Neo Performance Materials Reports Second Quarter 2024 Results

written by Raj Shah | August 9, 2024

August 9, 2024 (Source) – Neo Performance Materials Inc. ("**Neo**") (TSX: NEO) released its second quarter 2024 financial results. The financial statements and management's discussion and analysis ("**MD&A**") of these results can be viewed on Neo's website at www.neomaterials.com/investors/ and on SEDAR+ at www.sedarplus.ca.

Key Takeaways

1.	**Increased Adjusted EBITDA[1] Growth Outlook:** Neo reports strong financial results of $24.2 million of Adjusted EBITDA[1] for the six months ended June 30, 2024, despite the further decline in rare earth prices. Neo increased its outlook for fiscal 2024 to $45 million to $50 million of Adjusted EBITDA[1], a 20% to 35% increase over the prior year.
2.	**Adjusted EBITDA[1] Margin Expansion:** For the six months ended June 30, 2024, Adjusted EBITDA[1] increased to 10.5% from 6.6%, an improvement of 390 basis points from prior year. This shows the strength of the downstream business and reflects the operational improvements that Neo has launched.

3.	**New Tier 1 Commercial Award for Sintered Magnet Facility in Europe:** At its peak year, the electric vehicle traction motor magnets under this award will be equivalent to 35% of Phase 1 capacity. Facility construction is near completion – remaining on time and on budget.
4.	**Simplification of Business Continues:** Neo has entered into an agreement to sell its majority ownership interest in the gallium trichloride facility in Quapaw, Oklahoma to its founder at a valuation of 9x trailing twelve month EBITDA.
5.	**Strategic Review:** Neo's Special Committee announces the appointment of Barclays Capital Inc. and Paradigm Capital Inc. as financial advisors relating to the strategic review process announced in June 2024.

Q2 2024 Highlights

(unless otherwise noted, all financial amounts in this news release are expressed in United States dollars)

- Neo's Q2 2024 revenue was $107.5 million, vs Q2 2023 revenue of $170.4 million.
- Operating income for Q2 2024 was $5.8 million, vs Q2 2023 of $13.7 million. On a year-to-date basis, 2024 operating income was $11.8 million, vs $9.7 million in 2023.
- Adjusted Net Income[(1)] for Q2 2024 was $5.3 million, or $0.13 per share, vs Q2 2023 Adjusted Net Income[(1)] of $2.5 million or $0.05 per share.
- Adjusted EBITDA[(1)] for Q2 2024 was $13.4 million, vs Q2 2023 of $19.5 million. On a year-to-date basis, 2024 Adjusted EBITDA[(1)] was $24.2 million, vs $20.3 million in 2023.
- Neo had $100.5 million in cash and $49.5 million in gross debt on its balance sheet as of June 30, 2024. Neo invested $26.7 million in capital expenditures for the six

months ended June 30, 2024, including sustaining capital expenditures of $1.9 million. Neo distributed $6.2 million in dividends to Neo's shareholders, and repurchased $2.3 million of common shares, in the first half of the year.

- A quarterly dividend of Cdn$0.10 per common share was declared on August 8, 2024, for shareholders of record on September 17, 2024, with a payment date of September 27, 2024.

"As Neo crosses the halfway mark of the year, we are pleased to see the early results of our Company-wide transformation process," said Rahim Suleman, President and Chief Executive Officer of Neo. *"We generated improved Adjusted EBITDA*[(1)] *both on a sequential quarterly basis and for the six month period as compared to last year, despite continued pressure on rare earth prices. Neo is increasing its outlook for fiscal year 2024 to $45 million to $50 million of Adjusted EBITDA*[(1)]*, a 20% to 35% increase over the prior year. This is a testament to the strength of our downstream businesses. We benefited from another strong quarter of our Rare Metals business unit and we are encouraged by the results in Magnequench and automotive catalysts."*

"Our continued focus on disciplined execution was demonstrated by the new Tier 1 commercial award for our sintered magnet facility in Europe – a major project that remains on time and on budget. Going forward, we expect to continue to simplify the business, drive operational improvements, and reduce earnings volatility across each of our businesses," continued Mr. Suleman.

