

Poor 3Q results, down to Underperform



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Downgrade from BUY to Underperform, NT\$22 PO

We downgrade Innolux from Buy to Underperform (currently 6 Buys, 4 Neutral and 1 Sell per Bberg) and reduce our PO to NT\$22 on 0.7x 09E PBV (below its historical 0.9-5.5x PBV range). After very poor 3Q results, we expect deep losses in 4Q08/1H09, disproving the theory of its more “defensive” panel+assembly business model and lead us to use PBV valuations, similar to other panel makers.

3Q results shockingly poor, earnings down 97% QoQ

INLX released 3Q parent-only results tonight, with net income of NT\$103m, far below ML (NT\$2.3bn) and street expectations (NT\$750m-3bn). Parent GPM/OPM was 3.2%/0.2% and investment income (mainly from Innocom, its China LCM) was NT\$357m. If we add this back and do a pro forma consolidated GPM/OPM, 3Q08 would be 4.1%/1.0% (ML 8.7%/5.4%) versus 12.3%/7.8% in 2Q08.

4Q outlook is gloomy as end demand slows

We expect Innolux's 1H/2H08 LCD monitor shipments to be 47%/53% and for 08E total of 31.7m, slightly lower than company's target of 33m. Our checks show while monitor demand is rolling over in 4Q on order cuts from OEMs, INLX is still using aggressive pricing to go for market share during this downturn. We expect 4Q sales to fall 6% QoQ, GPM/OPM of -0.1%/-4.3% and net loss of NT\$1.1bn.

Panel + assembly model not resilient during this downturn

INLX is 23% net cash/equity and fully funded for 6G in 2Q09 (60k/mth). We cut 08E profit from NT\$10.9bn to NT\$5.7bn and 09E from NT\$13bn to NT\$1.6bn (down 72 %YoY) as, despite its unique biz model, earnings will be impacted from a) collapse in LCD panel ASPs (35% drop in 3Q, ~15% in 4Q), b) weak mtr/med panel demand, and c) weakening macro leading to first-ever losses since its IPO.

Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	2,832	16,152	5,730	1,585	8,337
EPS (Pre Bonus)	1.15	5.92	2.03	0.56	2.95
EPS (Post Bonus)	0.95	3.11	1.87	0.52	2.72
EPS Change (YoY)	407.6%	228.9%	-39.9%	-72.3%	426.1%
Dividend / Share	0.287	1.50	0.465	0.129	0.676
Free Cash Flow / Share	0.385	5.33	(3.48)	(3.79)	(3.50)

* Taiwan GAAP changed from Pre Bonus to Post Bonus earnings from 2008.

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	26.80x	8.15x	13.57x	49.06x	9.33x
Dividend Yield	1.13%	5.92%	1.83%	0.507%	2.67%
Free Cash Flow Yield*	1.21%	18.62%	-13.65%	-14.87%	-13.73%

* For full definitions of *iQmethod*SM measures, see page 9.

Stock Data

Price	NT\$25.35
Price Objective	NT\$62.00 to NT\$22.00
Date Established	29-Oct-2008
Investment Opinion	C-1-7 to C-3-8
Volatility Risk	HIGH
52-Week Range	NT\$25.35-NT\$150.00
Mrkt Val / Shares Out (mn)	US\$2,335 / 3,081.6
Average Daily Volume	24,821,560
ML Symbol / Exchange	INXDF / TAI
Bloomberg / Reuters	3481 TT / 3481.TW
ROE (2008E)	6.0%
Net Dbt to Eqty (Dec-2007A)	-33.0%
Est. 5-Yr EPS / DPS Growth	20.0% / 20.0%
Free Float	35.0%



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Refer to important disclosures on page 10 to 11. Analyst Certification on Page 7. Price Objective Basis/Risk on page 7.

