July 29, 2021

# CARPENTER TECHNOLOGY CORPORATION

4th Quarter Fiscal Year 2021
Earnings Call

# 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 Technology's filings with the Securities and Exchange Commission, including its report on Form 10-K for the year ended June 30, 2020, Form 10-Q for the quarters ended September 30, 2020, December 31, 2020 and March 31, 2021 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, medical, transportation, energy, industrial and consumer, or other influences on Carpenter Technology'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 Technology 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 Technology'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 Technology, 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 Technology'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; (15) fluctuations in oil and gas prices and production; (16) uncertainty regarding the return to service of the Boeing 737 MAX aircraft and the related supply chain disruption; (17) potential impacts of the COVID-19 pandemic on our operations, financial results and financial position; (18) our efforts and efforts by governmental authorities to mitigate the COVID-19 pandemic, such as travel bans, shelter in place orders and business closures, and the related impact on resource allocations and manufacturing and supply chains; (19) our status as a "critical", "essential" or "life-sustaining" business in light of COVID-19 business closure laws, orders and guidance being challenged by a governmental body or other applicable authority; (20) our ability to execute our business continuity, operational, budget and fiscal plans in light of the COVID-19 pandemic; and (21) our ability to successfully carry out restructuring and business exit activities on the expected terms and timelines. Any of these factors could have an adverse and/or fluctuating effect on Carpenter Technology'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 Technology undertakes no obligation to update or revise any forward-looking statements.*

## Non-GAAP and other financial measures

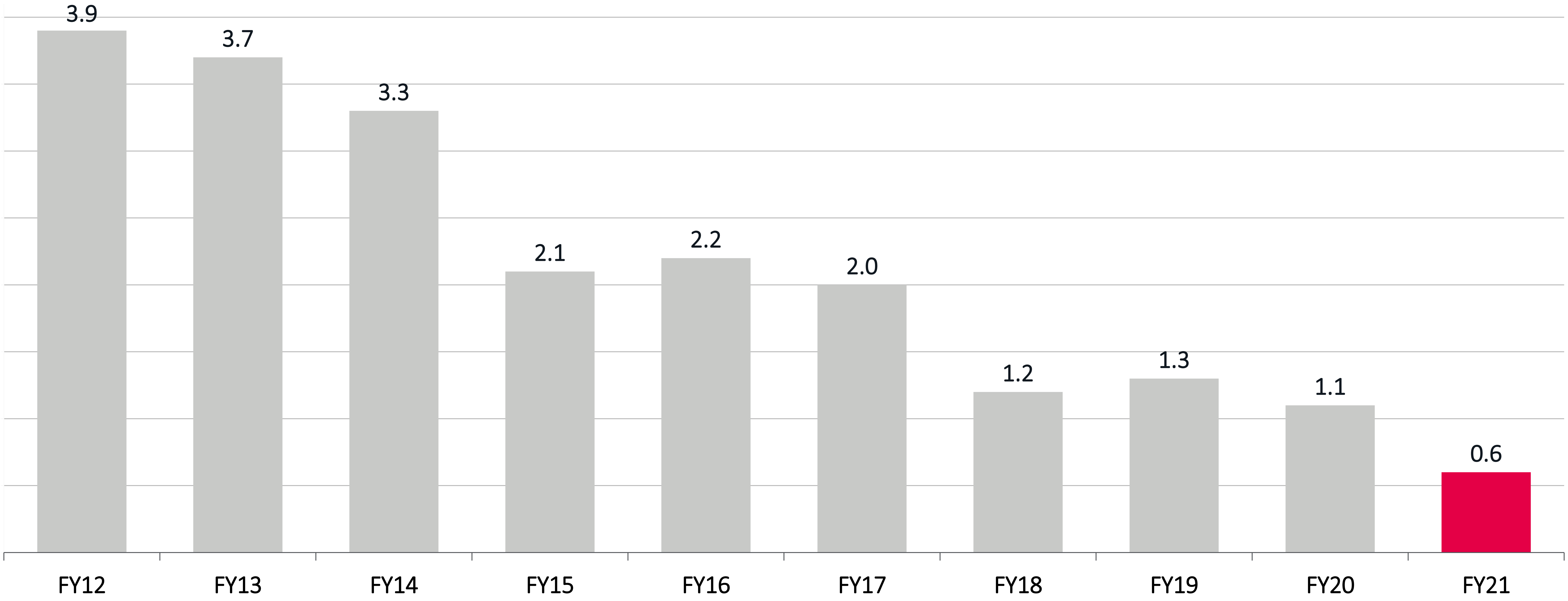
*Financial information included in this presentation is unaudited. Some of the information included in this presentation is derived from Carpenter Technology's consolidated financial information but is not presented in Carpenter Technology's financial statements prepared in accordance with U.S. Generally 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.*

