



## Zebra Technologies (ZBRA)

### Solid 3Q04 Results; Maintain Outperform Rating

<b>Price: (10/27/04)</b>	<b>54.58</b>	<b>Rating:</b>	<b>Outperform</b>	<b>FY: Dec</b>	<b>2003A</b>	<b>2004E</b>	<b>2005E</b>
<b>52WK H-L:</b>	<b>62 - 37</b>			Q1	0.31A	0.39A	0.45E
<b>Market Cap (mil):</b>	<b>3,963</b>	<b>Suitability:</b>	<b>Higher Risk</b>	Q2	0.31A	0.41A	0.47E
Shares Out (mil):	71.6			Q3	0.32A	0.44A	0.48E
Float (mil):	68.0			Q4	<u>0.33A</u>	<u>0.43E</u>	<u>0.52E</u>
Avg. Daily Vol (mil):	NM			<b>Total</b>	<b>1.27A</b>	<b>1.67E</b>	<b>1.93E</b>
		<b>Price Target:</b>	<b>62</b>	Previous		1.64E	1.92E
Dividend:	0.00	Previous:	61	FY P/E	43.0x	32.7x	28.3x
Yield:	0.00						

Please refer to "Appendix - Important Disclosures."

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### Action

Guidance below consensus expectations appeared to place pressure on the stock yesterday. We view this weakness as a buying opportunity given positive industry trends, favorable pricing and potential upside opportunity from RFID and mobile printing. We are slightly raising our EPS estimates, and we maintain our Outperform rating.

### Summary

- Zebra reported revenue of \$171.2M (+27%), our estimate was \$165.5M, consensus was \$166.4M. EPS came in at \$0.44 (excluding charges) versus \$0.32, above our \$0.42 estimate and the consensus \$0.41 estimate.
- We are raising estimates and maintain our Outperform rating based on the following:
- First, we continue to see favorable demand trends. Our reseller contacts suggest improving business trends in the next two quarters. Further, ScanSource and Metrologic reported positive results. We believe Zebra remains well positioned in the market and will gain share.
- Second, pricing trends appear favorable; margins stable. Zebra's product ASPs are up roughly 3% versus last year and 1% sequentially. Further, Zebra has completed its facility consolidation early, moving mobile computing from Warwick, RI to Camarillo, CA, which should allow increased manufacturing leverage. These trends suggest stable-to-potentially improving margins.
- Third, we believe increasingly positive trends in mobile printing (roughly 25% of revenue) and RFID represent potential upside opportunity in 2005.
- We are increasing our 2004 EPS estimate to \$1.67 from \$1.64 and our 2005 EPS estimate to \$1.93 from \$1.92.
- Our \$62 price target is based on 30x our 2005 EPS estimate (excluding \$0.12 of interest income and adding back \$7.20/sh in net cash). On average, Zebra historically trades 20x-25x, but reaches over 30x during growth cycles.

## Details

### Investment Perspective

Guidance below consensus expectations appeared to place pressure on the stock yesterday. We view this weakness as a buying opportunity given positive industry trends, favorable pricing and potential upside opportunity. We are slightly raising our EPS estimates, and we maintain our Outperform rating based on the following.

First, we continue to see favorable demand trends. Our reseller contacts suggest that business during the next six months will trend better than the previous six months. Further, the overall industry results, in addition to Zebra posting growth of 27%, appear to be solid. ScanSource positively pre-released that revenue would be up 27%-31%. Metrologic reported positive results and boosted its 2004 revenue expectation by 3%-4%. Given strong new product introductions, incremental international infrastructure, new vertical market opportunities, we believe Zebra remains well positioned in the market and will gain share.

Second, pricing and margin trends appear favorable. Zebra's realized a product ASP of \$659 during the quarter, which is up roughly 3% versus last year and 1% sequentially. We expect increased new product functionality will cause continued increases of 1%-2% annually. Further, Zebra has completed its facility consolidation early, moving mobile computing from Warwick, RI to Camarillo, CA. The Camarillo facility has only been producing desktop units, and the incremental volume will allow increased manufacturing leverage. These trends suggest stable to potentially improving margins.

