



## **Carpenter Technology Corporation**

2<sup>nd</sup> Quarter Fiscal Year 2016

Earnings Call

February 4, 2016



# 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 annual report on Form 10-K for the year ended June 30, 2015, Form 10-Q for the quarter ended September 30, 2015, and the exhibits attached to those filings. 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, cost savings and reductions, 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 degree of success 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; (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; (15) fluctuations in oil and gas prices and production; (16) the success of restructuring actions; and (17) share repurchases are at Carpenter's discretion and could be affected by changes in Carpenter's share price, operating results, capital spending, cash flows, inventory, acquisitions, investments, tax laws and general market conditions. 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, 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.

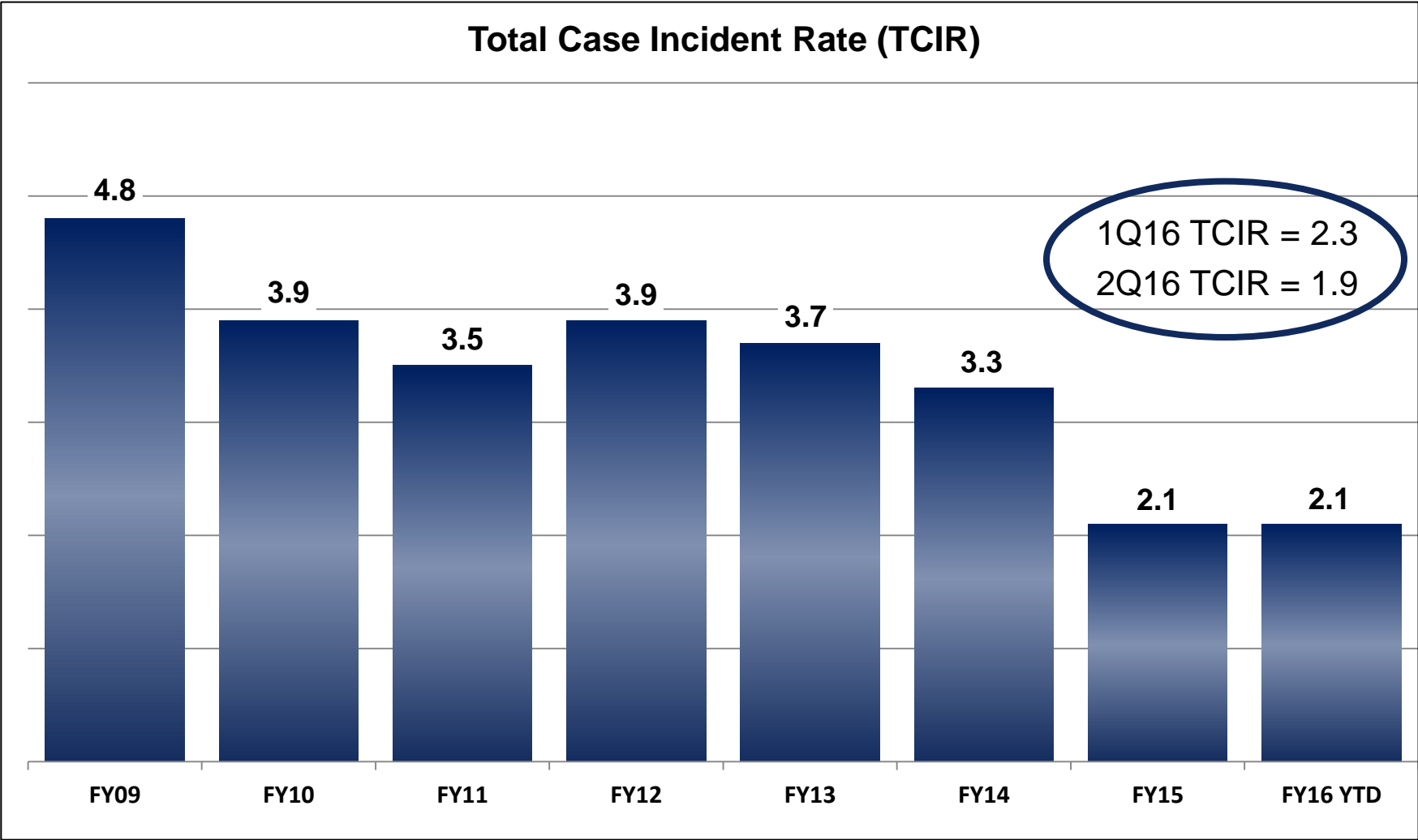


## 2<sup>nd</sup> Quarter Fiscal Year 2016 Summary

Tony Thene

President and Chief Executive Officer

# Safety is our First Priority



# 2<sup>nd</sup> Quarter Summary











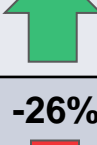
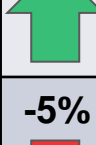



