



NEWS

Neo Performance Materials Reports Strong First Quarter 2018 Results

Q1 2018 Highlights

(unless other noted, all financial amounts in this news release are expressed in U.S. dollars)

- \$120.2 million in revenue
- Net income of \$8.9 million, or \$0.22 per share
- Adjusted Net Income⁽¹⁾ of \$10.3 million, or \$0.25 per share
- Adjusted EBITDA⁽¹⁾ of \$19.3 million
- Quarter-end closes with \$94.5 million cash on hand after paying a \$3.0 million dividend
- A quarterly dividend of Cdn\$0.095 per common share was declared on May 9, 2018 for shareholders of record at June 22, 2018.

TORONTO, Canada, May 14, 2018 – Neo Performance Materials Inc. (“Neo”, the “Company”) (TSX:NEO), a global leader in the innovation and manufacturing of rare earth and rare metal-based functional materials, today released first quarter 2018 financial results. The financial statements and the management’s discussion and analysis (“MD&A”) of these results can be viewed on the Company’s web site at www.neomaterials.com and on SEDAR at www.sedar.com.

HIGHLIGHTS OF Q1 2018 CONSOLIDATED PERFORMANCE

In the first quarter of 2018, Neo generated \$120.2 million in revenue, a 12.7% increase over Q1 2017. Net income totaled \$8.9 million, or \$0.22 per share. Adjusted Net Income⁽¹⁾ totaled \$10.3 million, or \$0.25 per share. Adjusted EBITDA⁽¹⁾ decreased 6.6% to \$19.3 million, from \$20.6 million in Q1 2017. Revenues and Adjusted EBITDA were \$434.2 million and \$67.9 million, respectively for the full year ended December 31, 2017.

As of March 31, 2018, the Company reported cash and cash equivalents of \$94.5 million, compared to \$96.8 million as at December 31, 2017. Neo has approximately \$29.3 million available under its credit facilities with nominal amounts drawn. In addition, paid a \$3.0 million dividend to its shareholders on March 29, 2018.

“We had a very good first quarter of 2018, supported by many of the global macro growth trends such as electrification of vehicles and more stringent air emission standards that we expect will continue to drive demand for our products,” said Geoff Bedford, Neo’s President and CEO. “As we look ahead, our company is well positioned in the markets we serve with a strong balance sheet and robust free cash flow.”

⁽¹⁾Neo reports non-IFRS measures such as “Adjusted Net Income”, “Adjusted Earnings per Share”, “Adjusted EBITDA”, “Adjusted EBITDA Margin” and “EBITDA”. Please see information on this and other non-IFRS measures in the “Non-IFRS Measures” section of this news release and in the MD&A, available on the Company’s website www.neomaterials.com and on SEDAR at www.sedar.com.

SELECTED FINANCIAL RESULTS

TABLE 1: Selected Consolidated Results		
	Q-over-Q Comparison	
	Q1 2018	Q1 2017
Volume (tonnes)	3,599	3,982
(\$000s)		
Revenue	\$120,185	\$106,662
Operating income ⁽¹⁾	\$13,505	\$10,880
EBITDA ⁽²⁾	\$17,897	\$14,347
Adjusted EBITDA ⁽²⁾	\$19,288	\$20,640
Adjusted EBITDA % ⁽²⁾	16.0%	19.4%

⁽¹⁾In accordance with IFRS 3 - Business Combinations and on completion of the reorganization in September 2016, Neo recorded the acquisition of its inventory at fair value. See details in Acquisition of Inventory at Fair Value section of this news release and in the MD&A.

⁽²⁾Neo reports non-IFRS measures such as "Adjusted Net Income", "Adjusted Earnings per Share", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "EBITDA". Please see information on this and other non-IFRS measures in the "Non-IFRS Measures" section of this news release and in the MD&A.

