



Quaker Chemical Announces Third Quarter Results

October 28, 2004

CONSHOHOCKEN, Pa., Oct. 28 /PRNewswire-FirstCall/ -- Quaker Chemical Corporation (NYSE: KWR) today announced record quarterly sales of \$99.7 million and diluted earnings per share of \$0.12 for the third quarter of 2004.

Third Quarter Summary

Net sales for the third quarter of 2004 were \$99.7 million, up 11% from \$89.7 million for the third quarter of 2003. Foreign exchange rate translation and the Company's 2003 acquisitions favorably impacted net sales by \$2.4 million and \$3.9 million, respectively. The remaining net sales increase of approximately 4% was attributable to growth in the North and South American regions, tempered by lower sales in Europe.

Net income for the third quarter decreased to \$1.2 million versus \$4.1 million for the third quarter of 2003. Significantly higher raw material cost, which was the single most important factor, and higher selling, general and administrative costs were largely responsible for the shortfall in earnings compared to the prior year.

Gross margin as a percentage of sales declined from 34.3% for the third quarter of 2003 to 31.8% for the third quarter of 2004. While the Company benefited from the implementation of price increases during the quarter, these gains were more than offset by the continued escalation of raw material prices, particularly crude oil. Unfavorable product and regional sales mix also contributed to the decline in gross margin percentage.

Selling, general and administrative expenses for the quarter increased \$4.8 million compared to the third quarter of 2003. The third quarter of 2003 is unusually low as a comparison period due to a reduction in incentive compensation in that quarter. The incentive compensation adjustment, foreign exchange rate translation, and the Company's 2003 acquisitions accounted for approximately two-thirds of the increase. The majority of the remaining increase was due to costs associated with important strategic initiatives, as well as a range of administrative costs such as insurance and Sarbanes-Oxley compliance.

Ronald J. Naples, Chairman and Chief Executive Officer, commented, "Needless to say, our third quarter earnings are very disappointing. We did a fine job on the revenue line, even in the face of weakening demand in some of our steel markets, but were unable to turn that into the earnings progress we had expected. The size and speed of raw material cost increases accelerated considerably in the third quarter, particularly crude oil, and outpaced the effect of the pricing actions we had underway. But we're not letting these factors distract us from our focus on the value of strong market positions, and we continue to push important business-building initiatives, from CMS product conversions to market development in China, as well as pricing imperatives driven by our extraordinary raw material experience."

Year-to-Date Summary

Net sales for the first nine months of the year increased to \$296.5 million, up 20% from \$246.5 million for the first nine months of 2003. Foreign exchange rate translation, the Company's 2003 acquisitions and the Company's new Chemical Management Services (CMS) contracts favorably impacted net sales by \$10.8 million, \$15.1 million and \$17.1 million, respectively. The remaining net sales increase of approximately 3% was attributable to growth in the Asia/Pacific and North and South American regions, partially offset by lower sales in Europe.

Net income was \$7.3 million versus \$10.7 million for the first nine months of 2003 due to significantly higher raw material costs, and higher selling, general and administrative costs. Earnings per diluted share decreased from \$1.11 per diluted share to \$0.73 per diluted share.

Gross margin as a percentage of sales declined from 35.7% in 2003 to 32.6% in 2004. The Company's new CMS contracts have caused different relationships between margins and revenue than in the past. At the majority of CMS sites, the Company effectively acts as an agent and records revenue and costs from these sales on a net sales or "pass-through" basis. The new CMS contracts have a different structure, which results in the Company recognizing in reported revenue the gross revenue received from the CMS site customer, and in cost of goods sold the third party product purchases. The negative impact to gross margin for the first nine months of 2004 versus the prior year related to the new CMS contracts is approximately 1.6 percentage points. The remaining decline in gross margin as a percentage of sales is primarily due to increased raw material costs. Unfavorable product and regional mix also contributed to the decline.

Selling, general and administrative expenses for the first nine months of the year increased \$12.7 million compared to the first nine months of 2003. Foreign exchange rate translation and the Company's 2003 acquisitions accounted for approximately 40% of the increase. The majority of the remaining increase was due to the same expense factors noted in the third quarter summary, as well as higher commissions related to higher sales.

