Lennox International Reports Third Quarter Results; Appoints New Service Experts President

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DALLAS, Oct. 23 /PRNewswire/ -- Lennox International Inc. (NYSE: LII) today announced third quarter results for 2001. Total company sales were $827 million, down 4% versus last year, with foreign currency exchange accounting for one percentage point of the decline. Revenues outside the U.S. and Canada represented 12% of total corporate sales.

The company reported an operating profit of $41 million, up 1% from last year after adjusting for a $5 million restructuring charge taken in third quarter of 2000. Operating margins expanded from 4.8% last year to 5.0%. EBITDA for the quarter was $62 million, up 7% from $58 million a year ago. Net income for the quarter was $15.2 million, flat versus last year. Diluted earnings per share were $0.27, the same as last year when adjusted for the previously mentioned restructuring charge.

Lennox names new president for Service Experts

"The most significant factor behind our disappointing earnings this year is the continued underperformance of Service Experts, our retail business," Schjerven said. "However, our confidence in the earnings potential of this business has not diminished. Our retail strategy is solid, and we have laid a strong foundation for operational improvement. We are now committed to accelerating and enhancing that improvement."

To lead this effort, Schjerven announced the appointment of Dennis Smith to president of Service Experts, replacing Jim Mishler. The appointment is effective immediately. Smith was formerly chief operating officer for Simplex Time Recorder.

"Dennis has a very impressive track record of helping companies reach their highest level of potential, and we are confident he will do the same for Service Experts," Schjerven said.

While at Simplex -- a $900 million fire alarm and security systems business with 170 company-operated locations -- Smith more than doubled the company's operating margins to 12% in less than four years. Before Simplex, he was executive vice president for Premark International's food equipment group. During his tenure at Premark, he led the turnaround of a $1.2 billion business, increasing operating margins from 2% to 10% in three years.

"Dennis is not new to performance challenges or doing what it takes to meet them, and I'm confident his efforts will energize and accelerate performance throughout the Service Experts organization," Schjerven said. "We're pleased and proud to have him join the Lennox International team."

Focus on cash flow generation successful

Diligent working capital management has helped decrease working capital to 23.5% of sales, a full 120 basis points lower than at this time last year. Year to date, Lennox has generated free cash flow of $89 million before restructuring, a $108 million increase over the first nine months of 2000. "We are very comfortable reaffirming our previous estimates of $80-90 million in free cash flow for the full year 2001," Schjerven said.

Through strong cash flow generation, Lennox continues making significant progress in strengthening its balance sheet. At the end of the third quarter, the company had total debt of $567 million, $47 million less than at the end of second quarter 2001 and $172 million less than at this time last year. Debt to total capitalization was 44.6% on September 30, 2001, down from 46.7% on June 30, 2001.

Business segment highlights

North American residential: Sales increased 4% to $319 million, a strong performance in a down market. Segment operating income for the quarter increased 16% to $27.3 million. Operating margins expanded to 8.6% from 7.7% in 2000, benefiting from a shift in product mix to high efficiency equipment.

"The Aire-Flo brand, manufactured by our Excel Comfort Products unit and distributed through Lennox Industries' dealer network, has proven to be an excellent asset in a very price-competitive market," Schjerven said. "We also continue to improve our penetration in residential new construction by expanding our relationships with top North American builders."

North American retail: Revenues declined 8% to $267 million, primarily due to dealer service centers sold or closed earlier this year. Same store sales were essentially flat for the quarter. Segment operating income declined from $11.8 million last year to $3.8 million this year. As a percent of sales, operating income for the quarter declined from 4.1% last year to 1.4% this year. These margins show relatively flat sequential performance when compared with the second quarter of this year.

Schjerven said the decline in margin is primarily due to inefficient utilization of labor, which is being addressed by an increased focus on technician training. A pilot program to consolidate back office accounting functions is also in place, with positive early results.

"The complexity of getting the many parts of our retail business operating in unity has been a tremendous challenge," Schjerven said. "We're looking forward to the focus Dennis Smith will bring to operational improvements."

