

# **Cabot Corporation (CBT) Q2 2024 Earnings Call Transcript**

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**Body**

Cabot Corporation (CBT)

Q2 2024 Earnings Conference Call

May 7, 2024, 8:00 AM ET

Company Participants

Steve Delahunt - Vice President, Treasurer and IR

Sean Keohane - President and CEO

Erica McLaughlin - Executive Vice President and CFO

Conference Call Participants

David Begleiter - Deutsche Bank

John Roberts - Mizuho

Josh Spector - UBS

Jeff Zekauskas - JPMorgan

Dan Rizzo - Jefferies

Presentation

Operator

Good day, everyone, and thank you for standing by. Welcome to the Second Quarter 2024 Cabot Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions]

Please be advised that your today's conference is being recorded. I would now like to hand the conference over to the Vice President, Treasurer and Investor Relations, Steve Delahunt. Please go ahead.

Steve Delahunt

Thanks Carmen. Good morning. I would like to welcome you to the Cabot Corporation earnings teleconference. With me today are Sean Keohane, CEO and President; and Erica McLaughlin, Executive Vice President and CFO.

Last night we released results for our second quarter of fiscal year 2024, copies of which are posted in the Investor Relations section of our website. The slide deck that accompanies this call is also available in the Investor Relations portion of our website and will be available in conjunction with the replay of the call.

During this conference call, we will make forward-looking statements about our expected future operational and financial performance. Each forward-looking statement is subject to risks and uncertainties that could cause actual results to differ materially from those projected in such statements. Additional information regarding these factors appears in the press release we issued last night in our 10-K for the fiscal year ended September 30, 2023, and in subsequent filings we make with the SEC.

In order to provide greater transparency regarding our operating performance, we refer to certain non-GAAP financial measures that involve adjustments to GAAP results. The non-GAAP financial measures referenced on this call are reconciled for the most directly comparable GAAP financial measure in a table at the end of our earnings release issued last night and available in the Investor section of our website.

I will now turn the call over to Sean, who will discuss the second quarter highlights, followed by an update on our capital allocation framework and then discuss the company's efforts in sustainable product innovation. Erica will review the second quarter financial highlights and the business segment results. Following this, Sean will provide an update on our 2024 outlook and then open the floor to questions. Sean?

Sean Keohane

Thank you, Steve. Good morning, ladies and gentlemen, and welcome to our call today. I'm very pleased with results in the second quarter and the tremendous efforts of the Cabot team to execute against what is still a challenging macroeconomic backdrop.

In the second quarter, we delivered adjusted earnings per share of $1.78, up 34% year-over-year, driven by growth in both segments. Reinforcement Materials delivered very strong results in the quarter, with EBIT up 22% year-over-year to $149 million. The outlook for this business remains strong, driven by our leading global market position, the long-term resilience of the replacement tire market, favorable regional supply and demand dynamics, and outstanding execution across the segment.

EBIT in Performance Chemicals was up 11% compared to the second quarter of fiscal 2023, as demand in the segment appears to have generally stabilized and the effects of destocking have ended. While we did see some early signs of improvement in demand, particularly in our automotive, infrastructure and semiconductor applications, we remain cautious if these demand trends will further strengthen through the rest of the year.

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Operating cash flow was strong in the quarter at $176 million, which supported the return of $47 million to shareholders through a combination of share repurchases and dividends.

Given the strength of our underlying business fundamentals and conviction in the long-term cash flow generation of our portfolio, yesterday we announced an 8% increase in our quarterly dividend. Cabot has a long history of growing the dividend and it would be our expectation to continue increasing the dividend over time as the earnings and cash flow of our business grow.

The Cabot portfolio has strong cash flow characteristics, which enable a balanced capital allocation strategy focused on funding our high confidence, high return growth projects and returning cash to shareholders. This balance of profit growth and cash return can be achieved while maintaining our strong investment-grade balance sheet.

Despite a weak macroeconomic environment in fiscal year 2023 and a year marked by sharp inventory destocking, we generated very strong operating cash flow of $595 million, and year-to-date in fiscal 2024, operating cash flow has totaled $281 million. Cash generation is expected to remain strong and we intend to return a robust amount of cash to shareholders through dividends and share repurchases.

