Ingevity Corp
Form 10-Q
May 02, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-37586

INGEVITY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	47-4027764
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5255 Virginia Avenue
North Charleston, South Carolina 29406
(Address of principal executive offices) (Zip code)

843-740-2300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit such files). Yes x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No x

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock ($0.01 par value)	NGVT	New York Stock Exchange

The Registrant had 41,845,429 shares of common stock, $0.01 par value, outstanding at April 30, 2019.

Ingevity Corporation
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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
INGEVITY CORPORATION
Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,	
In millions, except per share data	2019	2018
Net sales	$276.8	$235.2
Cost of sales	179.7	150.1
Gross profit	97.1	85.1
Selling, general and administrative expenses	39.1	26.5
Research and technical expenses	5.1	5.0
Restructuring and other (income) charges, net	—	(0.6)
Acquisition-related costs	22.8	3.8
Other (income) expense, net	(3.7)	(1.2)
Interest expense, net	11.1	6.1
Income (loss) before income taxes	22.7	45.5
Provision (benefit) for income taxes	—	9.7
Net income (loss)	22.7	35.8
Less: Net income (loss) attributable to noncontrolling interests	—	5.0
Net income (loss) attributable to Ingevity stockholders	$22.7	$30.8
Per share data		
Basic earnings (loss) per share attributable to Ingevity stockholders	$0.54	$0.73
Diluted earnings (loss) per share attributable to Ingevity stockholders	$0.54	$0.72

The accompanying notes are an integral part of these financial statements.

INGEVITY CORPORATION
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

In millions	Three Months Ended March 31, 2019	2018
Net income (loss)	$22.7	$35.8
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	9.4	3.9
Derivative instruments:		
Unrealized gain (loss), net of tax provision (benefit) of zero and zero	0.1	0.1
Reclassifications of deferred derivative instruments (gain) loss, included in net income (loss), net of tax (provision) benefit of ($0.1) and zero	(0.4)	—
Total derivative instruments, net of tax provision (benefit) of $0.1 and zero	(0.3)	0.1
Other comprehensive income (loss), net of tax provision (benefit) of $0.1 and zero	9.1	4.0
Comprehensive income (loss)	31.8	39.8
Less: Comprehensive income (loss) attributable to noncontrolling interests	—	5.0
Comprehensive income (loss) attributable to Ingevity stockholders	$31.8	$34.8

The accompanying notes are an integral part of these financial statements.

INGEVITY CORPORATION
Condensed Consolidated Balance Sheets

In millions, except share and par value data	March 31, 2019	December 31, 2018
Assets	(Unaudited)	
Cash and cash equivalents	$ 38.4	$ 77.5
Accounts receivable, net of allowance of $0.4 million at March 31, 2019 and December 31, 2018, respectively	151.0	118.9
Inventories, net	229.3	191.4
Prepaid and other current assets	36.3	34.9
Current assets	455.0	422.7
Property, plant and equipment, net	628.5	523.8
Operating lease assets, net	59.7	—
Goodwill	431.6	130.7
Other intangibles, net	414.9	125.6
Deferred income taxes	3.4	2.9
Restricted investment	71.7	71.2
Other assets	42.4	38.3
Total Assets	$ 2,107.2	$ 1,315.2
Liabilities		
Accounts payable	$ 119.8	$ 92.9
Accrued expenses	26.1	36.7
Accrued payroll and employee benefits	16.0	42.0
Current operating lease liabilities	17.9	—
Notes payable and current maturities of long-term debt	18.0	11.2
Income taxes payable	0.5	0.5
Current liabilities	198.3	183.3
Long-term debt including finance lease obligations	1,403.2	741.2
Noncurrent operating lease liabilities	42.0	—
Deferred income taxes	85.6	36.9
Other liabilities	19.4	15.1
Total Liabilities	1,748.5	976.5
Commitments and contingencies (Note 15)		
Equity		
Preferred stock (par value $0.01 per share; 50,000,000 shares authorized; zero issued and outstanding at March 31, 2019 and December 31, 2018)	—	—
Common stock (par value $0.01 per share; 300,000,000 shares authorized; 42,659,316 and 42,331,913 issued; 41,823,723 and 41,693,261 outstanding at March 31, 2019 and December 31, 2018)	0.4	0.4
Additional paid-in capital	103.8	98.3
Retained earnings	336.2	313.5
Accumulated other comprehensive income (loss)	(8.6)	(17.7)
Treasury stock, common stock, at cost (835,593 shares at March 31, 2019; 638,652 shares at December 31, 2018)	(73.1)	(55.8)
Total Equity	358.7	338.7
Total Liabilities and Equity	$ 2,107.2	$ 1,315.2

The accompanying notes are an integral part of these financial statements.

INGEVITY CORPORATION
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Three Months Ended March 31, 2019	2018
Cash provided by (used in) operating activities:		
Net income (loss)	$22.7	$35.8
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	18.5	11.5
Deferred income taxes	(0.4)	0.6
Share-based compensation	4.1	3.1
Pension and other postretirement (benefit) costs	0.3	0.4
Other non-cash items	0.1	1.5
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(16.1)	(13.4)
Inventories, net	(15.0)	(23.1)
Prepaid and other currents assets	0.6	1.6
Planned major maintenance outage	(2.0)	(0.3)
Accounts payable	15.4	8.9
Accrued expenses	(12.4)	(1.6)
Accrued payroll and employee benefit costs	(26.6)	(23.4)
Income taxes	(0.2)	8.0
Changes in other operating assets and liabilities, net	3.0	0.1
Net cash provided by (used in) operating activities	$(8.0)	$9.7
Cash provided by (used in) investing activities:		
Capital expenditures	$(28.1)	$(13.3)
Payments for acquired businesses, net of cash acquired	(537.9)	(315.0)
Other investing activities, net	(3.3)	0.9
Net cash provided by (used in) investing activities	$(569.3)	$(327.4)
Cash provided by (used in) financing activities:		
Proceeds from revolving credit facility	$714.2	$—
Proceeds from long-term borrowings	375.0	300.0
Payments on revolving credit facility	(421.1)	—
Payments on long-term borrowings	(113.1)	—
Debt issuance costs	(1.8)	(5.7)
Borrowings (repayments) of notes payable and other short-term borrowings, net	2.1	—
Tax payments related to withholdings on vested equity awards	(14.3)	(1.5)
Proceeds and withholdings from share-based compensation plans, net	1.7	0.5
Repurchases of common stock under publicly announced plan	(3.3)	(3.1)
Noncontrolling interest distributions	—	(5.3)
Net cash provided by (used in) financing activities	$539.4	$284.9
Increase (decrease) in cash, cash equivalents and restricted cash	(37.9)	(32.8)
Effect of exchange rate changes on cash	(0.1)	(0.1)
Change in cash, cash equivalents, and restricted cash[1]	(38.0)	(32.9)
Cash, cash equivalents, and restricted cash at beginning of period	77.5	87.9
Cash, cash equivalents, and restricted cash at end of period [1]	$39.5	$55.0

[1] Includes restricted cash of $1.1 million and zero and cash and cash equivalents of $38.4 million and $55.0 million as of March 31, 2019 and 2018, respectively. Restricted cash is included within "Prepaid and Other Current Assets" within the condensed consolidated balance sheets.

