

Neo Performance Materials Reports Record Revenue and Growth Initiatives on All Fronts

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[Neo Performance Materials Inc.](#) (TSX: NEO) is a Canadian company with a key role in the supply chain for rare earths magnet powders and various high-tech metals. Neo owns the only operating commercial rare earth separation facility in Europe. Neo manufactures rare earth metals, alloys, rare earth magnet powders, specialty chemicals, technology metals, and alloys. These are all critical to the performance of many everyday products such as the magnets used in both internal combustion and electric vehicles and in direct-drive wind turbine electric generators.

Neo's business is organized into three segments: Magnequench, Chemicals & Oxides, and Rare Metals. The Magnequench business unit is a leader in bonded neodymium-iron-boron (NdFeB) magnetic powders, magnets, and their applications.

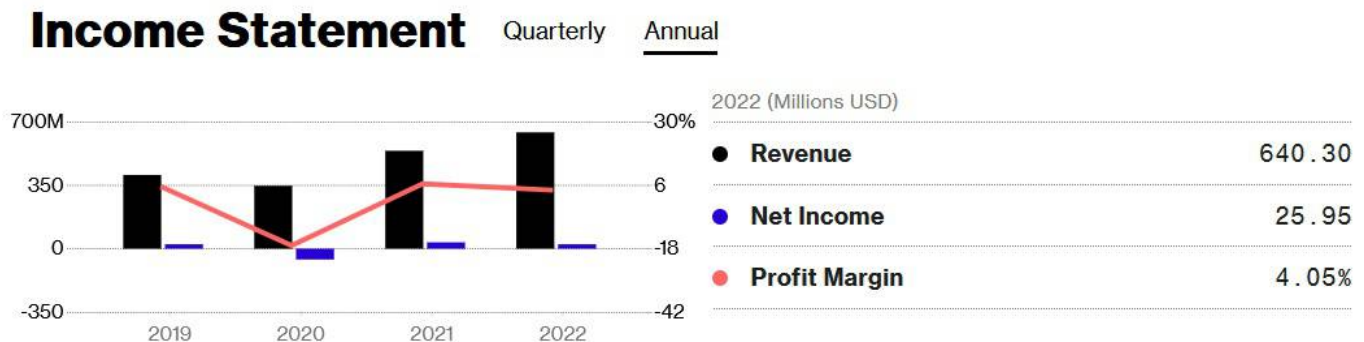
Neo's fourth quarter and full-year 2022 financial results

Neo recently reported its [Q4 and full year 2022 financial results](#), and the results were a bit of a mixed bag.

On the positive side, Neo yet again achieved record revenue, this time with 2022 full-year revenue of US\$640.3 million, an increase of 18.7% year-over-year (YoY).

On the negative side, Neo's net income for the full year 2022 was [US\\$25.95 million](#), down YoY, mostly due to a higher cost of sales and higher finance costs, which led to a slightly lower net [profit margin of 4.05%](#) in 2022, .

Neo Performance Materials revenue grew to a record again in 2022



Source: [Bloomberg](#)

Unwrapping Neo's 2022 financial results

2022 was a tough year for the global economy and particularly the auto market, a key user of magnets. As a result of this environment and various supply chain upheavals, Neo's key Magnequench segment saw a decline in sales volumes with respect to the prior-year period.

Neo [stated](#):

*"Margins per ton in the Magnequench segment were lower in the fourth quarter of 2022 compared to higher margins achieved earlier in 2022. Magnequench has pass-through pricing agreements on the vast majority of its sales contracts, and with rare earth magnetic prices having declined from March 2022, Magnequench is beginning to see the reversal of the lead-lag benefit in the latter half of 2022. **The long-term growth outlook for Magnequench's magnetic materials remains strong, and the division's long-term focus remains on the value-add***

spread margin between the input commodity cost and the value of the functionalized materials that are manufactured.”

Note: Bold emphasis by the author.

Clearly, the 2022 slowdown in the global economy impacted negatively several end products that use magnets, including smartphones, PCs, and cars.

Looking ahead, 2023 may remain a tough environment but at least low-interest rates in China and an improving China economy with the COVID-19 re-opening could help boost the global economy.

Other Neo revenue segments such as chemicals & oxides and rare earth elements continue to do quite well. Regarding the latter Neo [stated](#):

“Rare Metals achieved record earnings in 2022, continuing the improvement that started in the fourth quarter of 2021. Rare Metals experienced strength in pricing for key products such as hafnium and tantalum. ... The Rare Metals business continues to make progress in several key strategic initiatives, including selling more products outside of the aerospace industry, expanding its customer base, and diversifying its total end-market exposure. Sales prices in a number of end markets have recovered and gallium-based products are exhibiting improved market demand.”

Neo’s advanced materials are essential components of many of the world’s fastest-growing cleantech applications



Source: [Neo company presentation](#)

Growth drivers

Looking ahead Neo has numerous growth initiatives, including growing current businesses, plans for vertical integration, diversifying its global footprint, developing new applications, Mergers & Acquisitions, and Joint Ventures.

Neo sees the global demand for magnetic REE oxides growing 3-times by 2025, mostly driven by double-digit growth from the electric vehicle and wind power sectors.

In November 2022, Neo announced that it has been awarded a grant of up to €18.7 million from the Government of Estonia, under Europe's Just Transition Fund ("JTF") program, to help pay for the cost of constructing a rare earths permanent magnet manufacturing facility in Estonia. Neo plans to fund the remaining construction costs for the plant from its balance

sheet and expects it to be operational in 2025.

For full details on Neo's growth plans, see its latest company presentation located [here](#).

Closing remarks

Despite 2022 being a tough year for many businesses Neo managed to get through reasonably well, achieving record revenues and slightly lower net profits and net margins.

As a result of lower sentiment in the rare earths related market Neo's stock price has been hit, [down 39%](#) over the past year. This situation, of course, represents an opportunity for investors to consider stocks during cyclical lows.

In the case of Neo, it now trades on a [PE of 11.2](#) and a market cap of [C\\$421 million](#).

Given we are only just entering the EV and renewable energy booms and a period where Western-sourced critical materials are becoming very favorable, Neo Performance Materials should definitely be on investors' radar.