

# **Ecovyst Inc. (ECVT) Q2 2024 Earnings Call Transcript**

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**Body**

Ecovyst Inc. (ECVT)

Q2 2024 Earnings Conference Call

August 1, 2024 11:00 ET

Company Participants

Gene Shiels - Director of Investor Relations

Kurt Bitting - Chief Executive Officer

Michael Feehan - Chief Financial Officer

Conference Call Participants

Alex Yefremov - KeyBanc Capital Markets

Patrick Cunningham - Citi

Laurence Alexander - Jefferies

Hamed Khorsand - BWS Financial

David Silver - CL King

Presentation

Operator

Good morning. My name is Madison [ph] and I will be your conference operator today. Welcome to the Ecovyst Second Quarter 2024 Earnings Call and Webcast. Please note, today's call is being recorded and should run approximately one hour. Currently, all participants have been placed in a listen-only mode to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. [Operator Instructions]

I would now like to hand the conference over to Gene Shiels, Director of Investor Relations. Please go ahead.

Gene Shiels

Thank you, operator. Good morning and welcome to Ecovyst second quarter 2024 earnings call. With me on the call this morning are Kurt Bitting, Ecovyst's Chief Executive Officer; and Mike Feehan, Ecovyst's Chief Financial Officer. Following our prepared remarks this morning, we'll take your questions.

Please note that some of the information shared today is forward-looking information, including information about the company's financial and operating performance, strategies, our anticipated end-use demand trends and our 2024 financial outlook. This information is subject to risks and uncertainties that could cause the actual results and the implementation of the company's plans to vary materially. Any forward-looking information shared today speaks only as of this date. These risks are discussed in the company's filings with the SEC. Reconciliations of non-GAAP financial measures mentioned in today's call with their corresponding GAAP measures can be found in our earnings release and in the presentation, materials posted on the Investors section of our website @ecovyst.com.

I'll now turn the call over to Kurt Bitting.

Kurt Bitting

Thank you, Gene and good morning. Overall, we are pleased with our results for the second quarter of 2024. We delivered financial results above our forecast and we made solid progress on a number of strategic initiatives.

During the quarter, we continued to see strong demand for regeneration services supported by high refinery utilization and favorable economics for alkylate with regeneration volume up compared to the second quarter of 2023. The Sales volume was also look for virgin sulfuric acid and treatment services compared to the year ago quarter. And in our Advanced Materials and Catalysts segment, sales of advanced silicone increased compared to the second quarter of 2023 on higher sales of chemical catalysts. However, during the quarter, we saw lower sales of catalyst materials used in the production of sustainable fuels & emission control applications. All in, for the second quarter, we delivered adjusted EBITDA of $57 million.

In terms of the continued strategic positioning of Ecovyst, it was a very successful quarter. By the end of May, we had completed the 4 turnarounds planned for eco services in the first half of the year. The work also progressed for our polyethylene catalyst production capacity expansion at our Kansas City site. Reflecting our balanced approach to capital allocation, during the quarter, we also repurchased 552,000 shares of Ecovyst common stock for a total cost of $5 million.

In addition, as we announced last week, our work during the quarter culminated in an equity investment in Pajarito Powders, a company with expertise and supports and catalysts for green hydrogen and fuel cells. This transaction is consistent with our stated strategy of leveraging our material science capabilities as we continue to position Ecovyst for growth in emerging markets. Through this investment, we gain access to and support for scaling technologies that we believe will position us to support and participate in future growth of hydrogen economy as we believe hydrogen produced through electrolysis can be widely used as a low carbon fuel for heavy-duty transportation and industrial applications.

Lastly, during the quarter, we strengthened our balance sheet through an amendment and extension of our term loan facility which reduced the interest rate spread and extended the maturity of the facility until June of 2031.

