

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

**CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call**

**Event Date/Time: Oct. 25. 2011 / 2:00PM GMT**



Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

## CORPORATE PARTICIPANTS

**Mike Hajost**

*Carpenter Technology Corp. - VP Treasury & IR*

**Bill Wulfsohn**

*Carpenter Technology Corp. - President, CEO*

**Doug Ralph**

*Carpenter Technology Corp. - SVP Finance, CFO*

**Dave Strobel**

*Carpenter Technology Corp. - SVP Global Operations*

**Mark Kamon**

*Carpenter Technology Corp. - SVP Specialty Alloys Operations*

## CONFERENCE CALL PARTICIPANTS

**Mark Hokansen**

*Cowen & Co. - Analyst*

**Edward Marshall**

*Sidoti & Co. - Analyst*

**Mark Parr**

*KeyBanc Capital Markets - Analyst*

**Tim Hayes**

*Davenport & Co. - Analyst*

**Brian Yu**

*Citigroup - Analyst*

**Chris Olin**

*Cleveland Research Co. - Analyst*

**Steve Levenson**

*Stifel Nicolaus - Analyst*

## PRESENTATION

**Operator**

Good morning and welcome to Carpenter Technology's first-quarter earnings conference call. I will be your coordinator for today.

At this time, all participants are in listen-only mode. After the speakers' remarks, you will be invited to participate in a question-and-answer session. (Operator Instructions).

I would now like to turn the call over to your host for today, Mr. Mike Hajost, vice President of Investor Relations and Treasurer. Please proceed.

---

**Mike Hajost** - *Carpenter Technology Corp. - VP Treasury & IR*

Thank you. Good morning everyone. Welcome to Carpenter's earnings conference call for the first quarter ended September 30, 2011. This call is also being broadcast over the Internet.

Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

With us today are Bill Wulfsohn, President and Chief Executive Officer, and Doug Ralph, Senior Vice President and Chief Financial Officer. Also participating on the call are Dave Strobel, Senior Vice President Global Operations, Mark Kamon, Senior Vice President Specialty Alloys Operations, as well as other members of the management team.

Statements made by management during this conference call that are forward-looking statements are based on current expectations. Risk factors that could cause actual results to differ materially from these forward-looking statements can be found in Carpenter's most recent SEC filings, including the Company's June 30, 2011 10-K and the exhibits attached to that filing.

I will now turn the call over to Bill.

---

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

Thank you Mike. Good morning everyone. Thank you for joining us for our fiscal year 2012 first-quarter earnings conference call.

I'm pleased to report that we had another great quarter. Equally as important, I want to share that we continue to see positive signs that make us optimistic about our business going forward.

I'll begin with a quick review of the quarter. Our strong quarterly earnings were driven by solid results from our pricing, mix management, and operational initiatives. Sales ex-surcharge were up 19% on 2% lower volumes. This represents the third quarter in a row that revenue growth exceeded volume growth. Note that the average spread between revenue growth and volume growth over the last three quarters has been 18 points.

Also contributing to our positive results were strong operating cost performance, specifically in cost per tons. We expect these positive trends to continue. We are optimistic that we will exceed our prior peak performance over the next several years as we are still seeing strong demand signals in our key markets. This is especially true in our strategically important aerospace, energy, and medical market segments. As you are aware, these segments are less exposed to short-term economic cyclicality.

The aerospace market continues to be very attractive for Carpenter. In the quarter, we increased our sales by 18% on 12% higher volumes. Engine demand has continued to show strength. We have renewed several significant long-term agreements.

We are also experiencing increasing fastener demand. Demand for Titanium fasteners is expected to surpass prior peak levels within the fiscal year and double within the next five years. In addition, nickel and stainless fasteners have shown significant growth over the last two quarters and this trend is expected to continue.

Finally, we continue to make good progress providing material for structural aerospace applications. We've recently seen increased demand for our Custom 465 for flat tracks and [slat] tracks. We believe Latrobe's products will help enable us to grow further in this area.

Turning to the energy market, in this market, we see sustained demand growth. Excluding the impact of the Amega West acquisition, energy market sales increased 38% on 27% higher volumes.

We are clearly benefiting as activity in the industrial gas turbine market is picking up off of a lower base. In fact, industrial gas turbines was our fastest growing area within the energy market and a contributor to our positive mix. Including Amega West, revenues without surcharge increased by 108%.

The oil and gas segment is continuing to grow due to increases in directional drilling activity. Our acquisition of Amega West and Oilfield Alloys has enabled Carpenter to benefit from this market growth.

Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

More specifically, Amega West, which we acquired nine months ago, continues to rapidly grow its sales. Compared to the same period last year, Amega West has more than doubled its sales. In addition, the acquisition of Amega West has increased Carpenter's direct contact with end use customers in the oil and gas industry, as Amega is a leading supplier to Halliburton and is significantly growing its position with Schlumberger and Baker. This close contact with key customers has enabled Carpenter to increase our sales of materials used for the higher value completions applications. In summary, our growth in this market is only limited by our current capacity constraints.

Turning to the strategically important medical market, let me begin by noting that there has been a lot of press lately about the impact of metal-on-metal implants. We are seeing some slowdown in orders for our materials used in these applications, but our sales in this area represent only 0.2% of our overall Company sales. In fact, in total, revenue and growth in our other parts of our medical business remain robust.

Overall, medical sales increased 18% on 9% higher volume during the first quarter. This revenue growth was led by a 27% increase in Titanium products, which contributed to the positive mix, and a 10% increase in stainless and CCM products.

Now, looking forward, Carpenter is seeing meaningful demand, excuse me, not seeing any meaningful demand fall off in our other markets. In fact, we're experiencing at this time record backlogs, long leadtimes, and we've also noted -- should note that our business is more concentrated in long products which is currently less exposed to the current economic weakness than flatrolled commodity stainless.

Let me assure you our management team is closely monitoring the overall economic situation and will quickly address any signs of a slowdown if they were to appear.

As a result of strong fundamental demand, a core priority for the Company remains expanding our premium melt capacity to meet growing demand from our customers. In support of this effort, we are expanding capacity in our existing operations. Work is underway to significantly expand our powder metal manufacturing capacity in Sweden. We are also on track to complete during the second quarter -- excuse me, second half of fiscal year '12 the previously announced Reading Mill premium re-melt and forged finished capacity expansion. This \$42 million expansion announced last May includes two additional ESR re-melting furnaces and increased capacity for forged finishing and annealing operations, and will address some current bottlenecks in the Reading Mill and increased output of premium products.

In addition, we are expanding our Dynamet wire facility and Clearwater facility Florida. This product is on track for completion in March 2012. It was initiated in anticipation of projected doubling of demand for Titanium aerospace fasteners. You will note that Titanium fastener growth is tied to increasing airline build rates and newer models such as the Boeing 787 that use significantly more Titanium fasteners.

Amega West is also adding capacity. They're adding capacity at the complex machining facility in Tyler, Texas. We are also adding new manufacturing capacity in Edmonton, Canada. In addition, a service facility was recently started in Casper, Wyoming. Finally, a new service center is planned for Midland, Texas next month.

In addition, we continue to be extremely excited about the opportunity to close on the Latrobe acquisition. We believe this acquisition will enable us to support existing Carpenter and Latrobe customers by expanding output to serve growing customer needs.

We are progressing through the Hart-Scott-Rodino process, and we've been doing a lot of work to ensure a smooth integration once the transaction closes. We remain optimistic that the deal will close by the end of this quarter.

Finally, we are excited about our recently announced \$500 million greenfield facility aimed at increasing capacity for premium products. As you may have read, we recently announced that this new site will be located in Alabama which provided an attractive incentive package, and also will allow, based upon the facility layout, a lean production flow and also access to a good



Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

pool of technical talent. We're moving forward aggressively and have initiated equipment orders. The project remains on track to be operational in April 2014. The new facility is expected to add an incremental 27,000 tons of premium product capacity, which will be a 70% increase over our current premium output. We are confident of the need for this facility to support the future needs of Carpenter and Latrobe. Note that we will be able to quickly utilize this incremental capacity as we will initially manufacture product that does not require vendor qualifications. The facility also has room to add additional incremental capacity at low incremental cost to support even longer-term growth.

In closing, let me finish by reiterating my three core priorities -- first, strengthen the base business. We'll do that by improving customer satisfaction, expanding output of our premium materials, continuing with our mix management actions and controlling our costs by driving further productivity. Our second priority is to close and integrate Latrobe so we can realize the production capacity synergies. Our third priority is to take additional actions to ensure we sustain future growth, which means commercializing new products and technology, completing the construction of our focus facility, and evaluating additional accretive acquisitions specifically in the area of precision finishing and those which might expand our international footprint and distribution capabilities.

Finally, let me reiterate that, thus far, we have not seen significant changes in customer demand. We are on track to hit the growth and financial targets that we have set for the year. We have a great team, a strong portfolio of technology, healthy end markets, and aggressive growth-oriented investments. As such, I and the Carpenter team remain bullish on our future.

