

Neo Performance Materials Reports Strong First Quarter 2021 Results

written by Raj Shah | May 13, 2021

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Q1 2021 Highlights

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

- Q1 2021 revenue of \$130.9 million higher by 44.3% YoY and by 18.5% over Q4 2020.
- Volumes in the quarter of 4,206 tonnes improved by 27.3% YoY and by 14.2% sequentially.
- Operating income of \$16.4 million in the quarter sharply higher by 227.7% YoY and by 414.4% sequentially.
- Adjusted Net Income⁽¹⁾ of \$15.1 million, or \$0.40 per share.
- Adjusted EBITDA⁽¹⁾ of \$22.4 million higher by 132.6% YoY and by 82.3% sequentially.
- Cash balance of \$55.6 million after distributing \$3.1 million in dividends to shareholders.
- A quarterly dividend of Cdn\$0.10 per common share was declared on May 12, 2021 for shareholders of record at June 19, 2021, with a payment date of June 28, 2021.

Neo Performance Materials Inc. (“**Neo**”, the “**Company**”) (TSX: [NEO](#)) released its first quarter 2021 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 Q1 2021 CONSOLIDATED PERFORMANCE

Neo reported very strong results in the first quarter of 2021, driven largely by the economic recovery from the impact of COVID-19 and supply chains being refilled. Selling prices also strengthened as rare earth prices continued to rise through most of the first quarter of 2021. On a consolidated basis, for the quarter ended March 31, 2021, volumes of 4,206 tonnes increased by 14.2%, revenues of \$130.9 million increased by 18.5%, operating income of \$16.4 million was higher by 414.4%, and Adjusted EBITDA of \$22.4 million improved by 82.3%, all as compared to the fourth quarter of 2020. Q1 2021 volumes, revenue, operating income, Adjusted EBITDA and Adjusted Net income all were also higher over the prior-year period.

For the three months ended March 31, 2021, consolidated revenue was \$130.9 million compared to \$90.7 million in 2019; an increase of \$40.2 million or 44.3%. Neo reported a net income of \$7.6 million, or \$0.20 per share. Adjusted Net Income⁽¹⁾ totaled \$15.1 million, or \$0.40 per share.

<p>⁽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 new release and in the MD&A, available on Neo’s website at www.neomaterials.com and on SEDAR at www.sedar.com.</p>
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As of March 31, 2021, Neo had cash and cash equivalents of \$55.6 million plus restricted cash of \$4.1 million, compared to \$72.2 million plus \$4.2 million as at December 31, 2020. Neo paid \$3.1 million in dividends to its shareholders and spent \$3.0 million related to withholding taxes paid on issuance of stock-based awards in the three months ended March 31, 2021. In addition, Neo has approximately \$6.4 million available under its credit facilities with \$0.5 million drawn as at March 31, 2021.

“I am pleased to see demand, volumes, and margins return to robust, pre-COVID levels across most of our businesses, resulting in strong operating results in the first quarter,” said Constantine Karayannopoulos, CEO of Neo. “The positive trend and momentum driven by strong demand for our current product portfolio, particularly those in the automotive electrification applications supply chain, continue to show promise in the second quarter.”

Mr. Karayannopoulos added: “I am also increasingly optimistic that several new product development efforts are likely to achieve commercial viability over the next several quarters. These advanced materials are targeted to new industries and end-markets for Neo, and I look forward to being able to discuss them in more detail as our development efforts advance.”

SELECTED FINANCIAL RESULTS

TABLE 1: Selected Consolidated Results		
	<i>Year-over-Year Comparison</i>	
	Q1 2021	Q1 2020
Volume (tonnes)	4,206	3,303
(\$000s)		
Revenue	130,855	90,697
Operating income	16,408	5,007
EBITDA ⁽¹⁾	14,800	9,061
Adjusted EBITDA ⁽¹⁾	22,436	9,645
Adjusted EBITDA % ⁽¹⁾	17.1 %	10.6 %

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

For the three months ended March 31, 2021, revenues of \$130.9 million were 44.3% higher than the three months ended March 31, 2020.

