

Carpenter Technology Corporation

1st Quarter 2015

Earnings Call

October 23, 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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1st Quarter Fiscal Year 2015 Summary

Bill Wulfsohn

President and Chief Executive Officer

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1st Quarter Summary and Opening Comments

Challenging First Quarter but Recovery in Month of September

- **Q1 earnings significantly impacted by operational inefficiencies** driven by Reading shutdown and Latrobe press outage.
- **Weaker mix** exacerbated by operational inefficiencies.
- **Strong recovery in month of September** with a strengthened mix and improved cost per ton.
- Negative Free Cash Flow in the quarter **driven by the Athens capital spend** and inventory build.

Well Positioned for Future Growth

- Revenue **backlog for premium tons is up 14% sequentially.**
- **Richer sequential sales mix** expected to begin in Q2.
- **Continued progress on customer qualifications** at Athens.
- **New contracts with key customers** aimed at Athens' capacity.
- **Up to $500 million share repurchase authorization** over two years.

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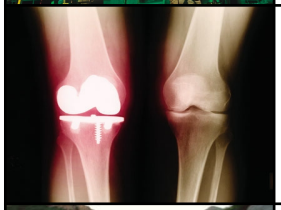
1st Quarter FY15 End Market Highlights

		Q1-15 Net Sales ex. Sur ($M)*		vs. Q1-14	vs. Q4-14	Comments
	Aerospace & Defense	180.7	41%	-1%	-15%	• Lower sales of premium products for defense and decline in certain engine materials created a weaker overall mix YOY • Demand returning for aerospace distribution but at lower average selling price versus prior year • Sales for aero engine materials up 5% and fastener material (titanium and nickel) up 9% YOY
	Energy	67.8	15%	+15%	-8%	• Directional rig count grew 13% versus the same quarter last year • Amega West posted solid sales growth in both manufacturing and rentals versus the prior year • Power Generation showed strong growth in Q1 versus prior year and sequentially
	Medical	26.7	6%	+7%	-5%	• Sales improved YOY but at a weaker mix - titanium sales down and stainless instrument sales up • OEMs have resumed more normalized buying patterns as supply chain inventories have stabilized • The environment remains extremely competitive (pricing pressure)
	Transpor-tation	30.7	7%	+20%	-8%	• North America vehicle production is up YOY; remains at high levels • Mix has improved versus prior year with a shift to higher value components for more demanding applications going into high pressure/ temperature engine systems
	Industrial & Consumer	98.6	22%	+15%	-8%	• Demand growth is driven by high-value consumer electronics and sporting goods applications • Strong YOY sales growth in semiconductors • Steady demand growth for premium tool steels

Sales ex. Surcharge up 7% on 11% higher volume year-over-year

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*Excludes sales through Carpenter's Distribution businesses



1st Quarter Fiscal Year 2015 Financial Overview

Tony Thene

Senior Vice President and Chief Financial Officer

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Income Statement Summary

$ Millions, except per-share amounts	Q1-14	Q4-14	Q1-15	Sequential Change
Pounds ('000)	64,892	80,538	71,746	(8,792)
Net Sales	498.6	604.6	549.8	(54.8)
Sales ex. Surcharge *	412.1	488.9	440.1	(48.8)
Gross Profit	103.3	105.6	69.1	(36.5)
% of Sales ex. Surcharge	*25.1%*	*21.6%*	*15.7%*	*-5.9% pts.*
Selling, General and Administrative Expenses	47.5	46.4	47.0	0.6
% of Sales ex. Surcharge	*11.5%*	*9.5%*	*10.7%*	*1.2% pts.*
Operating Income	55.8	59.2	22.1	(37.1)
% of Sales ex. Surcharge	*13.5%*	*12.1%*	*5.0%*	*-7.1% pts.*
Operating Income ex. Pension EID *	61.8	65.2	24.5	(40.7)
% of Sales ex. Surcharge	*15.0%*	*13.3%*	*5.6%*	*-7.7% pts.*
Effective Tax Rate	32.8%	29.7%	32.5%	2.8%
Net Income	34.6	38.1	13.5	(24.6)
Diluted Earnings Per Share	$0.65	$0.71	$0.25	($0.46)

