

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**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, 2020

**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 001-37884

**VALVOLINE INC.**



Kentucky

30-0939371

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

100 Valvoline Way  
Lexington, Kentucky 40509  
Telephone Number (859) 357-7777

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, par value \$0.01 per share	VVV	New York Stock Exchange

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 (§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. (Check one):

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

At April 30, 2020, there were 185,030,319 shares of the registrant's common stock outstanding.



**VALVOLINE INC. AND CONSOLIDATED SUBSIDIARIES**  
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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

Valvoline Inc. and Consolidated Subsidiaries  
**Condensed Consolidated Statements of Comprehensive Income**

(In millions, except per share data - unaudited)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
<b>Sales</b>	\$ 578	\$ 591	\$ 1,185	\$ 1,148
Cost of sales	371	388	767	762
<b>Gross profit</b>	207	203	418	386
Selling, general and administrative expenses	96	113	213	218
Net legacy and separation-related expenses (income)	—	3	(1)	3
Equity and other income, net	(6)	(9)	(15)	(18)
<b>Operating income</b>	117	96	221	183
Net pension and other postretirement plan income	(9)	(3)	(18)	(5)
Net interest and other financing expenses	38	19	54	36
<b>Income before income taxes</b>	88	80	185	152
Income tax expense	25	17	49	36
<b>Net income</b>	\$ 63	\$ 63	\$ 136	\$ 116
<b>NET EARNINGS PER SHARE</b>				
Basic	\$ 0.33	\$ 0.33	\$ 0.72	\$ 0.61
Diluted	\$ 0.33	\$ 0.33	\$ 0.72	\$ 0.61
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>				
Basic	188	189	188	189
Diluted	188	189	189	189
<b>COMPREHENSIVE INCOME</b>				
Net income	\$ 63	\$ 63	\$ 136	\$ 116
Other comprehensive (loss) income, net of tax				
Currency translation adjustments	(21)	2	(13)	(2)
Amortization of pension and other postretirement plan prior service credit	(2)	(2)	(4)	(4)
Other comprehensive loss	(23)	—	(17)	(6)
<b>Comprehensive income</b>	\$ 40	\$ 63	\$ 119	\$ 110

See Notes to Condensed Consolidated Financial Statements.

Valvoline Inc. and Consolidated Subsidiaries  
**Condensed Consolidated Balance Sheets**

(In millions, except per share amounts - unaudited)	March 31 2020	September 30 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 774	\$ 159
Accounts receivable, net	352	401
Inventories, net	209	194
Prepaid expenses and other current assets	49	43
Total current assets	1,384	797
<b>Noncurrent assets</b>		
Property, plant and equipment, net	509	498
Operating lease assets	254	—
Goodwill and intangibles, net	503	504
Equity method investments	37	34
Deferred income taxes	99	123
Other noncurrent assets	131	108
Total noncurrent assets	1,533	1,267
<b>Total assets</b>	\$ 2,917	\$ 2,064
<b>Liabilities and Stockholders' Deficit</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ —	\$ 15
Trade and other payables	186	171
Accrued expenses and other liabilities	215	237
Total current liabilities	401	423
<b>Noncurrent liabilities</b>		
Long-term debt	2,003	1,327
Employee benefit obligations	361	387
Operating lease liabilities	226	—
Other noncurrent liabilities	163	185
Total noncurrent liabilities	2,753	1,899
Commitments and contingencies		
<b>Stockholders' deficit</b>		
Preferred stock, no par value, 40 shares authorized; no shares issued and outstanding	—	—
Common stock, par value \$0.01 per share, 400 shares authorized; 185 and 188 shares issued and outstanding at March 31, 2020 and September 30, 2019, respectively	2	2
Paid-in capital	16	13
Retained deficit	(249)	(284)
Accumulated other comprehensive (loss) income	(6)	11
Total stockholders' deficit	(237)	(258)
<b>Total liabilities and stockholders' deficit</b>	\$ 2,917	\$ 2,064

See Notes to Condensed Consolidated Financial Statements.

Valvoline Inc. and Consolidated Subsidiaries  
**Condensed Consolidated Statements of Stockholders' Deficit**

(In millions, except per share amounts) (Unaudited)	Six months ended March 31, 2020						Totals
	Common stock		Paid-in capital	Retained deficit	Accumulated other comprehensive income (loss)		
	Shares	Amount					
<b>Balance at September 30, 2019</b>	188	\$ 2	\$ 13	\$ (284)	\$ 11	\$ (258)	
Net income	—	—	—	73	—	73	
Dividends paid, \$0.113 per common share	—	—	—	(21)	—	(21)	
Stock-based compensation, net of issuances	—	—	3	—	—	3	
Cumulative effect of adoption of new leasing standard, net of tax	—	—	—	1	—	1	
Currency translation adjustments	—	—	—	—	8	8	
Amortization of pension and other postretirement prior service credits in income, net of tax	—	—	—	—	(2)	(2)	
<b>Balance at December 31, 2019</b>	188	\$ 2	\$ 16	\$ (231)	\$ 17	\$ (196)	
Net income	—	—	—	63	—	63	
Dividends paid, \$0.113 per common share	—	—	—	(21)	—	(21)	
Repurchase of common stock	(3)	—	—	(60)	—	(60)	
Currency translation adjustments	—	—	—	—	(21)	(21)	
Amortization of pension and other postretirement prior service credits in income, net of tax	—	—	—	—	(2)	(2)	
<b>Balance at March 31, 2020</b>	185	\$ 2	\$ 16	\$ (249)	\$ (6)	\$ (237)	

Six months ended March 31, 2019

(In millions, except per share amounts) (Unaudited)	Common stock		Paid-in capital	Retained deficit	Accumulated other comprehensive income	Totals
	Shares	Amount				
<b>Balance at September 30, 2018</b>	188	\$ 2	\$ 7	\$ (399)	\$ 32	\$ (358)
Net income	—	—	—	53	—	53
Dividends paid, \$0.106 per common share	—	—	—	(20)	—	(20)
Stock-based compensation, net of issuances	—	—	1	—	—	1
Cumulative effect of adoption of new revenue standard, net of tax	—	—	—	(13)	—	(13)
Currency translation adjustments	—	—	—	—	(4)	(4)
Amortization of pension and other postretirement prior service credits in income, net of tax	—	—	—	—	(2)	(2)
<b>Balance at December 31, 2018</b>	188	\$ 2	\$ 8	\$ (379)	\$ 26	\$ (343)
Net income	—	—	—	63	—	63
Dividends paid, \$0.106 per common share	—	—	—	(20)	—	(20)
Stock-based compensation, net of issuances	—	—	2	—	—	2
Currency translation adjustments	—	—	—	—	2	2
Amortization of pension and other postretirement prior service credits in income, net of tax	—	—	—	—	(2)	(2)
<b>Balance at March 31, 2019</b>	<u>188</u>	<u>\$ 2</u>	<u>\$ 10</u>	<u>\$ (336)</u>	<u>\$ 26</u>	<u>\$ (298)</u>

See Notes to Condensed Consolidated Financial Statements.

Valvoline Inc. and Consolidated Subsidiaries  
**Condensed Consolidated Statements of Cash Flows**

(In millions - unaudited)	Six months ended March 31	
	2020	2019
<b>Cash flows from operating activities</b>		
Net income	\$ 136	\$ 116
Adjustments to reconcile net income to cash flows from operating activities		
Loss on extinguishment of debt	19	—
Depreciation and amortization	31	28
Equity income from unconsolidated affiliates, net of distributions	(1)	(2)
Pension contributions	(5)	(2)
Stock-based compensation expense	3	5
Other, net	3	1
Change in assets and liabilities		
Accounts receivable	44	7
Inventories	(20)	(4)
Payables and accrued liabilities	(40)	(13)
Other assets and liabilities	(16)	(2)
<b>Total cash provided by operating activities</b>	<b>154</b>	<b>134</b>
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	(57)	(48)
Acquisitions, net of cash acquired	(11)	(35)
Other investing activities, net	(3)	(2)
<b>Total cash used in investing activities</b>	<b>(71)</b>	<b>(85)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings, net of issuance costs	1,132	162
Repayments on borrowings	(475)	(137)
Premium paid to extinguish debt	(15)	—
Repurchases of common stock	(60)	—
Cash dividends paid	(42)	(40)
Other financing activities	(3)	(5)
<b>Total cash provided by (used in) financing activities</b>	<b>537</b>	<b>(20)</b>
Effect of currency exchange rate changes on cash, cash equivalents, and restricted cash	(4)	—
<b>Increase in cash, cash equivalents, and restricted cash</b>	<b>616</b>	<b>29</b>
Cash, cash equivalents, and restricted cash - beginning of period	159	96
Cash, cash equivalents, and restricted cash - end of period	<u>\$ 775</u>	<u>\$ 125</u>

See Notes to Condensed Consolidated Financial Statements.



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Valvoline Inc. and Consolidated Subsidiaries  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited condensed consolidated financial statements have been prepared by Valvoline Inc. ("Valvoline" or the "Company") in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and Securities and Exchange Commission ("SEC") regulations for interim financial reporting, which do not include all information and footnote disclosures normally included in annual financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with Valvoline's Annual Report on Form 10-K for the fiscal year ended September 30, 2019. Certain prior period amounts have been reclassified to conform to the current presentation.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates. In the opinion of management, the assumptions underlying the condensed consolidated financial statements for these interim periods are reasonable, and all adjustments considered necessary for a fair presentation have been made and are of a normal recurring nature unless otherwise disclosed herein. The results for interim periods are not necessarily indicative of those to be expected for the entire year, particularly in light of the novel coronavirus ("COVID-19") global pandemic and its effects on global economies.

In late December 2019, COVID-19 was identified in Wuhan, China and since that time it has continued to spread globally, including to the United States, leading the World Health Organization to declare a global pandemic and recommend containment and mitigation actions worldwide in March 2020. Since March 31, 2020, the COVID-19 pandemic has continued, and various governments have issued or extended shelter-in-place orders. As of the date of this filing, certain restrictions are in the early phases of being reduced with the resulting impacts being monitored. Valvoline has substantially maintained its operations during the pandemic, and precautionary measures have been taken to protect the Company's employees and customers, maintain liquidity and manage the impacts of reduced volumes.

While the COVID-19 pandemic affected Valvoline's results of operations for the three and six months ended March 31, 2020, the impacts were not material. Adverse impacts from COVID-19 are expected in future periods, which Valvoline is unable to predict due to numerous uncertainties, including the duration and severity of the pandemic.

**Recent accounting pronouncements**

The following standards relevant to Valvoline were either issued or adopted in the current year, or are expected to have a meaningful impact on Valvoline in future periods.

***Recently adopted***

In February 2016, the Financial Accounting Standards Board ("FASB") issued accounting guidance, which outlined a comprehensive lease accounting model that requires lessees to recognize a right-of-use asset and a corresponding lease liability on the balance sheet and superseded previous lease accounting guidance. Valvoline adopted this new lease accounting guidance on October 1, 2019 using the optional transition approach. Under this approach, the new lease accounting guidance has been applied prospectively from the date of adoption, while prior period financial statements continue to be reported in accordance with the previous guidance. Lease expense is recognized similar to prior accounting guidance with operating leases resulting in straight-line expense and finance leases resulting in accelerated expense recognition similar to the prior accounting for capital leases. The accounting for lessor arrangements is not significantly changed by the new guidance.

Valvoline elected certain practical expedients permitted by the new guidance, including the package of practical expedients that allows for previous accounting conclusions regarding lease identification and classification to be carried forward for leases which commenced prior to adoption, as well as the practical expedient to not separate lease and non-lease components and account for them as a single lease component. The Company did not elect the hindsight or short-term lease practical expedients.

As a result of adoption, the Company recognized operating lease assets and liabilities inclusive of a reclassified build-to-suit arrangement, derecognized assets and liabilities related to the build-to-suit arrangement, and carried forward existing capital leases as finance lease assets and liabilities. This resulted in a material impact on the Condensed Consolidated Balance Sheet and the recognition of total incremental lease assets, inclusive of prepaid lease balances and deferred rent liabilities, of \$219 million and incremental lease liabilities of \$214 million, with an immaterial cumulative effect adjustment to reduce Retained deficit as a result of the build-to-suit lease transition requirements. The impact of adoption was not material to the Condensed Consolidated Statements of Comprehensive Income, Cash Flows, or Stockholders' Deficit, and did not impact the Company's compliance with any of its existing debt covenants. Refer to Note 2 for additional information regarding Valvoline's adoption of this new guidance.

### ***Issued but not yet adopted***

In June 2016, the FASB issued updated guidance that introduces a forward-looking approach based on expected losses, rather than incurred losses, to estimate credit losses on certain types of financial instruments including trade and other receivables. The new guidance will require entities to incorporate historical, current, and forecasted information into their estimates of expected credit losses. This guidance also includes expanded disclosure requirements and will become effective for Valvoline on October 1, 2020. The Company is evaluating the effect of adopting this new accounting guidance, including changes to its related processes, and does not currently expect adoption will have a material impact on its Condensed Consolidated Balance Sheet or Condensed Consolidated Statement of Comprehensive Income. The impact of adoption will be largely dependent on the credit quality of the Company's receivables outstanding at adoption. The Company evaluates creditworthiness when negotiating contracts, and as the Company's receivables are generally short-term in nature, the timing and amount of credit loss recognized under existing guidance and the new guidance is not expected to differ materially.

The FASB issued other accounting guidance during the period that is not currently applicable or expected to have a material impact on Valvoline's condensed consolidated financial statements, and therefore, is not described above.

### **NOTE 2 - LEASING**

As described in Note 1, Valvoline adopted new lease accounting guidance effective October 1, 2019 and changed its policy for lease accounting prospectively for lease agreements entered into or reassessed from the date of adoption as described herein.

#### **Lessee arrangements**

Certain of the properties Valvoline utilizes, including quick-lube service center stores, offices, blending and warehouse facilities, in addition to certain equipment, are leased. Valvoline determines if an arrangement contains a lease at inception primarily based on whether or not the Company has the right to control the asset during the contract period. For all agreements where it is determined that a lease exists, including those with an initial term of 12 months or less, the related lease assets and liabilities are recognized on the Condensed Consolidated Balance Sheet as either operating or finance leases at the commencement date. The lease liability is measured at the present value of future lease payments over the lease term, and the right-of-use asset is measured at the lease liability amount, adjusted for prepaid lease payments, lease incentives and the lessee's initial direct costs (e.g., commissions). The lease term includes options to extend or terminate the lease when it is reasonably certain that the option will be exercised.

Fixed payments, including variable payments based on a rate or index, are included in the determination of the lease liability, while other variable payments are recognized in the Condensed Consolidated Statements of Comprehensive Income in the period in which the obligation for those payments is incurred. Many leases contain lease components requiring rental payments and other components that require payment for taxes, insurance, operating expenses and maintenance. In instances where these other components are fixed, they are included in the measurement of the lease liability due to Valvoline's election to combine lease and non-lease components. Otherwise, these other components are expensed as incurred and comprise the majority of Valvoline's variable lease costs.

As most leases do not provide the rate implicit in the lease, the Company estimates its incremental borrowing rate to best approximate the rate of interest that Valvoline would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Valvoline applies the incremental borrowing rate to groups of leases with similar lease terms in determining the present value of future payments. In determining the incremental borrowing rate, the Company considers information available at commencement date, including lease term, interest rate yields for specific interest rate environments and the Company's credit spread.

The following table presents the Company's lease balances:

(In millions)	Location in Condensed Consolidated Balance Sheet	March 31, 2020
<b>Assets</b>		
Operating lease assets	Operating lease assets	\$ 254
Finance lease assets	Property, plant and equipment, net	47
Amortization of finance lease assets	Property, plant and equipment, net	(8)
<b>Total leased assets</b>		<b>\$ 293</b>
<b>Liabilities</b>		
Current:		
Operating lease liabilities	Accrued expenses and other liabilities	\$ 30
Finance lease liabilities	Accrued expenses and other liabilities	2
Noncurrent:		
Operating lease liabilities	Operating lease liabilities	226
Finance lease liabilities	Other noncurrent liabilities	41
<b>Total lease liabilities</b>		<b>\$ 299</b>

The following table presents the components of total lease costs:

(In millions)	Location in Condensed Consolidated Statements of Comprehensive Income	Three months ended March 31, 2020	Six months ended March 31, 2020
Operating lease cost	Cost of sales and Selling, general and administrative expenses <sup>(a)</sup>	\$ 11	\$ 22
Finance lease costs			
Amortization of lease assets	Cost of sales <sup>(a)</sup>	1	1
Interest on lease liabilities	Net interest and other financing expenses	1	2
Variable lease cost	Cost of sales and Selling, general and administrative expenses <sup>(a)</sup>	1	2
Sublease income	Equity and other income, net	(2)	(3)
<b>Total lease cost</b>		<b>\$ 12</b>	<b>\$ 24</b>

(a) Supply chain and retail-related amounts are included in Cost of sales.

Other information related to the Company's leases follows:

(In millions)	Three months ended March 31, 2020	Six months ended March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases <sup>(a)</sup>	\$ 11	\$ 21
Operating cash flows from finance leases	\$ 1	\$ 2
Financing cash flow from finance leases	\$ —	\$ —
Lease assets obtained in exchange for lease obligations:		
Operating leases	\$ 13	\$ 28
Finance leases	\$ 18	\$ 18

(a) Included within the change in Other assets and liabilities within the Condensed Consolidated Statement of Cash Flows offset by noncash operating lease asset amortization and liability accretion.

The following table reconciles the undiscounted cash flows for the next five fiscal years ended September 30 and thereafter to the operating and finance lease liabilities recorded on the Condensed Consolidated Balance Sheet as of March 31, 2020:

(In millions)	Operating leases	Finance leases
Remainder of 2020	\$ 21	\$ 3
2021	39	6
2022	36	5
2023	33	5
2024	30	6
Thereafter	157	45
<b>Total future lease payments</b>	<b>316</b>	<b>70</b>
Imputed interest	60	27
<b>Present value of lease liabilities</b>	<b>\$ 256</b>	<b>\$ 43</b>

As of March 31, 2020, Valvoline has additional leases primarily related to its quick lube service center stores that have not yet commenced with approximately \$44 million in undiscounted future lease payments that are not included in the table above. These leases are expected to commence over the next twelve months and generally have lease terms of 15 years.

In accordance with the previous lease accounting guidance, Valvoline's lease arrangements were previously classified as either capital, operating, or financing obligations. Previously classified capital leases are now considered finance leases under the new lease accounting guidance, while previous financing obligations have been derecognized and reclassified as operating leases. The classification of operating leases remains substantially unchanged under the new lease accounting guidance.

