



# Autumn 2020 Analyst Presentation

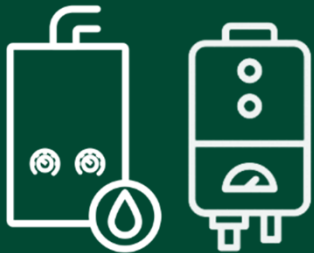
## Forward Looking Statements

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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 businesses, including demand for our products, particularly commercial 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

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



**\$3.0B** Annual Sales



**15,100** Employees



**23** Manufacturing Facilities

**AOS**  

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**LISTED**  

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**NYSE**

# Compelling Investment Thesis



Market leader



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 shares repurchased = \$1.4 billion



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

## We Have Organic Revenue Growth Drivers Across our Portfolio

### Product Lines / Geographies

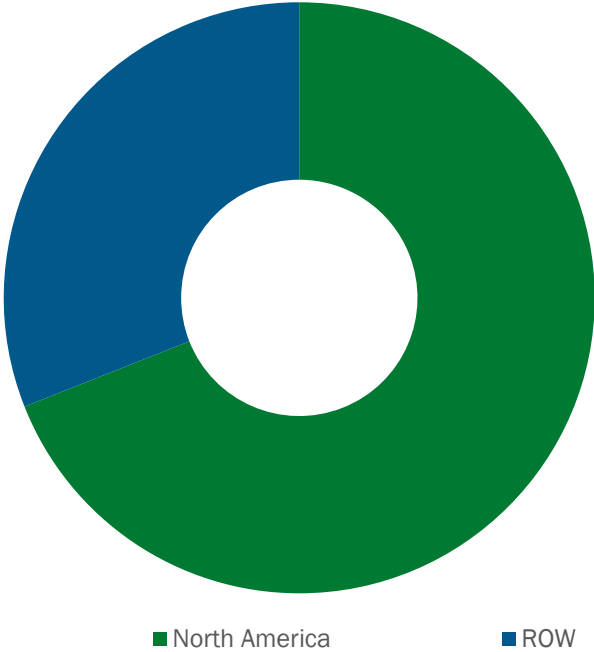
North America Water Heaters	Boilers	North America Water Treatment	China	India/ International
<ul style="list-style-type: none"> <li>• Innovative energy efficient products</li> <li>• Service leadership</li> <li>• Best in class virtual training</li> </ul>	<ul style="list-style-type: none"> <li>• Innovative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

## 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



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

## Products

- Water Heaters
- Boilers
- Water Treatment

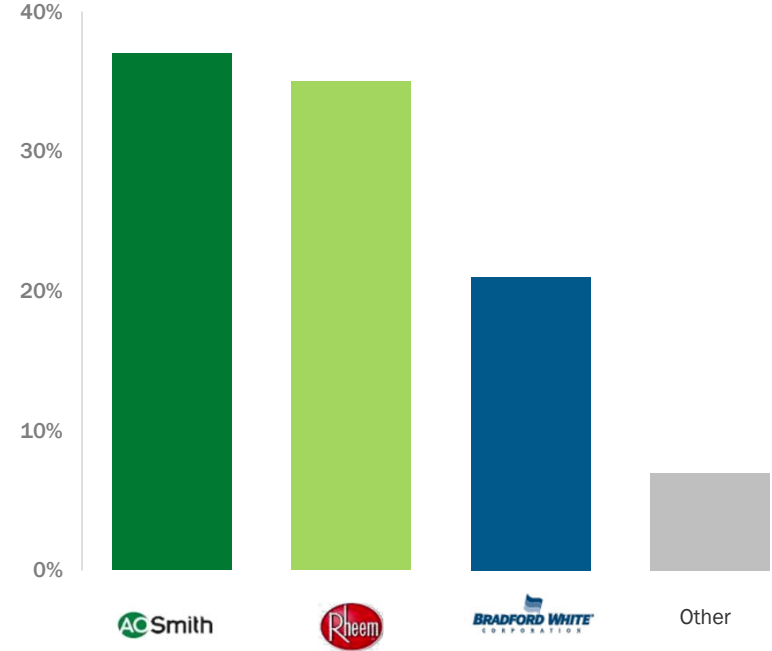
## Brands

# Leading Market Share in the U.S. Water Heater Market Segment<sup>1</sup>

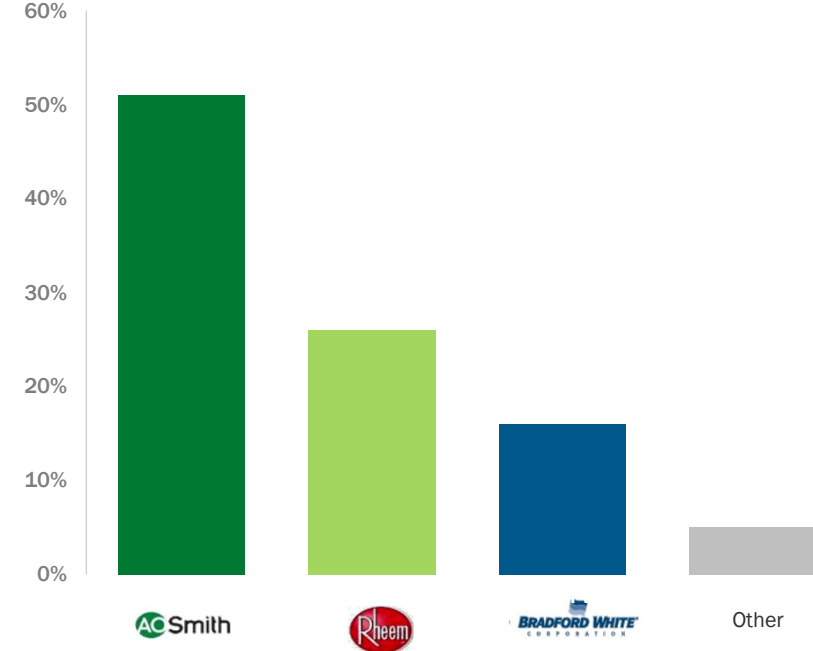
## Residential Market

2019 market share data (AHRI + tankless)



## Commercial Market<sup>2</sup>

2019 market share data (AHRI)



