

NEWMARKET CORP  
Form 10-Q  
August 09, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-32190

NEWMARKET CORPORATION  
(Exact name of registrant as specified in its charter)

VIRGINIA 20-0812170  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

330 SOUTH FOURTH STREET 23219-4350  
RICHMOND, VIRGINIA  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code - (804) 788-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.



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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares of common stock, without par value, outstanding as of July 31, 2018: 11,452,958

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## NEWMARKET CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per-share amounts)	Second Quarter		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Net sales	\$598,952	\$547,188	\$1,188,197	\$1,090,006
Cost of goods sold	453,093	383,717	885,555	757,693
Gross profit	145,859	163,471	302,642	332,313
Selling, general, and administrative expenses	41,999	39,373	82,912	79,853
Research, development, and testing expenses	36,729	37,019	71,024	75,149
Operating profit	67,131	87,079	148,706	177,311
Interest and financing expenses, net	5,565	5,360	10,729	10,932
Other income (expense), net	7,999	3,571	12,899	7,144
Income before income tax expense	69,565	85,290	150,876	173,523
Income tax expense	16,680	22,562	37,426	46,858
Net income	\$52,885	\$62,728	\$113,450	\$126,665
Earnings per share - basic and diluted	\$4.53	\$5.29	\$9.67	\$10.69
Cash dividends declared per share	\$1.75	\$1.75	\$3.50	\$3.50

See accompanying Notes to Condensed Consolidated Financial Statements

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NEWMARKET CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

(in thousands)	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$52,885	\$62,728	\$113,450	\$126,665
Other comprehensive income (loss):				
Pension plans and other postretirement benefits:				
Amortization of prior service cost (credit) included in net periodic benefit cost, net of income tax expense (benefit) of \$(181) in second quarter 2018, \$(296) in second quarter 2017, \$(361) in six months 2018 and \$(592) in six months 2017	(591 )	(474 )	(1,182 )	(948 )
Amortization of actuarial net loss (gain) included in net periodic benefit cost, net of income tax expense (benefit) of \$359 in second quarter 2018, \$567 in second quarter 2017, \$719 in six months 2018 and \$1,076 in six months 2017	1,131	1,064	2,267	1,847
Total pension plans and other postretirement benefits	540	590	1,085	899
Foreign currency translation adjustments, net of income tax expense (benefit) of \$(504) in second quarter 2018, \$(360) in second quarter 2017, \$(544) in six months 2018 and \$(80) in six months 2017	(12,791 )	9,372	(33 )	13,014
Other comprehensive income (loss)	(12,251 )	9,962	1,052	13,913
Comprehensive income	\$40,634	\$72,690	\$114,502	\$140,578

See accompanying Notes to Condensed Consolidated Financial Statements

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NEWMARKET CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

(in thousands, except share amounts)	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 109,789	\$ 84,166
Trade and other accounts receivable, less allowance for doubtful accounts	372,156	335,317
Inventories		
Finished goods and work-in-process	310,444	319,036
Raw materials	56,194	51,485
Stores, supplies, and other	12,913	12,576
Total inventories	379,551	383,097
Prepaid expenses and other current assets	31,343	31,074
Total current assets	892,839	833,654
Property, plant, and equipment, at cost	1,450,101	1,474,962
Less accumulated depreciation and amortization	800,664	822,681
Net property, plant, and equipment	649,437	652,281
Intangibles (net of amortization) and goodwill	139,179	144,337
Prepaid pension cost	77,731	66,495
Deferred income taxes	4,149	4,349
Deferred charges and other assets	10,495	11,038
Total assets	\$ 1,773,830	\$ 1,712,154
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 143,918	\$ 159,408
Accrued expenses	94,635	107,999
Dividends payable	18,523	19,055
Income taxes payable	11,722	16,340
Other current liabilities	11,221	13,991
Total current liabilities	280,019	316,793
Long-term debt	759,843	602,900
Other noncurrent liabilities	181,487	190,812
Total liabilities	1,221,349	1,110,505
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common stock and paid-in capital (without par value; authorized shares - 80,000,000; issued and outstanding shares - 11,465,814 at June 30, 2018 and 11,779,978 at December 31, 2017)	0	0
Accumulated other comprehensive loss	(144,942	) (145,994
Retained earnings	697,423	747,643
Total shareholders' equity	552,481	601,649
Total liabilities and shareholders' equity	\$ 1,773,830	\$ 1,712,154

See accompanying Notes to Condensed Consolidated Financial Statements





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NEWMARKET CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(Unaudited)

