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Ingevity Corp. (NGVT)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning or good afternoon, all, and welcome to the Ingevity Q2 2025 Earnings Call and Webcast. My name is Adam, and I'll be your operator today. [Operator Instructions]

I'll now hand the floor to John Nypaver to begin. So, John, please go ahead when you're ready.

John E. Nypaver, Jr.

Vice President, Treasurer & Investor Relations, Ingevity Corp.

Thank you, Adam. Good morning, and welcome to Ingevity's second quarter 2025 earnings call. Earlier this morning, we posted a presentation on our investor site that you can use to follow today's discussion. It can be found on ir.ingevity.com under Events and Presentations. Also, throughout this call, we may refer to non-GAAP financial measures, which are intended to supplement, not substitute for, comparable GAAP measures. Definitions of these non-GAAP financial measures and reconciliations to comparable GAAP measures are included in our earnings release and are also in our most recent Form 10-K.

We may also make forward-looking statements regarding future events and future financial performance of the company during this call. And we caution you that these statements are just projections, and actual results or events may differ materially from those projections as further described in our earnings release.

Our agenda is on slide 3. Our speakers today are David Li, our CEO; and Mary Dean Hall, our CFO. Dave will provide introductory comments, Mary will follow with a review of our consolidated financial performance and the business segment results for the quarter, Dave will then provide closing comments and discuss 2025 guidance.

With that, over to you, Dave.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

Thanks, John, and good morning, everyone. This week marks my fourth month with Ingevity. As I've traveled to our sites and met with our teams globally, I've been energized by the passion and pride our people bring to work every day. The IngeviWay, our shared values and mission to purify, protect and enhance the world around us, is deeply embedded across the company. And what I consistently hear from our organization is that they feel we have reached an inflection point and are ready to start winning again.

This quarter was another clear demonstration of our strong execution, ability to deliver results and disciplined focus on profitability, which drove significant free cash flow and leverage improvement. Our leverage has improved to 3 times, which reflects a full turn improvement in less than a year. Our strong profitability was driven by Performance Materials, which delivered another quarter of EBITDA margins above 50%, and our successful repositioning actions in Performance Chemicals, resulting in a consolidated EBITDA margin of 30%.

Also, we are making meaningful progress on our strategic portfolio assessment. The sale process for our Industrial Specialties Business and CTO refinery has reached an advanced stage, and we expect to share an update soon. We are also advancing our review of the entire portfolio with a focus on strategic fit and value creation. I'll share more about where we're heading in my closing comments. For now, I'll hand it over to Mary to walk through the quarter in more detail.

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

Thanks, Dave, and good morning, all. Please turn to slide 5. Second quarter sales of \$365 million were down 7% versus Q2 last year, due primarily to repositioning actions in Industrial Specialties, combined with wet weather impacting paving activity in Road Tech and indirect tariff impacts on APT volumes, particularly in Europe. Despite the sales decline, adjusted gross margin improved 600 basis points, driving a 9% increase in adjusted gross profit. Most of this improvement flowed through to adjusted earnings and adjusted EBITDA, with adjusted earnings up 39% and adjusted EBITDA up 9%. Our adjusted EBITDA margin improved over 400 basis points to 30.1%, even as spend increased to support investments in innovation in Performance Materials to drive future growth, and in equipment for APT to improve operational efficiency and cost control.

During the quarter, we recorded a non-cash goodwill impairment charge of \$184 million for our APT segment. Shifts in the segment's customer order patterns due to tariff uncertainty and ongoing weakness in global industrial markets led us to conduct an interim goodwill impairment test. Updated forecasts and market assumptions, including a higher discount rate, resulted in the conclusion that APT's goodwill was fully impaired. My comments going forward exclude the impact of this charge and a full reconciliation to GAAP results is provided in the appendix.

Please turn to slide 6 for financial highlights from our consolidated results. The consistent EBITDA growth we've delivered, combined with improved free cash flow, has allowed us to accelerate our reduction in net leverage. The chart in the upper left of the slide shows how quickly we are driving that leverage toward our goal of 2 to 2.5 times. Also note the CapEx chart in the top right of the slide. While CapEx spending year-to-date appears light, this reflects our normal spend pattern and we continue to expect CapEx to be in the \$50 million to \$70 million range for the full year. I'll point out that our work to optimize our manufacturing footprint has structurally lowered our maintenance CapEx requirements, and our guide for this year reflects those benefits. As a result of improved adjusted earnings, disciplined working capital management and lower CapEx, we are raising the midpoint of our free cash flow guide, and we are confident we will be below 2.8 times by year end.

Turning to slide 7, Performance Materials sales declined about \$3 million or 2% as higher revenue in North America was offset by declines in Europe and Asia, excluding China, where sales were flat year-over-year. Europe's decline was attributed to tariff-related uncertainty and the decline in Asia, ex China, was due to timing of customer orders which benefited Q2 last year. Auto production forecasts are being revised frequently as the tariff landscape continues to shift and have improved since April of this year, particularly for North America. However, expectations still call for lower auto production year-over-year in all major markets except China. We have reflected the most recent information we have in our updated guidance. EBITDA margin ended the quarter just over 50%. The decline in margin year-over-year was due to the slightly lower revenue I mentioned, investments we made in innovation to drive future growth, and certain onetime employee compensation costs. We continue to expect full-year segment EBITDA margin to be above 50%.

Please turn to slide 8 for APT results. Weaker customer demand, partly attributed to tariff uncertainty, and price concessions to address competitive pressures contributed to a 10% drop in sales in our APT segment. Last quarter, we commented that direct impacts from tariffs were expected to be minimal for our segments, and that continues to hold true. However, during the quarter, we began to see customer demand weakened further in our APT segment due to indirect tariff impacts. As we've noted before, APT is our most globally diversified business and the indirect impact of tariffs has been meaningful to APT's results. We have seen this most clearly in footwear and apparel and automotive markets, particularly in Europe, where our customers slowed their order patterns as a result of tariff uncertainty and concern over increased costs. We expect this uncertainty to continue and to impact customer demand in the second half of the year. In addition, our APT plant in the UK was down for an extended period of time to install new boilers, as we discussed last quarter. The outage cost of about \$5.5 million, in combination with the top-line pressures I just discussed, resulted in EBITDA of about \$1 million for the quarter. I'm happy to report that the boilers are up and running and are expected to give us better control of our energy costs and improve operational efficiency going forward. Also, as markets and businesses adjust to the new tariff environment, our team is moving aggressively to reorganize and refocus our commercial efforts to align with our customers as they pivot between regions and markets. Due to the shifting landscape and current market conditions, we expect full-year revenue in APT to be down mid- to high single digits as a result of lower industrial demand, with EBITDA margin between 15% and 20%.

Please turn to slide 9 for Performance Chemicals results. Sales were down about 10% as last year's results included the final remnants of revenue generated from the lower margin markets we exited as a result of repositioning actions. Lower sales in Road Tech also contributed to the drop in sales, as we saw a slow start to the paving season due to wet weather. And that may sound like a repeat of last year, which was also affected by wet weather, but last year was more concentrated in terms of geography. This year, a wider swath of the country was impacted, particularly in the mid-Atlantic and the South. The good news is that we saw a strong June and the positive momentum continued into July. We are cautiously optimistic that the crews will be able to complete enough road construction projects in the second half, such that on a full year basis, Road Tech revenue should be up low single digits. The segment continued to show improved profit and stability as a result of our successful execution of repositioning actions. Segment EBITDA was more than three times last year's number, and EBITDA margin approached 20%, the highest in nearly two years. I'm also pleased to report that we've completely consumed the high cost CTO inventory before the end of the quarter and are now recording CTO purchases at market rates, which today are around \$550 to \$600 per ton. In addition to lower raw material costs, repositioning allowed us to right-size our footprint, so we are seeing significantly lower costs in our supply chain for logistics, storage and warehousing, for example, which also contributed to the EBITDA improvement. Because we are realizing mix and cost improvements more quickly than originally anticipated, we are increasing our guidance for full-year Performance Chemicals EBITDA margin to be in the high single digit to low double digits as we expect second half margins to be similar to first half.

In summary, the company's focus on execution excellence is evident in our results through continued improvement in profitability and strong free cash flow, which we are using to accelerate deleveraging. We're pleased with the progress we're making in a very challenging global business environment.

And I'll now turn the call back to Dave for an update on guidance and closing comments.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

Thanks, Mary. Please turn to slide 10. Given the continued strong performance in Performance Chemicals and sustained 50-plus-percent EBITDA margins in Performance Materials, coupled with an improved outlook for North American auto production, we are raising the low end of our full-year EBITDA guidance to a range of \$390 million to \$415 million. In addition, with the strong free cash flow we're generating, we're revising our full-year free cash flow guidance upward to \$230 million to \$260 million. And we remain highly confident we will achieve our year-end net leverage target of below 2.8 times. We are maintaining our sales guidance as we continue to navigate macroeconomic uncertainty and weakness in industrial and consumer demand, as well as potential shifts in interest rates and tariffs during the second half.

As I close, let me once again highlight the significant progress the company has made over the last two years as a result of the successful execution of our repositioning strategy. We've posted three straight quarters of year-over-year improvement in EBITDA and free cash flow, five straight quarters of year-over-year EBITDA margin improvement, and four consecutive quarters of reduced leverage. We believe our results demonstrate that we are building momentum as we transition beyond this repositioning phase. Strategically, we are pleased with the progress of the sale of our Industrial Specialties business and CTO refinery and expect to provide an update soon. I'm also excited to share that we expect to host an investor update later this year or early next year, where I'll communicate the results of our comprehensive portfolio review, share our long-term growth strategy and articulate our vision for Ingevity's future.

In closing, our strong results over multiple quarters underscores the strength of our execution and the momentum we are building across the company. With more stable and profitable businesses, a strengthened financial profile and a clear strategic direction, we believe Ingevity has passed an inflection point and is well positioned for sustained growth and long-term value creation.

With that, I'll turn it over for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Jon Tanwanteng from CJS Securities. Jon, please go ahead. Your line is open.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Hi. Good morning. Thank you for taking my questions, and congrats on a nice earnings quarter and the higher outlook for the year. Maybe, first of all, could you give us an update on the profitability of InSpec standalone ex-pavement, where CTO prices are relative to a year ago and also relative to alternative oleos and crude alternatives?

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

Yeah. As you know, we don't break out the profitability of that, Jon. I think where we tried to guide people on that is if you look at – keep in mind the seasonality of pavement, which is a Q2, Q3 story and compare that to Q4, Q1, you get an idea of the relative profitability of InSpec. And that's really the best we can do.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

But Jon, I'd say, overall, we're pleased to be through the higher cost inventory of CTO. We're pleased to be through the repositioning efforts. And as I mentioned, I think we feel like we've reached an inflection point for the company.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Got it. Thank you. I was wondering if you could talk about the investments that you mentioned in your prepared remarks, maybe some of the opportunities there, if those are mostly in the carbon segment or others and if there's any update on the already ongoing projects that you have.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

Yeah. Thanks, Jon. So, as you know, we've made investments and have a strong partnership with a company called Nexeon, so part of that investment is continued investment into that partnership, which we're very encouraged about. It will allow us to use our highly engineered activated carbon in the EV segment of the business. Also, we've been participating in other applications for activated carbon, which we call process purification. And I think in the past, although we've participated, we haven't been really intentional or haven't developed those channels in an intentional way. And so, we're putting some more energy and focus behind that. And I think we'll see some really good results in the future from those investments as well.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Okay. Thank you. And [indiscernible] (00:27:10) congratulations on a really exceptional run for the segment. Any thoughts on just what you're looking for in leadership there and if there's any tweaks you may be doing to the segment?

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Yeah. So, as we announced, after a very long and celebrated career, we had one leader step away from the business, Ed, and really want to acknowledge his contributions to building that business. We have an active search ongoing for his replacement, and we're really pleased with the progress we're making there and excited for that new leader to come aboard. We hope to have that completed search in the next several months, I would say. And then internally, we have a lot of momentum, so we don't want to wait for that new leader to come aboard. We're already reorganizing just to focus on, of course, the automotive aspect of the business, but also, as I mentioned, that process purification business. We brought on some new leaders to focus on that area and excited about what they'll bring to that part of the business.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Great. Thanks, Dave.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Thanks.

Operator: The next question comes from John McNulty from BMO. John, please go ahead. Your line is open.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Hi, John.

Operator: Hi, John. Can you check if you're muted locally?

John P. McNulty

Analyst, BMO Capital Markets Corp.

Q

Sorry about that. I was stuck on mute. So, on Performance Chemicals, obviously a really big jump in the margins, maybe bigger than what we were looking for, but a lot of kind of things going on in there. I guess, can you help us to think about what the margin would have been if you didn't have the high cost CTO running through the P&L? The presumption would be it would have been even higher and probably in the 20s. But can you help us to maybe think about that?

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

A

So, I'll give you some insight how I think about that, and then we've got Phil Platt here, our Head of Finance and Accounting here as well. So, as I mentioned, when we think about the full year, a lot of noise in the first half as we're working through a high cost CTO. But we did say, I did say, we expect the second half margins to be similar to first half. And again, so that reflects the seasonality of pavement, but also the fact that we will have worked through the high cost CTO and it won't be dragging down the second half of the year. But keep in mind that

pavement, as I mentioned, had a relatively tough Q2 because of the weather impacts, and I mentioned the strong June and the good momentum in July. So, if you think about maybe absent hurricanes and the like, pavement does a bit better in Q3 than Q2 and we don't have the drag from the CTO inventory, that gets you to kind of that full-year look that I gave. And what else am I missing, John? Is there something – does that help?

John P. McNulty

Analyst, BMO Capital Markets Corp.

Yeah, definitely. Definitely gives us a little bit of color on it at least. Okay. And then maybe we can...

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

Second half, John, yeah, just to be clear, second half won't include the impact of the high cost CTO. And we're saying that the margin – we expect the margin to be similar to first half.

John P. McNulty

Analyst, BMO Capital Markets Corp.

Okay. Fair enough. Okay. That helps. And then on the free cash flow side, so 2Q is normally kind of just about a breakeven type free cash quarter. This time, noticeably better than that. I guess, can you help us to think about some of the levers that you're pulling to drive incremental free cash flow as we as look forward? Are there some new kind of initiatives or things that you're focused on to kind of tighten things up, or push the profitability and improvement on the cash flow a little bit harder?

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

Yeah. I think the main drivers in the second quarter were the improved earnings. And we've clearly continued to work on our inventory management initiatives, and with the cost of the inventory also coming down, we see the benefits showing up in working capital. So, less of a CapEx story, as I mentioned. It's pretty typical for us to spend less in the first half of the year on CapEx than we do in the second half. But it's really due primarily to the improved earnings.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

Yeah. And I think, John, just to add on to Mary's comment, we're really pleased with our execution. Obviously, we're seeing benefits from the repositioning strategy clearly through an inflection point there. And I think what we would expect, and we guided to this as well, is really much more predictable cash flows for the business that the underlying strength of our business model, whether it's Performance Materials, which had another 50-plus-percent EBITDA quarter, we would expect strong cash flows and predictable cash flows going forward.

John P. McNulty

Analyst, BMO Capital Markets Corp.

Got it. Thanks very much for the color.

Operator: The next question comes from Daniel Rizzo from Jefferies. Daniel, your line is open. Please go ahead.

Daniel Rizzo

Analyst, Jefferies LLC

Q

Hey. Good morning. Thanks for taking my questions. You mentioned doing a strategic review just kind of for the whole portfolio. It's going to be like an earlier process that once you're done with what you're thinking about with Industrial Specialties that you'll then move on to the next, or is it something that could happen all at once? I mean, is there ongoing conversations with others about different parts of your business that haven't been previously mentioned?

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Yeah. Thanks, Daniel. So, what we mentioned is that we're in advanced stages of the sale process of our Industrial Specialties business and CTO refinery and hopefully have an update soon. We're very encouraged. And at the same time, there's a lot of work going on internally in parallel to look at the entire portfolio. And obviously, we want to be measured here and there. Obviously, those are some big decisions for the company. And how we're approaching it is just thinking about, what are our core competencies? Where are we the best owner? And then transposing kind of the financial profile of the different businesses, where can we really add value? And that work is ongoing now. We would expect that to be completed. And we mentioned that we'd be providing an investor update hopefully by the end of the year, might be early next year, but that work is already ongoing. It also includes a look at where we have opportunities to grow. So, there may be opportunities. I mentioned one, process purification within Performance Materials, where perhaps we've under resourced in the past, and we see opportunities for growth. So, we'll be able to talk more about that in the second half or later in the year, but that process is ongoing as we speak.

Daniel Rizzo

Analyst, Jefferies LLC

Q

Thanks. Thanks for that. And then, you mentioned that CTO prices now, as you purchased them on the open market, I think it's \$550 to \$600 a ton. I was just wondering what that is as comparing to what your high cost one was from the beginning of the year and late last year and how we should think about it going forward. Is the market long for CTO now just given what you've done? Or how we should just think about these costs versus your other inputs in the back half of the year?

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

A

Yeah. The \$550 there to \$600, again, we use that Argus data, versus what we were paying before. I think we, at one time, had talked about levels even in the – that it was 5x current market conditions at a time when the CTO market prices were in a similar area. So, the reality is, with the downsizing of our footprint, our CTO purchase requirements, volume requirements also came down. So, the combination of requiring less CTO, as well as the lower prices, is really what you're seeing in those improved results in the first half of this year.

Daniel Rizzo

Analyst, Jefferies LLC

Q

And going forward?

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

A

And going forward, yeah, I mean, volume, our purchases would be similar to what we saw in Q2, and for the price, again, we're comfortable that we have enough CTO to run our operations, and certainly our last dependent on the vagaries of the CTO market and how pricing is moving than we have ever been in the past.

Daniel Rizzo

Analyst, Jefferies LLC

Thank you very much.

Q

Operator: [Operator Instructions] The next question is from Mike Sison from Wells Fargo. Mike, please go ahead.

Michael Sison

Analyst, Wells Fargo Securities LLC

Hey. Good morning, guys. Nice quarter and outlook. I guess first question, in terms of Performance Materials, you got pricing, again, it seems like the ability to get pricing has been very good over the year. Can you sort of talk about why in the year of down volumes you've been able to get pricing and how that looks for the second half of the year?

Q

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

Right. So, thanks for the question. I think, just first, touching base on the business itself, we see pretty resilient – obviously, we're very North American centric from a business perspective. We sell globally, but the North American market is very important to us and that's proven to be pretty resilient, whether it's North American auto production, or so far, the consumer's buying behavior. With respect to pricing, I think it's just reflective of the value that we're providing to customers. We're providing a highly engineered activated carbon solution. Customers are delighted with the products and the technology. We continue to work closely with those key customers globally. And so, that pricing and that value that we're getting back is just reflective, I think, of what we're providing to those customers.

A

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

And as you know, Mike, we've always been able to get price increases in that business. That has been really unique, somewhat – we believe unique, and as an auto supplier in that chain that we are able to get those price increases every year and I think it is a clear sign of that business' resilience that in the face of kind of the tariffs uncertainty this year, we've been able to continue just kind of business as usual on the pricing front.

A

Michael Sison

Analyst, Wells Fargo Securities LLC

Got it. Thanks. And then, shifting gears to Advanced Polymer Technologies, David, this business seems to have underperformed quite a bit over the years. Just curious to your thoughts on the business itself, what needs to happen for this to be considered a core business longer term? And what's sort of your assessment of this segment, I guess, is the question.

Q

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Yeah. Thanks for the question. First, as we mentioned in our last call, we have new leadership in place, and that team, I think, is doing a really great job taking a look at the entire – whether it's the commercial approach or approach towards innovation. And so, we're encouraged, and I think we'll see benefits from that team and that leadership in the near term. I think as I mentioned in the mid-term, from a portfolio perspective, we're looking at the entire portfolio and seeing really where we can add value, where we can be the best owner. APT will be part of that review. And as I mentioned, we'll have more to say on it towards the end of the year. But also, as Mary mentioned, we just got through a pretty major CapEx investment. We're pleased with that, how it's come online. And so, I think the team is in place, the leadership is in place. So, I think we're set up well in the near term. In the mid to longer term, we're looking at the portfolio and more to come.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Right. And then just one quick last one. The free cash flow looks pretty good. I think you've raised that and the goal is to lower debt, get your leverage ratio down. So beyond this year, what do you think is the right way to deploy cash going forward if the leverage looks good beyond this year?

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

A

Sure. And where you finished, getting the debt to our target area, that 2 to 2.5 times is clearly our priority. But beyond that, began investing organically. As I mentioned, we're continuing to do some of that. We continue to see pathways for growth organically and want to give that the priority that it's due. Share repurchases, in our past, before the leverage got elevated, we were a regular participator in share repurchases. And I think that is something that clearly is on our radar as well in terms of returning cash to shareholders. M&A, in terms of our capital allocation priorities, again, not a priority in the near term, clearly, but something that is always on the list to the extent that once we are stable, generating a lot of free cash flow, the other capital allocation priorities are hitting on all cylinders, we will have the flexibility to look at M&A opportunities when they arise.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: We have no further questions. I'll hand the call back to John Nypaver for some closing comments.

John E. Nypaver, Jr.

Vice President, Treasurer & Investor Relations, Ingevity Corp.

Thanks, Adam. That concludes our call today. Thank you for your interest in Ingevity, and we'll talk with you again next quarter.

Operator: This concludes today's call. Thank you very much for your attendance. You may now disconnect your lines.

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