

Veeco (NASDAQ:VECO)

11/07/09 | Price: \$24.23 | Market Cap: \$915M | 12-month price target: \$40 (65% premium)

Investment Thesis:

1. Veeco is the second largest producer of LED manufacturing equipment (MOCVDs) with superior technology and a lower cost of ownership.
 2. Recently, the demand for LEDs has increased significantly driven by the use of high brightness LEDs in TVs, notebooks, computer monitors, indoor lights and street lights.
 3. Veeco's current valuation implies that ~500 MOCVDs will be needed in 2010 with an annual run rate of 300-400 going forward. However, given observable penetration rates, I forecast that ~645 MOCVDs will be needed in 2010 with an annual run rate of 500 going forward.
 - a) Veeco's current valuation implies that LED TV penetration next year will be 3-5% while currently observable data shows that LED penetration is already at 10% and increasing (source: NPD).
 - b) TV LED penetration has direct impact on Veeco because for every 100bps increase in LED penetration, 13 additional MOCVDs are needed.
 4. Veeco has added production capacity in 2H 2009 much faster than the street anticipated by developing strong outsourcing relationships with partners in the US and Asia. The company is now on pace to deliver ~35 MOCVDs in Q4 and 190 in Q1 2010 against analyst estimates of 30 MOCVDs in Q4 and 120 in 2010 (historic volume prior to 2009 was ~20 MOCVDs per quarter).
 5. Veeco is trading at cheap multiples relative to others exposed to the LED trend and its historical valuations. This current valuation unreasonably discounts Veeco's competitive position and demonstrated execution.
 - a) Current valuation is 12.1x forward EV/EBITDA and 12.9x forward P/E (18x consensus forward P/E)
 - b) Comps are trading at 23x forward EV/EBITDA and 49x forward P/E
 - c) Veeco's historical valuations are at 17x forward EV/EBITDA and 50x forward P/E
 6. Catalyst: Veeco's stock has not appreciated as much as its peers because analysts and industry insiders have underestimated industry demand and are skeptical about Veeco's ability to add capacity to meet this demand. In the coming quarters the street will recognize Veeco's increased production capacity and will increase their revenue and EPS estimates which should increase Veeco's share price.
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Company Overview:

Veeco is a semiconductor equipment company that builds equipment for customers in the light emitting diode (LED), solar, data storage, semiconductor, scientific research and industrial markets. In Q3 2009, 43% of Veeco's revenue was from LED, 11% was from solar equipment (CIG cells), 22% from data storage (equipment to manufacture thin film electronic heads) and 24% from metrology (equipment for semiconductor manufacturing and scientific research). Veeco is based in Woodbury, NY but has substantial operations around the US and sells to customers in Asia, Europe and the US.

LED Industry Overview:

- 1) LED penetration in display devices is growing rapidly creating demand for 500B+ LEDs in 2010
 - a) Demand for LED powered displays are rapidly increasing driven by their long life, power efficient nature, lower cost, better environmental impact and lighter physical structure.
 - b) In 2009 60% of notebook computers shipped will have LED backlights in them, 1.3% of computer monitors will have LED backlights and 2.5% of TVs sold will be LED TVs (most of which will be sold by Samsung). The trends driving LED production are only increasing as Apple laptops are now almost exclusively powered by LEDs and

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other TV vendors (LG, Vizio) have begun producing LED TVs. See Appendix 1 for a detailed breakdown of industry demand by application.

(sources: DisplaySearch, Strategies Unlimited, Channel Checks and Observation of OEM vendor trends)

- c) To power display devices a higher brightness LED is needed. These LEDs are larger, more costly to produce and require a more careful production process which has lower yields compared to traditional LEDs (e.g., the LEDs in keychain lights and Christmas tree lights).

2) LED manufacturing capacity is being built out aggressively to meet demand

- a) To meet the demand manufacturers are aggressively increasing their LED capacity – in 2009 the quantity of LEDs demanded will grow by 44% and in 2010 it will grow by over 60%.
- b) Most of the LED production is done through dedicated foundries in Asia (e.g., Epistar) the US and Europe, but several companies are bringing manufacturing in-house (e.g., Samsung, LG Innotek).

