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CRS - Q2 2016 Carpenter Technology Corp Earnings Call

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OVERVIEW:

Co. reported 2Q16 net sales of $444m and net income of $11.5m or $0.23 per share.

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the second-quarter 2016 Carpenter Technology earnings conference call.

(Operator Instructions)

I would now like to turn the call over to Brad Edwards, Investor Relations.

Brad Edwards - *Carpenter Technology Corporation - IR*

Thank you operator. Good morning everyone and welcome to Carpenter's earnings conference call for the second quarter ended December 31, 2015. This call is also being broadcast over the Internet along with presentation slides. Please note, for those of you listening by phone, you may experience a time delay in slide movement. Speakers on the call today are Tony Thene, President and Chief Executive Officer; and Damon Audia, Senior Vice President and Chief Financial Officer.

Statements made by management during this earnings presentation that are forward-looking statements are based on current expectations. Risk factors that could cause actual results to differ materially from those forward-looking statements can be found in Carpenter's most recent SEC filings, including the Company's June 30, 2015 10-K; form 10-Q for the quarter ended September 30, 2015; and the exhibits attached to that filing.

Please also note that in the following discussion, unless otherwise noted, when management discusses sales or revenue that reference excludes surcharge. When discussing operating income, that reference excludes pension, earnings, interest and deferrals or EID. When referring to operating margins, that is based on sales excluding surcharges and operating income, excluding pension EID. I will now turn the call over to Tony.

Tony Thene - *Carpenter Technology Corporation - President and CEO*

Thank you Brad, and good morning to everyone on the call. Let's begin on slide 4 with an update on our safety results. For the second-quarter of FY16, our total case-incident rate or TCIR was 1.9. This is a good improvement from a disappointing first quarter FY16 of 2.3 TCIR.

Year to date FY16, we stand at a 2.1 TCIR. We continue to put safety first, and we're working hard to reduce this rate by placing emphasis on employee engagement and human performance factors. During the first half of FY16, we achieved a significant increase in the number and quality of safety observations across our facilities. Through the first half of FY16, we have conducted over 46,000 safety audits and observations across our facilities which is approximately 5 times as many as we conducted in the first half of last year.

Moving forward we will continue to legalize safety training, education and increased audits to drive a reduction in our incident rate. A safe, injury-free workforce is a more engaged and productive workforce and one that benefits everyone involved with Carpenter.

Now turning to a summary of the second quarter on slide 5. It should be no surprise that the size and speed of the pullback in energy, whether it is rig counts, crude prices or capital spending has been dramatic and a challenge for our performance in the quarter. However, we continue to benefit from our market in product diversity.

During the quarter, our year-over-year performance across the aerospace and defense, transportation and medical end-use markets helped offset the challenges related to our oil and gas exposure. Our overall results for the second quarter of FY16 reflect our efforts to effectively manage our business despite the challenges facing some of our end-use markets, primarily the energy and the industrial and consumer end-use markets. More specifically, as a result of our ongoing focus on high-end premium alloys, disciplined approach to effective cost management and aggressive rollout of the new operating system across our organization, we were able to generate stable gross-profit margins during the quarter despite a 3% sequential decline in total volume.

We remain focused on driving operational excellence across our business. During the quarter, our team conducted several rapid-improvement events. Let me give you a brief example. We are reducing our work in process inventory by connecting work centers in our finishing area via flow path and scheduling rules.

We are eliminating waste such as waiting and correction by improving index time and constrained work centers and reducing scrap heaps via standardized work. We're using data management to make problems visual on the shop floor and in the office so team members can identify the root cause and solve them rapidly. We have deployed hourly visual tracking of operations on the shop floor which is enabling us to identify issues faster and closer to their root cause. We are streamlining our quote to cash administrative processes by reducing time to process a quote via standardized work. These are just a few examples of the many improvement activities we are conducting across our organization.

In addition, we continue to focus on strengthening and deepening our relationships with our customers while positioning our operations for growth and increased cash flow generation when the environment begins to improve. Over the last few months, I have met with key customers across several of our end-use markets. While they all have different opportunities and challenges, there is one common theme.

