

# MP Materials: It is Rare Earths Deja Vu All Over Again.

As we know, MP Materials Corp. (NYSE: MP), successfully closed the business combination with Fortress Value Acquisition Corp. in mid November 2020, amid a wild ride for shareholders. The share price has rocketed to more than a quadruple for initial investors in the \$200 million PIPE. Current market capitalization is approaching US\$7 billion – it looks like the stock is set for yet another record high today (February 16, 2021).

The company will be releasing Q4-2020 results after the markets close on March 18, 2021. The company had a profitable third quarter 2020 (\$14.6 million Net Income and \$11.6 million Adjusted EBITDA) and outside the accounting adjustments for contract changes with Shenghe Resources, should show annual results consistent with the quarter.

The company's Mountain Pass mine and associated processing facilities are in California, just off the Nevada border at Mountain Pass. Production started about 70 years ago in the only rare earths mining and processing site of scale in the Western Hemisphere. By management's estimates, MP Resources currently produces approximately 15% of global rare earths content. Recall that the mine was restarted in 2017, with mining and processing currently exceeding levels achieved prior to the current management team taking over.

The company has an offtake agreement with Shenghe Resources (Singapore) that was modified in mid-2020. MP Materials is now free to sell to whomever they choose, (are there other buyers?) but will still be repaying the Shenghe Offtake Advance (currently \$78 million). Management of MP Materials

has estimated that this would be approximately four years from the date of the modification of the offtake agreement, putting it sometime in 2024.

As reported in MP Material's Q3-2020 Form 8-K (page 12) "The completion of our Stage II optimization plan and any development of Stage III is expected to be capital intensive. We expect to invest approximately \$170 million to complete our Stage II optimization plan...". While the company has stated that it has completed process redesign and engineering for Stage II, we all recall the problems Molycorp had trying to get Project Phoenix to work as designed and arguably being one of the elements that caused Molycorp to go bankrupt. MP Materials has a strong balance sheet, but rare earths processing is not easy – it appears that a North American rare earths supply chain (as far as MP Materials is concerned) may just have to wait.

MP Materials closed the business combination with Fortress Value Acquisition Corp. in November 2020 with the stated objective of the merger to fund MP Materials' Mountain Pass mine Stage II optimization plan. The company "expects to become a fully integrated provider of separated rare earth oxides, with a focus on Neodymium-Praseodymium, one of the most crucial inputs for magnetics, by 2022." There is substantial mining and processing infrastructure in place at Mountain Pass with a comprehensive plan developed to even become a downstream magnet producer (Stage III, 2025-ish)

Is this possible? There are numerous detractors who think that this is an unachievable game plan, but clearly the market disagrees. The company also announced on November 18, 2020, that the company had been awarded a Defense Production Act Title III technology investment agreement to establish domestic processing for separated light rare earth elements. Under the TIA, the US Department of Defense will contribute \$9.6 million towards MP Materials' Stage II optimization efforts.

According to the most recent update in the Q3-2020 results presentation, the Stage II Project remains on track for 2022. The front-end engineering design (FEED) is complete, all circuit designs are complete, long-lead procurements were expected to be complete by December 2020 with initial civil mobilization also expected the first week of December 2020 and full mobilization expected in January 2021. An update on these items in March or sooner will be important.

As I said before – it continues to look promising so far, but hang on, with the history at this site and the fast money in the markets right now, let's hope history does not repeat itself.