

OEM Capital – Photonics MARKET FOCUS

August 2010

MONTHLY MARKET PERFORMANCE:

Closing Prices as of July 30, 2010

Company Name	Market Cap	Revenue	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	13.2	21.1	28.6 ▲	(27.0) ▼	NM
Agilent Technologies Inc.	9,721.4	4,708.0	(1.2) ▼	(10.8) ▼	44.0
Andor Technology plc	86.7	37.0	12.1 ▲	106.4 ▲	28.7
AXT Inc.	182.6	76.5	31.5 ▲	73.7 ▲	19.6
Cognex Corp.	739.8	223.3	7.1 ▲	2.8 ▲	36.3
Coherent Inc.	935.5	546.3	9.5 ▲	23.8 ▲	50.5
CyberOptics Corp.	66.9	46.4	1.3 ▲	47.5 ▲	NM
Dynasil Corporation of America	38.4	37.2	5.2 ▲	11.7 ▲	20.8
EXFO Inc	361.0	199.4	10.2 ▲	49.6 ▲	90.8
Finisar Corp.	1,216.5	629.9	7.2 ▲	75.6 ▲	240.8
Gooch & Housego plc	£56.0	£37.9	30.9 ▲	96.4 ▲	28.0
Halma plc	£1,045.2	£459.1	4.6 ▲	10.8 ▲	20.3
II-VI Inc.	1,055.1	297.9	17.4 ▲	6.6 ▲	42.4
Infinera Corp.	898.1	380.7	40.3 ▲	(0.3) ▼	NM
IPG Photonics Corporation	744.5	218.6	7.8 ▲	(7.3) ▼	44.1
JDS Uniphase Corporation	2,389.4	1,257.3	12.2 ▲	28.3 ▲	NM
KLA-Tencor Corporation	5,383.7	1,820.8	16.6 ▲	(14.2) ▼	30.7
Newport Corp.	466.5	411.7	45.2 ▲	34.7 ▲	63.9
Oclaro, Inc.	597.9	392.5	12.6 ▲	59.1 ▲	49.1
Ophir Optronics Ltd.	356.2	381.1	5.4 ▲	(9.7) ▼	0.0
Photonic Products Group Inc.	12.1	11.0	(8.7) ▼	5.0 ▲	NM
Rofin-Sinar Technologies Inc.	672.9	355.9	3.1 ▲	(11.7) ▼	63.3
Rudolph Technologies Inc.	269.5	141.2	17.4 ▲	21.7 ▲	73.0
Zygo Corp.	144.6	98.0	4.5 ▲	14.7 ▲	NM

MARKET COMMENTARY:

Q2 earnings reports (quarter ended June 30) started to filter in at the end of July. Most of the **Photonics Market** companies surprised analysts with higher earnings and revenues than was expected, at the end of July the Photonics Index was up 12.5%, against the S&P500 which finished the month up 6.8%. The Photonics Index was off only 3% from the previous high reached on May 3rd.

COMMENTARY

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“Roll-Up” continues; while M&A activity has fallen from Q4 2009, Q1 and Q2 2010 were relatively flat. Strategic transactions are still leading PEG buy-outs. Last month we reported on activity in the fiber optic network and telecom space where **Zayo** and **Lightower** completed transactions, this month **Dynasil** completed another acquisition and we review the history of **Neophotonics**.

NOTABLE RECENT TRANSACTIONS:

Oclaro announced the acquisition of **Mintera** for an initial payment of \$12m in cash plus a revenue-based earn-out that could range from \$0m to \$20m. **Mintera** manufactures 40 Gbps fiber optic transmission systems and had sales of approximately \$20m. Venture capital firms and strategic investor **JDS Uniphase** invested over \$75m in Mintera since 2000. Transaction closed July 20th.

