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Novonix Ltd (NVX-NASDAQ)

Advancing NVX Cathode Materials Unit;
CFO Transition Expected to be Smooth

Research Note

Novonix Cathode Materials - critical for lithium-ion batteries

Novonix (NVX-NASDAQ) is **advancing both its Cathode and Anode materials units** as it continues its strategy to develop a north American supply chain to support the battery industry. With Novonix Cathode Materials expected to play a key role as demand for batteries grows, NVX had launched a pilot production facility for cathode materials. 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. NVX announced that it recently was granted a patent for its all-dry, zero-waste cathode synthesis technology in Japan, which is a key market for the production and use of CAM.

NVX intends to use the pilot line to demonstrate the commercial potential and competitiveness of its cathode materials and technology, including high-nickel and cobalt-free materials and their performance and durability in industrial lithium-ion cells. Early physical property measurements of mid-nickel cathode powders produced on the pilot line indicate similar, if not better, expected electrochemical performance from the scaled Novonix material.

Moreover, the company expects its technology to produce important reductions in both costs and waste in the cathode manufacturing process. NVX had commissioned Hatch Ltd. to conduct a commercial-scale capital and operating cost comparison study and an evaluation of plant emissions and impacts to natural resources. Hatch's evaluation found the NVX process potentially reduces power consumption significantly compared to the conventional process. Moreover, the NVX process is estimated to consume fewer natural resources and generate fewer waste streams. Thus, the company views it as a greener production process.

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. The company has indicated that several potential customers and partners have already shown interest in the cathode materials and earlier this week announced that it has signed a joint development agreement with CBMM. CBMM is a 60-year old Brazilian company that is a world leader in the supply of niobium products and technology. NVX expects it can leverage CBMM's experience with niobium products to potentially improve the stability and durability of its materials.

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NVX will use its patented all-dry, zero-waste synthesis process to test and analyze cathode active materials (CAM) incorporating CBMM's niobium products. The two companies aim to develop a lower cost CAM with improved performance. If certain milestones are met during the project, NVX and CBMM potentially might form an agreement for CBMM products to be integrated into NVX's production processes.

Multiple agreements in place, with plans to continue to secure new customers

Novonix has formed several important affiliation agreements for the Novonix Anode unit and one of the company's near-term key goals is to secure additional customers and lock in demand for its products. Key relationships have secured advance demand, access to critical material and, in some cases, financing, underscoring the positives of Novonix's business plan and growth strategy, in our view. For example, a recent agreement with PowerCo SE, which is part of the Volkswagen Group, is for a non-exclusive Testing and Development Agreement (TDA) to develop, test and analyze synthetic graphite anode materials customized to meet PowerCo's requirements. If the results are successful, the two might then enter into a supply agreement for developed products.

LG Energy Solution…

Another agreement with LG Energy Solution is 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. The joint NVX-LGES agreement is expected to test material developed at NVX's Riverside facility.

Panasonic…Kore

In 1Q24, NVX announced that it has signed a binding off-take agreement to supply high-performance synthetic graphite anode material to Panasonic Energy's North American operations. The materials will come from Novonix's Riverside facility, subject to Novonix achieving certain milestones regarding final mass production qualification timelines. Another agreement NVX has formed is with Kore Power.

New CFO - transition expected to be smooth…

Separately, in recent weeks, the company has appointed a new Chief Financial Officer (CFO), Robert Long, who will become CFO effective September 1, 2024. He has more than 25 years of experience in finance and executive leadership with both public and private companies. His prior CFO positions include with Chattem/Sanofi from 2008 until 2010, where he was also or Chief Accounting Officer from 2006 through 2007, and Charleston Hosiery from 2005 through 2006.

As the company had announced previously, the current CFO, Nick Liveris, announced his intention to retire from his executive role and transition to a non-executive role on NVX's board in order to work full time with the Liveris Family Office. Mr. Liveris will transition to the Novonix board on September 1, 2024 when Mr. Long assumes the CFO role. Moreover, to effect a smooth CFO transition, another board member who has extensive finance experience including as Chief Accounting Officer at Dow Chemical, Ron Edmonds, has assumed the position of Executive Officer – Finance as an interim move as of August 1, 2024.

Recent funding from government and corporate sources...

Moreover, Mr. Long assumes the CFO role at a time when the company has already secured substantial funding. The company is leveraging partner financing, government grants and incentives and other funding sources. NVX has been awarded multiple funding sources from various government entities. For example, the U.S. DOE (Department of Energy) recommended NVX to receive a US$103 million 48C tax credit under the Qualifying Advanced Energy Project Allocation program earmarked to support production of critical battery materials from its Riverside facility. The 48C program incentivizes clean energy property manufacturing and recycling and aims to enhance U.S. domestic production of vital clean-energy products and critical materials. The company can choose to use the tax credit in the future to offset income tax liability or sell it in order to monetize its value.

NVX also obtained financing from the DOE office of Manufacturing and Energy Supply Chains, with the award of a US$100 million grant in 4Q23. We believe the expected increased need in North America for materials to support sustainable energy sources, combined with NVX's strategy to develop a local supply chain, are key factors behind these fundings. NVX also received funding from Canada's NRC IRAP (National Research Council of Canada Industrial Research Assistance Program).

Separately, Novonix has also completed the due diligence for a proposed transaction to combine its natural graphite interests with those of Lithium Energy Limited (LEL). The two intend to contribute their respective natural graphite exploration interests into a new company, Axon Graphite Limited, which will subsequently be listed on the Australian Securities Exchange, subject to the necessary approvals. The proposed transaction is a way for NVX to monetize the land assets of its legacy Mount Dromedary unit in Queensland, Australia on which a graphite mine is situated, although it does not actively engage in the mining business. Through this proposed transaction, NVX will divest its Mount Dromedary natural graphite exploration interests and in exchange, NVX will receive Axon shares. Axon expects to complete an IPO to raise from $15 million to $25 million at an issue price of $0.20 per share. NVX will retain an up to 28.57% stake in Axon following the planned IPO, giving it exposure to Axon's potential upside. Given the company's access to partner, government and other funding sources, NVX had a cash balance of US$47.1 million at June 30, 2024.

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