

# Valvoline Second Quarter Fiscal 2017 Earnings Presentation

Sam Mitchell, CEO  
Mary Meixelsperger, CFO  
Jason Thompson, VP Finance, Treasurer

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## 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), including EBITDA, Adjusted EBITDA and free cash flow, 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 and calculations of non-GAAP measures is included in Valvoline’s most recent Form 10-K filed with the SEC, which is available on Valvoline’s website at <http://investors.valvoline.com/sec-filings>. Additionally, a reconciliation of EBITDA, Adjusted EBITDA, and free cash flow can be found in the tables attached to Valvoline’s most recent earnings release dated April 25, 2017.

## Second Quarter Results

- Reported EPS of \$0.35 up \$0.02 YoY
- Operating income up 13% to \$117 million
- Net income up 4% to \$71 million
- YTD cash provided by operating activities of \$70 million

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

### Separation-related items

- Interest expense added this year
- Transfer of pension plans drives increase in YoY pension income

### Key items

- Q2 Fiscal 2017
  - Separation costs
- Q2 Fiscal 2016
  - Pension remeasurement based on plan changes
  - Acquisition-related costs

### EBITDA from operating segments<sup>1</sup>

- Segment operating income (Core North America, Quick Lubes, and International) plus depreciation and amortization
- Excludes certain corporate items, primarily pension income

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated April 25, 2017, available on Valvoline's website at <http://investor.valvoline.com>.

## Adjusted Results for Q2

- Adjusted<sup>1</sup> EPS of \$0.37 up 6%
- Volume growth of 3%
- Sales up 7%
- Managing raw materials cost pass-through
- EBITDA from operating segments<sup>1</sup> of \$115 million was consistent with prior year

	Three Months Ended March 31,		
	2017	2016	Change
EPS from Operating Segments	\$ 0.34	\$ 0.34	\$ -
Interest Expense	\$ (0.03)	\$ -	\$ (0.03)
Pension & OPEB Income	\$ 0.06	\$ 0.01	\$ 0.05
<b>Adjusted<sup>1</sup> EPS</b>	<b>\$ 0.37</b>	<b>\$ 0.35</b>	<b>\$ 0.02</b>

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated April 25, 2017, available on Valvoline's website at <http://investor.valvoline.com>.

## Core North America

- Volume down 5%
- Sales up 2%
- Branded premium mix up 500 bps
- EBITDA<sup>1</sup> down 5%

## Core North America continues to be steady

### Volume and mix dynamics

- Growing the mix of higher-margin premium branded volume
- Overall branded volume flat YoY
- Volume decline driven by declines in lower-margin non-branded business

### Managing unit margins

- Seeing some headwinds on raw material costs
- Passing these through to maintain unit margins over time
- Unit margins up YoY and sequentially

### Innovation

- Introducing new packaging innovations to support our installer customers

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated April 25, 2017, available on Valvoline's website at <http://investor.valvoline.com>.

## Packaging Innovation to Support Core North America Customers



### Benefits to Customers

- Improves working capital & inventory control
- Eases space constraints
- Reduces product waste & increases speed of service

### Benefits to Valvoline

- Increases volume & premium penetration
- Solidifies current customer relationships
- Drives new customer acquisition

## Quick Lubes

- Sales up 13%
- SSS up 3.9%
- EBITDA<sup>1</sup> up 9%
- Added 56 VIOC units YoY, 32 in Q2

## Quick Lubes continues as a growth engine

### Good results in Q2

- Trend of continuing sales and profit growth
- Adding stores through M&A and franchise additions
- Q2 contributing to YTD SSS growth of 6.4% in line with full-year guidance

### External Items that can impact same-store sales

- Number of sales days
- Weather that significantly impacts miles driven

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated April 25, 2017, available on Valvoline's website at <http://investor.valvoline.com>.

