

# OEM Capital – Defense Electronics Technology MARKET FOCUS

June 2011

## MONTHLY MARKET PERFORMANCE:

Closing Prices as of May 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.	50.0	26.1	(1.2)▼	0.6▲	NM
AeroVironment, Inc.	661.1	285.8	5.4▲	12.5▲	29.6
Anaren Inc.	258.5	177.2	3.0▲	(18.0)▼	18.9
Astronics Corporation	293.7	203.9	3.1▲	27.7▲	20.4
Dynamics Research Corp.	154.4	273.0	2.8▲	14.0▲	10.6
EVS Technologies Inc.	400.2	357.4	3.3▲	31.9▲	43.8
Endwave Corp.	19.9	13.1	(16.7)▼	(12.3)▼	NM
Espey Manufacturing & Electronics Corp.	64.6	28.8	2.4▲	17.2▲	17.2
Giga-tronics Inc.	12.1	21.0	(11.6)▼	(8.6)▼	19.2
Frequency Electronics Inc.	79.6	50.3	(6.4)▼	43.4▲	39.8
Hittite Microwave Corporation	1,987.4	257.3	(1.5)▼	3.9▲	22.2
Kratos Defense & Security Solutions, Inc.	289.8	462.6	(11.2)▼	(7.8)▼	54.5
KVH Industries Inc.	176.1	108.7	(9.6)▼	(0.9)▼	141.6
LaBarge Inc.	303.3	332.5	0.1▲	22.0▲	17.8
Mercury Computer Systems, Inc.	577.0	231.1	(1.0)▼	4.0▲	22.1
Micronetics Inc.	19.7	35.3	1.4▲	(4.4)▼	14.9
Orbit International Corp.	21.3	28.0	26.1▲	18.6▲	35.7
Spartan Corp.	97.1	182.5	16.6▲	15.0▲	22.4

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

## MARKET COMMENTARY:

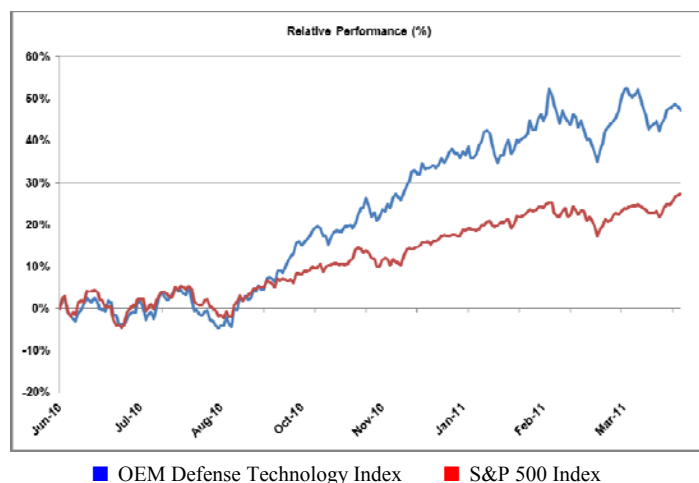
The OEM Defense Technology Index is up 48.0% over the last twelve months, compared to 25.6% for the S&P 500 Index during the same period. The Index is comprised of publicly traded US defense electronics companies with annual revenues under \$500 million.

### COMMENTARY

By: Ron Klammner  
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As the wars in Iraq and Afghanistan wind down and order backlogs begin to shrink, we believe that the trend toward outsourcing will reverse and defense oriented companies will increasingly seek to in-source their workloads as a way of protecting their workers and bottom line. Lower tier defense companies that grew rapidly during the Defense Department's growth years will, therefore, weaken as larger companies invade their market areas in pursuit of a more diverse business mix and focusing on growth areas. This will lead to a tidal wave of consolidation that will eliminate many smaller firms.

## OEM DEFENSE ELECTRONICS TECHNOLOGY INDEX:



## NOTABLE RECENT TRANSACTIONS:

**Kratos Defense & Security Solutions, Inc. (NasdaqGS:KTOS)** agreed to acquire **Integral Systems, Inc. (NasdaqGS:ISYS)** for approximately \$260 million, a deal valued at 1.3 times LTM revenue. **Integral Systems** is a Maryland-based provider of IT services and solutions to customers in a variety of industries, including defense, aerospace and government.

**Neah Power Systems, Inc. (OTCPK:NPWZ)** agreed to acquire **Exigent Security Products, Inc.** Terms of the transaction were not disclosed. **Exigent Security Products**, based in Chicago, Illinois, develops chemical, radiological and nuclear detection systems as well as cybersecurity and alert systems. Their products are used in military, government, transportation and medical applications.

**Astrodyne Corporation** acquired **Jerome Industries Corporation**, a New Jersey-based manufacturer of power adapters and supplies to customers in the military, medical and industrial industries. Terms of the transaction were not disclosed.

**IDENTEC GROUP Corporation** acquired **Hothead Technologies, Inc.**, a Texas-based manufacturer of heat monitoring tools and sensor technologies for military, public safety, HAZMAT, sports and health markets. Terms of the transaction were not disclosed.

## SELECTED STATISTICS FOR INDEX COMPANIES:

Trading Multiples	CY2008	CY2009	CY2010	Latest
TEV/Total Revenue	1.0x	1.2x	1.5x	1.5x
TEV/EBITDA	6.5x	9.5x	8.9x	9.2x
TEV/EBIT	8.2x	13.0x	11.3x	11.8x
<b>Profitability</b>				
Return on Assets %	6.6%	5.2%	6.8%	10.4%
Return on Capital %	8.1%	6.3%	8.4%	12.8%
Return on Equity %	3.2%	3.1%	10.6%	10.1%
<b>Margin Analysis</b>				
Gross Margin %	28.7%	27.7%	30.1%	29.5%
SG&A Margin %	14.4%	14.6%	13.9%	13.5%
EBITDA Margin %	14.0%	12.7%	16.4%	16.2%
EBIT Margin %	10.8%	9.1%	12.8%	12.5%
Net Income Margin %	1.7%	2.4%	7.4%	7.2%
<b>Growth Rates</b>				
Total Revenue, 1 Yr Growth %	11.8%	(0.7%)	27.9%	26.7%
Total Revenue, 2 Yr CAGR %	15.7%	5.4%	11.8%	12.9%
Total Revenue, 3 Yr CAGR %	15.3%	9.8%	11.6%	11.9%

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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