KENNAMETAL

Kennametal Delivers on Third Quarter Expectations

May 1, 2002

LATROBE, Pa., May 1 /PRNewswire-FirstCall/ -- Kennametal Inc. (NYSE: KMT) today reported fiscal 2002 third quarter earnings of $0.53 per diluted share, a decrease of 42 percent, compared with earnings of $0.91* per diluted share last year, excluding special items in each period. On the same basis through the first nine months, diluted earnings per share were $1.28, 38 percent below last year's earnings of $2.06*.

Earnings Per Share Excluding Special Items

Company Guidance (1/30/02)	$0.50 to $0.55
Analyst Estimate Range (04/30/02)	$0.50 to $0.55
Earnings, Excluding Special Items	$0.53

On a reported basis, diluted earnings per share were $0.42 for the quarter against last year's earnings per share of $0.84*. For the first nine months, reported diluted earnings per share were $0.74 against last year's earnings per share of $1.89*.

* Fiscal 2001 performance quoted in this release excludes 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.

"We were encouraged to see 3.6 percent sequential improvement versus the December quarter, and continued our disciplined management of the business through the softest March quarter in many years," Kennametal Chairman, President and Chief Executive Officer, Markos I. Tambakeras, said. "We leveraged continued aggressive cost management through the Kennametal Lean Enterprise, as North American industrial markets remained severely depressed and our European and energy related markets softened as expected. I was particularly pleased that our relentless focus on working capital management contributed to another quarter of strong cash flow, including an $18 million decrease in inventory. In addition, the previously announced restructuring effort in our J&L, IPG and Electronics businesses progressed as planned and positioned the company for even stronger performance as the economy rebounds."

Third Quarter Highlights

-- Sales of $393.9 million declined 16 percent, versus $468.2 million last year. Excluding the unfavorable impact of foreign currency (2 percent), and fewer workdays (3 percent), sales were 11 percent below the prior year. Each month in the March 2002 quarter improved sequentially on a daily sales basis, despite broad year-over-year weakness. Sales for the March 2002 quarter improved 3.6% sequentially versus the December quarter.

-- Gross profit margin, excluding special charges in both periods, of 32.7 percent declined 250 basis points compared with the third quarter of fiscal 2001. Lean initiatives continue to provide manufacturing efficiencies that offset much of the combined negative pressure of underutilized capacity due to volume declines and an unfavorable customer and product mix. Foreign currency translation also reduced the margin.

-- Operating expense for the quarter was reduced 10 percent, to $95.7 million, excluding special charges in 2001. The reduction was 9 percent excluding the impact of foreign exchange. Ongoing cost-cutting and lean initiatives, combined with several short-term savings actions, reduced expenses nearly in line 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 $5.2 million, or $0.11 per diluted share, associated with previously announced restructurings. The charges were divided approximately evenly between the J&L/FSS business improvement plan and the Metalworking and

Electronics plan. These plans are expected to be completed by fiscal year end. Prior-year results included special charges of $3.2 million, or $0.07 per share, associated with the J&L and FSS business improvement plans and the resize program.

-- Interest expense of $7.4 million is 41 percent below the same quarter last year due to ongoing debt reduction and lower average borrowing rates.

-- The effective tax rate for the March 2002 quarter was 32.0 percent, compared with prior year of 33.9 percent.

-- Excluding special items, net income was $16.7 million, a 40 percent decrease compared with net income of $28.0 million last year. Reported net income was $13.1 million against net income of $25.9 million in the same quarter last year.

-- Free operating cash flow was $31.4 million, versus $31.9 million in the same period last year. Primary working capital remained tightly controlled with the primary working capital as a percent of sales ratio increasing slightly to 28.1 percent. Primary working capital of $425.4 million was down 14 percent from the same period last year.

-- Total debt was $547.9 million, down $107.0 million from March 2001 and down $59.2 million from the beginning of the fiscal year. Three years of focused debt reduction has lowered total debt by more than 40%.

Outlook

"Sequential improvement though the March quarter supports the broad perception that the markets have found a bottom and are slowly beginning to rebound," Tambakeras said, "Key indicators including industrial production and the Institute of Supply Management (ISM -- formerly NAPM) index also continue to strengthen. Consequently, we are reaffirming our outlook for the final quarter of the fiscal year with the expectation that the gradual economic improvement will continue. While the near term will continue to be challenging, we remain confident that future economic growth will allow us to take maximum advantage of the many improvements we have made as a company. These improvements have included revitalized investment in technology, which has increased sales from new products to 34%. New products have been leveraged with sales and marketing initiatives to deliver market share gains and enhanced customer satisfaction. At the same time we have significantly improved operating efficiency."

