

Changes	Annual EPS	Annual Revenue	Target
	2011E (\$0.42) from \$0.30	2011E \$41.1M from \$57.1M	\$52.00 from \$42.00
	2012E \$0.60 from \$1.54	2012E \$82.8M from \$130.2M	

Universal Display

PANL : NASDAQ : US\$56.63

HOLD ↓

Target: US\$52.00 ↑

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COMPANY STATISTICS:

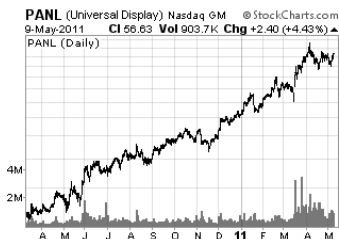
Market Cap (M): US\$2,542.5
52-week Range: US\$11.95 - 63.58

EARNINGS SUMMARY:

FYE Dec	2010A	2011E	2012E	2013E
P/Sales:	83.2x	61.9x	30.7x	13.2x
P/E:	nm	nm	94.4x	21.9x

Revenue:	Q1	Q2	Q3	Q4	Total
	4.2	8.4	7.1	10.8	30.5
	9.6A	9.5	10.5	11.5	41.1
	-	-	-	-	82.8
	-	-	-	-	193.3
EPS:	Q1	Q2	Q3	Q4	Total
	(0.08)	(0.12)	(0.19)	(0.08)	(0.47)
	(0.31)A	(0.07)	(0.05)	(0.03)	(0.42)
	-	-	-	-	0.60
	-	-	-	-	2.58

SHARE PRICE PERFORMANCE:



COMPANY DESCRIPTION:

Universal Display Corporation is engaged in the research and development and commercialization of organic light emitting diodes (OLED) technologies and materials for potential flat panel display and other applications.

All amounts in US\$ unless otherwise noted.

Sustainability -- Energy & Power Technologies

LT OPPORTUNITY REMAINS, BUT DOWNGRADING TO HOLD ON FAIR VALUATION AND LIKELY VOLATILITY

Investment recommendation

We are downgrading PANL shares to HOLD from Buy as we believe that shares fairly value the risk/reward of near-term pushouts and contract negotiations versus the longer-term secular OLED trend.

Investment highlights

- Revenues in the quarter were slightly above consensus, and earnings were slightly below, excluding the non-cash charge for warrant liability, due to higher R&D. Sales were \$9.6M, compared to consensus of \$9.2M and our \$11.5M. EPS were \$(0.31), including the \$(0.23) related to the warrant liability, compared to consensus of \$(0.03) and our \$0.01 estimate.
- We believe that delays at Samsung's Gen5.5 fab push out the opportunity by nine months to a year, changing our near-term forecasts. Investors are focused more on the longer-term opportunity toward 2015 than near-term push-outs, and we believe that opportunity has not changed.
- However, we feel the current stock price is already pricing in the best-case scenario in not only the longer-term opportunity, but a successful resolution to the Samsung negotiations.
- While we ultimately see a favorable agreement, we foresee potential volatility around reaching this agreement including possible litigation or the difficult decision to temporarily walk away from a 70%+ customer.

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Valuation

We are setting our price target at \$52, up from \$42 previously, which is based on a 20x multiple to our new 2013 EPS estimates. While we are using 2013 to value the company, growth investors are likely looking through valuation in the near term, to the opportunity in 2015/2016. We believe the PANL model is capable of generating approximately \$5.00 of earnings power based on a favorable 2% royalty deal with Samsung and that the investors are paying 10-12x this opportunity, which comes out at approximately the same valuation as using 2013 and a higher multiple.

Risks

The biggest risk in the near-term remains the Samsung negotiation. Currently UDC has extended the exiting agreement multiple times and only includes red materials and a royalty just under 1% of the device ASP. We believe UDC needs to achieve somewhere around 2% including material sales to justify current valuation. We believe this is a possible scenario but may require UDC to make some difficult decisions, resulting in volatility.

Longer term, the primary risk associated with PANL shares is the ability for PHOLEDs to become a commercially viable alternative to current CSTN and TFT-LCD FPD technologies. Since UDC's business model is based on licensing its Intellectual Property, the company is reliant upon the ability of its customers to commercialize OLED technology. Therefore, should UDC prove unsuccessful at signing additional agreements with key OEMs (Sony, Samsung SDI, Panasonic to name a few potential licensees) we would view this negatively. As an IP company, the invalidation of UDC's fundamental patents or the expiration of these patents is a risk.