The future minimum lease payments by fiscal year as determined prior to the adoption of the new lease accounting guidance under the previously designated capital, financing and operating leases as of the fiscal year ended September 30, 2019, were as follows:

(In millions)	Operating leases	Capital leases and financing obligations
2020	\$ 36	\$ 6
2021	32	7
2022	29	7
2023	27	7
2024	23	7
Thereafter	120	50
<b>Total future lease payments <sup>(a)</sup></b>	<b>\$ 267</b>	<b>84</b>
Imputed interest		29
<b>Present value of lease liabilities</b>		<b>\$ 55</b>

(a) Future lease payments do not include fixed payments for executory costs, such as taxes, insurance, maintenance and operating expenses.

The following table presents the weighted average remaining lease term and interest rate as of March 31, 2020:

Weighted average remaining lease term (in years):	
Operating leases	9.8
Finance leases	12.6
Weighted average discount rate:	
Operating leases	4.14 %
Finance leases	9.03 %

### Lessor arrangements

Valvoline is the lessor in arrangements to sublease and lease certain properties and equipment. Activity associated with these leases is not material.

### NOTE 3 - FAIR VALUE MEASUREMENTS

The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis by level within the fair value hierarchy:

(In millions)	Fair Value Hierarchy	March 31 2020	September 30 2019
Cash and cash equivalents			
Money market funds	Level 1	\$ 293	\$ —
Time deposits	Level 2	201	59
Prepaid expenses and other current assets			
Currency derivatives <sup>(a)</sup>	Level 2	3	—
Other noncurrent assets			
Non-qualified trust funds	Level 1	18	20
<b>Total assets at fair value</b>		<u>\$ 515</u>	<u>\$ 79</u>
Accrued expenses and other liabilities			
Currency derivatives <sup>(a)</sup>	Level 2	\$ 3	\$ —
<b>Total liabilities at fair value</b>		<u>\$ 3</u>	<u>\$ —</u>

(a) The Company had outstanding contracts with notional values of \$121 million and \$111 million as of March 31, 2020 and September 30, 2019, respectively.

There were no material gains or losses recognized in earnings during the three and six months ended March 31, 2020 or 2019 related to these assets and liabilities.

### Long-term debt

The fair values of the Company's outstanding fixed rate senior notes shown in the table below are based on recent trading values, which are considered Level 2 inputs within the fair value hierarchy. Long-term debt is included in the Condensed Consolidated Balance Sheets at carrying value, rather than fair value, and is therefore excluded from the fair value table above. Carrying values shown in the following table are net of unamortized discounts and issuance costs.

(In millions)	March 31, 2020			September 30, 2019		
	Fair value	Carrying value	Unamortized discount and issuance costs	Fair value	Carrying value	Unamortized discount and issuance costs
2024 Notes	\$ —	\$ —	\$ —	\$ 390	\$ 371	\$ (4)
2025 Notes	384	396	(4)	407	395	(5)
2030 Notes	560	592	(8)	—	—	—
Total	\$ 944	\$ 988	\$ (12)	\$ 797	\$ 766	\$ (9)

Refer to Note 7 for more information on Valvoline's other debt instruments that have variable interest rates, and accordingly, their carrying amounts approximate fair value.

#### NOTE 4 - ACQUISITIONS AND DIVESTITURES

##### Quick Lubes store acquisitions

During the six months ended March 31, 2020, the Company acquired 14 service center stores in single and multi-store transactions, including six former franchise service center stores, for a total of \$11 million. During the six months ended March 31, 2019, the Company acquired 40 service center stores for a total of \$35 million.

The Company's acquisitions are accounted for such that the assets acquired and liabilities assumed are recognized at their acquisition date fair values, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired recorded as goodwill. Goodwill is generally expected to be deductible for income tax purposes and is primarily attributed to the operational synergies and potential growth expected to result in economic benefits in the respective markets of the acquisitions.

A summary follows of the aggregate cash consideration paid and the total assets acquired and liabilities assumed for the six months ended March 31:

(In millions)	2020	2019
Property, plant and equipment	\$ 1	\$ 2
Goodwill	5	24
Intangible assets <sup>(a)</sup>		
Reacquired franchise rights	5	4
Customer relationships	—	3
Trademarks and trade names	—	1
Other	—	1
Net assets acquired	\$ 11	\$ 35

(a) Intangible assets acquired during the six months ended March 31, 2020 have a weighted average amortization period of 9 years.

The fair values above are preliminary for up to one year from the date of acquisition as they are subject to measurement period adjustments as new information is obtained about facts and circumstances that existed as of the acquisition date. The Company does not currently expect any material changes to the preliminary purchase price allocations for acquisitions completed during the last twelve months.

The incremental results of operations of the acquired stores, which were not material to the Company's consolidated results, have been included in the condensed consolidated financial statements from the date of each acquisition, and accordingly, pro forma disclosure of financial information has not been presented.



## Dispositions

During the six months ended March 31, 2020, the Company sold six service center stores to a franchisee within the Quick Lubes reportable segment. Valvoline received proceeds of approximately \$3 million, with no material gain or loss recognized.

## NOTE 5 - INTANGIBLE ASSETS

The following table summarizes the changes in the carrying amount of goodwill by reportable segment and in total during the six months ended March 31, 2020:

(In millions)	Quick Lubes	Core North America	International	Total
<b>Balance at September 30, 2019</b>	\$ 301	\$ 89	\$ 40	\$ 430
Acquisitions <sup>(a)</sup>	5	—	—	5
Currency translation	(2)	—	—	(2)
Dispositions <sup>(a)</sup>	(3)	—	—	(3)
<b>Balance at March 31, 2020</b>	<u>\$ 301</u>	<u>\$ 89</u>	<u>\$ 40</u>	<u>\$ 430</u>

(a) Refer to Note 4 for details regarding acquisitions and dispositions completed during the six months ended March 31, 2020.

## NOTE 6 - RESTRUCTURING ACTIVITIES

During the second fiscal quarter of 2019, Valvoline outlined a broad-based restructuring and cost-savings program to reduce costs, simplify processes and focus the organization's structure and resources on key growth initiatives. Part of this program includes employee separation actions, which were generally completed during 2019, with the associated termination benefits anticipated to be substantially paid by the end of 2020.

Since program inception, Valvoline has recognized cumulative costs of \$13 million, including \$1 million during the six months ended March 31, 2020 and \$6 million during the three and six months ended March 31, 2019. These costs are for employee termination benefits, which include severance and other benefits provided to employees pursuant to the restructuring program. These expenses were recognized in Selling, general and administrative expenses within the Condensed Consolidated Statements of Comprehensive Income. The Company does not expect to incur material remaining costs from these actions.

The results by segment, as disclosed in Note 12, do not include these restructuring expenses, which is consistent with the manner by which management assesses the performance and evaluates the results of each segment. Accordingly, these expenses are included in Unallocated and other.

The following table presents the expenses recognized related to employee termination benefits during the six months ended March 31, 2020 and the estimated remaining liability, which is included in the Condensed Consolidated Balance Sheet within Accrued expenses and other liabilities:

(In millions)	Employee termination benefits
<b>Balance at September 30, 2019</b>	\$ 9
Expenses recognized during the period	1
Payments	(4)
<b>Balance at March 31, 2020</b>	<u>\$ 6</u>

## NOTE 7 - DEBT

The following table summarizes Valvoline's total debt:

(In millions)	March 31 2020	September 30 2019
2030 Notes	\$ 600	\$ —
2025 Notes	400	400
2024 Notes	—	375
Term Loan	475	575
Revolver	450	—
Trade Receivables Facility	90	—
Other <sup>(a)</sup>	(12)	(8)
Total debt	\$ 2,003	\$ 1,342
Current portion of long-term debt	—	15
Long-term debt	\$ 2,003	\$ 1,327

(a) As of March 31, 2020 and September 30, 2019, other included debt issuance costs and discounts of \$13 million and \$9 million, respectively, and debt primarily acquired through acquisitions of \$1 million.

### Senior Notes

The Company's outstanding fixed rate senior notes as of March 31, 2020 consist of 4.375% senior unsecured notes due 2025 with an aggregate principal amount of \$400 million issued in August 2017 (the "2025 Notes") and 4.250% senior unsecured notes due 2030 with an aggregate principal amount of \$600 million issued in February 2020 (the "2030 Notes").

On February 25, 2020, Valvoline issued the 2030 Notes in a private offering for net proceeds of \$592 million (after deducting initial purchasers' discounts and debt issuance costs). A portion of the net proceeds were used to redeem in full Valvoline's 5.500% senior unsecured notes due 2024 at the aggregate principal amount of \$375 million (the "2024 Notes"), plus an early redemption premium of \$15 million, accrued and unpaid interest, as well as related fees and expenses for an aggregate redemption price of \$394 million. A loss on extinguishment of the 2024 Notes of \$19 million was recognized in Net interest and other financing expenses in the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2020, comprised of the early redemption premium and the write-off of related unamortized debt issuance costs and discounts.

A portion of the net proceeds from the offering of the 2030 Notes were also utilized to prepay \$100 million of indebtedness from the term loan facility (the "Term Loan") under the senior credit agreement (the "Senior Credit Agreement"), with the remainder of the net proceeds to be used for general corporate purposes, which may include acquisitions, repayment of indebtedness, working capital and capital expenditures. In response to the COVID-19 pandemic, the Company is utilizing the remaining net proceeds to preserve cash and cash equivalents and maintain liquidity.

The 2030 Notes are subject to customary events of default for similar debt securities, which if triggered may accelerate payment of principal, premium, if any, and accrued but unpaid interest. Such events of default include non-payment of principal and interest, non-performance of covenants and obligations, default on other material debt, and bankruptcy or insolvency. If a change of control repurchase event occurs, Valvoline may be required to offer to purchase the 2030 Notes from the holders thereof. The 2030 Notes are not otherwise required to be repaid prior to maturity, although they may be redeemed at the option of Valvoline at any time prior to maturity in the manner specified in the governing indenture. The 2030 Notes are guaranteed by each of Valvoline's subsidiaries that guarantee obligations under the Senior Credit Agreement.

## Senior Credit Agreement

During the six months ended March 31, 2020, the Company made a principal payment of \$100 million on its Term Loan using a portion of the net proceeds from the offering of the 2030 Notes, resulting in an outstanding principal balance of \$475 million as of March 31, 2020 from the \$575 million outstanding as of September 30, 2019.

During the six months ended March 31, 2020, the Company borrowed \$450 million from its \$475 million revolving credit facility (the "Revolver") under the Senior Credit Agreement as a precautionary measure to further strengthen its liquidity position and provide additional financial flexibility in response to the COVID-19 pandemic. As of March 31, 2020, \$450 million remained outstanding, and there were no amounts outstanding as of September 30, 2019. As of March 31, 2020, the total borrowing capacity remaining under the Revolver was \$18 million due to a reduction of \$7 million for letters of credit outstanding.

As of March 31, 2020, Valvoline was in compliance with all covenants under the Senior Credit Agreement.

## Trade Receivables Facility

On January 31, 2020, the Company amended its \$175 million trade receivables securitization facility (the "Trade Receivables Facility"), which extended the maturity to November 2021. Other relevant terms and conditions of Trade Receivables Facility were substantially unchanged under this amendment.

During the six months ended March 31, 2020, Valvoline borrowed \$90 million under the Trade Receivables Facility to proactively increase its cash position and enhance financial agility in light of the uncertainty resulting from the COVID-19 pandemic. As of March 31, 2020, \$90 million remained outstanding and no amounts were outstanding as of September 30, 2019.

Based on the availability of eligible receivables, the remaining borrowing capacity of the Trade Receivables Facility as of March 31, 2020 was \$28 million. The financing subsidiary owned \$201 million and \$259 million of outstanding accounts receivable as of March 31, 2020 and September 30, 2019, respectively, which are included in Accounts receivable, net in the Company's Condensed Consolidated Balance Sheets.

On April 22, 2020, Valvoline amended the Trade Receivables Facility to modify the eligibility requirements for certain receivables, which had the effect of increasing the Company's remaining borrowing capacity to \$85 million based on the availability of eligible receivables. The amendment also requires the Trade Receivables Facility to maintain an amount equal to the lesser of 50 percent of the unchanged total borrowing capacity and the borrowing base from the availability of eligible receivables. Other relevant terms and conditions of Trade Receivables Facility were substantially unchanged under this amendment.

## NOTE 8 – INCOME TAXES

Income tax provisions for interim quarterly periods are based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual discrete items related specifically to interim periods. The following summarizes income tax expense and the effective tax rate in each interim period:

(In millions)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Income tax expense	\$ 25	\$ 17	\$ 49	\$ 36
Effective tax rate percentage	28.4 %	21.3 %	26.5 %	23.7 %

The increase in effective tax rates for the three and six months ended March 31, 2020 compared to the prior year periods was principally attributed to tax reform legislation, which resulted in unfavorable discrete activity in the

current year periods due to legislation enacted in India, while the clarification of certain provisions of Kentucky tax reform legislation drove favorable discrete activity in the prior year periods. Higher pre-tax earnings also led to increased tax expense in the current year periods.

#### NOTE 9 – EMPLOYEE BENEFIT PLANS

The following table summarizes the components of pension and other postretirement benefit (income) cost:

(In millions)	Pension benefits		Other postretirement benefits	
	2020	2019	2020	2019
<b>Three months ended March 31</b>				
Service cost	\$ —	\$ 1	\$ —	\$ —
Interest cost	15	20	1	—
Expected return on plan assets	(22)	(20)	—	—
Amortization of prior service credit	—	—	(3)	(3)
Net periodic benefit (income) cost	<u>\$ (7)</u>	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ (3)</u>
<b>Six months ended March 31</b>				
Service cost	\$ 1	\$ 1	\$ —	\$ —
Interest cost	31	40	1	1
Expected return on plan assets	(44)	(40)	—	—
Amortization of prior service credit	—	—	(6)	(6)
Net periodic benefit (income) cost	<u>\$ (12)</u>	<u>\$ 1</u>	<u>\$ (5)</u>	<u>\$ (5)</u>

#### NOTE 10 – LITIGATION, CLAIMS AND CONTINGENCIES

From time to time, Valvoline is party to lawsuits, claims and other legal proceedings that arise in the ordinary course of business. The Company establishes liabilities for the outcome of such matters where losses are determined to be probable and reasonably estimable. Where appropriate, the Company has recorded liabilities with respect to these matters, which were not material for the periods presented as reflected in the condensed consolidated financial statements herein. There are certain claims and legal proceedings pending where loss is not determined to be probable or reasonably estimable, and therefore, accruals have not been made. In addition, Valvoline discloses matters for which management believes a material loss is at least reasonably possible.

In all instances, management has assessed each matter based on current information available and made a judgment concerning its potential outcome, giving due consideration to the amount and nature of the claim and the probability of success. The Company believes it has established adequate accruals for liabilities that are probable and reasonably estimable.

Although the ultimate resolution of these matters cannot be predicted with certainty and there can be no assurances that the actual amounts required to satisfy liabilities from these matters will not exceed the amounts reflected in the condensed consolidated financial statements, based on information available at this time, it is the opinion of management that such pending claims or proceedings will not have a material adverse effect on its condensed consolidated financial statements.

## NOTE 11 - EARNINGS PER SHARE

The following table summarizes basic and diluted earnings per share:

(In millions, except per share data)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
<b>Numerator</b>				
Net income	\$ 63	\$ 63	\$ 136	\$ 116
<b>Denominator</b>				
Weighted average common shares outstanding	188	189	188	189
Effect of potentially dilutive securities <sup>(a)</sup>	—	—	1	—
Weighted average diluted shares outstanding	188	189	189	189
<b>Earnings per share</b>				
Basic	\$ 0.33	\$ 0.33	\$ 0.72	\$ 0.61
Diluted	\$ 0.33	\$ 0.33	\$ 0.72	\$ 0.61

(a) Outstanding securities, primarily stock appreciation rights, were not included in the computation of diluted earnings per share because their effect would have been antidilutive. For the three and six months ended March 31, 2020, there were approximately 1 million antidilutive outstanding securities and there were approximately 2 million in the three and six months ended March 31, 2019.

## NOTE 12 - REPORTABLE SEGMENT INFORMATION

Valvoline manages and reports within the following three segments:

- **Quick Lubes** - services the passenger car and light truck quick lube market through company-owned and independent franchised retail quick lube service center stores and independent Express Care stores that service vehicles with Valvoline products, as well as through investment in a joint venture in China to pilot expansion of retail quick lube service center stores outside of North America.
- **Core North America** - sells engine and automotive maintenance products in the United States and Canada to retailers, installers, and heavy-duty customers to service vehicles and equipment.
- **International** - sells engine and automotive maintenance products in more than 140 countries outside of the United States and Canada for the maintenance of consumer and commercial vehicles and equipment.

These segments represent components of the Company for which separate financial information is available that is utilized on a regular basis by the chief operating decision maker in assessing segment performance and in allocating the Company's resources. Sales and operating income are the primary U.S. GAAP measures evaluated in assessing each reportable segment's financial performance. Operating income by segment includes the allocation of shared corporate costs, which are allocated consistently based on each segment's proportional contribution to various financial measures. Intersegment sales are not material, and assets are not allocated and included in the assessment of segment performance; consequently, these items are not disclosed by segment herein.

To maintain operating focus on business performance, certain corporate and non-operational items, including restructuring and related expenses, as well as adjustments related to legacy businesses that no longer are attributed to Valvoline, are excluded from the segment operating results utilized by the chief operating decision maker in evaluating segment performance and are separately delineated within Unallocated and other to reconcile to total reported Operating income as shown in the table below.

## Segment financial results

The following table presents sales and operating income for each reportable segment:

(In millions)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
<b>Sales</b>				
Quick Lubes	\$ 212	\$ 200	\$ 430	\$ 389
Core North America	238	243	486	475
International	128	148	269	284
Consolidated sales	<u>\$ 578</u>	<u>\$ 591</u>	<u>\$ 1,185</u>	<u>\$ 1,148</u>
<b>Operating income</b>				
Quick Lubes	\$ 40	\$ 44	\$ 78	\$ 82
Core North America	47	40	93	71
International	18	23	38	41
Total operating segments	105	107	209	194
Unallocated and other <sup>(a)</sup>	12	(11)	12	(11)
Consolidated operating income	<u>\$ 117</u>	<u>\$ 96</u>	<u>\$ 221</u>	<u>\$ 183</u>

(a) Unallocated and other includes net legacy and separation-related expenses/income and corporate costs not allocated to the reportable segments, including certain acquisition and divestiture-related costs, restructuring and related expenses, and certain current year incentive compensation adjustments.

