



Nocopi Technologies Inc.: Turning Ink Into Gold

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Summary

- Nocopi Technologies develops specialty reactive inks primarily for children's entertainment, toy, and educational products, that are invisible when printed but turn different colors when scratched or written on.
- Nocopi's unique technology is now being deployed in document and product authentication technologies to combat the huge and growing market of consumer fraud and counterfeiting.
- Consistently profitable or break-even EPS since 2011, very low price-to-sales and price-to-book, cash-rich, minimal debt, over 55% insider/institutional owned, and considering share buybacks: this stock is looking golden.

Civilization's love affair with drawing and coloring reaches way back to the prehistoric era when our primitive ancestors told stories through etchings on the walls of caves. Fast forward to the information and space-age where a small but creative firm called Nocopi Technologies Inc. ([OTCPK:NNUP](#)) enhanced this natural artistic passion with their specialty reactive inks, which are invisible when printed but transform into vibrant colors when scratched or written on with their proprietary developing agents.

Nocopi's inks and clear developing agents enable a variety of mess-free activity books, coloring books, and other printed items for entertainment and educational applications, targeted mainly at kids. The key value proposition of the products to consumers (a.k.a. parents) is that they are:

- Based on Popular Topics and High Profile Brands
- Mess-Free & Creative

- Parent-friendly: “no TV or computer screens”
- Value priced and broadly available



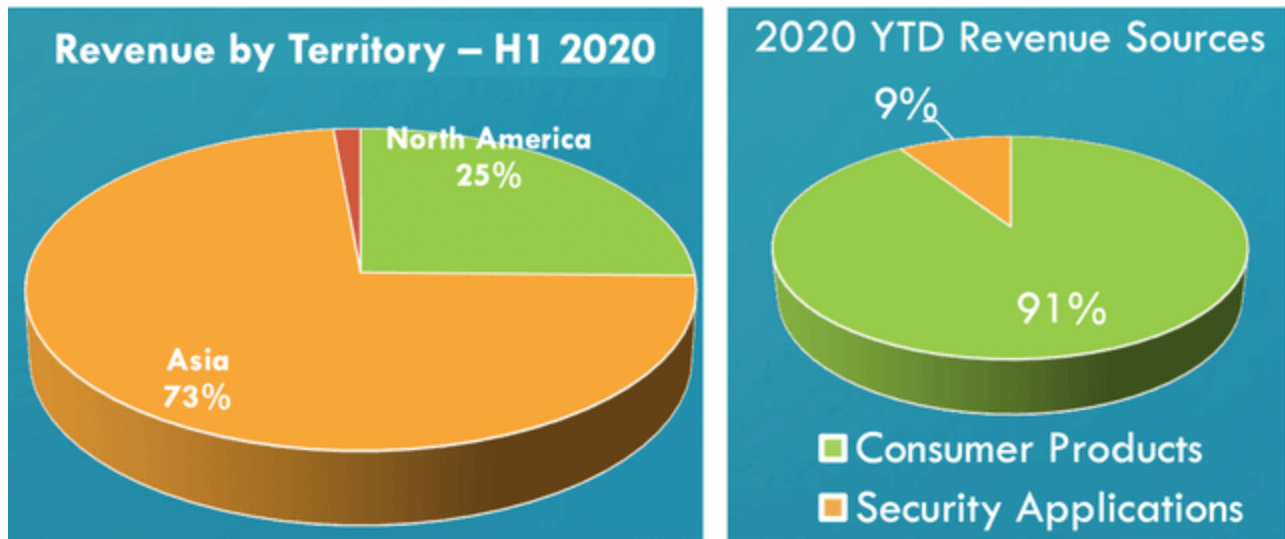
Source: [Corporate Presentation](#)

Nocopi derives revenues primarily from licensing their technologies (on an exclusive or non-exclusive basis) to clients for incorporation into their product offerings, featuring a mix of branded and non-branded content, including many of the highest-profile entertainment names. Nocopi-powered products are available in over 80,000 retail outlets across North America and online including Walmart, Target, and Amazon. The products can also be found at newsstands, drug, convenience stores at airports, train, and bus stations.



