

# Risk of further cut in guidance

## Cut estimates & PO; Retain Underperform

We cut FY09 and FY10 earnings estimates by 6% and 10% to factor sluggish 1Q revenue growth and muted 2Q revenue guidance in its IT services business. Cut PO by 7% to Rs140 and retain Underperform on further risk to revised guidance of 17-20% yoy growth in IT services. High attrition levels at 29% and potentially weak 2Q results, implying back ended growth, a concern.

## FY09 IT services guidance cut - could weigh on valuations

Management indicated that revenue growth rates could reduce to 17-20% yoy in IT services from 25-29% earlier as its guidance in Telecom OEM (37% revs) is now subject to it winning a few large deals in this space. Further, it expects 2Q revs to grow by just 2% QoQ, implying a challenging 7% QoQ growth in 2HFY09. We are cutting our FY09 IT services rev growth rate to 15% yoy from 20% earlier.

## 1Q results: IT services sluggish, Products surprises

IT services revenues grew by 7.5% QoQ (1.9% in US\$) 1% lower than MLe, with EBITDA margins expanding by 305bps, primarily driven by Rupee depreciation. Employee numbers declined and management scaled down net hiring numbers from 700 to 500 for the year, implying a weak environment. Products business grew 112% yoy, though 60% came from customization revs and could be volatile.

## Weak 2Q; Buyback approval could support prices

With a weak 2Q ahead and growth likely to be back ended, the stock could languish at current levels. We retain our Underperform with a PO of Rs140 at 8x FY09E, at 40%-50% discount to other mid-cap peers. Key triggers: Buyback approval and any large deal wins in Telecom OEM space.

## Estimates (Mar)

(Rs)	2007A	2008A	2009E	2010E	2011
Net Income (Adjusted - mn)	443	394	528	649	NA
EPS	14.93	13.28	17.82	21.88	NA
EPS Change (YoY)	49.2%	-11.1%	34.2%	22.8%	NA
Dividend / Share	4.00	4.00	3.70	3.41	NA
Free Cash Flow / Share	(74.04)	11.65	14.37	13.81	NA

## Valuation (Mar)

	2007A	2008A	2009E	2010E	2011
P/E	9.17x	10.31x	7.68x	6.26x	NA
Dividend Yield	2.92%	2.92%	2.70%	2.49%	NA
EV / EBITDA*	5.29x	5.97x	3.15x	3.01x	NA
Free Cash Flow Yield*	-53.97%	8.51%	10.49%	10.09%	NA

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 9.



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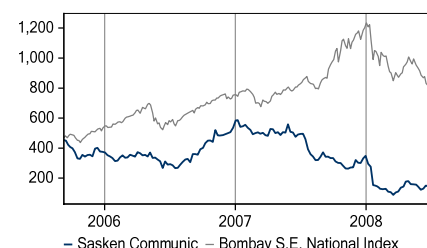
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## Stock Data

Price	Rs136.90
Price Objective	Rs151.00 to Rs140.00
Date Established	21-Jul-2008
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	Rs75.55-Rs465.00
Mrkt Val / Shares Out (mn)	US\$91 / 28.6
Average Daily Volume	3,033,315
ML Symbol / Exchange	SKNCF / BSE
Bloomberg / Reuters	SACT IN / SKCT.BO
ROE (2009E)	11.0%
Net Dbt to Eqty (Mar-2008A)	6.7%
Est. 5-Yr EPS / DPS Growth	25.0% / 25.0%
Free Float	73.0%



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Refer to important disclosures on page 10 to 11. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8.

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# iQprofile<sup>SM</sup> Sasken Communication Technologies Ltd.

