Kennametal Meets Fourth Quarter Expectations; Continues to Generate Strong Cash Flow Despite Declining Global Markets

July 24, 2002

LATROBE, Pa., July 24 /PRNewswire-FirstCall/ -- Kennametal Inc. (NYSE: KMT) today reported fiscal 2002 fourth quarter earnings of $0.67 per diluted share, a decrease of 12 percent, compared with earnings of $0.76* per diluted share last year, excluding special items in each period.

Earnings Per Share Excluding Special Items	
Company Guidance (05/01/02)	$0.62 to $0.72
Analyst Estimate Range (07/22/02)	$0.67 to $0.72
Earnings, Excluding Special Items	$0.67

On a reported basis, diluted earnings per share were $0.48 for the quarter, 4 percent above last year's earnings per share of $0.46*.

* 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.

Kennametal Chairman, President and Chief Executive Officer, Markos I. Tambakeras, said, "The external environment made fiscal 2002 a very challenging year, with global economies deteriorating as Europe followed the United States economy in decline. Despite the external adversity, we remained focused on executing our strategy and continuing to unlock the potential of the Kennametal franchise. Notable accomplishments for fiscal 2002 included: another year of free operating cash flow in excess of $100 million (approx. two times net income), despite the market declines; major new product introductions which resulted in sales from new products of 35%, the highest level in more than 10 years; and formalizing the Kennametal Lean Enterprise, which delivered in excess of $10 million in cost savings. Our core metalworking business gained market share, and we completed the J&L restructuring. Finally, the focused efforts of recent years to prime the company for growth allowed us to announce the highly strategic Widia acquisition, which we expect to close in the near future."

Tambakeras continued, "The success of our efforts over the past 3 years to reposition the company has provided Kennametal with the management team, operational structure and balance sheet to not only be able to acquire Widia, but to also conclude a very successful extensive refinancing of the company in June 2002. The combination of strong business prospects and an impressive credit story drove three financing transactions which positioned Kennametal for growth with a solid capital foundation characterized by high-quality investors and attractive terms."

Highlights
Fourth Quarter

-- Sales of $402.9 million declined 9 percent, versus $442.5 million last year. The net unfavorable impact of acquisitions and divestitures essentially offset the benefit of additional workdays, and the foreign exchange impact was negligible. Average daily sales for the June 2002 quarter improved 1% sequentially versus the March quarter, compared to a typical sequential decline in the low single-digits.

-- Gross profit margin, excluding special charges in both periods, of 34.1 percent increased 10 basis points compared with the fourth quarter of fiscal 2001. Lean initiatives continue to provide manufacturing efficiencies that offset the combined negative pressure of underutilized capacity due to volume declines and an unfavorable customer and product mix.

-- Operating expense for the quarter was reduced 2 percent, to $100.5 million, excluding special charges.

-- The current quarter included special charges of $9.0 million, or $0.19 per diluted share, associated with the completion of previously announced restructurings and the divestiture of Strong Tool. Prior-year results included special charges of $13.9 million, or

$0.28 per share, related to the divestiture of ATS, the J&L business improvement plan and work force reductions.

-- Interest expense of $7.3 million was 36 percent below the same quarter last year due to ongoing debt reduction and lower average borrowing rates.

-- The effective tax rate for the June 2002 quarter was 32.1 percent, compared with prior year of 33.9 percent, as anticipated.

-- Excluding special items, net income was $21.4 million, a 9 percent decrease compared with net income of $23.5 million last year. Reported net income was $15.4 million against net income of $14.3 million in the same quarter last year.

-- Free operating cash flow was $42.6 million, versus $34.9 million in the same period last year. Primary working capital continues to be tightly controlled with its ratio to sales at 27.9 percent, up slightly from last year driven by the sales decline. Primary working capital of $422.6 million was down 8 percent, or $39 million, from the same period last year.

