

**UPDATE**  
**Equities | Israel**

March, 01 2010

Recommendation:

**BUY**

Risk:

**High**

Actual Price: EUR 2,17

New Fair Value: EUR 4,00

Old Fair Value: EUR 3,30

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 2,63 - 1,47  
Market Cap.: EUR 23,5 Mio  
Shares outstanding: 10,82 Mio  
Free Float: 37%

**Price Chart**



**Financial Calendar:**

May 2010: First quarter results 2010

**Date and Time of Stock Price**  
March, 01 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

### Fourth quarter results 2009: IMPRESSIVE

Today Orad Hi-Tec Systems reported fourth quarter 2009 results, which were impressive and were slightly better than our estimates on the margins side. Compared to Q4 2008 sales increased by 12% to USD 9 Mio.. Net profit margins were 12,6% (USD 1,1 Mio.). Margins expansion compared to last quarter was mainly due to successful cost controls in sales & marketing costs as well as general expenses.

For the full year 2009 sales were down 16% compared to 2008 coming in at USD 26,9 Mio.. This was very much in line with our estimates. Gross margins were stable at 68%. Better than expected were operating and net profit margins. In 2009 net profits were USD 2,15 Mio.. Net profit margins were 8%.

Cash is now at a very comfortable USD 17,3 Mio. (2008: USD 14,759). Responsible for the success were mainly new product introductions like the "morpho" as well as the slow motion server "Play Maker" but also higher demand for older products.

### 2010 should be strong thanks to high back-log

We are very pleased with the fourth quarter 2009 results. Orad Hi-Tec Systems' management proved that it was able to continue the success story which was just shortly interrupted due to the global financial crisis. We are very confident that 2010 will be characterized by high sales growth and improving profit margins.

We expect Orad to continue to gain market share as the existing as well as future product line looks very promising. In 2009 the company was already successful with its "Morpho" product (graphics solution) having almost sold 100 systems. For 2010 we as well expect a high demand for this product group.

For 2010 we assume that one of the strongest growth drivers will be the "Play Maker", a slow motion server for sports broadcasting applications. The "slow motion" market is actually larger than the graphics market but surprisingly not very competitive. There it is just one company dominating more or less the whole market: the Belgium EVS Group. Orad Hi-Tec has already sold several servers to different countries in 2009. This should continue in 2010.

Additionally the company should have operational costs very much under control, which should be beneficial for the future margins development.

At this point we do not see any reason to change our already published positive growth scenario for 2010. We expect the company to reach total sales of USD 31,6 Mio. (+18% compared to 2009). EBIT margins should improve to 10%.

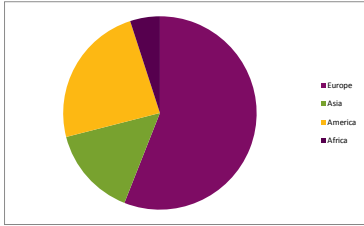
We would not be surprised, if the company acquires a small company which will fit to Orads growth strategy in 2010, but expect an in depth due diligence by the management before doing so.

### Target Price raised to EUR 4,00 - Still a great bargain

We have to say it again and again and again: Orads stock is still a great bargain. With USD 17,3 Mio in cash and no long-term debt the balance sheet looks more than solid. The growth story is again in tact. We once again increase our price target from EUR 3,30 to EUR 4,0. Our valuation model combines a dividend discount model with a peer group analysis.

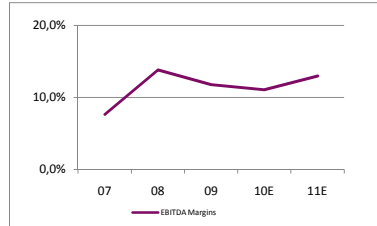
We really hope that finally investors recognize the value of the company and recommend a purchase of the stock in particular to patient long term investors. Suppressing the stock performance could be the unclear status of the 19,9% holding of Orad by the insolvent Lehman Brothers.

## 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
Percentage change in %		39%	-16%	17,7%	14,5%	Amortisation	0,55	1,12	0,78	0,33
EBITDA	1,75	4,41	3,17	3,50	4,70	Changes in Working Capital	2,65	-2,70	0,12	0,40
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
EBIT	1,21	3,67	2,39	3,16	4,34	Capex	-1,11	-0,89	-0,18	-0,40
in % to Sales	5,3%	11,5%	8,9%	10,0%	12,0%	Financial Investments	0,02	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
in % to Sales	7,7%	10,8%	8,0%	10,7%	12,8%	Dividends	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
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
						Cash end of the year	9,43	10,39	13,27	16,97
										22,10
Balance Sheet					Key Figures					
	2007	2008	2009	2010E	2011E		2009	2010E	2011E	
in Mio USD										
Assets	3,10	3,32	3,28	3,24	3,31	P/E	10,9	7,0	5,1	
Trade Receivables	3,11	5,15	4,46	3,97	4,42	EV/Sales	0,3	0,3	0,3	
Inventories	2,92	2,65	1,91	3,16	3,62	P/B	1,6	1,4	1,2	
Cash	14,05	14,76	17,32	21,59	26,72	Dividend Yield	0,0%	0,0%	0,0%	
Equities	11,11	14,74	17,14	20,28	24,91	ROE	12,6%	16,6%	18,6%	
Provisions	1,95	2,21	1,45	1,71	1,96	ROIC	9,3%	12,3%	14,1%	
Liabilities	7,83	6,94	6,00	7,17	7,99	Equity Ratio	100%	100%	100%	
Deffered Income	2,28	1,97	2,38	2,80	3,21	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
- 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

- High Lehman Brother Position can have a negative effect on the stock performance
- 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

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Company	Disclosure
ORAD High-Tec Systems	3 - 5 - 11
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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 with 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 banking 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:

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## Additional important information:

Date of first publication of this analysis by VEM : March 01, 2010

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