3) Demand for MOCVDs is increasing significantly – ~645 MOCVDs will likely be needed in 2010

- a) LEDs are made on silicon wafers, similar to computer chips. A special machine called a MOCVD (Metalorganic Chemical Vapor Deposition) deposits luminous materials onto the silicon to make LED chips.
- b) Currently MOCVDs sell for ~\$2.2M.
- c) The LED applications driving this cycle of LED chips requires substantially more MOCVDs than previous applications (taking into account currently observed yields and throughputs):

	MOCVDs needed to produce 1M units	Millions of units produced globally p.a.	Total MOCVDs needed at 100% penetration
<u>Previous Applications</u>			
Handsets	0.04	1,250	54
Automobiles	1.66	55	91
<u>Current Applications</u>			
Notebooks	0.60	163	98
Monitors	0.86	196	169
TVs	7.01	179	1,259
General/Indoor Lights	0.35	52,501	18,503
Street Lights	2.06	166	342

- d) To meet the additional demand for LEDs, an incremental 360 MOCVDs will be needed in 2009 and 585 will be needed in 2010. A shortfall of ~60 MOCVDs from 2009 shipments indicates that ~645 additional MOCVDs will need to be manufactured. This is higher than the forecasts of the most bullish analysts who are ~500 MOCVDs. In 2008 and years prior, only 200 MOCVDs were demanded because, the LED applications were not as MOCVD intensive.

4) The next wave of LED adoption for indoor and street lighting will take off in the next nine to twelve months

- a) LEDs are useful for general lighting applications because they last much longer (10 years vs. 6-months for an incandescent bulb) and are more energy efficient (a standard LED bulb needs only 3 watts).
- b) The lighting wave of the LED cycle should begin when the total cost of owning an LED bulb for one year becomes equivalent to the total cost of owning a CCFL bulb. Given current LED prices this should happen in the next 12-18

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months – currently Home Depot is selling a standard LED bulb for \$10.99 which compares to \$6 for a regular incandescent bulb.

- c) Demand for street lighting in China is also taking off very quickly based on indications for state and local governments as published in various media sources.
- d) Most LED manufacturers buy the MOCVDs they need indicating that demand for MOCVDs will continue as the demand for display lighting and general lighting takes off. Cree is the only major LED manufacturer which builds MOCVDs in house.

Investment Merits:**1) Veeco is seeing strong customer momentum for MOCVDs**

- a) Recently, Veeco has been gaining ground at several key LED manufacturers in Korea, Taiwan, China and the U.S. These customers include a large Korean TV manufacturer (most likely LG Innotek), Sanan (a Chinese LED manufacturer) and Philips Lumileds (a US based lighting manufacturer).
- b) Veeco's backlog has increased significantly over the last few quarters (\$135M in Q1 to \$287M in Q3). Given this large backlog going into Q4 2009, for Veeco to achieve the forecasted revenue of \$678M in 2009 they only need to book \$520M of additional revenue.
- c) Although bookings have increased, the length of time between order and delivery (the lead-time) has remained at the industry average of three-six months due to strong outsourcing relationships in the US and Asia.
- d) MOCVDs are becoming the largest segment of Veeco's business – in Q3 80% of bookings were for MOCVDs.
- e) MOCVD manufacturers work closely with customers on each machine because LED manufacturing is still more of "an art than a science" resulting in a close relationship where customers are pre-disposed to re-ordering from the same vendor.
- f) Some feel that the recent increase in backlog is because customers are double ordering (e.g., ordering from Aixtron and Veeco). However, based on the observed backlog adjustments of ~1% for the last two quarters, this does not appear to be the case.

2) Gaining market share with no new competitive pressures on the horizon

- a) Veeco along with Aixtron of Germany and Nippon Sansui of Japan are the three companies that sell MOCVDs. Traditionally, Veeco has had ~25% market share with Aixtron at ~60% and Nippon Sanso at ~15%.
- b) Aixtron has been the largest MOCVD manufacturer in the space because it is the only pure play MOCVD manufacturer, has the largest capacity and was the vendor with the most publicity.
- c) Going forward Aixtron's CEO has intimated they will produce ~100 MOCVDs per quarter which leaves a 285 shortfall in 2010 and 100 going forward which enough to underwrite the current projections for Veeco's growth.
- d) Given Veeco's customer wins in Asia and the US recently, it is becoming clear that customers are recognizing Veeco as another MOCVD vendor in the space and have begun looking at them closely.
- e) Veeco's product is now technically superior (see next section) and as such Veeco has been seeing more growth – in Q3 Veeco booked ~60 MOCVDs while Aixtron booked ~70+ MOCVDs.
- f) Other large semi-equipment vendors (e.g., Applied Materials, KLA-Tencor) have thus far stayed away from the space because MOCVD manufacturing has not been perfected for large volumes. Downstream they could potentially be looking to make acquisitions.

