



Lennox International Comments on Outlook for Fourth Quarter 2001; Restructuring Initiatives Improve 2002 Outlook

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DALLAS, Dec. 28 /PRNewswire/ -- Lennox International (NYSE: LII) commented today on its outlook for fourth quarter 2001 and full year 2002, and announced a restructuring initiative to improve utilization of its manufacturing and distribution assets.

The company expects to report a loss per share for the fourth quarter of \$0.16 -- \$0.18 before restructuring charges. Full year 2001 EPS is expected to be \$0.24 -- \$0.26 before restructuring charges. The charges are being taken to consolidate some manufacturing and distribution operations and phase out certain non-core assets and underperforming product lines. Total corporate revenues are anticipated to be down approximately 7% in the fourth quarter compared with 2000, excluding the impact of retail service centers sold or closed earlier this year.

Lennox has increased its full year 2001 estimate for free cash flow to over \$120 million, up substantially from an earlier estimate of \$80-\$90 million. The increase is due to lower capital expenditures and improved working capital, most significantly through inventory reductions. "Our emphasis on free cash flow continues to produce good results and we are making excellent progress in reducing our debt level," said Bob Schjerven, chief executive officer. "However, we are very disappointed in our earnings outlook for the fourth quarter, with economic softness continuing to affect all of our businesses."

Schjerven noted a recent report from the Air Conditioning and Refrigeration Institute citing a 10% decrease in industry shipments of unitary air conditioners and heat pumps for October. He also noted North American industry shipments of gas furnaces were down 5% in October, and commercial heating, ventilation, and air conditioning (HVAC) equipment slipped by 14% in the same month.

More productive use of assets allows for some restructuring

Schjerven said a focus on using existing manufacturing and distribution assets more productively is allowing Lennox to rationalize some of its operations. The company expects to take pre-tax restructuring charges of approximately \$32 million in the fourth quarter 2001 and \$8 million in the first half of 2002. The net cash impact of the restructuring activities is expected to be an outflow of \$8 million.

The company said it projects a pre-tax benefit of \$7 million from these initiatives in 2002, beginning in the second quarter, and \$11 million annually beginning in 2003.

"Our widespread implementation of technology and systems aimed at increasing our manufacturing productivity is helping to make this restructuring possible," Schjerven said. "We will continue to focus on making the most efficient use of our manufacturing and distribution assets."

The restructuring will include closing a hearth products manufacturing operation in Toronto, ON and relocating production to existing hearth products facilities in Union City, TN and Lynwood, CA. The company will also consolidate certain domestic distribution facilities into existing manufacturing locations, and eliminate excess manufacturing abroad with several operations closures and paring back underperforming product lines.

These initiatives will result in a reduction of approximately 450,000 square feet manufacturing and warehouse space and 340 positions.

Earnings expected to improve in 2002

Although the company expects relatively flat revenues in 2002, earnings are anticipated to improve based on the above initiatives and the full-year effects of other actions taken earlier in 2001. In addition, the adoption of FAS 142, eliminating the amortization of goodwill, is expected to add \$0.26 earnings per share. Also, Schjerven said the company's successful emphasis on free cash flow will continue.

"We project stronger earnings will provide improved cash from operations, while capital expenditures will be less than depreciation," Schjerven said. "We expect we will also continue to make incremental improvements in working capital. We're looking forward to progress in 2002 in realizing our earnings potential, with improvements expected to accelerate in the second half of the year."

Additional information will be provided when the company reports fourth quarter and full year 2001 earnings on February 6, with a conference call planned for the following morning. Access information for the call will be provided approximately two weeks in advance.

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.

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.

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