## International

- Volume up 13%
- Sales up 12%
- Emerging markets up 13%
- EBITDA<sup>1</sup> flat

### International continues to drive volume

#### Broad-based volume growth, across emerging and mature markets

- Mature markets growth driven by Europe
- Key growth drivers are expanded distribution and brand building

#### EBITDA<sup>1</sup> flat YoY

- \$2 million impact of reserves and expenses for tax matters from prior years
- Increase in SG&A
- Passing through raw material cost increases

<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated April 25, 2017, available on Valvoline's website at <http://investor.valvoline.com>.

## Benefits of the Separation

- Speed, flexibility and focus
- Manage our own capital

## Separation plans finalized

### Separation will drive the business forward

- Focused as one, global team
- Ability to move faster
- Ability to reinvest to drive growth in Valvoline's business

### Capital Allocation Priorities

#### 1. Invest for growth

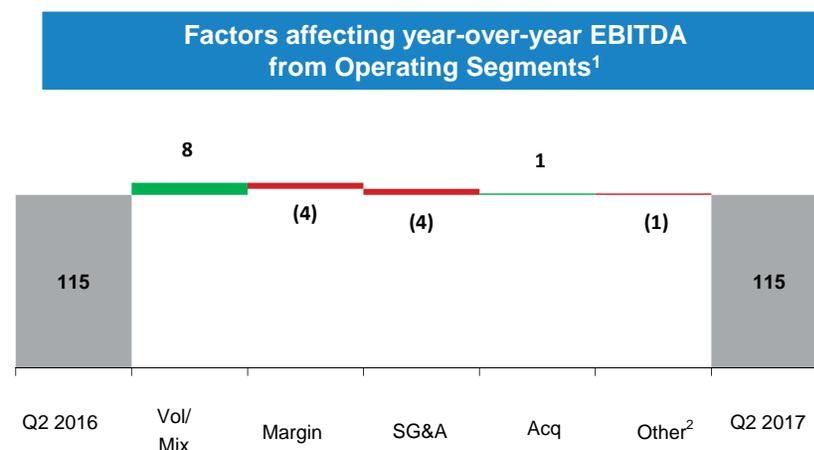
- a. Invest in organic growth including VIOC stores and digital infrastructure
- b. Complete quality M&A, concentrated in Quick Lubes

#### 2. Return capital to shareholders

- a. Grow the dividend over time
- b. New share repurchase program

## Adjusted<sup>1</sup> Results

(\$ in millions) Preliminary	Fiscal Second Quarter Three months ended Mar. 31,		
	2017	2016	Change
<b>Results from Operating Segments</b>			
Lubricant gallons (in millions)	45.0	43.8	3 %
Sales	\$ 514	\$ 480	7 %
Gross profit	198	192	3 %
SG&A	97	93	4 %
Equity and other income	5	6	(17) %
Operating income	\$ 106	\$ 105	1 %
Depreciation and amortization	9	10	(10) %
Earnings before interest, taxes, depreciation and amortization (EBITDA) from Operating Segments <sup>1</sup>	\$ 115	\$ 115	- %
<i>EBITDA as a percent of sales</i>	<i>22.4 %</i>	<i>24.0 %</i>	<i>(160) bp</i>
<b>Total Adjusted<sup>1</sup> Results</b>			
Adjusted <sup>1</sup> EBITDA in Unallocated & Other	\$ 17	\$ 4	325 %
Total Adjusted <sup>1</sup> EBITDA	\$ 132	\$ 119	11 %
<i>Total Adjusted EBITDA as a percent of sales</i>	<i>25.7 %</i>	<i>24.8 %</i>	<i>90 bp</i>



<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated April 25, 2017, available on Valvoline's website at <http://investor.valvoline.com>.

<sup>2</sup> Other includes primarily equity and royalty income.

