Cabot Announces First Quarter Fiscal Year 2010 Operating Results

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Strong earnings performance from higher sales, robust unit margins and delivery of restructuring savings

BOSTON, Jan 27, 2010 /PRNewswire via COMTEX/ -- Cabot Corporation (NYSE: CBT) today announced results for its first quarter of fiscal year 2010.

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Key Highlights

- Quarterly volumes increased 20-25% over first quarter 2009 as demand continued to improve in key end markets
- Announced restructuring savings have been captured, achieving more than $80 million of fixed cost savings on a full year run rate
- Emerging markets have experienced fastest recovery, continue to represent a growing portion of total company revenue
- Income from continuing operations improved by more than $40 million compared to the first quarter of 2009

(In millions, except per share amounts)	First Fiscal Quarter 2010	2009
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Net sales	$679	$652
Net income attributable to Cabot Corporation	$29	$4
Diluted earnings per share from continuing operations	$0.44	$0.06
Less: Certain items per share	$(0.21)	$(0.02)
Adjusted earnings per share	$0.65	$0.08
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For the first quarter of fiscal 2010, the Company reported net income of $29 million ($0.44 per diluted common share). Adjusted EPS was income of $0.65 per common share, excluding $0.21 per common share of certain items principally related to restructuring charges. When compared to the first quarter of fiscal 2009, results benefited from: i) higher volumes ($40 million), ii) lower fixed costs from restructuring savings ($20 million), iii) replenishment of inventory levels due to higher volumes ($15 million) and a weaker dollar ($5 million). Further benefiting results was the absence of high cost inventory effects experienced in the first quarter of 2009 that did not occur in 2010. These positive factors were partially offset by an unfavorable $3 million contract lag and LIFO impact related to our carbon black businesses for the first quarter of fiscal 2010 compared to a $42 million benefit in the first quarter of fiscal 2009. Sequentially, profitability benefited from lower costs due to restructuring, favorable utilization variances, a weaker dollar and lower unfavorable contract lag and LIFO effects. Details of the Company's financial results and certain items are provided in the accompanying tables.

Commenting on the results, Patrick Prevost, Cabot's President and CEO, stated, "We are very pleased with our results, as we are performing at pre-downturn earnings levels despite lower sales volumes. Our ability to maintain unit margins through the downturn and the early delivery of our restructuring savings were critical to this performance. During the quarter, we experienced continued improvement in our key end markets worldwide with emerging markets seeing the fastest growth. We also sustained our solid cash and balance sheet positions despite an increase in working capital that resulted from higher demand."

Prevost continued, "Through the economic crisis we maintained focus on the long-term, including the commissioning of a 150,000 metric ton expansion at our carbon black facility in Tianjin, China last September and the recent announcement of our intention to triple fumed silica capacity at our facility in Jiangxi, China. Our intent to grow in emerging markets is a key strategic driver that will benefit results now and in the future."

Financial Detail

Segment Results

Core Segment- First quarter fiscal 2010 profitability in the Rubber Blacks Business increased by $18 million when compared to the same quarter of fiscal 2009 from 24% higher volumes, lower fixed costs from restructuring savings and favorable utilization variances. Additionally, unfavorable high cost inventory effects in the first quarter of fiscal 2009 did not reoccur in fiscal 2010. These factors were partially offset by an unfavorable contract lag and LIFO impact of $3 million compared to a $32 million benefit in the first quarter of 2009. Volumes in China increased by 76% over the first quarter of fiscal 2009, while South America increased by 33%, Southeast Asia by 21%, North America by 17% and Europe, Middle East, Africa by 3%. Sequentially, profitability increased by $26 million from higher volumes, lower fixed costs and a lower unfavorable contract lag impact. Volumes increased by 2% globally when compared to the fourth quarter of fiscal 2009 as end markets continued to improve.

First quarter fiscal 2010 profitability in the Supermetals Business increased by $2 million compared to the same quarter of fiscal 2009 principally due to lower raw material costs. When compared to the fourth quarter of fiscal 2009, profitability increased by $5 million from significantly higher volumes and lower costs. The Supermetals Business continues to focus on cash generation and during the first quarter of fiscal 2010 generated $11 million in cash from a combination of improved operating results and working capital reductions.

Performance Segment- First quarter fiscal 2010 profitability in the Performance Segment increased by $31 million when compared to the same quarter of fiscal 2009. The increase was driven by significantly higher volumes, lower fixed costs and favorable utilization variances. Partially offsetting these factors was a $10 million LIFO benefit in the first quarter of fiscal 2009 that did not reoccur in fiscal 2010. Volumes increased by 24% in Performance Products and by 19% in Fumed Metal Oxides when compared to the first fiscal quarter of 2009. Sequentially, despite seasonally lower volumes, profitability increased by $6 million driven by lower fixed costs and solid unit margins. When compared to the fourth quarter of fiscal 2009, volumes were down 2% in Performance Products and 9% in Fumed Metal Oxides.