As we turn to Slide 6, I'll discuss our near-term demand outlook. In Ecoservices, we anticipate a favorable demand forecast for regeneration, treatment services and catalyst activation throughout the remainder of the year. We anticipate that regeneration will continue to experience strong demand, driven by persistent high refinery utilization rates and healthy afloat margins. Our Treatment Services segment is expected to continue to experience high volumes as it serves as a sustainable waste management solution for numerous chemical producers along the Gulf Coast. And despite anticipating a dip in utilization rates among renewable diesel manufacturers, we are observing a rising need for ex-situ catalyst activation which is expected to contribute to a buoyant outlook for 1032 in the latter half of the year.

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For virgin sulfuric acid, we expect continued positive demand for mining with copper demand sustained by continued expansion of copper mining projects in North America and borates demonstrating a normalization of inventories and stable demand. And even though the nylon industry's rebound remains subdued, we anticipate a year-over-year increase in virgin sulfuric acid sales for the nylon end use in 2024. For the remainder of our virgin sulfuric acid sales which supports a wide range of industrial end uses, including chlor-alkali and chemicals, water treatment, paper and packaging and spot sales into various end uses, we have adopted a more conservative view of demand and pricing for the second half of 2024.

Turning to Advanced Materials and Catalysts. In advanced silicones, global polyethylene demand is expected to be up 2% to 3% in 2024. However, the demand outlook continues to vary by geography. In North America, demand is positive with operating rates expected to approach 90% supported by exports. Producers in North America and in the Middle East, where we have sales concentration continue to have a cost advantage with lower energy and feedstock costs and we expect these geographies to benefit disproportionately as global polyethylene demand recovers. However, projections for Europe reflect flat demand with lower operating rates of approximately 80%. And in Asia, operating rates also continue in the low 80% range with subdued demand and new capacity continuing to come online. Overall, we continue to expect our sales of polyethylene catalysts and supports to be up in 2024 relative to 2023 but the magnitude of the increase remains dependent upon global demand conditions as well as customer sourcing and inventory decisions.

For the Zeolyst Joint Venture, we now see weaker demand for catalyst materials used in sustainable fuel production and emission control application and this has led us to revise our sales expectations for these end uses in the second half of this year. As a reminder, we provide catalyst materials that are used in the dewaxing phase of renewable diesel production and these catalyst materials sales are primarily made to the licensors of sustainable fuels production technology. Market conditions and customer sentiment evolved rapidly over the course of the second quarter and this is leading to our revised outlook for sales into renewable diesel production. Specifically, the pricing and value for renewable identification numbers or RINs which are a key incentive for renewable diesel producers declined significantly. RIN credits traded above $1.50 for several years, contributing positively to the overall economics for renewable diesel production, particularly for smaller producers. However, with the development of an imbalance between renewable diesel production and demand, value of RINs credits has decreased significantly recently falling below $0.50.

With the lower pricing for RINs credits and with increased feedstock costs and higher overall costs due to inflation, many producers are re-evaluating production economics. As a result, there has been a slowdown in new capacity additions and with lower near-term operating rates; we expect catalyst light to be extended, pushing out sales associated with periodic catalyst change-outs. Longer term, we continue to believe the leading technologies offered by our Zeolyst Joint Venture position us well to participate in the future growth opportunities for sustainable fuel production. While near-term economics for renewable diesel were challenged, we believe that demand for our catalyst materials will improve as producers retrofit the renewable diesel processes and add new units to produce sustainable aviation fuels, where demand is expected to triple by 2030 due to both governmental mandates and carbon reduction targets set by the airlines.

