EURONET WORLDWIDE INC
Form 8-K
March 12, 2019

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

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 12, 2019

Euronet Worldwide, Inc.
(Exact name of registrant as specified in its charter)

Delaware	001-31648	74-2806888
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

3500 College Boulevard
Leawood, Kansas 66211
(Address of principal executive office)(Zip Code)

(913) 327-4200
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:
o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).
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

Item 7.01 Regulation FD Disclosure.

On March 12, 2019, Euronet Worldwide, Inc. (the "Company") issued a press release announcing that it intends to offer, subject to market and other conditions, $500.0 million aggregate principal amount of convertible senior notes due 2049 in a transaction made only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). In addition, the Company plans to grant to the initial purchasers a 13-day option to purchase up to an additional $25.0 million aggregate principal amount of the notes. A copy of the press release announcing the offering is attached as Exhibit 99.1 to this Current Report on Form 8-K and incorporated herein by reference.

The notes and the shares of the Company's common stock issuable upon conversion thereof, if any, have not been registered under the Securities Act or applicable state securities laws and may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act and applicable state securities laws.

The information in this Current Report on Form 8-K shall not constitute an offer to sell or the solicitation of an offer to buy these securities, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

The information set forth in this Item 7.01, including Exhibit 99.1, is being furnished and shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

Exhibit Number	Description
99.1	Exhibit 99.1 - Press Release dated March 12, 2019 issued by Euronet Worldwide, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Euronet Worldwide, Inc.

By: /s/ Jeffrey B. Newman
Jeffrey B. Newman
Executive Vice President & General Counsel

Date: March 12, 2019

INDEX TO EXHIBITS

Exhibit Number	Description

99.1 Press Release dated March 12, 2019 issued by Euronet Worldwide, Inc.

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Combined operations, before discrete items
$
77.7

$
25.8

$
89.8

$
30.1

EAETR (3)

33.2
%

33.5
%

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(1) Separation costs are primarily taxed at domestic tax rates resulting in a material tax benefit, see Note 13 for more information on the costs incurred.

(2) In accordance with GAAP, legal entities within the combined results of Ingevity with full valuation allowances are treated discretely for income tax purposes.

(3) The decrease in the EAETR for the six months ended June 30, 2016 as compared to June 30, 2015 is primarily due to income mix between domestic and foreign subsidiaries.

Note 16: Commitments and contingencies

Legal Proceedings

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

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Ingevity Corporation
Notes to the Consolidated and Combined Financial Statements
June 30, 2016
(Unaudited)

Note 17: Segment information

In millions	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net sales				
Performance Chemicals	$174.2	$198.4	$307.3	$373.4
Performance Materials	74.5	63.8	145.3	128.0
Total net sales (1)	$248.7	$262.2	$452.6	$501.4
Segment operating profit (2)				
Performance Chemicals	22.8	30.8	31.4	49.9
Performance Materials	26.3	21.6	53.9	44.2
Total segment operating profit (1)	49.1	52.4	85.3	94.1
Separation costs (3)	(4.7)	(4.8)	(11.1)	(6.3)
Restructuring and other income (charges) (4)	(1.0)	0.4	(5.6)	0.7
Interest expense, net	(5.0)	(4.4)	(10.4)	(8.5)
Provision for income taxes	(12.6)	(16.5)	(22.6)	(28.7)
Net income (loss) attributable to noncontrolling interests	(2.1)	(1.2)	(3.7)	(2.4)
Net income (loss) attributable to Ingevity Corporation	$23.7	$25.9	$31.9	$48.9

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(1) Relates to external customers only, all intersegment sales and related profit have been eliminated in consolidation. Segment operating profit is defined as segment revenue less segment operating expenses (segment operating expenses consist of costs of sales, selling, general and administrative expenses and other (income) expense, net).

(2) We have excluded the following items from segment operating profit: interest expense associated with corporate debt facilities, income taxes, gains (or losses) on divestitures of businesses, restructuring and other (income) charges and separation costs, and net income (loss) attributable to noncontrolling interests.

(3) See Note 13 for more information on separation costs.

(4) For the three and six months ended June 30, 2016, the charges related to Performance Chemicals: $1.0 million and $4.8 million, respectively and Performance Materials: zero and $0.8 million, respectively. For the three and six months ended June 30, 2015 the income related to Performance Materials: $0.4 million and $0.7 million, respectively.

Note 18: Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for basic and diluted earnings (loss) per share for the three and six months ended June 30, 2016 was based on the weighted average number of common shares outstanding for the period beginning after the Distribution Date. The weighted average number of common shares outstanding for basic and diluted earnings per share for the three and six months ended June 30, 2015 was based on the number of shares of Ingevity common stock outstanding on the Distribution Date. On May 15, 2016, the Distribution Date, each holder of WestRock's common stock received one share of Ingevity's common stock for every six shares of WestRock's common stock held on the Record Date. Diluted earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding for the period beginning after the Distribution Date. The calculation of diluted net income per share excludes all anti-dilutive common shares. The same number of shares was used to calculate diluted earnings (loss) per share for the three and six months ended June 30, 2015 since the 42,102 thousand shares that were distributed on the Distribution Date were not outstanding for those periods.

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Ingevity Corporation
Notes to the Consolidated and Combined Financial Statements
June 30, 2016
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions (except share and per share data)	2016	2015	2016	2015
Net income (loss) attributable to Ingevity Corporation	$23.7	$ 25.9	$31.9	$ 48.9
Per share data				
Basic earnings (loss) per share (1)	$0.56	$ 0.62	$0.76	$ 1.16
Weighted average number of shares outstanding - Basic (2)	42,102	42,102	42,102	42,102
Diluted earnings (loss) per share (1)	$0.56	$ 0.62	$0.76	$ 1.16
Weighted average number of shares outstanding - Diluted (2)	42,126	42,102	42,126	42,102

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(1) Diluted earnings (loss) per share is calculated using net income (loss) available to common shareholders divided by diluted weighted-average shares of common shares outstanding during each period, which includes the dilutive effect of outstanding equity awards. Basic and diluted earnings (loss) per share for the three and six months ended June 30, 2016 is calculated using the weighted average number of common shares outstanding for the period beginning after the Distribution Date. Basic and diluted earnings (loss) per share for the three and six months ended June 30, 2015 is calculated using the number of common shares distributed on May 15, 2016.

