GATEMORE

29 April 2024

Mr. John O'Higgins
Chairman of the Board
Elementis PLC
The Bindery 5th floor
51-53 Hatton Garden
London EC1N 8HN
United Kingdom

Dear Mr. O'Higgins,

**Elementis PLC – an urgent need for change**

As you know, Gatemore Capital Management LLP ("Gatemore" or "we") manages the Gatemore Special Opportunities Fund ("GSOF" or the "Fund"), which currently holds an economic interest of over 4 million shares in Elementis PLC ("Elementis" or the "Company").

In our previous private letter to you and conversations since then, we discussed the gulf between the fundamental strength of Elementis and the Company's persistently weak share price. We have decided to make our views public because we believe there should be an open discussion regarding the best steps forward for the Company. More importantly, we are concerned by the ineffective engagement that has long characterised the Company's interactions with shareholders, which has already resulted in public attention.

This open letter reiterates our views on the key steps the Company needs to take to rebuild investor confidence and unlock significant value for its shareholders. Our opinion is also informed by the extensive conversations to date with fellow shareholders, the vast majority of which we believe agree with our views and recommended actions.

**Elementis is an attractive business that has lost its direction**

Elementis' persistently weak share price reflects the market's sentiment, which is driven by years of disappointing performance.

However, we recognise the fundamental strengths of the Company and the opportunities for significant improvements if corrective actions are taken now. After extensive outside-in due diligence, which involved consultations with industry experts, former executives, investment banks, and Elementis shareholders, we hold a strong conviction that Elementis is a business with a robust asset base, abundant growth opportunities and outstanding potential. Noteworthy factors supporting this conviction include:

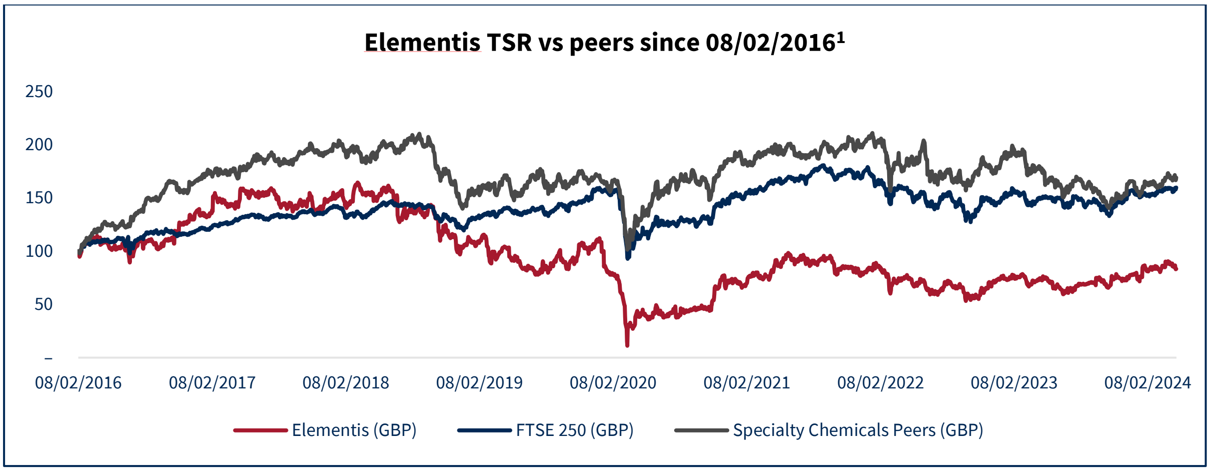
- The mission-critical nature of rheology modifiers in the end product formulation;
- Customer loyalty, with coatings manufacturers seeing significant benefits from maintaining long-term relationships with providers after the product has been formulated;
- A distinctive competitive advantage through ownership of a hectorite mine in California which also underpins significant asset value in the business;
- Unparalleled expertise in the rheology modifier space with market-leading R&D capabilities;
- Consistently strong historical gross profit margins.

These fundamental strengths, coupled with its persistently weak share price, result in a perception that Elementis has lost its direction.

**Elementis' valuation has suffered from self-inflicted management failures**

We believe that many of Elementis' current problems are self-inflicted and demonstrate a continued failure of judgement of the Company's top leadership team, most notably the CEO.

Since the current CEO Paul Waterman came into the office in 2016, Elementis has delivered subpar Total Shareholder Returns ("TSR") as compared to its peers, despite the share price having been supported by three takeover approaches throughout the period.




While we appreciate the challenging macro environment in which the Company operates, Elementis' persistent and significant underperformance relative to both its peers and the FTSE 250 — by 86 and 76 percentage points, respectively — underscores the poor management of the current CEO. The broader issues facing UK PLCs have clearly not helped, but they do not provide an excuse for this scale of underperformance.

Management missteps that have been allowed under CEO Paul Waterman's watch include:

[1] Bloomberg as of 26/04/2024. Total Return Index (Gross Dividends). Specialty Chemicals Peers is a simple average TSR of Ashland, Arkema, Imerys, Evonik and Lanxess.

- **Poor capital allocation**: current management has shown poor judgement on M&A. Approximately $650 million has been spent on M&A net of disposals[2], which is equal to over a half of Elementis' current entire market capitalisation. Furthermore, the Company overpaid for the Mondo Minerals acquisition and failed to deliver on promised synergies. Instead of delivering growth, this acquisition resulted in increased financial leverage and deteriorating cash flow, ultimately leading to covenant reset and elimination of the dividend.

