

Carpenter Technology Corporation



ENGINEERED MATERIALS FOR A CHANGING WORLD

Fiscal Year 2014

2nd Quarter Earnings Call

January 30, 2014

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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.

2nd Quarter FY14 Summary



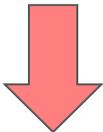
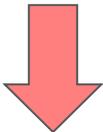
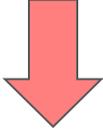
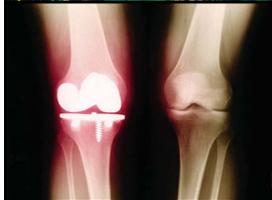
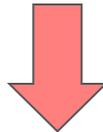
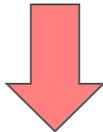
Bill Wulfsohn

President and Chief Executive Officer

2nd Quarter FY14 Summary

- **Q2 earnings in-line with our expectations**
 - Significant gains in Transportation and Consumer & Industrial
 - Strong overhead cost control
 - Continued reduction in production cost per ton
 - Weak Aerospace cycle continues to dilute overall margins
- **Momentum beginning to build**
 - Q2 Specialty Alloys Operations (SAO) orders up significantly versus PY'Q2
 - Performance Engineered Products (PEP) operational improvements on track to yield Q3/Q4 gains
- **Well positioned for future growth**
 - Athens
 - On budget
 - Ahead of schedule
 - Decision to change to straight line depreciation
 - Expect positive free cash flow by Q4
 - Volume and margin improvement potential as fixed investment in place

End Market Highlights

		Q2'14 Net Sales ex. Sur (\$M)*		vs. Q2'13	vs. Q1'14	Comments
	Aerospace & Defense	177.7	43%	-9% 	-3% 	<ul style="list-style-type: none"> Boeing delivered 648 planes CY13, up +9% Y/Y; Airbus delivered 626 planes CY13, a 6% Y/Y increase Engine demand stabilizing with future growth expected Structural and fasteners down due to destocking in supply chain but order patterns indicate growth in 2H
	Energy	64.8	16%	-6% 	+10% 	<ul style="list-style-type: none"> Directional rig count grew 4% vs. same quarter last year Demand for oil and gas materials has stabilized, expect 2H growth Power Generation gaining momentum; sales up vs. prior year
	Medical	22.4	5%	-7% 	-10% 	<ul style="list-style-type: none"> Volume improving but industry cost containment efforts continue to impact sales growth Titanium prices remain low - negatively impacts demand as distributors continue de-stocking
	Transportation	28.4	7%	+17% 	+11% 	<ul style="list-style-type: none"> Strong automotive build growth in North America (up 5% in CY13) Carpenter continues to benefit from strong demand growth for materials used in newest engine platform fuel delivery systems designed to meet CAFE standards
	Industrial & Consumer	88.9	21%	+4% 	+4% 	<ul style="list-style-type: none"> Strong demand for materials used in bridge infrastructure projects Demand strengthening for materials used in plant and equipment applications

*Excludes sales through Carpenter's Distribution businesses

Share gains drove increase in tons; sales down due to Aerospace softness

2nd Quarter FY14 Financial Overview



Tony Thene

Senior Vice President and Chief Financial Officer

2nd Quarter FY14 Financial Overview

- **Q2 Net income of \$29.5 million or \$0.55 per share**
- Sales, excluding surcharge, of \$414.6 million
 - **Aerospace and Energy** comprised 59% of sales
- Operating margins (ex pension EID) **decreased sequentially by 260 basis points** due to weaker mix
- **Cash Flow from Operations of \$7.0 million** and Free Cash Flow of negative \$99.9 million
- **Capital expenditures of \$97.6 million, largely related to Athens**
- **\$598 million of total liquidity**
 - \$106 million of cash
 - \$492 million of available revolving credit facility

