



A MESSAGE TO OUR SHAREHOLDERS

As we welcome a new year, it is important to reflect on what our team has achieved over the past year and exciting to look ahead to the opportunities in front of us. In fiscal 2019, we strengthened our leadership and competitive position in our core markets while advancing our commitment to sustainability.

Advancing Our Strategy

We are committed to long-term value creation for our shareholders and this requires a consistency of strategic action. I am pleased that we advanced a number of key strategic investments in the fiscal year and have achieved important milestones. With the divestiture of the Specialty Fluids business, we further focused our portfolio and used the proceeds to repurchase shares above our stated capital allocation framework and to invest in advantaged opportunities in our core businesses.

We commenced operations at our new fumed silica plant in Wuhai, China, extending our market leading position. Given that China produces nearly 50% of the world's silicones, it is a critical geography for the long-term growth of fumed silica. In the year, we also began the upgrade of our new carbon black site in Pizhou, China to produce specialty carbons. We believe this investment will prove to be a very capital efficient platform to further expand our specialty carbons business in Asia Pacific over time.

While these important investments will enable growth in our core businesses, our strategy is also built around application innovation in attractive high growth markets. On this front, we are particularly excited about our investments in our Energy Materials and Cabot Elastomer Composites product lines. Lithium-ion batteries are central to the growth of vehicle electrification and energy storage, and conductive carbon additives play an important role in the battery chemistry. Over the last few years, we have been investing in our assets, product portfolio and customer qualifications to build a long-term position in this valuable high growth application. While still relatively small, we believe this business will become a material contributor to the Performance Chemicals segment in the next five years.

Cabot Elastomer Composites (CEC) has the potential to transform key applications in the tire industry over time, by driving greater wear performance. After achieving commercial validation a few years ago with a major global tire producer, our efforts are focused on driving broader adoption and continued penetration into a range of tire applications. We achieved key development milestones in fiscal 2019 and remain excited by the long-term growth potential of CEC.

Driving Financial Performance

Fiscal year 2019 was certainly more challenging than anticipated for the chemical and materials sector. Demand in several of our important end markets declined, including automotive production, which was down more than 5%, with particular weakness in China and Europe. Furthermore, the US/China trade friction contributed to a slowdown in the Chinese economy, with the industrial and manufacturing sectors in China experiencing their lowest growth rates in recent years.

Despite these challenges, our team navigated well and delivered solid performance in the year, driven by a countermeasure mentality and a strong focus on execution. We delivered diluted earnings per share (EPS) of \$2.63 and adjusted EPS* of \$3.91 in the fiscal year and strong cash generation performance, with operating cash flow of \$363 million and free cash flow* of \$137 million. Our focus on cash generation allowed us to remain committed to our capital allocation framework, which seeks to balance investments for growth in our core businesses with strong cash return to our shareholders. I am pleased with our performance on this front.

Focusing on Sustainability

In uncertain times like this, it is important to stay true to our vision. At Cabot, we strive to be the most innovative, respected and responsible leader in our markets, delivering performance that makes a difference. We believe that corporations have an obligation to serve a broad set of stakeholders and long-term success requires a commitment to sustainability in its broadest form and a balanced approach to managing stakeholder expectations.

I am proud of our continued leadership in this area, led by our strong and diverse board and executive management team. We are committed to operating responsibly and these commitments are best captured in our annual Sustainability Report. Based on our outstanding environmental, social and governance transparency and performance, we were recognized by *Corporate Responsibility Magazine* in 2019 as one of the 100 best companies. I am also pleased to share that Cabot received a Gold rating from EcoVadis for our sustainability program for the fourth year in a row. Validation from independent organizations like EcoVadis demonstrates to all stakeholders our level of commitment and transparency. I am immensely proud of these achievements and I know each of our 4,500 employees worldwide take great pride in our performance and are committed to a spirit of continuous improvement.

Innovation is a critical dimension of our sustainability agenda and it is essential to our ability to win in the marketplace and grow. This is why we are committed to further embedding sustainability into our product development engagements with customers. A great example of this is the work we are doing to help plastics converters address sustainability challenges from their customers. We recently launched a new black masterbatch series that utilizes postindustrial carbon black and recycled polymers. These formulations are specifically designed to help the value chain lower its carbon footprint and increase the amount of recycled and secondary content in end products. In line with our sustainability objectives, we became a signatory of the Ellen MacArthur Foundation's New Plastics Economy Global Commitment. We have also pledged to take actions to reduce plastic waste as part of the Operation Clean Sweep® program.

At Cabot, we recognize that a diverse and inclusive workforce is vital for our sustained success and we strive to build a workplace where everyone can contribute, grow and thrive. I am honored to have joined more than 800 CEOs in taking the CEO Action for Diversity & Inclusion™ pledge. With this pledge, we commit to continue working to foster an environment of inclusion, where the richness of ideas, backgrounds and perspectives is accepted, respected and valued.

Looking Ahead

As we look ahead, we will continue to focus on the long-term and make decisions that strengthen our company. Our aim is to build leadership by executing flawlessly and investing for advantaged growth. Cash generation will remain a focus and we will continue our commitment to capital allocation, with a balance of growth investments in our core businesses and cash return.

In closing, I would like to express my deep gratitude and appreciation to our employees for their commitment to Cabot. It is their hard work and dedication that enables us to excel. I also want to thank you, our shareholders, for your ongoing support, confidence and trust.

Thank you,



Sean D. Keohane
President and Chief Executive Officer

* Non-GAAP financial measure. Refer to non-GAAP reconciliations on page 10.