

Q1 FY'13 Earnings Conference Call

January 23, 2013



AIR
PRODUCTS 

Forward Looking Statement

Note: This presentation contains "forward-looking statements" within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements about earnings guidance, projections, targets and business outlook. These forward-looking statements are based on management's reasonable expectations and assumptions as of the date of this release. Actual performance and financial results may differ materially from projections and estimates expressed in the forward-looking statements because of many factors not anticipated by management, including, without limitation, deterioration in global or regional economic and business conditions; weakening demand for the Company's products and services; future financial and operating performance of major customers; unanticipated contract terminations or customer cancellations or postponement of projects and sales; the success of commercial negotiations; asset impairments or losses due to a decline in profitability of or demand for certain of the Company's products or businesses, or specific product or customer events; the impact of competitive products and pricing; interruption in ordinary sources of supply of raw materials; the ability to recover unanticipated increased energy and raw material costs from customers; costs and outcomes of litigation or regulatory activities; successful development and market acceptance of new products and applications; the ability to attract, hire and retain qualified personnel in all regions of the world where the Company operates; the success of productivity programs; the success and impact of restructuring and cost reduction initiatives; achieving anticipated acquisition synergies; the timing, impact, and other uncertainties of future acquisitions or divestitures; increases in the Company's costs of borrowing or significant fluctuations in foreign currencies from that currently anticipated or; the continued availability of capital funding sources for all of the Company's foreign operations; the impact of environmental, tax or other legislation and regulations in jurisdictions in which the Company and its affiliates operate; the impact of new or changed financial accounting guidance; the impact on the effective tax rate of changes in the mix of earnings among our U.S. and international operations; and other risk factors described in the Company's Form 10K for its fiscal year ended September 30, 2012. The Company disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Company's assumptions, beliefs or expectations or any change in events, conditions, or circumstances upon which any such forward-looking statements are based.

Q1 Financials

(\$millions, Continuing Operations)

	Q1 FY13	<u>Fav/(Unfav) vs.</u>	
		Q1 FY12	Q4 FY12
Sales	\$2,562	10%	(2%)
- Volume		4%	(4%)
- Price		-0%	-0%
- Energy/Raw Mat'l pass-thru		-0%	1%
- Currency		-0%	1%
- Acquisitions		6%	-0%
Operating Income	\$372	5%	(9%)
Operating Margin	14.5%	(70bp)	(120bp)
Net Income	\$277	3%	(9%)
Diluted EPS (\$/share)	1.30	3%	(8%)
ROCE	11.2%	(110bp)	(30bp)

non-GAAP, see appendix for reconciliation



Q1 EPS Analysis

	<u>Q1 FY13</u>	<u>Q1 FY12</u>	<u>Change</u>
As-reported cont. ops. EPS	\$1.30	\$1.06	
- PY tax audit settlement	-	(0.20)	
	<u>\$1.30</u>	<u>\$1.26</u>	<u>\$0.04</u>
Volume (incl. \$0.07 acq.)			\$0.12
Price / raw materials			(0.03)
Cost			(0.05)
			\$0.04
Currency/FX			0.02
Higher equity affiliate income			0.01
Higher interest expense			(0.02)
Higher tax rate			(0.02)
Fewer shares outstanding			0.01
Change			<u>\$0.04</u>

non-GAAP, see appendix for reconciliation.

Merchant Gases

		<u>Fav/(Unfav) vs.</u>	
	<u>Q1 FY13</u>	<u>Q1 FY12</u>	<u>Q4 FY12</u>
Sales	\$1,009	14%	(1%)
- Volume		(3%)	(3%)
- Price		2%	1%
- Currency		-%	1%
- Acquisition		15%	-%
Operating Income	\$171	3%	6%
Operating Margin	16.9%	(180bp)	110bp

- Continued positive pricing, despite soft demand
- Europe packaged gas demand weakness and Helium availability impacted volumes
- Indura business operating well, driving sales increase but diluting margins (-80bp)

Merchant Gases: Q1 Sales Analysis vs PY

	<u>U.S./ Canada</u>	<u>Europe</u>	<u>Asia</u>
Sales % change	2%	(6%)	5%
- Volume	1%	(5%)	-0%
- Price	1%	1%	2%
- Currency	-0%	(2%)	3%

- US/Canada LOX/LIN growth partially offset by helium limitations
- Continued positive Europe pricing despite weaker demand
- Asia volumes impacted by PV and steel weakness, but positive pricing

Note: The above excludes our Latin American businesses and small on-sites sale of equipment businesses.

