

## CAPITAL MARKETS MORNING MEETING – AUGUST 9, 2005

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**Initiations:** BFIN

**Rating Change:** N/A

**Price Target Change:** MTB (\$122 from \$121)

**2005 and 2006 EPS Change:** MTB (CY05: \$6.76 from \$6.70; CY06: \$7.40 from \$7.04)

### FINANCIAL INSTITUTIONS

#### Banks and Thrifts

- **BankFinancial Corporation (BFIN\*, \$14.38, Buy, Peterson)** – Initiating Coverage
- **M & T Bank Corporation (MTB, \$107.64, Buy, Monaco)** – 2Q05 10-Q Review – Increasing EPS Forecasts

### TECHNOLOGY

#### Semiconductors

- **Semi Cap Equip (Sector rating - Buy, Pramanick)** – Semi Datapoints: UMC Gets Its First 90nm Tapeout from Qualcomm; AMAT AKT Starting to Book Unannounced Products; Lam's Competitive Edge Diminishing in Dielectric Etch; Early View on '06 Polysilicon Contract Prices

#### Computer Hardware

- **Industry Update (Shaw)** – \$99 Laser Printer: Dell Likely To Gain Share But HP Offers Better Value

### Moors & Cabot Events Calendar

- August 10<sup>th</sup>-11<sup>th</sup>, Semiconductor and Semiconductor Equipment Conference: San Francisco
- August 12<sup>th</sup>, North Fork Bancorporation (NFB): Marketing; 9:30 AM, New York

**BankFinancial Corporation, (BFIN\*): A Good Franchise in an Attractive Market – (Ron Peterson, 312.263.8723)****Rating: BUY****Price: \$14.38****Price Target: \$16.00**

- We are initiating coverage with a BUY rating and a \$16 price target.
- The stock is currently trading at 116% of tangible book value, which is well below the 174% median price-to-tangible-book-value multiple of our recently-converted peer group.
- Given the company's below average profitability measures, we think a discount is warranted.
- However, based on our belief that BankFinancial is more bank-like than most of its peers and operates in what we think is an attractive banking market, we think the current discount is too steep.
- We believe management has adopted conservative acquisition and de novo branching strategies.
- We also think the potential for future share repurchase activity could lend support to the stock price.

**Valuation Basis:** Our \$16 twelve-month price target equates to 127% of tangible book value per share projected one year out, or about a 35% discount to the peer group's median price-to-tangible-book-value multiple. Our price target also represents a reasonable 13.2% core deposit premium on tangible equity, in our opinion, and equates to 32.7 times our 2006 estimate of \$0.49 per share.

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**M & T Bank Corporation (MTB): 2Q05 10-Q Review – Increasing EPS Forecasts – (Thomas J. Monaco, 646.346.1745)****Rating: BUY****Price: \$107.64****Price Target: \$122.00**

- After updating our M&T model with both the additional information provided in the 2Q05 10-Q, as well as our interest rate assumptions, we are modestly revising our 2005 and 2006 EPS forecasts upward by \$0.06 and \$0.36 per share, respectively, to \$6.76 and \$7.40 per share. Our 2006 forecast is now above consensus forecast of \$7.30.
- Our 2006 forecast increase reflects our belief that M&T a) likely will increase buyback activity during the month of September again as the remainder of the S&P 500 re-weight takes place (estimate increases from 1.5% to 2.0% during 3Q05); b) downward revision to our loan loss provision which added \$0.04 per share in 2006; and c) a more normalized expense run rate from 1% per quarter growth to 0.075%.

Items of note in the 2Q05 10-Q included:

- a) **Commitments to Extend Credit.** As one would expect given the growth in lending, the overall commitments to lend at M&T have increased. Some of the largest increases included: a) \$38.1 million (9.1%) in home equity; b) \$131.6 million (7.3%) in commercial real estate; and c) \$125.4 million (1.9%) in commercial loans.
  - b) **S&P 500 Re-Weight.** On or about September 15<sup>th</sup>, M&T is expected to go through another S&P 500 re-weight for the second and final time. The S&P 500 is reducing the Index on a pro-rata basis for large illiquid ownership positions of companies within the S&P 500. M&T has large illiquid positions from both allied Irish and Warren Buffet. According to M&T, the S&P 500 Indexers have about 10% ownership of the approximate 115 million of shares outstanding. Given the still large amount of M&T shares to come out of the S&P 500, we believe that M&T will again be more aggressive with its share buyback this quarter than the average of 1.4 million shares bought back in the previous six quarters; and
  - c) **Rate Sensitivity Reduced on Rate Up-ticks.** We estimate a 200 basis point increase in interest rates would cause net interest income to decline \$2.8 million (0.16%) or \$0.02 per share versus \$21.7 million (1.2%) or \$0.18 per share at 1Q05. Conversely, we estimate a 100 basis point decline in interest rates would cause net interest income to also decline \$4.3 million (0.24%) or \$0.04 per share versus an increase of \$6.8 million (0.4%) or \$0.06 per share at 1Q05.
- As a result, we are also increasing our price target from \$121 per share to \$122.

