

Symbol Technologies, Inc.

(SBL:NYSE)

Underperform 4

Symbol Technologies, Inc. (www.symbol.com), headquartered in Holtsville, New York, is one of the world's leading manufacturers of mobile data transaction and wireless information systems, including wireless local area networks, wide area networks, handheld computers, and bar code scanners.

SBL Reports Strong 3Q Revenue Growth; EPS Picture Mixed

- ◆ Tuesday, Symbol reported strong 3Q04 top-line results, but an earnings picture that was clouded by a number of one-time events. The company endorsed pro forma EPS of \$0.14 (consensus estimate of \$0.11), but some of the favorable items included in operating results (litigation cost reversal, severance reversal) are questionable, in our opinion. Excluding these items, we calculate 3Q04 EPS of \$0.08.
- ◆ There was no disputing the company's top-line performance, as revenues increased 17.4% to \$442.7 million, slightly exceeding the consensus of \$441 million and representing the fifth consecutive quarter of sequential revenue growth. Product revenue increased 19.0% year-over-year to \$367.4 million based largely on strength of the MC9000 rugged mobile computer (10% of the company's total product sales). Service revenues increased 10.2% year-over-year but were down slightly from 2Q04.
- ◆ New products (introduced since 2003) are the key force driving the company's growth, accounting for fully 44% of total product sales in the quarter. In addition to the MC9000, Symbol's new wireless products also contributed to strong growth. Going forward, management anticipates its new enterprise digital assistant product family to being a strong contributor to growth.
- ◆ Symbol issued 4Q04 guidance that is basically in-line with preexisting consensus estimates. Management expects revenue in the range of \$445 million to \$450 million (consensus of \$448 million) and EPS of \$0.09 to \$0.10, including a \$0.05 negative impact from interest expense and expected dilution from an equity stock offering. We are reducing our 4Q04 EPS estimate from \$0.13 to \$0.09 to reflect acquisition and financing costs, and we are lowering our 2005 EPS estimate from \$0.62 to \$0.58 to reflect increased dilution from the Matrics acquisition and the above-mentioned equity offering.
- ◆ Despite strong results in recent quarters, we continue to believe that Symbol will lag the performance of its peer group given a number of long-term competitive issues, including shrinking IP licensing revenue, lack of a meaningful competitive advantage in imaging, and large exposure to the retail end market. With the stock already trading at a premium multiple (22x consensus 2005 EPS of \$0.67) and estimates likely to move lower, we expect the stock to **Underperform** the group over the next 12-18 months.

FY=	EPS Dec	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year
	2003A	\$0.08	\$0.04	\$0.05	\$0.07	\$0.24
Old	2004E	0.08A	0.12A	0.12	0.13	0.45
New	2004E	0.08A	0.12A	0.14A	0.09	0.43
Old	2005E	0.14	0.14	0.16	0.18	0.62
New	2005E	0.13	0.13	0.15	0.17	0.58

Rows may not add due to rounding. 2003 results have been restated.

Please read disclosure/risk information on page 3 and Analyst Certification on page 4.

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EQUITY RESEARCH

October 28, 2004
 Mobile Data Technology
 Company Comment

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Current Price
 (10/28/04/9:35 a.m.) \$14.75
Projected 12-Month Target Price:
 NM

52-Week Range \$19.37-\$11.30
Dividend/Yield \$0.02/0.1%
Book Value (09/04) \$4.23
Suitability Not Meaningful

Shares Out. (mil.) 244.2
Market Cap. (mil.) \$3602.0
Avg. Daily Vol. (10 day) 1,374,140

Proj. 3-Yr EPS Growth Rate 15%
ROE 9%
Long-Term Debt/Cap \$342/25%

P/E Ratios
 2004E 34.3x
 2005E 25.4x

Operating Margins
 2003A 6.4%
 2004E 8.6%
 2005E 12.0%

Revenues (mil.)

