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Novonix Ltd (NVX-NASDAQ)

NVX: Testing of Initial Cathode Materials Positive Results – Expected to Play Key Role in Advancing Plans

Novonix Anode Materials, Novonix Cathode Materials & Battery Technology Solutions (BTS) divisions are all expected to play crucial roles as NVX advances its strategy and leverages proprietary R&D and technology to develop critical materials for the battery sector. The company announced today that its first cathode pilot product has been tested, with performance matching – or exceeding – that of leading cathode materials from existing suppliers. technology.

Current Price (7/19/23)	$2.77
Valuation	**$14.00**

OUTLOOK

Novonix views the cathode test results as critical to moving forward with plans to scale larger test samples and also begin discussions with potential partners and customers to ultimately commercialize its cathode material. The company has formed many agreements to secure demand for its anode materials, including with Kore Power and LG Energy Solution (LGES), a leading provider of battery technologies to the green automotive and mobility, IT and ESS & other areas. Supply agreements with Kore and LGES are key components behind the company's strategy to ramp production capacity at its Riverside facility in Tennessee. Moreover, with LGES, as with Philips 66 earlier, NVX also secured partner funding. We would anticipate similar measures for the Cathode Material unit, as cathode development & testing progress.

SUMMARY DATA

52-Week High	**9.90**
52-Week Low	**2.29**
One-Year Return (%)	**-72**
Beta	**1.61**
Average Daily Volume (sh)	**64,426**
ADSs Outstanding (mil)	**122**
Market Capitalization ($mil)	**339**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**48**
Insider Ownership (%)	**22**
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 2023 Estimate	**N/A**
P/E using 2024 Estimate	**N/A**

Risk Level	**Above average**
Type of Stock	**Growth**
Industry	**Materials**

ZACKS ESTIMATES

Revenue
(in millions of US$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021				$2.0 A	$3.8 A
2022				$2.7 A	$6.1 A
2023		$2.7 E			$8.5 E

EPS or Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021					-0.05 A
2022					-0.11 A
2023		-0.06 E			-0.14 E

2021-22 FY ended June, New FY end Dec
Quarters might not sum due to rounding & share counts

Aus$/US$ xchg 0.68 - 0.73 Disclosures pg 11

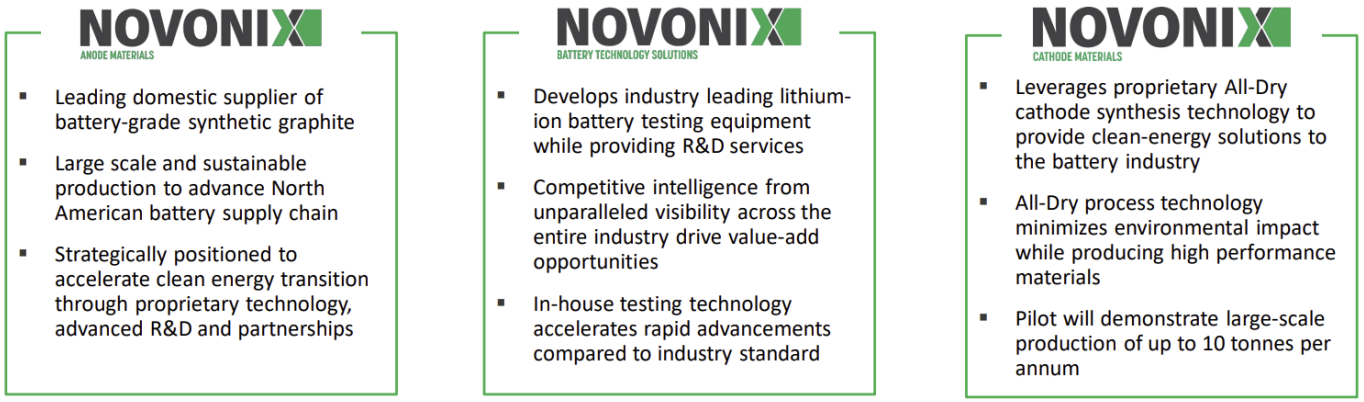
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NOVONIX CATHODE MATERIAL & NOVONIX BATTERY TESTING SOLUTIONS (BTS)

Novonix's Three Divisions Help Advance Company's Strategy

Novonix (NVX-NASDAQ) continues to advance its strategy to develop a North American global supply chain for renewable energy needs. The Novonix Anode Materials division is the expected engine for near-term growth, but the company's other two units – Novonix Cathode Materials and its Battery Technology Solutions (BTS) divisions – are expected to play crucial roles, as well.

