



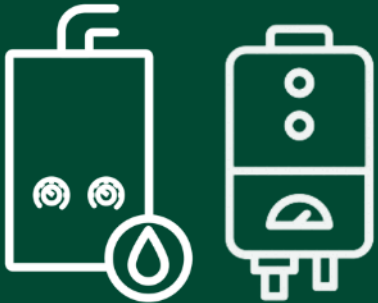
Spring 2020 Analyst Presentation

The background for the title is a dark teal gradient with a pattern of water droplets and bubbles. The text is white and positioned on the left side of the slide.

Forward Looking Statements

This presentation contains statements that we believe are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “continue,” “forecast,” “guidance” or words of similar meaning. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this presentation. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following: negative impacts to our business, including demand for our products, operations and workforce dislocation and disruption, supply chain disruption and liquidity as a result of the severity and duration of the COVID-19 pandemic; a failure to recover or further weakening of the Chinese economy and/or a failure to recover or further decline in the growth rate of consumer spending or housing sales in China; negative impact to our businesses from international tariffs and trade disputes; a failure to recover or further weakening in the high efficiency boiler market segment in the U. S.; significant volatility in raw material availability and prices; our inability to implement or maintain pricing actions; potential weakening in U. S. residential or commercial construction or instability in our replacement markets; foreign currency fluctuations; inability to successfully integrate or achieve our strategic objectives resulting from acquisitions; competitive pressures on our businesses; the impact of potential information technology or data security breaches; changes in government regulations or regulatory requirements; and adverse developments in general economic, political and business conditions in the key regions of the world. Forward-looking statements included in this presentation are made only as of the date of this presentation, and the company is under no obligation to update these statements to reflect subsequent events or circumstances. All subsequent written and oral forward-looking statements attributed to the company, or persons acting on its behalf, are qualified entirely by these cautionary statements. This presentation contains certain non-GAAP financial measures as that term is defined by the SEC. Non-GAAP financial measures are generally identified by “Adjusted” (Adj.) or “Non-GAAP”.

Who We Are



**GLOBAL
MANUFACTURER**
of residential and commercial
water heaters, boilers and
water treatment products



\$3.0B Annual Sales



15,100 Employees



23 Manufacturing Facilities

AOS
LISTED
NYSE

Compelling Investment Thesis



Market share leader
in major product lines



Stable/growing North
American
replacement market;
operating leverage
from incremental new
construction and
replacement



Strength of premium
brand, distribution,
manufacturing and
innovation provide
clear market
advantage in China



5 year adjusted EPS
CAGR through 2019
= 12.7%

5 year dividend CAGR
through 2019 =
24.5%

5 year cumulative
cash returned to
shareholders from
dividends and share
repurchased = \$1.4
billion



Strong balance sheet
and cash flow to
support future
growth, dividends,
share repurchase
and acquisitions

We Have Organic Revenue Growth Drivers Across our Portfolio

Product Lines / Geographies

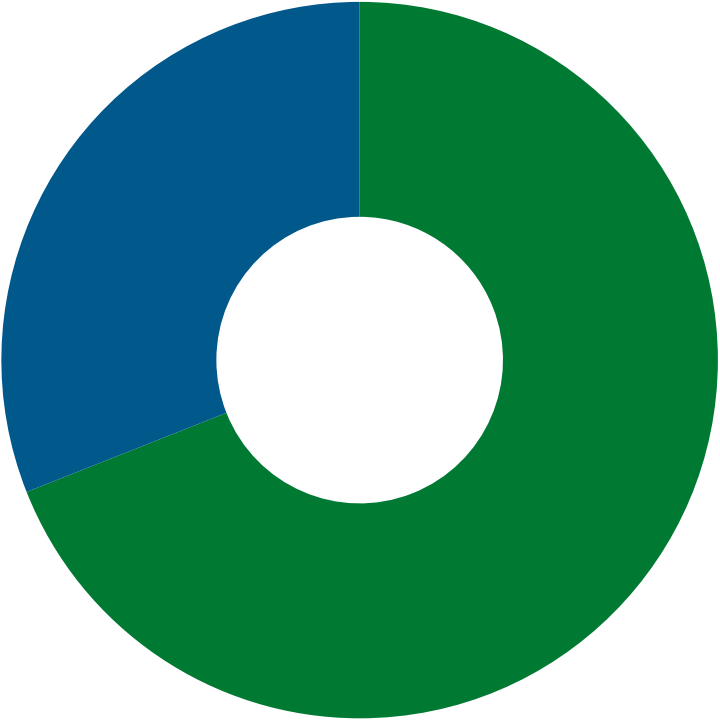
North America Water Heaters	Boilers	North America Water Treatment	China	India/ International
<ul style="list-style-type: none"> • Innovative energy efficient products • Service leadership • Best in class virtual training 	<ul style="list-style-type: none"> • Innovative energy efficient products • Best in class education and training • Service leadership • Customer-centric product development focus 	<ul style="list-style-type: none"> • Best innovative products in marketplace • Direct-to-consumer & E-commerce leadership • Leverage retail and wholesale opportunities • Expand dealer presence • Drive commercial specifications 	<ul style="list-style-type: none"> • Product Innovation • Channel expansion in Tier 3 and 4 cities • Brand leveraging • E-commerce • New product categories 	<ul style="list-style-type: none"> • Market expansion and penetration • E-commerce • Brand-building marketing efforts • Innovative, green products

Vision

To be a leading provider of innovative and energy-efficient products used to heat, treat and conserve water, providing value to our residential and commercial customers

Corporate Snapshot

Segment Revenue



■ North America ■ ROW

Full Year
2019
North America
69%
Rest of World
31%

Products

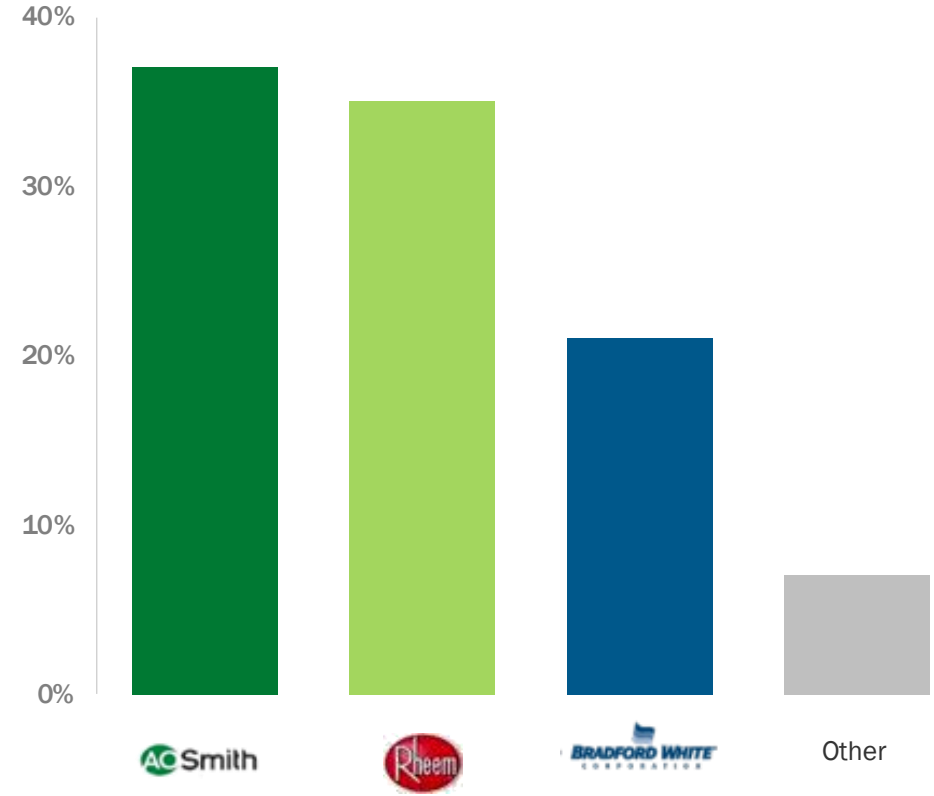
- Water Heaters
- Boilers
- Water Treatment

Brands

Leading Market Share in the U.S. Water Heater Market Segment¹

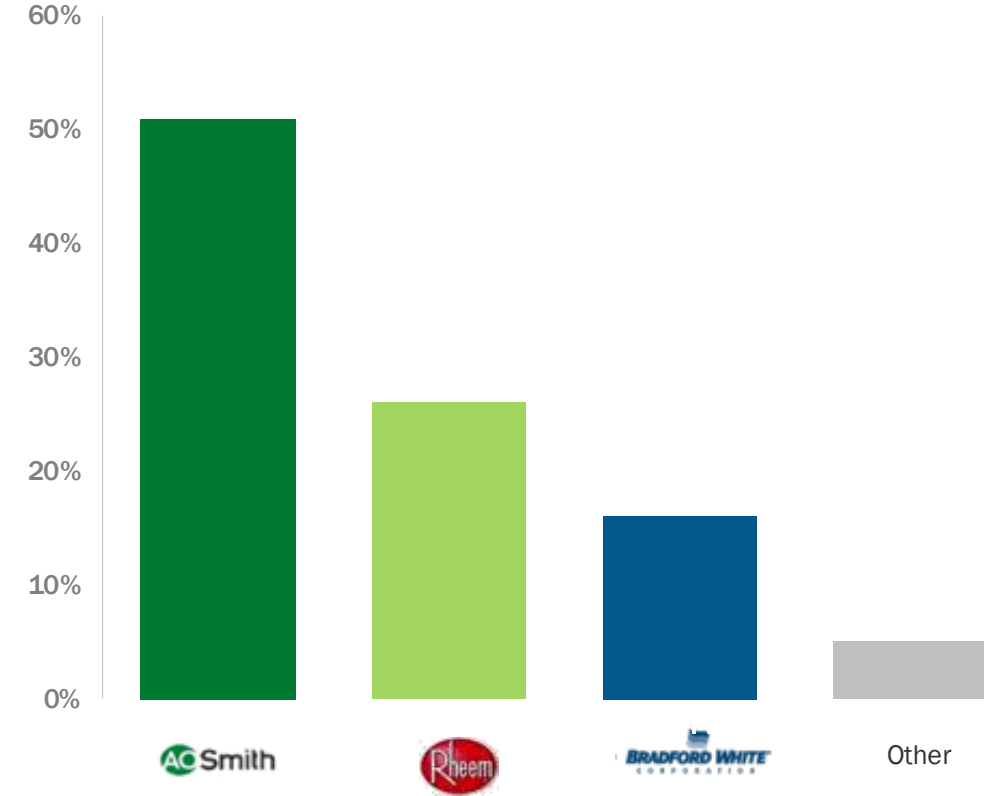
Residential Market

2019 market share data (AHRI + tankless)



