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INTERNATIONAL EDITION

OEM/Lube News

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Valvoline Posts Fiscal 1Q Loss

Valvoline Inc. last Wednesday reported financial results for its fiscal first quarter ended Dec. 31, 2017. The company reported a first-quarter 2018 net loss of $10 million compared to a profit of $72 million in last year's similar quarter. These results include a provisional charge of $75 million related to recently enacted U.S. tax reform, after-tax income of $7 million related to non-service pension and other post-employment benefit (OPEB) income that is now classified as non-operating under early adopted new accounting guidance, and an after-tax charge of $1 million (negligible EPS impact) of separation-related expenses. Reported net income for first quarter 2017 of $72 million, which includes after-tax income of $16 million related to non-operating pension and OPEB non-service income and remeasurement adjustments and an after-tax charge of $4 million of separation-related expenses. Adjusted first-quarter net income, excluding the impact of tax reform, pension income and separation costs, was $59 million, compared to $60 million of adjusted net income in the prior year. First-quarter results were driven by strong SSS in VIOC, growth in premium product mix across all segments and continued volume gains in international markets. Adjusted EBITDA of $108 million declined modestly compared to the prior year with overall favorable volume and mix, offset primarily by planned investments in SG&A. Lubricant volume increased 2 percent to 43.8 million gallons. Revenue for the most recent quarter was $545 million compared to $489 million in the similar quarter in 2016. Operating Segment Results for the First Quarter: - Core North America • Lubricant volume declined 1% to 23.8 million gallons, branded volume up slightly • Branded premium mix increased 400 basis points to 47.8% • Operating income declined 16% to $43 million, EBITDA declined 13% to $47 million Core North America branded volumes grew slightly in the quarter. These gains were offset by a decline in non-branded volume, primarily driven by the timing of promotions. Core North America realized benefits of its strategy to grow premium product sales, with premium mix increasing 400 basis points to 47.8 percent of branded volume. Overall favorable mix was offset by planned investments in SG&A and higher-than-expected raw material costs, due to the hurricanes and new packaging launch, which led to the decline in segment EBITDA. Unit margins improved sequentially, the result of pricing actions taken during the latter part of fiscal 2017, and are expected to improve further in the second quarter. - Quick Lubes • VIOC SSS increased 7.9% overall, 8.2% for company-owned stores and 7.7% for franchised stores • Operating income and EBITDA grew 21%, to $35 million and $41 million, respectively 3 • VIOC ended the quarter with 1,139 total stores, an increase of 12 during the period and 63 over prior year The Quick Lubes operating segment had another strong quarter, building from its exceptional quarter in the prior year and demonstrating the momentum of the company's retail operations. Growth in SSS was the result of both increased transactions and average ticket. Transactions benefited from the strength of VIOC's ongoing customer acquisition programs, while pricing and effective store execution were the drivers of improvements in average ticket. Sales and segment EBITDA growth were driven by SSS and the addition of 63 net new stores as compared to the prior year, as well as the previously-announced acquisition of 56 Henley Bluewater franchise locations. As part of Valvoline's strategy to expand its retail presence, VIOC added 12 net new stores to the system during the quarter, two company-owned and 10 franchised locations. - International • Lubricant volume grew 4% to 14.3 million gallons, 9% including unconsolidated joint ventures • Lubricant volume from unconsolidated joint ventures grew 16%, to a record 10.8 million gallons • Operating income and EBITDA each declined $1 million, or 5%, to $19 million and $20 million, respectively The International operating segment again reported broad-based volume growth across emerging and mature markets, the result of ongoing market penetration efforts that build on the strong volume base from the prior year. Equity and royalty income from unconsolidated joint ventures grew 17 percent, due primarily to strong results in India and China. Volume growth, improved joint venture results and foreign exchange benefits were offset by planned investments in SG&A and modestly lower unit margins, impacted by the lower contribution from higher-margin geographies and higher raw material and supply chain costs in some markets. Unit margins are expected to improve in the second quarter. "As we said last quarter, we are focused on accelerating our growth," Mitchell said. "We are on track to deliver full-year adjusted EBITDA of $480 to $500 million and expect to see top- and bottom-line growth in each of our operating segments."

