

Semiconductor Fair Value Model Update

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Updated semiconductor fair value model available

Our updated semiconductor fair value model is now available. The normalized SOX fair value is now at 470, 10% below the current SOX value of 524.

Careful with those options expenses

Some investors may be tempted to ignore the options compensation element to our model, but we urge caution. Options compensation expense may be noncash, but it is definitely not imaginary. Companies are spending real money to buy back stock, or seeing earnings diluted, as a result of the options they grant to employees. Our returns model captures the resulting transfer of wealth, and we don't think that investors can simply ignore the conclusions. The summary table on the right shows the results of our model *including* the impact of options, which is the right way to think about it in our opinion.

Overview of the model

The model calculates a fair value based on intuitive inputs including revenue growth, operating margin, options expense, restricted stock expense, tax rate, working capital, and capital spending. We recognize that different operating environments can have widely disparate impacts on earnings multiples, and so the model calculates a high end and a low end to the range, centered around a normalized midpoint fair value.

An interactive tool

Summary data are included herein based on Merrill Lynch analysts' estimates and assumptions, but as always, we're encouraging investors to work with the model and test out their own assumptions. The working model is available at www.ml.com under the ticker "SEMIFV."

A direct download of the file is also available by using the following URL:

<http://www.cwes01.com/10323/24704/MLSemifV2-22-2006.zip>

Table1: Mid-Cycle Fair Value Summary

Ticker	Fair Value			Curr Price	Upside (Downside)
	Low	Norm	Peak		
PC / Graphics / Memory					
AMD	19.5	32.2	52.5	40.3	-20%
ATYT	14.3	19.5	27.0	17.1	14%
INTC	16.9	23.8	34.1	20.6	15%
MU	5.1	14.6	30.6	16.7	-13%
NVDA	32.5	43.9	60.2	47.5	-8%
SNDK	35.1	52.4	79.7	57.4	-9%
SPSN	(0.3)	13.5	37.4	15.9	-15%
Analog / Mixed-Signal					
AMIS	6.0	8.7	12.3	8.6	1%
ADI	32.5	40.2	50.4	38.8	4%
FCS	11.3	17.6	26.6	18.3	-4%
FSL	23.3	30.6	40.1	27.6	11%
ISIL	17.6	22.4	29.2	30.3	-26%
LLTC	27.9	34.8	44.2	37.0	-6%
MXIM	31.7	42.1	56.9	39.5	7%
MCHP	26.1	33.2	43.0	36.7	-10%
MPWRE	10.0	15.4	24.4	18.1	-15%
NSM	18.4	24.8	34.0	28.4	-12%
SMTC	9.7	12.3	16.1	19.4	-36%
TXN	22.5	29.1	38.2	31.5	-7%
Comm IC					
AGR	6.7	11.2	17.6	13.4	-16%
BRCM	24.8	36.9	55.9	67.9	-46%
CY	7.4	13.9	24.2	16.6	-16%
IDTI	2.0	7.1	14.6	14.8	-52%
LSI	5.1	7.6	11.2	9.5	-20%
MIRVL	25.3	39.7	61.8	63.7	-38%
NETL	13.4	18.3	25.4	34.9	-47%
PMCS	7.2	10.8	17.0	10.2	6%
RFMD	1.4	5.2	12.3	7.0	-25%
SLAB	26.0	34.0	45.2	47.0	-28%
VTSS	0.8	1.6	2.8	3.2	-50%
PLD					
ALTR	14.0	18.9	26.0	19.9	-5%
XLNX	19.5	26.6	37.0	27.1	-2%

Source: Merrill Lynch.

