

## UPDATE Equities | Israel

March, 4th 2009

Recommendation:

**BUY**

**Risk:  
High**

Actual Price:	EUR 1,72
New Fair Value:	EUR 3,70
Old Fair Value:	EUR 4,65
Potential:	115%

Sector	Technology
Segment	Media Software

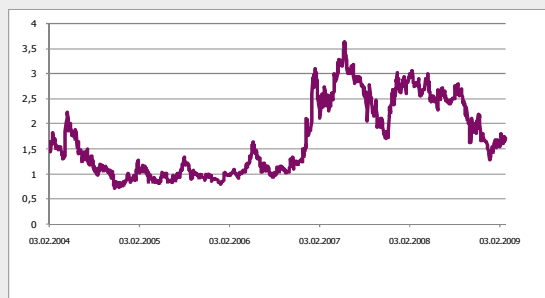
Reuters Code:	OHTG.F
Bloomberg Code:	OHT GR

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

### Trading Data

High/Low 52w	EUR 3,04 - 1,15
Market Cap.:	EUR 19,15 Mio
Shares outstanding:	10,82 Mio
Free Float:	55%

### Price Chart



### Financial Calendar:

May 09	first quarter results 2009
August 2009	second quarter results 2009

**Date and Time of Stock Price**  
March, 4 2009, 11am 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

### 2008: Great results with strong growth

Orads results for fiscal year 2008 were excellent. The company was able to slightly beat our already aggressive estimates. We find this even more impressive as good corporate results were achieved during a horribly worsening economic environment.

2008 full year sales came in at USD 31,9 Mio., up 39% compared to last year. Gross margins reached 68% ((2007: 65,8%), operating margins were 11,5% (2007: 5,3%). Net profit increased by 93% to USD 3,4 Mio.. Cash is now at USD 14,8 Mio..

Major positive contributor was (as expected) the On Air Graphics Segment with strong orders from the existing client base but also new orders from Deutsche Welle (Germany), CCTV (China) and TV stations from Brazil and the Czech Republic. Regionally Europe and Asia were very strong, showing that the reorganisation of the sales force bore fruit.

### 2009: of course a very challenging year, but Orad seems to be well positioned for the future

2008 gave prove that Orad Hi-Tec is ready to take, stand and survive the challenges of the future. Compared to its competitors Orad did far better in an already difficult environment leading to once again improved profit margins and a gain in market share. We believe that the trend of gaining market share will last for the next coming years. This, thanks to a great management team and an intelligent product as well as distribution strategy.

In 2009 we believe that sales will be again driven by the Graphics Segment and new products like the "Morpho" solution, which target groups are mid level TV stations (mainly in Eastern Europe and South America) looking for affordable but effective 2D/3D solutions.

Nevertheless we expect sales growth will be flat. The bad macro economic environment should have a negative effect on Orad short term. We believe that TV stations will be hurt by a slowdown in advertisement spending and therefore wont be willing to invest substantially in new products.

On the margins side it seems that Orad has finally its costs very well under control and we believe that Orad should be able to achieve 11% net margins in fiscal year 2009.

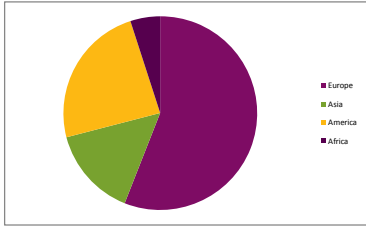
### Stock: Reduced target price but sill a great bargain

Orads stock is an amazing bargain. But currently not many investors are interested in equities and particularly in small caps. Even if companies like Orad trade at ridiculously low multiples and at almost cash value. But we are definite that there will be a come back for undervalued stocks and that investors will finally recognise the value of Orad Hi-Tec Systems. Its just a question of time and patient investors will definitely be rewarded.

The company has no debt, around EUR 11,5 Mio in cash and trades at a market cap of EUR 20 Mio, which we find hard to understand. Our blended valuation approach (50% peer group and 50% DCF) results in a fair value of EUR 3,70, which is 115% higher than the current value.

