Kennametal Meets Second Quarter Expectations; Generates Strong Cash Flow Despite Manufacturing Recession

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LATROBE, Pa., Jan. 30 /PRNewswire-FirstCall/ -- Kennametal Inc. (NYSE: KMT) today reported fiscal 2002 second quarter earnings of $0.32 per diluted share, a decrease of 49 percent, compared with earnings of $0.63* per diluted share last year, excluding special items in each period. On the same basis through the first six months, diluted earnings per share were $0.75, 35 percent below last year's earnings of $1.15*.

Earnings Per Share Excluding Special Items

Company Guidance (10/31/01)	$0.30 to $0.40
Analyst Estimate Range (01/29/02)	$0.31 to $0.35
Earnings, Excluding Special Items	$0.32

On a reported basis, diluted loss per share was ($0.08) for the quarter against last year's earnings per share of $0.61*. For the first six months, reported diluted earnings per share were $0.32 against last year's earnings per share of $1.05*.

* Fiscal 2001 earnings per share quoted in this release exclude goodwill amortization as defined by SFAS 142, "Goodwill and Other Intangible Assets" to allow equivalent comparisons. A table reconciling the fiscal 2001 impact of goodwill amortization is included later in this release.

Kennametal President and Chief Executive Officer, Markos I. Tambakeras, said, "By executing our business strategy with relentless focus on cost control, cash management and the Kennametal Lean Enterprise, we delivered second quarter earnings consistent with our estimates and a 68 percent year- over-year increase in free cash flow - despite weaker than expected end markets. Sales in the December quarter were significantly depressed by customer production slowdowns over the year-end holidays that were considerably more severe than usual. However, determined performance by our sales force, including a steady flow of new products, allowed us to still deliver targeted earnings. The sustained strength of our relative performance is a powerful testimony to the skills and passion of Kennametal employees worldwide."

Tambakeras noted that further slowing of industrial activity underscored the value of the company's early and decisive restructuring and cost reduction actions. As the manufacturing recession extended well into its second year in the United States, and spread to Europe, the company responded with several additional steps. These included a further $20 million restructuring program announced in November 2001, to reduce costs but preserve the infrastructure to sustain competitiveness in deteriorating global markets.

Second Quarter Highlights

-- Sales of $380.3 million declined 14 percent, versus $443.6 million last year. Continued sales growth in Mining and Construction and Asia Pacific was more than offset by broad weakness in other North American served markets and the onset of decline in European economies.

-- Gross profit margin, excluding special charges, of 30.9 percent declined 320 basis points compared with the second quarter of fiscal 2001. The realization of incremental manufacturing efficiencies from lean initiatives offset raw material increases and unfavorable customer and product mix, but could not absorb the under-utilization of capacity caused by volume declines.

-- Operating expense for the quarter was reduced 11 percent, to $93.1 million, excluding special charges. Ongoing cost-cutting and lean initiatives, combined with several short-term savings actions, reduced expenses in step with sales declines. Moreover, the reduction was achieved even as spending on growth programs and R&D was sustained.

-- The current quarter included special charges of $18.3 million, or $0.40 per diluted share, associated with previously announced restructurings. The charges were divided approximately evenly among the J&L/FSS business improvement plan, the closure of two IPG drill plants and the closure of the Chicago, IL Electronics plant. Prior-year results included special charges of $1.1 million, or $0.03 per share, related primarily to the J&L business improvement plan.

-- Interest expense of $8.3 million is 38 percent below the same quarter last year due to ongoing debt reduction and lower average borrowing rates.

-- The effective tax rate for the December 2001 quarter was 32.0 percent, compared with prior year of 32.5 percent.

-- Excluding special items, net income was $10.0 million, a 48 percent decrease compared with net income of $19.3 million last year. On a reported basis, the company had a loss of $2.5 million against net income of $18.5 million in the same quarter last year.

-- Free operating cash flow was $47.1 million, versus $28.1 million in the same period last year, with working capital improvements as the strongest contributor. Primary working capital remained tightly controlled with the primary working capital as a percent of sales ratio improving 10 basis points to 27.7 percent. In addition, days in sales outstanding declined and inventory turns improved against the same period. Primary working capital of $428.8 million was down 13 percent from the same period last year.

-- Total debt was $580.2 million, down $107.3 million from December 2000 and down $26.9 million from the beginning of the fiscal year. Three years of focused debt reduction has lowered total debt by more than 40%.