3) Superior MOCVD technology gives Veeco MOCVDs the highest throughput and lowest cost of ownership

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- a) Veeco's MOCVD can support 45 two-inch wafers per run while Aixtron's can only support 42 two-inch wafers per run.
 - b) Customers are increasingly looking to switch production from two-inch wafers to four-inch or six-inch wafers because they have increased yields (e.g., fewer edges where chips are not able to be produced). Veeco's tools require very little hardware changes to make this adjustment when compared to the other vendors.
 - c) The automated handling system allows wafers to be fed into the machine without bringing down the machine temperature – this makes it faster to setup because the MOCVD does not have to be cooled and then re-heated as in competitive systems.
 - d) In Veeco's machine less cleaning is necessary between runs because the machine is a little bigger and production materials do not get deposited on the ceiling of the reactor.
 - e) Aixtron is planning on releasing a new tool soon but it will likely not be in full scale use until the end of 2010 because most new generation machines take a few quarters to perfect before customers begin buying them.
- 4) Other businesses are reasonably strong and will continue to grow, but to achieve price target they need not grow
- a) Given the recent tailwinds in Veeco's LED business, MOCVD demand will largely shape the business going forward. However, it is important to note that Veeco's other businesses, which have traditionally been its strongest source of growth, are also well positioned to grow.
 - b) Western Digital and Seagate have indicated that they are going to be ramping up CapEx. In the last few years Veeco's has seen 8-10% of WDC and STX's CapEx and in this next cycle it should still see the same volumes indicating that over the next few quarters revenue from data storage should increase.
 - c) The solar and metrology businesses are relatively hard to predict because Veeco is not a large player in the market – Veeco has been seeing increased demand for these products of late and has produced several new metrology products which should start growing in the near term as well.
 - d) The data storage and metrology businesses are all coming out of cyclical troughs in Q1/Q2 of 2009 so should be well positioned to grow as market demand returns.
 - e) To achieve the forecasted price target, these businesses need not grow from their current Q4 levels.
- 5) Recent cost cutting measures have improved gross margins and helped company return to profitability
- a) Veeco just finished a set of cost cutting initiatives to reduce its overall cost base with gross margins in Q3 returning to their historical average of 42% from a low of 33% in Q1 2009.
 - b) These cost cutting measures are particularly relevant because they were done during a period of low sales volumes. Thus the contribution to margin should be higher for each additional product sold when sales return.
 - c) In the past few quarters Veeco was also able to reduce operating expenditures by ~5% on a run-rate basis.
 - d) In 2007 Veeco was barely profitable and had to take a large write-down to goodwill, it was only in 2008 when sales rose to \$100M a quarter that they returned to profitability. For Veeco to become unprofitable again it will have to see sales of less than \$100M a quarter which is not likely in the next two quarters given the current backlog of \$285M entering Q4 2009.
- 6) Low valuation compared to peers
- a) There are only a few other publicly traded companies that are solely in the LED space and Veeco trades at significantly lower multiples to these companies across all measures

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VECO Comps									
	Ticker	P / Sales		EV / EBITDA		P / Earnings		P / Book	
		LFY	NFY	LFY	NFY	LFY	NFY	LFY	NFY
Aixtron AG	AIXA-FF	7.5x	7.5x	42.6x	35.6x	79.5x	60.1x	9.7x	6.2x
Cree Inc	CREE	8.1x	6.2x	27.3x	16.7x	136.9x	40.1x	3.7x	2.7x
Rubicon Technology Inc	RBCN	7.2x	14.7x	25.7x	nm	72.5x	nm	2.5x	2.9x
Epistar Corp.	2448-TW	7.6x	6.5x	28.0x	16.8x	1457.1x	49.7x	3.5x	2.4x
Average		7.6x	8.7x	30.9x	23.0x	436.5x	49.9x	4.9x	3.6x
Median		7.6x	7.0x	27.7x	16.8x	108.2x	49.7x	3.6x	2.8x
Veeco Instruments Inc	VECO	2.0x	1.3x	23.0x	12.1x	nm	12.9x	4.2x	4.4x

