



# Fourth-Quarter Fiscal 2019 Earnings

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<http://investors.valvoline.com>

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## Forward-Looking Statements

Certain statements in this presentation, other than statements of historical fact, including estimates, projections and statements related to Valvoline's business plans and operating results, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Valvoline has identified some of these forward-looking statements with words such as "anticipates," "believes," "expects," "estimates," "is likely," "predicts," "projects," "forecasts," "may," "will," "should" and "intends" and the negative of these words or other comparable terminology. These forward-looking statements are based on Valvoline's current expectations, estimates, projections and assumptions as of the date such statements are made, and are subject to risks and uncertainties that may cause results to differ materially from those expressed or implied in the forward-looking statements. Additional information regarding these risks and uncertainties are described in the Company's filings with the Securities and Exchange Commission, including in the "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk" sections of Valvoline's most recently filed periodic reports on Forms 10-K and Forms 10-Q, which are available on Valvoline's website at <http://investors.valvoline.com/sec-filings> or the SEC's website at <http://sec.gov>. Valvoline assumes no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future, unless required by law.

## Regulation G: Adjusted Results

The information presented herein, regarding certain financial measures that do not conform to generally accepted accounting principles in the United States (U.S. GAAP), should not be construed as an alternative to the reported results determined in accordance with U.S. GAAP. Valvoline has included this non-GAAP information to assist in understanding the operating performance of the company and its reportable segments. The non-GAAP information provided may not be consistent with the methodologies used by other companies. Information regarding Valvoline's definition, calculation and reconciliation of non-GAAP measures can be found in the tables attached to Valvoline's most recent earnings press release dated November 6, 2019, which is available on Valvoline's website at <http://investors.valvoline.com/financial-reports/quarterly-reports>.

# Fourth-Quarter & FY19 Reported Results

(in millions, except per-share data)	Q4	FY19
Operating income	\$113	\$398
Net income	\$27	\$208
EPS	\$0.14	\$1.10

Full-year cash flow from operating activities of \$325 million

## Notes on reporting and year-over-year (YoY) impacts

### Revenue recognition

- Adopted new revenue recognition accounting standard in fiscal 2019
- Primarily a reclassification of certain items within the income statement
  - No net impact to Q4 earnings
  - Unfavorable impact to FY19 earnings of \$2 million after tax.

### Key items<sup>1</sup> in Q4

- Net pension and OPEB mark-to-market remeasurements and non-service income: \$50 million after-tax expense
- Acquisition-related bargain purchase gain: \$4 million after-tax income
- Restructuring and related expenses: \$2 million after-tax expense

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated Nov. 6, 2019, available on Valvoline's website at <http://investors.valvoline.com>.

## Fourth-Quarter & FY19 Adjusted<sup>1</sup> Results Overview

(in millions, except per-share data)	Q4	FY19
Adjusted <sup>1</sup> Operating income	\$111	\$417
Adjusted <sup>1</sup> EBITDA	\$129	\$478
Adjusted <sup>1</sup> EPS	\$0.40	\$1.39

Full-year free cash flow of \$217 million

- Adjusted<sup>1</sup> EBITDA growth of 7% in Q4
- Full-year adjusted<sup>1</sup> EBITDA growth of 3%
- Adjusted<sup>1</sup> EPS growth of 18% in Q4
- Full-year adjusted<sup>1</sup> EPS growth of 8%
- Q4 results driven by Quick Lubes performance and lower expenses in Core North America

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated Nov. 6, 2019, available on Valvoline's website at <http://investors.valvoline.com>.