Supplemental cash flow information:		
Cash paid for interest, net of capitalized interest	$14.4	$6.0
Cash paid for income taxes, net of refunds	0.5	0.3
Purchases of property, plant and equipment in accounts payable	6.6	3.8
Leased assets obtained in exchange for new finance lease liabilities	—	—
Leased assets obtained in exchange for new operating lease liabilities	—	—

The accompanying notes are an integral part of these financial statements.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
March 31, 2019
(Unaudited)

Note 1: Background
Ingevity Corporation ("Ingevity," "the Company," "we," "us," or "our") is a leading global manufacturer of specialty chemicals and high performance activated carbon materials. We provide innovative solutions to meet our customers' unique and demanding requirements through proprietary formulated products. We report in two business segments, Performance Materials and Performance Chemicals.
Our Performance Materials segment consists of our automotive technologies and process purifications product lines. Performance Materials manufactures products in the form of powder, granular, extruded pellets, extruded honeycombs, and activated carbon sheets. Automotive technologies products are sold into gasoline vapor emission control applications within the automotive industry, while process purification products are sold into the food, water, beverage, and chemical purification industries.
Our Performance Chemicals segment consists of our pavement technologies, oilfield technologies, industrial specialties, and engineered polymers (acquired in 2019; see Note 4 for more information) product lines. Performance Chemicals manufactures products derived from crude tall oil ("CTO") and lignin extracted from the kraft paper making process as well as caprolactone monomers and derivatives derived from cyclohexanone and hydrogen peroxide. Performance Chemicals products serve as critical inputs used in a variety of high performance applications, including pavement preservation, pavement adhesion promotion, and warm mix paving (pavement technologies product line), oil well service additives, oil production, and downstream application chemicals (oilfield technologies product line), printing inks, adhesives, agrochemicals, lubricants, and industrial intermediates (industrial specialties product line), coatings, resins, elastomers, adhesives, and bio-plastics (engineered polymers product line).
Note 2: Basis of Consolidation and Presentation
These unaudited Condensed Consolidated Financial Statements reflect the consolidated operations of the Company and have been prepared in accordance with United States Securities and Exchange Commission ("SEC") interim reporting requirements. Accordingly, the accompanying Condensed Consolidated Financial Statements do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for full financial statements and should be read in conjunction with the Annual Consolidated Financial Statements for the years ended December 31, 2018, 2017 and 2016, collectively referred to as the "Annual Consolidated Financial Statements" included in our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Annual Report").
In the opinion of management, the Condensed Consolidated Financial Statements contain all adjustments, which include only normal recurring adjustments, necessary to fairly state the condensed consolidated results for the interim periods presented. The consolidated results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.
Certain prior year amounts have been reclassified to conform with the current year's presentation.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
March 31, 2019
(Unaudited)

Note 3: New Accounting Guidance
The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the sole source of authoritative GAAP other than SEC issued rules and regulations that apply only to SEC registrants. The FASB issues an Accounting Standards Update (ASU) to communicate changes to the codification. The Company considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are not expected to have a material impact on the consolidated financial statements.

Recently Adopted Accounting Pronouncements
In August 2018, the FASB issued ASU 2018-13 "Fair Value Measurement (Topic 820) Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." This ASU eliminates, amends, and adds disclosure requirements for fair value measurements. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We adopted this standard on January 1, 2019. The impact of adoption did not have a material impact on our Condensed Consolidated Financial Statements and related disclosures.
In June 2018, the FASB issued ASU 2018-07 "Compensation-Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting." This ASU provides for a single accounting model for all share-based payments, with the employee based guidance now applying to nonemployee share-based transactions. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We adopted this standard on January 1, 2019. The impact of adoption did not have a material impact on our Condensed Consolidated Financial Statements and related disclosures.
In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)." Under the new guidance, lessees are required to recognize for all leases (with the exception of short-term leases) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Since the issuance of ASU 2016-02, the FASB issued several amendments that clarify certain points in Topic 842, including ASU 2018-20 ("Lease (Topic 842): Narrow-Scope Improvements for Lessors"), ASU 2018-01 ("Land Easement Practical Expedient"), ASU 2018-10 ("Codification Improvements"), ASU 2018-11 ("Targeted Improvements") and ASU 2019-01 (“Codification Improvements”). ASU 2016-02 and all subsequent amendments will herein be referred to as ASC 842. We adopted ASC 842 utilizing the modified retrospective approach as of January 1, 2019. The modified retrospective approach we selected provides a method of transition allowing for the recognition of existing leases as of the beginning of the period of adoption (i.e. January 1, 2019), and which does not require the adjustment of comparative periods.
We have elected the practical expedient package upon transition that does not require reassessment of prior conclusions related to contracts containing a lease, lease classification, and initial direct costs for any leases that existed at the period of adoption of ASC 842. We also adopted the practical expedient to apply hindsight in determining lease term; we chose to account for lease and non-lease components together as a single component for all lease asset classes; and we elected the practical expedient related to land easements allowing us to carry-forward our current accounting treatment for land easements on existing agreements. We include the option to extend or terminate a lease when it is reasonably certain that we will exercise the option. In addition, we elected the accounting policy to not apply the balance sheet recognition criteria required in ASC 842 to leases with an initial lease term of twelve months or less by class of underlying asset for all lease asset classes. Payments for these leases are recognized on a straight-line basis over the lease term. As a lessee, most of our leases under prior guidance ASC 840 “Leases” were classified as operating leases, and therefore, were not recorded on the condensed consolidated balance sheet but were recorded as expense in the condensed consolidated statement of operations as incurred. We cataloged our existing

lease contracts and implemented changes to our systems to perform the lease accounting and reporting under the new guidance going forward.

The adoption of ASC 842 resulted in the recognition of lease assets and liabilities. Our existing capital leases were accounted for as finance leases upon adoption of ASC 842. The impact of ASC 842 to our condensed consolidated statements of operations and condensed consolidated statement of cash flows for the period ended March 31, 2019 was not material. Additionally, we do not expect a significant impact in the timing of expense recognition based on the classification of leases as either operating or financing.

Ingevity Corporation
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(Unaudited)

In accordance with ASC 842, the impact of adoption on our condensed consolidated balance sheet was as follows:

In millions	Balance at December 31, 2018	Adjustments		Balance at January 1, 2019
Assets				
Prepaid and other current assets	$ 34.9	$ (0.2)	(1)	$ 34.7
Operating lease assets, net	—	64.6	(2)	64.6
Liabilities				
Current operating lease liabilities	—	18.4	(3)	18.4
Noncurrent operating lease liabilities	—	46.0	(4)	46.0

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(1) Represents prepaid rent reclassified to operating lease assets.
(2) Represents capitalization of operating lease assets and straight-line rent accrual.
(3) Represents recognition of the current portion of operating lease liabilities.
(4) Represents recognition of the noncurrent operating lease liabilities.

Recently Issued Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-15 "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." This ASU requires companies to defer specific implementation costs incurred in a Cloud Computing Arrangement ("CCA") that are often expensed as incurred under current GAAP, and recognize the expense over the noncancellable term of the CCA. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Although we are still evaluating the impact of this new standard, we do not believe that the adoption will materially impact our Condensed Consolidated Financial Statements and related disclosures.

Note 4: Acquisitions

Perstorp Holding AB's Caprolactone Business

On December 10, 2018, we entered into an agreement for the sale and purchase of Perstorp UK Ltd. (the “Caprolactone Agreement”) with Perstorp Holding AB, a company registered in Sweden that develops, manufactures, and sells specialty chemicals (the “Seller”). Pursuant to the Caprolactone Agreement, we agreed to purchase the shares held by the Seller in Perstorp UK Ltd., including the Seller’s entire caprolactone business ("Caprolactone Business"), in exchange for €570.9 million, less assumed debt and other miscellaneous transaction costs, as further defined in the Caprolactone Agreement (the “Purchase Price”), plus interest accrued on the Purchase Price (herein referred to as the “Caprolactone Acquisition”).

On February 13, 2019, pursuant to the terms and conditions set forth in the Caprolactone Agreement, we completed the Caprolactone Acquisition for an aggregate purchase price of €578.9 million ($652.5 million), less assumed debt of €100.4 million ($113.1 million). At closing, the assumed debt was settled with an affiliate of the Seller. The Caprolactone Acquisition will be integrated into our Performance Chemicals segment and included within our Engineered Polymers product line. Our revolving credit facility was utilized as the primary source of funds, along with available cash on hand, to fund the Caprolactone Acquisition.

The Caprolactone Acquisition contributed Net sales and Income (loss) before income taxes of $24.2 million and $(2.3) million, respectively, to the consolidated operating results of Ingevity for the period from February 13, 2019 through March 31, 2019.

Preliminary Purchase Price Allocation

Caprolactone Acquisition is considered a business under business combinations accounting guidance, and therefore we applied acquisition accounting. Acquisition accounting requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The aggregate purchase price noted above was allocated to the major categories of assets acquired and liabilities assumed based upon their estimated fair values at the acquisition date using primarily Level 2 and Level 3 inputs. These Level 2 and Level 3 valuation inputs include an estimate of future cash flows and discount rates. Additionally, estimated fair values are based, in part, upon outside appraisals for certain assets, including specifically-identified intangible assets. See Note 6 for additional explanation of Level 2 and Level 3 inputs.

