



# Earnings Teleconference

Fourth 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; expectations relating to capital expenditures, and our operating tax rate for fiscal 2016, 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 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, and operating tax rate, 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 (Loss) 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 fourth quarter earnings release and filed on our Current Report on Form 8-K dated November 2, 2015. The definition of adjusted EBITDA is included in our fourth quarter earnings release as filed in our Current Report on Form 8-K dated November 2, 2015 and a reconciliation of adjusted EBITDA from segment EBIT for the fourth quarter and full year 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.

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.

# Fiscal 2015 Highlights

- ◆ Mixed results for segments with challenging year for Reinforcement Materials and Specialty Fluids
- ◆ Second straight year of record Performance Chemicals EBIT
- ◆ Significant improvement in Purification Solutions operating results
- ◆ Cost management in 2015 resulted in \$54 million of lower fixed costs
- ◆ Strong cash flow generation used to return cash to shareholders
  - ◆ \$96 million of share repurchases
  - ◆ \$56 million of dividends



# Q4 and Fiscal 2015 Operating Results

	FY 2015	FY 2014	Q4 2015	Q4 2014
Total Segment EBIT (in millions)	\$335	\$447	\$83	\$108
Adjusted EPS	\$2.75	\$3.43	\$0.78	\$0.85
Adjusted EBITDA (in millions)	\$473	\$593	\$115	\$147

## Q4 2015

- ◆ EBIT improvement in Performance Chemicals and Purification Solutions
- ◆ Margin pressure in Reinforcement Materials and lower project activity in Specialty Fluids
- ◆ Strong cash flow used to repurchase 460,000 shares for \$16 million
- ◆ Benefits from lower tax rate (~\$0.07/share) and LIFO accounting (\$8 million)

# Reinforcement Materials Segment



## Operating Performance

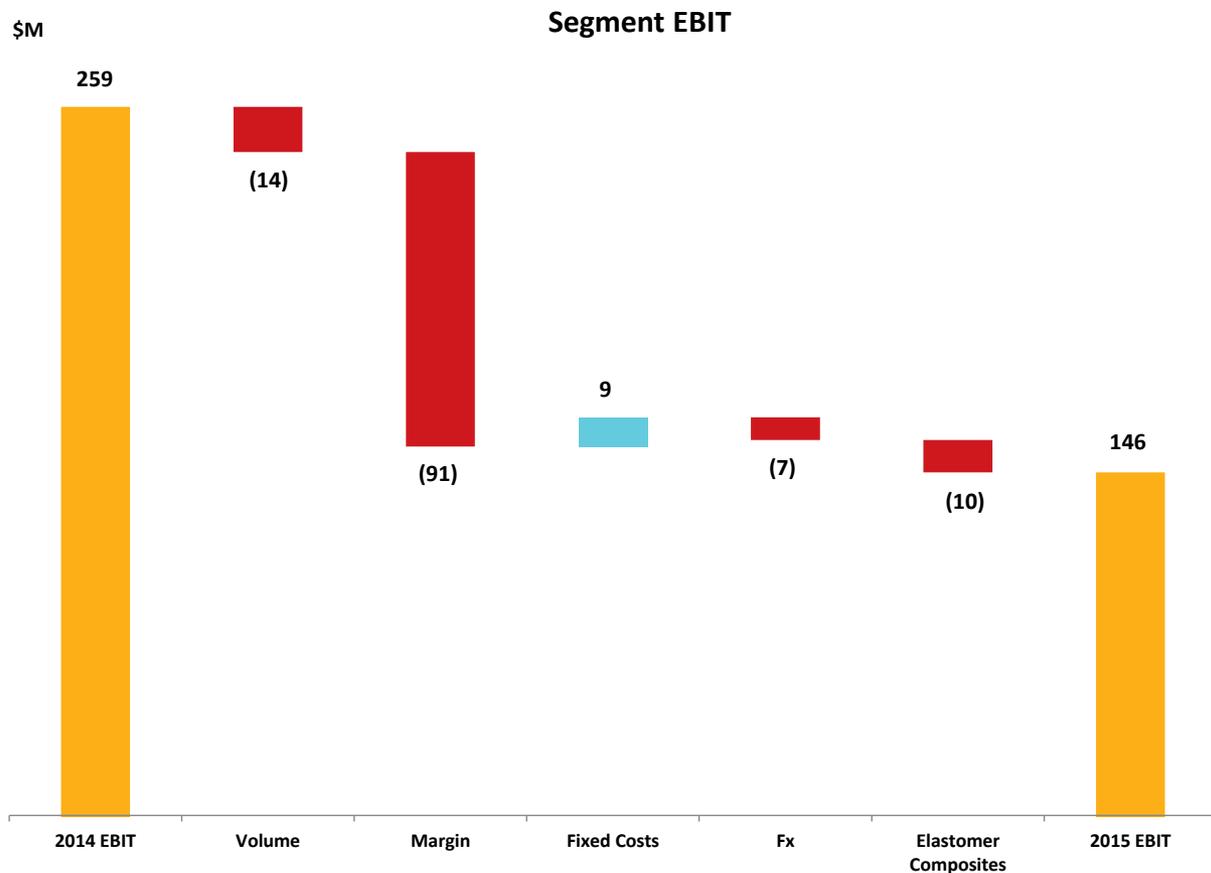
In millions	FY 2015	FY 2014	Q4 2015	Q4 2014
Net sales	\$1,507	\$2,108	\$338	\$525
Segment EBIT	\$146	\$259	\$34	\$59