# Segment Results Summary

## Quick Lubes

(YoY change)	Q4	FY19
SSS <sup>1</sup> (system-wide)	10.0%	10.1%
Sales	+23%	+25%
Net new stores (company/franchised)	33	143
Adjusted <sup>1</sup> EBITDA	\$58 million, up 14%	\$214 million, up 16%

**Ongoing strength in SSS growth**

**Steady pace of store additions continues**

## Core North America

(YoY change)	Q4	FY19
Total Volume	-4%	-7%
Sales	-1%	-4%
Premium mix	53.6%, up 410 bps	52.6%, up 340 bps
Adjusted <sup>1</sup> EBITDA	\$48 million, up 2%	\$174 million, down 8%

**Improved YoY performance continued**

**Market challenges remain in retail channel**

## International

(YoY change)	Q4	FY19
Volume	Flat	-1%
Volume with JVs <sup>1</sup>	+2%	Flat
Sales	-2%	-3%
Adjusted <sup>1</sup> EBITDA	\$23 million, flat	\$90 million, down 1%

**Volume softness in certain markets**

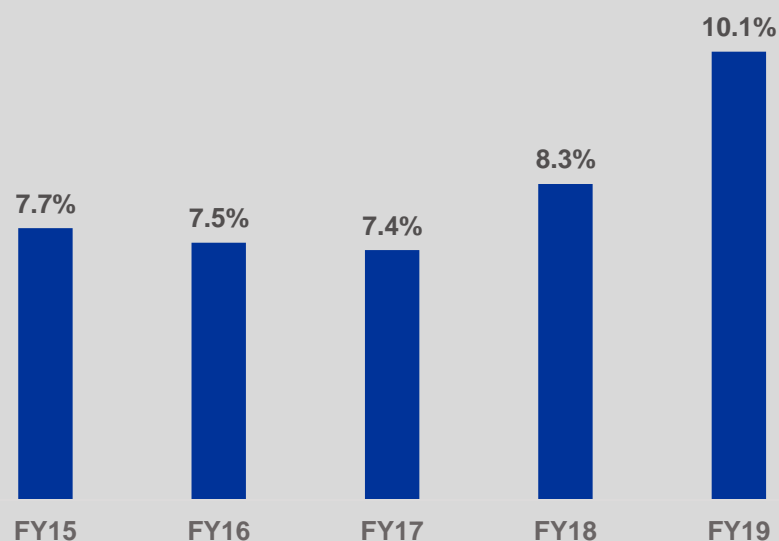
**FX impacting sales and profitability**

<sup>1</sup> For a discussion of management's use of key business measures and a reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated Nov. 6, 2019, available on Valvoline's website at <http://investors.valvoline.com>.

# Quick Lubes

## Record annual SSS<sup>1</sup> performance; 13<sup>th</sup> consecutive year of growth

### System-wide SSS Growth



- Q4 & FY19 SSS driven by balance of average ticket and transaction growth

## Targeted pipeline development driving ongoing unit expansion

- 33 net new stores added in Q4
  - 15 franchise stores
  - 18 company stores, including 4 in Canada
- 143 net new stores added YoY
  - 86 franchise stores added YoY, including Oil Changers acquisition in Canada
  - 57 company stores added YoY, including 28 newly-opened

# Quick Lubes – Outlook

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## FY20 – Growth expected to continue

1. Unit additions: ~100 systemwide
  - Company-owned stores: 30 – 35 newly built stores
  - Franchise: 30 – 40 additions
  - Acquisitions
2. Operational execution and new units anticipated to drive strong growth
  - SSS<sup>1</sup> growth of 6 – 8%: Balance between transactions and average ticket
  - EBITDA growth in the low to mid-teens
3. Investing to increase market share and enhance customer experience
  - Targeting under-penetrated vehicle segments
  - Continue to drive app penetration in company markets

<sup>1</sup> For a discussion of management's use of key business, please refer to Valvoline's earnings release dated Nov. 6, 2019, available on Valvoline's website at <http://investors.valvoline.com>.

## Core North America

### Modest growth in Q4 adjusted<sup>1</sup> EBITDA

- Sales down 1%, volume down 4%
- Cost and expense savings better than anticipated

### Volume declines slow in Q4

- Drivers of YoY decline
  - Branded volume in the retail channel
    - Roughly flat sequentially
  - Normalized installer channel volume remained steady

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated Nov. 6, 2019, available on Valvoline's website at <http://investors.valvoline.com>.



