421</b> | <b>1,630</b> | <b>1,379</b> | <b>1,293</b> | <b>1,416</b> | <b>1,682</b> | <b>1,682</b> | <b>1,664</b> | <b>1,636</b> | <b>1,597</b> | <b>1,630</b> | <b>1,630</b> | <b>1,730</b> | <b>1,757</b> |
| Shareholder's Equity                          | 1,366        | 1,476        | 1,512        | 1,492        | 1,502        | 1,421        | 1,421        | 1,333        | 1,385        | 1,438        | 1,492        | 1,492        | 1,729        | 1,969        |
| <b>Total Liab/Shareholders' Equity</b>        | <b>3,786</b> | <b>3,106</b> | <b>2,892</b> | <b>2,785</b> | <b>2,918</b> | <b>3,104</b> | <b>3,104</b> | <b>2,997</b> | <b>3,021</b> | <b>3,035</b> | <b>3,122</b> | <b>3,122</b> | <b>3,458</b> | <b>3,725</b> |

Source: Citi Investment Research and Analysis, Company Reports



## Company Focus

- Company Update
- Target Price Change

|                              |              |
|------------------------------|--------------|
| <b>Hold/Speculative</b>      | <b>2S</b>    |
| Price (03 Oct 11)            | US\$5.42     |
| Target price                 | US\$6.00     |
| from US\$6.50                |              |
| Expected share price return  | 10.7%        |
| Expected dividend yield      | 0.0%         |
| <b>Expected total return</b> | <b>10.7%</b> |
| Market Cap                   | US\$3,965M   |

### Price Performance (RIC: FLEX.O, BB: FLEX US)



## Flextronics International Ltd (FLEX)

### Focus on Revenue Growth Targets, PC Wind Down and Trends at Key Customers, Specifically RIMM & CSCO

- **What to Expect for the September Quarter** – We believe FLEX will report September quarter sales in the midpoint of the company's guidance range and below consensus of \$7.82b and EPS at the low end of the company's guidance range for \$0.21-\$0.23 vs. consensus of \$0.22. We believe CQ4 sales outlook will be below normal seasonal which has been up low double digits over the past 10 years using both the 5 year and 10 year medians.
- **Updating Our Target Price** – Ahead of the quarter, we are updating our target price to reflect the current market multiple and our TP goes to \$6.00 from \$6.50. No change to our estimates or the FLEX model.
- **Key Focus Items** – 1) Update on order trends at RIMM which is a >10% customer for FLEX. We believe 2H'11 product ramps will buffer these orders but believe there may be longer term issues at RIMM that will affect FLEX given the size of the customer relationship. These orders will likely drive a pick up in high velocity in the Sept quarter, even though it is a lower margin business. 2) Update on y/y growth targets. Can FLEX achieve targeted 10-15% y/y revenue growth in this sluggish macro environment? 3) Progress with FLEX "de-emphasizing" its PC business, which we view as an incremental positive as FLEX has been losing money in this business. At their investor day, Flextronics believed operating margins of 2.8% in the June 2011 quarter would have been 3.3% excluding their PC ODM business. Is FLEX still on track to be completely out of this business in the next 6 months? What will that capacity be used for after the PC exit? 4) Priorities in use of cash as FLEX targets using 25% of operating cash flow for M&A opportunities. We believe share repurchase will be a priority going forward. 5) Wage increases in China. During our investor trip to FLEX' headquarters in March, management noted they are unable to offset wage increases with productivity gains as the company has done in the past. 40% of total revenues are manufactured in China and FLEX does not expect this geographic mix to change in the near future.
- **Stock View** – We are adjusting our Target Price to \$6.00 from \$6.50 to reflect a lower market multiple and maintain our Hold (2S) rating on FLEX as we believe the operating margin leverage and internal restructuring story has run its course. While we view the company's decision to exit the PC business as a positive, we do not see any near term identifiable positive catalysts with RIMM and Cisco as FLEX's largest customers. We would become more positive on the shares at a lower price or with improvement by key customers and end-demand.
- **Earnings Report** – FLEX is scheduled to report earnings on October 20<sup>th</sup> AMC with a 5:00pm EST conference call.

| EPS          | Q1           | Q2           | Q3           | Q4           | FY           | FC Cons      |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2011A</b> | 0.19A        | 0.23A        | 0.25A        | 0.21A        | 0.87A        | 0.87A        |
| <b>2012E</b> | <b>0.21A</b> | <b>0.21E</b> | <b>0.20E</b> | <b>0.19E</b> | <b>0.81E</b> | <b>0.91E</b> |
| Previous     | 0.21A        | 0.21E        | 0.20E        | 0.19E        | 0.81E        | na           |
| <b>2013E</b> | <b>0.21E</b> | <b>0.22E</b> | <b>0.23E</b> | <b>0.21E</b> | <b>0.86E</b> | <b>1.07E</b> |
| Previous     | 0.21E        | 0.22E        | 0.23E        | 0.21E        | 0.86E        | na           |
| <b>2014E</b> | <b>0.22E</b> | <b>0.22E</b> | <b>0.23E</b> | <b>0.23E</b> | <b>0.90E</b> | <b>1.12E</b> |
| Previous     | 0.22E        | 0.22E        | 0.23E        | 0.23E        | 0.90E        | na           |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.



Figure 57. Summary of Recent Results and Outlook

| FY-Mar | Comment                                      | Revenue (\$MM) |        |            |                 | Op.Margin |      | Comment | EPS    |        |            |               |
|--------|--|----------------|--------|------------|-----------------|-----------|------|---------|--------|--------|------------|---------------|
|        |  | Actual         | CIR    | First Call | Mgmt Est.       | Actual    | CIR  |         | Actual | CIR    | First Call | Mgmt Est.     |
| FLEX   | Top customers: HPQ ~10%, CSCQ ~9%, RIMM >10% |                |        |            |                 |           |      |         |        |        |            |               |
| Jun    | Beat   | 7,548          | 7,305  | 7,360      | \$7,100-\$7,600 | 2.6%      |      | In-Line | 0.21   | 0.22   | 0.22       | \$0.20-\$0.23 |
| %chg   |  | 10%            | 7%     | 7%         |                 |           |      |         | -1%    | 5%     | 5%         |               |
| SeptE  |  |                | 7,699  | 7,782      | \$7,600-\$8,000 |           | 2.5% |         |        | 0.21   | 0.22       | \$0.21-\$0.23 |
| %chg   |  |                | 2%     | 3%         |                 |           |      |         |        | 1%     | 6%         |               |
| DecE   |  |                | 7,853  | 8,080      |                 |           | 2.3% |         |        | 0.20   | 0.25       |               |
| %chg   |  |                | 2%     | 4%         |                 |           |      |         |        | -6%    | 14%        |               |
| CY10   | Beat   | 27,761         | 27,566 | 27,540     |                 | 2.9%      |      | In-Line | 0.81   | 0.82   | 0.82       |               |
| %chg   |  | 16.9%          | 16.0%  | 15.9%      |                 |           |      |         | 103.7% | 105.0% | 105.0%     |               |
| CY11E  |  |                | 29,958 | 30,268     |                 |           | 2.5% |         |        | 0.82   | 0.89       |               |
| %chg   |  |                | 7.9%   | 9.0%       |                 |           |      |         |        | 0.8%   | 9.2%       |               |
| CY12E  |  |                | 30,832 | 30,619     |                 |           | 2.5% |         |        | 0.84   | 1.05       |               |
| %chg   |  |                | 2.9%   | 1.2%       |                 |           |      |         |        | 2.5%   | 18.1%      |               |

Denotes key investor focus item

Source: Citi Investment Research and Analysis, Thomson One

Figure 58. FLEX Business Segmentation

| \$ Revenue by Classification     |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|
|                                  | 2Q10  | 3Q10  | 4Q10  | 1Q11  |
| Integrated Network Solutions     | 2,746 | 2,820 | 2,538 | 2,793 |
| Industrial & Emerging Industries | 965   | 940   | 960   | 1,132 |
| High Reliability Solutions       | 445   | 470   | 480   | 528   |
| High Velocity Solutions          | 3,266 | 3,603 | 2,881 | 3,095 |

| % Revenue by Classification      |      |      |      |      |
|----------------------------------|------|------|------|------|
|                                  | 2Q10 | 3Q10 | 4Q10 | 1Q11 |
| Integrated Network Solutions     | 37%  | 36%  | 37%  | 37%  |
| Industrial & Emerging Industries | 13%  | 12%  | 14%  | 15%  |
| High Reliability Solutions       | 6%   | 6%   | 7%   | 7%   |
| High Velocity Solutions          | 44%  | 46%  | 42%  | 41%  |

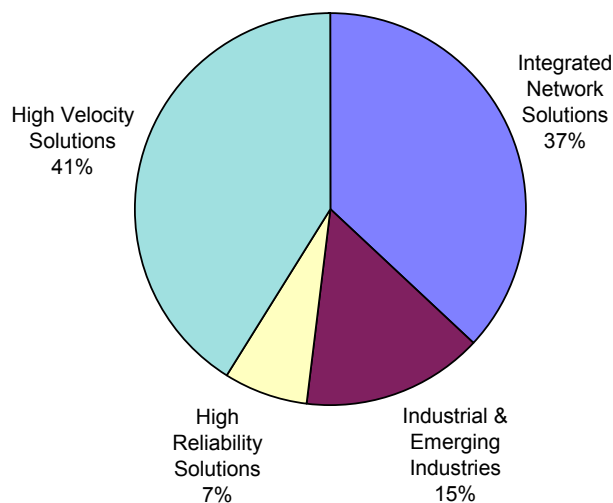
| Q/Q Change                       |      |      |      |      |
|----------------------------------|------|------|------|------|
|                                  | 2Q10 | 3Q10 | 4Q10 | 1Q11 |
| Integrated Network Solutions     | 10%  | 3%   | -10% | 10%  |
| Industrial & Emerging Industries | -8%  | -3%  | 2%   | 18%  |
| High Reliability Solutions       | 13%  | 6%   | 2%   | 10%  |
| High Velocity Solutions          | 24%  | 10%  | -20% | 7%   |

| Y/Y Change                       |      |      |      |      |
|----------------------------------|------|------|------|------|
|                                  | 2Q10 | 3Q10 | 4Q10 | 1Q11 |
| Integrated Network Solutions     | 18%  | 13%  | 4%   | 12%  |
| Industrial & Emerging Industries | 27%  | 10%  | 35%  | 8%   |
| High Reliability Solutions       | 27%  | 43%  | 35%  | 34%  |
| High Velocity Solutions          | 37%  | 25%  | 18%  | 18%  |

Source: Citi Investment Research and Analysis, Company Reports

Figure 59. FLEX End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports

**Figure 60. FLEX Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)**

| (\$ in millions, except per-share data)   | CY<br>2007     | CY<br>2008     | CY<br>2009    | 03/10<br>1Q   | 06/10<br>2Q   | 09/10<br>3Q   | 12/10<br>4Q   | CY<br>2010     | 03/11<br>1Q   | 06/11<br>2Q   | 09/11<br>3Q   | 12/11<br>4Q   | CY<br>2011E    | CY<br>2012E    | CY<br>2013E    |
|---|----------------|----------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
| <b>Net Sales</b>  | <b>24,460</b>  | <b>33,141</b>  | <b>23,754</b> | <b>5,940</b>  | <b>6,566</b>  | <b>7,422</b>  | <b>7,833</b>  | <b>27,761</b>  | <b>6,859</b>  | <b>7,548</b>  | <b>7,699</b>  | <b>7,853</b>  | <b>29,958</b>  | <b>30,832</b>  | <b>32,451</b>  |
| Change y/y (%)  | 37.6%          | 35.5%          | -28.3%        | 6.4%          | 13.5%         | 27.3%         | 19.5%         | 16.9%          | 15.5%         | 15.0%         | 3.7%          | 0.3%          | 7.9%           | 2.9%           | 5.3%           |
| Change q/q (%)  | n/m            | n/m            | n/m           | -9.4%         | 10.5%         | 13.0%         | 5.5%          | n/m            | -12.4%        | 10.0%         | 2.0%          | 2.0%          | n/m            | n/m            | n/m            |
| Cost Of Goods Sold  | 23,044         | 31,236         | 22,585        | 5,598         | 6,192         | 7,022         | 7,397         | 26,209         | 6,474         | 7,146         | 7,300         | 7,462         | 28,381         | 29,217         | 30,737         |
| <b>Gross Income</b>   | <b>1,415</b>   | <b>1,906</b>   | <b>1,169</b>  | <b>342</b>    | <b>374</b>    | <b>400</b>    | <b>436</b>    | <b>1,552</b>   | <b>385</b>    | <b>402</b>    | <b>399</b>    | <b>391</b>    | <b>1,577</b>   | <b>1,614</b>   | <b>1,714</b>   |
| Gross Margin  | 5.8%           | 5.7%           | 4.9%          | 5.8%          | 5.7%          | 5.4%          | 5.6%          | 5.6%           | 5.6%          | 5.3%          | 5.2%          | 5.0%          | 5.3%           | 5.2%           | 5.3%           |
| SG&A  | 649.8          | 882.5          | 690.4         | 172.4         | 183.9         | 187.7         | 203.8         | 747.8          | 195.9         | 205.7         | 209.4         | 212.0         | 823.0          | 832.5          | 876.2          |
| % of Net Sales  | 2.7%           | 2.7%           | 2.9%          | 2.9%          | 2.8%          | 2.5%          | 2.6%          | 2.7%           | 2.9%          | 2.7%          | 2.7%          | 2.7%          | 2.7%           | 2.7%           | 2.7%           |
| <b>Operating Income/EBIAT</b>   | <b>765.6</b>   | <b>1,023.1</b> | <b>478.8</b>  | <b>169.9</b>  | <b>189.7</b>  | <b>212.6</b>  | <b>232.3</b>  | <b>804.6</b>   | <b>189.3</b>  | <b>196.6</b>  | <b>189.3</b>  | <b>179.0</b>  | <b>754.2</b>   | <b>781.8</b>   | <b>837.5</b>   |
| Operating Margin  | 3.1%           | 3.1%           | 2.0%          | 2.9%          | 2.9%          | 2.9%          | 3.0%          | 2.9%           | 2.8%          | 2.6%          | 2.5%          | 2.3%          | 2.5%           | 2.5%           | 2.6%           |
| Interest Income (Expense)   | -70.7          | -166.8         | -145.2        | -33.1         | -23.5         | -22.8         | -24.1         | -103.5         | -7.6          | -22.2         | -17.2         | -17.1         | -64.1          | -67.6          | -66.5          |
| <b>Income Before Tax, Amort. and OTC</b>  | <b>694.8</b>   | <b>856.3</b>   | <b>333.6</b>  | <b>136.8</b>  | <b>166.2</b>  | <b>189.8</b>  | <b>208.2</b>  | <b>701.1</b>   | <b>181.7</b>  | <b>174.4</b>  | <b>172.1</b>  | <b>161.9</b>  | <b>690.1</b>   | <b>714.2</b>   | <b>771.0</b>   |
| Pretax Margin   | 2.8%           | 2.6%           | 1.4%          | 2.3%          | 2.5%          | 2.6%          | 2.7%          | 2.5%           | 2.6%          | 2.3%          | 2.2%          | 2.1%          | 2.3%           | 2.3%           | 2.4%           |
| Provision For Income Taxes  | 42.9           | 58.4           | 6.8           | 6.8           | 12.7          | 11.9          | 15.6          | 47.0           | 19.2          | 17.4          | 17.2          | 16.2          | 70.1           | 82.5           | 92.5           |
| Tax Rate  | 6.2%           | 6.8%           | 2.0%          | 5.0%          | 7.6%          | 6.3%          | 7.5%          | 6.7%           | 10.6%         | 10.0%         | 10.0%         | 10.0%         | 10.2%          | 11.6%          | 12.0%          |
| Net Before Amortization and Charges   | 651.9          | 797.8          | 7,998.1       | 130.0         | 153.5         | 177.9         | 192.6         | 654.0          | 162.4         | 157.0         | 154.9         | 145.7         | 620.0          | 631.7          | 678.4          |
| Amort. of Goodwill/Intangibles, Net of Tax  | 68.0           | 163.8          | 79.6          | 20.2          | 18.0          | 21.4          | 16.6          | 76.2           | 14.1          | 13.3          | 13.3          | 13.3          | 54.0           | 177.4          | 0.0            |
| <b>GAAP Net After Amortization</b>  | <b>584.0</b>   | <b>634.0</b>   | <b>247.2</b>  | <b>109.8</b>  | <b>135.5</b>  | <b>156.4</b>  | <b>176.1</b>  | <b>577.8</b>   | <b>148.3</b>  | <b>143.7</b>  | <b>141.6</b>  | <b>132.4</b>  | <b>566.0</b>   | <b>454.3</b>   | <b>678.4</b>   |
| Net Margin  | 2.4%           | 1.9%           | 1.0%          | 1.8%          | 2.1%          | 2.1%          | 2.2%          | 2.1%           | 2.2%          | 1.9%          | 1.8%          | 1.7%          | 1.9%           | 1.5%           | 2.1%           |
| <b>EBITDA</b>   | <b>1,127.6</b> | <b>1,508.3</b> | <b>956.4</b>  | <b>286.4</b>  | <b>301.1</b>  | <b>331.9</b>  | <b>337.3</b>  | <b>1,256.7</b> | <b>292.2</b>  | <b>312.6</b>  | <b>307.7</b>  | <b>299.7</b>  | <b>1,212.1</b> | <b>1,255.8</b> | <b>1,336.3</b> |
| EBITDA Margin   | 4.6%           | 4.6%           | 4.0%          | 4.8%          | 4.6%          | 4.5%          | 4.3%          | 4.5%           | 4.3%          | 4.1%          | 4.0%          | 3.8%          | 4.0%           | 4.1%           | 4.1%           |
| <b>Cash EPS</b>   | <b>0.95</b>    | <b>0.96</b>    | <b>0.40</b>   | <b>0.16</b>   | <b>0.19</b>   | <b>0.23</b>   | <b>0.25</b>   | <b>0.82</b>    | <b>0.21</b>   | <b>0.21</b>   | <b>0.21</b>   | <b>0.20</b>   | <b>0.82</b>    | <b>0.84</b>    | <b>0.89</b>    |
| GAAP Operating Net EPS - Basic  | 0.87           | 0.76           | 0.30          | 0.14          | 0.17          | 0.20          | 0.23          | 0.74           | 0.19          | 0.19          | 0.20          | 0.18          | 0.77           | 0.62           | 0.91           |
| GAAP Operating Net EPS - Diluted  | 0.85           | 0.76           | 0.30          | 0.13          | 0.16          | 0.20          | 0.23          | 0.72           | 0.19          | 0.19          | 0.19          | 0.18          | 0.75           | 0.61           | 0.89           |
| One-Time Items  | -1.23          | -8.10          | -0.66         | -0.06         | -0.02         | -0.02         | 0.03          | -0.07          | -0.02         | -0.02         | 0.00          | 0.00          | -0.04          | 0.00           | 0.00           |
| GAAP Reported EPS - Basic   | -0.36          | -7.35          | -0.36         | 0.07          | 0.15          | 0.18          | 0.26          | 0.67           | 0.17          | 0.17          | 0.20          | 0.18          | 0.72           | 0.62           | 0.91           |
| GAAP Reported EPS - Diluted   | -0.38          | -7.34          | -0.36         | 0.07          | 0.14          | 0.18          | 0.26          | 0.65           | 0.17          | 0.17          | 0.19          | 0.18          | 0.71           | 0.61           | 0.89           |
| Avg. Shares Out. (Mil.)—Basic   | 655.9          | 828.7          | 810.6         | 811.7         | 809.0         | 769.2         | 760.8         | 787.7          | 760.8         | 744.8         | 725.0         | 728.0         | 739.6          | 735.5          | 747.5          |
| Avg. Shares Out. (Mil.)—Diluted   | 668.9          | 830.0          | 816.9         | 826.7         | 824.0         | 784.3         | 775.9         | 802.7          | 775.9         | 759.8         | 740.0         | 743.0         | 754.7          | 750.5          | 762.5          |
| Cash EPS excludes stock & amtz but accounted for in our I Cash EPS excludes stock & amtz of \$0.20 per year |                |                |               |               |               |               |               |                |               |               |               |               |                |                |                |
| Cash and Equivalents  | 1,801          | 1,796          | 2,242         | 1,928         | 1,731         | 1,788         | 1,598         | 1,598          | 1,748         | 1,558         | 1,787         | 2,005         | 2,005          | 2,524          | 3,079          |
| Accounts Receivable   | 3,642          | 2,907          | 2,417         | 2,439         | 2,874         | 2,978         | 2,509         | 2,509          | 2,630         | 2,911         | 2,969         | 3,029         | 3,029          | 3,164          | 3,338          |
| Inventories   | 4,272          | 3,501          | 2,782         | 2,876         | 3,321         | 3,639         | 3,523         | 3,523          | 3,550         | 3,738         | 3,733         | 3,734         | 3,734          | 3,975          | 4,286          |
| Refunds, Deferred Income Taxes, Others  | 911            | 977            | 878           | 748           | 715           | 965           | 1,473         | 1,473          | 1,126         | 1,362         | 1,371         | 1,380         | 1,380          | 1,402          | 1,429          |
| <b>Total Current Assets</b>   | <b>10,625</b>  | <b>9,182</b>   | <b>8,319</b>  | <b>7,990</b>  | <b>8,641</b>  | <b>9,370</b>  | <b>9,103</b>  | <b>9,103</b>   | <b>9,054</b>  | <b>9,569</b>  | <b>9,860</b>  | <b>10,147</b> | <b>10,147</b>  | <b>11,066</b>  | <b>12,131</b>  |
| Net PP&E  | 2,604          | 2,474          | 2,139         | 2,119         | 2,149         | 2,176         | 2,142         | 2,142          | 2,141         | 2,188         | 2,185         | 2,181         | 2,181          | 2,167          | 2,153          |
| Deferred Income Tax   | 48             | 0              | 0             | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              | 0              | 0              |
| Other Assets  | 890            | 807            | 267           | 279           | 271           | 237           | 236           | 236            | 225           | 222           | 224           | 225           | 225            | 229            | 233            |
| Goodwill  | 5,430          | 311            | 272           | 255           | 235           | 227           | 223           | 223            | 213           | 204           | 191           | 177           | 177            | 0              | 0              |
| <b>Total Assets</b>   | <b>19,596</b>  | <b>12,774</b>  | <b>10,998</b> | <b>10,643</b> | <b>11,295</b> | <b>12,010</b> | <b>11,704</b> | <b>11,704</b>  | <b>11,633</b> | <b>12,183</b> | <b>12,459</b> | <b>12,731</b> | <b>12,731</b>  | <b>13,462</b>  | <b>14,517</b>  |
| Bank Borrowings   | 35             | 18             | 26            | 32            | 177           | 20            | 26            | 26             | 21            | 20            | 20            | 20            | 20             | 20             | 20             |
| Current Portion of LT Debt/Capital Lease  | 0              | 195            | 230           | 234           | 238           | 0             | 0             | 0              | 381           | 160           | 160           | 160           | 160            | 160            | 160            |
| Accounts Payable  | 5,836          | 4,830          | 4,428         | 4,448         | 4,920         | 5,714         | 5,294         | 5,294          | 5,082         | 5,528         | 5,648         | 5,773         | 5,773          | 6,014          | 6,347          |
| Other Accrued Liabilities   | 2,092          | 2,146          | 1,809         | 1,633         | 1,729         | 1,757         | 1,715         | 1,715          | 1,345         | 1,904         | 1,916         | 1,929         | 1,929          | 1,960          | 1,997          |
| <b>Total Current Liabilities</b>  | <b>7,963</b>   | <b>7,189</b>   | <b>6,493</b>  | <b>6,347</b>  | <b>7,064</b>  | <b>7,490</b>  | <b>7,035</b>  | <b>7,035</b>   | <b>6,829</b>  | <b>7,611</b>  | <b>7,743</b>  | <b>7,881</b>  | <b>7,881</b>   | <b>8,153</b>   | <b>8,524</b>   |
| Long-term debt  | 3,060          | 2,960          | 2,295         | 1,990         | 1,979         | 2,213         | 2,204         | 2,204          | 2,199         | 2,034         | 2,034         | 2,034         | 2,034          | 2,034          | 2,034          |
| Non-Current Liabilities   | 336            | 574            | 308           | 321           | 282           | 287           | 297           | 297            | 310           | 301           | 303           | 305           | 305            | 310            | 316            |
| <b>Total Liabilities</b>  | <b>11,360</b>  | <b>10,723</b>  | <b>9,096</b>  | <b>8,658</b>  | <b>9,324</b>  | <b>9,990</b>  | <b>9,537</b>  | <b>9,537</b>   | <b>9,338</b>  | <b>9,947</b>  | <b>10,081</b> | <b>10,220</b> | <b>10,220</b>  | <b>10,497</b>  | <b>10,874</b>  |
| Shareholders' Equity  | 8,236          | 2,051          | 1,902         | 1,985         | 1,971         | 2,020         | 2,167         | 2,167          | 2,295         | 2,236         | 2,378         | 2,510         | 2,510          | 2,965          | 3,643          |
| <b>Total Liab/Shareholders' Equity</b>  | <b>19,596</b>  | <b>12,774</b>  | <b>10,998</b> | <b>10,643</b> | <b>11,295</b> | <b>12,010</b> | <b>11,704</b> | <b>11,704</b>  | <b>11,633</b> | <b>12,183</b> | <b>12,459</b> | <b>12,731</b> | <b>12,731</b>  | <b>13,462</b>  | <b>14,517</b>  |

Source: Citi Investment Research and Analysis, Company Reports

## Company Focus

- Company Update
- Target Price Change

|                              |                |
|------------------------------|----------------|
| <b>Hold/Speculative</b>      | <b>2S</b>      |
| Price (03 Oct 11)            | US\$17.04      |
| Target price                 | US\$19.00      |
|                              | from US\$22.00 |
| Expected share price return  | 11.5%          |
| Expected dividend yield      | 1.6%           |
| <b>Expected total return</b> | <b>13.1%</b>   |
| Market Cap                   | US\$3,725M     |

### Price Performance (RIC: JBL.N, BB: JBL US)



## Jabil Circuit Inc (JBL) Adjusting Our Target Price to Reflect New Market Multiple

- **Updating Our Target Price** – We are adjusting our target price to \$19.00 from \$22.00 to reflect a lower market multiple and adjusting our valuation methodology to reflect a more conservative macro environment. We reiterate our Hold (2S) rating on Jabil.

| EPS          | Q1           | Q2           | Q3           | Q4           | FY           | FC Cons      |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2011A</b> | 0.61A        | 0.54A        | 0.58A        | 0.62A        | 2.35A        | 2.34A        |
| <b>2012E</b> | <b>0.64E</b> | <b>0.59E</b> | <b>0.63E</b> | <b>0.67E</b> | <b>2.53E</b> | <b>2.58E</b> |
| Previous     | 0.64E        | 0.59E        | 0.63E        | 0.67E        | 2.53E        | na           |
| <b>2013E</b> | <b>0.69E</b> | <b>0.62E</b> | <b>0.67E</b> | <b>0.71E</b> | <b>2.69E</b> | <b>2.93E</b> |
| Previous     | 0.69E        | 0.62E        | 0.67E        | 0.71E        | 2.69E        | na           |
| <b>2014E</b> | <b>0.76E</b> | <b>0.68E</b> | <b>0.73E</b> | <b>0.77E</b> | <b>2.95E</b> | <b>3.13E</b> |
| Previous     | 0.76E        | 0.68E        | 0.73E        | 0.77E        | 2.95E        | na           |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

**Figure 61. JBL Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)**

| (\$ in millions, except per-share data)          | CY            | 02/09        | 05/09        | 08/09        | 11/09        | CY            | 02/10        | 05/10        | 08/10        | 11/10        | CY             | 02/11        | 05/11        | 08/11        | 11/11        | CY             | CY             | CY             |
|--|---------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|----------------|----------------|----------------|
|  | 2008          | 1Q           | 2Q           | 3Q           | 4Q           | 2009          | 1Q           | 2Q           | 3Q           | 4Q           | 2010           | 1Q           | 2Q           | 3Q           | 4Q           | 2011E          | 2012E          | 2012E          |
| <b>Net Sales</b>                                 | <b>12,794</b> | <b>2,895</b> | <b>2,615</b> | <b>2,800</b> | <b>3,088</b> | <b>11,398</b> | <b>3,005</b> | <b>3,456</b> | <b>3,861</b> | <b>4,082</b> | <b>14,403</b>  | <b>3,929</b> | <b>4,228</b> | <b>4,280</b> | <b>4,409</b> | <b>16,845</b>  | <b>17,976</b>  | <b>19,225</b>  |
| Change y/y (%)                                   | 2.9%          | -5.4%        | -15.3%       | -14.3%       | -8.7%        | -10.9%        | 3.8%         | 32.1%        | 37.9%        | 32.2%        | 26.4%          | 30.8%        | 22.3%        | 10.9%        | 8.0%         | 17.0%          | 6.7%           | 6.9%           |
| Change q/q (%)                                   | n/m           | -14.4%       | -9.7%        | 7.1%         | 10.3%        | n/m           | -2.7%        | 15.0%        | 11.7%        | 5.7%         | n/m            | -3.8%        | 7.6%         | 1.2%         | 3.0%         | n/m            | n/m            | n/m            |
| Cost of Sales                                    | 11,942        | 2,732        | 2,467        | 2,609        | 2,856        | 10,663        | 2,782        | 3,193        | 3,573        | 3,772        | 13,320         | 3,632        | 3,909        | 3,951        | 4,070        | 15,562         | 16,588         | 17,722         |
| <b>Gross Income</b>                              | <b>851.8</b>  | <b>162.8</b> | <b>148.6</b> | <b>191.0</b> | <b>231.8</b> | <b>734.1</b>  | <b>222.7</b> | <b>262.1</b> | <b>287.5</b> | <b>310.6</b> | <b>1,083.0</b> | <b>296.4</b> | <b>318.4</b> | <b>329.2</b> | <b>339.1</b> | <b>1,283.1</b> | <b>1,387.6</b> | <b>1,503.2</b> |
| Gross Margin                                     | 6.7%          | 5.6%         | 5.7%         | 6.8%         | 7.5%         | 6.4%          | 7.4%         | 7.6%         | 7.4%         | 7.6%         | 7.5%           | 7.5%         | 7.5%         | 7.7%         | 7.7%         | 7.6%           | 7.7%           | 7.8%           |
| SG&A (inc stock comp)                            | 506.8         | 111.1        | 125.4        | 127.8        | 131.6        | 495.8         | 146.3        | 151.4        | 160.5        | 142.4        | 600.6          | 141.8        | 154.1        | 152.2        | 158.7        | 606.8          | 653.8          | 713.2          |
| % of Net Sales                                   | 4.0%          | 3.8%         | 4.8%         | 4.6%         | 4.3%         | 4.4%          | 4.9%         | 4.4%         | 4.2%         | 3.5%         | 4.2%           | 3.6%         | 3.6%         | 3.6%         | 3.6%         | 3.6%           | 3.6%           | 3.7%           |
| R&D  | 32.1          | 5.8          | 7.2          | 8.7          | 7.7          | 29.4          | 7.4          | 6.3          | 6.6          | 5.7          | 26.1           | 6.5          | 6.5          | 6.2          | 7.0          | 26.3           | 28.4           | 29.2           |
| % of Net Sales                                   | 0.3%          | 0.2%         | 0.3%         | 0.3%         | 0.2%         | 0.3%          | 0.2%         | 0.2%         | 0.2%         | 0.1%         | 0.2%           | 0.2%         | 0.2%         | 0.1%         | 0.2%         | 0.2%           | 0.2%           | 0.2%           |
| Operating Expenses                               | 539.0         | 116.8        | 132.6        | 136.5        | 139.3        | 525.2         | 153.7        | 157.7        | 167.1        | 148.2        | 626.8          | 148.3        | 160.7        | 158.4        | 165.7        | 633.1          | 682.2          | 742.4          |
| <b>Core Operating Inc</b>                        | <b>359.0</b>  | <b>51.2</b>  | <b>29.0</b>  | <b>65.4</b>  | <b>106.5</b> | <b>252.1</b>  | <b>95.6</b>  | <b>131.9</b> | <b>157.0</b> | <b>181.9</b> | <b>566.3</b>   | <b>168.4</b> | <b>177.8</b> | <b>187.2</b> | <b>191.4</b> | <b>724.7</b>   | <b>778.3</b>   | <b>837.5</b>   |
| Operating Margin                                 | 2.8%          | 1.8%         | 1.1%         | 2.3%         | 3.4%         | 2.2%          | 3.2%         | 3.8%         | 4.1%         | 4.5%         | 3.9%           | 4.3%         | 4.2%         | 4.4%         | 4.3%         | 4.3%           | 4.3%           | 4.4%           |
| Interest Income (Expense)                        | -91.0         | -19.0        | -18.4        | -18.0        | -20.2        | -75.7         | -20.5        | -20.5        | -19.7        | -21.1        | -81.8          | -25.9        | -25.6        | -24.5        | -27.0        | -103.1         | -108.0         | -106.2         |
| Amortization of Intangibles                      | 36.5          | 7.7          | 7.6          | 7.7          | 7.1          | 30.1          | 6.6          | 6.2          | 6.0          | 6.4          | 25.2           | 5.7          | 5.2          | 5.2          | 5.0          | 21.1           | 20.0           | 20.0           |
| <b>Pretax Core Inc(ex amtz &amp; stock comp)</b> | <b>268.1</b>  | <b>32.2</b>  | <b>10.6</b>  | <b>47.4</b>  | <b>86.3</b>  | <b>176.4</b>  | <b>75.0</b>  | <b>111.4</b> | <b>137.3</b> | <b>160.8</b> | <b>484.5</b>   | <b>142.5</b> | <b>152.2</b> | <b>162.6</b> | <b>164.3</b> | <b>621.6</b>   | <b>670.3</b>   | <b>731.2</b>   |
| Pretax Margin                                    | 2.1%          | 1.1%         | 0.4%         | 1.7%         | 2.8%         | 1.5%          | 2.5%         | 3.2%         | 3.6%         | 3.9%         | 3.4%           | 3.6%         | 3.6%         | 3.8%         | 3.7%         | 3.7%           | 3.7%           | 3.8%           |
| Provision For Income Tax                         | 49.5          | 4.9          | 2.1          | 14.0         | 17.1         | 38.1          | 11.8         | 24.6         | 25.2         | 27.5         | 89.1           | 23.7         | 23.0         | 26.3         | 27.9         | 101.0          | 114.0          | 124.3          |
| Tax Rate (%)                                     | 18.5%         | 15.2%        | 19.5%        | 29.6%        | 19.9%        | 21.6%         | 15.7%        | 22.1%        | 18.4%        | 17.1%        | 18.4%          | 16.6%        | 15.1%        | 16.2%        | 17.0%        | 16.2%          | 17.0%          | 17.0%          |
| <b>Net Income (before charges)</b>               | <b>219.3</b>  | <b>27.3</b>  | <b>8.5</b>   | <b>33.4</b>  | <b>69.1</b>  | <b>138.3</b>  | <b>63.3</b>  | <b>86.7</b>  | <b>112.1</b> | <b>133.3</b> | <b>395.4</b>   | <b>118.8</b> | <b>129.1</b> | <b>136.3</b> | <b>136.4</b> | <b>520.6</b>   | <b>556.4</b>   | <b>606.9</b>   |
| Net Margin                                       | 1.7%          | 0.9%         | 0.3%         | 1.2%         | 2.2%         | 1.2%          | 2.1%         | 2.5%         | 2.9%         | 3.3%         | 2.7%           | 3.0%         | 3.1%         | 3.2%         | 3.1%         | 3.1%           | 3.1%           | 3.2%           |
| <b>EBITDA</b>                                    | <b>602.0</b>  | <b>115.2</b> | <b>94.0</b>  | <b>131.4</b> | <b>172.5</b> | <b>513.1</b>  | <b>158.6</b> | <b>194.9</b> | <b>222.0</b> | <b>250.9</b> | <b>826.3</b>   | <b>239.7</b> | <b>260.2</b> | <b>271.6</b> | <b>275.8</b> | <b>1,047.2</b> | <b>1,120.9</b> | <b>1,200.1</b> |
| EBITDA Margin                                    | 4.7%          | 4.0%         | 3.6%         | 4.7%         | 5.6%         | 4.5%          | 5.3%         | 5.6%         | 5.7%         | 6.1%         | 5.7%           | 6.1%         | 6.2%         | 6.3%         | 6.3%         | 6.2%           | 6.2%           | 6.2%           |
| EPS - Basic                                      | 1.07          | 0.13         | 0.04         | 0.16         | 0.32         | 0.66          | 0.30         | 0.41         | 0.52         | 0.62         | 1.85           | 0.55         | 0.60         | 0.64         | 0.66         | 2.45           | 2.66           | 2.85           |
| EPS From Op's - Diluted                          | 1.06          | 0.13         | 0.04         | 0.16         | 0.32         | 0.65          | 0.29         | 0.40         | 0.52         | 0.61         | 1.83           | 0.54         | 0.58         | 0.62         | 0.64         | 2.38           | 2.58           | 2.76           |
| One-Time Items                                   | -0.50         | -0.33        | -0.18        | -0.13        | -0.19        | -0.84         | -0.15        | -0.13        | -0.25        | -0.12        | -0.65          | -0.13        | -0.11        | -0.10        | -0.12        | -0.46          | -0.48          | -0.49          |
| <b>Core (Cash) EPS</b>                           | <b>1.06</b>   | <b>0.13</b>  | <b>0.04</b>  | <b>0.16</b>  | <b>0.32</b>  | <b>0.65</b>   | <b>0.29</b>  | <b>0.40</b>  | <b>0.52</b>  | <b>0.61</b>  | <b>1.83</b>    | <b>0.54</b>  | <b>0.58</b>  | <b>0.62</b>  | <b>0.64</b>  | <b>2.38</b>    | <b>2.58</b>    | <b>2.76</b>    |
| Shares O/S Basic                                 | 206           | 207          | 207          | 208          | 214          | 209           | 214          | 214          | 214          | 214          | 214            | 215          | 216          | 213          | 206          | 212            | 209            | 213            |
| Shares O/S Diluted                               | 206           | 207          | 208          | 209          | 215          | 210           | 215          | 217          | 216          | 217          | 216            | 221          | 222          | 219          | 213          | 219            | 216            | 220            |
| Cash and Equivalents                             | 580           | 775          | 769          | 876          | 852          | 852           | 794          | 600          | 744          | 630          | 630            | 902          | 911          | 889          | 790          | 790            | 1,364          | 1,947          |
| Accounts Receivable                              | 1,674         | 1,139        | 1,152        | 1,261        | 1,392        | 1,392         | 1,175        | 1,267        | 1,408        | 1,184        | 1,184          | 1,051        | 1,045        | 1,101        | 1,182        | 1,182          | 1,271          | 1,359          |
| Inventories                                      | 1,611         | 1,404        | 1,256        | 1,227        | 1,417        | 1,417         | 1,565        | 1,782        | 2,094        | 2,158        | 2,158          | 2,160        | 2,258        | 2,227        | 2,316        | 2,316          | 2,487          | 2,657          |
| Prepaid Expenses and Other                       | 362           | 301          | 283          | 248          | 283          | 283           | 268          | 354          | 349          | 594          | 594            | 601          | 808          | 869          | 877          | 877            | 899            | 920            |
| Deferred Income Taxes                            | 55            | 65           | 55           | 65           | 71           | 71            | 56           | 55           | 58           | 58           | 58             | 57           | 55           | 50           | 50           | 50             | 51             | 53             |
| <b>Total Current Assets</b>                      | <b>4,282</b>  | <b>3,684</b> | <b>3,514</b> | <b>3,677</b> | <b>4,015</b> | <b>4,015</b>  | <b>3,858</b> | <b>4,058</b> | <b>4,654</b> | <b>4,625</b> | <b>4,625</b>   | <b>4,772</b> | <b>5,077</b> | <b>5,135</b> | <b>5,217</b> | <b>5,217</b>   | <b>6,073</b>   | <b>6,936</b>   |
| PP&E, net  | 1,392         | 1,371        | 1,381        | 1,378        | 1,339        | 1,339         | 1,336        | 1,378        | 1,451        | 1,485        | 1,485          | 1,547        | 1,593        | 1,641        | 1,782        | 1,782          | 1,684          | 1,627          |
| Other Assets                                     | 211           | 197          | 167          | 156          | 115          | 115           | 111          | 116          | 130          | 144          | 144            | 147          | 157          | 156          | 157          | 157            | 161            | 165            |
| Goodwill   | 1,222         | 868          | 106          | 107          | 151          | 151           | 144          | 141          | 133          | 130          | 130            | 146          | 129          | 125          | 120          | 120            | 100            | 80             |
| <b>Total Assets</b>                              | <b>7,107</b>  | <b>6,119</b> | <b>5,169</b> | <b>5,318</b> | <b>5,620</b> | <b>5,620</b>  | <b>5,450</b> | <b>5,693</b> | <b>6,368</b> | <b>6,384</b> | <b>6,384</b>   | <b>6,613</b> | <b>6,956</b> | <b>7,058</b> | <b>7,276</b> | <b>7,276</b>   | <b>8,019</b>   | <b>8,808</b>   |
| Current Installments LT Debt                     | 258           | 173          | 156          | 198          | 147          | 147           | 158          | 88           | 168          | 199          | 199            | 138          | 80           | 74           | 74           | 74             | 74             | 74             |
| Accounts Payable                                 | 2,323         | 1,885        | 1,745        | 1,938        | 2,211        | 2,211         | 2,121        | 2,369        | 2,742        | 2,593        | 2,593          | 2,672        | 2,753        | 2,885        | 2,972        | 2,972          | 3,191          | 3,409          |
| Accrued Expenses                                 | 646           | 577          | 602          | 538          | 572          | 572           | 471          | 515          | 672          | 600          | 600            | 699          | 864          | 892          | 901          | 901            | 924            | 945            |
| Income Taxes Payable                             | 31            | 30           | 18           | 13           | 17           | 17            | 19           | 23           | 24           | 33           | 33             | 38           | 39           | 38           | 39           | 39             | 40             | 40             |
| <b>Total Current Liabilities</b>                 | <b>3,258</b>  | <b>2,665</b> | <b>2,522</b> | <b>2,686</b> | <b>2,947</b> | <b>2,947</b>  | <b>2,770</b> | <b>2,994</b> | <b>3,605</b> | <b>3,425</b> | <b>3,425</b>   | <b>3,547</b> | <b>3,736</b> | <b>3,890</b> | <b>3,986</b> | <b>3,986</b>   | <b>4,229</b>   | <b>4,469</b>   |
| Notes Payable                                    | 1,072         | 1,070        | 1,064        | 1,037        | 1,037        | 1,037         | 1,038        | 1,038        | 1,019        | 1,099        | 1,099          | 1,101        | 1,107        | 1,113        | 1,113        | 1,113          | 1,113          | 1,113          |
| Deferred Income Taxes                            | 7             | 85           | 87           | 78           | 84           | 84            | 88           | 92           | 88           | 93           | 93             | 94           | 93           | 104          | 104          | 104            | 104            | 104            |
| Other (Deferred Grant Revenue)                   | 148           | 73           | 80           | 74           | 74           | 74            | 63           | 57           | 63           | 60           | 60             | 63           | 70           | 67           | 68           | 68             | 70             | 71             |
| <b>Total Liabilities</b>                         | <b>4,486</b>  | <b>3,893</b> | <b>3,753</b> | <b>3,875</b> | <b>4,143</b> | <b>4,143</b>  | <b>3,959</b> | <b>4,182</b> | <b>4,775</b> | <b>4,677</b> | <b>4,677</b>   | <b>4,804</b> | <b>5,006</b> | <b>5,174</b> | <b>5,271</b> | <b>5,271</b>   | <b>5,515</b>   | <b>5,757</b>   |
| Shareholder's Equity                             | 2,613         | 2,219        | 1,409        | 1,435        | 1,469        | 1,469         | 1,483        | 1,499        | 1,578        | 1,691        | 1,691          | 1,792        | 1,933        | 1,867        | 1,989        | 1,989          | 2,487          | 3,034          |
| <b>Total Liab/Shareholders' Equity</b>           | <b>7,107</b>  | <b>6,119</b> | <b>5,169</b> | <b>5,318</b> | <b>5,620</b> | <b>5,620</b>  | <b>5,450</b> | <b>5,693</b> | <b>6,368</b> | <b>6,384</b> | <b>6,384</b>   | <b>6,613</b> | <b>6,956</b> | <b>7,058</b> | <b>7,276</b> | <b>7,276</b>   | <b>8,019</b>   | <b>8,808</b>   |

