

## Weaker outlook ahead

## Retain Underperform on muted outlook

We retain our Underperform rating on Realtek with a PO of NT\$42, anticipating a sluggish sales momentum and limited upside market share gain outlook. Given the demand headwind into 2009, we further cut our FY09 earnings by 3%. We retain Underperform on account of the firm's lackluster 2009 outlook.

## 3Q result in line; 4Q sales down more than 20%

Realtek's 3Q result was in line with our estimate — sales were up 2.5% QoQ, with flat gross margin of 41.4% (vs 41.6% in 2Q). New chips tapeout lead opex surge to 28.4% (vs 25% in 2Q). Looking forward, the management guided for a 20%+ QoQ sales decline, worse than its previous guidance of 10-20% correction.

## DT PC and networking experiencing weaker momentum

Due to the sharp fall in demand, Realtek admits its 4Q momentum is weaker than expected. It sees weaker DT PC and networking order flow and expects a sequential monthly sales decline over 4Q. The management will be more focused on cost-cutting and new product development to weather the storm and expect a stable margin and ASP outlook for 2009.

## Limited upside from new products

Realtek's current product line — which includes audio codec, 10/100M Ethernet — has secured around a 70% global market share and we see limited upside looking forward. Its major new products -11n single chip, will go into mass production only in 1Q09. Given the lackluster PC growth and minimal contribution from new products, we retain our Underperform rating on the company. Our PO of NT\$42, adjusted down from NT\$44, implies 12x its FY09 EPS, at its trough cycle.

## Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	2,712	1,877	1,327	1,643	1,874
EPS (Pre Bonus)	5.829	4.065	4.080	4.856	5.555
EPS (Post Bonus)	1.840	2.345	2.859	3.507	4.000
EPS Change (YoY)	41.5%	27.5%	21.9%	22.7%	14.1%
Dividend / Share	3.50	3.00	2.91	3.50	78.92
Free Cash Flow / Share	7.48	8.92	7.10	10.47	9.74

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

## Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	27.99x	21.96x	18.02x	14.69x	12.88x
Dividend Yield	6.80%	5.83%	5.65%	6.79%	153.23%
Free Cash Flow Yield*	14.94%	17.67%	14.13%	21.06%	19.59%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 7.



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## Stock Data

Price	NT\$51.50
Price Objective	NT\$44.00 to NT\$42.00
Date Established	30-Oct-2008
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	NT\$46.00-NT\$137.25
Mkt Val / Shares Out (mn)	US\$697 / 452.5
Average Daily Volume	4,747,598
ML Symbol / Exchange	RLTQF / TWO
Bloomberg / Reuters	2379 TT / 2379.TW
ROE (2008E)	7.2%
Net Dbt to Eqty (Dec-2007A)	-31.5%
Est. 5-Yr EPS / DPS Growth	15.0% / 10.0%
Free Float	75.0%



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Refer to important disclosures on page 8 to 9. Analyst Certification on Page 6. Price Objective Basis/Risk on page 6.

# iQprofile<sup>SM</sup> Realtek

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
<b>(NT\$ Millions)</b>					
Sales	12,423	15,709	17,459	16,996	18,356
Gross Profit	5,864	7,410	7,301	7,001	7,581
Sell General & Admin Expense	(1,177)	(1,337)	(1,566)	(1,645)	(1,927)
Operating Profit	2,787	3,566	2,414	1,923	2,171
Net Interest & Other Income	(39)	(1,597)	(1,044)	(160)	(160)
Associates	NA	NA	NA	NA	NA
Pretax Income	2,748	1,969	1,371	1,763	2,011
Tax (expense) / Benefit	(36)	(92)	(44)	(120)	(137)
Net Income (Adjusted)	2,712	1,877	1,327	1,643	1,874
Average Fully Diluted Shares Outstanding	465	462	464	469	469