<sup>1</sup> AOS actual shipments and AOS estimates of competitors' shipments

<sup>2</sup> 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

			
	<p>Large Regional Distributors</p>		
<p>A. O. Smith Customers</p>			

INDUSTRY

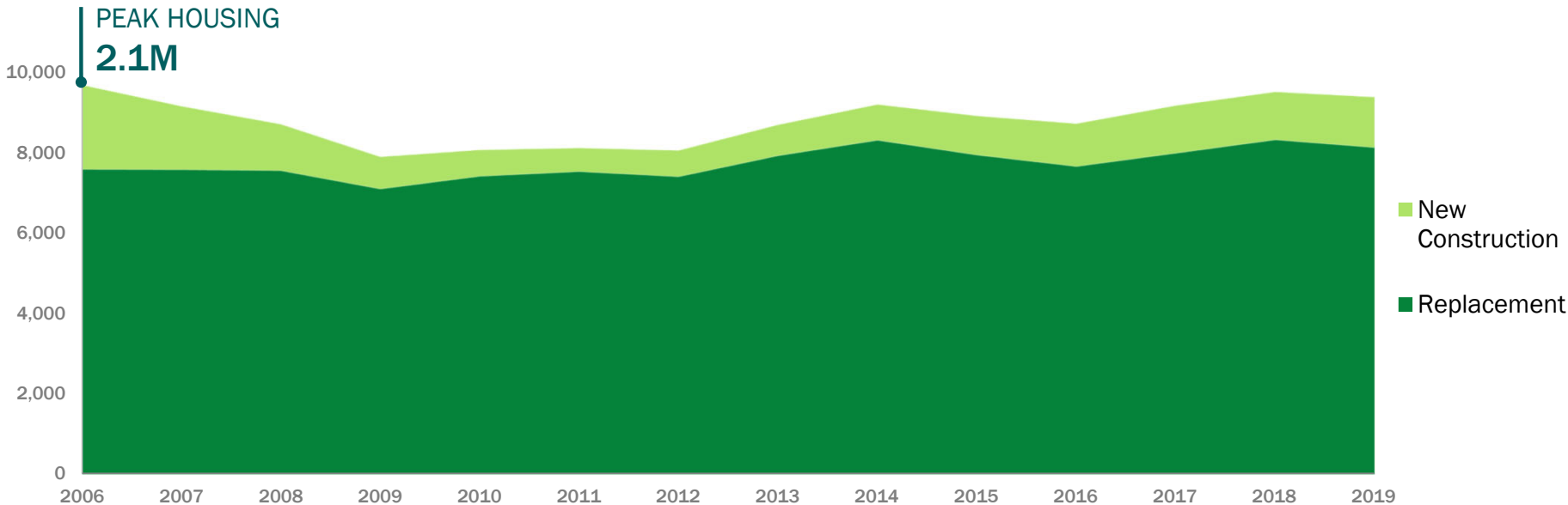


WHOLESALE CHANNEL  
54% of the market

RETAIL CHANNEL  
~46% of the market

# Stable Replacement Volumes to Temper Downcycles with Upside New Construction Optionality

U. S. Residential Water Heaters<sup>1</sup>  
Thousands of units



<sup>1</sup> Includes tankless

# Industry-Leading Energy Efficient Cyclone Condensing Commercial Water Heater

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**Up to 96% thermal efficiency**  
dramatically lowers  
operating costs  
offering short  
payback



