Kennametal Reports Fourth Quarter Earnings

July 30, 2003

- Sales up 15% on acquisitions - Reported loss per diluted share of $0.14, per guidance - Another strong quarter of cash flow

LATROBE, Pa., July 30 /PRNewswire-FirstCall/ -- Kennametal Inc. (NYSE: KMT) today reported a fiscal 2003 fourth quarter loss of $0.14 per diluted share compared with earnings of $0.48 per diluted share last year. Excluding special items in each period, diluted earnings per share were $0.45 for the quarter, at the high end of guidance, against last year's earnings per share of $0.67. Sales of $463.8 million were 15 percent above prior year, driven by the Widia acquisition. Free operating cash flow was $55 million versus $43 million in fiscal 2002.

Earnings Per Share Excluding Special Items	
Company Guidance (07/09/03)	$0.43 to $0.45
Analyst Estimate Range (07/29/03)	$0.38 to $0.44
Earnings, Excluding Special Items	$0.45

For the total fiscal year, diluted earnings per share were $0.51, compared against last year's loss per share of $6.70. Excluding special items in each period, diluted earnings per share were $1.41 against last year's earnings per share of $1.95. The prior year included a non-cash impairment charge associated with the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets". Sales of $1,759 million grew 11 percent, and free operating cash flow was $136 million.

Kennametal Chairman, President and Chief Executive Officer, Markos I. Tambakeras, said, "We are pleased to deliver a credible performance in fiscal 2003, in the context of a manufacturing recession that persisted in North America, for the third year, and deepened in Europe. Our continuing disciplined management of the business strengthened the foundation that will enhance our operating leverage as global manufacturing economies improve."

Tambakeras continued, "We substantially improved our competitiveness across all fronts. The delivery of another strong year of free operating cash flow, in excess of $130 million despite $25 million spent on the Widia integration, was particularly gratifying. Product innovation was unabated, and we confirmed our technological leadership by attaining our target of 40 percent of sales from new products. At the same time, we delivered against very aggressive objectives for the Widia acquisition. In the face of a sustained manufacturing recession, I remain particularly impressed by the resilience and resourcefulness of our employees. "

Tambakeras further noted that Institutional Shareholder Services (ISS) recently reviewed and rated Kennametal's corporate governance profile and, according to ISS, Kennametal outperformed 96% of the companies in the S&P 400 and 98% of the companies in the Capital Goods group.

Highlights
Fourth Quarter - FY03

-- Sales of $463.8 million were 15 percent above last year's $402.9 million. Sales growth was driven by a 13 percent positive benefit from acquisitions.

-- Reported net loss was $4.9 million against net income of $15.4 million in the same quarter last year. Excluding special items, net income was $15.9 million for the quarter; a 26 percent decrease compared to net income of $21.4 million last year including the impact of Widia dilution and reduced pension income.

-- The current quarter included net special charges of $20.8 million, or $0.59 per diluted share, primarily associated with the previously announced Widia integration efforts and Electronics' impairment charge. Prior-year results included net special charges of $6.1 million, or $0.19 per diluted share, associated with the completion of previously announced restructurings and the divestiture of Strong Tool.

-- Decreased pension income reduced earnings per diluted share by $0.05 for the quarter versus the prior year. Pretax income for the quarter was reduced by $2.6 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 related to pension liabilities.

-- At year-end, Kennametal's pension plan had an unfunded obligation of $3.7 million that resulted in a $35.2 million charge, net of tax, to equity under SFAS No. 87 "Employers Accounting for Pensions". The pension plan is adequately funded from an ERISA perspective, and the company currently does not anticipate any cash funding requirements during fiscal 2004.

-- Free operating cash flow remained strong at $55.0 million, versus $43.5 million in the same period last year.

-- Total debt was $526 million, up $114 million from June 2002, but down $91 million from the closing of the Widia acquisition in the September quarter.

Fiscal 2003 versus 2002

-- Sales for the 12 months ending June 30, 2003 of $1,759 million grew 11 percent. Net acquisitions and divestitures contributed growth of 11 percent.

-- Reported net income was $18.1 million against a net loss of $211.9 million in the prior year. Excluding special items, net income was $49.9 million, a decrease of 19 percent compared to $61.6 million last year.