We have maintained a continuous and growing dividend since 1968, which is the year the company went public and that commitment remains a core element of our capital allocation strategy. Since fiscal 2015, our dividend has grown at a compound annual growth rate of 7%, including our announcement last night of an 8% dividend increase. We remain committed to the dividend and expect to maintain an industry-competitive yield and payout ratio over time.

We also believe that share repurchases are an attractive use of cash. Since 2015, with the exception of the COVID impact in fiscal 2021, we have repurchased shares at a minimum to offset dilution from incentive compensation plans and in most years have been opportunistic with repurchases in excess of dilution. Year-to-date, we have repurchased $57 million, and since 2015, we have repurchased approximately $700 million of shares and reduced our share count by 9 million shares or 14% of our outstanding shares.

We expect to continue being opportunistic given our strong cash flow, the structural improvements in our Reinforcement Materials business and the long-term growth potential of our portfolio, driven by sustainability tailwinds.

Cabot has long been recognized as a leader in sustainability, consistently acknowledged by external parties for excellence in this area. While operating responsibly has been deeply embedded in our practices for decades, we also have a rich opportunity pipeline for growth driven by sustainability tailwinds.

I would like to highlight a few recent developments that showcase the sustainability-driven growth potential of our portfolio. Recently, our E2C product line earned the award for Innovation and Excellence at the 2024 Tire Technology Expo, the premier tire industry technology showcase. Specifically, we were recognized in the Chemicals and Compounding Innovation of the Year category for our Engineered Elastomer Composites Platform.

Our E2C DX9660 elastomer composite, produced through a proprietary and patented mixing process, enhances tire performance by increasing abrasion resistance by approximately 30% without compromising rolling resistance when compared to conventional rubber compounds. This E2C platform has been validated by global customers and our products are being sold in the tire market. Additionally, our E2C platform offers an array of products tailored to meet the needs of tire manufacturers and industrial rubber applications, combining performance with sustainability benefits.

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In the quarter, we also launched our new PROPEL E8 engineered reinforcing carbon black, designed specifically to address the unique challenges of increased weight and torque posed by electric vehicles. The higher weight and torque of EVs drive an increase in tire wear. PROPEL E8 addresses these issues by delivering low rolling resistance and enhanced tread durability, thereby extending tire life.

Finally, Cabot and our commercial partners were recently awarded a $5 million grant by the U.S. Department of Energy under the Bipartisan Infrastructure Law. This research grant is intended to support the development of fuel cells.

Fuel cells are particularly critical in the electrification of long-distance transportation due to their ability to manage extended driving ranges and heavier loads, challenges that are difficult to overcome with battery technology.

This project will focus on developing an innovative and scalable manufacturing process for producing specialized carbons, which will serve as catalyst supports for fuel cells. Although, this initiative is in its early stages, we believe that our collaboration with partners and our collective expertise position us to make substantial contributions to the hydrogen economy, further driving forward the United States' leadership in clean energy technologies.

These long-term initiatives reflect our deep commitment to innovation and sustainability, demonstrating our proactive role in shaping a more sustainable future across various aspects of the mobility and energy sectors.

I'll now turn the call over to Erica to discuss the segment and financial performance in the quarter. Erica?

Erica McLaughlin

Thanks, Sean. I will start with discussing results for the company and then review the segment results. Adjusted EPS for the second quarter of fiscal 2024 was $1.78, compared to $1.33 in the second quarter of fiscal 2023, with growth coming from both the Reinforcement Materials and Performance Chemicals segments.

Cash flow from operations was strong at $176 million in the quarter, which included a working capital decrease of $21 million. Discretionary free cash flow was $128 million in the quarter. We ended the quarter with a cash balance of $206 million and our liquidity position remained strong at approximately $1.3 billion.

Capital expenditures for the second quarter of fiscal 2024 were $43 million and we continue to expect $250 million to $275 million of capital spending for the fiscal year. Additional uses of cash during the second quarter were $23 million for dividends and $24 million for share repurchases.

Our debt balance was $1.2 billion at the end of March and our net debt to EBITDA was 1.3 times. The operating tax rate for the second quarter of fiscal 2024 was 28% and we anticipate our operating tax rate for fiscal 2024 to be in the range of 27% to 29%.

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One additional item to note is the benefits seen in the general unallocated income line item. As we discussed last quarter, this line item of general unallocated income and expense includes currency exposures related to our net asset positions and investment income we earn, mainly in the South America region, as well as interest income on our global cash balances.

