

NEWMARKET CORP
Form 10-Q
August 09, 2018
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 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.

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 July 31, 2018: 11,452,958

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 - Second Quarter and Six Months Ended June 30, 2018 and June 30, 2017</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income - Second Quarter and Six Months Ended June 30, 2018 and June 30, 2017</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets - June 30, 2018 and December 31, 2017</u>	<u>6</u>
<u>Consolidated Statements of Shareholders' Equity - Six Months Ended June 30, 2018 and June 30, 2017</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2018 and June 30, 2017</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Financial Statement Presentation</u>	<u>9</u>
<u>Acquisition of Business</u>	<u>9</u>
<u>Net Sales</u>	<u>10</u>
<u>Segment Information</u>	<u>11</u>
<u>Pension Plans and Other Postretirement Benefits</u>	<u>12</u>
<u>Earnings Per Share</u>	<u>13</u>
<u>Intangibles (Net of Amortization) and Goodwill</u>	<u>14</u>
<u>Long-term Debt</u>	<u>14</u>
<u>Commitments and Contingencies</u>	<u>15</u>
<u>Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss</u>	<u>16</u>
<u>Fair Value Measurements</u>	<u>16</u>
<u>Income Taxes</u>	<u>16</u>
<u>Recent Accounting Pronouncements</u>	<u>17</u>
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>25</u>
<u>ITEM 4. Controls and Procedures</u>	<u>25</u>
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	<u>26</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>26</u>
<u>ITEM 6. Exhibits</u>	<u>27</u>
<u>SIGNATURES</u>	<u>28</u>

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)	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

Table of Contents

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

Table of Contents

NEWMARKET CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

(in thousands, except share amounts)	June 30, 2018	December 31, 2017
ASSETS		
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
LIABILITIES AND SHAREHOLDERS' EQUITY		
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

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, 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

Table of Contents

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

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 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

Table of Contents

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.

Table of Contents

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

Table of Contents

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)

Table of Contents

(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

Table of Contents

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.

(in thousands)	June 30, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets				
Formulas and technology	\$9,600	\$ 2,166	\$12,339	\$ 3,280
Contract	2,000	300	2,000	200
Customer bases	14,530	7,548	15,759	5,140
Trademarks and trade names	340	302	1,531	1,213
Goodwill	123,025		122,541	
	\$149,495	\$ 10,316	\$154,170	\$ 9,833

All of the intangibles relate to the petroleum additives segment. The change in the gross carrying amount between December 31, 2017 and June 30, 2018 is due to disposal of certain intangible assets, an immaterial adjustment to goodwill related to AMSA, and foreign currency fluctuation. See Note 2 for more information on the AMSA acquisition. There is no accumulated goodwill impairment.

Amortization expense was (in thousands):

Second quarter ended June 30, 2018	\$1,568
Six months ended June 30, 2018	4,474
Second quarter ended June 30, 2017	218
Six months ended June 30, 2017	436

Estimated amortization expense for the remainder of 2018, as well as estimated annual amortization expense related to our intangible assets for the next five years, is expected to be (in thousands):

2018	\$2,935
2019	4,207
2020	2,907
2021	2,156
2022	1,423
2023	907

We amortize contracts over 10 years; customer bases over 4 to 20 years; formulas and technology over 3 to 10 years; and trademarks and trade names over 10 years.

8. Long-term Debt

(in thousands)	June 30, 2018	December 31, 2017
Senior notes - 4.10% due 2022 (net of related deferred financing costs)	\$ 347,384	\$ 347,091
Senior notes - 3.78% due 2029	250,000	250,000
	157,000	0

Revolving credit
facility

Capital lease
obligations

5,459

5,809

\$ 759,843

\$ 602,900

14

Table of Contents

The outstanding 4.10% senior notes have an aggregate principal amount of \$350 million and are registered under the Securities Act of 1933, as amended (Securities Act). The outstanding 3.78% senior notes are unsecured and were issued in a 2017 private placement with The Prudential Insurance Company of America and certain other purchasers. We were in compliance with all covenants under both issuances of the senior notes as of June 30, 2018 and December 31, 2017.

The revolving credit facility has a term of five years and matures on September 22, 2022. The obligations under the revolving agreement are unsecured and are fully and unconditionally guaranteed by NewMarket. The average interest rate for borrowings under our revolving credit facility was 3.1% during the first six months of 2018 and 2.5% during the full year of 2017. We were in compliance with all covenants under the revolving credit facility as of June 30, 2018 and December 31, 2017.

The following table provides information related to the unused portion of our revolving credit facility:

(in thousands)	June 30, 2018	December 31, 2017
Maximum borrowing capacity under the revolving credit facility	\$850,000	\$ 850,000
Outstanding borrowings under the revolving credit facility	157,000	0
Outstanding letters of credit	2,710	2,830
Unused portion of revolving credit facility	\$690,290	\$ 847,170

The capital lease obligations are related to the Singapore manufacturing facility.