-- Special charges of $31.7 million, or $0.90 per share, were included in the year's results related primarily to the Widia integration and the previously announced Electronics' impairment charge. Prior-year results included special charges of $273.5 million, or $8.65 per share, related primarily to the SFAS No. 142 impairment charge of $250.4 million. A chart detailing special charges for both years is attached.

-- Free operating cash flow remained strong at $136 million, versus $131 million for the prior year.

Outlook

Global economic signals remain mixed at the beginning of the current quarter. The sustainability of the modest sales improvement in June is unclear, as near-term visibility remains limited. However, the macroeconomic outlook beyond the next three to six months is cautiously more positive, and continues to suggest that a North American recovery will precede any improvement in Europe.

Tambakeras said, "In fiscal 2004, we expect to accelerate the realization of benefits from our efforts. As projected, the Widia acquisition is anticipated to become accretive to earnings in the first quarter. Our competitive repositioning of the company will gain traction even with a modest market improvement."

Sales for the first quarter of fiscal 2004 are expected to grow 9 to 11 percent year-over-year. Reported diluted earnings per share are expected to be $0.20 to $0.27 per share. This includes an estimate for special charges associated with the completion of the Widia integration of approximately $0.08 to $0.10 per share, consistent with previously announced integration assumption. Excluding these charges, diluted earnings per share are forecasted to range from $0.30 to $0.35 per share.

For the full year, sales are expected to grow 4 to 6 percent year-over-year. Reported diluted earnings per share are expected to be $1.70 to $2.10 per share. This includes an estimate for special charges associated with the completion of the Widia integration approximately $0.10 to $0.20 per share. Excluding these charges, diluted earnings per share are forecasted to range from $1.90 to $2.20 per share. The earnings forecast includes $0.15 to $0.20 of accretion from Widia, better than the $0.10 to $0.15 per share originally estimated. An incremental increase in pension expense is lowering diluted EPS for the fiscal year by approximately $0.30 per share. In addition, combining information obtained from the valuation of acquired Widia assets with further review and analysis, management has determined that the current useful lives of Kennametal's assets should be extended to more appropriately match the life of those assets. The resulting depreciation expense reduction is expected to be approximately $0.30 per share.

Kennametal expects to generate between $100 and $125 million of free operating cash flow in fiscal 2004.

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 August 25, 2003, to shareowners of record as of the close of business August 8, 2003.

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 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 14,000 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 twelve-month periods ended June 30, 2003 and 2002 are shown in the following tables (in thousands, except per share amounts).

Consolidated Statements of Income (Unaudited)

	Quarter Ended June 30,		Twelve Months Ended June 30,	
	2003	2002	2003	2002
Net sales	$463,765	$402,898	$1,758,957	$1,583,742
Cost of goods sold(1)	314,974	266,025	1,190,053	1,072,918
Gross profit	148,791	136,873	568,904	510,824
Operating expense(2)	121,757	100,685	464,861	389,396
Restructuring and asset impairment charges(3)	20,305	4,657	31,954	27,307
Amortization of intangibles	854	697	4,164	2,804
Operating income	5,875	30,834	67,925	91,317
Interest expense(4)	9,108	7,551	36,166	32,627
Other (income), net(5)	(2,117)	(182)	(2,531)	(361)
(Loss) Income before provision for income taxes and minority interest	(1,116)	23,465	34,290	59,051
Provision for income taxes(6)	3,678	7,513	14,300	18,900
Minority interest	74	582	1,860	1,653
(Loss) Income before cumulative effect of change in accounting principle	(4,868)	15,370	18,130	38,498

Cumulative effect of change in accounting principle, net of tax(7)	-	-	-	(250,406)
Net (loss) income	$(4,868)	$15,370	$18,130	$(211,908)
Diluted (loss) earnings per share	$(0.14)	$0.48	$0.51	$(6.70)
Dividends per share	$0.17	$0.17	$0.68	$0.68
Basic weighted average shares outstanding	35,396	31,673	35,202	31,169
Diluted weighted average shares outstanding	35,682	32,159	35,479	31,627

(1) For the quarter and twelve months ended June 30, 2003, these amounts include charges of $2.0 million and $2.2 million, respectively, for integration activities related to the Widia acquisition.

