# Carpenter Technology Corporation

4th Quarter and Fiscal Year 2018

Earnings Call

August 2, 2018

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# Cautionary Statement

## Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ from those projected, anticipated or implied. The most significant of these uncertainties are described in Carpenter's filings with the Securities and Exchange Commission, including its report on Form 10-K for the year ended June 30, 2017, Form 10-Q for the quarters ended September 30, 2017, December 31, 2017, and March 31, 2018 and the exhibits attached to those filings. They include but are not limited to: (1) the cyclical nature of the specialty materials business and certain end-use markets, including aerospace, defense, industrial, transportation, consumer, medical, and energy, or other influences on Carpenter's business such as new competitors, the consolidation of competitors, customers, and suppliers or the transfer of manufacturing capacity from the United States to foreign countries; (2) the ability of Carpenter to achieve cash generation, growth, earnings, profitability, operating income, cost savings and reductions, qualifications, productivity improvements or process changes; (3) the ability to recoup increases in the cost of energy, raw materials, freight or other factors; (4) domestic and foreign excess manufacturing capacity for certain metals; (5) fluctuations in currency exchange rates; (6) the effect of government trade actions; (7) the valuation of the assets and liabilities in Carpenter's pension trusts and the accounting for pension plans; (8) possible labor disputes or work stoppages; (9) the potential that our customers may substitute alternate materials or adopt different manufacturing practices that replace or limit the suitability of our products; (10) the ability to successfully acquire and integrate acquisitions; (11) the availability of credit facilities to Carpenter, its customers or other members of the supply chain; (12) the ability to obtain energy or raw materials, especially from suppliers located in countries that may be subject to unstable political or economic conditions; (13) Carpenter's manufacturing processes are dependent upon highly specialized equipment located primarily in facilities in Reading and Latrobe, Pennsylvania and Athens, Alabama for which there may be limited alternatives if there are significant equipment failures or a catastrophic event; (14) the ability to hire and retain key personnel, including members of the executive management team, management, metallurgists and other skilled personnel; and (15) fluctuations in oil and gas prices and production. Any of these factors could have an adverse and/or fluctuating effect on Carpenter's results of operations. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. Carpenter undertakes no obligation to update or revise any forward-looking statements.