*Detailed schedule included in Non-GAAP Schedules in Appendix

Q1 Net Income includes a favorable legal settlement of $4.4 million or $0.05/share

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Free Cash Flow Summary

$ Millions	Q1-14	Q1-15	vs LY
Net Income	**35**	**14**	**(21)**
Non-cash Items	44	47	3
Inventory	(47)	(31)	16
Working Capital / Other	10	(12)	(22)
Total Net Working Capital / Other	(37)	(43)	(6)
Pension Plan Contributions - Required	(2)	(3)	(1)
Net Cash from Operating Activities	**40**	**15**	**(25)**
Purchases of property, equipment and software - Other	(23)	(27)	(4)
Purchases of property, equipment and software - Athens	(67)	(32)	35
Dividends paid	(10)	(10)	-
Other	(1)	-	1
Free Cash Flow	**(61)**	**(54)**	**7**

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

$66 million of cash and $558 million of total liquidity at end of Q1

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Share Repurchase Authorization

Up to $500 million share repurchase authorization over two years

- **Have the option to engage in share repurchases from time to time at the Company's discretion based on:**
  - Capital needs of the business
  - General market conditions
  - Market price of the stock
- **Multiple action levers available to create financial flexibility:**
  - Strong cash flow beginning later in fiscal year 2015
  - Athens-related capital spending largely behind us
  - Working capital initiatives
  - Strong balance sheet
- **Reaffirms confidence in the company's strategy and long-term growth potential**

Demonstrates ongoing commitment to deliver value to our shareholders

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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 Q1 Results and Q2 Outlook

Q1 Operating Results

	Q1-14	Q4-14	Q1-15	vs LY	vs Q4
Pounds ('000)	63,414	77,932	70,120	6,706	(7,812)
Sales ex. Surcharge ($M)	307.6	369.1	324.1	16.5	(45.0)
Op Inc ex. EID ($M)	63.7	63.0	24.6	(39.1)	(38.4)
% of Sales ex. Surcharge	*20.7%*	*17.1%*	*7.6%*	*-13.1%*	*-9.5%*

Q1 Business Results

- Revenues were up in all end-markets except Aerospace & Defense versus Q1 FY14
- Overall weaker sales mix relative to Q1 FY14
- Higher labor and maintenance/supply costs and reduced output levels caused by:
  - unanticipated startup issues after summer shutdown at the Reading mill
  - unplanned outage due to maintenance issues discovered with the primary press at Latrobe operations

Q2 Outlook

- Backlog revenue up sequentially and year-over-year
- Q2 sales mix expected to be richer than Q1
- Progress continues with customer qualifications at Athens facility
- Planned November Reading press outage expanded in scope – projected incremental impact approximately $4 million

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PEP Business Update

Gary Heasley
Senior Vice President
Performance Engineered Products

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PEP Segment Summary

PEP Segment Q1 Results and Q2 Outlook

Q1 Operating Results

	Q1-14	Q4-14	Q1-15	vs LY	vs Q4
Pounds ('000)	2,666	3,790	3,034	368	(756)
Sales ex. Surcharge ($M)	117.5	136.0	129.6	12.1	(6.4)
Op Inc ex. EID ($M)	11.6	12.2	9.7	(1.9)	(2.5)
% of Sales ex. Surcharge	*9.9%*	*9.0%*	*7.5%*	*-2.4%*	*-1.5%*

Q1 Business Results

- Sales up 10% vs. Q1 FY14 in all businesses primarily driven by:
  - Rentals and sales of down-hole drilling tools
  - Shipments of powder products
  - Shipments from the Distribution businesses
- Operating income ex. EID down 16% vs. Q1 FY14 primarily driven by mix

