



Carpenter Technology Reports First Quarter Fiscal Year 2022 Results

October 28, 2021

PHILADELPHIA, Oct. 28, 2021 (GLOBE NEWSWIRE) -- Carpenter Technology Corporation (NYSE: CRS) (the "Company") today announced financial results for the fiscal first quarter ended September 30, 2021. For the quarter, the Company reported a net loss of \$14.8 million, or \$0.31 loss per diluted share. Excluding the special item, adjusted loss per diluted share was \$0.28 for the quarter.

"Demand patterns across our end-use markets continue to improve as our backlog finished up 25 percent sequentially and 49 percent year-over-year," said Tony R. Thene, President and CEO of Carpenter Technology. "We continue to see signs of a broad-based recovery taking hold across the Aerospace supply chain with an acceleration of demand conditions expected in calendar year 2022."

"Our Performance Engineered Products segment finished ahead of our expectations driven primarily by strong demand for our titanium fasteners in the Aerospace and Defense end-use market. Within the Specialty Alloys Operations segment, our performance was impacted by short-term operational delays including COVID-19 isolations at key work centers, supply chain disruptions across the world and hiring challenges in a difficult labor environment. The operational delays resulted in a temporary build in inventory during the current quarter, which negatively impacted our cash flow."

"Looking ahead, we plan to continue navigating near-term challenges and partnering with our customers during the recovery. We are well positioned for growth in our core business with a strong financial position, including \$508 million in total liquidity, and a positive long-term outlook for our end-use markets. Our soft magnetics and additive manufacturing capabilities provide additional opportunities for long-term growth and to deliver increasing returns to our shareholders."

Financial Highlights

(\$ in millions except per share amounts)

	Q1 FY2022	Q1 FY2021	Q4 FY2021
Net Sales	\$ 387.6	\$ 353.3	\$ 421.6
Net Sales Excluding Surcharge (a)	\$ 312.9	\$ 307.2	\$ 348.1
Operating Loss	\$ (19.1)	\$ (48.8)	\$ (70.7)
Adjusted Operating Loss Excluding Special Items (a)	\$ (17.5)	\$ (30.9)	\$ (12.5)
Net Loss	\$ (14.8)	\$ (47.1)	\$ (57.1)
Loss per Share	\$ (0.31)	\$ (0.98)	\$ (1.18)
Adjusted Loss Per Share (a)	\$ (0.28)	\$ (0.58)	\$ (0.28)
Cash (Used For) Provided from Operating Activities	\$ (47.0)	\$ 88.0	\$ 74.5
Free Cash Flow (a)	\$ (71.2)	\$ 62.6	\$ 42.6

(a) Non-GAAP financial measures explained in the attached tables

Net sales for the first quarter of fiscal year 2022 were \$387.6 million compared with \$353.3 million in the first quarter of fiscal year 2021, an increase of \$34.3 million (9.7 percent), on 2 percent lower volume. Net sales excluding surcharge were \$312.9 million, an increase of \$5.7 million (1.9 percent) from the same period a year ago.

Operating loss was \$19.1 million compared to operating loss of \$48.8 million in the prior year period. Adjusted operating loss excluding special items was \$17.5 million in the recent first quarter compared to an adjusted operating loss of \$30.9 million a year ago. The year-over-year improvement in operating performance is largely due to higher sales in the current quarter while the first quarter of last year included negative profitability impacts of lower activity levels and targeted inventory reductions.

The special item excluded from adjusted operating loss in the current quarter totaled \$1.6 million. The special item in the current quarter represents COVID-19 costs consisting of direct incremental operating costs including outside services to execute enhanced cleaning protocols, additional personal protective equipment, isolation pay for production employees potentially exposed to COVID-19 and various operating supplies necessary to maintain the operations while keeping employees safe against possible exposure in the Company's facilities. Special items in the prior year period included COVID-19 related costs as well as restructuring and asset impairment charges.

