UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number: 001-36272



Element Solutions Inc
(Exact name of Registrant as specified in its charter)

Delaware		**37-1744899**
(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)
500 East Broward Boulevard, Fort Lauderdale, Florida	**Suite 1860**	**33394**
(Address of principal executive offices)		(Zip Code)

Registrant's telephone number, including area code: **(561) 207-9600**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	ESI	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of common stock outstanding at July 22, 2021: 247,567,929

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GLOSSARY OF DEFINED TERMS

Terms	Definitions
Element Solutions; We; Us; Our; the Company	Element Solutions Inc, a Delaware corporation, and, where the context requires, its subsidiaries or operating businesses.
Arysta	Arysta LifeScience Inc., a former subsidiary of Element Solutions, which operated the Agricultural Solutions business prior to the Arysta Sale.
Arysta Sale	Sale of 100% of the issued and outstanding shares of common stock of Arysta and its subsidiaries to UPL Corporation Ltd., on January 31, 2019, for an aggregate purchase price of $4.28 billion in cash, after post-closing adjustments.
ASU	Accounting Standards Update.
Credit Agreement	Credit Agreement, dated as of January 31, 2019, as amended from time to time, among, inter alia, Element Solutions and MacDermid, as borrowers, certain subsidiaries of Element Solutions and the lenders from time to time parties thereto.
DMP Acquisition	Acquisition on July 1, 2020 of Industrial Water Treatment Solutions Corporation and its two subsidiaries, DMP Corporation and Industrial Specialty Chemicals, Inc. dba "DMP."
EBITDA	Earnings before interest, taxes, depreciation and amortization.
ESPP	Element Solutions Inc 2014 Employee Stock Purchase Plan.
Exchange Act	Securities Exchange Act of 1934, as amended.
GAAP	U.S. Generally Accepted Accounting Principles.
HKW Acquisition	Acquisition on May 5, 2021 of H.K. Wentworth Limited and its subsidiaries.
MacDermid	MacDermid, Incorporated, a Connecticut corporation and subsidiary of Element Solutions.
OEM	Original equipment manufacturer.
Quarterly Report	This quarterly report on Form 10-Q for the three and six months ended June 30, 2021.
RSUs	Restricted stock units issued by Element Solutions from time to time under its 2013 Plan.
SEC	Securities and Exchange Commission.
Series A Preferred Stock	Element Solutions' 2,000,000 shares of Series A convertible preferred stock, converted into shares of Element Solutions' common stock on February 25, 2020.
2020 Annual Report	Element Solutions' annual report on Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on February 25, 2021.
3.875% USD Notes due 2028	Element Solutions' $800 million aggregate principal amount of 3.875% senior notes due 2028, denominated in U.S. dollars, issued on August 18, 2020.
5.875% USD Notes due 2025	Element Solutions' $800 million aggregate principal amount of 5.875% senior notes due 2025, denominated in U.S. dollars, issued on November 24, 2017 and fully redeemed on September 4, 2020.

Forward-Looking Statements

This Quarterly Report contains forward-looking statements that can be identified by 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" or "priority" and variations of such words and similar expressions. Many of the forward-looking statements include, but are not limited to, statements, beliefs, projections and expectations regarding the parties' ability to satisfy the closing conditions of the Coventya acquisition and to finalize and execute the definitive documentation relating to the add-on debt, including the execution of an amendment to the Credit Agreement and closing of the incremental facility for the increase of the existing term loans; the timing of the closing of the Coventya acquisition, the purchase price for the Coventya acquisition, funding of the add-on transaction and effective date of the related forward starting swaps; the use of proceeds from the add-on transaction; the continuing economic impact of the coronavirus (COVID-19) and its variants on the global economy, our business, financial results, customers, suppliers, vendors and/or stock price; capital requirements and availability of financing; increased expectations for strong full year 2021 financial results; probable achievement of the performance target related to certain performance-based RSUs; cost containment and cost savings; the impact of new accounting standards and accounting changes; share repurchases; our dividend policy and dividend declarations; our hedging activities; timing and outcome of environmental and legal matters; tax planning strategies, assessments and adjustments; impairments, including those on goodwill and other intangible assets; price volatility and cost environment; our liquidity, cash flows and capital allocation; funding sources; capital expenditures; debt and debt leverage ratio; off-balance sheet arrangements and contractual obligations; general views about future operating results; expected returns to stockholders; risk management programs; future prospects; and other events or developments that we expect or anticipate will occur in the future.

These forward-looking statements are based on our current expectations about future events, financial performance and trends and do not directly relate to any historical or current facts. These statements are subject to a number of risks, uncertainties and assumptions, including those discussed in Part I, Item 1A, *Risk Factors*, of our 2020 Annual Report. Moreover, as we operate in a very competitive and rapidly changing environment, new risks emerge from time to time. In light of these risks, uncertainty and assumptions, our actual results may differ materially from the results anticipated or implied in the forward-looking statements. Any forward-looking statement is based only on information currently available and speaks only as of the date on which it is made. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Please consult any further disclosures on related subjects in our SEC filings.

Non-GAAP Financial Measures

This Quarterly Report contains non-GAAP financial measures, such as Adjusted EBITDA and operating results on a constant currency and organic basis. Non-GAAP financial measures should not be considered in isolation from, a substitute for, or superior to, performance measures calculated in accordance with GAAP. For additional information on these non-GAAP financial measures, including definitions, limitations and reconciliations to their most comparable applicable GAAP measures, see "*Non-GAAP Financial Measures*" in the *Management's Discussion and Analysis of Financial Condition and Results of Operations* section in Part I, Item 2, and Note 13, *Segment Information*, to the unaudited Condensed Consolidated Financial Statements, both included in this Quarterly Report.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ELEMENT SOLUTIONS INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(dollars in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net sales	$ 586.6	$ 387.0	$ 1,136.7	$ 839.6
Cost of sales	348.1	224.5	657.2	479.8
Gross profit	238.5	162.5	479.5	359.8
Operating expenses:				
Selling, technical, general and administrative	154.7	113.4	284.3	238.6
Research and development	12.8	9.6	24.3	27.1
Total operating expenses	167.5	123.0	308.6	265.7
Operating profit	71.0	39.5	170.9	94.1
Other (expense) income:				
Interest expense, net	(12.9)	(16.9)	(25.8)	(33.6)
Foreign exchange (loss) gain	(5.2)	(12.8)	22.8	(38.6)
Other expense, net	(5.7)	(1.7)	(7.3)	(1.3)
Total other expense	(23.8)	(31.4)	(10.3)	(73.5)
Income before income taxes and non-controlling interests	47.2	8.1	160.6	20.6
Income tax benefit (expense)	31.9	(5.8)	0.8	(9.9)
Net income from continuing operations	79.1	2.3	161.4	10.7
Income (loss) from discontinued operations, net of tax	2.0	(1.1)	2.0	(0.9)
Net income attributable to common stockholders	$ 81.1	$ 1.2	$ 163.4	$ 9.8
Earnings per share				
Basic from continuing operations	$ 0.32	$ 0.01	$ 0.65	$ 0.04
Basic from discontinued operations	0.01	—	0.01	—
Basic attributable to common stockholders	$ 0.33	$ 0.01	$ 0.66	$ 0.04
Diluted from continuing operations	$ 0.32	$ 0.01	$ 0.65	$ 0.04
Diluted from discontinued operations	0.01	—	0.01	—
Diluted attributable to common stockholders	$ 0.33	$ 0.01	$ 0.66	$ 0.04
Weighted average common shares outstanding				
Basic	247.5	248.8	247.4	249.6
Diluted	247.9	249.0	248.0	250.6

See accompanying notes to the Condensed Consolidated Financial Statements

ELEMENT SOLUTIONS INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income	$ 81.1	$ 1.2	$ 163.4	$ 9.8
Other comprehensive income (loss)				
Foreign currency translation:				
Other comprehensive income (loss) before reclassifications, net of tax benefit of $2.0 and $0.0 for the three months ended June 30, 2021 and 2020 and tax expense of $3.9 and $0.0 for the six months ended June 30, 2021 and 2020, respectively	34.5	12.9	(18.2)	(10.7)
Total foreign currency translation adjustments	34.5	12.9	(18.2)	(10.7)
Pension and post-retirement plans:				
Other comprehensive income (loss) before reclassifications, net of tax expense of $0.0 for the three months ended June 30, 2021 and 2020 and $0.0 and $0.5 for the six months ended June 30, 2021 and 2020, respectively	—	—	—	(0.5)
Total pension and post-retirement plans	—	—	—	(0.5)
Derivative financial instruments:				
Other comprehensive income (loss) before reclassifications, net of tax expense of $1.0 and $0.0 for the three months ended June 30, 2021 and 2020 and $2.8 and $0.0 for the six months ended June 30, 2021 and 2020, respectively	(1.9)	(5.4)	1.1	(37.4)
Reclassifications, net of tax expense of $0.0 for the three months ended June 30, 2021 and 2020 and $0.0 for the six months ended June 30, 2021 and 2020, respectively	4.5	3.7	8.9	5.3
Total unrealized gain (loss) arising on qualified hedging derivatives	2.6	(1.7)	10.0	(32.1)
Other comprehensive income (loss)	37.1	11.2	(8.2)	(43.3)
Comprehensive income (loss) attributable to common stockholders	$ 118.2	$ 12.4	$ 155.2	$ (33.5)

See accompanying notes to the Condensed Consolidated Financial Statements

ELEMENT SOLUTIONS INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(dollars in millions)

	June 30, 2021	December 31, 2020
Assets		
Cash & cash equivalents	$ 318.4	$ 291.9
Accounts receivable, net of allowance for doubtful accounts of $10.1 and $9.7 at June 30, 2021 and December 31, 2020, respectively	450.0	403.4
Inventories	280.4	203.1
Prepaid expenses	28.5	24.0
Other current assets	67.7	67.5
Total current assets	1,145.0	989.9
Property, plant and equipment, net	242.4	240.4
Goodwill	2,267.1	2,252.7
Intangible assets, net	823.8	855.9
Other assets	162.2	141.2
Non-current assets of discontinued operations	3.3	3.3
Total assets	$ 4,643.8	$ 4,483.4
Liabilities and stockholders' equity		
Accounts payable	$ 140.0	$ 95.6
Current installments of long-term debt	7.4	7.4
Accrued expenses and other current liabilities	203.0	204.2
Current liabilities of discontinued operations	5.1	7.1
Total current liabilities	355.5	314.3
Debt	1,505.8	1,508.1
Pension and post-retirement benefits	40.9	43.3
Deferred income taxes	112.6	112.9
Other liabilities	160.7	186.7
Total liabilities	2,175.5	2,165.3
Commitments and contingencies (Note 10)		
Stockholders' equity		
Common stock: 400.0 shares authorized (2021: 261.9 shares issued; 2020: 261.3 shares issued)	2.6	2.6
Additional paid-in capital	4,146.9	4,122.9
Treasury stock (2021: 14.3 shares; 2020: 14.2 shares)	(139.4)	(137.7)
Accumulated deficit	(1,337.1)	(1,473.2)
Accumulated other comprehensive loss	(203.0)	(194.8)
Total stockholders' equity	2,470.0	2,319.8
Non-controlling interests	(1.7)	(1.7)
Total equity	2,468.3	2,318.1
Total liabilities and stockholders' equity	$ 4,643.8	$ 4,483.4

