

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2022

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.



Valvoline

(Exact name of registrant as specified in its charter)

Kentucky

30-0939371

(State or other jurisdiction of incorporation or organization)

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

100 Valvoline Way

Lexington, Kentucky 40509

(Address of principal executive offices) (Zip Code)

Telephone Number (859) 357-7777

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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.

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, 2022, there were 178,197,668 shares of the registrant's common stock outstanding.

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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 amounts - unaudited)	Three months ended March 31		Six months ended March 31	
	2022	2021	2022	2021
Sales	\$ 886	\$ 701	\$ 1,744	\$ 1,354
Cost of sales	636	454	1,250	879
Gross profit	250	247	494	475
Selling, general and administrative expenses	137	129	272	246
Legacy and separation-related expenses	6	—	9	1
Equity and other income, net	(10)	(13)	(25)	(27)
Operating income	117	131	238	255
Net pension and other postretirement plan income	(9)	(14)	(18)	(27)
Net interest and other financing expenses	18	55	35	75
Income before income taxes	108	90	221	207
Income tax expense	27	22	53	52
Net income	\$ 81	\$ 68	\$ 168	\$ 155
NET EARNINGS PER SHARE				
Basic	\$ 0.45	\$ 0.37	\$ 0.93	\$ 0.84
Diluted	\$ 0.45	\$ 0.37	\$ 0.93	\$ 0.84
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	180	182	180	184
Diluted	181	183	181	184
COMPREHENSIVE INCOME				
Net income	\$ 81	\$ 68	\$ 168	\$ 155
Other comprehensive income (loss), net of tax				
Currency translation adjustments	—	(7)	—	11
Amortization of pension and other postretirement plan prior service credits	(1)	(2)	(1)	(4)
Unrealized gain on cash flow hedges	7	1	8	1
Other comprehensive income (loss)	6	(8)	7	8
Comprehensive income	\$ 87	\$ 60	\$ 175	\$ 163

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 2022	September 30 2021
Assets			
Current assets			
Cash and cash equivalents	\$	118	\$ 230
Receivables, net		563	496
Inventories, net		276	258
Prepaid expenses and other current assets		59	53
Total current assets		1,016	1,037
Noncurrent assets			
Property, plant and equipment, net		843	817
Operating lease assets		313	307
Goodwill and intangibles, net		788	775
Equity method investments		53	47
Deferred income taxes		13	14
Other noncurrent assets		222	194
Total noncurrent assets		2,232	2,154
Total assets	\$	3,248	\$ 3,191
Liabilities and Stockholders' Equity			
Current liabilities			
Current portion of long-term debt	\$	47	\$ 17
Trade and other payables		238	246
Accrued expenses and other liabilities		300	306
Total current liabilities		585	569
Noncurrent liabilities			
Long-term debt		1,648	1,677
Employee benefit obligations		237	258
Operating lease liabilities		280	274
Deferred income taxes		42	26
Other noncurrent liabilities		256	252
Total noncurrent liabilities		2,463	2,487
Commitments and contingencies			
Stockholders' equity			
Preferred stock, no par value, 40 shares authorized; no shares issued and outstanding		—	—
Common stock, par value \$0.01 per share, 400 shares authorized; 179 and 180 shares issued and outstanding at March 31, 2022 and September 30, 2021, respectively		2	2
Paid-in capital		36	35
Retained earnings		147	90
Accumulated other comprehensive income		15	8
Total stockholders' equity		200	135
Total liabilities and stockholders' equity	\$	3,248	\$ 3,191

See Notes to Condensed Consolidated Financial Statements.

Valvoline Inc. and Consolidated Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity (Deficit)

Six months ended March 31, 2022							
(In millions, except per share amounts - unaudited)	Common stock		Paid-in capital	Retained earnings	Accumulated other comprehensive income	Totals	
	Shares	Amount					
Balance at September 30, 2021	180	\$ 2	\$ 35	\$ 90	\$ 8	\$	135
Net income	—	—	—	87	—		87
Dividends paid, \$0.125 per common share	—	—	—	(23)	—		(23)
Stock-based compensation, net of issuances	—	—	(2)	—	—		(2)
Repurchases of common stock	—	—	—	(31)	—		(31)
Other comprehensive income, net of tax	—	—	—	—	1		1
Balance at December 31, 2021	180	\$ 2	\$ 33	\$ 123	\$ 9	\$	167
Net income	—	—	—	81	—		81
Dividends paid, \$0.125 per common share	—	—	—	(22)	—		(22)
Stock-based compensation, net of issuances	—	—	3	—	—		3
Repurchases of common stock	(1)	—	—	(35)	—		(35)
Other comprehensive income, net of tax	—	—	—	—	6		6
Balance at March 31, 2022	179	\$ 2	\$ 36	\$ 147	\$ 15	\$	200

Six months ended March 31, 2021							
(In millions, except per share amounts - unaudited)	Common stock		Paid-in capital	Retained deficit	Accumulated other comprehensive income	Totals	
	Shares	Amount					
Balance at September 30, 2020	185	\$ 2	\$ 24	\$ (110)	\$ 8	\$	(76)
Net income	—	—	—	87	—		87
Dividends paid, \$0.125 per common share	—	—	—	(23)	—		(23)
Stock-based compensation, net of issuances	—	—	1	—	—		1
Repurchases of common stock	(2)	—	—	(58)	—		(58)
Cumulative effect of adoption of credit losses standard, net of tax	—	—	—	(2)	—		(2)
Other comprehensive income, net of tax	—	—	—	—	16		16
Balance at December 31, 2020	183	\$ 2	\$ 25	\$ (106)	\$ 24	\$	(55)
Net income	—	—	—	68	—		68
Dividends paid, \$0.125 per common share	—	—	—	(23)	—		(23)
Stock-based compensation, net of issuances	—	—	4	—	—		4
Repurchases of common stock	(2)	—	—	(42)	—		(42)
Other comprehensive loss, net of tax	—	—	—	—	(8)		(8)
Balance at March 31, 2021	181	\$ 2	\$ 29	\$ (103)	\$ 16	\$	(56)

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	
	2022	2021
Cash flows from operating activities		
Net income	\$ 168	\$ 155
Adjustments to reconcile net income to cash flows from operating activities		
Loss on extinguishment of debt	—	36
Depreciation and amortization	50	44
Deferred income taxes	15	—
Pension contributions	(1)	(4)
Stock-based compensation expense	7	6
Other, net	(3)	2
Change in assets and liabilities		
Receivables	(74)	(14)
Inventories	(19)	(13)
Payables and accrued liabilities	—	4
Other assets and liabilities	(47)	(26)
Total cash provided by operating activities	96	190
Cash flows from investing activities		
Additions to property, plant and equipment	(67)	(74)
Repayments of notes receivable	5	12
Acquisitions of businesses	(23)	(223)
Other investing activities, net	1	9
Total cash used in investing activities	(84)	(276)
Cash flows from financing activities		
Proceeds from borrowings	185	546
Repayments on borrowings	(186)	(800)
Premium paid to extinguish debt	—	(26)
Repurchases of common stock	(66)	(100)
Cash dividends paid	(45)	(46)
Other financing activities	(12)	(5)
Total cash used in financing activities	(124)	(431)
Effect of currency exchange rate changes on cash, cash equivalents and restricted cash	1	4
Decrease in cash, cash equivalents and restricted cash	(111)	(513)
Cash, cash equivalents and restricted cash - beginning of period	231	761
Cash, cash equivalents and restricted cash - end of period	\$ 120	\$ 248

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 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, 2021. Certain prior period amounts disclosed herein have been reclassified to conform to the current presentation.

Use of estimates, risks and uncertainties

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.

Valvoline is subject to continued risks and uncertainties as a result of the COVID-19 pandemic. The extent to which the evolving pandemic impacts the Company's financial condition cannot be reasonably quantified or estimated and will depend on a number of factors including the ultimate magnitude and duration of the pandemic. The Company has substantially maintained its operations throughout the pandemic and continues to place additional emphasis on the safety and wellness of its employees and customers.

Strategic separation

On October 12, 2021, Valvoline announced its intention to pursue a separation of its two reportable segments, Retail Services and Global Products. Valvoline is evaluating the alternatives to accomplish the separation of these two businesses, and consummation of the separation will be subject to final approval by Valvoline's Board of Directors (the "Board"). No timetable has currently been established for completion of the separation, which is expected to enable the two businesses to enhance focus on their distinct customer bases, strategies and operational needs.

Recent accounting pronouncements

The following accounting guidance relevant to Valvoline was either issued or adopted in the current year, or is expected to have a meaningful impact on Valvoline in future periods upon adoption. The Financial Accounting Standards Board ("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 below.

Issued but not yet adopted

In March 2020, the FASB issued guidance related to reference rate reform that simplifies the accounting for contract modifications and hedging arrangements as the market transitions from the London Interbank Offered Rate ("LIBOR") and other interbank reference rates to alternative reference rates. This guidance can be applied on a prospective basis through the end of December 2022 for qualifying modified arrangements. The Company has interest rate swap hedging arrangements and variable rate long-term debt for which existing payments are based on LIBOR tenors expected to cease in June 2023. As of March 31, 2022, 29% of Valvoline's outstanding total long-term debt and \$275 million of its interest rate swap agreements are under existing arrangements that mature following LIBOR cessation and do not contain fallback provisions to alternative reference rates. The Company expects to adopt this guidance to the extent there are qualifying contractual modifications prior to the end of

calendar 2022 and does not expect application of this guidance to have a material impact on its condensed consolidated financial statements.

NOTE 2 - FAIR VALUE MEASUREMENTS

The following tables set 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)	As of March 31, 2022				
	Total	Level 1	Level 2	Level 3	NAV ^(a)
Cash and cash equivalents					
Time deposits	\$ 20	\$ —	\$ 20	\$ —	\$ —
Prepaid expenses and other current assets					
Currency derivatives ^(b)	4	—	4	—	—
Other noncurrent assets					
Non-qualified trust funds	8	—	—	—	8
Interest rate swap agreements	12	—	12	—	—
Total assets at fair value	\$ 44	\$ —	\$ 36	\$ —	\$ 8
Accrued expenses and other liabilities					
Currency derivatives ^(b)	\$ 5	\$ —	\$ 5	\$ —	\$ —
Other noncurrent liabilities					
Deferred compensation obligations	24	—	—	—	24
Total liabilities at fair value	\$ 29	\$ —	\$ 5	\$ —	\$ 24

(In millions)	As of September 30, 2021				
	Total	Level 1	Level 2	Level 3	NAV ^(a)
Cash and cash equivalents					
Money market funds	\$ 13	\$ 13	\$ —	\$ —	\$ —
Time deposits	87	—	87	—	—
Prepaid expenses and other current assets					
Currency derivatives ^(b)	3	—	3	—	—
Other noncurrent assets					
Non-qualified trust funds	11	—	4	—	7
Interest rate swap agreements	2	—	2	—	—
Total assets at fair value	\$ 116	\$ 13	\$ 96	\$ —	\$ 7
Accrued expenses and other liabilities					
Currency derivatives ^(b)	\$ 3	\$ —	\$ 3	\$ —	\$ —
Interest rate swap agreements	1	—	1	—	—
Other noncurrent liabilities					
Deferred compensation obligations	24	—	—	—	24
Total liabilities at fair value	\$ 28	\$ —	\$ 4	\$ —	\$ 24

(a) Funds measured at fair value using the net asset value ("NAV") per share practical expedient have not been classified in the fair value hierarchy.

(b) The Company had outstanding contracts with notional values of \$150 million and \$137 million as of March 31, 2022 and September 30, 2021, respectively.

There were no material gains or losses recognized in earnings during the three and six months ended March 31, 2022 or 2021 related to these assets and liabilities.

Long-term debt

Long-term debt is reported in the Consolidated Balance Sheets at carrying value, rather than fair value, and is therefore excluded from the disclosure above of financial assets and liabilities measured at fair value within the condensed consolidated financial statements on a recurring basis. The fair values of the Company's outstanding fixed rate senior notes shown below are based on recent trading values, which are considered Level 2 inputs within the fair value hierarchy.

(In millions)	March 31, 2022			September 30, 2021		
	Fair value	Carrying value ^(a)	Unamortized discounts and issuance costs	Fair value	Carrying value ^(a)	Unamortized discounts and issuance costs
2030 Notes	\$ 549	\$ 593	\$ (7)	\$ 622	\$ 593	\$ (7)
2031 Notes	464	529	(6)	531	529	(6)
Total	<u>\$ 1,013</u>	<u>\$ 1,122</u>	<u>\$ (13)</u>	<u>\$ 1,153</u>	<u>\$ 1,122</u>	<u>\$ (13)</u>

(a) Carrying values shown are net of unamortized discounts and debt issuance costs.

Refer to Note 5 for details of these senior notes as well as Valvoline's other debt instruments that have variable interest rates with carrying amounts that approximate fair value.

NOTE 3 - ACQUISITIONS

The Company acquired 21 service center stores in single and multi-store transactions for an aggregate purchase price of \$23 million during the six months ended March 31, 2022. These acquisitions expand Valvoline's retail presence in key North American markets, increase the number of company-operated service center stores, and contributed to growing the Retail Services system to over 1,650 system-wide service center stores.

During the six months ended March 31, 2021, the Company acquired 100 service center stores in single and multi-store transactions, including 28 former franchise locations converted to company-owned service center stores and 12 franchise-operated service center stores, for an aggregate purchase price of \$223 million.

The Company's acquisitions are accounted for as business combinations. 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)	2022	2021
Inventories	\$ —	\$ 2
Other current assets	—	1
Property, plant and equipment	3	82
Operating lease assets	7	26
Goodwill ^(a)	20	180
Intangible assets ^(b)		
Reacquired franchise rights ^(c)	—	34
Other	—	3
Other current liabilities	—	(7)
Operating lease liabilities	(7)	(24)
Other noncurrent liabilities	—	(74)
Net assets acquired	<u>\$ 23</u>	<u>\$ 223</u>

(a) 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.

(b) Intangible assets acquired during the six months ended March 31, 2021 have weighted average amortization periods of 11 years.

(c) Prior to the acquisition of former franchise service center stores, the Company licensed the right to operate franchised service centers, including the use of Valvoline's trademarks and trade name. In connection with these acquisitions, Valvoline reacquired those rights and recognized separate definite-lived reacquired franchise rights intangible assets, which are being amortized on a straight-line basis over the weighted average remaining term of approximately 11 years for the rights reacquired in fiscal 2021. The effective settlement of these arrangements resulted in no settlement gain or loss as the contractual terms were at market.

The fair values above are preliminary for up to one year from the date of acquisition as they may be subject to measurement period adjustments if 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.

NOTE 4 - GOODWILL

The following table summarizes changes in the carrying amount of goodwill by reportable segment and in total during the six months ended March 31, 2022:

(In millions)	Retail Services	Global Products	Total
Balance at September 30, 2021	\$ 513	\$ 131	\$ 644
Acquisitions ^(a)	20	—	20
Currency translation	1	—	1
Balance at March 31, 2022	<u>\$ 534</u>	<u>\$ 131</u>	<u>\$ 665</u>

(a) Includes acquisitions within the Retail Services reportable segment of 21 service center stores. Refer to Note 3 for additional details.

NOTE 5 - DEBT

The following table summarizes Valvoline's total debt as of:

(In millions)	March 31 2022	September 30 2021
2031 Notes	\$ 535	\$ 535
2030 Notes	600	600
Term Loan	475	475
Revolver ^(a)	—	—
Trade Receivables Facility ^(b)	59	59
China Construction Facility ^(c)	39	39
China Working Capital Facilities ^(d)	—	—
Debt issuance costs and discounts	(13)	(14)
Total debt	1,695	1,694
Current portion of long-term debt	47	17
Long-term debt	\$ 1,648	\$ 1,677

- (a) As of March 31, 2022, the total borrowing capacity remaining under the \$475 million revolving credit facility was \$471 million due to a reduction of \$4 million for letters of credit outstanding.
- (b) The Trade Receivables Facility had \$116 million of borrowing capacity remaining and the wholly-owned financing subsidiary owned \$321 million of outstanding accounts receivable as of March 31, 2022.
- (c) The remaining borrowing capacity under the China Construction Facility was approximately \$4 million as of March 31, 2022.
- (d) The China Working Capital Facilities include two revolving credit facilities with no outstanding borrowings and a combined capacity of approximately \$36 million as of March 31, 2022. These facilities expire in the first quarter of fiscal 2023 and bear interest at the local prime rate.

As of March 31, 2022, Valvoline was in compliance with all covenants under its long-term borrowings.

NOTE 6 – 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	
	2022	2021	2022	2021
Income tax expense	\$ 27	\$ 22	\$ 53	\$ 52
Effective tax rate percentage	25.0 %	24.4 %	24.0 %	25.1 %

The increase in income tax expense for the three months ended March 31, 2022 was principally driven by higher pre-tax earnings, in addition to an increased effective tax rate due to unfavorable discrete activity. Income tax expense remained relatively flat with higher pre-tax earnings in the six months ended March 31, 2022, resulting in a lower effective tax rate that was driven by discrete benefits in the current year-to-date period.

NOTE 7 – EMPLOYEE BENEFIT PLANS

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

(In millions)	Pension benefits		Other postretirement benefits	
	2022	2021	2022	2021
Three months ended March 31				
Service cost	\$ 1	\$ —	\$ —	\$ —
Interest cost	11	11	1	—
Expected return on plan assets	(20)	(21)	—	—
Amortization of prior service credits	—	—	(1)	(4)
Net periodic benefit income	<u>\$ (8)</u>	<u>\$ (10)</u>	<u>\$ —</u>	<u>\$ (4)</u>
Six months ended March 31				
Service cost	\$ 1	\$ 1	\$ —	\$ —
Interest cost	22	22	1	—
Expected return on plan assets	(40)	(43)	—	—
Amortization of prior service credit	—	—	(1)	(6)
Net periodic benefit income	<u>\$ (17)</u>	<u>\$ (20)</u>	<u>\$ —</u>	<u>\$ (6)</u>

NOTE 8 – 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 when 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 9 - EARNINGS PER SHARE

The following table summarizes basic and diluted earnings per share:

(In millions, except per share amounts)	Three months ended March 31		Six months ended March 31	
	2022	2021	2022	2021
Numerator				
Net income	\$ 81	\$ 68	\$ 168	\$ 155
Denominator				
Weighted average common shares outstanding	180	182	180	184
Effect of potentially dilutive securities	1	1	1	—
Weighted average diluted shares outstanding	181	183	181	184
Earnings per share				
Basic	\$ 0.45	\$ 0.37	\$ 0.93	\$ 0.84
Diluted	\$ 0.45	\$ 0.37	\$ 0.93	\$ 0.84

NOTE 10 - REPORTABLE SEGMENT INFORMATION

Valvoline manages its business through the following two reportable segments:

- **Retail Services** - services the passenger car and light truck quick lube market in the United States and Canada with a broad array of preventive maintenance services and capabilities performed through Valvoline's retail network of company-operated and independent franchised service center stores, in addition to independent Express Care stores that service vehicles with Valvoline products.
- **Global Products** - sells engine and automotive preventive maintenance products in more than 140 countries and territories to mass market and automotive parts retailers, installers, and commercial customers, including original equipment manufacturers ("OEM"), to service light- and heavy-duty 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 allocating resources and evaluating performance of the business. Adjusted EBITDA is the primary measure used in making these operating decisions, which Valvoline defines as segment operating income adjusted for depreciation and amortization and certain key items impacting comparability.

Certain indirect expenses are recognized within each segment based on the estimated utilization of indirect resources. Costs to support corporate functions and certain non-operational and corporate activity that is not directly attributable to a particular segment are not included in the segment operating results regularly utilized by the chief operating decision maker. This activity is separately delineated within Corporate to reconcile to consolidated results.

Segment financial results

The following presents sales and adjusted EBITDA for each reportable segment:

(in millions)	Three months ended March 31		Six months ended March 31	
	2022	2021	2022	2021
Sales				
Retail Services	\$ 350	\$ 285	\$ 696	\$ 539
Global Products	536	416	1,048	815
Consolidated sales	<u>\$ 886</u>	<u>\$ 701</u>	<u>\$ 1,744</u>	<u>\$ 1,354</u>
Adjusted EBITDA				
Retail Services	\$ 95	\$ 95	\$ 193	\$ 165
Global Products	81	80	158	174
Total operating segments	<u>176</u>	<u>175</u>	<u>351</u>	<u>339</u>
Corporate	<u>(18)</u>	<u>(18)</u>	<u>(37)</u>	<u>(33)</u>
Consolidated Adjusted EBITDA	<u>158</u>	<u>157</u>	<u>314</u>	<u>306</u>
Reconciliation to income before income taxes:				
Net interest and other financing expenses	(18)	(55)	(35)	(75)
Depreciation and amortization	(25)	(23)	(50)	(44)
Key items: ^(a)				
Net pension and other postretirement plan income	9	14	18	27
Legacy and separation-related expenses	(6)	—	(9)	(1)
LIFO charge	(3)	(5)	(9)	(9)
Business interruption losses (recoveries)	(5)	2	(5)	3
Information technology transition costs	(2)	—	(3)	—
Income before income taxes	<u>\$ 108</u>	<u>\$ 90</u>	<u>\$ 221</u>	<u>\$ 207</u>

(a) Key items represent adjustments to U.S. GAAP results and consist of non-operational matters, including pension and other postretirement plan non-service income and remeasurement adjustments, legacy and separation-related activity, changes in the last-in, first-out ("LIFO") inventory reserve, and certain other corporate matters excluded from operating results that management believes impacts the comparability of operational results between periods.

Disaggregation of revenue

Sales by primary customer channel for the Company's reportable segments are summarized below:

(In millions)	Three months ended March 31		Six months ended March 31	
	2022	2021	2022	2021
Retail Services				
Company operations	\$ 246	\$ 204	\$ 489	\$ 382
Non-company operations	104	81	207	157
Total Retail Services	350	285	696	539
Global Products				
Do-It-Yourself	190	147	365	287
Installer and other	346	269	683	528
Total Global Products	536	416	1,048	815
Consolidated sales	\$ 886	\$ 701	\$ 1,744	\$ 1,354

Sales by reportable segment disaggregated by geographic market follows:

(In millions)	Retail Services		Global Products		Total	
	2022	2021	2022	2021	2022	2021
Three months ended March 31						
North America ^(a)	\$ 350	\$ 285	\$ 330	\$ 242	\$ 680	\$ 527
Europe, Middle East and Africa ("EMEA")	—	—	67	54	67	54
Asia Pacific	—	—	98	88	98	88
Latin America ^(a)	—	—	41	32	41	32
Totals	\$ 350	\$ 285	\$ 536	\$ 416	\$ 886	\$ 701
Six months ended March 31						
North America ^(a)	\$ 696	\$ 539	\$ 634	\$ 477	\$ 1,330	\$ 1,016
EMEA	—	—	134	105	134	105
Asia Pacific	—	—	202	171	202	171
Latin America ^(a)	—	—	78	62	78	62
Totals	\$ 696	\$ 539	\$ 1,048	\$ 815	\$ 1,744	\$ 1,354

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

NOTE 11 - SUPPLEMENTAL FINANCIAL INFORMATION

Cash, cash equivalents and restricted cash

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

(In millions)	March 31 2022	September 30 2021	March 31 2021
Cash and cash equivalents	\$ 118	\$ 230	\$ 247
Restricted cash ^(a)	2	1	1
Total cash, cash equivalents and restricted cash	<u>\$ 120</u>	<u>\$ 231</u>	<u>\$ 248</u>

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

Accounts and other receivables

The following summarizes Valvoline's accounts and other receivables in the Condensed Consolidated Balance Sheets as of:

(In millions)	March 31 2022	September 30 2021
Trade	\$ 551	\$ 475
Other	16	16
Notes receivable from franchisees ^(a)	5	10
Receivables, gross	572	501
Allowance for credit losses	(9)	(5)
Receivables, net	<u>\$ 563</u>	<u>\$ 496</u>

(a) Notes receivable from franchisees were primarily issued in fiscal 2020 to provide financial assistance in response to the COVID-19 pandemic. There were no material balances past due as of March 31, 2022.

Inventories

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

(In millions)	March 31 2022	September 30 2021
Finished products	\$ 288	\$ 276
Raw materials, supplies and work in process	64	49
Reserve for LIFO cost valuation	(76)	(67)
Total inventories, net	<u>\$ 276</u>	<u>\$ 258</u>

Revenue recognition

The following disaggregates the Company's sales by timing of recognition:

(In millions)	Three months ended March 31		Six months ended March 31	
	2022	2021	2022	2021
Sales at a point in time	\$ 872	\$ 689	\$ 1,716	\$ 1,331
Franchised revenues transferred over time	14	12	28	23
Total consolidated sales	<u>\$ 886</u>	<u>\$ 701</u>	<u>\$ 1,744</u>	<u>\$ 1,354</u>

NOTE 12 – SUBSEQUENT EVENTS

Dividend declared

On April 21, 2022, the Board declared a quarterly cash dividend of \$0.125 per share of Valvoline common stock. The dividend is payable on June 15, 2022 to shareholders of record on May 31, 2022.

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 report on Form 10-K. 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, 2021, 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 AND PURPOSE

Valvoline Inc. is a global vehicle and engine care company that continuously powers the future of mobility through innovative services and products for electric, hybrid and internal combustion powertrains. Valvoline has consistently led the way innovating and reinventing its services and products for changing technologies and customer needs throughout its 155-year history. Valvoline operates a fast-growing, best-in-class network of service center stores, which are well positioned to serve evolving vehicle maintenance needs with Valvoline's iconic products. In addition to its quick, easy and trusted quick lube oil change services and the legendary Valvoline-branded passenger car motor oils, Valvoline provides a wide array of lubricants, chemicals, fluids, and other complementary products and services, including leading the world's supply of battery fluids to electric vehicle manufacturers, with each solution tailored to help extend vehicle and engine range and efficiency.

Valvoline provides vehicle and engine care solutions to a range of customers, including end consumers, OEMs, mass market and automotive parts retailers, small to large installers, vehicle fleets, and distributors, among others. Valvoline operates and franchises more than 1,600 service center locations and is the second and third largest chain in the United States ("U.S.") and Canada, respectively, by number of stores. With sales in more than 140 countries and territories, Valvoline's solutions are available for every engine and powertrain, including high-mileage and heavy-duty applications, and are offered at more than 80,000 locations worldwide.

BUSINESS STRATEGY

Valvoline is focused on the following key business and growth strategies in fiscal 2022:

- Executing the strategic separation of Valvoline's two business segments, Retail Services and Global Products, to create sustainable value for the Company's stakeholders and best position the segments for continued long-term success by allowing Retail Services to continue its growth and focus on leveraging its world class service model and providing Global Products with the opportunity to focus and allocate capital to its own strategic priorities;
- Aggressively growing Retail Services through organic service center expansion, opportunistic acquisitions, and franchisee growth, while rapidly diversifying and expanding retail service offerings and capabilities through a quick, easy, and trusted customer experience delivered by hands-on experts;
- Accelerating Global Products market share growth through continued development of and investment in key global emerging and high value markets by fully leveraging brand equity and product platforms to drive speed, efficiency, and value across the business and customer interactions, while increasing penetration of Valvoline's full product portfolio;
- Expanding capabilities to serve future transport vehicles by continuing to develop relationships with electric vehicle OEMs and leveraging innovation in the delivery of future services and products in direct and adjacent markets; and
- Building a strong foundation enabled by data and technology to make Valvoline easy to do business with.

RECENT DEVELOPMENTS

Strategic separation

On October 12, 2021, Valvoline announced its intention to pursue a separation of its two reportable segments, Retail Services and Global Products. Valvoline is making progress and evaluating alternatives to accomplish the separation of these two strong businesses. Consummation of the separation will be subject to final approval by Valvoline's Board, and no timetable has currently been established for completion of the separation. Valvoline's results this quarter highlight the independent strengths of both of its reportable segments, and separation is expected to enable the two businesses to enhance focus on their distinct customer bases, strategies for continued growth, and operational needs.

COVID-19 update

Valvoline has substantially maintained its operations, demonstrating growth and strong results, while managing through the effects of the COVID-19 global pandemic to-date. Valvoline's global offices and locations have established protocols based on continuous monitoring of the circumstances and trend data surrounding the pandemic and following government guidelines to make decisions regarding the safe operation of its offices and locations.

Valvoline's return-to-office protocol for its corporate headquarters located in Lexington, Kentucky allowed employees that have been vaccinated to voluntarily return to the office with masking requirements lifted in March 2022. Employees are encouraged to reconnect and collaborate on-site in locations and circumstances where protocols support in-person work, while the flexibility and convenience for employees to work remotely has been maintained in many locations.

During April 2022, the Chinese government implemented strict control measures in response to the resurgence of COVID-19, which resulted in a temporary shut-down of Valvoline's local operations. Limited operations were maintained during most of April 2022, and the local blending and packaging facility resumed operations by late April, near its full capacity due to local supply chain constraints as a result of the restrictions.

Management is unable to reasonably quantify the impact of COVID-19 on its current year results. The continually evolving COVID-19 pandemic remains uncertain and its future impact on Valvoline will depend on a number of factors, including among others, the duration and severity of the spread of COVID-19, emerging variants, vaccine and booster effectiveness, public acceptance of safety protocols, and government measures, including vaccine and mask mandates, among others. While the Company cannot predict the duration or the scale of the COVID-19 pandemic, or the effect it may continue to have on Valvoline's business, results of operations, or liquidity, management continuously monitors the situation, the sufficiency of its responses, and makes adjustments as needed. For more information, refer to Risk Factors included in Item 1A of Part I in Valvoline's Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

SECOND FISCAL QUARTER 2022 OVERVIEW

The following were the significant events for the second fiscal quarter of 2022, each of which is discussed more fully in this Quarterly Report on Form 10-Q:

- Valvoline delivered strong top-line results, reflecting share gains from ongoing demand for its products and services, price increases to recover cost inflation, and continued effective operational execution. Net income grew 19% to \$81 million and diluted earnings per share grew 22% to \$0.45 in the three months ended March 31, 2022 compared to the prior year period.
- Retail Services sales increased 23% over the prior year period driven by system-wide same-store-sales ("SSS") growth of 13.1% and the addition of 113 net new stores to the system from the prior year. Operating income decreased 4% and adjusted EBITDA was flat over the prior year as the current inflationary environment resulted in higher labor and product costs that impacted profitability.
- Global Products sales increased 29% and outpaced volume growth of 9% compared to the prior year quarter. These top-line results highlight the successful price pass-through of raw material cost increases as well as continued strong demand for Valvoline products across key geographies and channels. Operating income and adjusted EBITDA both improved 1% from the prior year as growth in sales was moderated by supply chain challenges and the raw material cost environment.
- The Company returned \$57 million to its shareholders through payment of a cash dividend of \$0.125 per share and the repurchase of 1 million shares of Valvoline common stock during the quarter.

Use of Non-GAAP Measures

To supplement the financial measures prepared in accordance with U.S. GAAP, certain items within this document are presented on an adjusted basis. These non-GAAP measures, presented both on a consolidated and reportable segment basis, have limitations as analytical tools and should not be considered in isolation from, or as an alternative to, or more meaningful than, the financial statements presented in accordance with U.S. GAAP. The financial results presented in accordance with U.S. GAAP and reconciliations of non-GAAP measures included within this Quarterly Report on Form 10-Q should be carefully evaluated.

The following are the non-GAAP measures management has included and how management defines them:

- **EBITDA** - defined as net income/loss, plus income tax expense/benefit, net interest and other financing expenses, and depreciation and amortization;
- **Adjusted EBITDA** - defined as EBITDA adjusted for certain unusual, infrequent or non-operational activity not directly attributable to the underlying business, which management believes impacts the comparability of operational results between periods ("key items," as further described below);
- **Segment adjusted EBITDA** - defined as segment operating income adjusted for depreciation and amortization, in addition to key items impacting comparability;
- **Free cash flow** - defined as cash flows from operating activities less capital expenditures and certain other adjustments as applicable; and

- **Discretionary free cash flow** - defined as cash flows from operating activities less maintenance 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 on a consolidated and reportable segment basis provides a useful supplemental presentation of Valvoline's operating performance, enables comparison of financial trends and results between periods where certain items may vary independent of business performance, and allows for transparency with respect to key metrics used by management in operating the business and measuring performance. The non-GAAP information used by management may not be comparable to similar measures disclosed by other companies, because of differing methods used in calculating such measures. For a reconciliation of the most comparable U.S. GAAP measures to the non-GAAP measures, refer to the "Results of Operations" and "Financial Position, Liquidity and Capital Resources" sections below.

Management believes EBITDA measures provide a meaningful supplemental presentation of Valvoline's operating performance due to the depreciable assets associated with the nature of the Company's operations and interest costs related to Valvoline's capital structure. Adjusted EBITDA measures exclude the impact of key items, which consist of income or expenses associated with certain unusual, infrequent or non-operational activity not directly attributable to the underlying business that management believes impacts the comparability of operational results between periods. Adjusted EBITDA measures enable comparison of financial trends and results between periods where key items may vary independent of business performance. Key items are often related to legacy matters or market-driven events considered by management to be outside the comparable operational performance of the business.

Key items may consist of adjustments related to: legacy businesses, including the separation from Valvoline's former parent company 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 also include the following:

- **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 includes the costs of benefits provided to employees for current service, including pension and other postretirement service costs.
- **Changes in the last-in, first-out ("LIFO") inventory reserve** - charges or credits recognized in Cost of sales to value certain lubricant inventories at the lower of cost or market using the LIFO method. During inflationary or deflationary pricing environments, the application of LIFO can result in variability of the cost of sales recognized each period as the most recent costs are matched against current sales, while preceding costs are retained in inventories. LIFO adjustments are determined based on published prices, which are difficult to predict and largely dependent on future events. The application of LIFO can impact comparability and enhance the lag period effects between changes in inventory costs and relating pricing adjustments.

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.

Management uses free cash flow and discretionary free cash flow as additional non-GAAP metrics 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. Free cash flow includes the impact of capital expenditures, providing a supplemental view of cash generation. Discretionary free cash flow includes the impact of maintenance capital expenditures, which are routine uses of cash that are necessary to maintain the Company's operations and provides a supplemental view of cash flow generation to maintain operations before discretionary investments in growth. Free cash flow and discretionary free cash flow have certain limitations, including that they do 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.

Key Business Measures

Valvoline tracks its operating performance and manages its business using certain key measures, including system-wide, company-operated and franchised store counts and SSS, and lubricant volumes 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 Retail Services 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 activity and end of period store counts. SSS is defined as sales by U.S. Retail Services service center stores (company-operated, franchised and the combination of these for system-wide SSS), with new stores including franchised conversions, 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. Retail Services sales are limited to sales at company-operated 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 market position relative to competitors and overall store and segment operating performance.

Management believes lubricant volumes sold in gallons by its consolidated subsidiaries is a useful measure in evaluating and understanding the operating performance of the Global Products segment. Volumes sold in other units of measure, including liters, are converted to gallons utilizing standard conversions.

RESULTS OF OPERATIONS

Consolidated review

The following summarizes the results of the Company's operations for the period ended March 31:

(In millions)	Three months ended March 31				Six months ended March 31			
	2022		2021		2022		2021	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Sales	\$ 886	100.0 %	\$ 701	100.0 %	\$ 1,744	100.0%	\$ 1,354	100.0%
Gross profit	\$ 250	28.2 %	\$ 247	35.2 %	\$ 494	28.3%	\$ 475	35.1%
Net operating expenses	\$ 133	15.0 %	\$ 116	16.5 %	\$ 256	14.7%	\$ 220	16.2%
Operating income	\$ 117	13.2 %	\$ 131	18.7 %	\$ 238	13.6%	\$ 255	18.8%
Net income	\$ 81	9.1 %	\$ 68	9.7 %	\$ 168	9.6%	\$ 155	11.4%

Sales

The following provides a reconciliation of the increase in sales from the prior year:

(In millions)	Year-over-year changes	
	Three months ended March 31, 2022	Six months ended March 31, 2022
Volume and mix	\$ 67	\$ 171
Price	113	203
Currency exchange	(9)	(9)
Acquisitions	14	25
Change in sales	<u>\$ 185</u>	<u>\$ 390</u>

The increases in sales for the three and six months ended March 31, 2022 compared to the prior year periods were driven by benefits across both reportable segments, largely as a result of pricing actions and volume growth, and to a lesser extent, favorable mix. The Company continues to pass through cost increases in its pricing and benefit from strong demand for Valvoline's products and services. Retail Services increased sales were led by system-wide SSS growth as well as store expansion from unit additions and acquisitions. Global Products sales increased with volume growth and top-line improvement across all regions.

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

Gross profit

The table below provides a reconciliation of the increase in gross profit from the prior year:

(In millions)	Year-over-year changes	
	Three months ended March 31, 2022	Six months ended March 31, 2022
Volume and mix	\$ 32	\$ 82
Change in LIFO reserve	2	—
Price and cost	(30)	(63)
Currency exchange	(2)	(2)
Acquisitions	1	2
Change in gross profit	<u>\$ 3</u>	<u>\$ 19</u>

The increase in gross profit was primarily driven by higher volumes and to a lesser extent, favorable mix. These benefits across both reportable segments were partially offset by product and labor inflationary cost pressures, in addition to supply chain challenges. A reduction in the LIFO charge for the current quarter compared to the prior year period, as well as unit growth through acquisitions provided modest benefits to gross profit.

The declines in gross profit margin rates for the current quarter and year-to-date periods were primarily the result of higher raw material costs, supply chain challenges, and the dilutive impact from passing through cost increases. Management continues to closely monitor the raw material cost environment and make progress in passing through the cost increases that began in fiscal 2021.

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 summarizes the components of net operating expenses for the period ended March 31:

(In millions)	Three months ended March 31				Six months ended March 31			
	2022		2021		2022		2021	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Selling, general and administrative expenses	\$ 137	15.4 %	\$ 129	18.4 %	\$ 272	15.6 %	\$ 246	18.1 %
Legacy and separation-related expenses	6	0.7 %	—	— %	9	0.5 %	1	0.1 %
Equity and other income, net	(10)	(1.1)%	(13)	(1.9)%	(25)	(1.4)%	(27)	(2.0)%
Net operating expenses	\$ 133	15.0 %	\$ 116	16.5 %	\$ 256	14.7 %	\$ 220	16.2 %

Expected credit losses on receivables due to the disruption of business in Russia and increased costs associated with information technology investments and transitions combined for \$8 million and \$10 million of the year-over-year increases in selling, general and administrative expenses for the three and six months ended March 31, 2022, respectively. Additionally, expenses supporting growth related to travel, advertising and promotions combined for an \$11 million increase for the year-to-date over the prior year period.

Legacy and separation-related expenses increased during the three and six months ended March 31, 2022 primarily due to the costs incurred in the current year for planning the separation of the Retail Services and Global Products segments. These costs included legal, tax and accounting, and other professional advisory and consulting fees, which the Company expects will continue to be incurred during the balance of fiscal 2022 associated with planning for the proposed separation.

The decrease in Equity and other income, net in the current year periods was primarily driven by lower insurance recoveries in the current year.

Net pension and other postretirement plan income

Net pension and other postretirement plan income for the three and six months ended March 31, 2022 decreased \$5 million and \$9 million, respectively, from the prior year periods. This decline was due to lower expected returns on plan assets as a result of the shift in asset allocation of the U.S. qualified plans toward a higher mix of fixed income securities, in addition to a reduction in the amortization of prior service credits into income from certain other postretirement plan amendments that ceased amortization beginning in fiscal 2022.

Net interest and other financing expenses

Net interest and other financing expenses decreased \$37 million and \$40 million during the three and six months ended March 31, 2022, respectively, compared to the prior year periods. These decreases are primarily related to debt extinguishment costs, including the redemption premium and the write-off of unamortized debt issuance costs, due to the prior year redemption of the 4.375% senior unsecured notes due 2025 with an aggregate principal amount of \$800 million.

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	
	2022	2021	2022	2021
Income tax expense	\$ 27	\$ 22	\$ 53	\$ 52
Effective tax rate percentage	25.0 %	24.4 %	24.0 %	25.1 %

The increase in income tax expense for the three months ended March 31, 2022 was principally driven by higher pre-tax earnings, in addition to an increased effective tax rate due to unfavorable discrete activity. Income tax expense remained relatively flat with higher pre-tax earnings in the six months ended March 31, 2022, resulting in a lower effective tax rate that was driven by discrete benefits in the current year-to-date period.

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	
	2022	2021	2022	2021
Net income	\$ 81	\$ 68	\$ 168	\$ 155
Income tax expense	27	22	53	52
Net interest and other financing expenses	18	55	35	75
Depreciation and amortization	25	23	50	44
EBITDA	151	168	306	326
Net pension and other postretirement plan income ^(a)	(9)	(14)	(18)	(27)
Legacy and separation-related expenses	6	—	9	1
LIFO charge	3	5	9	9
Business interruption losses (recoveries)	5	(2)	5	(3)
Information technology transition costs	2	—	3	—
Adjusted EBITDA	\$ 158	\$ 157	\$ 314	\$ 306

(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 credits. Refer to Note 7 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.

Adjusted EBITDA improved slightly for the three months ended March 31, 2022 and increased \$8 million for the six months ended March 31, 2022 compared to the prior year periods. These improvements were driven by strong top-line expansion across both reportable segments, which was partially offset by increased costs due to inflationary pressures and supply chain challenges, in addition to increased operating expenses to support top-line growth.

Reportable segment review

The Company manages its business through the following two reportable segments:

- **Retail Services** - services the passenger car and light truck quick lube market in the United States and Canada with a broad array of preventive maintenance services and capabilities performed through Valvoline's retail network of company-operated and independent franchised service center stores, in addition to independent Express Care stores that service vehicles with Valvoline products.

- **Global Products** - sells engine and automotive preventive maintenance products in more than 140 countries to retailers, installers, and commercial customers, including OEMs, to service light- and heavy-duty 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 allocating resources and evaluating performance of the business. Adjusted EBITDA is the primary measure used in making these operating decisions, which Valvoline defines as segment operating income adjusted for depreciation and amortization and certain key items impacting comparability.

Costs to support corporate functions and certain non-operational and corporate activity that is not directly attributable to a particular segment are not included in the segment operating results regularly utilized by the chief operating decision maker. This activity is separately delineated within Corporate to reconcile to consolidated results.

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.

Retail Services

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

	System-wide stores ^(a)				
	Second Quarter 2022	First Quarter 2022	Fourth Quarter 2021	Third Quarter 2021	Second Quarter 2021
Beginning of period	1,635	1,594	1,569	1,548	1,533
Opened	19	32	21	17	13
Acquired	9	12	7	5	3
Closed	(2)	(3)	(3)	(1)	(1)
End of period	1,661	1,635	1,594	1,569	1,548

	Number of stores at end of period				
	Second Quarter 2022	First Quarter 2022	Fourth Quarter 2021	Third Quarter 2021	Second Quarter 2021
Company-operated	757	738	719	698	673
Franchised	904	897	875	871	875

(a) System-wide store count includes franchised service center stores. Valvoline franchises are independent legal entities, and Valvoline does not consolidate the results of operations of its franchisees.

The year over year increase of 113 net system-wide stores was the result of 80 net openings and 33 acquired stores. New store openings was driven by 29 net company-operated service center store openings and 51 net new franchisee store openings from expansion in key markets. In addition, 22 net stores converted within the system from franchise to company-operated.

The following summarizes the results of the Retail Services reportable segment:

(In millions)	Three months ended March 31		Increase (decrease)		Six months ended March 31		Increase (decrease)					
	2022	2021			2022	2021						
Financial information												
Retail Services segment sales	\$	350	\$	285	23	%	\$	696	\$	539	29	%
Operating income ^(b)	\$	77	\$	80	(4)	%	\$	158	\$	136	16	%
Key items		—		—				—		—		
Depreciation and amortization		18		15	20	%		35		29	21	%
Adjusted EBITDA	\$	95	\$	95	—	%	\$	193	\$	165	17	%
Operating margin ^(c)		22.0 %		28.1 %	(610)	bps		22.7 %		25.2 %	(250)	bps
Adjusted EBITDA margin ^(c)		27.1 %		33.3 %	(620)	bps		27.7 %		30.6 %	(290)	bps

	Three months ended March 31		Six months ended March 31	
	2022	2021	2022	2021
Same-store sales growth				
Company-operated ^(c)	10.0	%	19.8	%
Franchised ^{(a) (d)}	15.5	%	20.4	%
System-wide ^{(a) (d)}	13.1	%	20.2	%

(a) Measure includes Valvoline franchisees, which are independent legal entities. Valvoline does not consolidate the results of operations of its franchisees.

(b) Valvoline does not generally allocate activity below operating income to its operating segments; therefore, the table above reconciles operating income to adjusted EBITDA.

(c) Operating margin is calculated as operating income divided by sales, and adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales.

(d) Valvoline determines SSS growth as sales by U.S. Retail Services service center stores, with new stores, including franchise conversions, excluded from the metric until the completion of their first full fiscal year in operation.

Retail Services sales increased 23% and 29% for the three months and six months ended March 31, 2022, respectively, compared to the prior year periods. System-wide SSS growth was led by higher transactions due to share gains, in addition to increased average ticket from pricing actions and premiumization. The addition of 113 net new stores to the system through acquisitions and new service center store openings also contributed to sales growth from the prior year.

Operating income decreased 4% and adjusted EBITDA was flat for the three months ended March 31, 2022 compared to the prior year period. Deleveraging due to wage inflation and labor inefficiencies, as well as supply chain constraints that resulted in higher product costs, drove lower operating profits and flat adjusted EBITDA. Valvoline is currently executing incremental pricing actions to address these inflationary pressures and is expected to improve profitability in the second half of the fiscal year. Operating income and adjusted EBITDA increased 16% and 17%, respectively, for the six months ended March 31, 2022 compared to the prior period and was driven by strong top-line performance and the addition of new stores.

Global Products

The following table summarizes the results of the Global Products reportable segment:

(In millions)	Three months ended March 31		Increase (decrease)		Six months ended March 31		Increase (decrease)					
	2022	2021			2022	2021						
Financial information												
Sales by geographic region												
North America ^(a)	\$	330	\$	242	36	%	\$	634	\$	477	33	%
Europe, Middle East and Africa ("EMEA")		67		54	24	%		134		105	28	%
Asia Pacific		98		88	11	%		202		171	18	%
Latin America ^(a)		41		32	28	%		78		62	26	%
Global Products segment sales	\$	536	\$	416	29	%	\$	1048	\$	815	29	%
Operating income ^(b)	\$	74	\$	73	1	%	\$	144	\$	161	(11)	%
Key items		—		—				—		—		
Depreciation and amortization		7		7	—	%		14		13	8	%
Adjusted EBITDA	\$	81	\$	80	1	%	\$	158	\$	174	(9)	%
Operating margin ^(c)		13.8 %		17.5 %	(370) bps			13.7 %		19.8 %	(610) bps	
Adjusted EBITDA margin ^(c)		15.1 %		19.2 %	(410) bps			15.1 %		21.3 %	(620) bps	
Volume information												
Lubricant sales (gallons)		43.3		39.9	9	%		86.4		77.9	11	%

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

(b) Valvoline does not generally allocate activity below operating income to its operating segments; therefore, the table above reconciles operating income to adjusted EBITDA.

(c) Operating margin is calculated as operating income divided by sales, and adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales.

Global Products sales increased 29% for both the three and six months ended March 31, 2022 over the prior year periods due to growth across all regions and channels. Sales growth outpaced volumes for both the three and six months ended March 31, 2022 attributable to price pass-through of raw material cost increases. Volumes grew 9% and 11% for the three and six months ended March 31, 2022, respectively, over the prior year periods, as a result of improved retail channel performance due to increased distribution and continued recovery in the installer channel from the impacts of COVID-19. Additionally, international volume growth continues to be strong as the Company focuses on building the brand and channels globally.

Operating income and adjusted EBITDA both improved 1% during the three months ended March 31, 2022 compared to the prior year. Operating income and adjusted EBITDA decreased 11% and 9%, respectively, during the six months ended March 31 2022 compared to the prior year period. For the three months ended March 31, 2022, top-line growth was largely offset by increased costs due to the inflationary raw material cost environment and supply chain challenges, while for the six months ended March 31, 2022, these increased costs more than offset by top-line growth.

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.

Cash flows

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)	2022	2021
Cash, cash equivalents and restricted cash - beginning of period	\$ 231	\$ 761
Cash provided by (used in):		
Operating activities	96	190
Investing activities	(84)	(276)
Financing activities	(124)	(431)
Effect of currency exchange rate changes on cash, cash equivalents and restricted cash	1	4
Decrease increase in cash, cash equivalents and restricted cash	(111)	(513)
Cash, cash equivalents and restricted cash - end of period	\$ 120	\$ 248

Operating activities

The decrease in cash flows provided by operating activities of \$94 million from the prior year was primarily due to the unfavorable increase in net working capital, largely attributed to growth in accounts receivable from increased sales compared to the prior period. In the current period, net working capital (current assets, excluding cash and cash equivalents, minus current liabilities, excluding long-term debt due within one year) increased \$105 million compared to a \$40 million increase in the prior year period.

Investing activities

The decrease in cash flows used in investing activities of \$192 million was primarily due to lower current year acquisition activity of \$200 million and less current year additions to property, plant, and equipment of \$7 million, which was partially offset by repayments of franchisee COVID relief loans that were \$7 million higher in the prior year.

Financing activities

The decrease in cash flows used in financing activities of \$307 million from the prior year was primarily due to net repayments on borrowings that were \$279 million less and lower share repurchases of \$34 million. The reduction in uses of cash for borrowings was largely due to prior year activity that did not recur to complete the issuance of the 3.625% 2031 Notes with an aggregate principal of \$535 million and use the net proceeds, together with cash and cash equivalents on hand, to redeem the 4.375% senior unsecured notes due 2025 with an aggregate principal

amount of \$800 million. Lower share repurchases were the result of shifting to a consistent share buyback strategy in the second half of fiscal 2021.

Free cash flow

The following sets forth free cash flow and discretionary free cash flow and reconciles cash flows from operating activities to both measures. These free cash flow measures have certain limitations, including that they do 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 regarding these non-GAAP measures.

(In millions)	Six months ended March 31	
	2022	2021
Cash flows provided by operating activities	\$ 96	\$ 190
Less: Maintenance capital expenditures	(16)	(15)
Discretionary free cash flow	80	175
Less: Growth capital expenditures	(51)	(59)
Free cash flow	\$ 29	\$ 116

The decrease in free cash flow over the prior year was driven by lower cash flows provided by operating activities and lower growth capital expenditures, as maintenance capital expenditures were relatively flat. Valvoline updated its fiscal 2022 forecasted free cash flow generation to \$260 million to \$280 million, which excludes cash outflows that cannot currently be reasonably estimated related to the proposed separation of Retail Services and Global Products.

Debt

Inclusive of the interest rate swap agreements, approximately 87% of Valvoline's outstanding borrowings at March 31, 2022 had fixed interest rates, with the remainder bearing variable rates. Valvoline was in compliance with all covenants of its debt obligations as of March 31, 2022 and had a combined total of \$587 million of remaining borrowing capacity under its Revolver and Trade Receivables Facility. Credit facilities in place in China had approximately \$40 million of combined borrowing capacity remaining, \$36 million under the China Working Capital Facilities and \$4 million under the China Construction Facility. Refer to Note 5 of the Notes to Condensed Consolidated Financial Statements for additional details regarding the Company's debt instruments.

Dividend payments and share repurchases

During the six months ended March 31, 2022, the Company paid cash dividends of \$0.250 per common share for \$45 million and repurchased nearly 2.0 million shares of its common stock for \$66 million pursuant to the May 2021 Board authorization to repurchase up to \$300 million of common stock through September 30, 2024 (the “2021 Share Repurchase Authorization”).

On April 21, 2022, the Board declared a quarterly cash dividend of \$0.125 per share of Valvoline common stock. The dividend is payable on June 15, 2022 to shareholders of record on May 31, 2022. Additionally, the Company repurchased shares of Valvoline common stock for \$12 million during April 2022, leaving the Company with \$195 million in aggregate share repurchase authority remaining under the 2021 Share Repurchase Authorization as of May 1, 2022.

Future declarations of quarterly dividends are subject to approval by the Board and may be adjusted as business needs or market conditions change, while the timing and amount of any future share repurchases will be based on the level of Valvoline's liquidity, general business and market conditions and other factors, including alternative investment opportunities.

Summary

As of March 31, 2022, cash and cash equivalents totaled \$118 million, total debt was \$1.7 billion, and total remaining borrowing capacity under the Company's Revolver and Trade Receivables Facility was \$587 million. 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 I of the Annual Report on Form 10-K for the year ended September 30, 2021. 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 material cash 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 ESTIMATES

The Company's critical accounting 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, 2021. Management reassessed the critical accounting estimates as disclosed in the Annual Report on Form 10-K and determined there were no changes in the six months ended March 31, 2022.

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, 2021. Management reassessed the quantitative and qualitative market risk disclosures as described in the Annual Report on Form 10-K and determined there were no material changes to market risks in the six months ended March 31, 2022.

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 (the "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, 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, 2022 that materially affected, or are reasonably likely to materially affect, Valvoline's internal control over financial reporting.

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. For a description of Valvoline's legal proceedings, refer to Note 8 of the Notes to Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

During the period covered by this report, there were no material changes from the risk factors previously disclosed Item 1A of Part I in Valvoline's Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

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

The Company repurchased shares of its common stock for \$35 million during the three months ended March 31, 2022 pursuant to the 2021 Share Repurchase Authorization. Share repurchase activity during the three months ended March 31, 2022 follows:

Monthly 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, 2022 - January 31, 2022	295,790	\$ 34.70	295,790	\$ 231
February 1, 2022 - February 28, 2022	322,781	\$ 32.79	322,781	\$ 221
March 1, 2022 - March 31, 2022	458,815	\$ 30.65	458,815	\$ 207
Total	<u>1,077,386</u>	<u>\$ 32.40</u>	<u>1,077,386</u>	

ITEM 6. EXHIBITS

- 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 10, 2022

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

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 10, 2022

/s/ Samuel J. Mitchell Jr.

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 10, 2022

/s/ Mary E. Meixelsperger

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, 2022 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.

Samuel J. Mitchell, Jr.
Chief Executive Officer and Director
May 10, 2022

/s/ Mary E. Meixelsperger

Mary E. Meixelsperger
Chief Financial Officer
May 10, 2022