

# Mossberg's Investor Digest

## Best Idea Profile

## TurboSonic Technologies (OTCBB: TSTA.OB)

### DESCRIPTION:

Headquartered in Ontario, Canada, 33-year-old TurboSonic Technologies designs and markets air pollution control technologies to industrial customers worldwide. The company's technologies are designed to meet the strictest emission regulations for gaseous and particulate emissions for several industries including: Cement and Mineral Processing, (23% of 2009 revenue) Ethanol & Biofuels (21%), Petrochemicals (21%), Metals & Mining, Power Generation, Pulp & Paper, Waste Incineration, and Wood Products. The company has 35 patents issued and pending.

### KEY INVESTMENT CONSIDERATIONS:

**New CGT Technology has billion dollar+ market potential** – TurboSonic holds the exclusive worldwide marketing rights for a patented technology called Catalytic Gas Treatment, or CGT. CGT technology uses a catalytic process to destroy pollutants such as formaldehyde and methanol from gas streams. CGT is a more environmentally friendly and cost effective substitute for traditional thermal oxidation technologies, which essentially burn off the pollutants. Not only do the traditional thermal oxidizers cost more to operate because they consume massive amount of fuel oil, or natural gas, they also produce significant amount of Co2 and other environmentally harmful gases such as nitrogen oxides. According to the McIlvaine Company, a recognized independent market-consulting firm, the worldwide market for thermal oxidizers is approximately \$1.7 billion annually. The company believes CGT technology has a good chance of capturing a significant portion of this large market.

• **Energy savings alone supports the case for accelerating the upgrade cycle** – Eliminating natural gas consumption can save customers several million dollars per year. The company expects payback periods as short as 1 ½ years. With the rapid payback, customers could replace existing technology before the end of its useful life (10 to 15 years), thereby expanding the size of the market and accelerating the growth of CGT.

• **Coming regulation may force customers to adopt the technology** - With increasing concern of global warming, governments worldwide are adding more restrictive regulation on greenhouse gas emitters. For example, on September 30, the EPA proposed a rule that will create costs for facilities that emit more than 25,000 tons of CO<sub>2</sub> per year. These costs could be as high as \$10 to \$30 per ton and would create a major incentive for customers to upgrade to CGT technologies.

• **Add on sales** – Increased sales of CGT are likely to drive demand for TSTA's cooling, precipitation and other products, which are sold as part of a system.

**Near term trends are positive** – The company has recently announced several seven-figure deals including a \$4 million CGT contract win. Backlog at the end of the June quarter was \$10.2 million, almost 2x the amount at the same period list year.

**Business does not require dilutive capital to support growth** - Because the company successfully manages large projects with progress payments, there is no need to raise money (and dilute shareholders) to support growth.

### VALUATION:

TSTA uses contract manufacturing, which means they do not require significant fixed assets that can be a drag on returns. In fact, TSTA has regularly produced ROE in excess of 25%. Essentially, TSTA is an intellectual property company, which means it could command much higher multiples than its current valuation of 5.7x EV to EBITDA. Also, if the company is even modestly successful with its new CGT technology, revenue and earnings could be a multiple of what they are today. Shares could also benefit from a listing on a more senior exchange. The company currently qualifies for a listing on the TSX/TSXV (Venture) exchanges.

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Investment Data (as of 10/09/09)

<b>Recent Price</b>	<b>\$1.20</b>
52-Week Range	0.20 - 1.37
Fiscal Year End	June
Shares Outstanding	15 MM
Average Trading Volume (3 mos)	20,000
Market Capitalization	18 MM
Cash	5 MM
Long Term Debt	130,000
Enterprise Value (EV)	13 MM
LT Debt/ Equity	0.02
BV/ Share	0.36
TTM Revenue	25 MM
P/ Revenue	0.7x
TTM EPS	0.10
P/ EPS	12x
TTM EBITDA	2.3 MM
EV/ EBITDA	5.7x

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