

Elite Material (2383.TW/2383 TT)

800G switches & new AI servers to drive growth in 2025F

Outperform · Maintained

Price as of October 18 (NT\$)	420.0
12M target price (NT\$)	610
Previous target price (NT\$)	610
Unchanged (%)	0.0
Upside (%)	45.2

Key message

- 3Q24 sales beat our forecast by 4.9%.
- New PCB designs for GB200 GPUs could be beneficial for the firm.
- Sales to decline in 4Q24F, but 800G switches and Google's (US) AI servers will be primary growth drivers in 2025F.

Trading data

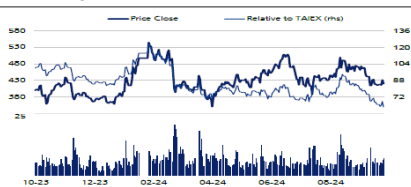
Mkt cap (NT\$bn/US\$mn)	145.0 / 4,526
Outstanding shares (mn)	345.2
Foreign ownership (mn)	93.68
3M avg. daily trading (mn)	4.58
52-week trading range (NT\$)	350.5 – 545

Performance	3M	6M	12M
Absolute (%)	-6.2	9.1	4.5
Relative (%)	-6.6	-6.6	-38.4

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	3.98A	3.25A	3.93A	4.08A
2023	1.44A	3.00A	6.04A	5.92A
2024	5.76A	7.08A	8.40F	7.49F

Share price chart



Source: TEJ

Event

3Q24 sales grew 13% QoQ and 47% YoY to NT\$17.46bn, beating consensus of NT\$16.64bn by 4.9%.

Impact

3Q24 sales were 4.9% above our forecast. We expect sales of network infrastructure products and mobile devices to grow by single digits QoQ, while automotive and industrial sales could fall by single digits QoQ in 3Q23. Given robust demand for 800G switch and servers, which has led to full capacity utilization, and given better-than-expected automotive demand, September sales came in at a historic high of NT\$5.94bn, up 3.5% MoM and 37% YoY. We raise 3Q24F EPS by 3.7% to NT\$8.4.

New PCB design for GB200; extended sales of H-series servers. The designated PCB for an NVL72 switch tray has been changed from a 24-layer 6-12-6 M7 material HDI board to a 22-layer M8 board, which we believe will boost content value for Elite Material. Although there has been a delay in shipments of GB200 GPUs, we note that the delay would help extend the sales peak of H200 servers, for which the firm is a major supplier.

Sales to slip from peak in 4Q24F; 800G switches & Google (US) AI servers to be major growth drivers in 2025F. We think sales will begin to decline in 4Q24F, following the peak pull-in season for mobile devices. Elite Material has recently issued convertible bonds to raise NT\$6bn to support production capacity expansion in 2025F. Specifically, a new plant in Malaysia is scheduled to come on stream in mid-May 2025F, with a monthly capacity of 600k sheets. Another new plant in China with the same monthly capacity will also ramp up in 4Q25F, driving up the firm's total production capacity to 5.5mn sheets per month, which should be enough to address growing demand for 800G switches and new AI server orders from Google.

Valuation & Action

We raise 2024-25F earnings by 1.8% and 3.2% to factor in strong 3Q24 sales. We maintain Outperform with a target price of NT\$610, on 18x 2025F PE.

Risks

Weaker-than-expected client demand; competitors gain development lead.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue (NT\$mn)	38,500	38,673	41,296	62,460	70,678
Gross profit (NT\$mn)	10,069	9,710	11,333	17,795	20,381
Operating profit (NT\$mn)	6,923	6,225	7,346	12,503	14,706
Net profit (NT\$mn)	5,493	5,073	5,488	9,886	11,652
EPS (NT\$)	16.50	15.24	16.35	28.72	33.85
Cash DPS (NT\$)	10.00	8.50	10.00	17.20	20.30
EPS growth (%)	45.6	(7.7)	7.3	75.6	17.9
PE (x)	25.5	27.6	25.7	14.6	12.4
PB (x)	7.1	6.3	5.4	4.7	4.1
EV/EBITDA (x)	17.9	19.8	16.4	10.9	9.4
Net debt to equity (%)	Net cash	Net cash	2.7	25.9	24.0
Dividend yield (%)	2.4	2.0	2.4	4.1	4.8
Return on average equity (%)	30.1	24.3	22.5	34.5	35.7

