

# OEM Capital – Defense Electronics Technology MARKET FOCUS

September 2010

## MONTHLY MARKET PERFORMANCE:

Closing Prices as of August 31, 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.	14.6	21.4	5.5 ▲	(23.0) ▼	NM
AeroVironment, Inc.	492.3	249.5	(5.5) ▼	(23.7) ▼	26.4
AML Communications Inc.	13.3	16.7	(17.3) ▼	(16.2) ▼	8.4
Anaren Inc.	199.0	168.8	(14.2) ▼	(9.8) ▼	17.0
Applied Signal Technology, Inc.	261.9	216.9	(5.5) ▼	0.8 ▲	18.5
Astronics Corp.	157.8	188.2	(7.6) ▼	60.1 ▲	16.7
Comtech Telecommunications Corp.	576.7	643.3	(5.6) ▼	(42.7) ▼	12.5
Dynamics Research Corp.	98.5	267.2	1.1 ▲	(7.6) ▼	8.4
EBS Technologies Inc.	222.1	342.1	(12.7) ▼	2.3 ▲	24.2
Endwave Corp.	23.2	15.3	(17.4) ▼	(0.4) ▼	NM
Espey Manufacturing & Electronics Corp.	44.8	28.0	1.7 ▲	(1.4) ▼	12.9
Frequency Electronics Inc.	41.6	49.4	(1.0) ▼	(0.6) ▼	37.3
Global Defense Technology & Systems, Inc.	94.8	204.9	(13.8) ▼	(36.2) ▼	26.6
HECO Corp.	1,150.6	591.3	5.0 ▲	15.8 ▲	21.6
Herley Industries Inc.	208.7	182.7	(1.5) ▼	8.2 ▲	25.4
Hitite Microw ave Corporation	1,297.9	199.6	(7.4) ▼	4.2 ▲	21.9
Kratos Defense & Security Solutions, Inc.	157.5	329.1	(10.5) ▼	(8.3) ▼	67.0
KVH Industries Inc.	180.2	106.4	(10.8) ▼	(17.0) ▼	36.8
LaBarge Inc.	165.3	271.6	(16.5) ▼	(13.8) ▼	14.3
Micronetics Inc.	21.2	36.3	0.9 ▲	43.1 ▲	11.7
Orbit International Corp.	13.7	26.9	(12.8) ▼	(19.7) ▼	104.9
Spartan Corp.	51.6	192.7	(9.0) ▼	(10.1) ▼	19.0
Spectrum Control Inc.	151.3	143.2	(21.7) ▼	22.9 ▲	16.4
TTM Technologies Inc.	659.7	737.5	(19.6) ▼	(29.8) ▼	12.5

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

## MARKET COMMENTARY:

The OEM Capital Defense Technology Index is up 11.4% over the last twelve months, compared to 4.4% for the S&P 500 Index during the same period. The Index is comprised of publicly traded US defense electronics companies with annual revenues under \$600 million.

### COMMENTARY

By: Ron Klammer  
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As prime defense contractors reorganize around capabilities rather than products to reduce headcount, we believe that intelligence and surveillance, unmanned systems and cyber security will continue to rank high on the list of acquisitions these companies will look for. With renewed emphasis on fixed cost programs, we believe suppliers will be asked to take on greater risk on newer programs. This will lead to further acquisitions among all supplier tiers as bulking up size will be necessary to absorb the greater price risk on these programs. We will be going through a strategic realignment on a scale not seen for well over a decade.

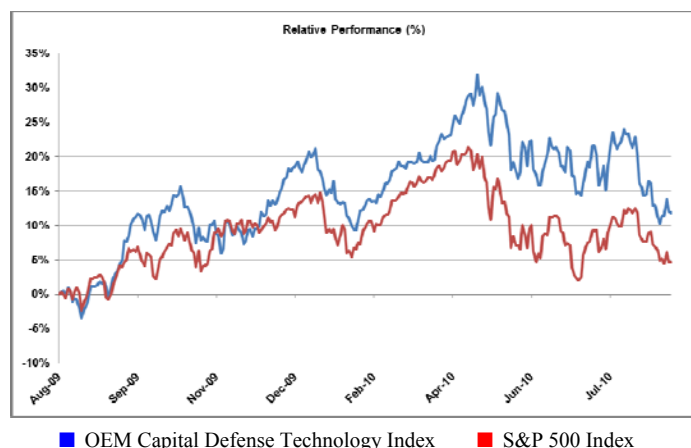
## NOTABLE RECENT TRANSACTIONS:

**L-3 Communications Holdings, Inc. (NYSE:LLL)** purchased the assets of **Airborne Technologies, Inc.** for an undisclosed amount. **Airborne Technologies, Inc.** is a provider of specialized aeronautical engineering services, manufacturing, and operations support to the aerospace, defense, and intelligence industries. The acquisition of **Airborne Technologies** will add to **L-3's** existing presence in the unmanned aircraft systems solutions market.

**Elbit Security Systems Ltd.**, a provider of security and surveillance equipment, and a subsidiary of Israel-based **Elbit Systems, Ltd. (TASE:ESLT)** acquired a minority stake in **ITL Optronics, Ltd.** **ITL Optronics** designs and develops electro-optical components and systems for military and defense applications.

**Kratos Defense & Security Solutions, Inc. (NasdaqGS:KTOS)** acquired **DEI Services Corporation** from **Arotech Corp. (NasdaqGM:ARTX)**. **DEI Services Corporation** designs, develops, and deploys simulation and training devices to military customers. Additionally, **DEI** offers training system upgrades, course development, and other engineering services.

## OEM DEFENSE ELECTRONICS TECHNOLOGY INDEX:



## SELECTED STATISTICS FOR INDEX COMPANIES:

Trading Multiples	CY2007	CY2008	CY2009	Latest
TEV/Total Revenue	1.6x	1.4x	1.3x	1.4x
TEV/EBITDA	12.1x	10.2x	10.3x	9.9x
TEV/EBIT	15.5x	13.1x	14.4x	13.3x
<b>Profitability</b>				
Return on Assets %	6.4%	6.9%	5.4%	5.8%
Return on Capital %	12.4%	13.6%	10.6%	7.1%
Return on Equity %	9.2%	3.0%	3.1%	6.2%
<b>Margin Analysis</b>				
Gross Margin %	28.7%	28.7%	27.7%	29.1%
SG&A Margin %	14.7%	14.4%	14.6%	14.5%
EBITDA Margin %	13.1%	14.0%	12.7%	14.3%
EBIT Margin %	10.1%	10.8%	9.1%	10.7%
Net Income Margin %	5.8%	1.7%	2.4%	4.4%
<b>Growth Rates</b>				
Total Revenue, 1 Yr Growth %	20.4%	11.8%	(0.7%)	4.4%
Total Revenue, 2 Yr CAGR %	17.5%	15.7%	5.4%	5.1%
Total Revenue, 3 Yr CAGR %	16.6%	15.3%	9.8%	7.9%

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

## OEM Capital

### Technology Investment Banking

Software · Communications · Computers · Electronics

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