

Global-Tech Advanced Innovations, Inc. GAI (NAS)

Last Close	Industry	Sector
6.01 USD	Home Furnishings & Consumer Cyclical Fixtures	

Profile

Pricing data through 10 May 2012

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Global-Tech Advanced Innovations Inc. was formerly known as Global-Tech Appliances Inc. The Company was organized as an international business company under the laws of the British Virgin Islands on May 2, 1991 and became a publicly traded entity on April 7, 1998. The Company was primarily an exporter of a wide range of small electrical appliances to North American and European markets. The Company operates in four business segments: (i) home appliances; (ii) electronic components; (iii) electronic manufacturing services ("EMS"); and (iv) others. At its inception, the focus of its home appliance business was personal beauty products, and over time, gravitated towards the manufacture of small kitchen electronics and floor care products, the latter category ultimately becoming the sole focus of its home appliance business. As a result, it now produce only vacuum cleaners since they require sophisticated and complex manufacturing equipment and processes and/or significant investment in motor manufacturing equipment and large scale plastic injection molding machines. Its business strategy for the future is to remain a reliable manufacturer for its major brand marketer in North America and Europe and it will concentrate only on those products that require complex manufacturing facilities and equipment. It primarily contract manufacture floor care products along with a few small electrical household appliance products, based on product specifications provided by customers. Its floor care products include hand-held steam vacuum cleaners, upright vacuum cleaners and extractors. It manufactured a broad line of kitchen appliances, including blenders, breadmakers, coffeemakers, electric knives, espresso machines, food choppers, food processors, food steamers, ice cream makers, and indoor grills. Its design and development efforts are limited to supporting its existing and potential new customers' programs. It currently holds approx. 31 patents, of which none were approved in fiscal 2010. Its patents are registered in various jurisdictions, including the United States, the United Kingdom, China and France. It holds the exclusive rights with respect to certain technology included in its products. It continues to acquire new technologies in an effort to expand its capabilities in manufacturing finished

products and components. It competes with established companies in Hong Kong and China, a number of which have substantially greater technical, financial and marketing resources. Competition for contract manufacturing products is based primarily on unit price, product quality and availability and service. Its operations and assets in China are subject to significant political, economic, legal and other uncertainties.

Global-Tech Advanced Innovations, Inc. GAI

Sales USD Mil 109 **Mkt Cap USD Mil** 19 **Industry** Home Furnishings & Fixtures **Sector** Consumer Cyclical

Global-Tech Appliances designs and manufactures household appliances. The company produces kitchen appliances, beauty aids, travel products, and garment-care products. Its products include breadmakers, coffeemakers, espresso machines, deep fryers, food processors, body massagers, hair dryers, voltage converters, hair-roller sets, and curling irons.

Kin Tech Industrial Building 12/F. Hong Kong. Phone: 852 28140601 Website: <http://www.global-webpage.com> Employees: 4216

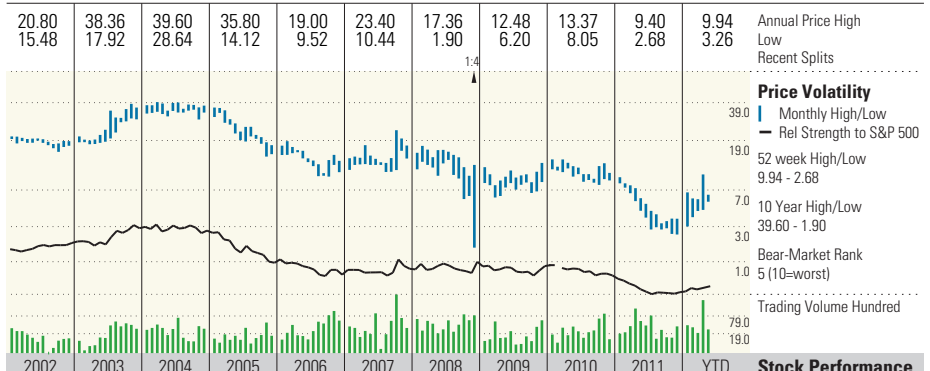
Growth Rates Compound Annual		1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	-1.0	-1.5	6.5	-0.7	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	—	—	
Dividends %	—	—	—	—	
Book Value/Share %	-1.6	-2.5	-1.8	-4.1	
Stock Total Return %	2.7	-10.9	-13.8	-10.7	
+/- Industry	-1.0	-33.4	-11.9	-13.1	
+/- Market	2.1	-24.3	-11.6	-13.3	