See accompanying notes to the Condensed Consolidated Financial Statements

ELEMENT SOLUTIONS INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(dollars in millions)

	Six Months Ended June 30,	
	2021	**2020**
Cash flows from operating activities:		
Net income	$ 163.4	$ 9.8
Net income (loss) from discontinued operations, net of tax	2.0	(0.9)
Net income from continuing operations	161.4	10.7
Reconciliations of net income from continuing operations to net cash flows provided by operating activities:		
Depreciation and amortization	79.2	79.3
Deferred income taxes	(35.7)	(0.7)
Foreign exchange (gain) loss	(20.4)	37.9
Incentive stock compensation	21.3	3.4
Other, net	0.8	10.0
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(38.0)	43.5
Inventories	(67.9)	(15.9)
Accounts payable	37.8	(13.6)
Accrued expenses	(8.8)	(22.2)
Prepaid expenses and other current assets	(14.8)	(7.2)
Other assets and liabilities	(1.9)	(0.5)
Net cash flows provided by operating activities of continuing operations	113.0	124.7
Cash flows from investing activities:		
Capital expenditures	(17.3)	(15.0)
Proceeds from disposal of property, plant and equipment	—	1.5
Acquisition of business, net of cash acquired	(50.9)	—
Other, net	19.1	(5.7)
Net cash flows used in investing activities of continuing operations	(49.1)	(19.2)
Cash flows from financing activities:		
Repayments of borrowings	(3.7)	(3.9)
Repurchases of common stock	—	(33.1)
Dividends	(27.2)	—
Other, net	(6.4)	(1.3)
Net cash flows used in financing activities of continuing operations	(37.3)	(38.3)
Cash flows from discontinued operations:		
Net cash flows used in operating activities of discontinued operations	—	(14.7)
Net cash flows used in discontinued operations	—	(14.7)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	(5.3)
Net increase in cash and cash equivalents	26.5	47.2
Cash and cash equivalents at beginning of period	291.9	190.1
Cash and cash equivalents at end of period	$ 318.4	$ 237.3

See accompanying notes to the Condensed Consolidated Financial Statements

ELEMENT SOLUTIONS INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
(dollars in millions, except share amounts)

Three Months Ended June 30, 2021	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount		Shares	Amount					
Balance at March 31, 2021	261,768,818	$ 2.6	$ 4,129.5	14,315,406	$ (139.2)	$ (1,403.3)	$ (240.1)	$ 2,349.5	$ (1.7)	$ 2,347.8
Net income	—	—	—	—	—	81.1	—	81.1	—	81.1
Other comprehensive income, net of taxes	—	—	—	—	—	—	37.1	37.1	—	37.1
Exercise/ vesting of share based compensation	97,997	—	0.1	11,027	(0.2)	—	—	(0.1)	—	(0.1)
Issuance of common stock under ESPP	18,366	—	0.2	—	—	—	—	0.2	—	0.2
Dividends ($0.06 per share)	—	—	—	—	—	(14.9)	—	(14.9)	—	(14.9)
Equity compensation expense	—	—	17.1	—	—	—	—	17.1	—	17.1
Balance at June 30, 2021	261,885,181	$ 2.6	$ 4,146.9	14,326,433	$ (139.4)	$ (1,337.1)	$ (203.0)	$ 2,470.0	$ (1.7)	$ 2,468.3

Three Months Ended June 30, 2020	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount		Shares	Amount					
Balance at March 31, 2020	260,933,009	$ 2.6	$ 4,117.1	12,182,019	$ (113.9)	$ (1,527.9)	$ (334.9)	$ 2,143.0	$ (1.6)	$ 2,141.4
Net income	—	—	—	—	—	1.2	—	1.2	—	1.2
Other comprehensive income, net of taxes	—	—	—	—	—	—	11.1	11.1	—	11.1
Exercise/ vesting of share based compensation	81,554	—	—	7,894	(0.1)	—	—	(0.1)	—	(0.1)
Issuance of common stock under ESPP	29,877	—	0.2	—	—	—	—	0.2	—	0.2
Equity compensation expense	—	—	1.4	—	—	—	—	1.4	—	1.4
Changes in non-controlling interests	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Balance at June 30, 2020	261,044,440	$ 2.6	$ 4,118.7	12,189,913	$ (114.0)	$ (1,526.7)	$ (323.8)	$ 2,156.8	$ (1.7)	$ 2,155.1

See accompanying notes to the Condensed Consolidated Financial Statements

ELEMENT SOLUTIONS INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
(dollars in millions, except share amounts)

Six Months Ended June 30, 2021	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount		Shares	Amount					
Balance at December 31, 2020	261,330,127	$ 2.6	$ 4,122.9	14,229,280	$ (137.7)	$ (1,473.2)	$ (194.8)	$ 2,319.8	$ (1.7)	$ 2,318.1
Net income	—	—	—	—	—	163.4	—	163.4	—	163.4
Other comprehensive income, net of taxes	—	—	—	—	—	—	(8.2)	(8.2)	—	(8.2)
Exercise/ vesting of share based compensation	514,410	—	2.0	95,453	(1.7)	—	—	0.3	—	0.3
Issuance of common stock under ESPP	40,644	—	0.5	—	—	—	—	0.5	—	0.5
Repurchases of common stock	—	—	—	1,700	—	—	—	—	—	—
Dividends ($0.11 per share)	—	—	—	—	—	(27.3)	—	(27.3)	—	(27.3)
Equity compensation expense	—	—	21.5	—	—	—	—	21.5	—	21.5
Balance at June 30, 2021	261,885,181	$ 2.6	$ 4,146.9	14,326,433	$ (139.4)	$ (1,337.1)	$ (203.0)	$ 2,470.0	$ (1.7)	$ 2,468.3

Six Months Ended June 30, 2020	Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount	Shares	Amount		Shares	Amount					
Balance at December 31, 2019	2,000,000	$ —	258,428,333	$ 2.6	$ 4,114.2	8,277,198	$ (78.9)	$ (1,536.5)	$ (280.5)	$ 2,220.9	$ (1.6)	$ 2,219.3
Net income	—	—	—	—	—	—	—	9.8	—	9.8	—	9.8
Other comprehensive loss, net of taxes	—	—	—	—	—	—	—	—	(43.3)	(43.3)	—	(43.3)
Exercise/ vesting of share based compensation	—	—	557,541	—	0.2	170,227	(2.0)	—	—	(1.8)	—	(1.8)
Issuance of common stock under ESPP	—	—	58,566	—	0.5	—	—	—	—	0.5	—	0.5
Preferred stock conversion	(2,000,000)	—	2,000,000	—	—	—	—	—	—	—	—	—
Repurchases of common stock	—	—	—	—	—	3,742,488	(33.1)	—	—	(33.1)	—	(33.1)
Equity compensation expense	—	—	—	—	3.8	—	—	—	—	3.8	—	3.8
Changes in non-controlling interests	—	—	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Balance at June 30, 2020	—	$ —	261,044,440	$ 2.6	$ 4,118.7	12,189,913	$ (114.0)	$ (1,526.7)	$ (323.8)	$ 2,156.8	$ (1.7)	$ 2,155.1

See accompanying notes to the Condensed Consolidated Financial Statements

1. BACKGROUND AND BASIS OF PRESENTATION

Background

Element Solutions was incorporated in Delaware in January 2014 and its shares of common stock, par value $0.01 per share, trade on the New York Stock Exchange under the ticker symbol “ESI.”

Element Solutions is a leading global specialty chemicals company whose businesses supply a broad range of solutions that enhance the performance of products people use every day. Developed in multi-step technological processes, these innovative solutions enable customers' manufacturing processes in several key industries, including consumer electronics, power electronics, semiconductor fabrication, communications and data storage infrastructure, automotive systems, industrial surface finishing, consumer packaging and offshore energy. Element Solutions delivers its products to customers through its sales and service workforce, regional distributors and manufacturing representatives.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with GAAP. In the opinion of management, these unaudited Condensed Consolidated Financial Statements reflect all adjustments that are normal, recurring and necessary for a fair statement of the Company's financial position, results of operations and cash flows for interim periods, but are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2021. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the related notes included in the Company’s 2020 Annual Report.

The process of preparing the Company’s unaudited Condensed Consolidated Financial Statements requires the use of estimates that affect the reported amount of assets, liabilities, net sales and expenses. These estimates include assumptions and judgements based on historical experience, current conditions, future expectations and other factors the Company consider reasonable. These estimates are reviewed on an ongoing basis and revised as necessary. Actual amounts may differ materially from these estimates.

Certain prior year amounts have been reclassified to conform to the current year’s presentation.

2. ACQUISITION

HKW Acquisition

On May 5, 2021, the Company completed the HKW Acquisition for $50.9 million, net of cash, subject to post-closing adjustments. The H.K. Wentworth business specializes in conformal coatings, encapsulation resins, thermal interface materials, contact lubricants and cleaning chemistry and complements our broader electronics portfolio with many applications overlapping with semiconductor technologies. The operations of the H.K. Wentworth business are included in our Electronics business segment.

The following table summarizes the allocation of the purchase price to the identified assets acquired and liabilities assumed at the acquisition date:

(dollars in millions)	
Identifiable assets acquired and liabilities assumed	
Accounts receivable	$ 10.3
Inventories	13.9
Other current assets	3.0
Property, plant and equipment	6.4
Identifiable intangible assets	28.7
Other assets	2.5
Current liabilities	(21.3)
Long-term liabilities	(10.6)
Total identifiable net assets	32.9
Goodwill	18.0
Total purchase price	$ 50.9

The excess of the cost of the HKW Acquisition over the net amounts assigned to the fair value of the assets acquired and the liabilities assumed was recorded as goodwill and represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. The majority of the goodwill recorded in connection with the HKW Acquisition is not expected to be deductible for tax purposes.

