

FRX Innovations Inc.

TSXV: FRXI | OTCQB: FRXIF

Maintaining Rating & Target

BUY, C\$0.75

August 24, 2023

MARKET DATA

Share Price:	C\$ 0.17
Market Cap:	C\$ 16.91 M
52wk Range:	C\$ 0.16—C\$ 0.65
Ave. Volume:	70,000
Basic S/O:	99.46 M
Fully Diluted S/O:	124.75 M
Float:	41.81 M
Institutional %:	45%
Insider %:	7%

FINANCIAL DATA (mrq)

Cash:	1.07 M
ST Debt:	9.86 M
LT Debt:	5.48 M
Book Value:	7.95 M
EBITDA (ttm):	(5.38) M
CFFO (ttm):	(8.15) M

Auditor: MNP LLP

USD	2022A	2023e	2024e	2025e
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Revenue (in Millions)

Mar	1.10	0.63A	3.14	6.42
Jun	1.31	1.39	3.87	7.50
Sep	0.40	1.88	4.63	8.68
Dec	0.31	2.54	5.42	9.95
REV	3.11	6.45	17.06	32.55
<i>P/S</i>	<i>3.34</i>	<i>1.62</i>	<i>0.61</i>	<i>0.32</i>

Diluted EPS

Mar	(0.17)	(0.02)A	(0.01)	0.00
Jun	(0.05)	(0.01)	(0.00)	0.01
Sep	(0.02)	(0.01)	(0.00)	0.01
Dec	(0.06)	(0.01)	0.00	0.01
EPS	(0.23)	(0.05)	(0.01)	0.04
<i>P/E</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>3.39</i>

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LANXESS MOU Validates Nofia's Market Potential

MOU With LANXESS. Yesterday, the Company announced it signed a MOU with LANXESS [XETR: LXS] covering three key areas, including the potential for LANXESS to become a contract manufacturer of Nofia, LANXESS to potentially produce the raw material for Nofia, and the potential for LANXESS to market Nofia into specific sectors or regions. The MOU is significant for a number of reasons, first of which is that a key player in the global flame retardant space has declared that Nofia has the potential to “capture considerable growth” in the market. Specific to the MOU, LANXESS as a raw material producer and Nofia contract manufacturer could provide a low-cost, shareholder-friendly alternative to raising capital and building out new plants while providing better security for its supply chain. Additionally, LANXESS marketing Nofia would provide immediate access to its current customers who buy its phosphorus and brominated flame retardants, as well as provide a new product for it to market where it currently only has brominated solutions, like ABS and engineered plastics. With the new electronic enclosures regulations set to go in effect shortly, this could be a valuable product for LANXESS to market to both maintain and win market share. Given the need by LANXESS to find a product like Nofia in the next year to keep up with the regulatory changes, we expect the two parties will ultimately come to some kind of formal agreement that provides LANXESS with the ability to maintain and win market share and FRX the ability to rapidly and cost-effectively scale its customer base and operations.

Q2:23 Results Expected. FRX is expected to release its second quarter results next week.

Model Update. As the LANXESS announcement is only at the MOU stage, we have refrained from making any adjustments to our model, but note a formal deal that covers all three areas could alter our model in a positive way.

Maintaining Rating & Target Price. The MOU with LANXESS is significant for a number of reasons, but ultimately to have the full impact a formal agreement will need to be signed in the near future. However, with the validation of Nofia's potential in the market from a market leader we feel even more confident about Nofia's potential in the short-term and long-term. With continued optimism, we are reiterating our Buy rating and C\$0.75 target price on FRX Innovations. Our target price is based on a mix of an EV/EBITDA multiple of roughly 10 times our 2025 EBITDA estimate of \$6.8 million and a P/E multiple of 20 times our 2025 Diluted EPS estimate of \$0.04, both discounted back one year at 20%.

RISKS

Changing Regulatory Environment

Regulations in the flame retardant market have moved in FRX's favor towards phosphorus-based products. Should the market move away from phosphorus-based products the Company may be unable to compete as Nofia is its sole product category.

Competition

FRX faces significant competition from many of the world's largest chemical companies, who have already established relationships with purchasers of flame retardant products and greater financial resources.

Manufacturing & Margins

FRX is not currently operating its sole plant near capacity, which has resulted in a negative gross margin. There are no assurances the Company will be able to produce at the margins we expect in our model.

