

Q3 FY'11 Earnings Conference Call

July 22, 2011



AIR
PRODUCTS 

Forward Looking Statement

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Q3 Financials

(\$millions, Continuing Operations)	Q3 FY11	Fav/(Unfav) vs.	
		Q3 FY10	Q2 FY11
Sales	\$2,578	14%	3%
- Volume		6%	-%
- Price		1%	-%
- Energy/RM pass-thru		2%	1%
- Currency		5%	2%
Operating Income	\$417	11%	(2%)
Operating Margin	16.2%	(40bp)	(80bp)
Net Income	\$318	15%	3%
Diluted EPS (\$/share)	1.46	14%	4%
ROCE	13.0%	30bp	(30bp)

Non-GAAP, see appendix for reconciliation.



Q3 EPS Analysis

	<u>Q3 FY11</u>	<u>Q3 FY10</u>	<u>Change</u>
As-reported diluted EPS	\$1.50	\$1.17	
- acquisition-related exp.	-	(0.11)	
- income from disc. ops.	0.04	-	
	<u>\$1.46</u>	<u>\$1.28</u>	<u>\$0.18</u>
Volume			\$0.14
Price / raw materials			(0.02)
Cost			(0.06)
			\$0.06
Higher equity affiliate income			0.03
Currency/FX			0.09
			<u>\$0.18</u>

Increase

Non-GAAP, see appendix for reconciliation.

Merchant Gases

	<u>Q3 FY11</u>	<u>Fav/(Unfav) vs.</u>	
		<u>Q3 FY10</u>	<u>Q2 FY11</u>
Sales	\$1,027	12%	1%
- Volume		3%	-%
- Price		1%	-%
- Currency		8%	1%
Operating Income	\$182	3%	(2%)
Operating Margin	17.7%	(160bp)	(60bp)

- Strong volume growth in Asia
- Positive price in North America and Asia, price challenges in Europe
- Power, maintenance and distribution cost impacts

Merchant Gases: Q3 Sales Analysis vs PY

	<u>North America</u>	<u>Europe</u>	<u>Asia</u>
Sales % change	3%	14%	22%
- Volume	-%	2%	12%
- Price	3%	(1%)	3%
- Currency	-	13%	7%

- Strong volumes across the Asia region, particularly in China
- Positive North America and Asia pricing
- Weak Europe healthcare and liquid/bulk pricing

Note: The above excludes Latin America and small on-sites sale of equipment businesses. Europe includes homecare services.

Tonnage Gases

	<u>Q3 FY11</u>	<u>Fav/(Unfav) vs.</u>	
		<u>Q3 FY10</u>	<u>Q2 FY11</u>
Sales	\$869	20%	9%
- Volume		11%	5%
- Energy/RM pass thru		7%	3%
- Currency		2%	1%
Operating Income	\$115	(4%)	(5%)
Operating Margin	13.2%	(330bp)	(190bp)

- New projects and improved loadings drive volume growth
- Higher maintenance costs and operating bonus timing impact margin – expect Q4 recovery

Electronics & Performance Materials

		<u>Fav/(Unfav) vs.</u>	
	<u>Q3 FY11</u>	<u>Q3 FY10</u>	<u>Q2 FY11</u>
Sales	\$602	21%	5%
- Volume		14%	3%
- Price		3%	1%
- Currency		4%	1%
Operating Income	\$109	75%	19%
Operating Margin	18.1%	550bp	220bp
Electronics sales		24%	3%
Performance Materials sales		18%	6%

● Record sales, profit and margin

Equipment & Energy

	<u>Q3 FY11</u>	<u>Fav/(Unfav) vs.</u>	
		<u>Q3 FY10</u>	<u>Q2 FY11</u>
Sales	\$80	(31%)	(30%)
Operating Income	\$9	(59%)	(62%)
Sales Backlog	\$246	(18%)	34%

- Lower sales due to lower ASU activity
- Lower operating income on lower sales and prior year asset gain
- Backlog up with first floating LNG exchanger order

Outlook

FQ4 2011 EPS

\$1.48-\$1.53

- Higher Merchant and Tonnage volumes
 - Lower Tonnage maintenance costs
 - Higher tax rate
-

FY 2011 EPS

\$5.70-\$5.75

- CapEx forecast ~\$1.6B-\$1.7B
- Tax rate guidance unchanged, ~25%-26%

2015
by
2015

\$15+ Billion in Sales

20% Operating Margin

15% Return on Capital Employed

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, crossing the yellow curve and ending near the top right.

Appendix: Q3 FY11 Results and Guidance

(\$ Millions, except per share data)

	GAAP Measure				Non GAAP Adjustments	Non GAAP Measure			
	Q311	Q310	\$ Change	% Change		Q311	Q310	\$ Change	% Change
Q311 vs. Q310 - Total Co. Cont. Ops					Q310 (1)				
Sales	2,577.8	2,252.3	325.5	14%		2,577.8	2,252.3	325.5	14%
Operating Income	416.8	336.4	80.4	24%	37.9	416.8	374.3	42.5	11%
Operating Margin	16.2%	14.9%		130bp		16.2%	16.6%		(40bp)
Net Income Attributable to Air Products	317.6	253.2	64.4	25%	23.7	317.6	276.9	40.7	15%
Diluted EPS Attributable to Air Products	\$1.46	\$1.17	\$0.29	25%	\$0.11	\$1.46	\$1.28	\$0.18	14%
			\$	%				\$	%
Q311 vs. Q211 - Total Co. Cont. Ops					Q211 (1)				
Sales	2,577.8	2,501.3	76.5	3%		2,577.8	2,501.3	76.5	3%
Operating Income	416.8	419.5	(2.7)	(1%)	5.0	416.8	424.5	(7.7)	(2%)
Operating Margin	16.2%	16.8%		(60bp)		16.2%	17.0%		(80bp)
Net Income Attributable to Air Products	317.6	304.3	13.3	4%	4.4	317.6	308.7	8.9	3%
Diluted EPS Attributable to Air Products	\$1.46	\$1.39	\$0.07	5%	\$0.02	\$1.46	\$1.41	\$0.05	4%

