



# 2018 ANNUAL REPORT

# Letter from the Chairman

Dear Shareholders and Customers:

I am happy to share with you the beginning of a new era at Equitech Int'l (EQTL).

Looking back, we began 20-years ago building technology that was significantly ahead of its time.

As founder and with the help of early employees we envisioned the power of data exchange in manufacturing processes even before it was named 'Industry 4.0'. It took a lot of capital, trust, sacrifice, and energy from all of us to develop the technology to a point where it is now beginning to be accepted by the manufacturing community.

Industry 4.0 fosters what has been called a "smart factory". That is, systems that are interconnected (via the Internet), monitor physical processes and cooperate with each other, and with humans, in real-time. Equitech is well positioned to benefit from Industry 4.0 efforts. The current trend of automation and data exchange in manufacturing processes requires reliable hardware and software that originates such data; Equitech already has both.

## Licensing our Technology

Equitech is the inventor, developer, and licensor of a UV-vis fiber-optic-based technology used to measure, in line and in real time, manufacturing process lines. Our technology enhances the customers' ability to reduce waste, guarantee in-spec conditions, and improve processing equipment efficiency.

Our first and only licensee (2010) was a startup company (ColVisTec) in Germany. Under the Licensing Agreement (LA), ColVisTec acquired the rights to manufacture and sell our technology in a limited territory (Europe and the Middle East). In addition to the licensing agreement, Equitech signed a Manufacturer Supply Agreement (MSA) with ColVisTec in June of 2014 agreeing to secure all instruments and probes manufactured in Germany. Equitech enjoyed working with a talented team of scientists in Berlin to advance the capabilities of our technology. We also agreed to significantly higher prices ColVisTec established that failed to resonate well with our customers in the USA and, as a result, our sales plummeted. Customers' feedback stated that payback time for our technology was not acceptable to them.

The combination of long technology adoption cycles by our customers and our high prices produced very disappointing results. In 2017 ColVisTec unilaterally canceled the MSA. Equitech and ColVisTec currently both have an equity interest in each other's company's stock.

## Real Time Process Measurements

With the help of our industrial partners, we have successfully improved the company's initial technology to meet and exceed rigid commercial expectations. Advanced prototypes were launched in early 2014 in Europe and early 2016 in the USA. The primary hurdle was making the instrument and the fiber-optic probes optically stable and rugged for repeatable measurements in a harsh process environment [high temperatures, high pressures, moving/flowing process materials]. This involved design iterations on both the instrument and various probes to improve the results, as well as advancements in the operating software.

Equitech systems offer innovative measurement technology (inline, real-time) for a myriad of industrial processes. We achieve this utilizing our own state-of-the-art spectrophotometer (Millennium 3) that was conceived, designed and built by Equitech to withstand industrial environments. Our systems use fiber-optic technology that allows for a very flexible interface into the process - helping our customers provide critical observations which can be used for early detection and control.

Our hardware products are complemented by our specialized software that is used to collect data that can be used for full operation traceability, minimizing out-of-spec parts, claims, and potential litigation. Hardware and software are supported by our own process measurement experts, who with years of experience, help our customers maximize improvements in process quality and efficiency.

We have been successful in placing a good number of prototypes and numerous finished systems in various industries. Early Adopters have validated our technology and offered feedback that we have used and continued to use to enhance our technology and design our next generation instruments and probes. Since the introduction of our latest generation systems; we are encouraged by our growing sales pipeline.

# Letter from the Chairman

## Industrial Applications

Equitech's technology has many applications in the Plastics and Manufacturing Industries: the production of acrylic and polycarbonate sheets, the production of PTA, PET, and Nylon, and the production of window and door profiles, laminates, vinyl siding, carpet, piping, tubing, as well as other extruded products. Color measurements are critical in these manufacturing lines. Customers in these industries include BASF, Plygem, Mohawk, Eastman, DuPont, Pharr Yarns, Plaskolite, PolyOne, Krauss Maffei, and many others.

Our systems and probes are also used in the Paint Industry for the control of blends and pigment milling operations; in the Chemical Industry for the monitoring of chemical concentration and the detection of certain chemicals in processes, and in the Pharmaceutical Industry for the detection of certain aromatic compounds. Customers in these industries include BASF, DuPont, Chemours, Solvay, Pfizer, Bristol Myers Squibb, and GlaxoSmithKline.

