

Universal Display Corp. (NASDAQ:PANL)

PANL - Tuning the Picture Clarity, Details Remain Fuzzy

MARKET OUTPERFORM

CommTech		August 31, 2011			
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Price (\$)	50.90	FYE - Dec	2011E	2012E	2013E
52 Wk Range (\$)	19.13-63.58	1Q	(0.04)A	0.22	NE
Price Target (\$)	60.00 (was 45.00)	2Q	0.00A	0.25	NE
Market Cap (\$mil)	2,311.0	3Q	0.01	0.30	NE
Enterprise Value (\$mil)	1,985	4Q	0.12	0.34	NE
Avg. Daily Vol. (000s)	1,138	FY EPS (\$)	0.11	1.11	1.97
Price / Book	7.2x	y/y % chg	NA	909%	77%
Cash Per Share (\$)	7.22	FY EPS (Old)	0.10	1.07	NE
Net Debt / Cap.	0%	FY EPS Consensus (\$)	0.15	0.98	NE
Insider Ownership	8%	FY EBITDA (\$mil)	5.9	55.6	99.3
Shares Out (mil)	45.2	FY REV (\$mil)	52.7	113.2	169.0
Shares Short (mil)	5.2	y/y % chg	73%	115%	49%
Float (mil)	42.0	CY EPS (\$)	0.11	1.11	1.97
Short % of Float	12.4%	CY P/E	462.7x	45.9x	25.8x
Div(\$)/Yield(%)	0.00/0.0%	CY EV/EBITDA	336.4x	35.7x	20.0x

Action

Last Friday after the close, PANL submitted an 8-K containing the licensing and material purchase agreements recently signed with Samsung, though the financials were redacted. After digesting the two contracts, we are raising our 2011 rev. and EPS estimates from \$50.3m and \$0.10 to \$52.7m and \$0.11. We are raising our 2012 rev. and EPS estimates from \$103.8m and \$1.07 to \$113.2m and \$1.11. We are also initiating 2013 revenue and EPS estimates of \$169.0m and \$1.97. Details of the agreements remain fuzzy, but we expect the SEC review, which could require release of material information, and top-line guidance on the 3Q11 call will provide a clearer picture. As the OLED inflection point for smartphones nears, our estimates include OLED tablet revenues of \$2.3m in 2012, tablet/TV revenues of \$29.7m in 2013, but no contribution from lighting. We reiterate our MO and are raising our PT from \$45 to \$60.

Key Details and Summary Perspectives

- Samsung Licensing Terms Basically In Line With Our Model** - The licensing agreement is likely based on OLED market projections, which we believe our model is in-line with. The patent license agreement establishes fixed annual fees Samsung must pay for a worldwide, non-exclusive license. We expect the annual payments to increase as the number of OLED devices ramps, but the accounting treatment of these payments remains uncertain. The materials purchase agreement contains a minimum purchase amount and is a potential source of upside should Samsung require additional materials. Though financials were not disclosed, pricing concessions are likely as volumes increase, and pricing per gram could drop from ~\$500/gram in 1H11 to ~\$250/gram in 2017. The SEC will review the redacted agreement within 2-3 weeks, and could decide the terms contain material information and need to be disclosed. We also expect to have more information when PANL releases 3Q11 earnings and provides top-line guidance.
- Upside Potential Remains From Materials, Tablets, TVs, Lighting** - Upside relative to the fixed revenues will come from material sales in excess of the established minimum, which is not yet known. Assuming \$430/gram, we estimate a 5% (32.5m units) increase in OLED penetration of smartphones yields \$0.11 incremental EPS in 2012. Separately, tablets and TVs could outperform relative to our expectations.
- 40% Operating Margin in 2012** - Given increased revenue visibility, we expect PANL to begin providing revenue guidance on their 3Q11 call. Concerning op-ex, we are projecting 20%+ growth in 2012, but given disproportionate revenue growth, margins are set to improve, and we expect a ramp from effectively 0% op. margin in 2011 to approximately 40% op. margin in 2012.
- CommTech CEO Conference Call** - Avondale Partners will host a call with PANL's CEO and CFO on September 13 at 12:00pm ET/11:00am CT. Please dial 1-800-247-5110, passcode Universal Display.