Neo reported an operating income of \$16.4 million and a net income of \$7.6 million for the three months ended March 31, 2021. Operating income in the three months ended March 31, 2021 was higher in all three segments.

Adjusted EBITDA for the three months ended March 31, 2021 was \$22.4 million, an increase of \$12.8 million compared \$9.6 million in the same period of the prior year. Similar to net operating income, in the three months ended March 31, 2021, Magnequench and C&O Adjusted EBITDA increased significantly over the same period in the prior year, while Rare Metals Adjusted EBITDA was reasonably similar.

MAGNEQUENCH SEGMENT RESULTS

TABLE 2: Selected Magnequench Results		
	Year-over-Year Comparison	
	Q1 2021	Q1 2020
Volume (tonnes)	1,725	1,271
(\$000s)		
Revenue	64,905	38,526
Operating income	11,090	5,539
EBITDA ⁽¹⁾	13,965	7,647

Adjusted EBITDA ⁽¹⁾	13,432	7,715
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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 months ended March 31, 2021, revenue in the Magnequench segment was \$64.9 million, compared to \$38.5 million in the three months ended March 31, 2020; an increase of \$26.4 million or 68.5%. For the three months ended March 31, 2021, volume increased to 1,725 tonnes, compared to 1,271 tonnes in the same period in 2020; an increase of 35.7%. Generally, the differing rates of change for revenue and volumes are primarily attributed to changes in commodity input material prices and, to a lesser extent, product mix. Magnequench has material pricing pass-through agreements with the vast majority of its customers, which enables Magnequench to pass through changes in material input costs into selling price on a lagged basis.

Operating income for the three months ended March 31, 2021 was \$11.1 million, an increase of \$5.6 million or 100.2%, compared to the three months ended March 31, 2020.

For the three months ended March 31, 2021, volumes in the Magnequench segment saw a continued rebound and strong growth compared to prior periods. Magnequench experienced growth in volumes across almost all key applications but particularly in the automotive segment. A portion of the volume growth can be attributed to customers rebuilding inventory levels and a portion is attributed to new growth in new platforms. For example, the compression magnet production volumes doubled compared to historical levels as Magnequench continues to make

progress in this strategic initiative. Volumes for key electrified-automotive applications, such as traction motors and pumps, also saw very strong growth.

For the three months ended March 31, 2021, Adjusted EBITDA in the Magnequench segment was \$13.4 million, compared to \$7.7 million in same period of 2020; an increase of \$5.7 million or 74.1%.

CHEMICALS & OXIDES (“C&O”) SEGMENT RESULTS

TABLE 3: Selected C&O Results		
	Year-over-Year Comparison	
	Q1 2021	Q1 2020
Volume (tonnes)	2,423	1,935
(\$000s)		
Revenue	54,390	33,538
Operating income	12,122	2,974
EBITDA ⁽¹⁾	5,887	3,673
Adjusted EBITDA ⁽¹⁾	12,918	4,413

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

For the three months ended March 31, 2021, revenue in the C&O segment was \$54.4 million, compared to \$33.5 million in the same period in 2020; an increase of \$20.9 million or 62.2%. For the three months ended March 31, 2021, the C&O segment reported operating income of \$12.1 million compared to \$3.0 million in the same period of the prior year; an increase of \$9.1 million

or 307.6%.

As with Magnequench, rare earth products saw a sharp increase in selling prices in the first quarter of 2021, continuing a trend from the second half of 2020. The C&O segment also saw strong demand for various rare earth products, particularly magnetic-based products, as the global economy continues its recovery from the economic impacts of COVID-19. The combination of higher prices and higher demand for magnetic rare earth products drove much stronger financial performance for the C&O segment compared to the prior periods, particularly as the segment was continuing to process the lower cost inventory that it had on hand. In environmental catalysts, C&O also saw a strong rebound in demand for many programs and continued growth in some of its newer products, which together exceeded the market growth in the automotive sector, generally. These combined higher volumes also had a positive impact on fixed cost absorption levels which further contributed to higher margins in the quarter.

For the three months ended March 31, 2021, Adjusted EBITDA was \$12.9 million, compared to \$4.4 million in the same period in the prior year; an increase of \$8.5 million or 192.7%.