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Afton Chemical 4Q Sales Up 11%

Sales for Afton Chemical, the petroleum additives segment of NewMarket Corporation, for the fourth quarter of 2017 were $556.9 million, up 11.4% versus the same period last year. Petroleum additives operating profit for the fourth quarter of 2017 was $77.9 million, 3.0% higher than fourth quarter operating profit last year of $75.6 million. The increase was mainly due to increased shipments, changes in selling prices and product mix, partially offset by higher raw material and conversion costs. Shipments were up 8.0% from the same period last year with increases in both lubricant additives and fuel additives shipments. All regions contributed to the increase in lubricant additives shipments, and Europe was the primary driver of the increase in fuel additives shipments. For the year, petroleum additives sales were $2.2 billion compared to sales in 2016 of $2.0 billion, or an increase of 7.5%. Petroleum additives operating profit for 2017 was $359.8 million, 6.5% lower than last year's $384.9 million. The decrease was due mainly to higher raw material and conversion costs, and changes in selling prices and product mix, partially offset by increased shipments. Shipments increased 8.2% versus 2016 with increases in both lubricant additives and fuel additives shipments. Europe, Asia Pacific and Latin America were the regions contributing to the increase in lubricant additives shipments, and Europe was the primary driver of the increase in fuel additives shipments. Profit before income taxes for parent company NewMarket for the fourth quarter of 2017 was $64.9 million compared to $64.0 million for the fourth quarter of 2016. Net income for the fourth quarter of 2017 was $4.1 million compared to net income of $45.7 million for the fourth quarter of 2016. Profit before income taxes for 2017 was $315.4 million compared to $343.2 million for 2016. Net income for 2017 was $190.5 million compared to net income of $243.4 million for 2016. Net income for both 2017 periods included the estimated impact of the tax reform act enacted on December 22, 2017, commonly known as the “Tax Cuts and Jobs Act” (the “Tax Reform Act”).

BP Reports Excellent FY 2017 Earnings

BP last Tuesday reported that its profit for the fourth quarter and full year was $27 million and $3,389 million respectively, compared with $497 million and $115 million for the same periods in 2016. For the full year, underlying replacement cost (RC) profit was $6,166 million, compared with $2,585 million in 2016. Underlying RC profit is after adjusting for a net charge for non-operating items of $3,309 million and net adverse fair value accounting effects of $96 million (both on a post-tax basis). RC profit was $2,761 million for the full year, compared with a loss of $999 million a year ago. For the fourth quarter, underlying RC profit was $2,107 million compared with $400 million for the same period in 2016. Underlying RC profit is after adjusting for a net charge for non-operating items of $2,515 million and net adverse fair value accounting effects of $175 million (both on a post-tax basis). RC loss was $583 million for the fourth quarter, compared with a profit of $72 million for the same period in 2016. Upstream - The replacement cost profit before interest and tax for the fourth quarter and full year was $1,928 million and $5,221 million respectively, compared with $692 million and $574 million for the same periods in 2016. The fourth quarter and full year included a net non-operating charge of $144 million and $671 million respectively, compared with a net non-operating gain of $636 million and $1,753 million for the same periods in 2016. Fair value accounting effects in the fourth quarter and full year had an adverse impact of $151 million and a favorable impact of $27 million respectively, compared with an adverse impact of $344 million and $637 million in the same periods of 2016. After adjusting for non-operating items and fair value accounting effects, the underlying replacement cost profit before interest and tax for the fourth quarter and full year was $2,223 million and $5,865 million respectively, compared with a profit of $400 million and a loss of $542 million for the same periods in 2016. The result for the fourth quarter mainly reflected higher liquids realizations and higher production including the impact of the Abu Dhabi onshore concession renewal and major project* start-ups. The result for the full year reflected higher liquids realizations, and higher production including the impact of the Abu Dhabi onshore concession renewal and major project start-ups, partly offset by higher depreciation, depletion and amortization, and higher exploration write-offs. Downstream - Downstream earnings were very strong with underlying replacement cost profit of $7.0 billion, 24% higher than 2016. The replacement cost profit before interest and tax for the fourth quarter and full year was $1,773 million and $7,221 million respectively, compared with $899 million and $5,162 million for the same periods in 2016. The fourth quarter and full year include a net non-operating gain of $382 million and $389 million respectively, compared with a net non-operating charge of $77 million and $24 million for the same periods in 2016. Fair value accounting effects had an adverse impact of $83 million in the fourth quarter and $135 million for the full year, compared with a favorable impact of $99 million and an adverse impact of $448 million for the same periods in 2016. After adjusting for non-operating items and fair value accounting effects, the underlying replacement cost profit before interest and tax for the fourth quarter and full year was $1,474 million and $6,967 million respectively, compared with $877 million and $5,634 million for the same periods in 2016. The lubricants business reported an underlying replacement cost profit before interest and tax of $375 million for the fourth quarter and $1,479 million for the full year, compared with $357 million and $1,523 million for the same periods in 2016. The result for the quarter and full year reflects growth in premium brands and growth markets, offset by the adverse lag impact of increasing base oil prices. Excluding post-tax amounts related to the Gulf of Mexico oil spill, operating cash flow* for the fourth quarter and full year was $6.2 billion and $24.1 billion respectively, compared with $4.5 billion and $17.6 billion for the same periods in 2016. Including amounts relating to the Gulf of Mexico oil spill, operating cash flow for the fourth quarter and full year was $5.9 billion and $18.9 billion respectively, compared with $2.4 billion and $10.7 billion for the same periods in 2016. Sales and other operating revenues for the fourth quarter were $67,816 million compared to $51,007 million in the 2016 fourth quarter. Revenue for the full year was $240,208 million compared to $183,008 million in 2016. During the previous week, Shell, ExxonMobil, Chevron and Phillips 66 all reported improved fourth quarter and full year earnings. Royal Dutch Shell reported that CCS earnings attributable to shareholders, excluding identified items, were $4.3 billion for the fourth quarter 2017, compared with 1.8 billion in the fourth quarter of 2016, up 140%, and $15.8 billion for the full year 2017 compared with 7.2 billion in 2016, up 119%. Income was $3.8 billion for the fourth quarter 2017, compared with $1.5 billion in the fourth quarter of 2016, up 147%, and $13.0 billion for the full year 2017 compared with $4.6 billion in 2016, up 184%. Chevron Corporation reported earnings of $3.111 billion for fourth quarter 2017, compared with $415 million in the 2016 fourth quarter. Full-year 2017 earnings were $9.915 billion compared with a loss of $497 million in 2016. Sales and other operating revenues in fourth quarter 2017 were $36 billion, compared to $30 billion in the year-ago period. ExxonMobil reported fourth-quarter net income of $8.41 billion compared to $2.02 billion in the year-ago quarter. For the full year net income was $19.85 billion compared to $8.38 billion in 2016. ExxonMobil's fourth quarter revenues came in at $66.52 billion compared to $56.40 billion in similar quarter in 2016. For the full year 2017, revenues were $244.36 billion compared to $208.11 billion in 2016. For the full year, Exxon reported profits of $19.71 billion, its highest annual earnings since the start of an oil price slide in 2014, when it earned $32.52 billion. Full year 2016 profit was $7.84 billion. Phillips 66 posted fourth-quarter 2017 net income of $3.198 billion compared to $163 million in the 2016 fourth quarter. For the full year, net income was $5.106 billion compared to $1.555 billion in 2016. Revenue of $30,123 million, compared with the year-ago revenue of $23,668 million.

