



# PUGLISI & CO.

INSTITUTIONAL RESEARCH

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## Small-Cap Tear Sheet

### Flexible Solutions International

#### FSI

##### Key Points

- 1) FSI is currently negotiating with 20 countries around the world for potential Water\$avr contracts ranging from \$1mm to \$15mm per year. According to management, the estimated overall market for chemical evaporation reduction products is roughly \$3 billion in the US and \$7 - \$10 billion globally.
- 2) FSI has a 15-year patent for the Water\$avr product and very little competition in the market. Management expects gross margins in the 50%+ range.
- 3) Countries with arid climates and high evaporation rates lose 7 - 10% of their public water supply per year. Water\$avr reduces the amount of evaporation by 20 -40%, and it's much cheaper to use this product than to repurchase valuable water.
- 4) Water\$avr has been recently approved by the FDA, the NSF and the UNEP.

##### Business Summary

Flexible Solutions International (FSI) develops, manufactures and markets specialty chemicals that slow down the evaporation of water. The company's primary products include Heat\$avr and Water\$avr.

FSI's primary product, Heat\$avr, is marketed for use in swimming pools and spas (both commercial and residential) where it slows the evaporation of water. Heat\$avr allows the water to retain a higher temperature for a longer period of time and thereby reduces the energy costs associated with maintaining the desired temperature of the water. Currently, this product represents substantially all of the company's sales.

FSI's newest product, Water\$avr, which also slows down water loss due to evaporation, is being marketed for water conservation in reservoirs, irrigation canals, and various aquaculture. The company is in the process of negotiating contracts with various countries around the world for the use of this product in large reservoirs. FSI's future growth is primarily based on the successful rollout of the Water\$avr product.

Both Heat\$avr and Water\$avr are based on FSI's proprietary spreading agent, which allows for a uniform spreading over water. The company has the capability to attach other chemicals to this spreading agent, which is the source of Flexible's ongoing R&D. FSI's potential projects include adding Mosquito Vector Control, Crop Nutrient Enhancement Vehicles and Micro Organism Agents (marking pollutants in water). The company will continue to focus on rolling out the Water\$avr product unless there is large interest in speeding the development of one of these add-on technologies.

*Important disclosures at end of document. Please see final page for analyst certification.*

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##### Vital Statistics

Price	3.80
52 week high	4.25
52 week low	2.25
Avg Vol 1mo.	20k
Avg Vol 3mo.	10k
Exchange:	AMEX
Beta:	1.57
Mkt Cap:	44.79
Shares:	11.79
Float:	5.25



### Investment Opportunity

FSI's Heat\$avr business will generate approximately \$1.5mm in revenue this year, and management expects modest revenue growth from this product going forward. However, the market for Heat\$avr and the business's relatively low gross margins (~25%) pale in comparison to the opportunities that the Water\$avr product brings to the table.

The Water\$avr product represents the most important growth opportunity for FSI going forward. The company is currently in negotiations with 20 countries spanning the globe for contracts ranging from \$1mm to \$15mm per annum. The negotiation process, including trial phases, bureaucratic budgeting and decision making, takes a considerable amount of time to complete. Water\$avr has been recently approved by the National Sanitation Foundation (NSF) for direct use in drinking water and has been designated as an Environmentally Sound Technology by the United Nations Environment Programme (UNEP). Also, the FDA has approved all of the ingredients in Water\$avr. However, many countries require safety testing and approval from their own domestic agency in addition to that of the NSF and the UNEP. Management estimates that the company should begin to land these deals in the near future and that once the first couple of contracts are signed, their progress toward additional contracts will begin to "snowball". FSI has a 15-year patent in place for the Water\$avr product and practically no competition which should translate to relatively high gross margins (50%+).

FSI continues to research additional applications for the Water\$avr product. For example, the company's Mosquito Vector Control application recently passed its first round of trials. This product could be marketed in Asian countries who have flooded crops to potentially reduce the spread of diseases like Malaria and West Nile.

With an estimated worldwide market of \$7 - \$10 billion, Water\$avr represents an enormous opportunity for FSI. If and when FSI starts to sign the contracts that they have on the table, the company should be highly profitable, and the stock should appreciate substantially, in our opinion.

### Risks

Working on government contracts for FSI's Water\$avr product may take quite a long time, and there is no guarantee that successful testing of the product will lead to a sale. Water conservation is an important priority throughout the world and numerous researchers in the industry and academia are seeking to develop solutions which may compete with or be superior to Flexible's products. To date, the company's competition has not been able to replicate a water spreading agent as cheap and effective as FSI's. However, the specialty chemicals industry is highly competitive with many large multi-national firms funding substantial research and development operations. Also, climate changes which relieve water shortage conditions or a technological breakthrough in water desalination could reduce the need for water conservation products.

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