



Lennox International Reports 19% Increase in Second Quarter 2003 Net Income; Sixth Straight Quarter of Operating Profitability Improvement

July 22, 2003

DALLAS, July 22 /PRNewswire-FirstCall/ -- Lennox International Inc. (NYSE: LII) announced second quarter 2003 diluted earnings per share (EPS) of \$0.51 versus \$0.43 for the same quarter in 2002.

(Logo: <http://www.newscom.com/cgi-bin/prnh/20020304/DAM0531LOGO>)

Sales decreased 1% to \$819 million from \$828 million in last year's second quarter. In constant currencies and adjusting for the loss of \$49 million in heat transfer revenues -- most of which are now part of the company's joint venture with Outokumpu and no longer reported by LII -- total sales were up 2%. Sales outside the U.S. and Canada generated 13% of total LII revenues.

Quarterly operating income was \$56 million, up 10% from last year's \$51 million. The second quarter 2002 included \$1 million in pre-tax restructuring charges related to programs announced in 2001, while a pre-tax charge of \$0.1 million for gains, losses and other expenses was recorded in the second quarter 2003. Adjusting for these items, operating income increased 7% year-over-year, the company's sixth straight quarter of year-over-year improvement in operating profitability.

Net income was \$30 million, up 19% from \$26 million in the same period last year. Diluted earnings per share were \$0.51 compared with \$0.43 in second quarter 2002. When adjusted for gains, losses and other expenses, and restructuring charges, net income grew 12%. On the same basis EPS increased to \$0.50 in second quarter 2003, versus \$0.45 the prior year.

As of June 30, 2003, LII's total debt was \$390 million, down \$121 million from a year ago. Total debt to capitalization was 42.2%, comparing very favorably with 53.2% a year ago. Free cash flow in the second quarter was a usage of \$21 million, bringing the year-to-date figure to a usage of \$73 million. Due to the seasonal nature of many of the company's businesses, it is typical 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 ratio improved significantly to 19.2% from 21.1% last year. At the end of second quarter, inventories were down 10%, or \$29 million, from 2002.

"I'm very pleased to report our sixth straight quarter of year-over-year improvement in operating performance, despite difficult market conditions," said Bob Schjerven, chief executive officer. "And our progress was not limited to the profitability reported on our income statement and the strengthening of our balance sheet. We continue to execute the initiatives necessary to position Lennox International for profitable growth."

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

Business segment highlights:

Heating & Cooling: LII's Heating & Cooling business revenues rose 10% to \$509 million, despite reduced industry shipments and unfavorable weather in many key markets. Adjusting for fluctuations in exchange rates, sales were up 7%. Segment operating income increased 32% to \$55 million from \$42 million last year and operating margins expanded 180 basis points to 10.8% from 9.0% last year.

Residential heating & cooling revenues grew 8% in the second quarter to \$377 million, with sales up 7% adjusting for foreign exchange. Sales increases were achieved by all of the company's home comfort equipment brands, including hearth products. Segment operating income increased 27% for the quarter to \$46 million from \$36 million last year. Operating margins expanded 180 basis points to 12.2% through higher volumes; a favorable mix of recently introduced, higher margin premium product; and improved hearth products performance. This improvement continued to be partially offset by margin pressure in LII's residential new construction business.

Commercial heating & cooling revenues rose 15% to \$132 million, up 8% when adjusted for currency fluctuations. Segment operating profit jumped 59% to \$9 million, with operating margins increasing to 6.9% from 5.0% last year. Higher volumes, increased factory productivity, and the benefits of paring back underperforming international operations more than offset expenses associated with closing a plant in Europe. Production at that plant ceased at the end of the second quarter, with volume relocated to other LII facilities.

Service Experts: Revenues declined 3% to \$243 million, or 5% adjusting for currency exchange. As with the first quarter 2003, the sales decline was attributable entirely to the company's commercial new construction business. Year-over-year sales in the service and replacement businesses and in the residential new construction business grew modestly for the second straight quarter. Lower margins in the new construction businesses, higher insurance expenses, and increased investment in advertising reduced segment operating profit to \$8 million from \$16 million last year. Operating margins for the quarter were 3.1%, compared with 6.3% last year.

"While the market environment for Service Experts is extremely challenging -- especially given soft end market demand for replacement sales and stiff price competition in the new construction sector -- we continue to implement key initiatives to improve profitability," Schjerven said. "We continue to see the profit and growth potential of this business, and we're confident the actions we have underway, including the new management announced two weeks ago, are beginning to pay off in improved performance."

Refrigeration: Demand for commercial refrigeration products from retail customers, notably supermarkets, was depressed in both domestic and international markets. In this difficult environment, segment revenues were up 5% at \$97 million, down 3% when adjusted for currency exchange. Segment operating income was flat at \$9 million, with operating margins declining 50 basis points to 9.2%. Improved factory performance and diligent cost control partially offset the impact of lower foreign exchange-adjusted revenues.

