

NEWMARKET CORP
Form 10-Q
April 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____
Commission File Number 1-32190

NEWMARKET CORPORATION
(Exact name of registrant as specified in its charter)

VIRGINIA
(State or other jurisdiction of
incorporation or organization)

20-0812170
(I.R.S. Employer
Identification No.)

330 SOUTH FOURTH STREET
RICHMOND, VIRGINIA
(Address of principal executive offices)

23219-4350
(Zip Code)

Registrant's telephone number, including area code - (804) 788-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Number of shares of common stock, without par value, outstanding as of March 31, 2015: 12,443,241

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NEWMARKET CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

NEWMARKET CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (in thousands, except per-share amounts) | Three Months Ended | |
|---|--------------------|-----------|
| | March 31, | |
| | 2015 | 2014 |
| Net sales | \$559,566 | \$576,422 |
| Cost of goods sold | 378,294 | 414,492 |
| Gross profit | 181,272 | 161,930 |
| Selling, general, and administrative expenses | 41,809 | 39,548 |
| Research, development, and testing expenses | 39,685 | 32,207 |
| Operating profit | 99,778 | 90,175 |
| Interest and financing expenses, net | 3,816 | 4,164 |
| Other income (expense), net | (2,325 |) (2,216 |
| Income before income tax expense | 93,637 | 83,795 |
| Income tax expense | 29,690 | 26,272 |
| Net income | \$63,947 | \$57,523 |
| Earnings per share - basic and diluted | \$5.14 | \$4.43 |
| Cash dividends declared per share | \$1.40 | \$1.10 |

See accompanying Notes to Consolidated Financial Statements

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

| (in thousands) | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2015 | 2014 |
| Net income | \$63,947 | \$57,523 |
| Other comprehensive income (loss): | | |
| Pension plans and other postretirement benefits: | | |
| Amortization of prior service cost (credit) included in net periodic benefit cost, net of income tax expense (benefit) of \$4 in 2015 and \$4 in 2014 | (3 |) (3 |
| Amortization of actuarial net loss (gain) included in net periodic benefit cost, net of income tax expense (benefit) of \$768 in 2015 and \$384 in 2014 | 1,360 | 707 |
| Amortization of transition obligation (asset) included in net periodic benefit cost, net of income tax expense (benefit) of \$1 in 2014 | 0 | 2 |
| Total pension plans and other postretirement benefits | 1,357 | 706 |
| Foreign currency translation adjustments, net of income tax expense (benefit) of (\$1,098) in 2015 and \$985 in 2014 | (25,664 |) 1,025 |
| Other comprehensive income (loss) | (24,307 |) 1,731 |
| Comprehensive income | \$39,640 | \$59,254 |

See accompanying Notes to Consolidated Financial Statements

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NEWMARKET CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| (in thousands, except share amounts) | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 119,243 | \$ 103,003 |
| Trade and other accounts receivable, less allowance for doubtful accounts | 303,334 | 302,803 |
| Inventories: | | |
| Finished goods and work-in-process | 291,866 | 292,214 |
| Raw materials | 44,056 | 46,673 |
| Stores, supplies, and other | 9,492 | 9,533 |
| | 345,414 | 348,420 |
| Deferred income taxes | 5,487 | 7,837 |
| Prepaid expenses and other current assets | 37,873 | 35,128 |
| Total current assets | 811,351 | 797,191 |
| Property, plant, and equipment, at cost | 1,025,540 | 1,016,868 |
| Less accumulated depreciation and amortization | 706,970 | 709,009 |
| Net property, plant, and equipment | 318,570 | 307,859 |
| Prepaid pension cost | 16,693 | 16,082 |
| Deferred income taxes | 50,544 | 48,499 |
| Intangibles (net of amortization) and goodwill | 15,260 | 16,859 |
| Deferred charges and other assets | 45,252 | 45,435 |
| Total assets | \$ 1,257,670 | \$ 1,231,925 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 136,325 | \$ 137,688 |
| Accrued expenses | 78,661 | 86,539 |
| Dividends payable | 15,738 | 15,721 |
| Income taxes payable | 21,237 | 6,462 |
| Other current liabilities | 5,173 | 13,264 |
| Total current liabilities | 257,134 | 259,674 |
| Long-term debt | 373,541 | 363,526 |
| Other noncurrent liabilities | 184,105 | 187,684 |
| Total liabilities | 814,780 | 810,884 |
| Commitments and contingencies (Note 7) | | |
| Shareholders' equity: | | |
| Common stock and paid-in capital (without par value; authorized shares - 80,000,000; issued and outstanding shares - 12,443,241 at March 31, 2015 and 12,446,365 at December 31, 2014) | 426 | 0 |
| Accumulated other comprehensive loss | (163,467 |) (139,160 |
| Retained earnings | 605,931 | 560,201 |
| Total shareholders' equity | 442,890 | 421,041 |
| Total liabilities and shareholders' equity | \$ 1,257,670 | \$ 1,231,925 |

