# FY19 Fourth Quarter and Year-end Investor Presentation

*September 12, 2019*

KENNAMETAL®

# Safe Harbor Statement

Certain statements in this presentation may be forward-looking in nature, or "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. Forward-looking statements are statements that do not relate strictly to historical or current facts. For example, statements about Kennametal's outlook for earnings, sales volumes, cash flow, and capital expenditures, and expectations regarding future growth and financial performance are forward-looking statements. Any forward-looking statements are based on current knowledge, expectations and estimates that involve inherent risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should the assumptions underlying the forward-looking statements prove incorrect, our actual results could vary materially from our current expectations. There are a number of factors that could cause our actual results to differ from those indicated in the forward-looking statements. They include: downturns in the business cycle or the economy; our ability to achieve all anticipated benefits of our restructuring initiatives; risks related to our foreign operations and international markets, such as currency exchange rates, different regulatory environments, trade barriers, exchange controls, and social and political instability; changes in the regulatory environment in which we operate, including environmental, health and safety regulations; potential for future goodwill and other intangible asset impairment charges; our ability to protect and defend our intellectual property; continuity and security of information technology infrastructure; competition; our ability to retain our management and employees; demands on management resources; availability and cost of the raw materials we use to manufacture our products; product liability claims; integrating acquisitions and achieving the expected savings and synergies; global or regional catastrophic events; demand for and market acceptance of our products; business divestitures; labor relations; and implementation of environmental remediation matters. Many of these risks are more fully described in Kennametal's latest annual report on Form 10-K and its other periodic filings with the Securities and Exchange Commission. 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.

This presentation includes certain non-GAAP financial measures as defined by SEC rules. As required by Regulation G, we have provided a reconciliation of those measures to the most directly comparable GAAP measures, which is available on our website at www.kennametal.com. Once on the homepage, select “Investor Relations” and then “Events.”

 

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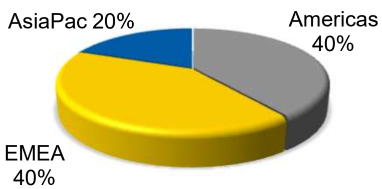
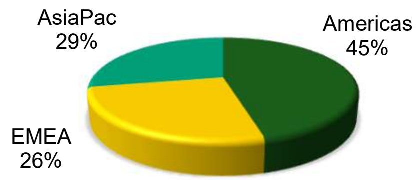
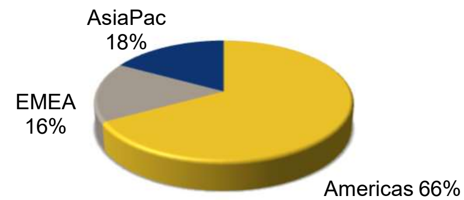
# Strong businesses and brands with 80+ years of innovation

*Three business segments in charge of product portfolio, go-to-market strategy, and profitability*

| Industrial | WIDIA | Infrastructure |
| --- | --- | --- |
| Tooling and Metalworking Services | Indirect Channel Brand – Tooling and Metalworking Services | Earth Cutting & Construction Tools, Surface Wear Technologies, Engineered Components |




**INDUSTRIES SERVED**

- Earthworks
- Energy
- General Engineering
- Aerospace
- Transportation

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# Delivering on initiatives; significant opportunities for further margin improvement

## *Why Invest in Kennametal?*

- **Products and Technology**
  - Global leader in cutting and wear-resistant technology
- **Financial Fundamentals**
  - Strong operating cash flow and EBITDA through the cycle
  - Conservative balance sheet and capital structure
- **Growth and Margin Expansion Improvement**
  - Diversified and with good long-term growth potential
  - Demonstrated ability to execute improvement plans
  - Benefits from margin expansion and growth initiatives still ahead
- **Demonstrated ability to execute improvement plans**

| ($ in millions) | FY16 | FY17 | FY18 | FY19 | Target |
|---|---|---|---|---|---|
| Adjusted EBITDA | $244 | $291 | $422 | $465 | $600 - $675 |
| ~% of sales | 12% | 14% | 18% | 20% | 24% - 26% |
| | Met or exceeded projections | | | | |

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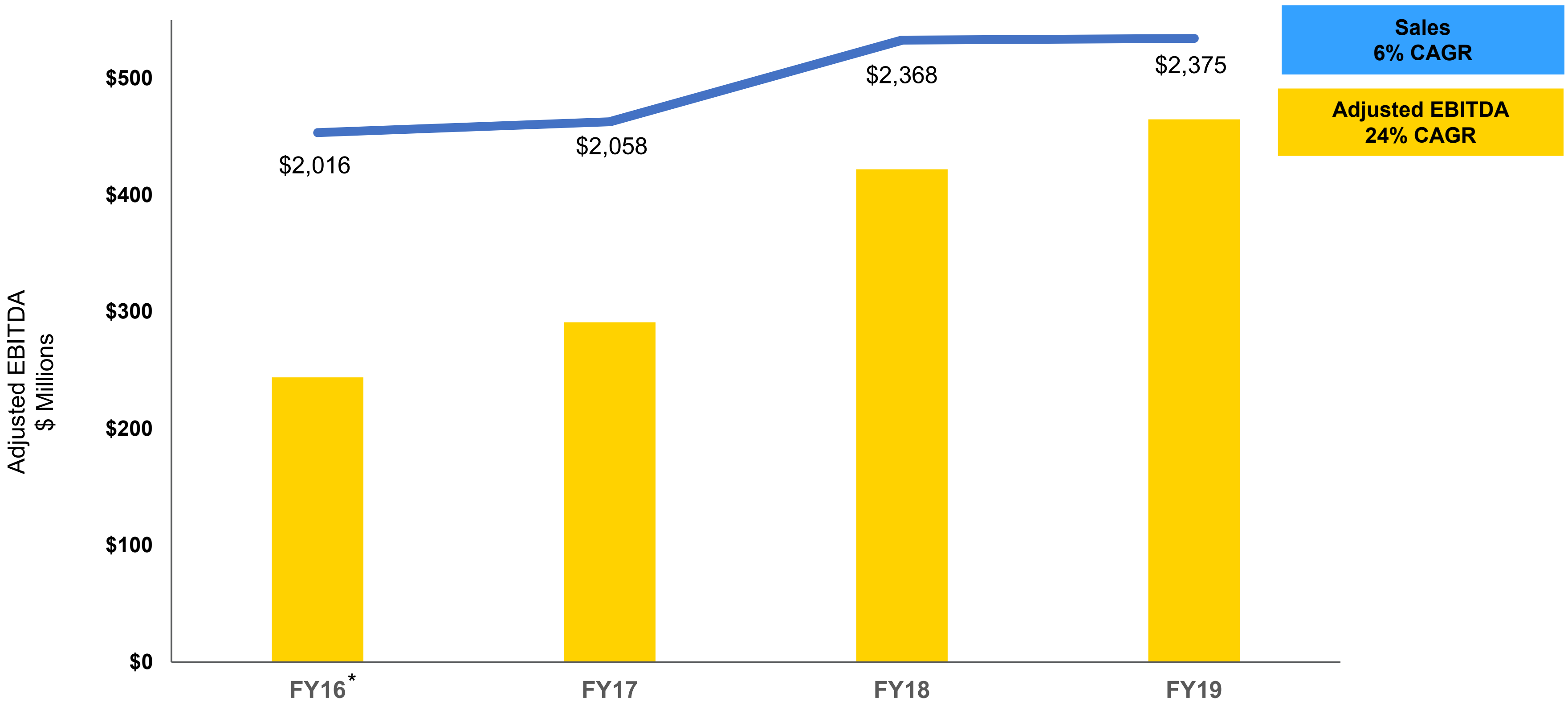
# Kennametal's journey to date

*More benefits from Simplification/Modernization to come*




* FY16 Sales are adjusted for the effect of a divestiture

# Modernization continues: +80% efficiency

**Before**

- 25 manual machines
- Manually loaded and unloaded
- One operator per machine
- Multiple set-ups required

**After**

- 6 automated machines
- Automatic loading and unloading
- One operator runs 4-6 machines
- Single set-up; integrated data analytics
- Quality improvements; less scrap