## Key Cash Flow Statement Data

Net Income (Reported)	2,712	1,877	1,327	1,643	1,874
Depreciation & Amortization	820	777	979	1,010	1,010
Change in Working Capital	425	1	(590)	(289)	212
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	347	2,125	2,797	2,633	1,529
Cash Flow from Operations	4,304	4,780	4,513	4,997	4,625
Capital Expenditure	(823)	(661)	(1,220)	(90)	(60)
(Acquisition) / Disposal of Investments	2,768	(707)	(530)	(500)	(300)
Other Cash Inflow / (Outflow)	29	(123)	(11)	(200)	(80)
Cash Flow from Investing	1,975	(1,491)	(1,762)	(790)	(440)
Shares Issue / (Repurchase)	0	(4,181)	0	0	0
Cost of Dividends Paid	(1,415)	(1,551)	(1,555)	(1,438)	(1,810)
Cash Flow from Financing	(1,220)	(5,732)	(976)	(1,438)	(1,810)
Free Cash Flow	3,481	4,118	3,293	4,907	4,565
Net Debt	(8,251)	(5,204)	(7,584)	(10,353)	(12,123)
Change in Net Debt	(5,059)	2,443	(1,776)	(2,769)	(2,375)

## Key Balance Sheet Data

Property, Plant & Equipment	2,156	2,363	2,900	3,090	3,150
Other Non-Current Assets	7,348	7,646	6,850	6,900	6,950
Trade Receivables	1,704	2,064	2,656	3,528	3,212
Cash & Equivalents	8,251	5,204	7,584	10,353	12,123
Other Current Assets	3,916	3,757	3,800	4,300	4,500
Total Assets	23,375	21,033	23,790	28,170	29,936
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	157	147	260	260	280
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	2,031	4,368	2,956	3,538	3,335
Total Liabilities	2,188	4,515	3,216	3,798	3,615
Total Equity	21,187	16,518	20,574	24,372	26,321
Total Equity & Liabilities	23,375	21,033	23,790	28,170	29,936

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	13.2%	17.8%	12.1%	7.9%	7.9%
Return On Equity	13.8%	10.0%	7.2%	7.3%	7.4%
Operating Margin	22.4%	22.7%	13.8%	11.3%	11.8%
EBITDA Margin	29.0%	27.6%	19.4%	17.3%	17.3%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.6x	2.5x	3.4x	3.0x	2.5x
Asset Replacement Ratio	1.0x	0.9x	1.2x	0.1x	0.1x
Tax Rate (Reported)	1.3%	4.7%	3.2%	6.8%	6.8%
Net Debt-to-Equity Ratio	-38.9%	-31.5%	-36.9%	-42.5%	-46.1%
Interest Cover	NA	NA	NM	NA	NA

## Key Metrics

Bonus adjusted ROIC	3.5%	11.9%	13.7%	8.7%	8.2%
Bonus adjusted ROE	3.8%	5.6%	7.2%	7.3%	7.4%
Bonus adjusted EPS	1.84	2.35	2.86	3.51	4.00
Bonus adjusted P/E	27.99x	21.96x	18.02x	14.69x	12.88x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Description

Founded in 1987, Realtek Semiconductor Corp., is a fabless company providing ICs for consumer electronics, computer systems & peripherals and network hardware. The company has about 1,000 employees (over 70% as R&D personnel). It is the world's leading 10/100M Ethernet switch controller provider with a global market share of 70%. In addition, it possesses a global market share of 50% in AC'97 audio codecs.

## Investment Thesis

We are concerned about Realtek's future growth prospects, given its weak new product cycle. Investors have had high expectations for Realtek's UWB (Ultra wide band) technology for a while and view it as the next catalyst for the company. However, Bluetooth SIG and Intel's decision to support competing technologies like 60GHz radio pose more challenges for UWB. As a result, we've turned more conservative on Realtek's UWB business and expect more downside risks for the company.