## 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.

# 4th Quarter and Fiscal Year 2018 Summary

Tony Thene

President and Chief Executive Officer

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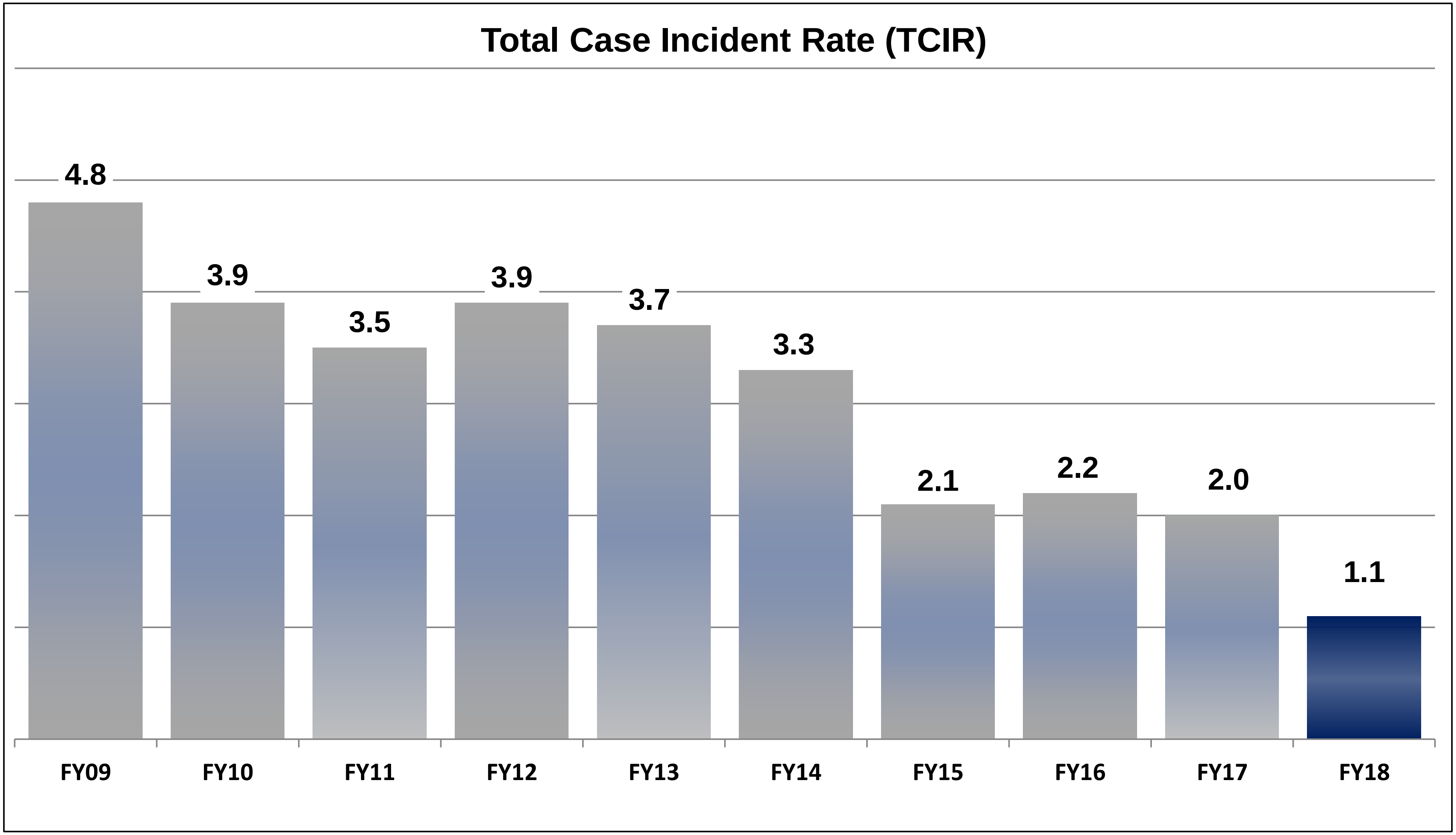
# Safety is Our Highest Value



# Fiscal Year 2018 Summary

***Solutions-Focused Strategy, Implementation of the Carpenter Operating Model and Investments in Core Growth Areas Strengthen Long-Term Growth Outlook***

- Execution of strategy, increased customer focused solutions and strong market demand drove best operating income performance in four years
- Significantly expanded customer relationships via market share gains with new and existing customers
- Application of Carpenter Operating Model focused on unlocking capacity to meet growing customer demand
- Significantly strengthened additive manufacturing (AM) capabilities through acquisition of CalRAM, exclusive license for meltless titanium technology and Emerging Technology Center
- Announced reinvestment of cash savings from tax legislation into growth capital expenditures for soft magnetics portfolio
- Submitted majority of Aerospace Vendor Approved Processes (VAP) for Athens facility and subsequently received specific approvals
- Continued to return capital directly to shareholders while investing in core growth areas





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# 4th Quarter Summary

***Strong Finish to a Successful Year Driven By Solutions-Focused Approach, Enhanced Manufacturing Processes and Improving Market Demand***

- Reported EPS of $0.88, adjusted EPS of $0.87 – strongest quarterly operating income performance since Q4-14
- Backlog up 5% sequentially and 30% year-over-year
- All end-use markets generated year-over-year revenue growth
- Well positioned in Aerospace and Defense end-use market given sub-market diversity and robust engine platform ramp; 8th consecutive quarter of sequential backlog growth
- Oil & gas growth continues to outpace the North American directional & horizontal rig count
- Best quarterly operating income performance for Specialty Alloys Operations (SAO) since Q4-13
- Performance Engineered Products (PEP) performance driven by strong demand for titanium solutions and continued improvement at Amega West
- Athens VAP qualifications continue with additional approvals
- Continue to focus emphasis on core strategic growth areas including advancements in additive manufacturing space





