TIMKEN CO
Form DEFA14A
April 01, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
¨ Definitive Proxy Statement
þ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

The Timken Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

April 1, 2013

THE BEST PATH TO SHAREHOLDER VALUE CREATION

2

FORWARD-LOOKING STATEMENTS SAFE HARBOR AND

NON-GAAP FINANCIAL INFORMATION

Certain statements in this presentation (including statements regarding the company's forecasts, beliefs, estimates and expectations) that are not historical in nature are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, the statements related to the Timken Company s plans, outlook, future financial performance, targets, projected sales, cash flows, and liquidity, including the information under the headings, Strong Synergistic Relationship Across Timken Businesses, Relational s Valuation Analysis is Flawed, Relational s Proposal Based on Unrealistic Bearings Trading Multiple, Steel Standalone Business Would be Smallest Compared to Other Steel Companies, Significant Synergies Would be Lost in Steel Spin-off, Analysts Median SOTP Analysis Does Not Support Relational s Claim of Break-up Value, Comprehensive Plan to Drive Shareholder Value, Three-Year Targets Reflect Strength of Strategic Plan, and Our Strategy is Working and We Are Committed to Building Shareholder Value are forward-looking. The company cautions that actual results may differ materially from those projected or implied in forward-looking statements due to a variety of important factors, including: the company s ability to respond to the changes in its end markets that could affect demand for the company s products; unanticipated changes in business relationships with customers or their purchases from the company; changes in the financial health of the company s customers, which may have an impact on the company s revenues, earnings and impairment charges; fluctuations in raw-material and energy costs and their impact on the operation of the company s surcharge mechanisms; the impact of the company s last-in, first-out accounting; weakness in global or regional economic conditions and financial markets; changes in the expected costs associated with product warranty claims; the ability to integrate acquired companies to achieve satisfactory operating results; the impact on operations of general economic conditions; higher or lower raw-material and energy costs; fluctuations in customer demand; the company s ability to achieve the benefits of its ongoing programs, initiatives & capital investments; the timing and amount of common share repurchases; and retention of CDSOA distributions. Additional factors are discussed in the company s filings with the Securities and Exchange Commission, including the company s annual report on Form 10-K for the year ended Dec. 31, 2012, quarterly reports on Form 10-Q and current reports on Form 8-K. The company undertakes no obligation to update or revise any forward-looking statement.

This presentation includes certain non-GAAP financial measures as defined by the rules and regulations of the Securities and Exchange Commission. A reconciliation of those measures to the most directly comparable GAAP equivalent is provided in the Appendix to this presentation.

The California State Teachers
Retirement System (CalSTRS) and Relational Investors
(Relational)
have
put
forth
a
proposal
(1)
to
separate
the
Steel
Business
(Steel)
and
Bearings
and
Power Transmission Business (Bearings)

The Timken Company s Board of Directors has carefully reviewed a separation of the businesses, with input from outside advisors, in the past and again in response to Relational s proposal and determined it is not in the best interests of shareholders at this time

A Record of Delivering Value

Operational
integration
and
technology
sharing
between
Steel
and
Bearings
create
meaningful
benefits for customers and shareholders

Relational s Flawed Analysis

The Timken Company s Comprehensive Plan to Drive Value
(1)
For simplicity, further references in this presentation regarding proposals, assertions, analysis, assumptions, claims and filings
be attributed to CalSTRS as appropriate.
3
Timken has a strong track record of delivering shareholder value
with its existing strategy
Timken Steel is one of the Company s highest ROIC businesses; Timken has invested to even
further improve Steel s cost structure and profitability
We believe Relational s break-up valuation analysis has serious flaws
Contrary to Relational s assertion, Timken has strong corporate governance standards, as recognized
by independent proxy advisors
We believe continued execution of our proven strategy is the best path to value creation
oVERVIEW

4

A RECORD OF DELIVERING VALUE

5

TIMKEN STRATEGY TO DELIVER SHAREHOLDER VALUE

TIMKEN HAS DELIVERED TOP QUARTILE FINANCIAL PERFORMANCE

Timken has delivered
top quartile margin
and ROIC performance
versus comparable
companies
6

