



Full Year 2023 Results

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Kevin J. Wheeler
Chairman and
Chief Executive Officer



Charles T. Lauber
Executive Vice President
and Chief Financial Officer



Helen E. Gurholt
Vice President - Investor Relations,
Financial Planning & Analysis

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. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following: softening in U.S. residential water heater demand; negative impacts to the Company, particularly the demand for its products, resulting from global inflationary pressures or a potential recession in one or more of the markets in which the Company participates; the Company’s ability to continue to obtain commodities, components, parts and accessories on a timely basis through its supply chain and at expected costs; negative impacts to demand for the Company’s products, particularly commercial products, as a result of changes in commercial property usage that followed the COVID-19 pandemic; further weakening in U.S. residential or commercial construction or instability in the Company’s replacement markets; inability of the Company to implement or maintain pricing actions; inconsistent recovery of the Chinese economy or a further decline in the growth rate of consumer spending or housing sales in China; negative impact to the Company’s businesses from international tariffs, trade disputes and geopolitical differences, including the conflicts in Ukraine, the Middle East and attacks on commercial shipping vessels in the Red Sea; potential further weakening in the high-efficiency gas boiler segment in the U.S.; substantial defaults in payment by, material reduction in purchases by or the loss, bankruptcy or insolvency of a major customer; foreign currency fluctuations; the Company’s inability to successfully integrate or achieve its strategic objectives resulting from acquisitions; competitive pressures on the Company’s businesses, including new technologies and new competitors; the impact of potential information technology or data security breaches; changes in government regulations or regulatory requirements; the inability to respond to secular trends toward decarbonization and energy efficiency; and adverse developments in general economic, political and business conditions in key regions of the world. Forward-looking statements included in this news release are made only as of the date of this release, 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.”

Full Year Messages



Record sales of
\$3.9B and
adjusted EPS of
\$3.81



Higher North
America sales
due to resilient
water heater
volumes



China achieved
local currency
sales growth of
4% despite a
weakened
economy

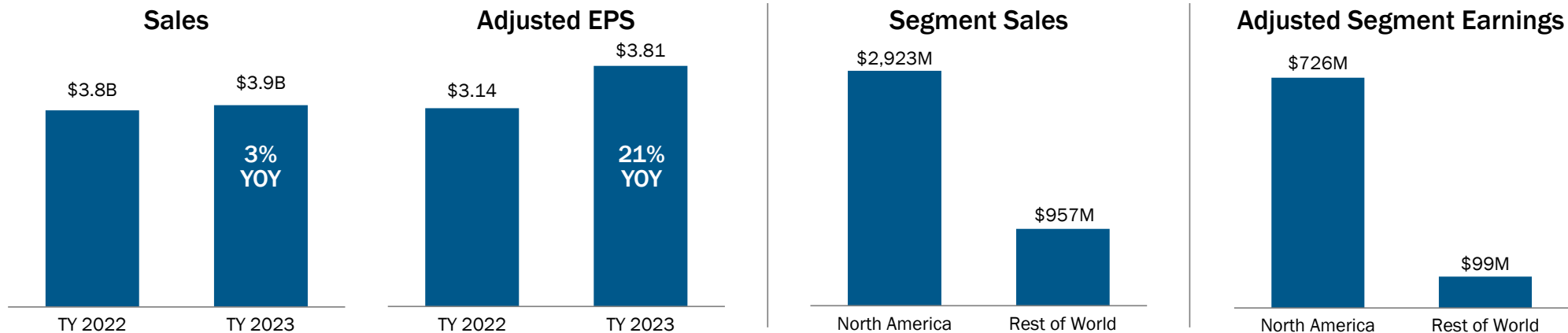


Strong free cash
flow of \$598
million driven by
record earnings
and improved
working capital



Returned \$490
million of capital
to shareholders
through share
repurchases and
dividends in
2023

Full Year Performance and Highlights



Highlights

- Net sales up 3 percent to \$3.9B
- Adjusted EPS up 21 percent to \$3.81

North America

- Sales up 4 percent driven by higher water heater volumes partially offset by lower boiler sales
- Estimated 80 to 85 percent of water heater and boiler demand is replacement

