Carpenter Technology Corporation







ENGINEERED MATERIALS FOR A CHANGING WORLD

Fiscal Year 2014

3rd Quarter Earnings Call

April 24, 2014

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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 FY14 Summary



Bill Wulfsohn

President and Chief Executive Officer

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3rd Quarter FY14 Summary

- **Q3 earnings significantly impacted by weather related expenses**
  - Large increase in energy costs due to temporary price spikes
  - Excluding these unusual expenses, operating margins were up 120 basis points sequentially

- **Specialty Alloys Operations (SAO) volume up 12% vs. Q2-14**

- **Performance Engineered Products (PEP) drove operational improvements resulting in income improvement**

- **Well positioned for future growth**
  - Q3 sales back-log up 19% from Q2-14
  - Lead times are extending
  - Athens now shipping commercial product
  - Positive free cash flow to begin in Q4-14

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3Q FY14 End Market Highlights

		Q3-14 Net Sales ex. Sur ($M)*		vs. Q3-13	vs. Q2-14	Comments
	Aerospace & Defense	202.5	43%	-6%	+14%	• Tons were flat versus the prior year but higher sequentially • Revenue per ton was down due to greater sales volume of structural component materials and continued demand weakness for nickel engine and fastener material • Titanium fastener revenues up 25 percent year-over-year (YOY)
	Energy	72.5	16%	+2%	+12%	• Directional rig count grew 5% vs. same quarter last year • Energy tons were up 10% YOY but revenue per ton was down due to softer demand for oil and gas completion materials • Amega West increased sales, primarily driven by drill collar rentals
	Medical	28.2	6%	+11%	+26%	YOY sales growth was driven by: • Stabilizing demand for orthopedic and surgical devices • Increased distributor demand for titanium materials
	Transpor-tation	30.6	7%	+8%	+8%	• North American light vehicle sales continue to rise • Carpenter results benefit from strong demand for materials used in the next generation of fuel delivery systems
	Industrial & Consumer	98.0	21%	+1%	+10%	Demand for Carpenter materials has been strong in: • Plant and equipment applications • Materials used in bridge infrastructure projects

*Excludes sales through Carpenter's Distribution businesses

Backlog & volume up, mix improving but will take time as lead times are now extended

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3rd Quarter FY14 Financial Overview



Tony Thene

Senior Vice President and Chief Financial Officer

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3rd Quarter FY14 Financial Overview

- **Q3 Net income of $30.6 million or $0.57 per share**
  - Includes approximately $8 million of additional weather related expenses
- Sales, excluding surcharge, of $467.2 million
  - **Aerospace and Energy** comprised 59% of sales
- Operating margins (ex pension EID) **increased sequentially by 120 basis** points **excluding weather related expenses**
- **Cash Flow from Operations of $81.0 million** and Free Cash Flow of negative $22.2 million
- **Capital expenditures of $93.6 million**
- **$577 million of total liquidity**
  - $85 million of cash
  - $492 million of available revolving credit facility

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Income Statement Summary

$ Millions, except pounds and per-share amounts	Q3-13	Q2-14	Q3-14	Sequential Change
Pounds ('000)	**71,768**	**67,378**	**77,580**	**10,202**
Net Sales	**581.4**	**503.5**	**566.3**	**62.8**
Sales ex. Surcharge *	**471.2**	**414.6**	**467.2**	**52.6**
Gross Profit	**101.0**	**95.4**	**94.5**	**(0.9)**
% of Sales ex. Surcharge	*21.4%*	*23.0%*	*20.2%*	*-2.8% pts.*
Selling, General and Administrative Expenses	**48.0**	**47.9**	**45.0**	**(2.9)**
% of Sales ex. Surcharge	*10.2%*	*11.6%*	*9.6%*	*-2.0% pts.*
Operating Income	**53.0**	**47.5**	**49.5**	**2.0**
% of Sales ex. Surcharge	*11.2%*	*11.5%*	*10.6%*	*-0.9% pts.*
Operating Income ex. Pension EID *	**61.0**	**51.3**	**55.5**	**4.2**
% of Sales ex. Surcharge	*12.9%*	*12.4%*	*11.9%*	*-0.5% pts.*
Effective Tax Rate	**33.1%**	**33.6%**	**33.8%**	**0.2%**
Net Income	**32.9**	**29.5**	**30.6**	**1.1**
Diluted Earnings Per Share	**$0.62**	**$0.55**	**$0.57**	**$0.02**

Q3-14 includes approximately $8 million of weather related expenses

* Detailed schedule included in Non-GAAP Schedules in Appendix

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Free Cash Flow Summary

$ Millions	Q3-13 YTD	Q1	Q2	Q3	Q3-14 YTD
Net Income + Non-cash Items	**273**	**76**	**69**	**76**	**221**
Inventory	(42)	(47)	(12)	(1)	(61)
Other working capital	(79)	12	(32)	8	(11)
Total Net Working Capital	(121)	(35)	(44)	7	(72)
Pension Plan Contributions - Required	(68)	(1)	(2)	(2)	(5)
Net Cash from Operating Activities Before Discretionary Pension Plan Contributions	**84**	**40**	**23**	**81**	**144**
Pension Plan Contribution - Discretionary	(75)	0	0	0	0
Net Cash from Operating Activities	**9**	**40**	**23**	**81**	**144**
Purchases of property, equipment and software	(201)	(90)	(114)	(94)	(298)
Dividends paid	(29)	(9)	(10)	(9)	(29)
Other	0	(1)	1		0
Free Cash Flow	**(221)**	**(60)**	**(100)**	**(22)**	**(183)**

