

# II-VI, Inc. IIVI (NAS)

Last Close	Industry	Sector
40.78 USD	Scientific & Technical Instruments	Hardware

## Profile

Pricing data through 10 Nov 2010

In addition to this comprehensive company profile, Morningstar offers in-depth analyst research and ratings on selected companies.

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II-VI Incorporated develops, manufactures and markets high-technology materials and derivative precision components and products for use in industrial, medical, military, security and aerospace applications. Its products are deployed in applications that improve the cost and performance of laser cutting, welding and marking operations; reduce the cost and improve the reliability of medical procedures, military sensors, and cooling and power generation solutions. The company provides components to assembly lines for products such as high-power laser material processing systems, military fire control and missile guidance devices, advanced medical and security scanning systems, fiber optics and wireless communication systems, medical diagnostic systems, and various industrial, commercial and consumer thermal management solutions. II-VI Incorporated sells its products to original equipment manufactures, system integrators, laser end users, and military and aerospace customers through a direct sales force, as well as through distributors and agents.

# II-VI, Inc. IIVI

II-VI, pronounced "Two-Six," develops and sells electro-optical components for use in industrial, military, and radiation detection applications. The company's products include lasers operating on the infrared and near-infrared spectrum. These products are used in civilian applications for cutting and engraving of solid products. Military applications include optics for fighting vehicles. Radiation detection equipment uses radiation for the diagnosis of medical conditions.

375 Saxonburg Boulevard  
Saxonburg, PA 16056  
Phone: 1 724 352-4455  
Website: <http://www.ii-vi.com>

Employees: 6869

Growth Rates Compound Annual					
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	18.1	9.4	12.2	16.7	
Operating Income %	10.9	2.0	8.2	17.4	
Earnings/Share %	-3.1	0.0	8.5	24.5	
Dividends %	—	—	—	—	
Book Value/Share %	21.8	21.4	19.5	17.9	
Stock Total Return %	41.1	5.4	17.1	14.3	
+/- Industry	20.0	14.3	14.6	14.3	
+/- Market	29.6	11.1	17.3	16.2	

Profitability Analysis				
	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	13.2	14.8	-2.7	22.4
Return on Assets %	11.1	11.4	-1.4	8.6
Fixed Asset Turns	4.0	3.3	6.9	7.1
Inventory Turns	2.8	2.7	3.5	14.0
Revenue/Employee USD K	58.2	112.7*	—	872.4
Gross Margin %	41.3	41.5	45.0	39.7
Operating Margin %	16.4	17.0	10.4	14.4
Net Margin %	12.7	12.6	-1.7	9.8
Free Cash Flow/Rev %	12.8	11.4	10.4	0.1
R&D/Rev %	5.0	0.0	—	10.0

Financial Position		
	06-10 USD Mil	09-10 USD Mil
Cash	108	113
Inventories	81	94
Receivables	79	83
Current Assets	288	315
Fixed Assets	118	117
Intangibles	81	81
Total Assets	509	537
Payables	29	34
Short-Term Debt	—	—
Current Liabilities	73	75
Long-Term Debt	3	4
Total Liabilities	99	102
Total Equity	410	435

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	25.1	27.9	23.9	15.4
Forward P/E	17.8	—	—	14.4
Price/Cash Flow	18.8	17.4	15.5	8.1
Price/Free Cash Flow	24.8	33.5	18.5	16.0
Dividend Yield %	—	—	0.9	1.8
Price/Book	2.9	3.1	3.2	2.1
Price/Sales	3.2	2.9	1.9	1.3
PEG Ratio	1.1	—	—	1.6

Sales USD Mil				Mkt Cap USD Mil				Industry		Sector	
400				1,263				Scientific & Technical Instruments		Hardware	
Morningstar Rating		Last Price		Fair Value		Uncertainty		Economic Moat™		Stewardship Grade	
-		40.78		-		-		-		-	
per share prices in USD											
18.50 4.50	9.38 5.25	9.75 5.55	13.10 7.18	22.25 10.73	21.77 13.13	29.00 14.94	36.99 24.00	48.26 14.05	32.99 14.91	41.68 25.23	Annual Price High Low Recent Splits
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Quarterly Results						
Revenue USD Mil	Dec 09	Mar 10	Jun 10	Sep 10		
Most Recent Period	68.8	97.5	113.2	120.1		
Prior Year Period	74.3	64.1	66.1	65.5		
Rev Growth %	Dec 09	Mar 10	Jun 10	Sep 10		
Most Recent Period	-7.4	52.1	71.4	83.3		
Prior Year Period	0.0	-20.8	-28.0	-25.3		
Earnings Per Share USD	Dec 09	Mar 10	Jun 10	Sep 10		
Most Recent Period	0.20	0.33	0.51	0.58		
Prior Year Period	0.28	0.16	0.20	0.21		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
II-VI, Inc.	1263	400	25.1	13.2
Agilent Technologies	12213	5035	29.6	15.8
Garmin, Ltd.	5801	2912	8.2	27.0

Major Fund Holders		
		% of shares
Columbia Acorn Z		7.42
Lord Abbett Small-Cap Value A		2.52
Columbia Acorn USA Z		1.83