9. Commitments and Contingencies

Legal Matters

We are involved in legal proceedings that are incidental to our business and may include administrative or judicial actions. Some of these legal proceedings involve governmental authorities and relate to environmental matters. For further information, see Environmental below.

While it is not possible to predict or determine with certainty the outcome of any legal proceeding, we believe the outcome of any of these proceedings, or all of them combined, will not result in a material adverse effect on our consolidated results of operations, financial condition, or cash flows.

In late 2013, Afton Chemical Corporation (Afton) initiated a voluntary self-audit of its compliance with certain sections of Toxic Substances Control Act (TSCA) under the Environmental Protection Agency's (EPA) audit policy (Audit Policy). Afton has now concluded its self-audit and on August 1, 2018 sent notice to the EPA of the conclusion of its self-audit. Any known potential findings and/or violations were disclosed on or before the conclusion of the self-audit. Coincidentally, in August 2014, the EPA began an EPA TSCA inspection of both Afton and Ethyl; to date, however, the EPA has not noticed Afton or Ethyl of any findings, violations, or the conclusion of this inspection. While it is not possible to predict or determine with certainty the outcomes of Afton's self-audit or the EPA's inspection, we do not believe that any disclosures or findings identified as a result of Afton's self-audit or the EPA's TSCA inspection will have a material adverse effect on our consolidated results of operations, financial condition, or cash flows.

Environmental

We are involved in environmental proceedings and potential proceedings relating to soil and groundwater contamination, disposal of hazardous waste, and other environmental matters at several of our current or former facilities, or at third-party sites where we have been designated as a potentially responsible party (PRP). While we believe we are currently adequately accrued for known environmental issues, it is possible that unexpected future costs could have a significant impact on our financial position, results of operations, and cash flows. Our total accruals for environmental remediation, dismantling, and decontamination were approximately \$13 million at June 30, 2018 and \$14 million at December 31, 2017. Of the total accrual, the current portion is included in accrued expenses and the noncurrent portion is included in other noncurrent liabilities on the Condensed Consolidated Balance Sheets.

Our more significant environmental sites include a former TEL plant site in Louisiana (the Louisiana site) and a Houston, Texas plant site (the Texas site). Together, the amounts accrued on a discounted basis related to these sites represented approximately \$7 million of the total accrual above at both June 30, 2018 and December 31, 2017, using

discount rates ranging from 4% to 9% for both periods. The aggregate undiscounted amount for these sites was \$9 million at June 30, 2018 and \$10 million at December 31, 2017. Of the total accrued for these two sites, the amount related to remediation of groundwater and soil for the Louisiana site was \$3 million at both June 30, 2018 and December 31, 2017. The amount related to remediation of groundwater and soil for the Texas site was \$4 million at both June 30, 2018 and December 31, 2017.

Table of Contents

In 2000, the EPA named us as a PRP under Superfund law for the clean-up of soil and groundwater contamination at the five grouped disposal sites known as "Sauget Area 2 Sites" in Sauget, Illinois. Without admitting any fact, responsibility, fault, or liability in connection with this site, we are participating with other PRPs in site investigations and feasibility studies. In December 2013, the EPA issued its Record of Decision (ROD) confirming its remedies for the selected Sauget Area 2 Sites. In August 2017, the EPA issued a Special Notice Letter to over 75 PRPs notifying them of potential liability and encouraging the PRPs to voluntarily perform or finance the response actions detailed in the ROD. We have accrued our estimated proportional share of the remedial costs and expenses addressed in the ROD. We do not believe there is any additional information available as a basis for revision of the liability that we have established at June 30, 2018. The amount accrued for this site is not material.

10. Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss

The balances of, and changes in, the components of accumulated other comprehensive loss, net of tax, consist of the following:

(in thousands)	Pension Plans and Other Postretirement Benefits	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2016	\$ (76,187)	\$ (106,323)	\$ (182,510)
Other comprehensive income (loss) before reclassifications	0	13,014	13,014
Amounts reclassified from accumulated other comprehensive loss (a)	899	0	899
Other comprehensive income (loss)	899	13,014	13,913
Balance at June 30, 2017	\$ (75,288)	\$ (93,309)	\$ (168,597)
Balance at December 31, 2017	\$ (63,520)	\$ (82,474)	\$ (145,994)
Other comprehensive income (loss) before reclassifications	0	(33)	(33)
Amounts reclassified from accumulated other comprehensive loss (a)	1,085	0	1,085
Other comprehensive income (loss)	1,085	(33)	1,052
Balance at June 30, 2018	\$ (62,435)	\$ (82,507)	\$ (144,942)

(a) The pension plan and other postretirement benefit components of accumulated other comprehensive loss are included in the computation of net periodic benefit cost (income). See Note 5 in this Quarterly Report on Form 10-Q and Note 17 in our 2017 Annual Report for further information.