The allocation of the purchase price to the assets acquired and liabilities assumed, including the residual amount allocated to goodwill, is based upon preliminary information and is subject to change within the measurement period (up to one year from the acquisition date) as additional information concerning final asset and liability valuations is obtained. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair value of inventories, property, plant and equipment, and intangible assets. During the measurement period, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in revised estimated values of those assets or liabilities as of that date, we will revise the preliminary purchase price allocation. The effect of measurement period adjustments to the estimated fair values will be reflected as if the adjustments had been completed on the acquisition date. The impact of all changes that do not qualify as measurement period adjustments will be included in current period earnings.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
March 31, 2019
(Unaudited)

Preliminary Purchase Price Allocation

In millions	Weighted Average Amortization Period	Fair Value
Cash and cash equivalents		$0.7
Accounts receivable, net		15.7
Inventories [(1)]		21.7
Prepaid and other current assets		1.3
Property, plant and equipment		88.8
Intangible assets [(2)]		
Customer relationships	17 years	159.0
Developed technology	12 years	64.8
Brands	Indefinite	67.0
Non-compete agreement	3 years	0.5
Goodwill [(3)]		295.4
Other assets		1.3
Total fair value of assets acquired		$716.2
Accounts payable		13.6
Accrued expenses		2.2
Long-term debt		113.1
Deferred income taxes		47.9
Total fair value of liabilities assumed		$176.8
Cash and restricted cash acquired[(4)]		1.5
Total cash paid, less cash and restricted cash acquired		$537.9

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(1) Fair value of finished good inventories acquired included a step-up in the value of approximately $8.4 million, all of which was expensed in the three months ended March 31, 2019. The expense is included in "Cost of sales" on the condensed consolidated statement of operations. Inventories are accounted for on a first-in, first-out basis of accounting.
(2) The aggregate amortization expense was $1.9 million for the three months ended March 31, 2019. Estimated amortization expense is as follows: 2019 - $13.1 million, 2020 - $14.9 million, 2021 - $14.9 million, 2022 - $14.8 million and 2023 - $14.8 million.
(3) Goodwill consists of estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. See Note 9 for further information regarding our allocation of goodwill among our reportable segments. None of the acquired goodwill will be deductible for income tax purposes.
(4) Cash and cash equivalents and restricted cash were $0.7 million and $0.8 million, respectively, at closing. Restricted cash is included in "Prepaid and other current assets" on the consolidated balance sheet.

Georgia Pacific's Pine Chemical Business

On March 8, 2018, pursuant to the terms and conditions set forth in the asset purchase agreement with Georgia-Pacific Chemicals LLC, Georgia-Pacific LLC (together with Georgia-Pacific Chemicals LLC, "GP") and Ingevity Arkansas, LLC, a wholly-owned subsidiary of Ingevity, we completed the acquisition (the "Pine Chemical Acquisition") of substantially all the assets primarily used in GP's pine chemical business (the "Pine Chemical Business") for an aggregate purchase price of $315.5 million. The aggregate purchase price was finalized during the third quarter of 2018 with a final payment to GP in the amount of $0.5 million to finalize the net working capital acquired on March 8, 2018. The Pine Chemical Business included the assets and facilities related to tall oil fractionation operations and the production or modification of tall oil fatty acids, tall oil rosins, rosin derivatives and formulated products. In addition, on March 8, 2018, we entered into a 20-year, market-based CTO supply contract with certain of Georgia-Pacific’s paper mill operations.

Ingevity Corporation
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The Pine Chemical Business was integrated into our Performance Chemicals segment and has been included within our results of operations since March 8, 2018. The Pine Chemical Business contributed Net sales and Income before income taxes of $4.8 million and $0.3 million, respectively, to the consolidated operating results of Ingevity for the period from March 8, 2018 through March 31, 2018.

Purchase Price Allocation
The following table summarizes the consideration paid for the Pine Chemical Business and the assets acquired and liabilities assumed:
Purchase Price Allocation

In millions	Weighted Average Amortization Period	Fair Value
Accounts receivable		$16.2
Inventories (1)		9.4
Property, plant and equipment		39.3
Intangible assets (2)		
Patents	12 years	1.9
Non-compete agreement	3 years	2.2
Customer relationships	11 years	129.0
Goodwill (3)		118.7
Other assets		0.1
Total fair value of assets acquired		316.8
Accounts payable		0.8
Accrued expenses		0.5
Total fair value of liabilities assumed		$1.3
Total cash paid		$315.5

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(1) Fair value of finished goods inventories acquired included a step-up in the value of approximately $1.4 million, of which $0.8 million was expensed in the three months ended March 31, 2018. The expense is included in "Cost of sales" on the consolidated statement of operations.
(2) The aggregate amortization expense for the three months ended March 31, 2019 and 2018 was $3.2 million and $0.7 million, respectively. Estimated amortization expense is as follows: 2019 - $12.7 million, 2020 - $12.7 million, 2021 - $12.0 million, 2022 - $11.8 million, and 2023 - $11.8 million.
(3) Goodwill largely consists of expected cost synergies and economies of scale resulting from the business combination. We expect the full amount to be deductible for income tax purposes.

Unaudited Pro Forma Financial Information
The following unaudited pro forma results of operations assume that the Caprolactone Acquisition as well as the acquisition of the Pine Chemical Business occurred at the beginning of the periods presented. These unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations would have been if the acquisitions occurred at the beginning of the periods presented, nor are they indicative of future results of operations. The pro forma results include additional interest expense on the debt

issued to finance the acquisition, amortization and depreciation expense based on the estimated fair value and useful lives of intangible assets and tangible assets, and related tax effects. The pro forma results presented below are adjusted for the removal of Acquisition and other related costs of $31.2 million and $4.6 million for the three months ended March 31, 2019 and 2018, respectively.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
March 31, 2019
(Unaudited)

	Three Months Ended March 31,	
In millions	2019	2018
Net sales	$294.5	$301.9
Income (loss) before income taxes	53.5	59.2
Diluted earnings (loss) per share attributable to Ingevity stockholders	$1.14	$0.98

Acquisition and other related costs

Costs incurred to complete and integrate the acquisitions noted above into our Performance Chemicals segment are expensed as incurred on our condensed consolidated statement of operations. The following table summarizes the costs incurred associated with these combined activities.

	Three Months Ended March 31,	
In millions	2019	2018
Legal and professional service fees	$10.1	$3.8
Loss on hedging purchase price	12.7	—
Acquisition-related costs	$22.8	$3.8
Inventory fair value step-up amortization (1)	8.4	0.8
Acquisition and other-related costs	$31.2	$4.6

(1) Included within "Cost of sales" on the condensed consolidated statement of operations.

Note 5: Revenues

Ingevity's operating segments are (i) Performance Materials and (ii) Performance Chemicals. A description of both operating segments is included in Note 1.

Net sales in both of our reportable segments are based on the sale of manufactured products. Net sales are recognized when obligations under the terms of a contract with our customer are satisfied; generally, this occurs with the transfer of control of our products. Since net sales are derived from product sales only, we have disaggregated our net sales by our product lines within each reportable segment. Net sales are measured as the amount of consideration we expect to receive in exchange for transferring goods. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Sales returns and allowances are not a normal practice in the industry and are not significant. Shipping and handling fees billed to customers continue to be included with Net sales. Certain customers may receive cash-based incentives, including discounts and volume rebates, which are accounted for as variable consideration and included in Net sales. Incidental items immaterial in the context of the contract are recognized as expense. If we pay for the freight and shipping, we recognize the cost when control of the product has transferred to the customer as an expense in Cost of sales on the consolidated statement of operations. Although very rare, from time to time we incur expenses to obtain a sales contract. In these cases, if these costs are for orders that are fulfilled in one year or less, we expense these costs as they are incurred. Because the period between when we transfer a contracted good to a customer and when the customer pays for that good will be one year or less, we elect not to adjust the contracted amount of consideration for the effects of any significant financing component.

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Disaggregation of Revenue

The following tables present our Net sales disaggregated by product line and geography.

In millions	Three Months Ended March 31,	
	2019	2018
Automotive Technologies product line	$99.7	$85.9
Process Purification product line	9.4	9.6
Performance Materials segment	$109.1	$95.5
Oilfield Technologies product line	29.2	22.4
Pavement Technologies product line	18.5	18.5
Industrial Specialties product line	95.8	98.8
Engineered Polymers product line[1]	24.2	—
Performance Chemicals segment	$167.7	$139.7
Net sales	$276.8	$235.2

(1) Engineered Polymers product line was acquired on February 13, 2019; see Note 4 for more information.

The following table presents our Net sales disaggregated by geography, based on the delivery address of our customer.