Single Manufacturing Location

As the Company has one manufacturing facility in Antwerp, any interruptions to that facility would have a substantial negative impact on operations and financial results.

Intellectual Property

FRX derives significant value from being the only flame retardant company that can offer phosphorus polymers. Should another develop a similar product that infringes on the Company's patents, it may not have the financial resources to defend against infringers.

History of Losses

The Company has not produced a profit to date and there are no assurances it will do so in the future.

Potential Dilution

Since inception, FRX has raised well over \$100 million of capital through stock and debt sales to fund operations and plant construction. The Company may need to raise funds in the future to cover operations and/or plant expansion, which could result in dilution to current shareholders.

Production Costs & Gross Margins

Since the start of 2020, the Company has seen wild swings in the price of its raw materials and electricity price hikes at its manufacturing plant. Any unforeseen price hikes to its materials, plant operating expenses or shipping could reduce margins in the future.

Customer Concentration

As it is in its early Revenue growth phase, the Company has concentrated sales to various customers that account for more than 10% of sales. We expect this trend will continue as it scales up its sales and production levels.

Covid-19

While FRX was able to work through the Covid-19 pandemic without supply issues, its customers were not. Any repeated shutdowns or strains on the supply chain could reduce near-term demand for its products.

Illiquid Trading

The Company's stock trades well below \$1,000,000 per day, which may make it difficult to buy or sell a large position in the open market without moving the stock price.

Currency Fluctuations

FRX conducts its business in Euros and US Dollars, and reports its results in US Dollars. Fluctuations between the two currencies can impact the Company's results and stated asset values on the Balance Sheet.

ESTIMATED INCOME STATEMENT

(in 000s of USD)	2022A	Q1:23A	Q2:23e	Q3:23e	Q4:23e	2023e	Q1:24e	Q2:24e	Q3:24e	Q4:24e	2024e	Q1:25e	Q2:25e	Q3:25e	Q4:25e	2025e
Revenue	3,114	629	1,395	1,883	2,542	6,449	3,137	3,871	4,632	5,422	17,062	6,423	7,503	8,675	9,953	32,554
Cost of Good Sold	3,165	461	915	1,151	1,470	3,997	1,782	2,161	2,553	2,959	9,455	3,467	4,014	4,605	5,447	17,533
Gross Margin	(51)	168	480	732	1,072	2,452	1,355	1,710	2,079	2,463	7,607	2,956	3,489	4,070	4,506	15,021
Administrative Expense	6,158	1,256	1,290	1,341	1,395	5,281	1,451	1,509	1,569	1,632	6,160	1,697	1,765	1,835	1,909	7,206
Sales and Marketing	73	172	159	170	180	681	192	205	218	232	847	253	277	302	330	1,161
Research	503	188	164	172	181	705	190	199	209	220	818	231	242	254	267	995
Operating Income	(6,785)	(1,448)	(1,133)	(951)	(684)	(4,216)	(478)	(203)	83	379	(218)	774	1,206	1,679	2,000	5,659
EBITDA	(5,834)	(1,210)	(902)	(711)	(444)	(3,267)	(238)	37	323	619	742	1,014	1,446	1,919	2,440	6,819
FV of CB & Warrants	(4,326)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Income	268	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income	-	1	-	-	-	1	-	-	-	-	-	-	-	-	-	-
Gain - Debt Modification	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign Currency Gain	264	11	-	-	-	11	-	-	-	-	-	-	-	-	-	-
Interest Expense	(1,681)	(174)	(175)	(167)	(159)	(674)	(151)	(143)	(135)	(162)	(590)	(206)	(251)	(296)	(314)	(1,067)
Listing Expense	(1,913)	(6)	-	-	-	(6)	-	-	-	-	-	-	-	-	-	-
Net Income Before Taxes	(14,173)	(1,616)	(1,308)	(1,118)	(843)	(4,884)	(628)	(345)	(52)	217	(809)	568	954	1,383	1,686	4,592
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	(14,173)	(1,616)	(1,308)	(1,118)	(843)	(4,884)	(628)	(345)	(52)	217	(809)	568	954	1,383	1,686	4,592
Basic EPS	(0.23)	(0.02)	(0.01)	(0.01)	(0.01)	(0.05)	(0.01)	(0.00)	(0.00)	0.00	(0.01)	0.01	0.01	0.01	0.02	0.04
Basic S/O	61,645	88,195	99,458	99,458	99,458	96,642	100,559	101,661	102,763	103,865	102,212	103,865	103,865	103,865	109,541	109,541
Diluted EPS	(0.23)	(0.02)	(0.01)	(0.01)	(0.01)	(0.05)	(0.01)	(0.00)	(0.00)	0.00	(0.01)	0.00	0.01	0.01	0.01	0.04
Diluted S/O	61,645	88,195	99,458	99,458	99,458	96,642	100,559	124,203	124,234	124,257	118,313	124,275	124,290	124,302	124,312	124,295
Gross Margin	-1.6%	26.7%	34.4%	38.9%	42.2%	38.0%	43.2%	44.2%	44.9%	45.4%	44.6%	46.0%	46.5%	46.9%	45.3%	46.1%
Operating Margin	-217.9%	-230.2%	-81.2%	-50.5%	-26.9%	-65.4%	-15.2%	-5.2%	1.8%	7.0%	-1.3%	12.1%	16.1%	19.4%	20.1%	17.4%
EBITDA Margin	-187.3%	-192.4%	-64.7%	-37.8%	-17.5%	-50.7%	-7.6%	1.0%	7.0%	11.4%	4.3%	15.8%	19.3%	22.1%	24.5%	20.9%
Pre-Tax Income Margin	-455.1%	-256.9%	-93.7%	-59.4%	-33.2%	-75.7%	-20.0%	-8.9%	-1.1%	4.0%	-4.7%	8.8%	12.7%	15.9%	16.9%	14.1%
Net Margin	-455.1%	-256.9%	-93.7%	-59.4%	-33.2%	-75.7%	-20.0%	-8.9%	-1.1%	4.0%	-4.7%	8.8%	12.7%	15.9%	16.9%	14.1%

