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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

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

July 27, 2016  
Date of Report (Date of earliest event reported)

**QUAKER CHEMICAL CORPORATION**  
(Exact name of Registrant as specified in its charter)

Commission File Number 001-12019

PENNSYLVANIA  
(State or other jurisdiction of  
incorporation or organization)

No. 23-0993790  
(I.R.S. Employer  
Identification No.)

One Quaker Park  
901 E. Hector Street  
Conshohocken, Pennsylvania 19428  
(Address of principal executive offices)  
(Zip Code)

(610) 832-4000  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## INFORMATION TO BE INCLUDED IN THE REPORT

### Item 2.02. Results of Operations and Financial Condition.

On July 27, 2016, Quaker Chemical Corporation announced its results of operations for the second quarter ended June 30, 2016 in a press release, the text of which is included as Exhibit 99.1 hereto. Supplemental information related to the same period is also included as Exhibit 99.2 hereto.

### Item 9.01. Financial Statements and Exhibits.

The following exhibits are included as part of this report:

Exhibit No.

99.1 Press Release of Quaker Chemical Corporation dated July 27, 2016.

99.2 Supplemental Information related to second quarter ended June 30, 2016.

**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 hereunto duly authorized.

QUAKER CHEMICAL CORPORATION  
Registrant

Date: July 27, 2016

By: /s/ Mary Dean Hall  
Mary Dean Hall  
Vice President, Chief Financial  
Officer and Treasurer

## NEWS

Contact:  
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For Release: Immediate

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### QUAKER CHEMICAL ANNOUNCES SECOND QUARTER 2016 RESULTS

- Strong operating income of \$22.1 million drives 5% increase in adjusted EBITDA
- Volume growth drives 2% increase in net sales despite FX and end-market headwinds
- Solid operating cash flow of \$25.2 million up 31% from the prior year quarter

July 27, 2016

CONSHOHOCKEN, PA – Quaker Chemical Corporation (NYSE: KWR) today announced net sales of \$186.9 million in the second quarter of 2016, a 2% increase compared to \$183.7 million in the second quarter of 2015, as growth in organic and acquisition volumes continued to outpace negative impacts from foreign currency translation and declines in selling price. This sales growth, coupled with stable gross margins and selling, general and administrative expenses, drove a 3% increase in operating income to \$22.1 million in the second quarter of 2016 compared to \$21.4 million in the second quarter of 2015 and a 5% increase in adjusted EBITDA to \$27.7 million in the second quarter of 2016 compared to \$26.2 million in the prior year quarter.

The Company's strong operating performance year-over-year was offset by a higher effective tax rate of 32.6% in the second quarter of 2016 compared to 27.1% in the second quarter of 2015, resulting in earnings per diluted share of \$1.13 for both the second quarters of 2016 and 2015, respectively, and a decrease in non-GAAP earnings per diluted share to \$1.11 in the second quarter of 2016 compared to \$1.15 in the prior year quarter. The Company has recognized a higher effective tax rate during the first half of 2016 while it awaits recertification of a concessionary tax rate in one of its subsidiaries, which the Company expects to receive in the fourth quarter of 2016 and which was available to the Company throughout 2015. The Company's reported and non-GAAP results in the second quarter of 2016 were also negatively impacted by foreign exchange of approximately 4%, or \$0.05 per diluted share. Driven by its strong operating earnings, the Company's net operating cash flow increased 31% to approximately \$25.2 million in the second quarter of 2016 compared to \$19.2 million in the second quarter of 2015.

Michael F. Barry, Chairman, Chief Executive Officer and President commented, "We are pleased with our second quarter results, despite continued market challenges. We were able to grow our volumes both organically by 2% and from acquisitions by 4%, as well as maintain strong gross margins and stable SG&A levels, which enabled us to generate solid increases in adjusted EBITDA and net operating cash flow. This performance was achieved despite foreign exchange headwinds, which negatively impacted our top and bottom line by 3% and 4%, respectively. In the second half of the year, we expect to see some decline in gross margin due to timing differences between raw material price changes and our product pricing adjustments. However, we also expect to realize benefits from our previously announced restructuring program. In addition, we continue to believe in our ability to take market share and leverage our past acquisitions to help offset market challenges. In summary, our 2016 forecast continues to indicate growth in both the top and bottom lines and we still expect to increase non-GAAP earnings and adjusted EBITDA for the seventh consecutive year."

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## Second Quarter of 2016 Summary

Net sales in the second quarter of 2016 were \$186.9 million compared to \$183.7 million in the second quarter of 2015. The 2% increase in net sales was primarily due to a 6% increase in volumes, including acquisitions, partially offset by the negative impact of foreign currency translation of \$5.3 million, or 3%, and declines in selling price and product mix of 1%.

Gross profit in the second quarter of 2016 increased \$0.6 million, or 1%, from the second quarter of 2015, primarily driven by the increase in sales volumes, noted above, on relatively consistent gross margins of 38.1% in the second quarter of 2016 compared to 38.4% in the prior year quarter.

Selling, general and administrative expenses (“SG&A”) decreased less than \$0.1 million during the second quarter of 2016, primarily due to decreases from foreign currency translation, partially offset by incremental costs associated with the Company’s July 2015 acquisition of Verkol S.A (“Verkol”). In addition, overall labor-related costs were relatively flat quarter-over-quarter as annual compensation increases were offset by certain cost savings efforts, including initial modest savings as a result of the 2015 global restructuring program. Related to this restructuring program, the Company did not incur any additional restructuring expenses in the second quarter of 2016 and continues to execute the program as planned. The Company continues to project pre-tax cost savings as a result of this program to approximate \$3 million in 2016 and \$6 million annually in subsequent years. In addition, the Company still expects to substantially complete this program during 2016.

Operating income in the second quarter of 2016 was \$22.1 million, which increased 3% compared to \$21.4 million in the second quarter of 2015. The increase in operating income was primarily due to the increase in sales volumes in the second quarter of 2016, noted above, on relatively consistent gross margins and SG&A in both quarters.

Other income was \$0.3 million in the second quarter of 2016 compared to other expense of \$0.1 million in the second quarter of 2015. The increase in other income was primarily driven by foreign currency transaction gains realized in the second quarter of 2016 compared to foreign currency transaction losses in the second quarter of 2015.

