



## Carpenter Technology Corporation

3<sup>rd</sup> Quarter Fiscal 2015

Earnings Call

April 30, 2015



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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.



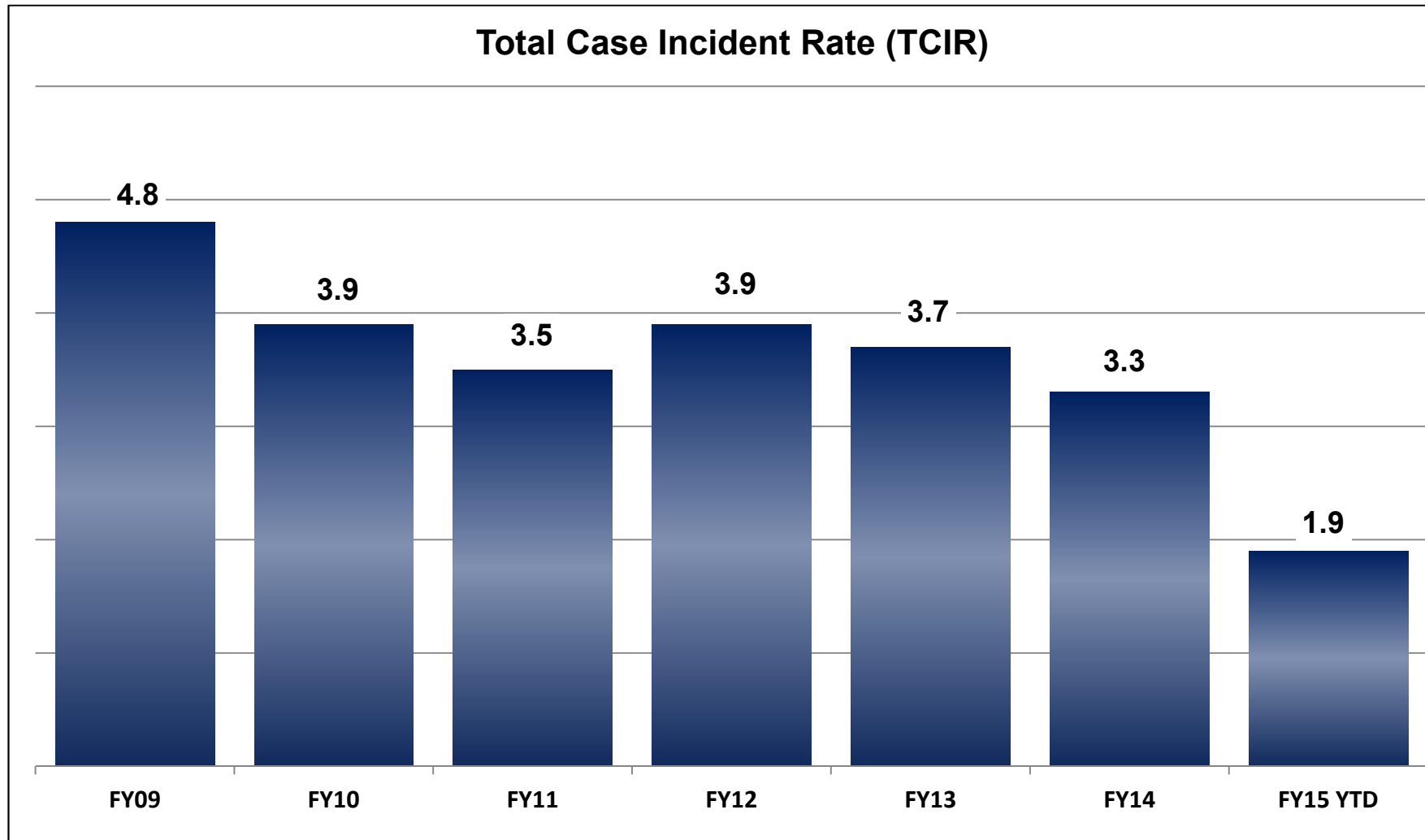
## 3<sup>rd</sup> Quarter Fiscal Year 2015 Summary

Gregory Pratt

Chairman, President and Chief Executive Officer



## Safety is our First Priority


















## 3<sup>rd</sup> Quarter Summary and Opening Comments

***Taking Actions  
to Improve  
Profitability, Cut  
Costs and  
Strengthen  
Operations***

- Specialty Alloys Operations (SAO) **revenue and mix stronger sequentially and YOY**
- Performance Engineered Products (PEP) **revenue down sequentially and YOY** primarily due to the Energy end-use market
- **Higher YOY operating costs**
- Introduced **Business Management Office (BMO)** to strengthen the Company's continuous improvement process
- Announced **restructuring plan** to yield approximately **\$30M of annual overhead cost savings**
- **Positive free cash flow of \$87M**
- **Net inventory reduction of \$44M**
- **Repurchased \$50M of shares**
- **Continued progress on Athens product qualifications**

