

OEM Capital – Defense Electronics Technology MARKET FOCUS

July 2011

MONTHLY MARKET PERFORMANCE:

Closing Prices as of June 30, 2011

Current Company Name	Market Cap ¹	Revenue ¹	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	45.4	28.8	(9.2)▼	(8.6)▼	NM
AeroVironment, Inc.	775.9	292.5	17.1▲	31.8▲	30.4
Anaren Inc.	321.2	177.2	24.3▲	1.9▲	22.6
API Technologies Corp.	345.9	111.4	2.6▲	0.0▲	0.0
Arotech Corp.	32.3	65.9	6.3▲	30.5▲	NM
Astronics Corporation	336.5	203.9	14.9▲	46.7▲	24.4
Dynamics Research Corp.	137.8	273.0	(10.7)▼	1.8▲	10.1
EMS Technologies Inc.	509.4	357.4	26.4▲	66.7▲	44.0
Espey Manufacturing & Electronics Corp.	57.3	28.8	(11.4)▼	3.9▲	17.0
Frequency Electronics Inc.	78.6	53.2	(1.2)▼	41.6▲	37.8
GeoEye, Inc.	829.2	336.6	12.8▲	(11.8)▼	21.8
Giga-tronics Inc.	10.5	21.0	(13.2)▼	(20.7)▼	21.2
Hittite Microwave Corporation	1,940.1	257.3	(2.4)▼	1.4▲	22.8
Kratos Defense & Security Solutions, Inc.	290.4	462.6	0.2▲	(7.7)▼	56.3
KVH Industries Inc.	158.1	108.7	(10.2)▼	(11.0)▼	143.6
Mercury Computer Systems, Inc.	563.7	231.1	(2.3)▼	1.6▲	22.3
Micronetics Inc.	22.9	35.3	16.4▲	11.3▲	16.3
Orbit International Corp.	24.9	28.0	16.7▲	38.4▲	41.0
Sparton Corp.	104.6	182.5	7.7▲	23.9▲	25.0
The KEYW Holding Corporation	320.7	127.9	9.8▲	(15.5)▼	NM

¹ (\$ millions)

MARKET COMMENTARY:

The OEM Defense Technology Index is up 60.2% over the last twelve months, compared to 28.5% 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

By: Ron Klammner
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We have added four firms to our Index this month to compensate for the firms that have ceased to exist as a result of being sold. The new firms are API Technologies, Arotech, GeoEye and KEYW. It is interesting to note that only seven public companies with market capitalizations under \$100 million remain in the Index.

Defense budgets in traditional markets are under pressure with lower budgets anticipated for the next few years, so the Index's above average performance this past year is clearly based on most of the companies in the Index being attractive acquisition candidates by larger defense oriented firms.

A new report by Deloitte Touche Tohmatsu outlines technology requirements to address new adversaries and market opportunities in remotely piloted vehicles, cyber security, intelligence, surveillance, reconnaissance, mission operations, system integration, data fusion, directed energy, precision strike, and energy security.

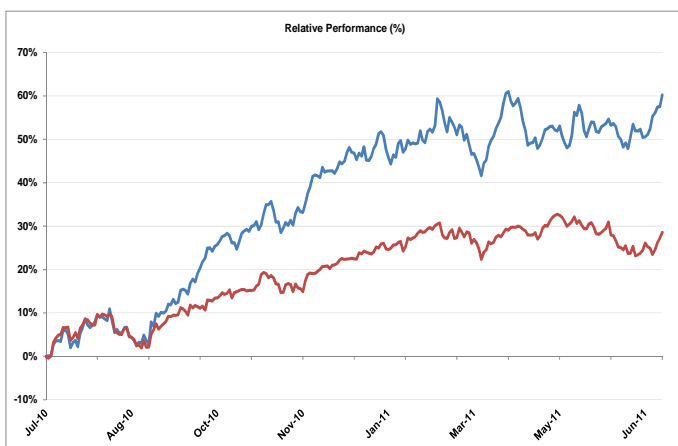
NOTABLE RECENT TRANSACTIONS:

Honeywell International Inc. (NYSE:HON), a Morristown, New Jersey-based aerospace and defense company has agreed to acquire **EMS Technologies Inc. (NasdaqGS:ELMG)** for approximately \$530 million in cash, a deal valued at 1.4 times LTM revenue and 12.7 times LTM EBITDA. **EMS Technologies**, based in Norcross, Georgia, designs and manufactures wireless communications products used in defense and commercial applications.

CACI International Inc. (NYSE:CACI), an Arlington, Virginia-based IT services provider, agreed to acquire **Pangia Technologies, LLC**. Financial details of the transaction were not disclosed. **Pangia Technologies** is a Fulton, Maryland-based company that provides software engineering, information technology and security services to the intelligence and defense communities.

Saab AB (OM:SAAB B), a Swedish provider of products and services used in military and civil security markets, agreed to acquire **Sensis Corporation** for approximately \$200 million in cash. **Sensis Corporation**, based in Syracuse, New York, provides air defense and air traffic control solutions.

OEM DEFENSE ELECTRONICS TECHNOLOGY INDEX:



■ OEM Defense Technology Index ■ S&P 500 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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