\*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

## II-VI, Inc. IIVI (NAS)

Last Close	Industry	Sector
40.78 USD	Scientific & Technical Instruments	Hardware

## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
CARL J. JOHNSON	Chairman of the Board/Director/Founder,Director	2,455,733	25 Oct 2010	44,686
CARL J. JOHNSON	Chairman of the Board/Director/Founder,Director	2,455,733	25 Oct 2010	44,686
FRANCIS J. KRAMER	Director/President/CEO,Director	192,480	29 Oct 2010	30,000
JAMES MARTINELLI	Divisional Vice President	60,286	21 Aug 2010	-
CRAIG A. CREATURO	CFO/Treasurer	32,447	31 Aug 2010	-
DR. VINCENT D. MATTERA,JR	Executive VP	25,068	10 Sep 2010	-
HERMAN E. REEDY	Divisional Executive VP	18,966	06 Nov 2010	-
PETER W. SOGNEFEST	Director	9,271	21 Aug 2010	-

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Columbia Acorn Z	QQQQ	7.20	0.54	0	31 Aug 2010
Lord Abbett Small-Cap Value A	QQQQQ	2.46	0.71	-47	30 Jun 2010
Columbia Acorn USA Z	QQQQ	1.78	1.44	0	31 Aug 2010
iShares S&P SmallCap 600 (AU)		1.17	0.23	0	29 Oct 2010
Sentinel Small Company A	QQQQ	1.26	0.74	0	31 Aug 2010

#### Concentrated Holders

RBC Private US Small Cap Eq Pool Sr F	QQQ	0.13	2.18	0	31 Jul 2010
Century Small Cap Select Instl	QQQQ	0.68	2.10	0	30 Jun 2010
Conestoga Small Cap	QQQQ	0.18	1.99	0	30 Sep 2010
Managers AMG GW&K Small Cap Equity Inv	QQQ	0.04	1.71	0	30 Sep 2010

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
JNL/Mellon Cap Mgmt Select Small Cap B	Q	0.29	1.05	89	30 Jun 2010
TCM Small Cap Growth	QQQ	0.49	0.97	33	30 Jun 2010
Vanguard Small Cap Index Inv	QQQ	1.18	0.06	26	30 Jun 2010
Vanguard US Total Market Shares (AU) ETF		0.76	0.01	22	30 Jun 2010
PH&N US Multi-Style All-Cap Equity Sr F		0.06	0.10	18	30 Sep 2010

#### Top 5 Sellers

American Century Small Cap Value Inv	QQQQQ	0.31	0.15	-65	30 Jun 2010
Wanger USA	QQQQ	0.58	0.71	-51	30 Jun 2010
Lord Abbett Small-Cap Value A	QQQQQ	2.46	0.71	-47	30 Jun 2010
DFA US Micro Cap I	QQQ	0.00	0.00	-30	31 Jul 2010

## II-VI, Inc. IIVI (NAS)

Last Close	Industry	Sector
40.78 USD	Scientific & Technical Instruments	Hardware

### Industry Focus: Computer Hardware

#### Shining a Light on Global Solar Growth

04 October 2010

Stephen Simko, CFA  
Senior Equity Analyst

2010 was a white-hot year for solar. Will the wattage keep pace in 2011?

During 2009's fourth quarter, the solar industry was just recovering from the brutal declines in silicon and module average selling prices, or ASPs. Companies and analysts were predicting 2009 global installations would be flat at six gigawatts (GW). At the same time, the more optimistic projections for 2010 were largely falling in the range of between nine and 11 GW.

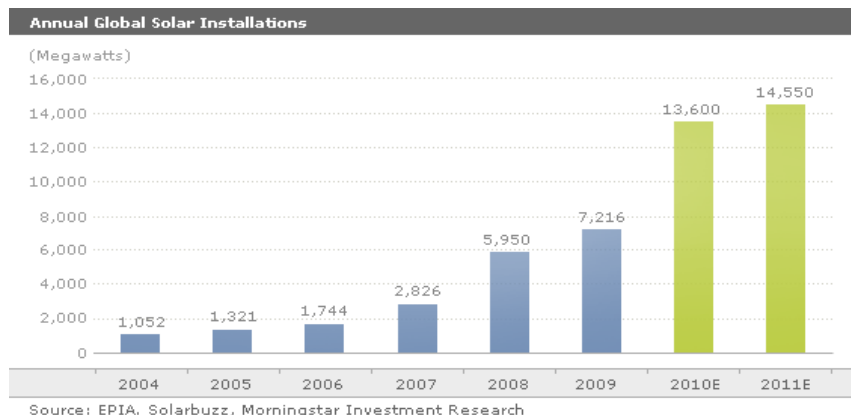
However, as installation data for the fourth quarter began to be publicized in early 2010, it became clear that the end of 2009 saw demand spike to far higher levels than almost anyone anticipated. The prime example of this was Germany, the world's largest solar market, which installed 1.46 GW in the month of December alone, or 38% of the total capacity (3.8 GW) it brought online last year. German capacity additions wound up doubling last year, and the country wound up accounting for 53% of installations worldwide.

