

# Mossberg's Investor Digest

## Best Idea Profile:

## Chemtura Corporation (NYSE:CHMT)

### DESCRIPTION:

Chemtura Corporation is a global, pure-play specialty chemicals company. After divesting its AgroSolutions division, the company runs under two remaining divisions. Industrial Performance Products are petroleum additives sold predominantly into transportation, energy and specialty industrial segments. That would include inhibitor and detergent additives; and synthetic lubricants, hydraulic fluids and greases. It is also urethanes predominantly sold into mining, consumer and specialty industrial segments. These are used in oil and gas extraction, mining, electronic semiconductor, and consumer, recreational and sporting goods. The Industrial Engineered Products division includes bromine and flame retardant products used in electronics, insulation foams, and other industrial, energy and consumer products. It also develops and markets specialty organometallic products that have uses including synthetic rubber, pharmaceuticals and solar energy. Founded in 1900, Chemtura is based in Philadelphia, Pennsylvania.

### KEY INVESTMENT CONSIDERATIONS:

**Focused but Diversified** – Beginning with the arrival of the current chief executive officer, Chemtura has been restructuring its operations primarily through the sale of several of its divisions. The CEO has an excellent history of growing and selling other struggling specialty chemical producers of similar size. Additionally, the company is geographically diversified, which is particularly useful given the volatile demand and margins in specialty chemicals. It operates in 24 manufacturing sites in 12 countries, including Italy, Germany, United Kingdom, The Netherlands, China, Brazil and others. More than half of sales come from outside of North America. Management is mounting an accelerated manufacturing cost reduction program of up to \$50 million to offset the continuing weak demand and excess capacity in many of its markets. Management continues to express confidence in a market recovery, but has conceded its inability to forecast when it will occur.

**Positives of Divestiture** – After having divested several businesses during 2013, Chemtura this week completed the sale of its agrochemicals business for approximately \$1 billion. This last divestiture makes Chemtura a true pure play on the industrial specialty chemicals business. It also allows the company to repay almost \$250 million of its expensive debt and accomplish its goal of returning money to its shareholders.

**Dutch Tender Offer** – On October 31, Chemtura delivered on its promise to return cash to shareholders. It commenced a modified Dutch auction tender offer to purchase, for cash, shares of its common stock for an aggregate purchase price of no more than \$300 million, within the per-share price of \$21.50 to \$24.50. The offer is expected to expire on December 1, 2014. Share buybacks are not uncommon at Chemtura. It repurchased nearly 3.2% of its outstanding shares in the third quarter alone.

### VALUATION:

Chemtura shares had declined substantially since the beginning of the year. The third-quarter results did not help the situation, as they missed the mark of analysts' expectations. An aside: Financial results going forward are more difficult to assess as the AgroSolutions transaction didn't qualify as a discontinued operation so previous periods will not be recast. The Dutch auction provides support to the stock in its current range, with the possibility of substantial upside as the more focused company experiences more favorable business demand and capacity.

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Investment Data (as of 11/06/14)

<b>Recent Price</b>	<b>\$23.35</b>
52-Week Range	\$21.22 - \$28.17
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	87.8 M
Average Trading Volume (3 mos)	930k
Market Capitalization	\$2.1 B
Cash	\$145 M
Long-term Debt	\$804M
Enterprise Value (EV)	\$2.7 B
Book Value	\$9.29
TTM Revenue	\$2.3 B
P/ Revenue	0.9x
TTM EPS	\$(0.17)
P/ EPS	NA
TTM EBITDA	\$237 M
EV/ EBITDA	11.4x

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