## 3<sup>rd</sup> Quarter FY15 End-Use Market Highlights

		Q3-15 Net Sales ex. Surcharges (\$M)*		vs. Q3-14	vs. Q2-15	Comments
	<b>Aerospace &amp; Defense</b>	<b>213.9</b>	46%	+6% 	+13% 	<ul style="list-style-type: none"> <li>Strong sequential and year-over-year (YOY) sales growth for engine materials as supply chain demand normalizes</li> <li>Fastener demand up YOY primarily driven by Ni products</li> <li>Structural and distribution activity reflects lower volume YOY; increased volume and improved mix on a sequential basis</li> </ul>
	<b>Energy</b>	<b>60.8</b>	13%	-16% 	-14% 	<ul style="list-style-type: none"> <li>North American quarterly average directional rig count down 25% sequentially and 20% YOY</li> <li>Dramatic drop in oil prices and drilling activity caused a significant decrease in PEP sales</li> <li>Materials for power generation applications up sequentially but down YOY due to highly variable demand patterns</li> </ul>
	<b>Medical</b>	<b>29.0</b>	6%	+3% 	+13% 	<ul style="list-style-type: none"> <li>SAO sales rose YOY due to increased demand for orthopedic implant and surgical instrument materials</li> <li>Buying patterns from OEMs have stabilized</li> <li>The pricing environment remains extremely competitive</li> </ul>
	<b>Transportation</b>	<b>33.4</b>	7%	+9% 	+7% 	<ul style="list-style-type: none"> <li>Sales up YOY based on strong volume growth and improved mix of materials supporting advancements in engine technologies</li> <li>North American light vehicle sales show continued positive growth, up 6% YOY</li> <li>Low fuel prices and lower interest rates driving sales for vehicle platforms with higher Carpenter material content</li> </ul>
	<b>Industrial &amp; Consumer</b>	<b>92.0</b>	20%	-6% 	-5% 	<ul style="list-style-type: none"> <li>Lower revenue driven by reduced sales of commodity industrial and infrastructure materials</li> <li>Growth continues in high-end applications for consumer electronics</li> </ul>

**Sales ex-surcharges down 1% on 11% lower volume year-over-year as mix improved**

\*Excludes sales through Carpenter's Distribution businesses

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## 3<sup>rd</sup> Quarter Fiscal Year 2015 Financial Overview

Tony Thene

Senior Vice President and Chief Financial Officer



## Income Statement Summary

\$ Millions, except per-share amounts	Q3-14	Q2-15	Q3-15	Sequential Change
<b>Pounds ('000)</b>	77,580	67,712	69,052	1,340
<b>Net Sales</b>	566.3	548.4	570.6	22.2
<b>Sales ex. Surcharge *</b>	467.2	445.7	462.9	17.2
<b>Gross Profit</b>	94.5	85.0	75.8	(9.2)
<i>% of Sales ex. Surcharge</i>	20.2%	19.1%	16.4%	-2.7% pts.
<b>Selling, General and Administrative Expenses</b>	45.0	40.0	45.7	5.7
<i>% of Sales ex. Surcharge</i>	9.6%	9.0%	9.9%	0.9% pts.
<b>Restructuring Charges</b>	0.0	0.0	25.3	25.3
<b>Operating Income</b>	49.5	45.0	4.8	(40.2)
<i>% of Sales ex. Surcharge</i>	10.6%	10.1%	1.0%	-9.1% pts.
<b>Operating Income ex. Pension EID, Restructuring Charges and Special Items *</b>	63.5	47.4	35.1	(12.3)
<i>% of Sales ex. Surcharge</i>	13.6%	10.6%	7.6%	-3.0% pts.
<b>Effective Tax Rate</b>	33.8%	36.9%	39.1%	2.2%
<b>Net Income (Loss)</b>	30.6	24.1	(1.4)	(25.5)
<b>Diluted Earnings (Loss) Per Share</b>	\$0.57	\$0.45	(\$0.03)	(\$0.48)