Source: Citi Investment Research and Analysis, Company Reports

## Company Focus

- Company Update
- Target Price Change

|                              |                |
|------------------------------|----------------|
| <b>Hold/High Risk</b>        | <b>2H</b>      |
| Price (03 Oct 11)            | US\$19.09      |
| Target price                 | US\$20.50      |
|                              | from US\$22.50 |
| Expected share price return  | 7.4%           |
| Expected dividend yield      | 4.2%           |
| <b>Expected total return</b> | <b>11.6%</b>   |
| Market Cap                   | US\$2,789M     |

### Price Performance (RIC: MOLX.O, BB: MOLX US)



## Molex Inc (MOLX)

### Japan Snap Back Should Help offset Weak Macro; Focus on Raw Segments Trends, Material Prices & Inventories at Distributors

- **What to Expect for the September Quarter** – We expect Molex will report June quarter sales inline with consensus of \$900m and within the company's guidance range of \$880 to \$900m and EPS of \$0.42 inline with consensus and within the MOLX' guidance range for \$0.39-\$0.45. While normal seasonal for Molex is +2% q/q in September and the company should benefit from a rebound in lost orders from resolving Japanese auto issues, we believe overall macro weakness will temper the September quarter to below seasonal -2% q/q growth. Molex provided no update to guidance at our Tech Conference in early September but noted little customer visibility in the current macro environment, which makes us cautious on the company's outlook and we remain below consensus for the December quarter for both Sales and EPS.
- **Key Focus Items** – 1) Update on rising raw material pricing, specifically gold & copper which we estimate represent 11% of COGS. Raw material prices which have been a headwind for several quarters have now significantly declined and could be a tailwind going forward. MOLX put through price increases on January 1<sup>st</sup>, which on average increased prices +2-4% but varied across product lines. Do these reverse in a declining raw material price environment? 2) Update on end demand in Japan post-earthquake as we note, Molex has ~19% of total sales into Asia Pacific North which we believe is largely Japan. MOLX should benefit from an increase in orders from major customers in Japan, specifically in the consumer and automotive segment. 3) Update on inventory levels at distribution which appear to have been inflated following the Japanese earthquake disruption. 4) Update on unauthorized lending activities in Molex Japan which has yet to be resolved and \$0.01/share in legal fees and associated cost were included in guidance. 5) Priorities in use of cash as MOLX generates \$70-80m/quarter and has net cash \$200m. We believe Molex is focused on i) investing in new products with 35% of sales every year coming from new products ii) maintaining dividend iii) making acquisitions and iv) repurchasing stock to offset share dilution.
- **Stock View** – We are adjusting our target price to \$20.50 from \$22.50 to reflect the current market multiple. We believe Molex's 4% dividend yield as attractive and recognize the company has made strides in its restructuring efforts, however, maintain our Hold (2H) rating as we see more opportunity in TE Connectivity (TEL) and Amphenol (APH) based on end-market exposure and proven execution in maintaining margins in a difficult commodity cost environment.
- **Earnings Report** – MOLX is scheduled to report on October 25<sup>th</sup> BMO with an 8:30am EST Earnings Call. Dial-In: 888-680-0890 Passcode: 46920639

| EPS          | Q1           | Q2           | Q3           | Q4           | FY           | FC Cons      |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2011A</b> | 0.45A        | 0.46A        | 0.39A        | 0.44A        | 1.74A        | 1.77A        |
| <b>2012E</b> | <b>0.42E</b> | <b>0.43E</b> | <b>0.42E</b> | <b>0.47E</b> | <b>1.74E</b> | <b>1.79E</b> |
| Previous     | 0.42E        | 0.43E        | 0.42E        | 0.47E        | 1.74E        | na           |
| <b>2013E</b> | <b>0.49E</b> | <b>0.50E</b> | <b>0.46E</b> | <b>0.52E</b> | <b>1.97E</b> | <b>2.05E</b> |
| Previous     | 0.49E        | 0.50E        | 0.46E        | 0.52E        | 1.97E        | na           |
| <b>2014E</b> | <b>na</b>    | <b>na</b>    | <b>na</b>    | <b>na</b>    | <b>2.15E</b> | <b>2.22E</b> |
| Previous     | na           | na           | na           | na           | 2.15E        | na           |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 62. Summary of Recent Results and Outlook

| FY=Jun                          | Revenue (\$MM) |        |       |            |             | Op.Margin |       | EPS         |        |        |            |               |
|---------------------------------|----------------|--------|-------|------------|-------------|-----------|-------|-------------|--------|--------|------------|---------------|
|                                 | Comment        | Actual | CIR   | First Call | Mgmt Est.   | Actual    | CIR   | Comment     | Actual | CIR    | First Call | Mgmt Est.     |
| <b>MOLX</b>                     |                |        |       |            |             |           |       |             |        |        |            |               |
| Jun                             | Inline         | 914    | 914   | 918        | \$900-\$930 | 12.4%     |       | Inline      | 0.44   | 0.45   | 0.46       | \$0.42-\$0.48 |
| %chg                            |                | 4.5%   | 4.5%  | 5.0%       |             |           |       |             | 13.2%  | 16.5%  | 19.1%      |               |
| SeptE                           |                |        | 895   | 900        | \$880-\$920 |           | 11.9% |             |        | 0.42   | 0.42       | \$0.39-\$0.45 |
| %chg                            |                |        | -2.0% | -1.5%      |             |           |       |             |        | -4.8%  | -3.2%      |               |
| DecE                            |                |        | 918   | 923        |             |           | 12.1% |             |        | 0.43   | 0.45       |               |
| %chg                            |                |        | 2.5%  | 2.5%       |             |           |       |             |        | 4.1%   | 6.9%       |               |
| CY10                            | Slight Beat    | 3,403  | 3,372 | 3,373      |             | 11.9%     |       | Slight Beat | 1.58   | 1.55   | 1.56       |               |
| %chg                            |                |        | 36.0% | 36.0%      |             |           |       |             | 672.2% | 656.5% | 661.4%     |               |
| CY11E                           |                |        | 3,601 | 3,611      |             | 12.0%     |       |             |        | 1.67   | 1.72       |               |
| %chg                            |                |        | 5.8%  | 6.1%       |             |           |       |             |        | 5.7%   | 8.7%       |               |
| CY12E                           |                |        | 3,803 | 3,822      |             | 12.8%     |       |             |        | 1.88   | 1.93       |               |
| %chg                            |                |        | 5.6%  | 5.8%       |             |           |       |             |        | 12.5%  | 12.3%      |               |
| Denotes key investor focus item |                |        |       |            |             |           |       |             |        |        |            |               |

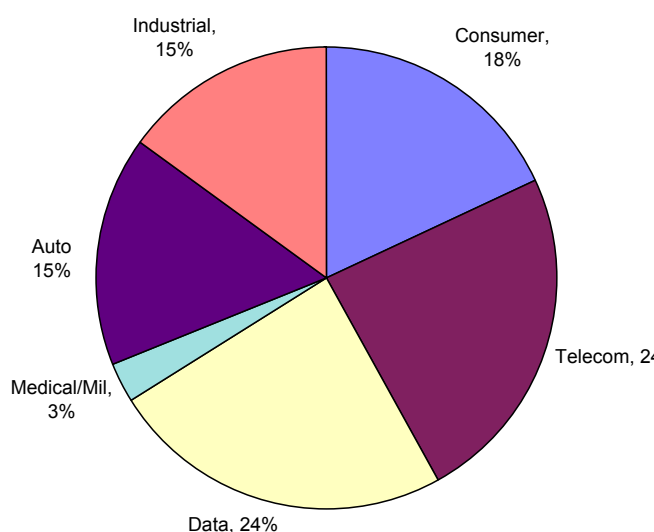
Source: Citi Investment Research and Analysis, Thomson One

Figure 63. MOLX Business Segmentation

| Revenue by End Market  |        |        |        |        |        |
|------------------------|--------|--------|--------|--------|--------|
|                        | 4Q10   | 1Q11   | 2Q11   | 3Q11   | 4Q11   |
| Consumer               | 169.5  | 189.8  | 180.3  | 165.9  | 167.5  |
| Telecom                | 203.4  | 223.7  | 228.2  | 205.3  | 217.7  |
| Data                   | 186.4  | 197.6  | 199.6  | 201.6  | 217.7  |
| Medical/Mil            | 33.9   | 33.6   | 32.2   | 33.5   | 34.2   |
| Automotive             | 127.1  | 122.0  | 134.2  | 144.9  | 143.5  |
| Industrial             | 127.1  | 130.9  | 127.0  | 123.2  | 131.8  |
| Total                  | 847.3  | 897.7  | 901.5  | 874.5  | 913.7  |
| % of Total Molex Sales |        |        |        |        |        |
|                        | 4Q10   | 1Q11   | 2Q11   | 3Q11   | 4Q11   |
| Consumer               | 20%    | 21%    | 20%    | 19%    | 18%    |
| Telecom                | 24%    | 25%    | 25%    | 23%    | 24%    |
| Data                   | 22%    | 22%    | 22%    | 23%    | 24%    |
| Medical/Mil            | 4%     | 4%     | 4%     | 4%     | 3%     |
| Automotive             | 15%    | 14%    | 15%    | 17%    | 16%    |
| Industrial             | 15%    | 15%    | 14%    | 14%    | 15%    |
|                        | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Q/Q Change             |        |        |        |        |        |
|                        | 4Q10   | 1Q11   | 2Q11   | 3Q11   | 4Q11   |
| Consumer               | 13%    | 12%    | -5%    | -8%    | 1%     |
| Telecommunications     | 14%    | 10%    | 2%     | -10%   | 6%     |
| Data                   | 15%    | 6%     | 1%     | 1%     | 8%     |
| Medical/Mil            | 10%    | -1%    | -4%    | 4%     | 2%     |
| Automotive             | 3%     | -4%    | 10%    | 8%     | -1%    |
| Industrial             | 15%    | 3%     | -3%    | -3%    | 7%     |
| Y/Y Change             |        |        |        |        |        |
|                        | 4Q10   | 1Q11   | 2Q11   | 3Q11   | 4Q11   |
| Consumer               | 41%    | 25%    | 18%    | 10%    | -2%    |
| Telecommunications     | 46%    | 33%    | 28%    | 15%    | 8%     |
| Data                   | 53%    | 38%    | 21%    | 24%    | 17%    |
| Medical/Mil            | 75%    | 43%    | 27%    | 8%     | 0%     |
| Automotive             | 46%    | 21%    | 16%    | 17%    | 13%    |
| Industrial             | 53%    | 50%    | 36%    | 12%    | 6%     |

Source: Citi Investment Research and Analysis, Company Reports

Figure 64. MOLX End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports

Figure 65. MOLX Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)

| (\$ in millions, except per-share data)        | CY<br>2008     | CY<br>2009     | 03/10<br>1Q  | 06/10<br>2Q  | 09/10<br>3Q  | 12/10<br>4Q  | CY<br>2010     | 03/11<br>1Q  | 06/11<br>2Q  | 09/11<br>3QE | 12/11<br>4QE | CY<br>2011E    | CY<br>2012E    | CY<br>2013E    |
|--|----------------|----------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|----------------|----------------|----------------|
| <b>Net Sales</b>                               | <b>3,199.9</b> | <b>2,479.8</b> | <b>756.3</b> | <b>847.3</b> | <b>897.7</b> | <b>901.5</b> | <b>3,402.7</b> | <b>874.5</b> | <b>913.7</b> | <b>895.4</b> | <b>917.8</b> | <b>3,601.4</b> | <b>3,803.2</b> | <b>3,969.9</b> |
| Change y/y (%)                                 | -1.0%          | -22.5%         | 49.6%        | 48.5%        | 33.2%        | 23.6%        | 37.2%          | 15.6%        | 7.8%         | -0.3%        | 1.8%         | 5.8%           | 5.6%           | 4.4%           |
| Change q/q (%)                                 | n/m            | n/m            | 3.7%         | 12.0%        | 5.9%         | 0.4%         | n/m            | -3.0%        | 4.5%         | -2.0%        | 2.5%         | n/m            | n/m            | n/m            |
| COGS   | 2,249.4        | 1,845.1        | 520.6        | 594.4        | 622.6        | 630.4        | 2,367.9        | 613.9        | 632.3        | 623.2        | 636.9        | 2,506.3        | 2,633.6        | 2,741.7        |
| <b>Gross Income</b>                            | <b>950.5</b>   | <b>634.6</b>   | <b>235.7</b> | <b>252.9</b> | <b>275.1</b> | <b>271.0</b> | <b>1,034.8</b> | <b>260.6</b> | <b>281.4</b> | <b>272.2</b> | <b>280.8</b> | <b>1,095.0</b> | <b>1,169.5</b> | <b>1,228.3</b> |
| Gross Margin                                   | 29.7%          | 25.6%          | 31.2%        | 29.9%        | 30.6%        | 30.1%        | 30.4%          | 29.8%        | 30.8%        | 30.4%        | 30.6%        | 30.4%          | 30.8%          | 30.9%          |
| Depreciation and Amortization                  | 259.7          | 248.9          | 59.4         | 58.0         | 59.1         | 61.7         | 238.2          | 60.9         | 60.5         | 63.5         | 63.5         | 248.3          | 260.3          | 273.3          |
| R&D  | 165.4          | 144.1          | 39.9         | 40.9         | 40.5         | 42.2         | 163.5          | 43.6         | 43.8         | 42.9         | 44.0         | 174.3          | 182.3          | 190.3          |
| SG&A   | 649.7          | 571.5          | 156.4        | 158.7        | 157.1        | 159.0        | 631.2          | 159.4        | 167.9        | 165.9        | 169.9        | 663.2          | 684.5          | 690.7          |
| % of Net Sales                                 | 20.3%          | 23.0%          | 20.7%        | 18.7%        | 17.5%        | 17.6%        | 18.5%          | 18.2%        | 18.4%        | 18.5%        | 18.5%        | 18.4%          | 18.0%          | 17.4%          |
| Stock Option Expense                           | 21.1           | 28.8           | 8.0          | 6.0          | 5.1          | 6.3          | 25.5           | 5.5          | 5.5          | 5.6          | 5.6          | 22.2           | 22.8           | 23.5           |
| <b>Operating Income</b>                        | <b>300.8</b>   | <b>63.1</b>    | <b>79.4</b>  | <b>94.3</b>  | <b>118.0</b> | <b>112.0</b> | <b>403.6</b>   | <b>101.2</b> | <b>113.5</b> | <b>106.3</b> | <b>110.9</b> | <b>431.9</b>   | <b>485.0</b>   | <b>537.6</b>   |
| Operating Margin                               | 9.4%           | 2.5%           | 10.5%        | 11.1%        | 13.1%        | 12.4%        | 11.9%          | 11.6%        | 12.4%        | 11.9%        | 12.1%        | 12.0%          | 12.8%          | 13.5%          |
| Interest Income/(Expense)                      | 6.3            | -2.4           | -2.3         | -0.8         | -1.3         | -1.8         | -6.3           | -1.7         | -0.9         | -0.9         | -0.9         | -4.3           | -3.4           | -3.4           |
| Equity & Foreign Currency Gain/(Loss)          | 29.7           | 7.1            | -2.7         | -1.0         | -0.4         | 4.8          | 0.8            | 1.3          | -0.3         | 0.0          | 0.0          | 1.0            | 0.0            | 0.0            |
| Nonrecurring Pretax Income/(Expense)           | 0.0            | 0.0            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            |
| <b>Pretax Income</b>                           | <b>336.9</b>   | <b>67.9</b>    | <b>74.3</b>  | <b>92.5</b>  | <b>116.3</b> | <b>115.0</b> | <b>398.1</b>   | <b>100.8</b> | <b>112.3</b> | <b>105.4</b> | <b>110.1</b> | <b>428.6</b>   | <b>481.5</b>   | <b>534.2</b>   |
| Pretax Margin                                  | 10.5%          | 2.7%           | 9.8%         | 10.9%        | 13.0%        | 12.8%        | 11.7%          | 11.5%        | 12.3%        | 11.8%        | 12.0%        | 11.9%          | 12.7%          | 13.5%          |
| Provision for Income Taxes                     | 104.3          | 32.3           | 23.3         | 25.0         | 37.7         | 35.0         | 121.0          | 32.6         | 35.0         | 31.6         | 33.0         | 132.3          | 144.4          | 160.2          |
| Tax Rate                                       | 31.0%          | 47.6%          | 31.3%        | 27.0%        | 32.4%        | 30.5%        | 30.4%          | 32.4%        | 31.2%        | 30.0%        | 30.0%        | 30.9%          | 30.0%          | 30.0%          |
| Minority Interest                              | 0.0            | 0.0            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            |
| <b>Net Income (before charges)</b>             | <b>232.6</b>   | <b>35.6</b>    | <b>51.0</b>  | <b>67.5</b>  | <b>78.6</b>  | <b>80.0</b>  | <b>277.1</b>   | <b>68.1</b>  | <b>77.3</b>  | <b>73.8</b>  | <b>77.0</b>  | <b>296.3</b>   | <b>337.1</b>   | <b>373.9</b>   |
| Net Margin                                     | 7.3%           | 1.4%           | 6.7%         | 8.0%         | 8.8%         | 8.9%         | 8.1%           | 7.8%         | 8.5%         | 8.2%         | 8.4%         | 8.2%           | 8.9%           | 9.4%           |
| <b>EBITDA</b>                                  | <b>560.6</b>   | <b>312.0</b>   | <b>138.8</b> | <b>152.3</b> | <b>177.1</b> | <b>173.7</b> | <b>641.8</b>   | <b>162.1</b> | <b>174.0</b> | <b>169.8</b> | <b>174.4</b> | <b>680.2</b>   | <b>745.3</b>   | <b>810.9</b>   |
| EBITDA Margin                                  | 17.5%          | 12.6%          | 18.3%        | 18.0%        | 19.7%        | 19.3%        | 18.9%          | 18.5%        | 19.0%        | 19.0%        | 19.0%        | 18.9%          | 19.6%          | 20.4%          |
| EPS - Basic                                    | 1.31           | 0.20           | 0.29         | 0.39         | 0.45         | 0.46         | 1.59           | 0.39         | 0.44         | 0.42         | 0.44         | 1.69           | 1.90           | 2.08           |
| <b>Operating EPS - Diluted</b>                 | <b>1.30</b>    | <b>0.20</b>    | <b>0.29</b>  | <b>0.39</b>  | <b>0.45</b>  | <b>0.46</b>  | <b>1.58</b>    | <b>0.39</b>  | <b>0.44</b>  | <b>0.42</b>  | <b>0.43</b>  | <b>1.67</b>    | <b>1.88</b>    | <b>2.07</b>    |
| Extraordinaries                                | 156.0          | 317.2          | 27.2         | 27.7         | 3.5          | 1.7          | 60.1           | 1.8          | 0.0          | 0.0          | 0.0          | 1.8            | 0.0            | 0.0            |
| Net Income after Extraordinaries               | 76.6           | -268.2         | 23.9         | 39.8         | 75.1         | 78.3         | 217.0          | 66.3         | 77.3         | 73.8         | 77.0         | 294.5          | 337.1          | 373.9          |
| EPS - Fully Diluted GAAP                       | 0.42           | -1.55          | 0.14         | 0.23         | 0.43         | 0.45         | 1.24           | 0.38         | 0.44         | 0.42         | 0.43         | 1.66           | 1.88           | 2.07           |
| Average Shares Outstanding - Basic             | 177.2          | 173.4          | 173.9        | 174.1        | 174.4        | 174.7        | 174.3          | 175.0        | 175.3        | 175.8        | 176.3        | 175.6          | 177.5          | 179.5          |
| Average Shares Outstanding - Diluted           | 177.8          | 173.6          | 174.8        | 175.1        | 175.2        | 175.6        | 175.2          | 176.4        | 176.8        | 177.3        | 177.8        | 177.1          | 179.0          | 181.0          |
| includes stock option expense starting in 2006 |                |                |              |              |              |              |                |              |              |              |              |                |                |                |
| Cash and Short-Term Investments                | 458            | 496            | 443          | 395          | 341          | 411          | 411            | 468          | 547          | 602          | 624          | 624            | 766            | 965            |
| Net Receivables                                | 601            | 626            | 657          | 735          | 808          | 760          | 760            | 781          | 811          | 795          | 815          | 815            | 869            | 907            |
| Inventories                                    | 448            | 372            | 420          | 469          | 547          | 560          | 560            | 546          | 536          | 535          | 547          | 547            | 581            | 604            |
| Other Current Assets                           | 84             | 88             | 113          | 177          | 155          | 171          | 171            | 152          | 161          | 160          | 162          | 162            | 165            | 168            |
| <b>Total Current Assets</b>                    | <b>1,591</b>   | <b>1,583</b>   | <b>1,633</b> | <b>1,776</b> | <b>1,851</b> | <b>1,901</b> | <b>1,901</b>   | <b>1,947</b> | <b>2,055</b> | <b>2,093</b> | <b>2,147</b> | <b>2,147</b>   | <b>2,381</b>   | <b>2,645</b>   |
| Goodwill                                       | 295            | 129            | 130          | 132          | 133          | 134          | 134            | 148          | 149          | 149          | 149          | 149            | 149            | 149            |
| Net Property, Plant and Equipment              | 1,161          | 1,064          | 1,055        | 1,055        | 1,111        | 1,129        | 1,129          | 1,140        | 1,168        | 1,163        | 1,159        | 1,159          | 1,146          | 1,131          |
| Other Assets                                   | 278            | 270            | 268          | 274          | 272          | 266          | 266            | 271          | 225          | 223          | 225          | 225            | 230            | 233            |
| <b>Total Assets</b>                            | <b>3,326</b>   | <b>3,046</b>   | <b>3,086</b> | <b>3,237</b> | <b>3,368</b> | <b>3,430</b> | <b>3,430</b>   | <b>3,507</b> | <b>3,598</b> | <b>3,628</b> | <b>3,681</b> | <b>3,681</b>   | <b>3,907</b>   | <b>4,158</b>   |
| Debt in Current Liabilities                    | 297            | 4              | 103          | 110          | 116          | 108          | 108            | 117          | 120          | 120          | 120          | 120            | 120            | 120            |
| Accounts Payable                               | 254            | 286            | 325          | 395          | 385          | 378          | 378            | 353          | 360          | 355          | 362          | 362            | 385            | 401            |
| Accrued Expenses                               | 204            | 239            | 253          | 311          | 212          | 199          | 199            | 199          | 290          | 288          | 290          | 290            | 297            | 301            |
| Other Current Liabilities                      | 35             | 17             | 7            | 97           | 215          | 207          | 207            | 215          | 113          | 112          | 113          | 113            | 115            | 117            |
| <b>Total Current Liabilities</b>               | <b>790</b>     | <b>547</b>     | <b>689</b>   | <b>913</b>   | <b>929</b>   | <b>891</b>   | <b>891</b>     | <b>884</b>   | <b>882</b>   | <b>874</b>   | <b>885</b>   | <b>885</b>     | <b>917</b>     | <b>939</b>     |
| Long-Term Debt                                 | 5              | 287            | 182          | 183          | 172          | 199          | 199            | 203          | 223          | 223          | 223          | 223            | 223            | 223            |
| Minority Interest                              | 0              | 0              | 0            | 0            | 0            | 0            | 0              | 0            | 0            | 0            | 0            | 0              | 0              | 0              |
| Other Liabilities                              | 118            | 137            | 134          | 20           | 19           | 19           | 19             | 22           | 24           | 24           | 24           | 24             | 24             | 25             |
| <b>Total Liabilities</b>                       | <b>913</b>     | <b>970</b>     | <b>1,006</b> | <b>1,251</b> | <b>1,260</b> | <b>1,239</b> | <b>1,239</b>   | <b>1,239</b> | <b>1,230</b> | <b>1,222</b> | <b>1,233</b> | <b>1,233</b>   | <b>1,265</b>   | <b>1,287</b>   |
| Total Shareholders' Equity                     | 2,413          | 2,076          | 2,080        | 1,985        | 2,108        | 2,191        | 2,191          | 2,268        | 2,368        | 2,407        | 2,448        | 2,448          | 2,642          | 2,871          |
| <b>Total Liab/Shareholders' Equity</b>         | <b>3,326</b>   | <b>3,046</b>   | <b>3,086</b> | <b>3,237</b> | <b>3,368</b> | <b>3,430</b> | <b>3,430</b>   | <b>3,507</b> | <b>3,598</b> | <b>3,628</b> | <b>3,681</b> | <b>3,681</b>   | <b>3,907</b>   | <b>4,158</b>   |

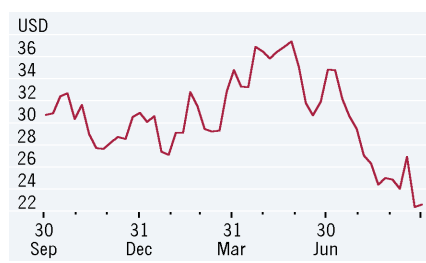
Source: Citi Investment Research and Analysis, Company Reports

## Company Focus

- Company Update
- Target Price Change

|                              |             |
|------------------------------|-------------|
| <b>Hold/Speculative</b>      | <b>2S</b>   |
| Price (03 Oct 11)            | US\$21.39   |
| Target price                 | US\$23.00   |
| from US\$28.00               |             |
| Expected share price return  | 7.5%        |
| Expected dividend yield      | 0.0%        |
| <b>Expected total return</b> | <b>7.5%</b> |
| Market Cap                   | US\$758M    |

### Price Performance (RIC: PLXS.O, BB: PLXS US)



## Plexus Corp (PLXS)

### Ramping Coca-Cola Freestyle Project to Offset Weakness in Industrial/Commercial; Focus on Juniper & FY'12 Guidance

- **What to Expect for the September Quarter** – We believe Plexus will report sales at least inline with consensus of \$542m and within the guidance range of \$530-\$560m and EPS at the low end of PLXS' guidance for \$0.50-\$0.56 vs. consensus of \$0.51. By segment, Plexus expects Wireline/Networking to decline low double-digits in September (Juniper is 17% of total revenues), Medical to decline low single-digits, Defense/Security/Aerospace to decline mid-single digits while the company expects Industrial/Commercial to grow double digits with the Coca-Cola Freestyle (100+ flavor fountain dispenser) ramp gaining traction. Management guided the Freestyle project to be a \$55m contributor to FY2011 sales and eventually a \$200m/year program. While PLXS management has historically been conservative in their outlook, we expect Dec guidance will be bracket consensus expectations. In Q4, we expect growth in all segments except Wireless Infrastructure, with particular strength in Wireline/Networking.
- **Updating Our Target Price** – Ahead of the quarter, we are updating our target price to reflect the current market multiple and our TP goes to \$23 from \$28. No change to our estimates or the PLXS model.
- **Key Focus Items** – 1) For the last 4 quarters, PLXS appears to be undershooting their targeted business wins of 25% TFQ revenues. How does PLXS plan on turning this around and will this result in a soft revenue pocket in the coming quarters? 2) Update to PLXS' FY12 guidance for high single digit to low double digit y/y growth, which is below the company's target for +15% y/y. Have customer order deteriorated since PLXS provided this outlook in July? 3) Update on order trends at Juniper (17% of total sales) and 2H'11 product launches. 4) Update on the roll out for the Coca-Cola "Freestyle" soda machine (100+ flavor fountain dispenser). When should investors expect the Freestyle to be fully ramped? Our checks suggest Coke is progressing with the rollout and expects to be in more than 80 US markets by the end of CY 2011.
- **Stock View** – We are adjusting our target price to reflect the current market multiple and adjusting our valuation methodology to reflect a more tempered macro environment. We reiterate our Hold (2S) rating on PLXS. While we are positive on the progress of the roll-out of Coca-Cola's Freestyle machine (after many delays) we believe customer order uncertainty will be an overhang on the stock until FY'12 expectations are fully reset.
- **Earnings Report** – Plexus reports earnings on Wednesday October 26<sup>th</sup> after the market close & will host a conference call on Thursday October 27<sup>st</sup> at 8:30am EST. Dial-in: 877-312-9395, Passcode: 96681965

| EPS          | Q1           | Q2           | Q3           | Q4           | FY           | FC Cons      |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2010A</b> | 0.39A        | 0.51A        | 0.59A        | 0.65A        | 2.14A        | 2.14A        |
| <b>2011E</b> | <b>0.61A</b> | <b>0.59A</b> | <b>0.58A</b> | <b>0.52E</b> | <b>2.30E</b> | <b>2.29E</b> |
| Previous     | 0.61A        | 0.59A        | 0.58A        | 0.52E        | 2.30E        | na           |
| <b>2012E</b> | <b>0.52E</b> | <b>0.58E</b> | <b>0.62E</b> | <b>0.64E</b> | <b>2.36E</b> | <b>2.47E</b> |
| Previous     | 0.52E        | 0.58E        | 0.62E        | 0.64E        | 2.36E        | na           |
| <b>2013E</b> | <b>0.66E</b> | <b>0.67E</b> | <b>0.69E</b> | <b>0.71E</b> | <b>2.73E</b> | <b>3.00E</b> |
| Previous     | 0.66E        | 0.67E        | 0.69E        | 0.71E        | 2.73E        | na           |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.