Third, we believe increasingly positive trends in mobile printing (roughly 25% of revenue) and RFID represent potential upside opportunity in 2005. Our supply chain thesis has been that enterprises will continue to move information closer to decision making points in the supply chain leveraging mobile enabling technology. We are seeing these trends unfold at an increasing rate as mobile computing and wireless networking become increasingly pervasive. We expect mobile computing will grow in the 15%-20% rate during the next several years. We expect Zebra's strong mobile printing positioning will enable the company to effectively participate in this market. Zebra has historically focused its mobile printing products on retail, but has recently increased its focus on other vertical markets, such as route accounting, manufacturing, transportation, distribution and healthcare. We expect new products targeted towards these markets will allow mobile printing to continue to see above average market growth.

With respect to RFID, we continue to believe that "slap and ship", and "print and apply" will be the predominant methods of deployment during the next 2-3 years. Given Zebra's strong position in the bar code market and increasing suite of RFID products, we expect Zebra will be a key beneficiary of the RFID trend as it unfolds during 2005. Zebra offers Class 0/0+ in its high-end offerings and Class 1 products in its mid-range and high-end offerings. Further, Zebra's R110 is a print engine for deployment in "print and apply" applications. During the EPC Global conference in September, we heard several end users indicate that "print and apply" alternatives to "slap and ship" are preferable. We are also encouraged to see Zebra introduce a multi-protocol product, capable of encoding Class 0, Class 1 or ISO 18000 tags. NCR has indicated it intends to resell Zebra's RFID products.

## 3Q04 Results

(\$ '000)	Quarter 3Q04	Ended 3Q03	Yr./Yr. Change	Actual	vs. Baird/ Estimate	Estimate Variance
Total Revenues	\$171,176.0	\$134,649.0	27.1%	\$171,176.0	\$165,548.6	3.4%
Gross Profit	\$87,146.0	\$67,773.0	28.6%	\$87,146.0	\$85,671.4	1.7%
Gross Margin	50.9%	50.3%	60 bp	50.9%	51.8%	(80 bp)
SG&A	\$31,082.0	\$25,808.0	20.4%	\$31,082.0	\$32,447.5	-4.2%
R&D	\$9,596.0	\$7,898.0	21.5%	\$9,596.0	\$9,767.4	-1.8%
Operating Income	\$45,821.0	\$33,696.0	36.0%	\$45,821.0	\$43,056.5	6.4%
Operating Margin	26.8%	25.0%	170 bp	26.8%	26.0%	80 bp
Pretax Income	\$48,685.0	\$34,974.0	39.2%	\$48,685.0	\$45,756.5	6.4%
Taxes	\$16,892.6	\$12,240.9	38.0%	\$16,892.6	\$15,900.4	6.2%
Tax Rate	34.7%	35.0%		34.7%	34.8%	
Net Income (before charges)	\$31,792.4	\$22,733.1	39.9%	\$31,792.4	\$29,856.0	6.5%
Cash EPS	\$0.44	\$0.32	38.1%	\$0.44	\$0.41	6.5%
Shares	72,673.0	71,785.0	1.2%	72,673.0	72,675.0	0.0%

Zebra reported 3Q04 EPS of \$0.44 (excluding \$0.01 of after-tax exit and merger costs) versus \$0.32 in 3Q03, above our \$0.41 estimate and the consensus estimate of \$0.42. Revenue increased 27% year/year to \$171.2 million, ahead of our estimate of \$165.5 million and the consensus estimate of \$166.4 million. Gross margin increased 60bp versus the prior year to 50.9%, but declined 100bp versus 2Q04, and was 90bp below our estimate. Operating expenses as a percentage of sales declined 120bp versus the prior year to 24.1%, below our 25.7% estimate. Operating margins were therefore 26.8%, an increase of 180bp versus the prior year and 80bp above our estimate. Interest and other income increased to \$2.9 million during the quarter versus income of \$1.3 million in 3Q03, due primarily to higher investment income and foreign exchange gains, as well as lower capital lease obligations. The effective tax rate was 34.7% versus 35.0% last year and essentially in line with our 34.8% estimate. There were 72.7 million diluted shares outstanding for the quarter, adjusted for the 3-for-2 stock split paid on August 25, 2004.

### Revenue

Zebra reported 3Q04 revenue of \$171.2 million versus \$134.6 million a year ago, an increase of 27%, and ahead of our estimate of \$165.5 million. Sales across all product lines were higher with particular strength in mobile sales. Management cited that higher average unit prices supplemented higher unit volumes. Overall foreign exchange added approximately \$2.8 million, or 2.1% to sales, and the recent Atlantek acquisition added \$3.5 million, or 2.6% to sales. In addition, the company indicated that part of the upside was due to a large order that was expected to ship in October that was pulled forward into September. Management indicated the order added a couple million dollars in revenue to the quarter. Furthermore, management expects 4Q04 revenues to be in the range of \$170-\$174 million, or an increase of 15%-18%.

