



Axalta Positioning Looks for Potential M&A Deal

Ticker/Price: AXTA (\$29.84)

Analysis:

Axalta Coating Systems (AXTA) with a trade on 10/8 that bought 3000 November \$30 calls and sold 3000 of the January \$34 calls at a net debit of \$1.10, and the November \$30 calls already with over 8000 in open interest from recent buys and January \$34 calls have previously seen large sales, an interesting structure for a name involved in M&A talks. AXTA has a ton of open interest in October and has seen the upside \$33 and \$34 calls sold to open as well as some recent buying in the \$30 and \$29 puts. Shares recently pulled back off recent highs and put in a reversal candle on the 55 day moving average. The \$7B maker of high performance coating systems trades 15.45X Earnings, 21.2X FCF and 10.8X EBITDA. AXTA topline growth is seen down 2.5% in FY19 before rebounding 2.8% in FY20. Performance Coatings is 65% of revenues and Transportation Coatings at 35%, both heavily tied to automotive end-markets. The Coatings market is a \$130B opportunity and AXTA's markets of Industrial, Commercial Vehicle, Light Vehicle, and Refinish are growing at a 5% CAGR. It sees China as a huge opportunity as a consumer of more than 40% of global industrial coatings. In June the company initiated a strategic review, including the potential sale of the company. JANA Partners disclosed a large \$174M stake in AXTA in Q2 filings and OZ Mgmt. and Senator Investment also took new positions. On 7/18 Bloomberg reported that AXTA is drawing interest from **PPG (PPG)** and **Kansai Paint** and notes AXTA aims to reach a deal by Q4. CSFB was out with a note on 9-9 seeing a healthy probability of a deal, above 70%, and Kansai Paint makes the most sense as the buyer. The CTFN reported on 9/17 that Kansai and PPG could make a joint bid. The Street is mostly buy rated on shares with \$29-\$35 targets. Short interest is low at 2.2% of the float.

Hawk Vision:



Hawk's Perspective: AXTA is clearly an event driven play and positioning suggests a deal likely falls in the \$32-\$24 per share range. I like the structure of the November \$30 / January \$34 call spreads while another idea is January \$30/\$34/\$38 call butterfly spreads for \$1.25.

Confidence Ranking: \$\$