I'll now turn the discussion over to Doug who will walk you through the financial results.

---

**Doug Ralph** - *Carpenter Technology Corp. - SVP Finance, CFO*

Thanks Bill.

We are pleased with the trend in our quarterly results. This is the third quarter in a row that we've seen a sequential increase in our operating profit margin and profit per pound as well as a strong positive spread between our volume growth rate and revenue growth rate. These results are being driven primarily by our pricing and mix management initiatives.

Specifically, we are making good progress on our two-pronged effort to grow volume in the higher value premium products PAO segment while improving profitability in the AMO segment. You can see this in our AMO PAO results for the quarter. The more premium oriented PAO volumes increased 8%, while AMO volumes decreased by 5% overall as a result of choiceful actions to improve our product mix. Also, while PAO's operating margin has remained relatively stable at a high level, our AMO operating margin has nearly tripled from 4.5% a year ago to 12.1% this quarter. Our average profit per pound in both segments was also higher for the third consecutive quarter.

We've also been pleased with the revenue growth and EBITDA contribution from Amega West, as Bill highlighted earlier. We are doing a good job on the cost side as well. We had very good operating cost performance in the quarter, even with the impact of summer maintenance shutdowns. We are benefiting from efficiencies as more real-time performance data is being made available at the work center and the many new employees brought on board get up to proficiency levels. We also continue to improve our overhead costs as a percentage of revenue.

With that as background, let me take you through our first-quarter results. Net sales in the quarter were \$414 million or 18% above a year ago. Excluding raw material surcharge, sales were up 19%. The Amega West acquisitions accounted for 6 percentage points of the year-to-year growth.

Overall pounds shipped decreased 2% from a year ago. This number is somewhat misleading until you look at the internals. As already mentioned, our premium PAO business volume was up 8% in the quarter and we could be shipping more if we had the available capacity.



Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

We also saw positive growth in Titanium and powdered metal products in the quarter. The balance of stainless and alloys steels were down in volume due to our mix improvement program. We'd expect to see continued modest overall volume growth with positive internals and strong double-digit revenue growth over the balance of the year.

Continuing down the income statement, gross profit was \$81.1 million compared with \$49.8 million in last year's first quarter. The higher gross profit level was driven by improved product mix, higher prices, better operating performance, good profit contributions from our Titanium and Amega West businesses, and positive LIFO and other benefits from the combination of increased inventories and lower raw material prices.

SG&A expenses for the quarter were \$35.7 million, or 11.4% of revenue ex-surcharge, which was flat in dollars and down 2.1 percentage points from last year. If you take lower year-over-year net pension costs out of the equation, overall SG&A spending was 3% higher than last year's first quarter due entirely to the inclusion of Amega West overhead costs while SG&A as a percentage of revenue was 1.6 percentage points lower, consistent with our strategy to control overhead cost growth to well below the rate of revenue growth.

We had \$1.4 million of Latrobe transaction costs in the quarter which we are showing as a separate line on the income statement.

Operating income for the quarter was \$44 million compared with \$14.1 million in last year's first quarter. Our operating margin, excluding surcharge and pension earnings, interest, and deferrals, or EID as we always quote it, was 15.2%, or 15.6% excluding the Latrobe costs, compared to 8.7% in last year's first quarter.

Interest expense in the quarter was \$7 million compared to \$4.2 million in the year-ago period due to our recent refinancing activities. For the full year, we continue to expect interest expense will be about \$7 million higher than last year. We saw a larger portion of this increase this period since we had about half a quarter's overlap between our new \$250 million bond and the \$100 million note that we paid off in mid August.

Finishing up the income statement, other expense of \$700,000 compared to other income of \$1.6 million last year. The difference is almost entirely due to the reduction this quarter in the market value of assets that fund certain nonqualified retirement plan obligations compared to an increase in the market value of these assets in last year's first quarter.

The provision for income tax was \$12.6 million or 34.7% of pretax income, compared to \$3.9 million or 33.9% of pretax income in last year's first quarter. We expect our full-year tax rate will be about 34%, up from 33% previously due to the impact of nondeductible costs like the Latrobe transaction fees.

Overall reported net income was \$23.8 million were \$0.53 per diluted share. It would have been \$0.56 per share excluding the impact of Latrobe transaction costs. This compares with first-quarter net income last year of \$7.6 million, or \$0.17 per diluted share.

