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Platform Specialty Products: Outliers Preparing World's Next Greatest Industrial Company

Feb. 24, 2014 2:38 PM ET | About: PAH

Disclosure: I am long shares of PAH. **(More...)**

Executive summary:

- Board members Martin Franklin and Nicolas Berggruen add significant deal making value
- MacDermid acquisition provides high quality business, management and company culture
- Management is unconventional and incentivized to outperform the market and peers
- Currently trades for roughly $2.1 billion and future acquisitions provide a catalyst to unlock shareholder value

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Platform Specialty Products History

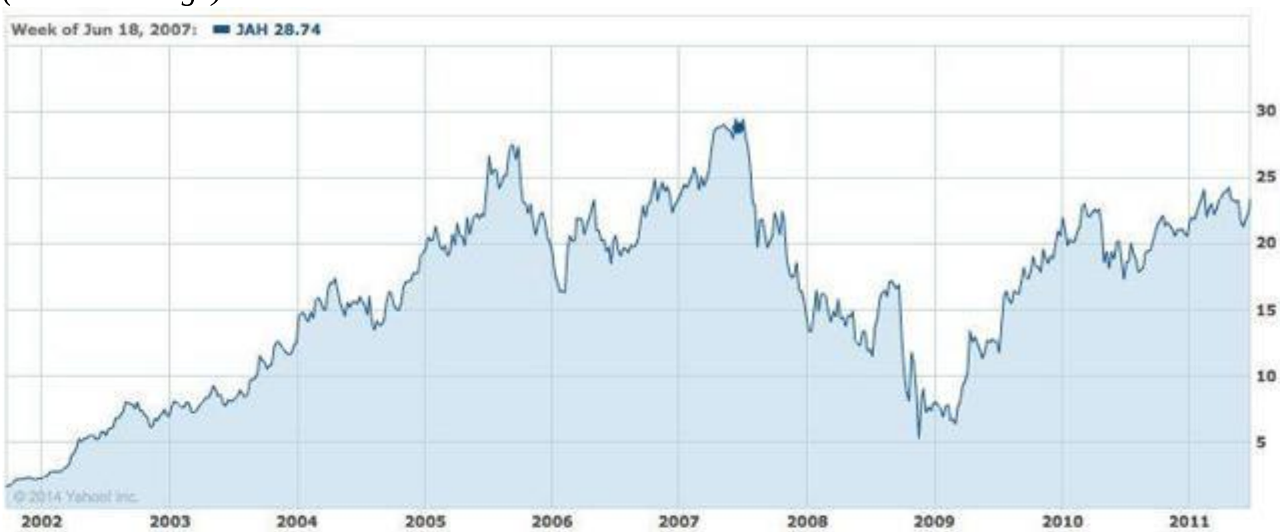
Platform Specialty Products (PAH) started as a blank check holding company called Platform Acquisition Corp. It was created by Martin E Franklin and Nicolas Berggruen who have a history of creating value through other investment vehicles. They also have a history of creating blank check holding companies together. First, we'll start off by giving a history of these gentlemen and their work together.

Nicolas Berggruen's value creation started in his early adult years. He slowly grew his $250,000 trust fund by buying real estate, investment securities, private equity, venture funds and hedge funds. He then took over his families' trust fund in 1984 and transformed it into Berggruen Holding, which has been acquiring companies and creating value. An example of Berggruen's investing can be found in his 2010 purchase of the German department store Karstadt Warenhaus GmbH for 1 Euro out of bankruptcy. Today Berggruen's net worth is estimated to be over $3 billion. He said that his art collecting father helped him through school, but everything else he did on his own.

Berggruen tends to do the negotiations himself and looks for companies with strong cash flows, plenty of debt that can be recapitalized and for family run businesses. He says that he prefers companies with defensible moats because of his terrible managing, would pick companies with strong managers.

Martin Franklin, once a hedge fund manager, became the CEO of Alltrista Corp. after attempting to launch a hostile takeover of the company. The board of directors thought that he could bring a lot of value to the company. He did. From September 4th 2001 to June 2011 Martin Franklin grew Jarden Corp.'s (Alltrista renamed in 2002) equity value at an annual compounded rate of over 30%.

(click to enlarge)



(Source: Yahoo Finance)

(click to enlarge)

(Source: Jarden 2014 Investor Presentation)

Franklin was able to grow Jarden at such dizzying speeds by selectively acquiring consumer product companies and brands for good prices - as seen above. We cannot assume that Franklin will be able to continue to find great deals and continue the kind of performance in the future, but nine acquisitions over a nearly 10-year period indicates he must have some skill. The following blank check holding companies shows that luck has not always been on either Berggruen and Franklin's side, even though they posses above average deal making skills.

Berggruen and Franklin Blank Check Holding Companies

Berggruen and Franklin set up four blank check holding companies before PAH. They first teamed up and created Freedom Acquisition Holdings Inc., a blank-check company that went public in December 2006. Freedom purchased U.K. institutional investment manager GLG for $4.15 billion. Berggruen and Franklin's investment in Freedom didn't work out as well as they had hoped. The company was later repurchased in 2010 by Man Plc for $1.6 billion, a steep loss from the original $4.15 billion price.

Berggruen and Franklin created three more blank-check companies, the second being Liberty Acquisition Holdings. Their Liberty Acquisition Holdings Corp. acquired Spain's largest media company Promotora de Informaciones SA for $1.29 billion in November 2010. Since then, Prisa (Liberty Acquisition's new name) is now worth roughly $750 million. Although Prisa has paper losses, a sum of the parts valuation wonderfully written here indicates that it might be worth much more. We agree.

Then came Liberty International Acquisition Co. in February 2008. It acquired U.K. insurance provider Pearl Group Plc, now called Phoenix Group Holdings, in September 2009. The equity value hasn't really done much since Liberty International acquired Pearl Group. The merger negotiations between Phoenix and Swiss Re's Admin Re unit have dissolved, but Phoenix continues to be the leading manager of life insurance funds in the UK.

Finally, Franklin and Berggruen founded Justice Holdings Ltd. They acquired Burger King, which subsequently became public June 21, 2012. Although the first blank check holding companies had their share of bad luck with timing, Berggruen and Franklin learned from their mistakes. Justice Holdings and the acquisition of Burger King has done well. They have focused on purchasing great companies with great management, which Burger King is with 3G Capital as the managers. Since Burger King's IPO the stock has out-performed their peers as well as the major indices.

(click to enlarge)

(Source: Yahoo Finance)

Both Martin Franklin and Nicolas Berggruen's history show that they have the negotiating, acquisition skills and investment philosophy that are most likely to create long-term shareholder returns. Platform Acquisition Holdings will benefit from their expertise as founding directors.

We feel that Platform Specialty Products' acquisition of MacDermid is another example of their ability to find a company with defensible market positions, high quality management and negotiations for a fair price.

MacDermid

MacDermid is global specialty chemical supplier and technical services provider. The company is made up of two segments: performance materials (metal and plastic finishing, electronics, oil production and drilling) and graphics solutions (graphic arts). The company has leading market positions in all of their segments and has many characteristics of a company with the right puzzle pieces in place to create shareholder value over the long term.

History of Competitive Advantage

- Archibald J MacDermid founded MacDermid in 1922 to produce and market an electrolytic brass cleaner after working on the Panama Canal.
- MacDermid annual sales reach almost $400,000 in 1929.
- Great Depression cuts sales in half and takes many years for them to regain their sales.
- A young Michigan State graduate in chemical engineering named Harold Leever joins the company as research chemist in 1938. He helps develop a lucrative chemical for the company.
- 1954 Harold Leever takes over as president of MacDermid.
- Archibald sells his company to his 57 employees in 1959.
- Was producing over 250 chemical compounds by the 1970s
- Developed and marketed chemical compounds to microelectronics industry in 1981.
- Was producing 1,200 chemical compounds by 1990 with a majority of sales overseas.
- In 1994, Dan Leever told magazine Chemical Week "Just about everything under the hood of a car is protected against corrosion by the chemicals we make."
- Selective acquisitions throughout the 80s and 90s grew value of the company significantly
- Currently produces nearly 5,000 chemical compounds to 3,500 customers through direct sales force in 24 different countries around the world.

MacDermid DNA

A company's culture tells shareholders a lot about how the company is run. MacDermid has Scottish traditions deeply embedded into its DNA since Archibald created the company in 1922. Harold Leever and his son Daniel Leever have not swayed from the company's traditions but have expanded on them. MacDermid emphasizes their focus on the customer, honesty and integrity, supreme worth of the individual, challenging and demanding environment, entrepreneurship and teamwork and cooperation. Harold Leever said it best "My goals are very simple. Take care of the people and the people will take care of the shareholders."

Long-term shareholders also do not want to see management that throws money around haphazardly. Dan Leever, the current CEO and son of Harold Leever, is strongly fixated on every dollar flowing into the company. When he first took control as the CEO in the early 90s he made fellow company executives share rooms at Best Western hotels when they traveled. This sounds eerily familiar to Henry Singelton the CEO of Teledyne who created huge long-term shareholder value. Leever told Silvia Sanosi from Forbes in 1994 that "If I see waste of even five dollars, it makes my guts churn." We at Unconventional Capital Wisdom feel the exact same way with our own money and want to find managers that give that much care to every dollar earned. We feel that this is a trait that goes hand in hand with long-term value creation.

How much value creation has current CEO Daniel Leever created? His track record is nothing to sneeze at. From 1995 to 1999 MacDermid's share price rose tenfold as their net sales doubled and net income had tripled. Since his beginnings in 1990 to 2013, we estimate that Daniel Leever has produced roughly 15% annual compounded equity returns (based on shareholder letters and other sources), or well above the market returns: S&P 500 ~7% and Nasdaq ~9%. This includes the dot com bubble, which especially hit MacDermid hard as they had a high concentration of their customers in the printed circuit industry and weathered the worst recession since the Great Depression.

Daniel Leever has a unique approach to management that follows Warren Buffett. He treats his shareholders like partners and each shareholder letter is candid. He often quotes maxims from Buffett and how he views those thoughts at MacDermid. It's best to give examples of his writing to give readers an idea of how the man runs his company. We'll first outline the company's shareholder principles (proposed in 1998 after getting the ok to plagiarize Berkshire Hathaway's owner's manual) and follow up with excerpts that Leever wrote in various shareholder letters.

Taken from the 1999 annual shareholder letter (italicized by us for emphasis)

Our vision is to build one of the world's greatest industrial companies

We believe that the excitement inherent in the culture of ultra high performance will differentiate us from our competitors, who, while fine companies in their own right, simply will find it impossible to keep up with the fighting Clan MacDermid.

Our Form Is Corporate, Our Attitude Is Partnership - Unlike many public companies, our employees and Directors own close to 50% of the shares, so, *we obviously think as owners*. We hope that you consider your investment in MacDermid as being a part owner of a business, much as you would if you owned a small business in partnership with your close friend or family. You would not be concerned about the evaluation of that small business weekly or monthly. Many employees, including your CEO, have the vast majority of our net worth in MacDermid stock. We intend to be very long term holders, thinking in generational terms. We desire to partner with like-minded individuals and institutions. We will not respond to short term pressures from the market.

We Focus To Build Intrinsic Value, Per Share - We define intrinsic value as the present value of free cash flow, measured per share. Cash flow will be invested in growth opportunities. We will build in significant margin for error in investment assumptions. *We have no interest in top line growth for growth's sake. Per share cash flow is what counts. Our goal is to increase per share intrinsic value by 25% per year.* We believe in setting stretch targets even though sometimes we may fall short of our goals.

Personal and Corporate Responsibility - MacDermid will demonstrate the highest standards of personal and corporate ethics and responsibility, with special emphasis on our environment. *We take seriously our leadership commitment to the communities in which we do business.*

Care of Our People Is A Top Priority - We know to build one of the world's greatest industrial companies requires an unusual partnership with the people charged with making the vision a reality. We are guided by the MacDermid philosophy, including our clear statement of commitment to our people, and our expectations of their commitment to MacDermid. We maintain policies that encourage long, productive service. We avoid short term policies like layoffs and restructuring simply to make the current quarter or year numbers. That's not to say that we will not have reductions in staffing based on performance, or if we feel the long term health of the business requires us to do so. But even then we will do so with great reluctance. *Our people are our most important asset.* We treat them as such by investing heavily in training and education and management development.

Long Term Investment Horizon - We will aggressively fund sound internal growth opportunities mostly in research and market development regardless of short term impact. *We will fund these opportunities when the time is right, not necessarily when it is convenient.* Our internal investment opportunities normally offer an exceptional return, but often require multi-year horizons. We will avoid the stop - start method of investing, which is typical of short term mentality.

Low Cost Operating Structure - We know that our ability to invest aggressively requires us to have a cost structure lower than our competitors. *Investing AND lowering our current costs constantly is a core principle of our company.*

High Operating Margins - Growth opportunities will be *passed through a margin filter prior to investment.*

Low Capital Expenditures - *We invest shareholder funds in high returns assets after a healthy margin for error.* Bricks and mortar have no attraction if they will not produce a high return.

Capital Structure - Cost of capital is an important consideration. *Our ability to generate relatively high amounts of cash allows us to carry significant debt while still maintaining a healthy margin for error.* We will issue common stock only when we receive at least as much in intrinsic value as we give.

Dividends - Our current dividend is a result of history. Increasing our dividend is not a high priority. We believe we can better serve shareholders by *using internally generated funds to grow the business or purchase shares.*

Accounting - We will be candid in our reporting to you. We will tell you the business facts that we would want to know if the positions were reversed, while safeguarding information which would aid our competitors.

Reporting - We will be communicating with you in several ways. Through our annual report, we will try to give all shareholders as much value - defining information as possible. At our annual meeting we will spend as much time as necessary to provide information as possible and answer questions. The forum section of our website, provides shareholders the opportunity to submit questions directly to the CEO. We will answer questions honestly and as promptly as practicable. In all of our communications, we try to make sure that no shareholder gets an edge. Our goal is to have all of our shareholders updated at the same time.

Fair Value - To the extent possible, *we would like each MacDermid Shareholder to record a gain or loss in market value that is proportional to the gain or loss in per-share intrinsic value.* Obviously we cannot control MacDermid's share price, but by our policies and communications, over time, we believe we are likely to attract long term investors who seek to profit strictly from the progress of the company.

The shareholder's philosophy is almost word for word Berkshire Hathaway's owner manual and not only tells us that management cares about the long term but tells us how MacDermid will achieve long-term wealth accumulation. We think that MacDermid's management has been true and consistent with these values as long as Dan Leever has been CEO. He says in the 1999 shareholder letter "You can expect us to act consistently with them [the shareholder philosophy]."

We can get a good idea of how a manager thinks and runs his company by both how he/she reacts to victories and also how they react to defeats. We like to see management who have humble personalities.

When MacDermid's results were stellar in 1999 Daniel Leever had this to say: "While fiscal 1999 produced record per share results, even more importantly, we improved our strategic position as a dynamic leader in our markets. Even though the external environment remains challenging, we are confident that we can continue to deliver." Even in the face of stellar results, Leever chose to diversify their operations to not heavily rely on the electronics segment. For this reason they were able to weather as Leever puts it "the 100 year storm" with less pain as the dot com bubble burst.

When MacDermid's results were not as stellar in 2001 Leever stated "For the first time since the early 90's we experienced 'headwinds' in all of our major businesses that became more pronounced as the year progressed." Although they had headwinds, Leever re-emphasized the importance of owner's earnings when he said "This year is why Owner Earnings is so important. It is one of the few things we could control this year." It was up double from the prior nine-month period.

When MacDermid's new managers added from acquisitions in 2001 were not working well with the MacDermid culture Mr. Leever had this to say: "Management capacity is still an issue. We have managed to fill the gaps, but frankly we are still short in bench strength." MacDermid grew quite quickly the few years before and that meant that they acquired management teams that didn't transition too well into MacDermid's unconventional culture. Daniel Leever blamed himself for not seeing this problem and taking care of it sooner.