The fair value of the identifiable intangible assets recorded in conjunction with the HKW Acquisition was as follows:

(dollars in millions)	**Fair Value**	**Weighted Average Useful Life *(years)***
Customer relationships	$ 20.8	12
Trade name	1.0	5
Developed technology	6.9	5
Total	$ 28.7	10.1

The fair value of the identifiable intangible assets was determined primarily using the “income approach,” which requires a forecast of all of the expected future cash flows either through the use of the multi-period excess earnings method or the relief-from-royalty method. Some of the more significant assumptions inherent in the development of intangible asset values include: the amount and timing of projected future cash flows, the attrition rate and the discount rate selected to measure the risks inherent in the future cash flows.

As of June 30, 2021, the purchase price allocation for the HKW Acquisition is preliminary, and we expect to complete the purchase price allocation within the one year measurement period.

The HKW Acquisition was not significant to our Condensed Consolidated Financial Statements, therefore, pro forma and post acquisition results of operations have not been presented.

Proposed Coventya Acquisition

On June 11, 2021, the Company announced its planned acquisition of Coventya Holdings SAS, a global provider of specialty chemicals for the surface finishing industry, for a purchase price expected to be approximately €420 million, subject to adjustments. The Company expects to fund this acquisition with $400 million of add-on debt to its existing term loans and cash on hand. This acquisition is expected to close in September 2021, subject to customary closing conditions.

3. INVENTORIES

The major components of inventory, on a net basis, were as follows:

(dollars in millions)	June 30, 2021	December 31, 2020
Finished goods	$ 163.3	$ 119.7
Work in process	35.0	23.0
Raw materials and supplies	82.1	60.4
Total inventories	$ 280.4	$ 203.1

4. PROPERTY, PLANT AND EQUIPMENT

The major components of property, plant and equipment were as follows:

(dollars in millions)	June 30, 2021	December 31, 2020
Land and leasehold improvements	$ 53.1	$ 53.2
Buildings and improvements	144.4	139.5
Machinery, equipment, fixtures and software	267.7	245.8
Construction in process	24.8	22.3
Total property, plant and equipment	490.0	460.8
Accumulated depreciation	(247.6)	(220.4)
Property, plant and equipment, net	$ 242.4	$ 240.4

For the three months ended June 30, 2021 and 2020, the Company recorded depreciation expense of $9.7 million and $10.5 million, respectively. For the six months ended June 30, 2021 and 2020, the Company recorded depreciation expense of $19.1 million and $21.0 million, respectively.

During the third quarter of 2020, the Company met the requirements to classify a dormant facility in New Jersey, included in its Electronics business segment, as held for sale. The sale of the facility was completed in January 2021 and the Company recognized a gain of $3.9 million in "Selling, technical, general and administrative" in the Condensed Consolidated Statements of Operations. The Company had received initial deposits of $4.6 million in the second half of 2020 and received the remaining cash of $19.0 million associated with the sale during the first quarter of 2021. Cash flows associated with the sale of this facility are included in "Other, net" in the Condensed Consolidated Statements of Cash Flows as a cash inflow from investing activities.

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill were as follows:

(dollars in millions)	Electronics	Industrial & Specialty	Total
Balance at December 31, 2020	$ 1,274.0	$ 978.7 [1]	$ 2,252.7
Acquisition [2]	18.0	—	18.0
Foreign currency translation	0.8	(4.4)	(3.6)
Balance at June 30, 2021	$ 1,292.8	$ 974.3	$ 2,267.1

(1) Includes accumulated impairment losses of $46.6 million.

(2) In May 2021, the Company completed the HKW Acquisition. The impact of this acquisition on the Company's results of operations was not material.

Indefinite-Lived Intangible Asset

The carrying value of the indefinite-lived intangible asset other than goodwill, which consisted of a trade name, was $68.0 million at June 30, 2021 and December 31, 2020, respectively.

Finite-Lived Intangible Assets

Intangible assets subject to amortization were as follows:

	June 30, 2021			December 31, 2020		
(dollars in millions)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	$ 1,003.6	$ (472.1)	$ 531.5	$ 984.3	$ (435.4)	$ 548.9
Developed technology	373.7	(227.5)	146.2	400.0	(241.5)	158.5
Trade names	92.2	(14.1)	78.1	91.8	(11.3)	80.5
Other	—	—	—	1.7	(1.7)	—
Total	$ 1,469.5	$ (713.7)	$ 755.8	$ 1,477.8	$ (689.9)	$ 787.9

For the three months ended June 30, 2021 and 2020, the Company recorded amortization expense on intangible assets of $30.4 million and $28.9 million, respectively. For the six months ended June 30, 2021 and 2020, the Company recorded amortization expense on intangible assets of $60.1 million and $58.3 million, respectively.

6. DEBT

The Company’s debt obligations consisted of the following:

(dollars in millions)	Maturity Date	Interest Rate	June 30, 2021	December 31, 2020
Term Loans [1]	2026	LIBOR plus 2.00%	$ 724.5	$ 727.5
Senior Notes - $800 million [2]	2028	3.875%	788.7	788.0
Total debt			1,513.2	1,515.5
Less: current installments of long-term debt			7.4	7.4
Total long-term debt			$ 1,505.8	$ 1,508.1

[1] Term loans, net of unamortized discounts and debt issuance costs of $6.8 million and $7.6 million at June 30, 2021 and December 31, 2020, respectively. The effective interest rate was 2.4% at June 30, 2021 and December 31, 2020, respectively, including the effects of interest rate swaps and net investment hedges. See Note 7, Financial Instruments, for further information regarding the Company's interest rate swaps and net investment hedges.

[2] Senior notes, net of unamortized debt issuance costs of $11.3 million and $12.0 million at June 30, 2021 and December 31, 2020, respectively. The effective interest rate was 4.1% at June 30, 2021 and December 31, 2020, respectively.

Credit Agreement

The Company is a party to the Credit Agreement, which provides for senior secured credit facilities in an aggregate initial principal amount of $1.08 billion, consisting of a revolving credit facility in an aggregate initial principal amount of $330 million maturing in 2024 and a term loan in an aggregate initial principal amount of $750 million maturing in 2026.

Borrowings under the Credit Agreement bear interest at a per annum rate equal to a Base Rate, as defined in the Credit Agreement, plus, in each case, an applicable interest rate equal to a spread of 1.00% with respect to Base Rate Loans and a spread of 2.00% with respect to Eurocurrency Rate Loans. The Company is required to pay a commitment fee in respect of any undrawn portion of the revolving credit facility of 0.50% per annum, subject to a step-down to 0.375% based on the Company’s first lien net leverage ratio.

The Company's obligations under the Credit Agreement are guaranteed, jointly and severally, by certain of the Company's domestic subsidiaries and secured by a first-priority security interest in substantially all of the assets of the Company and MacDermid, as borrowers, as well as the assets of the guarantors, including mortgages on material real property, subject to certain exceptions.

Covenants, Events of Default and Provisions

The Credit Agreement contains customary representations and warranties, and affirmative and negative covenants, including limitations on additional indebtedness, dividends, and other distributions, entry into new lines of business, use of loan proceeds, capital expenditures, restricted payments, restrictions on liens on the assets of the borrowers or any guarantor, transactions with affiliates, amendments to organizational documents, accounting changes, sale and leaseback transactions and dispositions. To the extent the borrowers have total outstanding borrowings under the revolving credit facility (subject to certain exceptions) greater than 30% of the commitment amount under the revolving credit facility, the Company's first lien net leverage ratio should not exceed 5.0 to 1.0, subject to a right to cure.

The Credit Agreement requires the borrowers to make mandatory prepayments of borrowings, subject to certain exceptions, as described in the Credit Agreement. In addition, the Credit Agreement contains customary events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, failure to make payment on, or defaults with respect to, certain other material indebtedness, bankruptcy and insolvency events, material judgments and change of control provisions. Upon the occurrence of an event of default, and after the expiration of any applicable grace period, payment of any outstanding loans under the Credit Agreement may be accelerated and the lenders could foreclose on their security interests in the assets of the borrowers and the guarantors.

At June 30, 2021, the Company was in compliance with the debt covenants contained in the Credit Agreement and had full availability of its unused borrowing capacity of $325 million, net of letters of credit, under the revolving credit facility.

3.875% USD Notes due 2028

The 3.875% USD Notes due 2028 are governed by an indenture which provides, among other things, for customary affirmative and negative covenants, events of default and other customary provisions. Pursuant to the indenture, the Company has the option to redeem the 3.875% USD Notes due 2028 prior to their maturity, subject to, in certain cases, the payment of an applicable make-whole premium. The 3.875% USD Notes due 2028 are fully and unconditionally guaranteed on a senior unsecured basis by generally all of the Company's domestic subsidiaries that guarantee the obligations of the borrowers under the Credit Agreement.

Lines of Credit and Other Debt Facilities

The Company has access to various revolving lines of credit, short-term debt facilities and overdraft facilities worldwide which are used to fund short-term cash needs. There were no amounts outstanding under such facilities at June 30, 2021 or December 31, 2020. The Company had letters of credit outstanding of $5.9 million and $6.2 million at June 30, 2021 and December 31, 2020, respectively, of which $5.5 million at June 30, 2021 and December 31, 2020, respectively, reduced the borrowings available under the various facilities. At June 30, 2021 and December 31, 2020, the availability under these facilities totaled approximately $349 million, respectively, net of outstanding letters of credit.

7. FINANCIAL INSTRUMENTS

Derivatives and Hedging

In the normal course of business, the Company is exposed to risks relating to changes in foreign currency exchange rates, commodity prices and interest rates. Derivative financial instruments, such as foreign currency exchange forward contracts, commodities futures contracts, interest rate swaps and net investment hedges are used to manage the risks associated with changes in the conditions of those markets. All derivatives are recognized in the Condensed Consolidated Balance Sheets at fair value. The counterparties to the Company's derivative agreements are primarily major international financial institutions. The Company continually monitors its derivative positions and the credit ratings of its counterparties and does not anticipate nonperformance on their part.

Foreign Currency

The Company conducts a significant portion of its business in currencies other than the U.S. dollar and a portion of its business in currencies other than the functional currencies of its subsidiaries. As a result, the Company's operating results are impacted by foreign currency exchange rate volatility.

