Carpenter Technology (CRS) & The Asymmetric Dislocation

A High-Conviction Fundamental, Quantitative, and Technical Buy-Side Pitch.

Current Price: $294.64 | Target PWEV: $468.00

Gemini Notebook

A mechanical options flush creates a rare accumulation opportunity

Oligopolistic Moat

Mission-critical aerospace alloy provider with extreme pricing power. Margins have hit a new structural floor of 37.7%.

The Dislocation

A recent 20% post-earnings drop to $294.64 is a mechanical options flush (negative gamma), misinterpreting planned maintenance as demand destruction.

Capital Allocation

Pristine cash flow ($605M CFO) is funding a massive $1B share repurchase program on a tight 50M float.

Valuation Asymmetry

Probability-Weighted Expected Value (PWEV) of $468.00, representing ~60% upside with heavily mitigated downside.

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Mission-critical positioning supports a new structural margin floor

Irreplaceable node in the aerospace/defense supply chain. Absolute dependency by Boeing and Airbus.

+25% YoY

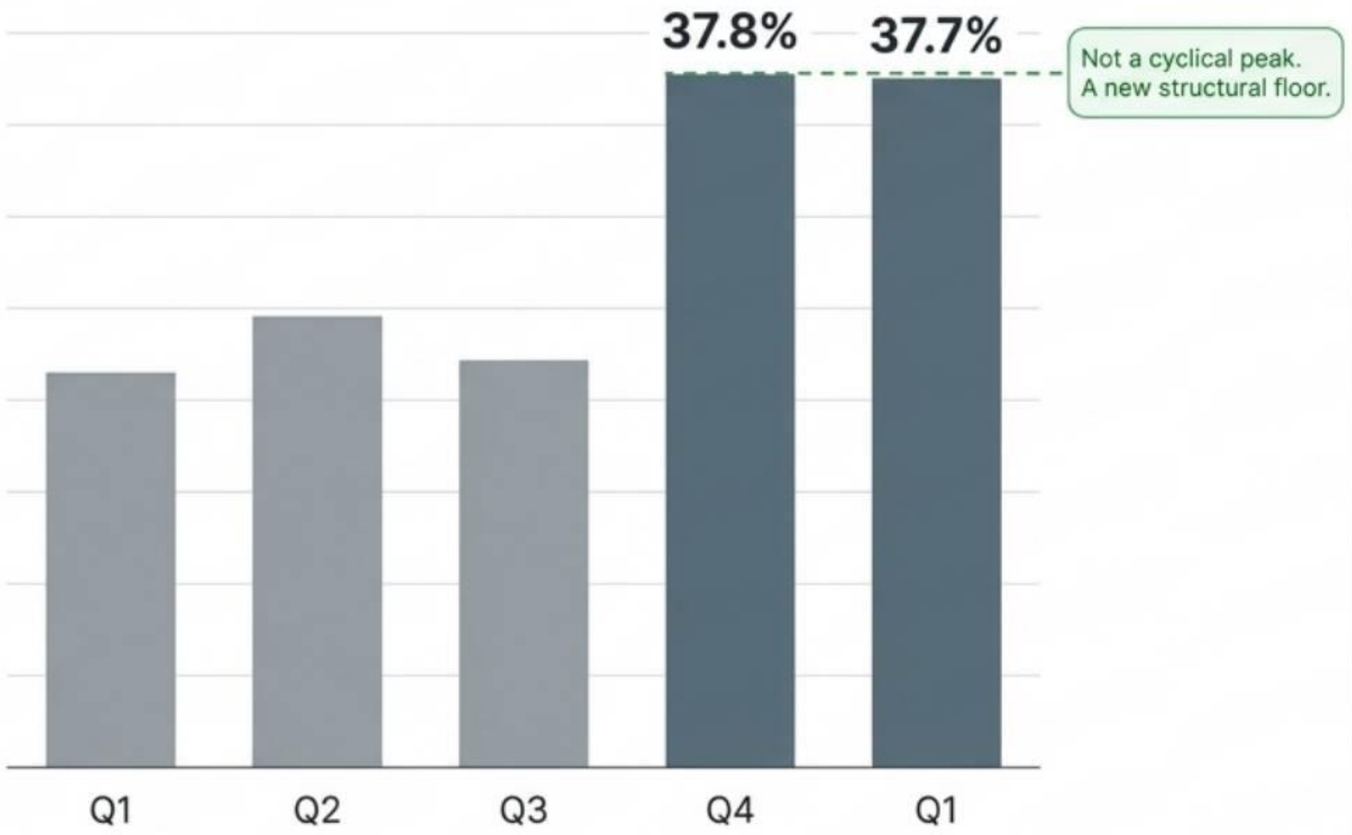
Bookings in commercial aerospace supply chain