Adjusting estimates

We are adjusting our estimates based on our new predictions for yield, throughput etc. of the fabs in commercialization and for the upcoming factories as well. As we stated, the delay at Samsung's Gen 5.5 fab has likely pushed out the opportunity by approximately nine months to a year. As such we are introducing 2013 estimates to reflect this change. Our 2011 estimates are now \$41.1M and \$(0.42) from \$57.1M and \$0.30. Our 2012 estimates are now \$82.8M and \$0.60 from \$130.2M and \$1.54. Our 2013 estimates are \$193.3M and \$2.58.

Figure 1: PANL revenue and earnings model

Dollars are in (000s)

	Fiscal Year 2010A				Fiscal Year 2011E				2010A	2011E	2012E	2013E
	Q1A Mar '10	Q2A Jun '10	Q3A Sep '10	Q4A Dec '10	Q1A Mar '11	Q2E Jun '11	Q3E Sep '11	Q4E Dec '11				
Net Sales	\$ 4,247	\$ 8,447	\$ 7,056	\$ 10,795	\$ 9,601	\$ 9,476	\$ 10,484	\$ 11,506	\$ 30,544	\$ 41,066	\$ 82,815	\$ 193,283
% change (Q/Q)	-12%	99%	-16%	53%	-11%	-1%	11%	10%				
% change (Y/Y)	50%	186%	37%	123%	126%	12%	49%	7%	93%	34%	102%	133%
Cost of Sales, net	461	1,017	1,258	241	103	284	315	345	2,977	1,047	2,484	9,664
Gross profit	3,786	7,429	5,798	10,554	9,498	9,191	10,170	11,161	27,567	40,020	80,331	183,619
Gross margin %	89.1%	88.0%	82.2%	97.8%	98.9%	97.0%	97.0%	97.0%	90.3%	97.5%	97.0%	95.0%
Research and development	4,467	4,702	4,831	5,606	6,555	6,588	6,621	6,654	19,605	26,418	27,288	28,396
% of total revenue	105%	56%	68%	52%	68%	70%	63%	58%	77%	77%	77%	77%
General & administrative	2,642	3,625	3,453	3,322	3,872	3,911	3,950	3,989	13,041	15,722	16,360	17,025
% of total revenue	62%	43%	49%	31%	40%	41%	38%	35%	64%	64%	33%	15%
Patent cost	781	844	1,177	1,468	1,613	1,629	1,645	1,662	4,270.7	6,549.4	6,815.4	7,092.1
% of total revenue	18%	10%	17%	14%	17%	17%	16%	14%	43%	38%	20%	9%
Royalty & License expense	120	169	219	369	202	207	212	217	876.0	837.2	917.2	997.2
% of total revenue	3%	2%	3%	3%	2%	2%	2%	2%	3%	2%	1%	1%
Total operating expenses	8,010	9,339	9,680	10,764	12,242	12,335	12,428	12,522	37,793	49,526	51,381	53,510
% change (Q/Q)	-4%	17%	4%	11%	14%	1%	1%	1%	9%	31%	4%	4%
% change (Y/Y)	-7%	4%	12%	30%	53%	32%	28%	16%				
Operating income	(4,224)	(1,909)	(3,883)	(210)	(2,744)	(3,143)	(2,258)	(1,361)	(10,226)	(9,507)	28,950	130,110
Operating margin %	-99%	-23%	-55%	-2%	-29%	-33%	-22%	-12%	-33%	-23%	35%	67%
Interest Income (expense), net	69	56	58	69	86	90	95	100	252	371	400	400
% of total revenue	1.6%	0.7%	0.8%	0.6%	0.9%	0.9%	0.9%	0.9%	0.8%	0.9%	0.5%	0.2%
Other	713	(2,582)	(3,362)	(3,362)	(8,926)	-	-	-	(1,204)	(8,926)	-	-
Income before taxes	(3,442)	(4,436)	(7,187)	(3,504)	(11,584)	(3,053)	(2,163)	(1,261)	(18,569)	(18,062)	29,350	130,510
Provision for income taxes	(464)			(330)	297	-	-	-	(794)	297	881	3,915
% of Income	13%	0%	0%	9%	-3%	0%	0%	0%				
Net income	(2,978)	(4,436)	(7,187)	(3,174)	(11,881)	(3,053)	(2,163)	(1,261)	(17,775)	(18,359)	28,470	126,594
Net margin %	-70%	-53%	-102%	-29%	-124%	-32%	-21%	-11%	-58%	-45%	34%	65%
EPS (GAAP)	\$ (0.08)	\$ (0.12)	\$ (0.19)	\$ (0.08)	\$ (0.31)	\$ (0.07)	\$ (0.05)	\$ (0.03)	\$ (0.47)	\$ (0.42)	\$ 0.60	\$ 2.58
% change (year over year)	-47%	-33%	+46%	-20%	+288%	-42%	-74%	-63%	-16%	-11%	-243%	+330%
Diluted shares	37,029	37,362	37,741	38,112	38,896	44,896	45,396	45,896	37,561	43,771	47,146	49,146
Gross margin	89%	88%	82%	98%	99%	97%	97%	97%	90%	97%	97%	95%
EBITDA margin	-99%	-23%	-55%	-2%	-29%	-33%	-22%	-12%	-47%	-30%	-12%	-5%
Operating margin	-99%	-23%	-55%	-2%	-29%	-33%	-22%	-12%	-33%	-23%	35%	67%
Net margin	-70%	-53%	-102%	-29%	-124%	-32%	-21%	-11%	-58%	-45%	34%	65%
Current Balance Sheet Data												
Cash/investments	\$ 324,925	Total liabilities		\$ 36,358								
Cash per share	8.353697038	Stockholders' equity		\$ 306,817								
Total Assets	\$ 343,175	Book value per share		\$ 7.89								