Product Breakdown	3Q04	3Q03	Y/Y	2Q04	Q/Q
Total Printer Product Sales	136,669	103,730	32%	128,262	7%
Supplies	29,007	24,436	19%	28,273	3%
Service and software	5,431	6,068	-10%	6,283	-14%
Other*	69	415	N/M	12	N/M
Total	171,176	134,649	27%	162,830	5%
Geographic Breakdown	3Q04	3Q03	Y/Y	2Q04	Q/Q
North America	99,414	75,759	31%	88,183	13%
Europe	48,553	40,759	19%	53,156	-9%
Latin America	9,631	7,573	27%	9,452	2%
Asia	13,578	10,558	29%	12,039	13%
Total	171,176	134,649	27%	162,830	5%

(in \$000s)

\*Zebra recognized \$69,000 from hedging activities in 3Q04 versus \$12,000 in 2Q04 and \$415,000 in 3Q03.

Hardware sales were \$136.7 million versus \$103.7 million a year ago, an increase of 32%. We were modeling \$131.1 million. The strength during the quarter was broad based with respect to its channels, markets and product segments. Mobile printing was particularly strong. Management indicated every printer category showed strong growth, with five out of six categories growing by more than 25%. Supplies remained strong, with sales of \$29.0 million versus \$24.4 million in 3Q03, an increase of 19% and above our estimate of \$28.1 million. Software and service was the one area of weakness, with revenues of \$5.4 million, a decrease of 10% versus the prior year, and below our \$6.4 million estimate.

From a geographic perspective, North American sales accelerated for the fourth consecutive quarter with sales of \$99.4 million, or 31% year/year growth, and ahead of our \$94.1 million estimate. Management indicated that the strength in the region was due in part to large shipments of mobile printers to support enterprise mobility in retail and manufacturing. Internationally, sales increased 22% as global expansion drove strength. Asia sales led the way, with growth of 29% to \$13.6 million, with particular growth experienced in Greater China. Latin America, which has increased its sales force over the past several quarters, saw growth of 27% to \$9.6 million. Europe also experienced solid year/year growth during the quarter of 19% to \$48.6 million.

### Profitability

Gross margin increased 60bp versus the prior year to 50.9%, but declined 100bp versus 2Q04. We were modeling a 51.8% gross margin for the quarter. According to management, the year/year improvement to gross margin was due primarily to higher capacity utilization related to higher sales volume, as well as cost reductions and favorable foreign exchange rates. The sequential decline in gross margin was due to a shift in product mix and management expects gross margin to increase in 4Q04 to between 50.5%-51.5%. The company is essentially finished with the consolidation of its manufacturing and services operations in Rhode Island to Illinois and California.

Operating expenses as a percentage of sales declined 120bp versus the prior year to 24.1%, below our 25.7% estimate. Sales and marketing expense increased 21% to \$19.2 million versus \$15.9 million a year ago, but decreased 60bp as a percent of sales versus the prior year to 11.2%, below our expectation for 12.0%. General and administrative expense increased 19% year/year to \$11.9 million, but declined 50bp to 6.9% of revenue, below our 7.6% estimate. R&D expense increased 21% versus the prior year to \$9.6 million, or 5.9% of revenue, in line with the prior year and our estimate. The company expects operating expenses to be roughly \$43 million in 4Q04.

As a result, operating profit increased 36% year/year to \$45.8 million. Operating margins were therefore 26.8%, an increase of 180bp versus the prior year and 80bp above our estimate.

### Balance Sheet and Cash Flow

- At the end of 3Q04, Zebra had over \$523 million in net cash and investment, or roughly \$7.20 per share. This is an increase from \$498.9 million at the end of 2Q04.
- Receivables remained at \$95.3 million in 3Q04 versus 2Q04, but DSOs decreased to 51 days from 53 days.
- Inventory turns decreased slightly at the end of 3Q04 to 6.6x from 6.7x at the end of 2Q04. On an absolute basis, inventories increased 14% to \$54.3 million from \$47.6 million in 2Q04.
- Book value increased to \$10.48 per share at the end of 3Q04 from \$10.01 per share at

the end of 2Q04.