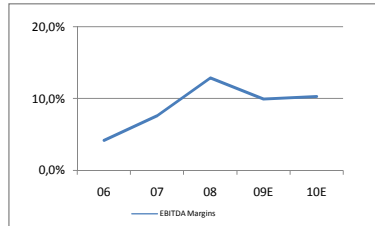
For our DCF calculation we are using a WACC of 12,8% and a long-term growth rate of 2,5%.

## Sales Distribution 2008



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	2006	2007	2008	2009E	2010E	Cash Flow Statement	2006	2007	2008	2009E	2010E
in Mio USD											
Sales	17,72	22,94	31,89	31,84	36,64	Net Income	0,64	1,78	3,43	3,49	4,45
Percentage change in %		29%	39%	-0,1%	15,1%	Amortisation	0,57	0,55	1,12	0,46	0,47
EBITDA	0,74	1,75	4,11	3,17	3,77	Changes in Working Capital	2,71	2,65	-2,70	-0,58	1,19
in % to Sales	4,2%	7,6%	12,9%	9,9%	10,3%	Cash flow from operative Business	3,91	4,97	1,85	3,37	6,11
EBIT	0,17	1,21	3,67	2,71	3,30	Capex	-0,17	-1,11	-0,53	-0,51	-0,57
in % to Sales	1,0%	5,3%	11,5%	8,5%	9,0%	Financial Investments	0,01	0,02	0,00	0,00	0,00
Net Profit	0,64	1,78	3,43	3,49	4,45	Free Cash Flow	3,75	3,89	1,32	2,86	5,54
in % to Sales	3,6%	7,7%	10,8%	11,0%	12,1%	Dividends	0,00	0,00	0,00	0,00	0,00
shares outstanding (in Mio)	10,8	10,8	10,8	10,8	10,8	Net Cash	3,75	3,89	1,32	2,86	5,54
EPS (reported)	0,06	0,16	0,32	0,32	0,41	Cash beginning of the year	5,34	9,09	12,98	14,30	17,17
						Cash end of the year	9,09	12,98	14,30	17,17	22,71

Balance Sheet	2006	2007	2008	2009E	2010E	Key Figures	2009E	2010E	2011E
in Mio USD									
Long Term Assets	2,55	3,10	3,32	3,25	3,35	P/E	5,7	4,5	3,2
Trade Receivables	3,78	3,11	5,15	4,45	4,94	EV/Sales	0,2	0,2	0,1
Inventories	2,70	2,92	2,65	3,82	3,66	P/B	1,3	1,1	0,9
Cash	9,66	14,05	14,76	18,23	23,78	Dividend Yield	0,0%	0,0%	0,0%
Equities	9,22	11,11	14,74	18,04	22,48	ROE	19,4%	19,8%	21,7%
Provisions	1,50	1,95	2,21	2,21	2,54	ROIC	13,7%	14,4%	16,2%
Liabilities	5,44	6,12	7,83	6,94	7,54	Equity Ratio	100%	100%	100%
Deferred Income	1,84	2,28	1,97	1,97	2,27	Tax Rate	0%	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
- Optimized distribution structure has to give prove to sell successfully in the long run
- 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

- Global recession might have a negative effect on investment spending by TV stations.
- 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