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# Q4-18 End-Use Market Highlights

| | | Q4-18 Net Sales ex. Surcharge ($M)* | | vs. Q4-17 | vs. Q3-18 | Comments |
|---|---|---|---|---|---|---|
|  | **Aerospace and Defense** | **260.7** | 53% | **+13%** | **0%** | ▪ Strong year-over-year (YoY) performance driven by all sub-markets except for fastener (Dynamet fire impact)<br>▪ Engine demand remains strong with double digit YoY growth<br>▪ Sequential demand remains strong across sub-markets, strong defense growth offsetting minimal decline in fastener and structural sub-markets |
|  | **Energy** | **40.2** | 8% | **+16%** | **+21%** | ▪ North American directional rig count up 17% YoY but down 6% sequentially<br>▪ Oil & gas sub-market up 17% YoY and 20% sequentially due to improving demand for materials and replacement activity by service companies<br>▪ Power generation continues to face industry headwinds |
|  | **Transportation** | **33.7** | 7% | **+5%** | **0%** | ▪ YoY performance driven by healthy heavy duty truck demand and stronger mix of high temperature alloys<br>▪ Sequential performance flat versus strong Q3 influenced by timing of orders |
|  | **Medical** | **41.1** | 8% | **+14%** | **+9%** | ▪ YoY demand growth and share gains in all sub-markets especially cardiology and orthopedics<br>▪ Sequential sales improved due to higher demand of high value cobalt materials |
|  | **Industrial and Consumer** | **81.9** | 17% | **+8%** | **+13%** | ▪ Double digit YoY and sequential growth in Industrial from continued market share gains and demand for select applications (e.g., pumps & valves)<br>▪ Consumer down YoY, but up sequentially primarily driven by demand for certain sporting goods applications |

**Sales ex-surcharge up 13% year-over-year and up 5% sequentially**

*Excludes sales through Carpenter's Distribution businesses

# 4th Quarter Financial Overview and Business Update


Damon Audia

Senior Vice President and Chief Financial Officer


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# Income Statement Summary

| $ Millions, except pounds and per-share amounts | Q4-17 | Q3-18 | Q4-18 | Sequential Change |
|---|---|---|---|---|
| **Pounds ('000)** | 65,610 | 68,898 | 73,114 | 4,216 |
| **Net Sales** | 507.7 | 572.2 | 618.0 | 45.8 |
| **Sales ex. Surcharge *** | 438.9 | 472.5 | 494.5 | 22.0 |
| **Gross Profit** | 92.7 | 96.0 | 114.9 | 18.9 |
| **Selling, General and Administrative Expenses** | 44.9 | 50.8 | 55.5 | 4.7 |
| **Operating Income** | 44.6 | 45.2 | 59.4 | 14.2 |
| **Special Items *** | 3.2 | - | - | - |
| **Operating Income ex. Pension EID and Special Items *** | 53.4 | 45.7 | 59.9 | 14.2 |
| *% of Sales ex. Surcharge* | *12.2%* | *9.7%* | *12.1%* | *+2.4pts* |
| **Effective Tax Rate** | 33.1% | 19.9% | 20.0% | +0.1pts |
| **Net Income** | 25.5 | 30.2 | 42.8 | 12.6 |
| **Diluted Earnings per Share** | $0.54 | $0.63 | $0.88 | $0.25 |
| **Adjusted Diluted Earnings per Share *** | $0.58 | $0.60 | $0.87 | $0.27 |