Commercial Market²

2019 market share data (AHRI)



¹ AOS actual shipments and AOS estimates of competitors' shipments

² Commercial water heater segment as defined by AHRI, total 2019 commercial units as reported by AHRI = 239,000 units

Comprehensive Residential and Commercial Water Heaters Product Offering

Residential



Hybrid Electric Heat Pump Water Heater



Gas Tankless Water Heater with X3™ Technology



ProLine® 50-Gallon Electric Water Heater



ProLine® Master 50-Gallon Gas Water Heater

Commercial



Cyclone® Mxi



Commercial Tankless Rack System



Commercial Heat Pump Water Heater

Industry Leading Partners in both the U.S. Residential Water Heater Channels

Wholesale Channel

Retail Channel

Wholesale Channel: FERGUSON, Winsupply, HAJOCA, Large Regional Distributors, A. O. Smith Customers

Retail Channel: LOWE'S, True Value, ACE Hardware, Do it Best

INDUSTRY



WHOLESALE CHANNEL

54% of the market

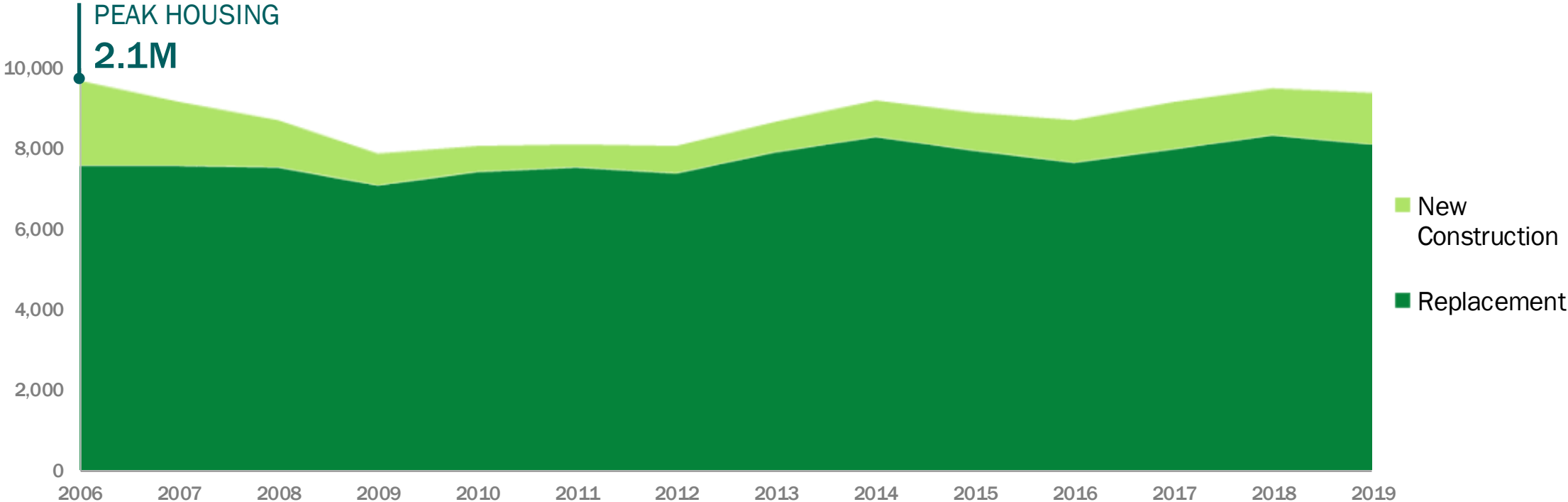
RETAIL CHANNEL

~46% of the market

Stable Replacement Volumes to Temper Downcycles with Upside New Construction Optionality

U. S. Residential Water Heaters¹

Thousands of units



¹Includes tankless

Industry-Leading Energy Efficient Cyclone Condensing Commercial Water Heater



Up to 96% thermal efficiency

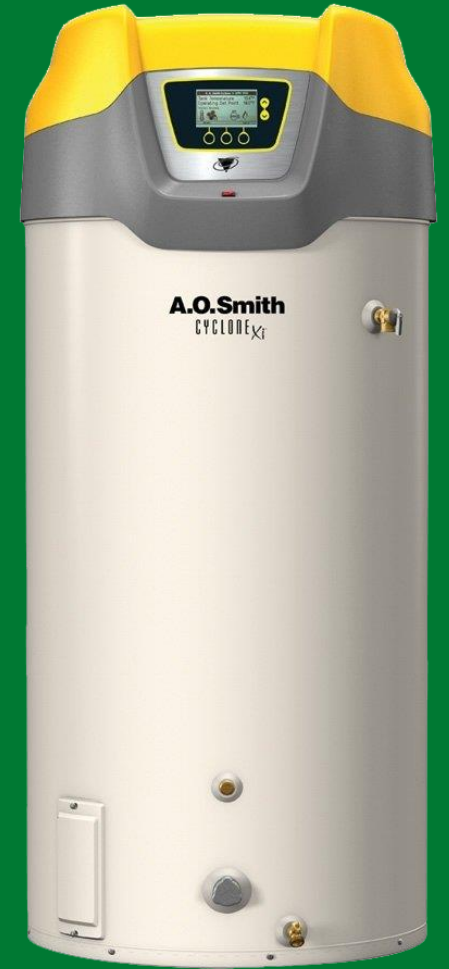
dramatically lowers
operating costs
offering short
payback



