

KENNAMETAL INC  
Form 8-K  
November 03, 2015

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): October 30, 2015

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  
Pittsburgh, Pennsylvania 15219-2706

(Address of Principal Executive Offices) (Zip Code)  
Registrant's telephone number, including area code: (412) 248-8000  
1600 Technology Way  
P.O. Box 231  
Latrobe, Pennsylvania  
15650-0231

(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))

## TABLE OF CONTENTS

Item 2.02 Results of Operations and Financial Condition.Item 2.05 Costs Associated with Exit or Disposal Activities.Item 9.01 Financial Statements and Exhibits.

## Item 2.02 Results of Operations and Financial Condition.

On November 3, 2015, Kennametal Inc. (Kennametal or the Company) issued an earnings announcement for its fiscal first quarter ended September 30, 2015.

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, net (loss) income, diluted loss per share (LPS) and diluted earnings per share (EPS), effective tax rate, Industrial operating income and margin and Infrastructure operating (loss) income and margin. Adjustments for the three months ended September 30, 2015 include restructuring and related charges and divestiture-related charges. Adjustments for the three months ended September 30, 2014 include restructuring and related charges. 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 which is a non-GAAP measure and is 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 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.

## Free Operating Cash Flow

Free operating cash flow 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 free operating cash flow 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.

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 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.

## 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 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.

DEBT TO CAPITAL (UNAUDITED) (in thousands, except percents)	September 30, 2015	June 30, 2015		
Total debt	\$750,833	\$751,587		
Total equity	1,339,089	1,375,435		
Debt to equity, GAAP	56.1	% 54.6	%	%
Total debt	\$750,833	\$751,587		
Total equity	1,339,089	1,375,435		
Total capital	\$2,089,922	\$2,127,022		

Debt to capital	35.9	%	35.3	%
-----------------	------	---	------	---

---

### 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.

#### PRIMARY WORKING CAPITAL (UNAUDITED)

(in thousands, except percents)	9/30/15	6/30/15	3/31/15	12/31/14	9/30/14	Average
Current assets	\$1,168,511	\$1,258,546	\$1,341,312	\$1,373,987	\$1,464,353	\$1,321,342
Current liabilities	438,406	482,744	524,518	528,704	538,371	502,549
Working capital, GAAP	\$730,105	\$775,802	\$816,794	\$845,283	\$925,982	\$818,793
Excluding items:						
Cash and cash equivalents	(97,199)	(105,494)	(146,175)	(146,267)	(156,194)	(130,266)
Other current assets	(120,583)	(132,148)	(111,124)	(115,671)	(109,811)	(117,867)
Total excluded current assets	(217,782)	(237,642)	(257,299)	(261,938)	(266,005)	(248,133)
Adjusted current assets	950,729	1,020,904	1,084,013	1,112,049	1,198,348	1,073,209
Current maturities of long-term debt and capital leases, including notes payable	(25,285)	(15,702)	(99,620)	(95,513)	(107,258)	(68,676)
Other current liabilities	(235,385)	(279,661)	(250,586)	(273,727)	(242,114)	(256,295)
Total excluded current liabilities	(260,670)	(295,363)	(350,206)	(369,240)	(349,372)	(324,970)
Adjusted current liabilities	177,736	187,381	174,312	159,464	188,999	177,578
Primary working capital	\$772,993	\$833,523	\$909,701	\$952,585	\$1,009,349	\$895,631
		Three Months Ended				
		9/30/15	6/30/15	3/31/2015	12/31/2014	Total
Sales		\$555,354	\$637,653	\$638,970	\$675,631	\$2,507,608
Primary working capital as a percentage of sales						35.7

%

#### Item 2.05 Costs Associated with Exit or Disposal Activities.

On October 30, 2015, Kennametal Inc. (Kennametal or the Company) signed a definitive agreement with Madison Industries to sell its outstanding capital stock of: Kennametal Extrude Hone Corporation and its wholly owned subsidiaries, Kennametal Stellite S.r.l. (Bellusco, Italy), Kennametal Stellite S.p.A. (Milan, Italy), Kennametal Stellite GmbH (Koblenz, Germany); and all of the assets of the businesses of: Tricon (manufacturing operations in Birmingham, Alabama; Chicago, Illinois; and Elko, Nevada), Landis (manufacturing operation in Waynesboro, Pennsylvania); and all of the assets located at the Biel, Switzerland manufacturing facility. This disposition is in line with Kennametal's previously announced strategy to rationalize non-core businesses. The sale, which is expected to close in the Company's fiscal second quarter, remains subject to negotiated conditions of closing.

In connection with this transaction, Kennametal expects to receive consideration of approximately \$70 million. The Company expects to record an after-tax charge ranging from approximately \$100 million to \$120 million in connection with the transaction. Such charge will be recorded during the Company's fiscal second quarter ended December 31, 2015.

Edgar Filing: KENNAMETAL INC - Form 8-K

A copy of the press release issued by the Company in connection with the transaction is attached hereto as exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

99.1 Fiscal 2016 First 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: November 3, 2015

By:

/s/ Martha Fusco  
Martha Fusco  
Vice President Finance and  
Corporate Controller