



## Quaker Chemical Announces Record Quarterly Sales and Net Income Growth

April 29, 2004

CONSHOHOCKEN, Pa., April 29 /PRNewswire-FirstCall/ -- Quaker Chemical Corporation (NYSE: KWR) today announced record quarterly sales of \$98.1 million and net income growth of 7% for the first quarter ended March 31, 2004.

### First Quarter 2004 Summary

Net income for the first quarter increased 7% to \$3.3 million versus \$3.1 million for the first quarter of 2003. Consistent with previous guidance, earnings per diluted share were \$0.33 in the first quarters of both 2004 and 2003.

Net sales for the first quarter of 2004 were a record \$98.1 million, up 34% from \$73.3 million for the first quarter of 2003. Foreign exchange rate translation, the Company's 2003 acquisitions and the Company's recently awarded chemical management services (CMS) contracts favorably impacted net sales by \$6.5 million, \$5.5 million and \$10.1 million, respectively. The remaining net sales increase of approximately 4% is primarily due to double-digit growth in the Asia/Pacific and South American regions.

Gross margin as a percentage of sales declined from 38.7% for the first quarter of 2003 to 33.1% for the first quarter of 2004. As previously disclosed, the Company's new CMS contracts have caused different relationships between margins and revenue than in the past. 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, 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 quarter related to the new CMS contracts is approximately 5 percentage points. The remaining decline in gross margin as a percentage of sales is due to increased raw material costs, as well as product and regional sales mix.

Selling, general and administrative expenses for the quarter increased \$3.9 million compared to the first quarter of 2003. Foreign exchange rate translation and the Company's 2003 acquisitions accounted for approximately 60% of the increase over the prior year. The majority of the remaining increase was primarily due to higher expenses associated with the Company's ERP implementation, Sarbanes-Oxley compliance, as well as inflationary increases.

The increase in other income reflects a priority-return distribution from the Company's real estate joint venture in the first quarter of 2004 and foreign exchange gains in the first quarter of 2004 versus losses in the first quarter of 2003. The increase in net interest expense is primarily due to higher debt balances outstanding during the first quarter of 2004 versus the prior year.

### Balance Sheet and Cash Flow Items

The Company's debt-to-total capital ratio remains strong at 37% at the end of the first quarter of 2004 compared to 34% at the end of 2003. The higher accounts receivable and inventory at the end of the first quarter are primarily due to the Company's new CMS contracts and increased sales volume. In the first quarter of 2004, capital expenditures were \$2.3 million, primarily related to the Company's U.S. lab renovation and global ERP implementation.

### Outlook

Ronald J. Naples, Chairman and Chief Executive Officer, commented, "The first quarter results were consistent with our expectations. We are seeing signs of an improving global economy with sequential quarterly growth in all four regions and especially high growth in the South American and Asia/Pacific markets. However, partially offsetting the positive impact of this growth is the continuation of high raw material costs as well as higher expenses that are primarily a result of higher pension, insurance, Sarbanes-Oxley compliance and ERP implementation expenses."

Mr. Naples continued, "Our view of the world really hasn't changed from our last guidance. We expect 2004 to be a strong revenue growth year in all business segments and in all regions due to our business initiatives as well as an improvement in the global economy. However, we also continue to expect to be negatively impacted by high crude oil prices as well as the higher SG&A costs related to the items above and the restoration of performance-based incentive compensation. Our 2004 outlook continues to be for a slight improvement in year-over-year earnings. For the second quarter, we expect earnings to be similar to 2003, and we are moving ahead with important business initiatives. The recent increase of our dividend, the 32nd consecutive year of annual dividend increases to shareholders, is a tangible sign of our confidence in the prospects of the Company and our commitment to delivering value for our shareholders."

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.

