

Changing the chemical structure

Increased competition, changes in energy costs, and environmental issues have hurt specialty chemical company Ashland Global's profitability and valuation, perhaps influencing an activist to target the company in the near to midterm.

Ashland Global



Sector - Basic Materials



Market cap - \$4.9B (mid cap)



Exchange - NYSE



Ticker: ASH



HQ - Covington, KY

Ashland Global is no stranger to activist investors. In 2013, **Jana Partners** urged the company to sell a German joint venture and its water technologies unit to fund an aggressive share repurchase program. Two years later, **Elmrox Investment Group** called on Ashland to sell its Valvoline business instead of implementing a proposed spinoff (the company ultimately completed the separation later that year). Three years down the road, Ashland continues to suffer from inadequate performance and weak profitability catalyzed by a competitive market, changes in commodity prices, and environmental issues. Is 2018 the year another activist will pressure the company to change?

Ashland lags peers in valuation and profitability, leading *Activist Insight Vulnerability* to rank it among the most vulnerable companies to activist investors in the next nine months. According to *Activist Insight Vulnerability*, the mid-cap specialty chemicals company's net profit margin is negative 0.6 compared to peers' 1.6.

In recent years, activists have targeted peer companies A. Schulman and Axiall, basing their theses on the exploration of strategic alternatives. Ashland is already host to sometime activist investors **Glenhill Capital Management**, **Cruiser**

Capital Advisors, and **FrontFour Capital**. The 2.4% activist ownership in the company may encourage another activist to push for M&A. In addition, its share register is made up almost entirely of institutional shareholders, which are more likely to side with an activist in a disputed situation. Specifically, an activist may suggest Ashland sell itself to a larger player in order to protect itself from the increasingly competitive environment that has negatively affected Ashland's profitability. Specialty chemicals giant Huntsman could be a bidder after its proposed merger with Clariant failed in October.

Alternatively, an activist may demand Ashland sell or spin off one or more of its divisions. Bill Selesky, an analyst at Argus Research, told *Activist Insight Monthly* that an activist could push Ashland to sell its Specialty Ingredients segment since it has performed below peers.

"Specialty Ingredients is the biggest division, but when you compare it to other peer group companies, it has fallen below the average," Selesky said. "[Activists] have a couple of options. They can push to divest the unit, or they can urge the company to have Specialty Ingredients as a standalone business."

Ashland Global's vulnerability to an activist campaign



Performance



Institutional ownership



Profitability



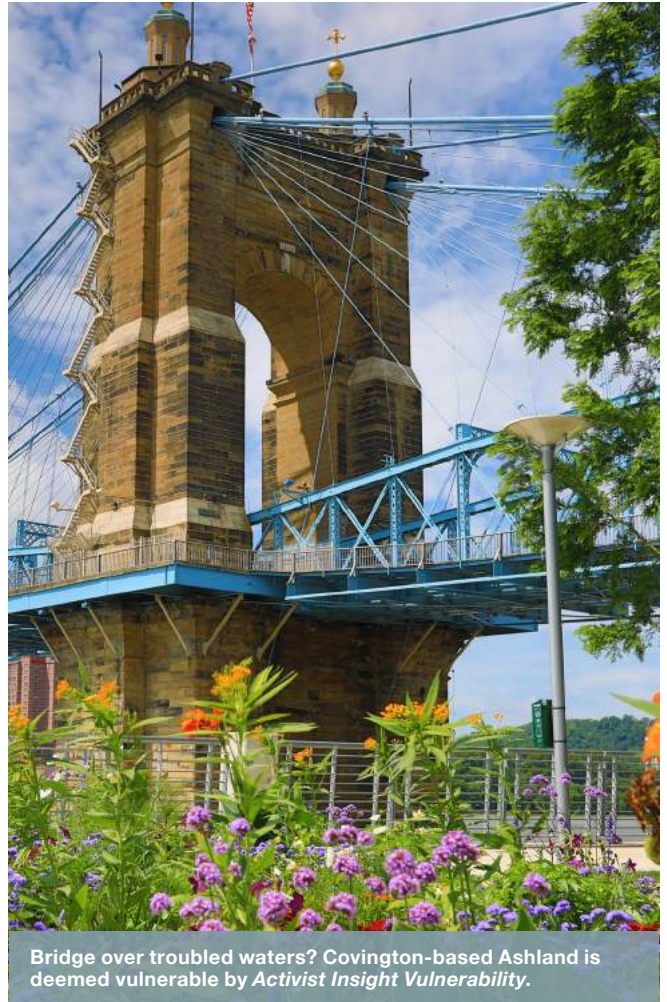
Valuation

“Ashland continues to suffer from inadequate performance and poor profitability catalyzed by a competitive market, changes in commodity, and environmental issues.”

Ashland’s Composites and Intermediates & Solvents segments present other options, since both units only produce a fraction of the revenue Ashland’s Specialty Ingredients division creates.

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If an activist does convince Ashland to focus on its Specialty Ingredients segment, it also makes sense to push for new management to help boost revenue in that division, Selesky said. Last year’s annual meeting revealed shareholder discontent that could encourage an activist to do just that. According to data provider Proxy Insight (Activist Insight’s sister company), shareholders were concerned that the compensation of Ashland CEO William Wulfsohn was 150-times greater than the national median household



Ashland Global’s corporate governance

Ashland suffers from a handful of governance flaws, including the combination of its chairman and chief executive roles, a lack of proxy access, and the requirement of a supermajority vote to amend certain articles in its charter, according to *Activist Insight Governance*. These faults may encourage an activist to push for corporate governance reforms that ensure the board has more independence and accountability.

An activist is likely to demand board representation, contending Ashland can benefit from fresh perspectives and skills. Currently, three of Ashland’s directors have served for more than 10 years even though the average tenure for companies is eight years, according to *Activist Insight Governance*. But at the 2017 annual meeting, shareholders voted in favor of all 11 management nominees, 10 of whom were incumbents of the destaggered board.

Ashland could provide an activist with the opportunity to make its mark outside the traditional proxy season. The window to nominate a slate to run against the incumbent board at the company’s 2019 annual meeting is September 27 to October 27, and the company’s annual meeting will likely be held in late January 2019. Shareholders have the right to call a special meeting and act by written consent, according to *Activist Insight Governance*.

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Separately, an activist could call for a change to Ashland’s capital allocation considering the company has a surplus at the bottom of its cash flow statement equal to \$566 million by the end of fiscal year 2017. The chemicals maker recently approved a \$1 billion stock repurchase program, but an activist will likely push for an even bigger plan since Ashland has more capital to spend than its competitors, with an excess cash to market capitalization ratio of 4.6 compared to peers’ 3, *Activist Insight Vulnerability* data show.

An activist could also urge the company to offer a larger dividend payment since Ashland only paid out \$28 million in the six months ended March 31, down from \$48 million during the same period in 2017. This is especially concerning because Ashland’s five-year total shareholder return is negative 5.1, behind peers’ 39.8, according to *Activist Insight Vulnerability*. 📌

Note: All data as of May 31, 2018.

Ashland Global’s share price performance

