

Zebra Technologies

(ZBRA:NASDAQ)

Market Perform 3

Zebra Technologies Corporation (www.zebra.com), headquartered in Vernon Hills, Illinois, manufactures and markets a variety of bar code label printers and specialty ID card printers as well as related software and printer supplies. Zebra has produced and sold more than two million printers, making it the largest bar code printer manufacturer in the world.

Zebra Reports Solid 3Q Results; Stock Drops on Guidance

- ◆ Zebra reported third quarter results that exceeded both the company's guidance and Street consensus estimates. Sales increased 27.1% to \$171.1 million, exceeding the high end of the company's previously forecast range of \$162 million-\$168 million and consensus of \$166.4 million. Meanwhile, earnings jumped 34% to \$0.43 per share, exceeding the consensus estimate of \$0.42.
- ◆ The North American market, Zebra's largest geography, continued its recent trend of strong results, with sales up 31% year-over-year to a record \$135 million. In addition, every international market experienced growth, growing in aggregate 22% year-over-year. Higher unit volumes were supplemented by higher ASPs in all markets.
- ◆ Gross margins increased 60 bp year-over-year to 50.9% due to improved capacity utilization, however, margins were down 100 bp quarter-over-quarter. Management attributed this to product mix rather than competitive or cost issues and indicated that margins should bounce back to around the 51% level in 4Q. Operating margins improved by 130 bp despite a 23% year-over-year increase in operating expenses.
- ◆ Management issued 4Q guidance that was softer than expected, breaking a string of quarters in which it both beat consensus and guided upward. The company guided to revenues of \$170 million to \$174 million, compared to a consensus estimate of \$175 million. Likewise EPS guidance of \$0.41 to \$0.44 suggests a slight downward bias to the Street estimate of \$0.43 per share.
- ◆ Despite the record results, the stock took a fairly healthy tumble in intraday trading and finished the day down 7%. Lower EPS guidance clearly played a role, but we believe investors also walked away from the conference call with a more cautious outlook toward the potential contribution from RFID technology. Given the stock's all-time high valuation multiple and the presence of volatile short-term investors in the stock, we remain generally wary of the name. Consequently, we are maintaining our **Market Perform** rating at this time.

EPS	Q1	Q2	Q3	Q4	Full	
FY=	Dec	Mar	Jun	Sep	Dec	Year
2003A	\$0.31	\$0.31	\$0.32	\$0.34	\$1.28	
Old 2004E	0.39A	0.41A	0.41	0.44	1.65	
New 2004E	0.39A	0.41A	0.43A	0.44	1.67	
Old 2005E	0.44	0.47	0.48	0.51	1.90	
New 2005E	0.44	0.47	0.48	0.51	1.90	

Excludes merger and other one-time costs. Rows may not add due to rounding.

EQUITY RESEARCH

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Mobile Data Technology
Company Comment

Chris Quilty
(727) 567-2602
Chris.Quilty@RaymondJames.com

Greg Lee
Sr. Res. Assoc.

Current Price
(10/28/04/9:38 a.m.) \$54.30
Projected 12-Month Target Price:
NM

52-Week Range \$62.40-\$37.33
Dividend/Yield \$0.00/0.0%
Book Value (09/04) \$10.60
Suitability Growth

Shares Out. (mil.) 71.8
Market Cap. (mil.) \$3898.7
Avg. Daily Vol. (10 day) 347,679

Proj. 3-Yr EPS Growth Rate 15%
ROE 16%
Long-Term Debt/Cap NM/NM

P/E Ratios
2004E 32.5x
2005E 28.6x

Operating Margins
2003A 24.1%
2004E 26.4%
2005E 26.4%

Revenues (mil.)