A white paper entitled: "Studying residence time distributions in co-rotating twin screw extruders" was presented in the Compounding World Forum 2018 by Dr. Jeff Galloway Krauss Maffei Berstorff. Krauss Maffei and Equitech studied the effect of different screw elements in a twin-screw extruder. Various combinations of KM's elements were used in the experiment to demonstrate their efficiencies. With the Equitech In-line Color Spectrophotometer (ICS), observation of residence time was recorded. The Equitech ICS now makes real-time measurements possible.

## Technology Advancements

### *Software (EquiColor)*

Equitech added to EquiColor the Interactive Laboratory Offsets functionality during 2018. During a production cycle and once a product color is stable, the customer would like to track the process until the completion of a run. Because of many factors, including optics, temperature, pressure, flow, etc., online color values rarely match the laboratory results. Operators are often very familiar with the numerical values that their on-site lab has produced for many years.

EquiColor now has an offset adjustment that the operator may employ to shift the in-line color values to match the lab's results. The operator brings the grab sample results back from the lab and enters them into EquiColor. Immediate correction is made to the displayed online results and the In-line Color Spectrophotometer continues to track the process within the user-defined alarm limits.

## New Strategic Plan

With the cancellation of the manufacturing supply agreement and prices that were unacceptable to our customer base, the company retained Dr. Jaime Gomez in late 2018 to help us explore restructuring alternatives. Dr. Gomez has over 25 years experience in a variety of industries including plastics and the applications offered by spectrophotometers. Dr. Gomez was the Executive VP of Equitech between 2003 and 2006 and has intimate knowledge of both our technology and its applications. Dr. Gomez has been VP of several companies, President of one and is currently a member of the Board of Directors, and the President-Elect of the Society of Plastics Engineers.

In late February, the Board reviewed Dr. Gomez' findings and made the following decisions:

- a. Retain a new President & CEO
- b. Continue developing manufacturing capabilities in the United States
- c. Introduce new marketing and sales initiatives including pricing adjustments needed to address our markets.
- d. Develop a business and financial plan to provide resources necessary to reward all stakeholders for their continued support.

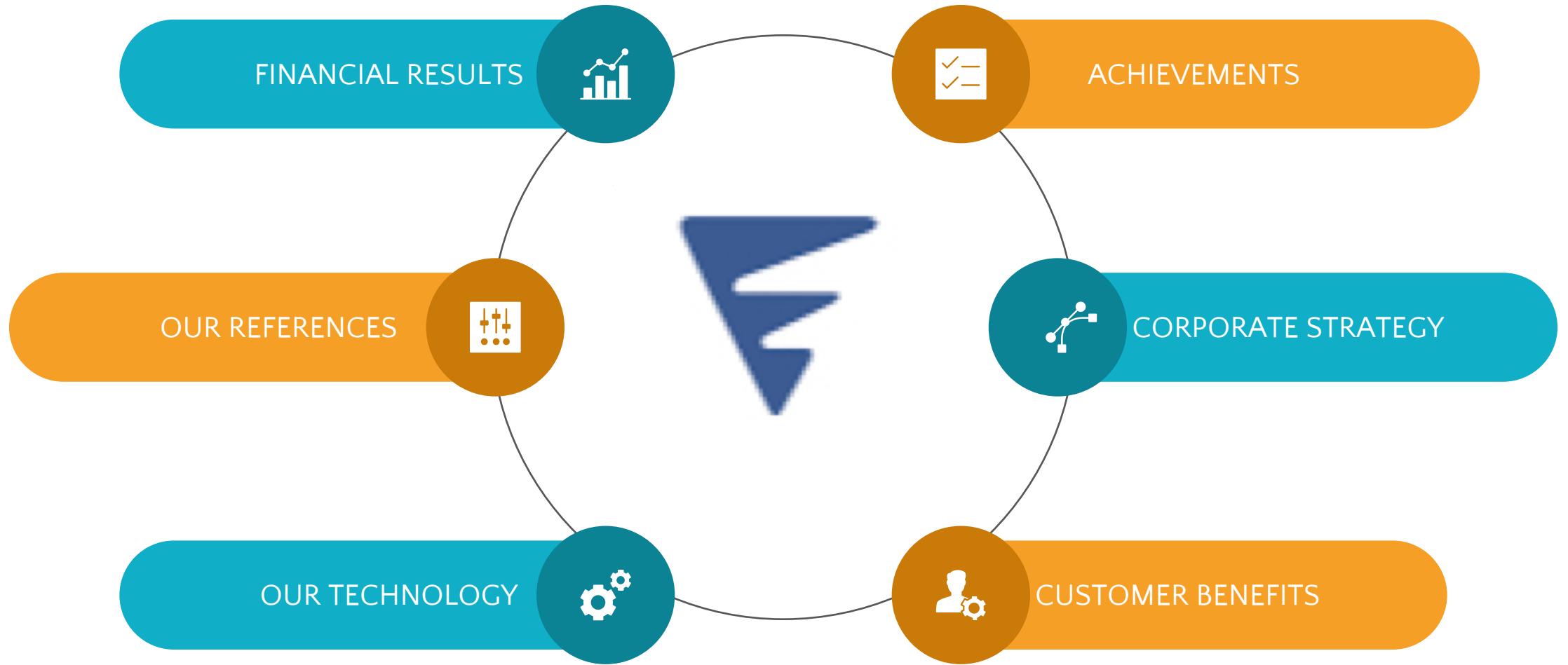
The incoming President will be responsible for the development of a new strategy that will accelerate the adoption of our technology in all markets. Manufacturing in the USA brings benefits directly to our customers because it allows us to significantly lower technology adoption hurdles. Our new prices are geared towards providing our customers with improved payback and ROI on their investment in our technology while providing them with excellent customer service.