In millions	Three Months Ended March 31,	
	2019	2018
North America	$171.7	$154.7
Asia Pacific	49.1	34.0
Europe, Middle East and Africa	51.2	40.4
South America	4.8	6.1
Net sales	$276.8	$235.2

Contract Balances

The following table provides information about contract assets and contract liabilities from contracts with customers. The contract assets primarily relate to our rights to consideration for products produced but not billed at the reporting date on contracts with certain customers. The contract assets are recognized as accounts receivables when the rights become unconditional and the customer has been billed. Contract liabilities represent obligations to transfer goods to a customer for which we have received consideration from our customer. For all periods presented we had no contract liabilities.

In millions	Contract Asset[1]	
	March 31, 2019	March 31, 2018

Beginning balance	$5.1	$ 4.4
Contract asset additions	4.7	2.2
Reclassification to accounts receivable, billed to customers	(4.5)	(2.3)
Ending balance	$5.3	$ 4.3

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(1) Included within "Prepaid and other current assets" on the condensed consolidated balance sheet.

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Note 6: Financial Instruments, Risk Management, and Fair Value Measurements

Financial Instruments and Risk Management

Ingevity's operations are exposed to market risks, such as changes in foreign currency exchange rates and commodity prices due to transactions denominated in a variety of foreign currencies and purchases of certain commoditized raw materials and inputs. Changes in these rates and prices may have an impact on Ingevity's future cash flow and earnings. To mitigate these market risks and their effects, we enter into derivative financial instruments which are governed by policies, procedures and internal processes set forth by our Board of Directors.

Our risk management program also addresses counterparty credit risk by selecting only major financial institutions with investment grade ratings. Once the derivative financial instrument is entered into, we continuously monitor the financial institutions' credit ratings and our credit risk exposure held by the financial institution. When appropriate, we reallocate exposures across multiple financial institutions to limit credit risk. If a counterparty fails to fulfill its performance obligations under the derivative financial instrument, then Ingevity is exposed to credit risk equal to the fair value of the financial instrument. Derivative assets and liabilities are reported on a net basis by counterparty, to the extent governed by master netting agreements, in the consolidated balance sheets. Due to our proactive mitigation of these potential credit risks, we anticipate performance by our counterparties to these contracts and therefore no material loss is expected.

Foreign Currency Exchange Risk Management

We manufacture and sell our products in several countries throughout the world and, thus, we are exposed to changes in foreign currency exchange rates. To manage the volatility relating to these exposures, we net the exposures on a consolidated basis to take advantage of natural offsets. To manage the remaining exposure, from time to time, we utilize forward currency exchange contracts and zero cost collar option contracts to minimize the volatility to earnings and cash flows resulting from the effect of fluctuating foreign currency exchange rates on export sales denominated in foreign currencies (principally the euro). These contracts are generally designated as cash flow hedges. As of March 31, 2019, there were no open foreign currency derivative contracts. The fair value of the foreign currency hedge was zero and $0.2 million at March 31, 2019 and December 31, 2018, respectively.

Commodity Price Risk Management

Certain energy sources used in our manufacturing operations are subject to price volatility caused by weather, supply and demand conditions, economic variables, and other unpredictable factors. This volatility is primarily related to the market pricing of natural gas. To mitigate expected fluctuations in market prices and the volatility to earnings and cash flow resulting from changes to pricing of natural gas purchases, from time to time, we will enter into swap contracts and zero cost collar option contracts and designate these contracts as cash flow hedges. As of March 31, 2019, we had 1.6 million and 1.2 million mmBTUS (millions of British Thermal Units) in aggregate notional volume of outstanding natural gas commodity swap contracts and zero cost collar option contracts, respectively, designated as cash flow hedges. As of March 31, 2019, open commodity contracts hedge forecasted transactions until August 2020. The fair value of the outstanding designated natural gas commodity hedge contracts as of March 31, 2019 and December 31, 2018 was $0.1 million and zero, respectively.

Equity Securities

Our investments in equity securities with a readily determinable fair value totaled $0.4 million at March 31, 2019 and $0.4 million at December 31, 2018. The net realized gain/(loss) recognized during the three months ended March 31, 2019 and 2018 was zero and $(0.3) million, respectively. The unrealized gain/(loss) was zero for both the three months ended March 31, 2019 and 2018. The aggregate carrying value of investments in equity securities where fair value is not readily determinable totaled $1.5 million and $1.5 million as of March 31, 2019 and December 31, 2018, respectively. There were no adjustments to the carrying value of the not readily determinable investments for impairment or observable price changes for the period ended March 31, 2019.

Fair-Value Measurements

We have categorized our assets and liabilities that are recorded at fair value, based on the priority of the inputs to the valuation technique, into a three-level fair-value hierarchy. The fair-value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets and liabilities fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair-value measurement of the instrument.

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The following information is presented for assets and liabilities that are recorded in the condensed consolidated balance sheets at fair value measured on a recurring basis. There were no transfers of assets and liabilities that are recorded at fair value between Level 1 and Level 2 during the period reported. There were no non-recurring fair value measurements in the condensed consolidated balance sheets as of March 31, 2019 or December 31, 2018.

In millions	Level 1(1)	Level 2(2)	Level 3(3)	Total
March 31, 2019				
Assets:				
Equity securities (4)	$ 0.4	$ —	$ —	$ 0.4
Commodity hedging (4)	—	0.1	—	0.1
Deferred compensation plan investments (5)	1.9	—	—	1.9
Total assets	$ 2.3	$ 0.1	$ —	$ 2.4
Liabilities:				
Deferred compensation arrangement (5)	$ 5.4	$ —	$ —	$ 5.4
Separation-related reimbursement awards (6)	0.1	—	—	0.1
Total liabilities	$ 5.5	$ —	$ —	$ 5.5
December 31, 2018				
Assets:				
Equity securities (4)	$ 0.4	$ —	$ —	$ 0.4
Foreign currency hedging (4)	—	0.2	—	0.2
Commodity hedging (4)	—	0.1	—	0.1
Deferred compensation plan investments (5)	1.3	—	—	1.3
Total assets	$ 1.7	$ 0.3	$ —	$ 2.0
Liabilities:				
Deferred compensation arrangement (5)	$ 4.6	$ —	$ —	$ 4.6
Separation-related reimbursement awards (6)	0.1	—	—	0.1
Foreign currency hedging (7)	—	3.9	—	3.9
Commodity hedging (6)	—	0.1	—	0.1
Total liabilities	$ 4.7	$ 4.0	$ —	$ 8.7

(1) Quoted prices in active markets for identical assets.
(2) Quoted prices for similar assets and liabilities in active markets.
(3) Significant unobservable inputs.
(4) Included within "Prepaid and other current assets" on the condensed consolidated balance sheet.
(5) Consists of a deferred compensation arrangement, through which we hold various investment securities, recognized on our balance sheets. Both the asset and liability are recorded at fair value, and are included within "Other assets" and "Other liabilities" on the condensed consolidated balance sheets, respectively.
(6) Included within "Accrued expenses" on the condensed consolidated balance sheet.
(7) At December 31, 2018, this amount represented a non-designated foreign currency derivative associated with the purchase price of our acquisition of the Caprolactone Business, which was settled at the closing of the acquisition for a loss of $16.6 million. The expense recognized during the three months ended March 31, 2019 was $12.7 million. See Note 4 for more information.

At March 31, 2019, the book value of finance lease obligations was $80.0 million and the fair value was $91.7 million. The fair value of our finance lease obligations is based on the period-end quoted market prices for the obligations, using Level 2 inputs.

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The carrying amount, excluding debt issuance fees, of our variable interest rate long-term debt was $1,049.2 million as of March 31, 2019. The carrying value is a reasonable estimate of the fair value of the outstanding debt based on the variable interest rate of the debt.

At March 31, 2019, the book value of our fixed rate debt was $300.0 million, and the fair value was $294.9 million, based on Level 2 inputs. At March 31, 2019, the book value of our Restricted investment was $71.7 million, and the fair value was $70.3 million, based on Level 1 inputs.

The carrying value of our financial instruments: cash and cash equivalents, other receivables, other payables and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments.