## Stock Data

Price to Book Value 1.1x

## Analyst meeting summary

Realtek announced its 3Q earnings: Sales were up 2.5% QoQ to reach NT\$4.79bn, in line with company's downward revision. Gross margin stayed at 41% on the back of NTD depreciation and its cost reduction efforts. Due to its new chips tapeout, opex surged to 28.4% in 3Q (vs 25% in 2Q) Its net profit reached NT\$530mn, beating our estimate by 4%.

Table 1: Realtek 3Q08 results

NT\$m	3Q08A	3Q08E	Diff (%)	2Q08A	Q/Q (%)	3Q07A	Y/Y(%)
Revenue	4,790	4,790	0.0%	4,674	2.5%	4,948	-3.2%
Gross profits	1,983	1,954	1.5%	1,943	2.1%	2,363	-16.1%
Operating income	624	595	4.9%	776	-19.6%	1,313	-52.5%
Net income	530	512	3.5%	-96	-653.1%	1,293	-59.0%
EPS	1.14	1.10	3.5%	(0.21)	-653.1%	2.80	-59.2%
Gross margin	41.4%	40.8%		41.6%		47.8%	
Operating margin	13.0%	12.4%		16.6%		26.5%	
Net margin	11.1%	10.7%		-2.1%		26.1%	

Source: Company data, Merrill Lynch estimates

## Key highlights on product mix

- Communications and networking (50% sales, including 10/100M Ethernet, GbE Ethernet, WLAN, Switch .etc) down 5% QoQ in 3Q. As most of those products, such as 10/100 and GbE, are for PC and MB, current visibility is quite low and the management expects 20% sales decline in 4Q.
- PC related (35% sales, including Audio Codec, Clock gen and LCD Monitor controller) up 17% QoQ in 3Q. Given Realtek's high market share in Audio Codec (~70%) and muted LCD monitor demand, we see bigger risk on its PC-related business in 4Q.
- Multimedia (15% sales, including DVR, STB solution etc.). Management sees flat QoQ for Multimedia business in 4Q, while there might also be downside risk on weaker consumer demand, in particular for its STB business.

## 11n contribution remains small

The company has high confidence on its upcoming 11n single-chip, which is a 2\*2 solution at 65nm. Realtek will target AP/Router makers as well as NB PC customers and claim that its product has an advantage on power consumption control on the back of power amplifier and switch regulator integration. We think the significant price erosion could negatively impact Realtek when its product is ready in 1Q09 as current 1\*1 11n pricing has dropped to only USD 2.5, nearing 11g's price. Also, Realtek's high performance might not be a selling point to its clients, especially in the weak micro environment. We think late 1Q09 will be a better check point to see if there is any breakthrough on its 11n business development.

## Further cut to 2009 earnings

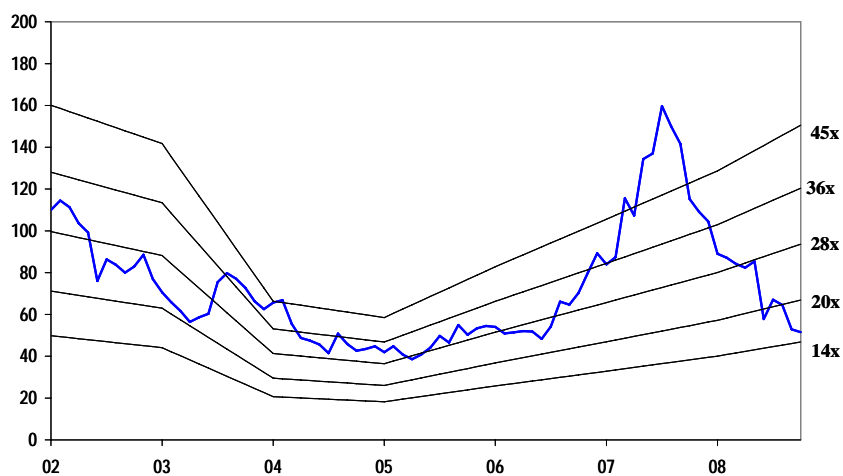
While 2009 outlook could be very muted, at least in 1H, the management expects a stable ASP and gross margin trend as an aggressive pricing strategy will not necessarily secure order flow during the downturn. Nevertheless, as we anticipate a more meaningful sales contribution from new products, such as the 11n single chip, in 2H09 at earliest, we do not see any catalyst to support Realtek's sales growth given the weak micro environment.