- During 3Q04, Zebra generated cash flow from operations (CFO) of \$25.3 million, up from \$10.0 million in 2Q04. Zebra invested \$2.6 million in capital expenditures during the quarter, versus \$2.9 million invested during 2Q04. Therefore, Zebra generated \$22.7 million in free cash flow in 3Q04 versus \$7.1 million generated in the prior quarter.

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## Investment Thesis

**Solid Growth Opportunity** - We expect 15% top- and bottom-line average annual internal growth over the long term. We expect acquisitions to provide additional growth. The Bar code printing market is approximately \$1.7 billion; we expect average annual growth of 10% to 12% over the next several years. Given the relative under-penetration in international markets for bar code printing, and Zebra's strong international investment in recent years, we expect International growth will exceed domestic growth by better than a 2:1 margin in the next several years. We expect that the card printer segment, roughly 10% of revenue, will exceed the bar code market rate. RFID is emerging and creates upside opportunity.

**Attractive Market Position** - Zebra is a clear leader in the bar code printer market with 20% share and No. 1 market position. The broadest product portfolio in the industry, strong distribution and OEM relationships, and strong brand equity contribute to having the No. 1 overall share, and the No. 1 share in four out of five product segments.

**Major Enterprise Systems Present A Positive Catalyst** - Most enterprise-wide software implementations have been disappointing from an ROI view; however, we expect many companies will begin to add bar coding in order to improve returns. Gartner Group has suggested that implementing real-time data gathering equipment to ERP systems improves the ROI by over 50%. The ERP installed base is over 25,000 systems. We expect the new product development and applications focus should help to improve the opportunity in this market.

**Product Development and Zebra Brand Strong** - New product introductions and strong brand equity have positioned Zebra to grow faster than the overall market over the next two years. Also helping to gain market traction is Zebra's ongoing strategy to develop new applications in underpenetrated vertical markets. Zebra has built a stable of reference accounts in these areas during the past two years, which we expect will be levered to gain incremental penetration in these markets.

**Industry Drivers Positive** - Bar coding market trends look increasingly favorable as heightened competition requires the efficiency that bar coding provides. Increased competitive markets and the continued push by companies to complete their e-commerce infrastructure have elevated the need for better Supply Chain Management (SCM). Automatic identification products, like bar coding, are required components in achieving SCM improvement.

**Strong Financial Position** - Zebra has great financial flexibility with over \$523 million in net cash (roughly \$7.20 per share). Zebra also has strong profitability and cash flow. No other bar code printer manufacturer has this amount of financial muscle.

**Recent Strength** - Industry comparables Scansource and Metrologic, and positive comments from resellers, suggest market strength may be building. We expect recent investments in terms of new sales offices (primarily international) and new products, will help Zebra to capitalize on this momentum.

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## Risk & Caveats

**Investment in New Programs** - While we view new investment as critical for Zebra to generate incremental growth opportunities, we are concerned that near-term investments could cause the company to miss expectations. Specifically, we expect the company to

incrementally invest in both its supplies business and the RFID business over the course of the next year. We believe our current estimates capture this incremental investment; however, given market changes we could see the company accelerate its spending plans for these or other investments.

**Margin Pressure** - We believe pressure will continue from mix, primarily as the desktop and portable markets grow faster than the company average, and as the company gains share in the mid-market. We also view Zebra's operating cost structure as higher given the solution focus, which requires increased industry, application and engineering resources. We expect continued volume will offset these increases.

**Product Development** - Without sufficient product development, Zebra's anticipated share gains and sustained market growth would be adversely impacted. However, the company has introduced more products in the last eighteen months than in any other time in the company's history.

**Strategic Shift** - Zebra is transitioning its focus from a pure products company to a solutions focus, where Zebra is targeting several vertical markets to deliver various types of printing applications. To accomplish this, Zebra must develop new applications in relatively new vertical markets, which may create near-term implementation challenges. To date, Zebra has experienced no issues, with success in its reference accounts.

**New Potential Competition** - Zebra, with its PS series product, is entering the mobile data collection market. At the same time Symbol is increasing its presence with non-Zebra printer sales. These two players in the bar coding space represent the most significant players, and would make formidable competitors with each other. This could ultimately affect demand and pricing for Zebra's products. We see no near-term threat, but recommend investors monitor the competitive landscape.