Interest expense was \$0.1 million higher in the second quarter of 2016 compared to the second quarter of 2015, primarily due to increased average borrowings outstanding in the second quarter of 2016 as a result of the Verkol acquisition. Interest income was \$0.2 million higher in the second quarter of 2016 compared to the second quarter of 2015, primarily due to an increase in the level of the Company’s invested cash in certain regions with higher returns and interest received on certain tax-related credits in the second quarter of 2016.

The Company’s effective tax rates for the second quarters of 2016 and 2015 were 32.6% and 27.1%, respectively. The increase in the second quarter of 2016 effective tax rate was primarily due to the Company recording earnings in one of its subsidiaries at a statutory tax rate of 25% while it awaits recertification of a concessionary 15% tax rate, which was available to the Company during the second quarter of 2015. For the same reason, the Company estimates its third quarter of 2016 effective tax rate will be between 29% and 31%. However, the Company still estimates its full year 2016 effective tax rate will approximate 28% to 30%.

Equity in net income of associated companies (“equity income”) increased \$0.5 million in the second quarter of 2016 compared to the second quarter of 2015, primarily due to higher earnings from the Company’s interest in a captive insurance company in the second quarter of 2016 compared to the prior year quarter.

Net income attributable to noncontrolling interest was relatively flat in the second quarter of 2016 compared to the prior year quarter.

Changes in foreign exchange rates negatively impacted the Company’s second quarter of 2016 net income by approximately 4%, or \$0.05 per diluted share.

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## Year-to-Date 2016 Summary

Net sales in the first six months of 2016 were \$365.0 million compared to \$365.1 million in the first six months of 2015. The consistent net sales were the result of a 6% increase in volumes, including acquisitions, offset by the negative impact of foreign currency translation of \$13.3 million, or 4%, and declines in selling price and product mix of 2%.

Gross profit in the first six months of 2016 increased \$2.2 million, or 2%, from the first six months of 2015, primarily driven by the increase in sales volumes, noted above, and an expansion of gross margin to 38.1% in the first six months of 2016 compared to 37.5% in the first six months of 2015. The expansion in gross margin in the first six months of 2016 is due to a continued lag between the timing of certain raw material cost decreases and related selling price changes.

SG&A increased \$0.1 million during the first six months of 2016, primarily due to incremental costs associated with the Company's acquisition of Verkol and higher overall labor-related costs, which were partially offset by decreases from foreign currency translation and the cost savings efforts, noted above.

Operating income in the first six months of 2016 was \$41.3 million, which increased 5% as compared to \$39.3 million in the first six months of 2015. The increase in operating income was primarily due to the increase in sales volumes and the expansion of gross margin in the first six months of 2016, noted above, on a consistent level of SG&A year-over-year.

Other income was \$1.0 million in the first six months of 2016 compared to other expense of \$0.3 million in the first six months of 2015. The increase in other income was primarily driven by foreign currency transaction gains realized in the first six months of 2016 compared to foreign currency transaction losses in the first six months of 2015.

Interest expense was \$0.3 million higher in the first six months of 2016 compared to the first six months of 2015, primarily due to increased average borrowings outstanding in the first six months of 2016 as a result of the Verkol acquisition. Interest income was \$0.2 million higher in the first six months of 2016 compared to the first six months of 2015, primarily due to an increase in the level of the Company's invested cash in certain regions with higher returns in the first six months of 2016.

The Company's effective tax rates for the first six months of 2016 and 2015 were 32.5% and 28.8%, respectively. The increase in the first six months of 2016 effective tax rate was primarily due to the Company recording earnings in one of its subsidiaries at a statutory tax rate of 25% while it awaits recertification of a concessionary 15% tax rate, which was available to the Company during the first six months of 2015, as noted above.

Equity income increased \$2.0 million in the first six months of 2016 compared to the first six months of 2015. The increase in equity income was primarily due to a smaller currency conversion charge recorded at the Company's Venezuela affiliate during the first six months of 2016 compared to the first six months of 2015, related to changes in Venezuela's foreign exchange markets and currency controls in both periods. In addition, equity income includes earnings from the Company's interest in a captive insurance company, which was lower in the first six months of 2016 compared to the first six months of 2015.

The Company had a \$0.2 million increase in net income attributable to noncontrolling interest in the first six months of 2016 compared to the first six months of 2015, primarily due to stronger performance at its India affiliate.

Changes in foreign exchange rates, excluding the currency conversion impacts of the Venezuelan bolivar fuerte, noted above, negatively impacted the Company's first six months of 2016 net income by approximately 3%, or \$0.07 per diluted share.

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## **Balance Sheet and Cash Flow Items**

The Company's net operating cash flow of approximately \$25.2 million in the second quarter of 2016 increased its year-to-date net operating cash flow to \$36.0 million, a 32% increase compared to \$27.3 million in the first six months of 2015. The increase was driven by solid operating performance and lower cash invested in the Company's working capital. In addition, the Company paid approximately \$4.3 million in cash dividends during the second quarter of 2016, increasing its total dividends paid to \$8.5 million in the first six months of 2016, and also repurchased approximately 84,000 shares of its common stock for \$5.9 million in the first six months of 2016. Overall, the Company's liquidity and balance sheet remain strong, as its cash position exceeded its debt at June 30, 2016 and the Company's consolidated leverage ratio continued to be less than one times EBITDA.