Income Statement Summary

\$ Millions, except pounds and per-share amounts	Q2-13	Q1-14	Q2-14	Sequential Change
Pounds ('000)	62,582	64,892	67,378	2,486
Net Sales	533.5	498.6	503.5	4.9
Sales ex. Surcharge *	430.7	412.1	414.6	2.5
Gross Profit	102.6	103.3	95.4	(7.9)
<i>% of Sales ex. Surcharge</i>	<i>23.8%</i>	<i>25.1%</i>	<i>23.0%</i>	<i>-2.1% pts.</i>
Selling, General and Administrative Expenses	49.9	47.5	47.9	0.4
<i>% of Sales ex. Surcharge</i>	<i>11.6%</i>	<i>11.5%</i>	<i>11.6%</i>	<i>0.1% pts.</i>
Operating Income	52.7	55.8	47.5	(8.3)
<i>% of Sales ex. Surcharge</i>	<i>12.2%</i>	<i>13.5%</i>	<i>11.5%</i>	<i>-2.0% pts.</i>
Operating Income ex. Pension EID *	60.7	61.8	51.3	(10.5)
<i>% of Sales ex. Surcharge</i>	<i>14.1%</i>	<i>15.0%</i>	<i>12.4%</i>	<i>-2.6% pts.</i>
Effective Tax Rate	33.1%	32.8%	33.6%	0.8%
Net Income	33.2	34.6	29.5	(5.1)
Diluted Earnings Per Share	\$0.62	\$0.65	\$0.55	(\$0.10)

Volume up but EPS down due to weaker mix

* Detailed schedule included in Non-GAAP Schedules in Appendix

Free Cash Flow Summary

\$ Millions	Q1-13	Q2-13	Q2-13 YTD	Q1-14	Q2-14	Q2-14 YTD
Net Income + Non-cash Items	82	76	158	76	69	145
Inventory	(79)	(10)	(89)	(47)	(12)	(59)
Other working capital	8	(17)	(9)	36	(48)	(12)
Total Net Working Capital	(71)	(27)	(98)	(11)	(60)	(71)
Pension Plan Contributions - Required	(48)	(10)	(58)	(1)	(2)	(3)
Net Cash from Operating Activities	(37)	39	2	64	7	71
Purchases of property, equipment and software	(56)	(81)	(137)	(114)	(98)	(212)
Dividends paid	(9)	(10)	(19)	(9)	(10)	(19)
Other				(1)	1	0
Free Cash Flow	(102)	(52)	(154)	(60)	(100)	(160)

Prior periods may be impacted due to rounding.

At cash flow generation inflection point – moving to positive FCF by Q4

SAO Business Update



Andy Ziolkowski

Senior Vice President

Commercial, Specialty Alloys Operations

SAO Segment Summary

SAO Segment Q2-14 Results and Q3-14 Outlook

Q2 Operating Results

	Q2-13	Q1-14	Q2-14	vs LY	vs Q1
Pounds ('000)	60,730	63,414	66,734	6,004	3,320
Sales ex. Surcharge (\$M)	324.4	307.6	316.6	(7.8)	9.0
Op Inc ex. EID (\$M)	61.3	63.7	54.4	(6.9)	(9.3)
<i>% of Sales ex. Surcharge</i>	<i>18.9%</i>	<i>20.7%</i>	<i>17.2%</i>	<i>-1.7%</i>	<i>-3.5%</i>

Q2 Business Highlights

- Year-over-year volume increase driven mainly by Transportation and Industrial & Consumer
- Lower weighted average volume for Aerospace
- Lower operating cost per ton and SG&A costs compared to a year ago
- Order intake up significantly year-over-year

Q3-14 Outlook

- Continued increase in order intake rate
 - Strong sequential volume growth across all markets
 - Continued cost management
 - Additional capacity enabling CRS to target new markets – already receiving orders
- Anticipate \$4m temporary energy surcharge due to severe cold weather

PEP Business Update



Gary Heasley

Senior Vice President

Performance Engineered Products

PEP Segment Summary

PEP Segment Q2-14 Results and Q3-14 Outlook

Q2 Operating Results

	Q2-13	Q1-14	Q2-14	vs LY	vs Q1
Pounds ('000)	3,227	2,667	2,683	(544)	16
Sales ex. Surcharge (\$M)	125.0	117.5	113.3	(11.7)	(4.2)
Op Inc ex. EID (\$M)	10.4	11.6	8.6	(1.8)	(3.0)
<i>% of Sales ex. Surcharge</i>	<i>8.3%</i>	<i>9.9%</i>	<i>7.6%</i>	<i>-0.7%</i>	<i>-2.3%</i>