Lithium-ion batteries consist primarily of a cathode (positive electrode), an anode (negative electrode) and electrolyte architecture, as well as a separator. When the battery is charging, lithium ions are moved from the cathode and stored in the anode while corresponding electrons are moved through the charger. When the battery is discharging, lithium ions are released form the anode and return to the cathode. Thus, the Novonix Cathode Materials unit is key to the company's strategy, as is the BTS unit, which will continue to be the company's R&D and technology testing group. The company believes the BTS group continues to develop and innovate battery materials to advance sustainable energy performance and production processes.



Source: Company presentation

Through operating units Novonix Anode Materials, Novonix Cathode Materials and the Novonix Battery Technology Solutions (BTS) divisions, Novonix is leveraging proprietary R&D to develop critical materials for the battery sector. The company's initial primary concentration has been on the Novonix Anode Materials business, as NVX anticipates significant growth in the need for graphite – including synthetic graphite – as battery demand continues to rise. The company has also taken recent steps to advance the Novonix Cathode Materials unit and the R&D capabilities and technical expertise of the BTS unit are instrumental in helping advance the company's strategy.

Novonix announced today that BTS has successfully completed the commissioning of its 10 tonnes per annum (TPA) cathode pilot line with the first product, a mid-nickel grade of single-crystal cathode material (NMC622), matching the performance of leading cathode materials from existing suppliers in full-cell testing. Early physical property measurements of mid-nickel cathode powders produced on the 10 tpa pilot line indicate similar, if not better, expected electrochemical performance from the scaled material, which NVX views as a critical step in enabling it to proceed with plans to scale larger test samples and begin discussions with potential partners and customers to ultimately commercialize its cathode technology.

Reflecting NVX's increased investment over the past two years in its cathode synthesis technology, the material was produced using Novonix's *all-dry, zero-waste synthesis* technology, which is patent-pending. NVX intends to use the pilot line to further demonstrate the commercial potential and competitiveness of its cathode materials and technology. This includes high-nickel and cobalt-free materials and their durability and performance in industrial format lithium-ion cells. The company expects

its technology and patent-pending process to yield significant reduction in costs and waste in the cathode manufacturing process.

Novonix Cathode Materials - critical for lithium-ion batteries

Novonix Cathode Materials is also expected to play a key role in the growing demand for batteries. NVX had launched a pilot production facility for cathode materials in a new 35,000-square-foot facility. The facility enables Novonix to demonstrate the feasibility of large-scale production, with the production target of up to 10 tonnes per annum.

Growing demand for batteries is expected to also stimulate demand for cathode, as well as anode materials. The focus of the company's cathode unit is complementary to its anode material unit, as each group focuses on enhancing battery performance and life in order to provide viable and economically produced batteries for EV and ESS manufacturers and share a common end customer base of these cell manufacturers. Early testing results show that the company's cathode technology produces comparable – or better – results than competitive technologies.

Novonix is leveraging its proprietary technology to process and develop cathode materials. Based on various projections, the global cathodes materials market is projected to reach from $70 billion to about $100 billion by 2030, up from an estimated roughly $26 billion in 2022. NVX therefore expects the cathode business to be an important contributor to its strategy to become a supplier of a full range of advanced materials and services to the battery industry and views the recent pilot test results as a critical step in plans to scale larger test samples and enter into discussions with potential partners and customers to commercialize its cathode technology.

SECURING DEMAND AHEAD OF BOOSTING PRODUCTION CAPACITY

Strategic relationships secure demand and funding; Novonix's Riverside facility key to strategy…

The company has already formed many agreements to secure demand for its anode materials, as well as to leverage strategic relationships, obtain funding and access critical inputs. Among the key such initiatives, in our view, are recent agreements with Kore Power and LG Energy Solution (LGES). We believe these affiliations are expected to produce strong demand for NVX material. LG Energy Solution, which was spun out from LG Chem, is a leading provider of battery technologies to the green automotive and mobility, IT and energy storage system (ESS) areas, among others.

