

# Weathering the rare earth prices storm, all eyes are on Neo Performance

written by InvestorNews | June 5, 2023

“Neo Performance Materials’ organization today is the closest that North America has yet come to a totally vertically integrated rare earth permanent magnet supplier. Now, the company has acquired and is moving to bring a significant rare earth deposit in Greenland into production. When that occurs, it will be the first company outside of China, ever, to be a totally vertically integrated manufacturer of rare earth permanent magnets. We should all be watching Neo Performance as if our (self-sufficient and secure) independent economic lives depend on it.” – Jack Lifton, Co-Chairman, Critical Minerals Institute

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## Jack Lifton and Constantine Karayannopoulos discuss the non-Chinese rare earths’ markets

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In a recent InvestorIntel interview, Jack Lifton spoke with Constantine Karayannopoulos, President, CEO and Director of [Neo](#)

[Performance Materials Inc.](#) (TSX: NEO) about the current rare earths supply and demand situation outside of China.

In this InvestorIntel interview, which may also be viewed on YouTube ([click here to subscribe to the InvestorIntel Channel](#)), Constantine highlighted that the growth in rare earths demand in Europe is primarily driven by the burgeoning growth there in green technology applications such as electric vehicles (EV) and wind power. He continued by saying that although automakers in Europe are setting the goals of having 50% of their rare earths supply chain located within Europe by 2025, there are not enough rare earths produced to satisfy the EV demand, securely, outside of China, at this time. As the owner of the only operating commercial sized rare earth separation facility in Europe, Constantine explained how Neo Performance is very well positioned to capitalize on the opportunity.

To watch the full interview, [click here](#).

### **About Neo Performance Materials Inc.**

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, Japan, China, Thailand, Estonia, Singapore, Germany, the United Kingdom, Canada, the United States, and South Korea.

To learn more about Neo Performance Materials Inc., [click here.](#)

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If you have any questions surrounding the content of this

interview, please email [info@investorintel.com](mailto:info@investorintel.com).

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# Neo Performance's Constantine Karayannopoulos on the growth opportunities for rare earths in the EV market

written by InvestorNews | June 5, 2023

In a recent InvestorIntel interview, Tracy Weslosky spoke with Constantine Karayannopoulos, President, CEO and Director of [Neo Performance Materials Inc.](#) (TSX: NEO) about joining the UN Global Compact to promote sustainability and about the 'massive' growth opportunities in the rare earths space.

In this InvestorIntel interview, which may also be viewed on YouTube ([click here to subscribe to the InvestorIntel Channel](#)), Karayannopoulos highlighted the lack of sufficient supply of rare earths, lithium, and other critical materials required by the energy transition and electric vehicle (EV) revolution. In addition to being the only company in the world operating dual supply chains inside and outside of China for rare earths and rare earth based advanced materials, Neo also owns the only operating commercial rare earth separation facility in Europe, which allows it to have a significant footprint in the fast-growing European EV market. With its presence in 10 countries, Constantine explained that Neo Performance is well-positioned to capture growth in the electric vehicle supply chain in Europe and eventually in North America.

To watch the full interview, [click here](#).

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## **Neo Performance Materials becomes the West's First Profitable Total Rare Earths' Supply Chain Company**

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Investors love companies that under promise and over deliver.

Today's company is a classic example as it continues to grow its highly valuable global advanced materials business that includes rare earth alloy powders and magnets.

[Neo Performance Materials Inc.](#) (TSX: NEO) ("Neo") is a profitable processor and manufacturer of advanced industrial materials including rare earth metals, alloys, and "bonded" rare earth permanent magnets, specialty chemicals, technology metals, and alloys. These are all critical to the performance of many everyday products and emerging technologies such as the high-powered magnets used in electric vehicles and in direct drive wind turbine electric generators. Neo operates globally with sales and production across 10 countries including Japan, China, Thailand, Estonia, Singapore, Germany, the United Kingdom, Canada, the United States, and South Korea.

Neo is the only company in the world that operates dual supply chains inside and outside of China for rare earths, rare earths separation and the commercial production of rare earths advanced materials. Neo owns and operates the only operating commercial rare earth separation facility in Europe.

Furthermore, Neo's [Magnequench](#) unit is the global leader in bonded neodymium-iron-boron (NdFeB) alloy powder based magnets and their applications. Its powders and magnets are used in high-performance components for the OEM automotive, factory automation, high-efficiency motors, residential appliances, and in many other applications.

