Kennametal Delivers FY01 Growth Despite Weak Markets; Performance In-Line with Expectations

August 1, 2001

LATROBE, Pa., Aug. 1 /PRNewswire/ -- Kennametal Inc. (NYSE: KMT) today reported earnings for the fiscal year ending June 30, 2001 of $2.17 per share, an increase of two percent, compared to $2.13 per share last year, excluding special items in each period. Earnings per share would have grown 15 percent to $2.46 without the negative impact of foreign exchange. On a reported basis, earnings per share were $1.73 per share against $1.70 per share last year.

For the fourth quarter, earnings per share were $0.60 per share, toward the upper end of April guidance, compared to $0.68 per share last year, excluding special items in each period.

Kennametal President and Chief Executive Officer Markos I. Tambakeras remarked, "We are pleased to have delivered on our April commitments despite severe declines in many of our end markets. Our performance was driven by outstanding effort by Kennametal employees around the world. We acted quickly to offset the declining North American industrial markets, and began accelerating our cost-cutting initiatives last September. As the decline deepened and spread, we aggressively pursued new opportunities and believe we grew market share. As a result, we offset the majority of the severe market pressure to deliver strong 2001 results."

Tambakeras added, "At the same time, we continued to execute our strategy. I am particularly pleased with a second consecutive year of outstanding cash generation and debt reduction despite the manufacturing recession. Deployment of lean techniques more broadly through our manufacturing network and into corporate functions including finance, purchasing and IT, allowed us to maintain margins despite declining volumes. In addition, we sustained our growth investments to continually improve our competitiveness. The introduction of nearly 7,000 new products captured market share and improved customer satisfaction. E-Business investments produced the launch of our online web site that will allow customers to order, check pricing and inventory, and follow the status of their order more efficiently. Unique to our industry, these functions are available regardless of how the order is placed -- fax, email, phone, EDI or online.

Highlights

Fourth Quarter

During the fourth quarter the company adopted the new accounting standard "Accounting for Shipping and Handling Fees and Costs." The adoption is simply a reclassification of existing fees and costs, which does not affect earnings.

-- Sales of $442.5 million declined 7 percent versus $477.1 million last year. Excluding the unfavorable impact of foreign currency (2 percent) and the ATS divestiture (1 percent), sales were 4 percent below the prior year. Sales benefited from the combination of continued growth in Europe and Asia and strength in North American mining and energy sectors. According to prior accounting standards, sales were $439.5 million against $473.8 million last year.

-- Gross profit margin of 34.0 percent, excluding special charges, declined 140 basis points versus the fourth quarter of fiscal 2000. Foreign currency and operating inefficiencies in the Electronics business due to low volumes were the primary drivers of the decline. Price increases and incremental productivity improvements from lean implementation offset sales volume declines and increases in raw material costs. According to prior accounting standards, gross profit margin was 37.8 percent against 39.2 percent last year.

-- Operating expense for the quarter was reduced 7 percent to $102.4 million. Lean initiatives delivered incremental cost reduction and productivity improvements that combined with restructuring benefits to balance funding of key growth initiatives. Excluding foreign exchange, operating expense declined 4 percent. According to prior accounting standards, operating expense was $119.4 million against $127.4 million last year.

-- As anticipated, the effective tax rate for the fourth quarter was 39.7 percent compared to 42.7 percent last year.

-- Interest expense declined 14 percent during the quarter compared to last year due to the ongoing reduction in debt and lower average interest rates.

-- Excluding special items, net income was $18.5 million, an 11 percent decrease compared to $20.7 million last year.

-- As previously announced, special charges of $13.9 million, or $0.28 per share, were included in the quarter's results related to the divestiture of ATS, the J&L business improvement plan and work force reductions. Prior-year results included special charges of $2.0 million, or $0.04 per share related to restructuring in the core business and costs associated with JLK strategic alternatives.

-- Diligent cash flow and balance sheet management generated another quarter of notable results. Free operating cash flow of $34.7 million ($136.9 million for the year) benefited from a 12 percent reduction in primary working capital versus prior year. This reduction yielded primary working capital as a percent of sales of 27.3 percent - the lowest level in 10 years.

-- Total debt was $607.1 million; down from $699.2 million at the beginning of the year despite the investment in a share repurchase program ($16.5 million), and the acquisition of JLK ($41.7 million).