We further cut our FY09 earnings by 3%, reflecting its worse-than-expected 4Q outlook and disappointing PC demand in 1H09. As it still lacks a new product cycle to lift its PER as well as its deteriorating operating profit in 2009, we expect the company will trade at its trough PER in the near term. Maintain Underperform with PO of NT\$42.

**Table 2: Realtek-earnings revision**

	2008E			2009E		
	Previous	New	Change (%)	Previous	New	Change (%)
Sales	17,847	17,459	-2.2	17,816	16,996	-4.6
Gross profit	7,433	7,301	-1.8	7,338	7,001	-4.6
Operating income	2,422	2,414	-0.3	1,979	1,923	-2.8
Pretax income	1,399	1,371	-2.0	1,819	1,763	-3.1
Net income	1,343	1,327	-1.2	1,696	1,643	-3.1
EPS	2.89	2.86	-1.2	3.62	3.51	-3.1
Gross margin	41.6%	41.8%		41.2%	41.2%	
Operating margin	13.6%	13.8%		11.1%	11.3%	
Pretax margin	7.8%	7.9%		10.2%	10.4%	
Net margin	7.5%	7.6%		9.5%	9.7%	

Source: Merrill Lynch estimates

**Chart 1: Realtek: Bonus-adjusted P/E bands**


Source: TEJ, Merrill Lynch estimates

**Table 3: Asian fabless valuation comparison**

Companies	ML Ticker	ML Rating	Stock price 29 Oct 2008	EPS		PER		EV/EBITDA		ROIC		ROE		BVPS		PBR	
				2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Realtek	RLTOF	C-3-7 Underperform	51.5	2.9	3.5	18.0	14.7	4.1	4.8	13.7%	8.7%	7.2%	7.3%	43.9	52.0	1.2	1.0
Sunplus	SNPLF	C-3-7 Underperform	13.1	0.4	0.2	29.2	75.9	5.0	10.3	2.4%	-1.2%	2.1%	0.9%	19.9	20.3	0.7	0.6
Mediatek	MDTKF	C-1-7 Buy	278.0	21.1	23.7	13.2	11.7	8.5	8.4	27.0%	28.9%	25.9%	28.0%	79.8	89.0	3.5	3.1
Novatek	NVKMF	C-3-7 Underperform	33.4	7.1	4.9	4.7	6.9	2.5	3.6	17.6%	11.4%	20.7%	14.4%	36.1	31.5	0.9	1.1
Faraday	FDYTF	C-3-8 Underperform	34.2	2.0	1.8	16.8	19.1	13.7	14.2	7.9%	8.6%	11.2%	10.1%	17.3	18.3	2.0	1.9
Richtek	RHTKF	C-3-7 Underperform	152.0	11.0	10.3	13.8	14.8	10.2	10.8	35.7%	28.4%	34.4%	26.2%	33.8	44.6	4.5	3.4
Himax (US\$)	HIMX	C-2-7 Neutral	1.7	0.6	0.3	3.0	5.4	0.8	1.4	20.5%	9.7%	21.3%	10.2%	3.0	3.3	0.6	0.5
Spreadtrum (US\$)	SPRD	C-3-9 Underperform	1.2	-0.2	-0.1	NM	NM	NM	2.2	-5.0%	-3.6%	-3.9%	-2.2%	4.4	4.5	0.3	0.3
Average						14.1	21.2	6.4	6.9	15.0%	11.4%	14.8%	11.9%			1.7	1.5