# Margin improvement demonstrates continuing progress on Simplification/Modernization

## *FY19 Total Year Overview & Highlights*

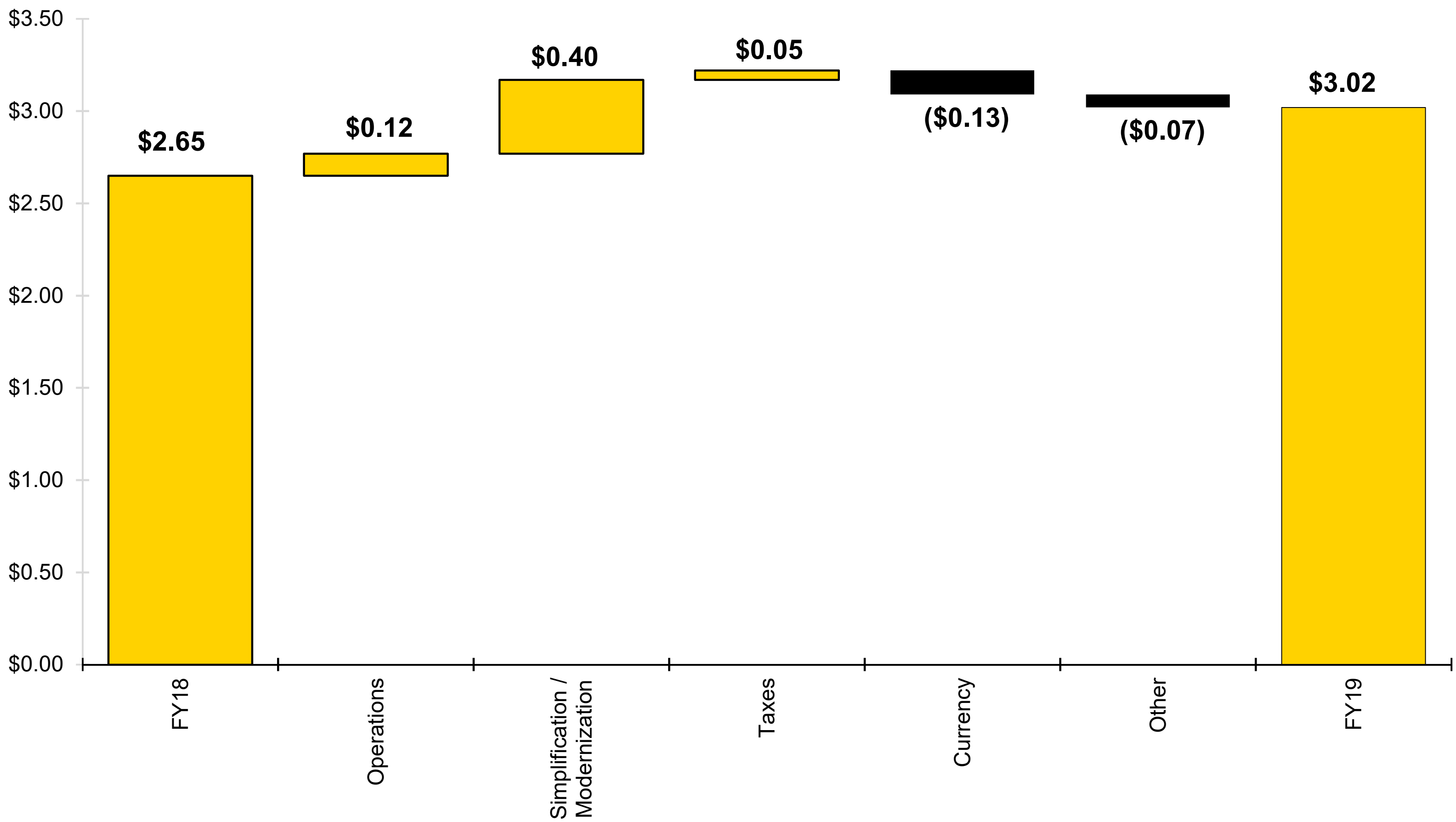
- **<u>Organic sales growth:</u> 3% organic sales growth on top of 12% organic growth in prior year**
  - 3rd consecutive year of organic sales growth
  - Continued FX headwinds on sales of (3)%
  - All segments positive: Infrastructure +5%, WIDIA +3%, Industrial +2%
  - All regions positive*: Americas +5%, EMEA +2%, AsiaPac +2%
- **<u>Strong margin improvement:</u> 14.6% Adjusted Operating Margin (vs. 12.9% prior year**)**
  - Adjusted operating expense margin improves 120 bps to 20.0% vs. 21.2% prior year**
  - Adjusted EBITDA margin increases 180 bps to 19.6% vs. 17.8% prior year
- **<u>Simplification/Modernization initiatives progressing; benefits accelerating</u>**
  - Benefits from Simplification/Modernization increased significantly over FY18 by 40 cents
  - Announced intended restructuring or closures of three German facilities and three US plants
  - Expected run-rate savings from restructuring actions of $35 - $40M by FY20 year-end and incremental $25 - $30M by FY21 year-end
- **<u>Earnings per share:</u> Reported $2.90; Adjusted $3.02 (vs. $2.65 prior year)**

* Constant Currency Regional Sales Growth
** See Footnote 1 on slide 24

# Simplification/Modernization delivering increased profitability

*FY19 Adjusted EPS Bridge*

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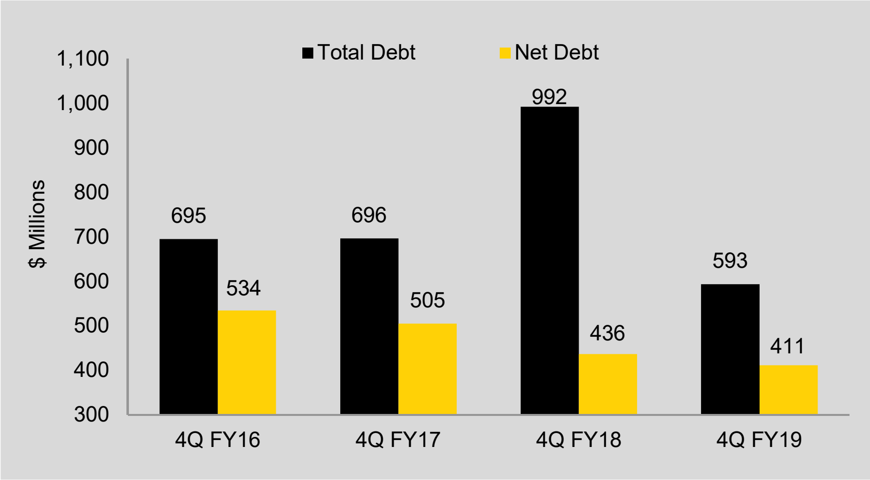
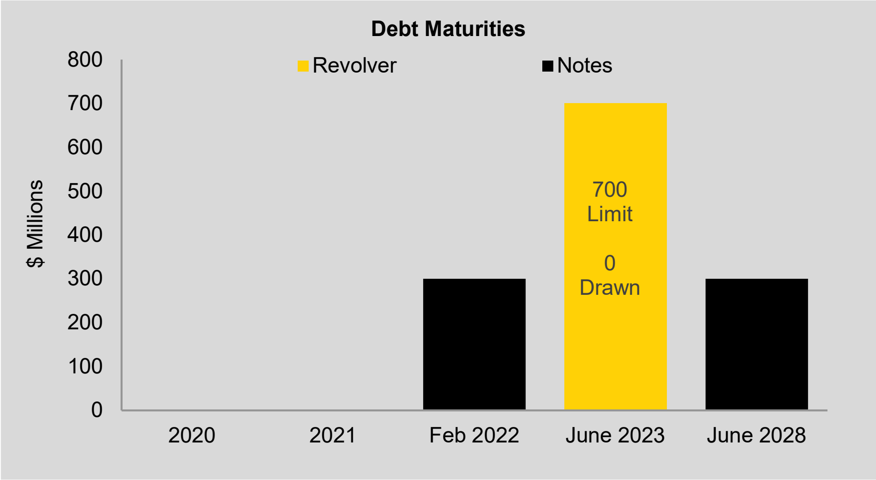
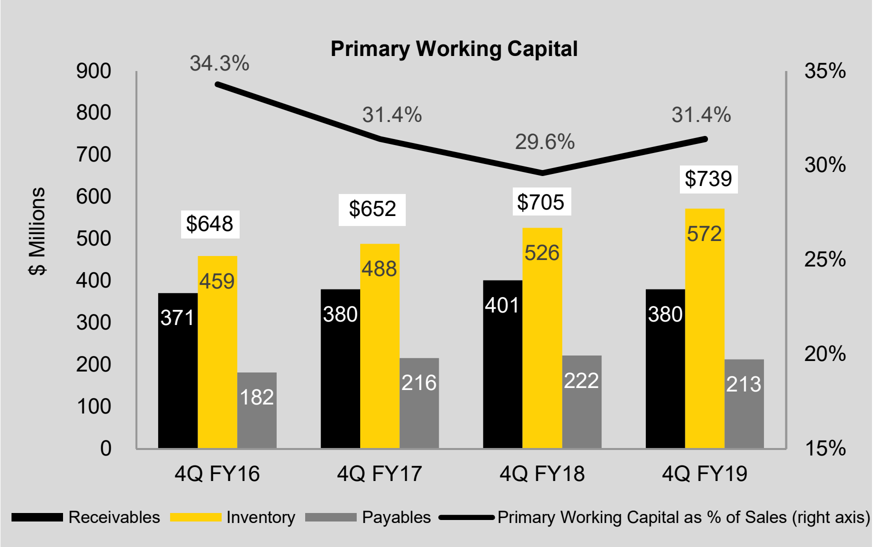
# Strong balance sheet & positive FOCF despite higher capital spend




| **Consolidated Results ($ in millions)** | **4Q FY19** | **4Q FY18** |
|---|---|---|
| **Net Cash Provided by Operating Activities*** | $143 | $119 |
| **Capital Expenditures*** | $66 | $65 |
| **Free Operating Cash Flow (FOCF)** | $84 | $66 |
| **Dividends** | ($16) | ($16) |

* See Footnote 2 on Slide 24

# FY20 assumes 2H recovery and reflects accelerating modernization benefits

## Outlook for Fiscal 2020

| | |
|---|---|
| Organic Sales Growth | (2)% - 2% |
| Effective Tax Rate | 21% - 23% |
| Adjusted EPS | $2.80 - $3.20 |
| Capital Spending | $240M - $260M |
| Free Operating Cash Flow | $75M - $100M |

**Factors impacting FY20 quarterly pattern**

- End-markets expected to be soft in 1H; modest recovery in 2H based on Transportation and Energy
- Working through higher cost inventory in 1H while indexed sales contracts reset
- Benefits from intended plant closures and modernization back-end loaded, as facilities close and disruption costs abate

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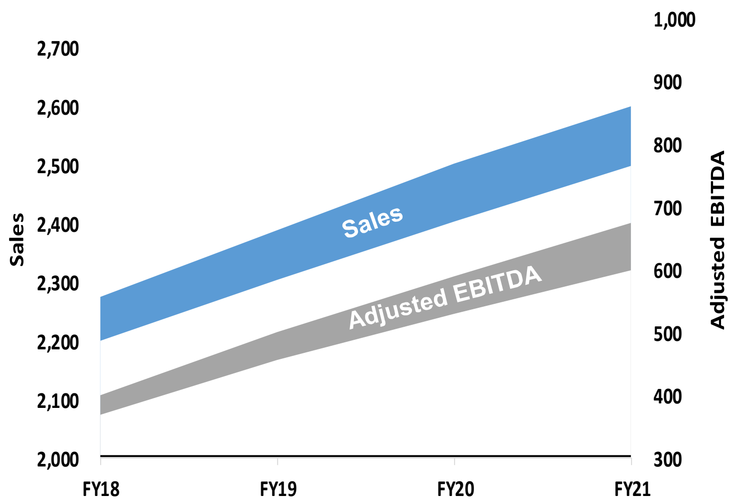
# Sales and Adjusted EBITDA Trajectory vs. December 2017