# Core North America – Outlook

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## FY20 – Focus on stabilization

1. Modest growth anticipated in installer channel
  - Continue to drive value-added selling approach with installer customers
  - Leverage opportunities in heavy duty and newer service offerings
2. Challenging dynamics expected to continue in retail channel
  - Consumer pricing and private label pressures remain
3. YoY volume and profitability trends projected to improve
  - Negative channel mix
  - Operating expense savings program adds flexibility
  - Low-single digit volume decline; mid-single digit EBITDA decline

# International

## Volume flat in Q4

- Continued volume growth in Europe
  - Benefits of recent acquisition
- Pivot to volume growth in Latin America
- Volume with unconsolidated JVs<sup>1</sup> up 2%

## Sales and profitability impacted by FX

- Adjusted<sup>1</sup> EBITDA flat
- Unfavorable FX headwinds continue

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# International – Outlook

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## FY20 – Focus on reigniting growth

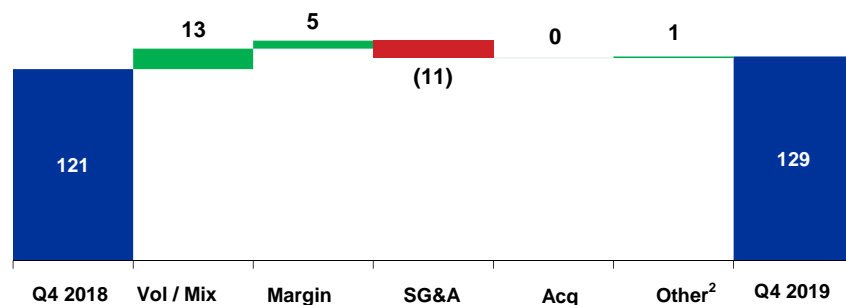
1. Capture growth opportunities in most regions/markets
  - EMEA – Europe base business and acquisition growth
  - Latin America – heavy duty growth and expanded passenger car product portfolio
  - Asia-Pacific – expand OEM relationships and grow key aftermarket accounts
2. Accelerating investment in channel development, service platforms and brand building
  - Including start-up costs for China plant
3. Investments for future growth limit near-term profitability improvement
  - Mid- to high-single digit volume growth; EBITDA roughly flat

# Fourth-Quarter & FY19 Financials

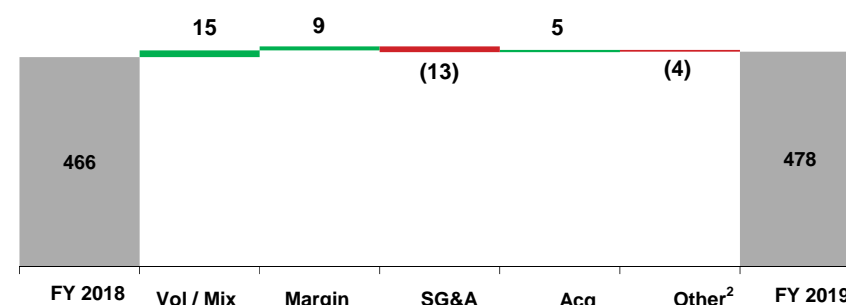
Adjusted <sup>1</sup> P&L Results and Ratios	Fiscal Fourth Quarter Three months ended Sept. 30,		
	2019	2018	Change
Lubricant gallons (in millions)	46.4	46.6	- %
Sales	\$ 629	\$ 594	6 %
Gross profit as a percent of sales <sup>1</sup>	34.5 %	34.2 %	30 bp
SG&A <sup>1</sup>	113	102	11 %
Equity and other income <sup>1</sup>	7	5	40 %
Adjusted <sup>1</sup> operating income	\$ 111	\$ 106	5 %
Depreciation and amortization	18	15	20 %
Adjusted <sup>1</sup> Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$ 129	\$ 121	7 %
Adjusted <sup>1</sup> EBITDA as a percent of sales	20.5 %	20.4 %	10 bp
Adjusted <sup>1</sup> EPS	\$ 0.40	\$ 0.34	18 %