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iQprofileSM Innolux Display Corporation

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(NT\$ Millions)					
Sales	105,679	157,171	166,415	180,742	228,396
Gross Profit	8,785	22,374	12,257	8,333	19,218
Sell General & Admin Expense	(2,478)	(3,516)	(4,508)	(5,132)	(6,852)
Operating Profit	4,639	17,078	5,798	1,245	9,625
Net Interest & Other Income	(1,583)	(89)	576	516	(362)
Associates	NA	NA	NA	NA	NA
Pretax Income	3,056	16,989	6,374	1,761	9,263
Tax (expense) / Benefit	(224)	(837)	(644)	(176)	(926)
Net Income (Adjusted)	2,832	16,152	5,730	1,585	8,337
Average Fully Diluted Shares Outstanding	2,464	2,727	3,067	3,067	3,067

Key Cash Flow Statement Data

Net Income (Reported)	2,832	16,152	5,730	1,585	8,337
Depreciation & Amortization	6,958	8,938	9,906	13,957	17,581
Change in Working Capital	(1,276)	(5,821)	1,882	(1,876)	(5,693)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,724	(402)	(184)	(285)	(948)
Cash Flow from Operations	10,237	18,866	17,334	13,381	19,277
Capital Expenditure	(9,288)	(4,324)	(28,000)	(25,000)	(30,000)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	(1,161)	(1,906)	(1,186)	(1,289)	(1,960)
Cash Flow from Investing	(10,450)	(6,230)	(29,186)	(26,289)	(31,960)
Shares Issue / (Repurchase)	8,314	42,953	0	0	0
Cost of Dividends Paid	0	(508)	(4,633)	(1,432)	(396)
Cash Flow from Financing	7,378	30,466	(4,633)	13,568	(396)
Free Cash Flow	949	14,542	(10,666)	(11,619)	(10,723)
Net Debt	23,626	(31,489)	(15,004)	(663)	12,416
Change in Net Debt	(8,101)	(55,080)	16,485	14,340	13,079

Key Balance Sheet Data

Property, Plant & Equipment	46,765	42,809	60,902	71,946	84,365
Other Non-Current Assets	1,645	3,668	4,854	6,143	8,103
Trade Receivables	16,506	28,166	24,164	26,740	34,416
Cash & Equivalents	10,552	53,688	37,203	37,863	24,784
Other Current Assets	15,980	19,364	21,505	24,412	29,792
Total Assets	91,448	147,695	148,629	167,103	181,460
Long-Term Debt	20,716	13,930	13,930	13,930	13,930
Other Non-Current Liabilities	8	0	0	0	0
Short-Term Debt	13,462	8,269	8,269	23,269	23,269
Other Current Liabilities	21,410	30,060	29,897	33,219	39,635
Total Liabilities	55,596	52,259	52,096	70,418	76,834
Total Equity	35,852	95,302	96,532	96,685	104,626
Total Equity & Liabilities	91,448	147,562	148,628	167,103	181,460

iQmethodSM - Bus Performance*

Return On Capital Employed	6.6%	16.6%	5.0%	1.3%	6.7%
Return On Equity	9.4%	24.6%	6.0%	1.6%	8.3%
Operating Margin	4.4%	10.9%	3.5%	0.7%	4.2%
EBITDA Margin	11.0%	16.6%	9.4%	8.4%	11.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	3.6x	1.2x	3.0x	8.4x	2.3x
Asset Replacement Ratio	1.3x	0.5x	2.8x	1.8x	1.7x
Tax Rate (Reported)	7.3%	4.9%	10.1%	10.0%	10.0%
Net Debt-to-Equity Ratio	65.9%	-33.0%	-15.5%	-0.7%	11.9%
Interest Cover	3.6x	14.7x	10.4x	1.7x	10.4x

Key Metrics

Bonus Adjusted Net Income	2,330	8,482	5,730	1,585	8,337
Bonus Adjusted ROE	7.8%	12.9%	6.0%	1.6%	8.3%
Bonus Adjusted EPS	0.95	3.11	1.87	0.52	2.72
Bonus Adjusted P/E	26.8x	8.1x	13.6x	49.1x	9.3x

* For full definitions of iQmethodSM measures, see page 9.

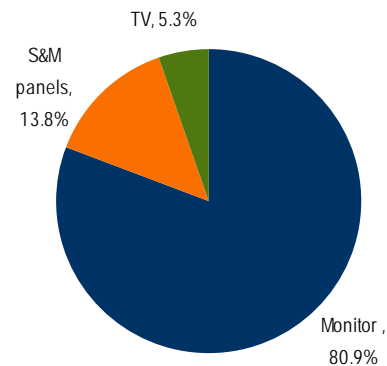
Company Description

InnoLux Display Corp is an emerging TFT-LCD hybrid company, with dual focus on monitor assembly and LCD panel production. Established in 2003, Innolux is already the second-largest LCD monitor assembler in the world. The company will start LCD TV assembly in 2007. As a member of the Hon Hai group, Innolux is striving for a high level of vertical integration to enhance its competitive advantage in costs, responsiveness, and quality.

