



# Earnings Teleconference

Third Quarter / Fiscal 2017



# 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, segment volumes, cost, earnings and margins, the factors we expect to impact earnings in each segment, demand for our products, the benefits we expected to achieve from our investments in new fumed metal oxides manufacturing plants, our expected uses of cash, including for capital expenditures, and our expected tax rate for fiscal 2017, 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, 2016.

# Q3 2017 Operating Performance



## Operating Performance

	Q3 2017	Q3 2016
Diluted EPS	\$0.71	\$0.88
Adjusted EPS	\$0.81	\$0.93
Revenue (in millions)	\$705	\$621
Total Segment EBIT (in millions)	\$99	\$104
Cash flows from operations (in millions)	\$132	\$107

- ◆ Reinforcement Materials EBIT up 46% year over year, supported by favorable pricing and favorable product mix
- ◆ Challenging quarter in Performance Chemicals from higher feedstock costs and the impact of unplanned downtime on volumes and costs
- ◆ Purification Solutions results impacted by lower mercury removal volumes and pricing and the effect of a plant disruption that occurred in the quarter at one of our facilities
- ◆ Strong cash flow generation used to return cash to shareholders
  - ◆ \$19 million of dividends
  - ◆ \$13 million of share repurchases



# Reinforcement Materials Segment



## Q3 Key Highlights

- ◆ Second consecutive quarter with \$50M+ EBIT
- ◆ Spot market pricing, particularly in Asia, remains strong
- ◆ Energy investments yielding more as oil moved up into \$45-50M range
- ◆ Benefits of product mix contributing to results

## Operating Performance

In millions	Q3 2017	Q3 2016	Q2 2017
Segment EBIT	\$51	\$35	\$54
EBIT Margin	14%	13%	15%
Segment EBITDA	\$68	\$53	\$71
EBITDA Margin	19%	20%	20%

## Segment Outlook

- ◆ Continued strong performance in Q4 with EBIT in the \$45-\$50M range
- ◆ Modestly higher costs expected in Q4

# Performance Chemicals Segment



## Q3 Key Highlights

- ◆ Negative impact in Specialty Carbons and Formulations on volumes and costs from unplanned downtime (\$5M EBIT)
- ◆ Lower margins year-over-year from higher feedstock costs
- ◆ Volume growth drives strong quarter in Metal Oxides

## Operating Performance

In millions	Q3 2017	Q3 2016	Q2 2017
Segment EBIT	\$46	\$59	\$51
EBIT Margin	20%	26%	22%
Segment EBITDA	\$57	\$71	\$63
EBITDA Margin	25%	31%	28%

## Segment Outlook

- ◆ EBIT Margins of 20% down from peak of 2016
  - ◆ 2% due to supply disruption in Q3
- ◆ Implementing price increase to recover lost margin and support investments for innovation and new capacity
- ◆ Targeting 23- 24% EBIT margins in Fiscal 2018

# Purification Solutions Segment



## Q3 Key Highlights

- ◆ Negative impact (\$3M) from plant disruption and maintenance
- ◆ Lower mercury removal volumes and pricing
- ◆ Strong volume growth in environmental and specialty applications

## Operating Performance

In millions	Q3 2017	Q3 2016	Q2 2017
Segment EBIT	(\$2)	\$-	\$2
EBIT Margin	-	-	3%
Segment EBITDA	\$8	\$10	\$12
EBITDA Margin	11%	13%	18%

## Segment Outlook

- ◆ Improvement anticipated in Q4
  - ◆ Stronger seasonal volumes
  - ◆ Lower maintenance spend
- ◆ Near-term outlook
  - ◆ Excess capacity in NA powder market
- ◆ Medium-term outlook
  - ◆ Growth in specialty

# Specialty Fluids Segment



## Q3 Key Highlights

- ◆ Solid level of oil and gas project activity in the quarter
- ◆ Weak comparable to prior year which benefited from a large project

## Operating Performance

In millions	Q3 2017	Q3 2016	Q2 2017
Segment EBIT	\$4	\$10	\$-
EBIT Margin	33%	53%	-
Segment EBITDA	\$5	\$11	\$-
EBITDA Margin	42%	58%	-

## Segment Outlook

- ◆ Ongoing rental activity in Q4 as Oil and Gas projects begin to ramp up
- ◆ Continue to broaden customer base outside the North Sea

# Q3 2017 Corporate Financial Items

- ◆ Liquidity remained strong at \$1.2 billion
- ◆ Cash from operations of \$132M; Discretionary Free Cash Flow of \$71 million
- ◆ Dividends of \$19 million, Repurchased 250,000 shares for \$13 million
- ◆ Capital expenditures of \$41 million
- ◆ Year-to-date and forecasted operating tax rate of 21%



# Outlook

## Driving our *Advancing the Core* strategy

### Looking ahead:

- ◆ Reinforcement Materials EMEA and Asia Pacific markets remain strong; Quarterly EBIT expected in \$45-\$50 million range
- ◆ Performance Chemicals full year volume growth expected to be 4-5%; Q4 to recover from resolution of the unplanned downtime
- ◆ Purification Solutions to benefit from seasonal volume growth and lower fixed costs in Q4
- ◆ Similar project activity in Specialty Fluids compared to Q3



**7%-10% adjusted EPS CAGR over time, high end of range expected for fiscal 2017**

**Return 50% of discretionary free cash to shareholders**

**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 flow 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, discretionary free cash flow to cash flow from operating activities and operating tax rate to effective tax rate, the most directly comparable GAAP financial measures, are provided in the tables included in our third quarter earnings release and filed on our Current Report on Form 8-K dated August 1, 2017.

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

## 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.

	Q3 2017	Q3 2016
<b>Income (loss) from continuing operations before income taxes and equity in earnings of affiliated companies</b>	<b>\$ 66</b>	<b>\$ 74</b>
Interest expense	13	13
Certain items	2	6
Unallocated corporate costs	11	11
General unallocated income (expense)	4	(1)
Equity in earnings of affiliated companies	3	1
<b>Total Segment EBIT</b>	<b>\$ 99</b>	<b>\$ 104</b>

# 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.

	Q3 2017	Q3 2016
Reinforcement Materials EBIT	\$ 51	\$ 35
Plus: Depreciation & Amortization	17	18
<b>Reinforcement Materials EBITDA</b>	<b>\$ 68</b>	<b>\$ 53</b>

	Q3 2017	Q3 2016
Performance Chemicals EBIT	\$ 46	\$ 59
Plus: Depreciation & Amortization	11	12
<b>Performance Chemicals EBITDA</b>	<b>\$ 57</b>	<b>\$ 71</b>

	Q3 2017	Q3 2016
Purification Solutions EBIT	\$ (2)	\$ -
Plus: Depreciation & Amortization	10	10
<b>Purification Solutions EBITDA</b>	<b>\$ 8</b>	<b>\$ 10</b>

	Q3 2017	Q3 2016
Specialty Fluids EBIT	\$ 4	\$ 10
Plus: Depreciation & Amortization	1	1
<b>Specialty Fluids EBITDA</b>	<b>\$ 5</b>	<b>\$ 11</b>

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