**Neo Performance Materials global operations that manufacture advanced materials that incorporate rare earths and other rare element metals**



Source: [Company presentation](#)

## **Establishing a new Western rare earths supply chain incorporating USA and Europe**

As a reminder, in July 2021 Neo announced the commencement of commercial shipments of mixed rare earth carbonates produced from monazite from which the uranium and thorium had been removed by [Energy Fuels Inc.](#) (NYSE American: UUUU | TSX: EFR) in the USA, to Neo's rare earth separations facility in Estonia, Europe. This first shipment was a landmark for establishing a [new non-Chinese Western rare earths supply chain](#). Energy Fuels has been sourcing ore from third parties such as from Chemours' (NYSE: CC) heavy minerals sands operations in Georgia, USA; then processing the monazite residue at their White Mesa Mill in Utah, USA, to extract the rare earths, remove the radioactive elements, and then process the rare earths into a solid mixed carbonate form ready for delivery, in this case, to Neo's operation in Estonia according to its specification. The news [stated](#):

"This new supply chain will initially produce rare earth products from monazite that is processed into mixed RE Carbonate at Energy Fuels' Mill in Utah. This RE Carbonate is then further processed by Neo at its Silmet rare earth processing facility in Sillamäe, Estonia ("Silmet") into separated rare earth oxides and other value-added rare earth compounds. Neo is the only commercial producer of separated rare earth oxides in Europe."

Neo's CEO, Constantine Karayannopoulos, [stated](#): "This innovative U.S.-to-Europe supply chain will supplement Neo's existing rare earth supply from our long-time Russian supplier. It will enable Neo to expand value-added rare earth production in Estonia to meet growing demand in Europe for these materials."

## **Neo's financials keep getting stronger**

As announced on August 12, 2021, Neo produced another stellar

[financial result in Q2, 2021](#). Highlights included production volumes increasing 59.6% YoY, revenue reaching US\$135.1 million and up 99.5% YoY, adjusted EBITDA of US\$22.2 million massively up YoY (an increase of \$21.0 million), and adjusted net income of US\$14.1 million, or US\$0.37 per share. The chart below highlights the financial improvement in Neo's financials over the past year.

**Neo's consolidated revenue and adjusted EBITDA keep rising due to a very strong operational performance**



**Neo's revenue by segment and geography is led by Magnequench and China**



Source: [Company presentation](#)

Neo's CEO, Constantine Karayannopoulos, [stated](#): "We had an outstanding second quarter that exceeded our expectations, with record revenue and robust profitability, while our plants operated at near-record output.....With the organic growth we are seeing across all business units, the significant macro tailwinds boosting the entire rare earths sector, and a number of strategic growth opportunities on the radar screen, we remain confident in the sustainability of our long term vision and growth strategy."

Looking ahead to the rest of the calendar year 2021 analyst's forecasts remain strong with CY2021 revenue forecast at [US\\$503 million](#), net income US\$39 million, and 7.82% net profit margin. These estimates may soon need to be increased given Neo has already achieved US\$266 million in H1 2021. In terms of multiples, they are also appealing with Neo trading on a 2021 PE

of [16.7x](#) and an EV/Revenue multiple of [0.92x](#).

### Closing remarks

Neo is currently riding a wave of demand for its advanced materials as we move to a greener economy, especially for the high-value rare earth alloy powders and magnets made with neodymium. These magnets are key to achieving greater power and efficiency from electric motors, the demand for which in the large drive motors for electric vehicles is surging.

Neo Performance Materials trades on a market cap of C\$670 million and a very reasonable 16.7x PE. One to definitely consider.

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## Rare Earths Frontrunner Neo Performance Outperforms with an Impressive 48% Return YTD

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[Neo Performance Materials Inc.](#) (TSX: NEO) continues its outperformance in 2021, posting an impressive 48% return year to date (YTD). That compares to the TSX Composite, which closed for the first time above 19,000 yesterday, up 9.1% on the year and the S&P 500 returning a positive 8.6%. The reason for this is somewhat obvious in that there have been several catalysts so far this year for Neo including a significant deal with Energy Fuels, solid year end results and encouraging guidance for the start of 2021.

## Energy Fuels Deal

As [discussed previously](#) on InvestorIntel and further in this [interview](#) with the two companies, the deal with [Energy Fuels Inc.](#) (NYSE American: UUUU | TSX: EFR) could be considered a game changer to break the dominance of China in the rare earth supply chain. Additionally, the fact that Energy Fuels spent less than \$2M to modify its White Mesa Uranium Mill in Utah (the only licensed facility of its type in the USA) to process up to 2,500 tons per year of monazite into clean mixed rare earth carbonates and Neo Performance already having existing capacity, makes this joint venture incredibly cost-effective and competitive with China. Neo owns the only operating rare earth separation facility in Europe at Sillamäe, Estonia ("Silmet"), which is the destination for Energy Fuels ore.

## Q4 & Year-End Results

On March 21<sup>st</sup> Neo reported [Q4/20 and FY2020 results](#) that included significantly stronger sequential results in the fourth quarter of 2020, driven largely by a sharp rebound in automotive and industrial end markets in the latter portion of 2020. Highlights include Q4/20 revenue of \$110.4M higher by 16.8% YoY and by 41.8% over Q3/20, adjusted Net income of \$9.6M (\$0.25 per share) improved by 56.7% YoY and reversed a loss in Q3/20, while adjusted EBITDA of \$12.3M was higher by 114.8% sequentially.

Other than a \$59.1M non-cash impairment charge in Q2 relating to non-productive assets whose value was adjusted as a result of the economic impacts of COVID-19 on future cash flows, the overall results would have been positive as well. Alas everyone has had some COVID impacts in one form or another.

