

## UPDATE Equities | Israel

August 19 2008

Recommendation:

**BUY**

**Risk:**

**High**

Actual Price: EUR 2,72

New Fair Value: EUR 4,65

Old Fair Value: EUR 4,17

Potential: 71%

Sector Technology  
Segment Media Software

Reuters Code: OHTG.F  
Bloomberg Code: OHT GR

Home Page: www.orad.tv  
Fiscal Year: December

### Trading Data

High/Low 52w EUR 3,23 - 1,58  
Market Cap.: EUR 30,3 Mio  
Shares outstanding: 11,087 Mio  
Free Float: 55%

### Price Chart



### Financial Calendar:

September 08 AGM  
November 08: Q3 2008 results

Please check Disclaimer and other Information on Page 3

## Orad Hi-Tec Systems

On August 18th, 2008 the Orad Hi-Tec Systems once again reported excellent second quarter and consequently half year 2008 results.

In the first half of 2008 sales gained 58% reaching USD 15,77 Mio. Gross profit was USD 10,6 Mio. (representing a gross profit margins of 67,4%). Net profit increased by 344% to USD 2 Mio. Overall Cash came in at USD 15,2 Mio.

The figures are very convincing, showing that Orad is on a growth track with a strong back-log, strong growth especially in the On-Air graphics market as well as the ability to close large contracts all around the world. Looking at the latest reported results of their competitors, which were satisfying but not as stunning as Orads results, we are definite, that Orad Hi-Tec must have gained market share.

Consequently we are raising our estimates for 2008 on the sales as well as on the net profit side. This upgrade results in an increase of our stock price target to EUR 4,65 (up from EUR 4,17), representing a appreciation potential of 71%.

### Positive First Half 2008 leads to an increase in 2008 estimates.

We are raising our estimates for the full year 2008 (in USD Mio):

	old	new
Sales:	29,73	31,48
Growth:	30%	37%
Gross Profit:	19,62	21,41
Gross Margins:	66%	68%
Net Profit:	2,59	3,34
Net Margins:	8,7%	10,6%
EPS:	0,23	0,30

Due to a convincing first half year 2008 and the ongoing positive business environment combined with proven and accepted products we have very little doubt that new revised numbers will be achieved. Strategic management decisions of the past like successfully restructuring the sales force as well as strongly investing in Research & Development are now proving to bear fruits.

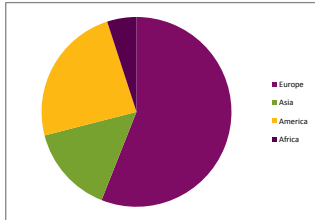
Business in all sectors should stay strong and ongoing market share gains in all segments are very likely.

For 2009 and 2010 we are currently leaving our estimates for sales growth (+30%), gross margins (68%) and net margins (11,7%) unchanged. We are looking forward for Orads presentation at the IBC Convergence in Amsterdam this September - showcasing all the latest technology and foremost business ideas in broadcasting and media. There the company will present its upcoming products for the next years. We are confident that the product pipeline will be good for some positive surprises and will rethink our estimates for 2009 and 2010 after the exhibition.

### Sticking to our BUY rating and raising target price to EUR 4,65

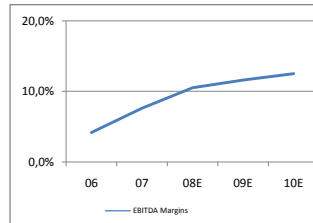
To calculate our target price we are using a DCF as well as a peer group analysis. Due to the improved outlook we are increasing our fair value of Orad Hi-Tec Systems to EUR 4,65. For our DCF calculation we are using a WACC of 12,8% and a long-term growth rate of 2,5%. We are waiting both methods, the peer group as well as the DCF method by 50% to come up with our final target price.

## Sales Distribution 2007



Source: Orad Hi-Tec, VEM Aktienbank AG

## EBITDA Margins Trends



Source: Orad Hi-Tec, VEM Aktienbank AG

## Company Profile

The company was founded in Israel in 1993 and focuses on the development and the distribution of innovative technologies for TV broadcasting, virtual reality and sports events. Orad focuses on three segments: "Graphics" (graphic software), "Virtual Sets" (virtual studios) and "Sports" (graphic software for sports events). The company is active worldwide. Clients include companies like CCTV, Chinas biggest TV station, FOX, Turner, CBC, Deutsche Welle, PCCW, TV Globo, Edmond de Rothschild and the Cohanckick Fund hold more than 20% of the company. The biggest competitor is VIZRT.

