

# Fiscal 2011 Q1 Earnings

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# Forward-Looking Statements

Information included within this presentation describing projected growth and future results and events constitutes forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results in future periods may differ materially from the forward-looking statements because of a number of risks and uncertainties, including but not limited to fluctuations in the aerospace, power generation, and general industrial cycles; the relative success of the Company's entry into new markets; competitive pricing; the financial viability of the Company's significant customers; the impact on the Company of customer labor disputes; demand, timing, and market acceptance of new commercial and military programs; the availability and cost of energy, materials, supplies, and insurance; the cost of pension benefits and post-retirement medical benefits; equipment failures; relations with the Company's employees; the Company's ability to manage its operating costs and to integrate acquired businesses in an effective manner; governmental regulations and environmental matters; risks associated with international operations and world economies; the relative stability of certain foreign currencies; the impact of adverse weather or natural disasters; the availability and cost of financing; and implementation of new technologies and process improvement. Any forward-looking statements should be considered in light of these factors. The Company undertakes no obligation to publicly release any forward-looking information to reflect anticipated or unanticipated events or circumstances after the date of this document.

# Onset of Commercial Aerospace OEM Recovery

	Q1 FY11	Q1 FY10	% Change
Net Sales	\$ 1,446.8 M	\$ 1,369.9 M	5.6 %
Consolidated Segment Operating Income	\$ 351.9 M	\$ 370.7 M	(5.1) %
<i>Margin %</i>	24.3 %	27.1 %	
Earnings Per Share from Continuing Operations ( <i>diluted</i> )	\$ 1.65	\$ 1.71	

## Y-O-Y Q1 Sales:

- Increased aerospace OEM schedules ↑ ~ 15%
  - Investment Cast Products
    - Castings
    - Alloys
  - Forged Products
- Fastener aerospace sales down ↓ ~ 15%
  - Weak demand for highly complex, high value core products
  - Market share gains partially offset core business loss
- Improved general industrial shipments ↑ ~ 50%
- Decreased seamless pipe sales
  - ~ 50% y-o-y decline
  - Temporary realignment of Chinese inventories
- Lower average metal prices and pass-through of ~ \$20M

## Sequential Sales Q4 → Q1:

- Commercial aerospace OEM uptick ↑ ~ 2%
- Slow, steady general industrial growth ↑ ~ 10%
- ~ 50% decline in Chinese pipe sales
- Flat aerospace aftermarket, fastener distributor, and European IGT destocking

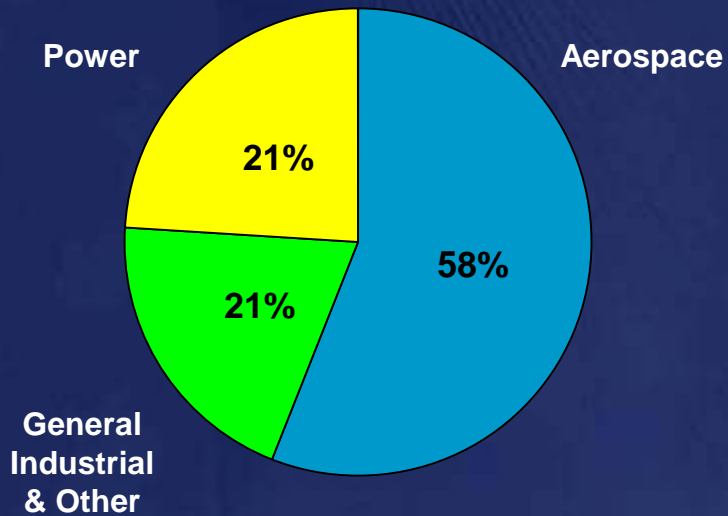
## Y-O-Y Q1 EBIT:

- Effective leverage of aerospace volume
  - Significantly improved cost structure
- Loss of seamless pipe business
- Lower Fastener Products throughput
  - Increased shares of less complex parts
- Higher general industrial sales, negatively impacts margins