Q2 Business Highlights

- Sales impacted by soft market conditions
 - Continued demand weakness for titanium products
 - Lower demand for powder products
 - Improved demand for down-hole drilling tools
 - Seasonal impact on Distribution business
- Operating income down sequentially
 - Lower sales
 - Operating inefficiencies in powder business

Q3 -14 Outlook

- Margins in powder business showing benefit from operational improvements
- Demand for aerospace fastener material expected to accelerate
- Expected increase in US onshore and Gulf Coast off-shore activity
- More optimism among distribution customers



Dave Strobel

Senior Vice President, Global Operations

Athens Facility Update

Construction/Start-up



- 90% of construction completed
- Spend 80% complete
- Latest technology applied throughout facility
- Start-up now underway in key front-end operations
- Working through vendor acceptance of key equipment

Certification/Qualification



- Met Lab and Chem Lab fully functional
- Accreditations:
 - ISO17025 – certified
 - Key NADCAP audits complete
 - AS9100 – audit complete
- Beginning qualification work with key customers

Integrated Manufacturing



- People and processes - well supported by other SAO sites
- Training for key positions very successful
- Strong focus on automation and process control
- Great leverage potential across the entire system to drive improvement

Summary and Forward Outlook



Bill Wulfsohn

President and Chief Executive Officer

2nd Quarter FY14 Summary

Q2 Highlights

- Met our earnings expectations
 - Significant gains in Transportation, Consumer & Industrial
 - Strong overhead cost control
 - Continued reduction in production cost per ton
 - Weak Aerospace cycle continues to dilute overall margins
- Momentum beginning to build
 - Q2 SAO orders up significantly vs. PY
 - Focus on PEP operating model
- Athens now operational
 - On budget
 - Ahead of schedule

Forward Outlook

- Clear signs of emerging demand recovery
- PEP operational improvements on track to yield Q3/Q4 gains
- Q3 EPS in-line with adjusted Q3 FY13
- Volume and margin improvement opportunity as fixed investment in place
- Expect positive free cash flow by Q4
- Strong balance sheet and flexibility to redeploy cash

Appendix of Non-GAAP Schedules



Preliminary Non-GAAP Unaudited Schedules

(in millions)

OPERATING MARGIN EXCLUDING SURCHARGE AND PENSION EARNINGS, INTEREST AND DEFERRALS

	Three Months Ended			Six Months Ended	
	December 31,		September 30,	December 31,	
	2013	2012	2013	2013	2012
Net sales	\$ 503.5	\$ 533.5	\$ 498.6	\$ 1,002.1	\$ 1,078.5
Less: surcharge revenue	88.9	102.8	86.5	175.4	207.0
Consolidated net sales excluding surcharge	<u>\$ 414.6</u>	<u>\$ 430.7</u>	<u>\$ 412.1</u>	<u>\$ 826.7</u>	<u>\$ 871.5</u>
Operating income	\$ 47.5	\$ 52.7	\$ 55.8	\$ 103.3	\$ 114.3
Pension earnings, interest & deferrals	3.8	8.0	6.0	9.8	16.0
Operating income excluding pension earnings, interest and deferrals	<u>\$ 51.3</u>	<u>\$ 60.7</u>	<u>\$ 61.8</u>	<u>\$ 113.1</u>	<u>\$ 130.3</u>
Operating margin excluding surcharge and pension earnings, interest and deferrals	<u>12.4%</u>	<u>14.1%</u>	<u>15.0%</u>	<u>13.7%</u>	<u>15.0%</u>

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

Preliminary Non-GAAP Unaudited Schedules

(in millions)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
FREE CASH FLOW				
Net cash provided from operating activities	\$ 7.0	\$ 38.9	\$ 71.0	\$ 2.2
Purchases of property, equipment and software	(97.6)	(80.5)	(212.4)	(136.9)
Proceeds from disposals of property and equipment	0.3	0.1	0.3	0.1
Purchase of subsidiary shares from noncontrolling interest	-	(8.4)	-	(8.4)
Proceeds from sale of equity method investment	-	7.9	-	7.9
Dividends paid	(9.6)	(9.6)	(19.2)	(19.1)
Free cash flow	<u>\$ (99.9)</u>	<u>\$ (51.6)</u>	<u>\$ (160.3)</u>	<u>\$ (154.2)</u>

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.