Details

- Changes to Estimates** - We are maintaining our per-unit licensing estimates, as we believe they are a suitable proxy for the terms established by the agreement. However, we have adjusted our estimates to reflect an acceleration in smartphone market growth and OLED penetration, which is somewhat offset by pricing concessions and legal expenses. We are raising our 2011 revenue estimate from \$50.3m to \$52.7m and our 2011 EPS estimate from \$0.10 to \$0.11. We are raising our 2012 revenue estimate from \$103.8m to \$113.2m and our 2012 EPS estimate from \$1.07 to \$1.11. We are initiating a 2013 revenue estimate of \$169.0m with EPS of \$1.97.
- Panasonic-Idemitsu OLED Lighting Agreement** - On Monday after the close, PANL announced an agreement with joint venture Panasonic Idemitsu OLED Lighting Co. The agreement runs through July 31, 2014, and includes running royalties on product sales and a material supply agreement. We view this agreement as a validation of PANL's phosphorescent materials as Idemitsu is capable of producing its own fluorescent materials, but we do not believe the revenue contribution will be meaningful near-term.
- DCF Valuation** - We are applying a DCF analysis to PANL. Our forecast includes 20% annual revenue growth through 2015, and 5% annual net income growth thereafter. We are assuming 40% net margins, which we believe are attainable given stable operating expense guidance coupled with rapidly growing revenues. Lastly, we are assuming a 2% long-term growth rate, roughly in-line with nominal GDP. Our baseline assumption for the cost of equity capital is 10.5%. Given the relative difficulty in determining an appropriate beta for PANL, we are using a somewhat conservative WACC of 10.5%. The following table summarizes our results.

		Cost of Equity Capital				
		12.5%	13.0%	10.5%	14.0%	14.5%
Terminal Growth Rate	1.0%	\$ 50.33	\$ 48.74	\$ 55.94	\$ 45.88	\$ 44.59
	1.5%	\$ 51.69	\$ 49.98	\$ 57.95	\$ 46.94	\$ 45.57
	2.0%	\$ 53.18	\$ 51.34	\$ 60.20	\$ 48.08	\$ 46.63
	2.5%	\$ 54.81	\$ 52.83	\$ 62.73	\$ 49.33	\$ 47.77
	2.5%	\$ 54.81	\$ 52.83	\$ 62.73	\$ 49.33	\$ 47.77
	3.0%	\$ 56.62	\$ 54.47	\$ 65.59	\$ 50.69	\$ 49.02

FCF Estimates	
FY11	\$4.6M
FY12	\$46.1M
FY13	\$88.7M
FY14	\$94.0M
FY15	\$110.2M

- Revenue Metrics** - The following table details our estimated revenue drivers.

(\$ millions, except per share amounts)	FY09	CY10	1Q11	2Q11	3Q11E	4Q11E	CY11E	1Q12E	2Q12E	3Q12E	4Q12E	CY12E	CY13
REVENUE BREAKDOWN (Estimated)													
Smartphones													
Smartphone shipments (units)		296.6	99.6	108.0	121.0	143.4	472.0	146.3	162.5	162.5	178.8	650.0	800.0
Percent OLED		14.2	16.0	23.0	29.0	31.5	24.9	33.0	33.5	34.0	35.0	33.9	38.5
OLED smartphone shipments (units)		42.0	15.9	24.8	35.1	45.2	121.0	48.3	54.4	55.3	62.6	220.5	308.6
OLED Smartphone display ASP		\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$22.50	\$22.50	\$22.50	\$22.50	\$22.50	\$20.25
Organic material per color per display (milligrams)		0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Organic material ASP (\$/gram)		\$500	\$500	\$460	\$460	\$460	\$470	\$430	\$430	\$430	\$430	\$430	\$400
Organic material per display (\$)		\$0.10	\$0.10	\$0.09	\$0.09	\$0.18	\$0.12	\$0.17	\$0.17	\$0.17	\$0.17	\$0.17	\$0.16
PHOLED royalty rate per color		0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%
PHOLED royalty rate per display		0.45%	0.45%	0.45%	0.45%	0.90%	0.56%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%
PHOLED royalty per color per display (\$)		\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.09
Smartphone display chemicals			1.9	2.3	3.2	8.3	15.7	8.3	9.4	9.5	10.8	37.9	49.4
Smartphone display royalties			1.8	1.8	2.8	3.9	10.3	10.1	9.7	11.0	11.1	41.9	52.6
Tablets													
Tablet shipments (units)		18	14.0	17.4	17.4	20.9	69.8	21.6	27.1	27.1	32.5	108.2	170
Percent OLED		-	-	-	-	-	-	-	2.0	3.0	4.0	2.3	6.0
OLED tablet shipments (units)		-	-	-	-	-	-	0.0	0.5	0.8	1.3	2.7	10.2
Tablet display ASP		\$55.00	\$55.00	\$55.00	\$55.00	\$55.00	\$55.00	\$49.50	\$49.50	\$49.50	\$49.50	\$49.50	\$44.55
Organic material per display (milligrams)		0.5	0.5	0.5	0.5	1.0	0.6	1.0	1.0	1.0	1.0	1.0	1.0
Organic material per display (\$)		\$0.25	\$0.25	\$0.23	\$0.23	\$0.47	\$0.30	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.40
Tablet display chemicals		-	-	-	-	-	-	0.0	0.2	0.4	0.6	1.2	4.1
Tablet display royalties		-	-	-	-	-	-	0.0	0.0	0.2	0.4	1.2	4.1
OLED TV													
OLED TV shipments (units)		-	-	-	-	-	-	-	-	-	-	-	1.5
OLED TV ASP		-	-	-	-	-	-	-	-	-	-	-	\$150.00
OLED TV royalty rate		-	-	-	-	-	-	-	-	-	-	-	0.45%
OLED TV royalties		-	-	-	-	-	-	-	-	-	-	-	2.0
OLED TV materials		-	-	-	-	-	-	-	-	-	-	-	19.5
Total chemical revenues		-	1.9	2.3	3.2	8.3	15.7	8.3	9.6	9.9	11.3	39.1	73.0
Total royalty revenues		-	1.8	1.8	2.8	3.9	10.3	10.1	9.7	11.2	11.5	43.1	58.7