During the quarter, we reported a $15 million benefit in general unallocated income, which was higher than our prior quarter guidance of $7 million to $9 million. The net benefit was largely due to a slower rate of depreciation in the Argentina peso than expected, while we continue to earn interest on the cash and investments during most of the quarter in that country.

At the time of the Argentinian Government devaluation in December, there were mandated regulations put into place on how companies could pay offshore supplier balances outstanding as of that date. In March, we followed the regulated path for this and applied for and purchased an allocation of government bonds that could be sold at a discount and used to pay offshore suppliers.

Cabot has purchased $30 million of bonds, which were immediately sold, resulting in an $8 million loss. We treated this loss as a certain item, as it was still part of the government controls around the access to and use of U.S. dollars related to the government devaluation in December.

The purchase and sale of the bonds and the recent devaluations have resulted in a much lower U.S. dollar cash balance, so going forward, we expect the earnings volatility from Argentina to be minimal.

We can now pay offshore suppliers over a mandated timeline, which we would expect to do in the normal course of business going forward. Therefore, we would not expect a level of income from the Argentina investments nor the impact from the volatility of the Argentina peso currency for the remainder of the year in the general unallocated income and expense line item.

While global currency movements are difficult to predict, as we look ahead, we would expect general unallocated income to be around $5 million to $7 million of income per quarter driven by the interest income and the net FX impacts on our global cash balances.

Now moving to Reinforcement Materials, during the second quarter, EBIT for Reinforcement Materials was $149 million, which was an increase of $27 million as compared to the same period in the prior year. The increase is driven by higher pricing and product mix in our 2024 calendar year customer agreements and higher volumes. Globally, volumes were up 6% in the second quarter as compared to the same period of the prior year due to 21% growth in Asia and 4% in Europe.

Looking to the third quarter of fiscal 2024, we expect the Reinforcement Materials EBIT to be roughly in line with the second quarter of fiscal 2024 with modest sequential volume improvement expected from demand recovery in South America, offset by higher plant maintenance costs and lower energy pricing.

Now turning to Performance Chemicals, EBIT increased by $3 million in the second fiscal quarter as compared to the same period in fiscal 2023. The increase was driven by 6% higher volumes driven by our specialty carbons and specialty compounds product lines.

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Looking ahead to the third quarter of fiscal 2024, we expect modest volume improvement sequentially as we are seeing some early signs of strengthening demand in specialty carbons and compounds, and we expect margins to hold sequentially as pricing moves in line with raw material costs.

I will now turn the call back over to Sean to discuss the fiscal year outlook. Sean?

Sean Keohane

Thanks, Erica. Moving to our 2024 outlook, we are very pleased with momentum coming out of the second quarter and we feel good about the back half of the year. Based on our year-to-date results and the outlook across our businesses, we are raising our guidance for adjusted earnings per share to be in the range of $6.65 to $6.85 for the fiscal year. The upward revision represents a $0.20 increase at the midpoint compared to our prior guidance.

At a strategic level, the key drivers for earnings growth remain unchanged. The impact from our calendar year 2024 Reinforcement Materials customer agreements and the resilience of the replacement tire market are driving the strength in this segment.

As discussed in prior quarters, we expect year-over-year volume growth in the second half of the year as the customer destocking we experienced in fiscal 2023 is not expected to repeat. These factors are driving our expectation for another year of strong double-digit EBIT growth in the Reinforcement Materials segment.

In Performance Chemicals, we are beginning to see some early signs of end market improvement, most notably in our automotive, infrastructure and semiconductor applications, with volumes expected to be modestly higher sequentially. We are optimistic that demand trends will continue to improve in this segment as we head into fiscal year 2025.

Our balance sheet is strong, cash generation is expected to remain robust and we will continue to pursue a balanced capital allocation strategy of growth investments and cash return to shareholders. In addition to the 8% dividend increase we announced yesterday, we intend to remain opportunistic with our share repurchases going forward.

Overall, I am very pleased with how the company is positioned today. I am confident in our strategy and the execution capability of our team, and I'm excited about the growth prospects of our portfolio. We are executing well in fiscal year 2024 and we remain on track to meet our 2021 Investor Day consolidated targets.

Thank you very much for joining us today and I will now turn the call back over for our Q&A session.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] All right. Our first question comes from the line of David Begleiter with Deutsche Bank. Please go ahead.

