



RAMI ROSEN
 +(972) 3519-9004
 RROSEN@OSCARGRUSS.COM

Camtek Ltd.

First Quarter 2002 Results

Upgrade Rating from Hold to Long Term Buy
 Increase Target Price to \$2.5

Camtek Ltd. designs, develops, and manufactures Automated Optical Inspection (AOI) systems and related products that are used by printed circuit board (PCB) manufacturers to detect defects and ensure quality during the PCB manufacturing process. Camtek's solutions are being employed both for simple and advanced substrate PCBs.

Camtek Ltd. (Nasdaq: CAMT #)			
Price:	07-May-02		\$1.89
Market Cap (million):			\$41.39
Shares Outstanding (million):			21.90
52 Week Range:			\$7.25 - \$1.5
TL Liab./TL Assets:			20.99%
Book Value/Share:			\$1.96
FY Dec	Cash EPS	Previous	P/E (x)
2001 A	(\$0.11)	--	NM
2002 E	(\$0.37)	(\$0.52)	NM
2Q01 A	\$0.07	--	
2Q02 E	(\$0.10)	(\$0.14)	

KEY POINTS:

- On May 7th, 2002, after the market close, Camtek Ltd. announced its financial results for 1Q02. Revenues were \$4.7 million, slightly higher than our projection of \$4.2 million. Net loss per share was \$0.14, 3 cents lower than our estimate.
- Gross margin continued to decline due to the expected reduction in overhaul volume. We expect that as revenues pick up again gross margin will grow.
- Utilization rates in Europe and North America are still low. Positive signs on that front are coming from Asia Pacific, namely China, Korea and Taiwan. We expect it to favorably affect AOI PCB sales of Camtek starting from 2Q02.
- An important achievement this quarter is the first major order received for the new Pegasus system – an AOI solution for surface inspection of high density interconnect substrates. The size of this deal is estimated at a few million dollars; success in this untapped market is strategically important for Camtek's growth.
- In order to strengthen its cash position, management plans to execute a rights offering to

current shareholders as well as expand current lines of credit. All in all, management expects to raise \$8-11 million.

- Given the better-than-expected results, higher clarity regarding future recovery and the plans

for improved cash position, we raise our recommendation on the Company's shares to **Long Term Buy** from Hold and set a new \$2.5 target price per share.

Financial Discussion

Revenues

Total revenues were \$4.7 million, compared with \$7.3 million in the previous quarter and our estimate of \$4.2 million. Management received positive indications for utilization rate recovery in Asia Pacific. The situation in North America and Europe continues to be slow. A permanent increase in the utilization rates will require additional purchases of AOI PCB equipment from manufacturers. During the quarter, the Company registered its first major order for its Pegasus system, which provides high quality surface inspection of high density interconnect substrates. This is a multi million dollar order (the actual size of the order and the identification of the buyer were not disclosed). Success at this front is of major importance for the Company's long term progress. We increased our revenue estimate for next quarter given our expectation of additional sales of AOI PCB equipment in Asia Pacific.

Gross Margin

Gross margin decreased to 32% of revenues compared to 41.6% in the previous quarter. This was caused by a reduction in sales and also represents, in our opinion, price pressure that the Company is encountering. We modeled an increase over the next few quarters as revenues are expected to start picking up again.

Operating Expenses

Management completed its cost cutting and consequently reduced its R&D and SG&A expenses. For 2Q02 we have modeled similar levels of expenses.

Net Income

Camtek registered a net loss per share of \$0.14. This figure is 3 cents lower than our estimate. We expect the 2Q02 net loss per share to total \$0.10.

Balance Sheet

The Company has \$15.3 million in cash and short-term investments, representing \$0.58 cash per share. This reflects a \$5.5 million burn rate this quarter. Management will take the following measures in order to improve its cash position: 1) initiate a rights offering plan, and 2) expand its current line of credit from banks. All in all, management expects to raise about \$8-11 million. DSO and days of inventory have increased tremendously due to the low revenues last quarter (which technically caused a sharp rise in these measurements). In tough market conditions such as these, and under growing competition, it would be very difficult to significantly decrease DSO.

Recommendation

We upgrade our rating for the Company's shares from Hold to **Long Term Buy** and increase our target price of \$2.5 per share. This price reflects a P/Revenues multiple of 2.0x our FY2002 revenue estimate. Such a multiple is within the historical range of multiples for this company. Our change of recommendation is based on the following:

- Expectations that the rise in utilization rates in Asia Pacific will favorably impact the Company's results as of this quarter.
- The first significant contract for the Pegasus system, which is highly important for the Company's future. We believe that Camtek has an opportunity to set its foot in the door of this untapped market.
- Management's plans to improve its cash position are feasible. This should enhance the Company's financial robustness.