	Old	New
2003A	\$1,530	\$1,530
2004E	\$1,724	\$1,740
2005E	\$1,868	\$1,868

Symbol Technologies Quarterly Income Model

	2003				2004				2005				
	Q1:03/03	Q2:06/03	Q3:09/03	Q4:12/03	Q1:03/04	Q2:06/04	Q3:09/04	Q4:12/04	Q1:03/05	Q2:06/05	Q3:09/05	Q4:12/05	2005
(\$ in millions, ex EPS)													
Net Sales	\$386.3	\$373.8	\$377.1	\$393.0	\$419.7	\$432.8	\$442.7	\$445.3	\$462.0	\$464.4	\$463.9	\$477.8	\$1,868.14
Cost of Sales	214.5	221.4	210.2	208.9	224.7	236.1	236.9	239.6	256.9	258.7	257.0	263.7	1036.31
Gross Profit	171.9	152.4	166.9	184.1	194.9	196.7	205.8	205.7	205.1	205.7	206.9	214.0	831.8
Engineering	37.1	38.1	42.3	38.9	41.6	42.1	42.6	45.4	42.5	39.5	40.4	38.2	160.6
SG&A	99.0	108.4	98.0	115.7	123.9	119.1	115.7	123.8	112.7	116.1	109.0	109.9	447.7
Operating Income	34.9	4.2	18.0	22.4	29.5	35.6	47.5	36.5	49.9	50.2	57.5	65.9	223.5
Net Interest Exp.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(2.4)	(1.3)	(1.2)	(1.1)	(1.0)	(4.6)
Other	(4.0)	4.5	(2.7)	(1.4)	1.0	0.2	0.0	2.5	2.50	2.50	2.50	2.50	10.00
Pretax Income	30.9	8.8	15.3	21.0	30.5	35.7	47.5	36.6	51.1	51.4	58.9	67.5	228.9
Income Taxes	12.0	0.3	3.7	4.8	10.1	6.9	12.6	13.2	17.4	17.5	20.0	22.9	77.8
Net Income	18.9	8.5	11.5	16.2	20.3	28.8	34.9	23.4	33.7	33.9	38.9	44.5	151.1
Basic EPS	\$0.08	\$0.04	\$0.05	\$0.07	\$0.09	\$0.12	\$0.15	\$0.09	\$0.13	\$0.13	\$0.15	\$0.17	\$0.58
Diluted EPS	\$0.08	\$0.04	\$0.05	\$0.07	\$0.08	\$0.12	\$0.14	\$0.09	\$0.13	\$0.13	\$0.15	\$0.17	\$0.58
Wtd Ave Shares	230.5	230.8	230.8	230.7	231.7	235.5	240.2	246.43	260.4	260.5	260.5	260.55	260.5
Fully Diluted Shares	230.5	236.8	237.1	236.4	239.4	239.5	244.2	250.53	264.5	264.7	264.8	264.97	264.8
Margin Analysis													
Gross Margin	44.5%	40.8%	44.3%	46.8%	46.5%	45.4%	46.5%	46.2%	44.4%	44.3%	44.6%	44.8%	44.5%
Engineering	9.6%	10.2%	11.2%	9.9%	9.9%	9.7%	9.6%	10.2%	9.2%	8.5%	8.7%	8.0%	8.6%
SG&A	25.6%	29.0%	26.0%	29.4%	29.5%	27.5%	26.1%	27.8%	24.4%	25.0%	23.5%	23.0%	24.0%
Operating Expenses	35.2%	39.2%	37.2%	39.3%	39.4%	37.2%	35.8%	38.0%	33.6%	33.5%	32.2%	31.0%	32.6%
Operating Margin	9.0%	1.1%	4.8%	5.7%	7.0%	8.2%	10.7%	8.2%	10.8%	10.8%	12.4%	13.8%	12.0%
Pretax Income	8.0%	2.3%	4.0%	5.3%	7.3%	8.3%	10.7%	8.2%	11.1%	11.1%	12.7%	14.1%	12.3%
Tax Rate	38.8%	3.4%	24.5%	22.9%	33.3%	19.4%	26.5%	36.0%	34.0%	34.0%	34.0%	34.0%	34.0%
Net Profit Margin	4.9%	2.3%	3.1%	4.1%	4.8%	6.6%	7.9%	5.3%	7.3%	7.3%	8.4%	9.3%	8.1%
Year over Year Growth													
Net Sales	21.6%	13.6%	-1.3%	5.6%	8.6%	15.8%	17.4%	13.3%	10.1%	7.3%	4.8%	7.3%	7.3%
Operating Expenses	17.5%	31.7%	23.7%	4.4%	21.6%	10.0%	12.8%	9.5%	-6.2%	-3.5%	-5.6%	-12.5%	-7.0%
Operating Income	NM	NM	-61.8%	NM	-15.7%	736.9%	163.9%	63.4%	69.4%	41.1%	21.1%	80.6%	50.0%
Net Income	NM	NM	-71.5%	NM	7.6%	239.7%	203.0%	44.7%	66.0%	17.9%	11.4%	90.2%	40.7%
Earnings Per Share	NM	NM	-70.6%	NM	0.0%	200.0%	180.0%	28.6%	62.5%	8.3%	7.1%	88.9%	34.9%