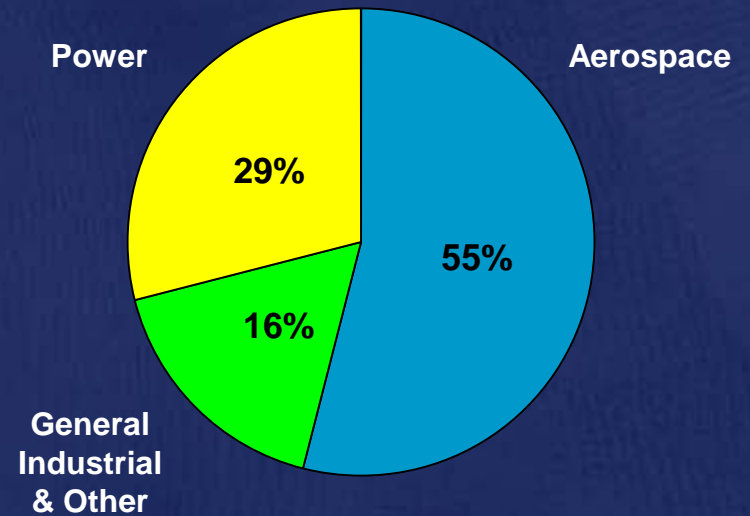
- Q1 in line with expectations
- Q2 similar in dynamics to Q1
  - Preventative maintenance of forge complexes
  - Extended European holidays
- Solid platform established for 2H growth

# Sales By Market – Q1 FY11 vs. Q1 FY10

Q1 FY11



Q1 FY10



# Segment Summary

## Investment Cast Products

	Q1 FY11	Q1 FY10	% Change
Sales	\$ 486.7 M	\$ 485.6 M	0.2 %
Operating Income	\$ 155.1 M	\$ 141.8 M	9.4 %
<i>Operating Margin</i>	31.9 %	29.2 %	

### Y-O-Y Q1 Sales:

- No material difference in pass-through pricing
- Increasing aerospace OEM production ↑ ~ 20%
  - Still building below aircraft production rates
- Aerospace aftermarket starting to rebound
- European IGT destocking ↓ ~ 20%

### Sequential Sales Developments Q4 → Q1:

- Solid recovery of aerospace OEM schedules ↑ ~ 10%
- Flat aerospace aftermarket/IGT sales



### Second Half FY11 Outlook

- Recovery to pre-Q3 FY09 aerospace OEM build rates
- Strong 787 order book
- Pick up in aerospace aftermarket

# Segment Summary

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### Y-O-Y Q1 EBIT:

- Leveraged improved cost structure
  - New benchmarks for
    - Productivity
    - Scrap and rework
    - Metal yields
- Upside from additional volume



- Further building on performance gains
- Optimizing drop-through as volume returns

# Segment Summary

## Forged Products

	Q1 FY11	Q1 FY10	% Change
Sales	\$ 631.2 M	\$ 539.0 M	17.1 %
Operating Income	\$ 120.1 M	\$ 141.2 M	(14.9) %
<i>Operating Margin</i>	19.0 %	26.2 %	

### Y-O-Y Q1 Sales:

- Relatively flat selling prices at three primary mills
- Lower contractual material pass-through of ~ \$22M
- Higher organic aerospace volume ↑ ~ 5%
- Full quarter of Carlton Forge sales
- Commercial aerospace aftermarket gradually improving
- Nearly 50% drop in seamless pipe sales
  - Realignment of Chinese inventories
- Improvement in general industrial sales ↑ ~ 70%

### Sequential Sales Developments Q4 → Q1:

- Significant decline in Chinese seamless pipe sales ↓ ~ 50%
- Steady aerospace OEM sales
- Flat aerospace aftermarket
- General industrial recovery ↑ ~ 15%



### Second Half FY11 Outlook

- Robust aerospace OEM production schedules
  - Onset of 787 components
- Upturn in aerospace aftermarket
- Recovery in seamless pipe sales
  - Boiler projects already funded
  - Pipe orders to follow
  - Strong demand from China and India

# Segment Summary

## Forged Products

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- Flat aerospace aftermarket
- General industrial recovery ↑ ~ 15%

### Y-O-Y Q1 EBIT:

- Negative impact of dramatically reduced seamless pipe volumes
- Growth in lower margin general industrial market
- Partially offset by
  - Effective leverage of higher aerospace OEM throughput
  - Carlton Forge addition
- Chengde contributed net income of approximately \$5.6M



- Solid base for strong leverage
- Increased volume + improved fixed cost base = operating margin upside
  - Aerospace OEM → base programs
  - 787 ramp-up
  - Seamless pipe
    - Benefits of Chengde just beginning

# Segment Summary

## Fastener Products

	Q1 FY11	Q1 FY10	% Change
Sales	\$ 328.9 M	\$ 345.3 M	(4.7) %
Operating Income	\$ 104.2 M	\$ 115.6 M	(9.9) %
<i>Operating Margin</i>	31.7 %	33.5 %	