**Connectivity**  
built in

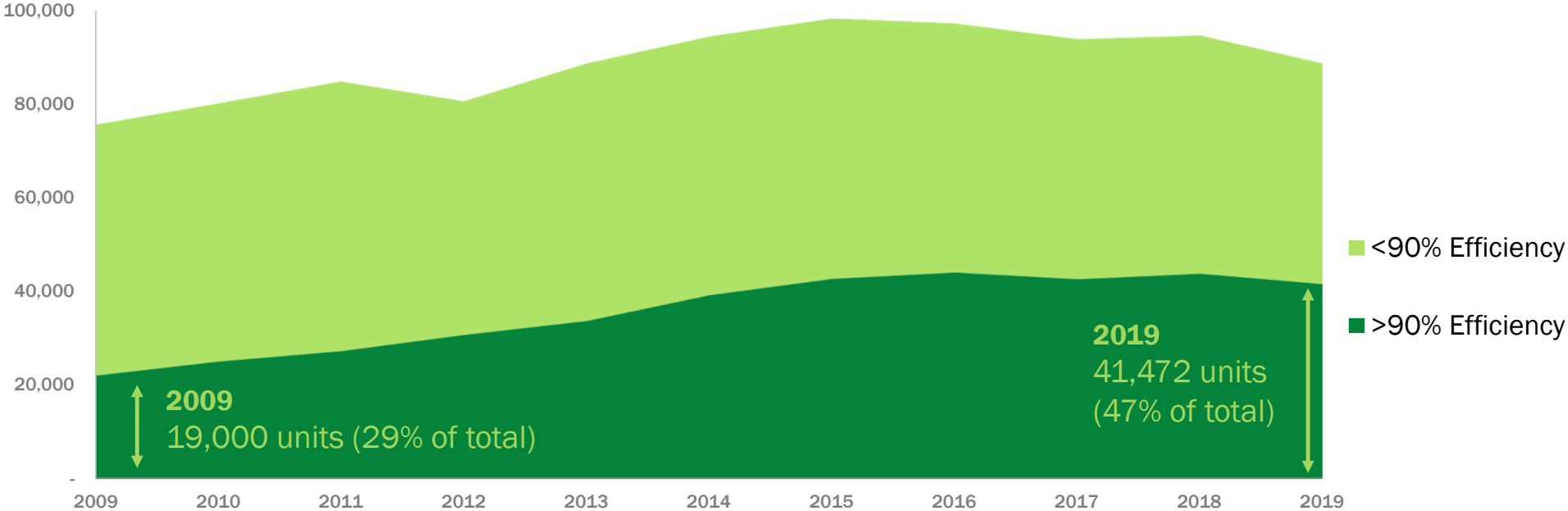


**Represents**  
**67%** of AOS  
commercial gas  
water heater  
revenues



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

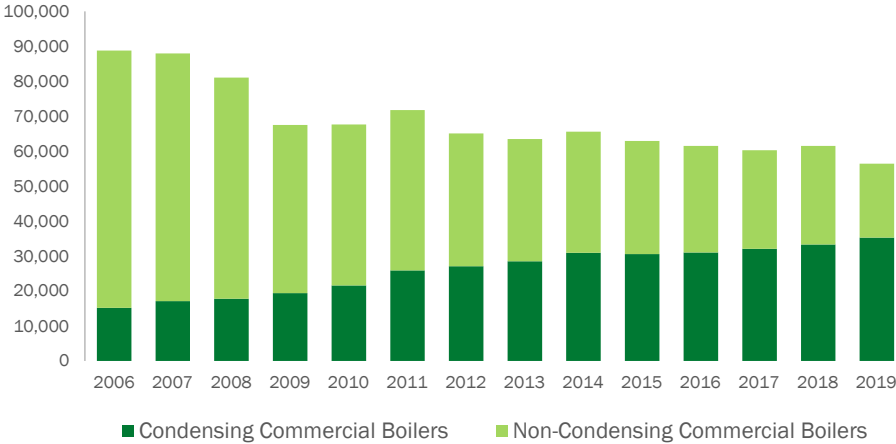
Commercial Gas Industry Units



Source: AHRI Industry Data

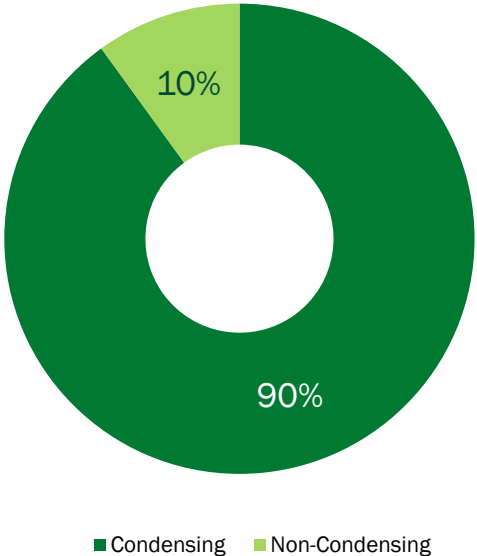
# Industry trending to Higher Efficiency Condensing Boilers Drives Past and Future Growth

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

**KNIGHT**  
FIRE TUBE BOILER  
(55mbh - 399mbh)  
(Indoor Rated)



## Residential Combi-boilers



**NOBLE**<sup>™</sup>  
FIRE TUBE COMBI  
(110mbh - 199mbh)  
(Indoor Rated)

## Commercial Condensing Boilers



**FTXL**  
FIRE TUBE BOILER  
(400mbh - 850mbh)  
(Indoor Rated)

**CREST**  
CONDENSING BOILER  
(750mbh - 6000mbh)  
(Indoor & Outdoor Models available)

## Commercial Non-Condensing Boilers



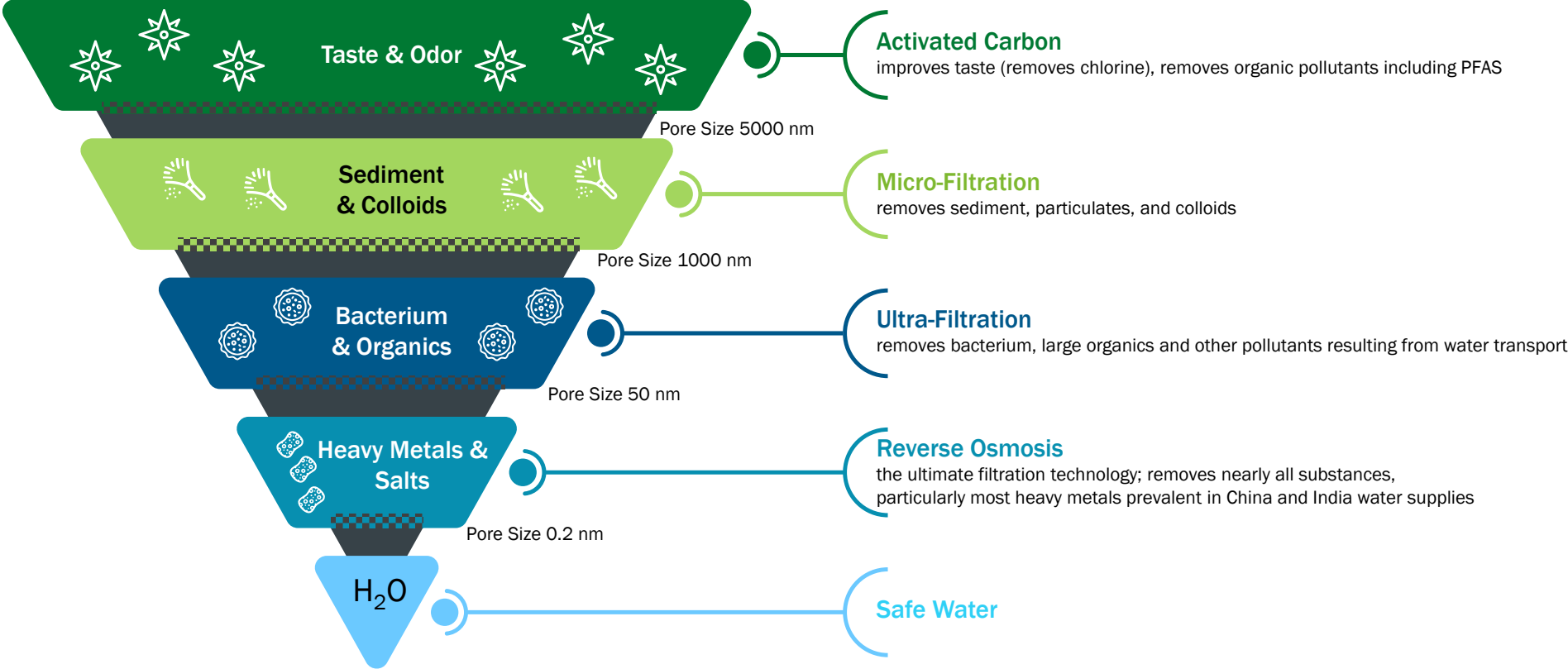
**POWER-fin**<sup>®</sup>  
(500mbh - 5000mbh)  
(Indoor & Outdoor Rated)

## 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



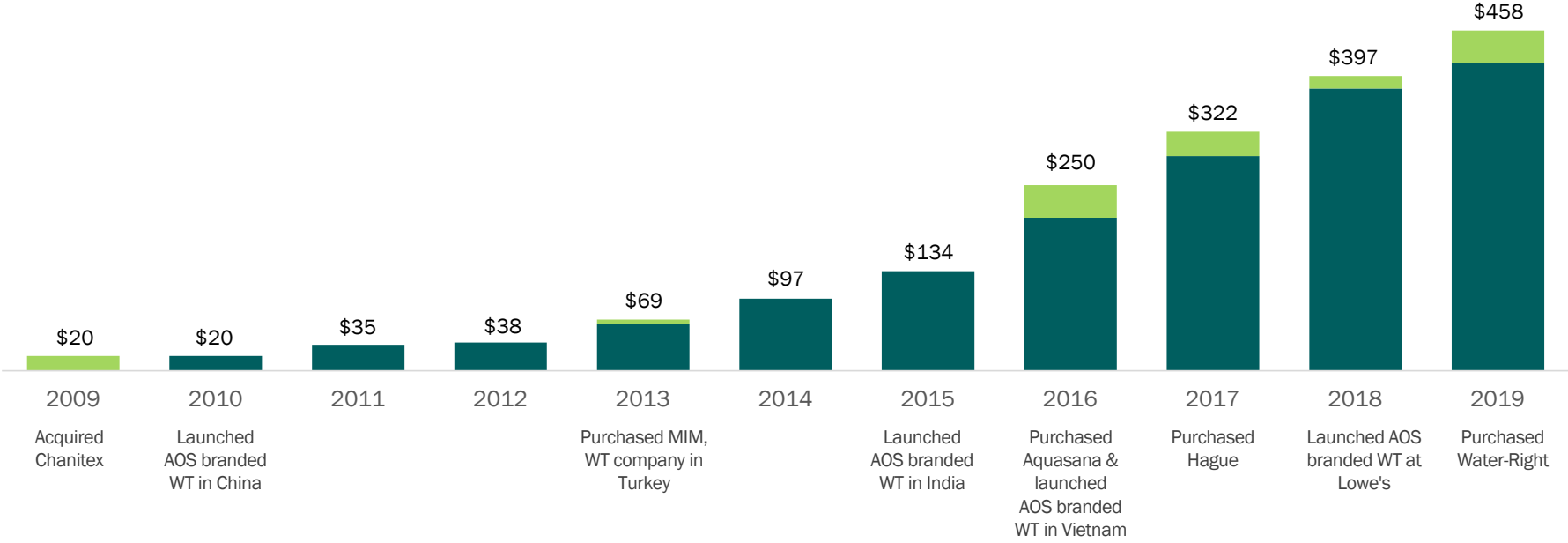
# Evolution of AOS' Global Water Treatment Business