**Execution and market demand driving strongest quarterly operating income performance since Q4-14**

*Detailed schedule included in Non-GAAP Schedules in Appendix



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# Free Cash Flow Summary

| $ Millions | FY17 | Q1-18 | Q2-18 | Q3-18 | Q4-18 | FY18 |
|---|---|---|---|---|---|---|
| **Net Income + Non-cash Items** | **274** | **61** | **62** | **67** | **89** | **278** |
| Inventory | (75) | (46) | (35) | 41 | 40 | - |
| Working Capital / Other | 31 | (18) | (1) | (34) | (10) | (62) |
| Total Net Working Capital / Other | (44) | (64) | (36) | 7 | 31 | (62) |
| Pension Plan Contributions | (100) | (4) | (1) | (1) | (1) | (7) |
| **Net Cash Provided From (Used For) Operating Activities** | **130** | **(7)** | **25** | **73** | **119** | **209** |
| Purchases of Property, Equipment and Software | (99) | (29) | (27) | (25) | (54) | (135) |
| Acquisition/Divestiture of Businesses, net | (23) | - | - | (13) | - | (13) |
| Dividends Paid | (34) | (9) | (9) | (9) | (9) | (34) |
| Other | 9 | - | - | 9 | - | 8 |
| **Free Cash Flow *** | **(17)** | **(45)** | **(11)** | **35** | **56** | **35** |

| | | | | | |
|---|---|---|---|---|---|
| Cash | 66 | 25 | 21 | 47 | 56 |
| Available Borrowing Under Credit Facility | 394 | 391 | 385 | 394 | 394 |
| **Total Liquidity** | **460** | **416** | **406** | **441** | **450** |

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

**Strong free cash flow generation while investing for growth**

*Detailed schedule included in Non-GAAP Schedules in Appendix



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# SAO Segment Summary

| Q4 Operating Results | | | | | |
|---|---|---|---|---|---|
| | **Q4-17** | **Q3-18** | **Q4-18** | **vs Q4-17** | **vs Q3-18** |
| Pounds ('000) | 63,062 | 66,866 | 70,190 | 7,128 | 3,324 |
| Net Sales ($M) | 414.6 | 482.4 | 518.3 | 103.7 | 35.9 |
| Sales ex. Surcharge ($M) | 345.3 | 381.3 | 395.3 | 50.0 | 14.0 |
| Operating Income ($M) | 59.7 | 58.0 | 74.1 | 14.4 | 16.1 |
| *% of Net Sales* | *14.4%* | *12.0%* | *14.3%* | *-0.1 pts* | *+2.3 pts* |
| *% of Sales ex. Surcharge* | *17.3%* | *15.2%* | *18.7%* | *+1.4 pts* | *+3.5 pts* |

## Q4 Business Results

- Higher demand across all end-use markets drove strong volume growth
- Significant operating margin improvements
- Carpenter Operating Model delivering manufacturing improvements
- Strongest operating income performance since Q4-13

## Q1-19 Outlook

- Macro-demand signals across end-use markets strong
- Traditional preventative maintenance limiting production days
- Operating income down ~15-20% sequentially, but up ~20-25% versus Q1-18
- Expected to be best first quarter since FY14

# PEP Segment Summary

## Q4 Operating Results

| | Q4-17 | Q3-18 | Q4-18 | vs Q4-17 | vs Q3-18 |
|---|---|---|---|---|---|
| Pounds* ('000) | 3,298 | 2,946 | 2,636 | (662) | (310) |
| Net Sales ($M) | 106.2 | 107.9 | 116.3 | 10.1 | 8.4 |
| Sales ex. Surcharge ($M) | 105.9 | 107.5 | 113.7 | 7.8 | 6.2 |
| Operating Income ($M) | 5.8 | 5.4 | 7.9 | 2.1 | 2.5 |
| *% of Net Sales* | *5.5%* | *5.0%* | *6.8%* | *+1.3 pts* | *+1.8 pts* |
| *% of Sales ex. Surcharge* | *5.5%* | *5.0%* | *6.9%* | *+1.4 pts* | *+1.9 pts* |

## Q4 Business Results

- Continued strong demand for titanium products in Medical end-use market
- Amega West achieved fourth consecutive profitable quarter
- Amega West strengthening both in manufacturing and rental activity