	Old	New
2003A	\$536	\$536
2004E	\$656	\$662
2005E	\$753	\$753

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

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The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716
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& ASSOCIATES, INC.
www.rj.com

Zebra Technologies Quarterly Income Model

	2003		2004		2005	
	Q1:03/03	Q2:06/03	Q3:09/03	Q4:12/03	Q1:03/05	Q2:06/05
Net Sales	\$124.69	\$129.86	\$134.65	\$147.20	\$154.17	\$162.83
Cost of Sales	60.34	63.31	66.88	72.80	73.57	78.32
Gross Profit	64.35	66.56	67.77	74.40	80.60	84.52
Sales & Marketing	14.50	16.75	15.87	19.51	17.21	18.02
R&D	7.58	7.56	7.90	8.72	8.90	9.23
G&A	10.25	10.25	9.94	13.39	13.15	13.42
Amortization	0.37	0.37	0.37	0.53	0.65	0.63
Operating Income	31.64	31.63	33.70	32.25	40.70	43.22
Investment Income	2.44	3.02	(0.98)	4.08	3.07	2.09
Net Interest (Exp.)	(0.04)	(0.01)	(0.06)	(0.04)	(0.03)	(0.01)
Other (Expenses)	(0.14)	(0.38)	(0.28)	(0.83)	(0.95)	(0.15)
Pretax Income	33.91	34.25	32.37	35.47	42.80	45.16
Income Taxes	11.87	11.99	9.37	11.07	14.86	15.73
Net Income	22.04	22.26	23.00	24.40	27.93	29.43
Basic EPS	\$0.31	\$0.32	\$0.32	\$0.34	\$0.39	\$0.41
Diluted EPS	\$0.31	\$0.31	\$0.32	\$0.34	\$0.39	\$0.41
Wtd Ave Shares	70.20	70.56	70.88	70.99	71.25	71.56
Fully Diluted Shares	70.86	71.34	71.79	71.99	72.27	72.55

	2004		2005	
	Q1:03/04	Q2:06/04	Q3:09/04	Q4:12/04
Net Sales	\$154.17	\$162.83	\$171.18	\$173.44
Cost of Sales	73.57	78.32	84.03	84.99
Gross Profit	80.60	84.52	87.15	88.45
Sales & Marketing	17.21	18.02	19.22	19.43
R&D	8.90	9.23	9.60	9.71
G&A	13.15	13.42	12.59	13.35
Amortization	0.65	0.63	0.65	0.37
Operating Income	40.70	43.22	45.10	45.59
Investment Income	3.07	2.09	2.52	3.85
Net Interest (Exp.)	(0.03)	(0.01)	(0.01)	(0.00)
Other (Expenses)	(0.95)	(0.15)	0.36	(0.20)
Pretax Income	42.80	45.16	47.96	49.24
Income Taxes	14.86	15.73	16.64	17.23
Net Income	27.93	29.43	31.32	32.01
Basic EPS	\$0.39	\$0.41	\$0.44	\$0.45
Diluted EPS	\$0.39	\$0.41	\$0.43	\$0.44
Wtd Ave Shares	71.25	71.56	71.70	71.88
Fully Diluted Shares	72.27	72.55	72.67	72.94

	2005		2006	
	Q1:03/05	Q2:06/05	Q3:09/05	Q4:12/05
Net Sales	\$179.15	\$185.14	\$189.32	\$199.11
Cost of Sales	87.43	90.16	92.77	97.96
Gross Profit	91.72	94.98	96.55	101.15
Sales & Marketing	20.42	20.18	21.01	21.50
R&D	10.21	10.55	10.60	10.95
G&A	14.51	14.81	14.39	14.93
Amortization	0.37	0.37	0.37	0.37
Operating Income	46.21	49.06	50.18	53.39
Investment Income	4.05	4.29	4.57	4.86
Net Interest (Exp.)	(0.00)	(0.00)	(0.00)	(0.00)
Other (Expenses)	(0.20)	(0.20)	(0.20)	(0.20)
Pretax Income	50.06	53.15	54.55	58.05
Income Taxes	17.52	18.60	19.09	20.32
Net Income	32.54	34.55	35.46	37.73
Basic EPS	\$0.45	\$0.48	\$0.49	\$0.52
Diluted EPS	\$0.44	\$0.47	\$0.48	\$0.51
Wtd Ave Shares	72.05	72.24	72.44	72.63
Fully Diluted Shares	73.18	73.47	73.77	74.05

