



Transcript of update interview with Mr. Dan O'Brien



President and CEO of Flexible Solutions Int'l Inc.



NYSE Amex: FSI

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**Dan O'Brien - President and Chief Executive Officer.** Daniel B. O'Brien has served as our President and Chief Executive Officer, as well as a director since June 1998. He has been involved in the swimming pool industry since 1990, when he founded our subsidiary, Flexible Solutions Ltd. From 1990 to 1998 Mr. O'Brien was also a teacher at Brentwood College where he was in charge of outdoor education.

**Smallcaps.us: Hello everyone and welcome to a new Smallcaps.us interview. Mr. Dan O'Brien, the President and Chief Executive Officer of Flexible Solutions International, is here with us today. We have plenty to discuss as the Company's business and stock price is progressing rapidly. About a year ago, we wrote that Flexible Solutions' breakthrough was imminent, and we're more than pleased to say that the Company's stock price has doubled since. As a reminder, Flexible Solutions is listed on the New York Stock Exchange AMEX market under ticker symbol FSI. Dan, we couldn't be more pleased to have you with us. Welcome.**

**Dan O'Brien:** Thank you very much; it is a pleasure to be back on your program.

**Smallcaps.us: Let's start with Flexible Solutions' most recent news, its third quarter results. Sales, earnings and cash flow showed lots of strength. How do you feel about the third quarter performance?**

**Dan O'Brien:** Frankly, it surprised us with its strength. But we believe that this is a sustainable type of behaviour for our third quarter and we are going to attempt to keep the growth going. The one thing I should mention is that 44% growth is probably not the number you should use in your model. I did give guidance at the conference call in the 20 to 30 percent range for at least the next year.

**Smallcaps.us: And can this growth be maintained? I mean, what's the outlook like for the fourth quarter and for fiscal year 2012?**

**Dan O'Brien:** As I mentioned just earlier, the growth rate can be maintained, we expect it to be maintained which is why we guided towards 20% to 30%. And the reason it can be

maintained is quite simple, the value of crops which we help grow and the value of oil which we help get out of the ground in an environmentally sustainable manner are both staying steady or moving upwards and that generally helps us to sell more products.

**Smallcaps.us: Well, that's great. Most of the Company's growth can be attributed to its NanoChem division. Can you tell us what this division does and can you also describe its target markets?**

**Dan O'Brien:** Certainly. The NanoChem division takes aspartic acid -- one of the 22 amino acids normally found in the human body, and polymerizes it, using heat only, to make poly aspartic acid, various chain links, various side branchings, but very simply thermal poly aspartic acid. We do it extremely efficiently and with extraordinarily high quality parameters.

The places where we sell this are industrially, which includes water treatment and detergent. In both those cases it is used as a material to keep dirt or other materials in suspension long enough for them to be rinsed away. In detergents the most unique place you will see it is as an anti spotting agent on glasses. So that is where you would notice a detergent that did not have either TPA or a non-biodegradable equivalent included in the formulation, it gets spotty glasses.

We also sell it for use in the oil fields, just as those spots come on your glasses, those spots are usually calcium salts, sometimes other salts depending on your water quality. In the oil fields, when they bring up water from oil from far below it comes up with water and the water inevitably has large amounts of minerals in it. If you can imagine the water spots taken to the n<sup>th</sup> degree, they actually form a scale on the inside of the pipes. And if the scale is allowed to

continue to grow inevitably your pipes clog just like cholesterol in the human being and no longer do you get oil, or no longer are you alive.

And then finally, in agriculture the same unique opportunity is present. The poly aspartic acid used with the fertilizer will prevent the fertilizer from forming scales, forming insoluble salts that are very hard for the plant to get at, so what we do is we keep the fertilizer bio available to the plant for a longer period of time and as a result the plant is healthier and provides more crops. Basically that is what we do.

