Quaker Chemical Announces Record Quarterly Sales and Increased Earnings

July 31, 2003

CONSHOHOCKEN, Pa., July 31 /PRNewswire-FirstCall/ -- Quaker Chemical Corporation (NYSE: KWR) today announced record quarterly sales of $83.5 million and net income growth of 7% for the second quarter ended June 30, 2003 versus the comparable period in 2002.

Second Quarter 2003 Summary

Net income for the second quarter was $3.5 million versus $3.2 million for the second quarter of 2002. The earnings per diluted share of $0.36 were a 3% improvement over the second quarter of 2002 of $0.35 per diluted share.

Net sales for the second quarter were a record $83.5 million, up 20% from $69.5 million for the second quarter 2002. Foreign exchange rate translation and the timing of the Company's 2002 acquisitions favorably impacted net sales by $4.2 million and $2.5 million, respectively. Second quarter sales also include $6.7 million from the Company's recently awarded chemical management services (CMS) contracts, which were effective May 1, 2003.

Gross margin as a percentage of sales declined from 41.7% for the second quarter of 2002 to 34.7% for the second quarter of 2003. As previously disclosed, the Company's new CMS contracts, which were effective May 1, cause a different relationship between margins and revenue than has applied in the past for the Company's traditional product business. At the majority of current 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 that 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, which substantially offset each other. The negative impact on the gross margin for the second quarter related to the new CMS contracts is approximately 3 percentage points. The remaining decline in gross margin as a percentage of sales was due to increased raw material costs, as well as product and regional sales mix. The Company continues to expect raw material prices to be higher in 2003 primarily due to continued high oil prices.

Selling, general and administrative expenses for the quarter were essentially flat with the second quarter of 2002. Increases due to foreign exchange rates and the timing of the Company's 2002 acquisitions were offset by reduced incentive compensation expense and cost containment efforts of the Company.

In the second quarter, the Company received a $2.4 million priority cash distribution from its real estate joint venture. This favorably impacted other income by $0.3 million.

Ronald J. Naples, Chairman and Chief Executive Officer, stated, "While our second quarter earnings were up consistent with our previous guidance, through the quarter we did see an increasingly difficult demand environment in comparison to the course of the business last year. Our sales to the steel industry were below our expectations in both the U.S. and Europe due to lower steel production. In addition, we saw higher raw material costs, which we expect to remain higher than last year -- and higher than we expected -- primarily due to continued strength in crude oil prices."

Mr. Naples continued, "Even as we keep a sharp eye on current performance, we continue our emphasis on building for the long-term with initiatives that expand our market reach and strengthen our competitive positioning. In the second quarter, we won a number of new CMS contracts and began operations at seven new sites in May. Also, we completed two tight-fit acquisitions in May and July, which broaden our product lines for both our steel and metalworking businesses and our geographic market presence. We'll see only minimal profit contribution from these initiatives in 2003, but we expect these to be meaningful long-term contributors."

Year-to-Date Summary

Net income for the first half of the year was $6.6 million versus $5.6 million in the first half of 2002. Earnings per diluted share increased 15% to $0.69 versus $0.60 in the first half of 2002.

Net sales for the first half of the year increased to $156.8 million, up 21% from $129.4 million for the first half of 2002. Net sales were favorably impacted by foreign exchange rate translation and the timing of the Company's 2002 acquisitions in the respective amounts of $6.3 million and $8.1 million. As noted above, net sales for the first half of the year also include $6.7 million from the Company's new CMS contracts.

Gross margin as a percentage of sales declined from 41.2% for the first half of 2002 to 36.6% for the first half of 2003. The Company's new CMS contracts negatively impacted gross margin for the first half of 2003 by approximately 2 percentage points with the remaining decline due to increased raw material costs, as well as product and regional sales mix.

Selling, general and administrative expenses for the first half of 2003 increased $2.6 million from the first half of 2002. Increases due to foreign exchange rates and the timing of the Company's 2002 acquisitions were partially offset by reduced incentive compensation expense and cost containment efforts of the Company.

Balance Sheet and Cash Flow Items

The Company's debt to total capital ratio remains strong at 27% at the end of June, 2003 compared to 25% at the end of 2002 and 34% at the end of June, 2002. In addition, the Company has increased its credit lines from $25 million at the end of March to its current position of $30 million committed and $20 million uncommitted. As of the end of June, the Company had approximately $17 million outstanding on its credit lines.

The Company also received $4.2 million of priority cash distributions from its real estate joint venture in the first half of 2003. In addition, the Company had higher accounts receivable at the end of the second quarter primarily due to the $6.7 million of sales attributable to the start-up of the new CMS contracts as well as increased sales volume quarter-over-quarter.

Outlook

Mr. Naples stated, "As we look ahead, we expect that the demand uncertainties noted in the second quarter will continue, particularly in steel. We've seen weakness as steel producers in some markets lower their production to maintain pricing. We do expect some improvement in raw material costs as compared to the first half, but not to the extent we had expected earlier in the year, and, we expect to get some benefit from a strong euro. The net of all this is to make second half prior-year comparisons tougher against the relatively strong second half of 2002. Nevertheless, as we see the world today, we continue to expect to have 2003 full-year earnings slightly ahead of last year, with the third and fourth quarter earnings level being approximately equal. Whatever the precise course of the second half, though, we're pleased with the long-term building steps we've already taken in 2003."

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. Such risks and uncertainties include, but are not limited to, further downturns in our customers' businesses, significant increases in raw material costs, worldwide economic and political conditions, foreign currency fluctuations, and future terrorist attacks such as those that occurred on September 11, 2001.