Profitability Analysis		Current	5 Yr Avg	Ind	Mkt
Return on Equity %	-5.5	-3.1	9.3	22.8	
Return on Assets %	-3.6	-2.2	3.9	9.3	
Fixed Asset Turns	4.4	3.9	6.1	7.4	
Inventory Turns	9.3	8.2	4.6	16.6	
Revenue/Employee USD K	25.9	28.6*	—	1050.7	
Gross Margin %	9.2	9.8	29.8	40.1	
Operating Margin %	-4.9	-4.4	5.9	18.9	
Net Margin %	-3.9	-2.7	3.5	11.4	
Free Cash Flow/Rev %	—	—	4.0	0.1	
R&D/Rev %	—	—	—	9.5	

Financial Position		03-08 USD Mil	09-11 USD Mil
Cash	19	40	
Inventories	11	14	
Receivables	36	28	
Current Assets	89	86	
Fixed Assets	25	24	
Intangibles	3	3	
Total Assets	120	117	
Payables	22	23	
Short-Term Debt	13	2	
Current Liabilities	44	40	
Long-Term Debt	—	—	
Total Liabilities	43	40	
Total Equity	77	77	

Valuation Analysis		Current	5 Yr Avg	Ind	Mkt
Price/Earnings	—	—	22.4	14.7	
Forward P/E	—	—	—	13.6	
Price/Cash Flow	—	—	12.0	7.0	
Price/Free Cash Flow	—	—	20.2	17.4	
Dividend Yield %	—	—	0.8	2.0	
Price/Book	0.3	0.4	2.2	1.9	
Price/Sales	0.2	0.3	0.8	1.2	
PEG Ratio	—	—	—	1.8	

Morningstar Rating — **Last Price** 6.01 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** — per share prices in USD



Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
Annual Price High	20.80	38.36	39.60	35.80	19.00	23.40	17.36	12.48	13.37	9.40	9.94	Annual Price High
Low	15.48	17.92	28.64	14.12	9.52	10.44	1.90	6.20	8.05	2.68	3.26	Low
Recent Splits												Recent Splits
Price Volatility												Price Volatility
Monthly High/Low												Monthly High/Low
Rel Strength to S&P 500												Rel Strength to S&P 500
52 week High/Low												52 week High/Low
10 Year High/Low												10 Year High/Low
Bear-Market Rank												Bear-Market Rank
Trading Volume Hundred												Trading Volume Hundred