Free cash flow for the quarter was negative \$109 million. This was driven by increased inventory, the \$21.8 million Boarhead Farm environmental litigation settlement payment, and \$11.6 million of required cash contributions to the pension plan. We continue to expect to make additional required pension contributions of \$16 million over the balance of the fiscal year.

With respect to inventory, a large part of the increase relates to planned build ahead of summer equipment shutdowns to support strong demand for premium products over the balance of the year. The value of our inventory is also higher due to our richer product mix. Much of this material is toward the end of the production cycle, so we'd expect inventory levels to decline each quarter over the balance of the year as shipments occur.

There are also areas of inventory management where we need to tighten performance and we are addressing these. For the full year, we expect overall free cash flow to be about negative \$50 million, primarily due to anticipated full-year capital spending

Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

of \$200 million along with the other impact we've talked about. This is consistent with the assumptions made in our recent refinancings.

Our ending September cash and marketable security balance was \$315 million, which is down from the \$523 million level at the end of last year. The difference is mainly due to the pay down of \$100 million of debt, increased inventory levels, the Boarhead Farms settlement, and the pension contribution.

Our total debt level at the end of the quarter was \$408 million and within our target range of no more than 3 times EBITDA.

Our total liquidity, including \$346 million of availability under our revolving credit agreement, remains solid at \$661 million. \$170 million of this will be used to pay off Latrobe's debt at closing and the remaining \$491 million of liquidity provides flexibility to support future growth initiatives and take care of the next \$100 million of debt maturing in less than two years.

Finally, let me close with a few comments about our forward outlook. We continue to be on track to achieve our target of a 50% increase in operating income, excluding non-cash pension EID expense, this fiscal year versus last. This will require further increases in our operating income over the balance of the year.

Note that our first-quarter results did benefit from building inventory at relatively low raw material costs and we will see some of this reverse in the second quarter as we bring inventories down. This will likely cause our operating margin to dip a bit in the second quarter before rebounding in the second half of the year.

We hope to be able to close the Latrobe acquisition in the second quarter, which will obviously impact our reported results. We are still encouraged that we have a transaction that will be accretive to EPS in the first full year and strongly accretive with at least \$25 million in net pretax synergies by year three.

Once we close Latrobe, we will make changes in our segment reporting and other supplemental reporting. We will issue an 8-K before this takes effect so you have the before and after data to help you make a smooth transition.

Beyond this year, we are still tracking well against our near-term goal to return to our prior peak EBITDA level of \$350 million to \$360 million before fiscal year 2014. Note that this goal does not include the incremental benefits expected from the Latrobe acquisition and synergies, our major capacity expansion project in Alabama, and the continued growth of our Amega West and Precision Finishing downstream companies.

With that, let me now turn it back to the operator so we can open up the line for your questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). [Mark Hokansen], Cowen & Co.

---

### Mark Hokansen - Cowen & Co. - Analyst

This is Mark pitching in for Gautam this morning. Thanks for taking the call. I guess, first, if we recall correctly, you guys have some re-competes of significance next year, one with a forger and one with an engine OEM. Can you tell us whether you expect to gain share on these contracts, and whether or not ATI Ladish [puts any new] worry on these? I use a customer looking for a more integrated supplier. And how long might these contracts extend once signed?



Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

I'm not sure specifically which contracts you're referencing. Of course, every year, we have a number of contracts that come up for renewal. I would say, thus far, we have been proactively working with our customers to renew long-term agreements. I think we've been able to find mutually beneficial approaches to doing that that enable our customers to get the supply they're meaning under terms which are reasonable from our perspective as well. We are taking a different strategy than the vertically integrated manufacturers like ATI as you mentioned. Their strategy is their own. Ours, we're seeking to be more of an independent supplier that can service any or all of the needs of the industry. So thus far, I would say lack of forward integration has been, as we view it, an advantage, not a disadvantage.

**Mark Hokansen** - *Cowen & Co. - Analyst*

Great. Then second, can you talk a little bit about pricing trends in your fastener business over the next few years, especially now that Boeing has moved to sign long-term agreements with some of these fastener OEMs for, as they say, lower-priced contracts to Boeing? Does this pose any pricing risk to Carpenter?

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

I think, in general, as we've renewed our contracts, we've tried to find, again, mutually beneficial approaches with the customers. There is a strong need for the supply. At the same point, it's important that we be supportive of our customers. We know the kind of pressures they're under and we've been able to find what we think have been good resolutions to that which, through efficiencies and volume gains, excuse me, has also allowed us to at least sustain our profitability, which is of course a core priority for us.