Margin Analysis

Gross Margin	51.6%	51.3%	50.3%	50.5%	50.9%	50.9%
Sales & Mktg	11.6%	12.9%	11.8%	13.3%	12.4%	12.4%
R&D	6.1%	5.8%	5.9%	5.9%	5.9%	5.9%
G&A	8.2%	7.9%	7.4%	9.1%	8.2%	8.2%
Operating Margin	25.4%	24.4%	25.0%	21.9%	24.1%	24.1%
Pretax Income	27.2%	26.4%	24.0%	24.1%	25.4%	25.4%
Tax Rate	35.0%	35.0%	28.9%	31.2%	32.6%	32.6%
Net Profit Margin	17.7%	17.1%	17.1%	16.6%	17.1%	17.1%

Year over Year Growth

Net Sales	13.2%	12.0%	9.3%	16.5%	12.8%	12.8%
Sales & Mktg	21.4%	23.8%	10.7%	19.3%	18.6%	18.6%
R&D	1.7%	1.2%	3.8%	30.7%	8.7%	8.7%
G&A	9.9%	8.9%	7.9%	24.7%	13.3%	13.3%
Operating Expenses	12.5%	13.6%	8.2%	23.3%	14.6%	14.6%
Operating Income	38.1%	26.7%	16.7%	13.5%	22.9%	22.9%
Net Income	39.1%	35.2%	15.8%	20.0%	26.5%	26.5%
Earnings Per Share	34.8%	34.8%	14.3%	17.2%	24.3%	24.3%

Gross Margin	51.2%	51.3%	51.0%	50.8%	51.1%	51.1%
Sales & Mktg	11.4%	10.9%	11.1%	10.8%	11.0%	11.0%
R&D	5.7%	5.7%	5.6%	5.5%	5.6%	5.6%
G&A	8.1%	8.0%	7.6%	7.5%	7.8%	7.8%
Operating Margin	25.8%	26.5%	26.5%	26.8%	26.4%	26.4%
Pretax Income	27.9%	28.7%	28.8%	29.2%	28.7%	28.7%
Tax Rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net Profit Margin	18.2%	18.7%	18.7%	19.0%	18.6%	18.6%

Gross Margin	51.0%	50.9%	50.9%	51.0%	51.5%	51.5%
Sales & Mktg	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%
R&D	5.6%	5.6%	5.6%	5.6%	5.7%	5.7%
G&A	7.4%	7.4%	7.4%	7.7%	7.9%	7.9%
Operating Margin	26.3%	26.3%	26.3%	26.3%	26.4%	26.4%
Pretax Income	28.0%	28.0%	28.0%	28.4%	28.0%	28.0%
Tax Rate	34.7%	34.8%	34.7%	35.0%	34.8%	34.8%
Net Profit Margin	18.1%	18.1%	18.3%	18.5%	18.2%	18.2%

Gross Margin	52.3%	51.9%	50.9%	51.0%	51.5%	51.5%
Sales & Mktg	11.2%	11.1%	11.2%	11.2%	11.2%	11.2%
R&D	5.8%	5.7%	5.6%	5.6%	5.7%	5.7%
G&A	8.5%	8.2%	7.4%	7.7%	7.9%	7.9%
Operating Margin	26.4%	26.5%	26.3%	26.3%	26.4%	26.4%
Pretax Income	27.8%	27.7%	28.0%	28.4%	28.0%	28.0%
Tax Rate	34.7%	34.8%	34.7%	35.0%	34.8%	34.8%
Net Profit Margin	18.1%	18.1%	18.3%	18.5%	18.2%	18.2%

