



Lennox International Reports Second Quarter Earnings

July 24, 2001

DALLAS, July 24 /PRNewswire/ -- Lennox International Inc. (NYSE: LII) today announced second quarter earnings for 2001, in line with guidance issued on July 10. Total company sales for second quarter 2001 were \$848 million, down 5% versus last year and down 4% when adjusted for currency exchange. Outside of the U.S. and Canada, revenues grew 3% when adjusted for currency and represented 12% of total corporate sales.

Excluding a \$38 million restructuring charge taken in the second quarter, the company reported an operating profit of \$43.4 million, down from \$69.7 million the previous year. EBITDA for the quarter was \$64.4 million, compared with \$90.7 million a year ago. Net income for the second quarter was \$18.8 million versus net income of \$32.3 million in 2000. Diluted earnings per share were \$0.33, compared with \$0.56 last year.

On a GAAP basis, after accounting for the \$38 million restructuring charge, the company reported a net loss of \$7.0 million in the second quarter, translating to a net loss per share of \$0.12.

"The slowing economy softened demand in many of our end markets, and cooler-than-expected early summer weather negatively impacted our residential revenues," said Bob Schjerven, chief executive officer. "However, continued underperformance of our retail segment was the most significant factor behind our profit erosion, and we have been aggressive in moving to correct it."

The company's core heating, air conditioning, and refrigeration businesses have performed soundly, with market share gains in virtually all business segments. Cost reduction programs, expense control, and improved factory performance have helped offset the softer demand.

Lennox also continues to focus on free cash flow, with emphasis on working capital management and capital spending. Free cash flow before restructuring charges was \$33 million for the second quarter, comparing favorably with a cash usage of \$38 million last year. The company has made significant progress in paying down long-term debt. Total debt at June 30, 2001 was \$614 million, \$57 million less than at the end of the first quarter of 2001.

"Although we typically use cash in the first half of the year due to the seasonal nature of our business, our year-to-date free cash flow before restructuring is positive by \$7 million," Schjerven said. He said the company expects to deliver \$80-\$90 million in free cash flow for the full year.

Restructuring charge

The \$38 million restructuring charge covered selling, closing, or merging 38 company-owned dealer service centers and was consistent with the company's original estimate. It includes a \$15 million write-off of the book value of assets, a \$6 million write-off of goodwill, and \$17 million in lease liability, severance, and other facility closing expenses. The net cash outflow due to restructuring is expected to be \$7 million, also in line with original estimates. The retail restructuring program announced last quarter has been largely completed, with some service center merger activity to continue through the second half of the year.

Business segment highlights

North American residential: Revenues declined by 5% from the previous year to \$336 million, with market share gains despite a difficult selling environment. Segment operating income for the quarter decreased 23% to \$32.4 million, with operating margins declining to 9.7% from 11.9% in 2000, primarily due to lower sales volumes.

North American retail: Weather and the economy impacted retail revenues, which decreased 6% to \$270 million. Segment operating income was \$4.2 million compared to \$19.2 million last year. While weather and economic issues accounted for half of the shortfall in retail profits, the other half was caused by operating performance issues at the retail service centers. "Improving dealer-level operating performance is our most pressing issue, and clearly the one most under our control," Schjerven said. "We continue to act aggressively to meet these issues head-on."

There has been a higher-than-anticipated turnover of service center ex-owners, but officials say they have been able to replace those managers with qualified candidates supportive of ongoing brand and operating strategies. A short-term negative impact is expected until the new managers familiarize themselves with company operations.

"We clearly underestimated the complexity of getting all parts of the business operating in unity and the time needed to realize the benefits of our actions," Schjerven said. "We're confident our initiatives position us to realize modest year-over-year improvement for the remainder of the year, but we do not expect significant improvement will be evident until the second half of 2002."

