

May 9, 2013

TECHNOLOGY/EMERGING TECHNOLOGIES AND SERVICES

Stock Rating:
PERFORM

12-18 mo. Price Target NA
GILT - NASDAQ \$5.47

3-5 Yr. EPS Gr. Rate 5%
52-Wk Range \$6.20-\$2.31
Shares Outstanding 41.9M
Float 32.0M
Market Capitalization \$228.1M
Avg. Daily Trading Volume 54,076
Dividend/Div Yield NA/NM
Book Value \$5.75
Fiscal Year Ends Dec
2013E ROE NM
LT Debt \$35.6M
Preferred NA
Common Equity \$240M
Convertible Available No

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2010A	0.02	(0.01)	0.01	(0.01)	0.02	NM
2011A	0.06	0.06	0.05	0.20	0.37	14.8x
2012A	(0.02)	0.07	0.14	0.18	0.38	14.4x
2013E	(0.01)A	0.05	0.10	0.14	0.27	20.3x
Prior (E)	--	--	--	--	0.28	NM
2014E	--	--	--	--	0.32	17.1x

Gilat Satellite Networks Ltd.

Strength in Commercial; Defense Progressing

SUMMARY

The seasonally low quarter for Gilat shows a company chugging along. The large NBN project in Australia drove revenue and EBITDA higher y/y, \$82.8M vs. \$76.6M and \$5.1M vs. \$3M, respectively. Though this single project also hurt margins, 32.4%, a multi-year low. The commercial segment continues to support the business—despite moving through a transition from general connectivity to broadband internet. Several wins at Home Depot and Meijer were announced. The defense segment continues to have uncertainty, but international wins in Asia and Israel are starting to show the fruits of management's efforts to diversify away from the US DoD. We view 2013 as a transition year and stay sidelined.

KEY POINTS

- **Results:** Revenue of \$82.8M was down 15% Q/Q but up 8.1% Y/Y, the highest Y/Y growth rate in over a year. Gross margins were down 310 bps Q/Q and 140bps Y/Y, reflecting the fluctuation caused by project mix and timing, notably the NBN project.
- **Positives:** Australia NBN continues to be the base from which the commercial segment can grow. The project has over 30,000 VSATS installed to date. We expect revenues from this project to peak in 2014. Management also highlighted multiple wins in Asia, North America, and Israel.
- **Guidance and Estimates:** Management reiterated 2013 revenue and EBITDA margin guidance, a range of \$350-360M and 9%, respectively. We tweak down our FY13 estimate by a penny to reflect a slightly lower view of gross margins. We also introduce our 2014 estimate of \$0.32—growth from NBN and impact from Ka-band contribution.
- **Transition Year:** Several initiatives are in transition mode: Commercial moving towards more broadband internet opportunities; the defense segment has been working to diversify away from the US DoD due to sequester issues; and in general the company is introducing Ka-band to slowly replace Ku.
- **Bottom Line:** This quarter's results were quite encouraging from a top-line perspective and if we see seasonality play out similarly to last year, we should expect upside to guidance. On the other hand, we view 2013 as a transition year as well as expect margin pressure. Maintain Perform.

Stock Price Performance

Company Description

Gilat Satellite Networks Ltd. designs, develops, and markets products and services for satellite-based communications networks including solutions for internet, voice, and video.

Oppenheimer & Co. Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. See "Important Disclosures and Certifications" section at the end of this report for important disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Andrew Uerkwitz
212 667-5316
Andrew.Uerkwitz@opco.com

