Lennox International Reports Q4 and Full-Year 2001 Earnings in Line With Previously Issued Guidance

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DALLAS, Feb. 6 /PRNewswire-FirstCall/ -- Lennox International Inc. (NYSE: LII) announced today its full-year 2001 and fourth quarter 2001 earnings, in line with previously issued guidance.

Full-year 2001 results

Sales for full-year 2001 were $3.1 billion, down 4% from 2000, with foreign exchange accounting for 1% of the revenue decline. Adjusting for currency differences and sales to company-owned dealerships, organic sales were down 4% for the year. Sales outside the U.S. and Canada accounted for 13% of total revenues.

Operating income for the year, before total pre-tax restructuring charges of $73 million in 2001 and $5 million in 2000, decreased 56% to $72 million. Operating margins as a percent of sales decreased from 5.0% in 2000 to 2.3%, due primarily to lower volumes and margin erosion in the company's retail operations. Earnings before interest, taxes, depreciation, and amortization (EBITDA) for the full year were $155 million, down from $246 million in 2000.

2001 net income before restructuring charges was $14 million, compared with $62 million last year. Earnings per share in 2001 were $0.25 versus $1.10 the previous year. On a GAAP basis, after accounting for restructuring charges, reported net loss per share was $0.75, compared with earnings per share of $1.05 in 2000.

The company's working capital management and focus on capital spending produced excellent results. Free cash flow -- defined as cash from operations, less capital expenditures, before dividends and restructuring expenses, and excluding the impact of asset securitizations -- was $184 million for the full year 2001, more than triple the $57 million generated in 2000.

"While our results were in line with the guidance we provided last December and our free cash flow experienced dramatic improvement, we are very disappointed with our full-year performance for 2001," said Bob Schjerven, chief executive officer. "The difficult economic environment that depressed demand in our end markets, combined with the challenges we faced as we worked to integrate and consolidate our retail operations, were clearly reflected in our results."

Schjerven also noted that despite strong competition in 2001, Lennox' domestic air conditioning, heating, and refrigeration businesses -- representing almost half of the company's revenues -- gained measurable market share and position the company favorably for the next economic cycle. "Improving the profitability of Service Experts, our retail unit, is our top priority," he said. "We are very encouraged by the initiatives Dennis Smith, who took over leadership four months ago, has taken to improve our retail profitability."

Fourth Quarter 2001 Results

Total consolidated company sales for the fourth quarter 2001 decreased by 7% to $729 million, down from $779 million in the fourth quarter 2000.

Operating loss for the quarter, before pre-tax restructuring charges of $35 million to consolidate some manufacturing and distribution operations and phase out certain non-core assets and underperforming product lines, was $8 million, down from operating income of $30 million the previous year. Operating margins were (1.1%), compared with 3.8% in the fourth quarter of 2000. EBITDA was $11 million, a 77% decrease from the EBITDA in the same quarter a year ago.

Net loss before restructuring for the quarter was $9.5 million, compared with a profit of $8.7 million in the year ago period. The loss per share for the quarter was $0.17, compared with earnings per share of $0.16 last year. Foreign exchange reduced EPS in the fourth quarter by $0.01. On a GAAP basis, reported net loss per share in the fourth quarter was $0.72, compared with an EPS of $0.16 in the previous year.

Fourth Quarter 2001 Results: Segment Performance

North American residential products revenues decreased 1% in the fourth quarter of 2001 to $264 million. Segment operating income decreased to $10.6 million from $22.4 million last year, with operating margins declining to 4.0% from 8.4% in 2000. Higher bad debt expenses and obsolete inventory adjustments reduced segment operating margins by approximately 230 basis points. Additionally, expenses related to the relocation of some residential product lines from Bellevue, Ohio to Orangeburg, South Carolina reduced margins by 80 basis points. The company's hearth products business also contributed to the decline. However, hearth products operations are expected to benefit in 2002 from factory rationalization that reduced manufacturing square footage by approximately 25%, a 10% reduction in salaried employees, implementation of demand flow technologies at hearth products factories, and the implementation of an enterprise resource system to improve financial control.

