



Earnings Teleconference

Second Quarter / Fiscal 2018



Forward Looking Statements

This presentation contains forward-looking statements based on management's current expectations, estimates and projections. All statements that address expectations or projections about the future, including our statements addressing our expectations for adjusted EPS growth, the factors we expect to impact earnings in each segment, our expectations for segment EBIT for each of our segments and for adjusted EPS for fiscal 2018 and our broad assumptions supporting these expectations, anticipated demand for our products; and our expected uses of cash, including for capital expenditures, are forward looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties, potentially inaccurate assumptions, and other factors, some of which are beyond our control and difficult to predict. If known or unknown risks materialize, or should underlying assumptions prove inaccurate, our actual results could differ materially from past results and from those expressed in the forward-looking statement. Important factors that could cause our results to differ materially from those expressed in the forward-looking statements include, but are not limited to lower than expected demand for our products; the loss of one or more of our important customers; our failure to develop new products or to keep pace with technological developments; unanticipated disruptions or delays in plant operations or development projects; patent rights of others; the timely commercialization of products under development (which may be disrupted or delayed by technical difficulties, market acceptance, competitors' new products, as well as difficulties in moving from the experimental stage to the production stage); changes in raw material costs; demand for our customers' products; competitors' reactions to market conditions; delays in the successful integration of structural changes, including acquisitions or joint ventures; the laws, regulations, policies and economic conditions, including inflation, interest and foreign currency exchange rates, of countries where we do business; and severe weather events that cause business interruptions, including plant and power outages or disruptions in supplier or customer operations. These factors are discussed more fully in the reports we file with the Securities and Exchange Commission, particularly our annual report on Form 10-K for the fiscal year ended September 30, 2017.

Q2 2018 Operating Performance



Operating Performance

	Q2 2018	Q2 2017
Diluted EPS	(\$2.80)	\$1.19
Adjusted EPS	\$1.04	\$0.88
Revenue (in millions)	\$818	\$678
Total Segment EBIT (in millions)	\$127	\$107
Cash flows from operations (in millions)	\$36	(\$49)

- ◆ Consolidated EBIT up 19% to a record high of \$127 million
- ◆ Reinforcement Materials EBIT up 46% from 2018 contracts, favorable spot pricing and high capacity utilization
- ◆ Performance Chemicals EBIT up 12% from higher unit margins driven by price increases
- ◆ Purification Solutions performance below expectations from increased competition in mercury removal applications; impairment recorded during the quarter

Reinforcement Materials Segment



Q2 Key Highlights

- ◆ Higher unit margins from spot pricing and 2018 customer agreements
- ◆ Margins also benefitted from timely price increases in China relative to rising feedstock costs
- ◆ Volumes up in Americas and Europe driving to high level of capacity utilization

Operating Performance

In millions	Q2 2018	Q2 2017	Q1 2018
Segment EBIT	\$79	\$54	\$62
EBIT Margin	17%	15%	16%
Segment EBITDA	\$97	\$71	\$79
EBITDA Margin	21%	20%	20%

Segment Outlook

- ◆ Robust performance from strong execution and favorable markets
- ◆ Continued benefits from 2018 customer agreements
- ◆ Higher planned maintenance spend in the second half of the year

Performance Chemicals Segment



Q2 Key Highlights

- ◆ Strong volume growth in Specialty Carbons and Formulations year-over-year (+9%) and sequentially (+19%)
- ◆ Higher unit margins across the segment
- ◆ Higher fixed costs from increased maintenance and growth investments

Operating Performance

In millions	Q2 2018	Q2 2017	Q1 2018
Segment EBIT	\$57	\$51	\$47
EBIT Margin	21%	22%	21%
Segment EBITDA	\$69	\$63	\$59
EBITDA Margin	26%	28%	26%

Segment Outlook

- ◆ Sequential pickup in volumes
- ◆ Continue to implement pricing actions to recover rising feedstock costs
- ◆ New products and applications continue to gain momentum
- ◆ Long-term growth investments on track