At June 30, 2021, the Company held foreign currency forward contracts to purchase and sell various currencies to mitigate foreign currency exposure with the U.S. dollar. The Company has not designated any foreign currency exchange forward contracts as eligible for hedge accounting and, as a result, changes in the fair value of foreign currency forward contracts are recorded in the Condensed Consolidated Statements of Operations as "Other expense, net." The total notional value of foreign currency exchange forward contracts held at June 30, 2021 and December 31, 2020 was approximately $73.8 million and $78.5 million, respectively, with settlement dates generally within one year. The market value of the foreign currency forward contracts was a $0.7 million net current liability at June 30, 2021 and a $0.5 million net current liability at December 31, 2020.

Commodities

As part of its risk management policy, the Company enters into commodity futures contracts for the purpose of mitigating its exposure to fluctuations in prices of certain metals used in the production of its finished goods. The Company held futures contracts to purchase and sell various metals, primarily tin and silver, for a notional amount of $45.2 million and $25.0 million at June 30, 2021 and December 31, 2020, respectively. The market value of the metals forward contracts was a $0.4 million net current asset at June 30, 2021 and a $1.2 million net current liability at December 31, 2020. Substantially all contracts outstanding at June 30, 2021 had delivery dates within one year. The Company has not designated these derivatives as hedging instruments and, accordingly, records changes in their fair values in the Condensed Consolidated Statements of Operations as "Other expense, net."

Realized gains and losses on derivative contracts are accounted for as "Operating activities" in the Condensed Consolidated Statements of Cash Flows.

Interest Rates and Cross-Currency Swaps

The Company entered into interest rate swaps to mitigate its exposure to fluctuations in interest rates on its term loans through January 2024. The interest rate swaps effectively fix the floating rate of interest payments associated with the term loans under the Credit Agreement. The Company designated these contracts as cash flow hedges and changes in the fair value are recorded in "Accumulated other comprehensive loss" and reclassified into earnings as the underlying hedged item affects earnings. Amounts reclassified into earnings related to interest rate swaps are included in the Condensed Consolidated Statements of Operations as "Interest expense, net."

The Company entered into cross-currency swaps to effectively convert the initial $750 million term loans under the Credit Agreement, a U.S. dollar denominated debt obligation, into fixed-rate euro-denominated debt through January 2024. The Company is obligated to make periodic euro-denominated coupon payments to the hedge counterparties on an aggregate initial notional amount of €662 million, in exchange for periodic U.S. dollar-denominated coupon payments from these hedge

counterparties on an aggregate initial notional amount of $750 million. The Company has designated these contracts as a net investment hedge of the foreign currency exposure of a portion of its net investment in its European operations. Changes in the fair value are recorded in "Foreign currency translation" in "Accumulated other comprehensive loss."

All interest payments to be paid during the last two years preceding the maturity date of the term loan will revert back to a floating rate of interest for both the interest rate swaps and cross-currency swaps. The proceeds from these contracts are reflected as "Cash flows from operating activities" in the Consolidated Statement of Cash Flows.

The net result of the above hedges, which expire in January 2024, is an interest rate of approximately 2.4%, which could vary due to changes in the euro and the U.S. dollar exchange rate.

For the three and six months ended June 30, 2021, the Company's interest rate swaps and cross-currency swaps were deemed highly effective. The Company expects to reclassify $17.5 million of expense from "Accumulated other comprehensive loss" to "Interest expense, net" in the Condensed Consolidated Statements of Operations within the next twelve months.

In June 2021, the Company entered into forward starting swaps to effectively convert the $400 million of anticipated add-on debt into fixed-rate euro-denominated debt through their maturity in January 2025. The add-on transaction, which was priced and allocated on June 23, 2021, is expected to close concurrently with the acquisition of Coventya Holding SAS in September 2021, at which time the forward starting swaps are expected to become effective. The Company has not yet designated the forward starting swap contracts as eligible for hedge accounting and, as a result, changes in the fair value of the forward starting swap contracts are recorded in the Condensed Consolidated Statements of Operations as "Other expense, net."

Fair Value Measurements

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis:

(dollars in millions)	Balance sheet location	Classification	June 30, 2021	December 31, 2020
Asset Category				
Foreign exchange contracts not designated as hedging instruments	Other current assets	Level 2	$ —	$ 0.2
Metals contracts not designated as hedging instruments	Other current assets	Level 2	1.5	0.4
Cross currency swaps designated as net investment hedge	Other current assets	Level 2	17.0	16.3
Forward starting swaps not designated as hedging instruments	Other current assets	Level 2	2.6	—
Forward starting swaps not designated as hedging instruments	Other assets	Level 2	1.1	—
Total			$ 22.2	$ 16.9
Liability Category				
Foreign exchange contracts not designated as hedging instruments	Accrued expenses and other current liabilities	Level 2	$ 0.7	$ 0.7
Metals contracts not designated as hedging instruments	Accrued expenses and other current liabilities	Level 2	1.1	1.6
Interest rate swaps designated as cash flow hedging instruments	Accrued expenses and other current liabilities	Level 2	17.5	17.6
Forward starting swaps not designated as hedging instruments	Accrued expenses and other current liabilities	Level 2	1.2	—
Interest rate swaps designated as cash flow hedging instruments	Other liabilities	Level 2	20.9	33.5
Cross currency swaps designated as net investment hedge	Other liabilities	Level 2	25.5	43.3
Forward starting swaps not designated as hedging instruments	Other liabilities	Level 2	4.3	—
Total			$ 71.2	$ 96.7

Derivative assets and liabilities include foreign currency, metals, forward starting swaps, interest rate swaps and cross currency swaps. The fair values are determined using pricing models based upon observable market inputs, such as market spot and futures prices on over-the-counter derivative instruments, market interest rates and consideration of counterparty credit risk.

There were no significant transfers of financial instruments between the fair value hierarchy levels for the three and six months ended June 30, 2021.

The carrying value and estimated fair value of the Company's long-term debt totaled $1.51 billion and $1.55 billion, respectively, at June 30, 2021. At December 31, 2020, the carrying value and estimated fair value totaled $1.52 billion and $1.55 billion, respectively. The carrying values noted above include unamortized discounts and debt issuance costs. The estimated fair value of long-term debt is measured using quoted market prices at the reporting date multiplied by the gross carrying amount of the related debt, which excludes unamortized discounts and debt issuance costs. Such instruments are valued using Level 2 inputs.

8. STOCKHOLDERS' EQUITY

Performance-based RSUs

The vesting of certain performance-based RSUs previously granted to key executives is subject to the achievement by the Company of a certain performance target in any fiscal year ending on or before December 31, 2022, and continuous service. Prior to the second quarter of 2021, the Company did not recognize compensation expense for these awards as the achievement of the performance target was not deemed probable. During the second quarter of 2021, the achievement of the performance target became probable and the Company recorded $13.6 million of expense for these awards in "Selling, technical, general and administrative" in the Condensed Consolidated Statements of Operations.

9. EARNINGS PER SHARE

Basic and diluted earnings per share are based on the weighted average number of shares of common stock and potential common stock outstanding during the period. Potential common stock, for purposes of determining diluted earnings per share, assumes the issuance of all potentially dilutive share equivalents using the if-converted or treasury stock method.

A computation of earnings per share from continuing operations and weighted average shares of the Company's common stock outstanding for the three and six months ended June 30, 2021 and 2020 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in millions, except per share amounts)	**2021**	**2020**	**2021**	**2020**
Net income from continuing operations attributable to common stockholders	$ 79.1	$ 2.3	$ 161.4	$ 10.7
Basic weighted average common shares outstanding	247.5	248.8	247.4	249.6
Denominator adjustments for diluted EPS:				
Number of shares issuable upon conversion of Series A Preferred Stock	—	—	—	0.6
Number of stock options and RSUs	0.4	0.2	0.6	0.4
Denominator adjustments for diluted EPS	0.4	0.2	0.6	1.0
Diluted weighted average common shares outstanding	247.9	249.0	248.0	250.6
Earnings per share from continuing operations attributable to common stockholders:				
Basic	$ 0.32	$ 0.01	$ 0.65	$ 0.04
Diluted	$ 0.32	$ 0.01	$ 0.65	$ 0.04

For the three and six months ended June 30, 2021 and 2020, the following securities were not included in the computation of diluted shares outstanding because the effect would be anti-dilutive or because performance targets were not yet met for awards contingent upon such measures:

	Three Months Ended June 30,		Six Months Ended June 30,	
(shares in millions)	**2021**	**2020**	**2021**	**2020**
Shares issuable upon vesting of RSUs and exercise of stock options	3.7	4.1	4.0	4.2

10. CONTINGENCIES, ENVIRONMENTAL AND LEGAL MATTERS

Environmental Matters

The Company is involved in various claims relating to environmental matters at current and former plants and waste management sites. At certain of these sites, the Company engages or participates in remedial and other environmental compliance activities. At other sites, the Company has been named as a potential responsible party pursuant to the federal Superfund Act and/or state Superfund laws comparable to the federal law for site remediation. After analyzing each individual site, considering the number of parties involved, the level of its potential liability or contribution relating to the other parties, the nature and magnitude of the hazardous waste involved, the method and extent of remediation, the potential insurance coverage, the estimated legal and consulting expense with respect to each site and the time period over which any costs would likely be incurred, the Company estimates the clean-up costs and related claims for each site. The estimates are based in part on discussions with other potential responsible parties, governmental agencies and engineering firms.

The Company accrues for environmental matters when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on current laws and existing technologies. The accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. The Company's environmental liabilities, which are included in the Condensed Consolidated Balance Sheets as "Accrued expenses and other current liabilities" and "Other liabilities," totaled $11.6 million and $10.1 million at June 30, 2021 and December 31, 2020, respectively, primarily driven by environmental remediation, clean-up costs and monitoring of sites that were either closed or disposed of in prior years. While uncertainty exists with respect to the amount and timing of its ultimate environmental liabilities, the Company does not currently anticipate any material losses in excess of the amount recorded. However, new information about the sites, such as results of investigations, could make it necessary for the Company to reassess its potential exposure related to these environmental matters.

As of the date hereof, the Company believes it is not practicable to provide an estimated range of reasonably possible environmental losses in excess of its recorded liabilities, and, as a result, the Company is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact that may be associated with these matters.

Legal Matters

From time to time, the Company is involved in various legal proceedings, investigations and/or claims in the normal course of its business. Although it cannot predict with certainty the ultimate resolution of these matters, which involve judgments that are inherently subjective, the Company believes that their resolutions, to the extent not covered by insurance, will not, individually or in the aggregate, have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Arysta Sale

In connection with the Arysta Sale, which closed on January 31, 2019, the Company agreed to retain certain liabilities associated with legal and tax proceedings, primarily related to an Arysta subsidiary in Brazil. The Company does not expect to incur a material loss as a result of these proceedings. However, the resolutions of these matters may take several years and, to the extent not covered by insurance, may adversely impact the Company's financial position or results of operations.