Assuming economic conditions continue to slowly strengthen, sales for the fourth quarter of fiscal 2002 are expected to sequentially improve 2 to 5 percent, and to decline 5 to 10 percent year-over-year, with diluted earnings per share between $0.62 and $0.72, excluding special charges. Cash flow for the year is still expected to exceed $100 million.

Change of Independent Auditor

On April 30, 2002, upon the joint recommendation of management and the Audit Committee, the Board of Directors of Kennametal Inc. (the company) ratified the dismissal of Arthur Andersen LLP (Arthur Andersen) as the company's independent auditors following the completion by Arthur Andersen of its report on the financial statements of the company for the quarter ended March 31, 2002, and the selection of PricewaterhouseCoopers LLP as independent auditors for fiscal year ending June 30, 2002. The appointment of PricewaterhouseCoopers LLP was made after careful consideration by the Board of Directors, the Audit Committee and management of the company, and included an extensive evaluation process.

The decision to change auditors was not the result of any disagreement between the company and Arthur Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. During its long tenure as the company's outside auditors, Arthur Andersen has provided many years of quality service and has demonstrated a high level of professionalism.

Strong Tool Company Disposition

Kennametal also announced that it has sold its wholly owned subsidiary, Strong Tool Company, headquartered in Cleveland, Ohio. This April 2002 action represents a net book loss of approximately $2.4 million and is in line with Kennametal's strategy to refocus J&L on its catalog business.

Dividend Declared

Kennametal also announced its Board of Directors declared a quarterly cash dividend of $0.17 cents per share, payable May 24, 2002, to shareowners of record as of the close of business May 10, 2002.

Third quarter results will be discussed in a live Internet broadcast at 10:00 a.m. today. Access the live or archived conference by visiting the Investor Relations section of Kennametal's corporate web site at http://www.kennametal.com.

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 continue to improve in the second quarter of calendar 2002, risks associated with integrating and divesting businesses and achieving the expected savings and synergies, demands on management resources, risks associated with international markets such as currency exchange rates and social and political environments, competition, labor relations, 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 http://www.kennametal.com.

FINANCIAL HIGHLIGHTS

Consolidated financial highlights for Kennametal Inc. (NYSE: KMT) for the quarters and nine-month periods ended March 31, 2002 and 2001 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 March 31,		Nine Months Ended March 31,	
	2002	2001	2002	2001
Net sales	$393,852	$468,191	$1,180,844	$1,365,391
Cost of goods sold	266,205	303,684	806,893	896,852
Gross profit	127,647	164,507	373,951	468,539
Operating expense(1)	95,695	106,786	288,711	323,238
Restructuring and asset impairment charges	3,944	2,286	22,650	4,633
Amortization of intangibles	728	6,063	2,107	18,533
Operating income	27,280	49,372	60,483	122,135
Interest expense(2)	7,421	12,496	25,076	39,091
Other expense (income), net(3)	(14)	1,873	(179)	6,766
Income before provision for income taxes and minority interest	19,873	35,003	35,586	76,278
Provision for income taxes	6,359	13,824	11,387	30,128
Minority interest	370	785	1,071	2,291
Income before cumulative effect of change in accting. principle	13,144	20,394	23,128	43,859
Cumulative effect of change in accounting principle, net of tax	--	--	--	(599)
Net income	$13,144	$20,394	$23,128	$43,260

Diluted earnings per share	$0.42	$0.66	$0.74	$1.41
Dividends per share	$0.17	$0.17	$0.51	$0.51
Diluted weighted average shares outstanding	31,553	30,692	31,454	30,656

(1) For the quarter and nine-months ended March 31, 2001, this includes a charge of $0.1 million and $2.1 million, respectively, primarily related to the tender offer to acquire the outstanding shares of JLK.
(2) For the quarter and nine-months ended March 31, 2001, this includes a charge of $0.3 million related to the recognition of a portion of deferred financing fees as a result of the reduction in the availability under the company's U.S. credit facility.
(3) For the quarters ended March 31, 2002 and 2001, these amounts include charges of $0.5 million and $1.5 million, respectively, for fees incurred in connection with the company's accounts receivable securitization program. For the nine-months ended March 31, 2002 and 2001, these amounts include similar charges of $2.0 million and $4.7 million, respectively.

