

ACCELERATING INTO THE FUTURE



## Second-Quarter Fiscal 2018 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, 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" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of Valvoline's most recently filed periodic reports on Forms 10-K and Form 10-Q, which are available on Valvoline's website at <http://investors.valvoline.com/sec-filings>. Valvoline assumes no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

## 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 May 2, 2018, which is available on Valvoline's website at <http://investors.valvoline.com/financial-reports/quarterly-reports>.

# Second-Quarter Reported Results

(in millions, except per-share data)	Q2
Operating income	\$100
Net income	\$67
Reported income per share	\$0.33
YTD cash flow from operating activities	\$108

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

### Pension-related items

- Pension and OPEB income reclassified as non-operating; excluded from adjusted<sup>1</sup> results as a Key Item
  - Prior periods revised to conform
- 2017 pension borrow-to-fund transaction increasing interest expense

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

- Pension and OPEB impact: \$7 million after-tax income
- Legacy and other separation-related costs: \$6 million after-tax expense
- U.S. tax reform<sup>2</sup>: \$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 May 2, 2018, available on Valvoline's website at <http://investors.valvoline.com>.

<sup>2</sup> The estimated net impact of the Tax Cuts and Jobs Act of 2017 (TCJA) may be refined in future periods as regulations and additional guidance become available.

# Second-Quarter Adjusted<sup>1</sup> Results

(in millions, except per-share data)	Q2
Adjusted <sup>1</sup> operating income	\$108
Adjusted <sup>1</sup> EBITDA	\$122
Adjusted <sup>1</sup> EPS	\$0.34

## Q2 Fiscal 2018 Overview

- ✓ Adjusted<sup>1</sup> EBITDA and EPS YoY growth of 6%
- ✓ Strong performance in Quick Lubes and International
- ✓ Core North America profitability unfavorably impacted by transitory items
- ✓ Returned \$102 million of cash to shareholders through dividends and share repurchases

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated May 2, 2018, available on Valvoline's website at <http://investors.valvoline.com>.

# Core North America

(YoY Change)	Q2
Total Volume	flat
Sales	up 2%
Premium mix	49.7%, up 320 bps
EBITDA <sup>1</sup>	\$50 million, down \$10 million

## Core North America temporary margin impacts

### Volume and Mix

- Branded volume declined modestly
- Strong premium mix improvement
- Non-branded volume growth improved

### EBITDA

- Short-term impacts pressuring profitability
  - New packaging transition costs
  - Promotional expense timing
  - Modest price-cost lag
- Expect second half improvement driven by volume growth and moderating short-term impacts

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated May 2, 2018, available on Valvoline's website at <http://investors.valvoline.com>.

# Quick Lubes

(YoY Change)	Q2
SSS	+9.6%
Sales	+23%
EBITDA <sup>1</sup>	\$46 million, up \$10 million
VIOC Units (net added in period)	2