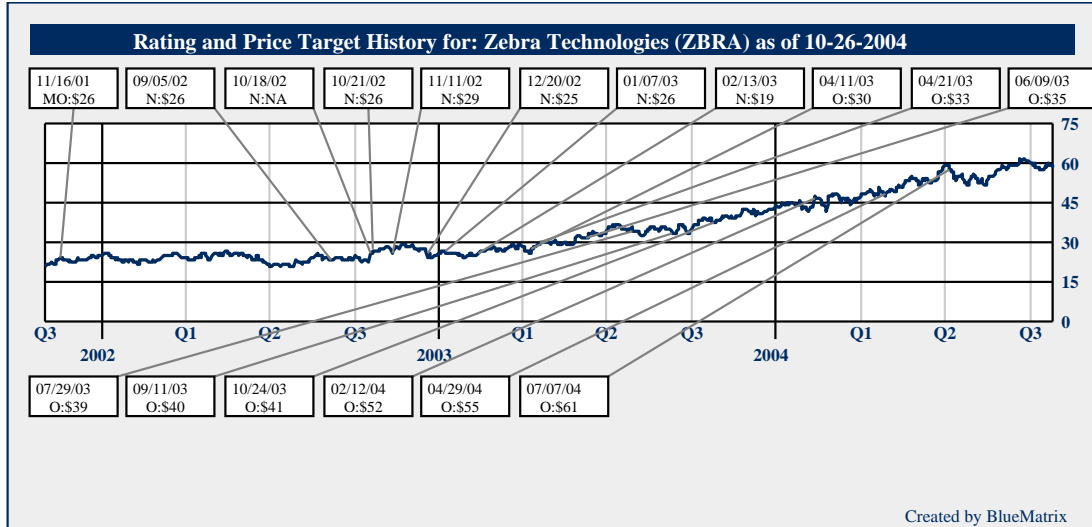
**RFID Market Development** - RFID is an emerging technology, which may not develop as rapidly as many investors expect. Further, a market for the technology may not materialize as expected given challenges associated with RFID including high cost, lack of standards, poor read rates, slow development of new generations and a general lack of solutions and solution providers.

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## Company Description

Zebra Technologies provides bar code technology solutions, principally to industrial, retail, and several emerging vertical markets. The company designs, manufactures, and markets bar code printing and card printing systems, including hardware, supplies and software. Zebra, which has approximately 2,000 employees, has more than 2.0 million installed units in more than 90 countries. Customers include UPS, ScanSource (SCSC), Wal-Mart, other OEMs, VARs and system integrators.

## "Appendix - Important Disclosures"



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October 27, 2004  
Fiscal year ends: December