Rest of World

- China sales grew 4 percent in local currency driven by kitchen appliances and water treatment
- India sales grew 15 percent in local currency

Full Year North America Segment

Segment Sales (\$M)



Adjusted Segment Operating Earnings (\$M)

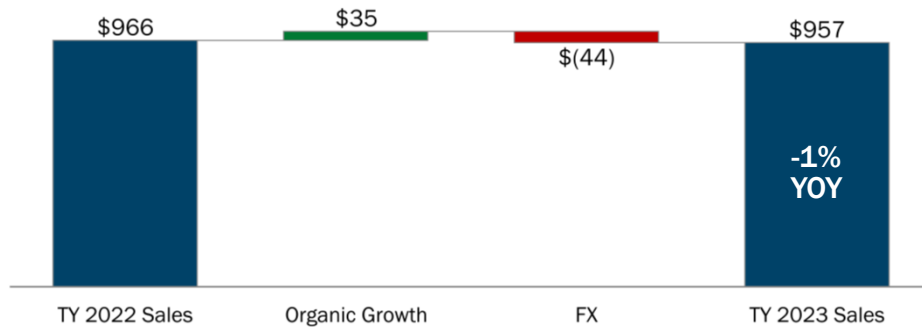


- Sales increase primarily due to higher volumes of residential and commercial water heaters partially offset by boilers and pricing
- 2023 boiler and water treatment sales impacted by elevated channel inventories

- Income increase driven by higher water heater volumes and lower material costs
- Higher SG&A expenses to support sales growth
- Year-over-year adjusted segment margin increase of 310 bps

Full Year Rest of World Segment

Segment Sales (\$M)



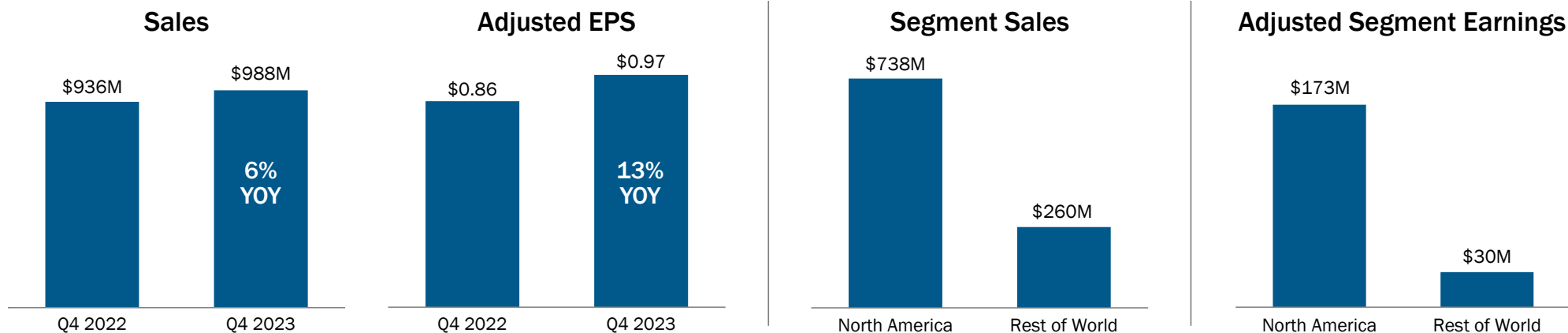
Adjusted Segment Operating Earnings (\$M)



- China sales grew 4% in local currency driven by kitchen appliance and water treatment sales
- Currency translation impacted segment sales by \$44 million, primarily due to China sales
- India sales increase 15% in local currency, growing faster than the market

- Earnings increase driven by higher volumes in China
- Structural cost reductions and improved management of discretionary spend in China continues to benefit profitability