(in thousands, except share and per-share amounts)	Common Stock and Paid-in Capital		Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2016	11,845,972	\$ 1,603	\$ (182,510 )	\$ 664,158	\$ 483,251
Net income				126,665	126,665
Other comprehensive income (loss)			13,913		13,913
Cash dividends (\$3.50 per share)				(41,484 )	(41,484 )
Stock-based compensation	6,540	1,358		2	1,360
Balance at June 30, 2017	11,852,512	\$ 2,961	\$ (168,597 )	\$ 749,341	\$ 583,705
Balance at December 31, 2017	11,779,978	\$ 0	\$ (145,994 )	\$ 747,643	\$ 601,649
Net income				113,450	113,450
Other comprehensive income (loss)			1,052		1,052
Cash dividends (\$3.50 per share)				(40,821 )	(40,821 )
Repurchases of common stock	(322,753 )	(1,225 )		(122,854 )	(124,079 )
Stock-based compensation	8,589	1,225		5	1,230
Balance at June 30, 2018	11,465,814	\$ 0	\$ (144,942 )	\$ 697,423	\$ 552,481

See accompanying Notes to Condensed Consolidated Financial Statements

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NEWMARKET CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

(in thousands)	Six Months Ended	
	June 30,	
	2018	2017
Cash and cash equivalents at beginning of year	\$84,166	\$192,154
Cash flows from operating activities:		
Net income	113,450	126,665
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	35,220	24,623
Noncash pension and postretirement expense	3,223	4,055
Deferred income tax (benefit) expense	(813	) 8,116
Working capital changes	(74,506	) (51,376 )
Cash pension and postretirement contributions	(13,756	) (12,936 )
Other, net	2,962	(6,530 )
Cash provided from (used in) operating activities	65,780	92,617
Cash flows from investing activities:		
Capital expenditures	(42,601	) (85,211 )
Other, net	12,150	(2,000 )
Cash provided from (used in) investing activities	(30,451	) (87,211 )
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit facility	157,000	(129,574 )
Issuance of 3.78% senior notes	0	250,000
Dividends paid	(40,821	) (41,484 )
Repurchases of common stock	(123,316	) 0
Other, net	(170	) (1,456 )
Cash provided from (used in) financing activities	(7,307	) 77,486
Effect of foreign exchange on cash and cash equivalents	(2,399	) 2,989
Increase in cash and cash equivalents	25,623	85,881
Cash and cash equivalents at end of period	\$109,789	\$278,035

See accompanying Notes to Condensed Consolidated Financial Statements

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NEWMARKET CORPORATION AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

1. Financial Statement Presentation

In the opinion of management, the accompanying consolidated financial statements of NewMarket Corporation and its subsidiaries contain all necessary adjustments for the fair statement of, in all material respects, our consolidated financial position as of June 30, 2018 and December 31, 2017, our consolidated results of operations and comprehensive income for the second quarter and six months ended June 30, 2018 and June 30, 2017, and our changes in shareholders' equity, and cash flows for the six months ended June 30, 2018 and June 30, 2017. All adjustments are of a normal, recurring nature, unless otherwise disclosed. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the NewMarket Corporation Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Annual Report), as filed with the Securities and Exchange Commission (SEC). The results of operations for the six month period ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018. The December 31, 2017 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Unless the context otherwise indicates, all references to "we," "us," "our," the "company," and "NewMarket" are to NewMarket Corporation and its consolidated subsidiaries.

Prior period amounts on the Consolidated Statements of Income have been reclassified to reflect the retroactive adoption of Accounting Standard Update No. 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". See Note 13 for further information.

2. Acquisition of Business

On July 3, 2017, Afton Chemical de Mexico, S.A. de C.V., an indirect, wholly-owned subsidiary of NewMarket, acquired approximately 99.5% of the outstanding capital stock of Aditivos Mexicanos, S.A. de C.V. (AMSA) for \$185 million in cash. AMSA is a petroleum additives manufacturing, sales and distribution company based in Mexico City, Mexico. The results of AMSA's operations have been included in our consolidated financial statements since the date of acquisition and are not material. The noncontrolling interest is also not material. The acquisition agreement included all physical assets of AMSA.

We performed a purchase price valuation to determine the fair values of the tangible and intangible assets acquired and liabilities assumed and the amount of goodwill to be recognized as of the acquisition date.

The allocation of the purchase price is as follows (in millions):

Cash	\$ 1
Trade accounts receivable	16
Inventory	6
Property, plant, and equipment	53
Goodwill	118
Intangible assets	18
Other long-term assets	2
Other current liabilities	(7 )
Other long-term liabilities	(3 )
Deferred taxes	(19 )
Fair value of net assets acquired	\$ 185



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Identified intangible assets acquired consisted of the following (in millions):

	Fair Value	Estimated Useful Lives (in years)
Formulas and technology	\$ 9	3-6
Customer base	9	4
Total identified intangible assets	\$ 18	

As part of the acquisition, we recorded \$118 million of goodwill. The goodwill recognized is attributable to expected synergies, including a secure supply source for certain raw materials, as well as the skilled assembled workforce of AMSA. All of the goodwill recognized is part of the petroleum additives segment, and none is deductible for Mexican tax purposes.

