

OEM Capital – Defense Electronics Technology MARKET FOCUS

May 2011

MONTHLY MARKET PERFORMANCE:

Closing Prices as of April 30, 2011

Current Company Name	Market Cap ¹	Revenue ¹	% 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
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
Endwave 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 Microwave Corporation	1,993.0	257.3	4.9▲	4.8▲	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
Sparton Corp.	79.4	182.5	(4.4)▼	(5.8)▼	18.9

¹ (\$ millions)

MARKET COMMENTARY:

The OEM Defense Technology Index is up 34.6% over the last twelve months, compared to 13.1% 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.

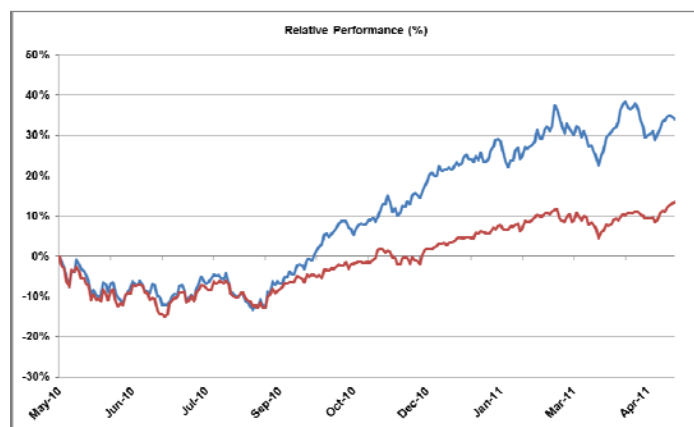
COMMENTARY

By: Ron Klammner
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The defense sector has seen greater caution on the part of European firms that have aggressively pursued US companies as spending soared over the past decade. However, at this time, there is less consistent activity from European buyers in the US marketplace even though the US defense budget is equal to the cumulative defense budget of the rest of the world. While the previous strategy of such players as Cobham and Smiths was to consolidate smaller players and become more important to the US prime contractors, there seems to be emphasis to turn attention to those areas where there may be more growth potential.

With Ashton Carter, Undersecretary of Defense for Acquisition, Technology and Logistics saying it would be understandable for the industry to consolidate in anticipation of shrinking US defense budgets. The Pentagon, he said, would seek to block mergers within the top tier of the industry but would support acquisitions of lower tier suppliers. Many of the top US defense firms are sitting on loads of cash that could fuel a fresh round of such acquisitions of small and medium size companies so they may continue to show revenue growth. Also, private equity interest has increased in the defense and aerospace sectors to serve as aggregators of smaller companies that will be more attractive to larger acquirers.

OEM DEFENSE ELECTRONICS TECHNOLOGY INDEX:



■ OEM Defense Technology Index ■ S&P 500 Index

NOTABLE RECENT TRANSACTIONS:

Ducommun Inc. (NYSE:DCO) agreed to acquire **LaBarge Inc. (AMEX:LB)**, a St. Louis, Missouri-based manufacturer of electronic systems, devices, and interconnect systems for defense, government, aerospace, natural resources and industrial customers for approximately \$340 million, a deal valued at a 1.0 times LTM revenue and 8.7 times LTM EBITDA.

Morpho Detection, Inc., a California-based manufacturer of detection systems agreed to acquire **Syagen Technology, Inc.** **Syagen** is a California-based manufacturer of molecular analysis instruments that are used in homeland security, defense, and life sciences applications. Terms of this deal 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
Profitability				
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%
Margin Analysis				
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%
Growth Rates				
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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