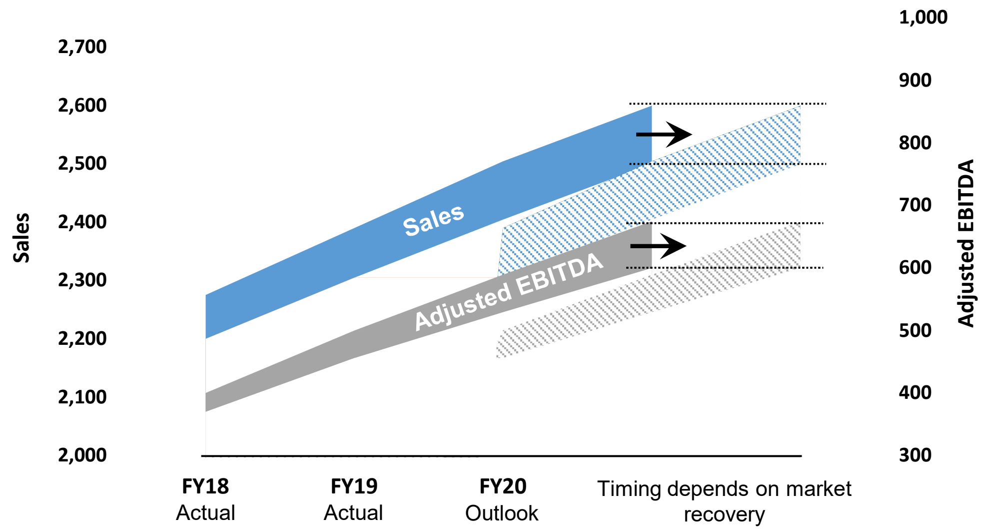
*Recent market slowdown driving revenue shift*

## December 2017 Investor Day Projections

### Original




### Reflecting current market conditions




## Performance

| ($ in millions) | FY16 | FY17 | FY18 | FY19 | Target |
|---|---|---|---|---|---|
| Adjusted EBITDA | $244 | $291 | $422 | $465 | $600 - $675 |
| ~% of sales | 12% | 14% | 18% | 20% | 24% - 26% |
| | Met or exceeded projections | | | | |

# Delivering on initiatives and significant opportunity for further margin improvement

## *Summary*

✓ **Investment Thesis**

- **Products and Technology**
  - Global leader in cutting and wear-resistant technology
- **Financial Fundamentals**
  - Strong operating cash flow and EBITDA through the cycle
  - Conservative balance sheet and capital structure
- **Growth and Margin Expansion Improvement**
  - Diversified and with good long-term growth potential
  - Benefits from margin expansion and growth initiatives still ahead
    - Managing operations with a focus on efficiency & aligning capacity to most profitable products
    - Managing sales with a focus on profitability

✓ **Demonstrated ability to execute improvement plans**

| ($ in millions) | FY16 | FY17 | FY18 | FY19 | Target |
|---|---|---|---|---|---|
| Adjusted EBITDA | $244 | $291 | $422 | $465 | $600 - $675 |
| ~% of sales | 12% | 14% | 18% | 20% | 24% - 26% |

Met or exceeded projections

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# Appendix

# Continuing progress in Simplification/Modernization initiatives, despite market slowdown

## *Q4 FY19 Overview & Highlights*

- **Organic sales: (2)% organic sales decline on top of 10% organic growth in prior year (PY) quarter**
  - Headwinds continued with negative effect of FX at (4)% and business days of (1)%
  - Uncertainty in macro environment and softening end-markets, excluding Aerospace
  - Infrastructure +1%, WIDIA (3)%, Industrial (4)%
  - Regional growth rates* of (2)% in the Americas, (3)% in EMEA and (4)% in AsiaPac
- **Margins increased despite slowing markets: 15.8% Adjusted Operating Margin (vs. 15.4% PY**)**
  - Adjusted operating expense margin improves 80 bps to 19.2% vs. 20.0% prior year**
  - Adjusted EBITDA margin increases 130 bps to 21.0% vs.19.7% prior year
- **Simplification/Modernization initiatives progressing**
  - Announced intended restructuring of three German facilities and one US plant
  - Simplification/Modernization benefits of 10 cents over PY
  - Expected run-rate savings from restructuring actions of $35 - $40M by FY20 year-end and incremental $25 - $30M by FY21 year-end
- **Earnings per share: Reported $0.74; Adjusted $0.84 (vs. $0.87 prior year)**

* Constant Currency Regional Sales Growth
** See Footnote 1 on slide 24

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# FY19 performance generally in-line with outlook

*EPS within forecasted range, despite softening end-markets & FX/tariff headwinds*

| | FY19 Outlook | FY19 Actual |
|---|---|---|
| Organic Sales Growth | ~5% | 3% |
| Adjusted Effective Tax Rate | ~22% | 21.4% |
| Adjusted EPS | $3.00 - $3.10 | $3.02 |
| Capital Spending | $200M - $220M | $212M |
| Free Operating Cash Flow | $120M - $140M | $99M |

**Unsettled macro-economic backdrop**

- Lingering trade tensions
- FX and tariff headwinds continue
- Softening end-markets in key geographies (US, Germany, China, India)
- Continuing weakness in global transportation
- General Engineering and oil & gas also slowing
- Lower commodity prices

**Major progress on structural cost-out actions**

- Benefits from Simplification/Modernization increasing
- Capital spending as forecasted
- Announced intended footprint rationalization actions

 

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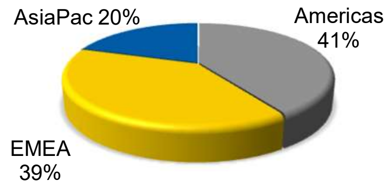
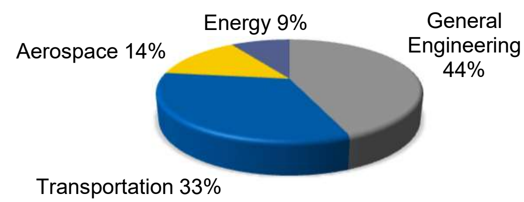
# Underlying performance continues to improve despite slower end-markets

**Sales by Geography**




**Sales by End Market**




## *Industrial Business Segment Q4 FY19 Highlights*

**Q4 FY19 sales $318 million; (4)% organic sales decline YoY on top of 11% growth prior year**

- Sales decline** in Americas at (1)%; EMEA at (5)%; AsiaPac at (8)%
- Headwind from FX of (4)% and business days of (1)%
- Quarterly adjusted operating margin increased by 40 bps to 18.3% from 17.9% prior year*

**Excluding Aerospace, end-markets softening due primarily to uncertainty in macro environment**

- Aerospace posted YoY growth of 12%***; 6th quarter of consecutive double-digit growth
- General Engineering, Energy and Transportation posted YoY sales declines of (2)%, (4)% and (13)%, respectively***
- Current market conditions are expected to persist through the first half of FY20

**Growth and Simplification/Modernization initiatives progressing well**

- Major restructuring actions announced on July 11th with intended closure of two plants in Germany and one distribution center
- Simplification/Modernization benefits continue to increase
- Major portfolio rationalization completed; now normal portfolio management
- High volume product growth initiatives exceeding expectations

* See Footnote 1 on slide 24
** Constant Currency Regional Sales Growth
*** Constant Currency End-Market Sales Growth

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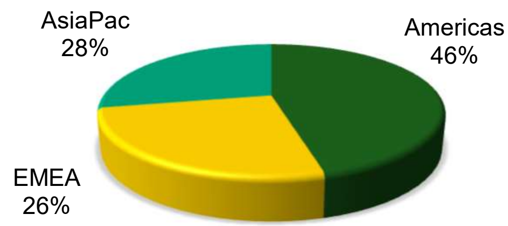
# Underlying operational performance continues to improve despite softening macro environment

*WIDIA Business Segment*
*Q4 FY19 Highlights*

**Sales by Region**




**Q4 FY19 sales $49 million; (3)% organic decline on top of 9% organic growth in prior year**

- Regions**: EMEA 3%, Americas (4)%, AsiaPac (13)%
- FX and business days headwinds this quarter: FX (3)% and business days of (2)%
- Quarterly adjusted operating margin decreased 150 bps to 1.8% from 3.3% prior year*
- Margin negatively affected by volume and regional mix, partially offset by price realization

**Q4 FY19 regional highlights**

- EMEA: 3% growth rate** reflects continuing strength in aerospace
- Americas: Weaker end-market environment and portfolio simplification
- AsiaPac: Decline in transportation in China & India partially offset by growth in new demand streams & aerospace

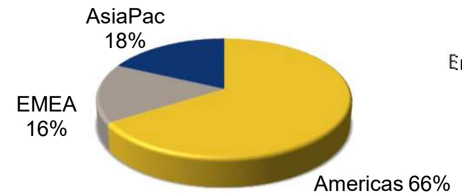
* See Footnote 1 on slide 24
** Constant Currency Regional Sales Growth

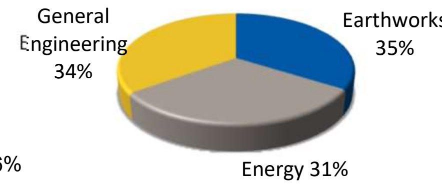
# Expanding operating margins – both year-over-year and sequentially

*Infrastructure Business Segment*
*Q4 FY19 Highlights*

**Sales by Geography**




**Sales by End Market**




**Q4 FY19 sales $237 million; 1% organic growth on top of 9% growth prior year**

- Regions**: AsiaPac 7%; EMEA 5%; Americas (3)%
- Margins negatively affected by headwinds of FX (3)% and business days (1)%
- Price covered raw material costs for the quarter and the full year, consistent with expectations through the cycle
- Quarterly adjusted operating margin increased by 80 bps to 15.5% from 14.7% prior year*

