



## Kennametal Reports First Quarter Earnings

October 29, 2003

-- Sales up 10% -- Reported earnings per diluted share of \$0.24, per guidance -- Cash flow in-line with expectations

LATROBE, Pa., Oct. 29 /PRNewswire-FirstCall/ -- Kennametal Inc. (NYSE: KMT) today reported a fiscal 2004 first quarter earnings of \$0.24 per diluted share compared with earnings of \$0.31 per diluted share last year. Excluding special items in each period, diluted earnings per share were \$0.34 for the quarter, at the high end of guidance, against last year's earnings per share of \$0.32. Sales of \$445 million were 10 percent above prior year, driven by the Widia acquisition.

Earnings Per Share Excluding Special Items	
Company Guidance (07/30/03)	\$0.30 to \$0.35
Analyst Estimate Range (10/23/03)	\$0.32 to \$0.35
Earnings, Excluding Special Items	\$0.34

Kennametal Chairman, President and Chief Executive Officer, Markos I. Tambakeras, said, "We were pleased to deliver earnings near the top of our guidance, with our global markets developing largely as we expected. Our results reflect a nascent recovery in our key North American markets, and continued strong growth in the developing regions of Asia-Pacific and South America. Our confidence in the sustainability of the North American recovery was encouraged by the return to growth of our Light and General Engineering end market. Historically, this market segment has been a good proxy for the health of the broad industrial markets. Persistent weakness in our European markets was somewhat worse than we expected. During the quarter, we were focused on the final phases of the Widia integration and on accelerating investments in our global sales and marketing activities."

### Highlights

#### First Quarter - FY04

- Sales of \$444.6 million were 10 percent above last year's \$404.2 million. Sales results include an 8 percent addition from the Widia acquisition, a 4 percent benefit from foreign currency exchange, and a 2 percent decline in organic sales volume.
- Reported net income was \$8.8 million against net income of \$10.8 million in the same quarter last year. Excluding special items, net income was \$12.1 million for the quarter, an 8 percent increase compared to net income of \$11.2 million last year reflecting the benefits of Widia synergies, cost reductions, and foreign currency exchange.
- The current quarter included net special charges of \$3.4 million, or \$0.10 per diluted share, primarily associated with the previously announced Widia integration efforts. Prior-year quarter included net special charges of \$0.4 million, or \$0.01 per diluted share, also largely related to the Widia integration.
- As expected, net cash flow from operations was \$12.2 million, versus \$38.3 million for the prior year. Free operating cash flow was \$2.1 million, versus \$28.4 million in the same period last year due to higher tax and restructuring payments this quarter.
- Total debt was \$520 million, down \$6 million from June 2003, and \$96 million below September 2002.
- Debt to capital decreased to 40.5 percent, from 45.5 percent at the end of September in the prior year.

### Outlook

Performance in certain key North American markets toward the end of the September quarter corroborated positive macroeconomic indicators, and increased the probability of a sustained recovery in North American industrial markets. The strength of the North American recovery has yet to be established. While a North American recovery was expected to precede improvement in Europe, the weakness in Europe is greater than previously anticipated.

Tambakeras said, "On balance, we remain confident in our ability to deliver against our original earnings guidance for the year. While Europe is weaker than anticipated, North America is encouraging, and our earnings outlook was based on modest growth assumptions for the second half of our fiscal year. We will continue to manage costs and spending, as appropriate, for evolving market performance."

Sales for the second quarter of fiscal 2004 are expected to grow 4 to 5 percent year-over-year, including the impact of currency. Organic volume is anticipated to be flat to down 2 percent year-over-year, compared to a 2 percent decline in the first quarter. Reported diluted earnings per share are expected to be \$0.19 to \$0.26 per share. This includes an estimate for special charges associated with the completion of the Widia integration of approximately \$0.06 to \$0.08 per share, consistent with previously announced integration assumptions. Excluding these charges, diluted earnings per share are forecasted to range from \$0.27 to \$0.32 per share.

Guidance for the full year remains essentially unchanged. Sales are expected to grow 6 to 8 percent year-over-year. Reported diluted earnings per share are expected to be \$1.72 to \$2.04 per share. This includes an estimate for special charges associated with the completion of the Widia integration of approximately \$0.16 to \$0.18 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 \$0.12 to \$0.15 of accretion from Widia, slightly lower than prior guidance on reduced expectations for the performance of European markets.

Kennametal anticipates net cash flow provided by operating activities of approximately \$165 to \$185 million in fiscal 2004. Purchases of property, plant and equipment and proceeds from disposals of property, plant and equipment are expected to be \$60 to \$70 million, net. Adjusting net cash flow provided by operating activities for the above items, Kennametal expects to generate between \$100 and \$125 million of free operating cash flow.

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](http://www.kennametal.com).

#### Dividend Declared

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

First 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](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; 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](http://www.kennametal.com).