Source: [Corporate Website](#)

Initially marketed to the large educational and toy products market, Nocopi's unique technology is also showing promise in addressing and hopefully reducing losses caused by fraudulent document reproduction and product counterfeiting. Nocopi is now marketing its technology to serve a growing base of customers in security applications for global brands across automotive, cosmetics, pharmaceuticals, fragrances, and other sectors. A look at the revenue breakdown for Nocopi shows the huge opportunity for growth in both the North America region and in their pursuit of Security Applications:



Source: [Corporate Presentation](#)

Let's explore these distinct markets further.

Entertainment and Toy Technologies and Products

Kids love to color but parents can dread the clean-up that often follows when young artists let their creative juices flow a little too freely. A key selling feature of Nocopi's patented and revolutionary Rub-it & Color technology is how it eliminates the risk of mess from children's coloring (e.g. no more crayons ground into the carpet and car upholstery, no spilled paint on the rug, or messy markers ruining clothes and furniture, etc.).

As more and more concerned parents look to swap “screen time” for more natural activities, Rub-it & Color ink can be found in coloring books, activity kits, play sheets, place mats, greeting cards, board games, promotional products, or any other paper-based application that is enhanced by injecting what Nocopi describes as their technology’s “fun factor.” This includes specialty inks in a variety of colors that can be revealed by rubbing with a fingernail or other firm object such as a plastic pen cap. They are safe, non-toxic, and conform to all the required safety regulations and toxicology tests.

Although the specific Nocopi segment is only a small piece of the global entertainment and toy products market, that overall pie is a huge multibillion-dollar opportunity that is growing steadily Y-o-Y and bringing the various segments along with it:

Global Toy Market Size

	2014	2015	2016	2017	2018	2019	2019 vs 2018 %change	2019 vs 2014 %change
Total in \$BN	\$79.2	\$82.7	\$86.7	\$89.4	\$90.2	\$90.7	+0.5%	+15%

Source: [The Toy Association](#)

Nocopi has been marketing their Rub-it & Color technology through various agreements with clients since 2004. One of Nocopi’s most high-profile license agreements is with Bendon, Inc. (“Bendon”), an internationally renowned children’s coloring and activity book publishing company. The agreement, extended into 2022, permits Bendon to exclusively market various products that incorporate the Nocopi technologies through a variety of distribution channels.



Source: [Corporate Website](#)

Nocopi has a variety of other licensing agreements, the details of each can be found in their various [filings and disclosure](#). The client list includes a privately-held designer of creative educational products for children granting an exclusive right to utilize the Rub-it & Color ink technology in a new vertical market in the U.S. Another client is a privately-held international publisher of family products and publications based in Australia who was granted marketing of certain products incorporating specific technologies on an exclusive basis excluding North America.

A privately-held children's meal entertainment program provider is also a client that uses the Rub-it & Color ink technology in children's menus, placemats, and other products for restaurants and for sale in certain children's retail outlets. Finally, there is an extended agreement with a client that has a significant presence in the entertainment and toy products market that provides for marketing on a non-exclusive basis throughout the world.

Anti-Counterfeiting and Anti-Diversion Technologies and Products

Global supply chain security is an increasingly complex, festering challenge with significant financial consequences. Imported fake goods are estimated to be \$509 billion or 3.3% of worldwide trade, with at least 24% of US brands/patents impacted. A [report](#) last year from the National Retail Federation (NRF) indicated that theft, fraud, and losses from other retail “shrink” totaled \$61.7 billion in 2019, up from \$50.6 billion the year before. The NRF’s annual [National Retail Security Survey](#) showed that industry security executives reported increases in the number of shoplifting, organized retail crime and employee theft incidents. NRF Vice President for Research Development and Industry Analysis Mark Mathews said:

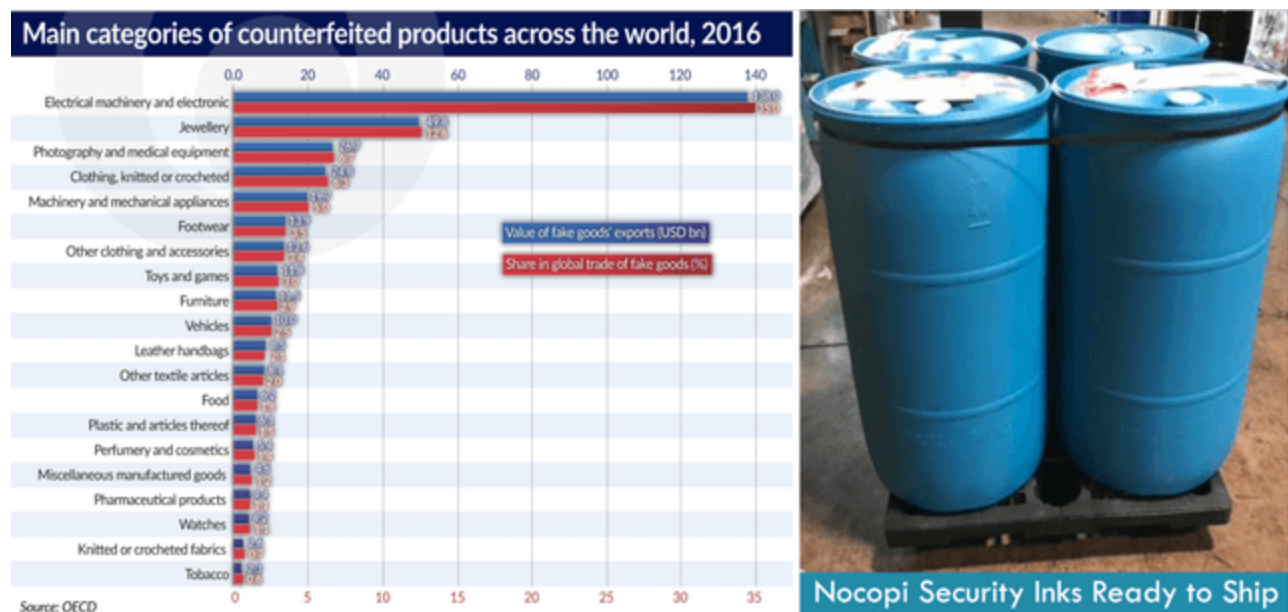
Between an increase in incidents and new ways to steal, shrink is at an all-time high. Loss prevention experts are facing unprecedented challenges from individual shoplifters to organized gangs to highly skilled cybercriminals. Retailers are responding with both traditional methods and the latest technology, but this is an ongoing challenge that can only be won with the support of lawmakers and law enforcement.

As the data confirms, continuing developments in copying and printing technologies has made it easier than ever for criminals to counterfeit a wide variety of documents such as product labels and packaging, retail receipts, event and transportation tickets. The [anti-counterfeit packaging technologies market](#) is expected to reach \$421 billion by 2028 at a 12.8% CAGR from 2020. In 2019, North America led the anti-counterfeit packaging technologies market but Asia Pacific is estimated to become the fastest-growing region between 2020-2028.

Anti-counterfeit packaging technologies that authenticate a product's genuineness, track-and-trace it to offer product and brand security, can help safeguard consumers, brands, and government organizations from the damaging effect of counterfeiting.

To address this global threat and opportunity, Nocopi developed COPIMARK and RUB & REVEAL technologies to provide proprietary document authentication systems that help businesses authenticate a wide variety of printed materials and products. The COPIMARK system enables businesses to print invisibly on certain areas of a document which can be activated or revealed by a special highlighter pen when authentication is required.

Other variations of the COPIMARK technology involve multiple color responses from a common pen, visible marks of one color that turn another color with the pen, or visible and invisible marks that turn into a multicolored image. The RUB & REVEAL system permits the invisible printing of an authenticating symbol or code that can be revealed by rubbing a fingernail over the printed area.