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
Total Return %	-8.0	83.3	2.8	-57.9	-26.9	30.2	-21.4	6.7	-21.3	-61.0	63.2	Total Return %
+/- Market	15.4	56.9	-6.2	-60.9	-40.5	26.7	17.1	-16.7	-34.1	-61.0	55.5	+/- Market
+/- Industry	-3.1	49.8	-17.1	-51.5	-30.5	45.8	22.1	-40.5	-41.0	-62.1	47.9	+/- Industry
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
Market Cap USD Mil	58	106	109	46	34	44	36	39	31	12	19	Market Cap USD Mil
Revenue USD Mil	86	75	67	42	74	60	106	87	102	101	109	Revenue USD Mil
Gross Margin %	23.5	27.1	20.9	-6.6	5.4	5.9	10.0	6.7	16.7	9.8	9.2	Gross Margin %
Operating Margin %	-6.7	6.7	-4.0	-46.9	-15.8	-13.8	-0.1	-6.3	3.1	-4.8	-4.9	Operating Margin %
Net Income USD Mil	-3	5	-2	-19	-11	-1	-4	-6	3	-4	-4	Net Income USD Mil
Earnings Per Share USD	-1.00	1.72	-0.52	-6.08	-3.68	-0.40	-1.44	-1.91	1.14	-1.32	-1.41	Earnings Per Share USD
Dividends USD	—	—	—	—	—	—	—	—	—	—	—	Dividends USD
Shares Mil	3	3	3	3	3	3	3	3	3	3	3	Shares Mil
Book Value Per Share USD	36.89	36.50	32.45	26.23	26.73	25.98	24.25	22.99	24.56	23.98	23.98	Book Value Per Share USD
Oper Cash Flow USD Mil	4	10	4	-13	-1	2	-8	7	5	-10	-10	Oper Cash Flow USD Mil
Cap Spending USD Mil	-2	-3	-3	-4	-1	-1	-4	-3	-2	-5	-5	Cap Spending USD Mil
Free Cash Flow USD Mil	2	7	1	-16	-2	1	-12	5	3	-15	-15	Free Cash Flow USD Mil

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
Return on Assets %	-2.1	4.3	-1.3	-16.5	-11.1	-1.2	-4.2	-5.5	3.2	-3.5	-3.6	Return on Assets %
Return on Equity %	-2.5	4.8	-1.4	-18.6	-13.2	-1.5	-5.6	-7.7	4.6	-5.2	-5.5	Return on Equity %
Net Margin %	-3.1	7.0	-2.3	-44.5	-15.2	-1.9	-4.2	-6.7	3.4	-4.0	-3.9	Net Margin %
Asset Turnover	0.67	0.61	0.54	0.37	0.73	0.61	1.01	0.82	0.95	0.87	0.91	Asset Turnover
Financial Leverage	1.2	1.1	1.1	1.1	1.2	1.3	1.4	1.4	1.4	1.6	1.5	Financial Leverage
Working Capital USD Mil	65	72	74	58	53	51	44	46	52	45	47	Working Capital USD Mil
Long-Term Debt USD Mil	0	0	—	—	—	—	—	—	—	—	—	Long-Term Debt USD Mil
Total Equity USD Mil	107	111	110	90	79	79	78	74	78	77	77	Total Equity USD Mil
Debt/Equity	0.00	0.00	—	—	—	—	—	—	—	—	—	Debt/Equity

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
Price/Earnings	—	—	—	—	—	—	—	—	8.3	—	—	Price/Earnings
P/E vs. Market	—	—	—	—	—	—	—	—	—	—	—	P/E vs. Market
Price/Sales	0.7	1.6	2.5	0.7	0.6	0.5	0.3	0.4	0.3	0.1	0.2	Price/Sales
Price/Book	0.5	0.9	1.1	0.6	0.4	0.6	0.5	0.5	0.4	0.1	0.3	Price/Book
Price/Cash Flow	4.5	17.7	—	—	—	—	—	4.9	5.7	—	—	Price/Cash Flow

Quarterly Results		Dec 07	Mar 08	Sep 10	Sep 11
Revenue USD Mil	—	—	—	—	33.8
Most Recent Period	—	—	—	—	25.0
Prior Year Period	—	—	—	—	—
Rev Growth %	—	—	—	—	35.3
Most Recent Period	—	—	—	—	—
Prior Year Period	—	—	—	—	—
Earnings Per Share USD	—	—	—	—	0.39
Most Recent Period	—	—	—	—	-0.29
Prior Year Period	—	—	—	—	—

Industry Peers by Market Cap		Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Global-Tech Advanced	19	109	—	-5.5	
Rinnai Corporation	—	—	—	—	
Ushio Inc.	—	—	—	—	

Major Fund Holders		% of shares
		—
		—
		—

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Scotia Nasdaq Index	QQQQQ	0.00	0.00	0	28 Feb 2011

Concentrated Holders

Scotia Nasdaq Index	QQQQQ	0.00	0.00	0	28 Feb 2011
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Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

Top 5 Sellers

NA		NA	NA	NA	NA
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Industry Focus: Manufacturing - Apparel & Furniture

Consumer Investment Opportunities in Turbulent Markets

19 August 2011

R.J. Hottovy, CFA
Director

A flight to safety could present buying opportunities for several names.

