



Carpenter Technology Corporation

2nd Quarter Fiscal Year 2017

Earnings Call

February 2, 2017



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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, 2016, Form 10-Q for the quarter ended September 30, 2016, 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, 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 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; and (16) the success of actions taken to reduce costs associated with retirement and pension plans. 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.



2nd Quarter Fiscal Year 2017 Summary

Tony Thene

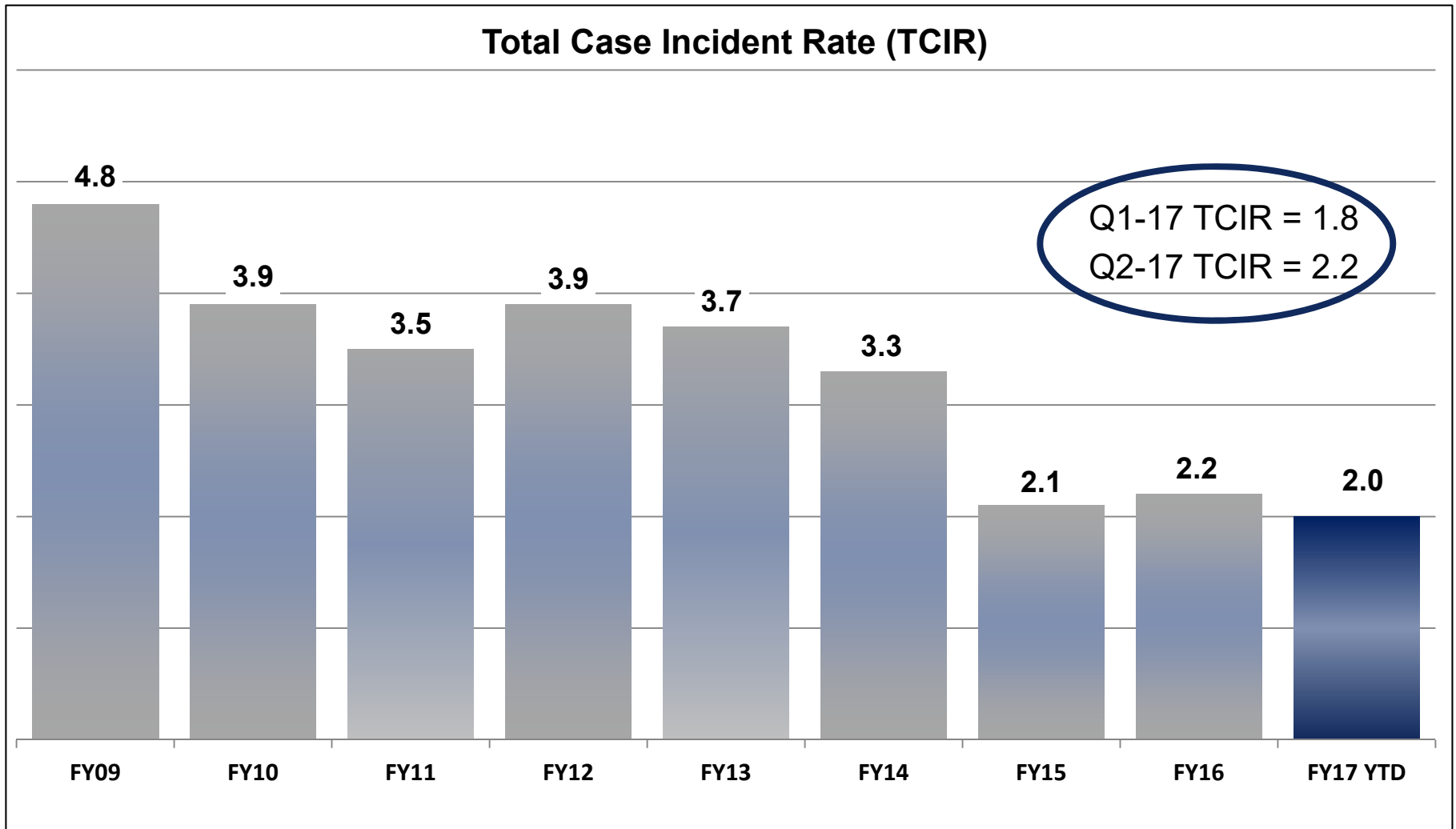
President and Chief Executive Officer



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Safety is Our First Priority


















2nd Quarter Summary

Operating Performance Driven by Strong Execution, Improving Market Conditions and Focus on High-End Premium Alloys