Connectivity
built in

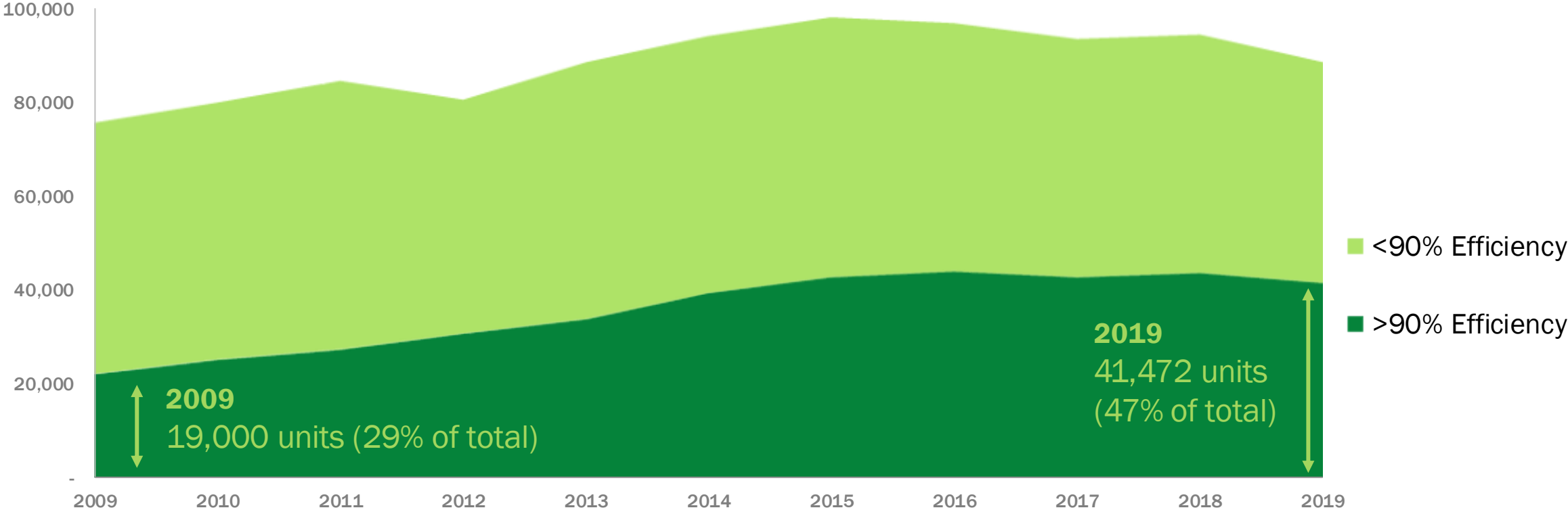


Represents
67% of AOS
commercial gas
water heater
revenues



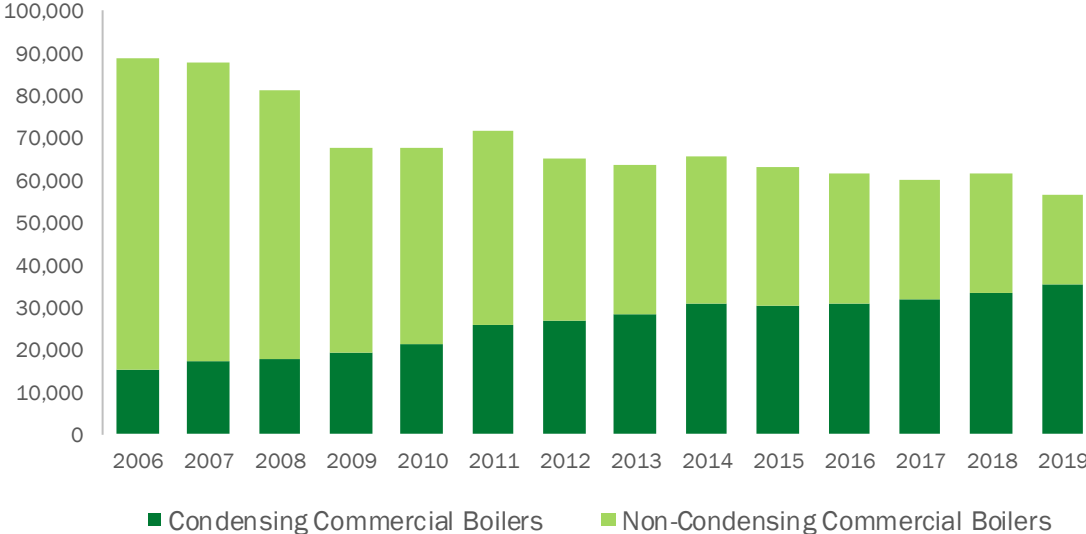
U.S. Commercial Gas Market: Energy Efficient Units more than Doubled in Nine Years to 47% of Units Sold in 2019

Commercial Gas Industry Units



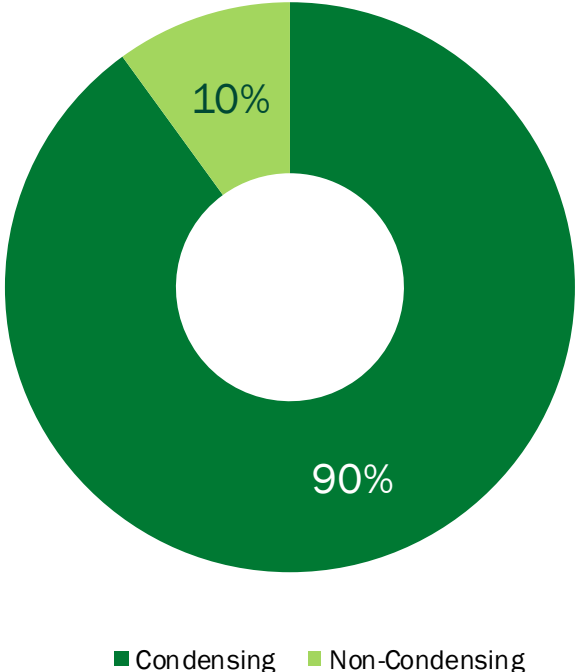
Industry trending to Higher Efficiency Condensing Boilers Drives Past and Future Growth

NA Boiler Volumes



Source: 2006 to 2017: BRG Solutions; 2018-2019: AOS estimates

A. O. Smith Boiler Sales



Comprehensive Boiler Product Offering Commercial & Residential

Residential Condensing Boilers



(55mbh - 399mbh)
(Indoor Rated)



Residential Combi-boilers



NOBLE™
FIRE TUBE COMBI
(110mbh - 199mbh)
(Indoor Rated)

Commercial Condensing Boilers



(400mbh - 850mbh)
(Indoor Rated)



(750mbh - 6000mbh)
(Indoor & Outdoor Models available)

Commercial Non-Condensing Boilers



(500mbh - 5000mbh)
(Indoor & Outdoor Rated)



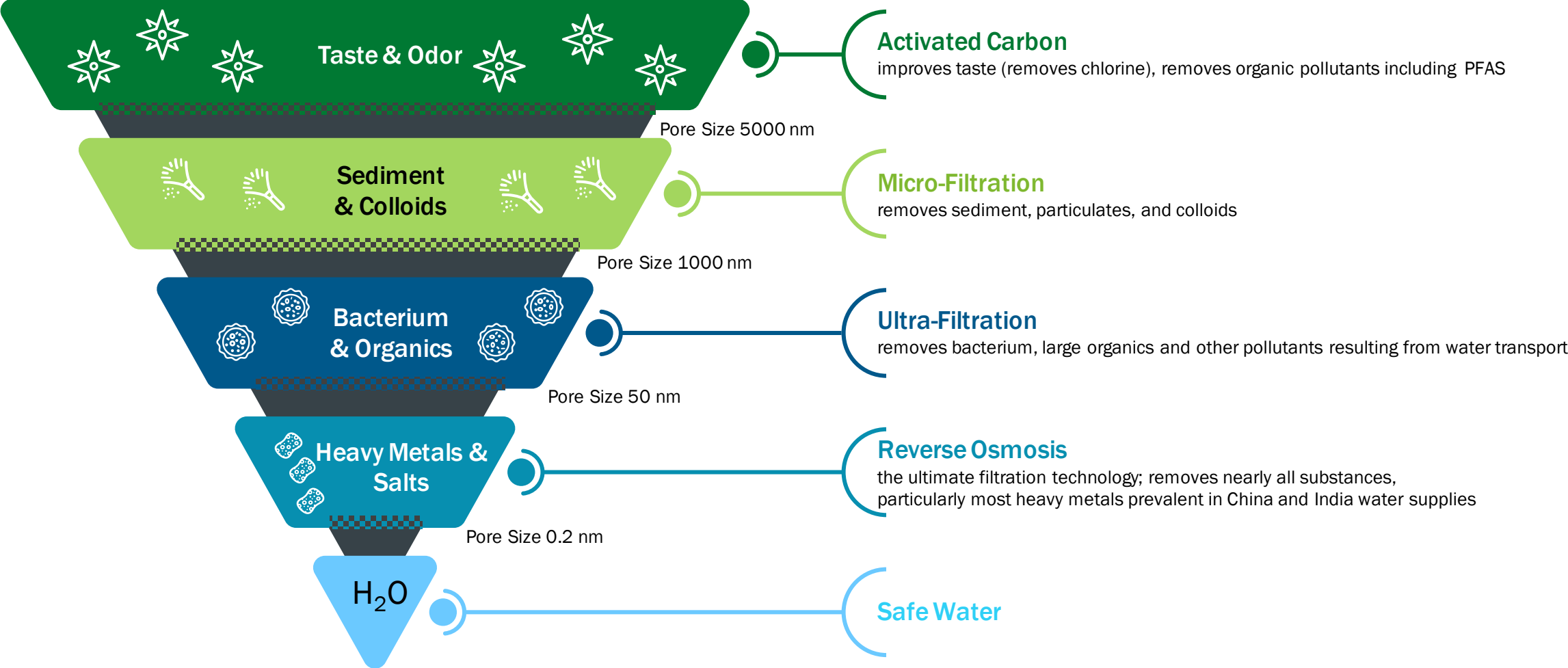
Commercial Cogeneration

XRGI 25
Micro
Combined Heat & Power

- 163,000 BTU/hr
- 24 kW of electricity
- 49 DB(A)



Our Focused Technology is Reverse Osmosis, a Leading Technology to Provide Safe Drinking Water



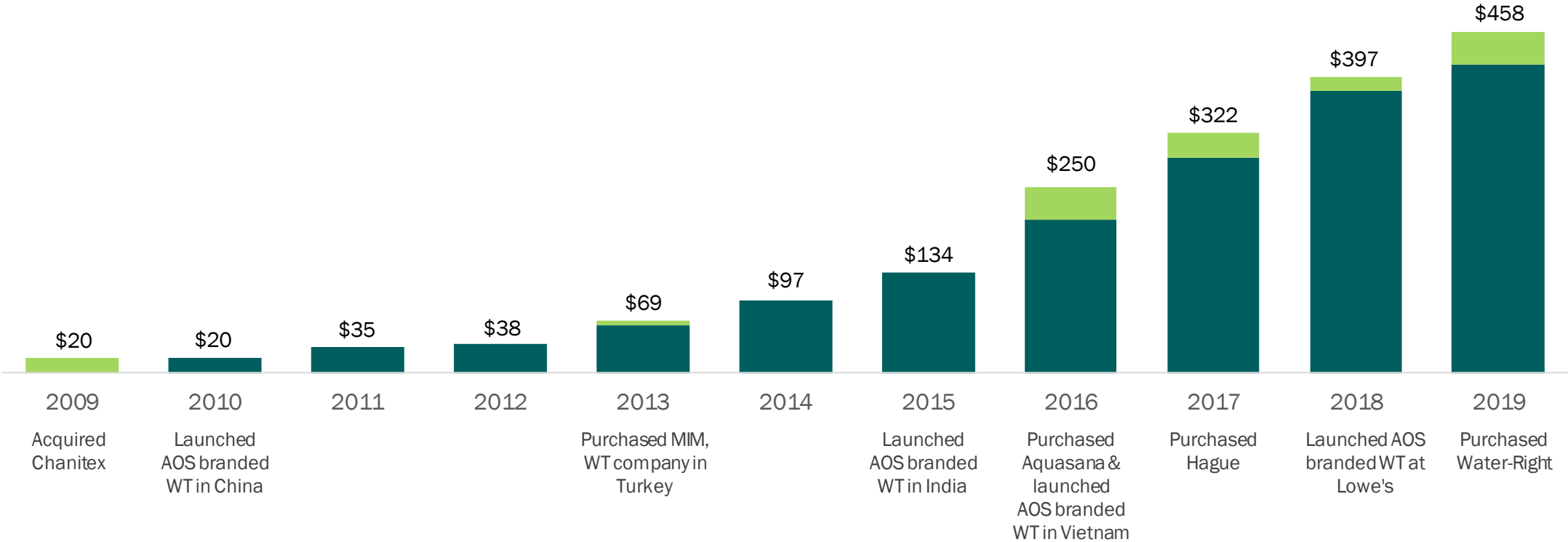
Evolution of AOS' Global Water Treatment Business