Tonnage Gases

		<u>Fav/(Unfav) vs.</u>	
	<u>Q1 FY13</u>	<u>Q1 FY12</u>	<u>Q4 FY12</u>
Sales	\$898	11%	6%
- Volume		13%	4%
- Energy/Raw Mat'l pass thru		(1%)	4%
- Currency		-0%	1%
- PUI		(1%)	(3%)
Operating Income	\$138	24%	(2%)
Operating Margin	15.4%	160bp	(130bp)

- Base business growth, particularly U.S. Gulf Coast, and new projects drive volumes
- Strong plant operating performance and higher volumes drive income increase

Electronics & Performance Materials

		<u>Fav/(Unfav) vs.</u>	
	<u>Q1 FY13</u>	<u>Q1 FY12</u>	<u>Q4 FY12</u>
Sales	\$549	3%	(11%)
- Volume		-%	(11%)
- Price		(1%)	(1%)
- Currency		-%	1%
- Acquisitions		4%	-%
Operating Income	\$61	(22%)	(28%)
Operating Margin	11.2%	(340bp)	(260bp)
Electronics sales		-%	(15%)
Performance Materials sales		6%	(4%)

- Electronics sales impacted by lower equipment and materials seasonality
- Income (-\$13MM) and Margin (-240bp) impacted by inventory revaluation vs. prior year

non-GAAP, see appendix for reconciliation.

Equipment & Energy

	<u>Q1 FY13</u>	<u>Fav/(Unfav) vs.</u>	
		<u>Q1 FY12</u>	<u>Q4 FY12</u>
Sales	\$106	19%	(16%)
Operating Income	\$ 8	15%	(53%)
Sales Backlog	\$389	25%	(14%)

- LNG development activity remains strong
- ASU development activity is slowing
- Expect improvement through 2013

Outlook

FY 2013 EPS

\$5.70-\$5.90

FQ1 2013 EPS

\$1.30

- Higher E&PM volumes
- Higher Equipment & Energy
- No Inv Reval, lower share count

} ↑ EPS

- Lower Tonnage volumes
- Higher Tonnage maintenance
- PUI impact

} ↓ EPS

FQ2 2013 EPS

\$1.34-\$1.39

Appendix Slides

The background is a solid green color. A thick, solid yellow curve starts from the bottom left and curves upwards and to the right, ending near the top right. A thin, dotted white curve starts from the bottom left and curves upwards and to the right, ending near the top right, positioned above the yellow curve.

Major Projects

Plant	Location	Capacity	Timing
ASU/Liquid	Petrochina, Chengdu, China	World Scale	Onstream
H2	Marathon, Detroit	60 MMSCFD H2	Onstream
ASU/Liquid	Yankuang, Guiyang, China	2,000 TPD O2	Q2FY13
H2	Petrochina, Chengdu, China	90 MMSCFD H2	Q3FY13
ASU	Samsung, Tangjeong, Korea	World Scale	H2FY13
ASU/Liquid	Samsung, Xian, China	World Scale	H2FY13
Helium	Wyoming	200 MMSCFY	Q4FY13
ASU/Liquid	Gent, Belgium	2,000 TPD O2	Q4FY13
ASU/Liquid	PCEC, Weinan, China	8,200 TPD O2	H1FY14
H2	St. Charles, LA	World Scale	FY14
ASU/Liquid	Wison, Nanjing, China	1,500 TPD O2	FY14
ASU/Liquid	XLX, Xinxiang, China	2,000 TPD O2	FY14
EfW	Tees Valley, UK	50MW	FY14
ASU/Liquid	Zhengyuan, Hebei, China	2,000 TPD O2	FY14
ASU	Tainan, Taiwan	Multiple Plants	FY14
ASU	Yankuang, Yulin, China	12,000 TPD O2	FY15

Air Products EPS

	FY11	FY12	FY13
Q1	\$1.25	\$1.26	\$1.30
Q2	\$1.33	\$1.31	\$1.34 - \$1.39
Q3	\$1.37	\$1.41	
<u>Q4</u>	<u>\$1.41</u>	<u>\$1.42</u>	
FY	\$5.36	\$5.40	\$5.70 - \$5.90

