



KRATON™

Equity Research Report

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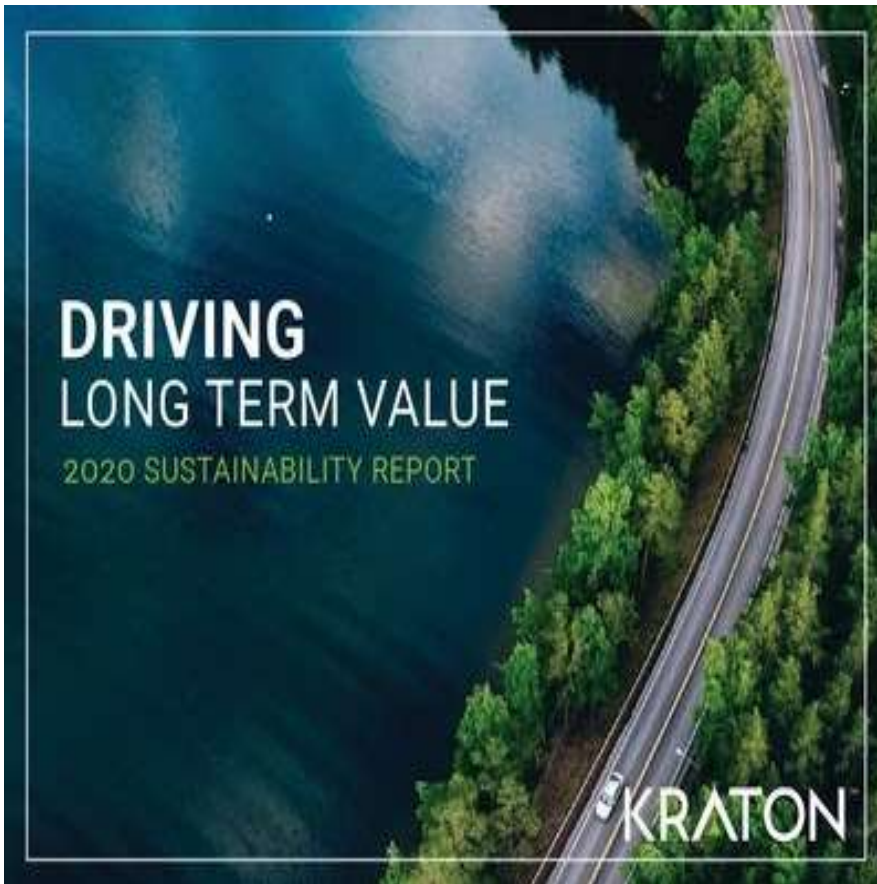
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CURRENCY

All references to quantifiable money, cash, capital, stock prices, and financial statement sums are represented in American dollars (USD) unless otherwise stated.

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SUMMARY

This report assesses the target stock price of Kraton Corporation ('Kraton' or 'the Company') and its valuation based on three methodologies.

The first method uses the market value and stock price to determine the enterprise value. The second method uses comparable EBITDA trading multiples. The third method uses discount cash flow (DCF) valuation.

This report also contains commentary on general industry/sector trends, an assessment of the current competitive landscape, and technical analysis & comparison with competitors and the broader US market.

Stock Price - \$46.29 (Method 1)

Trading Multiple- \$57.42 (Method 4)

Discounted Cash Flow – \$58.95 (Method 6)

COMPANY PROFILE

Kraton is a leading global specialty chemicals company that manufactures styrenic block copolymers (“SBCs”), specialty polymers, and high-value performance products primarily derived from pine wood pulping co-products. The operations are managed through two operating segments: (i) Polymer segment and (ii) Chemical segment.

Kraton Corporation is a holding company whose only material asset is its investment in its wholly owned subsidiary, Kraton Polymers LLC. Kraton Polymers LLC and its subsidiaries own all of their consolidated operating assets.

Kraton was incorporated in 2009.



Polymer Segment Products and Commercial Applications

SBCs are highly-engineered synthetic elastomers, which the Company invented and commercialized over 50 years ago. Kraton developed the first unhydrogenated styrenic block copolymers (“USBC”) in 1964 and the first hydrogenated styrenic block copolymers (“HSBC”) in the late 1960s.

