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 June 30, 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.

(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 July 31, 2022, there were 177,020,356 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 June 30 2022	Three months ended June 30 2021	Nine months ended June 30 2022	Nine months ended June 30 2021
Sales	$ 957	$ 792	$ 2,701	$ 2,146
Cost of sales	681	533	1,931	1,412
Gross profit	276	259	770	734
Selling, general and administrative expenses	138	136	410	382
Legacy and separation-related expenses	11	1	20	2
Equity and other income, net	(11)	(9)	(36)	(36)
Operating income	138	131	376	386
Net pension and other postretirement plan income	(10)	(14)	(28)	(41)
Net interest and other financing expenses	19	17	54	92
Income before income taxes	129	128	350	335
Income tax expense	30	31	83	83
Net income	$ 99	$ 97	$ 267	$ 252
NET EARNINGS PER SHARE				
Basic	$ 0.55	$ 0.53	$ 1.48	$ 1.38
Diluted	$ 0.55	$ 0.53	$ 1.47	$ 1.37
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	179	182	180	183
Diluted	180	183	181	184
COMPREHENSIVE INCOME				
Net income	$ 99	$ 97	$ 267	$ 252
Other comprehensive (loss) income, net of tax				
Currency translation adjustments	(20)	4	(20)	15
Amortization of pension and other postretirement plan prior service credits	—	(2)	(1)	(6)
Unrealized gain on cash flow hedges	2	—	10	1
Other comprehensive (loss) income	(18)	2	(11)	10
Comprehensive income	$ 81	$ 99	$ 256	$ 262

See Notes to Condensed Consolidated Financial Statements.

Valvoline Inc. and Consolidated Subsidiaries
Condensed Consolidated Balance Sheets

(In millions, except per share amounts - unaudited)	June 30 2022	September 30 2021
Assets		
Current assets		
Cash and cash equivalents	$ 98	$ 230
Receivables, net	583	496
Inventories, net	306	258
Prepaid expenses and other current assets	64	53
Total current assets	1,051	1,037
Noncurrent assets		
Property, plant and equipment, net	874	817
Operating lease assets	321	307
Goodwill and intangibles, net	804	775
Equity method investments	48	47
Other noncurrent assets	250	208
Total noncurrent assets	2,297	2,154
Total assets	$ 3,348	$ 3,191
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 61	$ 17
Trade and other payables	265	246
Accrued expenses and other liabilities	315	306
Total current liabilities	641	569
Noncurrent liabilities		
Long-term debt	1,639	1,677
Employee benefit obligations	229	258
Operating lease liabilities	288	274
Deferred tax liabilities	58	26
Other noncurrent liabilities	267	252
Total noncurrent liabilities	2,481	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; 177 and 180 shares issued and outstanding at June 30, 2022 and September 30, 2021, respectively	2	2
Paid-in capital	41	35
Retained earnings	186	90
Accumulated other comprehensive (loss) income	(3)	8
Total stockholders' equity	226	135
Total liabilities and stockholders' equity	$ 3,348	$ 3,191

See Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended June 30, 2022					
	Common stock					
(In millions, except per share amounts - unaudited)	Shares	Amount	Paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Totals
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
Net income	—	—	—	99	—	99
Dividends paid, $0.125 per common share	—	—	—	(22)	—	(22)
Stock-based compensation, net of issuances	—	—	5	—	—	5
Repurchases of common stock	(2)	—	—	(38)	—	(38)
Other comprehensive loss, net of tax	—	—	—	—	(18)	(18)
Balance at June 30, 2022	177	$ 2	$ 41	$ 186	$ (3)	$ 226

(In millions, except per share amounts - unaudited)	Nine months ended June 30, 2021					
	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)
Net income	—	—	—	97	—	97
Dividends paid, $0.125 per common share	—	—	—	(23)	—	(23)
Stock-based compensation, net of issuances	—	—	3	—	—	3
Other comprehensive income, net of tax	—	—	—	—	2	2
Balance at June 30, 2021	181	$ 2	$ 32	$ (29)	$ 18	$ 23

See Notes to Condensed Consolidated Financial Statements.

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

(In millions - unaudited)	Nine months ended June 30 2022	Nine months ended June 30 2021
Cash flows from operating activities		
Net income	$ 267	$ 252
Adjustments to reconcile net income to cash flows from operating activities		
Loss on extinguishment of debt	—	36
Depreciation and amortization	75	68
Deferred income taxes	30	24
Stock-based compensation expense	11	10
Other, net	(2)	(3)
Change in assets and liabilities		
Receivables	(104)	(55)
Inventories	(59)	(39)
Payables and accrued liabilities	56	59
Other assets and liabilities	(83)	(56)
Total cash provided by operating activities	191	296
Cash flows from investing activities		
Additions to property, plant and equipment	(102)	(106)
Repayments of notes receivable	9	14
Acquisitions of businesses, net of cash acquired	(50)	(267)
Other investing activities, net	—	8
Total cash used in investing activities	(143)	(351)
Cash flows from financing activities		
Proceeds from borrowings	414	555
Payments of debt issuance costs and discounts	—	(7)
Repayments on borrowings	(407)	(829)
Premium paid to extinguish debt	—	(26)
Repurchases of common stock	(104)	(100)
Cash dividends paid	(67)	(69)
Other financing activities	(14)	(7)
Total cash used in financing activities	(178)	(483)
Effect of currency exchange rate changes on cash, cash equivalents and restricted cash	(1)	5
Decrease in cash, cash equivalents and restricted cash	(131)	(533)
Cash, cash equivalents and restricted cash - beginning of period	231	761
Cash, cash equivalents and restricted cash - end of period	$ 100	$ 228

See Notes to Condensed Consolidated Financial Statements.

Index to Notes to Condensed Consolidated Financial Statements

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.

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 June 30, 2022, 30% of Valvoline’s outstanding total long-term debt and interest rate swap agreements with a total notional amount of $275 million 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:

	As of June 30, 2022				
(In millions)	Total	Level 1	Level 2	Level 3	NAV [a]
Cash and cash equivalents					
Money market funds	$ 1	$ 1	$ —	$ —	$ —
Time deposits	13	—	13	—	—
Prepaid expenses and other current assets					
Currency derivatives [b]	2	—	2	—	—
Other noncurrent assets					
Non-qualified trust funds	7	—	—	—	7
Interest rate swap agreements	15	—	15	—	—
Total assets at fair value	$ 38	$ 1	$ 30	$ —	$ 7
Accrued expenses and other liabilities					
Currency derivatives [b]	$ 2	$ —	$ 2	$ —	$ —
Other noncurrent liabilities					
Deferred compensation obligations	21	—	—	—	21
Total liabilities at fair value	$ 23	$ —	$ 2	$ —	$ 21

	As of September 30, 2021				
(In millions)	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 $170 million and $137 million as of June 30, 2022 and September 30, 2021, respectively.

There were no material gains or losses recognized in earnings during the three and nine months ended June 30, 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.

	June 30, 2022			September 30, 2021		
(In millions)	Fair value	Carrying value [a]	Unamortized discounts and issuance costs	Fair value	Carrying value [a]	Unamortized discounts and issuance costs
2030 Notes	$ 502	$ 594	$ (6)	$ 622	$ 593	$ (7)
2031 Notes	428	529	(6)	531	529	(6)
Total	$ 930	$ 1,123	$ (12)	$ 1,153	$ 1,122	$ (13)

(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 31 service center stores in single and multi-store transactions along with the remaining ownership interest of an equity method investment for total consideration of $54 million during the nine months ended June 30, 2022. These acquisitions expand Valvoline's retail presence in key North American markets, contribute to growing Retail Services to 1,690 system-wide service center stores, broaden the product portfolio of Global Products into batteries, and enhance distribution capabilities to installer channel customers.

During the nine months ended June 30, 2021, the Company acquired 121 service center stores in single and multi-store transactions, including 44 former franchise locations converted to company-owned service center stores and 12 franchise-operated service center stores, for an aggregate purchase price of $267 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 nine months ended June 30:

(In millions)	2022	2021
Cash	$ 2	$ —
Receivables	2	—
Inventories	1	2
Other current assets	—	1
Property, plant and equipment [(a)]	10	93
Operating lease assets	10	36
Goodwill [(b)]	42	203
Intangible assets [(c)]		
Reacquired franchise rights [(d)]	1	54
Other	1	3
Other noncurrent assets	1	—
Other current liabilities	(4)	(8)
Operating lease liabilities	(9)	(33)
Other noncurrent liabilities	(3)	(84)
Total net assets acquired	$ 54	$ 267
Consideration transferred, net of cash acquired	$ 50	$ 267
Fair value of previously held equity interest	2	—
Cash acquired	2	—
Total consideration transferred	$ 54	$ 267

(a) Includes $3 million of finance lease assets in property, plant and equipment and finance lease liabilities of $1 million and $2 million in other current and noncurrent liabilities, respectively, for leases acquired during the nine months ended June 30, 2022.

(b) 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.

(c) Intangible assets acquired during the nine months ended June 30, 2022 and 2021 have weighted average amortization periods of six and 10 years, respectively.

(d) 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 eight and 10 years for the rights reacquired in fiscal 2022 and 2021, respectively. 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 nine months ended June 30, 2022:

(In millions)	Retail Services	Global Products	Total
Balance at September 30, 2021	$ 513	$ 131	$ 644
Acquisitions [(a)]	34	8	42
Currency translation	(1)	—	(1)
Balance at June 30, 2022	$ 546	$ 139	$ 685

(a) Includes acquisitions within the Retail Services reportable segment of 31 service center stores and the remaining ownership interest of a former joint venture in the Global Products reportable segment. Refer to Note 3 for additional details.

NOTE 5 - DEBT

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

(In millions)	June 30 2022	September 30 2021
2031 Notes	$ 535	$ 535
2030 Notes	600	600
Term Loan	474	475
Revolver [(a)]	—	—
Trade Receivables Facility [(b)]	68	59
China Construction Facility [(c)]	36	39
China Working Capital Facilities [(d)]	—	—
Debt issuance costs and discounts	(13)	(14)
Total debt	1,700	1,694
Current portion of long-term debt	61	17
Long-term debt	$ 1,639	$ 1,677

(a) As of June 30, 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 $107 million of borrowing capacity remaining and the wholly-owned financing subsidiary owned $383 million of outstanding accounts receivable as of June 30, 2022.

(c) The remaining borrowing capacity under the China Construction Facility was approximately $6 million as of June 30, 2022.

(d) Includes two credit facilities, a committed revolving credit facility for $12 million that expires in the first quarter of fiscal 2023 and bears interest at the local prime rate, and an uncommitted credit facility with a revolving line of credit of up to $22 million that expires in the third quarter of fiscal 2024 and bears interest at the local prime rate plus margin (collectively, the "China Working Capital Facilities"). The China Working Capital Facilities have no outstanding borrowings as of June 30, 2022.

As of June 30, 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 June 30		Nine months ended June 30	
	2022	2021	2022	2021
Income tax expense	$ 30	$ 31	$ 83	$ 83
Effective tax rate percentage	23.3 %	24.2 %	23.7 %	24.8 %

The decreases in the effective tax rate in the three and nine months ended June 30, 2022 were primarily attributed to favorable discrete tax benefits in the current year periods, which resulted in relatively flat income tax expense on higher pre-tax earnings.

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 June 30				
Service cost	$ —	$ 1	$ —	$ —
Interest cost	11	10	—	1
Expected return on plan assets	(20)	(22)	—	—
Amortization of prior service credits	—	—	(1)	(3)
Net periodic benefit income	$ (9)	$ (11)	$ (1)	$ (2)
Nine months ended June 30				
Service cost	$ 1	$ 2	$ —	$ —
Interest cost	33	32	1	1
Expected return on plan assets	(60)	(65)	—	—
Amortization of prior service credit	—	—	(2)	(9)
Net periodic benefit income	$ (26)	$ (31)	$ (1)	$ (8)

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:

	Three months ended June 30		Nine months ended June 30	
(In millions, except per share amounts)	2022	2021	2022	2021
Numerator				
Net income	$ 99	$ 97	$ 267	$ 252
Denominator				
Weighted average common shares outstanding	179	182	180	183
Effect of potentially dilutive securities	1	1	1	1
Weighted average diluted shares outstanding	180	183	181	184
Earnings per share				
Basic	$ 0.55	$ 0.53	$ 1.48	$ 1.38
Diluted	$ 0.55	$ 0.53	$ 1.47	$ 1.37

NOTE 10 - REPORTABLE SEGMENT INFORMATION

Valvoline manages its business through the following two reportable segments:

- **Retail Services** - delivers automotive services to vehicle owners and fleets throughout the United States and Canada across a broad array of preventive maintenance services and capabilities performed through Valvoline's retail network of company-operated and independent franchised service center stores, and 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 June 30 2022	Three months ended June 30 2021	Nine months ended June 30 2022	Nine months ended June 30 2021
Sales				
Retail Services	$ 384	$ 330	$ 1,080	$ 869
Global Products	573	462	1,621	1,277
Consolidated sales	$ 957	$ 792	$ 2,701	$ 2,146
Adjusted EBITDA				
Retail Services	$ 113	$ 112	$ 306	$ 277
Global Products	87	81	245	255
Total operating segments	200	193	551	532
Corporate	(20)	(20)	(57)	(53)
Consolidated Adjusted EBITDA	180	173	494	479
Reconciliation to income before income taxes:				
Net interest and other financing expenses	(19)	(17)	(54)	(92)
Depreciation and amortization	(25)	(24)	(75)	(68)
Key items: [(a)]				
Net pension and other postretirement plan income	10	14	28	41
Legacy and separation-related expenses	(11)	(1)	(20)	(2)
LIFO charge	(8)	(17)	(17)	(26)
Business interruption recoveries (losses)	2	—	(3)	3
Information technology transition costs	—	—	(3)	—
Income before income taxes	$ 129	$ 128	$ 350	$ 335

(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 June 30 2022	Three months ended June 30 2021	Nine months ended June 30 2022	Nine months ended June 30 2021
Retail Services				
Company operations	$ 273	$ 234	$ 762	$ 616
Non-company operations	111	96	318	253
Total Retail Services	384	330	1,080	869
Global Products				
Do-It-Yourself	219	166	584	453
Installer and other	354	296	1,037	824
Total Global Products	573	462	1,621	1,277
Consolidated sales	$ 957	$ 792	$ 2,701	$ 2,146

Sales by reportable segment disaggregated by geographic market follows:

(In millions)	Retail Services 2022	Retail Services 2021	Global Products 2022	Global Products 2021	Total 2022	Total 2021
Three months ended June 30						
North America [(a)]	$ 384	$ 330	$ 370	$ 278	$ 754	$ 608
Europe, Middle East and Africa ("EMEA")	—	—	58	56	58	56
Asia Pacific	—	—	96	96	96	96
Latin America [(a)]	—	—	49	32	49	32
Totals	$ 384	$ 330	$ 573	$ 462	$ 957	$ 792
Nine months ended June 30						
North America [(a)]	$ 1,080	$ 869	$ 1,004	$ 755	$ 2,084	$ 1,624
EMEA	—	—	192	161	192	161
Asia Pacific	—	—	298	267	298	267
Latin America [(a)]	—	—	127	94	127	94
Totals	$ 1,080	$ 869	$ 1,621	$ 1,277	$ 2,701	$ 2,146

(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)	June 30 2022	September 30 2021	June 30 2021
Cash and cash equivalents	$ 98	$ 230	$ 226
Restricted cash [(a)]	2	1	2
Total cash, cash equivalents and restricted cash	$ 100	$ 231	$ 228

(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)	June 30 2022	September 30 2021
Trade	$ 576	$ 475
Other	14	16
Notes receivable from franchisees [(a)]	3	10
Receivables, gross	593	501
Allowance for credit losses	(10)	(5)
Receivables, net	$ 583	$ 496

(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 June 30, 2022.

Valvoline sold $53 million of accounts receivable to a financial institution during the nine months ended June 30, 2022 and did not sell accounts receivable during the nine months ended June 30, 2021.

Inventories

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

(In millions)	June 30 2022	September 30 2021
Finished products	$ 311	$ 276
Raw materials, supplies and work in process	79	49
Reserve for LIFO cost valuation	(84)	(67)
Total inventories, net	$ 306	$ 258

Revenue recognition

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

	Three months ended June 30		Nine months ended June 30	
(In millions)	2022	2021	2022	2021
Sales at a point in time	$ 941	$ 779	$ 2,657	$ 2,110
Franchised revenues transferred over time	16	13	$ 44	36
Total consolidated sales	$ 957	$ 792	$ 2,701	$ 2,146

NOTE 12 – SUBSEQUENT EVENTS

Dividend declared

On July 20, 2022, the Board declared a quarterly cash dividend of $0.125 per share of Valvoline common stock. The dividend is payable on September 15, 2022 to shareholders of record on August 31, 2022.

Strategic separation

On July 31, 2022, the Company entered into a definitive agreement to sell its Global Products business to Aramco for a cash purchase price of $2.65 billion, subject to customary adjustments with respect to working capital and net indebtedness. The transaction is subject to standard closing conditions, including regulatory approvals and is expected to close in late calendar year 2022 or early 2023. The Global Products reportable segment generated sales of approximately $1.6 billion in fiscal 2022 to-date from its engine and automotive products sold in more than 140 countries and territories to retailers, installers, and commercial customers to service light- and heavy-duty vehicles and equipment. The Global Products business is expected to be classified as held for sale and will be reflected in Valvoline’s financial statements as discontinued operations beginning in the fourth quarter of fiscal 2022 until closing of the sale.

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 Annual 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.

Index to Management's Discussion and Analysis of Financial Condition and Results of Operations — Page

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 July 31, 2022, the Company entered into a definitive agreement to sell its Global Products business to Aramco for a cash purchase price of $2.65 billion, subject to customary adjustments with respect to working capital and net indebtedness. The transaction is subject to standard closing conditions, including regulatory approvals and is expected to close in late calendar year 2022 or early 2023. The Global Products reportable segment generated sales of approximately $1.6 billion in fiscal 2022 to-date from its engine and automotive products sold in more than 140 countries and territories to retailers, installers, and commercial customers to service light- and heavy-duty vehicles and equipment. The Global Products business is expected to be classified as held for sale and will be reflected in Valvoline's financial statements as discontinued operations beginning in the fourth quarter of fiscal 2022 until closing of the sale.

Once the transaction closes, Valvoline will retain the Valvoline brand for all retail services purposes globally, excluding China and certain countries in the Middle East and North Africa, while Aramco will own the Valvoline brand for all product uses globally. Based on this brand-sharing arrangement, there will be no licensing fees between the parties. In addition, Valvoline will procure motor oil and related products from the Global Products business through a long-term supply agreement that will be effective following the close of the transaction.

Estimated net proceeds of approximately $2.25 billion, after taxes and other expenses, are expected to be utilized to accelerate the return of capital to shareholders through share repurchases with the remainder used for debt reduction and to invest in growth opportunities in Retail Services. Valvoline expects to redeem the 2030 Notes at par based on underlying asset sale covenants and repay certain other indebtedness specifically related to Global Products, including the Trade Receivables Facility. Valvoline anticipates enhancing its capital structure through targeting a 2.5 to 3.5 times adjusted EBITDA net leverage ratio to allow for both investment in the business as well as delivery of returns to shareholders through share repurchases.

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 follow government guidelines to make decisions regarding the safe operation of its offices and locations.

In late June 2022, Valvoline updated its protocols for its U.S. employees, easing its restrictions to more broadly allow travel for business, as well as access to its global headquarters in Lexington, Kentucky. 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 the third quarter and year-to-date periods in fiscal 2022, China has experienced increased cases of COVID-19 that have led to reinstated restrictions, which have impacted operations and demand locally, in addition to the global supply chain. 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, which was impacted by local supply chain constraints as a result of the restrictions. Recoveries were slow and uneven, though began to improve late in the third quarter of fiscal 2022, while management continues to closely monitor the impacts and circumstances.

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.

THIRD FISCAL QUARTER 2022 OVERVIEW

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

- Valvoline continued to deliver top-line growth illustrating the strength of Valvoline's brand and operational performance in the current inflationary environment. Net income grew 2% to $99 million and diluted earnings per share increased 4% to $0.55 in the three months ended June 30, 2022 compared to the prior year period.

- Retail Services sales grew 16% over the prior year period driven by system-wide same-store-sales ("SSS") growth of 9.9% and the addition of 121 net new stores to the system from the prior year. Operating income decreased 1% and adjusted EBITDA increased 1% over the prior year period. Top-line growth in the current quarter was impacted by higher product costs due to the inflationary environment, and sequential improvements form the prior quarter were largely due to pricing actions taken during the period.

- Global Products sales increased 24% compared to the prior year quarter driven by volume growth of 9% and the continued progress of price pass-through of raw material cost increases. Operating income improved 11% and adjusted EBITDA increased 7% from the prior year due to top-line growth that was moderated by inflationary cost pressures and price-cost lag.

- The Company returned $60 million to its shareholders during the quarter through payment of a $0.125 per share cash dividend to deliver $22 million and repurchases of Valvoline common stock of $38 million.

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 June 30:

	Three months ended June 30				Nine months ended June 30			
	2022		2021		2022		2021	
(In millions)	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Sales	$ 957	100.0%	$ 792	100.0%	$ 2,701	100.0%	$ 2,146	100.0%
Gross profit	$ 276	28.8%	$ 259	32.7%	$ 770	28.5%	$ 734	34.2%
Net operating expenses	$ 138	14.4%	$ 128	16.2%	$ 394	14.6%	$ 348	16.2%
Operating income	$ 138	14.4%	$ 131	16.5%	$ 376	13.9%	$ 386	18.0%
Net income	$ 99	10.3%	$ 97	12.2%	$ 267	9.9%	$ 252	11.7%

Sales

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

	Year-over-year changes	
(In millions)	Three months ended June 30, 2022	Nine months ended June 30, 2022
Volume and mix	$ 44	$ 215
Price	123	326
Currency exchange	(13)	(22)
Acquisitions	11	36
Change in sales	$ 165	$ 555

The increases in sales were driven by benefits across both reportable segments, primarily driven by pricing actions taken to pass through cost increases along with volume growth from continued 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 top-line growth across its regions driven by pass-through pricing in addition to record volumes.

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:

	Year-over-year changes	
(In millions)	Three months ended June 30, 2022	Nine months ended June 30, 2022
Volume and mix	$ 20	$ 102
Change in LIFO reserve	9	9
Price and cost	(11)	(74)
Currency exchange	(3)	(5)
Acquisitions	2	4
Change in gross profit	$ 17	$ 36

The increases in gross profit were primarily driven by higher volumes within both reportable segments along with a modest increase due to favorable mix across geographies and products within Global Products. A reduction in the LIFO charge for the current year periods, as well as unit growth through acquisitions also provided benefits to gross profit. These benefits were partially offset by product and labor inflationary cost pressures, in addition to unfavorable currency exchange.

The declines in gross profit margin rates for the current year periods compared to the prior year were primarily the result of higher raw material costs 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 cost increases.

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 June 30:

	Three months ended June 30				Nine months ended June 30			
	2022		2021		2022		2021	
(In millions)	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Selling, general and administrative expenses	$ 138	14.4 %	$ 136	17.2 %	$ 410	15.2 %	$ 382	17.8 %
Legacy and separation-related expenses	11	1.1 %	1	0.1 %	20	0.7 %	2	0.1 %
Equity and other income, net	(11)	(1.1)%	(9)	(1.1)%	(36)	(1.3)%	(36)	(1.7)%
Net operating expenses	$ 138	14.4 %	$ 128	16.2 %	$ 394	14.6 %	$ 348	16.2 %

Expenses, including travel, advertising and promotions, supporting growth led to increases in selling, general and administrative expenses of $2 million and $12 million for the three and nine months ended June 30, 2022, respectively, compared to the prior year periods. Additionally, 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 $10 million of the year-over-year increases in selling, general and administrative expenses for the nine months ended June 30, 2022.

Legacy and separation-related expenses increased in the current year periods compared to the prior year primarily due to the costs incurred in planning the separation of the Retail Services and Global Products segments. These costs include 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 and into fiscal 2023 as the businesses separate.

The increase in Equity and other income, net during the three months ended June 30, 2022 compared to the prior year was primarily driven by higher equity and royalty income attributable to the improved performance of the Company's unconsolidated joint ventures in India and Latin America that more than offset challenges in China due to COVID-19 lockdowns. Equity and other income, net was flat for the nine months ended June 30, 2022 compared to the prior year due to increased equity and royalty income that was offset by lower insurance recoveries in the current year.

Net pension and other postretirement plan income

Net pension and other postretirement plan income decreased $4 million and $13 million in the three and nine months ended June 30, 2022, respectively, compared to 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 increased $2 million and decreased $38 million during the three and nine months ended June 30, 2022, respectively, compared to the prior year periods. The increase in the three months ended June 30, 2022 was primarily attributed to increased interest rates on variable-rate borrowings. Additionally, the decrease in the year-to-date period primarily related to prior year debt extinguishment costs of $36 million, which included the redemption premium and write-off of unamortized debt issuance costs due to the 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:

	Three months ended June 30		Nine months ended June 30	
(In millions)	2022	2021	2022	2021
Income tax expense	$ 30	$ 31	$ 83	$ 83
Effective tax rate percentage	23.3 %	24.2 %	23.7 %	24.8 %

The decreases in the effective tax rate in the current year periods compared to the prior year were primarily attributed to favorable discrete tax benefits in the current year periods, which resulted in relatively flat income tax expense on higher pre-tax earnings.

EBITDA and Adjusted EBITDA

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

	Three months ended June 30		Nine months ended June 30	
(In millions)	2022	2021	2022	2021
Net income	$ 99	$ 97	$ 267	$ 252
Income tax expense	30	31	83	83
Net interest and other financing expenses	19	17	54	92
Depreciation and amortization	25	24	75	68
EBITDA	173	169	479	495
Net pension and other postretirement plan income [(a)]	(10)	(14)	(28)	(41)
Legacy and separation-related expenses	11	1	20	2
LIFO charge	8	17	17	26
Business interruption (recoveries) losses	(2)	—	3	(3)
Information technology transition costs	—	—	3	—
Adjusted EBITDA	$ 180	$ 173	$ 494	$ 479

(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 increased $7 million and $15 million for the three and nine months ended June 30, 2022, respectively, compared to the prior year periods. These improvements were driven by top-line expansion across both reportable segments, which was partially offset by increased costs due to inflationary pressures and increased operating expenses to support top-line growth.

Reportable segment review

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

- ***Retail Services*** - delivers automotive services to vehicle owners and fleets throughout the United States and Canada across a broad array of preventive maintenance services and capabilities performed through Valvoline's retail network of company-operated and independent franchised service center stores, and 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 part 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)]				
	Third Quarter 2022	Second Quarter 2022	First Quarter 2022	Fourth Quarter 2021	Third Quarter 2021
Beginning of period	1,661	1,635	1,594	1,569	1,548
Opened	21	19	32	21	17
Acquired	9	9	12	7	5
Closed	(1)	(2)	(3)	(3)	(1)
End of period	1,690	1,661	1,635	1,594	1,569

	Number of stores at end of period				
	Third Quarter 2022	Second Quarter 2022	First Quarter 2022	Fourth Quarter 2021	Third Quarter 2021
Company-operated	772	757	738	719	698
Franchised	918	904	897	875	871

(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 121 net system-wide stores was the result of 84 net openings and 37 acquired stores. New store openings were driven by 30 net company-operated service center store openings and 54 net new franchisee store openings from expansion in key markets. In addition, 7 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 June 30 2022	Three months ended June 30 2021	Increase (decrease)	Nine months ended June 30 2022	Nine months ended June 30 2021	Increase (decrease)
Financial information						
Retail Services segment sales	$ 384	$ 330	16 %	$ 1,080	$ 869	24 %
Operating income [b]	$ 96	$ 97	(1) %	$ 254	$ 233	9 %
Key items	—	—		—	—	
Depreciation and amortization	17	15	13 %	52	44	18 %
Adjusted EBITDA	$ 113	$ 112	1 %	$ 306	$ 277	10 %
Operating margin [c]	25.0 %	29.4 %	(440) bps	23.5 %	26.8 %	(330) bps
Adjusted EBITDA margin [c]	29.4 %	33.9 %	(450) bps	28.3 %	31.9 %	(360) bps

	Three months ended June 30 2022	Three months ended June 30 2021	Nine months ended June 30 2022	Nine months ended June 30 2021
Same-store sales growth				
Company-operated [c]	7.1 %	36.1 %	12.5 %	20.4 %
Franchised [a] [d]	12.1 %	43.9 %	17.6 %	22.5 %
System-wide [a] [d]	9.9 %	40.5 %	15.4 %	21.6 %

(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 16% and 24% for the three months and nine months ended June 30, 2022, respectively, compared to the prior year periods. System-wide SSS growth was driven by higher average ticket from pricing actions, premiumization and non-oil change revenue, as well as increased transactions. The addition of 121 net new stores in the system through acquisitions and new service center store openings also contributed to sales growth from the prior year.

Operating income decreased 1% and adjusted EBITDA increased 1% for the three months ended June 30, 2022 compared to the prior year period. Profitability was impacted by continued inflationary product cost pressures largely offset by pricing actions taken during the quarter. Operating income and adjusted EBITDA increased 9% and 10%, respectively, in the nine months ended June 30, 2022 compared to the prior year 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 June 30 2022	Three months ended June 30 2021	Increase (decrease)	Nine months ended June 30 2022	Nine months ended June 30 2021	Increase (decrease)
Financial information						
Sales by geographic region						
North America [a]	$ 370	$ 278	33 %	$ 1,004	$ 755	33 %
Europe, Middle East and Africa ("EMEA")	58	56	4 %	192	161	19 %
Asia Pacific	96	96	— %	298	267	12 %
Latin America [a]	49	32	53 %	127	94	35 %
Global Products segment sales	$ 573	$ 462	24 %	$ 1,621	$ 1,277	27 %
Operating income [b]	$ 80	$ 72	11 %	$ 224	$ 233	(4) %
Key items	—	—		—	—	
Depreciation and amortization	7	9	(22) %	21	22	(5) %
Adjusted EBITDA	$ 87	$ 81	7 %	$ 245	$ 255	(4) %
Operating margin [c]	14.0 %	15.6 %	(160) bps	13.8 %	18.2 %	(440) bps
Adjusted EBITDA margin [c]	15.2 %	17.5 %	(230) bps	15.1 %	20.0 %	(490) bps
Volume information						
Lubricant sales (gallons)	45.4	41.8	9 %	131.8	119.7	10 %

(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 24% and 27% in the three and nine months ended June 30, 2022, respectively, compared to the prior year periods, driven by strong top-line growth from record volumes and continued progress on passing through raw materials cost increases in pricing. Volumes were up 9% and 10% for the three and nine months ended June 30, 2022, respectively, over the prior year periods, due to strong growth globally. The Company continued to gain share and meet customer demand, despite facing challenges from COVID-19, particularly in China, and geopolitical disruption in certain international markets.

Operating income improved 11% and adjusted EBITDA increased 7% during the three months ended June 30, 2022 compared to the prior year period as top-line growth more than offset increased costs due to the inflationary raw material cost environment. Operating income and adjusted EBITDA both decreased 4% during the nine months ended June 30, 2022 compared to the prior year period as price-cost lag due to raw material cost increases more than offset sales growth. Cost increases are expected to pressure profitability in the fourth quarter of fiscal 2022, and Valvoline anticipates continued pricing pass through to recover these costs and maintain its margins over time.

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 nine months ended June 30:

(In millions)	2022	2021
Cash, cash equivalents and restricted cash - beginning of period	$ 231	$ 761
Cash provided by (used in):		
Operating activities	191	296
Investing activities	(143)	(351)
Financing activities	(178)	(483)
Effect of currency exchange rate changes on cash, cash equivalents and restricted cash	(1)	5
Decrease increase in cash, cash equivalents and restricted cash	(131)	(533)
Cash, cash equivalents and restricted cash - end of period	$ 100	$ 228

Operating activities

The decrease in cash flows provided by operating activities of $105 million from the prior year was primarily due to the unfavorable increase in net working capital, largely attributed to growth in the Global Products business from raw material cost inflation that has driven higher investments in accounts receivable with customers that carry longer payment terms, in addition to increased inventories. In the current year, net working capital (current assets, excluding cash and cash equivalents, minus current liabilities, excluding long-term debt due within one year) increased $118 million compared to a $51 million increase in the prior year period.

Investing activities

The decrease in cash flows used in investing activities of $208 million from the prior year was primarily due to lower current year acquisition activity of $217 million and less current year additions to property, plant, and equipment of $4 million, which was partially offset by repayments of franchisee COVID relief loans that were $5 million higher in the prior year.

Financing activities

The decrease in cash flows used in financing activities of $305 million from the prior year was primarily due to net repayments on borrowings that were $307 million less during the current year. During the prior year period, Valvoline completed the issuance of the 3.625% senior unsecured notes due 2031 with an aggregate principal amount of $535 million and utilized 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.

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.

	Nine months ended June 30	
(In millions)	2022	2021
Cash flows provided by operating activities	$ 191	$ 296
Less: Maintenance capital expenditures	(24)	(21)
Discretionary free cash flow	167	275
Less: Growth capital expenditures	(78)	(85)
Free cash flow	$ 89	$ 190

The decrease in free cash flow over the prior year was driven by lower cash flows provided by operating activities, partially offset by reduced capital expenditures. Lower capital expenditures were primarily due to the growth investments in the prior year related to the blending and packaging plant in China that began production in fiscal 2021.

Based on the net working capital investments during the current year, the Company updated its fiscal 2022 forecasted free cash flow generation, which excludes cash outflows related to the disposition of Global Products, and is summarized as follows:

	Fiscal year		
(In millions)	2022 Outlook		
Total cash flows provided by operating activities	$ 290	—	$ 300
Adjustments:			
Separation-related cash outflows	20	—	30
Additions to property, plant and equipment	(160)	—	(180)
Forecasted free cash flow	$ 140	—	$ 160

Debt

Inclusive of the interest rate swap agreements, approximately 87% of Valvoline's outstanding borrowings at June 30, 2022 had fixed interest rates, with the remainder bearing variable rates. Valvoline was in compliance with all covenants of its debt obligations as of June 30, 2022 and had a combined total of $578 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, $34 million under the China Working Capital Facilities and $6 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 nine months ended June 30, 2022, the Company paid cash dividends of $0.375 per common share for $67 million and repurchased nearly 3.2 million shares of its common stock for $104 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 July 20, 2022, the Board declared a quarterly cash dividend of $0.125 per share of Valvoline common stock. The dividend is payable on September 15, 2022 to shareholders of record on August 31, 2022. Additionally, the

Company repurchased shares of Valvoline common stock for $12 million during July 2022, leaving the Company with $158 million in aggregate share repurchase authority remaining under the 2021 Share Repurchase Authorization as of August 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. As focus further shifts to the growth of Retail Services in connection with the sale of Global Products, Valvoline expects to discontinue the dividend and return value to shareholders through share repurchases.

Summary

As of June 30, 2022, cash and cash equivalents totaled $98 million, total debt was $1.7 billion, and total remaining borrowing capacity under the Company’s Revolver and Trade Receivables Facility was $578 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 nine months ended June 30, 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 nine months ended June 30, 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 June 30, 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

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, 2021. Except for the addition of the risk factors set forth below, there have been no material changes to the Company's risk factors previously disclosed.

Risks related to the pending sale of the Global Products business

The pending sale of the Global Products business is subject to various risks, uncertainties and conditions and may not be completed on the terms or timeline currently contemplated, if at all.

On July 31, 2022, Valvoline entered into a definitive agreement (the “Purchase Agreement”) to sell its Global Products business to Aramco (the “Buyer”) for $2.65 billion in cash, subject to certain customary adjustments as set forth in the Purchase Agreement (the “Transaction”). The Purchase Agreement provides that completion of the Transaction is subject to the satisfaction of customary closing conditions, including, among other things, obtaining certain required regulatory and third party approvals. The Transaction is expected to close in late calendar year 2022 or early 2023. There can be no assurance regarding the ultimate timing of the Transaction or that the Transaction will be completed. Unanticipated developments could delay, prevent or otherwise adversely affect the Transaction, including but not limited to potential problems or delays in obtaining various regulatory approvals.

During the period leading to closing the Transaction, or whether or not the Transaction is completed, the ongoing businesses may be adversely affected, including as a result of one or more of the following:

- the diversion of management’s attention from operating and growing the business as a result of the time and effort required to execute the Transaction;
- expenses incurred in connection with the Transaction, including the tax effects of the divestiture, in addition to legal, professional advisory and consulting fees to complete the sale and separation of the legal entities and business processes;
- challenges in separating the businesses, including separating the assets and liabilities, infrastructure and personnel, potentially resulting in delays and additional costs in achieving the completion of the Transaction;
- disruptions to and potential adverse impacts on relationships with suppliers, customers and others with whom Valvoline does business;
- challenges in establishing the desired capital structure for the remaining Valvoline business, including challenges accessing the financial markets;
- uncertainty among key employees concerning their future with Valvoline or the Buyer, leading to potential distraction, as well as potential difficulty in attracting, retaining or motivating key employees during the pendency of the Transaction and following its completion;
- potential adverse impact on credit ratings; and
- potential negative reactions from the financial markets if Valvoline fails to complete the Transaction as currently expected.

Valvoline may be unable to achieve some or all of the strategic and financial benefits that it expects to achieve from the Transaction.

After giving effect to estimated taxes and other expenses, Valvoline expects to receive net proceeds of approximately $2.25 billion. Valvoline expects to use the net proceeds to accelerate return of capital to shareholders through share repurchases, with the remainder used for debt reduction and to invest in growth opportunities in Retail Services. In connection with the sale of Global Products, Valvoline expects to drive growth and shareholder value as a best-in-class, pure-play automotive retail service provider.

The anticipated operational, financial, strategic and other benefits may not be achieved upon completion of the Transaction and could have an adverse impact on Valvoline's business, financial condition and results of operations. The anticipated benefits are based on a number of assumptions, some of which may prove incorrect, and could be affected by a number of factors beyond Valvoline's control, including, without limitation, general economic conditions, increased operating costs, regulatory developments and the other risks described in these risk factors and within Item IA of Part I of Valvoline's Annual Report on Form 10-K for the year ended September 30, 2021.

Following the Transaction, Valvoline will be dependent on the Buyer for its lubricants and certain ancillary products and Valvoline's results may be negatively affected if the Buyer is unable to provide these products.

In connection with the Transaction, the parties have agreed to enter into a supply agreement (the "Supply Agreement"). Pursuant to the Supply Agreement, Valvoline will purchase substantially all lubricant and certain ancillary products for its stores from the Buyer. After the Transaction, Valvoline will be dependent on the Supply Agreement for these products. Any interruption, delay or failure in supply from the Buyer could have an adverse effect on Valvoline's business, financial condition, results of operations, or cash flows.

Damage to Valvoline's brand and reputation could have an adverse effect on its business.

In connection with the Transaction, the parties have agreed to enter into a brand agreement (the "Brand Agreement"). Pursuant to the Brand Agreement, Valvoline will retain ownership of the Valvoline brand for generally all retail services purposes, and the Buyer will own the brand for all product uses. The Buyer's ability to use the brand may increase the risk of damage to the brand, which could negatively impact Valvoline's reputation and business.

The completion of the Transaction may adversely affect Valvoline's business.

Valvoline is currently comprised of two business segments, Retail Services and Global Products. The Transaction will result in Valvoline being a smaller, less diversified company, potentially making it more vulnerable to changing market, regulatory and economic conditions. Specifically, following completion of the Transaction, Valvoline will be more concentrated geographically in North America and in serving the automotive aftermarket through company-operated, independent franchises, and independent Express Care stores that service vehicles with Valvoline products. In addition, Valvoline may be unable to obtain goods or services at prices or on terms that are as favorable as those obtained by Valvoline prior to the Transaction, and Valvoline's ability to absorb costs may be negatively impacted. Any of these factors could have an adverse effect on Valvoline's business, financial condition, results of operations, or cash flows.

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

Repurchases of the Company’s common stock during the three months ended June 30, 2022 pursuant to the 2021 Share Repurchase Authorization were:

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)
April 1, 2022 - April 30, 2022	385,500	$ 31.02	385,500	$ 195
May 1, 2022 - May 31, 2022	427,818	$ 29.97	427,818	$ 182
June 1, 2022 - June 30, 2022	403,041	$ 30.66	403,041	$ 170
Total	1,216,359	$ 30.53	1,216,359	

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)

August 4, 2022	By:	/s/ Mary E. Meixelsperger
		Mary E. Meixelsperger
		Chief Financial Officer

EXHIBIT 31.1

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: August 4, 2022

/s/ Samuel J. Mitchell Jr.

Samuel J. Mitchell Jr.
Chief Executive Officer and Director
(Principal Executive Officer)

EXHIBIT 31.2

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: August 4, 2022

/s/ Mary E. Meixelsperger

Mary E. Meixelsperger
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

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 June 30, 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
August 4, 2022

/s/ Mary E. Meixelsperger
Mary E. Meixelsperger
Chief Financial Officer
August 4, 2022