Fiscal Year Twelve months ended Sept. 30,	Fiscal Year		
	2019	2018	Change
Lubricant gallons (in millions)	178.4	181.9	(2) %
Sales	\$ 2,390	\$ 2,285	5 %
Gross profit as a percent of sales <sup>1</sup>	34.1 %	35.3 %	(120) bp
SG&A <sup>1</sup>	435	428	2 %
Equity and other income <sup>1</sup>	36	34	6 %
Adjusted <sup>1</sup> operating income	\$ 417	\$ 412	1 %
Depreciation and amortization	61	54	13 %
Adjusted <sup>1</sup> Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$ 478	\$ 466	3 %
Adjusted <sup>1</sup> EBITDA as a percent of sales	20.0 %	20.4 %	(40) bp
Adjusted <sup>1</sup> EPS	\$ 1.39	\$ 1.29	8 %

Factors affecting year-over-year adjusted EBITDA<sup>1</sup>



Factors affecting year-over-year adjusted EBITDA<sup>1</sup>



<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated Nov. 6, 2019, available on Valvoline's website at <http://investors.valvoline.com>.

<sup>2</sup> Other includes revenue recognition and foreign exchange impacts as well as equity, royalty, and other income/expense.

## Corporate Items

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- Net interest and other financing expense of \$18 million in Q4, flat YoY
- Net interest and other financing expense of \$73 million in FY19, up \$10 million YoY
- Effective tax rate of 3.6% in Q4; adjusted<sup>1</sup> effective tax rate of 19.4%
- Full-year effective tax rate of 21.5%; adjusted<sup>1</sup> effective tax rate of 23.5%
- Full-year cash flow from operating activities of \$325 million
- Full-year capital expenditures of \$108 million; full-year free cash flow<sup>1</sup> generation of \$217 million
- Total debt of ~\$1.3 billion and net debt of ~\$1.2 billion remain steady

# Fiscal 2020 Guidance Update

- Quick Lubes momentum expected to continue
  - Strong SSS growth
  - Unit additions
- Low to mid-single digit adjusted EBITDA growth
- Increase in CapEx impacts free cash flow
- Minimal P&L impact from adoption of new lease accounting standard

	<u>2020 Outlook</u>
<b>Operating Segments</b>	
• Lubricant gallons growth	2-3%
• Revenue growth	4-6%
• New Quick Lube stores (excluding Valvoline acquired stores and franchise conversions)	
• Company-owned	30-35
• Franchised	30-40
• Quick Lubes same-store sales <sup>1</sup> growth	6-8%
• Adjusted <sup>2</sup> EBITDA (excluding pension & OPEB income)	\$490-\$510 million
<b>Corporate Items</b>	
• Adjusted <sup>2</sup> effective tax rate	25-26%
• Diluted adjusted <sup>2</sup> EPS	\$1.37-\$1.48
• Capital expenditures	\$160-\$170 million
• Free cash flow <sup>1</sup>	\$150-\$170 million

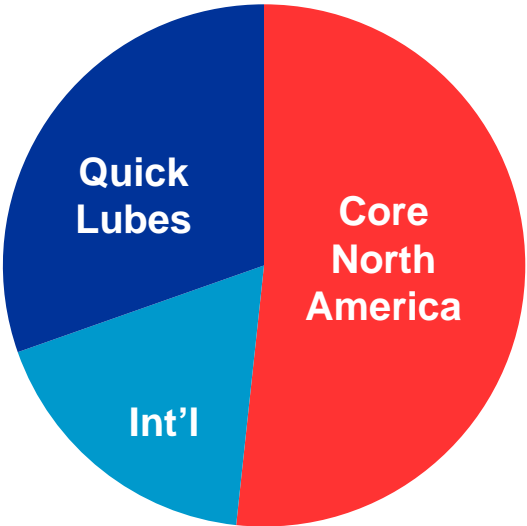
<sup>1</sup> For a discussion of management's use of key business measures and a reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated Nov. 6, 2019, available on Valvoline's website at <http://investors.valvoline.com>.