**Smallcaps.us: Okay, I see. While we're on the topic of the NanoChem division, let me ask you about the sugar to aspartic acid production facility in Alberta, Canada. Earlier this month, the facility reached commercial operating status. Why was this an important step for Flexible Solutions?**

**Dan O'Brien:** We've been promising our investors that we would get that factory going for four years. Psychologically it is incredibly important to be able to say the factory is finish and all we have to do is organize ourselves properly step by step to add production as quickly as we can, but without making any mistakes.

It is an important aspect chemically for our company and psychologically for our investors. We are now in the last steps of making ourselves independent of aspartic acid manufacture in other parts of the world. We will now control our own input materials for TPA and as a result, we will have a better control of costs and we won't be held hostage in the event that currencies change between North America and China or oil goes in to a huge crisis spiral.

Obviously, we are using sugar and sugar will rise when oil rises, but sugar is very unique and we have just recently seen something about this. India has had a good crop, sugar prices have dropped, whenever sugar prices go up, people plant more sugar, but when oil prices go up, the opportunity to plant more oil is not there. So we like the step from a inflexible material to

a flexible commodity that has a lot of elasticity based on demand.

**Smallcaps.us: You just mentioned before there are several huge markets for Flexible Solutions' TPAs. First, we have the agricultural market where TPA's are used as crop yield enhancers. Can you give some examples of this?**

**Dan O'Brien:** Happy to. Throughout the Midwest in the last couple of years, we have done hundreds of trials through our distributors. Now obviously I do not have access to this because the distributors consider it their commercial secrets. They present it to growers to get sales, they do not present it to us for just giving out to anyone.

However, anecdotally... and of course my anecdotes are based on reality. Corn growers are getting anywhere from 6 to as much as 18 or even 20 extra bushels of corn off of an acre and that is enormous when corn is trading between \$6 and \$7 a bushel and when the cost of treating an acre for the grower using our product is \$20 or sometimes even less. So they are getting ROIs of 600% and 700% in a single year. Very happy corn growers and of course very fast growing sales.

But then there are really unique situations, for instance we recently found in another area that flax, the crop that uses flax seed for your cereal, but also provides the fiber that makes linen, is extremely reactive to our products. A large-scale use in the season that just finished, came up with a 39% increase in flax yields. Really quite unique!

Now, we are looking into exactly why this may happen with flax when other crops typically see a yield enhancement of 5% to 15% but it is really just a good thing for people to know. There are going to be general effects but then there are very specific effects on certain crops that are outside the normal range.

**Smallcaps.us: Well, those certainly are impressive numbers. Also detergent companies are designated as being a good**

**target for sustainable aspartic acid derived TPAs. Why is this case?**

**Dan O'Brien:** Detergent companies are marketing companies. They spend most of their energy and an awful lot of their capital on making sure that their customers perceive them as being best in class. And customers now are aware that detergents could be cleaner and could do less damage to the environment. Customers certainly do not want their detergents to work any worse, but we feel that sustainable plus biodegradable means that a detergent company is far more able to position themselves as best in the class, compared to a company that either doesn't have biodegradable or can't use sustainable in its labeling and that is why they're good targets.

Now, for us why are they a good customer? After a detergent company changes its formulation, it likes to keep them the same for years, because formulation changes are quite expensive. Every time you change one ingredient everything else has to be reassessed and sometimes two or three ingredients have to be changed, modified, or at least the ratios have to be manipulated.

So what it means is that a large detergent company can be a large long-term customer, and those are good things for small companies to have because they give you factory utilization ratios that allow good profitability but also good operating practice.

The only downside of course to detergent companies is that they are extremely price conscious. They wish to have as much of their capital available for marketing as possible and as little use for raw materials as possible, so they are not exactly the best margin payers in the industry and we have to balance that interest in having large long-term customers with our second interest which is probably our primary interest which is having highly profitable sales. And we have to obtain this balance over a period of years.