As previously announced, Quaker Chemical's investor conference call to discuss first quarter results is scheduled for April 30, 2004 at 2:30 p.m. (ET). Access the conference by calling 800-922-0755 or visit Quaker's Web site at [www.quakerchem.com](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 2004	March 31, 2003
Net sales	\$98,131	\$73,337
Cost of goods sold	65,676	44,971
Gross margin	32,455	28,366
%	33.1%	38.7%
Selling, general and administrative	26,598	22,685
Operating income	5,857	5,681
%	6.0%	7.7%
Other income, net	559	88
Interest expense, net	(315)	(139)
Income before taxes	6,101	5,630
Taxes on income	1,922	1,858
	4,179	3,772
Equity in net income of associated companies	149	86
Minority interest in net income of subsidiaries	(1,019)	(751)
Net income	\$3,309	\$3,107
%	3.4%	4.2%
Per share data:		
Net income - basic	\$0.35	\$0.34
Net income - diluted	\$0.33	\$0.33
Shares Outstanding:		
Basic	9,570,664	9,270,775
Diluted	9,977,713	9,508,593

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

	(Unaudited)	
	March 31, 2004	December 31, 2003
ASSETS		
Current assets		
Cash and cash equivalents	\$22,894	\$21,915
Accounts receivable, net	82,063	78,121
Inventories, net	33,969	32,211
Prepaid expenses and other current assets	14,065	11,277
Total current assets	152,991	143,524

Property, plant, and equipment, net	137,402	136,448
Less accumulated depreciation	75,187	74,057
Net property, plant and equipment	62,215	62,391
Goodwill	33,309	33,301
Other intangible assets, net	9,299	9,616
Investments in associated companies	5,937	6,005
Deferred income taxes	12,875	12,846
Other assets	19,525	19,664
Total assets	\$296,151	\$287,347

#### LIABILITIES AND SHAREHOLDERS' EQUITY

##### Current liabilities

Short-term borrowings and current portion of long-term debt	\$50,614	\$42,992
Accounts and other payables	41,439	41,259
Accrued compensation	6,385	6,816
Other current liabilities	14,942	14,738
Total current liabilities	113,380	105,805
Long-term debt	15,622	15,827
Deferred income taxes	2,749	2,688
Other non-current liabilities	41,278	40,967
Total liabilities	173,029	165,287

##### Minority interest in equity of subsidiaries

	10,678	9,708
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##### 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	2,307	2,181
Retained earnings	118,546	117,308
Unearned compensation	(554)	(621)
Accumulated other comprehensive loss	(16,851)	(15,406)
	113,112	113,126
Treasury stock, shares held at cost; 2004 - 39,711, 2003 - 54,178	(668)	(774)
Total shareholders' equity	112,444	112,352
Total liabilities and shareholders' equity	\$296,151	\$287,347

Quaker Chemical Corporation  
Condensed Consolidated Statement of Cash Flows  
For the three months ended March 31,  
(Dollars in thousands)

(Unaudited)

	2004	2003
Cash flows from operating activities		
Net income	\$3,309	\$3,107
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,981	1,646
Amortization	284	215
Equity in net income of associated companies	(149)	(86)
Minority interest in earnings of subsidiaries	1,019	751
Deferred compensation and other, net	208	241

Pension and other postretirement benefits	313	317
Increase (decrease) in cash from changes in current assets and current liabilities:		
Accounts receivable	(4,316)	(399)
Inventories	(1,867)	(1,389)
Prepaid expenses and other current assets	(2,768)	(1,342)
Accounts payable and accrued liabilities	329	(5,927)
Change in restructuring liabilities	(290)	(699)
Net cash used in operating activities	\$(1,947)	\$(3,565)

Cash flows from investing activities		
Capital expenditures	(2,347)	(2,113)
Dividends and distributions from associated companies	233	1,800
Other, net	(57)	(40)
Net cash used in investing activities	(2,171)	(353)

Cash flows from financing activities		
Net increase in short-term borrowings	7,617	3,791
Repayment of long-term debt	(160)	(7)
Dividends paid	(2,020)	(1,961)
Treasury stock issued	232	86
Distributions to minority shareholders	(245)	(213)
Net cash provided by financing activities	5,424	1,696

Effect of exchange rate changes on cash	(327)	409
Net increase (decrease) in cash and cash equivalents	979	(1,813)
Cash and cash equivalents at beginning of year	21,915	13,857
Cash and cash equivalents at the end of year	\$22,894	\$12,044

SOURCE Quaker Chemical Corporation

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