(1)
Source: Most recent company filings. Represents average of 2008 through 2012. Tax rate assumed at 35% for U.S. companie
NSK, NTN, and JTEKT. Results exclude U.S. Continued Dumping Subsidy Offset Act (CDSOA) receipts and impairment an
See Appendix for reconciliation of EBITDA and ROIC to the most directly comparable GAAP equivalents. EBITDA and RO
U.S. GAAP and should not be considered in isolation or as a substitute for measures of our performance prepared in accordanc
Because not all companies use identical calculations, the presentation of EBITDA and ROIC may not be comparable to other s
measures of other companies.
(2)
Comparable companies include: AK Steel, Allegheny Technologies, Altra, Carpenter Technology, JTEKT, Kennametal, NSK,
Dynamics, and US Steel.
9.7%
6.8%
14.9%
13.3%
4%
6%
8%
10%
12%
14%
16%
EBITDA Margin
ROIC
Comparable Company Average
Timken
5-Year Average
(1)
(2)

(88%)
(78%)
(71%)
(61%)
(56%)
(48%)
(43%)
(27%)
(14%)
(3%)
12%

34%
56%
77%
(120%)
(80%)
(40%)
0%
40%
80%
(76%)
(56%)
(39%)
(28%)
(27%)
(16%)
(6%)
2%
28%
43%
60%
80%
100%
111%
(120%)
(80%)
(40%)
0%
40%
80%
120%
160%
Source:
Factset as of December 31, 2012.
(1)
Bearings
comparable
companies
include:
Altra,
JTEKT,
Kennametal,
NSK,
NTN,
and
SKF.
(2)
Steel comparable companies include: AK Steel, Allegheny Technologies, Carpenter Technology, Nucor, Steel Dynamics, and

DELIVERING
STRONG

TOTAL SHAREHOLDER RETURNS

Bearings
(1)
Steel
(2)
Timken
S&P 500
Timken
Kennametal
Carpenter
Altra
Nucor
SKF
Allegheny
NSK
Steel Dynamics
JTEKT
NTN
US Steel
AK Steel
S&P 500
SKF
Altra
Timken
Kennametal
NSK
Carpenter
Nucor
Steel Dynamics
JTEKT
Allegheny
NTN
US Steel
AK Steel
S&P 500
7
Last 3 Years
Total Shareholder Return
Last 5 Years
Total Shareholder Return

TRANSFORMING
THE
BUSINESS
TO
DRIVE
VALUE

Divestitures

Plant Closings
Clinton, SC and
Wolverhampton
Machine Tool
Bearing
Latrobe Steel;
Global Steering
Business;
Precision
Components EU
Killian
LMS;
NRB India;
Bearing
Services
Needle
Roller
Bearings
Automotive
restructuring
/ closure of
facilities in
Brazil
Canton Bearings
(announced)
St. Thomas
Acquisitions
8
TNBS
NTC JV
2006
2010
2008
2005
2007
2011
2009
2004
2012
2013
2003
Alcor
Bearing Inspections
Purdy
Boring Specialties; Extex
QM Bearings
Philadelphia Gear; Drives
Wazee
Interlube
Systems

Torrington
Divestitures / Plant Closings
Shed under-performing / non-core businesses
Redeploy capital to drive returns
Sharpen strategic focus
Acquisition Strategy
Diversify and expand product portfolio in attractive adjacencies
Increase aftermarket sales
Create new growth platforms

TIMKEN STEEL IS A STRONG PERFORMER

3-Year Average EBIT Margins

3-Year Average ROIC

9

Note: The above data represents an average of 2010 through 2012. Segment returns have been adjusted to reflect a proportiona

corporate expenses. Tax rate assumed at 35% for ROIC calculations. Results exclude CDSOA receipts and impairment and re
Appendix for reconciliation of ROIC and consolidated EBIT to the most directly comparable GAAP equivalents.
22%
16%
3%
21%
17%
13%
13%
6%
19%
14%
25%
20%
15%
10%
5%
0%
0%
5%
10%
15%
20%
25%
Mobile
Mobile
Process
Process
Aerospace
Aerospace
Steel
Steel
Timken
Timken

