

## Carpenter Technology Corporation

2<sup>nd</sup> Quarter Fiscal Year 2019

Earnings Call

January 31, 2019



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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 Technology's filings with the Securities and Exchange Commission, including its report on Form 10-K for the year ended June 30, 2018, Form 10-Q for the quarter ended September 30, 2018, 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 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, including LPW Technology Ltd.; (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; and (15) fluctuations in oil and gas prices and production. 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.

## Non-GAAP Financial Measures

Some of the information included in this presentation is derived from Carpenter Technology's consolidated financial information but is not presented in Carpenter Technology'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.



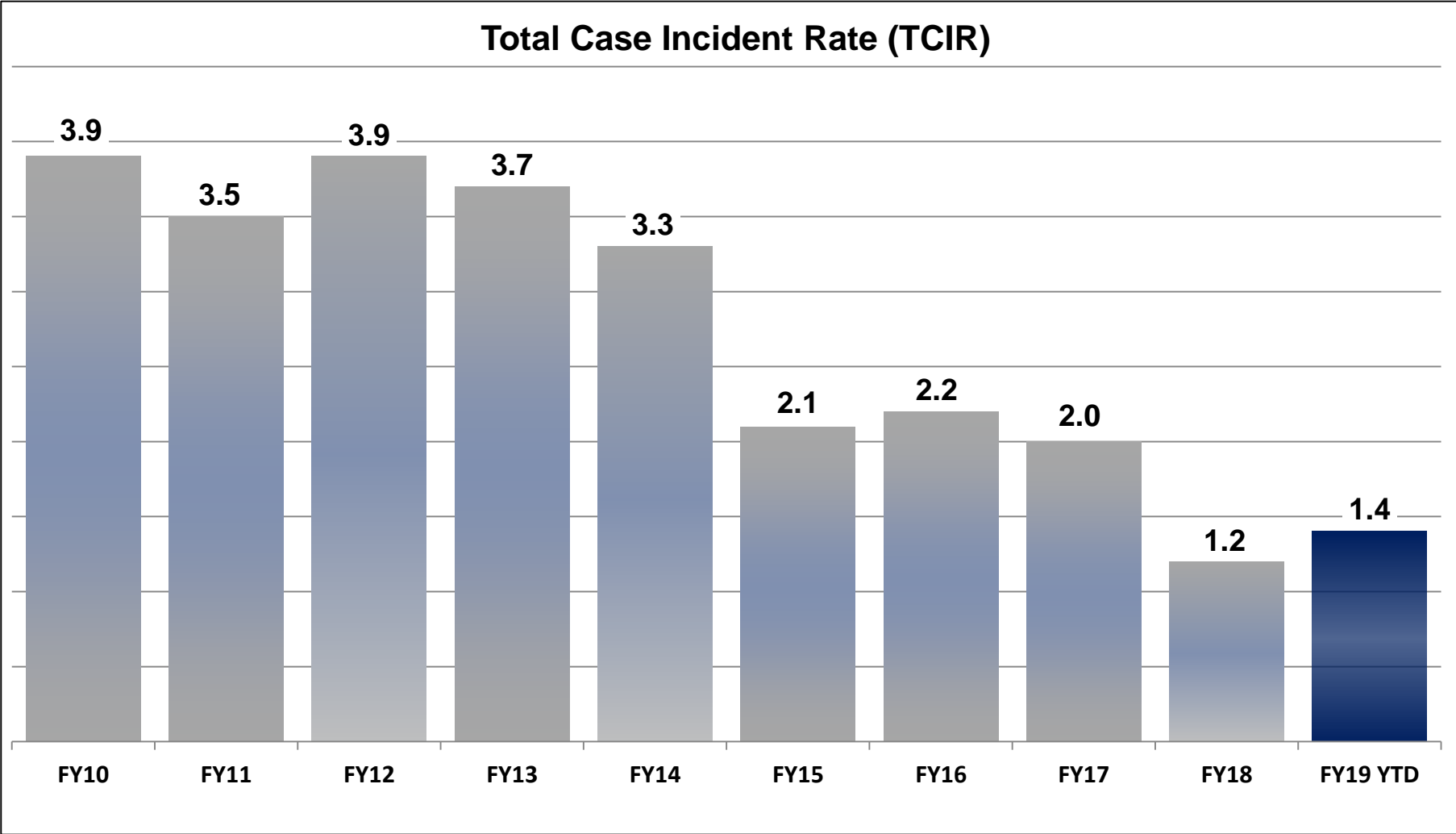
## 2<sup>nd</sup> Quarter Fiscal Year 2019