## Quick Lubes SSS growth continues

### SSS Strength

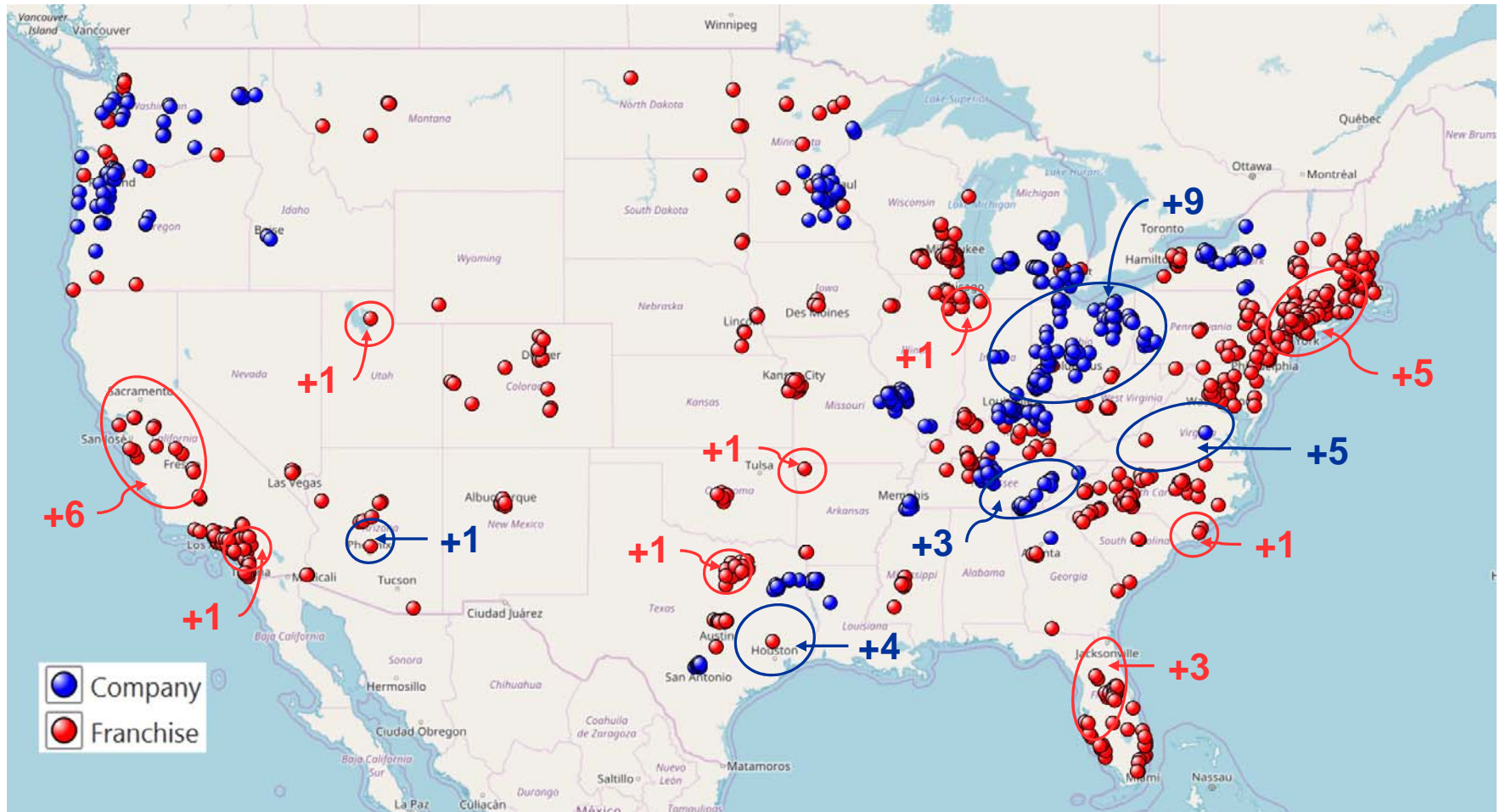
- Combination of growth in transactions and average ticket
- Transactions driven by customer acquisition and retention programs
- Average ticket improvements from pricing and in-store execution
- Overall Sales and EBITDA benefiting from recent acquisitions

### Store growth

- Added 14 net new stores during first half of fiscal 2018
- Expect strong second half: ~22 new company stores, ~20 new franchise locations

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated May 2, 2018, available on Valvoline's website at <http://investors.valvoline.com>.

# VIOC – Current Footprint and Expected Second-half FY18 Expansion



# International

(YoY Change)	Q2
Volume	+1%
Volume with JVs	+3%
Sales	+15%
EBITDA <sup>1</sup>	\$26 million, up \$7 million

## International improved profitability

### Volume

- Modest volume growth on strong base of double-digit growth last year
- Volume from unconsolidated JVs grew 5%
- Expect volume growth to accelerate in second half; full-year growth in mid-single digit range

### EBITDA

- Pricing execution, improved margins and JV performance driving EBITDA growth
- FX benefits contributing