Source: FRX documents filed with SEDAR and Greenridge Global estimates

DISCLOSURES

Distribution of Ratings

Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	7	88%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	0	0%
NO RATING	1	12%	0	0%

Explanation of Ratings

- BUY:** Describes undervalued stocks we expect to provide a total return (capital appreciation + yield) of 15% or more in the next twelve month period.
- HOLD:** Describes fully valued stocks we expect to provide a total return (capital appreciation + yield) of plus or minus 15% in the next twelve month period.
- SELL:** Describes overvalued stocks we expect to provide a total negative return (capital depreciation + yield) of 15% or more in the next twelve month period.
- NO RATING:** Describes stocks that have their investment rating and/or target price temporarily removed for fundamental or compliance-based reasons.

Analyst Certification

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Other Disclosures

<u>Company</u>	<u>Disclosures</u>
FRX Innovations Inc.	8
Other Public Companies Mentioned In This Report	-

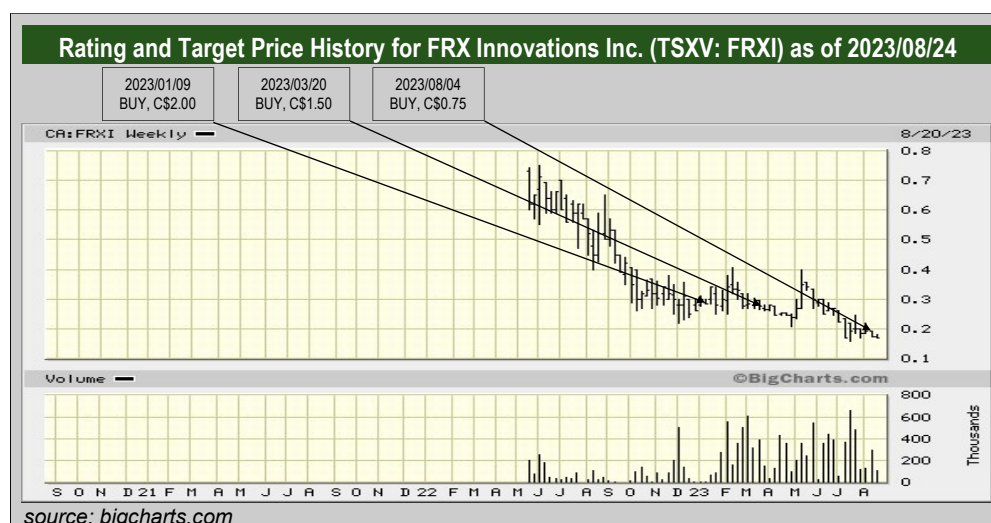
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