Balance Sheet and Cash Flow Items

The Company's net debt has increased since year-end primarily to fund the working capital needs associated with its growth initiatives. The Company's net debt-to-total capital ratio is 29% at the end of third quarter compared to 25% at the end of 2003. The Company's credit lines total \$70.0 million, \$40.0 committed and \$30.0 uncommitted. At September 30, 2004, the Company had approximately \$55.0 million outstanding on its credit lines.

Outlook

Mr. Naples observed, "We're very pleased with our strong revenue growth and firmly believe that the customer expansion and penetration it represents are the real keys to continuing the long record of solid financial performance we've put together over the past eight years. We're in a very tough period

right now, as evidenced by the third quarter, driven by a number of factors already mentioned, but especially by dramatic price behavior in crude oil markets, as well as volatility in other important raw material markets, such as vegetable oils and animal fats. Further, the demand for the consumer durables that drive much of the demand for our products and services shows some softness in parts of the world due to economic uncertainties. While we expect the fourth quarter to be better than the third quarter, we've concluded that right now with these factors in mind, quarter-to-quarter financial results cannot be forecasted reliably with a high degree of precision, especially with virtually unprecedented raw material behavior."

Mr. Naples added, "We continue to work with our customers to implement pricing actions that would mitigate continually increasing raw material costs. We are building our position in growth areas such as China and investing in new business development. We believe that CMS will be an increasingly significant contributor to our earnings. We are challenging many aspects of our cost base. Most important for the future, we're convinced we're on the right strategic track that calls for us to create a unique competitive position with our customers through our focus on value, and to maintain that differentiation through operating around the world as a globally integrated whole and harnessing our global knowledge and learning for the benefit of our customers. Our current strong market positions flow from these strategic imperatives, and it is these that will allow us to emerge from this difficult period stronger than ever."

Quaker Chemical Corporation, headquartered in Conshohocken, Pennsylvania, is a worldwide developer, producer, and marketer of custom-formulated chemical specialty products and a provider of chemical management services for manufacturers around the globe, primarily in the steel and automotive industries.

This release contains forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in such statements. A major risk is that the Company's demand is largely derived from the demand for its customers' products, which subjects the Company to downturns in a customer's business and unanticipated customer production shutdowns. Other major risks and uncertainties include, but are not limited to, significant increases in raw material costs, customer financial stability, worldwide economic and political conditions, foreign currency fluctuations, and future terrorist attacks such as those that occurred on September 11, 2001. Other factors could also adversely affect us. Therefore, we caution you not to place undue reliance on our forward-looking statements. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

As previously announced, Quaker Chemical's investor conference to discuss third quarter results is scheduled for October 29, 2004 at 2:30 p.m. (ET). Access the conference by calling 877-269-7756 or visit Quaker's Web site at <http://www.quakerchem.com> for a live webcast.

Quaker Chemical Corporation
Condensed Consolidated Statement of Income
(Dollars in thousands, except per share data and share amounts)

(Unaudited)

	Three Months ended September 30,		Nine Months ended September 30,	
	2004	2003	2004	2003
Net sales	\$99,667	\$89,713	\$296,481	\$246,503
Cost of goods sold	67,976	58,928	199,791	158,405
Gross margin	31,691	30,785	96,690	88,098
%	31.8%	34.3%	32.6%	35.7%
Selling, general and administrative	29,249	24,459	83,056	70,367
Operating income	2,442	6,326	13,634	17,731
%	2.5%	7.1%	4.6%	7.2%
Other income, net	422	295	1,189	830
Interest expense, net	(302)	(240)	(966)	(614)
Income before taxes	2,562	6,381	13,857	17,947
Taxes on income	807	1,683	4,365	5,384
	1,755	4,698	9,492	12,563
Equity in net income of associated companies	264	215	599	470
Minority interest in net income of subsidiaries	(865)	(777)	(2,781)	(2,315)
Net income	\$1,154	\$4,136	\$7,310	\$10,718
%	1.2%	4.6%	2.5%	4.3%

