Baird U.S. EQUITY RESEARCH

Zebra Technologies (ZBRA)

Buy on Weakness

Price: (11/12/04)	**52.02**	**Rating:**	**Outperform**	**FY: Dec**	**2003A**	**2004E**	**2005E**
52WK H-L:	**62 - 39**			Q1	0.31A	0.39A	0.45E
Market Cap (mil):	**3,777**	**Suitability:**	**Higher Risk**	Q2	0.31A	0.41A	0.47E
Shares Out (mil):	71.6			Q3	0.32A	0.44A	0.48E
Float (mil):	68.1			Q4	0.33A	0.43E	0.52E
Avg. Daily Vol (mil):	NM			**Total**	**1.27A**	**1.67E**	**1.93E**
		Price Target:	**62**	FY P/E	41.0x	31.1x	27.0x
Dividend:	0.00						
Yield:	0.00						

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Please refer to "Appendix - Important Disclosures."

Action

A rumor that Zebra has lost its business with Wal-Mart appears to be pushing down the stock. We reiterate our Outperform rating and would be buyers on weakness.

Summary

- A rumor that Zebra has lost its business with Wal-Mart appears to be putting pressure on the stock price.
- Zebra has been supplying Wal-Mart with mobile printers for over 3 years (relationship came with Comtec acquisition).
- Wal-Mart is <10% of Zebra's revenue.
- We spoke to management, which categorically denied the rumor. According to management, the company is supplying its QL-Series mobile printer in an upgrade.
- 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

No further details.

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.

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.

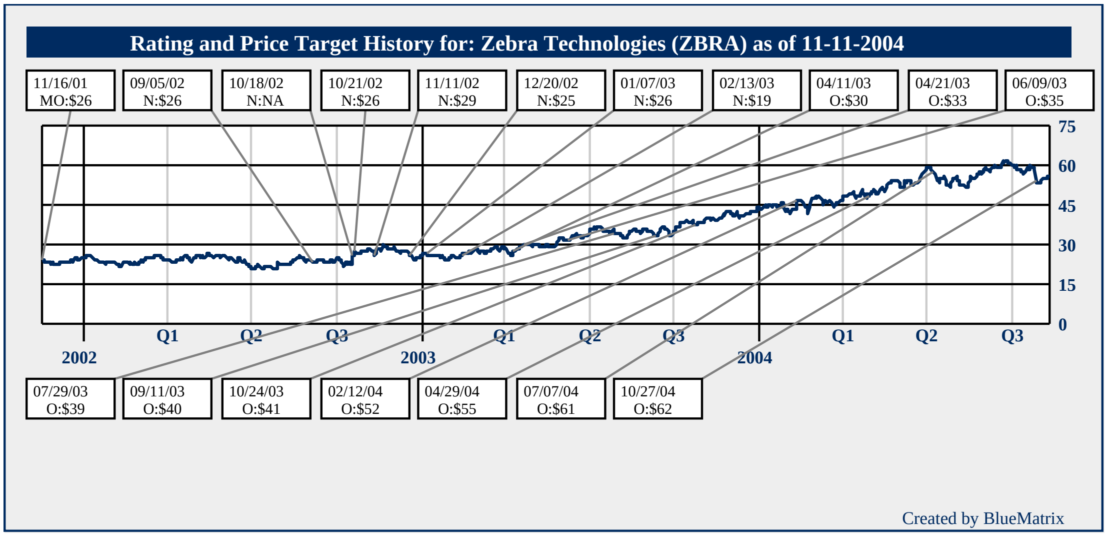
New Potential Competition - Zebra, with its PS series product, is entering the mobile data collection market. At the same time Symbol is increasing its presence with non-Zebra printer sales. These two players in the bar coding space represent the most significant players, and would make formidable competitors with each other. This could ultimately could 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.

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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