Kennametal Fourth Quarter Earnings Increase by 34%

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Operating Leverage Drives 34% Earnings Improvement on 3% Sales Growth

Kennametal Delivers on Fiscal Year 2000 Commitments

LATROBE, Pa., July 26 /PRNewswire/ -- Kennametal Inc. (NYSE: KMT) reported net income for the fourth quarter ended June 30, 2000, of $20.7 million or $0.68 per share, excluding special charges, an increase of 34 percent, compared to $15.5 million or $0.52 per share last year. The company's success in improving operating leverage drove strong earnings performance in its core operations where earnings per share, excluding special charges, rose 58 percent on four percent sales growth. Earnings per share, excluding amortization expense and special charges, were $0.89 per share compared to $0.74 per share in the prior year's quarter.

Kennametal Inc. President and Chief Executive Officer Markos I. Tambakeras said, "We achieved our fiscal year 2000 financial commitment, despite erratic end markets, an unfavorable currency exchange environment and rising interest rates. This reflects a new sense of resolve throughout the company to deliver on our financial commitments regardless of challenging market conditions. We have exceeded our expectations on cash flow and debt reduction and are quickly regaining our balance sheet flexibility. Fiscal year 2000 was a year of refocus and stabilization. We are earning the right to grow."

The company made excellent progress in cash generation, resulting in another strong quarter of debt reduction. During the quarter, the company generated free cash flow of $25.6 million, bringing the total free cash flow for the year to $183.8 million. Last year, the company generated free cash flow of $120.6 million, which included $82 million from the accounts receivable securitization program. Total debt at quarter-end was $699.2 million, a reduction of $162.0 million from June 30, 1999. The total debt-to-capital ratio was 45.6 percent, a reduction of 630 basis points from 51.9 percent at June 30, 1999. Primary working capital as a percent of sales declined by 550 basis points from fiscal 1999 and 60 basis points from the March quarter.

Consolidated sales for the June 2000 quarter of $473.8 million grew five percent over the year-ago quarter, excluding unfavorable currency translation effects of two percent. Sales for core operations grew seven percent over last year's quarter, excluding unfavorable currency translation effects of three percent.

Gross profit margin in the fourth quarter was 39.2 percent, an improvement of twenty basis points from the March quarter and an improvement of 200 basis points from last year's quarter due to continuing benefits from lean manufacturing initiatives and strong pricing discipline. Operating expenses for the quarter, excluding special charges, were $126.6 million, up from $120.2 million in the same quarter last year, primarily due to increased volume, spending on research and development and other strategic initiatives and the reinstatement of the salary reduction instituted in 1999.

The company remains on track to reap the benefits from its previously announced restructuring plan. Special charges of $2.0 million, or $0.04 per share were included in the quarter's results, bringing the total special charges for the year to $22.9 million, or $0.43 per share. Including special charges, net income for the quarter was $19.5 million or $0.64 per share compared to $15.5 million or $0.52 per share last year.

In commenting on the quarter, Mr. Tambakeras said, "The results of the current quarter clearly demonstrate that the company is executing on its initiatives. We are seeing strong market acceptance of our new products, an acceleration of product development and improved performance from a reinvigorated sales force. Our continuously improving manufacturing performance is giving us more operating leverage as the new products accelerate our growth, enhancing the impact of improving market conditions. We are gaining more confidence in our ability to be the customer's first choice in tooling solutions as well as a top-tier financial performer."

For fiscal 2000, sales were $1,853.7 million, flat compared to last year, excluding unfavorable foreign currency translation effects and the impact of the divestiture of the Strong Tool Company steel mill business, which affected the year by two and one percent, respectively. Net income for the full year, excluding special items, was $64.7 million, an increase of 19 percent from $54.3 million last year. Earnings per share for the year, excluding special items, were $2.13 per share compared to $1.82 per share last year, an increase of 17 percent. Including special items, net income was $51.7 million or $1.70 per share compared to $39.1 million or $1.31 per share for the same period last year.

During fiscal year 2000, the company experienced negative foreign currency translation effects and interest rate increases of 175 basis points, which had a negative impact on earnings per share of $0.16 and $0.07, respectively.

Mr. Tambakeras concluded, "Despite the satisfactory results of the total company, we were very disappointed with the underperformance at JLK. As stated previously, we are committed to getting JLK back on track as soon as possible. Our offer to bring in JLK reflects our conclusion that this will accelerate the process of improvement. We expect to discuss our outlook for JLK at the conclusion of the negotiations with the JLK special committee. Regardless of the JLK negotiations, we will continue to move the company forward to achieve our aspirations consistent with our established strategy."

Kennametal recently announced a proposal to JLK to acquire the outstanding shares of JLK that it does not already own. Kennametal currently owns approximately 83 percent of JLK.

Kennametal is a global leader in providing tools, tooling systems and solutions to the metalworking, mining, highway construction, oil and energy industries, and wear-resistant parts for a wide range of industries. Headquartered in Latrobe, Pa., Kennametal has approximately 13,000 employees worldwide and annual sales of approximately $1.9 billion.

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 integrating 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 year ended June 30, 2000 and 1999 are shown in the following tables (in thousands, except per share amounts).

