

# OEM Capital – Defense Electronics Technology MARKET FOCUS

July 2010

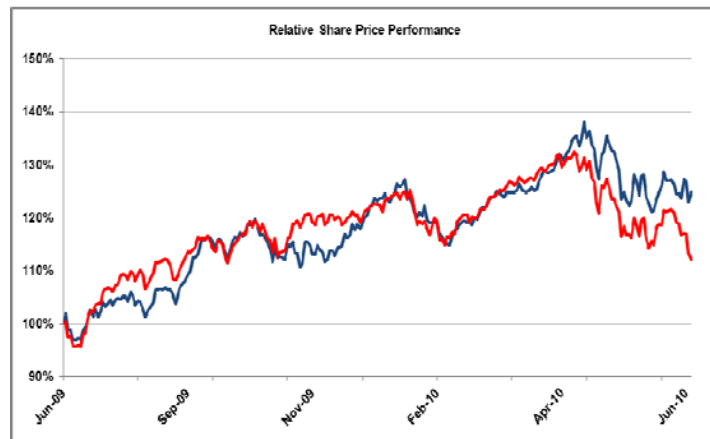
## MONTHLY MARKET PERFORMANCE:

Closing Prices as of June 30, 2010

Current Company Name	Market Cap <sup>1</sup>	Revenue <sup>1</sup>	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	10.8	21.1	(12.0)▼	(40.5)▼	NM
AeroVironment, Inc.	472.7	249.5	(13.2)▼	(26.6)▼	28.1
AML Communications Inc.	14.4	16.3	(4.3)▼	(9.5)▼	11.8
Anaren Inc.	219.6	167.4	3.5▲	(0.7)▼	19.3
Applied Signal Technology, Inc.	262.3	210.0	11.4▲	1.0▲	19.2
Argon ST, Inc.	750.9	337.0	42.6▲	55.9▲	35.7
Astronics Corp.	178.8	188.1	(3.4)▼	77.1▲	19.1
Comtech Telecommunications Corp.	847.3	643.3	3.9▲	(15.8)▼	13.5
Dynamics Research Corp.	100.4	267.2	(5.4)▼	(5.0)▼	8.1
EMS Technologies Inc.	229.9	350.6	(3.3)▼	5.8▲	28.4
Endwave Corp.	32.3	15.3	3.4▲	38.7▲	NM
Espey Manufacturing & Electronics Corp.	43.8	28.0	0.5▲	(3.8)▼	13.1
Frequency Electronics Inc.	38.1	49.4	(11.9)▼	(8.5)▼	52.8
Global Defense Technology & Systems, Inc.	115.8	209.1	(11.1)▼	(22.0)▼	61.4
HEICO Corp.	1,004.2	567.1	(10.0)▼	0.3▲	22.2
Herley Industries Inc.	195.1	182.7	0.1▲	1.1▲	25.3
Hittite Microwave Corporation	1,362.6	199.6	(2.2)▼	9.5▲	23.9
Kratos Defense & Security Solutions, Inc.	166.8	320.6	(14.4)▼	(2.8)▼	62.3
KVH Industries Inc.	178.4	106.4	(4.8)▼	(17.4)▼	40.0
LaBarge Inc.	180.3	271.6	(4.4)▼	(5.9)▼	16.7
Micronetics Inc.	20.0	34.9	7.3▲	35.4▲	17.1
Orbit International Corp.	16.7	26.0	9.4▲	(1.4)▼	127.3
Sparton Corp.	50.2	192.7	(3.3)▼	(12.5)▼	20.6
Spectrum Control Inc.	179.1	143.2	7.5▲	45.5▲	21.3
TTM Technologies Inc.	760.3	571.7	(17.9)▼	(19.0)▼	18.2

<sup>1</sup> (\$ millions)

