Carpenter Technology Corporation







ENGINEERED MATERIALS FOR A CHANGING WORLD

4th Quarter and Fiscal Year 2013 Earnings Call

July 30, 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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4th Quarter & Fiscal Year Summary



Bill Wulfsohn

President and CEO

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4th Quarter and FY13 Summary

- **Focused strategy with disciplined execution** in challenging environment
  - Operating margins neared 15% for quarter and year
  - Increased margin per pound at SAO for year

- **Growth investments** made in PEP businesses
  - Increased titanium wire capacity
  - Expanded footprint at Amega West

- **Operational execution**
  - Integrated Latrobe above deal economics
  - Fully offset SAO variable production inflation on a cost per ton basis for fourth consecutive year
  - Signed several strategic contracts with key customers
  - Athens facility continued to be on time and under budget
  - Salaried workforce reduction

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4th Quarter and FY13 Summary

- **Strong financial performance** in challenging environment
  - EPS up 12% on an adjusted basis versus Q3
  - Record full year adjusted EBITDA of $406 million up 21% versus year ago
    - Latrobe contributed $87 million
    - Legacy CRS up 1% including Athens related start-up expenses

- **Enhanced liquidity**
  - Free cash flow of $61 million in Q4
  - Cash-on hand of $258 million
  - Expanded revolving credit facility capacity from $350 million to $500 million

- **Aligned and strengthened management team**

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Financial Update



Tony Thene

Senior Vice President and Chief Financial Officer

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4th Quarter FY13 Financial Overview

- **Q4 Net income** of $40.9 million or **$0.77 per share**
- **Sales**, excluding surcharge, of **$496.6 million**
  - Aerospace and energy comprised 62% of sales
- **Operating margins** (ex pension EID) **improved** sequentially by 190 basis points due to increased volumes and manufacturing efficiencies
- Cash Flow from Operations of **$184 million** and **Free Cash Flow of $61 million**
  - Achieved $27 million inventory reduction
- **CapEx of $113 million**, largely related to Athens
- **$750 million** of total **liquidity**
  - Increased revolving credit facility capacity from $350 to $500 million
  - Cash-on hand of $258 million

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Income Statement Summary

$ Millions, except per-share amounts	Q4-12	Q3-13	Q4-13	Sequential Change
Net Sales	**643.7**	**581.4**	**611.8**	**30.4**
Sales ex. Surcharge *	**506.7**	**471.2**	**496.6**	**25.4**
Gross Profit	**120.6**	**101.0**	**120.5**	**19.5**
% of Sales ex. Surcharge	*23.8%*	*21.4%*	*24.3%*	*2.9% pts.*
Selling, General and Administrative Expenses	**54.1**	**48.0**	**55.1**	**7.1**
% of Sales ex. Surcharge	*10.7%*	*10.2%*	*11.1%*	*0.9% pts.*
Operating Income ex. Pension EID *	**70.8**	**61.0**	**73.4**	**12.4**
% of Sales ex. Surcharge	*14.0%*	*12.9%*	*14.8%*	*1.9% pts.*
Effective Tax Rate	**33.9%**	**33.1%**	**30.7%**	**-2.4%**
Net Income	**40.8**	**32.9**	**40.9**	**8.0**
Diluted Earnings Per Share	**$0.77**	**$0.62**	**$0.77**	**$0.15**
Adjusted Diluted Earnings per Share *	**$0.88**	**$0.69**	**$0.77**	**$0.08**

Achieved solid gross and operating margin expansion

* Detailed schedule included in Non-GAAP Schedules in Appendix

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Restructuring and Other Special Items

$ Millions, except per-share amounts	Q4-13	Income Statement Classification
Net Income	**40.9**	
Diluted Earnings Per Share	**$0.77**	
• Restructuring-related	0.04	CGS / SG&A Expense
• Income tax impact of the change in assumption regarding discretionary pension contributions	(0.04)	Income Tax Expense
Special Items	**0.00**	
Diluted Earnings per Share ex. Special Items	**$0.77**	
Net Income ex. Special Items	**40.7**	