SYNERGIES
BETWEEN
STEEL
AND
BEARINGS

CREATE
MEANINGFUL
BENEFITS
FOR
CUSTOMERS
AND
SHAREHOLDERS
10

STRONG
TIES
BETWEEN
BUSINESSES
DRIVE
VALUE

Best-in-class provider of high-
performance products for demanding
conditions

Technical knowledge

Research synergies

Production capabilities

Application engineering

Supply-chain efficiencies

Manufacturing efficiencies

Value-based pricing

Ability to leverage
investments across platform

Customer service and delivery
Process Industries | Mobile Industries |
Steel | Aerospace & Defense

Automotive
Common End-
Market Sectors

Construction

Energy
Shared
Customers
Shared
Expertise
Operating
Efficiencies
Combined platform drives performance and value

Aerospace & Defense

Mining

Agriculture

Industrial Machinery

Rail

Heavy Truck
11

STRONG
SYNERGISTIC
RELATIONSHIP
ACROSS

TIMKEN BUSINESSES

12

PROCESS INDUSTRIES | MOBILE INDUSTRIES | STEEL | AEROSPACE & DEFENSE

SUPPLY CHAIN SYNERGIES

KNOWLEDGE-BASED SYNERGIES

SIGNIFICANT
CUSTOMER BENEFITS

SIGNIFICANT
SHAREHOLDER BENEFITS

Steel provides enhanced product quality across Process, Mobile and Aerospace & Defense

Shorter lead times based on steel availability

Enhanced customer service and on-time product delivery

Lower costs

Faster customization of specialty products

End-market focus facilitates engineering know-how and insights

Product solutions leverage 100+ years of application and engineering expertise, driving product quality and demand

Technical knowledge of materials drives optimization of power transmission solutions

Steel benefits from sale of value-added products that leverage bearings knowledge

Steel production capabilities increase Process, Mobile and Aerospace & Defense competitiveness, given significant customer benefits

Savings on application engineering and R&D

Value-based pricing drives higher margins, as integration across businesses contributes to customer value proposition

Timken gains greater insight into shared customers and common end-markets

Supply Chain Synergies

Knowledge-Based Synergies

Best-in-Class Products and Reliability

Increased Demand, Higher Margins

Ability to internally source steel reduces impact of volatile end markets

Control of raw materials supply improves product quality

Reliable steel availability drives
shorter lead times enhancing on-
time product delivery, especially in
peak demand periods

Customers value the Company s
reliability yielding increased
customer demand and higher
margins
Process, Mobile and Aerospace & Defense have Sourced 58% of Steel Needs
from Timken Steel over the Past Five Years
13
5-Year Average Steel
Consumption by Source
58%
42%
Timken Steel
Other Steel Sources
Note: Five year average consumption based on metric tons for years 2008 through 2012. Includes steel sourced directly from T
sourced indirectly, i.e. produced by Timken and shipped to forge and machining suppliers who convert raw materials into forgi
wire rod, which are purchased by Process, Mobile and Aerospace & Defense business segments.

TIMKEN
STEEL
PROVIDES
CRITICAL
SOURCING
BENEFITS

TIMKEN
VALUE
BEGINS
IN
THE

MARKET

Core Knowledge

Mechanical Power Transmission Applications

Metallurgy
Tribology

Load & Stress Analysis

Gears

Bearings

Shafts

Seals

Bearings

Lubricants

Gear Drives

Condition

Services
We Improve the Reliability and Efficiency of Machinery
is
in
mechanical
systems
containing
other
Timken
®
products
of our steel
(1) Approximate estimate based on 2012 sales.
14
Steel
in
Bearings &
Power
Transmission
Monitoring
60%
(1)
(1)

RELATIONAL S
FLAWED
ANALYSIS
15

Reality Check

RELATIONAL'S VALUATION ANALYSIS IS FLAWED

Relational's Claim

Source: FactSet as of February 26, 2013.