MAGNEQUENCH SEGMENT RESULTS

Magnequench continued to see growth in many of its end market applications, including micro-motors for vehicles and traction motors, and revenues were up by 17% in the quarter from the prior year largely due to the increased selling prices from higher rare earth input costs, which are subject to pass-through mechanics. Volume declined 8% compared to the prior year period, largely driven by customers making adjustments to their quarterly purchasing patterns and inventory levels, which positively impacted the first quarter of 2017. Sales into the automotive sector continued to be strong, driven by the increased use by manufacturers of permanent magnet motors across most vehicle lines to reduce vehicle weight and, increase fuel economy. In particular, sales of Magnequench's zero-heavy-rare-earth MQU magnetic powders for use in vehicle drive train motors is expected to see robust growth. Adjusted EBITDA of \$15.5 million, a 15% improvement from the prior year, was driven by continued strong operating performance, strategic purchases of other non-rare earth raw materials, and the impact of selling prices being adjusted on a lagged basis.

TABLE 2: Selected Magnequench Results		
	Q-over-Q Comparison	
	Q1 2018	Q1 2017
Volume (tonnes)	1,527	1,659
(\$000s)		
Revenue	\$55,734	\$47,444
Operating income ⁽¹⁾	\$13,341	\$11,272
EBITDA ⁽²⁾	\$15,328	\$12,402
Adjusted EBITDA ⁽²⁾	\$15,475	\$13,445

⁽¹⁾In accordance with IFRS 3 - Business Combinations and on completion of the reorganization in September 2016, Neo recorded the acquisition of its inventory at fair value. See details in Acquisition of Inventory at Fair Value section of this news release and in the MD&A.

⁽²⁾Neo reports non-IFRS measures such as "Adjusted Net Income", "Adjusted Earnings per Share", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "EBITDA". Please see information on this and other non-IFRS measures in the "Non-IFRS Measures" section of this news release and in the MD&A.

CHEMICALS AND OXIDES ("C&O") SEGMENT RESULTS

Neo's C&O segment reported a 5% increase in revenue in the quarter over the prior year, primarily driven by higher rare earth pricing. Volume declined 12%, primarily attributable to quarterly variations in customer purchasing patterns and adjustment to inventory levels. Neo continues to incur additional premium freight costs in the first quarter of 2018 as the supply chain continues to be refilled following the implementation of the new wastewater treatment system at the Company's Zibo, China facility. These premium freight costs are expected to continue, at a steadily reducing rate, into the second quarter of 2018. The impact of the additional premium freight costs plus potentially lost sales is estimated to be between \$3 million to \$4 million in the three month period ended March 31, 2018. Strong demand continues to be seen for Neo's more highly engineered rare earth-based products, such as automotive emissions control catalyst materials.

TABLE 3: Selected C&O Results

	<i>Q-over-Q Comparison</i>	
	Q1 2018	Q1 2017
Volume (tonnes)	2,007	2,290
(\$000s)		
Revenue	\$45,156	\$43,066
Operating income ⁽¹⁾	\$2,117	\$4,660
EBITDA ⁽²⁾	\$3,277	\$5,694
Adjusted EBITDA ⁽²⁾	\$3,520	\$8,266

⁽¹⁾In accordance with IFRS 3 - Business Combinations and on completion of the reorganization in September 2016, Neo recorded the acquisition of its inventory at fair value. See details in Acquisition of Inventory at Fair Value section of this news release and in the MD&A.

⁽²⁾Neo reports non-IFRS measures such as "Adjusted Net Income", "Adjusted Earnings per Share", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "EBITDA". Please see information on this and other non-IFRS measures in the "Non-IFRS Measures" section of this news release and in the MD&A.

RARE METALS SEGMENT RESULTS

The Rare Metals segment booked a strong quarter versus the prior year, with volume expanding 45%, revenue higher by 24%, operating income up 106%, and EBITDA and Adjusted EBITDA higher by 51% and 45% respectively. Stronger results were largely driven by continued improvements realized at the Silmet facility, with increased volumes, higher flow-through margins, continued focus on higher margin programs and continued operational improvements. The division's gallium trichloride business also saw sales sharply higher in the quarter as a key customer recovered from a 2017 fire.