Important Investor Disclosures

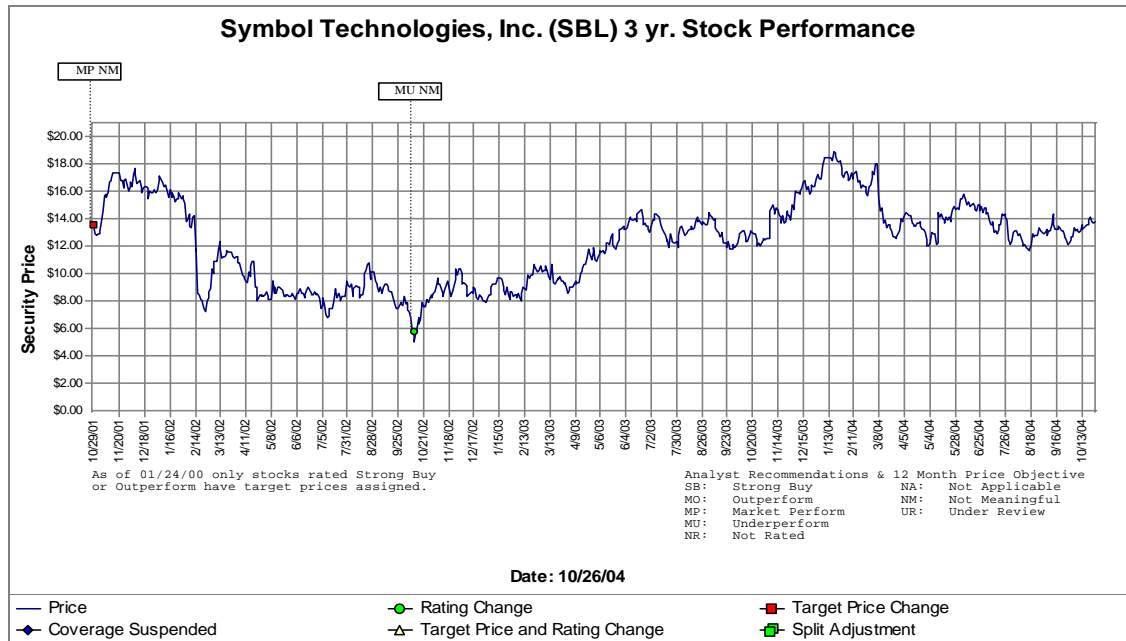
Stock Ratings: The common stock of Symbol Technologies, Inc. currently has an **Underperform** rating. Within our four-tiered rating system, Strong Buy (SB1) means that the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months; *for higher-yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.* Outperform (MO2) means the stock is expected to appreciate and outperform the S&P 500 over the next 12 months; *for higher-yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.* Market Perform (MP3) means the stock is expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities; and Underperform (MU4) means the stock is expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

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Target Prices: The information below indicates our target price and rating changes for SBL stock over the past three years.



Specific Investment Risks Related to the Industry or Issuer

Mobile Data equipment sales are generally tied to IT spending, and sales were hurt by cutbacks in corporate and government spending in 2000-2002. Sales have since improved, but growth will still be hampered if IT spending remains cautious. In addition, key customer types in the U.S. such as retail, logistics and manufacturing are maturing markets and, as a result, overall Mobile Data industry growth rates have slowed. In order to maintain double-digit growth, the industry will have to expand into newer, less developed market sectors and/or into foreign markets. Overseas growth, in particular, poses risks of foreign currency fluctuation, political instabilities and perhaps greater economic cyclicity.

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