**Underlying end-markets mixed; oil & gas softening, pockets of strength in general engineering and Asia mining**

- Quarterly growth*** in General Engineering at 12%
- Earthworks and Energy sales declined by (4)%*** and (6)%***, respectively

**Progress in focus areas: growth and Simplification/Modernization**

- Rogers facility performing well post modernization
- Irwin plant closure announced; majority of production being moved to Rogers facility
- Next phase of Infrastructure modernization underway
- Launched a new powder for down-hole drilling in oil & gas

* See Footnote 1 on slide 24
** Constant Currency Regional Sales Growth
*** Constant Currency End Market Sales Growth

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# Improving margins despite slowing end-markets

*Consolidated Q4 FY19 Financial Overview*

| Quarter Ended *($ in millions)* | Change from PY | Adjusted June 30, 2019 | Adjusted June 30, 2018 | Reported June 30, 2019 | Reported June 30, 2018 |
|---|---|---|---|---|---|
| **Sales** | **(7)%** | **$604** | **$646** | **$604** | **$646** |
| Organic | | **(2)%** | 10% | (2)% | 10% |
| FX | | (4)% | 3% | (4)% | 3% |
| Business Days | | (1)% | 1% | (1)% | 1% |
| **Gross Profit*** | **(8)%** | **$215** | **$233** | **$214** | **$232** |
| % of sales* | (40) bps | 35.6% | 36.0% | 35.4% | 35.9% |
| **Operating Expense*** | **(10)%** | **$116** | **$129** | **$116** | **$130** |
| % of sales* | (80) bps | 19.2% | 20.0% | 19.2% | 20.1% |
| **EBITDA** | **(1)%** | **$127** | **$128** | **$116** | **$122** |
| % of sales | +130 bps | 21.0% | 19.7% | 19.3% | 18.8% |
| **Operating Income*** | **(4)%** | **$95** | **$99** | **$85** | **$94** |
| % of sales* | +40 bps | 15.8% | 15.4% | 14.1% | 14.5% |
| **Effective Tax Rate** | (110) bps | 21.0% | 22.1% | 21.0% | 21.1% |
| **EPS (Earnings per Diluted Share)** | **(3)%** | **$0.84** | **$0.87** | **$0.74** | **$0.83** |

* See Footnote 1 on Slide 24

 

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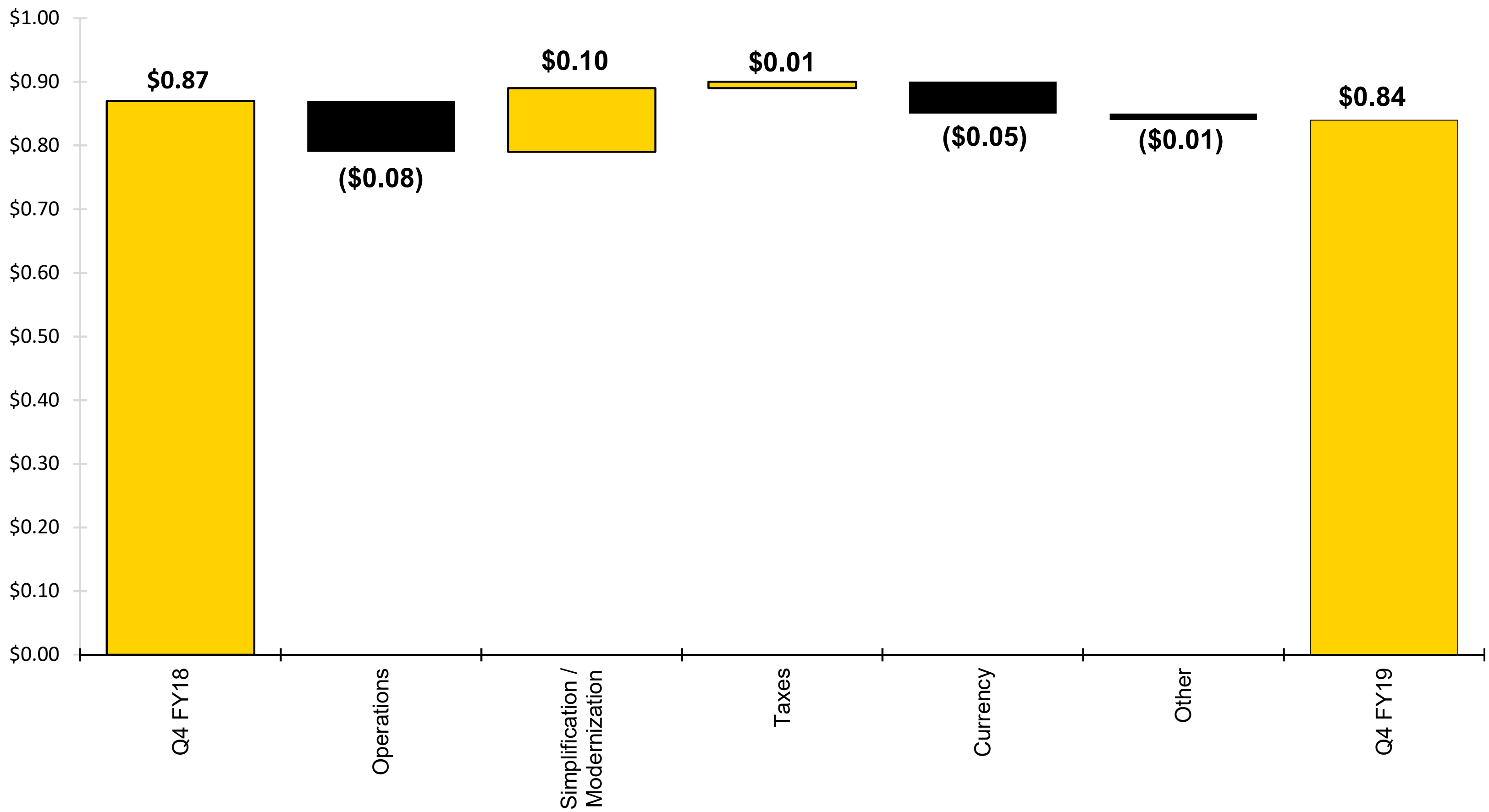
# Simplification/Modernization benefits increasing

*Q4 FY19 Adjusted EPS Bridge*

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# Adjusted Segment Results

| **Period ending June 30, 2019** *($ in millions)* | **Quarter** | | | | **Year** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Industrial** | **WIDIA** | **Infrastructure** | **Total** | **Industrial** | **WIDIA** | **Infrastructure** | **Total** |
| **Sales** | **$318** | **$49** | **$237** | **$604** | **$1,274** | **$198** | **$903** | **$2,375** |
| Organic | (4)% | (3)% | 1% | (2)% | 2% | 3% | 5% | 3% |
| FX | (4)% | (3)% | (3)% | (4)% | (3)% | (4)% | (2)% | (3)% |
| Business Days | (1)% | (2)% | (1)% | (1)% | - | - | - | - |
| **Constant Currency Regional Growth (Decline):** | | | | | | | | |
| Americas | (1)% | (4)% | (3)% | (2)% | 7% | - | 5% | 5% |
| EMEA | (5)% | 3% | 5% | (3)% | 1% | 7% | 5% | 2% |
| Asia Pacific | (8)% | (13)% | 7% | (4)% | (1)% | 5% | 6% | 2% |
| **Constant Currency End-market Growth (Decline):** | | | | | | | | |
| Energy | (4)% | n/a | (6)% | (6)% | 1% | n/a | 7% | 5% |
| General Engineering* | (2)% | (5)% | 12% | 1% | 5% | 3% | 12% | 7% |
| Transportation | (13)% | n/a | n/a | (13)% | (5)% | n/a | n/a | (5)% |
| Aerospace & Defense | 12% | n/a | n/a | 12% | 16% | n/a | n/a | 16% |
| Earthworks | n/a | n/a | (4)% | (4)% | n/a | n/a | (3)% | (3)% |
| **Adjusted Operating Income** | **$58** | **$1** | **$37** | **$95** | **$234** | **$5** | **$109** | **$346** |
| **Adjusted Operating Margin** | **18.3%** | **1.8%** | **15.5%** | **15.8%** | **18.4%** | **2.8%** | **12.1%** | **14.6%** |

* all WIDIA sales are classified as general engineering

 

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# Consolidated FY19 Financial Results

| Year Ended ($ in millions) | Change from PY | Adjusted June 30, 2019 | Adjusted June 30, 2018 | Reported June 30, 2019 | Reported June 30, 2018 |
|---|---|---|---|---|---|
| **Sales** | **-** | **$2,375** | **$2,368** | **$2,375** | **$2,368** |
| Organic | | 3% | 12% | 3% | 12% |
| FX | | (3)% | 4% | (3)% | 4% |
| Business Days | | - | (1)% | - | (1)% |
| **Gross Profit*** | **+1%** | **$834** | **$824** | **$831** | **$820** |
| as a % of sales | +30 bps | 35.1% | 34.8% | 35.0% | 34.6% |
| **Operating Expense*** | **(6)%** | **$474** | **$503** | **$474** | **$503** |
| as a % of sales | (120) bps | 20.0% | 21.2% | 20.0% | 21.3% |
| **EBITDA** | **+10%** | **$465** | **$422** | **$448** | **$406** |
| as a % of sales | +180 bps | 19.6% | 17.8% | 18.9% | 17.1% |
| **Operating Income*** | **+13%** | **$346** | **$306** | **$329** | **$290** |
| as a % of sales | +170 bps | 14.6% | 12.9% | 13.8% | 12.3% |
| **Effective Tax Rate** | (150) bps | 21.4% | 22.9% | 20.4% | 25.4% |
| **Earnings per Diluted Share (EPS)** | **+14%** | **$3.02** | **$2.65** | **$2.90** | **$2.42** |