Zebra Technologies  
Earnings Model

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(\$ thousands)	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04	4Q04E	2004E	1Q05E	2Q05E	3Q05E	4Q05E	2005E
<b>Net Sales</b>	\$ 124,685	\$ 129,863	\$ 134,649	\$ 147,200	\$ 536,397	\$ 154,174	\$ 162,830	\$ 171,176	\$ 174,496	\$ 662,676	\$ 180,972	\$ 194,591	\$ 201,987	\$ 214,071	\$ 791,621
Cost of sales	60,336	63,305	66,876	72,803	263,320	73,571	78,315	84,030	85,154	321,070	86,867	94,377	99,983	104,360	385,587
<b>Gross profit</b>	<b>64,349</b>	<b>66,558</b>	<b>67,773</b>	<b>74,397</b>	<b>273,077</b>	<b>80,603</b>	<b>84,515</b>	<b>87,146</b>	<b>89,342</b>	<b>341,606</b>	<b>94,106</b>	<b>100,214</b>	<b>102,003</b>	<b>109,712</b>	<b>406,035</b>
Selling	14,504	16,754	15,871	19,506	66,635	17,207	18,023	19,217	20,416	74,863	21,174	23,156	23,834	25,260	93,425
General & Administrative	10,251	10,248	9,937	11,456	41,892	12,746	12,527	11,865	12,564	49,702	13,935	14,594	14,644	15,413	58,586
Research & Development	7,579	7,560	7,898	8,722	31,759	8,896	9,233	9,596	10,470	38,195	10,858	11,675	12,119	12,844	47,497
Amortization	371	371	371	527	1,640	649	626	647	650	2,572	650	650	650	650	2,600
Total expenses	32,705	34,933	34,077	40,211	141,926	39,498	40,409	41,325	44,099	165,331	46,617	50,076	51,248	54,168	202,109
<b>Income from operations</b>	<b>31,644</b>	<b>31,625</b>	<b>33,696</b>	<b>34,186</b>	<b>131,151</b>	<b>41,105</b>	<b>44,106</b>	<b>45,821</b>	<b>45,242</b>	<b>176,274</b>	<b>47,489</b>	<b>50,138</b>	<b>50,756</b>	<b>55,544</b>	<b>203,926</b>
Interest / other income (expense)	2,264	2,624	1,278	2,791	8,957	2,098	1,939	2,864	2,750	9,651	3,000	3,000	3,500	3,500	13,000
Income before income taxes	33,908	34,249	34,974	36,977	140,108	43,203	46,045	48,685	47,992	185,925	50,489	53,138	54,256	59,044	216,926
Income tax expense	11,868	11,987	12,241	12,942	49,038	15,002	16,037	16,893	16,677	64,609	17,545	18,466	18,854	20,518	75,382
<b>Income before extraordinary items</b>	<b>22,040</b>	<b>22,262</b>	<b>22,733</b>	<b>24,035</b>	<b>91,070</b>	<b>28,201</b>	<b>30,008</b>	<b>31,792</b>	<b>31,315</b>	<b>121,316</b>	<b>32,944</b>	<b>34,673</b>	<b>35,402</b>	<b>38,526</b>	<b>141,544</b>
Nonrecurring gain (loss) - net of tax	-	-	266	360	626	(267)	(580)	(473)	-	(1,320)	-	-	-	-	-
<b>Net income</b>	<b>\$ 22,040</b>	<b>\$ 22,262</b>	<b>\$ 22,999</b>	<b>\$ 24,395</b>	<b>\$ 91,696</b>	<b>\$ 27,934</b>	<b>\$ 29,428</b>	<b>\$ 31,319</b>	<b>\$ 31,315</b>	<b>\$ 119,996</b>	<b>\$ 32,944</b>	<b>\$ 34,673</b>	<b>\$ 35,402</b>	<b>\$ 38,526</b>	<b>\$ 141,544</b>
Weighted average common shares outs.	70,862	71,343	71,785	71,993	71,496	72,269	72,554	72,673	72,855	72,587	73,037	73,219	73,402	73,586	73,311
<b>EPS before extraordinary items</b>	<b>\$ 0.31</b>	<b>\$ 0.31</b>	<b>\$ 0.32</b>	<b>\$ 0.33</b>	<b>\$ 1.27</b>	<b>\$ 0.39</b>	<b>\$ 0.41</b>	<b>\$ 0.44</b>	<b>\$ 0.43</b>	<b>\$ 1.67</b>	<b>\$ 0.45</b>	<b>\$ 0.47</b>	<b>\$ 0.48</b>	<b>\$ 0.52</b>	<b>\$ 1.93</b>
Extraordinary items	-	-	0.00	0.01	0.01	(0.00)	(0.01)	(0.01)	-	(0.02)	-	-	-	-	-
GAAP EPS	\$ 0.31	\$ 0.31	\$ 0.32	\$ 0.34	\$ 1.28	\$ 0.39	\$ 0.41	\$ 0.43	\$ 0.43	\$ 1.65	\$ 0.45	\$ 0.47	\$ 0.48	\$ 0.52	\$ 1.93
<b>% of Sales</b>															
Gross Margin	51.6%	51.3%	50.3%	50.5%	50.9%	52.3%	51.9%	50.9%	51.2%	51.5%	52.0%	51.5%	50.5%	51.3%	51.3%
Operating Margin	25.4%	24.4%	25.0%	23.2%	24.5%	26.7%	27.1%	26.8%	25.9%	26.6%	26.2%	25.8%	25.1%	25.9%	25.8%
Pretax Margin	27.2%	26.4%	26.0%	25.1%	26.1%	28.0%	28.3%	28.4%	27.5%	28.1%	27.9%	27.3%	26.9%	27.6%	27.4%
Net Margin (before extraordinary items)	17.7%	17.1%	16.9%	16.3%	17.0%	18.3%	18.4%	18.6%	17.9%	18.3%	18.2%	17.8%	17.5%	18.0%	17.9%
Sales & Marketing Expenses	11.6%	12.9%	11.8%	13.3%	12.4%	11.2%	11.1%	11.2%	11.7%	11.3%	11.7%	11.9%	11.8%	11.8%	11.8%
General & Administrative	8.2%	7.9%	7.4%	7.8%	7.8%	8.3%	7.7%	6.9%	7.2%	7.5%	7.7%	7.5%	7.3%	7.2%	7.4%
Research & Development Expenses	6.1%	5.8%	5.9%	5.9%	5.9%	5.8%	5.7%	5.9%	6.0%	5.8%	6.0%	6.0%	6.0%	6.0%	6.0%
Total Operating Expenses	26.2%	26.9%	25.3%	27.3%	26.5%	25.6%	24.8%	24.1%	25.3%	24.9%	25.8%	25.7%	25.4%	25.3%	25.5%
<b>% Change</b>															
Total Revenue	13.2%	12.0%	9.3%	16.5%	12.8%	23.7%	25.4%	27.1%	18.5%	23.5%	17.4%	19.5%	18.0%	22.7%	19.5%
Gross Margin	23.7%	19.4%	12.2%	18.9%	18.3%	25.3%	27.0%	28.6%	20.1%	25.1%	16.8%	18.6%	17.0%	22.8%	18.9%
Operating Income	38.1%	26.7%	16.7%	20.3%	24.7%	29.9%	39.5%	36.0%	32.3%	34.4%	15.5%	13.7%	10.8%	22.8%	15.7%
Pretax Income	37.0%	33.2%	14.4%	18.2%	24.8%	27.4%	34.4%	39.2%	29.8%	32.7%	16.9%	15.4%	11.4%	23.0%	16.7%
Net Income (excl. extraordinary items)	47.5%	35.2%	14.4%	18.2%	28.1%	28.0%	34.8%	39.9%	30.3%	30.9%	17.9%	15.5%	11.4%	23.0%	18.0%
Average shares	1.3%	1.5%	2.1%	1.9%	1.7%	2.0%	1.7%	1.2%	1.2%	1.5%	1.1%	0.9%	1.0%	1.0%	1.0%
EPS (excluding extraordinary items)	37.3%	33.2%	12.1%	16.0%	23.5%	25.5%	32.5%	38.1%	28.7%	31.2%	15.6%	14.5%	10.2%	21.8%	15.5%
Income Tax Rate	35.0%	35.0%	35.0%	35.0%	35.0%	34.7%	34.8%	34.7%	34.8%	34.8%	34.8%	34.8%	34.8%	34.8%	34.8%

