Lennox International Reports First Quarter 2003 Earnings; Financial Improvement Trend Continues

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DALLAS, April 22 /PRNewswire-FirstCall/ -- Lennox International Inc. (NYSE: LII) announced first quarter 2003 diluted earnings per share of $0.04, continuing a trend of improved financial performance despite continued softness in end-market demand.

Sales decreased 4% to $650 million from $674 million in last year's first quarter. In constant currencies and adjusting for the loss of $46 million heat transfer revenue, most of which is now part of the company's joint venture with Outokumpu and no longer reported by LII, total sales were up 1%. International sales (sales outside the U.S. and Canada) generated 13% of total LII revenues.

Consolidated operating income rose 20% to $10.6 million from $8.8 million. First quarter 2002 operating earnings included $700,000 in pre-tax restructuring charges associated with the closure of LII's Toronto manufacturing facility. The first quarter 2003 operating margin was 1.6%, compared with 1.3% last year.

Net income was $2.5 million, contrasted with a net loss of $248.7 million last year. Last year's net loss was affected by a $249.2 million after-tax goodwill impairment charge. Diluted earnings per share were $0.04 compared with a loss per share of $4.38 in first quarter 2002. Pro-forma diluted earnings per share for first quarter 2002, adjusting for the goodwill impairment charge and $400,000 in after-tax restructuring charges, was $0.02. Foreign exchange benefited earnings per share by $0.01 in the first quarter of 2003.

"While the first quarter is typically the weakest quarter for us, our results improved on a year-over-year basis and continued the trend of improved financial performance that began in 2002," said Bob Schjerven, chief executive officer. "As has been the case through the prolonged economic downturn, our strong brands, quality products and services, and close customer relationships have differentiated our business in a very soft marketplace. Given the difficult competitive environment, we are pleased with LII's start for 2003."

LII also further strengthened its balance sheet in the first quarter, supported by a continued focus on lean enterprise initiatives. As of March 31, 2003, total debt was down $135 million from a year ago and is currently at $389 million. Total debt to capitalization declined dramatically to 45.1% from 56.3%. Free cash flow in the first quarter was a usage of $52 million, due primarily to pre-season inventory build, compared with $8 million in free cash flow generated in the first quarter of 2002. Due to the seasonal nature of many of the company's businesses it is not unusual for LII to use free cash flow in the first half of the year and generate free cash flow in the second half. Operational working capital improved 270 basis points to 19.3% of sales from 22.0%.

The tables following the text in this news release provide financial detail and reconcile the information provided to U.S. Generally Accepted Accounting Principles (GAAP) measures.

Business segment highlights:

Heating & Cooling: Heating & Cooling business revenues rose 7% to $387 million. Adjusting for fluctuations in currency exchange rates, sales were up 5%. Segment operating income increased 37% to $21.0 million from $15.3 million last year and operating margins expanded 110 basis points to 5.4% from 4.3% last year.

The Residential Heating & Cooling segment had a very strong first quarter, with sales up 7% to $294 million. Sales increases were achieved by all of the company's home comfort equipment brands, including hearth products. Segment operating income increased 41% for the quarter to $21.8 million from $15.5 million last year. Operating margins expanded 170 basis points to 7.4%, through pricing improvement on replacement sales, a favorable mix of higher- end product, and improved hearth products profitability. This improvement was partially offset by margin pressure in LII's residential new construction business.

Commercial Heating & Cooling segment revenues rose 7% to $93 million, but were flat when adjusted for currency fluctuations. The segment operating loss was $0.7 million, compared with a loss of $0.2 million last year. Operating margins were (0.8%), down 60 basis points from 2002. Higher insurance and wage expenses and a skew toward lower margin parts sales in the company's domestic operation, combined with pricing-related margin pressure in Europe, were responsible for the decline. Several initiatives, including the recent signing of 16 new national accounts and the planned closing of a 120,000- square-foot factory in Northampton, England, position the commercial segment for improved performance going forward.

Service Experts: The Service Experts segment had an operating loss of $4.7 million, or 2.4% of sales, compared with a loss of $2.8 million, or 1.4% of sales, last year. Higher insurance expenses and lower commercial business margins more than offset improved residential performance. Revenues declined 4%, or 5% when adjusted for currency translation, to $197 million.