Fourth Quarter Performance and Highlights



Highlights

- Net sales increase 6 percent to \$988M
- Adjusted EPS up 13 percent to \$0.97

North America

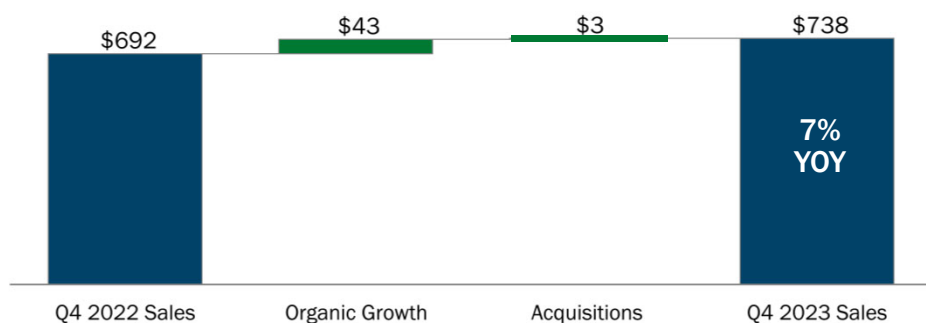
- Sales up 7 percent due to higher water heater volumes partially offset by lower boiler sales
- Adjusted segment margin increased 20 bps to 23.5 percent

Rest of World

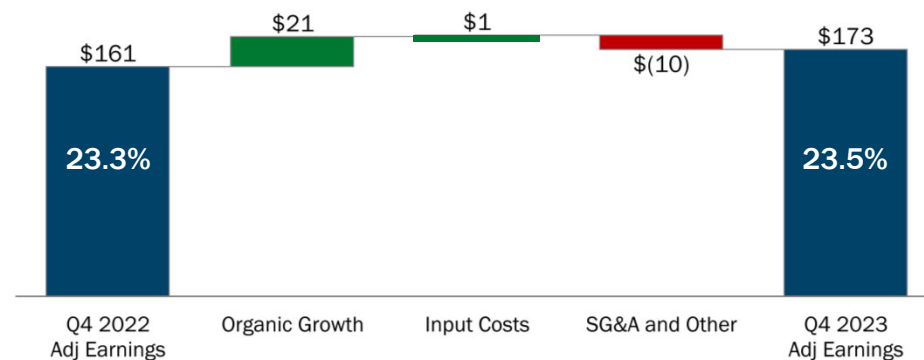
- 4 percent sales increase due to kitchen appliance sales in China
- India sales increased 11 percent in local currency

Fourth Quarter North America Segment

Segment Sales (\$M)



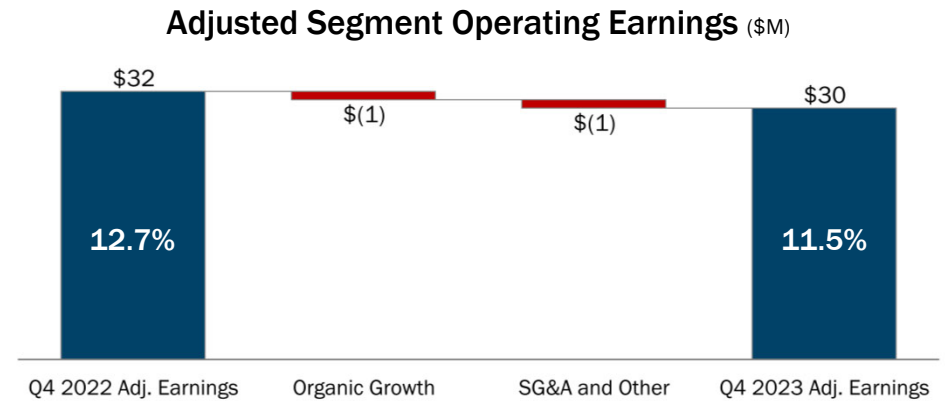
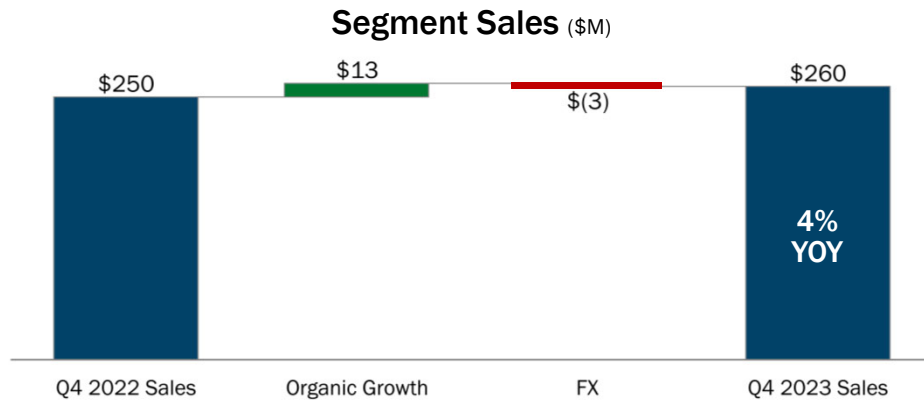
Adjusted Segment Operating Earnings (\$M)



