



Icahn Enterprises L.P. (IEP)

Updated May 15th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	19.7%	Market Cap:	\$12.7 B
Fair Value Price:	\$48	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	05/18/2023
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	6.0%	Dividend Payment Date:	06/30/2023
Dividend Yield:	22.3%	5 Year Price Target	\$48	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Through its subsidiaries, Icahn Enterprises L.P. operates in investment, energy, automotive, food packaging, metals, real estate and home fashion businesses in the United States and Internationally. The company's Investment segment focuses on finding undervalued companies to allocate capital through its various private investment funds. Significant positions include FirstEnergy Corporation (FE), Xerox Corporation (XRX), Herc Holdings, Inc. (HRI), Newell Brands, Inc. (NWL) and Southwest Gas Holdings, Inc. (SWX). Some of its positions ultimately result in control or complete ownership of the target company. For example, in 2012, the company acquired a controlling interest in CVR Energy (CVI). After continuous stake additions, Icahn Enterprises has ended up owning around 71% of the company.

Carl Icahn owns 100% of Icahn Enterprises GP, the general partner of Icahn Enterprises and Icahn Enterprises Holdings, and approximately 89% of Icahn Enterprises' outstanding shares.

On May 10th, 2023, Icahn Enterprises reported its Q1 results for the period ending March 31st, 2023. For the quarter, revenues came in at \$2.64 billion, 35.5% lower year-over-year, while the loss per unit was \$0.77, versus an income per unit of 1.08 in Q1-2022. Lower revenues were due to Icahn's investments recording weaker results compared to last year.

The company employs a complex accounting method by realizing revenues through its investment funds, not its subsidiaries' actual sales. Consequently, the company posts net losses in operating activities and only profits from its "investment activities" segment of its cash flows. The company does not specifically report investment income per share.

Units of IEP have been under pressure lately, as a short report published by Hindenburg argued that the stock is trading at an "inflated" valuation against NAV. Carl Icahn responded to a Hindenburg, criticizing the report and reassuring unit-holders of the partnership's financial health by declaring its regular \$2.00 quarterly dividend.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPU	\$9.14	(\$3.08)	(\$9.29)	(\$8.07)	\$14.94	\$11.33	(\$5.38)	-\$7.33	-\$2.32	\$0.57	\$8.00	\$8.00
DPS	\$4.50	\$6.00	\$6.00	\$6.00	\$6.00	\$7.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00
Units¹	111	119	126	137	161	180	200	221	260	316	354	420.0

Note that we are using earnings per unit (EPU) and distributions per share (DPS) as Icahn Enterprises is structured as an MLP (Master Limited Partnership). The company essentially operates like a hedge fund, making it difficult to forecast net investment income per unit. Distributions have not historically been covered by EPU, though through another complexity, they actually are. Mr. Icahn owns 89% of the units. When the company declares a distribution, Mr. Icahn chooses to be paid in additional units instead of receiving the actual cash payment. Hence, the company does pay a huge distribution per unit, but only on around 11% of its total units. As a result, every quarter, Mr. Icahn increases his

¹ Unit count is in millions.

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ownership stake (or maintains it by then selling the units) in the company through DRIP, as the table above showing units over time illustrates.

We have used an underlying earnings power estimate of \$8.00 per unit for our estimates, assuming that the company pays out what it could earn overtime. We assume no EPU or DPU growth in the medium-term due to the unpredictable nature of the company's business model.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	---	---	---	---	4.5	6.0
Avg. Yld.	3.2%	5.2%	7.6%	11.3%	11.6%	8.8%	11.3%	16.0%	14.5%	15.7%	22.3%	16.7%

Due to the company's obscure reporting, the stock's historical valuation is not meaningful. If we assume that the company distributes all of its potential profits due to its MLP structure, units are currently trading around 4.5 times its prospective income. The depressed valuation is due to the recent short report published by Hindenburg, which led to shares sinking lower. We believe the stock is undervalued and have set our fair multiple at 6X earnings. We remind that due to Mr. Icahn's strategy to increase his ownership in the company, Icahn Enterprises has been able to grow a sky-high distribution due to not having to pay the majority of the actual payments in cash. The hefty distributions, along with units plummeting recently, have pushed the stock's yield to a massive 22.3%.

Icahn Enterprises is a truly unique stock and likely one of the most peculiar we have encountered in terms of reporting.