**Mark Hokansen** - *Cowen & Co. - Analyst*

Great. Lastly, do you have the sequential sales numbers for your aerospace fastener business in the quarter?

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

Not for aerospace fasteners but for overall aerospace, our volume -- like across all of our end market segments just because we have the seasonality effects in our first quarter, our volume was down 10% from the fourth quarter and overall revenues, including surcharge, was down 9%

**Operator**

Edward Marshall, Sidoti & Co.

**Edward Marshall** - *Sidoti & Co. - Analyst*

Good morning and congrats on the AMO profitability. It's a sizable increase there. Is that the new baseline, or was there something one-time in that particular business line? Can you kind of talk about the puts and takes for AMO and what you kind of expect? I think you mentioned a little bit of that in your prepared remarks. If you can kind of add to that if you will.

Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

Yes, I don't know if I would call it the new baseline. When you go back to our peak, we were making in the high teens on our AMO business, and it's been running about half of the PAO margin level, and so I think there's room for further upside. I think, like all of our business, there were some benefits in the first quarter related our inventory build and more raw material prices are. So we do expect a bit of a dip in the second quarter before margins rebound again in the back half of the year. The margin growth that we've seen is driven in a lot of ways by growth of the fasteners business and growth of our Titanium, including the fasteners business, within that period to period.

**Edward Marshall** - *Sidoti & Co. - Analyst*

Did you quantify the LIFO benefit? I think you mentioned there was one in the release. What was the -- can you quantify that?

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

Yes, quarter-to-quarter, it was about \$4 million first quarter versus last year's first quarter.

**Edward Marshall** - *Sidoti & Co. - Analyst*

You mentioned some PAO, you could have shipped more PAO premium alloys depending upon the capacity. I was just curious if you can kind of talk to the Latrobe capacity utilization and what kind of utilization that may -- what kind of capacity they might be able to add for you.

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

This is Bill. They're, as we understand, quite busy as well. They've been very successful with their business development efforts. As we look at it, this is an opportunity for one plus one to equal more than two. Their equipment profile is different than our equipment profile. By us deploying some of our production onto their system and vice versa, we think we'll get an uplift in productivity which will essentially debottleneck both operations and allow us to get more product out to the customers.

**Edward Marshall** - *Sidoti & Co. - Analyst*

You're saying they're running at similar utilization rates that you are?

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

I know they're very busy. We don't have the full visibility to know their exact operation rates, but they've done a good job and their customer base is strong as well.

**Edward Marshall** - *Sidoti & Co. - Analyst*

Excellent. Thanks guys.

**Operator**

Mark Parr, KeyBanc.

Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Mark Parr** - KeyBanc Capital Markets - Analyst

Thanks very much. Congratulations on a quarter. At least it started out sunny today. As usual, you get the rain after lunch.

I don't want to beat this LIFO thing to death, but I think that was a bit of a positive surprise relative to the expectation. I'm just trying to look here in the model in terms of what we're looking for for LIFO. But did you have any commentary on LIFO on your last quarter?

**Bill Wulfsohn** - Carpenter Technology Corp. - President, CEO

Not relative to what we expected in the first quarter.

**Mark Parr** - KeyBanc Capital Markets - Analyst

I thought maybe in terms of a full-year number, was the LIFO perhaps a bit more than -- I think basically we were looking for flat, and you said the LIFO was up \$4 million from last year so that you had about a \$4 million credit? Is that right?

**Bill Wulfsohn** - Carpenter Technology Corp. - President, CEO

Quarter-to-quarter, if you look at our first-quarter results compared to last year's first quarter, there was about a \$4 million benefit due to the LIFO benefit. For the year, our expectation would always be that the quarterly impacts would tend to neutralize for the year, so it would not be a major impact in our year-to-year comparison.

**Mark Parr** - KeyBanc Capital Markets - Analyst

So for the full year of fiscal '12, you look for LIFO to be relatively flat. Is that what -- I'm interpreting what you're saying, is that right or relatively (multiple speakers)?

**Bill Wulfsohn** - Carpenter Technology Corp. - President, CEO

Yes, that would be our general expectation, including this year, so the benefit we got in the first quarter, we would start to see some of that come off of inventories reduce in the second quarter and a bit more in the second half of the year.

**Mark Parr** - KeyBanc Capital Markets - Analyst

Okay. All right. That's helpful. Then just one last thing, again I hate to beat this to death, but I know I'm going to get asked it. But what was the LIFO plus or minus in the June quarter? Was it a minus or was it a plus?