## Q1-19 Outlook

- Further strong demand for titanium products
- Continued favorable market conditions for the oil & gas sub-market
- Ongoing operational headwinds relating to fire restoration
- Operating income up ~15% sequentially

* Pounds related to manufactured pounds for Dynamet and Carpenter Powder Products only





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# Selected Fiscal Year 2019 Guidance

| *$ Millions* | FY18 | FY19 Estimated |
|---|---|---|
| Depreciation and Amortization | 117 | ~120 |
| Capital Expenditures | 135 | ~190 |
| Pension Contributions | 7 | 6 |
| Pension Expense | 14 | 11 |
| Interest Expense | 28 | ~28 |
| Effective Tax Rate | (18)% | 24% - 26% |

# 4th Quarter and Fiscal Year 2018 Closing Comments

Tony Thene

President and Chief Executive Officer

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# Additive Manufacturing (AM) Evolution

## FY 2017

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Powder Products

- Metallurgical expertise and feedstock supplier (powder, wire)

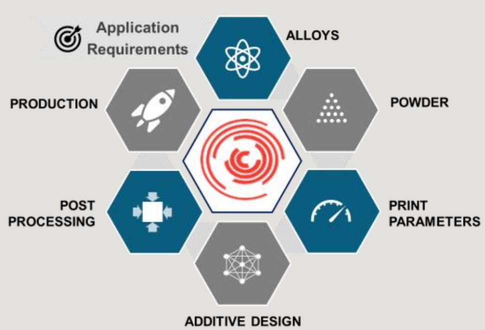
- Puris acquisition and development of Puris 5+ titanium powder

- Established AM solutions focused strategy and strategic partnership

## FY 2018

CalRAM
A Carpenter Company

- Added part design and production via CalRAM
- Exclusive meltless titanium powder license
- Established AM Technology Center (Reading, PA)
- Small-scale solutions provider for customers (e.g., oil & gas)




## FY 2019 & Beyond

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Additive

- Rapidly evolving to offer end-to-end solutions - advancing AM across industries

- Emerging Technology Center to be added at Athens, AL campus

- Founding partner in GE Additive’s Manufacturing Partner Network
- Potential further portfolio actions

# Closing Comments

***Delivering Solid Financial Performance and Strengthening our Position as a Solutions Provider While Improving our Manufacturing Capabilities and Enhancing our Long-Term Growth Profile***

- Strongest operating income since Q4-14 marked end to successful year
- Generated consistent backlog growth, deepened our customer relationships and unlocked new product opportunities
- Diverse Aerospace and Defense portfolio including participation on all new engine platforms delivering significant growth
- Carpenter Operating Model capturing manufacturing efficiencies and incremental capacity gains
- Continued progress with customers on Athens VAP qualifications
- Investment in Emerging Technology Center builds upon commitment to core growth areas including additive manufacturing and soft magnetics
- Balance sheet and free cash flow profile allows for continued investment in strategic growth areas while maintaining direct returns to shareholders

# Appendix of Non-GAAP Schedules

# Non-GAAP Schedules (Unaudited)

## Adjusted Diluted Earnings per Share

| $ Millions except per share amounts | Q4-17 | Q3-18 | Q4-18 | FY17 | FY18 |
|---|---|---|---|---|---|
| **Net Income** | **25.5** | **30.2** | **42.8** | **47.0** | **188.5** |
| **Diluted Earnings per Share** | **$ 0.54** | **$ 0.63** | **$ 0.88** | **$ 0.99** | **$ 3.92** |
| Special Items | | | | | |
| Loss on divestiture of business, net of tax | 2.1 | - | - | 2.1 | - |
| Pension curtailment charge, net of tax | - | - | - | 0.4 | - |
| Income tax item * | - | - | - | 2.1 | - |
| Impact of US tax reform and other legislative changes | - | (1.6) | (0.7) | - | (68.3) |
| Special Items | 2.1 | (1.6) | (0.7) | 4.6 | (68.3) |
| **Net Income excluding Special Items** | **27.6** | **28.6** | **42.1** | **51.6** | **120.2** |
| **Adjusted Diluted Earnings per Share** | **$ 0.58** | **$ 0.60** | **$ 0.87** | **$ 1.08** | **$ 2.50** |

