LubriTec LUBRICATION TECHNOLOGIES

INTERNATIONAL EDITION

# OEM/Lube News

Lube Related OEM News, Lube Industry Personnel Appointments, New Lube Blending and Base Oil Plants, Mergers & Acqusitions, and Other Corporate News

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# HollyFrontier to Acquire Red Giant Oil

HollyFrontier Corporation last Tuesday announced that it has entered into a definitive agreement to acquire Red Giant Oil Company. Red Giant Oil, a private family-owned lubricants company founded in 1903, is one of the largest suppliers of locomotive engine oil in North America. The company said it is the sole supplier of lubes to the BNSF Railway and the Kansas City Southern and is a major supplier to Union Pacific. Headquartered in Council Bluffs, Iowa, Red Giant Oil has storage facilities in Idaho, Utah and Wyoming, along with a blending and packaging facility in Texas. Following the acquisition, Red Giant Oil is expected to generate approximately $7.5 million in annual forecasted EBITDA for HollyFrontier. George Damiris, President and CEO of HollyFrontier, commented, “We are pleased to announce the acquisition of Red Giant Oil, with its outstanding history and brand in the railroad lubricant industry. This transaction demonstrates the continued growth of our lubricant business and brings outstanding value to HollyFrontier.” The purchase agreement, due to close this summer for an undisclosed amount, would keep the 50-employee business operating as a separate entity within HollyFrontier’s lubrication division, said Red Giant owner and President Sherryl Bills-Taylor. That was a key factor in agreeing to sell to HollyFrontier, she said, rather than a buyer that would consolidate it into another business. Pat Carrigan, now vice president for business development and operations, would take over management of Red Giant upon Bills-Taylor's retirement. The Red Giant name would continue, but a secondary brand, Searle Petroleum Products, would be discontinued, Bills-Taylor said. Red Giant Oil will become a part of HollyFrontier’s lubrication division, which includes Petro-Canada Lubricants of Mississauga, Ontario, acquired by HollyFrontier in February 2017. With annual production of nearly 24 million gallons, in addition to being one of the leaders in the Medium Speed Diesel Engine Oil Industry, Red Giant also produces Motor Oils, Hydraulic Oils, Gear Oils, Greases, Compressor Fluids, Journal Oils and Curve Rail Grease. This transaction is subject to customary closing conditions and is expected to close in the third quarter of 2018. According to its website, Red Giant began doing business in 1910 selling oil and other products to farmers and farm equipment dealers in the Midwest. The name was later changed to E-Z Manufacturing Company and incorporated in the year 1946. Just two years later, the company's name was permanently changed to Red Giant Oil Company. Fred J. Galvani, who had been a salesman for the company, purchased Red Giant Oil Company in 1959. Five years later, he purchased Searle Petroleum Company from the Harry Searle family, which had owned and operated that lubrication business since 1889. In the mid 1980’s, Red Giant Oil/Searle Petroleum Company began selling new railroad engine oil to two Class 1 railroads. Fred Galvani continued working at the company along with his son-in-law, Gary L. Bills, until his death in 2004. With the untimely death of Mr. Bills in 2005, the company became woman-owned by Fred’s widow, Lorraine Galvani, and his daughter, Sherryl G. Bills-Taylor. HollyFrontier produces API Group I, II and III base oils at its plants in Tulsa, Oklahoma, with capacity to produce up to 9,500 barrels per day of Group I base oil, and in Mississauga, Ontario, Canada (Petro-Canada Lubricants, wholly owned by HollyFrontier) with capacity to produce up to 11,600 bpd of Group II and 4,000 bpd of Group III base oils. HollyFrontier has about 3,500 employees and a market value of $12 billion, and reported 2017 net income of $805 million on revenue of $14.25 billion.

# Shifting Vehicle Ownership Models and Increased Focus from OEMs to Drive Growth in Genuine Oils through 2022

Due to shifting consumer behavior and OEMs' desire to capture a greater share of the aftermarket sales and service of their vehicles, genuine oil consumption is projected to grow at a strong compound annual growth rate of 4% through 2022 across all major markets , finds the recently published OEM Genuine Oil Brands and Programs in the Consumer Automotive Segment: Market Analysis and Opportunities report by Kline.

OEM genuine oil includes all engine oils marketed by a passenger vehicle OEM either under the OEM brand name or a trademarked name exclusive to the OEM. Genuine oil is mainly consumed by OEM-franchised workshops and dealerships for servicing new vehicles. Genuine oil consumption is projected to grow for all major OEMs. Toyota leads genuine oil consumption globally, accounting for over 20% of global genuine oil volume in 2017.