TABLE 4: Selected Rare Metals Results

	<i>Q-over-Q Comparison</i>	
	Q1 2018	Q1 2017
Volume (tonnes)	135	93
(\$000s)		
Revenue	\$22,771	\$18,421
Operating income ⁽¹⁾	\$2,479	\$1,203
EBITDA ⁽²⁾	\$3,709	\$2,450
Adjusted EBITDA ⁽²⁾	\$3,796	\$2,621

⁽¹⁾In accordance with IFRS 3 - Business Combinations and on completion of the reorganization in September 2016, Neo recorded the acquisition of its inventory at fair value. See details in Acquisition of Inventory at Fair Value section of this news release and in the MD&A.

⁽²⁾Neo reports non-IFRS measures such as "Adjusted Net Income", "Adjusted Earnings per Share", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "EBITDA". Please see information on this and other non-IFRS measures in the "Non-IFRS Measures" section of this news release and in the MD&A.

CONFERENCE CALL ON MONDAY, MAY 14, 2018 AT 10 AM EASTERN

Management will host a teleconference call on Monday, May 14, 2018 at 10:00 a.m. (Eastern Time) to discuss the first quarter 2018 results. Interested parties may access the teleconference by calling (647) 427-7450 (local) or (888) 231-8191 (toll free long distance) or by visiting <https://www.newswire.ca/webcasts>. A recording of the teleconference may be accessed by calling (416) 849-0833 (local) or (855) 859-2056 (toll free long distance), and entering pass code 7687658# until June 11, 2018 or by visiting <https://www.newswire.ca/webcasts>.

NON-IFRS MEASURES

This news release refers to certain non-IFRS financial measures such as "Operating Income", "Adjusted Net Income", "EBITDA", "Adjusted EBITDA", and "Adjusted EBITDA Margin". These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS financial measures by providing further understanding of Neo's results of operations from management's perspective. Neo's definitions of non-IFRS measures used in this news release may not be the same as the definitions for such measures used by other companies in their reporting. Non-IFRS measures have limitations as analytical tools and should not be considered in isolation nor as a substitute for analysis of Neo's financial information reported under IFRS. Neo uses non-IFRS financial measures to provide investors with supplemental measures of its base-line operating performance and to eliminate items that have less bearing on operating performance or operating conditions and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Neo believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. Neo's management also uses non-IFRS financial measures in order to facilitate operating performance comparisons from period to period. For the operating segments, Neo also uses "OIBDA" and "Adjusted OIBDA", which reconciles to operating income. Neo uses OIBDA and EBITDA interchangeably as the use of adjustments in each measure provides the same calculated outcome of operating performance. For definitions of how Neo defines such financial measures, please see the "Non-IFRS Financial Measures" section of Neo's management's discussion and analysis filing for the quarter ended on March 31, 2018, available on the Company's web site at www.neomaterials.com and on SEDAR at www.sedar.com.

ACQUISITION OF INVENTORY AT FAIR VALUE

In accordance with IFRS 3 - Business Combinations, and on completion of the Reorganization, the Company recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the three months ended March 31, 2017 and had \$2,935 impact on operating on costs of sales. The \$2,935 mark-up (consisting of Magnequench \$836, C&O \$2,158 and Rare Metals \$(59)) has not been added back to operating income in the calculation of operating income. There is no impact to operating income in 2018. For a full description, please refer to Neo's MD&A for the quarter ended March 31, 2018, available on the Company's website www.neomaterials.com and on SEDAR at www.sedar.com.

TABLE 5: CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$000s)	March 31, 2018	December 31, 2017
ASSETS		
Current		
Cash and cash equivalents	\$ 94,544	\$ 96,805
Restricted cash.....	1,507	1,529
Accounts receivable	49,681	46,766
Inventories	111,164	104,534
Income taxes receivable	844	661
Other current assets	21,392	13,955
Total current assets	279,132	264,250
Property, plant and equipment	88,165	88,392
Intangible assets	73,134	72,769
Goodwill.....	103,551	101,893
Investments.....	7,613	8,633
Deferred tax assets.....	1,173	1,406
Other non-current assets	730	1,150
Total non-current assets	274,366	274,243
Total assets	\$ 553,498	\$ 538,493
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt.....	\$ 546	\$ 181
Accounts payable and other accrued charges	76,034	73,177
Income taxes payable	6,204	6,319
Other current liabilities.....	—	1,777
Total current liabilities	82,784	81,454
Employee benefits	2,308	2,437
Derivative liability.....	10,186	9,842
Provisions	4,665	4,665
Deferred tax liabilities	21,290	20,206
Other non-current liabilities	689	642
Total non-current liabilities	39,138	37,792
Total liabilities	121,922	119,246
Non-controlling interest.....	6,027	5,831
Equity attributable to equity holders of Neo Performance Materials Inc.	425,549	413,416
Total equity	431,576	419,247
Total liabilities and equity	\$ 553,498	\$ 538,493