## Disaggregation of revenue

The following table summarizes sales by primary customer channel for the Company's reportable segments:

(In millions)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
<b>Quick Lubes</b>				
Company-owned operations	\$ 140	\$ 128	\$ 282	\$ 252
Non-company owned operations	72	72	148	137
Total Quick Lubes	212	200	430	389
<b>Core North America</b>				
Retail	133	140	270	256
Installer and other	105	103	216	219
Total Core North America	238	243	486	475
<b>International</b>	128	148	269	284
<b>Consolidated sales</b>	<u>\$ 578</u>	<u>\$ 591</u>	<u>\$ 1,185</u>	<u>\$ 1,148</u>

Sales by reportable segment disaggregated by geographic market follows:

(In millions)	Quick Lubes		Core North America		International		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Three months ended March 31</b>								
North America <sup>(a)</sup>	\$ 212	\$ 200	\$ 238	\$ 243	\$ —	\$ —	\$ 450	\$ 443
Europe, Middle East and Africa ("EMEA")	—	—	—	—	44	47	44	47
Asia Pacific	—	—	—	—	58	73	58	73
Latin America <sup>(a)</sup>	—	—	—	—	26	28	26	28
<b>Totals</b>	<b>\$ 212</b>	<b>\$ 200</b>	<b>\$ 238</b>	<b>\$ 243</b>	<b>\$ 128</b>	<b>\$ 148</b>	<b>\$ 578</b>	<b>\$ 591</b>
<b>Six months ended March 31</b>								
North America <sup>(a)</sup>	\$ 430	\$ 389	\$ 486	\$ 475	\$ —	\$ —	\$ 916	\$ 864
Europe, Middle East and Africa ("EMEA")	—	—	—	—	91	91	91	91
Asia Pacific	—	—	—	—	128	140	128	140
Latin America <sup>(a)</sup>	—	—	—	—	50	53	50	53
<b>Totals</b>	<b>\$ 430</b>	<b>\$ 389</b>	<b>\$ 486</b>	<b>\$ 475</b>	<b>\$ 269</b>	<b>\$ 284</b>	<b>\$ 1,185</b>	<b>\$ 1,148</b>

(a) Valvoline includes the United States and Canada in its North America region. Mexico is included within the Latin America region.

#### NOTE 13 - SUPPLEMENTAL FINANCIAL INFORMATION

##### Cash, cash equivalents and restricted cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets to the totals shown within the Condensed Consolidated Statements of Cash Flows:

(In millions)	March 31 2020	September 30 2019	March 31 2019
Cash and cash equivalents	\$ 774	\$ 159	\$ 114
Restricted cash <sup>(a)</sup>	1	—	11
<b>Total cash, cash equivalents and restricted cash</b>	<b>\$ 775</b>	<b>\$ 159</b>	<b>\$ 125</b>

(a) Included in Prepaid expenses and other current assets within the Condensed Consolidated Balance Sheets.

## Accounts receivable

The following table summarizes Valvoline's accounts receivable in the Condensed Consolidated Balance Sheets:

(In millions)	March 31 2020	September 30 2019
Trade	\$ 342	\$ 392
Other	16	15
Accounts receivable, gross	358	407
Allowance for doubtful accounts	(6)	(6)
Total accounts receivable, net	\$ 352	\$ 401

During the six month periods ended March 31, 2020 and 2019, Valvoline sold accounts receivable to a financial institution of \$59 million and \$63 million, respectively.

## Franchisee loan receivables

Valvoline's financing receivables primarily consist of low-interest term loans extended to franchisees to provide financial assistance as a response to the evolving COVID-19 pandemic. Financing receivables are recorded at amortized cost, net of any allowance for credit losses. These financing receivables bear interest at variable rates consistent with those in Valvoline's Senior Credit Agreement, and accordingly, their carrying amounts approximate fair value. Valvoline monitors the financial condition of its franchisees and will record provisions for estimated credit losses on the loans when the Company believes a loss is probable. As of March 31, 2020, there was no allowance for credit losses recorded. The balances of term loans to franchisees due within one year are included in Accounts receivable, net while amounts due beyond one year are included in Other noncurrent assets in the Condensed Consolidated Balance Sheet. Amounts included in Other noncurrent assets totaled \$15 million as of March 31, 2020. There were no loan receivables from franchisees outstanding as of September 30, 2019.

## Inventories

Inventories are primarily carried at the lower of cost or net realizable value using the weighted average cost method. In addition, certain lubricants are valued at the lower of cost or market using the last-in, first-out ("LIFO") method.

The following table summarizes Valvoline's inventories in the Condensed Consolidated Balance Sheets:

(In millions)	March 31 2020	September 30 2019
Finished products	\$ 211	\$ 203
Raw materials, supplies and work in process	34	32
Reserve for LIFO cost valuation	(36)	(41)
Total inventories, net	\$ 209	\$ 194



## Revenue recognition

The following table disaggregates the Company's sales by timing of revenue recognized:

(In millions)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Sales at a point in time	\$ 569	\$ 581	\$ 1,165	\$ 1,128
Franchised revenues transferred over time	9	10	20	20
Total consolidated sales	\$ 578	\$ 591	\$ 1,185	\$ 1,148

## NOTE 14 - GUARANTOR FINANCIAL INFORMATION

As described in Note 7, Valvoline issued the 2030 Notes in an unregistered private offering in February 2020 and used a portion of the net proceeds to redeem in full its 2024 Notes. The 2025 Notes described in Note 7 were registered in an exchange offer completed in December 2017 and remain subject to Rule 3-10 of SEC Regulation S-X.

The 2025 Notes are general unsecured senior obligations of Valvoline Inc. and are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally, by the combined wholly-owned "Guarantor Subsidiaries." Other subsidiaries (the "Non-Guarantor Subsidiaries") largely represent the international operations of the Company, which do not guarantee the 2025 Notes.

The accompanying condensed consolidating financial statements are included in accordance with Rule 3-10(f) of SEC Regulation S-X and present, on a consolidating basis, the condensed statements of comprehensive income, condensed balance sheets, and condensed statements of cash flows for the parent issuer of the 2025 Notes, the Guarantor Subsidiaries on a combined basis, the Non-Guarantor Subsidiaries on a combined basis, and the eliminations necessary to arrive at the Company's consolidated results.

**Condensed Consolidating Statements of Comprehensive Income**  
**For the three months ended March 31, 2020**

(In millions)	Valvoline Inc. (Parent Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$ —	\$ 468	\$ 122	\$ (12)	\$ 578
Cost of sales	—	297	86	(12)	371
<b>Gross profit</b>	<b>—</b>	<b>171</b>	<b>36</b>	<b>—</b>	<b>207</b>
Selling, general and administrative (income) expenses	(1)	75	22	—	96
Equity and other (income) expenses, net	—	(13)	7	—	(6)
<b>Operating income</b>	<b>1</b>	<b>109</b>	<b>7</b>	<b>—</b>	<b>117</b>
Net pension and other postretirement plan income	—	(9)	—	—	(9)
Net interest and other financing expenses	36	2	—	—	38
<b>(Loss) income before income taxes</b>	<b>(35)</b>	<b>116</b>	<b>7</b>	<b>—</b>	<b>88</b>
Income tax (benefit) expense	(8)	31	2	—	25
Equity in net income of subsidiaries	(90)	(5)	—	95	—
<b>Net income</b>	<b>\$ 63</b>	<b>\$ 90</b>	<b>\$ 5</b>	<b>\$ (95)</b>	<b>\$ 63</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 40</b>	<b>\$ 69</b>	<b>\$ (15)</b>	<b>\$ (54)</b>	<b>\$ 40</b>

**Condensed Consolidating Statements of Comprehensive Income**  
**For the three months ended March 31, 2019**

(In millions)	Valvoline Inc. (Parent Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$ —	\$ 465	\$ 143	\$ (17)	\$ 591
Cost of sales	—	300	105	(17)	388
<b>Gross profit</b>	<b>—</b>	<b>165</b>	<b>38</b>	<b>—</b>	<b>203</b>
Selling, general and administrative expenses	2	90	21	—	113
Net legacy and separation-related expenses	3	—	—	—	3
Equity and other (income) expenses, net	—	(14)	5	—	(9)
<b>Operating (loss) income</b>	<b>(5)</b>	<b>89</b>	<b>12</b>	<b>—</b>	<b>96</b>
Net pension and other postretirement plan income	—	(3)	—	—	(3)
Net interest and other financing expenses	15	2	2	—	19
<b>(Loss) income before income taxes</b>	<b>(20)</b>	<b>90</b>	<b>10</b>	<b>—</b>	<b>80</b>
Income tax (benefit) expense	(6)	21	2	—	17
Equity in net income of subsidiaries	(77)	(8)	—	85	—
<b>Net income</b>	<b>\$ 63</b>	<b>\$ 77</b>	<b>\$ 8</b>	<b>\$ (85)</b>	<b>\$ 63</b>
<b>Total comprehensive income</b>	<b>\$ 63</b>	<b>\$ 77</b>	<b>\$ 9</b>	<b>\$ (86)</b>	<b>\$ 63</b>

**Condensed Consolidating Statements of Comprehensive Income**  
**For the six months ended March 31, 2020**

(In millions)	Valvoline Inc. (Parent Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$ —	\$ 948	\$ 262	\$ (25)	\$ 1,185
Cost of sales	—	606	186	(25)	767
<b>Gross profit</b>	<b>—</b>	<b>342</b>	<b>76</b>	<b>—</b>	<b>418</b>
Selling, general and administrative expenses	3	163	47	—	213
Net legacy and separation-related income	(1)	—	—	—	(1)
Equity and other (income) expenses, net	—	(26)	11	—	(15)
<b>Operating (loss) income</b>	<b>(2)</b>	<b>205</b>	<b>18</b>	<b>—</b>	<b>221</b>
Net pension and other postretirement plan income	—	(18)	—	—	(18)
Net interest and other financing expenses	51	3	—	—	54
<b>(Loss) income before income taxes</b>	<b>(53)</b>	<b>220</b>	<b>18</b>	<b>—</b>	<b>185</b>
Income tax (benefit) expense	(14)	58	5	—	49
Equity in net income of subsidiaries	(175)	(13)	—	188	—
<b>Net income</b>	<b>\$ 136</b>	<b>\$ 175</b>	<b>\$ 13</b>	<b>\$ (188)</b>	<b>\$ 136</b>
<b>Total comprehensive income</b>	<b>\$ 119</b>	<b>\$ 158</b>	<b>\$ —</b>	<b>\$ (158)</b>	<b>\$ 119</b>

**Condensed Consolidating Statements of Comprehensive Income**  
**For the six months ended March 31, 2019**

(In millions)	Valvoline Inc. (Parent Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$ —	\$ 905	\$ 275	\$ (32)	\$ 1,148
Cost of sales	—	593	201	(32)	762
<b>Gross profit</b>	<b>—</b>	<b>312</b>	<b>74</b>	<b>—</b>	<b>386</b>
Selling, general and administrative expenses	5	171	42	—	218
Net legacy and separation-related expenses	3	—	—	—	3
Equity and other (income) expenses, net	—	(27)	9	—	(18)
<b>Operating (loss) income</b>	<b>(8)</b>	<b>168</b>	<b>23</b>	<b>—</b>	<b>183</b>
Net pension and other postretirement plan income	—	(5)	—	—	(5)
Net interest and other financing expenses	30	3	3	—	36
<b>(Loss) income before income taxes</b>	<b>(38)</b>	<b>170</b>	<b>20</b>	<b>—</b>	<b>152</b>
Income tax (benefit) expense	(11)	41	6	—	36
Equity in net income of subsidiaries	(143)	(14)	—	157	—
<b>Net income</b>	<b>\$ 116</b>	<b>\$ 143</b>	<b>\$ 14</b>	<b>\$ (157)</b>	<b>\$ 116</b>
<b>Total comprehensive income</b>	<b>\$ 110</b>	<b>\$ 137</b>	<b>\$ 11</b>	<b>\$ (148)</b>	<b>\$ 110</b>

**Condensed Consolidating Balance Sheets**  
**As of March 31, 2020**

(In millions)	Valvoline Inc. (Parent Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ —	\$ 625	\$ 149	\$ —	\$ 774
Accounts receivable, net	—	212	281	(141)	352
Inventories, net	—	119	90	—	209
Prepaid expenses and other current assets	—	39	10	—	49
Total current assets	—	995	530	(141)	1,384
<b>Noncurrent assets</b>					
Property, plant and equipment, net	—	432	77	—	509
Operating lease assets	—	215	39	—	254
Goodwill and intangibles, net	—	427	76	—	503
Equity method investments	—	37	—	—	37
Investment in subsidiaries	1,770	493	—	(2,263)	—
Deferred income taxes	63	22	14	—	99
Other noncurrent assets	2	117	12	—	131
Total noncurrent assets	1,835	1,743	218	(2,263)	1,533
<b>Total assets</b>	<b>\$ 1,835</b>	<b>\$ 2,738</b>	<b>\$ 748</b>	<b>\$ (2,404)</b>	<b>\$ 2,917</b>
<b>Liabilities and Stockholders' Deficit</b>					
<b>Current liabilities</b>					
Trade and other payables	\$ 118	\$ 128	\$ 81	\$ (141)	\$ 186
Accrued expenses and other liabilities	13	162	40	—	215
Total current liabilities	131	290	121	(141)	401
<b>Noncurrent liabilities</b>					
Long-term debt	1,912	1	90	—	2,003
Employee benefit obligations	—	345	16	—	361
Operating lease liabilities	—	199	27	—	226
Other noncurrent liabilities	29	133	1	—	163
Total noncurrent liabilities	1,941	678	134	—	2,753
Commitments and contingencies					
<b>Stockholders' (deficit) equity</b>	<b>(237)</b>	<b>1,770</b>	<b>493</b>	<b>(2,263)</b>	<b>(237)</b>
<b>Total liabilities and stockholders' deficit / equity</b>	<b>\$ 1,835</b>	<b>\$ 2,738</b>	<b>\$ 748</b>	<b>\$ (2,404)</b>	<b>\$ 2,917</b>

**Condensed Consolidating Balance Sheets**  
**As of September 30, 2019**

(In millions)	Valvoline Inc. (Parent Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ —	\$ 59	\$ 100	\$ —	\$ 159
Accounts receivable, net	—	181	338	(118)	401
Inventories, net	—	110	84	—	194
Prepaid expenses and other current assets	—	35	8	—	43
Total current assets	—	385	530	(118)	797
<b>Noncurrent assets</b>					
Property, plant and equipment, net	—	431	67	—	498
Goodwill and intangibles, net	—	423	81	—	504
Equity method investments	—	34	—	—	34
Investment in subsidiaries	1,157	546	—	(1,703)	—
Deferred income taxes	48	61	14	—	123
Other noncurrent assets	3	96	9	—	108
Total noncurrent assets	1,208	1,591	171	(1,703)	1,267
<b>Total assets</b>	<b>\$ 1,208</b>	<b>\$ 1,976</b>	<b>\$ 701</b>	<b>\$ (1,821)</b>	<b>\$ 2,064</b>
<b>Liabilities and Stockholders' Deficit</b>					
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 15	\$ —	\$ —	\$ —	\$ 15
Trade and other payables	80	127	82	(118)	171
Accrued expenses and other liabilities	9	175	53	—	237
Total current liabilities	104	302	135	(118)	423
<b>Noncurrent liabilities</b>					
Long-term debt	1,326	1	—	—	1,327
Employee benefit obligations	—	369	18	—	387
Other noncurrent liabilities	36	147	2	—	185
Total noncurrent liabilities	1,362	517	20	—	1,899
Commitments and contingencies					
<b>Stockholders' (deficit) equity</b>	<b>(258)</b>	<b>1,157</b>	<b>546</b>	<b>(1,703)</b>	<b>(258)</b>
<b>Total liabilities and stockholders' deficit / equity</b>	<b>\$ 1,208</b>	<b>\$ 1,976</b>	<b>\$ 701</b>	<b>\$ (1,821)</b>	<b>\$ 2,064</b>

**Condensed Consolidating Statements of Cash Flows**  
**For the six months ended March 31, 2020**

(In millions)	Valvoline Inc. (Parent Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows (used in) provided by operating activities</b>	\$ (448)	\$ 619	\$ (17)	\$ —	\$ 154
<b>Cash flows from investing activities</b>					
Additions to property, plant and equipment	—	(40)	(17)	—	(57)
Acquisitions, net of cash acquired	—	(11)	—	—	(11)
Other investing activities, net	—	(1)	(2)	—	(3)
<b>Cash flows used in investing activities</b>	—	(52)	(19)	—	(71)
<b>Cash flows from financing activities</b>					
Proceeds from borrowings, net of issuance costs	1,042	—	90	—	1,132
Repayments on borrowings	(475)	—	—	—	(475)
Premium paid to extinguish debt	(15)	—	—	—	(15)
Repurchases of common stock	(60)	—	—	—	(60)
Cash dividends paid	(42)	—	—	—	(42)
Other financing activities	(2)	(1)	—	—	(3)
<b>Cash flows provided by (used in) financing activities</b>	448	(1)	90	—	537
Effect of currency exchange rate changes on cash, cash equivalents, and restricted cash	—	—	(4)	—	(4)
<b>Increase in cash, cash equivalents, and restricted cash</b>	—	566	50	—	616
Cash, cash equivalents, and restricted cash - beginning of year	—	59	100	—	159
<b>Cash, cash equivalents, and restricted cash - end of period</b>	<u>\$ —</u>	<u>\$ 625</u>	<u>\$ 150</u>	<u>\$ —</u>	<u>\$ 775</u>



**Condensed Consolidating Statements of Cash Flows**  
**For the six months ended March 31, 2019**

(In millions)	Valvoline Inc. (Parent Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows provided by operating activities</b>	\$ 18	\$ 65	\$ 51	\$ —	\$ 134
<b>Cash flows from investing activities</b>					
Additions to property, plant and equipment	—	(40)	(8)	—	(48)
Acquisitions, net of cash acquired	—	(13)	(22)	—	(35)
Other investing activities, net	—	—	(2)	—	(2)
<b>Cash flows used in investing activities</b>	—	(53)	(32)	—	(85)
<b>Cash flows from financing activities</b>					
Proceeds from borrowings, net of issuance costs	87	—	75	—	162
Repayments on borrowings	(63)	—	(74)	—	(137)
Cash dividends paid	(40)	—	—	—	(40)
Other financing activities	(2)	(2)	(1)	—	(5)
<b>Cash flows used in financing activities</b>	(18)	(2)	—	—	(20)
Effect of currency exchange rate changes on cash, cash equivalents, and restricted cash	—	—	—	—	—
<b>Increase in cash, cash equivalents, and restricted cash</b>	—	10	19	—	29
Cash, cash equivalents, and restricted cash - beginning of year	—	20	76	—	96
<b>Cash, cash equivalents, and restricted cash - end of period</b>	<u>\$ —</u>	<u>\$ 30</u>	<u>\$ 95</u>	<u>\$ —</u>	<u>\$ 125</u>

## **NOTE 15 – SUBSEQUENT EVENTS**

### **Dividend declared**

On April 22, 2020, the Board of Directors of Valvoline declared a quarterly cash dividend of \$0.113 per share of Valvoline common stock. The dividend is payable on June 15, 2020 to shareholders of record on May 29, 2020.