* See Footnote 1 on Slide 24

 

# Balance Sheet

| **ASSETS** *($ in millions)* | **June 2019** | **June 2018** |
|---|---|---|
| Cash and cash equivalents | $182 | $556 |
| Accounts receivable, net | 380 | 401 |
| Inventories | 572 | 526 |
| Other current assets | 57 | 63 |
| **Total current assets** | **$1,191** | **$1,546** |
| Property, plant and equipment, net | 935 | 824 |
| Goodwill and other intangible assets, net | 461 | 478 |
| Other assets | 69 | 77 |
| **Total assets** | **$2,656** | **$2,925** |

| **LIABILITIES** *($ in millions)* | | |
|---|---|---|
| Current maturities of long-term debt, including notes payable | - | $400 |
| Accounts payable | 213 | 222 |
| Other current liabilities | 249 | 264 |
| **Total current liabilities** | **$462** | **$886** |
| Long-term debt | 592 | 592 |
| Other liabilities | 227 | 217 |
| **Total liabilities** | **$1,281** | **$1,695** |
| Kennametal Shareowners' Equity | 1,335 | 1,194 |
| Noncontrolling interests | 40 | 36 |
| **Total liabilities and equity** | **$2,656** | **$2,925** |

 

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# 4Q FY19 and Total Year Cash Flow

($ in millions)

| Consolidated Results | 4Q FY19 | 4Q FY18 | FY19 | FY18 |
|---|---|---|---|---|
| **Net Cash Provided by Operating Activities** | $143 | $119 | $300 | $277 |
| Investing Activities | ($59) | ($53) | ($201) | ($157) |
| Financing Activities | ($15) | $278 | ($471) | $247 |
| Effect of Exchange Rate | - | ($10) | ($2) | ($2) |
| **Net Change in Cash** | $69 | $334 | ($374) | $365 |
| Beginning Cash | $113 | $222 | $556 | $191 |
| Ending Cash | $182 | $556 | $182 | $556 |
| **Capital Expenditures*** | $66 | $65 | $212 | $171 |
| **Free Operating Cash Flow** | $84 | $66 | $99 | $121 |

* See Footnote 2 on Slide 24

 

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# Footnotes

(1) Prior period amounts were restated to reflect the retrospective adoption of ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" on July 1, 2018.

(2) The Company revised its statement of cash flow for the three months ended June 30, 2018, resulting in an increase of $23 million to previously reported net cash flow provided by operating activities and a corresponding increase to previously reported net cash flow used for investing activities. The Company has concluded that the impact of the revision was not material to the previously issued interim financial statements. The revision had no impact on the previously issued annual financial statements nor FOCF in any period.

(3) Net of a $5 million gain from the sale of the Infrastructure segment's Madison, AL manufacturing facility which was previously closed as part of our simplification/modernization restructuring programs.

(4) Net of a $5 million gain from the sale of the Infrastructure segment's Houston, TX manufacturing facility which was previously closed as part of our legacy restructuring programs.

(5) Additional charge recorded to reflect adjustments to the amounts recorded for the application of a measure of the Tax Cuts and Jobs Act of 2017 (TCJA) requiring a one-time transition tax on previously untaxed accumulated earnings and profits of non-U.S. companies (toll tax) considering regulatory guidance issued through June 30, 2018.

(6) As a result of TCJA, the Company reevaluated its permanent reinvestment assertion in certain jurisdictions, concluding that the unremitted earnings and profits of certain of our non-U.S. subsidiaries and affiliates will no longer be permanently reinvested. This change in assertion required the recognition of a tax charge of $6 million primarily for foreign withholding and state income taxes.

(7) Net discrete benefits recorded to reflect the effect of regulations and other relevant guidance issued through June 30, 2019 on the toll tax. The toll tax charge is $71 million.

(8) Non-cash charge associated with the out-of-period impact of recording an adjustment to deferred tax charges associated with intra-entity product transfers.

(9) Net charge recorded to reflect adjustments to the toll tax considering regulatory guidance issued through June 30, 2018.

 

KENNAMETAL

# Non-GAAP Reconciliations

The information presented by the Company contains certain non-GAAP financial measures including organic sales growth, constant currency regional sales growth (decline), constant currency end market sales growth (decline), adjusted gross profit and margin; adjusted operating expense and adjusted operating expense as a percentage of sales; adjusted operating income and margin; adjusted effective tax rate (ETR); adjusted net income attributable to Kennametal; adjusted earnings per diluted share (EPS); adjusted earnings before interest, taxes, depreciation and amortization (EBITDA); adjusted Industrial operating income and margin; adjusted Widia operating income and margin; adjusted Infrastructure operating income and margin; free operating cash flow (FOCF); net debt; and primary working capital (PWC).

Kennametal management believes that presentation of these non-GAAP financial measures provides useful information about the results of operations of the Company for the current, past and future periods. Management believes that investors should have available the same information that management uses to assess operational performance, determine compensation and assess the capital structure of the Company. These Non-GAAP financial measures should not be considered in isolation or as a substitute for the most comparable GAAP measures. Investors are cautioned that non-GAAP financial measures utilized by the Company may not be comparable to non-GAAP financial measures used by other companies.

Reconciliations to the most directly comparable GAAP financial measures for the following forward-looking non-GAAP financial measures for full fiscal year of 2019 are not presented, including but not limited to: adjusted EPS, organic sales growth, adjusted ETR and FOCF. The most comparable GAAP measures are EPS, sales growth, ETR and net cash flow from operating activities, respectively. Because the non-GAAP financial measures on a forward-looking basis are subject to uncertainty and variability as they are dependent on many factors - including, but not limited to, the effect of foreign currency exchange fluctuations, impacts from potential acquisitions or divestitures, gains or losses on the potential sale of businesses or other assets, restructuring costs, asset impairment charges, gains or losses from early extinguishment of debt, the tax impact of the items above and the impact of tax law changes or other tax matters - reconciliations to the most directly comparable forward-looking GAAP financial measures are not available without unreasonable effort.

Accordingly, we have compiled below certain definitions and reconciliations as required by Regulation G.

**Adjusted Gross Profit and Margin, Adjusted Operating Expense, Adjusted Operating Expense as a Percentage of Sales, Adjusted Operating Income and Margin, Adjusted ETR, Adjusted Net Income Attributable to Kennametal and Adjusted EPS**
The following GAAP financial measures have been presented on an adjusted basis: gross profit and margin, operating expense, operating expense as a percentage of adjusted sales, operating income (loss) and margin, ETR, net income and EPS. Detail of these adjustments is included in the reconciliations following these definitions. Management adjusts for these items in measuring and compensating internal performance to more readily compare the Company's financial performance period-to-period.

**Organic Sales Growth (Decline)**
Organic sales growth (decline) is a non-GAAP financial measure of sales growth (decline) (which is the most directly comparable GAAP measure) excluding the impacts of acquisitions[10], divestitures[11], business days[12] and foreign currency exchange[13] from year-over-year comparisons. Management believes this measure provides investors with a supplemental understanding of underlying sales trends by providing sales growth (decline) on a consistent basis. Also, we report organic sales growth (decline) at the consolidated and segment levels.

**Constant Currency Regional Sales Growth (Decline)**
Constant currency regional sales growth (decline) is a non-GAAP financial measure of sales growth (decline) (which is the most directly comparable GAAP measure) by region excluding the impacts of acquisitions[10], divestitures[11] and foreign currency exchange[13] from year-over-year comparisons. We note that, unlike organic sales growth (decline), constant currency regional sales growth (decline) does not exclude the impact of business days. We believe this measure provides investors with a supplemental understanding of underlying regional trends by providing regional sales growth (decline) on a consistent basis. Also, we report constant currency regional sales growth (decline) at the consolidated and segment levels.

 

# Non-GAAP Reconciliations (cont'd)

**Constant Currency End Market Sales Growth (Decline)**
Constant currency end market sales growth (decline) is a non-GAAP financial measure of sales growth (decline) (which is the most directly comparable GAAP measure) by end market excluding the impacts of acquisitions(10), divestitures(11) and foreign currency exchange(13) from year-over-year comparisons. We note that, unlike organic sales growth (decline), constant currency end market sales growth (decline) does not exclude the impact of business days. We believe this measure provides investors with a supplemental understanding of underlying end market trends by providing end market sales growth (decline) on a consistent basis. Also, we report constant currency end market sales growth (decline) at the consolidated and segment levels.

**EBITDA**
EBITDA is a non-GAAP financial measure and is defined as net income attributable to Kennametal (which is the most directly comparable GAAP measure), with interest expense, interest income, provision for income taxes, depreciation and amortization added back. Management believes that EBITDA is widely used as a measure of operating performance and is an important indicator of the Company's operational strength and performance. Nevertheless, the measure should not be considered in isolation or as a substitute for operating income, cash flows from operating activities or any other measure for determining liquidity that is calculated in accordance with GAAP. Additionally, Kennametal will present EBITDA on an adjusted basis. Management uses this information in reviewing operating performance.

**Free Operating Cash Flow**
FOCF is a non-GAAP financial measure and is defined by the Company as cash provided by operations (which is the most directly comparable GAAP measure) less capital expenditures, plus proceeds from disposals of fixed assets. Management considers FOCF to be an important indicator of the Company's cash generating capability because it better represents cash generated from operations that can be used for dividends, debt repayment, strategic initiatives, and other investing and financing activities.

**Net Debt**
Net debt is a non-GAAP financial measure and is defined by the Company as total debt less cash and cash equivalents. The most directly comparable GAAP financial measure is total debt. Management believes that net debt aids in the evaluation of the Company's financial condition.

**Primary Working Capital**
Primary working capital is a non-GAAP financial measure and is defined as accounts receivable, net plus inventories, net minus accounts payable. The most directly comparable GAAP measure is working capital, which is defined as current assets less current liabilities. We believe primary working capital better represents Kennametal's performance in managing certain assets and liabilities controllable at the segment level and is used as such for internal performance measurement.