Kraton’s SBCs are high performance elastomers that are engineered for a wide range of applications and its products possess a combination of high strength and low viscosity, which facilitates ease of processing at elevated temperatures and high processing speeds. Kraton’s products can be processed in a variety of manufacturing applications, including injection molding, blow molding, compression molding, extrusion and hot melt, and solution applied coatings.

Kraton’s Polymer segment products are manufactured and their commercial activities are organized in the following product groups based upon polymer chemistry and process technologies: Performance Products, Specialty Polymers, IR sold exclusively to Daelim in accordance with the IRSA, and Cariflex.

Chemical Segment Products and Commercial Applications

Kraton manufactures and sells sustainable, high value products primarily derived from pine wood pulping co-products. The Company refine and further upgrade two primary feedstocks, crude tall oil (“CTO”) and crude sulfate turpentine (“CST”), both of which are co-products of the wood pulping process, into value-added biobased specialty chemicals.

The segment’s products are manufactured and their commercial activities are organized in the following product groups based upon end markets and process technologies: Adhesives, Performance Chemicals, and Tires.



FINANCIAL ANALYSIS

Revenue growth decreased to -10.3% (2019) and -13.4% (2020) on account of Covid-19. The Company has showed signs of recovering post Covid in its third quarter results with a 19.3% revenue growth.

Gross profit continued to be in the range of 23-26% in last 5 years.

Operating expenses remained consistent throughout the last 5 years within a range of \$340M

The Company suffered a **net loss** of \$221M in 2020 on account of Covid-19 since the revenue declined drastically and the economy faced a major slowdown.

In its third quarter results of 2021, the Company earned a record \$107M as **net income** which is double its pre-Covid 19 levels.

Total debt has decreased consistently in the last 5 years showing strong signs of zero debt plans of the Company.

The Company managed to keep its **Cash flow activities** consistent during the last 5 years.

FINANCIAL RATIO ANALYSIS

	Sep 30	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
	2021	2020	2019	2018	2017	2016	2015
EBITDA (\$ 000's)	359,474	195,184 <i>Covid</i>	223,556	385,413	339,286	261,909	80,324
TREND ANALYSIS							
Revenue Growth	19.3%	-13.4%	-10.3%	2.6%	12.4%	68.6%	
LIQUIDITY RATIOS							
Current Ratio	1.6x	1.4x	1.6x	2.1x	1.9x	2.0x	2.7x
Quick Ratio	0.7x	0.6x	0.6x	0.8x	0.8x	1.0x	1.1x
Accounts Receivable Turnover	8.4x	8.9x	9.8x	10.2x	9.9x	11.4x	19.7x
Accounts Receivable Days	43.41	40.85	37.18	35.81	37.01	32.01	18.54
SOLVENCY RATIOS							
Total Debt / Total Capitalization (Cap Ratio)	56.1%	61.2%	64.8%	67.2%	70.8%	78.0%	52.2%
EBITDA/ Interest (Coverage Ratio)	8.0x	3.4x	2.9x	4.1x	2.6x	1.9x	3.3x
Total Debt / EBITDA (Leverage Ratio)	0.4x	0.2x	0.2x	0.3x	0.2x	0.2x	0.2x
PROFITABILITY RATIO							
Gross Profit	30.0%	25.5%	23.0%	28.9%	27.6%	27.5%	22.1%
EBITDA Margin	19.3%	12.5%	12.4%	19.2%	17.3%	15.0%	7.8%
ROA	4.2%	-8.4%	1.9%	2.4%	3.2%	5.2%	-2.3%
ROE	15.0%	-30.8%	7.3%	10.0%	16.0%	23.7%	-6.4%

