

# II-VI, Inc. IIVI (NAS)

Last Close	Industry	Sector
17.43 USD	Scientific & Technical Instruments	Technology

## Profile

Pricing data through 23 Sep 2011

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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: 6195

Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	45.7	16.7	16.7	15.1	
Operating Income %	92.5	17.0	20.7	18.4	
Earnings/Share %	108.0	6.4	48.5	22.7	
Dividends %	—	—	—	—	
Book Value/Share %	25.4	19.5	23.4	17.9	
Stock Total Return %	-1.1	-5.6	6.8	17.4	
+/- Industry	-4.7	-4.9	5.3	10.0	
+/- Market	-2.1	-4.1	9.7	16.7	

Profitability Analysis	Current			
	5 Yr Avg	Ind	Mkt	
Return on Equity %	17.7	17.0	16.2	24.6
Return on Assets %	14.3	13.4	8.8	9.6
Fixed Asset Turns	3.9	3.5	7.8	7.5
Inventory Turns	2.9	2.7	3.6	15.4
Revenue/Employee USD K	81.2	94.7*	—	1006.5
Gross Margin %	41.1	41.7	46.7	39.3
Operating Margin %	19.6	17.6	14.0	16.2
Net Margin %	16.4	15.0	11.0	10.9
Free Cash Flow/Rev %	6.5	10.6	10.7	0.1
R&D/Rev %	3.2	0.0	—	9.9

Financial Position	06-10 USD Mil		06-11 USD Mil	
	Cash	108	—	149
Inventories	81	—	126	—
Receivables	79	—	91	—
Current Assets	288	—	396	—
Fixed Assets	118	—	138	—
Intangibles	81	—	93	—
Total Assets	509	—	647	—
Payables	29	—	30	—
Short-Term Debt	—	—	4	—
Current Liabilities	73	—	91	—
Long-Term Debt	3	—	15	—
Total Liabilities	99	—	125	—
Total Equity	410	—	522	—

Valuation Analysis	Current			
	5 Yr Avg	Ind	Mkt	
Price/Earnings	13.4	28.4	14.1	12.5
Forward P/E	10.9	—	—	12.2
Price/Cash Flow	15.1	17.7	11.6	6.5
Price/Free Cash Flow	34.0	28.7	14.5	15.0
Dividend Yield %	—	—	0.7	2.2
Price/Book	2.1	3.1	2.1	1.6
Price/Sales	2.2	3.0	1.6	1.1
PEG Ratio	0.8	—	—	1.6

<b>Sales USD Mil</b> 503	<b>Mkt Cap USD Mil</b> 1,093	<b>Industry</b> Scientific & Technical Instruments	<b>Sector</b> Technology
<b>Morningstar Rating</b> —	<b>Last Price</b> 17.43	<b>Fair Value</b> —	<b>Uncertainty</b> —
<b>Economic Moat™</b> —	<b>Stewardship Grade</b> —	per share prices in USD	



Stock Performance	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM
Total Return %	13.4	-6.8	60.6	64.7	-15.9	56.4	9.3	-37.5	66.6	45.8	-24.8	-24.8
+/- Market	26.4	16.6	34.2	55.7	-18.9	42.8	5.8	1.0	43.2	33.0	-15.2	-15.2
+/- Industry	43.0	20.1	-2.2	57.3	-28.9	30.7	-19.1	18.5	16.7	14.1	-8.7	-8.7
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	—	0.0
Market Cap USD Mil	240	225	368	618	523	820	906	565	941	1444	1093	1093

Financials	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM
Revenue USD Mil	114	128	151	194	233	263	316	292	345	503	503
Gross Margin %	38.7	45.9	47.3	45.9	40.2	45.4	41.2	39.7	41.0	41.1	41.1
Oper Income USD Mil	11	17	25	35	39	48	62	46	51	99	99
Operating Margin %	10.0	13.4	16.5	17.8	16.6	18.4	19.5	15.8	14.9	19.6	19.6
Net Income USD Mil	7	12	17	25	11	38	64	37	39	83	83
Earnings Per Share USD	0.13	0.20	0.30	0.42	0.18	0.63	1.06	0.61	0.63	1.30	1.30
Dividends USD	—	—	—	—	—	—	—	—	—	—	—
Shares Mil	57	57	59	60	60	61	61	60	62	64	64
Book Value Per Share USD	1.69	1.83	2.10	2.51	2.95	3.26	4.38	5.22	5.74	14.82	8.33
Oper Cash Flow USD Mil	16	26	30	19	41	44	46	49	72	73	73
Cap Spending USD Mil	-9	-7	-13	-18	-16	-20	-18	-16	-14	-41	-41
Free Cash Flow USD Mil	7	19	18	1	25	24	28	33	59	33	33

