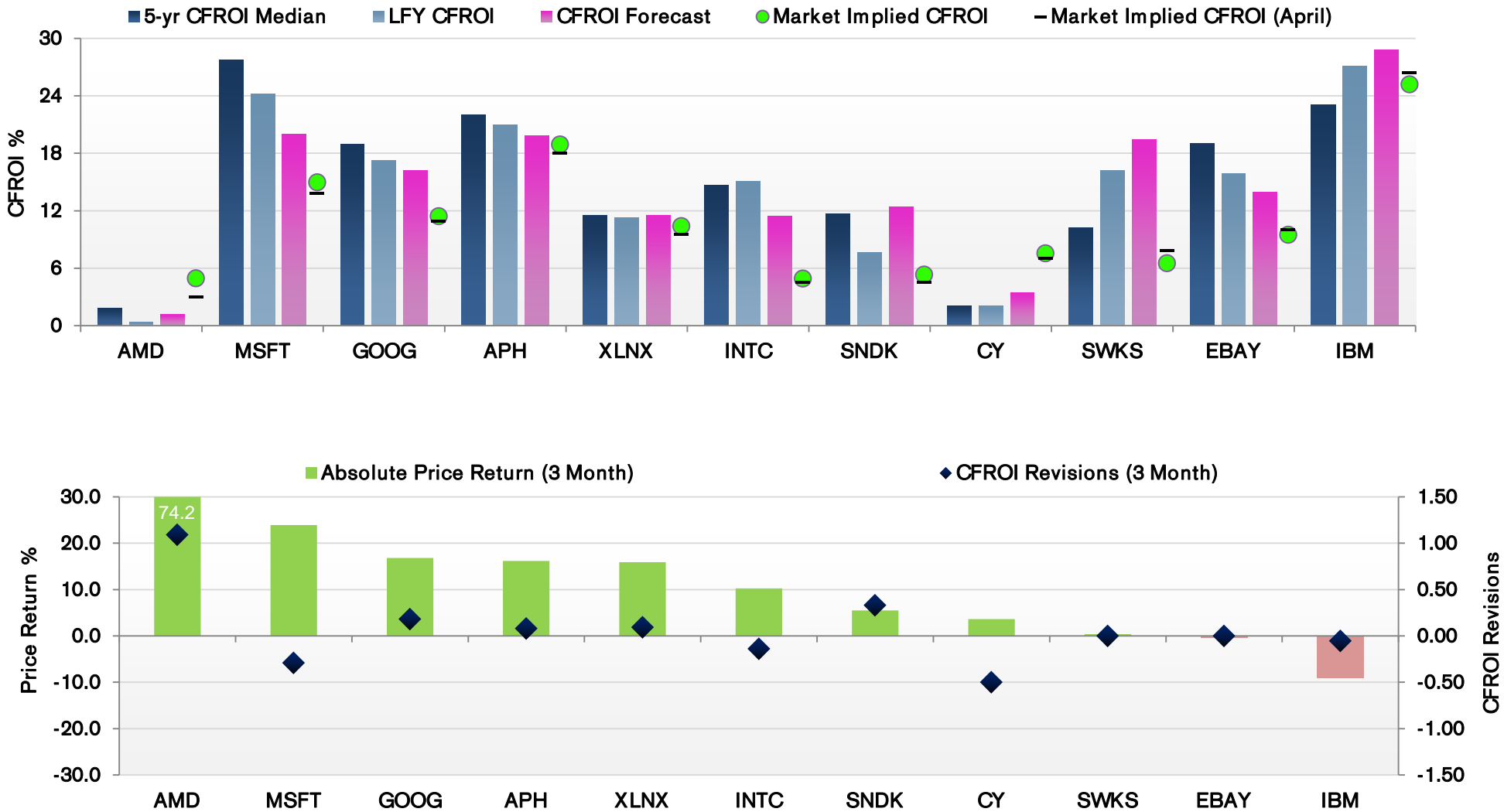


HOLT Tech: What's Priced into Companies Reporting This Week?

July 2013

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Expectations Now versus Last Quarter and Price Performance



Note: Companies sorted based on 3 month price performance. CFROI® revisions measures the impact on CFROI forecasts from a change in consensus estimates.

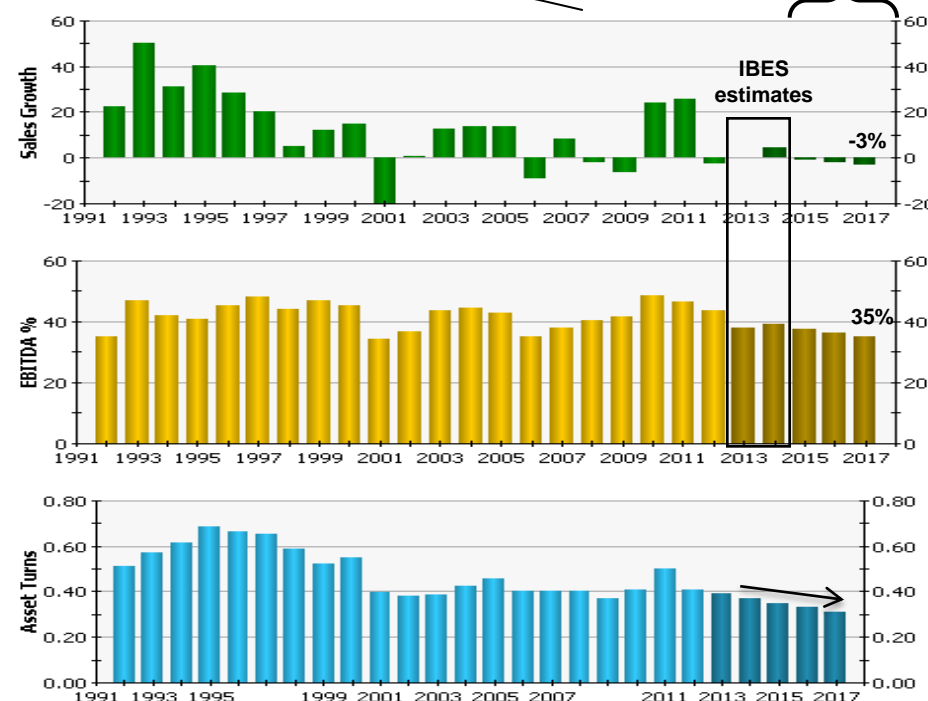
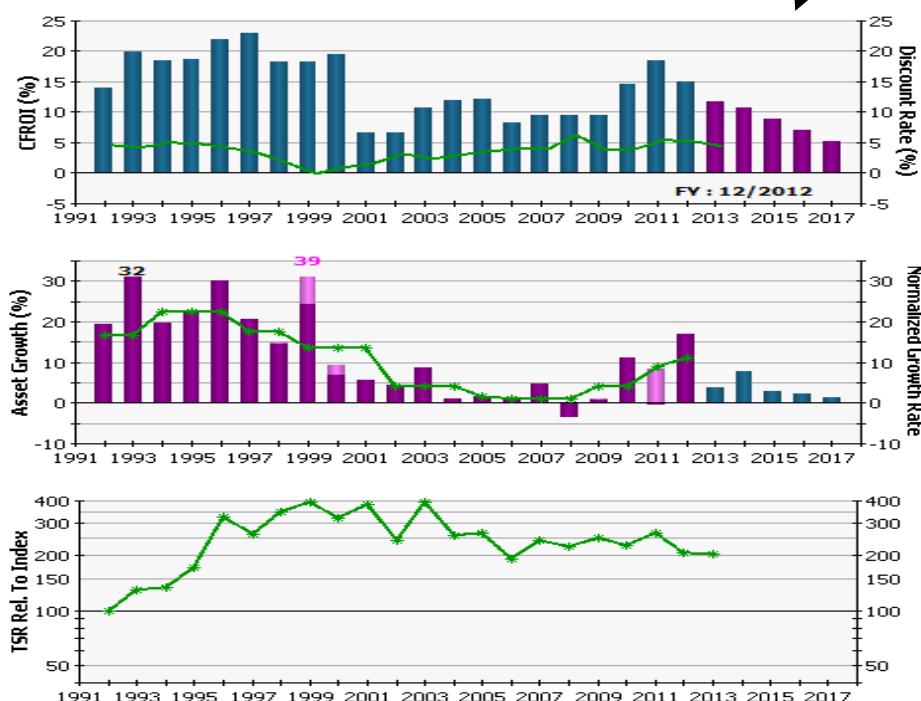
Market-Implied Scenarios for Tech Firms Reporting This Week