Purification Solutions Segment



Q2 Key Highlights

- ◆ Lower volumes and unit margins due to competitive mercury removal environment
- ◆ \$224 million after-tax asset impairment charge
- ◆ Continued volume growth in specialty applications

Operating Performance

In millions	Q2 2018	Q2 2017	Q1 2018
Segment EBIT	(\$6)	\$2	\$6
EBIT Margin	- %	3%	9%
Segment EBITDA	\$4	\$12	\$16
EBITDA Margin	6%	18%	23%

Segment Outlook

- ◆ Volume growth in NA water and specialty applications
- ◆ Lower variable costs vs Q2
- ◆ Evaluating strategic options as we drive improved performance

Specialty Fluids Segment



Q2 Key Highlights

- ◆ Lower level of oil and gas project activity in the quarter
- ◆ Moving forward with new oil and gas projects

Operating Performance

In millions	Q2 2018	Q2 2017	Q1 2018
Segment EBIT	(\$3)	\$ -	(\$2)
EBIT Margin	- %	- %	- %
Segment EBITDA	(\$2)	\$ -	(\$2)
EBITDA Margin	- %	- %	- %

Segment Outlook

- ◆ Recent oil and gas commercial successes anticipated to drive project activity in the 2nd half of the year
- ◆ Continue to broaden customer base outside the North Sea

Q2 2018 Corporate Financial Items

- ◆ Liquidity remains strong at \$921 million
- ◆ Cash from operations of \$36 million; Discretionary Free Cash Flow of \$67 million
- ◆ Working capital dollars up \$65M; days declined sequentially
- ◆ Dividends of \$19 million
- ◆ Capital expenditures of \$57 million
- ◆ Year-to-date and forecasted operating tax rate of 21%



Fiscal 2018 Outlook

Driving our *Advancing the Core* strategy

Reinforcement Materials

- ◆ \$250-\$270 million EBIT
 - ◆ Global spot pricing
 - ◆ Utilization rates

Performance Chemicals

- ◆ \$200-\$215 million EBIT
 - ◆ Feedstock costs in Specialty Carbons
 - ◆ Price realization
 - ◆ Investing for growth

Purification Solutions

- ◆ \$0-\$5 million EBIT
 - ◆ Growth in specialty applications
 - ◆ North American mercury and water applications

Specialty Fluids

- ◆ \$0-\$10 million EBIT
 - ◆ Oil and gas project timing
 - ◆ Fine Cesium Chemical growth

Adjusted EPS

\$3.90 - \$4.20

CABOT 



Appendix

Use of Non-GAAP Financial Measures & Definitions of Terms Used

Use of Non-GAAP Financial Measures

This presentation includes references to adjusted earnings per share (EPS), total segment EBIT, segment EBITDA, discretionary free cash and operating tax rate, which are non-GAAP measures. Reconciliations of adjusted EPS to EPS from continuing operations, Total segment EBIT to Income (Loss) from continuing operations before income taxes and equity in earnings of affiliated companies, and operating tax rate to effective tax rate, the most directly comparable GAAP financial measures, are provided in the tables included in our second quarter earnings release and filed on our Current Report on Form 8-K dated May 7, 2018.

Reconciliations for Total Segment EBIT and segment EBITDA for each segment are included in the following slides.

This presentation also includes our forecast of adjusted EPS for fiscal 2018. We do not provide a forecast for GAAP EPS or reconcile either our forecast of adjusted EPS to GAAP EPS or our expected adjusted EPS growth rate range with a GAAP EPS growth rate range because, without unreasonable effort, we are unable to predict with reasonable certainty the matters we would allocate to “certain items,” including unusual gains and losses, costs associated with future restructurings, acquisition-related expenses and litigation outcomes. These items are uncertain, depend on various factors, and could have a material impact on GAAP EPS in future periods.

To calculate “Discretionary Free Cash Flow” we deduct sustaining and compliance capital expenditures and changes in Net Working Capital from cash flow from operating activities.

Explanation of Terms Used

Product Mix. The term “product mix” refers to the mix of types and grade of products sold or the mix of geographic regions where products are sold, and the positive or negative impact this has on the revenue or profitability of the business or segment.