## Key Income Statement Data (Mar)

	2007A	2008A	2009E	2010E	2011
<b>(Rs Millions)</b>					
Sales	4,771	5,702	6,906	8,029	NA
Gross Profit	1,764	1,834	2,394	2,655	NA
Sell General & Admin Expense	(826)	(918)	(971)	(1,137)	NA
Operating Profit	491	374	793	857	NA
Net Interest & Other Income	53	194	(50)	55	NA
Associates	NA	NA	NA	NA	NA
Pretax Income	543	568	742	912	NA
Tax (expense) / Benefit	(101)	(174)	(214)	(263)	NA
Net Income (Adjusted)	443	394	528	649	NA
Average Fully Diluted Shares Outstanding	30	30	30	30	NA

## Key Cash Flow Statement Data

Net Income (Reported)	443	394	528	649	NA
Depreciation & Amortization	257	290	463	456	NA
Change in Working Capital	(325)	(308)	(174)	(301)	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(86)	220	3	0	NA
Cash Flow from Operations	288	595	820	804	NA
Capital Expenditure	(2,399)	(263)	(409)	(410)	NA
(Acquisition) / Disposal of Investments	1,560	129	0	0	NA
Other Cash Inflow / (Outflow)	4	27	0	0	NA
Cash Flow from Investing	(834)	(107)	(409)	(410)	NA
Shares Issue / (Repurchase)	100	11	0	0	NA
Cost of Dividends Paid	(96)	(133)	(124)	(114)	NA
Cash Flow from Financing	752	(162)	(124)	(114)	NA
Free Cash Flow	(2,110)	333	410	394	NA
Net Debt	568	307	49	(231)	NA
Change in Net Debt	572	(366)	(287)	(281)	NA

## Key Balance Sheet Data

Property, Plant & Equipment	1,136	1,060	1,185	1,210	NA
Other Non-Current Assets	2,566	2,504	2,349	2,279	NA
Trade Receivables	1,108	1,333	1,505	1,838	NA
Cash & Equivalents	349	569	827	1,108	NA
Other Current Assets	755	899	971	1,041	NA
Total Assets	5,915	6,364	6,837	7,476	NA
Long-Term Debt	917	876	876	876	NA
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	778	899	968	1,069	NA
Total Liabilities	1,695	1,776	1,844	1,946	NA
Total Equity	4,218	4,588	4,993	5,528	NA
Total Equity & Liabilities	5,912	6,364	6,837	7,473	NA

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	10.2%	5.6%	10.8%	11.1%	NA
Return On Equity	11.0%	8.9%	11.0%	12.3%	NA
Operating Margin	10.3%	6.6%	11.5%	10.7%	NA
EBITDA Margin	15.7%	11.6%	18.2%	16.4%	NA

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	0.7x	1.5x	1.6x	1.2x	NA
Asset Replacement Ratio	10.2x	1.0x	1.3x	1.1x	NA
Tax Rate (Reported)	18.5%	30.7%	28.8%	28.8%	NA
Net Debt-to-Equity Ratio	13.5%	6.7%	1.0%	-4.2%	NA
Interest Cover	11.0x	9.3x	18.0x	19.5x	NA

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Description

Incorporated in 1989, Sasken is a communication software company with a strong focus on the broadband and wireless software space. Its expertise lies in developing embedded communication software for companies across the communication value chain ie, network equipment manufacturers, semiconductor vendors and mobile terminal vendors. It follows a hybrid model, offering both products and services to telecom clients.

## Investment Thesis

Our negative bias stems from concerns in its product business. We expect product business to drag overall profitability even in FY09 as two of its key deals (Lenovo and Motorola) are at risk. Also macro environment amongst telecom equipment vendors remain challenging and could impact Sasken's IT services growth.

## Stock Data

Price to Book Value 0.8x

## Risk of further guidance cut Maintain Underperform

Post 1Q results we cut FY09 and FY10 estimates by 6% and 10% to factor lower volume growth in IT services business, and cut PO by 7% to Rs140. Retain Underperform given likely weak 2Q quarter and risk to full year management guidance of 17%-20% yoy in IT services business.

Management highlighted that growth rates could taper off to 17-20% yoy in the IT services business from 25%-29% earlier as its guidance in Telecom OEM is now subject to Sasken winning a few large deals in this space.

## Growth now back ended with risk of further slippage

Also it expects 2Q revenues in IT services to grow by just 2% QoQ (due to annual leave in its Finland subsidiary), implying a challenging 7% QoQ growth in the last 2 quarters, even in the reduced expectation of 17-20% yoy growth.

Moreover, we see risk to management guidance of 17-20% US\$ growth and have factored a 15% US\$ growth in our numbers as against 20% earlier.

