

Rare earths giant MP Materials invests heavily to rebuild a U.S. magnetics supply chain

Taking private companies public through alternative investment vehicles, such as special-purpose acquisition companies (SPAC), was a popular trend in 2020 and 2021. SPAC and other deals, such as Fortress Value Acquisition Corp (FVAC), have come under scrutiny by some parties as a cash grab. However, there are multiple success stories that have been able to secure investor trust.

One company who did not fall victim to this hype is MP Materials Corp. (NYSE: MP). In fact, MP Materials has continued to impress investors since the company went public through a FVAC in December 2020. Operating the only rare earth mining and processing facility in the United States, MP Materials is poised to continue to deliver rare earths (RE) to US customers whose appetite for these materials is nearly endless.

MP Materials primarily provides lanthanum, cerium, and neodymium-praseodymium oxide. Interestingly, MP Materials has both support from the commercial and military sectors. We reported back in December that General Motors (GM) struck a deal with MP Materials to supply U.S.-sourced and manufactured rare earth materials, alloy, and finished magnets for GM's electric vehicle programs. MP Materials plans to ramp up production to support this effort in 2023, but it remains to be seen if they can meet that aggressive timeline.

The Department of Defense will help contribute to the continued operation of the Mountain Pass facility. MP

Materials was awarded a \$35 million contract through the Industrial Base Analysis and Sustainment Program to support heavy rare earth elements (HREE) mining. These materials are critical to the development of permanent magnets that are key components in various products, from wind turbines to missile systems.

The Mountain Pass facility already has the capability to mine and process light rare earth elements (LREEs). The added capability to mine HREE will enable MP Materials to mine all rare earths for high-performance magnet production. The company will also be able to recycle all recoverable rare earths from end-of-life magnets and magnet production scrap.

The company is currently building a 200,000 sq. ft. greenfield metal, alloy, and neodymium-iron-boron (NdFeB) magnet manufacturing facility in Fort Worth, Texas. This facility will also serve as the business and engineering headquarters for MP Magnetics. Materials mined at Mountain Pass will be processed and transformed into products at the Texas-based facility. Construction of this facility began in April 2022.

These exciting new developments and other macroeconomic forces have led to a positive outlook for MP Materials. The company had a promising first quarter of 2022 and beat market expectations. MP Materials posted revenues of \$166 million—surpassing the \$132 million expected—and boasted earnings per share of \$0.50 (as opposed to the \$0.38 expected).

Revenue increased 177% year-over-year from increases in the realized price of rare earth oxide from higher demand for rare earths. The increase in revenue was also in part due to the amount of rare earth oxide sold, which occurred due to higher production volumes and shipment timings.

MP Materials also had a significant amount of free cash flow in quarter one, but that will likely change throughout the

rest of 2022. The company plans to continue to heavily invest in its assets this year. These investments could result in a negative free cash flow in 2022.

It remains to be seen whether MP Materials can meet the bold promises that management is aiming for. Improving rare-earth supply chains in the United States is a massive challenge, but currently, MP Materials has a chance to get there.