

## Carpenter Technology Corporation

1<sup>st</sup> Quarter Fiscal Year 2019

Earnings Call

October 24, 2018



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# Cautionary Statement

## Forward-Looking Statements

This presentation 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's filings with the Securities and Exchange Commission, including its report on Form 10-K for the year ended June 30, 2018 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, industrial, transportation, consumer, medical, and energy, or other influences on Carpenter'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 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'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, including LPW Technology Ltd.; (11) the availability of credit facilities to Carpenter, 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'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; and (15) fluctuations in oil and gas prices and production. Any of these factors could have an adverse and/or fluctuating effect on Carpenter'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 undertakes no obligation to update or revise any forward-looking statements.

## Non-GAAP Financial Measures

Some of the information included in this presentation is derived from Carpenter's consolidated financial information but is not presented in Carpenter's financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under SEC rules. These non-GAAP financial measures supplement our GAAP disclosures and should not be considered an alternative to the GAAP measure. Reconciliations to the most directly comparable GAAP financial measures and management's rationale for the use of the non-GAAP financial measures can be found in the Appendix to this presentation.



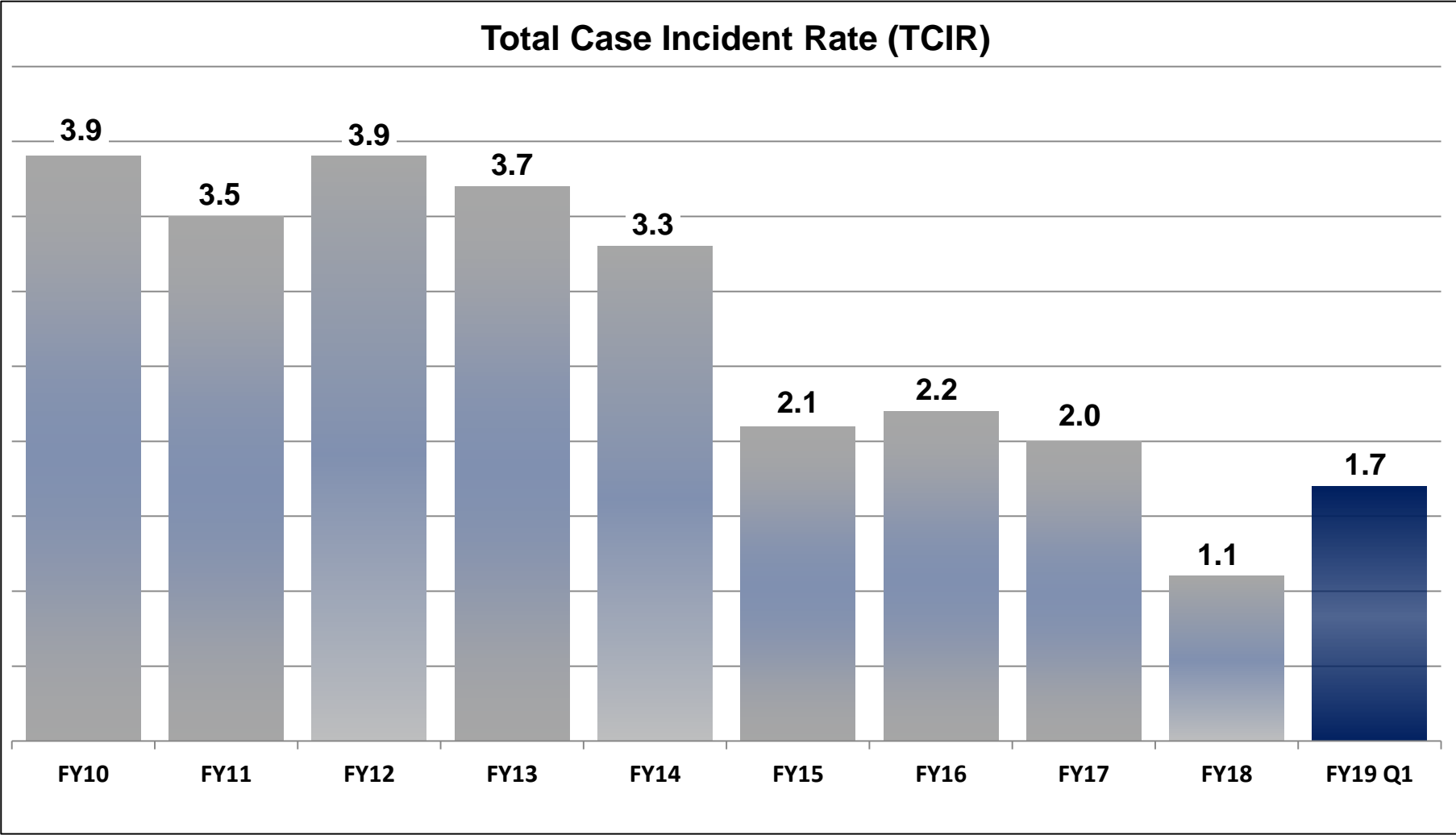
**1<sup>st</sup> Quarter Fiscal Year 2019**

