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Zacks Small-Cap Research

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FRX Innovations, Inc. (OTCQB:FRXIF)

FRXIF: Releases Results and Grows Business

FRXIF is growing its market penetration in the sustainable fire-retardant business and is getting a tailwind from increasing government regulation. We value FRXIF at $0.80 per share based on a discounted cash flow model with a 15% discount rate.

Current Price (07/10/23)	$0.19
Valuation	**$0.80**

OUTLOOK

FRX Innovations is a company on the cutting edge of a growing demand for a fire retardant without the potential negative health impacts many of the current retardants have. The company's Nofia product is endorsed by numerous "green" organizations and customer testimonials are glowing.

The company released its full-year 2022 results and, more importantly, noted that activity that was negatively impacted in 2022 is unwinding and FRX is experiencing a recovery in the first half of 2023.

SUMMARY DATA

52-Week High	**$0.50**
52-Week Low	**$0.15**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**225**
Shares Outstanding (mil)	**62**
Market Capitalization ($mil)	**$10**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**N/A**
P/E using 2023 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Medium**
Type of Stock	**Small-Growth**
Industry	**Industrials**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	N/A	N/A	N/A	N/A	N/A
2022	1.1 A	1.3 A	0.4 A	0.3 A	3.1 E
2023	1.0 E	1.2 E	1.1 E	1.4 E	4.7 E
2024	1.6 E	1.8 E	1.8 E	2.0 E	7.2 E

Earnings per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	N/A	N/A	N/A	N/A	N/A
2022	-0.17 A	-0.04 A	0.04 A	-0.06 A	-0.23 A
2023	-0.05 E	-0.06 E	-0.05 E	-0.05 E	-0.21 E
2024	-0.05 E	-0.04 E	-0.04 E	-0.03 E	-0.16 E

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Update

FRX Innovations announced its full-year 2022 results. We'll tough on those briefly as the calendar is well past 2022 at this point, but we are pleased to these results filed that were delayed due to some auditing issues and believe this release will set the company up to provide more timely financial updates as time goes on.

For 2022:

- Full year revenues came in at $3.1 million, modestly below our estimates. The company noted that demand fell off in the second half of the year as the company's customers chose to run down inventories for fear of an economic slowdown.
    - The company also noted that demand has rebounded in the first half of 2023.

- FRX posted a full-year loss of $0.23 per share, again a little worse than our estimates for the reasons already given.

- The company noted that FRX "received 17 customer technical approvals in 2022," which it expects to lead to sales growth in the current year and in years to come.

FRX Innovations is a company that continues to produce new fire-retardant products that are free of "forever chemicals" that are increasingly being banned by local and national governments. The company also recently announced that it was filing for an additional patent on a fire retardant for polycarbonate (PC) plastics and its alloys.

PC and its alloys are used in a wide range of products used by consumers around the world in everyday life, including such items as: electric vehicles, consumer electronics and home appliances. Major equipment manufacturers that consumers use every day, such as Apple and IKEA, among many others, have committed that their products will be PFAS free. The company notes that it has already demonstrated the capability to replace the well-known PFAS chemical KPFBS in PC and its major blends. These companies are also looking at replacing the well-known anti-drip—PTFE. Anti-drips are chemicals included in products to reduce the potential for dripping material when it comes into contact with fire. The company notes that replacing PTFE and maintaining the needed flame-retardant properties has been difficult, but that it believes FRX has now achieved that goal.

We have written in previous reports about new regulations banning these potentially dangerous chemicals from fire retardants increasing around the world. We believe, through growing customer acquisition and glowing reviews from existing customers, that FRX is well positioned to use this new product to further expand its retardant market.

As we've previously discussed, Nofia is a registered trademark of FRX and is the company's signature fire retardant product. Nofia products are manufactured at its manufacturing facility on the Port of Antwerp in Belgium, one of the world's largest chemical producing clusters. The FRX production plant in Antwerp was constructed in 2013 with completion in 2014. It is highly efficient and requires only two technical operators per shift. It operates to the highest quality standards and is ISO 9001 certified. Nofia Polyphosphonates are produced using sustainable green chemistry

principles such as a solvent-free production process, no waste byproducts, and near 100% atom efficiency. This new product will be an exciting addition to FRX's portfolio that included an extensive patent estate with 64 patent applications globally as of March 31, 2022. Per company management, Nofia flame retardants are independently assessed by the following organizations to have the best sustainability ratings of any similar product: GreenScreen, Benchmark 3, ChemFORWARD SAFER Class B, TCO listing, ChemSec Marketplace Alternative as an Oeko-Tex for textile applications—an impressive list that helps confirm that Nofia is safe for humans to be around.

Fire retardant requirements are not going away for the millions of products that are required to have them, but the allowable retardants are changing, and not just by force. Companies are now realizing it’s good business to provide safer products to consumers. We reiterate our bullish view on FRXIF and believe the company is back in growth mode after a brief dip at the end of 2022 due to circumstances beyond the company's control.