Investment Thesis

Our channel checks show monitor demand is rolling over on order cuts from OEMs, while TV demand is muted as price elasticity is dampened in the face of macro consumer weakness. Despite its unique panel + assembly business model, we believe Innolux will not be immune from the severe LCD industry downturn due to weakness in small/medium and LCD monitor markets, and its previously "defensive" business model of panel+assembly will be increasingly challenged.

Chart 1: 08E sales breakdown



Source: Merrill Lynch estimates

Stock Data

Price to Book Value 0.8x

Table 1: Innolux's 3Q parent's only P&L

P&L	(NT\$m)	QoQ	YoY
Sales	41,345	-7.0%	-4.3%
Gross Profit	1,333	-71.0%	-80.2%
Operating profit	71	-97.9%	-98.8%
Pre-tax income	111	-97.1%	-98.1%
Net income	103	-97.0%	-98.0%
Margin			
GPM	3.2%		
OPM	0.2%		
Net margin	0.2%		

Source: Company data, Merrill Lynch estimates

Table 2: 3Q08 Actual vs. ML estimates

NT\$m	3Q08A	QoQ %	YoY %	3Q08ML	Diff (%)
Revenue	41,345	(0.08)	(0.04)	44,955	(0.08)
Net income	103	(0.97)	(0.98)	2,272	(0.95)
Net margin (%)	0.2%			5.1%	

Source: Company data, Merrill Lynch estimates

Table 3: End demand seasonality is muted due to consumer and macro weakness

Product	1H08	2H08
LCD TV	48%	52%
monitor	54%	46%
Notebook	48%	52%

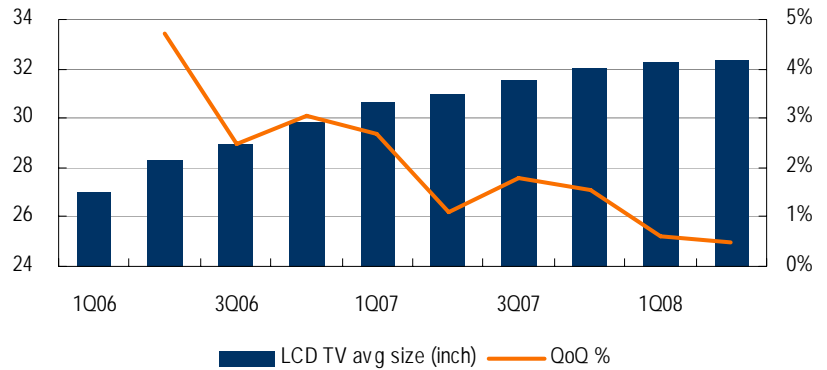
Source: AU Optronics

Table 4: Monthly panel ASPs (US\$)

		2H Oct vs							YTD
		Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	1H Oct in %	4Q-to-date (%)	
NB	15.4"W	99	92	79	71	70	-4%	-4%	-35%
	14.1"W	96	89	78	70	69	-4%	-4%	-35%
	13.3"W	112	104	95	92	91	-2%	-2%	-21%
Monitor	22"W	161	145	121	107	105	-5%	-5%	-40%
	20"W	143	129	105	92	89	-8%	-8%	-40%
	19"	143	126	103	92	90	-5%	-5%	-42%
	19"W	126	111	90	80	78	-6%	-6%	-44%
	17"	121	108	88	77	75	-6%	-6%	-45%
TV	15"	104	88	74	68	66	-7%	-7%	-41%
	46"	721	708	670	650	635	-2%	-3%	-20%
	42"	520	508	475	450	435	-2%	-4%	-20%
	37"	413	395	368	355	343	-1%	-4%	-23%
	32"	309	292	273	258	240	-4%	-8%	-28%
	26"	224	215	193	180	169	-1%	-7%	-28%

Source: DisplaySearch, Merrill Lynch estimates

Chart 2: Average LCD TV sizes



Source: DisplaySearch

Table 5: 4Q08 guidance comparison

	CMO	AUO	LGD
Shipment	* TV down 15% QoQ * IT declined by 10-15% QoQ * small/medium flat QoQ	* large size shipment: mid-to-high single digit decline - TV down mid-teens % QoQ - IT down low-single digit % QoQ * small/medium shipment: mid-teens % QoQ drop	* area shipment up low-to-mid teens % QoQ - TV increases by high-teen % QoQ - IT rise by low-teens % QoQ
ASP	* TV dropped low-teens % * IT down 5-10%	* Both TV and IT to fall by low-teens %	* High-single digit % QoQ decline
Margin	* No specific guidance	* 2-3% QoQ component cost down	* COGS per m2: high-single digit % decline * EBITDA margin: low 20%
Utilization Rate	* 60-70%	* 70%	* No specific guidance