Company Description

Founded in 1985, New Jersey based PANL holds key patents on OLED (organic light emitting diode) technology, specifically PHOLED (phosphorescent OLED). PANL is involved in the licensing and development of PHOLED. Samsung and LG are currently PANL's largest customers, collectively accounting for 58% of total 2010 revenues.. Developmental revenues primarily relate to R&D for customers and small government contracts with agencies such as the Department of Energy and Department of Defense. PANL has about 90 employees including 3 patent lawyers and ~60 scientists involved in R&D.

PANL licenses its technology to display manufacturers for approximately \$0.22 per device (assuming smartphone sized displays with a \$25 ASP and one PANL color), split between chemical materials PANL prices at ~\$460/gram and a royalty estimated at 0.45% (per color) of the display ASP. OLED displays are already available in many smartphones, most notably in Samsung's Galaxy line. PANL has a licensing and materials supply agreement with Samsung through 2017, and PANL is currently negotiating agreements with other display manufacturers to establish new partnerships or to replace the current 3-6 month contracts.

Investment Thesis

- **OLED Market Reaching Inflection Point** - Smartphones account for the majority of OLED usage today and are expected to drive a \$4-5 billion OLED display market in 2012. Samsung's new \$2.2 billion fabrication facility, the largest OLED plant to date, came online in May and we believe Samsung could spend up to \$3 billion on OLEDs over the next two years. With Samsung's additional capacity and LG's smaller facility operational, we expect increased implementation of OLEDs in their respective products and adoption by other smartphone OEMs. We estimate a 5% increase in OLED adoption by smartphone OEMs yields up to \$0.11 incremental EPS in 2012, and we believe Samsung's new facility and licensing agreement with PANL validate the display technology and PANL's patents, which we expect to drive adoption by competing OEMs.
- **Cashing In On The Patent Portfolio** - PANL owns key PHOLED patents, of which the most important do not begin expiring until 2017. We estimate PANL currently receives \$0.22 in chemical sales and royalties per smartphone (assuming a \$25 display ASP). PANL supplies chemical materials for every PHOLED display sold, which it prices at ~\$460 per gram, and collects a royalty estimated at 0.45% (per color) of the display ASP. Display manufacturers today only use PANL's phosphorescent red and depend on fluorescent material for green and blue. PANL recently reported 400,000 lifetime hours for its green materials, close to LCD lifetimes (500,000 hours), and we believe display manufacturers could begin using PANL's green material by 2012.
- **An Attractive Business Model** - With its high margin licensing model and solid balance sheet, PANL is strategically positioned to benefit from the OLED inflection point. We estimate gross margins on chemical sales are approximately 90%, and we believe that net margins could be in the 30-40% range, similar to IP licensor DLB. Following a recent secondary offering, PANL has \$325 million on its balance sheet and no debt. If the smartphone, tablet, and TV opportunities materialize, we believe PANL's attractive margins and solid, debt free balance sheet warrant a higher valuation relative to its peer group.

Price Target Justification

Our \$60 price target is based on 55x our C12 estimate. We believe this high multiple is appropriate given the OLED market opportunity, PANL's scalable licensing business model, and its solid balance sheet with ~\$8 per share in net cash.

