July 18 Investor Call

By: Marc Lebel CEO FRX Innovations

Good morning. Welcome to FRX shareholder update call. My name is Marc Lebel, I am the CEO of FRX Innovations. Joining me are, Mark Lotz, our CFO, Dr. Mike Goode our CCO and Jim Cassina and Ekaterina Terskin two members of our board of directors.

We would ask you to mute your microphones to eliminate background noise and we will not use the cameras to save bandwidth. For the Q&A session, we ask you to post your questions under the Q&A button in Teams.

On today's call, we, will provide an update on the unfortunate Cease Trade Order issued by the Ontario Securities Commission on July 13 and then almost immediately revoked on July 13 which then will allow our stock to resume trading on July 18. We will also provide a high-level business update.

As some of you are aware, we were caught up in CPAB sanction of Marcum, the audit firm that we had engaged to complete our 2022 audit. As a result of the sanction, Marcum was forced to divest its TSX Venture clients, including FRX. Unfortunately, when the sanction was issued, Marcum was 4 months into FRX's audit process already. We quickly found and appointed a new auditor, MNP, who began their audit from scratch around Mid-April. We are pleased with that choice. As a result of the delay caused by this event, and of no fault of FRX, we applied for an extension which was granted with July 12 being the date which 2022 and Q1 2023 FS had to be submitted. Our 2022 FSs were uploaded on July 10.

Mark uploaded our Q1 FS files at 5:24 PM PST on July 12, as planned. Once a file is uploaded, there is an electronic [handshake], behind the scenes, that confirms completion and marks the upload as "complete."

In the meantime, a different system was scheduled to search for an electronic confirmation at exactly 5:30 PM EDT. Because the formal electronic "complete" was not in the systems database, due to time change between the west coast and eastern time zone, the system automatically issued a CTO, which we were made aware of on July 13.

We quickly pointed the issue out to the OSC and they immediately indicated that the CTO would be revoked, this happened on July 13. However, once a CTO is issued, protocol is that 2 trading days must lapse, and so trading will resume on Tuesday, July 18.

That said, let me now take a few minutes and provide a high-level update on the business.

The fundamentals appear to be strong, and we are witnessing the resumption of demand-purchasing from our customers, led particularly in FR textile and fibers markets, which feed into the hospitality and transportation verticals.

As I am sure you are witnessing in your personal lives, the travel and hospitality markets are back in full swing. In fact, it seems the deferment in investment that was in reaction to COVID era pullback has given way to strong activity levels, and in some sub-sectors, accelerated growth.

A second area we are seeing fundamental and sustained growth, is in applications where legacy flame retardants based on "bromine", have been announced as being banned, with implementation starting from December 2024, with home appliances joining the ban thereafter. Many brand owners will move more quickly. The same is true for a type of flame retardant which is a PFAS, Forever chemical. There are already requirements to report on the use of Forever Chemicals, and reports of levels in drinking water are already above EPA limits. The move away from Forever Chemicals is also occurring due to 3M's decision to shut down its PFAS chemicals business. These two families of flame retardants are used in applications that span the consumer electronics and home appliances and these applications are the one subject to all the legislative action. So large, global, and consumer-facing applications.

To help paint a more tangible picture, as a consequence of these bans, FRX's sales pipeline has grown significantly over the last 12 months with, 17 new technical approvals achieved in 2022, which we anticipate will make up a growing fraction of our orders in the second half of 2023. For example, 3 of these recent approvals contributed to our Q2 revenues.

It is also notable that our applications team has launched 30 new sales projects in Polycarbonate systems alone in Q2 2023. These have been driven by recent restrictions and availability of "forever" chemical PFAS based FRs.

We have been told that equipment builders are no longer considering either brominated or PFAS based FRs in these applications in the US and EU, which surely is linked to the sharp increase in new programs at FRX.

While we have not yet reported on our most recent quarter, I should point out that in Q1, the company's revenues were double that of Q4 2022.

Q2 2023 sales continued to rebound with indication of sales growing by 2.4X greater than Q1 and 5X greater than Q4. During the same period, we have begun to see an improvement in our gross margin, which is really encouraging. So, we feel there is sustained momentum in the marketplace and the recovery in the verticals we serve should continue to allow the company to grow in the second half 2023 and beyond.