Worldwide commercial air conditioning: Despite a modest sales decline of 2% to $133 million for the quarter, segment operating income increased significantly, 94% to $11.7 million. Operating margins doubled from 4.4% to 8.8%.

"In the midst of some very soft market conditions, this segment continues to show strong performance," Schjerven said. "Our commercial market shares are up substantially, driven by strong performances from our national accounts group and commercial sales districts. As mentioned last quarter, we are also seeing the benefits of increased distribution, decreased product costs, and improved customer service overseas as we present the unified approach inherent in our pan-European marketing strategy."

Worldwide commercial refrigeration: Revenues declined by 7% to $83 million. Company officials estimate the domestic commercial refrigeration market is off by 15% this year. Segment operating income was $7.1 million compared with $9.2 million last year. Operating margins contracted from 10.4% last year to 8.6%, primarily due to manufacturing inefficiencies and higher raw material costs in Europe and significant volume declines in Brazil, where the energy crisis has reduced equipment usage.

Worldwide heat transfer: Heat transfer has been the segment hardest hit by the economic downturn, with sales decreasing 15% to $53 million. Operating income decreased to $0.7 million from $3.5 million last year, with operating margins at 1.3% versus 5.7% in 2000. The company has reacted to the drop in sales by reducing its domestic heat transfer workforce by 20% since the end of 2000 and continues to implement lean processes and cost reduction initiatives. "It is worth noting that performance in our European heat transfer operations improved significantly in the quarter as rationalization of product and facilities gain momentum, supporting our pan-European approach," said Schjerven.

During the third quarter, Lennox reorganized Worldwide Heat Transfer and Asia-Pacific operations, formerly under Lane Pennington. The company consolidated responsibility for Asia-Pacific operations under Bob McDonough, who now oversees all of Lennox' international operations. Domestic heat transfer responsibility was moved to Harry Bizios, head of Lennox Industries' commercial air conditioning business unit.

Business outlook

Schjerven said Lennox does not anticipate improvement in the economy for the remainder of 2001. "In fact, we project the erosion in business that we experienced in September and the soft sales levels we witnessed for the first part of October to continue, compounding a seasonally soft fourth quarter," he said. The company also has not forecast significant improvement in its Q4 2001 retail operations. It expects Q4 could be breakeven, putting full-year 2001 EPS, before restructuring charges, in the range of $0.40 to $0.45.

"While we are committed to and confident of delivering improvement in EPS in 2002, we will give investors more detailed guidance for next year when we have improved the visibility on market demand and the improvement we expect to realize in our retail segment," Schjerven said.

Lennox has scheduled a conference call to discuss financial results for the third quarter of 2001 on Wednesday, October 24, 2001 9:30 AM Central US. All interested parties are invited to listen to this call as Bob Schjerven-CEO and Rick Smith-CFO comment on the results for the quarter. To listen, please call the conference call line at 612-332-0107 ten minutes prior to the scheduled start time and use reservation number 606058. The number of connections for this call is limited to 200. This conference call will also be broadcast on the Internet. A link to a live broadcast of the call on the Internet can be found on the company's web site at http://www.lennoxinternational.com , or the call can be accessed through PR NewsWire's web site at http://www.videonewswire.com /event.asp?id=1443 . A replay of the call will be available on the Internet through October 31.