Cash used for operating activities in the first quarter of fiscal year 2022 was \$47.0 million, compared to cash provided from operating activities of \$88.0 million in the same quarter last year. Negative free cash flow in the first quarter of fiscal year 2022 was \$71.2 million, compared to positive free cash flow of \$62.6 million in the same quarter last year. The decrease in operating cash flow primarily reflects an increase in inventory following targeted reductions last fiscal year. Inventories during the recent quarter rose as operational activity levels increased to address improving demand as well as the impacts of operational delays associated with COVID-19 isolations at key work centers and labor shortages.

Total liquidity, including cash and available credit facility borrowings, was \$507.8 million at the end of the first quarter of fiscal year 2022. This consisted of \$213.2 million of cash and \$294.6 million of available borrowings under the Company's credit facility.

Conference Call and Webcast Presentation

Carpenter Technology will host a conference call and webcast presentation today, October 28th at 10:00 a.m. ET, to discuss the financial results of operations for the first quarter of fiscal year 2022. Please dial +1 412-317-9259 for access to the live conference call. Access to the live webcast will be available at Carpenter Technology's website (<http://www.carpentertechnology.com>), and a replay will soon be made available at <http://www.carpentertechnology.com>. Presentation materials used during this conference call will be available for viewing and download at <http://www.carpentertechnology.com>.

Non-GAAP Financial Measures

This press release includes discussions of financial measures that have not been determined in accordance with U.S. Generally Accepted Accounting Principles (GAAP). A reconciliation of the non-GAAP financial measures to their most directly comparable financial measures prepared in accordance with GAAP, accompanied by reasons why the Company believes the non-GAAP measures are important, are included in the attached schedules.

About Carpenter Technology

Carpenter Technology Corporation is a recognized leader in high-performance specialty alloy-based materials and process solutions for critical applications in the aerospace, defense, medical, transportation, energy, industrial and consumer electronics markets. Founded in 1889, Carpenter Technology has evolved to become a pioneer in premium specialty alloys, including titanium, nickel, and cobalt, as well as alloys specifically engineered for additive manufacturing (AM) processes and soft magnetics applications. Carpenter Technology has expanded its AM capabilities to provide a complete "end-to-end" solution to accelerate materials innovation and streamline parts production. More information about Carpenter Technology can be found at www.carpentertechnology.com.

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ from those projected, anticipated or implied. The most significant of these uncertainties are described in Carpenter Technology's filings with the Securities and Exchange Commission, including its report on Form 10-K for the year ended June 30, 2021, and the exhibits attached to that filing. They include but are not limited to: (1) the cyclical nature of the specialty materials business and certain end-use markets, including aerospace, defense, medical, transportation, energy, industrial and consumer, or other influences on Carpenter Technology's business such as new competitors, the consolidation of competitors, customers, and suppliers or the transfer of manufacturing capacity from the United States to foreign countries; (2) the ability of Carpenter Technology to achieve cash generation, growth, earnings, profitability, operating income, cost savings and reductions, qualifications, productivity improvements or process changes; (3) the ability to recoup increases in the cost of energy, raw materials, freight or other factors; (4) domestic and foreign excess manufacturing capacity for certain metals; (5) fluctuations in currency exchange rates; (6) the effect of government trade actions; (7) the valuation of the assets and liabilities in Carpenter Technology's pension trusts and the accounting for pension plans; (8) possible labor disputes or work stoppages; (9) the potential that our customers may substitute alternate materials or adopt different manufacturing practices that replace or limit the suitability of our products; (10) the ability to successfully acquire and integrate acquisitions; (11) the availability of credit facilities to Carpenter Technology, its customers or other members of the supply chain; (12) the ability to obtain energy or raw materials, especially from suppliers located in countries that may be subject to unstable political or economic conditions; (13) Carpenter Technology's manufacturing processes are dependent upon highly specialized equipment located primarily in facilities in Reading and Latrobe, Pennsylvania and Athens, Alabama for which there may be limited alternatives if there are significant equipment failures or a catastrophic event; (14) the ability to hire and retain key personnel, including members of the executive management team, management, metallurgists and other skilled personnel; (15) fluctuations in oil and gas prices and production; (16) uncertainty regarding the return to service of the Boeing 737 MAX aircraft and the related supply chain disruption; (17) potential impacts of the COVID-19 pandemic on our operations, financial results and financial position; (18) our efforts and efforts by governmental authorities to mitigate the COVID-19 pandemic, such as travel bans, shelter in place orders and business closures, and the related impact on resource allocations and manufacturing and supply chains; (19) our status as a "critical", "essential" or "life-sustaining" business in light of COVID-19 business closure laws, orders and guidance being challenged by a governmental body or other applicable authority; (20) our ability to execute our business continuity, operational, budget and fiscal plans in light of the COVID-19 pandemic; and (21) our ability to successfully carry out restructuring and business exit activities on the expected terms and timelines. Any of these factors could have an adverse and/or fluctuating effect on Carpenter Technology's results of operations. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. Carpenter Technology undertakes no obligation to update or revise any forward-looking statements.

PRELIMINARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(Unaudited)

	Three Months Ended	
	September 30,	
	2021	2020
NET SALES	\$ 387.6	\$ 353.3
Cost of sales	362.4	349.8
Gross profit	25.2	3.5
Selling, general and administrative expenses	44.3	42.3
Restructuring and asset impairment charges	—	10.0
Operating loss	(19.1)	(48.8)

Interest expense, net	10.2	6.7
Debt extinguishment losses, net	—	8.2
Other (income) expense, net	(4.1)	2.3
	<hr/>	<hr/>
Loss before income taxes	(25.2)	(66.0)
Income tax benefit	(10.4)	(18.9)
	<hr/>	<hr/>
NET LOSS	\$ (14.8)	\$ (47.1)
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LOSS PER COMMON SHARE:		
Basic	\$ (0.31)	\$ (0.98)
Diluted	\$ (0.31)	\$ (0.98)
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WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	48.5	48.3
Diluted	48.5	48.3
	<hr/>	<hr/>

**PRELIMINARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**
(in millions)
(Unaudited)

	Three Months Ended September 30,	
	2021	2020
	<hr/>	<hr/>
OPERATING ACTIVITIES		
Net loss	\$ (14.8)	\$ (47.1)
Adjustments to reconcile net loss to net cash (used for) provided from operating activities:		
Depreciation and amortization	32.5	30.9
Non-cash restructuring and asset impairment charges	—	8.7
Debt extinguishment losses, net	—	8.2
Deferred income taxes	(8.0)	(3.9)
Net pension (income) expense	(1.8)	4.1
Share-based compensation expense	2.8	2.7
Net loss on disposals of property, plant and equipment	—	0.1
Changes in working capital and other:		
Accounts receivable	(3.8)	42.0
Inventories	(66.5)	84.9
Other current assets	(13.2)	(23.0)
Accounts payable	69.3	(7.4)
Accrued liabilities	(41.7)	(8.0)
Pension plan contributions	(0.2)	(2.9)
Other postretirement plan contributions	(0.7)	(0.6)
Other, net	(0.9)	(0.7)
Net cash (used for) provided from operating activities	<hr/> (47.0) <hr/>	<hr/> 88.0 <hr/>
INVESTING ACTIVITIES		
Purchases of property, plant, equipment and software	(14.4)	(33.3)
Proceeds from divestiture of business	—	17.6
Net cash used for investing activities	<hr/> (14.4) <hr/>	<hr/> 17.6 <hr/>
FINANCING ACTIVITIES		
Net change in short-term credit agreement borrowings	—	(170.0)
Proceeds from issuance of long-term debt, net of offering costs	—	395.5
Payments on long-term debt	—	(250.0)
Payments for debt extinguishment costs, net	—	(8.2)
Payments for debt issue costs	—	(1.1)
Dividends paid	(9.8)	(9.7)
Withholding tax payments on share-based compensation awards	(3.0)	(2.2)
Net cash used for financing activities	<hr/> (12.8) <hr/>	<hr/> (45.7) <hr/>

Effect of exchange rate changes on cash and cash equivalents	—	(0.8)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(74.2)	25.8
Cash and cash equivalents at beginning of fiscal year	287.4	193.1
Cash and cash equivalents at end of period	\$ 213.2	\$ 218.9

