

06-Nov-2025

Ingevity Corp. (NGVT)

Q3 2025 Earnings Call

CORPORATE PARTICIPANTS

John E. Nypaver, Jr.

Vice President, Treasurer & Investor Relations, Ingevity Corp.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

Phillip J. Platt

Chief Accounting Officer & Senior Vice President-Finance, Ingevity Corp.

OTHER PARTICIPANTS

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Daniel Rizzo

Analyst, Jefferies LLC

John P. McNulty

Analyst, BMO Capital Markets Corp. (Broker)

MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to today's Ingevity Third Quarter 2025 Earnings Call and Webcast. My name is Bailey and I will be your moderator for today. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. [Operator Instructions]

I'd now like to pass the conference over to John Nypaver, so please go ahead when you're ready.

John E. Nypaver, Jr.

Vice President, Treasurer & Investor Relations, Ingevity Corp.

Thank you, Bailey. Good morning and welcome to Ingevity's third quarter 2025 earnings call. Earlier this morning we posted a presentation on our Investors site that you can use to follow today's discussion. It can be found on ir.ingevity.com, under Events & Presentations. Also throughout this call we may refer to non-GAAP financial measures which are intended to supplement, not substitute for comparable GAAP measures. For example, we're presenting the pending divestiture of our Industrial Specialties business for the first time within discontinued operations. In the appendix to our slides, we provide details that reconcile to total operations. 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 [indiscernible] (00:01:26) 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. They 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. It was a highly productive quarter of strong execution for Ingevity. First, we achieved an important milestone in our strategic portfolio review with announcement of the sale of our Industrial Specialties business for \$110 million. We expect this transaction to close in early 2026 and we'll likely use the majority of the proceeds towards further debt reduction.

Second, we were pleased with our business segment results. Performance Materials delivered another strong quarter within a dynamic global auto environments. Going forward, we are encouraged by the adoption of hybrids and fuel efficient ICE platforms, which should drive demand for advanced Ingevity solutions and content. Road Technologies also had a great quarter highlighted by record sales for our pavement business in North America. Finally, APT delivered strong margins as the team prioritized operational improvements against the backdrop of continued weak end market demand.

Overall, these contributions reflect our team's disciplined execution, as well as strategic repositioning actions which drove best-in-class EBITDA margins of 33%, reflecting our sixth consecutive quarter of year-over-year margin expansion. Strong cash flow generation and disciplined capital allocation enabled us to reduce debt, achieve our leverage target ahead of plan, and return capital to shareholders through share repurchases.

And third, I'm very excited to announce we hired Ruth Castillo to lead our Performance Materials business. Ruth is a strategic and experienced leader with a deep understanding of how to navigate complex businesses and unlock new growth opportunities. I look forward to her leadership in guiding Performance Materials into its next phase of profitable growth.

Before I turn it over to Mary for more details on the financials, I'm pleased to share that we will host an investor update on December 8. This will be a virtual event where we'll share the results of the strategic portfolio review and provide an assessment on what we believe the company will look like over the next two years. More details on how to register for the event will be forthcoming.

And now, I'll turn it over to Mary.

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

Thanks, Dave, and good morning, all. It's nice to have some good news to share in this unsettled economic environment. Our Q3 results reflected continued growth in adjusted EBITDA margins and free cash flow, despite pressure on the top line, affirming the resilience of our businesses and the successful execution of our repositioning actions in Performance Chemicals. As previously noted, with the announced sale of Industrial Specialties, we're now reporting the results of that business as discontinued operations, with the sale expected to close by early 2026.

Given our close proximity to year-end and that full year guidance is based on total company performance, I'll focus my comments on total company results so that comparisons to prior periods are apples to apples. I'll provide more color on continuing and discontinued operations when we discuss the Performance Chemicals results.

Please refer to slide 5. Total company sales of \$362 million in Q3 were down about 4%, as increased sales in Performance Materials and Road Technologies were more than offset by decreases in Industrial Specialties and the APT. Gross margin improved over 600 basis points, reflecting significantly lower raw material costs, primarily in Industrial Specialties and the successful execution of our repositioning actions. SG&A increased due primarily to higher variable compensation expense on improved business results. Adjusted earnings improved significantly up almost 500 basis points to \$56.3 million, driving adjusted EBITDA margin to 33.5%.