Year-over-year sales in the service and replacement businesses and in the residential new construction business -- which represent almost 85% of total segment revenues -- increased slightly, although soft demand compounded what is typically the weakest quarter for this business. The decline in segment revenue is entirely in the commercial new construction sector due in part to severe weather in key sales areas. "We remain confident we have identified and are implementing the right strategies to improve the performance of this segment," Schjerven said.

Refrigeration: Segment revenues were up 3% to $90 million but were down 4% when adjusted for currency exchange. Segment operating income was essentially flat at $8.3 million, with strict cost control helping to offset lower sales. Operating margins contracted to 9.2%, primarily due to pricing-related margin pressure in Europe. While demand for commercial refrigeration equipment has declined, the refrigeration segment is maintaining its market share.

Business outlook

The company reaffirmed its guidance for 2003, anticipating revenues to be relatively flat and earnings per share, based on the continued focus on cost reduction and the full-year effect of actions taken in 2002, to be in the range of $1.10 to $1.20. While the company sees no clear signs of sustained underlying strength in the economy and with a lack of visibility on the timing of economic recovery, year-over-year improvements are expected to be more concentrated in the latter half of the year. For the year, the company expects to generate free cash flow approximately equal to net income.

"We are pleased our performance continues to improve," said Bob Schjerven. "Our management team remains intensely focused on operating improvements, which will accelerate with economic recovery."

A conference call to discuss the company's Q1 2003 results will be held on Wednesday, April 23 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 612-326-1019 ten minutes prior to the scheduled start time and use reservation number 681357. 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.firstcallevents.com/service/ajwz378648386gf12.html . 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 23 through April 30, 2003 by dialing 800-475-6701, access code 681357. This call will also be archived on the company's web site.

A Fortune 500 company operating in over 100 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 OPERATIONS
For the Three Months Ended March 31, 2003 and 2002
(Unaudited, in thousands, except per share data)

	For the Three Months Ended March 31, 2003	2002
NET SALES	$649,798	$674,269
COST OF GOODS SOLD	437,246	467,767
Gross Profit	212,552	206,502
OPERATING EXPENSES:		
Selling, general and administrative expense	201,955	197,012
Restructurings	---	653
Income from operations	10,597	8,837
INTEREST EXPENSE, net	7,020	7,883
OTHER INCOME	(589)	(85)
MINORITY INTEREST	90	66
Income before income taxes and cumulative effect of accounting change	4,076	973
PROVISION FOR INCOME TAXES	1,588	402
Income before cumulative effect of accounting change	2,488	571
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	---	249,224
Net income (loss)	$2,488	$(248,653)
INCOME PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE:		
Basic	$0.04	$0.01
Diluted	$0.04	$0.01
CUMULATIVE EFFECT OF ACCOUNTING CHANGE PER SHARE:		
Basic	$---	$(4.39)
Diluted	$---	$(4.39)

NET INCOME (LOSS) PER SHARE:		
Basic	$0.04	$(4.38)
Diluted	$0.04	$(4.38)

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

SEGMENT REVENUES AND OPERATING PROFIT
For the Three Months Ended March 31, 2003 and 2002
(Unaudited, in Thousands)

	For the Three Months Ended March 31,	
	2003	2002
Net Sales		
Residential	$294,300	$273,852
Commercial	92,833	86,793
Heating and Cooling	387,133	360,645
Service Experts	197,053	205,014
Refrigeration	90,205	87,941
Corporate and other (A)	---	45,861
Eliminations	(24,593)	(25,192)
	$649,798	$674,269
Segment Profit (B)		
Residential	$21,794	$15,502
Commercial	(747)	(163)
Heating and Cooling	21,047	15,339
Service Experts	(4,737)	(2,793)
Refrigeration	8,274	8,237
Corporate and other (A)	(12,755)	(10,711)
Eliminations	(1,232)	(582)
Segment Profit	10,597	9,490
Reconciliation to Income before Income Taxes:		
Restructurings	---	653
Interest Expense, net	7,020	7,883
Minority Interest and Other	(499)	(19)
	$4,076	$973

(A) In the third quarter of 2002, the Company formed joint ventures with Outokumpu by selling to Outokumpu a 55 percent interest in the Company's heat transfer business segment for approximately $55 million in cash and notes. The Company accounts for its remaining 45% interest using the equity method of accounting and includes such amounts in the Corporate and other segment. The historical net sales, results of operations and total assets of the Corporate and other segment have been restated to include the portions of the heat transfer business segment that was sold to Outokumpu. The results of operations of the heat transfer business segment now presented in the Corporate and other segment were $(0.9) million for the three months ended March 31, 2003. The historical net sales and results of operations for the three months ended March 31, 2002 were $45.9 million and $(0.8) million.

