

Neo Performance Materials Establishes a Brighter Future with New Permanent Magnet Plant in Estonia

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They say in tough times it makes sense to make acquisitions and expand the business ready for the cyclical upturn that inevitably follows. Well, that is what today's company is doing with a new acquisition, a new investment, and the commencement of construction of a new permanent magnet facility.

Neo Performance Materials Inc. (TSX: NEO) ("Neo")

[Neo Performance Materials](#) manufactures advanced industrial materials including magnetic powders and magnets, specialty chemicals, metals, and alloys. These products are critical to the performance of many everyday products and emerging technologies.

Neo has recently acquired 90% of SG Technologies Group Limited, invested to acquire 44% of Neo North Star Resources, and completed the groundbreaking for a new permanent magnet manufacturing plant in Narva, Estonia. They also delivered a record [Q2 2023 revenue](#) of US\$170.4 million, albeit with lower adjusted net income for the quarter.

SG Technologies Group Limited's 90% acquisition

As [announced](#) on April 18, 2023, Neo has agreed to acquire 90% of SG Technologies Group Limited ("SGTec") for "an initial payment of £10.8 million (US\$13.4 million) plus future earn-out considerations of between 0 and £5.4 million (US\$6.7 million) based on Adjusted EBITDA performance over the SGTec's fiscal years 2024 through 2026." SGtec is one of Europe's leading advanced, specialty manufacturers of rare earth and other high performance magnets. The announcement [stated](#):

"Today, SGTec produces a variety of high-performance magnets and magnetic assemblies for some of the world's leading brands in electric and hybrid vehicles, multi-fuel and medium-duty engines, hydrogen fuel cell vehicles, off-highway fuel systems, automotive systems, and consumer electronics. It is recognized as a leader in the production of fully dense bonded neodymium-iron-boron ("NdFeB") magnets, soft magnetic composites (used in high-speed solenoids and electric motor applications), and other high-performance magnets."

A summary of SGTec's business – now 90% owned by Neo Performance Materials



Source: [SGTec website](#)

Investment to acquire 44% of Neo North Star Resources

In Q2, 2023 Neo completed an investment of [~US\\$4.5 million for a 44% stake](#) of Neo North Star Resources Inc. ("NNSR"), including an off-take agreement of 60% of the product produced. NNSR is a

JV between Neo and North Star Resources which owns the license for the Greenland Sarfartoq Rare Earth Project. Neo's plan is for the Project, once in production, to be a source of neodymium and praseodymium ("NdPr") for their Estonia rare earth separations plant.

You can read more details [here](#) about the Neo North Star Resources Inc. JV and the Greenland Sarfartoq Rare Earth Project [here](#).

Permanent magnet manufacturing plant in Estonia

As [reported](#) on July 7, 2023, Neo has commenced construction of their European permanent rare earth magnet Plant in Estonia. Interestingly the Plant will recycle end-of-life magnets to make new permanent magnets. High-purity magnetic rare earth oxide feed will come from Neo's existing rare earth separations plant in Estonia. Once in operation, the two Neo plants will form Europe's first and only fully integrated supply chain for sintered rare earth permanent magnets designed to produce specialized rare earth permanent magnets for use in electric vehicles, wind turbines, and other clean energy technologies.

Neo [state](#):

"Phase 1 production of 2,000 tonnes/year is slated to begin in 2025, an amount that can support the manufacturing of ~1.5 million electric cars. Neo's expected Phase 2 production of 5,000 tonnes/year can support the manufacturing of ~4.5 million electric cars."

Given the [typical forecasts](#) for global plugin electric cars is an increase from ~14 million pa in 2023 to ~24 million pa by the end 2025 and ~50 million pa by the end of 2030, there should be

enormous demand for permanent rare earth magnets, even if some cheaper EVs choose to use inferior magnets. Added to this will be all the other demand areas such as wind turbines etc.

The recent groundbreaking ceremony of Neo's new rare earth magnet manufacturing facility in Estonia, Europe (set to begin in 2025)



Source: [Neo news July 7, 2023](#)

Record Q2 2023 revenue, but lower adjusted net income

As [reported](#) on August 11, 2023, Neo achieved record Q2 consolidated revenue of US\$170.4 million compared to US\$168.2 million for the same period in the prior year; an increase of \$2.2 million or 1.3% YoY. Adjusted Net Income was US\$2.5 million (US\$0.05 per share), down from US\$15.9 million (US\$0.39 per share) in the corresponding period of the prior year. Neo ended Q2, 2023 with a cash balance of US\$126.9 million, after funding acquisitions and investments of \$16.1 million, distributing \$6.7 million in dividends to its shareholders, and repurchasing \$1.2 million of shares.

[New Neo Performance Materials CEO](#), Rahim Suleman, [stated](#):

"Despite the subdued market environment for rare earth magnetism, and continuing lead-lag pricing challenges that we must navigate, our top-line performance was helped by high volumes for value-added rare earth products outside of China. This performance generated healthy cash from operations and free cash flow, which allowed us to fund the acquisition of SG Technologies Group Limited, the investment in Neo North Star Resources, and the groundbreaking for our permanent magnet

manufacturing plant in Narva, Estonia. Neo continues to be well positioned to execute our future growth initiatives."

Closing remarks

Neo is using the tough current market conditions to grow their business ready for the next cyclical upturn. Neo has done this via a clever acquisition and investment, combined with pushing forward on a new permanent magnet plant in Estonia. The current subdued demand for magnet products (typically used in powerful electric motors such as wind turbines and electric vehicles) will turn around at some point. And when it does Neo should potentially be better positioned than where it was before we entered the current global slowdown, at least in terms of its product lineup and supply chain.

Neo Performance Materials trades on a market cap of [C\\$393 million](#).