Figure 66. Summary of Recent Results and Outlook

| FY=Sep      | Revenue (\$MM)               |        |       |            |             | Op.Margin |      | EPS     |        |        |            |               |
|-------------|------------------------------|--------|-------|------------|-------------|-----------|------|---------|--------|--------|------------|---------------|
|             | Comment                      | Actual | CIR   | First Call | Mgmt Est.   | Actual    | CIR  | Comment | Actual | CIR    | First Call | Mgmt Est.     |
| <b>PLXS</b> | top custs: JNPR 17%, GE <10% |        |       |            |             |           |      |         |        |        |            |               |
| Jun         | Slight Miss                  | 559    | 568   | 568        | \$550-\$580 | 4.5%      |      | Beat    | 0.58   | 0.56   | 0.55       | \$0.52-\$0.57 |
| %chg        |                              | -1.6%  | 0.0%  | 0.0%       |             |           |      |         | -0.8%  | -4.6%  | -6.3%      |               |
| SeptE       |                              |        | 545   | 542        | \$530-\$560 |           | 4.4% |         |        | 0.52   | 0.51       | \$0.50-\$0.55 |
| %chg        |                              |        | -2.5% | -3.1%      |             |           |      |         |        | -10.1% | -12.2%     |               |
| DecE        |                              |        | 570   | 565        |             |           | 4.4% |         |        | 0.52   | 0.55       |               |
| %chg        |                              |        | 4.5%  | 4.4%       |             |           |      |         |        | 0.1%   | 8.0%       |               |
| CY10        | Slight Miss                  | 2,149  | 2155  | 2,149      |             | 5.0%      |      | In-Line | 2.36   | 2.36   | 2.34       |               |
| %chg        |                              | 35.1%  | 35.1% | 35.1%      |             |           |      |         | 84.5%  | 84.5%  | 83.3%      |               |
| CY11E       |                              |        | 2,242 | 2,235      |             |           | 4.5% |         |        | 2.22   | 2.23       |               |
| %chg        |                              |        | 4.4%  | 4.0%       |             |           |      |         |        | -5.7%  | -5.2%      |               |
| CY12E       |                              |        | 2,498 | 2,497      |             |           | 4.8% |         |        | 2.50   | 2.66       |               |
| %chg        |                              |        | 11.4% | 11.7%      |             |           |      |         |        | 12.7%  | 19.2%      |               |

Denotes key investor focus item

Source: Citi Investment Research and Analysis, Thomson One

Figure 67. PLXS Business Segmentation

| Revenues (\$ millions)         |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|
|                                | 4Q10  | 1Q11  | 2011  | 2011  |
| Wireline / Networking          | 222.0 | 234.0 | 230.0 | 224.0 |
| Wireless Infrastructure        | 63.0  | 57.0  | 37.0  | 35.0  |
| Medical                        | 116.0 | 116.0 | 128.0 | 114.0 |
| Industrial / Commercial        | 116.0 | 118.0 | 123.0 | 130.0 |
| Defense / Security / Aerospace | 38.9  | 41.0  | 50.0  | 56.0  |

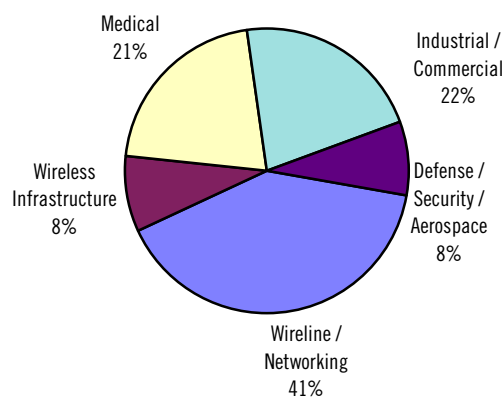
| % of Sales                     |      |      |      |      |
|--------------------------------|------|------|------|------|
|                                | 4Q10 | 1Q11 | 2011 | 2011 |
| Wireline / Networking          | 40%  | 41%  | 40%  | 40%  |
| Wireless Infrastructure        | 11%  | 10%  | 7%   | 6%   |
| Medical                        | 21%  | 21%  | 23%  | 20%  |
| Industrial / Commercial        | 21%  | 21%  | 22%  | 23%  |
| Defense / Security / Aerospace | 7%   | 7%   | 9%   | 10%  |

| Q/Q Change                     | Sept Outlook (q/q) |       |        |        |                                    | Customers  |
|--------------------------------|--------------------|-------|--------|--------|------------------------------------|--|
|                                | 4Q10               | 1Q11  | 2011   | 2011   | 4Q10E                              |  |
| Wireline / Networking          | -0.4%              | 5.4%  | -1.7%  | -2.6%  | decline low double-digit           | Juniper (17%), Harmonic, Ericsson, Motorola Harris, SCMR |
| Wireless Infrastructure        | 3.3%               | -9.5% | -35.1% | -5.4%  | down mid-teens                     | DragonWave, Telular, NMS, Motorola, iDirect, Tech        |
| Medical                        | 4.5%               | 0.0%  | 10.3%  | -10.9% | decline low single-digit           | GE, Siemens Medical, Draeger Medical, Johnson & Johnson  |
| Industrial / Commercial        | 18.4%              | 1.7%  | 4.2%   | 5.7%   | grow double digit (coke tailwinds) | Coca-Cola, GE, Elster, KLA-Tencor, Intermec, DHR         |
| Defense / Security / Aerospace | -9.5%              | 5.4%  | 22.0%  | 12.0%  | decline mid-single-digits          | General Dynamics, Honeywell, BAE Systems, Thales, RTX    |

| Y/Y Change                     |       |       |        |        |
|--------------------------------|-------|-------|--------|--------|
|                                | 4Q10  | 1Q11  | 2011   | 2011   |
| Wireline / Networking          | 33.7% | 15.8% | 9.5%   | 0.4%   |
| Wireless Infrastructure        | 18.9% | 16.3% | -47.1% | -42.6% |
| Medical                        | 65.7% | 46.8% | 37.6%  | 2.7%   |
| Industrial / Commercial        | 87.1% | 84.4% | 51.9%  | 32.7%  |
| Defense / Security / Aerospace | -7.4% | 13.9% | 35.1%  | 30.2%  |

Source: Citi Investment Research and Analysis, Company Reports

Figure 68. PLXS End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports

**Figure 69. PLXS Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)**

| (\$ in millions, except per-share data)  | CY<br>2008     | CY<br>2009     | 03/10<br>1Q   | 06/10<br>2Q   | 09/10<br>3Q   | 12/10<br>4Q   | CY<br>2010     | 03/11<br>1Q   | 06/11<br>2Q   | 09/11<br>3QE  | 12/11<br>4QE  | CY<br>2011E    | 03/12<br>1QE  | 06/12<br>2QE  | 09/12<br>3QE  | 12/12<br>4QE  | CY<br>2012E    | CY<br>2013E    |
|--|----------------|----------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|----------------|
| <b>Net Sales</b>                         | <b>1,839.5</b> | <b>1,590.9</b> | <b>491.0</b>  | <b>536.4</b>  | <b>555.6</b>  | <b>565.8</b>  | <b>2,148.8</b> | <b>568.1</b>  | <b>559.2</b>  | <b>545.2</b>  | <b>569.7</b>  | <b>2,242.3</b> | <b>589.7</b>  | <b>613.3</b>  | <b>637.8</b>  | <b>656.9</b>  | <b>2,497.7</b> | <b>2,830.8</b> |
| Change y/y (%)                           | 13.3%          | -13.5%         | 26.2%         | 41.7%         | 41.4%         | 31.5%         | 35.1%          | 15.7%         | 4.3%          | -1.9%         | 0.7%          | 4.4%           | 3.8%          | 9.7%          | 17.0%         | 15.3%         | 11.4%          | 13.3%          |
| Change q/q (%)                           | n/m            | n/m            | 14.1%         | 9.2%          | 3.6%          | 1.8%          | n/m            | 0.4%          | -1.6%         | -2.5%         | 4.5%          | n/m            | 3.5%          | 4.0%          | 4.0%          | 3.0%          | n/m            | n/m            |
| Cost of Goods Sold                       | 1642.7         | 1441.3         | 440.5         | 480.8         | 499.3         | 510.9         | 1931.5         | 512.7         | 505.1         | 494.0         | 516.2         | 2027.9         | 532.5         | 553.2         | 575.3         | 592.6         | 2253.5         | 2553.4         |
| <b>Gross Income</b>                      | <b>196.8</b>   | <b>149.6</b>   | <b>50.5</b>   | <b>55.5</b>   | <b>56.4</b>   | <b>54.9</b>   | <b>217.3</b>   | <b>55.5</b>   | <b>54.1</b>   | <b>51.2</b>   | <b>53.6</b>   | <b>214.3</b>   | <b>57.2</b>   | <b>60.1</b>   | <b>62.5</b>   | <b>64.4</b>   | <b>244.2</b>   | <b>277.4</b>   |
| Gross Margin                             | 10.7%          | 9.4%           | 10.3%         | 10.4%         | 10.1%         | 9.7%          | 10.1%          | 9.8%          | 9.7%          | 9.4%          | 9.4%          | 9.6%           | 9.7%          | 9.8%          | 9.8%          | 9.8%          | 9.8%           | 9.8%           |
| SG&A                                     | 102.5          | 92.2           | 27.1          | 28.5          | 27.4          | 27.1          | 110.0          | 29.1          | 29.2          | 27.3          | 28.5          | 114.0          | 29.5          | 30.7          | 31.9          | 32.8          | 124.9          | 141.5          |
| % of Net Sales                           | 5.6%           | 5.8%           | 5.5%          | 5.3%          | 4.9%          | 4.8%          | 5.1%           | 5.1%          | 5.2%          | 5.0%          | 5.0%          | 5.1%           | 5.0%          | 5.0%          | 5.0%          | 5.0%          | 5.0%           | 5.0%           |
| <b>Operating Income</b>                  | <b>94.3</b>    | <b>57.4</b>    | <b>23.4</b>   | <b>27.0</b>   | <b>29.0</b>   | <b>27.8</b>   | <b>107.3</b>   | <b>26.4</b>   | <b>24.9</b>   | <b>24.0</b>   | <b>25.1</b>   | <b>100.4</b>   | <b>27.7</b>   | <b>29.4</b>   | <b>30.6</b>   | <b>31.5</b>   | <b>119.3</b>   | <b>135.9</b>   |
| Operating Margin                         | 5.1%           | 3.6%           | 4.8%          | 5.0%          | 5.2%          | 4.9%          | 5.0%           | 4.6%          | 4.5%          | 4.4%          | 4.4%          | 4.5%           | 4.7%          | 4.8%          | 4.8%          | 4.8%          | 4.8%           | 4.8%           |
| Interest Expense (income)                | 4.7            | 9.1            | 2.4           | 2.4           | 2.3           | 2.2           | 9.2            | 2.1           | 3.3           | 4.4           | 4.4           | 14.1           | 4.4           | 4.4           | 4.4           | 4.4           | 17.6           | 17.8           |
| Interest and Other Income (Expense)      | 1.3            | 1.1            | 0.4           | 0.2           | -0.5          | 0.2           | 0.2            | 0.3           | 1.1           | 0.0           | 0.0           | 1.4            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| <b>Pretax Income</b>                     | <b>90.9</b>    | <b>49.3</b>    | <b>21.3</b>   | <b>24.9</b>   | <b>26.2</b>   | <b>25.8</b>   | <b>98.2</b>    | <b>24.6</b>   | <b>22.7</b>   | <b>19.6</b>   | <b>20.7</b>   | <b>87.6</b>    | <b>23.3</b>   | <b>25.0</b>   | <b>26.2</b>   | <b>27.1</b>   | <b>101.7</b>   | <b>118.1</b>   |
| Provision for Income Taxes               | 16.6           | -1.6           | 0.6           | 0.5           | -0.4          | 0.8           | 1.5            | 0.7           | 0.7           | 0.6           | 1.4           | 3.4            | 1.6           | 1.8           | 1.8           | 1.9           | 7.1            | 8.3            |
| Tax Rate                                 | 18.2%          | -3.2%          | 2.8%          | 2.0%          | nm            | 3.0%          | 1.5%           | 2.9%          | 3.0%          | 3.0%          | 7.0%          | 3.9%           | 7.0%          | 7.0%          | 7.0%          | 7.0%          | 7.0%           | 7.0%           |
| <b>Net Income before Extraordinaries</b> | <b>74.4</b>    | <b>50.9</b>    | <b>20.7</b>   | <b>24.4</b>   | <b>26.6</b>   | <b>25.0</b>   | <b>96.7</b>    | <b>23.9</b>   | <b>22.0</b>   | <b>19.0</b>   | <b>19.3</b>   | <b>84.2</b>    | <b>21.7</b>   | <b>23.3</b>   | <b>24.4</b>   | <b>25.2</b>   | <b>94.5</b>    | <b>109.8</b>   |
| Net Margin                               | 4.0%           | 3.2%           | 4.2%          | 4.5%          | 4.8%          | 4.4%          | 4.5%           | 4.2%          | 3.9%          | 3.5%          | 3.4%          | 3.8%           | 3.7%          | 3.8%          | 3.8%          | 3.8%          | 3.8%           | 3.9%           |
| Extraordinaries loss (gain)              | 0.7            | 5.8            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| <b>Net Income after Extraordinaries</b>  | <b>73.7</b>    | <b>45.1</b>    | <b>20.7</b>   | <b>24.4</b>   | <b>26.6</b>   | <b>25.0</b>   | <b>96.7</b>    | <b>23.9</b>   | <b>22.0</b>   | <b>19.0</b>   | <b>19.3</b>   | <b>84.2</b>    | <b>21.7</b>   | <b>23.3</b>   | <b>24.4</b>   | <b>25.2</b>   | <b>94.5</b>    | <b>109.8</b>   |
| <b>EBITDA</b>                            | <b>125.1</b>   | <b>92.5</b>    | <b>33.2</b>   | <b>37.4</b>   | <b>38.9</b>   | <b>39.1</b>   | <b>149.7</b>   | <b>37.8</b>   | <b>36.6</b>   | <b>35.8</b>   | <b>37.0</b>   | <b>147.3</b>   | <b>38.8</b>   | <b>41.6</b>   | <b>42.9</b>   | <b>43.9</b>   | <b>168.1</b>   | <b>186.3</b>   |
| EBITDA Margin                            | 6.8%           | 5.8%           | 6.8%          | 7.0%          | 7.2%          | 6.9%          | 7.0%           | 6.7%          | 6.5%          | 6.6%          | 6.5%          | 6.6%           | 6.7%          | 6.8%          | 6.7%          | 6.7%          | 6.7%           | 6.6%           |
| GAAP Operating EPS - Basic               | 1.78           | 1.24           | 0.52          | 0.60          | 0.66          | 0.62          | 2.40           | 0.60          | 0.60          | 0.51          | 0.51          | 2.22           | 0.57          | 0.61          | 0.63          | 0.65          | 2.46           | 2.74           |
| GAAP Operating EPS - Diluted             | 1.76           | 1.22           | 0.51          | 0.59          | 0.65          | 0.61          | 2.36           | 0.59          | 0.58          | 0.52          | 0.52          | 2.22           | 0.58          | 0.62          | 0.64          | 0.66          | 2.50           | 2.79           |
| GAAP Reported EPS - Diluted              | 1.75           | 1.07           | 0.51          | 0.59          | 0.65          | 0.61          | 2.36           | 0.59          | 0.58          | 0.52          | 0.52          | 2.22           | 0.58          | 0.62          | 0.64          | 0.66          | 2.50           | 2.79           |
| <b>Core Earnings - Diluted</b>           | <b>1.77</b>    | <b>1.27</b>    | <b>0.51</b>   | <b>0.59</b>   | <b>0.65</b>   | <b>0.61</b>   | <b>2.36</b>    | <b>0.59</b>   | <b>0.58</b>   | <b>0.52</b>   | <b>0.52</b>   | <b>2.22</b>    | <b>0.58</b>   | <b>0.62</b>   | <b>0.64</b>   | <b>0.66</b>   | <b>2.50</b>    | <b>2.79</b>    |
| Average Shares Outstanding - Basic       | 41.6           | 39.5           | 39.9          | 40.3          | 40.4          | 40.5          | 40.3           | 39.9          | 37.0          | 37.0          | 37.4          | 37.8           | 37.8          | 38.2          | 38.6          | 39.0          | 38.4           | 40.0           |
| Average Shares Outstanding - Diluted     | 42.0           | 39.9           | 40.8          | 41.2          | 41.1          | 41.2          | 41.1           | 40.7          | 37.9          | 36.4          | 36.8          | 37.9           | 37.2          | 37.6          | 38.0          | 38.4          | 37.8           | 39.4           |
| Cash and Cash Equivalents                | 178.4          | 233.9          | 234.0         | 190.2         | 188.2         | 149.5         | 149.5          | 123.4         | 208.7         | 208.6         | 190.4         | 190.4          | 179.3         | 166.4         | 153.6         | 146.2         | 146.2          | 121.7          |
| Short Term Investments                   | 0.0            | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| Net Receivables                          | 225.7          | 233.9          | 242.3         | 274.7         | 311.2         | 318.5         | 318.5          | 279.5         | 301.2         | 293.7         | 306.9         | 306.9          | 317.6         | 330.3         | 343.6         | 353.9         | 353.9          | 398.3          |
| Inventories                              | 346.2          | 372.8          | 430.9         | 468.9         | 492.4         | 521.4         | 521.4          | 499.5         | 484.0         | 482.2         | 503.9         | 503.9          | 519.8         | 540.0         | 561.6         | 578.5         | 578.5          | 651.1          |
| Other Current Assets                     | 27.9           | 25.7           | 28.4          | 33.1          | 34.1          | 38.2          | 38.2           | 41.2          | 42.0          | 41.7          | 42.3          | 42.3           | 42.8          | 43.3          | 43.9          | 44.4          | 44.4           | 46.1           |
| <b>Total Current Assets</b>              | <b>778.2</b>   | <b>866.2</b>   | <b>935.6</b>  | <b>966.8</b>  | <b>1026.0</b> | <b>1027.7</b> | <b>1027.7</b>  | <b>943.6</b>  | <b>1036.0</b> | <b>1026.2</b> | <b>1043.6</b> | <b>1043.6</b>  | <b>1059.5</b> | <b>1080.1</b> | <b>1102.7</b> | <b>1122.9</b> | <b>1122.9</b>  | <b>1217.2</b>  |
| Net Property, Plant and Equipment        | 194.1          | 205.8          | 216.0         | 222.8         | 235.7         | 235.6         | 235.6          | 237.4         | 247.8         | 268.9         | 286.0         | 286.0          | 302.9         | 319.8         | 336.5         | 353.2         | 353.2          | 418.8          |
| Goodwill                                 | 5.7            | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| Other Assets                             | 26.1           | 26.9           | 28.6          | 30.3          | 28.7          | 26.9          | 26.9           | 25.9          | 28.7          | 28.5          | 28.9          | 28.9           | 29.3          | 29.7          | 30.0          | 30.3          | 30.3           | 31.6           |
| <b>Total Assets</b>                      | <b>1004.2</b>  | <b>1099.0</b>  | <b>1180.2</b> | <b>1219.9</b> | <b>1290.4</b> | <b>1290.1</b> | <b>1290.1</b>  | <b>1207.0</b> | <b>1312.5</b> | <b>1323.6</b> | <b>1358.5</b> | <b>1358.5</b>  | <b>1391.7</b> | <b>1429.5</b> | <b>1469.3</b> | <b>1506.4</b> | <b>1506.4</b>  | <b>1667.5</b>  |
| Debt in Current Liabilities              | 17.0           | 21.6           | 17.7          | 17.3          | 17.4          | 17.1          | 17.1           | 17.1          | 17.2          | 17.2          | 17.2          | 17.2           | 17.2          | 17.2          | 17.2          | 17.2          | 17.2           | 17.2           |
| Accounts Payable                         | 243.4          | 290.5          | 331.4         | 321.8         | 360.7         | 346.6         | 346.6          | 322.4         | 307.9         | 301.1         | 314.6         | 314.6          | 324.5         | 337.2         | 350.6         | 361.2         | 361.2          | 406.5          |
| Income Taxes Payable                     | 0.0            | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| Other Current Liabilities                | 91.2           | 90.0           | 102.0         | 120.1         | 124.4         | 114.8         | 114.8          | 111.1         | 118.4         | 117.5         | 119.2         | 119.2          | 120.6         | 122.2         | 123.8         | 125.0         | 125.0          | 130.0          |
| <b>Total Current Liabilities</b>         | <b>351.6</b>   | <b>402.1</b>   | <b>451.0</b>  | <b>459.2</b>  | <b>502.5</b>  | <b>478.4</b>  | <b>478.4</b>   | <b>450.7</b>  | <b>443.5</b>  | <b>435.7</b>  | <b>451.0</b>  | <b>451.0</b>   | <b>462.3</b>  | <b>476.5</b>  | <b>491.6</b>  | <b>503.4</b>  | <b>503.4</b>   | <b>553.7</b>   |
| Long-Term Debt                           | 145.5          | 125.9          | 121.7         | 117.5         | 113.2         | 108.2         | 108.2          | 104.0         | 274.7         | 274.7         | 274.7         | 274.7          | 274.7         | 274.7         | 274.7         | 274.7         | 274.7          | 274.7          |
| Deferred Tax/Invest Tax Credit           | 0.0            | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| Other Liabilities                        | 21.4           | 21.4           | 21.5          | 22.6          | 22.8          | 23.0          | 23.0           | 22.0          | 21.7          | 21.5          | 21.8          | 21.8           | 22.1          | 22.4          | 22.7          | 22.9          | 22.9           | 23.8           |
| <b>Total Liabilities</b>                 | <b>518.5</b>   | <b>549.4</b>   | <b>594.2</b>  | <b>599.3</b>  | <b>638.5</b>  | <b>609.6</b>  | <b>609.6</b>   | <b>576.6</b>  | <b>739.9</b>  | <b>731.9</b>  | <b>747.5</b>  | <b>747.5</b>   | <b>759.1</b>  | <b>773.6</b>  | <b>789.0</b>  | <b>800.9</b>  | <b>800.9</b>   | <b>852.2</b>   |
| Total Shareholders' Equity               | 485.7          | 549.6          | 586.0         | 620.6         | 651.9         | 680.5         | 680.5          | 630.4         | 572.7         | 591.7         | 610.9         | 610.9          | 632.6         | 655.9         | 680.3         | 705.5         | 705.5          | 815.3          |
| <b>Total Liab/Shareholders' Equity</b>   | <b>1004.2</b>  | <b>1099.0</b>  | <b>1180.2</b> | <b>1219.9</b> | <b>1290.4</b> | <b>1290.1</b> | <b>1290.1</b>  | <b>1207.0</b> | <b>1312.5</b> | <b>1323.6</b> | <b>1358.5</b> | <b>1358.5</b>  | <b>1391.7</b> | <b>1429.5</b> | <b>1469.3</b> | <b>1506.4</b> | <b>1506.4</b>  | <b>1667.5</b>  |

Source: Citi Investment Research and Analysis, Company Reports

## Company Focus

- Company Update
- Target Price Change

|                              |              |
|------------------------------|--------------|
| <b>Hold/Speculative</b>      | <b>2S</b>    |
| Price (03 Oct 11)            | US\$6.11     |
| Target price                 | US\$7.50     |
| from US\$10.00               |              |
| Expected share price return  | 22.7%        |
| Expected dividend yield      | 0.0%         |
| <b>Expected total return</b> | <b>22.7%</b> |
| Market Cap                   | US\$493M     |

### Price Performance (RIC: SANM.O, BB: SANM US)



## Sanmina-SCI Corporation (SANM)

### Defense Sluggishness Remains a Significant Overhang; Focus on Optical Inventory Workdown & Corporate Margin Targets

- **What to Expect for the September Quarter** – We expect Sanmina will report sales inline with consensus of \$1.67b and within the company's guidance for \$1.65 to \$1.70b and EPS of \$0.41 at the bottom of the company's guidance range for \$0.40 to \$0.44 vs. consensus of \$0.42. We are cautious on SANM's outlook given the macro overhang, particularly the continued debates in D.C. over defense spending which is a high margin segment for SANM. Due to the softness in this segment, SANM does not believe it can meet its overall margin targets and will no longer quantify margin targets. Sanmina recently noted the inventory correction in optical, which was an issue in the March quarter, appears to be largely behind the company and should be an incremental positive going forward.
- **Updating Our Target Price** – We are updating our target price to reflect a lower market multiple and our revised valuation methodology. We believe SANM should be valued at a 50% discount to the market multiple vs. a 40% discount previously as the company has been unable to execute on margin targets laid out by management. Our target price goes from \$10 to \$7.50.
- **Key Focus Items** – 1) Update on Samina's defense segment and long term growth expectations given exit of both wars in Iraq and Afghanistan. Is Sanmina tied to any particular projects or branch? 2) Margin opportunities as Sanmina contends they can achieve industry best margins which we are doubtful given mix vs. competitors. Outside of growing revenues, how does Sanmina get to this target? 3) SANM's communication segment represents 48% of total revenues and management has identified 4G LTE rollouts in 2011 as incremental opportunities. What is the size and share for SANM of these potential projects? 4) Update on commodity costs and the company's ability to pass through price increases. We note SANM doesn't have a hedging strategy but instead re-evaluates pricing on a quarterly basis. 5) Cash flow outlook and plans for use of cash. How much cash is needed to run and grow the company organically vs. how much for acquisitions and return to shareholder via dividend and cash? In the June quarter, Sanmina refinanced its debt due in 2013 and 2016 with new debt due in 2019. We believe this is positive, providing capital structure flexibility and lowering expected interest expense.
- **Stock View** – We reiterate our Hold (2S) rating on Sanmina given the company's lackluster sales outlook and expected sluggishness in the high margin defense segment. We believe the majority of margin upside has already been realized and wait for a more attractive entry level.
- **Earnings Report** – To be determined as SANM has not yet provided a date as of the time of this publication (past history has been a 3 week notification).

| EPS          | Q1           | Q2           | Q3           | Q4           | FY           | FC Cons      |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2010A</b> | 0.23A        | 0.29A        | 0.32A        | 0.46A        | 1.30A        | 1.30A        |
| <b>2011E</b> | <b>0.45A</b> | <b>0.30A</b> | <b>0.42A</b> | <b>0.41E</b> | <b>1.58E</b> | <b>1.59E</b> |
| Previous     | 0.45A        | 0.30A        | 0.42A        | 0.41E        | 1.58E        | na           |
| <b>2012E</b> | <b>0.39E</b> | <b>0.34E</b> | <b>0.37E</b> | <b>0.42E</b> | <b>1.52E</b> | <b>1.79E</b> |
| Previous     | 0.39E        | 0.34E        | 0.37E        | 0.42E        | 1.52E        | na           |
| <b>2013E</b> | <b>0.47E</b> | <b>0.43E</b> | <b>0.47E</b> | <b>0.52E</b> | <b>1.89E</b> | <b>2.11E</b> |
| Previous     | 0.47E        | 0.43E        | 0.47E        | 0.52E        | 1.89E        | na           |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 70. Summary of Recent Results and Outlook

| FY=Sep                          | Comment   | Revenue (\$MM) |       |            |                 | Op.Margin |      | Comment | EPS    |       |            |               |
|---------------------------------|---|----------------|-------|------------|-----------------|-----------|------|---------|--------|-------|------------|---------------|
|                                 |   | Actual         | CIR   | First Call | Mgmt Est.       | Actual    | CIR  |         | Actual | CIR   | First Call | Mgmt Est.     |
| <b>SANM</b>                     | <b>top custs: HP &lt;10%, IBM &lt;10%, Lenovo ~5%</b> |                |       |            |                 |           |      |         |        |       |            |               |
| JunE                            | In-Line   | 1,674          | 1,644 | 1,646      | \$1,600-\$1,700 | 3.9%      |      | Beat    | 0.42   | 0.35  | 0.35       | \$0.33-\$0.37 |
| %chg                            |   | 6.7%           | 4.8%  | 4.9%       |                 |           |      |         | 42.3%  | 17.9% | 17.9%      |               |
| SeptE                           |   |                | 1,657 | 1,668      | \$1,650-\$1,700 |           | 3.9% |         |        | 0.41  | 0.42       | \$0.40-\$0.44 |
| %chg                            |   |                | -1.0% | -0.3%      |                 |           |      |         |        | -3.1% | -1.8%      |               |
| DecE                            |   |                | 1,707 | 1,697      |                 |           | 3.9% |         |        | 0.39  | 0.44       |               |
| %chg                            |   |                | 3.0%  | 1.7%       |                 |           |      |         |        | -3.8% | 6.5%       |               |
| CY10                            | In-Line   | 6,503          | 6,495 | 6,491      |                 | 4.0%      |      | Beat    | 1.52   | 1.49  | 1.48       |               |
| %chg                            |   | 24.2%          | 24.0% | 24.0%      |                 |           |      |         | na     | na    | na         |               |
| CY11E                           |   |                | 6,608 | 6,608      |                 |           | 3.8% |         |        | 1.52  | 1.58       |               |
| %chg                            |   |                | 1.6%  | 1.6%       |                 |           |      |         |        | 0.0%  | 3.7%       |               |
| CY12E                           |   |                | 6,887 | 6,925      |                 |           | 4.0% |         |        | 1.59  | 1.87       |               |
| %chg                            |   |                | 4.2%  | 4.8%       |                 |           |      |         |        | 4.5%  | 18.8%      |               |
| Denotes key investor focus item |   |                |       |            |                 |           |      |         |        |       |            |               |

Source: Citi Investment Research and Analysis, Thomson One

Figure 71. SANM Business Segmentation

| Revenues (\$ millions)           |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|
|                                  | 4Q10  | 1Q11  | 2Q11  | 3Q11  |
| Communication                    | \$771 | \$798 | \$740 | \$804 |
| Enterprise Computing and Storage | \$230 | \$224 | \$212 | \$235 |
| Industrial, Defense, Medical     | \$416 | \$409 | \$401 | \$401 |
| Multi-media                      | \$271 | \$232 | \$216 | \$234 |

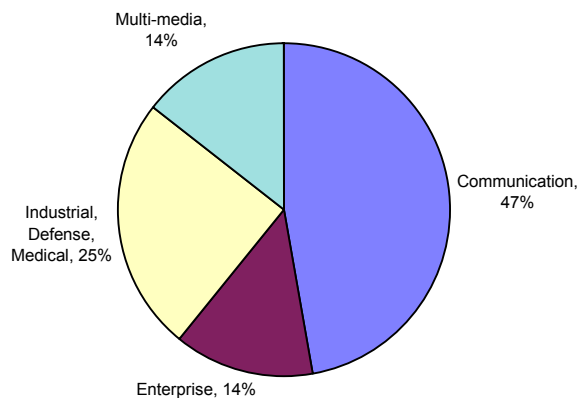
| % of Sales                   |      |      |      |      |
|------------------------------|------|------|------|------|
| SEGMENT                      | 4Q10 | 1Q11 | 2Q11 | 3Q11 |
| Communication                | 46%  | 48%  | 47%  | 48%  |
| Enterprise                   | 14%  | 13%  | 14%  | 14%  |
| Industrial, Defense, Medical | 25%  | 25%  | 26%  | 24%  |
| Multi-media                  | 16%  | 14%  | 14%  | 14%  |

| Q/Q Change                       |       |        |       |       |                       | Customers   |
|----------------------------------|-------|--------|-------|-------|-----------------------|---|
| SEGMENT                          | 4Q10  | 1Q11   | 2Q11  | 3Q11  | 4Q11E                 |   |
| Communication                    | 12.9% | 3.5%   | -7.3% | 8.6%  | slightly up to flat   | Ericsson, NOK, NT, ALU > 10%, Siemens, JDSU, CSCO, INFN, TLAB                                   |
| Enterprise Computing and Storage | -9.8% | -2.6%  | -5.4% | 10.8% | slightly up           | HPQ, IBM, LSI, SUN  |
| Industrial, Defense, Medical     | 3.7%  | -1.7%  | -2.0% | 0.0%  | Flat to slightly down | Philips, AMAT, Roche Diagnostics, Lockheed Martin, General Dynamics, Raytheon, Philips, Siemens |
| Multi-media                      | -5.2% | -14.4% | -6.9% | 8.3%  | slightly up           | HP, Siemens, Philips, Echostar  |

| Y/Y Change                       |       |        |        |        |
|----------------------------------|-------|--------|--------|--------|
|                                  | 4Q10  | 1Q11   | 2Q11   | 3Q11   |
| Communication                    | 57.7% | 60.2%  | 39.1%  | 17.7%  |
| Enterprise Computing and Storage | -9.4% | -27.5% | -23.7% | -7.8%  |
| Industrial, Defense, Medical     | 97.2% | 3.5%   | -0.2%  | 0.0%   |
| Multi-media                      | 21.0% | -15.9% | -31.4% | -18.2% |

Source: Citi Investment Research and Analysis, Company Reports

Figure 72. SANM End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports

**Figure 73. SANM Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)**

| (\$ in millions, except per-share data) | CY<br>2008   | CY<br>2009   | 03/10<br>1Q  | 06/10<br>2Q  | 09/10<br>3Q  | 12/10<br>4Q  | CY<br>2010   | 03/11<br>1Q  | 06/11<br>2Q  | 09/11<br>3Q  | 12/11<br>4Q  | CY<br>2011E  | 03/12<br>1Q  | 06/12<br>2Q  | 09/12<br>3Q  | 12/12<br>4Q  | CY<br>2012E  | CY<br>2013E  |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Sales</b>                        | <b>6,849</b> | <b>5,237</b> | <b>1,527</b> | <b>1,626</b> | <b>1,688</b> | <b>1,662</b> | <b>6,503</b> | <b>1,569</b> | <b>1,674</b> | <b>1,657</b> | <b>1,707</b> | <b>6,608</b> | <b>1,622</b> | <b>1,687</b> | <b>1,754</b> | <b>1,824</b> | <b>6,887</b> | <b>7,360</b> |
| Change y/y (%)                          | -27.0%       | -23.5%       | 27.8%        | 34.5%        | 24.7%        | 12.5%        | 24.2%        | 2.7%         | 3.0%         | -1.8%        | 2.7%         | 1.6%         | 3.4%         | 0.7%         | 5.8%         | 6.9%         | 4.2%         | 6.9%         |
| Change q/q (%)                          | n/m          | n/m          | 3.3%         | 6.4%         | 3.8%         | -1.5%        | n/m          | -5.6%        | 6.7%         | -1.0%        | 3.0%         | n/m          | -5.0%        | 4.0%         | 4.0%         | 4.0%         | n/m          | n/m          |
| Cost Of Goods Sold                      | 6,355        | 4,881        | 1,410        | 1,497        | 1,556        | 1,533        | 5,996        | 1,452        | 1,541        | 1,528        | 1,579        | 6,100        | 1,499        | 1,559        | 1,619        | 1,684        | 6,360        | 6,782        |
| <b>Gross Income</b>                     | <b>493.5</b> | <b>355.8</b> | <b>119.5</b> | <b>129.0</b> | <b>132.2</b> | <b>129.2</b> | <b>509.9</b> | <b>117.2</b> | <b>133.5</b> | <b>129.3</b> | <b>128.0</b> | <b>508.1</b> | <b>123.3</b> | <b>128.2</b> | <b>135.1</b> | <b>140.5</b> | <b>527.0</b> | <b>577.9</b> |
| Gross Margin (inc stock options)        | 7.2%         | 6.8%         | 7.8%         | 7.9%         | 7.8%         | 7.8%         | 7.8%         | 7.5%         | 8.0%         | 7.8%         | 7.5%         | 7.7%         | 7.6%         | 7.6%         | 7.7%         | 7.7%         | 7.7%         | 7.9%         |
| SG&A + R&D                              | 303.5        | 243.8        | 63.5         | 64.8         | 63.3         | 60.0         | 251.6        | 63.9         | 68.6         | 67.1         | 67.4         | 266.9        | 68.1         | 69.9         | 71.9         | 72.0         | 281.8        | 292.1        |
| % of Net Sales                          | 4.4%         | 4.7%         | 4.2%         | 4.0%         | 3.8%         | 3.6%         | 3.9%         | 4.1%         | 4.1%         | 4.0%         | 3.9%         | 4.0%         | 4.2%         | 4.1%         | 4.1%         | 3.9%         | 4.1%         | 4.0%         |
| Amortization of Intangibles             | 7.3          | 4.3          | 1.1          | 0.9          | 3.6          | 1.0          | 6.6          | 1.0          | 1.0          | 1.0          | 1.0          | 3.8          | 1.0          | 1.0          | 1.0          | 1.0          | 3.8          | 3.8          |
| % of Net Sales                          | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.2%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         |
| Operating Costs (ex stock comp)         | 303.5        | 243.8        | 63.5         | 64.8         | 63.3         | 60.0         | 251.6        | 63.9         | 68.6         | 67.1         | 67.4         | 266.9        | 68.1         | 69.9         | 71.9         | 72.0         | 281.8        | 292.1        |
| <b>Operating Income</b>                 | <b>190.0</b> | <b>112.0</b> | <b>56.0</b>  | <b>64.2</b>  | <b>68.9</b>  | <b>69.3</b>  | <b>258.3</b> | <b>53.3</b>  | <b>65.0</b>  | <b>62.2</b>  | <b>60.7</b>  | <b>241.2</b> | <b>55.2</b>  | <b>58.3</b>  | <b>63.2</b>  | <b>68.5</b>  | <b>245.2</b> | <b>285.8</b> |
| Operating Margin                        | 2.8%         | 2.1%         | 3.7%         | 3.9%         | 4.1%         | 4.2%         | 4.0%         | 3.4%         | 3.9%         | 3.8%         | 3.6%         | 3.6%         | 3.4%         | 3.5%         | 3.6%         | 3.8%         | 3.6%         | 3.9%         |
| Interest Income (Expense)               | -102.6       | -114.1       | -25.9        | -28.0        | -25.0        | -24.2        | -103.1       | -23.6        | -23.2        | -21.6        | -21.5        | -89.8        | -21.4        | -21.3        | -21.3        | -21.2        | -85.2        | -84.3        |
| <b>Pretax Income</b>                    | <b>87.3</b>  | <b>-2.2</b>  | <b>30.2</b>  | <b>36.2</b>  | <b>43.9</b>  | <b>45.0</b>  | <b>155.2</b> | <b>29.7</b>  | <b>41.8</b>  | <b>40.6</b>  | <b>39.2</b>  | <b>151.3</b> | <b>33.8</b>  | <b>37.0</b>  | <b>41.9</b>  | <b>47.3</b>  | <b>159.9</b> | <b>201.5</b> |
| Pretax Margin                           | 1.3%         | 0.0%         | 2.0%         | 2.2%         | 2.6%         | 2.7%         | 2.4%         | 1.9%         | 2.5%         | 2.5%         | 2.3%         | 2.3%         | 2.1%         | 2.2%         | 2.4%         | 2.6%         | 2.3%         | 2.7%         |
| Provision For Income Taxes              | 23.3         | 21.1         | 6.1          | 9.0          | 6.1          | 7.7          | 28.9         | 4.8          | 6.7          | 6.5          | 6.3          | 24.2         | 5.4          | 5.9          | 6.7          | 7.5          | 25.5         | 32.2         |
| Tax Rate                                | 26.7%        | nm           | 20.3%        | 24.9%        | 13.9%        | 17.2%        | 16.1%        | 16.1%        | 16.0%        | 16.0%        | 16.0%        | 16.0%        | 16.0%        | 16.0%        | 16.0%        | 16.0%        | 16.0%        | 16.0%        |
| <b>Net Income (before charges)</b>      | <b>64.0</b>  | <b>-23.3</b> | <b>24.0</b>  | <b>27.2</b>  | <b>37.8</b>  | <b>37.3</b>  | <b>126.3</b> | <b>24.9</b>  | <b>35.1</b>  | <b>34.1</b>  | <b>33.0</b>  | <b>127.2</b> | <b>28.4</b>  | <b>31.1</b>  | <b>35.2</b>  | <b>39.7</b>  | <b>134.4</b> | <b>169.3</b> |
| Net Margin                              | 0.9%         | -0.4%        | 1.6%         | 1.7%         | 2.2%         | 2.2%         | 1.9%         | 1.6%         | 2.1%         | 2.1%         | 1.9%         | 1.9%         | 1.8%         | 1.8%         | 2.0%         | 2.2%         | 2.0%         | 2.3%         |
| <b>EBITDA</b>                           | <b>279.4</b> | <b>201.6</b> | <b>78.1</b>  | <b>86.1</b>  | <b>97.5</b>  | <b>95.2</b>  | <b>356.9</b> | <b>79.3</b>  | <b>90.9</b>  | <b>88.2</b>  | <b>86.6</b>  | <b>345.0</b> | <b>81.2</b>  | <b>84.2</b>  | <b>89.2</b>  | <b>94.4</b>  | <b>349.0</b> | <b>389.6</b> |
| EBITDA Margin                           | 4.1%         | 3.9%         | 5.1%         | 5.3%         | 5.8%         | 5.7%         | 5.5%         | 5.1%         | 5.4%         | 5.3%         | 5.1%         | 5.2%         | 5.0%         | 5.0%         | 5.1%         | 5.2%         | 5.1%         | 5.3%         |
| Net EPS - Basic                         | 0.77         | -0.24        | 0.30         | 0.34         | 0.47         | 0.47         | 1.59         | 0.31         | 0.44         | 0.42         | 0.41         | 1.57         | 0.35         | 0.38         | 0.43         | 0.48         | 1.64         | 2.04         |
| Net EPS - Diluted                       | -0.24        | -0.25        | 0.12         | 0.26         | 0.38         | 0.34         | 1.10         | 0.16         | 0.09         | 0.41         | 0.39         | 1.06         | 0.34         | 0.37         | 0.42         | 0.47         | 1.59         | 1.99         |
| One-Time Items                          | 0.92         | -0.03        | 0.16         | 0.07         | 0.05         | 0.11         | 0.39         | 0.13         | 0.32         | 0.00         | 0.00         | 0.45         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         |
| <b>Operating Earnings</b>               | <b>0.77</b>  | <b>-0.25</b> | <b>0.29</b>  | <b>0.32</b>  | <b>0.46</b>  | <b>0.45</b>  | <b>1.52</b>  | <b>0.30</b>  | <b>0.42</b>  | <b>0.41</b>  | <b>0.39</b>  | <b>1.52</b>  | <b>0.34</b>  | <b>0.37</b>  | <b>0.42</b>  | <b>0.47</b>  | <b>1.59</b>  | <b>1.98</b>  |
| Avg. Shares Out - Basic (million)       | 83.8         | 82.9         | 79.0         | 79.5         | 79.7         | 79.8         | 79.5         | 80.2         | 80.6         | 80.9         | 81.2         | 80.7         | 81.5         | 81.8         | 82.1         | 82.4         | 81.9         | 83.1         |
| Avg. Shares Out - Diluted (million)     | 83.8         | 83.5         | 82.8         | 83.7         | 82.7         | 82.8         | 83.0         | 83.9         | 83.1         | 83.4         | 83.7         | 83.6         | 84.0         | 84.3         | 84.6         | 84.9         | 84.5         | 85.7         |
| Cash & Equivalents                      | 797          | 727          | 673          | 665          | 593          | 549          | 549          | 655          | 583          | 690          | 713          | 713          | 815          | 829          | 867          | 889          | 889          | 1,103        |
| Receivables                             | 892          | 750          | 819          | 924          | 1,019        | 1,003        | 1,003        | 965          | 1,042        | 1,013        | 1,044        | 1,044        | 974          | 1,013        | 1,034        | 1,075        | 1,075        | 1,106        |
| Inventories                             | 784          | 778          | 816          | 855          | 844          | 833          | 833          | 820          | 886          | 831          | 842          | 842          | 815          | 831          | 845          | 861          | 861          | 878          |
| Other Current Assets                    | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Prepaid Expenses & Other                | 135          | 145          | 152          | 141          | 134          | 137          | 137          | 136          | 125          | 125          | 126          | 126          | 124          | 126          | 127          | 129          | 129          | 132          |
| <b>Total Current Assets</b>             | <b>2,608</b> | <b>2,401</b> | <b>2,460</b> | <b>2,584</b> | <b>2,590</b> | <b>2,521</b> | <b>2,521</b> | <b>2,576</b> | <b>2,636</b> | <b>2,660</b> | <b>2,725</b> | <b>2,725</b> | <b>2,728</b> | <b>2,799</b> | <b>2,874</b> | <b>2,954</b> | <b>2,954</b> | <b>3,219</b> |
| Property, Plant & Equipment             | 588          | 550          | 539          | 562          | 570          | 574          | 574          | 561          | 563          | 564          | 567          | 567          | 570          | 573          | 576          | 581          | 581          | 602          |
| Goodwill                                | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Other Assets                            | 145          | 94           | 85           | 115          | 142          | 138          | 138          | 125          | 118          | 118          | 119          | 119          | 117          | 119          | 120          | 122          | 122          | 125          |
| <b>Total Assets</b>                     | <b>3,340</b> | <b>3,045</b> | <b>3,084</b> | <b>3,261</b> | <b>3,302</b> | <b>3,233</b> | <b>3,233</b> | <b>3,263</b> | <b>3,317</b> | <b>3,342</b> | <b>3,410</b> | <b>3,410</b> | <b>3,415</b> | <b>3,490</b> | <b>3,569</b> | <b>3,656</b> | <b>3,656</b> | <b>3,946</b> |
| Short Term borrowings                   | 0            | 0            | 0            | 51           | 65           | 53           | 53           | 62           | 60           | 60           | 60           | 60           | 60           | 60           | 60           | 60           | 60           | 60           |
| Current Maturities Of L-T Debt          | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Accounts Payable                        | 782          | 828          | 885          | 956          | 923          | 839          | 839          | 854          | 958          | 950          | 982          | 982          | 965          | 1,003        | 1,042        | 1,084        | 1,084        | 1,195        |
| Accrued Liabilities                     | 311          | 253          | 219          | 267          | 263          | 257          | 257          | 234          | 260          | 259          | 262          | 262          | 258          | 261          | 264          | 268          | 268          | 274          |
| Income Taxes Payable                    | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Total Current Liabilities</b>        | <b>1,093</b> | <b>1,081</b> | <b>1,104</b> | <b>1,274</b> | <b>1,251</b> | <b>1,150</b> | <b>1,150</b> | <b>1,150</b> | <b>1,279</b> | <b>1,270</b> | <b>1,304</b> | <b>1,304</b> | <b>1,283</b> | <b>1,325</b> | <b>1,367</b> | <b>1,412</b> | <b>1,412</b> | <b>1,530</b> |
| Long-Term Debt                          | 1,486        | 1,262        | 1,261        | 1,241        | 1,241        | 1,240        | 1,240        | 1,240        | 1,154        | 1,154        | 1,154        | 1,154        | 1,154        | 1,154        | 1,154        | 1,154        | 1,154        | 1,154        |
| Convertible subordinate debentures      | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Other Long-Term Obligations             | 135          | 117          | 114          | 122          | 148          | 143          | 143          | 142          | 137          | 136          | 138          | 138          | 135          | 137          | 139          | 141          | 141          | 144          |
| <b>Total Liabilities</b>                | <b>2,714</b> | <b>2,460</b> | <b>2,479</b> | <b>2,637</b> | <b>2,640</b> | <b>2,533</b> | <b>2,533</b> | <b>2,532</b> | <b>2,570</b> | <b>2,560</b> | <b>2,596</b> | <b>2,596</b> | <b>2,572</b> | <b>2,616</b> | <b>2,660</b> | <b>2,707</b> | <b>2,707</b> | <b>2,828</b> |
| Shareholders' Equity                    | 626          | 585          | 604          | 624          | 662          | 700          | 700          | 731          | 747          | 781          | 814          | 814          | 843          | 874          | 909          | 949          | 949          | 1,118        |
| <b>Total Liab/Shareholders' Equity</b>  | <b>3,340</b> | <b>3,045</b> | <b>3,084</b> | <b>3,261</b> | <b>3,302</b> | <b>3,233</b> | <b>3,233</b> | <b>3,263</b> | <b>3,317</b> | <b>3,342</b> | <b>3,410</b> | <b>3,410</b> | <b>3,415</b> | <b>3,490</b> | <b>3,569</b> | <b>3,656</b> | <b>3,656</b> | <b>3,946</b> |