<sup>2</sup> Denotes a forward-looking non-GAAP financial measure that Valvoline is unable to reconcile without unreasonable effort as described in Valvoline's earnings release dated Nov. 6, 2019.

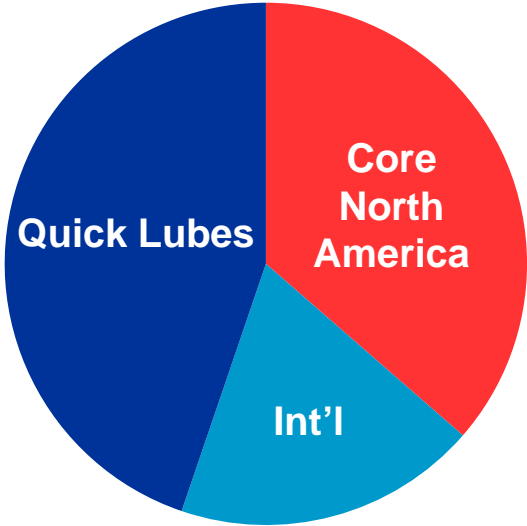
# Summary

- FY19 added to foundation for long-term success
- FY20 expect further progress accelerating shift to a service-driven model

FY16 Adjusted<sup>1</sup> EBITDA Mix



FY19 Adjusted<sup>1</sup> EBITDA Mix



<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings releases dated Nov. 8, 2016 and Nov. 6, 2019, available on Valvoline's website at <http://investors.valvoline.com>.

# Appendix

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# Key Items<sup>1</sup> Affecting Income

(\$ in millions, except per-share data) Preliminary and unaudited		Fourth-Quarter Impact			
		Operating Income	Total		Earnings per Share
Fiscal 2019			Pre-tax	After-tax	
Net Pension & OPEB expense	\$ -	\$ (67)	\$ (50)	\$ (0.27)	
Acquisition- and divestiture-related gains	\$ 4	\$ 4	\$ 4	\$ 0.02	
Restructuring and related expenses	\$ (2)	\$ (2)	\$ (2)	\$ (0.01)	
<b>Total</b>	<b>\$ 2</b>	<b>\$ (65)</b>	<b>\$ (48)</b>	<b>\$ (0.26)</b>	
Fiscal 2018					
Net Pension & OPEB expense	\$ -	\$ (30)	\$ (20)	\$ (0.11)	
Legacy and separation-related costs, net	\$ -	\$ -	\$ 3	\$ 0.02	
Acquisition- and divestiture-related losses	\$ (1)	\$ (1)	\$ (1)	\$ (0.01)	
Income tax adjustment	\$ -	\$ -	\$ (2)	\$ (0.01)	
<b>Total</b>	<b>\$ (1)</b>	<b>\$ (31)</b>	<b>\$ (20)</b>	<b>\$ (0.11)</b>	

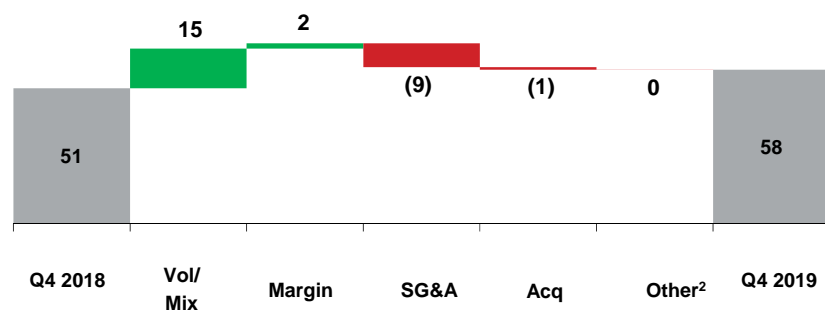
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# Quick Lubes