INTEL CORP (INTC)

An example of how HOLT can be used to solve for what the market is pricing into a company at its current stock price

Implied levels of sales growth, margins and asset turns get translated into implied levels of CFROI® (cash flow returns) and asset growth

Market implied level of long-term sales growth, margins and asset turns at ~\$24/share

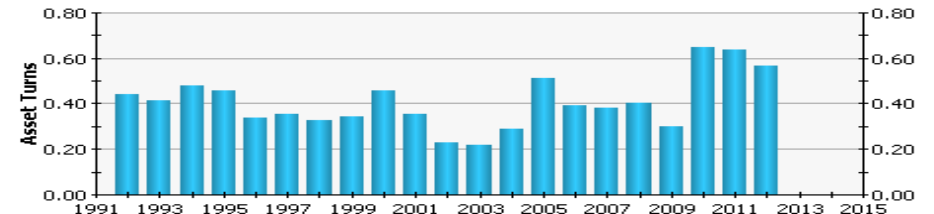
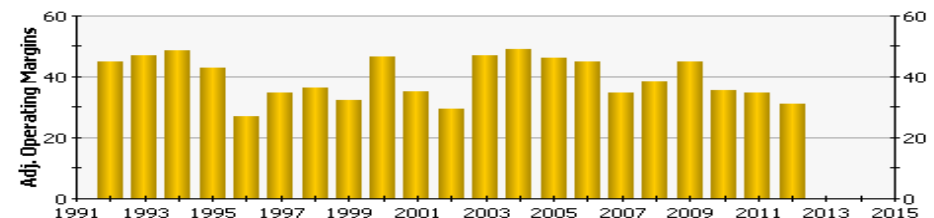
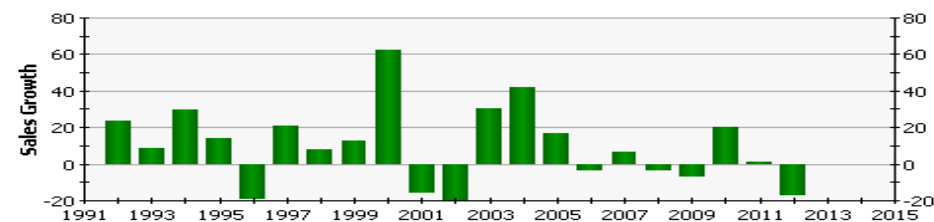
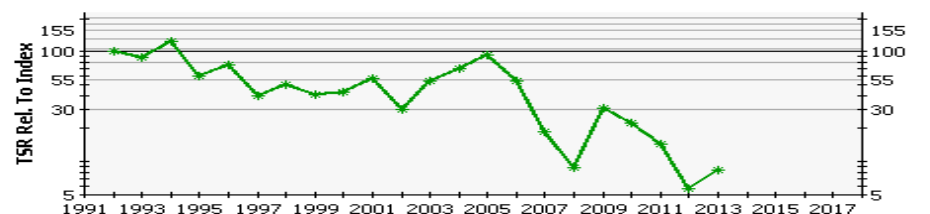
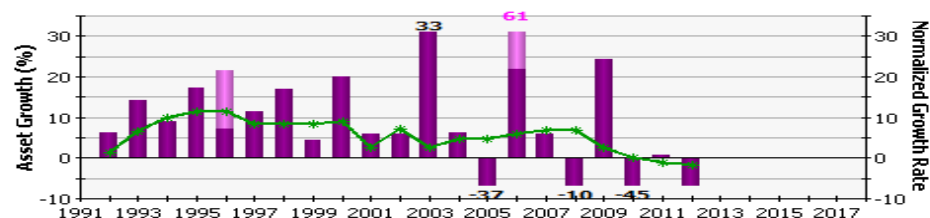
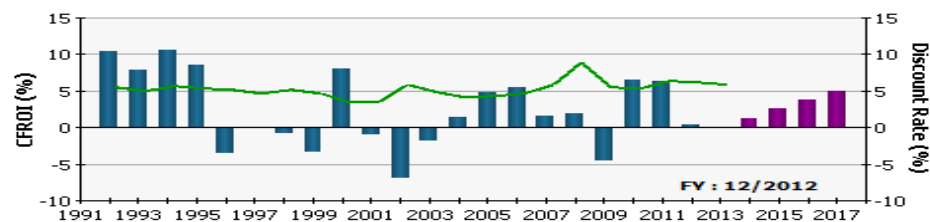


Conclusion: At ~\$24, INTC is priced for long-term (i.e. 2017) sales growth of -3% with margins falling to 35% and declining asset turns. This results in CFROI® declining to INTC's cost of capital coupled with low growth.

ADVANCED MICRO DEVICES (AMD)

Priced for CFROI® to improve longer term

Price (USD): 4.40 (Jul 15, 2013)
Semiconductors



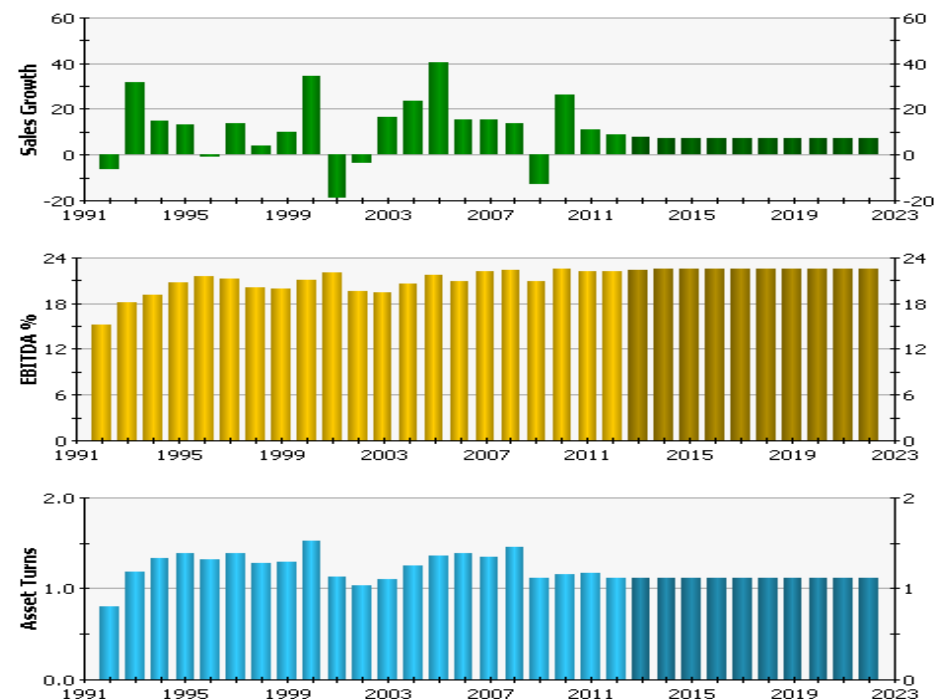
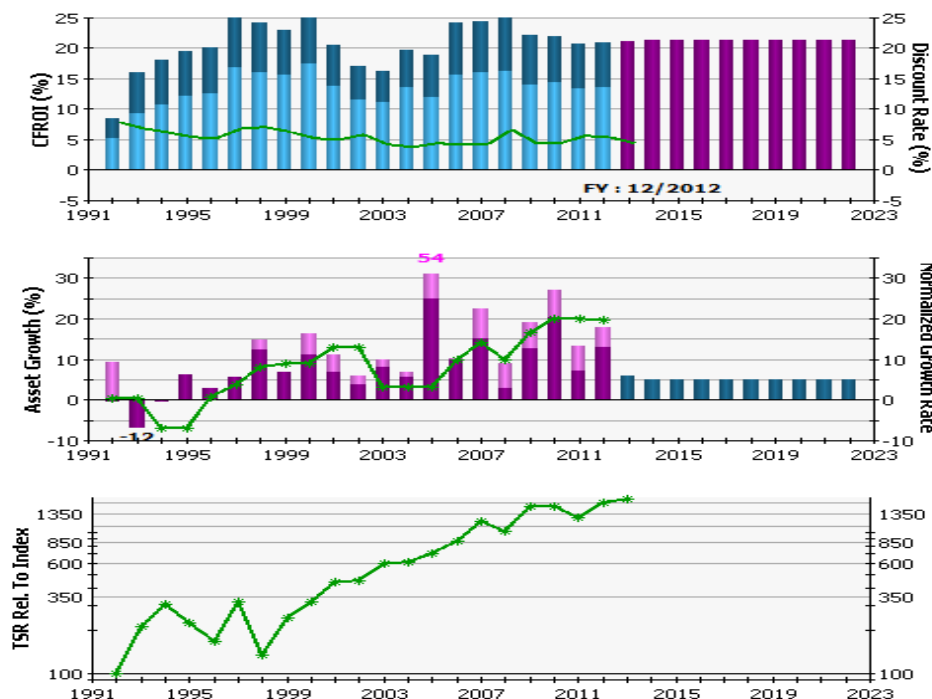
The competitiveness of AMD's products has come and gone, with the company struggling to consistently earn its cost of capital. More recently an asset-light strategy (i.e. divestiture of fabs) and the economic recovery has led to a significant improvement in CFROI. However, recent weakness in the PC market caused achieved CFROI to drop to 0% last fiscal year.