We have an active search underway for a new President & CEO and additional management talent as resources allow. I am pleased to provide shareholders with regular updates that will be posted on our website. [www.equitechintl.com](http://www.equitechintl.com).

Sincerely,

Ron Floyd  
Chairman of the Board  
March 1, 2019

# Table of Content



# Our Technology

## INSIDE THE EXTRUDER

The RPMP probe is specially designed to withstand the high temperature and pressure often found in extruders



*Equitech's inline UV-VIS technology continuously monitors your production without any sampling or process interruption*

## SPECTROPHOTOMETERS

- Designed to work 24/7 in industrial environments
- Each instrument can measure up to 2 production lines
- Fiber optics allow to position it far from measurement area

## PROBES

- Specially designed to withstand harsh environmental conditions
- Ability to measure solids, liquids, slurries, pastes, and gases
- Fiber optics configuration provide flexibility for its location

## SOFTWARE

- **EquiChem™** provides a variety of chemometric techniques to provide real-time predictions of chemical concentrations
- **EquiColor™** enables operators to monitor L\*, a\*, b\* under a series of illuminants and observers
- **EquiFilm™** measures film thickness from 0.5 to 300 microns

# Customer Benefits

## RETURN ON INVESTMENT

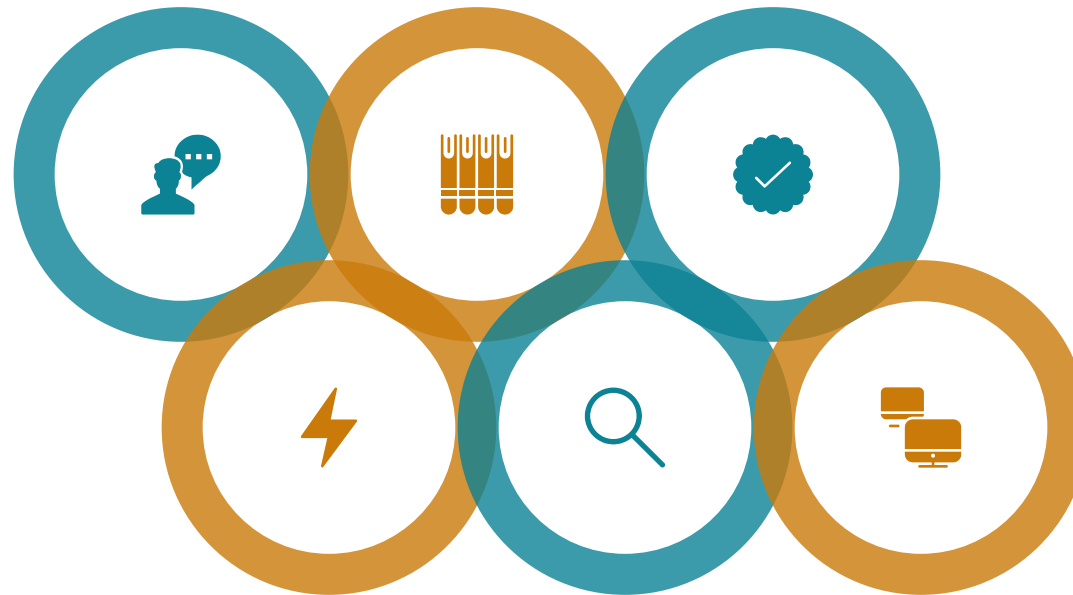
- PROCESS DOWNTIME MINIMIZATION
- RAW MATERIAL OPTIMIZATION
- WASTE & REWORK MINIMIZATION
- GUARANTEED OF IN-SPEC PRODUCTS
- MINIMIZATION OF LEGAL ISSUES