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David Begleiter

Thank you. Good morning. Sean…

Sean Keohane

Good morning, David.

David Begleiter

Good morning. What are you seeing ahead of the July 1st ban on Russian carbon black imports or exports to Europe?

Sean Keohane

Sorry. Say it again, David. It was a little noise on the phone there.

David Begleiter

So what are you seeing ahead of the July 1st ban on Russian carbon black exports to Europe? Any change -- any further change in market or buyer behavior?

Sean Keohane

Yeah. So the date, as you know, goes into effect, the sanction date, June 30th and we fully expect and our customers fully expect that that will happen, and we have been can see -- we've been seeing a continued trend ever since the sanctions were announced of reducing carbon black exports out of Russia into Europe. So we fully expect that that will be in effect on that date.

We are -- through the last year contracting period, regional supply was certainly an important dynamic in the negotiations, and we saw that play out. And certainly, as we're getting closer here, many of our global customers with significant operations in Europe are reaching out for incremental spot purchases for 2024 and they remain keen to secure long-term supply in that region.

Now, while our business is largely contracted there and our excess supply in Europe is limited, we are working to support our global customers from our asset base around the world as best we can. But clearly, this is something that is going into effect and has been playing out over some period of time here, and as the date gets even closer, there's continued push for what is remaining to find alternative sources for it. So we'll continue to work closely with our customers to try to help them from our global asset base as best we can.

David Begleiter

Very good. And just on your guidance based on good Q3 guidance, which resulted in implied Q4 guidance, I believe, which is down sequentially. Is that just being conservative or is that just normal behavior -- normal seasonal trends you're seeing?

Sean Keohane

Yeah. Maybe I'd ask Erica and she can walk through that for you, Dave.

Erica McLaughlin

Sure. In terms of the Q3 outlook, David?

David Begleiter

What that means for the implied Q4 guidance, it looks to me like it would be down sequentially quarter-over-quarter. Is that just being conservative or is that what you expect to see or normally do see in Q4 versus Q3?

Erica McLaughlin

Yeah. So I think in terms of the business results, the drivers of the outlook is, the first half has been quite strong and we do expect an increase in the segment EBIT as compared to the prior guidance. And as we talked about, a modest increase in the volumes going forward in both Reinforcement Materials and in Performance Chemicals.

I think the other item of note was what I talked about, which was the general unallocated income and expense, where we've seen a large benefit in this previous quarter that we would expect to decrease. So we saw $15 million in Q2 and we would expect that to go down to about $7 million to $9 million in the back half and that's how we would see the next two quarters developing.

David Begleiter

Thank you.

Operator

Thank you. One moment for our next question, please. And it comes from the line of John Roberts with Mizuho. Please proceed.

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John Roberts

Thank you. Back on capital allocation, could you update us on any M&A under review and are there any other major capital programs being anticipated at this point?

Sean Keohane

Yeah. Hi. Good morning, John. Thanks. Maybe just a quick recap of the priorities from a capital allocation standpoint. Certainly our first priority is to make sure that we invest in the right level of maintenance and compliance in our plans to ensure that the assets operate well and will continue to generate the strong results that we're seeing now and we'll continue to support our customers. That's what they've come to expect. So that's first and foremost.

Now, we plan to continue to invest for growth, and so as the next priority, and so this means investing to make sure we have sufficient capacity as we build out our targeted growth vectors and batteries and inject for packaging, for example, but as well as some strategic investments in Reinforcement, in particular, a new unit in Indonesia that's well underway at this point, supporting the strong growth in the ASEAN market.

I would say third is, of course, the dividend and maintaining a strong and growing dividend over time as the earnings and cash flow grow. And then, finally being opportunistic with share repurchases.

Now, with respect to M&A, I can't comment specifically, but M&A remains a piece of the strategy where it supports our chosen strategy. So where we can strengthen our existing position in our markets, whether there are established core businesses or our targeted growth vectors, we will certainly be very active looking at opportunities on the M&A front to support the strength in those areas.

John Roberts

And then did the strength in specialty carbons include battery material strength and it looked like inks and fume silica were probably stable year-over-year. What's going on in those markets?

