Kennametal Second-Quarter Earnings Up 15%, In Line With Expectations Despite Economic Softness; Quarterly Dividend Declared

January 31, 2001

LATROBE, Pa., Jan. 31 /PRNewswire/ -- Kennametal Inc. (NYSE: KMT) today reported solid second-quarter earnings, once more leveraging incremental benefits from operational improvements to achieve targets. Despite weakening North American economic conditions, Kennametal's earnings per share (EPS) increased by 15 percent to $0.47 per share, excluding special items, compared to $0.41 per share last year. On a reported basis, earnings per share were $0.44 against $0.27 last year.

Kennametal President and Chief Executive Officer Markos I. Tambakeras said, "We continue to deliver strong earnings growth despite the weakening economy. This is the result of an intense focus on sales programs, increased operational flexibility and improved efficiency in our balance sheet. We quickly recognized the potential for softening market conditions and activated contingency plans to mitigate any earnings impact from top-line shortfall. Furthermore, although we have reduced expenses significantly, we continue to fund our key growth programs. We also continue to generate cash at a higher- than-expected rate and maintain our unyielding focus on managing debt. I am also particularly pleased that despite top-line pressure our gross margins continue to expand. Finally, we have further continued our management development with the addition of two new executives; Michael P. Wessner as COO at J&L Industrial Supply and Michael R. Gallagher to lead our global metalworking marketing and sales organization. We remain focused on the ongoing transformation of Kennametal; investing in strategic initiatives to drive consistent growth, optimizing our cost structure and the revitalization of JLK."

Second-Quarter Highlights

-- Excluding the unfavorable impact of foreign currency (4 percent) and fewer business days (3 percent) sales grew 4 percent. Actual sales were $440.5 million, a decrease of 3 percent compared to last year. The organic growth in sales was delivered despite weakening in North American end markets, particularly automotive, and benefited from significant growth in Europe and Asia.

-- The gross profit margin was 37.9 percent, an improvement of 70 basis points from the second quarter of fiscal 2000 or 140 basis points excluding unfavorable foreign currency impact. The improvement in the gross margin reflects significant progress in improving the efficiency and effectiveness of operations. Specific benefits were derived from lean manufacturing initiatives and price discipline despite highly competitive markets.

-- Operating expense for the quarter, excluding special charges, was reduced 2 percent to $121.6 million. Cost control and productivity improvement efforts reduced operating expense on an absolute basis. This decrease was secured despite incremental funding of key growth initiatives. Excluding this funding, which includes our e-commerce initiatives and the global inventory turns improvement program; operating expense would have declined nearly 4 percent.

-- The effective tax rate for the second quarter was 38.8 percent compared to 44.5 percent last year, reflecting the combined benefit of successful tax-planning programs in Europe and the extension of the Foreign Sales Corporation tax benefit in the United States. Correspondingly, the full-year tax rate is now forecast to be 39.5 percent.

-- Excluding special items, net income was $14.2 million, an increase of 14 percent compared to $12.4 million last year.

-- Special charges of $1.1 million, or $0.03 per share, were included in the quarter's results related primarily to the J&L business improvement plan. Prior-year results included special charges of $7.5 million, or $0.14 per share related to business improvement programs in the core businesses and a charge for environmental remediation.

-- Cash flow and balance sheet management continued to generate incremental benefit ahead of expectations. Free operating cash flow of $38 million benefited from a 290-basis-point reduction in primary working capital as a percent of sales to 28 percent. Total debt was $687 million, down from $699 million at the beginning of the year despite the unforecasted investment in a share repurchase program ($16.5 million), and the JLK buy-in ($40.4 million).

Outlook

In recognition of the weakened economic environment, Kennametal is revising its outlook for the year. Sales are now anticipated to be level with last year based on softer North American markets, and the significant decline in the automotive sector in particular. Nonetheless, earnings are anticipated to increase significantly, with EPS expected to be up between 8 percent and 13 percent.

Tambakeras added, "The second quarter results, in the face of rapidly declining end-markets, demonstrate Kennametal's discipline, flexibility and organizational resolve. Looking ahead to the remainder of our fiscal year, it is prudent to moderate our top-line expectations due to the uncertain outlook for the manufacturing sector in North America. We are confident in our new earnings guidance and fully determined not to be distracted from the implementation of our business strategies."

JLK

In commenting on the company's recent reacquisition of its subsidiary JLK Direct Distribution Inc., Tambakeras added, "We have already completed the integration of JLK and have realigned the organization to optimize efficiencies. Full Service Supply (FSS) will now be managed as a separate unit. J&L Industrial Supply will return to its traditional focus as a catalog and showroom distribution business. The new management team is fully engaged and is continuing the execution of the ongoing business improvement plan. As previously announced, the business improvement plan for both units is expected to incur charges at the high end of our original $15 to $20 million guidance, and we anticipate annual savings of $6 to $8 million. The program will begin to generate the full level of savings by the second half of fiscal 2002. To date, we have already seen significant operational improvements at J&L, but these benefits are dampened by weak sales due to poor conditions in the automotive market. We have a clear strategy in place and are now focused on implementation."

Dividend Announcement

Kennametal also announced its Board of Directors declared a quarterly cash dividend of 17 cents per share, payable February 23, 2001, to holders of record as of February 9, 2001.

Kennametal Inc. aspires to be the premier tooling solutions supplier in the world with operational excellence throughout the value chain and best-in-class manufacturing and technology. Kennametal strives to deliver superior shareowner value through top-tier financial performance. The company provides customers a broad range of technologically advanced tools, tooling systems and engineering services aimed at improving customers' manufacturing competitiveness. With 13,000 employees worldwide, the company's annual sales are approximately $1.9 billion, with a third coming from sales outside the United States. Kennametal has been named one of the Best Places to Work in Pennsylvania and has operations in more than 60 countries. Kennametal operations in Europe are headquartered in Furth, Germany. Kennametal Asia Pacific operations are headquartered in Singapore.

