Neo Performance Materials Reports Record Second Quarter 2023 Results

written by Raj Shah | August 11, 2023

August 11, 2023 (Source) – **Q2 2023 Highlights**

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

- Q2 2023 record revenue of $170.4 million, higher by 1.3% YoY.
- Operating income of $13.7 million in the quarter.
- Adjusted Net Income[(1)] of $2.5 million in the quarter, or $0.05 per share.
- Adjusted EBITDA[(1)] of $19.5 million in the quarter.
- Completed the acquisition of 90% of SG Technologies Group Limited ("**SGTec**").
- Investment of $4.5 million for 44% of Neo North Star Resources Inc. ("**NNSR**"), including an off-take agreement of 60% of the product produced.
- Cash balance of $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 under the Normal Course Issuer Bid (the "**NCIB**").
- A quarterly dividend of Cdn$0.10 per common share was declared on August 10, 2023 for shareholders of record at September 20, 2023, with a payment date of September 29, 2023.

Neo Performance Materials Inc. (“**Neo**“, the “**Company**“) (TSX: NEO) released its second quarter 2023 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.

“Neo reported record sales during the second quarter, driven by the strength of our Rare Metals business unit,” said Rahim Suleman, Chief Executive Officer of Neo. “Despite the subdued market environment for rare earth magnetics, 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.”

Mr. Suleman added, “As a leading global rare earths magnetics company, we are keenly focused on executing against our growth initiatives, and we look forward to expanding our parallel supply chains inside and outside of China.”

HIGHLIGHTS OF Q2 2023 CONSOLIDATED PERFORMANCE

For the three months ended June 30, 2023, consolidated revenue was $170.4 million compared to $168.2 million for the same period in the prior year; an increase of $2.2 million or 1.3%. Neo reported net income of $0.3 million, or $0.01 per share, compared to $14.7 million, or $0.36 per share, in the same period of 2022. Adjusted Net Income[(1)] totaled $2.5 million, or $0.05 per share, compared to $15.9 million, or $0.39 per

share, in the corresponding period of the prior year. Adjusted EBITDA[(1)] was $19.5 million, a decline of 26.1% compared to Adjusted EBITDA[(1)] of $26.5 million in the second quarter of 2022.

As of June 30, 2023, Neo had cash and cash equivalents of $126.9 million plus restricted cash of $3.3 million, compared to $147.5 million plus $1.2 million as at December 31, 2022. For the six months ended June 30, 2023, Neo funded $11.6 million for the acquisition of SGTec, net of cash acquired of $0.8 million and $2.0 million of the proceeds held in escrow, invested $4.5 million in NNSR, paid $6.7 million in dividends to its shareholders and spent $1.2 million in shares repurchased under the NCIB. Neo also repaid $24.3 million of its bank advances and its debt facility in the six months ended June 30, 2023.

SELECTED FINANCIAL RESULTS

TABLE 1: Selected Consolidated Results				
	Quarter-over-Quarter Comparison		***Year-over-Year Comparison***	
($000s)	**Q2 2023**	**Q2 2022**	**YTD Q2 2023**	**YTD Q2 2022**
Revenue	170,430	168,221	305,960	334,503
Operating income	13,675	20,963	9,678	49,648
EBITDA[(1)]	14,584	27,225	13,440	60,608
Adjusted EBITDA[(1)]	19,548	26,456	20,335	59,573
Adjusted EBITDA %[(1)]	11.5 %	15.7 %	6.6 %	17.8 %

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[(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.

MAGNEQUENCH SEGMENT RESULTS

TABLE 2: Selected Magnequench Results				
	Quarter-over-Quarter Comparison		***Year-over-Year Comparison***	
	Q2 2023	**Q2 2022**	**YTD Q2 2023**	**YTD Q2 2022**
Volume (tonnes)	1,037	1,218	2,024	2,523
($000s)				
Revenue	49,329	78,412	104,494	152,426
Operating income	1,077	12,862	2,032	23,098
EBITDA[(1)]	1,412	15,923	4,639	29,469
Adjusted EBITDA[(1)]	5,274	15,325	8,530	28,102

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[(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 and six months ended June 30, 2023, volumes in the Magnequench segment saw a decline with respect to the prior year

period. The permanent magnet industry remains sluggish which has impacted volumes across all applications. This has impacted markets in China, Japan and Europe and has also contributed to the general price weakness of rare earth magnetic elements. In addition, with changing demand outlooks and excess inventory across supply chains, select customers have focused on destocking which has impacted Magnequench volumes in the short term. To address the economic impact of declining volumes in the short term, Magnequench conducted a rationalization of its work force and other cost savings activities in the first half of 2023.