# $4^{th}$ QUARTER
# FISCAL YEAR 2021

**Tony Thene** | President and Chief Executive Officer

# Safety is Our Highest Value

## Total Case Incident Rate (TCIR)



# 4th Quarter Summary

- Results finished ahead of expectations as conditions improved across Aerospace and Defense and Medical end-use markets
- Strategic focus centered on driving liquidity, deepening our customer relationships and capitalizing on emerging market opportunities
- Generated $75 million of cash from operations; $43 million of free cash flow
- Athens qualifications process continued with key customers; additional qualification received
- Recently completed commissioning of hot strip mill at Reading campus

**Continue to Actively Manage our Business and Drive Liquidity; Remain Well Positioned in Attractive End-Use Markets**

# 4th Quarter End-Use Market Highlights

## Sales ex-surcharge down 7% year-over-year; up 17% sequentially

| MARKET | Q4-21 NET SALES EX. SURCHARGE ($M)* | % | VS. Q4-20 | VS. Q3-21 | COMMENTS |
|---|---|---|---|---|---|
| AEROSPACE & DEFENSE | $165.5 | 48% | ↓ -23% | ↑ +21% | • Demand improving with more customers anticipating upticks in early 2022 ahead of firm orders<br>• Wide variation in speed of recovery timing remains by customer and end platform<br>• Defense: new platform activity remains strong |
| MEDICAL | $38.1 | 11% | ↓ -9% | ↑ +23% | • OEMs report increasing medical device procedures while distribution begins to replenish stock levels that are being influenced by market lead-times<br>• Improving patient sentiment dependent on vaccination rates is being offset by new strain concerns |
| TRANSPORTATION | $36.5 | 11% | ↑ +111% | ↑ +25% | • Global light-duty vehicle outlook remains stable from prior quarter<br>• Expecting extended summer shutdowns for OEMs to recalibrate workforce and supply chain<br>• Heavy-duty truck performed well with more growth expected; opportunities to expand share with select customers |
| ENERGY | $13.4 | 4% | ↓ -52% | ↓ -26% | • Oil & gas slow recovery in North America; international markets remain stable with positive outlook<br>• Year-over-year comparisons impacted by divestiture of Amega West business early in fiscal year 2021<br>• Power generation in recovery; order patterns expected to remain lumpy |
| INDUSTRIAL & CONSUMER | $67.8 | 20% | ↑ +21% | ↑ +21% | • Industrial: historically high demand in semiconductor / fluid control portfolio combined with recovering distribution and strength in tooling applications<br>• Consumer: overall strong market demand; new application for electronics driving strong performance |

*Excludes sales through Carpenter's Distribution businesses.