## Revenue

\$ in millions

- Inorganic Revenue
- Organic Revenue

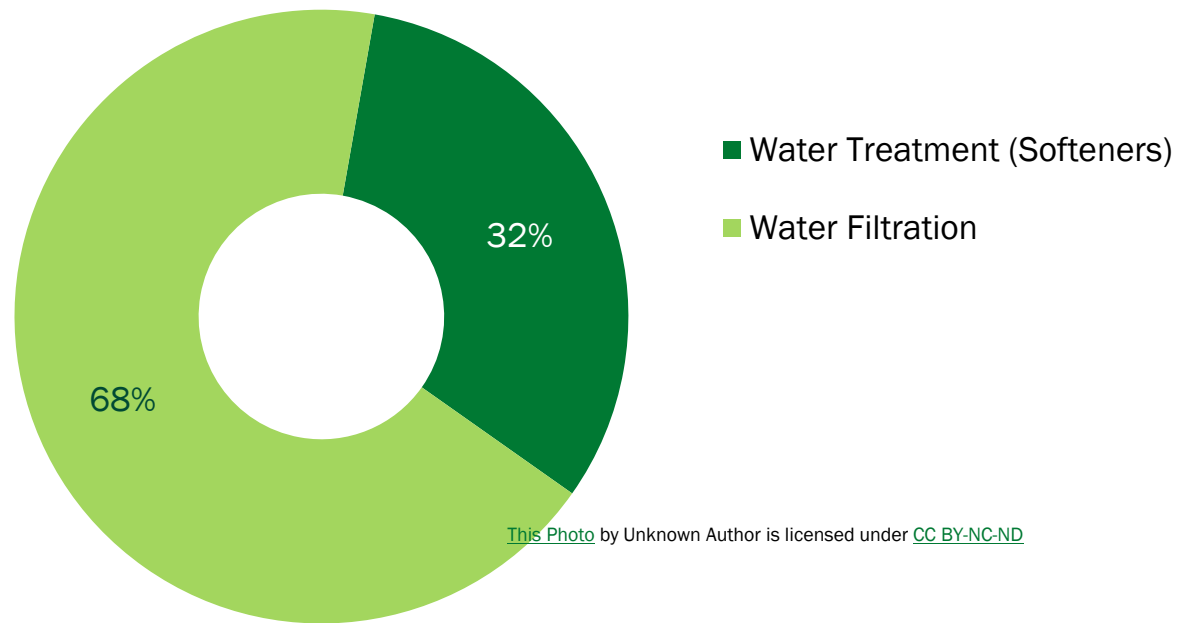
**35%** CAGR over the last 10 years





# Large Addressable Market in U.S. Water Treatment

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



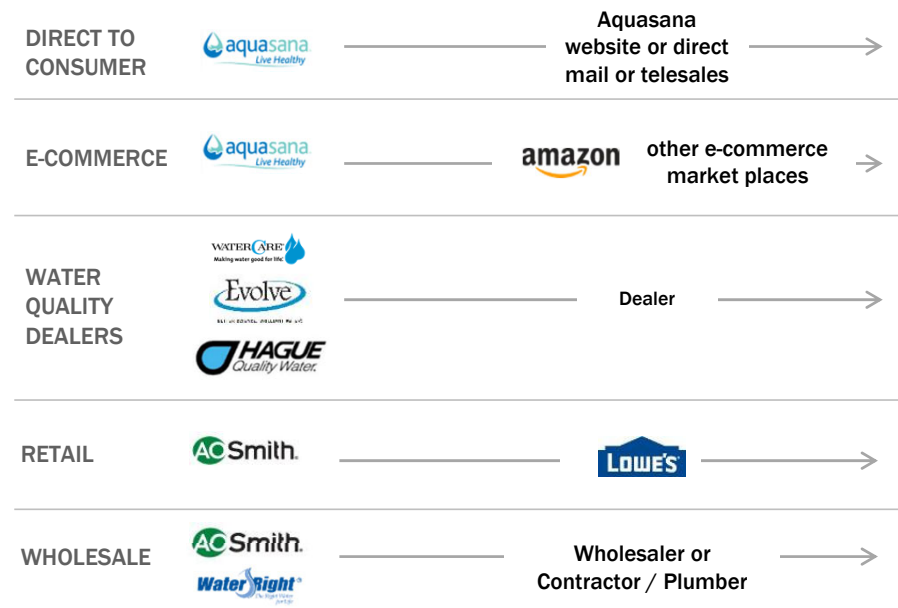
[This Photo](#) by Unknown Author is licensed under [CC BY-NC-ND](#)



# Positioned to Grow Across all Water Treatment Channels

## Channel Brand

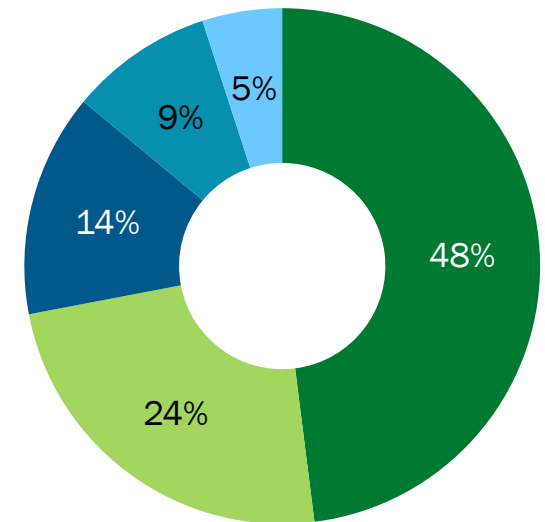
Our brands participate in all channels; most competitors operate in 1-2 of these channels



