Neo Performance Materials Reports Second Quarter 2020 Results

written by Raj Shah | August 10, 2020

August 10, 2020 (Source) – **Q2 2020 Highlights**

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

- $67.7 million in revenue
- Net loss of $63.4 million, or $(1.62) per share
- Adjusted Net Loss[(1)] of $5.6 million, or $(0.14) per share
- Adjusted EBITDA[(1)] of $1.2 million
- Cash balance of $78.7 million after distributing $5.5 million in dividends to the shareholders, $3.5 million to non-controlling interest partners and re-purchasing $1.3 million of stock under its Normal Course Issuer Bid Program during the first half of the year.
- A quarterly dividend of Cdn$0.10 per common share was declared on August 7, 2020 for shareholders of record at September 17, 2020, with a payment date of September 29, 2020.

Neo Performance Materials Inc. ("**Neo**", the "**Company**") (TSX: NEO) released its second quarter 2020 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 and on SEDAR at www.sedar.com.

HIGHLIGHTS OF Q2 2020 CONSOLIDATED PERFORMANCE

For the three months ended June 30, 2020, consolidated revenue was $67.7 million compared to $101.7 million in the second

quarter of 2019; a decrease of $34.0 million or 33.4%. Neo reported a net loss of $63.4 million, or $(1.62) per share.

Adjusted Net Loss[(1)] totaled $5.6 million, or $(0.14) per share.

As of June 30, 2020, Neo had cash and cash equivalents of $78.7 million plus restricted cash of $3.9 million, compared to $84.7 million plus $4.2 million as at December 31, 2019. Neo paid $5.5 million in dividends to its shareholders and $3.5 million to its non-controlling interest partners and purchased $1.3 million of its shares under the Normal Course Issuer Bid program in the six months ended June 30, 2020. In addition, Neo has approximately $6.2 million available under its credit facilities with no amount drawn.

“While our processing facilities are all operational and ready to return to normal operating levels, our customers at large have remained cautious with orders and inventory management given the impacts of COVID-19,” said Neo’s President and CEO, Constantine Karayannopoulos. Despite these headwinds, Neo remained operationally profitable at the adjusted EBITDA line during what we would consider the peak impact of the pandemic. As we work through the coming quarters, our focus will be geared towards increasing operational efficiency, continuing to implement cost controls where necessary, and ensuring that we meet the complex needs of our global customers. At the same time, we will be opportunistic in pursuing strategies to further expand our global footprint, industrial knowledge, and capabilities. We also intend to advance our leadership position in the vehicle electrification, energy efficiency, and sustainable technology markets.”

Mr. Karayannopoulos added: “We continue to hear from our customers that Neo’s advanced industrial materials are even more important today, particularly in terms of empowering our customers’ ability to successfully navigate and compete in a

post-COVID world. The need for clean air, improved fuel economy, better and more sustainable technologies that can help address climate change, and strengthened regional supply chains has only accelerated."

SELECTED FINANCIAL RESULTS

TABLE 1: Selected Consolidated Results

	Quarter-over-Quarter Comparison		*Year-over-Year Comparison*	
	Q2 2020	**Q2 2019**	**YTD Q2 2020**	**YTD Q2 2019**
Volume (tonnes)	2,545	3,490	5,848	7,097
($000s)				
Revenue	67,734	101,736	158,431	210,266
Operating (loss) income	(64,993)	5,850	(59,986)	22,089
EBITDA[(1)]	(59,542)	9,329	(50,481)	30,168
Adjusted EBITDA[(1)]	1,191	12,004	10,836	28,490
Adjusted EBITDA %[(1)]	1.8%	11.8%	6.8%	13.5%

[(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.

Revenues for the three and six months ended June 30, 2020, were 33.4% and 24.7% lower, respectively, than in the corresponding periods of 2019. All three reportable segments experienced significant decreases in revenue as volumes were adversely

affected by slower economic activities due to the COVID-19 pandemic.

Neo reported operating losses and net losses for the three and six months ended June 30, 2020, mainly from a $59.1 million impairment of assets in the C&O and Rare Metals segments. Operationally, the most significant impact to financial performance was from lower volumes across all three business segments, which can largely be attributed to COVID-19 and the impact to customer demand across the supply chain. All three business units engaged in various cost-cutting initiatives including shortening shifts, temporarily idling certain facilities, reducing project costs, and executing on other working capital reduction initiatives.