HIGHLIGHTS OF SECOND QUARTER 2024 CONSOLIDATED PERFORMANCE

($000s, except volume and per share information)	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Volume				
Magnequench	1,190	1,037	2,403	2,024
C&O	1,880	2,188	3,682	4,037
Rare Metals	88	82	175	180
Corporate / Eliminations	(20)	–	(40)	–
Total Volume	**3,138**	**3,307**	**6,220**	**6,241**
Revenue				
Magnequench	$ 42,096	$ 49,329	$ 87,576	$ 104,494
C&O	34,478	71,276	74,991	122,565
Rare Metals	31,909	49,825	69,187	78,901
Corporate / Eliminations	(934)	–	(2,110)	–
Consolidated Revenue	**$ 107,549**	**$ 170,430**	**$ 229,644**	**$ 305,960**
Operating Income (Loss)				
Magnequench	$ 2,257	$ 1,077	$ 5,641	$ 2,032
C&O	198	1,524	(1,906)	(4,602)
Rare Metals	8,573	16,686	17,373	22,518
Corporate / Eliminations	(5,204)	(5,612)	(9,336)	(10,270)
Consolidated Operating Income	**$ 5,824**	**$ 13,675**	**$ 11,772**	**$ 9,678**
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”) [(1)]				

Magnequench	$ 6,168	$ 5,274	$ 12,280	$ 8,530
C&O	2,651	2,913	2,271	(1,649)
Rare Metals	8,786	16,950	18,024	23,114
Corporate / Eliminations	(4,213)	(5,589)	(8,423)	(9,660)
Consolidated Adjusted EBITDA[(1)]	**$ 13,392**	**$ 19,548**	**$ 24,152**	**$ 20,335**
Net Income (Loss)	**$ 883**	**$ 329**	**$ 1,732**	**$ (10,371)**
Earnings (Loss) per share attributable to equity holders of Neo				
Basic	$ 0.02	$ 0.01	$ 0.04	$ (0.22)
Diluted	$ 0.02	$ 0.01	$ 0.04	$ (0.22)
Cash spent on property, plant and equipment and intangible assets	$ 10,677	$ 6,140	$ 26,656	$ 9,652
Cash taxes paid	$ 5,790	$ 2,772	$ 13,303	$ 8,033
Dividends paid to shareholders	$ 3,127	$ 3,343	$ 6,211	$ 6,722
Repurchase of common shares under Normal Course Issuer Bid	$ –	$ 1,202	$ 2,250	$ 1,202
			June 30	**December 31**
			2024	**2023**

Cash and cash equivalents					$ 100,483		$ 86,895	
Restricted cash					$ 53		$ 3,357	
Current & long-term debt					$ 49,454		$ 25,331	

MAGNEQUENCH

Neo's Magnequench business unit won two new major awards to supply electric vehicle traction motor customers in 2024. In August 2024, Magnequench secured its first sintered magnet award for the new facility from a Tier 1 automotive supplier in Europe – at its peak year, the award will represent approximately 35% of the plant's production capacity. In Q1 2024, Magnequench also won an expanded program award for its heavy-rare-earth-free traction motor solution.

Overall, the business had a strong quarter, despite weak demand within the remaining portion of the magnetic powder business. The automotive magnetics market is gradually recovering back to prior run rate levels. Magnequench's heavy-rare-earth-free traction motors delivered substantial growth with year-to-date volume being higher compared to the same period in 2023, partially driven by changes in customers inventory ordering patterns.

Magnequench operating facilities in Asia continue to improve operational performance, reduce conversion costs and optimize production. As the majority of Magnequench contracts have pass-through rare earth pricing, declining rare earth prices put relatively less pressure on Magnequench's gross margin.