Long-term expectations are for CFROI to improve to 5%, implying AMD will earn near cost-of-capital CFROI going forward. While AMD's strategy of focusing on an asset-light model could lead to consistently higher CFROI (industry average CFROI is 8%), investors should note AMD has only earned CFROI at or above its cost-of-capital 5 times in the last 15 years. Assuming CFROI of 8% longer term warrants upside of 30%. To warrant similar downside, CFROI of 3% is required.

AMPHENOL CORP (APH)

Quality at any price Tech firm

Price (USD): 84.92 (Jul 15, 2013)
Electronic Components



APH has consistently earned high and relatively stable CFROI levels over the years by dominating the connector/cable markets in which it operates (hence the 10-year valuation window in HOLT). Further, the company has generated strong growth driven in large part by bolt-on acquisitions (APH spent at least \$100m in each of the past 6 years on acquisitions).

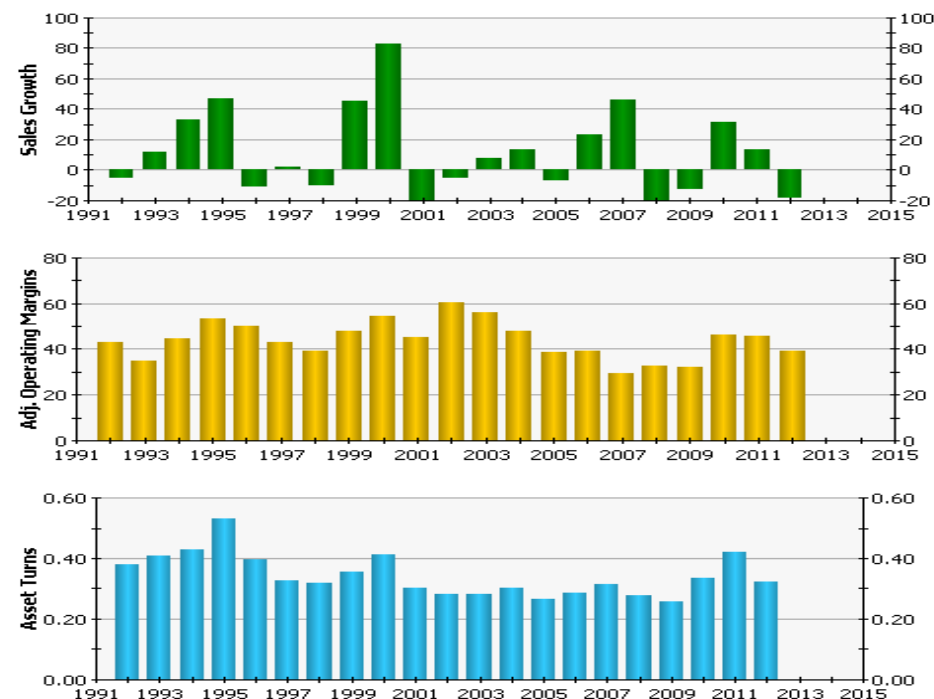
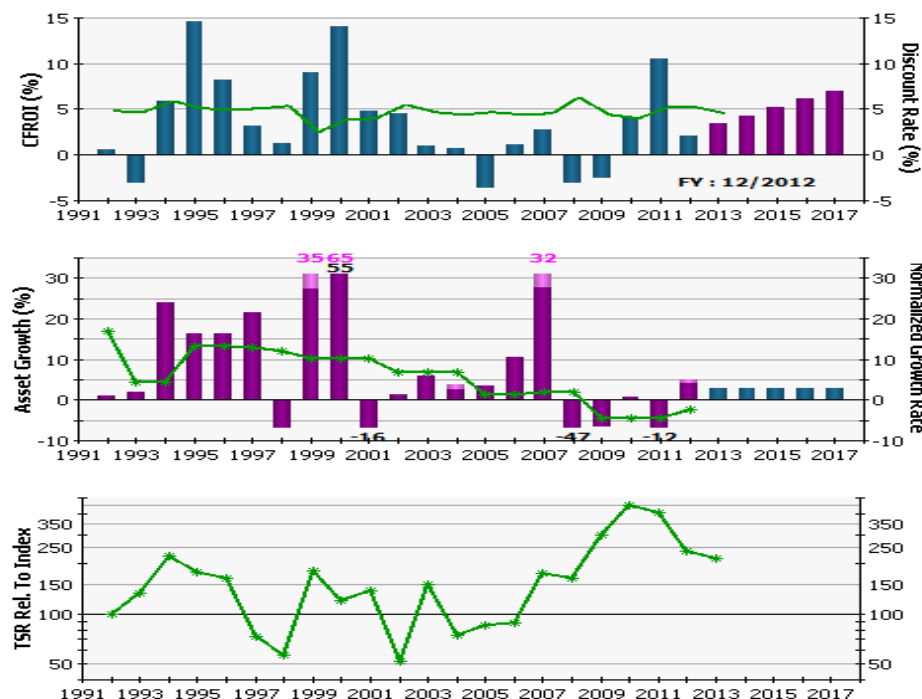
Relying on IBES consensus estimates for sales growth and margins through 2014, thereafter the market is pricing sales growth of 7% with flat margins and stable asset turns. Given that APH has achieved yearly top-line growth of 10%+ over most of the past decade, growth expectations could prove conservative. Assuming long-term sales growth of 10% warrants 25% upside; conversely assuming long-term sales growth of only 4% warrants 25% downside.

CFROI revisions continue to be positive which should help support valuation over the near term.

CYPRESS SEMICONDUCTOR CORP (CY)

Valuation suggests caution

Price (USD): 11.44 (Jul 15, 2013)
Semiconductors



CY provides various analog and microcontroller chips, competing with LLTC, ADI, ATML, MCHP and PMCS. Most of these peers earn mid-cycle CFROI in the mid-teens, which is well above CY's historical and forecast CFROI levels.