Aside from the volume impact driven by COVID-19, the Magnequench segment saw growth and progress in its strategy to increase magnet-making capability and sales. The C&O segment was adversely affected by lower spot sales, a LCM (lower-of-cost-or-market) charge on certain products where demand and pricing were adversely affected by COVID-19, and increased legal cost provisions for ongoing intellectual property legal disputes. The Rare Metals segment saw improved product margins in its Tantalum products having worked through much of the previous higher-cost inventory that was affecting previous results.

Neo recorded a $59.1 million impairment charge for the three and six months ended June 30, 2020, with $35.1 million attributable to C&O and $24.0 million attributable to Rare Metals. No impairment was recorded against Magnequench. The impairment charge against the C&O and Rare Metals segments was largely triggered by the economic impacts of COVID-19 on the future cash flows of the business segments causing the recoverable amount to be less than the pre-adjusted carrying values of certain business segments in the financial statements. This non-cash

impairment charge largely relates to non-productive assets whose value was adjusted as a result of purchase price accounting applied in September 2016, upon emergence from bankruptcy of the predecessor company.

Adjusted EBITDA for the three and six months ended June 30, 2020 were $1.2 million and $10.8 million, respectively; a decrease of $10.8 million and $17.7 million compared to the same periods in 2019.

MAGNEQUENCH SEGMENT RESULTS

TABLE 2: Selected Magnequench Results

	Quarter-over-Quarter Comparison		*Year-over-Year Comparison*	
	Q2 2020	**Q2 2019**	**YTD Q2 2020**	**YTD Q2 2019**
Volume (tonnes)	1,024	1,367	2,295	2,812
($000s)				
Revenue	30,267	41,473	68,793	89,028
Operating income	3,421	6,164	8,960	15,645
EBITDA[(1)]	5,617	8,121	13,369	19,544
Adjusted EBITDA[(1)]	5,565	8,255	13,280	19,184

[(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 volumes for the six months ended June 30, 2020, were adversely affected by extended customer shutdowns and slowing demand was seen across most applications. However, some improved stability was evident in the hard disk drive ("**HDD**")

segment and other factory automation applications. Magnequench also continued to see growth in its magnet-making capacity and magnet sales, particularly with respect to sales from the magnet business purchased in 2019, where the current product line addresses laptop computers and consumer electronics, and has been on a growth trajectory and gaining market share over the past year. In addition, Magnequench benefited from various cost-cutting initiatives including reducing production shifts at its manufacturing locations .

For the three months ended June 30, 2020, Adjusted EBITDA was $5.6 million, a decrease of $2.7 million compared to the same period of the prior year. For the six months ended June 30, 2020, Adjusted EBITDA in the Magnequench segment was $13.3 million, compared to $19.2 million in the corresponding period in 2019; a decrease of $5.9 million. Sales volumes, and their impact on margins and overhead absorption, were the largest contributor to the decrease in Adjusted EBITDA with other impacts from mix, price reductions, timing of certain operational activities, changes in foreign exchange rates, and timing of pricing pass-through mechanics on material inputs.

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

TABLE 3: Selected C&O Results				
	Quarter-over-Quarter Comparison		***Year-over-Year Comparison***	
	Q2 2020	**Q2 2019**	**YTD Q2 2020**	**YTD Q2 2019**
Volume (tonnes)	1,466	2,053	3,401	4,188
($000s)				
Revenue	25,320	38,534	58,858	82,107
Operating (loss) income	(37,748)	3,696	(34,774)	10,322

EBITDA[(1)]	(36,398)	4,870	(32,040)	12,660
Adjusted EBITDA[(1)]	(1,462)	4,924	2,951	11,912

[(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, 2020, the C&O segment reported operating losses of $37.7 million and $34.8 million, respectively, compared to operating income of $3.7 million and $10.3 million, respectively, in the corresponding periods in 2019. The operating loss in the three and six months ended June 30, 2020 was mainly from the $35.1 million impairment charge recorded during the quarter.

