

## Element Solutions Inc.

## End market recovery underway; Remain constructive

Reiterate Rating: BUY | PO: 28.00 USD | Price: 23.00 USD

## ESI Electronics outperforming DuPont

ESI posted 4Q EBITDA of \$120mn (below our \$128mn and consensus' \$134mn), up 11% y/y, as flat sales (-3% org sales) were offset by cost deflation driving +210bps y/y incremental EBITDA margin. After 5 qtrs of y/y decline, the electronics segment saw a return to positive sales (+4% sales, -1% org sales) in 4Q, driven by circuitry and semi businesses returning to positive organic growth and outperforming peers DuPont and Rogers (Exh 1-2). However, weaker end markets drove further declines in the industrial & Specialty (I&S) segment (-6% sales, org sales -7%). While smartphone shipments and auto production may have modest growth in 2024 (Exhibit 3-4), we expect outperformance from ESI driven by pricing actions, cross-selling, favorable product mix, and business wins.

## Share gain expectations keep us above guidance

ESI's FY24 guide of \$510-530 represents a slight sequential improvement in 1H and potentially a slowdown in 2H (at the low end), reflecting a prudently conservative outlook, given the challenges of 2023. Our \$540mn EBITDA estimate for 2024 assumes new business wins and technology innovation to drive share gains, based on ESI's historical performance within semiconductor and printed circuit board customers. Longer-term trends in electronics, AI-driven computing power, and EVs remain solid growth drivers. We estimate that ESI's businesses have grown materially above auto production and smartphone shipment market data. Our 12% EBITDA growth forecast for 2024 assumes more robust growth in Electronics than Industrial.

## Valuation remains favorable; PO moves to \$28

ESI currently trades at a P/2024E EPS of ~16x, well below our specialty peer average of ~21x, while we expect 11% EPS growth for ESI in 2024, slightly below our peer average of 13% (see Exhibit 5). This chart clearly favors ESI over DD, driven by ESI's much higher EPS growth and lower multiple. Our PO rises to \$28 (\$26 prior), based on a 15.5x our 24E EBITDA multiple (15.0x prior) as applied to our unchanged 2024E EBITDA. Our multiple has increased due to the peer group average. We reiterate our Buy rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.41	1.29	1.43	1.56	1.67
GAAP EPS	0.84	0.49	0.62	0.74	0.84
EPS Change (YoY)	2.2%	-8.5%	10.9%	9.1%	7.1%
Consensus EPS (Bloomberg)			1.44	1.66	1.83
DPS	0.32	0.32	0.36	0.39	0.42
Valuation (Dec)					
P/E	16.3x	17.8x	16.1x	14.7x	13.8x
GAAP P/E	27.4x	46.9x	37.1x	31.1x	27.4x
Dividend Yield	1.4%	1.4%	1.5%	1.7%	1.8%
EV / EBITDA*	14.2x	15.5x	13.9x	13.0x	12.4x
Free Cash Flow Yield*	4.5%	5.0%	4.8%	4.7%	5.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 22 February 2024 05:43AM EST

22 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	26.00	28.00
2024E Rev (m)	2,479.0	2,435.8
2025E Rev (m)	2,574.3	2,526.6
2026E Rev (m)	2,654.2	2,600.9
2024E EPS	1.40	1.43
2025E EPS	1.54	1.56
2026E EPS	1.66	1.67
2024E DPS	0.38	0.36

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## Stock Data

Price	23.00 USD
Price Objective	28.00 USD
Date Established	22-Feb-2024
Investment Opinion	B-1-7
52-Week Range	17.08 USD - 24.14 USD
Mrkt Val (mn) / Shares Out (mn)	5,566 USD / 242.0
Free Float	92.6%
Average Daily Value (mn)	32.58 USD
BofA Ticker / Exchange	ESI / NYS
Bloomberg / Reuters	ESI US / ESI.N
ROE (2024E)	15.0%
Net Dbt to Eqty (Dec-2023A)	71.3%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