11. Fair Value Measurements

The carrying amount of cash and cash equivalents in the Condensed Consolidated Balance Sheets, as well as the fair value, was \$110 million at June 30, 2018 and \$84 million at December 31, 2017. The fair value is categorized in Level 1 of the fair value hierarchy.

No material events occurred during the six months ended June 30, 2018 requiring adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis.

Long-term debt – We record the carrying amount of our long-term debt at historical cost, less deferred financing costs related to the 4.10% senior notes. The estimated fair value of our long-term debt is shown in the table below and is based primarily on estimated current rates available to us for debt of the same remaining duration and adjusted for nonperformance risk and credit risk. The estimated fair value of our publicly-traded 4.10% senior notes included in long-term debt in the table below is based on the last quoted price closest to June 30, 2018. The fair value of our debt instruments is categorized as Level 2.

(in thousands)	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (excluding capital lease obligations)	\$754,384	\$745,500	\$597,091	\$623,557

12. Income Taxes

In December 2017, the United States enacted tax legislation commonly known as the Tax Cuts and Jobs Act (Tax Reform Act), which required a one-time transition tax expense in 2017 on the deemed repatriation of previously deferred foreign earnings and reduced the U.S. corporate tax rate to 21% effective January 1, 2018. As of June 30, 2018, our estimate of the transition tax expense is based on currently available information and interpretations regarding the application of the new tax provisions.

16

Table of Contents

The U.S. Treasury, the Internal Revenue Service, and other standard-setting bodies could interpret or issue guidance regarding the provisions of the Tax Reform Act that differ from our interpretation, which could impact our provisional expense. Additional work is necessary to further analyze our historical earnings and other items that affect the calculations. Adjustments to the provisional amounts recorded as of June 30, 2018 and December 31, 2017, will affect our tax expense or benefit from continuing operations in the period that the final adjustments are determined, which will be no later than the fourth quarter of 2018. During the first six months of 2018, we made immaterial adjustments to the calculations recorded as of December 31, 2017.

We are evaluating certain aspects of the Tax Reform Act which could impact our deferred tax balances and have not made a policy election with respect to the deferred tax effects of the global intangible low-taxed income (GILTI) provision of the Tax Reform Act. The policy decision will be made no later than the fourth quarter of 2018, and any impact of the decision will be recorded in continuing operations in the period the decision is made.

13. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted Accounting Standard Codification 606 (ASC 606), "Revenue from Contracts with Customers." Further information on the adoption is in Note 3.

Also on January 1, 2018, we adopted Accounting Standards Update No. 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07) on a retrospective basis for the consolidated statements of income and on a prospective basis for capitalization of the service cost component in assets. ASU 2017-07 requires that an employer report the service cost component of net benefit cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the consolidated statements of income outside of operating profit. There was no change to net income for the 2017 period as a result of adopting ASU 2017-07 on a retrospective basis for the consolidated statements of income, but there is a change within operating profit with a corresponding change in other income (expense), net to reflect the impact of presenting all components of net benefit cost, except for service cost, outside of operating profit. As a result of the retrospective application for the six months ended June 30, 2017, operating profit decreased by \$7 million and other income (expense), net increased by \$7 million in income. As allowed under ASU 2017-07, we utilized the amounts disclosed in the prior year for the various components of net benefit costs as the basis for the retrospective application. See Note 5 for the components of our net benefit costs.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" (ASU 2016-02). The FASB issued ASU 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring disclosures related to certain information about leasing arrangements. Under the new guidance, operating leases are, in most cases, required to be recognized on the balance sheet as a lease asset and liability. A modified retrospective approach was required for the adoption of ASU 2016-02, which is effective for our reporting period beginning January 1, 2019. In 2018, the FASB issued additional accounting standard updates clarifying certain provisions, as well as providing for a second transition method allowing entities to initially apply the standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. We are currently assessing the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" (ASU 2018-02). 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 Tax Reform Act at the end of 2017. ASU 2018-02, which is effective for our reporting period beginning January 1, 2019, also requires additional disclosures surrounding stranded tax effects. Early adoption is permitted. We are currently assessing the impact that the adoption of ASU 2018-02 will have on our consolidated

financial statements.

17

Table of Contents

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements about future events and expectations within the meaning of the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future results. When we use words in this document such as "anticipates," "intends," "plans," "believes," "estimates," "projects," "expects," "should," "could," "may," "will," and similar expressions, we do so to indicate forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding future prospects of growth in the petroleum additives market, other trends in the petroleum additives market, our ability to maintain or increase our market share, and our future capital expenditure levels.