Outlook

Considering the remaining two fiscal quarters, Tambakeras said, "Although we remain optimistic that the economy will show signs of rebound by mid-year, our previous outlook has been dampened. External indicators that we track include forecasts for US GDP and industrial production, and European GDP. The forecasts for each of these indices for the March and June 2002 quarters have been reduced since October 2001. Further, there is no conclusive evidence that the March quarter will rebound from the prior quarter's lows, and the eventual return to growth in the industrial markets is broadly expected to be quite slow. Therefore, for the remainder of our fiscal year we will continue our successful focus on things we can control -- costs, cash flow, debt and gaining market share with new products and continuing investments in our sales force and marketing initiatives."

Looking forward, Tambakeras continued, "We have completed the repositioning of Kennametal that was begun over two years ago. Consequently, we are very confident in our ability to accelerate growth and shareowner value as the global economy improves."

Based on assumptions that the first half of calendar 2002 will be weaker than predicted earlier, sales for the third quarter of fiscal 2002 are expected to decline 10 to 15 percent, with diluted earnings per share between $0.50 and $0.55, excluding special charges. For the year ending in June 2002, diluted earnings per share are forecasted to range from $1.90 to $2.10, excluding special charges. Despite the reduction in earnings expectations, cash flow for the year should still attain the ongoing long-term range of $100 million to $150 million.

Second quarter results will be discussed in a live Internet broadcast at 10 a.m. today. Access the live or archived conference by visiting the Investor Relations section of Kennametal's corporate web site at www.kennametal.com.

Dividend Declared

Kennametal also announced its Board of Directors declared a quarterly cash dividend of $0.17 cents per share, payable February 25, 2002, to shareowners of record as of the close of business February 8, 2002.

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 impact of the terrorist attacks on September 11, 2001 and their aftermath, the extent that global economic conditions deteriorate or do not improve materially in the second half of our fiscal 2002 year, risks associated with integrating and divesting businesses, demands on management resources, risks associated with international markets such as currency exchange rates and social and political environments, competition, commodity prices, demand for and market acceptance of new and existing products, risks associated with the implementation of restructuring plans and environmental remediation, as well as other risks and uncertainties including those detailed from time to time in the filings of the company with the Securities and Exchange Commission. The company undertakes no obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances occurring after the date hereof.

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 approximately 12,000 employees worldwide, the company's fiscal 2001 annual sales were $1.8 billion, with a third coming from sales outside the United States. Kennametal is a five-time winner of the GM "Supplier of the Year" award 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. For more information, visit the company's web site at www.kennametal.com

FINANCIAL HIGHLIGHTS

Consolidated financial highlights for Kennametal Inc. (NYSE: KMT) for the quarters and six-month periods ended December 31, 2001 and 2000 are shown in the following tables (in thousands, except per share amounts). All fiscal year 2002 data is subject to year-end (June 30) adjustment and audit by independent public accountants.

Consolidated Statements of Income

	Quarter Ended December 31, 2001	Quarter Ended December 31, 2000	Six Months Ended December 31, 2001	Six Months Ended December 31, 2000
Net sales	$380,338	$443,565	$786,992	$897,200
Cost of goods sold	263,873	292,149	540,688	593,168
Gross profit	116,465	151,416	246,304	304,032
Operating expense(1)	93,139	105,166	193,016	216,452
Restructuring and asset impairment charges	17,128	812	18,706	2,347
Amortization of intangibles	689	6,147	1,379	12,470
Operating income	5,509	39,291	33,203	72,763
Interest expense	8,290	13,400	17,655	26,595
Other expense (income), net(2)	105	2,335	(165)	4,893
Income (loss) before provision for income taxes and minority interest	(2,886)	23,556	15,713	41,275
Provision for income taxes	(923)	9,128	5,029	16,304
Minority interest	497	904	701	1,506
Income (loss) before cumulative effect of change in accounting principle	(2,460)	13,524	9,983	23,465
Cumulative effect of change in accounting principle, net of tax	-	-	-	(599)
Net income (loss)	$(2,460)	$13,524	$9,983	$22,866
Diluted earnings (loss) per share	$(0.08)	$0.44	$0.32	$0.75
Dividends per share	$0.17	$0.17	$0.34	$0.34
Diluted weighted average shares outstanding	31,380	30,548	31,405	30,639

(1) For the quarter and six-months ended December 31, 2000, this includes a charge of $0.3 million and $2.0 million, respectively, primarily related to the tender offer to acquire the outstanding shares of JLK.

