

Universal Display

PANL : NASDAQ : US\$51.71

HOLD

Target: US\$48.00

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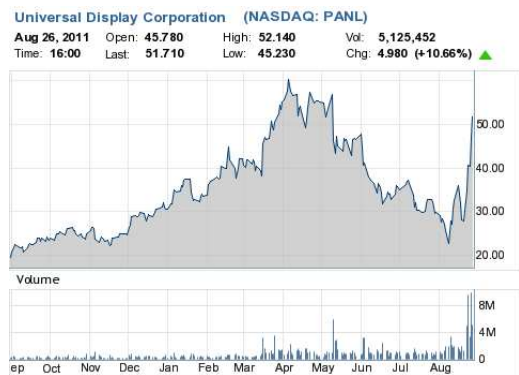
COMPANY STATISTICS:

Market Cap (M): US\$2337.3
52-week Range: US\$18.75 - 63.58

EARNINGS SUMMARY:

FYE Dec	2010A	2011E	2012E	2013E
P/Sales:	74.5x	49.1x	25.7x	11.5x
P/E:	NM	NM	70.8x	19.3x
Revenue:	Q1	4.2	9.6A	-
	Q2	8.4	11.3A	-
	Q3	7.1	12.2	-
	Q4	10.8	13.4	-
Total		30.5	46.4	88.6
EPS:	Q1	(0.08)	(0.31)A	-
	Q2	(0.12)	0.07A	-
	Q3	(0.19)	(0.01)	-
	Q4	(0.08)	0.02	-
Total		(0.47)	(0.19)	0.73
				2.68

SHARE PRICE PERFORMANCE:



Source: Interactive Data Corporation

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 & CleanTech -- Energy & Power Technologies

WHAT DID WE LEARN FROM THE 8-K? MAINTAIN HOLD AND \$48 TARGET

Investment recommendation

We maintain our HOLD rating on PANL shares after the company's filing of the 8-K after Friday's close. While terms were omitted, it is clear that the Samsung deal is a license agreement with recurring payments over the next five years.

Investment highlights

- Based on the 8-K, it is clear the agreement is a license agreement with recurring payments every six months over the next five years.
- Details were limited and are being kept to a few senior executives at both SMD and UDC. Both parties believe they prevailed in the terms of the agreement, none of which were disclosed in the 8K.
- With Samsung signed, what is next? While details may become more apparent over the coming months, we do not suspect a rush of new licensees, which may limit upside of PANL shares in the near term. As such, we maintain our HOLD rating.

Valuation

We maintain our \$48 price target, which is based on an approximate 15x multiple to our 2013 EPS estimate of \$2.68 plus \$7 per share in cash.

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Investment risks

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. As a development stage company, near-term revenues will likely be lumpy in nature until commercialization occurs and the company is able to get to a normalized run-rate.

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	Q2A Jun '11	Q3E Sep '11	Q4E Dec '11				
Net Sales	\$ 4,247	\$ 8,447	\$ 7,056	\$ 10,795	\$ 9,601	\$ 11,252	\$ 12,159	\$ 13,380	\$ 30,544	\$ 46,392	\$ 88,641	\$ 198,836
% change (Q/Q)	-12%	99%	-16%	53%	-11%	17%	8%	10%				
% change (Y/Y)	50%	186%	37%	123%	126%	33%	72%	24%	93%	52%	91%	124%
Cost of Sales, net	461	1,017	1,258	241	103	143	365	401	2,977	1,011	2,659	9,942
Gross profit	3,786	7,429	5,798	10,554	9,498	11,110	11,794	12,978	27,567	45,380	85,982	188,894
Gross margin %	89.1%	88.0%	82.2%	97.8%	98.9%	98.7%	97.0%	97.0%	90.3%	97.8%	97.0%	95.0%
Research and development	4,467	4,702	4,831	5,606	6,555	5,551	5,579	5,607	19,605	23,293	22,995	23,929
% of total revenue	105%	56%	68%	52%	68%	49%	46%	42%	64%	50%	26%	12%
General & administrative	2,642	3,625	3,453	3,322	3,872	4,496	4,541	4,586	13,041	17,495	18,808	19,572
% of total revenue	62%	43%	49%	31%	40%	40%	37%	34%	43%	38%	21%	10%
Patent cost	781	844	1,177	1,468	1,613	1,915	1,934	1,954	4,270.7	7,415.8	8,011.5	8,336.8
% of total revenue	18%	10%	17%	14%	17%	17%	16%	15%	14%	16%	9%	4%
Royalty & License expense	120	169	219	369	202	218	223	228	876.0	871.6	963.0	1,043.0
% 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	12,181	12,277	12,375	37,793	49,075	50,777	52,880
% change (Q/Q)	-4%	17%	4%	11%	14%	-1%	1%	1%	9%	30%	3%	4%
% change (Y/Y)	-7%	4%	12%	30%	53%	30%	27%	15%				
Operating income	(4,224)	(1,909)	(3,883)	(210)	(2,744)	(1,071)	(483)	603	(10,226)	(3,695)	35,204	136,014
Operating margin %	-99%	-23%	-55%	-2%	-29%	-10%	-4%	5%	-33%	-8%	40%	68%
Interest Income (expense), net	69	56	58	69	86	176	95	100	252	457	400	400
% of total revenue	1.6%	0.7%	0.8%	0.6%	0.9%	1.6%	0.8%	0.7%	0.8%	1.0%	0.5%	0.2%
Other	713	(2,582)	(3,362)	(3,362)	(8,926)	4,496	-	-	(1,204)	(4,430)	-	-
Income before taxes	(3,442)	(4,436)	(7,187)	(3,504)	(11,584)	3,602	(388)	703	(18,569)	(7,667)	35,604	136,414
Provision for income taxes	(464)			(330)	297	289	-	-	(794)	586	1,068	4,092
% of Income	13%	0%	0%	9%	-3%	8%	0%	0%				
Net income	(2,978)	(4,436)	(7,187)	(3,174)	(11,881)	3,313	(388)	703	(17,775)	(8,254)	34,536	132,321
Net margin %	-70%	-53%	-102%	-29%	-124%	29%	-3%	5%	-58%	-18%	39%	67%
EPS (GAAP)	\$ (0.08)	\$ (0.12)	\$ (0.19)	\$ (0.08)	\$ (0.31)	\$ 0.07	\$ (0.01)	\$ 0.02	\$ (0.47)	\$ (0.19)	\$ 0.73	\$ 2.68
% change (year over year)	-47%	-33%	+46%	-20%	+288%	-158%	-95%	-125%	-16%	-60%	-484%	+267%
Diluted shares	37,029	37,362	37,741	38,112	38,896	45,201	45,701	46,201	37,561	44,000	47,451	49,451
Gross margin	89%	88%	82%	98%	99%	99%	97%	97%	90%	98%	97%	95%
EBITDA margin	-99%	-23%	-55%	-2%	-29%	-10%	-4%	5%	-47%	-26%	-12%	-5%
Operating margin	-99%	-23%	-55%	-2%	-29%	-10%	-4%	5%	-33%	-8%	40%	68%
Net margin	-70%	-53%	-102%	-29%	-124%	29%	-3%	5%	-58%	-18%	39%	67%