## OEM DEFENSE ELECTRONICS TECHNOLOGY INDEX:



■ OEM Capital Defense Electronics Technology Index ■ S&P 500 Index

## SELECTED STATISTICS FOR INDEX COMPANIES:

Trading Multiples	CY2007	CY2008	CY2009	Latest
TEV/Total Revenue	1.6x	1.4x	1.3x	1.3x
TEV/EBITDA	12.1x	10.2x	10.3x	9.6x
TEV/EBIT	15.5x	13.1x	14.4x	12.9x
<b>Profitability</b>				
Return on Assets %	6.4%	6.9%	5.4%	6.0%
Return on Capital %	12.4%	13.6%	10.6%	7.2%
Return on Equity %	9.2%	3.0%	3.1%	5.1%
<b>Margin Analysis</b>				
Gross Margin %	28.7%	28.7%	27.7%	28.5%
SG&A Margin %	14.7%	14.4%	14.6%	14.6%
EBITDA Margin %	13.1%	14.0%	12.7%	13.5%
EBIT Margin %	10.1%	10.8%	9.1%	10.0%
Net Income Margin %	5.8%	1.7%	2.4%	3.9%
<b>Growth Rates</b>				
Total Revenue, 1 Yr Growth %	20.4%	11.8%	(0.7%)	0.4%
Total Revenue, 2 Yr CAGR %	17.5%	15.7%	5.4%	3.9%
Total Revenue, 3 Yr CAGR %	16.6%	15.3%	9.8%	8.2%

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

## MARKET COMMENTARY:

The OEM Capital Defense Technology Index is up 25% on a trailing twelve month basis, compared to 12% for the S&P 500 Index over the same period. On a year-to-date basis however, if the top five performers, Argon ST, Astronics, Endwave, Micronetics and Spectrum Control were removed from the Index, it would be **DOWN** approximately 4% for the year while the S&P 500 is at break-even. It is noteworthy that all of the top five performers mentioned above were involved in at least one M&A transaction, either as buyers or sellers, in the past 18 months.

### COMMENTARY

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This indicates that looking at just the market averages can be very misleading. A number of companies are actively adjusting to the new defense environment, while others are just 'whistling past the graveyard' hoping that things continue along as they have been for an extremely bountiful past decade. The prime contractors are adjusting their product portfolios for the new reality and the industrial base of suppliers to these companies must surely work to become more efficient or become extinct.

Therefore, it will be important for defense electronics companies to focus their efforts on the growth areas in an aerospace and defense budget that, in real dollars, will be declining overall. This means stressing such areas as command & control, surveillance, unmanned systems and foreign sales more than large airframe platform solutions.

## NOTABLE RECENT TRANSACTIONS:

**Boeing Co. (NYSE: BA)** agreed to acquire **Argon ST, Inc. (NasdaqGS: STST)** for approximately \$800 million in an all cash offer. Argon ST provides systems engineering and development services, and will be an integral part of Boeing's growth strategy in the systems, cyber, and intelligence markets. The value of the transaction was an eye popping 18 times trailing twelve months EBITDA and 2.3 times revenues.

**Aeroflex Holding Corporation** agreed to acquire **Advanced Control Components, Inc. (ACC)** from **Emrise Corporation (ARCA: ERI)** for \$20 million in cash. ACC designs and manufactures RF and microwave components, subsystems, and related equipment, used primarily in the aerospace and defense markets. ACC had been purchased by Emrise Corporation, which was forced to divest its strongest profit producer to pay off outstanding secured debt. Emrise had purchased ACC less than 24 months earlier for just under \$19 million.

**Spectrum Control, Inc. (NasdaqGS: SPEC)** acquired substantially all of the assets of **Sage Laboratories, Inc.** from **Ceralta Technologies, Inc.** Sage Laboratories designs and manufactures various radio frequency and microwave components and subsystems, including receivers, multifunction assemblies, converters, filters, and shifters used in the defense industry. OEM Capital was the exclusive financial advisor to Ceralta Technologies, Inc.

## OEM Capital

### Technology Investment Banking

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