Each customer tells me they want to do more with Carpenter. They see the real value we can bring to their business by leveraging our capabilities and expertise to help them execute on their growth opportunities as well as solve their complex challenges. These types of conversations give me confidence that we're making further progress demonstrating our value proposition to our customers. To complete the comments on the second quarter results summary, we generated positive $2 million of free cash flow in the second quarter, a $67 million improvement compared to the second quarter of last year and we used $50 million to repurchase shares during the quarter.

Now let's turn to slide 6 and discuss our end-use markets in more detail. The second quarter was the fifth consecutive quarter of year-over-year growth in our aerospace and defense end-use market. We delivered sequential and year-over-year growth driven by strong performance in engine materials.

We also delivered solid year-over-year sales for materials used in structural applications which benefited from increased volume as well as improved mix. We also saw strength in our defense-related sales with continued spending on supported programs. Similar to the past few quarters, we experienced soft demand for titanium fasteners related to adjustments in the supply chain.

While it is early, we did see indications of an improvement in the month of January as order rates increased. In aerospace engines, we remain excited about our participation on the new platforms. However, we do expect that there could be some choppiness as engine manufacturers and suppliers begin the ramp up of these new engine platforms.

Overall, we are pleased with our performance in aerospace market and we remain well positioned. Our long term growth prospects are solid given that our high-performance materials are utilized for critical applications in multiple aircraft components.

Turning to energy, as I noted, the energy end-use market has experienced a rapid and significant downturn driven by over capacity, the slowdown in China and slowing demand which has continued to put considerable pressure on drilling and exploration activities. During our fiscal second quarter, North American directional and horizontal rig count declined 58% year over year and 12% sequentially.

As I noted on our last call, we are focused on extending our service offerings in building market share, particularly in our Amega West business. We believe our value proposition in the energy end-use market is strong and that we will benefit from these actions when the industry ultimately improves. In the interim, we have taken steps to right size our operations and reduce our costs in order to help dampen the volume impacts on our overall margins.

Moving to transportation, which continues to be one of the most promising end-use markets given the growing need for our premium products. The strong year-over-year growth was driven by a richer product mix on slightly lower volume. Although there was a sequential decline of 5%, the decline was relative to Q1 which was a record quarter for us in this market.

Looking ahead, North American light vehicle production is forecasted to be near record levels. In addition, regulations on fuel efficiency and emissions favor our technology and products. Lighter, more durable products will continue to play a major role in helping the OEMs meet the new standards, giving us a path to grow our market share on engine related and safety critical component applications.

To give you one data point on this we have been working with a tier-1 heavy-duty engine component manufacturer to utilize a nickel-based aerospace alloy that provides superior resistance to high temperature and corrosive environments in their design. The alloy will enable more design flexibility and allow components to run at a higher temperature thus reducing or eliminating maintenance tear downs over the life of the engine. Overall, we're spending additional energy and commitment to grow our transportation sales and remain optimistic about its long-term growth prospects.

Sales to our medical end-use market increased sequentially and were flat year over year. We continue to experience pricing pressure on our transactional business pertaining to titanium and stainless materials given the amount of capacity in the industry.

At the same time, demand has remained steady for our premium titanium, nickel and cobalt materials in the US, and we continue to explore opportunities to grow sales further for these higher-end applications. As anticipated, sales in the industrial and consumer end-use market were impacted by continued economic headwinds and lower crude oil prices which has limited demand for components and processing equipment used within energy-related sectors.

Now, let me turn the call over to Damon to cover the financial review.

Damon Audia - *Carpenter Technology Corporation - SVP & CFO*

Thank you, Tony, and good morning everyone. Before I cover our financial performance for the second quarter, I wanted to express my excitement about joining the Carpenter team. In my three months here, I've been fortunate to meet many members of our talented and passionate team through visits at several of our facilities and I'm excited to work with them. As the CFO, I hope to continue to build upon the foundation Tony has laid in helping Carpenter evolve into a preferred-solutions provider.