(1) As of February 26, 2013.

(2) As of February 26, 2013. Bearings comparables include Kennametal, Altra Holdings, SKF, NSK and JTEKT.
16
"Our (Relational's) selection of peers
is appropriate, fair and balanced"
"Separating Timken's Bearings
and Steel Businesses will allow the
market to value
at multiples
similar to peers"
"Synergies of Integration
are minimal"
Sum-of-the-Parts (SOTP) value per
share of $68.36 upon separation
On average, analysts use six comparables for our
Bearings business, compared to Relational s one
(SKF)
Relational's valuation of Bearings implies a 33%
premium
to
SKF s
P/E
(1)
and
to
Bearings
peers
(2)
median P/E
Annual incremental costs, lost integration benefits
and synergies would be expected to total an
estimated $60 -
$80 million
Additional anticipated competitive and operational
benefits are sourced from Timken produced steel
Analyst's median SOTP valuation at $61.75,
prior
to
deduction
of
$6
-
$8
per
share
for
expected lost synergies and transaction costs

Source: Wall Street Research. Note: Refer to Appendix page for date of research report used.
(1) SOTP comparables sorted by frequency. Frequency of comparable companies mentioned shown in parentheses. Includes co
# of Comparables Used by Sell Side
Analysts
17
Sell Side Analysts

Bearings
Steel
KeyBanc
15
3
Longbow
8
7
William Blair
7
7
Jefferies
5
3
BofAML
2
2
SunTrust
1
3
Median Number of Comparables Used
6
3
Average Number of Comparables Used
6
4
Comparable
Universe
Used
in
SOTP
Valuation
Analysis
(1)
Used by
Relational
SKF
Allegheny
Carpenter
Nucor
Steel Dynamics
Used by Sell Side Analysts
SKF (6)
JTEKT (4)
Kaydon (4)
NSK (4)
NTN (4)
Altra (3)
RBC Bearings (3)
Kaman (2)

Kennametal (2)
Nucor (5)
Steel Dynamics (5)
AK Steel (2)
US Steel (2)
one sell side analyst.

1) RELATIONAL S

SELECTION

OF

PEERS

IS

NOT

FAIR

AND

BALANCED

SOTP Analysis

(1)
(2)
Source: Company filings, Relational Schedule 13D filing on February 28, 2013 and FactSet as of February 26, 2013.
(1)
Bearings comparables include Altra Holdings, Kennametal, SKF, NSK and JTEKT as of February 26, 2013.
(2)
Please see Appendix for calculation.
(3)
As of February 26, 2013.
2013 P/E Multiple
18
13.1x
14.0x
14.0x
18.6x
Timken Current P/E
SKF

Overall Bearings
Median
Relational Implied P/E
for Bearings

Relational s analysis implies an
18.6x Bearings P/E
representing a 33% premium
to SKF P/E
(3)
and the median
P/E for Bearings peers
(1)

2A) RELATIONAL S PROPOSAL BASED ON UNREALISTIC BEARINGS TRADING MULTIPLE

Due to size, standalone Steel would likely have non-investment grade rating and higher cost of capital

Given its small market cap, standalone Steel would likely have limited liquidity

Standalone Steel would likely have limited financial flexibility to undertake large, high-ROI projects, such as the Faircrest expansion
(1)
Enterprise Value
19
Steel Plants
27

35
6
11
13
9
3
(2)
$16,781
$6,372
$5,137
$4,509
$2,829
$2,010
$1,023
NUE
X
STLD
ATI
CRS
AKS
TKR Steel

2B) STEEL STANDALONE BUSINESS WOULD BE SMALLEST COMPARED TO OTHER STEEL COMPANIES

Source: Company filings and FactSet as of February 26, 2013.
(1) Please see Appendix for calculation.
(2) Represents primary steel manufacturing facilities located in Faircrest, Harrison and Gambrinus in Canton, OH.

