Carpenter Technology Corporation







ENGINEERED MATERIALS FOR A CHANGING WORLD

Fiscal Year 2013

3rd Quarter Earnings Call

April 25, 2013

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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.

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3rd Quarter Summary



Bill Wulfsohn

President and CEO

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FY13 3rd Quarter Summary

- **Market conditions changed significantly** during third quarter
  - Increased **customer deferrals**
  - **Weak sales to distribution** customers and **defense-related mix**
- In this context, we:
  - Achieved **sequential sales and adjusted EPS growth**
  - Saw **solid demand for Premium and Ultra-Premium products** sold to the Aerospace and Energy markets
  - Realized **above-plan Latrobe synergies** while completing integration
  - Strengthened our capital structure and liquidity, and improved our pension funded status
- With recent operating improvements, we now have the **capacity to grow sales and realize margin expansion through volume leverage as our markets recover**

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Financial Update







Tony Thene

Senior Vice President and Chief Financial Officer

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3rd Quarter FY13 Financial Overview

- **Net income** of $32.9 million or **$0.62 per share**
- **Excluding** impact of **restructuring** and **other special items**:
  - Net income $36.7 million or **$0.69 per share**
- **Net sales** of $581.4 million
- In the first comparable month, Latrobe Manufacturing **achieved year-over-year improvement**, driven by stronger than expected synergies
- Successfully completed **$300 million 10-year bond issuance** with 4.45% coupon
- **Cash Flow from Operations of $105 million**, excluding a $75 million discretionary pension contribution
- **$638 million** of total **liquidity**

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Income Statement Summary

$ Millions, except per-share amounts	Q3-12	Q2-13	Q3-13	Sequential Change
Net Sales	**539.9**	**533.5**	**581.4**	**47.9**
Sales ex. Surcharge *	**419.0**	**430.7**	**471.2**	**40.5**
Gross Profit	**105.1**	**102.6**	**101.0**	**(1.6)**
% of Sales ex. Surcharge	*25.1%*	*23.8%*	*21.4%*	*-2.4% pts.*
Selling, General and Administrative Expenses	**41.5**	**49.9**	**48.0**	**(1.9)**
% of Sales ex. Surcharge	*9.9%*	*11.6%*	*10.2%*	*-1.4% pts.*
Acquistion-Related Costs (from Transaction)	**7.9**	**0.0**	**0.0**	**0.0**
Operating Income ex. Pension EID*	**59.5**	**60.7**	**61.0**	**0.3**
% of Sales ex. Surcharge	*14.2%*	*14.1%*	*12.9%*	*-1.2% pts.*
Effective Tax Rate	**36.2%**	**33.1%**	**33.1%**	**0.0%**
Net Income	**33.0**	**33.0**	**32.9**	**(0.1)**
Diluted Earnings Per Share	**$0.69**	**$0.62**	**$0.62**	**$0.00**
Adjusted Diluted Earnings Per Share*	**$0.84**	**$0.63**	**$0.69**	**$0.06**

Income Statement ex. Pension EID had multiple special items in the current period

* Detailed schedule included in Non-GAAP Schedules in Appendix

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Restructuring and Other Special Items

$ Millions, except per-share amounts	Q3-13	Income Statement Classification
Net Income	**32.9**	
Diluted Earnings Per Share	**$0.62**	
• Inventory initiative	0.01	Cost of Sales
• Restructuring-related	0.02	Cost of Sales / SG&A
• Additional interest expense	0.01	Interest Expense
• Tax impact of additional pension contribution	0.06	Income Tax Expense
• R&D tax credit extension	(0.03)	Income Tax Expense
Special Items	**0.07**	
Diluted Earnings Per Share ex. Special Items	**$0.69**	
Net Income ex. Special Items	**36.7**	

- **Athens-related expense of $1.4M in the quarter not called out as a Special Item**
- **Given current economic climate, further restructuring is currently under consideration**

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Free Cash Flow Summary

$ Millions	Q1	Q2	Q3	Actual YTD
Net Income + Non-cash Items	**82**	**76**	**115**	**273**
Inventory	(79)	(10)	47	(42)
Other working capital	8	(17)	(47)	(56)
Total Net Working Capital	(71)	(27)	0	(98)
Pension Plan Contributions - Required	(48)	(10)	(10)	(68)
Net Cash from Operating Activities Before Discretionary Pension Plan Contributions	**(37)**	**39**	**105**	**107**
Pension Plan Contribution - Discretionary	0	0	(75)	(75)
Net Cash from Operating Activities	**(37)**	**39**	**30**	**32**
Purchases of property, equipment and software	(56)	(81)	(87)	(224)
Dividends paid	(10)	(10)	(9)	(29)
Free Cash Flow	**(103)**	**(52)**	**(66)**	**(221)**

Cash Flow from Operating Activities of $105 million, before Discretionary Pension Contribution

