

KENNAMETAL INC
Form 8-K
February 02, 2018

UNITED STATES
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): February 1, 2018

Kennametal Inc.
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania 1-5318 25-0900168
(State or Other Jurisdiction of Incorporation) (Commission File Number) (IRS Employer Identification No.)

600 Grant Street
Suite 5100 15219-2706
Pittsburgh, Pennsylvania

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (412) 248-8000

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition.

On February 1, 2018, Kennametal Inc. (Kennametal or the Company) issued an earnings announcement for its fiscal 2018 second quarter ended December 31, 2017.

The press release contains certain non-generally accepted accounting principles (GAAP) financial measures. The following GAAP financial measures have been presented on an adjusted basis: gross profit and margin; operating expense; operating expense as a percentage of sales; operating income and margin; effective tax rate; net income (loss) attributable to Kennametal Shareholders; earnings per diluted share (EPS) and loss per diluted share (LPS); Industrial operating income and margin; Widia operating income (loss) and margin; and Infrastructure operating income and margin. Adjustments for the three and six months ended December 31, 2017 include (1) restructuring and related charges, (2) impact of out of period adjustment to provision for income taxes and (3) release of U.S. deferred tax valuation allowance. Adjustments for the three and six months ended December 31, 2016 include (1) restructuring and related charges and (2) Australia deferred tax valuation allowance. Management adjusts for these items in measuring and compensating internal performance and to more readily compare the Company's financial performance period-to-period. The press release also contains free operating cash flow (FOCF), earnings before interest, taxes, depreciation and amortization (EBITDA) and margin, organic sales growth, constant currency end market sales growth and constant currency regional sales growth, which are non-GAAP financial measures and are defined below. Management believes that presentation of these non-GAAP financial measures provides useful information about the results of operations of the Company for the current and past periods. Management believes that investors should have available the same information that management uses to assess operating 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 financial 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.

FOCF

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 financial measure) less capital expenditures plus proceeds from disposals of fixed assets. Management considers FOCF to be an important indicator of Kennametal'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.

EBITDA

EBITDA are a non-GAAP financial measure and are 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 are widely used as a measure of operating performance and are 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.

Organic Sales Growth

Organic sales growth is a non-GAAP financial measure of sales growth (which is the most directly comparable GAAP measure) excluding the impacts of acquisitions⁽¹⁾, divestitures⁽²⁾, business days⁽³⁾ and foreign currency exchange⁽⁴⁾ from year-over-year comparisons. We believe this measure provides investors with a supplemental understanding of underlying sales trends by providing sales growth on a consistent basis. Also, we report organic sales growth at the consolidated and segment levels.

Constant Currency End Market Sales Growth

Constant currency end market sales growth is a non-GAAP financial measure of sales growth (which is the most directly comparable GAAP measure) by end market excluding the impacts of acquisitions⁽¹⁾, divestitures⁽²⁾ and

foreign currency exchange⁽⁴⁾ from year-over-year comparisons. We note that, unlike organic sales growth, constant currency end market sales growth 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 on a consistent basis. Also, we report constant currency end market sales growth at the consolidated and segment levels. Widia sales are reported only in the general engineering end market. Therefore, we do not provide constant currency end market sales growth for the Widia segment and, thus, do not include a reconciliation for that metric.

Constant Currency Regional Sales Growth

Constant currency regional sales growth is a non-GAAP financial measure of sales growth (which is the most directly comparable GAAP measure) by region excluding the impacts of acquisitions⁽¹⁾, divestitures⁽²⁾ and foreign currency exchange⁽⁴⁾ from year-over-year comparisons. We note that, unlike organic sales growth, constant currency regional sales growth 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 on a consistent basis. Also, we report constant currency regional sales growth at the consolidated and segment levels.

⁽¹⁾ Acquisition impact is calculated by dividing current period sales attributable to acquired businesses by prior period sales.

⁽²⁾ Divestiture impact is calculated by dividing prior period sales attributable to divested businesses by prior period sales.

⁽³⁾ 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.

⁽⁴⁾ 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.

Additionally, during our quarterly earnings 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. 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.

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 financial 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.