We feel that the yardstick by which management measures their own performance gives us shareholders a great indicator of how long-term value will be created, if at all. Daniel Leever makes it clear that his and the company's goal is to achieve 25% annualized returns over ten-year periods. In the beginning Daniel Leever was beating that return quite handily, however, the dot com bubble bursting and the financial crisis have left his returns lower since 2000. He makes it clear after the poor results of 2000 that "rest assured we remain positive and aggressive in our pursuit of a worthy target rather than compromising on one that might be more easily reached. I wouldn't bet against us."

Daniel Leever knows that for MacDermid to achieve returns in the top 1% percentile the company has to do things much different from the commonly held wisdom. He has stated many times in shareholder letters that MacDermid takes the path less taken.

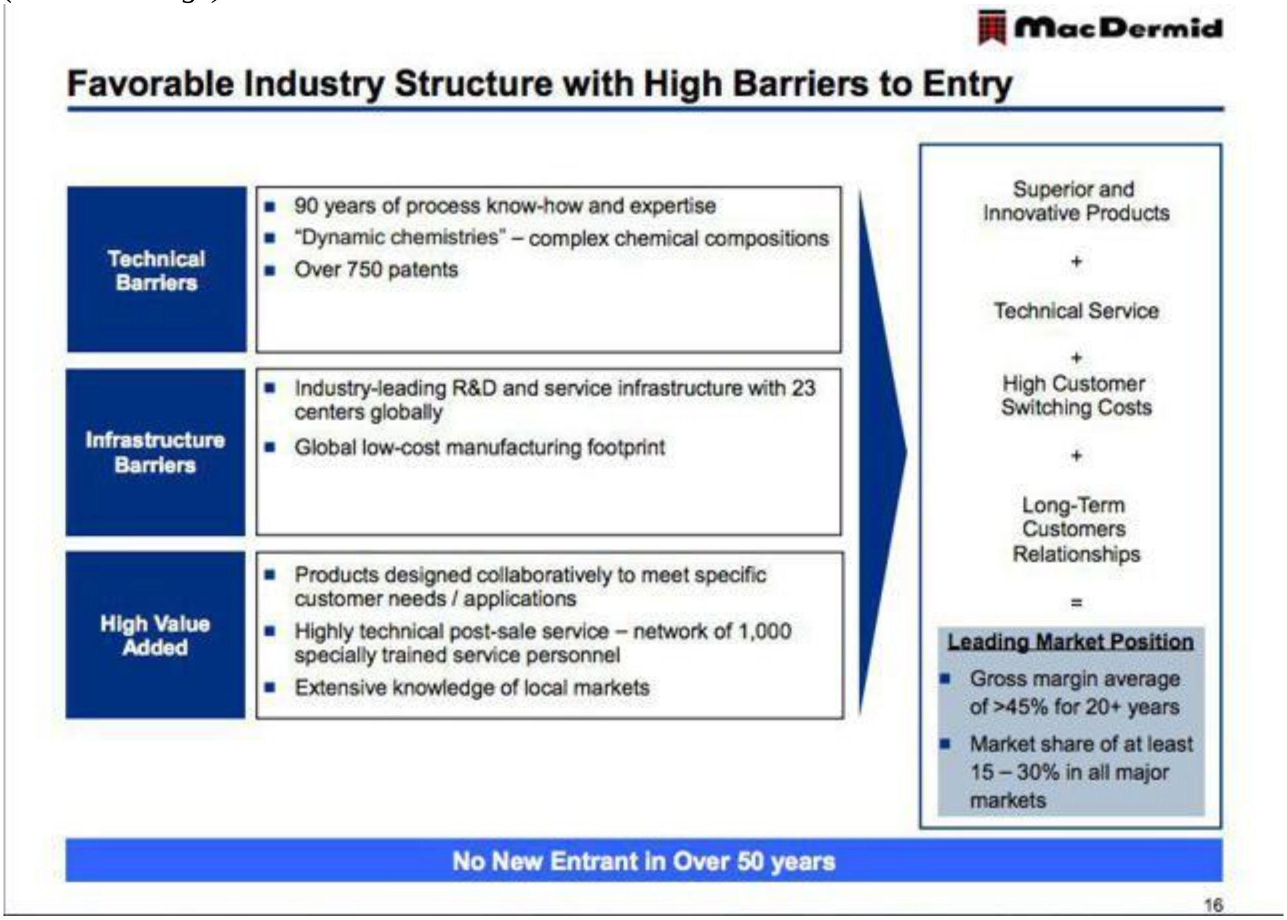
Moat

Before we look into Platform Specialty Products' moat, let's think of what might constitute the lack of a moat. That might give us a better frame of mind. A company without a moat will generally have a combination of a number of factors. They will be in an industry that is constantly changing and have very little barriers; new entrants arrive often leading to fierce competition. Some industries have somewhat low barriers to entry, but they make up in other ways. A moat-less company will also not add large amounts of value through their product or services. They also lack in innovating to the changing needs of their customers. These factors again lead to more competition, which over time eats away at margins and profits.

We feel that Platform Specialty Products has a long history of a strong moat. The slide on the following page highlights many of the reasons why.

First, we like that the products that PAH provides are chemistries that represent a small portion of customers' costs, but are critical to the performance of their products. This means that customers are willing to pay up for the extra value and continue to do so. When this occurs, the company is able to continue to raise prices when necessary. We also like the combination of technical barriers, infrastructure barriers and high added value have allowed MacDermid to achieve >45% gross margins for more than 20 years. It is hard to find a company that is able to say they have achieved these numbers for such a long period of time. Additionally, the barriers are so high that in the past 50 years there has been no new entrants. Long-term minded investors in search of a company with a strong moat generally do not find these strong of moats often.

(click to enlarge)



(Source: PAH Investor Presentation)

We feel it's even more of a rare occurrence to have a strong management team that understands what "moats" are and is actively defending and building their company's moat. Dan Leever said in the 2000 shareholder letter "our strategy is to increase our technological understanding of clerkly defined markets. We want to add value to our customers' processes with R&D and with superior technical service. This is a moat around the MacDermid business that, when well executed, provides excellent returns for our shareholders."

Business Economics

Platform Specialty Products sales are split between two market segments - performance materials are about three-quarters and graphic solutions are about one-quarter. All sales are fairly well diversified and spread out fairly evenly between the US, Europe and Asia. We like that PAH has many customers in many different industries and not one customer makes up a significant portion of sales.

What makes PAH unique is that they have a very low cost structure combined with a very low need for capital.

Platform Specialty Products' cost structure is low because of management's insistence on low costs and also due to its variable nature. Fixed costs are low in the 10-13% of sales while raw materials costs are above 80% COGS. Because PAH has many different chemical raw materials as costs, not one accounts for more than 3% of COGS. The highly diverse cost base, which varies, is able to weather price fluctuations very easily. As a result, the variable costs of raw materials generally stays constant as price increases of some are offset by the others that fall. We like that management owns significant amounts of the company as that also bodes well with keeping costs down.

Company	Capital Expenditures/Revenue 2013	2012	2011	2010
Sial	3.70%	4.30%	4.10%	4.40%
Albemarle	NA	10%	6.60%	3.10%
Chemtura	NA	5.60%	5.90%	5.30%
Cytec	NA	8.50%	5%	6%
Ecolab	NA	4.80%	5%	4.20%
Ferro	NA	3.30%	3.40%	2.30%
FMC	NA	5.50%	5.60%	4.50%
HB Fuller	6%	1.90%	2.30%	2.50%
Celanese	6.30%	5.30%	5.40%	3.40%
Polyone	NA	1.90%	1.80%	1.50%
Rockwood Holdings	NA	8.10%	7.60%	5.60%
Sherwin Williams	NA	1.60%	1.70%	1.60%
Valspar	NA	2.80%	2.20%	1.70%
WR Grace	NA	5.40%	5.30%	4.50%
Average	**5.30%**	**4.93%**	**4.42%**	**3.66%**
MacDermid	NA	**1.80%**	**1.20%**	**1.10%**

(Various Company Annual Reports)

Platform Specialty Products also has the lowest capital expenditures in the industry. For every $1 in sales the company only needs to reinvest roughly $.10 and the other $.90 can be given back to shareholders through repurchases (they have purchased large share counts in the past when the price was right) or through selective growth. Refer to the chart on the next page to get a better idea on how Platform Specialty Products' wholly owned subsidiary MacDermid compares to peers

Sustainability

As stated above, we feel that Platform Specialty Products will be able to continue to sustain their market leading positions and continue to generate value creation. The company's products are critical to the performance of customers' end products. Continual focus on R&D and innovation will allow the company to be the first company customers think of when they want to produce high quality products themselves.

Furthermore, Platform Specialty Products' recurring revenues allow them to weather all types of market conditions. Dan Leever said in a shareholder letter "For many of our product lines there is a minimum usage of our products to operate a production line, regardless of whether the line is fully utilized or not. This is why we often experience smaller reductions in revenue than our end markets would indicate." This is one of the reasons why MacDermid was able to not only survive during as Leever put it "the 100 years flood" or the bursting of the dot com bubble. As competitors had to significantly dilute their shareholders or even file for bankruptcy, MacDermid was able to stay the course and continue to produce cash for their shareholders. Owners' earnings during those difficult periods did not halt, nor fall, but actually rose.

Management Incentives

Even after Platform Acquisition Holdings' acquisition of MacDermid, Daniel Leever and the CFO Frank Monteiro rolled over all of their equity holding into Platform Specialty Products. This means that management continues to have a majority of their wealth tied to the performance of the company.

Also, MacDermid management figured the best way to issue performance stock options that would align themselves with other shareholders is to outperform the S&P Specialty Chemicals Index. Further, the number of options, which vest may be increased or decreased based upon MacDermid's cumulative owners' earnings during the four-year vesting period in relation to targets set by the Committee at the time of the award. We do not find this type of performance stock option with many companies and are happy to see it here.

One thing that is unusual is that Platform Specialty Products has special founders preferred shares that give a dividend for price performance. Nicolas Berggruen and Martin Franklin in effect have a quasi hedge fund or private equity fee that dilutes shareholders as the equity value rises. At first glance the 20% incentive does not look like a good thing for shareholders, but we believe that it is fair if the founders are able to provide extra value in future acquisitions. This gives them extra long-term incentives. We also note that Dan Leever and other MacDermid execs were fine with this in the buyout deal. They have a vast majority of their wealth tied to the company, so any form of dilution will hurt them as well. Because they have such an avid eye for shareholder wealth accumulation over the long term, we are comfortable that the incentives are all aligned appropriately for everyone.

Valuation

Platform Specialty Products is fresh off an IPO and has a complex share count. In case of total dilution of warrants, special preferreds and other options, there is around 130 million shares. That's the diluted shares used for the pro-forma 9 months through September in the S4. We estimate the enterprise of the company to be roughly around $2.1 billion. This includes the cash that would be received when the warrants, preferreds and other options would be issued.

With EBITDA of $180 million Platform Specialty Products trades 11.6x EBITDA or slightly higher than the 10x EBITDA price that Platform Acquisition Holding paid for MacDermid. According to Deloitte's Q4 2012 Chemicals Update, 94 deals were announced and the average multiple for purchases was 10.8x EBITDA. Of the specialty chemical companies that are publicly traded the average multiple in Q4 2012 was 10.1x EBITDA.

Specialty Chem	Reported Date	MKT Cap ($B)	EV ($B)	EV to Sales	EV to EBITDA	EBITDA Margin % Quarter
Albemarle Corp	2/11/14	$5.22	$5.76	2.2	7.96	20%
Chemtura Corp	2/11/14	$2.41	$2.96	1.12	10.1	11.80%
Cytec Industries	2/11/14	$3.24	$3.78	1.96	9.7	14.62%
Ecolab Inc	2/11/14	$30.50	$37.03	2.91	14.87	13.60%
Ferro Corp	2/11/14	$1.13	$1.40	0.84	16.26	6.20%
FMC Corp	2/11/14	$9.62	$11.26	2.91	13.98	17.62%
HB Fuller Co	2/11/14	$2.32	$2.65	1.3	10.3	13.30%
Celanese Corp	2/11/14	$8.10	$10.10	1.55	9.04	23%
PolyOne Corp	2/11/14	$3.36	$4.00	1.06	9.64	6.90%
Rockwood Hold	2/11/14	$5.24	$5.46	1.55	7.14	19.46%
Sigma-Aldrich	2/11/14	$11.35	$10.78	3.99	13.13	23.80%
Sherwin William	2/11/14	$18.25	$19.32	1.9	14.15	14.24%
Valspar	2/11/14	$6.03	$7.36	1.79	11.88	12.37%
W.R. Grace	2/11/14	$7.54	$7.67	2.51	11.05	15.31%
	Average	$8.16	$9.25	1.971	11.371	15%
MacDermid		**$1.89**	**$2.10**	**2.8**	**11.6**	**24%**

(Source: Various Financial sites)

More recently the specialty chemical peers have been trading on average at 11.4x EBITDA as indicated on the chart. This would indicate that buying Platform Specialty Products now would be around average. Also, consider that PAH's company MacDermid has EBITDA margins of ~24% which is higher than all peers and is well above the average. We would estimate that Platform could be trading up to the higher range of EV/EBITDA range closer to 13x as the market starts to notice the high caliber of the management and company's earnings.

Additionally, PAH has a very low cost structure that needs the lowest amount of capital when compared to peers. All of those factors would indicate that the 11.6x multiple does not look like a bad price. We are getting an above average company, with a large sustainable moat, industry leading market share and highly competent management that is incentivized appropriately, all for an average price.

This is not a hugely undervalued company. If Dan Leever is able to come anywhere near the company's goal of historical 20% returns on equity or high returns on assets and achieve the 25% annual gains on intrinsic value, then as Charlie Munger once said "If a business earns 18% on capital over twenty or thirty years, even if you pay an expensive looking price, you'll end up with one hell of a result."

Market Perception And Risks

Platform Specialty Products is no Twitter or Facebook, so the recent IPO has largely gone under the radar with the media and most investors. A recent pop in share price has happened since the

IPO, but we attribute that to institutional investors and some quick sophisticated investors. A further pop in IPO share.

This is not a normal IPO with the common IPO risks. This is a company with a long history of value creation with a defensible moat and capable management. With that said, there still are risks. Dan Leever, although not extremely old in outsider CEO years, is 65 years old and has not laid out a plan for his transition. In light of that, his father Harold Leever, stayed on the board as chairman well into his 80s and we can see Dan following in a similar path. Another risk is that acquisitions are poorly executed (as they once were in the past at MacDermid) and/or poorly timed. Although Dan Leever has had trouble creating the best synergies with acquired companies because of MacDermid's unusual culture, we feel that he is the type of person that learns from his mistakes. We also believe that the poorly timed acquisitions by the founders Martin Franklin and Nicolas Berggruen will also be less of a chance of repeating. They now have a great team with solid long-term acquisition histories.

We feel that as the market starts to notice Platform Specialties Products shares could reach 13x EV/EBITDA indicating nearly a 12% increase in share price. Also, future acquisitions made by Platform Specialty Products will act as catalysts to unlock shareholder value. We can't predict when, but we believe the combination of acquisition talent from Martin Franklin, Nicolas Berggruen and Dan Leever provides a high likelihood that acquisitions will add equity value well above market returns.

Conclusion

Platform Specialty Products is a unique specialty chemicals company with a defensible moat and a highly attractive business model. The company has an unconventional philosophy and approach to running their business that we feel bodes well for long-term investors. We also get a management team that follows the principles of other CEOs who have achieved long-term results that were in the top 1% all time. Although not a guarantee to successful returns, these guidelines give the company the best chance at those other worldly returns.

Do we think that PAH is selling for ridiculously low prices? No, but the company could be trading at the higher end with peers indicating nearly 12% upside as the market wakes up to the company. We feel that future acquisitions also act as near, mid and long-term catalysts, which could add significant value to the equity.

