

# OEM Capital – Defense Electronics Technology MARKET FOCUS

April 2011

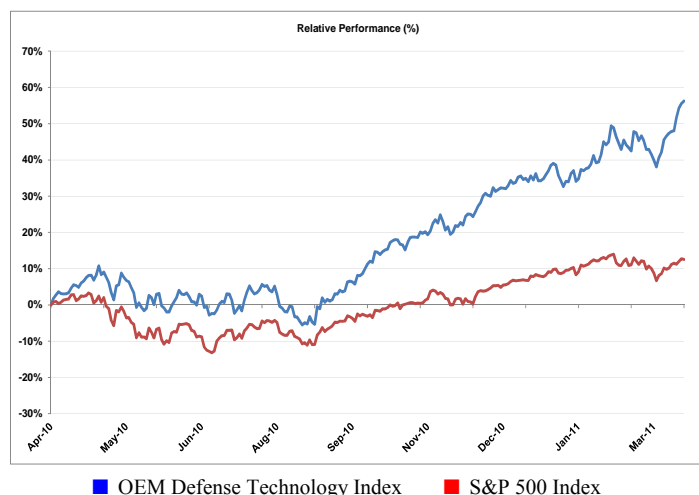
## MONTHLY MARKET PERFORMANCE:

Closing Prices as of March 31, 2011

Current Company Name	Market Cap <sup>1</sup>	Revenue <sup>1</sup>	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	61.6	26.1	(3.4)▼	24.1▲	NM
AeroVironment, Inc.	765.7	285.8	23.3▲	30.3▲	32.2
AML Communications Inc.	22.7	15.8	1.0▲	57.5▲	24.7
Anaren Inc.	303.7	177.2	(1.8)▼	(3.6)▼	18.5
Astronics Corporation	275.9	203.9	18.0▲	19.9▲	19.8
Dynamics Research Corp.	164.8	273.0	7.3▲	22.0▲	11.2
EMS Technologies Inc.	299.6	355.2	3.9▲	(0.6)▼	37.2
Endw ave Corp.	23.5	16.7	(9.5)▼	4.8▲	NM
Espey Manufacturing & Electronics Corp.	58.1	28.8	12.6▲	5.1▲	20.3
Giga-tronics Inc.	14.2	21.0	9.6▲	7.1▲	24.5
Frequency Electronics Inc.	84.9	50.3	28.6▲	52.9▲	44.1
Hittite Microw ave Corporation	1,993.0	257.3	4.9▲	4.5▲	24.3
Kratos Defense & Security Solutions, Inc.	336.8	462.6	(1.0)▼	8.0▲	66.1
KVH Industries Inc.	223.1	108.7	6.3▲	26.5▲	160.2
LaBarge Inc.	280.1	332.5	13.5▲	12.7▲	17.7
Mercury Computer Systems, Inc.	594.2	231.1	9.0▲	15.1▲	24.2
Micronetics Inc.	18.7	35.1	(1.0)▼	(9.3)▼	12.0
Orbit International Corp.	16.2	28.0	(7.5)▼	(9.1)▼	26.9
Spartan Corp.	79.4	182.5	(4.4)▼	(5.8)▼	18.9
Spectrum Control Inc.	258.6	167.3	41.1▲	31.3▲	19.3

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

## 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	8.9x
TEV/EBIT	15.5x	13.1x	14.4x	11.4x
<b>Profitability</b>				
Return on Assets %	6.4%	6.9%	5.4%	7.0%
Return on Capital %	12.4%	13.6%	10.6%	8.5%
Return on Equity %	9.2%	3.0%	3.1%	9.3%
<b>Margin Analysis</b>				
Gross Margin %	28.7%	28.7%	27.7%	28.8%
SG&A Margin %	14.7%	14.4%	14.6%	13.2%
EBITDA Margin %	13.1%	14.0%	12.7%	15.5%
EBIT Margin %	10.1%	10.8%	9.1%	12.1%
Net Income Margin %	5.8%	1.7%	2.4%	6.4%
<b>Growth Rates</b>				
Total Revenue, 1 Yr Growth %	20.4%	11.8%	(0.7%)	14.5%
Total Revenue, 2 Yr CAGR %	17.5%	15.7%	5.4%	9.1%
Total Revenue, 3 Yr CAGR %	16.6%	15.3%	9.8%	10.2%

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

## MARKET COMMENTARY:

The OEM Defense Technology Index is up 55.0% over the last twelve months, compared to 12.0% 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 \$400 million.

### COMMENTARY

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The wave of consolidation currently happening among defense companies has been fairly obvious (and anticipated) to followers of the industry, but to others who might not be privy to the details, they need not look any further than the OEM Capital Defense Technology Index for proof that the industry landscape is changing quickly. Of the 25 companies that comprised the Index in our first issue of the Defense Technology Market Focus (May 2010), five of them (Applied Signal Technology, Argon ST, Comtech Telecommunications, Herley Industries, Global Defense Technology & Systems) have been acquired, while acquisitions of 4 others (AML Communications, Endwave Corp., LaBarge, Spectrum Control) are currently pending. Assuming all of these transactions make it to the finish line, 36% of the companies in the Index would have been acquired over the last 12 months. With no sign of this trend slowing down, that number is almost certain to increase over the coming months.

## NOTABLE RECENT TRANSACTIONS:

**Ares Private Equity Group** agreed to acquire **Global Defense Technology & Systems, Inc.** for approximately \$220 million in cash, a deal valued at 1.3x LTM revenue, 15.0x LTM EBITDA, and 19.6x LTM EBIT. **Global Defense Technology & Systems, Inc.** (n.k.a. Sotera Defense Solutions) is a McLean Virginia-based provider of technology systems and services used by national security agencies and the US government.

**Senior plc (LSE:SNR)**, a United Kingdom-based manufacturer of components and systems for OEMs in the aerospace, defense and energy markets, acquired Monroe, Washington-based **Damar Machine Company**, a provider of systems integration services and manufactured parts to the aerospace and defense industries for approximately \$24.5 million.

**API Technologies Corp. (OTCBB:ATNY)**, a design engineering and contract manufacturing company based in Chicago, Illinois, agreed to acquire **Spectrum Control, Inc. (NasdaqGS:SPEC)** for approximately \$260 million in cash, a deal valued at 1.6x LTM revenue, 9.3x LTM EBITDA, and 12.3x LTM EBIT. **Spectrum Control, Inc.** is a Fairview, Pennsylvania-based manufacturer of electronic components and systems used in a variety of applications, including aerospace and defense.

## OEM Capital

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