Refocusing around sustainability

Ecovyst emerges from PQ as catalyst and refining services pure play

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Ecovyst emerges as catalyst and services pure play

Ecovyst (Malvern, Pennsylvania), which changed its name from PQ Group last fall, has sharply narrowed its focus to become a targeted pure play focused on catalysts and refining services better aligned with growth and sustainability trends.

Robert Westervelt

The company’s “simpler and stronger” strategy, which included the divestiture of more than half of its revenues since the end of 2020, leaves the company focused on its highest-growth and highest-margin segments, says chairman and CEO Belgacem Chariag.

PQ, founded in 1831, has a long history in specialty chemicals and materials but was held back with a relatively small but complex portfolio that imposed a discount valuation despite strong overall margins, Chariag says. PQ was taken public by private equity firm CCMP and Ineos in 2017, but they retained a significant stake in PQ. CCMP and Ineos have cut their combined stake from 75% to 52% over the past year, helping improve float. The refining services, or ecoservices, business is a leading supplier of sulfuric acid recycling services to North American refineries in California and on the US Gulf Coast, with a market share of more than 50%, for the production of alkylate. The business also makes on-purpose virgin sulfuric acid for water treatment, mining and industrial applications.

The catalysts business is leading producer of silica-based polyolefin catalysts and also
includes a 50% stake in Zeolyst, a joint venture (JV) with Shell, with a global position in hydrocracking and emissions control catalysts.

Both segments have a high-single-digit revenue growth, double-digit adjusted EBITDA with strong and sustainable margins in mid-to-high 30% range, among the highest in the specialty chemical sector. Annualized sales includes its share of Zeolyst JV revenues is nearly $750 million. Segment adjusted EBITDA was $190 million through the first nine months of 2021, up 8% year over year (YoY).

The storied PQ name was shed in August following the sale of the silicates business to a consortium led by private equity firm Cerberus Capital and Koch Industries for $1.1 billion. In December 2020, the company sold its glass microspheres business to Jordan Company for $650 million in December 2020. Combined proceeds of nearly $1.8 billion were used to pay down debt and pay a special dividend.

The divestments accelerated the transformation that has started under Chariag when he was named CEO in 2018.

Before joining PQ, he was chief global operations officer at Baker Hughes and had spent 30 years in the energy sector. The portfolio at Baker Hughes included its $3-billion oilfield chemicals business so chemicals were not entirely new. "I saw a lot to like at PQ, but I also saw a lot to be done," Chariag says. "I saw a lot of interesting things so I jumped at the opportunity."

The previous structure at PQ hid the true value of its most businesses, as well as some of the flaws, he adds. "It was important to de-layer the company so we created four businesses," he says. The company then took steps to weed out non-profitable components and underperformers. The company sold or swapped 10 non-core assets and product lines in roughly a year, generating roughly $90 million.

The remaining businesses were strong but had different growth, innovation and commercial profiles. PQ historically operated with 25–27% adjusted EBITDA margins, which was attractive overall for a specialty company but the complexity led to a discount, Chariag says.

The moves helped “fast track” the repositioning of the entire company. Silicates and glass beads were solid “annuity-type” businesses with strong cash generation and attractive margins but lower overall growth potential than catalysts and refining services.

“We decided to pick the growth path: high margin and high cash flow, which was catalysts and ecovervices,” Chariag says. “You can bet on these as great businesses, and when you plug in the sustainability profile you’ve got a clear winner. We’ve seen a potential for a thousand basis points improvement in segment EBITDA margin within 3–4 years compared with the old portfolio,” he says. “And we have two businesses with growth drivers: regulation, environmental and sustainability.”

**Sustainability drivers**

The catalyst business is well aligned with sustainability trends focused on products that improve air quality through lower sulfur and NOx emissions in fuels. The polyolefin business contributes to improved plastics performance, including light weighting and emerging opportunities in recycling of mixed plastics to improve plastics circularity. Refining services and sulfuric acid drive higher alkylation for improved fuel economy.

“Catalysts is a customization business,” Chariag says. “A customer brings us a problem and we find the solution. Technology is the name of the game. Pricing and margin are usually proportional to the level of technology and solutions. It’s a nice growth engine.”

The ecovervices business operates on the US Gulf Coast and California, with overall US market share of more than 50%. The business operates under 5–10 year take or pay contracts with pass through provisions for energy and sulfur costs. “We operate in clusters and that allows us to operate in a very well-organized manner from a logistics perspective,” he says. “Security of supply is critical, a refinery can’t operate without sulfuric acid, which results in long-term contracts with stable margins.”

**Seeking growth**

Divestments have shrunk revenues by more than half, but the remaining businesses are on a strong growth profile. The company aims to get back above $1 billion in revenue by 2025, with approximately 10% of that coming from M&A. The company figures to spend $100–200 million on tuck-in M&A over the next two or three years, Chariag says. One early success has been acquisition of Chem32, a niche catalyst activation business with unique and promising growth potential. Chem32 uses a novel technology to activate hydro-processing catalysts for refiners and renewable fuels producers. The business operates within ecovervices and there are strong commercial and technology synergies with both segments.

The M&A focus is “plugging in gaps that we have in our catalyst technology business,” he says. “We only play in one or two catalyst markets so there is room for us to find technology and expand there. Our approach allows us to take an immature technology, develop it, and commercialize it. If we can find those opportunities in catalyst space, we can do it.” Ecovervices targets could include potential in the space of sulfuric acid for industrial and electronic applications. “We think there are opportunities we have never really looked at in the past,” he says.

The company estimates an addressable market of roughly $9 billion for its existing business and intends to stick to bolt-on acquisitions that bring technology or boost
growth. “We don’t intend to add another leg to the stool,” Chariag says. Expansion will be largely driven by existing organic investments and select tuck-in acquisitions. “We want to stay a pure play catalyst company,” Chariag says. “Anything we bring in will support the sustainability transition of our customers and industry over the next 10–20 years.”

The focus is now on execution to attract investor support and improve valuation in line with a target peer set that includes high-performing specialty chemical makers, electronic chemical producers, and environmental service providers.

“Investors tell us size is not the issue,” Chariag says. “Investors want to understand our purpose. If you want to be successful as a small- to mid-cap producer in a market like this, your business needs to be meaningful. You need the tailwind of something important, like sustainability, technology, innovation and growth. That was another reason why we decided we’re going to go with growth, margin, innovation and quality in catalysts and ecoservices.”

The company calculates that its investment ratio on new sustainable products has gone from 60% in 2015 to 85% in 2020. “And we anticipate further advancement to 90% by 2025,” Chariag says. “We want to make sure that alignment with our customer [sustainability needs] drives innovation for the future.”

Three key trends play in Ecovyst’s favor. The first is increasing standards and obligations for manufacturers to make meaningful efforts to reduce the environmental footprint of their activities, he says.

Second is a shift to cleaner energy sources, particularly for the transportation industry. And third is the growing urgency for recycling solutions for plastics. The trends create momentum for Ecovyst’s product portfolio.

Positive demand trends are expected to fuel growth in 2022. “We think we’re going to have a nice environment in 2022,” Chariag says. “Economic and industrial recovery are happening even if the pace is not fully clear. And when you add the regulatory and sustainability demands, we’re very positive about the year ahead.”

The changes have built a solid foundation for growth, Chariag adds. “We are operating in industries and end uses where growth will accelerate, benefiting from the transition to more favorable environmental demand trends,” Chariag says. “The solutions required to enable the transition represent real opportunities for our products and services offering, to expand with a growing and more diverse end use demand.”