Special items net to zero impact

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Free Cash Flow Summary

$ Millions	Q1	Q2	Q3	Q4	FY13
Net Income + Non-cash Items	**82**	**76**	**115**	**58**	**331**
Inventory	(79)	(10)	47	27	(15)
Working capital / other	7	(17)	(47)	101	44
Total Net Working Capital / Other	(72)	(27)	0	128	29
Pension Plan Contributions - Required	(48)	(10)	(10)	(2)	(70)
Net Cash from Operating Activities Before Discretionary Pension Plan Contributions	**(38)**	**39**	**105**	**184**	**290**
Pension Plan Contribution - Discretionary	0	0	(75)	0	(75)
Net Cash from Operating Activities	**(38)**	**39**	**30**	**184**	**215**
Purchases of property, equipment and software	(56)	(81)	(87)	(113)	(337)
Dividends paid	(10)	(10)	(9)	(9)	(38)
Other	1	1	0	(1)	1
Free Cash Flow	**(103)**	**(51)**	**(66)**	**61**	**(159)**
Free Cash Flow ex. discretionary pension contribution	**(103)**	**(51)**	**9**	**61**	**(84)**

Solid progress in working capital management contributed to positive Q4 FCF

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Business Update







Bill Wulfsohn

President and CEO

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End Market Highlights

	Q413 Net Sales ex. Sur ($M)*		vs. Q412	vs. Q313	Comments
 **Aerospace & Defense**	**227.9**	49%	**4%** ↑	**6%** ↑	• Commercial aerospace build rates remain strong; outlook positive • Shorter lead times allowing distributors to delay purchases and benefit from falling Ni prices • Demand growth for proprietary materials for structural applications
 **Energy**	**81.5**	18%	**0%** ↔	**15%** ↑	• Growth in ultra-premium materials for Oil & Gas completions due primarily to share gain • Drilling alloys impacted by destocking and low growth in North American rig count • Gas turbine orders remain sluggish
 **Medical**	**26.4**	6%	**-23%** ↓	**4%** ↑	• Supply chain Inventory adjustments and industry cost reduction efforts impacted Q4 • Expect modest resumption of demand as OEM inventories reach structurally low levels
 **Transpor-tation**	**27.9**	6%	**-10%** ↓	**-2%** ↓	• Demand in NA auto offset by continued weakness in Europe and heavy duty equipment • Continued demand growth for materials for new fuel delivery systems offset by softer demand for valve alloys
 **Industrial & Consumer**	**97.3**	21%	**-5%** ↓	**0%** ↔	• Strong demand for materials used in sporting good and offshore drilling valves and fittings applications • Soft demand for industrial valve material and materials sold through distribution vs. prior period

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*Excludes $35.6M of Distribution sales

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Business Update







Andy Ziolkowski

S.V.P. – Commercial, Specialty Alloys Operations

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Latrobe Segment Summary

Latrobe Segment Q4-13 Results and Q1-14 Outlook

Q4 Operating Results

	Q4-12	Q3-13	Q4-13	vs LY	vs Q3
Pounds ('000)	17,124	17,946	17,614	490	(332)
Sales ex. Surcharge ($M)	111.0	114.1	112.2	1.2	(1.9)
Op Inc ex. EID ($M)	7.6	12.3	17.2	9.6	4.9
% of Sales ex. Surcharge	*6.8%*	*10.8%*	*15.3%*	*8.5%*	*4.5%*

Q4 Business Highlights

- Manufacturing gross margin expansion from operational execution
  - Better melt yields
  - Improved scrap management
  - Enhanced focus on manufacturing costs and OH
- Better mix management within manufacturing
- Additional cost reductions from integration efforts

Q1-14 Outlook

- Latrobe Manufacturing to be reported in SAO Segment for FY14, while Latrobe Distribution to be reported in PEP Segment in FY14

Manufacturing fully integrated into SAO, with earnings and synergies above plan

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SAO Segment Summary

SAO Segment Q4-13 Results and Q1-14 Outlook

Q4 Operating Results

	Q4-12	Q3-13	Q4-13	vs LY	vs Q3
Pounds ('000)	60,720	53,202	57,260	(3,460)	4,058
Sales ex. Surcharge ($M)	324.5	297.6	323.0	(1.5)	25.4
Op Inc ex. EID ($M)	65.5	48.8	66.0	0.5	17.2
% of Sales ex. Surcharge	*20.2%*	*16.4%*	*20.4%*	*0.2%*	*4.0%*

Q4 Business Highlights

- Solid operational execution
  - Sequential margin expansion
  - Continued focus on reducing costs per ton
  - Decline in higher-value material sold to transportation and industrial markets
- Growth in Aerospace structural and engine applications
- Market penetration in Oil and Gas completions
- Deferrals down versus Q3

Q1-14 Outlook

- Order inquiry activity and backlog improving
- Seasonal volume decline
- Planned 3 to 4 week major preventative maintenance outage
- Expect continuing supply chain adjustments
- Economically sensitive markets still challenging

Aerospace demand remains solid, while other economically-sensitive markets remained challenged