**PRELIMINARY
CONSOLIDATED BALANCE SHEETS**
(in millions)
(Unaudited)

	September 30, 2021	June 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 213.2	\$ 287.4
Accounts receivable, net	311.6	308.7
Inventories	491.4	425.7
Other current assets	110.7	95.6
Total current assets	1,126.9	1,117.4
Property, plant and equipment, net	1,440.9	1,457.5
Goodwill	241.4	241.4
Other intangibles, net	41.1	43.1
Deferred income taxes	6.2	5.3
Other assets	103.4	106.5
Total assets	\$ 2,959.9	\$ 2,971.2
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 212.0	\$ 142.4
Accrued liabilities	120.4	163.9
Total current liabilities	332.4	306.3
Long-term debt	694.8	694.5
Accrued pension liabilities	218.1	222.6
Accrued postretirement benefits	98.3	98.6
Deferred income taxes	150.5	156.9
Other liabilities	98.2	100.0
Total liabilities	1,592.3	1,578.9
STOCKHOLDERS' EQUITY		
Common stock	280.1	280.1
Capital in excess of par value	316.3	322.6
Reinvested earnings	1,274.7	1,299.3
Common stock in treasury, at cost	(311.3)	(317.4)
Accumulated other comprehensive loss	(192.2)	(192.3)
Total stockholders' equity	1,367.6	1,392.3
Total liabilities and stockholders' equity	\$ 2,959.9	\$ 2,971.2

**PRELIMINARY
SEGMENT FINANCIAL DATA**
(in millions, except pounds sold)
(Unaudited)

	Three Months Ended September 30,	
	2021	2020
Pounds sold (000):		
Specialty Alloys Operations	43,008	43,368
Performance Engineered Products	2,372	1,466
Intersegment	(1,852)	(486)
Consolidated pounds sold	43,528	44,348

Net sales:			
Specialty Alloys Operations			
Net sales excluding surcharge	\$	258.2	\$ 254.8
Surcharge		73.7	45.9
Specialty Alloys Operations net sales		<u>331.9</u>	<u>300.7</u>
Performance Engineered Products			
Net sales excluding surcharge		73.6	61.2
Surcharge		1.0	0.6
Performance Engineered Products net sales		<u>74.6</u>	<u>61.8</u>
Intersegment			
Net sales excluding surcharge		(18.9)	(8.8)
Surcharge		—	(0.4)
Intersegment net sales		<u>(18.9)</u>	<u>(9.2)</u>
Consolidated net sales	\$	<u>387.6</u>	\$ <u>353.3</u>
Operating (Loss) Income:			
Specialty Alloys Operations	\$	(5.9)	\$ (18.6)
Performance Engineered Products		0.6	(3.6)
Corporate (including restructuring and asset impairment charges)		(14.2)	(26.6)
Intersegment		0.4	—
Consolidated operating loss	\$	<u>(19.1)</u>	\$ <u>(48.8)</u>

The Company has two reportable segments, Specialty Alloys Operations (“SAO”) and Performance Engineered Products (“PEP”).

The SAO segment is comprised of Carpenter’s major premium alloy and stainless steel manufacturing operations. This includes operations performed at mills primarily in Reading and Latrobe, Pennsylvania and surrounding areas as well as South Carolina and Alabama.

The PEP segment is comprised of the Company’s differentiated operations. This segment includes the Dynamet titanium business, the Carpenter Additive business and the Latrobe and Mexico distribution businesses. The Amega West business was part of the PEP segment however the business was divested during the quarter ended September 30, 2020. The businesses in the PEP segment are managed with an entrepreneurial structure to promote flexibility and agility to quickly respond to market dynamics. It is our belief this model will ultimately drive overall revenue and profit growth. The pounds sold data above for the PEP segment includes only the Dynamet and Additive businesses.

Corporate costs are comprised of executive and director compensation, and other corporate facilities and administrative expenses not allocated to the segments. Also included are items that management considers not representative of ongoing operations and other specifically identified income or expense items.

The service cost component of net pension (income) expense, which represents the estimated cost of future pension liabilities earned associated with active employees, is included in the operating results of the business segments. The residual net pension (income) expense is comprised of the expected return on plan assets, interest costs on the projected benefit obligations of the plans, and amortization of actuarial gains and losses and prior service costs and is included in other (income) expense, net.

