Kennametal Reports Third Quarter Earnings; Delivers Another Strong Quarter of Cash Generation

April 30, 2003

LATROBE, Pa., April 30 /PRNewswire-FirstCall/ -- Kennametal Inc. (NYSE: KMT) today reported fiscal 2003 third quarter earnings of $0.27 per diluted share compared with earnings of $0.42 per diluted share last year. Excluding special items in each period, diluted earnings per share were $0.38 for the quarter, against last year's earnings per share of $0.53. In accordance with SEC Regulation G, the attached financial charts include a reconciliation of all non-GAAP financial measures in this release to the most directly comparable GAAP measure.

As expected, fiscal 2003 third quarter earnings included $0.08 dilution from the Widia acquisition, and $0.04 of reduced pension income.

Earnings Per Share Excluding Special Items

Company Guidance (03/27/03)	$0.33 to $0.35
Analyst Estimate Range (04/25/03)	$0.33 to $0.35
Earnings, Excluding Special Items	$0.38

Through the first nine months, diluted earnings per share were $0.65, above last year's loss per share of $7.23. Excluding special items in each period, diluted earnings per share were $0.96 against last year's earnings per share of $1.28. 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, "We continued our disciplined management of the business through a quarter challenged by a faltering global economy. I was particularly pleased that our relentless focus on working capital management contributed to another quarter of strong cash flow. Despite significant weakness in our key North American and European markets in what is historically our strongest quarter of the year, we again improved our gross margins as the Kennametal Lean Enterprise, prior restructurings and ongoing pricing discipline continued to deliver additional benefits. In addition, I remain very pleased with the rapid pace and productive execution of the Widia integration. Our strong market position in all major markets is allowing Kennametal to weather a sustained period of stagnation in manufacturing."

Third Quarter Highlights

-- Sales of $459.2 million were 17 percent above last year's $393.9 million. Sales growth was driven by a 12 percent positive benefit from net acquisitions and divestitures and a 4 percent benefit from foreign currency exchange.

-- Gross profit margin, excluding special charges in both periods, was 33.1 percent, an increase of 40 basis points compared with the third 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 and $0.5 million in decreased pension income. Reported gross profit margin of 33.0 percent increased 60 basis points versus the prior year quarter.

-- Operating expense for the quarter increased 26 percent, to $120.8 million, excluding special charges. Excluding $14.5 million in Widia operating expense, $7.4 million unfavorable foreign currency exchange and $1.7 million in decreased pension income; operating expense was just 2 percent above prior year. Reported operating expense of $122.6 million was 28 percent over the prior year.

-- The current quarter included net special charges of $5.2 million, or $0.10 per diluted share, primarily associated with the previously announced Widia integration efforts. Prior-year results 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.

-- Interest expense of $9.0 million was 21 percent above the same quarter last year on a higher average debt for the quarter, associated with the Widia acquisition, and higher average borrowing rates.

-- As expected, the effective tax rate, for the March 2003 quarter was 30.0 percent, compared with prior year of 32.0 percent.

-- Excluding special items, net income was $13.3 million for the quarter; a 20 percent decrease compared to net income of $16.7 million last year including the impact of Widia dilution and reduced pension income. Reported net income was $9.7 million against net income of $13.1 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 $2.2 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 $26.7 million, versus $33.1 million in the same period last year. Primary working capital continues to be tightly controlled with its ratio to sales at 27.6 percent, versus 28.1 percent in the prior year. Primary working capital of $523.9 million was up 23 percent, or $99 million, from the same period last year entirely due to the impact of the Widia acquisition.

-- Total debt was $580 million, up $169 million from June 2002, due to the closing of the Widia acquisition.

Outlook

Global economic conditions remain weak at the beginning of the June quarter, and visibility continues to be very poor. Economic indicators in North America are mixed, with growth in durable goods orders overshadowed by weak March reports on industrial production, capacity utilization and the Institute of Supply Management (ISM - formally NAPM) index. The outlook in Europe is even more uncertain, with Germany in particular at risk for further declines based on the most recent macroeconomic indicators.

Tambakeras said, "While weak markets are expected to constrain our top- line in the June quarter, we continue to execute on key initiatives positioning the company to leverage earnings growth when the global economies recover. As the new head of metalworking, Carlos Cardoso will advance programs to further differentiate the solutions that we provide our customers. The Widia integration will continue to enhance the breadth of our product offerings and our global reach, particularly into growing Asian markets. These will be supported by ongoing product innovation, efficiencies from the Kennametal Lean Enterprise, and sustained cash flow generation."