Fiscal 2001 versus 2000

-- Organic sales for the 12 months ending June 30, 2001 increased 2 percent. Actual sales of $1,807.9 million were down 3 percent, negatively affected by foreign currency (3 percent) and fewer business days (2 percent). According to prior accounting standards, sales were $1,795.4 million against $1,853.7 million last year.

-- Excluding special items, net income was $66.6 million, an increase of 3 percent compared to $64.7 million last year.

-- Special charges of $22.5 million, or $0.44 per share, were included in the year's results related primarily to the J&L and FSS business improvement program ($8.6 million), the ATS divestiture ($5.8 million), core business resize program ($4.6 million) and costs associated with the JLK tender offer ($2.1 million). Prior-year results included special charges of $22.9 million, or $0.43 per share related primarily to restructuring and asset impairment charges in the core businesses ($18.6 million) and a charge for environmental remediation ($3.0 million).

Outlook

Looking forward, Tambakeras noted, "The North American manufacturing recession has not eased, and we do not expect improvement until calendar 2002. In addition, the European economy is clearly beginning to slow. Consequently, we are forecasting continued weakness through the first half of fiscal 2002. At the same time, we will continue to execute against the factors that we can control. The evolution of Lean Throughout into the Kennametal Lean Enterprise will formalize standards and procedures to extend operating efficiencies to every area of the company. Continued product development will sustain the momentum of nearly 14,000 new products over the past two years, and will be combined with aggressive marketing to acquire market share."

Sales for the first half of fiscal 2002 are expected to decline 4 to 6 percent, with a corresponding 10 to 15 percent decline in earnings per share. The first quarter is forecasted to be the weakest quarter for the year. A strong second half driven by economic improvement is anticipated to deliver growth, which will result in flat to slightly higher sales and earnings per share increase of 5 to 10 percent for the year. Cash flow for the year should be within the ongoing long-term range of $100 to $150 million.

Goodwill Amortization

Beginning with fiscal 2002, Kennametal will be complying with SFAS No. 142 "Goodwill and Other Intangible Assets." For reference, pro forma fiscal 2001 earnings per share, excluding special charges, is estimated to be $2.84, with an operating income margin of 10.6 percent, and an effective tax rate of 33.4 percent.

Dividend Announcement

Kennametal also announced its Board of Directors declared a quarterly cash dividend of $0.17 cents per share, payable August 24, 2001, to holders of record as of August 10, 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 $1.8 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 is represented 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 deteriorate or do not improve materially in the second half of our fiscal year, 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 year ended June 30, 2001 and 2000 are shown in the following tables (in thousands, except per share amounts).

Consolidated Statements of Income

	Quarter Ended June 30,		Year Ended June 30,	
	2001 As Reported	2000 As Reported	2001 As Reported	2000 Reported
Net sales	$442,505	$477,125	$1,807,896	$1,866,578
Cost of goods sold (A)	295,324	308,184	1,192,176	1,228,685
Gross profit	147,181	168,941	615,720	637,893
Operating expense (B)	102,403	110,602	425,641	434,136
Restructuring and asset impairment charge	4,912	1,222	9,545	18,526
Amortization of intangibles	5,601	6,335	24,134	26,452
Operating income	34,265	50,782	156,400	158,779
Interest expense (C)	11,290	13,131	50,381	55,079
Other expense, net (D)	4,924	1,979	11,690	3,289
Income before provision for income taxes and minority interest	18,051	35,672	94,329	100,411
Provision for income taxes	7,172	15,215	37,300	43,700
Minority interest	851	1,001	3,142	4,734
Income before extraordinary loss and cumulative effect of change in accounting principle	10,028	19,456	53,887	51,977
Extraordinary loss on early extinguishment of debt, net of tax	-	-	-	(267)
Cumulative effect of change in accounting principle, net of tax	-	-	(599)	-

Net income	$10,028	$19,456	$53,288	$51,710

Per Share Data:

Diluted earnings per share	$0.32	$0.64	$1.73	$1.70
Dividends per share	$0.17	$0.17	$0.68	$0.68
Diluted weighted average shares outstanding	31,027	30,535	30,749	30,364

(A) For the quarter and year ended June 30, 2001, these amounts include charges of $3.2 million and $3.7 million, respectively, related to the JLK business improvement program.