Source: [Corporate Website](#) and [OECD data](#)

Both technologies provide users with the ability to authenticate documents and detect counterfeits. Applications include documents having intrinsic value, such as merchandise receipts, checks, gift certificates, event tickets, and the authentication of product labeling and packaging. When applied to product labels and packaging, these systems allow the detection of counterfeit products, which would not contain the authenticating marks invisibly printed on the packaging or labels of the legitimate product.

Nocopi's marketing efforts for these technologies are focused on specific industries that may be affected by product counterfeiting and also to combat product diversion (i.e. sale of legitimate products through unauthorized distribution channels or in unauthorized markets). The invisible inkjet technology permits manufacturers and distributors to track the movement of products from production to final consumption when coupled with proprietary software. Nocopi anticipates that the "track and trace" capability provided by this technology will be attractive to brand owners and marketers, hopefully producing strong revenues for the company going forward.

Nocopi technology is currently “embedded” with several long-term Fortune 500 customers. The sales cycle can be slow but the business is recurring and offers substantial growth potential. Nocopi currently participates in the retail receipt and document fraud market through licensing arrangements with seven printers and distributors in the U.S. and Canada who provide loss prevention products to retailers and other outlets.

These technologies are marketed through the use of licensed printers and distributors that continue to use the company’s available internal sales and technical resources to expand the number of licensees. Contrast Technologies, formerly Euro-Nocopi, S.A., is a former affiliate of Nocopi that, since June 2003, has held a perpetual license to exploit certain anti-counterfeiting and anti-diversion technologies in Europe.

Nocopi's technology has been developed to easily and cost-effectively incorporate into existing product manufacturing workflow. Some of these technologies are trade secrets where the company has not yet filed patents to document how they are made and therefore is not at liberty to disclose significant information. There are also tight non-disclosure arrangements with their customers because of the sensitive nature of this work. Look to future earnings reports and other updates to investors from Nocopi for further information on this promising and innovative expansion.

The Financials

An interesting highlight from a review of the historical Nocopi financial statements is that there has not been a loss reported since at least 2011. That is almost 10 straight years of break-even or positive earnings. Although there was a slight drop in overall revenue in 2019, a look at the three full quarters reported thus far for 2020 shows that growth is back on track, especially when you consider that the Q4 holiday season is typically their strongest in terms of revenue:

Nocopi Technologies Inc. (OTCQB: NNUP)	FY/2018	Q1/2019	Q2/2019	Q3/2019	Q4/2019	FY2019	Q1/2020	Q2/2020	Q3/2020
Consolidated Statements of Operations - USD (\$)	to Dec.31/18	to Mar.31/19	to June 30/19	to Sept.30/19	to Dec.31/19	to Dec.31/19	to Mar.31/20	to June 30/20	to Sept.30/20
Revenues									
Licenses, royalties and fees	2,242,500	190,500	192,000	189,400	221,900	793,800	164,600	107,100	153,300
Product and other sales	1,099,200	218,900	324,100	448,100	752,500	1,743,600	355,700	520,200	601,500
	3,341,700	409,400	516,100	637,500	974,400	2,537,400	520,300	627,300	754,800
Cost of Revenues									
Licenses, royalties and fees	115,400	25,200	31,600	41,400	70,900	169,100	49,700	58,600	61,900
Product and other sales	445,800	90,300	123,400	166,600	292,300	672,600	201,600	247,200	267,400
	561,200	115,500	155,000	208,000	363,200	841,700	251,300	305,800	329,300
Gross Profit	2,780,500	293,900	361,100	429,500	611,200	1,695,700	269,000	321,500	425,500
Operating Expenses & Income									
R&D Expenses	153,200	38,000	39,400	45,200	43,000	165,600	41,100	41,900	40,700
Sales & Marketing	387,300	68,900	74,300	81,000	105,700	329,900	84,000	86,000	90,900
General & Admin	369,400	94,100	86,900	84,200	128,700	393,900	139,700	120,000	123,800
	909,900	201,000	200,600	210,400	277,400	889,400	264,800	247,900	255,400
Net Income From Operations	1,870,600	92,900	160,500	219,100	333,800	806,300	4,200	73,600	170,100
Other Income									
Interest Income	2,900	1,100	1,500	4,600	4,500	11,700	3,800	4,300	4,200
Interest expense and bank charges	(12,300)	(2,700)	(2,700)	(2,600)	(2,800)	(10,800)	(2,500)	(2,100)	(1,300)
	(9,400)	(1,600)	(1,200)	2,000	1,700	900	1,300	2,200	2,900
Net Income Before Taxes	1,861,200	91,300	159,300	221,100	335,500	807,200	5,500	75,800	173,000
Income Taxes	205,800	5,900	10,400	14,300	21,700	52,300	(47,100)	5,000	9,900
Net Income	1,655,400	85,400	148,900	206,800	313,800	754,900	52,600	70,800	163,100
Basic and diluted net income per common share	\$0.03	\$0.00	\$0.00	\$0.00	\$0.01	\$0.01	\$0.00	\$0.00	\$0.00
Weighted Average Shares Outst.									
Basic	58,616,716	58,616,716	58,616,716	59,614,698	59,443,207	59,443,207	61,044,698	61,044,698	66,768,023
Diluted	58,980,420	58,988,005	58,973,280	59,990,371	59,836,570	59,836,570	61,530,910	61,605,985	66,893,250