Profitability	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM
Return on Assets %	4.8	7.4	10.0	11.4	4.3	14.1	19.8	10.1	8.8	14.3	14.3
Return on Equity %	7.8	11.1	14.3	17.1	6.5	19.5	25.2	12.0	10.5	17.7	17.7
Net Margin %	6.4	9.1	11.5	12.8	4.6	14.4	20.3	12.6	11.2	16.4	16.4
Asset Turnover	0.76	0.81	0.87	0.89	0.92	0.98	0.97	0.80	0.79	0.87	0.87
Financial Leverage	1.6	1.5	1.4	1.6	1.5	1.3	1.2	1.1	1.2	1.2	1.2

Financial Health	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	06-11
Working Capital USD Mil	36	40	47	74	83	108	180	198	215	305	305
Long-Term Debt USD Mil	29	17	8	41	24	15	4	4	3	15	15
Total Equity USD Mil	98	112	132	159	171	219	290	322	410	522	522
Debt/Equity	0.30	0.15	0.06	0.26	0.14	0.07	0.01	0.01	0.01	0.03	0.01

Valuation	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM
Price/Earnings	26.3	28.2	28.3	28.0	20.8	54.4	16.2	10.5	37.7	23.0	13.4	13.4
P/E vs. Market	—	—	—	—	—	—	—	—	—	1.3	1.1	1.1
Price/Sales	2.0	1.9	2.8	3.8	2.4	3.4	3.3	1.8	3.6	3.3	2.2	2.2
Price/Book	2.5	2.2	3.1	4.2	3.0	4.3	3.5	1.8	2.8	3.1	2.1	2.1
Price/Cash Flow	11.5	11.4	15.1	27.3	18.1	18.6	17.8	18.5	14.0	19.8	15.1	15.1

Quarterly Results						
Revenue USD Mil	Sep 10	Dec 10	Mar 11	Jun 11		
Most Recent Period	120.1	120.9	130.0	131.8		
Prior Year Period	65.5	68.8	97.5	113.2		
Rev Growth %	Sep 10	Dec 10	Mar 11	Jun 11		
Most Recent Period	83.3	75.7	33.3	16.4		
Prior Year Period	-25.3	-7.4	52.1	71.4		
Earnings Per Share USD	Sep 10	Dec 10	Mar 11	Jun 11		
Most Recent Period	0.29	0.30	0.36	0.35		
Prior Year Period	0.11	0.10	0.17	0.26		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
II-VI, Inc.	1093	503	13.4	17.7
Honeywell Automation	—	—	—	—
Honeywell Automation	—	—	—	—

Major Fund Holders	
	% of shares
	—
	—
	—

\*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.



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## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*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	7.28	0.66	0	31 May 2011
Columbia Acorn USA Z	QQQ	1.98	1.80	0	31 May 2011
Sentinel Small Company A	QQQQ	1.68	0.99	0	30 Jun 2011
Vanguard Explorer Inv	QQQ	1.37	0.21	0	30 Jun 2011
Lord Abbett Small-Cap Value A	QQQQ	1.30	0.49	-32	30 Jun 2011
Concentrated Holders					
CF Greenwich	QQQ	0.01	3.09	0	30 Apr 2011
RBC Private US Small Cap Eq Pool Sr F	QQQ	0.18	2.74	1	30 Apr 2011
Century Small Cap Select Instl	QQQQ	0.60	2.19	0	30 Jun 2011
DF Dent Premier Growth	QQQ	0.22	2.14	0	31 Mar 2011

