




# First-Quarter Fiscal 2020 Earnings

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**Sam Mitchell, CEO**  
**Mary Meixelsperger, CFO**  
**Sean Cornett, Investor Relations**



<http://investors.valvoline.com>



## 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 February 3, 2020, which is available on Valvoline's website at <http://investors.valvoline.com/financial-reports/quarterly-reports>.

# First-Quarter Reported Results

(in millions, except per-share data)	Q1
Operating income	\$104
Net income	\$73
Reported income per share	\$0.39
Cash flow from operating activities	\$59

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

### Lease Accounting

- Adopted new lease accounting standard for fiscal 2020
- Primarily results in addition of assets and liabilities to the balance sheet
  - Lease-related assets and liabilities each increased by ~\$220 million
  - Negative \$1M impact to EBITDA<sup>1</sup> and cash flow from operations in Q1

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

- Non-service pension and OPEB impact: \$7 million after-tax income
- Net legacy and separation impact: \$1 million after-tax income
- Restructuring and related items: \$1 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 February 3, 2020, available on Valvoline's website at <http://investors.valvoline.com>.

# First-Quarter Adjusted<sup>1</sup> Results Overview

(in millions, except per-share data)	Q1
Adjusted <sup>1</sup> operating income	\$104
Adjusted <sup>1</sup> EBITDA	\$120
Adjusted <sup>1</sup> EPS	\$0.35

- ✓ Strong start to fiscal 2020
- ✓ Solid SSS growth and store additions in Quick Lubes
- ✓ Substantial improvement in Core North America's EBITDA driven by branded volume growth in the retail channel
- ✓ Return to profitable volume growth in International

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated February 3, 2020, available on Valvoline's website at <http://investors.valvoline.com>.

# Segment Results Summary

## Quick Lubes

(YoY change)	Q1
SSS <sup>1</sup> (system-wide)	8.3%
Sales	15%
Net new stores <sup>2</sup> (company + franchised)	22
EBITDA <sup>1</sup>	\$48 million, up \$2 million

**Continued strength in system-wide SSS**

**Short-term moderation in EBITDA growth**

## Core North America

(YoY change)	Q1
Total Volume	-1%
Sales	7%
Premium mix	56%, up 620 bps
EBITDA <sup>1</sup>	\$50 million, up \$15 million

**Significant growth in branded retail volume vs. weak prior year**

**Favorable mix & operating expense reduction benefits**

## International

(YoY change)	Q1
Volume	7%
Volume with JVs <sup>1</sup>	5%
Sales	4%
EBITDA <sup>1</sup>	\$22 million, up \$2 million

**Volume growth driven by acquisition contribution**

**Improved margins**

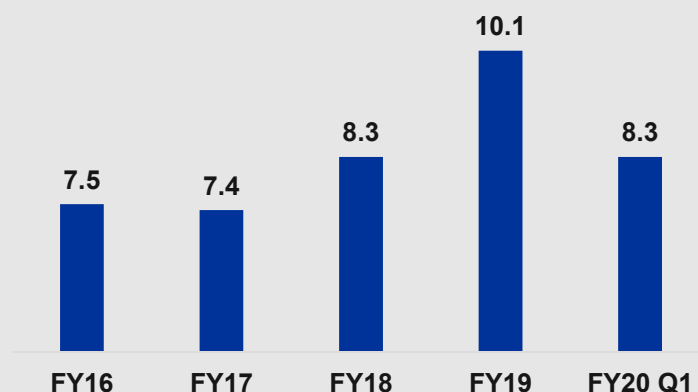
<sup>1</sup> For a discussion of management's use of key business measures and a reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated Feb. 3, 2020, available on Valvoline's website at <http://investors.valvoline.com>.

<sup>2</sup> Net new stores added in the current quarter.