## REAL-TIME MEASUREMENT

- 100% INSPECTION
- CONTINUOUS PROCESS MONITORING

## WASTE MINIMIZATION

- RAW MATERIAL USAGE OPTIMIZATION
- EARLY DETECTION OF DOSAGE PROBLEMS
- SCRAP MINIMIZATION



## PROCESS CONTROL

- FULLY AUTOMATED
- CONTINUOUS MONITORING
- PROCESS STABILITY
- IMMEDIATE CORRECTIONS

## NO SAMPLE PREPARATIONS

- NO WAITING FOR LAB ANALYSIS
- NO SAMPLE CONTAMINATION
- NO HUMAN ERRORS

## CUSTOMER NEEDS

- LOW CUSTOMER COMPLAINTS
- IN-SPEC PRODUCTS
- ELIMINATION OF RETURNS
- MEET CUSTOMER NEEDS

# Our References

M B A R I



**LP**

BUILDING PRODUCTS



**Nestlé**

**DU PONT**

**EVONIK**  
POWER TO CREATE

**EASTMAN**

**Wilsonart**

**DIVERSITECH**

**gsk**  
GlaxoSmithKline

**CertainTeed**  
SAINT-GOBAIN

**PolyOne**

**Chemours**

**OWENS CORNING**

**Ciba**

**pharr**  
FIBERS AND YARNS  
A pharr FAMILY COMPANY

**Ply Gem**

**SOLVAY**  
asking more from chemistry®

**DuPont Tate & Lyle**  
**BioProducts**

**Pfizer**

**BASF**  
The Chemical Company



**ALCOA**

**遠東新世紀股份有限公司**  
FAR EASTERN NEW CENTURY CORPORATION



**Bristol-Myers Squibb**

**INVISTA**

**سابك**  
**sabik**

**MOHAWK**



**TRU VUE**

**PLASKOLITE**

**SCRIPPS INSTITUTE OF OCEANOGRAPHY**

**Tarkett**

# Applications

## PLASTICS

## CHEMICALS

CONTACT PROBE

### COLOR IN EXTRUSION PROCESSES

- › Reaction Extrusion
- › Closed Loop Control in PP Recycling Operation
- › PET & Other Extruded Fibers

### CONCENTRATION IN CHEMICALS PRODUCTION

- › TiO<sub>2</sub>
- › Toluene Concentration
- › HCN Production
- › Monochlorobenzene
- › PTA and PET Production
- › Adhesives