We have also revised our expectations for sales of our catalyst used in emission control applications for the balance of the year. Economic conditions in the EU, the U.K. and in the U.S., including the effects of inflation and higher interest rates has adversely impacted purchasing activity for heavy-duty diesel vehicles. For the month of May, sales of Class 8 trucks in the U.S. were down 18% compared to May of 2023, with May 2024 representing the 10th consecutive month of sales declines for Class 8 vehicles. Year-to-date, sales of these heavy-duty vehicles in the U.S. are down 15%. In addition, although Euro 7 legislation was previously expected to go into effect in 2025, the EU has softened NOx reduction requirements and has delayed the implementation of Euro 7 for heavy-duty vehicles for 4 years, significantly impacting vehicle sales in 2024. Given the delay in both the implementation of Euro 7 and the need for compliance with more fuel emission requirements, there is little incentive to upgrade truck fleet now and this is having an adverse impact on our catalyst material sales for emission control applications for the balance of 2024.

For sales of hydrocracking catalysts, we continue to see good demand which led to a strong first half and expect a similarly strong second half for 2024. However, as we discussed in our first quarter earnings call, with 2023 representing a peak year in the replacement cycle for hydrocracking catalysts, we expect overall sales of hydrocracking catalysts in 2024 to be below peak levels in 2023. And as we look into the future, we still have a positive outlook for catalyst sales and advanced recycling technologies. We expect sales to grow over the next 2 years. We are aligned with key players in the industry and expect a dozen advanced recycling plants to be built and commissioned in the next few years.

I'll now turn the call over to Mike for a more detailed discussion of our financial results for the second quarter.

Michael Feehan

Thank you, Kurt. Ecovyst sales for the second quarter of 2024, including our proportionate 50% share sales from the Zeolyst Joint Venture were $212 million, down $17 million compared to the second quarter of 2023. Eco Services benefited from strong demand for regeneration services and virgin sulfuric acid. And sales in advanced silicas increased on higher chemical catalysts. However, lower net pricing in Ecoservices associated with the timing and contractual pass-through effect of lower variable costs as well as lower sales for catalyst materials used in the production of sustainable fuels & emission control applications drove the overall lower sales year-over-year. Second quarter 2024 adjusted EBITDA was $57 million, down compared to $79 million in the second quarter of 2023, reflecting the lower sales within the Zeolyst Joint Venture, unfavorable net pricing, mostly attributable to the timing of the contractual cost pass-through effect and higher planned turnaround and maintenance costs in Ecoservices. This was partially offset by the higher sales volume in both Ecoservice and Advanced silicas.

Moving to the next slide. The unfavorable net pricing impact is reflected in the price and variable cost drivers, netting to a $13 million negative impact on our adjusted EBITDA in the second quarter. The lower net pricing was driven primarily by the timing and the mechanical contractual pass-through of certain costs, including energy and other index costs. Our pricing continues to exceed our variable costs. The unfavorable variance is a result of the period-over-period comparison and the quarterly timing lag. Overall, volume and mix were lower in the quarter as the lower sales in the Zeolyst Joint Venture more than offset the increase in regeneration services and virgin sulfuric acid. The balance of the decrease is largely associated with higher costs, including the costs associated with the planned turnaround and maintenance activity, higher networking costs and costs associated with our reliability initiatives which we had previously discussed.

Turning to the segment results. I'll start with the highlights for Ecoservices. Ecoservices sales for the second quarter of 2024 were $154 million, down 3%. Sales volume was up for regeneration services, virgin sulfuric acid and treatment services. However, the sales contribution from higher volume in Ecoservices was offset by the unfavorable net pricing in the quarter. Looking to the second half of the year, we believe headwinds associated with the unfavorable timing and contractual pass-through effect of certain costs are largely behind us. Second quarter 2024 adjusted EBITDA for Ecoservices was just under $50 million. The decrease in adjusted EBITDA and adjusted EBITDA margin was primarily driven by the net pricing impact, the higher planned turnaround and maintenance costs and networking costs to support the turnarounds. These items were only partially offset by the benefit of higher volume in the quarter.