Martin Yang
212-667-7623
Martin.Yang@opco.com

Quarterly Consolidated Income Statement

	FY 2011A	FY 2012A	1Q13A Mar-13	2Q13E Jun-13	3Q13E Sep-13	4Q13E Dec-13	FY 2013E	FY 2014E
Revenue	\$339,201	\$348,363	\$82,827	\$86,140	\$90,447	\$97,683	\$357,097	\$378,815
Cost of Sales	210,158	228,673	55,998	57,714	59,695	62,517	235,924	250,018
Gross Profit	\$129,043	\$119,690	\$26,829	\$28,426	\$30,752	\$35,166	\$121,173	\$128,797
Research & Development	31,479	28,887	7,200	7,322	7,236	7,131	28,889	33,306
Sales, General & Administrative	80,091	73,997	18,585	18,297	18,089	20,749	75,721	77,574
Operating Income (Loss)	\$17,473	\$16,806	\$1,044	\$2,807	\$5,427	\$7,286	\$16,564	\$17,917
Financial expense (income)	1,931	2,642	934	500	500	500	2,434	2,000
Other Income (income)	0	0	0	0	0	0	0	0
Pretax Income	\$15,542	\$14,164	\$110	\$2,307	\$4,927	\$6,786	\$14,130	\$15,917
Taxes (Credit)	(343)	(1,862)	426	346	739	1,018	2,529	2,387
Net Income (Loss)	\$15,885	\$16,026	(\$316)	\$1,961	\$4,188	\$5,768	\$11,601	\$13,529
Pro Forma EPS	\$0.37	\$0.38	(\$0.01)	\$0.05	\$0.10	\$0.14	\$0.27	\$0.32
GAAP Expenses	(21,163)	(39,218)	(2,372)	(2,000)	(2,000)	(2,000)	(8,372)	(8,000)
GAAP Net Income (Loss)	(\$5,278)	(\$23,192)	(\$2,688)	(\$39)	\$2,188	\$3,768	\$3,229	\$5,529
GAAP EPS	(\$0.12)	(\$0.54)	(\$0.06)	(\$0.00)	\$0.05	\$0.09	\$0.08	\$0.13
Shares Outstanding	42,758	42,627	41,766	42,058	42,353	42,649	42,207	41,665

Source: Company data, Oppenheimer & Co.

Quarterly Margin and Growth Analysis

	FY 2011A	FY 2012A	1Q13A Mar-13	2Q13E Jun-13	3Q13E Sep-13	4Q13E Dec-13	FY 2013E	FY 2014E
Margin Analysis								
Gross Margin	38.0%	34.4%	32.4%	33.0%	34.0%	36.0%	33.9%	34.0%
Research & Development	9.3%	8.3%	8.7%	8.5%	8.0%	7.3%	8.1%	8.8%
Sales, General & Administrative	23.6%	21.2%	22.4%	21.2%	20.0%	21.2%	21.2%	20.5%
Proforma Operating Income	5.2%	4.8%	1.3%	3.3%	6.0%	7.5%	4.6%	4.7%
GAAP Operating Income	-1.1%	-6.4%	-1.6%	0.9%	3.8%	5.4%	2.3%	2.6%
Pretax Income	4.6%	4.1%	0.1%	2.7%	5.4%	6.9%	4.0%	4.2%
Tax Rate	-2.2%	-13.1%	387.3%	15.0%	15.0%	15.0%	17.9%	15.0%
Net Income	4.7%	4.6%	-0.4%	2.3%	4.6%	5.9%	3.2%	3.6%
Sequential Growth Rates								
Revenue			-15.0%	4.0%	5.0%	8.0%		
Gross Profit			-22.5%	6.0%	8.2%	14.4%		
Operating Income			-84.2%	168.9%	93.3%	34.3%		
Net Income			-104.1%	-720.6%	113.6%	37.7%		
Year-over-Year Growth Rates								
Revenue	45.6%	2.7%	8.1%	1.0%	1.6%	0.3%	2.5%	6.1%
Gross Profit	57.8%	-7.2%	3.5%	-2.2%	2.2%	1.6%	1.2%	6.3%
Operating Income	1241.0%	-3.8%	-470.2%	-41.1%	-4.8%	10.0%	-1.4%	8.2%
Net Income	2061.2%	0.9%	-58.6%	-39.3%	-28.1%	-25.4%	-27.6%	16.6%
EPS	2022.2%	1.2%	-59.1%	-37.4%	-28.2%	-23.8%	-26.9%	18.1%

Source: Company data, Oppenheimer & Co.