NON-CONTACT PROBE

### COLOR IN MANUFACTURED PRODUCTS

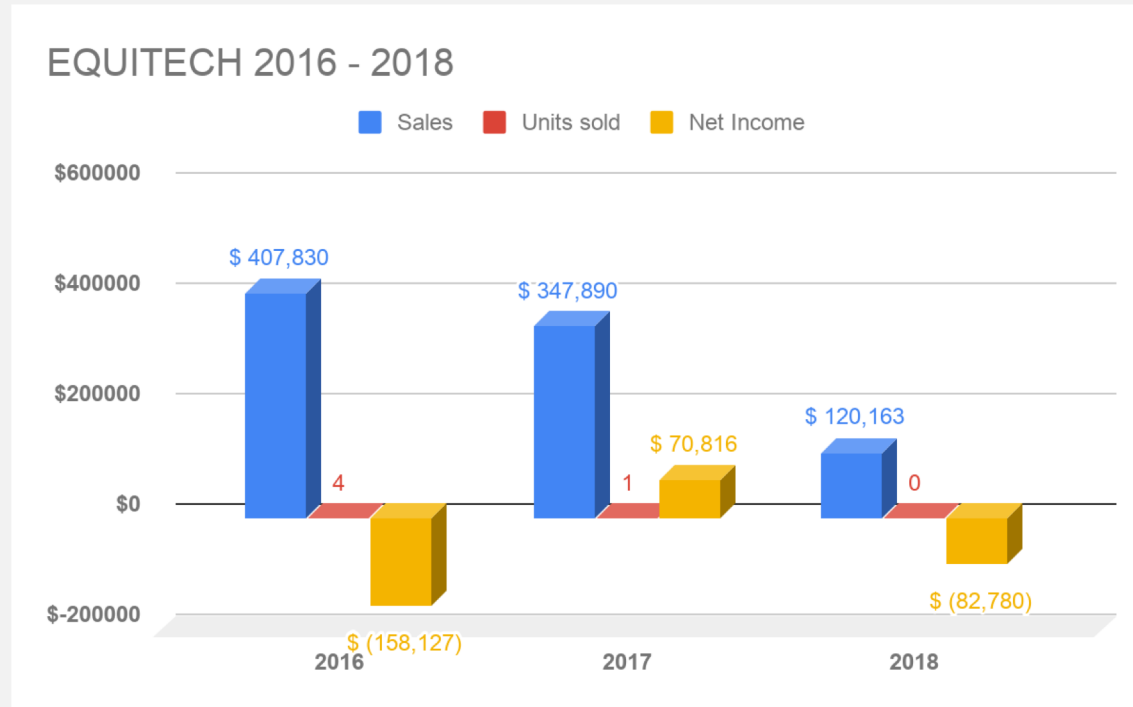
- › Acrylic Sheets for Translucent Signs
- › Vinyl Siding
- › PVC Profiles
- › Fibers & Yarns

### THICKNESS & UV BLOCKAGE OF COATINGS

- › Glass Coating
- › Thickness of Windshield Coatings



# Financial Results



## REVENUES

**\$120,162**

Revenues from sales were 65.46% lower compared to 2017

## GROSS PROFIT

**\$21,827**

Gross Profit was 88.03% lower than in 2017.

## NET INCOME

**(\$82,780)**

Net Income decreased significantly compared to 2017

# Financial Results

## EXTERNAL ISSUES

### SALES - CHALLENGES FACED

- › Certainly very disappointing results for the company that contrast with the aggressive advancements made with our technology
- › Despite numerous customer trials and a growing sales pipeline, we did not receive orders for any of our systems
- › We have determined that our control of the sales cycle is limited. Customers extend their trials for several reasons, including lack of internal resources for the installation of our technology
- › The international prices set up by our licensee in Berlin proved to be a deterrent to the adoption of our technology. Customer's feedback states that payback time for our technology takes too long at current prices
- › A close financial analysis shows that gross margins were 50% less than our previous year and insufficient to cover the company's operating expenses
- › Installations and service depleted the small gross margin left over after paying our licensee for the use of the units

### NEW STRATEGY - OPPORTUNITIES AHEAD

- › A detailed analysis of our results during the past 3 years have shown that our relationship with our licensee has put Equitech at a clear disadvantage in the market
- › Despite difficult times, the company provided its customers with unmatched solutions for different applications
- › While employees committed themselves to save the company with the adoption of a new strategy, repeat business from loyal customers was instrumental to end the year with minimal losses
- › At the end of the year, Dr. Jaime A. Gomez was retained by the company as an advisor to the BOD
- › Dr. Gomez, a former VP of the company between 2003 and 2006 began an exhaustive due diligence speaking to employees, customers, providers, and former partners to devise a plan to rescue the company
- › This new strategic plan, depicted in the following slides, will be rolled out at the beginning of 2019

