

# Q2 FY'13

## Earnings Conference Call

April 23 2013



# 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 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, further 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; the success of productivity programs; the timing, impact, and other uncertainties of future acquisitions or divestitures; significant fluctuations in interest rates and foreign currencies from that currently anticipated; the impact of environmental, tax or other legislation and regulations in jurisdictions in which the Company and its affiliates operate; 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.

# Q2 Financials

(\$millions, Continuing Operations)

	Q2 FY13	Fav/(Unfav) vs.	
		Q2 FY12	Q1 FY13
Sales	\$2,484	6%	(3%)
- Volume (ex-PUI)		-%	(2%)
- PUI volume		(2%)	(1%)
- Price		-%	-%
- Energy/Raw Mat'l pass-thru		2%	-%
- Currency		-%	-%
- Acquisitions		6%	-%
Operating Income	\$390	4%	5%
Operating Margin	15.7%	(30bp)	120bp
Net Income	\$289	3%	4%
Diluted EPS (\$/share)	1.37	5%	5%
ROCE	10.9%	(100bp)	(30bp)

non-GAAP, see appendix for reconciliation

# Q2 EPS Analysis

	<u>Q2 FY13</u>	<u>Q2 FY12</u>	<u>Change</u>
As-reported cont. ops. EPS	\$1.37	\$1.30	
- PY cost reduction plan	-	(0.28)	
- PY Spanish tax ruling	-	0.27	
Adjusted cont. ops. EPS	<u>\$1.37</u>	<u>\$1.31</u>	<u>\$0.06</u>
Volume [incl. +\$0.06 acquisitions]			\$0.07
Price / raw materials			(0.04)
Cost			0.07
PUI impact			(0.02)
Currency/FX			(0.02)
Higher equity affiliate income			0.01
Non-controlling interest			(0.01)
Higher interest expense			(0.02)
Fewer shares outstanding			0.02
Change			<u>\$0.06</u>

\$0.10

non-GAAP, see appendix for reconciliation. Cost line includes \$0.02 gain on asset sale

# Merchant Gases

	<u>Q2 FY13</u>	<u>Fav/(Unfav) vs.</u>	
		<u>Q2 FY12</u>	<u>Q1 FY13</u>
Sales	\$1,003	14%	(1%)
- Volume		(2%)	(1%)
- Price		1%	-%
- Currency		-%	-%
- Acquisition		15%	-%
Operating Income	\$168	10%	(2%)
Operating Margin	16.8%	(50bp)	(10bp)

- Helium availability and weaker Europe demand impacted volumes
- Continued positive pricing, despite weaker demand
- Indura business integrated well. Drives sales increase but margin dilution (segment margins up 30bp vs PY ex-Indura)

non-GAAP, see appendix for reconciliation

# Merchant Gases: Q2 Sales Analysis vs PY

	<u>U.S./ Canada</u>	<u>Europe</u>	<u>Asia</u>
Sales % change	(1%)	(5%)	4%
- Volume	(2%)	(5%)	-%
- Price	1%	-%	2%
- Currency	-%	-%	2%
LOX/LIN capacity utilization	low 70's	mid 70's	mid 70's

- US/Canada LOX/LIN growth offset by helium supply limitations
- Volume weakness in Northern, Southern and Central Europe
- Asia LOX/LIN volume growth offset by weaker electronics and lower argon to PV and fabrication markets

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

# Tonnage Gases

	<u>Q2FY13</u>	<u>Fav/(Unfav) vs.</u> <u>Q2 FY12</u> <u>Q1 FY13</u>	
Sales	\$809	3%	(10%)
- Volume (ex-PUI)		4%	(8%)
- PUI volume		(7%)	(2%)
- Energy/Raw Mat'l pass thru		6%	-%
- Currency		-%	-%
Operating Income	\$123	(2%)	(11%)
- <i>Operating Income excluding PUI</i>	\$117	3%	(11%)
Operating Margin	15.2%	(80bp)	(20bp)

- New plant volume growth. Base business volumes flat with strength in the U.S. gulf coast offset by planned outages.
- 7<sup>th</sup> large oxygen project for Coal Gasification in China – Lu'An coal – now executing over 38,000 tpd in China

# Electronics & Performance Materials

	<u>Q2FY13</u>	<u>Fav/(Unfav) vs.</u>	
		<u>Q2 FY12</u>	<u>Q1 FY13</u>
Sales	\$549	(3%)	-0%
- Volume		(6%)	-0%
- Price		(1%)	-0%
- Currency		-0%	-0%
- Acquisitions		4%	-0%
Operating Income	\$78	(9%)	26%
Operating Margin	14.1%	(100bp)	290bp
Electronics sales		(3%)	(5%)
Performance Materials sales		(3%)	7%

- Electronics impacted by weaker semi market and lower equipment sales
- Performance Materials sales show modest seasonal strength
- Prior quarter inventory revaluation

non-GAAP, see appendix for reconciliation.