Quarterly Consolidated Balance Sheet

	FY 2011A	FY 2012A	1Q13A Mar-13	2Q13E Jun-13	3Q13E Sep-13	4Q13E Dec-13	FY 2013E	FY 2014E
Assets								
Cash, Equivalents, & Short-term	\$64,814	\$72,426	\$75,898	\$62,349	\$66,364	\$69,890	\$69,890	\$105,835
Accounts Receivable, net	51,654	60,991	55,086	62,212	62,308	65,122	65,122	67,196
Inventories	31,933	24,973	28,432	36,552	36,480	36,121	36,121	38,436
Other Current Assets	25,767	29,140	29,209	29,209	29,209	29,209	29,209	29,209
Total Current Assets	\$174,168	\$187,530	\$188,625	\$190,323	\$194,362	\$200,341	\$200,341	\$240,676
PP&E, net	100,926	94,727	93,311	94,311	95,311	96,311	96,311	100,311
Goodwill & Other Intangibles	139,618	101,751	100,103	100,103	100,103	100,103	100,103	100,103
Other Assets	31,966	30,635	30,550	30,550	30,550	30,550	30,550	30,550
Total Assets	\$446,678	\$414,643	\$412,589	\$415,287	\$420,326	\$427,305	\$427,305	\$471,640
Liability & Shareholders' Equity								
Short-term debt	\$22,063	\$11,480	\$11,979	\$11,979	\$11,979	\$11,979	\$11,979	\$11,979
Accounts Payable	51,086	23,240	24,049	24,786	25,637	26,849	26,849	57,654
Other Current Liabilities	38,315	69,137	60,982	60,982	60,982	60,982	60,982	60,982
Total Current Liabilities	\$111,464	\$103,857	\$97,010	\$97,747	\$98,598	\$99,810	\$99,810	\$130,615
Long-term debt, net	40,353	40,747	35,646	35,646	35,646	35,646	35,646	35,646
Long-term convertible loan	0	0	0	0	0	0	0	0
Accrued Severance Pay	9,445	9,513	9,495	9,495	9,495	9,495	9,495	9,495
Other long term liabilities	25,341	18,569	30,270	30,270	30,270	30,270	30,270	30,270
Total Liabilities	\$186,603	\$172,686	\$172,421	\$173,158	\$174,009	\$175,221	\$175,221	\$206,026
Shareholders' Equity	260,075	241,957	240,168	242,129	246,317	252,085	252,085	265,614
Total Liabilities and Equity	\$446,678	\$414,643	\$412,589	\$415,287	\$420,326	\$427,305	\$427,305	\$471,640

Source: Company data, Oppenheimer & Co.

Quarterly Consolidated Ratios

	FY 2011A	FY 2012A	1Q13A Mar-13	2Q13E Jun-13	3Q13E Sep-13	4Q13E Dec-13	FY 2013E	FY 2014E
Profitability Ratios								
Annualized Return On Equity	6.1%	6.6%	-0.5%	3.2%	6.8%	9.2%	4.6%	5.1%
Annualized Return On Assets	3.6%	3.9%	-0.3%	1.9%	4.0%	5.4%	2.7%	2.9%
Annualized Return On Net Assets	3.8%	4.1%	-0.3%	2.1%	4.4%	5.9%	3.0%	3.1%
Efficiency Ratios								
A/R Days Sales Outstanding			59.9	65.0	62.0	60.0		
A/P Days Sales Outstanding			38.7	38.7	38.7	38.7		
Inventory Turns			8.0	6.4	6.6	7.0		
Days of Inventory			45.7	57.0	55.0	52.0		
Liquidity Ratios								
Current Ratio			1.9	1.9	2.0	2.0		
Quick Ratio			1.7	1.6	1.6	1.6		
Net Working Capital			\$91,615	\$92,576	\$95,764	\$100,532		
Long-term Debt/Equity			14.8%	14.7%	14.5%	14.1%		
Total Debt/Equity			19.8%	19.7%	19.3%	18.9%		
Book Value and Cash								
Book Value Per Share			\$5.75	\$5.76	\$5.82	\$5.91		
Tangible BV Per Share			3.35	3.38	3.45	3.56		
Cash Per Share			1.82	1.48	1.57	1.64		
Net Cash Per Share			0.68	0.35	0.44	0.52		

Source: Company data, Oppenheimer & Co.

