

OEM Capital – PHOTONICS MARKET FOCUS

January 2011

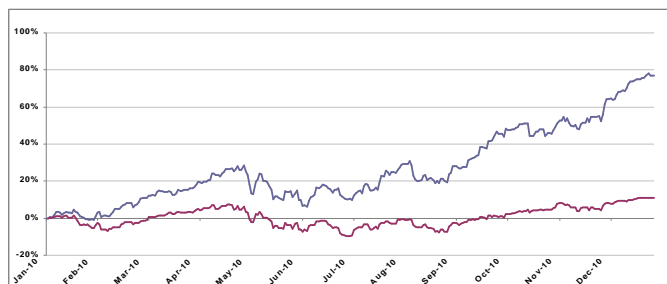
MONTHLY MARKET PERFORMANCE:

Closing Prices as of December 31, 2010

| Company Name | Market Cap | Revenue | % Price Change [30 day] | % Price Change [YTD] | P/E |
|---------------------------|------------|-----------|-------------------------|----------------------|------|
| Advanced Photonix Inc. | 42.2 | 23.0 | 42.1 | 118.9 | NM |
| Agilent Technologies Inc. | 14,401.2 | 5,444.0 | 14.7 | 32.4 | 32.4 |
| Andor Technology plc | 122.7 | 42.7 | 8.9 | 190.4 | 34.4 |
| AXT Inc. | 329.3 | 86.5 | 21.1 | 208.0 | 26.1 |
| Cognex Corp. | 1,177.8 | 257.1 | 2.8 | 62.2 | 33.9 |
| Coherent Inc. | 1,130.6 | 605.1 | 5.5 | 51.0 | 33.0 |
| CyberOptics Corp. | 58.8 | 52.0 | (3.5) | 28.8 | 81.6 |
| Dynasil Corp | 62.9 | 43.0 | (1.2) | 81.0 | 27.5 |
| EXFO Electro Optical | 415.4 | 202.8 | 12.0 | 74.6 | 71.8 |
| Finisar Corp. | 2,398.5 | 804.3 | 50.2 | 225.2 | 53.9 |
| Gooch & Housego plc | £89.2 | £44.7 | 6.7 | 212.9 | 29.0 |
| Halma plc | £1,352.9 | £486.1 | 8.2 | 43.3 | 23.3 |
| II-VI Inc. | 1,435.7 | 399.7 | 11.4 | 44.2 | 32.8 |
| Infinera Corp. | 1,045.7 | 427.4 | 25.4 | 13.8 | NM |
| IPG Photonics | 1,478.4 | 252.6 | 0.3 | 82.0 | 50.9 |
| JDS Uniphase Corp | 3,224.3 | 1,471.3 | 19.4 | 71.2 | NM |
| KLA-Tencor Corp | 6,455.4 | 2,160.4 | 0.6 | 4.7 | 20.7 |
| Newport Corp. | 640.6 | 448.5 | 11.7 | 84.4 | 42.3 |
| Oclaro, Inc. | 655.2 | 428.8 | 29.4 | 69.7 | 67.5 |
| Ophir Optonics Ltd. | nis 411.4 | nis 391.6 | 15.3 | 3.5 | 20.4 |
| Photonic Products | 11.0 | 10.4 | (5.0) | (5.0) | NM |
| Rofin-Sinar | 1,006.4 | 423.6 | 18.1 | 48.6 | 36.8 |
| Rudolph Tech | 258.4 | 170.2 | 11.5 | 15.9 | 19.2 |
| Zygo Corp. | 215.2 | 111.1 | 5.2 | 69.7 | 17.9 |

figures in \$ millions unless otherwise noted

Photonics Market Focus Index vs. S&P 500:



OEM Capital Photonics Index S&P 500 Index

SELECTED STATISTICS FOR INDEX COMPANIES:

| Key Statistics | CY2006 | CY2007 | CY2008 | CY2009 | Latest |
|------------------------------|---------|---------|---------|--------|---------|
| TEV/Total Revenue | 1.9x | 1.0x | 2.2x | 2.2x | 2.5x |
| TEV/EBITDA | 11.1x | 7.1x | 25.5x | 15.6x | 14.3x |
| TEV/EBIT | 12.9x | 9.0x | 38.5x | 19.5x | 17.5x |
| Gross Margin % | 48.2% | 49.8% | 48.4% | 45.4% | 48.7% |
| EBITDA Margin % | 13.8% | 16.0% | 14.3% | 7.5% | 17.1% |
| EBIT Margin % | 9.1% | 11.3% | 9.1% | 1.7% | 12.4% |
| Net Income Margin % | 8.9% | 8.8% | (5.5%) | (5.0%) | 9.4% |
| Total Revenue, 1 Yr Growth % | (15.4%) | (9.5%) | 1.0% | 26.8% | (25.0%) |
| Total Revenue, 2 Yr CAGR % | (10.6%) | (11.6%) | (4.3%) | 13.2% | 0.6% |
| Total Revenue, 3 Yr CAGR % | (6.4%) | (9.7%) | (6.9%) | 5.2% | (1.2%) |
| EBITDA, 1 Yr Growth % | (29.3%) | (23.1%) | 13.2% | 147.3% | (76.5%) |
| EBITDA, 2 Yr CAGR % | (18.2%) | (25.4%) | (6.6%) | 67.3% | (1.1%) |
| EBITDA, 3 Yr CAGR % | (38.0%) | (19.4%) | (12.5%) | 29.8% | (4.0%) |
| Inventory, 1 Yr Growth % | (11.2%) | (2.8%) | 2.1% | 20.7% | (18.6%) |

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

Performance of the **S&P 500** from January 4th 2010 through December 31st 2010: up 11.0% for the year. Performance of the **Photonics Market Focus Index** up 76.8% for the year. 23 of the 24 companies in the Index were up for the year.

Photonics Market Focus Index companies trade for an average of 2.5 times sales and 22.3 times earnings. Take a look at some of the PE ratios on the left; an old professor of mine made the case that the PE ratio is directly related to the expected growth rate (in percent) of a publicly traded company. Many of the industry executive's I've spoken with recently talk about 25% to 30% growth in photonics, with new markets like the BRIC countries driving global sales to new heights.

COMMENTARY

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NOTABLE RECENT TRANSACTIONS:

Gooch & Housego PLC announced the acquisition of **EM4** (Bedford MA) on December 16th. **Gooch & Housego plc** will pay \$12 million in cash and \$7 million as earn out based on EM4's EBITDA in its financial year to December 31, 2011, in cash in March 2012. **EM4** designs, develops, and manufactures optoelectronic components for defense, homeland security, life science, CATV, telecommunication, and industrial markets.

IPO / Financing News:

Focused Photonics (Hangzhou, China) announced a public offering in December. Through their USA subsidiary, Focused Photonics markets online gas analyzers, diode laser absorption spectrometers and other photonics based industrial process control equipment. **Focused Photonics** had hoped to go public in 2008 but the market crash and recession wiped out any possibility of an offering in 2008.

In December **GSI Group Inc.** (OTCPK: LASR.D) announced s shelf registration of \$28.26 million, a reverse stock-split and application to list on the NASDAQ Global Market. **GSI** has built a portfolio of businesses in laser systems, lasers and precision motion through an aggressive corporate development program implemented over the past 12-13 years. The most notable deal was the GSI's tender offer for and acquisition of **Excel Technology** during the summer of 2008 for approximately \$350 million, a deal that nearly killed the Company (In bankruptcy from November 2009 to May 2010).

mBio Diagnostics (Boulder, CO) raised \$2 million in a private placement announced on December 23rd. **mBio** operates as a subsidiary of **Precision Photonics**. **mBio** develops multiplexed optical bioassay systems for HIV and AIDS-related co-infection screening as well as integrated sample handling and detection systems for research applications in the life sciences sector.

PRIVATE EQUITY WRAP-UP 2010

Private equity deals rebounded in 2010. Buyout shops closed 3,380 transactions valued at \$225 billion, almost twice the volume of 2009 (Thomson Reuters) but it was the worst year since 2004 for fundraising. 484 funds reported raising a total of just \$225 billion. PEGs have over \$600 billion in dry powder. If the IPO market heats up in 2011 we expect more PEG exits and it could be a good year for returns.

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