(2) Shares are presented in thousands.

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 June 30,		Six Months Ended June 30,	
In thousands	2016	2015	2016	2015
Average number of potential common shares - antidilutive	157	—	157	—

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

Introduction

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

Recent Developments

Separation and Distribution

On May 15, 2016 (the "Distribution Date"), WestRock Company (“WestRock”) completed the previously announced separation of the business comprising WestRock's Specialty Chemicals reporting segment, and certain other assets and liabilities, into Ingevity, a separate and distinct public company (herein referred to as the "Separation"). The Separation was completed by way of a distribution of all of the then outstanding shares of common stock of Ingevity through a dividend in kind of Ingevity's common stock (par value $0.01) to holders of record of WestRock common stock (par value $0.01) as of the close of business of May 4, 2016 (the "Record Date").

On the Distribution Date, each holder of WestRock's common stock received one share of Ingevity's common stock for every six shares of WestRock's common stock held on the Record Date. The Separation was completed pursuant to a Separation and Distribution Agreement and other agreements with WestRock related to the Separation, including an Employee Matters Agreement ("EMA"), a Tax Matters Agreement, a Transition Services Agreement and an Intellectual Property Agreement (collectively, the "Separation Agreements"), each of which was filed as an exhibit to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 16, 2016. The Separation Agreements govern the relationship among Ingevity and WestRock following the Separation and provide for the allocation of various assets, liabilities, rights and obligations. The Separation Agreements also include arrangements for transition services to be provided by WestRock to Ingevity. For a discussion of each agreement, see the section entitled "Certain Relationships and Related Party Transactions - Agreements with WestRock Related to the Spin-Off" in our Information Statement filed as Exhibit 99.1 ("Information Statement") to our Registration Statement on Form 10, as amended, filed with the Securities and Exchange Commission on April 26, 2016 ("Registration Statement"). The Separation Agreements were entered into on May 14, 2016.

The Registration Statement was declared effective by the SEC on April 25, 2016, and Ingevity's common stock began "regular-way" trading on the New York Stock Exchange ("NYSE") on May 16, 2016 under the symbol "NGVT".

Unless the context otherwise requires, references to "we," "us," "our," "Ingevity" and the "Company" refer to Ingevity Corporation and its consolidated subsidiaries after giving effect to the Distribution.

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 our Information Statement included in our Registration Statement under the heading "Risk Factors" as well as in our unaudited combined financial statements, related notes, and the other information appearing elsewhere in this report and our other filings with 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

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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 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 United States 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;
- we are dependent upon attracting and retaining key personnel;
- adverse conditions in the automotive market may adversely affect demand for our automotive carbon products;
- if increasingly more stringent air quality standards worldwide are not adopted, our growth could be impacted;
- the Company’s printing inks business serves customers in a market that is facing declining volumes;
- 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, equipment failure or unscheduled maintenance and repair, which could result in operational disruptions of varied duration;
- our ability to protect our intellectual property and other proprietary information;
- government policies and regulations, including, but not limited, to those affecting the environment, climate change, 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 Corporation ("Ingevity" or the "Company") is a leading global manufacturer of specialty chemicals and high performance carbon materials. Ingevity participates in attractive, higher growth sectors of the global specialty chemicals industry. Our specialty chemicals products serve as critical inputs used in a variety of high performance applications, primarily in three product families: pavement technologies, oilfield technologies and industrial specialties. We are also the leading global manufacturer of activated carbon used in gasoline vapor emission control systems in cars, trucks, motorcycles and boats, with over 750 million units installed globally over the 30-year history of this business. We report in two business segments, Performance Chemicals and Performance Materials.

The Performance Chemicals segment develops, manufactures and sells a wide range of specialty chemicals primarily derived from co-products of the kraft pulping process. Products include performance chemicals derived from pine chemicals used in asphalt paving, oilfield technologies and other diverse industrial specialty applications such as adhesives, agrochemical dispersants, publication inks, lubricants and petroleum. The Performance Chemicals segment serves customers globally from its manufacturing operations in the United States and Brazil.

The Performance Materials segment primarily produces automotive carbon products used in gasoline vapor emission control systems in cars, trucks, motorcycles and boats. The automotive carbon products capture and store gasoline vapor emissions that would otherwise be released into the atmosphere as volatile organic compounds ("VOCs") which contain hazardous air pollutants. The stored vapors are then largely purged from the carbon and directed to the engine where they are used as supplemental power for the vehicle. The segment also produces a number of other carbon products for food, water, beverage and chemical purification. The Performance Materials segment serves customers globally from its manufacturing operations in the United States and China.

Results of Operations

For the Three and Six Months Ended June 30, 2016 and 2015

The following table presents the combined statements of operations of the Company:

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2016	2015	2016	2015
Net sales	$248.7	$262.2	$452.6	$501.4
Cost of sales	172.6	177.1	316.5	347.2
Gross profit	76.1	85.1	136.1	154.2
Selling, general and administrative expenses	28.9	32.1	56.5	60.3
Separation costs	4.7	4.8	11.1	6.3
Interest expense, net	5.0	4.4	10.4	8.5
Other (income) expense, net	(0.9)	0.2	(0.1)	(0.9)
Income before income taxes	38.4	43.6	58.2	80.0
Provision for income taxes	12.6	16.5	22.6	28.7
Net income (loss)	25.8	27.1	35.6	51.3
Less: Net income (loss) attributable to noncontrolling interests, net of taxes	2.1	1.2	3.7	2.4
Net income (loss) attributable to Ingevity Corporation	$23.7	$25.9	$31.9	$48.9

Comparison of Three and Six Months Ended June 30, 2016 and 2015

The table below shows the 2016 combined net sales and percentage variances from 2015:

In millions	2016	Percentage change vs. prior year	Currency effect	Price/Mix	Volume
Net sales - three months ended June 30	$248.7	(5)%	—%	(1)%	(4)%
Net sales - six months ended June 30	$452.6	(10)%	—%	(1)%	(9)%