Safety, Quality, Competitive Advantage, & Recession Resiliency

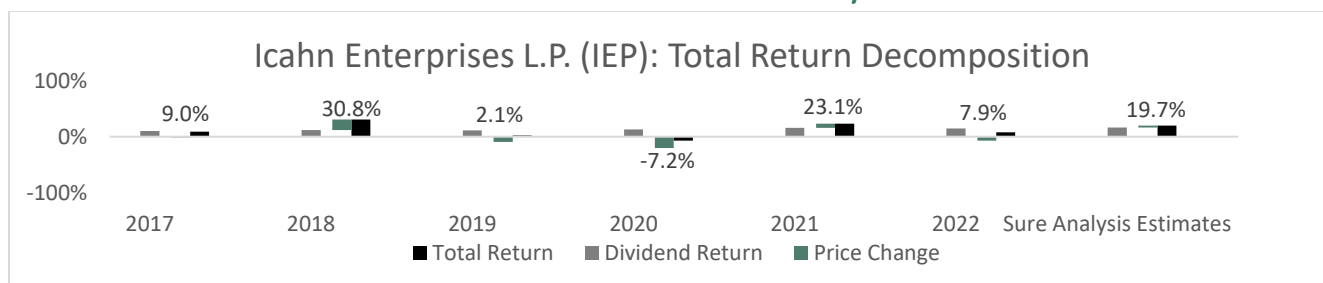
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	---	---	---	100%	100%

The stock's distribution could be considered safe in the sense that only a small part of the company's shares receives the underlying DPU. For context, in FY2021, investing activities reported cash flows of \$282 million, while the company only paid out \$226 million in distributions. Still, even investing cash flows can often be oddly derived and do not provide a clear picture. The company does not have a competitive advantage, in our view, since it essentially operates like a hedge fund. Shareholders are subject to various risks, including obscure accounting, lack of guidance, and no voice in how the operation is run. Essentially, unit-holders are trusting in Mr. Icahn's ability to deliver value.

Final Thoughts & Recommendation

Icahn Enterprises is an unusual company. Following units sinking lower following the recent short report from Hindenburg, we could see investors enjoying outsized returns going forward. However, the security remains highly speculative, and common unit-holders have no say in how the business is run. Units earn a buy rating, but for investors who can adequately digest the partnership's investing strategy, reporting, and financial engineering practices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	18,773	19,322	15,990	8,580	10,049	11,223	10,386	7,423	10,940	14,130
Gross Profit	2,460	2,224	2,606	1,112	1,311	1,692	1,656	1,103	1,460	2,437
Gross Margin	13.1%	11.5%	16.3%	13.0%	13.0%	15.1%	15.9%	14.9%	13.3%	17.2%
SG&A Exp.	1,417	1,625	1,908	1,001	1,269	1,386	1,376	1,191	1,241	1,250
D&A Exp.	742	809	863	526	518	508	519	510	517	509
Operating Profit	1,020	631	698	111	42	306	280	(575)	(294)	604
Operating Margin	5.4%	3.3%	4.4%	1.3%	0.4%	2.7%	2.7%	-7.7%	-2.7%	4.3%
Net Profit	1,025	(373)	(1,194)	(1,128)	2,454	1,482	(1,098)	(1,653)	(518)	(183)
Net Margin	5.5%	-1.9%	-7.5%	-13.1%	24.4%	13.2%	-10.6%	-22.3%	-4.7%	-1.3%
Free Cash Flow	(444)	(1,801)	(611)	971	(1,664)	651	(1,710)	(615)	16	717
Income Tax	(118)	(103)	68	(88)	(532)	(14)	20	(116)	(78)	34

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	31,745	35,790	36,407	33,371	31,801	23,489	24,639	24,990	27,750	27,910
Cash & Equivalents	3,262	2,908	2,078	1,833	1,164	2,656	3,794	1,699	2,321	2,337
Accounts Receivable	1,750	1,691	1,685	1,609	473	474	475	502	546	606
Inventories	1,902	1,879	2,259	2,983	1,730	1,779	1,812	1,580	1,478	1,531
Goodwill & Int. Ass.	3,187	3,088	2,612	2,252	871	748	713	958	885	821
Total Liabilities	18,436	23,400	26,374	25,354	20,433	10,509	13,697	15,730	18,400	18,360
Accounts Payable	1,353	1,387	1,416	1,765	980	832	945	738	805	870
Long-Term Debt	9,295	11,588	12,453	11,119	7,372	7,326	8,192	8,059	7,692	7,096
Shareholder's Equity	6,092	5,443	3,987	2,154	5,106	6,560	5,456	3,382	3,544	3,900

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.6%	-1.1%	-3.3%	-3.2%	7.5%	5.4%	-4.6%	-6.7%	-2.0%	-0.7%
Return on Equity	19.1%	-6.5%	-25.3%	-36.7%	67.6%	25.4%	-18.3%	-37.4%	-15.0%	-4.9%
ROIC	6.5%	-2.1%	-6.4%	-6.4%	16.0%	10.8%	-8.0%	-12.0%	-3.4%	-1.4%
Shares Out.	111	119	126	137	161	180	200	221	260	316
Revenue/Share	168.23	161.51	126.90	62.63	62.42	62.35	51.93	33.59	42.08	44.70
FCF/Share	(3.98)	(15.05)	(4.85)	7.09	(10.34)	3.62	(8.55)	(2.78)	0.06	2.27

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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