



Lennox International Reports First Quarter Earnings; Announces Plans For Retail Segment

April 24, 2001

DALLAS, April 24 /PRNewswire Interactive News Release/ -- Lennox International Inc. (NYSE: LII) announced earnings for first quarter 2001 today, in line with guidance issued on March 19, 2001. Total company sales for first quarter 2001 were flat versus last year at \$716 million. Company-wide sales, after adjusting for currency fluctuations, grew 2.0%. Revenues outside of the U.S. and Canada, represented 14% of total corporate sales.

The company reported an operating loss of \$4.0 million in the first quarter, versus operating income of \$23.5 million the previous year. EBITDA in the first quarter was \$17.1 million, compared with \$44.1 million a year ago.

Net loss for the first quarter was \$10.2 million versus net income of \$5.7 million in 2000. Diluted earnings per share were (\$0.18), again in line with previously issued guidance, compared with \$0.10 last year.

"The downturn that hit the domestic economy depressed demand in most of our end markets, compounding what is typically a weak quarter for us," said Bob Schjerven, chief executive officer. "The Air Conditioning and Refrigeration Institute (ARI) recently reported that factory shipments of unitary air conditioners and heat pumps were down 13% for the first two months of the year. We have also seen some slowdowns in orders for commercial refrigeration equipment and heat transfer products. Despite widespread industry softness, we are confident our market positions are strong, with improved market shares in most segments."

Lennox continues to focus on free cash flow, with emphasis on working capital management and capital spending. Free cash flow in the first quarter was (\$26.4) million. "Given the seasonal nature of our business, Lennox typically uses cash in the first half of the year and generates cash in the second half," Schjerven said.

Results and plans for retail business segment

Revenues in the retail segment grew 14% to \$222 million, achieved by the acquisition of Service Experts in late January 2000. The segment reported an operating loss of \$10.0 million.

"We are clearly not satisfied with the performance of our retail operations and are disappointed we did not see a sequential improvement in operating profitability from last quarter," Schjerven said. "We are firmly committed to improving retail's profitability and realizing the earnings power we are convinced is inherent in its operations. That's why we are taking immediate measures to significantly restructure this business."

After a thorough review of retail center operations, Lennox has identified 38 centers that require action. Ten of these centers will be sold or closed, while the remaining 28 will be merged into other company-owned service centers or repositioned. Lennox expects the sales, closures, and mergers will be completed in the second quarter of 2001.

The company expects to take a pre-tax restructuring charge of approximately \$38 million. The net cash impact of the restructuring is a projected outflow of \$7 million, the majority of which will occur in second quarter 2001. As a result of this restructuring, Lennox anticipates a reduction of \$50 million in retail revenues for the full-year 2001. The company also anticipates that operating margins for the year in the retail segment, excluding the one-time charge, will be improved over the level achieved in 2000.

Other initiatives already in place -- including efforts to optimize labor utilization, center level SG&A expenses, product mix, and pricing structures through the operations accountability program -- have resulted in strong operating performance at many centers. "Twenty-five percent of our retail centers have double-digit operating profitability as a percentage of sales over the past 12 months," Schjerven said. He noted Lennox also continues to improve its financial control of the retail business by implementing STARS, an integrated information system. STARS has been implemented in 126 centers, with the company on track to have over 90% of all U.S. centers on STARS by the end of third quarter 2001.

Schjerven also reaffirmed Lennox's commitment to its retail business. "As we have said all along, the retail strategy makes sense," he said. "It provides access to very large revenue and profit streams and brings us closer to our end customer. We believe the restructuring will get us back on track to build our retail operations into a business that provides sustained, long-term shareholder value."

Highlights for other business segments

North American residential: Despite a difficult selling environment, revenues declined by a modest 3% from the previous year to \$282 million, with market share gains in the core residential heating, ventilation, and air conditioning (HVAC) segment. Segment operating income for the quarter decreased 40.7% to \$12.3 million from \$20.8 million last year, with operating margins declining to 4.4% from 7.1% in 2000. The margin decline was attributed to lower volumes, production inefficiencies in the company's hearth products operations, and start-up costs associated with manufacturing operations in Orangeburg, South Carolina.

Worldwide commercial air conditioning: Revenues declined by 2% to \$93 million, but were up 1.0% when adjusted for currency. The segment operating loss was \$1.8 million, compared with a loss of \$3.1 million the previous year. Operating margins were (1.9%), a 130 basis point improvement from 2000. The improvement was largely a result of the introduction of the cost-effective Value Series product and the company's consequent ability to improve margins on the L Series product line.

Worldwide commercial refrigeration: Segment revenues declined by 7% to \$85 million, but were flat when adjusted for currency exchange. Segment operating income was \$6.2 million compared with \$7.1 million last year, the decline driven entirely by currency fluctuations.

Worldwide heat transfer: Sales decreased 11% to \$58 million. Adjusted for foreign exchange, sales were down 8%. Segment operating income decreased to \$1.8 million due to volume declines, with operating margins for the quarter at 3.1% versus 7.5% in 2000.