Revenue

\$ in millions

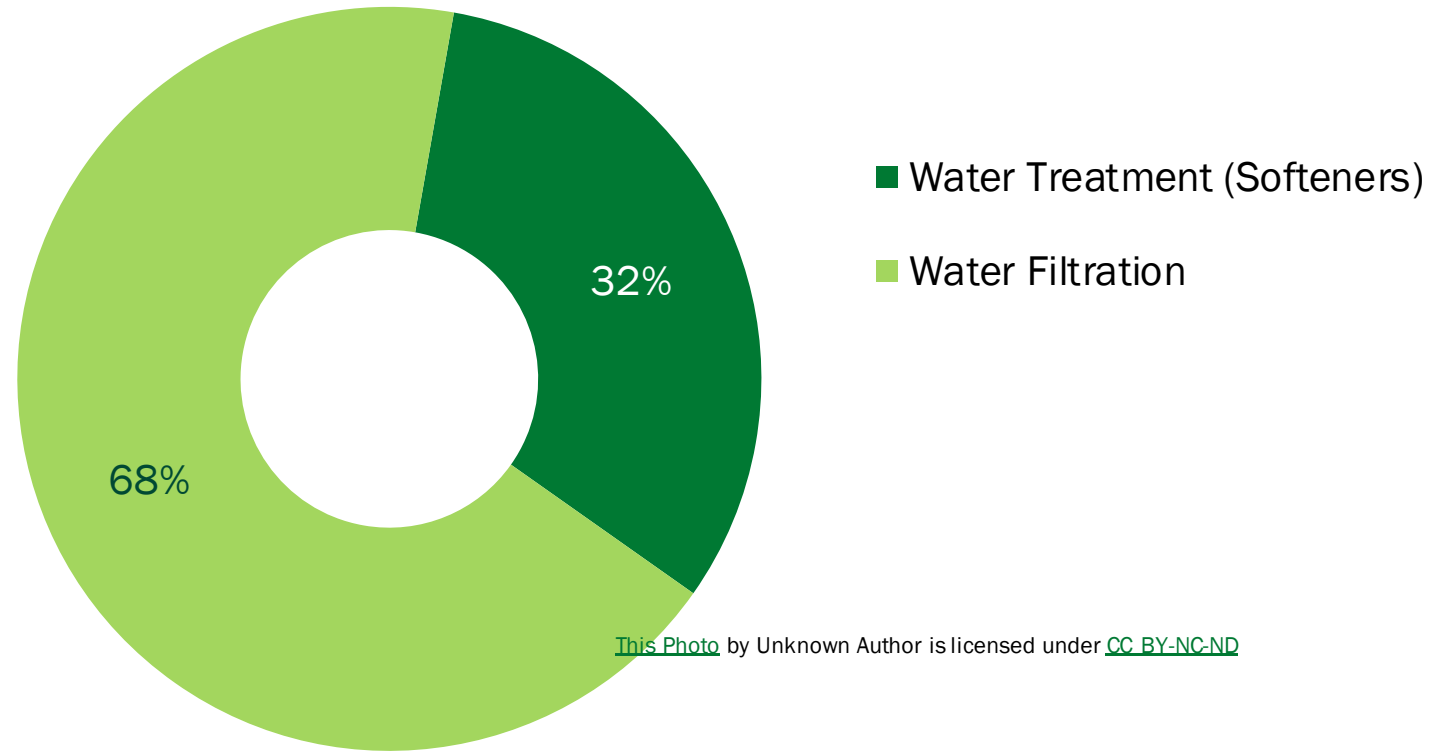
- Inorganic Revenue
- Organic Revenue

35% CAGR over the last 10 years



Large Addressable Market in U.S. Water Treatment

Addressable A. O. Smith Market: \$2.3 B



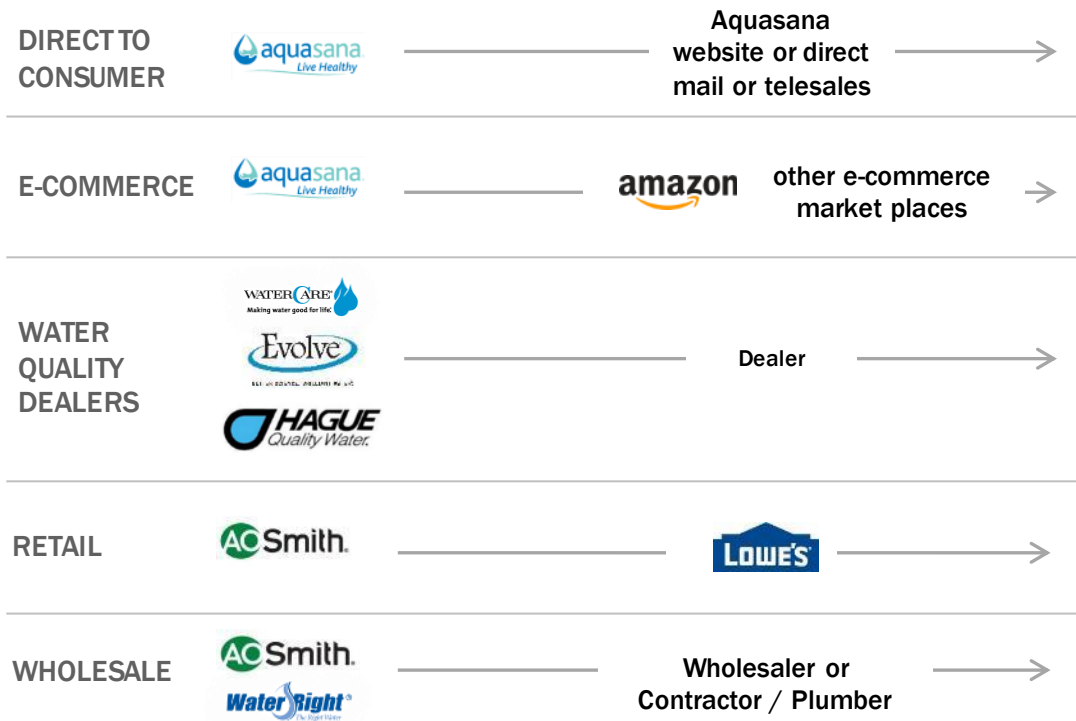
[This Photo](#) by Unknown Author is licensed under [CC BY-NC-ND](#)



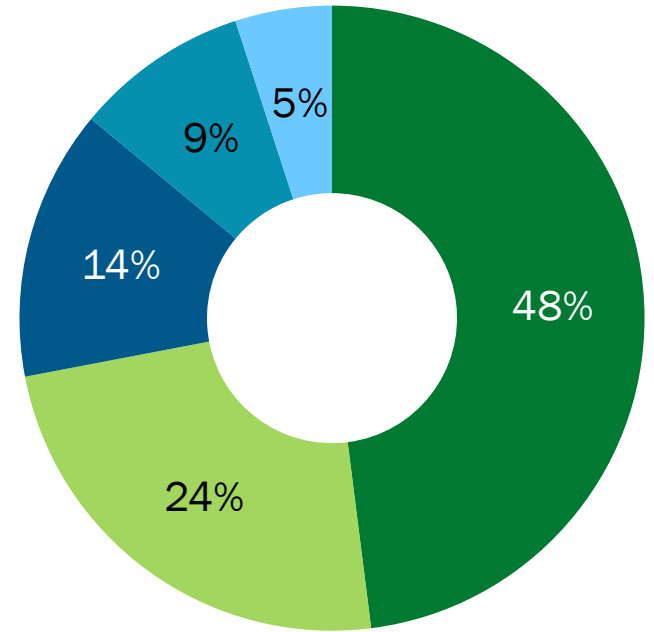
Positioned to Grow Across all Water Treatment Channels

Channel Brand

Our brands participate in all channels; most competitors operate in 1-2 of these channels