**Doug Ralph** - Carpenter Technology Corp. - SVP Finance, CFO

Just one second. It would have been a modest negative in our fourth quarter.



Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Mark Parr** - KeyBanc Capital Markets - Analyst

Okay. All right, terrific. Thanks very much, I'll get back in queue. But it really is -- I think you really had a solid quarter. With all the macro negativity, the later cycle momentum that you're achieving is really coming through. So congratulations on that. I'll get back in the queue.

**Operator**

(Operator Instructions). Tim Hayes, Davenport & Co.

**Tim Hayes** - Davenport & Co. - Analyst

Good morning. Just two questions. On the Premium Alloys side, what kind of utilization rate did you run at in the first quarter?

**Dave Strobel** - Carpenter Technology Corp. - SVP Global Operations

This is Dave Strobel. The utilization on the Premium Alloys side is really gated by our re-melt operations and our hot work operations, and we're running 95% levels in those areas.

**Tim Hayes** - Davenport & Co. - Analyst

Again, that's for the first quarter?

**Dave Strobel** - Carpenter Technology Corp. - SVP Global Operations

Yes, with the exception of what we would have had from a shutdown perspective.

**Tim Hayes** - Davenport & Co. - Analyst

I guess I would've figured something maybe a little lower given that volumes in the previous two quarters were between 13 and 14 million pounds. Is that -- am I missing something there?

**Bill Wulfsohn** - Carpenter Technology Corp. - President, CEO

Well, you've got two factors. One, you have a shutdown, and two, as you saw from the announcement, we also did have quite a bit of an inventory build over the course of the quarter. So on some of the premium equipment, we ran material through in its final stages if you will, and so we'll be shipping it in future quarters.

**Tim Hayes** - Davenport & Co. - Analyst

Then also could you give the sequential volume change by the end markets? I think a previous question, you answered what happened on the Aerospace, but the other five markets please?

Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

Sure Tim, so again, I'll just point out that all of them are down because it's just normal seasonality in our business. But the Aerospace was down minus 10% as I mentioned previously, energy down 15%, our medical business down 7%, industrial down 28%, automotive down 17%, and consumer business down 18%, so overall for the Company volume Q4 to Q1. Again, I'll point out reflecting normal seasonality of our shutdowns and customer plant shutdowns were down 19%.

**Tim Hayes** - *Davenport & Co. - Analyst*

Thank you.

**Operator**

Brian Yu, Citi.

**Brian Yu** - *Citigroup - Analyst*

Thank you. Congrats on pretty good results for the quarter, all things considered. The first question is on this new facility. Bill, maybe you can provide us with either some milestones of when you would expect to break ground, first equipment installation leading up to that April 2014 start date.

**Dave Strobel** - *Carpenter Technology Corp. - SVP Global Operations*

This is Dave. From a breaking ground standpoint, overall process, we're -- we've got a letter intent with the forge manufacturer. [We have a us] a large hydraulic radio forge. It'll be the largest in the world. So we've got that underway. We've got the memorandum of understanding with the state of Alabama, a few details to work there but we hope to break ground within about 60 days. The forge itself is the key stone, if you will, of this new facility, and we expect to have that up and running April 2014.

**Brian Yu** - *Citigroup - Analyst*

Great, that's helpful. Then secondly, on stainless, I know the [long] product size has been holding of a lot better than flat-rolled. One trend that we noticed from [our] tracking of pricing is bar products fell pretty hard in the month of October. I was wondering if you guys have seen that purely as a reflection of nickel prices coming in, or are you seeing that margin pressure starting to spill over into long products too?

**Mark Kamon** - *Carpenter Technology Corp. - SVP Specialty Alloys Operations*

This is Mark Kamon. We really haven't seen major reductions in pricing. Of course our markets are not typical of what you would see in the flat product stainless business. Our business tends to be more high performance niche applications, and we have not seen that drop-off that you're talking about from our customer base, from our mix of products.

**Brian Yu** - *Citigroup - Analyst*

Great, thank you.



Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Operator**

Mark Hokansen, Cowen & Co.

**Mark Hokansen** - *Cowen & Co. - Analyst*

Thanks for the follow-up. Can you just give us a quick update on your lead times for the various fastener stocks, Titanium bar and coil, nickel and stainless fasteners, and then nickel engine billet?

**Mark Kamon** - *Carpenter Technology Corp. - SVP Specialty Alloys Operations*

This is Mark Kamon again. I would say that the lead times, if we were to quote somebody who we're not doing business with today, would be six to nine months for those products that you referenced, in that range. I will say that we work very closely with our customers, and we reserve capacity based on the forecast for our customers, which we deal with all of the major fastener manufacturers and engine producers for the most part, component producers. So we have capacities that we work off of and that we are committed to, and our customers are committed to us.