OEM genuine oil consumption accounts for estimated 15% of the global PCMO consumption in 2017. Asia-Pacific leads the market, accounting for over 40% of the overall genuine oil demand, followed by North America and Europe. While the vehicle parc in these two mature markets will grow slowly, North America will see the strongest growth in the consumption of genuine oils as vehicle ownership forms and habits are shifting, as well as consumer behavior, driving more vehicles back to dealerships for regular maintenance and service. European OEMs have only recently started to market genuine oils and lag their North American and Japanese counterparts by a significant margin.

"The traditional views of vehicle ownership are starting to give way to emerging trends such as vehicle subscription services which include all maintenance and insurance. OEMs are also investing in ridesharing which could lead to corporate owned fleets serviced by dealerships. The majority of dealerships use genuine oil and, as more customers go back to the dealerships, genuine oil consumption will increase," comments report manager David Tsui. "Lubricant suppliers will lose out on merchant-branded volume to suppliers of genuine oil, which is typically a major supplier with a multi-year OEM contract. Therefore, PCMO suppliers need to seriously consider bidding for OEM genuine oil volumes more than before," advises Tsui.

Subscription services are a relatively new trend that many OEMs and mega dealers are exploring. These services are still in their infancy, but as OEMs pilot these programs across mature markets, should they gain traction, this will shift more vehicle service and maintenance into the dealership workshop channel.

For additional information on automotive subscription services, visit our story "**BMW and Mercedes-Benz Join Other Carmakers in Offering Automotive Subscriptions**" in the February 5, 2018 issue of the OEM/Lube News.

With OEMs advancing internal combustion engine technology to meet higher fuel economy and emissions requirements, partnerships with lubricant and additive suppliers are becoming more beneficial in co-developing new technology. This co-development is likely to lead towards divergent specifications and viscosity grades as each OEM pursues their unique path.

OEMs have been actively seeking to capitalize on the lucrative aftermarket for the vehicles they produce and understanding their strategy will be key to lubricant marketers' plans to grow their own market share. Partnering with the right OEMs in regions where genuine oil is growing the fastest will help lubricant marketers stay ahead of the changing PCMO market.

OEM Genuine Oil Brands and Programs in the Consumer Automotive Segment: Market Analysis and

Opportunities provides a detailed and independent appraisal of penetration levels by OEMs and the competitive threat posed to branded aftermarket lubricant suppliers.

# It's Official - Idemitsu and Showa Shell Sekiyu to Merge

Idemitsu Kosan, Japan's No.2 oil refiner by sales, and fourth-ranked Showa Shell Sekiyu said last Tuesday they had agreed to merge on April 1, 2019, after Idemitsu's founding family dropped its opposition to the plan. The two companies were locked in a battle for about two years with the Idemitsu founding family, which argued the two firms were too different for any merger to work. Idemitsu has long been known for its rare management style that treats employees as family members rather than staff. The newly combined firm will account for about 30 percent of Japan's domestic gasoline sales, second only to JXTG Holdings, which controls about 50 percent of the market. The two companies held boards of directors meetings last Monday and executed the agreement to merge "as the best method of enhancing enterprise value," through the execution of a share exchange agreement. Under the share exchange agreement, Idemitsu Kosan will distribute its shares to shareholders of Showa Shell and acquire all the issued shares of Showa Shell. "The domestic oil industry faces structural challenges such as a medium to long-term decline in the demand for oil products, and overcapacity, which materially influences current and future management not only of the companies but also of dealers, distributors, transport companies, and cooperative companies that have been working alongside the Companies," Idemitsu said in a statement. Considering that the business environment is becoming more challenging, the companies recognize that they urgently need to implement the business integration of the companies, it added. As part of the agreement, the founding family will be able to nominate two of the eight initial directors of the merged entity. The share swap ratio will be set in October, followed by extraordinary shareholders' meetings in December to seek approval. The swap will be conducted for the 68.75 percent of Showa Shell shares that Idemitsu does not own. The deal ends a long-time feud between the company and the founding family, which owns just over 28 percent of the company, after Masakazu Idemitsu, grandson of founder Sazo Idemitsu, agreed to the merger after listening to the advice of activist investor Yoshiaki Murakami. Along with the merger, Idemitsu said it would buy back up to 55 billion yen of its own shares through December to return profits to current shareholders before the merger. The two firms will target net profit of at least 500 billion yen for the total of three business years from 2019. Talks of the acquisition date back to January 2015, when reports surfaced that Idemitsu was in the final stages of purchasing Showa Shell. Idemitsu denied these claims, but confirmed that the two companies were discussing potential cooperation. As of last Monday's close, Idemitsu had a market capitalization of 792.5 billion yen (USD 7.1 billion) and Showa Shell had a market capitalization of 578 billion yen (USD 5.2 billion). After the merger, the new companies will be known as Idemitsu Kosan Co., however, it will conduct business under the trade name Idemitsu Showa Shell. Even after the integration, the refiners will continue to use their own names and brands.