Source: Company data; KGI Research estimates

Figure 1: Breakdown of 3Q24 & 4Q24 forecast revisions vs. consensus

NT \$mn	3Q24F					4Q24F				
	Revision	Previous	Chg. (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	Consensus	Diff. (%)
Sales	17,464	16,614	5.1	16,643	4.9	16,644	16,173	2.9	16,415	1.4
Gross profits	5,122	4,901	4.5	4,844	5.7	4,700	4,566	2.9	4,731	(0.7)
Operating profit	3,733	3,545	5.3	3,417	9.2	3,311	3,179	4.1	3,351	(1.2)
Net income	2,893	2,789	3.7	2,677	8.1	2,579	2,515	2.5	2,566	0.5
EPS (NT\$)	8.40	8.10	3.7	7.79	7.9	7.49	7.31	2.5	7.55	(0.8)
Gross margin (%)	29.3	29.5	(0.2)ppts	29.1	0.2 ppts	28.2	28.2	0.0 ppts	28.8	(0.6)ppts
OP margin (%)	21.4	21.3	0.0 ppts	20.5	0.8 ppts	19.9	19.7	0.2 ppts	20.4	(0.5)ppts
Net margin (%)	16.6	16.8	(0.2)ppts	16.1	0.5 ppts	15.5	15.6	(0.1)ppts	15.6	(0.1)ppts

Source: Bloomberg; KGI Research

Figure 2: Breakdown of 2024-25 forecast revisions vs. consensus

NT \$mn	2024F					2025F				
	Revision	Previous	Chg. (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	Consensus	Diff. (%)
Sales	62,460	61,138	2.2	61,373	1.8	70,678	69,322	2.0	67,132	5.3
Gross profit	17,795	17,440	2.0	17,593	1.1	20,381	20,089	1.5	19,591	4.0
Operating profit	12,503	12,184	2.6	12,222	2.3	14,706	14,380	2.3	13,957	5.4
Net profit	9,886	9,716	1.8	9,715	1.8	11,652	11,287	3.2	10,860	7.3
EPS (NT\$)	28.72	28.22	1.8	28.24	1.7	33.85	32.78	3.2	31.51	7.4
Gross margin (%)	28.5	28.5	(0.0)ppts	28.7	(0.2)ppts	28.8	29.0	(0.1)ppts	29.2	(0.3)ppts
OP margin (%)	20.0	19.9	0.1 ppts	19.9	0.1 ppts	20.8	20.7	0.1 ppts	20.8	0.0 ppts
Net margin (%)	15.8	15.9	(0.1)ppts	15.8	(0.0)ppts	16.5	16.3	0.2 ppts	16.2	0.3 ppts

Source: Bloomberg; KGI Research

Figure 3: Peer comparison – Valuations

Company	Ticker	Mkt Cap (US\$m)	Price (LCY)	EPS (LCY)			PE (x)			PB (x)			ROE (%)			Dividend yield (%)		
				2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F
EMC	2383 TT	4,511	420.00	16.35	28.72	33.85	25.7	14.6	12.4	5.38	4.73	4.14	22.5	34.5	35.7	2.4	4.1	4.8
TUC	6274 TT	1,399	165.00	2.96	10.52	13.52	55.7	15.7	12.2	3.86	3.34	2.89	6.8	23.1	26.0	2.4	4.1	5.0
ITEQ	6213 TT	824	72.80	1.86	2.73	5.07	39.1	26.7	14.4	1.36	1.33	1.25	3.4	5.0	9.0	2.1	2.2	4.1
VENTEC	6672 TT	155	69.50	6.08	N.A.	N.A.	11.4	N.A.	N.A.	1.54	N.A.	N.A.	13.7	N.A.	N.A.	4.8	N.A.	N.A.
Kingboard	1888 HK	2,803	6.98	0.34	0.56	0.84	20.4	12.6	8.3	1.46	N.A.	N.A.	7.1	11.2	15.7	3.2	4.7	6.0

