



## A. O. Smith reports second quarter results of \$.67 per share and reaffirms 2003 outlook

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Milwaukee, Wis.--Electric motor and water heater manufacturer A. O. Smith Corporation (AOS-NYSE) today reported second quarter earnings of \$.67 per share with net earnings of \$19.8 million marking a 10 percent improvement compared with the second quarter of last year. Sales for the quarter ended June 30 were \$417.6 million, approximately eight percent higher than sales for the same period in 2002. The company forecasts third quarter earnings of \$.42 to \$.46 per share with a full-year projection of \$2.10 to \$2.25 per share.

"Despite softness in key markets, we achieved improved sales due to acquisitions and higher residential gas water heater volume. Ongoing weakness in commercial construction markets negatively influenced sales of both commercial water heaters and hermetic motors for commercial air conditioners," according to Chairman and Chief Executive Officer Robert J. O'Toole.

"Notwithstanding the higher sales in the second quarter, business segment income was slightly lower than the second quarter of 2002 because of the low-margin sales of recent acquisitions in our motor business and unfavorable sales mix in the water heater operation. Net earnings, however, improved due to an insurance settlement, a lower tax rate, and lower interest expense."

For the first six months of 2003, A. O. Smith Corporation reported net earnings of \$33.5 million or \$1.13 per share compared with earnings of \$30.1 million or \$1.17 per share. The May 2002 stock issuance of 4.8 million shares had a \$.13 per share dilutive impact on 2003 when compared to 2002. Six-month sales of \$805.5 million were approximately six percent higher than 2002 first-half sales of \$758.2 million.

### Electrical Products

Electrical Products' second quarter sales were \$227.6 million, approximately \$8 million higher than the 2002 second quarter, due to additional sales from the acquisition of Athens Products and the company's Chinese motor acquisitions. Reflecting the cooler-than-normal weather conditions in the northern United States, sales of heating and air conditioning motors were five percent lower than last year's second quarter, excluding the Athens Products acquisition. Sales of pump motors were also approximately five percent lower as a result of the cooler-than-normal weather. Operating earnings of \$18.6 million were 10 percent lower than the 2002 second quarter as a result of the lower sales in the base business more than offsetting the contributions from the acquisitions.

During the second quarter the business closed its Athens, Tenn., plant and announced that its Ripley, Tenn., facility will cease production this month.

### Water Systems

Second quarter sales were \$190.0 million, nearly 14 percent higher than second quarter 2002 sales of \$167.1 million due to a price increase implemented to offset higher steel prices, as well as higher volumes of residential gas water heaters. As a result of the weak commercial construction market, sales of commercial product declined less than five percent in the second quarter compared with last year. Operating earnings for the same period were \$17.8 million, seven percent higher than the 2002 second quarter. While operating earnings improved, operating margins were adversely impacted by the unfavorable commercial and residential product mix.

On July 1, Water Systems introduced its new line of residential gas-fired water heaters, including redesigned products that comply with new ANSI regulations that govern flammable vapor ignition resistance.

As part of the ongoing integration of the State Industries acquisition, the company recently announced plans to consolidate the North American manufacture of residential water heaters at its Ashland City, Tenn., and Juarez, Mexico, facilities. The initiative, which will involve transferring residential production from the McBee, S. C. plant, will be complete by the first quarter of 2004. The company also announced it will close its El Paso, Texas, boiler plant and relocate this production to McBee. That transfer is scheduled to be complete by the end of this year's third quarter.

### Outlook

"The company's overall cost structure has improved significantly over the last year and a half, and our operating units will

continue to aggressively manage cost as we go forward," O'Toole said. "We project per share earnings of \$.42 to \$.46 in the third quarter. We also are reaffirming and narrowing our guidance for full-year 2003 earnings to a range of between \$2.10 and \$2.25 per share."

"While we don't anticipate any rebound in our served markets in 2003, the impact of operating improvements and new products will materialize and accelerate during the second half of the year. These improvements include the continued success of the motor repositioning programs and the ongoing integration of the State Industries acquisition. In addition to these operating improvements, the introduction of new water heater products during the second half of the year will generate additional sales and earnings. As a consequence, we expect earnings per share comparisons to improve significantly in the third and fourth quarters of this year," O'Toole continued.

A. O. Smith will broadcast a live conference call beginning at 10:00 a.m. (Eastern Time) today. The call can be heard on the company's web site, [www.aosmith.com](http://www.aosmith.com). An audio replay of the call will be available on the company's web site after the live event.

### **Forward-looking statements**

This release 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," or words of similar meaning. These 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 release. Factors that could cause such a variance include the following: instability in the company's electric motor and water products markets; inability to generate the synergistic cost savings from the acquisition of State Industries; the inability to implement cost-reduction programs; adverse changes in general economic conditions; significant increases in raw material prices; competitive pressures on the company's businesses; and the potential that assumptions on which the company based its expectations are inaccurate or will prove to be incorrect.

Forward-looking statements included in this press 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 attributable to the company, or persons acting on its behalf, are qualified in their entirety by these cautionary statements.

A. O. Smith Corporation, with headquarters in Milwaukee, Wis., is one of North America's largest manufacturers of electric motors, with a comprehensive line of hermetic motors, fractional horsepower alternating current (AC) and direct current (DC) motors, and integral horsepower motors, as well as one of North America's largest manufacturers of residential and commercial water heating equipment. A. O. Smith Corporation has facilities in the United States, Mexico, Canada, England, Ireland, Hungary, the Netherlands, and China and employs approximately 17,000 people.

[Click here to download second quarter financial tables in excel format:](#)