### **China plant credit facility**

On May 6, 2020, the Company entered into a five-year credit agreement for approximately \$40 million to finance the completion of construction of the blending and packaging plant in China. Borrowings will bear interest at the local prime rate less the applicable interest rate margin and will be secured by the assets underlying the project.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q, other than statements of historical fact, including estimates, projections, and statements related to the Company's business plans and operating results, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Valvoline has identified some of these forward-looking statements with words such as "anticipates," "believes," "expects," "estimates," "is likely," "predicts," "projects," "forecasts," "may," "will," "should," and "intends" and the negative of these words or other comparable terminology. These forward-looking statements are based on Valvoline's current expectations, estimates, projections, and assumptions as of the date such statements are made and are subject to risks and uncertainties that may cause results to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures about Market Risk" in this Quarterly Report on Form 10-Q and Valvoline's most recently filed periodic reports on Forms 10-K and 10-Q. Valvoline assumes no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future, unless required by law.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Annual Report on Form 10-K for the fiscal year ended September 30, 2019, as well as the condensed consolidated financial statements and the accompanying Notes to Condensed Consolidated Financial Statements included in Item 1 of Part I in this Quarterly Report on Form 10-Q.

### BUSINESS OVERVIEW

Valvoline Inc. ("Valvoline" or the "Company") is a worldwide marketer and supplier of engine and automotive maintenance products and services. Established in 1866, Valvoline's heritage spans over 150 years, during which it has developed powerful name recognition across multiple product and service channels. In addition to the iconic Valvoline-branded passenger car motor oils and other automotive lubricant products, Valvoline provides a wide array of lubricants used in heavy duty equipment, as well as automotive chemicals and fluids designed to improve engine performance and lifespan. Valvoline's premium branded product offerings enhance its high-quality reputation and provide customers with solutions that address a wide variety of needs.

In the United States and Canada, Valvoline's products and services are sold through more than 1,400 franchised and company-owned quick-lube service center stores, to retailers with over 50,000 retail outlets, and to installer customers with over 15,000 locations. Valvoline also has a strong international presence with products sold in more than 140 countries.

Valvoline has three reportable segments: Quick Lubes, Core North America, and International, with certain corporate and non-operational items included in Unallocated and other to reconcile to consolidated results.

## **BUSINESS STRATEGY**

To deliver on Valvoline's key business and growth strategies in fiscal 2020, the Company is focused on:

- Aggressively growing Quick Lubes through organic service center expansion and opportunistic acquisitions, while enhancing retail service capabilities through a consistent and preferred customer experience delivered by hands-on experts;
- Strengthening and maintaining the foundation in Core North America by leveraging investments in technology and marketing to drive speed, efficiency and value across the business and customer interactions, while increasing penetration of Valvoline's full product portfolio;
- Accelerating International market share growth through continued development of and investment in key emerging and high value markets;
- Broadening capabilities to serve future transport vehicles by developing relationships with original equipment manufacturers and leveraging innovation in the development of future products and light services in direct and adjacent markets; and
- Accelerating the shift to a services-driven business by leveraging customer relationships and experiences to develop new capabilities globally.

## **RECENT DEVELOPMENTS**

In late January, the impact of COVID-19 was concentrated in China. COVID-19 spread quickly, and the World Health Organization declared it a global pandemic on March 11, 2020. The impact of the COVID-19 pandemic has created significant volatility in the global economy and led to reduced economic activity. There have been extraordinary actions taken by international, federal, state, and local public health and governmental authorities to contain and combat the spread of COVID-19 in regions throughout the world, including restricting non-essential travel, quarantines, "stay-at-home" orders, and similar mandates for many individuals to substantially restrict daily activities and for many businesses to modify or cease normal operations to minimize personal interaction and contact. Though in certain regions, restrictions are in the early stages of being reduced, it remains unclear how long restrictions will remain in place, or whether there could be a resurgence of the spread of COVID-19.

The COVID-19 pandemic resulted in significant economic disruption during the quarter, which modestly impacted Valvoline's results and is expected to continue to have an adverse effect beyond March 31, 2020 primarily as a result of lower volumes and sales. While the Company cannot predict the duration or the severity of the COVID-19 pandemic or the impact it will continue to have on Valvoline's business, results of operations, or liquidity, it is important to share the impact to-date, how the Company's response is progressing, and how Valvoline's results and financial condition may change going forward.

### **Retail and Manufacturing Operations**

As automotive maintenance has generally been deemed essential business during the pandemic, Valvoline has substantially maintained its operations and continued to serve its customers to help engines run and necessary vehicles remain reliably on the road. Valvoline's wholly-owned lubricant blending and packaging plants and company-owned Quick Lubes retail service center stores have remained open and operational during the pandemic. Over 97% of Valvoline's franchised service center stores have remained open, with certain franchises reducing hours or temporarily closing at the discretion of the respective independent operators. The Company remains committed to keeping as many of its stores open as possible for the communities they serve. Short-term incremental pay and benefit programs, including additional paid sick leave and increased pay rates for hourly and

salaried store employees were introduced in Quick Lubes to recognize front-line Company team members. In response to the abrupt decline in miles driven due to restrictions and the resulting significant volume and sales declines in the second half of March and continuing in April and to date, Valvoline has responded quickly, including flexing store labor at company-owned retail service center stores and adjusting shifts across its lubricant blending and packaging plants and throughout its distribution networks. In China, after a temporary suspension, construction on the lubricants plant resumed in March 2020 with its opening expected in early fiscal 2021.

### **Remote Work Arrangements**

Valvoline took global actions designed to help further prevent the spread of COVID-19, including implementing work-from-home arrangements. Beginning March 18, 2020, employees other than those in Valvoline's retail service center stores, production and distribution facilities began working remotely in virtually all locations globally except China where work-from-home protocols were implemented earlier and substantially ended in March. These remote work arrangements remain in place and have been designed to allow for continued operation of certain business-critical functions, including financial reporting systems and internal control, which have incorporated remote work arrangements using appropriate digital tools.

### **Liquidity**

Valvoline's revenues are primarily generated from the sale and service delivery of engine and automotive maintenance products to its customers. Accordingly, recent declines in miles driven as a result of a reduction in the ability or willingness to travel due to the COVID-19 pandemic has and is expected to continue to adversely impact Valvoline's volumes and results of operations. Miles driven were significantly lower due to the COVID-19 pandemic, which is estimated to have impacted most of Valvoline's key markets by late March 2020 and continued into April and to-date. While management believes Valvoline has sufficient liquidity to meet its operating cash needs, required pension and other postretirement plan contributions, debt servicing obligations, and tax-related and other contractual commitments for the next twelve months, certain precautionary steps were taken as outlined herein in response to the COVID-19 pandemic to strengthen the Company's cash position.

As a precautionary measure to enhance financial flexibility in response to the uncertainty resulting from the COVID-19 pandemic, the Company borrowed under its Revolver and Trade Receivables Facility to increase its cash balance by \$540 million in late March. As of March 31, 2020, Valvoline had nearly \$775 million in cash and cash equivalents available for working capital, general corporate purposes, or other purposes permitted under its borrowing facilities. Further, Valvoline suspended its share repurchase program and is taking other steps to preserve cash, including limiting or deferring certain non-essential operating expenses and delaying certain capital expenditures, while continuing to invest in high-return, long-term strategic growth initiatives. Since drawing from its credit facilities in March, the Company has not used any of the related cash proceeds.

To further increase liquidity, Valvoline amended its Trade Receivables Facility on April 22, 2020, to modify the eligibility requirements for certain receivables, which had the effect of increasing the Company's remaining borrowing capacity to \$85 million based on the availability of eligible receivables. As a result, the Company has access to more than \$875 million in total liquidity, including approximately \$775 million of cash and cash equivalents on hand at the end of April, with no meaningful maturities of its outstanding borrowings until 2024. The Company continues to evaluate options to enhance its liquidity and financial flexibility.

### **COVID-19 Relief**

On March 27, 2020, the U.S. federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Among other provisions, the CARES Act includes forms of payroll and income tax relief for corporations. Enactment of the CARES Act did not have a material impact on the Company's condensed consolidated financial statements as of and for the three and six months ended March 31, 2020. The Company continues to examine the impacts the CARES Act may have on its business and condensed consolidated financial statements and currently expects modest cash flow benefits in fiscal 2020 and 2021 related to the deferred payment of certain employer payroll-related taxes and accelerated tax deductions. Additionally, other non-U.S.

governments are providing various forms of COVID-19 relief, which Valvoline is monitoring and evaluating to determine whether the Company may qualify for additional benefits.

### **Enhanced Safety Standards**

Valvoline's priority remains the health and safety of its employees, customers and business partners. Quick Lubes drive-through, stay-in-your-car service experience previously produced minimal contact with customers, and the Company took additional actions to modify in-store procedures to further reduce contact between store teams and customers. Procedures in Valvoline's plants, service center stores and offices have also been modified to encourage social distancing and proper handwashing, increase cleaning cycles, adjust labor and shifts, and provide protective equipment. Valvoline has taken actions designed to help further prevent the spread of COVID-19, including restricting travel and implementing broad work-from-home protocols, in addition to following government regulations in each of its locations.

### **Franchisee Support**

Valvoline is providing its franchisees with flexibility to respond to the evolving circumstances of the COVID-19 pandemic. Certain franchisees elected to reduce store operating hours or temporarily close some stores in order to better align to local changes in demand. Additionally, other operational changes were made to in-store operating procedures, enhancing the safe operating environment already afforded through Valvoline's stay-in-your-car service experience. Valvoline's franchisees were provided access to detailed information on stimulus-related provisions and federal employee assistance programs that may be utilized to provide financial relief. Valvoline is also providing various types of financial assistance to support the long-term health of its Quick Lubes franchisee network, including providing low-interest term loans, waiving royalties for one-and-a-half months, and temporarily extending payment terms to provide increased financial flexibility and enable franchisees to better support their employees and customers as a result of the impact of the COVID-19 pandemic. Valvoline does not expect these actions to have an impact on its ability to meet its cash needs in the ordinary course, or to comply with the covenants under its debt obligations.

### **COVID-19 Support**

Valvoline made contributions to relief and response funds in the U.S. and China and donated protective equipment in China, India and the U.S. Valvoline's support also extended to its customers, as orders were supplied and delivered with the same on-time metrics through no-contact deliveries, and in some cases, extended payment terms were permitted. Valvoline provided benefits to its employees to cover the cost of COVID-19 testing, promoted its telehealth benefits, amended its savings plan to enhance hardship loan eligibility and payment terms, and provided additional paid sick leave for quarantined employees.

### **Forward Looking Information**

Given the unprecedented and rapidly evolving uncertainty related to COVID-19, Valvoline withdrew all previously-issued fiscal 2020 guidance on March 24, 2020. In the near term, the COVID-19 pandemic is expected to have a significant adverse impact on Valvoline's business and results of operations for the three months ending June 30, 2020. The full impact of the COVID-19 pandemic on Valvoline will depend on future developments, such as and among others, the ultimate duration and severity of the outbreak, its impact on suppliers, consumers, franchisees, retailers, installers, distributors and other customers, how quickly normal economic conditions, including miles driven and the demand for Valvoline's products and services can resume, and whether the pandemic leads to recessionary conditions in any key markets.

While the potential magnitude and duration of the business and economic impacts of COVID-19 are uncertain, assuming the phased reduction of restrictions continues throughout the third fiscal quarter, this may lead to gradual, but modest improvements in miles driven over the coming months. Based on third-party estimates, miles driven continues to be significantly depressed in April though there have been early signs suggesting modest improvements late in the month. Likewise, volumes were substantially down across Valvoline's reportable

segments in the first half of April 2020 with recent trends showing some early signs of improvement in the second half of the month though still below pre-COVID levels. Although no assurance can be given, management expects this, together with its competitive advantages and brand strength, strong balance sheet, liquidity position, and the Company's operating plan, will provide sufficient liquidity for the Company to be well-positioned to manage through challenging operating conditions and eventual recovery to fund operations for at least the next twelve months. If there is a prolonged reduction in miles driven or deferrals of preventative maintenance, management may be required to take additional actions to protect the ongoing operations of the business, which could include further reductions in operating expenses and spend, among other measures.

For additional information on the impact and potential impact of COVID-19 on Valvoline, refer to Item 1A of Part II of this Quarterly Report on Form 10-Q.

## **SECOND FISCAL QUARTER 2020 OVERVIEW**

The following were the significant events for the second fiscal quarter of 2020, each of which is discussed more fully in this Quarterly Report on Form 10-Q:

- Valvoline reported net income of \$63 million and diluted earnings per share of \$0.33 in the three months ended March 31, 2020, which were flat over the prior year despite facing reduced volumes and sales from the early impacts of the COVID-19 pandemic.
- Quick Lubes saw lower transactions in March at the onset of the COVID-19 pandemic, which coupled with an increased allocation of shared corporate costs, resulted in lower segment profitability from the prior year.
- Core North America profitability benefited from lower raw material costs and improvements from the operating expense reduction program launched last fiscal year, while the COVID-19 impacts on the segment in the quarter were generally limited.
- International volumes and sales declined 9% and 14%, respectively, from the prior year quarter associated with disruption from the COVID-19 pandemic that spread from China in late January and expanded to most regions by the end of March. China sales and volume trends improved in March and construction on the lubricant plant resumed with the cessation of local work-from-home protocols.
- The Company completed the issuance of 4.250% 2030 Notes with an aggregate principal amount of \$600 million and used the proceeds to redeem its 5.500% 2024 Notes with an aggregate principal amount of \$375 million and pay related expenses and fees, prepay \$100 million of its Term Loan and use the remainder for general corporate purposes.
- During the second fiscal quarter of 2020, the Company paid a \$0.113 per share cash dividend and repurchased approximately 3 million shares of Valvoline common stock for \$60 million prior to suspending share repurchases in late March 2020.

### **Use of Non-GAAP Measures**

To aid in the understanding of Valvoline's ongoing business performance, certain items within this document are presented on an adjusted, non-GAAP basis. These non-GAAP measures are not defined within U.S. GAAP and do not purport to be alternatives to net income/loss or cash flows from operating activities as measures of operating performance or cash flows. The following are the non-GAAP measures management has included and how management defines them:

- EBITDA, which management defines as net income/loss, plus income tax expense/benefit, net interest and other financing expenses, and depreciation and amortization;

- Adjusted EBITDA, which management defines as EBITDA adjusted for key items, as further described below, and net pension and other postretirement plan expense/income; and
- Free cash flow, which management defines as operating cash flows less capital expenditures and certain other adjustments as applicable.

These measures are not prepared in accordance with U.S. GAAP and management believes the use of non-GAAP measures assists investors in understanding the ongoing operating performance of Valvoline's business by presenting comparable financial results between periods. The non-GAAP information provided is used by Valvoline's management and may not be comparable to similar measures disclosed by other companies, because of differing methods used by other companies in calculating EBITDA, Adjusted EBITDA and free cash flow. EBITDA, Adjusted EBITDA, and free cash flow provide a supplemental presentation of Valvoline's operating performance. For a reconciliation of non-GAAP measures, refer to the "Results of Operations" and "Financial Position, Liquidity and Capital Resources" sections below.

Due to depreciable assets associated with the nature of the Company's operations and interest costs related to Valvoline's capital structure, management believes EBITDA is an important supplemental measure to evaluate the Company's operating results between periods on a comparable basis.

Management believes Adjusted EBITDA provides investors with a meaningful supplemental presentation of Valvoline's operating performance. Adjusted EBITDA excludes the impact of the following:

- Key items - Key items consist of income or expenses associated with certain unusual, infrequent or non-operational income or expenses not directly attributable to the underlying business, which management believes impacts the comparability of operational results between periods. Key items may consist of adjustments related to: the impairment of an equity investment; legacy businesses, including the separation from Ashland and associated impacts of related indemnities; significant acquisitions or divestitures; restructuring-related matters; and other matters that are non-operational or unusual in nature. Key items are considered by management to be outside the comparable operational performance of the business and are also often related to legacy matters or market-driven events that are not directly related to the underlying business and do not have an immediate, corresponding impact on the Company's ongoing performance. Details with respect to the composition of key items recognized during the respective periods presented herein are set forth below in the "EBITDA and Adjusted EBITDA" section of "Results of Operations" that follows.
- Net pension and other postretirement plan expense/income - Net pension and other postretirement plan expense/income includes several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets, as well as those that are predominantly legacy in nature and related to prior service to the Company from employees (e.g., retirees, former employees, current employees with frozen benefits). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) actuarial gains/losses, and (iv) amortization of prior service cost/credit. Significant factors that can contribute to changes in these elements include changes in discount rates used to remeasure pension and other postretirement obligations on an annual basis or upon a qualifying remeasurement, differences between actual and expected returns on plan assets, and other changes in actuarial assumptions, such as the life expectancy of plan participants. Accordingly, management considers that these elements are more reflective of changes in current conditions in global financial markets (in particular, interest rates) and are outside the operational performance of the business and are also primarily legacy amounts that are not directly related to the underlying business and do not have an immediate, corresponding impact on the compensation and benefits provided to eligible employees for current service. Adjusted EBITDA will continue to include pension and other postretirement service costs related to current employee service as well as the costs of other benefits provided to employees for current service.



Management uses free cash flow as an additional non-GAAP metric of cash flow generation. By including capital expenditures and certain other adjustments, as applicable, management is able to provide an indication of the ongoing cash being generated that is ultimately available for both debt and equity holders as well as other investment opportunities. Unlike cash flow from operating activities, free cash flow includes the impact of capital expenditures, providing a more complete picture of cash generation. Free cash flow has certain limitations, including that it does not reflect adjustments for certain non-discretionary cash flows, such as mandatory debt repayments. The amount of mandatory versus discretionary expenditures can vary significantly between periods.

Valvoline's results of operations are presented based on Valvoline's management structure and internal accounting practices. The structure and practices are specific to Valvoline; therefore, Valvoline's financial results, EBITDA, Adjusted EBITDA and free cash flow are not necessarily comparable with similar information for other comparable companies. EBITDA, Adjusted EBITDA and free cash flow each have limitations as analytical tools and should not be considered in isolation from, or as an alternative to, or more meaningful than, net income and cash flows from operating activities as determined in accordance with U.S. GAAP. Because of these limitations, net income and cash flows from operating activities should primarily be relied upon as determined in accordance with U.S. GAAP, and EBITDA, Adjusted EBITDA, and free cash flow should only be used as supplements. In evaluating EBITDA, Adjusted EBITDA, and free cash flow, one should be aware that in the future Valvoline may incur expenses/income similar to those for which adjustments are made in calculating EBITDA, Adjusted EBITDA, and free cash flow. Valvoline's presentation of EBITDA, Adjusted EBITDA, and free cash flow should not be construed as a basis to infer that Valvoline's future results will be unaffected by unusual or nonrecurring items.

### **Key Business Measures**

Valvoline tracks its operating performance and manages its business using certain key measures, including system-wide, company-owned and franchised store counts and same-store sales; lubricant volumes sold by unconsolidated joint ventures; and total lubricant volumes sold and percentage of premium lubricants sold. Management believes these measures are useful to evaluating and understanding Valvoline's operating performance and should be considered as supplements to, not substitutes for, Valvoline's sales and operating income, as determined in accordance with U.S. GAAP.

