

WELCOME TO SMALL TALK



Norsat
International Inc.

Stock for Discussion:
Norsat International, Inc. (NSAT)
Presenter: Betsy Wills
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KEY DATA

- Industry: Communication Equipment
- Sector: Technology Services
- Went public in Canada in 1990
- Listed on the Toronto Stock Exchange (NII) and NYSE (NSAT)(2015)
- Based in Richmond, British Columbia, Canada
- Has about 180 employees
- No Debt



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WHAT DOES NORSAT DO?

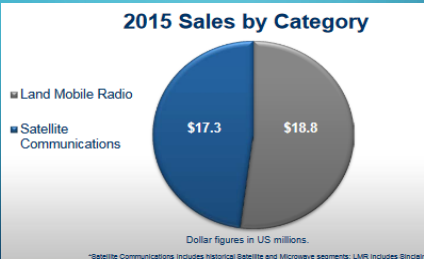
- Manufactures satellite components
- Sinclair Technologies unit (former acquisition) produces antenna products, including land mobile radios
- Rest of business produces terminals and microwave products
- Equipment is located on earth and thus falls under the broad category of “satellite ground equipment”
- Remote and challenging environments

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AREAS OF FOCUS

- Satellite Communications (Ground Terminal Based)
- Land Mobile Radio (LMR) Infrastructure



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Satellite Communications



+40 years of providing satellite products

Satellite equipment includes:

- portable satellite terminals
- maritime terminals
- satellite receivers (LNBS)
- transmitters (BUCs)
- transceivers
- solid-state power amplifiers (SSPAs)

Diverse customer base, serving the military, government, broadcast and commercial

Revenues: 35-45% of total
Margins: 30-45%

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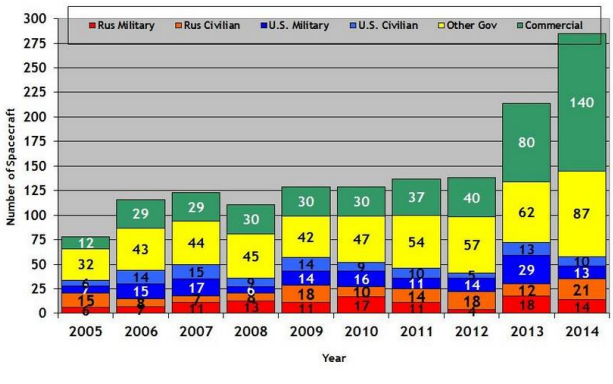
SATELLITE GROUND EQUIPMENT

- Microwave Components: receivers, transmitters and power amplifiers
- Satellite Systems: portable satellite systems, related accessories and services
- Designed to interoperate with geostationary satellites orbiting the earth and can be customized to work with specific frequency bands for the various applications
- Permits communications link (up to 9 Mbps) between any two points on earth - voice, data and moving video

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Number of Spacecraft Launched, 2005-2014



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Land Mobile Radio (Sinclair)



+60 years of providing antennas and RF conditioning products

Portfolio of over 2,000 distinct products, including:

- base station antennas
- mobile/transit antennas
- covert antennas
- filters
- receiver multi-couplers, and accessories

Diverse customer base, serving the public safety, defense, security, natural resources and transportation industry

Revenues: 50-65% of total
Margins: 40-45%

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POSITIVE TRAIN CONTROL OPPORTUNITY

- Required by Congress to be installed by railways to monitor and control train movements to provide increased transportation safety
- Large opportunity in big industry (freight and commuter railways)
- NSAT's previous satellite terminal experience gives it an excellent position
- Opportunity for organic growth

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Remote and Challenging Applications

Remote:

- Climate issues
- Harsh environments
- Little/zero infrastructure
- Middle of nowhere

Challenging:

- Space constraints
- Weight
- Underground
- On-the-move applications



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Market Trends for Remote & Challenging

Innovative Communication Solutions



Businesses, governments, organizations and individuals need to be always "connected", no matter where they may be.

- Remote sites far removed from existing infrastructure
- Instantaneous media
- Safety concerns in transportation - need to be connected at all times
- Military operations require mobility and rapid establishment of communication links in the field
- Contingency communication plans or emergency action plans for business continuity



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TARGET INDUSTRIES

Norsat works with many customers in various industries.
Prime target industries for Norsat:

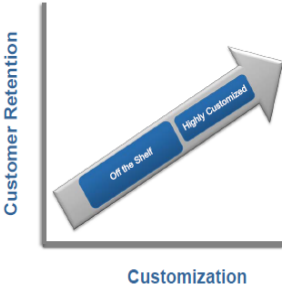


Military Aerospace Resources Rail Maritime Public Safety

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Customizable Platform Technology



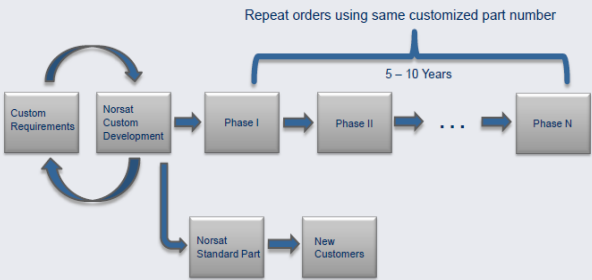
- Benefits of Customization**
- Increase customer satisfaction
 - Increase brand equity
 - Reduce price sensitivity – differentiated
 - Increase customer loyalty/retention
 - Greater insight in creation of product roadmap

Estimated \$500M annualized market opportunity for customized communications solutions in remote and challenging applications segment and consistently growing.