## Financials

Fiscal Year Ending December 31

Profit & Loss		2006	2007	2008E	2009E	2010E	Cash Flow Statement		2006	2007	2008E	2009E	2010E
in Mio USD													
Sales		17,72	22,94	31,48	40,91	53,23	Net Income		0,64	1,78	3,34	4,78	6,69
Percentage change in %			29%	37%	29,9%	30,1%	Amortisation		0,57	0,55	0,55	0,55	0,55
EBITDA		0,74	1,75	3,32	4,76	6,67	Changes in Working Capital		2,71	2,65	1,34	1,48	1,88
in % to Sales		4,2%	7,6%	10,5%	11,6%	12,5%	Cash flow from operative Business		3,91	4,97	5,23	6,80	9,11
EBIT		0,17	1,21	2,77	4,21	6,12	Capex		-0,17	-1,11	-0,47	-0,61	-0,80
in % to Sales		1,0%	5,3%	8,8%	10,3%	11,5%	Financial Investments		0,01	0,02	0,00	0,00	0,00
Net Profit		0,64	1,78	3,34	4,78	6,69	Free Cash Flow		3,75	3,89	4,75	6,19	8,31
in % to Sales		3,6%	7,7%	10,6%	11,7%	12,6%	Dividends		0,00	0,00	0,00	0,00	0,00
shares outstanding (in Mio)		10,8	11,0	11,1	11,1	11,1	Net Cash		3,75	3,89	4,75	6,19	8,31
EPS (reported)		0,06	0,16	0,30	0,43	0,60	Cash beginning of the year		5,34	9,09	12,98	17,74	23,93
							Cash end of the year		9,09	12,98	17,74	23,93	32,24
Balance Sheet		2006	2007	2008E	2009E	2010E	Key Figures		2008E	2009E	2010E		
in Mio USD													
Long Term Assets		2,55	3,10	3,02	3,09	3,35	P/E		13,0	9,1	6,5		
Trade Receivables		4,97	3,78	3,11	4,27	5,55	EV/Sales		1,4	1,1	0,8		
Inventories		2,70	2,92	3,07	3,22	3,38	P/B		3,9	3,0	2,3		
Cash		9,66	12,98	18,80	24,99	33,31	Dividend Yield		0,0%	0,0%	0,0%		
Equities		9,22	11,11	14,45	19,24	25,93	ROE		23,1%	24,9%	25,8%		
Provisions		1,50	1,95	2,68	3,48	4,52	ROIC		14,3%	16,3%	17,9%		
Liabilities		0,00	0,00	0,00	0,00	0,00	Equity Ratio		100%	100%	100%		
Deferred Income		1,84	2,28	3,13	4,07	5,29	Tax Rate		0%	0%	0%		

Orad Hi-Tec, VEM Aktienbank AG

## SWOT Analyse

Strengths	Weaknesses
<p><b>Innovative and high quality product line makes the company very competitive</b></p> <p><b>Global presence enables the company to target existing and potential clients all over the world</b></p> <p><b>Strong management team with long-term experience guarantees successful company vision</b></p>	<p><b>Sparse recurring business and just marginal income from services makes it necessary to acquire constantly new clients</b></p> <p><b>Optimized distribution structure has to give prove to sell successfully in the long run</b></p> <p><b>Regulatory issues in regards to airtime in several countries can limit sales growth</b></p>
Opportunities	Threats
<p><b>Constant changing media environment (like the transition from SD to HD) forces TV companies to invest in innovative products</b></p> <p><b>Own research department is searching constantly for new applications and new products</b></p> <p><b>Commercialization of IPTV will lead to an increase number of TV stations and therefore an increased demand for Orad products</b></p>	<p><b>Relatively high US currency dependency leads to volatile sales as well as profit development</b></p> <p><b>Fast changing technologies and standards make a quick and innovative new product development necessary</b></p>

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## Authors of this financial analysis:

Raimund Saier, Diplom Volkswirt, CEFA, M.A.

## Company responsible for the preparation and communication of this financial analysis:

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This financial analysis is based on public available information (Company presentations, Annual Reports, Press Informations etc.). Moreover, management interviews for more detailed information about the current business development were held with the company.

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For further important details concerning the valuations methods applied in the preparation of this analysis, the meaning of the specific investment recommendation (including the recommended investment period, the risks associated with the investment and the sensitivity of the valuation parameters) please see the Section "Valuation" in this analysis.

## Additional important information:

Date of first publication of this analysis by VEM : August 19, 2008

Date and Time of relevant Share Price (see first page): Aug, 19, 2008 5:30 P.M. CEST

A schedule for an update of this Analysis is not appointed yet. VEM reserves to update any individual analysis without prior notice.

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