Platform Value

Platform Businesses Can Be Incredibly Valuable

Businesses that execute value-enhancing acquisitions with shareholder-focused capital allocation deserve significant Platform Value

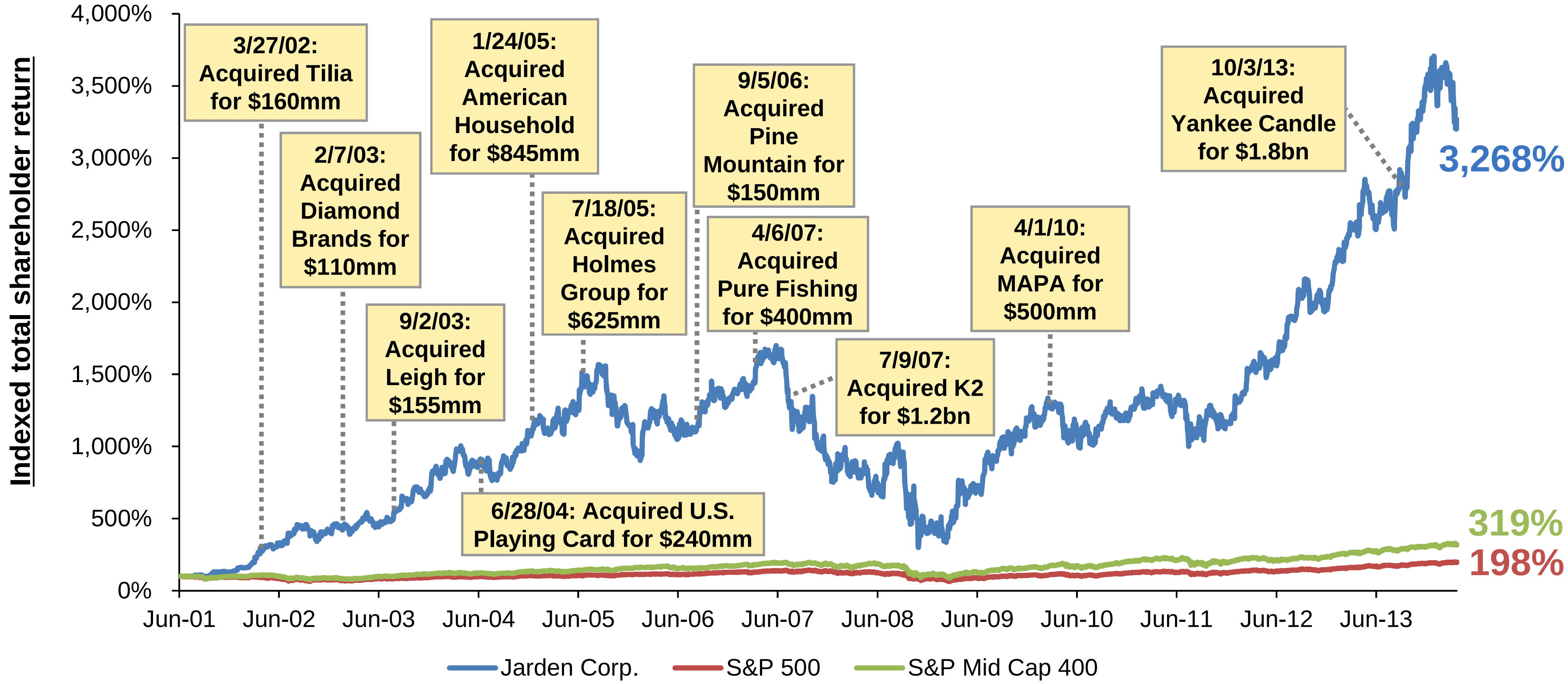
Liberty Media

These companies' stock prices have dramatically outperformed their competition because traditional multiple-of-earnings or cash-flow based valuations do not properly reflect Platform Value

Jarden Has Been A Successful Platform

Since Martin Franklin joined Jarden in 2001, the company has achieved success as a consumer products platform, generating a ~33x total shareholder return to-date

<u>Indexed total shareholder return of Jarden from 6/25/2001 to 4/21/2014</u>



Note: Total shareholder returns are calculated per Bloomberg from June 25, 2001 to April 21, 2014 with all starting values indexed to 100%.

Jarden's Platform Strategy

Franklin has successfully implemented *The Outsiders* principles at Jarden

"Capital allocation is a CEO's most important job" – *The Outsiders*

- **Value-creating acquisition and capital allocation strategy**
  - Maintains high standards for quality and valuation of acquired businesses
  - Focus on shareholder value creation not reported GAAP earnings
  - Intelligent use of debt and equity to finance acquisitions
  - Capital allocation and acquisitions are a core competency and a significant focus of senior management and the board

"Decentralized organizations release entrepreneurial energy and keep both costs and 'rancor' down" – *The Outsiders*

- **Small corporate staff; business unit managers are given autonomy**
- **Budgeting process and performance reviews ensure business units are setting and achieving strong goals**
- **Compensation program rewards strong business unit performance**

Martin Franklin's Next Platform

Platform Specialty Products (NYSE: PAH)

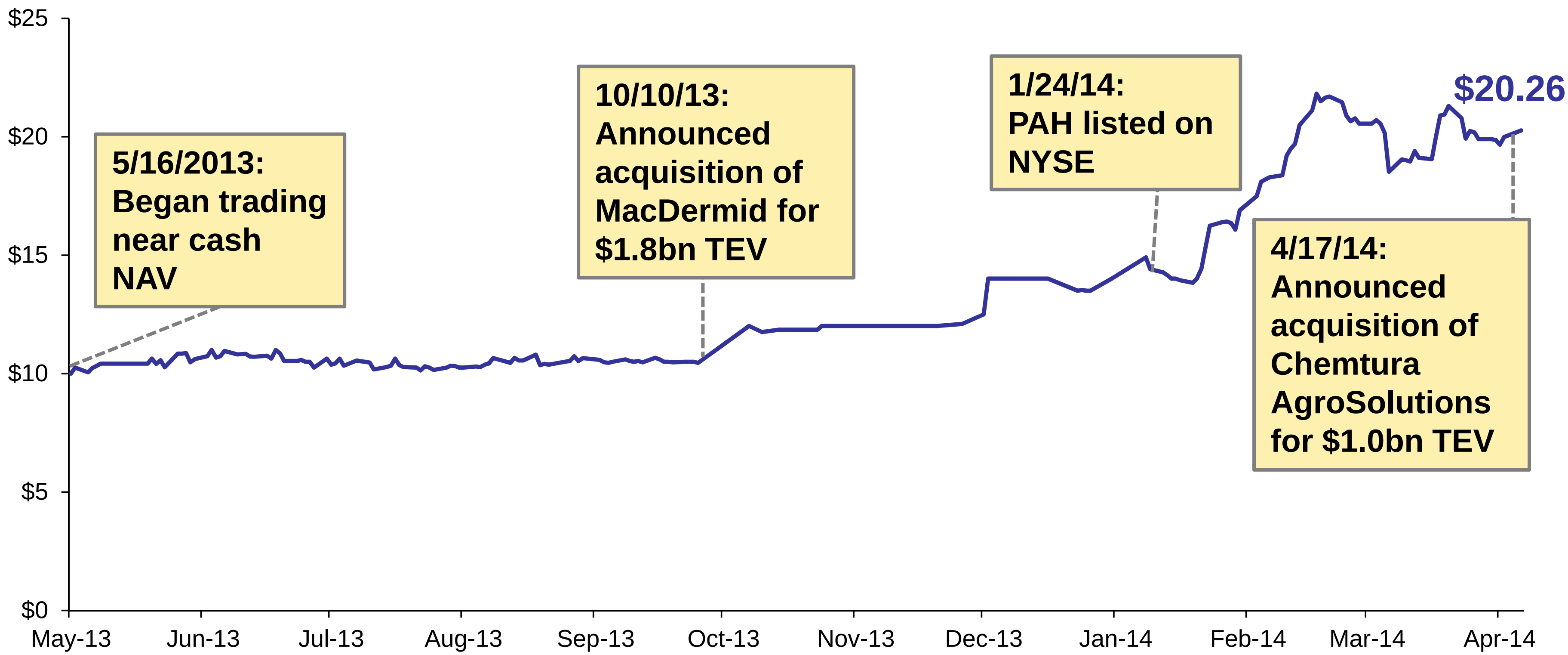
- **Martin Franklin, Chairman of Jarden, co-founded PAH in 2013**
- **In May 2013, PAH raised ~$881mm[1] and began trading at a valuation close to this cash balance**
- **Pershing Square invested $250mm[2] in PAH and owns 27%[3] of the company[2]**
- **In October 2013, PAH announced the acquisition of MacDermid Inc., for $1.8bn cash and equity, a specialty chemical company with significant platform potential**

(1) http://ir.platformspecialtyproducts.com/faq.cfm
(2) TR-1 Notification of Major Interest in Shares filed May 29, 2013 and Pershing Square investment information.
(3) Ownership calculated based on PAH shares outstanding as of April 10, 2014.

Platform Specialty Products (NYSE:PAH)

PAH has increased in value by ~100% in the six months since the announcement of the MacDermid acquisition

PAH Share Price ($)



Source: Bloomberg.

Platform Specialty Products (NYSE:PAH)

PAH's share price has nearly doubled in the six months since the MacDermid acquisition was announced

What are the possible explanations for this value creation?

- ✗ **Did PAH purchase MacDermid at materially less than its fair value?**
  - ✗ PAH paid ~10x LTM EBITDA
  - ✗ The seller was a private equity firm with no urgency to sell

OR

- ✓ **Did Investors begin to ascribe Platform Value to PAH?**
  - ✓ Investors recognize the Platform Value of PAH
  - ✓ PAH's stock price move implies a 100% platform premium

How Can One Evaluate PAH's Platform Value?

Platform Value is a function of several factors:

Competitive advantages of the Platform Company	PAH
Operational efficiencies relative to competitors	
Transaction and integration track record	
Revenue synergy potential	
Access to and cost of capital	

Target Opportunity	
Large relative size of the market opportunity	
Competitiveness of acquisition market	

High Platform Value:

Low Platform Value:

Bad “Platforms”

There are numerous examples of acquisition-intensive companies that have not succeeded

- **These failures can be distinguished from the Outsider model in the following ways**
  - They lacked a competitive advantage in cost structure or strategy
  - They overpaid for acquisitions to generate growth
  - They relied on overvalued equity as an acquisition currency
  - They failed to integrate and achieve cost synergies
  - They focused on growing reported GAAP earnings rather than economic earnings per share

Unconventional Capital Wisdom, Unconventional Capital Wisdom LLC (200 clicks)
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Platform Specialty Products: AgroSolutions Acquisition Is Just The Beginning

Apr. 23, 2014 12:50 AM ET | About: PAH
http://seekingalpha.com/article/2155973-platform-specialty-products-agrosolutions-acquisition-is-just-the-beginning

Disclosure: I am long PAH. **(More...)**

Summary

- Acquisition of Chemtura's AgroSolutions is immediately accretive to earnings, cash flow and margins which should grow significantly over time.
- AgroSolutions is a new vertical for PAH to build in and produces stable cash flows, with low capex needs, that provide ample ammunition for acquisitions.
- PAH continues to trade for an average multiple which could look very undervalued a few years out if company is successful in their acquisition strategy.

Platform Specialty Products (PAH) last week announced their intent to purchase Chemtura's AgroSolutions for nearly $1 billion. This is the first acquisition since the company re-listed in the US after the initial MacDermid acquisition last year. AgroSolutions fits well into Chairman Martin Franklin and CEO Daniel Leever's acquisition strategy for PAH. We will summarize the transaction, describe why we believe PAH's decision was a good one and what impact it will have on shareholders.

The ultimate goal of PAH is to build a world class/world scale specialty chemicals company. To achieve this goal the company has set in place a strict acquisition strategy to build upon quality operations and provide value for shareholders by focusing on the price of acquisitions. This acquisition strategy works because many large companies, including chemical companies, have been focusing their operations on their core business lines while divesting or spinning off their ancillary divisions. PAH is there to pick up these "non-core" assets at decent prices and build upon them creating large synergies and high returns for shareholders. Jarden is a company that has successfully utilized this strategy in the consumer products space that once had a large supply brands that were spun off or divested from larger companies. Chemtura's sale of their AgroSolutions business to PAH is one example of this and it is highly likely that PAH will continue to make similar large acquisitions over time as well as many smaller bolt-on acquisitions in the future.

Acquisitions are not generally the best for shareholders since management teams rarely have the right acquisition strategy. Shareholders benefit from acquisitions that are immediately accretive to their company's earnings, cash flows and margins; however, not too many management teams focus on value accretion when making acquisitions. Management teams usually are more focused on potential synergies and usually do not pay too much attention to the price they pay and the immediate accretion of value across earnings, margins and cash flows. This behavior in turn leads to poor capital allocation and value destruction which does not help shareholders. WorldCom's purchase of Digex in 2000 for $6 billion comes to mind as one example of a management team who was full of wishful thinking and not worried about price. Digex's revenues were growing rapidly, but the company was losing money and was slated to lose more money. WorldCom's intention was that the synergies between the two companies would eventually lead to value accretion a few years down the road. This would mean that the buyout was dilutive in the short-term and hoped to be accretive in the long term; WorldCom had to put up $6 billion or 30x revenues in the hopes of accretion.

If we look back on the history of PAH Chairman Martin Franklin and CEO Dan Leever, both executives have built companies through carefully planned acquisitions that have built large amounts of shareholder value. Our previous article on PAH highlighted both Dan Leever's capital allocation performance and Martin Franklin's performance as CEO and Chairman of Jarden, but we did not highlight Franklin's equally impressive early endeavor in Benson Eyecare. There, Franklin was successful in executing a roll-up of the optical products business. Franklin and his partner, now CFO of Jarden, Ian Ashken originally bought a small chain of eye care stores, once owned by General Electric's pension fund, in 1992 for $2.3 million which was merged with Benson Eyecare. Benson acquired a number of companies over the next few years and later was sold in 1996 for $300 million. That does not include two other spinoffs of Lumen Technologies which sold for $250 million in 1998 and Bolle which sold for $96 million in 2000. This is the same strategy that Franklin and Ashken used at Jarden and the strategy Franklin is bringing to PAH.

Franklin and Leever's past acquisitions were more often than not immediately accretive to earnings, margins and cash flow while synergies were more or less easily obtained, all at attractive prices. PAH's acquisition of Chemtura's AgroSolutions will immediately add at least 35% to 2013 earnings and add to cash flows and margins, so management is not afraid to pay 9.8x trailing EBITDA. 35% immediate accretion is attractive, but Dan Leever is more optimistic in the next few years when he said "This is a dramatic accretion to Platform's intrinsic value per share, I can tell you, dramatic, and this is faster growing business. It's got more upside. You've got margin expansion potential and we're going to add to it for sure." The "add to it" more than likely highlights their interest in consolidating in this new vertical where there could be many synergies.

Both Franklin and Leever have focused on acquiring companies with sustainable earnings and cash flow poised to grow organically or through synergies. The sustainable earnings and cash flow provide the ammunition for further acquisitions that increase value to shareholders. This strategy and thought process is similar to John Malone's strategy at Liberty Media (LMCA) by using Sirius XM's (SIRI) cash flow to "chase a few more rabbits." AgroSolutions has a diversified revenue base of leading brands and ability to develop further products to grow revenues. The earnings and cash flows of AgroSolutions should provide the flexibility for PAH management to "chase a few more rabbits." Since AgroSolutions only needs 1.5% of sales to be reinvested back into the company to sustain and grow, similar to Platform's current situation, Platform can continue to invest a large portion of their cash flows into their acquisition strategy, their current businesses or share repurchases, whichever is more attractive.

The Bottom Line

Shares of Platform Specialty Products continue to trade for roughly 12x EBITDA after warrant exercises and other conversions, which is a multiple that is roughly in-line with the industry. PAH's shares are not undervalued on almost any measure and the company continues to have virtually no analyst coverage on Wall Street. If the company is able to continue to acquire quality companies for attractive prices, integrate them well, gain synergies and scale, then PAH could grow significantly in size at a fast pace; today's share price would look very cheap in hindsight. Martin Franklin's previous acquisition strategy has led to very large gains in shareholder value and looking back Jarden's shares and Benson Eyecare's shares looked very cheap when he originally took charge of those companies. We also have Dan Leever and the "clan MacDermid" that should provide the best jockeys for future value creation. It is only a matter of time until we will hear of the next acquisition and it is likely it will be accretive to Platform Specialty Products' intrinsic value.