Potential Catalysts

- **License Agreements With OEMs** - PANL has a licensing deal with Samsung through Dec. 2017, but other current agreements consist of short term contracts. If PANL can secure more definitive licensing terms with display manufacturers such as LG, AU Optronics, or Chimei Innolux, we believe shares would benefit.
- **OLED Reaches Tablets** - In order of display size, we view 7", and possibly 10", tablets as the next opportunity for OLEDs. Samsung is capable of producing panels of this size, as shown by the 7" OLED Galaxy Tab it brought to FPD International in November 2010. However, Samsung's market share of the

tablet market remains small at 8% in 2010. Should non-Apple tablets adopt OLED displays sooner than expected, shares could benefit.

- **New Fabrication Facilities** - The OLED market will be dependent upon capacity expansion to achieve meaningful penetration. LG Display is expected to race towards large-area display manufacturing, securing itself a first-mover advantage in the OLED TV market, and a CapEx announcement from LG could provide a catalyst to shares.
- **Potential M&A Activity** - PANL's business is centered on its IP, and we believe PANL could use cash on its balance sheet to acquire additional IP and strengthen its patent portfolio. A strategic IP acquisition could allow PANL to negotiate greater royalty rates and provide a catalyst to shares.
- **PANL is Acquired** - Given its key IP portfolio and potential margin profile, we view PANL as an acquisition candidate. We suspect companies such as Samsung, Corning, or LG could be interested in a vertical integration. Given the recent prices commanded by IP sales, we believe an acquisition announcement would provide a catalyst to shares.
- **OLED TV and/or Lighting Go Commercial** - We view the OLED TV and OLED lighting opportunities as long-term wild cards, but we expect meaningful investments in these technologies or manufacturing breakthroughs related to large-area panels and white lighting could provide upside to shares. TVs are a \$100 billion market, and OLED lighting is expected to ramp from a \$1 billion market in 2014 to \$7 billion in 2018.

Risks

- **Samsung Terms Do Not Meet Expectations** - The SEC will review the redacted version of the agreement within the next 2-3 weeks, and could decide the terms are material and must be disclosed. Should the financial terms be below expectations, shares could be impacted.
- **Patent Invalidation** - PANL's business is contingent upon the validity of its intellectual property rights. Should its patents be ruled invalid, PANL's business would be adversely affected. PANL patents are currently being challenged in Korea, Japan, and Europe, but we have no additional color, expect lengthy legal processes, and are cautiously optimistic considering PANL's recent IP licensing agreement with Samsung.
- **Technology Risk** - While OLED development has progressed significantly and is already commercially available, new technologies could prove to be more cost-effective or more advanced and could render OLEDs obsolete. Just as liquid crystal displays (LCD) replaced cathode ray tube displays (CRT), next generation display technologies could threaten the OLED market.
- **OLED Device Bans** - Apple has several lawsuits pending against Samsung, HTC, and Motorola. Should OEMs using OLED displays in their devices find their products banned in important markets, the OLED market could suffer. However, given PANL's fixed-fee licensing agreement and minimum materials purchase agreement, the downside risk is limited. To the extent that expectations for additional chemical material sales do not materialize, shares could feel pressure.