As a result, when the German government announced a special subsidy cut to occur in July of this year to cool

installation activity, concern surfaced that demand would be pulled into the first half of the year, with weakness emerging in Germany after the subsidy cuts, and with it, the resumption of module pricing declines. With the second quarter's solar results now in, it is abundantly clear that demand has remained relatively robust in Germany post-subsidy cuts, and will remain so for the rest of 2010. Additionally, attractive project internal rates of return in other countries have fueled strong installation growth elsewhere all year long. Examples would include Belgium, the Czech Republic, France, and Italy, all of which boast double-digit returns. Every major solar market seems poised to post annual growth rates of at least 50% this year. Reflecting these trends, we have updated our 2010 installations estimate to 13.6 GW, 88% above the 7.2 GW installed in 2009. Germany will again account for half of the global market, with 6.7 GW of installations occurring this year.

#### 2011 Demand and Pricing Projections

With a slowdown prior the end of 2010 becoming highly unlikely, the focus is shifting to 2011. Multiple variables will come into play that could materially impact global demand levels as well as market pricing for modules (these, along with a company's cost structure, are the three major variables that move solar stocks).



On the demand side, subsidy reductions will be occurring in several key European markets. In Germany, subsidies will decline by an additional 10% on January 1. Cuts are also set to occur in other major markets such as Italy, where four separate reductions that will lower tariffs 25% by the end of 2011, and in the Czech Republic, where the government is still debating specifics. As a result, the high returns project investors are currently enjoying will come under pressure, unless a corresponding decline in the pricing of solar projects occurs. This implies that both system installers and module makers will have to reduce pricing to maintain strong demand. Furthermore, the industry has not only been

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Last Close	Industry	Sector
40.78 USD	Scientific & Technical Instruments	Hardware

### Industry Focus: Computer Hardware

bringing production capacity on line all year, but companies have recently been increasing their expansion plans in response to current demand levels. Even if demand remains robust in 2011, there is risk that supply will overshoot demand, creating pressure on module pricing.

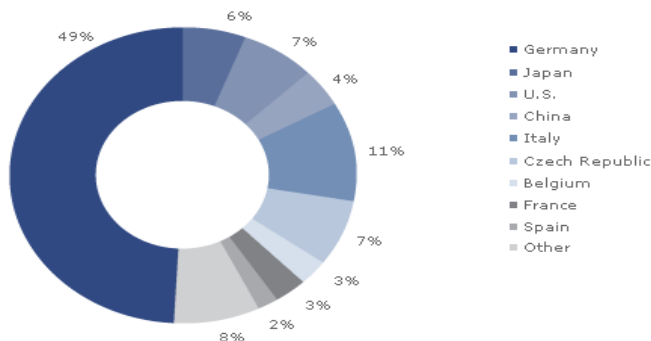
With these considerations in mind, we expect ASP declines to resume in the first quarter of 2011 after being flat for the last six months. However, the magnitude of ASP declines is likely to vary significantly by company. The industry's cost leaders, First Solar FSLR, Trina Solar TSL, and Yingli Green Energy YGE all are currently selling their

modules below spot pricing, due to signing customer contracts before it was evident how strong solar demand would be in 2010. Though these companies are missing out on profits in the current period, their margins will be less impacted from 2011 spot pricing declines.

On the other side of the spectrum are the higher-cost manufacturers in Europe. These companies, such as Renewable Energy Corp and Solarworld SWV, have long sold their modules at a premium to their low-cost counterparts, largely since a perception remains in solar that modules made in Europe are of superior quality, especially compared to Chinese-made product. This may have been the case five years ago, but it certainly is not anymore for tier-one Chinese modules. Reports are emerging that this "European premium" has started to erode in response to the lower project returns now available in Germany.

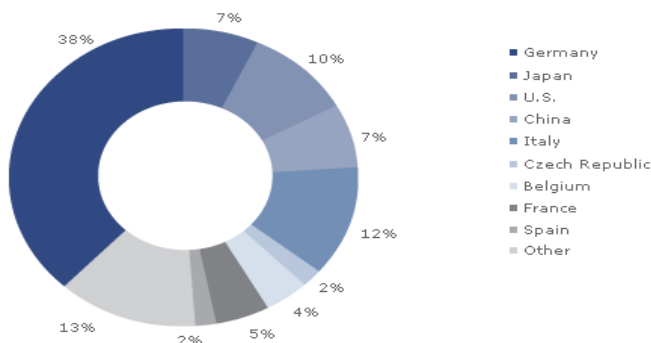
For low-cost module manufacturers--which represent the majority of our coverage list--we are projecting 2011 ASP declines of 10-13%. For Renewable Energy Corp, our lone producer from Europe, we have updated our ASP projections, and now are forecasting ASP declines of 20%. We continue to view the pricing premiums that European manufacturers enjoy as unsustainable, and believe these will disappear completely within a few years time.

2010E Solar Installations by Geography (%)



Source: Morningstar Investment Research

2011E Solar Installations by Geography (%)



Source: Morningstar Investment Research