Neo Performance Materials Reports Record First Quarter 2022 Results

written by Raj Shah | May 13, 2022

Q1 2022 Highlights

(unless otherwise noted, all financial amounts in this news release are expressed in U.S. dollars)

- Neo sets new records for quarterly sales, net income, and Adjusted EBITDA[(1)] since re-emerging as a public company in 2017.
- Q1 2022 revenue of $166.3 million, higher by 27.1% YoY.
- Operating income of $28.7 million in the quarter, higher by 74.8% YoY.
- Adjusted Net Income[(1)] of $23.5 million, or $0.57 per share.
- Adjusted EBITDA[(1)] of $33.1 million, higher by 47.6% YoY.
- Cash balance of $61.1 million after distributing $3.2 million in dividends to shareholders.
- A quarterly dividend of Cdn$0.10 per common share was declared on May 12, 2022 for shareholders of record at June 20, 2022, with a payment date of June 28, 2022.

May 13, 2022 (Source) – Neo Performance Materials Inc. ("**Neo**", the "**Company**") (TSX: NEO) released its first quarter 2022 financial results. The financial statements and management's discussion and analysis ("**MD&A**") of these results can be viewed on Neo's web site at www.neomaterials.com/investors/ and on SEDAR at www.sedar.com.

HIGHLIGHTS OF Q1 2022 AND YEAR-END CONSOLIDATED PERFORMANCE

Neo reported strong year-over-year ("**YoY**") gains in revenue, operating income, and Adjusted EBITDA[1] in the first quarter of 2022. The Company set new records in the quarter for sales, net income, and Adjusted EBITDA[1] since re-emerging as a public company in 2017.

For the three months ended March 31, 2022, consolidated revenue was $166.3 million compared to $130.9 million for the same period in the prior year; an increase of $35.4 million or 27.1%. Neo reported a net income of $22.7 million, or $0.55 per share, compared to $7.6 million, or $0.20 per share, in the same period of 2021. Adjusted Net Income[(1)] totaled $23.5 million, or $0.57 per share, compared to $15.1 million, or $0.40 per share, in the corresponding period of the prior year. Adjusted EBITDA[1] was $33.1 million, a 47.6% jump over Adjusted EBITDA of $22.4 million in the first quarter of 2021.

As of March 31, 2022, Neo had cash and cash equivalents of $61.1 million plus restricted cash of $1.3 million, compared to $89.0 million plus $1.3 million as at December 31, 2021. In the three months ended March 31, 2022, Neo distributed $3.2 million in dividends to its shareholders. As of March 31, 2022, Neo had approximately $41.3 million available under its credit facilities with $18.9 million drawn, compared to $6.5 million drawn at December 31, 2021.

"While the world has been impacted by many macroeconomic headwinds, causing volatility across all sectors, all of our plants continued to service the needs of our global customers with relentless focus, resulting in strong financial performance," said Constantine Karayannopoulos, CEO of Neo. "Our European downstream expansion plans are on track and we remain excited and encouraged with the progress made to date concerning our discussions with government officials in Estonia and with

the relevant EU Institutions in Brussels – as well as with prospective OEM and Tier 1 and 2 customers in Europe – who are providing strong early indications of interest leading us to believe the first phase of our plans could be sold out by its start of production."

SELECTED FINANCIAL RESULTS

TABLE 1: Selected Consolidated Results		
	Year-over-Year Comparison	
	Q1 2022	**Q1 2021**
Volume (tonnes)	3,510	4,206
($000s)		
Revenue	166,282	130,855
Operating income	28,685	16,408
EBITDA[(1)]	33,384	14,800
Adjusted EBITDA[(1)]	33,118	22,436
Adjusted EBITDA %[(1)]	19.9%	17.1%

(1)*Neo reports non-IFRS measures such as "Adjusted Net Income", "Adjusted Earnings per Share", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "EBITDA". Please see information on this and other non-IFRS measures in the "Non-IFRS Measures" section of this news release and in the MD&A.*

For the three months ended March 31, 2022, revenues of $166.3 million were 27.1% higher, than the three months ended March 31, 2021.