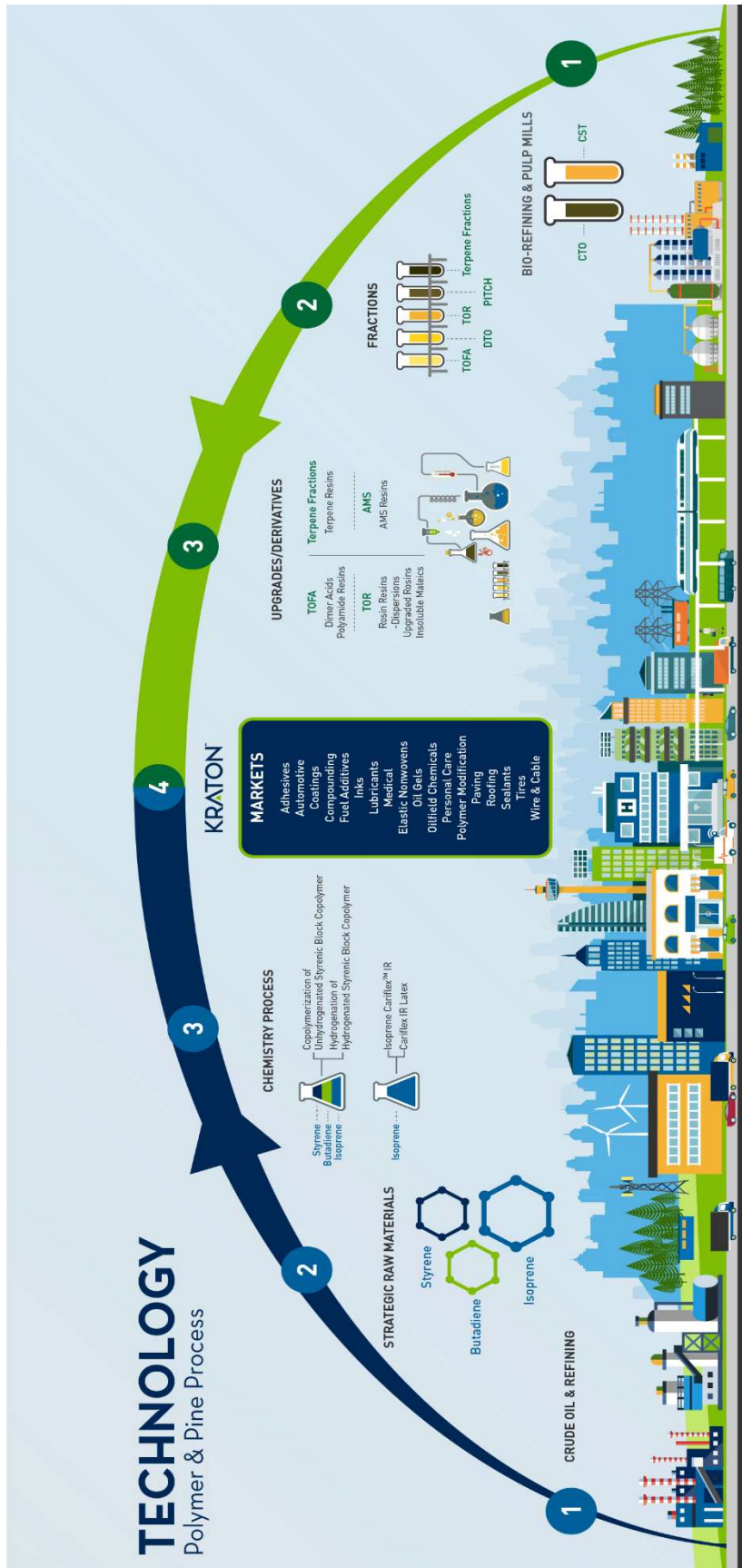
SUMMARY CASH FLOW ANALYSIS

	LTM						
	Sep 30	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
(\$000's)	2021	2020	2019	2018	2017	2016	2015
Depreciation	127,141	126,022	136,171	141,410	137,162	125,658	62,093
Working Capital Activities	-99,129	20,112	22,832	-37,049	33,566	-3,697	46,129
Investment Activities							
Capital Expenditure	-92,876	-85,968	-112,672	-111,097	-122,591	-125,453	-128,742
Financing Activity							
ST Debt	3,102	16,599	28,726	2,674	822	41,684	141
LT Debt	-30,061	-444,696	-109,188	-87,583	-122,819	1,268,644	429,056
LT Deferred Revenue	-13,890	140,280	11,049	00	00	00	00
Other Long-Term Liabilities	00	00	00	00	00	00	00
Total Financing Activities	-40,849	-287,817	-69,413	-84,909	-121,997	1,310,328	429,197