Bottom line, we see our growth coming from both sustained recovery of markets where we have an established position for Nofia, and from market share replacement caused by the recent bans of legacy bromine and PFAS-based FR systems. These include multi-billion-dollar markets for consumer electronics, and home appliances, which represent significant demand for Nofia.

One remarkable achievement is that there are specific plastics, such as ABS, for example, used in this sector that have never before shown to meet the flame retardancy requirements with any system other than bromine, until very recently with Nofia…. This represents a significant opportunity for FRX. We have a completely differentiated and cost competitive solution for ABS and we expect that with the channels that are open to us with the major players in this space, the dialogue will shift from “can we bring a solution?” to “how do we ramp fast enough to meet the rapid demand?”

We have a few minutes, but I am now happy to answer any questions you may have.

QUESTIONS

Q: What's your 12-month forecast for sales?

A: We're not giving out forecasts, but we feel that we're going to continue to grow in Q3 and Q4. Right now, we're at a run rate of about four and a half million and next quarter we feel that we're going to grow from where we are in Q2 and Q4 will be a relatively big quarter for us. I don't want to give a number out on this call, but we are looking strong for this year and next.

Q: What's cash like, I just noticed you guys are burning cash like there's no tomorrow what's your cash situation, are you going to be able to make it to next year?

A: In our Q1 financials we had a balance of $1,000,000 of cash and while we have not reported our most recent financials, the combination of collections and higher sales are helping us maintain a reasonable cash position, we're continuing to be optimistic about our sales growth, quarter over quarter. As a venture issuer, at this time and has required we will explore the least dilutive source of the financing of funding but right now we're not there.

Q: When you're making a sale what are your margins at?

A: Our margins have improved as the raw material prices have come down and we're expecting that to continue in Q2 for sure because we see electricity has dropped dramatically in Europe. The raw materials that we use have also dropped dramatically from 2022 so we expect that we're going to be back to historical levels on raw materials such that gross margins are expected to go back to historical levels of between 45 to 50%.

Q: Who's your competition?

A: Our competition is the big bromine flame retardant manufacturers and to some extent the producers of liquid phosphorus systems -- those are the main competitors in this market. If you want to know the names on the bromine, and they also have phosphorus based flame retardant product lines, the three big ones are Albemarle, ICL (Israel chemical limited) and Lanxess and on the liquid phosphorus systems there's just a whole bunch of Chinese companies and a few Japanese companies that are in that business.

Q: Getting back to the competition in fire retarding ABS under the rules and regulations, Marc, is there any competition specifically for that?

A: There is none, we're being told that we're the only solution for ABS that's halogen free and that's a polymer system that is being used in the markets where bromine is being phased out where it's being banned so today, Nofia is the only known solution for this plastic.

Q: So just to clarify, if companies are using ABS right now in these consumer products they either switch to another form of fire retarding the plastic or they stay in ABS and adopt Nofia is that correct?

A: Well I would say a little bit differently -- they either switch to a completely different polymer system that they can flame retard with a bromine free solution or they stay in ABS and flame retard with Nofia.

Q: How big is that fire retarding ABS market right now?

A: That's a billion dollars

Q: How can we ramp up fast enough to meet demand current manufacturing capacity and time required to double capacity?

A: There are a lot of different options for us here with respect to scaling up but the primary that we are in complete control of, is our own plant. We can double the capacity of the plant and we estimate that that takes around 18 months to do and we're working/we're talking to major big clients that have huge demand and with a clear commitment, a contract, then we would pull the trigger on doubling, that's what we are working right now we're in discussions with major clients as we speak.

Q: When are you reporting your next quarterly earnings?

A: The end of August – this will cover our Q2.

Q: Are you expecting it to be much better than the previous quarter?

A: yeah for sure where we're up at 2 1/2 times Q1 sales I can tell you that much right now. We recently disclosed this in a press release.

Q: Would you license your technology to others CapEx required to double capacity?