Universal Display Corporation
Financial Statements
FYE: Dec

(\$ millions, except per share amounts)	FY09	CY10	1Q11	2Q11	3Q11E	4Q11E	CY11E	1Q12E	2Q12E	3Q12E	4Q12E	CY12E	CY13
REVENUE BREAKDOWN (Estimated)													
Smartphones													
Smartphone shipments (units)	296.6	99.6	108.0	121.0	143.4	472.0	146.3	162.5	162.5	178.8	650.0	800.0	
Percent OLED	14.2	16.0	23.0	29.0	31.5	24.9	33.0	33.5	34.0	35.0	33.9	38.5	
OLED smartphone shipments (units)	42.0	15.9	24.8	35.1	45.2	121.0	48.3	54.4	55.3	62.6	220.5	308.6	
OLED Smartphone display ASP		\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$22.50	\$22.50	\$22.50	\$22.50	\$22.50	\$20.25
Organic material per color per display (milligrams)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Organic material ASP (\$/gram)	\$500	\$500	\$460	\$460	\$460	\$470	\$430	\$430	\$430	\$430	\$430	\$430	\$400
Organic material per display (\$)	\$0.10	\$0.10	\$0.09	\$0.09	\$0.18	\$0.12	\$0.17	\$0.17	\$0.17	\$0.17	\$0.17	\$0.17	\$0.16
PHOLED royalty rate per color	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%
PHOLED royalty rate per display	0.45%	0.45%	0.45%	0.45%	0.90%	0.56%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%
PHOLED royalty per color per display (\$)	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.09
Smartphone display chemicals			1.9	2.3	3.2	8.3	15.7	8.3	9.4	9.5	10.8	37.9	49.4
Smartphone display royalties			1.8	1.8	2.8	3.9	10.3	10.1	9.7	11.0	11.1	41.9	52.6
Tablets													
Tablet shipments (units)	18	14.0	17.4	17.4	20.9	69.8	21.6	27.1	27.1	32.5	108.2	170	
Percent OLED	-	-	-	-	-	-	-	2.0	3.0	4.0	2.3	6.0	
OLED tablet shipments (units)	-	-	-	-	-	-	0.0	0.5	0.8	1.3	2.7	10.2	
Tablet display ASP	\$55.00	\$55.00	\$55.00	\$55.00	\$55.00	\$55.00	\$49.50	\$49.50	\$49.50	\$49.50	\$49.50	\$49.50	\$44.55
Organic material per display (milligrams)	0.5	0.5	0.5	0.5	1.0	0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Organic material per display (\$)	\$0.25	\$0.25	\$0.23	\$0.23	\$0.47	\$0.30	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.40
Tablet display chemicals	-	-	-	-	-	-	0.0	0.2	0.4	0.6	1.2	4.1	
Tablet display royalties	-	-	-	-	-	-	0.0	0.0	0.2	0.4	1.2	4.1	
OLED TV													
OLED TV shipments (units)	-	-	-	-	-	-	-	-	-	-	-	-	1.5
OLED TV ASP	-	-	-	-	-	-	-	-	-	-	-	-	\$150.00
OLED TV royalty rate	-	-	-	-	-	-	-	-	-	-	-	-	0.45%
OLED TV royalties	-	-	-	-	-	-	-	-	-	-	-	-	2.0
OLED TV materials	-	-	-	-	-	-	-	-	-	-	-	-	19.5
Total chemical revenues	-		1.9	2.3	3.2	8.3	15.7	8.3	9.6	9.9	11.3	39.1	73.0
Total royalty revenues	-		1.8	1.8	2.8	3.9	10.3	10.1	9.7	11.2	11.5	43.1	58.7

