



December 6, 2018

OPTEC INTERNATIONAL, INC.

(OTC – OPTI)

Price Target: \$5.50

Rating: Speculative Buy

OPTEC INTERNATIONAL, INC.

Innovative, Green Technology Set to Rise Higher

Rob Goldman
rob@goldmanresearch.com

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COMPANY SNAPSHOT

OPTEC International, Inc. is a leading worldwide provider of green technologies and holds the exclusive worldwide license for marketing and distribution of OPTEC Fuel Maximizer products. The OPTEC Fuel Maximizer is a patented next generation technology solution. By improving the overall combustion process, it enables modern, combustion engines to substantially reduce unburned hydrocarbons and harmful emission while simultaneously increasing engine performance and fuel economy.

KEY STATISTICS

Price as of 12/4/18	\$2.57
52 Week High – Low	\$10.40 - \$1.76
Est. Shares Outstanding	17.8M
Market Capitalization	\$45.8M
Average Volume	2,355
Exchange	OTCQB

COMPANY INFORMATION

Optec International, Inc.
 2721 Loker Avenue West
 Carlsbad CA 92010

Web: <http://optecintl.com/>
 Email: info@optecintl.com
 Phone : 760.444.5566

INVESTMENT HIGHLIGHTS

Via an exclusive worldwide license, OPTEC offers such an innovative, high performance, emission-reducing product that it may not even have a direct peer. Emissions can be reduced by as much as 50% yet performance increased by as much as 25%.

The aftermarket product industry, in which OPTEC participates, is slated to grow to over \$847B in 2022. Products offered target the passenger, commercial, fleet, motorcycle, and electric scooter markets.

A recent royalty agreement should generate more than \$10M in top-line over the next 3 years. OPTEC has just entered the commercialization phase and is in the best position in company history.

A combination of royalty and product sales could result in \$4M and \$14M in revenue for 2019 and 2020, respectively. Since royalty revenue has little to no COGS, operating profit could reach \$5M in 2020.

Our target price is \$5.50 and it could prove to be conservative. Our price target represents a \$98M market cap, or 7x projected our 2020E top-line forecast. Assigning a 20x P/E multiple on just \$5M affirms this target. Furthermore, it should be noted that the stock generally had a base of around \$5 in recent months, prior to price declines and has supported prices of over \$10 in the past 12 months--before OPTI's current business development successes.

COMPANY OVERVIEW

The Skinny

OPTEC International, Inc. (OTC – OPTI – Speculative Buy) is an emerging green technology company that appears primed to generate meaningful revenue and market share via royalties and sales of high value, high performance products to various segments of the transportation and power generation industries. OPTEC International is the worldwide exclusive distributor of the *OPTEC Fuel Maximizer* device for passenger and commercial vehicles of all sizes and including heavy duty diesel engines, and motorcycles, and is committed to minimizing automotive emissions in the environment. Available for both commercial, fleet and standard vehicles, the device is designed to minimize fuel emissions, maximize fuel economy, and increase performance. Plus, the Company recently introduced a version for the motorcycle market and will begin selling an all-electric scooter in 2019, thereby entering the micro-mobility arena with this next-generation electric scooter.

By the Numbers

According to the U.S. Energy Information Administration (EIA), U.S. motor gasoline and diesel (distillate) fuel consumption for transportation in 2016 resulted in the emission of about 1,102 million metric tons of carbon dioxide (CO₂) and 437 million metric tons of CO₂, respectively, for a total of 1,540 million metric tons of CO₂. This total was equal to 82% of total U.S. transportation sector CO₂ emissions and equal to 30% of total U.S. energy-related CO₂ emissions in 2016. Much like in the U.S., transportation is also Europe's biggest source of CO₂ emissions. In fact, it accounts for 25% of all greenhouse gases. Clearly, current methods of reducing emissions from the internal combustion engine vehicles, including using E10 fuel (90% gasoline/10% ethanol), are falling well short.

Enter OPTEC.

The OPTEC Fuel Maximizer product reduces harmful emissions by up to 50%---yet *increases* fuel efficiency by up to 25% and can even raise brake horsepower and torque by up to 15%.

Significant Contract, New Products

In August 2018, OPTEC signed a royalty agreement which that could be worth more than \$10M over a three-year period, beginning in 2019. We believe that total revenue (majority in royalties and the balance in product sales) could reach \$4M in 2019 and \$14M in 2020. The proliferation of all-electric scooters domestically, along with the growth of the global (ex-U.S.) motorcycle market represent additional, huge growth opportunities for the Company, going forward.