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Business Update







Bill Wulfsohn

President and CEO

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End Market Results

	Q3-13 Net Sales ex. Surcharge ($M)*		vs. Q3-12	vs. Q2-13	Comments
 **Aerospace & Defense**	**214.7**	49%	**20%** ↑	**10%** ↑	• Aircraft builds up in the quarter • Sequestration impacting defense in CRS mix • CRS outpaced industry growth due to inclusion of Latrobe and strong demand in titanium fasteners and engine materials
 **Energy**	**71.0**	16%	**24%** ↑	**3%** ↑	• Directional rig count activity down vs. prior year • CRS realized growth in ultra-premium materials for Oil and Gas completions • Power generation builds flat year over year, CRS experienced growth sequentially vs. Q2
 **Medical**	**25.3**	6%	**-26%** ↓	**5%** ↑	• High OEM inventories and falling titanium scrap prices drove weaker medical sales vs. prior year • CRS experienced some improvement vs. Q2
 **Transportation**	**28.4**	7%	**0%** ↔	**17%** ↑	• YoY N.A. light vehicle build growth was offset by weak heavy duty equipment and European new car sales • Increased interest in CRS premium materials due to new fuel delivery systems supporting higher fuel efficiency standards
 **Industrial & Consumer**	**97.1**	22%	**2%** ↑	**14%** ↑	• Year over year – Latrobe drove market growth – Infrastructure project activity and distribution demand negatively impacted legacy CRS sales • Orders for higher-value valves and fittings strengthened in the quarter - should benefit Q4

* Excludes $34.7M of Distribution Sales

Latrobe acquisition helped drive growth in Aerospace and Energy markets

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SAO Segment Summary

SAO Segment Q3-13 Results and Q4-13 Outlook

Q3 Operating Results

	Q3-12	Q2-13	Q3-13	vs LY	vs Q2
Pounds ('000)	55,552	47,572	53,202	(2,350)	5,630
Sales ex. Surcharge ($M)	309.7	277.1	297.6	(12.1)	20.5
Operating Income ($M)	66.7	49.6	48.8	(17.9)	(0.8)
% of Sales ex. Surcharge	*21.5%*	*17.9%*	*16.4%*	*-5.1%*	*-1.5%*

Q3 Business Highlights

- Volume up 12% vs. Q2,
  - Aerospace engine demand remained strong
  - Greater penetration in Oil and Gas completions
  - Gains partially offset by deferrals
- Weaker mix
  - Ultra Premium Defense sales off
  - Lower-end Transportation and Industrial sales up
- Lower production resulted in less absorption vs. LY

Q4 Outlook

- Some Q3 sales and mix dynamics expected to carry into Q4
- Recent up-tick in orders and reduction of deferrals
- Production volume increase in Q4 is expected to improve absorption

Aerospace demand solid but other markets / mix negatively impacted operating income

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Latrobe Segment Summary

Latrobe Segment Q3-13 Results and Q4-13 Outlook

Q3 Operating Results

	Q3-12	Q2-13	Q3-13	vs LY	vs Q2
Pounds ('000)	5,994	14,464	17,946	11,952	3,482
Sales ex. Surcharge ($M)	45.3	101.4	114.1	68.8	12.7
Operating Income ($M)	2.1	13.2	12.3	10.2	(0.9)
% of Sales ex. Surcharge	*4.6%*	*13.0%*	*10.8%*	*6.2%*	*-2.2%*

Q3 Business Highlights

- Integration complete with earnings and synergies significantly above plan
- Operational enhancements substantially improving nickel-based alloy production
- Demand for Aerospace materials remained solid compared to a year ago
- $1.4M of restructuring charges

Q4 Outlook

- Expect steady sales profile vs. Q3
  - Aerospace structural demand solid,
  - Lower Defense spending
  - Reduced shipments to the Industrial and Distribution markets
- Steady progress on qualifications of Latrobe processes for Aerospace and Energy products

Integration complete, first year above plan

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PEP Segment Summary

PEP Segment Q3-13 Results and Q4-13 Outlook

Q3 Operating Results

	Q3-12	Q2-13	Q3-13	vs LY	vs Q2
Pounds ('000)	3,470	3,228	3,338	(132)	110
Sales ex. Surcharge ($M)	89.6	91.7	89.2	(0.4)	(2.5)
Operating Income ($M)	10.6	8.9	10.0	(0.6)	1.1
% of Sales ex. Surcharge	*11.8%*	*9.7%*	*11.2%*	*-0.6%*	*1.5%*

Q3 Business Highlights

- 20% increase in titanium fastener demand vs. LY
- Slight recovery in CPP demand vs. PQ
- Q3 directional rig count 5.5% below last year
- Amega West earnings up vs. LY and PQ on weaker sales due to increased mix of rentals

Q4 Outlook

- Aerospace titanium fastener demand should remain high due to increased consumption rate and lean inventory in distribution channels
- Titanium inventory corrections within the Medical supply chain will impact Dynamet sales
- Amega West sales growth will be challenged by current rig count reductions and related downstream inventory reductions

Amega West, Dynamet and SSS earnings up sequentially

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Technology and Innovation

Carpenter is Driving Innovation

New Rolls Royce Contract



- Advanced materials for jet engine components (rings, blades, airfoils)
- Five-year agreement through 2017
- Contract valued at approximately $75M
- Target production at Athens

