

## UPDATE Equities | Israel

May, 18 2010

Recommendation:

**BUY**

**Risk:  
High**

Actual Price: EUR 2,58  
Fair Value: EUR 4,90  
Old Fair Value: EUR 4,00

Sector: Technology  
Segment: Media Software

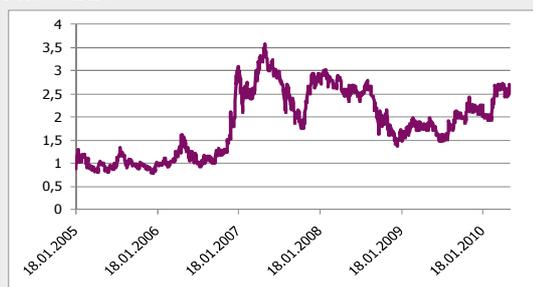
Reuters Code: OHTG.F  
Bloomberg Code: OHT GR

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

### Trading Data

High/Low 52w: EUR 2,77 - 1,47  
Market Cap.: EUR 27,9 Mio  
Shares outstanding: 10,82 Mio  
Free Float: 37%

### Price Chart



### Financial Calendar:

May 20, 2010: Annual Meeting 2010  
August, 2010: Q2 2010 results

### Date and Time of Stock Price

May, 18 2010, 1500 m MEZ

VEM Aktienbank  
Raimund Saier, Analyst  
089 30903 4881  
r.saier@vem-aktienbank.de

Please check Disclaimer and other Information on Page 3

## Orad Hi-Tec Systems Ltd.

### The growth story continues - great Q1 2010 results

Today Orad Hi-Tec Systems reported its first quarter 2010 results. Once again figures were very strong. The company was able to reach sales of USD 7,0 Mio., which is 25% higher compared to the same quarter last year. Very impressive was the gross margins development coming in at 74%, compared to 70% in Q1 2009. Net income was USD 0,756 Mio., equal to a net margin of 10,8% (in Q1 2009 net margin was negative). Cash flow was with USD 0,859 Mio. positive, leading to a cash level of USD 18,2 Mio..

Main responsible for the fantastic first quarter 2010 were new large orders from US clients as well as new orders from Eastern Europe primarily from the graphics as well as sports segments.

### 2010: We are very optimistic

We see no signs, why the company should not reach our sales as well as margins targets set for 2010. We calculate with a sales growth of 18% compared to the previous year, which is equal to USD 31,6 Mio.. Net margins are expected to come in at 10,7% in 2010.

We even might be too conservative with our figures, but would like to wait another quarter before we raise our estimates.

The company has launched several new products in the first quarter of 2010, which should guarantee a high demand from TV stations all over the world and should help Orad to keep on gaining market share. Again the company has attended successfully several trade fairs and received a great response from existing and new clients. Among the new features presented were new solutions for super slow motion used for sporting events, new 3D graphics solutions as well as a new version of virtual studios.

Additionally very good first quarter 2010 results showed, that the company has its costs very well under control and that the product mix seems to be constantly moving towards higher margin solutions.

Currently the company has USD 18,2 Mio. in cash. Our year end cash estimate is USD 20,52 Mio., which should be easily achievable. We assume that Orad might announce the acquisition of one or the other small company in 2010, although not that many firms might be fitting Orads strategy.

So far the management seems to be totally against paying out dividends. They have the view that acquisitions are more lucrative to investors in the long run than paying out cash.

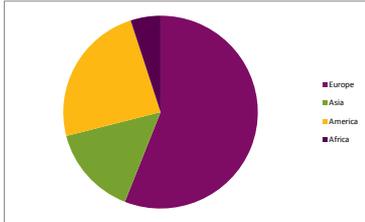
We generally agree, but guess, that the management might rethink this view, the higher the cash level rises and the longer the search for an attractive takeover candidate lasts.

### Again raising the target Price to EUR 4,90 - Still a great bargain

We do not get tired of saying: Orads stock is a great bargain. Our valuation model combines a dividend discount model with a peer group analysis. We are raising our target price increased from EUR 4,00 to EUR 4,90.

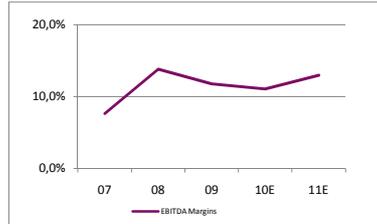
The EUR/USD currency developed to Orads favor supporting this.