Neo reported operating income of $28.7 million and net income of $22.7 million for the three months ended March 31, 2022. Operating income in the three months ended March 31, 2022, was

higher in C&O and Rare Metals but lower in Magnequench.

Adjusted EBITDA[(I)] for the three months ended March 31, 2022, was $33.1 million, an increase of $10.7 million or 47.6% compared to the same period of the prior year. Similar to operating income, in the three months ended March 31, 2022, Adjusted EBITDA[(I)] was higher in C&O and Rare Metals but lower in Magnequench.

MAGNEQUENCH SEGMENT RESULTS

TABLE 2: Selected Magnequench Results		
	Year-over-Year Comparison	
	Q1 2022	**Q1 2021**
Volume (tonnes)	1,305	1,725
($000s)		
Revenue	74,015	64,905
Operating income	10,236	11,090
EBITDA[(1)]	13,547	13,965
Adjusted EBITDA[(1)]	12,778	13,432

(1)*Neo reports non-IFRS measures such as "Adjusted Net Income", "Adjusted Earnings per Share", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "EBITDA". Please see information on this and other non-IFRS measures in the "Non-IFRS Measures" section of this news release and in the MD&A.*

For the three months ended March 31, 2022, volumes in the Magnequench segment saw a decline with respect to the prior-year period as well as sequentially, driven largely by the recent spike in COVID-19 in Asia, several natural disasters impacted production facilities and customers, and the ongoing

semiconductor chip shortage.

Margins in the Magnequench segment were particularly strong in the quarter due to increasing rare earth magnetic prices which began in the fourth quarter of 2020 and continued to mid-March 2022. Magnequench has pass-through agreements on the vast majority of its contracts and with rising rare earth magnetic prices, Magnequench has been passing through the higher replacement costs while utilizing some of the lower cost inventory on hand. Pass-through is a key strategic focus of Magnequench and ensures that Magnequench focuses on generating long term sustainable and value-added margins.

CHEMICALS & OXIDES ("C&O") SEGMENT RESULTS

TABLE 3: Selected C&O Results		
	Year-over-Year Comparison	
	Q1 2022	**Q1 2021**
Volume (tonnes)	2,099	2,423
($000s)		
Revenue	67,662	54,390
Operating income	18,477	12,122
EBITDA[(1)]	18,968	5,887
Adjusted EBITDA[(1)]	19,910	12,918

(1)*Neo reports non-IFRS measures such as "Adjusted Net Income", "Adjusted Earnings per Share", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "EBITDA". Please see information on this and other non-IFRS measures in the "Non-IFRS Measures" section of this news release and in the MD&A.*

The C&O segment continues to see strong demand for various rare earth products, particularly its magnetic-based products used in

electrification of automobiles and other environmentally sustainable technologies. The combination of higher prices and higher demand resulted in strong financial performance for the C&O segment compared to the prior periods, particularly driven by premium sales to key customers in March, where rare earth prices peaked in the quarter. In C&O's environmental catalysts business, volumes were reasonably strong in the three months ended March 31, 2022, although they were slower than the comparable quarter in the prior year, which benefited from customers refilling their supply chains. Volumes were negatively impacted by the slowdown of automotive production but rebounded a little after lower volumes in the third and fourth quarters of 2021. C&O's environmentally protective water treatment solutions business continues to perform well with higher volume and new customer adoption, although sales volume growth expectations were partially impacted by the challenges in global shipping and logistics availability.