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Custom Product Cycle



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International Presence

- Products sold in 90 countries
- 11 sales offices
- Network of 300+ Resellers spanning the United States, Europe, Middle East, Africa, Asia & Latin America
- Serving 20+ Militaries and Government Organizations



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Growth Opportunities: Satellite Comm.

Comms-on-the-Move



- BUCs and SSPAs for unmanned ISR, ground vehicles, manned aircraft and flyaway VSATs (very small aperture terminals)
- Norsat offers unique features/benefits to this market including:

Small size simplifies integration and saves space on platform or in transit case
Low weight means lower vehicle payload weight or lower portable VSAT transport weight
Low power consumption means lower platform power demand and/or increased battery life
Low heat dissipation simplifies platform/radome cooling and improves reliability in high temperature environments

Radar Solutions



- BUCs and SSPAs for remote sensing radar, ground weather radar, search and rescue, UAV weather radar
- Norsat offers unique features/benefits to this market including:

Fast Switching – provide huge power savings for low-duty cycle pulsed radar systems
High Reliability – offer more than 2-times the operating life of current technology
Low Voltage – low voltage power supply is safer, simpler to operate, and more reliable current technology

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Growth Opportunities: Positive Train Control

Positive Train Control (PTC)

- More derailments occurring due to heavier loads or operator failure, but could be rectified with better, modern communications systems
- Norsat's LMR and Satcom Divisions, offer components and custom antennas that assist train operators seeking to comply with government-mandated PTC
- Norsat products already designed and used by Class I railroad operators. Rest of industry following and implementing systems already proven by Class I



PTC project opportunity to Norsat estimated to be \$40-60M in total

Source: The NHTB Companies, July 2011, White Paper: Positive Train Control

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Key Stats NSAT

	Stock	Ind Avg	Relative to Industry
Price/Earnings TTM	3.8	23.8	<div></div>
Price/Book	1.0	2.1	<div></div>
Price/Sales TTM	1.0	1.7	<div></div>
Rev Growth (3 Yr Avg)	-5.2	-3.4	
Net Income Growth (3 Yr Avg)	19.0	15.8	<div></div>
Operating Margin % TTM	14.3	13.9	<div></div>
Net Margin % TTM	25.5	10.3	<div></div>
ROA TTM	22.9	5.6	<div></div>
ROE TTM	28.0	11.5	<div></div>
Debt/Equity	—	0.4	

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Competitors NSAT

Name	Price	% Chg	TTM Sales \$ mil
Norsat International Inc	\$6.29	0.00	37
Hewlett Packard Enterprise Co	\$21.94	0.02 ↑	51,940
Cisco Systems Inc	\$30.98	1.13 ↑	49,452
LM Ericsson Telephone Co ADR Class B	\$7.51	0.87 ↑	28,577
Nokia Oyj ADR	\$5.72	1.15 ↑	20,084
Nokia Oyj	\$5.62	-0.65 ↓	20,084

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SWOT OVERVIEW

STRENGTHS:

- Strong balance sheet, lots of cash, no debt
- Cost structure and established product line
- Nimbleness and willingness to do custom jobs as a small company
- R&D tax credits from Canada, and tax loss carry forwards totaling \$9 MM, but some subject to valuation allowance, so only \$6.3 MM on balance sheet
- Excellent margins

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SWOT OVERVIEW

WEAKNESSES:

- Lumpy orders in the past = uneven quarterly revenues, difficult to forecast and period-to-period comparisons not meaningful
- 1 customer in Sinclair segment accounts for 10% of NSAT's revenues
- Relies primarily on trade secrets for protection – has 4 patents, currently

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SWOT OVERVIEW

OPPORTUNITIES:

- Satellite business growing
- Demand for and lower costs of satellites increases demand for ground terminals that NSAT produces
- PTC – big industry (freight and commuter RRs)
- Potential candidate for an “inversion” due to lower tax rate in Canada