## Q4 Key Highlights

- ◆ Margin pressure as compared to the prior year
- ◆ Q4 volumes decline year-over-year from slowing demand in China and lower contractual volumes in North America
- ◆ Partially offset by lower fixed costs

# Reinforcement Materials Segment

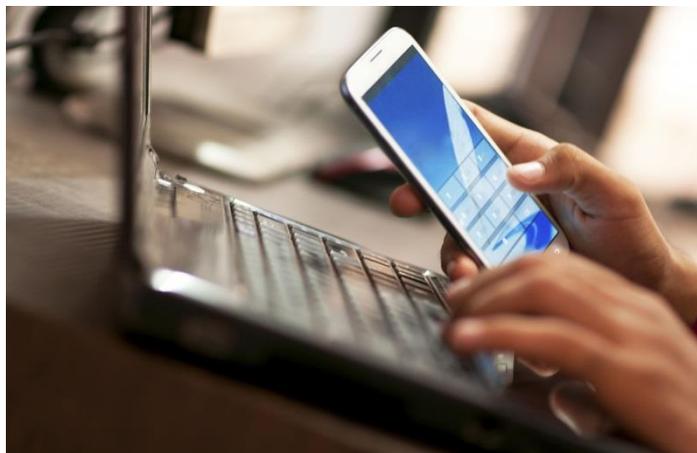
## Fiscal Year 2015 EBIT Performance



### FISCAL 2015

- ◆ Margin pressure from feedstock and pricing
- ◆ Volume decline due to lower contractual volumes in North America and weakening demand in China
- ◆ Fixed cost reductions to partially offset headwinds
- ◆ EBITDA margin of 15%