**Smallcaps.us: Now there is another thing I would like your opinion on. The Alberta**

**facility will manufacture aspartic acids, which will then be shipped to the Company's plant in Illinois to actually produce the TPAs. Would you say that even though the Alberta plant is of course an important piece of the puzzle, the true engine of the Company remains its Illinois facility?**

**Dan O'Brien:** Yes. And then simplistically the easiest answer to that one would be to say when the Alberta plant receives a dollar where does it come from? Well, it comes from the Illinois facility who paid for the product. That dollar is one of our own dollars already, so if we want to get somebody else's dollar, we got to go outside our business and get sales to arms length customers.

And that is what the Illinois facility does. It makes use of the high-quality, reliable, biodegradable and sustainable raw material produced in Alberta to make a well-received product for general industry and that is where our money comes from. Since we are in business here, we look for the money and we follow the money.

Alberta is, as you say, a piece of the puzzle and a very important piece because it will position us as the best in the world for a very long period of time. But the engine is Illinois facility because that is the one that drives the revenue.

**Smallcaps.us: Okay, very interesting. And will the Alberta plant have an impact on the Company's taxes?**

**Dan O'Brien:** Yes. There is a tax differential between Alberta and Illinois that is 15 percentage points.

So as Alberta begins production and starts shipping to Illinois, Illinois will have to pay because it is going across the international border. Illinois will pay world prices for the material made in Alberta. And this means that Alberta will pay 25% after it has utilized its tax losses to date. And we will, of course, be able to consolidate those earnings up to our flexible solutions international over time.

The result will be that Illinois will always pay 40% because you do not avoid taxes. But Illinois will also pay a world price for aspartic acid and any profits that represent the difference between world price and flexible solutions' manufacturing cost in Alberta will be taxable in Alberta. And as a result our income tax will end up as a mix between the 40% in Illinois and 25% in Alberta.

**Smallcaps.us: What's also interesting is that no additional shares were issued to get the Alberta plant to where it is today. In fact, 5.7 percent of outstanding shares were retired earlier this year. Can you explain how this was possible?**

**Dan O'Brien:** Well, it was hard work. I would not say that no additional shares were issued, we did a financing in 2007 and the point of the financing at the time was very specifically to raise capital for the factory in Alberta. We raised \$3 million and we then were able to get debt financing from the Alberta government at 5% and from the Canadian government at zero percent and any additional amount that we spent, operational expenses exceeding that we have funded from our cashflow. So it is just good cash management and the fact that we have a operating business that brings in revenue on a continuous basis means that doing something that would otherwise be very dilutive to a company has been hardly dilutive at all.

Now, one thing I have not touched on, on my answer here yet is the retirement of the outstanding shares. We did use a substantial amount of our working capital to buy those shares back, because they were a good price and because the seller had supported us so well over the years.

As a result, we would have been short of working capital except that we negotiated a 4% line of credit for \$1.5 million from a US bank to replace the working capital used for the share buy back. In fact, \$1.5 million was in excess of the cost of share buy backs, so we finished the whole operation with a little bit extra working capital.

**Smallcaps.us: Now, Dan, as a final question, what would you say are the two or three most compelling reasons for a long term investor to consider Flexible Solutions today?**

**Dan O'Brien:** Reason one is that the world would prefer to do less damage to the environment while still living a good lifestyle.

Item two, part of the good lifestyle is an adequate diet that includes some protein and we can help the world produce more of what they want -- food.

And then item three is -- food, is dependent on energy, and energy for the foreseeable future is going to come from oil and gas, and we are extremely well exposed to both oil and gas and to the intent of producing oil and gas at less damage to the environment.

**Smallcaps.us: Okay, thanks Dan, I think that gives us all a clearer picture of how the Company got to where it is and how we can expect it to perform in the future. Lots of success to you and your team and we'd be happy to have you back for another chat sometime.**

**Dan O'Brien:** Thank you, I would be happy to join you again and I look forward to our talks.

## **Interview Feedback**

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