# Equipment & Energy

	<u>Q2FY13</u>	Fav/(Unfav) vs.	
		<u>Q2 FY12</u>	<u>Q1 FY13</u>
Sales	\$124	12%	17%
Operating Income	\$ 21	110%	145%
Sales Backlog	\$326	5%	(16%)

- LNG project activity drives sales and income increase
- New LNG order for Petronas
- Full year improvement as expected

# Outlook

FY 2013 EPS

\$5.45-\$5.60

FQ2 2013 EPS

\$1.37

Higher Merchant volumes

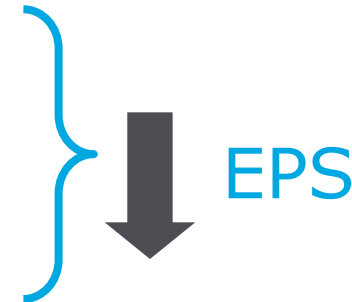
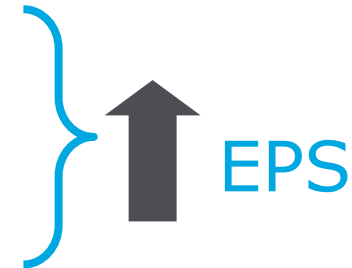
Modestly higher Tonnage volumes

Higher Performance Materials volumes

Lower Equipment & Energy

Pension settlements

PUI impact, lower OIE



FQ3 2013 EPS

\$1.33-\$1.38

# 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	Q3FY13
H2	Petrochina, Chengdu, China	90 MMSCFD H2	Q3FY13
ASU/Liquid	Samsung, Xian, China	World Scale	H2FY13
Helium	Wyoming	200 MMSCFY	Q4FY13
ASU/Liquid	Gent, Belgium	2,000 TPD O2	Q4FY13
ASU	Samsung, Tangjeong, Korea	World Scale	H1FY14
ASU/Liquid	PCEC, Weinan, China	8,200 TPD O2	FY14
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
ASU/Liquid	Zhengyuan, Hebei, China	2,000 TPD O2	FY14
ASU	Tainan, Taiwan	Multiple Plants	FY14
EfW	Tees Valley, UK	50MW	FY15
ASU	Yankuang, Yulin, China	12,000 TPD O2	FY15
ASU	Lu'An, Changzhi City, China	10,000 TPD O2	FY16

# Air Products EPS

	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
Q1	\$1.25	\$1.26	\$1.30
Q2	\$1.33	\$1.31	\$1.37
Q3	\$1.37	\$1.41	\$1.33 - \$1.38
Q4	\$1.41	\$1.42	
<b>FY</b>	<b>\$5.36</b>	<b>\$5.40</b>	<b>\$5.45 - \$5.60</b>

APD diluted earnings per share, continuing operations, ex-disclosed items (non-GAAP basis).

# Appendix: Q2 FY13 Results and Guidance

(\$ Millions, except per share data)

	GAAP Measure				Q212 (2)	Non GAAP Measure			
	Q213	Q212	\$ Change	% Change		Q213	Q212	\$ Change	% Change
<b>Q213 vs. Q212 - Total Company</b>									
Sales	2,484.2	2,344.3	139.9	6%		2,484.2	2,344.3	139.9	6%
Operating Income	389.7	287.9	101.8	35%	86.8	389.7	374.7	15.0	4%
Operating Margin	15.7%	12.3%		340bp		15.7%	16.0%		(30bp)
Income from Cont. Ops. (1)	289.3	279.0	10.3	4%	2.3	289.3	281.3	8.0	3%
Diluted EPS - Cont. Ops. (1)	\$1.37	\$1.30	\$0.07	5%	\$0.01	\$1.37	\$1.31	\$0.06	5%
<b>Q213 vs. Q113 - Total Company</b>									
Sales	2,484.2	2,562.4	(78.2)	(3%)		2,484.2	2,562.4	(78.2)	(3%)
Operating Income	389.7	372.4	17.3	5%		389.7	372.4	17.3	5%
Operating Margin	15.7%	14.5%		120bp		15.7%	14.5%		120bp
Income from Cont. Ops. (1)	289.3	276.9	12.4	4%		289.3	276.9	12.4	4%
Diluted EPS - Cont. Ops. (1)	\$1.37	\$1.30	\$0.07	5%		\$1.37	\$1.30	\$0.07	5%

(1) Attributable to Air Products

(2) Q212 FY12 Non GAAP items:

	Op Income	Inc. From Cont. Ops	EPS
Spanish tax ruling	-	(58.3)	(0.27)
Cost reduction plan Charge	86.8	60.6	0.28
	86.8	2.3	0.01