We believe our forward-looking statements are based on reasonable expectations and assumptions, within the bounds of what we know about our business and operations. However, we offer no assurance that actual results will not differ materially from our expectations due to uncertainties and factors that are difficult to predict and beyond our control. Factors that could cause actual results to differ materially from expectations include, but are not limited to, the availability of raw materials and distribution systems; disruptions at manufacturing facilities, including single-sourced facilities; the ability to respond effectively to technological changes in our industry; failure to protect our intellectual property rights; failure to attract and retain a highly-qualified workforce; hazards common to chemical businesses; competition from other manufacturers; sudden or sharp raw material price increases; the gain or loss of significant customers; the occurrence or threat of extraordinary events, including natural disasters and terrorist attacks; risks related to operating outside of the United States; the impact of fluctuations in foreign exchange rates; an information technology system failure or security breach; political, economic, and regulatory factors concerning our products; current and future governmental regulations; resolution of environmental liabilities or legal proceedings; our inability to realize expected benefits from investment in our infrastructure or from recent or future acquisitions, or our inability to successfully integrate recent or future acquisitions into our business; and other factors detailed from time to time in the reports that NewMarket files with the SEC, including the risk factors in Item 1A. "Risk Factors" of our 2017 Annual Report, which is available to shareholders upon request.

You should keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as of the date on which we make it. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this discussion after the date hereof, except as may be required by law. In light of these risks and uncertainties, any forward-looking statement made in this report or elsewhere, might not occur.

Overview

When comparing the results of the petroleum additives segment for the first six months of 2018 with the first six months of 2017, net sales increased 9.1% primarily due to higher selling prices and a favorable foreign currency impact along with a favorable impact from product shipments. Petroleum additives operating profit was 16.6% lower when comparing the first six months of 2018 with the first six months of 2017, reflecting continuing unfavorable impacts from increasing raw material costs and increased conversion costs.

Our operations generate cash that is in excess of the needs of the business. We continue to invest in and manage the business for the long-term with the goal of helping our customers succeed in their marketplaces. Our investments continue to be in organizational talent, technology development and processes, and global infrastructure, consisting of technical centers, production capability, and geographic expansion.

Table of Contents

Results of Operations

Net Sales

Consolidated net sales for the second quarter of 2018 totaled \$599.0 million, representing an increase of \$51.8 million, or 9.5%, from the second quarter of 2017. Consolidated net sales for the first six months of 2018 were \$1.2 billion which was an increase of \$98.2 million, or 9.0%, from the first six months of 2017. The following table shows net sales by segment and product line.

(in millions)	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Petroleum additives				
Lubricant additives	\$492.3	\$453.4	\$977.4	\$897.3
Fuel additives	103.9	90.8	205.7	186.9
Total	596.2	544.2	1,183.1	1,084.2
All other	2.8	3.0	5.1	5.8
Net sales	\$599.0	\$547.2	\$1,188.2	\$1,090.0

Petroleum Additives Segment

The regions in which we operate include North America (the United States and Canada), Latin America (Mexico, Central America, and South America), Asia Pacific (including China), and the Europe/Middle East/Africa/India (EMEAI) region. While there is some fluctuation, the percentage of net sales generated in the regions remained fairly consistent when comparing the first six months of 2018 with the same period in 2017, as well as with the full year in 2017.

Petroleum additives net sales for the second quarter of 2018 were \$596.2 million compared to \$544.2 million for the second quarter of 2017, an increase of 9.6%. Petroleum additives net sales for the first six months of 2018 were \$1.2 billion compared to \$1.1 billion for the first six months of 2017, an increase of 9.1%. The increase in net sales was across all regions, with over half of the increase from the EMEAI region, and the other regions contributing nearly equal amounts of the remaining increase.

The following table details the approximate components of the increase in petroleum additives net sales between the second quarter and first six months of 2018 and 2017.

(in millions)	Second Quarter	Six Months
Period ended June 30, 2017	\$ 544.2	\$ 1,084.2
Lubricant additives shipments	16.7	33.2
Fuel additives shipments	10.7	13.5
Selling prices	13.0	24.4
Foreign currency impact, net	11.6	27.8
Period ended June 30, 2018	\$ 596.2	\$ 1,183.1

When comparing both the second quarter and the six months periods of 2018 and 2017, petroleum additives shipments accounted for a \$27.4 million increase in net sales for the second quarter comparison and a \$46.7 million increase in net sales for the six months comparison. Selling prices, along with foreign currency impact, contributed \$24.6 million of the increase in net sales in the second quarter comparison and \$52.2 million of the increase in net sales for the six months comparison. The United States Dollar weakened against the major currencies in which we transact, resulting in a favorable impact to net sales for both the second quarter and six months comparative periods. The favorable impact was predominantly from the Euro.