INCOME STATEMENT AND BALANCE SHEET

FRX Innovations Income Statement and Balance Sheet								
		1Q2022A	**2Q2022A**	**3Q2022A**	**2022A**	**2023E**	**2024E**	**2025E**
Revenue		1,100,132	1,305,790	397,182	3,114,136	4,671,204	7,240,366	11,222,568
Cost of Goods Sold		1,596,927	1,799,344	1,405,437	3,165,553	4,204,084	4,706,238	6,733,541
	Gross Margin	(496,795)	(493,554)	(1,008,255)	(51,417)	467,120	2,534,128	4,489,027
Operating Expenses								
	Administative	1,121,345	1,055,333	655,476	6,157,798	6,465,688	6,788,972	7,128,421
	Sales and Mktg	156,495	132,914	132,097	72,784	76,423	80,244	84,257
	Research	143,745	161,274	51,684	503,157	528,315	554,731	582,467
Total Operating Expenses		1,421,585	1,349,521	839,257	6,733,739	7,070,426	7,423,947	7,795,145
Operating Gain/(Loss)		(1,918,380)	(1,843,075)	(1,847,512)	(6,785,156)	(6,603,306)	(4,889,819)	(3,306,118)
Other Income/(Expenses)								
	Interest Expense	(658,971)	(301,942)	(138,609)	(1,680,951)	(1,596,903)	(1,517,058)	(1,441,205)
	Other Income/(Expense)	(2,067,164)	(42,939)	(70,406)	(5,707,061)	(5,136,355)	(4,622,719)	(4,160,447)
Total Other Income/(Expense)		(2,726,135)	(344,881)	(209,015)	(7,388,012)	(6,733,258)	(6,139,778)	(5,601,653)
Total Gain/(Loss)		(4,644,515)	(2,187,956)	(2,056,527)	(14,173,168)	(13,336,564)	(11,029,597)	(8,907,770)
Total Gain/(Loss) per share		$ (0.17)	$ (0.04)	$ (0.03)	$ (0.23)	$ (0.21)	$ (0.16)	$ (0.13)
Wtd avg num. of shares outstanding		27,878,063	53,654,032	79,994,865	61,645,217	64,727,478	67,963,852	68,643,490
Assets								
Current Assets								
	Cash and equivalents	353,474	1,795,770	548,169	559,466	587,439	616,811	647,652
	Net receivables	1,591,855	1,588,138	522,081	462,419	485,540	509,817	535,308
	Net inventories	2,507,524	2,389,303	2,390,655	3,329,469	3,495,942	3,670,740	3,854,277
	Other current assets	4,606,685	447,367	383,354	198,236	208,148	218,555	229,483
Total Current Assets		9,059,538	6,220,578	3,844,259	4,549,590	4,777,070	5,015,923	5,266,719
Non-Current Assets								
	Plant and Equipment	18,579,938	17,301,626	15,969,583	17,234,277	16,889,591	16,551,800	16,220,764
	Right-of-use assets	490,717	458,558	426,619	843,500	860,370	877,577	895,129
	Intangible assets	385,728	384,624	490,113	382,416	390,064	397,866	405,823
	Patents	403,876	391,376	378,876	330,555	337,166	343,909	350,788
	Other non-current assets	1,564,928	-	-	45,697	46,611	47,543	48,494
Total Non-Current Assets		21,425,187	18,536,184	17,265,191	18,836,445	18,523,803	18,218,695	17,920,997
Total Assets		30,484,725	24,756,762	21,109,450	23,386,035	23,300,872	23,234,618	23,187,716
Current Liabilities								
	Accounts Payable	3,789,560	3,040,062	2,680,888	3,345,833	3,412,749	3,481,005	3,550,626
	Accrued Expenses	1,066,689	903,203	729,143	545,975	556,895	568,032	579,393
	Other current liabilities	6,480,818	1,567,890	1,479,333	9,882,544	10,080,195	10,281,799	10,487,435
Total Current Liabilities		11,337,067	5,511,155	4,889,364	13,774,352	14,049,838	14,330,836	14,617,454
Long-term Liabilities								
	Note and conv. note	21,079,054	10,939,995	10,133,956	2,832,202	2,973,812	3,122,503	3,278,628
	Common stock warrants	5,385,571	2,063,459	1,933,517	0	0	0	0
	Conv. Debenture	4,519,697	-	-	0	0	0	0
	Lease liability	460,163	441,320	408,306	767,278	805,642	845,924	888,220
Total Long-Term Liab.		31,444,485	13,444,774	12,475,779	3,599,480	3,779,454	3,968,427	4,166,848
Total Liabilities		42,781,552	18,955,929	17,365,143	17,373,832	17,829,292	18,299,263	18,784,302
Stockholders Equity/(Deficit)								
	Common stock	27,878	48,363	47,153,057	27,157,210	27,700,354	28,254,361	28,819,449
	Additional Paid-in Capital	25,180,302	47,153,058	-	25,302,974	25,302,974	25,302,974	25,302,974
	Accumulated Deficit	(36,494,696)	(41,033,924)	(42,798,413)	(46,023,728)	(47,607,166)	(48,699,661)	(49,799,019)
	Other	(1,010,311)	(366,664)	(610,337)	(424,253)	75,418	77,681	80,011
Total Stockholders Equity/(Deficit)		(12,296,827)	5,800,833	3,744,307	6,012,203	5,471,581	4,935,355	4,403,415
Total Liabilities and Shareholder Equity		30,484,725	24,756,762	21,109,450	23,386,035	23,300,873	23,234,618	23,187,717

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