**Valuation Basis:** Our revised price target implies a forward 2.2x P/BV and 18.0x P/E to our 2005 EPS estimate of \$6.76, and suggests 13.3% upside in the name. We are also reiterating our Buy rating on the shares.

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**Semi Cap Equip: Semi Datapoints: UMC Gets Its First 90nm Tapeout from Qualcomm; AMAT AKT Starting to Book Unannounced Products; Lam's Competitive Edge Diminishing in Dielectric Etch; Early View on '06 Polysilicon Contract Prices – (Shekhar Pramanick, 415.288.2288)**

**Sector Rating: BUY**

- Our field checks are suggesting that QCOM (QCOM\*, Buy – Matt Hoffman, \$39.20) is taping out a 90nm CDMA1x product vehicle for UMC's (UMC, Not Rated, \$3.65) 300mm fab in Singapore. We believe that this is significant since QCOM has not used UMC since the 180nm node. However, this 90nm tape-out is still experimental in nature and is focused on learning UMC's yield capability. No decision has been made regarding using this product vehicle for production shipment. Currently, we believe that Qualcomm is transitioning its high volume CDMA1x product to 90nm/300mm from 130nm/200mm technology node at TSMC. We believe the wafer shipments from this transition are scheduled for shipment starting with Q405 and Qualcomm could achieve 30-40% lower cost per chip using 90nm/300mm vs. prior 130nm/200mm. Furthermore, QCOM remains on track for taping out of CDMA 1x EV-DO silicon at 65nm at TSMC. We believe that 65nm EV-DO silicon will be critical to achieve low cost structure necessary (lower cost phones) for aggressive deployment of EV-DO. Our field checks suggest that TSMC positioning remains strong at QCOM (60-70% of Qualcomm wafer revenues), despite engagements with IBM (IBM\*\*, Not Rated, \$83.36), Chartered (CHRT, Not Rated, \$7.65), Samsung & UMC.
- Our field checks are showing that AMAT's (AMAT\*, Buy – Shekhar Pramanick, \$17.63) AKT group (its wholly owned flat panel subsidiary) has started to accept purchase orders for its yet unannounced new flat panel display tools for PVD and Etch application. We believe that this is a sign that an official tool introduction could come in the near future. We currently believe that these new tools could be introduced during at pre-eminent flat panel conference; FPD International in Japan in October 2005. We should note that many of these beta tools have been on the field on multiple sites for more than last 6 months.
- Our field checks and discussions with leading semiconductor manufacturers suggest that AMAT's Enabler and Tokyo Electron's new SSCM tool have bridged the capability gap with Lam's (LRCX\*, Buy – Shekhar Pramanick, \$29.11) market leading dielectric tool Excelan. We believe test runs with all three tools are showing very similar results. We believe the competition in dielectric etch could heat up in next 6-9 months with possible negative margin implications for Lam as current LRCX margins in dielectric etch are currently about 1000 basis points ahead of competition.
- Our checks with various polysilicon suppliers suggest a tight polysilicon supply scenario has not changed in the last 2-3 months, and demand continues to outpace supply. Our discussions also suggest an early consensus view regarding the 2006 polysilicon contract prices seems to be emerging between \$55-\$60 per kilogram. We should note 2005 contract prices are about \$45 per kilogram. We should note that recent bare wafer price increases have been driven largely by increased demand for wafers, where as a second round of price increases could show up in 1H'06, aided in part by the likely higher 2006 contract prices for polysilicon.

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**Hardware Industry Update: \$99 Laser Printer: Dell Likely To Gain Share But HP Offers Better Value – (Cindy Shaw, CFA, 415.288.2232)**

**NET: Many view Dell's new \$99 laser printer as disruptive and a significant threat to HP. We think the \$99 laser printer demonstrates both Dell's marketing savvy and the advantages of its direct model. However, in our opinion it is not disruptive and will have little – if any – impact on HP's profits. After comparing it to HP's lowest priced laser printer, which is widely available for \$150, we concluded HP offers better value but Dell's lower price point is likely to drive market share gains, albeit largely not at HP's expense.**

- **We don't consider Dell's (DELL, Buy, \$39.72) \$99 laser printer disruptive.** Similar laser printers from Samsung, Brother, and Konica Minolta are widely available at retailers at sub-\$100 promotional prices, according to Lyra.
  - **Dell's \$99 laser printer will have little – if any – impact on HP's (HPQ\*\*, Buy, \$24.61) profits, in our opinion.** We think Dell's \$99 laser printer will drive market share gains in the sub-\$100 laser segment, which HP does not participate in (and which accounts for less than 10% of units sold in the monochrome laser market). We also expect some cannibalization of Dell's inkjet printers and what was its low-end laser printer. However, supplies drive profits in this business and supplies consumption by low-end monochrome products is typically well below average. We believe HP has a deep understanding of these economics and is acting accordingly. Furthermore, the technology HP announced last month makes its new inkjets much more competitive with laser printers in two key areas, speed and cost per page. This lowers the
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exposure of HP's inkjet business to competition from low end laser printers. By our estimates inkjets drive about 70% of HP's Imaging & Printing profits.