Now let's start on slide 8 with the income-statement summary. Net sales in the quarter were $444 million or $379 million, excluding surcharge. Sales, excluding surcharge, were down just over 1% sequentially on approximately 3% lower volume.

Gross profit margin, excluding the impacts of the surcharge, was 17.5% in the quarter compared to 17.8% in the first quarter. The relatively stable sequential performance reflects the positive impact of our cost-cutting initiatives and improved operating efficiencies against the backdrop of the decline of volumes which was principally in our energy and industrial consumer end-use markets. We also benefited from an improvement in our product mix in the quarter as we focused on our premium product offerings coupled with the decreased volumes associated with our lower margin products and transactional business.

Absent our operating cost reductions and improved product mix, the reduced volume would have had a much larger impact on our gross margin. With the completion of our restructuring program, we have achieved our $30 million annual savings run-rate goal, but we're continue to review our operations with the goal of seeking further efficiencies as we navigate this challenging environment.

During the quarter, selling, general and administrative expenses were $44.5 million which is consistent with our normal run rate, up approximately $1 million sequentially and $5 million year over year. The year-over-year increase was more a factor of a typical lower second-quarter 2015 spend that did not include the consulting costs we have identified as a special item in the current quarter.

Operating income in the quarter was $21.8 million. Excluding pension EID and special items, operating income was $29.2 million or 7.7% of net sales excluding surcharge. Our second quarter effective tax rate was 24% which mainly reflects the increased R&D tax credits associated with the recent legislative actions.

A portion of these benefits recorded in the current year related to our 2015 tax year. As such, the benefit related to the 2015 tax year, which were about $800,000, were recorded as a discrete tax item in the quarter and called out as a special item. Excluding the impact of the discrete item, our tax rate would have been 29% for the second quarter. We now expect our tax rate to be in the range of 31% to 32% for FY16.

Net income for the quarter was $11.5 million or $0.23 per share. Adjusted for the special item related to our consulting cost and tax items, earnings per share would have been $0.24. Details of these special items are identified on page 18 in the appendix of the slide presentation.

Slide 9 provides a review of our free cash flow and liquidity. In the second quarter, we generated $2 million of free cash flow compared with the use of $66 million in the second quarter of 2015. The improvement was driven by lower capital expenditures as the prior year quarter had expenditures related to our Athens facility. This year we also saw lower sequential inventory build of $2 million versus the $31 million last year.

Given the operating environment, coupled with our contractual minimum raw material purchase agreements, we expect inventory to decline in the second half of our fiscal year and to end FY16 roughly in-line with FY15 year-end levels. Although this is a change from our previous expectation of a $50 million reduction in inventory year-over-year, we continue to be focused on driving continuous improvement across Carpenter including in our manufacturing operations.

Even with overall inventory levels being flat year over year, we expect our work-in-process inventory levels to decline as operational excellence initiatives allow us to improve efficiencies and flow through our facilities. We believe these improvements should allow us to lay the groundwork for further benefit when volume levels return. Capital expenditures were $20 million in the quarter and $50 million year to date.

Moving forward, we will continue to manage capital expenditures closely to balance the need for maintenance and infrastructure capital against investments to capitalize on growth opportunities. Given the operating environment, and our continued focus on cash flow, we're managing our capital expenditures for FY16 to approximately $100 million versus the $120 million we had previously expected.

We continue to maintain solid liquidity with of $474 million available at the end of the quarter, which includes $21 million of cash and $453 million of available borrowings under our credit facility with no major near-term debt maturities. We will continue to focus on cash-flow generation and being prudent with its allocation as we're focused on maintaining our investment-grade ratings.

Moving to slide 10, which is an update on our share repurchase program that was authorized in October 2014. Through December 31, we have spent about $221 million to purchase 5.7 million shares since inception. During the second quarter, we used $50 million and purchased approximately 1.5 million shares.