RARE METALS SEGMENT RESULTS

TABLE 4: Selected Rare Metals Results		
	Year-over-Year Comparison	
	Q1 2022	**Q1 2021**
Volume (tonnes)	137	118
($000s)		
Revenue	29,062	16,716
Operating income	3,723	258
EBITDA[(1)]	4,512	2,154
Adjusted EBITDA[(1)]	4,341	903

(1)*Neo reports non-IFRS measures such as "Adjusted Net Income", "Adjusted Earnings per Share", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "EBITDA". Please see information on this and other non-IFRS measures in the "Non-IFRS Measures" section of this news release and in the MD&A.*

Rare Metals continued its trend of a strong fourth quarter of 2021 with a strong first quarter of 2022. Rare Metals showed strength in pricing for key products such as hafnium and tantalum while able to benefit from lower-cost inventory on hand. The recycling purchases and activities of Rare Metals were particularly impactful to lowering its overall material costs.

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.

CONFERENCE CALL ON FRIDAY MAY 13, 2022 AT 10 AM EASTERN

Management will host a teleconference call on Friday May 13, 2022 at 10:00 a.m. (Eastern Time) to discuss the first quarter 2022 results. Interested parties may access the teleconference by calling (647) 794-4605 (local) or (866) 575-6539 (toll-free long distance) or by visiting http://cnw.en.mediaroom.com/events. A recording of the teleconference may be accessed by calling (416) 436-0148 (local) or (888) 203-1112 (toll-free long distance), and entering pass code 3171025# until June 30, 2022 or by visiting http://cnw.en.mediaroom.com/events.

NON-IFRS MEASURES

This news release refers to certain non-IFRS financial measures

and ratios such as “Adjusted Net Income”, “EBITDA”, “Adjusted EBITDA”, and “Adjusted EBITDA Margin”. These measures and ratios are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and may not be comparable to similar measures presented by other companies. Rather, these measures and ratios are provided as additional information to complement IFRS financial measures by providing further understanding of Neo’s results of operations from management’s perspective. Neo’s definitions of non-IFRS measures used in this news release may not be the same as the definitions for such measures used by other companies in their reporting. Non-IFRS measures and ratios have limitations as analytical tools and should not be considered in isolation nor as a substitute for analysis of Neo’s financial information reported under IFRS. Neo uses non-IFRS financial measures and ratios to provide investors with supplemental measures of its base-line operating performance and to eliminate items that have less bearing on operating performance or operating conditions and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Neo believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures and ratios in the evaluation of issuers. Neo’s management also uses non-IFRS financial measures in order to facilitate operating performance comparisons from period to period. For definitions of how Neo defines such financial measures and ratios, please see the “Non-IFRS Financial Measures” section of Neo’s management’s discussion and analysis filing for the three months ended March 31, 2022, available on Neo’s web site at www.neomaterials.com and on SEDAR at www.sedar.com.

TABLE 5: CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($000s)	March 31, 2022	December 31, 2021
ASSETS		
Current		
Cash and cash equivalents	$ 61,143	$ 89,037
Restricted cash	1,312	1,283
Accounts receivable	85,310	65,209
Inventories	217,417	200,954
Income taxes receivable	1,176	1,667
Other current assets	24,112	19,211
Total current assets	**390,470**	**377,361**
Property, plant and equipment	77,140	73,378
Intangible assets	48,875	49,961
Goodwill	70,253	70,082
Investments	15,000	13,759
Deferred tax assets	6,874	6,638
Other non-current assets	2,962	2,903
Total non-current assets	**221,104**	**216,721**
Total assets	**$ 611,574**	**$ 594,082**
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt	$ 18,935	$ 6,502
Accounts payable and other accrued charges	67,062	94,201

Income taxes payable	10,673	7,059
Provisions	3,640	5,560
Lease obligations	1,279	1,589
Derivative liability	14,733	14,704
Other current liabilities	3,084	1,455
Total current liabilities	**119,406**	**131,070**
Employee benefits	1,177	1,210
Provisions	22,913	15,127
Deferred tax liabilities	14,210	13,366
Lease obligations	1,175	1,388
Other non-current liabilities	1,447	1,405
Total non-current liabilities	**40,922**	**32,496**
Total liabilities	**160,328**	**163,566**
Non-controlling interest	3,248	2,891
Equity attributable to equity holders of Neo Performance Materials Inc.	447,998	427,625
Total equity	**451,246**	**430,516**
Total liabilities and equity	**$ 611,574**	**$ 594,082**

> See accompanying notes to this table in Neo's Consolidated Financial Statements for the Three Months Ended March 31, 2022, available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com.

