

## Company Report

# SCORPEX, INC.

## A Waste Management Services Star

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### SCORPEX, INC. (OTC:PK – SRPX - \$0.66)

6-Month Price Target: \$4.00

Rating: Speculative Buy

### COMPANY SNAPSHOT

Scorpex, Inc. is poised to emerge as a leading provider of integrated waste services. Through its operations in Mexico, the Company will provide a comprehensive range of waste management services including the receipt, storage, transfer, recycling and disposal of waste in an environmentally sound manner. Scorpex's environmentally sound services are executed through the gasification and recycling of waste. Customers in Mexico shall include commercial, industrial, municipal and residential customers, other waste management companies, electric utilities and governmental entities.

### KEY STATISTICS

Price as of 12/2/11	\$0.66
52 Wk High – Low	\$15.00 - \$0.40
Est. FD Shares Out.	206.1M
Market Capitalization	\$136.0M
3 Mo Avg Vol	25,000
Exchange	OTC:PK

### COMPANY INFORMATION

Scorpex, Inc.  
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 13-160  
 Las Vegas, Nevada 89135  
[www.scorpex.com](http://www.scorpex.com)

Investor Relations:  
 Franco, Inc.  
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### INVESTMENT HIGHLIGHTS

**Scorpex, Inc. is positioned to become the dominant provider of integrated waste management services in a regional market in Mexico that represents billions in annual revenue.** The Company has already received an offer to provide waste disposal services of up to 800 tons worth of waste per day. This contract alone is worth hundreds of millions in revenue annually.

**With no direct competition, Scorpex should generate substantial revenue and profitability.** Current methods of waste disposal are ineffective and costly with landfills overflowing. In fact, the primary current means of waste disposal is transportation to the U.S. and abroad.

**The Company has obtained (perpetual) permits to provide its environmentally friendly waste disposal services for its initial site in the Baja region of Mexico.** The Company has spent \$3M on this project, including permitting, facility and road construction, and the execution of government studies.

**Scorpex has received commitments for \$35M in financing for its waste gasification/thermal oxidation plant and facility.** With permitting in place, once the next phase of construction begins, Scorpex's plant should be fully operational by early 3Q12.

**With cutting edge technology and a low-cost labor force, Scorpex should generate substantial profitability immediately.** Our 2012 forecasts call for \$60M in revenue and \$0.09 in EPS and \$280M in revenue and EPS of \$0.41 in 2013. We note that these estimates do not include the likelihood of additional contracts or deals in adjacent regions.

**Scorpex will reward investors by commanding a premium valuation given its dominant market share and high profitability.** Our 6- month price target of \$4.00 is based on roughly 40x our FY12 EPS forecast. We project that SRPX will reach \$8.00 in the next 12 months, which at that time would equate to 20x our forward 12-month EPS estimate. We rate SRPX Speculative Buy.

## SCORPEX: THE BUSINESS MODEL

### Summary

Scorpex, Inc. is positioned to become the dominant provider of integrated waste management services in a regional market in Mexico that represents billions in annual revenue. The Company has already received an offer to provide waste disposal services of up to 800 tons worth of waste per day. This contract alone is worth hundreds of million in revenue annually.

### Overview

A number of years ago, Scorpex management identified the Baja, Mexico region near Ensenada as a problem area screaming for a solution. Due to an increase in manufacturing, industry (due to the NAFTA treaty) and an increase in the local population, the demand for waste management, including storage, recycling, and handling of hazardous and toxic waste, far exceeds capacity. Furthermore, the primary methods of waste disposal were the costly ground transportation of waste into the U.S., Monterrey, Mexico, or the even costlier marine transport on barges to Japan (on one coast) and France and Holland (on the other.)

After several years of working on the project and spending more than \$3 million, Scorpex will emerge as the owner and operator of the only industrial waste processing and disposal facility of its kind in the heavily populated Baja region of Mexico in 3Q12.

Management, along with its Mexican partner Tratamientos Ambientales Scorpion (TAS), has overseen the initiation and execution of environmental studies, application submission, permit acquisition and funding commitments, and local business development. TAS will provide an efficient, cost-effective and environmentally sound alternative for the transfer and disposal of this waste.