Based on assumptions that the second quarter of calendar 2003 will be similar to the just completed March quarter, sales for the fourth quarter of fiscal 2003 are expected to grow 15 to 18 percent year-over-year. Reported diluted earnings per share are expected to be $0.17 to $0.37 per share. This includes an estimate for special charges associated with the Widia integration and restructuring programs of approximately $0.06 to $0.21 per share. Excluding these charges, diluted earnings per share are forecasted to range from $0.38 to $0.43 per share. The earnings forecast also includes $0.02 of dilution from Widia.

Kennametal anticipates net cash flow provided by operating activities of approximately $150 to $155 million for the year. Purchases of property, plant and equipment and proceeds from disposals of property, plant and equipment are expected to be approximately $50 to $55 million, net. Adjusting net cash flow provided by operating activities for the above items, Kennametal expects to generate at least $100 million of free operating cash flow for the year, per earlier guidance.

As previously announced, a reduction in pension income is lowering diluted EPS for the fiscal year by $0.17 per share, or approximately $0.04 per share per quarter.

Kennametal advises shareholders to note monthly order trends, for which the company makes a disclosure ten business days after the conclusion of each month. This information is available on 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 May 23, 2003, to shareowners of record as of the close of business May 9, 2003.

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 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; future terrorist attacks; epidemics; 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 nine-month periods ended March 31, 2003 and 2002 are shown in the following tables (in thousands, except per share amounts).

Consolidated Statements of Income

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
Net sales	$459,243	$393,852	$1,295,192	$1,180,844
Cost of goods sold	307,582	266,205	875,079	806,893
Gross profit	151,661	127,647	420,113	373,951
Operating expense(1)	122,592	95,695	343,104	288,711
Restructuring and asset impairment charges	3,269	3,944	11,649	22,650
Amortization of intangibles	1,196	728	3,310	2,107
Operating income	24,604	27,280	62,050	60,483
Interest expense	8,979	7,421	27,058	25,076
Other expense (income), net(2)	713	(14)	(414)	(179)
Income before provision for income taxes and minority interest	14,912	19,873	35,406	35,586
Provision for income taxes	4,474	6,359	10,622	11,387
Minority interest	739	370	1,786	1,071
Income before cumulative effect of change in accting. principle	9,699	13,144	22,998	23,128
Cumulative effect of change in accounting principle, net of				

tax(3)	-	-	-	(250,406)
Net income (loss)	$9,699	$13,144	$22,998	$(227,278)
Diluted earnings (loss) per share	$0.27	$0.42	$0.65	$(7.23)
Dividends per share	$0.17	$0.17	$0.51	$0.51
Diluted weighted average shares outstanding	35,480	31,553	35,412	31,454

(1) For the quarter and nine months ended March 31, 2003, these amounts include charges of $1.8 million and $3.8 million, respectively, for integration activities related to the Widia acquisition.

(2) For the quarters ended March 31, 2003 and 2002, these amounts include charges of $0.4 million and $0.5 million, respectively, for fees incurred in connection with the company's accounts receivable securitization program. For the nine months ended March 31, 2003 and 2002, these amounts include similar charges of $1.5 million and $2.0 million, respectively.

(3) For the nine months ended March 31, 2002, this amount represents a non-cash charge for the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

In addition to reported results under U.S. GAAP for the fiscal periods, the following financial highlight tables also include, where appropriate, a reconciliation of results excluding special items, free operating cash flow and primary working capital (which are non-GAAP measures), to the most directly comparable GAAP measures.

RECONCILIATION TO GAAP - QUARTER ENDED MARCH 31,

	Gross Profit	Operating Expense	Operating Income	Net Income	Diluted Earnings Per Share
2003 Reported Results	$151,661	$122,592	$24,604	$9,699	$0.27
MSSG Restructuring	-	-	1,077	754	0.02
AMSG Restructuring	-	-	1,104	773	0.02
Corporate Restructuring	-	-	278	195	0.01
Widia Integration Costs - MSSG	144	(1,767)	1,911	1,337	0.04
Widia Integration Costs - AMSG	-	(18)	18	13	-
Total Core Business	144	(1,785)	4,388	3,072	0.09
J&L Restructuring	-	-	801	561	0.02
FSS Restructuring	-	-	9	6	-
Total Non-Core Business	-	-	810	567	0.02
2003 Results Excluding Special Items	$151,805	$120,807	$29,802	$13,338	$0.38
2002 Reported Results	$127,647	$95,695	$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	$95,695	$32,445	$16,657	$0.53