- b) Veeco has a strong balance sheet with very little leverage – their recent capital raise of 5M shares at \$25 was used to pay back some corporate bonds leaving the company with no LT debt

Investment Risks:

- 1) LED Penetration is not as significant as originally anticipated
 - a) MOCVD orders are lumpy and as such quarterly bookings figures tend to be volatile, the stock could trade down significantly if Veeco sees orders slip into subsequent quarters.
 - b) The penetration of LED applications could take longer than expected – although conservative estimates were used to generate forecasts, these could prove to be optimistic if the downturn gets worse or if manufacturers change their plans.
 - c) Most semiconductor industries are characterized by overbuilding in advance of demand – if LED manufacturers over build and demand doesn't catch up Veeco could see reduced bookings.
- 2) Outsourcing partners are unable to supply capacity
 - a) Outsourcing is a big portion of Veeco's strategy to help them ramp up production. Management has been saying they will be able to produce 45 MOCVDs in Q1 but if this is held up for any reason Veeco could see some revenues pushed out. In this situation a loss of customers is less likely because of the limited number of MOCVD vendors that exist in the market.
- 3) At revenue of less than \$100M per quarter Veeco will have operating losses
 - a) Although Veeco recently cut costs, there were a few quarters in 2009 where it was unable to keep up with the economic downturn. If revenues drop below \$100M a quarter Veeco will see operating losses and substantial declines in EPS.
 - b) This is not likely in the next two quarters given the current backlog of \$285M entering Q4 2009.

Signals to Monitor:

- 1) In the near term one should track LED TV sales as they are the largest near-term driver of MOCVD sales
 - a) NPD tracks LED TV sales by model number and most manufacturers have separate model prefixes for their LED TV's (in August/September this was almost 11% for Samsung).
 - b) Similarly, several data providers supply notebook sales information, one could track this information for the models which have LED backlights in them and get a sense of LED monitor sales

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- 2) Longer term it will be important to look at LED trends in general lighting and street lighting.
- a) Monitoring LED light prices and sales volumes against incandescent and CCFL lights will give a sense of how the consumer perceives LED lights – currently Home Depot has an LED bulb for \$10.99 which compares to \$6 for a regular incandescent bulb.
 - b) The Chinese press has been fairly active in advertizing their LED streetlight plans and several US based organizations also publicize any LED lighting developments – monitoring these sites can provide additional data to inform the top down LED projections (e.g., www.ledinside.com, www.ledsmagazine.com)

Financials and Valuation:

- 1) Investment thesis is built solely around LED demand, to achieve \$40 p.t. all Veeco must do is meet LED demand
- a) To create the financial projections I began with a build-up of revenues (see Appendix 3). Assuming Veeco sells ~187 MOCVDs next year (~30% of the market demand), this will result in \$430M of revenue.
 - b) Although the other income streams have growth prospects, I choose to be conservative and grow those minimally at 1% a quarter and below 2008 levels overall. Together this resulted in revenue of ~\$675M which is 32% higher than the consensus estimate of \$508M.
 - c) Given the advanced ordering nature of the industry and the current \$285M of backlog, Veeco will only need to book \$521M of additional revenue next year to meet this revenue target (an implied a book to bill of 0.76).
- 2) Exit valuations of ~20x P/E and 2x P/Sales yields \$40 price target
- a) On gross margins and bottom line I choose to stay conservative and applied average gross margins of 42% and reasonable net margins of 11%, both of which are below street estimates. One could argue that with additional revenue the company will achieve additional scale and better margins.
 - b) Through this analysis Veeco will likely have \$1.90-2.00 EPS in 2010 and applying a 20-21x P/E multiple or 2-2.25x P/Sales multiple (both adequate for a mid-cap growth stock) yields a valuation of \$40 per share.
 - c) Historically Veeco has traded at a 45x TTM P/E multiple and a 2-2.5x P/Sales.
- 3) Downside case yields valuation of ~\$18-20 per share (22% decline from current market price)
- a) The downside case entails Veeco selling only 20 MOCVDs a quarter in 2010 (far below Q3 and Q4 2009 levels) and seeing no growth from the other businesses.
 - b) Applying a 14x P/E multiple or 1.5x P/Sales multiple would yield valuations of approximately \$19.