Dynasil acquired **Hilger Crystals** from **Newport** for an initial payment of \$4m cash plus a revenue-based earn-out of \$0.75m. Implied Enterprise Value/LTM Total Revenues was 2.4x, a seemingly rich deal but Craig Dunham, President and CEO of **Dynasil** has a successful track record of driving organic growth from his operations as well as completing acquisitions that have performed well under his management. Earnings for the last quarter are expected to be released on August 16th.

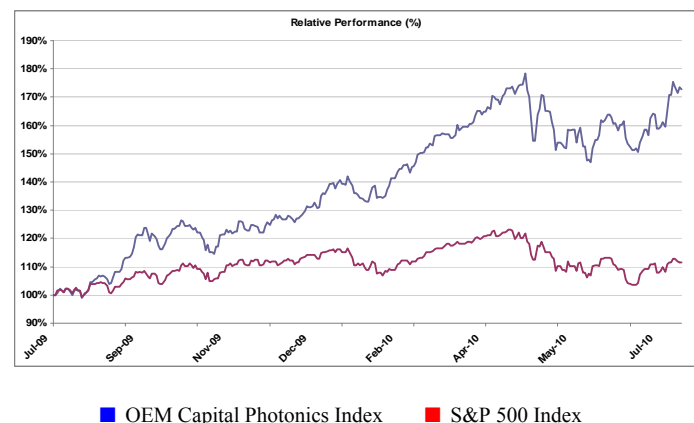
Dynasil acquisition history: **Optometrics** March 2004, **Evaporated Metal Films** October 2006, **RMD** July 2008, the Optical Filter Product Line of **Precision Optics** January 2008. **Dynasil** reported revenues of \$37.2m, at \$3.00/share **Dynasil's** Market Capitalization is \$39.1m and the company trades at 1.2x TEV/Total Revenue and 9.9x EBITDA, undervalued relative to the **Photonics Index**.

IPO / Financing News:

Neophotonics, still in the queue for an IPO after registration in April announced Q2 earnings: \$2.8m in net income on \$45.6m in revenue. Underwriters for the offering are **J.P. Morgan**, **Deutsche Bank Securities**, **Piper Jaffray**, **Stiefel Nicolaus Weisel**, **Morgan Keegan & Co** and **ThinkEquity LLC**.

Rising from the ashes of a Chapter 11 in 2003 **Neophotonics** raised \$180 million from many investors including **Oak Investment Partners**, **Draper Fisher Jurvetson**, **Concord Investments**, **ATA Ventures** and **International Finance Corp.** **Neophotonics** acquisition history: **Lightwave Microsystems** March 2003, **Photon Technology** July 2005, **OpTun** June 2006, **Lightconnect** June 2006, **BeamExpress** September 2006, **Paxera** November 2006.

OEM Photonics Market Focus Index vs. S&P 500:



SELECTED STATISTICS FOR INDEX COMPANIES:

Key Statistics	CY2007	CY2008	CY2009	Latest
TEV/Total Revenue	1.8x	1.8x	2.4x	2.1x
TEV/EBITDA	11.4x	13.0x	36.3x	19.2x
TEV/EBIT	16.2x	20.7x	259.1x	34.2x
Return on Equity %	9.6%	(6.7%)	(5.8%)	2.4%
Gross Margin %	50.0%	48.6%	45.0%	45.4%
SG&A Margin %	25.2%	25.8%	28.5%	25.3%
EBITDA Margin %	16.0%	14.2%	6.5%	11.2%
EBITA Margin %	11.3%	8.9%	0.9%	6.2%
EBIT Margin %	11.3%	8.9%	0.9%	6.2%
Net Income Margin %	8.8%	(5.7%)	(4.8%)	2.2%
Total Revenue, 1 Yr Growth %	10.5%	(1.0%)	(21.1%)	(4.2%)
Total Revenue, 2 Yr CAGR %	14.2%	4.6%	(11.6%)	(8.5%)
Total Revenue, 3 Yr CAGR %	11.7%	8.9%	(4.8%)	(2.8%)

Source of financial data: Standard & Poor's, CapitalIQ, FT and Thomson Financial
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