



Renewed Domino Effect At Midwest Energy Emissions

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Ticker	Author rating	Price at publication	Last price	Change since publication	S&P 500
MEEC	Strong Buy	-	\$0.44	-	

Summary

- Midwest Energy Emissions has had early success in defending its patents.
- A second round of litigation has concluded the discovery portion.
- The company has restructured debt and turned profitable.
- I expect a flurry of settlements in the near future on the company's patent infringement claims.



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Midwest Energy Emissions ([OTCQB:MEEC](#)), in conjunction with the [EPA](#), developed an emissions solution to control mercury named [Sorbent Enhancement Additive System](#) ("SEA System"). The company claimed that [coal-fired energy generating units](#) ("EGUs") were using MEEC's technology without paying MEEC and filed a patent infringement [lawsuit](#) against the seven largest U.S. coal-fired EGUs alleged abusers in July 2019.

The patent infringement story caught my attention in August 2020 when the company announced that one of the litigants agreed to settle and pay royalties to MEEC. I wrote about the potential windfall from MEEC's patent infringement claim in "[Midwest Energy and the Domino Effect](#)," My investment thesis was that the first settlement would lead to hundreds of other patent infringement companies following suit, similar to a first domino initiating a chain reaction.

MEEC successfully reached additional settlements, but the expected domino effect was short-lived and did not achieve its expected outcome; MEEC's strategy was that the smaller EGUs would capitulate once the larger companies fell in line. My updated MEEC investment thesis is that a second domino effect round is in the making and that the company is developing while the company has improved its financial position enabling it to defend its patents without the need for additional funding.

Background briefing

MEEC acquired the patent portfolio for SEA in 2017 from the EPA. Business activity picked up for MEEC as coal-fired EGUs in the US. are required by the [Mercury and Air Toxic Standards](#) ("MATS") to remove 80% of mercury from emissions. But revenues declined sharply in 2020 to \$8.2 M from \$12.3 M in 2018. Management attributed the loss in business to former customers either formulating their own version of SEA or acquiring it from somewhere else without paying royalties to MEEC.

The company has successfully regained customers which sign multiple-year contracts on a recurring revenue basis. Revenues have once again been growing and are currently on a \$20 M run rate. Management [guidance](#) forecasts revenue growth exceeding 50% for fiscal 2023, even without additional settlements or courtroom wins.

The discovery phase has been concluded in the second round of patent-infringement litigation that the company has filed. According to a recent [Shareholder Letter](#), a court hearing is scheduled for mid-November. Some or all litigants may settle before the scheduled hearing date.

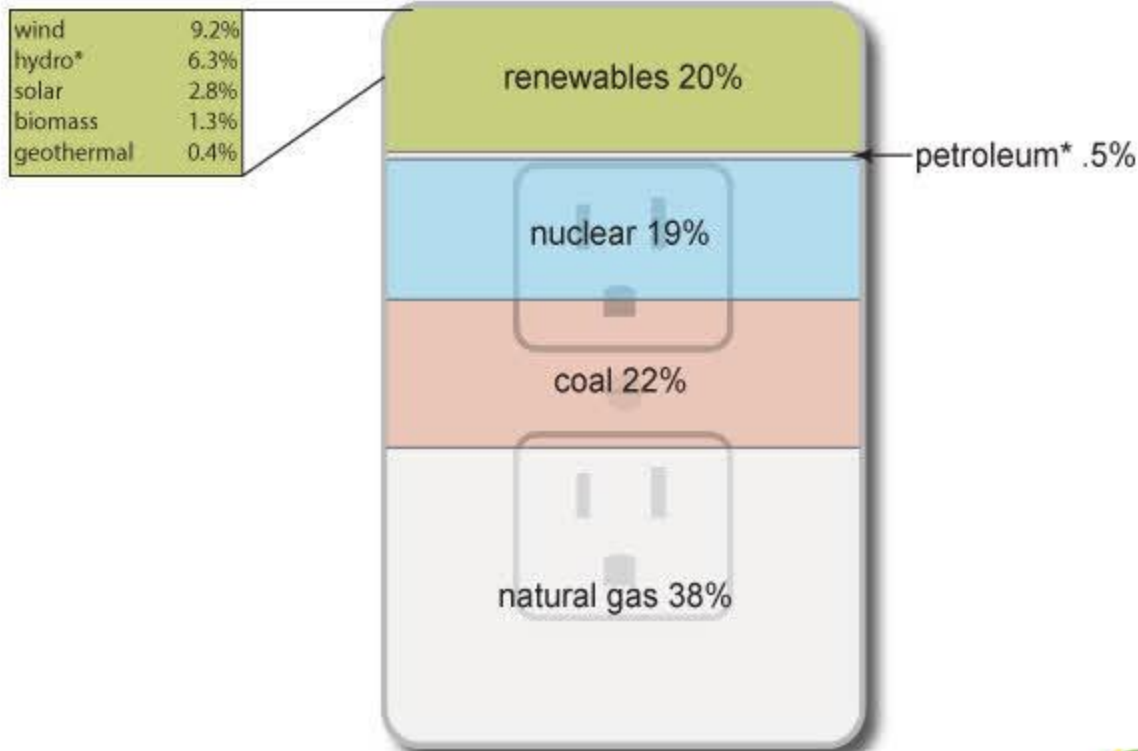
A December press [release](#) reported a new customer, which is most likely a litigant settling to avoid court. It is difficult to place a value on how much each contract is worth. A previous [investor presentation](#) cited that MEEC charges about half of what competitors charge, resulting in contracts with \$1 to \$5 million per year, depending on the size of EGU.