For some time, we've held the position that the macroeconomic recovery following the Great Recession of 2008-10 would be relatively slow and often volatile. Sure, unemployment rates have gradually improved within the most educated segments of the population, and consumer traffic has remained surprisingly strong, but anemic real wage growth, a stagnant housing market, elevated food and fuel costs, the end of QE2 in June 2011, and increasingly troubling credit markets in Europe have had us concerned that the market overshot the true pace of economic recovery for several months now. The median price/fair value for our collective consumer cyclical and consumer defensive coverage universe had hovered between 1.05 and 1.10 for much of the year, leading up to the market sell-off the past few weeks. The fallout from SP's U.S. credit downgrade (to AA+ from AAA) and subsequent concerns over Europe's sovereign debt crisis drove the median price/fair value for our universe to around 0.90 as of Aug. 18 closing prices. Although our call for a drawn-out recovery among consumer companies spanning several years remains intact, we're bracing ourselves for what could be a bumpy remainder of the year. We acknowledge the headline risk associated with more cautious consumer spending and austerity measures could persist throughout the remainder of the year (and possibly into next year), but we believe the market sell-off has presented investors with an opportunistic entry point for several best-in-class names. Here we identify several wide- or narrow-moat names that should offer investors some stability in a volatile market. Generally speaking, we like companies possessing a combination of economies of scale, pricing power in categories where perceived differentiation matters, exposure to emerging markets (particularly China), resources to extend brand reach, and strong dividend growth potential. Below we summarize our top buying opportunities during turbulent markets. Although

we are not making any broad-based changes to our near-term financial model assumptions at this time, we will continue to monitor several variables that could impact consumer spending over the coming months. This includes any changes in consumer demand spurred by volatile markets (particularly among high-end consumers), the impact of potential austerity measures in U.S. and Europe, and changes in corporate dividend policies (if corporations increase dividends in coming months, it could provide consumers with additional discretionary spending power and negate some of the psychological impact of recent negative economic headlines). While we've generally factored in a modest deceleration in sales and earnings growth across much of our coverage universe against more difficult back-half comparisons and the flow-through of higher commodity costs, any material changes in consumer spending patterns would require a reassessment of our near-term valuation assumptions. Summary of Morningstar's Consumer Investment Ideas for Turbulent Markets Amazon.com AMZN Moat: Wide Uncertainty: High Market Price: \$182.52 Fair Value Estimate: \$235.00 Price/Fair Value: 0.78 Morningstar Rating: 4 stars Consumers tend to gravitate to the lowest-cost alternative during periods of economic uncertainty, and without the cost burden of physical retail stores, Amazon can price below traditional rivals and should continue to take share from traditional retailers in years to come. We don't foresee changes in Amazon's capital efficiency or cash-flow profile, suggesting that revenue growth will be the key valuation driver. Our model currently forecasts that new product categories and ancillary businesses will drive 30% average annual revenue growth the next five years, but even if consumer demand were to waver materially, we find it difficult to envision a situation where top-line growth will fall below 20% over that period. As infrastructure investments moderate in the coming quarters, margins should bottom and add earnings upside potential to an already compelling growth story. Anheuser-Busch InBev SA BUD Moat: Wide Uncertainty: High Market Price: \$54.69 Fair Value Estimate: \$62.00 Price/Fair Value: 0.88 Morningstar Rating: 3 stars ABInBev is a powerhouse in

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the global beer market and a force to be reckoned with. Its massive scale across both developed and emerging markets and management team that is laser-focused on cutting costs have enabled the firm to grow from a regional beer brand to the largest brewer in the world. Thanks to its size, ABInBev can outspend any beer company in the world, and any trading down from superpremium brands should help ABInBev outperform in periods of economic volatility.