Source: Timken Management expectations.
Note: Dollars in millions.
20
35%
30%
20%
15%
Components of Expected
Synergies
SG&A
Supply Chain
Value Pricing
Other
Lost
Significant negative financial

impacts of spin-off:
Additional anticipated competitive and operational disadvantages

3) SIGNIFICANT SYNERGIES WOULD BE LOST IN STEEL SPIN-OFF

~$200 million in expected one-time transaction costs
~$60 to $80 million in expected lost annual synergies
Longer lead times
Slower deliveries
Slower customization of specialty products
Less insight into shared customers and markets

Median SOTP = $61.75
Relational s
$68.36
Estimate
Far
Exceeds
Median
of
Analyst
SOTP
Analysis
of
$61.75
(2)

Analyst
Estimates
Do
Not
Reflect
$6

$8
Per
Share
(4)
in Anticipated One-time Transaction Costs and Lost Synergies
(1)
(3)
21
$66.03
$69.34
$62.00
$56.00
$54.00
$61.50
$69.00
$55.00
Jefferies &
Company
(03/13/13)
Stifel Nicolaus
(02/19/13)
Bank of America
Merrill Lynch
(01/11/13)
KeyBanc Capital
Markets (12/06/12)
Longbow
Research
(12/04/12)
BB&T Capital
Markets (11/29/12)
SunTrust
Robinson
Humphrey
(11/14/12)
William Blair &
Company
(11/28/12)
4)

ANALYSTS MEDIAN

SOTP

ANALYSIS DOES NOT SUPPORT RELATIONL S CLAIM OF BREAK-UP VALUE

Source: Wall Street Research and FactSet as of February 26, 2013. Consensus price target based on analysts median price tar
Note: Research analysts ordered by date.
(1) Timken believes that Stifel s SOTP analysis inadvertently assigned a 1.0x multiple to corporate overhead deduction. Appl
Bearings and Steel) weighted average multiple of 7.6x, Stifel s analysis would result in SOTP of $63.94 per share, assuming i
(2) Sum of the parts bear case: $37; bull case: $65; base case: $54.
(3) Timken believes that SunTrust s SOTP inadvertently did not include corporate expenses in its EV calculation. Applying a
and Steel) weighted average multiple of 6.9x, SunTrust s analysis would result in SOTP of $62.61 per share, assuming its othe
(4) Please see Appendix for calculation. Assumes synergies of $60 - $80 million capitalized at 2013 EV / EBITDA multiple of
average multiple assigned by analysts and one-time transaction costs of $200 million. Relational s value per share of $4.22 ba
million capitalized at Relational s assumed 2013 EV / EBITDA multiple of 8.2x and one-time transaction costs of $200 millio

9 of 12 directors are independent; Joseph W. Ralston serves as lead independent director

Directors have diverse backgrounds and perspectives related to various aspects of the Company s business

Approved declassification of Board in 2010

fully implemented in
2013

Rated Low Concern
by ISS in 2012 in terms of Board Structure
and Compensation

ISS and Glass Lewis recommended FOR
vote on the Company s
2012 say-on-pay resolution

Resolution received the approval of 94% of the votes cast
22

TIMKEN PRACTICES STRONG CORPORATE GOVERNANCE

23

THE

TIMKEN

COMPANY S

COMPREHENSIVE

PLAN
TO
DRIVE
VALUE

Investment program at Faircrest Plant to drive further efficiencies

Leaner, more variable cost structure

Ability to tightly control supply chain and react to market variability

Expanded Steel and Bearings portfolio, as well as complementary products and services

Defined
benefit

pensions
are
projected
to
be
substantially
fully
funded
in 2013

Improved working capital management and projected lower capital spend beyond 2013

Organic growth supported by new product introductions and geographic expansion

Targeted, accretive acquisitions

Up to 10 million share buyback authorized in February 2012

Dividends paid in each quarter since Company became public in 1922
24
Strengthen
Margins
Improve Cash Flow
Conversion and Fund
Pension
Drive Growth
Return Capital