**Mark Hokansen** - *Cowen & Co. - Analyst*

Then maybe if I can ask specifically, I think last quarter you had mentioned Titanium bar and coil where it was about a five- to six-month lead time at that point. Has that changed at all in the past three months?

**Mark Kamon** - *Carpenter Technology Corp. - SVP Specialty Alloys Operations*

That's pretty much in the same area, five to six months.

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

Pretty much the same thing for the nickel billet. We're actually accepting orders now for Q4.

**Operator**

Mark Parr, KeyBanc.

**Mark Parr** - *KeyBanc Capital Markets - Analyst*

Thanks very much. If I could just follow on to some of the lead time commentary, I think, Bill, you had mentioned in your comments that backlogs remained at record levels. Can you give us some sense of directionally where the backlog stood at the end of September versus the end of June?

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

I don't have the chart in front of me. We do track it on a week-by-week basis. I can just tell you it's actually been increasing and it's roughly 10% higher than it was in June. The trajectory has been increasing; it hasn't been falling off. So it's an encouraging sign.



Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Mark Parr** - KeyBanc Capital Markets - Analyst

That's really encouraging. Thanks for that color.

Just one other thing if I could, I know you've been talking about growth in structural Aerospace applications. I think that 465 alloy is a key component of that. Could you give us an update on potential new applications or how the backlog is growing there for some of these structural opportunities you've been exploring?

**Mark Kamon** - Carpenter Technology Corp. - SVP Specialty Alloys Operations

This is Mark Kamon again. I would say that our structural applications are growing in that we are -- we have more participation in some of the newer platforms, like the 787 that is coming online. Our focus has been to expand into various other components within the Aerospace structural array of products. Most recently, we are evaluating potential replacement products for landing gear using some of our proprietary alloys as well, which is an area we don't participate in today, but of course Latrobe is a significant player in the landing gear market.

**Mark Parr** - KeyBanc Capital Markets - Analyst

Is that an opportunity where your metallurgical capabilities will create some synergies with Latrobe's manufacturing capabilities?

**Bill Wulfsohn** - Carpenter Technology Corp. - President, CEO

Yes, there's no question about that. That's another value we think we'll be able to provide to our customers. I'd like to point out this is a two-way street here. They produce some alloys that we don't produce, and we produce some that they don't produce. When we can have a broader basket that we go to our customers, we can offer a wider range of products to hopefully be a more significant part of their needs and support them as they're trying to refine their products. So, this is just one of those examples, and there are many of them.

**Mark Parr** - KeyBanc Capital Markets - Analyst

These kinds of things you're talking about would be in addition to the \$25 million in synergies?

**Bill Wulfsohn** - Carpenter Technology Corp. - President, CEO

Yes, they would be. We really didn't put much in at all in terms of revenue synergy. Our expectation was most of it would in fact come from kind of the capacity related benefits that we would get.

**Mark Parr** - KeyBanc Capital Markets - Analyst

Terrific. Thanks again for all the color. Congratulations on the continued growth in the backlog, and look forward to talking with you soon.

**Bill Wulfsohn** - Carpenter Technology Corp. - President, CEO

Thank you.

Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Operator**

Chris Olin, Cleveland Research.

**Chris Olin** - *Cleveland Research Co. - Analyst*

Good morning. I've heard your comments about end markets holding up pretty well. I just had a quick follow-up. We heard there could be some possible overbuilding of material inventories within the jet engine channel. I was just curious if you saw anything like that or any kind of indication that maybe somewhere in the channel they would need to be worked out into 2012?

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

We don't have any indication of that at this point, both in terms of order take as well as new orders coming in, so that would be news to us.

**Chris Olin** - *Cleveland Research Co. - Analyst*

Thanks.

**Operator**

Brian Yu, Citi.

**Brian Yu** - *Citigroup - Analyst*

With the European exposure, can you give us a rough breakout of how much of it is [arrow]-related versus non-arrow, industrial or other end markets?

**Mark Kamon** - *Carpenter Technology Corp. - SVP Specialty Alloys Operations*

This is Mark Kamon. The [arrow] and energy, what I would call our high-temp specialty business, is well over 70% of our overall volume in Europe.

**Brian Yu** - *Citigroup - Analyst*

Then for the remainder 130%, what's happening there? Are you seeing any slowdown in those businesses?