Tony Thene  
President and Chief Executive Officer



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# Safety is Our Highest Value


















# 1<sup>st</sup> Quarter Summary

***Focused on Continued Execution of Strategic Plan, Driving Backlog Growth Through Expanded Customer Relationships and Investing for the Future***

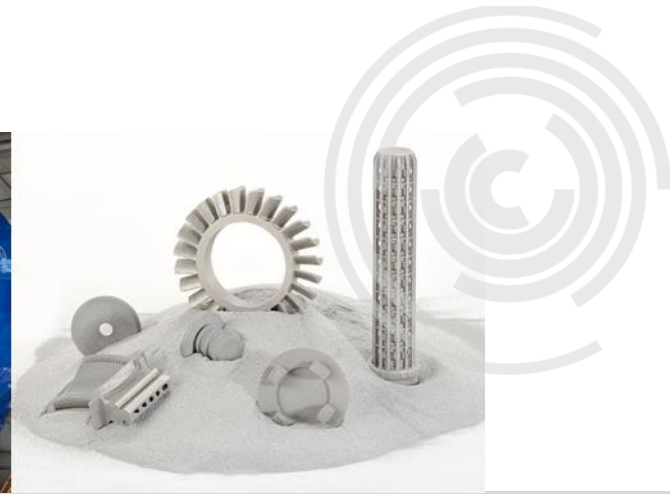
- EPS of \$0.65 – solid performance and execution partially offset by annual planned preventative maintenance shutdowns
- Overall market conditions remain strong with all end-use markets delivering year-over-year growth
- Backlog continues to expand – up 38% year-over-year and 9% sequentially
- Aerospace and Defense backlog increased 12% sequentially driven by broad industry participation; engine sub-market sales remain at record levels
- Medical sales driven by strong demand for titanium solutions and expanded customer relationships
- Athens facility Vendor Approved Process (VAP) qualification discussions with customers accelerating
- Significantly expanding additive manufacturing capabilities through acquisition of LPW Technology Ltd.
- Solid financial position allows for ongoing strategic investment in targeted growth areas and direct returns to shareholders

# Q1-19 End-Use Market Highlights

		Q1-19 Net Sales ex. Surcharge (\$M)*		vs. Q1-18	vs. Q4-18	Comments
	<b>Aerospace and Defense</b>	<b>\$239.6</b>	53%	+11% 	-8% 	<ul style="list-style-type: none"> <li>Solid growth year-over-year (YoY) due to continued strong engine sub-market demand and broad industry participation</li> <li>Sequential decline due to normal seasonality patterns</li> <li>Defense up driven by strong program-specific demand</li> </ul>
	<b>Energy</b>	<b>\$37.5</b>	8%	+30% 	-7% 	<ul style="list-style-type: none"> <li>Oil &amp; gas sub-market up 34% YoY due to increased rental and replacement activity</li> <li>International and offshore oil &amp; gas activity showing initial signs of recovery</li> <li>Power generation sub-market remains at low levels due to industry conditions</li> </ul>
	<b>Transportation</b>	<b>\$31.4</b>	7%	+3% 	-7% 	<ul style="list-style-type: none"> <li>YoY growth driven by heavy-duty truck applications demand and increased adjacent market penetration</li> <li>Sequential decline due to seasonality and softness in North America light vehicle market</li> </ul>
	<b>Medical</b>	<b>\$39.5</b>	9%	+18% 	-4% 	<ul style="list-style-type: none"> <li>YoY performance reflects strong titanium demand and market share gains with key customers</li> <li>Sequential sales decline driven by timing of orders</li> </ul>
	<b>Industrial and Consumer</b>	<b>\$74.6</b>	16%	+4% 	-9% 	<ul style="list-style-type: none"> <li>Up YoY due to increased demand in select Industrial product applications and improving Consumer sporting goods demand</li> <li>Sequential decline largely due to Industrial seasonality and planned portfolio rationalization</li> </ul>