BALANCE SHEET STATEMENT

(\$000's)	Sep 30	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
	2021	2020	2019	2018	2017	2016	2015
Assets							
Current Assets							
Cash And Cash Equivalents	90,196	85,901	35,033	85,891	89,052	121,749	70,049
Other Short Term Investments	00	00	00	00	00	00	00
Total Cash	90,196	85,901	35,033	85,891	89,052	121,749	70,049
Net Receivables	263,234	180,258	169,603	198,046	196,683	200,860	105,089
Inventory	446,505	353,049	364,668	441,483	393,439	350,388	276,245
Total Current Assets	799,935	619,208	569,304	725,420	679,174	672,997	451,383
Non-current assets							
Gross property, plant and equipment	1,803,047	1,759,024	1,650,140	1,539,261	1,485,482	1,318,140	899,830
Accumulated Depreciation	-776,302	-748,081	-708,664	-580,538	-578,760	-800,467	-448,065
Net property, plant and equipment	1,026,745	1,010,943	941,476	958,723	906,722	517,673	451,765
Long Term Investments	12,050	12,723	11,971	12,070	12,380	11,195	11,628
Goodwill	373,303	375,061	772,418	772,886	774,319	770,012	00
Intangible Assets	269,848	294,734	325,877	362,038	406,863	439,198	41,602
Other long-term assets	127,428	148,288	211,339	63,567	153,069	495,570	136,322
Total non-current assets	1,809,374	1,841,749	2,263,081	2,169,284	2,253,353	2,233,648	641,317
Total Assets	2,609,309	2,460,957	2,832,385	2,894,704	2,932,527	2,906,645	1,092,700
Liabilities							
Current Liabilities							
Accounts Payable	315,267	250,608	212,638	255,568	232,796	234,941	98,186
Accrued liabilities	78,276	67,651	65,110	48,198	75,269	60,207	66,263
Deferred revenues	26,765	24,182	00	00	00	00	00
Current Portion of Long Term Debt	93,748	90,646	74,047	45,321	42,647	41,825	141
Other current liabilities	00	00	14,849	00	00	00	00
Total Current Liabilities	514,056	433,087	366,644	349,087	350,712	336,973	164,590
Non-Current Liabilities							
Long Term Debt	903,353	933,414	1,378,110	1,487,298	1,574,881	1,697,700	429,056
Deferred taxes liabilities	123,700	125,559	125,240	127,827	148,148	211,396	9,070
Deferred revenues	137,439	151,329	11,049	00	00	00	00
Other non-current liabilities	151,997	168,566	161,914	182,893	192,267	170,339	96,992
Total non-current liabilities	1,316,489	1,378,868	1,676,313	1,798,018	1,915,296	2,079,435	535,118
Total Liabilities	1,830,545	1,811,955	2,042,957	2,147,105	2,266,008	2,416,408	699,708
Stockholders' Equity							
Common Stock	32,148	31,873	31,751	31,917	31,605	30,960	30,569
Retained Earnings	746,616	617,129	757,677	715,682	634,914	459,277	362,423
Total stockholders' equity	778,764	649,002	789,428	747,599	666,519	490,237	392,992
Liabilities & Stockholders Equity	2,609,309	2,460,957	2,832,385	2,894,704	2,932,527	2,906,645	1,092,700
Error	00	00	00	00	00	00	00

INCOME STATEMENT		LTM						
(\$000's)	Sep 30	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	
	2021	2020	2019	2018	2017	2016	2015	
Total Revenue	1,864,546	1,563,150	1,804,436	2,011,675	1,960,362	1,744,104	1,034,626	
Cost of Revenue	1,305,424	1,165,279	1,390,007	1,431,069	1,418,459	1,265,079	805,970	
Gross Profit	559,122	397,871	414,429	580,606	541,903	479,025	228,656	
Total Operating Expenses	326,789	328,709	327,044	336,603	339,779	342,774	210,425	
EBIT (Operating Income or Loss)	232,333	69,162	87,385	244,003	202,124	136,251	18,231	
Interest Expense	44,829	57,930	75,782	93,772	132,459	138,952	24,223	
EBT & other Income/Expenses	187,504	11,232	11,603	150,231	69,665	-2,701	-5,992	
Other Income/Expenses Net	27,438	264,952	-32,401	76,136	34,903	-15,387	-406	
EBT	160,066	-253,720	44,004	74,095	34,762	12,686	-5,586	
Income Tax Expense	52,924	-32,034	-11,813	3,574	-57,884	-91,954	6,943	
Net Income	107,142	-221,686	55,817	70,521	92,646	104,640	-12,529	