-- Total debt was $411.4 million, down $195.7 million from June 2001, including approximately $120 million from the issuance of equity. Three years of focused debt reduction has lowered total debt by more than 50%, or $450 million.

Fiscal 2002 versus 2001

-- Organic sales for the 12 months ending June 30, 2002 declined 11 percent. Actual sales of $1,583.7 million were down 12 percent. Negative pressures included foreign exchange and net acquisitions and divestitures.

-- Excluding special items, net income was $61.6 million, a decrease of 29 percent compared to $86.7 million last year.

-- Through twelve months, diluted earnings per share were $1.95, or 31 percent below last year's earnings of $2.82. Reported diluted earnings per share were a loss of $6.70 (primarily due to a $7.92 per share impact from a non-cash SFAS 142 impairment charge, see below), against last year's earnings per share of $2.35.

-- Special charges of $286.8 million, or $8.65 per share, were included in the year's results related primarily to the SFAS No. 142 impairment charge of $250.4 million. Prior-year results included special charges of $22.5 million, or $0.44 per share. A chart detailing special charges for both years is attached.

SFAS No. 142 Non-Cash Goodwill Impairment Charge

As previously identified, the company recorded a non-cash goodwill impairment charge of $250.4 million, net of $2.4 million tax, associated with the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets." The charge was within the previously disclosed range of $230 million to $260 million and is specific to certain businesses acquired in 1997 as part of Greenfield Industries. If the previous accounting rules had remained in effect, no charge would have occurred. The company reiterated its January 17, 2002 observation that the non-cash charge will have no effect on Kennametal's operating performance or cash flow, and management remains committed to maintaining a strong balance sheet.

As noted previously, the charge will be reflected in the income statement, effective July 1, 2001, as the cumulative effect of the adoption of this new accounting standard.

Outlook

Looking forward, Tambakeras said, "Based on current economic assumptions, we are confident that Kennametal is positioned for growth in fiscal 2003, and will be able to deliver accelerated benefits as a repositioned company. Key indicators including industrial production and the Institute of Supply Management (ISM -- formally NAPM) index have been steadily improving. However, the recovery continues to be slower than previously anticipated, and the strength and timing of sustained economic improvement remains unclear. We are beginning the year on the heels of two quarters of very modest sequential sales improvement. Consequently, we expect the sluggish recovery to continue, with a return to year-over-year growth in the

December quarter at the earliest. While the global economies slowly strengthen, we will continue to invest in growth initiatives, Kennametal Lean Enterprise and further development of our people as we build on the foundation of the past three years with a mission to improve the competitiveness of our customers' operations around the world. Our focus on both the income statement and the balance sheet will continue."

Fiscal 2003 Full Year Outlook
$ in millions, except EPS; Excludes special charges

	Pre-Widia	Including Widia
Sales Growth	Plus 5% to 7%	Plus 19% to 23%
EBITDA	$210 to $240	$230 to $260
Diluted EPS	$2.25 to $2.55	$2.10 to $2.40
EPS Growth	Plus 15% to 30%	Plus 10% to 25%
Free Operating Cash Flow	$100 to $150	$100 to $150

EBITDA = Income before income taxes and minority interest plus interest expense, depreciation and amortization

Assuming economic conditions continue to slowly strengthen, sales for the first quarter of fiscal 2003 are expected to be down low- to mid-single digits, with diluted earnings per share between $0.34 and $0.39, excluding approximately $0.06 dilution from Widia.

Dividend Declared

Kennametal also announced its Board of Directors declared a quarterly cash dividend of $0.17 cents per share, payable August 23, 2002, to shareowners of record as of the close of business August 9, 2002.