CHEMICALS & OXIDES ("C&O")

Margins in the emissions catalyst segment remain strong notwithstanding demand softness and customer de-stocking during the second quarter. The relocation and commissioning of the new environmental emissions catalyst manufacturing facility delivered solid progress, with customer qualifications well underway.

The environmental protective water treatment solutions business achieved its sixth consecutive quarter of volume growth and delivered strong gross margins.

Stronger margins in C&O were offset by the separation portion of the C&O business which faced challenges from falling rare earth prices, leading to unfavourable lead-lag effects as materials bought at higher costs three to five months earlier were processed.

RARE METALS

The Rare Metals business unit had a strong quarter, even though it was lower compared to last year’s second quarter. This quarter’s performance was driven by a healthy hafnium order book for 2024 with contracted volumes at strong pricing and sufficient inventory on hand.

Rare Metals is already seeing positive results from the milestone change it made in its manufacturing strategy of niobium and tantalum, shifting focus on downstream, value-add operations. The focus now is on improving historical yields and efficiency in the higher value finishing processes.

On August 6, 2024, Neo announced that it has entered into an agreement to sell its majority interest in the gallium trichloride facility in Quapaw, Oklahoma, to its founder at a valuation of 9x EBITDA on a trailing twelve-month basis. The transaction also includes a long-term supply agreement where the Quapaw facility will continue to be supplied by Neo’s recycling gallium production facility in Peterborough, Ontario (Canada).

Q2 2024 UPDATE ON STRATEGIC INITIATIVES

NAMCO Relocation, Upgrade and Modernization

Project nearing completion on time and anticipating $5.0 million below budget

Neo is nearing completion of the relocation, upgrade, and modernization of its environmental emissions catalyst manufacturing facility to a newly built site. The facility began customer re-qualification of products in the first half of 2024 and, pending customer approval, is expected to achieve full production by the end of 2024. The project remains on time and below budget, with a current total estimated project spend of $70.0 million. Neo incurred $12.8 million on the project during the first half of 2024 and $46.4 million since project commencement. The remaining capital investment is expected to be incurred in the second half of 2024 and early 2025. To fund the project, Neo secured a $75.0 million credit facility from EDC in August 2022, drawing an aggregate of $50.0 million as of June 2024.

New Electric Vehicle Magnet Platform Awarded for Sintered Magnet Plant in Europe

Tier 1 OEM award represents 35% of manufacturing facility's capacity in peak operating year; project construction is on time and on budget

In August 2024, Neo announced that it received its first award for the new European sintered magnet facility from a European Tier 1 automotive manufacturer of electric vehicle traction motors. The awarded program is estimated to utilize 35% of the magnet facility's Phase 1 capacity at peak production, expected to occur in fiscal 2029. Production volumes expected to commence in the second half of 2026 with the program life extending through to 2033. Neo is focused on becoming a leading supplier of sintered magnets for European and North American automotive manufacturers. These magnets expect to align with targets set out by public policy initiatives in these geographies. With a proven track record in the automotive industry and a global manufacturing supply chain, Neo's magnetic business is positioned to deliver on these strategic objectives. The project currently tracks on time for completion and tracks on budget for $75.0 million for Phase 1 (prior to the Just Transition Fund grant). Neo capitalized $9.9 million during the second quarter of 2024 and capitalized $24.9 million since project commencement. The majority of the remaining estimated capital investment is expected to be incurred through the remainder of 2024 and into 2025.

Impact of Rare Earth Prices on Separation Gross Margins

Neo's rare earth separation business continues to incur operating losses due to the commodity rare earth price declines in the first six months of 2024. To reduce the exposure to underlying rare earth market prices, improve ROCE and reduce earnings volatility, Neo's C&O business unit shut down its light rare earth separations facility in Zibo (China) in April 2024.