- Sales increased primarily due to higher water heater volumes partially offset by lower boiler sales
- Boilers sales declined 13 percent

- Earnings improvement driven higher water heater volumes partially offset by higher SG&A expenses
- Adjusted segment margin improvement of 20 bps

Fourth Quarter Rest of World Segment



- Higher volumes in China due recently introduced kitchen appliance products
- India sales increase ~11% in local currency due to robust demand

- Operating earnings impacted by promotional spending and product mix
- Adjusted segment margin decrease of 120 bps

\$363M
Cash balance²

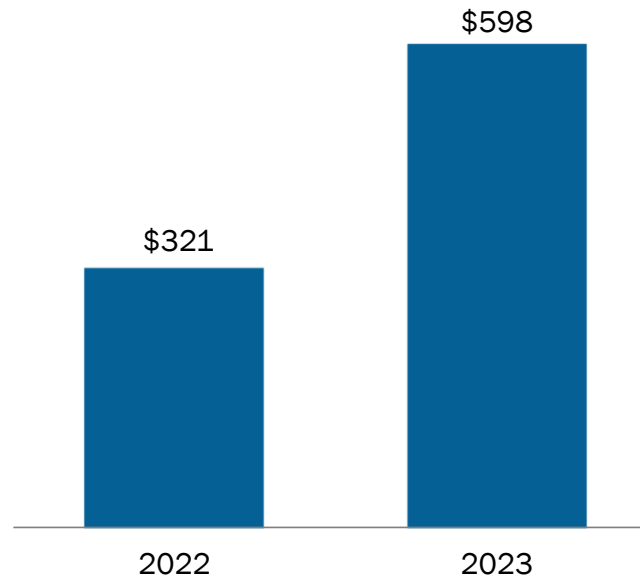
6.5%
Debt to capital ratio

\$236M
Net cash position

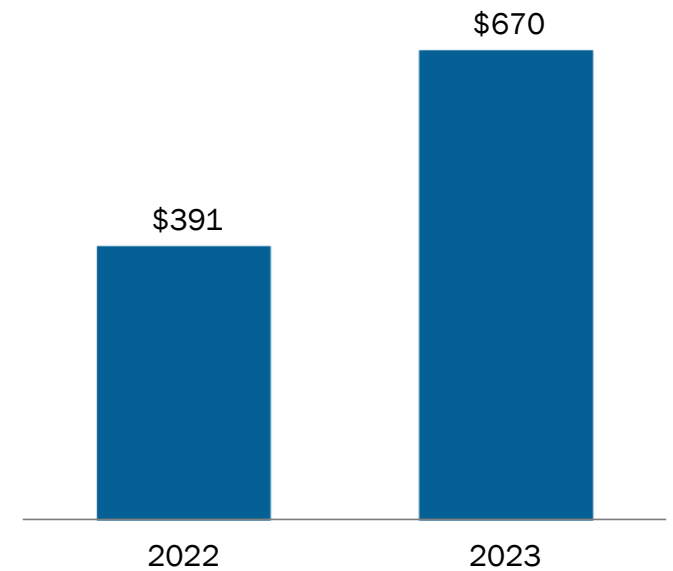
~4.4M
Shares repurchased
in 2023 totaling ~\$307M