Source: BBG, Merrill Lynch estimates

30 October 2008

Table 4: Realtek balance sheet analysis

NT\$m	Market cap	Cash*	Total debt	Net debt	Equity	Net debt/ equity	Net cash/ market cap	CCC
3Q08	24,789	6,357	-	(6,357)	15,405	-41%	26%	34
2Q08	28,148	8,315	-	(8,315)	14,989	-55%	30%	23

Source: TEJ, Merrill Lynch

Note: Cash includes short term investment

Table 5: Realtek quarterly P&amp;L

NT\$m; %	1Q08	2Q08	3Q08	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	FY2007	FY2008E	FY2009E
Sales	4,200	4,674	4,790	3,795	3,654	3,586	4,716	5,039	15,709	17,459	16,996
Cost of Sales	(2,400)	(2,731)	(2,807)	(2,220)	(2,149)	(2,116)	(2,783)	(2,948)	(8,299)	(10,158)	(9,995)
Gross Profit	1,800	1,943	1,983	1,575	1,506	1,470	1,934	2,091	7,410	7,301	7,001
Operating Expenses	(1,175)	(1,167)	(1,359)	(1,185)	(1,131)	(1,188)	(1,311)	(1,448)	(3,844)	(4,886)	(5,078)
Operating Profits	625	776	624	390	375	282	623	643	3,566	2,414	1,923
Non-operating Income	(31)	(872)	(81)	(60)	(40)	(40)	(40)	(40)	(1,597)	(1,044)	(160)
Pre-tax Profit	594	(96)	543	330	335	242	583	603	1,969	1,371	1,763
Tax Expense	(17)	-	(12)	(14)	(23)	(17)	(40)	(41)	(92)	(44)	(120)
Net Profit	577	(96)	530	316	312	226	543	562	1,877	1,327	1,643
EPS (NT\$)	1.2	(0.2)	1.1	0.7	0.7	0.5	1.2	1.2	4.1	2.9	3.5
<b>% of revenue</b>											
Gross Margin	42.9%	41.6%	41.4%	41.5%	41.2%	41.0%	41.0%	41.5%	47.2%	41.8%	41.2%
Operating Expense	-28.0%	-25.0%	-28.4%	-31.2%	-30.9%	-33.1%	-27.8%	-28.7%	-24.5%	-28.0%	-29.9%
Operating Margin	14.9%	16.6%	13.0%	10.3%	10.3%	7.9%	13.2%	12.8%	22.7%	13.8%	11.3%
Pre-tax Margin	14.1%	-2.1%	11.3%	8.7%	9.2%	6.8%	12.4%	12.0%	12.5%	7.9%	10.4%
Net Margin	13.7%	-2.1%	11.1%	8.3%	8.6%	6.3%	11.5%	11.1%	11.9%	7.6%	9.7%
Tax Rate	-2.9%	0.0%	-2.3%	-4.2%	-6.7%	-6.8%	-6.8%	-6.8%	-4.7%	-3.2%	-6.8%
<b>Sequential Growth</b>											
Sales	13.1%	11.3%	2.5%	-20.8%	-3.7%	-1.9%	31.5%	6.8%	26.4%	11.1%	-2.6%
Cost of Sales	20.0%	13.8%	2.8%	-20.9%	-3.2%	-1.5%	31.5%	5.9%	26.5%	22.4%	-1.6%
Gross Profit	5.0%	8.0%	2.1%	-20.6%	-4.4%	-2.3%	31.5%	8.2%	26.4%	-1.5%	-4.1%
Operating Expense	12.7%	-0.7%	16.5%	-12.8%	-4.6%	5.1%	10.4%	10.5%	24.9%	27.1%	3.9%
Operating Profit	-7.0%	24.2%	-19.6%	-37.6%	-3.7%	-24.7%	120.4%	3.3%	28.0%	-32.3%	-20.4%
Non-operating Income	-98.1%	na	-90.7%	-25.8%	-33.3%	0.0%	0.0%	0.0%	na	-34.6%	-84.7%
Pre-Tax Profit	na	na	na	-39.3%	1.6%	-27.6%	140.3%	3.5%	-28.3%	-30.4%	28.6%
Tax Expense	77.4%	na	na	11.9%	61.6%	-26.7%	140.4%	3.5%	157.0%	-52.6%	173.7%
Net Profit	na	na	na	-40.5%	-1.0%	-27.7%	140.3%	3.5%	-30.8%	-29.3%	23.8%
<b>YoY Growth</b>											
Sales	29.5%	22.9%	-3.2%	2.2%	-13.0%	-23.3%	-1.5%	32.8%	26.4%	11.1%	-2.6%
Cost of Sales	40.9%	35.8%	8.6%	11.0%	-10.5%	-22.5%	-0.9%	32.8%	26.5%	22.4%	-1.6%
Gross Profit	16.8%	8.5%	-16.1%	-8.1%	-16.3%	-24.3%	-2.5%	32.8%	26.4%	-1.5%	-4.1%
Operating Expense	39.0%	28.7%	29.4%	13.7%	-3.8%	1.8%	-3.5%	22.2%	24.9%	27.1%	3.9%
Operating Profit	-10.2%	-12.3%	-52.5%	-42.0%	-40.0%	-63.6%	-0.2%	65.0%	28.0%	-32.3%	-20.4%
Non-operating Income	na	na	na	-96.3%	29.8%	-95.4%	na	na	na	-34.6%	-84.7%
Pre-Tax Profit	-15.4%	na	-59.3%	-134.4%	-43.6%	na	7.3%	82.9%	-28.3%	-30.4%	28.6%
Tax Expense	na	na	-69.4%	42.5%	29.8%	na	na	na	na	-52.6%	na
Net Profit	-16.0%	na	-59.0%	-132.6%	-45.8%	na	2.3%	78.0%	-30.8%	-29.3%	23.8%