Camtek Ltd. – Income Statement Model

(\$ millions, except per share data)	1Q01A	2Q01A	3Q01A	4Q01A	2001A	1Q02A	2Q02E	3Q02E	4Q02E	2002E
Revenues	16.3	13.4	7.0	7.3	44.1	4.7	6.5	7.2	8.5	26.9
Cost of revenues	7.3	6.3	3.6	4.3	21.6	2.9	3.7	4.0	4.5	15.1
Gross profit (loss)	9.0	7.1	3.4	3.0	22.5	1.7	2.8	3.2	4.0	11.8
Research and development, net	2.2	2.4	5.6	2.4	12.7	2.0	2.0	2.0	2.0	8.0
Selling, general and admin	4.0	3.4	3.0	3.8	14.2	3.0	3.1	3.1	3.1	12.3
Reorganization cost				0.6	0.6					
Operating income (loss)	2.8	1.3	(5.3)	(3.7)	(4.3)	(3.2)	(2.3)	(1.9)	(1.1)	(8.5)
Financial income (expenses) net	0.5	0.5	0.7	(0.2)	1.4	0.1	0.1	0.1	0.1	0.4
One-time acquisition related costs										
Income before income tax provision	3.3	1.7	(4.6)	(3.9)	(2.9)	(3.1)	(2.2)	(1.8)	(1.0)	(8.1)
Provision for income tax	0.2	0.2	0.1	(0.4)	0.1	0.0	0.0	0.0	0.0	0.0
Net income	3.1	1.5	(4.8)	(3.5)	(3.1)	(3.1)	(2.2)	(1.8)	(1.0)	(8.1)
Wtg avg num of shares (MM fd)	22.6	22.5	22.1	22.1	22.3	21.9	21.9	21.9	21.9	21.9
EPS	0.14	0.07	(0.22)	(0.16)	(0.14)	(0.14)	(0.10)	(0.08)	(0.05)	(0.37)
Cash EPS	0.14	0.07	(0.22)	(0.13)	(0.11)	(0.14)	(0.10)	(0.08)	(0.05)	(0.37)
Margin Analysis										
Gross	55.0%	52.9%	48.0%	41.6%	51.0%	32.0%	43.0%	45.0%	47.0%	43.8%
Operating	17.0%	9.5%	(75.6%)	(50.7%)	(9.9%)	(68.7%)	(35.5%)	(25.8%)	(13.0%)	(31.5%)
Net	18.8%	11.0%	(68.0%)	(47.6%)	(7.0%)	(66.8%)	(33.9%)	(24.4%)	(11.8%)	(30.1%)
Net R&D as % of revenues	13.4%	18.2%	80.5%	32.4%	28.7%	42.4%	30.8%	27.8%	23.5%	29.7%
SG&A as % of revenues	24.5%	25.3%	43.1%	51.4%	32.2%	63.5%	47.7%	43.1%	36.5%	45.6%
Sales growth Y/Y	55.1%	17.1%	(53.4%)	(54.6%)	(17.1%)	(71.5%)	(51.6%)	2.6%	16.2%	(39.1%)

Source: Company reports and Oscar Gruss estimates.



INVESTMENT RESEARCH

TECHNOLOGY

Rami Rosen	+ (972) 3519-9004
Ehud Eisenstein	+ (972) 3519-9005
Tsahi Rodnik	+ (972) 3519-9007
Shai Zak	+ (972) 3519-9009
Richard Krajewski	(212) 952-1100

RISK ARBITRAGE & SPECIAL SITUATIONS

Alan J. Septimus	(212) 514-2317
Lawrence J. Krule	(212) 514-2338
Glenn Miller	(212) 514-2367
Sandia Shih	(212) 514-2358

RESEARCH SALES - TRADING

Tim Brackett	(212) 943-7610
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RISK ARBITRAGE SALES & TRADING

Laura Anreder	(212) 943-7610
Andy Lyss	(212) 943-7610

Investment Ratings: **BUY:** expected total annual return of greater than 25%. **LONG TERM BUY:** significant potential to deliver higher appreciation than its peer group over a 12-24 month period but which due to lack of visibility and current market conditions is not expected to have a near term upside in the stock price. **HOLD:** appears fairly valued and may provide returns which approximate returns expected from its peer group in the equity markets. **REDUCE:** appears overvalued or is experiencing problems that we believe may cause it to underperform its peer group and possibly reduce in value. Other factors considered in the Investment Ratings may include, but are not limited to, the company's risk profile, including earnings predictability, financial position, industry position, technology and product risks, management strengths and other factors. The required annual return for a specific Investment Rating will be increased for stocks with greater financial, business and/or earnings risk.

More information is available upon request.

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