

## Alternative Research Services, Inc.

Robert MacArthur [rmacarthur@altresearch.com](mailto:rmacarthur@altresearch.com) 203-244-5174 w 203-215-3843 m April 11, 2012

### TPX -- \$83.65

- Sell short
- MFRM reported: iComfort driving growth,
- TPX “holding its own in the mix.”

Market Cap.	\$5.3 b
Shares Out.	63.8 m
Short Interest	6.8 m
Days short	5.2 days
Avg. Daily Vol.	1.3 m
St. eps est. 2012	\$3.97
St. eps est. 2013	\$4.79
Px/sales	4.0x
Px/ EBITDA	14.9x

Source: Bloomberg

### MFRM Reported

MFRM reported 4Q and FY11 numbers after the close yesterday and had a big beat. Management specifically called out iComfort as a driver of its Q4 performance. EPS came in at \$0.56, up from a loss of \$0.07 in 4Q10, beating the consensus estimate of \$0.19. Net sales \$188.6M, up 48% YoY versus \$127.5M in 4Q10. The consensus was \$177M net sales for 4Q11. SSS were up 25%. Gross margin widened to 40.2% from 36.9%, despite a 40% rise in input costs. Op income increased 178% YoY to \$15.3M, vs. \$5.5M in 4Q10. Op margin increased 380 basis points to 8.1% vs. 4.3% in 4Q10. Net income was \$17.4M, vs. a loss of \$1.6M in 4Q10. Net income was boosted by a \$14.2M deferred tax benefit, partially offset by a \$3.8M pre-tax loss on early extinguishment of debt.

<Q>: “Can you give us that breakdown specifically and can you talk a little bit about your expectations for this upcoming year for units and tickets?”

<A>: “...we saw a lift of around 3% ASP. On the last call, we did talk about the fact that we have introduced iComfort, and for the fourth quarter it was there for the full quarter, and we definitely saw the effects that we expected in terms of - that’s part of the increase in specialty mix that you saw and likewise that alone had a positive effect on AUP.”

<Q>: “Can you give us a little bit more flavor on the growth drivers of the comp for the fourth quarter and the first quarter?”

<A>: “...we demonstrated in the quarter about a 2.4% growth in ASP, which was the highest of any quarter that we have seen and one of the drivers of that was certainly the addition of the iComfort, where we saw an increase in the specialty sales mix.”

<Q>: “So and what have you embedded in the assumptions from kind of tension, or a good tension between iComfort and what’s happening at Tempur?”

<A>: “...we’re pleased to report that iComfort appears to be largely accretive primarily evidenced by the fact that Tempur-Pedic has been holding its own in its mix and our overall specialty business as you can see increased significantly and that is largely driven by iComfort.”

<Q>: “And switching to the industry, with so much product, specialty products coming in here in the \$1,300, \$1,500 range, given your comment on seeing more ticket being driven, are you making the assumption that those introductions are going to be moving up from the sub-\$1,000 range?”

<A>: “Well, Keith, that’s certainly been evidenced by the increase in the mix by iComfort that we experienced in Q4 and ongoing. So I think with the few more introductions, we see some trends where, call it the \$999 consumer, is trading up \$300 to \$400 a little more easily which has been a positive for us. So hopefully we’ll continue to see that, and that seems to support the message.”

### **TPX Thesis and Thoughts**

Unfortunately, TPX has been the perfect storm regarding short selling failures. Several shorts, including us, saw the introduction of I-Comfort as a negative catalyst. Using MFRM’s IPO as a proxy or catalyst, the theory went, that if MFRM showed positive I-Comfort sales, TPX would lose share and the stock would decline. However, the market, in general, had other ideas. To make matters worse, bedding companies that do well in a stronger housing market and there has been speculation it is recovering. We attribute the rally to the Fidelity Factor: With money flowing in from the sidelines we should have been more astute in following the holdings of the mutual fund complexes, in this case, Fidelity owns 13% of TPX (and similar amounts of other short ideas). Short selling can’t fight money flows using fundamentals and expect to win. With that said, our TPX thesis stands: As I-Comfort continues to improve its market share, TPX will suffer over time.

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