Worldwide commercial air conditioning: Revenues rose 5% to \$129 million, with sales up 7% after adjusting for foreign exchange. Segment operating profits increased 82% to \$8.6 million. Operating margins expanded to 6.7% from 3.8% last year, supported by higher sales volumes and lower freight costs. "Strong performance by our national accounts group and commercial sales districts are driving the positive domestic results for this segment," Schjerven said. "In Europe, we're seeing the benefits of increased distribution, decreased product costs, and improved customer service as we present the unified approach inherent in our pan-European marketing strategy."

Worldwide commercial refrigeration: Revenues declined by 9% to \$85 million, or a 4% decline when adjusted for currency exchange. While company officials estimate the market served by domestic commercial refrigeration is off by 15% so far this year, the refrigeration segment has gained share through targeted account efforts and superior customer service. Segment operating income was \$7.6 million compared with \$8.4 million last year, with operating margins remaining flat at 9%.

Worldwide heat transfer: Sales decreased 11% to \$57 million. Adjusted for foreign exchange, sales were down 8%. The economic downturn has significantly affected heat transfer sales to OEM customers. Demand has fallen off dramatically in many segments such as recreational vehicles,

telecommunications, and transport refrigeration. Segment operating income decreased to \$2.0 million from \$4.3 million last year, with operating margins at 3.6% versus 6.7% in 2000.

Business outlook

In addition to the projections for the retail unit, Schjerven said the current state of the economy has influenced the company's outlook for the remainder of the year. "Many of the sectors we serve have seen significant contractions," he said. "We are taking a conservative view on economic recovery in providing guidance that earnings per share for full year 2001, before one-time charges, are expected to be in the range of \$0.60 to \$0.70."

Lennox International Inc. has scheduled a conference call to discuss financial results for the second quarter 2001 on Wednesday, July 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 operating results.

To listen, please call the conference call line at 612-332-0802 ten minutes prior to the scheduled start time and use reservation number 594378. The number of connections for this call is limited to 200.

This conference call will be broadcast live on the Internet by PRNewswire and can be accessed at <http://www.videonewswire.com/LENNOX/072501/>. 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 August 01, 2001 on the Internet or by dialing 800-475-6701, access code 594378.

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 "LI". Additional information is available at: <http://www.lennoxinternational.com> or by contacting Bill Moltner, vice president, 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 Six Months Ended June 30, 2001 and 2000
(Unaudited, in thousands, except per share data)

| | For the | | For the | |
|---|--------------------|-----------|------------------|-------------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2001 | 2000 | 2001 | 2000 |
| NET SALES | \$848,346 | \$894,200 | \$1,564,312 | \$1,610,524 |
| COST OF GOODS SOLD | 583,208 | 595,868 | 1,085,589 | 1,083,429 |
| Gross profit | 265,138 | 298,332 | 478,723 | 527,095 |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative expense | 221,778 | 228,608 | 439,334 | 433,888 |
| Retail restructuring | 38,000 | --- | 38,000 | --- |
| Income from operations | 5,360 | 69,724 | 1,389 | 93,207 |
| INTEREST EXPENSE, net | 11,501 | 15,242 | 24,278 | 27,992 |
| OTHER | (285) | 517 | 378 | 746 |
| MINORITY INTEREST | 26 | 31 | 133 | (515) |
| (Loss) income before income taxes | (5,882) | 53,934 | (23,400) | 64,984 |
| PROVISION (BENEFIT) FOR INCOME TAXES | 1,129 | 21,657 | (6,141) | 26,967 |
| Net (loss) income | \$(7,011) | \$32,277 | \$(17,259) | \$38,017 |
| REPORTED (LOSS) EARNINGS PER SHARE: | | | | |
| Basic | \$(0.12) | \$0.56 | \$(0.31) | \$0.68 |
| Diluted | \$(0.12) | \$0.56 | \$(0.31) | \$0.68 |
| DILUTED EARNINGS PER SHARE BEFORE RESTRUCTURING (A) : | \$0.33 | \$0.56 | \$0.15 | \$0.68 |

(A) Excludes Retail restructuring charge (\$38 million pre-tax, \$25.8 million after tax) in 2001.