Q2 Outlook

- Aerospace and Oil & Gas industry demand expected to remain strong
- Down-hole tool manufacturing backlog at all-time high and tool rental activity is healthy
- Cost and operating performance improvement expected to continue at powder operations
- Distribution outlook generally positive as demand is expected to be steady to improving

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Growth Enablers and Forward Outlook

Bill Wulfsohn

President and Chief Executive Officer

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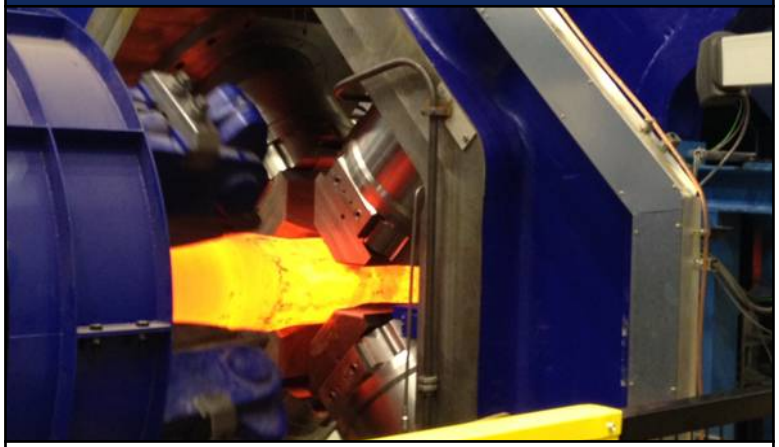
Growth Enablers

Capacity Expansion



- Expanded Dynamet titanium wire capacity by 25% and bar capacity by 35%
- Nearing completion of the China facility that will provide improved customer service by localizing product finishing
- Expanded Amega West capacity and scope to support growing demand for directional drilling materials
- Athens output expected to expand

Rolls Royce Contract



- Five year contract for premium melted nickel based superalloys, used in the forging of jet engine disc components
- Expands supply position with Rolls Royce by ~ $100 million over 5 years
- Further supports Athens facility investment
- OEM support for expedited Athens quality engineering approvals

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Outlook and Closing Comments

Forward Outlook Expectations

- Revenue **backlog for premium tons is up 14% sequentially.**
- **Continued progress on customer qualifications** at Athens.
- **New contracts with key customers** aimed at Athens' capacity.
- **Must execute on the Reading press shutdown** and return process cost per ton to historic levels.
- **Richer sequential sales mix** to begin in Q2.
- Stronger performance in PEP segment driven by **operational improvements and strong demand** for both oil and gas and aerospace products.

- Well positioned to **leverage recent capital expansions to drive profitable growth.**
- Stock repurchase authorization **reaffirms confidence in the company's strategy and long-term growth potential.**

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Appendix of Non-GAAP Schedules

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Preliminary Non-GAAP Unaudited Schedules

Operating Margin Excluding Surcharge And Pension Earnings, Interest And Deferrals

$ Millions	Q1-14	Q4-14	Q1-15
Net sales	498.6	604.6	549.8
Less: surcharge revenue	86.5	115.7	109.7
Consolidated Net Sales Excluding Surcharge	**412.1**	**488.9**	**440.1**
Operating income	55.8	59.2	22.1
Pension earnings, interest and deferrals	6.0	6.0	2.4
Operating Income Excluding Pension Earnings, Interest And Deferrals	**61.8**	**65.2**	**24.5**
Operating Margin Excluding Surcharge And Pension Earnings, Interest And Deferrals	**15.0%**	**13.3%**	**5.6%**

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

Free Cash Flow

$ Millions	Q1-14	Q1-15
Net cash provided from operating activities	39.5	15.0
Purchases of property, equipment and software	(90.4)	(59.0)
Proceeds from disposals of property and equipment	-	0.1
Dividends paid	(9.6)	(9.6)
Free Cash Flow	**(60.5)**	**(53.5)**

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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