**PRELIMINARY
NON-GAAP FINANCIAL MEASURES**
(in millions, except per share data)
(Unaudited)

ADJUSTED OPERATING MARGIN EXCLUDING SURCHARGE REVENUE AND SPECIAL ITEMS	Three Months Ended September 30,	
	2021	2020
Net sales	\$ 387.6	\$ 353.3
Less: surcharge revenue	74.7	46.1
Net sales excluding surcharge revenue	<u>\$ 312.9</u>	<u>\$ 307.2</u>
Operating loss	\$ (19.1)	\$ (48.8)
Special items:		
COVID-19 costs	1.6	7.9
Restructuring and asset impairment charges	—	10.0
Operating loss	<u>\$ (17.5)</u>	<u>\$ (30.9)</u>
Operating margin	(4.9)%	(13.8)%

Adjusted operating margin excluding surcharge revenue and special items	(5.6)%	(10.1)%
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Management believes that removing the impact of raw material surcharge from operating margin provides a more consistent basis for comparing results of operations from period to period, thereby permitting management to evaluate performance and investors to make decisions based on the ongoing operations of the Company. In addition, management believes that excluding the impact of special items from operating margin is helpful in analyzing the operating performance of the Company, as these items are not indicative of ongoing operating performance. Management uses its results excluding these amounts to evaluate its operating performance and to discuss its business with investment institutions, the Company's board of directors and others.

ADJUSTED LOSS PER SHARE EXCLUDING SPECIAL

ITEM	Loss Before Income Taxes	Income Tax Benefit	Net Loss	Loss Per Diluted Share*
Three months ended September 30, 2021, as reported	\$ (25.2)	\$ 10.4	\$ (14.8)	\$ (0.31)
Special item:				
COVID-19 costs	1.6	(0.7)	0.9	0.03
Three months ended September 30, 2021, as adjusted	\$ (23.6)	\$ 9.7	\$ (13.9)	\$ (0.28)

* Impact per diluted share calculated using weighted average common shares outstanding of 48.5 million for the three months ended September 30, 2021.

ADJUSTED LOSS PER SHARE EXCLUDING SPECIAL ITEMS	Loss Before Income Taxes	Income Tax Benefit	Net Loss	Loss Per Diluted Share*
Three months ended September 30, 2020, as reported	\$ (66.0)	\$ 18.9	\$ (47.1)	\$ (0.98)
Special items:				
COVID-19 costs	7.9	(2.6)	5.3	0.11
Restructuring and asset impairment charges	10.0	(2.4)	7.6	0.16
Debt extinguishment losses, net	8.2	(2.0)	6.2	0.13
Three months ended September 30, 2020, as adjusted	\$ (39.9)	\$ 11.9	\$ (28.0)	\$ (0.58)

* Impact per diluted share calculated using weighted average common shares outstanding of 48.3 million for the three months ended September 30, 2020.

Management believes that loss per share adjusted to exclude the impact of the special items is helpful in analyzing the operating performance of the Company, as these items are not indicative of ongoing operating performance. Management uses its results excluding these amounts to evaluate its operating performance and to discuss its business with investment institutions, the Company's board of directors and others.

	Three Months Ended September 30,	
	2021	2020
FREE CASH FLOW		
Net cash (used for) provided from operating activities	\$ (47.0)	\$ 88.0
Purchases of property, plant, equipment and software	(14.4)	(33.3)
Proceeds from divestiture of business	—	17.6
Dividends paid	(9.8)	(9.7)
Free cash flow	\$ (71.2)	\$ 62.6

Management believes that the free cash flow measure provides useful information to investors regarding the Company's financial condition because it is a measure of cash generated which management evaluates for alternative uses.

(Unaudited)

NET SALES BY END-USE MARKET	Three Months Ended	
	September 30,	
	2021	2020
End-Use Market Excluding Surcharge Revenue:		
Aerospace and Defense	\$ 134.9	\$ 147.5
Medical	37.1	30.0
Transportation	31.4	24.5
Energy	16.2	21.3
Industrial and Consumer	66.3	63.1
Distribution	27.0	20.8
Total net sales excluding surcharge revenue	312.9	307.2
Surcharge revenue	74.7	46.1
Total net sales	\$ 387.6	\$ 353.3

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Source: Carpenter Technology Corporation