

PALOS

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Weekly Commentary

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NanoXplore Releases Q1/2023 Results and Unveils its Strategic 5-Year Plan

After the market close on November 14, **NanoXplore (TSX: GRA)** unveiled its much anticipated 5-Year strategic plan along with Q1/2023 results. Revenues increased from \$17.8 million in Q1/2022 to \$27.1 million in Q1/2023, a 52% increase. Supply chain challenges reduced total expected Q1 revenue and wage increases lowered margins. Despite a tough macro environment, President and CEO Soroush Nazarpour stated “we are satisfied with the performance of our business. Revenues from customers grew 52% and our gross margin continues to expand” year-over-year. The company has “significantly improved gross margins” based on “better graphene-enhanced products”.

Details of Nano’s 5-year Strategic Plan were unveiled. To accelerate growth the strategy will focus on “narrowing the funnel” by placing greater focus on higher volume graphene powder applications. This will “reduce sales cycle times and increase return on investment”. Ultimately, the goal is to participate in the “energy transition and sustainability trends” that are expected to accelerate. Accordingly, Nano intends to increase production capacity from 4,000 tpa (tons per annum) currently to 20,000 tpa by 2027. Growth will center on three key markets: **Battery Materials, Light Weighting Composites and Specialty Compounds**.

An investment of \$100 million will increase graphene and battery materials capacity to 16,000 tpa. This will include a new 200,000 square foot facility in Montreal which will be leased in 2023. Another \$50 million will be invested in the company’s Sheet Molding Compound (SMC) facility in Newton, NC. This will increase press capacity in light weighting from 2.3 million tpa to 12 million tpa by 2025. SMC includes external parts and battery enclosures that are lighter and stronger. Light weighting is important for manufacturers given the necessity to minimize the weight of EV vehicles which are weighed down by heavy battery packs. Finally, \$20 million will be invested in the specialty compounds business which targets manufacturers of concrete, polyurethane (PU) foam, drilling fluids and plastic compounds. The expansion will add 4,000 tpa using available space at the existing plant.

Most of the \$170 million will be allocated over the next 2 to 3 years and will be financed through a combination of cash on hand (currently \$42 million), expected government grants (anticipated “\$50 to \$60

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million”), a debt issuance and if necessary, equity. Management expects the plan to generate over \$100 million in annual battery material sales, \$80 million in SMC parts sales and another \$40 million in graphene sales. Successful execution of the plan will also help with the adoption of graphene across a wide range of industries and applications. For the battery segment alone, demand for graphene is expected to grow exponentially as EV adoption increases.

On Tuesday we listened in on the earnings call. We were somewhat perplexed that no mention was made of the **VoltaXplore** joint venture with Martinrea International. VoltaXplore is an aspiring manufacturer of graphene enhanced lithium-ion (Li-ion) batteries using proven proprietary technology that can manufacture batteries with superior properties including enhanced capacity, reduced charging times and improved safety over existing technologies. The fact that an update on VoltaXplore was not offered left many investors (including us) wondering if there were issues moving forward on batteries. In a subsequent call, we learned that there were no apparent issues impacting VoltaXplore.

Market reaction in response to the earnings call was muted during Wednesday’s session with GRA shares trading in a narrow range and closing slightly lower for the day. However, GRA shares fell 19% over the remainder of the week, a clear signal that some investors were disappointed. In our view, the results were within expectations and the selling pressure was likely due to behavior that’s typical of the “retail crowd” who tend to be impatient investors who favour “quick money”. For patient “long-term” investors (like us) our conversation with management reaffirmed our view that the growth potential for NanoXplore remains significant and that the 5-Year plan is sound. In fact, we used the opportunity to add to our positions in three of our Palos funds.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.63	-5.92%
Palos Equity Income Fund - RRSP	PAL101	\$6.67	-6.89%
Palos WP Growth Fund - RRSP	PAL213	\$12.48	-33.80%
Palos-Mitchell Alpha Fund ³	PAL300	\$9.10	-11.39%
S&P TSX Composite (Total Return with dividends reinvested)			-3.30%
S&P 500 (Total Return with dividends reinvested)			-15.61%
S&P TSX Venture (Total Return with dividends reinvested)			-38.63%
Chart 2: Market Data ¹			Value
US Government 10-Year			3.83%
Canadian Government 10-Year			3.12%
Crude Oil Spot			US \$80.08
Gold Spot			US \$1,754.40
US Gov't10-Year/Moody BAA Corp. Spread			218 bps
USD/CAD Exchange Rate Spot			US \$0.7477

¹ Period ending November 18th, 2022. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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