

Edgar Filing: KENNAMETAL INC - Form 8-K

KENNAMETAL INC
Form 8-K
October 29, 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): OCTOBER 29, 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 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On October 29, 2003, Kennametal Inc. ("Kennametal" or "the Company") issued a press release announcing financial results for its first quarter ended September 30, 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 and Widia integration costs. Kennametal management excludes these items in measuring and compensating internal performance to more easily compare the Company's financial performance period to period. 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 measures provides useful information into the results of operations of the company for the current, past and future periods.

Free operating cash flow is a non-GAAP presentation and is defined as cash

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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.

Debt-to-Capital

Debt to equity in accordance with GAAP is defined as total debt divided by Stockholder's Equity and total debt. Debt to equity is defined by Kennametal as total current and long term debt divided by total Shareowner's equity plus minority interest plus total debt. Kennametal adjusted its debt to equity percentage for the additional minimum pension charge and electronics impairment that is recorded in equity. Management believes that the adjustment provides additional insight into the underlying capital structuring and performance of the Company.

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

Primary Working Capital

Primary working capital is a non-GAAP presentation 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 business unit level and is used as such for internal performance measurement.

EBIT

EBIT is an acronym for Earnings Before Interest and Taxes and is not a calculation in accordance with GAAP. The most directly comparable GAAP measure is net income except with respect to reporting segments in which the most comparable GAAP measure is operating income. 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.

Adjusted Sales

Kennametal adjusted sales as reported under GAAP for specific items including acquisitions and foreign currency translation. Management believes that adjusting the sales as reported under GAAP provides additional insight into the underlying operations. Management uses this information in reviewing operating performance and in the determination of compensation.

Adjusted Gross Profit

Kennametal adjusted gross profit as recorded under GAAP for specific items including Widia integration and restructuring charges. Management believes that the adjusted gross profit information is an important indicator of the Company's underlying operating performance.

Operating Expense Reconciliation

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Kennametal adjusted operating expense as reported under GAAP for Widia Integration, Restructuring charges, Widia operating expense, foreign exchange and decreased pension income. Management believes that the adjusted operating expense provides additional insight into the underlying operations. Management uses this information in reviewing operating performance and in the determination of compensation.

SUPPLEMENTAL INFORMATION AND RECONCILIATIONS

RECONCILIATION TO GAAP WORKING CAPITAL (UNAUDITED)

	September 30,	
	2003	2002
	-----	-----
Current assets	\$ 796,365	\$ 750,397
Current liabilities	314,789	289,860
	-----	-----
Working capital in accordance with GAAP	481,576	460,537
Excluded items:		
Cash and cash equivalents	(14,720)	(14,300)
Deferred income taxes	(114,619)	(71,084)
Other current assets	(47,003)	(40,110)
	-----	-----
Total excluded current assets	\$ (176,342)	\$ (125,494)
Adjusted current assets	620,023	624,903
Short-term debt, including notes payable	(11,375)	(16,992)
Accrued liabilities	(195,761)	(171,045)
	-----	-----
Total excluded current liabilities	\$ (207,136)	\$ (188,037)
Adjusted current liabilities	107,653	101,823
Primary working capital	\$ 512,370	\$ 523,080

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SUPPLEMENTAL INFORMATION AND RECONCILIATIONS

KENNAMETAL INC. EBIT RECONCILIATION (UNAUDITED)

	September 30,	
	2003	2002
	-----	-----

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	-----	-----
Net income, as reported	\$ 8,764	\$ 10,829
As % of sales	2.0%	2.7%
Add back:		
Interest	6,600	8,485
Taxes	4,452	5,255
	-----	-----
EBIT	19,816	24,569
Additional adjustments:		
Minority interest	695	338
Restructuring, including items in COGS	3,393	(181)
Widia integration	1,559	711
Interest income	(436)	(640)
Securitization fees	397	537
	-----	-----
Adjusted EBIT	\$ 25,424	\$ 25,334
	=====	=====
As of % of sales	5.7%	6.3%

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SUPPLEMENTAL INFORMATION AND RECONCILIATIONS

MSSG SEGMENT (UNAUDITED):

	Quarter Ended September 30,	
	2003	2002
	-----	-----
Sales, as reported	\$271,129	\$240,422
Widia sales(1)	(26,018)	-
Foreign currency exchange	(11,098)	-
	-----	-----
Adjusted sales	\$234,013	\$240,422
	=====	=====

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MSSG EBIT (UNAUDITED):

	Quarter Ended September 30,	
	2003	2002
	-----	-----
MSSG operating income, as reported	\$23,502	\$23,473
As % of sales	8.7%	9.8%
Other income	264	189
	-----	-----
EBIT	23,766	23,662
Adjustments:		
MSSG restructuring, including items in COGS	3,393	-
Widia integration	1,511	711
	-----	-----
EBIT, excluding special charges	\$28,670	\$24,373
	=====	=====
As % of sales	10.6%	10.1%

(1) Widia was acquired on August 30, 2002. Sales related to Widia for July and August have been removed from the 2003 results in order to reflect comparable Widia activity for both years.