Current Balance Sheet Data

Cash/investments	\$ 326,399	Total liabilities	\$ 29,223
Cash per share	\$ 7.22	Stockholders' equity	\$ 317,790
Total Assets	\$ 347,013	Book value per share	\$ 7.03

Source: Company reports and Canaccord Genuity estimates

APPENDIX: IMPORTANT DISCLOSURES

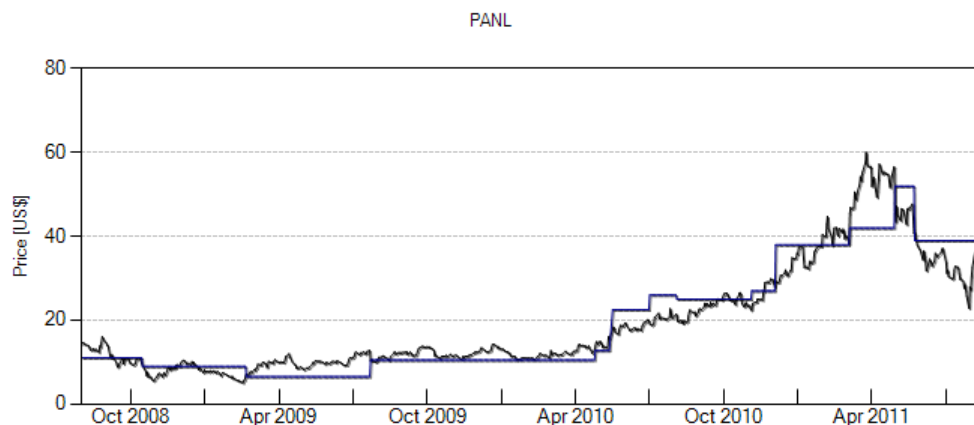
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Price Chart:*



Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 11/07/2008	Dorsheimer	Hold	9.00	8) 11/05/2010	Dorsheimer	Buy	27.00
2) 03/13/2009	Dorsheimer	Hold	6.50	9) 12/16/2010	Quealy	Buy	38.00
3) 08/11/2009	Dorsheimer	Hold	10.50	10) 03/16/2011	Dorsheimer	Buy	42.00
4) 05/11/2010	Dorsheimer	Hold	12.75	11) 05/10/2011	Dorsheimer	Hold	52.00
5) 06/01/2010	Dorsheimer	Buy	22.50	12) 06/02/2011	Dorsheimer	Hold	39.00
6) 07/16/2010	Dorsheimer	Buy	26.00	13) 08/25/2011	Dorsheimer	Hold	48.00
7) 08/18/2010	Dorsheimer	Buy	25.00				

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

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Global Stock Ratings
(as of 3 August 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	478	60%	38.5%	
Speculative Buy	79	10%	65.8%	
Hold	222	28%	18.9%	
Sell	12	2%	25.0%	
	791	100%		

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
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Universal Display	1A, 2, 3, 5, 7
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