



Kennametal First-Quarter Earnings Up 15%, Performance In Line With Expectations

October 25, 2000

Quarterly Dividend Declared

LATROBE, Pa., Oct. 25 /PRNewswire/ -- Kennametal Inc. (NYSE: KMT) today reported strong first-quarter earnings driven by higher sales and continued improvements in operations. Kennametal's earnings per share (EPS) increased by 15.2 percent to \$0.38 per share, excluding special items, compared to \$0.33 per share last year. EPS from the company's core operations, which exclude JLK Direct Distribution Inc. (NYSE: JLK), rose 45.4 percent, excluding special items.

Kennametal President and Chief Executive Officer Markos I. Tambakeras said, "We continue to deliver on our commitments despite challenging market conditions and a continuing unfavorable foreign exchange environment. We are building a new performance-based culture focused on providing advanced technical solutions for customers and on delivering value to our shareowners. Our efforts to reposition Kennametal for growth are starting to take hold. We continue to exceed expectations on cash flow and debt reduction and are regaining balance sheet flexibility as planned. We are working hard to become a top-tier financial performer."

First Quarter Highlights

- Sales rose to \$450.7 million, an increase of 1.8 percent compared to last year, or 6.0 percent excluding the unfavorable impact of foreign currency (2.0 percent) and fewer business days (2.2 percent). Sales performance generally was favorable across the company's businesses, with particular strength from international markets. Soft end markets contributed to the weak results for the North American construction business. Overall, the introduction of more than 7,500 new products in the last year and several initiatives to revitalize sales are supporting Kennametal's sales growth target of 3-5 percent for the current fiscal year.
- The gross profit margin was 37.4 percent, an improvement of 50 basis points from the first quarter of fiscal 2000. The increase in the gross margin was principally due to higher productivity derived from lean manufacturing programs and price discipline, offset by weakness in the high-margin construction business.
- Operating expenses for the quarter, excluding special charges, were up 3.4 percent to \$126.7 million. Despite the planned increase in spending on research and development, and strategic initiatives aimed at accelerating sales growth, operating income margin still improved 30 basis points.
- The effective tax rate for the first quarter was 40.5 percent compared to 44.5 percent last year, as successful tax planning initiatives in Europe more than offset the repeal of the Foreign Sales Corporation tax benefits in the United States.
- Excluding special items, net income was \$11.5 million, an increase of 16.2 percent compared to \$9.9 million last year.
- Special charges of \$3.2 million, or \$0.06 per share, were included in the quarter's results related to the JLK business improvement plan and costs associated with the tender offer, and \$0.6 million, net of tax, or \$0.02 per share related to the adoption of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities."
- The prior year's results for the first quarter included one-time gains of \$1.4 million from the sale of under-utilized assets.
- Kennametal continued to generate strong cash flow and exceed its

targets. Free operating cash flow of \$43 million was driven by a \$24 million reduction in primary working capital. Total debt declined by \$26 million from \$699 million to \$673 million.

Tambakeras added, "Our first-quarter results clearly demonstrate that Kennametal is continuing the disciplined execution of its seven initiatives. Our reinvigorated sales force and the introduction of new products, both leveraged by outstanding response at the recent IMTS trade show, are having a positive impact on sales even in lackluster market conditions. Cost discipline and manufacturing performance continue to improve across all areas of the company, providing further operating leverage. As planned, we have raised our investment in research and development and in support of growth initiatives. We are making steady progress toward our aspiration of being the world's premier tooling solutions supplier and are earning the right to grow."

Kennametal also announced the continuation of a program to purchase from time to time up to a total of 2,000,000 additional shares of its outstanding capital stock for investment or other general corporate purposes. The original repurchase program was announced on January 31, 1997. Repurchases may be made from time to time in the open market, in negotiated or other permissible transactions. Under the authority of this program, the company previously purchased approximately 1.4 million shares and currently has approximately 30.2 million shares outstanding.

Kennametal also announced its Board of Directors declared a quarterly cash dividend of 17 cents per share, payable November 24, 2000, to holders of record as of November 10, 2000.

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, 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 quarters ended September 30, 2000 and 1999 are shown in the following tables (in thousands, except per share amounts). All fiscal year 2001 data is subject to year-end (June 30) adjustment and audit by independent public accountants.