Quarterly Consolidated Cash Flow Statement

	FY 2011A	FY 2012A	1Q13A Mar-13	2Q13E Jun-13	3Q13E Sep-13	4Q13E Dec-13	FY 2013E	FY 2014E
Cash Flow from Operations								
Net Income	\$15,885	\$16,026	(\$316)	\$1,961	\$4,188	\$5,768	\$11,601	\$13,529
(Inc.) Dec. in Accounts Receivable	340	(9,337)	5,905	(7,126)	(96)	(2,814)	(4,131)	(2,074)
(Inc.) Dec. in Inventories	(2,321)	6,960	(3,459)	(8,120)	72	359	(11,148)	(2,315)
(Inc.) Dec. in Other Assets	(2,794)	(3,373)	(69)	-	-	-	(69)	-
Inc. (Dec.) in Accounts Payables	(6,856)	(27,846)	809	737	851	1,212	3,609	30,805
Inc. (Dec.) in Short Term Debt	3,650	(10,583)	499	-	-	-	499	-
Inc. (Dec.) in Other Current Liabilities	12,720	30,822	(8,155)	-	-	-	(8,155)	-
(Inc.) Dec. in Op. Working Capital	\$4,739	(\$13,357)	(\$4,470)	(\$14,509)	\$827	(\$1,243)	(\$19,395)	\$26,416
Net Cash Flow from Operations	\$20,624	\$2,669	(\$4,786)	(\$12,549)	\$5,015	\$4,525	(\$7,794)	\$39,946
Cash Flow from Investing Activities								
Cap. Ex. (Net of D&A)	2,564	6,199	1,416	(1,000)	(1,000)	(1,000)	(1,584)	(4,000)
(Inc.) Dec. in Other Long-Term Assets	(5,474)	39,198	1,733	-	-	-	1,733	-
Inc. (Dec.) in Other Long-Term Liabil.	(8,471)	(6,704)	11,683	-	-	-	11,683	-
Net Cash Flow from Investing	(\$11,381)	\$38,693	\$14,832	(\$1,000)	(\$1,000)	(\$1,000)	\$11,832	(\$4,000)
Cash Flow from Financing Activities								
Long-Term Debt Financing	(5,705)	394	(5,101)	-	-	-	(5,101)	-
Other Equity Activity	(805)	(34,144)	(1,473)	(0)	0	-	(1,473)	(0)
Net Cash Flow from Financing Activities	(\$6,510)	(\$33,750)	(\$6,574)	(\$0)	\$0	\$0	(\$6,574)	(\$0)
Beginning Cash Balance	\$62,081	\$64,814	\$72,426	\$75,898	\$62,349	\$66,364	\$72,426	\$69,890
Total Change in Cash	2,733	7,612	3,472	(13,549)	4,015	3,525	(2,536)	35,946
Ending Cash Balance	\$64,814	\$72,426	\$75,898	\$62,349	\$66,364	\$69,890	\$69,890	\$105,835

Source: Company data, Oppenheimer & Co.

Investment Thesis

Gilat Satellite Networks is a leading provider of equipment and services of satellite-based communications. While we like GILT's ability to strengthen its leading position in developing markets and in North America by leveraging its experience and large customer base, we believe headwinds from uncertainty around military budget cuts give us time to collect more data points on the company's ability to gain traction in other initiatives, such as cross-selling its military products and services and its enterprise solutions.