Neo has also made strategic efforts to further reduce its financial risk related to commodity rare earth price movements, which affect both Magnequench and C&O. These include continuing customer pass-through price provisions, aligning contract durations with inventory turns, and increasing overall inventory turns.

Neo has long strategically positioned itself as a value-add producer that drives margins from converting the input commodity and creating a higher value finished product. Neo is not exposed to fixed cost environments for the majority of its input costs. Rather, the largest of Neo's input costs, the commodity itself, tends to fluctuate in relationship with finished goods market prices.

Simplification of Business and Increased Operational Focus

Delivery of manufacturing transformations to improve ROCE and reduce earnings volatility

In August 2024, Neo announced that it has entered into an agreement to sell its 80% equity interest in the Quapaw, Oklahoma facility that produces gallium trichloride. Exiting the asset at a valuation of 9x EBITDA on a trailing twelve-months basis, this action enables Neo to simplify its manufacturing footprint while focusing its efforts on core end-markets and products. The transaction proceeds are expected to be $1.4 million and the transaction is expected to close during the second half of 2024. The operating footprint change aligns with Neo's continuous improvement strategy to simplify its global operating footprint.

Sourcing and Rare Earth Supply Strategy

In May 2024, Neo announced a rare earth offtake memorandum of understanding ("MOU") with Meteoric Resources NL in Brazil, making this the fourth offtake MOU with rare earth mining development companies. The MOU has an annual offtake supply for up to 900 metric tons of Nd-Pr oxide and 30 metric tons of Dy and Tb oxide, combined, to supplement supply for Neo's sintered magnet facility in Europe.

Magnequench is focused on flexibility within its raw material sourcing strategy to ensure resilience across its supply chain. Magnequench sources 5% to 15% of its magnetic rare earths oxides internally through its vertically integrated supply chain and the balance is sourced from third party critical minerals processors. Magnequench offers a vertically integrated supply chain and further sourcing optionality for its product offering.

Neo remains a trusted supplier and partner within the rare earths and magnetic industries, with one of the most geographically diversified supply sources for its critical materials.

CASH ALLOCATION HIGHLIGHTS

Neo's balance sheet remains strong. As at June 30, 2024, Neo had $100.5 million in cash and $0.1 million in restricted cash, offset by $49.5 million drawn from its EDC credit facility, resulting in net cash of $51.1 million.

Neo invested $26.7 million in capital expenditures for the six months ended June 30, 2024. Of this amount, $12.8 million was related to the NAMCO relocation, upgrade and modernization, $1.7 million related to borrowing costs incurred on the EDC credit facility, $10.3 million related to ongoing investment for the construction of the sintered magnet manufacturing facility in Europe, and $1.9 million was related to sustaining capital expenditures.

For the six months ended June 30, 2024, Neo repurchased and cancelled 398,871 shares for $2.3 million, and paid $6.2 million in dividends to its shareholders.

STRATEGIC REVIEW

On June 14, 2024, Neo announced the formation of a Special Committee of independent directors to lead a comprehensive strategic review process to consider strategic alternatives and opportunities to maximize shareholder value.

The Strategic Committee has retained Barclays Capital Inc. and Paradigm Capital Inc. as independent financial advisors in connection with the review process. In addition, the Compensation and Human Resources Committee has retained Hugessen Consulting Inc., as an independent compensation consultant to advise Neo on executive compensation.

There is no timetable for completion of the strategic review process, and Neo does not intend to comment further until it determines that such disclosure is necessary or appropriate. There can be no assurance that the strategic review process will result in any transaction or other alternative, nor any assurance as to its outcome or timing.

2024 OUTLOOK

- With strong Adjusted EBITDA[(1)] results for the six months ended June 30, 2024, Neo increases its outlook for fiscal 2024 to $45 million to $50 million of Adjusted EBITDA[(1)], a 20% to 35% increase over the prior year.
- Neo continues to take transformational actions within its portfolio, positioning it to be more focused and resilient. For fiscal year 2025, Neo expects continued improvement in financial performance, and establishes an outlook for another year of double-digit percentage Adjusted EBITDA[(1)] growth for fiscal year 2025 as compared to fiscal year 2024.

