Insist on Cymer - HOLD

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STATISTICS & ESTIMATES
(All figures in millions except per share data)
Price: $36.16 (As of 19-Mar-04)

<table>
<thead>
<tr>
<th></th>
<th>2003A</th>
<th>2004E</th>
<th>2005E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS:</td>
<td>($0.45)</td>
<td>$1.27</td>
<td>$2.50</td>
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<tr>
<td>P/E:</td>
<td>NM</td>
<td>28.93x</td>
<td>14.7x</td>
</tr>
<tr>
<td>PEG:</td>
<td>-</td>
<td>0.3</td>
<td>0.15</td>
</tr>
<tr>
<td>EPS Change:</td>
<td>-</td>
<td>167.99%</td>
<td>96.85%</td>
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<tr>
<td>Price/Cash Flow:</td>
<td>$0.34</td>
<td>$1.27</td>
<td>$2.68</td>
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Source: Merrill Lynch & Reuters

FUNDAMENTAL HIGHLIGHTS
- Cyclic upturn in the industry
- Strong strategic position
- Next generation technologies fuel industry growth
- As factory utilization rises, new fabrication plants considered
- Hold majority of market share
- New models widen profit margins

VALUATION HIGHLIGHTS
- Low receivable & inventory turnovers
- Lower P/E estimate relative to competitors
- PEG estimates justify price

Cymer has chosen to pursue volume markets rather than niche markets, resulting in a product mix that serves the largest suppliers of semiconductor equipment. The strategy has served them well, gaining them a market share leading position and receiving a premium market valuation.

COMPANY DESCRIPTION
Cymer manufactures lasers for use in manufacturing semiconductors. These high precision lasers are the essential light sources of larger systems that offer chipmakers the ability to put more circuits on a chip and to produce more chips per semiconductor wafer. Precision manufacturing means that chips can consistently shrink in size and manufacturers are able to maximize the use of the wafers individual chips are cut from. Cymer’s revenues derive from the sale of these lasers to companies who use them in larger systems, like ASML, Nikon, and Canon.

KEY FACTS
World market share leader (87% of total market)
Increasing Japanese share (65% to 76%, Q3 - Q4)
Only one unprofitable year since IPO (2003)
Two facilities built during downturn
- San Diego (light source production)
- Korea (Asian part refurbishment)

Ticker Key:
COHR – Coherent Inc.
GSLI – GSI Lumonics, Inc.
JDSU – JDS Uniphase, Inc.
BRKS – Brooks Automation

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<thead>
<tr>
<th>Ratio</th>
<th>CYMI</th>
<th>COHR</th>
<th>GSLI</th>
<th>JDSU</th>
<th>BRKS</th>
<th>Comps Avg</th>
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<tbody>
<tr>
<td>Receivable Turnover</td>
<td>4.13</td>
<td>5.43</td>
<td>3.15</td>
<td>6.18</td>
<td>4.49</td>
<td>4.81</td>
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<td>Inventory Turnover</td>
<td>2.08</td>
<td>2.76</td>
<td>2.28</td>
<td>6.33</td>
<td>3.39</td>
<td>3.69</td>
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<td>Current Ratio</td>
<td>5.47</td>
<td>3.95</td>
<td>5.70</td>
<td>5.47</td>
<td>2.00</td>
<td>4.28</td>
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<tr>
<td>CFY P/E Est.</td>
<td>28.93</td>
<td>82.81</td>
<td>35.47</td>
<td>NM</td>
<td>37.63</td>
<td>51.97</td>
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<td>CFY PEG Est.</td>
<td>0.30</td>
<td>0.52</td>
<td>NM</td>
<td>0.70</td>
<td>0.20</td>
<td>0.47</td>
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**Cyclical upturn in the industry.** The coming 18 to 24 months look very promising for the semiconductor industry. The industry began to stabilize in 2002, as management continued to streamline companies in preparation for the next cyclical upturn. Companies that were able to upgrade their plants, maintain a strong commitment to research and development (R&D), and hang on through the downturn now appear to be entering a period of financial reward. The fresh rounds of demand from customers are the fuel that drives the industry.

**Well positioned strategically during downturn.** Cymer was able to maintain profits while increasing its capital spending by 26.5% over the past five years, versus an industry decrease of -3.55%. Cymer was able to build two new multimillion dollar facilities in San Diego and Korea. The San Diego facility gives Cymer the capacity to meet the demand of the upturn and the Korean facility allows large parts to be refurbished in Asia instead of being flown to California, cutting cost of goods sold. The cost of the San Diego facility was qualified in 2003.

**Next generation technologies fuel industry growth.** We believe that hotspots in consumer electronics will fuel the majority of the industry’s growth. As High-Definition televisions, digital cameras, flat-panel displays, 3G mobile telephones, and brawnier wireless technologies find their way into consumers’ homes, more semiconductors are needed, bumping up another important factor, factory utilization. On average, 3G phones require $50 - $60 of semiconductors whereas 2G phones required $40 worth of semiconductors.

**As factory utilization rises, new fabrication plants considered.** As global chip consumption rises, firms struggle to build new wafer fabrication (fab) plants to meet demand. A key factor in determining capital expenditures is factory utilization. As fab utilization rates rise toward 90%, lead times for fulfilling semiconductor orders begin to lengthen, while chip prices firm and plant managers begin to act on expansion plans. In turn, these new fabrication plants fuel growth in semiconductor equipment. So much so, that the Semiconductor Equipment and Materials International (SEMI) forecasts 38.6% growth in 2004 to $26.92B.

**Market-share leading position.** Cymer is the market leader in deep ultraviolet lithography (DUV) light sources, commanding an 87% share of the market. Q4 of 2003 saw Cymer’s market share in Japan increase from 65% to 76%. A true achievement, considering Cymer’s major competition, Gigaphoton, is based in the Asian nation.

**New models widen profit margins.** Late in 2003, Cymer introduced their first upgradeable platform to its product mix. The XL platform revolutionizes Cymer’s product mix, allowing the company to cut research and development costs and decrease time to market. This results in higher efficiencies and wider margins.

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**Rolling 4-Quarter Share of Light Sources Installed By Region as of 31-Dec-03**

![Chart showing the rolling 4-quarter share of light sources installed by region as of 31-Dec-03.](chart.png)

Source: JPMorgan Small Cap Conference Call