+49% YoY

Distribution & structural submarkets

Sustained pricing power against OEMs. Margins expanding despite lower/static sequential volumes, proving the non-commoditized nature of engine-grade alloys.

Specialty Alloys Operations (SAO) Margins Leap



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Pristine earnings quality with zero reliance on accounting distortions

114%

CFO-to-Net Income Conversion

$605.0M in operating cash flow completely validates the $530.0M reported net income. The earnings are backed by hard cash.

Asset Reality vs. R&D

High Return Investment. Earnings quality is driven by hard-asset capacity and physical cash generation. Zero reliance on aggressive R&D capitalization distortions.

$0.00M discrete capitaiized R&D

Clean Cap Structure

- Negligible ~0.6% dilution variance (50.7M diluted vs 50.4M basic shares).
- No toxic convertible debt.
- No Up-C operating partnership structures.

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The Denominator Squeeze mathematical engine

Visual Equation

$892.4M
Total Liquidity + Accelerating Operating Cash Flows

+

$1.0B
Aggressive Share Repurchase Program

=

8-10%
Float Retirement at depressed <$300 levels.

A flat or moderately growing top-line divided by a rapidly shrinking 50.4M share float mathematically forces extreme EPS acceleration. Management is actively weaponizing cash flow to shrink the economic denominator.

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The market mispriced planned plant maintenance as demand destruction

The Market Myth

Perceived Demand Destruction

- Stock dropped 20% on a slight revenue miss (~$798.5M vs $830M consensus).
- Market algorithms assumed the 37.8% SAO margin was a cyclical peak that is now breaking.
- Broader macro risk-off environment amplified algorithmic selling pressure.

The Economic Reality

Planned Maintenance & Strong Demand

- Revenue miss was strictly driven by scheduled preventative maintenance downtime, not lack of orders.
- Q1 SAO margins held exceptionally strong at 37.7% despite fewer operating days.
- Management explicitly reaffirmed their $850M-$880M operating income guidance.

