

Changes	Annual EPS	Annual Revenue	Target
	No change	No change	C\$48.00 from C\$39.00

## Universal Display

PANL : NASDAQ : US\$50.37

**HOLD**

**Target: US\$48.00 ↑**

**Jonathan Dorsheimer** 1.617.371.3875  
 jeddorsheimer@canaccordgenuity.com  
**Josh Baribeau** 1.617.371.3892  
 jbaribeau@canaccordgenuity.com

### COMPANY STATISTICS:

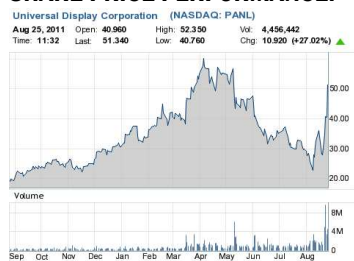
Market Cap (M): US\$2276.8  
 52-week Range: US\$18.75 - 63.58

### EARNINGS SUMMARY:

FYE Dec	2010A	2011E	2012E	2013E
P/Sales:	74.5x	49.1x	25.7x	11.5x
P/E:	NM	NM	69.0x	18.8x

Revenue:	Q1	Q2	Q3	Q4	Total
	4.2	8.4	7.1	10.8	30.5
	9.6A	11.3A	12.2	13.4	46.4
	-	-	-	-	88.6
	-	-	-	-	198.8
EPS:	Q1	Q2	Q3	Q4	Total
	(0.08)	(0.12)	(0.19)	(0.08)	(0.47)
	(0.31)A	0.07A	(0.01)	0.02	(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

## UPDATE TO THE SAMSUNG AGREEMENT; MAINTAIN HOLD, PRICE TARGET TO \$48

- Since we initially published on Tuesday, we have performed additional checks that lead us to believe the agreement between Universal Display (PANL: NASDAQ: \$49.46 | HOLD) and Samsung is royalty-based instead of a fixed one-time license, as was rumored previously.
- We believe that the terms are favorable to UDC, which leads us to believe the royalty is approximately 150bps – the midpoint of our scenario analysis published two days ago, and reproduced below.
- We expect an 8-K to be filed in the coming days/weeks which should provide a greater level of insight into the contract with Samsung. Absent additional information we maintain our HOLD rating, but recognize that the stock is likely to move upwards in the interim on speculation about what the deal might look like.
- We are raising our price target to \$48, which is approximately based off of a 15x multiple to our unchanged 2013 EPS estimate of \$2.68 plus \$7 per share in cash.

Equally, most estimates peg the OLED market at \$20 billion some time after 2015. We believe that a bearish scenario has a 1% royalty rate and a bullish scenario has 2%. A 1% royalty with material sales (which we estimate at approximately \$100M) would provide annual net sales of \$300M for UDC. We expect a target model to be 97% gross margins, 80% operating margin and a full 35% tax rate, and thus \$156M in net income. Assuming a normal share creep provides an estimate for \$3.00 in EPS. A 10x-12x multiple, which we feel is reasonable to account for the company's growth and 5 year discount, would provide a valuation in the low to mid-\$30 range.

A 2% royalty with the same target model, and again a 10x-12x multiple, provides \$5.00 in EPS and puts the fair value of the stock closer to \$60. 1.5% yields \$4.00 in EPS and a 12x multiple arrives at \$48 – our new price target.

**Figure 1: Steady-state earnings sensitivity**

2015					
	ASP	Units	Rev oppty	Penetration	
Handset	\$ 20.00	600,000,000	12,000,000,000	33%	
Tablet	\$ 50.00	100,000,000	5,000,000,000	100%	
TV	\$ 400.00	7,500,000	3,000,000,000	4%	
			20,000,000,000		
	1%	1.5%			
Revenue	\$ 200,000,000	\$ 300,000,000			
Materials Revenue	\$ 100,000,000	\$ 100,000,000			
Total Revenue	\$ 300,000,000	\$ 400,000,000			
Operating Income	\$ 240,000,000	\$ 320,000,000			
Income after tax	\$ 156,000,000	\$ 208,000,000			
EPS	\$ 3.00	\$ 4.00			

Source: Canaccord Genuity

### 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.

**APPENDIX: IMPORTANT DISCLOSURES**

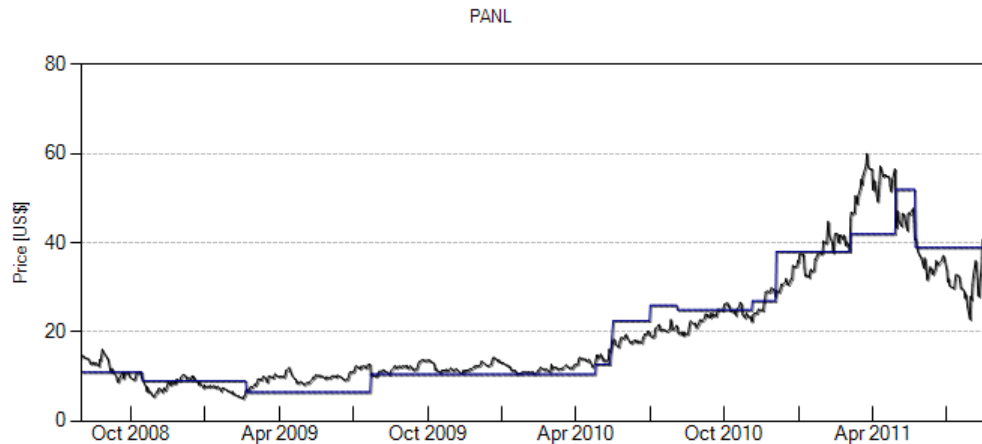
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**Price Chart:\***



— Market Price  
— Target Price

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

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

**Distribution of Ratings:**

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