## **Non-GAAP Measures**

Included in this public release are two non-GAAP (unaudited) financial measures: non-GAAP earnings per diluted share and adjusted EBITDA. The Company believes these non-GAAP financial measures provide meaningful supplemental information as they enhance a reader's understanding of the financial performance of the Company, are more indicative of future operating performance of the Company, and facilitate a better comparison among fiscal periods, as the non-GAAP financial measures exclude items that are not considered core to the Company's operations. Non-GAAP results are presented for supplemental informational purposes only and should not be considered a substitute for the financial information presented in accordance with GAAP. The following tables reconcile non-GAAP earnings per diluted share (unaudited) and adjusted EBITDA (unaudited) to their most directly comparable GAAP (unaudited) financial measures:

|   | <b>Three Months Ended</b> |                | <b>Six Months Ended</b> |                |
|---|---------------------------|----------------|-------------------------|----------------|
|   | <b>June 30,</b>           |                | <b>June 30,</b>         |                |
|   | <b>2016</b>               | <b>2015</b>    | <b>2016</b>             | <b>2015</b>    |
| GAAP earnings per diluted share attributable to Quaker Chemical Corporation common shareholders | \$ 1.13                   | \$ 1.13        | \$ 2.11                 | \$ 1.90        |
| Equity (income) loss in a captive insurance company per diluted share                           | (0.02)                    | 0.01           | (0.03)                  | (0.05)         |
| U.S. customer bankruptcy per diluted share  | —                         | 0.01           | —                       | 0.01           |
| Cost streamlining initiatives per diluted share   | —                         | —              | —                       | 0.01           |
| Currency conversion impact of the Venezuelan bolivar fuerte per diluted share                   | —                         | —              | 0.01                    | 0.21           |
| Non-GAAP earnings per diluted share   | <u>\$ 1.11</u>            | <u>\$ 1.15</u> | <u>\$ 2.09</u>          | <u>\$ 2.08</u> |

|   | <b>Three Months Ended</b> |                  | <b>Six Months Ended</b> |                  |
|---|---------------------------|------------------|-------------------------|------------------|
|   | <b>June 30,</b>           |                  | <b>June 30,</b>         |                  |
|   | <b>2016</b>               | <b>2015</b>      | <b>2016</b>             | <b>2015</b>      |
| Net income attributable to Quaker Chemical Corporation              | \$ 15,015                 | \$ 15,038        | \$ 27,961               | \$ 25,416        |
| Depreciation and amortization                                       | 4,986                     | 4,666            | 9,920                   | 9,364            |
| Interest expense  | 727                       | 607              | 1,468                   | 1,194            |
| Taxes on income before equity in net income of associated companies | 7,238                     | 5,724            | 13,543                  | 11,083           |
| Equity (income) loss in a captive insurance company                 | (303)                     | 100              | (355)                   | (695)            |
| U.S. customer bankruptcy  | —                         | 111              | —                       | 111              |
| Cost streamlining initiatives                                       | —                         | —                | —                       | 173              |
| Currency conversion impact of the Venezuelan bolivar fuerte         | —                         | —                | 88                      | 2,806            |
| Adjusted EBITDA   | <u>\$ 27,663</u>          | <u>\$ 26,246</u> | <u>\$ 52,625</u>        | <u>\$ 49,452</u> |

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### **Forward-Looking Statements**

This release contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements 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 demand for the Company’s products and services is largely derived from the demand for its customers’ products, which subjects the Company to uncertainties related 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, future terrorist attacks and other acts of violence. 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.

### **Conference Call**

As previously announced, Quaker Chemical’s investor conference call to discuss the second quarter of 2016 results is scheduled for July 28, 2016 at 8:30 a.m. (ET). A live webcast of the conference call, together with supplemental information, can be accessed through the Company’s Investor Relations website at <http://www.quakerchem.com>. You can also access the conference call by dialing 877-269-7756.

### **About Quaker**

Quaker Chemical is a leading global provider of process fluids, chemical specialties, and technical expertise to a wide range of industries, including steel, aluminum, automotive, mining, aerospace, tube and pipe, cans, and others. For nearly 100 years, Quaker has helped customers around the world achieve production efficiency, improve product quality, and lower costs through a combination of innovative technology, process knowledge, and customized services. Headquartered in Conshohocken, Pennsylvania USA, Quaker serves businesses worldwide with a network of dedicated and experienced professionals whose mission is to make a difference.

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

|  | (Unaudited)                |            |                          |            |
|--|----------------------------|------------|--------------------------|------------|
|  | Three Months Ended June 30 |            | Six Months Ended June 30 |            |
|  | 2016                       | 2015       | 2016                     | 2015       |
| Net sales  | \$ 186,915                 | \$ 183,726 | \$ 364,992               | \$ 365,056 |
| Cost of goods sold   | 115,680                    | 113,109    | 225,882                  | 228,111    |
| Gross profit   | 71,235                     | 70,617     | 139,110                  | 136,945    |
| %  | 38.1%                      | 38.4%      | 38.1%                    | 37.5%      |
| Selling, general and administrative expenses   | 49,142                     | 49,172     | 97,783                   | 97,636     |
| Operating income   | 22,093                     | 21,445     | 41,327                   | 39,309     |
| %  | 11.8%                      | 11.7%      | 11.3%                    | 10.8%      |
| Other income (expense), net  | 271                        | (88)       | 977                      | (282)      |
| Interest expense   | (727)                      | (607)      | (1,468)                  | (1,194)    |
| Interest income  | 545                        | 375        | 893                      | 695        |
| Income before taxes and equity in net income of associated companies                 | 22,182                     | 21,125     | 41,729                   | 38,528     |
| Taxes on income before equity in net income of associated companies                  | 7,238                      | 5,724      | 13,543                   | 11,083     |
| Income before equity in net income of associated companies                           | 14,944                     | 15,401     | 28,186                   | 27,445     |
| Equity in net income (loss) of associated companies                                  | 461                        | 11         | 563                      | (1,426)    |
| Net income   | 15,405                     | 15,412     | 28,749                   | 26,019     |
| Less: Net income attributable to noncontrolling interest                             | 390                        | 374        | 788                      | 603        |
| Net income attributable to Quaker Chemical Corporation                               | \$ 15,015                  | \$ 15,038  | \$ 27,961                | \$ 25,416  |
| %  | 8.0%                       | 8.2%       | 7.7%                     | 7.0%       |
| <b>Share and per share data:</b>   |                            |            |                          |            |
| Basic weighted average common shares outstanding                                     | 13,126,134                 | 13,220,264 | 13,121,470               | 13,204,599 |
| Diluted weighted average common shares outstanding                                   | 13,144,713                 | 13,239,675 | 13,136,653               | 13,223,850 |
| Net income attributable to Quaker Chemical Corporation Common Shareholders - basic   | \$ 1.13                    | \$ 1.13    | \$ 2.11                  | \$ 1.91    |
| Net income attributable to Quaker Chemical Corporation Common Shareholders - diluted | \$ 1.13                    | \$ 1.13    | \$ 2.11                  | \$ 1.90    |