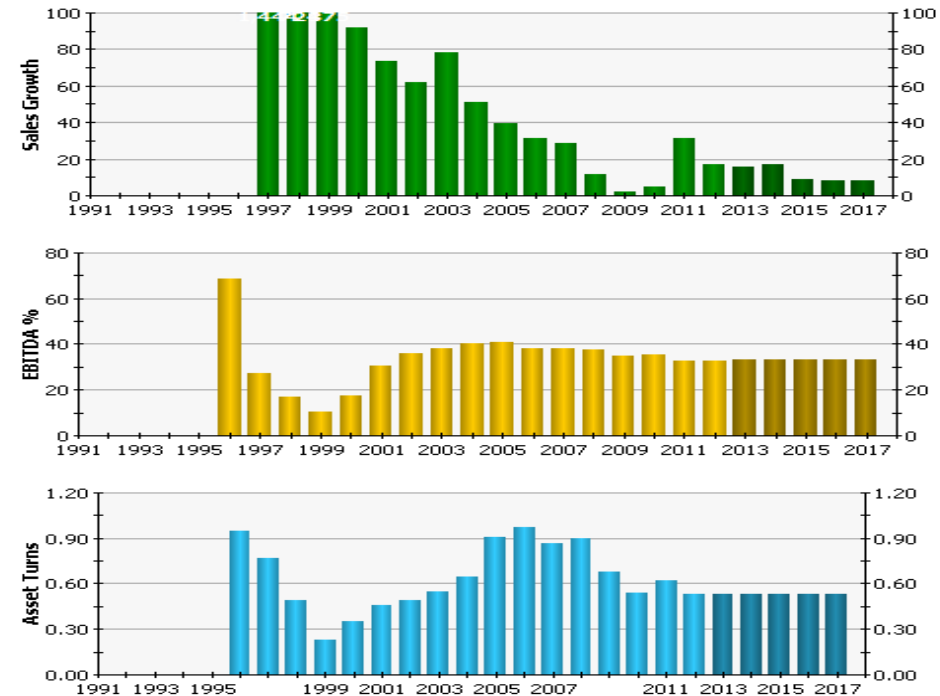
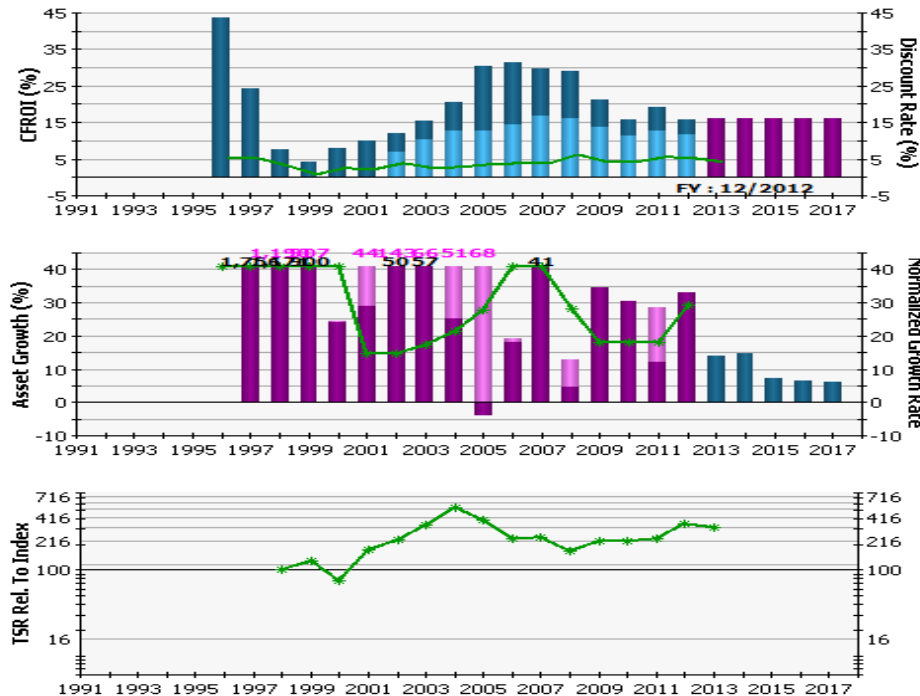
Using IBES consensus estimates through 2014, analysts are forecasting CFROI to remain near 2012 levels. Thereafter, assuming low-single digit asset growth, CY is priced for CFROI levels to rebound to 7%. However, CY has historically had difficulty achieving stable CFROI above the cost of capital. If CFROI levels only rebound to CY's cost-of-capital (5% CFROI), then 20% downside is warranted. To warrant similar upside, CFROI levels need to increase to 9% (average of 2010/2011 levels). All told, given CY's historical CFROI profile and its current valuation caution appears warranted.

CFROI revisions have been negative the past few months.

EBAY INC (EBAY)

Payments segment may drive upside

Price (USD): 56.45 (Jul 15, 2013)
Internet Software & Services



EBAY earns high CFROI levels due to the asset-light nature of its business and, as a result, growth becomes a critical metric for investors' attention. With that in mind, EBAY's prospects look promising as the payment segment (i.e. PayPal) is forecasted for high growth over the next few years.

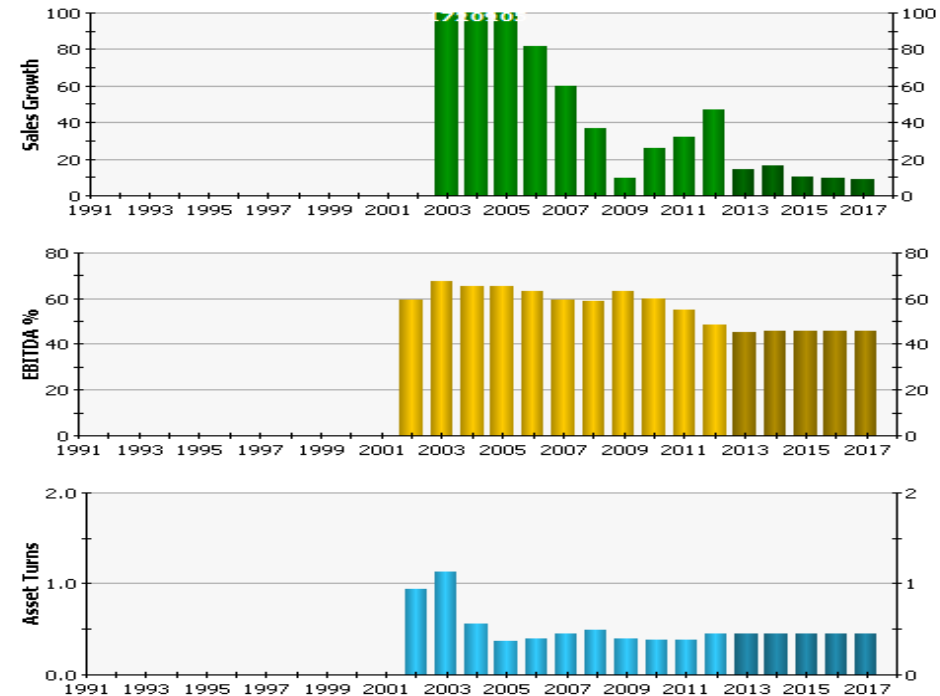
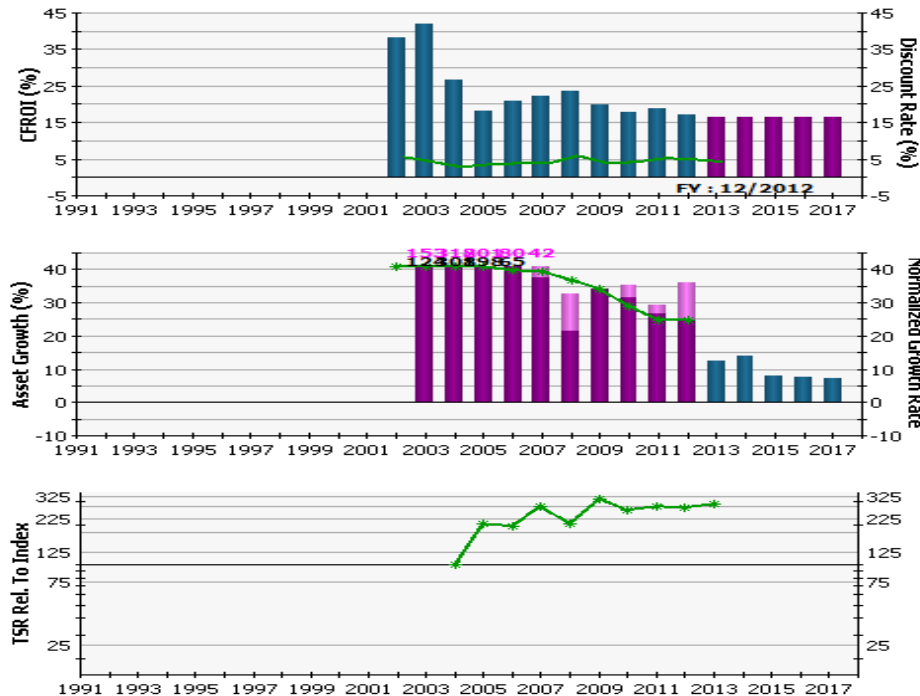
Relying on IBES consensus estimates for sales growth and margins through 2014, the market is pricing 8% sales growth with 33% margins. Growth expectations could prove conservative given near-term estimates. Assuming long-term sales growth of 14% with margins of 33% (in-line with forecasts) warrants upside of 30%. Conversely, to warrant similar downside investors must assume 4% sales growth and 27% margins.