Fourth 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 within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the fact they use words such as "should," "anticipate," "estimate," "approximate," "expect," "may," "will," "project," "intend," "plan," "believe," and others words of similar meaning and expression in connection with any discussion of future operating or financial performance. One can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements are likely to relate to, among other things, our goals, plans and projections regarding our financial position, results of operations, market position and product development, which are based on current expectations that involve inherent risks and uncertainties, including factors that could delay, divert or change any of them in the next several years. Although it is not possible to predict or identify all factors, they may include the following: global economic conditions; 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; and risks associated with the implementation of restructuring plans and environmental remediation matters. We can give no assurance that any goal or plan set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

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 2002 annual sales were approximately $1.6 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 quarter and year ended June 30, 2002 and 2001 are shown in the following tables (in thousands, except per share amounts).

Consolidated Statements of Income

	Quarter Ended June 30,		Twelve Months Ended June 30,	
	2002	2001	2002	2001
Net sales	$402,898	$442,505	$1,583,742	$1,807,896
Cost of goods sold(1)	266,025	295,324	1,072,918	1,192,176
Gross profit	136,873	147,181	510,824	615,720
Operating expense(2)	100,685	102,403	389,396	425,641

Restructuring and asset impairment charges	4,657	4,912	27,307	9,545
Amortization of intangibles	697	5,601	2,804	24,134
Operating income	30,834	34,265	91,317	156,400
Interest expense(3)	7,551	11,290	32,627	50,381
Other expense (income), net(4)	(182)	4,924	(361)	11,690
Income before provision for income taxes and minority interest	23,465	18,051	59,051	94,329
Provision for income taxes	7,513	7,172	18,900	37,300
Minority interest	582	851	1,653	3,142
Income before cumulative effect of change in acting. principle	15,370	10,028	38,498	53,887
Cumulative effect of change in accounting principle, net of tax(5)	-	-	(250,406)	(599)
Net income/(loss)	$15,370	$10,028	$(211,908)	$53,288
Diluted earnings/(loss) per share	$0.48	$0.32	$(6.70)	$1.73
Dividends per share	$0.17	$0.17	$0.68	$0.68
Diluted weighted average shares outstanding	32,159	31,027	31,627	30,749

(1) 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 plan.

(2) 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.

(3) For the quarter and year ended June 30, 2002 these amounts include $0.3 million related to recognition of the remaining unamortized balance of deferred financing fees from the company's U.S. credit facilities that were replaced with a new 3 year facility. For the year ended June 30, 2001, this amount 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.

(4) For the quarters ended June 30, 2002 and 2001, these amounts include charges of $0.5 million and $1.1 million, respectively, for fees incurred in connection with the company's accounts receivable securitization program. For the years ended June 30, 2002 and 2001, these amounts include similar charges of $2.5 million and $5.7 million, respectively. For the quarter and year

ended June 30, 2002, these amounts include a charge of $3.5 million related to the divestiture of Strong Tool Company. 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.

(5) For the year ended June 30, 2002, this amount represents a non-cash charge for the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." For the year ended June 30, 2001, 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."

FINANCIAL HIGHLIGHTS (Continued)

Pro forma Fiscal 2001 Operating Results Excluding Goodwill Amortization:

	Period Ended June 30, 2001	
	Quarter	Year
Operating income	$39,150	$177,422
Interest expense	11,290	50,381
Other expense, net	4,924	11,690
Income before provision for income taxes and minority interest	22,936	115,351
Provision for income taxes	7,778	39,100
Minority interest	862	3,389
Income before cumulative effect of change in accounting principle	14,296	72,862
Cumulative effect of change in accounting principle, net of tax	-	(599)
Pro forma net income	$14,296	$72,263
Pro forma diluted earnings per share	$0.46	$2.35

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 JUNE 30,

	Gross Profit	Operating Income	Net Income	Diluted Earnings Per Share
2002 Reported Results	$136,873	$30,834	$15,370	$0.48
MSSG Restructuring	384	2,104	1,423	0.04
AMSG Restructuring	350	1,424	960	0.03
Corporate Restructuring	-	915	621	0.02
Widia Integration Costs	-	144	98	-
Deferred Financing Fees	-	-	184	0.01
Total Core Business	734	4,587	3,286	0.10
J&L Restructuring	(377)	247	168	0.01
FSS Restructuring	-	335	226	0.01
Strong Tool Divestiture	-	-	2,390	0.07
Total Non-Core Business	(377)	582	2,784	0.09
2002 Results Excluding Special Items	$137,230	$36,003	$21,440	$0.67