Coca-Cola KO Moat: Wide Uncertainty: Low Market Price: \$67.76 Fair Value Estimate: \$68 Price/Fair Value: 0.99 Morningstar Rating: 3 stars In most markets across the world, Coca-Cola is consumers' preferred beverage brand. The scale, global distribution platform, and relationships with retailers built on the strength of the Coca-Cola brand have allowed Coke to broaden its product portfolio to every other soft drink category except tap water, and the firm possesses arguably the most pricing power out of all its peers in consumer products. Although growth is sluggish in mature markets, the firm's exposure to growing economies in Asia, Latin America, and Africa should allow it to generate steady earnings growth in the medium term. Colgate-Palmolive CL Moat: Wide Uncertainty: Low Market Price: \$85.04 Fair Value Estimate: \$92 Price/Fair Value: 0.92 Morningstar Rating: 3 stars Even when new products have fallen short, Colgate has demonstrated that its deep understanding of the oral care category, and its ability to derive profits, should not be underestimated. We expect pressure on margins, and price increases may not hold up as well as management expects, but Colgate can control costs better than others in the category and this will serve them well in increasingly heated market share battles.

Compagnie Financiere Richemont (CFR) Moat: Narrow Uncertainty: High Market Price: CHF 41.42 Fair Value Estimate: CHF 44 Price/Fair Value: 0.94 Morningstar Rating: 3 stars We view Richemont as one of the more conservative names in our luxury coverage universe given its cash, age of brands, and management, perhaps limiting the upside but also protecting the downside. Strong watch and jewelry sales are continuing around the globe, and although brands such as Cartier face tough comparisons, we should see strong sales this summer due to continued

rises in demand and pricing. Kellogg K Moat: Narrow Uncertainty: Medium Market Price: \$52.80 Fair Value Estimate: \$59 Price/Fair Value: 0.89 Morningstar Rating: 3 stars Kellogg is the leading domestic producer of cereal, with more than 33% due to its portfolio of leading brands. Around one third of the firm's sales and one fifth of profits result from its international sales and distribution network. Finally, the firm is committed to returning cash to shareholders, paying a quarterly dividend since 1925 (raising it in 46 of the past 50 years), and we believe its cash generation will continue to support these payments. Las Vegas Sands LVS Moat: Narrow Uncertainty: High Market Price: \$42.07 Fair Value Estimate: \$74.00 Price/Fair Value: 0.57 Morningstar Rating: 5 stars The market is underestimating the growth potential for the company's operations in Singapore, similar to when the market significantly underestimated the size of the Macau casino market when it was still nascent. In addition, a corruption probe in Macau has created an unnecessary overhang on the stock. Our research indicates that similar probes have resulted in fines less than \$10 million, and even if there is a larger fine, the company has nearly \$4 billion in cash and can adequately reserve for a higher fine. McDonald's MCD Moat: Wide Uncertainty: Low Market Price: \$85.61 Fair Value Estimate: \$92.00 Price/Fair Value: 0.93 Morningstar Rating: 3 stars We view McDonald's as suitable for investors looking for exposure to the restaurant category but also wanting stability in what could be a volatile second half of 2011 amid commodity cost pressures and menu price increases. With a strong brand name and economies of scale, McDonald's should thrive in virtually any economy, and we see minimal impact from potential austerity measures in the U.S. or Europe. Commodity costs will remain a headwind for the next several quarters but should ease into 2012 and set the scene for earnings upside. A 3% dividend yield and ongoing share-repurchase activity adds to an already attractive shareholder return profile. Nestle NSRGY Moat: Narrow Uncertainty: Low Market Price: CHF 49.35 Fair Value Estimate: CHF 54.00 Price/Fair Value: 0.86 Morningstar Rating: 4 stars We regard Nestle as an ETF of the consumer staples space. Its global reach

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and extensive product portfolio that spans packaged food, beverages, nutritional products, pet food, and confectionery give it stability unmatched by most of its peers. Having sold its stake in Alcon to Novartis NVS last year, Nestle's financial risk is also limited, leaving it free to repurchase shares and increase its dividend. Nestle is currently slightly undervalued, and we regard this as an ideal opportunity for investors looking to rotate assets into the sector to pick up broad consumer staples exposure at an attractive price.