Net sales

Three Months Ended June 30, 2016 vs. 2015

Net sales were $248.7 million and $262.2 million for the three months ended June 30, 2016 and 2015, respectively. The sales decrease in 2016 was driven by a volume decline of $20.9 million in Performance Chemicals (eight percent of sales) in the oilfield and certain industrial specialties markets (including rubber, publication inks, adhesives), unfavorable pricing and mix of $6.0 million in Performance Chemicals (two percent of sales) in certain industrial specialties and oilfield technologies products due to pricing pressure from competitive materials. The sales decrease was partially offset by volume gains of $9.5 million (four percent of sales) in high value strategic markets for pavement due to market growth and Performance Materials due to strength in

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the automotive market in North America and increased vehicle content due to regulatory adoption, favorable pricing and mix of $3.4 million (one percent of sales) in pavement and Performance Materials, and foreign exchange of $0.5 million.

Six Months Ended June 30, 2016 vs. 2015

Net sales were $452.6 million and $501.4 million for the six months ended June 30, 2016 and 2015, respectively. The sales decrease in 2016 was driven by a volume decline of $57.7 million in Performance Chemicals (12 percent of sales) in the rubber, publication inks, adhesives, oilfield and certain industrial specialties markets, unfavorable pricing and mix of $12.1 million in Performance Chemicals (two percent of sales) in certain industrial specialties and oilfield technologies products due to pricing pressure from competitive materials and foreign exchange of $1.4 million due to the devaluation of the euro and Brazilian real versus the U.S. dollar. The sales decrease was partially offset by volume gains of $14.4 million (three percent of sales) in high value strategic markets for pavement due to market growth and Performance Materials due to strength in the automotive market in North America and increased vehicle content due to regulatory adoption and favorable pricing and mix of $8.0 million (two percent of sales) in pavement and Performance Materials.

Cost of sales

Three Months Ended June 30, 2016 vs. 2015

Cost of sales were $172.6 million (69% of sales) and $177.1 million (68% of sales) for the three months ended June 30, 2016 and 2015, respectively. The $4.5 million decrease in cost of sales was due to a decrease of $2.8 million due to a two percent decline in sales volume, a decrease of $0.5 million due to the devaluation of the Brazilian real versus the U.S. dollar, and $6.8 million due to lower input costs related to petroleum-based raw materials, energy and freight, and CTO. These decreases were partially offset by manufacturing related spending including $5.6 million due to unfavorable productivity related to higher costs related to the startup of the new Performance Materials plant in China.

Six Months Ended June 30, 2016 vs. 2015

Cost of sales were $316.5 million (70% of sales) and $347.2 million (69% of sales) for the six months ended June 30, 2016 and 2015, respectively. The $30.7 million decrease in cost of sales was due to a decrease of $28.3 million due to an eight percent decline in sales volume, a decrease of $2.9 million due to the devaluation of the Brazilian real versus the U.S. dollar, and $11.9 million due to lower input costs related to petroleum-based raw materials, energy and freight, and CTO. These decreases were partially offset by manufacturing related spending including $12.4 million due to unfavorable productivity related to higher costs related to the startup of the new Performance Materials plant in China.

Selling, general and administrative expenses

Three Months Ended June 30, 2016 vs. 2015

Selling, general and administrative expenses were $28.9 million (12% of sales) and $32.1 million (12% of sales) for the three months ended June 30, 2016 and 2015, respectively. Selling, general, and administrative expenses decreased due to cost reduction initiatives.

Six Months Ended June 30, 2016 vs. 2015

Selling, general and administrative expenses were $56.5 million (12% of sales) and $60.3 million (12% of sales) for the six months ended June 30, 2016 and 2015, respectively. The decrease in the six months ended June 30, 2016 is consistent with the description above for the three month period.

Separation costs
Three Months Ended June 30, 2016 vs. 2015
Separation costs of $4.7 million and $4.8 million for the three months ended June 30, 2016 and 2015, respectively, were expenses related to the Separation. See Note 13 within the Combined Financial Statements within this Form 10-Q for more information.
Six Months Ended June 30, 2016 vs. 2015
Separation costs of $11.1 million and $6.3 million for the six months ended June 30, 2016 and 2015, respectively, were expenses related to the Separation. See Note 13 within the Combined Financial Statements within this Form 10-Q for more information.
Interest expense, net
Three Months Ended June 30, 2016 vs. 2015
Interest expense, net was $5.0 million and $4.4 million for the three months ended June 30, 2016 and 2015, respectively. Interest expense consisted primarily of $1.5 million and $1.7 million related to capital lease obligations and $3.4 million and $2.5 million in allocated interest expense from WestRock for the three months ended June 30, 2016 and 2015, respectively. Increase in the allocated interest expense from WestRock in 2016 compared to 2015 is primarily driven by the Merger of WestRock and MWV resulting in an increased allocation of interest expense post-Merger.
Six Months Ended June 30, 2016 vs. 2015
Interest expense, net was $10.4 million and $8.5 million for the six months ended June 30, 2016 and 2015, respectively. Interest expense consisted primarily of $3.1 million and $3.3 million related to capital lease obligations and $7.2 million and $5.0 million in allocated interest expense from WestRock for the six months ended June 30, 2016 and 2015, respectively. The increase in allocated interest expense is consistent with the description provided for the three months ended period noted above.
Other (income) expense, net
Three and Six Months Ended June 30, 2016 vs. 2015
Other (income) expense, net was $(0.9) million and $0.2 million for the three months and $(0.1) million and $(0.9) million for the six months ended June 30, 2016 and 2015, respectively, and consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2016	2015	2016	2015
Foreign currency exchange (income) loss	$(1.1)	$0.6	$(4.8)	$1.5
Royalty and sundry (income) loss [1]	(0.8)	—	(0.9)	(1.7)
Restructuring and other (income) charges, net [2]	1.0	(0.4)	5.6	(0.7)
Other (income) expense, net	$(0.9)	$0.2	$(0.1)	$(0.9)

(1) Primarily represents royalty income for technology licensing.
(2) See below for more information regarding the Company's restructuring and other (income) charges, net.