## Fiscal 2017 Q2 Corporate Items & Guidance

- Effective tax rate of 34.9% for the quarter
- YTD capital expenditures totaled \$27 million
- YTD free cash flow<sup>1</sup> generation of \$43 million
- Total debt of \$737 million
  - Net debt of \$602 million
- Net pension and OPEB obligations of ~\$833 million
- Recorded \$6 million of separation-related costs in Q2
- Reiterating full-year guidance
  - 2017 Adjusted EPS \$1.36 - \$1.43
  - Free cash flow of \$130 - \$150 million
  - Q3 EBITDA from operating segments, \$106 - \$111 million

<sup>1</sup> Definition of free cash flow: operating cash less capital expenditures and other items Valvoline has deemed non-operational.

## Share Repurchase Program

- Up to \$150 million of VVV common stock
- Term extends through December 31, 2019

### **Valvoline's Board authorizes stock repurchase program**

- Opportunistic execution
- Demonstrates confidence in the strength of the business

## Q2 Fiscal 2017 Summary

- ✓ Performance in Q2 exceeded our expectations
- ✓ On track to meet our full-year goals
- ✓ Positioned to drive shareholder value as a fully independent, standalone company

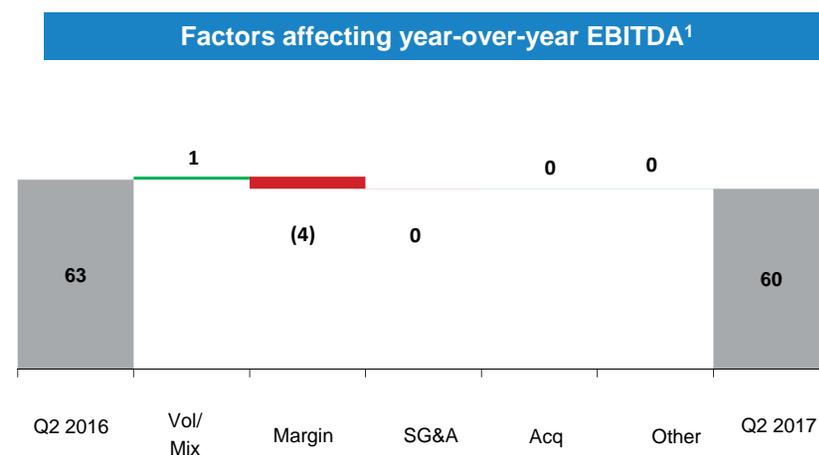
## Appendix

## Key Items Affecting Income

(\$ in millions, except per share data) Preliminary		Second Quarter Impact		
		Operating Income	Total	
2017	Pre-tax		After-tax	
Separation Costs	\$ (6)	(6)	(4)	(0.02)
<b>2016</b>				
Pension remeasurement	\$ (5)	\$ (5)	\$ (3)	\$ (0.02)
Net Loss on acquisition and divestiture	\$ (1)	\$ (1)	\$ (1)	\$ (0.00)
<b>Total</b>	<b>\$ (6)</b>	<b>\$ (6)</b>	<b>\$ (4)</b>	<b>\$ (0.02)</b>

## Core North America

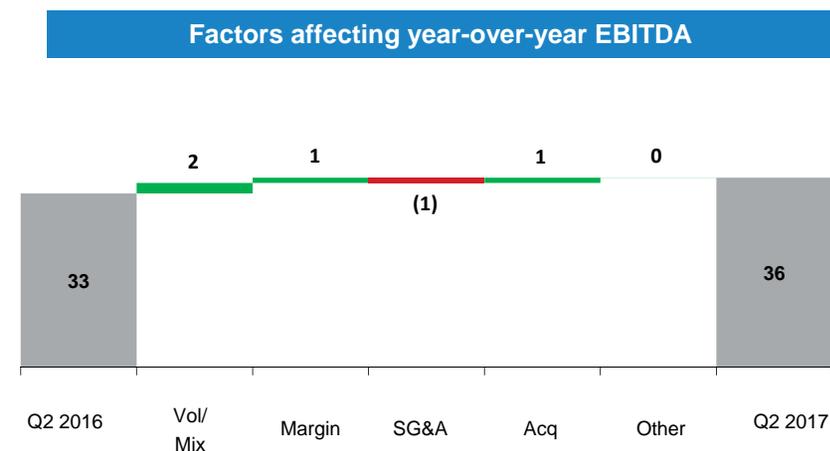
(\$ in millions) Preliminary	Fiscal Second Quarter Three months ended Mar. 31,		
	2017	2016	Change
Lubricant gallons (in millions)	24.6	25.8	(5) %
Sales	\$ 253	\$ 248	2 %
Operating income	\$ 57	\$ 59	(3) %
Depreciation and amortization	3	4	(25) %
EBITDA <sup>1</sup>	\$ 60	\$ 63	(5) %
<i>EBITDA as a percent of sales</i>	23.7 %	25.4 %	(170) bp