Higher Prices, Valuation Ahead

Although the stock price does not reflect it, today OPTI is likely in the best position in its history—and possibly without any direct peer. The Company has tremendous royalty revenue visibility, which essentially carries no COGS and goes right to operating profit and product sales to its core and new markets are just beginning to

bear considerable fruit. High growth companies tend to trade at relatively high price/revenue multiples. Our \$5.50 price target represents a \$98M market cap, or 7x projected our 2020E top-line forecast. While this may appear to be a bit high, we note that we project a more than 300% increase in revenue from 2019-2020 and since the bulk of the revenue is royalty-based, it is possible that the Company generates between \$5-8M in operating profit in 2020. Assigning a 20x P/E multiple on just \$5M essentially matches our \$5.50 price target, thus affirming the aforementioned price/revenue multiple. Furthermore, it should be noted that the stock generally had a base of around \$5 in recent months, prior to price declines and has supported prices of over \$10 in the past 12 months---before OPTI's current business development successes. Thus, our target could prove to be conservative.

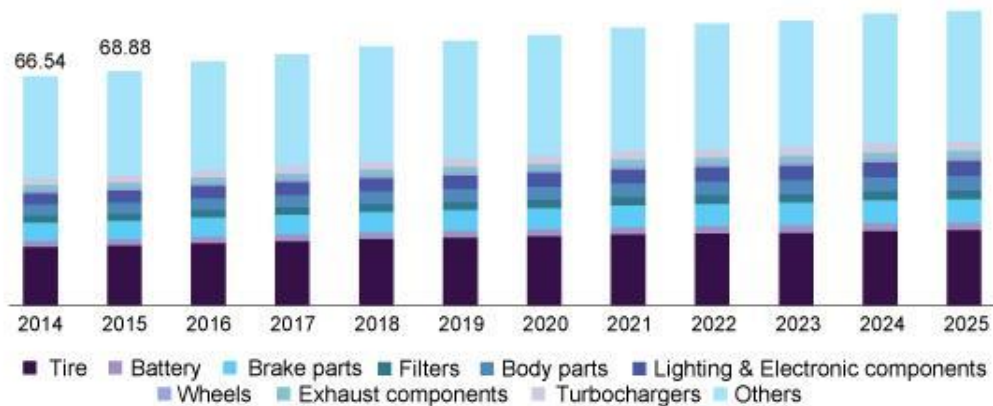
INDUSTRY OVERVIEW

According to a Global Automotive Aftermarket Products report by Research and Market Reports, the global automotive aftermarket size in 2016 was \$640B+ and there is a 4.7% market growth rate expected to reach \$847.15B by 2022. Consumers are keeping their vehicles longer and are more aware of the importance of preventive maintenance and scheduled servicing to maximize the lifetime value of their vehicles. The typical car on the road in the U.S. is a record-high 11.5 years old, [according to a new IHS Automotive survey](#).

Our due diligence suggests that there are around 250M vehicles (cars, trucks, light, medium, and heavy duty) in the U.S. with over 751M motor vehicles in operation outside the U.S. With 1 billion vehicles on the road, ever-tightening emission and fuel regulations on auto manufacturers, and an increase in consumer demand for lower emissions, greater fuel efficiency and advanced vehicle performance, the market and demand for OPTEC's offerings are high. This sentiment is affirmed by the cost and practicality. The cost for retrofitting or buying new hybrid or electric engines are just too high for many business and consumers, despite the need to reduce operation cost and comply with emission standards.

However, the overriding drivers remain air quality, health, climate change, and carbon emissions across the world. A World Health Organization report notes that as many as seven million people are dying every year due to poor air quality and there has never been more of a need for a technology offered by OPTEC.

U.S. automotive aftermarket, by replacement part, 2014 - 2025, (USD Billion)



Grandview Research notes that the automotive aftermarket service channel comprises raw material suppliers, tier 1 distributors, automobile exhaust hubs/manufacturing units, aftermarket units comprising jobbers, and repair shops, among others. Repair centers are the important stakeholders in the service channel as 75% of aftermarket auto repair is performed by independent auto repair shops.

Motorcycles

At present, it is estimated that there are over 200M motorcycles in use worldwide and these vehicles represent the primary source of transportation in countries such as India, China, Vietnam, and Indonesia. Though motorcycles are more fuel efficient than most passenger vehicles, less stringent or non-existent emission standards allow them to emit up to 10 times more emissions. Motorcycles are one of the major sources of the following pollutants: particulate matter (PM), hydrocarbons (HC), carbon monoxide (CO), nitrogen oxides (NOx), and other hazardous emissions resulting from the release of burned and unburned lubrication oils. Global demand for motorcycles is forecasted to expand by 4% annually to 132 million units by the end of 2018, according to Statista.com.