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In millions	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Restructuring and other (income) charges, net				
Gain on sale of assets and businesses	$—	$(0.4)	$—	$(0.7)
Severance and other employee-related costs [1]	—	—	4.5	—
Asset write-downs [2]	0.3	—	0.4	—
Other (income) charges, net [3]	0.7	—	0.7	—
Total restructuring and other (income) charges, net	$1.0	$(0.4)	$5.6	$(0.7)

(1) Represents severance and employee benefit charges. Income represents adjustments to previously recorded severance and employee benefits.

(2) Primarily represents accelerated depreciation and impairment charges on long-lived assets, which were or are to be abandoned. To the extent incurred the acceleration effect of re-estimating settlement dates and revised cost estimates associated with asset retirement obligations due to facility shutdowns are also included within the asset write-downs.

(3) Primarily represents costs associated with rental payments, contract terminations, and other miscellaneous exit costs. Other Income primarily represents favorable developments on previously recorded exit costs as recoveries associated with restructuring activities.

2016 activities

In 2016, the Company announced two restructuring events. The first event was the closure of the Performance Chemicals' derivatives operation in Duque de Caxias, Rio de Janeiro, Brazil. As a result of this closure, the Company recorded $0.7 million of additional miscellaneous exit costs during the three months ended June 30, 2016 and a $0.1 million impairment charge on fixed assets and $1.8 million in severance and other employee related costs during the six months ended June 30, 2016.

The Company also announced a company-wide restructuring to better align our workforce in light of changing macroeconomic and market realities. The restructuring decision resulted in workforce reductions at several of our locations. As a result, during the three and six months ended June 30, 2016, the Company recorded severance and other employee-related charges of zero and $2.7 million, respectively ($1.9 million related to Performance Chemicals segment and $0.8 million related to Performance Materials segment). The Company also recorded a $0.3 million impairment charge on fixed assets in the three months ended June 30, 2016 (related to the Performance Chemicals segment).

2015 activities

Income related to an additional gain on the 2014 sales of the Company's Performance Materials' air purification business in the three and six months ended June 30, 2015 was $0.4 million and $0.7 million, respectively.

Provision for income taxes

Three Months Ended June 30, 2016 vs. 2015

The Company’s effective tax rate was 32.8% and 37.8% for the three months ended June 30, 2016 and 2015, respectively. The differences in these effective rates compared to the combined statutory rates were primarily due to the result of legal entities with full valuation allowances. Excluding discrete items, the effective rate was 32.4% compared to 34.5% for the three months ended June 30, 2016 and 2015, respectively. A more detailed description of the change and drivers to the change in the effective tax rate is included in Note 15 to the Combined Financial Statements included within this Form 10-Q.

Six Months Ended June 30, 2016 vs. 2015

The Company’s effective tax rate was 38.8% and 35.9% for the six months ended June 30, 2016 and 2015, respectively. The differences in these effective rates compared to the combined statutory rates were primarily due to non-deductible transaction costs associated with the Separation in 2016 and results of legal entities with full valuation allowances. Excluding discrete items, the effective rate was 33.2% compared to 33.5% for the six months ended June 30, 2016 and 2015, respectively. A more detailed description of the change and drivers to the change in the effective tax rate is included in Note 15 to the Combined Financial Statements included within this Form 10-Q.

Net income attributable to Ingevity Corporation

Three Months Ended June 30, 2016 vs. 2015

Net income attributable to Ingevity Corporate was $23.7 million and $25.9 million for the three months ended June 30, 2016 and 2015, respectively. This decrease of $2.2 million was primarily driven by declines in segment operating profit in Performance Chemicals of $8.8 million partially offset by increases in segment operating profit in Performance Materials of $4.6 million and a lower provision for tax expense of $3.9 million in 2016 compared to 2015.

Six Months Ended June 30, 2016 vs. 2015

Net income attributable to Ingevity Corporate was $31.9 million and $48.9 million for the six months ended June 30, 2016 and 2015, respectively. This decrease of $17.0 million was primarily driven by declines in segment operating profit in Performance Chemicals of $18.5 million and higher interest expense of $1.9 million in 2016 compared to 2015 partially offset by increases in segment operating profit in Performance Materials of $9.7 million and a lower provision for tax expense of $6.1 million in 2016 compared to 2015.

Segment Operating Results

In addition to the information discussed above, the following sections discuss the results of operations for each of the Company's segments. The Company's segments are (i) Performance Chemicals and (ii) Performance Materials.

In general, the accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies in the Annual Combined Financial Statements included in our Information Statement filed with our Registration Statement.

Performance Chemicals

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2016	2015	2016	2015
Net sales				
Pavement Technologies product line	$56.5	$53.6	$75.1	$69.3
Oilfield Technologies product line	14.8	20.3	28.4	43.5
Industrial Specialties product line	102.9	124.5	203.8	260.6
Total Performance Chemicals - Net sales	$174.2	$198.4	$307.3	$373.4
Segment operating profit	$22.8	$30.8	$31.4	$49.9

Comparison of Three and Six Months Ended June 30, 2016 and 2015

Performance Chemicals (In millions)	2016	Percentage change vs. prior year	Currency effect	Price/Mix	Volume
Net sales - three months ended June 30	$174.2	(12)%	— %	(2)%	(10)%
Net sales - six months ended June 30	$307.3	(18)%	(1)%	(2)%	(15)%

Three Months Ended June 30, 2016 vs. 2015

Segment net sales for the Performance Chemicals segment were $174.2 million and $198.4 million for the three months ended June 30, 2016 and 2015, respectively. The sales decrease was driven by volume declines of $20.9 million (11 percent of

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sales) driven by unfavorable volume in oilfield and certain industrial specialties markets, $6.0 million (three percent of sales) of unfavorable pricing and product mix in certain industrial specialties and oilfield technologies products and $0.1 million of unfavorable foreign currency exchange due to the devaluation of the euro and Brazilian real versus the U.S. dollar. These decreases were partially offset by volume and price and mix growth of $2.8 million (two percent) in high value strategic markets for pavement markets compared to 2015.