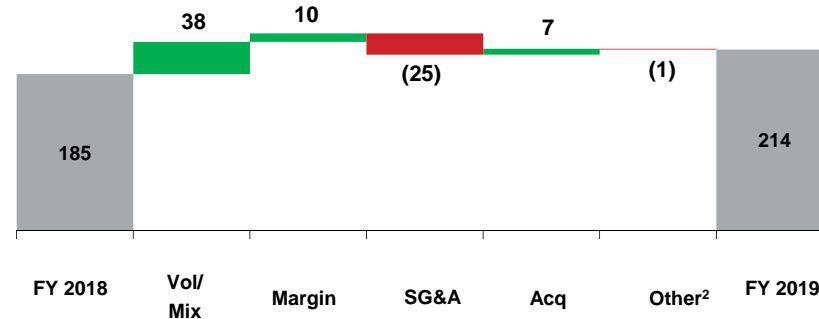
(\$ in millions) Preliminary and unaudited	Fiscal Fourth Quarter Three months ended Sept. 30,		
	2019	2018	Change
Lubricant gallons (in millions)	7.4	6.6	12 %
Sales	\$ 222	\$ 181	23 %
Operating income	\$ 48	\$ 42	14 %
Depreciation and amortization	10	9	11 %
Adjusted <sup>1</sup> EBITDA	\$ 58	\$ 51	14 %
<i>Adjusted EBITDA as a percent of sales</i>	<i>26.1 %</i>	<i>28.2 %</i>	<i>(210) bp</i>

Fiscal Year Twelve months ended Sept. 30,	Fiscal Year Twelve months ended Sept. 30,		
	2019	2018	Change
Lubricant gallons (in millions)	28.1	24.4	15 %
Sales	\$ 822	\$ 660	25 %
Operating income	\$ 178	\$ 153	16 %
Depreciation and amortization	36	30	20 %
Adjusted <sup>1</sup> EBITDA	\$ 214	\$ 185	16 %
<i>Adjusted EBITDA as a percent of sales</i>	<i>26.0 %</i>	<i>28.0 %</i>	<i>(200) bp</i>

Factors affecting year-over-year Adjusted<sup>1</sup> EBITDA



Factors affecting year-over-year Adjusted<sup>1</sup> EBITDA



<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated Nov. 6, 2019, available on Valvoline's website at <http://investors.valvoline.com>.

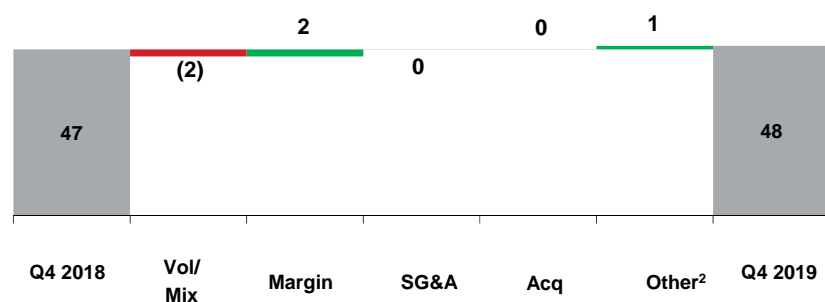
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# Core North America

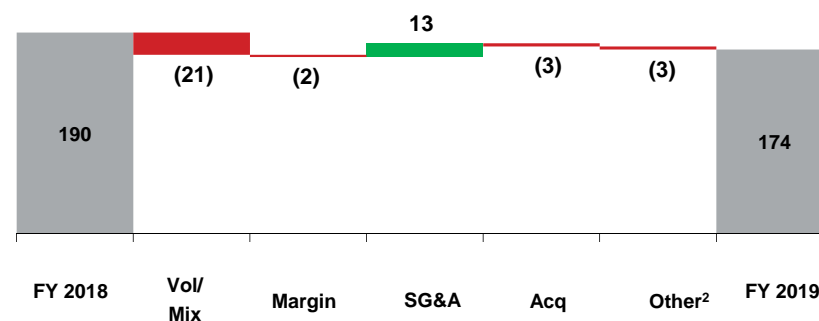
(\$ in millions) Preliminary and unaudited	Fiscal Fourth Quarter Three months ended Sept. 30,		
	2019	2018	Change
Lubricant gallons (in millions)	23.9	24.9	(4) %
Sales	\$ 259	\$ 262	(1) %
Operating income	\$ 43	\$ 42	2 %
Depreciation and amortization	5	5	- %
Adjusted <sup>1</sup> EBITDA	\$ 48	\$ 47	2 %
<i>Adjusted<sup>1</sup> EBITDA as a percent of sales</i>	18.5 %	17.9 %	60 bp