Note 7: Inventories, net

In millions	March 31, 2019	December 31, 2018
Raw materials	$ 41.3	$ 36.5
Production materials, stores and supplies	20.1	17.5
Finished and in-process goods	177.4	144.7
Subtotal	238.8	198.7
Less: excess of cost over LIFO cost	(9.5)	(7.3)
Inventories, net	$ 229.3	$ 191.4

Note 8: Property, Plant and Equipment, net

In millions	March 31, 2019	December 31, 2018
Machinery and equipment	$ 929.9	$ 857.2
Buildings and leasehold improvements	118.6	113.1
Land and land improvements	19.6	19.6
Construction in progress	107.8	71.2
Total cost	1,175.9	1,061.1
Less: accumulated depreciation	(547.4)	(537.3)
Property, plant and equipment, net [1]	$ 628.5	$ 523.8

(1) This includes finance leases related to machinery and equipment at our Wickliffe, Kentucky facility of $69.2 million and $69.2 million, and net book value of $6.6 million and $6.7 million at March 31, 2019, and December 31, 2018, respectively. This also includes finance leases related to our Waynesboro, Georgia manufacturing facility for (a) machinery and equipment of $9.3 million and $6.5 million and net book value of $8.5 million and $6.0 million, (b) construction in progress of $14.1 million and $13.7 million and (c) buildings and leasehold improvements of $0.1 million and $0.1 million at March 31, 2019, and December 31, 2018, respectively. Amortization expense associated with these capital leases is included within depreciation expense. The payments remaining under these capital leases obligations are included within Note 16.

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Note 9: Goodwill and Other Intangible Assets, net

In millions	Operating Segments Performance Chemicals	 Performance Materials	Total
December 31, 2018	$126.4	$ 4.3	$130.7
Acquisitions(1)	295.4	—	295.4
Foreign currency translation	5.5	—	5.5
March 31, 2019	$427.3	$ 4.3	$431.6

(1) See Note 4 for more information regarding the Caprolactone Acquisition and related increase in goodwill.

There were no events or circumstances indicating that goodwill might be impaired as of March 31, 2019.
All of our other intangibles, net are related to the Performance Chemicals operating segment. The following table summarizes these assets:

	March 31, 2019			December 31, 2018		
In millions	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
Intangible assets subject to amortization (finite-lived) (1)						
Brands (2)	$11.4	$ 9.8	$1.6	$11.4	$ 9.8	$1.6
Customer contracts and relationships	312.3	35.1	277.2	151.0	30.3	120.7
Developed technology	65.5	0.7	64.8	—	—	—
Other	4.6	1.1	3.5	4.1	0.8	3.3
Total	$393.8	$ 46.7	$347.1	$166.5	$ 40.9	$125.6
Intangible assets not subject to amortization (indefinite life) (1)						
Brands (2)	$67.8	$ —	$67.8	$—	$ —	$—
Total	$67.8	$ —	$67.8	$—	$ —	$—
Total Other intangibles, net	$461.6	$ 46.7	$414.9	$166.5	$ 40.9	$125.6

(1) See Note 4 for more information regarding the Caprolactone Acquisition and related increase in intangible assets.
(2) Represents trademarks, trade names and know-how.

The amortization expense related to our intangible assets in the table above is shown in the table below.

	Three Months Ended March 31,	
In millions	2019	2018
Cost of sales	$0.2	$0.3
Selling, general and administrative expenses	5.3	1.0
Total amortization expense(1)	$5.5	$1.3

(1) See Note 4 for more information about the Caprolactone Acquisition and Pine Chemicals Acquisition, and the related increase in Amortization expense.

Based on the current carrying values of intangible assets, estimated pre-tax amortization expense for the next five years is as follows: 2019 - $27.3 million, 2020 - $28.2 million, 2021 - $27.2 million, 2022 - $26.9 million and 2023 - $26.9 million. The estimated pre-tax amortization expense may fluctuate due to changes in foreign currency.

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Note 10: Debt including Finance Lease Obligations
Current and long-term debt including finance lease obligations consisted of the following:

In millions, except percentages	March 31, 2019 Interest rate	Maturity date	March 31, 2019	December 31, 2018
Revolving Credit Facility [1]	3.75%	2023	$ 293.1	$ —
Term Loan Facilities	3.49%	2022-2023	750.0	375.0
Senior Notes	4.50%	2026	300.0	300.0
Finance lease obligations	7.67%	2027	80.0	80.0
Other	4.95%	2019-2021	6.2	3.9
Total debt including finance lease obligations			1,429.3	758.9
Less: debt issuance costs			8.1	6.5
Total debt including finance lease obligations, net of debt issuance costs			1,421.2	752.4
Less: debt maturing within one year [2]			18.0	11.2
Long-term debt including finance lease obligations			$ 1,403.2	$ 741.2

(1) Letters of credit outstanding under the revolving credit facility were $1.9 million and available funds under the facility were $455.0 million at March 31, 2019.

(2) Debt maturing within one year is included in "Notes payable and current maturities of long-term debt" on the condensed consolidated balance sheets.

Revolving Credit and Term Loan Facility Amendment

On March 7, 2019 , we entered into an Amendment No. 3 (the “Amendment No. 3") and an Incremental Facility Agreement and Amendment No. 4 (the “Amendment No. 4”, together with Amendment No. 3, the “Amendments”) to the Credit Agreement, dated as of March 7, 2016 (as amended, supplemented or otherwise modified prior to the date hereof, including pursuant to the Incremental Facility Agreement and Amendment No. 1, dated as of August 21, 2017 and the Incremental Facility Agreement and Amendment No. 2, dated as of August 7, 2018, the “Existing Credit Agreement”, and as amended by the Amendments, the “Amended Credit Agreement”). Among other things, the Amendments established a new class of incremental term loan commitments in the aggregate principal amount of $375.0 million (the incremental term loans made pursuant thereto, the “Incremental Term A-1 Loans”).

The Incremental Term A-1 Loans, bear interest at either (a) an adjusted base rate or (b) an adjusted LIBOR rate, in each case, plus an applicable margin (the “Applicable Margin”), in the case of base rate loans, ranging between zero and 0.25 percent, and in the case of adjusted LIBOR rate loans, ranging between 0.75 percent and 1.25 percent. The Applicable Margin is based on a total leverage based pricing grid.

As consideration for Amendment No. 3, the Company paid to each lender party thereto a consent fee equal to 0.05 percent of the aggregate principal amount of the commitments and outstanding loans under the Existing Credit Agreement held by such lender immediately prior to the Closing Date. Fees of $1.8 million were incurred to secure the Amended Credit Agreement. These fees have been deferred and will be amortized over the term of the arrangement.

The Incremental Term A-1 Loans are not subject to amortization; the full principal balance is due and payable at maturity on August 7, 2022. The Amended Credit Agreement contains customary affirmative covenants, negative covenants and events of default.

The Company used the proceeds of the Incremental Term A-1 Loans to repay loans outstanding under its revolving credit facility.

Debt Covenants

Our 4.50 percent senior unsecured notes due in 2026 (the "Senior Notes") contain certain customary covenants (including covenants limiting Ingevity's and its restricted subsidiaries’ ability to grant or permit liens on certain property securing debt, declare or pay dividends, make distributions on or repurchase or redeem capital stock, make investments in unrestricted subsidiaries, engage in sale and lease-back transactions, and engage in a consolidation or merger, or sell, transfer or otherwise dispose of all or substantially all of the assets of our and our restricted subsidiaries, taken as a whole) and events of default (subject in certain cases to customary exceptions, as well as grace and cure periods). The occurrence of an event of default under the Senior Notes could result in the acceleration of the Senior Notes and could cause a cross-default that could result in the acceleration of other indebtedness of Ingevity and its subsidiaries.

The Revolving Credit Facility and Term Loan Facilities contain customary default provisions, including defaults for non-payment, breach of representations and warranties, insolvency, non-compliance with covenants and cross-defaults to other material indebtedness. The occurrence of an uncured event of default under the Revolving Credit Facilities and Term Loan Facilities could result in all loans and other obligations becoming immediately due and payable and the facilities being terminated. The Revolving Credit Facility and Term Loan Facilities' financial covenants require Ingevity to maintain on a consolidated basis a maximum total leverage ratio of 4.0 to 1.0 (which may be increased to 4.5 to 1.0 under certain circumstances) and a minimum interest coverage ratio of 3.0 to 1.0. Our actual leverage for the four consecutive quarters ended March 31, 2019 was 3.5, and our actual interest coverage for the four consecutive quarters ended March 31, 2019 was 11.3. We were in compliance with all covenants at March 31, 2019.

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Note 11: Equity
Equity
The table provides a roll forward of equity, equity attributable to Ingevity stockholders, and equity attributable to noncontrolling interests.

