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 "LII". Additional information is available at: http://www.lennoxinternational.com or by contacting Bill Moltner, vice president, investor relations, at 972-497-6670.

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 Three Months Ended June 30,		For the Six Months Ended 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.

Net Sales	For the Three Months ended June 30, 2001	2000	For the Six Months Ended June 30, 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, 2001	2000	For the Six Months Ended June 30, 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, 2001 (unaudited)	December 31, 2000
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

SOURCE Lennox International Inc.
Web site: http: //www.lennoxinternational.com
Company News On-Call: http: //www.prnewswire.com/comp/140632.html
CONTACT: Bill Moltner, vice president, investor relations of Lennox International Inc., +1-972-497-6670
Audio: http: //www.videonewswire.com/LENNOX/072501