Sales in the Quick Lubes reportable segment are influenced by the number of service center stores and the business performance of those stores. Stores are considered open upon acquisition or opening for business. Temporary store closings remain in the respective store counts with only permanent store closures reflected in the end of period store counts and activity. Same-store-sales ("SSS") is defined as sales by Quick Lubes service center stores (company-owned, franchised and the combination of these for system-wide SSS), with new stores excluded from the metric until the completion of their first full fiscal year in operation as this period is generally required for new store sales levels to begin to normalize. Differences in SSS are calculated to determine the percentage change between comparative periods. Quick Lubes revenue is limited to sales at company-owned stores, sales of lubricants and other products to independent franchisees and Express Care operators, and royalties and other fees from franchised stores. Although Valvoline does not recognize store-level sales from franchised stores as revenue in its Condensed Consolidated Statements of Comprehensive Income, management believes system-wide and franchised SSS comparisons and store counts are useful to assess the operating performance of the Quick Lube reportable segment and the operating performance of an average Quick Lubes store.

Lubricant volumes sold by unconsolidated joint ventures are used to measure the operating performance of the International operating segment. Valvoline does not record lubricant sales from unconsolidated joint ventures as International reportable segment revenue. International revenue is limited to sales by Valvoline's consolidated affiliates. Although Valvoline does not record sales by unconsolidated joint ventures as revenue in its Condensed Consolidated Statements of Comprehensive Income, management believes lubricant volumes including and sold by unconsolidated joint ventures is useful to assess the operating performance of its investments in joint ventures.

Management also evaluates lubricant volumes sold in gallons by each of its reportable segments and premium lubricant percentage, defined as premium lubricant gallons sold as a percentage of U.S. branded lubricant

volumes for the Quick Lubes and Core North America segments and as a percentage of total segment lubricant volume for the International segment. Premium lubricant products generally provide a higher contribution to segment profitability and the percentage of premium volumes is useful to evaluating and understanding Valvoline's operating performance.

## RESULTS OF OPERATIONS

### Consolidated review

The following table summarizes the results of the Company's operations:

(In millions)	Three months ended March 31				Six months ended March 31			
	2020		2019		2020		2019	
		% of Sales		% of Sales		% of Sales		% of Sales
Sales	\$ 578	100.0%	\$ 591	100.0%	\$ 1,185	100.0%	\$ 1,148	100.0%
Gross profit	\$ 207	35.8%	\$ 203	34.3%	\$ 418	35.3%	\$ 386	33.6%
Net operating expenses	\$ 90	15.6%	\$ 107	18.1%	\$ 197	16.6%	\$ 203	17.7%
Operating income	\$ 117	20.2%	\$ 96	16.2%	\$ 221	18.6%	\$ 183	15.9%
Net income	\$ 63	10.9%	\$ 63	10.7%	\$ 136	11.5%	\$ 116	10.1%

### Sales

Sales for the three months ended March 31, 2020 decreased \$13 million, or 2% compared to the three months ended March 31, 2019. Sales for the six months ended March 31, 2020 increased \$37 million, or 3%, compared to the six months ended March 31, 2019. The following table provides a reconciliation of the changes:

(In millions)	Year over year change	
	Three months ended March 31, 2020	Six months ended March 31, 2020
Mix and price	\$ 16	\$ 46
Volume	(29)	(11)
Currency exchange	(5)	(7)
Acquisitions	5	9
Change in sales	\$ (13)	\$ 37

For the three months ended March 31, 2020, lubricant gallons sold decreased 6% to 41.7 million, negatively impacting sales as the volume declines in Quick Lubes and International from the COVID-19 slowdown coupled with volume declines in the installer and retail channels in Core North America. These declines were partially offset by the benefit of mix improvements primarily as a result of premium product mix improvements in Quick Lubes and Core North America, increased non-oil change services in Quick Lubes and improved channel mix in Core North America.

Key drivers of the increase in sales for the six months ended March 31, 2020 compared to the prior year period were channel and product mix improvements in Core North America, mix improvements in Quick Lubes, which drove higher average ticket, and the benefit of the Eastern European acquisition completed in late fiscal 2019. Lubricant gallons sold decreased 2% to 85.1 million, which unfavorably impacted sales as the volume declines in Core North America and International more than offset the impact of volume gains in Quick Lubes. Also negatively impacting sales for the six months ended March 31, 2020 was unfavorable currency exchange.

The changes to reportable segment sales and the drivers thereof are discussed in further detail in the “Reportable Segment Review” section below.

**Gross profit**

Gross profit for the three months ended March 31, 2020 increased \$4 million compared to the three months ended March 31, 2019, while gross profit increased \$32 million for the six months ended March 31, 2020 compared to the six months ended March 31, 2019. The table below provides a reconciliation of the changes:

(In millions)	Year over year change	
	Three months ended March 31, 2020	Six months ended March 31, 2020
Volume and mix	\$ (3)	\$ 17
Price and cost	8	16
Currency exchange	(2)	(2)
Acquisitions	1	1
Change in gross profit	<u>\$ 4</u>	<u>\$ 32</u>

For the three and six months ended March 31, 2020, the increases in gross profit were largely driven by the benefits from the operating expense reduction program that began in fiscal 2019 and to a lesser extent, favorable adjustments to promotion-related cost estimates and a more stable and favorable raw material cost environment. Mix improvements in products and services, in addition to channel mix in Core North America also contributed to gross profit improvements in each period and more than offset the declines in volume as a result of the COVID-19 slowdown during the three months ended March 31, 2020.

The increases in gross profit margin of 1.5% and 1.7% for the three and six months ended March 31, 2020, respectively, compared to the prior year periods were primarily driven by a more favorable cost structure primarily as a result of the operating expense reduction program and benefits from the current raw material and cost environment. The benefits from mix improvements also contributed to the increase in the six months ended March 31, 2020.

The changes to reportable segment gross profit and the drivers thereof are discussed in further detail in the “Reportable Segment Review” section below.

### **Net operating expenses**

The table below provides details of the components of net operating expenses:

(In millions)	Three months ended March 31				Six months ended March 31			
	2020		2019		2020		2019	
		% of Sales		% of Sales		% of Sales		% of Sales
Selling, general and administrative expenses	\$ 96	16.6 %	\$ 113	19.1 %	\$ 213	18.0 %	\$ 218	19.0 %
Net legacy and separation-related expenses (income)	—	— %	3	0.5 %	(1)	(0.1)%	3	0.3 %
Equity and other income, net	(6)	(1.0)%	(9)	(1.5)%	(15)	(1.3)%	(18)	(1.6)%
Net operating expenses	\$ 90	15.6 %	\$ 107	18.1 %	\$ 197	16.6 %	\$ 203	17.7 %

Selling, general and administrative expenses decreased \$17 million and \$5 million in the three and six months ended March 31, 2020, respectively, compared to the prior year periods. These declines were largely driven by decreases in compensation-related expenses, primarily due to reduced full year earnings expectations and reduced travel expense resulting from the impacts of the COVID-19 pandemic. In addition, restructuring and related expenses were lower due to the commencement of the cost savings program in the prior year. These decreases were partially offset by higher rent expense due to the reclassification of a build-to-suit arrangement in adoption of the lease accounting standard, in addition to increased software and hardware costs.

Net legacy and separation-related expenses decreased \$3 million and \$4 million for the three and six months ended March 31, 2020, respectively, compared to the prior year periods primarily related to adjustments of indemnities estimated to be due under the Tax Matters Agreement.

Equity and other income, net decreased \$3 million in the three and six months ended March 31, 2020 compared to the prior year periods. The declines were primarily driven by lower profit contributions from unconsolidated joint ventures as a result of the widespread COVID-19 pandemic, in addition to incentives received during the prior year for operating in a free trade zone outside the U.S.

### **Net pension and other postretirement plan income**

Net pension and other postretirement plan income for the three and six months ended March 31, 2020 increased \$6 million and \$13 million, respectively, from the prior year periods. This increase is generally due to lower interest cost and improved asset performance as a result of the most recent remeasurement of the plans.

### **Net interest and other financing expenses**

Net interest and other financing expenses increased by \$19 million and \$18 million during the three and six months ended March 31, 2020, respectively, compared to the prior year periods. These increases were primarily due to the loss on extinguishment in connection with the redemption of the 2024 Notes in early March 2020.

### Income tax expense

The following table summarizes income tax expense and the effective tax rate:

(In millions)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Income tax expense	\$ 25	\$ 17	\$ 49	\$ 36
Effective tax rate percentage	28.4 %	21.3 %	26.5 %	23.7 %

The increase in effective tax rates for the three and six months ended March 31, 2020 compared to the prior year periods was principally attributed to tax reform legislation, which resulted in unfavorable discrete activity in the current year periods due to legislation enacted in India, while the clarification of certain provisions of Kentucky tax reform legislation drove favorable discrete activity in the prior year periods. Higher pre-tax earnings also led to increased tax expense in the current year periods.

### EBITDA and Adjusted EBITDA

The following table reconciles net income to EBITDA and Adjusted EBITDA:

(In millions)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Net income	\$ 63	\$ 63	\$ 136	\$ 116
Income tax expense	25	17	49	36
Net interest and other financing expenses	38	19	54	36
Depreciation and amortization	15	14	31	28
EBITDA	141	113	270	216
Net pension and other postretirement plan income <sup>(a)</sup>	(9)	(3)	(18)	(5)
Net legacy and separation-related expenses (income)	—	3	(1)	3
Acquisition and divestiture-related costs	2	—	2	—
Restructuring and related expenses	—	8	1	8
Business interruption expenses	—	1	—	1
Adjusted EBITDA	\$ 134	\$ 122	\$ 254	\$ 223

(a) Net pension and other postretirement plan income includes remeasurement gains and losses, when applicable, and recurring non-service pension and other postretirement net periodic income, which consists of interest cost, expected return on plan assets and amortization of prior service credit. Refer to Note 9 in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I in this Quarterly Report on Form 10-Q for further details.

The increases in adjusted EBITDA of \$12 million and \$31 for the three and six months ended March 31, 2020, respectively, were primarily the result of lower expenses, including decreased incentive compensation costs due to lower full year earnings expectations as a result of the impacts of COVID-19, benefits from the operating expense reduction program that began last year, and lower raw material costs. The expense reductions coupled with mix benefits in Quick Lubes and Core North America to more than offset the unfavorable volume impacts primarily as a result of the COVID-19 pandemic.

## Reportable segment review

Valvoline's business is managed within the following three reportable segments:

- **Quick Lubes** - services the passenger car and light truck quick lube market through company-owned and independent franchised retail quick lube service center stores and independent Express Care stores that service vehicles with Valvoline products, as well as through investment in a joint venture in China to pilot expansion of retail quick lube service center stores outside of North America.
- **Core North America** - sells engine and automotive maintenance products in the United States and Canada to retailers, installers, and heavy-duty customers to service vehicles and equipment.
- **International** - sells engine and automotive maintenance products in more than 140 countries outside of the United States and Canada for the maintenance of consumer and commercial vehicles and equipment.

Valvoline's reportable segments are measured for profitability based on operating income; therefore, Valvoline does not generally allocate items to each reportable segment below operating income, such as net pension and other postretirement plan income, net interest and other financing expenses, or income tax expense. Operating income by segment includes the allocation of shared corporate costs, which are allocated consistently based on each segment's proportional contribution to various financial measures. Valvoline does not allocate certain significant corporate and non-operational matters, including, but not limited to, company-wide restructuring activities and costs or adjustments that relate to former businesses that Valvoline no longer operates. These matters are attributed to Unallocated and other. Results of Valvoline's reportable segments are presented based on how operations are managed internally, including how the results are reviewed by the chief operating decision maker. The structure and practices are specific to Valvoline; therefore, the financial results of its reportable segments are not necessarily comparable with similar information for other comparable companies.

## Quick Lubes

Management believes the number of company-owned and franchised service center stores as provided in the following tables is useful to assess the operating performance of the Quick Lubes reportable segment.

	<b>Company-owned</b>				
	Second Quarter 2020	First Quarter 2020	Fourth Quarter 2019	Third Quarter 2019	Second Quarter 2019
Beginning of period	524	519	501	483	471
Opened	7	2	12	4	7
Acquired	1	7	6	13	5
Net conversions between company-owned and franchised	4	(4)	—	1	—
Closed	—	—	—	—	—
End of period	536	524	519	501	483
	<b>Franchised (a)</b>				
	Second Quarter 2020	First Quarter 2020	Fourth Quarter 2019	Third Quarter 2019	Second Quarter 2019
Beginning of period	883	866	851	844	830
Opened	8	13	15	11	15
Acquired	—	—	—	—	—
Net conversions between company-owned and franchised	(4)	4	—	(1)	—
Closed	(4)	—	—	(3)	(1)
End of period (b)	883	883	866	851	844
<b>Total stores</b>	<b>1,419</b>	<b>1,407</b>	<b>1,385</b>	<b>1,352</b>	<b>1,327</b>

(a) Valvoline's franchisees are distinct legal entities and Valvoline does not consolidate the results of operations of its franchisees.

(b) Included in the end of period store count as of March 31, 2020 were 26 franchised service center stores temporarily closed at the discretion of the respective independent operators due to the impacts of COVID-19.

The year over year change of 92 net new company-owned and franchised stores was the result of 65 net openings and 27 acquired stores. Organic service center store growth was primarily related to new company-owned service center store openings and franchisee expansion in key markets.

The following table summarizes the results of the Quick Lubes reportable segment:

(In millions)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Sales	\$ 212	\$ 200	\$ 430	\$ 389
Operating income	\$ 40	\$ 44	\$ 78	\$ 82
Depreciation and amortization	\$ 10	\$ 9	\$ 20	\$ 17
Gross profit as a percent of sales <sup>(a)</sup>	36.6 %	39.6 %	37.0 %	39.0 %
Operating income as a percent of sales	18.9 %	22.0 %	18.1 %	21.1 %
<b>Operating information</b>				
Lubricant sales gallons	7.1	7.0	14.4	13.5
Premium lubricants (percent of U.S. branded volumes)	67.5 %	64.6 %	67.0 %	64.2 %
Same-store sales growth <sup>(b)</sup> - Company-owned	0.5 %	10.2 %	3.4 %	10.0 %
Same-store sales growth <sup>(b)</sup> - Franchised <sup>(c)</sup>	0.8 %	11.2 %	5.2 %	10.5 %
Same-store sales growth <sup>(b)</sup> - Combined <sup>(c)</sup>	0.7 %	10.8 %	4.5 %	10.3 %

(a) Gross profit as a percent of sales is defined as sales, less cost of sales, divided by sales.

(b) Valvoline determines same-store sales growth on a fiscal year basis, with new stores excluded from the metric until the completion of their first full fiscal year in operation.

(c) Valvoline's franchisees are distinct legal entities and Valvoline does not consolidate the results of operations of its franchisees.

Quick Lubes sales increased \$12 million, or 6%, for the current quarter compared to the prior year quarter. Sales increased \$41 million, or 11%, for the six months ended March 31, 2020 compared to the prior year period. Premium mix improvements and increases in non-oil change services combined to improve average ticket and increase sales for the three and six months ended March 31, 2020. Volumes were impacted in March due to limited travel as a result of shelter-in-place directives implemented across North America in response to COVID-19. Substantially all service center stores remained open, with fewer transactions adversely impacting year-over-year sales.

Gross profit margin decreased 3.0% and 2.0% in the three and six months ended March 31, 2020, respectively, compared to the prior year periods. Gross profit margin was negatively impacted by increased labor costs, including those during the onset of the COVID-19 pandemic, in addition to higher costs associated with the ramp up phase of newly-built company stores within their first year of operation.

Operating income decreased \$4 million during the three and six months ended March 31, 2020 compared to the prior year periods. Lower transactions in March at the beginning of the COVID-19 pandemic coupled with increased costs, including labor and the allocation of shared corporate costs, drove lower operating income.



## Core North America

The following table summarizes the results of the Core North America reportable segment:

(In millions)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Sales	\$ 238	\$ 243	\$ 486	\$ 475
Operating income	\$ 47	\$ 40	\$ 93	\$ 71
Depreciation and amortization	\$ 4	\$ 4	\$ 8	\$ 8
Gross profit as a percent of sales <sup>(a)</sup>	37.2 %	34.2 %	36.7 %	33.0 %
Operating income as a percent of sales	19.7 %	16.5 %	19.1 %	14.9 %
<b>Operating information</b>				
Lubricant sales gallons	20.9	22.4	42.3	44.1
Premium lubricants (percent of U.S. branded volumes)	57.7 %	53.5 %	56.8 %	51.7 %

(a) Gross profit as a percent of sales is defined as sales, less cost of sales, divided by sales.

Core North America sales decreased \$5 million, or 2%, in the current quarter compared to the prior year quarter. Sales declines in the three months ended March 31, 2020 were primarily due to the Company's decision to not renew lower-margin installer channel business and lower branded volumes within the retail channel, as expected. Sales increased \$11 million, or 2%, in the six months ended March 31, 2020 compared to the prior year period though volumes declined. Sales and volume decreases in the six months ended March 31, 2020 primarily related to the timing of distributor sales in addition to declines in lower-margin business. Partially offsetting volume declines in the three months ended March 31, 2020 and more than offsetting volume declines in the six months ended March 31, 2020 were product and channel mix improvements in addition to favorable adjustments to trade and promotion cost estimates. Ordering patterns across channels began to decline toward the end of March 2020 due to COVID-19, with more pronounced impacts expected to adversely affect segment results beginning in April as lower volumes of orders are fulfilled.

Gross profit margin increased 3.0% and 3.7% in the three and six months ended March 31, 2020, respectively, compared to the prior year periods. Benefits from the more favorable cost structure primarily as a result of the operating expense reduction program that began last fiscal year in addition to lower raw material costs, as well as product and channel mix improvements favorably impacted gross profit margin.

Operating income increased \$7 million and \$22 million during the three and six months ended March 31, 2020, respectively, compared to the prior year periods. Improved profitability was primarily result of the benefits of the operating expense reduction program, and to a lesser degree, lower raw material costs and favorable mix.

## International

The following table summarizes the results of the International reportable segment:

(In millions)	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Sales	\$ 128	\$ 148	\$ 269	\$ 284
Operating income	\$ 18	\$ 23	\$ 38	\$ 41
Depreciation and amortization	\$ 1	\$ 1	\$ 3	\$ 3
Gross profit as a percent of sales <sup>(a)</sup>	30.2 %	27.8 %	29.4 %	27.5 %
Operating income as a percent of sales	14.1 %	15.5 %	14.1 %	14.4 %

### Operating information

Lubricant sales gallons <sup>(b)</sup>	13.7	15.0	28.4	28.8
Lubricant sales gallons, including unconsolidated joint ventures <sup>(c)</sup>	22.3	24.9	47.8	49.1
Premium lubricants (percent of lubricant volume)	27.7 %	28.1 %	26.7 %	28.3 %

(a) Gross profit as a percent of sales is defined as sales, less cost of sales, divided by sales.