# Quick Lubes

## SSS<sup>1</sup> performance—solid start to FY20

System-wide SSS Growth (%)



- Continued growth in transactions and average ticket
  - Average ticket growth driven by non-oil change revenue and premium mix of 66.5% (up 280 bps)

## Short-term moderation in EBITDA<sup>1</sup> growth

- Higher allocation of shared SG&A
- Newly built stores still in ramp-up phase
- Temporary labor de-leveraging
- Expect FY20 segment EBITDA growth of low- to mid-teens

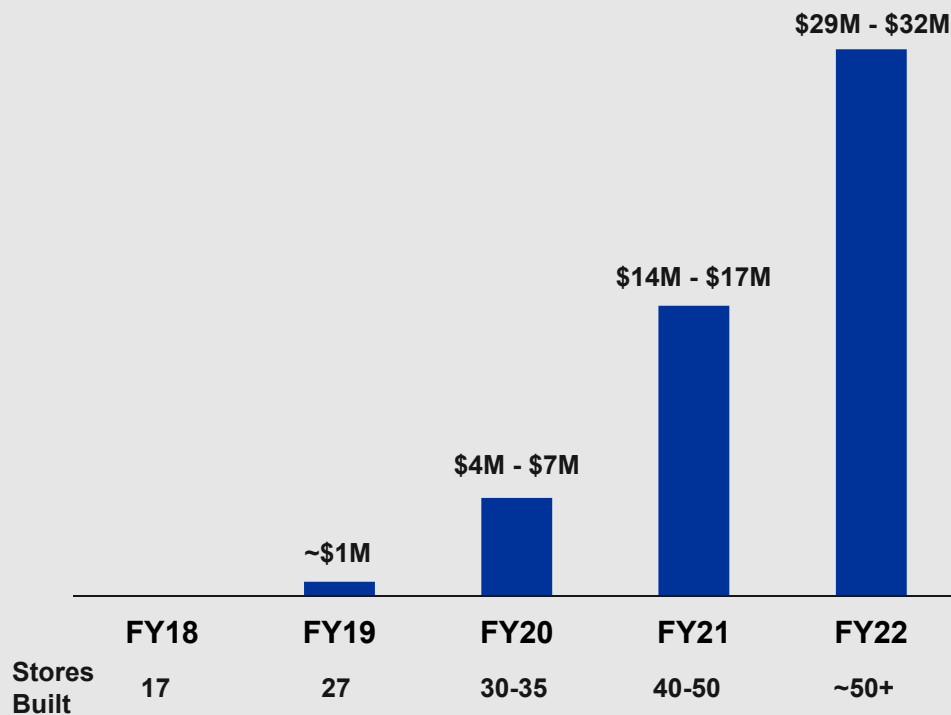
## Unit expansion continues

- 106 net new stores added to the system YoY; 22 added in Q1
  - 53 franchise stores added YoY; 17 in Q1
  - 53 company stores added YoY; 5 in Q1

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# Quick Lubes – New Stores Impact