PRIMARY WORKING CAPITAL (UNAUDITED)

AS OF DECEMBER 31, 2017

(in thousands, except percents)	12/31/17	9/30/17	6/30/17	3/31/17	12/31/16	Average
Current assets	\$1,128,382	\$1,075,915	\$1,113,901	\$1,043,046	\$971,745	
Current liabilities	407,621	396,967	461,478	426,799	390,151	
Working capital, GAAP	\$720,761	\$678,948	\$652,423	\$616,247	\$581,594	
Excluding items:						
Cash and cash equivalents	(159,940)	)(110,697	)(190,629	)(100,817	)(102,001)
Other current assets	(68,057	)(64,874	)(55,166	)(75,061	)(80,375)
Total excluded current assets	(227,997	)(175,571	)(245,795	)(175,878	)(182,376)
Adjusted current assets	900,385	900,344	868,106	867,168	789,369	
Current maturities of long-term debt and capital leases, including notes payable	(1,360	)(1,252	)(925	)(1,591	)(2,263)
Other current liabilities	(215,669	)(209,373	)(244,831	)(234,367	)(219,008)
Total excluded current liabilities	(217,029	)(210,625	)(245,756	)(235,958	)(221,271)
Adjusted current liabilities	190,592	186,342	215,722	190,841	168,880	
Primary working capital	\$709,793	\$714,002	\$652,384	\$676,327	\$620,489	\$674,599
Three Months Ended						
	12/31/17	9/30/17	6/30/17	3/31/17	Total	
Sales	\$571,345	\$542,454	\$565,025	\$528,630	\$2,207,454	
Primary working capital as a percentage of sales					30.6	%

PRIMARY WORKING CAPITAL (UNAUDITED)

AS OF JUNE 30, 2017

(in thousands, except percents)	6/30/17	3/31/17	12/31/16	9/30/16	6/30/16	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					
	6/30/17	3/31/17	12/31/16	9/30/16		Total
Sales	\$565,025	\$528,630	\$487,573	\$477,140		\$2,058,368
Primary working capital as a percentage of sales						31.4 %

Debt to Capital

Debt to capital is a non-GAAP financial measure and is defined by Kennametal as total debt divided by the sum of total equity plus total debt. The most directly comparable GAAP financial measure is debt to equity, which is defined as total debt divided by total equity. Management believes that debt to capital provides additional insight into the underlying capital structure and performance of the Company.

Net Debt

Net debt is a non-GAAP financial measure and is defined by Kennametal 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.

DEBT TO CAPITAL AND NET DEBT (UNAUDITED)	December 31, 2017	June 30, 2017
(in thousands, except percents)		
Total debt	\$697,082	\$695,916
Total equity	1,163,948	1,052,653
Debt to equity, GAAP	59.9 %	66.1 %
Total debt	697,082	695,916
Total equity	1,163,948	1,052,653
Total capital	1,861,030	1,748,569
Debt to capital	37.5 %	39.8 %
Total debt	697,082	695,916
Cash and cash equivalents	159,940	190,629
Net debt	\$537,142	\$505,287

Debt to EBITDA

Debt to EBITDA is a non-GAAP financial measure and is defined by Kennametal as total debt divided by the sum of the four trailing quarters of EBITDA. The most directly comparable GAAP financial measure is debt to net income

attributable to Kennametal. Management believes that debt to EBITDA provides additional insight into the underlying capital structure, liquidity and performance of the Company. Additionally, Kennametal will present debt to EBITDA on an adjusted basis.

DEBT TO ADJUSTED EBITDA (UNAUDITED)

DECEMBER 31, 2017 (in thousands, except debt to adjusted EBITDA)

	Three Months Ended			
	12/31/17	9/30/17	6/30/17	3/31/17
EBITDA				
Net income attributable to Kennametal	\$41,601	\$39,183	\$24,643	\$38,890
Add back:				
Interest expense	7,231	7,149	7,367	7,331
Interest income	(260)	(257)	(246)	(306)
Provision for income taxes	17,472	9,602	7,494	9,301
Depreciation	23,284	22,777	22,709	22,375
Amortization	3,677	3,661	3,912	4,245
EBITDA	\$93,005	\$82,115	\$65,879	\$81,836
Adjustments:				
Restructuring and related charges	1,489	6,876	23,165	9,623
Adjusted EBITDA	\$94,494	\$88,991	\$89,044	\$91,459
Total debt				\$697,082
Trailing four quarters net income attributable to Kennametal				144,317
Debt to net income attributable to Kennametal				4.8
Total debt				\$697,082
Trailing four quarters adjusted EBITDA				363,988
Debt to adjusted EBITDA				1.9

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

99.1 Fiscal 2018 Second Quarter Earnings Announcement

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.

Date: February 1, 2018 By: /s/ Patrick S. Watson
Patrick S. Watson
Vice President Finance and Corporate Controller