Also, with just 2% qoq growth guided in IT services and higher than industry wage hike of 15% to offshore employee and 3-4 % for onsite, margins could decline by at least 300bps in the IT business. Expect company to report weak 2Q results.

We would watch for volume traction in IT business and visibility on product business before changing our view. Key potential triggers include implementation of buyback (approval from SEBI pending) at maximum premium of 90% to current market prices.

## Tweaking estimates marginally

While we have increased our EBITDA margin assumptions from 16% to 18.2% to factor higher benefit of Rupee depreciation and strong 1Q product performance, we have cut full year earnings estimates for FY09 and FY10 by 6% and 10% to factor lower volume growth, forex loss and higher tax rates (29% vs 22% earlier) for the next two years.

Table 1: Revised Estimates

	Earlier	Revised	Change %	Earlier	Revised	Change %
Total Revenues	6844	6906	1	7998	8029	0
IT services	6286	6290	0	7284	7388	1
Products	531.6	612	15	615	614	0
EBITDA	1095	1256	15	1271	1313	3
PAT	564	528	-6	719	649	-10
EBITDA %	16.0%	18.2%		15.9%	16.4%	
EPS	19.04	17.7	-6	24	22	-10

Source: Merrill Lynch

## IT business... subdued US\$ growth

Sasken's IT revenues grew by 7% QoQ, 1% lower than MLe to Rs1498mn. Revenues grew by 1.9% in \$ terms, marginally lower than our assumption of 2-3% QoQ growth.

However, EBITDA margins improved by 305bps, primarily driven by depreciation of the Rupee. Sasken remains more sensitive to the Rupee as compared to peers, given high offshoring (61% of revs vs 50% for peers). Rupee during the quarter depreciated by 7.5% against the USD and Euro.

## Visibility an issue - employee nos, utilization fall; attrition up

Employee numbers declined by 3% during the quarter and blended utilization rates declined by 70bps to 76%. Besides, the macro environment in two of the key segments, Semiconductors and Telecom OEMs, remains weak, implying lower visibility ahead. Attrition further increased by 800bps to 29% during the quarter, the weakest so far for Sasken.

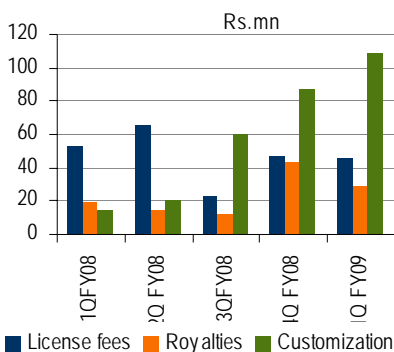
**With 1.7% QoQ USD growth and weak 2Q guidance, even revised management guidance of 17%-20% yoy growth in revenues implies over 7% QoQ growth during 3<sup>rd</sup> and 4<sup>th</sup> quarters. We see risk to management guidance and have factored 15% yoy growth in revenues in US\$ terms.**

Table 2: Risk to Guidance

Segments	FY08 Rev %	FY09 Co Guidance	ML View
Handset	37%	30-40% Growth	Macro environment deteriorating. Consolidation could also impact. Assumed 30% yoy growth
Semicon	25%	20-25% Growth	Weak macro environment. Assumed 15% yoy growth
Telecom OEM	37%	8-12% Growth. Subject to few wins else could also decline	Activity levels increased. Volume recovery may still lag. Assumed 5% yoy growth
		25-29% subject to deal wins in OEM.	
		Else 17-20% growth*	*Implies 7% QoQ in 3 <sup>rd</sup> and 4 <sup>th</sup> Quarter which is challenging
<b>Total</b>	<b>100%</b>		<b>challenging</b>

Source: Merrill Lynch

Chart 1: Product revenue trends



Source: Company

## Products revs surprises; Cost structure in control

Products business grew by 112% yoy and 3% QoQ during the quarter, 100% ahead of MLe. Though nearly 60% of revenues came in from customization, which could be volatile during the year.

EBITDA margin increased by 100bps to 39%, and was the second consecutive quarter of positive EBITDA in the last 15 quarters.

Management reiterated its guidance of EBITDA breakeven based on customization and licensing revenues. Cost structure in the product segment is in control with the number of employees now reduced to 180 as compared to 245 last year.