RECONCILIATION TO GAAP - NINE MONTHS ENDED MARCH 31,

	Gross Profit	Operating Expense	Operating Income	Net Income / (Loss)	Diluted Earn./ Loss) Per Share
2003 Reported Results	$420,113	$343,104	$62,050	$22,998	$0.65
MSSG Restructuring	-	-	5,926	4,148	0.12
AMSG Restructuring	-	-	3,182	2,227	0.06
Corporate Restructuring	-	-	1,236	865	0.02
Widia Integration Costs - MSSG	198	(3,784)	3,982	2,787	0.08
Widia Integration Costs - AMSG	-	(22)	22	16	-
Total Core Business	198	(3,806)	14,348	10,043	0.28
J&L Restructuring	-	-	1,267	888	0.03
FSS Restructuring	-	-	38	26	-
Total Non-Core Business	-	-	1,305	914	0.03
2003 Results Excluding Special Items	$420,311	$339,298	$77,703	$33,955	$0.96
2002 Reported Results	$373,951	$288,711	$60,483	$(227,278)	$(7.23)
MSSG Restructuring	160	-	8,141	5,536	0.18
AMSG Restructuring	1,304	-	6,573	4,470	0.14
Corporate Restructuring	-	-	160	109	-
MSSG (Adoption of SFAS 142)	-	-	-	168,314	5.36
AMSG (Adoption of SFAS 142)	-	-	-	82,092	2.61
Total Core Business	1,464	-	14,874	260,521	8.29
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	$288,711	$85,503	$40,141	$1.28

SEGMENT DATA:

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
Sales:				
Metalworking Solutions and Services Group	$297,995	$224,971	$824,143	$666,006
Advanced Materials Solutions Group	79,039	72,879	231,038	227,498
J&L Industrial Supply	51,729	58,873	148,012	173,997
Full Service Supply	30,480	37,129	91,999	113,343
Total Sales	$459,243	$393,852	$1,295,192	$1,180,844
Sales By Geographic Region:				
Within the United States	$239,565	$253,905	$708,195	$762,140
International	219,678	139,947	586,997	418,704
Total Sales	$459,243	$393,852	$1,295,192	$1,180,844
Operating Income (Loss), as reported:				
Metalworking Solutions and Services Group	$24,156	$25,999	$66,488	$68,080

Advanced Materials Solutions Group	8,757	6,988	25,153	16,699
J&L Industrial Supply	1,323	1,208	5,209	(1,725)
Full Service Supply	31	380	(320)	1,799
Corporate and Eliminations	(9,663)	(7,295)	(34,480)	(24,370)
Total Operating Income	$24,604	$27,280	$62,050	$60,483

Operating Income (Loss), excluding special charges:				
Metalworking Solutions and Services Group	$27,144	$27,903	$76,396	$76,221
Advanced Materials Solutions Group	9,879	7,607	28,357	23,272
J&L Industrial Supply	2,124	3,584	6,476	8,122
Full Service Supply	40	644	(282)	2,099
Corporate and Eliminations	(9,385)	(7,293)	(33,244)	(24,211)
Total Operating Income	$29,802	$32,445	$77,703	$85,503

OPERATING INCOME RECONCILIATION:

QUARTER ENDED MARCH 31,

	MSSG	AMSG	J&L	FSS	Corporate & Eliminations
2003 Reported Operating Income	$24,156	$8,757	$1,323	$31	$(9,663)
Restructuring	1,077	1,104	801	9	278
Widia Integration Costs	1,911	18	-	-	-
2003 Operating Income Excluding Special Charges	$27,144	$9,879	$2,124	$40	$(9,385)
2002 Reported Operating Income	$25,999	$6,988	$1,208	$380	$(7,295)
Restructuring	1,904	619	2,376	264	2
Widia Integration Costs	-	-	-	-	-
2002 Operating Income Excluding Special Charges	$27,903	$7,607	$3,584	$644	$(7,293)

NINE MONTHS ENDED MARCH 31,

	MSSG	AMSG	J&L	FSS	Corporate & Eliminations
2003 Reported Operating Income	$66,488	$25,153	$5,209	$(320)	$(34,480)
Restructuring	5,926	3,182	1,267	38	1,236
Widia Integration Costs	3,982	22	-	-	-
2003 Operating Income Excluding Special Charges	$76,396	$28,357	$6,476	$(282)	$(33,244)
2002 Reported Operating Income	$68,080	$16,699	$(1,725)	$1,799	$(24,370)
Restructuring	8,141	6,573	9,847	300	159
Widia Integration Costs	-	-	-	-	-
2002 Operating Income Excluding Special Charges	$76,221	$23,272	$8,122	$2,099	$(24,211)

