Lennox International Reports First Quarter 2002 Earnings; Broad-Based Improvements Realized

April 23, 2002

DALLAS, April 23 /PRNewswire-FirstCall/ -- Lennox International Inc. (NYSE: LII) announced today that despite continued softness in end market demand, first quarter 2002 earnings improved both sequentially and on a year-over-year basis.

Total company sales for first quarter 2002 decreased 6% to $676 million from $716 million in the same quarter last year. In constant currencies, company-wide sales were down 5%. International sales (sales outside the U.S. and Canada) generated 13% of total LII revenues.

Quarterly operating income for the consolidated company -- before $0.7 million in pretax restructuring charges from the restructuring program outlined in Q4 2001 -- was $9 million, up substantially from an operating loss of $4 million last year. Operating income, as a percent of sales, was 1.4%, compared with (0.6%) in 2001. EBITDA increased 46% to $25 million from $17 million in the same quarter a year ago.

Net income for the quarter before restructuring charges and goodwill impairment was $1 million compared with a net loss of $10 million in the year ago period. Diluted earnings per share were $0.02 compared with a loss per share of $0.18 in first quarter 2001. Had the FAS 142 accounting rule eliminating the amortization of goodwill been in place in 2001, operating income in Q1 2001 would have been $4.4 million higher and the loss per share would have been $0.11.

The company completed an independent review of the fair value of its operations which have goodwill and recorded an after-tax, non-cash goodwill impairment charge of $249 million in Q1 2002. The charge relates primarily to the company's retail and North American residential business segments. On a GAAP basis, after accounting for goodwill impairment, the company's reported net loss per share in the first quarter was $4.38.

At March 31st, 2002, LII's Debt to Total Capitalization was 56.5%. This compares favorably with 59.7%, adjusted for FAS 142, at the same time last year. Company officials indicated they would be more comfortable at 50% Debt to Total Cap, the mid-point of a 40% to 60% range, which they have revised for the effect of FAS 142.

"LII made significant progress in improving its operating performance," said Bob Schjerven, chief executive officer. "As the various cost control programs we initiated last year began to take effect, segment operating income and margins improved in all but one of our business segments.

"Given the difficult environment we are competing in and the fact that the first quarter is typically seasonally soft, we are very pleased with LII's start for 2002."

LII's focus on free cash flow continued to produce highly positive results. Free cash flow was very strong in Q1 2002 at $8 million, compared with a use of $26 million in Q1 2001.

Business segment highlights:

North American retail: The segment operating loss shrank from $10 million to $2.8 million, with FAS 142 contributing $3.3 million to the year-over-year improvement. Operating margins were (1.4%) compared with (4.5%) last year.

The company realized an additional week of revenue in its retail unit when compared with the same quarter last year. Due to the decentralized nature of LII's retail operations, company reporting of retail results in Q1 historically lagged other operations by one week. However, with an enhanced enterprise system in place and the resulting improvement in financial control of the retail segment, the company was able to reconcile the timing of its retail results with its other operations. Accounting for the additional week added $12 million in revenue and $2.3 million in operating income to LII retail segment results for the first quarter. Excluding the benefit from the extra week of business realized in the quarter, operating margins were (2.5%).

Revenues declined 8% from the previous year to $205 million. On a same store basis, adjusting for sold or closed service centers, sales were down 9%.

"Despite a lower revenue base, Service Experts is beginning to see the benefit from significant progress in addressing the labor productivity issue, with a focus on right-sizing the organization for the current size of our operations and the current economic climate," said Rick Smith, CFO. "Dennis Smith, Service Experts president, has worked closely with management to instill a culture of accountability and a commitment to improved performance."

North American Residential: Segment revenues decreased 2% in Q1 to $275 million, largely due to lower sales of hearth products. Segment operating income for the quarter increased 26% to $15.5 million from $12.3 million last year, with FAS 142 contributing $0.7 million to the year-over-year improvement. Segment operating margins expanded 120 basis points to 5.6% due to cost control programs, improved factory performance, and a favorable mix of higher-margin premium product.

Worldwide commercial air conditioning: North American industry shipments of unitary commercial equipment were down approximately 15% in the first two months of 2002. Despite market weakness, this business segment outperformed the market with quarterly revenues declining 7% to $87 million. Operating performance also improved with segment operating loss decreasing to $0.2 million from $1.8 million last year. Segment operating margins in Q1 were (0.2%), a 170 basis point improvement from 2001 and driven primarily by cost reductions in the company's domestic operation.

Worldwide commercial refrigeration: Segment revenues were essentially flat compared with last year at $85 million, but were up 3% when adjusted for currency exchange. Segment operating income increased 33% to $8.3 million, with FAS 142 contributing $0.2 million to the year-over-year improvement. Operating margins expanded to 9.7%, up significantly from 7.3% in Q1 2001, with all geographic regions benefiting from cost control initiatives.

Worldwide heat transfer: Demand for heat transfer components remains soft, with heat transfer segment sales decreasing 16% to $49 million in Q1. The volume erosion resulted in a segment operating loss of $800,000 in Q1, compared with operating income of $1.8 million the previous year. 2001 quarterly operating income would have been $0.2 million higher if FAS 142 had been in place. Operating margins were (1.6%) compared with 3.1% last year.

Last quarter the company announced the heat transfer segment had entered into an alliance to serve as a major provider of coil products to Ingersoll-Rand for the U.S., Mexico, and Canada. "We are slightly ahead of schedule establishing a new facility in Mexico to produce these coils, and expect the agreement to bring $11 million in incremental revenue to this business in 2002," Smith said.