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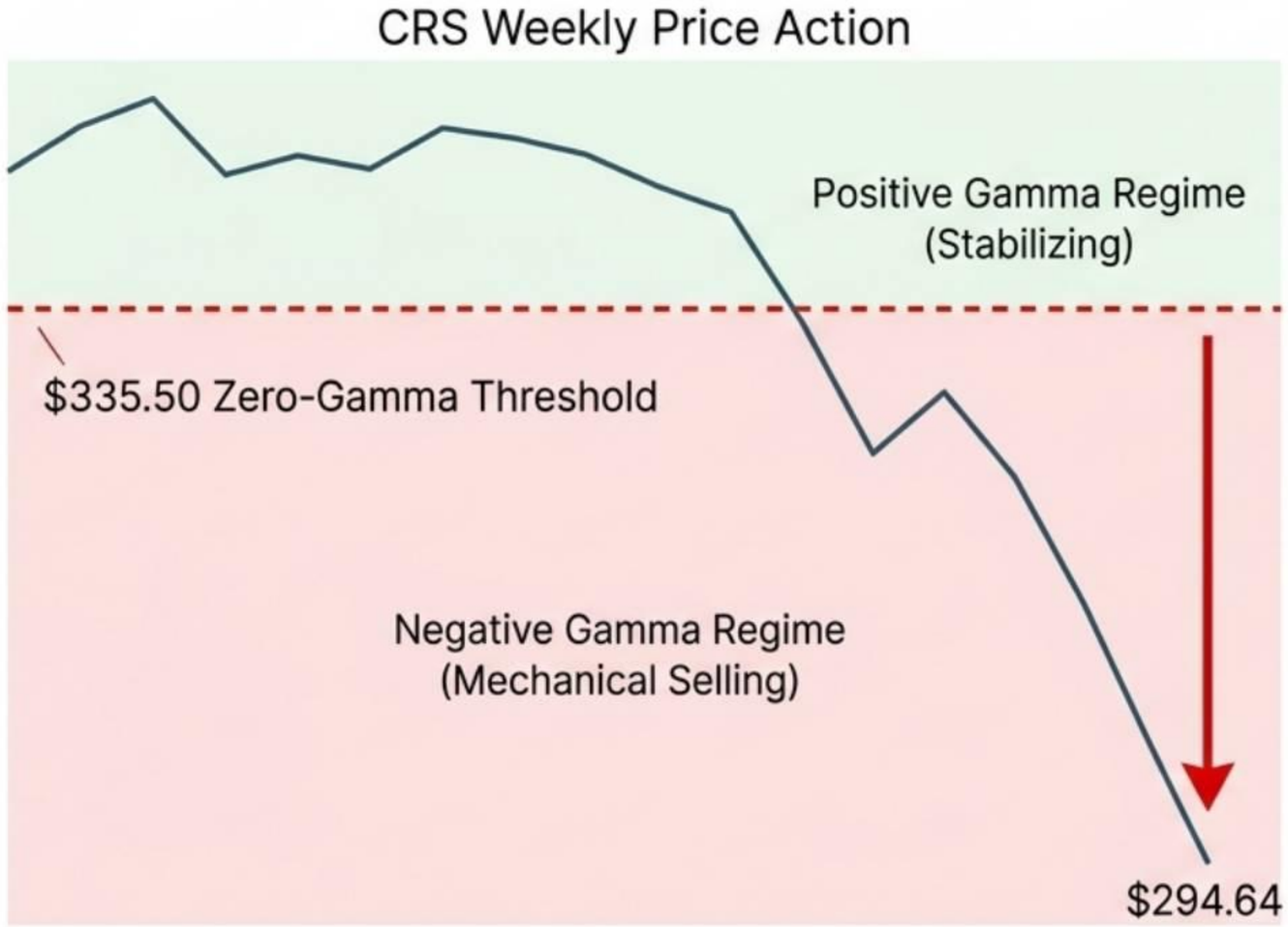
Breaking the zero-gamma threshold triggered a mechanical flash crash



The Trigger

The slight Q1 revenue miss pushed the price below the critical $335.50 Zero-Gamma line.

The Mechanical Liquidation

Breaking this threshold flipped the market maker hedging regime from positive to negative gamma. This forced mechanical dealer shorting to delta-hedge their books, causing a violent liquidity flush.

Conclusion: The drop was structural/mechanical, not fundamental.

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Management is aggressively compounding the dislocation

Stronger Than A Quarter Ago

CEO Tony Thene explicitly stated that his outlook on demand, pricing, and confidence in the FY27 to FY29 targets is stronger now than last quarter. He noted he cannot find one person that can explain exactly what they are negative on.

The Balloon Ready to Bust

Sequential defense volume drag is strictly due to election/funding delays. Management views this not as lost revenue, but deferred demand creating a rush for material once budgets clear.

Insider Capital Deployment

$133.9M

Repurchased in Q1 alone. Management is front-running the market by aggressively buying into the panic, retiring a larger percentage of the float at a 20% discount.