**Sales ex-surcharge up 11% year-over-year; down 8% sequentially due to annual shutdowns**

\*Excludes sales through Carpenter's Distribution businesses  
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## 1<sup>st</sup> Quarter Financial Overview and Business Update

Tim Lain

Vice President and Chief Financial Officer



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# Income Statement Summary

\$ Millions, except pounds and per-share amounts

	Q1-18	Q4-18	Q1-19	Sequential Change
<b>Pounds ('000)</b>	<b>63,346</b>	<b>73,114</b>	<b>65,616</b>	<b>(7,498)</b>
<b>Net Sales</b>	<b>479.8</b>	<b>618.0</b>	<b>572.4</b>	<b>(45.6)</b>
<b>Sales ex. Surcharge *</b>	<b>409.8</b>	<b>494.5</b>	<b>456.3</b>	<b>(38.2)</b>
<b>Gross Profit</b>	<b>85.7</b>	<b>114.9</b>	<b>91.7</b>	<b>(23.2)</b>
<b>Selling, General and Administrative Expenses</b>	<b>43.5</b>	<b>55.0</b>	<b>46.7</b>	<b>(8.3)</b>
<b>Operating Income</b>	<b>42.2</b>	<b>59.9</b>	<b>45.0</b>	<b>(14.9)</b>
<i>% of Sales ex. Surcharge</i>	<i>10.3%</i>	<i>12.1%</i>	<i>9.9%</i>	<i>-2.2pts</i>
<b>Effective Tax Rate</b>	<b>33.5%</b>	<b>20.0%</b>	<b>21.8%</b>	<b>+1.8pts</b>
<b>Net Income</b>	<b>23.4</b>	<b>42.8</b>	<b>31.5</b>	<b>(11.3)</b>
<b>Diluted Earnings per Share</b>	<b>\$0.49</b>	<b>\$0.88</b>	<b>\$0.65</b>	<b>(\$0.23)</b>
<b>Adjusted Diluted Earnings per Share *</b>	<b>\$0.49</b>	<b>\$0.87</b>	<b>\$0.65</b>	<b>(\$0.22)</b>

**Solid year-over-year growth; sequential decline due to planned preventative maintenance shutdowns**

\*Detailed schedule included in Non-GAAP Schedules in Appendix

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# Free Cash Flow Summary

\$ Millions	Q1-18	Q4-18	Q1-19
<b>Net Income + Non-cash Items</b>	<b>61</b>	<b>89</b>	<b>68</b>
Inventory	(46)	40	(51)
Working Capital / Other	(18)	(10)	(6)
Total Net Working Capital / Other	(64)	31	(57)
Pension Plan Contributions	(4)	(1)	(2)
<b>Net Cash (Used For) Provided From Operating Activities</b>	<b>(7)</b>	<b>119</b>	<b>9</b>
Purchases of Property, Plant, Equipment and Software	(29)	(54)	(41)
Dividends Paid	(9)	(9)	(10)
<b>Free Cash Flow *</b>	<b>(45)</b>	<b>56</b>	<b>(42)</b>

Cash	25	56	17
Available Borrowing Under Credit Facility	391	394	394
<b>Total Liquidity</b>	<b>416</b>	<b>450</b>	<b>411</b>

The clerical accuracy of certain amounts may be impacted due to rounding.