COMPREHENSIVE PLAN TO DRIVE SHAREHOLDER VALUE

Metric
2015 Target
Sales

$5.9 to $6.1 billion (3-year CAGR of
+6 to 11%)

Global GDP growth of 2.5% in 2013 &
3.5% to 4% in 2014
2015
expected
(1)

Assumes roughly half of growth from
inorganic investments
EPS

$6.75 to $7.25 per diluted share

Assumes redeployment of capital,
including inorganic growth
Free Cash Flow

$425 to $475 million
Return on Invested Capital

17
19%
(1) Source: IHS Global Insight.
25

Mid-point assumes 90% earnings
conversion

Capex declining to targeted range by
2015

Increased dividends and moderate
pension contributions

THREE-YEAR TARGETS REFLECT STRENGTH OF STRATEGIC PLAN

26
Continued Execution of Our Proven Strategy is the Best Path to
Value Creation
Timken Steel is one of the Company s highest ROIC businesses; Timken has invested to
even further improve Steel s cost structure and profitability
Timken has strong track record of delivering shareholder value as a result of its
existing strategy
Operational
integration
and
technology
sharing
between
Steel
and

Bearings
creates
meaningful benefits for customers and shareholders
We believe Relational s break-up valuation analysis has serious flaws
Contrary to Relational s assertion, Timken has strong corporate governance standards, as recognized by independent proxy advisors

OUR
STRATEGY
IS
WORKING
AND
WE
ARE
COMMITTED
TO
BUILDING
SHAREHOLDER
VALUE

APPENDIX
27

GAAP
RECONCILIATION
OF
EBIT
AND
EBITDA
Source: Company filings.
Note: Dollars in millions.
This reconciliation is provided as additional relevant information about the Company s performance. Management believes
consolidated
earnings
before
interest
and
taxes
(EBIT),
as
adjusted

to
exclude
impairment
and
restructuring
charges and the receipts of US continued dumping subsidy and offset act distributions (CDSOA), are representative of the Company s performance and therefore useful to investors. Consolidated earnings before interest, taxes, depreciation
and
amortization
(EBITDA),
as
adjusted
to
exclude
impairment
and
restructuring
charges
and
the
receipts
of
CDSOA
distributions, are another important measure of financial performance and cash generation of the business and therefore useful to investors. Management also believes that it is appropriate to compare GAAP net income to consolidated EBIT and EBITDA.
28
12-Months Ended
12/31/2012
12/31/2011
12/31/2010
12/31/2009
12/31/2008
Net Income
$495.9
$456.6
$276.9
($138.6)
$271.3
Income from discontinued operations, net of tax
0.0
0.0
(7.4)
72.6
11.3
Provision for income taxes
270.1
240.2
136.0
(28.2)

157.0
Interest Expense
31.1
36.8
38.2
41.9
44.4
Interest Income
(2.9)
(5.6)
(3.7)
(1.9)
(5.8)
Impairment and Restructuring
29.5
14.4
21.7
164.1
32.8
Receipt of CDSOA Distribution
(108.0)
1.1
(2.0)
(3.6)
(9.1)
EBIT
$715.7
$743.5
$459.7
$106.3
$501.9
Revenue
$4,987.0
$5,170.2
$4,055.5
$3,141.6
$5,663.7
% EBIT Margin
14.4%
14.4%
11.3%
3.4%
8.9%
Depreciation and Amortization
198.0
192.5
189.7
201.5
200.8
EBITDA

$913.7
$936.0
$649.4
$307.8
$702.7
% EBITDA Margin
18.3%
18.1%
16.0%
9.8%
12.4%
5-Year Average EBITDA Margin
14.9%

Source: Company filings.
Note: Dollars in millions.
(1)
Return
on
Invested
Capital
is
calculated
as
Net
Operating
Profit
After
Taxes
/

