

W.R. Grace Could Unlock Value by Selling its Pharma Business, Says Analyst

Sep 8, 2020 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

J W.R. Grace should sell its pharma business or Materials division in its entirety. Etalon Capital analyst Alex Gavrish believes such a move will unlock hundreds of millions of dollars in shareholder value.

"We think that W.R. Grace should sell its consumer/pharma business which is part of company's Materials segment. W.R. Grace reported a very strong growth in consumer/pharma end user demand in Q2. The consumer/pharma business itself could be valued at \$500 to \$600 million which is about 20% of company's current market cap"

In fact, the company might sell the Materials segment in its entirety and focus on the main Catalysts division.

W.R. Grace currently trades at a depressed valuation partially due to decline in the consumption of gasoline and resulting decline in the demand for company's products. At current market price W.R. Grace trades at about x8 EV/EBITDA based on FY 2019 results.

Shares also did not perform well overall: over past five years (post GCP Applied Technologies separation) the stock price declined by about 38% percent compared to a 79% return of the S&P 500 Index.

Selling Materials segment entirely can bring in about \$1.1 billion.

“What is interesting is that this seems to be the case when a sum-of-parts valuation really makes sense”

For FY 2019, Materials segment (with corporate costs considered) generated about \$97 million in EBITDA while its capital expenditures were \$69 million. By selling the segment W.R. Grace will not only remain with same level of free cash flow will even increase it due to lower interest costs.

Combined with market normalization and products demand returning to 2019 levels, such efforts could speed up company’s revaluation by Mr Market.