Please turn to slide 6. As a result of strong earnings and disciplined capital management, our free cash flow of \$118 million enabled us to repurchase \$25 million of shares in the quarter and accelerate de-leveraging. We ended the quarter with net leverage of 2.7 times, already beating our previous year-end target of 2.8 times. We now expect net leverage to be approximately 2.6 times by year end. This does not include the benefit of any proceeds from the sale of Industrial Specialties, which is expected to close by early 2026, as I mentioned earlier.

Turning to Slide 7, Performance Materials sales increased 3%, primarily due to volume growth, reflecting improved global auto production. Segment EBITDA and the EBITDA margin were down a bit as the benefit from increased volumes and price was more than offset by increased variable compensation expense and a negative impact from foreign exchange.

Q4 is looking solid, but we do expect Q4 to be a bit softer coming off of a strong Q2 and Q3. So, on a full year basis, we expect PM revenue to be flat to slightly down year-over-year with EBITDA margins over 50%. Our results demonstrate the resilience of this business in the face of unprecedented uncertainty caused by the dynamic tariff environment.

Please turn to slide 8 for APT results. Sales in APT declined year-over-year for many of the same reasons we discussed last quarter. The indirect impact of tariffs continues to weigh on already weak end market demand, especially in footwear and apparel, delaying the upturn we otherwise expected to see. In addition, competitive dynamics in China are continuing to impact sales in the paint protective film market. The team did a great job holding on to price where possible and managing costs, and posted an EBITDA margin of 26% for the quarter, which also reflected a tailwind from foreign exchange. Near-term, we see no indications that the current market conditions or competitive dynamics will improve. We now expect full year revenue for APT to be down by mid-teens on a percentage basis, with full year EBITDA margin of 15% to 20% down from their more typical 20% area margins due to the extended plant outage in Q2.

On slide 9, Performance Chemicals, the left side presents a combined view of Performance Chemicals results, including continuing operations and discontinued operations. As I mentioned earlier, with the announced sale of Industrial Specialties, accounting rules require that we separate results of the product lines being divested into discontinued operations. However, because the sale is not yet completed and our guidance is for full company results, we're showing the Q3 results on a combined basis.

As you can see, combined sales were down almost 5% due to Industrial Specialties and our repositioning actions in that business. Road Technologies posted sales of 5%, as the pavement business delivered a record Q3 in North America, which is our largest and most profitable region. Road Technologies as part of continuing operations, includes the lignin-based dispersants business, previously included in Industrial Specialties. Combined segment EBITDA and EBITDA margins improved significantly year-over-year due to lower raw material costs in Industrial Specialties and the successful execution of repositioning actions. On a continuing operations basis, Performance Chemicals' EBITDA margins were down slightly, primarily as a result of pricing decisions made in the road markings business to maintain volumes.

Please refer to slide 27, in the appendix of the slide deck for a reconciliation of Performance Chemicals segment EBITDA on a continuing operations basis to the combined segment EBITDA, inclusive of discontinued operations.

On the right-hand side of slide 9, we've added some detail regarding the impact of the divestiture on the combined results. There is noise in the Q3 numbers, so we believe it's most useful to look at the estimated impact on a full year basis. As you can see, we expect the divestiture to contribute approximately \$130 million in sales for the full year with an EBITDA margin of approximately 6%, inclusive of indirect costs. Please note that these indirect costs related to the divestiture, often referred to as stranded costs, are included in continuing operations for reporting purposes. On a full year basis, we estimate these indirect costs will be approximately \$15 million, which we expect to eliminate by the end of 2026. In addition, the divestiture is expected to contribute approximately \$40 million to free cash flow on a full year basis, primarily due to lower working capital.

In summary, we continue to focus on delivering results in a very challenging environment and are proud to report our sixth consecutive quarter of year-over-year adjusted EBITDA margin expansion. In addition, with our strong free cash flow, we have strengthened the balance sheet and resumed share repurchases.