Today, Scorpex's first facility is located near the existing Scorpex property located in the Ensenada, Mexico region. This strategic location is less than three miles from the current landfill in Ensenada, Baja, Mexico. Scorpex has received approval to build ten hazardous and industrial waste storage structures on its Ensenada property and to date Scorpex has nearly completed construction of the first storage facility. These structures are specially designed with concrete flooring and special catch drainage systems, along with an emergency fire sprinkler system.



Image I. Scorpex facility under construction  
Source: Scorpex, Inc. website



Image II. Scorpex storage facility  
Source: Scorpex, Inc. website

## Company Report

In recent months, the Company has contracted with International Environmental Technologies, Inc. ("IET") to build its state of the art waste gasification/thermal oxidation plant on site. The patented technology employed by the plant is capable of processing municipal waste, medical waste and hazardous waste simultaneously without presorting for maximum efficiency. Other features of the technology include:

- Elimination of 99.9% of combustible waste
- Reduce waste volume by 95%
- Enabling of 100% recycling
- No odor
- No smoke or harmful air emissions

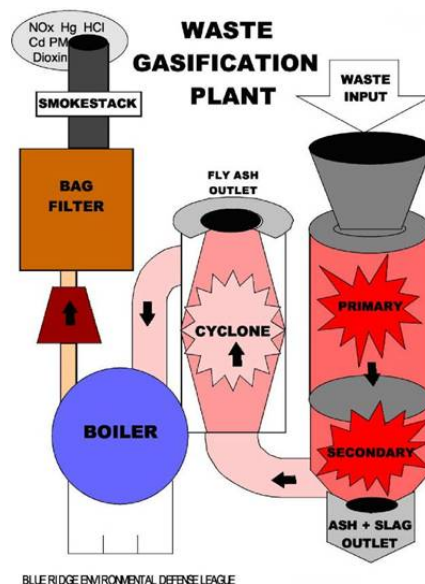


Image III. Waste Disposal Process  
Source: Scorpex, Inc. website

Not only will the plant be environmentally friendly, which is a major plus to government officials and customers, but the IET plant will also be capable of processing 800 tons per day of hazardous and industrial waste. The estimated equipment-related cost for IET is \$30M and management has already secured financial commitments for \$35M in funding, which we expect will close in the coming weeks.

Most important, the Company was recently offered a contract with a major Mexican waste transportation company to provide waste disposal services to the tune of 800 tons per day, at an estimated price of \$1200 per ton. This contract is worth hundreds of million annually and we believe is just the first of several in the region. Furthermore, once fully operational in 3Q12, we believe that Scorpex can take this replicable model to other regions in Mexico and Latin America, thus making Scorpex one of the dominant waste disposal service entities.

In the interim, we believe that the timeline of key events includes:

- News regarding finalization of all permits
- Closing of financing
- Signed contract for waste disposal
- Start of IET work on the facility
- New waste disposal contracts
- Launch of the facility at the beginning of 3Q12

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## COMPETITIVE ADVANTAGES

Scorpex has a series of advantages over existing and future competition. In our view, the barriers to entry are significant. Scorpex likely owns at least a three-year advantage over any new, prospective players in the market.

- Scorpex has obtained all necessary permitting and licensing---an expensive and exhaustive process that took three years to execute.
- The Company has been offered a contract which would generate hundreds of millions in annual revenue and it will likely be followed by others.
- Current waste disposal methods are ineffective and costly. Landfills in the region are overflowing and little, if any recycling is executed,
- Government officials, environmentalists and customers alike prefer the Scorpex method as compared to waste transportation by ground vehicle to the U.S. or by boat to Japan and Europe.
- Financing in place, along with a low-cost labor force produces a very profitable business model with few fixed costs.

## RISK FACTORS

In our view, the biggest risks to success for Scorpex relates to delays and volume. Delays in securing funding, construction completion, or lower waste tonnage volumes are certainly possible risks. Any changes in permitting or labor issues are also not uncommon, although we do not believe that these risks would materially impact Scorpex. Although the barriers to entry are great, slower penetration as a result of competition from larger or domestic firms or even from newer entrants is a typical, but unlikely concern.

## MANAGEMENT

### **Joseph Caywood, Chief Executive Officer, Board Member**

Joseph Caywood is an entrepreneur with a history of success in the recycling, waste management and disposal industries, among a host of others. Mr. Caywood has successfully owned and operated many businesses since 1989, including an extremely profitable classic car business. Mr. Caywood has invested substantial funds into various business enterprises including Scorpex, Inc., where he has spent the last several years developing a toxic and hazardous waste storage, recycling, and disposal site on the perimeter of Ensenada, Mexico.