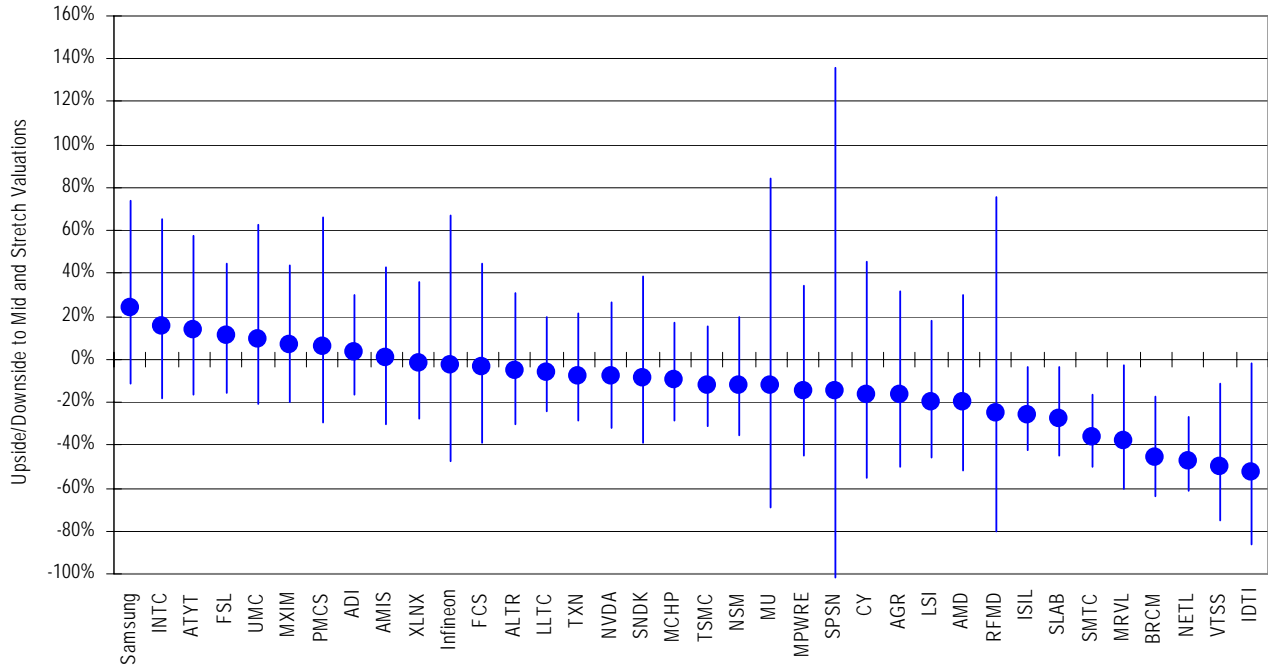
*Analysis includes option expensing.

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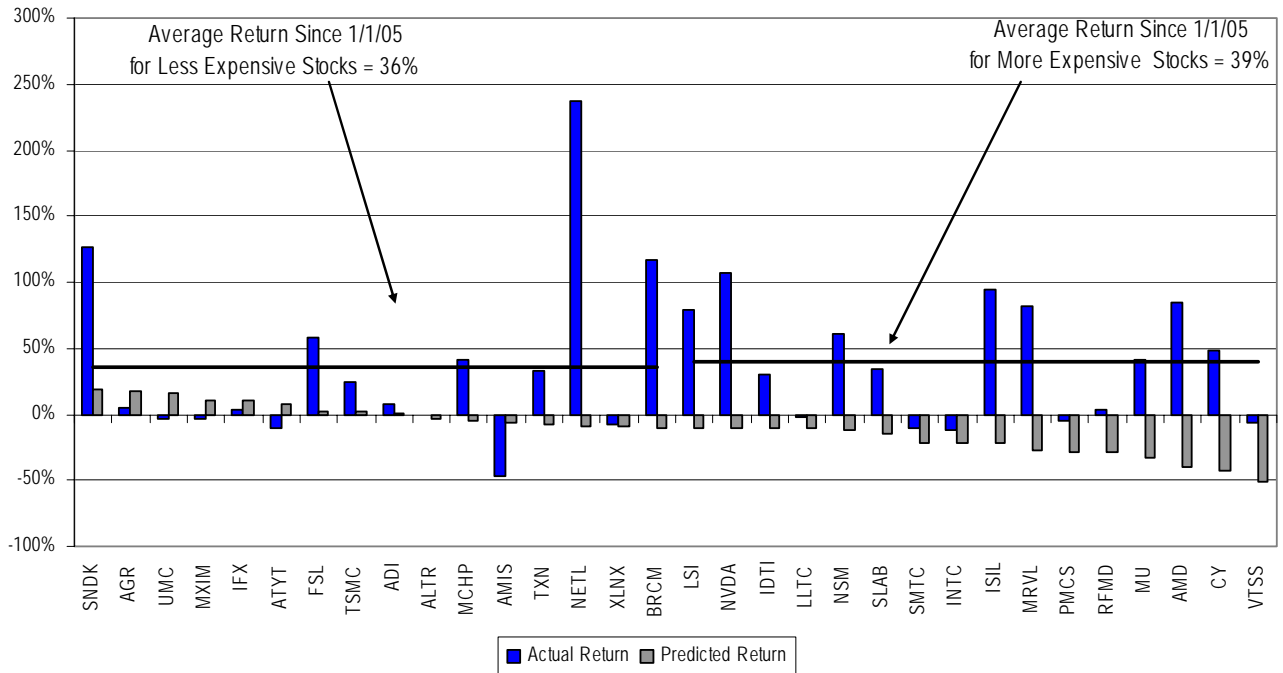
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Chart 1: Current Mid-Cycle Semiconductor Fair Value Upside/Downside Analysis



Source: Merrill Lynch.
*Analysis includes option expensing.

Chart 2: Merrill Lynch Semiconductor Fair Value Model Return Analysis



Source: Merrill Lynch.

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