(B) For the year ended June 30, 2001, this amount includes $2.1 million primarily related to the tender offer to acquire the outstanding shares of JLK. 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 JLK. For the year ended June 30, 2000, this amount includes a charge of $3.0 million for environmental remediation.

(C) For the year ended June 30, 2001, this amount includes a charge of financing fees as a result of the reduction in the availability under the company's U.S. credit facility.

(D) For the quarters ended June 30, 2001 and 2000, these amounts include charges of $1.1 million and $1.4 million, respectively, for fees incurred in connection with the company's accounts receivable securitization program. For the years ended June 30, 2001 and 2000, these amounts include similar charges of $5.7 million and $5.2 million, respectively. For the quarter and year ended June 30, 2001, these amounts include a charge of $5.8 million related to the divestiture of Abrasive & Tool Specialties. For the year ended June 30, 2000, this amount includes one-time gains of $1.4 million from the sales of underutilized assets.

Supplemental Data Sheet
SELECTED OPERATING DATA:

	Quarter Ended June 30,		Year Ended June 30,	
	2001	2000 (A)	2001	2000 (A)
Sales:(B)				
Metalworking Services and Solutions Group	$245,054	$261,597	$999,813	$1,029,395
Advanced Materials Solutions Group	89,187	89,621	352,933	345,447
J&L Industrial Supply	66,327	83,486	296,264	333,061
Full Service Supply	41,937	42,421	158,886	158,675
Total	$442,505	$477,125	$1,807,896	$1,866,578
Sales By Geographic Region: (B)				
Within the United States	$285,631	$322,053	$1,189,014	$1,245,134
International	156,874	155,072	618,882	621,444
Total	$442,505	$477,125	$1,807,896	$1,866,578
Operating Income (Loss), including special charges: (B)				
Metalworking Services and Solutions Group	$31,628	$39,202	$130,558	$131,676
Advanced Materials Solutions Group	11,152	14,631	43,270	41,204

J&L Industrial Supply	(802)	1,635	3,689	17,208
Full Service Supply	1,555	2,408	7,541	12,021
Corporate and Eliminations	(9,268)	(7,094)	(28,658)	(43,330)
Total	$34,265	$50,782	$156,400	$158,779

Operating Income (Loss), excluding special charges: (B)				
Metalworking Services and Solutions Group	$33,883	$39,072	$133,828	$142,659
Advanced Materials Solutions Group	12,317	14,704	44,197	46,023
J&L Industrial Supply	3,232	2,390	13,815	17,963
Full Service Supply	1,807	2,408	8,113	12,021
Corporate and Eliminations	(8,814)	(5,784)	(28,224)	(37,476)
Total	$42,425	$52,790	$171,729	$181,190

Diluted EPS excluding special charges and amortization expense	$0.78	$0.89	$2.95	$3.00

Diluted EPS excluding special charges	$0.60	$0.68	$2.17	$2.13

Free Operating Cash Flow: (C)				
Net Income	$10,028	$19,456	$53,288	$51,710
Non-cash Items	16,301	4,574	23,067	18,117
Depreciation & Amortization	23,857	25,196	97,297	101,646
Change in Working Capital	4,289	11,325	23,140	77,155
Capital Expenditures	(19,808)	(16,540)	(59,929)	(50,663)
Free Operating Cash Flow	$34,667	$44,011	$136,863	$197,965

SELECTED BALANCE SHEET DATA:

	Quarter Ended			
	6/30/01	3/31/01	12/31/00	9/30/00
Accounts Receivable	$206,175	$214,332	$203,344	$218,863
Inventory	373,221	387,520	389,460	392,741
Accounts Payable	(118,073)	(108,371)	(102,217)	(111,873)
Total Primary Working Capital (PWC)	$461,323	$493,481	$490,587	$499,731
PWC % Sales (D)	27.3%	27.7%	27.8%	28.3%
Debt	$607,115	$654,930	$687,487	$672,593
Debt/Total Capital	42.9%	45.1%	46.7%	44.7%

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

(B) Amounts reflect reclassification of shipping fees charged customers to sales, and freight and handling costs to cost of goods sold, as required by Emerging Issues Task Force 00-10, "Accounting for Shipping and Handling Fees and Costs."

(C) Prior year amounts restated to exclude the effect of changes in value of marketable investment securities available-for-sale.

(D) 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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