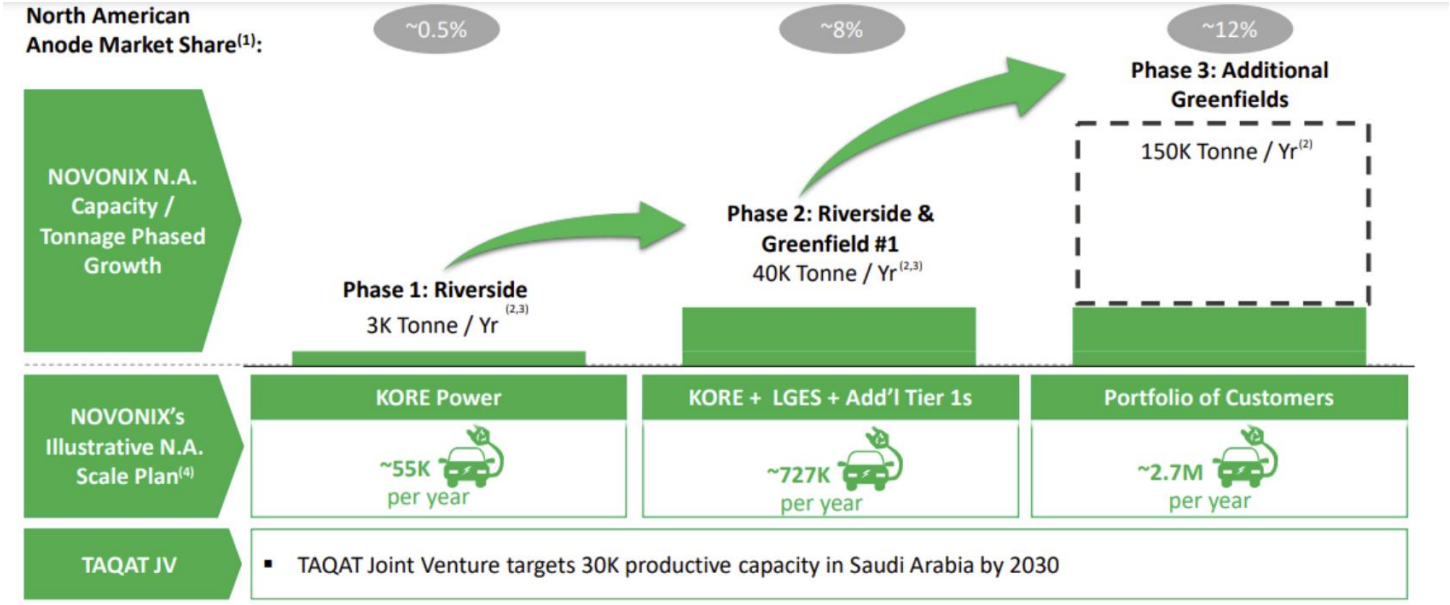
NVX's supply agreements with Kore and LGES are key components behind the company's strategy to ramp production capacity at its Riverside facility in Chattanooga, Tennessee to a targeted 10,000 tpa output at full operation. Initially, NVX will supply approximately 3,000 tpa to Kore in 2024 and ramp to approximately 12,000 tpa in 2028, to match Kore's required volume.

Novonix is pursuing a phased growth strategy designed to achieve production capacity of 150,000 metric tons of synthetic graphite per annum tpa) by 2030 from which it will fulfill its supply agreement with Kore. Novonix plans to begin supplying 3,000 tonnes per annum (tpa) of graphite anode material beginning in 2024. The supply is intended to ramp up to about 12,000 tpa in 2027, depending on customer demand. This agreement represents a milestone as Novonix's first commitment for sales of significant volumes of material. It is particularly important as Novonix moves forward with its plant expansion plan. Kore pointed to Novonix's role as "the leading U.S. domestic supply of synthetic graphite anode materials and related technology" as a key driver of the agreement.

LG Energy Solution …

Last month the company entered into an agreement with LG Energy Solution to jointly research and develop artificial graphite anode material for lithium-ion batteries. LG Energy Solution believes that it holds the largest portfolio of battery-related patents in the world, with more than 25,000 patents, according to the company. LG Energy Solution's goal is to reach carbon neutral operations by 2050.