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Value, growth at reasonable price, special situations, contrarian
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Platform Specialty Products - The Next Great Serial Acquirer

May. 6, 2014 3:33 PM ET | 1 comment | About: PAH PRO subscribers have an early look at this article until May. 7, 3:33 PM

http://seekingalpha.com/article/2194933-platform-specialty-products-the-next-great-serial-acquirer

Disclosure: I am long PAH. **(More...)**

Summary

- Great experienced management team with a rich history of building shareholder wealth.
- Great underlying investments with organic growth.
- Strong recurrent free cash flow generation.
- Possibly the beginning of a great adventure.

I recently read author Unconventional Capital Wisdom (UCW)'s articles on Platform Specialty Products (PAH). UCW's articles on PAH is good writing and provides an interesting story. His article has retained my attention and left me hungry for more. As a professional investor, and as a piece of advice, you can't just invest on a good story. That's a recipe for disaster. Any smart buyer knows that you need to dig beyond the surface to fully understand the opportunity. For example, would you ever buy a car without checking what's under the hood? The car you want to buy might look good, but the real value is under the hood. You need to open the hood, get your hands dirty, make sure there's no rust haunting you, and certify you have a solid reliable engine that will not blow up on you. In other words, I need to do my own due diligence and valuation. To better understand this research piece, and since I didn't want to repeat everything that was already said, I highly suggest you read UCW's highly informative articles on PAH. Links (both Pro):

- Feb 24th 2014: Platform Specialty Products: Outliers Preparing World's Next Greatest Industrial Company

- April 23rd 2014: [Platform Specialty Products: AgroSolutions Acquisition Is Just The Beginning]

Investment Thesis

A quick glance at PAH's multiples doesn't look cheap. There's a reason for that. You are not going to find a company with top quality assets, a growth profile, strong free cash flow generation, and a brilliant experienced management team in the liquidation section. Based on these qualitative factors PAH is undervalued. The most important part of the thesis is Martin Franklin, PAH, as the center piece of why you should invest in PAH. Mr. Franklin sees the similar conditions in the chemical industry today as when he started at Jarden Corp. His plan is to build a chemical empire by acquiring non-core assets in the same approach with the consumer products. Without Mr. Franklin I would not be writing this article.

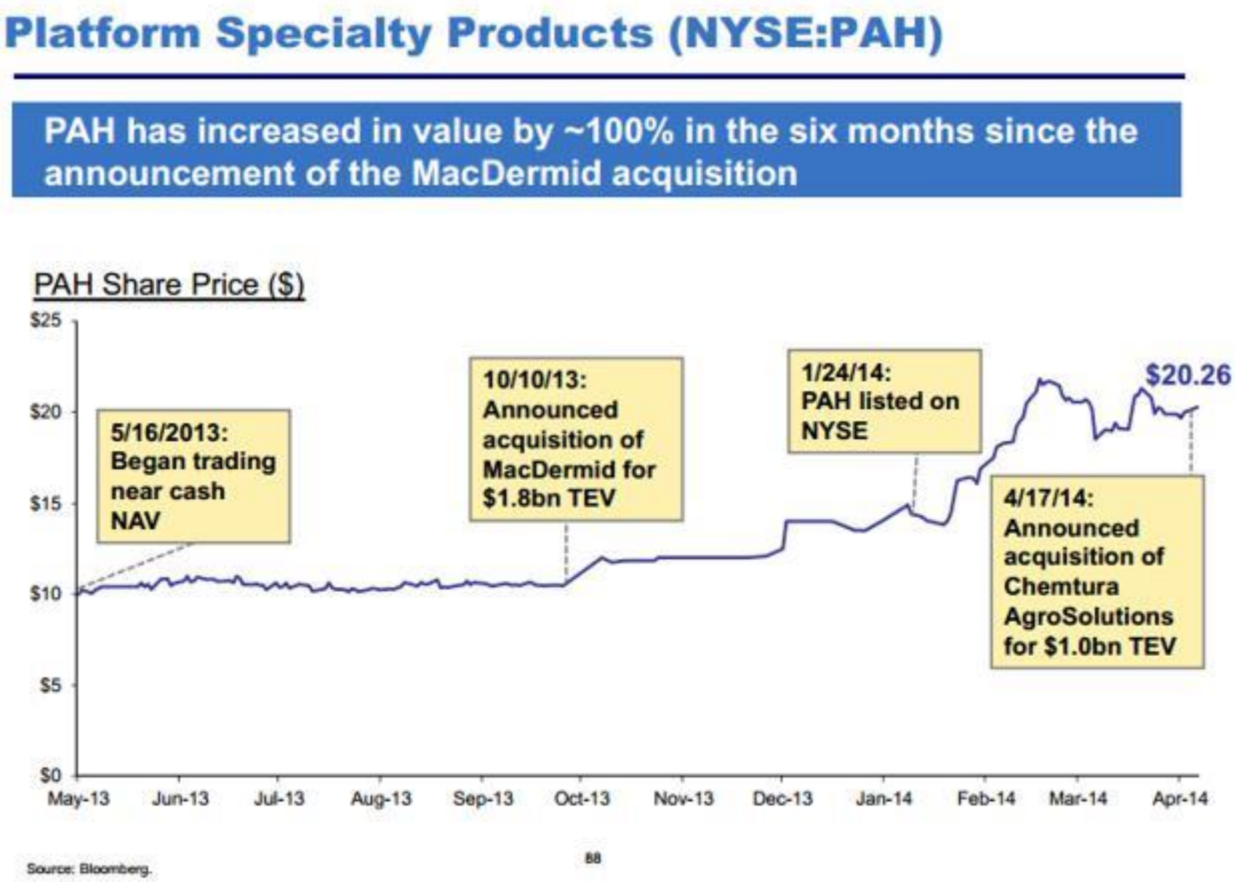
PAH incorporates many predictive attributes that are suggestive that its free cash flow and earnings will be higher several years from now. PAH will orchestrate its growth through disciplined acquisitions. Martin Franklin has established himself as an astute practitioner of the strategic acquisition, in large part because he refuses to overpay. PAH generates a lot of excess cash that can be used to fund other acquisitions. When you factor in a boost in cash flow that future acquisitions will contribute, the market's valuation of PAH would appear a bit more reasonable.

A quick valuation calculation suggests that PAH can grow 27%; however, if the strategic acquisition plan is properly executed, the returns will be superior over the long-run.

Platform Specialty Products

PAH is a global producer of high technology specialty chemical products and provider of technical services. PAH continues to seek to acquire and consolidate specialty chemical businesses. PAH pursues an "asset-lite, high touch" philosophy, which is explained in more detail below. To date, PAH has completed two acquisitions, MacDermid and Chemical AgroSolutions.

(click to enlarge)



Source: [Pershing Square Capital The Outsiders, page 88]

Since the IPO PAH has increased by 100%. The share has doubled since the acquisition of MacDermid was announced.

The Structuring

PAH is an investment vehicle founded in April 2013 by Jarden Corporation (JAH) chairman Martin Franklin and billionaire investor Nicholas Berggruen (aka the homeless billionaire). PAH is classified as an "emerging growth company" as defined under the federal securities laws (JOBS Act, revenue of less than $1 billion). PAH was created with the intent to buy companies with an enterprise value of between $750 million and $2.5 billion.

Platform had their IPO on May 22nd 2013 on the LSE. PAH raised $905 million, consisting of $885 million through ordinary shares (with matching warrants) at $10 per share. The other $20 million are Founder Preferred Shares (with matching warrants per Founder Preferred Shares). Each warrant entitles the holder to one third of a common share (3 warrants = 1 share), exercisable in multiples of three warrants at $11.50 per common share.

On October 31, 2013, the acquisition of MacDermid was PAH's first deal. Following the transaction Platform Acquisition Holdings changed its name to Platform Specialty Products and delisted from the LSE to be listed on the NYSE on January 23, 2014. The MacDermid acquisition makes PAH a global specialty chemical company and a provider of technical services.

On April 17th 2014 PAH acquired Chemture AgroSolutions for approximately $1 billion. I discuss AgroSolutions and the transaction in more detail below. Management expects the transaction to close in the 2nd half of 2014. The transaction should be immediately accretive to Platform's adjusted earnings, pre-synergies.

Strategy

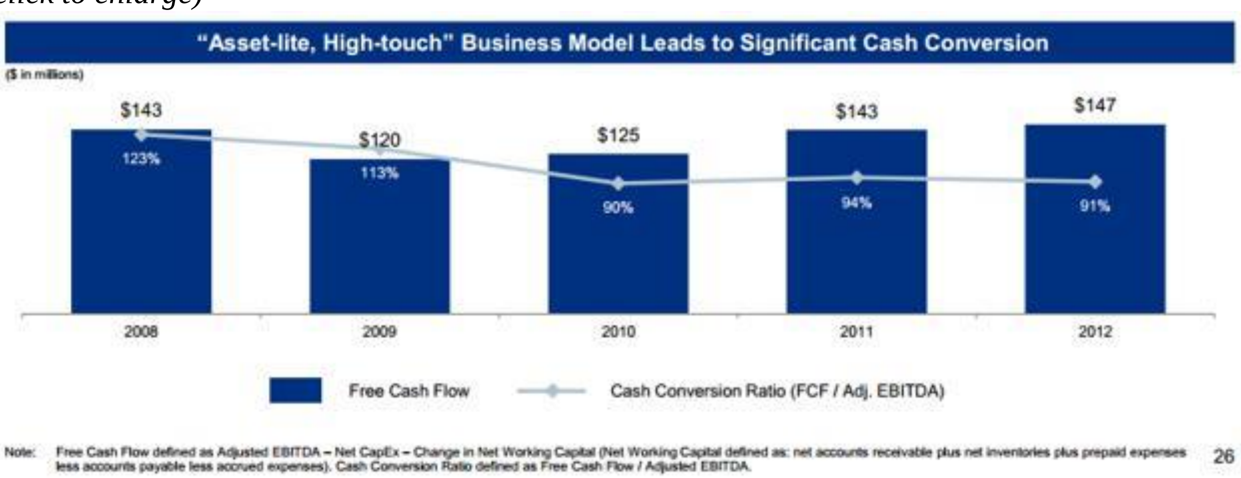
PAH's strategy is two-pronged.

1. Growth Through Acquisitions
2. Organic growth

Growth Through Acquisitions

PAH is focus on buying non-core assets of other companies. PAH's business model is "asset-lite, high-touch," that means PAH has an asset base that requires minimum maintenance CapEx with continued emphasis on innovation and technical service. The beauty of the "asset-lite, high-touch" business model is it leads to significant cash conversion. For example, over 90% of the MacDermid's adjusted EBITDA is converted to free cash flow.

(click to enlarge)



That business model facilitates margin expansion, increased profitability, and significant free cash flow generation to support future growth.

Dan Leever, CEO, is responsible for identifying acquisition opportunities. Martin Franklin, Chairman, said he will help and have a "hands on" role with Platform, especially in making acquisitions, a skill he's demonstrated at Jarden Corp.

I like quotes, so here is a quote from Mr. Franklin from an interview from TheStreet.com

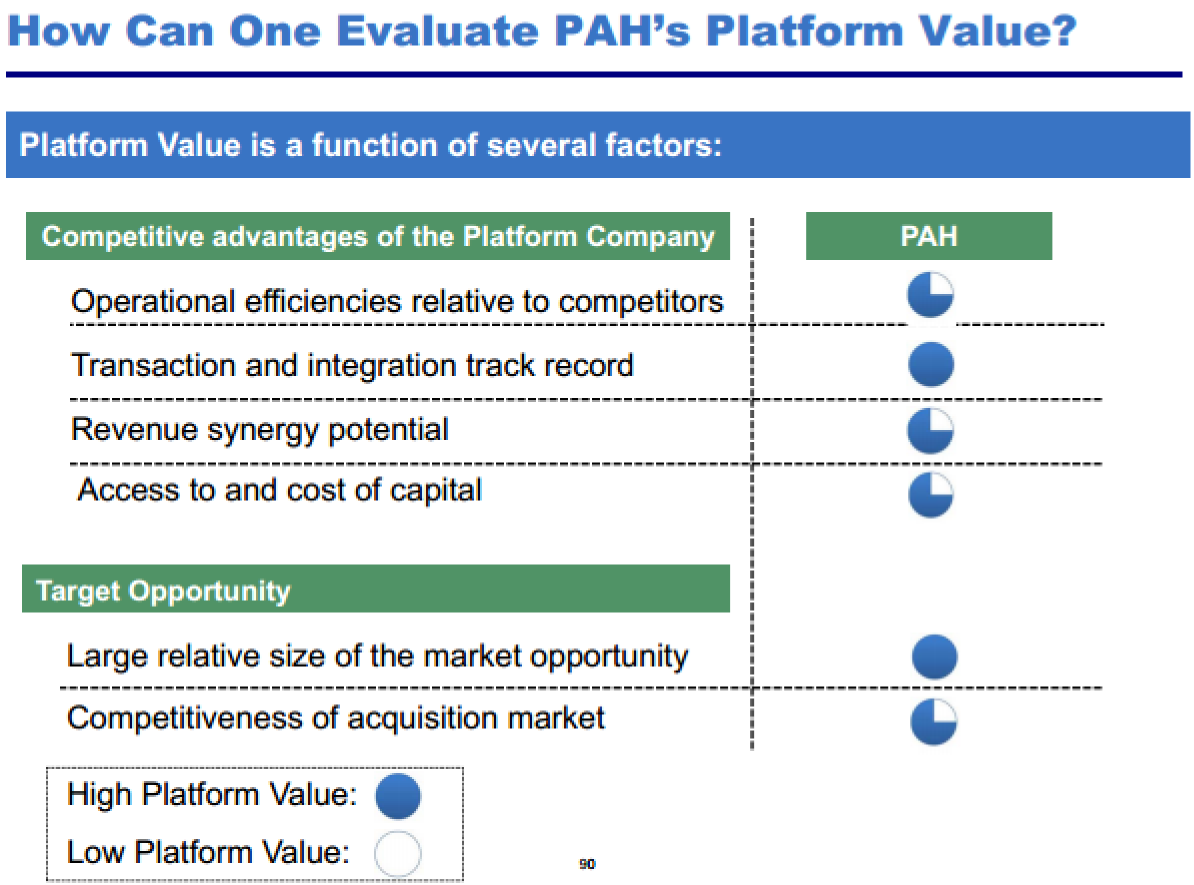
"Our strategy is to provide a good home for solid management teams where we respect their business DNA...This is going to be an acquisition story as well as an organic growth story," Franklin said of Platform.

Again from TheStreet.com, below are Daniel Leever's comments following the announcement of the Chemtura AgroSolutions acquisition.

"We've only just begun," Daniel H. Leever, Platform's CEO, said of the firm's dealmaking in a telephone interview with TheStreet on Thursday. "We have a robust pipeline of deals, some of which could conceivably close before this one," Leever added, noting that Platform is looking at bolt-on acquisitions, and divestitures by private equity firms or large corporations. Leever also noted that Platform has interest in full public company acquisitions, however, he said no such deal is imminent.

Growing through acquisitions is rarely successful and is usually a recipe for shareholder value destruction. You need a solid strategy, discipline, negotiation skills, integration skills, and you need to acquire at a reasonable price. Martin Franklin's past experience fits the bill. I suggest you take a look at Jarden's history to have a deeper understanding of Mr. Franklin since it's the central piece of the investment thesis.

Bill Ackman, one of PAH's major shareholder, recently gave a presentation on Valeant but he also talked about PAH. Here is the link to the presentation: The Outsider Perspectives from Allergan's Largest Shareholder. Slide 83 to 91 focus on PAH. Below is a slide on how to evaluate PAH's platform value. Basically it's hard to quantify since it's very qualitative.