This release contains "forward-looking statements" as defined by Section 21E of the Securities Exchange Act of 1934 as amended. 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 quarter and six months ended December 31, 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 December 31		Six Months Ended December 31	
	2000	1999	2000	1999
Operations:				
Net sales	$440,521	$453,928	$891,226	$896,871
Cost of goods sold	273,583	285,061	555,635	564,675
Gross profit	166,938	168,867	335,591	332,196

Operating expense(A)	121,823	126,702	250,247	249,189
Restructuring and asset impairment charges	812	3,981	2,347	3,981
Amortization of intangibles	6,147	6,597	12,470	13,600
Operating income	38,156	31,587	70,527	65,426
Interest expense	13,400	13,753	26,595	28,280
Other expense, net(B)	1,200	510	2,657	252
Income before provision for income taxes and minority interest	23,556	17,324	41,275	36,894
Provision for income taxes	9,128	7,709	16,304	16,418
Minority interest	904	1,104	1,506	2,052
Income before extraordinary loss and cumulative effect of change in accounting principle	13,524	8,511	23,465	18,424
Extraordinary loss on early extinguishments of debt, net of tax	-	(267)	-	(267)
Cumulative effect of change in accounting principle, net of tax	-	-	(599)	-
Net income	$13,524	$8,244	$22,866	$18,157
Per Share Data:				
Diluted earnings per share	$0.44	$0.27	$0.75	$0.60
Dividends per share	$0.17	$0.17	$0.34	$0.34
Diluted weighted average shares outstanding	30,548	30,330	30,639	30,255

(A) For the quarter and six months ended December 31, 2000, these amounts include charges of $0.3 million and $2.0 million, respectively, primarily related to the tender offer to acquire the outstanding shares of JLK. 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 quarters ended December 31, 2000 and 1999, these amounts include charges of $1.6 million and $1.3 million, respectively, for fees incurred in connection with the company's accounts receivable securitization program. For the six months ended December 31, 2000 and 1999, these amounts include similar charges of $3.2 million and $2.5 million, respectively. For the six months ended December 31, 1999, these amounts include one-time gains of $1.4 million from the sales of underutilized assets.

Supplemental Data Sheet

SELECTED OPERATING DATA:

	Quarter Ended December 31 2000	Quarter Ended December 31 1999(A)	Six Months Ended December 31 2000	Six Months Ended December 31 1999(A)
Sales:				
Metalworking Services and Solutions Group	$244,065	$253,450	$490,881	$495,614
Advanced Materials Solutions Group	83,613	82,936	170,392	167,736
JLK/Industrial Supply	112,843	117,542	229,953	233,521
Total	$440,521	$453,928	$891,226	$896,871
Sales By Geographic Region:				
Within the United States	$293,037	$296,687	$595,470	$592,782
International	147,484	157,241	295,756	304,089
Total	$440,521	$453,928	$891,226	$896,871
Operating Income (Loss), including special charges:				
Metalworking Services and Solutions Group	$31,014	$26,049	$58,936	$55,306
Advanced Materials Solutions Group	8,735	7,941	19,922	18,564
JLK/Industrial Supply	4,352	7,089	4,904	14,068
Corporate and Eliminations	(5,945)	(9,492)	(13,235)	(22,512)
Total	$38,156	$31,587	$70,527	$65,426
Operating Income (Loss), excluding special charges:				
Metalworking Services and Solutions Group	$31,051	$29,568	$58,940	$58,825
Advanced Materials Solutions Group	8,760	8,312	19,948	18,935
JLK/Industrial Supply	5,364	7,089	9,233	14,068
Corporate and Eliminations	(5,944)	(6,301)	(13,254)	(19,321)
Total	$39,231	$38,668	$74,867	$72,507
Diluted EPS excluding special charges and amortization expense	$0.67	$0.63	$1.25	$1.19
Diluted EPS excluding special charges	$0.47	$0.41	$0.84	$0.74
Free Operating Cash Flow:				
Net Income	$13,524	$8,244	$22,866	$18,157
Non-cash Items	(997)	6,401	1,992	6,481
Depreciation & Amortization	24,499	25,221	49,065	51,285
Change in Working Capital	12,655	22,560	30,159	47,717
Capital Expenditures	(11,509)	(10,897)	(22,980)	(21,676)
Free Operating Cash Flow	$38,172	$51,529	$81,102	$101,964

Supplemental Data Sheet (Continued)

SELECTED BALANCE SHEET DATA:

	Quarter Ended 12/31/2000	09/30/2000	06/30/2000	12/31/1999
Accounts Receivable	$203,344	$218,863	$231,917	$224,022
Inventory	389,460	392,741	410,885	417,473
Accounts Payable	(102,217)	(111,873)	(118,908)	(111,056)
Total Primary Working Capital (PWC)	$490,587	$499,731	$523,894	$530,439
PWC % Sales(B)	28.0%	28.5%	29.4%	30.9%

Debt	$687,487	$672,593	$699,242	$771,417
Debt/Total Capital	46.7%	44.7%	45.6%	48.9%

(A) Kennametal now reports three global business units consisting of Metalworking Services and Solutions Group, Advanced Materials Solutions Group and JLK/Industrial Supply, and corporate functional shared services. Certain amounts in prior year sales and operating income (loss) have been restated to conform to this new reporting structure.

(B) Calculated by averaging the current and the previous four quarter-end balances for PWC, divided by sales for the most recent 12-month period.

SOURCE Kennametal Inc.
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