Kennametal Meets Quarter Expectations; Widia Integration Progressing Rapidly

January 29, 2003

LATROBE, Pa., Jan. 29 /PRNewswire-FirstCall/ -- Kennametal Inc. (NYSE: KMT) today reported fiscal 2003 second quarter earnings of $0.27 per diluted share compared with earnings of $0.32 per diluted share last year, excluding special items in each period. On the same basis through the first six months, earnings were $0.58 per diluted share versus last year's earnings of $0.75.

Fiscal 2003 second quarter earnings included the expected $0.05 dilution from the Widia acquisition.

Earnings Per Share Excluding Special Items

Company Guidance (10/23/02)	$0.24 to $0.29
Analyst Estimate Range (01/21/03)	$0.25 to $0.30
Earnings, Excluding Special Items	$0.27

On a reported basis, diluted earnings per share were $0.07 for the quarter, above last year's loss per share of $0.08. For the first six months, reported diluted earnings per share were $0.38 against last year's loss per share of $7.66. The prior year included a non-cash SFAS 142 impairment charge associated with the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets."

Kennametal Chairman, President and Chief Executive Officer, Markos I. Tambakeras, said, "Through the December quarter, and despite a persistently oblique recovery, we delivered two consecutive months of volume growth to end the quarter. Revenues grew 14 percent, fueled by the Widia acquisition, and we were particularly pleased to improve gross margins by 100 basis points as the Kennametal Lean Enterprise, prior restructurings and continued pricing discipline all delivered additional benefits."

Tambakeras continued, "Our technological leadership was affirmed as we achieved a significant milestone in the quarter by earning 41 percent of our sales from new products. At the same time, we continue to generate strong cash flow and manage our capital expenditures very prudently. We are also aggressively focused on our customer acquisition process to accelerate market share growth."

Second Quarter Highlights

-- Sales of $431.7 million were 14 percent above last year's $380.3 million. Sales growth was driven by a 14 percent positive benefit from net acquisitions and divestitures, and also included a 1 percent benefit from foreign currency exchange.

-- Gross profit margin, excluding special charges in both periods, of 31.9 percent increased 100 basis points compared with the second quarter of fiscal 2002. Manufacturing efficiencies from the Kennametal Lean Enterprise and a benefit from foreign currency exchange offset the combination of lower Widia margins, unfavorable customer and product mix and $1.6 million in decreased pension income.

-- Operating expense for the quarter increased 23 percent, to $114.4 million, excluding special charges. Excluding $15.9 million in net acquisition and divestiture operating expense and $2.6 million unfavorable foreign currency exchange, operating expense was just 3 percent above prior year.

-- The current quarter included net special charges of $9.9 million, or $0.20 per diluted share, primarily associated with the 5 percent salaried workforce reduction announced last quarter. Prior-year results included special charges of $18.3 million, or $0.40 per diluted share, associated with previously announced restructurings. Prior year 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.

-- Interest expense of $9.6 million was 16 percent above the same quarter last year on a higher average debt level for the quarter associated with the Widia acquisition.

- The effective tax rate, excluding special charges, for the December 2002 quarter was 27.6 percent, compared with prior year of 32.0 percent. The December tax rate includes a year-to-date adjustment to bring the previously announced full-year effective tax rate to 30.0 percent.

- Excluding special items, net income was $9.4 million for the quarter, a 5 percent decrease compared with net income of $10.0 million last year. Reported net income was $2.5 million against net loss of $2.5 million in the same quarter last year.

- Decreased pension income reduced earnings per diluted share by $0.04 for the quarter versus the prior year. Pretax income for the quarter was reduced by $1.8 million (non-cash) compared to the same period in fiscal 2002 due to the effect of a decrease in the expected rate of return on Kennametal's pension fund assets, coupled with lower discount rates associated with pension and other postretirement benefit liabilities.