(2) For the quarters ended December 31, 2001 and 2000, these amounts

include charges of $0.6 million and $1.6 million, respectively, for fees incurred in connection with the company's accounts receivable securitization program. For the six-months ended December 31, 2001 and 2000, these amounts include similar charges of $1.5 million and $3.2 million, respectively.

Pro forma Fiscal 2001 Operating Results Excluding Goodwill Amortization:

	Period Ended December 31, 2000 Quarter	Six Months
Operating income	$44,668	$83,540
Interest expense	13,400	26,595
Other expense, net	2,335	4,893
Income before provision for income taxes and minority interest	28,933	52,052
Provision for income taxes	9,432	17,639
Minority interest	967	1,727
Income before cumulative effect of change in accounting principle	18,534	32,686
Cumulative effect of change in accounting principle, net of tax	-	(599)
Pro forma net income	$18,534	$32,087
Pro forma diluted earnings per share	$0.61	$1.05

The following tables provide a comparison of the company's reported results, and the results excluding special items, for fiscal 2002 and fiscal 2001.

Quarter Ended December 31,

	Gross Profit	Operating Income	Net Income (Loss)	Diluted Earnings (Loss) Per Share
2001 Reported Results	$116,465	$5,509	$(2,460)	$(0.08)
MSSG Restructuring (IPG)	-	6,247	4,248	0.14
AMSG Restructuring (Electronics)	750	5,954	4,049	0.13
Corporate Restructuring	-	157	107	-
Total Core Business	750	12,358	8,404	0.27
J&L Restructuring	399	5,853	3,980	0.13
FSS Restructuring	-	66	44	-
Total Non-Core Business	399	5,919	4,024	0.13
2001 Results Excluding Special Items	$117,614	$23,786	$9,968	$0.32
2000 Reported Results	$151,416	$39,291	$13,524	$0.44
MSSG Restructuring	-	37	23	-
AMSG Restructuring	-	26	17	-
Total Core Business	-	63	40	-
J&L Restructuring & Other	-	1,012	643	0.03
Total Non-Core Business	-	1,012	643	0.03
2000 Results Excluding Special Items	$151,416	$40,366	$14,207	$0.47

Six Months Ended December 31,

	Gross Profit	Operating Income	Net Income	Diluted Earnings (Loss) Per Share
2001 Reported Results	$246,304	$33,203	$9,983	$0.32
MSSG Restructuring (IPG)	-	6,237	4,241	0.14
AMSG Restructuring (Electronics)	750	5,954	4,049	0.13
Corporate Restructuring	-	157	107	-
Total Core Business	750	12,348	8,397	0.27
J&L Restructuring	399	7,471	5,079	0.16
FSS Restructuring	-	36	25	-
Total Non-Core Business	399	7,507	5,104	0.16
2001 Results Excluding Special Items	$247,453	$53,058	$23,484	$0.75
2000 Reported Results	$304,032	$72,763	$22,866	$0.75
MSSG Restructuring	-	5	3	-
AMSG Restructuring	-	26	14	-
Corporate Restructuring	-	(20)	(11)	-
Total Core Business	-	11	6	-
J&L Restructuring & Other	-	4,179	2,187	0.09
FSS Restructuring	-	150	81	-
Total Non-Core Business	-	4,329	2,268	0.09
Adoption of SFAS 133	-	-	599	0.02
2000 Results Excluding Special Items	$304,032	$77,103	$25,739	$0.86

SEGMENT DATA:

	Quarter Ended December 31, 2001	Quarter Ended December 31, 2000(1)	Six Months Ended December 31, 2001	Six Months Ended December 31, 2000(1)
Sales:(2)				
Metalworking Solutions and Services Group	$218,078	$245,984	$441,035	$494,661
Advanced Materials Solutions Group	71,614	84,377	154,619	171,888
J&L Industrial Supply	56,003	73,581	115,124	150,204
Full Service Supply	34,643	39,623	76,214	80,447
Total Sales	$380,338	$443,565	$786,992	$897,200
Sales By Geographic Region:(2)				
Within the United States	$242,509	$295,736	$508,235	$600,763
International	137,829	147,829	278,757	296,437
Total Sales	$380,338	$443,565	$786,992	$897,200
Operating Income (Loss), as reported:(2)				
Metalworking Solutions and Services Group	$17,410	$31,853	$42,081	$60,612
Advanced Materials Solutions Group	(652)	8,739	9,711	19,930
J&L Industrial Supply	(3,665)	2,832	(2,933)	1,637
Full Service Supply	247	1,812	1,419	3,819
Corporate and Eliminations	(7,831)	(5,945)	(17,075)	(13,235)
Total Operating Income	$5,509	$39,291	$33,203	$72,763
Operating Income, excluding special charges:(2)				
Metalworking Solutions and Services Group	$23,657	$31,890	$48,318	$60,617
Advanced Materials Solutions Group	5,302	8,765	15,665	19,956
J&L Industrial Supply	2,188	3,844	4,538	5,816
Full Service Supply	313	1,812	1,455	3,969
Corporate and Eliminations	(7,674)	(5,945)	(16,918)	(13,255)