Procter Gamble PG Moat: Wide Uncertainty: Low Market Price: \$60.86 Fair Value Estimate: \$77.00 Price/Fair Value: 0.79 Morningstar Rating: 5 stars PG has stepped up promotional and ad spending in an effort to reclaim lost market share. While the shares have languished, and shopper frugality persists, there are reasons to be optimistic over the longer term. The firm's brands still have expansion opportunities in developing markets, PG has a healthy lineup of new products backed by significant support, and from an operational standpoint there is still fat to trim in the firm's overhead. With an average 7.0% cash return we expect that patient shareholders will be rewarded.

Time Warner TWX Moat: Narrow Uncertainty: Medium Market Price: \$28.58 Fair Value Estimate: \$41.00 Price/Fair Value: 0.69 Morningstar Rating: 4 star Time Warner is attractively priced at 11 times our 2012 earnings per share estimate. Its competitive advantage is as strong as ever as it owns valuable TV and movie content as well as cable networks like TNT, TBS, and HBO. Despite emerging changes in distribution, we believe owners of sought-after content like Time Warner hold the upper hand as they have the ability to consistently reprice content.

VF Corporation VFC Moat: Narrow Uncertainty: Medium Market Price: \$106.03 Fair Value Estimate: \$142.00 Price/Fair Value: 0.75 Morningstar Rating: 4 stars VFC has established a successful multichannel distribution strategy and leading brand portfolio. We have increased confidence in our pro forma sales and earnings per share estimates, supported by several factors: (1) international and direct-to-consumer sales momentum is building, and it's still very early in the game; (2) while recent pricing action isn't enough to fully offset cost increases, the company has seen limited

pushback from consumers, suggesting brand strength; (3) cotton pricing today is down nearly 50% from its peak earlier this year, which should allow gross margins to tick up next year; and (4) EPS accretion from Timberland (expected to be \$0.90 per share in 2012) could be conservative as additional revenue (namely Asia) and cost synergies are identified and realized. All in all, we think these factors could combine to drive pro forma revenue of nearly \$11 billion and diluted EPS around \$9.00. Shares currently trade at a 25% discount to our fair value estimate, and solid free cash flow generation, potential upside from aforementioned items, and a steady dividend (yielding 2%) provide a measure of support. We still have a positive bias toward VF shares, trading around 14 times our pro forma 2011 EPS estimate, and we think the company is well-positioned for long-term gains.

Morningstar's Outlook For Consumer Stocks Our bottoms-up projection for 2011 sales growth remains in the mid-single-digit range for our collective consumer cyclical and consumer defensive coverage universes. We see the combination of modest inflation, relatively tight inventories, and selective pricing action as positives, but weaker volumes, due to the lackluster economic recovery, as a key downside risk. We're also concerned about consumer reaction to pending price increases resulting from inflationary cost pressures earlier in the year. From a macro perspective, the unemployment snapshot remains mixed, as payroll employment rose by 117,000 in July yet the unemployment rate changed little (9.1%) and the employment-population ratio (number of employed Americans age 16 and over as a percentage of total U.S. population) has remained just over 58% for much of the year. It's almost like we're running just to stay in place (and the consumer is getting a little winded). Although we are not making any broad-based changes to our near-term financial model assumptions, we will continue to monitor several variables that could impact consumer spending over the coming months. Here are a few of the items we're monitoring: How will the "Tale of Two Recoveries" continue to play out? For better or worse, high-end consumers have really been the driving force behind the macroeconomic recovery up to this point, and we now find ourselves in a