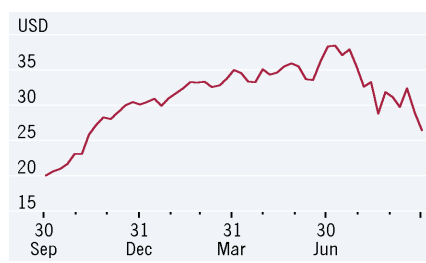
Source: Citi Investment Research and Analysis, Company Reports

## Company Focus

- Company Update
- Target Price Change

|                              |                |
|------------------------------|----------------|
| <b>Hold/Speculative</b>      | <b>2S</b>      |
| Price (03 Oct 11)            | US\$25.20      |
| Target price                 | US\$26.50      |
|                              | from US\$32.00 |
| Expected share price return  | 5.2%           |
| Expected dividend yield      | 0.0%           |
| <b>Expected total return</b> | <b>5.2%</b>    |
| Market Cap                   | US\$4,433M     |

### Price Performance (RIC: ST.N, BB: ST US)



## Sensata Technologies Holding B.V. (ST) Global Autos Have Been in Gear – Will this Segment Continue on Track Despite Macro Worries? Focus on M&A Opportunities

- **What to Expect for the September Quarter** – We believe Sensata will report results at the low end of guidance range of \$470-\$490m vs. consensus at \$482m and EPS within the guided range of \$0.49-\$0.53 vs. consensus at \$0.51. More importantly, we believe ST will provide guidance below street expectations given the macro uncertainty. We note, normal seasonality for the December quarter is +2-4% q/q and consensus currently is above this at 7-8% q/q which factors in a rebound in Japanese auto production. We believe consensus numbers which assume above normal seasonal may be too aggressive in this environment.
- **Updating Our Target Price** – We are updating our target price to \$26.50 from \$32.00 to reflect the current market multiple and an adjustment to our valuation methodology to reflect a more tempered macro environment.
- **Key Focus Items** – 1) Update on auto production trends and outlook. Recent auto numbers appear to have mixed trends with positive data out of Japan, strength in German exports offsetting a weak Europe (Ex-Germany), slowing China and tempered results from N.A. Sensata noted intra-quarter that they had seen some push-outs on the non-German European auto manufacturing segment. Has this trend continued and if so, what is the magnitude of impact on Q4'11 sales? 2) Given the current macro uncertainty, does ST still expect +2-3% annual growth from mature markets and +2-4% growth from expansion into emerging markets? 3) Update on content growth in a slowing macro environment. Management believes sensor content grows +10-15% y/y irrespective of automotive production growth. In emerging markets, domestic sensor content tends to be on the low side and is expected to increase as more electronics (air conditioners etc) are built into cars & regulatory/safety/emissions standards are mandated in new automobiles. 4) Update on the integration of recent acquisitions including Honeywell's auto sensor division and Sensor-NITE. Does Sensata plan on doing another deal in 2011 as the company has outlined a strategy of 1-2 deals/year? 5) Focus on ST's cost model, as the company claims 90% of COGS is variable which would buffer ST in the event of severe demand reductions. 6) Update on raw material pricing which we believe has shifted from a headwind to a tailwind this past quarter.
- **Stock View** – We reiterate our Hold (2S) rating as we believe Sensata shares are fully valued at the current share price and would look to get more positive on the stock at a lower price point or if global auto production/sales data or electronic content growth trends better than we anticipate.
- **Earnings Report** – To be determined as ST has not yet provided a date as of the time of this publication (past history has been a 3 week notification).

| EPS      | Q1    | Q2    | Q3    | Q4    | FY    | FC Cons |
|----------|-------|-------|-------|-------|-------|---------|
| 2010A    | 0.44A | 0.44A | 0.45A | 0.45A | 1.77A | 1.77A   |
| 2011E    | 0.50A | 0.51A | 0.51E | 0.55E | 2.07E | 2.06E   |
| Previous | 0.50A | 0.51A | 0.51E | 0.55E | 2.07E | na      |
| 2012E    | 0.63E | 0.67E | 0.63E | 0.65E | 2.59E | 2.48E   |
| Previous | 0.63E | 0.67E | 0.63E | 0.65E | 2.59E | na      |
| 2013E    | 0.72E | 0.77E | 0.72E | 0.74E | 2.96E | 2.90E   |
| Previous | 0.72E | 0.77E | 0.72E | 0.74E | 2.96E | na      |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 74. Summary of Recent Results and Outlook

|           | Revenue (\$MM) |        |       |            |             | Op. Margin |       | EPS     |        |        |            |               |
|-----------|----------------|--------|-------|------------|-------------|------------|-------|---------|--------|--------|------------|---------------|
|           | Comment        | Actual | CIR   | First Call | Mgmt Est.   | Actual     | CIR   | Comment | Actual | CIR    | First Call | Mgmt Est.     |
| <b>ST</b> |                |        |       |            |             |            |       |         |        |        |            |               |
| Jun       | In-Line        | 455    | 453   | 451        | \$440-\$460 | 24.6%      |       | In-Line | 0.51   | 0.50   | 0.50       | \$0.50-\$0.53 |
| %chg      |                | 2%     | 2%    | 2%         |             |            |       |         | 1%     | -1%    | -1%        |               |
| SeptE     |                |        | 478   | 482        | \$470-\$490 |            | 25.0% |         |        | 0.51   | 0.51       | \$0.49-\$0.53 |
| %chg      |                |        | 5%    | 6%         |             |            |       |         |        | 0%     | 0%         |               |
| DecE      |                |        | 514   | 514        |             |            | 25.0% |         |        | 0.55   | 0.54       |               |
| %chg      |                |        | 8%    | 7%         |             |            |       |         |        | 9%     | 7%         |               |
| CY10      | In-Line        | 1,540  | 1,537 | 1,536      |             | 26.9%      |       | Beat    | 1.77   | 1.77   | 1.75       |               |
| %chg      |                | 35.7%  | 35.4% | 35.3%      |             |            |       |         |        | 127.0% | 124.2%     |               |
| CY11E     |                |        | 1,891 | 1,895      |             |            | 25.1% |         |        | 2.07   | 2.06       |               |
| %chg      |                |        | 22.8% | 23.1%      |             |            |       |         |        | 16.9%  | 16.4%      |               |
| CY12E     |                |        | 2,281 | 2,179      |             |            | 25.8% |         |        | 2.59   | 2.48       |               |
| %chg      |                |        | 20.7% | 15.0%      |             |            |       |         |        | 25.2%  | 20.1%      |               |

Denotes key investor focus item

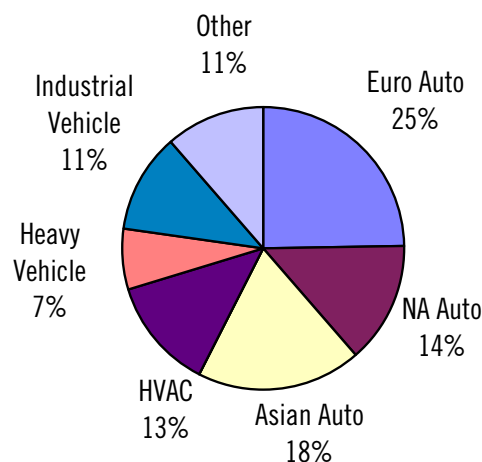
Source: Citi Investment Research and Analysis, Thomson One

Figure 75. ST Business Segmentation

| Revenues (\$ millions)         |       |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|-------|
|                                | 2Q10  | 3Q10  | 4Q10  | 1Q11  | 2Q11  |
| Sensors                        | 240.5 | 243.7 | 252.9 | 301.4 | 307.3 |
| Controls                       | 151.3 | 139.6 | 135.0 | 142.9 | 147.8 |
| <b>Q/Q Change</b>              |       |       |       |       |       |
|                                | 2Q10  | 3Q10  | 4Q10  | 1Q11  | 2Q11  |
| Sensors                        | 3.4%  | 1.3%  | 3.8%  | 19.2% | 2.0%  |
| Controls                       | 4.7%  | -7.7% | -3.3% | 5.9%  | 3.4%  |
| <b>Y/Y Change</b>              |       |       |       |       |       |
|                                | 2Q10  | 3Q10  | 4Q10  | 1Q11  | 2Q11  |
| Sensors                        | 62.8% | 33.7% | 17.7% | 29.6% | 27.8% |
| Controls                       | 40.5% | 16.1% | 9.6%  | -1.1% | -2.3% |
| <b>% of Sales</b>              |       |       |       |       |       |
|                                | 2Q10  | 3Q10  | 4Q10  | 1Q11  | 2Q11  |
| Sensors                        | 61%   | 64%   | 65%   | 68%   | 68%   |
| Controls                       | 39%   | 36%   | 35%   | 32%   | 32%   |
| <b>Operating Profit Margin</b> |       |       |       |       |       |
|                                | 2Q10  | 3Q10  | 4Q10  | 1Q11  | 2Q11  |
| Sensors                        | 33.6% | 33.5% | 34.3% | 31.8% | 31.1% |
| Controls                       | 34.4% | 32.7% | 33.0% | 34.6% | 34.5% |

Source: Citi Investment Research and Analysis, Company Reports

Figure 76. ST Geo & End-Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports

**2011 Supply Chain Playbook and Q3 Preview**  
3 October 2011

**Figure 77. ST Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)**

(Millions of Dollars, Except Per-Share Data)

|   | FY 2008    | FY 2009    | FY 2010    | Mar-11 1011 | Jun-11 2011 | Sep-11 3011 | Dec-11 4011E | FY 2011E   | Mar-12 1012E | Jun-12 2012E | Sep-12 3012E | Dec-12 4012E | FY 2012E   | FY 2013E   | FY 2014E   |
|---|------------|------------|------------|-------------|-------------|-------------|--------------|------------|--------------|--------------|--------------|--------------|------------|------------|------------|
| <b>Net Sales</b>  | \$ 1,422.8 | \$ 1,134.9 | \$ 1,540.1 | \$ 444.2    | \$ 495.0    | \$ 477.8    | \$ 513.6     | \$ 1,890.7 | \$ 559.9     | \$ 587.8     | \$ 598.5     | \$ 575.2     | \$ 2,281.3 | \$ 2,554.8 | \$ 2,861.2 |
| % change ytr/ytr  | 1.4%       | -20.2%     | 35.7%      | 17.8%       | 16.1%       | 24.7%       | 32.4%        | 22.8%      | 26.0%        | 29.2%        | 16.9%        | 12.0%        | 20.7%      | 12.0%      | 12.0%      |
| % change q/q  |            |            |            | 14.5%       | 2.4%        | 5.0%        | 7.5%         |            | 9.0%         | 5.0%         | -5.0%        | 3.0%         |            |            |            |
| Cost of Goods Sold  | 890.9      | 683.7      | 911.0      | 265.4       | 273.5       | 281.9       | 303.0        | 1,122.8    | 327.5        | 340.9        | 326.7        | 336.5        | 1,139.6    | 1,494.6    | 1,673.8    |
| COGS excluding depreciation as % of sales                 | 62.6%      | 60.2%      | 59.2%      | 59.7%       | 60.1%       | 59.0%       | 59.0%        | 59.4%      | 58.9%        | 58.5%        | 58.5%        | 58.5%        | 58.5%      | 58.5%      | 58.5%      |
| Depreciation  | 51.4       | 48.4       | 38.6       | 10.8        | 10.6        | 15.8        | 16.9         | 54.1       | 18.5         | 19.4         | 18.4         | 18.0         | 75.3       | 84.3       | 94.4       |
| % of Revs   | 3.6%       | 4.3%       | 2.5%       | 2.4%        | 3.3%        | 3.3%        | 3.3%         | 2.9%       | 3.3%         | 3.3%         | 3.3%         | 3.3%         | 3.3%       | 3.3%       | 3.3%       |
| <b>Gross Income (including depreciation)</b>              | \$ 480.5   | \$ 482.8   | \$ 590.5   | \$ 168.0    | \$ 170.9    | \$ 180.1    | \$ 193.6     | \$ 712.7   | \$ 213.9     | \$ 224.6     | \$ 213.3     | \$ 218.7     | \$ 871.5   | \$ 976.0   | \$ 1,093.0 |
| Gross Margin (including Depreciation)                     | 33.8%      | 35.5%      | 38.3%      | 37.8%       | 37.6%       | 37.7%       | 37.7%        | 37.7%      | 38.2%        | 38.2%        | 38.2%        | 38.2%        | 38.2%      | 38.2%      | 38.2%      |
| Capital Expenditures                                      | 41.0       | 15.0       | 52.9       | 22.0        | 18.4        | 15.0        | 15.0         | 70.4       | 16.0         | 16.0         | 16.0         | 16.0         | 64.0       | 68.0       | 72.0       |
| % of Revs   | 2.9%       | 1.3%       | 3.4%       | 5.0%        | 4.0%        | 3.1%        | 2.9%         | 3.7%       | 2.9%         | 2.7%         | 2.9%         | 2.8%         | 2.8%       | 2.7%       | 2.5%       |
| Research & development                                    | 38.3       | 16.8       | 24.8       | 9.4         | 13.2        | 13.9        | 14.9         | 51.3       | 16.2         | 17.0         | 16.2         | 16.7         | 66.2       | 74.1       | 83.0       |
| % of Revs   | 2.7%       | 1.5%       | 1.6%       | 2.1%        | 2.9%        | 2.9%        | 2.9%         | 2.7%       | 2.9%         | 2.9%         | 2.9%         | 2.9%         | 2.9%       | 2.9%       | 2.9%       |
| Selling, General and Admin Expenses (includes stock comp) | 139.6      | 113.5      | 151.5      | 44.4        | 45.6        | 46.8        | 50.3         | 187.2      | 53.7         | 55.8         | 53.1         | 54.6         | 217.3      | 242.7      | 271.8      |
| % of Revs   | 9.8%       | 10.0%      | 9.8%       | 10.0%       | 10.0%       | 9.8%        | 9.8%         | 9.9%       | 9.6%         | 9.5%         | 9.5%         | 9.5%         | 9.5%       | 9.5%       | 9.5%       |
| <b>Adj. Operating Income/EBIT including stock comp</b>    | \$ 302.5   | \$ 272.5   | \$ 414.2   | \$ 114.2    | \$ 112.2    | \$ 119.4    | \$ 128.4     | \$ 474.2   | \$ 143.9     | \$ 151.7     | \$ 144.1     | \$ 148.4     | \$ 588.0   | \$ 659.2   | \$ 738.2   |
| Operating Margin  | 21.3%      | 24.0%      | 26.9%      | 25.7%       | 24.6%       | 25.0%       | 25.0%        | 25.1%      | 25.7%        | 25.8%        | 25.8%        | 25.8%        | 25.8%      | 25.8%      | 25.8%      |
| Adj. EBITDA excluding stock comp                          | 340.2      | 326.9      | 452.8      | 125.0       | 122.8       | 135.2       | 145.4        | 508.3      | 162.4        | 171.1        | 162.5        | 167.4        | 663.3      | 743.5      | 832.5      |
| Adjusted EBITDA Margin ex stock comp                      | 25.3%      | 28.7%      | 29.4%      | 28.1%       | 27.0%       | 28.3%       | 28.3%        | 27.9%      | 29.0%        | 29.1%        | 29.1%        | 29.1%        | 29.1%      | 29.1%      | 29.1%      |
| <b>Adj. EBITDA including stock comp</b>                   | \$ 353.99  | \$ 329.93  | \$ 452.8   | \$ 125.0    | \$ 122.76   | \$ 135.21   | \$ 145.36    | \$ 508.32  | \$ 162.36    | \$ 171.06    | \$ 162.51    | \$ 167.38    | \$ 663.31  | \$ 743.47  | \$ 832.60  |
| Adjusted EBITDA Margin inc stock comp                     | 24.9%      | 28.3%      | 29.4%      | 28.1%       | 27.0%       | 28.3%       | 28.3%        | 27.9%      | 29.0%        | 29.1%        | 29.1%        | 29.1%        | 29.1%      | 29.1%      | 29.1%      |
| Interest Expense  | 196.3      | 147.7      | 95.8       | 20.8        | 22.8        | 23.8        | 23.7         | 91.1       | 23.6         | 23.5         | 23.4         | 23.3         | 93.9       | 92.2       | 90.4       |
| Nonoperating or Interest Income (Expense)                 | -6.1       | 1.6        | 2.4        | 4.3         | 5.8         | 0.0         | 0.0          | 10.1       | 0.0          | 0.0          | 0.0          | 0.0          | 0.0        | 0.0        | 0.0        |
| Other pro forma add backs                                 | 69.3       | 13.2       | 0.0        | 0.0         | 0.0         | 0.0         | 0.0          | 0.0        | 0.0          | 0.0          | 0.0          | 0.0          | 0.0        | 0.0        | 0.0        |
| <b>Adj. Pre-tax Income including stock comp</b>           | \$ 169.5   | \$ 139.6   | \$ 320.8   | \$ 97.7     | \$ 95.2     | \$ 95.6     | \$ 104.7     | \$ 393.2   | \$ 120.3     | \$ 128.1     | \$ 120.7     | \$ 125.1     | \$ 494.1   | \$ 567.0   | \$ 647.8   |
| Provision for Income Taxes                                | 53.3       | 19.3       | 14.4       | 6.7         | 2.9         | 3.5         | 4.0          | 17.1       | 5.0          | 5.0          | 5.0          | 5.0          | 20.0       | 22.0       | 31.8       |
| Tax Rate  | 31.6%      | 14.2%      | 4.5%       | 6.8%        | 3.1%        | 3.7%        | 3.8%         | 4.4%       | 4.2%         | 3.9%         | 4.1%         | 4.0%         | 4.0%       | 3.9%       | 4.9%       |
| Minority Interest/Loss from Disco Ops                     | 0.0        | 0.0        | 0.0        | 0.0         | 0.0         | 0.0         | 0.0          | 0.0        | 0.0          | 0.0          | 0.0          | 0.0          | 0.0        | 0.0        | 0.0        |
| <b>Adj. Net Income including stock comp</b>               | \$ 116.0   | \$ 119.8   | \$ 306.4   | \$ 91.1     | \$ 92.2     | \$ 92.1     | \$ 100.7     | \$ 376.1   | \$ 115.3     | \$ 123.1     | \$ 115.7     | \$ 120.1     | \$ 474.1   | \$ 545.0   | \$ 616.0   |
| Net Margin  | 8.2%       | 10.6%      | 19.9%      | 20.5%       | 20.3%       | 19.3%       | 19.6%        | 19.9%      | 20.6%        | 20.9%        | 20.7%        | 20.9%        | 20.8%      | 21.3%      | 21.5%      |
| Extraordinaries   |            |            |            |             |             |             |              |            |              |              |              |              |            |            |            |
| Adj. Net Income excluding stock comp                      | 122.2      | 124.9      | 306.4      | 91.1        | 92.2        | 92.1        | 100.7        | 376.1      | 115.3        | 123.1        | 115.7        | 120.1        | 474.1      | 545.0      | 616.0      |
| EBITDA Margin   | 8.6%       | 11.0%      | 19.9%      | 20.5%       | 20.3%       | 19.3%       | 19.6%        | 19.9%      | 20.6%        | 20.9%        | 20.7%        | 20.9%        | 20.8%      | 21.3%      | 21.5%      |
| <b>Pro Forma EPS - Basic</b>                              | \$ 0.81    | \$ 0.83    | \$ 1.84    | \$ 0.52     | \$ 0.53     | \$ 0.53     | \$ 0.58      | \$ 2.16    | \$ 0.66      | \$ 0.70      | \$ 0.66      | \$ 0.68      | \$ 2.70    | \$ 3.07    | \$ 3.44    |
| <b>Pro Forma EPS - Diluted</b>                            | \$ 0.74    | \$ 0.78    | \$ 1.77    | \$ 0.50     | \$ 0.51     | \$ 0.51     | \$ 0.55      | \$ 2.07    | \$ 0.63      | \$ 0.67      | \$ 0.63      | \$ 0.65      | \$ 2.59    | \$ 2.98    | \$ 3.31    |
| Average Shares Outstanding - Basic                        | 144.1      | 144.0      | 166.3      | 173.9       | 173.9       | 174.3       | 174.7        | 174.2      | 175.1        | 175.5        | 175.9        | 176.3        | 175.7      | 177.3      | 178.9      |
| Average Shares Outstanding - Diluted                      | 156.7      | 153.5      | 172.9      | 180.8       | 181.8       | 181.8       | 181.8        | 181.6      | 182.2        | 182.6        | 183.0        | 183.4        | 182.8      | 184.4      | 186.0      |

(Millions of Dollars, Except Per-Share Data)

|   | FY 2008       | FY 2009       | Mar-10 1010   | Jun-10 2010     | Sep-10 3010     | Dec-10 4010   | FY 2010       | Mar-11 1011   | Jun-11 2011   | Sep-11 3011E  | Dec-11 4011E  | FY 2011E      | Mar-12 1012E  | Jun-12 2012E  | Sep-12 3012E  | Dec-12 4012E  | FY 2012E      | FY 2013E      | FY 2014E      |
|---|---------------|---------------|---------------|-----------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Assets:</b>                                    |               |               |               |                 |                 |               |               |               |               |               |               |               |               |               |               |               |               |               |               |
| <b>Current Assets:</b>                            |               |               |               |                 |                 |               |               |               |               |               |               |               |               |               |               |               |               |               |               |
| Cash and Cash equivalents                         | 77.7          | 148.5         | 508.2         | 311.2           | 402.9           | 493.7         | 493.7         | 419.3         | 287.1         | 363.3         | 416.9         | 416.9         | 395.8         | 384.9         | 375.5         | 371.6         | 371.6         | 321.9         | 548.0         |
| Net Receivables                                   | 145.8         | 180.8         | 208.3         | 213.8           | 202.4           | 198.2         | 198.2         | 269.5         | 271.0         | 244.2         | 256.9         | 256.9         | 280.0         | 294.0         | 279.3         | 287.7         | 287.7         | 322.2         | 360.8         |
| Inventories                                       | 139.2         | 125.4         | 132.8         | 141.6           | 142.3           | 140.9         | 140.9         | 155.8         | 175.2         | 176.5         | 183.1         | 183.1         | 190.7         | 200.3         | 197.4         | 196.0         | 196.0         | 211.2         | 227.2         |
| Deferred Income Tax                               | 14.3          | 12.4          | 12.5          | 12.3            | 12.5            | 6.6           | 6.6           | 6.6           | 6.7           | 6.8           | 7.0           | 7.0           | 7.2           | 7.3           | 7.2           | 7.3           | 7.3           | 7.6           | 7.9           |
| Prepaid Expenses and other Current Assets         | 25.9          | 19.6          | 22.2          | 20.2            | 21.4            | 25.0          | 25.0          | 36.4          | 24.9          | 25.3          | 25.9          | 25.9          | 26.7          | 27.1          | 26.7          | 26.9          | 26.9          | 28.0          | 29.1          |
| Assets held for sale                              | 2.8           | 0.2           | 0.2           | 0.2             | 0.2             | 0.6           | 0.6           | 0.2           | 0.2           | 0.2           | 0.2           | 0.2           | 0.2           | 0.2           | 0.2           | 0.2           | 0.2           | 0.2           | 0.2           |
| <b>Total Current Assets</b>                       | <b>405.7</b>  | <b>487.0</b>  | <b>884.4</b>  | <b>699.5</b>    | <b>781.667</b>  | <b>865.0</b>  | <b>865.0</b>  | <b>887.9</b>  | <b>765.1</b>  | <b>816.4</b>  | <b>890.1</b>  | <b>890.1</b>  | <b>900.6</b>  | <b>913.8</b>  | <b>886.3</b>  | <b>888.7</b>  | <b>888.7</b>  | <b>891.0</b>  | <b>1173.3</b> |
| Net Property, Plant and Equipment                 | 255.2         | 219.9         | 213.4         | 216.2           | 224.9           | 234.8         | 234.8         | 271.0         | 284.5         | 283.8         | 281.8         | 281.8         | 279.3         | 275.9         | 273.5         | 270.5         | 270.5         | 254.2         | 231.8         |
| Net Goodwill                                      | 1536.8        | 1530.6        | 1530.5        | 1529.0          | 1529.0          | 1529.0        | 1529.0        | 1576.9        | 1576.7        | 1576.7        | 1576.7        | 1576.7        | 1576.7        | 1576.7        | 1576.7        | 1576.7        | 1576.7        | 1576.7        | 1576.7        |
| Other intangible assets                           | 1033.4        | 865.5         | 830.5         | 794.8           | 759.1           | 723.1         | 723.1         | 731.1         | 697.8         | 663.9         | 629.1         | 629.1         | 599.1         | 569.1         | 539.1         | 509.1         | 509.1         | 404.0         | 310.5         |
| Deferred income tax assets                        | 3.7           | 5.5           | 5.6           | 5.5             | 5.6             | 4.5           | 4.5           | 4.4           | 4.4           | 4.5           | 4.6           | 4.6           | 4.7           | 4.8           | 4.7           | 4.8           | 4.8           | 4.9           | 5.1           |
| Deferred financing costs                          | 55.5          | 41.1          | 37.0          | 29.9            | 27.8            | 25.7          | 25.7          | 23.7          | 28.6          | 27.3          | 25.9          | 25.9          | 24.6          | 23.3          | 22.0          | 20.6          | 20.6          | 15.3          | 12.6          |
| Other Assets                                      | 12.9          | 17.2          | 18.9          | 19.9            | 11.5            | 5.8           | 5.8           | 7.0           | 9.3           | 9.5           | 9.7           | 9.7           | 10.0          | 10.1          | 10.0          | 10.1          | 10.1          | 10.5          | 10.9          |
| <b>Total Assets</b>                               | <b>3303.1</b> | <b>3168.9</b> | <b>3520.2</b> | <b>3294.822</b> | <b>3339.466</b> | <b>3388.0</b> | <b>3388.0</b> | <b>3501.8</b> | <b>3366.3</b> | <b>3382.0</b> | <b>3417.8</b> | <b>3417.8</b> | <b>3395.0</b> | <b>3373.7</b> | <b>3312.2</b> | <b>3281.4</b> | <b>3281.4</b> | <b>3156.6</b> | <b>3320.8</b> |
| <b>Liabilities and Shareholders' Equity:</b>      |               |               |               |                 |                 |               |               |               |               |               |               |               |               |               |               |               |               |               |               |
| <b>Current liabilities:</b>                       |               |               |               |                 |                 |               |               |               |               |               |               |               |               |               |               |               |               |               |               |
| Debt in Current Liabilities                       | 41.8          | 17.1          | 245.7         | 17.6            | 17.6            | 16.8          | 16.8          | 17.1          | 13.7          | 13.7          | 13.7          | 13.7          | 13.7          | 13.7          | 13.7          | 13.7          | 13.7          | 13.7          | 13.7          |
| Accounts Payable                                  | 64.3          | 122.8         | 131.3         | 134.5           | 125.4           | 132.8         | 132.8         | 165.7         | 162.2         | 165.1         | 177.5         | 177.5         | 188.3         | 197.7         | 187.8         | 193.4         | 193.4         | 216.6         | 242.6         |
| Income Taxes Payable                              | 9.3           | 8.4           | 7.2           | 9.1             | 9.3             | 6.9           | 6.9           | 7.4           | 6.7           | 6.8           | 7.0           | 7.0           | 7.2           | 7.3           | 7.2           | 7.3           | 7.3           | 7.5           | 7.8           |
| Accrued expenses and other current liabilities    | 86.7          | 92.3          | 105.9         | 86.2            | 104.3           | 94.0          | 94.0          | 121.0         | 102.2         | 103.9         | 106.5         | 106.5         | 109.7         | 111.5         | 109.6         | 110.7         | 110.7         | 115.1         | 119.7         |
| Accrued profit sharing                            | 0.6           | 0.0           | 0.6           | 0.3             | 0.0             | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Deferred income taxes                             | 1.0           | 0.8           | 0.7           | 0.6             | 0.7             | 4.6           | 4.6           | 4.7           | 4.7           | 4.8           | 4.9           | 4.9           | 5.0           | 5.1           | 5.0           | 5.1           | 5.1           | 5.3           | 5.5           |
| <b>Total Current Liabilities</b>                  | <b>203.7</b>  | <b>241.5</b>  | <b>491.5</b>  | <b>248.4</b>    | <b>257.3</b>    | <b>255.1</b>  | <b>255.1</b>  | <b>315.9</b>  | <b>289.5</b>  | <b>294.3</b>  | <b>309.6</b>  | <b>309.6</b>  | <b>323.8</b>  | <b>335.2</b>  | <b>323.3</b>  | <b>330.1</b>  | <b>330.1</b>  | <b>358.2</b>  | <b>389.9</b>  |
| Deferred income tax liabilities                   | 134.1         | 165.5         | 173.1         | 184.4           | 194.0           | 179.1         | 179.1         | 198.7         | 209.2         | 212.7         | 217.9         | 217.9         | 224.4         | 228.1         | 224.4         | 226.6         | 226.6         | 235.6         | 244.9         |
| Pension and post-retirement benefit obligations   | 56.4          | 49.5          | 48.8          | 49.1            | 47.3            | 43.0          | 43.0          | 34.9          | 25.7          | 26.2          | 26.8          | 26.8          | 27.6          | 28.1          | 27.6          | 27.9          | 27.9          | 29.0          | 30.1          |
| Capital lease obligation                          | 40.8          | 40.0          | 40.0          | 39.6            | 40.0            | 39.5          | 39.5          | 39.3          | 44.8          | 44.8          | 44.8          | 44.8          | 44.8          | 44.8          | 44.8          | 44.8          | 44.8          | 44.8          | 44.8          |
| Long-term debt, less current portion              | 2428.6        | 2243.7        | 1856.6        | 1781.4          | 1856.1          | 1833.4        | 1833.4        | 1875.3        | 1783.6        | 1783.6        | 1783.6        | 1783.6        | 1704.6        | 1625.6        | 1546.6        | 1467.6        | 1467.6        | 1069.6        | 874.6         |
| Other long-term liabilities                       | 34.4          | 39.5          | 38.4          | 29.3            | 24.7            | 30.1          | 30.1          | 29.3          | 29.1          | 29.6          | 30.3          | 30.3          | 31.2          | 31.7          | 31.2          | 31.5          | 31.5          | 32.8          | 34.1          |
| <b>Total Liabilities</b>                          | <b>2898.0</b> | <b>2778.7</b> | <b>2648.4</b> | <b>2332.2</b>   | <b>2418.8</b>   | <b>2380.2</b> | <b>2380.2</b> | <b>2493.4</b> | <b>2382.0</b> | <b>2391.2</b> | <b>2413.0</b> | <b>2413.0</b> | <b>2356.5</b> | <b>2293.6</b> | <b>2197.9</b> | <b>2128.5</b> | <b>2128.5</b> | <b>1769.9</b> | <b>1617.7</b> |
| Shareholder's equity:                             | 0.0           | 0.0           | 0.0           | 0.0             | 0.0             | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Due from parent                                   | -0.5          | 0.0           | 0.0           | 0.0             | 0.0             | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Additional paid-in capital                        | 1049.9        | 1052.0        | 1508.0        | 1512.6          | 1516.0          | 1533.6        | 1533.6        | 1533.6        | 1533.6        | 1533.6        | 1533.6        | 1533.6        | 1533.6        | 1533.6        | 1533.6        | 1533.6        | 1533.6        | 1533.6        | 1533.6        |
| Accumulated deficit                               | -600.0        | -627.7        | -600.4        | -517.9          | -566.2          | -495.9        | -495.9        | -503.4        | -519.3        | -512.8        | -498.9        | -498.9        | -465.1        | -423.5        | -389.3        | -350.0        | -350.0        | -117.0        | -19.9         |
| Accumulated other comprehensive loss              | -44.5         | -37.2         | -35.8         | -32.1           | -29.9           | -29.8         | -29.9         | -29.9         | -29.9         | -29.9         | -29.9         | -29.9         | -29.9         | -29.9         | -29.9         | -29.9         | -29.9         | -29.9         | -29.9         |
| Total Shareholders' Equity                        | 405.1         | 387.2         | 871.9         | 962.6           | 919.9           | 1007.8        | 1007.8        | 1008.4        | 984.3         | 990.8         | 1004.8        | 1004.8        | 1038.5        | 1080.2        | 1114.3        | 1152.9        | 1152.9        | 1386.7        | 1703.3        |
| TI's net investment                               |               |               |               |                 |                 |               |               |               |               |               |               |               |               |               |               |               |               |               |               |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>3303.1</b> | <b>3168.9</b> | <b>3520.2</b> | <b>3294.8</b>   | <b>3339.466</b> | <b>3388.0</b> | <b>3388.0</b> | <b>3501.8</b> | <b>3366.3</b> | <b>3382.0</b> | <b>3417.8</b> | <b>3417.8</b> | <b>3395.0</b> | <b>3373.7</b> | <b>3312.2</b> | <b>3281.4</b> | <b>3281.4</b> | <b>3156.6</b> | <b>3320.8</b> |