Appendix: Q1 FY13 Results and Guidance

(\$ Millions, except per share data)

	GAAP Measure				Q112 (2)	Non GAAP Measure			
	Q113	Q112	\$ Change	% Change		Q113	Q112	\$ Change	% Change
Q113 vs. Q112 - Total Company									
Sales	2,562.4	2,321.5	240.9	10%		2,562.4	2,321.5	240.9	10%
Operating Income	372.4	353.8	18.6	5%		372.4	353.8	18.6	5%
Operating Margin	14.5%	15.2%		(70bp)		14.5%	15.2%		(70bp)
Income from Cont. Ops. (1)	276.9	225.9	51.0	23%	43.8	276.9	269.7	7.2	3%
Diluted EPS - Cont. Ops. (1)	\$1.30	\$1.06	\$0.24	23%	\$0.20	\$1.30	\$1.26	\$0.04	3%
			\$	%				\$	%
Q113 vs. Q412 - Total Company									
Sales	2,562.4	2,605.8	(43.4)	(2%)	Q412 (3)	2,562.4	2,605.8	(43.4)	(2%)
Operating Income	372.4	157.9	214.5	136%	250.4	372.4	408.3	(35.9)	(9%)
Operating Margin	14.5%	6.1%		840bp		14.5%	15.7%		(120bp)
Income from Cont. Ops. (1)	276.9	137.1	139.8	102%	167.9	276.9	305.0	(28.1)	(9%)
Diluted EPS - Cont. Ops. (1)	\$1.30	\$0.64	\$0.66	103%	\$0.78	\$1.30	\$1.42	(\$0.12)	(8%)

(1) Attributable to Air Products

(2) Spanish tax settlement

(3) Q412 FY12 Non GAAP items:

	Op Income	Inc. From Cont. Ops	EPS
PUI business actions	54.6	34.8	0.16
PV market actions	186.0	127.0	0.59
Customer bankruptcy	9.8	6.1	0.03
	250.4	167.9	0.78

FY13 EPS Guidance

Q2 FY13 Guidance

Q2 FY12 GAAP	\$1.30
Spanish tax ruling	(\$0.27)
Cost reduction plan charge	\$0.28
Q2 FY12 Non GAAP	\$1.31
Q2 FY13 Guidance	\$1.34-\$1.39
% Change	2%-6%

FY13 EPS guidance

FY12 GAAP	\$4.66
FY12 non GAAP items (5)	\$0.74
FY12 Non GAAP	\$5.40
FY13 Guidance	\$5.70-\$5.90
% Change	6%-9%

(4) Continuing operations, attributable to Air Products

FY13 Capital Expenditures Guidance

	\$Millions
FY12 GAAP	2,559.8
Capital lease expenditures	212.2
Purchase of noncontrolling interests	6.3
FY12 Non GAAP	2,778.3
FY13 GAAP - guidance	1,650-1,750
Capital lease expenditures	250-350
FY13 Non GAAP - guidance	1,900-2,100

(5) FY 12 Non GAAP adjustments:

	EPS
Spanish tax settlement - Q1	\$0.20
Spanish tax ruling - Q2	(\$0.27)
Cost reduction plan charge - Q2	\$0.28
Gain on previously held equity interest - Q3	(\$0.25)
PUI business actions - Q4	\$0.16
PV market actions - Q4	\$0.59
Customer bankruptcy - Q4	\$0.03
Total Adjustments	\$0.74

