



## Lennox International Reports Third Quarter Earnings

October 24, 2000

DALLAS, Oct. 24 /PRNewswire/ -- Lennox International Inc. (NYSE: LII) announced earnings for third quarter 2000 today. Total company sales for third quarter 2000 increased 28% to \$858 million, up from \$669 million in third quarter 1999. Company-wide organic sales, after adjusting for sales to company-owned dealers and currency fluctuations, declined 3%. Revenues outside of the U.S. and Canada, adjusted for currency fluctuations, declined by 1% in the quarter, representing 12% of total corporate sales.

"Our North American residential products and retail business segments, which account for over two-thirds of our corporate revenues, were significantly influenced by unfavorable weather in the northeast, midwest, and much of Canada," said John Norris, chairman and CEO. "Also, operational and integration issues in our retail and hearth products operations further reduced our Q3 results. As we indicated in our last conference call, we have put in place aggressive cost control measures to help offset the impact."

Quarterly operating income for the consolidated company declined by 35% from \$55 million in third quarter 1999 to \$36 million. EBITDA in third quarter was \$58 million, a 16% decrease from EBITDA in the same period a year ago.

Net income for the third quarter declined 55% to \$12 million from \$27 million in 1999, due in part to higher interest expenses of almost \$5 million from increased borrowing to fund acquisitions. Diluted earnings per share, before one-time pre-tax charges of \$5.1 million associated with closing two small commercial air conditioning operations in Latin America, were \$0.27. The pro forma calculation, assuming a January 1 initial public offering (IPO), shows earnings per share at \$0.61 for the same quarter last year.

### Business segments highlights

**North American residential:** Revenues declined 6% in the third quarter to \$308 million. Segment operating income for the quarter decreased 45% to \$23.7 million from \$42.8 million last year, with operating margins declining to 7.7% from 13.0% in third quarter 1999. "Unfavorable weather reduced the stress on existing air-conditioning equipment, which depressed equipment sales and reduced demand for profitable add-on air conditioning in those markets where air conditioning is a discretionary purchase," said Clyde Wyant, CFO. Over 50% of the company's residential equipment sales are concentrated in areas which experienced an unusually cool summer, he said. Also contributing to the margin decline were soft sales in the company's hearth products business due to declining housing starts and delays in realizing synergies from the individual hearth operations that were acquired in the past 24 months.

**North American retail:** Revenues were \$289 million. Over 40% of retail revenues come from regions that had unusually cool summers, which resulted in decreased demand for equipment repair service. Segment operating income was \$11.8 million for the quarter, with operating margins of 4.1%. "The dramatic growth we have achieved through acquisition in the past 12 months distorts year-over-year comparisons," Wyant said.

**Worldwide commercial air conditioning:** Revenue increased by 7% to \$136 million. Adjusting for currency exchange, sales in the quarter grew 11% year-over-year. Segment operating income was \$6.0 million, a 17% gain over last year's \$5.1 million. Operating margins were up to 4.4% from 4.0% in 1999's third quarter. "Domestic performance was particularly strong, achieving organic growth of 15% in the quarter and a 200 basis point improvement in operating margins, more than offsetting weaknesses in our European operations," Wyant noted.

**Worldwide commercial refrigeration:** "Over half of our worldwide commercial refrigeration revenues come from outside the U.S. and Canada, making it the business segment most impacted by currency fluctuations," said Wyant. Segment revenue declined by 6% to \$89 million, but was flat when adjusted for foreign exchange. Segment operating income was \$9.2 million compared with \$9.9 million last year. When adjusted for foreign exchange, operating income increased 8% to \$10.7 million, with operating margins expanding to 11.3% from 10.5%. "The margin improvement was primarily driven by continued improvement in the profitability of our domestic refrigeration business," Wyant explained.

**Worldwide heat transfer:** Sales increased 1% to \$62 million. Adjusted for foreign exchange, sales were up 4%. Segment operating income increased 24% to \$3.5 million, with operating margins for the quarter expanding 100 basis points to 5.7% in 2000.