## Company Focus

### ■ Company Update

|                              |              |
|------------------------------|--------------|
| <b>Buy/High Risk</b>         | <b>1H</b>    |
| Price (03 Oct 11)            | US\$27.25    |
| Target price                 | US\$40.00    |
| Expected share price return  | 46.8%        |
| Expected dividend yield      | 2.6%         |
| <b>Expected total return</b> | <b>49.4%</b> |
| Market Cap                   | US\$11,810M  |

### Price Performance (RIC: TEL.N, BB: TEL US)



## TE Connectivity Ltd. (TEL)

### Global Autos Continue to Roll Forward; Keeping an Eye out for European Potholes caused by Macro Uncertainty

- **What to Expect for the September Quarter** – We believe TE Connectivity will report sales inline with consensus at \$3.94b and at the bottom end of management's guidance for \$3.9b-\$4.0b and EPS within TEL's guided range of \$0.84-\$0.90 vs. consensus of \$0.86. Better than expected recovery in automotive production continues at several major Japanese OEMs and should help offset potential softness due to macro uncertainty (remember TEL has large exposure to European Automotive which has thus far held in but could be impacted by sovereign debt issues). We expect to see some weakness in Datacomm, Industrial markets and in the distribution channel, but believe this is already well known by investors and should not be a surprise.
- **Key Focus Items** – 1) Update on auto production trends and outlook. Recent auto numbers appear to have mixed trends with positive data out of Japan, strength in German exports offsetting a weak Europe (Ex-Germany), slowing China and tempered results from N.A. 2) Update on content growth per vehicle which TEL estimates at 4-6% y/y accelerated by the adoption of hybrid and electric vehicles. What happens to content per vehicle if the macro environment goes into another recession? 3) Update on the integration of the ADCT acquisition, which management guided to be 12c/year accretive. TEL recently announced they have improved ADCT operating margins from 4-5% to 10% benefiting from SG&A and manufacturing cost reductions. 4) Priorities in use of cash which we believe remain i) organic growth, ii) acquisitions (targeted size \$300-400m), iii) support for the dividend (which we note, TEL did not cut in the last downturn) and iv) share repurchases. 5) Subsea opportunity which TEL has guided to be \$600m of sales this year, including the recent \$200m contract win from Pac Fiber which connects New Zealand to Los Angeles. We expect this segment will see positive growth trends in the next couple years given global bandwidth demands but have yet to see significant project wins by TEL.
- **Stock View** – TEL remains our highest conviction Buy rated stock & on CIRA's Top Picks Live. We believe the potential addition of TE Connectivity to the S&P500 will be a positive catalyst for the stock. Japanese auto production appears to be coming online faster than originally anticipated and our long term positive thesis around increasing electronic content in autos remains intact. We reiterate our Buy (1H) recommendation and view the company's 2.5% dividend and 8.4x forward 12 month PE as compelling.
- **Earnings Report** – To be determined as TEL has not yet provided a date as of the time of this publication (past history has been a 3 week notification).

| EPS      | Q1    | Q2    | Q3    | Q4    | FY    | FC Cons |
|----------|-------|-------|-------|-------|-------|---------|
| 2010A    | 0.47A | 0.64A | 0.70A | 0.72A | 2.54A | 2.54A   |
| 2011E    | 0.73A | 0.71A | 0.78A | 0.86E | 3.08E | 3.08E   |
| Previous | 0.73A | 0.71A | 0.78A | 0.86E | 3.08E | na      |
| 2012E    | 0.81E | 0.85E | 0.90E | 0.92E | 3.48E | 3.34E   |
| Previous | 0.81E | 0.85E | 0.90E | 0.92E | 3.48E | na      |
| 2013E    | 0.94E | 0.98E | 1.01E | 1.01E | 3.94E | 3.79E   |
| Previous | 0.94E | 0.98E | 1.01E | 1.01E | 3.94E | na      |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 78. Summary of Recent Results and Outlook

|            | Revenue (\$MM) |        |        |            |                 | Op. Margin |       | EPS     |        |        |            |               |
|------------|----------------|--------|--------|------------|-----------------|------------|-------|---------|--------|--------|------------|---------------|
|            | Comment        | Actual | CIR    | First Call | Mgmt Est.       | Actual     | CIR   | Comment | Actual | CIR    | First Call | Mgmt Est.     |
| <b>TEL</b> |                |        |        |            |                 |            |       |         |        |        |            |               |
| Jun        | Beat           | 3,729  | 3,623  | 3,559      | \$3650-\$3500   | 13.1%      |       | Beat    | 0.78   | 0.72   | 0.71       | \$0.68-\$0.74 |
| %chg       |                | 7%     | 4%     | 3%         |                 |            |       |         | 11%    | 2%     | 1%         |               |
| SeptE      |                |        | 3,920  | 3,938      | \$3,900-\$4,000 |            | 13.6% |         |        | 0.86   | 0.86       | \$0.84-\$0.88 |
| %chg       |                |        | 5%     | 6%         |                 |            |       |         |        | 9%     | 10%        |               |
| DecE       |                |        | 3,657  | 3,667      |                 |            | 13.8% |         |        | 0.81   | 0.79       |               |
| %chg       |                |        | -7%    | -7%        |                 |            |       |         |        | -5%    | -9%        |               |
|            |                |        |        |            |                 |            |       |         |        |        |            |               |
| CY10       | In-Line        | 12,378 | 12,346 | 12,336     |                 | 14.4%      |       | Beat    | 2.80   | 2.73   | 2.74       |               |
| %chg       |                | 18.6%  | 18.3%  | 18.2%      |                 |            |       |         | 157.7% | 151.2% | 152.1%     |               |
| CY11E      |                |        | 14,778 | 14,806     |                 |            | 13.4% |         |        | 3.15   | 3.13       |               |
| %chg       |                |        | 19.4%  | 19.6%      |                 |            |       |         |        | 12.6%  | 11.9%      |               |
| CY12E      |                |        | 15,457 | 15,452     |                 |            | 14.4% |         |        | 3.61   | 3.45       |               |
| %chg       |                |        | 4.6%   | 4.4%       |                 |            |       |         |        | 14.6%  | 10.2%      |               |

Denotes key investor focus item

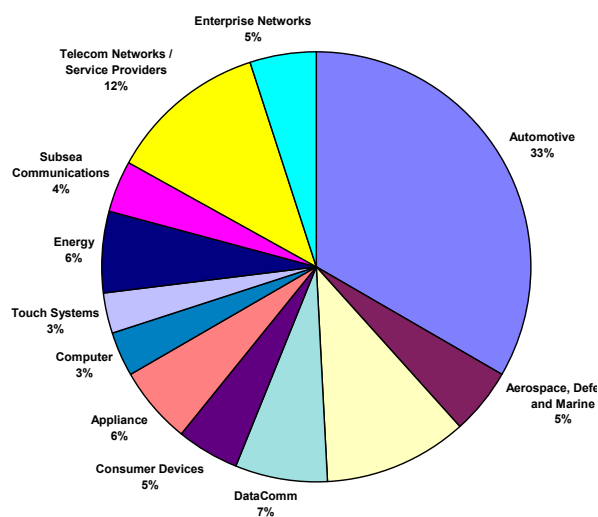
Source: Citi Investment Research and Analysis, Thomson One

Figure 79. TEL Business Segmentation

| Segment                 | Jun-10<br>3Q | Sep-10<br>4Q | Dec-10<br>1Q | Mar-11<br>2Q | Jun-11<br>3Q |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Transportation Connecti | \$1,214      | \$1,208      | \$1,311      | \$1,357      | \$1,426      |
| Communications and Inc  | \$1,258      | \$1,315      | \$1,223      | \$1,208      | \$1,297      |
| Network Solutions       | \$612        | \$614        | \$666        | \$907        | \$1,006      |
|                         |              |              |              |              |              |
| Q/Q change              | Jun-10<br>3Q | Sep-10<br>4Q | Dec-10<br>1Q | Mar-11<br>2Q | Jun-11<br>3Q |
| Transportation Connecti | 1.3%         | -0.5%        | 8.5%         | 3.5%         | 5.1%         |
| Communications and Inc  | 8.7%         | 4.5%         | -7.0%        | -1.2%        | 7.4%         |
| Network Solutions       | 1.7%         | 0.3%         | 8.5%         | 36.2%        | 10.9%        |
|                         |              |              |              |              |              |
| Y/Y change              | Jun-10<br>3Q | Sep-10<br>4Q | Dec-10<br>1Q | Mar-11<br>2Q | Jun-11<br>3Q |
| Transportation Connecti | 38.0%        | 20.0%        | 11.2%        | 13.3%        | 17.5%        |
| Communications and Inc  | 42.3%        | 33.2%        | 12.2%        | 4.4%         | 3.1%         |
| Network Solutions       | -17.7%       | -12.8%       | 6.9%         | 50.7%        | 64.4%        |
|                         |              |              |              |              |              |
| Operating Margin        | Jun-10<br>3Q | Sep-10<br>4Q | Dec-10<br>1Q | Mar-11<br>2Q | Jun-11<br>3Q |
| Transportation Connecti | 13.6%        | 11.6%        | 14.5%        | 15.1%        | 13.9%        |
| Communications and Inc  | 16.2%        | 11.7%        | 15.0%        | 12.2%        | 11.5%        |
| Network Solutions       | 15.4%        | 15.2%        | 13.4%        | 10.7%        | 14.0%        |
|                         |              |              |              |              |              |
| % of Sales              | Jun-10<br>3Q | Sep-10<br>4Q | Dec-10<br>1Q | Mar-11<br>2Q | Jun-11<br>3Q |
| Transportation Connecti | 39.4%        | 38.5%        | 41.0%        | 39.1%        | 38.2%        |
| Communications and Inc  | 40.8%        | 41.9%        | 38.2%        | 34.8%        | 34.8%        |
| Network Solutions       | 19.8%        | 19.6%        | 20.8%        | 26.1%        | 27.0%        |

Source: Citi Investment Research and Analysis, Company Reports

Figure 80. TEL End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports

**Figure 81. TEL Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)**

| (\$ in millions, except per-share data)           | CY<br>2008     | CY<br>2009     | CY<br>2010     | 03/11<br>1Q    | 06/11<br>2Q    | 09/11<br>3QE   | 12/11<br>4QE   | CY<br>2011E    | 03/12<br>1QE   | 06/12<br>2QE   | 09/12<br>3QE   | 12/12<br>4QE   | CY<br>2012E    | CY<br>2013E    |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net Sales</b>                                  | <b>13,620</b>  | <b>10,435</b>  | <b>12,378</b>  | <b>3,472</b>   | <b>3,729</b>   | <b>3,920</b>   | <b>3,657</b>   | <b>14,778</b>  | <b>3,743</b>   | <b>3,869</b>   | <b>3,912</b>   | <b>3,933</b>   | <b>15,457</b>  | <b>16,441</b>  |
| Change y/y (%)                                    | 1.3%           | -23.4%         | 18.6%          | 17.4%          | 20.9%          | 25.0%          | 14.3%          | 19.4%          | 7.8%           | 3.8%           | -0.2%          | 7.5%           | 4.6%           | 6.4%           |
| Change q/q (%)                                    | n/m            | n/m            | n/m            | 8.5%           | 7.4%           | 5.1%           | -6.7%          | n/m            | 2.4%           | 3.4%           | 1.1%           | 0.5%           | n/m            | n/m            |
| Cost Of Goods Sold                                | 9,711          | 7,785          | 8,414          | 2,398          | 2,601          | 2,703          | 2,514          | 10,216         | 2,568          | 2,649          | 2,672          | 2,678          | 10,566         | 11,168         |
| <b>Gross Income</b>                               | <b>3,909.0</b> | <b>2,650.0</b> | <b>3,964.0</b> | <b>1,074.0</b> | <b>1,128.0</b> | <b>1,217.2</b> | <b>1,142.8</b> | <b>4,562.0</b> | <b>1,175.4</b> | <b>1,220.7</b> | <b>1,239.9</b> | <b>1,254.5</b> | <b>4,890.6</b> | <b>5,273.4</b> |
| Gross Margin (inc stock options)                  | 28.7%          | 25.4%          | 32.0%          | 30.9%          | 30.2%          | 31.0%          | 31.2%          | 30.9%          | 31.4%          | 31.5%          | 31.7%          | 31.9%          | 31.6%          | 32.1%          |
| SG&A  | 1,628.0        | 1,368.0        | 1,572.0        | 445.0          | 452.0          | 486.1          | 453.5          | 1,836.6        | 460.4          | 475.9          | 481.1          | 483.7          | 1,901.2        | 2,022.2        |
| % of Net Sales                                    | 12.0%          | 13.1%          | 12.7%          | 12.8%          | 12.1%          | 12.4%          | 12.4%          | 12.4%          | 12.3%          | 12.3%          | 12.3%          | 12.3%          | 12.3%          | 12.3%          |
| Research, Development, & Engineering              | 596.0          | 530.0          | 610.0          | 180.0          | 188.0          | 196.0          | 182.8          | 746.9          | 187.2          | 189.6          | 191.7          | 192.7          | 761.1          | 805.6          |
| % of Net Sales                                    | 4.4%           | 5.1%           | 4.9%           | 5.2%           | 5.0%           | 5.0%           | 5.0%           | 5.1%           | 5.0%           | 4.9%           | 4.9%           | 4.9%           | 4.9%           | 4.9%           |
| Restructuring                                     | 241.0          | 502.0          | 134.0          | 44.0           | 17.0           | 17.0           | 0.0            | 78.0           | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| % of Net Sales                                    | 1.8%           | 4.8%           | 1.1%           | 1.3%           | 0.5%           | 0.4%           | 0.0%           | 0.5%           | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%           |
| Operating Costs (ex restructuring)                | 2,224.0        | 1,898.0        | 2,182.0        | 625.0          | 640.0          | 682.1          | 636.3          | 2,583.4        | 647.6          | 665.5          | 672.8          | 676.4          | 2,662.3        | 2,827.8        |
| <b>Operating Income (ex restructuring)</b>        | <b>1,685.0</b> | <b>752.0</b>   | <b>1,782.0</b> | <b>449.0</b>   | <b>488.0</b>   | <b>535.1</b>   | <b>506.5</b>   | <b>1,978.6</b> | <b>527.8</b>   | <b>555.2</b>   | <b>567.2</b>   | <b>578.1</b>   | <b>2,228.2</b> | <b>2,445.5</b> |
| Operating Margin including Restructuring          | 10.6%          | 2.4%           | 13.3%          | 11.7%          | 12.6%          | 13.2%          | 13.8%          | 12.9%          | 14.1%          | 14.3%          | 14.5%          | 14.7%          | 14.4%          | 14.9%          |
| Operating Margin ex Restructuring                 | 12.4%          | 7.2%           | 14.4%          | 12.9%          | 13.1%          | 13.6%          | 13.8%          | 13.4%          | 14.1%          | 14.3%          | 14.5%          | 14.7%          | 14.4%          | 14.9%          |
| Interest Income                                   | 28.0           | 15.0           | 21.0           | 6.0            | 5.0            | 3.0            | 3.5            | 17.5           | 4.4            | 4.9            | 5.5            | 6.1            | 20.9           | 31.4           |
| Interest (Expense)                                | -182.0         | -159.0         | -151.0         | -43.0          | -40.0          | -39.8          | -39.8          | -162.7         | -39.8          | -39.8          | -39.8          | -39.8          | -159.3         | -159.3         |
| Other income (expenses)                           | 28.0           | 25.0           | 44.0           | 6.0            | 9.0            | 13.0           | 13.0           | 41.0           | 13.0           | 13.0           | 13.0           | 13.0           | 52.0           | 52.0           |
| <b>Pretax Income</b>                              | <b>1,559.0</b> | <b>633.0</b>   | <b>1,696.0</b> | <b>418.0</b>   | <b>462.0</b>   | <b>511.3</b>   | <b>483.1</b>   | <b>1,874.4</b> | <b>505.3</b>   | <b>533.3</b>   | <b>545.8</b>   | <b>557.4</b>   | <b>2,141.8</b> | <b>2,369.6</b> |
| Pretax Margin                                     | 11.4%          | 6.1%           | 13.7%          | 12.0%          | 12.4%          | 13.0%          | 13.2%          | 12.7%          | 13.5%          | 13.8%          | 14.0%          | 14.2%          | 13.9%          | 14.4%          |
| Provision For Income Taxes                        | 526.0          | 128.0          | 418.4          | 100.0          | 114.0          | 132.9          | 125.6          | 472.5          | 131.4          | 138.7          | 141.9          | 144.9          | 556.9          | 616.1          |
| Tax Rate  | 33.7%          | 20.2%          | 24.7%          | 23.9%          | 24.7%          | 26.0%          | 26.0%          | 25.2%          | 26.0%          | 26.0%          | 26.0%          | 26.0%          | 26.0%          | 26.0%          |
| Minority Interest Expense (Gain)                  | 2.9            | 3.3            | 1.8            | 1.0            | 2.0            | 1.0            | 1.0            | 2.0            | 1.0            | 1.0            | 1.0            | 1.0            | 1.9            | 1.8            |
| <b>Net Income (before charges)</b>                | <b>1,027.0</b> | <b>500.0</b>   | <b>1,271.6</b> | <b>317.0</b>   | <b>346.0</b>   | <b>377.4</b>   | <b>356.5</b>   | <b>1,396.9</b> | <b>373.0</b>   | <b>393.7</b>   | <b>402.9</b>   | <b>411.5</b>   | <b>1,581.0</b> | <b>1,749.5</b> |
| Net Margin  | 7.5%           | 4.8%           | 10.3%          | 9.1%           | 9.3%           | 9.6%           | 9.7%           | 9.5%           | 10.0%          | 10.2%          | 10.3%          | 10.5%          | 10.2%          | 10.6%          |
| <b>EBITDA</b>                                     | <b>2,251.0</b> | <b>1,278.0</b> | <b>2,291.0</b> | <b>597.0</b>   | <b>634.0</b>   | <b>681.1</b>   | <b>652.5</b>   | <b>2,564.6</b> | <b>673.8</b>   | <b>701.2</b>   | <b>713.2</b>   | <b>724.1</b>   | <b>2,812.2</b> | <b>3,029.5</b> |
| EBITDA Margin                                     | 16.5%          | 12.2%          | 18.5%          | 17.2%          | 17.0%          | 17.4%          | 17.8%          | 17.4%          | 18.0%          | 18.1%          | 18.2%          | 18.4%          | 18.2%          | 18.4%          |
| Net EPS - Basic                                   | 1.82           | -6.34          | 2.66           | 0.67           | 0.81           | 0.78           | 0.82           | 3.09           | 0.86           | 0.91           | 0.93           | 0.95           | 3.66           | 4.08           |
| Net EPS - Diluted                                 | 1.81           | -6.44          | 2.63           | 0.67           | 0.80           | 0.77           | 0.81           | 3.05           | 0.85           | 0.90           | 0.92           | 0.94           | 3.61           | 4.04           |
| One-Time Items                                    | -0.33          | -7.53          | -0.17          | -0.04          | 0.02           | -0.08          | 0.00           | -0.10          | 0.00           | 0.00           | 0.00           | 0.00           | 0.00           | 0.00           |
| Core Operating Earnings Per Share - Basic         | 2.16           | 0.88           | 2.54           | 0.72           | 0.79           | 0.87           | 0.81           | 3.18           | 0.86           | 0.91           | 0.93           | 0.94           | 3.64           | 4.07           |
| <b>Operating Earnings</b>                         | <b>2.14</b>    | <b>1.09</b>    | <b>2.80</b>    | <b>0.71</b>    | <b>0.78</b>    | <b>0.86</b>    | <b>0.81</b>    | <b>3.15</b>    | <b>0.85</b>    | <b>0.90</b>    | <b>0.92</b>    | <b>0.94</b>    | <b>3.61</b>    | <b>4.04</b>    |
| Avg. Shares Out - Basic (million)                 | 473.3          | 458.5          | 449.5          | 443.0          | 437.0          | 436.0          | 435.0          | 437.8          | 434.0          | 433.0          | 432.0          | 431.0          | 432.5          | 428.5          |
| Avg. Shares Out - Diluted (million)               | 476.3          | 460.0          | 454.0          | 449.0          | 442.0          | 441.0          | 440.0          | 443.0          | 439.0          | 438.0          | 437.0          | 436.0          | 437.5          | 433.5          |
| Cash & Equivalents & ST Inv                       | 545            | 1,695          | 1,407          | 1,239          | 1,212          | 1,385          | 1,754          | 1,754          | 1,969          | 2,184          | 2,447          | 2,729          | 2,729          | 3,879          |
| Receivables                                       | 2,207          | 2,033          | 2,421          | 2,495          | 2,614          | 2,748          | 2,563          | 2,563          | 2,624          | 2,712          | 2,742          | 2,757          | 2,757          | 2,914          |
| Inventories                                       | 2,306          | 1,458          | 1,836          | 1,912          | 1,996          | 2,036          | 1,894          | 1,894          | 1,934          | 1,995          | 2,013          | 2,018          | 2,018          | 2,123          |
| Other Current Assets                              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |
| Prepaid Expenses & Other                          | 548            | 481            | 874            | 834            | 775            | 788            | 771            | 771            | 777            | 785            | 788            | 790            | 790            | 804            |
| <b>Total Current Assets</b>                       | <b>5,809</b>   | <b>5,820</b>   | <b>6,788</b>   | <b>6,743</b>   | <b>6,860</b>   | <b>7,220</b>   | <b>7,245</b>   | <b>7,245</b>   | <b>7,567</b>   | <b>7,940</b>   | <b>8,253</b>   | <b>8,556</b>   | <b>8,556</b>   | <b>9,983</b>   |
| Property, Plant & Equipment                       | 3,406          | 3,008          | 3,075          | 3,129          | 3,147          | 3,167          | 3,171          | 3,171          | 3,176          | 3,182          | 3,189          | 3,197          | 3,197          | 3,239          |
| Goodwill  | 7,016          | 3,153          | 3,727          | 3,602          | 3,600          | 3,583          | 3,583          | 3,583          | 3,583          | 3,583          | 3,583          | 3,583          | 3,583          | 3,583          |
| Intangible Assets, net                            | 472            | 388            | 685            | 670            | 673            | 673            | 673            | 673            | 673            | 673            | 673            | 673            | 673            | 673            |
| Deferred Income Taxes                             | 2,053          | 2,486          | 2,432          | 2,547          | 2,447          | 2,447          | 2,447          | 2,447          | 2,447          | 2,447          | 2,447          | 2,447          | 2,447          | 2,447          |
| Other Assets                                      | 1,490          | 1,428          | 255            | 239            | 250            | 254            | 249            | 249            | 251            | 253            | 254            | 255            | 255            | 259            |
| <b>Total Assets</b>                               | <b>20,246</b>  | <b>16,283</b>  | <b>18,102</b>  | <b>18,080</b>  | <b>18,032</b>  | <b>18,400</b>  | <b>18,423</b>  | <b>18,423</b>  | <b>18,751</b>  | <b>19,133</b>  | <b>19,454</b>  | <b>19,765</b>  | <b>19,765</b>  | <b>21,239</b>  |
| Current Maturities Of L-T Debt                    | 1              | 101            | 660            | 185            | 1              | 1              | 1              | 1              | 1              | 1              | 1              | 1              | 1              | 1              |
| Accounts Payable                                  | 1,232          | 1,221          | 1,485          | 1,558          | 1,612          | 1,675          | 1,558          | 1,558          | 1,592          | 1,641          | 1,656          | 1,660          | 1,660          | 1,747          |
| Accrued Liabilities                               | 1,281          | 1,265          | 1,564          | 1,875          | 1,974          | 2,007          | 1,963          | 1,963          | 1,978          | 2,000          | 2,007          | 2,011          | 2,011          | 2,048          |
| Deferred revenue                                  | 203            | 174            | 159            | 132            | 104            | 104            | 104            | 104            | 104            | 104            | 104            | 104            | 104            | 104            |
| Liabilities held for sale                         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |
| <b>Total Current Liabilities</b>                  | <b>2,717</b>   | <b>2,761</b>   | <b>3,868</b>   | <b>3,750</b>   | <b>3,691</b>   | <b>3,788</b>   | <b>3,626</b>   | <b>3,626</b>   | <b>3,675</b>   | <b>3,747</b>   | <b>3,768</b>   | <b>3,776</b>   | <b>3,776</b>   | <b>3,900</b>   |
| Long-term debt, incl amts due to Tyco Int'l & aff | 3,018          | 2,314          | 2,555          | 2,559          | 2,654          | 2,654          | 2,654          | 2,654          | 2,654          | 2,654          | 2,654          | 2,654          | 2,654          | 2,654          |
| Other Long-Term Obligations                       | 2,985          | 2,921          | 2,671          | 2,763          | 2,606          | 2,650          | 2,591          | 2,591          | 2,612          | 2,641          | 2,650          | 2,655          | 2,655          | 2,704          |
| <b>Total Liabilities</b>                          | <b>9,727</b>   | <b>9,276</b>   | <b>10,756</b>  | <b>10,744</b>  | <b>10,446</b>  | <b>10,587</b>  | <b>10,366</b>  | <b>10,366</b>  | <b>10,435</b>  | <b>10,536</b>  | <b>10,567</b>  | <b>10,580</b>  | <b>10,580</b>  | <b>10,753</b>  |
| Minority Interest                                 | 10             | 9              | 7              | 11             | 11             | 11             | 11             | 11             | 11             | 11             | 11             | 11             | 11             | 11             |
| Shareholders' Equity                              | 10,509         | 6,998          | 7,339          | 7,325          | 7,575          | 7,802          | 8,045          | 8,045          | 8,305          | 8,586          | 8,876          | 9,175          | 9,175          | 10,476         |
| <b>Total Liab/Shareholders' Equity</b>            | <b>20,246</b>  | <b>16,283</b>  | <b>18,102</b>  | <b>18,080</b>  | <b>18,032</b>  | <b>18,400</b>  | <b>18,423</b>  | <b>18,423</b>  | <b>18,751</b>  | <b>19,133</b>  | <b>19,454</b>  | <b>19,765</b>  | <b>19,765</b>  | <b>21,239</b>  |

Source: Citi Investment Research and Analysis, Company Reports

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

|                              |              |
|------------------------------|--------------|
| <b>Hold/Speculative</b>      | <b>2S</b>    |
| Price (03 Oct 11)            | US\$8.09     |
| Target price                 | US\$9.00     |
| from US\$12.00               |              |
| Expected share price return  | 11.2%        |
| Expected dividend yield      | 0.0%         |
| <b>Expected total return</b> | <b>11.2%</b> |
| Market Cap                   | US\$1,271M   |

### Price Performance (RIC: VSH.N, BB: VSH US)



## Vishay Intertechnology Inc (VSH) Uneasy Macro Environment Likely Weigh on VSH's Outlook; Focus on Distribution Inventory, M&A and Tantalum Pricing

- **What to Expect for the September Quarter** – We believe Vishay will report Q3 sales inline with their negative guide down in mid-September to the range of \$625-\$655m (vs. \$675m-\$715m previously) citing volume driven declines. The company did not see the anticipated seasonal pick up in the September quarter and cited inventory reductions in distribution as a reason for the revenue shortfall. Due to declining revenues, we expect gross margins will contract nearly 300bps from the June quarter.
- **Model & Target Price Adjustments** – We are adjusting our model to reflect a softening demand environment (see changes on the following page). Our target price goes lower to reflect the current market multiple and adjusting our valuation methodology to reflect continued shareholder concentration as the Zandman family retains significant voting share control of VSH. Our target price goes to \$9.00 from \$12.00.
- **Key Focus Items** – 1) Update on long term margin goals, as the company has guided gross margins in the range of 28% to 30% and operating margins 14% to 15% in a more normalized pricing environment which we believe is aggressive given lead times are coming down and the best of pricing is behind us. 2) Update on M&A as management has outlined a new strategy of adding ~\$100m of sales per year through acquisitions and stated they are no longer looking at acquisitions larger than \$500m in purchase price. Recently, VSH announced the acquisition of a resistor business called Huntington Electric for \$19.6m. With \$700m of cash and cash equivalents on the balance sheet, VSH has plenty of dry powder to do deals. 3) Update on automotive trends which has been an area of strength for VSH and represents 17% of total sales. Long term favorable trends include increasing electronic content per vehicle, penetration of hybrid cars and increased regulatory/safety standards in both emerging & developed countries. 6) Update on raw material prices which we believe for Copper and Gold could change from being a headwind to becoming a tailwind as commodity prices have sold off during the last quarter. What is VSH's outlook for Tantalum pricing in 2H 2011? Back in 2000 there was the huge increase in tantalum but has the industry changed with more suppliers now & some alternative raw material inputs to help mitigate such a large raw material price increase.
- **Stock View** – We reiterate our Hold (2S) rating on VSH as we believe margins have peaked & VSH will continue to face macro headwinds. We highlight the company's Tangible Book Value is \$9.77 as reported in the June quarter.
- **Earnings Report** –To be determined as VSH has not yet provided a date as of the time of this publication (past history has been a 3 week notification).

| EPS          | Q1           | Q2           | Q3           | Q4           | FY           | FC Cons      |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2010A</b> | 0.24A        | 0.40A        | 0.47A        | 0.48A        | 1.58A        | 1.58A        |
| <b>2011E</b> | <b>0.49A</b> | <b>0.50A</b> | <b>0.37E</b> | <b>0.37E</b> | <b>1.72E</b> | <b>1.66E</b> |
| Previous     | 0.49A        | 0.50A        | 0.37E        | 0.39E        | 1.74E        | na           |
| <b>2012E</b> | <b>0.37E</b> | <b>0.37E</b> | <b>0.37E</b> | <b>0.37E</b> | <b>1.48E</b> | <b>1.48E</b> |
| Previous     | 0.39E        | 0.39E        | 0.38E        | 0.38E        | 1.54E        | na           |
| <b>2013E</b> | <b>0.37E</b> | <b>0.37E</b> | <b>0.37E</b> | <b>0.37E</b> | <b>1.48E</b> | <b>1.45E</b> |
| Previous     | 0.39E        | 0.39E        | 0.38E        | 0.38E        | 1.54E        | na           |

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Figure 82. Summary of Recent Results and Outlook

|                                 | Revenue (\$MM) |             |        |            |             | Op.Margin |        | EPS     |             |         |            |             |
|---------------------------------|----------------|-------------|--------|------------|-------------|-----------|--------|---------|-------------|---------|------------|-------------|
|                                 | Comment        | Actual      | CIR    | First Call | Mgmt Est.   | Actual    | CIR    | Comment | Actual      | CIR     | First Call | Mgmt Est.   |
| VSH                             |                |             |        |            |             |           |        |         |             |         |            |             |
| Jun                             |                | 710         | 712    | 715        | \$695-\$735 | 16.80%    |        |         | 0.50        | 0.52    | 0.51       |             |
| %chg                            |                | 2.11%       | 2.42%  | 2.86%      |             |           |        |         | 2.04%       | 7.07%   | 5.01%      |             |
| SeptE                           |                | <div></div> | 641    | 641        | \$625-\$655 |           | 13.50% |         | <div></div> | 0.37    | 0.35       |             |
| %chg                            |                |             | -9.69% | -9.73%     |             |           |        |         |             | -25.3%  | -30.38%    |             |
| DecE                            |                |             | 627    | 624        | <div></div> |           | 13.80% |         |             | 0.37    | 0.35       | <div></div> |
| %chg                            |                |             | -2.2%  | 0.00%      |             |           |        |         |             | 0.0%    | 0.00%      |             |
| CY10                            | Slight Beat    | 2,725       | 2,717  | 2,704      |             | 15.3%     |        | Beat    | 1.58        | 1.56    | 1.54       |             |
| %chg                            |                | 33.4%       | 33.1%  | 32.4%      |             |           |        |         | 6401.1%     | 6337.2% | 6254.7%    |             |
| CY11E                           |                |             | 2,673  | 2,669      |             |           | 15.5%  |         |             | 1.72    | 1.66       |             |
| %chg                            |                |             | -1.9%  | -2.0%      |             |           |        |         |             | 9.2%    | 5.6%       |             |
| CY12E                           |                |             | 2,545  | 2,564      |             |           | 13.6%  |         |             | 1.48    | 1.35       |             |
| %chg                            |                |             | -4.8%  | -4.0%      |             |           |        |         |             | -14.0%  | -19.0%     |             |
| Denotes key investor focus item |                |             |        |            |             |           |        |         |             |         |            |             |

Source: Citi Investment Research and Analysis, Thomson One

Figure 83. Model Changes

|                              | Sept-11E |        | CY2011E  |          | CY2012E  |          | Comments  |
|------------------------------|----------|--------|----------|----------|----------|----------|---|
|                              | New      | Old    | New      | Old      | New      | Old      |   |
| Net Sales                    | \$ 641   | \$ 641 | \$ 2,673 | \$ 2,697 | \$ 2,545 | \$ 2,641 | Lowered sales outlook on soft end demand and inventory work |
| Sales Sequential Change      | -9.7%    | -9.7%  | -2%      | -1%      | -5%      | -2%      | down in distribution channel                                |
| Operating Margin             | 13.5%    | 13.5%  | 16%      | 16%      | 14%      | 14%      | No significant change                                       |
| Tax Rate                     | 27%      | 27%    | 27%      | 27%      | 27%      | 27%      |   |
| Core EPS                     | \$0.37   | \$0.37 | \$ 1.72  | \$ 1.74  | \$ 1.48  | \$ 1.54  | Lower on softer demand & sales outlook                      |
| Shares Outstanding - Diluted | 164.0    | 164.0  | 168.6    | 168.6    | 164.4    | 164.4    | No material change  |

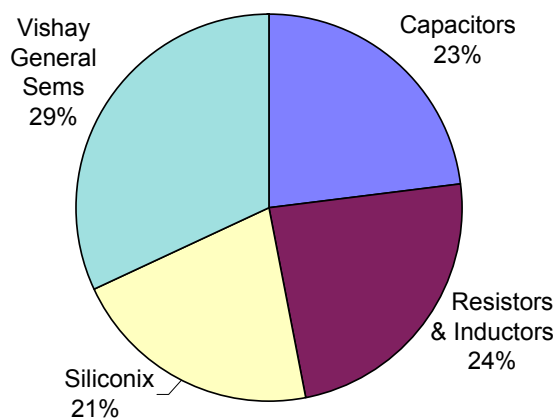
Source: Citi Investment Research and Analysis

Figure 84. VSH Business Segmentation

| Revenues (\$ millions) |       |        |        |        |       |
|------------------------|-------|--------|--------|--------|-------|
|                        | 2Q10  | 3Q10   | 4Q10   | 1Q11   | 2Q11  |
| Passive Components     | 339.7 | 298.0  | 323.0  | 334.0  | 333.6 |
| Capacitors             | 133.3 | 140.0  | 156.0  | 162.0  | 163.3 |
| Resistors & Inductors  | 153.4 | 158.0  | 167.0  | 172.0  | 170.4 |
| Active Components      | 361.5 | 396.4  | 366.0  | 360.0  | 376.2 |
| Siliconix              | 152.8 | 214.4  | 164.0  | 143.0  | 149.1 |
| Vishay General Sems    | 208.7 | 182.0  | 202.0  | 217.0  | 227.1 |
| Q/Q Change             |       |        |        |        |       |
|                        | 2Q10  | 3Q10   | 4Q10   | 1Q11   | 2Q11  |
| Passive Components     | 8.2%  | -12.3% | 8.4%   | 3.4%   | -0.1% |
| Capacitors             | 14.0% | 5.0%   | 11.4%  | 3.8%   | 0.8%  |
| Resistors & Inductors  | 3.0%  | 3.0%   | 5.7%   | 3.0%   | -1.0% |
| Active Components      | 10.9% | 9.6%   | -7.7%  | -1.6%  | 4.5%  |
| Siliconix              | 19.4% | 40.3%  | -23.5% | -12.8% | 4.2%  |
| Vishay General Sems    | 5.4%  | -12.8% | 11.0%  | 7.4%   | 4.7%  |
| Y/Y Change             |       |        |        |        |       |
|                        | 2Q10  | 3Q10   | 4Q10   | 1Q11   | 2Q11  |
| Passive Components     | 45.8% | 20.0%  | 5.9%   | 6.4%   | -1.8% |
| Capacitors             | 44.9% | 39.6%  | 27.9%  | 38.5%  | 22.4% |
| Resistors & Inductors  | 43.4% | 37.4%  | 14.4%  | 15.4%  | 11.0% |
| Active Components      | 59.0% | 43.1%  | 21.2%  | 10.4%  | 4.1%  |
| Siliconix              | 60.3% | 74.3%  | 32.3%  | 11.7%  | -2.4% |
| Vishay General Sems    | 58.1% | 18.2%  | 13.5%  | 9.6%   | 8.8%  |
| % of Sales             |       |        |        |        |       |
|                        | 2Q10  | 3Q10   | 4Q10   | 1Q11   | 2Q11  |
| Passive Components     | 41%   | 43%    | 47%    | 48%    | 47%   |
| Capacitors             | 19%   | 20%    | 23%    | 23%    | 23%   |
| Resistors & Inductors  | 22%   | 23%    | 24%    | 25%    | 24%   |
| Active Components      | 52%   | 57%    | 53%    | 52%    | 53%   |
| Siliconix              | 22%   | 31%    | 24%    | 21%    | 21%   |
| Vishay General Sems    | 30%   | 26%    | 29%    | 31%    | 32%   |