We remain focused on returning capital to shareholders in an effective way. As we have said previously, our share repurchase activity will not be linear. We will continue to be opportunistic in our approach as we balance future share repurchases with general business needs, market conditions and our commitment to retaining investment-grade credit ratings.

With that, let me turn the call back to Tony.

Tony Thene - *Carpenter Technology Corporation - President and CEO*

Thank you, Damon. Let's turn to slide 12 to cover the reporting segments starting with SAO. As I noted at the beginning of the call, we experienced a significant volume drop in our energy and industrial and consumer end-use markets during the second quarter, both year over year and sequentially. This pullback accounted for the majority of the sequential and year-over-year sales decrease in our SAO segment.

The positive impact of the restructuring program we initiated almost a year ago and our deployment of a disciplined operating system allowed us to deliver the 13.9% operating income margin despite the reduced volume both year over year and sequentially. We are also benefiting from our new commercial leadership and our approach to actively expand our customer base in each end-use market by identifying opportunities while our products will solve customer challenges. This approach has already delivered results including identification of more than 100 potential new customers. As we look ahead to the third quarter, we project overall volumes to be up modestly and sales mix to be similar to the first half due to the continued weakness in oil and gas and the overall macroeconomic conditions.

Now let's turn to slide 13 and the PEP segment overview. As anticipated, our PEP segment continued to feel the brunt of the decline in the oil and gas market during the quarter as demand for drilling equipment continued to weaken. Of the $15.5 million year-over-year operating-income decline, the vast majority is due to the downturn in the oil and gas business.

In addition, during the quarter, we continued to experience lower demand for titanium products from our aerospace customers. As I noted earlier, while it is still early, we did see increased orders in the month of January.

For the third quarter of FY16, we expect operating income to be flat sequentially as increased aerospace demand for our titanium products is offset by continued lower demand in our oil and gas businesses. As I noted earlier in the call, we will continue to manage our cost structure and navigate the oil and gas downturn by focusing on providing a high-quality service to our customers with the goal of strengthening our relationships and gaining market share so that we are well-positioned for the future.

Moving to slide 14, in assessing the current environment and our growth potential, it is important to consider the markets we play in. As we have previously highlighted, Carpenter is a leader in the development and production of high-value specialty alloys used in demanding applications. We serve highly attractive end-use markets with strong long-term growth outlooks.

Our aim is to further strengthen and capitalize on our position as a preferred-solution provider of mission-critical materials to a broad range of strategic manufacturers. Looking to the future, we are executing on our plan to better leverage our technology and resources, to deepen our presence and expand our revenue base across several attractive end-use markets. We see a number of growth opportunities in front of us including further growth in aerospace where our revenue per engine is increasing on next-generation engine platforms versus the Lega engines that they are replacing; increased penetration of the transportation market including sub segments such as heavy-duty truck, rail and Marine where we believe our offerings allow OEMs to address a rapidly changing environment; and enhance product capabilities including investment in new technologies such as super alloy and titanium powder.

Turning to slide 15, where I'd like to give an update on Athens and our powder business. Let's start with our Athens facility. We have achieved 89% of the planned non-VAP product approvals for various end-use market applications.

Within aerospace, this includes alloys for fasteners, standard grade engine rings and structural nickel alloys and stainless steels for airframe applications. This also includes premium alloys steels for various aerospace and defense applications. Within oil and gas, the facility is also qualified to make non-magnetic drill collars and, within transportation, materials used for engine components.

As I noted last quarter, we have been making progress toward obtaining site qualification for our nickel-based super alloy materials used in oil and gas completion applications. Today we have achieved approximately 75% of those qualifications. Of course, the most important are the VAP-aerospace product qualifications. Achieving such qualifications remains a lengthy and complex process.

We continue to make good progress finalizing our internal processes and developing the data to support the customer approvals. Our projected timeline to completion remains the same as it has for the last year and that is by the end of calendar year 2017. We remain extremely focused on these approvals as a critical priority of our business.

It is important to remember that although this facility is currently running at low utilization levels, our financial results reflect the full operational cost of this facility. Therefore, as the aerospace market grows, and when the energy market shows even modest improvement, we believe the operating-margin benefit to the bottom line will be meaningful.