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Sales for advanced silicas of $29 million were up nearly $3 million on higher sales of chemical catalysts. However, sales for the Zeolyst Joint Venture decreased $16 million on lower sales of catalyst materials used in the production of sustainable fuels & emission control applications. As Kurt noted, we now expect softer demand for catalyst materials used for sustainable fuel & emission control in the second half of the year. Adjusted EBITDA for Advanced Materials and Catalyst was just under $15 million. The decrease compared to the second quarter of 2023 was primarily driven by the lower volume in the Zeolyst Joint Venture.

Turning to cash and leverage on the next slide. Ecovyst continues to have strong cash generation capability which we believe will continue to support a balanced approach to capital allocation. For the first 6 months of the year, adjusted free cash flow was just over $14 million compared to $2 million for the first half of 2023, reflecting higher dividends received from the Zeolyst Joint Venture in the first quarter, offsetting the lower earnings, higher interest and taxes.

During the quarter, we refinanced our term loan, extending the maturity to 2031 and reducing the interest rate spread by 35 basis points, saving over $3 million in annual interest costs. In light of this transaction, our balance sheet is in exceptionally strong shape. We continue to have interest rate caps in place that limit our interest rate exposure and our average cost of debt is expected to be approximately 5.5% during 2024. During the second quarter, we repurchased 552,000 shares of our stock at an average price of $9.05 per share for a total of $5 million. We ended the second quarter with $83 million of cash and have available liquidity of $156 million. Considering the use of cash for refinancing our term loan and share repurchases and with the reduction in the trailing 12-month adjusted EBITDA, our net debt leverage ratio at quarter end was 3.3x. With the expected cash generation over the balance of the year and excluding any impact of share repurchases or M&A activity, we expect to end the year with a leverage ratio of approximately 3x.

As noted in this morning's earnings release, we have revised our outlook for the balance of the year, considering the expected softer demand for sales of catalyst materials used for the production of sustainable fuel& emission control applications and to reflect the moderate impacts of Hurricane Beryl and a more cautious view with regard to industrial demand, particularly for sales versus sulfuric acid. The revisions to our full year 2024 expectations are reflected on Slide 13 with the revised outlook as follows. We now expect that GAAP sales will be in the range of $700 million to $740 million, $15 million lower at the midpoint compared to our prior guidance range. With the revised outlook for catalyst sales used in the production of sustainable fuel& emission control applications, we now expect sales for the Zeolyst Joint Venture to be between $115 million to $135 million, down $30 million at the midpoint. Adjusted EBITDA is expected to be in the range of $230 million to $245 million.

In terms of segment expectations; for the full year 2024, we expect adjusted EBITDA for Ecoservices will be in the range of $195 million to $205 million. Advanced Materials and Catalyst is expected to be in the range of $65 million to $70 million and we continue to expect our corporate cost to be around $30 million on an annual basis. We have revised our guidance for free cash flow to a range of $75 million to $85 million, down $15 million at the midpoint. But we are also providing full year guidance for adjusted net income to be in the range of $53 million to $74 million and we expect adjusted diluted income per share to be in the range of $0.45 to $0.63. In terms of specific guidance for the third quarter, we expect third quarter adjusted EBITDA for Ecoservice to be between $53 million and $57 million.

For Advanced Materials and Catalysts, we expect third quarter adjusted EBITDA to be between $13 million to $15 million. Assuming unallocated corporate expenses of $7 million to $8 million, we expect consolidated adjusted EBITDA for the third quarter to be between $58 million and $65 million. We expect adjusted net income of $14 million to $21 million with adjusted diluted income per share to be in the range of $0.12 to $0.18.

I will now hand the call back to Kurt for some closing remarks.

Kurt Bitting

Thank you, Mike. Reflecting upon our results for the first half of 2024, I believe the Ecovyst team has done well in executing relative to our operational and strategic plan as we continue to manage through an uncertain economic environment. In doing so, for the first half of the year, we exceeded our internal expectations for financial results. For Ecoservices, we believe the volumes for all Ecoservices products as well as Ecoservices EBITDA will demonstrate year-over-year gains. For our regeneration business, in particular, despite indications that refining margins are under pressure, I'll reiterate that demand for our regeneration services is more associated with the profitability of the Appalachian units which is expected to remain positive for the balance of 2024. For our sales of virgin sulfuric acid, we still expect sales volumes to be up in 2024 compared to 2023 but we remain cautious about the economic environment which leads to some uncertainty about overall industrial demand for virgin sulfuric acid.