**Inventory build in Q1 to support volumes in second half of fiscal year**

\*Detailed schedule included in Non-GAAP Schedules in Appendix

# SAO Segment Summary

Q1 Operating Results					
	Q1-18	Q4-18	Q1-19	vs Q1-18	vs Q4-18
Pounds ('000)	61,190	70,190	62,714	1,524	(7,476)
Net Sales (\$M)	396.8	518.3	475.5	78.7	(42.8)
Sales ex. Surcharge (\$M)	325.6	395.3	361.5	35.9	(33.8)
Operating Income (\$M)	50.5	74.1	52.8	2.3	(21.3)
<i>% of Net Sales</i>	12.7%	14.3%	11.1%	-1.6 pts	-3.2 pts
<i>% of Sales ex. Surcharge</i>	15.5%	18.7%	14.6%	-0.9 pts	-4.1 pts

## Q1 Business Results

- Strongest Q1 operating income performance since Q1-14
- Higher demand across most end-use markets drove year-over-year volume growth
- Planned annual preventative maintenance shutdowns impacted results more than anticipated

## Q2-19 Outlook

- Demand signals across end-use markets remain strong
- Operating income expected to increase up to 10% sequentially
- Maintain active engagement with customers and OEMs on Athens VAP qualifications

# PEP Segment Summary

Q1 Operating Results					
	Q1-18	Q4-18	Q1-19	vs Q1-18	vs Q4-18
Pounds* ('000)	3,526	2,636	2,732	(794)	96
Net Sales (\$M)	100.7	116.3	111.7	11.0	(4.6)
Sales ex. Surcharge (\$M)	100.5	113.7	108.0	7.5	(5.7)
Operating Income (\$M)	5.3	7.9	7.3	2.0	(0.6)
<i>% of Net Sales</i>	<i>5.3%</i>	<i>6.8%</i>	<i>6.5%</i>	<i>+1.2 pts</i>	<i>-0.3 pts</i>
<i>% of Sales ex. Surcharge</i>	<i>5.3%</i>	<i>6.9%</i>	<i>6.8%</i>	<i>+1.5 pts</i>	<i>-0.1 pts</i>

## Q1 Business Results

- Continued strong demand for titanium products in Medical end-use market
- Fifth consecutive quarter of profitability at Amega West
- Ongoing fire recovery headwinds impacted Dynamet results

## Q2-19 Outlook

- Continued strong demand for titanium products
- Continued favorable market conditions for the oil & gas sub-market
- Operating income expected to increase up to 10% sequentially

\* Pounds related to pounds sold for Dynamet and Carpenter Powder Products only



## 1<sup>st</sup> Quarter Fiscal Year 2019 Closing Comments

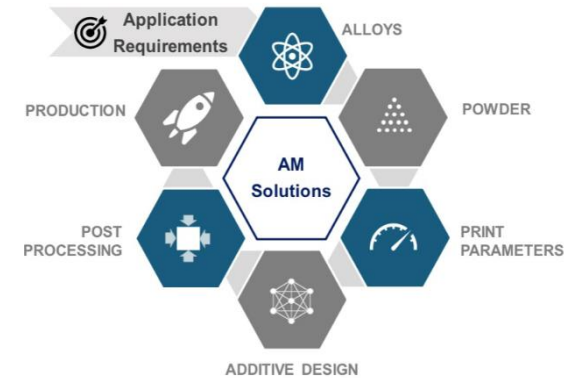
Tony Thene

President and Chief Executive Officer



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# Acquisition of LPW Technology Ltd.



