



element  
solutions



**Third Quarter 2020**

**Earnings Presentation**

---

**October  
2020**

## SAFE HARBOR

Please note that in this presentation, we may discuss events or results that have not yet occurred or been realized, commonly referred to as forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. Such discussion and statements will often contain words such as “expect,” “anticipate,” “project,” “will,” “should,” “believe,” “intend,” “plan,” “assume,” “estimate,” “predict,” “seek,” “continue,” “outlook,” “may,” “might,” “aim,” “can have,” “likely,” “potential,” “target,” “hope,” “goal,” “priority” or “guidance” and variations of such words and similar expressions, and relate in this presentation, without limitation, to FY 2020 cash flow outlook, including cash interest, cash taxes and net capex; Q4 2020 market outlook; Q4 2020 adjusted EBITDA guidance, full year 2020 free cash flow outlook; and capital allocation considerations, including approximate conversion of adjusted EBITDA to free cash flow, expected uses of free cash flow, potential dividend declarations and earnings growth.

These projections and statements reflect management’s estimates, assumptions and expectations with respect to future events and financial performance and are believed to be reasonable, though are inherently uncertain and difficult to predict. Such projections and statements are based on the assessment of information available to management as of the current date, and management does not undertake any obligations to provide any further updates. Actual results could differ materially from those expressed or implied in the forward-looking statements if one or more of the underlying estimates, assumptions or expectations prove to be inaccurate or are unrealized. Important factors that could cause actual results to differ materially from those suggested by these forward-looking statements include, but are not limited to, the duration and spread of the coronavirus (COVID-19) pandemic; new information concerning its transmission and severity; actions taken or that might be taken by governments, businesses or individuals to contain or reduce its repercussions and mitigate its economic implications; evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures; decreased consumer spending levels; reduction or changes in customer demand for the Company’s products and services; the Company’s ability to manufacture, sell and provide its products and services, including as a result of travel restrictions, closed borders, operating restrictions imposed on its facilities or reduced ability of its employees to continue to work efficiently; increased operating costs (whether as a result of changes to the Company’s supply chain or increases in employee costs or otherwise); collectability of customer accounts; additional and prolonged devaluation of other countries’ currencies relative to the dollar; the general impact of the pandemic on the Company’s customers, employees, suppliers, vendors and other stakeholders; the Company’s ability to realize the expected benefits of its cost containment and cost savings measures; business and management strategies; debt and debt leverage ratio; shares repurchases; expected returns to stockholders; and the impact of acquisitions, divestitures, restructurings, refinancings, impairments and other unusual items, including the Company’s ability to raise and/or retire new debt and/or equity and to integrate and obtain the anticipated benefits, results and synergies from these items or other related strategic initiatives. Additional information concerning these and other factors that could cause actual results to vary is, or will be, included in the periodic and other reports filed by Element Solutions with the Securities and Exchange Commission. Element Solutions undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

## NON-GAAP FINANCIAL MEASURES

To supplement the financial measures prepared in accordance with generally accepted accounting principles in the United States (“GAAP”), the Company uses the following non-GAAP financial measures: EBITDA, adjusted EBITDA, adjusted EBITDA margin, Q4 2020 adjusted EBITDA guidance, adjusted EPS, adjusted common shares outstanding, free cash flow, free cash flow outlook for the full year 2020, net debt to adjusted EBITDA ratio and organic net sales growth. The Company also evaluates and presents its results of operations on a constant currency basis. The definitions and reconciliations of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP can be found in the footnotes and appendix of this presentation and in the Company’s earnings release dated October 27, 2020 (the “Release”), a copy of which can be found on the Company’s website at [www.elementsolutionsinc.com](http://www.elementsolutionsinc.com). This presentation should be read in conjunction with the Release.

