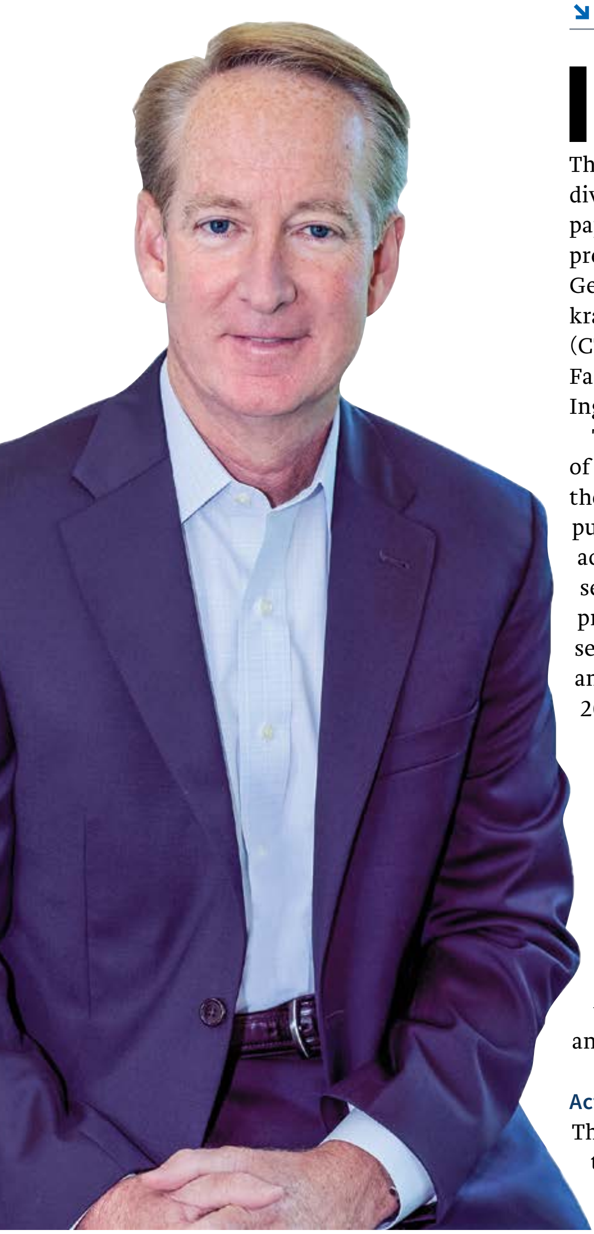
AS SEEN ON
chemweek.com

IHS Markit

Chemical Week

Ingevity growth strategy takes root

WestRock pine chemicals spinoff now free to look at acquisitions



Robert Westervelt

Ingevity (Charleston, South Carolina) sees a forest of opportunities from specialty chemicals derived from trees. The company originated as the chemicals division of MeadWestvaco Corporation, a paper and packaging company that was a predecessor to WestRock (Atlanta, Georgia), based on by-products of the kraft-pulping process, mainly crude tall oil (CTO), lignin, and hardwood sawdust. Facing activist pressure, WestRock spun off Ingevity to shareholders in May 2016.

The company emerges from the shadow of a larger paper and packaging firm with the flexibility and financial resources to pursue multiple growth opportunities across attractive specialty chemical segments, says Michael Wilson, Ingevity president and CEO. Wilson previously had senior leadership positions at Albemarle and FMC before joining Ingevity in late 2015.

The company expects to deliver 2017 sales of \$930–\$950 million, up 2–5% from last year. Adjusted EBITDA is expected in the range of \$215–\$225 million, as is growth in the high single- to low-double-digit range, on growth in higher-margin performance materials and performance chemicals' pavement technologies applications and volume growth in oilfield technologies and industrial specialties.

Activated carbon drives growth

The separation from WestRock has brought the spectacular opportunity of activated carbon into clearer—and public—focus. The business operates as Ingevity's performance materials segment, a supplier of wood-based, chemically activated carbon products primarily for use in automotive gasoline vapor emission control systems. Segment sales grew 17%, to \$301 million last year. Operating profit was up 34%, to \$106.9 million. Segment EBITDA margin for 2016 was a startling 41%, due to a leading market and technology position in high-growth automotive applications for vapor emission control.

"It's a market opportunity that we see basically doubling over a 5–7 year period," Wilson says. "That implies top-line revenue growth in the mid-teens."