- Free operating cash flow remains strong and on plan at $25.4 million, versus $49.8 million in the same period last year. Primary working capital continues to be tightly controlled with its ratio to sales at 27.5 percent, slightly better than prior year. Primary working capital of $510.7 million was up 20 percent, or $82 million, from the same period last year entirely due to the impact of the Widia acquisition.

- Total debt was $617 million, up $206 million from June 2002, primarily due to the closing of the Widia acquisition.

Outlook

Global economic recovery remains largely stalled as 2003 begins, with only modest expectations for recovery in the U.S., and continued weak economic indicators in Europe and Japan. Well-publicized geopolitical tensions further constrain the potential for near-term growth. Tambakeras said, "Previous indicators that a definitive recovery would begin early in calendar 2003 have not been borne out. Capacity utilization remains stuck at 75%, current indicators now suggest U.S. industrial production growth of at most one percent in the first half of the current calendar year, and the European outlook is even softer. The revised economic outlook has required us to moderate our previous growth assumptions for the second half of our fiscal year. However, we continue to be highly confident in strong sales acceleration and earnings leverage when the economy recovers."

Tambakeras continued, "While disappointed by the delayed economic recovery, we are extremely pleased by the progress in our integration of the Widia acquisition. The integration is ahead of schedule in both Europe and India. Restructuring activities are on-track, synergies are being realized and a comprehensive IT integration is complete. In February, just five months after acquiring the company, our European sales and service organization will be fully integrated. The combined force will provide our customers even more complete and enhanced tooling solutions from a single supplier. At the same time, we have substantially improved our own operational effectiveness and productivity through the integration."

Based on assumptions that the first half of calendar 2003 will be weaker than predicted earlier, sales for the third quarter of fiscal 2003 are expected to grow 18 to 20 percent, with diluted earnings per share between $0.47 and $0.52, excluding special charges. The earnings assumption includes $0.04 of dilution from Widia.

For the year ending in June 2003, sales are anticipated to grow 12 to 14 percent, and diluted earnings per share are forecasted to range from $1.65 to $1.80, excluding special charges. The earnings assumption includes $0.10 of dilution from Widia. Despite the reduction in earnings expectations, cash flow for the year is still expected to exceed $100 million.

As previously announced, a reduction in pension income is lowering diluted EPS for the year by $0.15 per share, or approximately $0.04 per share per quarter.

Dividend Declared

Kennametal also announced its Board of Directors declared a quarterly cash dividend of $0.17 cents per share, payable February 25, 2003, to shareowners of record as of the close of business February 10, 2003.

Second 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 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 about 14,500 employees worldwide, the company's annual sales approximate $1.8 billion, with nearly half 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, 2002 and 2001 are shown in the following tables (in thousands, except per share amounts).

Consolidated Statements of Income

	Quarter Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
Net sales	$431,731	$380,338	$835,949	$786,992
Cost of goods sold	294,248	263,873	567,497	540,688
Gross profit	137,483	116,465	268,452	246,304
Operating expense(1)	115,677	93,139	220,512	193,016
Restructuring and asset impairment charges	8,561	17,128	8,380	18,706
Amortization of intangibles	1,300	689	2,114	1,379
Operating income	11,945	5,509	37,446	33,203
Interest expense	9,594	8,290	18,079	17,655
Other (income) expense, net(2)	(1,721)	105	(1,127)	(165)
Income (loss) before provision for income taxes and minority interest	4,072	(2,886)	20,494	15,713
Provision for income taxes	893	(923)	6,148	5,029
Minority interest	709	497	1,047	701
Income (loss) before cumulative effect of change in accting. principle	2,470	(2,460)	13,299	9,983
Cumulative effect of change in accounting principle, net of tax(3)	-	-	-	(250,406)
Net income (loss)	$2,470	$(2,460)	$13,299	$(240,423)

Diluted earnings (loss) per share	$0.07	$(0.08)	$0.38	$(7.66)
Dividends per share	$0.17	$0.17	$0.34	$0.34
Diluted weighted average shares outstanding	35,414	30,926	35,379	31,405

(1) For the quarter and six months ended December 31, 2002, these amounts include charges of $1.3 million and $2.0 million, respectively, for integration activities related to the Widia acquisition.