***Focus on our High-End Premium Alloys and Operational Efficiency Continued to Support Stable Margins and Profitability Despite Some Challenging End-Use Markets***

- Overall volume impacted by continued weakness in Energy and Industrial and Consumer end-use markets
- Aerospace and Defense end-use market benefited from improved mix with sequential volume reflective of supply chain adjustments
- Ongoing focus on operational efficiency combined with improved product mix supported operating margin stability and profitability during period of lower volume
- Generated positive free cash flow; up \$67 million compared to prior year
- Maintained solid liquidity position with improved working capital management and reduced capital expenditures
- Repurchased \$50 million of shares during quarter

# 2<sup>nd</sup> Quarter FY16 End-Use Market Highlights

Q2-16 Net Sales ex. Surcharge (\$M)\* vs. Q2-15 vs. Q1-16

## Comments

Image	Market Segment	Q2-16 Net Sales ex. Surcharge (\$M)*	%	vs. Q2-15	vs. Q1-16	Comments
	<b>Aerospace and Defense</b>	<b>195.6</b>	52%	+3% 	+5% 	<ul style="list-style-type: none"> <li>Engines up both year over year (YOY) and sequentially</li> <li>Fasteners down YOY primarily due to supply chain adjustments</li> <li>Structural up YOY on volume and improved product mix</li> <li>Defense up YOY with continued spending on supported programs</li> </ul>
	<b>Energy</b>	<b>23.9</b>	6%	-66% 	-25% 	<ul style="list-style-type: none"> <li>North American (NA) quarterly average directional and horizontal rig count down 58% YOY; down 12% sequentially</li> <li>Significant reduction in drilling and completions demand</li> <li>Focused on positioning for eventual recovery</li> </ul>
	<b>Transportation</b>	<b>34.8</b>	9%	+11% 	-5% 	<ul style="list-style-type: none"> <li>Consistent demand signals through calendar 2016</li> <li>Growing sales for fuel delivery systems applications</li> <li>NA light vehicle volume continues to grow in calendar year 2016</li> <li>Record Q1-16 impacting sequential comparison</li> </ul>
	<b>Medical</b>	<b>25.8</b>	7%	+0% 	+3% 	<ul style="list-style-type: none"> <li>Demand remains steady for differentiated titanium, nickel and cobalt materials</li> <li>Transactional business remains competitive</li> </ul>
	<b>Industrial and Consumer</b>	<b>71.1</b>	19%	-26% 	-5% 	<ul style="list-style-type: none"> <li>Exposure to Oil &amp; Gas creates challenging environment for capital equipment and industrial components sectors</li> <li>Reduced consumer confidence negatively impacted spending on some electronics and other consumer goods</li> </ul>

**Sales ex. surcharge down 15% on 16% lower volume year-over-year as mix improved**

\*Excludes sales through Carpenter's Distribution businesses

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## **2<sup>nd</sup> Quarter Fiscal Year 2016 Financial Overview**

Damon Audia

Senior Vice President and Chief Financial Officer

# Income Statement Summary

\$ Millions, except pounds and per-share amounts	Q2-15	Q1-16	Q2-16	Sequential Change
<b>Pounds ('000)</b>	67,712	58,422	56,928	(1,494)
<b>Net Sales</b>	548.4	455.6	443.8	(11.8)
<b>Sales ex. Surcharge *</b>	445.7	385.1	379.4	(5.7)
<b>Gross Profit</b>	85.0	68.6	66.3	(2.3)
<i>% of Sales ex. Surcharge</i>	19.1%	17.8%	17.5%	-0.3% pts.
<b>Selling, General and Administrative Expenses</b>	40.0	43.4	44.5	1.1
<i>% of Sales ex. Surcharge</i>	9.0%	11.3%	11.7%	0.4% pts.
<b>Restructuring Charges</b>	0.0	0.4	0.0	(0.4)
<b>Operating Income</b>	45.0	24.8	21.8	(3.0)
<i>% of Sales ex. Surcharge</i>	10.1%	6.4%	5.7%	-0.7% pts.
<b>Operating Income ex. Pension EID, Restructuring Charges and Special Items *</b>	47.4	32.6	29.2	(3.4)
<i>% of Sales ex. Surcharge</i>	10.6%	8.5%	7.7%	-0.8% pts.
<b>Effective Tax Rate</b>	36.9%	44.7%	23.8%	-20.9%
<b>Net Income</b>	24.1	8.9	11.5	2.6
<b>Diluted Earnings Per Share</b>	\$0.45	\$0.18	\$0.23	\$0.05
<b>Adjusted Diluted Earnings per Share *</b>	\$0.48	\$0.26	\$0.24	(\$0.02)

