July 13, 2023

Zacks Small-Cap Research

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FRX Innovations, Inc. (OTCQB:FRXIF)

FRXIF: 1Q Results Show Rebound and Accelerating Growth

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 (07/12/23)	$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 1Q 2023 results, which showed increasing revenues in 1Q that continued to accelerate in 2Q, reinforcing a trend that we saw forming as demand for safe chemicals grows.

SUMMARY DATA

52-Week High	**$0.50**
52-Week Low	**$0.15**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**225**
Shares Outstanding (mil)	**88**
Market Capitalization ($mil)	**$12**
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	0.6 A	1.2 E	1.1 E	1.4 E	4.3 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	-0.02 A	-0.06 E	-0.05 E	-0.05 E	-0.18 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 1Q 2023 results, that showed what we had talked about in our note about full-year 2022 results was coming to fruition—revenues are rebounding and that growth appears to be accelerating as the year goes on. As more governmental entities pass legislation mandating greener chemicals, and as consumers themselves demand more safety in the products they purchase, we believe the growth FRX is seeing will continue and expand.

The details of 1Q 2023:

- Revenue for the quarter came in at $628,000, which was double that seen in 4Q 2022.

- FRX posted a quarterly loss of $0.02 per share, a little better than our estimates largely due to currency translation.

- Gross margins improved to a gain of $168,000 from a loss of $497,000 in 1Q 2022, with the company pointing to commodity prices returning to historical levels as the reason for the improvement.
- Management noted that the positive sales trends seen in 1Q2023 continued in 2Q to the tune of an estimated 2.4 times increase over 1Q and 5 times increase over 4Q2022.

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

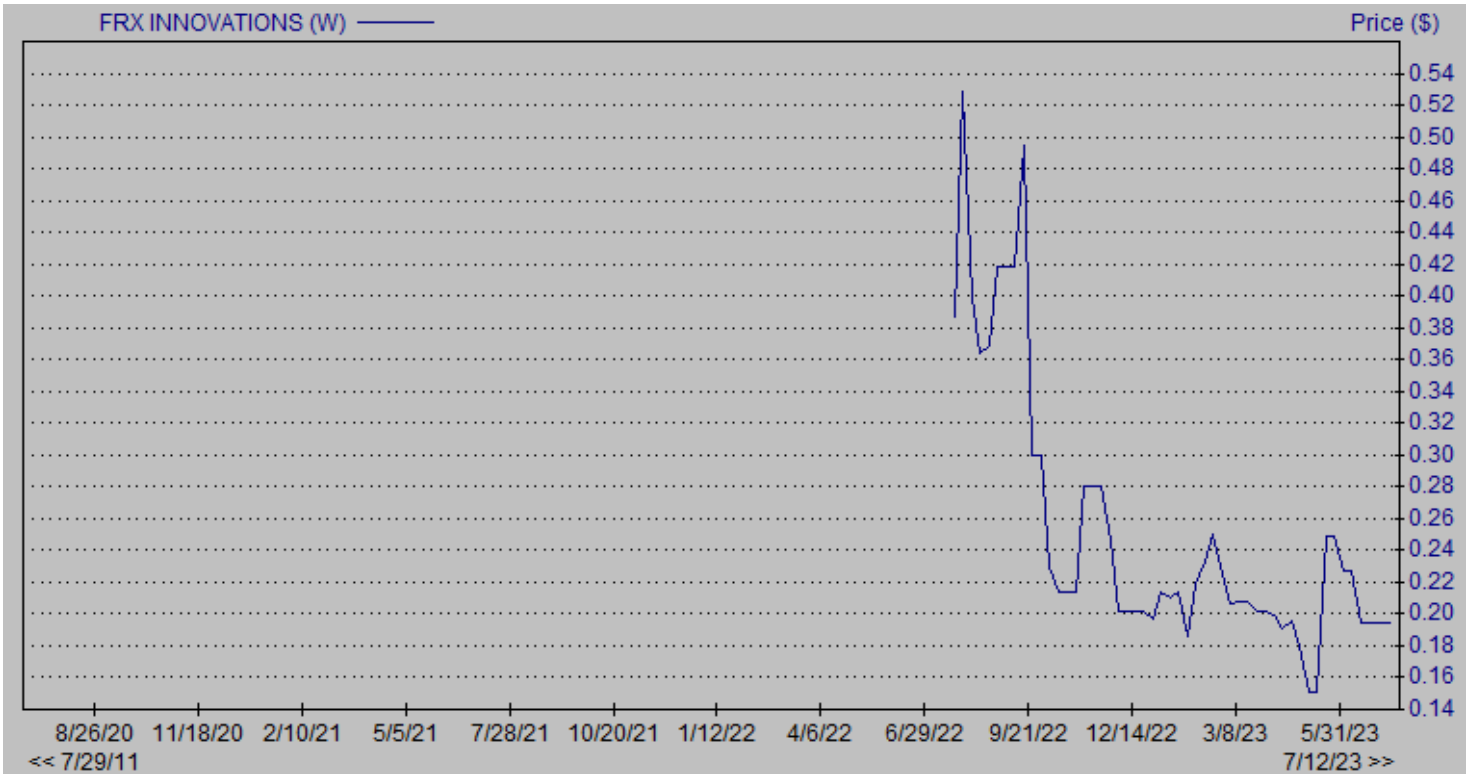
ISO 9001 certified. Nofia Polyphosphonates are produced using sustainable green chemistry principles such as a solvent-free production process, no waste byproducts, and near 100% atom efficiency. This new product will be an exciting addition to FRX's portfolio that included an extensive patent estate 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 that will benefit investors.