(2) For the quarters ended December 31, 2002 and 2001, these amounts include charges of $0.5 million and $0.6 million, respectively, for fees incurred in connection with the company's accounts receivable securitization program. For the six months ended December 31, 2002 and 2001, these amounts include similar charges of $1.1 million and $1.5 million, respectively.

(3) For the six months ended December 31, 2001, this amount represents a non-cash charge for the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

The following tables provide a comparison of the company's reported results, and the results excluding special items, for fiscal 2003 and fiscal 2002

QUARTER ENDED DECEMBER 31,

	Gross Profit	Operating Income	Net Income/ (Loss)	Diluted Earn./(Loss) Per Share
2002 Reported Results	$137,483	$11,945	$2,470	$0.07
MSSG Restructuring	-	4,849	3,394	0.10
AMSG Restructuring	-	2,259	1,577	0.04
Corporate Restructuring	-	958	670	0.02
Widia Integration Costs	54	1,364	970	0.03
Total Core Business	54	9,430	6,611	0.19
J&L Restructuring	-	466	327	0.01
FSS Restructuring	-	29	20	-
Total Non-Core Business	-	495	347	0.01
2002 Results Excluding Special Items	$137,537	$21,870	$9,428	$0.27
2001 Reported Results	$116,465	$5,509	$(2,460)	$(0.08)
MSSG Restructuring	-	6,247	4,248	0.14
AMSG Restructuring	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

SIX MONTHS ENDED DECEMBER 31,

	Gross Profit	Operating Income	Net Income/ (Loss)	Diluted Earn./(Loss) Per Share
2002 Reported Results	$268,452	$37,446	$13,299	$0.38
MSSG Restructuring	-	4,849	3,394	0.10

AMSG Restructuring	-	2,078	1,454	0.04
Corporate Restructuring	-	958	670	0.02
Widia Integration Costs	54	2,075	1,453	0.03
Total Core Business	54	9,960	6,971	0.19
J&L Restructuring	-	466	327	0.01
FSS Restructuring	-	29	20	-
Total Non-Core Business	-	495	347	0.01
2002 Results Excluding Special Items	$268,506	$47,901	$20,617	$0.58
2001 Reported Results	$246,304	$33,203	$(240,423)	$(7.66)
MSSG Restructuring	-	6,237	4,241	0.14
AMSG Restructuring	750	5,954	4,049	0.13
Corporate Restructuring	-	157	107	-
MSSG (Adoption of SFAS 142)	-	-	168,314	5.37
AMSG (Adoption of SFAS 142)	-	-	82,092	2.61
Total Core Business	750	12,348	258,803	8.25
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

SEGMENT DATA:

	Quarter Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
Sales:				
Metalworking Solutions and Services Group	$280,646	$218,078	$526,148	$441,035
Advanced Materials Solutions Group	72,682	71,614	151,999	154,619
J&L Industrial Supply	48,076	56,003	96,283	115,124
Full Service Supply	30,327	34,643	61,519	76,214
Total Sales	$431,731	$380,338	$835,949	$786,992
Sales By Geographic Region:				
Within the United States	$229,506	$242,509	$468,630	$508,235
International	202,225	137,829	367,319	278,757
Total Sales	$431,731	$380,338	$835,949	$786,992
Operating Income (Loss), as reported:				
Metalworking Solutions and Services Group	$18,017	$17,410	$42,332	$42,081
Advanced Materials Solutions Group	5,716	(652)	16,396	9,711
J&L Industrial Supply	1,722	(3,665)	3,886	(2,933)
Full Service Supply	(332)	247	(351)	1,419
Corporate and Eliminations	(13,178)	(7,831)	(24,817)	(17,075)
Total Operating Income	$11,945	$5,509	$37,446	$33,203
Operating Income (Loss), excluding special charges:				
Metalworking Solutions and Services Group	$24,226	$23,657	$49,252	$48,318
Advanced Materials Solutions Group	7,979	5,302	18,478	15,665
J&L Industrial Supply	2,188	2,188	4,352	4,538
Full Service Supply	(303)	313	(322)	1,455
Corporate and Eliminations	(12,220)	(7,674)	(23,859)	(16,918)
Total Operating Income	$21,870	$23,786	$47,901	$53,058