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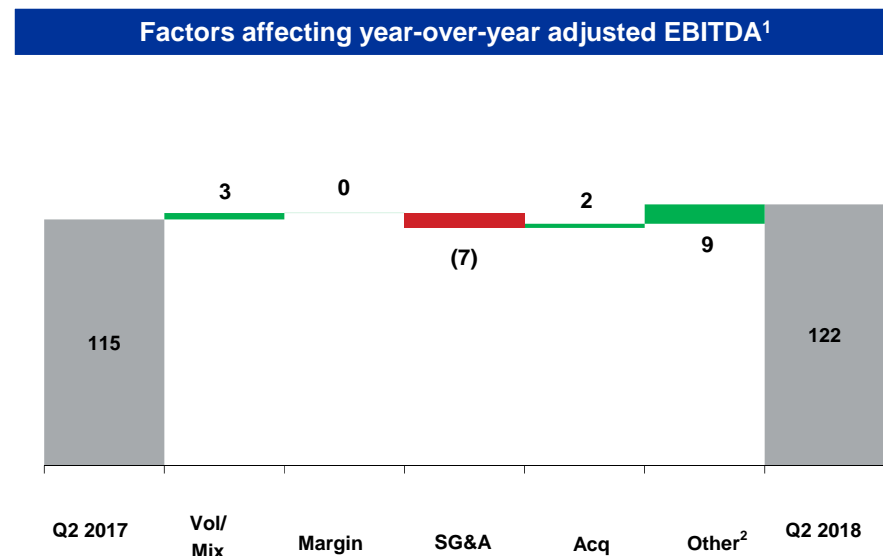
## Investment in International – New Plant in China

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- ~\$70 million investment over 3 years
  - \$5 – 10 million in FY18
  - Balance roughly evenly split between FY19 and FY20
- Strong ROIC expectations
  - Margin improvements
  - Accelerated volume growth
- Strategically located in Zhangjiagang in Jiangsu Province
- Capacity of 30+ million gallons
  - Producing lubricants and coolants
- Expect plant to be online by the end of calendar year 2020

# Second-Quarter Financials

P&L Results and Ratios	Fiscal Second Quarter Three months ended March 31,		
	2018	2017	Change
Lubricant gallons (in millions)	45.5	45.0	1 %
Sales	\$ 569	\$ 514	11 %
Gross profit as a percent of sales	36.4 %	38.5 %	(210) bp
SG&A	111	97	14 %
Equity and other income	12	5	140 %
Adjusted <sup>1</sup> operating income	\$ 108	\$ 106	2 %
Depreciation and amortization	14	9	56 %
Adjusted <sup>1</sup> Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$ 122	\$ 115	6 %
EBITDA as a percent of sales	21.4 %	22.4 %	(100) bp
Adjusted <sup>1</sup> EPS	\$ 0.34	\$ 0.32	6 %



<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated May 2, 2018, available on Valvoline's website at <http://investors.valvoline.com>.

<sup>2</sup> Other includes foreign exchange impacts, equity and royalty income, gains/losses on sales of assets, and other income/expense.

# Corporate Items

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- Effective tax rate of 28.7% in Q2; adjusted<sup>1</sup> effective tax rate of 26.1%.
- YTD cash flow from operating activities of \$108 million
  - YoY increase due primarily to lower cash taxes
- YTD Capital expenditures totaled \$30 million
- YTD Free cash flow<sup>2</sup> generation of \$78 million
- Total debt of ~\$1.2 billion and net debt of ~\$1.1 billion
- YTD share repurchases of \$126 million and YTD dividends of \$30 million

<sup>1</sup> Adjusted effective tax rate is a forward-looking non-GAAP financial measure that Valvoline is unable to reconcile without unreasonable effort as described in Valvoline's earnings release dated May 2, 2018, available on Valvoline's website at <http://investors.valvoline.com>.