See accompanying Notes to Consolidated Financial Statements

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NEWMARKET CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

| (in thousands, except share and per-share amounts) | Common Stock and Paid-in Capital | | Accumulated Other Comprehensive Loss | Retained Earnings | Total Shareholders' Equity |
|--|----------------------------------|--------|--------------------------------------|-------------------|----------------------------|
| | Shares | Amount | | | |
| Balance at December 31, 2013 | 13,099,356 | \$0 | \$ (60,086) | \$632,534 | \$572,448 |
| Net income | | | | 57,523 | 57,523 |
| Other comprehensive income (loss) | | | 1,731 | | 1,731 |
| Cash dividends (\$1.10 per share) | | | | (14,200) | (14,200) |
| Repurchases of common stock | (232,200) | (472) | | (81,019) | (81,491) |
| Stock-based compensation | (121) | 472 | | 2 | 474 |
| Balance at March 31, 2014 | 12,867,035 | \$0 | \$ (58,355) | \$594,840 | \$536,485 |
| Balance at December 31, 2014 | 12,446,365 | \$0 | \$ (139,160) | \$560,201 | \$421,041 |
| Net income | | | | 63,947 | 63,947 |
| Other comprehensive income (loss) | | | (24,307) | | (24,307) |
| Cash dividends (\$1.40 per share) | | | | (17,421) | (17,421) |
| Repurchases of common stock | (2,629) | (232) | | (810) | (1,042) |
| Stock-based compensation | (495) | 658 | | 14 | 672 |
| Balance at March 31, 2015 | 12,443,241 | \$426 | \$ (163,467) | \$605,931 | \$442,890 |

See accompanying Notes to Consolidated Financial Statements

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

| (in thousands) | Three Months Ended | |
|--|--------------------|------------|
| | March 31, | |
| | 2015 | 2014 |
| Cash and cash equivalents at beginning of year | \$ 103,003 | \$ 238,703 |
| Cash flows from operating activities: | | |
| Net income | 63,947 | 57,523 |
| Adjustments to reconcile net income to cash flows from operating activities: | | |
| Depreciation and amortization | 10,186 | 10,258 |
| Noncash pension and postretirement expense | 5,837 | 3,654 |
| Deferred income tax expense | 818 | 1,996 |
| Unrealized gain on derivative instruments, net | (95 |) (310 |
| Working capital changes | (13,806 |) (66,764 |
| Cash pension and postretirement contributions | (6,730 |) (5,202 |
| Other, net | (3,605 |) 3,226 |
| Cash provided from (used in) operating activities | 56,552 | 4,381 |
| Cash flows from investing activities: | | |
| Capital expenditures | (20,424 |) (9,251 |
| Deposits for interest rate swap | (7,118 |) (1,325 |
| Return of deposits for interest rate swap | 6,750 | 1,580 |
| Other, net | (2,503 |) (2,543 |
| Cash provided from (used in) investing activities | (23,295 |) (11,539 |
| Cash flows from financing activities: | | |
| Net borrowings under revolving credit facility | 10,000 | 6,000 |
| Dividends paid | (17,421 |) (14,200 |
| Repurchases of common stock | (1,042 |) (77,061 |
| Other, net | (3,022 |) (161 |
| Cash provided from (used in) financing activities | (11,485 |) (85,422 |
| Effect of foreign exchange on cash and cash equivalents | (5,532 |) 534 |
| Increase (decrease) in cash and cash equivalents | 16,240 | (92,046 |
| Cash and cash equivalents at end of period | \$ 119,243 | \$ 146,657 |
| Supplemental disclosure of non-cash transactions: | | |
| Additions to property, plant, and equipment included in current liabilities | \$ 5,433 | \$ 0 |

See accompanying Notes to Consolidated Financial Statements

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NEWMARKET CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

1. Financial Statement Presentation

In the opinion of management, the accompanying consolidated financial statements of NewMarket Corporation and its subsidiaries contain all necessary adjustments for the fair statement of, in all material respects, our consolidated financial position as of March 31, 2015 and December 31, 2014, and our consolidated results of operations, comprehensive income, changes in shareholders' equity, and cash flows for the three months ended March 31, 2015 and March 31, 2014. All adjustments are of a normal, recurring nature, unless otherwise disclosed. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the NewMarket Corporation Annual Report on Form 10-K for the year ended December 31, 2014 (2014 Annual Report), as filed with the Securities and Exchange Commission. The results of operations for the three month period ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015. The December 31, 2014 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Unless the context otherwise indicates, all references to "we," "us," "our," the "company," and "NewMarket" are to NewMarket Corporation and its consolidated subsidiaries. Certain reclassifications have been made to the accompanying consolidated financial statements to conform to the current presentation.

2. Segment Information

The tables below show our consolidated segment results. The "All other" category includes the operations of the tetraethyl lead (TEL) business, as well as certain contract manufacturing performed by Ethyl Corporation (Ethyl).