INCOME STATEMENT AND BALANCE SHEET

FRX Innovations Income Statement and Balance Sheet								
		2Q2022A	**3Q2022A**	**2022A**	**1Q2023A**	**2023E**	**2024E**	**2025E**
Revenue		1,305,790	397,182	3,114,136	628,775	4,671,204	7,240,366	11,222,568
Cost of Goods Sold		1,799,344	1,405,437	3,165,553	460,589	4,204,084	4,706,238	6,733,541
	Gross Margin	(493,554)	(1,008,255)	(51,417)	168,186	467,120	2,534,128	4,489,027
Operating Expenses								
	Administative	1,055,333	655,476	6,157,798	1,256,174	6,465,688	6,788,972	7,128,421
	Sales and Mktg	132,914	132,097	72,784	172,060	76,423	80,244	84,257
	Research	161,274	51,684	503,157	187,872	528,315	554,731	582,467
Total Operating Expenses		1,349,521	839,257	6,733,739	1,616,106	7,070,426	7,423,947	7,795,145
Operating Gain/(Loss)		(1,843,075)	(1,847,512)	(6,785,156)	(1,447,920)	(6,603,306)	(4,889,819)	(3,306,118)
Other Income/(Expenses)								
	Interest Expense	(301,942)	(138,609)	(1,680,951)	(173,769)	(1,596,903)	(1,517,058)	(1,441,205)
	Other Income/(Expense)	(42,939)	(70,406)	(5,707,061)	597,680	(5,136,355)	(4,622,719)	(4,160,447)
Total Other Income/(Expense)		(344,881)	(209,015)	(7,388,012)	423,911	(6,733,258)	(6,139,778)	(5,601,653)
Total Gain/(Loss)		(2,187,956)	(2,056,527)	(14,173,168)	(1,024,010)	(13,336,564)	(11,029,597)	(8,907,770)
Total Gain/(Loss) per share		$ (0.04)	$ (0.03)	$ (0.23)	$ (0.02)	$ (0.21)	$ (0.16)	$ (0.13)
Wtd avg num. of shares outstanding		53,654,032	79,994,865	61,645,217	88,195,078	64,727,478	67,963,852	68,643,490
Assets								
Current Assets								
	Cash and equivalents	1,795,770	548,169	559,466	1,069,209	587,439	616,811	647,652
	Net receivables	1,588,138	522,081	462,419	516,217	485,540	509,817	535,308
	Net inventories	2,389,303	2,390,655	3,329,469	2,934,736	3,495,942	3,670,740	3,854,277
	Other current assets	447,367	383,354	198,236	481,933	208,148	218,555	229,483
Total Current Assets		6,220,578	3,844,259	4,549,590	5,002,095	4,777,070	5,015,923	5,266,719
Non-Current Assets								
	Plant and Equipment	17,301,626	15,969,583	17,234,277	17,289,208	16,889,591	16,551,800	16,220,764
	Right-of-use assets	458,558	426,619	843,500	819,484	860,370	877,577	895,129
	Intangible assets	384,624	490,113	382,416	381,312	390,064	397,866	405,823
	Patents	391,376	378,876	330,555	308,796	337,166	343,909	350,788
	Other non-current assets	-	-	45,697	20,165	46,611	47,543	48,494
Total Non-Current Assets		18,536,184	17,265,191	18,836,445	18,818,965	18,523,803	18,218,695	17,920,997
Total Assets		24,756,762	21,109,450	23,386,035	23,821,060	23,300,872	23,234,618	23,187,716
Current Liabilities								
	Accounts Payable	3,040,062	2,680,888	3,345,833	2,383,128	3,412,749	3,481,005	3,550,626
	Accrued Expenses	903,203	729,143	545,975	500,167	556,895	568,032	579,393
	Other current liabilities	1,567,890	1,479,333	9,882,544	10,229,570	10,080,195	10,281,799	10,487,435
Total Current Liabilities		5,511,155	4,889,364	13,774,352	13,112,865	14,049,838	14,330,836	14,617,454
Long-term Liabilities								
	Note and conv. note	10,939,995	10,133,956	2,832,202	2,786,871	2,973,812	3,122,503	3,278,628
	Common stock warrants	2,063,459	1,933,517	0	0	0	0	0
	Conv. Debenture	-	-	0	0	0	0	0
	Lease liability	441,320	408,306	767,278	508,673	805,642	845,924	888,220
Total Long-Term Liab.		13,444,774	12,475,779	3,599,480	3,295,544	3,779,454	3,968,427	4,166,848
Total Liabilities		18,955,929	17,365,143	17,373,832	16,408,409	17,829,292	18,299,263	18,784,302
Stockholders Equity/(Deficit)								
	Common stock	48,363	47,153,057	27,157,210	29,151,939	27,700,354	28,254,361	28,819,449
	Additional Paid-in Capital	47,153,058	-	25,302,974	25,302,974	25,302,974	25,302,974	25,302,974
	Accumulated Deficit	(41,033,924)	(42,798,413)	(46,023,728)	(48,179,093)	(47,607,166)	(48,699,661)	(49,799,019)
	Other	(366,664)	(610,337)	(424,253)	1,136,831	75,418	77,681	80,011
Total Stockholders Equity/(Deficit)		5,800,833	3,744,307	6,012,203	7,412,651	5,471,581	4,935,355	4,403,415
Total Liabilities and Shareholder Equity		24,756,762	21,109,450	23,386,035	23,821,060	23,300,873	23,234,618	23,187,717

HISTORICAL STOCK PRICE



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