Management internally reviews each of these non-GAAP measures to evaluate performance on a comparative period-to-period basis in terms of absolute performance, trends and expected future performance with respect to the Company’s businesses and believes that these non-GAAP measures provide investors with an additional perspective on trends and underlying operating results on a period-to-period comparable basis. The Company also believes that investors find this information helpful in understanding the ongoing performance of its operations separate from items that may have a disproportionate positive or negative impact on its financial results in any particular period. These non-GAAP financial measures, however, have limitations as analytical tools, and should not be considered in isolation from, a substitute for, or superior to, the related financial information that the Company reports in accordance with GAAP. Investors are encouraged to review the reconciliations of these non-GAAP financial measures to their most comparable GAAP financial measures included herein and in the Release, and not to rely on any single financial measure to evaluate the Company’s businesses.

In addition, this presentation includes YTD Q3 2020 cash flow uses and FY 2020 outlook and full year 2020 free cash flow outlook. This data is provided for informational purposes only and is not necessarily, and should not be assumed to be, an indication of the results that may be achieved in the future.

# Third Quarter 2020 Financial Results



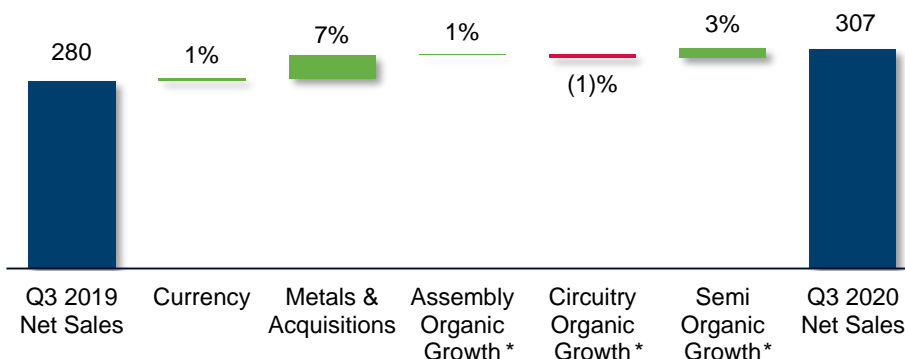
(\$ in millions)	Q3 2020	Q3 2019	YoY	Constant Currency*	Organic*
				YoY	YoY
<b>Net Sales</b>	<b>\$478</b>	<b>\$465</b>	<b>3%</b>	<b>2%</b>	<b>(2)%</b>
Electronics	307	280	10%	9%	2%
Industrial & Specialty	171	185	(8)%	(7%)	(10)%
<b>GAAP Diluted EPS</b>	<b>\$0.15</b>	<b>\$(0.02)</b>			
<b>Adj. EBITDA*</b>	<b>\$102</b>	<b>\$115</b>	<b>(12)%</b>	<b>(11)%</b>	
<i>% margin</i>	21.3%	24.8%	(350) bps	(330) bps	
Electronics	72	74	(3)%	(3)%	
<i>% margin</i>	23.4%	26.3%	(290) bps	(290) bps	
Industrial & Specialty	30	42	(28)%	(26)%	
<i>% margin</i>	17.6%	22.6%	(500) bps	(460) bps	
<b>Adj. EPS*</b>	<b>\$0.22</b>	<b>\$0.26</b>	<b>(15)%</b>		

- Organic net sales\* declined 2%, as COVID-19 continued to weigh on global economic conditions
- Strong sequential improvement, particularly in automotive end markets
- Electronics grew primarily due to significant organic net sales growth\* in Semiconductor
  - Kester acquisition and metals prices contributed 7% to Electronics net sales
- Industrial & Specialty declined year-over-year but improved 28% sequentially due to automotive production and general manufacturing recovery
  - DMP acquisition contributed 2% to net sales growth year-over-year
- Constant currency adj. EBITDA\* decline of 11%
  - Year-over-year mix, particularly between Circuitry and Assembly, resulted in adj. EBITDA\* margin compression
  - True-up in year-to-date compensation accruals drove higher operating expense
- Adjusted EPS\* of \$0.22, down 15% year-over-year due to lower earnings