Stainless Steel Landing Gear



- Nine A320 main fittings being forged from Custom 465® Alloy
- Eliminates need for Cadmium plating
- Flight demonstration planned for 2014

Temper Tough ™ Alloy



- Ongoing development agreement with US Steel
- Weld-less rocker panels currently being trialed
- 10% productivity increase by eliminating welds
- Allows thinner gage metal resulting in weight savings for future models

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Operational Capability & Expansion

Responding to Increased Customer Demand

Athens Facility



- Will enable press-related sales currently constrained
- Construction is on-time and under budget; start-up on/before April 2014
- Full year overhead, ex. depreciation, is expected to be ~ $5.5M in FY13, $9.5 in FY14 and decrease in FY15

Dynamet Capacity



Two new titanium wire finishing lines in Florida to be operational this summer

- Represents a 22% increase in total capacity
- Customer demand will drive quick and high utilization
- Additional wire investment under consideration

China Expansion



- China bar finishing facility to support local needs
  - Leased site
  - Equipment being ordered
- Projected capital investment of $10M-$20M
- Commercial sales in FY14

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3rd Quarter FY13 Summary

Q3 Highlights

- Market conditions changed significantly during Q3
- Achieved sequential sales and adjusted EPS growth
- Continued solid demand for Premium and Ultra-Premium products from the Aerospace and Energy markets
- Latrobe integration now complete with earnings and synergies above plan
- Strengthened our capital structure and liquidity, and improved our pension funded status

Q4 Outlook

- Recent up-tick in orders and reduction of deferrals
- Volume pick-up should improve absorption
- Risk remains that Q3 sales & mix dynamics carry into Q4
- Steady progress on Latrobe qualifications for Aerospace and Energy products
- Amega West sales growth challenged by rig count reductions and downstream inventory reductions
- Aerospace titanium fastener demand should remain high

Summary

- In-quarter deferrals and weakening mix resulted in a Q3 below our January expectations, leading to a downward revision in our expected FY13 operating income
- Strong long-term demand trends in key strategic markets
- Operational improvements and Athens addition provide capacity to grow as the market recovers and benefit from margin expansion through volume leverage

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Appendix of Non-GAAP Schedules







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Non-GAAP Schedules

NET SALES EXCLUDING SURCHARGE, OPERATING INCOME AND OPERATING MARGIN EXCLUDING SURCHARGES AND PENSION EID EXPENSE	Q3-12	Q2-13	Q3-13
Net sales	$ 539.9	$ 533.5	$ 581.4
Less: surcharge revenue	120.9	102.8	110.2
Consolidated net sales excluding surcharge	$ 419.0	$ 430.7	$ 471.2
Operating income	$ 55.7	$ 52.7	$ 53.0
Pension earnings, interest & deferrals	3.8	8.0	8.0
Operating income excluding pension earnings, interest and deferrals	59.5	60.7	61.0
Operating margin excluding surcharge and pension earnings, interest and deferrals	14.2%	14.1%	12.9%

This report includes discussions of net sales as adjusted to exclude the impact of raw material surcharges because management believes removing the impact of raw material surcharges from net sales provides a more consistent basis for comparing results of operations from period to period. 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. In addition, 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.

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Non-GAAP Schedules

IMPACTS OF SPECIAL ITEMS	Q3-12	Q2-13	Q3-13
Inventory reduction initiative costs	$ -	$ 1.0	$ 0.9
Restructuring costs from footprint optimization initiatives	-	0.2	2.0
Additional interest expense	-	-	1.1
Acquisition-related costs (from transaction)	7.9	-	-
Inventory fair value cost adjustments	2.9	-	-
Total pre-tax special items impact	10.8	1.2	4.0
Income tax impact of pre-tax special items	(3.4)	(0.4)	(1.4)
Income tax impact of discretionary pension contribution	-	-	2.9
Income tax impact of R&D tax credit extension	-	-	(1.7)
Total impact of special items on net income	$ 7.4	$ 0.8	$ 3.8
Total earnings per share impact of special items	$ 0.15	$ 0.01	$ 0.07
Diluted Earnings per Share, as reported	$ 0.69	$ 0.62	$ 0.62
Total earnings per share impact of special items	0.15	0.01	0.07
Adjusted Diluted Earnings Per Share	$ 0.84	$ 0.63	$ 0.69
Weighted average shares outstanding	47.9	53.5	53.5

Management believes that removing the impacts of certain special items is useful when comparing results of operations from period to period.

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Non-GAAP Schedules

FREE CASH FLOW	Q1-13	Q2-13	Q3-13	YTD
Net cash provided from operating activities	$ (36.7)	$ 38.9	$ 29.5	$ 31.7
Purchases of property, equipment and software	(56.4)	(80.5)	(86.6)	(223.5)
Proceeds from disposals of property and equipment	0.0	0.1	0.3	0.4
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)	(9.6)	(28.8)
Acquisition of business, net of cash acquired		-	-	
Free cash flow	$ (102.7)	$ (51.6)	$ (66.4)	$ (220.7)

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

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