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

At cash flow generation inflection point – moving to positive FCF by Q4-14

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SAO Business Update



Andy Ziolkowski

Senior Vice President

Commercial, Specialty Alloys Operations

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SAO Segment Summary

SAO Segment Q3-14 Results and Q4-14 Outlook

Q3 Operating Results

	Q3-13	Q2-14	Q3-14	vs LY	vs Q2
Pounds ('000)	69,028	66,734	74,836	5,808	8,102
Sales ex. Surcharge ($M)	360.1	316.6	351.4	(8.7)	34.8
Op Inc ex. EID ($M)	59.6	54.4	51.6	(8.0)	(2.8)
% of Sales ex. Surcharge	*16.6%*	*17.2%*	*14.7%*	*-1.9%*	*-2.5%*

Q3 Business Highlights

- Operating income impacted by additional $8m of energy costs due to weather
- Excluding weather impact, operating margin was in line with Q2
- Volume was up in all markets except Aerospace (which was flat)
- Aerospace and energy both had a weaker mix on a sales $ per ton basis

Q4-14 Outlook

- Back-log up 19% with continued increase in order intake rate relative to Q2
- Sales mix trending similar to Q3
  - Recent price increases will have an impact beginning in FY15
  - Athens facility fully operational and beginning customer qualification process
- Challenging year-over-year comparison due to strong Q4-13 mix

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PEP Business Update



Gary Heasley

Senior Vice President

Performance Engineered Products

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PEP Segment Summary

PEP Segment Q3-14 Results and Q4-14 Outlook

Q3 Operating Results

	Q3-13	Q2-14	Q3-14	vs LY	vs Q2
Pounds ('000)	3,338	2,683	3,108	(230)	425
Sales ex. Surcharge ($M)	124.0	113.3	129.8	5.8	16.5
Op Inc ex. EID ($M)	11.4	8.6	13.1	1.7	4.5
% of Sales ex. Surcharge	*9.2%*	*7.6%*	*10.1%*	*0.9%*	*2.5%*

Q3 Business Highlights

- Sales improved across most businesses
  - Increased demand for titanium fastener material
  - Strong order activity through Distribution
  - Improved demand for down-hole drilling tools
- Mix and operational improvements drive OI
  - Increased rental revenue and titanium sales
  - Higher production activity

Q4 -14 Outlook

- Backlogs above prior year and growing
- Demand for Aerospace fastener material expected to remain strong
- Drilling activity expected to remain strong
- Operational improvements remain key focus in areas with low margins
- Competitive actions in certain markets continue to pressure margins on some products

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Forward Outlook



Bill Wulfsohn

President and Chief Executive Officer

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Athens Facility Update

Construction/Start-up



- 90% of project spend completed
- Front-end operations producing on a stable and planned basis
- Finishing operations moving from start-up into production
- Have successfully processed orders through each key area and shipped commercial product

Certification/Qualification



- Accreditations:
  - ISO17025 – certified
  - NADCAP Met Lab and NDT - certified
  - AS9100 – certified
- Customer audits/approvals underway

Integrated Manufacturing



- Primary Melting supplied from Reading and Latrobe
- Technical support from all locations highly involved
- CRS employees operating all equipment
- Strong focus on automation and process control
- Great leverage potential across the entire system

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3rd Quarter FY14 Summary

Q3 Highlights

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  - Excluding these unusual expenses, operating margins were up 120 basis points sequentially
- SAO volume up 12% vs. Q2
- PEP drove operational improvements resulting in operating income improvements
- Well positioned for future growth
  - Q3 sales back-log up 19% from Q2
  - Lead times extending
  - Athens now shipping commercial product

Forward Outlook

- Aerospace and Energy demand recovery to continue into FY15
- PEP operational improvements on track to yield additional gains
- Athens operational – pursuing customer qualifications
- Volume and margin improvement opportunity as fixed investment in place – but will be gradual
- Expect positive free cash flow in Q4-14
- Strong balance sheet and flexibility to redeploy cash

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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	Three Months Ended March 31,		Three Months Ended December 31,	Nine Months Ended March 31,	
	2014	2013	2013	2014	2013
Net sales	$ 566.3	$ 581.4	$ 503.5	$ 1,568.4	$ 1,659.9
Less: surcharge revenue	99.1	110.2	88.9	274.5	317.3
Consolidated net sales excluding surcharge	$ 467.2	$ 471.2	$ 414.6	$ 1,293.9	$ 1,342.6
Operating income	$ 49.5	$ 53.0	$ 47.5	$ 152.8	$ 167.3
Pension earnings, interest & deferrals	6.0	8.0	3.8	15.8	23.9
Operating income excluding pension earnings, interest and deferrals	$ 55.5	$ 61.0	$ 51.3	$ 168.6	$ 191.2
Operating margin excluding surcharge and pension earnings, interest and deferrals	11.9%	12.9%	12.4%	13.0%	14.2%

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.

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Preliminary Non-GAAP Unaudited Schedules

(in millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
FREE CASH FLOW	2014	2013	2014	2013
Net cash provided from operating activities	$ 81.0	$ 26.5	$ 144.0	$ 9.3
Purchases of property, equipment and software	(93.6)	(83.6)	(298.2)	(201.1)
Proceeds from disposals of property and equipment	-	0.3	0.3	0.4
Purchase of subsidiary shares from noncontrolling interest	-	-	-	(8.4)
Proceeds from sale of equity method investment	-	-	-	7.9
Dividends paid	(9.6)	(9.6)	(28.8)	(28.7)
Free cash flow	$ (22.2)	$ (66.4)	$ (182.7)	$ (220.6)

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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