Universal Display Corporation
Financial Statements
FYE: Dec

	FY09	CY10	1Q11	2Q11	3Q11E	4Q11E	CY11E	1Q12E	2Q12E	3Q12E	4Q12E	CY12E	CY13
INCOME STATEMENT													
Sales													
Chemicals	2.8	5.7	1.9	2.4	3.2	8.3	15.7	8.3	9.6	9.9	11.3	39.1	73.0
Royalty	1.6	3.5	1.8	1.8	2.8	3.9	10.3	10.1	9.7	11.2	11.5	43.1	58.7
License	1.1	1.2	0.9	0.9	1.0	1.0	3.8	1.5	1.5	1.6	1.7	6.4	11.1
Commercialization assistance	0.7	0.8	0.2	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.9	0.9
Commercial revenue	6.1	11.1	4.7	5.3	7.2	13.5	30.6	20.1	21.1	22.9	24.7	88.8	141.7
Developmental revenue	9.7	19.4	4.9	6.0	5.4	5.9	22.2	5.2	5.7	6.4	7.0	24.4	27.2
Total revenue	15.8	30.5	9.6	11.3	12.6	19.4	52.7	25.3	26.8	29.3	31.8	113.2	169.0
Operating Expenses													
Cost of chemicals sold	0.9	3.0	0.1	0.1	0.7	1.2	2.1	1.2	1.4	1.4	1.6	5.6	11.0
R&D	20.6	19.6	6.6	5.6	6.7	6.7	25.5	6.8	6.9	7.0	7.1	27.8	29.1
SG&A	10.9	13.0	3.9	4.5	4.5	4.7	17.5	4.8	4.9	4.9	5.1	19.8	22.8
Patent costs	3.2	4.3	1.6	1.9	2.0	2.5	8.0	3.0	3.0	3.0	3.0	11.9	14.0
Royalty and license expense	0.4	0.9	0.2	0.2	0.2	0.4	1.0	0.5	0.5	0.5	0.6	2.1	3.2
Total operating expenses	36.1	40.8	12.3	12.3	14.0	15.4	54.1	16.2	16.7	16.9	17.4	67.1	80.2
Operating income	(20.3)	(10.2)	(2.7)	(1.1)	(1.4)	4.0	(1.3)	9.1	10.1	12.5	14.4	46.1	88.8
EBITDA	(12.6)	(1.4)	(0.8)	0.6	0.3	5.9	5.9	11.2	12.3	14.9	17.1	55.6	99.3
Interest income	0.7	0.3	0.1	0.2	0.8	0.8	1.9	0.8	0.9	0.9	0.9	3.5	4.2
Interest 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
Loss (gain) on stock warrant liability	1.0	10.1	8.9	(4.5)	-	-	4.4	-	-	-	-	-	-
Income before tax	(20.6)	(20.1)	(11.6)	3.6	(0.6)	4.8	(3.9)	9.9	10.9	13.4	15.3	49.6	92.9
Provision for income tax (benefit)	(0.1)	(0.1)	0.3	0.3	0.5	0.6	1.7	1.7	1.6	1.8	1.9	7.0	9.4
Net income - GAAP	(20.5)	(19.9)	(11.9)	3.3	(1.1)	4.2	(5.6)	8.3	9.3	11.5	13.4	42.5	83.5
Adjustments	1.0	10.1	10.5	(3.2)	1.4	1.5	10.2	1.7	1.9	2.1	2.3	8.0	6.8
Net income - Non-GAAP	(19.5)	(9.8)	(1.4)	0.1	0.3	5.7	4.6	10.0	11.2	13.6	15.7	50.5	90.3
Shares O/S	36.5	37.6	38.9	45.2	45.3	45.4	43.7	45.5	45.7	45.8	45.9	45.7	46.0
EPS - GAAP	\$ (0.56)	\$ (0.53)	\$ (0.31)	\$ 0.07	\$ (0.02)	\$ 0.09	\$ (0.16)	\$ 0.18	\$ 0.20	\$ 0.25	\$ 0.29	\$ 0.93	\$ 1.82
Non-GAAP adjustment	0.03	0.27	0.27	(0.07)	0.03	0.03	0.27	0.04	0.04	0.05	0.05	0.18	0.15
EPS - Non-GAAP	\$ (0.53)	\$ (0.26)	\$ (0.04)	\$ 0.00	\$ 0.01	\$ 0.12	\$ 0.11	\$ 0.22	\$ 0.25	\$ 0.30	\$ 0.34	\$ 1.11	\$ 1.97
Percent Composition													
Commercial revenue	38.8	36.4	49.4	46.9	57.0	69.4	57.9	79.4	78.8	78.1	77.9	78.5	83.9
Development revenue	61.2	63.6	50.6	53.1	43.0	30.6	42.1	20.6	21.2	21.9	22.1	21.5	16.1
Cost of chemicals sold	5.5	9.7	1.1	1.3	5.2	6.2	4.0	4.7	5.1	4.8	5.0	4.9	6.5
Chemicals margin	84.7	82.8	97.7	97.9	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	88.0
R&D	130.7	64.2	68.3	49.3	52.9	34.7	48.3	26.6	25.9	23.9	22.2	24.5	17.2
SG&A	69.2	42.7	40.3	40.0	35.6	24.0	33.2	19.1	18.5	16.8	16.1	17.5	13.5
Patent costs	20.5	14.0	16.8	17.0	15.7	12.7	15.1	11.8	11.1	10.1	9.3	10.5	8.3
Total operating expenses	228.4	133.5	128.6	109.5	111.4	79.4	102.5	64.0	62.4	57.5	54.6	59.3	47.5
Operating income	(128.4)	(33.5)	(28.6)	(9.5)	(11.4)	20.6	(2.5)	36.0	37.6	42.5	45.4	40.7	52.5
Tax rate on royalty payments					16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Percent Change Yr/Yr													
Chemicals	(26.2)	107.2	156.0	185.6	96.6	228.8	173.3	345.2	299.6	205.2	36.3	149.1	86.8
Royalty	96.0	122.3	217.5	196.5	243.3	161.3	196.5	462.8	454.6	303.1	192.5	319.0	36.2
License	19.6	5.4	153.0	178.1	400.0	250.0	225.6	69.0	69.0	69.0	69.0	69.0	75.0
Commercialization assistance	314.6	10.5	10.3	10.3	5.0	5.0	7.7	5.0	5.0	5.0	5.0	5.0	5.0
Total commercial revenue	8.7	81.9	159.2	170.4	152.9	198.2	174.6	323.9	299.5	219.3	83.9	190.7	59.6
Research	55.4	14.3	70.0	10.0	25.0	25.0	31.5	(30.0)	3.0	3.0	3.0	(6.7)	5.0
Chemicals	41.6	297.8	160.5	47.6	20.0	(25.0)	20.6	35.0	(8.0)	28.0	28.0	18.3	15.0
Technology development	312.0	20.3	0.3	(86.1)	200.0	500.0	(40.6)	5.0	5.0	5.0	5.0	5.0	5.0
Total development revenue	77.6	100.8	101.0	(8.0)	28.5	(5.5)	14.3	7.6	(4.8)	18.5	18.5	9.9	11.7
Cost of chemicals sold	(0.6)	243.3	(77.7)	(86.0)	(48.0)	395.8	(29.7)	1,060.0	849.6	115.4	33.8	165.1	98.7
R&D	3.3	(5.0)	46.8	18.1	38.0	20.0	30.1	3.0	25.0	5.0	5.0	8.8	5.0
SG&A	6.3	19.4	46.5	24.0	30.0	40.0	34.2	25.0	10.0	10.0	10.0	13.3	15.0
Patent Costs	45.5	31.8	106.5	126.9	68.0	68.0	86.7	85.0	55.0	50.0	20.0	49.0	17.9
Royalty and license expense	(0.6)	121.6	68.1	29.5	9.2	(3.6)	15.8	126.2	127.0	127.7	75.3	108.9	52.0
Total operating expenses	6.9	13.1	45.7	19.0	28.2	39.9	32.7	31.4	35.5	20.2	12.8	24.1	19.5

