Kennametal Reports Second-Quarter Results; Performance in Line With Expectations

January 24, 2000

LATROBE, Pa., Jan. 24 /PRNewswire/ -- Kennametal Inc. (NYSE: KMT) reported net income for the second quarter ended December 31, 1999, excluding special charges, of $12.4 million or $0.41 per share compared to $14.0 million or $0.47 per share last year. The performance for the quarter was in line with expectations and reflects the company's growing success in implementing operational improvement programs. Earnings per share, excluding goodwill amortization expense and special charges, were $0.63 per share compared to $0.68 per share in the prior year's quarter. Including special charges, net income for the quarter was $8.2 million or $0.27 per share.

In commenting on the quarter, Kennametal Inc. President and Chief Executive Officer Markos I. Tambakeras said, "I am pleased that we again achieved our earnings commitment. Consistent with our recently announced strategy, we are focusing on primary working capital and cash flow improvement. We are beginning to see the benefits of continuous operating improvements as evidenced by the successful launch of our new, world class North American distribution center in Cleveland, the strong marketplace reception of our five new grades and 2,000 new products, the initiation of our restructuring projects, and a flawless Y2K transition. While I am dissatisfied with the top line growth, which reflects continuing softness in our markets, we maintained strict cost control discipline and continued to improve our working capital and cash flow generation. This focus will position Kennametal to leverage future market improvement into higher levels of earnings and cash flow."

The company made significant progress in reducing working capital, resulting in another strong quarter of improved cash generation. Inventory declined $17 million from June 30, 1999 and primary working capital as a percent of sales declined by 400 basis points from fiscal 1999. During the quarter, the company generated free cash flow of $52 million, bringing the total free cash flow for the year to $102 million. In the first half of last year, the company used cash of $26 million. Total debt at quarter-end was $771 million, a reduction of $90 million from June 30, 1999. The total debt-to-capital ratio was 48.9 percent, a reduction of 300 basis points from 51.9 percent at June 30, 1999.

As anticipated, market conditions remained tough. Sales for the December 1999 quarter were $453.9 million, a two percent improvement from the September quarter and a decrease of six percent from $484.3 million in the year-ago quarter, and were in line with expectations. Unfavorable foreign currency translation effects and the impact of the divestiture of the Strong Tool Company steel mill business accounted for two and one percent, respectively, of the sales decline from last year.

Gross profit margin in the second quarter was 37.2 percent, an improvement of 30 basis points from the September quarter due to benefits from lean manufacturing initiatives. Gross profit margin was about the same as last year's 37.4 percent despite an unfavorable sales mix and lower production levels.

Operating expenses for the quarter, excluding special charges, were $123.7 million, a decline of five percent from $130.5 million in the same quarter last year. Operating expenses continued to decrease due to the company's ongoing cost-competitiveness and productivity improvement programs.

Special charges of $7.5 million, or $0.14 per share were included in the quarter's results. Included in the special charges was an extraordinary item for the early extinguishment of debt. The company expects to record the remaining portion of the previously announced $25 - $30 million special charges by fiscal year-end.

Sales for the first six months of the year were $896.9 million compared to $965.2 million last year, a decline of seven percent. Unfavorable foreign currency translation effects and the impact of the divestiture of the Strong Tool Company steel mill business accounted for two and one percent, respectively, of the sales decline from last year. Net income for the first half, excluding special items, was $22.4 million or $0.74 per share compared to $21.4 million or $0.72 per share for the same period last year. Net income for the first half, including special items, was $18.2 million or $0.60 per share.

In summary, Mr. Tambakeras said, "We have articulated a strategy to reposition Kennametal to unlock its potential. As I have traveled throughout the company communicating our strategies and goals, I am encouraged by the positive attitude and dedication to improvement of the Kennametal employees worldwide. Everywhere I go, I see early evidence of increasing discipline and more fact-based decision making. I also continue to be impressed by the strong loyalty of our customer base to our brands. Although we are still in the early stages of strategy implementation, this bolsters my confidence in our ability to build on the underpinnings of the strong Kennametal franchise to become a top tier financial performer and the premier consumable tooling solutions supplier. We are on track with our stated strategy and focused on stabilizing the company, delivering our earnings commitments, and generating strong cash flow to position us for sustainable growth in the future."

This release contains "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934. Actual results may differ materially from those expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the extent that global economic conditions do not change materially, risks associated with integrated businesses and restructuring programs, demands on management resources, and risks associated with international markets such as currency exchange rates and competition. The company undertakes no obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances occurring after the date hereof.

FINANCIAL HIGHLIGHTS

Consolidated financial highlights for Kennametal Inc. (NYSE: KMT) for the quarter and six months ended December 31, 1999 and 1998 are shown in the following tables (in thousands, except per share amounts). All fiscal year 2000 data is subject to year-end (June 30) adjustment and audit by independent public accountants.