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# Fiscal 2018 Guidance

## Narrowing ranges

- Raising SSS to 6.5-7.5%
- Adjusted<sup>1</sup> EBITDA to \$480-\$490 million
- Adjusted<sup>1</sup> EPS range to \$1.31-\$1.38, reflecting share-repurchase activity
- Free cash flow<sup>1</sup> updated to reflect China plant investment and adjusted<sup>1</sup> EBITDA range

	<u>Updated Outlook</u>	<u>Prior Outlook</u>
<b>Operating Segments</b>		
• Lubricant Gallons	No change	3-4%
• Revenues	No change	10-12%
• VIOC Company Stores (excluding franchise conversions)	No change	23-25
• VIOC Franchised Stores (excluding franchise conversions)	No change	25-35
• VIOC same-store sales	6.5-7.5%	5-7%
• Adjusted EBITDA <sup>1</sup> (excluding pension & OPEB income)	\$480-\$490 million	\$480-\$500 million
<b>Corporate Items</b>		
• Pension & OPEB Income	No change	\$40 million
• Adjusted effective tax rate	No change	27-28%
• Diluted adjusted EPS <sup>1</sup> (excluding pension & OPEB income)	\$1.31-\$1.38	\$1.30-\$1.38
• Capital expenditures	\$85-\$95 million	\$80-90 million
• Free cash flow <sup>1</sup>	\$260-\$280 million	\$260-\$290 million

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP and a discussion of forward-looking non-GAAP financial measures that Valvoline is unable to reconcile without unreasonable effort, please refer to Valvoline's earnings release dated May 2, 2018, available on Valvoline's website at <http://investors.valvoline.com>.

# Summary and Outlook

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- ✓ Improvement in Core North America in second half
- ✓ Continued momentum in Quick Lubes and International
- ✓ Significant cash returns to shareholders in Q2
- ✓ Raw material headwinds to extend into second half, but are manageable
- ✓ On track for solid full-year adjusted<sup>1</sup> EBITDA and EPS growth

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP and a discussion of forward-looking non-GAAP financial measures that Valvoline is unable to reconcile without unreasonable effort, please refer to Valvoline's earnings release dated May 2, 2018, available on Valvoline's website at <http://investors.valvoline.com>.

# Appendix

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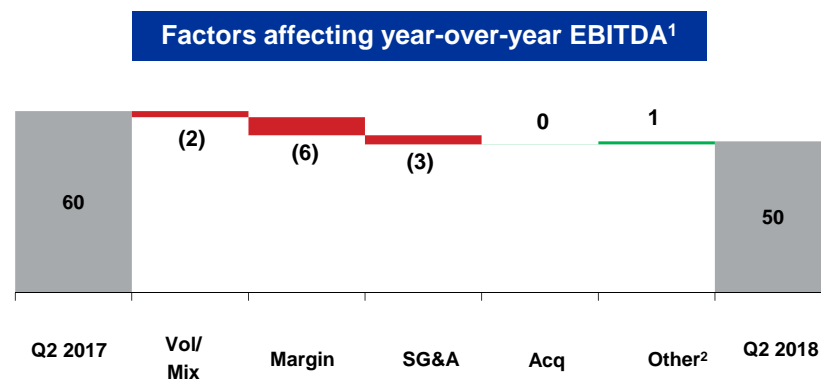
# Key Items<sup>1</sup> Affecting Income

(\$ in millions, except per-share data) Preliminary and unaudited		Second Quarter Impact		
		Operating Income	Total	
2018		Pre-tax	After-tax	
Pension & OPEB income	\$ 10	10	7	0.03
Legacy and separation-related costs	\$ (8)	(8)	(6)	(0.03)
Tax Reform update	\$ -	-	(2)	(0.01)
<b>Total</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ (1)</b>	<b>\$ (0.01)</b>
2017				
Pension & OPEB income & remeasurements	\$ 17	\$ 17	\$ 10	\$ 0.05
Legacy and separation-related costs	\$ (6)	\$ (6)	\$ (4)	\$ (0.02)
<b>Total</b>	<b>\$ 11</b>	<b>\$ 11</b>	<b>\$ 6</b>	<b>\$ 0.03</b>

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated May 2, 2018, available on Valvoline's website at <http://investors.valvoline.com>.