RARE METALS SEGMENT RESULTS

TABLE 4: Selected Rare Metals Results		
	<i>Year-over-Year Comparison</i>	
	Q1 2021	Q1 2020
Volume (tonnes)	118	142
(\$000s)		
Revenue	16,716	20,450
Operating income (loss)	258	(177)
EBITDA ⁽¹⁾	2,154	899

Adjusted EBITDA ⁽¹⁾	903	911
⁽¹⁾ Neo reports non-IFRS measures such as “Adjusted Net Income”, “Adjusted Earnings per Share”, “Adjusted EBITDA”, “Adjusted EBITDA Margin” and “EBITDA”. Please see information on this and other non-IFRS measures in the “Non-IFRS Measures” section of this news release and in the MD&A.		

For the three months ended March 31, 2021, revenue in the Rare Metals segment was \$16.7 million, compared to \$20.5 million in the same period in the prior year; a decrease of \$3.7 million or 18.3%. For the three months ended March 31, 2021, the Rare Metals segment reported an operating income of \$0.3 million, compared to an operating loss of \$0.2 million in the same period of 2020.

The end markets of Rare Metals, primarily aerospace, did not have the same recovery in economic activity as other end markets like automotive or general industrial in the latter half of 2020 and the first quarter of 2021. In the three months ended March 31, 2021, the Rare Metals segment reported lower overall sales compared to the same period in the prior year. The Rare Metals segment did see some strength in certain non-aerospace markets such as in the gallium trichloride market. In addition, the segment made key progress in one of its key strategic initiatives to develop new customers and to qualify more products outside of the aerospace industry. The Rare Metals segment reported positive operating income in the three months ended March 31, 2021.

Adjusted EBITDA in the Rare Metals segment was \$0.9 million for both the three months ended March 31, 2021 and 2020.

CONFERENCE CALL ON THURSDAY MAY 13, 2021 AT 10 AM EASTERN

Management will host a teleconference call on Thursday May 13,

2021 at 10:00 a.m. (Eastern Time) to discuss the first quarter 2021 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 5583257# until June 13, 2021 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 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 months ended March 31, 2021, available on Neo’s web site at www.neomaterials.com and on SEDAR at www.sedar.com.

TABLE 5: CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$000s)	March 31, 2021		December 31, 2020	
ASSETS				
Current				
Cash and cash equivalents	\$	55,561	\$	72,224
Restricted cash		4,102		4,219
Accounts receivable		70,325		51,851
Inventories		142,427		130,867
Income taxes receivable		1,642		2,186
Assets held for sale		—		415
Other current assets		15,710		13,889
Total current assets		289,767		275,651
Property, plant and equipment		73,634		74,322
Intangible assets		52,361		53,653
Goodwill		68,635		68,967
Investments		10,978		10,045
Deferred tax assets		2,926		3,040
Other non-current assets		851		864
Total non-current assets		209,385		210,891
Total assets	\$	499,152	\$	486,542

LIABILITIES AND EQUITY					
Current					
Bank advances and other short-term debt	\$	454		\$	2,428
Accounts payable and other accrued charges		81,196			79,106
Income taxes payable		5,240			2,945
Provisions		2,628			2,628
Lease obligations		1,563			1,297
Derivative liability		9,702			9,428
Other current liabilities		909			940
Total current liabilities		101,692			98,772
Employee benefits		2,329			2,358
Provisions		14,742			4,201
Deferred tax liabilities		12,707			13,970
Lease obligations		2,493			2,243
Other non-current liabilities		1,548			1,513
Total non-current liabilities		33,819			24,285
Total liabilities		135,511			123,057
Non-controlling interest		2,196			1,490
Equity attributable to equity holders of Neo Performance Materials Inc		361,445			361,995
Total equity		363,641			363,485
Total liabilities and equity	\$	499,152		\$	486,542
<p>See accompanying notes to this table in Neo's Consolidated Financial Statements for the Three Months Ended March 31, 2021, available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com.</p>					

TABLE 6: CONSOLIDATED RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2021 to the three months ended March 31, 2020:

(\$000s)	Three Months Ended March 31,					
	2021			2020		
Revenue	\$	130,855		\$	90,697	
Costs of sales						
Costs excluding depreciation and amortization		90,920			66,249	
Depreciation and amortization		1,879			2,720	
Gross profit		38,056			21,728	
Expenses						
Selling, general and administrative		14,060			11,961	
Share-based compensation		1,592			(227)	
Depreciation and amortization		1,955			2,036	
Research and development		4,041			2,951	
		21,648			16,721	
Operating income		16,408			5,007	
Other expense		(6,074)			(194)	
Finance cost, net		(216)			(945)	
Foreign exchange loss		(301)			(450)	
Income from operations before income taxes and equity income (loss) of associates		9,817			3,418	
Income tax expense		(3,133)			(2,842)	

Income from operations before equity income (loss) of associates		6,684			576	
Equity income (loss) of associates (net of income tax)		933			(58)	
Net income	\$	7,617			\$	518
Attributable to:						
Equity holders of Neo	\$	7,446			\$	363
Non-controlling interest		171				155
	\$	7,617			\$	518
Earnings per share data attributable to equity holders of Neo:						
Basic	\$	0.20			\$	0.01
Diluted	\$	0.20			\$	0.01
See Management's Discussion and Analysis for the Three Months Ended March 31, 2021, available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com .						

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

(\$000s)	Three Months Ended March 31,					
		2021			2020	
Net income	\$	7,617			\$	518
Add back (deduct):						
Finance cost, net		216			945	
Income tax expense		3,133			2,842	
Depreciation and amortization included in costs of sales		1,879			2,720	

Depreciation and amortization included in operating expenses	1,955		2,036	
EBITDA	14,800		9,061	
Adjustments to EBITDA:				
Other expense ⁽¹⁾	6,074		194	
Foreign exchange loss ⁽²⁾	301		450	
Equity (income) loss of associates	(933)		58	
Share and value-based compensation ⁽³⁾	1,592		(118)	
Other costs ⁽⁴⁾	602		—	
Adjusted EBITDA	\$ 22,436		\$ 9,645	
<i>Adjusted EBITDA Margins</i>	<i>17.1</i>	<i>%</i>	<i>10.6</i>	<i>%</i>
Less:				
Capital expenditures	1,736		1,502	
Free Cash Flow	20,700		8,143	
<i>Free Cash Flow Conversion</i> ⁽⁵⁾	<i>92.3</i>	<i>%</i>	<i>84.4</i>	<i>%</i>

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 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 is included in selling, general, and administration expenses. For the three months ended March 31, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the three months ended March 31, 2020, value-based compensation expense was \$109. 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.
(4)	These represent primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.
(5)	Calculated as Free Cash Flow divided by Adjusted EBITDA.

TABLE 8: RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME

(\$000s)	Three Months Ended March 31,					
	2021			2020		
Net income	\$	7,617		\$	518	
Adjustments to net income:						

Foreign exchange loss ⁽¹⁾	301			450	
Share and value-based compensation ⁽²⁾	1,592			(118)	
Other costs ⁽³⁾	602			—	
Other items included in other expense ⁽⁴⁾	6,179			120	
Tax impact of the above items	(1,197)			(101)	
Adjusted net income	\$ 15,094			\$ 869	
Attributable to:					
Equity holders of Neo	\$ 14,923			\$ 714	
Non-controlling interest	\$ 171			\$ 155	
Weighted average number of common shares outstanding:					
Basic	37,481,638			37,739,299	
Diluted	37,814,133			37,819,678	
Adjusted earnings per share ⁽⁵⁾ attributable to equity holders of Neo:					
Basic	\$ 0.40			\$ 0.02	
Diluted	\$ 0.39			\$ 0.02	
<u>Notes:</u>					
(1)	Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.				

(2)	<p>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 is included in selling, general, and administration expenses. For the three months ended March 31, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the three months ended March 31, 2020, value-based compensation expense was \$109. 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.</p>
(3)	<p>These represent primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.</p>
(4)	<p>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.</p>

(5)	<p>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.</p>
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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, United 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.