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
BNY Mellon Small Cap Stock M	QQ	0.21	0.76	129	30 Jun 2011
LKCM Small Cap Equity Instl	QQQQ	0.42	0.78	97	30 Jun 2011
iShares Russell 2000 (AU)		0.72	0.09	30	18 Aug 2011
Vanguard Small Cap Growth Index Inv	QQQQ	0.92	0.16	27	30 Jun 2011
Boston Trust Small Cap	QQQQQ	0.08	0.51	25	31 May 2011
Top 5 Sellers					
PowerShares Fundamental Pure Small Grow	QQ	0.01	0.20	-130	30 Jun 2011
TCM Small Cap Growth	QQ	0.31	0.90	-50	30 Jun 2011
Lord Abbett Small-Cap Value A	QQQQ	1.30	0.49	-32	30 Jun 2011
RidgeWorth Small Cap Growth Stock C	QQQ	0.21	0.81	-19	31 Jul 2011

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## Industry Focus: Computer Hardware

**Apple Isn't Frittering Away Its Growth Opportunities**

29 April 2011

Joseph Beaulieu  
Senior Stock Analyst

**We think Apple's sales could double in the next three years.**

Apple AAPL generated \$65 billion in revenue in fiscal 2010, and it is only natural for investors to wonder how much bigger the company can get. We think that over the next three years revenue could double and that over the next five years Apple could add another \$100 billion to its top line. If Apple were a one-product company, we'd be uncomfortable throwing around those kinds of numbers, but Apple isn't just the iPhone/iPad company. In fact, with the exception of the iPod, every single one of Apple's product lines is contributing to double-digit revenue growth.

**The iPad: An Entirely New Product Category** The newest of Apple's product lines, and essentially an entirely new product category, the iPad has been a stunning success. As Apple is still selling the second iteration of the iPad as quickly as they can be manufactured, we think that momentum will continue through 2011 and 2012 at the very least.

That said, estimating the eventual size of the tablet market is difficult, as today it isn't so much of a "tablet market" as

an "iPad market." Although PC manufacturers have been taking stabs at producing a mass-market tablet computer, Apple was the first company to succeed. (We suspect that this is because the company already had a massive base of iPhone users that were essentially using a miniature version of a tablet.) It is possible, in our view, that the iPad will remain the standard for the tablet market--similarly to how the iPod quickly became (and has remained to this day) the dominant personal media player. Our view is that, after explosive growth in 2011 (during which we expect Apple to sell about 40 million iPads), unit sales grow at an average of 55% per year, with Apple selling 80 million iPads in 2015.

However, given that the tablet market and the iPad are still in their infancy, it is possible that the tablet market turns out to be just a fad. It is also possible that another tablet maker can knock Apple from its perch. In the eventuality that Apple does not sell another iPad after 2012, our fair value estimate would fall from its current \$475 into the high \$300s.

**We Think the iPhone's Days of Explosive Growth Are Nearing an End** We expect the iPhone to continue to gain market share in 2011 and 2012, but after that we think it will have become a mature product and that growth will slow accordingly. At the end of our five-year forecast period, we expect Apple will have a market share of approximately 15%, only slightly higher than it stands today.

Figure 1: Apple Revenue and CAGR Forecasts

	FY2010	2013(E)	3-year CAGR 2010-2013	5-year CAGR 2010-2015
iPhone	\$25,179	\$52,425	27.7%	18.0%
iPad	4,956	39,325	99.5	55.0
Portables	11,278	19,160	19.3	17.2
Desktops	6,201	9,546	15.5	15.3
iTunes	4,948	8,906	21.6	21.0
iPod	8,274	5,135	-14.7	-18.5
Software	2,573	4,000	15.8	14.2
Peripherals	1,814	2,997	18.2	18.2
<b>Total</b>	<b>65,223</b>	<b>141,495</b>	<b>29.5</b>	<b>20.3</b>

Sources: Morningstar estimates and Apple

For the next two years, we think Apple will continue to benefit from the launch of the iPhone on the Verizon VZ network (and if the proposed ATT T acquisition of T-Mobile happens, the availability of the iPhone to former T-Mobile customers). The initial launch did not make headlines in the same manner as the iPad launch, but we think adoption of the iPhone by Verizon customers will be largely driven by the timing of subsidized phone upgrades.