And while ecoservice results for the second quarter reflected net pricing pressure associated with the timing effect of contractual pass-through of variable costs, we believe the headwinds of this timing effect are largely behind us as we go into the third quarter. With our revised outlook for sales into sustainable fuel & emission control applications for the second half of the year, we aim to mitigate the impact of these softer near-term market conditions through manufacturing cost reductions and deferring spending. We continue to be enthusiastic about the growth prospects for Ecovyst in both our foundational businesses and in emerging technologies. We're equally eager to support our new partner, Pajarito Powders, as they develop and scale their solutions for fuel cells and green hydrogen generation.

In closing, even with our revised financial outlook, we expect free cash flow generation for 2024 to be up year-over-year, providing for continued flexibility for capital allocation as we position Ecovyst for the future. While we see near-term softness in 2 specific end uses for the Zeolyst Joint Venture, we expect modest volume growth in Ecoservices and advanced silicone and we will continue to execute on the strategic plan that we have established to deliver long-term growth across the entirety of the Ecovyst portfolio.

At this time, I will ask the operator to open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And we will take our first question from John McNulty with BMO Capital Markets.

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Unidentified Analyst

This is Caleb [ph] on for John. I'm just curious, how much of the lower guide is tied to the impact from Hurricane Beryl and then lower industrial demand and then also the impact from the renewable fuels outlook.

Kurt Bitting

The Beryl impact is a few million dollars. The guidance outlook, we provided some ranges for the 2 businesses. Ultimately, about half of it is coming from the Ecoservice side and the other half is coming from the AM&C side. Related to the softness on the virgin on the industrial side, that's primarily in the Ecoservice business. And then, of course, the change in our outlook related to both sustainable fuels, primarily and then a little bit related to the emission control is driving the change in AM&C.

Unidentified Analyst

And then just in terms of the headwinds on the renewable fuels, how long do you expect that to last for? Is that kind of 25 thing? Or is that just like the next couple of quarters dynamic?

Kurt Bitting

Our view is the renewable diesel market which is really the driver right now. It's going to face headwinds probably over the next 12 to 18 months. And there's been a sustained decline in the RIN credits which has obviously led to deferred investment decisions for producers as well as slowed utilization rates in that space which affects the consumption of the catalyst. Our view is that, that will likely go for 12 to 18 months. However, we do see positivity coming in the future as sustainable aviation fuel units are built where there is expected to be a tripling of demand between 2025 and 2030. So there'll be new units that will be built that will require dewaxing catalyst materials like we make as well as the existing renewable diesel units if the core economics continue. Producers and some have already made announcements where they'll convert their existing renewable diesel units into sustainable aviation units.

Operator

And we will take our next question from Aleksey Yefremov with KeyBanc Capital Markets.

Aleksey Yefremov

Can you provide some maybe reference how low is your renewable diesel business now relative to pre-downturn levels? I don't know, is it down 20%, 100%? And is there more pressure here? Or has it stabilized a little, like go sideways for the next 12, 18 runs?

Michael Feehan

Previously, we had said that the sustainable fuel business represented around 10% or a little more than 10% of our total sales for the AM&C segment. Now what we see for the remainder of the year is below that 10%, so call it, mid-to-high single-digit percent. And as Kurt just alluded to, what we're seeing that is on a short-term basis. But in the longer term, we do see there is the ability for that to grow, particularly around changes in the dynamics in the supply and demand as well as the SAF business.