### Outlook

"With the growth in distributor inventories that has resulted from the unfavorable weather, we believe we will feel the effects of the weather-related industry slowdown through the rest of 2000 and possibly into the early part of 2001," said Bob Schjerven, COO. "As mentioned in our previous conference call, our diluted EPS for the full year 2000 could be as low as \$1.05."

Schjerven noted that focus in 2001 will be on improving the profitability of acquired businesses, rather than sales growth. "We project softness in many of our end markets and anticipate that our total corporate revenue growth will be in the low single digits," he said. "We anticipate EPS growth in 2001 will be in excess of 25%. However, we project the bulk of the improvement will be in the second half of the year due to the seasonality of our business, lagging effects of this year's industry slowdown, and our timetable for realizing operating improvements in our acquired businesses." Schjerven noted the company anticipates earnings in the first quarter of 2001 could be break-even, and year-over-year quarterly EPS comparisons will not be favorable until the second quarter of 2001.

Focus on free cash flow generation has been increased, Schjerven said. "We expect free cash flow to be approximately \$100 million in 2001," he noted. He said Lennox will mainly use the cash generated next year to retire long-term debt, reducing interest expenses and deleveraging the balance sheet.

"Lennox is focused on executing programs to realize the improvements that will bring our profitability and cash flow up to satisfactory levels," said CEO Norris. "We are dealing aggressively with the issues under our control, and look forward to improvement in 2001."

Lennox International has scheduled a conference call to discuss financial results for the third quarter of 2000 at 9:30 Central Time on Wednesday, October 25. All interested parties are invited to listen to this call. To listen, please call the conference call line at 612-332-0632 or 612-332-0637 ten minutes prior to the scheduled start time and use reservation number 543261. The number of connections for this call is limited to 200.

This conference call will also be broadcast on the Internet. A link to a live broadcast of the call on the Internet can be found on the company's web site at <http://www.lennoxinternational.com>, or the call can be accessed through Vcall's web site at <http://www.vcall.com>. A replay of the call will be available on the Internet through November 1.

Selling heating, ventilation, air conditioning, and refrigeration equipment in over 70 countries, Lennox International Inc. is a global leader in climate control solutions. Lennox operates in five key business segments: North American residential, North American retail, worldwide commercial refrigeration, worldwide commercial air conditioning, and worldwide heat transfer. Lennox International stock is traded on the New York Stock Exchange under the symbol "LII". Additional information is available at: [www.lennoxinternational.com](http://www.lennoxinternational.com) or by contacting Bill Moltner, Director, Investor Relations, at 972-497-6670.

This news release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from such statements. For information concerning these risks and uncertainties, see Lennox' publicly available filings with the Securities and Exchange Commission. Lennox disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months and Nine Months Ended September 30, 2000 and 1999  
(Unaudited, in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2000	1999	2000	1999
NET SALES	\$857,618	\$669,053	\$2,468,142	\$1,749,953
COST OF GOODS SOLD	583,613	456,611	1,667,042	1,199,611
Gross Profit	274,005	212,442	801,100	550,342
OPERATING EXPENSES:				
Selling, general and administrative	238,276	157,813	672,164	429,015
Income from operations	35,729	54,629	128,936	121,327
INTEREST EXPENSE, net	13,968	9,093	41,960	24,193
OTHER	497	378	1,243	(403)
MINORITY INTEREST	88	832	(427)	212
Income before income taxes	21,176	44,326	86,160	97,325
PROVISION FOR INCOME TAXES	8,790	17,042	35,757	39,840
Net income	\$ 12,386	\$ 27,284	\$50,403	\$57,485
REPORTED EARNINGS PER SHARE (A):				
Basic	\$0.22	\$0.65	\$0.90	\$1.52
Diluted	\$0.22	\$0.64	\$0.89	\$1.48
DILUTED EARNINGS PER SHARE BEFORE RESTRUCTURING (B)	\$0.27	\$0.64	\$0.94	\$1.48
PRO FORMA EARNINGS PER SHARE (C):				
Diluted	\$0.22	\$0.61	\$0.89	\$1.34

(A) 8,088,490 additional shares issued in Lennox IPO August 3, 1999

(B) Excludes restructuring charges (\$5.1 million pre-tax, \$2.8 million after-tax)

(C) Pro forma EPS assumes IPO occurred January 1, each fiscal year.  
(Interest expense, income tax, and number of shares have been adjusted.)