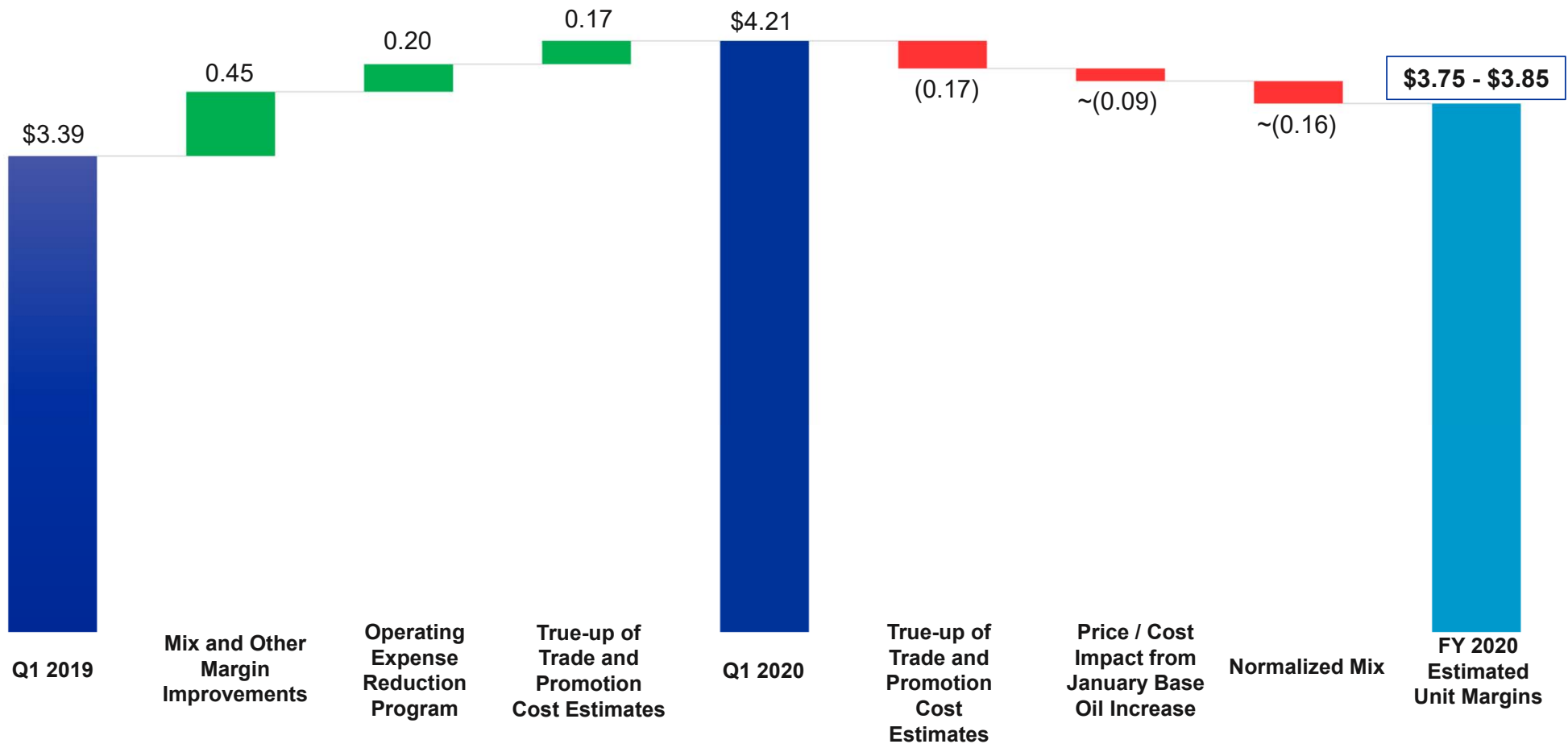
## EBITDA contribution from newly-constructed company stores<sup>1</sup> (\$ millions)



- New unit economics expected to drive strong future earnings
  - New company-owned stores generally have a three-year ramp to maturity
- Short-term deleveraging impact from new stores on segment gross margin
  - Q1 and full-year expectation of (170) bps
- FY22 expected contribution from stores built FY18 – FY22: \$29 - \$32 million

<sup>1</sup> Store-level EBITDA ramp based on internal estimates for newly-built company stores opened between FY18 and FY19 and anticipated to be built between FY20 - FY22.

# Core NA – Q1 Unit Margin Performance and FY20 Outlook





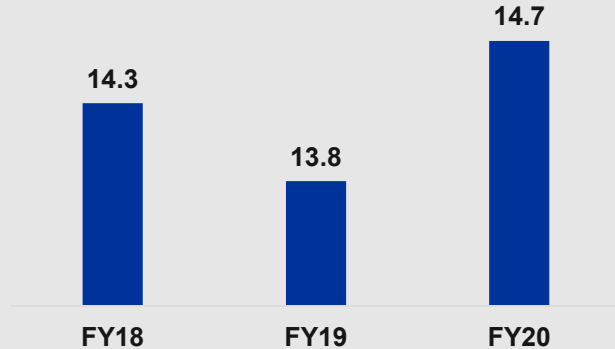
## Core NA – DIY Category Update

- Overall macro demand relatively flat over the past year
- Shift to synthetic continues
  - Now nearly 50% share of category volume
- Continued focus on private label by retailers
  - Price gap expansion
    - Auto part retailers raised promotional prices on branded products, late in fiscal 2019
- Valvoline working closely with retailers on trade and brand marketing plans