I'll now turn the call back over to you Dave for update on guidance.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

Thanks, Mary. Please turn to slide 10. We are very pleased with our third quarter results and are on track for a strong finish to the year. Our results reflect sustained execution, the durability of our business model and our leadership in the industries we serve. We are raising full year free cash flow guidance and now expect net leverage to be around 2.6 times by year end. We will continue to be disciplined in how we allocate capital and look forward to closing the sale of our Industrial Specialties business soon. Lastly, given the ongoing tariff uncertainty and slower industrial demand primarily impacting APT, we're adjusting our full year outlook to narrow the top end of our sales and EBITDA range.

In closing, we look forward to hosting everyone virtually on December 8 for our Investor Update when we will provide the results of our strategic portfolio review and our expectations for the future.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes from the line of Jon Tanwanteng from CJS Securities. Please go ahead. Your line is now open.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Hi. Good morning. Thank you for taking my questions and nice job in the quarter. My first question is just regarding the full year outlook, I noticed that you're taking down the top end for APT, which makes sense. I was wondering if you could actually speak to the Performance Materials segment and to the publicized aluminum plant fires in North America, the chip shortages that are going on in China, and just how that's impacting your outlook there, and what's implied in the guidance and if you've accounted for that?

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Yeah. Thanks, Jon. Yeah. With respect to those challenges you mentioned, obviously, if you zoom out, it's been a pretty dynamic year for the industry. I think it actually speaks to the resilience of the auto industry in general. I mean, we've been through tariffs, some macro uncertainty, and as you mentioned, some more recent supply chain challenges and our results and outlook would reflect any impact from those. But I think overall, if you look at the results we've delivered for Performance Materials, it demonstrates also the durability of our business, the continued leadership we have in that space. And I think quarter-over-quarter, we've continued to deliver strong results. But to answer your question on those two supply chain challenges, our results and outlook do reflect any impact to those going forward.

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Q

Got it. That's helpful. Thank you. And then just on the discontinued ops, you mentioned or I guess you gave metrics for what you expect from the year in the In Spec business. Could you kind of tell us what's implied in the Q4 just because we don't have the first half results in there? And then you broke out the Q3 in terms of EBITDA contribution.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Well, Jon?

John E. Nypaver, Jr.

Vice President, Treasurer & Investor Relations, Ingevity Corp.

A

Okay. And this is John. You know we do show full year for that discontinued ops. It should be easy for you to get to that, I would think. But we can talk offline if you need help on that.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Yeah. Jon, I kind...

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Okay.

Q

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

...of just in terms of sizing the business on an annualized basis, think of it as about a kind of mid-single digit EBITDA business. And so we've reported three quarters of it. So, kind of extrapolating that out to the fourth quarter I think would make sense.

A

Jon Tanwanteng

Analyst, CJS Securities, Inc.

Okay. Great. Thanks.

Q

Operator: Thank you. Our next question today comes from the line of Daniel Rizzo from Jefferies. Please go ahead. Your line is now open.

Daniel Rizzo

Analyst, Jefferies LLC

Hey, guys. You mentioned working capital and free cash flow. I was just wondering how we should think about working capital post the divestiture as maybe as a percent of sales or just how you plan to kind of manage that.

Q

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

So you're really thinking looking forward into 2026, Dan?

A

Daniel Rizzo

Analyst, Jefferies LLC

Right. Well, just – I mean, not for just 2026, but just how it changes at all, once the business is divested?

Q

Phillip J. Platt

Chief Accounting Officer & Senior Vice President-Finance, Ingevity Corp.

Yeah. Hey, Dan, this is Phil. I think if you look at our balance sheet, which is included in the press release schedules. We broke out the impact of the discontinued ops on the balance sheet and pulled them out as separate line items. So, it'll give you a really good, clear indication what we're thinking working capital looks like for the business going forward.

A

Daniel Rizzo

Analyst, Jefferies LLC

Okay. And then you mentioned that, I think, net debt to EBITDA is going to be about 2.7 times at the end of the year. And then you get \$110 million roughly from the sale. I mean – and that's going to be used towards debt. So, I guess my question is, what is the net debt to EBITDA target because that seems like you would be able to bring it relatively low.