CONFERENCE CALL ON FRIDAY AUGUST 9, 2024 AT 10 AM EASTERN

Management will host a teleconference call on Friday, August 9, 2024 at 10:00 a.m. (Eastern Time) to discuss the second quarter 2024 results. Interested parties may access the teleconference by calling (289) 819-1350 (local) or (800) 836-8184 (toll free long distance) or by visiting https://emportal.ink/3LlrPQB. A recording of the teleconference may be accessed by calling (289)

819-1450 (local) or (888) 660-6345 (toll free long distance), and entering pass code 17759# until September 9, 2024.

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 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, 2024, available on Neo’s web site at www.neomaterials.com and on SEDAR+ at www.sedarplus.ca.

[(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, available on Neo's website at www.neomaterials.com and on SEDAR+ at www.sedarplus.ca*

TABLE 5: CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($000s)		**June 30, 2024**		**December 31, 2023**
ASSETS				
Current				
Cash and cash equivalents		$ 100,483		$ 86,895
Restricted cash		53		3,357
Accounts receivable		58,822		67,643
Inventories		163,946		197,453
Income taxes receivable		371		744
Other current assets		26,182		22,542
Total current assets		**349,857**		**378,634**
Property, plant and equipment		147,927		118,918
Intangible assets		35,744		38,511
Goodwill		64,223		65,160

Investments		15,985		17,955
Deferred tax assets		6,911		6,760
Other non-current assets		905		1,066
Total non-current assets		**271,695**		**248,370**
Total assets		**$ 621,552**		**$ 627,004**
LIABILITIES AND EQUITY				
Current				
Accounts payable and other accrued charges		53,608		71,984
Income taxes payable		4,271		9,207
Provisions		714		823
Lease obligations		1,783		1,664
Derivative liability		39,242		36,294
Current portion of long-term debt		4,634		2,230
Other current liabilities		1,605		692
Total current liabilities		**105,857**		**122,894**
Long term debt		44,820		23,101

Employee benefits	112	108
Derivative liability	1,324	1,082
Provisions	26,354	26,197
Deferred tax liabilities	12,470	14,294
Lease obligations	4,131	2,425
Other non-current liabilities	1,136	1,592
Total non-current liabilities	**90,347**	**68,799**
Total liabilities	**196,204**	**191,693**
Non-controlling interest	3,322	3,164
Equity attributable to equity holders of Neo Performance Materials Inc	422,026	432,147
Total equity	**425,348**	**435,311**
Total liabilities and equity	**$ 621,552**	**$ 627,004**

See accompanying notes to this table in Neo's Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2024, available on Neo's website at www.neomaterials.com and on SEDAR+ at www.sedarplus.ca.

TABLE 6: CONSOLIDATED RESULTS OF OPERATIONS

Comparison of the three and six months ended June 30, 2024 to the three and six months ended June 30, 2023:

($000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Revenue	$ 107,549	$ 170,430	$ 229,644	$ 305,960
Cost of sales				
Cost excluding depreciation and amortization	78,250	132,589	172,998	249,210
Depreciation and amortization	2,004	2,368	3,934	4,536
Gross profit	**27,295**	**35,473**	**52,712**	**52,214**
Expenses				
Selling, general and administrative	14,605	16,111	29,247	30,982
Share-based compensation	1,476	(82)	1,380	768
Depreciation and amortization	1,876	1,814	3,604	3,580
Research and development	3,307	3,955	6,502	7,206
Impairment of assets	207	–	207	–
	21,471	21,798	40,940	42,536
Operating income	**5,824**	**13,675**	**11,772**	**9,678**
Other (expense) income	(86)	(171)	3,593	(649)
Finance costs, net	(1,572)	(4,085)	(2,912)	(8,097)