LII announced yesterday it has entered into a memorandum of agreement for the formation of a joint venture with Outokumpu Oyj of Finland. Outokumpu will purchase a 55% interest in LII's heat transfer business segment for $55 million, with LII retaining 45% ownership. The agreement, which has been approved by the board of directors of both companies and is contingent upon regulatory approvals, is currently targeted for completion sometime in the middle of the year.

Business outlook

For the full year 2002, assuming the heat transfer joint venture is completed in the middle of the year, the company anticipates reported company revenues for the full year to decline by about 5%. Based on the strength of Q1 results, earnings are now expected to be at the upper end of the previously issued $0.80-$0.90 guidance range. Free cash flow for the year continues to be projected at approximately $50 million.

"We are encouraged by the operating improvements we realized in Q1," said Bob Schjerven. "We are confident the first quarter was a turning point for the company. With continued improvements through process centering, lean manufacturing, and cost control, we believe we are solidly on the road to improved performance."

A conference call to discuss the company's Q1 2002 results will be held on Wednesday, April 24 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 952-556-2844 ten minutes prior to the scheduled start time and use reservation number 634142. 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/event.asp?id=4209 . 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. April 24 through May 01, 2002 on the Internet or by dialing 800-475-6701, access code 634142.

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, 2002 and 2001
(Unaudited, in thousands, except per share data)

	For the Three Months Ended March 31,	
	2002	2001
NET SALES	$675,774	$715,966
COST OF GOODS SOLD	466,899	502,381
Gross Profit	208,875	213,585
OPERATING EXPENSES:		
Selling, general and administrative expense	199,385	217,556
Restructurings	653	---
Income (loss) from operations	8,837	(3,971)
INTEREST EXPENSE, net	7,883	12,777
OTHER	(85)	663
MINORITY INTEREST	66	107
Income (loss) before income taxes and cumulative effect of accounting change	973	(17,518)
PROVISION (BENEFIT FROM) FOR INCOME TAXES	402	(7,270)
Net income (loss) before cumulative effect of accounting change	571	(10,248)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	249,224	---
Net loss	$(248,653)	$(10,248)

EARNINGS (LOSS) PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND RESTRUCTURING:		
Basic	$0.02	$(0.18)
Diluted	$0.02	$(0.18)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND RESTRUCTURING PER SHARE:		
Basic	$(4.39)	$---
Diluted	$(4.39)	$---
REPORTED LOSS PER SHARE:		
Basic	$(4.38)	$(0.18)
Diluted	$(4.38)	$(0.18)

	For the Three Months Ended March 31,	
Net Sales	2002	2001
North American residential	$275,209	$282,025
North American retail	205,014	222,424
Commercial air conditioning	86,804	93,378
Commercial refrigeration	85,263	85,089
Heat transfer	48,676	58,275
Eliminations	(25,192)	(25,225)
	$675,774	$715,966

	For the Three Months Ended March 31,		
	2002 (B)	2001	2001
Income (Loss) from Operations			Adjusted (A)
North American residential	$15,502	$12,306	$13,024
North American retail	(2,793)	(9,973)	(6,684)
Commercial air conditioning	(163)	(1,817)	(1,992)
Commercial refrigeration	8,259	6,221	6,431
Heat transfer	(800)	1,788	2,012
Corporate and other	(9,933)	(11,003)	(10,901)
Eliminations	(582)	(1,493)	(1,493)
	$9,490	$(3,971)	$397

(A) To facilitate comparisons, the first quarter 2001 reported segment (Loss) Income from Operations amounts have been adjusted to reflect the discontinuation of goodwill amortization under SFAS 142.
(B) Excluding restructuring charges.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
As of March 31, 2002 and December 31, 2001
(In thousands, except share data)

ASSETS

	March 31, 2002	December 31, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$25,068	$34,393
Accounts and notes receivable, net	339,748	291,485
Inventories	297,586	281,170
Deferred income taxes	44,136	42,662
Other assets	62,022	63,655
Total current assets	768,560	713,365
PROPERTY, PLANT AND EQUIPMENT, net	281,371	291,531
GOODWILL, net	414,916	704,713

OTHER ASSETS	119,012	84,379
TOTAL ASSETS	$1,583,859	$1,793,988
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt	$33,715	$23,701
Current maturities of long-term debt	27,817	28,895
Accounts payable	271,251	242,534
Accrued expenses	247,462	249,546
Income taxes payable	14,007	9,870
Total current liabilities	594,252	554,546
LONG-TERM DEBT	462,385	465,163
DEFERRED INCOME TAXES	630	673
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	13,404	14,014
OTHER LIABILITIES	104,643	103,301
Total liabilities	1,175,314	1,137,697
MINORITY INTEREST	1,738	1,651
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, 61,062,051 shares and 60,690,198 shares issued for 2002 and 2001, respectively	611	607
Additional paid-in capital	375,806	372,877
Retained earnings	129,496	383,566
Accumulated other comprehensive loss	(64,862)	(68,278)
Deferred compensation	(3,578)	(3,710)
Treasury stock, at cost, 3,005,861 and 2,980,846 shares for 2002 and 2001, respectively	(30,666)	(30,422)
Total stockholders' equity	406,807	654,640
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,583,859	$1,793,988

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03/06/2002