Source: Bloomberg; KGI Research

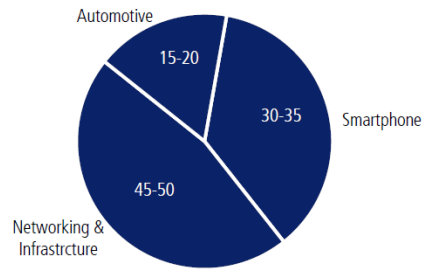
Figure 4: Company profile

Established in 1992, Elite Material Co. (EMC) is one of the four largest producers of CCL in Taiwan, and is the world's largest halogen-free substrate supplier. The firm specializes in production of CCL, PP, and multi-stacked PCB (M/L). In 2022, EMC derived 40-45% of sales from smartphones, 35-40% from networking & infrastructure, and 15-20% from automotive. Monthly capacity is currently 3.85mn sheets of CCL, 13.1mn meters of PP, 800k square feet of M/L, and 40k panels of MCCL.

Source: KGI Research

Figure 5: 2023 product mix

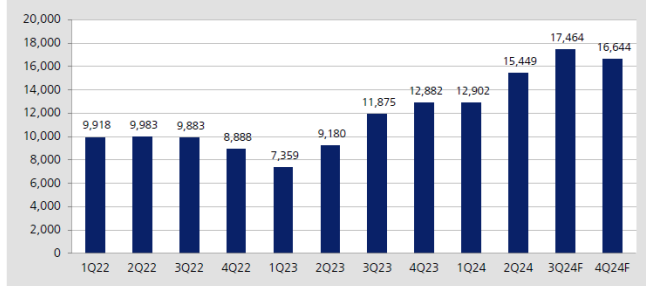
Sales weighting, percent



Source: Company data; KGI Research

Figure 6: Sales

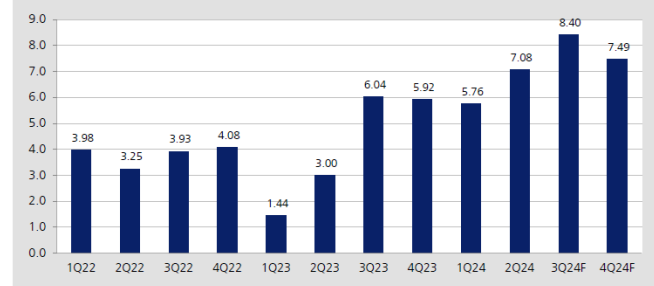
Sales, NT\$mn



Source: KGI Research

Figure 7: EPS

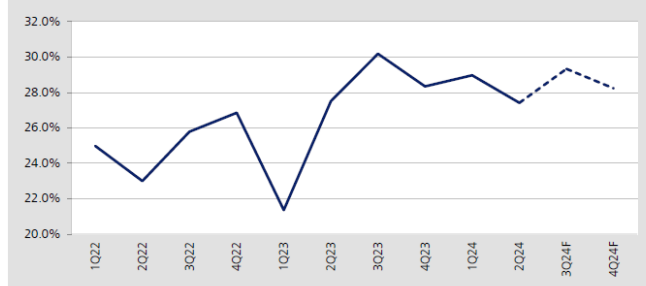
EPS, NT\$



Source: KGI Research

Figure 8: Gross Margin

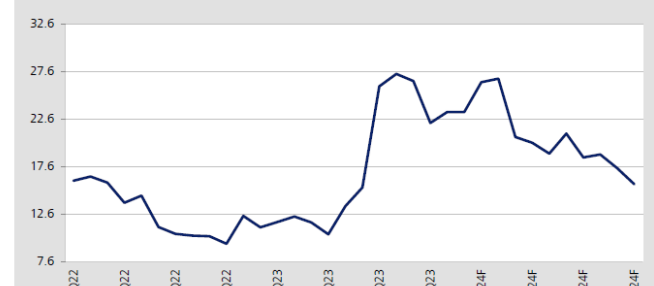
Gross margin, percent



Source: KGI Research

Figure 9: Rolling PE

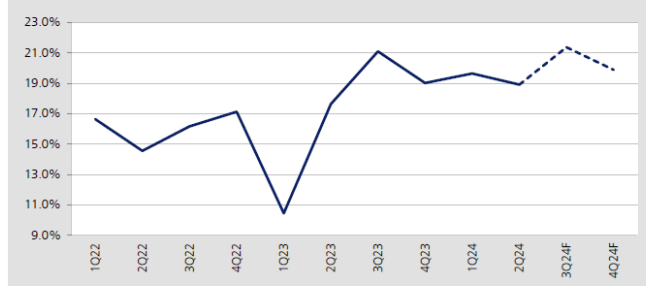
Rolling PE, times



Source: KGI Research

Figure 10: Operating Margin

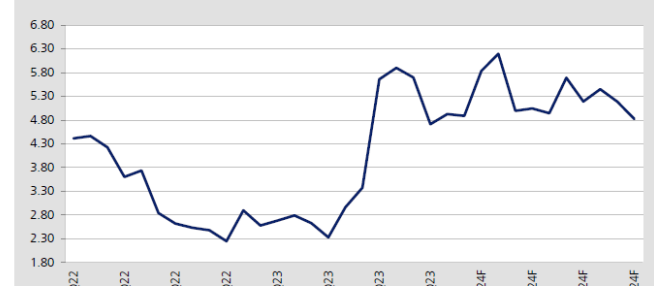
Operating margin, percent



Source: KGI Research

Figure 11: Rolling PB

Rolling PB, times



Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23A	Mar-24A	Jun-24A	Sep-24F	Dec-24F	Dec-23A	Dec-24F	Dec-25F
Income statement (NT\$mn)											