Foreign exchange loss	(544)	(662)	(1,266)	(1,242)
Income (loss) from operations before income taxes and equity income (loss) of associates	**3,622**	**8,757**	**11,187**	**(310)**
Income tax expense	(3,042)	(5,988)	(7,383)	(7,598)
Income (loss) from operations before equity income (loss) of associates	**580**	**2,769**	**3,804**	**(7,908)**
Equity income (loss) of associates (netof income tax)	303	(2,440)	(2,072)	(2,463)
Net income (loss)	**$ 883**	**$ 329**	**$ 1,732**	**$ (10,371)**
Attributable to:				
Equity holders of Neo Performance Materials Inc	$ 859	$ 310	$ 1,732	$ (10,144)
Non-controlling interest	24	19	–	(227)
	$ 883	**$ 329**	**$ 1,732**	**$ (10,371)**
Earnings (loss) per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic	$ 0.02	$ 0.01	$ 0.04	$ (0.22)

Diluted	$ 0.02	$ 0.01	$ 0.04	$ (0.22)

See Management's Discussion and Analysis for the three and six months ended June 30, 2024, available on Neo's website at www.neomaterials.com and on SEDAR+ at www.sedarplus.ca

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

($000s)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2024	**2023**	**2024**	**2023**
Net income (loss)	**$ 883**	**$ 329**	**$ 1,732**	**$ (10,371)**
Add back (deduct):				
Finance cost, net	1,572	4,085	2,912	8,097
Income tax expense	3,042	5,988	7,383	7,598
Depreciation and amortization included in cost of sales	2,004	2,368	3,934	4,536
Depreciation and amortization included in operating expenses	1,876	1,814	3,604	3,580
EBITDA	**9,377**	**14,584**	**19,565**	**13,440**

Adjustments to EBITDA:							
Other expense (income) [1]		86		171		(3,593)	649
Foreign exchange loss [2]		544		662		1,266	1,242
Equity (income) loss of associates		(303)		2,440		2,072	2,463
Share-based compensation [3]		1,476		(82)		1,380	768
Fair value adjustments to inventory acquired		—		572		—	572
Project startup & transition costs [4]		2,005		—		3,255	—
Transaction costs on business combination		—		1,201		—	1,201
Impairment of assets [5]		207		—		207	—
Adjusted EBITDA [6]		**$ 13,392**		**$ 19,548**		**$ 24,152**	**$ 20,335**

Adjusted EBITDA Margins [6]	*12.5 %*	*11.5 %*	*10.5 %*	*6.6 %*
Less:				
Capital expenditures [7]	$ 18,571	$ 6,820	$ 36,048	$ 11,836
Free Cash Flow [6]	**$ (5,179)**	**$ 12,728**	**$ (11,896)**	**$ 8,499**
Free Cash Flow Conversion [6]	*(38.7 %)*	*65.1 %*	*(49.3 %)*	*41.8 %*

Notes:

(1)	Represents other expense (income) resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. In addition, other income for the six months ended June 30, 2024 includes the reversal of a special reserve to cover for potential liabilities related to employee safety incidents or workplace accidents at the ZAMR facility. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has shut down this business. These items are not indicative of Neo’s ongoing activities.
(2)	Represents unrealized and realized foreign exchange losses that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.