### Y-O-Y Q1 Sales:

- Continued aerospace declines ↓ ~ 15%
  - OEM destocking
    - Core product sales down
    - Partially offset by market share gains in less complex parts
  - Distributor base consolidation
  - Aftermarket
  - Regional/business jets

### Sequential Sales Developments Q4 → Q1:

- Flat aerospace OEM shipments
  - Supply pipeline filled in previous quarters
  - New products continue to mitigate sales declines
- Flat aerospace distributor/aftermarket activity



### Second Half FY11 Outlook

- 787 volumes accelerate
  - ~ \$2.7M per aircraft
- Base loads return
- Improved distributor/aftermarket demand

# Segment Summary

## Fastener Products

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### Y-O-Y Q1 EBIT:

- Decreased leverage on lower throughput
- Impact from market share gains in less complex parts



- Increased 2H FY11 aerospace production
  - Core product demand returns
- Dramatic 787 growth
  - Development complete/capacity in place
    - Significant upside performance opportunity
- Steady share gains/maintain new product wins

# Cash and Debt Position for Q1 FY11

	<u>June 27, 2010</u>	<u>March 28, 2010</u>	<u>Q1 Change</u>
Cash	\$ 286.4 M	\$ 112.4 M	\$ 174.0 M
Debt	251.0 M	250.0 M	(1.0) M
<i>Debt-To-Capitalization</i>	<i>3.9 %</i>	<i>4.1 %</i>	
Add back cash utilized to make voluntary pension contribution			<u>100.0M</u>
Total change in cash and debt, excluding cash utilized to make voluntary pension contribution			<u>\$ 273.0M</u>

# Clearing Up Confusion

- Pass-through
  - Frozen measurement, generally based on 2004 prices, provides ability to compare across periods
  - Price bands in long-term contracts generally based on LME or other index
  - Virgin metal bought in concert with customer
    - Customer obligated to take delivery of metal at contractual prices
  - Not a metal speculator
  - Price-in-effect, works similarly to material pass-through
  
- LIFO accounting
  - Why LIFO?
    - Realize cost improvement when it occurs
    - Better align financial statement impact to actual performance
  - Not just metal → productivity, other cost improvements
  - Offsetting costs to LIFO “benefits”
  - Lower of cost or market reserves offset any above-market write-ups
  - Inventory “income” in FY10 primarily from productivity improvements
  
- Growth in inventories
  - Holding metal for customer on balance sheet
  - Revert
  - Increased internal requirements
    - Growing by more than 140% from FY07 to FY10, almost 200% at peak
  - Carlton Forge, other acquisitions
    - Added more than \$70M in FY10, included \$9M profit uplift in LIFO reserve; no P&L impact

# Inventory Position

	<u>June 27, 2010</u>	<u>March 28, 2010</u>	<u>Increase/(Decrease)</u>
Raw Materials & Supplies	\$ 461.1 M	\$ 441.9 M	\$ 19.2 M
WIP	548.5 M	509.6 M	38.9 M
Finished Goods	291.3 M	287.2 M	4.1) M
LIFO	<u>191.0 M</u>	<u>196.6 M</u>	<u>(5.6) M</u>
Total	<u>\$ 1,491.9 M</u>	<u>\$ 1,435.3 M</u>	<u>\$ 56.6 M</u>

- New product development → \$15M
- Remaining metal/other hedges delivered in Q1 → ~ 1M pounds, or \$12M
- European holiday shutdown builds → \$10M
- Carlton material consignment program ends → \$6M
  - Will now be supplied internally
- Strategic material purchases and steel surcharges → \$5M
- In transit Chengde inventory → \$4M

# Summary Q1 FY11

## Aerospace

- Further commercial aerospace OEM upside
  - Investment Cast Products
  - Forged Products
- Flat fastener OEM shipments
  - Pipeline temporarily full

## Power

- Dramatic sequential/year-over-year drop in seamless pipe sales
  - Significant lost leverage
- Continued European IGT destocking

## General Industrial

- Solid upward trend

# Outlook FY11

## Q2

- Market conditions consistent with Q1
- Additional pressures
  - Scheduled maintenance of major forging complexes
  - Extended European holidays

## Second Half of Fiscal 2011

- Locking in accelerated aerospace OEM production schedules
  - Base Airbus and Boeing aircraft
  - 787 program
- Aerospace aftermarket/starts to bounce back
- Fastener Products gains traction
  - Distributor orders return
  - Core product demand increases
- Significant recovery in seamless pipe
  - Major order activity underway in China
  - Successful campaigns in India
  - Long Chengde runway
- Further general industrial upside

**MAJOR UPSIDE OPPORTUNITIES ON HORIZON**

# Questions