Organic Growth

MacDermid and AgroSolutions are already profitable companies that throw off a lot of free cash flow. They are global enterprises, an optimized cost structure, a wide portfolio of high-quality products, a large economic moat, and stable profitable operations.

PAH's organic growth will come from growth initiatives and innovations to develop the next generation of products. Growth will also come from extending core competencies in emerging technologies and a further emphasis on higher growth regions. MacDermid also realigned their portfolio to focus on higher growth business with higher margin and quality.

The table below demonstrates the pipeline that will drive MacDermid's organic growth.

PLATFORM SPECIALTY PRODUCTS CORPORATION

Innovation Platform: New Markets and Applications Driving Organic Growth

	Strategic Initiative	Global Market Size	Description
In Place	Automotive OEM	$700 million	■ Virtual Tier 1 Strategy/Manage global supply chains for OEM
	Digital Flexographic Printing	$400 million	■ Innovative LUX® process which uses a flat top dot processing technology ■ Significantly increases the quality and consistency of the printed image
	Plating for Molded Interconnect Devices	$50 million	■ Extending MacDermid's "high technical demand plating technology" into antenna manufacturing for smartphones and tablets ■ Enhanced functionality and space optimization
Market Development	IC Substrate	$350 million	■ Leveraging LED technology to replace nickel gold with high functionality surface treatment and plating for increased density
	Light-Emitting Diode (LED) Lighting Market	$300 million	■ Developing products for thermal management systems and using silver as a wire-bondable and reflective finish option to enhance energy conversion into light
	Plating on Plastics Chrome Free Etch	$300 million	■ Elimination of hexavalent chrome in POP ■ Major environmental achievement

Minimal Capital Required to Implement Strategic Initiatives; Infrastructure Is in Place

Acquisitions

PAH's Acquisitions	MacMerdid	AgroSolutions
Date	10-Oct-13	17-Apr-14
Enterprise Value	1,800,000,000	1,000,000,000
Adj. EBITDA	180,000,000	101,000,000
Multiple EV/EBITDA	10.00x	9.90x

The MacDermid acquisition was funded through proceeds from PAH's IPO, debt, and warrant exchange. Following the transaction, PAH's net debt to EBITDA leverage ratio is expected to be less than 4x (3.8x at the time of the transaction).

The Chemtura AgroSolutions transaction is expected to be financed through with a similar combination. The consideration will be funded with $950 million in cash, 2 million shares of Platform's common stock and the assumption of certain liabilities by Platform. However, on the conference call Dan Leever said that he wasn't "locked" on the ultimate finance strategy. Dan

Leever said it took about 60 days for PAH to move from first contact to making the deal. By the time PAH close the transaction in the 2nd half of 2014, Mr. Leever expects PAH's EBITDA leverage ratio to be in the 4.0x range (synergies included).

This strategy leaves PAH with a solid financial footing and the flexibility to continue pursuing growth opportunities.

Below is a slide of demonstrating PAH's strategic acquisition criteria.

(click to enlarge)

The slide above inspired me to create my own "strategic" investment slide for PAH.

Founders, Directors, and Management

A lot has been written about the founders and management. UCW's first article provides a nice background and historical perspective of the group so I won't rewrite what has been written. Also check out the Brooklyn Investor's post on PAH, it's also worth reading. Here are the essentials:

The key players are Martin Franklin, Nicolas Burggruen, Dan Leever. Don't be surprised if some of those names sound familiar.

Martin Franklin: Mr. Franklin is the founder and Executive Chairman of Jarden Corporation, a Fortune 500 broad-based consumer products company. Jarden might not sound familiar to you, but their product does. Jarden has a portfolio of 120 consumer brands, such as Mr. Coffee, Bicycle cards, and Coleman. Mr. Franklin was appointed to Jarden's board of directors in June 2001 and served as Jarden's Chairman and CEO from September 2001 until June 2011, at which time he began service as Executive Chairman. During the last five years, Mr. Franklin has served on the board of directors of Kenneth Cole Productions, Liberty Acquisition Holdings, Freedom Acquisition Holdings and Justice Holdings/Burger King.

Franklin has a rich record of success in creating shareholder value. One simply needs to pull out a chart (page 85) of Jarden. I wouldn't be surprised if there is a book about him one day. According to his Jarden bio, he has completed numerous ultra marathons including Badwater, often called the world's toughest footrace. I'm bringing up running because there's a strong link between his personality, his work out attitude, and the way he operates Jarden. Franklin wanted to bring his employees together, so he decided to run ten 10ks in ten days at ten different Jarden facilities. That says a lot about his character.

This is a guy you want on your team.

Nicholas Berggruen: Mr. Berggruen founded and manages Berggruen Holdings Ltd. This billionaire has the attention of the media for his unorthodox style and unique philosophy (and share of success). In 2000 he was label the "homeless billionaire" after selling all his possessions and decided to live in hotel rooms (Not everything, he kept his Gulfstream IV). He mostly made his fortune in buying troubled companies and fixing them up. Bloomberg did a nice resume of his story.

Dan Leever: Mr. Leever is currently the CEO, President and Vice Chairman of PAH. Mr. Leever served as CEO and Chairman of MacDermid since 1990. He's responsible for running PAH, identifying potential acquisitions, and re-investing in MacDermid's core business.

Mr. Leever took MacDermid private in 2007 through an MBO valued at $1.3 billion (~9x EV/EBITDA). Mr. Leever is greatly inspired by Warren Buffett's Berkshire Hathaway. He pretty much copied and pasted Berkshire Hathaway's corporate philosophy and shareholder principles.

Ernest Stanley O'Neal: Yes the same guy that blew up Merrill Lynch that's still haunting Bank of America. He has since been serving as a director for Alcoa since 2008. Mr. O'Neal will be a director and he will serve on the compensation committee.

The combo Berggruen/Franklin duo is not at their first adventure. Together they have seen the ugly, the bad, and the good. Prior to PAH, Mr. Berggruen and Mr. Franklin have successfully deployed approximately $3.6 billion of equity capital that they have raised together through special purpose acquisition companies (SPAC) (Justice Holdings Limited, Freedom Acquisition Holdings, Liberty Acquisition Holdings). Their work together is better known for bringing Burger King back to the public stock market.

After reviewing their bio, past, and experience, I confirm that PAH has a great team behind them.

I added extra information regarding compensation. The following tables set forth information regarding the compensation of the directors and management in 2013.

(click to enlarge)

Name	Fees Earned or Paid in Cash ($)[1]	Stock Awards ($)[2][3]	Option Awards ($)[2][3]	All Other Compensation ($)[4]	Total ($)
Martin E. Franklin	—	—	—	440,000	440,000
Daniel H. Leever	—	—	—	—	—
Ian G.H. Ashken	—	—	—	—	—
Nicholas Berggruen	—	—	—	—	—
Michael F. Goss	25,000	100,000	—	—	125,000
Ryan Israel	—	—	—	—	—
E. Stanley O'Neal	23,958	100,000	—	—	123,958
Lord Paul Myners	—	125,000	100,000	—	225,000
Alan Cathcart	—	85,000	75,000	—	160,000
Alain Minc	—	85,000	75,000	—	160,000

Name and Principal Position	Year	Salary ($)(1)	Stock Awards ($)	Non-Equity Incentive Plan Compensation ($)(4)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)(5)	All Other Compensation ($)(11)(12)	Total ($)
Daniel H. Leever	2013	843,750	2,500,000(2)	1,700,000	363,590(6)	9,233	5,416,573
Chief Executive Officer, President and Vice Chairman	2012	818,750	43,416(3)	825,000	111,978(7)	3,564	1,802,708
Frank J. Monteiro	2013	337,462	600,000(2)	352,430	29,470(8)	1,080	1,320,442
Senior Vice President and Chief Financial Officer	2012	293,475	12,529(3)	200,000	121,503(9)	541	628,048
John L. Cordani	2013	316,274	300,000(2)	—	—	1,080	617,354
Corporate Secretary of Platform, Vice President and General Counsel of MacDermid	2012	309,700	3,685(3)	114,060	219,894(10)	810	648,149

Source: SEC, page 20, 21

For more information on the compensation, here is the link to the filing.

MacDermid

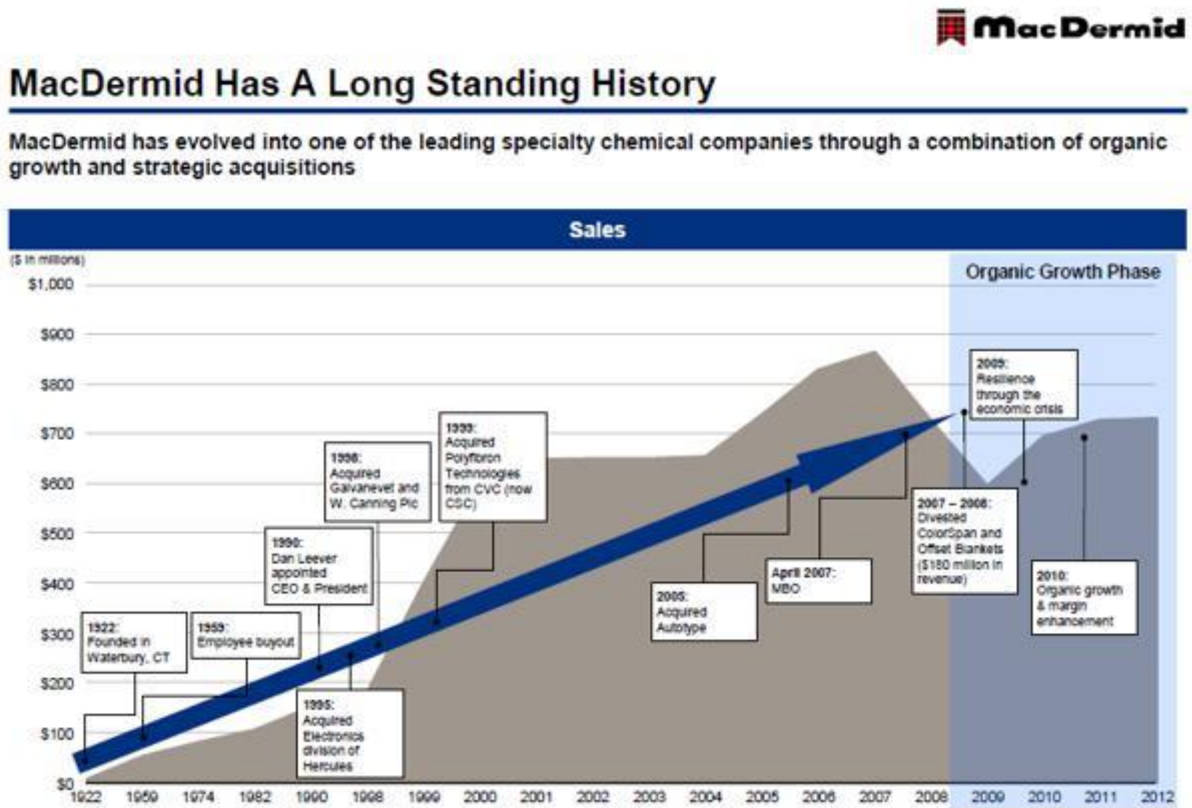
MacDermid
A Platform Specialty Products company

I thought it was necessary to provide a brief background on MacDermid since it's PAH's main investment and vehicle for acquisitions.

MacDermid is a Miami high-tech chemicals maker whose products are used in the electronics, metal and plastic plating, graphic arts and offshore oil production and drilling industries. The company operates two segments: Performance Materials and Graphic Solutions. MacDermid manufactures a broad range of specialty chemicals, created by blending raw materials, and the incorporation of these chemicals into multi-step technological processes. They like to refer to their products as "dynamic chemistries," due to their delicate chemical compositions, which are frequently altered during customer use. MacDermid's products are everywhere from your car, to your electronics, to the oil field.

A lot has been written about the history and management of MacDermid. For many years, it was headed by Harold Leever, who led a buyout from the founder Archie MacDermid in 1959 and was succeeded as CEO by his son Daniel in 1990. The company was taken private in an MBO in 2007 (terrible timing). In 2013 MacDermid was considering an IPO but instead took PAH as a partner. PAH made the transaction in October 2013 for $1.8 billion, or 10x adjusted 2013 EBITDA.

The table below provides a long sales history since its inception in 1922.



Source: PAH investor presentation of the acquisition MacDermid Inc., October 2013.

Here is how I characterize MacDermid:

- Reliable mature profitable company
- Dan Leever is the right captain
- It has a large economic moat
- 24.1% EBITDA margin in 2013
- A diverse portfolio of products in key industries
- A-list of customers such as Exxon, GM, Samsung.
- Requires low amount of CapEx, minimal maintenance of $4-5 million a year, less than 2% sales
- Strong free cash flow generation
- I love the fact they can convert 90% of their EBITDA in FCF.

I also like that Dan Leever and the CFO took no cash in the deal, and rolled their equity into PAH.

Chemtura AgroSolutions

What is Chemtura AgroSolutions?

The company was formally known as Chemtura Crop Protection. AgroSolutions is considered one of the leaders in seed treatment and agrochemical products. These products enhance crop quality and yield. AgroSolution has a broad product mix and global reach because of its strong distribution channel. According to 2012 data, Chemtura's products are sold through a distribution network of 500 distributors in the US and over 2,500 distributors internationally. AgroSolutions was the fastest growing segment in Chemtura's portfolio.

AgroSolutions is a seasonal business and is subject to adverse weather conditions. AgroSolutions benefits from dry weather and a good growing season. AgroSolutions also benefits from a wide product mix and strong global distribution channels. However AgroSolutions is subject to unfavorable foreign currency translation due to the weakening of a number of currencies against the U.S. dollar throughout the year.

Why Buy AgroSolutions?

According to Dan Leever:

"Chemtura AgroSolutions has achieved impressive growth under the skilled leadership of the team who will join Platform. As a category leader in niche segments, the business is positioned for ongoing success. This acquisition enables Platform to enter an attractive new vertical within the specialty chemicals sector-in line with our growth strategy. Chemtura's agrochemicals business provides its customers with advanced, high-technology products grounded in extensive R&D, product registrations, and ongoing customer service. This 'asset-lite, high-touch' approach is analogous to Platform's current business model and will allow us to maintain our robust margins and further build on our track record of significant free cash flow generation."

First, Chemtura considers AgroSolutions a non-core asset (Moody's disagree). PAH gains from sales diversity and profitability. Its cash flow is considered secure and reliable. Adjusted EBITDA margins matched PAH's margin profile. As Dan Leever mentioned above, AgroSolutions fit the 'asset-lite, high-touch' profile. AgroSolutions requires modest capital investment, with less than 2% of annual net sales used for capital expenditures.

Chemtura AgroSolutions generated revenues of $449 million and Adjusted EBITDA of $101 million for the year ended December 31, 2013. Net sales are up because of higher selling prices and higher sales volume. The acquisition should add up to 35% of Platform's adjusted earnings, pre-collaboration. Overall, AgroSolutions' appealing characteristics led PAH to buy it.

Dividend & Share Buybacks

A lot of work needs to be done before I spend a lot of time on this section. I don't expect a dividend in the near future, and I am talking about years. Even with all the free cash flow generated, it will be used to support growth, acquire companies, and pay down some debt. That's their business model, that's what they said they will do, and I believe they will stick to what they said.

When the day comes where PAG decides to return capital to shareholders I believe it will first be in the form of a share buybacks. Share buybacks will come first and offers better value to the shareholders. That's what happened at Jarden. Franklin's Jarden suspended their dividend program to accelerate share buybacks. For those wishing for a nice dividend paying company in the future, it might be comforting to know that MacDermid was a dividend distributor before their MBO in 2007.

Proposal 3

At the planned 2014 AGM in June, one of the proposals is to amend the Certificate of Incorporation to increase the number of authorized common shares from 200,000,000 to 400,000,000 shares. I assume this will pass. This does not mean they will issue shares by the ton and dilute the shareholders the day the vote passes. The Board has no plan to issue shares from the additional authorized shares provided by the Amendment.