CONSUMER



## Industry Water Treatment Channels



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

**\$2.3 Billion Addressable Market**



Sources: A. O. Smith Primary Quantitative, Market Segmentation Research, April 2017; Water Quality Association 2017 Consumer Opinion Study

# 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



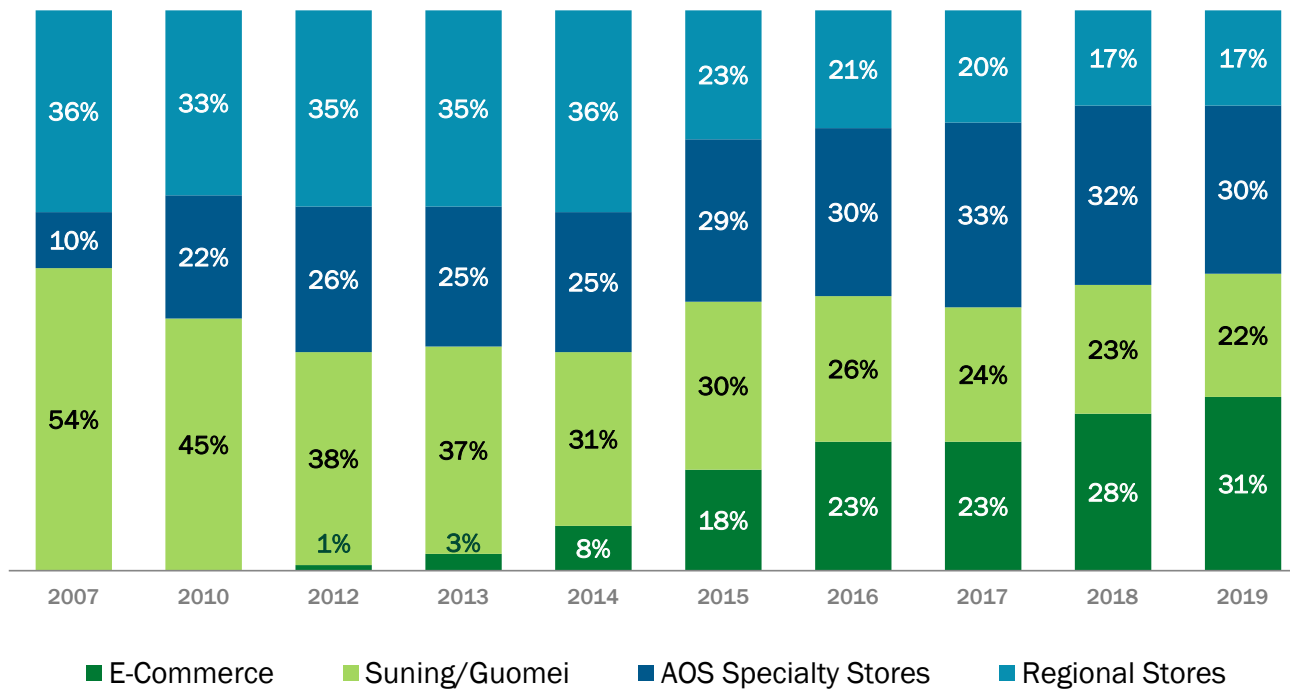
Air Purifier

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%<sup>1</sup> of all global growth! >

## A. O. SMITH

We are positioned to reach consumers using the internet



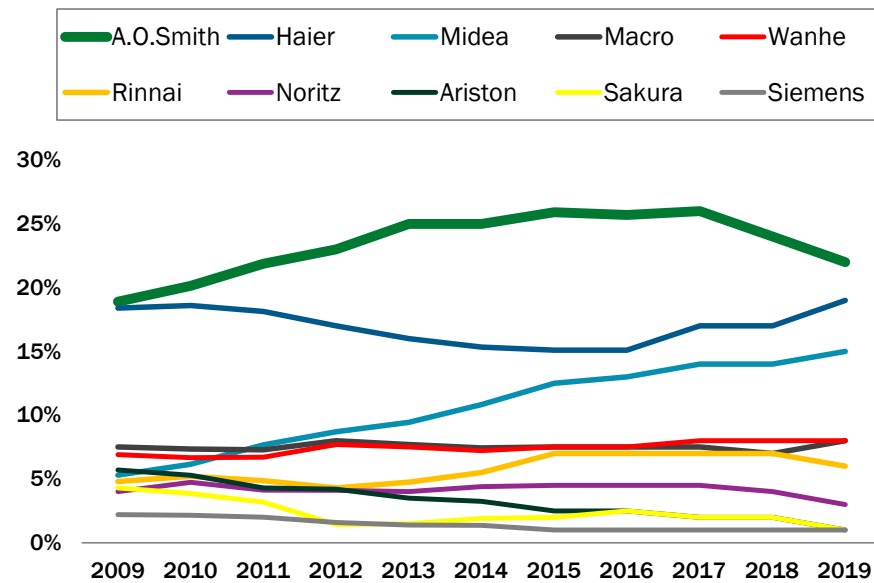
Our Market Leading Premium Consumer brand is positioned for the middle and affluent classes

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

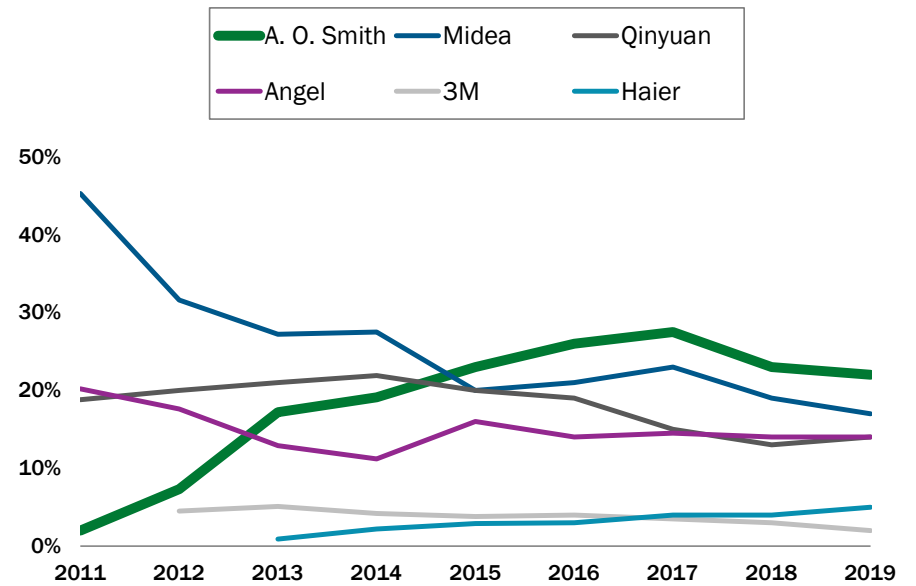
<sup>1</sup>Source: IMF 2019 to 2024, October 2019

