

OEM Capital – Defense Electronics Technology MARKET FOCUS

August 2011

MONTHLY MARKET PERFORMANCE:

Closing Prices as of July 29, 2011

Current Company Name	Market Cap ¹	Revenue ¹	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	34.4	30.7	(26.8)▼	(30.9)▼	NM
AeroVironment, Inc.	632.8	292.5	(17.2)▼	7.5▲	26.4
Anaren Inc.	302.5	179.2	(0.8)▼	(4.0)▼	20.1
API Technologies Corp.	331.1	111.4	(6.2)▼	0.0▲	0.0
Arotech Corp.	27.1	61.3	(16.4)▼	9.6▲	NM
Astronics Corporation	378.1	212.3	5.0▲	51.9▲	20.2
Dynamics Research Corp.	122.1	276.2	(7.8)▼	(9.8)▼	8.6
Espey Manufacturing & Electronics Corp.	58.3	28.8	2.6▲	5.8▲	17.0
Frequency Electronics Inc.	87.0	53.2	12.3▲	56.0▲	37.8
GeoEye, Inc.	886.0	342.8	8.5▲	(5.7)▼	20.6
Giga-tronics Inc.	10.0	19.8	(2.9)▼	(24.8)▼	101.8
Hittite Microwave Corporation	1,754.6	265.5	(6.9)▼	(8.3)▼	20.4
Kratos Defense & Security Solutions, Inc.	373.4	534.6	(7.4)▼	(17.5)▼	98.0
KVH Industries Inc.	142.4	109.7	(9.5)▼	(19.9)▼	NM
Mercury Computer Systems, Inc.	506.7	228.7	(8.9)▼	(8.7)▼	22.9
Micronetics Inc.	25.1	36.0	5.7▲	21.7▲	20.7
Orbit International Corp.	22.9	29.3	1.9▲	27.3▲	15.4
Spartan Corp.	94.5	182.5	(1.1)▼	11.9▲	17.5
The KEYW Holding Corporation	292.0	144.9	(7.3)▼	(23.9)▼	NM

¹ (\$ millions)

MARKET COMMENTARY:

The OEM Defense Technology Index is up 36.8% over the last twelve months, compared to 15.9% 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 \$500 million.

COMMENTARY

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However, more recently the share prices of defense oriented electronic companies have fallen faster than the declining stock market. And, we are starting to see the effects of the defense budget cutbacks with companies starting to spin off underperforming business units. These include L-3 Communications, Northrop Grumman and ITT. Well managed companies will seek to focus on their core areas of competitive advantage and emerging technologies.

The fact that the top 15 contractors have more than \$50,000 million in cash reserves and are not growing revenues speaks to M&A as a growth engine. However, according to a Bain & Co. analysis, these companies will look more to filling gaps to expand breadth and add next generation technologies and that most of the consolidation will occur in the second and third tiers of the supply chain. In another survey by the accounting firm KPMG, over 60% of the respondents said that they would be involved in an M&A deal as a seller or buyer.

Companies in the industry that do not even consider such an alternative will be at a big disadvantage.

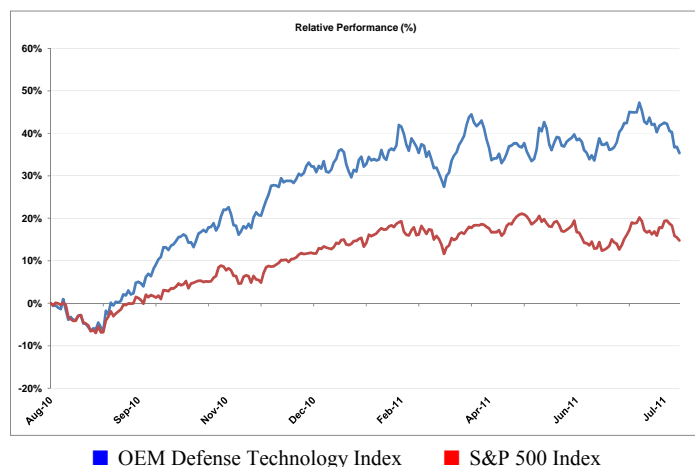
NOTABLE RECENT TRANSACTIONS:

Rafael Advanced Defense Systems Ltd. and Aeronautics Defense Systems Ltd. acquired **CONTROP Precision Technologies Ltd.** for approximately \$102 million, a transaction valued at approximately 2 times trailing revenue. **CONTROP Precision Technologies**, based in Israel, develops and manufactures optical and precision motion control systems. The systems are used in defense applications such as UAVs and aircrafts.

Boeing Integrated Defense Systems, Inc. agreed to acquire **Solutions Made Simple, Inc.** Terms of this transaction were not disclosed. **Solutions Made Simple**, based in Reston, Virginia, is an information technology company that provides data management services.

EnPro Industries, Inc. (NYSE:NPO), a Charlotte, North Carolina based manufacturer of engineered products, acquired **Tara Technologies Corporation**. Terms of the transaction were not disclosed. **Tara Technologies**, based in Daytona Beach, Florida, designs and manufactures precision components and subassemblies used in military, aerospace, energy, and semiconductor products.

OEM DEFENSE ELECTRONICS TECHNOLOGY INDEX:



SELECTED STATISTICS FOR INDEX COMPANIES:

Trading Multiples	CY2008	CY2009	CY2010	Latest
TEV/Total Revenue	1.7x	1.9x	1.9x	1.9x
TEV/EBITDA	9.7x	10.3x	10.3x	10.7x
TEV/EBIT	12.9x	13.3x	13.3x	14.0x
Profitability				
Return on Assets %	3.8%	4.7%	5.7%	8.4%
Return on Capital %	5.0%	6.1%	7.3%	10.6%
Return on Equity %	-0.3%	2.7%	10.4%	10.2%
Margin Analysis				
Gross Margin %	32.8%	34.9%	38.6%	37.6%
SG&A Margin %	18.3%	17.7%	17.5%	17.1%
EBITDA Margin %	11.7%	14.8%	18.4%	17.9%
EBIT Margin %	8.1%	9.4%	13.1%	12.8%
Net Income Margin %	-2.2%	1.9%	8.7%	8.7%
Growth Rates				
Total Revenue, 1 Yr Growth %	9.5%	9.5%	13.3%	16.3%
Total Revenue, 2 Yr CAGR %	10.4%	9.5%	10.2%	10.6%
Total Revenue, 3 Yr CAGR %	10.4%	10.1%	10.0%	10.3%

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

OEM Capital

Technology Investment Banking

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