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

TABLE 3: Selected C&O Results				
	Quarter-over-Quarter Comparison		***Year-over-Year Comparison***	
($000s)	**Q2 2023**	**Q2 2022**	**YTD Q2 2023**	**YTD Q2 2022**
Revenue	71,276	69,350	122,565	137,013
Operating income (loss)	1,524	8,146	(4,602)	26,622
EBITDA[(1)]	2,618	10,755	(2,905)	29,721
Adjusted EBITDA[(1)]	2,913	9,663	(1,649)	29,573
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[(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.

In the three months ended June 30, 2023, the C&O volume and pricing dynamics were mixed with rare earth pricing for neodymium and praseodymium elements continuing to face pricing headwinds offset by strong performance in high purity dysprosium. The dysprosium volumes were related to the higher-value, multi-layer ceramic capacitor ("**MLCC**") market as opposed to the standard grade dysprosium which goes into the magnetics market. C&O's environmental emissions catalyst business also showed strong volumes as China recovered from a slower first quarter of 2023. The rare earth separation operations benefited from lead-lag (using historical cost inventory with current sales prices) in 2022; reversely, the decline in rare earth prices has negatively impacted lead-lag in 2023.

RARE METALS SEGMENT RESULTS

TABLE 4: Selected Rare Metals Results

	Quarter-over-Quarter Comparison		***Year-over-Year Comparison***	
($000s)	**Q2 2023**	**Q2 2022**	**YTD Q2 2023**	**YTD Q2 2022**
Revenue	49,825	25,892	78,901	54,954
Operating income	16,686	4,264	22,518	7,987
EBITDA[(1)]	17,109	5,358	22,316	9,870
Adjusted EBITDA[(1)]	16,950	5,174	23,114	9,515

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[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 strong earnings trend in the first six months of 2023. In the three months ended June 30, 2023, the segment delivered record margin performance driven by strength in Hafnium pricing and demand. The upward trend in Hafnium prices which began in the fourth quarter of 2021 has continued in the second quarter of 2023 with an increase of over 30% during the three months ended June 30, 2023. The recycling purchases and activities of Rare Metals were particularly impactful to maintaining and growing margins as the scrap material purchased in the same quarter is not rising as fast as selling prices for finished goods.

In July 2023, the Government of China announced export restrictions on gallium and germanium effective August 1, 2023. The Rare Metals segment is one of the only gallium recycling operations outside of China and presents an opportunity for companies to source high purity gallium outside of China. The segment continues to seek sourcing additional gallium waste streams to support global market growth.

CONFERENCE CALL ON FRIDAY AUGUST 11, 2023 AT 10 AM EASTERN

Management will host a teleconference call on Friday August 11, 2023 at 10:00 a.m. (Eastern Time) to discuss the second quarter 2023 results. Interested parties may access the teleconference by calling (416) 764-8650 (local) or (888) 664-6383 (toll free long distance) or by visiting https://app.webinar.net/m3qYLpRB9kM. A recording of

the teleconference may be accessed by calling (416) 764-8677 (local) or (888) 390-0541 (toll free long distance), and entering pass code 665836# until September 11, 2023.