Tony Thene  
President and Chief Executive Officer



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# Safety is Our Highest Value


















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

***Executing Strategic Plan Centered on Driving Market Share Gains Across Broad Solutions Portfolio and Investing in Attractive Target Growth Areas***

- Solid execution drove reported EPS of \$0.73, adjusted EPS of \$0.76
- Strong commercial execution and customer demand drove year-over-year sales growth across key end-use markets
- Gaining share in Medical end-use market through expanded customer relationships and leading solutions
- Backlog up 16% sequentially and 49% year-over-year; 10<sup>th</sup> consecutive quarter of sequential backlog growth
- Diverse Aerospace and Defense portfolio drove 21% sequential backlog growth; gains across all major sub-markets
- Progressing with Athens facility Vendor Approved Process (VAP) qualifications; three additional approvals received
- Further building on leadership position in targeted growth areas including additive manufacturing and soft magnetics
- Healthy balance sheet enables long-term strategic investments and direct returns to shareholders

# Q2-19 End-Use Market Highlights

		Q2-19 Net Sales ex. Surcharge (\$M)*		vs. Q2-18	vs. Q1-19	Comments
	<b>Aerospace and Defense</b>	<b>\$234.1</b>	52%	+6% 	-2% 	<ul style="list-style-type: none"> <li>▪ Solid growth year-over-year (YoY) due to engine sub-market demand and diverse product portfolio</li> <li>▪ Sequential decline primarily driven by timing of shipments</li> <li>▪ Fastener sub-market demand signals remain mixed</li> <li>▪ Defense up driven by strong program-specific demand</li> </ul>
	<b>Energy</b>	<b>\$36.4</b>	8%	+26% 	-3% 	<ul style="list-style-type: none"> <li>▪ Oil &amp; gas sub-market up YoY due to increased rental and replacement demand</li> <li>▪ Sequential decline due to flattening of North American rig count</li> <li>▪ Power generation sub-market improving off a low base</li> </ul>
	<b>Transportation</b>	<b>\$29.4</b>	7%	-1% 	-6% 	<ul style="list-style-type: none"> <li>▪ YoY and sequential decline driven by trade actions and economic uncertainty in Europe</li> <li>▪ Shift in foreign demand slightly offset by positive gains in North American light vehicles and heavy duty truck applications</li> </ul>
	<b>Medical</b>	<b>\$38.4</b>	9%	+3% 	-3% 	<ul style="list-style-type: none"> <li>▪ YoY growth reflects strong demand in orthopedic and cardiology sub-markets</li> <li>▪ Leading portfolio of solutions with key customers, short-term performance influenced by customer order timing</li> </ul>
	<b>Industrial and Consumer</b>	<b>\$77.6</b>	17%	+11% 	+4% 	<ul style="list-style-type: none"> <li>▪ Industrial YoY and sequential growth due to increased demand for select applications</li> <li>▪ Consumer YoY growth influenced by strength in consumer electronics applications offset by weaker demand conditions in sporting goods applications</li> </ul>

**Sales ex-surcharge up 8% year-over-year; down 2% sequentially**

\*Excludes sales through Carpenter Technology's Distribution businesses

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## 2<sup>nd</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	Q2-18	Q1-19	Q2-19	Sequential Change
<b>Pounds ('000)</b>	60,264	65,616	63,918	(1,698)
<b>Net Sales</b>	487.8	572.4	556.5	(15.9)
<b>Sales ex. Surcharge*</b>	415.5	456.3	449.4	(6.9)
<b>Gross Profit</b>	85.7	91.7	107.0	15.3
<b>Selling, General and Administrative Expenses</b>	44.3	46.7	51.6	4.9
<b>Operating Income</b>	41.4	45.0	55.4	10.4
<b>Special Items*</b>	-	-	1.2	1.2
<b>Operating Income ex. Special Items*</b>	41.4	45.0	56.6	11.6
<i>% of Sales ex. Surcharge</i>	10.0%	9.9%	12.6%	+2.7pts
<b>Special Tax Items*</b>	66.0	-	-	-
<b>Effective Tax Rate</b>	(173.3%)	21.8%	21.5%	-0.3pts
<b>Net Income</b>	92.1	31.5	35.5	4.0
<b>Diluted Earnings per Share</b>	\$1.92	\$0.65	\$0.73	\$0.08
<b>Adjusted Diluted Earnings per Share*</b>	\$0.55	\$0.65	\$0.76	\$0.11

