

# Mossberg's Investor Digest

## Best Idea Profile

## Tecumseh Products Company (NASDAQ: TECUA)

### DESCRIPTION:

Headquartered in Ann Arbor, Michigan; Tecumseh Products Company is one of the worlds largest manufacturers of hermetically sealed compressors for residential and specialty air conditioning. The product line includes compressors for household refrigerators, freezers and commercial refrigeration applications. The company has a broad international presence with about 81% of 2009 sales (from continuing operations) coming from outside the United States. Products are manufactured in the US, Brazil, France, India, Canada, Mexico and Malaysia. The Brazilian compressor operations are the largest and produce products for worldwide distribution. Until recently Tecumseh was in other businesses including hermetically sealed compressors, small gasoline engines, power train products, and electrical components. During 2007 and 2008 the company divested itself of non-core operations and sold a number of businesses and divisions. Tecumseh is now solely focused on the global compressor and compressor-related condensing unit business. The company has been under pressure from a dissident shareholder in recent years that included proxy contests. Tecumseh announced a new CEO and had several changes in board membership during 2009.

### KEY INVESTMENT CONSIDERATIONS:

**Takeover Target** - TECUA has a number of competitors, some of which have greater financial, technical, and manufacturing resources than TECUA. TECUA specialty air conditioning applications are particularly well suited for specialized niche markets located in parts of the Middle East and Asia. The company also competes with companies such as Copeland and Danfoss, Inc. in the US. With additional cash payments scheduled for 2010, TECUA will have 77% of it's market capitalization in cash. TECUA's enterprise value along with its market position makes the company a compelling takeover candidate to other players in the industry.

**Additional Cash** - TECUA is expecting to receive \$35 to \$40 million in cash during 2010 from a pension plan reversion. TECUA is also expecting to receive tax refunds of \$1.9 million from the US and \$29.2 million from Brazil (subject to exchange rates) during 2010. Collectively these refunds represent a minimum of \$3.58 per share. Additional funds would leave TECUA with \$9.85 per share in cash (76% of market value).

**Downsized with a large cash balance** -The combination of a recession and a dissident shareholder has led TECUA to take decisive action. TECUA sold off assets leaving only 'core operations", which should leave management with an easier job of focusing on the turnaround. Also, TECUA is financially stronger with \$6.27 per share in cash and near cash assets.

**A Turnaround in Operations** - The operating environment for TECUA remains difficult, yet the company is showing better results. TECUA recently reported 4Q09 results of \$1.65 per share loss vs. a \$3.43 per share loss a year ago. Operating losses for Q409 were \$20.5 million (including \$13.8 million for impairments, restructuring and other items) vs. a \$48.1 million loss for Q408. The company recently stated that it expects 2010 results to improve over 2009 results.

### VALUATION:

The company is trading at about a third of its enterprise value and a third of revenue. All other things remaining constant, the addition of \$65MM to \$70MM in cash refunds in 2010 would leave the company with an enterprise value of just \$65MM. By comparison, premium manufacturers such as Emerson Electric command enterprise value to revenue multiples in the 2x range. TECUA should be able to close much of that gap with either fundamental improvement or interest from a strategic buyer.

#### (NASDAQGM: TECUA)

Investment Data (as of 4/13/10)

<b>Recent Price</b>	<b>\$13.04</b>
52-Week Range	6.09 - 14.00
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	18.5 MM
Average Trading Volume (3 mos)	38,924
Market Capitalization	240 MM
Cash and near cash	116 MM
Long Term Debt	8mm
Enterprise Value (EV)	129 MM
LT Debt/ Equity	.02
BV/ Share	\$25.08
TTM Revenue	\$735.9 MM
P/ Revenue	0.33x
TTM EPS	(\$5.05)
P/ EPS	NA
TTM EBITDA	(\$25.7) MM
EV/ EBITDA	NA

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