PROJECTION ANALYSIS

With the economy showing strong signs of recovering from Covid-19, Kraton has posted strong results for its third quarter results of 2021 showing an increase in revenue growth rate by 19.3% YTD.

We have assumed that the revenue growth rate for 2021 will be 25% considering the third quarter results and bouncing back from the negative growth rate in 2019 and 2020. Further, we assume that the growth will continue to increase by 10% in 2022 to come back to the pre-Covid 19 levels. Post 2022, we have assumed that the revenue growth rate will be 5% based on the industry CAGR of 5% till 2026.

Based on the above recovery of revenue growth rates, we have assumed that the EBITDA levels will come back to 2018 levels by 2022.

All other operating expenses, depreciation, working capital and capital expenditure are based on historical analysis i.e. average of past 5 years.

Based on the historical analysis of debt repayment, we have assumed the debt repayment to be 5.25% of outstanding debt of previous year. The Company has been consistently trying to reduce its debt levels from 2017 and has been continuously leveraging the debt by providing a strong 10-15% return on equity during normal times.

(\$000's)	HISTORICAL				PROJECTED					
	Dec 31	Dec 31	Dec 31	Sep 30	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
	2018	2019	2020	2021	2021	2022	2023	2024	2025	2026
Total Revenue	2,011,675	1,804,436	1,563,150	1,864,546	1,953,938	2,149,331	2,256,798	2,369,638	2,488,120	2,612,526
<i>Revenue Growth</i>	2.6%	-10.3%	-13.4%	19.3%	4.8%	10.0%	5.0%	5.0%	5.0%	5.0%
Cost of Revenue	1,431,069	1,390,007	1,165,279	1,305,424	1,449,674	1,594,641	1,674,373	1,758,092	1,845,997	1,938,296
Gross Profit	580,606	414,429	397,871	559,122	504,264	554,690	582,424	611,546	642,123	674,229
<i>Gross profit</i>	28.9%	23.0%	25.5%	30.0%	25.8%	25.8%	25.8%	25.8%	25.8%	25.8%
Total Operating Expenses	336,603	327,044	328,709	326,789	360,232	396,255	416,068	436,871	458,714	481,650
EBIT (Operating Income or Loss)	244,003	87,385	69,162	232,333	144,032	158,435	166,357	174,675	183,409	192,579
Interest Expense	93,772	75,782	57,930	44,829						
EBT & other Income/Expenses	150,231	11,603	11,232	187,504						
Other Income/Expenses	76,136	(32,401)	264,952	27,438						
EBT	74,095	44,004	(253,720)	160,066						
Income Tax Expense	3,574	(11,813)	(32,034)	52,924						
Net Income	70,521	55,817	(221,686)	107,142						
Depreciation	141,410	136,171	126,022	127,141	135,912	149,503	156,978	164,827	173,068	181,722
Working Capital	(37,049)	22,832	20,112	(99,129)	21,034	23,137	24,294	25,509	26,784	28,123
Capital Expenditure	(84,909)	(69,413)	(287,817)	(92,876)	(132,701)	(145,971)	(153,270)	(160,934)	(168,980)	(177,429)
Current Portion of Long Term Debt	45,321	74,047	90,646	93,748						
Long Term Debt	1,487,298	1,378,110	933,414	903,353						
Total Debt	1,532,619	1,452,157	1,024,060	997,101	944,753	895,154	848,158	803,630	761,439	721,464
OPERATING ASSUMPTIONS	Dec 31	Dec 31	Dec 31	Sep 30	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
	2018	2019	2020	2021	2021	2022	2023	2024	2025	2026
EBITDA (\$ 000's)	385,413	223,556	195,184	359,474	279,944	307,938	323,335	339,502	356,477	374,301
Revenue Growth	2.6%	-10.3%	-13.4%	19.3%	25.0%	10.0%	5.0%	5.0%	5.0%	5.0%
Cost of Revenue as % of Revenue	71.1%	77.0%	74.5%	70.0%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%
Operating Expense % of Revenue	16.7%	18.1%	21.0%	17.5%	18.4%	18.4%	18.4%	18.4%	18.4%	18.4%
Working Capital as % of Revenue	1.8%	-1.3%	-1.3%	5.3%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%
Capex % Revenue	4.2%	3.8%	18.4%	5.0%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
Depreciation % Rev	7.0%	7.5%	8.1%	6.8%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Total Debt	1,532,619	1,452,157	1,024,060	997,101	944,753	895,154	848,158	803,630	761,439	721,464
Debt Repayment % of EBITDA	-84,909	-80,462	-428,097	-26,959	52,348	49,600	46,996	44,528	42,191	39,976
Estimated Debt Repayment % of 12/2020				5.25%	Based on historical analysis					

