

Mossberg's Investor Digest

Best Idea Profile: Naturally Advanced Technologies, Inc (OTCBB: NADV.F.OB)

DESCRIPTION:

Headquartered in Vancouver, Naturally Advanced Technologies provides bast fibers used to partially replace cotton in various applications. NADV.F's flagship CRAiLAR product, developed in conjunction with the Alberta Research Council, uses a proprietary enzyme treatment that turns bast fiber stock such as flax and hemp into fibers that are as comfortable as cotton but far more durable and eco-friendly. NADV.F's patented technology has been validated through joint development agreements with industry leaders that include Hanesbrands, Inc. and Georgia-Pacific Consumer Brands. In the near-term NADV.F is focused on commercializing its CRAiLAR flax fibers for use in casual apparel. CRAiLAR flax is a sustainable crop that requires no irrigation and little or no chemical fertilizers or pesticides, yet is ideally suited for use in fine knit garments such as t-shirts. CraiLAR flax is a cost-effective complement to cotton and costs less per pound to produce than cotton. Future applications for CraiLAR Flax may also include biofuel and agriculture.

KEY INVESTMENT CONSIDERATIONS:

Key Technology Partners – Working with the Alberta Research Council and the National Research Council of Canada, NADV.F has developed proprietary technologies to process organic fibers into superior decorticated bast fiber, organic bast fiber, dissolving pulp and fluff pulp. These are all environmentally friendly products that are fully fungible with traditional pulp and cotton processing lines. The products offer the comfort apparel, absorbent pulp and paper, and performance apparel sectors the ability to substitute superior natural fiber alternatives into their existing production lines. There is also significant potential for commercial use of these technologies in existing and emerging markets.

Recent Events – Last week, NADV.F agreed to a 10-year CRAiLAR fiber supply agreement with Hanesbrands Inc. that will commercialize the NADV.F's proprietary fibers. This represents NADV.F's initial commercialization agreement for CRAiLAR and establishes the foundation for continued adoption of its proprietary flax-based fiber. Hanesbrands made its first purchase of 10,000 lbs of CRAiLAR in the first quarter of 2010 and, after successful spinning trials, announced a final evaluation phase in Q2 2010. In December 2010, the companies announced additional product testing that called for Hanesbrands to purchase up to \$375k of CRAiLAR Flax fiber between Dec. 1, 2010 and early 2011.

Cotton Prices – CRAiLAR Flax is soft like cotton, has a similar color, and performance traits. CRAiLAR Flax and cotton look the same, fit the same and wash the same. Yet CRAiLAR Flax fibers shrink less than cotton fibers, wick moisture better, and have increased dye uptake, meaning they require fewer chemicals to achieve the same depth of color. The price per pound of cotton has increased to nearly \$2.00 per pound in recent months. Cotton prices are expected to remain high for structural reasons over the next several years. According to a National Cotton Council Report, CRAiLAR should be able to remain a sustainable High Yield Crop for as low as \$1.25 and perhaps as low as \$0.90. Since CRAiLAR is a substitute for Cotton, current and intermediate term pricing may create strong demand as producers search for more cost effective raw materials.

VALUATION:

NADV.F should be begin generating rev during the current quarter and quickly ramp from there. Last week, the CEO said that company should "begin shipping to our full existing capacity beginning in April 2011". Based on the capacity number in the most recent conference call (100k lbs. per week), that could translate into \$5 to \$6 million in annualized revenue to start. The opportunity with Hanes alone is obviously much larger (Hanes uses 2MM lbs/ of cotton per week for socks alone). Continued pressure on cotton prices and the potential for meaningful revenue generation in the near term should continue to attract investors to this story.

(OTCBB:NADV.F.OB)

Investment Data (as of 3/21/11)

Recent Price	\$1.94
52-Week Range	\$0.63 - \$1.85
Fiscal Year End	Dec
Shares Outstanding	35.3MM
Average Trading Volume (3 mos)	60,000
Market Capitalization	\$69MM
Cash	\$334k
Long Term Debt	1.1MM
Enterprise Value (EV)	\$70MM
LT Debt/ Equity	NA
BV/ Share	NA
TTM Revenue	NA
P/ Revenue	NA
TTM EPS	-\$0.10
P/ EPS	NA
TTM EBITDA	NA
EV/ EBITDA	NA

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