While the paypal segment should experience strong growth over the next few years, investors should note this segment earns lower margins than the marketplace segment.

GOOGLE INC (GOOG)

Priced for long-term sales growth of 9%

Price (USD): 924.69 (Jul 15, 2013)
Internet Software & Services



GOOG earns fairly high CFROI levels (around 18% the last few years) due to its dominant position in search and the asset light nature of the business. As a result, the critical metric to pay attention to when assessing the company's operational performance and valuation is growth.

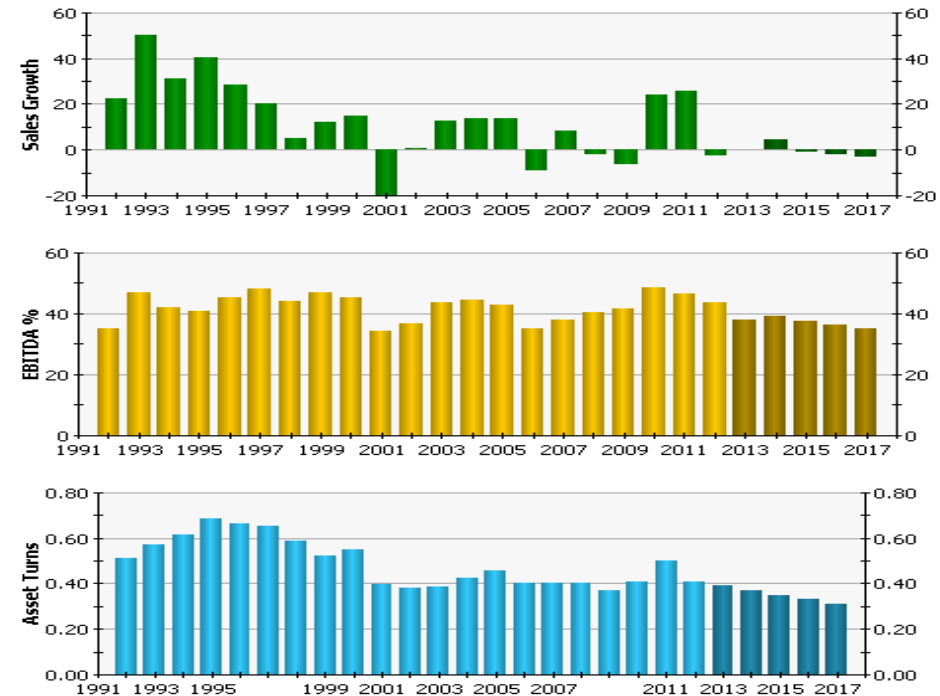
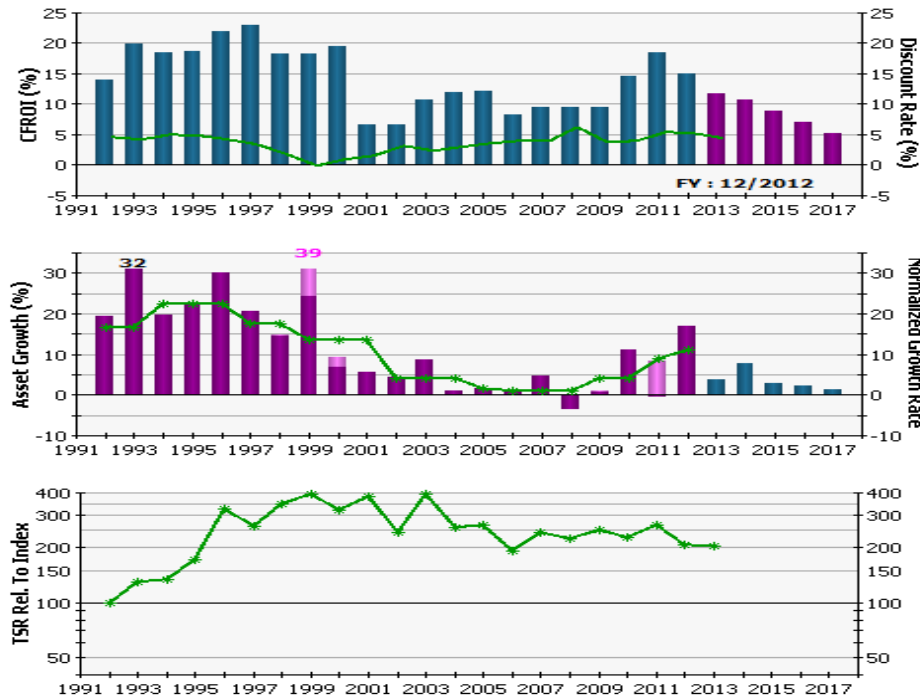
Expectations imply sales growth slowing to 9% with margins of 45%, such that long-term CFROI is 16%. Given online advertising still represents a modest amount of total ad dollars, GOOG's growth potential is high. Further, if GOOG can monetize its other businesses, long-term growth could potentially be well above current expectations. Assuming sales growth of 14% with margins of 45%, upside of 30% is warranted. To warrant similar downside, sales growth must slow to 5% with margins compressing to 40%.

CFROI revisions are positive and GOOG is up over 60% the past year.

INTEL CORP (INTC)