# 4th QUARTER FISCAL YEAR 2021 FINANCIAL OVERVIEW AND BUSINESS UPDATE

**Tim Lain** | Senior Vice President and Chief Financial Officer

# Income Statement Summary

## Sequential improvement in operating performance as demand conditions improved

| $ in millions, except pounds and per-share amounts | Q4-21 | Q4-20 | Q3-21 | YEAR-OVER-YEAR CHANGE | SEQUENTIAL CHANGE |
|---|---|---|---|---|---|
| Pounds ('000) | 47,968 | 48,002 | 37,770 | (34) | 10,198 |
| Net Sales | 421.6 | 437.3 | 351.9 | (15.7) | 69.7 |
| Net Sales ex. Surcharge Revenue* | 348.1 | 375.9 | 298.1 | (27.8) | 50.0 |
| Gross (Loss) Profit | (21.3) | (5.4) | 12.8 | (15.9) | (34.1) |
| Selling, General and Administrative Expenses | 47.9 | 42.0 | 47.8 | 5.9 | 0.1 |
| Special Items in Operating Loss* | 58.2 | 139.3 | 10.3 | (81.1) | 47.9 |
| Operating Loss | (70.7) | (148.2) | (40.0) | 77.5 | (30.7) |
| Adjusted Operating Loss* | (12.5) | (8.9) | (29.7) | (3.6) | 17.2 |
| *% of Net Sales ex. Surcharge Revenue** | *-3.6%* | *-2.4%* | *-10.0%* | *-1.2%* | *6.4%* |
| Effective Tax Rate | 27.7% | 20.2% | 29.2% | 7.5% | -1.5% |
| Net Loss | (57.1) | (118.4) | (40.5) | 61.3 | (16.6) |
| Diluted Loss per Share | ($1.18) | ($2.46) | ($0.84) | $1.28 | ($0.34) |
| Adjusted Diluted Loss per Share* | ($0.28) | ($0.16) | ($0.54) | ($0.12) | $0.26 |



*Detailed schedule included in Non-GAAP Schedules in Appendix.

# SAO Segment Summary

| Q4 OPERATING RESULTS | Q4-21 | Q4-20 | Q3-21 | vs Q4-20 | vs Q3-21 |
|---|---|---|---|---|---|
| Pounds ('000) | 47,712 | 46,124 | 37,260 | 1,588 | 10,452 |
| Net Sales ($M) | 361.5 | 369.4 | 299.6 | (7.9) | 61.9 |
| Sales ex. Surcharge ($M) | 289.9 | 308.6 | 246.5 | (18.7) | 43.4 |
| Operating (Loss) Income ($M) | (47.3) * | 5.3 | (9.9) | (52.6) | (37.4) |
| *% of Net Sales* | *-13.1%* | *1.4%* | *-3.3%* | *-14.5%* | *-9.8%* |
| *% of Sales ex. Surcharge* | *-16.3%* | *1.7%* | *-4.0%* | *-18.0%* | *-12.3%* |

## Q4 business results

- Sales increased 18% sequentially on 28% higher volumes; shipments bolstered by close out of arrangements with select Aerospace customers to hold/defer material
- $47.9 million of non-cash LIFO decrement charge ($1.8 million in Q4-20) as efforts to reduce inventory resulted in additional $47 million reduction in current quarter; $193 million of inventory reduction in fiscal year 2021
- $2.1 million of COVID-19 related costs incurred in Q4-21 ($6.5 million in Q4-20, $2.1 million in Q3-21)

## Q1-22 outlook

- Demand conditions expected to continue to improve; sales expected to be relatively flat sequentially
- Continue to drive operating cost improvements as activity levels increase while executing planned annual maintenance shutdowns
- Similar sequential operating income (excluding LIFO decrement) in Q1-22

*Includes $47.9 million of non-cash LIFO decrement charge

# PEP Segment Summary

| Q4 OPERATING RESULTS | | | | | |
|---|---|---|---|---|---|
| | Q4-21 | Q4-20 | Q3-21 | vs Q4-20 | vs Q3-21 |
| Pounds* ('000) | 2,912 | 2,384 | 2,026 | 528 | 886 |
| Net Sales ($M) | 77.5 | 77.1 | 65.7 | 0.4 | 11.8 |
| Sales ex. Surcharge ($M) | 75.6 | 76.0 | 64.9 | (0.4) | 10.7 |
| Operating Loss ($M) | (2.3) ** | (8.4) | (3.3) | 6.1 | 1.0 |
| *% of Net Sales* | *-3.0%* | *-10.9%* | *-5.0%* | *7.9%* | *2.0%* |
| *% of Sales ex. Surcharge* | *-3.0%* | *-11.1%* | *-5.1%* | *8.1%* | *2.1%* |

### Q4 business results

- Sales increased 16% sequentially due to increasing demand conditions across all business units driven by Titanium materials used in Aerospace and Medical applications
- Continued to realize benefits of cost and portfolio actions taken over the last several quarters principally related to Additive business unit
- Operating results include $4.3 million non-cash LIFO decrement charge in Q4-21