**While performance has improved we remain cautious given macro environment risk and uncertainty amongst leading Tier 1 vendors such as Motorola.**

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## Quarterly analysis

**Table 3: Quarterly Analysis**

Rs m	1QFY09	4Q FY08	QoQ	1QFY08	YoY	MLe	Var%
Services	1,498	1,394	7%	1197	25%	1515	-1%
Products	183	178	3%	87	112%	88	109%
Total Sales	1681	1573	7%	1284	31%	1605	5%
Cost of Revenues	1,060	1,019	4%	847	25%	1064	0%
R&D	14	27	-48%	90	-84%	49	-71%
SG&A	241	227	6%	247	-2%	228	6%
Total Expenditure	1,315	1,274	3%	1,185	11%	1341	-2%
EBITDA	366	299	23%	99	270%	264	39%
Depreciation & Amortisation	104	106	-2%	104	-1%	107	-3%
EBIT	263	193	36%	-5	-4946%	157	67%
EBIT Margin %	15.6%	12.3%	335 bps	-0.4%	1604 bps	10%	580 bps
Other Income	-58	8	-831%	106	-155%	-31	86%
Interest	11	10	11%	10	10%	11	1%
PBT	194	191	1%	90	114%	115	68%
Tax	56	55	3%	26	113%	29	95%
PAT	137	136	1%	64	115%	87	58%
Profit before minority int./equity in earnings of affiliates	137	136	1%	64	115%	87	58%
Reported profit	137	136	1%	64	115%	87	58%
Recurring Profit	137	136	1%	64	115%	87	58%
			bps		bps		bps
EBITDA margin	21.8%	19.0%	278 bps	7.7%	1407 bps	16%	531 bps
EBIT margin	15.6%	12.3%	335 bps	-0.4%	1604 bps	10%	580 bps
PAT margin	8.2%	8.7%	-51 bps	5.0%	318 bps	5%	276 bps

Source: Company, Merrill Lynch

## Financials

**Table 4: Profit and Loss (Consolidated)**

Rs.mn	FY07	FY08	FY09E	FY10E
Revenues	4,771	5,702	6,906	8,029
Cost of Revenues	3,007	3,868	4,512	5,373
SG&A	826	918	971	1,137
Total Expenditure	3,833	4,786	5,483	6,511
EBITDA	748	664	1,256	1,313
less Depreciation	235	274	321	384
EBIT	491	374	793	857
Less Interest	45	40	44	44
PBT	543	568	742	912
Income Tax	101	174	214	263
Exceptional Items	0	0	0	0
Profit after tax	443	394	528	649
Profit after tax (adj)	443	394	528	649

Source: Company, Merrill Lynch

**Table 5: Balance Sheet**

Rs.mn	FY07	FY08	FY09E	FY10E
<b>Source of Funds</b>				
Share Capital	285	286	286	286
Share Application Money	0	0	0	0
Reserves and Surplus	3,915	4,250	4,655	5,190
<b>Total Shareholders fund</b>	<b>4,220</b>	<b>4,588</b>	<b>4,993</b>	<b>5,528</b>
<b>Loan Funds</b>				
Secured Loans	909	876	876	876
Unsecured Loans	7	0	0	0
Total Borrowings	917	876	876	876
<b>Total Sources</b>	<b>5,137</b>	<b>5,465</b>	<b>5,869</b>	<b>6,404</b>
<b>Applications of Funds</b>				
Fixed Assets				
Good Will	1,859	2,012	2,012	2,012
Gross Block	2,317	2,579	2,988	3,398
Net Block	1,086	1,053	1,178	1,203
Capital Work in Progress including capital advances	50	7	7	7
Total	2,996	3,072	3,197	3,222
Capitalised software product costs (net of amortization)	333	212	70	0
Investments	368	266	266	266
<b>Current Assets, Loans and Advances</b>				
Inventories	8	31	33	33
Sundry Debtors	1,108	1,333	1,505	1,838
Cash and Bank Balances	349	569	827	1,108
Loans and Advances	747	867	937	1,007
Gross Current Assets	2,212	2,801	3,304	3,987
<b>Less: Current Liabilities and Provisions</b>				
Current Liabilities	502	483	551	653
Provisions	276	417	417	417
Total	778	899	968	1,069
Net Current Assets	1,434	1,901	2,336	2,918
<b>Total Applications</b>	<b>5,137</b>	<b>5,465</b>	<b>5,869</b>	<b>6,404</b>