Total Operating Income	$23,786	$40,366	$53,058	$77,103

Operating Income, excluding special charges and goodwill amortization:(2)(3)

Metalworking Solutions and Services Group	$34,229	$65,306
Advanced Materials Solutions Group	10,994	24,417
J&L Industrial Supply	4,561	7,220
Full Service Supply	1,827	3,999
Corporate and Eliminations	(5,868)	(13,062)
Total Operating Income	$45,743	$87,880

(1) Kennametal reports global business units consisting of Metalworking Solutions and Services Group, Advanced Materials Solutions Group, J&L Industrial Supply, Full Service 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.

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

(3) As reported amounts for fiscal 2002 are reflective of the non-amortization provision of SFAS 142, "Goodwill and Other Intangible Assets."

CASH FLOW INFORMATION

	Quarter Ended December 31,		Six Months Ended December 31,	
	2001	2000(1)	2001	2000(1)
Net income (loss)	$(2,460)	$13,524	$9,983	$22,866
Non-cash items	13,472	(997)	12,319	1,992
Depreciation and amortization	18,591	24,499	37,303	49,065
Change in primary working capital	43,645	15,364	38,216	29,425
Change in other working capital	(16,996)	(13,548)	(32,742)	(16,172)
Cash flow from operations	56,252	38,842	65,079	87,176
Capital expenditures	(10,087)	(11,509)	(20,114)	(22,980)
Proceeds from asset disposals	920	760	3,525	844
Free operating cash flows	$47,085	$28,093	$48,490	$65,040

(1) Certain amounts have been reclassified to be consistent with the current year presentation.

CONDENSED BALANCE SHEETS

	Quarter Ended		
	12/31/01	9/30/01	6/30/01
ASSETS			
Cash and equivalents	$10,414	$10,722	$12,940
Accounts receivables, net of allowance	162,916	196,003	206,175
Inventories	367,724	382,701	373,221
Deferred income taxes	67,215	64,673	57,452
Other current assets	24,728	25,036	31,408
Total current assets	632,997	679,135	681,196
Property, plant and equipment, net	448,263	467,268	472,874
Goodwill, net	616,113	616,527	615,263
Intangible assets, net	7,945	8,716	9,497
Other assets	60,797	50,943	46,612
Total	$1,766,115	$1,822,589	$1,825,442

LIABILITIES			
Short-term debt	$406,677	$418,448	$24,530
Accounts payable	101,817	103,993	118,073
Accrued liabilities	131,656	137,055	151,882
Total current liabilities	640,150	659,496	294,485
Long-term debt	173,514	209,613	582,585
Deferred income taxes	54,204	50,945	53,844
Other liabilities	89,880	90,716	87,898
Total liabilities	957,748	1,010,770	1,018,812
MINORITY INTEREST	9,271	10,187	9,861
SHAREOWNERS' EQUITY	799,096	801,632	796,769
Total	$1,766,115	$1,822,589	$1,825,442

	Quarter Ended	
	3/31/01	12/31/00
ASSETS		
Cash and equivalents	$19,987	$18,293
Accounts receivables, net of allowance	214,332	203,344
Inventories	387,520	389,460
Deferred income taxes	52,610	52,552
Other current assets	31,899	34,374
Total current assets	706,348	698,023
Property, plant and equipment, net	474,015	482,493
Goodwill, net	628,104	634,247
Intangible assets, net	9,529	10,682
Other assets	39,177	36,107
Total	$1,857,173	$1,861,552
LIABILITIES		
Short-term debt	$8,786	$10,210
Accounts payable	108,371	102,217
Accrued liabilities	174,378	171,036
Total current liabilities	291,535	283,463
Long-term debt	646,144	677,277
Deferred income taxes	37,531	31,261
Other liabilities	84,312	85,773
Total liabilities	1,059,522	1,077,774
MINORITY INTEREST	10,708	10,514
SHAREOWNERS' EQUITY	786,943	773,264
Total	$1,857,173	$1,861,552

SOURCE Kennametal Inc.
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