Consolidated Statements of Income

Operations:	Quarter Ended December 31, 1999	Quarter Ended December 31, 1998	Six Months Ended December 31, 1999	Six Months Ended December 31, 1998
Net sales	$ 453,928	$ 484,318	$ 896,871	$ 965,240
Cost of goods sold	285,061	303,256	564,675	605,162
Gross profit	168,867	181,062	332,196	360,078
Operating expenses (a)	126,702	130,540	249,189	269,459
Restructuring and asset impairment chgs. (b)	3,981	--	3,981	--
Amortization of intangibles	6,597	6,261	13,600	12,666
Operating income	31,587	44,261	65,426	77,953
Interest expense	13,753	17,635	28,280	35,256
Other (income) expense (c)	510	(223)	252	193
Income before provision for income taxes and minority interest	17,324	26,849	36,894	42,504
Provision for income taxes	7,709	11,400	16,418	18,100
Minority interest	1,104	1,413	2,052	2,974
Income before extraordinary item	8,511	14,036	18,424	21,430
Loss on early extinguishments of debt, net of taxes (d)	(267)	--	(267)	--
Net income	$ 8,244	$ 14,036	$ 18,157	$ 21,430
Per Share Data:				
Diluted earnings per share	$ 0.27	$ 0.47	$ 0.60	$ 0.72
Dividends per share	$ 0.17	$ 0.17	$ 0.34	$ 0.34
Diluted average shares outstanding	30,330	29,889	30,255	29,915

(a) For the quarter and six months ended December 31, 1999 these amounts include a charge of $3.0 million for environmental remediation.
(b) For the quarter and six months ended December 31, 1999 these amounts include charges for operational improvement programs.
(c) For the quarter and six months ended December 31, 1999 these amounts include charges of $1,345 and $2,487 respectively for fees incurred in connection with the company's accounts receivable securitization program.
(d) For the quarter and six months ended December 31, 1999 these amounts represent a non-cash charge for the accelerated write-off of deferred financing fees due to the early extinguishment of the company's term loan.

Supplemental Data Sheet

	Quarter Ended December 31, 1999	Quarter Ended December 31, 1998(a)	Six Months Ended December 31, 1999	Six Months Ended December 31, 1998(a)
Sales:				
North America	$ 166,027	$ 169,840	$ 325,847	$ 338,028
Europe	73,486	87,138	142,505	169,469
Asia Pacific	13,937	10,912	27,262	21,230
Global Metalworking	253,450	267,890	495,614	528,727
Engineered Products	43,926	45,459	83,109	90,337
Mining and Construction	39,010	40,678	84,627	86,894
JLK/Industrial Supply(b)	117,542	130,291	233,521	259,282
Total	$ 453,928	$ 484,318	$ 896,871	$ 965,240
By Geographic Area:				
Within the United States	$ 296,687	$ 319,313	$ 592,782	$ 652,201
International	157,241	165,005	304,089	313,039
EPS excluding special charges and amortization expense	$ 0.63	$ 0.68	$ 1.19	$ 1.14
Free Cash Flow:				
Net Income	$ 8,244	$ 14,036	$ 18,157	$ 21,430
Non-cash Items	6,401	7,704	6,481	9,327
Depreciation & Amortization	25,221	23,698	51,285	47,415
Change in Working Capital	22,560	(9,362)	47,717	(42,432)
Capital Expenditures	(10,897)	(34,333)	(21,676)	(61,681)
Free Cash Flow	$ 51,529	$ 1,743	$ 101,964	$ (25,941)

SELECTED BALANCE SHEET DATA:

	Quarter Ended 12/31/99	9/30/99	6/30/99	12/31/98
Accounts Receivable	$ 224,022	$ 233,867	$ 231,287	$ 333,235
Inventory	417,473	431,324	434,462	465,154
Accounts Payable	(111,056)	(106,668)	(89,339)	(96,678)
Total Primary Working Capital (PWC)	530,439	558,523	576,410	701,711
PWC % Sales(c)	30.9%	32.0%	34.9%	35.5%
Debt	771,417	814,836	861,291	1,017,254
Debt/Total Capital	48.9%	50.2%	51.9%	55.9%

(a) Certain amounts in prior year sales have been reclassified to conform to the current year presentation.
(b) Compared to the amounts reported separately by JLK, these amounts have been adjusted to properly reflect the elimination of intercompany sales to Kennametal and its subsidiaries.
(c) Calculated by averaging beginning of the year and quarter balances divided by annualized sales.

SOURCE Kennametal Inc.
Web site: http: //www.kennametal.com
CONTACT: Mary Stanutz, 724-539-5638