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 and six months ended June 30, 2023, 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)	**June 30, 2023**	**December 31, 2022**
ASSETS		
Current		
Cash and cash equivalents	$ 126,915	$ 147,491
Restricted cash	3,272	1,179
Accounts receivable	87,304	81,409
Inventories	178,020	212,702
Income taxes receivable	1,191	355
Assets held for sale	66	–
Other current assets	24,074	23,279
Total current assets	**420,842**	**466,415**
Property, plant and equipment	92,167	75,767
Intangible assets	39,854	42,984
Goodwill	64,311	66,042
Investments	17,782	16,363
Deferred tax assets	9,120	6,956
Other non-current assets	1,401	1,933
Total non-current assets	**224,635**	**210,045**

Total assets	**$ 645,477**	**$ 676,460**
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt	$ 8	$ 17,288
Accounts payable and other accrued charges	62,577	69,093
Income taxes payable	12,678	10,033
Provisions	1,299	1,369
Lease obligations	1,554	1,264
Derivative liability	37,186	28,570
Current portion of long-term debt	—	747
Other current liabilities	1,131	278
Total current liabilities	**116,433**	**128,642**
Long term debt	26,609	29,885
Employee benefits	457	489
Derivative liability	1,894	—
Provisions	24,653	23,604
Deferred tax liabilities	15,869	13,942
Lease obligations	3,482	813

Other non-current liabilities	3,861	1,442
Total non-current liabilities	**76,825**	**70,175**
Total liabilities	**193,258**	**198,817**
Non-controlling interest	2,874	3,193
Equity attributable to equity holders of Neo Performance Materials Inc	449,345	474,450
Total equity	**452,219**	**477,643**
Total liabilities and equity	**$ 645,477**	**$ 676,460**

See accompanying notes to this table in Neo's Consolidated Financial Statements for the Three and Six Months Ended June 30, 2023, 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 and six months ended June 30, 2023 to the three and six months ended June 30, 2022:

($000s)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2023	**2022**	**2023**	**2022**
Revenue	$ 170,430	$ 168,221	$ 305,960	$ 334,503
Costs of sales				
Costs excluding depreciation and amortization	132,589	121,796	249,210	236,112

Depreciation and amortization	2,368	2,388	4,536	4,766
Gross profit	**35,473**	**44,037**	**52,214**	**93,625**
Expenses				
Selling, general and administrative	16,111	14,262	30,982	28,515
Share-based compensation	(82)	957	768	1,138
Depreciation and amortization	1,814	1,853	3,580	3,748
Research and development	3,955	5,707	7,206	10,281
Impairment of assets	—	295	—	295
	21,798	23,074	42,536	43,977
Operating income	**13,675**	**20,963**	**9,678**	**49,648**
Other expense	(171)	(855)	(649)	(1,288)
Finance cost, net	(4,085)	(2,292)	(8,097)	(2,706)
Foreign exchange (loss) gain	(662)	959	(1,242)	548
Income (loss) from operations before income taxes and equity (loss) income of associates	**8,757**	**18,775**	**(310)**	**46,202**
Income tax expense	(5,988)	(6,001)	(7,598)	(11,996)

Income (loss) from operations before equity (loss) income of associates	**2,769**	**12,774**	**(7,908)**	**34,206**
Equity (loss) income of associates (net of income tax)	(2,440)	1,917	(2,463)	3,186
Net income (loss)	**$ 329**	**$ 14,691**	**$ (10,371)**	**$ 37,392**
Attributable to:				
Equity holders of Neo	$ 310	$ 14,607	$ (10,144)	$ 36,957
Non-controlling interest	19	84	(227)	435
	$ 329	**$ 14,691**	**$ (10,371)**	**$ 37,392**
Earnings (loss) per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic	$ 0.01	$ 0.36	$ (0.22)	$ 0.91
Diluted	$ 0.01	$ 0.36	$ (0.22)	$ 0.90

See Management's Discussion and Analysis for the Three and Six Months Ended June 30, 2023, 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 June 30,**		**Six Months Ended June 30,**	
	2023	**2022**	**2023**	**2022**

Net income (loss)	**$ 329**	**$ 14,691**	**$ (10,371)**	**$ 37,392**
Add back (deduct):				
Finance cost, net	4,085	2,292	8,097	2,706
Income tax expense	5,988	6,001	7,598	11,996
Depreciation and amortization included in costs of sales	2,368	2,388	4,536	4,766
Depreciation and amortization included in operating expenses	1,814	1,853	3,580	3,748
EBITDA	**14,584**	**27,225**	**13,440**	**60,608**
Adjustments to EBITDA:				
Other expense [(1)]	171	855	649	1,288
Foreign exchange loss (gain) [(2)]	662	(959)	1,242	(548)
Equity loss (income) of associates	2,440	(1,917)	2,463	(3,186)