Pro forma results of operations are not presented as the acquisition was not considered material to our consolidated results.

### 3. Net Sales

On January 1, 2018, we adopted Accounting Standard Codification 606 (ASC 606), "Revenue from Contracts with Customers" using the modified retrospective method and applying the standard only to uncompleted contracts at the date of adoption. The impact of adopting ASC 606 did not result in a change to income, and therefore we are not reflecting a cumulative effect to the opening balance of retained earnings due to the adoption of ASC 606. The comparative period has not been adjusted and continues to be reported under the accounting standards in effect for that period.

Our revenues are primarily derived from the manufacture and sale of petroleum additives products. We sell petroleum additives products across the world including to customers located in the United States, Europe, Asia Pacific (including China), Latin America, Canada, India, and the Middle East. Our customers primarily consist of global, national, and independent oil companies. While some of our customers have payment terms beyond 30 days, we do not provide extended payment terms of a year or more, nor do our contracts include a financing component. Our allowance for doubtful accounts is immaterial, as are any bad debts we incur. In limited cases, we collect funds in advance of shipping product to our customers and recognizing the related revenue. These prepayments from customers are recorded as a contract liability to our customer until we recognize the revenue. Prepayments from our customers totaled \$9.1 million at June 30, 2018. Revenue recognized from funds collected in advance from customers in an earlier period was \$3.2 million in 2018.

We recognize revenue when control of the product is transferred to our customer and for an amount that reflects the consideration that we expect to collect from the customer. Control is generally transferred to the customer when title transfers (which may include physical possession by the customer), we have a right to payment from the customer, the customer has accepted the product, and the customer has assumed the risks and rewards of ownership. We have supplier managed inventory arrangements with some of our customers to facilitate on-demand product availability. In some cases, the inventory resides at a customer site, although title has not transferred, we are not entitled to payment, and we have not invoiced for the product. We have evaluated the contract terms under these arrangements and have determined that control transfers when the customer uses the product, at which time revenue is recognized. Our contracts generally include one performance obligation, which is providing petroleum additives products. The performance obligation is satisfied at a point in time when products are shipped, delivered, or consumed by the customer, depending on the underlying contracts.

Taxes assessed by a governmental authority which are concurrent with sales to our customers, including sales, use, value-added, and revenue-related excise taxes, are collected by us from the customer and are not included in net sales, but are reflected in accrued expenses until remitted to the appropriate governmental authority. When we are responsible for shipping and handling costs after title has transferred, we account for those as fulfillment costs and include them in cost of goods sold.

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Some of our contracts include variable consideration in the form of rebates or business development funds. We record rebates at the point of sale as contra-revenue when we can reasonably estimate the amount of the rebate. The estimates are based on our best judgment at the time of sale, which includes anticipated as well as historical performance. Depending upon the specific terms of a business development fund, amounts are accrued as contra-revenue at the point of sale or are expensed when costs are incurred by us. We regularly review both rebates and business development funds and make adjustments when necessary, recognizing the full amount of any adjustment in the period identified. We recognized an increase to net sales of \$0.2 million for the second quarter of 2018 and an increase of \$1.2 million for the first six months of 2018 related to adjustments to rebates or business development funds which were recognized in revenue in a prior period. At June 30, 2018, accrued rebates were \$15.7 million and accrued business development funds were \$2.8 million.

The following table provides information on our net sales by geographic area. Information on net sales by segment is in Note 4.

	Second Quarter Ended June 30, 2018	Six Months Ended June 30, 2018
(in thousands)		
Net sales		
United States	\$ 185,225	\$ 366,863
China	61,878	126,089
Europe, Middle East, Africa, India	208,738	407,398
Asia Pacific, except China	84,183	166,689
Other foreign	58,928	121,158
Net sales	\$ 598,952	\$ 1,188,197

## 4. Segment Information

The tables below show our consolidated segment results. The “All other” category includes the operations of the TEL business, as well as certain contracted manufacturing and services associated with Ethyl Corporation (Ethyl). The results of AMSA's operations are reflected in the petroleum additives segment. See Note 2 for further information on AMSA.