Source: Author's Research

In Nocopi's Q3/20 ER announced last November, revenues were up 18% to \$754.8K, a 34% increase in sales thanks to higher specialty ink shipments to the entertainment and toy product market. COVID-related issues negatively impacted overall consumer spending at brick & mortar stores throughout the third quarter but this was offset somewhat by strong increases in online sales. The net effect was a lower level of product sell-through that caused reduced revenues from licenses, royalties, and fees versus the year-ago period.

Nocopi also saw continued weakness in their smaller anticounterfeiting and anti-product diversion applications for specialty ink technologies, primarily due to COVID-19-related plant closures and budget and procurement freezes. The company is optimistic that these markets will return to more normal levels of activity in FY 2021.

Gross profit decreased to \$425.5K, or 56% of revenues in Q3/20, from \$429.5K, or 67% of revenues in Q3/19, primarily due to higher raw material costs and shipping expense related to the COVID-19 pandemic, as well as a smaller relative contribution from higher-margin royalty revenue. Nocopi's gross margin improved sequentially to 56% in Q3/20 compared to 51% in Q2 /20 due to a change toward higher-margin products in the period.

Q3/20 operating expenses increased to \$255.4K from \$210.4K in Q3/19, from increased operational and administrative expense. This included higher salaries and professional fees after Nocopi expanded ink production and staffing in late 2019 to support expected future growth. As a result of all these factors, Nocopi's net income declined to \$163.1K in Q3/20 compared to \$206.8K in Q3/19.

Balance Sheet (TTM)			
Total Cash	1.43M	Current Ratio	9.52
Total Cash Per Share	0.02	Quick Ratio	8.46
Total Debt	171,000.00	Covered Ratio	66.86
Total Debt to Equity	5.29%	Book Value Per Share	0.05
Short Term Debt	-	Debt/Free Cash Flow	-
Long Term Debt	-	Long Term Debt/Total Capital	3.74%

Cash Flow Statement (TTM)			
Net Operating Cash Flow	729,700.00	Free Cash Flow	7,625.00

Source: [Seeking Alpha](#)

The Nocopi Balance Sheet is extremely robust and was further enriched in Q3 with the quarterly guaranteed royalty payments of \$100K received from the four-year license extension that went into effect July 1, 2019. These were reflected in the company's balance sheet and statement of cash flows but are not recorded as revenue. Nocopi's Q3/20 cash collections were strong, with the company closing the quarter with \$2.5M in working capital, including \$1.4M of cash and \$1.0M in accounts receivable. This puts Nocopi in a very strong financial position for the near future and will help weather any unforeseen circumstances.