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Business Update







Bill Wulfsohn

President and CEO

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PEP Segment Summary

PEP Segment Q4-13 Results and Q1-14 Outlook

Q4 Operating Results

	Q4-12	Q3-13	Q4-13	vs LY	vs Q3
Pounds ('000)	3,840	3,338	3,502	(338)	164
Sales ex. Surcharge ($M)	107.1	89.2	95.8	(11.3)	6.6
Op Inc ex. EID ($M)	11.3	10.0	6.1	(5.2)	(3.9)
% of Sales ex. Surcharge	*10.6%*	*11.2%*	*6.4%*	*-4.2%*	*-4.8%*

Q4 Business Highlights

- Sales up 7% sequentially but down 11% y-o-y
  - Strong demand for ti aero fastener material
  - Tool steel and distribution remained soft
- Margins negatively impact by
  - Facility start-up costs and new product launches
  - Lower production rates and a weaker mix

Q1-14 Outlook

- Accelerating operational improvement plans
- Solid Aerospace titanium fastener demand
- Powder sales expected to remain weak
- Equipment sold into the Oil & Gas market to remain under pressure due to lower capex by service companies

Action taken to improve operating performance of PEP

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Growth Enablers

Driving Innovation & Responding to Increased Customer Demand

Athens Facility



- On time and under budget
- Data Center and Met/Chem Laboratory both on-line for start of qualifications
- Radial press foundation completed on-time and equipment being installed
- First four VAR furnaces being installed
- FY14 fixed OH of approximately $9.5M versus $5.5M in FY13, excluding depreciation
- Budgeted start-up costs of $8 – 10M in FY14

Forge Finishing Capacity



- $24M forge finishing expansion in Reading operational for full quarter
- Overall 30% increase in finishing capacity for straightening, cutting, polishing and ultra sonic testing of large diameter bars
- Supports continued growth in demand for Aerospace and Energy markets

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Closing Comments

Q4 and FY13 Highlights

- Solid execution in a challenging environment
  - Sales, ex. surcharge, up 5% from Q3
  - Operating income, ex. pension EID, up 20% from Q3
- Focused strategy resulted in increased sales to the Aerospace and Energy markets.
- Actions taken to improve cost structure
  - Reduced salaried headcount
  - Focused on reducing fixed cost OH
- Enhanced liquidity
  - Drove positive Q4 FCF
  - Increased revolving credit facility
- Solid FY13 muted by change in second half market conditions, however:
  - Latrobe above deal economics
  - Delivered record EBITDA
  - Record levels of premium forged materials

Q1 and FY14 Outlook

- Normal seasonal Q1 operating income and EPS decline from Q4 – similar to last year
- Potential further impact:
  - Planned maintenance outage
  - Challenging market environment / limited visibility
- Underlying dynamics to drive growth
  - Strong fundamentals in key markets
  - Solid position with key customers
  - Lower cost structure
  - Growth investments to begin contributing
  - Recent order inquiry activity is encouraging

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Appendix of Non-GAAP Schedules







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Preliminary Non-GAAP Unaudited Schedules

(in millions)

OPERATING MARGIN EXCLUDING SURCHARGE AND PENSION EARNINGS, INTEREST AND DEFERRALS AND SPECIAL ITEMS	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	March 31, 2013	Year Ended June 30, 2013	Year Ended June 30, 2012	
Net sales	$ 611.8	$ 643.7	$ 581.4	$ 2,271.7	$ 2,028.7	
Less: surcharge revenue	115.2	137.0	110.2	432.4	459.1	
Consolidated net sales excluding surcharge	$ 496.6	$ 506.7	$ 471.2	$ 1,839.3	$ 1,569.6	
Operating income	$ 65.4	$ 66.5	$ 53.0	$ 232.7	$ 210.1	
Pension earnings, interest & deferrals	8.0	4.3	8.0	31.9	15.3	
Operating income excluding pension earnings, interest and deferrals	$ 73.4	$ 70.8	$ 61.0	$ 264.6	$ 225.4	
Special Items						
Restructuring related costs	3.3	-	2.0	5.5	-	
Inventory reduction initiative costs	-	-	0.9	2.5	-	
Latrobe acquisition related costs (from transaction)	-	-	-	-	11.7	
	76.7	70.8	63.9	272.6	237.1	(A)
Latrobe acquisition inventory fair value cost adjustments	-	8.7	-	-	11.6	
Operating income excluding pension earnings, interest and deferrals and special items	$ 76.7	$ 79.5	$ 63.9	$ 272.6	$ 248.7	
Operating margin excluding surcharge and pension earnings, interest and deferrals	14.8%	14.0%	12.9%	14.4%	14.4%	

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. 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.