2001 Reported Results	$147,181	$34,265	$10,028	$0.32
MSSG Restructuring	-	2,255	1,373	0.05
AMSG Restructuring	-	1,165	710	0.02
Corporate Special Charge	-	454	278	0.01
Total Core Business	-	3,874	2,361	0.08
J&L Restructuring	3,234	4,035	2,460	0.08
FSS Restructuring	-	252	163	0.01
ATS Divestiture	-	-	3,522	0.11
Total Non-Core Business	3,234	4,287	6,145	0.20
2001 Results Excluding Special Items	$150,415	$42,426	$18,534	$0.60

FINANCIAL HIGHLIGHTS (Continued)

YEAR Ended JUNE 30,

	Gross Profit	Operating Income	Net Income/ (Loss)	Diluted Earn/(Loss) Per Share
2002 Reported Results	$510,824	$91,317	$(211,908)	$(6.70)
MSSG Restructuring	544	10,245	6,958	0.22
MSSG (Adoption of SFAS 142)	-	-	168,314	5.32
AMSG Restructuring	1,654	7,997	5,430	0.17
AMSG (Adoption of SFAS 142)	-	-	82,092	2.60
Corporate Restructuring	-	1,075	730	0.02
Widia Integration costs	-	144	98	-
Deferred Financing Fees	-	-	184	0.01
Total Core Business	2,198	19,461	263,806	8.34
J&L Restructuring	529	10,093	6,863	0.22
FSS Restructuring	-	635	430	0.01
Strong Tool Divestiture	-	-	2,390	0.08
Total Non-Core Business	529	10,728	9,683	0.31
2002 Results Excluding Special Items	$513,551	$121,506	$61,581	$1.95
2001 Reported Results	$615,720	$156,400	$53,288	$1.73
MSSG Restructuring	-	3,271	1,988	0.06
AMSG Restructuring	-	927	564	0.02
Corporate Restructuring & Other	-	434	475	0.02
Total Core Business	-	4,632	3,027	0.10
J&L Restructuring & Other	3,653	10,127	5,804	0.19
FSS Restructuring	-	572	347	0.01
ATS Divestiture	-	-	3,522	0.12
Total Non-Core Business	3,653	10,699	9,673	0.32
Adoption of SFAS 133	-	-	599	0.02
2001 Results Excluding Special Items	$619,373	$171,731	$66,587	$2.17

FINANCIAL HIGHLIGHTS (Continued)

SEGMENT DATA:

	Quarter Ended June 30, 2002	Quarter Ended June 30, 2001(1)	Year Ended June 30, 2002	Year Ended June 30, 2001(1)
Sales:(2)				
Metalworking Solutions and Services Group	$231,151	$245,054	$897,157	$999,813
Advanced Materials Solutions Group	80,170	89,187	307,668	352,933
J&L Industrial Supply	52,013	64,556	226,010	289,264
Full Service Supply	39,564	43,708	152,907	165,886
Total Sales	$402,898	$442,505	$1,583,742	$1,807,896