Electric Scooters

The electric scooter market may emerge as the most exciting segment in the entire ground transportation segment. An excerpt from Grandview Research encapsulates the current market environment:

“The global [electric scooter market](#) size is expected to reach USD 28.56 billion by 2025 at a 7.3% CAGR during the forecast period, according to a study conducted by Grand View Research, Inc. Growing demand for fuel-efficient vehicles over shorter distances, rising carbon and greenhouse gas emissions, and government initiatives encouraging adoption of green vehicles are expected to drive the electric scooters market. Favorable demographic conditions and ease of transportation have also fueled demand for electric scooters across the globe.”

North America is expected to exhibit the highest CAGR over the forecast period. The goal of reaching 1.5 million zero emission vehicles by the governor of California by 2025 is contributing to regional demand. The market for electric scooters is however, witnessing some challenges owing to new traffic laws being framed by regulatory bodies in lieu of public safety.”

The California regulatory environment serves as a great driver in this segment for OPTEC. Moreover, current demand in the electric scooter segment is huge. In recent days, rumors have surfaced that Uber is negotiating to buy one or two of the industry’s leaders, Bird and Lime. Both firms are reportedly set to raise a new round of hundreds of millions with valuations of \$3.3B or higher. Clearly, this segment has legs (pun intended) for OPTEC.

THE BUSINESS

Background

In June 2018, OPTEC acquired worldwide exclusive rights to sell and distribute the *OPTEC Fuel Maximizer* device, an on-demand, non-intrusive technology designed for computer-controlled gasoline and diesel engines for improved fuel efficiency and performance while simultaneously reducing harmful emissions. The technology utilizes electrolysis and ionization to add a small amount of hydrogen into the combustion chamber to act as a catalyst to burn more fuel in the fuel chamber. Existing combustion engines can leave up to 30% of the fuel unburned, resulting in waste fuel and higher hydrocarbon concentrations. The patented technology generates a more complete burn, thus requiring less fuel injected into the chamber to get the same effect.

It is important to note that management believes that OPTEC is the first company to use this type of technology with existing on-board engine computers to reduce fuel consumption while giving more horsepower (when you want it) and reduce emissions. The Company’s recently filed 10-K noted:

“To our knowledge we do not have any direct competitors in the space that can provide the benefits of emission reduction, fuel savings, and an increase in performance. Though there have been past attempts at small hydrogen generators, all have required water reservoirs or hydrogen storage tanks. The Optimized Fuel Maximizer does not require either of these and successfully achieves results with just a micro amount of hydrogen. The hydrogen is created from ambient air and this is what makes it unique.”

In the past few quarters, the Company has made the migration to the commercial stage and leverages years of research and development and third-party testing on fleets with proven long-term results. For the standard passenger vehicle market, the *OPTEC Fuel Maximizer* offers key, unique advantages:



- Installs in 30 minutes
- Reduces harmful emissions by up to 50%
- Increases fuel efficiency by up to 25%
- Can raise brake horsepower and torque by up to 15%

In the commercial space, emissions can be reduced by as much as 90%! There are two sizes (medium, heavy duty), the device is easy to install and increase operating time. Fuel savings can reach 10%. The OPTEC Fuel Maximizer is currently legal in 490 states for Heavy Duty Trucks. At present, the Company is awaiting pending emission testing results for a CARB Executive Order Exemption for the legal sale in California of the OPTEC Technology for these engines. Upon favorable results, the OPTEC Fuel Maximizer would be available in California to all 2010-2018 Heavy Duty Trucks by the end of next month. OPTEC is also further testing with Mesilla Valley Transportation Solutions this month to expand our fuel savings certification to cover the Heavy-Duty Diesel Trucks.

Separately, OPTEC is currently conducting fuel saving and emission reduction tests in several other countries around the world with potential future distributors, joint-venture partners and fleet operators.

The Big Deal

In August 2018, Optimized Fuel Technologies entered into a contract with a nationwide automotive distribution company that desired to purchase the OPTEC Fuel Maximizer on a manufacturer direct basis. Over a 3-year period, the contract represents minimum sales in excess of forty million dollars. Whereas the Company owns the exclusive licensing rights to sales of the OPTEC Fuel Maximizer, the Company anticipates royalty revenues exceeding \$10M over the first three years of this five-year contract. We anticipate roughly 150,000 units will be sold to this customer during this period.

Motorcycles

Following extensive testing, a new OPTEC Motorcycle version of the Fuel Maximizer has been recently introduced. The OPTEC MC1 proved to have a significant increase in power resulting in enhanced acceleration and at the same time demonstrating an average of 10% fuel savings under normal operating conditions. The most noticeable result was the decrease in exhaust emissions which appeared to be almost odorless. Tests were conducted on Honda and BMW Motorcycles, representing 2 of the most popular and best-selling brands globally. The demand for emission reductions from pollutions from motorcycles globally has been a significant problem particularly in the third World communities. The release of this new version of the Fuel Maximizer paves the way to help reduce the carbon footprint and ozone layer expansion.