Gross Margin	51.2%	51.3%	51.0%	50.8%	51.1%	51.1%
Sales & Mktg	11.4%	10.9%	11.1%	10.8%	11.0%	11.0%
R&D	5.7%	5.7%	5.6%	5.5%	5.6%	5.6%
G&A	8.1%	8.0%	7.6%	7.5%	7.8%	7.8%
Operating Margin	25.8%	26.5%	26.5%	26.8%	26.4%	26.4%
Pretax Income	27.9%	28.7%	28.8%	29.2%	28.7%	28.7%
Tax Rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net Profit Margin	18.2%	18.7%	18.7%	19.0%	18.6%	18.6%

Important Investor Disclosures

Stock Ratings: The common stock of Zebra Technologies currently has a **Market Perform** 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.

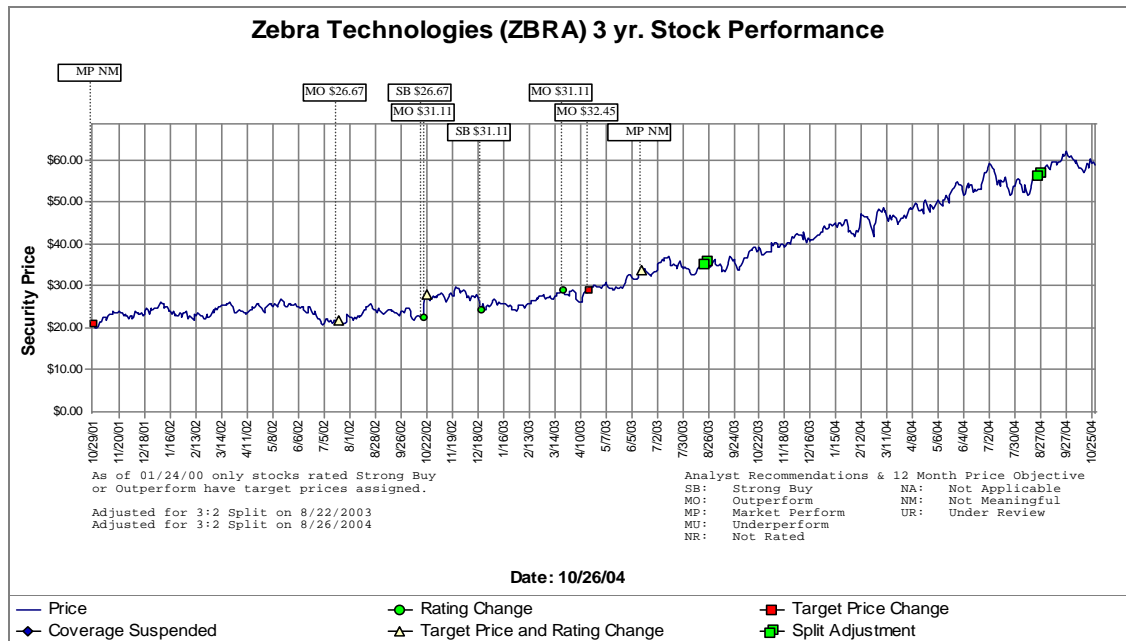
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Company Name	Disclosure
Zebra Technologies	Raymond James & Associates makes a NASDAQ market in shares of ZBRA.

Target Prices: The information below indicates our target price and rating changes for ZBRA 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.

Economic Volatility

A majority of Zebra's products are sold into economically sensitive industries such as the manufacturing, transportation, and retailing industries. A general slowdown in the economy or contraction in the manufacturing segment typically has a negative impact on the demand for Zebra's products.

Foreign Exchange Fluctuations

Zebra derives approximately 40% of its sales from international markets. Sharp moves in foreign exchange rates can impact the competitiveness and profitability of these sales, while leading to higher quarterly earnings volatility.

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