

Carpenter Technology Corporation (CRS)

FQ1 2027 Earnings Review | Period ended September 2026 | Reported October 22, 2026

Earnings Expansion Durable, but the Beat Was Not Unequivocal

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Consensus	vs. Cons.
Revenue	\$798.2M	\$828.9M	-3.7%
Operating Income (vs. Year Ago)	\$196.4M	\$153.3M	+28.1%
Diluted EPS (vs. Year Ago)	\$3.25	\$2.43	+33.7%
SEGMENT REVENUE			
Specialty Alloys Operations	\$730.4M	\$762.3M	-4.2%
Performance Engineered Products	\$91.1M	\$98.1M	-7.1%

2 GUIDANCE AND OUTLOOK	
Second-quarter operating income is guided to \$192 million to \$197 million, roughly flat sequentially, with Specialty Alloys Operations at \$214 million to \$218 million and corporate costs rising to \$28 million to \$29 million. Fiscal 2027 operating income guidance was reaffirmed at \$850 million to \$880 million, free cash flow guidance held at \$400 million to \$430 million. The fiscal 2029 operating income target of \$1.2 billion to \$1.3 billion was maintained. The tax rate is now expected near the low end of the 20% to 22% range.	

3 EARNINGS ANALYSIS	
REVENUE MISSED, GUIDANCE HELD. Revenue of \$798.2 million missed consensus by 3.7%, with Specialty Alloys Operations 4.2% light and Performance Engineered Products 7.1% light. Operating income of \$196.4 million rose 28.1% year over year and landed inside the \$195 million to \$200 million guidance range, though SAO operating income of \$216.3 million fell below its \$218 million to \$222 million segment range. Reported growth also flattered demand: about 51% of the revenue increase came from higher surcharge revenue, while revenue excluding surcharge rose 5.3%.	
EARNINGS QUALITY NEEDS CASH CONVERSION. Free cash flow was negative \$24.8 million as operating cash flow of \$52.8 million covered only about a third of net income and capital spending rose 82.4% to \$77.7 million. Inventory consumed \$61.6 million of cash. The 15.5% tax rate, lowered by equity-award vesting benefits, flattered EPS: at a normalized 20% rate, pretax income would have produced about \$3.08 per share rather than \$3.25. Reaching the \$400 million to \$430 million free cash flow target now requires the remaining quarters to average roughly \$141.6 million to \$151.6 million.	
MARGINS AND PRICING STILL RISING. SAO's operating margin excluding surcharge was 37.7%, up about 570 basis points year over year and only 10 basis points below the prior quarter despite maintenance downtime and fewer operating days. Management stated this margin level is not viewed as the peak. Pricing is the clearest upside lever: two aerospace long-term agreements were completed at higher pricing, another is agreed in principle, and both LTA and transactional prices are rising. Management was equally clear that shares should remain broadly the same: growth is repricing and demand participation, not share capture.	
CONSTRUCTIVE, CONDITIONAL ON EXECUTION. Commercial aerospace bookings rose 25% year over year, structural and distribution bookings 49%, and engine bookings 22%, while defense bookings fell on funding constraints. Net debt to EBITDA was 0.6x, but cash fell to \$159.5 million after \$133.9 million of repurchases despite negative free cash flow. The verdict is constructive on operating fundamentals, conditional on valuation and on second-half shipments and cash conversion delivering what stronger orders and pricing promise.	

4 KEY READ-THROUGHS	
QUALIFIED ALLOY CAPACITY SHOULD RETAIN PRICING POWER <i>ATI (ATI), Acerinox (ACX) Positive High conviction</i> Commercial aerospace bookings rose 25% year over year and engine bookings 22%, while SAO held a 37.7% margin excluding surcharge. Management described an expanding supply-demand gap for nickel superalloys and higher pricing on new and prospective long-term agreements. Because qualified capacity is constrained industry-wide and shares should remain broadly the same, the benefit accrues to competitors rather than signaling Carpenter share capture.	
ENGINE MAINTENANCE DEMAND REMAINS RESILIENT, SUPPORTING RECURRING PARTS AND SERVICE REVENUE <i>GE Aerospace (GE), Safran (SAF) Positive Material fundamental relevance; moderate trading signal</i> Engine bookings increased 10% sequentially and 22% year over year, supported by maintenance activity, many engines approaching shop visits and increasing emergency orders. Management said higher fuel prices had not weakened aftermarket demand. Because aircraft cannot operate indefinitely without inspection, overhaul and component replacement, sustained parts consumption supports recurring service revenue at GE Aerospace and Safran, even if new-aircraft production fluctuates.	
MATERIALS SCARCITY CREATES A NEGATIVE COST AND DELIVERY IMPULSE FOR ENGINE AND AIRFRAME OEMS <i>GE Aerospace (GE), Safran (SAF), RTX (RTX), Boeing (BA), Airbus (AIR) Negative High conviction</i> Management reported higher prices across LTA and transactional business, rising emergency engine orders and equipment near its limits, with brownfield capacity unavailable until around July 2027. Suppliers' higher base prices become customers' higher procurement costs; surcharge clauses do not necessarily reimburse conversion-price increases. A shortage of one qualified alloy can delay an entire engine or aircraft delivery, deferring the cash receipt.	
THE FUNDING GAP IS NEGATIVE FOR THE TIMING OF INCREMENTAL PRODUCTION <i>RTX (RTX), Lockheed Martin (LMT) Negative Low to moderate</i> Carpenter's defense bookings declined sequentially and year over year because customers lacked funds to place orders consistent with defense requirements. Spending ambitions do not finance alloy purchases or production shifts lower in the supply chain, so output cannot accelerate on demand or headline budgets alone. For RTX and Lockheed Martin, the inference is slower incremental production growth, not deterioration in funded backlogs.	