(1) Acquisition - related costs

FY11 Guidance

FY10 GAAP	\$4.74
Acquisition - related costs	\$0.28
FY10 Non GAAP	\$5.02
FY11 Guidance (1)	\$5.70-\$5.75
% Change	14%-15%

(1) Excludes acquisition - related costs

Appendix: ROCE

\$ Millions Quarter Ended	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	Q111	Q211	Q311
Numerator											
Operating Income Reported		260.4	143.8	328.0	345.0	340.6	336.4	367.0	360.6	419.5	416.8
Equity Affiliate Income		27.0	28.5	32.2	26.9	32.2	32.5	35.3	27.8	31.7	39.7
Earnings before tax as reported		287.4	172.3	360.2	371.9	372.8	368.9	402.3	388.4	451.2	456.5
Global Cost Reduction Plan		0.0	124.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Settlement Charge		0.0	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Customer Bankruptcy and Asset Actions		0.0	32.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition - Related Costs		0.0	0.0	0.0	0.0	23.4	37.9	34.7	43.5	5.0	0.0
Earnings before tax ex items		287.4	336.4	360.2	371.9	396.2	406.8	437.0	431.9	456.2	456.5
Effective tax rate as reported		25.8%	17.5%	26.0%	24.5%	24.7%	22.9%	25.2%	22.8%	26.1%	24.2%
Earnings after tax as reported		213.3	142.1	266.5	280.8	280.7	284.4	300.9	299.8	333.4	346.0
Effective tax rate ex items		25.8%	25.7%	26.0%	24.5%	25.6%	24.4%	26.2%	24.4%	26.0%	24.2%
Earnings after tax ex items		213.3	249.9	266.5	280.8	294.8	307.5	322.5	326.5	337.6	346.0
4 Qtr trailing AT earnings (numerator) - as reported					902.7	970.1	1,112.4	1,146.8	1,165.8	1,218.5	1,280.1
4 Qtr trailing AT Earnings (numerator) - ex items					1,010.5	1,092.0	1,149.6	1,205.6	1,251.3	1,294.1	1,332.6
Denominator											
Total Debt	4,169.2	4,102.4	4,145.2	4,501.5	4,418.7	4,343.4	4,188.0	4,128.3	3,992.0	4,395.9	4,497.7
Air Products Shareholders' Equity	4,726.1	4,638.1	4,928.3	4,791.9	5,033.9	5,265.6	5,231.4	5,546.9	5,810.0	5,825.2	6,232.2
Noncontrolling Interest	137.9	126.7	134.6	138.1	150.2	152.7	140.5	150.7	167.2	174.0	164.8
Total Capital	9,033.2	8,867.2	9,208.1	9,431.5	9,602.8	9,761.7	9,559.9	9,825.9	9,969.2	10,395.1	10,894.7
2 Qtr Average Capital (denominator)					9,517.2	9,682.3	9,660.8	9,692.9	9,897.6	10,182.2	10,644.9
5 Qtr Average Capital (denominator)					9,228.6	9,374.3	9,512.8	9,636.4	9,743.9	9,902.4	10,129.0
ROCE as rptd (4 Qtr trail AT earnings / 5 pt avg capital)					9.8%	10.3%	11.7%	11.9%	12.0%	12.3%	12.6%
ROCE ex items (4 Qtr trail AT earnings/ 5 pt avg capital)					10.9%	11.6%	12.1%	12.5%	12.8%	13.1%	13.2%
Instantaneous ROCE ex items (Qtr earnings AT x 4) / 2 pt avg capital)					11.8%	12.2%	12.7%	13.3%	13.2%	13.3%	13.0%

Appendix: ROCE Tax Rate

	<u>Q209</u>	<u>Q309</u>	<u>Q409</u>	<u>Q110</u>	<u>Q210</u>	<u>Q310</u>	<u>Q410</u>	<u>Q111</u>	<u>Q211</u>	<u>Q311</u>
<u>Reported</u>										
Income Before Taxes	257.4	144.8	332.3	340.3	343.3	338.9	371.5	357.4	421.8	430.0
Tax Expense	66.5	25.4	86.3	83.5	84.9	77.6	93.5	81.5	110.3	103.9
Tax Rate Reported	25.8%	17.5%	26.0%	24.5%	24.7%	22.9%	25.2%	22.8%	26.1%	24.2%
<u>ITEMS</u>										
<u>Operating Income</u>										
Global Cost Reduction Plan		124.0								
Pension Settlement Charge		8.0								
Customer Bankruptcy and Asset Actions		32.1								
Acquisition - related costs					23.4	37.9	34.7	43.5	5.0	
<u>Tax Exp</u>										
Global Cost Reduction Plan		39.8								
Supp. Pension Plan Charge		3.0								
Customer Bankruptcy and Asset Actions		11.1								
Acquisition - related costs					8.8	14.2	12.9	16.3	0.6	
<u>Ex Items</u>										
Income Before Taxes	257.4	308.9	332.3	340.3	366.7	376.8	406.2	400.9	426.8	430.0
Tax Expense	66.5	79.3	86.3	83.5	93.7	91.8	106.4	97.8	110.9	103.9
Tax Rate ex Items	25.8%	25.7%	26.0%	24.5%	25.6%	24.4%	26.2%	24.4%	26.0%	24.2%

Thank you...
tell me more