Operationally, C&O was impacted by lower volumes and sales in the three and six month periods ended June 30, 2020, largely due to the COVID-19 pandemic, where most customers experienced interruptions and shutdowns causing impacts throughout the supply chain. These slowdowns impacted all major serviceable end markets, including auto-catalysts, rare earth separations, and water treatment. Water treatment in particular had slowed down after growing sequentially for the past several years. C&O recorded a LCM (lower-of-cost-or-market) charge in the quarter related to COVID-19 and the view on timing of recovery of certain products and pricing considerations. C&O did not record any meaningful spot sales in the quarter whereas the prior year periods had significant spot sales. In the three month period ended June 30, 2020, C&O recorded an increase in its SG&A costs related to potential legal costs associated with on-going patent disputes. In addition, C&O implemented cost-cutting initiatives, including successful efforts to reduce working capital and idling certain production facilities for a period of

time.

RARE METALS SEGMENT RESULTS

TABLE 4: Selected Rare Metals Results				
	Quarter-over-Quarter Comparison		*Year-over-Year Comparison*	
	Q2 2020	Q2 2019	YTD Q2 2020	YTD Q2 2019
Volume (tonnes)	90	154	232	272
($000s)				
Revenue	13,529	25,027	33,979	46,558
Operating (loss)	(24,728)	(371)	(24,905)	(214)
EBITDA[(1)]	(23,625)	780	(22,727)	2,142
Adjusted EBITDA[(1)]	376	1,813	1,287	2,988

[(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, 2020, the Rare Metals segment reported operating losses of $24.7 million and $24.9 million, respectively, compared to operating losses of $0.4 million and $0.2 million, respectively, in the corresponding periods in 2019. The operating loss in the three and six months ended June 30, 2020 was mainly due to the $24.0 million impairment charge recorded during the quarter.

Operationally, the Rare Metals segment was impacted by lower volumes and sales in the three and six month periods ended June 30, 2020 compared to the prior-year comparable periods. These lower volumes and sales were largely a result of the impact of

COVID-19 impacting customer demand and the related supply chains. This decline was across most of the Rare Metals end markets; with the largest end market being aerospace applications. Apart from lower volumes and sales, the Rare Metals segment did see improvements in product margins, primarily in its tantalum products, supplemented by cost-savings initiatives such as head-count reductions, project cost savings, and temporarily idling some production centers.

CONFERENCE CALL ON MONDAY AUGUST 10, 2020 AT 10 AM EASTERN

Management will host a teleconference call on Monday, August 10, 2020 at 10:00 a.m. (Eastern Time) to discuss the second quarter 2020 results. Interested parties may access the teleconference by calling (647) 427-7450 (local) or (888) 231-8191 (toll-free long distance) or by visiting http://cnw.en.mediaroom.com/events. A recording of the teleconference may be accessed by calling (416) 849-0833 (local) or (855) 859-2056 (toll-free long distance), and entering pass code 8259239# until September 10, 2020 or by visiting http://cnw.en.mediaroom.com/events.

NON-IFRS MEASURES

This news release refers to certain non-IFRS financial measures such as “Adjusted Net Income”, “EBITDA”, “Adjusted EBITDA”, and “Adjusted EBITDA Margin”. These measures 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 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 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 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 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 the operating segments, Neo also uses "OIBDA" and "Adjusted OIBDA", which reconciles to operating income. Neo uses Adjusted OIBDA and Adjusted EBITDA interchangeably as the use of adjustments in each measure provides the same calculated outcome of operating performance. For definitions of how Neo defines such financial measures, 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, 2020, 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, 2020**			**December 31, 2019**
ASSETS					
Current					
Cash and cash equivalents	$	78,693		$	84,735
Restricted cash		3,898			4,185

Accounts receivable		32,314			44,297
Inventories		106,054			112,891
Income taxes receivable		2,218			1,460
Other current assets		12,107			14,230
Total current assets		**235,284**			**261,798**
Property, plant and equipment		73,610			94,490
Intangible assets		53,121			65,475
Goodwill		65,334			98,841
Investments		9,286			8,985
Deferred tax assets		2,983			805
Other non-current assets		828			837
Total non-current assets		**205,162**			**269,433**
Total assets	**$**	**440,446**		**$**	**531,231**
LIABILITIES AND EQUITY					
Current					
Bank advances and other short-term debt	$	—		$	54
Accounts payable and other accrued charges		41,647			56,138
Income taxes payable		2,936			4,756
Provisions		1,949			—
Lease obligations		1,215			1,660
Derivative liability		11,803			11,833
Other current liabilities		119			85
Total current liabilities		**59,669**			**74,526**
Employee benefits		1,954			2,031
Provisions		3,260			5,670