Source: Company reports and Canaccord Genuity estimates

APPENDIX: IMPORTANT DISCLOSURES

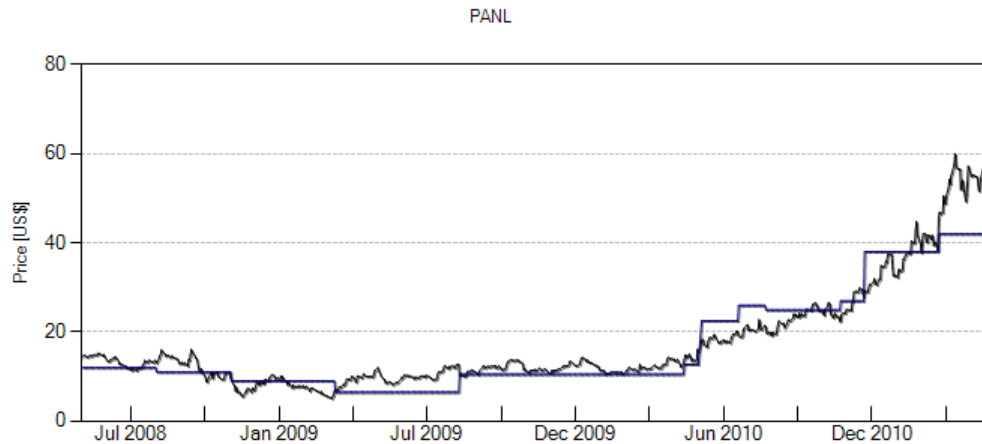
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Price Chart:*



Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 05/09/2008	Dorsheimer	Hold	12.00	7) 06/01/2010	Dorsheimer	Buy	22.50
2) 08/08/2008	Dorsheimer	Hold	11.00	8) 07/16/2010	Dorsheimer	Buy	26.00
3) 11/07/2008	Dorsheimer	Hold	9.00	9) 08/18/2010	Dorsheimer	Buy	25.00
4) 03/13/2009	Dorsheimer	Hold	6.50	10) 11/05/2010	Dorsheimer	Buy	27.00
5) 08/11/2009	Dorsheimer	Hold	10.50	11) 12/16/2010	Quealy	Buy	38.00
6) 05/11/2010	Dorsheimer	Hold	12.75	12) 03/16/2011	Dorsheimer	Buy	42.00

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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(as of 3 May 2011)

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	#	%	#	%
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Speculative Buy	67	8.5%	62	62.7%
Hold	234	29.8%	17	17.5%
Sell	18	2.3%	11	11.1%
	785	100.0%		

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Universal Display	1A, 2, 3, 5, 7
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