# 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

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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**

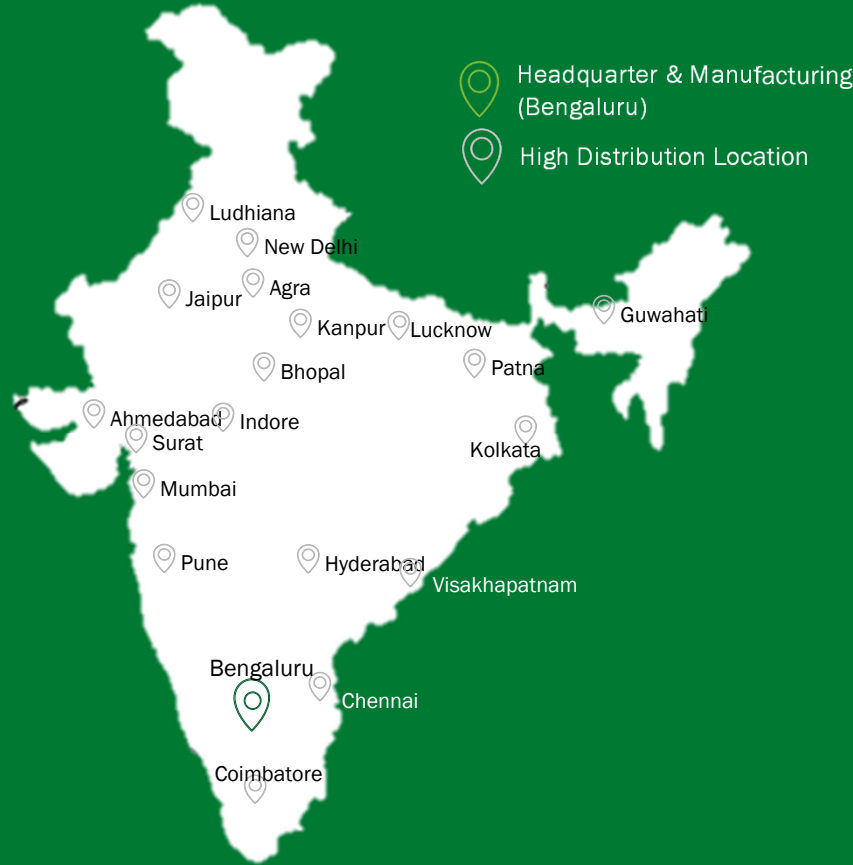


# India: Geographic Presence Build out from 2008 through 2019

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

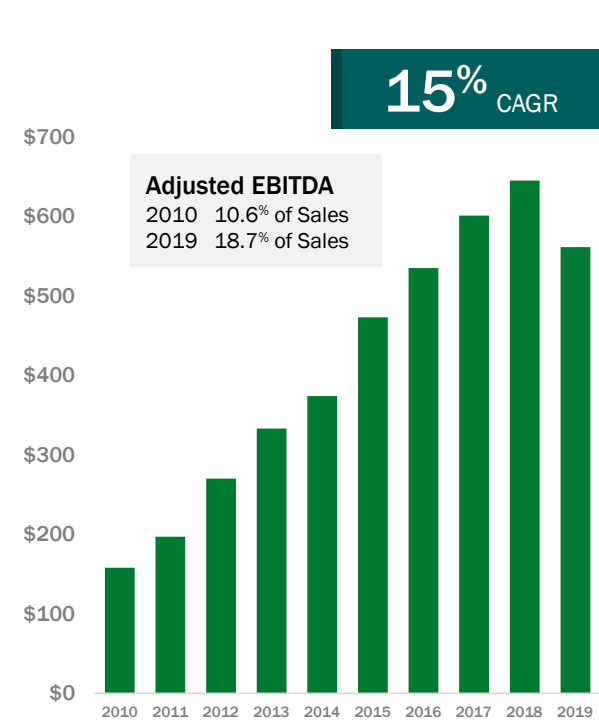


# Driving Financial Performance and Delivering Significant Growth

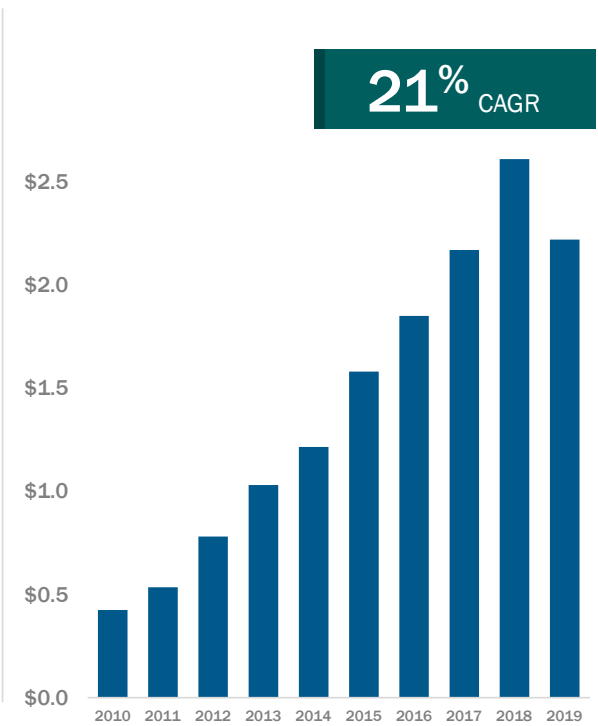
**Sales Growth**  
Sales in billions



**Adjusted EBITDA<sup>1</sup>**



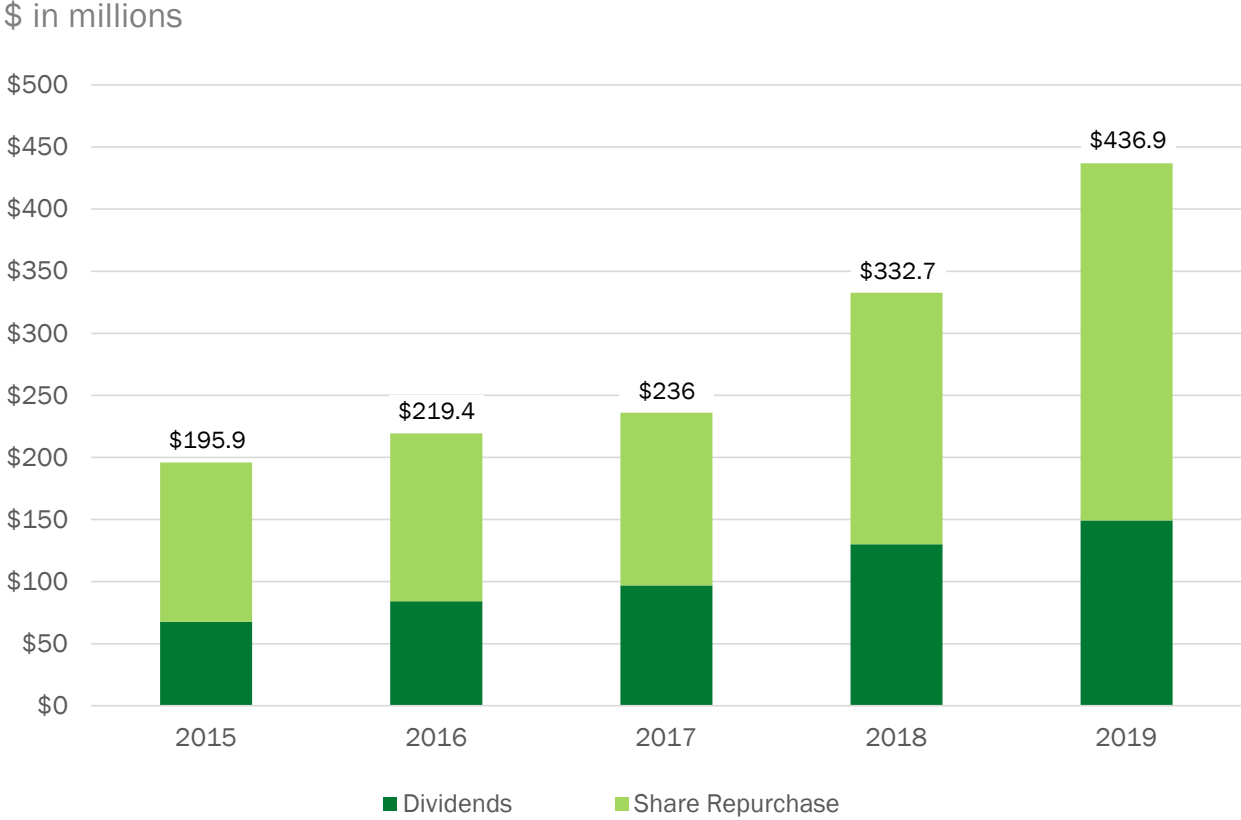
**Adjusted Earnings Per Share<sup>2</sup>**



<sup>1</sup> 2010 through 2014 adjusted for non-operating pension costs and certain non-recurring items

<sup>2</sup> 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



<sup>1</sup> Subject 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



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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 shares repurchased = \$1.4 billion



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

# ESG Accomplishments

## Products Conserve Resources

 **98%** Thermal Efficient

**Cyclone Commercial Water Heater**  
1.6B cubic feet of natural gas saved<sup>1</sup>  
100K tons of GHG avoided<sup>1</sup>

 **99%** Thermal Efficient

**Crest Commercial Boiler**  
2.0B cubic feet of natural gas saved<sup>1</sup>  
120K tons of GHG avoided<sup>1</sup>

 **75%** Water Conservation Ratio

**RO Max Series Water Treatment System**  
1.3 B gallons of water conserved in China<sup>1</sup>

## Operations Are Safe & Conserve Resources



**President's Safety Award**  
Established 1955  
(predates OSHA)



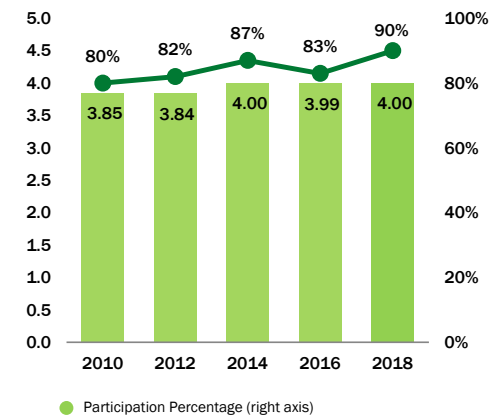
**Chairman's Green Star Award**  
2009



**ISO 14001 for environment**  
**ISO 45001 for safety**

## We Are a Good Place to Work

### Employee Engagement Score (Max 5)



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



