

KENNAMETAL INC
Form 8-K
July 28, 2004

Table of Contents

**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): July 28, 2004

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**

Table of Contents

| Item | Description | Page No. |
|-------------|---|-----------------|
| 1. | Changes in Control of Registrant | N/A |
| 2. | Acquisitions or Disposition of Assets | N/A |
| 3. | Bankruptcy or Receivership | N/A |
| 4. | Changes in Registrant's Certifying Accountant | N/A |
| 5. | Other Events and Regulation FD Disclosure | N/A |
| 6. | Resignations of Registrant's Directors | N/A |
| 7. | Financial Statements and Exhibits | N/A |
| 8. | Change in Fiscal Year | N/A |
| 9. | Regulation FD Disclosure | N/A |
| 10. | | N/A |

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Amendments to Registrant's Code of Ethics, or Waiver of a Provision
of the Code of Ethics

| | | |
|------------|---|-----|
| | Temporary Suspension of Trading under Registrant's Employee | N/A |
| 11. | Benefit Plans | |
| <u>12.</u> | <u>Results of Operations and Financial Condition</u> | 2 |
| | <u>Earnings Release</u> | |

Table of Contents

Item 12. Results of Operations and Financial Condition

On July 28, 2004, Kennametal Inc. (Kennametal or the Company) issued a press release announcing financial results for its fourth quarter ended June 30, 2004.

The press release contains certain non-GAAP financial measures, including gross profit, operating expense, operating income, other (income) expense, net, net income and diluted EPS in each case excluding special items. The special items include: restructuring charges, Widia integration costs, Electronics impairment, pension curtailment, gain on Toshiba Tungaloy investment, and a charge related to a note receivable. 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 about the results of operations of the Company for the current, past and future periods.

In addition to the items above, the press release also contains free operating cash flow and debt-to-capital, as defined below:

Free Operating Cash Flow

Free operating cash flow is a non-GAAP financial measure and is defined as cash provided by operations (in accordance with GAAP) less capital expenditures plus proceeds from disposals of fixed assets. Free operating cash flow is considered to be an important indicator of Kennametal's cash generating capability because it better represents cash generated from operations that can be used for strategic initiatives (such as acquisitions), dividends, debt repayment and other investing and financing activities.

Debt-to-Capital

Debt-to-equity in accordance with GAAP is defined as total debt divided by Shareowners' equity and total debt. Debt-to-capital is defined by Kennametal as total current and long term debt divided by total Shareowner's equity plus minority interest plus total debt. Management believes that these financial measures provide additional insight into the underlying capital structuring and performance of the Company.

A copy of the Company's earnings announcement is reflected under Exhibit 99.1 attached hereto. Reconciliations of the above non-GAAP financial measures are included in the earnings announcement.

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

Table of Contents

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. 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. Additionally, Kennametal will adjust EBIT for restructuring charges, interest income, and other items.

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 and pension curtailment. Management believes that the adjusted gross profit information is an important indicator of the Company's underlying operating performance.

Operating Expense Reconciliation

Kennametal adjusted operating expense as reported under GAAP for Widia integration costs, Widia operating expense, pension curtailment, a charge related to a note receivable, and foreign exchange. 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.

Table of Contents**SUPPLEMENTAL INFORMATION AND RECONCILIATIONS****FINANCIAL HIGHLIGHTS****RECONCILIATION OF PRIMARY WORKING CAPITAL TO GAAP WORKING CAPITAL (Unaudited)**

| | June 30, | |
|--|-----------------|-------------|
| | 2004 | 2003 |
| Current assets | \$ 796,945 | \$ 782,352 |
| Current liabilities | 489,382 | 336,347 |
| Working capital in accordance with GAAP | 307,563 | 446,005 |
| Excluded items: | | |
| Cash and cash equivalents | (25,940) | (15,093) |
| Deferred income taxes | (95,240) | (97,237) |
| Other current assets | (40,443) | (48,606) |
| Total excluded current assets | \$(161,623) | \$(160,936) |
| Adjusted current asset | 635,322 | 621,416 |
| Short-term debt, including notes payable | (126,807) | (10,845) |
| Accrued liabilities | (214,359) | (206,993) |
| Total excluded current liabilities | \$(341,166) | \$(217,838) |
| Adjusted current liabilities | 148,216 | 118,509 |
| Primary working capital | \$ 487,106 | \$ 502,907 |