Chairman and CEO Michael Feinstein, provided this assessment of Q3 and a look ahead:

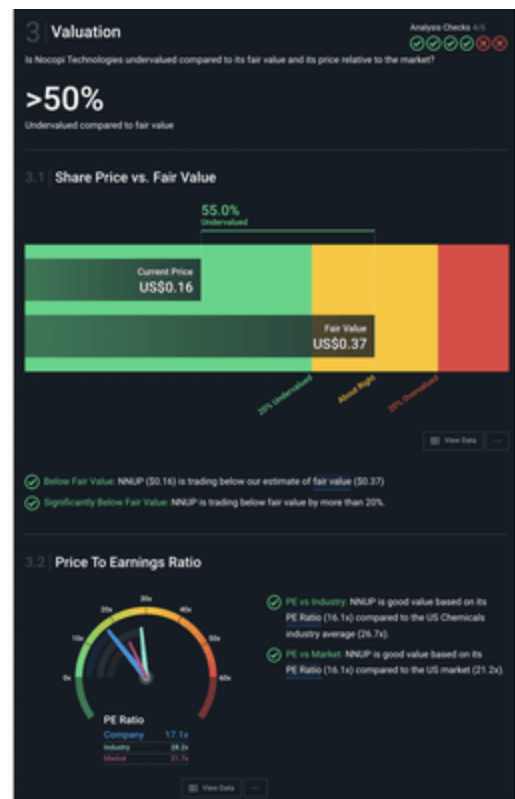
Nocopi achieved another quarter of double-digit revenue growth driven principally by growing demand for our specialty ink technologies used in toy and entertainment products. Specialty ink sales reached the second-highest level in recent periods during the 3rd quarter as our entertainment customers ramped production activity in anticipation of the holiday selling season. We are optimistic that this expanded production activity will support strong holiday sales levels that would contribute to future royalty income for Nocopi. That leading indicator combined with recent team efforts on new products which are variants of our ink technology plus expanded distribution channels led by existing partners sets Nocopi up for success in the next year.

Claiming that access to capital is both challenging and expensive for microcap companies, the CEO confirmed as essential that they “proceed carefully in developing a prudent capital allocation strategy.” We’ll dive into that and other business performance indicators next.

The Business Fundamentals and Valuation

The business fundamentals for Nocopi are solid and a delightful surprise from an OTC stock. Simply Wall St., a financial technology startup that provides comprehensive investment research coverage, employs "[The Two-stage FCFE Model](#)" to provide the following valuation assessment on Nocopi:

FUNDAMENTAL ANALYSIS	Nocopi Technologies Inc.	Commercial Svcs. & Supplies
PER SHARE DATA	To Sept.30/20	To Sept.30/20
Earnings (TTM)	\$0.01	\$3.04
Book Value	\$0.05	\$12.00
Cash Flow (TTM)	\$0.01	\$5.33
VALUATION		
Price/Earnings	18.4x	157.1x
Price/Sales (TTM)	4.1x	1,404.4x
Price/Book (MRQ)	3.7x	380.6x
Price/Cash Flow (TTM)	19.0x	73.6x
PROFITABILITY		
Gross Margin	56.56%	53.99%
Operating Margin	20.22%	15.53%
Profit Margin	20.87%	8.79%
MANAGEMENT EFFECTIVENESS (TTM)		
Return on Assets	17.50%	1.53%
Return on Equity	21.13%	76.26%
Return on Investment	19.52%	9.36%
FINANCIAL STRENGTH (MRQ)		
Debt to Capital	0.00%	50.89%
Current Ratio	9.5x	1.7x
Quick Ratio	8.5x	1.5x
SIZE		
Market Cap	\$11.9M	\$45.0B
Revenue	\$2.9M	\$6.0B
Shares Outstanding	67.4M	391.0M
Employees	3	21,080



Source: Author’s Research and [Simply Wall St.](#)

The extremely low price-to-sales and price-to-book relative to the industry average supports the Simply Wall St. assessment that the share price is currently very undervalued. The strong ROA and ROI are also an enticing draw for fundamental investors. Add to that, the reasonable compensation structure for Nocopi’s senior executives, which includes material ownership stakes, confirms that leadership is motivated to further the best interests of shareholders.