A: The answer is yes we would, and we are considering those kinds of moves to license to captive users as opposed to other flame retardant manufacturers so those discussions, those possibilities are there, and I don't want to go into detail but we're considering that as we speak. You know especially with the big ABS players because their demand is so huge that it's beyond even a doubling of our plant in Antwerp, so that's kind of an important question Robert, and it's an important consideration for FRX.

Q: Just going back to the licensing are you close to anything or you can't discuss it?

A: we can't discuss it at this point.

Q: You announced that you picked up how many new inquiries and how many new customers based on regulations? Marc, would just repeat those two dynamics?

A: We had 17 new technical approvals in 2022. This was from customers preparing for the deadline and then in Q2 we had 30 new programs for PFAS free formulations, because, 3M is shutting down their business and of the 17 technical approvals, we had 3 that started to buy in Q2. We've had additional new ones in July so we're seeing new customers coming on board, but we don't control the speed at which they go. What we control is making sure that they have our product, that we are working with them to design out what they are using and design in our product. We are doing this across a many customers. And then beyond these, we have a number of really big opportunities that we're working on. We're actively engaged with major players in this supply chain and especially on the ABS side and so we are confident that this is going to happen -- it's happening now. This is what it looks like in terms of progress. You may not yet be able to see it in the numbers, but we look at other metrics to convince ourselves that it's happening. You know 17 new technical approvals is something and 30 new programs this year is something and also three new customers starting in second-half and more in the third quarter more in the fourth quarter, that is what we consider to be progress.

Q: Have you announced this in newsletters?

A: Yes the 17 technical approvals, the 30 new projects and the 3 new starts were all announced in a recent press release.

Q: What's your current sales capacity if you run flat out. What sales are required to basically be at either EBITDA or cash flow break even with those numbers? Where at least investors could say hey sales are growing like crazy what do we need to actually to cash flow break even to cover off the cash concerns?

A: The capacity we have in Antwerp is 3500 tons, cash flow break even happens at around 1500 tons of sales so, right around $14 - $15 million is where cash flow breaks even. EBITDA neutral happens at around 10-12 million. We are getting close to EBITDA neutral that's the first step and then the second step is to reach cash flow break-even which we expect will be next year.

Q: If 12 to 1300 tons gives me 14 to $15 million worth of sales, it's 3500 tons worth of capacity there's 2.6 times size upside which basically says it looks like you might end up having sales capacity of 38 million bucks -- is that a reasonable guess as to what you believe the 3500 tons of capacity would produce as far as sales volume?

A: In a range I'd say probably more that kind of level 35 million of revenue at that kind of capacity and then and then doubling means 8000 tons and that's around 75 to 80 million of revenue.

Q :OK and what kind of CapEx is required to double your capacity?

A: It's around 12 million Euros and this is an estimate that we had in 2019 before all this inflation. We didn't go back to get another plus or minus 25% cost estimate so with inflation, let's call it 12 to 15 million euros.

Q: OK so if they take the 35 million potential sales volume hit it with a 45% gross margin that pushes up 14 million bucks, knock off a bunch of money for overheads etcetera, sounds like might make $10 million worth of free cash flow is that a reasonable guess?

A: That's reasonable yes

Q: What's your current market cap?

A: 20 million Canadian

Q: So it sounds like the stocks trading basically at two times free cash flow and basically it sounds like you've got almost enough dough to basically be self-funding you're doubling of CapEx against the €12 million cost so it turns out you've got long term contracts from large companies you should be able to quite happily go and get some debt to strap onto your own equity to self-fund this thing or is that a reasonable understanding as to how your future might unfold?

A: Could be, that's the plan Robert, that is one of the plans and we are looking at non-dilutive routes to get there.

Q: alright and are any of the licensing deals that you're considering would they come with any kind of upfront cash payment in the kind of hypothetical negotiations you're considering?

A: Yes it would, that's how we are presenting this to those parties.

Q: I assume it would be almost like a royalty stream of say 7% of their selling price would be coming to you as far as the ongoing revenue run with recurring revenue from a potential licensing agreement so is that the broad concept of what you're considering?

A: Yes that is a fair way of looking at it.

Many thanks for joining the call and if there are no more questions, we will sign off.