As previously announced, Quaker Chemical's investor conference to discuss second quarter results is scheduled for August 1, 2003 at 10:30 a.m. (ET). Access the conference by calling 800-922-0755 or visit Quaker's Web site at www.quakerchem.com for a live webcast.

Quaker Chemical Corporation
Condensed Consolidated Statement of Income
For the period ended June 30,

Unaudited
(Dollars in thousands, except per share data)

	Second Quarter 2003	Second Quarter 2002	Six Months 2003	Six Months 2002
Net sales	$83,453	$69,457	$156,790	$129,384
Cost of goods sold	54,506	40,495	99,477	76,065
Gross margin	28,947	28,962	57,313	53,319
%	34.7%	41.7%	36.6%	41.2%
Selling, general and administrative	23,223	23,279	45,908	43,303
Operating income	5,724	5,683	11,405	10,016
%	6.9%	8.2%	7.3%	7.7%
Other income, net	447	(28)	535	252
Interest expense, net	(235)	(112)	(374)	(278)
Income before taxes	5,936	5,543	11,566	9,990
Taxes on income	1,843	1,774	3,701	3,197
	4,093	3,769	7,865	6,793
Equity in net income of associated companies	169	201	255	184
Minority interest in net income of subsidiaries	(787)	(734)	(1,538)	(1,383)
Net income	$3,475	$3,236	$6,582	$5,594
%	4.2%	4.7%	4.2%	4.3%
Per share data:				
Net income - basic	$ 0.37	$ 0.35	$ 0.71	$ 0.61
Net income - diluted	$ 0.36	$ 0.35	$ 0.69	$ 0.60
Shares Outstanding:				

Basic	9,323,895	9,249,925	9,297,482	9,202,378
Diluted	9,671,578	9,308,678	9,593,466	9,262,025

Quaker Chemical Corporation
Condensed Consolidated Balance Sheet

	Unaudited (Dollars in thousands)	
	June 30, 2003	December 31, 2002
ASSETS		
Current Assets		
Cash and cash equivalents	$15,098	$13,857
Accounts receivable, net	67,964	53,353
Inventories		
Raw materials and supplies	13,352	11,342
Work-in-process and finished goods	14,739	12,294
Prepaid expenses and other current assets	12,298	12,827
Total current assets	123,451	103,673
Property, plant and equipment, at cost	123,125	113,207
Less accumulated depreciation	70,540	64,695
Net property, plant and equipment	52,585	48,512
Goodwill	24,155	21,927
Other intangible assets	5,771	5,852
Investments in associated companies	5,420	9,060
Deferred income taxes	10,566	10,609
Other assets	15,093	14,225
Total assets	$237,041	$213,858
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings and current portion of long-term debt	$19,987	$12,205
Accounts and other payables	33,828	29,423
Accrued compensation	6,192	10,254
Other current liabilities	13,471	14,262
Total current liabilities	73,478	66,144
Long-term debt	16,620	16,590
Deferred income taxes	1,700	1,518
Other noncurrent liabilities	36,006	33,889
Total liabilities	127,804	118,141
Minority interest in equity of subsidiaries	9,585	7,662
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	1,174	626
Retained earnings	113,083	110,448
Unearned compensation	(931)	(1,245)
Accumulated other comprehensive (loss)	(20,410)	(27,078)
	102,580	92,415
Treasury stock, shares held at cost; 2003 - 213,566, 2002 - 324,109	(2,928)	(4,360)
Total shareholders' equity	99,652	88,055
	$237,041	$213,858

Quaker Chemical Corporation

Condensed Consolidated Statement of Cash Flows
For the Six months ended June 30,

	Unaudited (Dollars in thousands)	
	2003	2002*
Cash flows from operating activities		
Net income	$6,582	$5,594
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	3,394	2,327
Amortization	438	325
Equity in net income of associated companies	(255)	(184)
Minority interest in earnings of subsidiaries	1,538	1,383
Deferred compensation and other postretirement benefits	(382)	(329)
Pension and other, net	2,798	1,096
Increase (decrease) in cash from changes in current assets and current liabilities:		
Accounts receivable, net	(11,380)	(4,532)
Inventories	(2,789)	(798)
Prepaid expenses and other current assets	1,204	(2,293)
Accounts payable and accrued liabilities	(2,467)	2,750
Change in restructuring liabilities	(866)	(1,167)
Net cash (used in) provided by operating activities	(2,185)	4,172
Cash flows from investing activities		
Investments in property, plant and equipment	(4,859)	(5,060)
Dividends and distributions from associated companies	3,890	307
Payments related to acquisitions	(1,105)	(21,576)
Other, net	53	(9)
Net cash (used in) investing activities	(2,021)	(26,338)
Cash flows from financing activities		
Net increase in short-term borrowings	7,747	22,009
Dividends paid	(3,924)	(3,802)
Treasury stock issued	1,697	2,404
Distributions to minority shareholders	(609)	(1,335)
Other, net	3	85
Net cash provided by financing activities	4,914	19,361
Effect of exchange rate changes on cash	533	572
Net increase (decrease) in cash and cash equivalents	1,241	(2,233)
Cash and cash equivalents at beginning of period	13,857	20,549
Cash and cash equivalents at end of period	$15,098	$18,316

* Certain reclassification of prior year data have been made to improve comparability.

SOURCE Quaker Chemical Corporation
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ST: Pennsylvania
IN: CHM
SU: ERN CCA MAV ERP

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