Note: Totals may not sum due to rounding or due to varying sizes of the two reportable segments

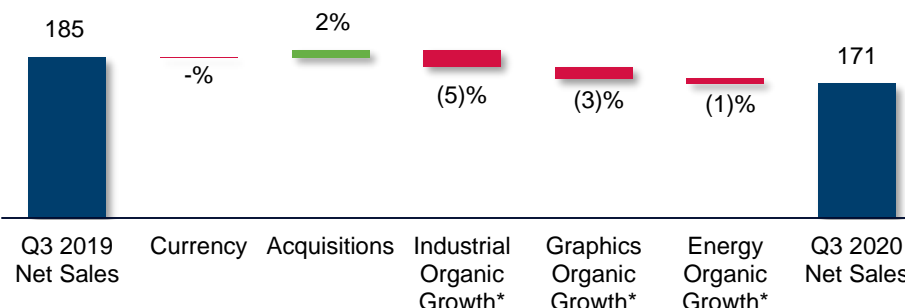
\* These financial measures, on this slide and on subsequent slides, are not prepared in accordance with GAAP. For definitions, discussions of adjustments and reconciliations, please refer to the appendix of this presentation

### Electronics Net Sales (\$ in millions)



- **Assembly:** strong sequential recovery primarily due to increased production in automotive markets
- **Circuitry:** modest decline due to prior-year strength in high-end mobile markets in Korea, partially offset by share gains and recovery from COVID-19 related weakness in China
- **Semiconductor:** growth due to market strength and higher net sales of advanced plating chemistries containing precious metals

### Industrial & Specialty Net Sales (\$ in millions)



- **Industrial:** decline primarily due to COVID-19-related demand weakness in automotive and manufacturing markets, although overall markets rebounded through the third quarter, particularly in Asia and the Americas
- **Graphics:** continued pressure in ancillary products, such as screen printing & newspaper plates, as well as reductions of product offerings and delayed marketing campaigns by CPGs
- **Energy:** sustained weakness in energy prices leading to decreased production volumes in Europe and Asia

## Key Cash Flow Items

- **Q3 2020 free cash flow\* of \$63 million**; YTD Q3 2020 free cash flow\* of \$174 million
- Modest working capital build in Q3 reflecting higher sequential net sales
  - Inventory declined despite higher net sales
- Refinanced existing 5.875% bonds due 2025 with new 8-year bonds at a coupon of 3.875% - reducing interest by \$16 million annually
  - Q3 cash interest higher than typical due to approximately \$10 million accrued interest payment related to refinancing; Q4 cash interest to benefit

## YTD Q3 2020 Cash Flow Uses and FY 2020 Outlook

<i>\$ millions</i>	YTD Q3 2020	FY 2020
Cash Interest	\$48	~\$60
Cash Taxes	\$48	~\$70
Net Capex*	\$20	~\$30

Note: Totals may not sum due to rounding

\* See non-GAAP definitions in the appendix

1. See p.9 for reconciliation to Adjusted Share Counts

2. Based on Element Solutions' closing stock price of \$10.51 at September 30, 2020

## Balance Sheet Management

- Net debt to adj. EBITDA ratio\* of 3.2x on a LTM basis as of Sept 30, 2020
  - Leverage ratio unchanged sequentially due to strong cash flow generation
- Completed DMP acquisition
- Repurchased \$3 million of shares in Q3 with additional \$17 million in early Q4

## Q3 2020 Capital Structure

Instrument	<i>(in millions)</i>
Corporate Revolver	\$—
Term Loans	737
Other	1
<b>Total First Lien Debt</b>	<b>\$738</b>
<b>Total Unsecured Debt</b>	<b>\$800</b>
<b>Total Debt</b>	<b>\$1,538</b>
Cash Balance	248
<b>Net Debt</b>	<b>\$1,289</b>
Adjusted Shares Outstanding <sup>1</sup>	252
Market Capitalization <sup>2</sup>	\$2,643
<b>Total Capitalization</b>	<b>\$3,933</b>

