

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

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
- 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):

No fee required.

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

Edgar Filing: TIMKEN CO - Form DEFA14A

- (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):
  
  
  
  
  
  
  
  
  
  
- (4) Proposed maximum aggregate value of transaction:
  
  
  
  
  
  
  
  
  
  
- (5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (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  
T  
IMKEN  
S  
TRATEGY  
TO  
D  
ELIVER  
S  
HAREHOLDER  
V  
ALUE

**T**IMKEN HAS  
**D**ELIVERED  
**T**OP  
**Q**UARTILE  
**F**INANCIAL  
**P**ERFORMANCE

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. companies. Results exclude U.S. Continued Dumping Subsidy Offset Act (CDSOA) receipts and impairment and other non-recurring items. See Appendix for reconciliation of EBITDA and ROIC to the most directly comparable GAAP equivalents. EBITDA and ROIC are non-GAAP measures and should not be considered in isolation or as a substitute for measures of our performance prepared in accordance with U.S. GAAP and should not be considered in isolation or as a substitute for measures of our performance prepared in accordance with U.S. GAAP. Because not all companies use identical calculations, the presentation of EBITDA and ROIC may not be comparable to other companies' 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 proportion

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

S  
YNERGIES  
B  
ETWEEN  
S  
TEEL  
AND  
B  
EARINGS

cREATE  
M EANINGFUL  
B ENEFITS  
F OR  
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 Timken and steel sourced indirectly, i.e. produced by Timken and shipped to forge and machining suppliers who convert raw materials into forged steel, 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

**R**ELATIONAL'S  
**V**ALUATION  
**A**NALYSIS  
**I**S  
**F**LAWED

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

Relationals

\$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 target.

Note: Research analysts ordered by date.

(1) Timken believes that Stifel's SOTP analysis inadvertently assigned a 1.0x multiple to corporate overhead deduction. Applying a 1.0x multiple to the overhead deduction (Bearing and Steel) weighted average multiple of 7.6x, Stifel's analysis would result in SOTP of \$63.94 per share, assuming it is correct.

(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 1.0x multiple to the overhead deduction (Bearing and Steel) weighted average multiple of 6.9x, SunTrust's analysis would result in SOTP of \$62.61 per share, assuming it is correct.

(4) Please see Appendix for calculation. Assumes synergies of \$60 - \$80 million capitalized at 2013 EV / EBITDA multiple of 8.2x and one-time transaction costs of \$200 million. Relational's value per share of \$4.22 based on a 1.0x multiple assigned by analysts and one-time transaction costs of \$200 million capitalized at Relational's assumed 2013 EV / EBITDA multiple of 8.2x and one-time transaction costs of \$200 million.

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

P  
L  
A  
N  
  
T  
O  
  
D  
R  
I  
V  
E  
  
V  
A  
L  
U  
E

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

**C**OMPREHENSIVE **P**LAN **T**O **D**RIVE **S**HAREHOLDER **V**ALUE

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

**T**HREE-YEAR  
**T**ARGETS  
**R**EFLECT  
**S**TRENGTH  
**O**F  
**S**TRATEGIC  
**P**LAN

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 13D).

(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 allocated to Steel per 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  
Schnitzer 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