Important Disclosures and Certifications

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

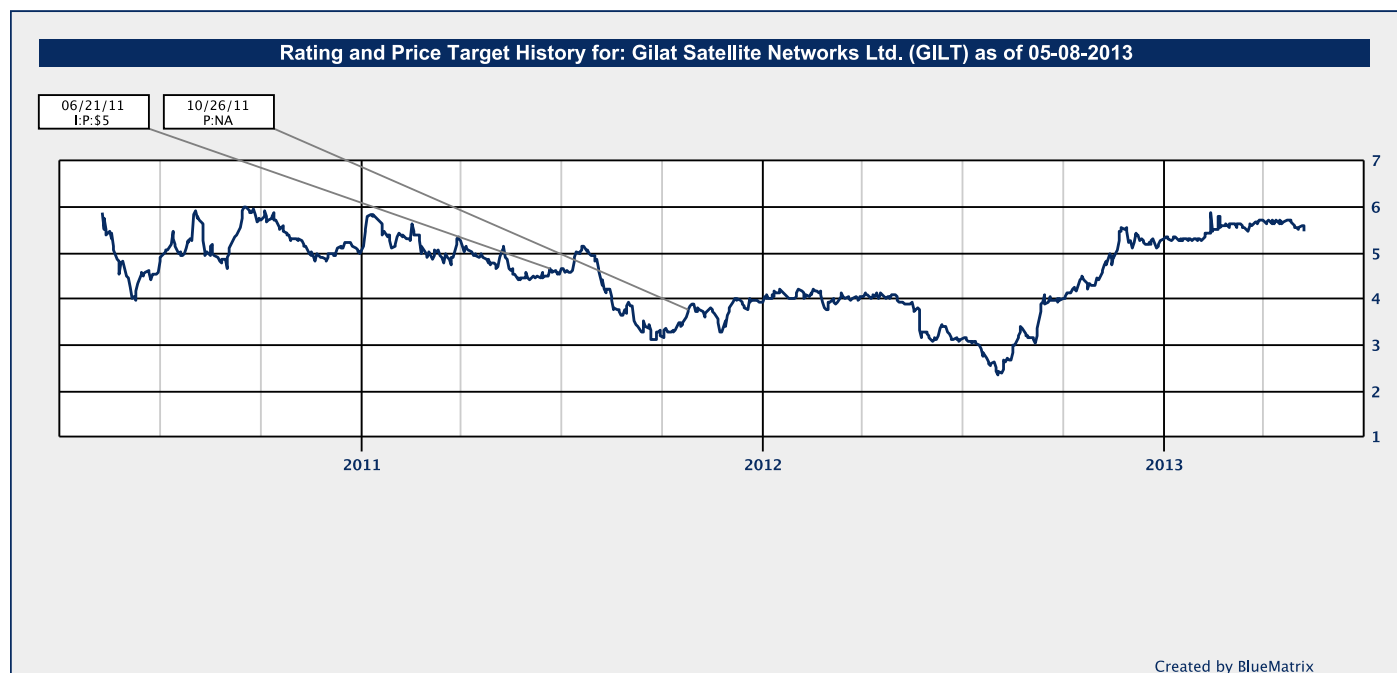
Potential Conflicts of Interest:

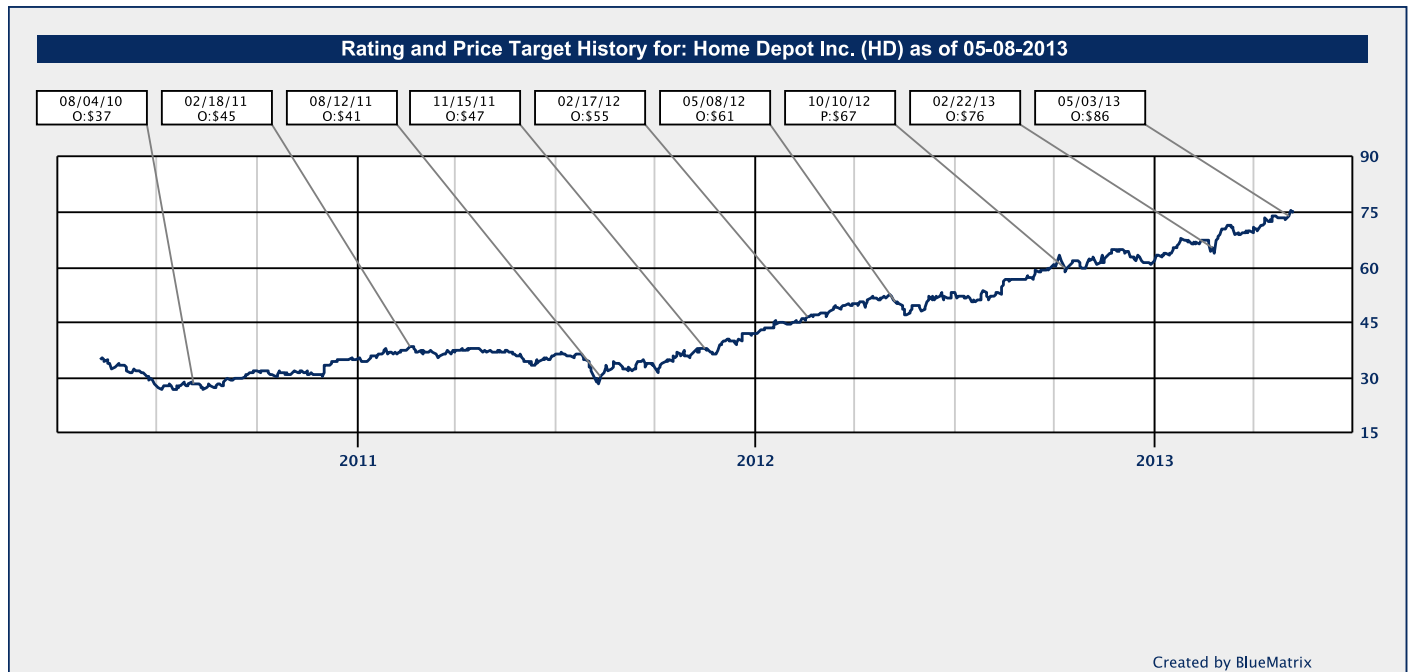
Equity research analysts employed by Oppenheimer & Co. Inc. are compensated from revenues generated by the firm including the Oppenheimer & Co. Inc. Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. Oppenheimer & Co. Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Oppenheimer & Co. Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers. In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, Oppenheimer & Co. Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by Oppenheimer & Co. Inc:

Stock Prices as of May 9, 2013

Home Depot Inc. (HD - NYSE, \$75.42, OUTPERFORM)





All price targets displayed in the chart above are for a 12- to 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

Oppenheimer & Co. Inc. Rating System as of January 14th, 2008:

Outperform(O) - Stock expected to outperform the S&P 500 within the next 12-18 months.

Perform (P) - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

Underperform (U) - Stock expected to underperform the S&P 500 within the next 12-18 months.

Not Rated (NR) - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

Oppenheimer & Co. Inc. Rating System prior to January 14th, 2008:

Buy - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

Neutral - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

Sell - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

Distribution of Ratings/IB Services Firmwide

Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	287	50.89	129	44.95
PERFORM [P]	270	47.87	99	36.67
UNDERPERFORM [U]	7	1.24	3	42.86

Although the investment recommendations within the three-tiered, relative stock rating system utilized by Oppenheimer & Co. Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with FINRA rules, Oppenheimer & Co. Inc. has assigned buy ratings to securities rated Outperform, hold ratings to securities rated Perform, and sell ratings to securities rated Underperform.

Company Specific Disclosures

Oppenheimer & Co. Inc. makes a market in the securities of GILT.

Oppenheimer & Co. Inc. expects to receive or intends to seek compensation for investment banking services in the next 3 months from GILT.

In the past 12 months Oppenheimer & Co. Inc. has provided non-investment banking, securities-related services for GILT.

Additional Information Available

Please log on to <http://www.opco.com> or write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

Other Disclosures

This report is issued and approved for distribution by Oppenheimer & Co. Inc. Oppenheimer & Co. Inc. transacts Business on all Principal Exchanges and Member SIPC. This report is provided, for informational purposes only, to institutional and retail investor clients of Oppenheimer & Co. Inc. and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Oppenheimer & Co. Inc. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. We recommend that investors independently evaluate particular investments and strategies, and encourage investors to seek the advice of a financial advisor. Oppenheimer & Co. Inc. will not treat non-client recipients as its clients solely by virtue of their receiving this report. Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Oppenheimer & Co. Inc. accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to Oppenheimer & Co. Inc. All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Oppenheimer & Co. Inc. does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by Oppenheimer & Co. Inc. or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. Oppenheimer

& Co. Inc. has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk. Distribution in Hong Kong: This report is prepared for professional investors and is being distributed in Hong Kong by Oppenheimer Investments Asia Limited (OIAL) to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent. OIAL, a subsidiary of Oppenheimer & Co. Inc., is regulated by the Securities and Futures Commission for the conduct of dealing in securities, advising on securities, and advising on Corporate Finance. For professional investors in Hong Kong, please contact researchasia@opco.com for all matters and queries relating to this report.

This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Oppenheimer & Co. Inc. Copyright © Oppenheimer & Co. Inc. 2013.