Universal Display Corporation
Financial Statements
FYE: Dec

	FY09	CY10	1Q11	2Q11	3Q11E	4Q11E	CY11E	1Q12E	2Q12E	3Q12E	4Q12E	CY12E	CY13
CASH CALCULATIONS													
Beginning cash					326.4	326.0		330.9	340.2	350.8	363.8	330.9	378.8
+ Net income					(1.1)	4.2		8.3	9.3	11.5	13.4	42.5	83.5
+ D&A and options					1.8	1.9		2.1	2.3	2.5	2.7	9.5	10.6
+ Equity offerings					-	-		-	-	-	-	-	-
+ Other					-	-		-	-	-	-	-	-
Subtotal cash					327.1	332.0		341.2	351.8	364.8	379.9	382.9	472.9
- Restricted cash					(163.5)	(166.0)		(170.6)	(175.9)	(182.4)	(189.9)	(191.5)	(236.5)
- CapEx	(0.3)	(0.4)	(0.5)	(1.0)	(1.1)	(1.1)		(1.0)	(1.0)	(1.1)	(1.1)	(4.1)	(4.1)
Subtotal cash					162.5	164.9		169.6	174.9	181.4	188.9	187.4	232.4
+ Additional debt					-	-		-	-	-	-	-	-
- Dividends paid					-	-		-	-	-	-	-	-
+ Share repurchase					-	-		-	-	-	-	-	-
- Required debt repayments					-	-		-	-	-	-	-	-
- Additional debt repayments					-	-		-	-	-	-	-	-
Subtotal cash					162.5	164.9		169.6	174.9	181.4	188.9	187.4	232.4
+ Restricted cash					163.5	166.0		170.6	175.9	182.4	189.9	191.5	236.5
Ending cash					326.0	330.9		340.2	350.8	363.8	378.8	378.8	468.8
Average cash					326.2	328.5		335.6	345.5	357.3	371.3	354.9	423.8
Free cash flow					(0.4)	4.9		9.3	10.6	12.9	15.1	47.9	90.0
Interest rate					1.0%	1.0%		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Interest income					0.8	0.8		0.8	0.9	0.9	0.9	3.5	4.2
BALANCE SHEET													
Assets													
Current assets													
Cash and equivalents	22.7	20.4	258.1	65.2									
Short-term investments	41.2	52.8	66.8	261.2									
Accounts receivable	3.3	7.2	6.0	6.5									
Other	0.4	2.0	1.7	2.8									
Total current assets	67.6	82.4	332.6	335.8	-	-	-	-	-	-	-	-	-
Property & equipment, net	11.0	9.7	9.8	10.5									
Acquired technology, net	1.2	-	0.4	0.4									
Other assets	0.2	0.2	0.3	0.3									
Total assets	80.1	92.3	343.2	347.0	-	-	-	-	-	-	-	-	-
Liabilities & SE													
Current liabilities													
Accounts payable	1.3	2.2	2.3	3.2									
Accrued expenses	5.2	6.9	5.0	5.7									
Deferred license fees	6.0	4.0	-	-									
Deferred revenue	1.4	1.3	5.1	4.8									
Stock warrant liabilities	-	10.7	13.1	4.6									
Total current liabilities	14.0	25.0	25.4	18.2	-	-	-	-	-	-	-	-	-
Deferred license fees	2.8	2.8	-	-									
Deferred revenue	-	-	3.6	3.4									
Stock warrant liability	3.7	-	-	-									
Retirement plan benefit liability	-	7.1	7.3	7.5									
Total liabilities	20.5	34.9	36.4	29.2	-	-	-	-	-	-	-	-	-
Preferred stock	0.0	0.0	0.0	0.0									
Common stock	0.4	0.4	0.5	0.5									
Additional paid-in capital	256.3	280.1	541.1	548.9									
Accumulated retained earnings (deficit)	(197.1)	(217.0)	(228.9)	(225.6)									
Accumulated other compr. income	0.0	(6.0)	(5.9)	(5.9)									
Total shareholders' equity	59.6	57.4	306.8	317.8	-	-	-	-	-	-	-	-	-
Total liabilities and SE	80.1	92.3	343.2	347.0	-	-	-	-	-	-	-	-	-
BALANCE SHEET ANALYSIS													
Working capital (mil.)	53.7	57.4	307.2	317.5									
Current ratio	4.8x	3.3x	13.1x	18.4x									
Acid-test ratio	4.8x	3.2x	13.0x	18.3x									
Net cash per share	\$1.75	\$1.95	\$8.35	\$7.22									
Tangible book value/share	\$1.63	\$1.53	\$7.89	\$7.03									
PP&E, net per share	\$0.30	\$0.26	\$0.25	\$0.23									
ROE	-29%	-17%	-6%	-3%									
ROA	-22%	-11%	-5%	-3%									
DSOs	67	63	63	51									