For the

For the

	Three Months ended		Nine Months Ended	
	September 30,		September 30,	
Net Sales	2000	1999	2000	1999
North American residential	\$308,370	\$328,173	\$954,040	\$917,257
North American retail	288,817	66,067	772,283	109,788
Commercial air conditioning	136,368	127,922	354,390	337,985
Commercial refrigeration	88,795	94,176	273,975	238,351
Heat transfer	61,640	60,847	191,421	164,206
Eliminations	(26,372)	(8,132)	(77,967)	(17,634)
	\$857,618	\$669,053	\$2,468,142	\$1,749,953

	For the		For the	
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
Income (Loss) from Operations	2000	1999	2000	1999
North American residential	\$23,663	\$42,824	\$86,631	\$105,812
North American retail	11,822	3,698	36,482	6,174
Commercial air conditioning	6,015	5,138	7,695	6,285
Commercial refrigeration	9,216	9,925	24,711	19,095
Heat transfer	3,525	2,851	12,792	10,308
Corporate and other (A)	(16,283)	(8,075)	(34,223)	(23,802)
Eliminations	(2,229)	(1,732)	(5,152)	(2,545)
	\$35,729	\$54,629	\$128,936	\$121,327

(A) Includes \$5.1 million for closing operations in Mexico and Argentina.

#### LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

##### CONSOLIDATED BALANCE SHEETS

As of September 30, 2000 and December 31, 1999

(In thousands, except share data)

	ASSETS	
	September 30, 2000 (unaudited)	December 31, 1999
CURRENT ASSETS:		
Cash and cash equivalents	\$45,473	\$29,174
Accounts and notes receivable, net	475,360	443,107
Inventories	380,427	345,424
Deferred income taxes	36,551	25,367
Other assets	43,783	44,526
Total current assets	981,594	887,598
INVESTMENTS IN JOINT VENTURES	12,264	12,434
PROPERTY, PLANT AND EQUIPMENT, net	355,642	329,966
GOODWILL, net	676,618	394,252
OTHER ASSETS	53,697	59,423
TOTAL ASSETS	\$2,079,815	\$1,683,673

#### LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Short-term debt	\$30,645	\$22,219
Current maturities of long-term debt	37,763	34,554
Accounts payable	241,597	196,143
Accrued expenses	258,155	200,221
Income taxes payable	8,406	9,859
Total current liabilities	576,566	462,996
LONG-TERM DEBT	670,233	520,276
DEFERRED INCOME TAXES	500	928
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS		
	14,725	15,125
OTHER LIABILITIES	73,377	72,377
Total liabilities	1,335,401	1,071,702
MINORITY INTEREST	2,010	14,075
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	---	---
Common stock, \$.01 par value, 200,000,000 shares authorized, 59,719,869 shares and 46,161,607 shares issued for 2000 and 1999, respectively	597	462
Additional paid-in capital	367,442	215,523
Retained earnings	443,993	409,851
Accumulated other comprehensive loss	(41,928)	(12,706)
Deferred compensation	(3,400)	(2,848)
Treasury stock, at cost, 2,474,784 and 1,172,200 shares for 2000 and 1999 respectively	(24,300)	(12,386)
Total stockholders' equity	742,404	597,896
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		
	\$2,079,815	\$1,683,673

SOURCE Lennox International Inc.

Web site: <http://www.vcall.com> <http://www.lennoxinternational.com>

Company News On-Call: <http://www.prnewswire.com/comp/140632.html> or fax, 800-758-5804, ext. 140632

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