-more-

Table of Contents**FINANCIAL HIGHLIGHTS (Continued)****KENNAMETAL INC. EBIT RECONCILIATION (Unaudited)**

| | Quarter Ended June 30, | | Twelve Months Ended June 30, | |
|---|---------------------------|------------|---------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income, as reported | \$29,852 | \$ (4,868) | \$ 73,578 | \$ 18,130 |
| As % of Sales | 5.5% | -1.0% | 3.7% | 1.0% |
| Add back: | | | | |
| Interest | 6,405 | 9,108 | 25,884 | 36,166 |
| Taxes | 14,154 | 3,678 | 35,500 | 14,300 |
| EBIT | 50,411 | 7,918 | 134,962 | 68,596 |
| Additional adjustments: | | | | |
| Minority interest | (36) | 74 | 1,596 | 1,860 |
| Restructuring and asset impairment charges ⁽¹⁾ | | 20,305 | 6,520 | 31,954 |
| Widia integration | | 3,681 | 1,559 | 7,685 |
| Pension Curtailment | | | 1,299 | |
| Gain on Toshiba Tungaloy Investment | | | (4,397) | |
| Note Receivable | | | 2,000 | |
| Interest income | (369) | (549) | (1,620) | (2,815) |
| Securitization fees | 443 | 413 | 1,679 | 1,892 |
| Adjusted EBIT | \$50,449 | \$31,842 | \$143,598 | \$109,172 |
| As % of Sales | 9.3% | 6.9% | 7.3% | 6.2% |

(1) Includes charges in cost of goods sold and restructuring expense.

-more-

Table of Contents**FINANCIAL HIGHLIGHTS (Continued)****MSSG SEGMENT (Unaudited):**

| | Quarter Ended June 30, | | Twelve Months Ended June 30, | |
|----------------------------|---------------------------|------------------|---------------------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Sales, as reported | \$326,377 | \$289,996 | \$1,198,505 | \$1,086,831 |
| Widia sales ⁽¹⁾ | | | (26,018) | |
| Foreign currency exchange | (12,014) | | (66,694) | |
| Adjusted sales | <u>\$314,363</u> | <u>\$289,996</u> | <u>\$1,105,793</u> | <u>\$1,086,831</u> |

MSSG EBIT (Unaudited):

| | Quarter Ended June 30, | | Twelve Months Ended June 30, | |
|------------------------------------|---------------------------|-----------------|---------------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| MSSG operating income, as reported | \$43,720 | \$23,616 | \$126,657 | \$ 88,213 |
| As % of sales | 13.4% | 8.1% | 10.6% | 8.1% |
| Other income (expense) | <u>669</u> | <u>3,073</u> | <u>2,608</u> | <u>3,619</u> |
| EBIT | 44,389 | 26,689 | 129,265 | 91,832 |
| Adjustments: | | | | |
| MSSG restructuring ⁽²⁾ | | 3,134 | 5,023 | 9,060 |
| Widia integration | | 2,511 | 1,511 | 6,493 |
| EBIT, excluding special charges | <u>\$44,389</u> | <u>\$32,334</u> | <u>\$135,799</u> | <u>\$107,385</u> |
| As % of sales | 13.6% | 11.1% | 11.3% | 9.9% |

(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.

(2) Includes charges in cost of goods sold and restructuring expense.

-more-

Table of Contents**FINANCIAL HIGHLIGHTS (Continued)****AMSG SEGMENT (Unaudited):**

| | Quarter Ended June 30, | | Twelve Months Ended June 30, | |
|----------------------------|---------------------------|------------------|---------------------------------|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Sales, as reported | \$ 119,227 | \$ 96,699 | \$ 419,073 | \$ 353,262 |
| Widia sales ⁽¹⁾ | | | (5,476) | |
| Foreign currency exchange | (2,509) | | (23,032) | |
| Adjusted sales | <u>\$ 116,718</u> | <u>\$ 96,699</u> | <u>\$ 390,565</u> | <u>\$ 353,262</u> |

AMSG EBIT (Unaudited):

| | Quarter Ended June 30, | | Twelve Months Ended June 30, | |
|---|---------------------------|------------------|---------------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| AMSG operating income (loss), as reported | \$ 16,793 | \$ (7,282) | \$ 53,168 | \$ 19,762 |
| As % of sales | 14.1% | -7.5% | 12.7% | 5.6% |
| Other income (expense) | <u>902</u> | <u>111</u> | <u>2,017</u> | <u>(30)</u> |
| EBIT | 17,695 | (7,171) | 55,185 | 19,732 |
| Adjustments: | | | | |
| AMSG restructuring ⁽²⁾ | | 1,224 | 1,497 | 4,406 |
| Widia integration | | 1,170 | 48 | 1,192 |
| AMSG Electronics impairment | | 16,110 | | 16,110 |
| EBIT, excluding special charges | <u>\$ 17,695</u> | <u>\$ 11,333</u> | <u>\$ 56,730</u> | <u>\$ 41,440</u> |
| As % of sales | 14.8% | 11.7% | 13.5% | 11.7% |

(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.

(2) Includes charges in cost of goods sold and restructuring expense.