(b) Excludes volumes from unconsolidated subsidiaries.

(c) Valvoline's unconsolidated joint ventures are distinct legal entities and Valvoline does not consolidate the result of operations of its unconsolidated joint ventures.

International sales decreased \$20 million, or 14%, for the current quarter compared to the prior year quarter. Sales decreased \$15 million, or 5%, during the six months ended March 31, 2020 compared to the prior year period. The declines in sales for both periods were largely driven by lower volumes and an unfavorable currency exchange impact that more than offset the benefits from the Eastern European acquisition completed in late fiscal 2019. The International reportable segment was impacted by COVID-19 for the majority of the quarter, beginning in China in late January and expanding to most regions by the end of March.

Gross profit margin increased 2.4% and 1.9% for the three and six months ended March 31, 2020, respectively, primarily as a result of a more stable and favorable raw material cost environment during the periods.

Operating income decreased \$5 million and \$3 million during the three and six months ended March 31, 2020, respectively, primarily due to lower volumes and increased advertising and promotional expenses, partially offset by margin improvements. For the three months ended March 31, 2020, the decline was also driven by a decreased contribution from unconsolidated joint ventures attributed to the COVID-19 pandemic.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

### Overview

The Company closely manages its liquidity and capital resources. Valvoline's liquidity requirements depend on key variables, including the level of investment needed to support business strategies, the performance of the business, capital expenditures, borrowing arrangements, and working capital management. Capital expenditures, acquisitions, share repurchases, and dividend payments are components of the Company's cash flow and capital management strategy, which to a large extent, can be adjusted in response to economic and other changes in the business environment. The Company has a disciplined approach to capital allocation, which focuses on investing in key priorities that support Valvoline's business and growth strategies and returning capital to shareholders, while funding ongoing operations.

As of March 31, 2020, the Company had \$774 million in cash and cash equivalents, of which approximately \$79 million was held by Valvoline's non-U.S. subsidiaries. The Company has various means to deploy cash with low tax consequences in the locations where it is needed due to U.S. tax reform legislation enacted in fiscal 2018.

### Cash flows

Valvoline's cash flows as reflected in the Condensed Consolidated Statements of Cash Flows are summarized as follows for the six months ended March 31:

(In millions)	2020	2019
<b>Cash provided by (used in):</b>		
Operating activities	\$ 154	\$ 134
Investing activities	(71)	(85)
Financing activities	537	(20)
Effect of currency exchange rate changes on cash, cash equivalents, and restricted cash	(4)	—
Increase in cash, cash equivalents, and restricted cash	<u>\$ 616</u>	<u>\$ 29</u>

### Operating activities

The increase in operating cash flows for the six months ended March 31, 2020 compared to the prior year was primarily due to improved earnings in the current year.

### Investing activities

The decrease in cash flows used in investing activities for the six months ended March 31, 2020 compared to the prior year was primarily due to lower cash consideration paid for acquisitions of \$24 million, partially offset by increases in capital expenditures of \$9 million.

In response to the COVID-19 pandemic, Valvoline is taking steps to preserve cash, including delaying certain capital expenditures. The Company is currently planning to defer approximately \$20 million from its prior estimates of capital spend in fiscal 2020, while investments in high-return, long-term strategic growth initiatives are planned to continue. These investments include expanding the Quick Lubes store network and completing construction of the Company's first blending and packaging plant in China, which is expected to open in early fiscal 2021.

### Financing activities

The increase in cash flows from financing activities for the six months ended March 31, 2020 compared to the prior year period was primarily driven by increased borrowing activity in response to the COVID-19 pandemic to provide enhanced financial flexibility from borrowings of \$540 million under the Revolver and Trade Receivables Facility.

### Free cash flow and other liquidity information

The following table sets forth free cash flow and reconciles cash flows from operating activities to free cash flow. As previously noted, free cash flow has certain limitations, including that it does not reflect adjustments for certain

non-discretionary cash flows, such as mandatory debt repayments. Refer to the “Use of Non-GAAP Measures” section included above in this Item 2 for additional information.

(In millions)	Six months ended March 31	
	2020	2019
Cash flows provided by operating activities	\$ 154	\$ 134
Additions to property, plant and equipment	(57)	(48)
Free cash flow	\$ 97	\$ 86

As of March 31, 2020, working capital (current assets minus current liabilities, excluding long-term debt due within one year) was \$983 million compared to \$389 million as of September 30, 2019. Liquid assets (cash, cash equivalents, and accounts receivable) were 281% of current liabilities as of March 31, 2020 and 132% at September 30, 2019. The increase in working capital is primarily related to increases in cash and inventory and the decrease in accrued compensation-related expenses primarily due to reduced full year earnings expectations from the impacts of the COVID-19 pandemic, partially offset by lower receivables.

### Debt

As of March 31, 2020 and September 30, 2019, the Company had long-term debt (including the current portion and debt issuance costs and discounts) of \$2.0 billion and \$1.3 billion, respectively, comprised of loans and revolving facilities. Approximately 50% of Valvoline’s outstanding borrowings as of March 31, 2020 had fixed rates, with the remainder bearing variable interest rates. As of March 31, 2020, Valvoline was in compliance with all covenants of its debt obligations.

On January 31, 2020, the Company amended the Trade Receivables Facility to extend the maturity date to November 19, 2021. On April 22, 2020, Valvoline amended the Trade Receivables Facility to modify the eligibility requirements for certain receivables, which had the effect of increasing the Company’s eligible borrowing capacity. The amendment also requires the Trade Receivables Facility to maintain an amount equal to the lesser of 50 percent of the unchanged total borrowing capacity and the borrowing base from the availability of eligible receivables. Subsequent to the amendment of the Trade Receivables Facility, the Company had a combined total of \$103 million of remaining borrowing capacity under its Revolver and Trade Receivables Facility.

On February 25, 2020, Valvoline completed the issuance of 4.250% 2030 Notes with an aggregate principal amount of \$600 million. The net proceeds from the offering of \$592 million (after deducting initial purchasers’ discounts and debt issuance costs) were used to fund the redemption of all of the outstanding 5.500% 2024 Notes at an aggregate redemption price, including a redemption premium and unpaid accrued interest, of \$394 million, repay \$100 million of indebtedness under the Term Loan, and pay related fees and expenses. The remaining net proceeds are expected to fund general corporate purposes, including acquisitions, repayment of indebtedness, working capital needs, and capital expenditures. In response to the COVID-19 pandemic, the Company is utilizing the remaining net proceeds to preserve cash and cash equivalents and maintain liquidity.

On May 6, 2020, the Company entered into a five-year credit agreement for approximately \$40 million to finance the completion of construction of the blending and packaging plant in China. Borrowings will bear interest at the local prime rate less the applicable interest rate margin and will be secured by the assets underlying the project.

Refer to Note 7 of the Notes to Condensed Consolidated Financial Statements for additional details regarding the Company’s debt instruments.

### Share repurchases and dividend payments

During the three and six months ended March 31, 2020, the Company repurchased approximately 3 million shares of its common stock for \$60 million under the share repurchase authorization approved by the Board of Directors on January 31, 2018 (the “2018 Share Repurchase Authorization”). The Company suspended its share

repurchase program in late March 2020 to conserve liquidity in response to the COVID-19 pandemic. As of March 31, 2020, the Company had \$15 million remaining under the 2018 Share Repurchase Authorization and will continue to evaluate conditions of resuming its share repurchase program when appropriate.

During the six months ended March 31, 2020, the Company paid \$42 million of cash dividends for \$0.226 per common share. On April 22, 2020, the Board of Directors declared a quarterly cash dividend of \$0.113 per share of Valvoline common stock payable on June 15, 2020 to shareholders of record on May 29, 2020. Future declarations of quarterly dividends are subject to approval by the Board of Directors and may be adjusted as business needs or market conditions change.

### **Restructuring and related expenses**

During the second fiscal quarter of 2019, Valvoline outlined a broad-based restructuring and cost-savings program expected to reduce costs, simplify processes and focus the organization's structure and resources on key growth initiatives. Part of this program includes employee separation actions, which were generally completed during 2019, with the associated termination benefits anticipated to be substantially paid by the end of 2020.

Since program inception, Valvoline recognized cumulative restructuring and related expenses of \$15 million, with \$1 million recognized in the six months ended March 31, 2020. The Company does not expect to incur material remaining costs from these actions. Restructuring expenses include employee severance and termination benefits provided to employees pursuant to the restructuring program. Restructuring-related expenses consist of those costs beyond those normally included in restructuring and incremental to the Company's normal operating costs. These restructuring-related costs were expensed as incurred and primarily related to third-party professional service fees incurred in connection with execution of the restructuring program.

Results by segment do not include these restructuring and related expenses, which is consistent with the manner by which management assesses the performance and evaluates the results of each segment. Accordingly, these expenses were included in Unallocated and other.

Valvoline's restructuring actions remain on track and are expected to generate annualized pre-tax savings of approximately \$40 million to \$50 million with benefits realized during the first six months of 2020 and full savings expected to be delivered by the end of fiscal 2020. The ongoing annual savings are anticipated to benefit operating expenses, including Cost of sales and Selling, general and administrative expenses within the Condensed Consolidated Statements of Comprehensive Income, with a portion expected to be reinvested in the business to provide flexibility to address the ongoing market dynamics in Core North America and to invest in growth opportunities.

Refer to Note 6 in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I in this Quarterly Report on Form 10-Q for additional details regarding this restructuring program.

### **Contractual obligations and other commitments**

The following table sets forth Valvoline's obligations and commitments to make future payments under existing agreements as of March 31, 2020. Excluded from the table are contractual obligations for which the ultimate settlement of quantities or prices are not fixed and determinable.

(In millions)	Total	Remainder of fiscal 2020	1-3 years	3-5 years	More than 5 years
<b>Contractual obligations (a)</b>					
Long-term debt	\$ 2,016	\$ —	\$ 105	\$ 911	\$ 1,000
Interest payments (b)	443	25	133	118	167
Operating lease obligations	316	21	75	63	157
Financing lease obligations	70	3	11	11	45
Employee benefit obligations (c)	102	7	19	17	59
Loans to franchisees (d)	19	19	—	—	—
Purchase commitments	16	5	11	—	—
<b>Total contractual obligations</b>	<b>\$ 2,982</b>	<b>\$ 80</b>	<b>\$ 354</b>	<b>\$ 1,120</b>	<b>\$ 1,428</b>

- (a) Other long-term liabilities of approximately \$121 million are excluded from this table as the uncertainty related to the amount and period of cash settlements prevents the Company from making a reasonably reliable estimate. These other long-term liabilities include the Company's net obligations to its former parent company, deferred compensation, unrecognized tax benefits, and self-insurance liabilities that primarily related to workers' compensation claims, among others.
- (b) Interest expense on both variable and fixed rate debt assuming no prepayments, with variable interest rates assumed to remain constant through the end of the term at the rates that existed as of March 31, 2020.
- (c) Estimated funding of pension plans, as well as projected benefit payments for Valvoline's unfunded pension plans for the remainder of fiscal 2020 through fiscal 2029. Excludes benefit payments from pension plan trust funds.
- (d) Committed funding to franchisees based on executed loan agreements as of March 31, 2020.

## Summary

As of March 31, 2020, cash and cash equivalents totaled \$774 million, total debt was \$2.0 billion, and total remaining borrowing capacity was \$46 million, which increased to \$103 million subsequent to the amendment of the Trade Receivables Facility in April 2020. Valvoline's ability to generate positive cash flows from operations is dependent on general economic conditions, the competitive environment in the industry, and is subject to the business and other risk factors described in Item 1A of Part II of this Quarterly Report on Form 10-Q and Item 1A of Part I of the Annual Report on Form 10-K for the year ended September 30, 2019. If the Company is unable to generate sufficient cash flows from operations, or otherwise comply with the terms of its credit facilities, Valvoline may be required to seek additional financing alternatives.

Management believes that the Company has sufficient liquidity based on its current cash and cash equivalents position, cash generated from business operations, and existing financing to meet its required pension and other postretirement plan contributions, debt servicing obligations, tax-related and other contractual commitments, and operating requirements for the next twelve months.

## NEW ACCOUNTING PRONOUNCEMENTS

For a discussion and analysis of recently issued accounting pronouncements and the impacts on Valvoline, refer to Note 1 in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's critical accounting policies and estimates are discussed in detail in Item 7 of Part II in Valvoline's Annual Report on Form 10-K for the fiscal year ended September 30, 2019. Management reassessed the critical accounting policies as disclosed in the Annual Report on Form 10-K and determined there were no changes to critical accounting policies and estimates in the six months ended March 31, 2020.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's market risks are discussed in detail in Item 7A of Part II in Valvoline's Annual Report on Form 10-K for the fiscal year ended September 30, 2019. Management reassessed the quantitative and qualitative market risk disclosures as described in the Annual Report on Form 10-K and except for the broad effects of the COVID-19 pandemic, there have been no material changes to market risks in the six months ended March 31, 2020. Refer to Item 2 of Part I and Item 1A of Part II within this Quarterly Report on Form 10-Q for discussion of current market conditions and risks to Valvoline's business and financial performance resulting from the COVID-19 pandemic.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Valvoline's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), with the assistance of management, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"), and based upon such evaluation, have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were effective. These controls are designed to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission ("SEC"), and that such information is accumulated and communicated to Valvoline's management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control**

There were no significant changes in Valvoline's internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2020 that materially affected, or are reasonably likely to materially affect, Valvoline's internal control over financial reporting. As a result of the COVID-19 pandemic, many employees began working remotely in March 2020. These changes to the working environment did not have a material effect on Valvoline's internal controls over financial reporting during the most recent quarter.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, Valvoline is party to lawsuits, claims, and other legal proceedings that arise in the ordinary course of business. Many of these legal matters involve complex issues of law and fact and may proceed for protracted periods of time. The Company's legal proceedings are reviewed on an ongoing basis to establish liabilities for the outcome of such matters where losses are determined to be probable and reasonably estimable and to provide disclosure of matters for which management believes a material loss is at least reasonably possible. There are certain claims and legal proceedings pending where loss is not determined to be probable or reasonably estimable, and therefore, accruals have not been made. As disclosed within the Notes to Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q, the Company believes it has established adequate accruals for losses that are probable and reasonably estimable.

Although the ultimate resolution of these matters cannot be predicted with certainty and there can be no assurances that the actual amounts required to satisfy liabilities from these matters will not exceed the amounts reflected in the condensed consolidated financial statements, based on information available at this time and taking into account established accruals for estimated losses, it is the opinion of management that such pending claims or proceedings are not reasonably likely to have a material adverse effect on its financial position, results of operations, or cash flows.

### ITEM 1A. RISK FACTORS

Information about the Company's risk factors is contained in Item 1A of Part I in Valvoline's Annual Report on Form 10-K for the fiscal year ended September 30, 2019. Except for the addition of the risk factor set forth below, at March 31, 2020, there have been no material changes to the Company's risk factors previously disclosed.

***Pandemics, epidemics or disease outbreaks, such as the novel coronavirus, may disrupt Valvoline's business and operations, which could materially affect Valvoline's financial condition, results of operations and forward-looking expectations.***

Pandemics, epidemics or disease outbreaks in the United States or globally, may disrupt Valvoline's business, which could materially affect its results of operations, financial condition and forward-looking expectations. In December 2019, a novel strain of coronavirus ("COVID-19") was identified in Wuhan, China. Since then, COVID-19 has spread globally to most countries and all 50 states within the United States. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The COVID-19 pandemic has negatively impacted Valvoline's business and results of operations, and adverse impacts are expected in future periods, which Valvoline is unable to predict due to numerous uncertainties, including the duration and severity of the pandemic.

Specifically, as governments implemented lockdowns and stay-at-home guidelines in response to COVID-19, miles driven were estimated to be significantly down in most of Valvoline's key markets by late March 2020 and continued into April and to-date, resulting in lower volumes across Valvoline's reportable segments. In February 2020, Valvoline temporarily halted construction of its lubricants plant in China and implemented work-from-home protocols for employees in its China office due to the impact of COVID-19. Construction on the lubricants plant resumed and work-from-home protocols in China largely ended in early March 2020. Beginning March 18, 2020, Valvoline temporarily closed its corporate headquarters in Lexington, Kentucky, while implementing work-from-home protocols. Employees, other than those in Valvoline's retail service center stores, production and distribution facilities, began working remotely in virtually all locations globally, except China, where work-from-home protocols were implemented earlier and substantially ended in March. In addition, all non-essential travel has been restricted. While Valvoline has a distributed workforce and many employees are accustomed to working remotely or with other remote employees, the suspension of travel and doing business in-person could negatively impact the Company's marketing efforts, challenge the ability to enter into customer contracts in a timely manner, or create operational or other challenges, including telecommuting issues, as the Company adjusts to a large remote



workforce, any of which could harm Valvoline's business. At Quick Lubes service center stores, changes were made requiring employees to wear protective equipment and modifying certain in-store procedures to further reduce direct contact from Valvoline's stay-in-your-car service experience. Although it has not yet done so, Valvoline may voluntarily elect or be required to temporarily close or reduce operations at its Quick Lubes service center stores, lubricant blending and packaging plants or remove its employees and personnel from the field for their protection. COVID-19 has also had a negative impact on Valvoline's franchisees. Certain franchises reduced hours or temporarily closed at the discretion of the respective independent operator. Failure of one or more franchisees would have an adverse impact on Valvoline's business due to its dependence on their growth, financial and operating performance. During the COVID-19 pandemic, Valvoline has seen an increase in attempts to breach its information technology systems with the implementation of work-from-home protocols, including cyber-security threats such as phishing, spam emails, hacking, social engineering, and malicious software, increasing the risks associated with a breach of or failure of Valvoline's information technology systems.

The Company expects to ultimately implement return to office plans for its current remote workforce and minimize travel restrictions based upon multiple factors, including government mandates, guidelines issued by public health authorities, and the location and job responsibilities of specific Company personnel. Though these plans may be implemented in stages over an extended period of time, the Company may nevertheless experience operational disruptions when employees return to the office. While certain locations have started to relax shelter in place orders, the impact of these initiatives, including their sustainability is uncertain.

These impacts and any additional developments as a result of COVID-19, or other pandemics, epidemics or disease outbreaks have, and may continue to, materially adversely affect Valvoline's business or results of operations, and may impact Valvoline's liquidity or financial condition, and forward-looking expectations, particularly if they are in place for an extended period of time. The spread of COVID-19 may materially adversely affect Valvoline's ability to implement its growth plans, including, without limitation, delay construction or acquisition of new Quick Lubes service center stores; negatively impact Valvoline's ability to successfully execute plans to enter into new markets; reduce demand for Valvoline's products; cause Valvoline to experience inefficiencies in the supply chain, including but not limited to, the delivery of products and services to Valvoline's customers, receipt of raw materials from suppliers or increased costs of raw materials; or negatively impact Valvoline's ability to maintain operations.