See accompanying notes to this table in Neo's Interim Condensed Consolidated Financial Statements for the Three Months Ended March 31, 2018, available on the Company's website at www.neomaterials.com and on SEDAR at www.sedar.com.

TABLE 6: CONDENSED CONSOLIDATED RESULTS OF OPERATIONS*Comparison of the three month period ended March 31, 2018 to the three month period ended March 31, 2017*

(\$000s)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenue	\$ 120,185	\$ 106,662
Costs of sales		
Costs excluding depreciation and amortization	83,686	74,756
Depreciation and amortization.....	2,510	1,782
Gross profit	<u>33,989</u>	<u>30,124</u>
Expenses		
Selling, general and administrative.....	13,146	10,889
Stock-based compensation	1,090	3,358
Depreciation and amortization.....	1,882	1,685
Research and development	4,366	3,312
	<u>20,484</u>	<u>19,244</u>
Operating income	13,505	10,880
Other (expense) income.....	(34)	1,773
Finance costs, net.....	(237)	(65)
Foreign exchange (loss) gain	(171)	14
Income from operations before income taxes and equity income (loss) of associates	<u>13,063</u>	<u>12,602</u>
Income tax expense	(3,191)	(4,707)
Income from operations before equity income (loss) of associates	<u>9,872</u>	<u>7,895</u>
Equity (loss) income of associates (net of income tax)	(1,020)	330
Net income	<u>\$ 8,852</u>	<u>\$ 8,225</u>
Attributable to:		
Equity holders of Neo Performance Materials Inc.	\$ 8,667	\$ 8,178
Non-controlling interest.....	185	47
	<u>\$ 8,852</u>	<u>\$ 8,225</u>
Earnings per share attributable to equity holders of Neo Performance Materials Inc.:		
Basic	\$ 0.22	\$ 0.21
Diluted.....	\$ 0.21	\$ 0.20

See Management's Discussion and Analysis for the Three Months Ended March 31, 2018, available on the Company's website at www.neomaterials.com and on SEDAR at www.sedar.com.

TABLE 7: RECONCILIATION OF NET INCOME TO EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

(\$000s)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net income	\$ 8,852	\$ 8,225
Add back:		
Finance costs, net.....	237	65
Income tax expense	3,191	4,707
Depreciation and amortization included in Costs of Sales	2,510	1,782
Depreciation and amortization.....	1,882	1,685
EBITDA	16,672	16,464
Adjustments to EBITDA:		
Equity loss (income) in associates	1,020	(330)
Other expense (income) ⁽¹⁾	34	(1,773)
Foreign exchange loss (gain) ⁽²⁾	171	(14)
Stock and value-based compensation expense ⁽³⁾	1,391	3,358
Acquired inventory fair value release ⁽⁴⁾	—	2,935
Adjusted EBITDA	\$ 19,288	\$ 20,640
<i>Adjusted EBITDA Margins</i>	<i>16.0%</i>	<i>19.4%</i>
Less:		
Capital expenditures	2,305	1,364
Free Cash Flow	16,983	19,276
<i>Free Cash Flow Conversion</i> ⁽⁵⁾	<i>88.0%</i>	<i>93.4%</i>

Notes:

- (1) Represents other income (expenses) resulting from non-operational related activities. Other income in 2017 primarily relating to costs and insurance recoveries as a result of the fire at the Silmet facility. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents unrealized and realized foreign exchange losses/(gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (3) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the reorganization (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report) and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value based compensation expense of \$301 and \$nil are included in selling, general, and administration expenses for the three month periods ended March 31, 2018 and March 31, 2017, respectively. Neo has removed both the stock and value based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.
- (4) In accordance with IFRS 3 Business Combinations and on completion of the reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the three month period ended March 31, 2017 and had a \$2,935 impact on net income. Neo has removed this from net income to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (5) Calculated as Free Cash Flow divided by Adjusted EBITDA.