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Industry Focus: Manufacturing - Apparel & Furniture

situation where the economy has become increasingly dependent on a fairly narrow group of consumers. Notably, these are individuals that don't have to spend if they don't want to, and if the mood of the big spenders were to become more cautious, the tone of the economic sentiment could change in hurry. With such a precipitous drop in the market the past two weeks, we've become increasingly concerned about the spending habits of high-end consumers who have become relatively dependent on continued gains in the stock market. We've already forecast a back-half revenue growth deceleration for many of our high-end names against difficult comparisons, but we believe market turbulence has the potential to curb near-term spending even more than we've currently forecast. A material slowdown among affluent consumers would not only have an adverse impact on the more discretionary names in our coverage universe (including luxury retailers, which are currently trading at a price/fair value of 0.93), but also would likely have implications across much of our coverage universe. "Main Street versus Wall Street." Recent commentary from several companies seems to confirm the bifurcation of the economic recovery up to this point and supports our view of increased volatility in the months to come: Per Weight Watchers WTW CEO David Kirchhoff: "I would point out there from a consumer perspective this notion that we were somehow on recovery might have resonated with folks on Wall Street, but I'm not convinced it was ever particularly a germane point with people on the Main Street in that unemployment has remained high, consumer sentiment has remained low, consumer confidence has remained low." The recovery in domestic outdoor ad spending has occurred on Madison Avenue more than on Main Street, as evidenced by Clear Channel Outdoor CCO posting higher organic sales growth in its large city markets than Lamar Advertising LAMR in its midsize markets. Large national corporate advertisers comprise a large percentage of outdoor ads in large cities, while Lamar's billboards are in midsize markets that have a higher percentage of local businesses. Lamar COO Sean Reilly stated, "At the end of the day there has been a divergence this recovery between Main Street and Madison Avenue. That's just the way this

recovery has played out. And our fortunes are tied to Main Street, USA. And so that's the recovery we're looking forward to." Can corporations provide a catalyst for consumers? Most consumer companies have accumulated sizable cash stockpiles over the past two years, fueled by aggressive cost-cutting efforts and conservative capital budgets. On average, we forecast that cash and equivalents will represent almost 20% of total assets for our consumer coverage universe at the end of 2011, an all-time high. While we're always in favor of companies deploying excess capital on high-return investments, we also believe that expanded dividend programs (or even special dividends) would have an incrementally positive impact on the overall state of the consumer. More aggressive dividend programs would not only be an indication that companies are relatively comfortable with current macro and industry operating environments, but they could potentially offset some of the negative headlines associated with the recent market volatility and give consumers additional ammunition to keep spending. Will the expiration of unemployment benefits hamper an already struggling low-end consumer? More than 3.5 million Americans receiving extended unemployment benefits will see eligibility roll off during the coming months, potentially putting a dent into an already cash-strapped consumer at the low end of the spectrum. With the U.S. government already running at deficit of \$1.4 trillion, we're skeptical that benefits eligibility will be extended past the current 99-week period. Additionally, we've seen a number of states recently curb the maximum number of weeks that jobless workers can receive unemployment insurance to less than 26 weeks. Will the government's spending cuts slow the economy further? We welcome Congress' deal on the debt ceiling, and we regard the measures to reduce the U.S. budget deficit as necessary to preserve the nation's relative economic stability. However, the timing could not be worse. As the economy struggles to rebound from the great recession, public sector spending cuts present a major risk to economic growth. Government spending is a major component of the aggregate demand curve, representing 40% of GDP in 2010 according to the Bureau of Economic Analysis, and has doubled from its proportion of GDP since

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the late 1940s. Government spending provided a great deal of support to the economy throughout the downturn via increased entitlement spending, and while few names in our coverage universe are directly exposed to government spending, a reversal of that support could have a major impact on the low-income consumer over the next few quarters.