ETALON CAPITAL

Avient: Event-Driven Value Strategy Benefits

July 10, 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.

It is possible to achieve this because when there exists an event, either in hard form - for example, an announced merger or acquisition or in certain “soft” form - if an event is expected - market participants cannot ignore it.

The interest in the company growth 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 a company’s share price with the 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 the materials segment entirely.

Two months later, W.R. Grace received a **buyout** offer at an **increased** share price of $65 per share from the company’s top shareholder 40 North Management LLC.

In April 2021, the 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.

On May 27th, 2022 we **wrote** about a somehow similar situation in shares of Valvoline.

We think that an interesting situation is currently developing in shares of Avient Corporation.

On April 20th, 2021, Avient **announced** that it agreed to acquire the DSM Protective Materials business from Royal DSM for $1.485 billion. Estimated sales for the business in 2022 are approximately $415 with an EBITDA of $130 million.

In addition to this, Avient **announced** that it plans to explore a potential sale of its distribution business. According to the company's CEO, "This would allow Avient to remain modestly levered at x2.9 adjusted EBITDA while also expanding adjusted EBITDA margins from 12% to 18%, the highest among our formulation peers".

The company currently has a market capitalization of $3,584 million, an Enterprise Value of $6,364 million, and is valued at an EV/EBITDA multiple of x8.95 (FY 2021 Adjusted EBITDA plus an estimated $130 million from the acquired DSM business, not accounting for possible sale of distribution segment).

The current situation in shares of Avient is an example of a developing risk **"structure"** at the level of an individual company and allows investors to enjoy the benefits of an event-driven value strategy.