**Sales of Apple's Desktops and Notebooks Still Growing** After going into a precipitous decline in the 1990s under the previous management team, Apple's PC business began

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### Industry Focus: Computer Hardware

steadily gaining market share in the early 2000s. We think these gains are attributable to several interlocking factors: the success of the iPod, the rollout of Apple's retail stores, and Apple's hardware and software design.

High interest in the iPod helped drive traffic to Apple's stores, which allowed Apple to show off its products (both hardware and software) in a way that wasn't previously possible. As iTunes for Windows didn't launch until more than 2.5 years after iTunes for the Mac, the iPod helped jump-start demand for the Mac among 20-somethings--a group that has yet to hit peak earnings power. Although newer products like the iPhone and iPad worked with iTunes on Windows from the start, we still think these products continue to drive new users to the Mac platform.

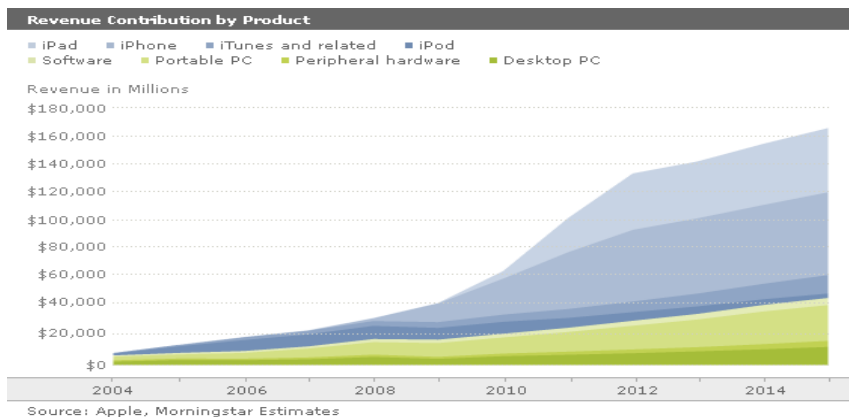
We think the launch of the Mac Application Store (patterned after the iTunes Application Store) could help Apple maintain or accelerate its pace of market share gains. Historically, one of the biggest knocks against the Mac platform has been the relative scarcity of third-party applications. The smaller developer base (relative to the Windows third-party developer base) was exacerbated by the poor distribution of the Mac software that was developed. We think the Mac Application Store could help mitigate this disadvantage and eliminate one potential

concern a new customer might have about switching to the platform.

iPad, iPhone, and PCs Drive Growth of Other Products and Services We expect growth of Apple's hardware platforms to continue to drive growth of Apple's sales of peripherals, software, and media/applications through the iTunes store. Interestingly, from 2005 to 2008, sales growth rates of those two product categories were roughly equal. And while the highly successful launches of the iPhone and iPad threw that relationship off, we think that over time the relationship will be restored and therefore that the peripherals/media/software category will grow roughly in line with Apple's corporate average over our five-year forecast period. Sales of Macs will drive sales of displays, Mac software, and AirPort base stations. Sales of iPads and iPhones will drive sales of media and applications through the iTunes store.

Growth Will Slow in 2012, Unless Apple Has Another Trick Up Its Sleeve Altogether, we think Apple will hit \$100 billion in annual revenue sometime in 2011 but expect growth to hit an inflection point near the end of 2012 as the iPhone and iPad platforms become more mature. However, we aren't building in any expectation of new, announced products into our growth estimates. Looking at the graph below, it is worth noting that the top two layers of the graph (the ones that represent more than half of total revenue) didn't exist as late as 2007. We would therefore not take the bet that Apple will stop innovating anytime soon.

Our best guess is that Apple will continue its push into the living room as it further refines its AirPlay wireless streaming technology, and as third-party home electronics vendors begin embedding AirPlay (and perhaps even the iTunes Store) into their hardware. Pioneer has already announced home stereo receivers that can stream music directly from Macs, iPads, and iPhones via AirPlay, and over time we could see that functionality being a de facto standard. We see incorporation of AirPlay into car stereos as another logical step.



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