### Q1-22 outlook

- Demand patterns expected to continue to recover; sales expected to remain flat sequentially
- Ongoing focus on operating cost discipline and cash flow generation
- Operating loss expected to be $0 to $2 million in Q1-22

* Pounds includes only Dynamet and Additive businesses
** Includes $4.3 million of non-cash LIFO decrement charge

# Free Cash Flow Summary

Continued to drive targeted inventory reductions; $132 million of free cash flow generated in fiscal 2021

| $ MILLIONS | Q1-21 | Q2-21 | Q3-21 | Q4-21 | FY21 | FY20 |
|---|---|---|---|---|---|---|
| Net (Loss) Income + Non-Cash Items | 4 | (3) | 4 | 24 | 29 | 273 |
| Inventory | 85 | 71 | 26 | 57 | 239 | 30 |
| Working Capital / Other | 2 | 18 | (20) | 2 | 2 | (64) |
| Total Net Working Capital / Other | 87 | 89 | 6 | 59 | 241 | (34) |
| Pension Plan Contributions | (3) | (2) | (6) | (9) | (20) | (7) |
| **Net Cash Provided from Operating Activities** | **88** | **84** | **4** | **75** | **250** | **232** |
| Purchases of Property, Plant, Equipment and Software | (33) | (27) | (19) | (22) | (101) | (171) |
| Proceeds from disposals of property, plant and equipment and assets held for sale | - | 2 | - | - | 2 | - |
| Proceeds from divestiture of business | 18 | 2 | - | - | 20 | - |
| Dividends Paid | (10) | (10) | (10) | (10) | (39) | (39) |
| **Free Cash Flow *** | **63** | **51** | **(25)** | **43** | **132** | **22** |
| | | | | | | |
| Cash | 219 | 271 | 244 | 287 | 287 | 193 |
| Available Borrowing Under Credit Facility | 394 | 394 | 295 | 295 | 295 | 224 |
| **Total Liquidity** | **613** | **665** | **539** | **582** | **582** | **417** |

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

*Detailed schedule included in Non-GAAP Schedules in Appendix.

# Selected Fiscal Year 2022 Guidance

| *$ in millions* | FY21 | FY22 Estimate |
|---|---|---|
| Depreciation and Amortization | $124 | ~$135 |
| Capital Expenditures | $101 | ~$125 |
| Required Minimum Pension Contributions | $20 | -- |
| Net Pension Expense (Income)* | $13 | ~($8) |
| Interest Expense | $33 | ~$41 |
| Effective Tax Rate | 23% | 28-30% |

*FY21 excludes pension settlement charges.

# $4^{th}$ QUARTER FISCAL YEAR 2021 CLOSING COMMENTS

**Tony Thene** | President and Chief Executive Officer

# Positioned to Capitalize on the Recovery

- Total liquidity of $582 million, including $287 million in cash
- Operating flexibility given strengthened financial position and extended maturities profile
- Forged stronger relationships with key customers during the pandemic; secured market share gains and contract extensions
- Further implementing the Carpenter Operating Model to drive improved efficiency and reduced costs across our facilities
- Ongoing progress at Athens facility; offers incremental capacity to the Aerospace industry
- Soft magnetics capabilities and additive manufacturing platform provide long-term growth opportunities