Management believes that removing the impacts of costs associated with the special items (i.) restructuring related costs, (ii.) an inventory reduction initiative costs aimed at identifying opportunities to reduce inventory levels and improve inventory turnover across the mill operations (iii.) Latrobe acquisition related costs (from transaction) (vi.) Latrobe acquisition inventory fair value cost adjustments are helpful in analyzing the operating performance of the Company, as these costs are expected to be nonrecurring in nature and may result in significant fluctuations in operating results from period to period.

(A) For purposes of providing earnings and guidance for fiscal year 2013, the Company excluded $11.6 of Latrobe acquisition inventory fair value adjustments from adjusted operating income for fiscal year 2012.

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Preliminary Non-GAAP Unaudited Schedules

(in millions, except per share data)	Three Months Ended		
	June 30,		March 31,
IMPACT OF SPECIAL ITEMS	2013	2012	2013
Restructuring related costs	$ 3.3	$ -	$ -
Inventory fair value cost adjustment	-	8.7	-
Inventory reduction initiative costs	-	-	0.9
Restructuring costs from manufacturing footprint optimization activities	-	-	2.0
Additional interest expense	-	-	1.1
Operating income impact	$ 3.3	$ 8.7	$ 4.0
Income tax benefit from special items	(1.2)	(3.0)	(1.4)
Income tax impact regarding discretionary pension contributions	(2.3)	-	2.9
Income tax impact of R&D tax credit extension	-	-	(1.7)
Net income impact	$ (0.2)	$ 5.7	$ 3.8
Impact per diluted share	$ -	$ 0.11	$ 0.07
Weighted average shares outstanding	53.5	53.3	53.5

Management believes that removing the impacts of costs associated with special items is helpful in analyzing the operating performance of the Company.

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Preliminary Non-GAAP Unaudited Schedules

(in millions)	Three Months Ended June 30,		Year Ended June 30,	
ADJUSTED EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)	2013	2012	2013	2012
Net income	$ 40.9	$ 41.0	$ 146.5	$ 121.6
Interest expense	6.3	5.4	21.0	23.8
Income tax expense	18.1	21.0	70.3	67.0
Depreciation and amortization	27.0	25.4	104.1	83.8
Other (expense) income, net	0.1	(0.9)	(5.1)	(2.3)
EBITDA	$ 92.4	$ 91.9	$ 336.8	$ 293.9
Net pension expense	17.1	11.8	68.8	42.1
Adjusted EBITDA	$ 109.5	$ 103.7	$ 405.6	$ 336.0

Management believes that earnings before interest, taxes, depreciation and amortization adjusted to exclude net pension expense is helpful in analyzing the operating performance of the Company.

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Preliminary Non-GAAP Unaudited Schedules

(in millions)	Three Months Ended June 30,		Year Ended June 30,	
FREE CASH FLOW	2013	2012	2013	2012
Net cash provided from operating activities	$ 183.5	$ 112.4	$ 215.2	$ 160.3
Purchases of property, equipment and software	(113.4)	(64.6)	(336.9)	(171.9)
Proceeds from disposals of property and equipment	0.8	0.6	1.2	1.2
Capital contributions to equity method investment	-	(1.8)	-	(1.8)
Purchase of subsidiary shares from noncontrolling interest	-	-	(8.4)	-
Proceeds from sale of equity method investment	-	-	7.9	-
Dividends paid	(9.6)	(9.5)	(38.3)	(33.7)
Acquisition of business, net of cash acquired	-	-	-	(12.9)
Free cash flow	$ 61.3	$ 37.1	$ (159.3)	$ (58.8)

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.

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Preliminary Non-GAAP Unaudited Schedules

(in millions, except per share data)	Three Months Ended June 30,		Year Ended June 30,	
NET PENSION EXPENSE PER DILUTED SHARE	2013	2012	2013	2012
Pension plans expense	$ 14.8	$ 10.1	$ 59.5	$ 38.5
Other postretirement benefits expense	2.3	1.7	9.3	3.6
Net pension expense	17.1	11.8	68.8	42.1
Income tax benefit	(6.0)	(4.4)	(24.1)	(15.9)
Net pension expense, net of tax	$ 11.1	$ 7.4	$ 44.7	$ 26.2
Net pension expense per diluted share	$ 0.21	$ 0.14	$ 0.84	$ 0.55
Weighted average diluted common shares	53.5	53.3	53.4	47.8

Management believes that net pension expense per diluted share is helpful in analyzing the operating performance of the Company, as net pension expense may be volatile due to changes in the financial markets, which may result in significant fluctuations in operating results from period to period.

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