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Appendix:

1) LED industry growth model

	2005 A	2006 A	2007 A	2008 A	2009 E	2010 E	2011 E	2006 A	2007 A	2008 A	2009 E	2010 E	2011 E
End Products (millions of units)								Growth rate					
Handset/Keypad Backlight	845	1,028	1,167	1,235	1,140	1,250	1,317	22%	14%	6%	-8%	10%	5%
LCD Handset Backlight	845	1,028	1,167	1,235	1,140	1,250	1,317	22%	14%	6%	-8%	10%	5%
Automobile		69	73	73	50	55	53	nm	6%	0%	-31%	10%	-4%
General Lighting (New Commercial Construction)		156	159	162	166	169	172	2%	2%	2%	2%	2%	2%
Other		11,628	15,843	25,059	36,246	52,332	76,331	nm	36%	58%	45%	44%	46%
Total Regular LEDs	1,690	13,909	18,409	27,764	38,742	55,056	79,190	723%	32%	51%	40%	42%	44%
Street Lights		148	154	160	163	166	170	nm	4%	4%	2%	2%	2%
Notebooks	62	81	90	114	132	163	195	31%	11%	27%	16%	24%	19%
Computer Monitors	118	139	184	192	174	196	216	18%	32%	4%	-9%	13%	10%
TVs	20	48	87	115	137	179	253	140%	82%	32%	19%	31%	41%
Total HB LEDs	200	268	361	421	443	539	664	34%	35%	17%	5%	22%	23%
LED Penetration								Growth rate					
Handset/Keypad Backlight	60%	70%	90%	100%	100%	100%	100%	17%	29%	11%	0%	0%	0%
LCD Handset Backlight	60%	70%	90%	100%	105%	110%	115%	17%	29%	11%	5%	5%	5%
Automobile		30%	53%	55%	65%	65%	70%	nm	77%	4%	18%	0%	8%
General Lighting (New Commercial Construction)		0%	0.5%	1%	1.5%	5%	7%	nm	nm	100%	50%	233%	40%
Other		100%	100%	100%	100%	100%	100%	nm	0%	0%	0%	0%	0%
Average Regular LEDs	60%	54%	67%	71%	74%	76%	78%	-10%	24%	7%	4%	2%	3%
Street Lights	0%	0%	0.0%	1%	3%	8%	15%	nm	nm	nm	200%	167%	88%
Notebooks	0%	0.4%	3.0%	12%	60%	90%	90%	nm	650%	300%	400%	50%	0%
Computer Monitors	0%	0.0%	0.1%	0.2%	1.3%	3%	5%	nm	nm	100%	525%	100%	100%
TVs	0%	0%	0.02%	0.09%	2.5%	15.0%	22.5%	nm	nm	350%	2678%	500%	50%
Average HB LEDs	0%	0%	1%	3%	17%	29%	33%	nm	680%	326%	402%	73%	15%
Total Packaged 12 mil equivalent LEDs (millions)								Growth rate					
Handset/Keypad Backlight	3,169	4,498	6,564	7,719	7,124	7,814	8,230	42%	46%	18%	-8%	10%	5%
LCD Handset Backlight	4,753	6,746	9,847	11,578	11,220	12,892	14,197	42%	46%	18%	-3%	15%	10%
Automobile	0	12,420	23,214	24,090	19,556	21,511	22,267	nm	87%	4%	-19%	10%	4%
General Lighting (New Commercial Construction)	0	0	102	207	317	1,077	1,538	nm	nm	104%	53%	240%	43%
Other	0	82,688	112,662	178,195	257,752	372,137	542,800	nm	36%	58%	45%	44%	46%
Total Regular LEDs	7,922	106,352	152,389	221,789	295,968	415,431	589,033	1243%	43%	46%	33%	40%	42%
Street Lights	0	0	0	1,191	3,644	9,913	18,958	nm	nm	nm	206%	172%	91%
Notebooks	0	70	583	2,963	17,181	31,893	38,060	nm	729%	408%	480%	86%	19%
Computer Monitors	0	0	58	120	680	1,531	3,375	nm	nm	109%	466%	125%	120%
TVs	0	0	44	263	8,690	68,381	144,552	nm	nm	493%	3206%	687%	111%
Total HB LEDs	0	70	685	4,537	30,195	111,718	204,945	nm	874%	562%	566%	270%	83%
Total 12 mil equivalents units	7,922	106,422	153,074	226,326	326,163	527,149	793,977	1243%	44%	48%	44%	62%	51%
Incremental MOCVDs Needed								Growth rate					
Handset/Keypad Backlight				-4	-2	1	3	nm	nm	nm	-45%	-129%	274%
LCD Handset Backlight				-6	-2	3	5	nm	nm	nm	-66%	-243%	90%
Automobile				-25	-12	1	7	nm	nm	nm	-52%	-113%	346%
General Lighting (New Commercial Construction)				0	1	2	1	nm	nm	nm	345%	33%	-39%
Other				145	223	350	349	nm	nm	nm	53%	57%	0%
Total Regular LEDs				111	208	357	365	nm	nm	nm	88%	71%	2%
Street Lights				6	12	20	16	nm	nm	nm	107%	62%	-19%
Notebooks				26	41	26	17	nm	nm	nm	55%	-37%	-33%
Computer Monitors				1	2	4	3	nm	nm	nm	108%	74%	-10%
TVs				14	99	179	131	nm	nm	nm	605%	82%	-27%
Total HB LEDs				47	154	229	168	nm	nm	nm	225%	48%	-27%
Incremental MOCVDs Needed				158	362	585	532	nm	nm	nm	129%	62%	-9%
MOCVDs Sold				208	252								

