



# Earnings Teleconference

Third 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 and earnings growth, demand for our products; our statements addressing our anticipated share of the market for activated carbon products for mercury removal customers in North America, our expectations for Purification Solutions segment EBITDA margins, 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; our expectations concerning the annual decrease in depreciation and amortization expense from the asset impairment charge we recorded in the quarter, and statements addressing our cost reduction program and 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 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 (Loss) 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 third quarter earnings release and filed on our Current Report on Form 8-K dated August 4, 2015. The definition of adjusted EBITDA is included in our third quarter earnings release as filed in our Current Report on Form 8-K dated August 4, 2015 and a reconciliation of adjusted EBITDA from segment EBIT for the third 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 third 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.

# Q3 2015 Highlights



- ◆ Solid volumes, but continued margin pressure in Reinforcement Materials and low project activity in Specialty Fluids
- ◆ Record Performance Chemicals and improved Purification Solutions results
- ◆ Impairment of Purification Solutions assets due to MATS uncertainty
- ◆ Repurchased 3% of outstanding shares fiscal YTD

# Q3 2015 Operating Results

	Q3 2015	Q3 2014	Q2 2015
Total Segment EBIT (in millions)	\$86	\$109	\$69
Adjusted EPS	\$0.64	\$0.88	\$0.53
Adjusted EBITDA (in millions)	\$120	\$145	\$105

## Q3 2015 Total Segment EBIT of \$86 million

- ◆ Volumes improved sequentially in all segments
- ◆ Margin pressure in Reinforcement Materials
- ◆ Record EBIT in Performance Chemicals and doubled Purification Solutions EBITDA year-over-year
- ◆ Strong cash flow and \$25 million year-to-date cost reduction

# Reinforcement Materials Segment

## Operating Performance

In millions	Q3 2015	Q3 2014	Q2 2015
Net sales	\$351	\$538	\$358
Segment EBIT	\$32	\$62	\$27

## Key Highlights

- ◆ Volumes flat year-over-year with lower North and South America volumes offset by growth in other regions
- ◆ Margin pressure continued:
  - ◆ Pricing: contracts and China
  - ◆ Feedstock-related effects
  - ◆ Unfavorable mix
- ◆ Sequential EBIT improvement largely due to 7% volume increase

# Performance Chemicals Segment

## Operating Performance

In millions	Q3 2015	Q3 2014	Q2 2015
Net sales	\$234	\$262	\$237
Segment EBIT	\$48	\$44	\$42

## Key Highlights

- ◆ Volumes increased 7% year-over-year in Specialty Carbons and Formulations and decreased 3% year-over-year in Metal Oxides
- ◆ EBIT improvement due to net volume increase partly offset by unfavorable foreign exchange

# Purification Solutions Segment

## Operating Results

In millions	Q3 2015	Q3 2014	Q2 2015
Net sales	\$72	\$78	\$71
Segment EBITDA	\$14	\$7	\$13

## Key Highlights

- ◆ Year-over-year EBITDA doubled due to higher pricing, improved operational performance, and sales to mercury removal customers
- ◆ EBITDA increased sequentially with volume and cost improvements partly offset by unfavorable mix

# Specialty Fluids Segment

## Operating Performance

In millions	Q3 2015	Q3 2014	Q2 2015
Net sales	\$12	\$24	\$8
Segment EBIT	\$3	\$10	(\$1)

## Key Highlights

- ◆ Results impacted by the downturn in the oil and gas industry
- ◆ Lower project activity year-over-year
- ◆ EBIT improvement sequentially due to several jobs completed during the quarter

# Q3 2015 Corporate Financial Items

- ◆ Liquidity remained strong at \$693 million
- ◆ Repurchased approximately 575,000 shares for \$24 million
- ◆ Capital expenditures of \$33 million
- ◆ LIFO benefit of \$2 million
- ◆ Unfavorable foreign exchange of \$6M year-over-year
- ◆ Operating tax rate of 27%

# Strategic Outlook

## Reinforcement Materials

- ◆ Focus on margin restoration
- ◆ Continued emphasis on value over volume
- ◆ Improving market for 2016 contracts
- ◆ Price increase announced to recoup increased feedstock costs
- ◆ Ongoing cost and capital management

## Performance Chemicals

- ◆ New product and applications development focus
- ◆ Leverage broad product portfolio in silicas and specialty carbons
- ◆ Commercial excellence impact
- ◆ Investment to meet long-term growth

# Strategic Outlook

## Purification Solutions

- ◆ EBITDA margin > 20%
- ◆ Growth in excess of GDP
- ◆ Realign cost structure
- ◆ Strengthen position in Asia Pacific
- ◆ Capture 40-50% MATS share

## Specialty Fluids

- ◆ Actively manage project pipeline
- ◆ Reducing operating costs
- ◆ Broaden customer base
- ◆ Strengthen raw material supply

# Strategic Outlook

## Corporate

- ◆ Continued focus on cash
- ◆ Closely managing working capital and capital expenditures
- ◆ Return cash to shareholders

**CABOT** 