Market outlook

Coal usage has been on a decline, but there are currently 229 coal-fired EGUs in the U.S. that account for about 20% of the country's total electricity production.

Sources of U.S. electricity generation, 2021

Total = 4.12 trillion kilowatthours



Data source: U.S. Energy Information Administration, *Electric Power Monthly*, February 2022, preliminary data

Note: Includes generation from power plants with at least 1,000 kilowatts of electric generation capacity (utility-scale).

*Hydro is conventional hydroelectric. *Petroleum includes petroleum liquids, petroleum coke, other gases, hydroelectric pumped storage, and other sources.



US DEPT. OF ENERGY

The company reported that it had 16 EGU customers in its Nasdaq listing application [S-1 filing](#) in November 2021, which leaves most of the coal-fired EGUs as potential customers. Coal-fired EGUs benefitted from the war in Ukraine, creating natural gas shortages. Coal prices doubled in 2022, putting the typically thin profit margin MEEC litigants in a better position to enter financial settlements.

Financials

There are about 93 million shares. The market cap is \$38 million. The company has about \$13 million in debt and just over \$1 million in cash resulting in an EV of \$50 million.

The majority of the debt is owed to the company's largest stockholder. An agreement was made to suspend interest payments for three years. A percentage of profits will go towards debt reduction during this period.

Increased revenue has returned the company to [profitability](#). Profitability, cash position, and debt relief remove the going concern status as the company is sufficiently funded to maintain operations.

Management has frequently indicated that they remain interested in uplisting to Nasdaq as originally planned over a year ago. There would probably be a capital raise conducted along with an uplisting in order to address the debt.

Rare-earth minerals

The majority of the supply of rare earth minerals originates in China. The U.S. currently has only one operating rare-earth mineral mine. It is simply a matter of cost, as it is much cheaper to mine in China. Due to supply concerns, the U.S. hopes to revitalize its rare-earth mineral mining. The Biden administration has provided [funding](#) to initiate this endeavor. MEEC is conducting feasibility studies to use its technology in rare earth mining.

Risks

There are no guarantees that MEEC will continue establishing royalty payments from the alleged infringers. Coal usage continues to decline and is expected to [decline](#) at a rate of 1% per year in the short term.

Conclusion

MEEC has been successful in defending its patents. I believe that previous success establishes the basis for continued success. The company has returned to profitability and has been growing revenue at a fast pace. Due to the increasing reliance on renewable energy, I am investing in MEEC purely for the patent infringement angle. It is positive that the company has established a financial position to support itself while continuing to defend its patents.

Editor's Note: This article discusses one or more securities that do not trade on a major U.S. exchange. Please be aware of the risks associated with these stocks.

This article was written by



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I write about and invest in mostly early commercial stage companies that have a large TAM and zero to little direct competition. I will provide updates on companies that I introduce as long as the goalposts set by

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