

Valvoline: Event-Driven Strategy Benefits

May 27, 2022 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

One of the reasons event-driven value strategy is attractive is the possibility to reduce correlation with broader equity markets.

The reason for why it is possible to achieve this is that when there exists an event, either in hard form - for example, announced merger or acquisition or in certain "soft" form - if an event is expected, - market participants cannot ignore it.

The interest and focus on company growths and investors must analyze and value the company in light of the announced or expected event.

All of this in turn can reduce the correlation of company's share price with broader market, especially during periods of market declines or increased volatility levels.

In my book "[Risk Investing](#)" I discussed the idea in more detail, proposing to focus on situations where we can aim for a more defined risk-reward profile when there exists a risk "structure" at the level of an individual stock or company.

On September 8th, 2020, we [recommended](#) shares of W.R. Grace and wrote about the possibility of unlocking shareholder value by selling its consumer/pharma business or selling materials segment entirely.

Two months later, W.R. Grace received a [buyout](#) offer at an [increased](#) share price of \$65 per share from company's top shareholder 40 North Management LLC.

In April 2021, company [received](#) a new buyout offer from Standard Industries Holdings to be [acquired](#) for \$70 per share in cash.

Since our recommendation and until this buyout offer (April 26th, 2021), W.R. Grace shares returned 60.8% percent compared to a 23.7% percent return of the S&P 500 Index.

We think that an interesting situation currently develops in shares of Valvoline.

On October 12th, 2021, Valvoline [announced](#) that is plans to pursue a [separation](#) of its two business segments, Retail Services and Global Products.

On May 25th, 2022, it was reported in the [media](#) that Saudi state oil giant Aramco approached Valvoline about potential [takeover](#) of its Global Products business.

Company currently has a market capitalization of \$5,859 million, an Enterprise Value of \$7,436 million and is currently valued at an EV/EBITDA multiple of x10.82 (Adjusted EBITDA guidance for FY 2022).

Using our valuation assumptions, we believe that shares of Valvoline have a significant upside potential post a possible sale transaction of its Global Products business.

Even on an as-is basis, we believe shares are attractive.

Current situation in shares of Valvoline is another example of a developing risk “structure” at the level of individual company and allows investors to enjoy the benefits of an event-driven value strategy.



Second-Quarter Fiscal 2022 Earnings May 10, 2022

Sam Mitchell, CEO
Mary Meixelsperger, CFO
Sean Cornett, Investor Relations