# iQprofile<sup>SM</sup> Element Solutions Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.3%	7.6%	8.6%	9.2%	9.7%
Return on Equity	14.5%	13.5%	15.0%	16.3%	17.3%
Operating Margin	19.0%	18.8%	20.3%	20.8%	21.2%
Free Cash Flow	250	281	267	263	300

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.1x	0.9x	0.9x	0.9x
Asset Replacement Ratio	0.3x	0.3x	0.3x	0.3x	0.3x
Tax Rate	20.0%	21.1%	20.0%	20.0%	20.0%
Net Debt-to-Equity Ratio	70.9%	71.3%	68.9%	66.3%	62.0%
Interest Cover	9.5x	8.9x	7.6x	8.4x	9.1x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,548	2,333	2,436	2,527	2,601
% Change	6.2%	-8.4%	4.4%	3.7%	2.9%
Gross Profit	970	948	1,025	1,077	1,118
% Change	-3.3%	-2.3%	8.2%	5.0%	3.8%
EBITDA	527	482	540	575	603
% Change	0.3%	-8.4%	12.0%	6.4%	4.8%
Net Interest & Other Income	(49)	(42)	(63)	(61)	(58)
<b>Net Income (Adjusted)</b>	<b>348</b>	<b>314</b>	<b>346</b>	<b>373</b>	<b>395</b>
<b>% Change</b>	<b>0.7%</b>	<b>-9.9%</b>	<b>10.2%</b>	<b>7.9%</b>	<b>5.8%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	534	430	496	551	594
Depreciation & Amortization	161	167	169	172	175
Change in Working Capital	(99)	0	2	(31)	(18)
Deferred Taxation Charge	15	(70)	0	0	0
Other Adjustments, Net	(314)	(193)	(346)	(373)	(395)
Capital Expenditure	(48)	(53)	(55)	(56)	(56)
<b>Free Cash Flow</b>	<b>250</b>	<b>281</b>	<b>267</b>	<b>263</b>	<b>300</b>
<b>% Change</b>	<b>-10.6%</b>	<b>12.4%</b>	<b>-5.1%</b>	<b>-1.3%</b>	<b>14.1%</b>
Share / Issue Repurchase	(151)	0	(100)	(100)	(100)
Cost of Dividends Paid	(78)	(77)	(86)	(94)	(100)
Change in Debt	(16)	33	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	266	289	370	440	540
Trade Receivables	456	462	461	484	499
Other Current Assets	467	446	446	462	469
Property, Plant & Equipment	277	297	182	66	(53)
Other Non-Current Assets	3,438	3,480	3,480	3,480	3,480
<b>Total Assets</b>	<b>4,904</b>	<b>4,974</b>	<b>4,940</b>	<b>4,931</b>	<b>4,934</b>
Short-Term Debt	12	12	12	12	12
Other Current Liabilities	333	358	359	366	370
Long-Term Debt	1,921	1,949	1,949	1,949	1,949
Other Non-Current Liabilities	290	311	311	311	311
<b>Total Liabilities</b>	<b>2,555</b>	<b>2,630</b>	<b>2,631</b>	<b>2,638</b>	<b>2,642</b>
<b>Total Equity</b>	<b>2,349</b>	<b>2,344</b>	<b>2,309</b>	<b>2,293</b>	<b>2,292</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,904</b>	<b>4,974</b>	<b>4,940</b>	<b>4,931</b>	<b>4,934</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Chemicals-Specialty

## Company Description

Element Solutions Inc (ESI) was founded in 2013 as a special purpose acquisition company (SPAC) with the intention of acquiring and integrating asset lite, high-touch specialty chemical businesses along different chemical verticals. The company has completed six acquisitions for \$9.3bn split between Agriculture and Industrial markets. End market sales are split among Agriculture (50%), Electronics (20%), Automotive (10%), Industrial (10%), Consumer Packaging (5%), and Offshore Energy (5%).

## Investment Rationale

We expect continued EBITDA and FCF growth for the business and for shares to re-rate following the sale of the Ag business. ESI shares trade at a discount to peers despite owning businesses that are in niche areas of the market with barriers to entry and pricing power where ESI commands 20-40% market shares.