Source: Company, Merrill Lynch

**Table 6: Cash Flow Statement**

	FY07	FY08	FY09E	FY10E
<b>A. Cash flow from operating activities:</b>				
Net Profit before tax	543	568	742	912
Depreciation	240	400	321	384
Operating profit before working capital changes	734	1,093	1,208	1,368
(Increase)/decrease in Sundry Debtors	-256	-202	-173	-333
(Increase)/decrease in Work in Progress	26	-23	0	0
(Increase)/decrease in Loans & Advances	-217	-159	-70	-70
Increase/(decrease) in Current Liabilities and Provisions	122	77	68	102
Cash generated from operations	409	785	1,034	1,067
Direct taxes (paid) / refund received	-120	-190	-214	-263
<b>Net cash from operating activities</b>	<b>288</b>	<b>595</b>	<b>820</b>	<b>804</b>
<b>B. Cash flow from investing activities:</b>				
Purchase of fixed assets	-272	-263	-409	-410
Acquisitions	-1,978	0	0	0
Capitalisation of Software product development expenses	-148	0	0	0
Treasury investments	0	0	0	0
<b>Net cash used in investing activities</b>	<b>-837</b>	<b>-109</b>	<b>-409</b>	<b>-410</b>
<b>C. Cash flow from financing activities:</b>				
Proceeds from issue of shares (includes share application money)	100	11	0	0
Dividend paid (inclusive of dividend tax)	-96	-133	-124	-114
Borrowing	0	-40	0	0
<b>Net cash used in financing activities</b>	<b>740</b>	<b>-271</b>	<b>-124</b>	<b>-114</b>
Net increase / (decrease) in Cash and Bank balances (A+B+C)	191	215	287	281
Cash and Bank balances at the beginning of the year	151	346	565	827
Cash and Bank balances at the end of the year	346	565	827	1,108
Free Cash Flow	-2,110	333	410	394

Source: Company, Merrill Lynch

**Table 7: Ratios**

	FY07	FY08	FY09E	FY10E
<b>Growth (%)</b>				
Revenue from Operations	55	20	21	16
EBITDA	50	-11	89	5
EBIT	62	-24	112	8
PAT	49	-11	34	23
<b>Margins (%)</b>				
EBITDA	16	12	18	16
EBIT	10	7	11	11
PAT	9.1	6.8	7.6	8.0
<b>Return Ratios (%)</b>				
ROE	12	9.6	11.9	13.2
ROA	10	7.4	9.3	10.6
<b>Others</b>				
EPS (Rs)- diluted	14.9	13.3	17.8	21.9
DPS (Rs)	4	4	4	3
Dividend Payout Ratio	30	34	20	15
BV (Rs)	137	149	163	182
EV(US\$m)	103	97	91	85
<b>Valuation ratios (x)</b>				
PER	9	10	8	6
EV/EBITDA	6	7	3	3
EV/Sales	1	1	1	0
FCF/share	-71	11	14	13

Source: Company, Merrill Lynch

## Price objective basis & risk

### Sasken Communic (SKNCF)

Our PO for Sasken is Rs140 at an FY09PE of 8x, at a discount of 40-50pct to our target PE for our mid cap coverage. We believe the discount is fair given significant uncertainty in its product revenue stream. Downside risks are accelerated amortization schedule of E series product investments, continued sluggishness in services revenues from telecom OEMs and risk to achievement of FY09 management guidance. Upside risks are buy-back at premium to current prices as announced, and better-than-expected product shipments. Industry risks are sharper-than-expected INR appreciation.

