

Robert W. Baird & Co.

UW E-Business Consortium State of RFID Industry

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Reik Read

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Please refer to "Appendix – Important Disclosures"

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Overview

- RFID is gaining momentum given increased number of mandates and expanding pilots.
- Significant changes are occurring given new standards, increased investment, incremental market entrants and new equipment development.
- The overall understanding of RFID remains limited, particularly given the rapidly changing environment.
- Significant interest – Baird held its third RFID Conference for investors in February. Strong attendance as investors seek an understanding of the RFID market outlook, industry developments and role of the key participants.

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RFID Momentum

- Catalysts
 - Supply chain
 - Mandates
 - Retailers: Wal-Mart, Target, Best Buy, Ace Hardware
 - DoD
 - Standardized technology
 - Non-supply chain – Safety and Security

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RFID Momentum

- Accelerating adoption – As potential benefits realized
 - Supply chain
 - Fewer stock-outs
 - Reduced labor
 - Improved inventory management
 - Non-Supply Chain
 - Anti-counterfeiting (pharma)
 - Food supply safety (USDA)
 - Secure trade (U.S. Customs)
 - Luggage verification (air transport)

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Risks To RFID Adoption/Investment

- Intellectual property disputes give consumer product companies a reason to limit compliance with WMT/DoD mandates
- High cost of transition/Undefined ROI's
- Delays in Gen 2 may reduce pilot activity - End users want standardized products in sufficient quantities to expand testing
- RFID is more complex than end users and even vendors appreciate – rollouts likely to take longer than anticipated

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Wal-Mart Update

- Class 0 or Class 1 tags at UHF (862MHz-928MHz) meet current guidelines
- Vendors should expect move to Generation 2
- Three distribution centers in Texas, supporting 150 stores and 25 Sam's Clubs are live receiving pallets and cases
 - Over 100 in compliance
- By October, expect 12 DCs serving 600 stores to be accepting RFID shipments
- By January 2006, the next 200 suppliers expected to be compliant

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DOD Update

- Generally aligned with Wal-Mart approach
- Full commitment from senior leadership
- Supplier contracts due for renewal or new contracts will have language inserted requiring compliance with RFID implementation plan for all 43,000+ suppliers
- DoD began accepting initial supplier shipments in January
 - Pallets and cases
 - Two supply depots
- Implementation plan for all supplies to all depots completed by 2007
- DoD is also a leading user of active RFID

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Wal-Mart/DoD Impact

- Required users to evaluate the technology
- Created incremental mandate requirements – Target, Albertsons, Best Buy
- Generated standards advancement (Gen 2 and ALE)
- Fostered new market entrants and increased technology development
- Promoted solution expansion



The Result

RFID into the mainstream – Momentum building

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EPC Global Update

- Generation 2 established in December of 2004; sent to ISO in February of 2005
- ALE established in January 2005
- Gen 2 interoperability testing and certification expected 3Q05
- Formation of increased Industry Action Groups –
 - Already formed - Fast moving consumer goods, footwear and apparel, healthcare and life sciences
 - Form 2Q – Transportation and logistics and food and beverage
 - Form 3Q – Aerospace and defense
 - Form 4Q – Industrial and automotive

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Limited Investment Options

- Most investment opportunities are with start-ups. Public investments are limited to small segments of existing public companies or microcap
- Market niches (Start-ups)
 - Innovative technology or process
 - RFID integration
 - Application expertise (healthcare, fleet management, security)
 - Passive Non-UHF and active
- Larger, more established market themes (Incumbents)
 - Business process reengineering (consultants)
 - Related infrastructure (networking, computing, storage, data warehousing)
 - Open system supply chain

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RFID Investments

- VeriSign acquired R4 in May 2005 - \$15M purchase price
- Savi received \$2M in equity funding from GlobeSecNine in May and \$50M in strategic funding from HPH in April
- TAGSYS received \$12.2M in venture funding in April – total venture funding of \$43M
- AWID receives \$10M in strategic funding in November 2004 from YFY Paper Manufacturing (Taiwan) and others.
- Symbol acquisition of Matrics closed September 2004 - \$230M purchase price
- Alien received total venture funding of \$143M
- Impinj obtained total venture funding of \$50M

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Emerging Technology - Who Wins?

	Incumbents	Start Ups
Advantages	<ul style="list-style-type: none"> • Brand equity • Established customer base • Deep talent pool • Lots of resources • Intellectual property 	<ul style="list-style-type: none"> • Not constrained, greater emphasis on innovation • Sole Focus • Risk takers • Employees on more of a personal mission
Disadvantages	<ul style="list-style-type: none"> • Competing internal agendas • Vision biased by history • Tolerance for risk somewhat limited • Demand for near-term performance (public company) 	<ul style="list-style-type: none"> • Unknown to marketplace • Lack resources (capital, IP, skills) • Recruitment

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RFID Emergence

- Both start-ups and incumbents have opportunity to participate
- Start-ups have had more advantage during the early stages
- The emergence of Gen 2 will generate rapid changes, and will further define the market
- Such definition will cause incumbents to seek to fill gaps – expect increased consolidation

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Baird's RFID Outlook

- First half of 2005 has been slow
 - Mandate challenges
 - Non-standard equipment
 - Threat of litigation
- Increased activity by mid-year
 - More product samples will be available
 - Gen 2 accelerating current development, new product production ramp expected 4Q05
 - Wal-Mart increases to 12 DCs by October

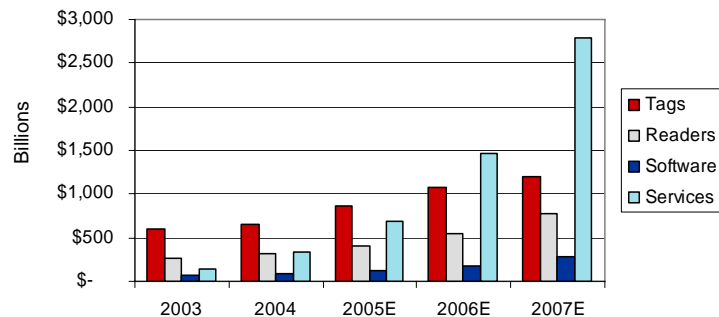
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Baird's RFID Outlook

- End 2005 with renewed momentum
 - Gen 2 more fully available
 - Increased piloting with expanded mandates
 - New pilots begin as "Tier 2" suppliers come under mandates
- Expect 2006 will bring increased equipment testing and expanded piloting as end users seek an ROI – this phase is expected to last at least one year.
- Rollouts could begin as early as mid-2007 into 2008

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Overall Market Size



Source: Venture Development, Industry Sources and Robert W. Baird & Co. estimates

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Thank you

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