For the Three Months ended For the Six Months Ended

| Net Sales | June 30, | | June 30, | |
|-----------------------------|-----------|-----------|-------------|-------------|
| | 2001 | 2000 | 2001 | 2000 |
| North American residential | \$335,779 | \$353,890 | \$617,804 | \$645,670 |
| North American retail | 270,293 | 288,938 | 492,717 | 483,466 |
| Commercial air conditioning | 128,942 | 122,938 | 222,320 | 218,022 |
| Commercial refrigeration | 84,834 | 93,508 | 169,923 | 185,180 |
| Heat transfer | 57,048 | 64,334 | 115,323 | 129,781 |
| Eliminations | (28,550) | (29,408) | (53,775) | (51,595) |
| | \$848,346 | \$894,200 | \$1,564,312 | \$1,610,524 |

| Income (Loss) from Operations | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|-------------------------------|-------------------------------------|----------|-----------------------------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| North American residential | \$32,442 | \$42,203 | \$44,748 | \$62,968 |
| North American retail (A) | 4,212 | 19,234 | (5,761) | 24,660 |
| Commercial air conditioning | 8,622 | 4,733 | 6,805 | 1,680 |
| Commercial refrigeration | 7,564 | 8,445 | 13,785 | 15,495 |
| Heat transfer | 2,025 | 4,333 | 3,813 | 9,267 |
| Corporate and other | (11,505) | (8,035) | (22,508) | (17,940) |
| Eliminations | 0 | (1,189) | (1,493) | (2,923) |
| | \$43,360 | \$69,724 | \$39,389 | \$93,207 |

(A) Excludes \$38 million Retail restructuring charge in 2001.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of June 30, 2001 and December 31, 2000
(In thousands, except share data)

| ASSETS | June 30, | December 31, |
|------------------------------------|-------------|--------------|
| | 2001 | 2000 |
| | (unaudited) | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$24,325 | \$40,633 |
| Accounts and notes receivable, net | 391,429 | 399,136 |
| Inventories | 356,291 | 359,531 |
| Deferred income taxes | 48,313 | 47,063 |
| Other assets | 57,935 | 54,847 |
| Total current assets | 878,293 | 901,210 |
| PROPERTY, PLANT AND EQUIPMENT, net | 319,889 | 354,172 |
| GOODWILL, net | 740,136 | 739,468 |
| OTHER ASSETS | 56,794 | 60,181 |
| TOTAL ASSETS | \$1,995,112 | \$2,055,031 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|----------|----------|
| CURRENT LIABILITIES: | | |
| Short-term debt | \$36,802 | \$31,467 |
| Current maturities of long-term debt | 38,338 | 31,450 |
| Accounts payable | 274,712 | 260,208 |
| Accrued expenses | 296,114 | 242,347 |
| Income taxes payable | 12,692 | 24,448 |
| Total current liabilities | 658,658 | 589,920 |
| LONG-TERM DEBT | 538,825 | 627,550 |
| DEFERRED INCOME TAXES | 1,046 | 941 |
| POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS | 14,281 | 14,284 |

| | | |
|---|-------------|-------------|
| OTHER LIABILITIES | 80,777 | 77,221 |
| Total liabilities | 1,293,587 | 1,309,916 |
| MINORITY INTEREST | 1,947 | 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, 60,537,260 shares and 60,368,599 shares issued for 2001 and 2000, respectively | 605 | 604 |
| Additional paid-in capital | 372,706 | 372,690 |
| Retained earnings | 419,450 | 447,377 |
| Accumulated other comprehensive loss | (57,390) | (37,074) |
| Deferred compensation | (5,371) | (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 | 699,578 | 743,057 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$1,995,112 | \$2,055,031 |

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