**Celebrating 146 years of innovation**

[CRS Report](#)

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# Q3 20 Results



## Third Quarter Commentary

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NA Water Treatment grows 19 percent

US residential water heater demand positive YOY

NA commercial water heater and boiler demand down 9 - 10 percent

China consumer demand slightly positive YOY

Minimal operational disruptions

Restructuring carryover from second quarter

## Third Quarter Results

\$ in millions except per share data

	2020	2019	Change	% Change
Sales	\$ 760.0	\$ 728.2	\$ 31.8	4%
Net Earnings	\$ 105.4	\$ 87.3	\$ 18.1	21%
Severance and Restructuring Expenses	<u>1.3</u>	<u>-</u>		
Adjusted Earnings	\$ <u>106.7</u>	\$ <u>87.3</u>	\$ 19.4	22%
EPS	\$ 0.65	\$ 0.53	\$ 0.12	23%
Severance and Restructuring Expenses	<u>0.01</u>	<u>-</u>		
Adjusted EPS	\$ <u>0.66</u>	\$ <u>0.53</u>	\$ 0.13	25%

## Third Quarter Sales

\$ in millions

	2020	2019	Change	% Change
North America	\$ 544.0	\$ 514.6	\$ 29.4	6%
Rest of World	221.4	220.3	1.1	flat
Intersegment	<u>(5.4)</u>	<u>(6.7)</u>	<u>1.3</u>	
<b>Total</b>	\$ <u>760.0</u>	\$ <u>728.2</u>	\$ <u>31.8</u>	4%

## Third Quarter Adjusted Earnings

\$ in millions

	2020	2019	Change	% Change
<b>Adjusted Segment Earnings</b>				
North America	\$ 133.6	\$ 121.6	\$ 12.0	10%
Rest of World	<u>17.8</u>	<u>4.1</u>	<u>13.7</u>	334%
<b>Total Adjusted Earnings</b>	<b>151.4</b>	<b>125.7</b>	<b>25.7</b>	<b>20%</b>
Corporate	(10.9)	(9.8)	(1.1)	-11%
Interest Expense	<u>(1.6)</u>	<u>(3.1)</u>	<u>1.5</u>	48%
Adjusted Pre-tax Earnings	138.9	112.8	26.1	23%
Adjusted Tax Provision	<u>(32.2)</u>	<u>(25.5)</u>	<u>(6.7)</u>	
Adjusted Earnings	\$ <u>106.7</u>	\$ <u>87.3</u>	\$ <u>19.4</u>	22%
<b>Adjusted Segment Margin</b>				
North America	24.6%	23.6 %		
Rest of World	8.0%	1.9 %		

Note: North America adjusted segment earnings and ROW adjusted segment earnings exclude \$0.5 million and \$1.1 million, respectively, of pre-tax severance and restructuring expenses.