# International

## Volume – Solid start to FY20

Q1 Volume  
(millions of gallons)



- Volume growth in line with full-year guidance of 6-8%
  - Strong contribution from EMEA, including recent Eastern European acquisition
  - Growth in several key Asian markets

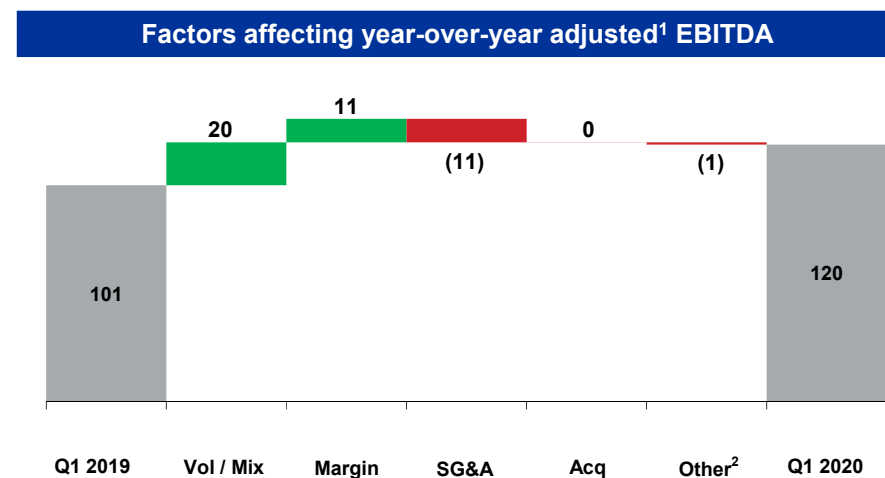
## Profitability – Good performance

- EBITDA<sup>1</sup> growth driven by increased volume and margin improvement
- Solid unconsolidated JV contributions

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# First-Quarter Financials

(\$ in millions, except per-share data) Preliminary and unaudited Adjusted <sup>1</sup> P&L Results and Ratios	Fiscal First Quarter Three months ended Dec. 31,		
	2019	2018	Change
Lubricant gallons (in millions)	43.4	42.0	3 %
<b>Sales</b>	<b>\$ 607</b>	<b>\$ 557</b>	<b>9 %</b>
Gross profit as a percent of sales	34.8 %	32.9 %	190 bp
SG&A <sup>1</sup>	116	105	10 %
Equity and other income	(9)	(9)	- %
<b>Adjusted<sup>1</sup> Operating income</b>	<b>\$ 104</b>	<b>\$ 87</b>	<b>20 %</b>
Depreciation and amortization	16	14	14 %
<b>Adjusted<sup>1</sup> Earnings before interest, taxes, depreciation and amortization (EBITDA)</b>	<b>\$ 120</b>	<b>\$ 101</b>	<b>19 %</b>
<i>Adjusted EBITDA<sup>1</sup> as a percent of sales</i>	<i>19.8 %</i>	<i>18.1 %</i>	<i>170 bp</i>
<b>Adjusted<sup>1</sup> EPS</b>	<b>\$ 0.35</b>	<b>\$ 0.27</b>	<b>30 %</b>



<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated February 3, 2020, available on Valvoline's website at <http://investors.valvoline.com>.

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

## Corporate Items

- Net interest and other financing expense of \$16 million in Q1, down \$1 million YoY
- Effective tax rate of 24.7% in Q1; adjusted<sup>1</sup> effective tax rate of 25.0%
- Cash flow from operating activities of \$59 million
  - YoY decline due to increased working capital
- Capital expenditures totaled \$28 million; Free cash flow<sup>1</sup> generation of \$31 million
- Total debt of ~\$1.3 billion and net debt of ~\$1.2 billion
- Dividends of \$21 million, increased per-share dividend by ~7% for fiscal 2020<sup>2</sup>

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated February 3, 2020, available on Valvoline's website at <http://investors.valvoline.com>.

