

NEWMARKET CORP
Form 10-Q
April 25, 2019
Table of Contents

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 March 31, 2019

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 (Section 232.405 of this chapter) 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.

Table of Contents

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 March 31, 2019: 11,188,126

Table of Contents

NEWMARKET CORPORATION

INDEX

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. Financial Statements (unaudited)</u>	
<u>Consolidated Statements of Income - Three Months Ended March 31, 2019 and March 31, 2018</u>	4
<u>Consolidated Statements of Comprehensive Income - Three Months Ended March 31, 2019 and March 31, 2018</u>	5
<u>Condensed Consolidated Balance Sheets - March 31, 2019 and December 31, 2018</u>	6
<u>Consolidated Statements of Shareholders' Equity - Three Months Ended March 31, 2019 and March 31, 2018</u>	7
<u>Condensed Consolidated Statements of Cash Flows - Three Months Ended March 31, 2019 and March 31, 2018</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Financial Statement Presentation</u>	9
<u>Net Sales</u>	9
<u>Segment Information</u>	10
<u>Pension Plans and Other Postretirement Benefits</u>	10
<u>Earnings Per Share</u>	11
<u>Inventories</u>	12
<u>Intangibles (Net of Amortization) and Goodwill</u>	12
<u>Leases</u>	12
<u>Long-term Debt</u>	15
<u>Commitments and Contingencies</u>	16
<u>Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss</u>	16
<u>Fair Value Measurements</u>	17
<u>Recent Accounting Pronouncements</u>	17
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>ITEM 4. Controls and Procedures</u>	24
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	25
<u>ITEM 6. Exhibits</u>	25
<u>SIGNATURES</u>	26

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

NEWMARKET CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per-share amounts)	Three Months	
	Ended	
	March 31,	
	2019	2018
Net sales	\$536,616	\$589,245
Cost of goods sold	383,747	432,462
Gross profit	152,869	156,783
Selling, general, and administrative expenses	36,773	40,913
Research, development, and testing expenses	33,224	34,295
Operating profit	82,872	81,575
Interest and financing expenses, net	8,012	5,164
Other income (expense), net	5,948	4,900
Income before income tax expense	80,808	81,311
Income tax expense	18,603	20,746
Net income	\$62,205	\$60,565
Earnings per share - basic and diluted	\$5.57	\$5.14
Cash dividends declared per share	\$1.75	\$1.75

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

(in thousands)	Three Months Ended March 31,	
	2019	2018
Net income	\$62,205	\$60,565
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 \$(185) in 2019 and \$(180) in 2018	(601) (591
Amortization of actuarial net loss (gain) included in net periodic benefit cost, net of income tax expense (benefit) of \$254 in 2019 and \$360 in 2018	841	1,136
Total pension plans and other postretirement benefits	240	545
Foreign currency translation adjustments, net of income tax expense (benefit) of \$(107) in 2019 and \$(40) in 2018	4,946	12,758
Other comprehensive income (loss)	5,186	13,303
Comprehensive income	\$67,391	\$73,868

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

NEWMARKET CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

(in thousands, except share amounts)	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$78,247	\$73,040
Trade and other accounts receivable, less allowance for doubtful accounts	351,405	314,860
Inventories	395,660	396,341
Prepaid expenses and other current assets	30,834	29,179
Total current assets	856,146	813,420
Property, plant, and equipment, net	633,009	644,138
Intangibles (net of amortization) and goodwill	135,059	136,039
Prepaid pension cost	92,208	88,705
Operating lease right-of-use assets	57,758	0
Deferred income taxes	5,044	5,094
Deferred charges and other assets	18,967	9,878
Total assets	\$1,798,191	\$1,697,274
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$135,473	\$151,631
Accrued expenses	78,231	91,202
Dividends payable	17,880	17,923
Income taxes payable	10,382	6,431
Operating lease liabilities	13,484	0
Other current liabilities	4,523	4,114
Total current liabilities	259,973	271,301
Long-term debt	782,024	770,999
Operating lease liabilities-noncurrent	43,931	0
Other noncurrent liabilities	174,067	165,067
Total liabilities	1,259,995	1,207,367
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Common stock and paid-in capital (without par value; authorized shares - 80,000,000; issued and outstanding shares - 11,188,126 at March 31, 2019 and 11,184,482 at December 31, 2018)	431	0
Accumulated other comprehensive loss	(176,130)	(181,316)
Retained earnings	713,895	671,223
Total shareholders' equity	538,196	489,907
Total liabilities and shareholders' equity	\$1,798,191	\$1,697,274