TABLE 8: RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME

(\$000s)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net income	\$ 8,852	\$ 8,225
Adjustments to net income:		
Foreign exchange loss (gain) ⁽¹⁾	171	(14)
Stock and value-based compensation expense ⁽²⁾	1,391	—
Acquired inventory fair value release ⁽³⁾	—	2,935
Tax impact of the above items.....	(146)	24
Adjusted net income	\$ 10,268	\$ 11,170
Attributable to:		
Equity holders of Neo Performance Materials Inc.....	10,083	11,123
Non-controlling interest.....	185	47
Weighted average number of common shares outstanding:		
Basic.....	39,920,140	39,664,526
Diluted.....	40,402,139	39,997,259
Adjusted earnings per share⁽⁴⁾ attributable to equity shareholders of Neo Performance Materials Inc.:		
Basic.....	0.25	0.28
Diluted.....	0.25	0.28

Notes:

- (1) Represents unrealized and realized foreign exchange losses/(gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the reorganization (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report) and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value based compensation expense of \$301 and \$nil are included in selling, general, and administration expenses for the three month periods ended March 31, 2018 and March 31, 2017, respectively. Neo has removed both the stock and value based compensation expense from net income to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.
- (3) In accordance with IFRS 3 Business Combinations and on completion of the reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the three month period ended March 31, 2017 and had a \$2,935 impact on net income. Neo has removed this from net income to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (4) Neo reports non-IFRS measures such as "Adjusted Net Income", "Adjusted Earnings per Share", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "EBITDA". Please see information on this and other non-IFRS measures in the "Non-IFRS Measures" section of this new release and in the MD&A, available on the Company's website www.neomaterials.com and on SEDAR at www.sedar.com.

Notice of Shareholder Meeting

The Company will hold its Annual General Meeting of Shareholders on Monday, June 25, 2018 at 4:00 pm (Toronto time) at The Gallery, TMX Broadcast Centre, The Exchange Tower, 130 King Street West, Toronto, Ontario.

About Neo Performance Materials

Neo Performance Materials is a global leader in the innovation and manufacturing of rare earth and rare metal-based functional materials, which are essential inputs to high technology, high growth, future-facing industries. The business of the Company is organized along three segments: Magnequench, Chemicals & Oxides and Rare Metals. The Company is headquartered in Toronto, Ontario, Canada; with corporate offices in Greenwood Village, Colorado, US; and Beijing, China. The Company operates globally with sales and production across 10 countries, being Japan, China, Thailand, Estonia, Singapore, Germany, United Kingdom, Canada, United States, and South Korea. For more information, please visit www.neomaterials.com.

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Cautionary Statements Regarding Forward Looking Statements

This news release contains “forward-looking information” within the meaning of applicable securities laws in Canada. Forward-looking information may relate to future events or future performance of the Company. All statements in this release, other than statements of historical facts, with respect to the Company's objectives and goals, as well as statements with respect to its beliefs, plans, objectives, expectations, anticipations, estimates, and intentions, are forward-looking information. Specific forward-looking statements in this discussion include, but are not limited to: expectations regarding certain of the Company's future results and information, including, among other things, revenue, expenses, sales growth, capital expenditures, and operations; statements with respect to expected use of cash balances; continuation of prudent management of working capital; source of funds for ongoing business requirements and capital investments; expectations regarding sufficiency of the allowance for uncollectible accounts and inventory provisions; analysis regarding sensitivity of the business to changes in exchange rates; impact of recently adopted accounting pronouncements; risk factors relating to intellectual property protection and intellectual property litigation; and, expectations concerning any remediation efforts to the Company's design of its internal controls over financial reporting and disclosure controls and procedures. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes the expectations reflected in such forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this discussion and analysis should not be unduly relied upon. For more information on the Company, investors should review the Company's continuous disclosure filings that are available under the Company's profile at www.sedar.com.