### **Chene Gardner Interim Chief Financial Officer, Board Member**

In addition to his duties as interim CFO of Scorpex, Chene Gardner currently serves Alto Group Holdings, Inc., a filer of reports pursuant to requirements of the Securities Exchange Act of 1934, as Chief Financial Officer. He is also an executive officer and director of Nano Dimensions, Inc. and an executive officer and director of Secure Networks, Inc. Mr. Gardner previously served Fuelstream, Inc. as the Financial Controller and has auditing and accounting experience with the firm Deloitte & Touche LLP, serving clients in the banking, manufacturing, and retail industries.

### **Kenneth I. Denos, Board Member**

Kenneth Denos brings with him extensive top management experience as he has served as the Chief Executive Officer of numerous successful companies, both public and private, including Equus Total Return, Inc., SportsNuts, Inc., MCC Global N.V., and Moore, Clayton Capital Advisors, Inc. He has also served on the Board of Directors for Secure Networks, Inc., Healthcare Enterprise Group PLC and Tersus Energy PLC. Currently, Mr. Denos serves as Deputy Chairman of the Board of London Pacific & Partners, Inc., in addition to working in other endeavors.

**Company Report****FINANCIALS**

Our pro forma projected income statement is largely based upon the near-term receipt of \$35 million in equipment financing and the first facility running at full capacity by early 3Q12.

For FY12, we estimate \$60M in revenue and net income of \$17.7M, or EPS of \$0.09. Our forecast assumes \$15M in Q3 revenue and \$45M in Q4, with revenue of \$1200 per ton. For FY13, which will be the first full-year of operations for Scorpex, we project \$280M in revenue and \$84.4M in net income, or \$0.41 in EPS. We have initiated preliminary estimates of \$490M in revenue and \$0.72 in EPS for 2014.

We should note that estimates are subject to variability based upon volume, particularly early on, as it is likely that the Company will be awarded additional contracts in 1H12. Furthermore, we have utilized gross margin and other metrics that could prove to be conservative, so we deem it likely that if volume is on track with our forecasts, profitability could actually be meaningfully higher than our estimates.

**VALUATION AND CONCLUSION**

In our view, Scorpex, Inc provides investors with a very unusual opportunity: a company in the waste disposal space that is positioned to generate substantial top-line and bottom-line growth. In addition, investors benefit from the fact that the stock is trading at a puny multiple.

We strongly believe that Scorpex will reward investors and command a premium valuation given its dominant market share in a high growth market and its high profitability due to its model. Most companies in the space are generating slow growth in revenue and focused to a large degree on operating efficiency. Nonetheless, stocks in this peer group, such as U.S. Ecology (NASDAQ – ECOL) and Clean Harbors, Inc. (NYSE – CLH) currently and historically trade between 16 – 22x forward 12-month EPS.

Our 6-month price target of \$4.00 is based on roughly 40x our FY12 EPS forecast, which is reasonable given the expected financial performance and dominant status. As the Company gets closer to launching, the stock should begin a sharp upward trajectory toward our target. Moreover, we project that SRPX will reach \$8.00 in the next 12 months. Twelve months from now the stock will be valued based upon forward-12 month EPS, or FY13 EPS estimates. One year from now, \$8 will equate to 20x FY13 EPS projections, which is the average historical forward 12-month P/E for the peer group. Given its much higher growth rate, the stock could even approach \$10, depending upon volume and net margin.

We rate SRPX Speculative Buy.



