

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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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	\$