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

**Q3 adjusted EPS of \$0.32 per share excluding restructuring charges & special items**



## Restructuring Charges & Special Items

\$ Millions, except per-share amounts

	Pre-tax (Loss) / Income	Diluted (Loss) Earnings per Share	Income Statement Classification
<b>Q3-15 As Reported</b>	<b>(2.3)</b>	<b>(\$0.03)</b>	
Reduction in Force	10.6	\$0.13	Restructuring Charges
Ultra-fine Grain Materials Development Exit	13.4	\$0.17	Restructuring Charges
Facility Closure	1.3	\$0.02	Restructuring Charges
<b>Sub-total Restructuring Charges</b>	<b>25.3</b>	<b>\$0.32</b>	
Consulting Costs	2.6	\$0.03	SG&A Expenses
<b>Restructuring Charges &amp; Special Items</b>	<b>27.9</b>	<b>\$0.35</b>	
<b>Q3-15 ex. Restructuring Charges &amp; Special Items</b>	<b>25.6</b>	<b>\$0.32</b>	

**Q3 impacted by \$27.9 million (\$0.35 EPS) for restructuring charges & special items**

## Free Cash Flow Summary

\$ Millions	FY14 YTD	Q1	Q2	Q3	FY15 YTD
<b>Net Income + Non-cash Items</b>	<b>230</b>	<b>61</b>	<b>133</b>	<b>59</b>	<b>252</b>
Inventory	(61)	(31)	(31)	44	(18)
Other working capital	(20)	(12)	(88)	20	(80)
Total Net Working Capital	(81)	(43)	(119)	64	(98)
Pension Plan Contributions	(5)	(3)	(1)	(2)	(6)
<b>Net Cash from Operating Activities</b>	<b>144</b>	<b>15</b>	<b>13</b>	<b>121</b>	<b>148</b>
Purchases of property, equipment and software - Other	(62)	(27)	(33)	(18)	(78)
Purchases of property, equipment and software - Athens	(236)	(32)	(35)	(7)	(74)
Dividends paid	(29)	(10)	(10)	(9)	(29)
Other	0	0	(1)	0	0
<b>Free Cash Flow</b>	<b>(183)</b>	<b>(54)</b>	<b>(66)</b>	<b>87</b>	<b>(33)</b>

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

**\$521 million of total liquidity including \$29 million of cash at end of Q3**

## Share Repurchase Program Update

	Q2-15	Q3-15	Q3 YTD	April 2015	YTD
Share Purchase Total (\$ millions)	10.0	50.3	60.3	60.0	120.3
Number of Shares Purchased (millions)	0.2	1.2	1.4	1.5	2.9

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

**Repurchased \$120M of shares to date**



## SAO & PEP Business Update

Andy Ziolkowski  
Senior Vice President  
Commercial, Specialty Alloys Operations



## SAO Segment Summary

### SAO Segment Q3 Results and Q4 Outlook

#### Q3 Operating Results

	Q3-14	Q2-15	Q3-15	vs LY	vs Q2
Pounds ('000)	74,836	65,600	67,232	(7,604)	1,632
Sales ex. Surcharge (\$M)	351.4	332.4	360.0	8.6	27.6
Op Inc ex. EID (\$M)	51.6	43.4	37.9	(13.7)	(5.5)
<i>% of Sales ex. Surcharge</i>	14.7%	13.1%	10.5%	-4.2%	-2.6%

#### Q3 Business Results

- Sales up sequentially and YOY in Aerospace & Defense, Medical and Transportation end-use markets
- Sales mix stronger sequentially and YOY; fueled mainly by higher Aerospace & Defense activity
- Lower YOY operating margins caused by:
  - Costs associated with reducing inventory
  - Increased operating costs
  - Incremental Athens depreciation
- Q3-14 includes \$8M weather-related costs

#### Q4 Outlook

- Backlog indicates a stronger sales mix both sequentially and YOY
- Continued weakness in oil and gas applications expected to negatively impact demand for drilling and completions materials
- Operating improvement and overhead reduction efforts expected to have positive impact on performance relative to Q3-15
- Inventory reduction efforts and associated costs will continue in Q4-15

## PEP Segment Summary

### PEP Segment Q3 Results and Q4 Outlook

#### Q3 Operating Results

	Q3-14	Q2-15	Q3-15	vs LY	vs Q2
Pounds ('000)	3,108	4,224	3,806	698	(418)
Sales ex. Surcharge (\$M)	129.8	133.4	120.1	(9.7)	(13.3)
Op Inc ex. EID (\$M)	13.1	12.6	8.5	(4.6)	(4.1)
<i>% of Sales ex. Surcharge</i>	<i>10.1%</i>	<i>9.4%</i>	<i>7.1%</i>	<i>-3.0%</i>	<i>-2.3%</i>