#### FINANCIAL HIGHLIGHTS

Consolidated financial highlights for Kennametal Inc. (NYSE: KMT) for the quarter ended September 30, 2003 and 2002 are shown in the following tables (in thousands, except per share amounts).

##### Consolidated Statements of Income (Unaudited)

	Quarter Ended September 30,	
	2003	2002
Sales	\$444,575	\$404,218
Cost of goods sold (A)	300,468	273,249
Gross profit	144,107	130,969
Operating expense (B)	121,239	104,835
Restructuring and asset impairment charges	550	(181)
Amortization of intangibles	470	814
Operating income	21,848	25,501
Interest expense	6,600	8,485
Other expense, net	1,337	594

Income before provision for income taxes and minority interest	13,911	16,422
Provision for income taxes	4,452	5,255
Minority interest	695	338
Net income	\$8,764	\$10,829
Basic earnings per share	\$0.25	\$0.31
Diluted earnings per share	\$0.24	\$0.31
Dividends per share	\$0.17	\$0.17
Basic weighted average share outstanding	35,336	35,045
Diluted weighted average shares outstanding	35,989	35,344

(A) For the quarter ended September 30, 2003, these amounts include charges of \$0.1 million for integration activities related to the Widia acquisition and \$2.8 million related to restructuring programs.

(B) For the quarters ended September 30, 2003 and 2002, these amounts include charges of \$1.4 million and \$0.7 million, respectively, for integration activities related to the Widia acquisition.

#### 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, free operating cash flow and debt to capital (which are non-GAAP measures), to the most directly comparable GAAP measures. Management believes that each of these non-GAAP financial measures is useful to investors to more easily compare the Company's financial performance period to period.

#### RECONCILIATION TO GAAP - QUARTER ENDED SEPTEMBER 30 (Unaudited)

	Gross Profit	Operating Expense	Diluted Operating Income	Earnings Per Share	Net Income	Per Share
2003 Reported Results	\$144,107	\$121,239	\$21,848	\$8,764	\$0.24	
MSSG Restructuring	2,843	-	3,393	2,307	0.07	
Widia Integration Costs - MSSG	63	(1,448)	1,511	1,027	0.03	
Widia Integration Costs - AMSG	48	-	48	33	-	
2003 Results Excluding Special Items	\$147,061	\$119,791	\$26,800	\$12,131	\$0.34	
2002 Reported Results	\$130,969	\$104,835	\$25,501	\$10,829	\$0.31	
AMSG Restructuring	-	-	(181)	(123)	-	
Widia Integration Costs - MSSG	-	(711)	711	483	0.01	
2002 Results Excluding Special Items	\$130,969	\$104,124	\$26,031	\$11,189	\$0.32	

#### FINANCIAL HIGHLIGHTS (Continued)

#### SEGMENT DATA (Unaudited):

	Quarter Ended September 30, 2003	2002*
Sales:		
Metalworking Solutions and Services Group	\$271,129	\$240,422
Advanced Materials Solutions Group	93,631	83,409
J&L Industrial Supply	48,139	48,606
Full Service Supply	31,676	31,781
Total Sales	\$444,575	\$404,218

Sales By Geographic Region:

Within the United States	\$232,614	\$239,124
International	211,961	165,094
Total Sales	\$444,575	\$404,218

Operating Income (Loss), as reported:

Metalworking Solutions and Services Group	\$23,502	\$23,473
Advanced Materials Solutions Group	11,822	11,385
J&L Industrial Supply	2,685	2,301
Full Service Supply	(281)	(19)
Corporate and Eliminations	(15,880)	(11,639)
Total Operating Income	\$21,848	\$25,501

Operating Income (Loss), excluding  
special charges:

Metalworking Solutions and Services Group	\$28,406	\$24,184
Advanced Materials Solutions Group	11,870	11,204
J&L Industrial Supply	2,685	2,301
Full Service Supply	(281)	(19)
Corporate and Eliminations	(15,880)	(11,639)
Total Operating Income	\$26,800	\$26,031

\*Prior year segment data has been restated for organizational changes

FINANCIAL HIGHLIGHTS (Continued)

OPERATING INCOME (LOSS) RECONCILIATION (Unaudited):

QUARTER ENDED SEPTEMBER 30,

	MSSG	AMSG	Corp & J&L	FSS	Elim.	Total
2003 Reported						
Operating Income						
(Loss)	\$23,502	\$11,822	\$2,685	\$(281)	\$(15,880)	\$21,848
Restructuring	3,393	-	-	-	-	3,393
Widia Integration						
Costs	1,511	48	-	-	-	1,559
2003 Operating Income						
(Loss) Excluding						
Special Charges	\$28,406	\$11,870	\$2,685	\$(281)	\$(15,880)	\$26,800

