

**Action Summary – 14 February 2013**

Analyst Theodore R. O'Neill *is initiating coverage of PSIX with a Buy rating and a \$27 price target*

- Channel checks show its largest customer will have to place a major restocking order due to demand for backup generators following Hurricane Sandy
- New tougher diesel emission standards hit in 2015 and we believe this will drive growth in 2014 as industrial OEM customers switch to alternative fuel engines at the last minute
- We forecast 15% revenue growth in 2013 and 37% in 2014 as new products and new platforms further adopt PSIX engines

<b>Current share price: \$21.25</b>	<b>Market cap: \$193 million</b>	<b>2014 P/E: 15</b>	<b>EV/Sales: 1.1</b>
<b>Shares outstanding: 9.1 million</b>	<b>Insider ownership: 80%</b>	<b>Avg. trading volume: 12,000</b>	<b>Dividend: NA</b>

**Macroeconomic context**

- Slow growth in U.S. GDP likely crimped revenue growth all through 2012 and especially in 4Q12
- However as GDP grows in 2013, we would expect to see year-over-year revenue growth although lingering impact of 4Q12 negative print on GDP may lead to lower growth in 2013 than seen in 2012

**GAAP estimates (EPS in dollars – Revenue in millions)**

Period	EPS	Revenue	Net Margin
1Q12A	\$0.13	\$48.1	2.4%
2Q12A	\$0.32	\$50.1	5.9%
3Q12A	\$0.20	\$51.7	3.6%
4Q12E	<u>\$0.17</u>	<u>\$50.5</u>	<u>3.0%</u>
FY12E	<u>\$0.82</u>	<u>\$200.4</u>	<u>3.7%</u>
1Q13E	\$0.22	\$53.0	3.7%
2Q13E	\$0.25	\$60.0	3.8%
3Q13E	\$0.24	\$58.0	3.8%
4Q13E	<u>\$0.25</u>	<u>\$59.0</u>	<u>3.8%</u>
FY13E	<u>\$0.95</u>	<u>\$230.0</u>	<u>3.8%</u>
1Q14E	\$0.25	\$59.0	3.8%
2Q14E	\$0.25	\$65.0	3.5%
3Q14E	\$0.33	\$75.0	4.0%
4Q14E	<u>\$0.26</u>	<u>\$75.0</u>	<u>3.2%</u>
FY14E	<u>\$1.39</u>	<u>\$315.0</u>	<u>4.0%</u>

Note: Consensus EPS estimates for FY13 appear aggressive. See our full model in the back of this report. Excel versions available.

**Cash balance (in millions)**

• 2012E	• \$0.00
• 2013E	• \$0.00
• 2014E	• \$0.00

Note: Company maintains a zero cash balance

**Debt (in millions)**

• 2012E	• \$25.4
• 2013E	• \$20.8
• 2014E	• \$18.1

Note: Debt is a revolving line with a \$50 million limit

**EBITDA (in millions)**

• 2012E	• \$14.0
• 2013E	• \$16.0
• 2014E	• \$22.2

**Risks/Valuation**

- Demand for PSIX product are somewhat dependent on changes in EPA regulations regarding diesel emissions
- The sales cycle for PSIX is very long making forecasts of timing of future quarterly revenue problematic
- Trading volume is very low. The three month average is 12,000 shares/day
- Our \$27 target is derived using a modified dividend discount model, details of which can be found in this report

**Company description**

PSIX is a global producer and distributor of a broad range of certified low emission, traditional and alternative fuel power systems (engines) for original equipment manufacturers (OEM) of off-highway industrial equipment. Headquarters are in Wood Dale, IL.

Trading snapshot

Trading volume is very light making it difficult to build or unwind a significant position



Source: BigCharts.com

ViewPoint

We like the growth, the low capex and cash flow but the company should consider a managed offering

- 1) We like the stock because of the better than average growth potential. The main reason for the growth is due to the increasing conversion of internal combustion engines to run on natural gas or propane.
- 2) In the conversion business, PSIX is one of the largest, converting 300 engines/day
- 3) It has developed several significant new products for the on-road market that have larger than average ASPs which would add to growth in 2015
- 4) According to our analysis, the balance sheet does not need reinforcement
- 5) Capital expenditures appear to have peaked in 2012
- 6) Channel checks are positive
- 7) View into the upcoming 4Q12 conference call is that the results may be lighter than consensus expectation for revenue because of the macro-environment but that the outlook should be slightly better than expected
- 8) Our major concern is that liquidity in the market is dependent on 10b5-1 sales by company insiders. Between 12/29/2012 and 1/23/2013, the CEO's sales amounted to 25% of total volume. It would be helpful for liquidity if the company sold a large portion of insider stock in a managed offering

