

## Elementis plc: Buyout Speculation Or Attractive Story Structure?

*Jan 15, 2020 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"*

On January 10<sup>th</sup>, Elementis plc disclosed that after rejection of last proposal by Minerals Technologies Inc. to acquire company for GBP 1.30 per share, Mineral Technologies Inc. will not make a firm offer for Elementis at present.

We agree with Elementis plc management and board of directors that the offer is highly opportunistic and significantly undervalues the company and its business.

We think that at present market price shares of Elementis represent an attractive investment opportunity.

But not because there is a possibility for a revised buyout offer (although there is a chance for it happening) and not because certain hedge funds decided to acquire the shares recently.

We think that investors can identify required elements of a story structure in company and its shares.

Elementis made two large (relative to its size) acquisitions in 2018 and 2017.

In 2018 Elementis [acquired](#) Mondo Minerals from U.S. private equity firm Advent for \$500 mil, in order to expand into talc additives used in a range of products from plastics to cosmetics.

In 2017 Elementis [acquired](#) SummitReheis, a global leader supplying anti-perspirant active ingredients for personal care for \$360 million.

SummitReheis transaction reflected an EV/EBITDA valuation multiple of x12.9 (based on FY 2016 expected EBITDA).

Mondo transaction reflected an EV/EBITDA valuation multiple of x13.9 (based on FY 2017 EBITDA of EUR 31 mil).

These two acquisitions represent 92% percent of Elementis current market capitalization of GBP 679 mil.

Applying a x13.5 EV/EBITDA valuation multiple to Elementis plc FY 2019 EBITDA of \$175 mil would value the company at \$1,910 mil or GBP 2.40 per share, an upside of 105% percent.

What is important here is that investors do not need to build their investment case only on a possible buyout offer. Based on current market price, Elementis is valued at an EV/EBITDA multiple of x8 and has a Free Cash Flow Yield of 10% (based on FY 2019 results). The company's story structure that is in place gives investors a good chance to profit even without alternative buyout offer.