Source: Citi Investment Research and Analysis, Company Reports

Figure 85. VSH End Market Exposure as a Percent of Revenues



Source: Citi Investment Research and Analysis, Company Reports

**Figure 86. VSH Quarterly Income Statement and Balance Sheet (details and cash flow statement available upon request)**

| (\$ in millions, except per-share data) | CY<br>2008     | CY<br>2009     | 03/10<br>1Q  | 06/10<br>2Q  | 09/10<br>3Q  | 12/10<br>4Q  | CY<br>2010     | 03/11<br>1Q  | 06/11<br>2Q  | 09/11<br>3QE | 12/11<br>4QE | CY<br>2011E    | CY<br>2012E    | CY<br>2013E    |
|---|----------------|----------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|----------------|----------------|----------------|
| <b>Net Sales</b>                        | <b>2,822.2</b> | <b>2,042.0</b> | <b>640.5</b> | <b>701.7</b> | <b>694.4</b> | <b>688.6</b> | <b>2,725.1</b> | <b>695.2</b> | <b>709.8</b> | <b>641.1</b> | <b>627.2</b> | <b>2,673.3</b> | <b>2,545.4</b> | <b>2,586.6</b> |
| Change y/y (%)                          | -0.4%          | -27.6%         | 42.5%        | 52.4%        | 32.2%        | 13.5%        | 33.4%          | 8.5%         | 1.2%         | -7.7%        | -8.9%        | -1.9%          | -4.8%          | 1.6%           |
| Change q/q (%)                          | n/m            | n/m            | 5.5%         | 9.6%         | -1.0%        | -0.8%        | n/m            | 0.9%         | 2.1%         | -9.7%        | -2.2%        | n/m            | n/m            | n/m            |
| Cost of Goods Sold                      | 2,225.2        | 1,653.9        | 473.4        | 491.1        | 476.0        | 477.1        | 1,917.6        | 480.5        | 497.6        | 468.0        | 456.1        | 1,902.2        | 1,856.4        | 1,894.2        |
| <b>Gross Income</b>                     | <b>597.0</b>   | <b>388.2</b>   | <b>167.0</b> | <b>210.6</b> | <b>218.4</b> | <b>211.5</b> | <b>807.5</b>   | <b>214.7</b> | <b>212.2</b> | <b>173.0</b> | <b>171.2</b> | <b>771.1</b>   | <b>689.0</b>   | <b>692.4</b>   |
| Gross Margin                            | 21.2%          | 19.0%          | 26.1%        | 30.0%        | 31.5%        | 30.7%        | 29.6%          | 30.9%        | 29.9%        | 27.0%        | 27.3%        | 28.8%          | 27.1%          | 26.8%          |
| SG&A                                    | 455.4          | 359.2          | 101.9        | 109.3        | 87.5         | 90.9         | 389.5          | 92.5         | 92.8         | 86.4         | 84.5         | 356.1          | 342.9          | 348.5          |
| % of Net Sales                          | 16.1%          | 17.6%          | 15.9%        | 15.6%        | 12.6%        | 13.2%        | 14.3%          | 13.3%        | 13.1%        | 13.5%        | 13.5%        | 13.3%          | 13.5%          | 13.5%          |
| <b>Operating Income/EBIT</b>            | <b>141.6</b>   | <b>29.0</b>    | <b>65.1</b>  | <b>101.3</b> | <b>130.9</b> | <b>120.6</b> | <b>417.9</b>   | <b>122.2</b> | <b>119.4</b> | <b>86.7</b>  | <b>86.7</b>  | <b>415.0</b>   | <b>346.0</b>   | <b>343.9</b>   |
| Operating Margin                        | 5.0%           | 1.4%           | 10.2%        | 14.4%        | 18.9%        | 17.5%        | 15.3%          | 17.6%        | 16.8%        | 13.5%        | 13.8%        | 15.5%          | 13.6%          | 13.3%          |
| Interest Expense(Income)                | 24.3           | 10.3           | 2.4          | 2.4          | 2.5          | 3.7          | 11.0           | 4.1          | 4.6          | 5.1          | 5.2          | 19.0           | 21.2           | 21.9           |
| Non-operating Income (Expense)          | 14.6           | 9.8            | 0.0          | 6.0          | -4.7         | -2.7         | -1.4           | -0.5         | 0.0          | 2.3          | 2.5          | 4.2            | 11.1           | 13.2           |
| Nonrecurring Pretax Income (Expense)    | 0.0            | 0.0            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            |
| <b>Pretax Income</b>                    | <b>131.9</b>   | <b>28.5</b>    | <b>62.7</b>  | <b>104.9</b> | <b>123.6</b> | <b>114.3</b> | <b>405.5</b>   | <b>117.6</b> | <b>114.7</b> | <b>83.8</b>  | <b>84.0</b>  | <b>400.2</b>   | <b>335.9</b>   | <b>335.2</b>   |
| Pretax Margin                           | 4.7%           | 1.4%           | 9.8%         | 14.9%        | 17.8%        | 16.6%        | 14.9%          | 16.9%        | 16.2%        | 13.1%        | 13.4%        | 15.0%          | 13.2%          | 13.0%          |
| Income Tax Expense                      | 33.7           | 23.2           | 17.1         | 27.9         | 33.5         | 26.2         | 104.7          | 32.0         | 29.8         | 22.6         | 22.6         | 107.0          | 90.5           | 90.3           |
| Tax Rate                                | 26%            | nm             | 27%          | 27%          | 27%          | 23%          | 26%            | 27%          | 26%          | 27%          | 27%          | 27%            | 27%            | 27%            |
| Minority Interest                       | -1.0           | 0.7            | 0.2          | 0.3          | 0.4          | 0.3          | 1.2            | 0.3          | 0.4          | 0.4          | 0.4          | 1.4            | 1.4            | 1.5            |
| <b>Net Income (before charges)</b>      | <b>99.1</b>    | <b>4.6</b>     | <b>45.4</b>  | <b>76.7</b>  | <b>89.8</b>  | <b>87.7</b>  | <b>299.6</b>   | <b>85.3</b>  | <b>84.6</b>  | <b>60.9</b>  | <b>61.0</b>  | <b>291.7</b>   | <b>243.9</b>   | <b>243.4</b>   |
| Net Margin                              | 3.5%           | 0.2%           | 7.1%         | 10.9%        | 12.9%        | 12.7%        | 11.0%          | 12.3%        | 11.9%        | 9.5%         | 9.7%         | 10.9%          | 9.6%           | 9.4%           |
| <b>EBITDA</b>                           | <b>351.6</b>   | <b>249.0</b>   | <b>115.6</b> | <b>150.2</b> | <b>175.4</b> | <b>167.5</b> | <b>608.7</b>   | <b>167.6</b> | <b>165.5</b> | <b>132.8</b> | <b>132.8</b> | <b>598.7</b>   | <b>530.4</b>   | <b>528.3</b>   |
| EBITDA Margin                           | 12.5%          | 12.2%          | 18.0%        | 21.4%        | 25.3%        | 24.3%        | 22.3%          | 24.1%        | 23.3%        | 20.7%        | 21.2%        | 22.4%          | 20.8%          | 20.4%          |
| Core Operating Net EPS - Basic          | 0.53           | 0.02           | 0.24         | 0.41         | 0.48         | 0.50         | 1.64           | 0.52         | 0.53         | 0.39         | 0.39         | 1.82           | 1.55           | 1.55           |
| <b>Core Operating Net EPS - Diluted</b> | <b>0.52</b>    | <b>0.02</b>    | <b>0.24</b>  | <b>0.40</b>  | <b>0.47</b>  | <b>0.48</b>  | <b>1.58</b>    | <b>0.49</b>  | <b>0.50</b>  | <b>0.37</b>  | <b>0.37</b>  | <b>1.72</b>    | <b>1.48</b>    | <b>1.48</b>    |
| One-Time Items                          | -10.02         | -0.33          | 0.00         | 0.00         | 0.00         | 0.00         | 0.00           | 0.00         | -0.01        | 0.00         | 0.00         | -0.01          | 0.00           | 0.00           |
| GAAP Reported EPS - Basic               | -9.49          | -0.31          | 0.24         | 0.41         | 0.48         | 0.50         | 1.63           | 0.52         | 0.51         | 0.39         | 0.39         | 1.81           | 1.56           | 1.55           |
| GAAP Reported EPS - Diluted             | -9.50          | -0.32          | 0.24         | 0.40         | 0.47         | 0.48         | 1.58           | 0.49         | 0.48         | 0.37         | 0.37         | 1.71           | 1.48           | 1.48           |
| Average Shares Outstanding - Basic      | 186.4          | 186.6          | 186.6        | 186.7        | 186.6        | 174.3        | 183.6          | 165.2        | 160.8        | 157.0        | 157.1        | 160.0          | 157.4          | 157.4          |
| Average Shares Outstanding - Diluted    | 189.0          | 188.2          | 193.1        | 193.1        | 193.1        | 181.5        | 190.2          | 175.7        | 170.6        | 164.0        | 164.1        | 168.6          | 164.4          | 164.4          |
| Cash and Cash Equivalents               | 324            | 579            | 613          | 604          | 745          | 897          | 897            | 1,008        | 1,007        | 1,100        | 1,140        | 1,140          | 1,381          | 1,622          |
| Net Receivables                         | 311            | 284            | 325          | 328          | 350          | 331          | 331            | 339          | 345          | 312          | 305          | 305            | 310            | 315            |
| Inventories                             | 538            | 435            | 443          | 406          | 426          | 428          | 428            | 460          | 476          | 442          | 430          | 430            | 439            | 448            |
| Deferred Income Taxes                   | 15             | 17             | 18           | 12           | 16           | 32           | 32             | 33           | 33           | 32           | 32           | 32             | 32             | 32             |
| Pre-paid expenses/other                 | 140            | 92             | 103          | 98           | 110          | 107          | 107            | 115          | 141          | 136          | 135          | 135            | 136            | 137            |
| <b>Total Current Assets</b>             | <b>1,329</b>   | <b>1,408</b>   | <b>1,501</b> | <b>1,446</b> | <b>1,647</b> | <b>1,795</b> | <b>1,795</b>   | <b>1,956</b> | <b>2,002</b> | <b>2,022</b> | <b>2,042</b> | <b>2,042</b>   | <b>2,298</b>   | <b>2,553</b>   |
| Net PP&E                                | 1,162          | 1,010          | 967          | 882          | 902          | 912          | 912            | 913          | 906          | 911          | 942          | 942            | 938            | 933            |
| Goodwill                                | 178            | 154            | 146          | 123          | 119          | 114          | 114            | 111          | 107          | 107          | 107          | 107            | 107            | 107            |
| Other Assets                            | 147            | 148            | 141          | 103          | 93           | 146          | 146            | 139          | 143          | 138          | 137          | 137            | 138            | 138            |
| <b>Total Assets</b>                     | <b>2,816</b>   | <b>2,720</b>   | <b>2,755</b> | <b>2,555</b> | <b>2,762</b> | <b>2,966</b> | <b>2,966</b>   | <b>3,119</b> | <b>3,157</b> | <b>3,178</b> | <b>3,228</b> | <b>3,228</b>   | <b>3,480</b>   | <b>3,732</b>   |
| Short-term Borrowings                   | 11             | 0              | 0            | 0            | 0            | 0            | 0              | 1            | 0            | 0            | 0            | 0              | 0              | 0              |
| Accounts Payable                        | 105            | 118            | 118          | 127          | 136          | 168          | 168            | 167          | 184          | 173          | 169          | 169            | 172            | 176            |
| Payroll and related expenses            | 118            | 88             | 99           | 101          | 116          | 122          | 122            | 113          | 119          | 115          | 115          | 115            | 115            | 116            |
| Other accrued expenses                  | 190            | 162            | 181          | 178          | 184          | 186          | 186            | 184          | 171          | 165          | 164          | 164            | 165            | 166            |
| Income Taxes Payable                    | 25             | 24             | 31           | 33           | 48           | 51           | 51             | 74           | 60           | 58           | 58           | 58             | 58             | 59             |
| Current Portion of Long-Term Debt       | 13             | 16             | 53           | 78           | 77           | 0            | 0              | 0            | 0            | 0            | 0            | 0              | 0              | 0              |
| <b>Total Current Liabilities</b>        | <b>462</b>     | <b>408</b>     | <b>482</b>   | <b>518</b>   | <b>560</b>   | <b>527</b>   | <b>527</b>     | <b>538</b>   | <b>534</b>   | <b>512</b>   | <b>505</b>   | <b>505</b>     | <b>511</b>     | <b>516</b>     |
| Long-Term Debt                          | 334            | 320            | 281          | 233          | 222          | 432          | 432            | 432          | 422          | 422          | 422          | 422            | 422            | 422            |
| Deferred Taxes                          | 19             | 13             | 14           | 12           | 12           | 82           | 82             | 82           | 120          | 116          | 115          | 115            | 116            | 116            |
| Deferred Income                         | 3              | 3              | 2            | 2            | 3            | 3            | 3              | 3            | 2            | 2            | 2            | 2              | 2              | 2              |
| Minority Interest                       | 5              | 0              | 0            | 0            | 0            | 0            | 0              | 0            | 0            | 0            | 0            | 0              | 0              | 0              |
| Other Liabilities                       | 123            | 153            | 149          | 128          | 134          | 134          | 134            | 137          | 133          | 129          | 128          | 128            | 129            | 129            |
| Accrued Pension Costs                   | 325            | 302            | 287          | 267          | 279          | 291          | 291            | 298          | 298          | 289          | 287          | 287            | 288            | 290            |
| <b>Total Liabilities</b>                | <b>1,271</b>   | <b>1,198</b>   | <b>1,215</b> | <b>1,160</b> | <b>1,210</b> | <b>1,469</b> | <b>1,469</b>   | <b>1,489</b> | <b>1,510</b> | <b>1,471</b> | <b>1,460</b> | <b>1,460</b>   | <b>1,468</b>   | <b>1,476</b>   |
| Total Shareholders' Equity              | 1,545          | 1,522          | 1,540        | 1,395        | 1,552        | 1,497        | 1,497          | 1,629        | 1,646        | 1,707        | 1,768        | 1,768          | 2,012          | 2,255          |
| <b>Total Liab/Shareholders' Equity</b>  | <b>2,816</b>   | <b>2,720</b>   | <b>2,755</b> | <b>2,555</b> | <b>2,762</b> | <b>2,966</b> | <b>2,966</b>   | <b>3,119</b> | <b>3,157</b> | <b>3,178</b> | <b>3,228</b> | <b>3,228</b>   | <b>3,480</b>   | <b>3,732</b>   |

Source: Citi Investment Research and Analysis

## Amphenol Corp

### Company description

Amphenol is a leading manufacturer of electronic and electrical interconnect products and assemblies, and fiber optics. In 2009, Amphenol was the second-largest global connector company and the second-largest producer of coaxial cable for the cable TV market. Based in Wallingford, Connecticut, it has ~20,000 employees and 128 facilities worldwide with <30% of its operations in the U.S. and >70% internationally. Amphenol had \$2.8B in annual sales in 2009 and \$3.6B (+26% Y/Y) in 2010. It sells products to over 10,000 customer locations with no single customer accounting for more than 7% of total sales. Customers include: Samsung, Cisco, Dell, IBM, HP, Motorola, Lucent, Nortel, Maxtor, Bosch, Comcast, Verizon, Nokia, Delphi, Rockwell, Airbus, and Lockheed Martin. Sales by end market include: wireless/telecom/datacom 50%, broadband 8%, military/aerospace 21%, industrial 13% and auto 8%.

### Investment strategy

We rate Amphenol shares Buy/Medium Risk (1M) as we believe EMS and connector investors will increasingly focus not only on revenue and earnings growth but also on ROIC and favorable capital deployment. Our positive view on the shares is attributed to our belief that Amphenol will connect these through the following: 1) Above Near Term Average Industry Growth; 2) Good defensive business model that is less exposed to consumer goods and will hold up better in a downturn; 3) ROIC Exceeds WACC -- Amphenol recently posted a 18% ROIC (likely to improve given recently cost saving programs) compared to its WACC of 11%. We believe Amphenol's ROIC will remain above its WACC; 4) Dividends Likely to Continue -- Amphenol introduced its first dividend in April 2005, at \$0.12 per year (\$0.06 per year post stock split). Plenty of cash on hand and expected strong free cash flow in 2011 could continue to fund acquisitions, share repurchases and dividends; 5) Properly Aligned Manufacturing Footprint -- The company has >75% of its headcount in low-cost jurisdictions, with most high-cost U.S. facilities dedicated to military/aerospace with above corporate average margins; and 6) Good Acquisition Integration -- Amphenol has a strong history of seamless acquisition integration.

### Valuation

Our target price on APH is \$53.00. We believe the EMS and connector stocks as a whole should trade more closely with S&P Industrial multiples rather than their own 5-10 year historical averages. Historically, we find the S&P Industrials have traded in a forward PE range of 12-24x with a mid cycle of 17x and current multiple of 11.4x.

Our P/E valuation methodology begins by using the S&P current industrial P/E of 11.4x that we adjust for individual company premiums or discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the industrial mid cycle multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions.

For Amphenol the scorecard is as follows: revenue outlook 0 (strong but not as high as others in our coverage), customer segment & concentration risk 0, ROIC>WACC +1, quality of earnings & special charges +1, management & shareholders focus &



corporate governance 0 (no active stock buy back), trading liquidity +1, and balance sheet and cash flow strength 0 (fair amount of debt). We employ this scorecard across all our covered companies.

Using the scorecard as a guide, in light of the +3 result, we estimate that APH warrants a 30% premium valuation from the S&P Industrial multiple of 11.4x. From this, and our next 12 months' EPS estimates rolled forward from 3Q'12, we derive a target of \$53.00 ( $11.4 \times 130\% \times \$3.55 = \$52.6$ , rounded to \$53). For reference, APH has historically traded at a median of 18x during the last 15 years with a range of 10-22x forward 12-month earnings.

## Risks

We rate Amphenol Medium Risk primarily due to the stock's volatility (beta of 1.09 vs. the S&P 500) using a 2-year weekly measurement and the volatility of the EMS and highly fragmented connector industry. In addition to these, we have also incorporated other factors such as earnings stability, credit rating (investment grade), interest coverage (22x is strong), free cash flow (\$3/share CY2009 or free cash flow yield of 7%), and uses of cash (acquisitions, dividends, stock repurchases). Risks to the stock achieving our valuation target include: 1) a general economic slowdown (globally or in key markets) more severe than current expectations; 2) a slowdown in tech spending beyond current expectations; 3) increase in raw material prices that could pressure the company's ability to meet and exceed earnings estimates; 4) The company has actively acquired small tuck-in acquisitions (\$125m in 2010, \$313m in 2009, \$200m in 2008, \$45m in 2007, \$490 million in 2005 and \$42 million in 2004). Given the highly fragmented connector industry and synergies from larger scale operations, we expect this trend will likely continue and believe our estimates and positive outlook would be at risk if it does not; 5) a reduction or elimination of the company's dividend payment program; 6) there can be no assurance of the collectability of the factored receivables that do have several covenants (recourse). Deterioration in the quality of receivables could impact the company's cash flow generation; and 7) if the company needs to tap the debt market, this could result in a higher interest rate. If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price; 8) slowdown in defense spending as APH has significant exposure to this high margin segment.

## Arrow Electronics Inc

### Company description

Arrow Electronics, Inc (ARW) is a leading global distributor of electronics components and computer products and in 2010 was the second-largest global distributor of such products in terms of revenue. Arrow is headquartered in Melville, New York, and has about 11,000 employees in more than 270 global locations. Arrow has about 600 suppliers (we believe Altera is Arrow's largest supplier at 5%–6% of total supplies) and more than 130,000 customers with no single customer representing more than 10% of sales. Sales by geography: 51% Americas, 32% Europe/EMEASA, and 17% Asia/Pacific. Arrow has two business segments: Electronics Components (EC) at 71% of sales and Computer Products (CP) at 29% of sales.



## Investment strategy

We have a Buy/ High Risk (1H) rating on ARW shares as we believe the company will continue to benefit from the current, positive pricing environment given long lead times and component shortages. The company's restructuring efforts & back office efficiency gains (i.e. ERP roll-out) have improved profitability, especially as end-demand trends have stabilized and look to be improving. Finally, continued cash generation, lack of need for debt/equity funding, additional share buybacks & industry consolidation opportunities should create positive incremental returns for shareholders.

## Valuation

Our target price for Arrow Electronics is \$41.00. We believe the distributor, EMS, connector, and passive stocks as a whole should trade more closely with the S&P Industrial multiples with individual adjustments (discounts or premiums) rather than their own five- to ten-year historical averages. At current levels, the S&P Industrials are trading at 11.4x FTM EPS estimates, based on CIRA estimates.

Our P/E valuation methodology begins by using the S&P industrial P/E that we adjust for individual company premiums or discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the industrial multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions.

For Arrow, the scorecard is as follows: revenue outlook -1 (strong organic growth rebound follow the recession built into expectations and forward organic growth likely minimal with a focus on M&A), customer segment & concentration risk -1 (boosted profitability from supply chain shortages likely at peak across all segments), ROIC>WACC 0, quality of earnings & special charges -1 (lots of charges), management & shareholders focus & corporate governance -1 (no dividend and minimal stock buy back is primarily to offset management stock dilution but not a meaningful stock buy back), trading liquidity +1 (trades 950,000 shares per day), and balance sheet & cash flow strength 0. We employ this scorecard across all our covered companies.

Using the scorecard as a guide, in light of the -3 result, we estimate that Arrow warrants a 30% discount to the current industrial multiple of 11.4x. From this, and our rolling FTM EPS estimate (Sept 2012 through June 2013) of \$5.10, we derive a target price of \$41.00 ( $\$5.10 \times 70\% \times 11.4 = \$40.70$ , rounded to \$41.00).

## Risks

We rate Arrow High Risk as our concerns over supply chain inventory growth exceeding sales outlook have been resolved due to EMS inventory work down as well as acquisition integration progress which reduces the risk of the company's earnings. Risks that could prevent the company from obtaining our target price include the potential for government and corporate spending slowdown beyond current expectations, the company's practice of not employing a dividend despite positive free cash flow generation, and a failure of the company to realize the benefits already announced cost savings initiatives. In addition, we have also incorporated other factors such as earnings stability, the stock's volatility (beta of 1.15 vs. the S&P 500), credit rating (BBB), interest coverage (~9.9x is strong), significant cash position (~\$7.85/share 2010), and uses of cash (acquisitions likely, no dividends).

## Avnet Inc

### Company description

Avnet Inc (AVT) is a leading global distributor of electronics components and computer products, and in 2010 it was the largest global distributor of such products in terms of revenue. Avnet is headquartered in Phoenix, AZ and has ~10,900 employees in over 275 global locations. Avnet has ~300 and >100,000 customers. Sales by geography: ~42% Americas, 33% Europe/EMEASA, and 25% Asia/Pacific. Avnet has two business segments: Electronics Marketing (EM) representing 57% of total sales and Technology Solutions (TS) representing 43% of total sales over the last twelve months.

### Investment strategy

We have a Buy rating on AVT shares given the company's continued restructuring efforts (which should help offset a sluggish demand environment), continued cash generation, lack of need for debt or equity funding, & industry consolidation opportunities.

### Valuation

Our target price for Avnet is \$34.00. We believe the distributor, EMS, connector, and passive stocks as a whole should trade more closely with the S&P Industrial multiples with individual adjustments (discounts or premiums) rather than their own 5-10 year historical averages. At current levels, the S&P Industrials are trading at 11.4x FTM EPS estimates.

Our P/E valuation methodology begins by using the S&P industrial P/E that we adjust for individual company premiums or discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the industrial multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions.

For Avnet the scorecard is as follows: revenue outlook -1, customer segment & concentration risk -1 (boosted profitability from supply chain shortages likely at peak across all segments), ROIC>WACC 0, quality of earnings & special charges -1, management & shareholders focus & corporate governance -1 (no dividend and recently introduced stock buy back and we look to see if more aggressive than simply offsetting management stock dilution), trading liquidity +1, and balance sheet & cash flow strength 0. We employ this scorecard across all our covered companies.

Using the scorecard as a guide, in light of the -3 result, we estimate that Avnet warrants a 30% discount to the current industrial multiple of 11.4x. From this, and our FTM EPS estimate of \$4.27 from Sept 12 – June 12, we derive a target of \$34.00 ( $\$4.27 \times 11.4 \times 70\% = \$34.07$  rounded to \$34.00).

### Risks

We rate Avnet High Risk as our concerns over supply chain inventory growth exceeding sales outlook have been resolved due to EMS inventory work-down as well as acquisition integration progress which reduces the risk of the company's earnings. We also note Avnet typically does several acquisitions per year thereby

resulting in integration risk and currently the company is in the process of acquiring and integrating its largest acquisition ever (Bell). Risks that could also prevent the company from obtaining our target price include the potential for government and corporate spending slowdown beyond current expectations, the company's practice of not employing a dividend or stock buyback program despite positive free cash flow generation, and a failure of the company to realize the benefits already announced cost savings initiatives. In addition to these, we have also incorporated other factors such as earnings stability, the stock's volatility (beta of 1.3 vs. the S&P500), credit rating (BBB-), interest coverage (roughly 12x is strong), free cash flow (\$6.90/share in 2009), and uses of cash (acquisitions likely, no dividends, no stock repurchases).

## AVX Corp

### Company description

AVX Corp. manufactures and sells passive electronic components around the world with products that include ceramic and tantalum capacitors, film and power capacitors, and resistors. The company is controlled by Kyocera (Japanese electronic conglomerate of electronic components and electronic goods) that owns 70% of the company. AVX also distributes some of Kyocera's products as well as small amount connectors both of which help the company with a broader offering of products. AVX sales are approximately: 64% AVX Passive Components, 26% Kyocera Electronic Devices Resale, and 11% AVX Connectors. Headquartered South Carolina, AVX was founded in 1972, joined the Kyocera group in 1990, and became a publicly traded company in 1995. It has 20 manufacturing facilities in 12 countries. Its end markets are computers 12%, consumer 11%, wireless 13%, telecom 15%, industrial 16%, auto 18%, military 5%, medical 6%, and other 5%.

### Investment strategy

We rate AVX Hold/High Risk as we believe that at current valuation levels, shares fully reflect the benefits from more stable end markets, recent restructuring efforts, product diversification, but a more aggressive raw material pricing environment could be a headwind. We could become more constructive on the stock at a lower price or if the company's restructuring and product diversification efforts prove more successful than current expectations. We would become less constructive on shares should end demand prove less robust than currently expected, leading to falling utilization rates and negative operating leverage, or if industry supply/demand dynamics lead to more acute pricing pressure than currently anticipated.

### Valuation

Our target price for AVX is \$12.50 and is derived by using an earnings multiple framework while giving the company credit for its roughly \$5.70 in net cash and investments.

From an earnings multiple perspective, we believe the EMS, connector, and passive stocks should trade more closely with the S&P Industrial cycle rather than their own 5-10 year historical averages. Historically, we find the S&P Industrials have traded in a P/E range of 11-23x with a mid cycle of 17x and are currently trading at 10.6x.

Our P/E valuation methodology begins by adjusting for individual company premiums or discounts to the S&P500 Industrial multiple based on scorecard analysis. We currently use +/- 10% as a guidepost for each of the seven factors that

we believe have a material impact on valuations, but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions.

AVX's scorecard is as follows: Revenue Outlook -1 (as a very favorable outlook is currently baked into the model), Customer Segment & Concentration Risk -1 (risk of materially high tantalum pricing in 2011 which is 50% of COGS for the company's tantalum products which are 25% of total sales), ROIC<WACC -1 (not a consistent record of ROIC > WACC but the company has made meaningful improvements), Quality of Earnings & Special Charges 0, Management & Shareholder Focus & Corporate Governance -1 (70% owned by Kyocera), Trading Liquidity -1 (<300k shares traded daily on average), and Balance Sheet Strength & Cash Flow Strength +1 (very strong cash flow and balance sheet with no debt). We employ the scorecard across all our covered companies.

Using the scorecard as a guide, in light of the -4 result, we estimate that AVX warrants a 40% discount to the current industrial multiple for its earnings stream. We thus assign \$6.79 in value to AVX shares from this earnings stream using our Sept 12 through June 13 EPS estimate of \$1.07 (EPS of \$1.12 less \$0.05 in interest income per share). That is to say,  $\$1.07 \times 10.6 \times 60\% = \$6.79$  (rounded). We add \$5.68 in value for the company's net cash and investments position to the \$6.79 in value derived from the earnings stream, allows us to arrive at a twelve month target price of \$12.50.

## Risks

We rate AVX Corporation High Risk primarily due to the company's lack of pricing power. AVX stock has a beta of 0.9 vs. the S&P 500 using a 3-year weekly measurement. In addition, we have also incorporated other factors such as earnings stability, no debt, \$5.70 of cash and investments per share, free cash flow (\$1/share CY2010 is positive but not robust), and uses of cash (annual dividend of \$0.22 per share (or approximately 1% div yield)). Risks we see to the stock achieving our valuation target include the following: 1) AVX is likely to use some of its cash for an acquisition which could add integration risk to the company; 2) Capacity additions to the industry could product pricing; 3) Kyocera relationship; 4) Economic slowdown or expansion; 5) Currency fluctuations up or down; and 6) Raw material price changes. The impact on the company from any of these factors could cause the stock to trade above/below our target price.

## Benchmark Electronics Inc

### Company description

Benchmark Electronics is a leading provider of electronics manufacturing services to the enterprise computer, telecommunications, medical device, industrial control, and testing and instrumentation markets. Benchmark is a global manufacturer with facilities located in North America, South America, Europe, and Asia. Benchmark's customers rely on Benchmark to manufacture technologically complex products, including telecommunications equipment, high-capacity computer storage devices, and fault-tolerant computer servers. The company's largest customers are IBM (~10% of sales), EMC (~8-9%), Medtronic and AMAT. Sales by end markets include: 28% high-end computing, 10% medical, 28% industrial, 23% telecom, and 11% test and instrumentation.

## Investment strategy

We rate the shares of Benchmark Electronics Sell/Speculative Risk (3S) given our view that while the company benefitted from the EMS industry four phase cycle framework - a phase in which trends turn more positive for incremental outsourcing & end market demand - this good news is already priced into shares. We were discouraged by recent order trends & size of announced business wins, and believe long-term profitability targets may be difficult to hit given current product mix. Finally, we see risk in additional acquisitions given the company's poor track record of M&A integration.

## Valuation

Our target price for BHE is \$10.50 (rounded) and is based on P/E. We believe the EMS and connector stocks as a whole should trade closely with S&P Industrials rather than their own 5-10 year historical averages.

Our P/E valuation methodology begins by using the current S&P industry P/E of 10.6x that we adjust for individual company premiums or discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the current industrial multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuation, but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change, depending on market and industry conditions.

For BHE, the scorecard is as follows: Revenue Outlook -1, Customer Segment & Concentration Risk 0, ROIC<WACC -1, Quality of Earnings & Special Charges -1, Management & Shareholders Focus & Corporate Governance 0, Trading Liquidity -1, and Balance Sheet & Cash Flow Strength +1. We employ this scorecard across all our covered companies.

Using the scorecard as a guide, in light of the -3 result, we estimate BHE warrants a 30% discount to the current industrial multiple of 10.6x. From this, and our Sept12-June13 EPS estimate, we derive a target of \$10.50 (rounded). For reference, BHE has historically traded at a median of 16x during the last 10 years with a range of 9-33x forward 12-month earnings.

## Risks

We rate Benchmark Electronics Speculative Risk primarily due to the stock's volatility (beta of 1.3 vs. the S&P 500) using a 3-year weekly measurement and the volatility of the EMS and fragmented EMS industry. In addition to these, we have incorporated other factors such as earnings stability, free cash flow, and uses of cash (active stock buyback program but no dividends). Risks to the stock achieving our valuation target include the following: 1) A general economic recovery better than current expectations (globally or in key markets); 2) Better than expected growth in secular outsourcing which could cause higher utilization rates, better margins, and improved earnings quality; 3) Further revenue diversification that moves the company away from high end computing; 4) Acquisition integration; and 5) Uses of excess cash for acquisitions. If the impact on the company from any of these factors proves to be greater or less than we anticipate, the stock may have difficulty achieving our target price or may trade above our target price.

## Celestica Inc

### Company description

Celestica is the fourth-largest EMS company in the world in terms of calendar 2009 revenue. It provides OEMs with complex printed circuit board assembly, full system assembly and integration, test, material management, logistics, and distribution. It also provides advanced design, engineering and supply chain management services, and it manufactures memory and power products. Currently, three customer accounted for greater than 10% of the company's business, including Research In Motion (19%), Oracle and Cisco. Other top customers include IBM, HPQ, ALU and Juniper. Sales by end-market: 25% enterprise, 9% telecom, 17% Server, 25% Consumer, 13% Industrial/Defense/Aerospace, and 11% Storage. Originally an IBM manufacturing unit, Celestica was carved out in October 1996 and purchased by an investor group that included Celestica's management. It went public in June 1998 and grew rapidly, but it was slow to begin restructuring after the tech boom.

### Investment strategy

We rate shares of CLS 3S (Sell, Speculative rating) given Celestica has significant customer concentration risk with RIMM at 19% of sales in the recent quarter. We believe disappointing unit sales & outlook at RIMM will present a significant headwind for Celestica. We could become more constructive on shares at a lower price and/or if the company is able to generate sustainable revenue, margin and EPS growth rates over the next 12-18 months.

### Valuation

Our target price on Celestica is \$6.50 (rounded). We believe the EMS stocks should trade closely with S&P Industrials, rather than their own 5-10 year historical averages.

Our PE valuation methodology begins by using the current S&P industry FTM PE multiple of 10.6x, which we adjust for individual company premiums/discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the industrial mid-cycle multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations, but note that the 10% increments, weights of each factor (currently equal-weighted), and individual factors may change depending on market and industry conditions.

Celestica scorecard is as follow: Revenue Outlook 0 (previously +1, but see headwinds at major customer RIMM), Customer Segment & Concentration Risk -1, ROIC < WACC 0, Quality of Earnings and Special Charges -1, Management and Shareholders Focus and Corporate Governance 0 (previously -1), Trading Liquidity -1, and Balance Sheet and Cash Flow Strength 0. We employ this scorecard across all our covered companies.

Using this scorecard as a guide, in light of the -3 result, we estimate that Celestica warrants a 30% discount to the current industrial multiple of 10.6x. From this and our FTM EPS estimates rolled forward from September 2012, we derive a \$6.50 (rounded) target price. We are including stock compensation costs and amortization as we view these as real economic costs to the company; we note consensus does not include these items. For reference, the company has historically traded at a median of 14.6x over the last ten years, with a range of 6-90x forward 12-month earnings.



## Risks

We rate Celestica shares Speculative, due to the high customer concentration risk with RIMM at 19% of sales, stock's volatility (beta of 1.5 vs. the S&P 500) using a two-year weekly measurement and the volatility of the EMS sector as well as other factors such as earnings stability which has a history of inconsistency during the past few years but has improved. Risks to the stock achieving our valuation target include: 1) if RIMM new products ramp and see widespread adoption there could be upside to our sales estimates and earnings; 2) if a general economic recovery is better than expected (globally or in key markets) or eventual improvement in end demand occurs, it could be incrementally positive for CLS; 3) an increase in outsourcing trends beyond expectations; and 4) the magnitude and timing of the company's restructuring efforts (if they go better than we expect, the shares could exceed our target price). If the impact on the company from any of these factors proves to be greater than we anticipate, the stock may exceed our target price.

## Flextronics International Ltd

### Company description

Flextronics is the world's second largest EMS company, and we believe it is among the lowest-cost producer in the industry, primarily due to its dominant presence in newly industrialized nations, such as China, Hungary, Mexico, and Poland. Leading customers include Hewlett Packard (>10%), Research-in-Motion (~9%), Cisco (~9%), Ericsson, Huawei, Oracle (Sun), Xerox, Alcatel-Lucent, Lenovo, Dell, Sony-Ericsson, Microsoft, and Motorola. Flextronics services encompass virtually every aspect of the manufacturing process, including product design and other front-end engineering services; printed circuit board fabrication and assembly; enclosure fabrication and plastic injection molding; materials procurement; inventory management; and final system assembly, testing, and end-customer fulfillment. Sales by end markets include 37% Integrated Network Solutions, 15% Industrial & Emerging Industries, 7% High Reliability Solutions and 41% High Velocity Solutions.

### Investment strategy

We rate FLEX 2S (Hold, Speculative) as our positive stance on an improving end-demand cycle is tempered by FLEX's customer concentration and riskiness to 2011 customer forecasts. Top FLEX customers include RIMM (~9%), Cisco (~9%) and HPQ (>10%). In addition, we believe the margin improvement story of the last two years is largely played out. We would become more positive on the shares at a lower price or with improvement by key customers and end-demand.

### Valuation

Our \$6.00 target price for Flextronics is based on P/E. We believe EMS stocks should trade closely with the S&P Industrial cycle rather than their own 5-10 year historical averages.

Our P/E valuation methodology begins by using the current S&P industry P/E of 10.6x that we adjust for individual company premiums or discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the current industrial multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuation, but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change, depending on market and industry conditions.

For Flextronics, the scorecard is as follows: Revenue Outlook 0, Customer Segment and Concentration Risk -1 (RIMM is ~9% total sales & HP >10%), ROIC > WACC - 1 (big write offs in the past & current exclusions of stock comp, amortization, and other items inflate the company's ROIC calculations), Quality of Earnings and Special Charges -1 (excludes stock comp, amortization, and other items), Management and Shareholders Focus and Corporate Governance 0 (yes a stock buy back but no dividend), Trading Liquidity +1, and Balance Sheet and Cash Flow Strength 0. We employ this scorecard across all our covered companies.