North American retail revenues declined 13% to $243 million. On a same store basis, sales were down 10% when adjusted for service centers that were sold or closed. Segment operating margins declined from (0.9%) last year to (3.7%), primarily due to unfavorable labor cost variances and a shift in business mix from replacement and service to lower margin new construction work. "Dennis Smith, the new president, is making adjustments to right-size the organization, including a reduction in the number of operating regions and sizing service centers earning less than 5% EBIT to fit their current revenue basis," said Rick Smith, chief financial officer. In the past twelve months, the total number of employees for the segment was down almost 15%.

Worldwide commercial air conditioning revenue stayed flat at $115 million, but segment operating income increased by 20% over last year to $5.7

million. Segment operating margins improved 90 basis points in the fourth quarter to 5.0%, driven primarily by operating improvements in Europe.

Worldwide commercial refrigeration revenue declined by 4% in the quarter to $81 million. Segment operating income was $5.6 million compared to $6.4 million a year ago. The margin erosion was driven by an inventory adjustment in Europe and sales decline in Brazil. Domestic operations offset revenue softness with expense control and headcount reductions to earn double digit EBIT for the quarter.

Worldwide heat transfer sales decreased 15% to $47 million in the quarter. Slack demand has resulted in intense pricing pressure, while smaller lot sizes increased set-up costs, pressuring margins. The segment operating loss was $5.4 million in fourth quarter, compared with operating income of $2.2 million the previous year. "We have aggressively emphasized cost control and have reduced our domestic headcount by 20% over the past 12 months," Smith said. "While these moves could not fully offset our volume and margin erosion for 2001, they position us well for 2002."

Outlook for 2002

While company revenues are expected to be flat to down modestly in 2002, earnings are anticipated to improve based on cost-reduction initiatives and the full-year effects of other actions taken in 2001. In addition, the adoption of FAS 142, eliminating the amortization of goodwill, is expected to add $0.26 in earnings per share. EPS is anticipated to be in the range of $0.80 to $0.90, including the new accounting for goodwill, with year-over-year improvements expected to accelerate in the second half of the year. The company is also evaluating the goodwill on its books, in line with FAS 142. Although results are not complete, it is anticipated the company will record a goodwill impairment charge in the first quarter.

The company will continue focusing on free cash flow and expects to generate approximately $50 million for full year 2002. Coming off a very strong 2001, improvements in working capital are expected to be more modest in 2002. The primary use for the cash generated will continue to be debt retirement. The company will assess opportunities for share repurchase as it approaches its current debt to capitalization target of 40%.

"The management team at LII is committed to realizing the true earnings potential from the portfolio of businesses we have assembled," Schjerven said. "We are focused on the job at hand and look forward to improvement in 2002."

LII has scheduled a conference call to discuss financial results for the fourth quarter and full-year 2001 on Thursday, February 7 at 9:30 a.m. Central Time U.S. 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 612-288-0337 ten minutes prior to the scheduled start time and use reservation number 623596. The number of connections for this call is limited to 200.

This conference call will be broadcast live on the Internet by PR Newswire and can be accessed at http://www.videonewswire.com/event.asp?id=2909 . 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 from 1:00 p.m. February 7 through February 14, 2002 on the Internet or by dialing 800-475-6701, access code 623596.