VALUATION ANALYSIS

ENTERPRISE VALUATION ANALYSIS								
	EV (000's)	Debt (000's)	Cash (000's)	Eq Value (000's)	Shares Outs (000's)	Stock Price	Recom. (-10%/+10%)	
METHOD #1 - Market Value / Using the Stock Price	2,395,036	997,101	90,196	1,488,131	32,148	\$ 46.29		
METHOD #4 - Average EBITDA Industry Trading Multiples	2,851,078	997,101	90,196	1,944,173	32,148	\$ 60.48	Buy (+30.6%)	
METHOD #6 - Discount Cash Flow Valuation Analysis	2,752,688	997,101	90,196	1,845,783	32,148	\$ 57.42	Buy (+24%)	
Average of other methods	2,801,883			1,894,978		\$ 58.95	Buy (+27.3%)	

METHOD #1 - Market Value / Using the Stock Price										
Company	Symbol	Stock Price 11/12/2021	Stocks Outstanding (\$000)	Equity Value (\$000)	Debt (ST<) (\$000)	Cash (\$000)	Enterprise Value (\$000)			
Kraton Corporation	KRA	\$ 46.29	32,148	1,488,131	997,101	90,196	2,395,036			

METHOD #4 -Average EBITDA Industry Trading Multiples										
Company	Symbol	Stock Price 12/10/21	Stocks Outstanding (\$000)	Equity Value (\$000)	Debt (ST<) (\$000) 9/30/21	Cash (\$000) 9/30/21	Enterprise Value (\$000)	EBITDA (\$mm) 2019 - PreCovid	EBITDA Multiple	Beta
AdvanSix Inc.	ASIX	\$ 46.82	31,739	1,486,020	278,647	7,239	1,757,428	116,923	15.03x	1.77x
Innospec Inc	IOSP	\$ 88.20	29,555	2,606,751	33,500	89,200	2,551,051	197,500	12.92x	1.35x
Ferro Corp	FOE	\$ 21.55	93,400	2,012,770	370,207	148,754	2,234,223	152,802	14.62x	1.47x
Kopper Holdings Inc.	KOP	\$ 31.79	23,993	762,737	902,600	44,900	1,620,437	191,900	8.44x	2.02x
Kraton	KRA	\$ 46.29	32,148	1,488,131	997,101	90,196	2,395,036	223,556	10.71x	2.10x
EBITDA * Average Multiple		223,556	12.75x	(based on 2019 Pre-covid mutiple)				Average	12.75x	1.74x
Hyatt's Enterprise Value	2,851,078	Stock Val=	\$ 60.48							