(10) Acquisition impact is calculated by dividing current period sales attributable to acquired businesses by prior period sales.
(11) Divestiture impact is calculated by dividing prior period sales attributable to divested businesses by prior period sales.
(12) Business days impact is calculated by dividing the year-over-year change in weighted average working days (based on mix of sales by country) by prior period weighted average working days.
(13) Foreign currency exchange impact is calculated by dividing the difference between current period sales at prior period foreign exchange rates and prior period sales by prior period sales.

 

# Non-GAAP Reconciliations (cont'd)

| ($ in millions, except per share data and percents) | Sales | Gross Profit | Operating Expense | Operating Income | Effective Tax Rate | Diluted EPS |
|---|---|---|---|---|---|---|
| Q4 FY19 Reported Results | $ 603.9 | $ 213.7 | $ 116.1 | $ 85.0 | 21.0% | $ 0.74 |
| Reported Margins | | 35.4% | 19.2% | 14.1% | | |
| Restructuring and related charges[3] | - | 1.1 | (0.2) | 10.3 | (1.3) | 0.11 |
| Release of valuation allowance on Australian deferred tax assets | - | - | - | - | 1.3 | (0.01) |
| Q4 FY19 Adjusted Results | $ 603.9 | $ 214.8 | $ 115.9 | $ 95.3 | 21.0% | $ 0.84 |
| Q4 FY19 Adjusted Margins | | 35.6% | 19.2% | 15.8% | | |

| ($ in millions, except per share data and percents) | Sales | Gross Profit[1] | Operating Expense[1] | Operating Income[1] | Effective Tax Rate | Diluted EPS |
|---|---|---|---|---|---|---|
| Q4 FY18 Reported Results | $ 646.1 | $ 232.3 | $ 129.9 | $ 93.7 | 21.1% | $ 0.83 |
| Reported Margins | | 35.9% | 20.1% | 14.5% | | |
| Restructuring and related charges[4] | - | 0.3 | (0.4) | 5.8 | (1.3) | 0.07 |
| Discrete benefit from tax reform[5] | - | - | - | - | 2.3 | (0.03) |
| Q4 FY18 Adjusted Results | $ 646.1 | $ 232.6 | $ 129.5 | $ 99.5 | 22.1% | $ 0.87 |
| Q4 FY18 Adjusted Margins | | 36.0% | 20.0% | 15.4% | | |

 

# Non-GAAP Reconciliations (cont'd)

| ($ in millions, except per share data and percents) | Sales | Gross Profit | Operating Expense | Operating Income | Effective Tax Rate | Diluted EPS |
|---|---|---|---|---|---|---|
| FY19 Reported Results | $ 2,375.2 | $ 831.5 | $ 474.2 | $ 328.9 | 20.4% | $ 2.90 |
| Reported Margins | | 35.0% | 20.0% | 13.8% | | |
| Restructuring and related charges | - | 2.5 | (0.3) | 16.9 | (0.3) | 0.17 |
| Tax charge from change in permanent reinvestment assertion[6] | - | - | - | - | (2.0) | 0.07 |
| Net discrete effects from tax reform[7] | - | - | - | - | 3.0 | (0.11) |
| Release of valuation allowance on Australia deferred tax assets | - | - | - | - | 0.3 | (0.01) |
| FY19 Adjusted Results | $ 2,375.2 | $ 834.0 | $ 473.9 | $ 345.7 | 21.4% | $ 3.02 |
| FY19 Adjusted Margins | | 35.1% | 20.0% | 14.6% | | |

| ($ in millions, except per share data and percents) | Sales | Gross Profit[1] | Operating Expense[1] | Operating Income[1] | Effective Tax Rate | Diluted EPS |
|---|---|---|---|---|---|---|
| FY18 Reported Results | $ 2,367.9 | $ 820.1 | $ 503.2 | $ 290.3 | 25.4% | $ 2.42 |
| Reported Margins | | 34.6% | 21.3% | 12.3% | | |
| Restructuring and related charges | - | 3.5 | (0.5) | 15.9 | (0.4) | 0.16 |
| Impact of out of period adjustment to provision for income taxes[8] | - | - | - | - | (1.9) | 0.06 |
| Net discrete effects of tax reform[9] | - | - | - | - | (0.2) | 0.01 |
| FY18 Adjusted Results | $ 2,367.9 | $ 823.6 | $ 502.8 | $ 306.2 | 22.9% | $ 2.65 |
| FY18 Adjusted Margins | | 34.8% | 21.2% | 12.9% | | |

 

# Non-GAAP Reconciliations (cont'd)

| | FY 15 | FY 16 | FY 17 | FY 18 | FY 19 |
|---|---|---|---|---|---|
| Reported Sales | $ 2,647.2 | $ 2,098.4 | $ 2,058.4 | $ 2,367.9 | $ 2,375.2 |
| Reported CAGR from FY16 | | | | | 4% |
| Operations of divested businesses | (242.6) | (82.5) | - | - | - |
| Adjusted Sales | $ 2,404.6 | $ 2,015.9 | $ 2,058.4 | $ 2,367.9 | $ 2,375.2 |
| Adjusted CAGR from FY16 | | | | | 6% |

| ($ in millions) | FY 15 | FY 16 | FY 17 | FY 18 | FY 19 |
|---|---|---|---|---|---|
| Net income attributable to Kennametal, reported | $ (373.9) | $ (226.0) | $ 49.1 | $ 200.2 | $ 241.9 |
| Add back: | | | | | |
| Interest expense | 31.5 | 27.8 | 28.8 | 30.1 | 33.0 |
| Interest income | (2.6) | (1.7) | (1.0) | (3.0) | (2.1) |
| Provision for income taxes, reported | (16.7) | 25.3 | 29.9 | 70.0 | 63.4 |
| Depreciation | 105.0 | 96.7 | 91.1 | 94.0 | 97.6 |
| Amortization | 26.7 | 20.8 | 16.6 | 14.7 | 14.4 |
| EBITDA | $ (230.1) | $ (57.1) | $ 214.5 | $ 405.9 | $ 448.2 |
| Margin | -8.7% | -2.7% | 10.4% | 17.1% | 18.9% |
| CAGR from FY16 | | | | | -299% |
| Adjustments: | | | | | |
| Restructuring and related charges | 58.1 | 53.5 | 76.2 | 15.9 | 16.9 |
| Fixed asset disposal charges | - | 5.4 | - | - | - |
| Loss on divestiture and related charges | - | 131.5 | - | - | - |
| Goodwill and other intangible asset impairment charges | 541.7 | 108.5 | - | - | - |
| Operations of divested businesses | (7.0) | 1.9 | - | - | - |
| Adjusted EBITDA | $ 362.8 | $ 243.6 | $ 290.8 | $ 421.8 | $ 465.1 |
| Adjusted Margin | 15.1% | 12.1% | 14.1% | 17.8% | 19.6% |
| Adjusted CAGR from FY16 | | | | | 24% |

 

KENNAMETAL

# Non-GAAP Reconciliations (cont'd)

| ($ in millions) | Three months ended June 30, 2019 | 2018 |
|---|---|---|
| Net income attributable to Kennametal, reported | $ 62.0 | $ 68.5 |
| Add back: | | |
| Interest expense | 8.7 | 8.2 |
| Interest income | (0.4) | (1.5) |
| Provision for income taxes, reported | 16.8 | 18.8 |
| Depreciation | 25.6 | 24.0 |
| Amortization | 3.6 | 3.6 |
| EBITDA | $ 116.3 | $ 121.7 |
| Margin | 19.3% | 18.8% |
| Adjustments: | | |
| Restructuring and related charges | 10.3 | 5.8 |
| Adjusted EBITDA | $ 126.6 | $ 127.5 |
| Adjusted Margin | 21.0% | 19.7% |

| ($ in millions) | Three months ended June 30, 2019 | 2018 | Year ended June 30, 2019 | 2018 |
|---|---|---|---|---|
| Net cash flow from operating activities(2) | $ 143.1 | $ 119.4 | $ 300.5 | $ 277.3 |
| Purchases of property, plant and equipment(2) | (66.4) | (65.4) | (212.3) | (171.0) |
| Proceeds from disposals of property, plant and equipment | 7.7 | 12.2 | 11.2 | 14.4 |
| Free operating cash flow | $ 84.3 | $ 66.2 | $ 99.4 | $ 120.7 |

 

# Non-GAAP Reconciliations (cont'd)

| | FY 16 | FY 17 | FY 18 | FY 19 |
|---|---|---|---|---|
| Reported Diluted (LPS) EPS | $ (2.83) | $ 0.61 | $ 2.42 | $ 2.90 |
| Reported CAGR | | | | -201% |
| Restructuring and related charges | 0.50 | 0.89 | 0.16 | 0.17 |
| Tax charge from change in permanent reinvestment assertion(6) | - | - | - | 0.07 |
| Net discrete effects from tax reform(7), (9) | - | - | 0.01 | (0.11) |
| Release of valuation allowance on Australia deferred tax assets | - | - | - | (0.01) |
| Impact of out of period adjustment to provision for income taxes(8) | - | - | 0.06 | - |
| Australia deferred tax valuation allowance | - | 0.02 | - | - |
| Goodwill and other intangible asset impairment charges | 0.96 | - | - | - |
| Loss on divestiture and related charges | 1.39 | - | - | - |
| Fixed asset disposal charges | 0.05 | - | - | - |
| Operations of divested businesses | 0.02 | - | - | - |
| U.S. deferred tax valuation allowance | 1.02 | - | - | - |
| Adjusted EPS | $ 1.11 | $ 1.52 | $ 2.65 | 3.02 |
| Adjusted CAGR | | | | 40% |

 | 

# Non-GAAP Reconciliations (cont'd)

| ($ in millions, except percents) | Industrial Sales | Industrial Operating Income | WIDIA Sales | WIDIA Operating (Loss) Income | Infrastructure Sales | Infrastructure Operating Income |
|---|---|---|---|---|---|---|
| Q4 FY19 Reported Results | $ 318.0 | $ 47.4 | $ 48.9 | $ (0.9) | $ 237.0 | $ 39.1 |
| Reported Operating Margin | | 14.9% | | -1.9% | | 16.5% |
| Restructuring and related charges[3] | - | 10.9 | - | 1.8 | - | (2.4) |
| Q4 FY19 Adjusted Results | $ 318.0 | $ 58.3 | $ 48.9 | $ 0.9 | $ 237.0 | $ 36.6 |
| Q4 FY19 Adjusted Operating Margin | | 18.3% | | 1.8% | | 15.5% |

| ($ in millions, except percents) | Industrial Sales | Industrial Operating Income[1] | WIDIA Sales | WIDIA Operating Income[1] | Infrastructure Sales | Infrastructure Operating Income[1] |
|---|---|---|---|---|---|---|
| Q4 FY18 Reported Results | $ 349.2 | $ 54.2 | $ 53.4 | $ 1.5 | $ 243.6 | $ 38.7 |
| Reported Operating Margin | | 15.5% | | 2.8% | | 15.9% |
| Restructuring and related charges[4] | - | 8.2 | - | 0.3 | - | (2.8) |
| Q4 FY18 Adjusted Results | $ 349.2 | $ 62.4 | $ 53.4 | $ 1.8 | $ 243.6 | $ 35.8 |
| Q4 FY18 Adjusted Operating Margin | | 17.9% | | 3.3% | | 14.7% |

| | Infrastructure Sales | Infrastructure Operating Income |
|---|---|---|
| Q3 FY19 Reported Results | $ 227.6 | $ 24.9 |
| Reported Operating Margin | | 11.0% |
| Restructuring and related charges | - | 1.8 |
| Q3 FY19 Adjusted Results | $ 227.6 | $ 26.7 |
| Q3 FY19 Adjusted Operating Margin | | 11.7% |

 

# Non-GAAP Reconciliations (cont'd)

| ($ in millions, except percents) | Industrial Sales | Industrial Operating Income | WIDIA Sales | WIDIA Operating Income | Infrastructure Sales | Infrastructure Operating Income |
|---|---|---|---|---|---|---|
| FY19 Reported Results | $ 1,274.5 | $ 220.7 | $ 197.5 | $ 2.9 | $ 903.2 | $ 108.5 |
| Reported Operating Margin | | 17.3% | | 1.5% | | 12.0% |
| Restructuring and related charges | - | 13.6 | - | 2.6 | - | 0.7 |
| FY19 Adjusted Results | $ 1,274.5 | $ 234.3 | $ 197.5 | $ 5.5 | $ 903.2 | $ 109.2 |
| FY19 Adjusted Operating Margin | | 18.4% | | 2.8% | | 12.1% |

| ($ in millions, except percents) | Industrial Sales | Industrial Operating Income[1] | WIDIA Sales | WIDIA Operating Income[1] | Infrastructure Sales | Infrastructure Operating Income[1] |
|---|---|---|---|---|---|---|
| FY18 Reported Results | $ 1,292.1 | $ 177.0 | $ 198.6 | $ 2.9 | $ 877.2 | $ 113.0 |
| Reported Operating Margin | | 13.7% | | 1.5% | | 12.9% |
| Restructuring and related charges | - | 13.4 | - | 1.3 | - | 1.0 |
| FY18 Adjusted Results | $ 1,292.1 | $ 190.4 | $ 198.6 | $ 4.2 | $ 877.2 | $ 114.0 |
| FY18 Adjusted Operating Margin | | 14.7% | | 2.1% | | 13.0% |

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# Non-GAAP Reconciliations (cont'd)

| Three months ended June 30, 2019: | Industrial | Widia | Infrastructure | Kennametal |
|---|---|---|---|---|
| Organic Sales (Decline) Growth | (4%) | (3%) | 1% | (2%) |
| Foreign Currency Exchange Impact | (4%) | (3%) | (3%) | (4%) |
| Business Days Impact | (1%) | (2%) | (1%) | (1%) |
| Sales Decline | (9%) | (8%) | (3%) | (7%) |

| Three months ended June 30, 2018: | Industrial | Widia | Infrastructure | Kennametal |
|---|---|---|---|---|
| Organic Sales Growth | 11% | 9% | 9% | 10% |
| Foreign Currency Exchange Impact | 4% | 2% | 2% | 3% |
| Business Days Impact | 1% | 1% | 1% | 1% |
| Sales Growth | 16% | 12% | 12% | 14% |

| Year ended June 30, 2019 | Industrial | Widia | Infrastructure | Kennametal |
|---|---|---|---|---|
| Organic Sales Growth | 2% | 3% | 5% | 3% |
| Foreign Currency Exchange Impact | (3%) | (4%) | (2%) | (3%) |
| Sales (Decline) Growth | (1%) | (1%) | 3% | 0% |

| Year ended June 30, 2018: | Industrial | Widia | Infrastructure | Kennametal |
|---|---|---|---|---|
| Organic Sales Growth | 11% | 9% | 15% | 12% |
| Foreign Currency Exchange Impact | 5% | 3% | 2% | 4% |
| Business Days Impact | (1%) | 0% | (1%) | (1%) |
| Sales Growth | 15% | 12% | 16% | 15% |

 

# Non-GAAP Reconciliations (cont'd)

| **Industrial** | | | |
|---|---|---|---|
| **Three months ended June 30, 2019:** | **Americas** | **EMEA** | **Asia Pacific** |
| Constant currency regional sales decline | (1%) | (5%) | (8%) |
| Foreign currency exchange impact | (1%) | (8%) | (5%) |
| Regional sales growth (decline) | (2%) | (13%) | (13%) |

| **Widia** | | | |
|---|---|---|---|
| **Three months ended June 30, 2019:** | **Americas** | **EMEA** | **Asia Pacific** |
| Constant currency regional sales (decline) growth | (4%) | 3% | (13%) |
| Foreign currency exchange impact | (1%) | (7%) | (4%) |
| Regional sales decline | (5%) | (4%) | (17%) |

| **Infrastructure** | | | |
|---|---|---|---|
| **Three months ended June 30, 2019:** | **Americas** | **EMEA** | **Asia Pacific** |
| Constant currency regional sales (decline) growth | (3%) | 5% | 7% |
| Foreign currency exchange impact | 0% | (9%) | (6%) |
| Regional sales (decline) growth | (3%) | (4%) | 1% |

| **Kennametal** | | | |
|---|---|---|---|
| **Three months ended June 30, 2019:** | **Americas** | **EMEA** | **Asia Pacific** |
| Constant currency regional sales decline | (2%) | (3%) | (4%) |
| Foreign currency exchange impact | (1%) | (7%) | (5%) |
| Regional sales decline | (3%) | (10%) | (9%) |

 

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# Non-GAAP Reconciliations (cont'd)

| **Industrial** | | | |
|---|---|---|---|
| **Year ended June 30, 2019:** | **Americas** | **EMEA** | **Asia Pacific** |
| Constant currency regional sales growth (decline) | 7% | 1% | (1%) |
| Foreign currency exchange impact | (3%) | (6%) | (4%) |
| Regional sales growth (decline) | 4% | (5%) | (5%) |

| **Widia** | | | |
|---|---|---|---|
| **Year ended June 30, 2019:** | **Americas** | **EMEA** | **Asia Pacific** |
| Constant currency regional sales growth | 0% | 7% | 5% |
| Foreign currency exchange impact | (1%) | (7%) | (6%) |
| Regional sales decline | (1%) | 0% | (1%) |

| **Infrastructure** | | | |
|---|---|---|---|
| **Year ended June 30, 2019:** | **Americas** | **EMEA** | **Asia Pacific** |
| Constant currency regional sales growth | 5% | 5% | 6% |
| Foreign currency exchange impact | (1%) | (6%) | (4%) |
| Regional sales growth (decline) | 4% | (1%) | 2% |

| **Kennametal** | | | |
|---|---|---|---|
| **Year ended June 30, 2019:** | **Americas** | **EMEA** | **Asia Pacific** |
| Constant currency regional sales growth | 5% | 2% | 2% |
| Foreign currency exchange impact | (1%) | (6%) | (4%) |
| Regional sales growth (decline) | 4% | (4%) | (2%) |

 

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# Non-GAAP Reconciliations (cont'd)

**Industrial**

| **Three months ended June 30, 2019:** | **General Engineering** | **Transportation** | **Aerospace and Defense** | **Energy** |
|---|---|---|---|---|
| Constant currency end market sales (decline) growth | (2%) | (13%) | 12% | (4%) |
| Foreign currency exchange impact | (5%) | (4%) | (4%) | (3%) |
| End market sales (decline) growth | (7%) | (17%) | 8% | (7%) |

**Widia**

| **Three months ended June 30, 2019:** | **General Engineering** |
|---|---|
| Constant currency end market sales decline | (5%) |
| Foreign currency exchange impact | (3%) |
| End market sales decline | (8%) |

**Infrastructure**

| **Three months ended June 30, 2019:** | **Energy** | **Earthworks** | **General Engineering** |
|---|---|---|---|
| Constant currency end market sales (decline) growth | (6%) | (4%) | 12% |
| Foreign currency exchange impact | (1%) | (4%) | (3%) |
| End market sales (decline) growth | (7%) | (8%) | 9% |

**Kennametal**

| **Three months ended June 30, 2019:** | **Energy** | **Earthworks** | **General Engineering** | **Transportation** | **Aerospace and Defense** |
|---|---|---|---|---|---|
| Constant currency end market sales (decline) growth | (6%) | (4%) | 1% | (13%) | 12% |
| Foreign currency exchange impact | (1%) | (4%) | (4%) | (4%) | (4%) |
| End market sales (decline) growth | (7%) | (8%) | (3%) | (17%) | 8% |

 

# Non-GAAP Reconciliations (cont'd)

**Industrial**

| Year ended June 30, 2019: | General Engineering | Transportation | Aerospace and Defense | Energy |
|---|---|---|---|---|
| Constant currency end market sales growth (decline) | 5% | (5%) | 16% | 1% |
| Foreign currency exchange impact | (3%) | (4%) | (4%) | (3%) |
| End market sales growth (decline) | 2% | (9%) | 12% | (2%) |

**Widia**

| Year ended June 30, 2019: | General Engineering |
|---|---|
| Constant currency end market sales growth | 3% |
| Foreign currency exchange impact | (4%) |
| End market sales decline | (1%) |

**Infrastructure**

| Year ended June 30, 2019: | Energy | Earthworks | General Engineering |
|---|---|---|---|
| Constant currency end market sales growth (decline) | 7% | (3%) | 12% |
| Foreign currency exchange impact | (1%) | (3%) | (2%) |
| End market sales growth (decline) | 6% | (6%) | 10% |

**Kennametal**

| Year ended June 30, 2019: | Energy | Earthworks | General Engineering | Transportation | Aerospace and Defense |
|---|---|---|---|---|---|
| Constant currency end market sales growth (decline) | 5% | (3%) | 7% | (5%) | 16% |
| Foreign currency exchange impact | (1%) | (3%) | (4%) | (4%) | (4%) |
| End market sales growth (decline) | 4% | (6%) | 3% | (9%) | 12% |

 

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# Non-GAAP Reconciliations (cont'd)

| (in thousands, except percents) | 6/30/2019 | 3/31/2019 | 12/31/2018 | 9/30/2018 | 6/30/2018 | Average |
|---|---|---|---|---|---|---|
| Current assets | $ 1,190,827 | $ 1,162,842 | $ 1,119,034 | $ 1,121,482 | $ 1,546,166 | |
| Current liabilities | 461,726 | 430,018 | 412,053 | 439,171 | 886,531 | |
| Working capital, GAAP | $ 729,101 | $ 732,824 | $ 706,981 | $ 682,311 | $ 659,635 | |
| Excluding items: | | | | | | |
| Cash and cash equivalents | (182,015) | (112,597) | (96,276) | (102,084) | (556,153) | |
| Other current assets | (57,381) | (58,221) | (63,509) | (63,461) | (63,257) | |
| Total excluded current assets | (239,396) | (170,818) | (159,785) | (165,545) | (619,410) | |
| Adjusted current assets | 951,431 | 992,024 | 959,249 | 955,937 | 926,756 | |
| Current maturities of long-term debt and capital leases, including notes payable | (157) | - | (3,371) | (756) | (400,200) | |
| Other current liabilities | (248,661) | (224,949) | (210,332) | (217,528) | (264,428) | |
| Total excluded current liabilities | (248,818) | (224,949) | (213,703) | (218,284) | (664,628) | |
| Adjusted current liabilities | 212,908 | 205,069 | 198,350 | 220,887 | 221,903 | |
| Primary working capital | $ 738,523 | $ 786,955 | $ 760,899 | $ 735,050 | $ 704,853 | $ 745,256 |
| | | Three Months Ended | | | | |
| | | 6/30/2019 | 3/31/2019 | 12/31/2018 | 9/30/2018 | Total |
| Sales | | $ 603,949 | $ 597,204 | $ 587,394 | $ 586,687 | $ 2,375,234 |
| Primary working capital as a percentage of sales | | | | | | 31.4% |

| **Net Debt** (in millions) | Three months ended | | | |
|---|---|---|---|---|
| | 6/30/2019 | 6/30/2018 | 6/30/2017 | 6/30/2016 |
| Total debt (gross) | $ 592.6 | $ 991.7 | $ 695.9 | $ 695.4 |
| Less: cash and cash equivalents | 182.0 | 556.2 | 190.6 | 161.6 |
| Net debt | $ 410.6 | $ 435.6 | $ 505.3 | $ 533.9 |

 

# Non-GAAP Reconciliations (cont'd)

| (in thousands, except percents) | 6/30/2018 | 3/31/2018 | 12/31/2017 | 9/30/2017 | 6/30/2017 | Average |
|---|---|---|---|---|---|---|
| Current assets | $ 1,546,166 | $ 1,240,587 | $ 1,128,382 | $ 1,075,915 | $ 1,113,901 | |
| Current liabilities | 886,531 | 477,790 | 407,621 | 396,967 | 461,478 | |
| Working capital, GAAP | $ 659,635 | $ 762,797 | $ 720,761 | $ 678,948 | $ 652,423 | |
| Excluding items: | | | | | | |
| Cash and cash equivalents | (556,153) | (221,906) | (159,940) | (110,697) | (190,629) | |
| Other current assets | (63,257) | (70,926) | (68,057) | (64,874) | (55,166) | |
| Total excluded current assets | (619,410) | (292,832) | (227,997) | (175,571) | (245,795) | |
| Adjusted current assets | 926,756 | 947,755 | 900,385 | 900,344 | 868,106 | |
| Current maturities of long-term debt and capital leases, including notes payable | (400,200) | (1,399) | (1,360) | (1,252) | (925) | |
| Other current liabilities | (264,428) | (256,186) | (215,669) | (209,373) | (244,831) | |
| Total excluded current liabilities | (664,628) | (257,585) | (217,029) | (210,625) | (245,756) | |
| Adjusted current liabilities | 221,903 | 220,205 | 190,592 | 186,342 | 215,722 | |
| Primary working capital | $ 704,853 | $ 727,550 | $ 709,793 | $ 714,002 | $ 652,384 | $ 701,716 |

| | | Three Months Ended | | | |
|---|---|---|---|---|---|
| | 6/30/2018 | 3/31/2018 | 12/31/2017 | 9/30/2017 | Total |
| Sales | $ 646,119 | $ 607,936 | $ 571,345 | $ 542,454 | $ 2,367,854 |
| Primary working capital as a percentage of sales | | | | | 29.6% |

 

# Non-GAAP Reconciliations (cont'd)

| (in thousands, except percents) | 6/30/2017 | 3/31/2017 | 12/31/2016 | 9/30/2016 | 6/30/2016 | Average |
|---|---|---|---|---|---|---|
| Current assets | $ 1,113,901 | $ 1,043,046 | $ 971,745 | $ 991,837 | $ 1,075,341 | |
| Current liabilities | 461,478 | 426,799 | 390,151 | 402,574 | 427,275 | |
| Working capital, GAAP | $ 652,423 | $ 616,247 | $ 581,594 | $ 589,263 | $ 648,066 | |
| Excluding items: | | | | | | |
| Cash and cash equivalents | (190,629) | (100,817) | (102,001) | (119,411) | (161,579) | |
| Other current assets | (55,166) | (75,061) | (80,375) | (64,660) | (84,016) | |
| Total excluded current assets | (245,795) | (175,878) | (182,376) | (184,071) | (245,595) | |
| Adjusted current assets | 868,106 | 867,168 | 789,369 | 807,766 | 829,746 | |
| Current maturities of long-term debt and capital leases, including notes payable | (925) | (1,591) | (2,263) | (1,381) | (1,895) | |
| Other current liabilities | (244,831) | (234,367) | (219,008) | (225,189) | (243,341) | |
| Total excluded current liabilities | (245,756) | (235,958) | (221,271) | (226,570) | (245,236) | |
| Adjusted current liabilities | 215,722 | 190,841 | 168,880 | 176,004 | 182,039 | |
| Primary working capital | $ 652,384 | $ 676,327 | $ 620,489 | $ 631,762 | $ 647,707 | $ 645,734 |

| | | Three Months Ended | | | |
|---|---|---|---|---|---|
| | 6/30/2017 | 3/31/2017 | 12/31/2016 | 9/30/2016 | Total |
| Sales | $ 565,025 | $ 528,630 | $ 487,573 | $ 477,140 | $ 2,058,368 |
| Primary working capital as a percentage of sales | | | | | 31.4% |

 | 

# Non-GAAP Reconciliations (cont'd)

| (in thousands, except percents) | 6/30/2016 | 3/31/2016 | 12/31/2015 | 9/30/2015 | 6/30/2015 | Average |
|---|---|---|---|---|---|---|
| Current assets | $ 1,075,341 | $ 1,099,260 | $ 1,062,992 | $ 1,168,511 | $ 1,258,546 | |
| Current liabilities | 427,275 | 421,415 | 394,983 | 438,406 | 482,744 | |
| Working capital, GAAP | $ 648,066 | $ 677,845 | $ 668,009 | $ 730,105 | $ 775,802 | |
| Excluding items: | | | | | | |
| Cash and cash equivalents | (161,579) | (136,564) | (138,978) | (97,199) | (105,494) | |
| Other current assets | (84,016) | (111,479) | (113,113) | (120,583) | (132,148) | |
| Total excluded current assets | (245,595) | (248,043) | (252,091) | (217,782) | (237,642) | |
| Adjusted current assets | 829,746 | 851,217 | 810,901 | 950,729 | 1,020,904 | |
| Current maturities of long-term debt and capital leases, including notes payable | (1,895) | (4,140) | (5,942) | (25,285) | (15,702) | |
| Other current liabilities | (243,341) | (247,943) | (237,444) | (235,385) | (279,661) | |
| Total excluded current liabilities | (245,236) | (252,083) | (243,386) | (260,670) | (295,363) | |
| Adjusted current liabilities | 182,039 | 169,332 | 151,597 | 177,736 | 187,381 | |
| Primary working capital | $ 647,707 | $ 681,885 | $ 659,304 | $ 772,993 | $ 833,523 | $ 719,082 |

| | | Three Months Ended | | | | |
|---|---|---|---|---|---|---|
| | | 6/30/2016 | 3/31/2016 | 12/31/2015 | 9/30/2015 | Total |
| Sales | | $ 521,224 | $ 497,837 | $ 524,021 | $ 555,354 | $ 2,098,436 |
| Primary working capital as a percentage of sales | | | | | | 34.3% |

 

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