Industry Water Treatment Channels



- Water Quality Dealers
- Retail
- Wholesale
- DTC
- E-com

\$2.3 Billion Addressable Market

Comprehensive Water Treatment Product Offering for the Entire Home

Point of Entry Products



Whole Home Filtration



Whole Home Softeners

Point of Use Products



Whole Kitchen Filtration



Tankless RO Systems



Traditional RO Systems



Under Sink Filtration

Non-Installed Products



Clean Water Machine



On-the-Go Filter Bottles

AOS China Built On



Premium Brand



Extensive Distribution and Service Network



Innovative New Products and World Class Manufacturing



Local Management Team and Organizational Development



Growing Product Portfolio Developed in China for China

Electric & Gas Water Heaters



Electric Water Heaters



Gas Water Heater

Water Treatment



Water Purifiers



Other Categories



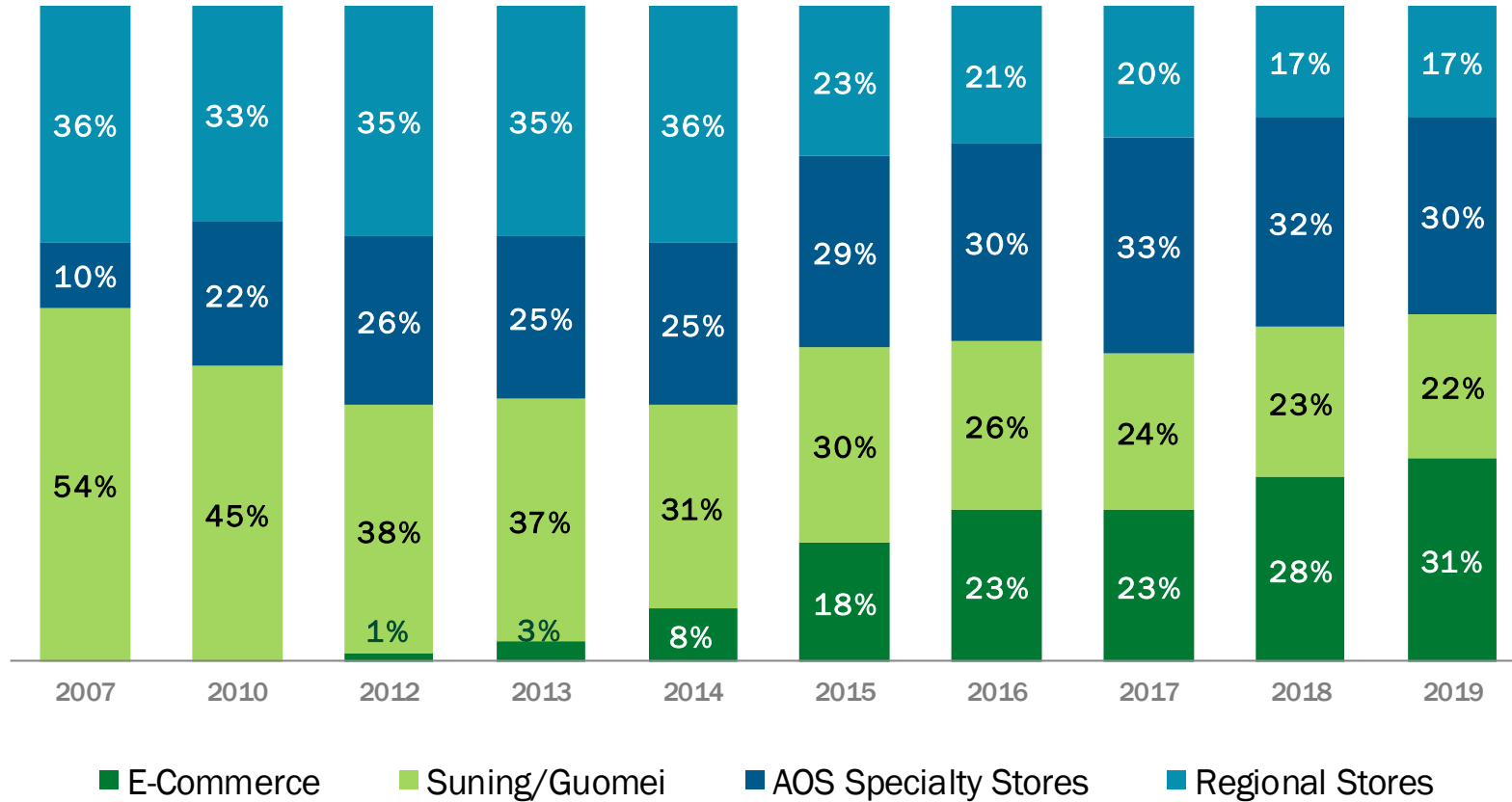
Air Purifier

Range Hood



China: Broad Distribution Channel

Percentage of Sales




+9,000
retail counters in China


31%
of outlets in Tier 1 cities


69%
of outlets in Tier 2/3 cities

China: Mega Trends Driving Growth

TRENDS

 On-line shopping is growing in China >


 Middle and affluent classes are growing >

 Urbanization in China projected to drive 28%¹ of all global growth! >

A. O. SMITH

We are positioned to reach consumers using the internet



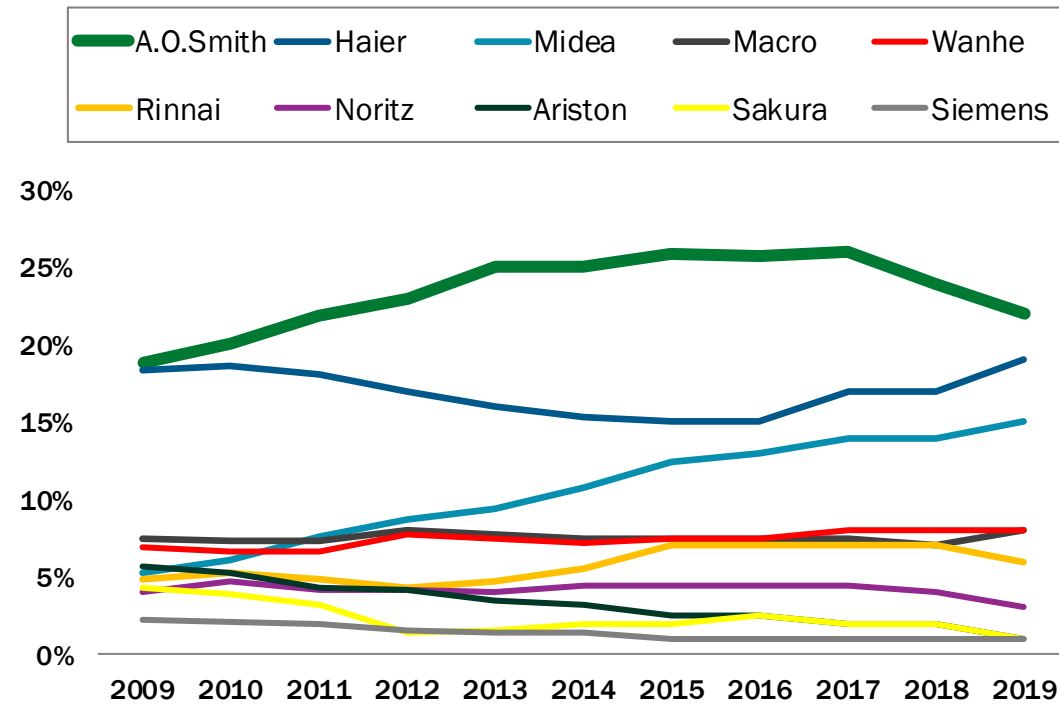
 Our Market Leading Premium Consumer brand is positioned for the middle and affluent classes

 A. O. Smith has manufacturing capacity and channel footprint to capitalize on continued household formation

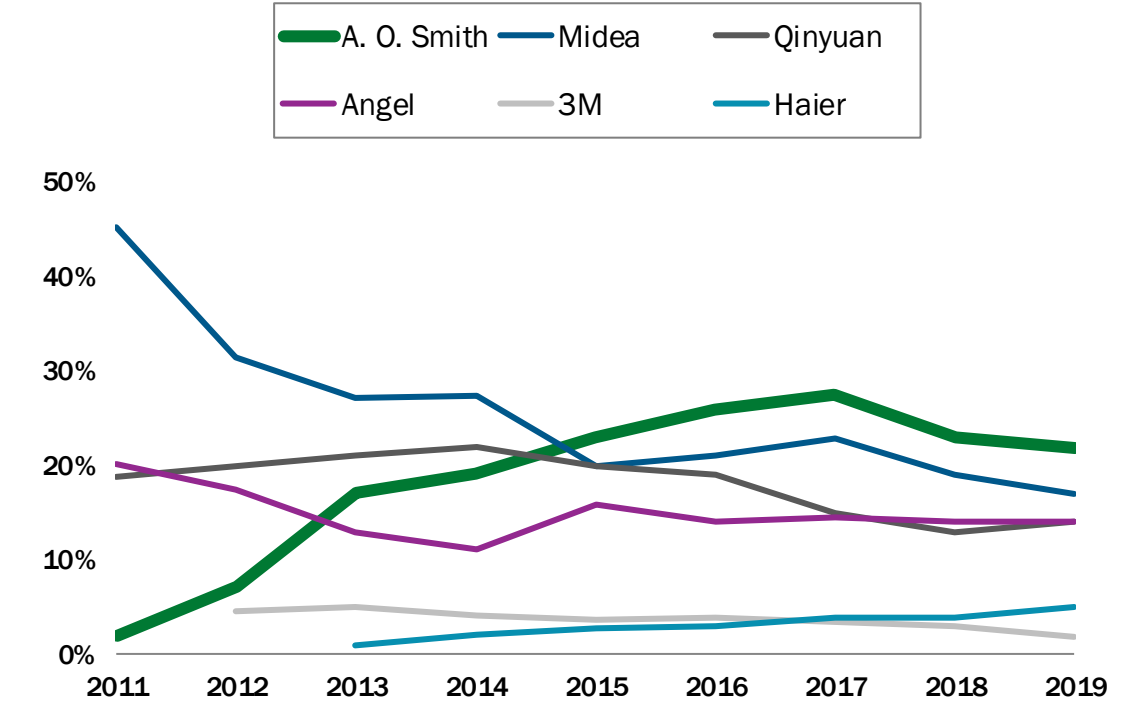
¹Source: IMF 2019 to 2024, October 2019

China: Market Leader in Water Heating and Water Treatment

Water Heater Market Share



Water Treatment Market Share



Leading residential brands measured in currency; Tier One Market: 2009 - 2018 CMM; 2019 FEB - CMM data sampling several thousand largest retail stores, December 2018
 Data Source: 2012 - 2018 CMM; 2019 FEB retail