# Performance Chemicals Segment



## Operating Performance

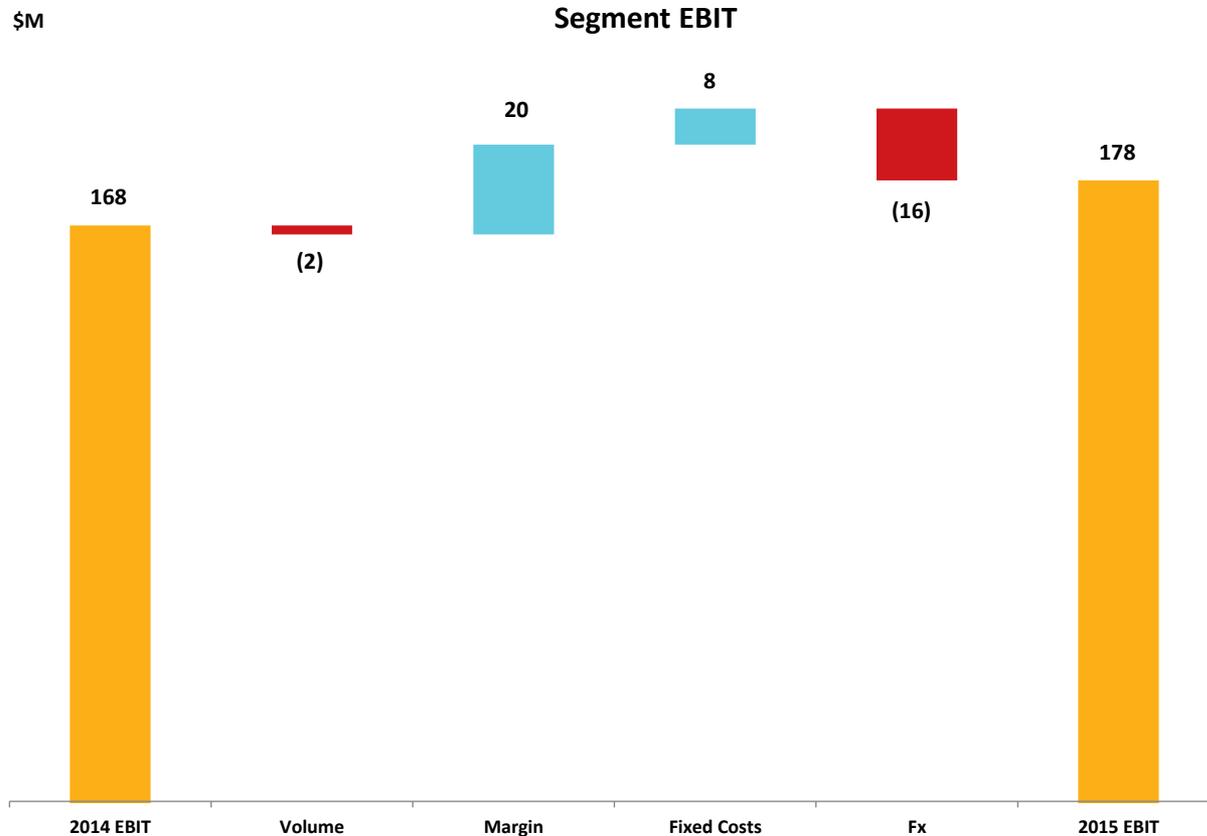
In millions	FY 2015	FY 2014	Q4 2015	Q4 2014
Net sales	\$928	\$1,022	\$228	\$259
Segment EBIT	\$178	\$168	\$49	\$41

## Q4 Key Highlights

- ◆ Margin expansion and cost savings
- ◆ Q4 volumes decreased in metal oxides and specialty compounds
- ◆ Foreign currency unfavorable by \$5 million year-over-year

# Performance Chemicals Segment

## Fiscal Year 2015 EBIT Performance



### FISCAL 2015

- ◆ Expanded margins
- ◆ Fixed cost reductions
- ◆ Unfavorable foreign currency impacts and relatively flat volumes
- ◆ Record year with EBITDA margin of 25%