**Strong year-over-year and sequential operating income growth**

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



# Free Cash Flow Summary

\$ Millions	YTD FY18	Q1-19	Q2-19	YTD FY19
<b>Net Income + Non-cash Items</b>	<b>123</b>	<b>68</b>	<b>78</b>	<b>146</b>
Inventory	(82)	(51)	(100)	(151)
Working Capital / Other	(19)	(6)	61	55
Total Net Working Capital / Other	(101)	(57)	(39)	(96)
Pension Plan Contributions	(5)	(2)	(1)	(3)
<b>Net Cash Provided From Operating Activities</b>	<b>17</b>	<b>9</b>	<b>38</b>	<b>47</b>
Purchases of Property, Plant, Equipment and Software	(56)	(41)	(40)	(82)
Acquisition of Business, Net of Cash Acquired	-	-	(79)	(79)
Dividends Paid	(17)	(10)	(10)	(19)
<b>Free Cash Flow *</b>	<b>(56)</b>	<b>(42)</b>	<b>(91)</b>	<b>(133)</b>

Cash	21	17	29
Available Borrowing Under Credit Facility	385	394	293
<b>Total Liquidity</b>	<b>406</b>	<b>411</b>	<b>322</b>

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

## First half inventory build to support second half shipments

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

# SAO Segment Summary

Q2 Operating Results					
	Q2-18	Q1-19	Q2-19	vs Q2-18	vs Q1-19
Pounds ('000)	60,080	62,714	61,668	1,588	(1,046)
Net Sales (\$M)	406.3	475.5	461.6	55.3	(13.9)
Sales ex. Surcharge (\$M)	331.8	361.5	356.2	24.4	(5.3)
Operating Income (\$M)	49.8	52.8	69.0	19.2	16.2
<i>% of Net Sales</i>	12.3%	11.1%	14.9%	+2.6 pts	+3.8 pts
<i>% of Sales ex. Surcharge</i>	15.0%	14.6%	19.4%	+4.4 pts	+4.8 pts

## Q2 Business Results

- Year-over-year increase in volume driven by improved demand across key end-use markets
- Continued growth both year-over-year and sequentially in backlog
- Strong sequential performance driven by favorable product mix and lower operating costs
- Operating income includes insurance recovery benefit of \$4.7 million

## Q3-19 Outlook

- Continued positive demand signals across most end-use markets
- Operating income expected to increase 5-10% sequentially, after adjusting for insurance recovery

# PEP Segment Summary

Q2 Operating Results					
	Q2-18	Q1-19	Q2-19	vs Q2-18	vs Q1-19
Pounds* ('000)	3,282	2,732	3,300	18	568
Net Sales (\$M)	104.8	111.7	112.9	8.1	1.2
Sales ex. Surcharge (\$M)	104.6	108.0	109.4	4.8	1.4
Operating Income (\$M)	7.5	7.3	4.4	(3.1)	(2.9)
<i>% of Net Sales</i>	<i>7.2%</i>	<i>6.5%</i>	<i>3.9%</i>	<i>-3.3 pts</i>	<i>-2.6 pts</i>
<i>% of Sales ex. Surcharge</i>	<i>7.2%</i>	<i>6.8%</i>	<i>4.0%</i>	<i>-3.2 pts</i>	<i>-2.8 pts</i>

## Q2 Business Results

- Includes \$1.4 million of losses related to recent acquisition of LPW Technology, Ltd. (LPW)
- Continued strong demand for titanium products in Medical end-use market
- Sequential performance negatively impacted by customer order timing
- Adoption rates for new tools used in oil & gas were below expectations