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2) Veeco Summary Financials

VECO Summary Financials

Purchase Price Analysis

Current Share Price	\$	24.23
FD Shares outstanding (M)		37.78
FD Market Cap (\$M)	\$	915
Less: Cash (\$M)	\$	109
Plus: Debt (\$M)	\$	100
Total Enterprise Value	\$	906
Book Value (\$M)	\$	198
Book Value / share	\$	5.24
Price / Book Value		4.6x
Dividend Yield		0.00%

Trading Statistics

Float (M)	32
Float (% basic shares out)	85%
Short Interest (M)	2
% of Float	7%

Price Target

Price Target	\$40.00
% Upside	65%
Bear Case Price	\$19.00
% Downside	-22%

Earnings / Valuation Information

	2006A	2007A	2008A	2009 Q4 E	2009E	2010 Q1 E	2010E	2011E
<i>FYE December</i>								
Financial Performance								
Revenue (\$M)	\$ 441	\$ 402	\$ 443	\$ 129	\$ 363	\$ 165	\$ 678	\$ 746
EBITDA (\$M)	\$ 53	\$ 25	\$ 39	\$ 13	\$ 13	\$ 17	\$ 75	\$ 86
Net Income (\$M)	\$ 15	\$ (17)	\$ (71)	\$ 11	\$ 4	\$ 16	\$ 71	\$ 82
Free Cash Flow (\$M)	\$ 29	\$ 30	\$ 31	\$ 10	\$ 25	\$ 20	\$ 81	\$ 90
EPS (GAAP, \$)	\$0.48	(\$0.56)	(\$2.27)	\$0.29	\$0.10	\$0.44	\$1.89	\$2.17
Growth								
Revenue		-8.7%	10.0%	31%	-18.0%	27%	86.7%	10.0%
EBITDA		-53.8%	60.6%	30%	-67.7%	33%	486.7%	15.0%
Net Income		-216.8%	308.6%	767%	-105.1%	50%	1860.2%	15.2%
Free Cash Flow		5.2%	4.2%	-11%	-18.9%	103%	220.0%	10.0%
Profitability								
Gross Margin	44.0%	40.3%	40.2%	42.0%	42.0%	42.0%	42.0%	42.0%
EBITDA Margin	12.0%	6.1%	8.9%	10.0%	3.5%	10.5%	11.0%	11.5%
Net Margin	3.4%	-4.3%	-16.1%	8.5%	1.0%	10.0%	10.5%	11.0%
Free Cash Flow	6.5%	7.5%	7.1%	7.5%	7.0%	12.0%	12.0%	12.0%
ROE	5.5%	-3.8%	-29.3%	1.2%	0.4%	1.8%	7.8%	9.0%
ROIC	5.4%	0.2%	4.9%	4.3%	4.2%	5.8%	24.8%	22.5%
Current Valuation Multiples								
			<i>LFY</i>				<i>NFY</i>	
Price / Sales					2.5x		1.3x	
Price / Earnings			-12.9x		252.0x		12.9x	
EV / Sales			2.0x		2.5x		1.3x	
EV / EBITDA			23.0x		71.3x		12.1x	
Price / FCF			29.2x		36.0x		11.2x	
FCF Yield			3.4%		2.8%		8.9%	