11. INCOME TAXES

The Company's quarterly income tax provision is measured using an estimate of its consolidated annual effective tax rate, adjusted for discrete items, within the periods presented. The comparison of the Company's income tax provision between periods can be significantly impacted by the level and mix of earnings and losses by tax jurisdiction and discrete items.

For the three months ended June 30, 2021 and 2020, the Company recognized an income tax benefit of $31.9 million and income tax expense of $5.8 million, respectively. For the six months ended June 30, 2021 and 2020, the Company recognized an income tax benefit of $0.8 million and income tax expense of $9.9 million, respectively.

The income tax benefit for the three and six months ended June 30, 2021 includes a $51.4 million benefit associated with the release of valuation allowances, the impact of higher pre-tax income and country mix of earnings. The benefit was associated with the release of valuation allowances previously recorded against certain U.S. tax attribute carryforwards, primarily consisting of net operating loss carryforwards in certain states and interest carryforwards. The valuation allowances are being released as the Company expects improved profitability in its domestic business and a shift to a three-year cumulative income position. These expectations are based on actual and forecasted results.

The income tax expense for the three and six months ended June 30, 2020 includes the negative impact of U.S. global intangible low-taxed income provisions and an accrual of a valuation allowance on tax attribute carryforwards, partially offset by the recognition of a benefit associated with the expiration of a statute of limitations.

12. RELATED PARTY TRANSACTIONS

The Company is a party to an Advisory Services Agreement with Mariposa Capital, LLC, an affiliate of one of its founder directors, whereby Mariposa Capital, LLC is entitled to receive an annual fee of $3 million and reimbursement for expenses. This agreement is automatically renewed for successive one year terms unless either party notifies the other in writing of its intention not to renew no later than 90 days prior to the expiration of the applicable term. The fee is recorded in the Condensed Consolidated Statements of Operations as "Selling, technical, general and administrative" expense.

13. SEGMENT INFORMATION

The Company's operations are organized into two reportable segments: Electronics and Industrial & Specialty. These segments represent businesses for which separate financial information is utilized by the chief operating decision maker (or CODM) for purposes of allocating resources and evaluating performance.

The Company allocates resources and evaluates the performance of its operating segments based primarily on net sales and Adjusted EBITDA. Adjusted EBITDA for each segment is defined as EBITDA, as further adjusted for additional items included in earnings which the Company believes are not representative or indicative of each of its segments' ongoing business or are considered to be associated with its capital structure. Adjusted EBITDA for each segment also includes an allocation of corporate costs, such as compensation expense and professional fees.

Results of Operations

The following table summarizes financial information regarding each reportable segment's results of operations, including disaggregated external net sales by product category:

(dollars in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net sales:				
Electronics				
Assembly Solutions	$ 205.1	$ 112.2	$ 394.1	$ 238.2
Circuitry Solutions	111.5	92.8	219.8	185.7
Semiconductor Solutions	65.3	48.2	121.5	98.2
Total Electronics	381.9	253.2	735.4	522.1
Industrial & Specialty				
Industrial Solutions	148.2	83.6	294.5	209.5
Graphics Solutions	40.0	34.6	74.7	73.2
Energy Solutions	16.5	15.6	32.1	34.8
Total Industrial & Specialty	204.7	133.8	401.3	317.5
Total net sales	$ 586.6	$ 387.0	$ 1,136.7	$ 839.6
Adjusted EBITDA:				
Electronics	$ 90.7	$ 58.0	$ 183.2	$ 124.5
Industrial & Specialty	42.4	26.8	87.8	70.4
Total Adjusted EBITDA	$ 133.1	$ 84.8	$ 271.0	$ 194.9

The following table reconciles "Net income attributable to common stockholders" to Adjusted EBITDA:

(dollars in millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net income attributable to common stockholders	$ 81.1	$ 1.2	$ 163.4	$ 9.8
Add (subtract):				
(Income) loss from discontinued operations, net of tax	(2.0)	1.1	(2.0)	0.9
Income tax (benefit) expense	(31.9)	5.8	(0.8)	9.9
Interest expense, net	12.9	16.9	25.8	33.6
Depreciation expense	9.7	10.5	19.1	21.0
Amortization expense	30.4	28.9	60.1	58.3
EBITDA	100.2	64.4	265.6	133.5
Adjustments to reconcile to Adjusted EBITDA:				
Amortization of inventory step-up	2.2	—	2.2	1.4
Restructuring expense	1.6	3.3	3.9	4.3
Acquisition and integration expense	5.9	1.3	3.2	7.9
Foreign exchange loss (gain) on internal debt	4.6	11.8	(23.4)	40.9
Adjustment of stock compensation previously not probable (Note 8)	13.6	—	13.6	—
Other, net	5.0	4.0	5.9	6.9
Adjusted EBITDA	$ 133.1	$ 84.8	$ 271.0	$ 194.9

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations section should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and related notes included in this Quarterly Report, and the Consolidated Financial Statements, related notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations section and other disclosures contained in our 2020 Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those discussed in these forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed in "Forward-Looking Statements” of this Quarterly Report, and in Part I, Item 1A, "Risk Factors" of our 2020 Annual Report.

Overview

Our Business

Element Solutions, incorporated in Delaware in January 2014, is a leading global specialty chemicals company whose businesses supply a broad range of solutions that enhance the performance of products people use every day. Developed in multi-step technological processes, these innovative solutions enable customers' manufacturing processes in several key industries, including consumer electronics, power electronics, semiconductor fabrication, communications and data storage infrastructure, automotive systems, industrial surface finishing, consumer packaging and offshore energy. Our businesses provide products that, in substantially all cases, are consumed by customers as part of their production process, providing us with reliable and recurring revenue streams as the products are replenished in order to continue production. Our customers use our innovation as competitive advantages, relying on us to help them navigate through fast-paced, high-growth markets. Our product development and product extensions are expected to continue to drive sales growth in both new and existing markets, while expanding margins, through a consistent focus on increasing customer value propositions.

We generate revenue from the development, formulation and sale of our chemistry solutions globally. Our extensive global teams of specially trained scientists and engineers develop our products and our expert sales and service organizations ensure our customers' needs are met every day. We leverage close relationships with our customers and OEMs to execute our growth strategy and identify opportunities for new products. These new products are developed and created by drawing upon our broad and longstanding intellectual property portfolio and technical expertise. Our specialty chemicals and processes are seen as integral to customer product performance. We believe that our customers place significant value on the consistency and quality of our brands, which we capitalize on through significant market share, customer loyalty and supply chain access. Lastly, operational risks and switching costs make it difficult for our customers to change suppliers which allows us to retain customers and maintain our market positions.

Our Operations

Our operations are organized into two segments: Electronics and Industrial & Specialty, which are each described below:

Electronics – The Electronics segment researches, formulates and sells specialty chemicals and materials for all types of electronics hardware from complex printed circuit board designs to advanced semiconductor packaging. In mobile communications, computers, automobiles and aerospace equipment, its products are an integral part of the electronics manufacturing process and the functionality of end-products. The segment's "wet chemistries" for metallization, surface treatments and solderable finishes form the physical circuitry pathways and its "assembly materials," such as solders, pastes, fluxes and adhesives, join those pathways together.

The segment provides specialty chemical solutions through the following businesses:

Assembly Solutions	As a global supplier of solder technologies, fluxes, cleaners and other attachment materials for the electronics assembly industry, we develop innovative materials that join electronic circuits in high volume device manufacturing. Our high-performing interconnect materials are used to assemble consumer electronics from circuit boards, discrete electronic components, connectors and integrated circuit substrates.
Circuitry Solutions	As a global supplier of chemical formulations to the electronics industry, we design and manufacture proprietary liquid chemical processes ("baths") used by our customers to manufacture printed circuit boards. Our product portfolio is focused on specialized consumable chemical processes, such as surface treatments, circuit formation, primary metallization, electroplate and final finishes.
Semiconductor Solutions	As a global supplier to the semiconductor industry, we provide advanced copper interconnects, die attachment, wafer bump processes and photomask technologies to our customers for integrated circuit fabrication and semiconductor packaging.

Industrial & Specialty – The Industrial & Specialty segment researches, formulates and sells specialty chemicals that enhance surfaces or improve industrial processes in diverse industrial sectors from automotive trim to transcontinental infrastructure and from high-speed printing to high-design faucets. Its products include chemical systems that protect and decorate metal and plastic surfaces; consumable chemicals that enable printing image transfer on flexible packaging materials; and chemistries used in water-based hydraulic control fluids in offshore energy production. These fully consumable products are used in the aerospace, automotive, construction, consumer electronics, consumer packaged goods and oil and gas production end markets.

The segment provides specialty chemical solutions through the following businesses:

Industrial Solutions	As a global supplier of industrial metal and plastic finishing chemistries, we primarily design and manufacture chemical systems that protect and decorate surfaces. Our high-performance functional coatings improve resistance to wear and tear, such as hard chrome plating of shock absorbers for cars or provide corrosion resistance for appliance parts. Our decorative performance coatings apply finishes for parts in various end markets such as automotive interiors or jewelry surfaces. As part of our broader sustainable solutions platform, we also provide both chemistry and equipment for turnkey wastewater treatment and recycle and reuse solutions. Our industrial customer base is highly diverse and includes customers in the following end markets: appliances and electronics equipment; automotive parts; industrial parts; plumbing goods; construction equipment and transportation equipment.
Graphics Solutions	As a supplier of consumable materials used to transfer images on to consumer packaging materials, our products are used to improve print quality and printing productivity. We produce and market photopolymers through an extensive line of flexographic plates that are used in the consumer packaging and printing industries. Photopolymers are molecules that change properties upon exposure to light. Flexography is a printing process that utilizes flexible printing plates made of rubber or other flexible plastics.
Energy Solutions	As a global supplier of specialized fluids to the offshore energy industry, we produce water-based hydraulic control fluids for major oil and gas companies and drilling contractors to be used in offshore deep-water production and drilling applications.

Recent Developments

HKW Acquisition

On May 5, 2021, we completed the HKW Acquisition for $50.9 million, net of cash, subject to post-closing adjustments. The H.K. Wentworth business specializes in conformal coatings, encapsulation resins, thermal interface materials, contact lubricants and cleaning chemistry and complements our broader electronics portfolio with many applications overlapping with semiconductor technologies. The operations of the H.K. Wentworth business are included in our Electronics business segment.