## First Quarter 2021 Outlook

More importantly, the company has indicated that the positive

trends in volumes and higher selling prices that occurred in Q4/20 have continued into Q1/21 for the Chemicals & Oxides and the Magnequench business units, resulting in a significant positive variance between what Neo anticipates it will report for Q1/21 and current analyst consensus estimates. Neo expects that its Q1/21 financial results will exceed current analyst consensus estimates of \$84.9M in revenue and \$9.9M in EBITDA for the period (both lower than Q4/20), as well as being significantly higher than the Q4/20 financial results. However, we are going to have to wait until May for the Q1 results to confirm this.

## **Summary**

Neo Performance has plenty of momentum moving forward in 2021. The company should start to see the positive benefit of the Energy Fuels deal towards the end of Q2, over and above the upward trending momentum seen from Q3/20 through Q4/20 and Q1/21. Neo finished 2020 with cash and cash equivalents of \$72.2M and positive cash flow meaning the company has plenty of options to grow both organically or via acquisition.

There are currently 37.5M shares outstanding (38.6M fully diluted) of which Oaktree Capital Management, L.P. holds, directly or indirectly, an aggregate of 17.1M Common Shares, representing 45.7%, which gives the company decent leverage to good news or positive results. Neo's market cap is roughly \$759M as of close of business yesterday. Using conservative corporate guidance, an annualized Q1 P/E is 17-18x, which isn't unreasonable in the context of the current market. The question is, how much is "significantly higher than the Q4/20 financial results" and thus how much upside is there for Neo Performance?

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# Superalloy and Magnet Producer Neo Performance Materials is Buying its own Stock, Should You?

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During the first half of 2020, [Neo Performance Materials Inc.](#) (TSX: NEO) purchased US\$1.3M of stock under its Normal Course Issuer Bid Program. Neo believes that its current share price trading range does not adequately reflect the value of the Company.

Neo's share buyback could be a signal that it is time for investors to look at the Company's current business and future sales prospects. As an added bonus, the Company also pays a dividend that is currently yielding 3.4%.

## Markets Include EVs and Wind Turbines

As countries attempt to re-boot their economies after COVID-19, there is a push for decarbonization and a greener economy, which bodes well for Neo as it supplies superalloy and magnets used in electric vehicles, wind turbines, and high-efficiency motors.

Headquartered in Toronto, Canada, Neo operates as a global advanced materials manufacturer with sales and production in 10 countries: Canada, China, Japan, Estonia, Germany, Singapore, South Korea, Thailand, the United Kingdom, and the United States.

### 3 Key Operational Segments

Neo currently operates 3 divisions:

- Magnequench: LTM Revenue of US\$152.9M
  - Creates rare earth powders for bonded and hot deformed magnets.
  - The magnetic materials enable increased energy efficiency in motors across the Hybrid/Electric Vehicles, Industrial Automation, Residential Appliances, and High-Efficiency Motor segments.
- Chemicals & Oxides: LTM Revenue of US\$124.5M
  - Produces advanced industrial materials for end markets that include automotive catalysts, rare earth separations, multi-ceramic capacitors, and water treatment.
- Rare Metals: LTM Revenue of US\$78.2M
  - Makes tantalum-based and gallium-based specialty products with the largest end market being aerospace applications.

Revenue for the first half of 2020 was US\$158.4M, down almost 25% compared with the same period in 2019. All three divisions reported decreases in revenue caused by slower economic activities due to the COVID-19 pandemic. The downturn in the global automotive industry negatively impacted the Company's sales as, collectively, it is Neo's single largest end market.

But even with lower revenues, Neo's core business remained strong. The Company remained operationally profitable for the first half of 2020 and posted an Adjusted EBITDA of US\$10.8M.

#### **Demand Fuels US\$5M Expansion**

The Magnequench division saw demand growth in compression molded magnets and the Company plans to expand its existing production

capacity at its two existing facilities in China by investing US\$5M. The expansion was expected to be completed by late September 2020.

“This increase in demand for Magnequench’s value-added NdFeB magnetic materials underscores the market confidence in the precision, quality, product development capabilities, and customer service that Neo provides to its customers,” commented Constantine Karayannopoulos, Neo’s President and CEO.

Neo will host its Third Quarter 2020 earnings conference call on November 16. Currently, analysts’ consensus revenue estimate for Q3/2020 is US\$79.7M, down almost 29% from the same period in 2019, but up 7.4% quarter over quarter, so revenue is trending in the right direction.

Moreover, the Company has a strong Balance Sheet with US\$78.7M in cash and US\$6.2M in undrawn credit facilities. Neo is well-positioned to ride out the economic downturn but able to capitalize on the restart of the Chinese economy. The Chinese market currently comprises 31% of Neo’s revenue and is its largest geographic segment. China is [forecasted](#) by the IMF to be the only country with a positive growth forecast in 2020.

Looking beyond the end of the current health crisis, if you believe the renewable energy sector and electric vehicles will continue to be two of the hottest growth areas, Neo could be a way to profit from these trends.