## Net Sales by Segment

	Second Quarter Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Petroleum additives				
Lubricant additives	\$ 492,313	\$ 453,377	\$ 977,362	\$ 897,338
Fuel additives	103,889	90,776	205,748	186,848
Total	596,202	544,153	1,183,110	1,084,186
All other	2,750	3,035	5,087	5,820
Net sales	\$ 598,952	\$ 547,188	\$ 1,188,197	\$ 1,090,006

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## Segment Operating Profit

(in thousands)	Second Quarter		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Petroleum additives	\$71,530	\$91,255	\$155,670	\$186,668
All other	406	815	329	1,850
Segment operating profit	71,936	92,070	155,999	188,518
Corporate, general, and administrative expenses	(4,967 )	(4,681 )	(10,631 )	(11,027 )
Interest and financing expenses, net	(5,565 )	(5,360 )	(10,729 )	(10,932 )
Other income (expense), net	8,161	3,261	16,237	6,964
Income before income tax expense	\$69,565	\$85,290	\$150,876	\$173,523

## 5. Pension Plans and Other Postretirement Benefits

The table below shows cash contributions made during the six months ended June 30, 2018, as well as the remaining cash contributions we expect to make during the year ending December 31, 2018, for our domestic and foreign pension plans and domestic postretirement benefit plan.

(in thousands)	Actual Cash Contributions for Six Months Ended June 30, 2018	Expected Remaining Cash Contributions for Year Ending December 31, 2018
Domestic plans		
Pension benefits	\$ 9,636	\$ 9,636
Postretirement benefits	999	999
Foreign plans		
Pension benefits	3,121	3,123

The tables below present information on net periodic benefit cost (income) for our domestic and foreign pension plans and domestic postretirement benefit plan. The service cost component of net periodic benefit cost (income) is presented in operating profit in the same income statement line as the related employee compensation costs. The remaining components of net periodic benefit cost (income) are presented in other income (expense), net on the consolidated statements of income.

(in thousands)	Domestic			
	Pension Benefits		Postretirement Benefits	
	Second Quarter Ended June 30,			
	2018	2017	2018	2017
Service cost	\$3,972	\$3,379	\$ 217	\$ 187
Interest cost	3,342	3,358	369	392
Expected return on plan assets	(7,445 )	(6,502 )	(249 )	(308 )
Amortization of prior service cost (credit)	6	6	(757 )	(757 )
Amortization of actuarial net (gain) loss	1,341	1,230	0	0
Net periodic benefit cost (income)	\$1,216	\$1,471	\$ (420 )	\$ (486 )





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(in thousands)	Domestic			
	Pension Benefits		Postretirement Benefits	
	Six Months Ended June 30,			
	2018	2017	2018	2017
Service cost	\$7,944	\$6,758	\$ 433	\$ 373
Interest cost	6,685	6,718	739	786
Expected return on plan assets	(14,890)	(13,005)	(498 )	(617 )
Amortization of prior service cost (credit)	13	13	(1,514 )	(1,514 )
Amortization of actuarial net (gain) loss	2,682	2,459	0	0
Net periodic benefit cost (income)	\$2,434	\$2,943	\$ (840 )	\$ (972 )

(in thousands)	Foreign			
	Pension Benefits			
	Second Quarter		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Service cost	\$2,060	\$1,882	\$4,139	\$3,703
Interest cost	1,156	1,047	2,320	2,065
Expected return on plan assets	(2,539 )	(2,078 )	(5,096 )	(4,102 )
Amortization of prior service cost (credit)	(21 )	(19 )	(42 )	(38 )
Amortization of actuarial net (gain) loss	153	231	308	456
Net periodic benefit cost (income)	\$809	\$1,063	\$1,629	\$2,084

## 6. Earnings Per Share

We had 25,297 shares of nonvested restricted stock at June 30, 2018 and 23,670 shares of nonvested restricted stock at June 30, 2017 that were excluded from the calculation of diluted earnings per share, as their effect on earnings per share would be anti-dilutive.

The nonvested restricted stock is considered a participating security since the restricted stock contains nonforfeitable rights to dividends. As such, we use the two-class method to compute basic and diluted earnings per share for all periods presented since this method yields a more dilutive result than the treasury-stock method. The following table illustrates the earnings allocation method utilized in the calculation of basic and diluted earnings per share.

(in thousands, except per-share amounts)	Second Quarter		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Earnings per share numerator:				
Net income attributable to common shareholders before allocation of earnings to participating securities	\$52,885	\$62,728	\$113,450	\$126,665
Earnings allocated to participating securities	116	125	219	252
Net income attributable to common shareholders after allocation of earnings to participating securities	\$52,769	\$62,603	\$113,231	\$126,413
Earnings per share denominator:				
Weighted-average number of shares of common stock outstanding - basic and diluted	11,647	11,829	11,705	11,829
Earnings per share - basic and diluted	\$4.53	\$5.29	\$9.67	\$10.69

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## 7. Intangibles (Net of Amortization) and Goodwill

The net carrying amount of intangibles and goodwill was \$139 million at June 30, 2018 and \$144 million at December 31, 2017. The gross carrying amount and accumulated amortization of each type of intangible asset and goodwill are presented in the table below.

	June 30, 2018		December 31, 2017	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization