

LDL sets 2025E targets calling for adj. EBITDA of \$140-\$160 million with FCF conversion of 75%-plus and a ROIC of 20%-plus (with an interim adj. EBITDA target of \$110-\$120 million in 2023); fair value increased to \$33 per share

- ✓ Today, at its virtual investor day, LDL articulated new long-term goals that target 2025E adjusted EBITDA of \$140-\$160 million with a free cash flow (FCF) conversion rate of greater than 75% and 20%-plus returns on invested capital (ROIC). (For context, these targets compare with trailing 12-month figures of \$61 million, 52% and 6.5%, respectively.)
- ✓ LDL also set interim goals for 2023, which target adj. EBITDA of \$110-\$120 million, FCF conversion of 65% and ROIC of ~15%.
- ✓ Underlying its 2023 adj. EBITDA target is the projection that Specialty Filtration and Advanced Materials sales will reach ~\$300 million and \$640 million (compared with trailing 12-month figures of \$229 million and \$535 million), respectively. To that end, management estimates that the total addressable markets for Specialty Filtration and Advanced Materials are ~\$5 billion and ~\$15 billion, respectively, with projected compound annual growth rates of 5%-10% and 2%-3%. In terms of the long-term sustainability of the demand for fine fiber meltdown (the key filtration layer in high-quality face masks, such as the N95) management sees annual demand settling out at ~5,000 metric tons in 2023 (and beyond) compared with 7,000 metric tons in 2020-2022 and pre-pandemic levels of ~600 metric tons.
- ✓ While LDL discussed its previously disclosed restructuring measures, no significant divestitures were announced. That said, management's long-term "roadmap" includes a "continued focus on opportunistic portfolio optimization" (although profitability and subsequently growth appear the focus in 2021-2022).
- ✓ In terms of the balance sheet, LDL targets a leverage ratio of less than 2.5x (compared with 3.4x at the end 3Q 2020 and its 6.5x covenant, which steps down to 4.5x in 2Q 2021).
- ✓ All things considered, our fair value estimate is increased to \$33 per share, reflecting a ~6.0x blended multiple on 2023E adj. EBITDA of ~\$110 million as well as projected net debt of ~\$95 million (see Exhibit #1 on page 2).

UPDATE

Lydall, Inc.

(NYSE: LDL)

Date (12/9/2020)

Price \$29.75/share

Market capitalization: ~\$525M

**Performance Materials (PM):
\$25/share**

**Technical Nonwovens (TNW):
\$13/share**

**Thermal Acoustical Solutions
(TAS): \$9/share**

Corporate/Net Debt: (\$14/share)

SOTP: \$33/share*

*SOTP may not add due to rounding

(See the report dated 7/10/2020 and updates from 7/29/2020, 7/30/2020, 9/9/2020, 9/25/2020 and 10/28/2020 for more info.)

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is



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HIDDEN OPPORTUNITIES

“Valuing possible breakups by providing sum-of-the-parts analysis.”

Exhibit #1 Lydall Inc.: Sum-of-the-Parts Fair Value

(\$ in millions, except per share figures)

	<u>Performance</u>	<u>Technical</u>	<u>Thermal</u> <u>Acoustical</u>	<u>Corporate</u>	<u>Enterprise</u> <u>Value</u>	<u>Net Debt</u>	<u>Market Cap</u>
	<u>Materials</u>	<u>Nonwovens</u>	<u>Solutions</u>				
2022E Revenue	\$303.5	\$238.4	\$340.4				
2023E Revenue	\$323.0	\$250.8	\$352.6				
Operating margin	<u>14.5%</u>	<u>9.5%</u>	<u>7.0%</u>				
Operating income	\$46.8	\$23.8	\$24.7				
EBITDA margin	<u>19.5%</u>	<u>14.5%</u>	<u>10.0%</u>				
2023E EBITDA	\$63.0	\$36.4	\$35.3	(\$24.5)		(\$94.9)	
Applied multiple	<u>7.0x</u>	<u>6.5x</u>	<u>4.5x</u>	<u>6.2x</u>		<u>1.0x</u>	
Enterprise value	\$440.8	\$236.3	\$158.7	(\$152.1)	\$683.7	(\$94.9)	\$588.8
Diluted shares	<u>17.8</u>	<u>17.8</u>	<u>17.8</u>	<u>17.8</u>		<u>17.8</u>	<u>17.8</u>
Per share basis	\$24.84	\$13.32	\$8.94	(\$8.57)		(\$5.35)	\$33.17
Bull (~7x)	\$28.38	\$15.36	\$10.93	(\$9.95)		(\$5.35)	\$39.38
Base (~6x)	\$24.84	\$13.32	\$8.94	(\$8.57)		(\$5.35)	\$33.17
Bear (~5x)	\$21.29	\$11.27	\$6.95	(\$7.19)		(\$5.35)	\$26.97

Source: Company reports, Bloomberg, and Institutional Research Group estimates.