Net Working Capital. The term “net working capital” includes accounts receivable, inventory and accounts payable and accrued expenses.

Non-GAAP Financial Measures

Total Segment EBIT

Our Chief Operating Decision Maker uses segment income (loss) from continuing operations before interest and taxes (which we refer to as segment “EBIT”) to evaluate the operating results of each segment and to allocate resources to the segments. We believe Total segment EBIT, which reflects the sum of EBIT from our 4 reportable segments, provides useful supplemental information for our investors as it is an important indicator of the Company’s operational strength and performance, allows investors to see our results through the eyes of management, and provides context for our discussion of individual business segment performance. Total segment EBIT is a non-GAAP financial measure, and should not be considered an alternative for Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies, which is the most directly comparable GAAP financial measure. In calculating Total segment EBIT, we exclude from our income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies : (i) items of expense and income that management does not consider representative of our fundamental on-going segment results, which we refer to as “certain items”, and (ii) items that, because they are not controlled by the business segments and primarily benefit corporate objectives, are not allocated to our business segments, such as interest expense and other corporate costs , which include unallocated corporate overhead expenses such as certain corporate salaries and headquarter expenses, plus costs related to special projects and initiatives, which we refer to as “other unallocated items”. Management believes excluding the items identified as certain items facilitates operating performance comparisons from period to period by eliminating the differences caused by the existence and timing of certain expenses and income items that would not otherwise be apparent on a GAAP basis . Investors should consider the limitations associated with this non-GAAP measure, including the potential lack of comparability of this measure from one company to another. A reconciliation of Total segment EBIT to Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies is below.

	Q2 2018	Q2 2017
Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies	\$ (171)	\$ 78
Less: Certain items	(264)	-
Less: Other unallocated items	(34)	(29)
Total Segment EBIT	\$ 127	\$ 107

Non-GAAP Financial Measures

Segment EBITDA

Segment EBITDA is comprised of Segment EBIT plus depreciation and amortization. Management believes that Segment EBITDA is useful supplemental information because it provides investors with a view of the cash generated by each of the Company's segments, which is available to fund operating needs such as working capital and capital expenditures as well as the cost of financing the Company's capital needs and returning cash to shareholders.

	Q2 2018	Q2 2017	Q1 2018
Reinforcement Materials EBIT	\$ 79	\$ 54	\$ 62
Plus: Depreciation & Amortization	18	17	17
Reinforcement Materials EBITDA	\$ 97	\$ 71	\$ 79

	Q2 2018	Q2 2017	Q1 2018
Performance Chemicals EBIT	\$ 57	\$ 51	\$ 47
Plus: Depreciation & Amortization	12	12	12
Performance Chemicals EBITDA	\$ 69	\$ 63	\$ 59

	Q2 2018	Q2 2017	Q1 2018
Purification Solutions EBIT	\$ (6)	\$ 2	\$ 6
Plus: Depreciation & Amortization	10	10	10
Purification Solutions EBITDA	\$ 4	\$ 12	\$ 16

	Q2 2018	Q2 2017	Q1 2018
Specialty Fluids EBIT	\$ (3)	\$ -	\$ (2)
Plus: Depreciation & Amortization	1	-	-
Specialty Fluids EBITDA	\$ (2)	\$ -	\$ (2)

Non-GAAP Financial Measures

Discretionary Free Cash Flow

To calculate "Discretionary Free Cash Flow" we deduct sustaining and compliance capital expenditures and changes in Net Working Capital from cash flow from operating activities.

	Q2 2018	Q2 2017
Cash flow from operating activities ^(A)	\$ 36	\$ (51)
Less: Changes in net working capital ^(B)	(65)	(134)
Less: Sustaining and compliance capital expenditures	34	18
Discretionary Free Cash Flow	\$ 67	\$ 65

(A) As provided in the Condensed Consolidated Statement of Cash Flows.

(B) Defined as changes in accounts receivable, inventory and accounts payable and accrued liabilities as presented on the Condensed Consolidated Statement of Cash Flows.

CABOT 