**Deep Customer Relationships, Improved Operations and Emerging Growth Platforms Support Long-Term Sustainable Growth**

# APPENDIX OF NON-GAAP SCHEDULES

# Non-GAAP Schedules

## Adjusted diluted (loss) earnings per share

| $ MILLIONS, EXCEPT PER-SHARE AMOUNTS | Q4-21 | Q4-20 | Q3-21 | FY21 | FY20 |
|---|---|---|---|---|---|
| Diluted (Loss) Earnings per Share | ($1.18) | ($2.46) | ($0.84) | ($4.76) | $0.02 |
| Net (Loss) Income | (57.1) | (118.4) | (40.5) | (229.6) | 1.5 |
| Special Items, net of tax: | | | | | |
| LIFO decrement | 37.3 | 1.4 | - | 37.3 | 1.4 |
| COVID-19 costs | 2.1 | 5.9 | 1.9 | 12.3 | 5.9 |
| Inventory write-downs from restructuring | 1.2 | 23.3 | 2.0 | 3.2 | 23.3 |
| Restructuring and asset impairment charges | 1.1 | 52.7 | 3.8 | 12.6 | 54.5 |
| Goodwill impairment | - | 27.5 | - | 52.7 | 27.5 |
| Debt extinguishment losses, net | - | - | - | 6.2 | - |
| Pension settlement charges | 1.9 | - | 6.7 | 8.6 | - |
| Special Items, net of tax: | 43.6 | 110.8 | 14.4 | 132.9 | 112.6 |
| Net (Loss) Income Excluding Special Items | (13.5) | (7.6) | (26.1) | (96.7) | 114.1 |
| Adjusted Diluted (Loss) Earnings per Share | ($0.28) | ($0.16) | ($0.54) | ($2.01) | $2.36 |

Management believes that (loss) 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.

# Non-GAAP Schedules

## Adjusted operating margin, excluding surcharge revenue and special items

| $ MILLIONS | Q4-21 | Q4-20 | Q3-21 | FY21 | FY20 |
|---|---|---|---|---|---|
| Net Sales | 421.6 | 437.3 | 351.9 | 1,475.6 | 2,181.1 |
| Less: Surcharge Revenue | 73.5 | 61.4 | 53.8 | 222.8 | 352.4 |
| Net Sales Excluding Surcharge Revenue | 348.1 | 375.9 | 298.1 | 1,252.8 | 1,828.7 |
| Operating (Loss) Income | (70.7) | (148.2) | (40.0) | (248.6) | 25.3 |
| Special Items: | | | | | |
| LIFO decrement | 52.2 | 1.8 | - | 52.2 | 1.8 |
| COVID-19 costs | 2.9 | 7.4 | 2.7 | 17.3 | 7.4 |
| Inventory write-downs from restructuring | 1.6 | 29.3 | 2.6 | 4.2 | 29.3 |
| Restructuring and asset impairment charges | 1.5 | 66.2 | 5.0 | 16.6 | 68.5 |
| Goodwill impairment | - | 34.6 | - | 52.8 | 34.6 |
| Special Items | 58.2 | 139.3 | 10.3 | 143.1 | 141.6 |
| Operating (Loss) Income Excluding Special Items | (12.5) | (8.9) | (29.7) | (105.5) | 166.9 |
| **Operating Margin** | **-16.8%** | **-33.9%** | **-11.4%** | **-16.8%** | **1.2%** |
| **Adjusted Operating Margin Excluding Surcharge Revenue and Special Items** | **-3.6%** | **-2.4%** | **-10.0%** | **-8.4%** | **9.1%** |

Management believes that removing the impact 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 special items from operating margin 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.

# Non-GAAP Schedules

## Free cash flow

| $ MILLIONS | Q1-21 | Q2-21 | Q3-21 | Q4-21 | FY21 | FY20 |
|---|---|---|---|---|---|---|
| **Net cash provided from operating activities** | 88.0 | 83.6 | 3.8 | 74.5 | 250.0 | 231.8 |
| Purchases of property, plant, equipment and software | (33.3) | (26.6) | (18.6) | (22.1) | (100.5) | (171.4) |
| Proceeds from disposals of property and equipment and assets held for sale | - | 1.5 | 0.1 | - | 1.6 | 0.2 |
| Proceeds from divestiture of business | 17.6 | 2.4 | - | - | 20.0 | - |
| Dividends paid | (9.7) | (9.9) | (9.8) | (9.8) | (39.1) | (38.8) |
| **Free Cash Flow** | 62.6 | 51.0 | (24.5) | 42.6 | 132.0 | 21.8 |

Management believes that the free cash flow measure provides useful information to investors regarding the Company's financial condition because it is a measure of cash generated, which management evaluates for alternative uses.

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

# Your trusted partner in innovation.

Carpenter Technology Corporation (NYSE: CRS) is a global leader in high-performance specialty alloy-based materials and process solutions for critical applications in the aerospace, defense, medical, transportation, energy, industrial and consumer electronics markets.

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