Aleksey Yefremov

And then on the pricing in Ecoservices you have the lag effect in the first half. Do you expect them to go away in the second half? Or if not, when do you think that would happen? And what do you think pricing would look like when we no longer see the lag effects.

Michael Feehan

So first, I just want to comment that we don't have any concerns around our base pricing. Our overall pricing is exceeding our variable costs and we obviously have a profitable business. A lot of what this is, is really the mechanical pass-through nature and the timing of when those costs are incurred. So when you're looking at a period-over-period comparison, we had a big benefit in the second quarter of last year. And this year, you just don't have the same compares the same benefit. So it looks as a big negative. So we do not expect that trend to continue. So you'll see a much more muted impact going forward for the rest of the year but the overall impact from the first half does impact your overall year-over-year comparison. But for the second half, you're not going to see that same dynamic.

Operator

And our next question comes from Patrick Cunningham with Citi.

Patrick Cunningham

I think I just want to continue on the thread with the weaker outlook in our renewable fuels as well as emission control catalysts. First, can you maybe talk about the regulatory uncertainty, whether it's the Chevron decision, election results and what customers are saying in terms of their buying patterns? And then just in terms of the cooling demand for renewable fuels, is any of that cost optimization and how you're positioning your business taking place? Are you taking actions as a result of this weaker forecasted demand in the next 12 to 18 months?

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Kurt Bitting

I think in terms of just the macro environment for renewable or sustainable fuels right now, fee driven in the supply-demand imbalance, creates pressure on those RIN credits which leads to lower utilization leads to deferral of investments that we've mentioned before. In terms of regulatory, I mean, there still are some issues to be resolved, the RFS, I guess the renewable volume obligation will be set post the election. So I think that could have a future impact on that. And the EPA has already announced that they're not going to make that call until post the election. So I think we're in a little bit of a holding pattern here with that. But long term, as we mentioned, we do see momentum behind sustainable aviation fuel because the airlines have made large commitments to the volumes that they intend to purchase for sustainable aviation fuels as well as actual regulations that have been put in place in the EU and ones that are being contemplated elsewhere.

In terms of cost controls, we've already taken steps in July to remove costs from those impacted, I would say, underutilized units that are really concentrated in the Zeolyst Joint Venture in terms of the emission controls and renewable fuels. And to put it in perspective, it's probably the equivalent of removing a shift out of the production schedule. We've also deferred some spending. But none of these costs -- they're all going to be concentrated towards those areas. Now those cost controls are going to impact the other things that we have going on in our catalyst and advanced materials space where we're expanding the Kansas City site for polyethylene, all those things are still going to move forward and these cost reductions won't impact that at all.

Patrick Cunningham

And then, just a question for Mike. You've indicated when you get below 3x leverage, eventually in the low 2s. What do you expect to be the balance of debt pay down? I know you said probably limited focus on M&A and repurchases for the balance of the year? And are there any discrete headwinds or tailwinds that will make cash conversion come in better or where some of your base is?

Michael Feehan

So from a leverage standpoint, we expect to end the year based on our guidance of roughly 3x levered. We do expect our free cash flow to still remain strong. You'll notice that our free cash flow guidance is down but not as much as what our EBITDA is. We still believe that we have strong cash generation and expect it to be higher than it was last year. So we continue to generate cash. Our core businesses are intact. And as Kurt mentioned, we've been doing some other things to defer spending and take the appropriate actions to help support that generation going forward.

Operator

And our next question comes from Laurence Alexander with Jefferies.

Laurence Alexander

So first, can we maybe look at the adjustments that you've made in separate out like the transitory versus structural. And as you think about what the baseline is for building the bridge for 2025 EBITDA, what you think we should be using and the puts and takes there? And then secondly, given the discussions you've had with the customers at this point, can you talk a little bit about what the kind of revenue opportunity is over 4, 5 years now on both the SAF front and the recycling front? If your plans go through and the industry builds out as expected, what's the revenue opportunity for you if you get your fair share of the supply chain?