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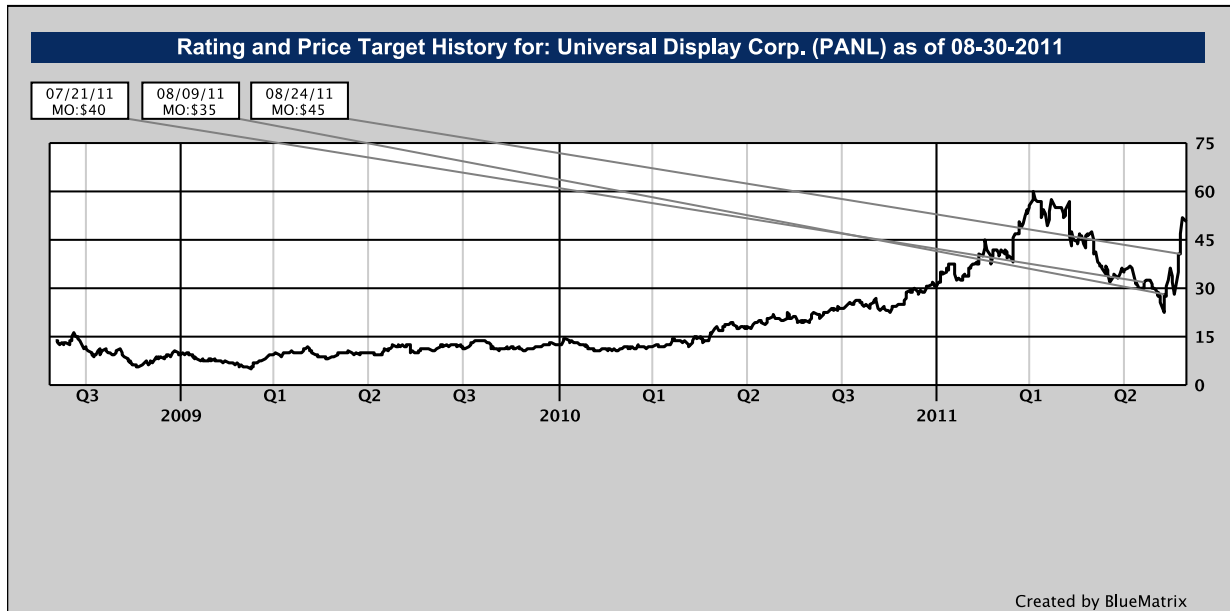
Price Target Valuation Method and Risk Factors: The 12 month price target is based on the analyst's assessment of future earnings and cash flow, comparable company valuations, and growth prospects. Risks to the target include broader market and macroeconomic fluctuations, as well as unforeseen changes in the company's fundamentals, business trends, competition, and/or unexpected management changes. Additional disclosures are available by calling 866-699-3531.

Rating Definitions

MO: Expected price gains of at least 5-10% greater than the market over the next 6-18 mos.

MP: Expected price gains similar to the market over the next 6-18 mos.

MU: Expected price gains of at least 5% less than the market over the next 6-18 mos.



Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [MO]	121	64.40	4	3.31
HOLD [MP]	63	33.50	0	0.00
SELL [MU]	4	2.10	0	0.00

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