Thesis in India Similar to China



Attractive Growth Demographics



Leveraging Global Capabilities with Products Designed for the Indian Market



Building Brand & Expanding Our Distribution



Introducing New Product Categories with Water Treatment



Local Management



**We are committed
for the long-term
opportunity**



India: Geographic Presence Build out from 2008 through 2019

A Class Cities
(pop >1.5 Mn)
Distribution in
25 out of 25 cities

B Class Cities
(pop .5 to 1.5 Mn)
Distribution in
63 out of 68 cities

C Class Cities
(pop .1 to .5 Mn)
Distribution in
316 out of 400 cities



National Retailers



Regional Retailers



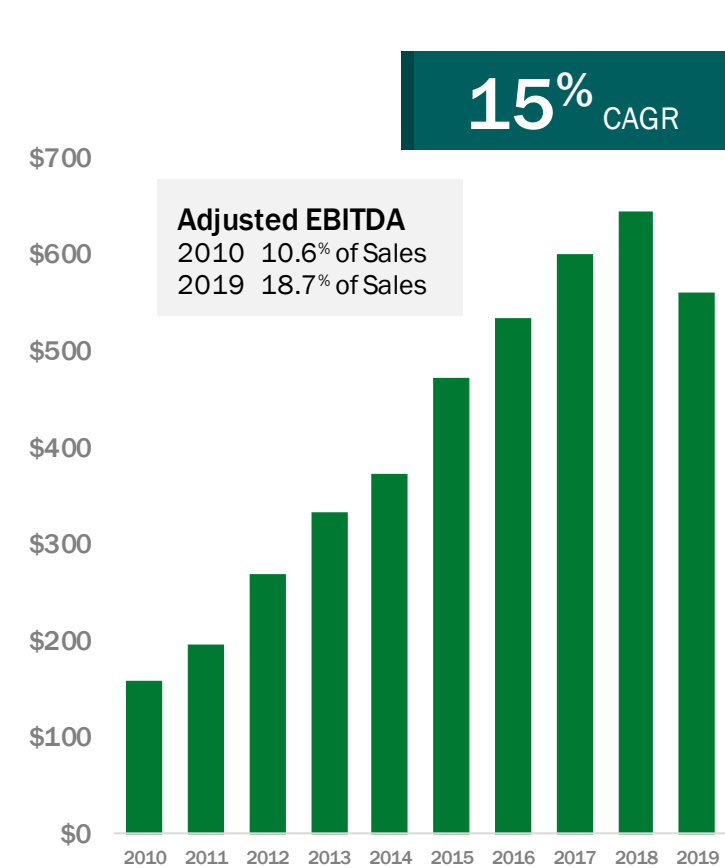
Driving Financial Performance and Delivering Significant Growth

Sales Growth

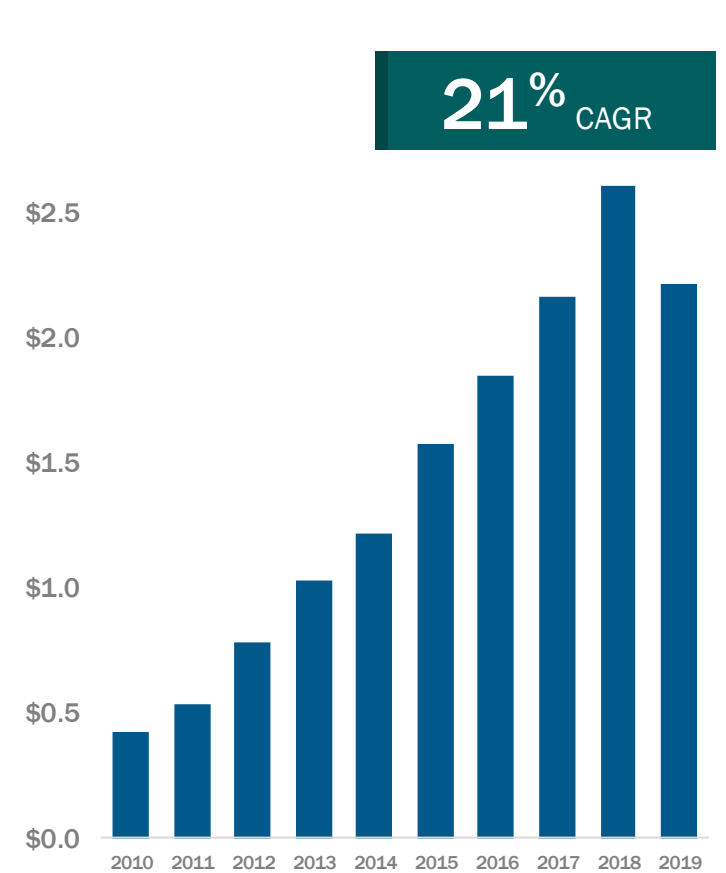
Sales in billions



Adjusted EBITDA¹



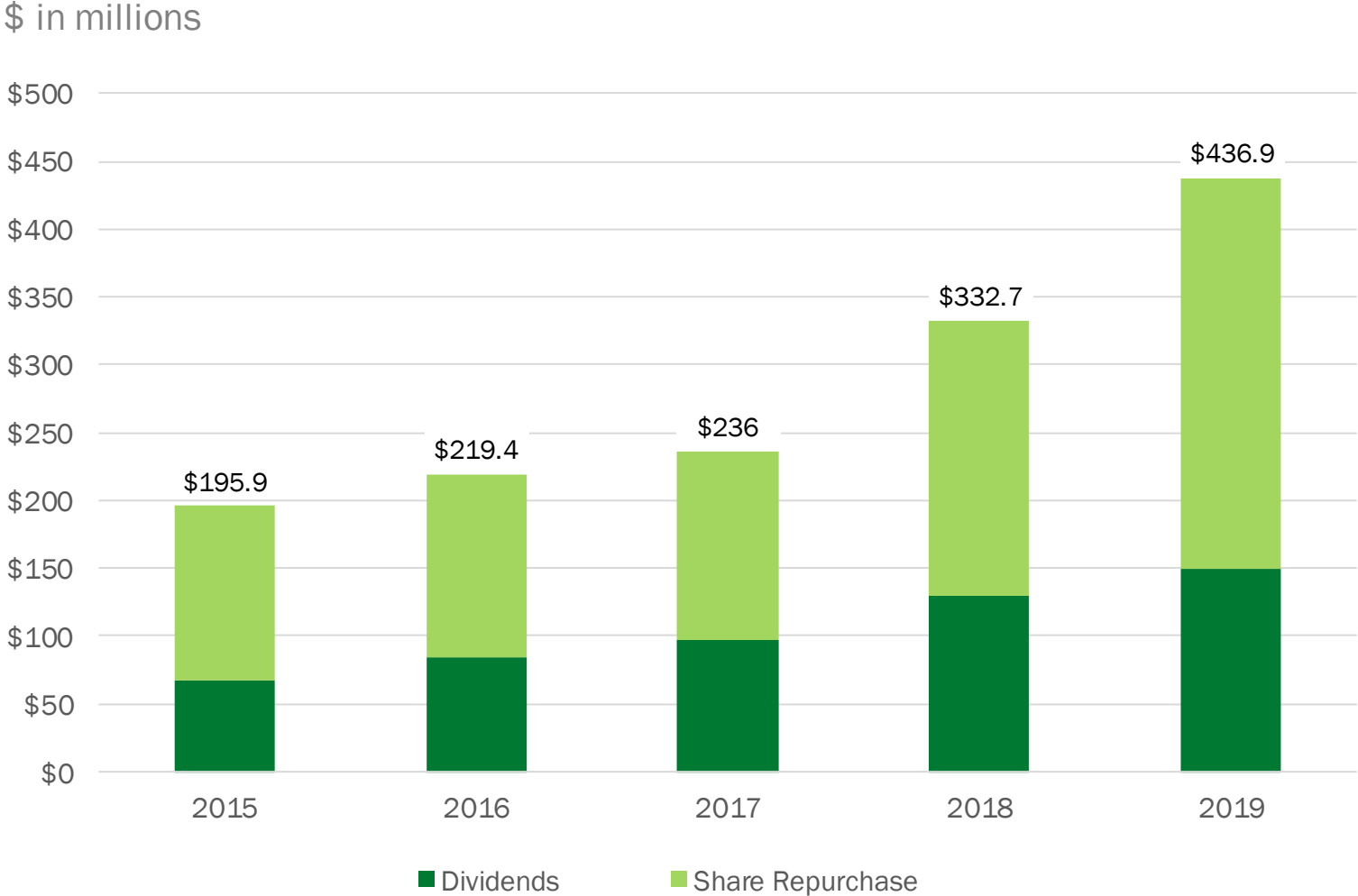
Adjusted Earnings Per Share²



¹ 2010 through 2014 adjusted for non-operating pension costs and certain non-recurring items

² 2010 through 2014 adjusted for non-operating pension costs and certain non-recurring items; 2017 adjusted for U.S. Tax Reform expense; 2018 adjusted for restructuring & impairment expenses