- Solid sequential improvement in operating results; EPS of \$0.15
- Aerospace and Defense end-use market benefited from new engine platform growth, diversified sub-markets and improved product mix
- Ongoing signs of recovery in Energy end-use market
- Performance Engineered Products (PEP) segment generated positive operating income
- Ongoing implementation of the Carpenter Operating Model delivering additional cost efficiencies and productivity gains
- Strong commercial execution and solutions focused strategy driving backlog growth
- Acquisition of titanium powders business accelerates leadership position in capabilities and technologies of core growth area
- Healthy balance sheet and liquidity with no meaningful near-term obligations provides significant flexibility

Q2-17 End-Use Market Highlights














		Q2-17 Net Sales ex. Surcharges (\$M)*	vs. Q2-16	vs. Q1-17	Comments	
	Aerospace & Defense	199.0	54%	-1% 	+15% 	<ul style="list-style-type: none"> Strong engine demand sequentially and YoY supported by new platforms Fasteners continue to be impacted by supply chain inventory consolidation; down YoY, modest increase sequentially with some positive signals Structural & distribution relatively flat sequentially; still down YoY Avionics down sequentially due to supply chain inventory adjustment Defense up sequentially and effectively flat YoY due to increases on select programs
	Energy	27.1	7%	+5% 	+5% 	<ul style="list-style-type: none"> North American (NA) directional and horizontal rig count down 14% YoY; up 30% sequentially Improved rental activity and replacement orders in targeted regions Oil & gas sub-market revenues up 2% sequentially Power generation up 10% sequentially and up YoY driven by attractive market fundamentals
	Transportation	28.7	8%	-14% 	-6% 	<ul style="list-style-type: none"> Sales down YoY and sequentially due to continued decline in heavy duty on-road and off-road truck production YoY decline further impacted by decreased production on targeted light vehicle programs
	Medical	25.1	7%	-9% 	+9% 	<ul style="list-style-type: none"> YoY down primarily due to inventory management among distributors/OEMs influenced by industry consolidation Sequential growth due to shifting customer mix with higher value add and increased titanium opportunities due to market changes
	Industrial & Consumer	59.2	16%	-6% 	0% 	<ul style="list-style-type: none"> Industrial sales up sequentially on increased activity for select applications; down YoY due to lower Energy related sales and lower distribution and infrastructure spend Consumer sales down YoY and sequentially driven by lower sporting goods and impact of seasonality

Sales ex-surcharges down 3% year-over-year and up 8% sequentially

*Excludes sales through Carpenter's Distribution businesses

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Materials Solutions for Broad Aerospace Market

Trend	CRS Solutions	Sub-Market	% of Aerospace Sales	Application	Dynamics
 Fuel Efficiency  Less Weight  Less Cost  Less Noise  Environmental	 Temperature Resistance ↑  Strength ↑  Process Controls ↑	Engines 	40%	Rings & Discs	<ul style="list-style-type: none"> Higher temperature and pressure needs Increased material content
				Bearings	<ul style="list-style-type: none"> Application demands increasing
				Other	<ul style="list-style-type: none"> Shafts, gears, etc. also seeing increases
	 Toughness ↑	Fastener 	30%	Airframe & Engine	<ul style="list-style-type: none"> Need for higher value-add products
	 Corrosion Resistance ↑	Structural / Distribution / Avionics 	30%	Advanced Solutions	<ul style="list-style-type: none"> Exploration and use due to weight, regulatory needs
				Premium Applications	<ul style="list-style-type: none"> Continued use in many traditional applications
				Avionics	<ul style="list-style-type: none"> Material investigation to boost performance

Leadership position across multiple Aerospace sub-markets



2nd Quarter Financial Overview & Business Update

Damon Audia

Senior Vice President and Chief Financial Officer



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Income Statement Summary

\$ Millions, except pounds and per-share amounts	Q2-16	Q1-17	Q2-17	Sequential Change
Pounds ('000)	56,928	54,180	53,286	(894)
Net Sales	443.8	389.0	427.4	38.4
Sales ex. Surcharge *	379.4	339.8	366.7	26.9
Gross Profit	66.3	46.0	62.5	16.5
Selling, General and Administrative Expenses	44.5	44.6	47.1	2.5
Special Items *	2.6	0.5	0.0	(0.5)
Operating Income	21.8	1.4	15.4	14.0
Operating Income ex. Pension EID and Special Items *	29.2	9.0	21.0	12.0
<i>% of Sales ex. Surcharge</i>	7.7%	2.6%	5.7%	+3.1 pts
Effective Tax Rate	23.8%	-17.0%	15.7%	N/A
Net Income (Loss)	11.5	(6.2)	7.0	13.2
Diluted Earnings (Loss) per Share	\$0.23	(\$0.13)	\$0.15	\$0.28
Adjusted Diluted Earnings (Loss) per Share *	\$0.24	(\$0.08)	\$0.15	\$0.23