Using the scorecard as a guide, in light of the -2 result, we estimate Flextronics warrants a 20% discount to the current industrial multiple of 10.6x. From this and our forward 12 month estimate estimates one year from now (Sept 2012- June 2013 as one year from now investors will be looking ahead 12 months) we derive our \$6.00 target. We note that while FirstCall consensus does not include stock compensation or amortization costs for Flextronics at the current time, we include stock compensation expense and amortization of \$0.16 per year in our target price. This results in Sept 12- June 13 EPS of \$0.88 less stock comp and amortization of \$0.16 =  $\$0.72 \times (10.6 \times 80\%) = \$6.11$  (rounded to \$6.00). For reference, Flextronics has historically traded at a median of 14.7x over the last 10 years, with a range of 3-33x forward 12-month earnings.

## Risks

We rate Flextronics Speculative Risk due to the company's vertical exposure which experiences large swings of both positive and negative leverage through the economic cycle. Other reasons for Flextronics' High Risk rating are primarily due to the stock's volatility (beta of 1.8 versus the S&P 500) using a three-year weekly measurement and the volatility of the EMS sector. In addition to these, we have also incorporated other factors, such as customer concentration, earnings stability, credit rating, interest coverage, free cash flow, and uses of cash. Risks to the stock achieving our target price include the following: 1) A general economic slowdown (globally or in key markets) worse than current expectations; 2) a tech spending slowdown; 3) Sluggish growth in secular outsourcing, which could cause low utilization rates and poor margins could trigger further restructuring and poor quality of earnings; 4) Success of ODM offering; 5) Acquisition integration; and 6) Currency fluctuations. If the impact on the company from any of these factors proves to be greater/less than we anticipate, the stock may have difficulty achieving our target price or trade above our target price.

## Jabil Circuit Inc

### Company description

Jabil Circuit is a leading global provider of EMS products and services and is the third-largest contract manufacturer in the world. Its offerings include design, engineering, and manufacturing solutions for OEMs, as well as after-market service and repair. 40% of sales are from Diversified Manufacturing Services, which includes Healthcare & Instrumentation 9%, Industrial & Clean Tech 13% and Specialized Services 18%. Enterprise & Infrastructure represents 32% and High Velocity Systems represent 28%. Jabil has two customers over 10% of revenue customers including Cisco (15% sales) and Research in Motion (15% sales) with HP near the 10% level. The company has a unique work-cell approach to its customers, under which it assigns a worldwide project manager for each customer, who essentially owns, launches, manages, and assumes the risk and rewards for the customer manufacturing relationship.



## Investment strategy

We rate JBL 2S (Hold, Speculative Risk) given increased customer concentration and risk to 2012 end-demand outlooks. Top customers include Cisco (15%), HP (<10%) and RIMM (15%). We believe Jabil is ramping iPhone production for Apple and as a result should see significant growth in their Green Point segment over the next year, however, recognize this is fairly well known by investors. We would become more positive on JBL at a lower price point or with improving customer and end-demand trends.

## Valuation

Our target price for Jabil is \$19.00. We believe the EMS stocks should trade more closely with the S&P Industrial multiple rather than their own 5-10 year historical averages. Historically, we find the S&P Industrials have traded in a P/E range of 11-23x with a current multiple of 10.6x.

Our P/E valuation methodology begins by using the S&P Industrial P/E multiple of 10.6x, which we adjust for individual company premiums/discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the industrial mid-cycle multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations, but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions.

For Jabil the scorecard is as follows: Revenue Outlook -1, Customer Segment & Concentration Risk -1, ROIC>WACC 0, Quality of Earnings & Special Charges -1, Management & Shareholder Focus & Corporate Governance 0, Trading Liquidity +1, and Balance Sheet Strength & Cash Flow Strength 0. We employ this scorecard across all our covered companies.

Using the scorecard as a guide, in light of the -1 result, we estimate Jabil warrants a 20% discount to the S&P Industrial multiple of 10.6x. From this and our FTM EPS estimate beginning in November 12 of \$2.25 (\$2.69 Core EPS estimate less \$0.44 in stock based comp and amortization expense) x 10.6 x 80% we derive our target of \$19.00 (rounded). For reference, Jabil has historically traded at a median of 17x over the last 10 years, with a range of 5-37x forward 12-month earnings and 11x in the past 5 years.

## Risks

We rate Jabil Circuit Speculative primarily due to the stock's volatility (beta of 2.00 versus the S&P 500 Index) using a two-year weekly measurement and the volatility of the EMS sector, and other factors such as earnings stability, credit rating, interest coverage, free cash flow, and uses of cash. Risks we see that could cause the stock to trade below our target price include the following: 1) Operating execution (risk in either direction could cause the stock to move above or below our target); 2) An economic recovery below our current expectations; 3) A slowing of outsourcing trends; 4) Currency fluctuations; and 5) Risks associated with acquisition integration and ramping new customer programs. 6) RIMM at 15% of total sales presents a significant risk as the company has provided disappointing guidance with no clear corrective strategy in place. If the impact on the company from any of these factors proves to be greater or less than we anticipate, it may prevent the stock from achieving our target price or cause the shares to trade materially above our target.

## Molex Inc

### Company description

Molex Inc (MOLX included in the S&P 500 with voting rights and MOLXA not included in the S&P 500 and does not have voting rights but both classes of stock receive the same dividend payment) is the third-largest global connector company, behind Tyco and Amphenol, with a 8% market share. It manufactures electronic, electrical and fiber optic interconnection systems, ribbon cable, switches, and application tooling. It sells to greater than 7,500 customers (i.e., OEMs, EMS, and distributors). Large customers include Cisco, Dell, Ford, Hewlett-Packard, IBM, Matsushita, Motorola, Nokia, Samsung, Siemens, Sony, and Toyota. It is the market leader in the consumer electronics segment (18% of revenues) and is ranked No. 3 in the computer and peripheral segment, according to Bishop Report. Other end-market exposure includes 24% telecom, 24% data, 16% automotive, 15% industrial, and 3% medical. It designs, manufactures and sells over 100,000 products, and no single customer accounts for more than 10% of sales. Competitors include Tyco, FCI, Amphenol, Delphi, JST, and Hon Hai.

### Investment strategy

We rate the shares of Molex Inc Hold / High Risk (2H). Our Hold rating on the stock is a function of valuation rather than the company's management or L-T strategy. In our view the stock is fairly valued as investors are now accounting for the company's restructuring efforts which have taken longer than expect but now making solid progress.

We would consider becoming more constructive on the stock at a lower price or if the company's cost containment & growth efforts gain faster traction than we anticipate or we could become more negative if the company has unexpected costs creep into its cost structure which they have worked hard at over the past 3 years to remove.

### Valuation

Our target price for Molex is \$20.50. We believe the EMS and connector stocks as a whole should trade more closely with the S&P industrial cycle, rather than their own 5-10 year historical averages. Historically, we find the S&P Industrials have traded in a price-to-earnings (P/E) range of 8–23x, with a current multiple of 10.6x.

Our P/E valuation methodology begins by using the current S&P industry P/E of 10.6x, which we adjust for individual company premiums or discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the current industrial cycle multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations, but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions.

For Molex, the scorecard is as follows: Revenue Outlook 0, Customer Segment and Concentration Risk 0, ROIC > WACC 0 (improved ROIC, previously -1), Quality of Earnings and Special Charges -1, Management and Shareholders Focus and Corporate Governance 0, Trading Liquidity 0, and Balance Sheet and Cash Flow Strength +1. We employ this scorecard across all our covered companies.

Using the scorecard as a guide, in light of the 0 result, we estimate Molex should trade inline with the current industrial multiple of 10.6x on our forward 12 months EPS estimates one year from now. From this, we derive our target of \$20.50 (10.6 x 1.00 x \$1.97 EPS from Sept 2012 to June 2013). For reference, Molex has historically traded at a median of 22x over the last ten years, with a range of 9–62x forward 12-month earnings, given our analysis.

## Risks

We rate Molex High Risk primarily due to the stock's volatility (beta of 1.3 vs. the S&P 500) using a two-year weekly measurement and the volatility of the EMS and highly fragmented connector industry. In addition to these, we have incorporated factors such as earnings stability, credit rating (not available since company has little debt), interest coverage, and uses of cash (acquisitions, dividends, stock repurchases). Molex has a much stronger history of stable revenues, earnings, and cash flow compared to other companies under our coverage that we rate Speculative. Risks Upside and downside) to the stock deviating from our valuation target include the following: 1) Economic recovery or slowdown and positive/negative leverage from such ; 2) Raw material prices, which have been highly volatile; 3) Restructuring implementation; 4) Acquisition integration; 5) Dividend payments; 6) Currency fluctuations.

## Plexus Corp

### Company description

Plexus, headquartered in Neenah, Wisconsin, is one of the smaller EMS companies, with approximately 1-2% market share. The company provides electronics manufacturing services for major high-technology OEMs, primarily in the communications and medical sectors. The company's largest customer is Juniper Networks comprises approximately 16% of sales (in the March 2011 quarter). Sales by end markets include: 40% wireline/networking, 20% medical, 23% industrial/commercial, 10% defense/security/aerospace, and 6% wireless infrastructure.

### Investment strategy

We rate Plexus shares Hold/Speculative (2S). Our Hold rating on the stock is primarily a function of the stock price, valuation, and customer concentration risk rather than the company's management or strategy. We would consider becoming more positive on shares at a lower price, if the company were to garner better operating leverage than expected, or if new business wins outstripped our outlook. We would consider becoming more negative on shares if new wins did not ramp in a timely fashion or if the macro environment deteriorated beyond expectations leading to material negative leverage.

### Valuation

Our target price is \$23.00 We believe the EMS stocks should trade closely with S&P Industrials rather than their own 5-10 year historical averages. Historically, we find the S&P Industrials have traded in a P/E range of 11-23x but are now trading at approximately 10.6x.

Our P/E valuation methodology begins by using the current S&P industry P/E of 10.6x that we adjust for individual company premiums/discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any

premium/discount to the industrial multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions.

Plexus' scorecard is as follows: revenue outlook -1, customer segment & concentration risk -1, ROIC>WACC 0, quality of earnings & special charges +1, management & shareholder focus & corporate governance 0, trading liquidity -1, and balance sheet & cash flow strength 0. We employ this scorecard across all our covered companies.

Using the scorecard as a guide, in light of the result of -2, we estimate that Plexus warrants a 20% discount to the industrial multiple of 10.6x. From this and our Dec 2012 through Sep 2013 EPS estimate of \$2.72, we derive our target price of \$23 (rounded). For reference, Plexus has historically traded at a median of 18x during the last 10 years with a range of 9-57x forward 12-month earnings.

## Risks

We rate Plexus Speculative risk primarily due to the company's large exposure to Juniper which represents 16% of the company's sales, PLXS's stock's volatility (beta of 1.4 vs. the S&P 500) using a 3-year weekly measurement and the volatility of the EMS sector. In addition to these, we have incorporated factors such as earnings stability, low liquidity for average shares trading, strong interest coverage (13x), and uses of cash (no dividends and recently completed stock repurchase) that we believe warrants a Speculative rating. Upside and downside risks we see to the stock achieving our valuation target include the following: 1) New program ramps that could meaningfully add to earnings potential should they ramp faster or slower than we expect; 2) Potential volatility of existing programs given slackening macro environment; 3) High customer concentration with 16% of the company's revenues from one customer; 4) Potential for Plexus to be acquired or acquire another small EMS company; 5) Progress of outsourcing trends; 6) Progress in footprint transition could be beneficial to the company's financials but do introduce execution risk; and 7) Competition in the medical segment. If the impact of these items turns out to be less/greater than we expect, the stock could trade above/below our target price.

## Sanmina-SCI Corporation

### Company description

Sanmina-SCI Corporation (SANM) is the fifth largest electronics manufacturing services (EMS) company in the world in terms of CY10 revenue. SCI Systems (acquired December 7, 2001) was one of the pioneers in the EMS industry. The combined company manufactures complex printed circuit board assemblies, custom designed backplane assemblies and subassemblies, multi-layer printed circuit boards (also known as PCBs, Sanmina-SCI is the largest manufacturer of this component in the world), and custom cable and wire harness assemblies. The company also tests and assembles electronic subsystems and systems. In CY 2008 the company divested its PC business. As of the most recent quarter, sales by end-markets include 48% communications, 14% enterprise computing and storage, 14% multi-media, and 24% industrial/defense/medical. Top customers include Eriscon, IBM, Hewlett Packard, Nokia, Alcatel-Lucent, Nortel, Cisco, and Siemens.

## Investment strategy

We rate the shares of Sanmina-SCI Corporation Hold/ Speculative (2S) driven by our view that SANM is a “show me” story in the midst of resizing and growth strategy initiatives all at a time of volatile macro demand. Historically the company has posted below average industry growth and operational fundamentals. However, much of this underperformance was driven by the divested PC assembly business and before recent restructuring efforts. In our view, the Hold rating is warranted at this point given valuation levels inline with peers, the prospects for fundamental improvements in a more benign macro environment, and the “show me” nature and risk of the company’s recently completed restructuring efforts.

## Valuation

Our target price on Sanmina-SCI Corporation is \$7.50. We believe the EMS and connector stocks as a whole should trade more closely with S&P Industrial multiples rather than their own 5-10 year historical averages. Historically, we find the S&P Industrials have traded in a forward PE range of 12-24x with a mid cycle of 17x and current multiple of 10.6x.

Our P/E valuation methodology begins by using the S&P current industrial P/E of 10.6x that we adjust for individual company premiums or discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the industrial mid cycle multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions.

For Sanmina the scorecard is as follows: revenue outlook -1, customer segment & concentration risk -1 (one customers over 10%, top 10 customer over 50%), ROIC>WACC -1, quality of earnings & special charges -1, management & shareholders focus & corporate governance -1 (SANM has underachieved management margin targets which the company no longer sets), trading liquidity 0, and balance sheet and cash flow strength 0. We employ this scorecard across all our covered companies.

Using the scorecard as a guide, in light of the -4 result, we estimate that SANM warrants a 40% discount valuation from the S&P Industrial multiple. From this, and our next 12 months’ EPS estimates rolled forward from 3Q12, we derive a target of \$7.50.

## Risks

We rate Sanmina-SCI Corporation Speculative risk, primarily due to the stock’s volatility (beta of 2.51 versus the S&P 500 using a 3 year period) and the volatility of the EMS sector. We have also incorporated other factors such as earnings stability, credit rating, interest coverage, free cash flow, and uses of cash. Risks to the stock achieving our valuation target include the following: 1) Economic slowdown; 2) Tech spending slowdown; 3) Lack of scale and scope vs. tier 1 EMS companies; 4) Slowdown in outsourcing trend; 5) Sale of receivables; 6) Margin expansion; 7) Restructuring progress (positive or negative); 8) Customer concentration as the company from time to time has customers over 10%; 9) Currency fluctuations and 10) Significant and prolonged slowdown in defense spending. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

## Sensata Technologies Holding B.V.

### Company description

Sensata Technologies Holding B.V. develops, manufactures, and sells sensors and controls. These products are generally considered mission critical components used in aerospace, automotive, industrial, construction, wireless infrastructure, and Heating, Ventilating, and Air Conditioning systems (HVAC) and generally represent a small portion of total bill of materials for such products and systems. The company was originally founded as General Plate Company in 1916 to provide gold plating for the jewelry industry. Through various transactions the company was eventually acquired by Texas Instruments in 1959 until 2006 at which time Texas Instruments divested Sensata for \$3 billion to Bain Capital. Sensata filed its initial public offering to trade on the New York Stock Exchange and the stock started trading on March 11, 2010 with the ticker ST starting on March 11, 2010. Citi was a co-manager on the offering. Sensata is legally incorporated in the Netherlands as a part of Texas Instruments' historical M&A and also for lower taxes while the company's executive management team is in Attleboro, Massachusetts. Sensata's manufacturing plants are located in Massachusetts, Mexico, Dominican Republic, Brazil, The Netherlands, China, Japan, Korea, and Malaysia. Sensata has approximately 9,500 employees of which only 10% are located in the United States. Sales by end market are 58% automotive (25% Europe Auto, 14% North America Auto, 19% Asia/RoW Auto), 13% HVAC, 11% Industrial, 7% HVOR, and 11% Other. Sales by end market: 38% Americas, 29% Europe, and 33% Asia Pacific. The word Sensata is Latin meaning for those gifted with sense.

### Investment strategy

We rate Sensata shares as Hold/Speculative (2S) with a target price of \$26.50. Below we detail why we do not believe a Buy or Sell rating is justified at this time and specifically what items we look at to potentially change our view on the stock.

Why not a Buy rating? 1) Sensata has ~51% of its shares outstanding held by its financial sponsor (Bain Capital). The magnitude of this overhang of 90 million shares compares to the average daily trading volume over the past month of only ~530k shares per day in the past 30 days. This is our primary concern on the stock which at some future time we believe will present a more compelling ownership opportunity for equity investors. 2) Sensata has meaningful automotive end market concentration represents 58% of the company's sales. The amount of demand pull forward from recent global automotive incentive programs (cash for clunkers) is unknown. During the next few quarters as global automotive incentive programs roll off it will become clearer what the impact from the stimulus packages had on automotive demand pull forward.

Why not a Sell rating? Sensata generates significant cash flow and will not need to tap the capital markets for funding. The company has long term business contracts with its customers. Also the sensor and control industry is very difficult to dislodge incumbents as the low cost of the sensor or control is very minimal compared to the overall system bill of material yet the sensor or control is often mission critical to the performance of the overall product. Sensata also designs and manufactures among the highest quality and innovative sensors and controls.

All else being equal, what we are looking for to get more positive or negative on the stock? Removal of a meaningful portion of the 51% financial sponsor overhang would bode well for equity holders who currently see this large ownership as a risk for if and when the shares eventually come to market.



## Valuation

Our target price for Sensata shares is \$26.50 is based on a price to earnings (PE) valuation methodology. We believe the technology supply chain as a whole should trade more closely with S&P Industrial multiples rather than their own 5-10 year historical averages. Historically, we find the S&P Industrials have traded in a forward PE range of 12-24x with a mid cycle of 17x and current multiple of 10.6x.

Our P/E valuation methodology begins by using the S&P current industrial P/E of 10.6x that we adjust for individual company premiums or discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the industrial mid cycle multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions.

For Sensata the scorecard is as follows: revenue outlook 0 (previously +1, but now reflects a more tempered macro environment), customer segment & concentration risk 0 (ST has no customers over 10%), ROIC vs. WACC +1 (previously 0, we calculate Sensata ROIC at 15% which is above its estimated WACC of 8%), quality of earnings & special charges -1 (we expect several pro forma add backs of amortization, debt retirement, IPO, financial sponsor fees, etc compared to many of our companies who simply report clean GAAP earnings), management & shareholders focus & corporate governance 0 (previously -1, but we believe Bain has been disciplined in its exit strategy), trading liquidity -1, and balance sheet and cash flow strength 0 (high debt to cap at 70% but strong cash flow). We employ this scorecard across all our covered companies. Using the scorecard as a guide, we estimate that Sensata should trade inline with the S&P Industrial multiple of 10.6x. From this, and our next 12 months' EPS estimates rolled forward, we derive a target of \$26.50 ( $10.6 \times \$2.78 \times 90\% = \$26.52$ ).

## Risks

We rate Sensata with a Speculative risk rating due to the following: 51% or 90 million shares of financial ownership overhang, high concentration with 58% of sales in the automotive sector, high debt of \$1.8 billion or a debt to cap ratio of 65%, no dividend, no stock buy back, limited average daily trading volume, and incorporation in The Netherlands which is not typical of New York Stock Exchange listed stocks and may not be suitable for all investors and could pose a challenge if tax and incorporation regulations change. We also note that there is risk with the company's acquisition strategy as the company has not acquired any companies since 2007 and back in that timeframe it acquired three companies and divested one and all these acquisitions was before the current CFO was at the company and Sensata has less M&A experience than other companies in our coverage. Should these items be less (more) severe than expected, this could cause the stock to trade above (below) our target price.

## TE Connectivity Ltd.

### Company description

TE Connectivity (TEL) is the world's largest electronics connector company and is a spin-out company (effective July 2, 2007) of parent company Tyco International (TYC). TE Connectivity designs, manufactures, and markets about 500,000 different products for consumers within automotive, appliance, and aerospace and defense

telecommunications, as well as computer and consumer electronic industries. It stands as a leading global provider of engineered electronic components, network solutions, and wireless systems, serving customers in over 150 countries with no customer accounting for more than 5% of sales (top 25 customers account for 30% of the company's total sales). TE Connectivity supports over 8,000 engineers and 16 manufacturing facilities in 25 countries, creating 76% of operations outside of the United States. TE Connectivity had \$13 billion in net sales (+10% y/y) in fiscal 2007, \$14.8 billion (+15% y/y) in fiscal 2008, \$10.2 billion (-29% y/y due to auto production issues in North America) in fiscal 2009 and \$12 billion (+18 y/y) in fiscal 2010. Sales by segment include: 33% transportation, 26% network solutions, 35% communications & industrial. A sample of customers consists of Dell, HP, Cisco, Toyota, IBM, Verizon, Samsung, Sony, Volkswagen, Mercedes-Benz, and Ford.

## Investment strategy

We rate the shares of TE Connectivity Buy/High Risk (1H), as we believe valuation is attractive for the prospects of the company's longer-term fundamentals and that the bias on consensus estimates is positive given our view that: 1) The company will be successful in its restructuring efforts, 2) TEL will benefit from a rebound in global auto production as well as incremental demand from emerging auto growth markets and continued electronic content growth from infotainment, safety and fuel efficiency, 3) The Undersea Cable business will provide sustainable revenue and margin levels above current expectations driven by share gains, continued deployments in geographies such as Africa and the Middle East, and an eventual upgrade cycle of existing cable systems, and 4) The company's balance sheet strength, post recent divestitures, will allow for the flexibility to make tuck-in acquisitions, to continue to pay a \$0.72 per share dividend (recently increased from \$0.64), and continue its share buyback & accretive acquisitions once the macro recovery is in full swing.

## Valuation

Our target price on TEL is \$40. We believe the EMS and connector stocks as a whole should trade more closely with S&P Industrial multiples rather than their own 5-10 year historical averages. Historically, we find the S&P Industrials have traded in a forward PE range of 9-24x with a mid cycle of 17x and current multiple of 11.4x. Our P/E valuation methodology begins by using the S&P current industrial P/E of 11.4x that we adjust for individual company premiums or discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the industrial mid cycle multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions. For TE Connectivity the scorecard is as follows: sales outlook 0 (recent rebound in auto has closed previous sales/production gap & some of our other companies have higher growth), customer segment & end market concentration -1 (high auto exposure), ROIC vs. WACC 0 (other companies have higher ROIC that warrant a premium), quality of earnings & special charges -1 (several restructuring & pro-forma charges), management & shareholders focus 0 (incorporated in Switzerland & outstanding litigation/audits from pre-spin still exist), trading liquidity +1 (shares trade on average 2mil/day in the last 3 months), and balance sheet & cash flow strength 0 (strong cash generation but fair amount of debt). We employ this scorecard across all our covered companies. Using the scorecard as a guide, in light of the -1 result, we estimate that TEL warrants a 10% discount valuation from the S&P Industrial multiple of 11.4x. From this, and our next 12 months' EPS estimates rolled forward from Sept 2012, we derive a rounded up target of \$40.



## Risks

We rate TE Connectivity High Risk primarily due to the stock's volatility (beta of 1.2 vs. the S&P 500) using a two-year weekly measurement and the volatility of the EMS and highly fragmented connector industry. In addition to these, we have incorporated other factors such as earnings stability, credit rating (BBB), interest coverage, and uses of cash (acquisitions, dividends, stock repurchases). TEL has a much stronger history of stable revenues, earnings, and cash flow compared with other companies under our coverage that we rate Speculative. Risks to the stock deviating from our valuation target include the following: 1) A further economic slowdown that impacts the recovery of auto production; 2) Restructuring implementation; 3) A failure to garner a fair share of quotable Undersea Cable business; 4) Acquisition integration; 5) Divestitures; 6) Currency fluctuations; 7) Acute Competition; 8) Changes to Dividend payments and stock buyback plans; 9) Failure of internal controls; 10) Liability sharing--TEL may be held liable for the entire amount of US income taxes should Tyco International or Covidien default on their obligations; and 11) Raw material prices which represent 10% of COGS.

## Vishay Intertechnology Inc

### Company description

Vishay Intertechnology, Inc. is a leading manufacturer of a broad line of passive and active electronic components, including discrete active electronic components, resistors, capacitors, inductors, diodes, and transistors. It has 63 manufacturing facilities worldwide, with about 76% of its employees in low-cost countries vs. 57% in 2000. Sales by end market are 29% industrial (factories, power plants, transit systems); 18% computer (server, desktop, notebooks); 17% automotive (electronic control systems, airbags, sensors); 12% telecommunications (base stations, cell phones, PDAs); 8% power supplies; 7% consumer products (digital cameras, MP3 players, video game consoles, white goods or microwaves, refrigerators, washers/dryers); 6% military/aerospace (commercial and military airplanes, space programs); and 3% medical (hearing aids, pace makers, medical equipment such as MRI, X-ray, CAT scan equipment). Vishay has a diversified customer base with no customers greater than 6% of revenues.

### Investment strategy

We rate Vishay shares Hold/Speculative Risk (2S). Our investment thesis is based on: 1) restructuring gaining traction but being already reflected in estimates; 2) fair valuation; 3) overhang from risks of future acquisition, integration, and accretion; and 4) suboptimal shareholder value creation (ROIC<WACC and no dividends or share buyback despite positive cash flows) and corporate governance. Risks include acquisition integration, raw material prices, restructuring, management succession, debt, economic slowdown, and currency fluctuations.

### Valuation

Our target price on Vishay is \$9.00. We believe the EMS, connector, and passive stocks as a whole should trade more closely with S&P Industrial multiples rather than their own 5-10 year historical averages. Historically, we find the S&P Industrials have traded in a forward PE range of 12-24x with a mid cycle of 17x and current multiple of 10.6x.

Our P/E valuation methodology begins by using the S&P current industrial P/E that we adjust for individual company premiums or discounts based on scorecard analysis. We use a scorecard approach as a guide to help determine any premium/discount to the industrial mid cycle multiple. We currently use +/- 10% as a guidepost for each of the seven factors that we believe have a material impact on valuations but note that the 10% increments, weights of each factor (currently equal weight), and individual factors may change depending on market and industry conditions.

For Vishay the scorecard is as follows: revenue outlook -1 (as a very favorable outlook is now baked into the model), customer segment & concentration risk -1 (while a diversified company, pricing power is peaking and built into model), ROIC>WACC -1, quality of earnings & special charges 0, management & shareholders focus & corporate governance -1 (previously 0, the Zandman family still controls a significant amount of voting class shares and control of the company), trading liquidity 0, and balance sheet and cash flow strength 0. We employ this scorecard across all our covered companies.

Using the scorecard as a guide, in light of the -4 result, we estimate that Vishay warrants a 40% valuation discount from the S&P Industrial multiple of 10.6x. From this, and our next 12 months' EPS estimates rolled forward from Sept'12, we derive a target of \$9.00 ( $\$1.48 \times 10.6 \times 60\% = \$9.41$ , rounded to \$9.00). For reference, Vishay has historically traded at a median of 18x during the last 15 years with a range of 5-40x forward 12-month earnings.

## Risks

We rate Vishay Speculative Risk primarily due to the likelihood of Vishay making acquisitions which may or may not be integrated in seamless manner as well as the company's stock volatility (beta of 2.3 vs. the S&P 500) using a 1-year monthly measurement. In addition to these, we have incorporated other factors such as earnings stability, credit rating (below investment grade), interest coverage, free cash flow and potential uses of cash (acquisitions likely, no dividends). Risks we see to the stock achieving our target price include the following: 1) Acquisition integration; 2) Raw material prices; 3) Restructuring; 4) Management succession; 5) Debt; 6) Economic slowdown; and 7) Currency fluctuations. Also, if the above factors turn more positive than we expect — e.g., if integration and restructuring go better than we expect or the economy turns upward — the shares could exceed our target price.

## Appendix A-1

### Analyst Certification

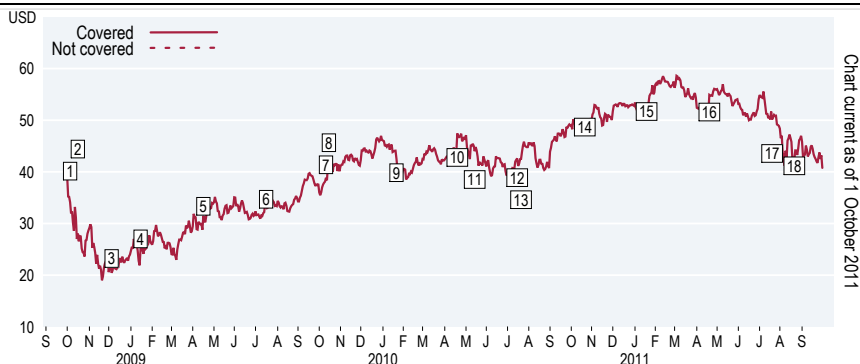
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

### IMPORTANT DISCLOSURES

#### Amphenol Corp (APH)

##### Ratings and Target Price History Fundamental Research

Analyst: Jim Suva, CPA



| Date        | Rating | Target Price | Closing Price |
|-------------|--------|--------------|---------------|
| 1 5-Oct-08  | 1M     | *48.00       | 35.15         |
| 2 16-Oct-08 | 1M     | *37.00       | 28.05         |
| 3 4-Dec-08  | 1M     | *31.50       | 20.45         |
| 4 15-Jan-09 | 1M     | *33.00       | 25.15         |
| 5 16-Apr-09 | 1M     | *37.00       | 31.49         |
| 6 16-Jul-09 | 1M     | *39.00       | 33.59         |

\* Indicates change

| Date         | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 7 11-Oct-09  | 1M     | *44.00       | 38.11         |
| 8 15-Oct-09  | 1M     | *48.00       | 41.01         |
| 9 21-Jan-10  | 1M     | *51.00       | 42.50         |
| 10 20-Apr-10 | 1M     | *57.00       | 47.44         |
| 11 14-May-10 | 1M     | *58.00       | 44.00         |
| 12 15-Jul-10 | 1M     | *51.00       | 42.60         |

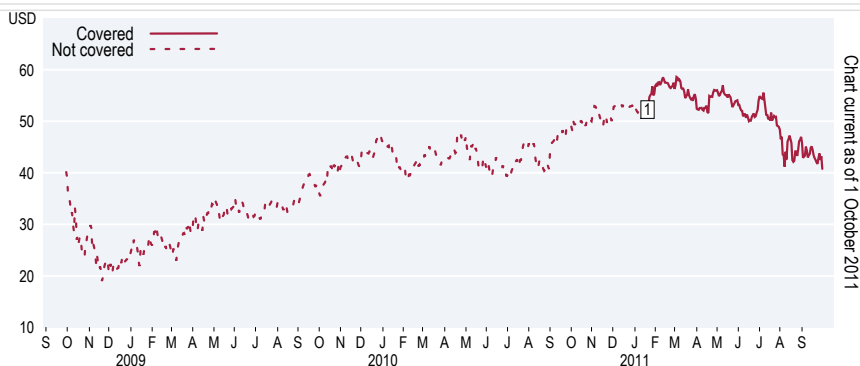
| Date         | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 13 21-Jul-10 | 1M     | *56.00       | 42.50         |
| 14 21-Oct-10 | 1M     | *60.00       | 49.40         |
| 15 19-Jan-11 | 1M     | *66.00       | 52.89         |
| 16 20-Apr-11 | 1M     | *67.00       | 54.92         |
| 17 20-Jul-11 | 1M     | *63.00       | 50.15         |
| 18 21-Aug-11 | 1M     | *53.00       | 42.13         |

Rating/target price changes above reflect Eastern Standard Time

#### Amphenol Corp (APH)

##### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jim Suva, CPA



| Date        | Rating  | Target Price | Closing Price |
|-------------|---------|--------------|---------------|
| 1 20-Jan-11 | *ADD MP | -            | 52.40         |

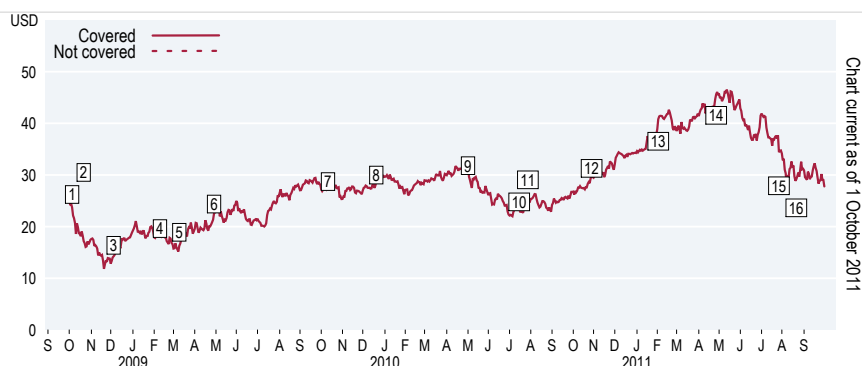
\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Arrow Electronics Inc (ARW)

### Ratings and Target Price History Fundamental Research

Analyst: Jim Suva, CPA



|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 5-Oct-08  | 1H     | *32.00       | 24.45         |
| 2 | 22-Oct-08 | 1H     | *22.00       | 17.19         |
| 3 | 4-Dec-08  | 1H     | *19.00       | 14.25         |
| 4 | 10-Feb-09 | 1H     | *22.00       | 18.24         |
| 5 | 10-Mar-09 | 1H     | *20.00       | 16.27         |
| 6 | 29-Apr-09 | 1H     | *27.00       | 22.56         |

\* Indicates change

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 7  | 11-Oct-09 | 1H     | *33.50       | 27.96         |
| 8  | 21-Dec-09 | 1H     | *36.50       | 28.69         |
| 9  | 3-May-10  | 1H     | *43.00       | 31.80         |
| 10 | 15-Jul-10 | 1H     | *35.00       | 23.89         |
| 11 | 28-Jul-10 | 1H     | *38.00       | 24.44         |
| 12 | 28-Oct-10 | 1H     | *39.00       | 29.67         |

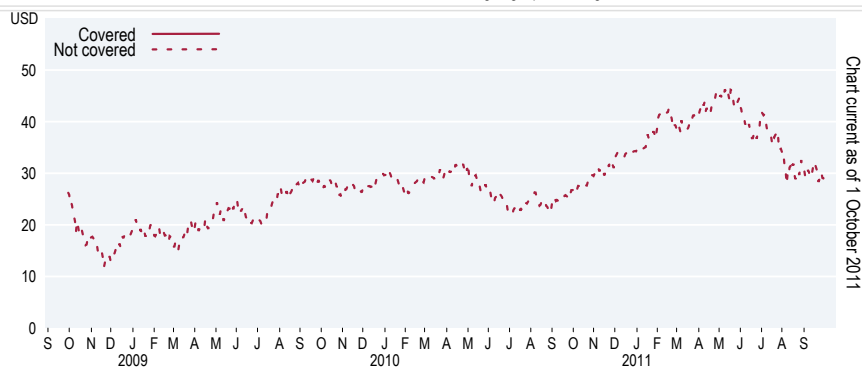
|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 13 | 2-Feb-11  | 1H     | *54.00       | 40.79         |
| 14 | 27-Apr-11 | 1H     | *59.00       | 45.63         |
| 15 | 27-Jul-11 | 1H     | *53.00       | 34.41         |
| 16 | 21-Aug-11 | 1H     | *41.00       | 28.87         |

Rating/target price changes above reflect Eastern Standard Time

## Arrow Electronics Inc (ARW)

### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jim Suva, CPA



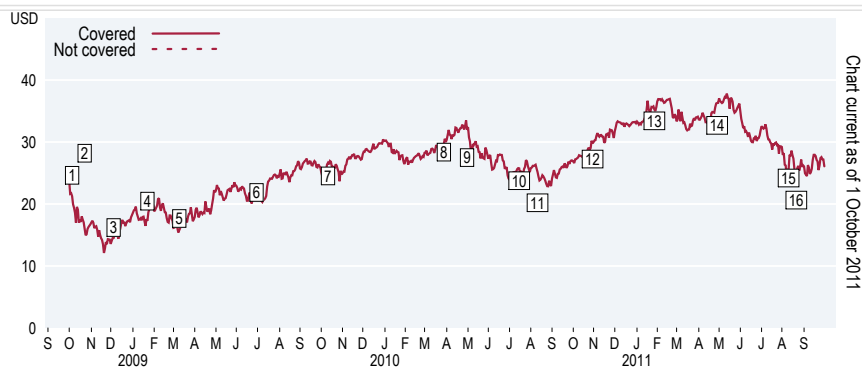
\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Avnet Inc (AVT)

### Ratings and Target Price History Fundamental Research

Analyst: Jim Suva, CPA



|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 5-Oct-08  | 1H     | *32.00       | 21.74         |
| 2 | 23-Oct-08 | 1H     | *22.00       | 16.00         |
| 3 | 4-Dec-08  | 1H     | *19.00       | 14.52         |
| 4 | 22-Jan-09 | 1H     | *22.00       | 17.29         |
| 5 | 10-Mar-09 | 1H     | *20.00       | 15.79         |
| 6 | 30-Jun-09 | 1H     | *26.50       | 21.03         |

\* Indicates change

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 7  | 11-Oct-09 | 1H     | *33.00       | 26.37         |
| 8  | 29-Mar-10 | 1H     | *37.00       | 29.75         |
| 9  | 30-Apr-10 | 1H     | *41.00       | 31.97         |
| 10 | 15-Jul-10 | 1H     | *37.00       | 25.75         |
| 11 | 11-Aug-10 | 1H     | *36.00       | 25.16         |
| 12 | 29-Oct-10 | 1H     | *39.00       | 29.78         |

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 13 | 27-Jan-11 | 1H     | *43.00       | 35.24         |
| 14 | 28-Apr-11 | 1H     | *46.00       | 36.30         |
| 15 | 10-Aug-11 | 1H     | *36.00       | 25.52         |
| 16 | 21-Aug-11 | 1H     | *34.00       | 24.75         |