## Q3-19 Outlook

- Continued strong demand for titanium products including orders deferred in Q2
- Operating income expected to increase up to 60-70% sequentially

\* Pounds includes only Dynamet, Carpenter Powder Products and LPW businesses



## 2<sup>nd</sup> Quarter Fiscal Year 2019 Closing Comments

Tony Thene

President and Chief Executive Officer



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# Investing in Future Growth

## Soft Magnetics



- Enhanced capabilities with \$100 million investment in precision strip hot rolling mill following tax reform
- Reputation as the market leader in applications for Aerospace Auxiliary Power Units (APU)
- Leveraging proprietary alloys (Hiperco® and Hypocore®) to develop solutions for quickly developing Electric Vehicle (EV) market

## Additive Manufacturing



- Feedstock production metallurgical expertise enhanced with addition of part design and production via CalRAM acquisition
- LPW acquisition significantly strengthened team with expanded capabilities
- Significant industry expertise being deployed at AM Tech Center in Reading, PA and Emerging Tech Center under construction in Athens, AL

**Expanding leadership position in key strategic growth platforms**

# Closing Comments

***Enhancing Long-Term Growth Profile By Expanding Market Opportunities and Customer Relationships, Improving Manufacturing Operations and Investing in Targeted Growth Areas***

- Solutions-focused approach generating strong end-use market demand, consistent backlog growth and deeper customer relationships
- Broad Aerospace and Defense solutions driving backlog growth across multiple attractive sub-markets
- Carpenter Operating Model focused on operational discipline and capacity expansion opportunities
- Customer dialogue for Athens VAP qualifications continues; three approvals in second quarter
- Strengthening foundation for long-term sustainable growth via end-to-end additive manufacturing platform and expanded soft magnetics capabilities
- Flexibility to invest in strategic growth areas while providing 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>Q2-18</b>	<b>Q1-19</b>	<b>Q2-19</b>
Net Income	92.1	31.5	35.5
<b>Diluted Earnings per Share</b>	<b>\$ 1.92</b>	<b>\$ 0.65</b>	<b>\$ 0.73</b>
Acquisition-related costs	-	-	1.2
Impact of US tax reform and other legislative changes	(66.0)	-	-
<b>Special Items</b>	<b>(66.0)</b>	<b>-</b>	<b>1.2</b>
<b>Net Income excluding Special Items</b>	<b>26.1</b>	<b>31.5</b>	<b>36.7</b>
<b>Adjusted Diluted Earnings per Share</b>	<b>\$ 0.55</b>	<b>\$ 0.65</b>	<b>\$ 0.76</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)

## Operating Margin Excluding Surcharge Revenue and Special Items

\$ Millions	Q2-18	Q1-19	Q2-19
Net sales	487.8	572.4	556.5
Less: surcharge revenue	72.3	116.1	107.1
<b>Consolidated Net Sales Excluding Surcharge</b>	<b>415.5</b>	<b>456.3</b>	<b>449.4</b>
Operating Income	41.4	45.0	55.4
Special Items:			
Acquisition-related costs	-	-	1.2
<b>Operating Income Excluding Special Items</b>	<b>41.4</b>	<b>45.0</b>	<b>56.6</b>
<b>Operating Margin</b>	<b>8.5%</b>	<b>7.9%</b>	<b>10.0%</b>
<b>Operating Margin Excluding Surcharge and Special Items</b>	<b>10.0%</b>	<b>9.9%</b>	<b>12.6%</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, 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 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)

## Free Cash Flow

\$ Millions	Q2-18	Q1-19	Q2-19	YTD FY18	YTD FY19
Net cash provided from operating activities	24.7	9.4	37.8	17.3	47.2
Purchases of property, plant, equipment and software	(26.8)	(41.6)	(40.1)	(55.7)	(81.7)
Proceeds from disposals of property and equipment	-	0.1	0.1	-	0.1
Acquisition of business, net of cash acquired	-	-	(79.0)	-	(79.0)
Dividends paid	(8.6)	(9.6)	(9.7)	(17.2)	(19.3)
<b>Free Cash Flow</b>	<b>(10.7)</b>	<b>(41.7)</b>	<b>(90.9)</b>	<b>(55.6)</b>	<b>(132.7)</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.

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