Financial Analysis

We forecast declining loan balances over the next two years

The company maintains a zero cash balance and any funding needs are handled through a revolving line of credit through BMO Harris Bank NA, which currently has a limit of \$50 million. We estimate that the revolving loan balance was \$25.4 million at the end of 2012 and will decline over the next two years to approximately \$10.8 million. At the same time, we estimate changes in working capital will increase by \$4.8 million in 2013 and \$11 million in 2014. DSOs have ranged from the high 30s to the high 40s and we project that will continue. Inventory turns have ranged from 3x to nearly 5x. We project that to continue.

Forecasts

Long sales cycle and changing regulatory environment mean good growth in 2014

We are forecasting higher growth for 2014 than 2013. The sales cycle for PSIX to get its engines into customer's products is as long as two years. The market for its engines is largely regulated and PSIX customers have every incentive to wait until the 11<sup>th</sup> hour to make changes to meet regulatory approval. What this means is that since the strictest emission standards do not come

into play until 2015, PSIX is likely to see significant growth at the end of 2013 and into 2014.

#### Price Target

We assume that a single investor owns all the stock. What is the discounted value of the earnings stream?

Our price target is derived using a modified dividend discount model. Intellectually we assume we just bought 100% of the outstanding stock and the earnings stream flows to a single investor. What is the value of that stream? We assume all the annual earnings are dividends, we grow them as shown in the model at the back of this report and then over the course of the next 10 years we scale the growth back until earnings growth matches GDP. We then discount those “dividends” at 12%. This model probably understates the tax benefits thus could be seen as understating the price target but offsetting this is that the model never shows a decline in earnings and thus we feel the two balance out.

#### Channel Checks

Positive channel checks

Our check of inventory levels of Kohler backup generators at big box retailers shows out of stock situations on the East Coast. Our checks of electrical contractors who install Kohler generators shows that they are working full-time to install generators for existing orders but generally cannot commit to new orders until they restock. If Kohler’s business with PSIX were to rise 50% this year in order to meet demand, it would add represent all of the growth we forecast for 2013 revenue thus we believe our estimates are conservative.

#### Field Work

Move to larger facilities completed

We have made two visits to company manufacturing facilities in the last 18 months with the most recent visit occurring on November 14<sup>th</sup>. Between the two visits, the company completed a move of its manufacturing operation to a larger site.

#### Competition

Competitors include Fuel System Solutions, Inc. (FSYS-NR), Westport Innovations, Inc. (WPRT-NR) and Woodward Governor, Inc. (WWD-NR). These companies supply engines and engine system componentry into the industrial OEM marketplace.

#### Company Overview

PSIX is a global producer and distributor of a broad range of certified low emission, traditional and alternative fuel power systems (engines) for original equipment manufacturers (OEM) of off-highway industrial equipment. Alternative fuel power systems are highly engineered, comprehensive systems which are customized to meet:

- specific industrial OEM application requirements;
- other technical specifications of customers and;
- requirements imposed by environmental regulatory bodies including the Environmental Protection Agency (EPA) and the California Air Resources Board (CARB)
- We estimate PSIX produces on average, more than 300 engines per day

PSIX’s power system configurations range from a basic engine block integrated with appropriate fuel system components to completely packaged power systems that include any combination of cooling systems, electronic systems, air intake systems, fuel systems, housings, power takeoff systems, exhaust systems, hydraulic systems, enclosures, brackets, hoses, tubes and other assembled componentry.

PSIX generally obtains the engines, which it integrates into alternative fuel power systems from third party suppliers. Of the other components, which it integrates into alternative fuel power systems, a substantial portion consists of internally designed components whose manufacture has



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been outsourced with the remainder consisting largely of parts that it buys off the shelf from third party suppliers.