Per the terms of the agreement with Novonix, LGES will have the option to purchase up to 50,000 tons of artificial graphite anode material over a 10-year period once mass production commences. Mass production at NVX's Riverside facility is expected to begin in 2026 with an initial 30,000 tons per annum of production capacity targeted (see below). Before that, Novonix expects to commence delivery of anode material to Kore Power beginning in 2024.



Source: Company presentation

LGES operates or is constructing two stand-alone and five joint venture plants in the U.S. and intends to expand local battery production and establish a local supply chain for battery components, including electrodes, cells, and modules, to benefit from the Inflation Reduction Act (IRA). These goals are consistent with Novonix's plans to develop a North American supply chain option for high performance artificial graphite.

The joint NVX-LGES runs through June 2025 and is expected to test material developed at NVX's Riverside facility. Depending on the outcome of testing, Novonix expects to form a purchase agreement with LG Energy Solutions giving LGES the option to purchase up to 50,000 tons of artificial graphite over a 10 year period, with potential for higher supply if there is sufficient production capacity. Any jointly developed and owned IP (intellectual property) will be cross-licensed by the two partners.

Importantly, in our view, this also furthers NVX's goal to obtain financing. The overall agreement between the two JV partners included NVX issuing US$30 million of unsecured convertible notes to LGES. Other recent NVX initiatives to secure financing include a relationship with Phillips 66, which acquired a 16% stake in Novonix, and the company has entered into "Phase 2" of the DOE Loan Programs Office process to obtain funding of the facility.

Kore Power – near-term deliveries expected…

As illustrated above, Kore Power represents a key component of NVX's Phase 1 production ramp strategy. The Novonix Riverside facility is intended to satisfy the Kore supply agreement. Novonix has reiterated that it is on track to begin delivering 3,000 tonnes per annum (tpa) of synthetic graphite to KORE in 2024, as KORE has secured financing for lithium-ion battery cell production gigafactory. Headquartered in Idaho, with offices in Europe, Canada and India, Kore is a leading U.S.-based developer of battery cell technology for the clean energy industries. Under the terms of a supply agreement (see below), Novonix will be the exclusive supplier to Kore Power's U.S. battery cell manufacturing facility. In July 2021, Kore unveiled its plans to construct KorePlex, a one million square foot manufacturing facility intended to support up to 12 gigawatt hours (GWh) of battery cell production. According to Kore, KorePlex will be one of the first U.S. battery cell gigafactories constructed independently of an automotive OEM.

Importantly, Novonix has developed an efficient, low-cost process to produce *synthetic* graphite anode material that is designed to be competitive with the current supply sourced primarily from China. Moreover, not only does the company believes the location of its plant and proximity to end markets is a competitive advantage, NVX also recently announced that in a study comparing its synthetic anode graphite material to that supplied from China, the Novonix material demonstrated a roughly 30% to 60% decrease in GWP (global warming potential) when compared to synthetic graphite produced in two key regions in China. The two regions account for a combined 79% of global production of synthetic anode material, according to the study.

In 4Q22, Novonix Anode Materials was selected to enter negotiations to receive US$150 million in grant funding from the Department of Energy (DOE) to expand its domestic synthetic graphite anode materials production. Funding is expected to facilitate expanding domestic manufacturing, as Novonix is positioning itself to be a strong beneficiary as the sector develops, offering a range of solutions for the lithium-ion space. The company also has support from Phillips 66 and LGES, as noted, which have made investments in Novonix. Phillips 66's 16% stake in Novonix is consistent with Phillips 66's commitment to pursue lower-carbon solutions, while leveraging its leadership position and expertise in the specialty coke market. Novonix management believes it represents a signal of Phillips 66's confidence in the company's opportunities and outlook.

These strategic relationships underscore the positives of Novonix's business plan and growth strategy, in our view. The Phillips 66 relationship is expected to provide Novonix access to key materials required to produce synthetic graphite. Specifically, Phillips 66 is one of the world's leading manufacturers of specialty coke, which is a critical precursor in the production of batteries and which Novonix processes to produce its high-performance anode material. Philips 66 operates facilities in the U.S. and U.K. that produce materials Philips 66 sells to manufacturers of synthetic graphite based in China and other markets. The two companies signed a technology development agreement to advance the production and commercialization of anode materials for lithium-ion batteries. They will collaborate to accelerate development of next-gen materials for the U.S. battery supply chain.