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

|   | (Unaudited)       |                      |
|---|-------------------|----------------------|
|   | June 30,<br>2016  | December 31,<br>2015 |
| <b>ASSETS</b>   |                   |                      |
| <b>Current assets</b>   |                   |                      |
| Cash and cash equivalents   | \$ 96,245         | \$ 81,053            |
| Accounts receivable, net  | 184,306           | 188,297              |
| Inventories, net  | 78,269            | 75,099               |
| Prepaid expenses and other current assets   | 23,905            | 21,404               |
| <b>Total current assets</b>   | <b>382,725</b>    | <b>365,853</b>       |
| Property, plant and equipment, net  | 85,094            | 87,619               |
| Goodwill  | 79,324            | 79,111               |
| Other intangible assets, net  | 71,530            | 73,287               |
| Investments in associated companies   | 22,324            | 20,354               |
| Non-current deferred tax assets   | 19,082            | 23,468               |
| Other assets  | 32,217            | 32,218               |
| <b>Total assets</b>   | <b>\$ 692,296</b> | <b>\$ 681,910</b>    |
| <b>LIABILITIES AND EQUITY</b>   |                   |                      |
| <b>Current liabilities</b>  |                   |                      |
| Short-term borrowings and current portion of long-term debt   | \$ 672            | \$ 662               |
| Accounts and other payables   | 75,569            | 71,543               |
| Accrued compensation  | 14,456            | 19,166               |
| Accrued restructuring   | 4,080             | 6,303                |
| Other current liabilities   | 24,536            | 26,881               |
| <b>Total current liabilities</b>  | <b>119,313</b>    | <b>124,555</b>       |
| Long-term debt  | 83,601            | 81,439               |
| Non-current deferred tax liabilities  | 11,748            | 11,400               |
| Other non-current liabilities   | 77,401            | 83,273               |
| <b>Total liabilities</b>  | <b>292,063</b>    | <b>300,667</b>       |
| <b>Equity</b>   |                   |                      |
| Common stock, \$1 par value; authorized 30,000,000 shares; issued and outstanding 2016 - 13,249,759 shares;<br>2015 - 13,288,113 shares | 13,250            | 13,288               |
| Capital in excess of par value  | 109,751           | 106,333              |
| Retained earnings   | 340,127           | 326,740              |
| Accumulated other comprehensive loss  | (71,790)          | (73,316)             |
| <b>Total Quaker shareholders' equity</b>  | <b>391,338</b>    | <b>373,045</b>       |
| Noncontrolling interest   | 8,895             | 8,198                |
| <b>Total equity</b>   | <b>400,233</b>    | <b>381,243</b>       |
| <b>Total liabilities and equity</b>   | <b>\$ 692,296</b> | <b>\$ 681,910</b>    |

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**Quaker Chemical Corporation**  
**Condensed Consolidated Statements of Cash Flows**  
(Dollars in thousands)

|  | (Unaudited)               |                  |
|--|---------------------------|------------------|
|  | Six Months Ended June 30, |                  |
|  | 2016                      | 2015             |
| <b>Cash flows from operating activities</b>  |                           |                  |
| Net income   | \$ 28,749                 | \$ 26,019        |
| Adjustments to reconcile net income to net cash provided by operating activities:                        |                           |                  |
| Depreciation   | 6,331                     | 6,117            |
| Amortization   | 3,589                     | 3,247            |
| Equity in undistributed (earnings) losses of associated companies, net of dividends                      | (488)                     | 1,487            |
| Deferred compensation and other, net   | 3,609                     | 1,325            |
| Stock-based compensation   | 3,423                     | 3,169            |
| Loss (gain) on disposal of property, plant, equipment and other assets                                   | 45                        | (69)             |
| Insurance settlement realized  | (614)                     | (301)            |
| Pension and other postretirement benefits  | (2,896)                   | 1,019            |
| Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions: |                           |                  |
| Accounts receivable  | 3,801                     | (2,344)          |
| Inventories  | (2,387)                   | (1,993)          |
| Prepaid expenses and other current assets  | (3,164)                   | (4,057)          |
| Accounts payable and accrued liabilities   | (1,642)                   | (6,301)          |
| Change in restructuring liabilities  | (2,330)                   | -                |
| Net cash provided by operating activities  | <u>36,026</u>             | <u>27,318</u>    |
| <b>Cash flows from investing activities</b>  |                           |                  |
| Investments in property, plant and equipment   | (4,377)                   | (4,277)          |
| Payments related to acquisitions, net of cash acquired   | (3,284)                   | 528              |
| Proceeds from disposition of assets  | 48                        | 102              |
| Insurance settlement interest earned   | 16                        | 20               |
| Change in restricted cash, net   | 598                       | 281              |
| Net cash used in investing activities  | <u>(6,999)</u>            | <u>(3,346)</u>   |
| <b>Cash flows from financing activities</b>  |                           |                  |
| Proceeds from long-term debt   | 1,736                     | -                |
| Repayment of long-term debt  | (286)                     | (12,699)         |
| Dividends paid   | (8,480)                   | (7,991)          |
| Stock options exercised, other   | (95)                      | 534              |
| Payments for repurchase of common stock  | (5,859)                   | (1,630)          |
| Excess tax benefit related to stock option exercises   | 136                       | 378              |
| Net cash used in financing activities  | <u>(12,848)</u>           | <u>(21,408)</u>  |
| <b>Effect of foreign exchange rate changes on cash</b>   |                           |                  |
| Net increase in cash and cash equivalents  | 15,192                    | 1,053            |
| Cash and cash equivalents at the beginning of the period   | 81,053                    | 64,731           |
| Cash and cash equivalents at the end of the period   | <u>\$ 96,245</u>          | <u>\$ 65,784</u> |



# **Quaker Chemical Corporation**

**Second Quarter 2016 Results**

**Investor Conference Call**

**July 28, 2016**



# Risks and Uncertainties Statement



## **Regulation G**

The attached charts include Company information that does not conform to generally accepted accounting principles ("GAAP"). Management believes that an analysis of this data is meaningful to investors because it provides insight with respect to ongoing operating results of the Company and allows investors to better evaluate the financial results of the Company. These measures should not be viewed as an alternative to GAAP measures of performance. Furthermore, these measures may not be consistent with similar measures provided by other companies.