**Relatively flat gross margin despite 3% sequential reduction in volume**

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



# Free Cash Flow Summary

\$ Millions	FY15			FY16		
	Q1	Q2	YTD	Q1	Q2	YTD
<b>Net Income + Non-cash Items</b>	<b>61</b>	<b>133</b>	<b>193</b>	<b>54</b>	<b>61</b>	<b>115</b>
Inventory	(31)	(31)	(62)	(33)	(2)	(35)
Other working capital	(12)	(88)	(99)	21	(29)	(8)
<b>Total Net Working Capital</b>	<b>(43)</b>	<b>(119)</b>	<b>(161)</b>	<b>(12)</b>	<b>(31)</b>	<b>(43)</b>
Pension Plan Contributions	(3)	(1)	(4)	0	0	0
<b>Net Cash from Operating Activities</b>	<b>15</b>	<b>13</b>	<b>28</b>	<b>42</b>	<b>30</b>	<b>72</b>
Purchases of property, equipment and software	(59)	(68)	(127)	(30)	(20)	(50)
Dividends paid	(10)	(10)	(19)	(9)	(9)	(18)
Other	-	(1)	(1)	4	1	5
<b>Free Cash Flow</b>	<b>(54)</b>	<b>(66)</b>	<b>(119)</b>	<b>7</b>	<b>2</b>	<b>9</b>
Cash	66	29		31	21	
Available Credit Line	492	455		493	453	
<b>Total Liquidity</b>	<b>558</b>	<b>484</b>		<b>524</b>	<b>474</b>	

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

**Lower capital expenditures and less sequential inventory build delivering positive free cash flow while maintaining strong liquidity**

# Share Repurchase Program Update

	FY15	Q1-16	Q2-16	Program to Date
Share Purchase Total (\$ millions)	124.5	45.9	50.4	220.8
Number of Shares Purchased (millions)	3.0	1.2	1.5	5.7

- Authorized share repurchase program beginning October 2014
- Up to \$500M of share repurchases authorized over two year period
- Repurchase at Company's discretion based on capital needs of the business, general market conditions and market price of stock
- May be discontinued at any time

**Repurchased 5.7 million shares (11% of outstanding) since inception for \$221 million**



## **Business Update and Growth Enablers**

Tony Thene

President and Chief Executive Officer

# SAO Segment Summary

## Q2 Operating Results

	Q2-15	Q1-16	Q2-16	vs PY	vs Q1
Pounds ('000)	65,600	56,814	54,794	(10,806)	(2,020)
Sales ex. Surcharge (\$M)	332.4	301.6	299.2	(33.2)	(2.4)
Op Inc ex. EID (\$M)	43.4	41.1	41.5	(1.9)	0.4
<i>% of Sales ex. Surcharge</i>	13.1%	13.6%	13.9%	0.8%	0.3%

## Q2 Business Results

- Steep declines in Energy and Industrial & Consumer end-use markets drove lower year-over-year sales volumes
- Sequentially, volumes were slightly lower primarily due to further weakness in Energy end-use market
- Improving operating margins for both comparisons driven by stronger sales mix and operating cost improvements

## Q3 Outlook

- Overall volumes expected to be up modestly with similar sales mix to Q2-16
- Persistent focus on driving operational efficiencies as well as cost improvements
- Actively expanding customer base seeking incremental opportunities

# PEP Segment Summary

## Q2 Operating Results

	Q2-15	Q1-16	Q2-16	vs PY	vs Q1
Pounds* ('000)	4,224	2,956	2,800	(1,424)	(156)
Sales ex. Surcharge (\$M)	133.4	91.4	85.2	(48.2)	(6.2)
Op Inc (Loss) ex. EID (\$M)	12.6	(0.4)	(2.9)	(15.5)	(2.5)
<i>% of Sales ex. Surcharge</i>	<i>9.4%</i>	<i>-0.4%</i>	<i>-3.4%</i>	<i>-12.8%</i>	<i>-3.0%</i>