(Average
Total
Debt
+
Average
Shareholders
Equity).
Tax
rate
assumed
at
35%.
29
Reconciliation of ROIC to GAAP Operating Income
Management believes ROIC is representative of the company s performance and therefore useful to investors.
12-Months Ended
12/31/2012
12/31/2011
12/31/2010
12/31/2009
12/31/2008
GAAP Operating Income
$692.9
$729.1
$436.2
($54.1)
$462.0
GAAP Other Income / (Expenses)
101.3
(1.1)
3.8
(0.1)
16.2
Impairment and Restructuring
29.5
14.4
21.7
164.1
32.8
Receipt of CDSOA Distribution
(108.0)
1.1
(2.0)
(3.6)
(9.1)
EBIT
$715.7
$743.5
$459.7
$106.3

$501.9
Tax Rate
35%
35%
35%
35%
35%
Provision for Income taxes
$250.5
$260.2
$160.9
$37.2
$175.7
NOPAT
$465.2
$483.3
$298.8
$69.1
$326.2
Total Debt
$479.0
$515.1
$513.7
$512.7
$623.9
Shareholders' Equity
2,246.6
2,042.5
1,941.8
1,595.6
1,663.1
Invested Capital
2,725.6
2,557.6
2,455.5
2,108.3
2,287.0
Average Invested Capital
2,641.6
2,506.6
2,281.9
2,197.7
2,485.5
ROIC
(1)
17.6%
19.3%
13.1%
3.1%
13.1%

5-Year Average ROIC
13.3%
3-Year Average ROIC
16.8%
GAAP
RECONCILIATION
OF
ROIC

GAAP RECONCILIATION
OF
SEGMENT
ROIC

Source: Company filings.
Note: Dollars in millions.
(1)
Return
on
Invested
Capital
is
calculated
as
Net
Operating

Profit After Taxes / (Average Total Debt + Average Shareholders Equity). Segment returns have been adjusted to reflect a proportionate amount of unallocated corporate expenses. Tax rate assumed at 35%.

30

Reconciliation of ROIC (1) to GAAP Operating Income

Management believes ROIC is representative of the company s performance and therefore useful to investors. Segment EBIT results have been adjusted to include a proportional amount

of
unallocated
corporate
expenses
in
this
analysis
because
management
believes
it
provides
a
more
meaningful
representation
of
segment
ROIC.
2010
2011
2012
2010
2011
2012
2010
2011
2012
2010
2011
2012
Segment EBIT, as reported
208
$
262
$
208
$
134
$
274
$
275
$
17
$
5
$
36
$

146
$
267
$
252
$
Allocated Corporate Expenses
(31)

(33)

(35)

(15)

(18)

(19)

(5)

(5)

(6)

(19)

(24)

(25)

Impairment & Restructuring
13

13

28

3

1

2

5

1

(0)

(0)

-

-

Segment EBIT, as adjusted
190
$
242
$
201
$
122
$
257
$
258
$
16
$
0
$
31
$
128
$
243
$
227
$
Tax Rate
35%
35%
35%
35%
35%
35%
35%
35%
35%
35%
35%
35%
Provision for Taxes
66

85

70

43

90

90

6

0

11

45

85

79

NOPAT
123
$
157
$
131
$
79
$
167
$
168
$
11
$
0
$
20
$
83
$
158
$
147
$
Average Invested Capital
860
$
860
$
829

$
511
$
623
$
756
$
378
$
377
$
368
$
533
$
647
$
689
$
ROIC
14.4%
18.3%
15.7%
15.5%
26.8%
22.2%
2.8%
0.0%
5.4%
15.5%
24.4%
21.4%
3 year average ROIC
Mobile
Process
Aero
Steel
16.1%
21.5%
2.8%
20.5%

IMPLIED
P/E
MULTIPLE
AND
POST-PENSION
ENTERPRISE
VALUE
OF
STEEL
31
Relational SOTP Analysis
Segment Breakdown
Bearings

Steel
Total
EV Pre-Pension/OPEB
$5,946
$1,474
$7,420
Memo:
80%
20%
100%
Pension
(2)
(319)
(79)
OPEB
(3)
0
(372)
EV Post-Pension/OPEB
$5,627
$1,023
Net Debt
(4)
(543)
Implied Bearings Equity Value
$5,085
2013 Bearings Net Income
(4)
$273
Implied 2013 Bearings P/E
18.6x
(1)
(1)
(5)

Note: Dollar in millions.