Source: Company data, Merrill Lynch estimates

Table 6: Innolux's consolidated quarterly forecast

NT\$m	1Q08A	2Q08A	3Q08P	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2007A	2008E	2009E
Sales	41,287	44,810	41,345	38,973	35,971	38,417	48,279	58,075	157,171	166,415	180,742
QoQ	-6.9%	8.5%	-7.7%	-5.7%	-7.7%	6.8%	25.7%	20.3%	10.9%	5.9%	8.6%
Gross profit	5,077	5,519	1,689	(27)	(413)	592	3,374	4,781	22,374	12,257	8,333
Gross margin	12.3%	12.3%	4.1%	-0.1%	-1.1%	1.5%	7.0%	8.2%	14.2%	7.4%	4.6%
Operating profit	3,553	3,482	428	(1,664)	(1,924)	(1,022)	1,443	2,748	17,078	5,798	1,245
Operating margin	8.6%	7.8%	1.0%	-4.3%	-5.3%	-2.7%	3.0%	4.7%	10.9%	3.5%	0.7%
Pretax income	3,656	3,878	111	(1,271)	(1,795)	(893)	1,572	2,877	16,989	6,374	1,761
Pretax margin	8.9%	8.7%	0.3%	-3.3%	-5.0%	-2.3%	3.3%	5.0%	10.8%	3.8%	1.0%
Net income	3,307	3,463	103	(1,144)	(1,616)	(804)	1,414	2,590	16,152	5,730	1,585
QoQ	-43.4%	4.7%	-97.0%	n.a.	n.a.	n.a.	n.a.	83.1%	n.a.	-64.5%	-72.3%
Net margin	8.0%	7.7%	0.2%	-2.9%	-4.5%	-2.1%	2.9%	4.5%	10.3%	3.4%	0.9%
EPS (NT\$)	1.08	1.13	0.03	(0.37)	(0.53)	(0.26)	0.46	0.84	5.92	1.87	0.52

Source: Company data, Merrill Lynch estimates

Chart 3: Innolux's historical bonus-adj PE bands



Source: TEJ, Merrill Lynch estimates

Chart 4: Innolux's 1-year forward bonus-adj PE bands



Source: TEJ, Merrill Lynch estimates

Chart 5: Innolux's historical PB bands



Source: TEJ, Merrill Lynch estimates

Chart 6: Innolux's 1-year forward PB bands



Source: TEJ, Merrill Lynch estimates

Table 7: TFT-LCD makers' valuation comparison

	ML	ML	Price	Mkt Cap	EPS growth (%)		PER(x)		PBR(x)		Perform
	Symbol	Rating	29-Oct-08	(US\$m)	2008E	2009E	2008E	2009E	2008E	2009E	YTD
AUO	AUOPF	C-2-7 Neutral	21.3	5,402	(27.4)	(98.9)	4.2	n.a.	0.6	0.6	-62%
CMO	CMEOF	C-3-8 Underpe	12.0	2,610	(59.0)	(227.5)	5.7	n.a.	0.4	0.4	-71%
Innolux	INXDF	C-1-7 Buy	25.4	2,358	(68.5)	(72.3)	13.6	49.1	0.8	0.8	-74%
LGD	LPHLF	C-3-7 Underpe	KRW 19,950.0	4,863	36.5	(62.2)	3.9	10.3	0.6	0.6	-60%
Samsung	SSNLF	C-3-7 Underpe	KRW 475,000.0	47,665	(14.6)	(21.3)	12.7	16.2	1.5	1.4	-15%
Sharp	SHCAF	B-3-7 Underpe	JPY 691.0	8,021	(75.5)	84.0	32.4	17.6	0.6	0.6	-65%
TPV	TPVTF	C-1-7 Buy	HKD 1.0	267	7.8	12.5	1.3	1.1	0.2	0.2	-82%
Coretronic	CCOCF	C-1-7 Buy	18.5	400	(14.9)	(31.8)	4.5	6.6	0.7	0.7	-52%
Radiant	ROPTF	C-2-7 Neutral	24.8	298	(17.8)	8.8	6.1	5.6	0.7	0.7	-33%
Wellypower	XTTWF	C-3-7 Underpe	15.9	81	(0.7)	4.1	3.2	3.1	0.5	0.4	-78%
Novatek	NVKMF	C-3-7 Underpe	33.4	585	(49.5)	(31.4)	4.7	6.9	0.9	1.1	-68%
Average							8.4	45.6	0.7	0.7	