Uses for alternative fuel power systems are many and include powering stationary electricity generators, oil and gas equipment, forklifts, aerial work platforms, industrial sweepers, arbor equipment, agricultural and turf equipment, aircraft ground support equipment, construction and irrigation equipment, and other industrial equipment. For these applications, it produces power systems that emit no more and many times fewer emissions than is required by the EPA and the CARB. Its low-emission, alternative fuel power systems range in size from under 1 liter to over 22 liters.

PSIX is one of the largest suppliers of Perkins and Caterpillar diesel power systems under 275 horsepower. This makes it a prominent supplier of EPA and CARB emission-certified diesel power systems to the industrial OEM marketplace.

PSIX is also developing a range of hybrid power systems. It plans to apply technology from its existing green power systems and its application expertise to provide tailored, cost-efficient, emission-compliant hybrid power systems to the industrial OEM marketplace, both domestically and internationally.

We estimate that approximately 60% of net sales in 2012 consisted of sales of emission-certified products, with approximately 83% of these sales consisting of sales of emission certified products for which PSIX holds the applicable regulatory certification and approximately 17% of these sales of diesel power systems for which the diesel engine supplier holds the applicable regulatory certification. We estimate that approximately 12% of net sales in 2012 consisted of sales of aftermarket parts and the remaining approximately 28% of net sales in 2012 consisted of sales of non-emission-certified power systems.

### Addressable Markets

#### 1) *Power Generation*

PSIX makes EPA and CARB emission-certified power systems that use alternative fuels, for stationary emergency and non-emergency power generation products. Emergency engines are stationary engines that operate primarily in emergencies. Examples include engines used in generators to produce power for critical networks when electrical power from the local utility provider is interrupted, and stand-by engines that pump water in the event of a fire or flood. Non-emergency products include prime power generation products, which produce continuous generation of power for an extended period, and peak shaving products, which generate power at times of maximum power demand.

#### 2) *Oil and Gas*

The oil and gas market category includes oil field pumps, progressing cavity pumps, and other components and machines used in drilling, evaluation, completion and production of oil and gas assets. We believe a growth category for PSIX will be gas fired electric generators, wellhead jacks and compressors that can be fueled at the wellhead. We estimate that PSIX is one of a very few providers in this market that supplies pre-certified, as opposed to site-certified, power systems. Site certification is a lengthy and costly process for oil and gas equipment OEMs.

#### 3) *Material Handling — Forklift Trucks*

The material handling market category includes forklift trucks and other mobile products used for movement, handling and storage of materials. PSIX provides engines to major OEMs to incorporate into 1.5 ton, 3.5 ton and 5 ton capacity forklift markets. We see future growth for PSIX in the 8 ton and 10 ton forklift markets using alternative fuel engines in connection with anticipated increases in diesel prices resulting from regulations on diesel engines taking effect through 2015.

Demand in the United States for PSIX's material handling power systems is driven by emission and

OSHA regulations. Based upon data supplied by Power Systems Research, Inc., we believe that, in the United States, nearly 100% of the indoor forklift market uses spark-ignited liquid propane gas or electric powered units (with approximately equal market shares), in contrast to Asian and European forklift markets which currently use diesel in excess of 80% of all applications. In connection with the implementation of pending EPA Tier 4 and European Stage IV regulations, and the resulting price increases related to the compliance of diesel engines with these regulations, we expect foreign markets for spark-ignited liquid propane gas power systems to grow. Even if the mix of diesel-fueled forklifts remained unchanged in Europe, demand could still grow from overseas forklift makers looking to export to the U.S.

#### **4) Aerial Work Platforms**

The aerial work platforms market category consists of aerial work platforms. Rental companies represent a majority of all purchasers in this industry category. PSIX currently sells its liquid propane gas/gasoline dual fuel power systems to aerial work platform OEMs.

#### **5) Industrial Sweepers**

The industrial indoor sweeper market category consists of machines that clean and sweep various indoor surfaces. The power systems for this market category use both spark-ignited and diesel engines, as well as electric motors. PSIX currently sells its 30 to 80 horsepower liquid propane gas and gasoline power systems to industrial indoor sweeper OEMs.

#### **6) Arbor Products**

The arbor products market category includes wood chippers and grinders. PSIX currently provides engines to four of the largest OEM wood chippers in the United States. It also designs and manufactures its own proprietary power take-off clutch, which may be used in any of its arbor product power systems.