Valvoline continues to monitor its operations, the operations of its customers, suppliers, franchisees and various government recommendations. The extent to which the spread of COVID-19 impacts Valvoline's business will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the duration and the severity of the spread of COVID-19 and the actions to contain the virus or treat its impact, among others. These events, if they continue to grow in scope, intensify in severity or are sustained for a longer period of time, could result in a period of business and manufacturing disruption, inventory shortage, and reduced sales and profitability, any of which may materially adversely affect Valvoline's business or results of operations. While the potential economic impact resulting from and the duration of any pandemic, epidemic or outbreak of an infectious disease, including COVID-19, may be difficult to assess or predict, the widespread COVID-19 pandemic has resulted in, and may continue to result in, significant disruption of global financial markets, which may reduce the Company's ability to access capital and, in the future, negatively affect the Company's liquidity. In addition, a recession or market correction resulting from the spread of an infectious disease, including COVID-19, could materially affect Valvoline's business. Such economic recession could have a material adverse effect on the Company's long-term business as the Company's customers reduce miles driven and reduce their overall spending on Valvoline products and services. To the extent the COVID-19 pandemic adversely affects the Company's business and financial results, it may also have the effect of increasing many of the other risks described under the heading "Risk Factors" in Item 1A of Part I in Valvoline's Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the three months ended March 31, 2020, the Company repurchased 3.4 million shares of its common stock for \$60 million pursuant to the Board of Directors authorization on January 31, 2018 to repurchase up to \$300 million of common stock through September 30, 2020.

Share repurchase activity during the three months ended March 31, 2020 was as follows:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in millions)
January 1, 2020 - January 31, 2020	—	\$ —	—	\$ 75
February 1, 2020 - February 29, 2020	1,105,278	\$ 21.40	1,105,278	\$ 51
March 1, 2020 - March 31, 2020	2,321,406	\$ 15.57	2,321,406	\$ 15
Total	<u>3,426,684</u>	\$ 17.45	<u>3,426,684</u>	

## ITEM 6. EXHIBITS

- 10.1\* [Third Amendment, dated as of April 22, 2020, to the Transfer and Administration Agreement, dated as of November 29, 2016, among Valvoline LLC, Lex Capital LLC, the Originators, the Investors, Letter of Credit Issuers, Managing Agents and Administrators party thereto, and PNC Bank National Association, as agent for the Investors.](#)
- 31.1\* [Certification of Samuel J. Mitchell, Jr., Chief Executive Officer of Valvoline, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2\* [Certification of Mary E. Meixelsperger, Chief Financial Officer of Valvoline, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32\*\* [Certification of Samuel J. Mitchell, Jr., Chief Executive Officer of Valvoline, and Mary E. Meixelsperger, Chief Financial Officer of Valvoline, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 104 Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

\* Filed herewith.

\*\* Furnished herewith.

™ Trademark, Valvoline or its subsidiaries, registered in various countries.

**SIGNATURE**

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.

VALVOLINE INC.  
(Registrant)

May 7, 2020

By: /s/ Mary E. Meixelsperger  
Mary E. Meixelsperger  
Chief Financial Officer

## EXECUTION VERSION

**THIRD AMENDMENT**  
**Dated as of April 22, 2020**  
**to the**  
**TRANSFER AND ADMINISTRATION AGREEMENT**  
**Dated as of November 29, 2016**

This THIRD AMENDMENT (this "Amendment") dated as of April 22, 2020 is entered into among VALVOLINE LLC, a Delaware limited liability company ("Valvoline" or "Master Servicer"), LEX CAPITAL LLC, a Delaware limited liability company ("SPV"), the Originators, the Investors, Letter of Credit Issuers, Managing Agents and Administrators party hereto, and PNC BANK, NATIONAL ASSOCIATION ("Agent" or "PNC"), as agent for the Investors.

RECITALS

WHEREAS, the parties hereto and PNC Capital Markets, LLC, have entered into that certain Transfer and Administration Agreement, dated as of November 29, 2016 (as amended, supplemented or otherwise modified through the date hereof, the "Agreement");

WHEREAS, concurrently herewith, the parties hereto and PNC Capital Markets LLC are entering into that certain Amended and Restated Master Fee Letter, dated as of the date hereof (the "Fee Letter"); and

WHEREAS, the parties hereto desire to amend the Agreement as set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions.

All capitalized terms not otherwise defined herein are used as defined in the Agreement.

SECTION 2. Amendments to the Agreement. The Agreement is hereby amended as follows:

(a) The Agreement is hereby amended to incorporate the changes shown on the marked pages to the Agreement attached hereto as Exhibit A.

(b) A new Schedule IV is hereby added to the Agreement in the form of Exhibit B attached hereto.

SECTION 3. Amendment to the First Tier Agreement. Schedule IV to the First Tier Agreement is hereby replaced in its entirety with Schedule IV attached hereto.

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SECTION 4. Representations and Warranties. Each of Valvoline, each Originator and the SPV, as to itself, hereby represents and warrants to each of the other parties hereto as follows:

(a) after giving effect to this Amendment, the Fee Letter and the transactions contemplated hereby and thereby, no Termination Event or Potential Termination Event shall exist;

(b) the representations and warranties of such Person set forth in the Transaction Documents to which it is a party (as amended hereby) are true and correct as of the date hereof (except to the extent such representations and warranties relate solely to an earlier date and then as of such earlier date); and

(c) this Amendment constitutes the legal, valid and binding obligations of such Person enforceable against such Person in accordance with their respective terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 5. Effectiveness. This Amendment shall become effective as of the date first above written upon receipt by the Agent of each of the following, each in form and substance satisfactory to the Agent:

(a) counterparts of this Amendment duly executed by each of the parties hereto; and

(b) counterparts of the Fee Letter duly executed by each of the parties thereto and confirmation that any fees owing thereunder have been paid in full.

SECTION 6. Reference to the Effect on the Transaction Documents.

(a) On and after the effectiveness of this Amendment, each reference in the Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Agreement, and each reference in each of the other Transaction Documents to "the Transfer and Administration Agreement" or "the TAA," "thereunder", "thereof" or words of like import referring to the Agreement, shall mean and be a reference to the Agreement, as amended by this Amendment.

(b) The Agreement and each of the related documents, as specifically amended by this Amendment, is and shall continue to be in full force and effect and is hereby in all aspects ratified and confirmed. The covenants and other obligations of the SPV, Master Servicer, and each Originator (each in any capacity) shall continue under the Transaction Documents.

(c) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Agent, any of the Investors or any Indemnified Party under the Agreement or any other Transaction Document, nor constitute a waiver of any provision of the Agreement or any other Transaction Document.

SECTION 7. Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument. Delivery by facsimile or email of an executed signature page of this Amendment shall be effective as delivery of an executed counterpart hereof.

SECTION 8. Governing Law. **THE AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING SECTIONS 5-1401-1 AND 5-1401-2 OF THE GENERAL OBLIGATIONS LAW, BUT WITHOUT REGARD TO ANY OTHER CONFLICTS OF LAW PROVISIONS THEREOF).**

SECTION 9. Transaction Document. This Amendment shall be deemed to be a Transaction Document for all purposes of the Agreement and each other Transaction Document.

SECTION 10. Severability. If any one or more of the agreements, provisions or terms of this Amendment shall for any reason whatsoever be held invalid or unenforceable, then such agreements, provisions or terms shall be deemed severable from the remaining agreements, provisions and terms of this Amendment and shall in no way affect the validity or enforceability of the provisions of this Amendment or the Agreement.

SECTION 11. Section Headings. The various headings of this Amendment are included for convenience only and shall not affect the meaning or interpretation of this Amendment, the Agreement or any provision hereof or thereof.

SECTION 12. Ratification. After giving effect to this Amendment and each of the other agreements, documents and instruments contemplated in connection herewith, the Parent Undertaking, along with each of the provisions thereof, remains in full force and effect and is hereby ratified and reaffirmed by the Parent and each of the other parties hereto.

*[Signature pages follow.]*

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first written above.

**VALVOLINE LLC**

By: /s/ Lynn P. Freeman  
Name: Lynn P. Freeman  
Title: Vice President and Assistant Treasurer

**[SIGNATURES CONTINUE ON THE FOLLOWING PAGE]**



**LEX CAPITAL LLC**

By: /s/ Lynn P. Freeman

Name: Lynn P. Freeman

Title: President

**[SIGNATURES CONTINUE ON THE FOLLOWING PAGE]**

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*Third Amendment to the TAA  
(Valvoline - LEX Capital LLC)*

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**VALVOLINE INC.**

By: /s/ Lynn P. Freeman

Name: Lynn P. Freeman

Title: Assistant Treasurer

**[SIGNATURES CONTINUE ON THE FOLLOWING PAGE]**







**EXHIBIT A**

[Attached]

Exhibit A

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**Transfer and Administration Agreement**

Dated as of November 29, 2016

by and among

**LEX Capital LLC,  
Valvoline LLC,**

and each other entity from time to time party hereto  
as an Originator, as Originators,

**Valvoline LLC,**  
as initial Master Servicer,

**PNC Bank, National Association,**  
as the Agent, a Letter of Credit Issuer, a Managing Agent and  
a Committed Investor,

**MUFG Bank, Ltd.,**  
as a Managing Agent, an Administrator and a Committed Investor,

**Gotham Funding Corporation,**  
as a Conduit Investor and an Uncommitted Investor,

**PNC Capital Markets, LLC,**  
as Structuring Agent,

and

**The Various Investor Groups, Managing Agents, Letter of Credit Issuers and Administrators From Time To Time Parties Hereto**

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Schedules

Schedule I	Yield and Rate Periods
Schedule II	Calculation of Required Reserves
Schedule III	Settlement Procedures
<a href="#">Schedule IV</a>	<a href="#">Additional Defined Terms</a>
Schedule 4.1 (d)	Perfection Representations, Warranties and Covenants
Schedule 4.1 (g)	List of Actions and Suits
Schedule 4.1 (i)	Location of Certain Offices and Records
Schedule 4.1 (j)	List of Subsidiaries, Divisions and Tradenames; FEIN
Schedule 4.1 (r)	List of Blocked Account Banks and Blocked Accounts
Schedule 5.1	Closing Checklist
Schedule 6.1 (a)	Agreed-Upon Procedures
Schedule 11.3	Address and Payment Information

Exhibits

Exhibit A	Form of Assignment and Assumption Agreement
Exhibit B	Credit and Collection Policies and Practices
Exhibit C	Form of Investment Request
Exhibit D	Form of L/C Request
Exhibit E	Form of Originator Joinder Agreement
Exhibit F	Form of Master Servicer Report
Exhibit G	Form of SPV Secretary's Certificate
Exhibit H	Forms of Originator/Master Servicer Secretary's Certificate
Exhibit I	Form of Letter of Credit
Exhibit J	Form of Optional Reduction Notice



whether beneficially, or as a trustee, guardian or other fiduciary. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the other Person, whether through the ownership of voting securities or membership interests, by contract, or otherwise.

“Agent” means PNC, in its capacity as agent for the Secured Parties, and any successor thereto appointed pursuant to Article X.

“Agents” means, collectively, the Managing Agents and the Agent.

“Agent-Related Persons” means, with respect to any Managing Agent or the Agent, such Person together with its Affiliates, and the officers, directors, employees, agents and attorneys-in-fact of such Persons and their respective Affiliates.

“Aggregate Unpaid Balance” means, as of any date of determination, the sum of the Unpaid Balances of all Receivables which constitute Eligible Receivables as of such date of determination.

“Aggregate Unpaid” means, at any time, an amount equal to the sum of (a) the aggregate unpaid Yield accrued and to accrue through the end of all Rate Periods (or calendar month for Portions of Investment with daily Rate Periods) in existence at such time, (b) the Net Investment at such time and (c) all other amounts owed (whether or not then due and payable) hereunder and under the other Transaction Documents by the SPV and each Originator to the Agent, the Managing Agents, the Administrators, the Investors or the Indemnified Parties at such time.

“Agreement” is defined in the Preamble.

“Alternate Rate” is defined in Section 2.4.

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the SPV, the initial Master Servicer, any Originator or any of their respective Subsidiaries from time to time concerning or relating to bribery or corruption, including the Foreign Corrupt Practices Act of 1977, and any applicable law or regulation implementing the Organisation for Economic Co-operation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

“Anti-Terrorism Laws” has the meaning set forth in Section 4.1(bb).

“Applicable Special Designated Obligor Percentage” ~~means initially (i) for Genuine Parts Company (d/b/a NAPA), 15.0%, (ii) for AutoZone, Inc., 20.0%, (iii) Advance Auto Parts, Inc., 10.0%, and (iv) for each other Special Designated Obligor, the applicable percentage designated in a written supplement to this Agreement signed by the Agent, each Managing Agent, the Master Servicer and the SPV, each in their sole discretion, by which such Special Designated Obligor is so designated, in each case, as such percentage is modified from time to time pursuant to the terms of this Agreement.~~ is defined in Schedule IV.

“Ashland Global” means Ashland Global Holdings Inc., a Delaware corporation.

“Commitment Termination Date” means November 19, 2021, or such later date to which the Commitment Termination Date may be extended by the SPV, the Agent and the Committed Investors (in their sole discretion).

“Committed Investors” means (a) for the PNC Investor Group, the PNC Committed Investors, (b) for the MUFG Investor Group, the Gotham Committed Investors, and (c) for any other Investor Group, each of the Persons executing this Agreement in the capacity of a “Committed Investor” for such Investor Group in accordance with the terms of this Agreement, and, in each case, successors and permitted assigns.

“Concentration Limits” shall, at any time, be deemed exceeded:

(a) with respect to each Special Designated Obligor, if the aggregate Unpaid Balance of all Eligible Receivables relating to such Special Designated Obligor (together with its subsidiaries and Affiliates), exceeds the Applicable Special Designated Obligor Percentage of the Aggregate Unpaid Balance at such time;

(b) with respect to each Obligor other than a Special Designated Obligor, if the aggregate Unpaid Balance of all Eligible Receivables relating to such Obligor (and any other Obligor(s) aggregated with it for such purpose pursuant to the rules of construction set forth in the definitions of Group A, B and C Obligor below, respectively), exceeds the applicable percentage of the Aggregate Unpaid Balance specified below;

<b>Group</b>	<b>Concentration Limit Percentage</b>
Group A Obligor	20.0%
Group B Obligor	10.0%
Group C Obligor	6.67%
Group D Obligor	if such Group D Obligor is the Largest Group D Obligor, 7.0%, otherwise, 5.0%

(c) if the aggregate Unpaid Balance of all Extended Term Receivables 61-90 ([at any time prior to the COVID-19 Extension End Date, excluding COVID-19 Extended Terms Receivables](#)) exceeds 50.0% of the Aggregate Unpaid Balance at such time;

(d) if the aggregate Unpaid Balance of all Extended Term Receivables 91-195 ([at any time prior to the COVID-19 Extension End Date, excluding COVID-19 Extended Terms Receivables](#)) exceeds 35.0% of the Aggregate Unpaid Balance at such time;

(e) if the aggregate Unpaid Balance of all Extended Term Receivables 196-360 ([at any time prior to the COVID-19 Extension End Date, excluding COVID-19 Extended Terms Receivables](#)) exceeds 3.5% of the Aggregate Unpaid Balance at such time;

(f) if the aggregate Unpaid Balance of all Eligible Receivables, the Obligors of which are Official Bodies, exceeds 1.0% of the Aggregate Unpaid Balance at such time;

(g) if the aggregate Unpaid Balance of all Eligible Receivables, the Obligors of which are Eligible Foreign Obligors, exceeds 1.0% of the Aggregate Unpaid Balance at such time;

(h) if the aggregate Unpaid Balance of all Eligible Receivables, the Obligors of which are Canadian Obligors, exceeds 3.0% of the Aggregate Unpaid Balance at such time; ~~or~~

(i) if the aggregate Unpaid Balance of all Eligible Receivables for which the related merchandise has been shipped, but has not yet been delivered, to the related Obligor exceeds 3.0% of the Aggregate ~~Unpaid Balance at such time;~~ Unpaid Balance at such time; or

(j) if the aggregate Unpaid Balance of all COVID-19 Modified Receivables exceeds (i) at any time prior to the COVID-19 Extension End Date, \$50,000,000 (or such greater amount as the Agent and each Managing Agent may designate in writing) and (ii) thereafter, \$0.

“Conduit Assignee” means, with respect to any Conduit Investor, any special purpose entity that finances its activities directly or indirectly through asset backed commercial paper and is administered by a Managing Agent or any of its Affiliates and designated by such Conduit Investor’s Managing Agent from time to time to accept an assignment from such Conduit Investor of all or a portion of the Net Investment.

“Conduit Investment Termination Date” means, with respect to any Conduit Investor, the date of the delivery by such Conduit Investor to the SPV of written notice that such Conduit Investor elects, in its sole discretion, to permanently cease to fund Investments hereunder.

“Conduit Investor” means Gotham and any other Person that shall become a party to this Agreement in the capacity as a “Conduit Investor” and any Conduit Assignee of any of the foregoing.

“Contract” means, in relation to any Receivable, any and all contracts, instruments, agreements, leases, invoices, notes, or other writings pursuant to which such Receivable arises or which evidence such Receivable or under which an Obligor becomes or is obligated to make payment in respect of such Receivable.

“COVID-19 Emergency” means collectively, the public health emergency declared by the United States Secretary of Health and Human Services on January 27, 2020, with respect to the 2019 Novel Coronavirus and all related federal and state emergency declarations and measures.

“COVID-19 Extended Terms Receivable” is defined in Schedule IV.

“COVID-19 Extension End Date” means the first Business Day after the Settlement Date falling in October 2020 or such later date as the Agent and each Managing Agent may designate in writing.

“COVID-19 Modified Receivable” means a Receivable subject to a COVID-19 Permitted Modification.

“COVID-19 Permitted Modifications” is defined in Schedule IV.

“CP Rate” is defined in Section 2.4.

“Credit and Collection Policy” means Valvoline LLC’s credit and collection policy or policies and practices relating to Receivables as in effect on the Closing Date and set forth in Exhibit B, as modified, from time to time, in compliance with Sections 6.1(a)(vii) and 6.2(c).

“CRR” means Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, together with the related implementing technical standards and regulatory technical standards and any related regulatory guidance published by the European Banking Authority and adopted by the European Commission.

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Deemed Collections” means any Collections on any Receivable deemed to have been received pursuant to Sections 2.6.

“Deemed Financial Covenants” means any one of the “financial covenants” set forth in Section 7.11 of the Parent Credit Agreement (or any replacement or successor to such Section or any similar section or sections in any replacement senior credit agreement) as in effect immediately prior to the initial occurrence of (i) any Committed Investor and each of its Affiliates, if applicable, ceasing to be a party to the Parent Credit Agreement as a lender thereunder or (ii) any amendment, restatement, waiver or supplement thereto to which any Managing Agent does not consent pursuant to Section 6.3.

“Default Rate” means a per annum rate equal to the sum of (a) the Base Rate plus (b) 2.00%.