## Stock Data

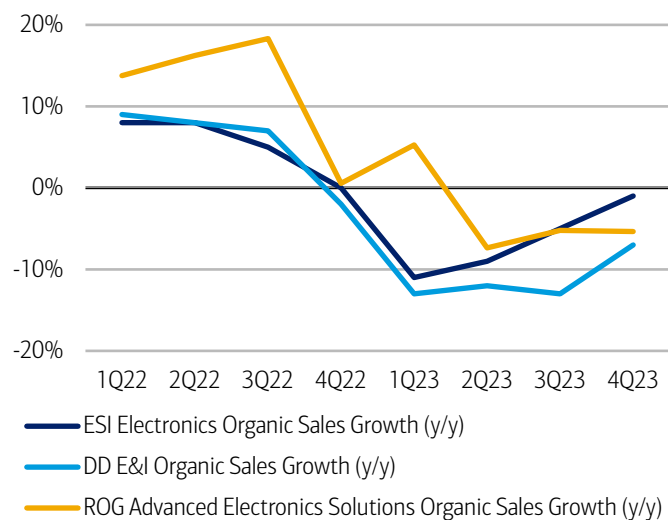
Average Daily Volume 1,416,635

## Quarterly Earnings Estimates

	2023	2024
Q1	0.30A	0.32E
Q2	0.31A	0.35E
Q3	0.36A	0.40E
Q4	0.32A	0.36E

**Exhibit 1: ESI vs Peers Electronics Segment Comparison**

ESI's Electronics org sales has held a premium to DD over the last 5 quarters and even outperformed Rogers in 4Q23

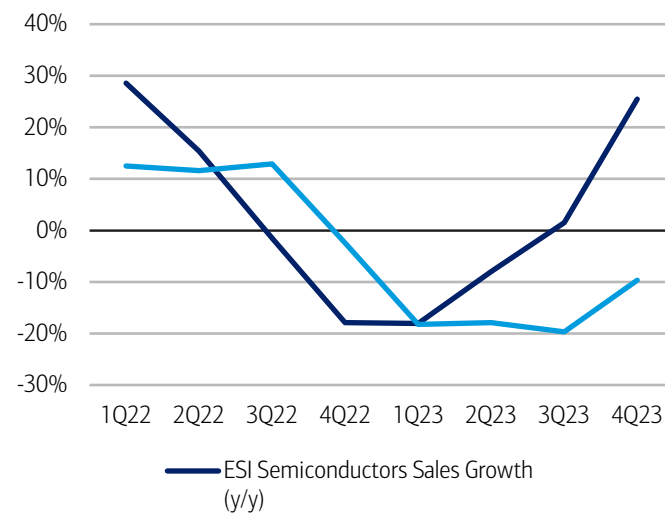


Source: Company financials, BofA Global Research estimates

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**Exhibit 2: ESI vs DD Semiconductors Business Comparison**

ESI's Semiconductor sales have grown significantly over the last 3 quarters

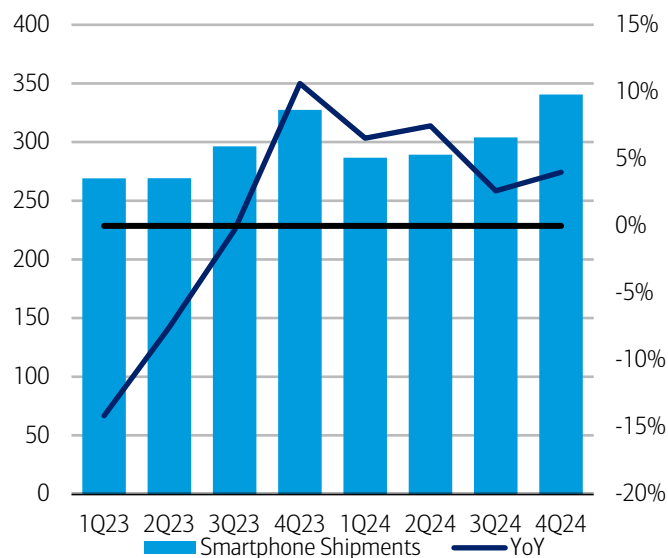


Source: Company financials, BofA Global Research estimates

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**Exhibit 3: Global Smartphone Shipments (mn units)**