#### **7) Other Industry Categories**

PSIX provides power systems within other industrial OEM markets, including welding, airport ground support, agricultural, turf, construction and irrigation.

#### **Connected Asset Services**

PSIX makes and sells ONSTAR® like systems for industrial customers. The product is called MasterTrak. When integrated into OEM equipment, MasterTrak collects critical data from the equipment and transmits this data back to an OEM, service provider or end-user through wireless networks. The services allow customers to see the data and monitor the performance of their equipment. PSIX provides services to its OEM customers that allow these OEMs and their customers to remain connected to their equipment, even as the equipment is being operated in the field. The MasterTrak product offering includes:

- GPS for location monitoring, geo-fencing and directions to the equipment
- Automated and continuous remote asset monitoring with automatic alerts that can be transmitted via e-mail and text
- Maintenance management which provides the ability to monitor and provide notice of impending equipment maintenance as opposed to random time intervals
- Bi-directional communication for remote testing and troubleshooting

PSIX makes MasterTrak with its engine power systems as a bundled offering, and on a stand-alone basis both to its OEM customers and to other businesses to which it does not currently supply alternative fuel power systems. Connected asset services have not yet provided a material portion of revenues.

#### **Customers**

PSIX's largest customers have included include Bandit, Doosan, JLG, Kohler and Toyota, of which Kohler was the only one that represented more than ten percent of revenue.

### Growth Drivers and Catalysts

The market for alternative fuel power systems is continuing to grow globally because of several key drivers.

#### **1) Increasingly Stringent Regulations Drive Demand For Alternative Fuel Engines**

While emission standards vary significantly around the world, such standards are becoming more stringent over time. Over the last several years in particular, there has been a significant increase in regulation of off-highway equipment emissions both here and in the EU.

Increased EPA and CARB emission regulations associated with diesel power systems have already begun taking effect. Over the next several years, these regulations are expected to increase both the cost and product footprint (the size of the power system) of diesel power products. In 2004, the EPA adopted rules introducing Tier 4 emission standards that significantly reduce the allowed emissions of oxides of nitrogen and particulate matter, and restrict hydrocarbon emissions, for off-road diesel engines of various sizes. The most recent standards adopted were initially implemented in 2008 and will continue to be phased in through 2015. As an example of the standards to which diesel engines are subject, in 2012 allowed emission for levels of particulate matter for non-road diesel engines was reduced by approximately 90% from 2009 allowed levels. As a result, manufacturers and suppliers of diesel power systems, in comparison to spark-ignited and hybrid power systems, face greater challenges in complying with new emission regulations.

Countries outside of the United States have historically adopted emission regulations aligned with those of the U.S., and we estimate that regulations comparable to current and future EPA and CARB emission regulations will be implemented internationally.

#### **2) Increased Availability of Alternative Fuels**

The market for alternative fuel power systems is driven by economic considerations; the drive for energy independence; the widespread availability of alternative fuels such as natural gas and propane; and environmental concerns. We believe that providers of industrial equipment in industrial OEM categories, such as power generation, that rely significantly on coal, diesel fuel and gasoline will find it easier and easier to switch to alternative fuel power systems.

#### **3) Industrial OEM Trend Toward Outsourcing**

Industrial OEMs have become more reliant on outsourcing to third party suppliers and partners with specialized regulatory and design expertise like PSIX. By looking to outside sources for power systems, power system components and subsystems, industrial OEMs are able to focus their resources on overall design and functionality of their products, rather than on developing, the sophisticated technology associated with emission-certified power systems. We expect more industrial OEMs to outsource power systems and subsystems to third party suppliers like PSIX.

#### **4) Penetration by International Suppliers into Regulated Markets**

International industrial OEMs that supply into regulated industrial OEM markets in the U.S. must meet applicable emission requirements like those imposed by the EPA and CARB in the U.S. These international industrial OEMs may lack the regulatory and design expertise necessary to develop their own emission-certified power systems.

#### **5) Shrinking Number Of Suppliers To Industrial OEMs**

The level of technology and sophistication, including electronic controls, associated with industrial OEM power systems has grown significantly over time and we believe this trend will lead to a reduction in the number of suppliers. We see PSIX as a potential consolidator in the industry.