Significant sequential improvement in Q2-17

*Detailed schedule included in Non-GAAP Schedules in Appendix

Cash Flow Summary

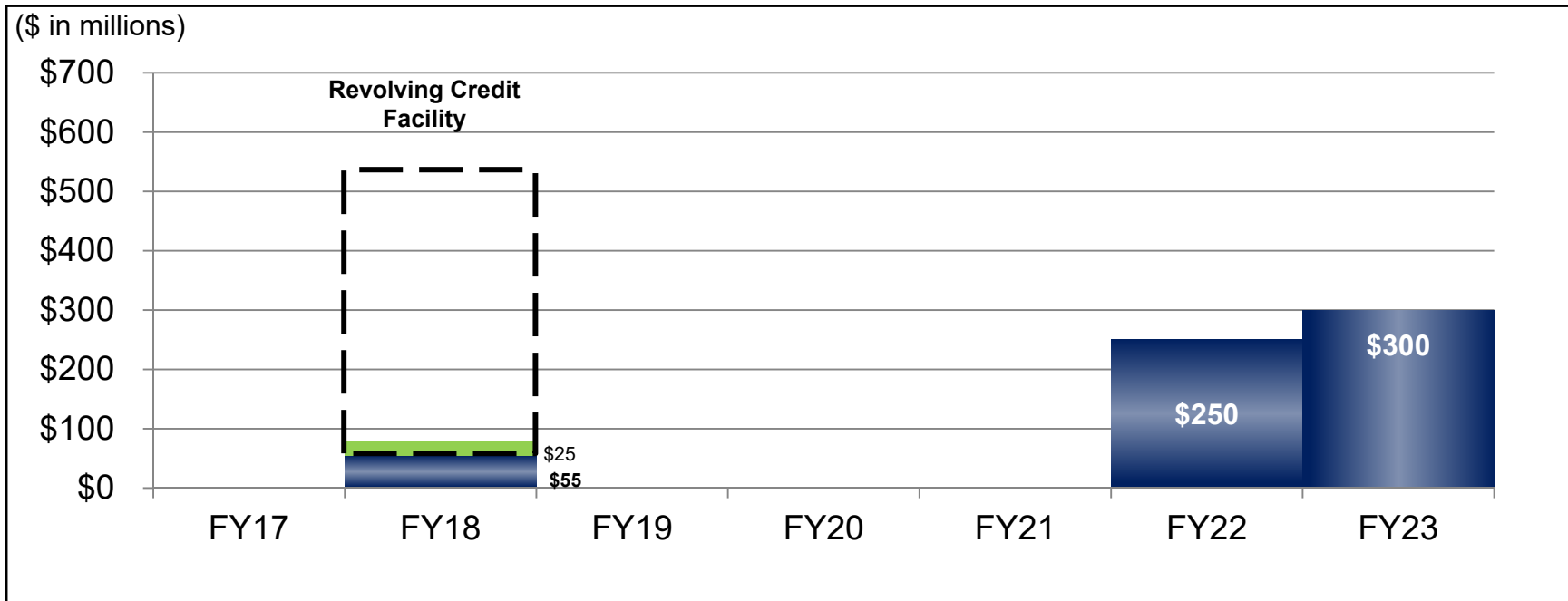
\$ Millions	YTD FY16	Q1-17	Q2-17	YTD FY17
Net Income + Non-cash Items	115	80	56	136
Inventory	(35)	(33)	(41)	(74)
Working Capital / Other	(8)	(43)	56	12
Total Net Working Capital / Other	(43)	(76)	15	(62)
Pension Plan Contributions	0	0	(100)	(100)
Net Cash from Operating Activities	72	4	(29)	(26)
Purchases of property, equipment and software	(50)	(27)	(19)	(45)
Dividends paid	(18)	(8)	(9)	(17)
Other	5	0	0	0
Free Cash Flow *	9	(31)	(57)	(88)

Cash	21	51	23
Available Borrowing Under Credit Facility	453	494	469
Total Liquidity	474	545	492