## Sales Distribution



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 Cohanzick Fund hold more than 20% of the company. The biggest competitor is VIZRT.

## Financials

Fiscal Year Ending Dezember 31

Profit & Loss					Cash Flow Statement						
	2007	2008	2009	2010E	2011E		2006	2007	2008	2009	2010E
in Mio USD											
Sales	22,94	31,89	26,87	31,61	36,21	Net Income	1,78	3,43	2,16	3,37	4,62
Percentage change in %		39%	-16%	17,7%	14,5%	Amortisation	0,55	1,12	0,78	0,33	0,35
EBITDA	1,75	4,41	3,17	3,50	4,70	Changes in Working Capital	2,65	-2,70	0,12	0,40	0,57
in % to Sales	7,6%	13,8%	11,8%	11,1%	13,0%	Cash flow from operative Business	4,97	1,85	3,06	4,11	5,54
EBIT	1,21	3,67	2,39	3,16	4,34	Capex	-1,11	-0,89	-0,18	-0,40	-0,42
in % to Sales	5,3%	11,5%	8,9%	10,0%	12,0%	Financial Investments	0,02	0,00	0,00	0,00	0,00
Net Profit	1,78	3,43	2,16	3,37	4,62	Free Cash Flow	3,89	0,96	2,88	3,70	5,12
in % to Sales	7,7%	10,8%	8,0%	10,7%	12,8%	Dividends	0,00	0,00	0,00	0,00	0,00
shares outstanding (in Mio)	10,98	11,02	10,82	10,82	10,82	Net Cash	3,89	0,96	2,88	3,70	5,12
EPS (reported)	0,16	0,31	0,20	0,31	0,43	Cash beginning of the year	5,54	9,43	10,39	13,27	16,97
						Cash end of the year	9,43	10,39	13,27	16,97	22,10
Balance Sheet					Key Figures						
	2007	2008	2009	2010E	2011E					2010E	2011E
in Mio USD											
Assets	3,10	3,32	3,28	3,24	3,31	P/E				8,2	6,0
Trade Receivables	3,11	5,15	4,46	3,97	4,42	EV/Sales				0,4	0,4
Inventories	2,92	2,65	1,91	3,16	3,62	P/B				1,6	1,4
Cash	14,05	14,76	17,32	21,59	26,72	Dividend Yield				0,0%	0,0%
Equities	11,11	14,74	17,14	20,28	24,91	ROE				16,6%	18,6%
Provisions	1,95	2,21	1,45	1,71	1,96	ROIC				12,3%	14,1%
Liabilities	7,83	6,94	6,00	7,17	7,99	Equity Ratio				100%	100%
Deferred Income	2,28	1,97	2,38	2,80	3,21	Tax Rate				0%	0%

Orad Hi-Tec, VEM Aktienbank AG

## SWOT Analyse

### Strengths

- Innovative and high quality product line makes the company very competitive
- Global presence enables the company to target existing and potential clients all over the world
- Strong management team with long-term experience guarantees successful company vision

### Weaknesses

- Sparse recurring business and just marginal income from services makes it necessary to acquire constantly new clients
- Regulatory issues in regards to airtime in several countries can limit sales growth

### Opportunities

- Constantly changing media environment (like the transition from SD to HD) forces TV companies to invest in innovative products
- Own research department is searching for new applications and new products
- Comercialization of IPTV will lead to an increase number of TV stations and therefore an increased demand for Orad products

### Threats

- Relatively high US currency dependency leads to volatile sales as well as profit development
- Fast changing technologies and standards make a quick and innovative new product development necessary

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## Summary of VEM's recommendations over the last 12 month concerning the securities of the company being subject of this analysis

Date of publication	Share Price at this date	Recommendation	New Fair Value (at date of publication)
11.06.2008	EUR 2,67	Buy	EUR 4,17
19.08.2008	EUR 2,72	Buy	EUR 4,65
14.03.2009	EUR 1,72	Buy	EUR 3,70
18.06.2009	EUR 1,80	Buy	EUR 2,95
07.09.2009	EUR 1,84	Buy	EUR 2,95
12.11.2009	EUR 2,27	Buy	EUR 3,30
01.03.2010	EUR 2,17	Buy	EUR 4,00