Rating/target price changes above reflect Eastern Standard Time

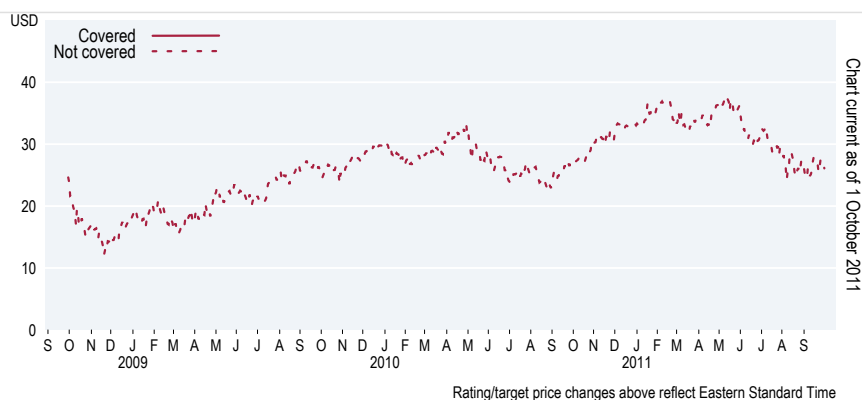
## Avnet Inc (AVT)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Jim Suva, CPA



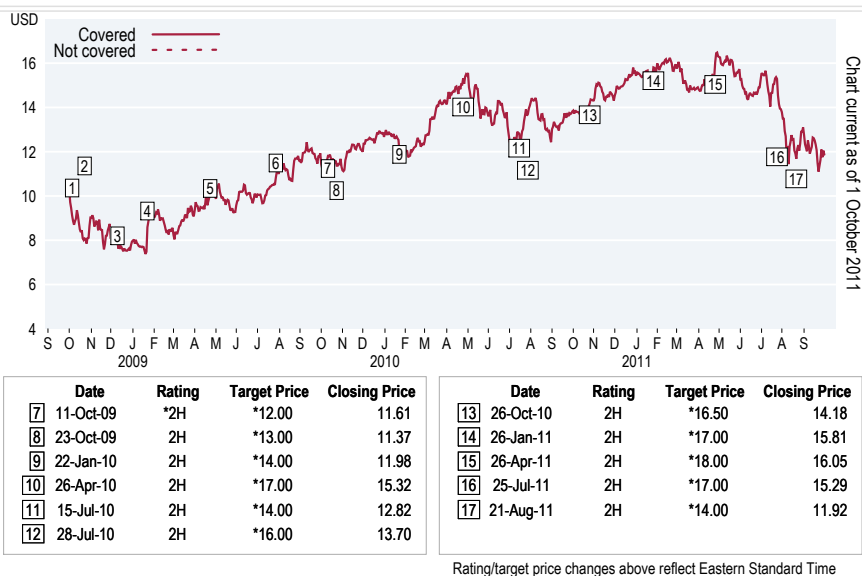
\* Indicates change

## AVX Corp (AVX)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Jim Suva, CPA



| Date        | Rating | Target Price | Closing Price |
|-------------|--------|--------------|---------------|
| 1 5-Oct-08  | 3H     | *7.50        | 9.46          |
| 2 23-Oct-08 | 3H     | *6.00        | 8.08          |
| 3 10-Dec-08 | 3H     | *4.00        | 7.89          |
| 4 22-Jan-09 | 3H     | *4.75        | 8.59          |
| 5 23-Apr-09 | 3H     | *5.75        | 10.15         |
| 6 28-Jul-09 | 3H     | *7.00        | 10.83         |

\* Indicates change

| Date         | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 7 11-Oct-09  | *2H    | *12.00       | 11.61         |
| 8 23-Oct-09  | 2H     | *13.00       | 11.37         |
| 9 22-Jan-10  | 2H     | *14.00       | 11.98         |
| 10 26-Apr-10 | 2H     | *17.00       | 15.32         |
| 11 15-Jul-10 | 2H     | *14.00       | 12.82         |
| 12 28-Jul-10 | 2H     | *16.00       | 13.70         |

| Date         | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 13 26-Oct-10 | 2H     | *16.50       | 14.18         |
| 14 26-Jan-11 | 2H     | *17.00       | 15.81         |
| 15 26-Apr-11 | 2H     | *18.00       | 16.05         |
| 16 25-Jul-11 | 2H     | *17.00       | 15.29         |
| 17 21-Aug-11 | 2H     | *14.00       | 11.92         |

Rating/target price changes above reflect Eastern Standard Time

## AVX Corp (AVX)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Jim Suva, CPA



\* Indicates change

## Benchmark Electronics Inc (BHE)

### Ratings and Target Price History Fundamental Research

Analyst: Jim Suva, CPA

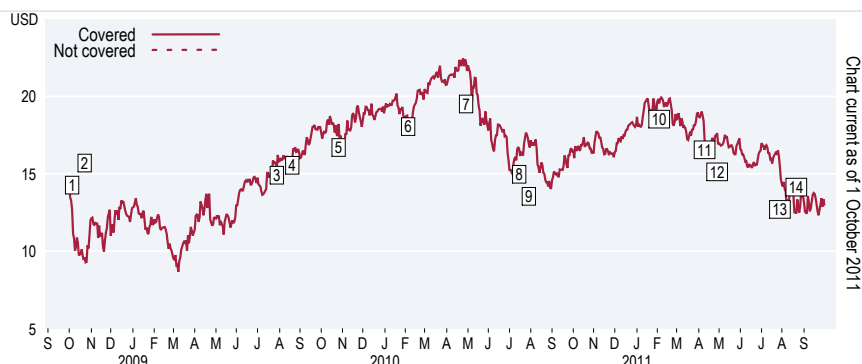


Chart current as of 1 October 2011

|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 5-Oct-08  | *3S    | *13.00       | 13.27         |
| 2 | 23-Oct-08 | 3S     | *9.00        | 9.60          |
| 3 | 29-Jul-09 | 3S     | *12.00       | 15.36         |
| 4 | 20-Aug-09 | 3S     | *14.50       | 15.94         |
| 5 | 27-Oct-09 | 3S     | *17.00       | 18.22         |

\* Indicates change

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 6  | 4-Feb-10  | 3S     | *17.50       | 18.05         |
| 7  | 29-Apr-10 | 3S     | *18.50       | 22.19         |
| 8  | 15-Jul-10 | 3S     | *15.00       | 16.59         |
| 9  | 29-Jul-10 | 3S     | *16.00       | 16.91         |
| 10 | 3-Feb-11  | 3S     | *18.00       | 19.55         |

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 11 | 11-Apr-11 | 3S     | *17.00       | 17.21         |
| 12 | 28-Apr-11 | 3S     | *16.00       | 17.62         |
| 13 | 28-Jul-11 | 3S     | *14.00       | 15.45         |
| 14 | 21-Aug-11 | 3S     | *11.50       | 12.52         |

Rating/target price changes above reflect Eastern Standard Time

## Benchmark Electronics Inc (BHE)

### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jim Suva, CPA

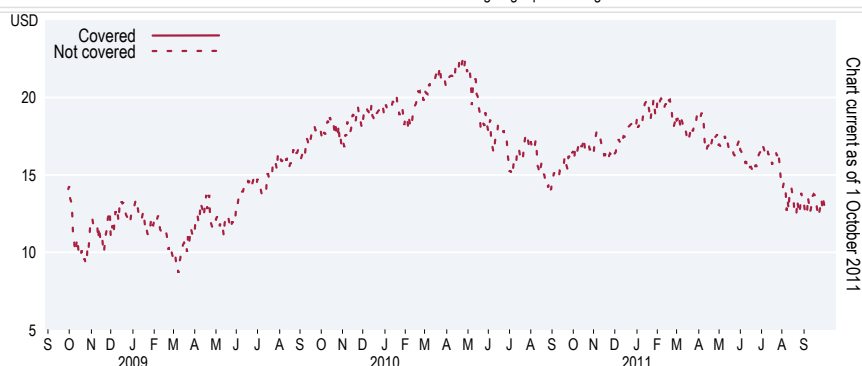


Chart current as of 1 October 2011

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Celestica Inc (CLS)

### Ratings and Target Price History Fundamental Research

Analyst: Jim Suva, CPA

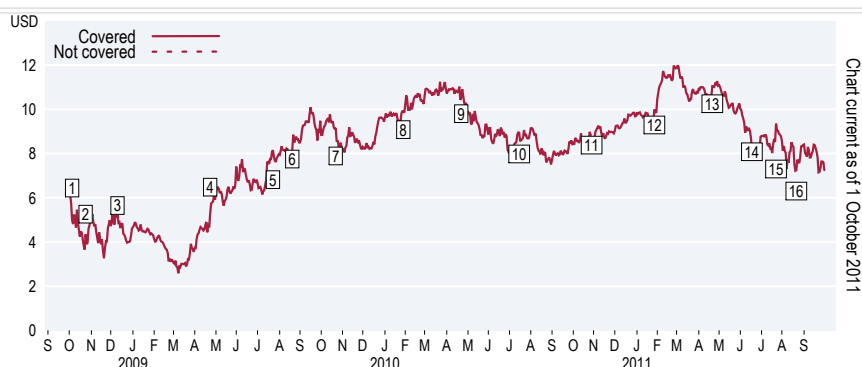


Chart current as of 1 October 2011

|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 5-Oct-08  | *3S    | *5.50        | 5.75          |
| 2 | 24-Oct-08 | 3S     | *3.50        | 4.35          |
| 3 | 10-Dec-08 | 3S     | *3.00        | 5.28          |
| 4 | 23-Apr-09 | 3S     | *3.50        | 5.30          |
| 5 | 23-Jul-09 | 3S     | *6.75        | 8.15          |
| 6 | 20-Aug-09 | *2S    | *10.00       | 8.16          |

\* Indicates change

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 7  | 22-Oct-09 | 2S     | *11.00       | 9.15          |
| 8  | 28-Jan-10 | 2S     | *11.50       | 9.91          |
| 9  | 22-Apr-10 | 2S     | *12.00       | 10.55         |
| 10 | 15-Jul-10 | 2S     | *10.00       | 8.94          |
| 11 | 28-Oct-10 | 2S     | *9.50        | 8.41          |
| 12 | 27-Jan-11 | 2S     | *11.00       | 9.99          |

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 13 | 21-Apr-11 | 2S     | *12.00       | 11.04         |
| 14 | 17-Jun-11 | *3S    | *8.00        | 8.14          |
| 15 | 22-Jul-11 | 3S     | *9.00        | 9.35          |
| 16 | 21-Aug-11 | 3S     | *7.00        | 7.22          |

Rating/target price changes above reflect Eastern Standard Time

## Celestica Inc (CLS)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Jim Suva, CPA



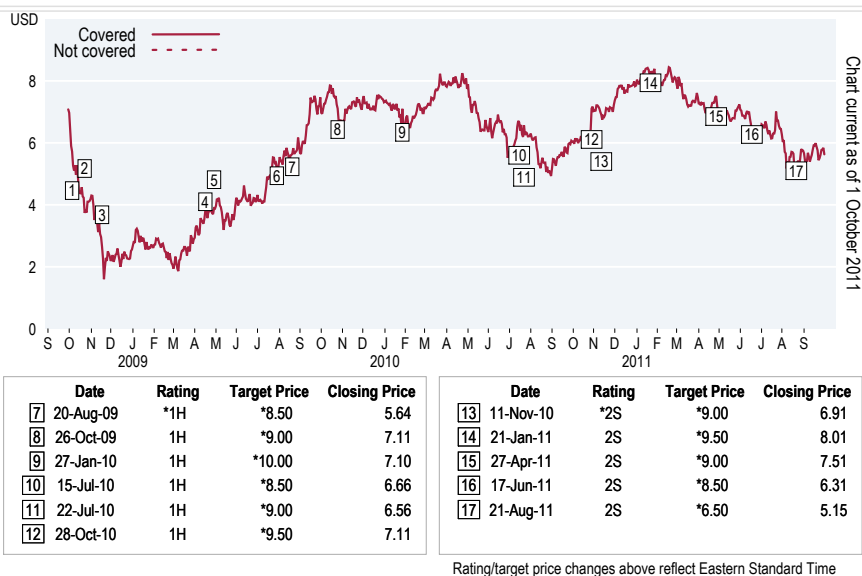
\* Indicates change

## Flextronics International Ltd (FLEX)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Jim Suva, CPA



| Date        | Rating | Target Price | Closing Price |
|-------------|--------|--------------|---------------|
| 1 5-Oct-08  | 2S     | *8.00        | 5.90          |
| 2 23-Oct-08 | 2S     | *5.00        | 3.74          |
| 3 18-Nov-08 | 2S     | *3.25        | 2.65          |
| 4 16-Apr-09 | 2S     | *3.70        | 3.81          |
| 5 29-Apr-09 | 2S     | *4.00        | 3.89          |
| 6 29-Jul-09 | 2S     | *5.00        | 5.13          |

\* Indicates change

| Date         | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 7 20-Aug-09  | *1H    | *8.50        | 5.64          |
| 8 26-Oct-09  | 1H     | *9.00        | 7.11          |
| 9 27-Jan-10  | 1H     | *10.00       | 7.10          |
| 10 15-Jul-10 | 1H     | *8.50        | 6.66          |
| 11 22-Jul-10 | 1H     | *9.00        | 6.56          |
| 12 28-Oct-10 | 1H     | *9.50        | 7.11          |

| Date         | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 13 11-Nov-10 | *2S    | *9.00        | 6.91          |
| 14 21-Jan-11 | 2S     | *9.50        | 8.01          |
| 15 27-Apr-11 | 2S     | *9.00        | 7.51          |
| 16 17-Jun-11 | 2S     | *8.50        | 6.31          |
| 17 21-Aug-11 | 2S     | *6.50        | 5.15          |

Rating/target price changes above reflect Eastern Standard Time

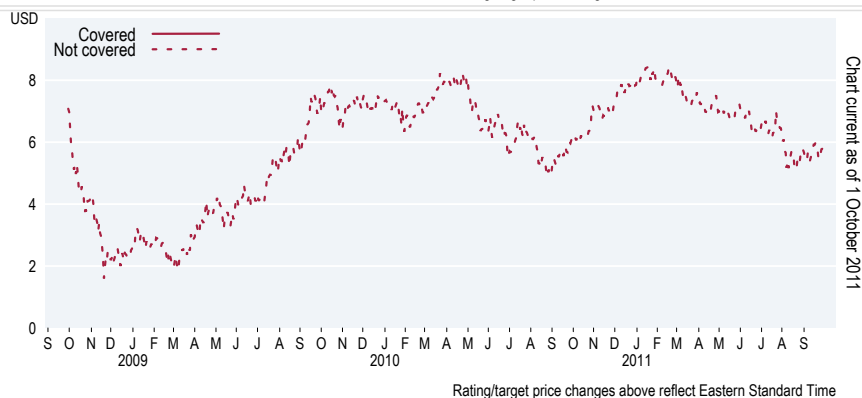
## Flextronics International Ltd (FLEX)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Jim Suva, CPA



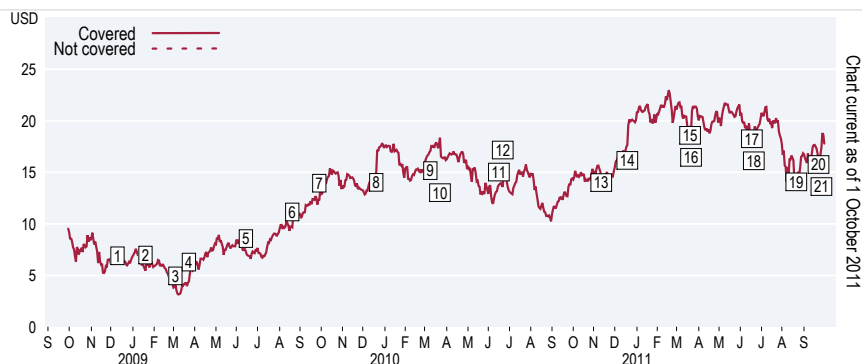
\* Indicates change

## Jabil Circuit Inc (JBL)

### Ratings and Target Price History

### Fundamental Research

Analyst: Jim Suva, CPA



|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 10-Dec-08 | *3H    | *5.50        | 6.81          |
| 2 | 20-Jan-09 | *2H    | 5.50         | 5.46          |
| 3 | 4-Mar-09  | 2H     | *4.50        | 4.20          |
| 4 | 24-Mar-09 | *2S    | *4.00        | 4.42          |
| 5 | 15-Jun-09 | 2S     | *8.00        | 7.29          |
| 6 | 20-Aug-09 | *1H    | *13.00       | 9.66          |
| 7 | 29-Sep-09 | 1H     | *16.00       | 12.28         |

\* Indicates change

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 8  | 21-Dec-09 | 1H     | *19.00       | 15.02         |
| 9  | 9-Mar-10  | 1H     | *21.00       | 17.06         |
| 10 | 23-Mar-10 | 1H     | *23.00       | 18.36         |
| 11 | 16-Jun-10 | 1H     | *19.00       | 13.79         |
| 12 | 22-Jun-10 | 1H     | *22.00       | 13.59         |
| 13 | 11-Nov-10 | *2S    | *20.00       | 14.40         |
| 14 | 20-Dec-10 | 2S     | *23.00       | 17.66         |

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 15 | 21-Mar-11 | 2S     | *22.00       | 19.51         |
| 16 | 22-Mar-11 | 2S     | *25.00       | 18.93         |
| 17 | 17-Jun-11 | 2S     | *24.00       | 18.29         |
| 18 | 21-Jun-11 | 2S     | *25.00       | 18.85         |
| 19 | 21-Aug-11 | 2S     | *18.50       | 14.22         |
| 20 | 22-Sep-11 | 2S     | *19.00       | 16.08         |
| 21 | 27-Sep-11 | 2S     | *22.00       | 17.38         |

Rating/target price changes above reflect Eastern Standard Time

## Jabil Circuit Inc (JBL)

### Ratings and Target Price History

### Best Ideas Research

### Relative Call (3 Month)

Analyst: Jim Suva, CPA



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Molex Inc (MOLX)

### Ratings and Target Price History

### Fundamental Research

Analyst: Jim Suva, CPA



|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 2-Oct-08  | *3H    | *17.50       | 20.16         |
| 2 | 28-Oct-08 | 3H     | *11.50       | 14.44         |
| 3 | 4-Dec-08  | 3H     | *10.00       | 12.68         |
| 4 | 22-Apr-09 | 3H     | *12.50       | 15.12         |
| 5 | 21-Sep-09 | 3H     | *19.00       | 21.51         |

\* Indicates change

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 6  | 26-Jan-10 | 3H     | *20.00       | 20.90         |
| 7  | 28-Apr-10 | 3H     | *22.50       | 23.43         |
| 8  | 15-Jul-10 | *2H    | *21.50       | 18.85         |
| 9  | 4-Aug-10  | 2H     | *23.00       | 20.18         |
| 10 | 27-Oct-10 | 2H     | *24.00       | 20.82         |

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 11 | 25-Jan-11 | 2H     | *28.00       | 25.34         |
| 12 | 3-May-11  | 2H     | *27.00       | 26.63         |
| 13 | 3-Aug-11  | 2H     | *25.00       | 22.28         |
| 14 | 21-Aug-11 | 2H     | *22.50       | 19.36         |

Rating/target price changes above reflect Eastern Standard Time



## Molex Inc (MOLX)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Jim Suva, CPA

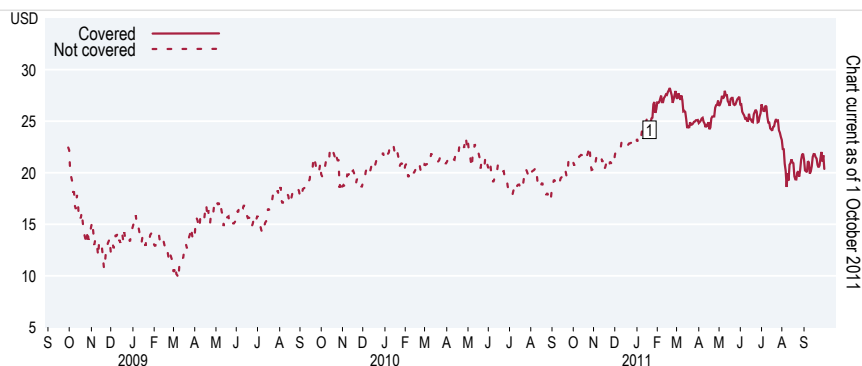


Chart current as of 1 October 2011

|   | Date      | Rating  | Target Price | Closing Price |
|---|-----------|---------|--------------|---------------|
| 1 | 20-Jan-11 | *ADD LP | -            | 24.83         |

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Plexus Corp (PLXS)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Jim Suva, CPA



Chart current as of 1 October 2011

|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 5-Oct-08  | 2S     | *24.00       | 18.50         |
| 2 | 29-Oct-08 | 2S     | *20.00       | 16.86         |
| 3 | 10-Dec-08 | 2S     | *18.00       | 16.58         |
| 4 | 29-Jan-09 | 2S     | *16.50       | 14.37         |
| 5 | 30-Apr-09 | 2S     | *23.00       | 22.15         |
| 6 | 30-Jul-09 | 2S     | *28.50       | 25.27         |

\* Indicates change

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 7  | 20-Aug-09 | 2S     | *31.50       | 26.01         |
| 8  | 29-Oct-09 | 2S     | *32.00       | 25.64         |
| 9  | 21-Jan-10 | 2S     | *39.50       | 33.07         |
| 10 | 21-Apr-10 | 2S     | *47.00       | 38.80         |
| 11 | 15-Jul-10 | 2S     | *37.00       | 30.12         |
| 12 | 22-Jul-10 | 2S     | *38.00       | 30.26         |

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 13 | 29-Oct-10 | 2S     | *36.00       | 30.35         |
| 14 | 21-Jan-11 | 2S     | *38.00       | 27.39         |
| 15 | 21-Apr-11 | 2S     | *42.00       | 36.92         |
| 16 | 21-Jul-11 | 2S     | *37.00       | 30.29         |
| 17 | 21-Aug-11 | 2S     | *28.00       | 24.42         |

Rating/target price changes above reflect Eastern Standard Time

## Plexus Corp (PLXS)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Jim Suva, CPA

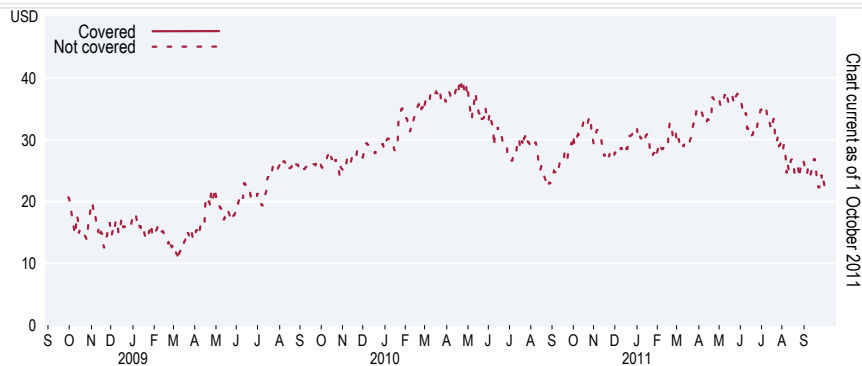


Chart current as of 1 October 2011

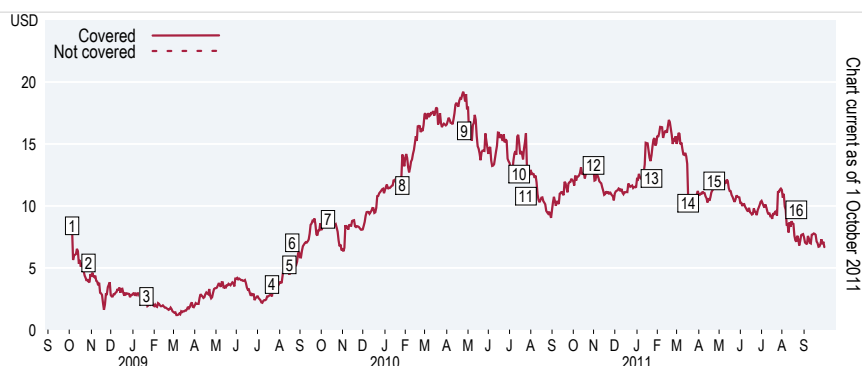
\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Sanmina-SCI Corporation (SANM)

### Ratings and Target Price History Fundamental Research

Analyst: Jim Suva, CPA



|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 5-Oct-08  | 2S     | *9.30        | 8.34          |
| 2 | 29-Oct-08 | 2S     | *4.50        | 3.90          |
| 3 | 21-Jan-09 | 2S     | *3.00        | 2.28          |
| 4 | 22-Jul-09 | 2S     | *3.60        | 2.70          |
| 5 | 17-Aug-09 | 2S     | *3.60        | 4.45          |
| 6 | 20-Aug-09 | 2S     | *5.50        | 4.80          |

\* Indicates change

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 7  | 11-Oct-09 | 2S     | *10.00       | 8.86          |
| 8  | 27-Jan-10 | 2S     | *15.50       | 14.15         |
| 9  | 27-Apr-10 | 2S     | *20.00       | 18.94         |
| 10 | 15-Jul-10 | 2S     | *16.00       | 15.06         |
| 11 | 26-Jul-10 | 2S     | *19.50       | 15.86         |
| 12 | 1-Nov-10  | 2S     | *17.00       | 12.98         |

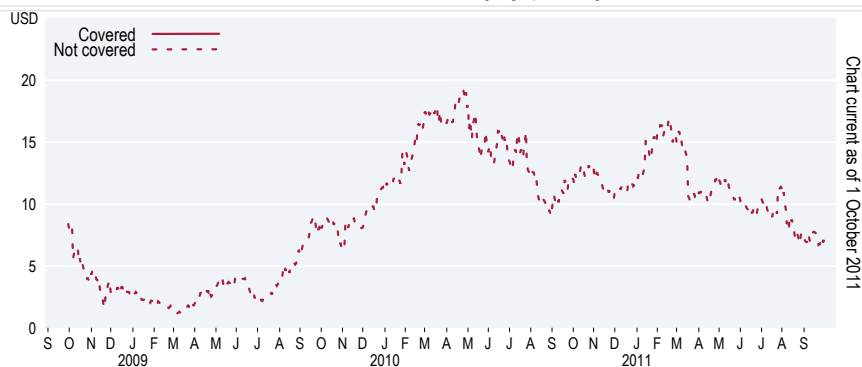
|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 13 | 24-Jan-11 | 2S     | *18.50       | 14.07         |
| 14 | 17-Mar-11 | 2S     | *14.50       | 10.65         |
| 15 | 25-Apr-11 | 2S     | *14.00       | 11.45         |
| 16 | 21-Aug-11 | 2S     | *10.00       | 7.23          |

Rating/target price changes above reflect Eastern Standard Time

## Sanmina-SCI Corporation (SANM)

### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jim Suva, CPA



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Sensata Technologies Holding B.V. (ST.N)

### Ratings and Target Price History Fundamental Research

Analyst: Jim Suva, CPA

Covered since April 20 2010



|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 20-Apr-10 | *2S    | *24.00       | 19.85         |
| 2 | 22-Apr-10 | 2S     | *25.00       | 20.79         |
| 3 | 15-Jul-10 | 2S     | *19.50       | 16.84         |
| 4 | 21-Jul-10 | 2S     | *20.00       | 16.60         |

\* Indicates change

|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 5 | 20-Oct-10 | 2S     | *22.00       | 21.00         |
| 6 | 13-Jan-11 | 2S     | *33.00       | 31.20         |
| 7 | 24-Jan-11 | 2S     | *34.00       | 29.83         |
| 8 | 25-Apr-11 | 2S     | *36.00       | 33.13         |

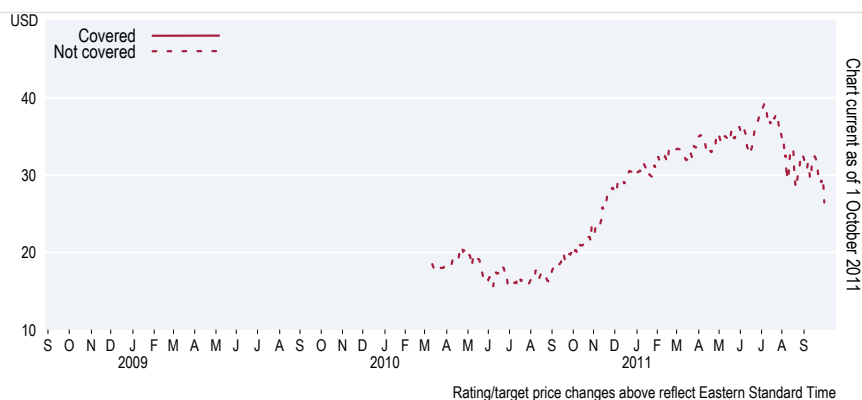
|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 9  | 13-Jul-11 | 2S     | *37.00       | 37.33         |
| 10 | 21-Aug-11 | 2S     | *32.00       | 28.80         |

Rating/target price changes above reflect Eastern Standard Time

## Sensata Technologies Holding B.V. (ST.N)

### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jim Suva, CPA  
Covered since April 20 2010

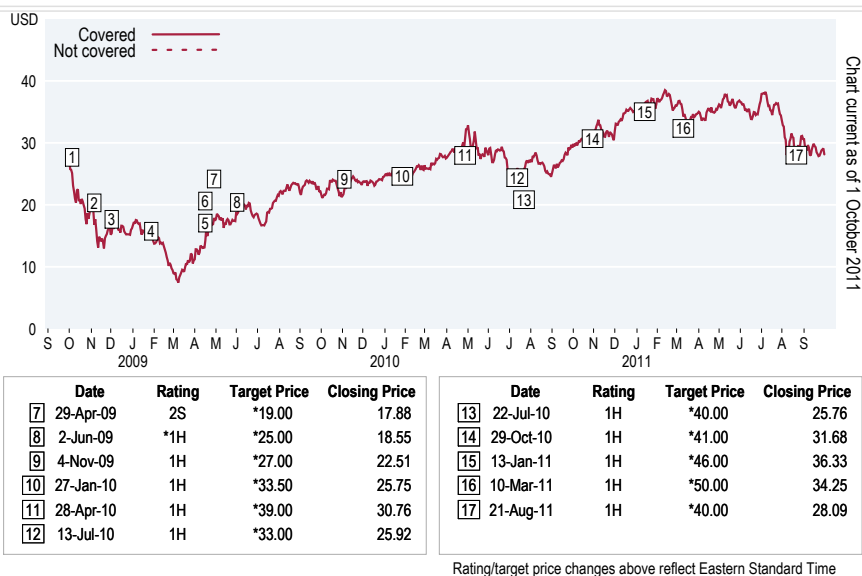


\* Indicates change

## TE Connectivity Ltd. (TEL)

### Ratings and Target Price History Fundamental Research

Analyst: Jim Suva, CPA



| Date        | Rating | Target Price | Closing Price |
|-------------|--------|--------------|---------------|
| 1 5-Oct-08  | *2S    | *34.00       | 25.65         |
| 2 6-Nov-08  | 2S     | *20.00       | 16.78         |
| 3 2-Dec-08  | 2S     | *17.00       | 15.41         |
| 4 28-Jan-09 | 2S     | *15.50       | 15.05         |
| 5 16-Apr-09 | 2S     | *13.00       | 14.27         |
| 6 16-Apr-09 | 2S     | *16.00       | 14.27         |

\* Indicates change

| Date         | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 7 29-Apr-09  | 2S     | *19.00       | 17.88         |
| 8 2-Jun-09   | *1H    | *25.00       | 18.55         |
| 9 4-Nov-09   | 1H     | *27.00       | 22.51         |
| 10 27-Jan-10 | 1H     | *33.50       | 25.75         |
| 11 28-Apr-10 | 1H     | *39.00       | 30.76         |
| 12 13-Jul-10 | 1H     | *33.00       | 25.92         |

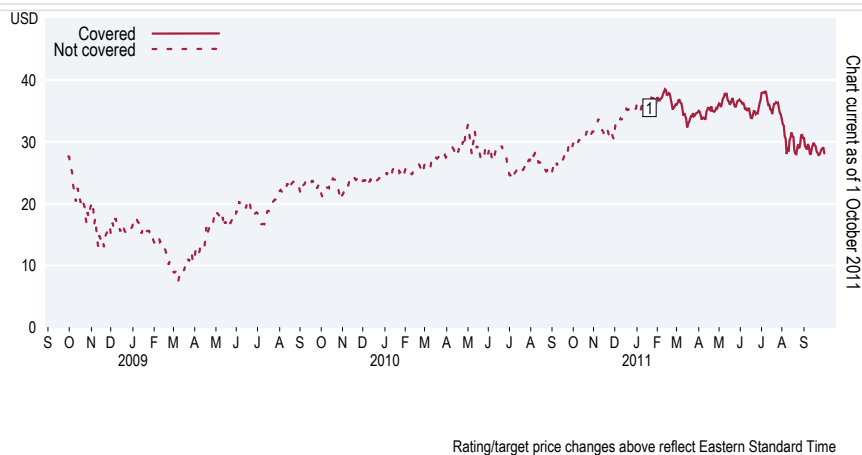
| Date         | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 13 22-Jul-10 | 1H     | *40.00       | 25.76         |
| 14 29-Oct-10 | 1H     | *41.00       | 31.68         |
| 15 13-Jan-11 | 1H     | *46.00       | 36.33         |
| 16 10-Mar-11 | 1H     | *50.00       | 34.25         |
| 17 21-Aug-11 | 1H     | *40.00       | 28.09         |

Rating/target price changes above reflect Eastern Standard Time

## TE Connectivity Ltd. (TEL)

### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jim Suva, CPA



| Date        | Rating  | Target Price | Closing Price |
|-------------|---------|--------------|---------------|
| 1 20-Jan-11 | *ADD MP | -            | 36.02         |

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Vishay Intertechnology Inc (VSH)

### Ratings and Target Price History Fundamental Research

Analyst: Jim Suva, CPA

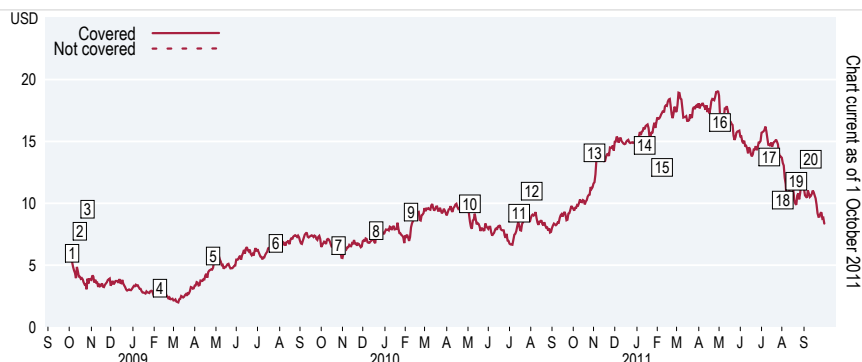


Chart current as of 1 October 2011

|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 5-Oct-08  | *2S    | *7.20        | 5.42          |
| 2 | 16-Oct-08 | 2S     | *4.50        | 4.07          |
| 3 | 28-Oct-08 | 2S     | *3.60        | 3.91          |
| 4 | 10-Feb-09 | 2S     | *3.33        | 2.88          |
| 5 | 28-Apr-09 | 2S     | *5.85        | 4.79          |
| 6 | 28-Jul-09 | 2S     | *7.20        | 6.45          |
| 7 | 27-Oct-09 | 2S     | *8.10        | 6.46          |

\* Indicates change

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 8  | 21-Dec-09 | 2S     | *9.00        | 7.71          |
| 9  | 9-Feb-10  | 2S     | *10.35       | 8.05          |
| 10 | 5-May-10  | 2S     | *11.24       | 8.53          |
| 11 | 15-Jul-10 | 2S     | *9.50        | 8.24          |
| 12 | 3-Aug-10  | 2S     | *11.00       | 9.02          |
| 13 | 2-Nov-10  | 2S     | *15.00       | 11.70         |
| 14 | 13-Jan-11 | 2S     | *17.00       | 15.99         |

|    | Date      | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 15 | 8-Feb-11  | 2S     | *19.00       | 17.32         |
| 16 | 3-May-11  | 2S     | *18.00       | 17.11         |
| 17 | 13-Jul-11 | 2S     | *17.00       | 14.74         |
| 18 | 2-Aug-11  | 2S     | *16.00       | 13.26         |
| 19 | 21-Aug-11 | 2S     | *13.00       | 9.97          |
| 20 | 12-Sep-11 | 2S     | *12.00       | 10.59         |

Rating/target price changes above reflect Eastern Standard Time

## Vishay Intertechnology Inc (VSH)

### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jim Suva, CPA

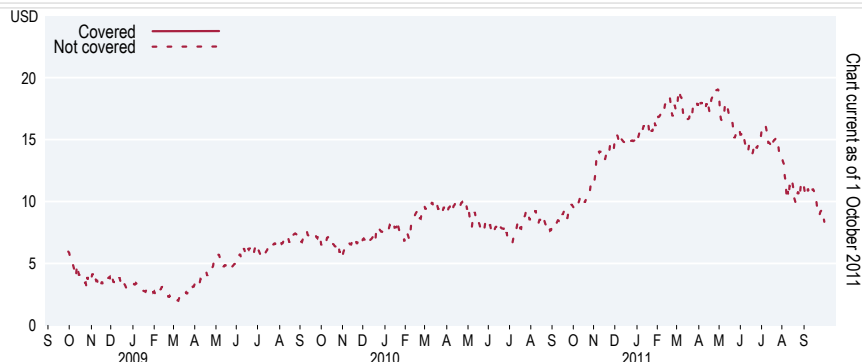


Chart current as of 1 October 2011

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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| <i>Data current as of 30 Sep 2011</i>                                      | <b>12 Month Rating</b> |             |             | <b>Relative Rating</b> |             |             |
|--|------------------------|-------------|-------------|------------------------|-------------|-------------|
|  | <b>Buy</b>             | <b>Hold</b> | <b>Sell</b> | <b>Buy</b>             | <b>Hold</b> | <b>Sell</b> |
| Citi Investment Research & Analysis Global Fundamental Coverage            | 56%                    | 35%         | 9%          | 10%                    | 80%         | 10%         |
| % of companies in each rating category that are investment banking clients | 45%                    | 43%         | 38%         | 50%                    | 43%         | 45%         |

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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Citigroup Global Markets Inc

Jim Suva, CPA; Samuel Meehan

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