Business outlook

With no clear evidence of a sustained commercial market recovery in the back half of the year, and assuming normalized weather patterns, the company continues to expect revenues to be relatively flat for full-year 2003.

"We're very pleased with the operating improvements we realized in the first half of this year in our heating & cooling and refrigeration businesses, and we're confident this trend will continue," said Bob Schjerven. "Combining that success with our anticipation of a modest improvement in Service Experts profitability in the last half of the year, we are very confident in reaffirming our guidance for full-year 2003 EPS in the range of \$1.10 to \$1.20." The company continues to expect free cash flow will be approximately equal to net income for the full year.

A conference call to discuss the company's second quarter 2003 results will be held on Wednesday, July 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 690588. The number of connections for this call is limited to 200.

This conference call will be broadcast live on the Internet and can be accessed at <http://www.firstcallevts.com/service/ajwz384302093gf12.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. July 23 through July 30, 2003 by dialing 800-475-6701, access code 690588. 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 and Six Months Ended June 30, 2003 and 2002
(Unaudited, in millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
NET SALES	\$819.2	\$828.3	\$1,469.0	\$1,502.6
COST OF GOODS SOLD	541.0	560.1	978.2	1,027.9
Gross profit	278.2	268.2	490.8	474.7
OPERATING EXPENSES:				
Selling, general and administrative expense	221.8	215.6	423.0	412.6
(Gains) losses and other expenses	0.1	---	0.9	---
Restructurings	---	1.2	---	1.9
Income from operations	56.3	51.4	66.9	60.2
INTEREST EXPENSE, net	7.9	8.3	14.9	16.1
OTHER INCOME	(1.5)	(0.5)	(2.1)	(0.5)
MINORITY INTEREST	0.1	0.1	0.2	0.1
Income before income taxes and cumulative effect of accounting change	49.8	43.5	53.9	44.5
PROVISION FOR INCOME TAXES	19.4	17.9	21.0	18.3
Income before cumulative effect of accounting change	30.4	25.6	32.9	26.2
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	---	---	---	(249.2)
Net income (loss)	\$30.4	\$25.6	\$32.9	\$(223.0)

INCOME PER SHARE BEFORE				
CUMULATIVE EFFECT OF				
ACCOUNTING CHANGE:				
Basic	\$0.52	\$0.45	\$0.57	\$0.46
Diluted	\$0.51	\$0.43	\$0.55	\$0.45
CUMULATIVE EFFECT OF				
ACCOUNTING CHANGE				
PER SHARE:				
Basic	\$---	\$---	\$---	\$(4.38)
Diluted	\$---	\$---	\$---	\$(4.27)
NET INCOME (LOSS) PER				
SHARE:				
Basic	\$0.52	\$0.45	\$0.57	\$(3.92)
Diluted	\$0.51	\$0.43	\$0.55	\$(3.82)
AVERAGE SHARES (In				
Millions):				
Basic	58.2	57.1	58.1	57.0
Diluted	59.9	59.0	59.6	58.4

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

SEGMENT REVENUES AND OPERATING PROFIT

For the Three Months and Six Months Ended June 30, 2003 and 2002
(Unaudited, in millions)

	For the		For the	
	Three Months Ended	June 30,	Six Months Ended	June 30,
	2003	2002	2003	2002
Net Sales				
Residential	\$376.8	\$348.7	\$671.1	\$622.6
Commercial	132.1	115.0	224.9	201.8
Heating and				
Cooling	508.9	463.7	896.0	824.4
Service Experts	243.3	251.5	440.4	456.5
Refrigeration	97.3	92.4	187.5	180.3
Corporate and				
other (A)	---	49.2	---	95.1
Eliminations	(30.3)	(28.5)	(54.9)	(53.7)
	\$819.2	\$828.3	\$1,469.0	\$1,502.6
Segment Profit				
(Loss) (B)				
Residential	\$45.9	\$36.1	\$68.5	\$51.6
Commercial	9.2	5.8	8.4	5.6
Heating and				
Cooling	55.1	41.9	76.9	57.2
Service Experts	7.6	15.9	2.9	13.1
Refrigeration	9.0	9.0	17.3	17.2
Corporate and				
other (A)	(15.5)	(13.9)	(28.3)	(24.6)
Eliminations	0.2	(0.3)	(1.0)	(0.8)
Segment Profit	56.4	52.6	67.8	62.1
Reconciliation to				
Income before Income				
Taxes:				
(Gains) losses and				
other expenses	0.1	---	0.9	---
Restructurings	---	1.2	---	1.9
Interest Expense,				

net	7.9	8.3	14.9	16.1
Minority Interest and Other	(1.4)	(0.4)	(1.9)	(0.4)
	\$49.8	\$43.5	\$53.9	\$44.5