FINANCIAL HIGHLIGHTS (Continued) Pro forma Fiscal 2001 Operating Results Excluding Goodwill Amortization:

	Period Ended March 31, 2001	
	Quarter	Nine Months
Operating income	$54,732	$138,272
Interest expense	12,496	39,091
Other expense, net	1,873	6,766
Income before provision for income taxes and minority interest	40,363	92,415
Provision for income taxes	13,683	31,322
Minority interest	800	2,527
Income before cumulative effect of change in accounting principle	25,880	58,566
Cumulative effect of change in accounting principle, net of tax	--	(599)
Pro forma net income	$25,880	$57,967
Pro forma diluted earnings per share	$0.84	$1.89

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 March 31,

	Gross Profit	Operating Income	Net Income	Diluted Earnings Per Share
2002 Reported Results	$127,647	$27,280	$13,144	$0.42
MSSG Restructuring	160	1,904	1,295	0.04
AMSG Restructuring	554	619	421	0.01
Corporate Restructuring	--	3	2	--
Total Core Business	714	2,526	1,718	0.05
J&L Restructuring	507	2,375	1,616	0.05
FSS Restructuring	--	264	179	0.01
Total Non-Core Business	507	2,639	1,795	0.06
2002 Results Excluding Special Items	$128,868	$32,445	$16,657	$0.53

	Gross Profit	Operating Income	Net Income	Diluted Earnings Per Share
2001 Reported Results	$164,507	$49,372	$20,394	$0.66
MSSG Restructuring	--	1,011	612	0.02
AMSG Restructuring	--	(264)	(160)	--
Corporate Special Charge	--	--	208	0.01
Total Core Business	--	747	660	0.03
J&L Restructuring	419	1,913	1,157	0.04
FSS Restructuring	--	170	103	--
Total Non-Core Business	419	2,083	1,260	0.04
2001 Results Excluding Special Items	$164,926	$52,202	$22,314	$0.73

FINANCIAL HIGHLIGHTS (Continued)

Nine Months Ended March 31,

	Gross Profit	Operating Income	Net Income	Diluted Earnings Per Share
2002 Reported Results	$373,951	$60,483	$23,128	$0.74
MSSG Restructuring	160	8,141	5,536	0.18
AMSG Restructuring	1,304	6,573	4,470	0.14
Corporate Restructuring	--	160	109	--
Total Core Business	1,464	14,874	10,115	0.32
J&L Restructuring	906	9,846	6,694	0.21
FSS Restructuring	--	300	204	0.01
Total Non-Core Business	906	10,146	6,898	0.22
2002 Results Excluding Special Items	$376,321	$85,503	$40,141	$1.28
2001 Reported Results	$468,539	$122,135	$43,260	$1.41
MSSG Restructuring	--	1,016	615	0.02
AMSG Restructuring	--	(238)	(146)	--
Corporate Restructuring & Other	--	(20)	197	0.01
Total Core Business	--	758	666	0.03
J&L Restructuring & Other	419	6,092	3,344	0.11
FSS Restructuring	--	320	184	--
Total Non-Core Business	419	6,412	3,528	0.11
Adoption of SFAS 133	--	--	599	0.02
2001 Results Excluding Special Items	$468,958	$129,305	$48,053	$1.57

FINANCIAL HIGHLIGHTS (Continued)

SEGMENT DATA:

	Quarter Ended March 31, 2002	Quarter Ended March 31, 2001(1)	Nine Months Ended March 31, 2002	Nine Months Ended March 31, 2001(1)
Sales:(2)				
Metalworking Solutions and Services Group	$224,971	$260,098	$666,006	$754,759
Advanced Materials Solutions Group	72,879	91,858	227,498	263,746
J&L Industrial Supply	58,873	74,504	173,997	224,708
Full Service Supply	37,129	41,731	113,343	122,178
Total Sales	$393,852	$468,191	$1,180,844	$1,365,391
Sales By Geographic Region:(2)				
Within the United States	$253,905	$302,620	$762,140	$903,383
International	139,947	165,571	418,704	462,008
Total Sales	$393,852	$468,191	$1,180,844	$1,365,391
Operating Income (Loss), as reported:(2)				
Metalworking Solutions and				