CASH FLOW INFORMATION

	Quarter Ended December 31, 2002	Quarter Ended December 31, 2001	Six Months Ended December 31, 2002	Six Months Ended December 31, 2001
Net income	$2,470	$(2,460)	$13,299	$(240,423)
Adoption of SFAS 142	-	-	-	250,406
Other Non-cash items	3,883	16,154	6,336	18,221
Depreciation and amortization	20,914	18,591	39,980	37,302
Change in primary working capital	16,715	43,645	18,675	38,216
Change in other working capital	(7,319)	(16,996)	(2,879)	(32,741)
Cash flow from operations	36,663	58,934	75,411	70,981
Capital expenditures	(11,536)	(10,087)	(22,011)	(20,114)
Proceeds from asset disposals	238	920	843	3,525
Free operating cash flow	$25,365	$49,767	$54,243	$54,392

CONDENSED BALANCE SHEETS

	Quarter Ended 12/31/02	9/30/02	6/30/02
ASSETS			
Cash and equivalents	$18,155	$14,300	$10,385
Accounts receivable, net of allowance	199,261	221,313	179,101
Inventories	403,530	403,590	345,076
Deferred income taxes	80,204	71,084	71,375
Other current assets	53,868	40,110	31,447
Total current assets	755,018	750,397	637,384
Property, plant and equipment, net	480,066	480,696	435,116
Goodwill and Intangible assets, net	479,122	467,140	367,992
Other assets	104,937	109,225	83,119
Total	$1,819,143	$1,807,458	$1,523,611
LIABILITIES			
Short-term debt	$17,591	$16,992	$23,480
Accounts payable	92,114	101,823	101,586
Accrued liabilities	171,726	171,045	137,034
Total current liabilities	281,431	289,860	262,100
Long-term debt	599,425	599,615	387,887
Deferred income taxes	46,801	53,475	52,570
Other liabilities	135,101	125,816	96,421
Total liabilities	1,062,758	1,068,766	798,978
MINORITY INTEREST	18,656	17,685	10,671
SHAREOWNERS' EQUITY	737,729	721,007	713,962
Total	$1,819,143	$1,807,458	$1,523,611

	Quarter Ended 3/31/02	12/31/01
ASSETS		
Cash and equivalents	$10,705	$10,414
Accounts receivable, net of allowance	168,094	162,916
Inventories	351,129	367,724
Deferred income taxes	82,949	83,987
Other current assets	28,064	24,728
Total current assets	640,941	649,769
Property, plant and equipment, net	438,505	448,263
Goodwill and Intangible assets, net	370,324	371,263
Other assets	60,458	60,797
Total	$1,510,228	$1,530,092
LIABILITIES		
Short-term debt	$383,639	$406,677

Accounts payable	93,810	101,817
Accrued liabilities	152,867	148,428
Total current liabilities	630,316	656,922
Long-term debt	164,257	173,514
Deferred income taxes	52,564	51,815
Other liabilities	88,720	89,880
Total liabilities	935,857	972,131
MINORITY INTEREST	8,907	9,271
SHAREOWNERS' EQUITY	565,464	548,690
Total	$1,510,228	$1,530,092

SOURCE Kennametal Inc.