Consolidated Statements of Income	Quarter Ended	
	September 30	
Operations:	2000	1999
Net sales	\$ 450,705	\$ 442,943
Cost of goods sold	282,052	279,614
Gross profit	168,653	163,329
Operating expense (A)	128,424	122,487
Restructuring and asset impairment charges	1,535	--
Amortization of intangibles	6,323	7,003
Operating income	32,371	33,839
Interest expense	13,195	14,527
Other (income) expense, net (B)	1,457	(258)
Income before provision for income taxes and minority interest	17,719	19,570
Provision for income taxes	7,176	8,709
Minority interest	602	948
Income before cumulative effect of change in accounting principle	9,941	9,913
Cumulative effect of change in accounting principle, net of tax (C)	(599)	--

Net income	\$9,342	\$ 9,913
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Per Share Data:

Diluted earnings per share	\$0.30	\$0.33
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Dividends per share	\$0.17	\$0.17
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Diluted weighted average shares outstanding	30,742	30,165
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(A) For the quarter ended September 30, 2000, these amounts include a charge of \$1.7 million, primarily related to the tender offer to acquire the outstanding shares of JLK.

(B) For the quarters ended September 30, 2000 and 1999, these amounts include charges of \$1.6 million and \$1.1 million, respectively, for fees incurred in connection with the company's accounts receivable securitization program.

(C) For the quarter ended September 30, 2000, this amount represents a non-cash charge for the adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Supplemental Data Sheet
SELECTED OPERATING DATA:

	Quarter Ended	
	September 30	
	2000	1999(A)

Sales:

Metalworking Services and Solutions Group	\$ 246,816	\$ 242,164
Advanced Materials Solutions Group	86,779	84,800
JLK/Industrial Supply(B)	117,110	115,979
Total	\$450,705	\$442,943

Sales By Geographic Area:

Within the United States	\$ 302,433	\$ 296,095
International	148,272	146,848
Total	\$450,705	\$442,943

Operating Income (Loss),
including special charges:

Metalworking Services and Solutions Group (C)	\$27,922	\$29,257
Advanced Materials Solutions Group	11,187	10,623
JLK/Industrial Supply	552	6,979
Corporate and Eliminations(C)	(7,290)	(13,020)
Total	\$32,371	\$33,839

Operating Income (Loss),
excluding special charges:

Metalworking Services and Solutions Group(C)	\$27,890	\$29,257
Advanced Materials Solutions Group	11,187	10,623
JLK/Industrial Supply	3,869	6,979
Corporate and Eliminations(C)	(7,310)	(13,020)
Total	\$35,636	\$33,839

Diluted EPS excluding special charges and amortization expense	\$0.58	\$0.56
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Free Cash Flow:

Net Income	\$9,342	\$9,913
Non-cash Items	2,989	80
Depreciation & Amortization	24,566	26,064
Change in Working Capital	17,504	25,157

Capital Expenditures	(11,471)	(10,779)
Free Cash Flow	\$42,930	\$50,435

Supplemental Data Sheet (Continued)

SELECTED BALANCE SHEET DATA:

	Quarter Ended			
	9/30/00	6/30/00	3/31/00	9/30/99
Accounts Receivable	\$218,863	\$ 231,917	\$ 245,002	\$ 233,867
Inventory	392,741	410,885	417,333	431,324
Accounts Payable	(111,873)	(118,908)	(122,166)	(106,668)
Total Primary				
Working Capital (PWC)	\$499,731	\$ 523,894	\$ 540,169	\$ 558,523
PWC % Sales(D)	28.5%	29.4%	30.0%	32.0%
Debt	\$672,593	\$ 699,242	\$ 737,003	\$ 814,836
Debt/Total Capital	44.7%	45.6%	47.6%	50.2%

SPECIAL CHARGES IMPACT:

	Operating Income	Net Income	Per Share
Reported Earnings	\$ 32,371	\$ 9,342	\$0.30
JLK Special Charges			
(Tender Costs)	1,678	815	0.03
JLK Restructuring Charges		1,587	776
FAS 133	---	599	0.02
Results Excluding Special Charges	\$35,636	\$11,532	\$0.38

- (A) Kennametal now reports three global business units consisting of Metalworking Services and Solutions Group, Advanced Materials Solutions Group and JLK/Industrial Supply, and a corporate functional shared services. Certain amounts in prior year sales and operating income (loss) have been restated to conform with this new reporting structure.
- (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) For the quarter ended September 30, 1999, results for the Metalworking Services and Solutions Group include a gain of \$4.7 million on the sale of \$12.7 million of inventory to JLK that is eliminated in Corporate and Eliminations.
- (D) Calculated by averaging beginning of the year and quarter-end balances for PWC, divided by sales for the most recent 12-month period.

SOURCE Kennametal Inc.

Web site: <http://www.kennametal.com>

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