Services Group	$25,999	$38,318	$68,080	$98,930
Advanced Materials Solutions Group	6,988	12,188	16,699	32,118
J&L Industrial Supply	1,208	2,896	(1,725)	4,533
Full Service Supply	380	2,125	1,799	5,944
Corporate and Eliminations	(7,295)	(6,155)	(24,370)	(19,390)
Total Operating Income	$27,280	$49,372	$60,483	$122,135
Operating Income (Loss), excluding special charges:(2)				
Metalworking Solutions and Services Group	$27,903	$39,329	$76,221	$99,946
Advanced Materials Solutions Group	7,607	11,924	23,272	31,880
J&L Industrial Supply	3,584	4,809	8,122	10,625
Full Service Supply	644	2,295	2,099	6,264
Corporate and Eliminations	(7,293)	(6,155)	(24,211)	(19,410)
Total Operating Income	$32,445	$52,202	$85,503	$129,305
Operating Income (Loss), excluding special charges and goodwill amortization: (2)(3)				
Metalworking Solutions and Services Group		$41,678		$106,984
Advanced Materials Solutions Group		14,154		38,571
J&L Industrial Supply		5,575		12,795
Full Service Supply		2,310		6,309
Corporate and Eliminations		(6,155)		(19,217)
Total Operating Income		$57,562		$145,442

(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."

FINANCIAL HIGHLIGHTS (Continued)

CASH FLOW INFORMATION

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2002	2001(1)	2002	2001(1)
Net income	$13,144	$20,394	$23,128	$43,260
Non-cash items	(1,078)	4,774	11,241	6,766
Depreciation and amortization	17,934	24,375	55,237	73,440
Change in primary working capital	5,780	(13,166)	43,996	16,259
Change in other working capital	3,574	9,931	(29,169)	(6,241)
Cash flow from				

operations	39,354	46,308	104,433	133,484
Capital expenditures	(10,235)	(17,141)	(30,349)	(40,121)
Proceeds from asset disposals	2,274	2,714	5,799	3,558
Free operating cash flow	$31,393	$31,881	$79,883	$96,921

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

FINANCIAL HIGHLIGHTS (Continued)

CONDENSED BALANCE SHEETS

	Quarter Ended				
	3/31/02	12/31/01	9/30/01	6/30/01	3/31/01
ASSETS					
Cash and equivalents	$10,705	$10,414	$10,722	$12,940	$19,987
Accounts receivables, net of allowance	168,094	162,916	196,003	206,175	214,332
Inventories	351,129	367,724	382,701	373,221	387,520
Deferred income taxes	66,177	67,215	64,673	57,452	52,610
Other current assets	28,064	24,728	25,036	31,408	31,899
Total current assets	624,169	632,997	679,135	681,196	706,348
Property, plant and equipment, net	438,505	448,263	467,268	472,874	474,015
Goodwill, net	615,955	616,113	616,527	615,263	628,104
Intangible assets, net	7,164	7,945	8,716	9,497	9,529
Other assets	60,458	60,797	50,943	46,612	39,177
Total	$1,746,251	$1,766,115	$1,822,589	$1,825,442	$1,857,173
LIABILITIES					
Short-term debt	$383,639	$406,677	$418,448	$24,530	$8,786
Accounts payable	93,810	101,817	103,993	118,073	108,371
Accrued liabilities	136,095	131,656	137,055	151,882	174,378
Total current liabilities	613,544	640,150	659,496	294,485	291,535
Long-term debt	164,257	173,514	209,613	582,585	646,144
Deferred income taxes	54,953	54,204	50,945	53,844	37,531
Other liabilities	88,720	89,880	90,716	87,898	84,312
Total liabilities	921,474	957,748	1,010,770	1,018,812	1,059,522
MINORITY INTEREST	8,907	9,271	10,187	9,861	10,708
SHAREOWNERS' EQUITY	815,870	799,096	801,632	796,769	786,943
Total	$1,746,251	$1,766,115	$1,822,589	$1,825,442	$1,857,173

http://tbutton.prnewswire.com/prn/11690X70777822

SOURCE Kennametal Inc.
Web site: http: //www.kennametal.com

CONTACT: Beth A. Riley, Investor Relations, +1-724-539-6141, or Steve Halvonik, Media Relations, +1-724-539-4618, both of Kennametal Inc.