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## Quick Lubes

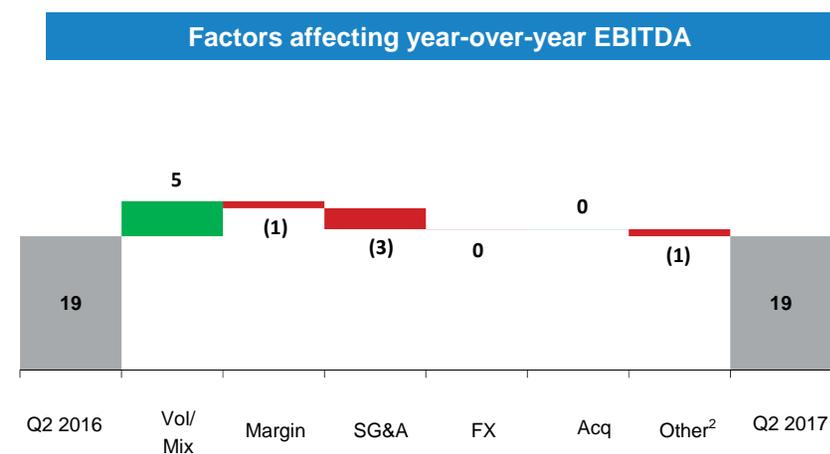
(\$ in millions) Preliminary	Fiscal Second Quarter Three months ended Mar. 31,		
	2017	2016	Change
Lubricant gallons (in millions)	5.5	4.8	15 %
Sales	\$ 128	\$ 113	13 %
Operating income	\$ 31	\$ 29	7 %
<i>Depreciation and amortization</i>	5	4	25 %
EBITDA <sup>1</sup>	\$ 36	\$ 33	9 %
<i>EBITDA as a percent of sales</i>	28.1 %	29.2 %	(110) bp



<sup>1</sup> For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to Valvoline's earnings release dated April 25, 2017, available on Valvoline's website at <http://investor.valvoline.com>.

## International

(\$ in millions) Preliminary	Fiscal Second Quarter Three months ended Mar. 31,		
	2017	2016	Change
Lubricant gallons (in millions)	14.9	13.2	13 %
Sales	\$ 133	\$ 119	12 %
Operating income	\$ 18	\$ 17	6 %
Depreciation and amortization	1	2	(50) %
EBITDA <sup>1</sup>	\$ 19	\$ 19	- %
<i>EBITDA as a percent of sales</i>	<i>14.3 %</i>	<i>16.0 %</i>	<i>(170) bps</i>



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## Fiscal 2017 Outlook

Current Expectations	
	Outlook
<b>Operating Segments</b>	
• Lubricant gallons	3-5%
• Sales	4-7%
• New stores	
• VIOC company-owned	31-33 28 acquired, 3-5 new builds
• VIOC franchised	15-25
• VIOC same-store sales	5-7%
• EBITDA from operating segments	\$440-\$455 million
<b>Corporate Items</b>	
• Pension income	\$70 million
• One-time separation-related expenses	\$25-\$30 million
• Diluted adjusted earnings per share	\$1.36-\$1.43
• Capital expenditures	\$70-\$80 million
• Free cash flow <sup>1</sup>	\$130-\$150 million

<sup>1</sup> Definition of free cash flow: operating cash less capital expenditures and other items Valvoline has deemed non-operational.