Q

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

A

So, Dan, just for clarity, we finished the quarter at 2.7 times. And as a result of beating our year-end target already, we're reducing our target for year-end to 2.6x.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Okay. And then in terms of use of proceeds, Dan, we mentioned or I mentioned in my comments, we'd likely use the majority of proceeds when received to further pay down debt. I want to hold off a little bit, because we'll also talk more about capital allocation as one of the major topics on December 8. But obviously, if you look at primary use of the proceeds as debt reduction, you can do that trajectory down. But we're really pleased with our achievement so far ahead of plan. We had targeted 2.8x or below by end of year. So we finished the quarter, as Mary mentioned, at 2.7x. And we think we've got a glide path to 2.6x without any proceeds – use of proceeds to pay down further debt.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

All right. Thank you very much.

Operator: Thank you. [Operator Instructions] We have no additional questions waiting at this time, so I'd like to pass the call back over to John Nypaver for any closing remarks.

John E. Nypaver, Jr.

Vice President, Treasurer & Investor Relations, Ingevity Corp.

A

Actually, Bailey, I believe someone is in the queue, if you wouldn't mind, double checking.

Operator: Perfect. Yes, we will take our next question, apologies, from John McNulty from BMO Capital Markets. Please go ahead.

John P. McNulty

Analyst, BMO Capital Markets Corp. (Broker)

Q

Yeah. Good morning. Sorry about the last second question there. So, I guess I just wanted to understand Performance Materials a little bit better for the full year sales to be kind of flat to slightly down. I mean, when we look at kind of the overall auto forecast out there, they're roughly in line with that. But I assume normally you're getting some reasonable amount of price. So, I guess, is it – is there some negative mix that we should be thinking about on the auto builds that, may be contributing to this type of a result or is pricing maybe more modest than it's been where, maybe it's taken a little bit of a pause after the last few years, I guess. Can you help us to think about that?

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Yeah, John. So, as we mentioned earlier in the year, we've taken pricing as we typically do. I think there's – when you look at the auto forecasts as we do as well, they're calling for sort of flattish to slightly down. That's similar to our PM business. But in terms of the overall mix of those vehicles, obviously we've had a lot of volatility, for

example, for EVs throughout the year. So when you look at the overall trend for automobiles may not reflect just ICE and hybrids. We think we have a very strong position in that market.

Market continues to be healthy, actually. Still inventory levels are pretty low and the fleet remains pretty aged. So, we're thinking that we're even not back to a healthy level of production. But given that, I think that's how sort of the math would shake out for us. It's just not taking into account the portion that's EVs.

But Mary, what else would you add?

Mary Dean Hall

Chief Financial Officer & Executive Vice President, Ingevity Corp.

A

Yeah. Maybe just another little point of clarity. Focusing on North American production, which, as you know, John, is where we're most profitable. While the forecasts has improved again, actually for the full year. For North America, in particular, it's still down. So it's the latest forecast information we have is that even North America is still down a couple of percent year-over-year, albeit an improvement over the prior forecast. So, I think that in combination with some of the noise that we're also, as we mentioned, factoring in, the fire at [ph] Ford (00:24:13), chip issues, et cetera, that are making noise in the supply chain system of automotive. We feel comfortable with our current guide.

John P. McNulty

Analyst, BMO Capital Markets Corp. (Broker)

Q

Got it. Okay. Fair enough. So, it sounds like it's really a mix there more than anything else. And then, I guess, the other question is just any update on the Nexeon platform and that venture, and how things may be going there?

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Yeah. So, as we mentioned with Nexeon, that's a kind of a far out R&D type of initiative. We do expect their plant to be up and running in the next few months. As a reminder, that's not using our activated carbon for this first generation, but continues to be a strong partnership, and an exciting space that that we look forward to participating in with them.

John P. McNulty

Analyst, BMO Capital Markets Corp. (Broker)

Q

Got it. Thanks very much for the color.

David H. Li

President, Chief Executive Officer & Director, Ingevity Corp.

A

Thanks.

Operator: Thank you. [Operator Instructions] As we have no additional questions waiting at this time, I would now like to pass it back over to John Nypaver for any closing remarks.

John E. Nypaver, Jr.

Vice President, Treasurer & Investor Relations, Ingevity Corp.

Thanks, Bailey. That concludes our call. Registration for the Strategic Portfolio Update is now open on our Investor website under Events. We will also issue a press release with more details later today. If there are any

questions, please feel free to reach out to me directly. My contact information can be found in the earnings release and slide deck. Thank you for your interest in Ingevity.

Operator: This concludes today's call. Thank you, all, for your participation. You may now disconnect your lines.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.