### Manufacturing

PSIX products are assembled at its facilities in Wood Dale, Illinois.

#### **1) Engine and Component Suppliers**

PSIX power systems and parts come from multiple suppliers and may or may not have been



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designed internally. PSIX buys its internal combustion engine blocks and parts from three main suppliers: General Motors, Perkins/Caterpillar and Doosan. It also sources other power system components from third party suppliers that it supplements with parts it designs internally.

### 2) Arrangements with Key Suppliers

Under its distribution agreement with Perkins, PSIX is the exclusive distributor of specified Perkins engines within a territory consisting of the States of North Dakota, South Dakota, Minnesota, Wisconsin, Iowa, Michigan, Ohio and Indiana, as well as portions of the State of Illinois. It is also a non-exclusive distributor of specified Perkins engines within a territory consisting of the States of Nebraska and Kansas, as well as portions of the State of Missouri. This agreement with Perkins is currently scheduled to expire on December 31, 2013.

It is also party to a supply agreement with Doosan under which PSIX purchases and distributes, on a semi-exclusive basis, specified Doosan engines within a territory consisting of the United States, Canada and Mexico. PSIX must also purchase a minimum number of engines from Doosan during each year that the agreement is in effect.

Unlike its arrangements with Perkins and Doosan, it does not maintain an exclusive relationship with GM. PSIX is treated as an OEM that uses GM engines. It receives a pricing package at least once a year containing applicable price quotations and there is no minimum volume commitment. Purchases of engines from GM are executed through purchase orders at prices listed in the pricing package under the general terms of sale that GM offers to its OEM customers.

### Sales Channel

PSIX sells its products directly in the U.S. and through reps in the rest of the world.

### Employees

As of March 1, 2012, the workforce consisted of approximately 308 persons, including approximately 102 full-time and one part-time employee, as well as members of the production team whose services are obtained through an arrangement with a professional employer organization and other individuals whose services are obtained through a temporary employment agency. Of these persons, approximately 28 were in Product Development and Emissions Compliance, 18 were in Sales, 17 were in Customer Support Engineering, Quality and Service, 21 were in Executive Management and Finance, 35 were in Operations Management and approximately 189 were in Production.

### Management

**Gary Winemaster** is Chairman of the Board, Chief Executive Officer and President. Mr. Winemaster is a co-founder of the company, and has played a significant role in developing and expanding its presence as a distributor of alternative fuel spark-ignited and diesel power systems. Prior to serving in his role as Chief Executive Officer and President of PSIX, Mr. Winemaster served as the Vice President of Sales for Power Great Lakes a wholly owned subsidiary of PSIX. Prior to founding the company, Mr. Winemaster worked in sales management for the European operations, with territory responsibility for the German, Scandinavian and Benelux markets, of Guardian Industries, a United States glass manufacturer. Mr. Winemaster holds a Bachelor of Science degree from the Wharton School at the University of Pennsylvania.

**Daniel Gorey** is Chief Financial Officer and joined PSIX in July 2011 as a Senior Vice President of Finance. Before joining PSIX, he was Chief Financial Officer and a board member of Quixote Corporation, a publicly traded provider of highway crash safety systems. Daniel joined Quixote in 1985, and assumed the CFO role in 1995. He began his career as a CPA at Coopers and Lybrand, after earning a Bachelor of Science degree in Accounting from the University of Illinois.

Figure 1 - Power Solutions International, Inc.

(\$ in thousands except per share)