## Analyst Certification

I, Pratih Krishnan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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**India - Software & IT Services Coverage Cluster**

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aptech Limited	XZUYF	APTR IN	Pratish Krishnan
	Educomp Solu	EUSOF	EDSL IN	Pratish Krishnan
	Infotech India	IFKFF	INFTC IN	Prasad Deshmukh
	Mphasis Ltd	MPSSF	MPLH IN	Pratish Krishnan
	RoIta India	RLTAF	RLTA IN	Prasad Deshmukh
	RoIta India-GDR	XLROF	RTI LI	Prasad Deshmukh
	Satyam	SAY	SAY US	Mitali Ghosh
	Satyam	SAYPF	SCS IN	Mitali Ghosh
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Tech Mahindra	TMHAF	TECHM IN	Pratish Krishnan
	Wipro	WIPRF	WPRO IN	Mitali Ghosh
	Wipro	WIT	WIT US	Mitali Ghosh
	WNS (Holdings) L	WNS	WNS US	Mitali Ghosh
<b>NEUTRAL</b>				
	Genpact Ltd	G	G US	Mitali Ghosh
	HCL	HCLTF	HCLT IN	Mitali Ghosh
	i-flex	IFXXF	IFLEX IN	Mitali Ghosh
	Infosys Tech	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
<b>UNDERPERFORM</b>				
	ExlService Holdi	EXLS	EXLS US	Mitali Ghosh
	Firstsource	FSSOF	FSOL IN	Mitali Ghosh
	Hexaware Tech	XFTCF	HEXW IN	Pratish Krishnan
	KPIT Cummins Inf	KPTCF	KPIT IN	Prasad Deshmukh
	Mastek	MSKDF	MAST IN	Prasad Deshmukh
	Patni	PATIF	PATNI IN	Mitali Ghosh
	Patni Computer	PTI	PTI US	Mitali Ghosh
	Sasken Communic	SKNCF	SACT IN	Pratish Krishnan
	Subex Ltd	SBXSF	SUBX IN	Pratish Krishnan
	Subex Ltd-GDR Regs	XZSUF	SUBX LI	Pratish Krishnan

**iQmethod<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Amortization Net Income	Amortization Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales}$ Other LT Liabilities	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

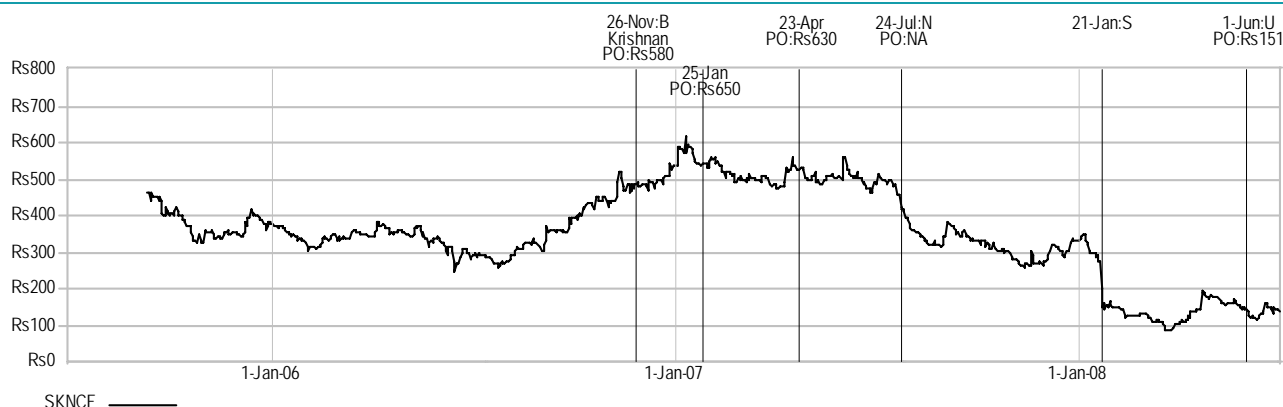
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## Important Disclosures

### SKNCF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to June 30, 2008, the investment opinion system included Buy, Neutral and Sell. As of June 30, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of June 30, 2008 or such later date as indicated.

### Investment Rating Distribution: Technology Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	120	46.15%	Buy	24	22.64%
Neutral	57	21.92%	Neutral	14	26.42%
Sell	83	31.92%	Sell	12	15.58%

### Investment Rating Distribution: Global Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1664	47.42%	Buy	441	29.46%
Neutral	803	22.88%	Neutral	224	31.46%
Sell	1042	29.70%	Sell	217	22.84%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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