Source: Merrill Lynch estimates

Table 8: New vs. old forecast

(NT\$ m)	ML08 (E)			ML09 (E)		
	New	Old	Diff (%)	New	Old	Diff (%)
Total sales	166,415	175,724	(5.3)	180,742	206,196	(12.3)
Gross Profit	12,257	17,506	(30.0)	8,333	21,477	(61.2)
<i>Gross margin</i>	<i>7.4%</i>	<i>10.0%</i>		<i>4.6%</i>	<i>10.4%</i>	
Operating income	5,798	11,590	(50.0)	1,245	14,458	(91.4)
<i>Operating margin</i>	<i>3.5%</i>	<i>6.6%</i>		<i>0.7%</i>	<i>7.0%</i>	
Pretax income	6,374	12,137	(47.5)	1,761	14,645	(88.0)
<i>Pretax margin</i>	<i>3.8%</i>	<i>6.9%</i>		<i>1.0%</i>	<i>7.1%</i>	
Net income	5,730	10,940	(47.6)	1,585	13,180	(88.0)
<i>Net margin</i>	<i>3.4%</i>	<i>6.2%</i>		<i>0.9%</i>	<i>6.4%</i>	
EPS (NT\$)	1.87	3.57	(47.6)	0.52	4.30	(88.0)

Source: Merrill Lynch estimates

Price objective basis & risk

InnoLux (INXDF)

Our PO is NT\$22 based on 0.7x 09E PBV, which is below trough cycle valuation (0.9-5.5x PBR historically). Despite its unique panel + assembly business model, we believe Innolux will not be immune from the severe LCD industry downturn and will post losses for the first time since IPO in 4Q08/1Q09 as a result of huge collapse in LCD panel ASPs and weak LCD monitor/med size panel demand. Upside risks are industry consolidation and improvement in LCD monitor market, while downside risks lie in slow-than-expected LCD TV outsourcing and inability to ramp its new 6G fab.