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

Positive Free Cash Flow excluding voluntary pension contribution

Capital Structure – Strong Liquidity Position



- Solid liquidity of \$492 million (\$23 million of cash and \$469 million of available borrowings under revolving credit facility)
- No significant required pension plan contributions until fiscal year 2020
- No major debt maturities until fiscal year 2022

Ample liquidity with no meaningful near-term obligations

SAO Segment Summary

Q2 Operating Results					
	Q2-16	Q1-17	Q2-17	vs PY	vs Q1-17
Pounds ('000)	54,794	52,360	51,314	(3,480)	(1,046)
Net Sales (\$M)	363.6	315.1	348.6	(15.0)	33.5
Sales ex. Surcharge (\$M)	299.2	266.0	288.1	(11.1)	22.1
Operating Income (\$M)	41.5	25.0	35.6	(5.9)	10.6
<i>% of Net Sales</i>	11.4%	7.9%	10.2%	-1.2 pts	+2.3 pts
<i>% of Sales ex. Surcharge</i>	13.9%	9.4%	12.4%	-1.5 pts	+3.0 pts

Q2 Business Results

- Strong product mix across all end-use markets offset by slightly lower sequential volume
- Aerospace benefited from diversified portfolio and ongoing ramp in new engine platforms
- YoY volume decline driven by oil & gas impact on Energy and by the Transportation end-use market
- Despite lower volumes, variable operating costs improved 6% YOY from Carpenter Operating Model execution

Q3 Outlook

- Continued strengthening across most end-use markets
- Volume growth and Carpenter Operating Model leading to further margin expansion
- Expect Q3 sequential operating income improvement of approximately 20%

PEP Segment Summary

Q2 Operating Results

	Q2-16	Q1-17	Q2-17	vs PY	vs Q1-17
Pounds* ('000)	2,800	2,414	2,350	(450)	(64)
Net Sales (\$M)	85.4	78.5	83.2	(2.2)	4.7
Sales ex. Surcharge (\$M)	85.2	78.3	83.0	(2.2)	4.7
Operating (Loss) Income (\$M)	(2.9)	(2.8)	0.8	3.7	3.6
<i>% of Net Sales</i>	-3.4%	-3.6%	1.0%	+4.4 pts	+4.6 pts
<i>% of Sales ex. Surcharge</i>	-3.4%	-3.6%	1.0%	+4.4 pts	+4.6 pts

Q2 Business Results

- Profitable for first quarter since Q4-15
- Operating income increase YoY primarily influenced by increased rental activity within oil & gas businesses and lower overall operating costs
- Sequential improvement driven by increased oil & gas and increased titanium demand

Q3 Outlook

- Modest growth in rig counts expected to further increase oil & gas activity levels
- Operating income expected to almost triple sequentially driven by improving oil & gas business conditions as well as increasing demand for titanium products

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

Selected Fiscal Year 2017 Guidance

<i>\$ Millions</i>	FY16	FY17 Update
Depreciation and Amortization	119	~120
Interest Expense, net	28	~32
Net Pension Expense	54	48*
Pension Contributions	0	100
Effective Tax Rate	47%	28% - 30%
Capital Expenditures	95	120 ~100

*Net pension expense was ~\$31 million in 1st half FY17 and expected to be ~\$17 million in 2nd half FY17.
Excludes estimated incremental defined contribution plan costs of ~ \$5 million in 2nd half FY17.



2nd Quarter Closing Comments

Tony Thene

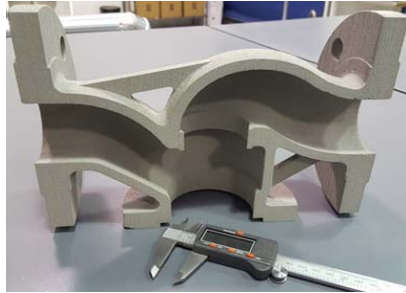
President and Chief Executive Officer



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Titanium Powders Acquisition Accelerates Capabilities



- Puris LLC assets and business to be acquired for \$35 million
- Provides immediate entry into rapidly expanding titanium powder market
- Strengthens advanced solutions portfolio to better address customer needs
- Expands additive manufacturing capabilities across multiple end-use markets
- Adds leading technology and processes in metal powders production
- Fiscal year 2017 capital expenditures correspondingly reduced by \$20 million
- Transaction expected to close during Q3-17

Strengthens core capabilities as a solutions provider

Closing Comments

Continuing to Strengthen Long-Term Growth Profile; Well Positioned Across Attractive End-Use Markets