Sean Keohane

Yeah. So, overall, we did see higher volumes across the segment in the quarter, heavily driven by our specialty carbons and specialty compounds product lines. And the areas where we're seeing the early signs of improvement, certainly across the automotive applications, that was pretty good, as well as infrastructure. So this is where we sell carbons and compounds that go into wire and cable applications for the build out of the grid and connecting alternative energy like offshore wind farms and the like. So that infrastructure sector was pretty good.

And then in fumed metal oxides, I would say silicones remains, I would say, in a still somewhat weak position overall in terms of demand, but was positive to see that the semiconductor side of that business, there was a pickup in demand after a fairly long prolonged destocking in semiconductors. So that's positive to see.

And with respect to batteries, our volumes were higher year-over-year. So that's positive. Certainly, the EV market is still growing at a pretty good clip, mostly driven by China. But production of batteries are expected to lag EV sales this year because there's still quite a bit of inventory in the chain. But that hopefully gives you a sense for the different product lines that are inside of Performance Chemicals and some of the end market applications where we're starting to see some early signs of pickup, which is good to see.

John Roberts

Thank you.

Operator

Thank you. One moment for our next question, please. And it comes from the line of Josh Spector with UBS. Please proceed.

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Josh Spector

Yeah. Hi. Good morning. So I wanted to ask on Performance and specifically margins. So, margins step down sequentially and you're kind of back to levels in the first half of next last year. And Erica, when you talked about the forward guidance, you were talking about price offsetting costs. So, I guess, what needs to happen for margins in that segment to get back to the low- to mid-teens and is there a scenario where that happens this year or is that more of a further out prospect?

Erica McLaughlin

Yeah. Thanks, Josh, for the question. So, I think, if you recall, last quarter we talked about this quarter had some higher maintenance and reduction of inventory, which impacted the margins. And so that did happen, and I'd say, the business performed as expected.

I think as we go forward, as we talked about, we expect some improvement in volume, a modest improvement from this Q2 level and then we wouldn't expect the same level of the inventory impact. So, I think that you would see the margin return a bit to maybe what you saw in the Q1 levels.

I think to get to higher, it's going to be the leverage on the volumes. I think our pricing is holding up quite well and so as we see changing raw material costs, energy inputs, et cetera, we were able to hold those margins. And we just as volumes improve, I think you would see the overall EBITDA margins of the business improve.

Josh Spector

Thanks. That's helpful. And I guess, in terms of your innovations, the comments on the carbon catalyst, and I guess, the grants you got for that, that's maybe an opportunity we haven't talked about much. Is that sizable? I guess, can you talk about that a little bit?

Sean Keohane

Yeah. Josh, I think, the right way to think about it is, certainly, most people view fuel cells as being part of the energy transition and there's quite a bit of investment across the U.S. and Europe, although it's very early days, building out, quote, hydrogen hubs. And so, I think, there will be a place for hydrogen in the overall long-term transition here.

Certainly, batteries are -- lithium-ion batteries are much further ahead and I -- are the clear and established technology for the electrification of mobility in the passenger and sort of light vehicle space.

But as people look forward to alternative fuels and energy to drive long-haul trucking, for example, the view is that hydrogen is probably a better fit there. I think the weight of batteries certainly would be a more challenging in that space. So people tend to view hydrogen fitting well in that space.

So, but there are a number of factors that have to get built out. I mean, these hydrogen hubs have to get built out and infrastructure for refueling has to happen. So, it's definitely a longer term, but one that I think is pretty clear will be part of the mix.

And so as that is developing here, we continue to be recognized as an innovation leader in this space and partnered with some established players in the fuel cell space and so our work will be with our partners jointly developing a carbon support for the catalyst in this fuel cell application.

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So something that I think is quite important for the long-term and I think the award of the research and development grant, I think, is reflective of our position as an innovation leader in this space.

Josh Spector

Got it. Thank you.

Operator

Thank you. One moment for our next question. And it comes from the line of Jeff Zekauskas with JPMorgan. Please proceed.

Jeff Zekauskas

Thanks very much. I think your American carbon black volumes have decreased year-on-year for six quarters in a row, I think. And you were down 8% in the March quarter. But you have a positive pricing dynamic in North America. Can you explain what's going on in that region?

Sean Keohane

Yeah. Sure, Jeff. Good morning. So, the decline in the Americas, which is what you see, so that's both North and South America, was largely driven by the impact of economic conditions in South America, as well as the replacement tire imports from China, particularly in South America, where that has been impacted more to a lesser extent in North America.