## Adds Differentiated Metal Powder and Lifecycle Management Capabilities

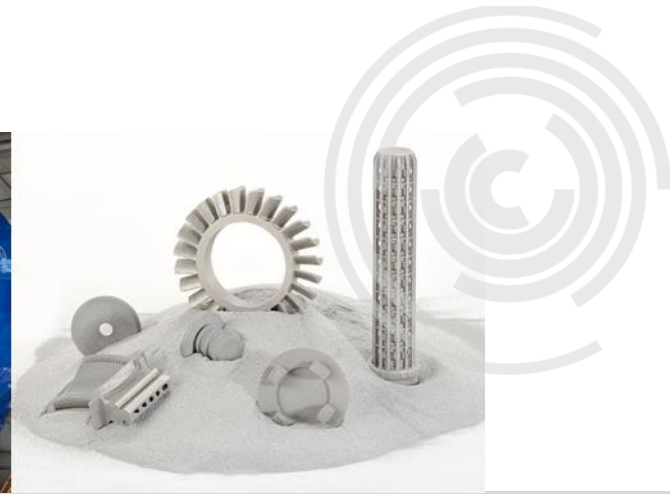
- Leader in uniquely specified metal powders and powder lifecycle management solutions for additive manufacturing (AM)
- Real time insight into powder performance before, during and after AM part production
- Moisture, weight, gas content and flow diagnostics increase the probability of successful AM production builds
- Technology enables digital manufacturing integration and data analysis capabilities
- Strong customer relationships across Aerospace, Medical, Transportation and Energy end-use markets
- Established global sales channels and technical service network

**Acquisition significantly enhances existing additive manufacturing platform**

# Closing Comments

***Long-Term Growth Profile Supported by Solutions Approach, Established Position Across Attractive End-Use Markets and Strategic Investment in Targeted Growth Areas***

- Consistent execution of solutions approach driving ongoing backlog growth and broadening customer relationships and opportunities
- Aerospace and Defense end-use market remains healthy with record engine activity levels supported by diverse solutions portfolio
- Ongoing implementation of the Carpenter Operating Model focused on securing manufacturing efficiencies and unlocking incremental capacity
- Accelerating dialogue with customers regarding Athens VAP qualifications
- Building foundation for long-term sustainable growth through additive manufacturing platform with acquisition of LPW Technology Ltd.
- Financial position and limited near-term obligations provide flexibility to invest for the future and provide direct returns to shareholders



## Appendix of Non-GAAP Schedules



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# Non-GAAP Schedules (Unaudited)

## Adjusted Earnings Per Share

<b>\$ Millions except per share amounts</b>	<b>Q1-18</b>	<b>Q4-18</b>	<b>Q1-19</b>
Net Income	23.4	42.8	31.5
<b>Diluted Earnings per Share</b>	<b>\$ 0.49</b>	<b>\$ 0.88</b>	<b>\$ 0.65</b>
Impact of US tax reform and other legislative changes	-	(0.7)	-
<b>Special Items</b>	<b>-</b>	<b>(0.7)</b>	<b>-</b>
<b>Net Income excluding Special Items</b>	23.4	42.1	31.5
<b>Adjusted Diluted Earnings per Share</b>	<b>\$ 0.49</b>	<b>\$ 0.87</b>	<b>\$ 0.65</b>

Management believes that earnings per share adjusted to exclude the impact of 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.



# Non-GAAP Schedules (Unaudited)

## Net Sales and Operating Margin Excluding Surcharge Revenue

<b>\$ Millions</b>	<b>Q1-18</b>	<b>Q4-18</b>	<b>Q1-19</b>
Net sales	479.8	618.0	572.4
Less: surcharge revenue	70.0	123.5	116.1
<b>Consolidated Net Sales Excluding Surcharge</b>	<b>409.8</b>	<b>494.5</b>	<b>456.3</b>
<b>Operating Income</b>	<b>42.2</b>	<b>59.9</b>	<b>45.0</b>
<b>Operating Margin</b>	<b>8.8%</b>	<b>9.7%</b>	<b>7.9%</b>
<b>Operating Margin Excluding Surcharge</b>	<b>10.3%</b>	<b>12.1%</b>	<b>9.9%</b>

Management believes that removing the impacts of raw material surcharge revenue from net sales and 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. 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.

# Non-GAAP Schedules (Unaudited)

## Free Cash Flow

<b>\$ Millions</b>	<b>Q1-18</b>	<b>Q4-18</b>	<b>Q1-19</b>
Net cash (used for) provided from operating activities	(7.4)	118.5	9.4
Purchases of property, plant, equipment and software	(28.9)	(54.0)	(41.6)
Proceeds from disposals of property and equipment	-	-	0.1
Dividends paid	(8.6)	(8.6)	(9.6)
<b>Free Cash Flow</b>	<b>(44.9)</b>	<b>55.9</b>	<b>(41.7)</b>

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