## Q2 Business Results

- Sales and operating income performance year-over-year primarily driven by weak Oil and Gas demand due to reduced drilling activity
- Sequential sales lower than expected – down 7% driven by:
  - Continued decline in Oil & Gas demand
  - Weaker demand in Distribution businesses
  - Softer demand for Aerospace titanium products

## Q3 Outlook

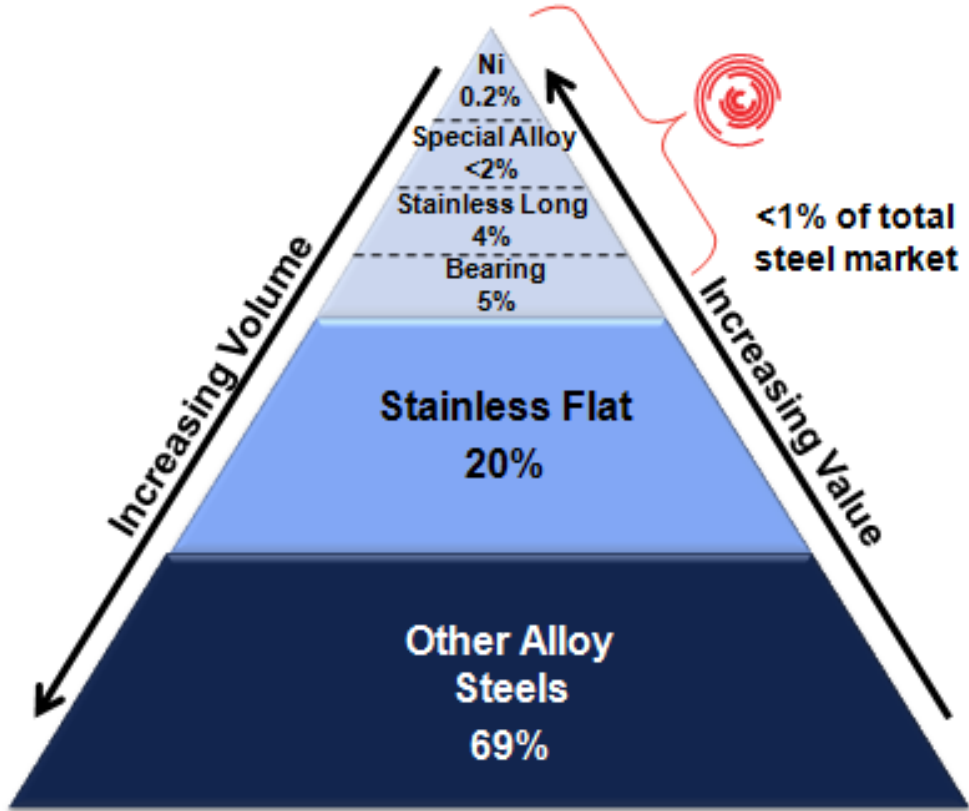
- Profitability in Q3 expected to be similar to Q2
  - Continuing to align cost structure with end-use markets environment
  - Working to strengthen market position in Energy for eventual recovery
- Continued sequential headwinds from Oil & Gas
- Early indications of normalizing orders for Aerospace titanium products

\* Pounds related to manufactured tons for Dynamet and Carpenter Powder Products only

# Growth Enablers

### Carpenter Today

- Focus on high-value specialty alloys with limited exposure to commodity stainless steel markets
- Products serve demanding applications in attractive end-use markets
- Commitment to innovation and being preferred solutions provider
- Opportunities include building on Aerospace portfolio, further penetration of Transportation end-use market and investing in new offerings



Source: SMR GmbH, 2012 (Note: Excludes Ti and Powder Metal)

# Investing in the Future

## Athens Facility



### Achievements to Date

- Facility is fully operational
- 89% of customer site non-VAP certifications complete
- 75% of Oil & Gas completions achieved
- Two VAP qualifications completed for nickel superalloy used for aerospace rings

### Looking Forward to Calendar Years 2016-17

- Finalize internal development processes and work with customers on VAP qualifications
- Achieve most stringent aerospace engine parts qualifications from customers and their supply chain partners

## Powder Products



### Carpenter Powder Products

- One of the world's largest suppliers of spherical gas atomized metal powders
- Manufacturing facilities: Pennsylvania, Rhode Island, Alabama and Sweden
- Superalloys and titanium powder production capabilities investments underway