- (A) In the third quarter of 2002, the Company formed joint ventures with Outokumpu Oyj by selling to Outokumpu Oyj a 55% 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 Oyj. The results of operations of the heat transfer business segment now presented in the Corporate and other segment were \$(0.5) million and \$(1.4) million for the three months and six months ended June 30, 2003, respectively. The historical net sales and results of operations were \$49.2 million and \$(0.3) million for the three months ended June 30, 2002 and \$95.1 million and \$(1.1) million for the six months ended June 30, 2002, respectively.
- (B) Segment profit is based upon income from operations included in the accompanying consolidated statements of operations excluding restructuring charges and other operating gains, losses and expenses.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of June 30, 2003 and December 31, 2002
(In millions, except share data)

ASSETS

	June 30, 2003 (unaudited)	December 31, 2002
CURRENT ASSETS:		
Cash and cash equivalents	\$64.7	\$76.4
Accounts and notes receivable, net	388.9	307.3
Inventories	272.2	219.7
Deferred income taxes	33.9	33.3
Other assets	55.3	38.4
Total current assets	815.0	675.1
PROPERTY, PLANT AND EQUIPMENT, net	222.5	231.0
GOODWILL, net	439.4	420.8
DEFERRED INCOME TAXES	79.1	82.7
OTHER ASSETS	126.8	112.1
TOTAL ASSETS	\$1,682.8	\$1,521.7

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Short-term debt	\$13.5	\$9.3
Current maturities of long-term debt	13.2	13.9
Accounts payable	257.2	247.6
Accrued expenses	274.4	253.9
Income taxes payable	41.2	12.8
Total current liabilities	599.5	537.5
LONG-TERM DEBT	362.9	356.7
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	14.5	13.5
PENSIONS	89.2	85.4
OTHER LIABILITIES	82.4	74.2
Total liabilities	1,148.5	1,067.3

MINORITY INTEREST	1.9	1.6
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, 63,268,200 shares and 63,039,254 shares issued for 2003 and 2002, respectively	0.6	0.6
Additional paid-in capital	407.3	404.7
Retained earnings	193.1	171.3
Accumulated other comprehensive loss	(26.6)	(79.6)
Deferred compensation	(10.9)	(13.5)
Treasury stock, at cost, 3,043,916 and 3,009,656 shares for 2003 and 2002, respectively	(31.1)	(30.7)
Total stockholders' equity	532.4	452.8
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,682.8	\$1,521.7

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

Reconciliation to U.S. GAAP (Generally Accepted Accounting Principles)
Measures

(Unaudited, in millions, except per share and ratio data)

Pro Forma Operating Income

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Operating Income, as Reported	\$56.3	\$51.4	\$66.9	\$60.2
(Gains) Losses and Other Expenses	0.1	---	0.9	---
Restructurings	---	1.2	---	1.9
Pro Forma Operating Income	\$56.4	\$52.6	\$67.8	\$62.1

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

	For the Three Months Ended June 30,			
	2003	2003 Diluted EPS	2002	2002 Diluted EPS
Net Income, as Reported	\$30.4	\$0.51	\$25.6	\$0.43
(Gains) Losses and Other Expenses*	(0.6)	(0.01)	---	---
Restructurings*	---	---	1.0	0.02
Pro Forma Net Income	\$29.8	\$0.50	\$26.6	\$0.45

	For the Six Months Ended June 30,			
	2003	2003 Diluted EPS	2002	2002 Diluted EPS
Net Income (Loss), as Reported	\$32.9	\$0.55	\$(223.0)	\$(3.82)
(Gains) Losses and Other Expenses*	(0.1)	---	---	---
Restructurings*	---	---	1.4	0.02
Cumulative Effect of				

Accounting Change*	---	---	249.2	4.27
Pro Forma Net Income	\$32.8	\$0.55	\$27.6	\$0.47

* Net of Income Tax

Free Cash Flow

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Net Cash Used in				
Operating Activities	\$23.1	\$45.9	\$(7.4)	\$39.4
Purchases of Property, Plant and Equipment	(5.1)	(8.3)	(10.3)	(13.0)
Change in Asset Securitization	(39.1)	(37.1)	(55.2)	(18.8)
Cash Restructuring Charges	---	---	---	1.9
Free Cash Flow	\$(21.1)	\$0.5	\$(72.9)	\$9.5

Operational Working Capital

	As of	June 30, 2003	As of	June 30, 2002
	June 30, 2003	Trailing Twelve Months Avg	June 30, 2002	Trailing Twelve Months Avg
Accounts and Notes Receivable, Net	\$388.9		\$408.9	
Allowance for Doubtful Accounts	21.7		23.2	
Asset Securitization	154.2		161.9	
Accounts and Notes Receivable, Gross	564.8	\$510.5	594.0	\$539.1
Inventories	272.2		301.0	
Excess of Current Cost Over Last-in, First-out	48.2		47.0	
Inventories Adjusted	320.4	309.4	348.0	355.1
Accounts Payable	(257.2)	(245.2)	(311.5)	(248.5)
Operational Working Capital (A)	628.0	574.7	630.5	645.7
Net Sales - Trailing Twelve Months (B)	2,992.2	2,992.2	3,054.7	3,054.7
Operational Working Capital Ratio (A / B)	21.0%	19.2%	20.6%	21.1%

SOURCE Lennox International Inc.