## Strong Capital Position<sup>1</sup>

**\$330M**

Cash provided  
by operations

**6.1%**

Debt to  
capital ratio

**\$509M**

Cash balance<sup>2</sup>

**\$395M**

Net cash position

**~1.3M**

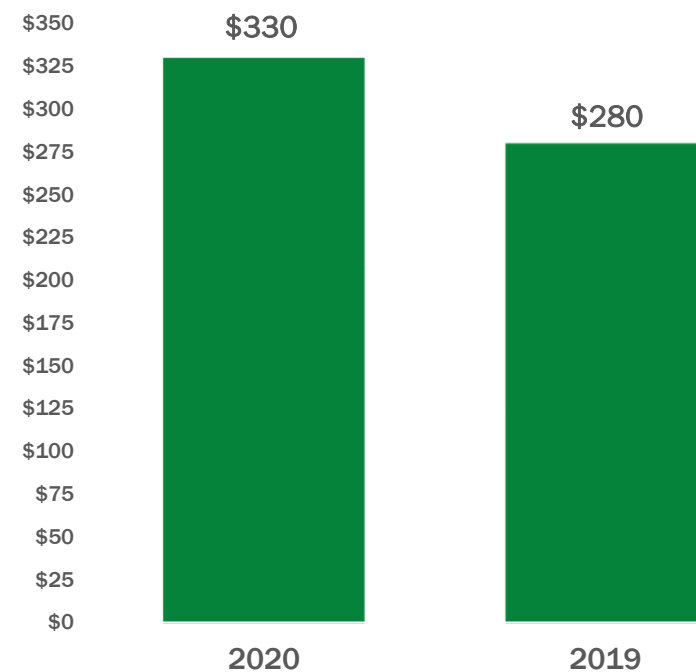
Stock repurchase;  
shares totaling ~\$57M

<sup>1</sup> as of September 30, 2020

<sup>2</sup> includes cash, cash equivalents and marketable securities

### Cash Flow from Operations

\$ in millions



## 2020 EPS Guidance and Assumptions

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(\$ in millions)	2020 Projections
Adjusted EPS	\$1.95 to \$1.98 per share
Operating Cash Flow	Approximately \$400
Capital Expenditures	\$50 - \$55
Depreciation & Amortization	Approximately \$80
Corporate/Other Expense	Approximately \$50
Effective Adjusted Tax Rate	23 to 23.5 percent
Stock Repurchase	Approximately \$57
Share Count - Diluted	Approximately 162.5 million

*As of October 29, 2020*

## 2020 Outlook

	% Revenue <sup>1</sup>	Q3 YOY sales	Full Year Assumptions
NA Water Heaters	58%	6.5%	U.S. residential water heater industry volumes up 4 percent; commercial water heater industry volumes down approximately ten percent
China	25%	+1%	China local currency sales decline 18 to 19 percent; mid single digit growth in Q4
NA Boilers	7%	-7.5%	NA Boiler revenue declines of mid single digits
NA Water Treatment	6%	+19%	Sales increase 22 to 24 percent (includes acquisition)
India/ROW	4%	-4%	India loss similar to 2019
Total	100%	+4%	

<sup>1</sup>Q3 2020

As of October 29, 2020

## 2020 Outlook

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- Revenue declines of 6 to 7 percent
- North America segment margin expected to be 23 to 23.5 percent
- Rest of World segment margin expected to be -1 to -2 percent

*As of October 29, 2020*



## Adjusted Earnings and Adjusted EPS

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

	(dollars in millions, except per share data)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Net Earnings (GAAP)</b>	\$ 105.4	\$ 87.3	\$ 224.9	\$ 278.7
Severance and restructuring expenses, before tax	1.6	-	7.7	-
Tax effect of severance and restructuring expenses	<u>(0.3)</u>	<u>-</u>	<u>(1.4)</u>	<u>-</u>
<b>Adjusted Earnings</b>	<b>\$ <u>106.7</u></b>	<b>\$ <u>87.3</u></b>	<b>\$ <u>231.2</u></b>	<b>\$ <u>278.7</u></b>
<b>Diluted EPS (GAAP)</b>	\$ 0.65	\$ 0.53	\$ 1.38	\$ 1.66
Severance and restructuring expenses per diluted share, before tax	0.01	-	0.05	-
Tax effect of severance and restructuring expenses per diluted share	<u>-</u>	<u>-</u>	<u>(0.01)</u>	<u>-</u>
<b>Adjusted EPS</b>	<b>\$ <u>0.66</u></b>	<b>\$ <u>0.53</u></b>	<b>\$ <u>1.42</u></b>	<b>\$ <u>1.66</u></b>

## Adjusted Segment Earnings

The following is a reconciliation reported segment earnings to adjusted segment earnings (non-GAAP):

	(dollars in millions)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Segment Earnings (Losses) (GAAP)</b>				
North America	\$ 133.1	\$ 121.6	\$ 365.6	\$ 360.5
Rest of World	16.7	4.1	(31.3)	38.8
Inter-segment earnings elimination	<u>-</u>	<u>-</u>	<u>(0.3)</u>	<u>(0.1)</u>
Total Segment Earnings (GAAP)	<u>\$ 149.8</u>	<u>\$ 125.7</u>	<u>\$ 334.0</u>	<u>\$ 399.2</u>
<b>Adjustments:</b>				
North America severance and restructuring expenses	\$ 0.5	\$ -	\$ 2.7	\$ -
Rest of World severance and restructuring expenses	<u>1.1</u>	<u>-</u>	<u>5.0</u>	<u>-</u>
Total Adjustments	<u>\$ 1.6</u>	<u>\$ -</u>	<u>\$ 7.7</u>	<u>\$ -</u>
<b>Adjusted Segment Earnings (Losses)</b>				
North America	\$ 133.6	\$ 121.6	\$ 368.3	\$ 360.5
Rest of World	17.8	4.1	(26.3)	38.8
Inter-segment earnings elimination	<u>-</u>	<u>-</u>	<u>(0.3)</u>	<u>(0.1)</u>
Adjusted Segment Earnings	<u>\$ 151.4</u>	<u>\$ 125.7</u>	<u>\$ 341.7</u>	<u>\$ 399.2</u>

## 2020 Adjusted EPS Guidance and 2019 EPS

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The following is a reconciliation of diluted EPS to adjusted EPS (non-GAAP)( all items are net of tax):

	2020 Guidance	2019
<b>Diluted EPS (GAAP)</b>	<b>\$1.91 – 1.94</b>	<b>\$ 2.22</b>
Severance and restructuring expenses, per diluted share	<u>0.04</u>	<u>-</u>
<b>Adjusted EPS</b>	<b><u>\$1.95 – 1.98</u></b>	<b><u>\$ 2.22</u></b>