Consensus Estimates

Revenue (\$M)	\$ 126	\$ 360	\$ 140	\$ 508
Net Income (\$M)	\$ 11	\$ 4	\$ 14	\$ 53
EPS (GAAP, \$)	\$ 0.31	\$ 0.11	\$ 0.36	\$ 1.32

Returns Analysis (Share Prices)

		2010	2011			2009	2010
Multiple of	1.50x	\$ 26.93	\$ 29.62	Multiple of	14.0x	\$ 26.39	\$ 30.41
	1.75x	\$ 31.42	\$ 34.56		16.0x	\$ 30.16	\$ 34.76
	2.00x	\$ 35.91	\$ 39.50		18.0x	\$ 33.93	\$ 39.10
	2.25x	\$ 40.39	\$ 44.43		20.0x	\$ 37.70	\$ 43.45
	2.50x	\$ 44.88	\$ 49.37		22.0x	\$ 41.47	\$ 47.79

Veeco (NASDAQ:VECO)

11/07/09 | Price: \$24.23 | Market Cap: \$915M | 12-month price target: \$40 (65% premium)

3) Veeco Revenue Buildup

	2008 E	Q1 2009 A	Q2 2009 Q	Q3 2009 A	Q4 2009 E	2009 E	Q1 2010 E	Q2 2010 E	Q3 2010 E	Q4 2010 E	2010 E
Veeco Revenue Buildup											
Bookings	483	53	99	226	194.2	572.2	246.9	247.8	255.6	266.9	1,017.3
<i>growth</i>											
<i>book-to-bill</i>	1.09	0.84	1.37	2.28	1.50	1.58	1.50	1.50	1.50	1.50	1.50
LED MOCVDs shipped	55	8	11	18	30	67	45	45	47	50	187
<i>growth</i>			44%	66%	63%	23%	50%	0%	4%	6%	178%
LED MOCVD Revenue	126.0	17.8	25.5	42.4	69.0	154.6	103.5	103.5	108.1	115.0	430.1
Solar Revenue	39.8	4.4	6.4	10.6	11.3	32.7	11.4	11.6	11.7	11.8	46.5
Data Storage Revenue	149.1	16.9	17.6	21.7	23.2	79.5	23.5	23.7	23.9	24.2	95.3
Metrology Revenue	127.9	23.7	22.5	24.2	25.9	96.4	26.2	26.4	26.7	27.0	106.3
Total Revenue	442.8	62.8	72.0	98.9	129.5	363.3	164.6	165.2	170.4	178.0	678.2
Revenue accounted for in current backlog					130.0		156.5				156.5
Remaining revenue to be booked					-0.5		8.1	165.2	170.4	178.0	521.7
Growth Rates											
LED growth rate			44%	66%	63%	23%	50%	0%	4%	6%	178%
Solar growth rate			44%	66%	7%	-18%	1%	1%	1%	1%	42%
Data storage growth rate			4%	23%	7%	-47%	1%	1%	1%	1%	20%
Metrology growth rate			-5%	7%	7%	-25%	1%	1%	1%	1%	10%
			15%	37%	31%	-18%	27%	0%	3%	4%	87%
Aixtron and Industry MOCVDs											
Aixtron MOCVDs shipped	165	18	35	43	75	172					
Total Industry MOCVDs shipped	208	28	49	65	111	252					
Veeco share of industry	26%	28%	23%	28%	27%	27%					

4) Veeco revenue by segment