-more-

7

Table of Contents**FINANCIAL HIGHLIGHTS (Continued)****J&L SEGMENT (Unaudited):**

| | Quarter Ended June 30, | | Twelve Months Ended June 30, | |
|---------------------------|---------------------------|-----------------|---------------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Sales, as reported | \$59,741 | \$48,158 | \$218,295 | \$196,170 |
| Foreign currency exchange | (722) | | (2,199) | |
| Adjusted sales | <u>\$59,019</u> | <u>\$48,158</u> | <u>\$216,096</u> | <u>\$196,170</u> |

J&L EBIT (Unaudited):

| | Quarter Ended June 30, | | Twelve Months Ended June 30, | |
|-----------------------------------|---------------------------|--------------|---------------------------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| J&L operating income, as reported | \$6,137 | \$931 | \$19,547 | \$6,140 |
| As % of sales | 10.3% | 1.9% | 9.0% | 3.1% |
| Other (expense) | <u>3</u> | <u>(3)</u> | <u>26</u> | <u>(58)</u> |
| EBIT | 6,140 | 928 | 19,573 | 6,082 |
| Adjustments: | | | | |
| J&L restructuring | <u></u> | <u>(64)</u> | <u></u> | <u>1,203</u> |
| EBIT, excluding special charges | <u>\$6,140</u> | <u>\$864</u> | <u>\$19,573</u> | <u>\$7,285</u> |
| As % of sales | 10.3% | 1.8% | 9.0% | 3.7% |

-more-

Table of Contents**FINANCIAL HIGHLIGHTS (Continued)****FSS SEGMENT (Unaudited):**

| | Quarter Ended June 30, | | Twelve Months Ended June 30, | |
|---------------------------|---------------------------|-----------------|---------------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Sales, as reported | \$36,513 | \$28,912 | \$135,568 | \$122,694 |
| Foreign currency exchange | (112) | | (440) | |
| Adjusted sales | <u>\$36,401</u> | <u>\$28,912</u> | <u>\$135,128</u> | <u>\$122,694</u> |

FSS EBIT (Unaudited):

| | Quarter Ended June 30, | | Twelve Months Ended June 30, | |
|--|---------------------------|--------------|---------------------------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| FSS operating income / (loss), as reported | \$882 | \$264 | \$818 | \$(56) |
| As % of sales | 2.4% | 0.9% | 0.6% | 0.0% |
| Other (expense) income | — | — | 2 | 58 |
| EBIT | 882 | 264 | 820 | 2 |
| Adjustments: | | | | |
| FSS restructuring | — | — | — | 38 |
| EBIT, excluding special charges | <u>\$882</u> | <u>\$264</u> | <u>\$820</u> | <u>\$ 40</u> |
| As % of sales | 2.4% | 0.9% | 0.6% | 0.0% |

-more-

Table of Contents**RECONCILIATION TO GAAP GROSS PROFIT (Unaudited)**

| | Quarter Ended June 30, 2004 | | Quarter Ended June 30, 2003 | | Twelve Months Ended June 30, 2004 | | Twelve Months Ended June 30, 2003 | |
|--|--------------------------------|-----------------------|--------------------------------|-----------------------|---|-----------------------|---|-----------------------|
| | 2004 | As a % of Sales | 2003 | As a % of Sales | 2004 | As a % of Sales | 2003 | As a % of Sales |
| Gross Profit | \$ 185,774 | 34.3% | \$ 148,791 | 32.1% | \$ 653,367 | 33.1% | \$ 568,904 | 32.3% |
| Widia integration and restructuring charges | | 0.0% | 2,011 | 0.4% | 2,961 | 0.2% | 2,209 | 0.2% |
| Pension Curtailment | | 0.0% | | 0.0% | 779 | 0.0% | | 0.0% |
| Gross Profit, excluding special items | \$ 185,774 | 34.3% | \$ 150,802 | 32.5% | \$ 657,107 | 33.3% | \$ 571,113 | 32.5% |

OPERATING EXPENSE RECONCILIATION (Unaudited):

| | Quarter ended June 30, 2004 | Quarter ended June 30, 2003 | Twelve Months Ended June 30, 2004 | Twelve Months Ended June 30, 2003 |
|--|--------------------------------------|--------------------------------------|---|---|
| Operating expense, as reported | \$ 134,441 | \$ 121,757 | \$ 512,621 | \$ 464,861 |
| Widia integration costs | | (1,670) | (1,448) | (5,476) |
| Pension Curtailment | | | (520) | |
| Note Receivable | | | (1,817) | |
| Operating expense, excluding special items | 134,441 | 120,087 | 508,836 | 459,385 |
| Less: | | | | |
| Widia operating expense ⁽¹⁾ | | | 8,441 | |
| Unfavorable foreign exchange | 3,895 | | 23,321 | |
| Operating expense, excluding special items, Widia expense and foreign exchange | \$ 130,546 | \$ 120,087 | \$ 477,074 | \$ 459,385 |

- (1) Widia was acquired on August 30, 2002. Operating expenses 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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Table of Contents

Signatures

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

KENNAMETAL INC.

Registrant

Date: July 28, 2004

By:

/s/ Timothy A. Hibbard

Timothy A. Hibbard
Corporate Controller and Chief
Accounting Officer