Now let's talk about Carpenter powder products and the exciting growth business for us. We're one of the world's most diverse producers of spherical gas atomized specialty alloys from tool steels and stainless steels to nickel and cobalt-based super alloys. Carpenter powder products leads the way as a power supplier for such areas as additive manufacturing, metal injection molding, coatings and, in the future, a powder supplier for consolidated parts produced by hot isostatic presence.

For example, Carpenter is associated with more than 10 academic, government and industrial partnerships aimed at providing solutions for the additive manufacturing market. Support from a strong research and development team has allowed our products to be mainstays used in cell phones, subsea oil and gas systems, automotive fuel systems and aircraft engines.

As previously communicated, we're moving forward with plans to build a titanium powder operation adjacent to our super alloy powder facility in Athens, Alabama. This titanium powder product offering will increase our reach into aerospace and medical markets and offer growth opportunities in transportation. We will be able to supply a complete sales offering to additive manufacturing OEMs, service providers and machine suppliers. We are excited about the powder products opportunity and believe it represents a solid growth potential crossed our end-use markets.

Let's turn to slide 16 and my closing comments. Looking ahead, we are actively managing our business to maximize our results as we navigate some challenging end markets while continuing to invest in new technologies to position our company for growth over the longer term. In the second half of FY16, we currently expect overall volume to be up modestly compared to the first half due primarily to further weakening of the oil and gas market and its impact on our energy as well as industrial and consumer end-use markets.

We have demonstrated the positive impact of our cost-reduction program and new operating model. These efforts have allowed us to dampen the overall impact associated with the volume decline driven by oil and gas. We remain committed to operating in a highly disciplined matter and will seek cost reductions where appropriate while also taking steps to continually optimize our product mix. We will also continue our efforts to improve working-capital efficiency and maintain capital-spending discipline.

We will continue to use our positive cash flows, as we feel appropriate, to execute against our share repurchase program while prudently balancing it with our focus on maintaining our liquidity and investment-grade credit ratings. We believe the combination of our product focus, which is aimed at the high end of the market, and the steps we are taking to build efficiencies across our organization are allowing us to weather the ongoing storm.

Further, we believe the actions we are taking to invest in new technologies and strengthen our customer relationships, will position us very well as the operating environment begins to improve and volumes recover. I am proud of the Carpenter team and their willingness to confront the challenging market conditions and embrace the necessary changes that will solidify our position as the preferred-solutions provider.

Thank you for your attention, and I will turn it back to the operator to open the line up for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Gautam Khanna, Cowen and Company.

Gautam Khanna - *Cowen and Company - Analyst*

On the comment of H2 sequential growth, normally have a seasonal pickup in H2, however you are only guiding modestly. Just wondering if you could comment on that and if that is meant to imply that the EPS will not rise much on a sequential basis, and then I have a follow up.

Tony Thene - *Carpenter Technology Corporation - President and CEO*

Yes, usually if you look at first half versus second half, we're probably in that range of 45% to 46% in the first half to 54% to 55% in the second half. I do not think you will see much difference, maybe 2 or 3 percentage points different. And it's going to be primarily driven by oil and gas in the industrial side.

Gautam Khanna - *Cowen and Company - Analyst*

On the share repurchase, do you think you will complete the full authorization by the time it expires, just on the comment that they can be discontinued? And, then also, on the various aero end markets, can you talk about fastener demand and how long you think it takes for the supply-chain adjustments to finish up?

Tony Thene - *Carpenter Technology Corporation - President and CEO*

I will take the second part of the question and the share repurchase I will give to Damon. We believe, as I've heard several others say, that on the titanium-fastener demand, that that is a supply-chain adjustment that is cycling its way through. We have seen that over the last couple of quarters. As I mentioned, we did see a pickup in orders in January. Now that is fairly early, but we see ourselves coming out of that right now.