Cash Returned to Shareholders: ~\$1.4B last Five Years



¹Subject to price, alternative investments and working capital requirements

M&A Criteria and Focus



Accretive to earnings in the first year



ROIC in excess of cost of capital by third year



Meet risk adjusted IRR hurdle rates



Margin accretion with growth rates higher than U.S. GDP



Geographic Growth

- High Growth Markets



Expand / Grow the Core

New Products & New Technologies

- Water Heating
- Water Treatment



Adjacencies

- Water-themed platforms for growth
- Leverage channels and brands



Compelling Investment Thesis



Market share leader
in major product lines



Stable/growing U.S.
replacement market;
operating leverage
from incremental new
construction and
replacement



Strength of premium
brand, distribution,
manufacturing and
innovation provide
clear market
advantage in China



5 year adjusted EPS
CAGR through 2019
= 12.7%

5 year dividend CAGR
through 2019 =
24.5%

5 year cumulative
cash returned to
shareholders from
dividends and share
repurchased = \$1.4
billion



Strong balance sheet
and cash flow to
support future
growth, dividends,
share repurchase
and acquisitions

ESG Accomplishments

Products Conserve Resources

 **98%** Thermal Efficient

Cyclone Commercial Water Heater
1.6B cubic feet of natural gas saved¹
100K tons of GHG avoided¹

 **99%** Thermal Efficient

Crest Commercial Boiler
2.0B cubic feet of natural gas saved¹
120K tons of GHG avoided¹

 **75%** Water Conservation Ratio

RO Max Series Water Treatment System
1.3 B gallons of water conserved in China¹

Operations Are Safe & Conserve Resources



President's Safety Award
Established 1955
(predates OSHA)



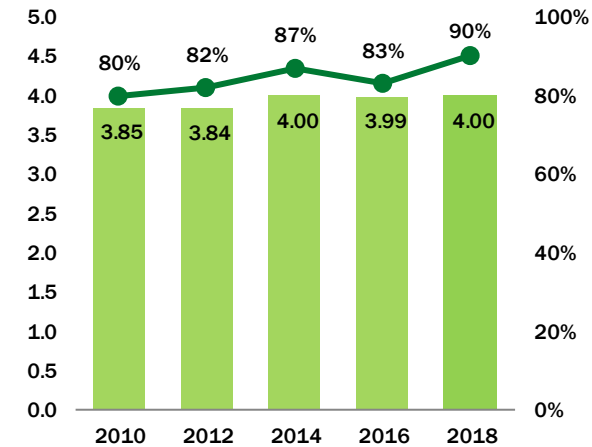
Chairman's Green Star Award
2009



ISO 14001 for environment
ISO 45001 for safety

We Are a Good Place to Work

Employee Engagement Score (Max 5)



● Participation Percentage (right axis)

- Ethics
- Integrity
- Value Recognition
- Supervisor Effectiveness
- Innovation
- Customer Focus



Celebrating 146 years of innovation

[CRS Report](#)

Q1 2020 Results

Focus on Cash and Liquidity

2020 Share Repurchase suspended mid-March

Capital spending reprioritized and reduced

\$125M

Cash repatriated to U.S.

\$850M¹

Liquidity

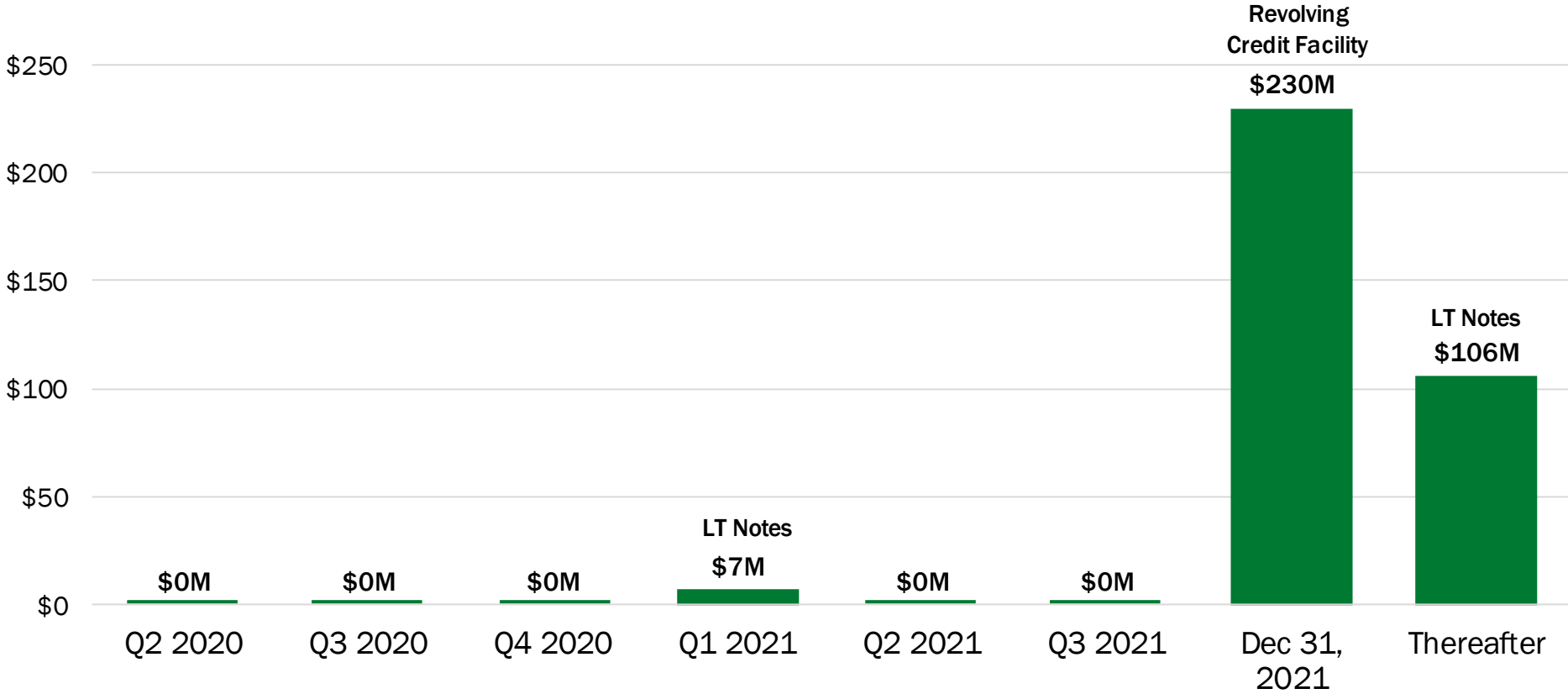
~ \$55M

China SG&A savings (\$30 million of which was achieved in 2019)

¹As of April 30, 2020

Minimal Debt Maturities in Next Twelve Months

\$ in millions



March 31, 2020

First Quarter Results

\$ in millions

	2020	2019	Change	% Change
Sales	\$636.9	\$748.2	\$(111.3)	-15%
Net Earnings	\$ <u>51.7</u>	\$ <u>89.3</u>	\$ <u>(37.6)</u>	-42%
EPS	\$ <u>0.32</u>	\$ <u>0.53</u>	\$ <u>(0.21)</u>	-40%

First Quarter Sales

\$ in millions

	2020	2019	Change	% Change
North America	\$ 532.9	\$ 521.8	\$ 11.1	2%
Rest of World	110.2	232.1	(121.9)	-53%
Intersegment	<u>(6.2)</u>	<u>(5.7)</u>	<u>(0.5)</u>	
Total	\$ <u>636.9</u>	\$ <u>748.2</u>	\$ <u>(111.3)</u>	-15%

First Quarter Earnings (Loss)

\$ in millions, except percentages

	2020	2019	Change	% Change
North America	\$127.1	\$116.0	\$ 11.1	10%
Rest of World	(42.2)	12.3	(54.5)	
Total Segment Earnings	84.9	128.3	(43.4)	-34%
Corporate	(15.0)	(14.7)	(0.3)	-2%
Interest Expense	(2.2)	(2.0)	(0.2)	-10%
Pre-tax Earnings	67.7	111.6	(43.9)	-39%
Tax Provision	(16.0)	(22.3)		
Earnings	\$ 51.7	\$ 89.3	\$ (37.6)	-42%
Segment Margin				
North America	23.9 %	22.2 %		
Rest of World	(38.3)%	5.3 %		