Source: Company data, Merrill Lynch estimates

## Price objective basis & risk

### Realtek (RLTQF)

Our PO of NT\$42 is based on 12x of 09E EPS, at its trough level. We believe the stock could be traded back to its trough trading range as its new product cycle is still under transition. Our target price is also supported by our long-term return on operating capital fair value model. Upside risk: New business breakthroughs. Downside risks: (1) Weaker-than-expected PC demand and (2) Poor performance of its new UWB chips.

## Analyst Certification

I, Laura Chen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Mediatek	MDTKF	2454 TT	Laura Chen
	Nan Ya PCB Corporation	NANYF	8046 TT	Daniel Heyler
	Siliconware	SPIL	SPIL US	Daniel Heyler
	Siliconware	SPILF	2325 TT	Daniel Heyler
<b>NEUTRAL</b>				
	Advanced Semi	ASX	ASX US	Daniel Heyler
	Advanced Semiconductor Engineering	ASXCF	2311 TT	Daniel Heyler
	Chartered Semiconductor	CHRT	CHRT US	Daniel Heyler
	Chartered Semiconductor	CHRTF	CSM SP	Daniel Heyler
	Himax Technology-ADR	HIMX	HIMX US	Laura Chen
	Taiwan Semi	TSM	TSM US	Daniel Heyler
	Taiwan Semi	TSMWF	2330 TT	Daniel Heyler