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.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME For the Three Months and Twelve Months Ended December 31, 2001 and 2000

(In thousands, except per share data)

	For the Three Months Ended December 31,		For the Twelve Months Ended December 31,	
	2001	2000	2001	2000
NET SALES	$728,530	$779,215	$3,119,691	$3,247,357
COST OF GOODS SOLD	529,276	546,231	2,190,041	2,228,046
Gross Profit	199,254	232,984	929,650	1,019,311
OPERATING EXPENSES:				
Selling, general and administrative expense	207,422	203,309	857,173	855,600
Restructurings and impairments	35,173	---	73,173	5,100
(Loss) income from operations	(43,341)	29,675	(696)	158,611
INTEREST EXPENSE, net	8,536	14,233	43,144	56,193
OTHER	146	599	431	1,842
MINORITY INTEREST	(10)	53	125	(374)
(Loss) income before income				

taxes	(52,013)	14,790	(44,396)	100,950
(BENEFIT FROM) PROVISION FOR INCOME TAXES	(11,695)	6,135	(1,998)	41,892
Net (loss) income	$(40,318)	$8,655	$(42,398)	$59,058
REPORTED (LOSS) EARNINGS PER SHARE:				
Basic	$(0.72)	$0.16	$(0.75)	$1.06
Diluted	$(0.72)	$0.16	$(0.75)	$1.05
DILUTED EARNINGS PER SHARE BEFORE RESTRUCTURING (A)	$(0.17)	$0.16	$0.25	$1.10
(A) Excludes after-tax restructuring amounts of:	$30,815	---	$56,615	$2,800

	For the Three Months Ended December 31,		For the Twelve Months Ended December 31,	
Net Sales	2001	2000	2001	2000
North American residential	$263,945	$267,807	$1,201,151	$1,221,847
North American retail	243,164	280,952	1,002,564	1,053,235
Commercial air conditioning	114,602	114,765	469,965	469,155
Commercial refrigeration	80,687	84,282	333,489	358,257
Heat transfer	47,265	55,329	215,104	246,750
Eliminations	(21,133)	(23,920)	(102,582)	(101,887)
	$728,530	$779,215	$3,119,691	$3,247,357

	For the Three Months Ended December 31,		For the Twelve Months Ended December 31,	
Income (Loss) from Operations, excluding restructuring charges	2001	2000	2001	2000
North American residential	$10,575	$22,422	$82,663	$109,053
North American retail	(8,880)	(2,471)	(10,802)	34,011
Commercial air conditioning	5,692	4,726	24,178	12,421
Commercial refrigeration	5,569	6,391	26,456	31,102
Heat transfer	(5,430)	2,179	(911)	14,971
Corporate and other	(16,225)	(5,450)	(49,024)	(34,573)
Eliminations	531	1,878	(83)	(3,274)
	$(8,168)	$29,675	$72,477	$163,711

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
As of December 31, 2001 and December 31, 2000
(In thousands, except share data)

ASSETS

	December 31, 2001	December 31, 2000

CURRENT ASSETS:		
Cash and cash equivalents	$34,393	$40,633
Accounts and notes receivable, net	291,485	399,136
Inventories	281,170	359,531
Deferred income taxes	42,662	47,063
Other assets	63,655	54,847
Total current assets	713,365	901,210
PROPERTY, PLANT AND EQUIPMENT, net	291,531	354,172
GOODWILL, net	704,713	739,468
OTHER ASSETS	84,379	60,181
TOTAL ASSETS	$1,793,988	$2,055,031
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt	$23,701	$31,467
Current maturities of long-term debt	28,895	31,450
Accounts payable	242,534	260,208
Accrued expenses	249,546	242,347
Income taxes payable	9,870	24,448
Total current liabilities	554,546	589,920
LONG-TERM DEBT	465,163	627,550
DEFERRED INCOME TAXES	673	941
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	14,014	14,284
OTHER LIABILITIES	103,301	77,221
Total liabilities	1,137,697	1,309,916
MINORITY INTEREST	1,651	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, 60,690,198 shares and 60,368,599 shares issued for 2001 and 2000, respectively	607	604
Additional paid-in capital	372,877	372,690
Retained earnings	383,566	447,377
Accumulated other comprehensive loss	(68,278)	(37,074)
Deferred compensation	(3,710)	(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	654,640	743,057
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,793,988	$2,055,031

SOURCE Lennox International Inc.
Web site: http: //www.lennoxinternational.com
Company News On-Call: http: //www.prnewswire.com/comp/140632.html
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