Consolidated Revenue by Segment

| (in thousands) | Three Months Ended | |
|----------------------|--------------------|-----------|
| | March 31, 2015 | 2014 |
| Petroleum additives | | |
| Lubricant additives | \$453,722 | \$473,349 |
| Fuel additives | 101,043 | 100,696 |
| Total | 554,765 | 574,045 |
| All other | 4,801 | 2,377 |
| Consolidated revenue | \$559,566 | \$576,422 |

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Segment Operating Profit

| (in thousands) | Three Months Ended | | |
|---|--------------------|----------|---|
| | March 31, | | |
| | 2015 | 2014 | |
| Petroleum additives | \$105,025 | \$96,179 | |
| All other | 2,099 | 535 | |
| Segment operating profit | 107,124 | 96,714 | |
| Corporate, general, and administrative expenses | (7,015 |) (6,553 |) |
| Interest and financing expenses, net | (3,816 |) (4,164 |) |
| Loss on interest rate swap agreement (a) | (2,408 |) (2,233 |) |
| Other (expense) income, net | (248 |) 31 | |
| Income before income tax expense | \$93,637 | \$83,795 | |

The loss on interest rate swap agreement represents the change, since the beginning of the reporting period, in the (a) fair value of an interest rate swap which we entered into on June 25, 2009. We are not using hedge accounting to record the interest rate swap, and accordingly, any change in the fair value is immediately recognized in earnings.

3. Pension Plans and Other Postretirement Benefits

The table below shows cash contributions made during the three months ended March 31, 2015, as well as the remaining cash contributions we expect to make during the year ending December 31, 2015, for our domestic and foreign pension plans and domestic postretirement benefit plans.

| (in thousands) | Actual Cash Contributions for Three Months Ended March 31, 2015 | Expected Remaining Cash Contributions for Year Ending December 31, 2015 |
|-------------------------|---|---|
| Domestic plans | | |
| Pension benefits | \$4,830 | \$14,490 |
| Postretirement benefits | 340 | 1,019 |
| Foreign plans | | |
| Pension benefits | 1,560 | 4,234 |

The tables below present information on net periodic benefit cost (income) for our pension and postretirement benefit plans.

| (in thousands) | Domestic Pension Benefits | | Postretirement Benefits | | |
|---|------------------------------|----------|-------------------------|--------|---|
| | Three Months Ended March 31, | | 2015 | 2014 | |
| | 2015 | 2014 | | | |
| Service cost | \$3,240 | \$2,387 | \$711 | \$405 | |
| Interest cost | 2,983 | 2,738 | 757 | 692 | |
| Expected return on plan assets | (5,092 |) (4,330 |) (322 |) (328 |) |
| Amortization of prior service cost | 25 | 25 | 0 | 2 | |
| Amortization of actuarial net loss (gain) | 1,735 | 977 | 0 | (177 |) |
| Net periodic benefit cost (income) | \$2,891 | \$1,797 | \$1,146 | \$594 | |

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| (in thousands) | Foreign Pension Benefits | | Postretirement Benefits | |
|---------------------------------------|------------------------------|----------|-------------------------|------|
| | Three Months Ended March 31, | | | |
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$1,945 | \$1,495 | \$0 | \$2 |
| Interest cost | 1,269 | 1,555 | 0 | 24 |
| Expected return on plan assets | (1,788 |) (2,079 |) 0 | 0 |
| Amortization of prior service credit | (24 |) (26 |) 0 | 0 |
| Amortization of transition obligation | 0 | 0 | 0 | 3 |
| Amortization of actuarial net loss | 398 | 284 | 0 | 5 |
| Net periodic benefit cost (income) | \$1,800 | \$1,229 | \$0 | \$34 |

4. Earnings Per Share

We had 30,026 shares of nonvested restricted stock at March 31, 2015 and 20,100 shares of nonvested restricted stock at March 31, 2014 that were excluded from the calculation of diluted earnings per share, as their effect on earnings per share would be anti-dilutive.

The nonvested restricted stock is considered a participating security since the restricted stock contains nonforfeitable rights to dividends. As such, we use the two-class method to compute basic and diluted earnings per share for all periods presented since this method yielded a more dilutive result than the treasury-stock method. The following table illustrates the earnings allocation method utilized in the calculation of basic and diluted earnings per share.

| (in thousands, except per-share amounts) | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2015 | 2014 |
| Earnings per share numerator: | | |
| Net income attributable to common shareholders before allocation of earnings to participating securities | \$63,947 | \$57,523 |
| Earnings allocated to participating securities | 142 | 90 |
| Net income attributable to common shareholders after allocation of earnings to participating securities | \$63,805 | \$57,433 |
| Earnings per share denominator: | | |
| Weighted-average number of shares of common stock outstanding - basic and diluted | 12,413 | 12,953 |
| Earnings per share - basic and diluted | \$5.14 | \$ |