Damon Audia - *Carpenter Technology Corporation - SVP & CFO*

In regard to the share repurchase program, as we have said, it is up to $500 million. I think, through December, we have done $221 million, so it is just a little bit less than half. We will be prudent, depending on the outlook for the second half of the year here, as you heard us talk about our outlook for the volumes, so we will continue to be opportunistic. We have said it is not linear. So again, we may be in the market, but to the extent we are not committing to doing the full $500 million, anything beyond what we have done here through the end of the second quarter.

Operator

Phil Gibbs, KeyBanc capital markets.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Tony, I had a question on the guidance for the second half pointing to modest improvement. Typically, you have a nice pickup in Q3, if anything, for seasonality and I wouldn't think ex-seasonality the outlook for energy here, given the fact that it has already been down in some of the industrial applications, probably should have changed all that much. Is there anything really from a seasonality perspective that is weaker than normal, than what you are seeing and any color you could provide us on your aerospace backlog in your visibility there for the second half.

Tony Thene - *Carpenter Technology Corporation - President and CEO*

It really isn't a seasonality issue for us Phil and it is driven by oil and gas. If you look at first half versus second half, we still see some improvements in transportation. We still see a consistent and strong flow for aerospace, but we are seeing, especially in our SAO business, some further deterioration in the oil and gas as evidenced by some of the announcements that you have seen here in the news lately. In terms of the backlog, if you look year over year, I would say it is probably from a tons basis, about, down 25% to 30%, and it is predominantly driven by oil and gas and industrial; and that industrial piece is what is directly connected with the energy markets.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

On the CapEx piece, is there any deferral in spending that you are doing there for some of your powder projects, because maintenance CapEx is basically that $100 million level. Anything from a growth-project timing standpoint that is pushed out of it or have you been able to reduce the maintenance level of spend?

Tony Thene - *Carpenter Technology Corporation - President and CEO*

I would say, roughly, that if we moved down to $100 million, you're looking at somewhere around 70% to 75% of that is on a sustaining level, so we're trying to be as efficient as possible there, not making any appropriate decisions that would hurt us long term. We are not pushing out any spending on the powder projects, but there are some other projects as we look at our volumes that we adjust and that is how we are able to pull the guidance down from the $120 million to roughly $100 million.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Lastly here, on the aerospace qualification process at Athens, can you elaborate on that a little bit in terms of what steps that we need to see, what we're looking for in terms of the milestones and when we should expect some of the volume to come off that facility and be in the commercial spectrum, just in terms of what we should be looking for here.

Tony Thene - *Carpenter Technology Corporation - President and CEO*

Phil, thank you. We're running all those products in areas that I mentioned just recently. We're running those through Athens today. Now, albeit the market is depressed, especially on the energy side. On the aerospace side on the VAP, obviously that is the most important from a volume standpoint; and we have been very consistent. Even, I think, the first time we started mentioning targets for VAP-aerospace qualifications was back in December of calendar year 2014, and we have always said that would come by the end of calendar year 2017.

The team is working hard at that. We're focused really now on validating our internal process and achieving those technical targets. And once we can do that, we think we're very close now, then we will continue to share data with the OEMs and move the process along.

Operator

Andrew Lane, Morningstar.

Andrew Lane - *Morningstar - Analyst*

Could you comment on what the product mix of your aerospace and defense backlog looks like? Is it pretty consistent with the volume mix delivered this quarter or has it evolved?

Tony Thene - *Carpenter Technology Corporation - President and CEO*

I would say that going forward, if we look at our backlog, it is pretty similar. There is some changes, obviously, and we had in certain sub segments a bit richer mix than we've had in the past, and you might see that evidenced in the backlog, but I would not say that you have seen significant shifts there.

Andrew Lane - *Morningstar - Analyst*

Could you provide some additional color as to your timeline for the construction of the new titanium powder operation? And then, when will the majority of the associated CapEx be spent?

Tony Thene - *Carpenter Technology Corporation - President and CEO*

We will spend the majority of that CapEx in FY17. We won't spend a whole lot of it, quite frankly, this year. We're going through the engineering studies now and doing the request for bids for the equipment. So you'll see the majority of that in next fiscal year, and then as you look towards the end of FY17, early 2018, is when we bring that online.