METHOD #6 - Discount Cash Flow Valuation Analysis

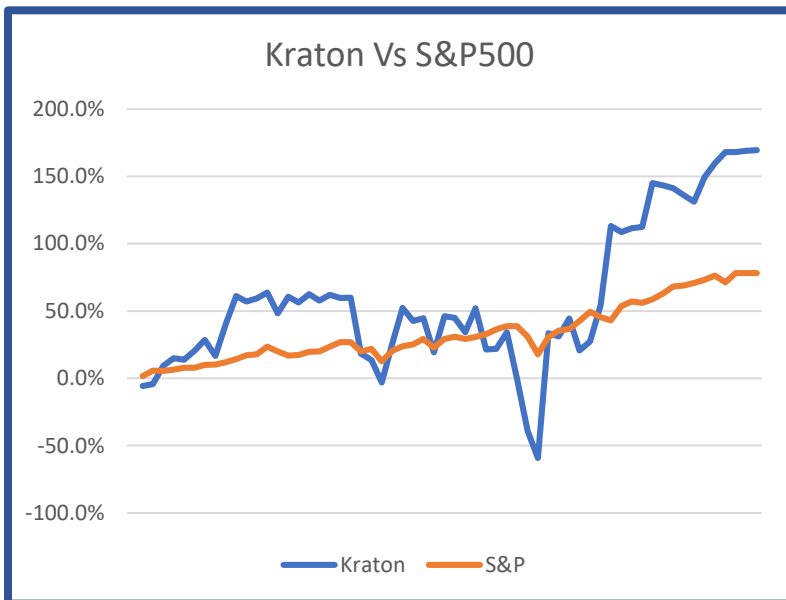
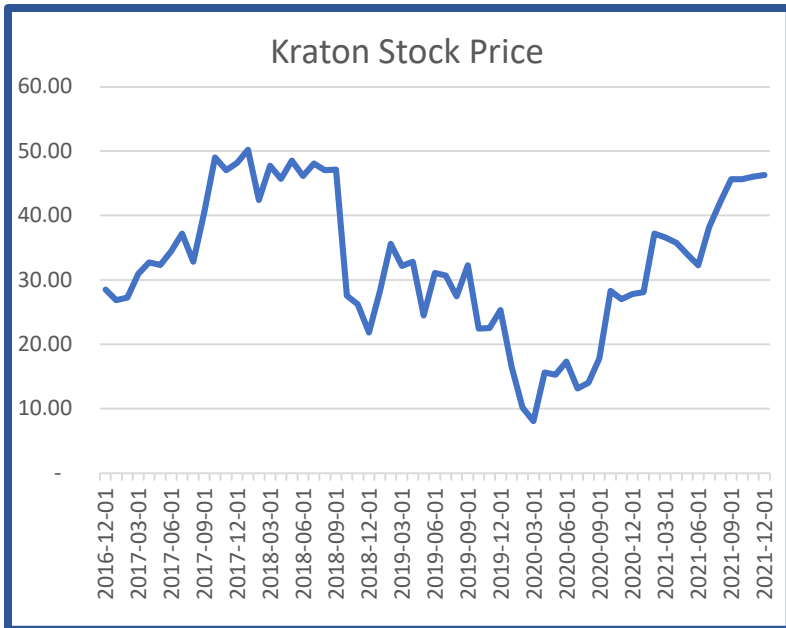
	HISTORICAL		PROJECTED					EXIT YEAR	
	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026
Revenues	2,011,675	1,804,436	1,563,150	1,953,938	2,149,331	2,256,798	2,369,638	2,488,120	2,612,526
Revenue Growth		-10.3%	-13.4%	25.0%	10.0%	5.0%	5.0%	5.0%	5.0%
Cost of Revenues (CoGS)	(1,431,069)	(1,390,007)	(1,165,279)	(1,449,674)	(1,594,641)	(1,674,373)	(1,758,092)	(1,845,997)	(1,938,296)
Operating Expenses (Excl. Non-rec.)	(336,603)	(327,044)	(328,709)	(360,232)	(396,255)	(416,068)	(436,871)	(458,714)	(481,650)
EBIT	244,003	87,385	69,162	144,032	158,435	166,357	174,675	183,409	192,579
Less Taxes (tax rate x of EBIT)	22.00%			(31,687)	(34,856)	(36,599)	(38,428)	(40,350)	(42,367)
Plus Depreciation				135,912	149,503	156,978	164,827	173,068	181,722
Less Working Capital				21,034	23,137	24,294	25,509	26,784	28,123
Less Capex				(132,701)	(145,971)	(153,270)	(160,934)	(168,980)	(177,429)
Cash Flow				136,589	150,248	157,760	165,648	173,931	182,627
EBITDA			195,184	279,944	307,938	323,335	339,502	356,477	374,301
Debt (assuming 5.25% reduction of intial principal per year)			1,024,060	944,753	895,154	848,158	803,630	761,439	721,464
Terminal Value	Assumptions	Growth							
EBITDA Multiple Method	12.75x			(EBITDA x EBITDA Multiple)				4,546,257	
Perpetuity Method	10.22% WACC	5.00%		Next Year's Cash Flow / (Discount Rate - Growth)				3,500,228	
Average		(w/in 10% of WACC)						4,023,242	
Less Debt Outstanding (at Exit)								(761,439)	
Plus Cash (at Exit)								3,261,803	Assume \$0
Equity Value at Terminal									
		PV (for \$1)							
Equity Cash Flows	18.87%			136,589	150,248	157,760	165,648	3,435,734	PV = FV / (1+r)^t

