

KENNAMETAL INC  
Form 10-Q  
May 06, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016  
Commission file number 1-5318  
KENNAMETAL INC.  
(Exact name of registrant as specified in its charter)

Pennsylvania 25-0900168  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

600 Grant Street  
Suite 5100 15219-2706  
Pittsburgh, Pennsylvania  
(Address of principal executive offices) (Zip Code)

Website: www.kennametal.com  
Registrant's telephone number, including area code: (412) 248-8200

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of capital stock, as of the latest practicable date.

Title of Each Class	Outstanding at April 29, 2016
Capital Stock, par value \$1.25 per share	79,689,781

Table of Contents

KENNAMETAL INC.  
FORM 10-Q  
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2016  
TABLE OF CONTENTS

Item No. Page No.

PART I - FINANCIAL INFORMATION

1. Financial Statements

Condensed Consolidated Statements of Income (Unaudited)  
Three and nine months ended March 31, 2016 and 2015 4

Condensed Consolidated Statements of Comprehensive Income (Unaudited)  
Three and nine months ended March 31, 2016 and 2015 5

Condensed Consolidated Balance Sheets (Unaudited)  
March 31, 2016 and June 30, 2015 6

Condensed Consolidated Statements of Cash Flow (Unaudited)  
Nine months ended March 31, 2016 and 2015 7

Notes to Condensed Consolidated Financial Statements (Unaudited) 8

2. Management's Discussion and Analysis of Financial Condition and Results of Operations 26

3. Quantitative and Qualitative Disclosures About Market Risk 34

4. Controls and Procedures 34

PART II - OTHER INFORMATION

2. Unregistered Sales of Equity Securities and Use of Proceeds 35

6. Exhibits 36

Signatures 37

Table of Contents

**FORWARD-LOOKING INFORMATION**

This Quarterly Report on Form 10-Q contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements that do not relate strictly to historical or current facts. You can identify forward-looking statements by the fact they use words such as “should,” “anticipate,” “estimate,” “approximate,” “expect,” “may,” “will,” “project,” “intend,” “plan” and other words of similar meaning and expression in connection with any discussion of future operating or financial performance or events. We have also included forward looking statements in this Quarterly Report on Form 10-Q concerning, among other things, our strategy, goals, plans and projections regarding our financial position, liquidity and capital resources, results of operations, market position and product development. These statements are based on current estimates that involve inherent risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should the assumptions underlying the forward-looking statements prove incorrect, our actual results could vary materially from our current expectations. There are a number of factors that could cause our actual results to differ from those indicated in the forward-looking statements. They include: economic recession; our ability to achieve all anticipated benefits of restructuring initiatives; our foreign operations and international markets, such as currency exchange rates, different regulatory environments, trade barriers, exchange controls, and social and political instability; changes in the regulatory environment in which we operate, including environmental, health and safety regulations; potential for future goodwill and other intangible asset impairment charges; our ability to protect and defend our intellectual property; continuity of information technology infrastructure; competition; our ability to retain our management and employees; demands on management resources; availability and cost of the raw materials we use to manufacture our products; product liability claims; integrating acquisitions and achieving the expected savings and synergies; global or regional catastrophic events; demand for and market acceptance of our products; business divestitures; energy costs; commodity prices; labor relations; and implementation of environmental remediation matters. We provide additional information about many of the specific risks we face in the “Risk Factors” Section of our Annual Report on Form 10-K. We can give no assurance that any goal or plan set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

Table of Contents

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## KENNAMETAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2016	2015	2016	2015
Sales	\$497,837	\$638,970	\$1,577,212	\$2,009,543
Cost of goods sold	340,484	439,500	1,127,828	1,392,516
Gross profit	157,353	199,470	449,384	617,027
Operating expense	121,004	138,025	373,827	423,972
Restructuring and asset impairment charges (Notes 8 and 18)	7,142	175,435	128,498	565,837
Loss on divestiture (Note 5)	(2,557 )	—	130,750	—
Amortization of intangibles	4,429	6,402	16,315	20,361
Operating income (loss)	27,335	(120,392 )	(200,006 )	(393,143 )
Interest expense	7,113	7,760	20,895	23,929
Other (income) expense, net	(1,938 )	(378 )	(1,582 )	32
Income (loss) before income taxes	22,160	(127,774 )	(219,319 )	(417,104 )
Provision (benefit) for income taxes	5,465	(82,223 )	(61,499 )	(23,975 )
Net income (loss)	16,695	(45,551 )	(157,820 )	(393,129 )
Less: Net income attributable to noncontrolling interests	695	678	1,634	1,914
Net income (loss) attributable to Kennametal	\$16,000	\$(46,229 )	\$(159,454 )	\$(395,043 )
<b>PER SHARE DATA ATTRIBUTABLE TO KENNAMETAL SHAREHOLDERS</b>				
Basic earnings (loss) per share	\$0.20	\$(0.58 )	\$(2.00 )	\$(4.98 )
Diluted earnings (loss) per share	\$0.20	\$(0.58 )	\$(2.00 )	\$(4.98 )
Dividends per share	\$0.20	\$0.18	\$0.60	\$0.54
Basic weighted average shares outstanding	79,871	79,389	79,814	79,282
Diluted weighted average shares outstanding	80,224	79,389	79,814	79,282