Inflation Reduction Act & other government measures…

We also believe the Inflation Reduction Act (IRA) and other measures underscore and potentially expand prospective opportunities for Novonix. The IRA includes an estimated $369 billion earmarked for investments related to climate change and securing U.S. energy security, including renewable energy technologies. The U.S. federal government has incentivized consumer purchase of EVs using tax credits since 2010. Most EVs and even hybrids have been eligible for a federal tax credit of up to $7,500, depending on the total number of EVs the OEM manufacturer has sold. (Tesla and GM cumulative EV sales to-date make their vehicles ineligible for the federal incentive program, but proposed legislative revisions might make future GM EV sales eligible). In addition to federal credits, many states also offer incentives for purchasing a new EV. For example, California has been particularly active about offering financial incentives to stimulate EV sales.

Also encouraging in terms of consumer adoption is continued improvements in EV performance and regulatory restrictions on automobile emissions. On average, the minimum performance on electric range increased to 150 kilometers (km) in 2018, from 100 km the prior year, according to McKinsey. McKinsey also notes that "governments and cities have introduced regulations and incentives to accelerate the shift to sustainable mobility. Regulators worldwide are defining more stringent emissions targets… In line with EV uptake, the buildup of charging infrastructure needs to accelerate to avoid becoming a potential bottleneck and limiting consumer-driven EV adoption."

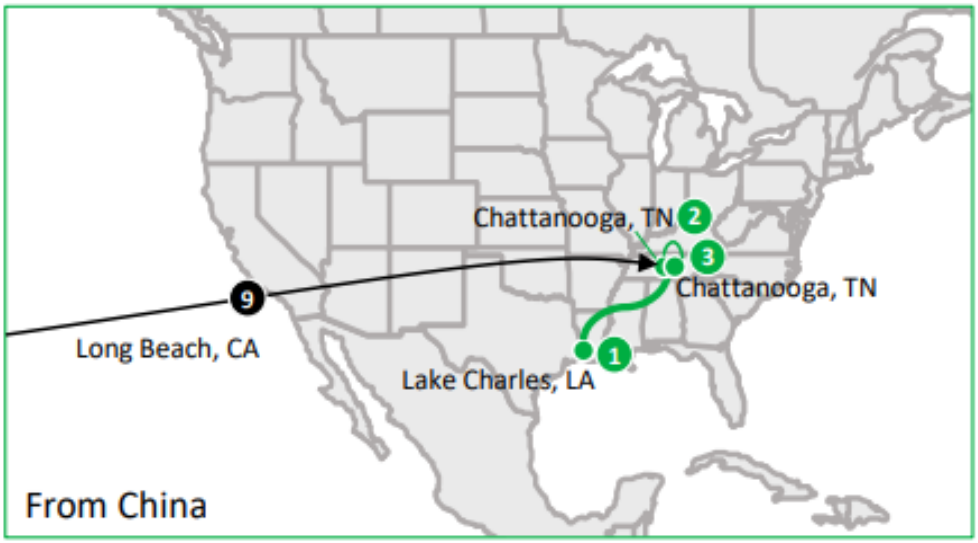
… and initiatives by many industry leaders

Focus on green automotive options and optimism about the EV space is leading to development of infrastructure to support EVs. For example, Kore Power, a leading U.S.-based developer of battery cell technology for the clean energy industries that has a partnership with Novonix, announced plans to develop what it calls the KOREPlex in Arizona. It is expected to become operational in early 2023. Automotive OEMs such as GM and Tesla, among others, have also announced planned battery initiatives in North America.

We view these initiatives as positives that underscore the potential demand for batteries and could serve as a catalyst for Novonix growth as it builds a North American ecosystem for EV batteries. Construction of charging infrastructure to support EV adoption has also been increasing. The Biden administration, U.S. Department of Transportation (DOT) and U.S. Department of Energy (DOE) recently announced their agreement to deploy about $5 billion over 5-years to support the development of a national EV charging network along what they refer to as "designated alternative fuel corridors, particularly along the interstate highway system." They refer to this as "an important step towards making electric vehicle (EV) charging accessible to all Americans."

North American manufacturer – proximity to end market expected competitive advantage

Demand for lithium-ion battery materials in North America is expected to be robust. Novonix's initial primary target niches within the battery space include the electric vehicle (EV) and ESS (energy storage systems) and other key verticals.



