



# Earnings Teleconference

Second Quarter / Fiscal 2015



# Forward Looking Statements, Use of Non-GAAP Financial Measures & Definitions of Terms Used

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 volume growth, demand for our products; our statements addressing our estimate of the size of the market in North America for activated carbon for mercury removal customers and our anticipated share of this overall market, our expectations for Purification Solutions segment EBITDA, the possibility of recording a non-cash impairment charge relating to our Purification Solutions segment, and our estimate of the amount of any such charge; statements addressing the benefit we expect to record in the year related to our LIFO accounting reserve; expectations relating to capital expenditures, free cash flow, our operating tax rate for the year and our uses of available cash; and statements addressing our future financial performance, 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 inability to complete capacity expansions or other development projects, including at our mine in Manitoba, as planned; the timing of implementation of environmental regulations, including the U.S. EPA MATS regulations; our failure to develop new products or to keep pace with technological developments; 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 latest annual report on Form 10-K.

This presentation includes references to adjusted earnings per share (EPS), total segment EBIT, adjusted EBITDA, operating tax rate, and free cash flow, which are non-GAAP measures. A reconciliation of adjusted EPS to EPS from continuing operations, the most directly comparable GAAP financial measure, a reconciliation of total segment EBIT to Income from continuing operations before taxes, the most directly comparable GAAP financial measure, and a reconciliation of operating tax rate to effective tax rate, the most directly comparable GAAP financial measure, are provided in the tables included in our second quarter earnings release and filed on our Current Report on Form 8-K dated April 29, 2015. The definition of adjusted EBITDA is included in our second quarter earnings release and filed on our Current Report on Form 8-K dated April 29, 2015 and a reconciliation of adjusted EBITDA from segment EBIT for the second quarter of fiscal year 2015 is provided in the investor section of our website at <http://investor.cabot-corp.com>, under the Non-GAAP Reconciliations section.

The term "operating tax rate" represents the tax rate on our recurring operating results. This rate excludes discrete tax items, which are unusual or infrequent items that are excluded from the estimated annual effective tax rate and other tax items, including the impact of the timing of losses in certain jurisdictions, cumulative rate adjustment and the impact of certain items on both operating income and tax provision.

"Free cash flow" is a non-GAAP financial measure and refers to total segment EBIT, less unallocated corporate expenses, less taxes paid, plus depreciation and amortization, plus the change in net working capital (defined as accounts receivable, inventory, accounts payable and accrued expenses), less capital expenditures. A reconciliation of free cash flow from total segment EBIT for the second quarter of fiscal year 2015 is provided on the investor portion of our website at <http://investor.cabot-corp.com>, under the Non-GAAP Reconciliations section.

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.

# Q2 2015 Highlights



- ◆ Solid volumes, but experienced margin pressure in Reinforcement Materials



- ◆ Lower project activity in Specialty Fluids

- ◆ Strong cash flow generation used for continued share repurchases

# Q2 2015 Operating Results

	Q2 2015	Q2 2014	Q1 2015
Total Segment EBIT (in millions)	\$69	\$116	\$97
Adjusted EPS	\$0.53	\$0.83	\$0.80
Adjusted EBITDA (in millions)	\$105	\$150	\$133

## Q2 2015 Total Segment EBIT of \$69 million

- ◆ Volumes impacted by customer inventory destocking
- ◆ Margin pressure in Reinforcement Materials and lower project activity in Specialty Fluids
- ◆ Improvement in Purification Solutions
- ◆ Strong cash flow and aggressive management of costs

# Reinforcement Materials Segment

## Operating Performance

In millions	Q2 2015	Q2 2014	Q1 2015
Net sales	\$358	\$512	\$460
Segment EBIT	\$27	\$65	\$53

## Key Highlights

- ◆ Volumes decreased 1% year-over-year with lower North America contract volumes largely offset by growth in other regions
- ◆ Margin pressure unfavorably impacted results:
  - ◆ Contract pricing
  - ◆ Raw material purchasing
  - ◆ High-cost inventory effects

## Segment Outlook

- ◆ Volume growth anticipated in second half of fiscal 2015
- ◆ Increasingly competitive environment in Asia
- ◆ Continuing margin pressure

# Performance Chemicals Segment

## Operating Performance

In millions	Q2 2015	Q2 2014	Q1 2015
Net sales	\$237	\$264	\$229
Segment EBIT	\$42	\$46	\$39

## Key Highlights

- ◆ Volumes decreased 4% year-over-year in Specialty Carbons and Formulations and improved 2% year-over-year in Metal Oxides
- ◆ Margins impacted by less favorable mix across the segment and benefit from lower raw material costs in specialty carbons product line

## Segment Outlook

- ◆ Anticipate customer destocking has come to an end as polymer prices rise and oil prices stabilize
- ◆ Volume growth expected in the second half of fiscal 2015

# Purification Solutions Segment

## Operating Results

In millions	Q2 2015	Q2 2014	Q1 2015
Net sales	\$71	\$80	\$76
Segment EBITDA	\$13	\$9	\$11

## Key Highlights

- ◆ Year-over-year EBITDA increase due to higher pricing, improved operational performance, and sales to mercury removal customers
- ◆ Sequential EBITDA increase from price increases and inventory build
- ◆ Additional utilities under contract for mercury removal products

## Segment Outlook

- ◆ Volume growth expected in the second half of the fiscal year
- ◆ Supreme Court ruling on MATS expected by the end of June
- ◆ Customer implementation of MATS began in April 2015
- ◆ Inventory benefit in first half of fiscal year not expected to repeat

# Specialty Fluids Segment

## Operating Performance

In millions	Q2 2015	Q2 2014	Q1 2015
Net sales	\$8	\$25	\$16
Segment EBIT	(\$1)	\$9	\$6

## Key Highlights

- ◆ Lower rental volumes as a result of a lower level of project activity
- ◆ Results impacted by the downturn in the oil and gas industry

## Segment Outlook

- ◆ Level of project activity expected to modestly improve next quarter
- ◆ Uncertainty around project activity due to cost management in the oil and gas industry
- ◆ Value proposition of Specialty Fluids continues to be recognized

# Q2 2015 Corporate Financial Items

- ◆ Liquidity remained strong at \$720 million
- ◆ Repurchased approximately 300,000 shares for \$14 million
- ◆ Capital expenditures of \$29 million
- ◆ LIFO benefit of \$7 million
- ◆ Operating tax rate of 28%

# Conclusion

## OUTLOOK

- ◆ Volume growth anticipated in the second half of fiscal 2015
- ◆ Purification Solutions outlook
- ◆ Free cash flow targeted to be \$350 million to \$400 million for the fiscal year
- ◆ Prioritizing returning cash to shareholders



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