Segment operating profit for the Performance Chemicals segment was $22.8 million and $30.8 million for the three months ended June 30, 2016 and 2015, respectively. Segment operating profit decreased primarily due to $3.9 million from unfavorable pricing and product mix, $6.2 million from lower sales volume, and $5.9 million from reduced throughput partially offset by cost savings initiatives. These decreases were partially offset by $7.8 million of deflation on petroleum-based raw materials, energy and freight, and CTO compared to 2015 and $0.2 million of lower depreciation and amortization expense in 2016 compared to 2015.

Six Months Ended June 30, 2016 vs. 2015

Segment net sales for the Performance Chemicals segment were $307.3 million and $373.4 million for the six months ended June 30, 2016 and 2015, respectively. The sales decrease was driven by volume declines of $57.7 million (15 percent of sales) driven by unfavorable volume in oilfield and certain industrial specialties markets, $12.1 million (three percent of sales) of unfavorable pricing and product mix in certain industrial specialties and oilfield technologies products and $2.2 million (one percent of sales) of unfavorable foreign currency exchange due to the devaluation of the euro and Brazilian real versus the U.S. dollar. These decreases were partially offset by volume and price and mix growth of $5.9 million (two percent) in high value strategic markets for pavement markets compared to 2015.

Segment operating profit for the Performance Chemicals segment was $31.4 million and $49.9 million for the six months ended June 30, 2016 and 2015, respectively. Segment operating profit decreased primarily due to $8.0 million from unfavorable pricing and product mix in the rubber, publication inks, and adhesives markets and certain industrials specialties and oilfield technologies products, $16.0 million from lower sales volume, and $6.1 million from lower throughput partially offset by cost savings initiatives. These decreases were partially offset by $11.4 million of deflation on petroleum-based raw materials, energy and freight, and CTO compared to 2015 and $0.2 million of lower depreciation and amortization expense in 2016 compared to 2015.

Performance Materials

In millions	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Performance Materials - Net sales	$74.5	$63.8	$145.3	$128.0
Segment operating profit	$26.3	$21.6	$53.9	$44.2

Comparison of Three and Six Months Ended June 30, 2016 and 2015

Performance Material (In millions)	2016	Percentage change vs. prior year	Currency effect	Price/Mix	Volume
Net sales - three months ended June 30	$74.5	17 %	1 %	2 %	14 %
Net sales - six months ended June 30	$145.3	14 %	1 %	3 %	10 %

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Three Months Ended June 30, 2016 vs. 2015

Segment net sales for the Performance Materials segment were $74.5 million and $63.8 million for the three months ended June 30, 2016 and 2015, respectively. The sales increase in 2016 was driven by $8.8 million (14 percent of sales) in volume improvements in the automotive carbon market due to strength in North America and increased vehicle content due to regulatory adoption, $1.3 million (two percent of sales) in pricing and mix improvements from gains in the automotive carbon market, and $0.6 million (one percent of sales) of favorable foreign exchange from the Japanese yen.

Segment operating profit for the Performance Materials segment was $26.3 million and $21.6 million for the three months ended June 30, 2016 and 2015, respectively. Segment operating profit increased $4.7 million primarily due to $1.3 million in favorable pricing and mix in automotive emissions, $3.9 million in favorable volume, and a net $1.6 million from favorable productivity due to cost reduction initiatives. These increases were partially offset by $1.0 million in inflation on energy, raw materials, and freight and $1.1 million in higher depreciation and amortization expense in 2016 compared to 2015.

Six Months Ended June 30, 2016 vs. 2015

Segment net sales for the Performance Materials segment were $145.3 million and $128.0 million for the six months ended June 30, 2016 and 2015, respectively. The sales increase in 2016 was driven by $12.7 million (ten percent of sales) in volume improvements in the automotive carbon market due to strength in North America and increased vehicle content due to regulatory adoption, $3.8 million (three percent of sales) in pricing and mix improvements from gains in the automotive carbon market, and $0.8 million (one percent of sales) of favorable foreign exchange from the Japanese yen.

Segment operating profit for the Performance Materials segment was $53.9 million and $44.2 million for the six months ended June 30, 2016 and 2015, respectively. Segment operating profit increased by $9.7 million primarily due to $3.8 million in favorable pricing and mix in automotive emissions, $5.9 million in favorable volume, $0.6 million in deflation on energy, raw materials, and freight, and a net $1.0 million from favorable productivity due to cost reduction initiatives and partially offset by project expenses incurred during the construction of our greenfield plant in China compared to 2015. These increases were partially offset by $1.6 million in higher depreciation and amortization expense in 2016 compared to 2015.

Use of Non-GAAP Financial Measures

Ingevity has presented certain financial measures, defined below, which have not been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and has provided a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP. These financial measures are not meant to be considered in isolation or as a substitute for the most directly comparable financial measure calculated in accordance with GAAP. We utilize the below financial measures as the primary measure of profitability used by management. The Company believes these non-GAAP financial measures provide management as well as investors, potential investors, securities analysts and others with useful information to evaluate the performance of the business, because such measures, when viewed together with our financial results computed in accordance with GAAP, provide a more complete understanding of the factors and trends affecting our historical financial performance and projected future results.

Ingevity uses the following non-GAAP measures: Adjusted EBITDA and Segment EBITDA. Adjusted EBITDA is defined as net income plus provision for income taxes, interest expense, depreciation and amortization, separation costs and restructuring and other (income) charges. Segment EBITDA is defined as segment profit plus depreciation and amortization.

These non-GAAP measures are not intended to replace the presentation of financial results in accordance with GAAP and investors should consider the limitations associated with these non-GAAP measures, including the potential lack of comparability of these measures from one company to another. Reconciliations of Adjusted EBITDA and Segment EBITDA to net income and segment profit, respectively, are set forth within this section.