Source: Company presentation

The company's Tennessee production capacity is expected to facilitate its goal of becoming a leading global supplier of key battery material. Currently, manufacturers in China control a roughly 80% share of the market for synthetic graphite, according to Avicenne Energy, a consulting firm specializing in high growth technology markets. Importantly, Novonix believes it has first mover advantage as an early manufacturer of synthetic graphite in North America.

Another partnership supports developing supplies to Mena region …

Outside the North American region, the company also recently formed a JV in the Kingdom of Saudi Arabia with TAQAT Development Company, a leading Saudi Arabian energy company, to develop and produce anode materials for electric vehicle (EV) and energy storage system (ESS) batteries in the Middle East and North Africa (MENA) region, utilizing Novonix's battery technology. The project will be located in Saudi Arabia and is expected to secure access to precursor material for critical battery materials for EV and ESS applications.

TAQAT and Novonix will respectively hold 60% and 40% stakes in the JV and contribute to the operating and capital costs on a relative basis. Backed by TAQAT's anticipated financial support, the JV hopes to establish Saudi Arabia's first anode materials facility, with Novonix contributing royalty-free access to its IP in the MENA region. The JV intends to begin facility construction in 2024 following earlier engineering work and targets development of a graphite anode materials facility with capacity of 30,000 tonnes per annum (tpa).

The two JV partners expect Novonix's existing work in North America and TAQAT's relationships in the region will enable the JV to accelerate its ability to scale operations and extend its geographic reach. The formation of the JV is consistent with Saudi Arabia's Vision 2030 goals aimed at developing a more diverse and sustainable economy and with the need to support a local supply chain for the EV and ESS sectors in the region. Saudi Arabia targets that EVs will comprise 30% of all vehicles by 2030 and launched the nation's first EV brand, Ceer.

VALUATION

The shares came under pressure in 2022, which we believe primarily reflects general market volatility. Although we believe it will be transient if the company successfully executes on its strategy, we expect the general market volatility and uncertain economic outlook could weigh on the shares longer than we originally anticipated.

Our near-term valuation expectations for NVX ADRs reflects recent overall multiple compressions in appropriate benchmark sectors. Nevertheless, as Novonix moves closer to commercializing its North American materials businesses, we expect the shares to begin to reflect the value of the anode and cathode initiatives. As the company hits certain milestones, we believe it could be a catalyst for multiple expansion and share price appreciation.

The revenue arc for NVX is somewhat unclear at this stage. Nevertheless, although pricing for synthetic graphite fluctuates, depending on market conditions, it is not unreasonable to expect that the company could deliver revenue of US$3 to US$4 per ADR by 2025-27, based on expected production capacity and anticipated product demand. The company has already secured sales to Kore beginning in 2024 and interest from Samsung SDI and Sanyo, as noted, and demand is expected from additional sources. By 2025, Novonix expects to have capacity to produce 40,000 tons of material per annum (Phase 2) on its way to 150,000 tons by 2030 (Phase 3).

If NVX can reach the above noted revenue per ADR by 2025-27, as we anticipate, applying a 4.2x multiple and discounting back at 5.0% per annum implies a price per ADR of about US$14. After recent pull-backs, share price multiples in the clean tech space average about 3x and significantly higher multiples for renewable energy players, down from significantly higher levels pre-pandemic. While there are no true direct comparisons for Novonix, in our view, these sectors provide a benchmark. We believe as the company hits additional milestones, it could serve as catalysts for further share price appreciation. Moreover, we believe the MENA JV could create upside to our valuation, as the two partners advance the construction of the plant in Saudi Arabia.

We believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon. We think the current share price level does not reflect the fundamental value of the company's prospects and expect them to begin to reflect future prospects, as the company continues to advance its strategy. In success, we would anticipate multiple and share price expansion. Any delay or failure in successful execution of the strategy could cause the share price to decline and represent a potential risk to our valuation.

RISKS

We believe risks to Novonix achieving its goals, and to our valuation, include the following, among others.