One time items, all are net of tax

3Q03 - \$1.7M charge for a change in accounting with respect to Amortization of investment securities and a \$1.9M tax gain due to a favorable IRS ruling with respect to R&D.

4Q03 - \$0.8M for facility closure

1Q04 - \$0.07M for facility closure

Please refer to "Appendix - Important Disclosures" for important disclosures.





**Zebra Technologies**  
NASDAQ - ZBRA

Reik Read (414) 298-1030  
Amy Junker (414) 765-3790

Fiscal Year Ends: December

<b>Balance Sheet</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04E</b>
<b>Assets</b>								
Cash and Equivalents	156,714	249,349	348,577	449,964	487,583	498,944	523,040	555,371
Net Receivables	83,941	67,160	71,299	81,867	82,104	95,333	95,300	99,688
Inventories	56,852	39,923	38,066	42,781	48,009	47,613	54,313	56,010
Deferred Taxes/Other	6,179	7,906	6,638	8,922	9,031	9,755	10,402	10,000
<b>Total Current Assets</b>	<b>303,686</b>	<b>364,338</b>	<b>464,580</b>	<b>583,534</b>	<b>626,727</b>	<b>651,645</b>	<b>683,055</b>	<b>721,068</b>
Property Plant and Equipment	41,587	40,742	39,462	39,286	41,896	42,352	42,500	41,500
Intangibles/Other	73,623	74,476	69,046	78,791	84,080	83,616	94,208	90,000
<b>Total Assets</b>	<b>418,896</b>	<b>479,556</b>	<b>573,088</b>	<b>701,611</b>	<b>752,703</b>	<b>777,613</b>	<b>819,763</b>	<b>852,568</b>
<b>Liabilities and Equity</b>								
Payables	23,838	14,414	15,447	16,238	20,768	17,216	22,033	25,459
Accrued liabilities/Other	23,049	19,414	21,457	29,364	33,421	29,115	30,953	31,000
<b>Total Current Liabilities</b>	<b>46,887</b>	<b>33,828</b>	<b>36,904</b>	<b>45,602</b>	<b>54,189</b>	<b>46,331</b>	<b>52,986</b>	<b>56,459</b>
Deferred Taxes/Other	721	721	2,029	4,094	5,885	4,908	5,439	1,500
Shareholders Equity	371,288	445,007	534,155	651,915	692,629	726,374	761,338	794,609
<b>Total Liability and Equity</b>	<b>418,896</b>	<b>479,556</b>	<b>573,088</b>	<b>701,611</b>	<b>752,703</b>	<b>777,613</b>	<b>819,763</b>	<b>852,568</b>