Revenue	7,359	9,180	11,875	12,882	12,902	15,449	17,464	16,644	41,296	62,460	70,678
Cost of goods sold	(5,787)	(6,655)	(8,290)	(9,231)	(9,164)	(11,214)	(12,342)	(11,945)	(29,964)	(44,665)	(50,298)
Gross profit	1,572	2,525	3,584	3,651	3,738	4,235	5,122	4,700	11,333	17,795	20,381
Operating expenses	(803)	(906)	(1,078)	(1,200)	(1,202)	(1,311)	(1,389)	(1,389)	(3,987)	(5,292)	(5,675)
Operating profit	769	1,619	2,506	2,451	2,536	2,924	3,733	3,311	7,346	12,503	14,706
Depreciation of fixed assets	(264)	(280)	(338)	(372)	(390)	(435)	(365)	(269)	(1,254)	(1,458)	(1,538)
Amortisation of intangible assets	(11)	(12)	(12)	(13)	(13)	(14)	(14)	(15)	(48)	(55)	(60)
EBITDA	1,044	1,911	2,857	2,837	2,939	3,372	4,111	3,594	8,648	14,016	16,304
Interest income	21	30	36	33	27	32	27	27	121	113	108
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	-	-	-	-	-	-	80	80	-	160	380
Non-operating income	21	30	36	33	27	32	107	107	121	273	488
Interest expense	(72)	(85)	(77)	(85)	(101)	(118)	(101)	(101)	(319)	(421)	(404)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	10	24	108	129	152	137	(55)	(30)	271	204	-
Non-operating expenses	(62)	(61)	32	44	51	19	(156)	(131)	(47)	(217)	(404)
Pre-tax profit	729	1,588	2,574	2,528	2,614	2,975	3,684	3,287	7,420	12,559	14,790
Current taxation	(249)	(588)	(552)	(542)	(637)	(542)	(790)	(705)	(1,931)	(2,673)	(3,137)
Minorities	-	-	-	-	1	2	-	(4)	-	-	-
Normalised net profit	480	1,000	2,022	1,986	1,978	2,436	2,893	2,579	5,488	9,886	11,652
Extraordinary items	(0)	0	(0)	0	(0)	(0)	-	0	-	-	-
Net profit	480	1,000	2,022	1,986	1,978	2,436	2,893	2,579	5,488	9,886	11,652
EPS (NT\$)	1.44	3.00	6.04	5.92	5.76	7.08	8.40	7.49	16.35	28.72	33.85
Margins (%)											
Gross profit margin	21.4	27.5	30.2	28.3	29.0	27.4	29.3	28.2	27.4	28.5	28.8
Operating margin	10.5	17.6	21.1	19.0	19.7	18.9	21.4	19.9	17.8	20.0	20.8
EBITDA margin	14.2	20.8	24.1	22.0	22.8	21.8	23.5	21.6	20.9	22.4	23.1
Pretax profit margin	9.9	17.3	21.7	19.6	20.3	19.3	21.1	19.7	18.0	20.1	20.9
Net profit margin	6.5	10.9	17.0	15.4	15.3	15.8	16.6	15.5	13.3	15.8	16.5
Sequential growth (%)											
Revenue growth	(17.2)	24.7	29.3	8.5	0.2	19.7	13.0	(4.7)			
Gross profit growth	(34.1)	60.6	41.9	1.9	2.4	13.3	20.9	(8.2)			
Operating profit growth	(49.5)	110.5	54.8	(2.2)	3.4	15.3	27.7	(11.3)			
EBITDA growth	(39.6)	82.9	49.5	(0.7)	3.6	14.8	21.9	(12.6)			
Pretax profit growth	(52.9)	117.8	62.1	(1.8)	3.4	13.8	23.8	(10.8)			
Net profit growth	(64.7)	108.5	102.2	(1.8)	(0.4)	23.1	18.8	(10.9)			
YoY growth (%)											
Revenue growth	(25.8)	(8.0)	20.2	44.9	75.3	68.3	47.1	29.2	6.8	51.2	13.2
Gross profit growth	(36.6)	9.9	40.6	53.0	137.8	67.7	42.9	28.7	16.7	57.0	14.5
Operating profit growth	(53.4)	11.4	56.8	61.0	229.7	80.6	48.9	35.1	18.0	70.2	17.6
EBITDA growth	(43.4)	16.7	59.9	64.0	181.4	76.5	43.9	26.7	23.6	62.1	16.3
Pretax profit growth	(56.3)	9.7	57.9	63.2	258.5	87.3	43.1	30.0	17.8	69.3	17.8
Net profit growth	(63.8)	(7.6)	54.7	46.1	312.4	143.5	43.1	29.8	8.2	80.1	17.9

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Total assets	36,565	43,382	53,427	67,562	77,082
Current assets	25,844	26,580	33,675	40,863	47,163
Cash & ST securities	6,645	10,444	9,259	4,654	6,256
Inventory	5,465	4,236	6,135	9,120	10,298
Accounts receivable	13,274	11,683	17,327	26,134	29,654
Other current assets	459	217	955	955	955
Non-current assets	10,721	16,803	19,752	26,699	29,919
LT investments	-	-	6	6	6
Net fixed assets	8,469	14,680	16,655	23,602	26,822
Other assets	2,253	2,123	3,092	3,092	3,092
Total liabilities	16,791	21,308	26,617	37,061	42,231
Current liabilities	14,485	15,760	23,073	30,326	34,511
Accounts payable	8,128	6,513	10,489	15,592	17,606
Interest bearing ST liabilities	2,917	5,299	7,866	7,260	8,323
Other current liabilities	3,440	3,947	4,718	7,474	8,581
Non-current liabilities	2,306	5,548	3,544	6,735	7,720
Long-term debt	721	4,218	2,109	5,300	6,285
Other L-T liabilities	1,293	1,019	1,137	1,137	1,137
Total equity	19,774	22,075	26,809	30,500	34,851
Share capital	3,329	3,329	3,432	3,432	3,432
Retained earnings reserve	12,298	13,361	15,864	19,555	23,905
Minority interests	21	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Growth					
Revenue growth	41.5%	0.4%	6.8%	51.2%	13.2%
Operating profit growth	47.8%	(10.1%)	18.0%	70.2%	17.6%
EBITDA growth	44.4%	(8.4%)	23.6%	62.1%	16.3%
Net profit growth	48.9%	(7.7%)	8.2%	80.1%	17.9%
EPS growth	45.6%	(7.7%)	7.3%	75.6%	17.9%
Profitability					
Gross profit margin	26.2%	25.1%	27.4%	28.5%	28.8%
Operating margin	18.0%	16.1%	17.8%	20.0%	20.8%
EBITDA margin	19.8%	18.1%	20.9%	22.4%	23.1%
Net profit margin	14.3%	13.1%	13.3%	15.8%	16.5%
Return on average assets	17.1%	12.7%	11.3%	16.3%	16.1%
Return on average equity	30.1%	24.3%	22.5%	34.5%	35.7%
Stability					
Gross debt to equity	18.4%	43.1%	37.2%	41.2%	41.9%
Net debt to equity	Net cash	Net cash	2.7%	25.9%	24.0%
Interest coverage (x)	91.6	35.2	24.3	30.8	37.6
Interest & ST debt coverage (x)	0.7	0.5	0.5	0.6	0.6
Cash flow interest coverage(x)	52.7	40.7	9.1	11.2	26.2
Cash flow/int. & ST debt (x)	1.3	1.4	0.4	0.6	1.2
Current ratio (x)	1.8	1.7	1.5	1.3	1.4
Quick ratio (x)	1.4	1.4	1.2	1.0	1.1
Net debt (NT\$m)	(3,003)	(926)	716	7,906	8,352
Per share data					
EPS (NT\$)	16.50	15.24	16.35	28.72	33.85
CFPS (NT\$)	12.08	22.52	8.61	13.68	30.69
BVPS (NT\$)	59.33	66.31	78.12	88.88	101.55
Adj BVPS (NT\$)	59.33	66.31	79.86	88.59	101.23
SPS (NT\$)	115.64	116.16	123.01	181.42	205.29
EBITDA/share (NT\$)	22.95	21.03	25.76	40.71	47.36
Cash DPS (NT\$)	10.00	8.50	10.00	17.20	20.30
Activity					
Sales / avg assets	1.20	0.97	0.85	1.03	0.98
Days receivable	125.8	110.3	153.1	153.1	153.1
Days inventory	70.2	53.4	74.7	74.7	74.7
Days payable	104.3	82.1	127.8	127.8	127.8
Cash cycle	91.7	81.6	100.1	100.1	100.1

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue	38,500	38,673	41,296	62,460	70,678
Cost of goods sold	(28,431)	(28,962)	(29,964)	(44,665)	(50,298)
Gross profit	10,069	9,710	11,333	17,795	20,381
Operating expenses	(3,146)	(3,485)	(3,987)	(5,292)	(5,675)
Operating profit	6,923	6,225	7,346	12,503	14,706
Non-operating income	76	62	121	273	488
Interest income	52	62	121	113	108
Investment income	24	-	-	-	-
Other non-op income	-	-	-	160	380
Non-operating expenses	(87)	8	(47)	(217)	(404)
Interest expense	(76)	(184)	(319)	(421)	(404)
Investment loss	(10)	-	-	-	-
Other non-op expenses	(1)	193	271	204	-
Pre-tax profit	6,912	6,296	7,420	12,559	14,790
Current taxation	(1,412)	(1,220)	(1,931)	(2,673)	(3,137)
Minorities	(7)	(3)	-	-	-
Extraordinary items	-	0	(0)	-	-
Net profit	5,493	5,073	5,488	9,886	11,652
EBITDA	7,642	7,000	8,648	14,016	16,304
EPS (NT\$)	16.50	15.24	16.35	28.72	33.85

Cash flow

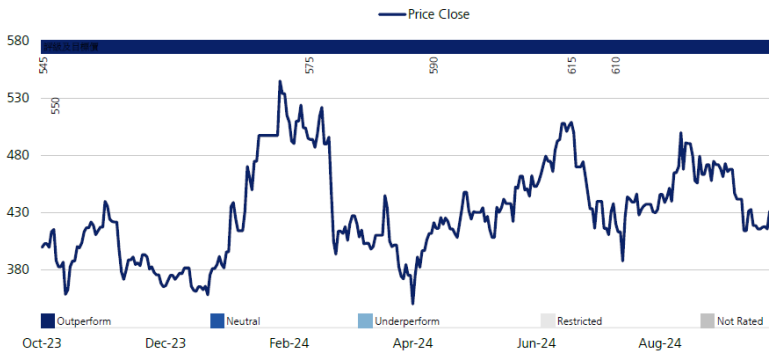
NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Operations cash flow	4,022	7,498	2,890	4,710	10,567
Net profit	5,493	5,073	5,488	9,886	11,652
Depreciation & amortisation	719	774	1,302	1,513	1,598
Decrease in working capital	(2,844)	1,353	(4,019)	(6,689)	(2,684)
Other operating cash flow	652	298	118	-	-
Investing cash flow	(2,618)	(6,596)	(4,057)	(8,460)	(4,818)
Sale of ST investment	-	(21)	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(2,470)	(6,493)	(3,281)	(8,405)	(4,758)
Others investing cashflow	(148)	(82)	(776)	(55)	(60)
Free cash flow	885	610	(612)	(3,795)	5,683
Financing cash flow	(420)	2,687	109	(855)	(4,147)
Increase in short term debt	1,984	2,575	1,441	-	-
Increase in long term loans	(265)	3,657	1,512	2,585	2,049
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(2,333)	(3,333)	(2,830)	(3,439)	(6,195)
Other financing cashflow	194	(211)	(15)	(0)	0
Forex effects	(73)	211	(126)		
Total cash generated	910	3,802	(1,185)	(4,605)	1,602

ROIC

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	8.2%	9.0%	9.7%	8.5%	8.0%
= Operating margin	18.0%	16.1%	17.8%	20.0%	20.8%
1 / (Working capital/revenue	0.2	0.1	0.2	0.2	0.2
+ Net PPE/revenue	0.2	0.4	0.4	0.4	0.4
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	2.3	1.8	1.6	1.7	1.7
Operating margin	18.0%	16.1%	17.8%	20.0%	20.8%
x Capital turnover	2.3	1.8	1.6	1.7	1.7
x (1 - tax rate)	79.6%	80.6%	74.0%	78.7%	78.8%
= After-tax ROIC	32.8%	24.0%	20.6%	26.4%	27.5%

Source: Company data; KGI Research estimates

EMClite Material – Recommendation & target price history



Date	Rating	Target	Price
2024-07-31	Outperform	610	438
2024-07-09	Outperform	615	506
2024-05-01	Outperform	590	412
2024-02-29	Outperform	575	495
2023-10-25	Outperform	550	416
2023-09-05	Outperform	545	455
2023-07-26	Outperform	420	354
2023-07-12	Outperform	325	298
2023-04-26	Outperform	185	154
2023-02-23	Outperform	210	185

Source: TEJ; KGI Research

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