Deferred tax liabilities		14,544			15,894
Lease obligations		2,611			2,953
Other non-current liabilities		1,629			1,524
Total non-current liabilities		**23,998**			**28,072**
Total liabilities		**83,667**			**102,598**
Non-controlling interest		1,391			3,997
Equity attributable to equity holders of Neo Performance Materials Inc		355,388			424,636
Total equity		**356,779**			**428,633**
Total liabilities and equity	**$**	**440,446**		**$**	**531,231**

See accompanying notes to this table in Neo's Consolidated Financial Statements for the Three and Six Months Ended June 30, 2020, 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, 2020 to the three and six months ended June 30, 2019:

($000s)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Revenue	$ 67,734	$ 101,736	$ 158,431	$ 210,266
Costs of sales				
Costs excluding depreciation and amortization	51,180	74,782	117,429	153,171
Depreciation and amortization	2,715	2,353	5,435	4,763

Gross profit		**13,839**			**24,601**			**35,567**			**52,332**	
Expenses												
Selling, general and administrative		14,690			11,249			26,651			18,545	
Share-based compensation		170			694			(57)			304	
Depreciation and amortization		2,018			2,014			4,054			3,999	
Research and development		2,870			3,780			5,821			6,381	
Impairment of assets		59,084			1,014			59,084			1,014	
		78,832			18,751			95,553			30,243	
Operating (loss) income		**(64,993)**			**5,850**			**(59,986)**			**22,089**	
Other income (expense)		221			(468)			27			(594)	
Finance cost, net		(2,318)			(309)			(3,263)			(1,691)	
Foreign exchange gain (loss)		138			(401)			(312)			(308)	
(Loss) Income from operations before income taxes and equity income (loss) of associates		**(66,952)**			**4,672**			**(63,534)**			**19,496**	
Income tax benefit (expense)		3,229			(2,360)			387			(5,195)	

(Loss) Income from operations before equity income (loss) of associates		**(63,723)**			**2,312**			**(63,147)**			**14,301**
Equity income (loss) of associates (net of income tax)		359			(19)			301			219
Net (loss) income	**$**	**(63,364)**		**$**	**2,293**		**$**	**(62,846)**		**$**	**14,520**
Attributable to:											
Equity holders of Neo Performance Materials Inc.	$	(60,936)		$	2,090		$	(60,573)		$	14,337
Non-controlling interest		(2,428)			203			(2,273)			183
	$	**(63,364)**		**$**	**2,293**		**$**	**(62,846)**		**$**	**14,520**
(Loss) Earnings per share attributable to equity holders of Neo Performance Materials Inc.:											
Basic	$	(1.62)		$	0.05		$	(1.61)		$	0.36
Diluted	$	(1.62)		$	0.05		$	(1.61)		$	0.36

See Management's Discussion and Analysis for the Three and Six Months Ended June 30, 2020, available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com.

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

($000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Net (loss) income	**$ (63,364)**	**$ 2,293**	**$ (62,846)**	**$ 14,520**
Add back (deduct):				
Finance cost, net	2,318	309	3,263	1,691
Income tax (benefit) expense	(3,229)	2,360	(387)	5,195
Depreciation and amortization included in costs of sales	2,715	2,353	5,435	4,763
Depreciation and amortization included in operating expenses	2,018	2,014	4,054	3,999
EBITDA	**(59,542)**	**9,329**	**(50,481)**	**30,168**
Adjustments to EBITDA:				
Equity (income) loss in associates	(359)	19	(301)	(219)
Other (income) expense [(1)]	(221)	468	(27)	594
Foreign exchange (gain) loss [(2)]	(138)	401	312	308
Impairment of assets [(3)]	59,084	1,014	59,084	1,014