This data should be read in conjunction with the Company's second quarter earnings news release dated July 27, 2016, which has been furnished to the SEC on Form 8-K and the Company's Form 10-Q for the quarterly period ended June 30, 2016, which has been filed with the SEC.

## **Forward-Looking Statements**

This presentation may contain 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 demand for the Company's products and services is largely derived from the demand for its customers' products, which subjects the Company to uncertainties related 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, future terrorist attacks and other acts of violence. 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.

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## Speakers

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### **Michael F. Barry**

*Chairman of the Board, Chief Executive Officer & President*

### **Mary Dean Hall**

*Vice President, Chief Financial Officer & Treasurer*

### **Robert T. Traub**

*Vice President, General Counsel & Corporate Secretary*

**Chart #1**

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## Second Quarter 2016 Headlines

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- **Strong operating income of \$22.1 million drives 5% increase in adjusted EBITDA**
- **Volume growth drives 2% increase in net sales despite FX and end-market headwinds**
- **Solid operating cash flow of \$25.2 million up 31% from the prior year quarter**

**Chart #2**

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# Chairman Comments

Second Quarter of 2016



## ■ Second Quarter of 2016

- ✓ Sales volume growth both organically by 2% and from acquisitions by 4%, despite end-market headwinds
- ✓ Strong operating performance driven by increased sales volumes on relatively consistent gross margins and SG&A levels, offset by a higher effective tax rate and decreases from foreign exchange to sales and earnings of 3% and 4%, respectively.
- ✓ Solid operating income drives adjusted EBITDA increase of 5% and net operating cashflow increase of 31% compared to the prior year quarter

## ■ 2016 Outlook

- ✓ Positives - Projected benefits from global restructuring program, the ability to gain market share and the leveraging of past acquisitions to help the Company offset some end-market challenges
- ✓ Negatives - Some decline in gross margin expected, due to timing differences between raw material changes and our product pricing adjustments

*Overall, our 2016 forecast continues to indicate growth in both the top and bottom lines and we still expect to increase non-GAAP earnings and adjusted EBITDA for the seventh consecutive year.*

**Chart #3**



# Financial Highlights

Second Quarter of 2016



- 1) Strong operating results offset by a higher effective tax rate and foreign exchange result in non-GAAP earnings per diluted share of \$1.11 in Q2'16 compared to \$1.15 in Q2'15**
  - Earnings down due to timing issue related to quarterly tax rate of 32.6% up from 27.1% in Q2'15
  - Negative foreign exchange impact of approximately 4% or \$0.05 per diluted share vs. Q2'15
- 2) Net sales increase driven by volume growth of 6% partially offset by negative foreign currency translation of 3% and continued pricing pressure**
- 3) Solid sales volumes on consistent gross margins of 38.1% in Q2'16 and 38.4% in Q2'15 and stable SG&A levels drove a 3% increase in operating income and a 5% increase in adjusted EBITDA from Q2'15**
- 4) 2015 global restructuring program continues to be executed as planned, with initial modest cost savings realized to date and estimated total savings for 2016 to approximate \$3 million**
- 5) Strong year-to-date net operating cash flow up 32% to \$36.0 million compared to the first six months of 2015 on improved operating performance and lower cash invested in working capital**

**Chart #4**

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# Financial Snapshot



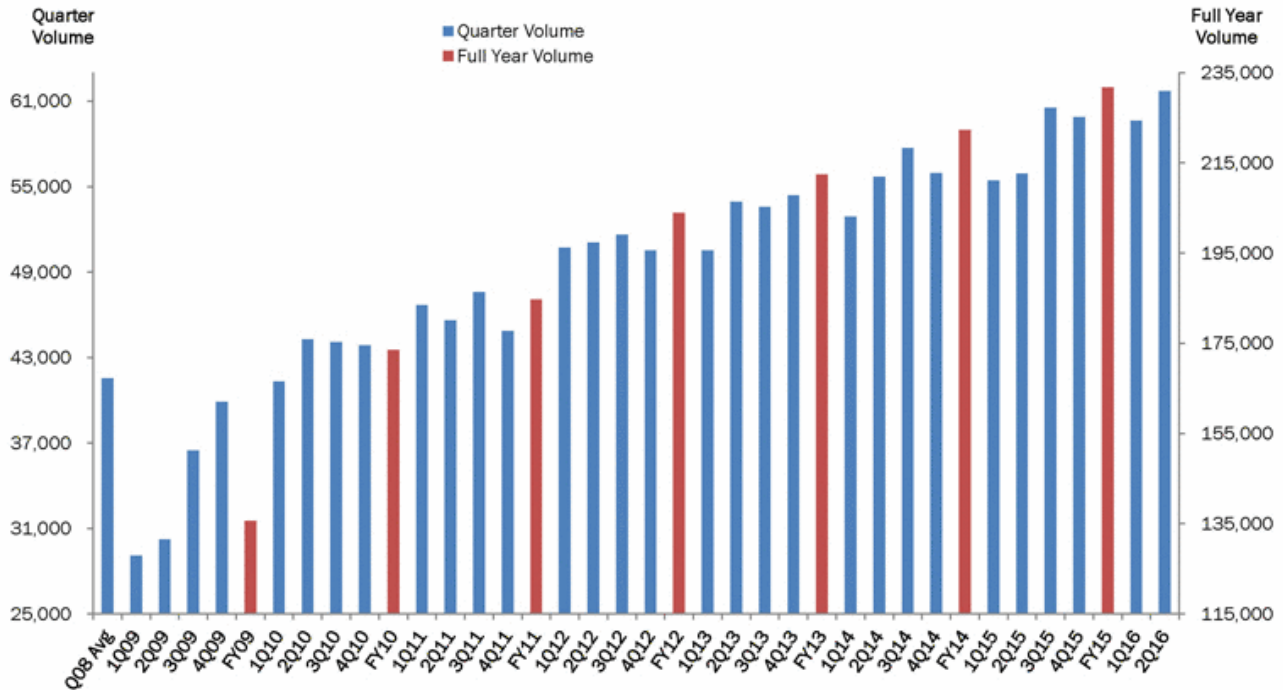
| (\$ Millions unless otherwise noted)                          | Q2 2016       | Q2 2015       | YTD 2016     | YTD 2015     |
|---|---------------|---------------|--------------|--------------|
| <b>Net Sales</b>  | <b>186.9</b>  | <b>183.7</b>  | <b>365.0</b> | <b>365.1</b> |
| <b>Gross Margin</b>   | <b>38.1 %</b> | <b>38.4 %</b> | <b>38.1%</b> | <b>37.5%</b> |
| <b>Operating Income</b>                                       | <b>22.1</b>   | <b>21.4</b>   | <b>41.3</b>  | <b>39.3</b>  |
| <b>Operating Margin</b>                                       | <b>11.8 %</b> | <b>11.7 %</b> | <b>11.3%</b> | <b>10.8%</b> |
| <b>Net Income Attributable to Quaker Chemical Corporation</b> | <b>15.0</b>   | <b>15.0</b>   | <b>28.0</b>  | <b>25.4</b>  |
| <b>Earnings Per Diluted Share</b>                             | <b>1.13</b>   | <b>1.13</b>   | <b>2.11</b>  | <b>1.90</b>  |
| <b>Non-GAAP Earnings Per Diluted Share</b>                    | <b>1.11</b>   | <b>1.15</b>   | <b>2.09</b>  | <b>2.08</b>  |
| <b>Adjusted EBITDA</b>  | <b>27.7</b>   | <b>26.2</b>   | <b>52.6</b>  | <b>49.5</b>  |
| <b>Adjusted EBITDA Margin</b>                                 | <b>14.8 %</b> | <b>14.3 %</b> | <b>14.4%</b> | <b>13.5%</b> |
| <b>Net (Cash) Debt</b>  | <b>(12.0)</b> | <b>(3.7)</b>  | <b>—</b>     | <b>—</b>     |
| <b>Net Operating Cash Flow</b>                                | <b>25.2</b>   | <b>19.2</b>   | <b>36.0</b>  | <b>27.3</b>  |
| <b>Effective Tax Rate</b>                                     | <b>32.6 %</b> | <b>27.1 %</b> | <b>32.5%</b> | <b>28.8%</b> |