## Q4 2020 Market Outlook

- Expect typical seasonality to drive sequential net sales declines, albeit less than normal due to ongoing recovery in key end-markets
  - Automotive and mobile phone units outlook remain negative relative to prior year
  - Net sales expected to benefit from Kester and DMP acquisitions by approximately \$15 million
- Operating expense should decline sequentially by more than \$5 million due to YTD compensation accrual adjustment in the third quarter of 2020 that is not expected to recur
- U.S. dollar weakening over Q3 reduces 2020 FX headwind
  - At Sept. 30<sup>th</sup> rates, expect headwind of approximately \$5 million to full year 2020 adj. EBITDA
  - Expect tailwind of approximately \$1 million to Q4 2020 adj. EBITDA

## Q4 2020 Adj. EBITDA\* Guidance

**\$90 million to \$95 million**

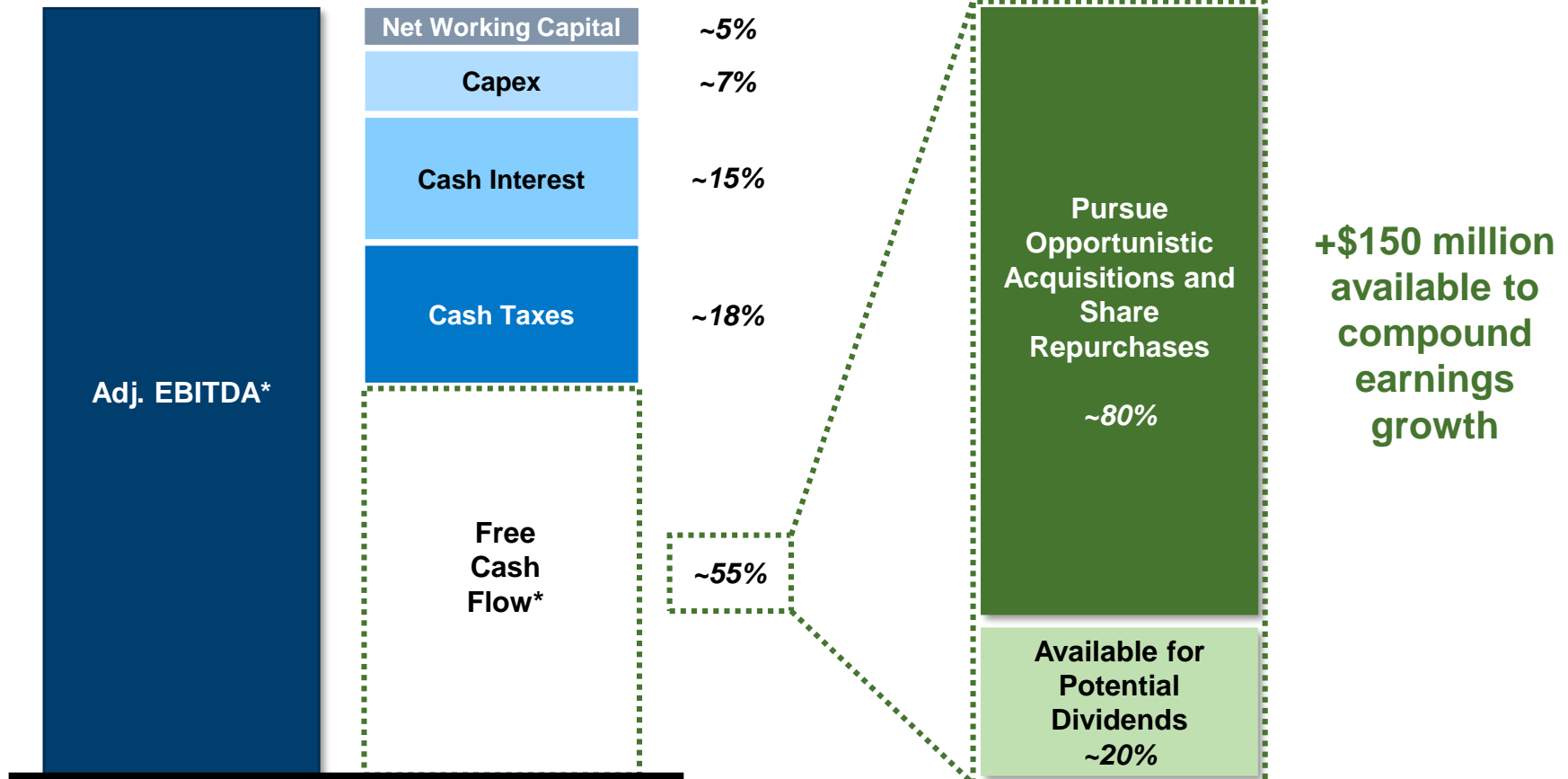
## FY 2020 Free Cash Flow\* Outlook

**~ \$215 million**

\* See non-GAAP definitions and reconciliations in the appendix

## Approximate Conversion of Adj. EBITDA\* to Free Cash Flow\*

## Expected Uses of Free Cash Flow\*



Subject to final Board approval, ESI expects to begin paying a recurring dividend on a quarterly basis

\* See non-GAAP definitions and reconciliations in the appendix