#### Q3 Business Results

- Sales down 7% YOY and operating income down 35% YOY primarily driven by:
  - Lower rentals and sales of down-hole drilling tools due to decline in the Energy end-use market
  - Partially offset by improved performance in powder products
- Implemented cost restructuring measures in Energy focused businesses including headcount and salary reductions and consolidation of operations

#### Q4 Outlook

- Operating income expected to be down sequentially and YOY due to continued weakness in oil and gas demand
- Alignment of costs with market conditions will continue to be a focus
- Demand for titanium products in Aerospace and Medical end-use markets expected to remain stable; however pricing pressure exists





## Growth Enablers and Forward Outlook

Gregory Pratt

Chairman, President and Chief Executive Officer



## Athens Product Qualification Process On-Track

### Current

- Consistent increase in approved volumes of materials requiring only site certifications (non-VAP):
  - Aero fasteners
  - Aero standard grade rings and structural
  - Oil & gas drill collars
  - Transportation
- Athens premium remelt furnaces and radial forge providing system-wide capacity relief for demand growth for VAP products

### Calendar Year 2015

- Targeting to complete remaining site certifications (non-VAP) for materials used in:
  - Additional aerospace structural applications
  - Oil & gas nickel superalloys for completion applications
- Finalize internal development processes and work with customers on stringent VAP approval processes

### Calendar Years 2016-17

- Achieve the most stringent aerospace engine parts approvals from the primes and their supply chain partners
- Achieve full integration of the entire specialty steels portfolio
- Achieve maximum manufacturing flexibility and add the ultimate net volume output to the system



VAP: Vendor Approved Process

## Outlook and Closing Comments

### *Next Quarter Outlook*

- **Operating margins expected to improve sequentially** in SAO
  - Improved sequential sales mix on higher volume
  - Reduced overhead costs
  - Improved operating cost performance
- Continued **negative impact on volume** in PEP segment from **lower oil prices**
- **Positive free cash flow** expected in Q4
  - Similar sequential capital expenditures as Athens cash spend is complete
  - Targeting additional inventory reductions
- **Athens capabilities expanding**
  - Continued progress on customer product qualifications
  - Increasing production capability



## Appendix of Non-GAAP Schedules



## Non-GAAP Schedules (Unaudited)

### Earnings, Interest and Deferrals (Pension EID), Restructuring Charges and Special Items

\$ Millions	Q3-14	Q2-15	Q3-15	Q3-14 YTD	Q3-15 YTD
Net sales	566.3	548.4	570.6	1,568.4	1,668.8
Less: surcharge revenue	99.1	102.7	107.7	274.5	320.1
<b>Consolidated Net Sales Excluding Surcharge</b>	<b>467.2</b>	<b>445.7</b>	<b>462.9</b>	<b>1,293.9</b>	<b>1,348.7</b>
Operating income	49.5	45.0	4.8	152.8	71.9
Pension EID	6.0	2.4	2.4	15.8	7.1
<b>Operating Income Excluding Pension EID</b>	<b>55.5</b>	<b>47.4</b>	<b>7.2</b>	<b>168.6</b>	<b>79.0</b>
<b>Restructuring Charges and Special Items</b>					
Weather-related costs	8.0	-	-	8.0	-
Restructuring charges	-	-	25.3	-	25.3
Consulting costs	-	-	2.6	-	2.6
<b>Operating Income Excluding Pension EID, Restructuring Charges and Special Items</b>	<b>63.5</b>	<b>47.4</b>	<b>35.1</b>	<b>176.6</b>	<b>106.9</b>
<b>Operating Margin Excluding Surcharge and Pension EID</b>	<b>11.9%</b>	<b>10.6%</b>	<b>1.6%</b>	<b>13.0%</b>	<b>5.9%</b>
<b>Operating Margin Excluding Surcharge, Pension EID, Restructuring Charges and Special Items</b>	<b>13.6%</b>	<b>10.6%</b>	<b>7.6%</b>	<b>13.6%</b>	<b>7.9%</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 costs associated with 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	Q3-14	Q3-15	Q3-14 YTD	Q3-15 YTD
Net cash provided from operating activities	81.0	120.9	144.0	148.4
Purchases of property, equipment and software	(93.6)	(24.8)	(298.2)	(152.3)
Proceeds from disposals of property and equipment	-	0.1	0.3	0.2
Dividends paid	(9.6)	(9.5)	(28.8)	(28.8)
<b>Free Cash Flow</b>	<b>(22.2)</b>	<b>86.7</b>	<b>(182.7)</b>	<b>(32.5)</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.