Share-based compensation [3]	(82)	957	768	1,138
Fair value adjustments to inventory acquired [4]	572	–	572	–
Impairment of assets	–	295	–	295
Transaction costs (recoveries) [5]	1,201	–	1,201	(22)
Adjusted EBITDA [6]	**$ 19,548**	**$ 26,456**	**$ 20,335**	**$ 59,573**
Adjusted EBITDA Margins [6]	*11.5 %*	*15.7 %*	*6.6 %*	*17.8 %*
Less:				
Capital expenditures [7]	$ 6,820	$ 2,582	$ 11,836	$ 9,364
Free Cash Flow [6]	**$ 12,728**	**$ 23,874**	**$ 8,499**	**$ 50,209**
Free Cash Flow Conversion [6]	65.1 %	90.2 %	41.8 %	84.3 %

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)	In accordance with IFRS 3 *Business Combinations*, and on completion of the acquisition of SGTec, Neo recorded the acquisition of SGTec's inventory at fair value, which included a mark-up for profit of $1.3 million. A portion of this inventory was sold in the three months ended June 30, 2023 and had a $0.6 million impact on Net (loss) income.
(5)	These represent primarily legal, professional advisory fees and other transaction costs for capital structuring associated with Neo or investments of Neo. Neo has removed these charges to provide comparability with historic periods. For the three and six months ended June 30, 2023, Neo incurred a total acquisition-related costs of $1.2 million in the acquisition of SGTec. These costs have been included in selling, general and administrative costs in the condensed consolidated statements of profit or loss.
(6)	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.

(7)	Represents capital expenditures of $9.6 million and right-of-use assets of $2.2 million. Excluding the additions of Property, Plant and Equipment of $12.0 million from the acquisition of SGTec.

TABLE 8: RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME

($000s)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2023	**2022**	**2023**	**2022**
Net income (loss)	**$ 329**	**$ 14,691**	**$ (10,371)**	**$ 37,392**
Adjustments to net income (loss):				
Foreign exchange loss (gain) [(1)]	662	(959)	1,242	(548)
Impairment of assets	–	295	–	295
Share-based compensation [(2)]	(82)	957	768	1,138
Transaction costs (recoveries) [(3)]	1,201	–	1,201	(22)
Other items included in other expense [(4)]	212	947	619	1,494
Fair value adjustments to inventory acquired [(5)]	572		572	
Tax impact of the above items	(429)	(44)	(547)	(397)
Adjusted net income [(6)]	**$ 2,465**	**$ 15,887**	**$ (6,516)**	**$ 39,352**
Attributable to:				

Equity holders of Neo	$ 2,446	$ 15,803	$ (6,289)	$ 38,917
Non-controlling interest	$ 19	$ 84	$ (227)	$ 435
Weighted average number of common shares outstanding:				
Basic	45,196,921	40,681,902	45,196,921	40,681,548
Diluted	45,621,275	41,001,055	45,196,921	41,089,719
Adjusted earnings (loss) per share [6] attributable to equity holders of Neo:				
Basic	$ 0.05	$ 0.39	$ (0.14)	$ 0.96
Diluted	$ 0.05	$ 0.39	$ (0.14)	$ 0.95

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 for capital structuring associated with Neo or investments of Neo. Neo has removed these charges to provide comparability with historic periods. For the three and six months ended June 30, 2023, Neo incurred a total acquisition-related costs of $1.2 million in the acquisition of SGTec. These costs have been included in selling, general and administrative costs in the condensed consolidated statements of profit or loss.

(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)	In accordance with IFRS 3 *Business Combinations*, and on completion of the acquisition of SGTec, Neo recorded the acquisition of SGTec's inventory at fair value, which included a mark-up for profit of $1.3 million. A portion of this inventory was sold in the three months ended June 30, 2023 and had a $0.6 million impact on Net (loss) income.
(6)	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, United States; Singapore; and Beijing, China. Neo has a global platform that includes 10 manufacturing facilities located in China, the

United States, Germany, Canada, Estonia, Thailand and the United Kingdom, as well as one dedicated research and development centre in Singapore. 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), geopolitical risk 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.

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