New Business Segment- First quarter fiscal 2010 revenues in the New Business Segment were slightly below revenues in both the first and fourth quarters of fiscal 2009. Solid revenues in Inkjet Colorants were offset by a decline in the Aerogel business due to uneven order patterns. The improvement in cash generation that began in fiscal 2009 was sustained through the first quarter of fiscal 2010.

Specialty Fluids Segment- Profitability in the Specialty Fluids Segment for the first quarter of fiscal 2010 increased by $1 million when compared to both the first and fourth quarters of fiscal 2009. Business performance benefited from higher margin rental revenue and a favorable service mix.

Cash Performance- The Company ended the first quarter of fiscal 2010 with a cash balance of $242 million. Working capital increased by $104 million from the impact of rising feedstock costs and higher sales demand on our inventory and accounts receivable balances. Capital expenditures for the first quarter of fiscal 2010 were $13 million.

Taxes- During the first quarter of fiscal 2010, the Company recorded a tax provision of $11 million. The operating tax rate for the quarter was approximately 27%.

Outlook

Commenting on the outlook for the Company, Prevost said, "Our key end markets are showing continued signs of recovery which bodes well for the future. Given that we are seeing demand stabilize around current levels, a full recovery to pre-downturn volumes may occur at a more moderate pace. Our restructuring work is yielding benefits, recently completed energy investments will begin to show results in 2010 and our emerging market investments will enable growth in the coming years. In summary, we have weathered the economic downturn with a strong balance sheet and are confident we will deliver on our long-term financial goals."

Forward-Looking Statements- This earnings release 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 expectations concerning the annualized fixed cost savings we expect from our restructuring initiative and demand for our products), strategy for growth, market position, and expected financial results are forward-looking statements. Some of the forward-looking statements may be identified by words like "expects," "anticipates," "plans," "intends," "projects," "indicates," and similar expressions. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Many factors, including those discussed more fully elsewhere in this release and in documents filed with the Securities and Exchange Commission by Cabot, particularly its latest annual report on Form 10-K, could cause results to differ materially from those stated. These factors include, but are not limited to changes in raw material costs; costs associated with the research and development of new products, including regulatory approval and market acceptance; competitive pressures; successful integration of structural changes, including restructuring plans, and joint ventures; the laws, regulations, policies and economic conditions, including inflation, interest and foreign currency exchange rates, of countries in which the company does business; and severe weather events that cause business interruptions, including plant and power outages, or disruptions in supplier or customer operations.

Explanation of Terms Used- When explaining factors affecting our performance, we use several terms. The term "LIFO benefit" or "LIFO impact" includes two factors: (i) the impact of current inventory costs being recognized immediately in cost of goods sold ("COGS") under a last-in first-out method, compared to the older costs that would have been included in COGS under a first-in first-out method ("COGS impact"); and (ii) the impact of reductions in inventory quantities, causing historical inventory costs to flow through COGS ("liquidation impact"). The LIFO impact for the first quarter of fiscal 2010 was a favorable $2 million and is comprised of a $3 million favorable liquidation impact partially offset by a $1 million unfavorable COGS impact. The LIFO impact for the first quarter of fiscal 2009 was a $20 million benefit and was comprised entirely of COGS impact. The term "contract lag" refers to the time lag of the price adjustments in certain of our rubber blacks supply contracts to account for changes in feedstock costs and, in some cases, changes in other relevant costs.

Use of Non-GAAP Financial Measures- The preceding discussion of our results and the accompanying financial tables report adjusted EPS and also include information on our reportable segment sales and segment (or business) operating profit before taxes ("PBT"). Adjusted EPS and segment PBT are non-GAAP financial measures and are not intended to replace EPS and income (loss) from continuing operations before taxes, equity in net income of affiliated companies and minority interest, respectively, the most directly comparable GAAP financial measures. Both EPS and adjusted EPS are calculated on a diluted share basis. In calculating adjusted EPS and segment PBT, we exclude certain items, meaning items that are significant and unusual or infrequent and not believed to reflect the true underlying business performance, and, therefore, are not allocated to a segment's results or included in adjusted EPS. Further, in calculating segment PBT we include equity in net income of affiliated companies, royalties paid by equity affiliates and allocated corporate costs but exclude interest expense, foreign currency translation gains and losses, interest income, dividend income and unallocated corporate costs. Our chief operating decision-maker uses adjusted EPS to evaluate the underlying earnings power of the Company. Segment PBT is used to evaluate changes in the operating results of each segment before non-operating factors and before certain items and to allocate resources to the segments. We believe that these non-GAAP measures also assist our investors in evaluating the changes in our results and the Company's performance. A reconciliation of adjusted EPS to EPS is shown in the table titled Certain Items and Reconciliation of Adjusted EPS, and a reconciliation of total segment PBT to income (loss) from operations before taxes, equity in net income of affiliated companies and minority interest is shown in the table titled Summary Results by Segments. The certain items that are excluded from our calculation of adjusted EPS and segment PBT are detailed in the table titled Certain Items and Reconciliation of Adjusted EPS.

Click here for financial tables.

SOURCE: Cabot Corporation