(2) For the quarter and twelve months ended June 30, 2003, these amounts include charges of $1.7 million and $5.5 million, respectively, for integration activities related to the Widia acquisition.

(3) For the quarter and twelve months ended June 30, 2003, these amounts include a non-cash charge of $16.1 million for impairment of long-lived assets within the Electronics business.

(4) For the quarter and twelve months ended June 30, 2003, these amounts include $0.5 million for recognition of a portion of deferred financing fees due to the company reducing its borrowing capacity under its U.S. credit facility. For the quarter and twelve months 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.

(5) For the quarters ended June 30, 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 twelve months ended June 30, 2003 and 2002, these amounts include similar charges of $1.9 million and $2.5 million, respectively. For the quarter and twelve months ended June 30, 2002, these amounts include a charge of $3.5 million related to the divestiture of Strong Tool Company.

(6) For the quarter and twelve months ended June 30, 2003, the effective tax rate was (329.6%) and 41.7%, respectively. These amounts reflect that a portion of the Electronics impairment could not be tax effected, otherwise, the tax rate for the quarter and twelve month period would have been 30%.

(7) For the twelve months 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."

FINANCIAL HIGHLIGHTS (Continued)

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 and free operating cash flow (which are non-GAAP measures), to the most directly comparable GAAP measures.

RECONCILIATION TO GAAP _ QUARTER ENDED JUNE 30 (Unaudited)

	Gross Profit	Operating Expense	Operating Income/ (Loss)	Net (Loss)/ Income	Diluted (Loss)/ Earnings Per Share
2003 Reported Results	$148,791	$121,757	$5,875	$(4,868)	$(0.14)
MSSG Restructuring	-	-	3,134	2,194	0.06
AMSG Restructuring	-	-	1,224	857	0.02
AMSG Electronics impairment	-	-	16,110	15,269	0.43
Corporate Restructuring	-	-	(99)	(69)	-
Widia Integration Costs - MSSG	1,146	(1,365)	2,511	1,758	0.06
Widia Integration Costs - AMSG	865	(305)	1,170	818	0.02
J&L Restructuring	-	-	(64)	(45)	-
2003 Results Excluding Special Items	$150,802	$120,087	$29,861	$15,914	$0.45
2002 Reported Results	$136,873	$100,685	$30,834	$15,370	$0.48
MSSG Restructuring	384	-	2,104	1,423	0.04
AMSG Restructuring	350	(11)	1,424	960	0.03
Corporate Restructuring	-	-	915	621	0.02
Widia Integration Costs - Corporate	-	(144)	144	98	-
Deferred Financing Fees	-	-	-	184	0.01
J&L Restructuring	(377)	-	247	168	0.01
FSS Restructuring	-	-	335	226	0.01
J&L Strong Tool Divestiture	-	-	-	2,390	0.07
2002 Results Excluding Special Items	$137,230	$100,530	$36,003	$21,440	$0.67

FINANCIAL HIGHLIGHTS (Continued)

TWELVE MONTHS ENDED JUNE 30 (Unaudited)

	Gross Profit	Operating Expense	Operating Income	Net Income/ (Loss)	Diluted Earnings/ (Loss) Per Share
2003 Reported Results	$568,904	$464,861	$67,925	$18,130	$0.51
MSSG Restructuring	-	-	9,060	6,342	0.18
AMSG Restructuring	-	-	4,406	3,084	0.09
AMSG Electronics impairment	-	-	16,110	15,269	0.43
Corporate Restructuring	-	-	1,137	796	0.02
Widia Integration Costs - MSSG	1,344	(5,149)	6,493	4,545	0.14
Widia Integration Costs - AMSG	865	(327)	1,192	834	0.02
J&L Restructuring	-	-	1,203	843	0.02
FSS Restructuring	-	-	38	26	-
2003 Results Excluding Special Items	$571,113	$459,385	$107,564	$49,869	$1.41