## Legal Disclaimer:

This financial analysis is provided for informational purposes only. The analysis is based on publicly available information and data ("the Data") which VEM Aktienbank AG ("VEM") believes to be reliable and complete, but no representations or guarantees are made neither by VEM nor by its employees with regard to the reliability or completeness of the Data. Neither VEM nor its employees accept any liability or responsibility whatsoever for any expense, loss or damages arising out of or in any way connected with the use of this analysis or any part of it. This analysis does not constitute or form part of, and should not be construed as, any offer for sale or subscription of, or any invitation to offer, to buy or subscribe for any securities. Nothing in this analysis shall be deemed to constitute a contractual or any other obligation of whatever kind of VEM. An investment decision ought to be based on a properly approved prospectus or information memorandum and under no circumstances on this document. In any cases, investors must make their own independent decision as to whether the securities are appropriated on their own judgment and upon the advice of any relevant advisors they have consulted. The analysis has got no advisory function. Opinions, estimates and projections in this analysis constitute the current judgment of its author as of the date of this analysis. They do not necessarily reflect the opinion of VEM and are subject to change without notice. Past performance is not necessarily a guide to future performance. Neither VEM nor its employees accept any liability or responsibility whatsoever in case target figures given in the analysis will not be achieved. Any change in the assumptions on which the analysis is based on can have a material impact on the target figures stated in the analysis. This financial analysis nor any copy of it may not be sent to, brought to, or issued in the United States of America and must not be distributed to U.S. persons (as defined in Regulations S of the U.S. Securities Act of 1933, as amended ("Securities Act")) or publications with a general circulation in the United States. This financial analysis does not constitute an offer or invitation to purchase any securities in the United States. The securities of the company described in this financial analysis have not been registered under the Securities Act and may not be offered, sold or delivered within the United States or to U.S. persons absent from registration under or an applicable exemption from the registration requirements of the United States Securities Law. This financial analysis is directed only at persons (I) who are outside the United Kingdom or (II) who have professional experience in matters relating to investments and fall within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("the Order"), or (III) are persons falling within Article 49 (2) (A) to (D) (High Net Worth Entities) of the Order (all such persons being referred to as "Relevant Persons"). This document is directed only at Relevant Persons and other persons should not act or rely on this report or any of its contents. Neither this analysis nor any copy of it may be taken or transmitted into Canada or Japan or distributed or redistributed in Canada or Japan or to any resident thereof. The distribution of this analysis in other jurisdictions may be restricted by law and recipients should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of any other such jurisdiction. This analysis may not be reproduced, redistributed, passed on to any other person or published in whole or in part without the prior written consent of VEM. In particular VEM does not allow the redistribution of this analysis to nonprofessional investors and cannot be held responsible in any way for any third parties who effect such redistribution. By accepting this analysis you agree to be bound by the foregoing restrictions.

## 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

**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:**  
**Section 34b of the WpHG in combination with the FinAnV requires credit institutions preparing and publishing financial analyses to point out possible conflicts of interest with respect to the companies that are the subjects of the analyses. Possible conflicts of interest may exist with the following company being part of the analysis:**

Company	Disclosure
Orad Hi-Tec	6;12

- 1) VEM and/or any of its affiliated companies hold a more than 5% interest in the capital stock of the company,
- 2) VEM and/or any of its affiliated companies regularly hold shares of the company in its trading portfolio,
- 3) VEM and/or any of its affiliated companies own a short position in shares of the company of 1% of the companies share capital or above,
- 4) VEM and/or any of its affiliated companies, within the past 12 month, have been part of a consortium for the issue of shares in the company in the way of public offering,
- 5) VEM and/or any of its affiliated companies, within the past twelve months, have been party to an agreement on the provision of investment banking or bank consulting services with the company,
- 6) VEM and/or any of its affiliated companies manage the financial instruments of the company on a market by placing buy or sell orders,
- 7) VEM and/or any of its affiliated companies act as Corporate Broker of the company,
- 8) The author of the analysis or any of his personnel is holding shares, or a related derivative, in the company,
- 9) A director or employee of VEM and/or any of its affiliated companies is a director or a member of the supervisory board of the company,
- 10) VEM and/or any of its affiliated companies, within the next three months, expect or aim for fees, allowances or any other payments for services in the field of investment banking,
- 11) Prior to its first publication, the analysis has been made available to the company and has been changed thereafter,
- 12) VEM has entered into an agreement on the preparation of the financial analysis with the company or a person or party related to the company,
- 13) VEM and/or any of its affiliated companies acted as investment bank or selling agent in connection with the company's public offering.

VEM has made internal organisational arrangements, e.g. in the way of "Chinese Walls" or by keeping watch- and restricted lists, so as to prevent as far as possible any conflicts of interest in preparing and publishing analyses. VEM will disclose conflicts of interests if they occur.

## 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“)

VEM is registered as Credit Institution at the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - "BaFin"), Lurgiallee 12, D-60439 Frankfurt, Germany and is subject to supervision by the BaFin.

## 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 : March 4, 2009

Date and Time of relevant Share Price (see first page): March 4, 2009, 11 A.M. CEST

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