**Mark Kamon** - *Carpenter Technology Corp. - SVP Specialty Alloys Operations*

No, at this point, we have the strongest backlog we've had ever in our European operations, so I'd echo the comments Bill made earlier about backlogs. We're seeing that in Europe. You've got to understand that we are positioned in the niche applications, the specialty applications, so as for example automotive, which is a different product, as cars move to smaller engines, turbo-charged engines, things like that, that plays to our strength.

Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Brian Yu** - Citigroup - Analyst

Then second, just I think this was addressed a little bit earlier. But from the investor day earlier in the year, you had set a \$350 million to \$360 million EBITDA target excluding some of these ongoing acquisitions. Now it's set for fiscal year 2013 and '14. Is there a way you can help us isolate what would be some of the industry drivers that would allow you to hit that number in '13 versus '14? (inaudible)

**Mark Kamon** - Carpenter Technology Corp. - SVP Specialty Alloys Operations

We are making good progress already. Our EBITDA run rate if you look at the last four quarters is over \$250 million, and so we're on our way there. I think the main lever is still going to be our pricing and mix management actions that are going to drive profit per pound higher. I think the trend in the AMO business with what we're seeing in overall fasteners as well as our Titanium and powdered metals business and how they will contribute to that is also an encouraging sign. So we feel like we've made good progress and are well on track to hit that goal.

**Brian Yu** - Citigroup - Analyst

The AMO results are definitely impressive. Can you give us a sense of how far you are along in terms of the mix management, i.e., like working off all those low-price backlogs? Like what percentage complete, if there's a way to define it that way?

**Bill Wulfsohn** - Carpenter Technology Corp. - President, CEO

Yes, I think we've characterized that in recent past as in the middle innings and I still think we feel comfortable with that characterization.

**Brian Yu** - Citigroup - Analyst

Okay, so do have still lower-priced backlog that's on the books that you may take in a couple more, a few more quarters to work off?

**Bill Wulfsohn** - Carpenter Technology Corp. - President, CEO

This is Bill. The way I would describe it is we do see that we'll be able to get some more premium output, as we mentioned, in the quarter. It was not at as high of a rate because of the inventory builds and the shutdown, so that's one part of the path.

The other is just as we continue to sell a higher and higher value mix, working with customers, some of the technology that we've been working on, helping the customers adopt that technology will help us to use that available capacity to get a more rich mix. That will help to drive us to the goals we've set.

**Brian Yu** - Citigroup - Analyst

Thank you.

**Operator**

Steve Levenson, Stifel Nicolaus.

Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Steve Levenson** - *Stifel Nicolaus - Analyst*

Good morning everybody. Forgive me. I've been bouncing back and forth between conference calls, so I hope this hasn't been asked before. But could you talk a little bit about some of the new alloys that you've got, some of these new LTAs, and some of the restrictions particularly in Europe about using coatings or plated products that you think you can beat and where your market share is headed in relation to that product? So the coatings on landing gear for example.

**Mark Kamon** - *Carpenter Technology Corp. - SVP Specialty Alloys Operations*

Sure. I'm not sure if you were on when I made the comments about structural and landing gear, but we're doing a number of trials with our more proprietary products that are stainless in nature and therefore offer corrosion resistance that doesn't require cadmium coatings. So those kinds of -- that kind of material in an application like a landing gear is very desirable. We continue to focus on that as a longer-term growth opportunity for us.

**Steve Levenson** - *Stifel Nicolaus - Analyst*

Do you have a size for that market? An estimate?

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

Yes, we said in our investor day that overall market size material usage is over \$1 billion annually, and we have no new information from that.

**Steve Levenson** - *Stifel Nicolaus - Analyst*

Great, thanks a lot for now.

**Operator**

Tim Hayes, Davenport & Co.

**Tim Hayes** - *Davenport & Co. - Analyst*

Yes. In terms of the backlog that's recorded, I presume that would exclude surcharge.

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

We typically look at it on a ton basis, so yes.

**Tim Hayes** - *Davenport & Co. - Analyst*

Thank you.



Oct. 25, 2011 / 2:00PM, CRS - Q1 2012 Carpenter Technology Corp Earnings Conference Call

**Operator**

With no further questions at this time, I would like to turn the call back to Mr. Bill Wulfsohn for closing remarks.

**Bill Wulfsohn** - *Carpenter Technology Corp. - President, CEO*

Thank you again for participating in today's call. We are off to a good start this year, but we've got a lot more work to do. We look forward to speaking with you again next quarter, so thank you and good-bye.

**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2011, Thomson Reuters. All Rights Reserved.