ExxonMobil Invests in Yoshi, On-Demand Vehicle Care Startup

ExxonMobil announced last Wednesday it has invested into Palo Alto-based Yoshi Inc., a Silicon Valley startup offering on-demand fuel delivery and vehicle care service. As a leading strategic investor, ExxonMobil gains a voting seat on the board of directors and will now provide Yoshi Inc. with fuels and lubricant products. This investment will allow ExxonMobil to shape a new channel in the market for its products. Yoshi Inc. provides a mobile one-stop-shop vehicle care service, bringing fuel-ups, oil changes and car washes direct to the consumer. Customers can schedule gas deliveries and other services directly from their smartphones or computers. The subscription-based service is currently available to customers in Silicon Valley, San Francisco, Nashville, Austin, Atlanta, Los Angeles, and Chicago. But the company has also announced a fresh $13.7 million in funding via a series A round led by General Motors Ventures and ExxonMobil, with contributions from Y Combinator, the Durant Company, and Arab Angel, among others. With this cash injection, Yoshi said it plans to expand to a further 25 metropolitan areas this year. “The on-demand economy is changing nearly every aspect of our everyday lives, including consumer expectations about the way fuels and lubricants are purchased, delivered and used,” said Adam Wariner, Fuels and Lubricants Innovation Manager. “We believe the simplicity and convenience of this direct-to-vehicle care service will attract new customers to Exxon and Mobil branded products.” ExxonMobil will provide Yoshi Inc. with fuels and lubricant products where available, and Yoshi Inc. will continue to manage the delivery service. Customers will receive Exxon or Mobil Regular or Supreme+ Synergy Fuel and Mobil 1 and Mobil Super lubricants, depending on the vehicle’s specification or driver preference. “We believe Yoshi has a big opportunity to be part of the transformation underway in the automotive industry relating to how vehicles get fueled and serviced, which can more than double a vehicle’s cost over its lifetime,” said Yoshi CEO Nick Alexander. “We could not have a better syndicate of investors supporting us, including the leading US automaker and oil and gas company.” Fuel delivery varies by region, but the company stated it should be around $7 for the service, plus the price of the gas. Drivers can also elect to pay a $20 monthly membership, which includes free weekly deliveries. Elsewhere, a basic wash can cost around $45, with a full “detail” clean costing $175, though prices may be higher in areas such as San Francisco. Yoshi is one of a number of startups operating in the on-demand car maintenance realm. Back in August, California-based Booster raised $20 million, taking total funding for its refuel and basic car-care service to $33 million, while earlier this week London-based Zebra Fuel announced a $2.5 million funding round. Other players include GasNinjas, Filld, and FuelMe.

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