Proposed Coventya Acquisition

On June 11, 2021, we announced our planned acquisition of Coventya Holdings SAS, a global provider of specialty chemicals for the surface finishing industry, for a purchase price expected to be approximately €420 million, subject to adjustments. This acquisition is expected to close in September 2021, subject to customary closing conditions. We expect to fund this acquisition with $400 million of add-on debt to our existing term loans and cash on hand. The add-on transaction, which was priced and allocated on June 23, 2021, is expected to close concurrently with the Coventya acquisition, subject to the finalization and execution of its definitive documentation. On June 29, 2021, we also entered into forward starting swaps to effectively convert the $400 million of anticipated add-on debt into fixed-rate euro-denominated debt through their maturity in January 2025. The forward starting swaps are expected to become effective when the add-on transaction closes.

COVID-19 Update

The 2020 COVID-19 pandemic caused a global economic slowdown, significant end-market volatility and business uncertainty. In an effort to contain COVID-19 or slow its spread, governments and businesses around the world undertook significant countermeasures, including business closures, mandated “shelter in place” orders, travel restrictions and other edicts, which have negatively impacted, and continue to negatively impact, business activity around the globe.

In the context of the COVID-19 pandemic, our highest priority is protecting our employees, customers and other stakeholders. We proactively developed and continue to implement Company-wide COVID-19 health and safety policies and procedures based on guidance from global health organizations, relevant governments and pandemic response best practices. As the administration of vaccine programs ramps up, we continue to monitor the implications of the pandemic on our business as well as our customers' and suppliers' businesses.

The ultimate extent of the impact of COVID-19 on our business or our future results of operations, financial condition, expected cash flows and/or stock price remains unknown as COVID-19, including its variants, continue to spread. The long-term impact of this pandemic will depend on numerous and evolving factors that are highly uncertain, vary by market and cannot be quantified at this time. These factors include the duration of the pandemic, the efficacy, availability and/or public acceptance of vaccines targeting COVID-19, the impact of variants of COVID-19 that may affect its spread or virulence or the effectiveness of vaccines on the virus and/or its variants, and evolving macroeconomic factors driven by the virus's overall spread and impact.

Recent Accounting Pronouncements

Our recent accounting pronouncements have not changed materially from the summary disclosed in Note 3, *Recent Accounting Pronouncements*, to the Consolidated Financial Statements included in our 2020 Annual Report.

Non-GAAP Financial Measures

To supplement our financial results presented in accordance with GAAP in this Management’s Discussion and Analysis of Financial Condition and Results of Operations section, we present certain non-GAAP financial measures, such as operating results on a constant currency and organic basis and Adjusted EBITDA. Management internally reviews 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 our business. We believe these non-GAAP financial measures, which are each further described below, provide investors with an additional perspective on trends and underlying operating results on a period-to-period comparable basis. We also believe that investors find this information helpful in understanding the ongoing performance of our operations separate from items that may have a disproportionate positive or negative impact on our financial results in any particular period or are considered to be associated with our capital structure.

These non-GAAP financial measures, however, have limitations as analytical tools and should not be considered in isolation from, or a substitute for, or superior to, the related financial information that we report in accordance with GAAP. The principal limitation of these non-GAAP financial measures is that they exclude significant expenses and income that are required by GAAP to be recorded in our financial statements and may not be comparable to similarly titled measures of other companies due to potential differences in calculation methods. In addition, these measures are subject to inherent limitations as

they reflect the exercise of judgment by management about which items are excluded or included in determining these non-GAAP financial measures. Investors are encouraged to review the definitions and reconciliations of these non-GAAP financial measures to their most comparable GAAP financial measures included in this Quarterly Report and not to rely on any single financial measure to evaluate our business.

Constant Currency

We disclose operating results, from net sales through operating profit and Adjusted EBITDA, on a constant currency basis by adjusting to exclude the impact of changes due to the translation of foreign currencies of our international locations into U.S. dollars. 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 our results of operations, consistent with how we internally evaluate our financial results.

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

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 a reconciliation of GAAP net sales growth to organic net sales growth, see "*Net Sales*" within the "Results of Operations" section below.

Adjusted EBITDA

We define Adjusted EBITDA as EBITDA, excluding the impact of additional items included in GAAP earnings which we believe are not representative or indicative of our ongoing business or are considered to be associated with our capital structure. Management believes Adjusted EBITDA provides investors with a more complete understanding of the long-term profitability trends of our business and facilitates comparisons of our profitability to prior and future periods.

For a reconciliation of "Net income attributable to common stockholders" to Adjusted EBITDA, and more information about the adjustments made, see Note 13, *Segment Information*, to the unaudited Condensed Consolidated Financial Statements included in this Quarterly Report.

Results of Operations

Three and six months ended June 30, 2021 as compared to the three and six months ended June 30, 2020

	Three Months Ended June 30,		% Change			Six Months Ended June 30,		% Change		
(dollars in millions)	**2021**	**2020**	**Reported**	**Constant Currency**	**Organic**	**2021**	**2020**	**Reported**	**Constant Currency**	**Organic**
Net sales	$ 586.6	$ 387.0	52%	44%	30%	$ 1,136.7	$ 839.6	35%	30%	20%
Cost of sales	348.1	224.5	55%	46%		657.2	479.8	37%	31%	
Gross profit	238.5	162.5	47%	41%		479.5	359.8	33%	28%	
Gross margin	*40.7 %*	*42.0 %*	*(130) bps*	*(100) bps*		*42.2 %*	*42.9 %*	*(70) bps*	*(50) bps*	
Operating expenses	167.5	123.0	36%	31%		308.6	265.7	16%	12%	
Operating profit	71.0	39.5	80%	70%		170.9	94.1	82%	73%	
Operating margin	*12.1 %*	*10.2 %*	*190bps*	*180bps*		*15.0 %*	*11.2 %*	*380bps*	*370bps*	
Other expense, net	(23.8)	(31.4)	(24)%			(10.3)	(73.5)	(86)%		
Income tax benefit (expense)	31.9	(5.8)	(nm)			0.8	(9.9)	(nm)		
Net income from continuing operations	79.1	2.3	(nm)			161.4	10.7	(nm)		
Income (loss) from discontinued operations, net of tax	2.0	(1.1)	(nm)			2.0	(0.9)	(nm)		
Net income	$ 81.1	$ 1.2	(nm)			$ 163.4	$ 9.8	(nm)		
Adjusted EBITDA	$ 133.1	$ 84.8	57%	47%		$ 271.0	$ 194.9	39%	32%	
Adjusted EBITDA margin	*22.7 %*	*21.9 %*	*80bps*	*50bps*		*23.8 %*	*23.2 %*	*60bps*	*40bps*	

(nm) Calculation not meaningful.

Net Sales

Net sales in the second quarter of 2021 increased by 52% on a reported basis, 44% on a constant currency basis and 30% on an organic basis. Electronics' consolidated results were positively impacted by $41.6 million of pass-through metals pricing and $6.1 million of acquisitions and Industrial & Specialty's consolidated results were positively impacted by $5.0 million of acquisitions.

The following table reconciles GAAP net sales growth to constant currency and organic net sales growth:

	Three Months Ended June 30,		% Change					
(dollars in millions)	2021	2020	Reported Net Sales Growth	Impact of Currency	Constant Currency	Pass-Through Metals Pricing	Acquisitions	Organic Net Sales Growth
Electronics:								
Assembly Solutions	$ 205.1	$ 112.2	83%	(9)%	74%	(37)%	—%	37%
Circuitry Solutions	111.5	92.8	20%	(7)%	13%	—%	—%	13%
Semiconductor Solutions	65.3	48.2	35%	(4)%	31%	—%	(13)%	18%
Total	381.9	253.2	51%	(7)%	44%	(16)%	(2)%	25%
Industrial & Specialty:								
Industrial Solutions	148.2	83.6	77%	(10)%	67%	—%	(6)%	61%
Graphics Solutions	40.0	34.6	16%	(5)%	11%	—%	—%	11%
Energy Solutions	16.5	15.6	6%	(6)%	0%	—%	—%	0%
Total	204.7	133.8	53%	(8)%	45%	—%	(4)%	41%
Total	$ 586.6	$ 387.0	52%	(8)%	44%	(11)%	(3)%	30%

NOTE: Totals may not sum due to rounding.

Electronics' net sales in the second quarter of 2021 increased 51% on a reported basis and 25% on an organic basis.

- Assembly Solutions: net sales increased 83% on a reported basis and 37% on an organic basis. Pass-through metals pricing had a positive impact of 37% on reported net sales. Foreign exchange had a positive impact of 9% on reported net sales. The increase in organic net sales was primarily due to continued recovery compared to COVID-19-related production slowdowns in the same period in 2020 as well as stronger demand from power electronics customers.
- Circuitry Solutions: net sales increased 20% on a reported basis and 13% on an organic basis. Foreign exchange had a positive impact of 7% on reported net sales. The increase in organic net sales was primarily due to higher automotive demand in Asia and stronger demand from memory disk customers.
- Semiconductor Solutions: net sales increased 35% on a reported basis and 18% on an organic basis. The HKW Acquisition had a positive impact of 13% on reported net sales. Foreign exchange had a positive impact of 4% on reported net sales. The increase in organic net sales was primarily due to higher net sales of advanced plating chemistries containing precious metals and strong demand for wafer plating chemistries in the 5G telecommunications infrastructure and automotive end markets.

Industrial & Specialty's net sales in the second quarter of 2021 increased 53% on a reported basis and 41% on an organic basis.

- Industrial Solutions: net sales increased 77% on a reported basis and 61% on an organic basis. The DMP Acquisition had a positive impact of 6% on reported net sales. Foreign exchange had a positive impact of 10% on reported net sales. The increase in organic net sales was primarily due to strong global recovery compared to COVID-19-related production slowdowns in the same period in 2020, primarily in the automotive markets, and improved demand in construction and industrial manufacturing markets in Europe.
- Graphics Solutions: net sales increased 16% on a reported basis and 11% on an organic basis. Foreign exchange had a positive impact of 5% on reported net sales. The increase in organic net sales was primarily due to packaging growth in the Americas and Europe.

- Energy Solutions: net sales increased 6% on a reported basis and remained relatively flat on an organic basis. Foreign exchange had a positive impact of 6% on reported net sales. Organic results reflect muted new drilling activity in both the current and prior year periods.