(1) Based on pre-pension enterprise value as disclosed on page 12 of Relational s 02/28/13 Schedule 13D filing (02/28/13 13

(2) Assumes $398mm of unfunded pension balances on page 12 of 02/28/13 13D allocated 80% to Bearings and 20% to Steel per page 39 of 02/28/13 13D.

(3) Assumes $372mm OPEB balance allocated to Steel per page 40 of 02/28/13 13D.

(4) Assumes 100% of total debt of $479mm allocated to Bearings net of transaction costs of $200mm and cash of $136mm allo page 40 of 02/28/13 13D.

(5) Assumes 2013 pro forma net income of Bearings per page 40 of 02/28/13 13D.

Source: Wall Street research.
Note: Comparables used by Timken are identified in bold.
32
Bearings
SKF
6
JTEKT
4
NSK
4
NTN
4
Altra
3

Kennametal
2
Steel
Nucor
5
Steel Dynamics
5
AK Steel
2
US Steel
2
Allegheny
1
Carpenter
1

THE TIMKEN COMPARABLE COMPANY UNIVERSE INCLUDES A WIDE VARIETY OF INDUSTRIAL PEERS

SOTP Analysis
SunTrust
William Blair
Jefferies
Longbow
KeyBanc
BofAML
James Kawai
Samuel H. Elsner
Stephen Volkmann
Eli Lustgarten
Steve Barger
Ross Gilardi
11/14/2012
11/28/2012

11/29/2012
12/4/2012
12/6/2012
1/11/2013
SKF
SKF
SKF
SKF
SKF
Kaydon
SKF
JTEKT
JTEKT
JTEKT
JTEKT
RBC Bearings
Kennametal
NSK
NSK
NSK
NSK
Kaman
NTN
NTN
NTN
NTN
Precision Castparts
Altra
Kaydon
Altra
Altra
Lincoln
Kaydon
Kaydon
Kennametal
TriMas
RBC Bearings
RBC Bearings
Eaton
NN
Kaman
Parker Hannifin
Sanyo Steel
Nucor
Nucor
Nucor
Nucor
Nucor
Tenaris
Steel Dynamics

Steel Dynamics
Steel Dynamics
Steel Dynamics
Steel Dynamics
Vallourec
AK Steel
ArcelorMittal
AK Steel
Gerdau
US Steel
US Steel
Applied Industrial
Allegheny
Cliffs
Carpenter
Schnizter Steel
Commercial Metal
Comps
# of Analysts
Selection
of Key
Comparables

Source: Wall Street research as of February 26, 2013 and Relational Schedule 13D filing on February 28, 2013.
(1) Represents SOTP corresponding to base case SOTP price of $54 per share.
(2)

EV/EBITDA
and
share
count
per
research
analysts
estimates.

ANALYSTS SOTP ADJUSTMENT FOR LOST SYNERGIES AND TRANSACTION COSTS

33
SOTP Adjustments
Timken Case
(2)
Lost Synergies
$60
--
$80
2013 EV / EBITDA
Value of Lost Synergies
$399
--
$532
One Time Transaction Cost
Value Lost
$599
--
$732
Average Share Count
Value Lost per Share
$6.18
--
$7.56
Relational Case
Lost Synergies
2013 EV / EBITDA
Value of Lost Synergies
One-time Transaction Costs
Value Lost

Average Share Count
Value Lost per Share
$4.22
6.7x
96.9
8.2x
95.9
$25
$205
$200
$405
$200
Implied 2013 EV / EBITDA in SOTP Analysis
Date
SOTP EV
EBITDA
Implied
Multiple
BofAML
01/11/13
$6,472
$836
7.7x
Jefferies
03/13/13
6,244
787
7.9
KeyBanc
12/06/12
5,982
874
6.8
Longbow
(1)
12/04/12
5,163
897
5.8
William Blair
11/28/12
5,432
1,009
5.4
Weighted Average
$5,900
$887
6.7x