Sales By Geographic Region:(2)				
Within the United States	$257,709	$285,631	$1,019,849	$1,189,014
International	145,189	156,874	563,893	618,882
Total Sales	$402,898	$442,505	$1,583,742	$1,807,896
Operating Income (Loss), as reported:(2)				
Metalworking Solutions and Services Group	$29,243	$31,628	$97,323	$130,558
Advanced Materials Solutions Group	10,082	11,152	26,781	43,270
J&L Industrial Supply	1,044	(844)	(681)	3,689
Full Service Supply	215	1,597	2,014	7,541
Corporate and Eliminations	(9,750)	(9,268)	(34,120)	(28,658)
Total Operating Income	$30,834	$34,265	$91,317	$156,400
Operating Income (Loss), excluding special charges:(2)				
Metalworking Solutions and Services Group	$31,347	$33,883	$107,568	$133,829
Advanced Materials Solutions Group	11,506	12,317	34,778	44,197
J&L Industrial Supply	1,290	3,191	9,412	13,816
Full Service Supply	550	1,849	2,649	8,113
Corporate and Eliminations	(8,690)	(8,814)	(32,901)	(28,224)
Total Operating Income	$36,003	$42,426	$121,506	$171,731
Operating Income (Loss), excluding special charges and goodwill amortization: (2)(3)				
Metalworking Solutions and Services Group		$36,227		$143,211
Advanced Materials Solutions Group		14,214		52,785
J&L Industrial Supply		3,820		16,808
Full Service Supply		1,864		8,173
Corporate and Eliminations		(8,814)		(28,224)
Total Operating Income		$47,311		$192,753

(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 June 30,		Year Ended June 30,	
	2002	2001(1)	2002	2001(1)
Net income (Loss)	$15,370	$10,028	$(211,908)	$53,288

Adoption of SFAS 142	-	-	250,406	-
Other Non-cash items	(9,134)	16,301	2,107	23,067
Depreciation and amortization	18,392	23,857	73,629	97,297
Change in primary working capital	16,850	19,986	60,846	36,245
Change in other working capital	10,375	(16,100)	(18,794)	(22,341)
Cash flow from operations	51,853	54,072	156,286	187,556
Capital expenditures	(13,691)	(19,808)	(44,040)	(59,929)
Proceeds from asset disposals	4,462	669	10,261	4,227
Free operating cash flow	$42,624	$34,933	$122,507	$131,854

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

CONDENSED BALANCED SHEETS

	Quarter Ended				
	6/30/02	3/31/02	12/31/01	9/30/01	6/30/01
ASSETS					
Cash and equivalents	$10,385	$10,705	$10,414	$10,722	$12,940
Accounts receivables, net of allowance	179,101	168,094	162,916	196,003	206,175
Inventories	345,076	351,129	367,724	382,701	373,221
Deferred income taxes	88,678	66,177	67,215	64,673	57,452
Other current assets	31,447	28,064	24,728	25,036	31,408
Total current assets	654,687	624,169	632,997	679,135	681,196
Property, plant and equipment, net	435,116	438,505	448,263	467,268	472,874
Goodwill, net	359,055	363,160	363,318	363,732	615,263
Intangible assets, net	8,937	7,164	7,945	8,716	9,497
Other assets	83,119	60,458	60,797	50,943	46,612
Total	$1,540,914	$1,493,456	$1,513,320	$1,569,794	$1,825,442
LIABILITIES					
Short-term debt	$23,480	$383,639	$406,677	$418,448	$24,530
Accounts payable	101,586	93,810	101,817	103,993	118,073
Accrued liabilities	154,337	136,095	131,656	137,055	151,882
Total current liabilities	279,403	613,544	640,150	659,496	294,485
Long-term debt	387,887	164,257	173,514	209,613	582,585
Deferred income taxes	52,570	52,564	51,815	48,556	53,844
Other liabilities	96,421	88,720	89,880	90,716	87,898
Total liabilities	816,281	919,085	955,359	1,008,381	1,018,812
MINORITY INTEREST	10,671	8,907	9,271	10,187	9,861

SHAREOWNERS' EQUITY	713,962	565,464	548,690	551,226	796,769
Total	$1,540,914	$1,493,456	$1,513,320	$1,569,794	$1,825,442

SOURCE Kennametal Inc.
Web site: http: //www.kennametal.com
CONTACT: Investors - Beth A. Riley, +1-724-539-6141, or Media - Steve Halvonik, +1-724-539-4618, both of Kennametal Inc.