	Fiscal Year Twelve months ended Sept. 30,		
	2019	2018	Change
Lubricant gallons (in millions)	92.1	98.8	(7) %
Sales	\$ 994	\$ 1,035	(4) %
Operating income	\$ 152	\$ 172	(12) %
Depreciation and amortization	18	18	- %
Adjusted <sup>1</sup> EBITDA	\$ 174	\$ 190	(8) %
<i>Adjusted<sup>1</sup> EBITDA as a percent of sales</i>	17.5 %	18.4 %	(90) bp

Factors affecting year-over-year Adjusted<sup>1</sup> EBITDA



Factors affecting year-over-year Adjusted<sup>1</sup> EBITDA



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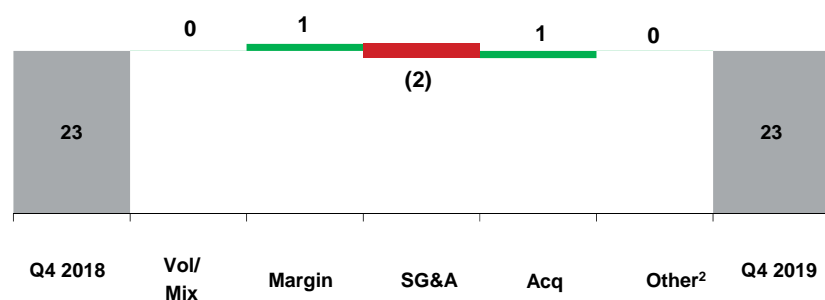
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# International

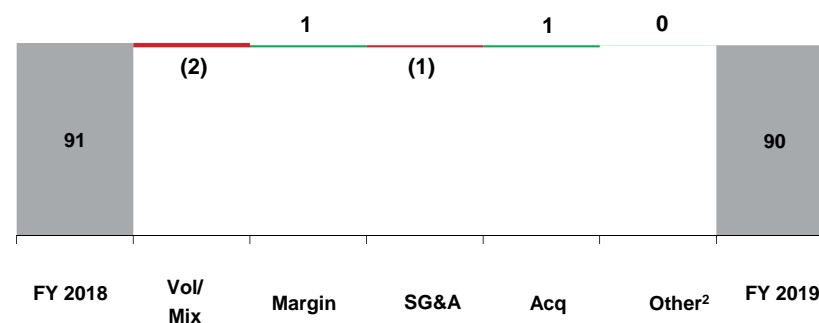
(\$ in millions) Preliminary and unaudited	Fiscal Fourth Quarter Three months ended Sept. 30,		
	2019	2018	Change
Lubricant gallons (in millions)	15.1	15.1	- %
Sales	\$ 148	\$ 151	(2) %
Operating income	\$ 24	\$ 21	14 %
Depreciation and amortization	3	1	200 %
Adjusted <sup>1</sup> EBITDA	\$ 23	\$ 23	- %
<i>Adjusted EBITDA as a percent of sales</i>	<i>15.5 %</i>	<i>15.2 %</i>	<i>30 bp</i>

Fiscal Year Twelve months ended Sept. 30,		
2019	2018	Change
58.2	58.7	(1) %
\$ 574	\$ 590	(3) %
\$ 85	\$ 84	1 %
7	6	17 %
\$ 90	\$ 91	(1) %
15.7 %	15.4 %	30 bp

Factors affecting year-over-year Adjusted<sup>1</sup> EBITDA



Factors affecting year-over-year Adjusted<sup>1</sup> EBITDA



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