Appendix: ROCE

\$ Millions Quarter Ended	<u>Q111</u>	<u>Q211</u>	<u>Q311</u>	<u>Q411</u>	<u>Q112</u>	<u>Q212</u>	<u>Q312</u>	<u>Q412</u>	<u>Q113</u>
Numerator									
Operating Income Reported		393.8	387.7	395.4	353.7	287.9	482.8	157.9	372.4
Equity Affiliate Income		<u>31.7</u>	<u>39.7</u>	<u>55.1</u>	<u>37.1</u>	<u>35.5</u>	<u>41.7</u>	<u>39.5</u>	<u>41.4</u>
Earnings before tax as reported		425.5	427.4	450.5	390.8	323.4	524.5	197.4	413.8
Cost Reduction Plan		0.0	0.0	0.0	0.0	86.8	0.0	0.0	0.0
Acquisition - Related Costs		5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain on previously held equity interest		0.0	0.0	0.0	0.0	0.0	(85.9)	0.0	0.0
PUI business actions		0.0	0.0	0.0	0.0	0.0	0.0	54.6	0.0
PV market actions		0.0	0.0	0.0	0.0	0.0	0.0	186.0	0.0
Customer Bankruptcy		<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>9.8</u>	<u>0.0</u>
Earnings before tax ex items		430.5	427.4	450.5	390.8	410.2	438.6	447.8	413.8
Effective tax rate as reported		26.1%	23.8%	24.5%	35.2%	3.0%	26.7%	11.2%	24.4%
Earnings after tax as reported		314.4	325.7	340.1	253.2	313.7	384.5	175.3	312.8
Effective tax rate ex items		25.9%	23.8%	24.5%	23.1%	24.5%	24.7%	24.5%	24.4%
Earnings after tax ex items		319.0	325.7	340.1	300.5	309.7	330.3	338.1	312.8
4 Qtr trailing AT earnings (numerator) - as reported					1,233.4	1,232.7	1,291.5	1,126.7	1,186.3
4 Qtr trailing AT Earnings (numerator) - ex items					1,285.3	1,276.0	1,280.6	1,278.6	1,290.9
Denominator									
Total Debt	3,991.2	4,394.8	4,495.7	4,561.5	4,614.4	4,739.4	4,216.9	5,291.9	6,035.7
Air Products Shareholders' Equity	5,810.0	5,825.2	6,232.2	5,795.8	5,909.0	6,262.7	6,513.6	6,477.2	6,299.3
Redeemable Noncontrolling Interest								392.5	390.7
Noncontrolling Interest	167.2	174.0	164.8	142.9	148.1	144.7	133.8	146.1	151.9
Total Capital	9,968.4	10,394.0	10,892.7	10,500.2	10,671.5	11,146.8	10,864.3	12,307.7	12,877.6
2 Qtr Average Capital (denominator)					10,585.9	10,909.2	11,005.6	11,586.0	12,592.7
5 Qtr Average Capital (denominator)					10,485.4	10,721.0	10,815.1	11,098.1	11,573.6
ROCE as rptd (4 Qtr trail AT earnings / 5 pt avg capital)					11.8%	11.5%	11.9%	10.2%	10.3%
ROCE ex items (4 Qtr trail AT earnings/ 5 pt avg capital)					12.3%	11.9%	11.8%	11.5%	11.2%
Instantaneous ROCE ex items (Qtr earnings AT x 4) / 2 pt avg capital)					11.4%	11.4%	12.0%	11.7%	9.9%

Appendix: ROCE Tax Rate

(\$ Millions)	<u>Q211</u>	<u>Q311</u>	<u>Q411</u>	<u>Q112</u>	<u>Q212</u>	<u>Q312</u>	<u>Q412</u>	<u>Q113</u>
<u>Reported</u>								
Income Before Taxes	396.1	400.9	421.9	361.5	294.0	498.5	158.5	378.0
Tax Expense	103.2	95.4	103.4	127.4	8.8	133.3	17.8	92.2
Tax Rate Reported	26.1%	23.8%	24.5%	35.2%	3.0%	26.7%	11.2%	24.4%
<u>ITEMS</u>								
<u>Operating Income</u>								
Acquisition - related costs	5.0							
Cost Reduction Charge					86.8			
Gain on previously held equity interest						(85.9)		
PUI business actions							54.6	
PV market actions							186.0	
Customer Bankruptcy							9.8	
<u>Tax Exp</u>								
Acquisition - related costs	0.6							
Spanish tax settlement				(43.8)				
Spanish tax ruling					58.3			
Cost Reduction Charge					26.2			
Gain on previously held equity interest						(31.3)		
PUI divestiture loss							19.8	
PV market actions							59.0	
Customer Bankruptcy							3.7	
<u>Ex Items</u>								
Income Before Taxes	401.1	400.9	421.9	361.5	380.8	412.6	408.9	378.0
Tax Expense	103.8	95.4	103.4	83.6	93.3	102.0	100.3	92.2
Tax Rate ex Items	25.9%	23.8%	24.5%	23.1%	24.5%	24.7%	24.5%	24.4%

Thank you...
tell me more

