

Deer Consumer Products, Inc.

First Look at Strong Third-Quarter Results and Outlook

- Deer reported third-quarter EPS of \$0.28, compared with our estimate of \$0.20, consensus of \$0.21, and \$0.18 a year ago. Upside relative to our estimate was primarily due to better-than-expected sales (\$0.06) and lower selling expenses (\$0.02).
- Revenue increased by 108%, to \$55.3 million, compared with our estimate of \$42.3 million; domestic revenue increased by 708%, to \$23.3 million (versus our estimate of \$17.0 million); international sales grew by 35%, to \$31.9 million (compared with our estimate of \$25.3 million).
- Management raised 2010 guidance, calling for full-year revenue of \$172 million (prior view was \$160 million), net income of \$29 million (prior view was \$26 million), and EPS of \$0.87 to \$0.88, up 63% to 65% year-over-year.
- Deer also provided an initial outlook for 2011, calling for revenue and net income growth of 30% or more, reflecting continued sales growth in China as the company leverages expanded distribution for a full year, as well as solid global market conditions for its products as economic conditions improve around the world. This growth outlook would imply 2011 EPS of about \$1.13, compared with our current estimate of \$0.92 and consensus of \$0.97.
- We will supply additional analysis and model revisions following the company's earnings conference call, scheduled for today at 8:30 a.m. Eastern time.

Third-Quarter Detail

Revenue increased by 108%, to \$55.3 million, compared with our estimate of \$42.3 million and consensus of \$45.7 million; the increase in sales was attributable to solid growth in both the domestic (China) market and the international (export) business.

- Domestic revenue increased by 708%, to \$23.3 million, compared with our estimate of \$17.0 million, driven in part by distribution gains with major retailers in China as well as increased sales to other channels and regional retailers and department stores.
- International revenue grew by 35%, to \$31.9 million, compared with our estimate of \$25.3 million, aided by strong gains in Asia, South America, Africa, Europe, and the Middle East, partly offset by lower sales to the United States.

Operating income increased by 159%, to \$11.6 million, compared with our forecast of \$7.9 million; as a percentage of sales, operating income increased by 410 basis points, to 21.0%, compared with our estimate of 18.6%, reflecting a mix shift toward domestic revenue and fixed cost leverage on higher sales.

Consumer | Consumer Products

November 10, 2010

Stock Rating: **Outperform**
Company Profile: **Aggressive Growth**

Symbol: DEER (NASDAQ)
Price: \$12.55 (52-Wk.: \$7-\$19)
Market Value (mil.): \$398
Fiscal Year End: December
Long-Term EPS Growth Rate: 30%
Dividend/Yield: None

	2009A	2010E	2011E
Estimates*			
EPS FY	\$0.53	\$0.75	\$0.92
CY		\$0.75	\$0.92
Sales (mil.)	81	155	193
Valuation			
FY P/E	23.7x	16.7x	13.6x
CY P/E		16.7x	13.6x

* Estimates do not reflect the adoption of FAS 123R.

Trading Data (Thomson Financial)

Shares Outstanding (mil.)	34
Float (mil.)	NA
Average Daily Volume	376,753

Financial Data (Thomson Financial)

Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	-46.6
EBITDA (TTM)	164.3
Enterprise Value/EBITDA (TTM)	-0.3x
Return on Equity (TTM)	16.9

Two-Year Price Performance Chart



Source: Thomson Financial, William Blair & Company estimates

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- Gross margin increased by 660 basis points year-over-year, to 28.7%, in line with our estimate of 28.7%, which we attribute to increased sales of higher-margin domestic products and manufacturing efficiencies.
- As a percentage of sales, selling expense increased by 140 basis points, to 5.0%, compared with our estimate of 7.3%.
- The general-and-administrative-expense ratio increased by 110 basis points, to 2.7%, in line with our estimate of 2.8%.

The company reported \$54 million of cash, or about \$1.60 per share, at the end of the quarter.

William Blair & Company[®]

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Deer Consumer Products, Inc.

November 10, 2010: \$12.55 (\$7-\$19)

Fiscal 2010 Third-Quarter Earnings Review

(\$ in millions, except per share)

Rating: Outperform

Company Profile: Aggressive Growth

	F3Q 2009 Actual	F3Q 2010 Actual	% Chng	William Blair Estimates	
				F3Q 2010	Variance
Sales					
International	\$23.7	\$31.9	34.9%	\$25.3	25.9%
Domestic	\$2.9	\$23.3	708.3%	\$17.0	37.7%
Total sales	\$26.5	\$55.3	108.2%	\$42.3	30.5%
Gross profit	\$5.9	\$15.8	169.9%	\$12.1	30.4%
Gross profit margin	22.1%	28.7%		28.7%	(3) bps
Selling	\$1.0	\$2.8	187.1%	\$3.1	(10.8)%
% of sales	3.6%	5.0%		7.3%	(231) bps
General and administrative	\$0.4	\$1.5	244.7%	\$1.2	24.9%
% of sales	1.6%	2.7%		2.8%	(12) bps
Operating income	\$4.5	\$11.6	159.1%	\$7.9	47.4%
Operating margin	16.9%	21.0%		18.6%	241 bps
Interest expense, net	(\$0.0)	(\$0.2)	NM	(\$0.2)	NM
Other expense (income)	(\$0.3)	\$0.7	NM	\$0.0	2897.6%
Pretax income	\$4.8	\$11.0	129.8%	\$8.1	36.5%
Pretax margin	18.1%	19.9%		19.1%	87 bps
Income taxes	\$0.7	\$1.7	161.1%	\$1.2	44.3%
Tax rate	14.0%	15.9%		15.0%	86 bps
Net income	\$4.1	\$9.3	124.7%	\$6.9	35.1%
Net margin	15.5%	16.8%		16.2%	57 bps
Diluted EPS	\$0.18	\$0.28	55.7%	\$0.20	35.6%
Diluted Shares	23.3	33.6	44.4%	33.7	(0.3)%

Conference Call: November 10, 2010; 8:30 a.m. ET; Dial-in: 866-800-8648; Passcode: 77429173

Consensus EPS Estimate: \$0.21 (Range of \$0.20 to \$0.23)

Estimates reflect the adoption of FAS 123(R)

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Additional information is available upon request.



Current Rating Distribution (as of 10/31/10)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	64	Outperform (Buy)	7
Market Perform (Hold)	35	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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