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# LANXESS' 2017 U.S. Sales Increased by 40% to USD 1.9 Billion

With the acquisition of the U.S. company Chemtura in spring 2017 the additives business of specialty chemicals group LANXESS has become a strong pillar for the group – globally, but especially in North America. The additives business was a strong driver for the recent, very strong performance of LANXESS in the U.S. In 2017, the company's total U.S. sales have increased by some 40 percent from USD 1.4 billion to 1.9 billion, the highest number in the company's history. LANXESS also had a strong start into 2018: in the first quarter, U.S. sales increased by around 17 percent to USD 525 million from USD 450 million. With the acquisition of Chemtura, LANXESS has significantly strengthened its competitive position in the area of lubricant additives and synthetic lubricants for industrial applications. "We are now one of the leading suppliers of industrial lubricants and possess an integrated value chain," explained Anno Borkowsky, head of LANXESS' Additives business unit. LANXESS expects medium-term growth of 3 to 4 percent annually for the industrial lubricant additives market, driven primarily by steadily increasing demands placed on lubricants as regards performance capability and environmental compatibility. LANXESS has also significantly expanded its market position for flame retardant additives after integrating the former Chemtura businesses with brominated flame retardant additives, bromine and bromine derivatives. Due to their high effectiveness, these substances are used among others in the construction industry and are an ideal complement for the existing LANXESS business with phosphorus-based flame retardant additives. "Flame retardance requirements are continuously rising due particularly to the trend toward energy-efficient construction. The acquisition made us one of the world's leading suppliers of flame retardant additives. We can offer our customers an array of complementary brominated and phosphorus-based products from a single source," said Borkowsky. LANXESS also expects medium-term annual growth rates of 3 to 4 percent for the area of flame retardant additives. In February 2018, LANXESS took a further step to grow its additives business in North America by purchasing the phosphorus chemicals business from Belgian chemicals group Solvay including its U.S. production site in Charleston, South Carolina. "With this acquisition, we gained a North American platform for phosphorus-based specialty chemicals – a key component of our additive business – and are able to further drive our growth in this key region," said Anno Borkowsky. With the acquisitions, LANXESS has significantly expanded its platform in North America. The number of production sites as well as the number of employees have roughly doubled. LANXESS now has 24 production sites and employs some 2,800 staff in the region. – thereof 19 production sites and 2,200 employees in the U.S. Most of the U.S. sites are occupied by the additives business including the Research Campus in Naugatuck as the main R&D center. More than 60 scientists and engineers are working there on innovations, primarily for the lubricants and flame retardants businesses, but also for the company's urethanes business. "Out of Naugatuck, we are driving global innovations like reactive and polymeric flame retardants or new friction modifier additives," said Anno Borkowsky. Reactive and polymeric flame retardants, like LANXESS' Emerald Innovation® 3000, enjoy a constant rise in demand as they offer much better fire safety and sustainability performance than standard flame retardants. In the lubricants market, new friction modifiers cater to the automotive industry's increased attention to greater fuel economy and lower emissions. Latest product developments account for up to 5 percent improvement in fuel economy for passenger cars. LANXESS posted sales of EUR 9.7 billion in 2017 and had about 19,200 employees in 25 countries. The company is currently represented at 74 production sites worldwide. The core business of LANXESS is the development, manufacturing and marketing of chemical intermediates, additives, specialty chemicals and plastics. Through ARLANXEO, the joint venture with Saudi Aramco, LANXESS is also a leading supplier of synthetic rubber. LANXESS is listed in the leading sustainability indices Dow Jones Sustainability Index (DJSI World and Europe) and FTSE4Good.

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# Quaker Chemical Updates Timing on Houghton Integration

Quaker Chemical Corporation said last week that it continues to be in productive discussions with the European Commission and Federal Trade Commission regarding its combination with Houghton International. Based on these discussions, Quaker said it continues to expect the remedy will involve a divestment of some product lines which, in total, are approximately 3% or less of the revenues of the combined company. This is consistent with Quaker's original projections and previous comments. Quaker is in discussions with potential buyers for the product lines to be divested and intends to present a remedy that meets the needs of both regulatory authorities in the third quarter. Based on the information available to date, Quaker expects to receive approval from the regulatory authorities and close the combination in the fourth quarter of 2018. Michael F. Barry, Chairman, Chief Executive Officer and President of Quaker said, "While the regulatory process is taking longer than expected, it is moving in the right direction with constructive discussions with both regulatory authorities. The additional time will allow us to finalize the process with the potential buyers and the regulators. We believe the end result will be a remedy that meets the needs of the market, the regulatory authorities, and the new combination."

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