Michael Feehan

So I'll just start and just note that we're not going to provide any updated guidance on 2025 but I would tell you that from a directional standpoint, we're certainly happy with what we've seen this year from a volume standpoint, particularly around the regeneration services. We do see growth in virgin sulfuric acid as we talked about. However, a little more cautious than earlier in the year but it's still a good growth component over the previous year. We do have that strong base pricing that we expect to continue going forward into future years. And with our cost structure and Ecoservice is now managed at an appropriate level with the higher cost that we talked about related to the reliability program and higher turnaround costs, that will moderate going forward. So we expect 2025 to continue to go in the right direction at 18 months. So that will impact us going into next year.

Our hydrocracking catalyst actually is doing well this year. It's not quite at the peak that it was in 2023 last year. However, it is having a strong year and we continue to see that being a positive into next year as well. So with some of the newer areas, whether it's advanced recycling or in the functionalized silicas business with enzyme development, those are all positives that are going to take us into a positive nature around those for 2025 as well.

Kurt Bitting

I would just add, Laurence. Mike mentioned a little bit sustainable aviation fuel, we see that growth as we've said advanced recycling, there's 12 units under construction. We expect an uptake in our products in that space to begin '25 and '26 and going beyond. And I'll just circle back really on the Ecoservice side. All the products are going to have volume uptick year-over-year [Technical Difficulty].

Operator

Thank you. And our next question will come from Hamed Khorsand with BWS Financial.

Hamed Khorsand

So I just wanted to ask about what's going on Zeolyst. The string comments you've been making, RIN has been coming down for more than a year. So what's different now? Is it the Zeolyst lost a customer? It just sounds all of a sudden that the RIN being an excuse just sounds a little off [Technical Difficulty].

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Operator

Please standby. Please standby while we resolve technical difficulties.

Hamed Khorsand

Hello? Are we back?

Operator

Hello. You are coming in clear. And we do have our next question from Hamed Khorsand with BWS Financial.

Hamed Khorsand

So what I wanted to ask about was on the sustainable fuel side and Zeolyst. Is this a customer loss perspective because RIN prices have been coming down for a year now. So I'm just surprised it took a year before you're seeing any kind of impact from that.

Kurt Bitting

I think we have not lost customers in this space. I mean, we are a leading provider in dewaxing catalyst materials. But that being said, our end customer, as we've stated, tends to be the catalyst technology provider or the technology provider for the renewable producers. So we're, in most cases, once removed in terms of the actual producers themselves which, in some cases, are on purpose renewable producers or integrated refining companies that produce renewable fuels. Our view on this was reins credits came down, the sustained nature of that has led to these long-term decisions where people are going to defer investments as well as the catalyst life as the low utilization rates impacting the catalyst consumption or the use of the catalyst now is leading to the slower sales from that long-term low utilization from the RINs credit. Once removed there. I think it's more the long-term nature of the length that the RINs credits have been below that has started culminating in some of this activity.

Hamed Khorsand

And then as far as your cost management is concerned, how manageable is that, you're reducing costs when sales come back, do those costs come back as well? Or are you able to keep those permanent?

Kurt Bitting

We'll obviously, we'll look at that when those come back. We do have the ability to scale up. Essentially, what I mentioned before was the removal of the equivalent of the shift to the production sites or the production lines that are affected. So we would have the ability to scale that back and it would just be a manner of at what pace that comes back. Can we handle it with our existing capacity? Or do we have to go back and add those costs back. So it will really be a function of the pace of the return of the sales.

Operator

[Operator Instructions] And we will take our next question from David Silver with CL King.