Smartphone Shipments are expected to drive MSD growth in 2024

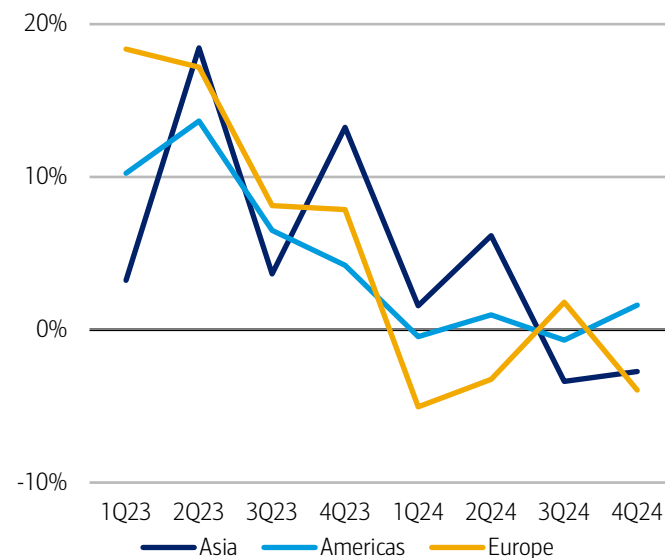


Source: BofA Global Research estimates

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**Exhibit 4: Global Light Vehicle Production Growth (y/y)**

Americas and Asia production growth is expected to be flat in 2024, and Europe down low single digits

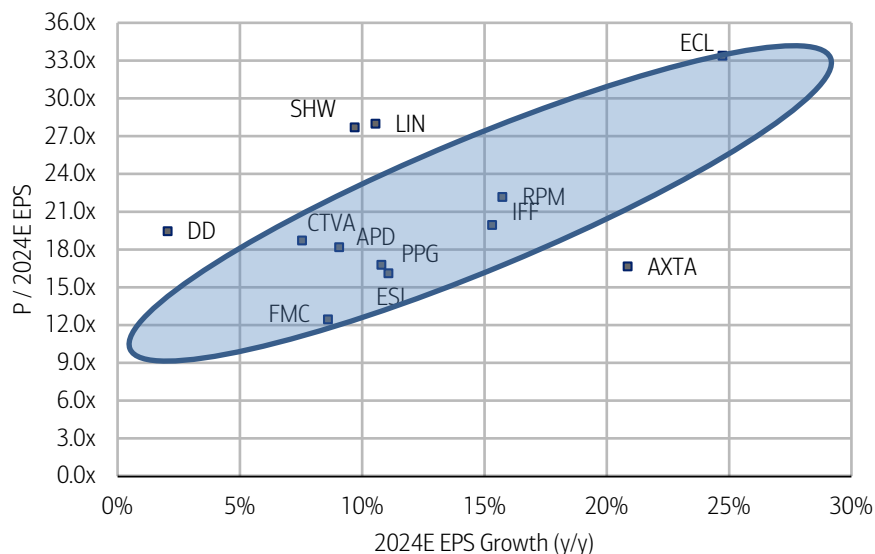


Source: BofA Global Research estimates, HIS Markit, JD Power

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**Exhibit 5: P/E multiples and EPS growth expectations for Specialty Chemical coverage**

ESI trades at a level (16.1x 2024E EPS) in line with its 2024 EPS growth (+11% y/y) relative to our coverage



Source: BofA Global Research estimates

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**Exhibit 6: Element Solutions Income Statement Summary**