## Disclosure of potential conflicts of interests according to Section 34b of the German Securities Trading Act (WpHG) in combination with the German Ordinance on the Analysis of Financial Instruments (FinAnV) at the date of publication of the analysis:

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Company	Disclosure
ORAD High-Tec Systems	3 - 5 - 11
1. There is a major shareholding (a shareholding exceeding 5 percent of the share capital) between persons and/or enterprises mentioned above and the issuer whose financial instruments are, the subject of this financial analysis.	that is, or
2. The remuneration of the persons and/or enterprises mentioned above is dependent on investment banking transactions of the responsible enterprise or an associated with it.	undertaking
3. The persons and/or enterprises mentioned above regularly hold shares of the issuer that is, or whose financial instruments are, the subject of this financial analysis, in its trading portfolio.	analysis, in
4. The persons and/or enterprises mentioned above own a short position in shares of the issuer that is, or whose financial instruments are, the subject of this financial analysis, of at least 1 percent of the share capital.	financial
5. The persons and/or enterprises mentioned above manage the financial instruments of the issuer that is, or whose financial instruments are, the subject of this financial analysis, on a market by placing buy or sell orders (Market Making/Designated Sponsoring).	this financial
6. The persons and/or enterprises mentioned above act as Corporate Broker for the issuer that is, or whose financial instruments are, the subject of this financial analysis.	financial
7. The persons and/or enterprises mentioned above have, within the past 12 month, been part of a consortium for the issue of shares of the issuer that is, or whose financial instruments are, the subject of this financial analysis, in the way of a public offering.	whose
8. The persons and/or enterprises mentioned above have acted as investment bank or selling agent in connection with initial public offering of the issuer that is, or whose financial instruments are, the subject of this financial analysis, in the way of a public offering.	is, or whose
9. The persons and/or enterprises mentioned above have, within the past 12 month, been party to an agreement on provision of investment banking services to the issuer that is, or whose financial instruments are, the subject of this financial analysis, or have received services or a promise to perform under the terms of such an agreement during the same period.	with the
10. The persons and/or enterprises mentioned above expect or aim, within the next 3 month, for fees, allowances or payments of any other kind for investment services from the issuer that is, or whose financial instruments are, the subject of this financial analysis.	banking
11. The persons and/or enterprises mentioned above have entered into an agreement on the preparation of this financial agreement with the issuer that is, or whose financial instruments are, the subject of this financial analysis.	whose
12. Prior to its first publication, this financial analysis has been made available to the issuer that is, or whose financial instruments are, the subject of this financial analysis.	financial
13. The persons and/or members of the management board of the enterprises mentioned above are members of the management or supervisory board of the issuer that is, or whose financial instruments are, the subject of this financial analysis.	issuer that
14. The persons and/or enterprises mentioned above have any other significant economic interests relating to the issuer that is, or whose financial instruments are, the subject of this financial analysis.	are, the

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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:

VEM Aktienbank AG, Prannerstr. 8, 80333 Munich („VEM“)

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## Details of material sources of information:

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

## Summary of the valuation methods and principles applied in the preparation of the financial analysis:

The valuations underlying the ratings of the securities analysed by VEM are based on generally accepted and widely used methods of fundamental valuation, such as DCF model, Peer group comparison, NAV valuation and - where applicable - a Sum-of-the-parts model.

VEM applies an absolute equity rating system with 3 grades. Each grade complies with following expectations (Ratings refer to time period of 6 months):

- BUY: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is at least + 10 %.
- HOLD: The expected return (composed of the projected change of the share price and the anticipated dividend yield) ranges from - 10 % and + 10 %.
- SELL: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is worse than - 10 %.

For further important details concerning the valuation 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.

## Quarterly summary:

VEM is evaluating its ratings on a quarterly basis. The evaluation for the last quarter compares VEM's recommendations "Buy", "Hold", and "Sell" in total with VEM's recommendations "Buy", "Hold", and "Sell" for companies to which VEM has delivered significant investment banking services during the last 12 month. To view this evaluation, please visit [www.vem-aktienbank.de](http://www.vem-aktienbank.de).

## Additional important information:

Date of first publication of this analysis by VEM : May 18, 2010

Date and Time of relevant Share Price (see first page)

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