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Reconciliation of Net Income to Adjusted EBITDA

In millions	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income (GAAP)	$25.8	$27.1	$35.6	$51.3
Provision for income taxes	12.6	16.5	22.6	28.7
Interest expense	5.0	4.4	10.4	8.5
Depreciation and amortization	9.3	8.4	18.3	16.9
Separation costs	4.7	4.8	11.1	6.3
Restructuring and other (income) charges	1.0	(0.4)	5.6	(0.7)
Adjusted EBITDA (Non-GAAP)	$58.4	$60.8	$103.6	$111.0

Reconciliation of Segment Operating Profit to Segment EBITDA

Performance Chemicals In millions	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Segment operating profit (GAAP)	$22.8	$30.8	$31.4	$49.9
Depreciation and amortization	5.6	5.8	11.4	11.6
Segment EBITDA (Non-GAAP)	$28.4	$36.6	$42.8	$61.5

Performance Materials In millions	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Segment operating profit (GAAP)	$26.3	$21.6	$53.9	$44.2
Depreciation and amortization	3.7	2.6	6.9	5.3
Segment EBITDA (Non-GAAP)	$30.0	$24.2	$60.8	$49.5

Adjusted EBITDA

Three Months Ended June 30, 2016 vs. 2015

Adjusted EBITDA was $58.4 million and $60.8 million for three months ended June 30, 2016 and 2015, respectively. This decrease of $2.4 million is described in the Net income attributable to Ingevity Corporation above, excluding the change in the tax provision.

Six Months Ended June 30, 2016 vs. 2015

Adjusted EBITDA was $103.6 million and $111.0 million for six months ended June 30, 2016 and 2015, respectively. This decrease of $7.4 million is described in the Net income attributable to Ingevity Corporation above, excluding the change in interest expense and the tax provision.

Performance Chemicals

Three Months Ended June 30, 2016 vs. 2015

Segment EBITDA for the Performance Chemicals segment was $28.4 million and $36.6 million for the three months ended June 30, 2016 and 2015, respectively. Segment EBITDA decreased as described in the segment operating profit section above, excluding the depreciation and amortization expense.

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Six Months Ended June 30, 2016 vs. 2015

Segment EBITDA for the Performance Chemicals segment was $42.8 million and $61.5 million for the six months ended June 30, 2016 and 2015, respectively. Segment EBITDA decreased as described in the segment operating profit section above, excluding the depreciation and amortization expense.

Performance Materials

Three Months Ended June 30, 2016 vs. 2015

Segment EBITDA for the Performance Materials segment was $30.0 million and $24.2 million for the three months ended June 30, 2016 and 2015, respectively. Segment EBITDA increased as described in the segment operating profit section above, excluding the depreciation and amortization expense.

Six Months Ended June 30, 2016 vs. 2015

Segment EBITDA for the Performance Materials segment was $60.8 million and $49.5 million for the six months ended June 30, 2016 and 2015, respectively. Segment EBITDA increased as described in the segment operating profit section above, excluding the depreciation and amortization expense.

Business Outlook

For revenue, volume and price in Performance Materials and in Performance Chemicals' pavement technologies applications are expected to be more than offset by negative pricing pressure and negative mix in Performance Chemicals' industrial specialties and oilfield technologies applications. 2016 Adjusted EBITDA is expected to be flat to slightly negative compared to 2015. This is driven by expected incremental costs to be incurred as an independent public company, including costs to replace services previously provided by WestRock as well as other stand-alone costs. Offsetting these incremental public company costs are cost savings driven by a series of implemented cost reduction initiatives. The cost reduction initiatives include reductions in selling, general and administrative costs, supply chain spending reduction initiatives, and plant spending reductions. Additionally we will begin to see benefits from our major capital expansion projects that took place in 2014 and 2015. As these projects are reaching completion in the first half of 2016, we expect a reduction in capital spending versus each of the prior two years.

Fiscal Year 2016 Guidance

We expect to deliver fiscal year 2016 Net sales of $880 million to $910 million and Adjusted EBITDA of $180 million to $195 million. A reconciliation of Net Income to Adjusted EBITDA as projected for 2016 is not provided because we do not forecast Net Income as we cannot, without unreasonable effort, estimate or predict with certainty various components of Net Income. These components include additional separation costs associated with the Separation and further restructuring and other income (charges) incurred in 2016 as well as the related tax impacts of these items. Additionally, discrete tax items could drive variability in our projected effective tax rate. All of these components could significantly impact such financial measures. Further, in the future other items with similar characteristics to those currently included in Adjusted EBITDA, that have a similar impact on comparability of periods, and which are not known at this time, may exist and impact Adjusted EBITDA.

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Liquidity and Capital Resources

Historically, the primary source of liquidity for Ingevity's business is the cash flow provided by operations which had historically been transferred to WestRock to support its overall cash management strategy. Prior to the Separation, transfers of cash to and from WestRock have been reflected in Net Parent Investment in the historical Consolidated and Combined Balance Sheets, Statements of Cash Flows and Statements of Changes in Equity. Post Separation, transfers of cash to and from WestRock have been reflected in Transactions with WestRock in the Consolidated and Combined Statement of Cash Flows. We expect that cash from operations, together with borrowings available under our debt facilities, will be sufficient to cover our operating needs and planned capital expenditures for at least the next twelve months.

Cash and cash equivalents totaled $55.7 million at June 30, 2016. Management continuously monitors deposit concentrations and the credit quality of the financial institutions that hold the Company's cash and cash equivalents, as well as the credit quality of its insurance providers, customers and key suppliers.

Due to the global nature of the Company's operations, a portion of its cash is held outside the United States. The cash and cash equivalents balance at June 30, 2016 included $22.7 million held by our foreign subsidiaries. We believe that our foreign holdings of cash will not have a material adverse impact on our liquidity. The Company does not currently expect to repatriate cash earnings from its foreign operations in order to fund U.S. operations. If these earnings were distributed, such amounts would be subject to U.S. federal income tax at the statutory rate less the available foreign tax credits, if any, and potentially subject to withholding taxes in the various jurisdictions.