## FY13 EPS Guidance

	Diluted
<u>Q3 FY13 Guidance</u>	<u>EPS (3)</u>
Q3 FY12 GAAP	\$1.66
Gain on previously held equity interest	<u>(\$0.25)</u>
Q3 FY12 Non GAAP	\$1.41
Q3 FY13 Guidance	<u>\$1.33-\$1.38</u>
% Change	(6%)-(2%)

	Diluted
<u>FY13 EPS guidance</u>	<u>EPS (3)</u>
FY12 GAAP	\$4.66
FY12 non GAAP items (4)	<u>\$0.74</u>
FY12 Non GAAP	<u>\$5.40</u>
FY13 Guidance	<u>\$5.45-\$5.60</u>
% Change	1%-4%

(3) 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	<u>6.3</u>
FY12 Non GAAP	<u>2,778.3</u>
FY13 GAAP - guidance	1,650-1,750
Capital lease expenditures	<u>250-350</u>
FY13 Non GAAP - guidance	<u>1,900-2,100</u>

(4) 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	<u>\$0.03</u>
Total Adjustments	\$0.74

# Appendix: ROCE

\$ Millions

Quarter Ended	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412	Q113	Q213
<b>Numerator</b>										
Operating Income Reported		393.8	387.7	395.4	353.7	287.9	482.8	157.9	372.4	389.7
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>	<u>39.8</u>
Earnings before tax as reported		425.5	427.4	450.5	390.8	323.4	524.5	197.4	413.8	429.5
Cost Reduction Plan		0.0	0.0	0.0	0.0	86.8	0.0	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	0.0
Gain on previously held equity interest		0.0	0.0	0.0	0.0	0.0	(85.9)	0.0	0.0	0.0
PUI business actions		0.0	0.0	0.0	0.0	0.0	0.0	54.6	0.0	0.0
PV market actions		0.0	0.0	0.0	0.0	0.0	0.0	186.0	0.0	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>	<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	429.5
Effective tax rate as reported		26.1%	23.8%	24.5%	35.2%	3.0%	26.7%	11.2%	24.4%	24.3%
Earnings after tax as reported		314.4	325.7	340.1	253.2	313.7	384.5	175.3	312.8	325.1
Effective tax rate ex items		25.9%	23.8%	24.5%	23.1%	24.5%	24.7%	24.5%	24.4%	24.3%
Earnings after tax ex items		319.0	325.7	340.1	300.5	309.7	330.3	338.1	312.8	325.1
4 Qtr trailing AT earnings (numerator) - as reported					1,233.4	1,232.7	1,291.5	1,126.7	1,186.3	1,197.7
4 Qtr trailing AT Earnings (numerator) - ex items					1,285.3	1,276.0	1,280.6	1,278.6	1,290.9	1,306.3
<b>Denominator</b>										
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	5,981.2
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	6,365.5
Redeemable Noncontrolling Interest								392.5	390.7	398.7
Noncontrolling Interest	167.2	174.0	164.8	142.9	148.1	144.7	133.8	146.1	151.9	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	12,897.3
2 Qtr Average Capital (denominator)					10,585.9	10,909.2	11,005.6	11,586.0	12,592.7	12,887.5
5 Qtr Average Capital (denominator)					10,485.4	10,721.0	10,815.1	11,098.1	11,573.6	12,018.7
ROCE as rptd (4 Qtr trail AT earnings / 5 pt avg capital)					11.8%	11.5%	11.9%	10.2%	10.3%	10.0%
ROCE ex items (4 Qtr trail AT earnings/ 5 pt avg capital)					12.3%	11.9%	11.8%	11.5%	11.2%	10.9%
Instantaneous ROCE ex items (Qtr earnings AT x 4) / 2 pt avg capital)					11.4%	11.4%	12.0%	11.7%	9.9%	10.1%

# 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>Q213</u>
<u>Reported</u>									
Income Before Taxes	396.1	400.9	421.9	361.5	294.0	498.5	158.5	378.0	394.3
Tax Expense	103.2	95.4	103.4	127.4	8.8	133.3	17.8	92.2	95.8
<b>Tax Rate Reported</b>	<b>26.1%</b>	<b>23.8%</b>	<b>24.5%</b>	<b>35.2%</b>	<b>3.0%</b>	<b>26.7%</b>	<b>11.2%</b>	<b>24.4%</b>	<b>24.3%</b>
<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	394.3
Tax Expense	103.8	95.4	103.4	83.6	93.3	102.0	100.3	92.2	95.8
<b>Tax Rate ex Items</b>	<b>25.9%</b>	<b>23.8%</b>	<b>24.5%</b>	<b>23.1%</b>	<b>24.5%</b>	<b>24.7%</b>	<b>24.5%</b>	<b>24.4%</b>	<b>24.3%</b>



Thank you

[tell me more](#)