On April 22, 2014, there were 121,491,380 shares of PAH common stock issued and outstanding and 26,567,836 shares common stock reserved. 51.9 million shares authorized remain available for issuance.

Management uses the Adjusted Diluted Share Count of 132.9 million common shares.

The Other Side of the Trade

It's very important for me to understand who is on the other side of the trade and what the motives are. I tried to put myself in their shoes to see what I could possibly be missing. Below are some of the elements I might be overlooking.

- **Generally, acquisitions are value destructive. Management tends to overpay and are terrible at integrating the company. It's all about "flash, no cash". Potential synergies generated are often over estimated. There are also potential "hidden" liabilities. It's rare that acquisitions add value to the shareholders.**

That statement is true. It's rare that an acquisition brings value to the shareholder. My defense is that Martin Franklin and his teams are disciplined capital allocator with a great record of success. If they replicate what they have done in the past, shareholders will be well rewarded.

- **Acquisitions will bring on more debt and potential shareholder dilution. Acquisitions could require a substantial portion of the cash flow to debt servicing instead of buying other companies or returning the money to shareholders via dividends or share buybacks.**

PAH will depend on the future free cash flow to fund their acquisitions. However it's possible that they need to raise equity to fund potential purchases and as a result will dilute the shareholders. As mentioned above, it's highly likely that the AGM proposal to raise authorized share from 200 million to 400 million will pass. Management has no intention of issuing shares at the moment. PAH will also take on more debt to fuel their growth. While I prefer a healthy level of debt over issuing shares, a drop in free cash flow could jeopardize its debt obligation and credit rating.

- **It's too early to invest.**

Well you might be familiar with the saying: *"When you're one step ahead of the crowd you're a genius. When you're two steps ahead, you're a crackpot." -Rabbi Shlomo Riskin*

I can't time the market. If you are going to time the market, you need to be right twice. Once to get in and once to get out.

- **MacDermid is too exposed to emerging markets. These regions can be volatile and carries significant risk (e.g. political, foreign currency, market risk…)**

A risk for certain people, I see it as an advantage. MacDermid/AgroSolutions is not a new comer to the emerging markets. Having well-established operations in foreign countries can be short-term problems; it should be beneficial in the long run.

Positives

- Great experienced management team in place with a clear business strategy.
- Mr. Franklin's strategy of acquiring businesses with robust margin, high excess cash flow, with minimal capital has brought a lot of success in the past.
- Significant free cash flow generation
- Low cost structure that requires low amount of capital
- Strong competitive industry position, niche player
- MacDermid is an established company with a proven track record
- Diversified customer and supplier base
- Revenue diversity
- Great list of customer variety (Exxon)
- Broad product offering, strong distribution channels, and new products offering
- Robust margins

- Increasing world population, the need for additional food sources, and the increasing use of genetically modified seeds are favorable trends for AgroSolutions.
- Management/Founders are heavily invested in PAH
- Long-term incentives to perform

Negatives, Risks, and Concerns

- Acquisitions are not always value enhancing
- Integrating acquisitions can be more costly and time-consuming than expected
- Synergies might be less than expected
- Finding and closing deals can take a lot of time
- It might be hard to find deals in the current market environment
- PAH's multiples are not "cheap."
- Access to capital markets, a lot of the potential deals will be fueled by debt.
- A potential severe decrease in the financial fundamentals would have a negative impact on the leverage ratios and pressure to respect the debt covenants
- Affected by currency fluctuations
- AgroSolutions is affected by growers' access to credit, prolonged winters and potential drought. AgroSolutions is a seasonal business and is subject to adverse weather conditions.

Catalysts

- A chance to partner up with a strong experienced team with a long history of creating shareholder value while it's still under the radar.
- Strong free cash flow generation
- An increased in earnings
- More accretive acquisitions
- Take-over offer (You would need approval from the majority holders)
- Opportunity for synergies
- Opportunity for analyst coverage
- Capital return (dividend or share buybacks)
- Mainstream media visibility. What's better for the ratings? Sexy Twitter or good old boring MacDermid?

Valuation

This is the most difficult part of the research. PAH is a newly listed company in the early stage of potentially becoming a serial acquirer. Valuing PAH in its current form wouldn't give you the full story. It's hard to value a company with no historical figures or clear guidance. The nature of the company makes it difficult to value. Intrinsic value is measured by taking all future cash flows into and out of the business and discounting the net figures at an appropriate interest rate. In the PAH case, we have limited information on the future cash flow. The future cash flow is dependent on the future acquisitions. That part is highly speculative and subjective. Building a nice financial model with sunny projections won't really cut it for me. Good businesses make good investments, not financial models.

However, we can make reasonable assumptions and projections. I managed to work out some numbers.

(click to enlarge)

Platform Specialty Products (PAH)	2010	2011	2012	2013	FY 2014	Notes
MacDermid						
Sales	694	729	731	746	761	2% growth
EBITDA Margin	20.0%	21.0%	22.2%	24.1%	24%	
Adjusted EBITDA	139	153	162	180	183	
CAPEX	8	9	13	11	10	4-yr average
Free Cash Flow	125	143	148	169	173	
Chemtura AgroSolutions						
Sales	351	376	409	449	478	6.35% 4-YR CARG
EBITDA Margin	9.4%	11.2%	19.3%	22.5%	22.5%	
Adjusted EBITDA	33	42	79	101	108	
CAPEX	11	6	5	7	7	4-yr average
Free Cash Flow (Estimated)	22	36	74	94	100	
Combined Operations	**2010**	**2011**	**2012**	**2013**	**2014E**	
Revenues	1,045	1,105	1,140	1,195	1,239	3.7% growth
Adj. EBITDA Margin	16.5%	17.6%	21.1%	23.5%	23.4%	Combined
Adjusted EBITDA	172	195	241	281	290	
CAPEX	19	15	18	18	17	
Free Cash Flow (Estimated)	147	179	222	263	273	

In this exercise I estimated $290 million in Adjusted EBITDA for 2014. You can see from the table above that I have used reasonable estimates to derive that number. Combined sales would only grow 3.7% for 2014.

Entreprise Value		
Market Cap	2,400	(May 2, 2014)
Plus: LT Debt	744	(Dec 31, 2014)
Less: Cash	123	(Dec 31, 2014)
Total EV	3,021	
2014E Adj. EBITDA	290	
EV/EBITDA	10.4x	

The Enterprise Value divided by $290 million of estimated Adj. EBITDA is 10.4x, slightly higher than the 10x PAH paid for the acquisitions. I only used a 3.7% increase in EBITDA, a disappointing number. Assuming EBITDA increases 10%, the multiple falls to 9.8x. This number is not exactly cheap, but it's not overvalued either.

Discounted Cash Flow

I'm usually not a big fan of DCF models. There are full of assumptions, projections, and are highly subjective. Since PAH throws off a lot of cash and its value is based on future cash flow, I decided to take a stab at it.

DCF Valuation		2014	2015	2016	2017	2018	TV
Estimated Free Cash Flow	5% grow	273	287	301	316	332	348
Cost of Capital	10%						
PV Factor		0.909	0.826	0.751	0.683	0.621	
Present Value of FCF		248	237	226	216	206	
Terminal Value	5% grow						6,960
Present Value of TV							4,322
Sum of FCF		1,132					
TV		4,322					
Sum of PV		5,454					
(Net Debt Adjusted EBITDA Leverage Ratio of 4X) (290*4x)		1,160					
Market Cap		4,294					
Fully Diluted Shares Out		132.9					
Price Per Share		32.31					
Margin of Safety		20%					
Target Price		24.2					
Current Price		20					
Upside %		**21.2%**					

In this example I forecast the prospective discretionary cash flows from the current operations. I used a discount rate of 10% and a growth rate of 5%. Net debt is based on management's goal of Net Debt Adjusted EBITDA Leverage Ratio of 4x. Again, since this is highly subjective and highly prone to human judgment error, I used a margin of safety of 25%. Under this method I have a target price of $24.2, a 21% gain.

In this case I simply counted the excess cash. I use conservative reasonable numbers. My estimates are easy to beat. I believe management can increase free cash flow by more than 5%. I didn't factor in any future acquisition. I also didn't improve the multiple either.

A quick look at PAH tells you that it's not cheap. The same could have been said about many companies with a similar profile starting up, such as Jarden. PAH distinguished itself as a growth vehicle, and vigorous revenue and profit growth do come at a premium. Paying 10x EBITDA for high quality assets such as MacDermid and AgroSolutions is reasonable. When you factor in a boost in cash flow that future acquisitions will contribute, the market's valuation of PAH would appear a bit more reasonable. I wouldn't marry my price target because the Franklin/Burggruen/Leever team has proven they can create value. With high free cash flow, stable margins, and great management, I believe PAH has the ingredients to build a premier specialty chemicals business.

As extra information, I added below 2013 Global Top Deals of 2013. PAH's acquisition of MacDermid was the 9th biggest deal of 2013 in the chemical industry. The Carlyle Group's acquisition of the coating unit of DuPont was the biggest deal.

(click to enlarge)

TABLE 03 GLOBAL TOP DEALS 2013[7]

The deal value of the global top 10 deals in 2013 was **$26.2 billion**

Bidder	Target	Business area	Total value[8]
The Carlyle Group LP	Coatings Unit of DuPont	Coatings and application tools for automobile repair body shops	4.9
ONEXIM Group	Uralkali OJSC	Potash, mineral fertilizer	**3.5**
URALCHEM OJSC	Uralkali OJSC	Potash, mineral fertilizer	**2.9**
Chengdong Investment Corp.	Uralkali OJSC	Potash, mineral fertilizer	**2.8**
Oman Oil Company S.A.O.C.	Oxea GmbH	Oxo-based chemical products	**2.4**
Ecolab Inc.	Champion Technologies Inc.	Specialty chemicals for the oil and gas industry	2.3
Axiall Corp. (formerly Georgia Gulf Corp.)	Commodity chemicals business of PPG Industries Inc.	Chlorine, caustic soda and related chemicals	2.1
Cinven Limited	CeramTec GmbH	Advanced ceramics	2.0
Platform Specialty Products Corporation (formerly Platform Acquisition Holdings Ltd.)	MacDermid Inc.	Chemicals for electronics, industrial, offshore and printing industries	1.9
Solvay SA	Chemlogics Group	Specialty chemicals for the oil and gas industry	1.4

Sources: Thomson One, KPMG

Blue numbers are estimated values. Financial investors are italicized.

Source: Deal Capsule 2014, KPMG, Thompson One

Other Notes

First Quarter results were out on Monday May 5, 2014 and only includes MacDermid. PAH had a solid start to 2014. Q1 results does not have an impact on my investment thesis.

Here's a quick recap:

First Quarter 2014 Highlights

- Net sales grew 1% organically year-over-year to $183.7 million.

- Reported gross profit was $84.2 million. Adjusted gross profit reached $96.2 million, up 3% year-over-year, with an adjusted gross margin of 52.3%, a record high for the Company in the first quarter.

- Reported net loss was $5.9 million vs. income of $15.3 million in 2013. Adjusted net income grew 15% year-over-year to $23.2 million

- Adjusted EBITDA was up 12.2% year-over-year to a record first-quarter high of $45.9 million.

- Reported earnings per diluted share was ($0.07). Adjusted earnings per diluted share was $0.17.

- Adjusted net after tax Free Cash Flow (Cash from Operations less Capex) was $19.0 million.

The annual meeting is on June 12, 2014 at 2:00 pm.

Conclusion

My research confirms a lot of what's been written about PAH. Platform Specialty Products is at the early stage of what looks like a future serial acquirer that will compound shareholders' money over a multi-year period. PAH has made some headlines when Bill Ackman bought a large chunk of the company but it's still relatively under the radar; surprising considering the high profile names involved. With a couple acquisitions and good returns, the spotlights will eventually be on PAH and the herd will eventually join the party.

You probably concluded by reading this article or other ones that this investment is a heavy bet on management and their acquisition strategy. Martin Franklin is a huge factor in this investment thesis. Without him I wouldn't be making this investment. I believe that most investors are banking on Martin Franklin to repeat the success he had at Jarden Corp. He seems to have the right team in place to achieve long term compounding growth.

The other element you need for this investment to work is patience, which is a rarity in today's investing world. You need to see this investment has a multi-year play. If I invest in PAH, in my mind I'm locked in for at least a minimum of five years. It will take time for this investment to grow some nice "fruits." Looking at the stock price everyday will not serve you any good. If my advice does carry enough wisdom, maybe this guy will get the point across:

I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years. - Warren Buffett

Anyone that has worked in private equity understands this. First you need to source the deal, negotiate, close the deal, integrate the operations, develop economies of scale, and find another deal. It will take a long time to get the deals from the pipeline, to the closing, to your wallet. Usually we are talking months here. AgroSolutions took 60 days to negotiate and it's expected to close in the 2nd half of 2014, that's a pretty fast deal. I don't expect all the deals to be that fast. So if you want to reap the long-term benefits, you need to ride for the long term.

I understand that there's a little bit of a crystal ball element to this (but it doesn't compare to the social network tech stocks.) For anyone that has been reading my past research, you would be familiar with my conservative approach. It's extremely difficult to put a price target on PAH. However, the crystal ball element is minimized by several factors:

Platform Specialty Products incorporates many predictive attributes that are suggestive that its free cash flow and earnings will be higher several years from now. PAH will orchestrate its growth through disciplined acquisitions. Martin Franklin has established himself as an astute practitioner of the strategic acquisition, in large part because he refuses to overpay. PAH generates a lot of excess cash that can be used to fund other acquisitions. PAH has the means and ability to pull off the next big deal, if the price and target is right. Alternatively, PAH can focus on smaller acquisitions but I believe investors expect more. If PAH can't acquire any companies, the growing estimated free cash flow of $273 million a year is a nice cushion. That money could be used to pay down their debt and to build a war chest. I believe the downside is limited since PAH has solid underlying assets to fall back on that generates strong excess cash flow.

Overall, I trust that team with my money. That's why I opened a small position in PAH. If the investment thesis bears fruit, the returns will be superior to the % I calculated.

I tried to bring a different angle, different information, and a different point of view. I hope you enjoyed the article and it helped you in your investment process.

Thanks for reading,

Brian Langis

Additional disclosure: As with all of my articles, the opinions are my own. You should do your homework and make your own best judgments about the company. (I know that this resembles the boilerplate disclosure that you see in every email that you get from your broker but I really mean this and I am not saying it to avoid getting sued.)

Unconventional Capital Wisdom, Unconventional Capital Wisdom LLC (415 clicks)
Value, long-term horizon, worldly wisdom, growth at reasonable price

Platform Specialty Products: The Architect And The Builder

Oct. 22, 2014 6:15 AM ET | 1 comment | About: Platform Specialty Products Corp (PAH)
http://seekingalpha.com/article/2581445-platform-specialty-products-the-architect-and-the-builder

Disclosure: The author is long PAH. **(More...)**

Summary

- Arysta acquisition is highly accretive, diversifies the Agrosolutions business towards both higher growth markets and higher growth products.
- Acquisition brings more talent to the company and increases the magnitude of synergies.
- The architect Martin Franklin and the builder Dan Leever can pick up the pace of mergers.
- The company continues to be undervalued if it is able to compound capital at high rates via mergers.

Most investors are familiar with the rule of thumb that a company on an acquisition spree is most likely destroying value. Management teams usually have the faintest idea of how to make a merger profitable and overestimate their abilities to pay a good price. While rules of thumb are usually true and valuable to remember, there are always exceptions to the rule. History has a few examples that prove there are a few management teams that have the rare talent of creating value in their deal making. Martin Franklin has the skill and it's fairly easy to identify since he's proven his value creating ability through mergers many, many times before. At Platform Specialty Products (NYSE:PAH), the company has already inked 4 deals in a little over a year. Excluding MacDermid, the first operating business acquired, both the architect (Martin Franklin) and the builder (Dan Leever) are batting three for three in executing highly accretive deals.