2002 Reported Results	$510,824	$389,396	$91,317	$(211,908)	$(6.70)
MSSG Restructuring	544	-	10,245	6,958	0.22
AMSG Restructuring	1,654	(11)	7,997	5,430	0.17
Corporate Restructuring	-	-	1,075	730	0.02
MSSG (Adoption of SFAS 142)	-	-	-	168,314	5.32
AMSG (Adoption of SFAS 142)	-	-	-	82,092	2.60
Widia Integration Costs - Corporate	-	(144)	144	98	-
Deferred Financing Fees	-	-	-	184	0.01
J&L Restructuring	529	-	10,093	6,863	0.22
FSS Restructuring	-	-	635	430	0.01
J&L Strong Tool Divestiture	-	-	-	2,390	0.08
2002 Results Excluding Special Items	$513,551	$389,241	$121,506	$61,581	$1.95

FINANCIAL HIGHLIGHTS (Continued)

SEGMENT DATA (Unaudited):

	Quarter Ended June 30, 2003	Quarter Ended June 30, 2002	Twelve Months Ended June 30, 2003	Twelve Months Ended June 30, 2002
Sales:				
Metalworking Solutions and Services Group	$299,032	$231,151	$1,123,175	$897,157
Advanced Materials Solutions Group	88,185	80,170	319,223	307,668
J&L Industrial Supply	48,158	52,013	196,170	226,010
Full Service Supply	28,390	39,564	120,389	152,907
Total Sales	$463,765	$402,898	$1,758,957	$1,583,742
Sales By Geographic Region:				
Within the United States	$238,323	$257,709	$946,518	$1,019,849
International	225,442	145,189	812,439	563,893
Total Sales	$463,765	$402,898	$1,758,957	$1,583,742
Operating Income (Loss), as reported:				
Metalworking Solutions and Services Group	$24,139	$29,243	$90,627	$97,323
Advanced Materials Solutions Group	(7,805)	10,082	17,348	26,781
J&L Industrial Supply	931	1,044	6,140	(681)
Full Service Supply	264	215	(56)	2,014
Corporate and Eliminations	(11,654)	(9,750)	(46,134)	(34,120)
Total Operating Income	$5,875	$30,834	$67,925	$91,317
Operating Income (Loss), excluding special charges:				
Metalworking Solutions and Services Group	$29,784	$31,347	$106,180	$107,568
Advanced Materials Solutions Group	10,699	11,506	39,056	34,778
J&L Industrial Supply	867	1,290	7,343	9,412
Full Service Supply	264	550	(18)	2,649
Corporate and Eliminations	(11,753)	(8,690)	(44,997)	(32,901)
Total Operating Income	$29,861	$36,003	$107,564	$121,506

FINANCIAL HIGHLIGHTS (Continued)

OPERATING INCOME RECONCILIATION (Unaudited):

QUARTER ENDED JUNE 30,

	MSSG	AMSG	J&L	FSS	Corp & Elim.	Total
2003 Reported Operating Income (Loss)	$24,139	$(7,805)	$931	$264	$(11,654)	$5,875
Restructuring	3,134	1,224	(64)	-	(99)	4,195
Widia Integration Costs	2,511	1,170	-	-	-	3,681
Electronics Impairment	-	16,110	-	-	-	16,110
2003 Operating Income (Loss) Excluding Special Charges	$29,784	$10,699	$867	$264	$(11,753)	$29,861
2002 Reported Operating Income (Loss)	$29,243	$10,082	$1,044	$215	$(9,750)	$30,834
Restructuring	2,104	1,424	246	335	916	5,025
Widia Integration Costs	-	-	-	-	144	144
2002 Operating Income (Loss) Excluding Special Charges	$31,347	$11,506	$1,290	$550	$(8,690)	$36,003

TWELVE MONTHS ENDED JUNE 30,

	MSSG	AMSG	J&L	FSS	Corp & Elim.	Total
2003 Reported Operating Income (Loss)	$90,627	$17,348	$6,140	$(56)	$(46,134)	$67,925
Restructuring	9,060	4,406	1,203	38	1,137	15,844
Widia Integration Costs	6,493	1,192	-	-	-	7,685
Electronics Impairment	-	16,110	-	-	-	16,110
2003 Operating Income (Loss) Excluding Special Charges	$106,180	$39,056	$7,343	$(18)	$(44,997)	$107,564
2002 Reported Operating Income (Loss)	$97,323	$26,781	$(681)	$2,014	$(34,120)	$91,317
Restructuring	10,245	7,997	10,093	635	1,075	30,045
Widia Integration Costs	-	-	-	-	144	144