(3)	Represents share-based compensation expense in respect of the long-term incentive plans (the “**LTIP**“) which was adopted on May 9, 2018 as well as the Omnibus long-term incentive plan (the “**Omnibus LTIP**“), which was originally approved by shareholders on June 29, 2021 and amended and approved by shareholders on June 19, 2024. No further grants were made under the LTIP once the Omnibus LTIP was adopted. There are no RSUs and PSUs outstanding under the LTIP and no further grants will be made under the LTIP.
(4)	Represents start-up costs (primarily pre-operational staffing costs) at Neo’s new European sintered magnet facility, as well as transition cost during qualification and start-up of the NAMCO facility and winding down of the ZAMR facility. Neo has removed these charges to provide comparability with historic periods.
(5)	Represents an impairment charge of $0.6 million resulting from the shut down of Neo’s light rare earth separation business in ZAMR, and a reversal of an asset impairment of $0.4 million previously recorded in Neo’s Rare Metals hafnium business.
(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 news release and in the MD&A, available on Neo’s website www.neomaterials.com and on SEDAR+ at www.sedarplus.ca.

(7)	Includes cash and non-cash capital expenditures of $16.3 million and $32.9 million, respectively, and right-of-use assets of $2.2 million and $3.1 million, respectively, for the three and six months ended June 30, 2024. For the three and six months ended June 30, 2023, the amount was comprised of cash and non-cash capital expenditures of $6.1 million and $9.6 million, respectively, and right-of-use assets of $0.7 million and $2.2 million, respectively.

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

($000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Net income (loss)	**$ 883**	**$ 329**	**$ 1,732**	**$ (10,371)**
Adjustments to net income (loss):				
Foreign exchange loss (1)	544	662	1,266	1,242
Impairment of assets (2)	207	–	207	–
Share-based compensation (3)	1,476	(82)	1,380	768
Project start-up & transition cost (4)	2,005	–	3,255	–
Other items included in other expense (income) (5)	158	212	(2,890)	619
Fair value adjustments to inventory acquired	–	572	–	572

Transaction costs on business combination	—	1,201	—	1,201
Tax impact of the above items	(22)	(429)	694	(547)
Adjusted net income (loss)	**$ 5,251**	**$ 2,465**	**$ 5,644**	**$ (6,516)**
Attributable to:				
Equity holders of Neo	$ 5,227	$ 2,446	$ 5,644	$ (6,289)
Non-controlling interest	$ 24	$ 19	$ —	$ (227)
Weighted average number of common shares outstanding:				
Basic	41,751,560	45,196,921	41,791,628	45,196,921
Diluted	42,343,082	45,621,275	42,429,648	45,196,921
Adjusted income (loss) per share (6) attributable to equity holders of Neo:				
Basic	$ 0.13	$ 0.05	$ 0.14	$ (0.14)
Diluted	$ 0.12	$ 0.05	$ 0.13	$ (0.14)

Notes:

(1)	Represents unrealized and realized foreign exchange losses that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
(2)	Represents an impairment charge of $0.6 million resulting from the shut down of Neo’s light rare earth separation business in ZAMR, and a reversal of an asset impairment of $0.4 million previously recorded in Neo’s Rare Metals hafnium business.

(3)	Represents share-based compensation expense in respect of the LTIP which was adopted on May 9, 2018 as well as the Omnibus LTIP, which was originally approved by shareholders on June 29, 2021 and amended and approved by shareholders on June 19, 2024. No further grants were made under the LTIP once the Omnibus LTIP was adopted. There are no RSUs and PSUs outstanding under the LTIP and no further grants will be made under the LTIP.
(4)	Represents start-up costs (primarily pre-operational staffing costs) at Neo’s new European sintered magnet facility, as well as transition cost during qualification and start-up of the NAMCO facility and winding down of the ZAMR facility. Neo has removed these charges to provide comparability with historic periods.
(5)	Represents other expense (income) resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. In addition, other income for the six months ended June 30, 2023 includes the reversal of a special reserve to cover for potential liabilities related to employee safety incidents or workplace accidents at the ZAMR facility. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has shut down this business. These items are not indicative of Neo’s ongoing activities.

(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 news release and in the MD&A, available on Neo’s website www.neomaterials.com and on SEDAR+ at www.sedarplus.ca.

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 the 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, including but not limited to the price of rare earth elements; 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, 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.sedarplus.ca.