Our 2024 EBITDA remains at \$540mn

Net Sales	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024	2025	2026
Electronics	\$340	\$356	\$367	\$352	\$1,415	\$360	\$380	\$383	\$371	\$1,494	\$1,548	\$1,586
Industrial & Specialties	\$235	\$230	\$232	\$221	\$919	\$236	\$235	\$240	\$230	\$942	\$979	\$1,015
Total	574	586	599	573	2,333	596	615	623	602	2,436	2,527	2,601
EBITDA												
Electronics	73	76	90	78	318	84	91	99	89	363	383	397
Industrial & Specialties	40	40	44	42	165	41	43	48	46	178	192	206
Total	112	116	134	120	482	125	133	147	135	540	575	603
Depreciation and Amortization	10	10	12	11	43	11	11	11	11	45	48	51
Operating Income	103	106	122	108	440	114	122	135	124	495	527	552
Interest Expense, Net	(12)	(12)	(13)	(12)	(49)	(16)	(16)	(16)	(16)	(65)	(63)	(60)
Other Expense / (Income)	1	0	6	0	7	1	1	1	1	2	2	2
Profit Before Tax	92	94	115	96	397	98	106	120	108	432	466	493
Income Tax Provision (Benefit)	18	19	27	19	84	20	21	24	22	86	93	99
Tax Rate	20.0%	20.0%	23.8%	20.0%	21.1%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Preferred Dividends	0	0	0	0	0	0	0	0	0	0	0	0
Non-controlling Interest	(0)	0	0	(0)	0	0	0	0	0	0	0	0
Net Income	73	76	87	77	314	78	85	96	87	346	373	395
(+/-) Adjustments	30	46	119	0	195	49	49	49	49	195	195	195
GAAP Net Income	43	30	(32)	77	118	30	36	47	38	150	178	200
Diluted - Adjusted EPS	\$0.30	\$0.31	\$0.36	\$0.32	\$1.29	\$0.32	\$0.35	\$0.40	\$0.36	\$1.43	\$1.56	\$1.66
Adjusted Diluted Shares	244	244	244	244	244	243	242	242	241	242	240	237
Segment Sales Growth:												
Electronics	-22.8%	-18.9%	-5.3%	4.4%	-12.4%	6.0%	6.8%	4.4%	5.3%	5.6%	3.6%	2.4%
Industrial & Specialties	-1.6%	-3.2%	0.6%	-6.4%	-2.3%	0.6%	1.9%	3.5%	4.2%	2.5%	3.9%	3.7%
Total	-15.3%	-13.4%	-3.1%	-0.1%	-8.7%	3.8%	4.8%	4.0%	4.9%	4.4%	3.7%	2.9%
Adjusted EBITDA Margin												
Electronics	21.4%	21.4%	24.6%	22.2%	22.5%	23.4%	23.8%	25.8%	24.0%	24.3%	24.8%	25.0%
Industrial & Specialties	16.9%	17.3%	18.8%	18.8%	17.9%	17.2%	18.2%	20.0%	20.2%	18.9%	19.6%	20.3%
Total	19.6%	19.8%	22.4%	20.9%	20.7%	21.0%	21.7%	23.5%	22.5%	22.2%	22.8%	23.2%

**Exhibit 6: Element Solutions Income Statement Summary**  
Our 2024 EBITDA remains at \$540mn

Net Sales	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024	2025	2026
Source: Company financials, BofA Global Research estimates												

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## Price objective basis & risk

### Element Solutions Inc. (ESI)

Our \$28 PO is based on a 15.5x multiple, as applied to our 2024E EBITDA estimate. This multiple is in line with the average for the broader specialty chemical universe, which we see as fair considering the defensive growth and robust free cash flow generation that ESI has been able to exhibit.

Risks to our PO are a stronger dollar, decline in electronics demand, and reduced OEM automotive production.