Management believes that earnings per share adjusted to exclude the impact of special items is helpful in analyzing the operating performance of the Company, as these items are not indicative of ongoing operating performance. Management uses its results excluding these amounts to evaluate its operating performance and to discuss its business with investment institutions, the Company's Board of Directors and others.

* Discrete income tax charge recorded in Q1-17 as a result of decision to make a voluntary pension contribution paid in October 2016.





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# Non-GAAP Schedules (Unaudited)

## Operating Margin Excluding Surcharge Revenue and Pension Earnings, Interest and Deferrals ("Pension EID") and Special Items

| $ Millions | Q4-17 | Q3-18 | Q4-18 | FY17 | FY18 |
|---|---|---|---|---|---|
| **Net sales** | **507.7** | **572.2** | **618.0** | **1,797.6** | **2,157.7** |
| Less: surcharge revenue | 68.8 | 99.7 | 123.5 | 239.2 | 365.4 |
| **Consolidated Net Sales Excluding Surcharge** | **438.9** | **472.5** | **494.5** | **1,558.4** | **1,792.3** |
| **Operating income** | **44.6** | **45.2** | **59.4** | **97.2** | **187.1** |
| Pension EID | 5.6 | 0.5 | 0.5 | 23.8 | 2.1 |
| **Operating Income Excluding Pension EID** | **50.2** | **45.7** | **59.9** | **121.0** | **189.2** |
| Loss on divestiture of business | 3.2 | - | - | 3.2 | - |
| Pension curtailment charge | - | - | - | 0.5 | - |
| Special Items | 3.2 | - | - | 3.7 | - |
| **Operating Income Excluding Surcharge, Pension EID and Special Items** | **53.4** | **45.7** | **59.9** | **124.7** | **189.2** |
| **Operating Margin** | **8.8%** | **7.9%** | **9.6%** | **5.4%** | **8.7%** |
| **Operating Margin Excluding Surcharge and Pension EID and Special Items** | **12.2%** | **9.7%** | **12.1%** | **8.0%** | **10.6%** |

Management believes that removing the impacts of raw material surcharge from operating margin provides a more consistent basis for comparing results of operations from period to period, thereby permitting management to evaluate performance and investors to make decisions based on the ongoing operations of the Company. In addition, management believes that excluding the impact of pension EID, which may be volatile due to changes in the financial markets, is helpful in analyzing the true operating performance of the Company. Management also believes that removing the impact of special items is helpful in analyzing the operating performance of the Company, as these items are not indicative of ongoing operating performance. Management uses its results excluding these amounts to evaluate its operating performance and to discuss its business with investment institutions, the Company's Board of Directors and others.





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# Non-GAAP Schedules (Unaudited)

## Free Cash Flow

| $ Millions | Q4-17 | Q4-18 | YTD FY17 | YTD FY18 |
|---|---|---|---|---|
| Net cash provided from operating activities | 94.0 | 118.5 | 130.3 | 209.2 |
| Purchases of property, equipment and software | (35.4) | (54.0) | (98.5) | (135.0) |
| Proceeds from divestiture of business | 12.0 | - | 12.0 | - |
| Proceeds from disposals of property and equipment and assets held for sale | 2.5 | - | 2.5 | 1.9 |
| Proceeds from note receivable from sale of equity method investment | - | - | 6.3 | 6.3 |
| Acquisition of business | - | - | (35.3) | (13.3) |
| Dividends paid | (8.5) | (8.6) | (34.1) | (34.4) |
| **Free Cash Flow** | **64.6** | **55.9** | **(16.8)** | **34.7** |

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 uses.





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