

OEM CAPITAL – PHOTONICS MARKET FOCUS

MONTHLY MARKET

PERFORMANCE Closing Prices as of January 29, 2010

Current Company Name	Market Cap	Revenue	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix	17.38	25.08	0.69 ▲	4.41 ▲	NM
Agilent Technologies	9,779.44	4,481.0	31.07 ▲	79.33 ▲	75.69
Andor Technolog	41.8	33.11	1.41 ▲	108.82 ▲	16.65
AXT Inc.	88.95	53.17	3.25 ▲	114.81 ▲	NM
Cognex Corp.	649.27	176.26	17.71 ▲	10.61 ▲	NM
Coherent Inc.	730.93	435.88	29.73 ▲	38.30 ▲	NM
Coming Inc.	28,134.18	5,395.0	19.31 ▲	89.72 ▲	20.77
CyberOptics Corp.	49.49	24.78	6.71 ▲	39.62 ▲	NM
Dynasil Corp.	31.06	34.36	2.50 ▲	71.72 ▲	23.3
EXFO Electro Optical	321.95	172.08	4.03 ▲	39.33 ▲	NM
II-VI Inc.	790.81	264.5	31.80 ▲	40.07 ▲	39.05
Infinera Corp.	663.59	309.1	8.87 ▲	(23.55) ▼	NM
IPG Photonics	657.91	189.8	16.73 ▲	9.26 ▲	61.14
JDS Uniphase Corp.	1,714.21	1,215.0	8.25 ▲	115.34 ▲	NM
KLA-Tencor Cor.	4,852.46	1,330.39	36.16 ▲	29.42 ▲	NM
Newport Corp.	308.37	372.8	9.19 ▲	25.52 ▲	NM
Oclaro, Inc.	308.48	236.6	1.47 ▲	266.67 ▲	NM
Ophir Optronics	406.74	384.36	13.78 ▲	41.34 ▲	18.99
Photonic Products	14.5	12.43	1.00 ▲	(27.43) ▼	NM
Rofin-Sinar Tech	637.26	349.58	23.61 ▲	6.37 ▲	64.31
Rudolph Tech.	194.23	66.16	6.72 ▲	77.62 ▲	NM
Zygo Corp.	179.36	99.87	6.73 ▲	53.26 ▲	NM

OEM Photonics Index vs. S&P 500:



■ Photonics Industry ■ S&P 500 Index

Selected Statistics for Index Companies:

Selected Trading Multiples	CY2007	CY2008	CY2009	Latest
TEV/Total Revenue	2.5x	2.5x	2.5x	3.0x
TEV/EBITDA	11.7x	12.7x	28.9x	22.5x
Return on Equity %	16.4%	21.5%	9.8%	2.9%
Gross Margin %	49.4%	48.1%	39.8%	42.7%
EBITDA Margin %	21.2%	19.6%	18.8%	13.4%
Net Income Margin %	17.8%	25.1%	21.9%	4.4%
Total Revenue, 1 Yr Growth %	11.6%	(0.4%)	(17.8%)	(19.6%)
Total Revenue, 2 Yr CAGR %	13.9%	5.4%	(10.2%)	(9.4%)
Total Revenue, 3 Yr CAGR %	12.6%	8.9%	(2.5%)	(2.7%)

Share prices in January were down for most S&P stocks, along with the OEM Capital Photonics Index. We are entering a key period for the reporting of earnings for Q4 2009. CY2009 data (above) doesn't include all index companies. Better-than-expected results should fuel a resurgence in the IPO market.

Consolidation in the Photonics Industry:

January was a big month for deals in the photonics industry. I was struck by the buzz at Photonics West last month: a lot of mergers have taken place over the past year, new companies with exciting new technologies were making their debut and the move from the San Jose convention center to the Moscone center in San Francisco makes the industry look very established.

Recent Transactions:

II-VI. Fast on the heels of II-VI's announcement of the acquisition of Photop Technologies in December for \$78 million came II-VI's tender for Zygo Corporation in a deal potentially worth in excess of \$170 million. Zygo reported sales of \$99.9 million for the 12-month period ended September 30, 2009 with EBITDA for the same period of negative 21.3 million. While Zygo isn't going to help II-VI's profitability, the synergy in optical materials is hard to miss.

Zygo. In the middle of II-VI's offer Zygo managed to announce the \$1.8 million acquisition of Zometrics, Inc.

COMMENTARY
by Michael Simon

Zometrics manufactures non-contact optical metrology systems for precision 3D surface measurements.

Halma. Halma announced the acquisition of SphereOptics on January 22nd for an initial consideration of \$2.5 million. SphereOptics will be merged with Halma's existing light metrology & measurement company Labsphere.

IPG Photonics acquired Photonics Innovations, Inc. on January 26th. The acquisition brings new technology in mid-infrared laser materials to IPG's already substantial portfolio of laser materials, high-power fiber lasers and amplifiers.

Thermo Fisher Scientific, Inc. announced the acquisition of Ahura Scientific on January 19th for approximately \$150 million in cash. Ahura scientific generated full-year revenue of approximately \$45 million in 2009, putting the transaction value at 3.2 times sales. Ahura has developed an innovative hand-held raman spectrometers for chemical identification, verification and screening. This was followed on February 1st with the acquisition of NovaWave Technologies for an undisclosed sum. NovaWave's laser-based chemical sensors and Ahura's raman spectroscopy products complement Thermo Fisher's portfolio of gas analytical devices.

Photonics West:

It was interesting to see the Zygo booth just down the aisle from II-VI. Looking around one wonders what the industry will look like next year. Lots of new Chinese companies. Exciting new technologies, I especially liked Sensl, an Irish company with a new technology for low light detection and measurement; a direct PMT replacement without the high voltage power supply.

Private Equity Update:

After two slow years, 2010 is potentially going to be a good year for fund raising and new investments. Estimates put available private-equity financing north of \$400 billion.

Source of financial data: Standard & Poor's, CapitalIQ, FT and Thomson Financial. U.S. dollars and cents. Stock prices current as of January 29, 2010. Copyright 2010 by OEM Capital
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