<b>Balance Sheet Analysis</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04E</b>
Total Debt/Total Capital	0%	0%	0%	0%	0%	0%	0%	0%
LT Debt/Equity	0%	0%	0%	0%	0%	0%	0%	0%
Current Ratio	6.5	10.8	12.6	12.8	11.6	14.1	12.9	12.8
Quick Ratio	5.1	9.4	11.4	11.7	10.5	12.8	11.7	11.6
Days Sales Outstanding	56	61	53	52	52	53	51	50
Inventory Turns	5.0	5.0	6.3	6.5	6.3	6.7	6.6	6.5
Working Capital	256,799	330,510	427,676	537,932	572,538	605,314	630,069	664,609
Book Value/Share	5.30	6.40	7.60	9.12	9.58	10.01	10.48	10.91

<b>Cash Flow Statement</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>
Net Income	40,069	69,632	71,622	61,529	71,595	91,696	119,997
+Dep. and Amortization	10,248	9,900	14,383	15,691	12,259	11,580	12,030
+Deferred Taxes/Other	3,592	665	4,334	5,179	4,019	4,982	6,341
-Working Cap. Changes	<u>2,301</u>	<u>(5,043)</u>	<u>(18,634)</u>	<u>10,551</u>	<u>7,232</u>	<u>(3,739)</u>	<u>(33,108)</u>
Cash Flow from Operations	56,210	75,154	71,705	92,950	95,105	104,519	105,260
-Capital Expenditures	<u>(25,615)</u>	<u>(11,349)</u>	<u>(8,946)</u>	<u>(9,613)</u>	<u>(8,481)</u>	<u>(8,407)</u>	<u>(12,298)</u>
Free Cash Flow	30,595	63,805	62,759	83,337	86,624	96,112	92,962
Shares (millions)	31,176	31,852	31,155	69,482	70,295	71,496	72,587
Operating Cash Flow/ Share	1.80	2.36	2.30	1.34	1.35	1.46	1.45
Free Cash Flow /Share	0.98	2.00	2.01	1.20	1.23	1.34	1.28

<b>DuPont Formula</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>
Net Margins (N/S)	14.8%	18.4%	16.3%	13.9%	15.2%	17.0%	18.3%
Asset Turnover (S/A)	1.3	1.1	1.2	1.0	0.9	0.8	0.9
Leverage (A/E)	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Return on Equity	21.9%	23.7%	21.8%	15.4%	14.8%	15.4%	16.8%

<b>Valuation Measures</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>	
Stock Price (fiscal year)	High	\$ 44.60	\$ 64.50	\$ 70.90	\$ 56.44	\$ 27.85	\$ 31.84	\$ 41.78
	Low	\$ 25.00	\$ 22.90	\$ 37.10	\$ 34.19	\$ 20.63	\$ 25.48	\$ 33.43
12/31 Close	High	\$ 28.75	\$ 58.50	\$ 40.80	\$ 55.51	\$ 38.20	\$ 66.37	\$ 80.00
	Low	\$ 14.0	\$ 15.9	\$ 33.1	\$ 37.9	\$ 20.0	\$ 20.0	\$ 20.0
Historical P/E	High	25.9	41.4	63.2	62.5	27.0	25.0	25.0
	Low	14.0	15.9	33.1	37.9	20.0	20.0	20.0
Historical P/CF	High	24.7	27.3	30.8	42.2	20.6	21.8	28.8
	Low	13.9	9.7	16.1	25.6	15.2	17.4	23.1

<b>Debt Adj. Market Value</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>
Market Value	896,310	1,863,342	1,271,124	3,856,960	2,685,250	4,745,156	5,806,994
ST+LT Debt	0	0	0	0	0	0	0
Other Liabilities	2,335	2,242	721	721	2,029	4,094	1,500
<b>Cash &amp; Equivalents</b>	<b>162,668</b>	<b>235,568</b>	<b>156,714</b>	<b>249,349</b>	<b>348,577</b>	<b>449,964</b>	<b>555,371</b>
Total DAMV(Enterprise Value)	735,977	1,630,016	1,115,131	3,608,332	2,338,702	4,299,286	5,253,123
EBITDA	85,488	119,490	134,119	109,988	117,437	142,731	188,304
DAMV/EBITDA	8.6	13.6	8.3	32.8	19.9	30.1	27.9

## "Appendix - Important Disclosures"

### **ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST**

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