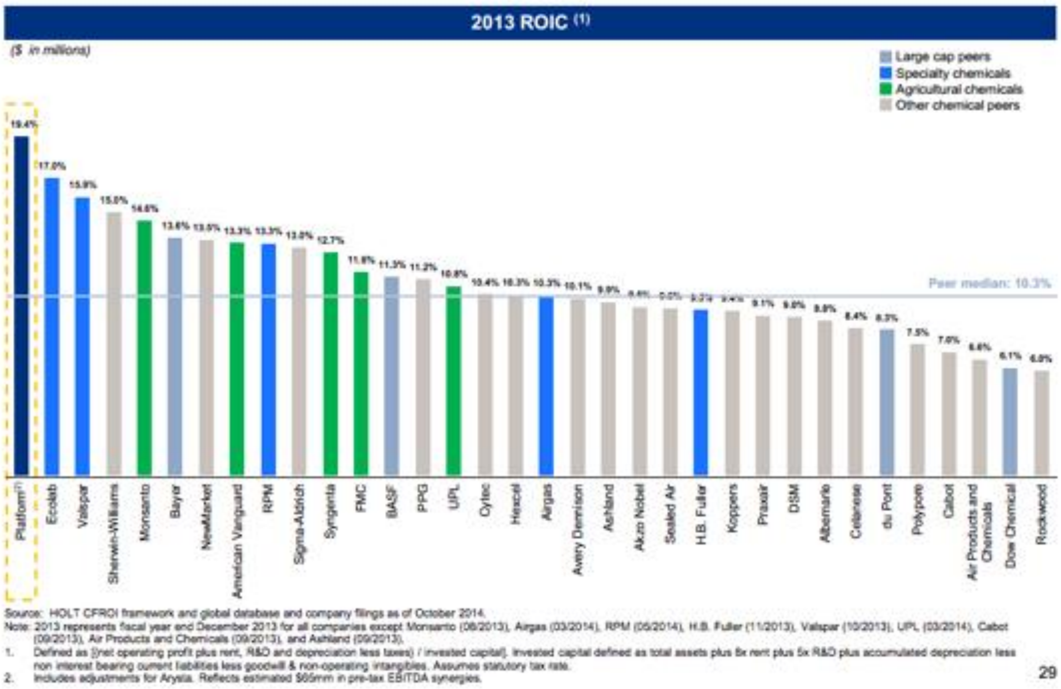
We will summarize Platform Specialty's previous acquisitions, why the new Arysta LifeScience acquisition is attractive and why Platform Specialty is likely to be the goose that continues to lay golden eggs over the long-term.

Quick Background

For those new to the company, Platform Specialty Products was a SPAC created with the intent on acquiring specialty chemical businesses. Martin Franklin has a history of very savvy deal making and is using PAH to consolidate the specialty chemical space just as he has done in the eye care space and consumer brand space at Jarden Corp.

An opportunity is available in the specialty chemical industry as companies are focusing on core operations and thus getting rid of ancillary operations, leaving Platform the ability to pick up the companies for a fair price. The business characteristics of specialty chemical businesses like MacDermid are good candidates for a roll-up strategy since the businesses need low-capex and produce high cash-flows that can be re-allocated to purchasing businesses. These specialty chemical companies have inherent characteristics of a moat with diversified, recurring cash flows, necessary formulations that are a relatively small cost to customers and high barriers to entry. Returns on capital of a quality specialty chemical company can be high and Platform's insistence on acquiring "Asset-Light, High Touch" operations allows them to generate the industry leading returns on capital. Below is a ROIC comparison with industry peers, but keep in mind that these numbers are based on pro-forma 2013 numbers. It is likely integration could extract higher returns on capital in the future.

(click to enlarge)



(Source: Recent PAH Presentation)

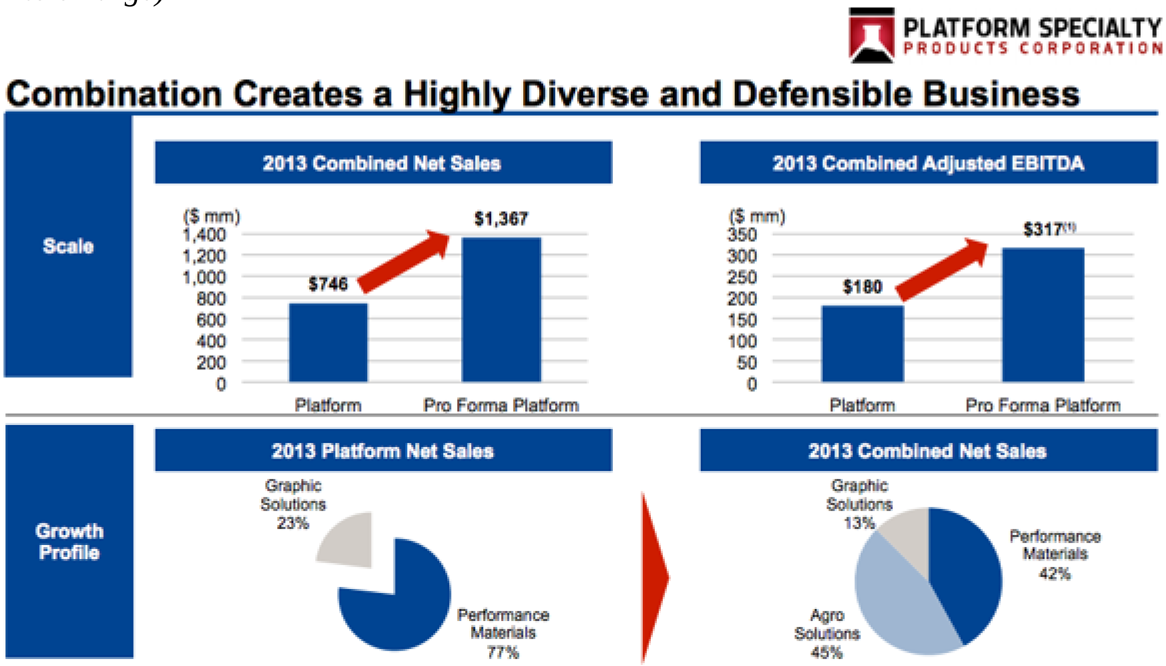
Platform Specialty Products' first acquisition of MacDermid in October of last year provided the original SPAC the first operating business. More can be found here on the company and the background of the management team. In a nutshell, MacDermid provides the base cash flow and more importantly the management talent to PAH to build the acquired specialty chemical companies.

In April, Platform Specialty announced their acquisition of Chemtura's AgroSolutions - CAS - business. The deal was the second significant step to executing their new platform acquisition model whereby CAS now provided PAH the platform to roll up the agro chemical industry. As we described here, the deal was very accretive at 38% to historical 2013 numbers and likely to be much higher based on 2014 numbers and post synergies.

Not too long after in August, Platform announced their intent of acquiring a smaller bolt-on acquisition of Agriphar. The deal was smaller but materially expanded PAH's AgroSolutions business in Europe. Although the deal was smaller, the immediate accretion on 2013 numbers was expected to be in the 20% range, still very good numbers on a pre-synergy basis.

For those who are visually oriented we have included slides that show the progression of the company over the first three acquisitions.

(click to enlarge)

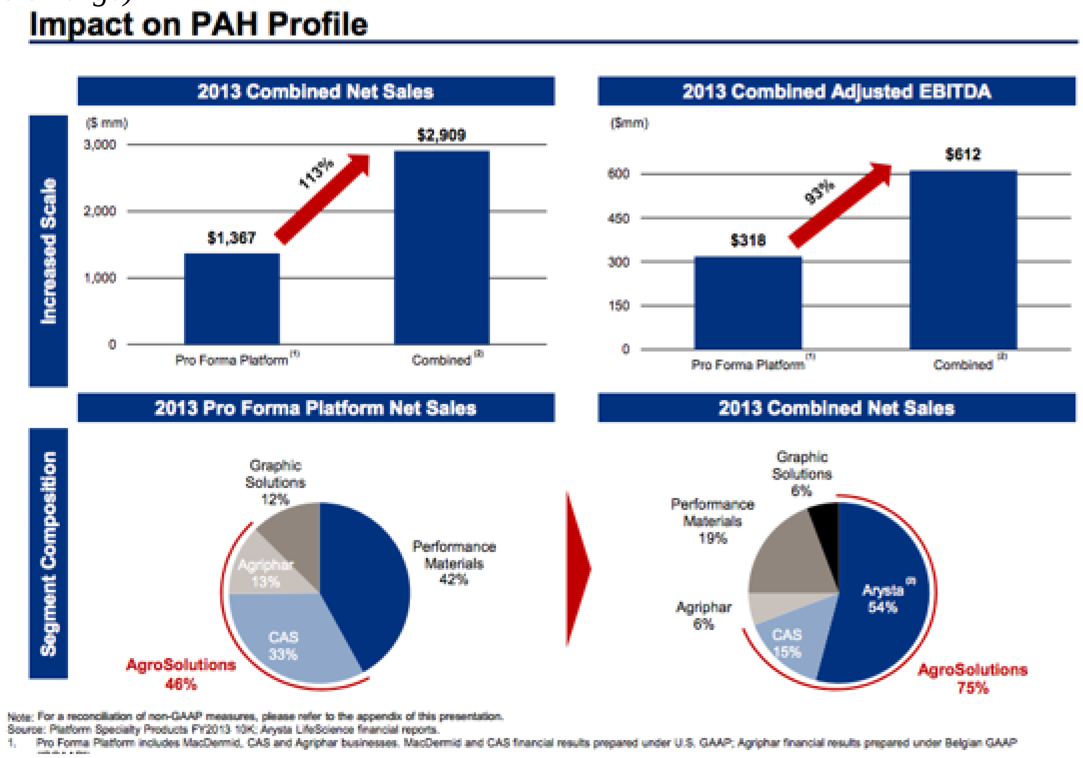


(Source: PAH Credit Suisse Presentation)

Arysta LifeScience Acquisition

Just yesterday Platform Specialty announced they have signed a deal to acquire Arysta LifeScience for $3.51 billion. The deal fits well into their acquisition criteria and is the largest acquisition for PAH being >3 times the size of the CAS acquisition and nearly twice the size of the acquisition of MacDermid. On a 2013 basis, Arysta would increase PAH's pro-forma revenues 113% and EBITDA nearly two times to $612 million. To put it bluntly this is a very big deal. Adding to our slide progression above we have shown the addition of Arysta onto Platform's other operations. The Agro Solutions business now comprises 75% of 2013 combined sales up from 46%. We think this is important as PAH's operations are further diversifying and creating a higher defensible position.

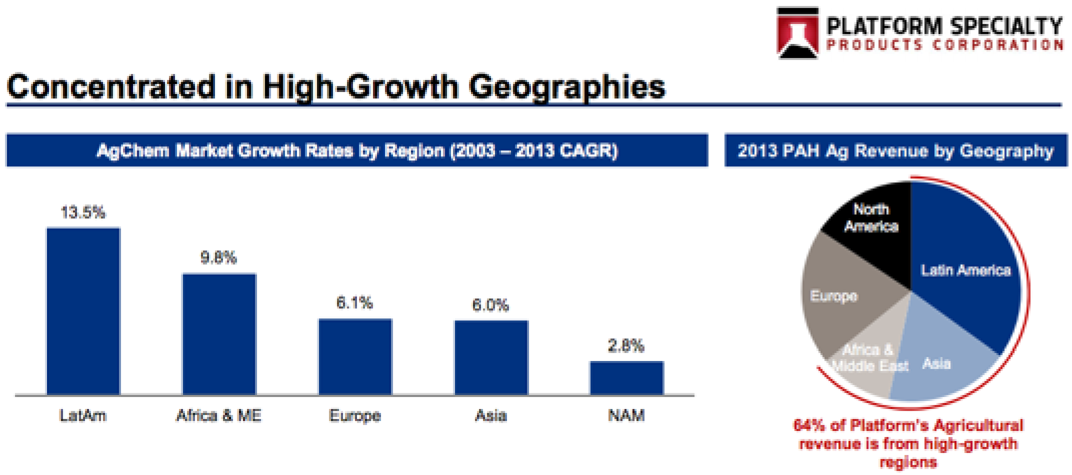
(click to enlarge)



(Source: PAH Presentation)

One of the main reasons why we believe Arysta is a valuable acquisition for PAH is due to Arysta's strong global presence in higher growth markets such as Latin America. During the call, CEO of Arysta Wayne Hewitt mentioned that overall industry growth is likely to be in the 3-5% annualized range. With a majority of Arysta revenues coming from Latin America it is likely that the Arysta operations will be able to generate growth that exceeds the overall industry growth. Now the leading positions of all agro solutions under PAH will be in Latin America, Africa and Central Europe, where growth is likely to outpace the industry as a whole. Below is a graph of the breakdown of growth rates per region and the PAH's Ag revenue per region.

(click to enlarge)



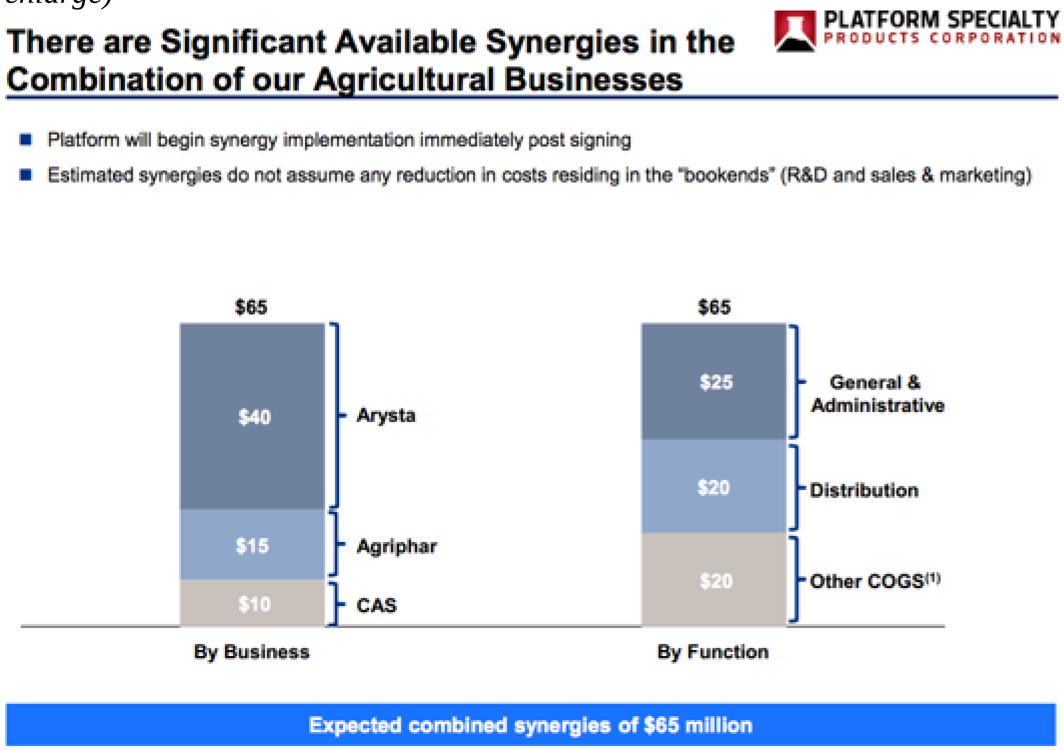
(Source: PAH Presentation)

Another reason why Arysta is a great acquisition is that it expands PAH's combined capabilities to cover the entire spectrum of crop solution categories. The portfolio is now a complete offering for farmers which could provide an advantage an allow PAH to compete with FMC (NYSE:FMC) head to head in higher growth markets such as Latin America.

We like that PAH focuses on building talent through acquisitions and will benefit greatly from talent at Arysta. Current Arysta CEO Wayne Hewitt will be joining PAH as President and will lead the agriculture vertical, allowing PAH CEO Dan Leever and Martin Franklin to focus more on deals. Dan Leever mentioned on the call that there are 100s of companies within the specialty chemical industry that could be potential targets for PAH and the pace of deal making could quite possibly pick up in the future; however, we like that management stated that they will not try to get ahead of themselves.