# Core North America

(\$ in millions) Preliminary an unaudited	Fiscal Second Quarter Three months ended March 31,		
	2018	2017	Change
Lubricant gallons (in millions)	24.6	24.6	- %
Sales	\$ 258	\$ 253	2 %
Operating income	\$ 46	\$ 57	(19) %
Depreciation and amortization	4	3	33 %
EBITDA <sup>1</sup>	\$ 50	\$ 60	(17) %
<i>EBITDA as a percent of sales</i>	<i>19.4 %</i>	<i>23.7 %</i>	<i>(430) bp</i>



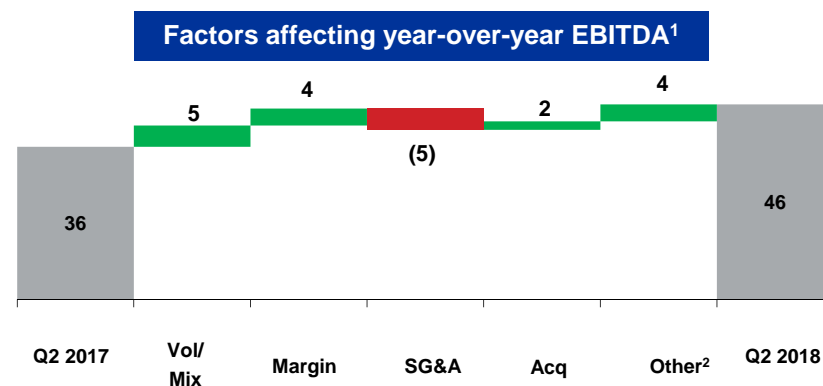
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<sup>2</sup> Other includes foreign exchange impacts as well as equity, royalty, and other income/expense.



# Quick Lubes

(\$ in millions) Preliminary and unaudited	Fiscal Second Quarter Three months ended March 31,		
	2018	2017	Change
Lubricant gallons (in millions)	5.9	5.5	7 %
Sales	\$ 158	\$ 128	23 %
Operating income	\$ 38	\$ 31	23 %
Depreciation and amortization	8	5	60 %
EBITDA <sup>1</sup>	\$ 46	\$ 36	28 %
<i>EBITDA as a percent of sales</i>	<i>29.1 %</i>	<i>28.1 %</i>	<i>100 bp</i>

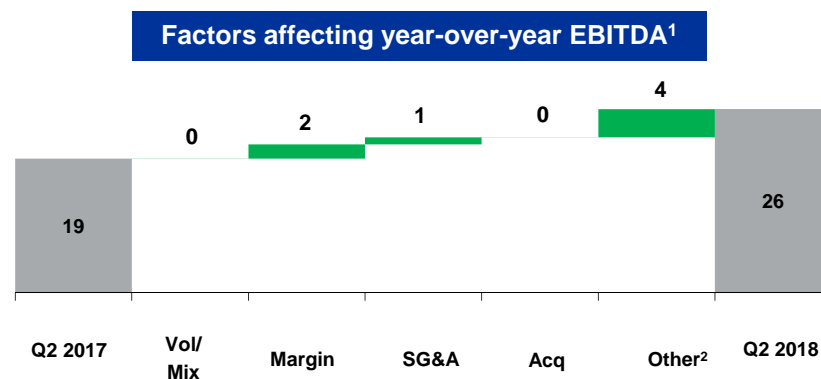


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<sup>2</sup> Other includes foreign exchange impacts, equity and royalty income, gains/losses on sales of assets, and other income/expense.

# International

(\$ in millions) Preliminary and unaudited	Fiscal Second Quarter Three months ended March 31,		
	2018	2017	Change
Lubricant gallons (in millions)	15.0	14.9	1 %
Sales	\$ 153	\$ 133	15 %
Operating income	\$ 24	\$ 18	33 %
Depreciation and amortization	2	1	100 %
EBITDA <sup>1</sup>	\$ 26	\$ 19	37 %
<i>EBITDA as a percent of sales</i>	<i>17.0 %</i>	<i>14.3 %</i>	<i>270 bp</i>



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