Operator

Steve Levenson, Stifel

Steve Levenson - *Stifel Nicolaus & Company - Analyst*

With Boeing and Airbus both announcing additional rate increases for single-aisle planes going into 2019, can you comment on your current spending on the powder capacity? Will that be sufficient for everything you need then or do you think you'll adjust the plan now for some additional spending?

Tony Thene - *Carpenter Technology Corporation - President and CEO*

It is early days right now. I do not think so on the powder side, which we would have to, obviously, go through the qualifications on that, but I do not see. I think we'll wait to get this one up and running before we start looking at the next tranche. We do have the ability there to add on incremental capacity if needed.

Steve Levenson - *Stifel Nicolaus & Company - Analyst*

In terms of triggers for a reversal in the PEP volumes, is there a particular oil price or demand figure you are looking for? Is there something you can tell us about what to watch for and do you think that your reversal will lead or lag improvement in the energy markets?

Tony Thene - *Carpenter Technology Corporation - President and CEO*

I think whenever the recovery comes, that it is going to be a very abrupt recovery, and that is why we are trying to maintain our relationships not only with our customers, but in those locations and make sure we have a presence there. Because, as I said, when the recovery comes we think it will be quick. I do not know if there is a certain oil price that is going to require that type of uptick. As you talk to the service providers now, calendar year 2016 at best capital spending, is going to be flat if not down slightly, so I think you're probably looking at 2017 to see any type of improvement.

Operator

Chris Olin, Rosenblatt Securities.

Chris Olin - *Rosenblatt Securities - Analyst*

Can you help us with modeling the potential upside for aerospace, maybe what jets or engine programs you have greater leverage to? Have you ever looked at a revenue content per aircraft type of number that you would be willing to share?

Tony Thene - *Carpenter Technology Corporation - President and CEO*

I would say this, that we have content on all of the new platforms. The content for us on all of those is greater than it is today, so as we see the new engine platforms come online, we will see greater content and increased revenue.

Chris Olin - *Rosenblatt Securities - Analyst*

Does it matter between Airbus or Boeing in terms of overall build rates?

Tony Thene - *Carpenter Technology Corporation - President and CEO*

I hate to call that out. I'll say this. We have content on all of them. Obviously there is some differences there, but we have strong relationships with both of those manufacturers.

Chris Olin - *Rosenblatt Securities - Analyst*

Lastly, anything changed on the aftermarket for engine or some of the aerospace programs? Have you seen that pick up at all?

Tony Thene - *Carpenter Technology Corporation - President and CEO*

We have not really seen a change, Chris. I think maybe you had asked that question last quarter or somebody did, and we have not seen any real drastic changes there quarter over quarter.

Operator

Gautam Khanna, Cowen and Company.

Gautam Khanna - *Cowen and Company - Analyst*

I just had a couple follow ups. One, you mentioned that you had reached the $30 million in the rate savings. Just wondering if you had plans for more restructuring and where those savings can go. And then, also, on the energy revenue, is the $24 million in the quarter a bottom or is it possible to get sequentially worse in Q3 and continue on at that level?

Tony Thene - *Carpenter Technology Corporation - President and CEO*

On the restructuring standpoint, I believe we were very successful there. I think we were out in front of the downturn in that has been a big benefit for us. I do not have a program that we are working currently on, but we certainly review that from time to time. And if that is something we have to do based on the markets, we will do that. In terms of energy, as we look to the third quarter, I think as we've said, we believe it could be slightly lower and hoping that that's the bottom then.

Operator

I would now look to turn the call back over to Brad Edwards for closing remarks.

Brad Edwards - *Carpenter Technology Corporation - IR*

Thank you, operator. Thanks everyone for joining the conference call today. Have a great day.

Operator

Ladies and gentlemen, again thank you so much for your participation in today's conference. This concludes the presentation and you may now disconnect. Have a great day.