December year-end	2010 Year	2011 Year	2012				2012 Year	2013E				2013E Year	2014E				2014E Year
			Q1	Q2	Q3	Q4E		Q1E	Q2E	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
<b>Total revenue</b>	\$100,521	\$154,969	\$48,072	\$50,115	\$51,703	\$50,500	\$200,390	\$53,000	\$60,000	\$58,000	\$59,000	\$230,000	\$59,000	\$65,000	\$75,000	\$75,000	\$315,000
<i>Growth</i>	21%	54%	53%	42%	21%	11%	29%	10%	20%	12%	17%	15%	11%	8%	29%	27%	37%
Cost of Goods	83,894	128,541	39,843	41,283	43,293	42,168	166,587	43,990	49,800	48,140	48,970	190,900	48,970	53,950	62,250	62,250	261,450
<b>Gross Profit</b>	<b>16,627</b>	<b>26,428</b>	<b>8,229</b>	<b>8,832</b>	<b>8,410</b>	<b>8,333</b>	<b>33,804</b>	<b>9,010</b>	<b>10,200</b>	<b>9,860</b>	<b>10,030</b>	<b>39,100</b>	<b>10,030</b>	<b>11,050</b>	<b>12,750</b>	<b>12,750</b>	<b>53,550</b>
<b>Gross Margin</b>	<b>16.5%</b>	<b>17.1%</b>	<b>17.1%</b>	<b>17.6%</b>	<b>16.3%</b>	<b>16.5%</b>	<b>16.9%</b>	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>
Research and development	\$3,846	\$4,713	\$1,727	\$1,808	\$2,010	\$2,100	\$7,645	\$2,100	\$2,200	\$2,200	\$2,200	\$8,700	\$2,200	\$2,300	\$2,400	\$2,400	\$9,500
% of total revenue	3.8%	3%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	3%	3%	3%
Selling and Service	\$5,465	\$6,666	\$1,702	\$1,583	\$1,315	\$1,500	\$6,100	\$1,400	\$1,800	\$1,700	\$1,700	\$6,600	\$1,700	\$2,000	\$2,200	\$2,800	\$10,000
% of total revenue	5%	4%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	4%	3%
General and administrative	\$3,250	\$5,244	\$1,764	\$2,048	\$2,212	\$2,300	\$8,324	\$2,400	\$2,600	\$2,500	\$2,600	\$10,100	\$2,600	\$3,200	\$3,400	\$3,800	\$14,200
% of total revenue	3%	3%	4%	4%	4%	5%	4%	5%	4%	4%	4%	4%	4%	5%	5%	5%	5%
Total Operating Expenses	12,561	16,623	5,193	5,439	5,537	5,900	22,069	5,900	6,600	6,400	6,500	25,400	6,500	7,500	8,000	9,000	33,700
<b>Operating Income</b>	<b>4,066</b>	<b>9,805</b>	<b>3,036</b>	<b>3,393</b>	<b>2,873</b>	<b>2,433</b>	<b>11,735</b>	<b>3,110</b>	<b>3,600</b>	<b>3,460</b>	<b>3,530</b>	<b>13,700</b>	<b>3,530</b>	<b>3,550</b>	<b>4,750</b>	<b>3,750</b>	<b>19,850</b>
<b>Operating Margin</b>	<b>4.0%</b>	<b>6.3%</b>	<b>6.3%</b>	<b>6.8%</b>	<b>5.6%</b>	<b>4.8%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>5.5%</b>	<b>6.3%</b>	<b>5.0%</b>	<b>6.3%</b>
Total Other Items	(2,131)	(2,971)	(855)	701	(50)	(100)	(304)	(100)	(100)	(100)	(100)	(400)	(100)	(100)	(100)	(100)	(400)
<b>Pre-Tax Income</b>	<b>1,935</b>	<b>6,834</b>	<b>2,181</b>	<b>4,094</b>	<b>2,823</b>	<b>2,333</b>	<b>11,431</b>	<b>3,010</b>	<b>3,500</b>	<b>3,360</b>	<b>3,430</b>	<b>13,300</b>	<b>3,430</b>	<b>3,450</b>	<b>4,650</b>	<b>3,650</b>	<b>19,450</b>
<b>Pre-Tax Margin</b>	<b>1.9%</b>	<b>4.4%</b>	<b>4.5%</b>	<b>8.2%</b>	<b>5.5%</b>	<b>4.6%</b>	<b>5.7%</b>	<b>5.7%</b>	<b>5.8%</b>	<b>5.8%</b>	<b>5.8%</b>	<b>5.8%</b>	<b>5.8%</b>	<b>5.3%</b>	<b>6.2%</b>	<b>4.9%</b>	<b>6.2%</b>
Taxes (benefit)	366	2,773	1,031	1,133	977	816	3,957	1,054	1,225	1,176	1,201	4,655	1,201	1,208	1,628	1,278	6,808
Tax Rate	18.9%	40.6%	47.3%	27.7%	34.6%	35.0%	34.6%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
<b>Net Income (loss)</b>	<b>1,569</b>	<b>4,061</b>	<b>1,150</b>	<b>2,961</b>	<b>1,846</b>	<b>1,516</b>	<b>7,473</b>	<b>1,957</b>	<b>2,275</b>	<b>2,184</b>	<b>2,230</b>	<b>8,645</b>	<b>2,230</b>	<b>2,243</b>	<b>3,023</b>	<b>2,373</b>	<b>12,643</b>
<b>Net Margin</b>	<b>1.6%</b>	<b>2.6%</b>	<b>2.4%</b>	<b>5.9%</b>	<b>3.6%</b>	<b>3.0%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.5%</b>	<b>4.0%</b>	<b>3.2%</b>	<b>4.0%</b>
<b>EPS, as reported</b>	<b>0.20</b>	<b>0.48</b>	<b>0.13</b>	<b>0.32</b>	<b>0.20</b>	<b>0.17</b>	<b>0.82</b>	<b>0.22</b>	<b>0.25</b>	<b>0.24</b>	<b>0.25</b>	<b>0.95</b>	<b>0.25</b>	<b>0.25</b>	<b>0.33</b>	<b>0.26</b>	<b>1.39</b>
Pro-Forma EPS																	
Diluted Shares Outstanding	8,000	8,499	9,065	9,065	9,068	9,070	9,067	9,070	9,080	9,090	9,100	9,085	9,100	9,110	9,120	9,130	9,125