2002 Operating Income (Loss) Excluding Special Charges	$107,568	$34,778	$9,412	$2,649	$(32,901)	$121,506

FINANCIAL HIGHLIGHTS (Continued)

RECONCILIATION TO GAAP CASH FLOW INFORMATION (Unaudited)

	Quarter Ended June 30,		Twelve Months Ended June 30,	
	2003	2002	2003	2002
Net income	$(4,868)	$15,370	$18,130	$(211,908)
Adoption of SFAS 142	-	-	-	250,406
Electronics impairment	16,110	-	16,110	-
Other non-cash items	11,796	8,468	21,126	26,144
Depreciation and amortization	22,224	18,392	84,043	73,629
Change in primary working capital	30,897	16,366	48,825	60,362
Change in other assets and liabilities	(8,125)	(6,535)	(4,766)	(34,548)
Net cash flow provided by operating activities	68,034	52,061	183,468	164,085
Purchase of property, plant and equipment	(13,447)	(13,691)	(49,413)	(44,040)
Proceeds from disposals of property, plant and equipment	371	5,106	1,875	10,905
Free operating cash flow	$54,958	$43,476	$135,930	$130,950

CONDENSED BALANCE SHEETS (Unaudited)

	Quarter Ended		
	06/30/03	03/31/03	12/31/02
ASSETS			
Cash and equivalents	$15,093	$17,250	$18,155
Accounts receivable, net of allowance	235,648	235,908	199,261
Inventories	392,255	408,996	403,530
Deferred income taxes	79,564	81,651	80,204
Other current assets	42,119	44,286	53,868
Total current assets	764,679	788,091	755,018
Property, plant and equipment, net	493,373	476,208	480,066
Goodwill and Intangible assets, net	473,932	491,987	478,060
Other assets	47,108	107,159	104,937
Total	$1,779,092	$1,863,445	$1,818,081
LIABILITIES			
Short-term debt	$10,845	$15,068	$17,591
Accounts payable	119,853	120,981	92,114
Accrued liabilities	205,649	208,816	171,726
Total current liabilities	336,347	344,865	281,431
Long-term debt	514,842	565,067	599,425
Deferred income taxes	8,660	38,382	46,801
Other liabilities	178,453	140,550	135,101
Total liabilities	1,038,302	1,088,864	1,062,758
MINORITY INTEREST	18,880	18,070	17,594
SHAREOWNERS' EQUITY	721,910	756,511	737,729
Total	$1,779,092	$1,863,445	$1,818,081

CONDENSED BALANCE SHEETS

	Quarter Ended 09/30/02	06/30/02
ASSETS		
Cash and equivalents	$14,300	$10,385
Accounts receivable, net of allowance	221,313	179,101
Inventories	403,590	345,076
Deferred income taxes	71,084	71,375
Other current assets	40,110	31,447
Total current assets	750,397	637,384
Property, plant and equipment, net	480,696	435,116
Goodwill and Intangible assets, net	467,140	367,992
Other assets	109,225	83,119
Total	$1,807,458	$1,523,611
LIABILITIES		
Short-term debt	$16,992	$23,480
Accounts payable	101,823	101,586
Accrued liabilities	171,045	137,034
Total current liabilities	289,860	262,100
Long-term debt	599,615	387,887
Deferred income taxes	53,475	52,570
Other liabilities	125,816	96,421
Total liabilities	1,068,766	798,978
MINORITY INTEREST	17,685	10,671
SHAREOWNERS' EQUITY	721,007	713,962
Total	$1,807,458	$1,523,611

RECONCILIATION OF FORECASTED GAAP CASH FLOW INFORMATION (Unaudited)

	Twelve Months Ended June 30, 2004
Forecasted net cash flow provided by operating activities	$170,000 - $195,000
Forecasted purchases and disposals of property, plant and equipment	(70,000)
Forecasted free operating cash flow	$100,000 - $125,000

SOURCE Kennametal Inc.