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SWOT OVERVIEW

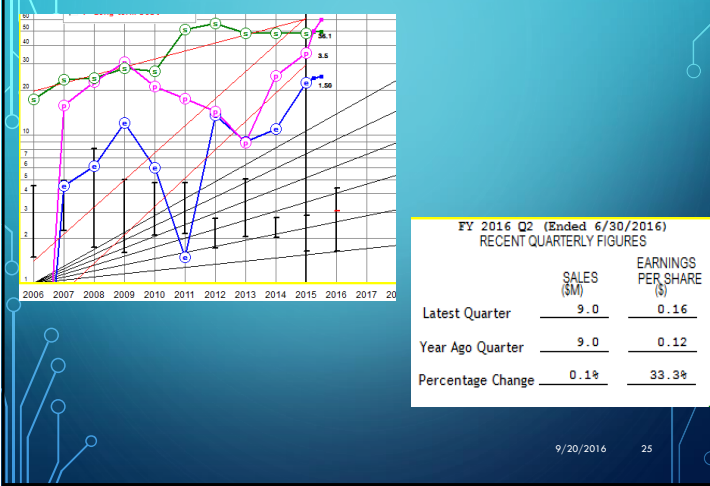
THREATS:

- Competes against much larger companies
 - Harris and L-3 Communications
 - Cisco
- Aggressive pricing from larger competitors
- Risk of proprietary product designs or technology being misappropriated
- Political and economic instability in foreign markets

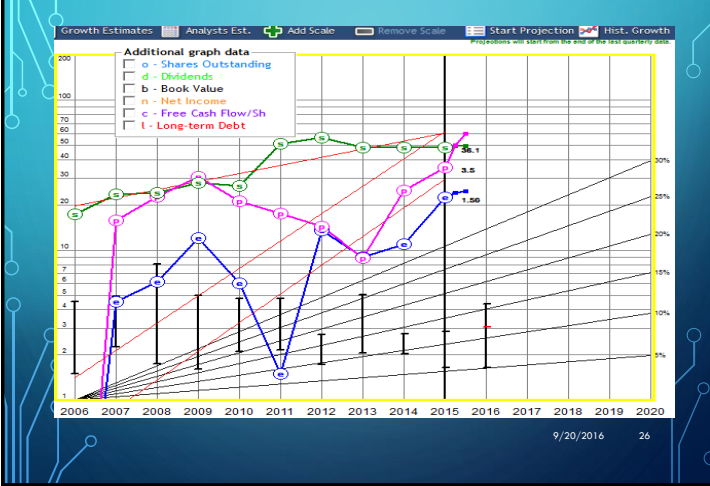
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IS IT A GROWTH COMPANY?



SSG...SECTION 1



Poll Question: Sales

- .1% - Q2 2016 compared to Q2 2015
- 6.9% - Yahoo FYE 2017 estimate
- 13.1% - 10 year historical
- 58.1% - 3 year historical
-

Poll Question: EPS

- 12.5% - Yahoo 2017 estimate
- 33.3% - Q2 2016 compared to Q2 2015
- 55.5% - Historical
- 58.1% - 3 year historical
- 68.3% - 5 year historical

DO THEY HAVE QUALITY MANAGEMENT?

2011	2012	2013	2014	2015	5 YEAR AVG	TREND UP/DOWN
4.4	3.3	2.4	6.7	9.6	5.3	UP
3.2	21.7	13.7	14.8	28.2	16.3	UP
40.4	0.0	0.0	0.0	0.0	40.4	DOWN

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SSG...SECTION 3

CURRENT PRICE (P/E) 6.18 (3.7)			52-WEEK HIGH (P/E) 8.75 (5.3)		
Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E
2011	9.5	4.3	0.10	95.0	43.0
2012	5.5	3.5	0.90	6.1	3.9
2013	10.1	4.1	0.60	16.8	6.8
2014	5.5	4.1	0.73	7.5	5.6
2015	5.8	3.3	1.50	3.9	2.2
AVERAGE		3.9		25.9	12.3
AVERAGE P/E RATIO		19.1	PROJECTED P/E RATIO		0.0
CURRENT P/E RATIO		3.7	PEG RATIO		0.0

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Poll Question: High P/E

- 3.7 – Current P/E
- 5.3 – 52 week High P/E
- 8.1 – Yahoo
- 8.6 – Average High P/E - 2011 Removed (SSG)
- 25.9 – 5 year Average High P/E (SSG)

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Poll Question: Low P/E

- 2.0 – 52 week low P/E
- 3.7 – Current P/E
- 4.6 – Low P/E - 2011 removed (SSG)
- 12.3 – Avg. Low P/E (SSG)

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Poll Question: Low Price

- \$_____ – Forecast Low Price
- \$3.90 – Average Low in last 5 years
- \$3.30 – Recent Severe Market Low
- \$4.63 – Price Variant Quotient
- \$4.95 – 80% of Current Price

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IT'S YOUR CALL!!



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Poll Question: Consider Buying?

- Yes – Creating a substantial moat for a young company
- Maybe – The price is attractive, given the growth potential
- No – Still too speculative

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ANY QUESTIONS?

What's Next?

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