On a worldwide basis, the volume of product shipments for petroleum additives improved 2.3% when comparing the two second quarter periods and 1.3% when comparing the six months periods of 2018 and 2017. Shipments of lubricant additives increased for both the second quarter and six months periods. The increase in lubricant additives shipments was in EMEAI and Latin America for the second quarter and across all regions except for North America

for the six months. Fuel additives increased when comparing the second quarters of 2018 and 2017, but decreased slightly for the six months comparison. The increase in fuel additives shipments was across all regions except for North America for the second quarter of 2018. When comparing the six months periods of 2018 and 2017, fuel additives shipments increased in Latin America, but were offset with decreases in the other regions.

Table of Contents

All Other

The “All other” category includes the operations of the TEL business and certain contracted manufacturing and services.

Segment Operating Profit

NewMarket evaluates the performance of the petroleum additives business based on segment operating profit.

NewMarket Services Corporation expenses are charged to NewMarket and each subsidiary pursuant to services agreements between the companies. Depreciation on segment property, plant, and equipment, as well as amortization of segment intangible assets, is included in segment operating profit.

The following table reports segment operating profit for the second quarter and six months ended June 30, 2018 and June 30, 2017.

	Second Quarter Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Petroleum additives	\$71.5	\$91.2	\$155.7	\$186.7
All other	\$0.4	\$0.8	\$0.3	\$1.8

Petroleum Additives Segment

The petroleum additives segment operating profit decreased \$19.7 million when comparing the second quarter of 2018 to the second quarter of 2017 and \$31.0 million when comparing the first six months of 2018 to the same period in 2017. The 2017 periods reflect the retroactive restatement of petroleum additives operating profit due to the adoption of ASU 2017-07. See Note 13 for further information. Both comparative periods included the impact of the same factors that affected gross profit (see discussion below) including an unfavorable currency impact when comparing the second quarter and first six months of 2018 with the same periods in 2017.

The operating profit margin was 12.0% for the second quarter of 2018 as compared to 16.8% for the second quarter of 2017 and was 13.2% for the first six months of 2018 as compared to 17.2% for the first six months of 2017. For the rolling four quarters ended June 30, 2018, the operating profit margin for petroleum additives was 13.7%. An unfavorable impact from foreign currency, as well as increases in raw material costs have continued to put downward pressure on margins, and our actions with regard to pricing have not kept pace. While operating profit margins will fluctuate from quarter to quarter due to multiple factors, we believe the fundamentals of our business and industry as a whole are unchanged.

Petroleum additives gross profit decreased \$15.3 million when comparing the two second quarter periods and \$26.9 million when comparing the first six months periods of 2018 and 2017. Cost of goods sold as a percentage of net sales was 75.7% for the second quarter of 2018, up from 70.6% for the second quarter of 2017 and 74.8% for the first six months of 2018, up from 70.0% for the first six months of 2017.

When comparing both the second quarters and first six months of 2018 and 2017, the decrease in gross profit resulted predominantly from unfavorable raw material costs and conversion costs, as well as an unfavorable foreign currency translation impact, which together contributed over 100% of the change. These unfavorable factors were partially offset by a favorable impact from selling prices (including the impact from foreign currency on net sales), as well as a favorable impact from product shipments (as discussed in the Net Sales section above).

Petroleum additives selling, general, and administrative expenses (SG&A) for the second quarter of 2018 were \$2.4 million, or 7.1% higher as compared to the second quarter of 2017, and \$3.7 million, or 5.4% higher for the first six months of 2018. SG&A as a percentage of net sales was 6.1% for the second quarter of 2018, 6.3% for the second quarter of 2017, 6.0% for the first six months of 2018 and 6.2% for the first six months of 2017. Our SG&A costs are primarily personnel-related and include salaries, benefits, and other costs associated with our workforce. There were no significant changes in the drivers of these costs when comparing the periods.

Table of Contents

Our investment in petroleum additives research, development, and testing (R&D) decreased slightly for the second quarter of 2018 from the second quarter of 2017 and decreased \$4.1 million in the first six months of 2018 from the first six months of 2017. The decrease for the second quarter comparison period resulted from a small decrease in the fuel additives product lines partially offset by an increase in the lubricant additives product lines. The decrease for the six months comparison period was primarily in the lubricant additives product lines along with a small decrease in fuel additives product lines. As a percentage of net sales, R&D was 6.2% for the second quarter of 2018, 6.8% for the second quarter of 2017, 6.0% for the first six months of 2018, and 6.9% for the first six months of 2017. Our R&D investments reflect our efforts to support the development of solutions that meet our customers' needs, meet new and evolving standards, and support our expansion into new product areas. Our approach to R&D investment, as it is with SG&A, is one of purposeful spending on programs to support our current product base and to ensure that we develop products to support our customers' programs in the future. R&D investments include personnel-related costs, as well as internal and external testing of our products.

The following discussion references certain captions on the Consolidated Statements of Income.