Consolidated Statements of Income

	Quarter Ended June 30,		Year Ended June 30,	
Operations:	2000	1999	2000	1999
Net sales	$ 473,773	$ 458,625	$1,853,663	$1,902,916
Cost of goods sold (a)	288,045	287,835	1,147,287	1,198,651
Gross profit	185,728	170,790	706,376	704,265
Operating expenses (b)	127,382	120,204	502,401	517,044
Restructuring and asset impairment chgs.	1,222	--	18,526	13,937
Amortization of intangibles	6,335	6,637	26,452	25,788
Operating income	50,789	43,949	158,997	147,496
Interest expense	13,131	15,346	55,079	68,594
Other (income) expense (c)	1,986	(369)	3,507	492
Income before provision for income taxes and minority interest	35,672	28,972	100,411	78,410
Provision for income taxes	15,215	11,900	43,700	32,900
Minority interest	1,001	1,566	4,734	6,394
Income before extraordinary item	19,456	15,506	51,977	39,116
Loss on early extinguishments of debt, net of taxes (d)	--	--	(267)	--
Net income	$ 19,456	$ 15,506	$ 51,710	$ 39,116
Per Share Data:				
Diluted earnings per share	$ 0.64	$ 0.52	$ 1.70	$ 1.31
Dividends per share	$ 0.17	$ 0.17	$ 0.68	$ 0.68

Diluted average shares outstanding	30,535	30,096	30,364	29,960

(a) For the year ended June 30, 1999, these amounts include a charge of $6.9 million related to a program to streamline and optimize the global metalworking product offering.

(b) For the quarter and year ended June 30, 2000, these amounts include a charge of $0.8 million related to the evaluation of strategic alternatives. For the year ended June 30, 2000, these amounts include a charge of $3.0 million for environmental remediation. For the year ended June 30, 1999, these amounts include a charge of $3.8 million related to the purchase of 4.9 percent of Toshiba Tungaloy stock.

(c) For the quarter and year ended June 30, 2000, these amounts include charges of $1.4 million and $5.2 million, respectively, for fees incurred in connection with the company's accounts receivable securitization program.

(d) For the year ended June 30, 2000, this amount represents 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 June 30,		Year Ended June 30,	
	2000	1999(a)	2000	1999(a)
Sales:				
Americas	$ 170,897	$ 161,658	$ 671,627	$ 662,113
Europe	73,311	76,190	292,967	330,665
Asia Pacific	15,214	12,276	56,320	45,427
Global Metalworking	259,422	250,124	1,020,914	1,038,205
Engineered Products	47,102	39,594	176,469	173,171
Mining & Construction	41,716	43,849	165,899	173,028
JLK/Industrial Supply(b)	125,533	125,058	490,381	518,512
Total	$ 473,773	$ 458,625	$1,853,663	$1,902,916
By Geographic Area:				
Within the United States	$ 319,070	$ 305,815	$1,233,797	$1,276,408
International	154,703	152,810	619,866	626,508
Operating Income (Loss), including special charges:				
Global Metalworking	$ 38,319	$ 27,953	$ 128,283	$ 116,306
Engineered Products	8,488	5,923	23,711	24,473
Mining & Construction	6,141	5,976	17,483	14,203
JLK/Industrial Supply	3,743	8,497	28,174	34,532
Corporate and Eliminations	(5,902)	(4,400)	(38,654)	(42,018)
Total	$ 50,789	$ 43,949	$ 158,997	$ 147,496
Operating Income (Loss), excluding special charges:				
Global Metalworking	$ 38,189	$ 27,953	$ 139,266	$ 131,186
Engineered Products	8,614	5,923	25,160	24,473
Mining & Construction	6,088	5,976	20,853	20,003
JLK/Industrial Supply	4,498	8,497	28,929	34,532
Corporate and Eliminations	(4,592)	(4,400)	(32,799)	(38,081)
Total	$ 52,797	$ 43,949	$ 181,409	$ 172,113

EPS excluding special charges and amortization expense	$ 0.89	$ 0.74	$ 3.00	$ 2.68

Free Cash Flow:				
Net Income	$ 19,456	$ 15,506	$ 51,710	$ 39,116
Non-cash Items	4,574	275	18,117	23,702
Depreciation & Amortization	25,196	24,094	101,646	95,991
Change in Working Capital	(7,116)	88,119	62,977	56,748
Capital Expenditures	(16,540)	(11,767)	(50,663)	(94,993)
Free Cash Flow	$ 25,570	$ 116,227	$ 183,787	$ 120,564

Supplemental Data Sheet (Continued)

SELECTED BALANCE SHEET DATA:

	Quarter Ended			
	6/30/00	3/31/00	12/31/99	6/30/99
Accounts Receivable	$ 231,917	$ 245,002	$ 224,022	$ 231,287
Inventory	410,885	417,333	417,473	434,462
Accounts Payable	(118,908)	(122,166)	(111,056)	(89,339)
Total Primary Working Capital (PWC)	$ 523,894	$ 540,169	$ 530,439	$ 576,410
PWC % Sales(c)	29.4%	30.0%	30.9%	34.9%
Debt	$ 699,242	$ 737,003	$ 771,417	$ 861,291
Debt/Total Capital	45.6%	47.6%	48.9%	51.9%

(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.
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