(B) During the second quarter of 2002, the Company changed its measure of segment profit. Segment profit is based upon income from operations included in the accompanying consolidated statement of operations except that it excludes restructuring charges and other operating gains, losses and expenses. All historical amounts have been restated to conform with the current year presentation. Restructuring charges excluded from segment profit generally consist of long-lived asset impairments, severance, contract termination and other costs associated with exiting activities within the segment and are considered non-recurring in nature.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
As of March 31, 2003 and December 31, 2002
(Unaudited, in thousands, except share data)

ASSETS	March 31, 2003 (unaudited)	December 31, 2002
CURRENT ASSETS:		
Cash and cash equivalents	$54,145	$76,369
Accounts and notes receivable, net	321,294	307,334
Inventories	272,154	219,682
Deferred income taxes	32,851	33,270
Other assets	60,159	38,400
Total current assets	740,603	675,055
PROPERTY, PLANT AND EQUIPMENT, net	226,852	231,042
GOODWILL, net	427,253	420,802
DEFERRED INCOME TAXES	80,376	82,666
OTHER ASSETS	119,235	112,153
TOTAL ASSETS	$1,594,319	$1,521,718
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term debt	$10,438	$9,255
Current maturities of long-term debt	13,478	13,871
Accounts payable	245,529	247,598
Accrued expenses	283,311	253,929
Income taxes payable	23,405	12,808
Total current liabilities	576,161	537,461
LONG-TERM DEBT	364,805	356,747
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	13,927	13,472
PENSIONS	88,336	85,434
OTHER LIABILITIES	75,501	74,214
Total liabilities	1,118,730	1,067,328
MINORITY INTEREST	1,829	1,591
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, 63,251,382 shares and 63,039,254 shares issued for 2003 and 2002 respectively	633	630
Additional paid-in capital	407,107	404,723
Retained earnings	168,277	171,316
Accumulated other comprehensive loss	(58,999)	(79,636)
Deferred compensation	(12,108)	(13,518)
Treasury stock, at cost, 3,043,828 and 3,009,656 shares for 2003 and 2002, respectively	(31,150)	(30,716)
Total stockholders' equity	473,760	452,799
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,594,319	$1,521,718

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

Reconciliation to U.S. GAAP (Generally Accepted Accounting Principles) Measures
(Unaudited, in thousands, except per share and ratio data)

Pro Forma Net Income and Pro Forma Diluted EPS (Earnings per Share)

	For the Three Months Ended March 31,			
	2003	2003 Diluted EPS	2002	2002 Diluted EPS
Net Income (Loss), as Reported	$2,488	$0.04	$(248,653)	$(4.38)
Restructurings, Net of Income Tax	---	---	402	0.01
Cumulative Effect of Accounting Change	---	---	249,224	4.39
Pro Forma Net Income	$2,488	$0.04	$973	$0.02

Free Cash Flow

	For the Three Months Ended March 31, 2003	2002
Net Cash Provided Used in Operating Activities	$(30,458)	$(6,435)
Purchases of Property, Plant and Equipment	(5,242)	(4,685)
Change in Asset Securitization	(16,100)	18,300
Cash Restructuring Charges	---	653
Free Cash Flow	$(51,800)	$7,833

Operational Working Capital

	As of March 31, 2003	March 31, 2003 Trailing Twelve Months Avg	As of March 31, 2002	March 31, 2002 Trailing Twelve Months Avg
Accounts and Notes Receivable, Net	$321,294		$339,748	
Allowance for Doubtful Accounts	22,845		25,585	
Asset Securitization	115,100		124,800	
Accounts and Notes Receivable, Gross	459,239	$518,195	490,133	$545,303
Inventories	272,154		297,586	
Excess of Current Cost Over Last-in, First-out	47,902		46,968	
Inventories Adjusted	320,056	316,334	344,554	370,317
Accounts Payable	(245,529)	(255,652)	(271,251)	(239,068)
Operational Working Capital (A)	533,766	578,877	563,436	676,552
Net Sales - Trailing Twelve Months (B)	3,001,296	3,001,296	3,073,206	3,073,206
Operational Working Capital Ratio (A / B)	17.8%	19.3%	18.3%	22.0%

SOURCE Lennox International Inc.