Risk Score: 3/10 (Highly Confident)

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Valuation scenarios anchor on a trajectory toward $1.2B operating income

Bull Scenario
$609.00

Assumptions:

- OEMs accelerate builds
- Sustained pricing power
- Aggressive float shrink (8-10%)

Metrics:

- $14.50 EPS
- 42.0x Fwd P/E
- 9.0% WACC

Base Scenario
$463.75

Assumptions:

- Steady supply chain normalization
- Programmatic buybacks
- Consistent trajectory to $1.2B FY29 OI

Metrics:

- $13.25 EPS
- 35.0x Fwd P/E
- 9.5% WACC

Bear Scenario
$250.00

Assumptions:

- Severe OEM execution delays
- SAO margins revert to 30%
- Buybacks paused to preserve cash

Metrics:

- $10.00 EPS
- 25.0x Fwd P/E
- 10.5% WACC

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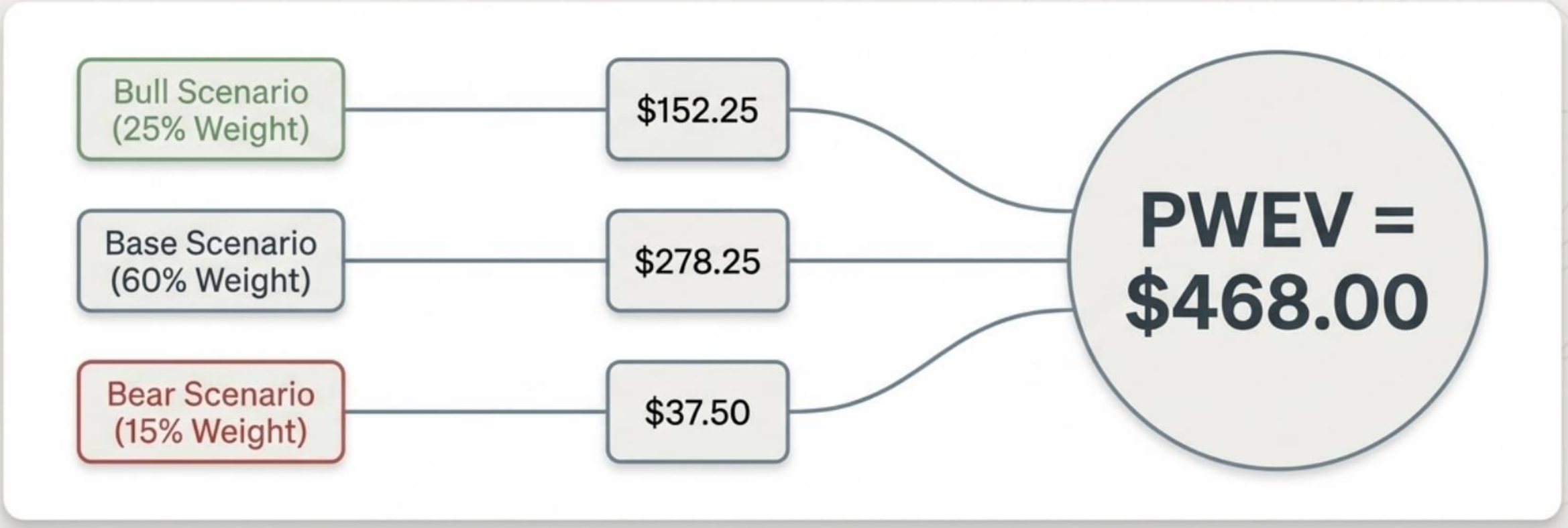
Probability-weighted expected value reveals ~60% upside asymmetry



Current price ($294.64) represents an extreme dislocation, trading at a ~37% discount to expected value. The market is pricing in a Bear scenario, while actual cash flows, 37.7% margins, and buyback execution are tracking the Base/Bull trajectory.

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The tactical pivot to aggressive common equity accumulation

Prior Strategy: Harvesting Volatility

Pre-Earnings (Spot ~$377)

Optimal vehicle was a Put Ratio Spread (e.g., Nov 1x2 long $400 / short $390) to harvest elevated implied volatility and leverage the $360 peak GEX strike to acquire shares at a discount near $355.

Current Strategy: Outright Accumulation

Post-Earnings (Spot $294.64)

The mechanical options flush below $300 effectively removes the need for complex derivatives. The optimal strategy shifts to **outright accumulation** of the common equity.

Takeaway: At roughly 22x forward P/E, the market has stripped out the premium for CRS's monopolistic pricing power. This provides a highly asymmetric entry for long-term institutional allocation, front-running the company's $1.0B buyback.

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