Business outlook

Reinforcing guidance provided earlier, Lennox reported no acquisitions were planned for 2001 and that the company is focused on realizing the potential in the business portfolio it has assembled. Total corporate revenue growth is expected to be in the low single digits and full year earnings per share, before restructuring charges, are expected to be up by more than 10%.

The company reported it is also on track to generate \$80 to \$90 million in free cash flow for the year before restructuring charges, and plans to use the cash generated to retire long-term debt.

"First quarter 2001 was a difficult quarter for Lennox International," said CEO Schjerven. "However, we are confident we have assembled a strong portfolio of businesses and are focused on addressing the issues under our control to improve their profitability."

Lennox International Inc. has scheduled a conference call to discuss financial results for the first quarter 2001 on Wednesday, April 25 at 9:30 a.m. Central time. All interested parties are invited to listen as Bob Schjerven, CEO and Rick Smith, CFO comment on the company's results. To listen, please call the conference call line at 847-413-3156 ten minutes prior to the scheduled start time and use reservation number 581396. The number of connections for this call is limited to 200.

This conference call will also be broadcast live on the Internet by PR Newswire and can be accessed at <http://www.videonewswire.com/LENNOX/042501/>. A link to the broadcast can also be found on the company's web site at <http://www.lennoxinternational.com>. If you are unable to participate in this conference call, a replay will be available through May 2, 2001 on the Internet or by dialing 800-475-6701, access code 581396.

A Fortune 500 company operating in over 70 countries, Lennox International Inc. is a global leader in the heating, ventilation, air conditioning, and refrigeration markets. Lennox International stock is traded on the New York Stock Exchange under the symbol "LII". Additional information is available at: <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 Ended March 31, 2001 and 2000
(Unaudited, in thousands, except per share data)

	For the Three Months Ended March 31,	
	2001	2000
NET SALES	\$715,966	\$716,324
COST OF GOODS SOLD	502,381	487,561
Gross Profit	213,585	228,763
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE	217,556	205,280
(Loss) income from operations	(3,971)	23,483
INTEREST EXPENSE, net	12,777	12,750
OTHER	663	229
MINORITY INTEREST	107	(546)
(Loss) income before income taxes	(17,518)	11,050
(BENEFIT) PROVISION FOR INCOME TAXES	(7,270)	5,310
Net (loss) income	\$ (10,248)	\$ 5,740
REPORTED (LOSS) EARNINGS PER SHARE		
Basic	\$ (0.18)	\$ 0.10
Diluted	\$ (0.18)	\$ 0.10

	For the Three Months Ended March 31,	
	2001	2000
Net Sales		
North American residential	\$282,025	\$291,780
North American retail	222,424	194,528
Commercial air conditioning	93,378	95,084
Commercial refrigeration	85,089	91,672
Heat transfer	58,275	65,447
Eliminations	(25,225)	(22,187)

\$715,966 \$716,324

	For the Three Months Ended March 31,	
	2001	2000
(Loss) Income from Operations	2001	2000
North American residential	\$12,306	\$20,765
North American retail	(9,973)	5,426
Commercial air conditioning	(1,817)	(3,053)
Commercial refrigeration	6,221	7,050
Heat transfer	1,788	4,934
Corporate and other	(11,003)	(9,905)
Eliminations	(1,493)	(1,734)
	\$ (3,971)	\$23,483

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of March 31, 2001 and December 31, 2000

(In thousands, except share data)

	ASSETS [
	March 31, 2001	December 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	\$ 25,489	\$ 40,633
Accounts and notes receivable, net	360,822	399,136
Inventories	374,156	359,531
Deferred income taxes	48,113	47,063
Other assets	62,020	54,847
Total current assets	870,600	901,210
PROPERTY, PLANT AND EQUIPMENT, net	335,888	354,172
GOODWILL, net	726,269	739,468
OTHER ASSETS	57,769	60,181
TOTAL ASSETS	\$1,990,526	\$2,055,031

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Short-term debt	\$ 31,404	\$ 31,467
Current maturities of long-term debt	29,336	31,450
Accounts payable	257,408	260,208
Accrued expenses	251,206	242,347
Income taxes payable	13,486	24,448
Total current liabilities	582,840	589,920
LONG-TERM DEBT	610,162	627,550
DEFERRED INCOME TAXES	1,058	941
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	14,265	14,284
OTHER LIABILITIES	77,241	77,221
Total liabilities	1,285,566	1,309,916

MINORITY INTEREST	1,965	2,058
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, 60,524,220 shares and 60,368,599 shares issued for 2001 and 2000, respectively	605	604
Additional paid-in capital	372,585	372,690
Retained earnings	431,796	447,377
Accumulated other comprehensive loss	(65,659)	(37,074)
Deferred compensation	(5,910)	(6,457)
Treasury stock, at cost, 2,980,846 and 3,332,784 shares for 2001 and 2000, respectively	(30,422)	(34,083)
Total stockholders' equity	702,995	743,057
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,990,526	\$2,055,031

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