# Purification Solutions Segment



## Operating Performance

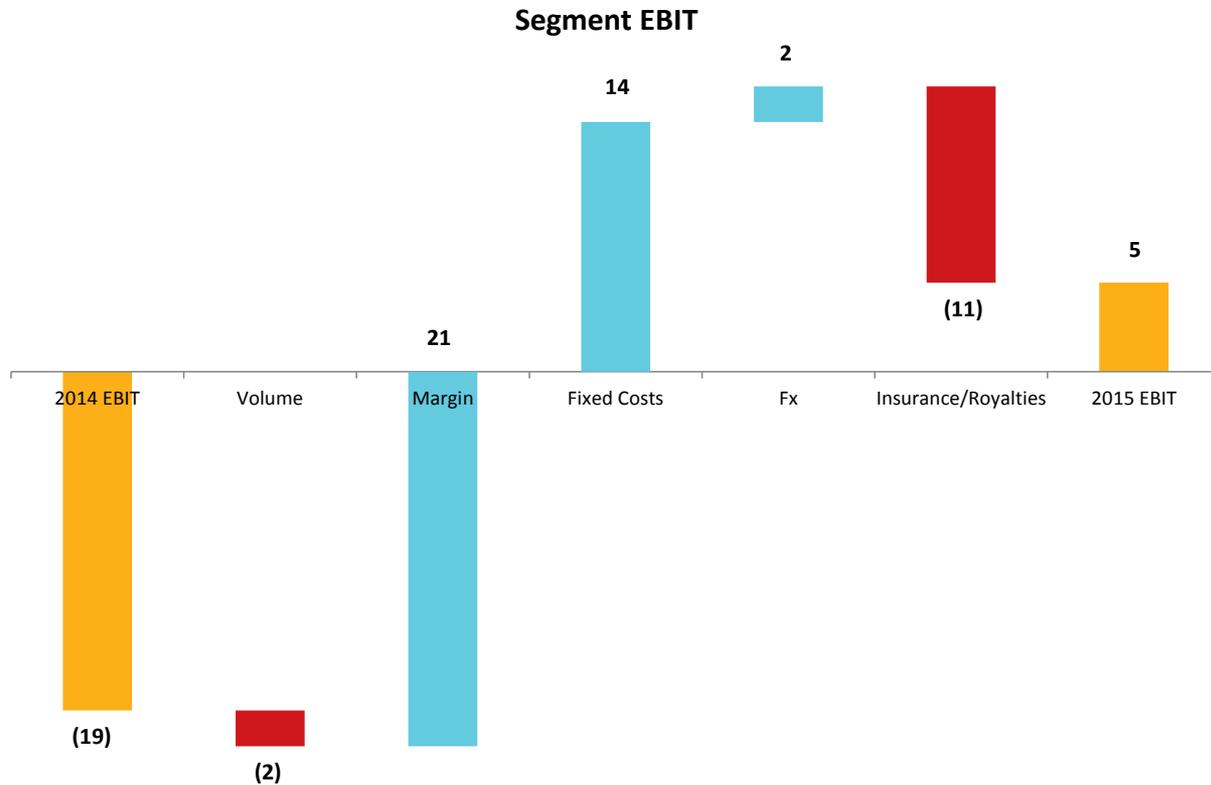
In millions	FY 2015	FY 2014	Q4 2015	Q4 2014
Net sales	\$296	\$315	\$77	\$85
Segment EBIT	\$5	(\$19)	\$2	\$1

## Q4 Key Highlights

- ◆ EBIT improved \$10 million year-over-year, excluding \$9 million insurance recovery in Q4'14
- ◆ Improved pricing and product mix, and higher sales to mercury removal customers
- ◆ Benefit from ongoing operational improvements to reduce costs and lower depreciation and amortization

# Purification Solutions Segment

## Fiscal Year 2015 EBIT Performance



### FISCAL 2015

- ◆ Price increases and improved product mix
- ◆ Increase in sales to mercury removal customers
- ◆ Overall volumes slightly lower from value over volume approach
- ◆ Fixed cost reductions
- ◆ One-time insurance recovery in fiscal 2014 not repeated in fiscal 2015

# Specialty Fluids Segment



## Operating Results

In millions	FY 2015	FY 2014	Q4 2015	Q4 2014
Net sales	\$42	\$98	\$6	\$21
Segment EBIT	\$6	\$39	(\$2)	\$7