	Ingevity Stockholders' Common Stock							
In millions, except per share data in thousands	Shares	Amount	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest	Total Equity
Balance at December 31, 2018	42,332	$ 0.4	$ 98.3	$ 313.5	$ (17.7)	$ (55.8)	$ —	$ 338.7
Net income (loss)	—	—	—	22.7	—	—	—	22.7
Other comprehensive income (loss)	—	—	—	—	9.1	—	—	9.1
Common stock issued	276	—	—	—	—	—	—	—
Exercise of stock options, net	51	—	1.4	—	—	—	—	1.4
Tax payments related to vested restricted stock units	—	—	—	—	—	(14.3)	—	(14.3)
Share repurchase program	—	—	—	—	—	(3.3)	—	(3.3)
Share-based compensation plans	—	—	4.1	—	—	0.3	—	4.4
Balance at March 31, 2019	42,659	$ 0.4	$ 103.8	$ 336.2	$ (8.6)	$ (73.1)	$ —	$ 358.7

	Ingevity Stockholders' Common Stock							
In millions, except per share data in thousands	Shares	Amount	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest	Total Equity
Balance at December 31, 2017	42,209	$ 0.4	$ 140.1	$ 142.8	$ (11.7)	$ (7.7)	$ 14.0	$ 277.9
Net income (loss)	—	—	—	30.8	—	—	5.0	35.8
Other comprehensive income (loss)	—	—	—	—	4.0	—	—	4.0
Common stock issued	56	—	—	—	—	—	—	—
Exercise of stock options, net	5	—	0.1	—	—	—	—	0.1
Tax payments related to vested restricted stock units	—	—	—	—	—	(1.5)	—	(1.5)
Share repurchase program	—	—	—	—	—	(3.1)	—	(3.1)
Noncontrolling interest distributions	—	—	—	—	—	—	(5.3)	(5.3)
Share-based compensation plans	—	—	3.1	—	—	0.4	—	3.5
Adoption of ASC 606	—	—	—	1.6	—	—	—	1.6
Balance at March 31, 2018	42,270	$ 0.4	$ 143.3	$ 175.2	$ (7.7)	$ (11.9)	$ 13.7	$ 313.0

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Accumulated other comprehensive income (loss)
Summarized below is the roll forward of accumulated other comprehensive income (loss), net of tax.

In millions	Foreign currency adjustments	Derivative Instruments	Pension and other postretirement benefits	Total
Accumulated other comprehensive income (loss), net of tax at December 31, 2018	$ (16.4)	$ 0.4	$ (1.7)	$(17.7)
2019 Activity				
Other comprehensive income (loss) before reclassifications	9.4	0.1	—	9.5
Amounts reclassified from accumulated other comprehensive income (loss)	—	(0.4)	—	(0.4)
Accumulated other comprehensive income (loss), net of tax at March 31, 2019	$ (7.0)	$ 0.1	$ (1.7)	$(8.6)

	Foreign currency adjustments	Derivative Instruments	Pension and other postretirement benefits	Total
Accumulated other comprehensive income (loss), net of tax at December 31, 2017	$ (10.1)	$ —	$ (1.6)	$(11.7)
2018 Activity				
Other comprehensive income (loss) before reclassifications	3.9	0.1	—	4.0
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	—
Accumulated other comprehensive income (loss), net of tax at March 31, 2018	$ (6.2)	$ 0.1	$ (1.6)	$(7.7)

Reclassifications of accumulated other comprehensive income (loss)
Reclassifications, net of tax, for the three months ended March 31, 2019 and 2018 of $0.4 million and zero, respectively, relate to commodity derivative instruments and were recorded to "Cost of sales" in the condensed consolidated statement of operations.

Noncontrolling interest acquisition
On August 1, 2018, we completed the acquisition of the remaining 30 percent noncontrolling interest in Purification Cellutions LLC, which was treated as a partnership for tax purposes, for a purchase price of $80.0 million. The acquisition resulted in the elimination of Noncontrolling interest ($11.4 million) and the recognition of a Deferred tax asset ($14.3 million), with the remainder being recorded against Additional paid in capital ($54.3 million) in our Condensed Consolidated Financial Statements.

Share Repurchases
On February 20, 2017, our Board of Directors authorized the repurchase of up to $100.0 million of our common stock. In addition, on November 1, 2018, the Board of Directors approved the authorization for the repurchase of up to an additional $350.0 million of Ingevity’s outstanding common stock. The repurchase program does not include a specific

timetable or price targets and may be suspended or terminated at any time. Shares may be purchased through open market or privately negotiated transactions at the discretion of management based on its evaluation of market prevailing conditions and other factors.

During the three months ended March 31, 2019, we repurchased 40,000 shares of our common stock at a weighted average cost per share of $82.76. At March 31, 2019, $392.7 million remained unused under our Board-authorized repurchase program. We record shares of common stock repurchased at cost as treasury stock, resulting in a reduction of stockholders’ equity in the condensed consolidated balance sheets. When the treasury shares are contributed under our employee benefit plans or issued for

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option exercises, we use a first-in, first-out (“FIFO”) method for determining cost. The difference between the cost of the shares and the market price at the time of contribution to an employee benefit plan is added to or deducted from the related capital in excess of par value of common stock.

Note 12: Retirement Plans

The following table summarizes the components of net periodic benefit cost (income) for our defined benefit pension plans:

	Three Months Ended March 31,			
	Pensions		Other Benefits	
In millions	2019	2018	2019	2018
Components of net periodic benefit cost (income):				
Service cost (1)	$0.3	$0.4	$ —	$ —
Interest cost (2)	0.3	0.2	—	—
Expected return on plan assets (2)	(0.3)	(0.2)	—	—
Amortization of net actuarial and other (gain) loss (2)	—	—	—	—
Net periodic benefit cost (income)	$0.3	$0.4	$ —	$ —

(1) Amounts are recorded to "Cost of sales" on our condensed consolidated statements of operations consistent with the employee compensation costs that participate in the plan.
(2) Amounts are recorded to "Other (income) expense, net" on our condensed consolidated statements of operations.

Contributions

We did not make any voluntary cash contributions to our Union Hourly defined benefit pension plan in the three months ended March 31, 2019. There are no required cash contributions to our Union Hourly defined benefit pension plan in 2019, and we currently have no plans to make any voluntary cash contributions in 2019.

Note 13: Restructuring and Other (Income) Charges, net

We continually perform strategic reviews and assess the return on our operations which sometimes results in a plan to restructure the business. The cost and benefit of these strategic restructuring initiatives are recorded as restructuring and other (income) charges, net in our condensed consolidated statements of operations. These costs are excluded from our operating segment results.

Detail on the restructuring charges and asset disposal activities is provided below.

	Three Months Ended March 31,	
In millions	2019	2018
Restructuring and other (income) charges, net		
Gain on sale of assets and businesses	$ —	$ (0.6)
Total restructuring and other (income) charges, net	$ —	$ (0.6)

2018 activities

In February 2018, we sold assets from the Performance Chemicals derivatives operations in Duque De Caxias, Rio de Janeiro, Brazil. These assets were part of a facility that was closed as a result of a restructuring event in 2016. As a result of this sale, we recorded $0.6 million as a gain on sale of assets in the three months ended March 31, 2018.

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Note 14: Income Taxes
For the three months ended March 31, 2019 and 2018, the effective tax rates, including discrete items, were as follows:

	Three Months Ended March 31,	
	2019	2018
Effective tax rate	— %	21.3 %

We determine our interim tax provision using an Estimated Annual Effective Tax Rate methodology ("EAETR"). The EAETR is applied to the year-to-date ordinary income, exclusive of discrete items. The tax effects of discrete items are then included to arrive at the total reported interim tax provision.
The determination of the EAETR is based upon a number of estimates, including the estimated annual pre-tax ordinary income in each tax jurisdiction in which we operate. As our projections of ordinary income change throughout the year, the EAETR will change period-to-period. The tax effects of discrete items are recognized in the tax provision in the period they occur. Depending on various factors, such as the item's significance in relation to total income and the rate of tax applicable in the jurisdiction to which it relates, discrete items in any quarter may materially impact the reported effective tax rate. As a global enterprise, our tax expense may be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors. As such, there may be significant volatility in interim tax provisions.
The below table provides a reconciliation between our reported effective tax rates and the EAETR.