Selling heating, ventilation, air conditioning, and refrigeration equipment in over 70 countries, Lennox International Inc. is a global leader in climate control solutions. Lennox operates in five key business segments: North American residential, North American retail, worldwide commercial refrigeration, worldwide commercial air conditioning, and worldwide heat transfer. 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.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Nine Months Ended September 30, 2001 and 2000
(Unaudited, in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2001	2000	2001	2000
NET SALES	$826,849	$857,618	$2,391,161	$2,468,142
COST OF GOODS SOLD	575,176	587,056	1,660,765	1,681,815
Gross Profit	251,673	270,562	730,396	786,327
OPERATING EXPENSES:				
Selling, general and administrative expense	210,417	229,733	649,751	652,291
Restructurings	---	5,100	38,000	5,100
Income from operations	41,256	35,729	42,645	128,936
INTEREST EXPENSE, net	10,330	13,968	34,608	41,960
OTHER	(93)	497	285	1,243
MINORITY INTEREST	2	88	135	(427)
(Loss) income before income taxes	31,017	21,176	7,617	86,160
PROVISION (BENEFIT) FOR INCOME TAXES	15,838	8,790	9,697	35,757
Net (loss) income	$ 15,179	$ 12,386	$ (2,080)	$ 50,403
REPORTED (LOSS) EARNINGS PER SHARE:				
Basic	$ 0.27	$ 0.22	$ (0.04)	$ 0.90
Diluted	$ 0.27	$ 0.22	$ (0.04)	$ 0.89

DILUTED EARNINGS PER SHARE BEFORE RESTRUCTURING (A)	$ 0.27	$ 0.27	$ 0.42	$ 0.94

(A) Excludes restructuring charges ($5.1 million pre-tax, $2.8 million after-tax in 2000; $38.0 million pre-tax, $25.8 million after tax in 2001)

	For the Three Months ended September 30,		For the Nine Months Ended September 30,	
Net Sales	2001	2000	2001	2000
North American residential	$319,403	$308,370	$937,207	$954,040
North American retail	266,683	288,817	759,400	772,283
Commercial air conditioning	133,043	136,368	355,363	354,390
Commercial refrigeration	82,879	88,795	252,802	273,975
Heat transfer	52,516	61,640	167,839	191,421
Eliminations	(27,675)	(26,372)	(81,450)	(77,967)
	$826,849	$857,618	$2,391,161	$2,468,142

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Income (Loss) from Operations	2001	2000	2001	2000
North American residential	$27,340	$23,663	$72,088	$86,631
North American retail	3,840	11,822	(39,922)	36,482
Commercial air conditioning	11,681	6,015	18,486	7,695
Commercial refrigeration	7,102	9,216	20,887	24,711
Heat transfer	706	3,525	4,519	12,792
Corporate and other	(10,291)	(16,283)	(32,799)	(34,223)
Eliminations	878	(2,229)	(614)	(5,152)
	$41,256	$35,729	$42,645	$128,936

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
As of September 30, 2001 and December 31, 2000
(In thousands, except share data)
ASSETS

	September 30, 2001 (unaudited)	December 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	$27,693	$40,633
Accounts and notes receivable, net	383,634	399,136
Inventories	316,305	359,531
Deferred income taxes	46,271	47,063
Other assets	52,972	54,847
Total current assets	826,875	901,210

PROPERTY, PLANT AND EQUIPMENT, net	309,486	354,172
GOODWILL, net	732,297	739,468
OTHER ASSETS	62,005	60,181
TOTAL ASSETS	$1,930,663	$2,055,031
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt	$30,245	$31,467
Current maturities of long-term debt	28,422	31,450
Accounts payable	248,945	260,208
Accrued expenses	281,805	242,347
Income taxes payable	27,797	24,448
Total current liabilities	617,214	589,920
LONG-TERM DEBT	508,313	627,550
DEFERRED INCOME TAXES	1,078	941
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	14,277	14,284
OTHER LIABILITIES	83,050	77,221
Total liabilities	1,223,932	1,309,916
MINORITY INTEREST	1,895	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, 60,818,145 shares and 60,368,599 shares issued for 2001 and 2000, respectively	608	604
Additional paid-in capital	374,117	372,690
Retained earnings	429,257	447,377
Accumulated other comprehensive loss	(64,162)	(37,074)
Deferred compensation	(4,562)	(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	704,836	743,057
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,930,663	$2,055,031

SOURCE Lennox International Inc.
Web site: http: //www.lennoxinternational.com
Company News On-Call: http: //www.prnewswire.com/comp/140632.html
CONTACT: Bill Moltner, vice president, investor relations of Lennox International Inc., +1-972-497-6670
Audio: http: //www.videonewswire.com/event.asp?id=1443