2002 Reported						
Operating Income						
(Loss)	\$23,473	\$11,385	\$2,301	\$(19)	\$(11,639)	\$25,501
Restructuring	-	(181)	-	-	-	(181)
Widia Integration						
Costs	711	-	-	-	-	711
2002 Operating Income						
(Loss) Excluding						
Special Charges	\$24,184	\$11,204	\$2,301	\$(19)	\$(11,639)	\$26,031

FINANCIAL HIGHLIGHTS (Continued)

RECONCILIATION TO OPERATING CASH FLOW INFORMATION (Unaudited)

	Quarter Ended September 30, 2003	2002
Net income	\$8,764	\$10,829

Other non-cash items	6,473	2,005
Depreciation and amortization	15,351	19,066
Change in inventory	3,728	10,121
Change in accounts receivable	5,054	5,938
Change in accounts payable	(12,512)	(14,099)
Change in other assets and liabilities	(14,673)	4,454
Net cash flow provided by operating activities	12,185	38,314
Purchase of property, plant and equipment	(10,594)	(10,475)
Proceeds from disposals of property, plant and equipment	534	605
Free operating cash flow	\$2,125	\$28,444

#### CONDENSED BALANCE SHEETS (Unaudited)

	Quarter Ended		
	09/30/03	06/30/03	03/31/03
<b>ASSETS</b>			
Cash and equivalents	\$14,720	\$15,093	\$17,250
Accounts receivable, net of allowance	232,146	235,648	235,908
Inventories	387,877	392,255	408,996
Deferred income taxes	114,619	79,564	81,651
Other current assets	47,003	42,119	44,286
Total current assets	796,365	764,679	788,091
Property, plant and equipment, net	489,242	493,373	476,208
Goodwill and Intangible assets, net	483,165	473,932	491,987
Other assets	39,736	47,108	107,159
Total	\$1,808,508	\$1,779,092	\$1,863,445
<b>LIABILITIES</b>			
Short-term debt, including notes payable	\$11,375	\$10,845	\$15,068
Accounts payable	107,653	119,853	120,981
Accrued liabilities	195,761	205,649	208,816
Total current liabilities	314,789	336,347	344,865
Long-term debt	508,763	514,842	565,067
Deferred income taxes	42,047	8,748	38,382
Other liabilities	180,258	178,698	140,550
Total liabilities	1,045,857	1,038,635	1,088,864
MINORITY INTEREST	16,089	18,880	18,070
SHAREOWNERS' EQUITY	746,562	721,577	756,511
Total	\$1,808,508	\$1,779,092	\$1,863,445

	Quarter Ended	
	12/31/02	09/30/02
<b>ASSETS</b>		
Cash and equivalents	\$18,155	\$14,300
Accounts receivable, net of allowance	199,261	221,313
Inventories	403,530	403,590
Deferred income taxes	80,204	71,084
Other current assets	53,868	40,110
Total current assets	755,018	750,397
Property, plant and equipment, net	480,066	480,696
Goodwill and Intangible assets, net	478,060	467,140
Other assets	104,937	109,225
Total	\$1,818,081	\$1,807,458
<b>LIABILITIES</b>		

Short-term debt, including notes payable	\$17,591	\$16,992
Accounts payable	92,114	101,823
Accrued liabilities	171,726	171,045
Total current liabilities	281,431	289,860
Long-term debt	599,425	599,615
Deferred income taxes	46,801	53,475
Other liabilities	135,101	125,816
Total liabilities	1,062,758	1,068,766
MINORITY INTEREST	17,594	17,685
SHAREOWNERS' EQUITY	737,729	721,007
Total	\$1,818,081	\$1,807,458

#### DEBT TO EQUITY RECONCILIATION (Unaudited)

	Forecasted June 30, 2004	Quarter Quarter Ended September 30, 2003	Quarter Quarter Ended September 30, 2002	Ended June 30, 2003	
Total Debt	\$431,920	\$520,138	\$616,607	\$525,687	
Total Shareowners' Equity	799,500	746,562	721,007	721,577	
Debt to Equity, GAAP	35.1%	41.1%	46.1%	42.1%	
Total Debt	\$431,900	\$520,138	\$616,607	\$525,687	
Minority Interest	18,800	16,089	17,685	18,880	
Total Shareowners' Equity	799,500	746,562	721,007	721,577	
Total Capital	\$1,250,200	\$1,282,789	\$1,355,299	\$1,266,144	
Debt to Capital	34.5%	40.5%	45.5%	41.5%	

#### RECONCILIATION OF FORECASTED GAAP CASH FLOW INFORMATION (Unaudited)

	Twelve Months Ended June 30, 2004
Forecasted net cash flow provided by operating activities	\$165,000 - 185,000
Forecasted purchases and disposals of property, plant and equipment	(60,000) - (70,000)
Forecasted free operating cash flow	\$100,000 - 125,000

SOURCE Kennametal Inc.