TABLE 6: CONSOLIDATED RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2022 to the three months ended March 31, 2021:

($000s)	**Three Months Ended March 31,**	
	2022	**2021**
Revenue	$ 166,282	$ 130,855
Costs of sales		
Costs excluding depreciation and amortization	114,316	90,920
Depreciation and amortization	2,378	1,879
Gross profit	**49,588**	**38,056**
Expenses		
Selling, general and administrative	14,252	14,060
Share-based compensation	181	1,592
Depreciation and amortization	1,896	1,955
Research and development	4,574	4,041
	20,903	21,648
Operating income	**28,685**	**16,408**
Other expense	(433)	(6,074)

Finance cost, net	(414)	(216)
Foreign exchange loss	(411)	(301)
Income from operations before income taxes and equity income of associates	**27,427**	**9,817**
Income tax expense	(5,995)	(3,133)
Income from operations before equity income of associates	**21,432**	**6,684**
Equity income of associates (net of income tax)	1,269	933
Net income	**$ 22,701**	**$ 7,617**
Attributable to:		
Equity holders of Neo	$ 22,350	$ 7,446
Non-controlling interest	351	171
	$ 22,701	**$ 7,617**
Earnings per share attributable to equity holders of Neo:		
Basic	$ 0.55	$ 0.20
Diluted	$ 0.54	$ 0.20

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See Management's Discussion and Analysis for the Three Months Ended March 31, 2022, available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com.

TABLE 7: RECONCILIATION OF NET INCOME TO EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

($000s)	**Three Months Ended March 31,**	
	2022	**2021**
Net income	**$ 22,701**	**$ 7,617**
Add back (deduct):		
Finance cost, net	414	216
Income tax expense	5,995	3,133
Depreciation and amortization included in costs of sales	2,378	1,879
Depreciation and amortization included in operating expenses	1,896	1,955
EBITDA	**33,384**	**14,800**
Adjustments to EBITDA:		
Other expense [(1)]	433	6,074
Foreign exchange loss [(2)]	411	301
Equity income of associates	(1,269)	(933)
Share-based compensation [(3)]	181	1,592

Other (recoveries) costs [4]	(22)	602
Adjusted EBITDA[5]	**$ 33,118**	**$ 22,436**
Adjusted EBITDA Margins[5]	*19.9%*	*17.1%*
Less:		
Capital expenditures	$ 6,782	$ 1,736
Free Cash Flow [5]	**$ 26,336**	**$ 20,700**
Free Cash Flow Conversion [5]	79.5%	92.3%

Notes:

(1)	Represents other expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
(2)	Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
(3)	Represents share-based compensation expense in respect of the Plan and the LTIP.
(4)	These represent primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.

(5)	Neo reports non-IFRS measures such as “Adjusted Net Income”, “Adjusted Earnings per Share”, “Adjusted EBITDA”, “Adjusted EBITDA Margin”, “Free Cash Flow” and “Free Cash Flow Conversion”. Please see information on this and other non-IFRS measures in the “Non-IFRS Measures” section of this new release and in the MD&A, available on Neo’s website www.neomaterials.com and on SEDAR at www.sedar.com.

