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## Harman Sings R&D Tune for Growth

By JEFF BENNETT

(See *Correction & Amplification* [below](#).)

Dinesh Paliwal may not be a singer, but that didn't stop the chief executive of Harman International Industries Inc. from picking up a technical Grammy award honoring the work AKG Acoustics GMBH, a Harman division, has done in the recording field.

While pocketing Grammys is cool in Hollywood, it is Harman International's growing customer base and global presence that has Wall Street singing.

Mr. Paliwal, who took over as CEO in 2007, has moved quickly to trim excess spending at the Stamford, Conn. designer and manufacturer of audio products while funneling those dollars into more research and development and expansion into China and India. This despite the company reporting a fiscal year 2009 loss of \$422.5 million ended June 30.

### *'Lot of Wasted Money'*

"The culture was just to acquire a company and continue letting it operate," Mr. Paliwal said. "As a result we were doing multiple research and development, and there was no discussion within the company. At one point we had 10 different sites doing research and development with one spending \$2 billion here and another spending \$2 billion there. That is a lot of wasted money."

Harman, a maker of loudspeakers, compact disc players, DVD players and CD recorders, sells products in the consumer and automotive arenas. Its consumer products are sold under such names as Harman/Kardon, Infinity, Becker and JBL, while its automotive products are featured by a variety of auto makers, including General Motors Co. and Toyota Motor Corp. Sales to automotive companies account for more than half of the company's revenue.

### *Underperform Rating*

"Harman appears to have its act back together," Credit Suisse analyst Chris Ceraso said in a recent research note. "But we fundamentally believe that the competitive landscape for infotainment has changed relative to the glory days of 2004 through 2005." Mr. Ceraso has an underperform rating on the stock.

Customer relations, which had dulled over the years, are now a focal point for the company. For instance, executives, including Paliwal, are now required to meet with customers every month.

The moves have paid off for Harman by making the company faster, allowing it to produce new products and win more customers. Paliwal said the company has a \$10 billion order backlog.

Chrysler Group LLC said last month it had chosen Harman to supply it with audio systems for the 2012 version of the Chrysler 300, Dodge Charger and Dodge Challenger.

### *A Broad Market*

Harman, which competes against other audio equipment makers such as Bose Corp. and Pioneer Corp., is attempting to cover the entire market with a portfolio of products that appeal to mid-level shoppers as well as the luxury market.

Some of Harman's new projects in production are the GreenEdge audio systems aimed at hybrid vehicles. The systems are designed for cars whose electricity demands are constrained. Harman showed off a car last year equipped with a navigation, telematics and audio system that used 25% less power than standard systems.

The company, whose shares recently traded at about \$38, had been reporting an increase in its net income until fiscal year 2008, when profitability slipped to \$107.7 million from \$313.9 million the prior fiscal year.

Challenges remain. Paliwal has to ensure that the company's growth doesn't burn through its cash, forcing it to move money away from its vital research and development. Harman's business also relies on the strength of consumer and automotive spending, which have been hurt by the economic downturn.

When automotive production slows, so does demand for features such as audio equipment. Harman will have to navigate through the fragile U.S. automotive market and an expected drop in auto sales in Europe.

### *Incentives End*

The total number of cars and trucks sold in the 19 largest markets is expected to fall by about 2 million vehicles this year as fewer people buy, after many governments ended incentive programs.

RBC Capital Markets Corp. analyst Scot Ciccarelli has a stock price target of \$42, which is 30 times the calendar-year earnings-per-share estimate of \$1.41. Mr. Ciccarelli, in a recent research note, said he expects margins to remain well below prior peak levels, but cost-cutting efforts are having a materially positive impact.

### **Correction & Amplification**

Harman International Industries Inc. Chief Executive Officer Dinesh Paliwal, in describing efforts to cut spending at the company, said: "At one point we had 10 different sites doing research and development with one spending \$2 million here and another spending \$2 million there." This article incorrectly quoted Mr. Paliwal as saying the spending was in billions of dollars.