**Chart #5**

# Product Volume by Quarter and Year



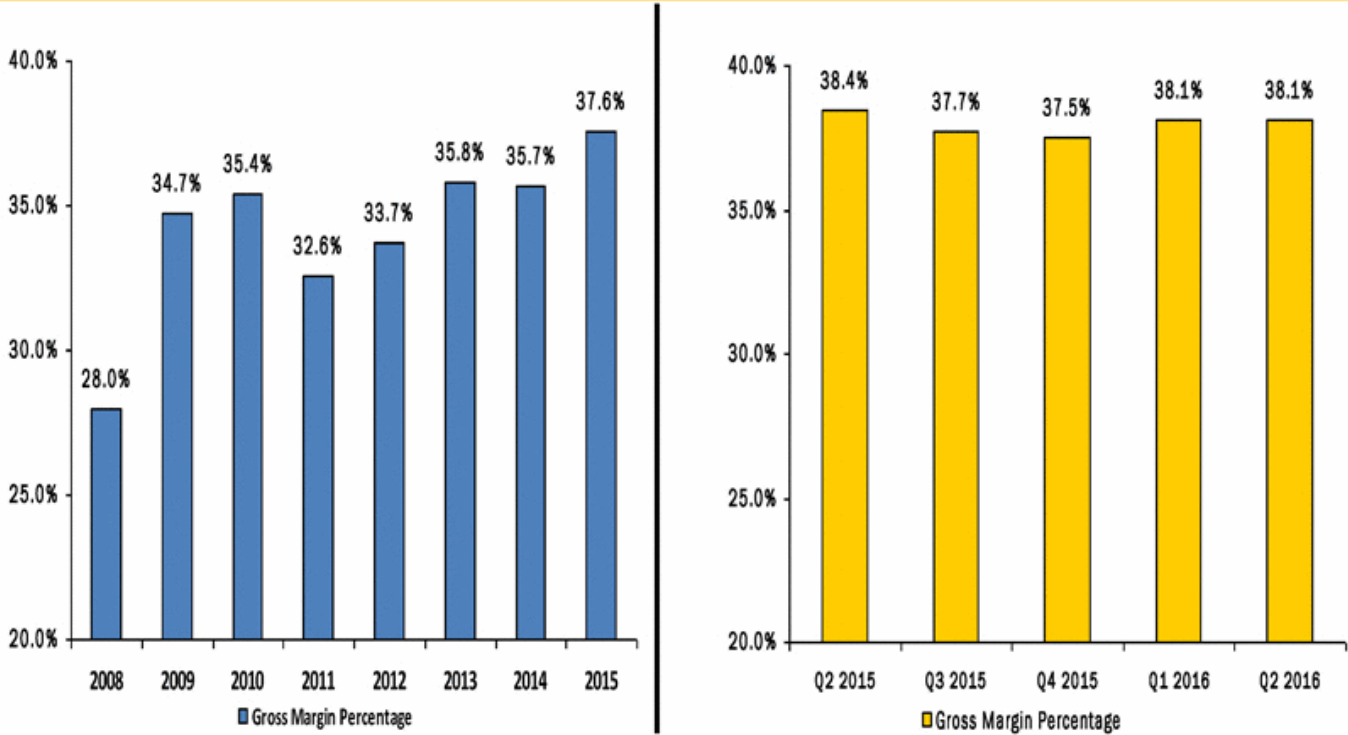
In Thousands of Kilograms



**Organic and acquisition-related volume growth despite continued challenges in end-markets**

**Chart #6**

# Gross Margin Percentage Trends



**Relatively consistent gross margins quarter-over-quarter**

**Chart #7**

# Adjusted EBITDA

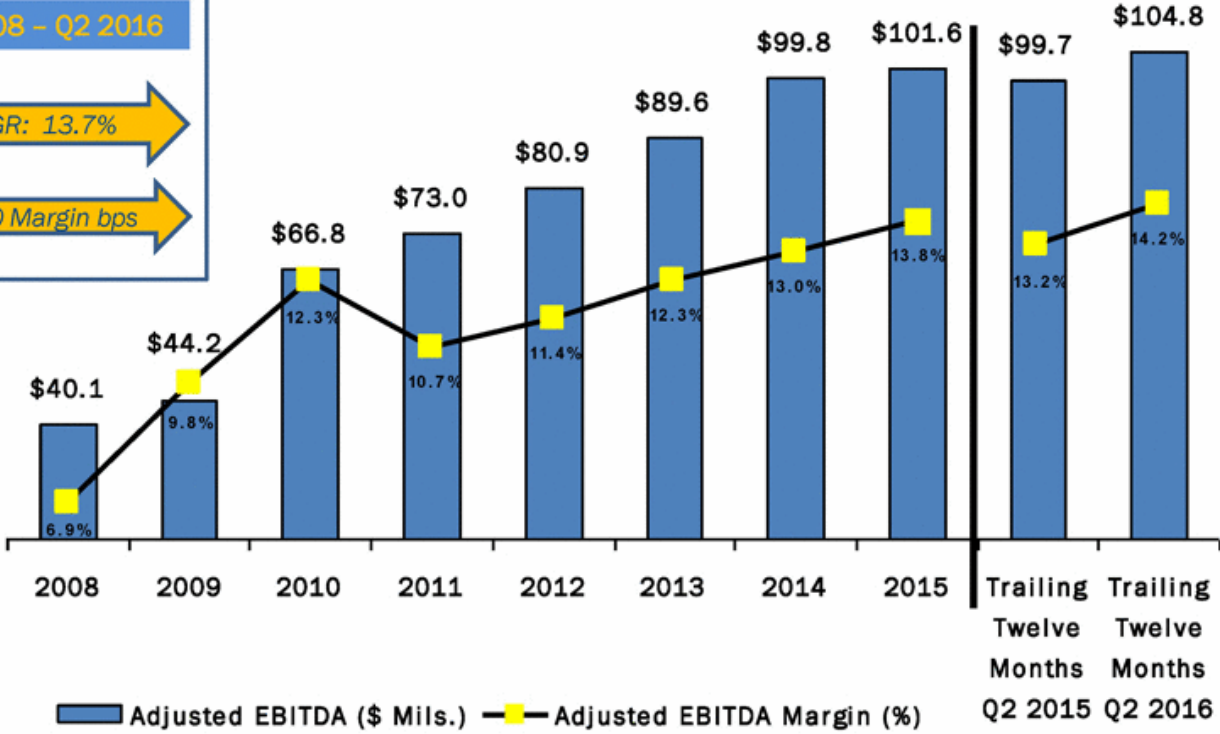
## Baseline Historical Performance



**FY 2008 – Q2 2016**

CAGR: 13.7%

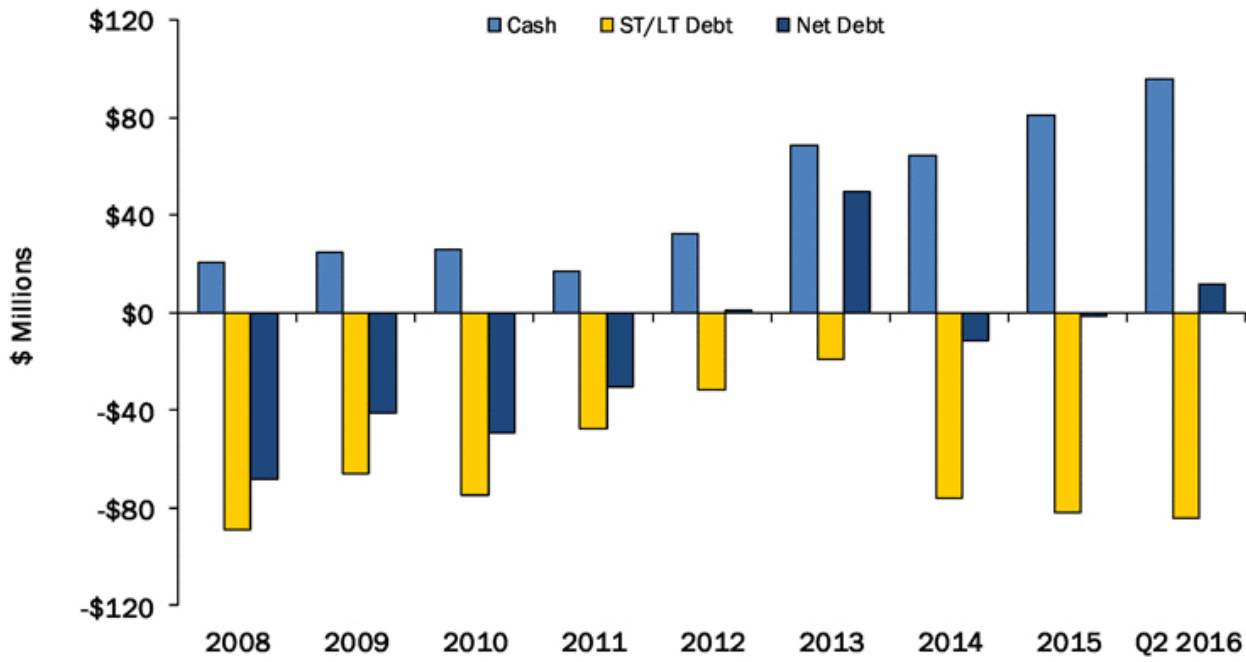
+730 Margin bps



**Chart #8**

# Balance Sheet

## Cash and Debt



**Strong cash flow generation and balance sheet continue to support future growth**

**Chart #9**



**APPENDIX**



# Non-GAAP Earnings Per Diluted Share Reconciliation



|   | Q2 2016        | Q2 2015        | YTD 2016       | YTD 2015       |
|---|----------------|----------------|----------------|----------------|
| GAAP earnings per diluted share   | \$ 1.13        | \$ 1.13        | \$ 2.11        | \$ 1.90        |
| Equity (income) loss in a captive insurance company per diluted share         | \$ (0.02)      | \$ 0.01        | \$ (0.03)      | \$ (0.05)      |
| U.S customer bankruptcy per diluted share                                     | \$ -           | \$ 0.01        | \$ -           | \$ 0.01        |
| Cost streamlining initiatives per diluted share                               | \$ -           | \$ -           | \$ -           | \$ 0.01        |
| Currency conversion impact of the Venezuelan bolivar fuerte per diluted share | \$ -           | \$ -           | \$ 0.01        | \$ 0.21        |
| <b>Non-GAAP earnings per diluted share</b>                                    | <b>\$ 1.11</b> | <b>\$ 1.15</b> | <b>\$ 2.09</b> | <b>\$ 2.08</b> |