RECONCILIATION TO GAAP - CASH FLOW INFORMATION

	Quarter Ended March 31,	Nine Months Ended March 31,

	2003	2002	2003	2002
Net income	$9,699	$13,144	$22,998	$(227,278)
Adoption of SFAS 142	-	-	-	250,406
Other non-cash items	2,994	(545)	9,330	17,676
Depreciation and amortization	21,839	17,935	61,819	55,237
Change in primary working capital	(747)	5,780	17,928	43,996
Change in other assets and liabilities	6,238	4,729	3,359	(28,013)
Net cash flow provided by operating activities	40,023	41,043	115,434	112,024
Purchases of property, plant and equipment	(13,955)	(10,235)	(35,966)	(30,349)
Proceeds from disposals of property, plant and equipment	661	2,274	1,504	5,799
Free operating cash flow	$26,729	$33,082	$80,972	$87,474

CONDENSED BALANCE SHEETS

	Quarter Ended	
	3/31/03	12/31/02
ASSETS		
Cash and equivalents	$17,250	$18,155
Accounts receivable, net of allowance	235,908	199,261
Inventories	408,996	403,530
Deferred income taxes	81,651	80,204
Other current assets	44,286	53,868
Total current assets	788,091	755,018
Property, plant and equipment, net	476,208	480,066
Goodwill and Intangible assets, net	491,987	478,060
Other assets	107,159	104,937
Total	$1,863,445	$1,818,081
LIABILITIES		
Short-term debt	$15,068	$17,591
Accounts payable	120,981	92,114
Accrued liabilities	208,816	171,726
Total current liabilities	344,865	281,431
Long-term debt	565,067	599,425
Deferred income taxes	38,382	46,801
Other liabilities	140,550	135,101
Total liabilities	1,088,864	1,062,758
MINORITY INTEREST	18,070	17,594
SHAREOWNERS' EQUITY	756,511	737,729
Total	$1,863,445	$1,818,081

	Quarter Ended		
	9/30/02	6/30/02	3/31/02
ASSETS			
Cash and equivalents	$14,300	$10,385	$10,705
Accounts receivable, net of allowance	221,313	179,101	168,094
Inventories	403,590	345,076	351,129
Deferred income taxes	71,084	71,375	82,949
Other current assets	40,110	31,447	28,064
Total current assets	750,397	637,384	640,941
Property, plant and equipment, net	480,696	435,116	438,505
Goodwill and Intangible assets, net	467,140	367,992	370,324

Other assets	109,225	83,119	60,458
Total	$1,807,458	$1,523,611	$1,510,228
LIABILITIES			
Short-term debt	$16,992	$23,480	$383,639
Accounts payable	101,823	101,586	93,810
Accrued liabilities	171,045	137,034	152,867
Total current liabilities	289,860	262,100	630,316
Long-term debt	599,615	387,887	164,257
Deferred income taxes	53,475	52,570	52,564
Other liabilities	125,816	96,421	88,720
Total liabilities	1,068,766	798,978	935,857
MINORITY INTEREST	17,685	10,671	8,907
SHAREOWNERS' EQUITY	721,007	713,962	565,464
Total	$1,807,458	$1,523,611	$1,510,228

SUPPLEMENTAL INFORMATION AND RECONCILIATIONS

RECONCILIATION TO GAAP: PRIMARY WORKING CAPITAL

	Quarter Ended March 31, 2003	2002
Current assets	788,091	640,941
Current liabilities	344,865	630,316
Working capital in accordance with GAAP	443,226	10,625
Excluded items:		
Cash and cash equivalents	(17,250)	(10,705)
Deferred income taxes	(81,651)	(82,949)
other current assets	(44,286)	(28,064)
	(143,187)	(121,718)
Adjusted current assets	644,904	519,223
Short-term debt	(15,068)	(383,639)
Accrued liabilities	(208,816)	(152,867)
	(223,884)	(536,506)
Adjusted current liabilities	120,981	93,810
Primary working capital	523,923	425,413

Primary working capital is defined as accounts receivable, net of allowance for doubtful accounts, plus inventories minus accounts payable.

SOURCE Kennametal Inc.