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SUPPLEMENTAL INFORMATION AND RECONCILIATIONS

AMSG SEGMENT (UNAUDITED):

	Quarter Ended September 30,	
	2003	2002
	-----	-----
Sales, as reported	\$ 93,631	\$ 83,409
Widia acquisition(1)	(5,476)	-
Foreign currency exchange	(2,775)	-
	-----	-----

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Adjusted sales	\$ 85,380	\$ 83,409
	=====	=====

AMSG EBIT (UNAUDITED):

	Quarter Ended September 30,	
	2003	2002
	-----	-----
AMSG operating income (expense), as reported	\$ 11,822	\$ 11,385
As % of sales	12.6%	13.6%
Other income (expense)	113	58
	-----	-----
EBIT	11,935	11,443
Adjustments:		
AMSG restructuring	-	(181)
Widia integration	48	-
	-----	-----
EBIT, excluding special charges	\$ 11,983	\$ 11,262
	=====	=====
As % of sales	12.8%	13.5%

- (1) Widia was acquired on August 30, 2002. Sales related to Widia for July and August have been removed from the 2003 results in order to reflect comparable Widia activity for both years.

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SUPPLEMENTAL INFORMATION AND RECONCILIATIONS

J&L SEGMENT (UNAUDITED):

	Quarter Ended September 30,	
	2003	2002
	-----	-----

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Sales, as reported	\$ 48,139	\$ 48,606
Foreign currency exchange	(221)	-
Adjusted sales	\$ 47,918	\$ 48,606

J&L EBIT (UNAUDITED):

	Quarter Ended September 30,	
	2003	2002
J&L operating income, as reported	\$ 2,685	\$ 2,301
As % of sales	5.6%	4.7%
Other (expense)	-	(11)
EBIT	2,685	2,290
Adjustments:		
J&L restructuring	-	-
EBIT, excluding special charges	\$ 2,685	\$ 2,290
As % of sales	5.6%	4.7%

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SUPPLEMENTAL INFORMATION AND RECONCILIATIONS

FSS SEGMENT (Unaudited):

	Quarter Ended September 30,	
	2003	2002
Sales, as reported	\$ 31,676	\$ 31,781
Foreign currency exchange	(79)	-

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Adjusted sales	\$ 31,597	\$ 31,781
	=====	=====

FSS EBIT (Unaudited):

	Quarter Ended September 30,	
	2003	2002
	-----	-----
FSS operating income, as reported	\$ (281)	\$ (19)
As % of sales	-0.9%	-0.1%
Other (expense) income	2	100
	-----	-----
EBIT	(279)	81
Adjustments:		
FSS restructuring	-	-
	-----	-----
EBIT, excluding special charges	\$ (279)	\$ 81
	=====	=====
As % of sales	-0.9%	0.3%

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SUPPLEMENTAL INFORMATION AND RECONCILIATIONS

RECONCILIATION TO GAAP - GROSS PROFIT (UNAUDITED)

	QUARTER ENDED SEPTEMBER 30,		QUARTER ENDED SEPTEMBER 30,
	2003	AS A % OF SALES	2002
	-----	-----	-----
Gross profit	\$144,107	32.4%	\$130,969

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Widia integration and restructuring charges	2,954	0.7%	-
	-----	----	-----
Gross profit, excluding special items	\$147,061	33.1%	\$130,969
	=====	=====	=====

OPERATING EXPENSE RECONCILIATION (UNAUDITED):

	Quarter ended Sept. 30, 2003	Quarter ended Sept. 30, 2002
	-----	-----
Operating expense, as reported	\$ 121,239	\$ 104,835
Integration costs	(1,448)	(711)
	-----	-----
Operating expense, excluding special items	119,791	104,124
Less:		
Widia operating expense	8,441	-
Unfavorable foreign exchange	4,979	-
	-----	-----
Operating expense, excluding special items, Widia expense and foreign exchange	\$ 106,371	\$ 104,124
	=====	=====

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Exhibit	Exhibit Index
-----	Description

99.1 Press Release dated October 29, 2003. Furnished herewith.

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.

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KENNAMETAL INC.

Date: October 29, 2003

By: /s/ TIMOTHY A. HIBBARD

Timothy A. Hibbard
Corporate Controller and
Chief Accounting Officer