	Three Months Ended March 31,					
	2019			2018		
In millions, except percentages	Before tax	Tax	Effective tax rate % impact	Before tax	Tax	Effective tax rate % impact
Consolidated operations	$22.7	$—	— %	$45.5	$9.7	21.3 %
Discrete items:						
Restructuring and other (income) charges, net	—	—		(0.6)	—	
Acquisition and other-related costs [(1)]	31.2	5.3		4.6	1.1	
Other tax only discrete items	—	6.7		—	(0.2)	
Total discrete items	31.2	12.0		4.0	0.9	
Consolidated operations, before discrete items	$53.9	$12.0		$49.5	$10.6	
Quarterly effect of changes in the EAETR [(2)]			22.3 %			21.4 %

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(1) See Note 4 for more information on our acquisition and other-related costs.
(2) Increase in EAETR for the three months ended March 31, 2019, as compared to March 31, 2018, is driven primarily by the 30 percent acquisition of our noncontrolling interest in Purifications Cellutions, LLC. ("PurCell") on August 1, 2018. PurCell, prior to the acquisition, was a limited liability company and was treated as a "pass-through" entity for tax purposes. Although we consolidated 100 percent of PurCell, only 70 percent of PurCell's earnings were included in the calculation of Ingevity's provision for income taxes as presented on the Condensed Consolidated Statement of Operations. Post-acquisition, 100 percent of the earnings of the entity are now included in the tax calculation which when combined with other factors including the impact of U.S. Tax

Reform resulted in a slight increase to our effective tax rate.

Note 15: Commitments and Contingencies

Legal Proceedings

We are from time to time, involved in routine litigation and other legal matters incidental to our operations. None of the litigation or other legal matters in which we are currently involved, individually or in the aggregate, is material to our consolidated financial condition, liquidity, or results of operations nor are we aware of any material pending or contemplated proceedings.

Note 16: Leases

Operating Leases

We lease a variety of assets for use in our operations that are classified as operating leases. At contract inception, we determine that a lease exists if the contract conveys the right to control an identified asset for a period of time in exchange for consideration. Control is considered to exist when the lessee has the right to obtain substantially all of the economic benefits from the use of an identified asset as well as the right to direct the use of that asset. If a contract is considered to be a lease, we recognize a lease liability based on the present value of the future lease payments, with an offsetting entry to recognize a right-of-use asset. As a majority of our leases do not provide an implicit rate within the lease, an incremental borrowing rate is used which is based on information available at the commencement date. Upon adoption of ASC 842, we used the incremental borrowing rate on January 1, 2019, for operating leases that commenced prior to that date. The determination of the incremental borrowing rate for each individual lease was impacted by the following assumptions: lease term, currency, and the economic environment for the physical location of the leased asset.

Our operating leases principally relate to the following leased asset classes:

Leased Asset Class	Expected Lease Term
Administrative offices	1 to 10 years
Manufacturing buildings	10 years
Manufacturing and office equipment	3 to 6 years
Warehousing and storage facilities	1 to 10 years
Vehicles	3 to 5 years
Rail cars	2 to 8 years

Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized on a straight-line basis over the expected lease term. Some of our leases include options to extend the lease term at our sole discretion. We account for lease and non-lease components together as a single component for all lease asset classes. The depreciable life of assets and leasehold improvements is limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Certain leases provide for escalation of the lease payments, as well as maintenance costs and taxes increase.

Finance leases

Our finance lease obligations consist of $80.0 million at March 31, 2019 and 2018, respectively, owed to the city of Wickliffe, Kentucky, associated with Performance Materials' Wickliffe, Kentucky manufacturing site, which is due at maturity in 2027. The interest rate on the $80.0 million finance lease obligation is 7.67%. Interest payments are payable semi-annually.

We have a finance lease obligation due in 2031 for certain assets located at our Performance Materials' Waynesboro, Georgia manufacturing facility. The lease is with the Development Authority of Burke County (“Authority”). The Authority established the sale-leaseback of these assets by issuing an industrial development revenue bond. The bond was purchased by Ingevity and the obligations under the finance lease remain with Ingevity. Accordingly, we offset the finance lease obligation and bond on our condensed consolidated balance sheets.

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In millions	Financial Statement Caption	March 31, 2019
Assets		
Operating lease assets, net[(1)]	Operating lease assets, net	$59.7
Finance lease assets, net[(2)]	Property, plant, and equipment, net	29.3
Finance lease assets, net[(2)]	Other assets, net	1.2
Total lease assets		$90.2
Liabilities		
Current		
Operating lease liabilities[(3)]	Current operating lease liabilities	$17.9
Finance lease liabilities	Notes payable and current maturities of long-term debt	—
Noncurrent		
Operating lease liabilities	Noncurrent operating lease liabilities	42.0
Finance lease liabilities	Long-term debt including finance lease obligations	80.0
Total lease liabilities		$139.9

(1) Operating lease assets, net are recorded net of accumulated amortization of $5.1 million as of March 31, 2019.
(2) Finance lease assets are recorded net of accumulated amortization in Property, plant, and equipment, net and Other assets, net of $63.4 million and $0.2 million, as of March 31, 2019, respectively.
(3) Operating lease liabilities includes $0.3 million of accrued interest.

Lease cost

In millions	Financial Statement Caption	Three Months Ended March 31, 2019
Operating lease cost[(1)]	Cost of sales	$ 5.5
	Selling, general, and administrative expenses	0.6
Finance lease cost		
Amortization of leased assets	Cost of sales	$ 0.4
Interest on lease liabilities	Interest expense, net	1.5
Net lease cost[(2)]		$ 8.0

(1) Includes short-term leases and variable lease costs, which are immaterial.
(2) Only on the rare occasion do we sublease our leased assets, as a result this amount excludes sublease income which is immaterial.

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Maturity of Lease Liabilities

In millions	March 31, 2019 Operating leases	Finance leases	Total
2019	$15.8	$3.1	$18.9
2020	17.0	6.1	23.1
2021	13.2	6.1	19.3
2022	9.8	6.1	15.9
2023	6.0	6.1	12.1
2024 and thereafter	6.0	101.6	107.6
Total lease payments	$67.8	$129.1	$196.9
Less: interest	7.9	49.1	57.0
Present value of lease liabilities(1)	$59.9	$80.0	$139.9

(1) As of March 31, 2019, we have additional operating lease commitments that have not yet commenced of approximately $33.9 million for the relocation of our corporate headquarters. The lease is expected to commence in the first half of 2020 and the lease term is for 15 years with two 5 year extensions.

Minimum lease payments pursuant to agreements as of December 31, 2018, under operating leases that have non-cancelable lease terms in excess of 12 months and under capital leases presented in accordance with ASC 840 are as follows:

In millions	Operating leases	Finance leases
2019	$ 21.9	$6.1
2020	17.2	6.1
2021	13.3	6.1
2022	9.7	6.1
2023	6.0	6.1
2024 and thereafter	5.9	101.5
Minimum lease payments	$ 74.0	$132.0
Less: interest		52.0
Capital lease obligations		$80.0

Lease Term and Discount Rate

	As of March 31, 2019
Weighted-average remaining lease term (years)	
Operating leases	4.3
Finance leases	8.9
Weighted-average discount rate	
Operating leases	5.66 %
Finance leases	7.67 %

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Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
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Other Information

In millions	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ (6.1)
Operating cash flows from finance leases	(3.1)
Financing cash flows from finance leases	$ —

Note 17: Segment Information

In millions	Three Months Ended March 31, 2019	2018
Net sales		
Performance Materials	$109.1	$95.5
Performance Chemicals	167.7	139.7
Total net sales [(1)]	$276.8	$235.2
Segment EBITDA [(2)]		
Performance Materials	$51.2	$42.2
Performance Chemicals	32.3	24.9
Total segment EBITDA [(2)]	$83.5	$67.1
Interest expense, net	(11.1)	(6.1)
(Provision) benefit for income taxes	—	(9.7)
Depreciation and amortization - Performance Materials	(5.8)	(5.3)
Depreciation and amortization - Performance Chemicals	(12.7)	(6.2)
Restructuring and other income (charges), net[(3)]	—	0.6
Acquisition and other related costs[(4)]	(31.2)	(4.6)
Net (income) loss attributable to noncontrolling interests	—	(5.0)
Net income (loss) attributable to Ingevity stockholders	$22.7	$30.8

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(1) Relates to external customers only, all intersegment sales and related profit have been eliminated in consolidation.