# Appendix



# Reconciliation to Adjusted Share Counts



<i>(amounts in millions)</i>	Q3 2020	Q3 2019
<b>Common shares outstanding</b>	<b>249</b>	<b>251</b>
Number of shares issuable upon conversion of Series A Preferred Stock	—	2
Number of shares issuable upon vesting of granted Equity Awards <sup>1</sup>	3	3
<b>Adjusted common shares outstanding</b>	<b>252</b>	<b>256</b>

Note: Totals may not sum due to rounding

<sup>1</sup> Equity awards with targets that are considered probable of achievement vested at target level

# Net Income (Loss) Attributable to Common Stockholders Reconciliation to Adj. EBITDA



<i>(\$ millions)</i>	Q3 2020	Q3 2019
<b>Net income (loss) attributable to common stockholders</b>	<b>\$36</b>	<b>\$(7)</b>
<b>Add (subtract):</b>		
Loss from discontinued operations, net of tax	0	1
Income tax (benefit) expense	(47)	57
Interest expense, net	17	17
Depreciation expense	11	10
Amortization expense	31	28
<b>EBITDA</b>	<b>47</b>	<b>107</b>
<b>Adjustments to reconcile to Adjusted EBITDA:</b>		
Amortization of inventory step-up	1	—
Restructuring expense	1	7
Acquisition and integration costs	0	1
Foreign exchange loss on foreign denominated external and internal long-term debt	2	1
Debt refinancing costs	46	—
Change in fair value of contingent consideration	—	1
Other, net	4	(1)
<b>Adjusted EBITDA</b>	<b>\$102</b>	<b>\$115</b>