<sup>2</sup> Future quarterly dividend declarations are subject to approval by the Board of Directors and may be adjusted as business needs or market conditions change.

# Fiscal 2020 Guidance Update

## Raising guidance for adjusted EBITDA<sup>1</sup> and EPS<sup>1</sup>

- Improved outlook for Core North America
- Managing raw material cost increases
- Expect adjusted<sup>1</sup> EBITDA of \$495 - \$515 million; adjusted<sup>1</sup> EPS of \$1.40-\$1.51
- Free cash flow<sup>2</sup> estimated at \$160 - \$180 million

	<u>Updated Outlook</u>	<u>Prior Outlook</u>
<b>Operating Segments</b>		
• Lubricant gallons growth	No change	2-3%
• Revenue growth	No change	4-6%
• New Quick Lube stores (excluding Valvoline acquired stores and franchise conversions)		
• Company-owned	No change	30-35
• Franchised	No change	30-40
• VIOC same-store sales growth	No change	6-8%
• Adjusted <sup>1</sup> EBITDA (excluding pension & OPEB income)	\$495-\$515 million	\$490-\$510 million
<b>Corporate Items</b>		
• Adjusted <sup>1</sup> effective tax rate	No change	25-26%
• Diluted adjusted <sup>1</sup> EPS	\$1.40-\$1.51	\$1.37-\$1.48
• Capital expenditures	No change	\$160-170 million
• Free cash flow <sup>2</sup>	\$160-\$180 million	\$150-\$170 million

<sup>1</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 February 3, 2020 available on Valvoline's website at <http://investors.valvoline.com>.

<sup>2</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated February 3, 2020.

## Service-Driven, Products-Fueled, Technology-Enabled

- ✓ Strong start to fiscal 2020
- ✓ Segments on track or ahead of full-year expectations
- ✓ Raising full-year guidance

# Appendix

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

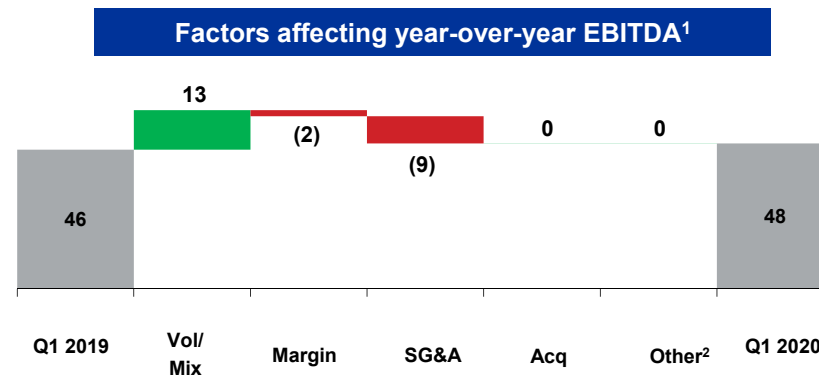
(\$ in millions, except per-share data) Preliminary and unaudited	First-Quarter Impact			
	Operating Income	Total		Earnings per Share
Fiscal 2020		Pre-tax	After-tax	
Pension & OPEB income	\$ -	\$ 9	\$ 7	\$ 0.04
Net legacy and separation-related income	\$ 1	\$ 1	\$ 1	\$ -
Restructuring and related expenses	\$ (1)	\$ (1)	\$ (1)	\$ -
<b>Total</b>	<b>\$ -</b>	<b>\$ 9</b>	<b>\$ 7</b>	<b>\$ 0.04</b>
Fiscal 2019				
Pension & OPEB income	\$ -	\$ 2	\$ 2	\$ 0.01
<b>Total</b>	<b>\$ -</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 0.01</b>

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated February 3, 2020, available on Valvoline's website at <http://investors.valvoline.com>.