Sources: Company reports and Litchfield Hills Research LLC.



**Figure 2 - Power Solutions International, Inc.**  
(\$ in thousands except per share)

December year-end	FY2014E	FY2013E	FY2012E	FY2011	FY2010
<b>Balance sheet</b>					
Current Assets					
Cash and S.T.I.	\$0	\$0	\$0	\$0	\$0
Accounts receivable	48,000	38,000	32,000	29,523	16,282
Inventories	58,000	50,000	45,000	33,393	32,168
Other assets	<u>4,000</u>	<u>4,000</u>	<u>3,200</u>	<u>3,105</u>	<u>1,715</u>
<b>Total Current Assets</b>	<b>110,000</b>	<b>92,000</b>	<b>80,200</b>	<b>66,021</b>	<b>50,165</b>
Net PP&E	8,000	7,500	6,600	3,611	2,883
Other non-current assets	<u>3,000</u>	<u>2,500</u>	<u>2,000</u>	<u>1,451</u>	<u>2,305</u>
<b>Total Assets</b>	<b><u>\$121,000</u></b>	<b><u>\$102,000</u></b>	<b><u>\$88,800</u></b>	<b><u>\$71,083</u></b>	<b><u>\$55,353</u></b>
Current Liabilities					
Accounts payable	\$40,000	\$35,000	\$30,000	\$27,574	\$17,210
Accrued expenses	\$6,000	\$5,000	\$4,000	\$4,015	\$2,211
Revolving line of credit - ST	\$0	\$0	\$0	\$19,666	\$21,633
Other current liabilities	<u>\$3,000</u>	<u>\$2,000</u>	<u>\$1,000</u>	<u>\$587</u>	<u>\$2,845</u>
<b>Total current liabilities</b>	<b><u>49,000</u></b>	<b><u>42,000</u></b>	<b><u>35,000</u></b>	<b><u>51,842</u></b>	<b><u>43,899</u></b>
Revolving line of credit - LT	18,129	20,772	25,417	0	0
Other Liabilities	<u>6,000</u>	<u>5,000</u>	<u>3,600</u>	<u>3,917</u>	<u>6,098</u>
<b>Total Liabilities</b>	<b>73,129</b>	<b>67,772</b>	<b>64,017</b>	<b>55,759</b>	<b>49,997</b>
Stockholders' Equity					
Preferred stock					
Total stockholders' equity	47,871	34,228	24,783	15,324	5,356
<b>Total Liabilities and equity</b>	<b><u>\$121,000</u></b>	<b><u>\$102,000</u></b>	<b><u>\$88,800</u></b>	<b><u>\$71,083</u></b>	<b><u>\$55,353</u></b>

Sources: Company reports and Litchfield Hills Research LLC.



## Power Solutions International, Inc.

PSIX-Buy-\$27 PT

### Disclosures:

#### Analyst Certification

I Theodore R. O'Neill, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and the underlying securities. I further certify that I have not and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this research report.

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