Note: Totals may not sum due to rounding

# Net Debt to Adj. EBITDA Ratio Reconciliation on a Trailing Twelve Month Basis



(\$ millions)	YTD 2020	Q4 2019	LTM Q3 2020
<b>Net income attributable to common stockholders</b>	<b>\$46</b>	<b>\$74</b>	<b>\$120</b>
<b>Add (subtract):</b>			
Net income attributable to the non-controlling interests	—	0	0
Loss (income) from discontinued operations, net of tax	1	(0)	1
Income tax (benefit) expense	(37)	21	(16)
Interest expense, net	51	17	68
Depreciation expense	32	11	42
Amortization expense	89	28	117
<b>EBITDA</b>	<b>181</b>	<b>152</b>	<b>332</b>
<b>Adjustments to reconcile to Adjusted EBITDA:</b>			
Amortization of inventory-step-up	2	1	3
Restructuring expense	6	2	7
Acquisition and integration costs	8	(1)	8
Foreign exchange loss (gain) on foreign denominated external and internal long-term debt	43	(33)	10
Debt refinancing	46	1	47
Change in fair value of contingent consideration	—	(21)	(21)
Other, net	11	2	13
<b>Adjusted EBITDA</b>	<b>\$297</b>	<b>\$102</b>	<b>\$399</b>
<b>Net Debt</b>			<b>\$1,289</b>
<b>Net Debt to Adjusted EBITDA Ratio</b>			<b>3.2x</b>

Note: Totals may not sum due to rounding

# GAAP Net Income (Loss) Reconciliation to Adjusted Diluted EPS



<i>(\$ millions, except per share amounts)</i>	Q3 2020	Q3 2019
<b>Net income (loss) attributable to common stockholders</b>	<b>\$36</b>	<b>\$(7)</b>
Net loss from discontinued operations attributable to common stockholders	(0)	(1)
<b>Net income (loss) from continuing operations attributable to common stockholders</b>	<b>36</b>	<b>(6)</b>
Reversal of amortization expense	31	28
Adjustment to reverse incremental depreciation expense from acquisitions	2	2
Amortization of inventory-step-up	1	—
Restructuring expense	1	7
Acquisition and integration costs	0	1
Foreign exchange loss on foreign denominated external and internal long-term debt	2	1
Debt refinancing costs	46	—
Change in fair value of contingent consideration	—	1
Other, net	4	(1)
Tax effect of pre-tax non-GAAP adjustments	(23)	(11)
Adjustment to estimated effective tax rate	(44)	43
<b>Adjusted net income from continuing operations attributable to common stockholders</b>	<b>\$56</b>	<b>\$66</b>
<b>Adjusted earnings per share from continuing operations</b>	<b>\$0.22</b>	<b>\$0.26</b>
 <b>Adjusted common shares outstanding<sup>1</sup></b>	 <b>252</b>	 <b>256</b>

Note: Totals may not sum due to rounding  
1. See p.9 for a reconciliation to Adjusted Share Counts

# Organic Net Sales Growth Reconciliation



Three Months Ended September 30, 2020

	Reported Net Sales Growth	Impact of Currency	Constant Currency	Change in Pass-Through Metals Pricing	Acquisitions	Organic Net Sales Growth
Electronics	10%	(1)%	9%	(2)%	(5)%	2%
Industrial & Specialty	(8)%	0%	(7)%	—%	(2)%	(10)%
<b>Total</b>	<b>3%</b>	<b>0%</b>	<b>2%</b>	<b>(1)%</b>	<b>(4)%</b>	<b>(2)%</b>

Note: Totals may not sum due to rounding or due to varying sizes of the two reportable segments

**Adjusted Earnings Per Share (EPS):** Adjusted EPS is a key metric used by management to measure operating performance and trends. In particular, the exclusion of certain expenses in calculating adjusted EPS facilitates operating performance comparisons on a period-to-period basis. Adjusted EPS is defined as net income (loss) from continuing operations attributable to common stockholders adjusted to reflect adjustments consistent with the Company's definition of adjusted EBITDA. Additionally, the Company eliminates the amortization associated with intangible assets, incremental depreciation associated with the step-up of fixed assets and incremental cost of sales associated with the step-up of inventories recognized in purchase accounting for acquisitions. Further, the Company adjusts its effective tax rate to 26% and 27% for the three months ended September 30, 2020 and 2019, respectively, as described in the Release. Lastly, the 2019 adjusted EPS total is based on the Company's new capital structure by assuming that the sale of Agricultural Solutions had closed and the new credit agreement had been in place on January 1, 2019. The resulting adjusted net income is then divided by the Company's adjusted common shares outstanding. Adjusted common shares outstanding represent the shares outstanding as of the balance sheet date for the quarter-to-date period and an average of each quarter for the year-to-date period. Adjusted common shares outstanding consists of common shares outstanding, plus the shares that would be issued if all convertible stock was converted to common stock, stock options were vested and exercised, and equity grants with targets that are considered probable of achievement were vested at target level and issued.