PV (1) =	0.8412574	\$114,907					
PV (2) =	0.7077140	\$106,333					
PV (3) =	0.5953697	\$93,926					
PV (4) =	0.5008591	\$82,967					
PV (5) =	0.4213515	\$1,447,652					
PV=		\$1,845,783					
Enterprise Value =		PV of Equity + PV of Debt					
PV of Equity =		\$1,845,783					
+ PV of Debt =		997,101					
- PV of Cash =		(90,196)					
Kraton's Enterprise Value		2,752,688					
		Stock Val=	\$ 57.42				

Cost of Equity Calc		Interest Calculation	
Risk Free Rate (5 year)	1.00%	1,010,581	Avg Debt
Premium based on MC =	8.50%	44,829	Interest
Kraton Beta =	2.10x	4.44%	Rate
Expected Equity Return =	18.87%		

WACC Calc:	Amount	% Cap	RoR	AT RoR	WACC
Total Debt	997,101	56.1%	4.44%	3.46%	1.94%
BV Equity	778,764	43.9%	18.87%	18.87%	8.27%
	1,775,865	100.0%			10.22%

TECHNICAL ANALYSIS



TECHNICAL ANALYSIS

The Adjacent chart is the 5-year stock price of Kraton on NYSE from 2016-2021. As we can see, there is an upward trend from 2020 showing signs of recovery from Covid-19.

The Adjacent chart shows a comparison of Beta of Kraton vs. S&P500 which shows that the stock price of Kraton is quite riskier as compared to the market risk. The Beta of Kraton is 2.01 which signifies that it is a risky return on investment.

The Standard deviation ('SD') of Kraton stock price is 21.17% as compared to the S&P500 index price SD of 4.46%. This also means that the stock price of Kraton is quite volatile.

DISCUSSION AND RECOMMENDATIONS

Using the stock price and market value gives us an enterprise value for Kraton of \$2.395B. Kraton exhibits higher volatility than market, with a beta of 2.01 compared to the industry average of 1.74x.

The comparable EBITDA trading multiples methodology puts the enterprise value of Kraton at \$2.851B and the theoretical value of the stock at \$60.48, a +30.6% upside from its current market price of \$46.29. When compared to its competitors, Kraton's EBITDA multiple (10.71x) is slightly lower than the industry average EBITDA multiple of 12.75x. This shows strong room for expansion for Kraton which will help Kraton achieve more market share. This also signifies that the growth rate of Kraton can be expected to grow more than the industry CAGR of 5%.

The DCF methodology puts the enterprise value of Kraton at \$2.752B and the theoretical value of the stock at \$57.42, an upside of 24% from its current market price of \$46.29. We can achieve this upside even after DCF methodology being a conservative approach and the growth rates considered are industry average. This signifies that the current stock price of Kraton is highly undervalued. The strong appreciation in its enterprise value is also because Kraton is consistently reducing its debt levels and has a high debt repayment rate of 5.25%.

Averaging the results of EBITDA trading multiple and DCF method, the theoretical stock price is \$58.95, a strong upside of 27.3% from its current market price. Accordingly, the stock is highly undervalued and the investors should buy stocks of Kraton on a long term investment basis. Therefore, Kraton is recommended for **BUY**.