# Quick Lubes

(\$ in millions) Preliminary and unaudited	Fiscal First Quarter Three months ended Dec. 31,		
	2019	2018	Change
Lubricant gallons (in millions)	7.3	6.5	12 %
Sales	\$ 218	\$ 189	15 %
Operating income	\$ 38	\$ 38	- %
Depreciation and amortization	10	8	25 %
EBITDA <sup>1</sup>	\$ 48	\$ 46	4 %
<i>EBITDA as a percent of sales</i>	22.0 %	24.3 %	(230) bp

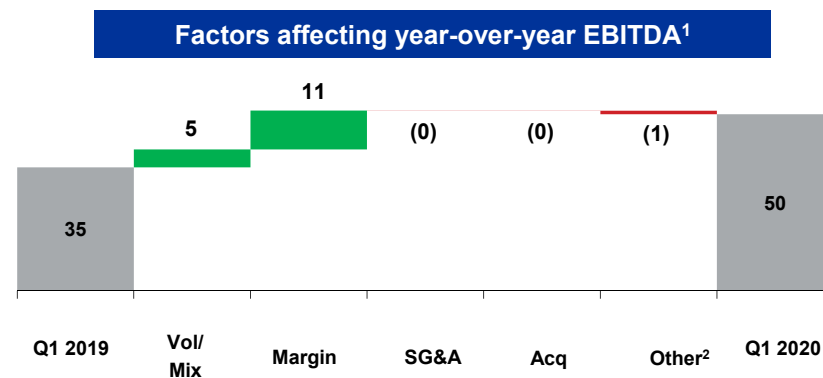


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<sup>2</sup> Other includes foreign exchange impacts as well as equity, royalty, and other income/expense.

# Core North America

(\$ in millions) Preliminary and unaudited	Fiscal First Quarter Three months ended Dec. 31,		
	2019	2018	Change
Lubricant gallons (in millions)	21.4	21.7	(1) %
Sales	\$ 248	\$ 232	7 %
Operating income	\$ 46	\$ 31	48 %
Depreciation and amortization	4	4	- %
EBITDA <sup>1</sup>	\$ 50	\$ 35	43 %
<i>EBITDA as a percent of sales</i>	20.2 %	15.1 %	510 bp

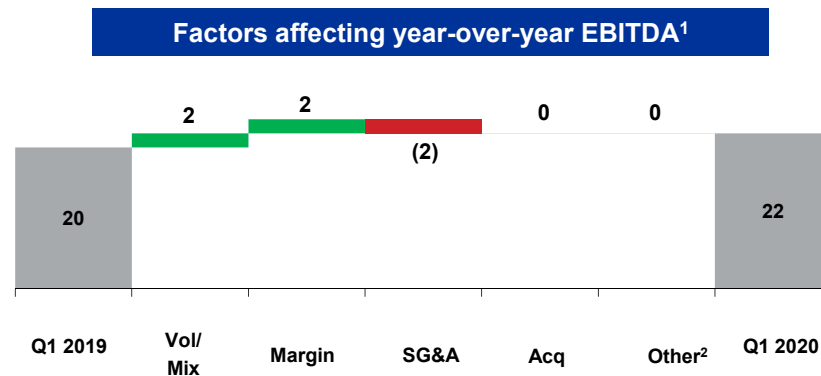


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# International

(\$ in millions) Preliminary and unaudited	Fiscal First Quarter Three months ended Dec. 31,		
	2019	2018	Change
Lubricant gallons (in millions)	14.7	13.8	7 %
Sales	\$ 141	\$ 136	4 %
Operating income	\$ 20	\$ 18	11 %
Depreciation and amortization	2	2	- %
EBITDA <sup>1</sup>	\$ 22	\$ 20	10 %
<i>EBITDA as a percent of sales</i>	<i>15.6 %</i>	<i>14.7 %</i>	<i>90 bp</i>



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