Scooters/Mobility Devices

The new Super Scooter patented technology was recently acquired by Optimized Fuel Technologies and is currently in production at the company's Carlsbad, CA facility. The "Cadillac" of scooters has been purchased by southern California Law Enforcement and EMT divisions and rigorously tested and proven for over 4 years. The Super Scooter has a 40 Mile Range and 30 MPH capability on a single battery and facilitates 2 batteries on board giving double the range capability.

This tremendous growth projection of the Electric Scooter Transportation sector has not gone unnoticed by one of the largest transportation network companies and holding companies. Uber and Alphabet, Inc have invested \$335 million into partnering with Lime, an electric scooter company. Lyft has also launched an electric scooter share program and has been one of five companies to apply for a permit in San Francisco to run an electric scooter service.

In Los Angeles, San Francisco and Sacramento, the frequent and rapidly expanding use of the electric scooters is reported to have a noticeable impact on vehicle traffic congestion and at the same time helping reduce the global vehicular emissions reduction. With a series of tests undertaken by municipalities in southern California (including San Diego), excitement about scooter deployment by public safety officials is high and meaningful revenue opportunity for OPTEC is in the cards.

In our view, OPTEC benefits not just from its efficacy but its positioning. The Company offers a diverse product line targeting a diverse end user-vehicle type, and end-user markets (consumer, government, commercial). This positioning should enhance overall success.

FINANCIALS

As the Company was not yet in the commercialization stage, revenue for its 2018 fiscal year ending June did not demonstrate meaningful or relevant results as compared to the current standing. Looking ahead, for the calendar years 2019 and 2020, we project revenue of \$4M and \$14M, respectively. These figures re derived from a combination of the aforementioned royalty agreement and product sales to aftermarket channels in the passenger, commercial, and scooter (public safety) segments. It should be noted that with sales driven by royalties, we deem it likely that in the 2020 calendar year, \$5-8M in operating profit is possible since thee are no cost of goods sold associated with these figures---it flows directly to the operating line. Of course, management plans to leverage the highly profitable royalty revenue to fund sales and marketing efforts and broad use of its innovative products.

OPTEC LEADERSHIP

Peter Sollene, Chief Executive Officer

Mr. Sollene has over 30 years of Financial & Business Management experience in the Automotive Fleet Services, Financial Services, Life Sciences and Human Capital Industries. His experience includes hands-on senior leadership and financial management positions with both large and middle-market public companies as well as small and mid-sized private companies.

He has structured, negotiated and closed over 36 acquisitions of business services companies; led the turnaround and re-positioning of two prominent Global IT Services companies; raised over \$300 million of both public and private equity and debt; led the national Sales & Marketing activities of a \$1 billion division of Ford Financial Services, leading this company from a second-tier player to the third largest in the Fleet Services Industry; and led a multi-company rollup to form a public Life Science Services Company.

Jennifer Ferreira, Company Spokesperson

Ms. Ferreira implements written policies, procedures, and standards for Optimized Fuel Technologies. Ferreira is responsible for ensuring the OPTEC device meets compliance in all categories. She oversees all testing in relation to emission reduction, fuel savings, and performance enhancement for continuous certifications, quality control, and enhancement of the OPTEC device as new engine models are introduced yearly.

Ms. Ferreira has a strong automotive background in sales, management, and business development. She studied environmental science and project management with a focus on renewable energy.

RISK FACTORS

In our view, OPTI's biggest risk is clear; how well will the market receive the Fuel Maximizer products. The introduction of this new technology may also require some education in the space for consumers and procurement officials alike which may result in delays or extensions of pilots and other testing as well as sales delays, particular in the governmental market. Still, these risks are typical future concerns and are also consistent with firms of OPTI's size and standing.

Volatility and liquidity are typical concerns for microcap stocks that trade on the stock market, especially those that are not generating revenue. Finally, the shares outstanding of this stock could increase due to potential capital needs or to execute future acquisitions. However, since the proceeds of any future funding would be used in large part to advance exploration and development efforts, we believe that any dilutive effect from such a funding would be more than offset by related increases in market value.

VALUATION AND CONCLUSION

Via an exclusive worldwide license, OPTEC offers such an innovative, high performance, emission-reducing product that it may not even have a direct peer. Emissions can be reduced by as much as 50% yet performance increased by as much as 25%. The aftermarket product industry, in which OPTEC participates, is slated to grow to over \$847B in 2022. Products offered target the passenger, commercial, fleet, motorcycle, and electric scooter markets.

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SENIOR ANALYST: ROBERT GOLDMAN

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

ANALYST CERTIFICATION

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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