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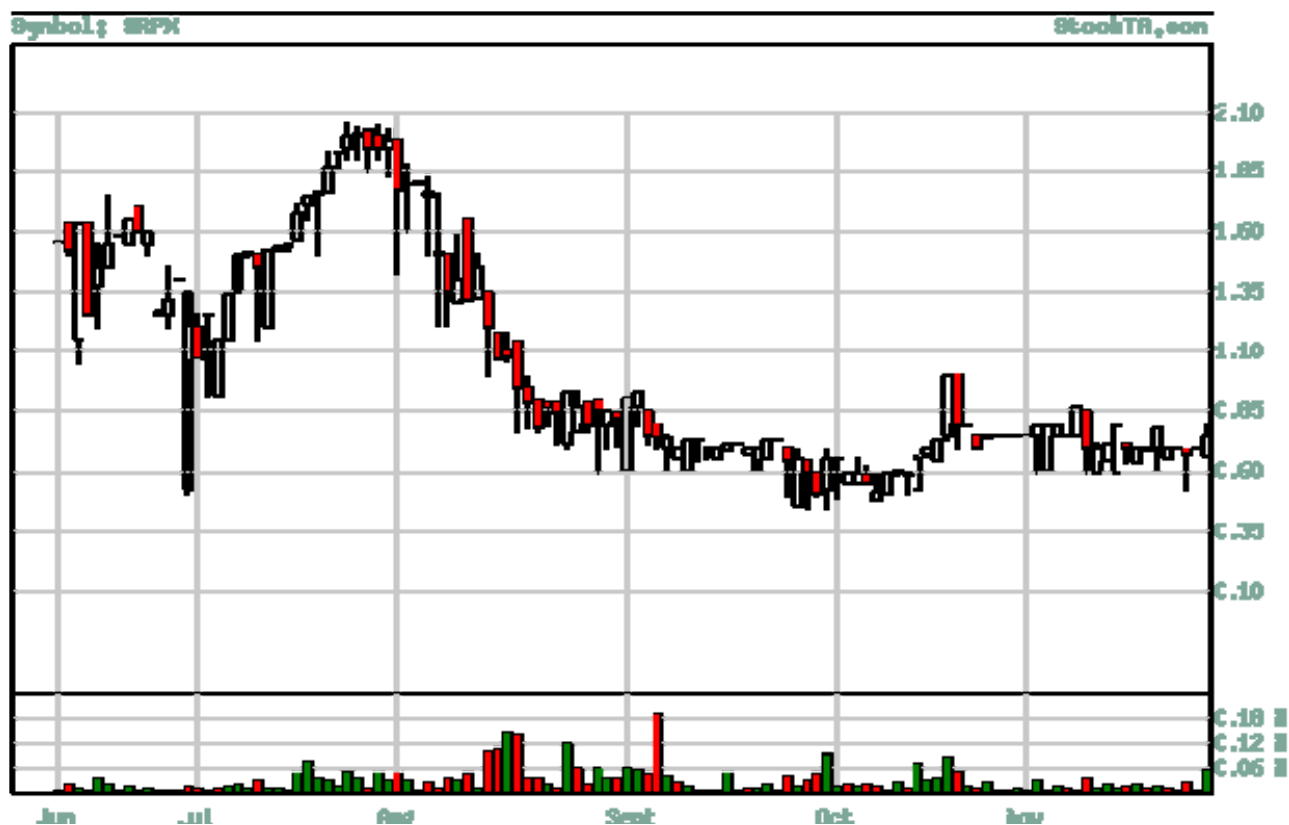
Table I. Projected Income Statement				
Scorpex, Inc.				
(in thousands, \$)				
	<u>FY11E</u>	<u>FY12E</u>	<u>FY13E</u>	<u>FY14E*</u>
<b>Revenue</b>	<b>\$0</b>	<b>\$60,000</b>	<b>\$280,000</b>	<b>\$490,000</b>
Cost of Sales	\$0	\$24,000	\$112,000	\$196,000
Gross Profit (Loss)	\$0	\$36,000	\$168,000	\$294,000
<b><u>Operating Exp</u></b>				
SG&A	\$240	\$6,500	\$30,000	\$50,000
<b>Operating Inc (Loss)</b>	<b>(\$240)</b>	\$29,500	\$138,000	\$244,000
Interest Expense	\$0	\$3,500	\$6,000	\$8,000
Interest Income	\$0	\$0	\$1,000	\$2,000
Taxes	\$0	\$8,260	\$48,650	\$86,100
<b>Net Income (Loss)</b>	<b>(\$240)</b>	<b>\$17,740</b>	<b>\$84,350</b>	<b>\$151,900</b>
<b>Net Inc. (Loss) per Share</b>	<b>(\$0.00)</b>	<b>\$0.09</b>	<b>\$0.41</b>	<b>\$0.72</b>
<b>Est. Shares Outstanding</b>	206,100	207,000	208,000	210,000

\* denotes preliminary estimate

Company Report

Recent Trading History For SRPX

(Source: Stockta.com)



# SCORPEX, INC. (OTC:PK - SRPX)

## Analyst: Robert Goldman

Rob Goldman 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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