Priced to be a cost-of-capital business

Price (USD): 23.94 (Jul 15, 2013)
Semiconductors



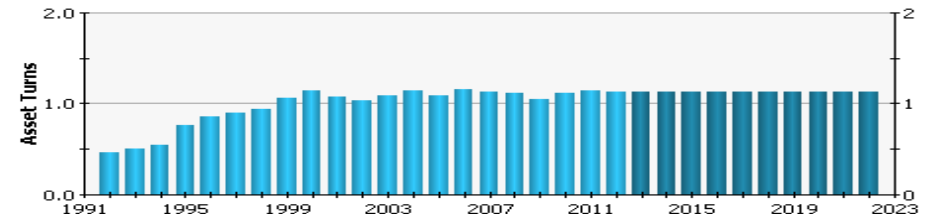
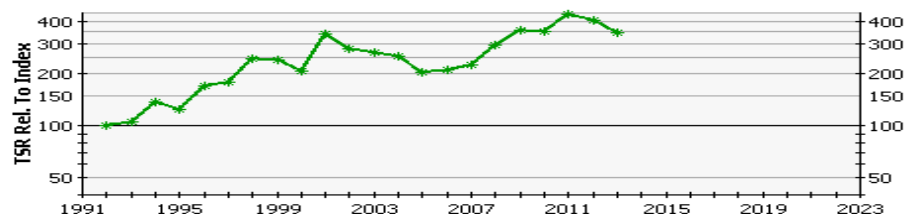
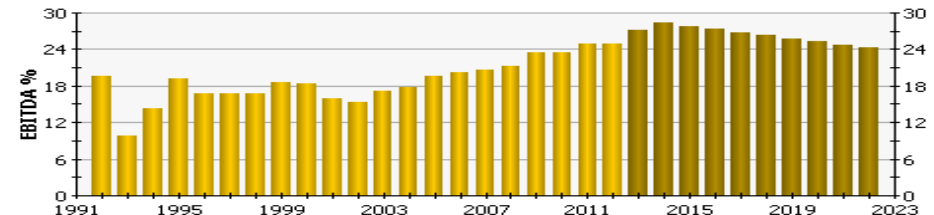
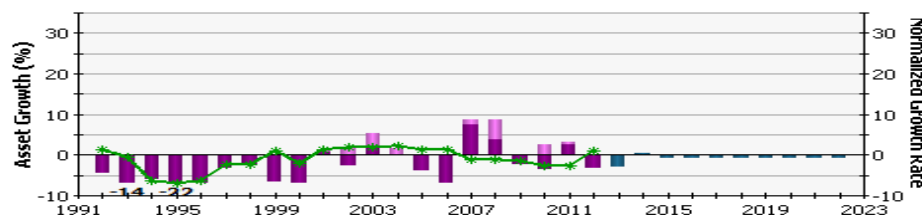
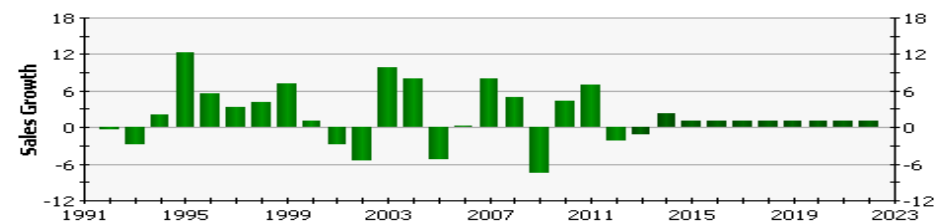
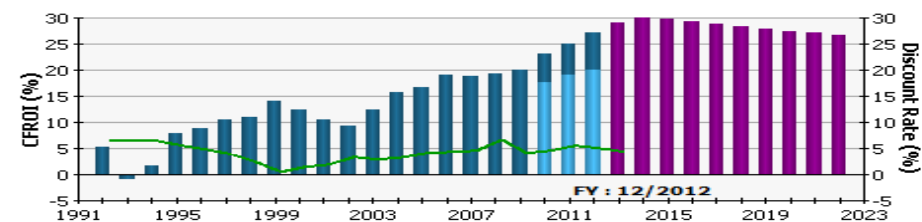
Post the tech bubble, INTC's CFROI bounced between 6%-18%. With the economic recovery and a strong focus on expense management from the downturn, CFROI climbed to around 15% from 2010-2012. However, looking ahead analysts are forecasting this trend to reverse with CFROIs declining in 2013/2014 due to lower growth and margins, largely due to falling PC demand.

Post IBES consensus estimates through 2014, expectations imply long-term sales growth of -3% with margins of 35% and lower asset turns, resulting in CFROI near INTC's cost-of-capital. These low expectations are largely due to fears surrounding tablets and smartphones and INTC's heavy exposure to the weak PC market. Assuming 5% sales growth and 40% margins are sustained longer term, upside of 50% is warranted. Conversely, should sales turn deeply negative and margins fall to 28%, downside of only 25% is warranted.

INTL BUSINESS MACHINES CORP (IBM)

Market pricing recent CFROI improvements to reverse

Price (USD): 194.00 (Jul 15, 2013)
IT Consulting & Other Services



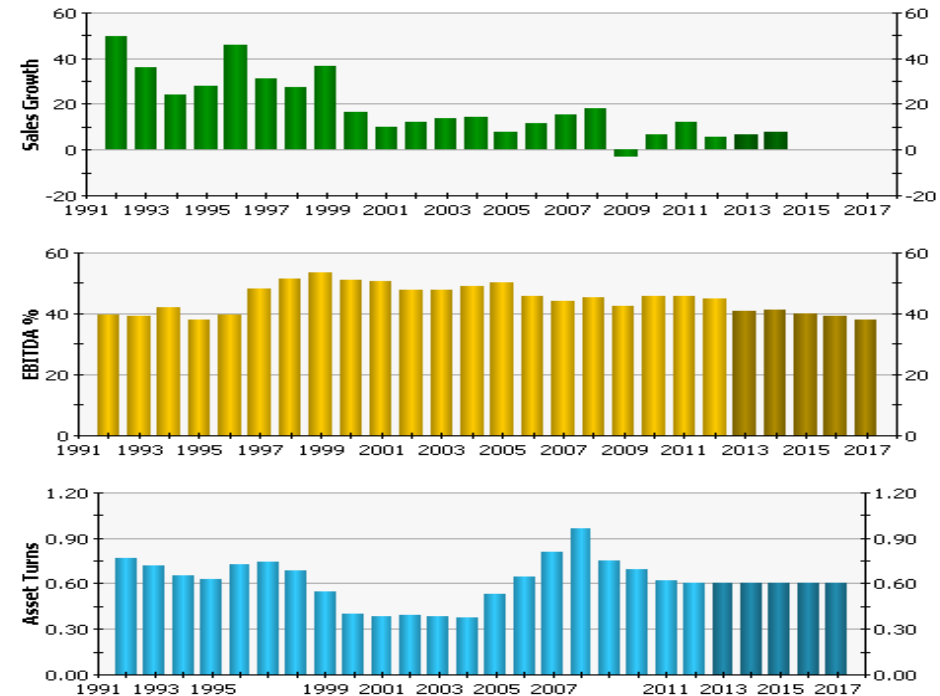
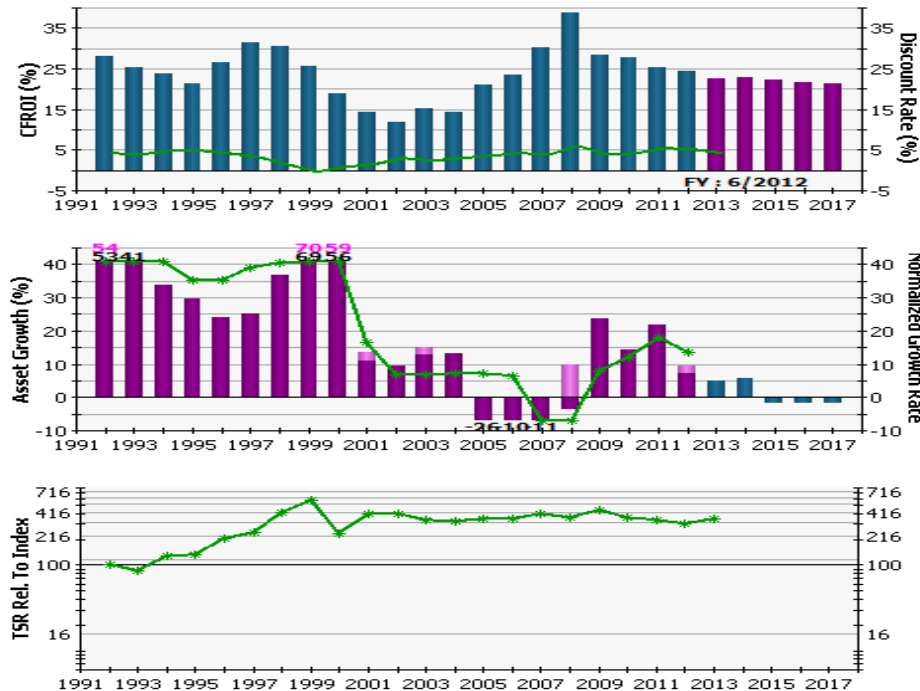
In recent years cost controls and the movement towards a software/services-based business model has led to higher operating margins and CFROI levels. However, IBM has struggled to achieve consistent asset growth.

Using IBES consensus estimates through 2014, thereafter expectations imply long-term sales at 1% along with margins declining to 24%. Management is targeting mid-single digit organic sales growth and modest margin expansion over the next several years, making expectations appear fairly conservative. Further, IBM is rarely priced (like it is currently) at such a discount to forecast CFROI levels. That said, relative to other Tech mega-cap peers, IBM's expectations appear higher. Assuming long-term sales growth of 4% and margins of 29%, warrants 30% upside. To warrant similar downside, sales growth of 0% with margins falling to 20% is required.

MICROSOFT CORP (MSFT)

Expectations still imply no growth

Price (USD): 36.17 (Jul 15, 2013)
Systems Software



MSFT has had stable and high CFROI due to its strong competitive position. However, after many years of double-digit revenue growth, top-line has slowed in recent years and with it MSFT's asset efficiency. Looking ahead, the ability of MSFT to generate meaningful growth from recent product launches (Windows 8 / Surface) appears key to driving CFROI levels higher.

