

Demand for the products of the Precision Instrument Industry has moderated over the last six months or so. However, we look for 2012 to be a decent year for the group as a whole. The industry's Timeliness rank is still in the bottom third of the 98 industries under *Value Line* review. Nevertheless, its prospects 3 to 5 years hence still appear bright.

The Next Six To 12 Months

Industry shipments during the three months ended December 31st were down 2.8%, compared to a 14.8% increase in the year-earlier period, which indicates that many of the companies in this industry are rebounding from the recent economic turmoil, yet have moderated their spending somewhat over the last three months. Seemingly, many of the end users of the products and services offered by the companies that comprise this industry continue to spend, yet at a somewhat more cautious pace. And demand in certain foreign countries is bouncing back more rapidly than in the United States, which augurs well for those companies contained in this sector that generate a significant portion of their total revenue from outside the U.S.

Three to Five Years Hence

Over the next few years, we expect further growth, reflecting the worldwide need for testing and measurement devices that manufacturers use in conjunction with new product development, cost cutting, quality control, and other areas needed to maintain or improve competitiveness. However, it is important to note that due to the capital goods nature of this industry's offerings, earnings are likely to continue to be volatile.

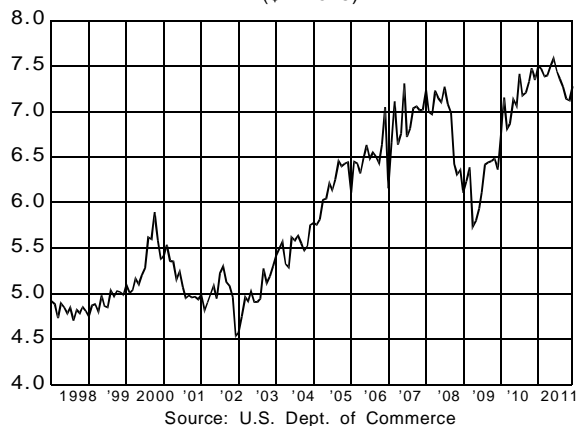
Nonetheless, based on our earnings projections through 2015-2017, a number of these issues offer attractive appreciation potential over the long haul. Cautious investors beware, though, as many of these issues display more risk than usual, and are therefore best suited for risk-tolerant investors.

A Rather Diverse Bunch

Many of the companies here derive the bulk of their sales from consumer products. Others, including *KLA-Tencor* and *MTS Systems*, are primarily involved in providing capital goods and/or services to other manufacturers. The economic factors that affect these two main divisions are diverse too.

INDUSTRY TIMELINESS: 71 (of 98)

Shipments - Measuring & Controlling Devices (\$Billions)



Source: U.S. Dept. of Commerce

Consumers

The health of the job market is the main determinant of consumer spending. Unemployment is currently at 8.3%, remaining at levels not seen since the early 1980s. However, consumer spending, which accounts for 70% of economic activity, should strengthen from current low levels.

Industry

Stronger demand, coupled with recent production cuts aimed at decreasing manufacturing costs, has probably created the need for new capacity, a positive for most companies in this industry. As previously discussed, competitive pressures are sure to persist regardless of capacity needs, and should be a source of industrial sales growth.

Conclusion

The Precision Instrument Industry ought to post solid sales and earnings increases in 2012. Demand has moderated, but we envision an improving environment as the U.S. and global economies hopefully emerge from their recent difficulties.

Kenneth A. Nugent

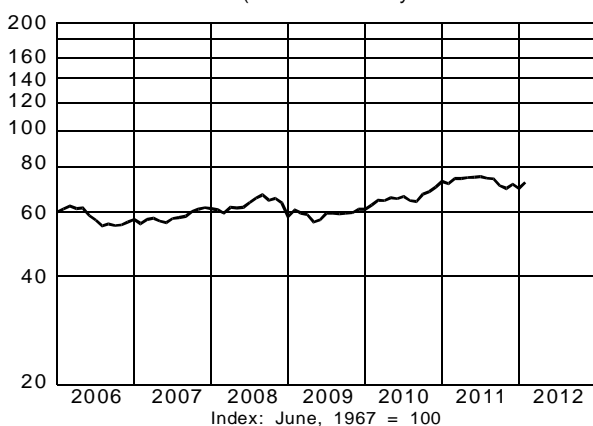
Composite Statistics: Precision Instrument Industry

2008	2009	2010	2011	2012	2013		15-17
44813	38566	41577	44875	48015	50900	Sales (\$mill)	58000
15.9%	13.0%	16.1%	16.0%	16.0%	16.0%	Operating Margin	16.0%
2302.4	2166.3	2108.7	2600	2750	2875	Depreciation (\$mill)	2970
3658.8	1833.5	3339.3	3550	3950	4250	Net Profit (\$mill)	4890
23.0%	20.0%	20.5%	24.0%	24.0%	24.0%	Income Tax Rate	24.0%
8.2%	4.8%	8.0%	8.0%	8.2%	8.3%	Net Profit Margin	8.4%
14344	15132	16336	16120	16450	16750	Working Cap'l (\$mill)	17575
8800.8	8155.5	9116.2	8350	8450	8550	Long-Term Debt (\$mill)	7950
31518	30421	31744	34850	35975	36500	Shr. Equity (\$mill)	40300
9.7%	5.4%	8.7%	8.0%	9.0%	10.5%	Return on Total Cap'l	10.0%
11.6%	6.1%	10.5%	10.0%	10.0%	11.6%	Return on Shr. Equity	11.5%
10.4%	5.4%	9.4%	9.0%	9.0%	10.5%	Retained to Com Eq	12.0%
10%	12%	7%	10%	10%	11%	All Div'ds to Net Prof	12%
20.6	27.3	20.0				Avg Ann'l P/E Ratio	16.5
1.23	1.82	1.27				Relative P/E Ratio	1.10
.5%	.4%	.3%				Avg Ann'l Div'd Yield	.8%

Bold figures are Value Line estimates

Precision Instrument

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



Index: June, 1967 = 100