So, I think the decline in volumes in the Americas region that we reported is definitely skewed towards South America, and again, given the economic conditions there, as we -- as well as the tire imports that impact that region.

As we look forward, we are expecting that we'll see stronger volumes in the second half of the year, such that full year volumes for the Americas, I think, will be more consistent with market expectations for the year, if we look at what forecasters like LNC would say.

And then, with respect to Europe, we saw volumes up 4%, driven by higher contractual volumes, as customers in the region continue to value local supply. But hopefully that gives you a sense for the picture in the Americas region.

Jeff Zekauskas

Right. So for my follow-up, if you can say, how much you grew in North America last year and in the first half, that would be good. But in terms of your cost of goods sold, your cost of goods sold is down about $50 million in the quarter, and for the half, it's down about $100 million, and your revenues are flat. Can you explain why the cost of goods sold, what's the dynamic that's pulling down the cost of goods sold? And maybe if someone could comment on what the energy penalty has been, in that you're not getting co-product credits. What was that penalty last year and what's been the penalty so far this year?

Erica McLaughlin

Sure. Hi, Jeff. So, the cost of goods sold decline is really because of lower raw material costs, and I think, as you know, through our pricing mechanisms, we pass that through in the revenue line. So the reason you see cost of goods sold going down is because the raw materials are down. We pass that through in the revenue, but we also have price increases in the revenue and higher volumes in the revenue. So they're offsetting what the pass-through amount, so that's why the revenue looks a bit more flat and that's the driver of why, then, the EBIT is higher, because you're seeing the pricing come through and drop to the EBIT line. Does that help?

Jeff Zekauskas

Yes. And what about the energy co-product credit?

Erica McLaughlin

Yeah.

Jeff Zekauskas

Sort of what was…

Erica McLaughlin

So the energy was…

Jeff Zekauskas

… going on in there?

Erica McLaughlin

Yeah. So, the energy was a big headwind, I would say, last year from, if you looked at fiscal 2022 to fiscal 2023, it was roughly $20 million and so that was the downward pressure. This year, I'd say we're not seeing any meaningful difference in terms of that. Again, there's very different contracts in different parts of the world, and in some cases we sell electricity, some cases steam, et cetera. So, it doesn't always mirror exactly the energy markets, but this year, I'd say it's a minimal impact year-over-year to us.

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Jeff Zekauskas

Okay. And did you say what your North American volume growth has been last year and this year so far?

Erica McLaughlin

Well, last year, North America was down. If you remember, we had a good amount of destocking happening in the region. So…

Jeff Zekauskas

Yeah.

Erica McLaughlin

… in 2022, you'll remember there were a good amount of supply chain disruptions happening and so volumes were quite strong in 2022 and we saw the destocking happening there last year. I'd say this year, as Sean noted, our expectation would be more of a flattish year in North America.

Jeff Zekauskas

Is the North American market growing in your seeding share or the North American market is flat?

Erica McLaughlin

No. I think the outlook for this year is roughly flat North America market.

Jeff Zekauskas

Okay. Great. Thank you so much.

Operator

Thank you. [Operator Instructions] One moment for our next question. And it comes from the line of Laurence I [ph] with Jefferies. Please proceed.

Dan Rizzo

Hi. This is Dan Rizzo on for Laurence. You mentioned that infrastructure is a tailwind now. I was wondering if you're seeing any benefit from the Infrastructure Act or the CHIPS Act, if that's helping drive growth, if that'll help you in the future or if that's having any effect at all?

Sean Keohane

Hi, Dan. So, I think, yes, we are seeing impact from improvements in infrastructure, again, principally in the wiring cable space, which really, if you think about what drives that, there are really two things. One is as governments and municipalities renew their grid infrastructure, which is in need of renewal. That's one driver.

And then as alternative energy gets installed, then that has to get connected to the grid. So the best example of that would be when there's an offshore wind farm, then there have to be subsea cables that bring that power back and connect it to the grid and so that drives a demand for conductive carbons and so it is a clear trend there. With respect to -- and we're seeing that in the current results.

With respect to the -- in the U.S., the Infrastructure Bill and CHIPS Act and a range of different stimulus measures there, we're not yet seeing, I don't think, any direct impact from that. In most cases, while there have been awards of grants, money, and incentives that are beginning to trickle, the amount of impact from that I don't think is meaningful.