- **Operational underperformance**: under the watch of the current management team, Elementis' financial performance has been disappointing, with operating profit margins and EPS declining despite multiple cost cutting initiatives. Management's latest mid-term profitability guidance has been increased to 19%[3]. Whilst shareholders will hope that this does indeed come to fruition, it is hard to overlook the fact that the Company's 2023A reported 14.6%[3] operating profit margin has not yet reached the previous guidance of 17%[3].

In recent periods, Elementis has also rejected all three takeover approaches it has received, asking shareholders to be patient and trust management's ability to execute its strategic agenda and close the valuation gap.

**Elementis' self-help measures are woefully inadequate**

Elementis has recognised the scope for improvement, but the proposed self-help measures reflect questionable timing, a lack of ambition in the pace, and ultimately a lack of commitment to value creation.

During its recent Capital Markets Day in November 2023, Elementis management unveiled a $30 million cost-saving program scheduled for 2024 and 2025. This program comprises a $20 million "Fit for Future" organisational restructuring initiative and $10 million of procurement and supply chain efficiencies. Given that the current management has been in place for over seven years, it is puzzling why such actions were not implemented sooner. It also raises questions as to whether the transformation could in fact be expedited, with majority of the cost savings realised as early as 2024.

The market is also sceptical of the management's ability to deliver, which is reflected in the street consensus anticipating only a 17.7% EBIT margin by 2026[4]. This forecast falls considerably short of management's target, raising concerns about the lack of transparency and detailed disclosure surrounding the plan.

Given the management's track record to date, there are inevitably significant doubts about their capability to execute and deliver on their promises. Shareholders cannot be expected to have confidence that the same executive who has overseen such an erosion of Elementis' value can lead an effective cost-cutting programme. The CEO must accept responsibility and recognise that he is no longer trusted to be the individual to lead the Company as it seeks to move away from its past missteps.

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[2] Elementis FY 2017 - FY 2023 financials.
[3] Elementis November 2023 Capital Markets Day Presentation, Elementis FY 2023 financials.
[4] Capital IQ mean consensus as of 25 April 2024.

In light of these management missteps, the Company requires a new leadership who can conduct a review of its strategy with independence and clear eyes and execute an updated strategy with conviction and strength.

**The Elementis Board is not aligned with shareholders**

The Non-Executive Directors of Elementis collectively hold less than 0.05% of total shares outstanding, worth approximately £332k, while at the same time earning approximately £526k per annum in Board fees[5]. The misalignment in interest as reflected in this configuration is, unfortunately, not uncommon in UK PLCs, where boards are disincentivised from acting decisively and with appropriate urgency for the benefit of shareholders.

Indeed, the UK Corporate Governance Code (the "Code") discourages companies from incentivising directors with equity, but we believe this is a fundamentally misguided approach and one of the reasons why UK equity markets are so dramatically underperforming and therefore struggling to attract foreign capital or new listings. We note, however, that this guidance from the Code falls under the "comply or explain" regime and is not a mandatory requirement. Boards not only have the ability to create a more appropriate alignment but are explicitly mandated act in the best interests of shareholders – and certainly should not be treating the Code as holding all the secrets to commercial success.

Indeed, we believe Elementis should align the interests of its Non-Executive Directors more closely with shareholders to foster greater commitment to the Company's long-term success.

**Change at Elementis is long overdue**

Allowing Elementis' protracted period of operational and share price underperformance to persist without urgent and decisive action would inevitably disappoint all stakeholders vested in the Company's success. In light of this, we call on the Chairman to exercise leadership and steer the Board to take the following steps, so as to chart a course towards unlocking the deep value in Elementis' stock:

(i) Accelerate and confirm the details around Elementis' announced cost-savings program;

(ii) Replace the current CEO, and select recently appointed Non-Executive Director Heejae Chae to lead the search process;

(iii) Conduct a strategic review of the portfolio with the aim of refocussing the business and making it more attractive for a strategic buyer.

It falls on you as Chairman of the Board to take the lead in ensuring that the Board fulfils its fiduciary duties, responds to shareholder concerns, and works to foster sustained equity value creation for all shareholders.

With the benefit of our discussions with Elementis shareholders, we are confident in the widespread support for our proposed approach and recommended actions. This consensus underscores the critical need for urgent changes within the organisation. In the absence of decisive steps taken by

[5] Holding value based on Capital IQ information as of 1 December 2023 and market capitalisation of £806m as of 26 April 2024. Non-Executive Board compensation per Elementis 2023 Annual Report.

the Board in the near term, shareholders might be compelled to take proactive actions themselves through available governance mechanisms.

**Gatemore is uniquely positioned to unify shareholder interest and unlock value**

Founded in 2005 and based in London, Gatemore has a strong track record of unlocking value in UK small- and mid-caps for all shareholders. We focus on turnarounds and recoveries, and we effect positive change within the companies in which we invest through thought leadership and deep engagement. Our involvement with DX Group PLC ("DX") over a six-year period exemplifies our expertise in unlocking benefits for all stakeholders: DX transitioned from an operating loss of £14 million in FY18 to a profit of £27 million in FY23[6]; In late 2023, H.I.G. Capital Partners announced it would acquire DX at 48p per share — or 6x above where the shares were we first got involved.

We believe that this experience, along with numerous other public and private engagements we have managed, demonstrates our expertise in unifying shareholders on critical corporate actions and unlocking value.

We remain available to further discuss any of this with you and other members of the Board to ensure the full value of Elementis is achieved. Thank you for your attention.

Sincerely

Liad Meidar
Managing Partner
Gatemore Capital Management LLP

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[6] Group Adjusted Operating Profit before Tax.

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