

KENNAMETAL INC
Form 8-K
April 25, 2017

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): April 25, 2017

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.

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Item 2.02 Results of Operations and Financial Condition.

On April 25, 2017, Kennametal Inc. (Kennametal or the Company) issued an earnings announcement for its fiscal 2017 third quarter ended March 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: sales; gross profit and margin; operating expense; operating expense as a percentage of sales; operating income (loss) and margin; net income (loss) attributable to Kennametal Shareholders; earnings per diluted share (EPS) and loss per diluted share (LPS); effective tax rate; Industrial operating income and margin; Widia operating income (loss) and margin; and Infrastructure operating income and margin. Adjustments for the three months ended March 31, 2017 include restructuring and related charges. Adjustments for the nine months ended March 31, 2017 include (1) restructuring and related charges and (2) Australia deferred tax valuation allowance. Adjustments for the three months ended March 31, 2016 include: (1) restructuring and related charges, (2) tax effect of prior asset impairment charges and (3) loss on divestiture. Adjustments for the nine months ended March 31, 2016 include: (1) restructuring and related charges, (2) goodwill and other intangible asset impairment charges, (3) loss on divestiture and related charges and (4) operations of divested businesses. 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 and earnings (loss) before interest, taxes, depreciation and amortization (E(L)BITDA) and margin which are non-GAAP 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 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.

E(L)BITDA

E(L)BITDA are a non-GAAP financial measure and are defined as net income attributable to Kennametal, with interest expense, interest income, provision for income taxes, depreciation and amortization added back. The most directly comparable GAAP measure is net income attributable to Kennametal. However, we believe that E(L)BITDA 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 adjust E(L)BITDA. Management uses this information in reviewing operating performance.

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.

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)	3/31/17	12/31/16	9/30/16	6/30/16	3/31/16	Average
Current assets	\$1,043,046	\$971,745	\$991,837	\$1,075,341	\$1,099,260	\$1,036,246
Current liabilities	426,799	390,151	402,574	427,275	421,415	413,643
Working capital, GAAP	\$616,247	\$581,594	\$589,263	\$648,066	\$677,845	\$622,603
Excluding items:						
Cash and cash equivalents	(100,817)	(102,001)	(119,411)	(161,579)	(136,564)	(124,074)
Other current assets	(75,061)	(80,375)	(64,660)	(84,016)	(111,479)	(83,118)
Total excluded current assets	(175,878)	(182,376)	(184,071)	(245,595)	(248,043)	(207,193)
Adjusted current assets	867,168	789,369	807,766	829,746	851,217	829,053
Current maturities of long-term debt and capital leases, including notes payable	(1,591)	(2,263)	(1,381)	(1,895)	(4,140)	(2,254)
Other current liabilities	(234,367)	(219,008)	(225,189)	(243,341)	(247,943)	(233,970)
Total excluded current liabilities	(235,958)	(221,271)	(226,570)	(245,236)	(252,083)	(236,224)
Adjusted current liabilities	190,841	168,880	176,004	182,039	169,332	177,419
Primary working capital	\$676,327	\$620,489	\$631,762	\$647,707	\$681,885	\$651,634
		Three Months Ended				
		3/31/17	12/31/16	9/30/16	6/30/16	Total
Sales		\$528,630	\$487,573	\$477,140	\$521,224	\$2,014,567
Primary working capital as a percentage of sales						32.3 %

PRIMARY WORKING CAPITAL (UNAUDITED)

(in thousands, except percents)	6/30/16	3/31/16	12/31/15	9/30/15	6/30/15	Average
Current assets	\$1,075,341	\$1,099,260	\$1,062,992	\$1,168,511	\$1,258,546	\$1,132,930
Current liabilities	427,275	421,415	394,983	438,406	482,744	432,965
Working capital, GAAP	\$648,066	\$677,845	\$668,009	\$730,105	\$775,802	\$699,965
Excluding items:						
Cash and cash equivalents	(161,579)	(136,564)	(138,978)	(97,199)	(105,494)	(127,963)
Other current assets	(84,016)	(111,479)	(113,113)	(120,583)	(132,148)	(112,268)
Total excluded current assets	(245,595)	(248,043)	(252,091)	(217,782)	(237,642)	(240,231)
Adjusted current assets	829,746	851,217	810,901	950,729	1,020,904	892,699
Current maturities of long-term debt and capital leases, including notes payable	(1,895)	\$(4,140)	(5,942)	(25,285)	(15,702)	(10,593)
Other current liabilities	(243,341)	(247,943)	(237,444)	(235,385)	(279,661)	(248,755)
Total excluded current liabilities	(245,236)	(252,083)	(243,386)	(260,670)	(295,363)	(259,348)
Adjusted current liabilities	182,039	169,332	151,597	177,736	187,381	173,617
Primary working capital	\$647,707	\$681,885	\$659,304	\$772,993	\$833,523	\$719,082
		Three Months Ended				
		6/30/16	3/31/16	12/31/15	9/30/15	Total
Sales		\$521,224	\$497,837	\$524,021	\$555,354	\$2,098,436
Primary working capital as a percentage of sales						34.3 %

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)	March 31, 2017	June 30, 2016		
Total debt	\$696,222	\$695,443		
Total equity	979,571	995,801		
Debt to equity, GAAP	71.1	% 69.8	%	
Total debt	\$696,222	\$695,443		
Total equity	979,571	995,801		
Total capital	\$1,675,793	\$1,691,244		
Debt to capital	41.5	% 41.1	%	

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 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 adjust debt to EBITDA.

DEBT TO ADJUSTED EBITDA (UNAUDITED)

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

	Three Months Ended			
	3/31/17	12/31/16	9/30/16	6/30/16
EBITDA	\$38,890	\$7,262	\$(21,656)	\$(66,515)
Net income (loss) attributable to Kennametal, reported				
Add back:				
Interest expense	7,331	7,151	6,993	6,857
Interest income	(306)	(206)	(248)	(568)
Provision for income taxes	9,301	8,221	4,879	86,812
Depreciation	22,375	22,827	23,167	23,407
Amortization	4,245	4,150	4,271	4,447
EBITDA	\$81,836	\$49,405	\$17,406	\$54,440
Adjustments:				
Restructuring and related charges	9,623	11,783	31,657	15,539
Fixed asset disposal charges	—	—	—	5,381
Loss on divestiture	—	—	—	712
Adjusted EBITDA	\$91,459	\$61,188	\$49,063	\$76,072
Total debt				\$696,222
Trailing four quarters adjusted EBITDA				\$277,782
Debt to adjusted EBITDA				2.5

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

99.1 Fiscal 2017 Third 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: April 25, 2017 By: /s/ Patrick S. Watson
Patrick S. Watson
Vice President Finance and Corporate Controller