- Among the biggest risks, in our view, is that the NVX anode material does not gain market share as quickly as the company expects, which leads to slower than anticipated revenue ramp. However, we believe the expected cost competitiveness of the product mitigates this risk.
- The timing of expanding production capacity at the Tennessee plant could be delayed, which would also delay sales ramp.
- The company could incur unanticipated costs associated with its growth strategy.
- The price of synthetic graphic could come under pressure if substitute materials are shown to be effective or if other producers price irrationally to protect market share.
- Additional commercial deals, such as the one with Samsung, might take longer than expected to close or might not materialize at all.
- Competition could increase.
- Technology could evolve that makes the company's advanced materials less important to the global battery sector than management currently anticipates.
- NVX might need to raise additional capital to support its strategy that could be dilutive to current shareholders.

RECENT NEWS

- Novonix announced performance results of its cathode pilot line all-dry cathode material on July 20, 2023.
- On June 6, 2023, NVX and LG Energy Solution entered into a JDA for artificial graphite anode material and a US$30 million investment agreement.
- On March 31, 2023, Novonix announced the TAQAT JV.
- The company issued its annual report on February 28, 2023.
- The company changed its FY end to December on December 20, 2022.
- On November 8, 2022, NVX launched a new pilot production facility for cathode materials.

PROJECTED FINANCIALS

Novonix Income Statement & Projections ($ Aus)