David Silver

I guess the first question I'd like to ask would be maybe to get your view on the back half of the year in terms of the opportunities for your virgin acid product. I think the demand on that side has been weaker or hasn't really been exceptionally strong for a few quarters now? And I'm just thinking about the step down or the implied step down in your guidance. But is there a dynamic in that market, maybe, Kurt, where when industrial activity weakens that there are some new players that enter in other words, they can't use all their captive product internally and then that they tend to look for outlets into your preferred markets. In other words, is this just the demand that you see falling away? Or is there maybe something a little more complex where weaker industrial demand turns into some increased competition in some of your traditional markets?

Kurt Bitting

So for the back half of the year, overall for virgin sulfuric acid again, we do expect volumes to be up year-over-year and actually the EBITDA of Ecoservices in the second half of the year to be up year-over-year. That being said, when we gave our initial guidance coming into this year, we had planned to do 4 turnarounds in the first half of the year. We view the second half of the year would be a recovering marketplace. Most of our turnaround activity was done. We have the volume to meet what generally is a spot and I'd say short-dated contract market where if industrial activity is healthy and other producers are taking turnarounds or such themselves, there's generally a healthy spot market to sell additional materials which are generally higher in price just due to their short-term and opportunistic nature. So what we're seeing now is just generally the cautiousness with the overall industrial climate, not really impacting our existing demand but it just makes those marginal infringe spot sales that we typically have the ability to capitalize due to our scale. We're just cautious around our ability to capture those because they just might not be there because the existing market may be able to meet that demand.

David Silver

The second thing I'd like to ask you about is maybe the decision to redo and extend your term loan. So when I read the announcement originally, I noted that, that term loan wasn't really due to expire or mature until, I think, 2028 or so. And in effect, you've extended it out 3 years. My thinking or my assumption is the impetus to redo the term loan would have been on your side. Banks are always anxious to earn a few more fees but it's a lot of time and effort internally to a lot of paperwork. But maybe, Mike, if you wouldn't mind just sharing your thoughts about why now or why middle of June was the right time to extend that? And beyond the $3 million or so of annual interest savings, what other key features did you come away with from there that you think were part of your calculation and moving forward with that decision at that time?

Michael Feehan

So there's certainly a bit of a question in the market around companies and their balance sheet. And we saw this as an opportunity to go out into the market. Our bankers that we've used have done a nice job helping us guide through when the right opportunities might arise. We certainly were able to do this at a relatively low cost for what we were able to do, extending the turnout for 3 years as well as reducing the overall interest expense, as you mentioned, around $3 million a year. The NPV and the value of doing it was quite high. And we also felt very, very comfortable that it would help support our story of having a strong balance sheet from a capital allocation standpoint, generating cash and having the ability to use that cash for what we needed to do going forward. So we believe that it was the right time to go out of the market, gives the investors comfort that our balance sheet is strong and also allows us to continue with our strategy to add interest rate caps as needed.

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As we mentioned, we're about 75% hedged over the next several years. So our weighted average cost of capital is around 5.5% for the year. So again, it just gives that comfort for investors to know that interest is not a big concern for a company like ours.

David Silver

And then last question, if I could. With this latest update, you'll be, I don't know, under-earning maybe or below trend or a little bit of a period of time. Any thoughts from your side on your major capital outlays and I'm thinking of Kansas City in particular. But does the original time line still make sense here? Or if we do enter a softer patch industrial activity wise, that's something that could probably be timed a little differently?

Kurt Bitting

So with polyethylene, obviously, the growth in the polyethylene is a little lower than what it's been in the trend past 3% to 4%. As we said on the call, that is currently running around 2% to 3%. We do expect our polyethylene catalyst sales to be up year-over-year. The Kansas City investments are really linked to customer commitments who are simultaneously constructing assets and such that we'll need those catalysts which, to our knowledge, they're rolling along. So we don't have any intention to slow those Kansas City expansion at this time, just we have commitments to meet for downstream customers.

David Silver

Okay. Thank you very much.

Operator

Thank you. We have no further questions in queue at this time. This does conclude the Ecovyst second quarter 2024 earnings call and webcast. Thank you for your participation and you may disconnect at any time.

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