Cash Flow and Liquidity¹

Free Cash Flow (\$M)



Cash Flow From Operations (\$M)



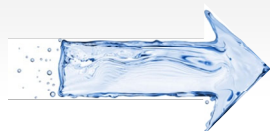
Capital Allocation Priorities

Organic Growth



- Opportunities for organic growth in all our businesses and geographies
- Invested \$73 million in capital expenditures in 2023
- R&D totaled \$98 million, versus \$89 million 2022

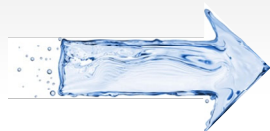
Acquisitions



- Disciplined focus on transactions that expand/grow the core, enable geographic growth, and establish adjacencies
- Recent transactions include Water Tec and Atlantic Filter
- Cultivate active pipeline

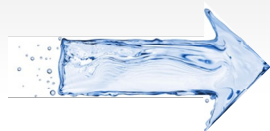
Dividends

Philosophy: growing, competitive sustainable dividend



- Increased 7 percent in October
- Five-year CAGR of 10 percent
- Over 30 consecutive years of dividend increases

Share Repurchase



- \$307 million in 2023

2024 Outlook and Assumptions¹

Revenue Increase	~3% to 5%
U.S. Residential Water Heater Industry	Flat
Commercial Water Heater Industry	+ LSD
China Sales Growth (Local Currency)	~3% to 5%
North American Boiler Sales Growth	~8% to 10%
North American Water Treatment Growth	~10% to 12%
North America Segment Margin	~24.5% to 25%
Rest of World Segment Margin	~10%
Free Cash Flow	\$525M to \$575M
Capital Expenditures	\$105M to \$115M
Depreciation & Amortization	~\$70M
Corporate/Other Expense	~\$60M
Effective Tax Rate	~24% to 24.5%
Share Repurchase	~\$300
Share Count – Diluted	~147M

	2024 Guidance	2023
Diluted EPS (GAAP)	\$3.90 - \$4.15	\$3.69
Restructuring and impairment expense	-	\$0.12 ¹
Adjusted EPS (non-GAAP)	\$3.90 - \$4.15	\$3.81
¹ Includes pre-tax restructuring and impairment expenses of \$15.7 million and \$3.1 million, within the Rest of World segment and Corporate expenses, respectively.		

Executing a Clear Strategy

Innovate and Expand

Research & Development

- New technologies
- Product development

Industry Leadership

- Decarbonization
- Water stewardship

Regulatory Environment

- 2026 / 2029

Profitable Growth

- Stable & profitable core business
- Global water treatment footprint
- Organic growth in China
- Favorable market dynamics in India

Enhancing Customer Experience

Execute

Operational Excellence

- A. O. Smith operating system
- Safety, quality and delivery
- Engineering footprint

ESG Performance

- 2029 Regulatory Changes
- Pursue Acquisition Pipeline



Adjusted Earnings and Adjusted EPS

(\$ in Millions, except per share data)

The following is a reconciliation of net earnings and diluted earnings (loss) per share to adjusted earnings (non-GAAP) and adjusted EPS (non-GAAP):

