

Mossberg's Investor Digest

Best Idea Profile:

DESCRIPTION:

Power Solutions International is one of the largest North American off-road alternative-fuel engine suppliers. PSI provides integrated turnkey solutions to leading global OEMs. It also provides in-house design, prototyping, engineering and testing for customized clean, high-performance engines that run on a wide variety of fuels, including natural gas, propane, biogas, diesel, gasoline, or hybrid systems, that meet applicable environmental standards. PSI power systems are used worldwide in power generators, forklifts, aerial lifts, and industrial sweepers, as well as in oil and gas, aircraft ground support, agricultural and construction equipment. The Company was founded in 1985 and is headquartered in Wood Dale, Illinois. The Company's reverse capitalization that brought it public occurred in 2011.

KEY INVESTMENT CONSIDERATIONS:

Dynamic Market Opportunity – The worldwide demand for off-road alternative fuel engines is expected to grow significantly faster than conventional engines. Environmental standards continue to evolve, demanding innovative solutions. As emission regulations tighten, diesel users face increased costs, while OEMs face complex certification hurdles. Conventional fuel equipment has been hit hard by increased cost of fuel and emission compliance. PSI is well positioned to capitalize on environmental and industry trends that favor its core strengths in emission compliance and customization.

Easy Choice for OEMs -- Tier 4 emission regulation standards for diesel engines are being phased in between now and 2015. This works in favor of PSI as diesel engines have to undergo costly outfitting to comply, or OEMs have to switch to a natural-gas-powered engine that is already in compliance.

Strong Barriers to Entry – PSI's comprehensive emission expertise creates a barrier to entry for competitors and provides customers with an invaluable service. Complex and costly compliance hurdles drive OEMs to outsource services that PSI provides. PSI's advantages include strong relationships with OEMs that have sole-sourced products, ongoing investment in environmental certifications, competitive cost advantages from its global sourcing and aggregation, and large investments in proprietary engine technology and in-house engineering.

Power Solutions International (OTC BB:PSIX)

Sales Growth Across Product Lines – PSI's 2011 sales grew 54% over the previous year. This included big gains in organic growth as the Company continues to build business with existing customers. The second quarter 2012 sales increase of 42% represented improvement in all of PSI's major product lines. It is expanding with new engines and new markets, such as its entry into the on-road "big block" engines. To support future growth, during the second quarter, PSI completed new production facilities on time and with no unplanned costs.

Financial Strength – PSI recently reaffirmed its guidance of sales growth of 23-35% for 2012, along with the expectation of gross margin expansion. Management stated its expectation that operating profit will at least keep up with sales growth. The balance sheet is strong and the company has access to \$25 million more in its \$50 million line of credit to fund growth and development. Removing the impact of the non-cash warrant revaluations that will happen quarterly, the second quarter EPS was \$0.21, compared with \$0.04 in the comparable quarter last year and \$0.19 in the first quarter of 2012.

KEY RISK:

This stock is thinly traded. 53% of shares are held by insiders and 5% owners, with more than 7 million shares held by the Winemaster brothers.

Power Solutions International (OTC BB:PSIX) Investment Data (as of 8/16/12)

Recent Price	\$16.99
52-Week Range	\$14.00 - \$18.49
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	9.1 M
Average Trading Volume (3 m)	3K
Market Capitalization	\$154 M
Cash	\$577K
Long Term Debt	\$25 M
Enterprise Value (EV)	\$178 M
Book Value	\$1.82
TTM Revenue	\$186.5 M
P/ Revenue	0.90
TTM EPS	\$0.52
P/ EPS	32.8
TTM EBITDA	\$12.3 M
EV/ EBITDA	14.5

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