### Powder Products Opportunity

- Expected to be one of the fastest growing segments in overall metals market
- Additive manufacturing represents major growth opportunity across end-use markets

# Outlook and Closing Comments

***Well Positioned  
as Preferred  
Solutions  
Provider for  
High-end  
Premium Alloy  
Markets;  
Initiatives Aimed  
at Supporting  
Margin Growth  
as Volumes  
Return***

- Actively managing business to maximize results with some challenging end-use markets
- Expect second half volume to be up modestly compared to first half, primarily due to continued weakening of oil and gas market impacting our Energy as well as Industrial and Consumer end-use markets
- Focused on identifying additional cost reductions and incremental volume opportunities
- Committed to improving working capital efficiency and maintaining capital spending discipline
- Prudently executing against share repurchase program
- Selectively investing in new technologies to position company for growth over longer term





## Appendix of Non-GAAP Schedules

# Restructuring Charges and Special Items

\$ Millions, except per-share amounts

	Q2-15	Q1-16	Q2-16
<b>As Reported</b>			
<b>Net Income</b>	<b>24.1</b>	<b>8.9</b>	<b>11.5</b>
<b>Diluted Earnings per Share</b>	<b>\$0.45</b>	<b>\$0.18</b>	<b>\$0.23</b>
Restructuring Charges	-	0.3	-
Consulting Costs	-	1.7	1.7
Income Tax Items*	1.6	2.0	(0.8)
<b>Restructuring Charges and Special Items</b>	<b>1.6</b>	<b>4.0</b>	<b>0.9</b>
<b>Net Income excl. Restructuring Charges and Special Items</b>	<b>25.7</b>	<b>12.9</b>	<b>12.4</b>
<b>Adjusted Diluted Earnings per Share</b>	<b>\$0.48</b>	<b>\$0.26</b>	<b>\$0.24</b>

\* Income Tax Items

- Discrete income tax charge recorded in Q2-15 as a result of a tax law change.
- Discrete income tax charge recorded in Q1-16 as a result of decision to sell equity method investment in India.
- Discrete income tax benefit recorded in Q2-16 as a result of a tax law change.

Note: The Restructuring Charges and Special Items amounts above are shown on an after-tax basis. For the pre-tax impacts, see Slide 19

# Non-GAAP Schedules (Unaudited)

## Operating Margin Excluding Surcharge, Pension Earnings, Interest and Deferrals "Pension EID", Restructuring Charges and Special Items

\$ Millions	Q2-15	Q1-16	Q2-16
Net sales	548.4	455.6	443.8
Less: surcharge revenue	102.7	70.5	64.4
<b>Consolidated Net Sales Excluding Surcharge</b>	<b>445.7</b>	<b>385.1</b>	<b>379.4</b>
Operating income	45.0	24.8	21.8
Pension EID	2.4	4.8	4.8
<b>Operating Income Excluding Pension EID</b>	<b>47.4</b>	<b>29.6</b>	<b>26.6</b>
<b>Restructuring Charges and Special Items</b>			
Restructuring costs	-	0.4	-
Consulting costs	-	2.6	2.6
<b>Operating Income Excluding Pension EID, Restructuring Charges and Special Items</b>	<b>47.4</b>	<b>32.6</b>	<b>29.2</b>
<b>Operating Margin Excluding Surcharge, Pension EID, Restructuring Charges and Special Items</b>	<b>10.6%</b>	<b>8.5%</b>	<b>7.7%</b>

Management believes that removing the impacts of raw material surcharge from operating margin provides a more consistent basis for comparing results of operations from period to period. In addition, management believes that excluding the impact of pension EID, which may be volatile due to changes in the financial markets, is helpful in analyzing the true operating performance of the Company.

Management believes that removing the impact of restructuring charges and special items is helpful in analyzing the operating performance of the Company, as these costs are not indicative of ongoing operating performance.

# Non-GAAP Schedules (Unaudited)

## Free Cash Flow

\$ Millions	Q2-15	Q2-16	FY15 YTD	FY16 YTD
Net cash provided from operating activities	12.5	30.1	27.5	71.6
Purchases of property, equipment and software	(68.4)	(19.6)	(127.4)	(49.5)
Proceeds from disposals of property and equipment	-	0.2	0.1	0.3
Other	-	-	-	4.0
Dividends paid	(9.6)	(8.9)	(19.3)	(17.9)
<b>Free Cash Flow</b>	<b>(65.5)</b>	<b>1.8</b>	<b>(119.1)</b>	<b>8.5</b>

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