Interest and Financing Expenses

Interest and financing expenses were \$5.6 million for the second quarter of 2018, \$5.4 million for the second quarter of 2017, \$10.7 million for the first six months of 2018 and \$10.9 million for the first six months of 2017. For the second quarter comparative periods, higher average debt resulted in increased interest expense, which was partially offset by the benefit of higher capitalized interest. For the first six months of 2018 as compared to the first six months of 2017, higher average debt resulted in increased interest expense, which was more than offset by the benefit of higher capitalized interest.

Other Income (Expense), Net

Other income (expense), net was income of \$8.0 million for the second quarter of 2018, \$3.6 million for the second quarter of 2017, \$12.9 million for the first six months of 2018 and \$7.1 million for the first six months of 2017. The amounts for all of the 2018 and 2017 periods primarily reflect the components of net periodic benefit cost (income), except for service cost. See Note 5 for further information on total periodic benefit cost (income).

Income Tax Expense

Income tax expense was \$16.7 million for the second quarter of 2018 and \$22.6 million for the second quarter of 2017. The effective tax rate was 24.0% for the second quarter of 2018 and 26.5% for the second quarter of 2017. Income tax expense decreased \$4.2 million due to lower income before income tax expense. The lower effective tax rate resulted in a \$1.7 million decrease in income tax expense.

Income tax expense was \$37.4 million for the first six months of 2018 and \$46.9 million for the first six months of 2017. The effective tax rate was 24.8% for the first six months of 2018 and 27.0% for the first six months of 2017. Income tax expense decreased \$6.2 million due to lower income before income tax expense, with the remaining \$3.3 million of the change due to the lower effective tax rate.

The primary reason for the decrease in the effective tax rate for both the second quarter and the first six months of 2018 is the Tax Reform Act, which reduced the U.S. federal tax rate to 21% effective January 1, 2018. The effective tax rates for the 2017 periods included the benefit of income in foreign jurisdictions with lower tax rates than the United States. The 2017 periods also included the benefit of the U.S. domestic production deduction, which was repealed by the Tax Reform Act.

See Note 12 for further information on income taxes.

Cash Flows, Financial Condition, and Liquidity

Cash and cash equivalents at June 30, 2018 were \$109.8 million, which was an increase of \$25.6 million since December 31, 2017.

Cash and cash equivalents held by our foreign subsidiaries amounted to \$104.4 million at June 30, 2018 and \$76.6 million at December 31, 2017. A significant amount, but not all, of these foreign cash balances are associated with earnings that we have asserted are indefinitely reinvested. We plan to use these indefinitely reinvested earnings to support growth outside of the United States through funding of operating expenses, capital expenditures, and other cash needs of our foreign subsidiaries.

Table of Contents

Periodically, we repatriate cash from our foreign subsidiaries to the United States through intercompany dividends. These intercompany dividends are paid only by subsidiaries whose earnings we have not asserted are indefinitely reinvested or whose earnings qualify as previously taxed income, as defined by the United States Internal Revenue Code. Under the Tax Reform Act, previously deferred foreign earnings were subjected to U.S. tax in 2017. Future earnings will not be subject to U.S. federal tax upon repatriation. As a result of this new legislation, we are continuing to evaluate our permanent investment assertions, but we do not anticipate significant U.S. or foreign tax consequences of future distributions of foreign earnings. As final determinations are made, any required adjustment will be recorded to income tax expense or benefit in the period that the determination is made. As part of our foreign subsidiary repatriation activities, we received cash dividends from our foreign subsidiaries of \$4.7 million for the first six months of 2018. The amount of cash that we repatriate from foreign subsidiaries in any given year is dependent upon many factors including utilization of available cash in the foreign locations for working capital, capital investments, and other needs.

We expect that cash from operations, together with borrowing available under our revolving credit facility, will continue to be sufficient to cover our operating needs and planned capital expenditures for at least the next twelve months.

Cash Flows – Operating Activities

Cash flows provided from operating activities for the first six months of 2018 were \$65.8 million, which included the use of \$74.5 million to fund higher working capital requirements. The \$74.5 million excluded a small unfavorable foreign currency impact to the components of working capital on the balance sheet.

Other than the increase in cash and cash equivalents, the most significant changes in working capital resulted from an increase in accounts receivable, as well as a decrease in accounts payable and accrued expenses. The higher accounts receivable balance was primarily due to higher sales levels in all regions when comparing the second quarter of 2018 with the fourth quarter of 2017. The decrease in accounts payable reflected normal timing differences and the decrease in accrued expenses reflected normal payments for customer and personnel related costs.

Including cash and cash equivalents, as well as the impact of foreign currency on the balance sheet, we had total working capital of \$612.8 million at June 30, 2018 and \$516.9 million at December 31, 2017. The current ratio was 3.19 to 1 at June 30, 2018 and 2.63 to 1 at December 31, 2017.