**Chart #10**



# Adjusted EBITDA Reconciliation



|  | 2008   | 2009   | 2010   | 2011    | 2012    | 2013    | 2014    | 2015    |
|--|--------|--------|--------|---------|---------|---------|---------|---------|
| Net income   | 9,833  | 16,058 | 32,120 | 45,892  | 47,405  | 56,339  | 56,492  | 51,180  |
| Depreciation   | 10,879 | 9,525  | 9,867  | 11,455  | 12,252  | 12,339  | 12,306  | 12,395  |
| Amortization   | 1,177  | 1,078  | 988    | 2,338   | 3,106   | 3,445   | 4,325   | 6,811   |
| Interest expense   | 5,509  | 5,533  | 5,225  | 4,666   | 4,283   | 2,922   | 2,371   | 2,585   |
| Taxes on income  | 4,977  | 7,065  | 12,616 | 14,256  | 15,575  | 20,489  | 23,539  | 17,785  |
| Equity loss (income) from a captive insurance company        | 1,299  | 162    | (313)  | (2,323) | (1,812) | (5,451) | (2,412) | (2,078) |
| Non-cash gain from the purchase of an equity affiliate       | -      | -      | -      | (2,718) | -       | -       | -       | -       |
| Equity affiliate out of period charge                        | -      | -      | 564    | -       | -       | -       | -       | -       |
| Restructuring expenses                                       | 2,916  | 2,289  | -      | -       | -       | -       | -       | 6,790   |
| Transition costs related to key employees                    | 3,505  | 2,443  | 1,317  | -       | 609     | -       | -       | -       |
| Verkol transaction-related expenses                          | -      | -      | -      | -       | -       | -       | -       | 2,813   |
| U.K. pension plan amendment                                  | -      | -      | -      | -       | -       | -       | 902     | -       |
| Customer bankruptcies  | -      | -      | -      | -       | 1,254   | -       | 825     | 328     |
| Cost streamlining initiatives                                | -      | -      | -      | -       | -       | 1,419   | 1,166   | 173     |
| Non-income tax contingency charges                           | -      | -      | 4,132  | -       | -       | 796     | -       | -       |
| Change in acquisition-related earnout liability              | -      | -      | -      | (595)   | (1,737) | (497)   | -       | -       |
| Mineral oil excise tax refund                                | -      | -      | -      | -       | -       | (2,540) | -       | -       |
| Currency conversion impacts of the Venezuelan bolivar fuerte | -      | -      | 322    | -       | -       | 357     | 321     | 2,806   |
| Adjusted EBITDA  | 40,095 | 44,153 | 66,838 | 72,971  | 80,935  | 89,618  | 99,835  | 101,588 |
| Adjusted EBITDA Margin                                       | 6.9%   | 9.8%   | 12.3%  | 10.7%   | 11.4%   | 12.3%   | 13.0%   | 13.8%   |

**Chart #11**

# Trailing Twelve Months Adjusted EBITDA Reconciliation



|  | I = G + H                               |                     |   |              | E = C + D                               |                     |   |              |                  |
|--|---|---------------------|---|--------------|---|---------------------|---|--------------|------------------|
|  | Trailing<br>Twelve<br>Months Q2<br>2016 | H<br>YTD Q2<br>2016 | G = F - D<br>Last Six<br>Months<br>2015 | F<br>FY 2015 | Trailing<br>Twelve<br>Months Q2<br>2015 | D<br>YTD Q2<br>2015 | C = B - A<br>Last Six<br>Months<br>2014 | B<br>FY 2014 | A<br>YTD Q2 2014 |
| Net income   | 53,725                                  | 27,961              | 25,764                                  | 51,180       | 53,751                                  | 25,416              | 28,335                                  | 56,492       | 28,157           |
| Depreciation   | 12,609                                  | 6,331               | 6,278                                   | 12,395       | 12,339                                  | 6,117               | 6,222                                   | 12,306       | 6,084            |
| Amortization   | 7,153                                   | 3,589               | 3,564                                   | 6,811        | 5,944                                   | 3,247               | 2,697                                   | 4,325        | 1,628            |
| Interest expense   | 2,859                                   | 1,468               | 1,391                                   | 2,585        | 2,459                                   | 1,194               | 1,265                                   | 2,371        | 1,106            |
| Taxes on income  | 20,245                                  | 13,543              | 6,702                                   | 17,785       | 21,538                                  | 11,083              | 10,455                                  | 23,539       | 13,084           |
| Equity income from a captive insurance company               | (1,738)                                 | (355)               | (1,383)                                 | (2,078)      | (1,036)                                 | (695)               | (341)                                   | (2,412)      | (2,071)          |
| Restructuring expenses                                       | 6,790                                   | -                   | 6,790                                   | 6,790        | -                                       | -                   | -                                       | -            | -                |
| Verkol transaction-related expenses                          | 2,813                                   | -                   | 2,813                                   | 2,813        | -                                       | -                   | -                                       | -            | -                |
| U.K. pension plan amendment                                  | -                                       | -                   | -                                       | -            | -                                       | -                   | -                                       | 902          | 902              |
| Customer bankruptcies  | 217                                     | -                   | 217                                     | 328          | 936                                     | 111                 | 825                                     | 825          | -                |
| Cost streamlining initiatives                                | -                                       | -                   | -                                       | 173          | 991                                     | 173                 | 818                                     | 1,166        | 348              |
| Currency conversion impacts of the Venezuelan bolivar fuerte | 88                                      | 88                  | -                                       | 2,806        | 2,806                                   | 2,806               | -                                       | 321          | 321              |
| Adjusted EBITDA  | 104,761                                 | 52,625              | 52,136                                  | 101,588      | 99,728                                  | 49,452              | 50,276                                  | 99,835       | 49,559           |
| Adjusted EBITDA Margin                                       | 14.2%                                   | 14.4%               | 14.0%                                   | 13.8%        | 13.2%                                   | 13.5%               | 12.8%                                   | 13.0%        | 13.3%            |

**Chart #12**