Increasingly stringent standards for gasoline vapor emissions control in the United States and Canada are driving demand. Other countries have lagged, but key markets such as China in particular and Brazil and Europe as well are expected to phase in more stringent vapor emissions standards. Ingevity began sales from a new Zhuhai, China, facility last year to meet increasing Asia demand.

The near-term growth driver remains adoption of tier-3 US standards for evaporative emissions, Wilson says. The standard applies to 40% of model-year 2017 vehicles and ramps up in increments over the next five years to 100% of model-year 2022 cars. "And then, what is also going to kick in for 2019 and 2020 are the new regulations that have been promulgated in China as well as Europe."

The company's strong technology position, including patent protection for its canister bleed emissions technology, and a 40-year history in the business, provide a strong position. "Sales last year were a little over \$300 million," Wilson says. "And even if you're talking about a doubling of the revenue, it's still a niche market." Wilson says that despite their leadership position in the market, they keep a watchful eye on competitors. "Still, when you look at the capital investment required, the technical investments that are necessary, as well as the qualification requirements with OEMs, the adoption timeline creates challenges for competitors."

Restoring pine chemicals performance

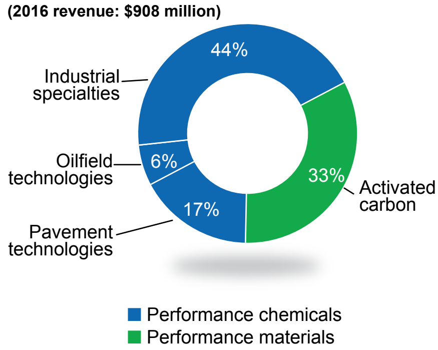
Performance chemicals, which accounts for two-thirds of sales, sells specialty chemicals generally derived from CTO. Products include pine chemicals used in asphalt paving, adhesives, agchem dispersants, printing inks, lubricants, oilfield, and other industrial specialty applications. Segment net sales for the performance chemicals segment were $607.3 million, down 13%. Segment operating income was $56.7 million, down 35%, hurt by weakness in certain industrial specialties and oilfield technologies.

"We recognize that the performance chemicals segment is in need of a turnaround," Wilson says. The business had previously enjoyed margins of 18–20% in 2003–06. "We finished 2016 at around 13%. We have a clear plan on how we will get back to that 18–20%." Cost reduction efforts, including the rationalization of production in Brazil, are helping to improve margin, and the company expects near-term relief of raw material costs as long-term CTO contracts reset on more favorable terms.

The segment is focusing on industries that are fast-growing and higher-margin, such as pavement technologies. "As those applications become a more significant part of the segment, mix will improve. And the rest of it is just continuing to execute on what we always must do, which is to innovate and grow new applications and opportunities. I think it's 24–36 months before we get back to that historical rate, but we believe it's very achievable."

Ingevity at a glance

(2016 revenue: $908 million)



Source: Ingevity (Charleston, South Carolina).

Roughly 80% of Ingevity's CTO supply is sold as higher-value derivatives, and the company aims to push that higher. "Our strategy is to shift farther and farther downstream," Wilson says. "We feel that the more that we can sell derivatives, the more value that we can capture for Ingevity," Wilson says.

> "We are intent on creating a specialty chemicals leader."
>
> **Michael Wilson**
> Ingevity CEO

Ready to deal

With the IPO completed, the focus is driving the company's growth strategy organically and through acquisitions, Wilson says. "One of the primary drivers in spinning out as an independent company is to get both the strategic and financial flexibility for inorganic growth," Wilson says. "We used the latter half of 2016 as an opportunity to get alignment with our board on strategy and also to put the processes and the resources in place so we could begin to screen for inorganic growth opportunities. It's clearly part of our strategy."

Nearly all of the growth emphasis was on organic expansion prior to the spinoff. WestRock invested heavily, nearly $250 million in capital expenditures over the past three years, a rate nearly triple depreciation, but shied away from acquisitions, as chemicals were not core.

That has changed now that Ingevity is a focused, and public specialty chemical player. "I don't think we're limiting ourselves to pine chemicals, per se." Wilson says. "I look at it more in terms of the markets and the applications we serve, and whether there are products or technologies that are complementary or very close adjacencies. I do feel an obligation to exhaust near-in opportunities before we start looking at a third leg or something transformational. As a new public company, I think we need to focus closer into what we already know."

Focus will help, he adds. "We are intent on growing Ingevity into a specialty chemicals leader," Wilson says. "We truly believe that we are building something very new and very special." ■