Arysta will also bring considerably more in the way of synergies. The previous AgroSolutions synergies at PAH were projected to be around $20 million over three years. As stated on the recent call, management now expects much more in terms of synergies as Arysta is a much larger company, allowing PAH to reap three times previous estimates or $65 million dollars in synergies. Now this does not include synergies that are possible in research and development, marketing, and sales which could find extra synergies. Refer to the two slides below for the synergies and the "book-ends" (R&D, sales and marketing) attributable to each business.

(click to enlarge)



(Source: PAH Presentation)

Valuation

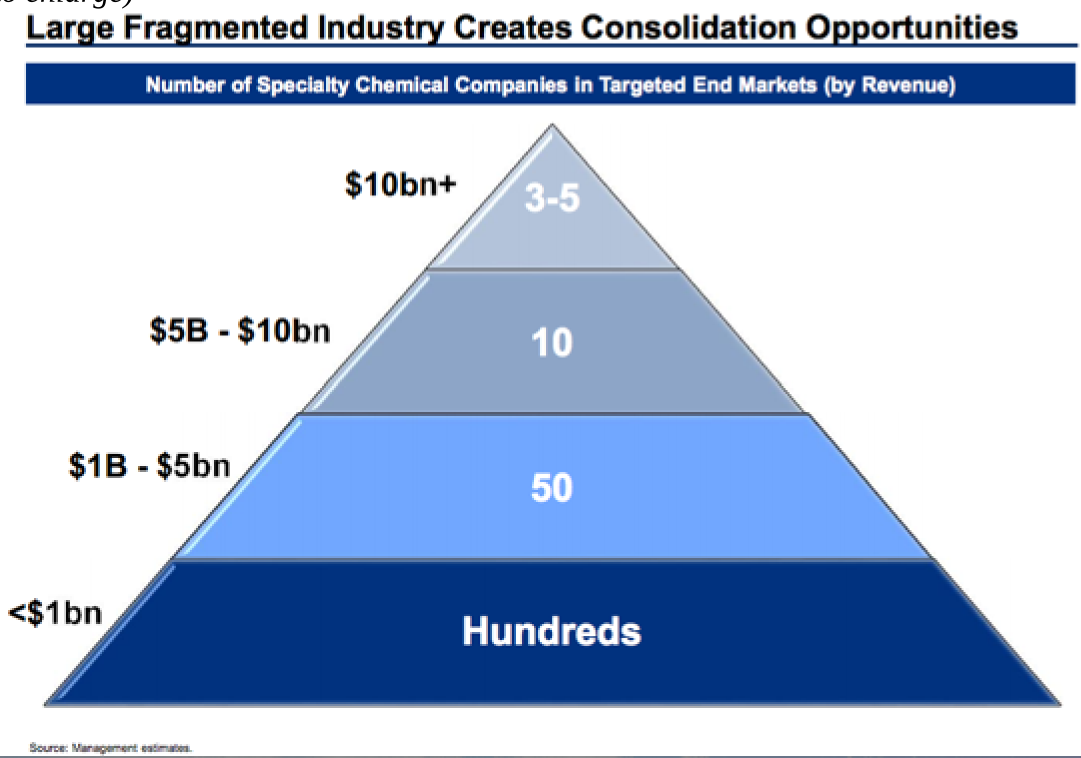
As we have described before in previous articles it is hard to estimate the timing of cash flows of a serial acquirer and accurately estimate their intrinsic value using a DCF method. Platform Specialty is a bet on the jockeys of a quality business and so far they have shown great ability in finding deals that are immediately accretive well north of 20% on a pre-synergistic basis. The complexity and unknowability of the future dilution of both the preferred share dividends and equity raises also complicates the matter. We think that investors should not get turned off, however, since value creation of deals have already shown to be >20% immediately, pre-synergies.

In any event CFO Frank Montiero mentioned on the call there are 176.6 million shares outstanding currently, excluding dilution from founder preferreds dividend which will be issued at the end of the year and depends on the share price. Let's assume 180 million shares are outstanding on a diluted basis for ease's sake. The current share price of $26 would indicate the market cap of the company to be ~$4.68 billion and the addition of debt to purchase the Arysta would increase debt from ~$750 million to ~$3 billion (it all depends on how they structure the final payment and is calculated 4.7 times 2014 estimate of EBITDA). Subtracting cash of ~$642 million, net debt would be ~$2.3 billion. Our estimate of EV on a diluted basis then would be around $7 billion, but as we stated this is reliant on a few factors which could change.

Platform Specialty has been purchasing companies for 10-11 times trailing EBITDA. The same can be said for FMC in their recent purchase of Cheminova for 11 times trailing EBITDA. We believe that Platform's current multiple of ~11 times EBITDA is fairly low since it has diversified operations, is led by very astute capital allocators and achieves the highest return on invested capital in the industries in which they compete. Anyway, we think a low-ball estimate of fair value would be 11x this year's EBITDA. Pro-forma 2013 EBITDA for all of PAH's operations would have been $612 million and is likely to grow for this year and we estimate it to be around $650 million. Eleven times that number would be $7.15 billion or a 2% discount to our estimate of today's enterprise values.

Just using a multiple of EBITDA does not paint a full picture of the future cash flows of PAH. If PAH is able to continue to roll-up the Agrochemical industry and other specialty chemical industries, PAH is likely to be a much larger company in 10 years with highly accretive acquisitions and organic growth is likely to be fairly high as well. Since PAH is a relatively small company still in the scheme of specialty chemical companies, they should have a greater ability to grow larger than current large cap companies. As we have discussed before, roll-ups like Danaher and Colfax have compounded returns in the 20% range annually for years. For PAH to compound at 20% annually for the next ten years the company would grow to be $43 billion in enterprise value, which is doable with the consolidation opportunities.

(click to enlarge)



(Source: PAH Presentation)

By paying roughly the price that PAH is paying for acquisitions, we feel that the current price is fair for both the high quality of business operations and the talent that is running the business. To put into perspective the valuation, if the market were expecting 6% annualized returns from PAH and the company was able to achieve an enterprise value of $43 billion in 10 years, the market would have to be selling the company for $24 billion today. We will go on a limb and forecast that PAH has a very high probability of beating the market averages over the long-term at the current prices.

Conclusion

Platform Specialty Products' recently announced acquisition of Arysta LifeSciences is another glaring example that management is very astute in allocating shareholder capital. Although there are integration risks, Martin Franklin has rolled up industries before and with specialty chemical operations generating nearly 20% in pre-integrated returns on capital, it is likely that the underlying business can compound high returns on capital well into the future. The Arysta acquisition provides scale to PAH's AgroSolutions and allows management to increase the pace of acquisitions. We still believe that the long-term capital compounding abilities of the company is high and today's investor is still not paying anywhere near a high price for the business.

PLATFORM SPECIALTY PRODUCTS PAH
December 09, 2014 by hao777
www.valueinvestorsclub.com/idea/PLATFORM_SPECIALTY_PRODUCTS/135944

			2014	2015
Price:	23.68	EPS	1.20	1.34
Shares Out. (in M):	225	P/E	19.7	17.7
Market Cap (in M):	5,337	P/FCF	16.7	16.8
Net Debt (in M):	3,315	EBIT	543	588
TEV:	8,652	TEV/EBIT	15.9	14.7

Business Description

- PAH is a roll-up specialty chemical company helmed by CEO Dan Leever (the CEO of the first acquired company, MacDermid, by what was then a SPAC) and Chairman Martin Franklin, the architect behind the highly successful Jarden Corp (JAH)
- The base business, MacDermid, is a producer of chemicals for plating and surface coatings, printed circuit boards and other electronic applications, water-based hydraulic control fluids and photopolymers; it enjoys #1 or #2 market share in most of its businesses which major end-markets of electronics, industrial, offshore drilling, graphic printing, and automotive
- Since the October 2013 announcement to acquire MacDermid, PAH has announced three further transactions, all in the agricultural chemical space
- The first deal was for Chemtura AgroSolutions (CAS) in April 2014 for approximately $990mm; CAS is a fast-growing provider of agrochemicals and seed treatment products with niche exposure to applications for tree nuts, fruits, vegetables, tea, rice, tobacco, etc with only a minority exposure to row crops such as corn and soy
- The company then announced in August a €300mm acquisition of Agriphar, which primarily serves the European markets with a wide range of herbicides, fungicides, and insecticides
- Finally, in their largest transaction, the company announced in October a deal to acquire Arysta LifeScience for approximately $3.51bn. The company was in the midst of preparing for its IPO at the time and is backed by Permira. The company offers market-leading insecticides, fungicides, herbicides, biostimulants and value-added nutrients. Its portfolio consists of both agrochemical and biosolutions products, which address the full spectrum of growers' protection and yield enhancement needs.
- Pro forma for all the transactions, AgroSolutions will account for 75% of revenues (54% Arysta, 15% CAS, 6% Agriphar) while MacDermid will account for 25% (19% Performance Materials, 6% Graphic Solutions). 47% of sales will be in the Americas, with 32% in EMEA and 21% in Asia

Thesis & Variant View

- Franklin has created tremendous value in the consumer products space by executing a highly similar strategy with JAH in the consumer products space, and now intends to do the same in the chemical space. When he started as CEO on 9/25/01, JAH traded at $1.08 (adjusted for splits), vs a close today of $45.25

- The company today has virtually no sellside coverage (apart from boutique CJS Securities) but now with critical mass, it is set to become a "normal" company and stock with appropriate institutional focus and coverage analysts
    - In recent meetings with the company, Franklin has stated they do not intend to offer any more equity to the market "in the $20s"
- While the equity is not absolute "cheap" on P/E or EV/EBITDA metrics, management's focus on "asset-lite, high-touch" businesses has allowed them to acquire a number of assets at similar / average EBITDA multiples despite highly attractive FCF and ROIC attributes
    - This FCF (net income conversion of 105-114%) aspect of PAH will allow it to de-lever rapidly and continue acquiring complementary assets
    - On PF 2013 results, PAH has the highest ROIC within the chemicals group at 19.4% (second is ECL at 17.0% and the peer average is 10.3%)
    - In addition, mgmt. expects to be able to accelerate growth in its acquired business. For instance, CAS cash flow should be able to grow at three times MacDermid's rate, per the CEO. The drivers to get there include "small investments" into R&D to drive active ingredients registrations (leading to 25% higher top-line growth, e.g. 5% vs 4%) and initiatives to get gross margins to 50-55% from 37%
- Mgmt has 7-year deals through 2020; 60% of their incentive pay is based on achieving an 8% EBITDA CAGR for MacDermid ($282mm in 2020 vs $180mm in 2013) and 40% is based on stock price achievement with the highest trigger being $26. Although this latter trigger has already been met, mgmt. owns a material amount of equity and their clear incentive is to get the share price higher (CFO owns 285k shares, CEO owns ~2mm). Each new acquisition gets its own incentive plan and we assume these will be based on EBITDA growth, but the board is apparently also discussing the usage of other metrics such as FCF
- The thesis is difficult to derail in the sense that if there are ever questions on the base business, one would still always pay a premium to peers with the assumption that the company will make another accretive acquisition in line with their strategy

Event Path

- Analyst initiations – I expect to see a couple at least of CS, Barclays, UBS, and DB initiate within a quarter (they are all off restriction by January)
- Normalized earnings results: the company has yet to close Arysta (expected Q1'15), but once it does, PAH will have a normal earnings release process and allow investors the ability to track the business more precisely
- Update on synergies: as with most management teams, I suspect the company has under-estimated its synergy potential. With the close of Arysta, it would not be surprising to see an increase in their synergy target or an accelerated timing. As it stands, the $65mm target is expected to be 25% achieved in 2015, 50% in 2016, and the remaining 25% in 2017. G&A represents $25mm, distribution $20mm, and other COGS $20mm. The company has not assumed any reductions in R&D or sales and marketing. We could see an adjusted target approaching $85mm

- Although this is probably a year out, management has said they are likely done acquiring in the ag space given the attractiveness of other verticals. I would imagine their next material non-ag deal would be greeted positively. Mgmt has specifically highlighted flavors and fragrances, niche coatings, and water treatment and cleaning solutions as target areas

Risks

- The company is now predominantly an ag chemicals company and despite a greater focus on niche products such as fruits and vegetables, there is close to a quarter exposed to soy and corn and our view is that crop chemical applications will be reduced YoY possibly resulting in pricing pressure
- The company has just combined 4 separate entities within 5 quarters: there is a possibility that the integration does not flow as smoothly as we currently underwrite. The synergy target of $65mm in our view is low but there may be challenges in retaining all of them or higher costs to achieve them
  - The company has tried to reduce integration risk by hiring JAH's Chief Integration Officer out of retirement
- The stock inherently carries a premium as a "deal stock" – a long stretch with no deals and/or pressure to do a deal impacting target valuation would both be viewed as negative. I view the latter as unlikely but the former is possible as the company integrates what it has just acquired

Upside & Downside

- Please see projections below for FCF
- To get to the most attractive risk-adjusted upside on today's estimates, some expectation regarding M&A is required – though at a current 5.8% FCF yield on 2015 projections, PAH is arguably priced cheaply for what the company is currently (ECL and SHW trade with a current 4.3% yield while PAH is also less expensive than FMC and DD at 5.0%). Using 2016 FCF as our driver, and a 4% yield (FCF will grow 19% in 2016 and 17% in 2017 per our model), PAH would be worth $42 in a year, **factoring in no further deals.** How one incorporates future M&A is one to debate, but we are implicitly underwriting management doing accretive transactions which will benefit the share price.
- To be fair, the downside in PAH depends on whether or not mgmt. retains credibility and the prospect for profitable M&A. The business itself could in a bear scenario see 2015 EBITDA decline 6.4% YoY on a sales decline of 2.0% and a 100bps decline in EBITDA margin to 21.1% (despite synergy capture) – this downside scenario is in line with what pro forma EBITDA did in 2009 across the companies which now make up PAH, per CEO Leever (he has stated EBITDA was down ~5% per their analysis). In this scenario, if you took away their valuation premium and applied a 6% FCF yield to the resulting $249mm FCF in 2015, the per share valuation would be $18.

	2013 PAH Combined PF	2014 PAH Combined PF
Net sales	$2,875,876	$2,962,152
Growth	x	3.0%
Cost of sales		
Total Adjusted Operating Profit	479,973	542,839
Total Adjusted Operating Margin	16.7%	18.3%
D&A	128,167	113,167
Total Adjusted EBITDA	608,140	656,006
Total Adjusted EBITDA Margin	21.1%	22.1%
Growth %	x	7.9%
Other (expense) income:		
Interest, net	(171,914)	(171,914)
Loss on extinguishment of debt		
Other (expense) income, net	(997)	(997)
(172,911)	(172,911)	(172,911)
(Loss) income before income taxes, non-controlling interests and accrued payment-in-kind dividends on cumulative preferred shares	307,062	369,928
Income tax benefit (provision)	(82,907)	(99,881)
Net (loss) income	224,155	270,047
Net loss (income) attributable to the non-controlling interests	1,108	1,108
Net (loss) income attributable to Common Shareholders	225,263	271,155
Accrued payment-in-kind dividend on cumulative preferred shares	(22,454)	0
Net (loss) income attributable to common shares	202,809	271,155
Earnings (loss) per share		
Diluted	x	$1.20
Weighted average shares outstanding (In thousands)		
Basic		
Diluted	x	225,396
FCF Calculation		
EBITDA	608,140	656,006
less: Interest	(171,914)	(171,914)
less: Taxes	(82,907)	(99,881)
less: Capex	(64,000)	(64,000)
less: Restructuring	x	x
FCF	289,319	320,211

Growth %	x	11%
as % of net income	x	118%
Starting Net Debt	3,596,878	3,596,878
Ending Net Debt	3,596,878	3,596,878
Assumptions		
Interest Rate	5.0%	5.0%
Tax Rate	27.0%	27.0%

I do not hold a position with the issuer such as employment, directorship, or consultancy.
I and/or others I advise hold a material investment in the issuer's securities.

Catalyst

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