Share and value-based compensation recovery [4]		(153)			773			(271)			(1,426)
Other non-recurring costs (recoveries) [5]		2,520			—			2,520			(1,949)
Adjusted EBITDA	**$**	**1,191**		**$**	**12,004**		**$**	**10,836**		**$**	**28,490**
Adjusted EBITDA Margins		*1.8%*			*11.8%*			*6.8%*			*13.5%*
Less:											
Capital expenditures		1,527			1,973			3,029			4,638
Free Cash Flow		**(336)**			**10,031**			**7,807**			**23,852**
Free Cash Flow Conversion [6]		(28.2)%			83.6%			72.0%			83.7%

Notes:	
(1)	Represents other expenses resulting from non-operational related activities. 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)	The negative economic impacts of COVID-19 were determined to be an impairment indicator as of June 30, 2020 for all Neo's CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million for the three and six months ended June 30, 2020, with $35.1 million attributable to the C&O segment and $24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment. For the three and six months ended June 30, 2019, the $1.0 million impairment in the Rare Metals segment represents impairment of property, plant and equipment and other assets related to the closure of NRM Utah that will not be utilized as a result of the closure.

(4)	Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation (recovery) of $(320) and $(213) are included in selling, general, and administration expenses for the three and six months ended June 30, 2020, respectively, expense/(recovery) of $79 and $(1,729) and for the three and six months ended June 30, 2019, respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.
(5)	These represents primarily legal, professional advisory fees and other transaction costs incurred/(recovered) 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.
(6)	Calculated as Free Cash Flow divided by Adjusted EBITDA.

TABLE 8: RECONCILIATION OF NET (LOSS) INCOME TO ADJUSTED NET (LOSS) INCOME

($000s)	**Three Months Ended June 30,**				**Six Months Ended June 30,**			
		2020		**2019**		**2020**		**2019**
Net (loss) income	**$**	**(63,364)**	**$**	**2,293**	**$**	**(62,846)**	**$**	**14,520**

Adjustments to net (loss) income:											
Foreign exchange (gain) loss [1]		(138)			401			312			308
Impairment of assets [2]		59,084			1,014			59,084			1,014
Share and value-based compensation recovery [3]		(153)			773			(271)			(1,426)
Other non-recurring costs (recoveries) [4]		2,520			—			2,520			(1,949)
Other items included in other expense [5]		(120)			756			—			756
Tax impact of the above items		(3,407)			(3)			(3,508)			151
Adjusted net (loss) income	**$**	**(5,578)**		**$**	**5,234**		**$**	**(4,709)**		**$**	**13,374**
Attributable to:											
Equity holders of Neo Performance Materials Inc		(5,417)			5,031			(4,703)			13,191
Non-controlling interest		(161)			203			(6)			183
Weighted average number of common shares outstanding:											
Basic		37,665,686			39,200,803			37,702,492			39,420,123
Diluted		37,665,686			39,346,274			37,702,492			39,653,011

Adjusted (loss) earnings per share [6] attributable to equity shareholders of Neo Performance Materials Inc.:												
Basic		(0.14)			0.13		$	(0.12)		$	0.33	
Diluted		(0.14)			0.13		$	(0.12)		$	0.33	

Notes:

(1)	Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
(2)	The negative economic impacts of COVID-19 were determined to be an impairment indicator as of June 30, 2020 for all Neo's CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million for the three and six months ended June 30, 2020, with $35.1 million attributable to the C&O segment and $24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment. For the three and six months ended June 30, 2019, the $1.0 million impairment in the Rare Metals segment represents impairment of property, plant and equipment and other assets related to the closure of NRM Utah that will not be utilized as a result of the closure.

(3)	Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation (recovery) of $(320) and $(213) are included in selling, general, and administration expenses for the three and six months ended June 30, 2020, respectively, expense/(recovery) of $79 and $(1,729) and for the three and six months ended June 30, 2019, respectively. Neo has removed both the share and value-based compensation expense from net income to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.
(4)	These represents primarily legal, professional advisory fees and other transaction costs incurred/(recovered) 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)	Represents certain other transactions that Neo has removed from net income to provide comparability with historic periods.
(6)	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 new release and in the MD&A, available on Neo’s website www.neomaterials.com and on SEDAR at www.sedar.com.

Notice of Shareholder Meeting

Neo will hold its Annual General Meeting of Shareholders on Thursday, October 22, 2020 at 4:00 pm (Toronto time) at the offices of the Company, 121 King Street West, Suite 1740, Toronto, Ontario.

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.