Cash Flows – Investing Activities

Cash used in investing activities totaled \$30.5 million during the first six months of 2018 and related to capital expenditures, which was partially offset by proceeds from the sale of certain assets. We currently expect that our total capital spending during 2018 will be in the \$80 million to \$100 million range and will include several improvements to our manufacturing and R&D infrastructure around the world. We expect to continue to finance capital spending through cash on hand and cash provided from operations, together with borrowing available under our \$850 million revolving credit facility.

Cash Flows – Financing Activities

Cash used in financing activities during the first six months of 2018 amounted to \$7.3 million. We paid dividends of \$40.8 million and repurchased common stock of \$123.3 million. Our long-term debt was \$759.8 million at June 30, 2018, increasing \$156.9 million since December 31, 2017 primarily reflecting net borrowings under our revolving credit facility.

Debt

At June 30, 2018, our debt included senior notes in the amount of \$350 million, senior notes in the amount of \$250 million, and borrowings under our revolving credit agreement.

The \$350 million senior notes bear interest at a fixed rate of 4.10% and are due in 2022. These senior notes are registered under the Securities Act.

The \$250 million senior notes are unsecured and were issued in a 2017 private placement with The Prudential Insurance Company of America and certain other purchasers. These notes bear interest at 3.78% and mature on January 4, 2029.

The revolving credit agreement provides for an \$850 million, multicurrency revolving credit facility, with a \$150 million sublimit for multicurrency borrowings, a \$75 million sublimit for letters of credit, and a \$20 million sublimit

for swingline loans. The revolving credit agreement includes an expansion feature which allows us, subject to certain conditions, to request an increase in the aggregate amount of the revolving credit facility or obtain incremental term loans in an amount up to \$425 million. In addition, certain of our foreign subsidiaries are allowed to borrow under the agreement. The obligations under the revolving credit facility are unsecured and are fully and unconditionally guaranteed by NewMarket. The revolving credit facility matures on September 22, 2022.

The unused portion of the revolving credit facility was \$690.3 million at June 30, 2018 and \$847.2 million at December 31, 2017. See Note 8 for additional information.

Table of Contents

The 4.10% senior notes, 3.78% senior notes, and the revolving credit facility contain covenants, representations, and events of default that management considers typical of credit arrangements of this nature. The covenants under the 3.78% senior notes include negative covenants, certain financial covenants, and events of default which are substantially similar to the covenants and events of default in our revolving credit facility.

The more restrictive and significant financial covenants under the revolving credit facility include:

• A consolidated Leverage Ratio (as defined in the agreement) of no more than 3.50 to 1.00, except during an Increased Leverage Period (as defined in the agreement) at the end of each fiscal quarter; and

• A consolidated Interest Coverage Ratio (as defined in the agreement) of no less than 3.00 to 1.00, calculated on a rolling four quarter basis, as of the end of each quarter.

At June 30, 2018, the Leverage Ratio was 2.01 and the Interest Coverage Ratio was 14.60 under the revolving credit facility. We were in compliance with all covenants under the 4.10% senior notes, the 3.78% senior notes, and the revolving credit facility at June 30, 2018 and December 31, 2017.

As a percentage of total capitalization (total long-term debt and shareholders' equity), our total long-term debt percentage increased from 50.1% at December 31, 2017 to 57.9% at June 30, 2018. The change in the percentage was primarily the result of the increase in long-term debt, as well as the decrease in shareholders' equity. The change in shareholders' equity reflects our earnings and the impact of foreign currency translation adjustments, offset by the impact of dividend payments and stock repurchases. Generally, we repay any outstanding long-term debt with cash from operations or refinancing activities.

Critical Accounting Policies and Estimates

This Form 10-Q and our 2017 Annual Report include discussions of our accounting policies, as well as methods and estimates used in the preparation of our financial statements. We also provided a discussion of Critical Accounting Policies and Estimates in our 2017 Annual Report.

There have been no significant changes in our critical accounting policies and estimates from those reported in our 2017 Annual Report.

Recent Accounting Pronouncements

For a full discussion of the significant recent accounting pronouncements which may impact our financial statements, see Note 13.

Outlook

Our stated goal is to provide a 10% compounded return per year for our shareholders over any five year period (defined by earnings per share growth plus dividends), although we may not necessarily achieve a 10% return each year. We continue to have confidence in our customer-focused strategy and approach to the market.

We are committed to providing long-term value for our shareholders and customers, and we remain focused on our long-term objectives. We believe the fundamentals of how we run our business - a long-term view, safety-first culture, customer-focused solutions, technology-driven product offerings, and world-class supply chain capability - will continue to be beneficial for all of our stakeholders.

We expect that the petroleum additives industry shipment demand will grow at an average annual rate of 1% to 2% over the long-term, as there have been no significant changes in the positive fundamentals of the industry. Over the long-term, we plan to exceed the industry growth rate.