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

## KENNAMETAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Net income (loss)	\$16,695	\$(45,551)	\$(157,820)	\$(393,129)
Other comprehensive income (loss), net of tax				
Unrealized (loss) gain on derivatives designated and qualified as cash flow hedges	(637)	3,025	165	5,738
Reclassification of unrealized loss (gain) on expired derivatives designated and qualified as cash flow hedges	238	(705)	(1,946)	(376)
Unrecognized net pension and other postretirement benefit (loss) gain	(888)	4,293	1,561	9,858
Reclassification of net pension and other postretirement benefit loss	1,219	685	3,641	2,174
Foreign currency translation adjustments	17,783	(79,496)	(24,705)	(161,218)
Reclassification of foreign currency translation adjustment (gain) loss realized upon sale	(1,940)	—	15,088	—
Total other comprehensive income (loss), net of tax	15,775	(72,198)	(6,196)	(143,824)
Total comprehensive income (loss)	32,470	(117,749)	(164,016)	(536,953)
Less: comprehensive income (loss) attributable to noncontrolling interests	1,222	(585)	1,094	(1,623)
Comprehensive income (loss) attributable to Kennametal Shareholders	\$31,248	\$(117,164)	\$(165,110)	\$(535,330)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of ContentsKENNAMETAL INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except per share data)	March 31, 2016	June 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 136,564	\$ 105,494
Accounts receivable, less allowance for doubtful accounts of \$11,931 and \$13,560, respectively	365,827	445,373
Inventories (Note 11)	485,390	575,531
Deferred income taxes	56,318	72,449
Other current assets	55,161	59,699
Total current assets	1,099,260	1,258,546
Property, plant and equipment:		
Land and buildings	356,056	401,207
Machinery and equipment	1,529,682	1,573,597
Less accumulated depreciation	(1,160,203 )	(1,158,979 )
Property, plant and equipment, net	725,535	815,825
Other assets:		
Investments in affiliated companies	2	361
Goodwill (Note 18)	302,109	417,389
Other intangible assets, less accumulated amortization of \$110,664 and \$153,370, respectively (Note 18)	212,709	286,669
Deferred income taxes	75,837	24,091
Other	76,487	46,648
Total other assets	667,144	775,158
Total assets	\$2,491,939	\$2,849,529
<b>LIABILITIES</b>		
Current liabilities:		
Current maturities of long-term debt and capital leases	\$733	\$8,129
Notes payable to banks	3,407	7,573
Accounts payable	169,332	187,381
Accrued income taxes	29,289	25,237
Accrued expenses	66,078	75,746
Other current liabilities	152,576	178,678
Total current liabilities	421,415	482,744
Long-term debt and capital leases, less current maturities (Note 12)	699,750	735,885
Deferred income taxes	15,572	59,744
Accrued pension and postretirement benefits	153,104	163,029
Accrued income taxes	2,247	3,002
Other liabilities	25,040	29,690
Total liabilities	1,317,128	1,474,094
Commitments and contingencies		
<b>EQUITY (Note 16)</b>		
Kennametal Shareholders' Equity:		
Preferred stock, no par value; 5,000 shares authorized; none issued	—	—
	99,599	99,219

Edgar Filing: KENNAMETAL INC - Form 10-Q

Capital stock, \$1.25 par value; 120,000 shares authorized; 79,679 and 79,375 shares issued, respectively

Additional paid-in capital	430,692	419,829
Retained earnings	863,048	1,070,282
Accumulated other comprehensive loss	(249,179 )	(243,523 )
Total Kennametal Shareholders' Equity	1,144,160	1,345,807
Noncontrolling interests	30,651	29,628
Total equity	1,174,811	1,375,435
Total liabilities and equity	\$2,491,939	\$2,849,529

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

## KENNAMETAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)

(in thousands)	Nine Months Ended	
	March 31,	
	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net loss	\$(157,820)	\$(393,129)
Adjustments for non-cash items:		
Depreciation	73,297	79,281
Amortization	16,315	20,361
Stock-based compensation expense	14,705	14,252
Restructuring and asset impairment charges (Notes 8 and 18)	111,922	543,942
Deferred income tax provision	(85,426 )	(51,766 )
Loss on divestiture (Note 5)	130,750	—
Other	239	2,632
Changes in certain assets and liabilities:		
Accounts receivable	44,125	34,287
Inventories	47,778	6,582
Accounts payable and accrued liabilities	(16,244 )	(21,690 )
Accrued income taxes	(12,989 )	(9,874 )
Accrued pension and postretirement benefits	(22,901 )	(12,369 )
Other	1,663	7,067
Net cash flow provided by operating activities	145,414	219,576
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(83,285 )	(77,620 )
Disposals of property, plant and equipment	5,102	1,300
Proceeds from divestiture (Note 5)	61,100	