- Q2 results reflect strong execution and improved market conditions
- Solid Aerospace and Defense results driven by new engine platform ramp and stronger product mix
- Remain cautiously optimistic about ongoing improvement in Energy end-use market
- Solutions focused commercial team and strategy driving expanded market opportunities and backlog growth
- Continued rollout of Carpenter Operating Model expected to deliver further cost reductions and process enhancements
- Titanium powders acquisition strengthens capabilities and technologies in core growth area
- Focused on actively managing business and building foundation for long-term sustainable growth
- Solid financial position; healthy balance sheet with no meaningful near-term obligations



Appendix of Non-GAAP Schedules and Supplemental Schedule



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Non-GAAP Schedules (Unaudited)

Adjusted Earnings (Loss) Per Share

\$ Millions except per share amounts	Q2-16	Q1-17	Q2-17
Net Income (Loss)	11.5	(6.2)	7.0
Diluted Earnings (Loss) per Share	\$ 0.23	\$ (0.13)	\$ 0.15
Pension Curtailment Loss	-	0.4	-
Consulting Costs *	1.7	-	-
Income Tax Items**	(0.8)	2.1	-
Special Items	0.9	2.5	-
Net Income (Loss) excluding Special Items	12.4	(3.7)	7.0
Adjusted Diluted Earnings (Loss) per Share	\$ 0.24	\$ (0.08)	\$ 0.15

Management believes that earnings per share adjusted to exclude the impact of restructuring and other special items is helpful in analyzing the operating performance of the Company, as these costs 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.

* Beginning in Q1-17, consulting costs of \$2.1 million per quarter are no longer considered a special item.

** Income Tax Items

Discrete income tax item recorded in Q2-16 as a result of a tax law change.

Discrete income tax item recorded in Q1-17 as a result of a discretionary pension contribution paid in October 2016.

Non-GAAP Schedules (Unaudited)

Operating Margin Excluding Surcharge Revenue, Pension Earnings, Interest and Deferrals (“Pension EID”) and Special Items

\$ Millions	Q2-16	Q1-17	Q2-17
Net sales	443.8	389.0	427.4
Less: surcharge revenue	64.4	49.2	60.7
Consolidated Net Sales Excluding Surcharge	379.4	339.8	366.7
Operating income	21.8	1.4	15.4
Pension EID	4.8	7.1	5.6
Operating Income Excluding Pension EID	26.6	8.5	21.0
Pension curtailment charge	-	0.5	-
Consulting costs	2.6	-	-
Special Items	2.6	0.5	-
Operating Income Excluding Surcharge, Pension EID and Special Items	29.2	9.0	21.0
Operating Margin	4.9%	0.4%	3.6%
Operating Margin Excluding Surcharge, Pension EID and Special Items	7.7%	2.6%	5.7%

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 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 other special items is helpful in analyzing the operating performance of the Company, as these costs 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	Q2-16	Q1-17	Q2-17	FY16 YTD	FY17 YTD
Net cash provided from (used for) operating activities	30.1	3.9	(29.7)	71.6	(25.8)
Purchases of property, equipment and software	(19.6)	(26.6)	(18.5)	(49.5)	(45.1)
Proceeds from disposals of property and equipment	0.2	-	-	0.3	-
Other	-	-	-	4.0	-
Dividends paid	(8.9)	(8.5)	(8.5)	(17.9)	(17.0)
Free Cash Flow	1.8	(31.2)	(56.7)	8.5	(87.9)

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.

Supplemental Schedule (Unaudited)

Net Sales By End-Use Market

\$ Millions	Q2-16	Q1-17	Q2-17	FY16	FY17
Aerospace & Defense	201.4	173.3	199.0	395.5	372.5
Energy	25.9	25.7	27.1	58.5	52.8
Transportation	33.3	30.6	28.7	69.0	59.2
Medical	27.7	23.0	25.1	54.1	48.1
Industrial and Consumer	62.9	59.3	59.2	129.5	118.5
Distribution	28.2	27.9	27.6	58.0	55.5
Net sales excluding surcharge	379.4	339.8	366.7	764.6	706.6
Surcharge revenue	64.4	49.2	60.7	134.8	109.7
Net sales	443.8	389.0	427.4	899.4	816.3

In the quarter ended June 30, 2016 in connection with our commercial organization realignment, we changed the manner in which sales are classified by end-use market so that we could better evaluate our sales results from period to period. All prior period amounts have been reclassified to conform to the current presentation.