Margin improvement will continue to be our top priority throughout the remainder of this year, as we are committed to reversing the effects of the margin compression we have seen over the past several quarters, primarily due to rising raw material costs. This will remain a top priority until we begin to see raw material prices stabilize.

We have made significant investments to expand our capabilities around the world over the last few years, which are continuing in 2018. These investments have been and will continue to be in organizational talent, technology development and processes, and global infrastructure, consisting of technical centers, production capability, and geographic expansion. We intend to utilize these investments to improve our ability to deliver the solutions that our customers value, expand our global reach and enhance our operating results. We will continue to invest in our

capabilities to provide even better value, service, technology, and customer solutions.

Our business generates significant amounts of cash beyond what is necessary for the expansion and growth of our current offerings. We are making investments to position ourselves for the future. We regularly review our many internal opportunities to utilize excess cash from a technological, geographic, and product line perspective. We believe our capital spending is

23

Table of Contents

creating the capability we need to grow and support our customers worldwide, and our research and development investments are positioning us well to provide added value to our customers. Our primary focus in the acquisition area remains on the petroleum additives industry. It is our view that this industry segment will provide the greatest opportunity for solid returns on our investments while minimizing risk. We remain focused on this strategy and will evaluate any future opportunities. We will continue to evaluate all alternative uses of cash to enhance shareholder value, including stock repurchases and dividends.

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

At June 30, 2018, there were no material changes in our market risk from the information provided in the 2017 Annual Report.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain a system of internal control over financial reporting to provide reasonable, but not absolute, assurance of the reliability of the financial records and the protection of assets.

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), we carried out an evaluation, with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Exchange Act, as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, that occurred during the quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are involved in legal proceedings that are incidental to our business and may include administrative or judicial actions. Some of these legal proceedings involve governmental authorities and relate to environmental matters. For further information, see “Environmental” in Note 9.

While it is not possible to predict or determine with certainty the outcome of any legal proceeding, we believe the outcome of any of these proceedings, or all of them combined, will not result in a material adverse effect on our consolidated results of operations, financial condition, or cash flows.

In late 2013, Afton initiated a voluntary self-audit of its compliance with certain sections of the TSCA under the EPA’s Audit Policy. Afton has now concluded its self-audit and on August 1, 2018 sent notice to the EPA of the conclusion of its self-audit. Any known potential findings and/or violations were disclosed on or before the conclusion of the self-audit. Coincidentally, in August 2014, the EPA began an EPA TSCA inspection of both Afton and Ethyl; to date, however, the EPA has not noticed Afton or Ethyl of any findings, violations, or the conclusion of this inspection.

While it is not possible to predict or determine with certainty the outcomes of Afton’s self-audit or the EPA’s inspection, we do not believe that any disclosures or findings identified as a result of Afton’s self-audit or the EPA’s TSCA inspection will have a material adverse effect on our consolidated results of operations, financial condition, or cash flows.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

On October 21, 2015, our Board of Directors approved a share repurchase program authorizing management to repurchase up to \$500 million of NewMarket’s outstanding common stock until December 31, 2018, as market conditions warrant and covenants under our existing agreements permit. We may conduct the share repurchases in the open market and in privately negotiated transactions. The repurchase program does not require NewMarket to acquire any specific number of shares and may be terminated or suspended at any time. Approximately \$295 million remained available under the 2015 authorization at June 30, 2018. The following table outlines the purchases during the second quarter of 2018 under this authorization.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30	8,138	\$ 390.99	8,138	\$ 415,373,677
May 1 to May 31	176,779	376.23	176,779	348,864,760
June 1 to June 30	136,236	394.59	136,236	295,107,822
Total	321,153	\$ 384.39	321,153	\$ 295,107,822

Table of Contents

ITEM 6. Exhibits

- Exhibit 3.1 Articles of Incorporation Amended and Restated effective April 27, 2012 (incorporated by reference to Exhibit 3.1 to Form 8-K (File No. 1-32190) filed April 30, 2012)
- Exhibit 3.2 NewMarket Corporation Bylaws Amended and Restated effective August 6, 2015 (incorporated by reference to Exhibit 3.1 to Form 8-K (File No. 1- 32190) filed August 6, 2015)
- Exhibit 31(a) Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Thomas E. Gottwald
- Exhibit 31(b) Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Brian D. Paliotti
- Exhibit 32(a) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Thomas E. Gottwald
- Exhibit 32(b) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Brian D. Paliotti
- Exhibit 101 XBRL Instance Document and Related Items

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEWMARKET CORPORATION
(Registrant)

Date: August 9, 2018 By: /s/ Brian D. Paliotti
Brian D. Paliotti
Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: August 9, 2018 By: /s/ William J. Skrobacz
William J. Skrobacz
Controller
(Principal Accounting Officer)