Year to date, net sales increased by 35% on a reported basis, 30% on a constant currency basis and 20% on an organic basis. Electronics' consolidated results were positively impacted by $64.3 million of pass-through metals pricing and $6.1 million of acquisitions and Industrial & Specialty's consolidated results were positively impacted by $9.7 million of acquisitions.

The following table reconciles GAAP net sales growth to constant currency and organic net sales growth:

	Six Months Ended June 30,		% Change					
(dollars in millions)	2021	2020	Reported Net Sales Growth	Impact of Currency	Constant Currency	Pass-Through Metals Pricing	Acquisitions	Organic Net Sales Growth
Electronics:								
Assembly Solutions	$ 394.1	$ 238.2	65%	(7)%	58%	(27)%	—%	31%
Circuitry Solutions	219.8	185.7	18%	(6)%	12%	—%	—%	12%
Semiconductor Solutions	121.5	98.2	24%	(3)%	21%	—%	(6)%	15%
Total	735.4	522.1	41%	(6)%	35%	(12)%	(1)%	21%
Industrial & Specialty:								
Industrial Solutions	294.5	209.5	41%	(7)%	34%	—%	(5)%	29%
Graphics Solutions	74.7	73.2	2%	(3)%	(1)%	—%	—%	(1)%
Energy Solutions	32.1	34.8	(8)%	(3)%	(10)%	—%	—%	(10)%
Total	401.3	317.5	26%	(5)%	21%	—%	(3)%	18%
Total	$ 1,136.7	$ 839.6	35%	(6)%	30%	(8)%	(2)%	20%

NOTE: Totals may not sum due to rounding.

Year to date, Electronics' net sales increased 41% on a reported basis and 21% on an organic basis.

- Assembly Solutions: net sales increased 65% on a reported basis and 31% on an organic basis. Pass-through metals pricing had a positive impact of 27% on reported net sales. Foreign exchange had a positive impact of 7% on reported net sales. The increase in organic net sales was primarily due to automotive recovery compared to COVID-19-related production slowdowns in the first half of 2020 as well as stronger demand from power electronics customers.
- Circuitry Solutions: net sales increased 18% on a reported basis and 12% on an organic basis. Foreign exchange had a positive impact of 6% on reported net sales. The increase in organic net sales was primarily due to robust demand in mobile applications and automotive compared to COVID-19-related production slowdowns in the first half of 2020.
- Semiconductor Solutions: net sales increased 24% on a reported basis and 15% on an organic basis. The HKW Acquisition had a positive impact of 6% on reported net sales. Foreign exchange had a positive impact of 3% on reported net sales. The increase in organic net sales was primarily due to higher net sales of advanced plating chemistries containing precious metals and strong demand for wafer plating chemistries in the 5G telecommunications infrastructure and automotive end markets.

Year to date, Industrial & Specialty's net sales increased 26% on a reported basis and 18% on an organic basis.

- Industrial Solutions: net sales increased 41% on a reported basis and 29% on an organic basis. The DMP Acquisition had a positive impact of 5% on reported net sales. Foreign exchange had a positive impact of 7% on reported net sales. The increase in organic net sales was primarily due to strong global recovery compared to COVID-19-related production slowdowns in the first half of 2020, and improved demand in construction and industrial manufacturing markets in Europe.
- Graphics Solutions: net sales increased 2% on a reported basis and decreased 1% on an organic basis. Foreign exchange had a positive impact of 3% on reported net sales. The decrease in organic net sales was primarily due to stronger COVID-19-related demand in Europe and the Americas for consumer packaged goods in the first quarter of 2020 that did not recur.

- Energy Solutions: net sales decreased 8% on a reported basis and 10% on an organic basis. Foreign exchange had a positive impact of 3% on reported net sales. The decrease in organic net sales was primarily due to volatile energy prices, which significantly curtailed production and drilling activity globally, primarily in the first quarter of 2021.

Gross Profit

	Three Months Ended June 30,		% Change		Six Months Ended June 30,		% Change	
(dollars in millions)	2021	2020	Reported	Constant Currency	2021	2020	Reported	Constant Currency
Gross profit								
Electronics	$ 149.3	$ 101.9	47%	41%	$ 299.0	$ 214.3	40%	34%
Industrial & Specialty	89.2	60.6	47%	41%	180.5	145.5	24%	20%
Total	$ 238.5	$ 162.5	47%	41%	$ 479.5	$ 359.8	33%	28%
Gross margin								
Electronics	39.1 %	40.3 %	(120) bps	(90) bps	40.7 %	41.1 %	(40) bps	(30) bps
Industrial & Specialty	43.6 %	45.3 %	(170) bps	(130) bps	45.0 %	45.8 %	(80) bps	(50) bps
Total	40.7 %	42.0 %	(130) bps	(100) bps	42.2 %	42.9 %	(70) bps	(50) bps

Electronics' gross profit in the second quarter of 2021 increased by 47% on a reported basis and 41% on a constant currency basis. The constant currency increase in gross profit was primarily driven by increased net sales in all business lines. The decrease in gross margin was primarily due to increased net sales of products containing metals in our Assembly business, higher logistics costs and raw material prices.

Industrial & Specialty's gross profit in the second quarter of 2021 increased by 47% on a reported basis and 41% on a constant currency basis. The constant currency increase in gross profit was primarily driven by the impact of higher volumes in automotive, construction and industrial manufacturing. The decrease in gross margin was primarily due to unfavorable product mix and higher raw material prices.

Year to date, Electronics' gross profit increased by 40% on a reported basis and 34% on a constant currency basis. The constant currency increase in gross profit was primarily driven by increased net sales in all business lines. The decrease in gross margin was primarily due to increased net sales of products containing metals in our Assembly business, higher raw material prices and logistics costs, primarily in the second quarter of 2021.

Year to date, Industrial & Specialty's gross profit increased by 24% on a reported basis and 20% on a constant currency basis. The constant currency increase in gross profit was primarily driven by the impact of higher volumes in automotive, construction and industrial manufacturing. The decrease in gross margin was primarily due to higher raw material prices and logistics costs, primarily in the second quarter of 2021.

Operating Expenses

(dollars in millions)	Three Months Ended June 30, 2021	2020	% Change Reported	Constant Currency	Six Months Ended June 30, 2021	2020	% Change Reported	Constant Currency
Selling, technical, general and administrative	$ 154.7	$ 113.4	36%	31%	$ 284.3	$ 238.6	19%	15%
Research and development	12.8	9.6	34%	32%	24.3	27.1	(10)%	(12)%
Total	$ 167.5	$ 123.0	36%	31%	$ 308.6	$ 265.7	16%	12%
Operating expenses as % of Net sales								
Selling, technical, general and administrative	26.4 %	29.3 %	(290) bps	(260) bps	25.0 %	28.4 %	(340) bps	(310) bps
Research and development	2.2 %	2.5 %	(30) bps	(20) bps	2.1 %	3.2 %	(110) bps	(100) bps
Total	28.6 %	31.8 %	(320) bps	(280) bps	27.2 %	31.6 %	(440) bps	(420) bps

Operating expenses in the second quarter of 2021 increased 36% on a reported basis and 31% on a constant currency basis. The increase was primarily driven by a stock compensation adjustment of $13.6 million for performance-based RSUs previously considered not probable and $6.9 million of higher incentive compensation costs, primarily due to higher accruals associated with increased expectations for strong full year 2021 financial results. In addition, higher personnel costs, including the impact of temporary employee salary reductions and furloughs in the prior year period, $4.7 million of operating expenses related to the recently acquired H.K. Wentworth and the DMP businesses that were not in the prior year period and $4.6 million of higher acquisition and integration expenses, including the proposed Coventya acquisition.

Year to date, operating expenses increased 16% on a reported basis and 12% on a constant currency basis. The increase was primarily driven by a stock compensation adjustment of $13.6 million for performance-based RSUs previously considered not probable and $13.5 million of higher incentive compensation costs, primarily due to higher accruals associated with increased expectations for strong full year 2021 financial results. In addition, higher personnel costs, including the impact of temporary employee salary reductions and furloughs in the prior year period and $6.8 million of operating expenses related to the recently acquired H.K. Wentworth and the DMP businesses that did not impact the prior year period contributed to the increase. These increases were partially offset by $6.3 million of research and development expense incurred in the first quarter of 2020 related to the acquisition of a new subsea production control fluid designed to complement our Energy Solutions business.

Other (Expense) Income

(dollars in millions)	Three Months Ended June 30, 2021	2020	Six Months Ended June 30, 2021	2020
Other (expense) income				
Interest expense, net	$ (12.9)	$ (16.9)	$ (25.8)	$ (33.6)
Foreign exchange (loss) gain	(5.2)	(12.8)	22.8	(38.6)
Other expense, net	(5.7)	(1.7)	(7.3)	(1.3)
Total	$ (23.8)	$ (31.4)	$ (10.3)	$ (73.5)

Interest Expense, Net

For the three and six months ended June 30, 2021, net interest expense decreased $4.0 million and $7.8 million, respectively, primarily due to our private offering of $800 million aggregate principal amount of 3.875% USD Notes due 2028 and the subsequent full redemption of our 5.875% USD Notes due 2025 during the third quarter of 2020.

Foreign Exchange (Loss) Gain

For the three months ended June 30, 2021, foreign exchange loss decreased $7.6 million primarily due to the remeasurement of euro-denominated intercompany balances.

For the six months ended June 30, 2021, foreign exchange gain increased $61.4 million primarily due to the remeasurement of euro- and British pound-denominated intercompany balances.

Other Expense, Net

For the three and six months ended June 30, 2021, other expense, net included $1.8 million of expense associated with the forward starting swaps discussed in Note 7, *Financial Instruments*. Losses associated with metals forward contracts were $3.4 million and $6.8 million for the three and six months ended June 30, 2021, respectively, and $1.6 million and $1.7 million for the three and six months ended June 30, 2020, respectively.

Income Tax

The comparison of the Company's income tax provision between periods can be significantly impacted by the level and mix of earnings and losses by tax jurisdiction and discrete items. See Note 11, *Income Taxes*, for further information.

Other Comprehensive Income (Loss)

Other comprehensive income for the three months ended June 30, 2021 totaled $37.1 million, as compared to $11.2 million for the same period in the prior year. The change was primarily driven by foreign currency translation gains associated with the Brazilian real and Chinese yuan.

Other comprehensive loss for the six months ended June 30, 2021 totaled $8.2 million, as compared to $43.3 million for the same period in the prior year. The change was primarily driven by the revaluation of the Company's interest rate swaps and foreign currency translation gains associated with the Brazilian real and Chinese yuan partially offset by foreign currency translation losses associated with the euro and British pound.