8.3 | Leadership Team

Name	Position	Tenure	Compensation	Ownership
① Michael Feinstein	Chairman	21.0yrs	US\$88.00k \$ 5.57k	\$ 616.1k
① Terry Stowold	Chief Operating Officer	6.67yrs	US\$249.20k \$ 2.0k	0.018%
① Rudolph Lutterschmitt	VP CFO & Chief Accounting Officer	21.17yrs	no data	no data
① Jeanne White	Director of Communications	17.25yrs	no data	no data
① Joel Pinsky	Secretary	no data	no data	no data

Show less

19.2yrs
Average Tenure

73yo
Average Age

Experienced Management: NNUP's management team is seasoned and experienced (19.1 years average tenure).

OWNERSHIP Shares Percentage

Executives/Directors		
Michael Feinstein, MD - CEO	3,752,083	6.20%
Estate of Herman Gerwitz (former Director)	918,196	1.50%
Philip White – Director	311,245	0.50%
Marc Rash - Director	208,333	0.30%
	5,189,857	8.50%
> 5% Stockholders		
SRK Fund I, LP Group (1)	13,228,079	21.90%
Philip Hudson (1)	5,637,918	9.30%
Ross Campbell (1)	3,264,457	5.40%
Smoak Capital & affiliates (2)	4,630,163	6.90%
Westvaco Brand Security	3,917,030	6.50%
	30,677,647	50.00%

Source: Author's Research and [Simply Wall. St.](#)

Nocopi's outstanding shares of 67.4M is high but mitigated somewhat by 58% of the float held by institutions and insiders. The largest shareholder is SRK Capital, LLC at 21.9% in their investment partnership, SRK Fund I, LP. In their February 2021 [update](#) to partners, SRK points out how Nocopi has doubled the amount of cash (primarily used for inventory purposes) on its balance sheet to over 10% of its market cap and at the current share price, it could get to 20% in 2021.

Rather than let that cash idle, SRK suggests Nocopi repurchase shares at opportune times through share buybacks to reward all existing shareholders. In addition, they recommend an uplisting to the OTCQB market to improve the liquidity and visibility of the company to investors.

Nocopi appears to have taken this suggestion to heart as they have included it in their corporate presentation to investors among their "Capital Allocation Priorities - Reinvest Cash Flow to Enhance Shareholder Value" in which they identified a list of key focus areas:

- New Product Development
- Sales, Marketing & Brand Awareness
- **Opportunistic Share Repurchases**
- Possible Joint Product Development JVs
- M&A focused on complementary businesses
- Dividends / Return of Capital

This demonstrates that management is receptive to strategic recommendations to accelerate value creation for shareholders. For illustrative purposes, if Nocopi were to use \$1M of their cash to buy back shares at the current price in the market of around \$0.16, the company could purchase around 6.25M shares. That would reduce the S/O to just over 61M. Not a bad option but if there is a better opportunity to use that cash to grow revenue in the exciting new “Security Technology” space then that would be a much better option. Ultimately the goal is to increase the attractiveness of the company to investors.

Conclusion

When an investor reviews all of the data on Nocopi, it is hard to believe that this is an OTC penny stock trading for under 20 cents currently. Like any company, there are risks associated with customer concentration, contract renewals, and competition but the company is innovating the use of its technology and expanding into new markets to mitigate this risk and continue to grow. Perhaps the summary from the Nocopi corporate presentation provides investors with the most succinct view of the company’s value thesis:

- Proprietary technology enables high margin revenue & royalties
- Scalable “asset-light” business with limited operational needs
- Proven team with financial & operating discipline
- Substantial growth potential via expanded global distribution and new technologies, applications, and customers
- Zero debt & positive cash flow
- Net Operating Losses (NOL) to shelter ~\$1.6M of future income from taxes
- Executing Investor Relation plan to “get on the radar” & build liquidity

Nocopi appears to be striking gold with their efforts on each of those points. I look forward to the upcoming full year ER for updates on their progress.

This article was written by



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Disclosure: I am/we are long NNUP. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

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