Separation and Distribution impact on liquidity

We do not expect the financing transaction we have entered (see Note 8 within the Consolidated and Combined Financial Statements within the Form 10-Q for more information) in connection with the Separation, including the payment of the distribution to WestRock, to impact our cash flow requirements for 2016 or the foreseeable future. We expect to deleverage by using cash flow from operations to repay outstanding borrowings associated with the Separation. In addition, we expect our cash flow from operations combined with cash on hand to be sufficient to meet our working capital needs. We believe these sources will be sufficient to fund our planned operations and in meeting our interest and other contractual obligations. As of June 30, 2016 our available capacity under our revolving credit facility is $206.6 million in addition, we were in compliance with all debt covenants as of June 30, 2016.

Cash flow comparison of Six Months Ended June 30, 2016 and 2015

	Six Months Ended June 30,	
In millions	2016	2015
Net cash provided (used) by operating activities	$36.7	$8.5
Net cash provided (used) by investing activities	(91.3)	(36.5)
Net cash provided (used) by financing activities	78.3	23.1

Cash flows provided (used) by operating activities

During the first six months of 2016, cash flow provided by operations increased primarily due to net increases in working capital compared to 2015. Working capital increases are driven primarily by increases in inventory balances partially offset by increases in accrued expenses when compared to the first six months of 2015. Below provides a description of the changes to working capital during 2016 (i.e. current assets and current liabilities).

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Current Assets and Liabilities

In millions	June 30, 2016	December 31, 2015
Cash and cash equivalents	$55.7	$ 32.0
Accounts receivable, net	116.7	96.2
Inventories, net	156.8	151.0
Prepaid and other current assets	23.5	20.2
Total current assets	$352.7	$ 299.4

Current assets as of June 30, 2016 increased $53.3 million compared to December 31, 2015 primarily due to increases in accounts receivable. Accounts receivable, net as of June 30, 2016 increased $20.5 million consistent with the higher revenues in the quarter ended June 30, 2016 compared to the quarter ended December 31, 2015. Inventories, net increased by $5.8 million, driven by higher volume of raw materials, including CTO, as well as higher finished goods supporting automotive carbon market and pavement technologies year over year growth as well as seasonality in the pavement technologies market.

In millions	June 30, 2016	December 31, 2015
Accounts payable	$88.8	$ 64.8
Accrued expenses	15.5	12.2
Accrued payroll and employee benefits	14.6	10.0
Notes payable	—	9.4
Income taxes payable	7.3	0.8
Total current liabilities	$126.2	$ 97.2

Current liabilities as of June 30, 2016 increased by $29.0 million compared to December 31, 2015 primarily driven by increases in accrued expenses and accounts payable. In accordance with the Separation Agreements at the day of separation, we recorded a payable to WestRock in the amount of $16.5 million primarily representing certain trade liabilities previously classified as related-party and eliminated from our Consolidated and Combined Balance Sheet. At June 30, 2016, $13.2 million of the payable was outstanding and presented as accounts payable on the Consolidated and Combined Balance Sheet. For more information, refer to Note 11 within the Consolidated and Combined financial statements.

Cash flows provided (used) by investing activities

For the six months ended June 30, 2016, cash used in investing activities was primarily related to $69.1 million invested in a trust. In accordance with the Separation Agreements, we used a portion of the proceeds from our debt borrowing to be held in a restricted trust. The trust, presented as restricted investment on our Consolidated and Combined Balance Sheet, is to secure the principal payment under our $80.0 million capital lease obligation which is payable upon maturity in 2027. Refer to Note 8 in these Consolidated and Combined financial statements for more information. Outside of this investing activity, the cash used in investing activities each period is typically driven by capital expenditures. In the six months ended June 30, 2016 and 2015, capital spending included base maintenance capital supporting ongoing operations and significant growth spending primarily related to the construction of an activated carbon manufacturing facility in China and new derivative equipment in Charleston, South Carolina supporting the adhesives, pavement and oilfield markets.

	June 30,	
In millions	2016	2015
Maintenance capital expenditures	$8.4	$6.5
Safety, health and environment	2.6	1.7
Growth and cost improvement capital expenditures	11.2	28.9
Total capital expenditures	$22.2	$37.1

Projected 2016 capital expenditures are expected to be $60 million to $70 million.

Cash flows provided (used) by financing activities

As WestRock managed the Company's cash and financing arrangements before the Separation, all excess cash generated through earnings was remitted to WestRock and all sources of cash were funded by WestRock prior to May 15, 2016.

Cash provided by financing activities in the six months ended June 30, 2016 was $78.3 million and was driven by net borrowings of $477.1 million (refer to Note 8 in the Consolidated and Combined financial statements for more information) and an inflow from transactions with WestRock of $51.4 million offset by a distribution to WestRock at Separation of $448.5 million. Cash provided by financing activities in the six months ended June 30, 2015 was $23.1 million and was driven by net short term borrowings of $12.2 million and an inflow from transactions with WestRock of $12.7 million.

Contractual Obligations

Information related to our contractual commitments at December 31, 2015 can be found in a table on page 63 included within Information Statement filed with our Registration Statement. The only significant change to our contractual commitments since the filing of our Registration Statement is the borrowings under our Facilities. For information regarding borrowings made under our Facilities, see Note 8 within the Consolidated and Combined Financial Statements within this Form 10-Q for more information. Our obligations under the Facilities are summarized below.

	Expected Cash Payments by Year				
In millions	Total	Less than 1 year - 2016	1 - 3 years 2017 - 2018	3 - 5 years 2019 - 2020	More than 5 years - 2021 and beyond
Debt maturities including capital lease obligations	$570.0	$ —	$22.5	$52.5	$495.0

New Accounting Guidance

Refer to the Note 3 to the Consolidated and Combined Financial Statements included within this Form 10-Q for a full description of recent accounting pronouncements including the respective expected dates of adoption and expected effects on the Company's Consolidated and Combined Financial Statements.

Critical Accounting Policies

Our Consolidated and Combined Financial Statements are prepared in conformity with U.S. generally accepted accounting principles. The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We have described our accounting policies in Note 2 to our Annual Combined Financial Statements included in our Information Statement filed with our Registration Statement. We have reviewed these accounting policies, identifying those that we believe to be critical to the preparation and understanding of our financial statements. Critical accounting policies are central to our presentation of results of operations and financial condition and require management to make estimates and judgments on certain matters. We base our estimates and judgments on historical experience, current conditions and other reasonable factors.