Segment Adjusted EBITDA Performance

	Three Months Ended June 30,		% Change		Six Months Ended June 30,		% Change	
(dollars in millions)	2021	2020	Reported	Constant Currency	2021	2020	Reported	Constant Currency
Adjusted EBITDA:								
Electronics	$ 90.7	$ 58.0	56%	46%	$ 183.2	$ 124.5	47%	39%
Industrial & Specialty	42.4	26.8	58%	50%	87.8	70.4	25%	19%
Total	$ 133.1	$ 84.8	57%	47%	$ 271.0	$ 194.9	39%	32%
Adjusted EBITDA margin:								
Electronics	23.7 %	22.9 %	80 bps	50 bps	24.9 %	23.9 %	100 bps	70 bps
Industrial & Specialty	20.7 %	20.0 %	70 bps	70 bps	21.9 %	22.2 %	(30) bps	(30) bps
Total	22.7 %	21.9 %	80 bps	50 bps	23.8 %	23.2 %	60 bps	40 bps

For the three months ended June 30, 2021, Electronics' Adjusted EBITDA increased 56% on a reported basis and 46% on a constant currency basis. Industrial & Specialty's Adjusted EBITDA increased 58% on a reported basis and 50% on a constant currency basis. The constant currency increase in both segments was primarily driven by higher gross profit and leverage on disciplined operating expense growth compared to COVID-19-related production slowdowns in the second quarter of 2020.

For the six months ended June 30, 2021, Electronics' Adjusted EBITDA increased 47% on a reported basis and 39% on a constant currency basis. The constant currency increase was primarily driven by higher gross profit and leverage on disciplined operating expense recovery. Industrial & Specialty's Adjusted EBITDA increased 25% on a reported basis and 19% on a constant currency basis. The constant currency increase was primarily driven by higher gross profit modestly offset by increased incentive compensation costs, primarily due to increased expectations for strong full year 2021 financial results compared to COVID-19-related production slowdowns in the first half of 2020.

Liquidity and Capital Resources

Our primary source of liquidity during the six months ended June 30, 2021 was available cash generated from operations. Our primary uses of cash and cash equivalents were to fund operations, debt service obligations, capital expenditures, working capital, dividend payments and the HKW Acquisition. Our first significant debt principal payment of approximately $700 million, related to the maturity of our outstanding term loans under the Credit Agreement, is not due until 2026.

We currently expect to pay a 6 cents per share dividend on a quarterly basis. However, the actual declaration of any cash dividends, as well as their amounts and timing, will be subject to the final determination of our Board of Directors based on factors including our future earnings and cash flow generation.

On June 11, 2021, we announced our planned acquisition of Coventya Holdings SAS, a global provider of specialty chemicals for the surface finishing industry, for a purchase price expected to be approximately €420 million, subject to adjustments. This acquisition is expected to close in September 2021, subject to customary closing conditions. We expect to fund this acquisition with $400 million of add-on debt to our existing term loans and cash on hand. The add-on transaction, which was priced and allocated on June 23, 2021, is expected to close concurrently with the Coventya acquisition, subject to the finalization and execution of its definitive documentation, including entering into an amendment to the Credit Agreement and closing of the incremental facility for the increase of the existing term loans. On June 29, 2021, we also entered into forward starting swaps to effectively convert the $400 million of anticipated add-on debt into fixed-rate euro-denominated debt through their maturity in January 2025. The forward starting swaps are expected to become effective when the add-on transaction closes.

We believe that our cash and cash equivalents and cash generated from operations, supplemented by our availability under our lines of credit, including our revolving credit facility under the Credit Agreement, will be sufficient to meet our working capital needs, interest payments, capital expenditures, potential dividend payments and other business requirements for at least the next twelve months. However, working capital cycles and/or future repurchases of our common stock and/or acquisitions may require additional funding, which may include future debt and/or equity offerings. Our long-term liquidity may be influenced by our ability to borrow additional funds, renegotiate existing debt and raise equity under terms that are favorable to us.

We may from time to time seek to repurchase our equity and/or to retire or repurchase our outstanding debt through cash purchases and/or exchanges for equity, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions, applicable restrictions under our various financing arrangements and other factors.

During the six months ended June 30, 2021, approximately 75% of our net sales were generated from non-U.S. operations, and we expect a large portion of our net sales to continue to be generated outside of the U.S. As a result, our foreign subsidiaries will likely continue to hold a substantial portion of our cash. We expect to manage our worldwide cash requirements based on available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We may transfer cash from certain international subsidiaries to the U.S. and/or other international subsidiaries when we believe it is cost effective to do so.

We continually review our domestic and foreign cash profile, expected future cash generation and investment opportunities, which support our current designation of a portion of these funds as being indefinitely reinvested, and reassess whether there are demonstrated needs to repatriate a portion of these funds being held internationally. If, as a result of our review, we determine that all or a portion of the funds require repatriation, we may be required to accrue additional taxes. Of our $318 million of cash and cash equivalents at June 30, 2021, $186 million was held by our foreign subsidiaries. During the six months ended June 30, 2021, domestic cash was primarily used for debt service obligations and dividend payments.

The following is a summary of our cash flows provided by (used in) operating, investing, and financing activities of continuing operations during the periods indicated:

	Six Months Ended June 30,	
(dollars in millions)	**2021**	**2020**
Cash provided by operating activities	$ 113.0	$ 124.7
Cash used in investing activities	$ (49.1)	$ (19.2)
Cash used in financing activities	$ (37.3)	$ (38.3)

Operating Activities

Net cash flows provided by operating activities decreased $11.7 million. Higher cash operating profits (net income adjusted for non-cash items) and $6.5 million of lower interest payments were more than offset by higher levels of working capital, including a build of safety inventory and higher raw materials costs, higher annual incentive compensation payments, primarily in the first quarter that were associated with our 2020 performance, and $5.6 million of higher cash taxes.

Investing Activities

The increase in net cash flows used in investing activities was primarily driven by the $50.9 million payment for the HKW Acquisition in the second quarter of 2021 partially offset by $19.0 million of cash received for the sale of a dormant facility in New Jersey during the first quarter of 2021.

Financing Activities

During the six months ended June 30, 2021, we paid dividends of $27.2 million. During the six months ended June 30, 2020, we repurchased shares of our common stock for an aggregate purchase price of $33.1 million.

Financial Borrowings

Credit Facilities & Senior Notes

At June 30, 2021, we had $1.51 billion of indebtedness, net of unamortized discounts and debt issuance costs, which primarily included:

- $789 million of 3.875% USD Notes due 2028; and
- $725 million of term debt arrangements outstanding under our term loans.

Availability under the revolving credit facility and various lines of credit and overdraft facilities totaled $349 million at June 30, 2021 (net of $5.5 million of stand-by letters of credit which reduce our borrowing capacity).

Covenants

At June 30, 2021, we were in compliance with the customary affirmative and negative covenants, events of default and other customary provisions of the Credit Agreement, as well as with the covenants included in the indenture governing the 3.875% USD Notes.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The quantitative and qualitative disclosures about market risk required by this item have not changed materially from those disclosed in our 2020 Annual Report. For a discussion of our exposure to market risk, refer to Part II, Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, contained in our 2020 Annual Report.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures as defined in Rules 13a-15 (e) and 15d-15(e) under the Exchange Act. As required by Rule 13a-15(b) of the Exchange Act, management, including our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

(b) Changes to Internal Control Over Financial Reporting

As required by Rule 13a-15(d) under the Exchange Act, our management, including our CEO and CFO, has evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the quarter covered by this Quarterly Report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

There have been no changes in our internal control over financial reporting that occurred during the quarter covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings, investigations and/or claims that are incidental to the operation of our businesses. In particular, we are involved in various claims relating to environmental matters at a number of current and former plant sites and waste management sites. See Note 10, *Contingencies, Environmental and Legal Matters*, to the unaudited Condensed Consolidated Financial Statements included in this Quarterly Report for more information and updates.

Item 1A. Risk Factors

There have been no material changes in the risk factors from those set forth in Part I, Item 1A, *Risk Factors* of our 2020 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

The following exhibits are filed or furnished as part of this Quarterly Report:

Exhibit Number	Description
3.1(a)	Certificate of Incorporation dated January 22, 2014 (filed as Exhibit 3.1 of Post-Effective Amendment No. 1 to the Registration Statement on Form S-4 (File No. 333-192778) filed on January 24, 2014, and incorporated herein by reference)
3.1(b)	Certificate of Amendment of Certificate of Incorporation dated June 12, 2014 (filed as Exhibit 3.1 of the Current Report on Form 8-K filed on June 13, 2014, and incorporated herein by reference)
3.1(c)	Certificate of Amendment of Certificate of Incorporation dated January 31, 2019 (filed as Exhibit 3.1 of the Current Report on Form 8-K filed on February 5, 2019, and incorporated herein by reference)
3.2	Amended and Restated By-laws (filed as Exhibit 3.2 of the Current Report on Form 8-K filed on February 5, 2019, and incorporated herein by reference)
31.1*	Principal Executive Officer Certification Pursuant to Exchange Act Rules 13a-14 and 15d-14 as adopted pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Principal Financial Officer Certification Pursuant to Exchange Act Rules 13a-14 and 15d-14 as adopted pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Principal Executive Officer and Principal Financial Officer Certifications Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.SCH**	Inline XBRL Taxonomy Extension Schema Document
101.CAL**	Inline XBRL Extension Calculation Linkbase Document
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101. INS**	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL documents
104**	Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibits 101)

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this July 29, 2021.

ELEMENT SOLUTIONS INC

By: /s/ Michael Russnok

Michael Russnok
Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Benjamin Gliklich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Element Solutions Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2021

/s/ Benjamin Gliklich
Benjamin Gliklich
President and Chief Executive Officer

Exhibit 31.2

Certification of Principal Financial Officer
Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Carey J. Dorman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Element Solutions Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2021

/s/ Carey J. Dorman
Carey J. Dorman
Executive Vice President, Chief Financial Officer

Exhibit 32.1

CERTIFICATION
OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Benjamin Gliklich, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Element Solutions Inc on Form 10-Q for the fiscal quarter ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Element Solutions Inc.

Date:	July 29, 2021
By:	/s/ Benjamin Gliklich
Name:	Benjamin Gliklich
Title:	President and Chief Executive Officer

I, Carey J. Dorman, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Element Solutions Inc on Form 10-Q for the fiscal quarter ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Element Solutions Inc.

Date:	July 29, 2021
By:	/s/ Carey J. Dorman
Name:	Carey J. Dorman
Title:	Executive Vice President, Chief Financial Officer