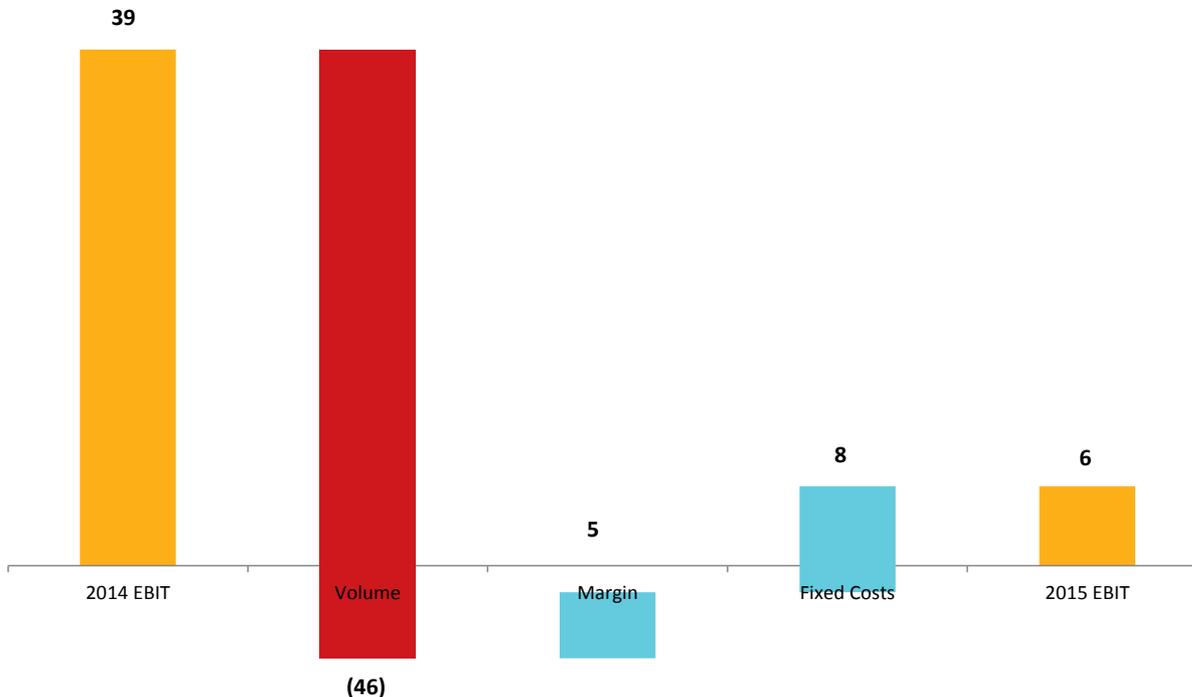
## Q4 Key Highlights

- ◆ Lower level of project activity during the quarter
- ◆ Results impacted by the downturn in the oil and gas industry
- ◆ Commenced cost reduction efforts that will benefit fiscal 2016

# Specialty Fluids Segment

## Fiscal Year 2015 EBIT Performance

Segment EBIT



### FISCAL 2015

- ◆ Downturn in oil and gas industry
- ◆ Lower level of project activity for our cesium products
- ◆ Improved product mix and cost management

# Corporate Financial Items

## Q4 2015

- ◆ **Share repurchases:** \$16 million
- ◆ **Net working capital:** decrease of \$124 million
- ◆ **Capital expenditures:** \$38 million
- ◆ **LIFO benefit:** \$8 million

## FISCAL 2015

- ◆ **Share repurchases:** \$96 million
- ◆ **Net working capital:** decrease of \$190 million
- ◆ **Capital expenditures:** \$141 million
- ◆ **LIFO benefit:** \$22 million
- ◆ **Operating tax rate:** 25%

# Fiscal 2016 Corporate Financial Items

- ◆ Forecast fiscal 2016 capital expenditures to be approximately \$150 million
- ◆ Anticipate fiscal 2016 operating tax rate between 26% and 28%
- ◆ Fiscal 2015 LIFO benefit of \$22 million not expected to repeat in fiscal 2016

# Drivers of Fiscal 2016 Performance

## Reinforcement Materials



- ◆ Volume growth consistent with tire and industrial rubber sectors
- ◆ New calendar year contracts
- ◆ Cost reductions

## Performance Chemicals



- ◆ Volume growth from differentiated product offerings and applications
- ◆ Commercial and technology excellence
- ◆ Cost reductions

## Purification Materials



- ◆ Volume growth aligned with mix of applications
- ◆ Realign cost structure
- ◆ Reduce inventory levels
- ◆ Clarity on MATS

## Specialty Fluids



- ◆ Actively manage pipeline of projects
- ◆ Broaden customer base
- ◆ Reduce operating costs

## Corporate



- ◆ Target adjusted EPS growth of \$0.75 year-over-year
- ◆ Disciplined cost and cash management
- ◆ Return cash to shareholders

**CABOT** 