# A NEW STRATEGY

Short-Term Focus to Turn the Company Around



## Sales

STIMULATE TECHNOLOGY DEMAND

- Introduce new pricing
- Leverage successful applications



## Manufacturing

LOWER PRODUCTION COST

- Relocate manufacturing back to the USA
- New partners



## Finances

STRENGTHEN COMPANY

- Improve cash flow
- Reinvesting net income to grow company inventory



## Communication

DELIVER THE MESSAGE

- Establish periodic reporting (Financials & Press Releases)
- Deploy new marketing & communications Plan



## Customer Service

GREAT TO UNPARALLELED

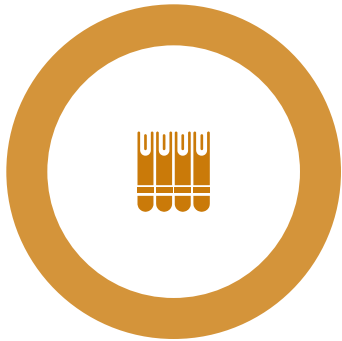
- Introduce service agreements
- Introduce annual maintenance agreements

# Strategy Explained



## MANUFACTURING

- COMPLETED A DETAILED COST ANALYSIS AND CONCLUDED THAT THE COMPANY WILL BENEFIT FROM RE-STARTING ITS MANUFACTURING OPERATIONS IN THE USA
- SCALE UP PRODUCTION OF KEY COMPONENTS TO LOWER 'PER UNIT' MANUFACTURING COST
- RE-ESTABLISH PARTNERSHIPS AND VENDOR RELATIONSHIPS WHERE APPROPRIATE



## CUSTOMER SERVICE

- INTRODUCE TO THE MARKET ANNUAL MAINTENANCE AGREEMENTS (AMAs)
- AMAs BENEFIT GREATLY OUR CUSTOMERS: THEY RECEIVE TWO VISITS PER YEAR OF ONE OF OUR CERTIFIED & TRAINED TECHNICIANS AND A SIGNIFICANT DISCOUNT IN SPARE PARTS
- ADJUST SERVICE AGREEMENT PRICES



## SALES

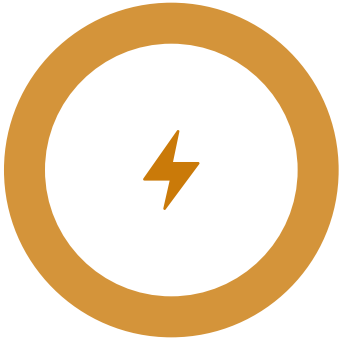
- INCREASE SALES BY DECREASING RATE-OF-ADOPTION TIME
- INTRODUCE NEW (LOWER) PRICES TO THE MARKET IN 2019
- TARGET MANUFACTURERS WHERE OUR TECHNOLOGY HAS BEEN SUCCESSFULLY DEPLOYED IN THE PAST
- OFFER LEASING AGREEMENTS TO CUSTOMERS TO AVOID LONG CAPEX APPROVALS

# Strategy Explained



## FINANCES

- REFINANCE EQUITECH
- MINIMIZE OPERATING EXPENSES & IMPROVE CASH FLOW
- OFFER LEASING FEES TO HELP SALES OBJECTIVE AND IMPROVE MONTHLY CASH FLOW



## COMMUNICATIONS

- DEVELOP A COMPREHENSIVE MARKETING & COMMUNICATIONS PLAN
- ESTABLISH DIRECT COMMUNICATION WITH COMPANIES THAT HAVE TRIED (AND NOT PURCHASED) OUR TECHNOLOGY IN THE PAST
- DEVELOP A NEW WEBSITE
- REPORT QUARTERLY OPERATIONS & FINANCIAL RESULTS
- PROVIDE PERIODIC PRESS RELEASES FOR THE BENEFIT OF ALL STAKEHOLDERS



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