TABLE 8: RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME

($000s)	**Three Months Ended March 31,**	
	2022	**2021**
Net income	**$ 22,701**	**$ 7,617**
Adjustments to net income:		
Foreign exchange loss [1]	411	301
Share-based compensation [2]	181	1,592
Other (recoveries) costs [3]	(22)	602
Other items included in other expense [4]	547	6,179
Tax impact of the above items	(353)	(1,197)
Adjusted net income [5]	**$ 23,465**	**$ 15,094**
Attributable to:		

Equity holders of Neo	$ 23,114	$ 14,923
Non-controlling interest	$ 351	$ 171
Weighted average number of common shares outstanding:		
Basic	40,681,191	37,481,638
Diluted	41,149,323	37,814,133
Adjusted earnings (loss) per share [5] attributable to equity holders of Neo:		
Basic	$ 0.57	$ 0.40
Diluted	$ 0.56	$ 0.39

Notes:

(1)	Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
(2)	Represents share-based compensation expense in respect of the Plan and the LTIP.
(3)	These represent primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.

(4)	Represents other expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
(5)	Neo reports non-IFRS measures such as "Adjusted Net Income", "Adjusted Earnings per Share", "Adjusted EBITDA", "Adjusted EBITDA Margin", "Free Cash Flow" and "Free Cash Flow Conversion". Please see information on this and other non-IFRS measures in the "Non-IFRS Measures" section of this new release and in the MD&A, available on Neo's website www.neomaterials.com and on SEDAR at www.sedar.com

About Neo Performance Materials

Neo manufactures the building blocks of many modern technologies that enhance efficiency and sustainability. Neo's advanced industrial materials – magnetic powders and magnets, specialty chemicals, metals, and alloys – are critical to the performance of many everyday products and emerging technologies. Neo's products help to deliver the technologies of tomorrow to consumers today. The business of Neo is organized along three segments: Magnequench, Chemicals & Oxides and Rare Metals. Neo is headquartered in Toronto, Ontario, Canada; with corporate offices in Greenwood Village, Colorado, US; Singapore; and Beijing, China. Neo operates globally with sales and production across 10 countries, being Japan, China, Thailand, Estonia, Singapore, Germany, Unite d Kingdom, Canada, United States, and South Korea. For more information, please visit www.neomaterials.com.

Cautionary Statements Regarding Forward Looking Statements

This news release contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-

looking information may relate to future events or future performance of Neo. All statements in this release, other than statements of historical facts, with respect to Neo's objectives and goals, as well as statements with respect to its beliefs, plans, objectives, expectations, anticipations, estimates, and intentions, are forward-looking information. Specific forward-looking statements in this discussion include, but are not limited to, the following: expectations regarding certain of Neo's future results and information, including, among other things, revenue, expenses, sales growth, capital expenditures, and operations; statements with respect to current and future market trends that may directly or indirectly impact sales and revenue of Neo; expected use of cash balances; continuation of prudent management of working capital; source of funds for ongoing business requirements and capital investments; expectations regarding sufficiency of the allowance for uncollectible accounts and inventory provisions; analysis regarding sensitivity of the business to changes in exchange rates; impact of recently adopted accounting pronouncements; risk factors relating to intellectual property protection and intellectual property litigation; risk factors relating to national or international economies (including the impact of COVID-19), and other risks present in the jurisdictions in which Neo, its customers, its suppliers, and/or its logistics partners operate, and; expectations concerning any remediation efforts to Neo's design of its internal controls over financial reporting and disclosure controls and procedures. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be

achieved. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Neo believes the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this discussion and analysis should not be unduly relied upon. For more information on Neo, investors should review Neo's continuous disclosure filings that are available under Neo's profile at www.sedar.com.

SOURCE Neo Performance Materials, Inc.

For further information: Ali MahdaviSVP, Corporate Development & Capital Markets(416) 962-3300Email: a.mahdavi@neomaterials.comWebsite: www.neomaterials.comEmail: info@neomaterials.com; Jim SimsDirector of Corporate Communications(303) 503-6203Email: j.sims@neomaterials.com