30 October 2008

**APR - Semiconductor Coverage Cluster**

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	Toshiba	TOSBF	6502 JP	Simon Dong-je Woo, CFA
	VIA Tech	VIATF	2388 TT	Daniel Heyler
<b>UNDERPERFORM</b>				
	ASM Pacific	ASMFV	522 HK	Daniel Heyler
	Chipbond Technology	CPBTF	6147 TT	Daniel Heyler
	Elpida Memory	ELPDF	6665 JP	Simon Dong-je Woo, CFA
	Faraday	FDYTF	3035 TT	Laura Chen
	Hynix	HXSCF	000660 KS	Simon Dong-je Woo, CFA
	Inotera Memories	INMFF	3474 TT	Simon Dong-je Woo, CFA
	Kinsus Interconnect Technology	KNSUF	3189 TT	Daniel Heyler
	Nanya Tech Corp.	NNYAF	2408 TT	Simon Dong-je Woo, CFA
	NEC Electronics	NELTF	6723 JP	Simon Dong-je Woo, CFA
	Novatek	NVKMF	3034 TT	Laura Chen
	Phoenix Precision	PHXPF	2446 TT	Daniel Heyler
	Powerchip	PWSMF	5346 TT	Simon Dong-je Woo, CFA
	ProMOS Tech	PTGSF	5387 TT	Simon Dong-je Woo, CFA
	Realtek	RLTOF	2379 TT	Laura Chen
	Richtek Technology	RHTKF	6286 TT	Laura Chen
	Samsung Elec	SSNLF	005930 KS	Simon Dong-je Woo, CFA
	Samsung Elec -G	SSNHY	SMSN LI	Simon Dong-je Woo, CFA
	SMIC	SIUIF	981 HK	Daniel Heyler
	SMIC	SMI	SMI US	Daniel Heyler
	Spreadtrum-ADR	SPRD	SPRD US	Daniel Heyler
	Sunplus	SNPLF	2401 TT	Laura Chen
	UMC	UMC	UMC US	Daniel Heyler
	UMC	UMELF	2303 TT	Daniel Heyler

**iQmethod<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
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
<b>Quality of Earnings</b>		
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
<b>Valuation Toolkit</b>		
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	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

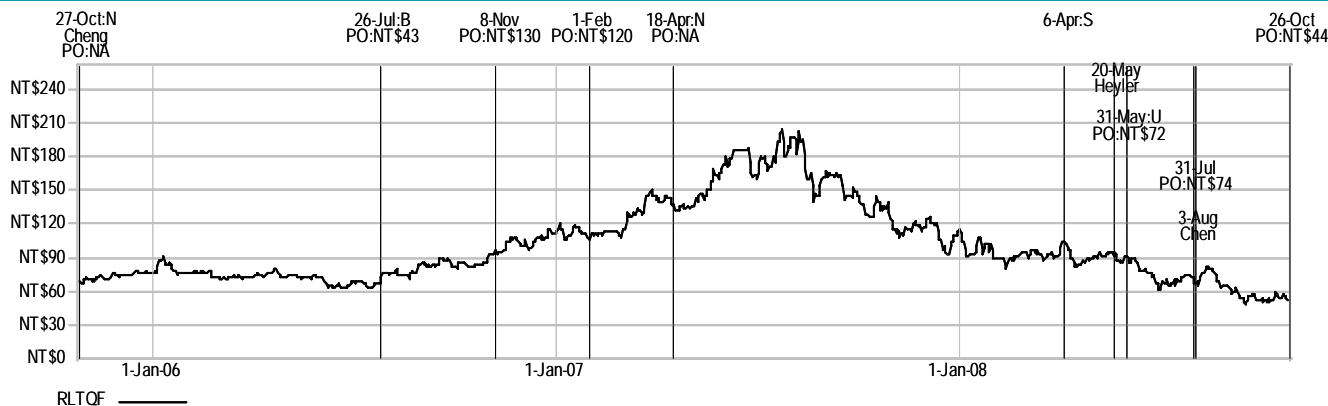
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iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

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### RLTQF 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: Technology Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	113	42.97%	Buy	21	20.59%
Neutral	60	22.81%	Neutral	12	22.22%
Sell	90	34.22%	Sell	13	15.66%

### 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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