(2) Segment EBITDA is the primary measure used by the Company's chief operating decision maker to evaluate the performance of and allocate resources among our operating segments. Segment EBITDA is defined as segment revenue less segment operating expenses (segment operating expenses consist of costs of sales, selling, general and administrative expenses, other (income) expense, net, excluding depreciation and amortization). We have excluded the following items from segment EBITDA: interest expense associated with corporate debt facilities, income taxes, depreciation, amortization, restructuring and other (income) charges, acquisition and other related costs, pension and postretirement settlement and curtailment (income) charge.

(3) Income (charges) for all periods presented related to our Performance Chemicals segment.

(4)

Charges associated with the acquisition and integration of the Caprolactone Business and Pine Chemical Business. See below for more detail on the charges incurred and Note 4 within these Condensed Consolidated Financial Statements for more information.

Note 18: Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to Ingevity stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) attributable to Ingevity stockholders for the period by the weighted average number of

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common shares and potentially dilutive common shares outstanding for the period. The calculation of diluted net income per share excludes all anti-dilutive common shares.

	Three Months Ended March 31,	
In millions, except share and per share data	2019	2018
Net income (loss) attributable to Ingevity stockholders	$22.7	$30.8
Basic and Diluted earnings (loss) per share		
Basic earnings (loss) per share attributable to Ingevity stockholders	$0.54	$0.73
Diluted earnings (loss) per share attributable to Ingevity stockholders	0.54	0.72
Shares (in thousands)		
Weighted average number of common shares outstanding - Basic	41,695	42,091
Weighted average additional shares assuming conversion of potential common shares	542	510
Shares - diluted basis	42,237	42,601

The following average number of potential common shares were antidilutive and, therefore, were not included in the diluted earnings per share calculation:

	Three Months Ended March 31,	
In thousands	2019	2018
Average number of potential common shares - antidilutive	52	40

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Management's discussion and analysis of Ingevity's financial condition and results of operations ("MD&A") is provided as a supplement to the Condensed Consolidated Financial Statements and related notes included elsewhere herein to help provide an understanding of our financial condition, changes in financial condition and results of our operations.

Cautionary Statements About Forward-Looking Statements

This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements, within the meaning of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Private Securities Litigation Reform Act of 1995 that reflect our current expectations, beliefs, plans or forecasts with respect to, among other things, future events and financial performance. Forward-looking statements are often characterized by words or phrases such as "may," "will," "could," "should," "would," "anticipate," "estimate," "expect," "project," "intend," "plan," "bel "prospects," "potential" and "forecast," and other words, terms and phrases of similar meaning. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. We caution readers that a forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. Such risks and uncertainties include, among others, those discussed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Annual Report") as well as in our unaudited Condensed Consolidated Financial Statements, related notes, and the other information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission (the "SEC"). We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. In addition to any such risks, uncertainties and other factors discussed elsewhere herein, risks, uncertainties and other factors that could cause or contribute to actual results differing materially from those expressed or implied by the forward-looking statements include, but are not limited to the following:

- we are exposed to risks that the expected benefits from the acquisitions of Georgia Pacific's pine chemicals business ("Pine Chemical Acquisition") and of Perstorp Holding AB's caprolactone business ("Caprolactone Acquisition") may not be realized or will not be realized within the expected time period, the risk that the acquired businesses will not be integrated successfully, the risk of significant transaction costs and unknown or understated liabilities;
- we may be adversely affected by general economic and financial conditions beyond our control;
- we are exposed to risks related to our international sales and operations;
- our reported results could be adversely affected by currency exchange rates and currency devaluation could impair our competitiveness;
- our operations outside the U.S. require us to comply with a number of U.S. and foreign regulations, violations of which could have a material adverse effect on our financial condition and results of operations;
- our engineered polymers product line may be adversely affected by Brexit;
- we are dependent upon attracting and retaining key personnel;
- adverse conditions in the global automotive market or adoption of alternative or new technologies may adversely affect demand for our automotive carbon products;
- we face competition from producers of alternative products and new technologies, and new or emerging competitors;
- we face competition from infringing intellectual property activity;
- if increasingly more stringent air quality standards worldwide are not adopted, our growth could be impacted;
- we may be adversely affected by a decrease in government infrastructure spending;
- our printing inks business serves customers in a market that is facing declining volumes and downward pricing;

- our Performance Chemicals segment is highly dependent on crude tall oil ("CTO") which is limited in supply;
- lack of access to sufficient CTO would impact our ability to produce CTO-based products;
- a prolonged period of low energy prices may materially impact our results of operations;
- we are dependent upon third parties for the provision of certain critical operating services at several of our facilities;
- the occurrence of a natural disaster, such as a hurricane, winter or tropical storm, earthquake, tornado, flood, fire or other matters such as labor difficulties (including work stoppages), equipment failure or unscheduled maintenance and repair, which could result in operational disruptions of varied duration;
- from time to time we are called upon to protect our intellectual property rights and proprietary information though litigation and other means;
- if we are unable to protect our intellectual property and other proprietary information we may lose significant competitive advantage;
- information technology security breaches and other disruptions;
- government policies and regulations, including, but not limited to, those affecting the environment, climate change, tariffs, tax policies and the chemicals industry; and
- losses due to lawsuits arising out of environmental damage or personal injuries associated with chemical or other manufacturing processes.

Overview

Ingevity is a leading global manufacturer of specialty chemicals and high performance activated carbon materials. We provide innovative solutions to meet our customers' unique and demanding requirements through proprietary formulated products. We report in two business segments, Performance Materials and Performance Chemicals.

Our Performance Materials segment consists of our automotive technologies and process purifications product lines. Performance Materials manufactures products in the form of powder, granular, extruded pellets, extruded honeycombs, and activated carbon sheets. Automotive technologies products are sold into gasoline vapor emission control applications within the automotive industry, while process purification products are sold into the food, water, beverage, and chemical purification industries.

Our Performance Chemicals segment consists of our pavement technologies, oilfield technologies, industrial specialties, and engineered polymers product lines. Performance Chemicals manufactures products derived from CTO and lignin extracted from the kraft paper making process as well as caprolactone monomers and derivatives derived from cyclohexanone and hydrogen peroxide. Performance Chemicals products serve as critical inputs used in a variety of high performance applications, including pavement preservation, pavement adhesion promotion, and warm mix paving (pavement technologies product line), oil well service additives, oil production, and downstream application chemicals (oilfield technologies product line), printing inks, adhesives, agrochemicals, lubricants, and industrial intermediates (industrial specialties product line), coatings, resins, elastomers, adhesives, and bio-plastics (engineered polymers product line).

Recent Developments

Perstorp Holding AB's Caprolactone Business

On December 10, 2018, we entered into an agreement for the sale and purchase of Perstorp UK Ltd. (the “Caprolactone Agreement”) with Perstorp Holding AB, a company registered in Sweden that develops, manufactures, and sells specialty chemicals (the “Seller”). Pursuant to the Caprolactone Agreement, we agreed to purchase the shares held by the Seller in Perstorp UK Ltd., including the Seller’s entire caprolactone business (the "Caprolactone Business"), in exchange for €570.9 million, less assumed debt and other miscellaneous transaction costs, as further defined in the Caprolactone Agreement (the “Purchase Price”), plus interest accrued on the Purchase Price (herein referred to as the “Caprolactone Acquisition”).

On February 13, 2019, pursuant to the terms and conditions set forth in the Caprolactone Agreement, we completed the Caprolactone Acquisition for an aggregate purchase price of €578.9 million ($652.5 million), less assumed debt of €100.4 million ($113.1 million). At closing, the assumed debt was settled with an affiliate of the Seller. The Caprolactone Acquisition will be integrated into our Performance Chemicals segment and included within our engineered polymers product line. Our revolving credit facility was utilized as the primary source of funds, along with available cash on hand, to fund the Caprolactone Acquisition. See Note 4 within the Condensed Consolidated Financial Statements for more information.

Results of Operations

	Three Months Ended March 31,	
In millions	2019	2018
Net sales	$276.8	$235.2
Cost of sales	179.7	150.1
Gross profit	97.1	85.1
Selling, general and administrative expenses	39.1	26.5
Research and technical expenses	5.1	5.0
Restructuring and other (income) charges, net	—	(0.6)
Acquisition-related costs	22.8	3.8
Other (income) expense, net	(3.7)	(1.2)
Interest expense, net	11.1	6.1
Income (loss) before income taxes	22.7	45.5
Provision (benefit) for income taxes	—	9.7
Net income (loss)	22.7	35.8
Less: Net income (loss) attributable to noncontrolling interest	—	5.0
Net income (loss) attributable to Ingevity stockholders	$22.7	$30.8