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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, 2017	11,779,978	\$ 0	\$ (145,994)	\$ 747,643	\$ 601,649
Net income				60,565	60,565
Other comprehensive income (loss)			13,303		13,303
Cash dividends (\$1.75 per share)				(20,629)	(20,629)
Repurchases of common stock	(1,600)	(489)		(143)	(632)
Stock-based compensation	8,676	525		4	529
Balance at March 31, 2018	11,787,054	\$ 36	\$ (132,691)	\$ 787,440	\$ 654,785
Balance at December 31, 2018	11,184,482	\$ 0	\$ (181,316)	\$ 671,223	\$ 489,907
Net income				62,205	62,205
Other comprehensive income (loss)			5,186		5,186
Cash dividends (\$1.75 per share)				(19,579)	(19,579)
Stock-based compensation	3,644	431		46	477
Balance at March 31, 2019	11,188,126	\$ 431	\$ (176,130)	\$ 713,895	\$ 538,196

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

(in thousands)	Three Months Ended March 31,	
	2019	2018
Cash and cash equivalents at beginning of year	\$73,040	\$84,166
Cash flows from operating activities:		
Net income	62,205	60,565
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	21,939	17,665
Deferred income tax expense	2,156	2,714
Working capital changes	(63,426)	(63,655)
Cash pension and postretirement contributions	(2,425)	(6,713)
Other, net	(1,317)	(536)
Cash provided from (used in) operating activities	19,132	10,040
Cash flows from investing activities:		
Capital expenditures	(10,353)	(22,797)
Cash provided from (used in) investing activities	(10,353)	(22,797)
Cash flows from financing activities:		
Net borrowings under revolving credit facility	16,072	22,000
Dividends paid	(19,579)	(20,629)
Repurchases of common stock	0	(632)
Other, net	(613)	(98)
Cash provided from (used in) financing activities	(4,120)	641
Effect of foreign exchange on cash and cash equivalents	548	780
Increase (decrease) in cash and cash equivalents	5,207	(11,336)
Cash and cash equivalents at end of period	\$78,247	\$72,830

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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 March 31, 2019 and December 31, 2018, and our consolidated results of operations and comprehensive income, changes in shareholders' equity, and cash flows for the three months ended March 31, 2019 and March 31, 2018. 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, 2018 (2018 Annual Report), as filed with the Securities and Exchange Commission (SEC). The results of operations for the three month period ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year ending December 31, 2019. The December 31, 2018 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.

We adopted Accounting Standard Update No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" (ASU 2018-02) on January 1, 2019. ASU 2018-02 allows, but does not require, reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects that resulted from the enactment of U.S. tax legislation commonly known as the Tax Cuts and Jobs Acts (Tax Reform Act) at the end of 2017. We elected not to reclassify those tax effects from accumulated other comprehensive income upon adoption of ASU 2018-02. We typically remove the tax impact in accumulated other comprehensive income when the underlying circumstance which gave rise to the tax impact no longer exists.

2. Net Sales

Our revenues are primarily derived from the manufacture and sale of petroleum additives products. We sell petroleum additives products across the world 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. 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.

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. Some of our contracts include variable consideration in the form of rebates or business development funds. 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.

The following table provides information on our net sales by geographic area. Information on net sales by segment is in Note 3.

Three	Three
Months	Months
Ended	Ended
March	March
31,	31,

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(in thousands)	2019	2018
Net sales		
United States	\$ 172,014	\$ 181,638
China		