

OEM CAPITAL – PHOTONICS MARKET FOCUS

MONTHLY MARKET

PERFORMANCE Closing Prices as of December 31, 2009

Company Name	Market Cap	Revenue	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix	16.9	25.08	0.63 ▲	13.24 ▲	NM
Agilent Technologies	10,838.18	4,481.0	29.64 ▲	97.06 ▲	83.18
Andor Technology	41.5	33.11	1.41 ▲	104.41 ▲	16.71
AXT Inc.	99.68	53.17	2.81 ▲	131.85 ▲	NM
Cognex Corp.	702.41	176.26	17.08 ▲	18.58 ▲	NM
Coherent Inc.	732.16	435.88	26.32 ▲	35.04 ▲	NM
Coming Inc.	30,048.18	4,947.0	18.47 ▲	108.71 ▲	30.55
CyberOptics Corp.	45.74	24.78	5.75 ▲	25.96 ▲	NM
Dynasil Corp.	31.19	34.36	2.90 ▲	86.21 ▲	25.27
EXFO Electro Optical	239.34	172.88	3.91 ▲	15.94 ▲	61.82
II-VI Inc.	940.45	269.99	29.21 ▲	64.22 ▲	41.04
Infinera Corp.	856.84	318.26	9.33 ▲	3.46 ▲	NM
IPG Photonics	764.36	189.8	17.35 ▲	31.56 ▲	73.62
JDS Uniphase Corp.	1,799.6	1,215.0	7.91 ▲	144.38 ▲	NM
KLA-Tencor Cor.	6,179.45	1,330.39	35.75 ▲	70.35 ▲	NM
Newport Corp.	333.01	372.8	8.16 ▲	37.32 ▲	NM
Oclaro, Inc.	274.83	236.6	1.35 ▲	255.56 ▲	NM
Ophir Optronics	350.31	384.36	14.52 ▲	41.16 ▲	18.96
Photonic Products	11.42	12.43	1.10 ▲	(37.14) ▼	NM
Rofin-Sina	684.55	349.58	22.63 ▲	14.09 ▲	68.98
Rudolph Tech.	208.17	66.16	6.83 ▲	103.97 ▲	NM
Zygo Corp.	113.99	99.87	6.83 ▲	57.02 ▲	NM

OEM Photonics Index vs. S&P 500:



■ Photonics Industry ■ S&P 500 Index

Selected Statistics for Index Companies:

Selected Trading Multiples	CY2006	CY2007	CY2008	Latest
TEV/EBITDA	17.0x	13.5x	14.4x	33.5x
Return on Equity %	15.8%	16.4%	21.5%	(2.2%)
Gross Margin %	47.6%	49.4%	48.2%	41.9%
EBITDA Margin %	18.2%	21.2%	19.8%	10.9%
Net Income Margin %	17.4%	17.8%	25.1%	(3.6%)
Total Revenue, 1 Yr Growth %	16.3%	11.6%	(0.4%)	(25.6%)
Total Revenue, 2 Yr CAGR %	13.1%	13.9%	5.4%	(10.6%)
Total Revenue, 3 Yr CAGR %	9.7%	12.6%	8.9%	(3.9%)

While market conditions in 2009 were grim for the first half of the year, the Photonics Index managed to outperform the S&P 500 by a healthy margin in the second half..

General Market / Deal Commentary for Year End 2009:

2009 was a record year for insolvency deals, eclipsing even the peaks of 2002. Opportunistic buyers drove insolvency deals to a staggering 370% increase in value over 2008. While the overall M&A market was virtually dormant for the first half of the year, the fourth quarter rebounded impressively as a new record of transactions completed with valuations rebounding to levels not seen since early 2007. There appears to be a move away from “mergers of necessity” towards “mergers of growth.”

European M&A was down 55% for the year, but Q4 European buyouts surged 356% over Q3. In **North America**, deal activity picked up steadily throughout 2009. Q4 saw 831 deals announced with a total value of \$221.7bn (Mergermarket statistics).

Recent Transactions:

II-VI acquired **Photop Technologies** (Photop) for \$95.3 million in cash and stock on December 28th. Photop is headquartered in Fuzhou China with over 2,000 employees and is a vertically-integrated manufacturer of engineered

COMMENTARY
by Michael Simon

materials, optical components, microchip lasers for visible display applications and optical modules for use in fiber optic communication networks. Photop’s revenues were \$43 million for the nine months ended September 30, 2009.

FLIR Systems acquired **Directed Perception, Inc.** for \$20 million. Directed Perception, based in Burlingame CA manufactures pan-tilt mounts and systems. Directed Perception’s products are extremely complimentary to FLIR System’s existing range of pan-tilt-zoom camera systems.

Andor Technology acquired **Bitplane AG** on December 23rd for approximately €8.4 million in cash and stock. Andor raised €3 million from institutional investors earlier in the month to finance the transaction. For the year ended December 31, 2008 Bitplane reported revenue of €2.9 million and EBITDA of €0.65 million.

Oclaro, Inc. acquired **Xtellus, Inc.** in a transaction valued at \$39.6 million announced on December 16th. Since inception in 2000, Xtellus had received over \$16 million in venture financing.

Light Blue Optics (LBO), manufacturer of an interactive projector that turns any flat surface into a 10 inch touch screen completed a round of funding lead by new investors that raised \$41. LBO will use the proceeds to accelerate product development and establish high-volume manufacture of the Company’s miniature holographic projection systems.

Public Equity Thaw: 2009 saw only 13 venture-backed IPOs, with 5 in the fourth quarter. “While 2009 was a year many venture capitalists and entrepreneurs would choose to soon forget, the fourth quarter offered signs of hope for the coming year in terms of improved exit activity,” said Mark Hessen, president of the National Venture Capital Association.

NeoPhotonics IPO? After over \$232 million of financing from a pedigreed stable of venture capitalists, NeoPhotonics is rumored to be getting ready for a public offering.

Source of financial data: Standard & Poor’s, CapitalIQ, FT and Thomson Financial. U.S. dollars and cents. Stock prices current as of December 31, 2009. Copyright 2009 by OEM Capital
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