Now, what should happen over the longer term here is as those investments take hold to shift the energy mix in the U.S. to more and more renewables, then you should certainly see an impact flowing through our infrastructure applications like wire and cable.

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And then over time, I think, you should continue to see a sustained renewal of the grid. Certainly, there are very well-publicized examples of where the grid has not been stable in parts of the U.S. and this is true in many of the mature economies and really in need of renewal. So, we think that provides a good long-term tailwind with a bump to that long-term tailwind as alternative energy gets deployed.

Dan Rizzo

That's very helpful. Thanks. And then my second question is around the new --kind of the battery business for EVs. I was just wondering, given the growth rate, how -- I mean, what's your capacity and is there a time and at least in the medium-term, where you think you might have to build out capacity to meet the anticipated growth over the next 10 years to 15 years or whatever it is?

Sean Keohane

Yeah. Yeah. Sure. Thanks, Dan. So, certainly, right now in batteries, what you're seeing is that the EV demand continues to grow at a pretty healthy clip. I think, globally, it's still somewhere this year expected to be in the 25% to 30% range. Now, most of that coming in China. I think the growth of EVs next picking up in Europe with kind of lagging in the U.S. in the early stages.

But what you're seeing this year is that, at the battery production level, that you're seeing battery production lag EV sales and this is because there is -- this is quite well reported. There's quite a bit of inventory, battery cell inventory in the chain and until that's worked off, I think, you will see battery production lag EV growth. So probably the balance of this year, you'll probably see that dynamic play out.

As we look longer term in this business today, the business is heavily skewed globally, not just our business, but the battery business in general to China. They make approximately 70% to 75% of the world's batteries. So the overwhelming majority of them.

Now, over time, by the end of this decade, the expectation is that that will be more 50-50, 50% in China and about half coming outside of China in the U.S. and Europe. And so we'll certainly be making investments to support our customers' growth as that sort of bifurcation happens between China and the rest of the world. But we're really pacing the investments to make sure that they're synced up with the build out of battery plants in the U.S. and Europe.

So we're watching that closely and managing closely with our customers to make sure we're pacing those and syncing those up. But that's a bit of sort of big picture of what's happening, how we see things developing, and then over time, we would expect further capacity investments in the U.S. and Europe to support that.

Dan Rizzo

Thank you very much.

Operator

Thank you. One moment for our next question. And it comes from Jeff Zekauskas with JPMorgan. Please proceed.

Jeff Zekauskas

Thanks very much. You've had a positive price dynamic in North America in fiscal 2023 and I think you're optimistic about fiscal 2024. But volumes contracted last year in North America and it seems like they'll be flat or so this year. What makes you optimistic about your pricing dynamic and what in general is causing prices to lift in such a soft demand environment?

Sean Keohane

Jeff, I think, a couple of things here. If you look back over a long period of time here, probably, from 2015-ish time period up through this year, what you have seen in the U.S. is two factors. One, an increasingly tightening supply-demand balance and that structural change remains in place, as well as a significant requirement for environmental investments into the plants, which require pricing and returns on capital in order to get an appropriate return on that and to supply our customers.

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And of course, the tightening balance over that long period of time has been because there have been tire plant expansions in the U.S., as well as competitor closures over that period of time that have brought the supply-demand balance into a tight position. So that structural dynamic has played out over many years.

In the current near-term here, there's a certain, I would call it, sort of dynamic nature in the demand, as Erica pointed out, because you saw 2022 was very, very strong, 2021 and 2022. And then in 2023, I think people realized that there was a bit of overbill of inventory in 2022 that got trimmed off in 2023. So you really have to look through those two years and kind of average those out, and when you do that, you see that, the dynamic is actually quite snug from a supply-demand standpoint.

So that's the long-term picture that we've been sharing for quite some time now, and I would say there's no change in that, but you've got to, certainly, look through the inventory build and then the destock across 2022 and 2023 to see the real supply-demand balance.

Jeff Zekauskas

Great. Thank you so much.

Operator

Thank you. And as I see no further questions in the queue, I will conclude the Q&A session and hand it back to Sean Keohane for final remarks.

Sean Keohane

Great. Thank you very much for joining us today on the call and for your continued support of Cabot and we look forward to speaking again next quarter. Have a great day.

Operator

And thank you all for participating and you may now disconnect.

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