Per share data:

Net income - basic	\$0.12	\$0.44	\$0.76	\$1.15
Net income- diluted	\$0.12	\$0.42	\$0.73	\$1.11

Shares Outstanding:

Basic	9,621,746	9,410,675	9,598,928	9,335,628
Diluted	9,973,920	9,856,783	9,978,583	9,687,346

Quaker Chemical Corporation
Condensed Consolidated Balance Sheet
(Dollars in thousands, except par value and share amounts)

(Unaudited)

	September 30, 2004	December 31, 2003
ASSETS		
Current assets		
Cash and cash equivalents	\$29,948	\$21,915
Accounts receivable, net	85,098	78,121
Inventories, net	37,548	32,211
Prepaid expenses and other current assets	15,332	11,277
Total current assets	167,926	143,524
Property, plant, and equipment	141,610	136,448
Less accumulated depreciation	79,399	74,057
Net property, plant and equipment	62,211	62,391
Goodwill	33,495	33,301
Other intangible assets, net	8,736	9,616
Investments in associated companies	6,123	6,005
Deferred income taxes	12,852	12,846
Other assets	19,841	19,664
Total assets	\$311,184	\$287,347
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$58,611	\$42,992
Accounts and other payables	41,576	41,259
Accrued compensation	7,724	6,816
Other current liabilities	14,725	14,738
Total current liabilities	122,636	105,805
Long-term debt	17,966	15,827
Deferred income taxes	2,861	2,688
Other non-current liabilities	42,241	40,967
Total liabilities	185,704	165,287
Minority interest in equity of subsidiaries	11,976	9,708
Shareholders' equity		
Common stock, \$1 par value; authorized 30,000,000 shares; issued (including treasury shares) 9,664,009 shares	9,664	9,664
Capital in excess of par value	2,486	2,181
Retained earnings	118,390	117,308
Unearned compensation	(421)	(621)
Accumulated other comprehensive		

loss	(16,491)	(15,406)
	113,628	113,126
Treasury stock, shares held at cost; 2004 - 4,518, 2003 - 54,178	(124)	(774)
Total shareholders' equity	113,504	112,352
Total liabilities and shareholders' equity	\$311,184	\$287,347

Quaker Chemical Corporation
Condensed Consolidated Statement of Cash Flows
For the nine months ended September 30,
(Dollars in thousands)

(Unaudited)

	2004	2003
Cash flows from operating activities		
Net income	\$7,310	\$10,718
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,272	5,246
Amortization	863	620
Equity in net income of associated companies	(599)	(470)
Minority interest in earnings of subsidiaries	2,781	2,315
Deferred compensation and other, net	1,003	1,002
Pension and other postretirement benefits	653	2,250
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	(7,315)	(14,460)
Inventories	(5,390)	(4,362)
Prepaid expenses and other current assets	(4,059)	1,587
Accounts payable and accrued liabilities	1,796	(2,235)
Change in restructuring liabilities	(480)	(908)
Net cash provided by operating activities	\$2,835	\$1,303
Cash flows from investing activities		
Capital expenditures	(6,810)	(7,820)
Dividends and distributions from associated companies	288	3,890
Payments related to acquisitions	-	(6,737)
Other, net	38	(117)
Net cash (used in) investing activities	(6,484)	(10,784)
Cash flows from financing activities		
Net increase in short-term borrowings	15,616	16,686
Proceeds from long-term debt	2,463	-
Repayments of long-term debt	(299)	-
Dividends paid	(6,170)	(5,909)
Stock options exercised, other	818	3,106
Distributions to minority shareholders	(245)	(1,018)

Net cash provided by financing activities	12,183	12,865
Effect of exchange rate changes on cash	(501)	740
Net increase in cash and cash equivalents	8,033	4,124
Cash and cash equivalents at the beginning of the period	21,915	13,857
Cash and cash equivalents at the end of the period	\$29,948	\$17,981

SOURCE Quaker Chemical Corporation

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