- **HP offers more value considering warranty length and the amount of toner included with the printer,** in our view. Upgrading Dell's \$99 laser printer to match the 1-year warranty included with HP's \$149.99 laser printer costs \$29. The cartridge included with Dell's \$99 printer yields only 1000 pages versus 2000 pages for the HP printer. Dell's standard 2000 page cartridge costs \$65.00, so this reduces the value of the Dell printer by \$32.50. Even at Dell's recent \$89 promotion, adjusted for these factors HP offers \$5.50 more in value.
- **Dell's \$99 laser printer demonstrates its marketing savvy, in our view.** We believe printer buyers, particularly buyers of entry-level printers, focus on absolute price (e.g., a laser printer for \$99) rather than differences in toner quantity and warranty. At \$99, we think Dell has crossed a psychologically important price barrier and reinforced its reputation (with customers and investors) as a vendor with low prices and good value. We also believe publicity about the printer is generating incremental inbound phone and website traffic.
- **It isn't clear to us that unbundling its 1-year warranty makes sense for HP, given its primarily indirect model.** By our estimates more than 90% of HP's printing and imaging hardware sales are indirect, making it tough to capture extended warranty sales. Thus, if HP unbundled its 1-year warranty we think it could lose significant high margin warranty revenue. Based on industry experience, we believe warranty upgrades and extensions are highly profitable. Thus, it is no surprise to us that Dell's website and sales reps strongly encourage purchasing extended warranties. This is an advantage of Dell's direct model.
- **We think HP will soon reduce its low-end laser hardware price point ~\$35 by shipping it with low-volume cartridges.** HP has already made a similar move with inkjet hardware. It has two side benefits: (1) halving the lag time from the printer sale to the first toner sale, and (2) discouraging purchases of low end printers to get an inexpensive printer upgrade when buying a new cartridge. We believe every prospective buyer notices price differences, whereas very few (if any) notice the amount of toner that comes with a printer.

#### Valuation Basis:

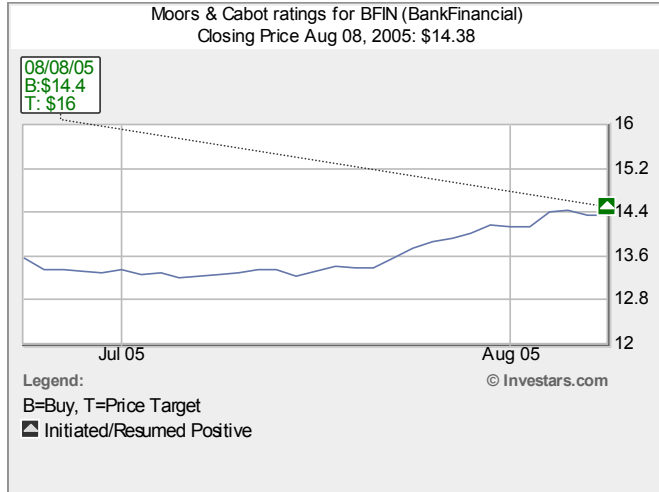
- DELL – Our 12 – 18 month target price of \$51 is based on a 24.8x P/E multiple on our out-year EPS estimate of \$2.06.
  - HPQ – The 12 to 18 month target price of \$29 is based on a 16.6x P/E multiple on our FY06 EPS estimate of \$1.73.
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\*Moors & Cabot, Inc. makes a market on the NASDAQ in the stocks of Applied Materials, BankFinancial Corporation, Lam Research, and Qualcomm.

\*\*Moors & Cabot, Inc. is a specialist on the Boston Stock Exchange in the stocks of Hewlett Packard, and International Business Machines Corp.

**HISTORICAL PRICE CHARTS**



Source: Investars.com

The basis for recommendations and price targets, investment risks, historical price charts and other important disclosures for each subject company that includes a recommendation can be found at [www.moorscabot.com/page.php/id/285](http://www.moorscabot.com/page.php/id/285) or through your Moors & Cabot sales representative.

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**BUY:** Moors & Cabot expects the stock to outperform the market over the next 12-18 months.

**HOLD:** Moors & Cabot expects the stock to perform in-line with the market over the next 12-18 months.

**SELL:** Moors & Cabot expects the stock to underperform the market over the next 12-18 months.

**NOT RATED:** Stock does not have an investment rating by Moors & Cabot.

**% of Companies under coverage with this rating:**

BUY: 52.7%

HOLD: 34.1%

SELL: 13.2%

**% of coverage companies for which Investment Banking services have been provided:**

BUY: 2.1%

HOLD: 0.0%

SELL: 0.0%

**% of coverage companies for which compensation received for products or services other than Investment Banking services:**

BUY: 4.2%

HOLD: 29.0%

SELL: 16.7%

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