**Constant Currency:** Management discloses net sales and adjusted EBITDA on a constant currency basis by adjusting results to exclude the impact of changes due to the translation of foreign currencies of its international locations into U.S. dollar. Management believes this non-GAAP financial information facilitates period-to-period comparison in the analysis of trends in business performance, thereby providing valuable supplemental information regarding its results of operations, consistent with how the Company evaluates its financial results.

The impact of foreign currency is calculated by converting the Company's current-period local currency financial results into U.S. dollar using the prior period's exchange rates and comparing these adjusted amounts to its prior period reported results. The difference between actual growth rates and constant currency growth rates represents the impact of foreign currency translation.

**EBITDA and Adjusted EBITDA:** EBITDA represents earnings before interest, provision for income taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA, excluding the impact of additional items included in GAAP earnings which the Company believes are not representative or indicative of its ongoing business or are considered to be associated with its capital structure, as described in the Release. Adjusted EBITDA for each segment also includes an allocation of corporate costs, such as compensation expense and professional fees. Management believes adjusted EBITDA and adjusted EBITDA margin provide investors with a more complete understanding of the long-term profitability trends of the Company's business and facilitate comparisons of its profitability to prior and future periods. However, these measures, which do not consider certain cash requirements, should not be construed as an alternative to net income or cash flow from operations as a measure of profitability or liquidity.

**Net Debt to Adjusted EBITDA ratio:** Net debt to adjusted EBITDA ratio is defined as total debt (current installments of long-term debt, revolving credit facilities and long-term debt), excluding unamortized discounts and debt issuance costs, which totaled \$20.3 million at September 30, 2020, less cash divided by adjusted EBITDA.

**Free Cash Flow:** Free cash flow is defined as net cash flows from operating activities less net capital expenditures. Net capital expenditures include capital expenditures less proceeds from the disposal of property, plant and equipment. Free cash flow on an adjusted basis adjusts for one-time cash operating expenses related to the Arysta Sale, for the payment of a portion of the contingent consideration related to the MacDermid Acquisition, and assumes that the Company's new capital structure was in place on January 1, 2019. Management believes that free cash flow, which measures the Company's ability to generate cash from its business operations, is an important financial measure for use in evaluating the Company's financial performance. However, free cash flow should be considered in addition to, rather than as a substitute for, net cash provided by operating activities as a measure of the Company's liquidity.

**Organic Net Sales Growth:** Organic net sales growth is defined as net sales excluding the impact of foreign currency translation, changes due to the pass-through pricing of certain metals and acquisitions and/or divestitures, as applicable. Management believes this non-GAAP financial measure provides investors with a more complete understanding of the underlying net sales trends by providing comparable net sales over differing periods on a consistent basis.

For the three months ended September 30, 2020, Electronics' consolidated results were positively impacted by \$13.6 million of acquisitions and \$4.3 million of pass-through metals pricing, and Industrial and Specialty's consolidated results were positively impacted by \$3.9 million of acquisitions.

\*\*\*\*\*

The Company only provides Q4 2020 adjusted EBITDA guidance on a non-GAAP basis and does not provide reconciliation of this forward-looking non-GAAP measure to GAAP due to the inherent difficulty in forecasting and quantifying certain amounts that are necessary for such reconciliation, including adjustments that could be made for restructurings, refinancings, impairments, divestitures, integration-related expenses, share-based compensation amounts, non-recurring, unusual or unanticipated charges, expenses or gains, adjustments to inventory and other charges reflected in its reconciliation of historic numbers, the amount of which, based on historical experience, could be significant.