## Analyst Certification

I, Steve Byrne, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Chemicals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Air Products	APD	APD US	Steve Byrne, CFA
	Axalta Coating Systems	AXTA	AXTA US	Steve Byrne, CFA
	Bunge Limited	BG	BG US	Salvator Tiano, CFA
	CF Industries	CF	CF US	Steve Byrne, CFA
	Dow Inc	DOW	DOW US	Steve Byrne, CFA
	Eastman Chemical Co	EMN	EMN US	Salvator Tiano, CFA
	Element Solutions Inc.	ESI	ESI US	Steve Byrne, CFA
	Green Plains	GPPE	GPPE US	Salvator Tiano, CFA
	Huntsman Corp	HUN	HUN US	Salvator Tiano, CFA
	Linde	LIN	LIN US	Steve Byrne, CFA
	Linde	LINGY	LIN GY	Steve Byrne, CFA
	Nutrien	NTR	NTR US	Steve Byrne, CFA
	Olin Corp	OLN	OLN US	Steve Byrne, CFA
	PPG Industries Inc.	PPG	PPG US	Steve Byrne, CFA
	Sigma Lithium	SGML	SGML US	Steve Byrne, CFA
	The Mosaic Company	MOS	MOS US	Steve Byrne, CFA
<b>NEUTRAL</b>				
	Albemarle	ALB	ALB US	Steve Byrne, CFA
	Archer-Daniels-Midland Company	ADM	ADM US	Salvator Tiano, CFA
	Corteva	CTVA	CTVA US	Steve Byrne, CFA
	Ecolab Inc	ECL	ECL US	Steve Byrne, CFA
	International Flavors & Fragrances	IFF	IFF US	Salvator Tiano, CFA
	LyondellBasell Industries	LYB	LYB US	Steve Byrne, CFA
	Origin Materials	ORGN	ORGN US	Steve Byrne, CFA
<b>UNDERPERFORM</b>				
	Celanese Corporation	CE	CE US	Salvator Tiano, CFA
	DuPont	DD	DD US	Steve Byrne, CFA
	FMC Corporation	FMC	FMC US	Steve Byrne, CFA
	RPM International Inc	RPM	RPM US	Steve Byrne, CFA
	Sherwin-Williams Company	SHW	SHW US	Steve Byrne, CFA
	Westlake Chemical Partners, LP	WLKP	WLKP US	Steve Byrne, CFA
	Westlake Corp	WLK	WLK US	Steve Byrne, CFA

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

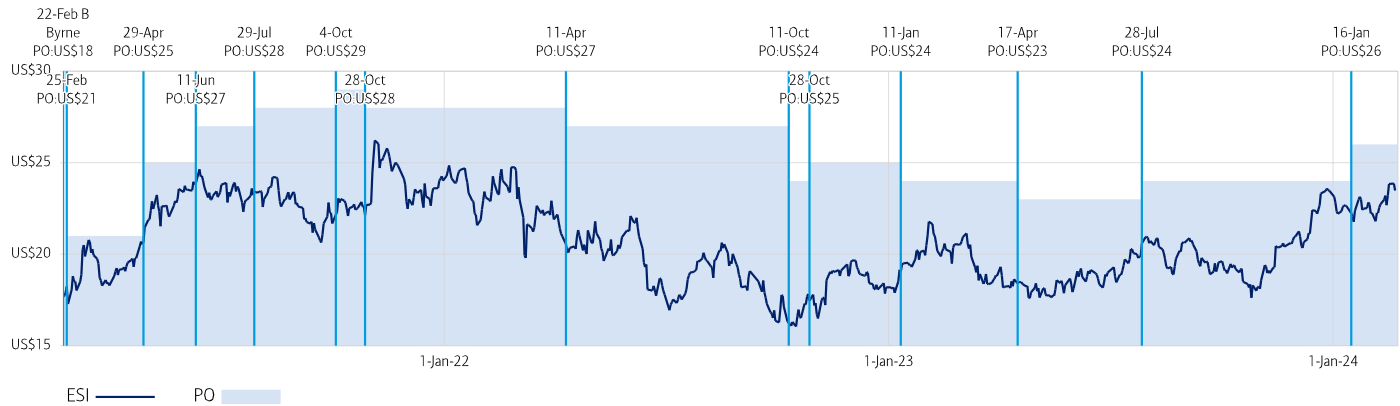
iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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# Disclosures

## Important Disclosures

### Element Solutions (ESI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Chemicals Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	66	47.83%	Buy	33	50.00%
Hold	33	23.91%	Hold	16	48.48%
Sell	39	28.26%	Sell	20	51.28%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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