Strong Capital Position¹

\$54M

Cash provided
by operations

17.5%

Debt to
capital ratio

\$552M

Cash balance²

\$209M

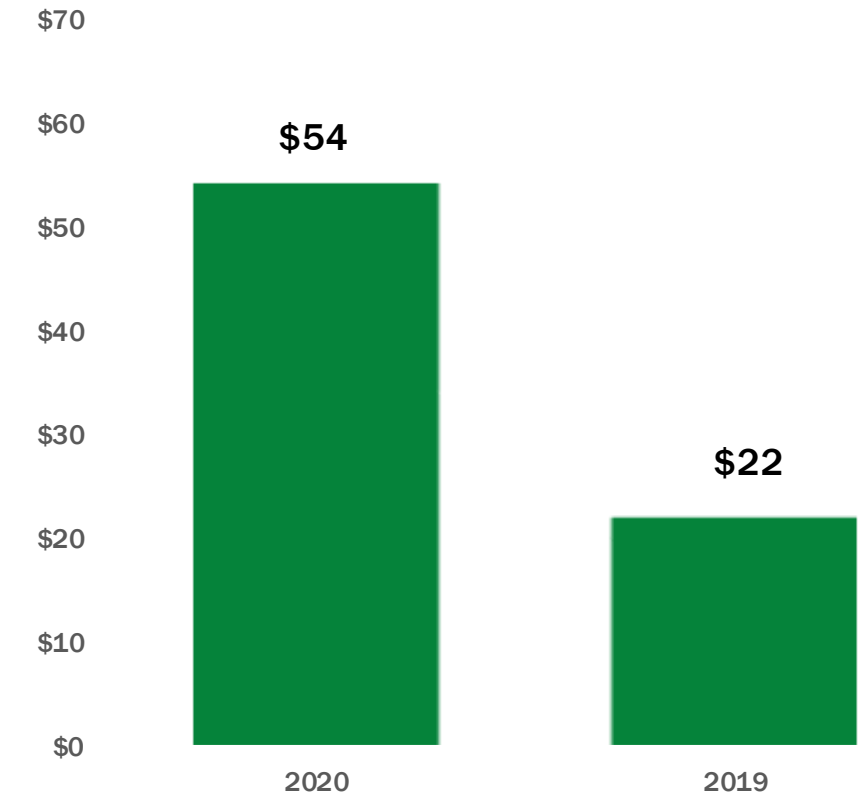
Net cash position

~1.3M

Stock repurchase;
shares totaling ~\$57M

Cash Flow from Operations

\$ in millions



April 2020 Business Conditions

	% Revenue ¹	Q1 YOY sales	April Commentary
NA Water Heaters	70%	-2%	April 2020 residential order rates off low single digits compared with Q1 2020; commercial orders down 30 - 35%
China ²	14%	-56%	Sequential sell-out improving
NA Boilers	7%	-3%	Commercial condensing backlog double YOY
NA Water Treatment ³	4%	+17%	Internet sales up; in-home install sales temporarily challenged
India/ROW	3%	flat	India manufacturing closed
Total ³	98%	-17%	

¹ Year to date March 31, 2020

² Local currency

³ Excludes \$16 million in revenues from April 2019 acquisition

North America Business Conditions

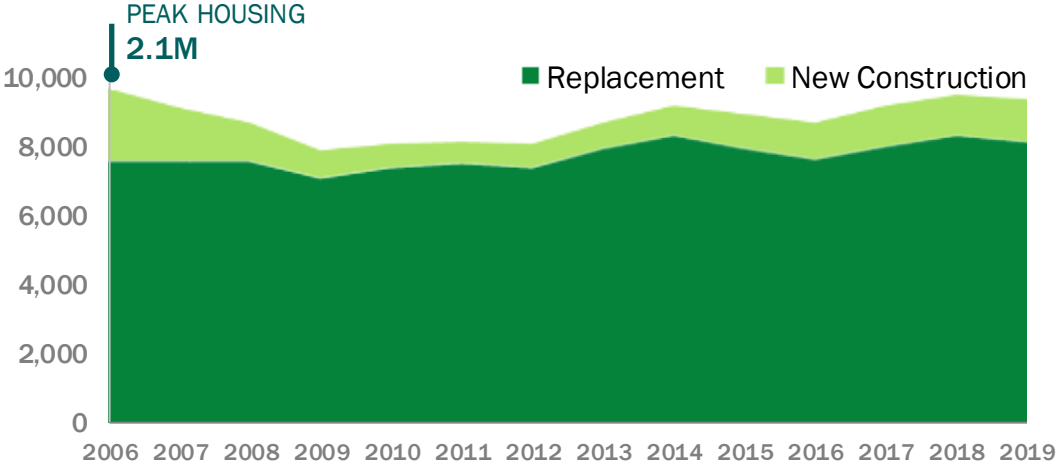
Manufacturing Flexibility in NA



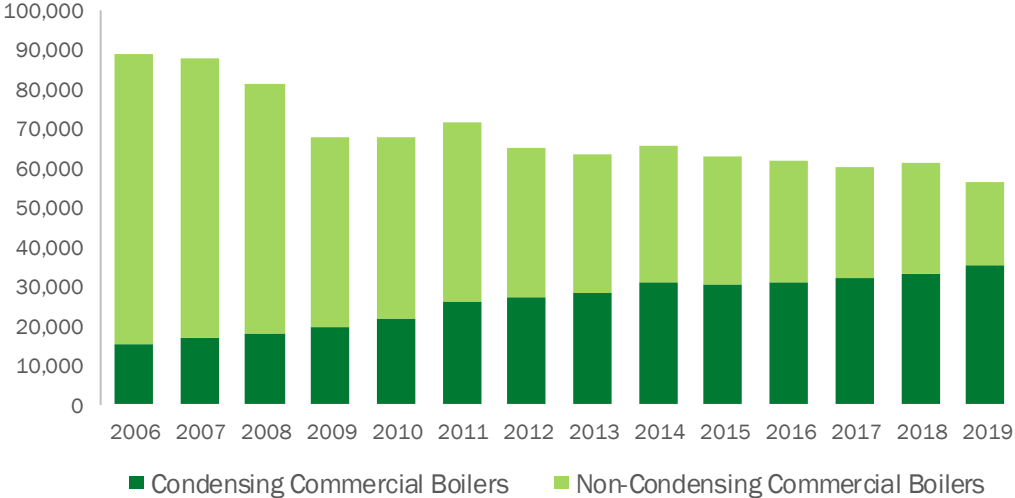
Supply Chain Proactively Managed



Residential Replacement Water Heater Volumes



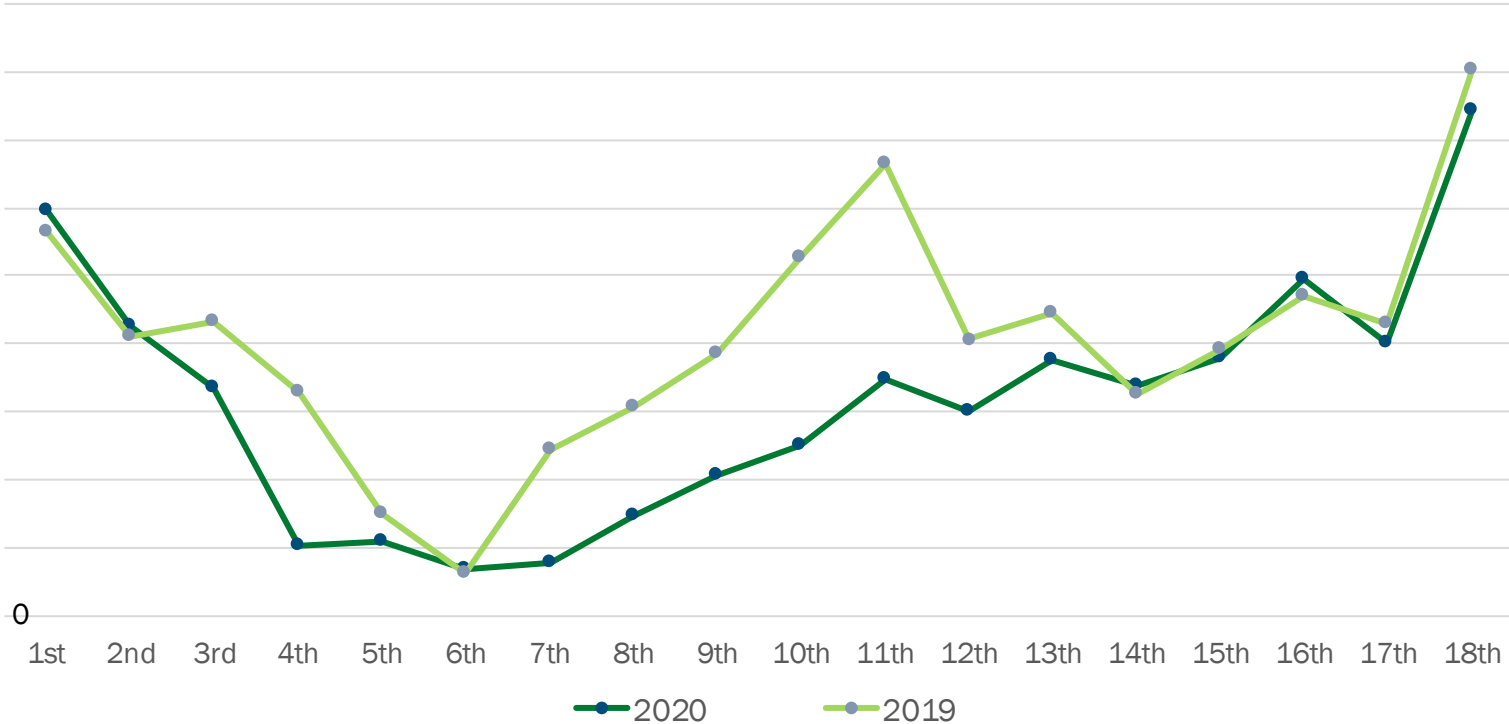
NA Boiler Volumes



Source: 2006 to 2017: BRG Solutions; 2018-2019: AOS estimates

China Business Conditions

Weekly China Channel sell out - Units



- Three plants operating
 - Building to order
 - Operating at lower than normal levels
- Supply chain intact
- Demand skew to on-line
- Right sizing and product cost reduction continue
- New product development and R&D continue

2020 COVID-19 Commentary



After a hard closure of the economy, the country is slowly returning to business



Great recession impacted residential volume by 18%



NA boiler sales will be impacted as construction slows



India will not achieve break-even in 2020