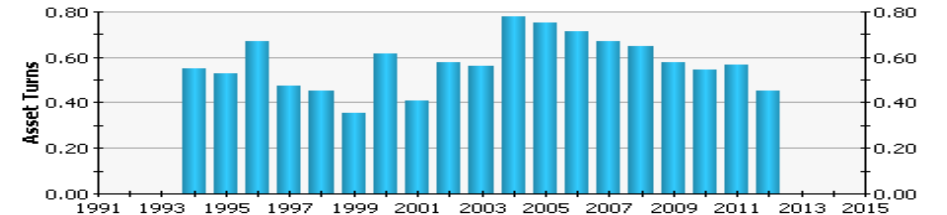
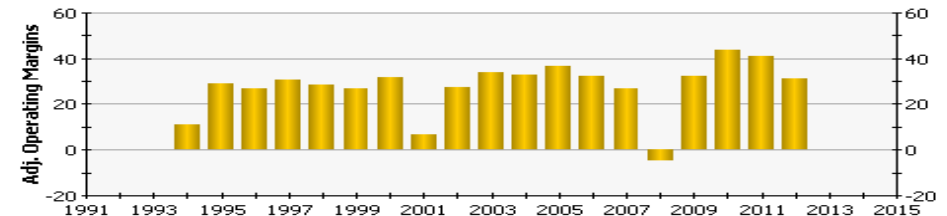
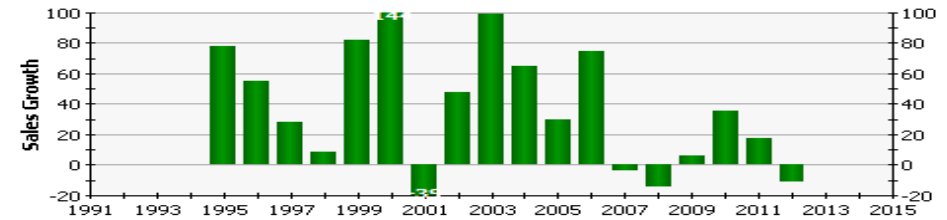
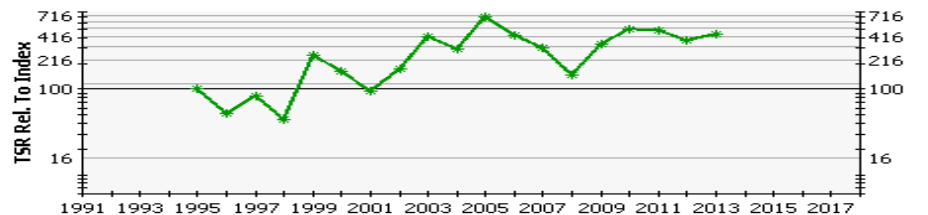
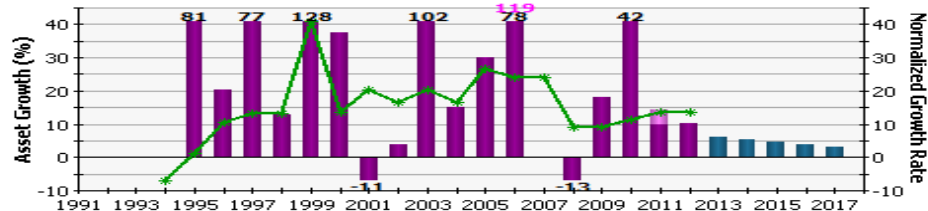
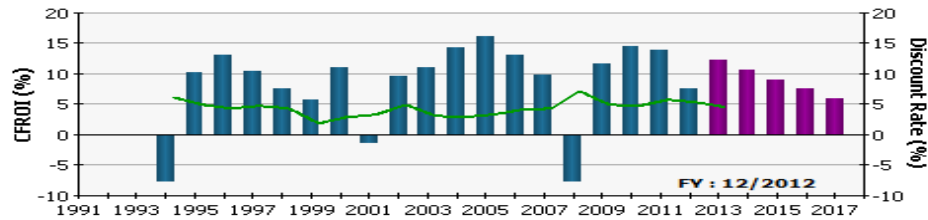
Expectations imply long-term sales growth of 0% with margins falling to 38%. Major fears regarding MSFT seem to be growth in tablets and smartphones, where the company has lagged. However, assuming that product launches prove successful, growth expectations may ultimately prove too bearish. If MSFT can maintain 5% sales growth with stable margins and turns, 40% upside is warranted. To warrant similar downside, sales growth must fall to deeply negative levels.

MSFT is up over 30% the past 6 months.

SANDISK CORP (SNDK)

Priced slightly below mid-cycle levels

Price (USD): 61.30 (Jul 15, 2013)
Computer Storage & Peripherals



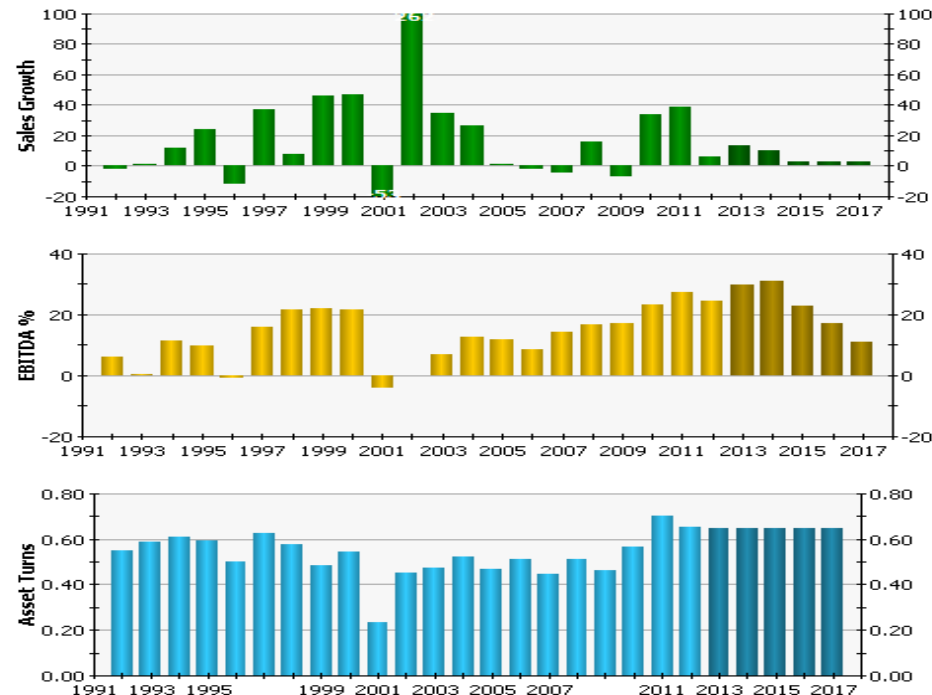
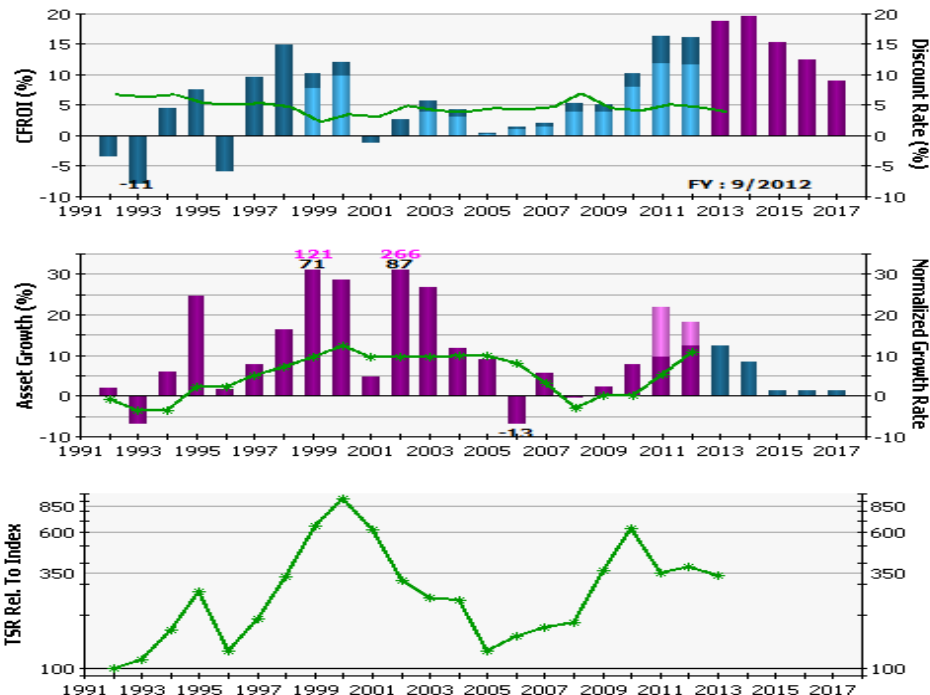
SNDK's historical CFROI levels have been volatile due to the uncertain nature of the flash memory industry. At cycle peaks, SNDK earns ~15% CFROI, while at cycle troughs CFROI are negative, implying mid-cycle CFROI of ~7%. While an over supply in the industry drove down margins and top-line in 2012, analysts are forecasting a rebound over the next few years, which should lead to higher CFROI levels.