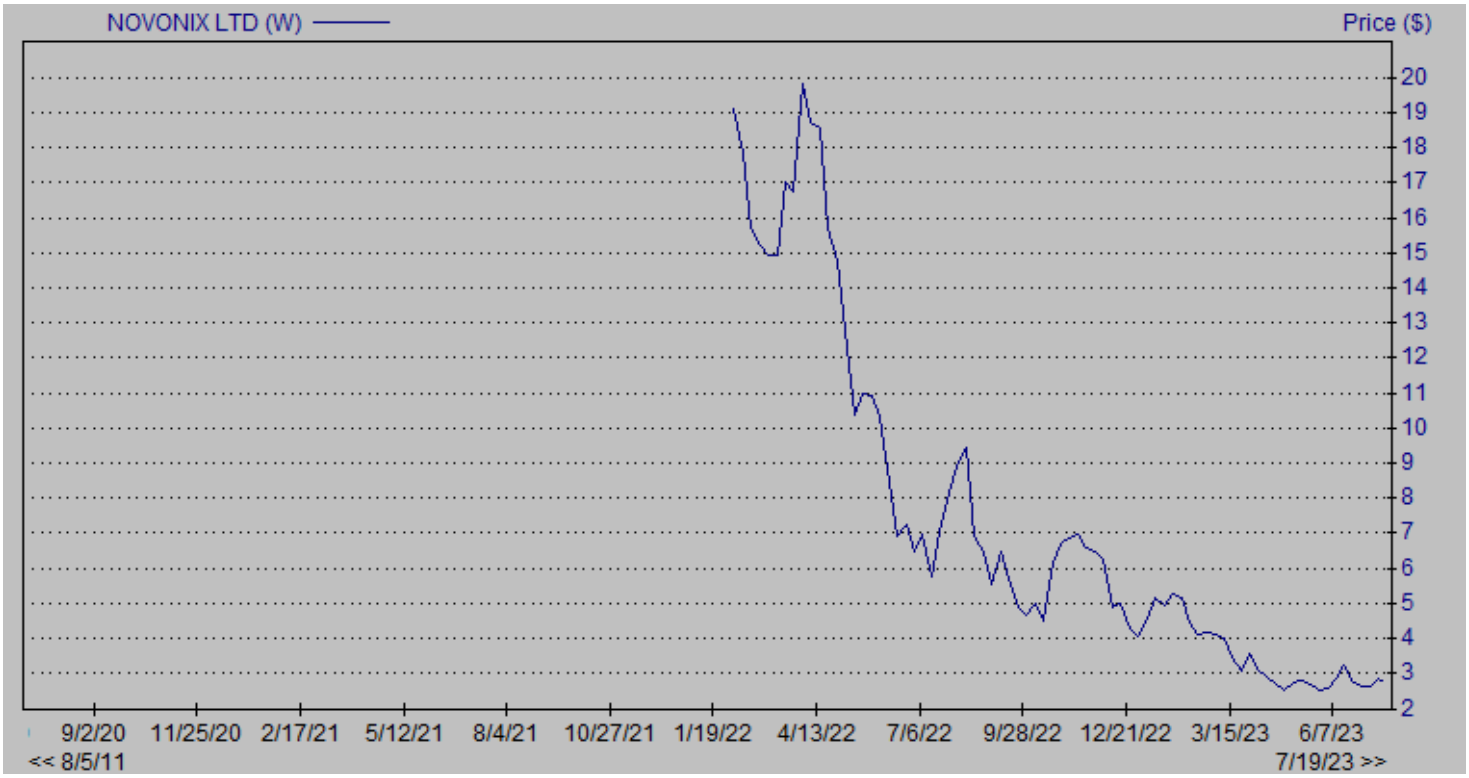
	June 2018	June 2019	June 2020	June 2021A	June 2022A	Restated June 2022A	Dec 2022A	June 2023E	Dec 2023E
Revenue from contracts with customers	2,171,895	1,817,049	4,253,435	5,227,347	8,417,763	6,101,155	2,702,276	2,729,299	8,501,941
Other income	231,522	3,024,684	844,877	-	-	-	-	-	-
Total	2,403,417	4,841,733	5,098,312	5,227,347	8,417,763	6,101,155	2,702,276	2,729,299	8,501,941
COGS	(957,832)	(741,280)	(1,245,187)	(969,774)	(3,005,977)	(1,724,625)	(1,319,682)	(1,364,649)	(4,250,970)
Gross profit / (loss)	1,445,585	4,100,453	3,853,125	4,257,573	5,411,786	4,376,530	1,382,594	1,364,649	4,250,970
Gross margin	60.1%	84.7%	75.6%	81.4%	64.3%	71.7%	51.2%	50.0%	50.0%
Administrative & other expenses	(1,169,031)	(1,565,032)	(3,115,665)	(3,945,829)	(16,736,023)	5,195,798	(11,481,647)	(11,940,913)	(17,405,464)
Borrowing costs	(662,693)	(1,536,897)	(5,330,961)	(229,394)	(2,086,863)	(12,591,709)	(943,421)	(245,289)	(542,584)
Impairments		(15,918,925)	-	(2,764,940)	-	-	-	-	-
D&A	(154,251)	(494,948)	(1,380,303)	(1,697,754)	(5,814,905)	(4,214,617)	(2,572,019)	(2,623,459)	(5,931,203)
Marketing & project dev costs, R&D	(354,312)	(1,560,551)	(2,423,546)	(2,809,984)	(7,040,367)	(5,102,824)	(2,020,656)	(2,061,069)	(7,181,174)
Share based compensation	(6,315,899)	(6,673,510)	(7,558,953)	(5,948,532)	(20,190,538)	(14,530,749)	(5,354,429)	(5,461,518)	(20,594,349)
Employee benefits expense	(1,656,613)	(2,104,176)	(4,072,223)	(5,837,926)	(17,572,673)	(12,736,589)	(8,549,850)	(8,720,847)	(17,924,126)
Other	(1,442,770)	(751,981)	-	900,709	(7,411,441)	(12,256,147)	1,675,414	1,256,561	(5,558,581)
Total expense	(11,755,569)	(30,606,020)	(23,881,651)	(22,333,650)	(76,852,810)	(56,236,837)	(29,246,608)	(29,796,535)	(75,137,482)
Pretax income / (loss)	(10,309,984)	(26,505,567)	(20,028,526)	(18,076,077)	(71,441,024)	(51,860,307)	(27,864,014)	(28,431,886)	(70,886,511)
Taxes	(13,398)	383,655	-		-	-	-	-	-
Net income	(10,323,382)	(26,121,912)	(20,028,526)	(18,076,077)	(71,441,024)	(51,860,307)	(27,864,014)	(28,431,886)	(70,886,511)
FX	140,644	809,396	550,243	(2,101,097)	9,167,212	(17,751,688)	(2,445,538)	(1,467,323)	(1,467,323)
Net loss	(10,182,738)	(25,312,516)	(19,478,283)	(20,177,174)	(62,273,812)	(69,611,995)	(30,309,552)	(29,899,208)	(72,353,834)
LPS	($0.09)	($0.21)	($0.15)	($0.05)	($0.15)	($0.11)	($0.06)	($0.06)	($0.14)
Average shares out	114,412,787	120,535,790	129,855,220	366,289,024	464,437,628	464,437,628	486,616,365	500,616,365	511,616,365

Source: Company reports, Zacks estimates

FY changed to Dec 31 One Novonix ADR represents four ordinary NVX shares on the Australian Securities Exchange

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HISTORICAL STOCK PRICE



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