“Defaulted Receivable” means a Receivable as to which any payment, or part thereof, remains unpaid for 61 days or more from the original due date for such payment (or, in the case of any COVID-19 Modified Receivable, the due date as extended).

“Deferred Purchase Price” is defined in the First Tier Agreement.

“Disqualified Equity Interests” has the meaning assigned to such term in the Parent Credit Agreement.

“Dollar” or “\$” means the lawful currency of the United States.

“Downgrade Collateral Account” is defined in Section 3.2(a).

“Downgrade Draw” is defined in Section 3.2(a).

“Eligible Foreign Obligor” means an Obligor that (i) is neither a U.S. Obligor nor a Canadian Obligor nor an Official Body and (ii) is organized in, or has a head office (domicile), registered office and chief executive office located in, a country that is reasonably acceptable to the Agent.

“Eligible Investments” means any of the following investments denominated and payable solely in Dollars: (a) readily marketable debt securities issued by, or the full and timely payment of which is guaranteed by the full faith and credit of, the federal government of the United States, (b) insured demand deposits, time deposits and certificates of deposit of any commercial bank rated “A-1” by S&P, “P-1” by Moody’s and “A-1” by Fitch (if rated by Fitch), (c) no load money market funds rated in the highest ratings category by each of the rating agencies (without the “r” symbol attached to any such rating by S&P), and (d) commercial paper of any corporation incorporated under the laws of the United States or any political subdivision thereof, *provided* that such commercial paper is rated “A-1” by S&P, “P-1” by Moody’s and “A-1” by Fitch (if rated by Fitch) (without the “r” symbol attached to any such rating by S&P).

“Eligible Receivable” means, at any time, any Receivable:

(a) which was originated by an Originator in the ordinary course of its business in accordance with its Credit and Collection Policy;

(b) (i) with respect to which each of the applicable Originator and the SPV has performed all obligations required to be performed by it thereunder or under any related Contract, including shipment of the merchandise and/or the performance of the services purchased thereunder, but excluding the applicable Originator’s obligation to deliver the related merchandise to the Obligor’s destination if such Originator has shipped the related merchandise to such Obligor; provided, however, that if the related merchandise has not been delivered to the Obligor by the thirtieth (30th) day following such shipment, such Receivable shall not constitute an Eligible Receivable; (ii) which has been billed to the relevant Obligor; and (iii) (A) which, according to the Contract related thereto, is required to be paid in full within (x) if such Obligor is one of the Obligors listed on Schedule 1.1, the applicable time period appearing opposite the name of such Obligor on such Schedule 1.1 (it being understood and agreed that such Schedule 1.1 may be amended, supplemented or otherwise modified from time to time by mutual written agreement of the Agent, each Managing Agent, the Master Servicer and the SPV, each acting in its sole discretion), or (y) if such Obligor is any other Person, 90 days of the original billing date therefor or, (B) prior to the COVID-19 Extension End Date, is a COVID-19 Extended Terms Receivable;

(c) which satisfies all applicable requirements of the Credit and Collection Policy;

(d) which has been sold or contributed to the SPV pursuant to (and in accordance with) the First Tier Agreement and to which the SPV has good and marketable title, free and clear of all Adverse Claims;

(e) the Obligor of which (i) is not a natural person, (ii) is not an Affiliate of any of the parties hereto, (iii) if such Obligor is an Official Body, is both a U.S. Obligor and a state or municipal (rather than federal) Official Body, and (iv) is a U.S. Obligor, a Canadian Obligor or an Eligible Foreign Obligor; provided, that to the extent the Obligor of such Receivable is an Official Body, the SPV, the Master Servicer and the Originators shall not be required to comply with any Assignment of Claims Act;

(f) the Obligor of which has been directed to make all payments to a Blocked Account;

(g) which is assignable without the consent of, or notice to, the Obligor thereunder unless such consent has been obtained and is in effect or such notice has been given;

(h) which, together with the related Contract, is in full force and effect and constitutes the legal, valid and binding obligation of the related Obligor enforceable against such Obligor in accordance with its terms and is not subject to any asserted litigation, dispute, offset, holdback, counterclaim or other defense; *provided* that with respect to offsets and holdbacks only the portion of such Receivable that is the subject of such offset or holdback shall be deemed to be ineligible pursuant to the terms of this clause (h);

(i) which is denominated in Dollars and payable only in Dollars in the United States or Canada;

(j) which is not a Defaulted Receivable;

(k) which is not a Charged-Off Receivable;

(l) other than any COVID-19 Permitted Modifications with respect to a COVID-19 Modified Receivable, which has not been compromised, adjusted or modified (including by the extension of time for payment or the granting of any discounts, allowances or credits); *provided* that only such portion of such Receivable that is the subject of such compromise, adjustment or modification shall be deemed to be ineligible pursuant to the terms of this clause (l);

(m) which is an "account" within the meaning of Article 9 of the UCC of all applicable jurisdictions and is not evidenced by instruments or chattel paper;

(n) which, together with the Contract related thereto, does not contravene in any material respect any Laws applicable thereto (including Laws relating to truth in

“Managing Agent” means, with respect to any Investor Group, the Person acting as Managing Agent for such Investor Group and designated as such on the signature pages hereto or in any Assignment and Assumption Agreement for such Investor Group under this Agreement, and each of its successors and assigns.

“Master Fee Letter” means the confidential letter agreement among the SPV, Valvoline LLC and the Managing Agents for the Investor Groups.

“Master Servicer” is defined in Section 7.1.

“Master Servicer Default” is defined in Section 7.5.

“Master Servicer Indemnified Amounts” is defined in Section 9.2.

“Master Servicer Indemnified Parties” is defined in Section 9.2.

“Master Servicer Report” means a report, in substantially the form attached hereto as Exhibit F or in such other form as is mutually agreed to by the SPV, the Master Servicer and the Agent, furnished by the Master Servicer pursuant to Section 2.8.

“Material Adverse Effect” means any change, effect, event, occurrence, state of facts or development that materially and adversely affects (a) the collectability of a material portion of the Receivables, (b) the operations, business, properties, liabilities (actual or contingent), or condition (financial or otherwise) of the SPV individually or Parent and its consolidated Subsidiaries (taken as a whole), (c) the ability of the SPV, the Master Servicer or any of the Originators to perform its respective obligations under the Transaction Documents to which it is a party, or (d) the rights of or benefits available to the Agent, the Managing Agents or the Investors under the Transaction Documents.

“Material Subsidiary” means any Subsidiary that is not an Immaterial Subsidiary.

“Maximum Commitment” means, as of any date of determination, the sum of the maximum Commitments of all Committed Investors hereunder.

“Maximum Net Investment” means, at any time, an amount equal to the aggregate Commitments of the Committed Investors and rounded down to the nearest \$1,000. Effective as of the Closing Date, the PNC Committed Investor has no related Conduit Investor.

“Minimum Funding Threshold” means an amount equal to the lesser of (a) the product of (i) 50.00% times (ii) the Facility Limit at such time and (b) the Net Pool Balance less the Required Reserves at such time.

“Moody’s” means Moody’s Investors Service, Inc., or any successor that is a nationally recognized statistical rating organization.

“MUFG” is defined in Preamble.

“MUFG Investor Group” is defined in the definition of Investor Group.

to the proposed Investment Date or the proposed L/C Issuance Date, as applicable, which report, or a supplement thereto, shall include ~~a calculation~~ calculations to reflect that (i) the sum of the Net Investment and the Required Reserves will not exceed the Net Pool Balance and (ii) the Net Investment will exceed the Minimum Funding Threshold, in each case, after giving effect to such Investment or L/C Credit Extension, as applicable, and all information set forth therein shall be true, complete and correct in all material respects.

(d) The Termination Date has not occurred.

(e) In the case of an Investment, the amount of such Investment will not exceed the amount available therefor under Section 2.2 and, after giving effect thereto, (i) the sum of the Net Investment and the Required Reserves will not exceed the Net Pool Balance and (ii) the Net Investment will exceed the Minimum Funding Threshold.

(f) In the case of any L/C Credit Extension, after giving effect to such L/C Credit Extension, (i) each of the requirements set forth in Section 2.17(a) shall be satisfied and, (ii) the sum of the Net Investment and the Required Reserves will not exceed the Net Pool Balance and (iii) the Net Investment will exceed the Minimum Funding Threshold.

## ARTICLE VI

### COVENANTS

SECTION 6.1 Affirmative Covenants of the SPV and Master Servicer. At all times from the date hereof to the Final Payout Date, unless the Majority Investors shall otherwise consent in writing:

(a) Reporting Requirements. The SPV shall furnish to the Agent (with a copy to each Managing Agent):

(i) Annual Reporting. First, within ninety (90) days after the close of Parent's fiscal year commencing with the fiscal year ending September 30, 2017, audited financial statements, prepared by a nationally-recognized accounting firm in accordance with GAAP on a consolidated basis for Parent and its consolidated Subsidiaries, in each case, including consolidated and consolidating balance sheets as of the end of such period, and related consolidated and consolidating statements of income or operations, shareholders' equity and cash flows, accompanied by an unqualified audit report and opinion of independent certified public accountants of nationally recognized standing reasonably acceptable to the Agent and each Managing Agent, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or similar qualification or exception or any qualification or exception as to the scope of such audit, and such financial statements shall be certified by the chief executive officer, chief financial officer, treasurer or controller of Parent to the effect that such consolidating statements are fairly stated in all material respects when considered in relation to the consolidated statements of Parent and its consolidated Subsidiaries and second, not later than December 31<sup>st</sup> of each calendar year, a report to the effect that Protiviti Inc. or any other audit firm reasonably acceptable to the Agent has



(p) Perfection Covenants. The SPV shall comply with each of the covenants set forth in the Schedule 4.1(d) which are incorporated herein by reference.

(q) Solvency of SPV. The fair value of the assets of the SPV, at a fair valuation, will, at all times prior to the Final Payout Date, exceed its debts and liabilities, subordinated, contingent or otherwise. The present fair saleable value of the property of the SPV, at all times prior to the Final Payout Date, will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured. The SPV will, at all times prior to the Final Payout Date, be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured. The SPV will not, at any time prior to the Final Payout Date, have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted.

(r) Good Title. In the case of the SPV, upon each Investment and Reinvestment, the Agent shall acquire a valid and enforceable perfected first priority ownership interest or a first priority perfected security interest in each Eligible Receivable and all other Affected Assets that exist on the date of such Investment or Reinvestment, with respect thereto, free and clear of any Adverse Claim.

(s) Beneficial Ownership Regulation. Promptly following any change that would result in a change to the status as an excluded "Legal Entity Customer" under (and as defined in) the Beneficial Ownership Regulation, the SPV shall execute and deliver to the Agent a Certification of Beneficial Owner(s) complying with the Beneficial Ownership Regulation, in form and substance reasonably acceptable to the Agent.

(t) Minimum Funding Threshold. The SPV shall cause the Net Investment to exceed the Minimum Funding Threshold at all times.

SECTION 6.2 Negative Covenants of the SPV and Master Servicer. At all times from the date hereof to the Final Payout Date, unless the Majority Investors shall otherwise consent in writing:

(a) No Sales, Liens, Etc. (i) Except as otherwise provided herein and in the First Tier Agreement, neither the SPV nor the Master Servicer shall sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Adverse Claim upon (or the filing of any financing statement) or with respect to (A) any of the Affected Assets, or (B) any proceeds of inventory or goods, the sale of which may give rise to a Receivable, or assign any right to receive income in respect thereof and (ii) the SPV shall not issue any security to, or sell, transfer or otherwise dispose of any of its property or other assets (including the property sold to it by an Originator under Section 2.1 of the First Tier Agreement) to, any Person other than an Affiliate (which Affiliate is not a special purpose entity organized for the sole purpose of issuing asset backed securities) or as otherwise expressly provided for in the Transaction Documents; provided that nothing in the foregoing shall limit the right of the Originators to receive a Deemed Collection in respect of, or to repurchase, certain Receivables and Related Security in accordance with Sections 4.2(b) and 4.4 of the First Tier Agreement.

direction of the Managing Agents representing the Majority Investors, designate as Master Servicer any Person (including the Agent) to succeed the initial Master Servicer or any successor Master Servicer, on the condition in each case that any such Person so designated shall agree to perform the duties and obligations of the Master Servicer pursuant to the terms hereof.

(b) Upon the designation of a successor Master Servicer as set forth above, the existing Master Servicer agrees that it will terminate its activities as Master Servicer hereunder in a manner which the Agent determines will facilitate the transition of the performance of such activities to the new Master Servicer, and the existing Master Servicer shall cooperate with and assist such new Master Servicer. Such cooperation shall include access to and transfer of records and use by the new Master Servicer of all records, licenses, hardware or software necessary or desirable to collect the Receivables and the Related Security.

(c) The existing Master Servicer acknowledges that the SPV, the Agent, each Managing Agent and the Investors have relied on the existing Master Servicer's agreement to act as Master Servicer hereunder in making their decision to execute and deliver this Agreement. Accordingly, the existing Master Servicer agrees that it will not voluntarily resign as Master Servicer.

(d) The Master Servicer may delegate its duties and obligations hereunder to any subservicer (each, a "Sub-Servicer"); *provided* that, in each such delegation, (i) such Sub-Servicer shall agree in writing to perform the duties and obligations of the Master Servicer pursuant to the terms hereof, (ii) the Master Servicer shall remain primarily liable to the SPV, the Agent, the Managing Agents and the Investors for the performance of the duties and obligations so delegated, (iii) the SPV, the Originators and the Majority Investors shall consent in writing to any material delegation of servicing duties different in scope or nature than those delegations typically made by the Master Servicer as of the Closing Date and (iv) the terms of any agreement with any Sub-Servicer shall provide that the Agent may terminate such agreement upon the termination of the Master Servicer hereunder by giving notice of its desire to terminate such agreement to the Master Servicer (and the Master Servicer shall provide appropriate notice to such Sub-Servicer). It is understood and agreed that the Master Servicer may appoint one or more Originators as Sub-Servicers for the Receivables attributed to them and the other Affected Assets related thereto.

#### SECTION 7.2 Duties of Master Servicer.

(a) The Master Servicer shall take or cause to be taken all reasonable action as may be necessary or advisable to collect each Receivable from time to time, all in accordance with this Agreement and all applicable Law, with reasonable care and diligence, and in accordance with the Credit and Collection Policy. The Master Servicer shall set aside (and, if applicable, segregate) and hold in trust for the accounts of the SPV, the Agent and each Managing Agent the amount of the Collections to which each is entitled in accordance with Article II. So long as no Termination Event shall have occurred and be continuing, the Master Servicer may, in accordance with the Credit and Collection Policy, extend the maturity or adjust the Unpaid Balance of any Receivable, including any Defaulted Receivable, or amend, modify or waive any term or condition of any Contract related thereto, in each case, as the Master Servicer may determine to be appropriate to maximize Collections thereof; *provided* that (i) [other than any](#)

[COVID-19 Permitted Modifications with respect to a COVID-19 Modified Receivable](#), such extension, adjustment or modification shall not alter the status of such Receivable as a Defaulted Receivable ~~or~~, [\(ii\) such extension, adjustment or modification shall not](#) limit the rights of the SPV or any Secured Party under this Agreement and [\(iii\)](#) if a Termination Event is continuing, then the Master Servicer may make such extension, adjustment or modification only with the approval of the Agent. The SPV shall deliver to the Master Servicer and the Master Servicer shall hold in trust for the SPV and the Agent, on behalf of the Investors, in accordance with their respective interests, all Records which evidence or relate to any Affected Asset. Notwithstanding anything to the contrary contained herein, at any time when a Termination Event is continuing, the Agent shall have the right to direct the Master Servicer to commence or settle any legal action to enforce collection of any Receivable or to foreclose upon or repossess any Affected Asset. The Master Servicer shall not make the Administrator, the Agent, any Managing Agent or any other Secured Party a party to any litigation without the prior written consent of such Person. At any time when a Termination Event exists and is continuing, the Agent may notify any Obligor of its interest in the Receivables and the other Affected Assets.

(b) The Master Servicer shall, as soon as practicable following receipt thereof, turn over to the SPV all collections from any Person of indebtedness of such Person which are not on account of a Receivable. Notwithstanding anything to the contrary contained in this [Article VII](#), the Master Servicer, if not the SPV, an Originator or any Affiliate of the SPV or an Originator, shall have no obligation to collect, enforce or take any other action described in this [Article VII](#) with respect to any indebtedness that is not included in the Asset Interest other than to deliver to the SPV the Collections and documents with respect to any such indebtedness as described above in this [Section 7.2\(b\)](#).

(c) Any payment by an Obligor in respect of any indebtedness owed by it to an Originator shall, except as otherwise specified by such Obligor, required by contract or law or clearly indicated by facts or circumstances (including by way of example an equivalence of a payment and the amount of a particular invoice), and unless otherwise instructed by the Agent, be applied as a Collection of any Receivable of such Obligor (starting with the oldest such Receivable) to the extent of any amounts then due and payable thereunder before being applied to any other receivable or other indebtedness of such Obligor.

**SECTION 7.3 [Blocked Account Arrangements](#).** On or prior to the Closing Date the SPV shall enter into Blocked Account Agreements with all of the Blocked Account Banks, and deliver original counterparts thereof to the Agent. The Agent may at any time after the occurrence and during the continuation of a Termination Event or Potential Termination Event give notice to each Blocked Account Bank that the Agent is exercising its rights under the Blocked Account Agreements to do any or all of the following: (i) to have the exclusive control of the Blocked Accounts transferred to the Agent and to exercise exclusive dominion and control over the funds deposited therein, (ii) to have the proceeds that are sent to the respective Blocked Accounts be redirected pursuant to its instructions rather than deposited in the applicable Blocked Account, and (iii) to take any or all other actions permitted under the applicable Blocked Account Agreement; *provided* that the Agent shall have no right, title or interest in any Excluded Amounts deposited to the Blocked Accounts and shall cause such Excluded Amounts to be transferred to the applicable Originator at its direction. The SPV hereby agrees that if the Agent, at any time, takes any action set forth in the preceding sentence, the Agent shall have exclusive

**CERTIFICATION**

I, Samuel J. Mitchell, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Valvoline Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2020

/s/ Samuel J. Mitchell, Jr.

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Samuel J. Mitchell Jr.

Chief Executive Officer and Director  
(Principal Executive Officer)

**CERTIFICATION**

I, Mary E. Meixelsperger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Valvoline Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2020

/s/ Mary E. Meixelsperger

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Mary E. Meixelsperger

Chief Financial Officer

(Principal Financial Officer)

VALVOLINE INC.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Valvoline Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, Samuel J. Mitchell, Jr., Chief Executive Officer of the Company, and Mary E. Meixelsperger, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Samuel J. Mitchell, Jr.*

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Samuel J. Mitchell, Jr.  
Chief Executive Officer and Director  
May 7, 2020

*/s/ Mary E. Meixelsperger*

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Mary E. Meixelsperger  
Chief Financial Officer  
May 7, 2020