Analyst Certification

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29 October 2008

APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Acer, Inc	ASIYF	2353 TT	Tony Tseng, CFA
	Asustek	AKCPF	2357 TT	Tony Tseng, CFA
	BYD	BYDDF	1211 HK	Daniel Kim, CFA
	Cheil Industries	CLFUF	001300 KS	Simon Dong-je Woo, CFA
	Chicony Elect	CCNYF	2385 TT	Tina Chang, CFA
	Compal Electron	CMLPF	2324 TT	Tina Chang, CFA
	Coretronic	CCOCF	5371 TT	Jeffrey Su
	Delta Elect	DLTEF	2308 TT	Jeffrey Su
	Foxconn Tech	FXTCF	2354 TT	Tony Tseng, CFA
	Ju Teng Intl	JUTGF	3336 HK	Ronnie Ho
	Kingboard	KBDCF	148 HK	Ronnie Ho
	Largan Precision	LGANF	3008 TT	Laura Chen
	LG Electronics	LGEAF	066570 KS	Daniel Kim, CFA
	Samsung Techwin	SGTWF	012450 KS	Simon Dong-je Woo, CFA
	Shin Zu Shing	SZUSF	3376 TT	Tina Chang, CFA
	Simplo Tech	SPLOF	6121 TT	Tina Chang, CFA
	SSCP CO LTD	SSCPF	071660 KS	Daniel Kim, CFA
	TPV	TPVTF	903 HK	Daniel Kim, CFA
	Venture Corp.	VEMLF	VMS SP	Ronnie Ho
NEUTRAL				
	AU Optronics	AUO	AUO US	Jeffrey Su
	AU Optronics	AUOPF	2409 TT	Jeffrey Su
	Foxconn Intl Hld	FXCNF	2038 HK	Tony Tseng, CFA
	Hon Hai Prec.	HNHAF	2317 TT	Tony Tseng, CFA
	Inventec Applian	IVAPF	3367 TT	Tina Chang, CFA
	Lenovo Group	LNVGF	992 HK	Daniel Kim, CFA
	Lenovo Group	LNVGY	LNVGY US	Daniel Kim, CFA
	Qisda Corp	BNQCF	2352 TT	Jeffrey Su
	Radiant	ROPTF	6176 TT	Jeffrey Su
	Silitech	SLKCF	3311 TT	Laura Chen
	Wistron	WICOF	3231 TT	Tony Tseng, CFA
	Yageo Corp	YGEQF	2327 TT	Ronnie Ho
UNDERPERFORM				
	Alpha Networks I	AHNWF	3380 TT	Laura Chen
	Catcher Tech	CHERF	2474 TT	Tony Tseng, CFA
	Chi Mei Opto	CMEOF	3009 TT	Jeffrey Su
	Compal Comm	CPCMF	8078 TT	Laura Chen
	Epistar Corp	EPIPF	2448 TT	Jeffrey Su
	Everlight Elec	EVLEF	2393 TT	Jeffrey Su
	Gemtek Technolog	GTKTF	4906 TT	Laura Chen
	HTC Corp.	HTCCF	2498 TT	Tony Tseng, CFA
	InnoLux	INXDF	3481 TT	Jeffrey Su
	Inventec	IVCJF	2356 TT	Tina Chang, CFA
	LG Display Co., Ltd.	LPHLF	034220 KS	Daniel Kim, CFA
	LG Display Co., Ltd.-A	LPL	LPL US	Daniel Kim, CFA
	Lite-On Tech	LOTZF	2301 TT	Jeffrey Su
	Merry Electron	MMECF	2439 TT	Laura Chen
	Mitac Intl	MTCXF	2315 TT	Tina Chang, CFA
	Quanta Computer	QUCPF	2382 TT	Tony Tseng, CFA
	Samsung Elec M	SSEMF	009150 KS	Daniel Kim, CFA
	Samsung SDI	SSDIF	006400 KS	Daniel Kim, CFA
	Seoul Semicon	SLSOF	046890 KS	Simon Dong-je Woo, CFA
	Unisteel Tech	UNSGF	USTL SP	Ronnie Ho
	Wellypower	XTTWF	3080 TT	Jeffrey Su
	ZTE Corp - H	ZTCOF	763 HK	Ronnie Ho

29 October 2008

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

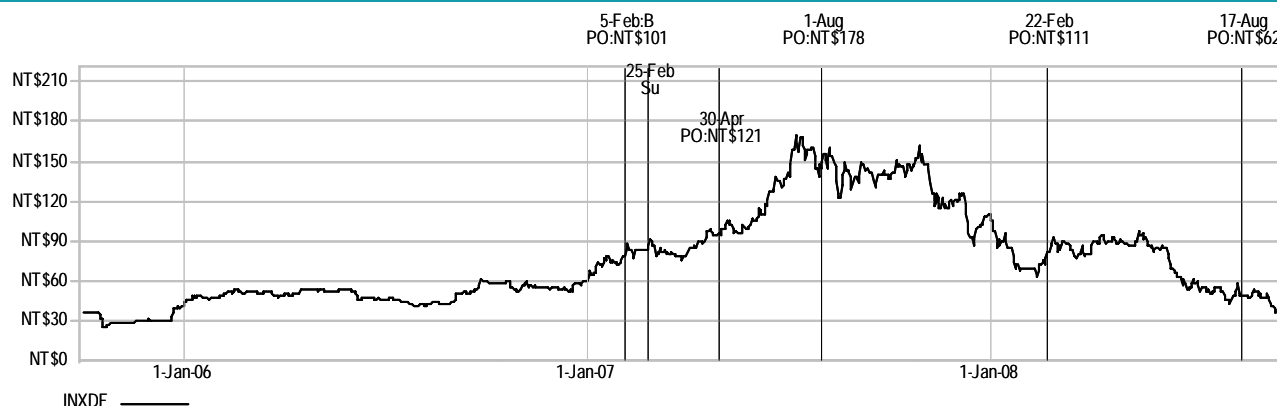
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Important Disclosures

INXDF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2008 or such later date as indicated.

Investment Rating Distribution: Electronics Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	42	40.00%	Buy	8	20.51%
Neutral	32	30.48%	Neutral	3	11.11%
Sell	31	29.52%	Sell	2	7.41%

Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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