Assuming 3% asset growth, the market is pricing 6% long-term CFROI. Expectations for long-term CFROI levels are slightly below historical mid-cycle levels referenced above. However, due to the volatile nature of SNDK's business, expectations have tended to be low for the company over the past several years. Assuming long-term CFROI of 10%, upside of 50% is warranted. Conversely, should long-term CFROI fall to 2%, similar downside is warranted.

SKYWORKS SOLUTIONS INC (SWKS)

Smartphone exposure driving plateau shift in CFROI

Price (USD): 21.94 (Jul 15, 2013)
Semiconductors



SWKS has undergone an impressive plateau shift in CFROI levels in recent years as strong sales growth from a robust smartphone market has led to improved margins and R&D turns and, hence, higher CFROI levels. Going forward, analysts are forecasting these positive trends to continue.

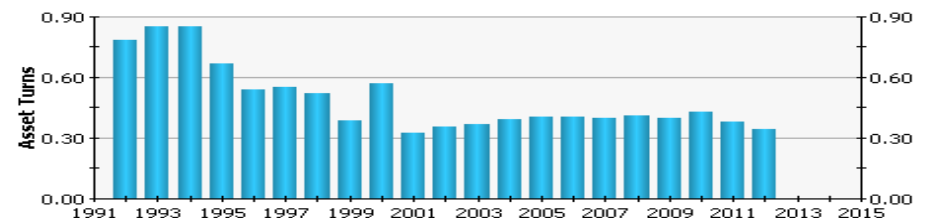
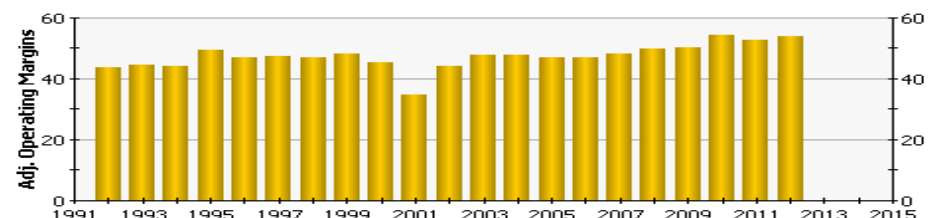
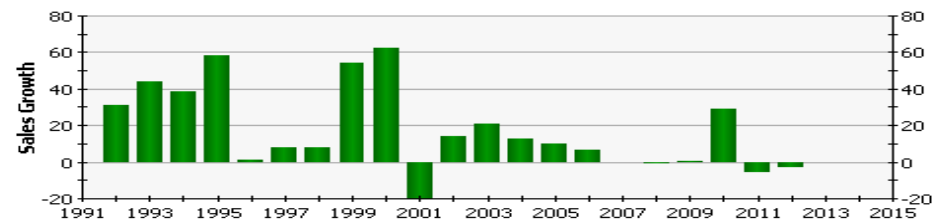
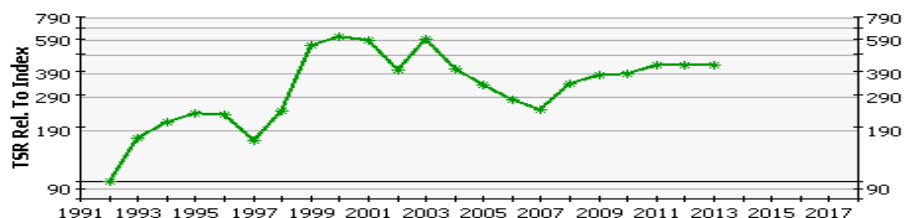
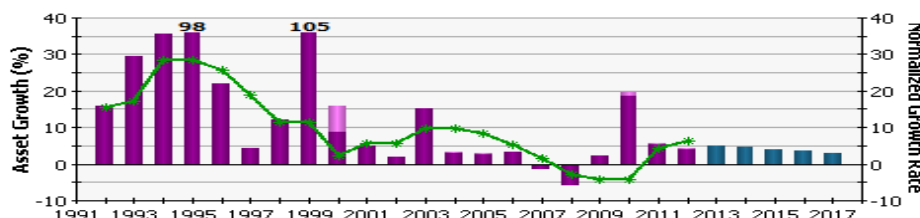
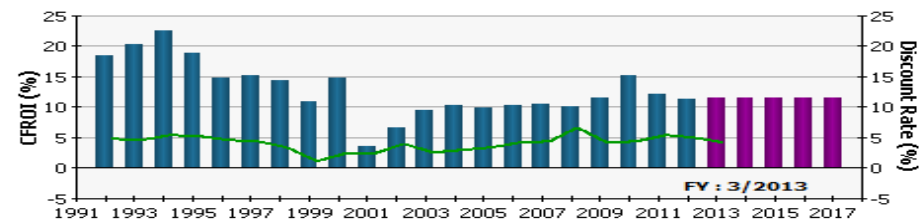
Post 2014 IBES consensus estimates, SWKS is priced for long-term sales growth of 3% with margins of 11%, resulting in CFROI of 9%. In other words, the market is pricing SWKS for modest growth with significant margin contraction and the improvements of the past few years to reverse. Assuming higher growth of 8% and margins of 25%, upside of 50% is warranted. For similar downside, margins must fall to 7% with negative growth.

SWKS has sizable exposure to AAPL, which may pose an investment risk should AAPL change suppliers.

XILINX INC (XLNX)

Priced in-line with forecasts & recent history

Price (USD): 43.17 (Jul 15, 2013)
Semiconductors



XLNX has maintained relatively stable CFROI around 10% over the last decade due to the defensive nature of the PLD industry. CFROI levels through 2009 actually increased, despite weak growth, due to better manufacturing efficiencies and aggressive cost-cutting. When growth resumed coming out of the recession, CFROI levels have generally moved higher.

Assuming asset growth consistent with mid single-digit sales growth, the market is pricing long-term CFROI of 11%. Given that many analysts think the PLD industry can grow in the mid to high single-digits, growth expectations seem fair. XLNX's efforts of focusing on cost controls could help close the gap in CFROI versus ALTR (earns 15% mid-cycle CFROI). Assuming CFROI climbs to 16% longer term, 30% upside is warranted. For similar downside, CFROI would need to fall to 7% (cost-of-capital).

CFROI revisions have been positive the past 3 months.

Appendix

Recent HOLT Insights Available Upon Request

- **HOLT Tech Monthly Report** (most recent): Update on Sector Trends
- **HOLT Tech Scorecard** (most recent): U.S. & Global Company Rankings
- **HOLT Tech Sector Topics** (most recent): Insights on Timely Sector Topics
- **HOLT Tech SMID Takeouts**: Tech Takeout Basket based on HOLT criteria
- **HOLT Notes**: Select HOLT Principles (R&D, Fade, eCAPS, etc.) on Single Sheet

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