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2023	2022	2023	2022
Net Earnings (Loss) (GAAP)	\$ 137.3	\$(120.1)	\$ 556.6	\$ 235.7
Restructuring and impairment expenses, before tax	3.2	-	18.8	-
Pension settlement expense (income), before tax	5.1	417.3	(0.9)	417.3
Pension expense, before tax	-	2.8	-	11.7
Legal judgment income, before tax	-	-	-	(11.5)
Terminated acquisition-related expenses, before tax	-	-	-	4.3
Tax effect on above items	<u>(1.2)</u>	<u>(168.4)</u>	<u>0.3</u>	<u>(168.8)</u>
Adjusted Earnings (non-GAAP)	\$ <u>144.4</u>	\$ <u>131.6</u>	\$ <u>574.8</u>	\$ <u>488.7</u>
Diluted Earnings (Loss) Per Share (GAAP) ⁽¹⁾	\$ 0.92	\$ (0.78)	\$ 3.69	\$ 1.51
Restructuring and impairment expenses, per diluted share, before tax	0.02	-	0.12	-
Pension settlement expense (income), per diluted share, before tax	0.04	2.72	-	2.68
Pension expense per diluted share, before tax	-	0.02	-	0.08
Legal judgment income, per diluted share, before tax	-	-	-	(0.07)
Terminated acquisition-related expenses, per diluted share, before tax	-	-	-	0.03
Tax effect on above items per diluted share	<u>(0.01)</u>	<u>(1.10)</u>	<u>-</u>	<u>(1.09)</u>
Adjusted EPS (non-GAAP) ⁽¹⁾	\$ <u>0.97</u>	\$ <u>0.86</u>	\$ <u>3.81</u>	\$ <u>3.14</u>



(1) Earnings (loss) per share amounts are calculated discretely and, therefore, may not add up to the total due to rounding.

Adjusted Segment Earnings

(\$ in Millions, except per share data)

The following is a reconciliation of earnings (loss) before provision for income taxes to total segment earnings (non-GAAP) and adjusted segment earnings (non-GAAP):

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2023	2022	2023	2022
Earnings (Loss) Before Provision for Income Taxes (GAAP)	\$ 176.9	\$ (242.9)	\$ 733.5	\$ 223.7
Add: Corporate expense ⁽¹⁾	17.1	83.4	64.1	128.9
Add: Interest expense	<u>1.1</u>	<u>3.4</u>	<u>12.0</u>	<u>9.4</u>
Total Segment Earnings (non-GAAP)	\$ 195.1	\$ (156.1)	\$ 809.6	\$ 362.0
North America ⁽²⁾	\$ 169.0	\$ (187.5)	\$ 726.7	\$ 266.0
Rest of World ⁽³⁾	26.6	31.6	83.4	96.3
Inter-segment earnings elimination	<u>(0.5)</u>	<u>(0.2)</u>	<u>(0.5)</u>	<u>(0.3)</u>
Total Segment Earnings (non-GAAP)	\$ 195.1	\$ (156.1)	\$ 809.6	\$ 362.0
Additional Information				
⁽¹⁾ Corporate Expense	\$ (17.1)	\$ (83.4)	\$ (64.1)	\$ (128.9)
Pension settlement expense (income), before tax	0.8	70.5	(0.2)	70.5
Impairment expense, before tax	-	-	3.1	-
Pension expense, before tax	-	0.9	-	2.0
Terminated acquisition-related expenses, before tax	-	-	-	<u>4.3</u>
Adjusted Corporate expense (non-GAAP)	\$ (16.3)	\$ (12.0)	\$ (61.2)	\$ (52.1)
⁽²⁾ North America	\$ 169.0	\$ (187.5)	\$ 726.7	\$ 266.0
Pension settlement expense (income), before tax	4.3	346.8	(0.7)	346.8
Pension expense, before tax	-	1.9	-	9.7
Legal judgement income, before tax	-	-	-	<u>(11.5)</u>
Adjusted North America (non-GAAP)	\$ 173.3	\$ 161.2	\$ 726.0	\$ 611.0
⁽³⁾ Rest of World	\$ 26.6	\$ 31.6	\$ 83.4	\$ 96.3
Restructuring and impairment expenses, before tax	<u>3.2</u>	-	<u>15.7</u>	-
Adjusted Rest of World (non-GAAP)	\$ 29.8	\$ 31.6	\$ 99.1	\$ 96.3

Free Cash Flow

(\$ in Millions)

The following is a reconciliation of reported cash flow from operating activities to free cash flow (non-GAAP):

	Twelve Months Ended December 31,	
	2023	2022
Cash provided by operating activities (GAAP)	\$670.3	\$391.4
Less: Capital expenditures	<u>(72.6)</u>	<u>(70.3)</u>
Free cash flow (non-GAAP)	<u>\$597.7</u>	<u>\$321.1</u>