The following is a list of those accounting policies that we have deemed most critical to the presentation and understanding of our results of operations and financial condition. See the “Critical Accounting Policies” section included within the "Management's Discussion and Analysis of Financial Condition and Results of Operations of Ingevity" section in our Information Statement filed with our Registration Statement for a detailed description of these policies and their potential effects on our results of operations and financial condition.

•Revenue recognition
•Accounts receivable and allowance for doubtful accounts
•Concentration of credit risk
•Impairment of long-lived assets
•Income taxes

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency exchange rate risk

The Company has foreign-based operations, primarily in Europe, South America and Asia, which accounted for approximately 16 percent of its first half 2016 net sales. The Company’s significant operations outside the United States have designated the local currency as their functional currency. The primary currencies for which the Company has exchange rate exposure are the U.S. dollar versus the euro, the Brazilian real, the Japanese yen and the Chinese yuan. In addition, certain of the Company’s domestic operations have sales to foreign customers. In the conduct of its foreign operations, the Company also makes inter-company sales. All of this exposes the Company to the effect of changes in foreign currency exchange rates. Our earnings are therefore subject to change due to fluctuations in foreign currency exchange rates when the earnings in foreign currencies are translated into U.S. dollars. We do not hedge this translation impact on earnings. The U.S. dollar versus the euro is the Company’s most significant foreign currency exposure. A hypothetical 10 percent change in the average euro to U.S. dollar exchange rates during the six months ended June 30, 2016 and 2015, would have changed the Company’s net sales and income before income taxes by approximately $4 million or one percent and $2 million or three percent, respectively.

Concentration of credit risk

The financial instruments that potentially subject the Company to concentrations of credit risk are accounts receivable. The Company limits its credit risk by performing ongoing credit evaluations, and when necessary, requiring letters of credit, guarantees or collateral. The Company had accounts receivable relating to its largest customer of $16 million and $15 million as of June 30, 2016 and December 31, 2015, respectively.

Commodity price risk

A portion of our manufacturing costs include purchased raw materials, which are commodities whose prices fluctuate as market supply and demand fundamentals change. Accordingly, product margins and the level of our profitability tend to fluctuate with the changes in these commodity prices. The cost of energy is a manufacturing cost that is exposed to commodity pricing. The Company’s energy costs are diversified among electricity, steam and natural gas, with natural gas comprising our largest energy input.

Crude tall oil price risk

Our results of operations are directly affected by the cost of our raw materials, particularly CTO. Pricing for CTO (which accounts for approximately 14 percent of all of our cost of sales and 40 percent of our raw materials purchases for the first half of 2016) is subject to particular pricing pressures by reasons of the limited supply elasticity of the product and competing demands for its use, all of which drive pressure on price. Our gross profit and margins could be adversely affected by changes in the cost of CTO if we are unable to pass the increases on to our customers. CTO is a thinly traded commodity with pricing commonly established for periods ranging from one quarter to one year periods of time. The Company tries to protect against such pricing fluctuations through various business strategies. Based on average pricing during the six months ended June 30, 2016, a hypothetical unfavorable 10 percent change in the market price for CTO would have resulted in additional costs of sales of approximately $4 million or two percent, which we may or may not have been able to pass on to our customers.

Natural gas price risk

Natural gas is our largest form of energy purchases constituting approximately two percent of our cost of goods sold for the six months ended June 30, 2016. Increases in natural gas costs, unless passed on to our customers, would adversely affect our results of operations. If natural gas prices increase significantly, our business or results of operations may be adversely affected. For the six months ended June 30, 2016 a hypothetical unfavorable 10 percent change in natural gas pricing would have resulted in an additional cost of sales of approximately $0.5 million. Historically, prior to the Merger, the Company entered into natural gas hedges in order to better predict and control the future cost of natural gas consumed at the Company’s plants. There are no natural gas derivatives contracts outstanding at June 30, 2016.

Interest Rate Risk

As of June 30, 2016, approximately $490 million of our borrowings include a variable interest rate component. As a result, we are subject to interest rate risk with respect to such floating-rate debt. A 100 basis point increase in the variable interest rate component of our borrowings would increase our annual interest expense by approximately $5 million or 46 percent.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

The Company maintains a system of disclosure controls and procedures designed to give reasonable assurance that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. These controls and procedures also give reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

As of June 30, 2016, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), together with management, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures are effective at the reasonable assurance level described above.

b) Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes in the Company's risk factors discussed in our Information Statement filed with our Registration Statement under the heading "Risk Factors."

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
10.13a†	Form of Option Award Terms under the Ingevity Corporation 2016 Omnibus Incentive Plan
10.13b†	Form of Performance-based Restricted Stock Unit Terms under the Ingevity Corporation 2016 Omnibus Incentive Plan
10.13c†	Form of Replacement Cash Awards under the Ingevity Corporation 2016 Omnibus Incentive Plan
10.13d†	Form of Restricted Stock Unit Terms (three year vesting) under the Ingevity Corporation 2016 Omnibus Incentive Plan
10.13e†	Form of Restricted Stock Unit Terms (cliff vesting) under the Ingevity Corporation 2016 Omnibus Incentive Plan
10.13f†	Form of Restricted Stock Unit Terms (D. Michael Wilson) under the Ingevity Corporation 2016 Omnibus Incentive Plan
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Company’s Principal Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Company’s Principal Financial Officer.
32.1	Section 1350 Certification of the company’s Principal Executive Officer. The information contained in this Exhibit shall not be deemed filed with the Securities and Exchange Commission nor incorporated by reference in any registration statement filed by the registrant under the Securities Act of 1933, as amended.
32.2	Section 1350 Certification of the company’s Principal Financial Officer. The information contained in this Exhibit shall not be deemed filed with the Securities and Exchange Commission nor incorporated by reference in any registration statement filed by the registrant under the Securities Act of 1933, as amended.
101	Interactive Data File

* Incorporated by reference
† Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INGEVITY CORPORATION
(Registrant)

By: /S/ JOHN C. FORTSON
John C. Fortson
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)
Date: August 4, 2016

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EXHIBIT INDEX

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