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KENNAMETAL INC
Form 8-K
April 30, 2003

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): APRIL 30, 2003

KENNAMETAL INC.
(Exact name of registrant as specified in its charter)

Commission file number 1-5318

PENNSYLVANIA
(State or other jurisdiction
of incorporation)

25-0900168
(I.R.S. Employer
Identification No.)

WORLD HEADQUARTERS
1600 TECHNOLOGY WAY
P.O. BOX 231
LATROBE, PENNSYLVANIA 15650-0231
(Address of registrant's principal executive offices)

Registrant's telephone number, including area code: (724) 539-5000

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ITEM 9. INFORMATION PROVIDED UNDER ITEM 12 - DISCLOSURE OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

In accordance with Securities and Exchange Commission Release No. 33-8216, the following information, is furnished pursuant to Item 12, "Results of Operations and Financial Condition".

On April 30, 2003, Kennametal Inc. ("Kennametal") issued a press release announcing financial results for its third quarter ended March 31, 2003.

The press release contains non-GAAP financial measures, including gross profit, operating expense, operating income, net income (loss) and diluted EPS in each case excluding special items. The special items include: restructuring charges, Widia integration costs and goodwill impairment. Kennametal management excludes these items in measuring and compensation internal performance to better understand underlying operations. We believe investors should have available the same information that management uses to measure and compensate performance. Kennametal management believes that presentation of these non-GAAP financial

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measures provides useful information into the results of operations of the company for the current, past and future periods.

Kennametal also presents free operating cash flow and primary working capital in the press release.

Free operating cash flow is a non-GAAP presentation and is defined as cash provided by continuing operations (in accordance with GAAP) less capital expenditures and proceeds from asset disposals. Free operating cash flow is considered to be an important indicator of Kennametal's ability to generate liquidity because it better represents cash generated from operations that can be used for strategic initiatives, dividends or debt repayment.

Primary working capital is a non-GAAP presentation and is defined as accounts receivable, net of allowance for doubtful accounts, plus inventories minus accounts payable. The most directly comparable GAAP number 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 business unit level and is used as such for internal performance measurement.

Additionally, during our quarterly teleconference we may use various non-GAAP financial measures to describe the underlying operating results. Accordingly, we have compiled below certain reconciliations as required by Regulation G.

EBIT

EBIT is an acronym for Earnings Before Interest and Taxes and is not a calculation in accordance with accounting principles generally accepted in the United States (GAAP). However, we believe that EBIT is widely used as a measure of operating performance and we believe EBIT to be 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.

- 2

| Kennametal Inc. EBIT Reconciliation | Quarter Ended March 31, | | As a p |
|---|----------------------------|----------|--------|
| | 2003 | 2002 | 2003 |
| | ----- | ----- | ----- |
| Operating income, as reported | \$24,604 | \$27,280 | 5.5% |
| Adjusted other (expense) income(1) | (1,084) | 124 | |
| | ----- | ----- | |
| EBIT | 23,520 | 27,404 | 5.1% |
| Special charges | 5,198 | 5,165 | |
| | ----- | ----- | |
| EBIT, excluding special charges | \$28,718 | \$32,569 | 6.3% |
| | | | |
| (1) Other expense (income), as reported | (\$713) | \$14 | |
| Interest income | (777) | (348) | |
| Securitization fees | 406 | 458 | |
| | ----- | ----- | |

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Adjusted other (expense) income (\$1,084) \$124

| MSSG SEGMENT | Quarter Ended March 31, | |
|---------------------------|----------------------------|------------|
| | 2003 | 2002 |
| Sales, as reported | \$ 297,995 | \$ 224,971 |
| LESS: | | |
| Widia sales | 54,407 | -- |
| Foreign currency exchange | 12,425 | -- |
| Adjusted Sales | \$ 231,163 | \$ 224,971 |

| MSSG EBIT | Quarter Ended March 31, | | As Percent 2003 |
|------------------------------------|----------------------------|-----------|-----------------------|
| | 2003 | 2002 | |
| MSSG operating income, as reported | \$ 24,156 | \$ 25,999 | 8 |
| Other (expense) income | (206) | 640 | |
| EBIT | 23,950 | 26,639 | |
| Adjustments: | | | |
| MSSG Restructuring | 1,077 | 1,904 | |
| Widia Integration | 1,911 | -- | |
| EBIT, excluding special charges | \$ 26,938 | \$ 28,543 | 9 |

-3

| AMSG SEGMENT | Quarter Ended March 31, | |
|---------------------------|----------------------------|-----------|
| | 2003 | 2002 |
| Sales, as reported | \$ 79,039 | \$ 72,879 |
| LESS: | | |
| Foreign currency exchange | 3,399 | -- |

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| | | |
|----------------|-----------|-----------|
| Adjusted Sales | \$ 75,640 | \$ 72,879 |
|----------------|-----------|-----------|

| | Quarter Ended March 31, | | A Perce 2003 |
|------------------------------------|----------------------------|----------|--------------------|
| | 2003 | 2002 | |
| AMSG EBIT | | | |
| AMSG operating income, as reported | \$ 8,757 | \$ 6,988 | 1 |
| Other (expense) | (96) | (135) | |
| EBIT | 8,661 | 6,853 | |
| Adjustments: | | | |
| AMSG restructuring | 1,104 | 619 | |
| Widia Integration | 18 | -- | |
| EBIT, excluding special charges | \$ 9,783 | \$ 7,472 | 1 |

| | Quarter Ended March 31, | |
|-----------------------|----------------------------|-----------|
| | 2003 | 2002 |
| J&L SEGMENT | | |
| Sales, as reported | \$ 51,729 | \$ 58,873 |
| LESS: | | |
| Strong Tool Co. sales | -- | 7,802 |
| Foreign exchange | 670 | -- |
| Adjusted Sales | \$ 51,059 | \$ 51,071 |

| | Quarter Ended March 31, | | A Perce 2003 |
|-----------------------------------|----------------------------|----------|--------------------|
| | 2003 | 2002 | |
| J&L EBIT | | | |
| J&L operating income, as reported | \$ 1,323 | \$ 1,208 | 2 |
| Other (expense) | (6) | (7) | |
| EBIT | 1,317 | 1,201 | |
| Adjustments: | | | |
| J&L restructuring | 801 | 2,375 | |
| EBIT, excluding special charges | \$ 2,118 | \$ 3,576 | 4 |

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-4

| FSS SEGMENT | Quarter Ended March 31, | |
|--------------------|----------------------------|-----------|
| | 2003 | 2002 |
| Sales, as reported | \$ 30,480 | \$ 37,129 |
| Adjustments | -- | -- |
| Adjusted Sales | \$ 30,480 | \$ 37,129 |

| FSS EBIT | Quarter Ended March 31, | | Percent 2003 |
|-----------------------------------|----------------------------|--------|-----------------|
| | 2003 | 2002 | |
| FSS operating income, as reported | \$ 31 | \$ 380 | . |
| Other (expense) | -- | (6) | |
| EBIT | 31 | 374 | |
| Adjustments: | | | |
| FSS restructuring | 9 | 264 | |
| EBIT, excluding special charges | \$ 40 | \$ 638 | . |

Forecasted Result

| RECONCILIATION OF EPS | Quarter Ended June 30, 2003 |
|---|--------------------------------|
| Forecasted earnings on a GAAP basis | \$0.17 - \$0.37 |
| Excluding Forecasted Restructuring and Integration costs | \$0.21 - \$0.06 |
| Forecasted EPS excluding restructuring and integration | \$0.38 - \$0.43 |
| Excluding Forecasted Widia dilution | \$0.02 - \$0.02 |
| Forecasted EPS, excluding restructuring and integration and Widia dilution | \$0.40 - \$0.45 |
| Excluding pension income decline | \$0.04 - \$0.04 |
| Forecasted EPS, excluding restructuring and integration, Widia dilution and pension income decline | \$0.44 - \$0.49 |

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| Exhibit ----- | Exhibit Index Description ----- |
|------------------|---|
| 99.1 | Press Release dated April 30, 2003. Furnished herewith. |

-5

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

KENNAMETAL INC.

Date: April 30, 2003

By: /s/ TIMOTHY A. HIBBARD

Timothy A. Hibbard
Corporate Controller and
Chief Accounting Officer

-6