

Full Year 2022 Results

Participants



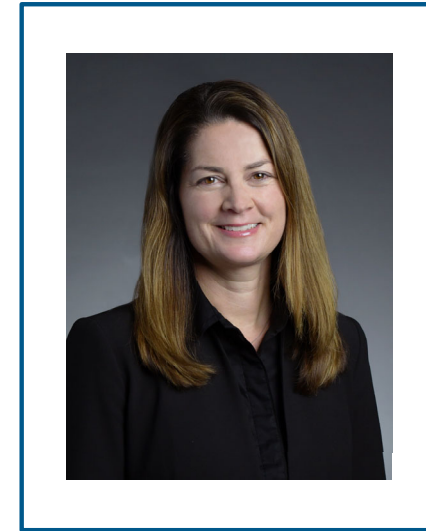
Kevin J. Wheeler

Chairman and
Chief Executive Officer



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Executive Vice President
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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: further 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 the severity and duration of the lingering effects of 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; an uneven recovery of the Chinese economy or decline in the growth rate of consumer spending or housing sales in China; negative impact to the Company’s business in China as a result of future COVID-19-related disruptions there; negative impact to the Company’s businesses from international tariffs, trade disputes and geopolitical differences, including the conflict in Ukraine; potential weakening in the high-efficiency 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; 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 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.”

Full Year Messages

Record sales of
\$3,754M and
adjusted EPS of
\$3.14

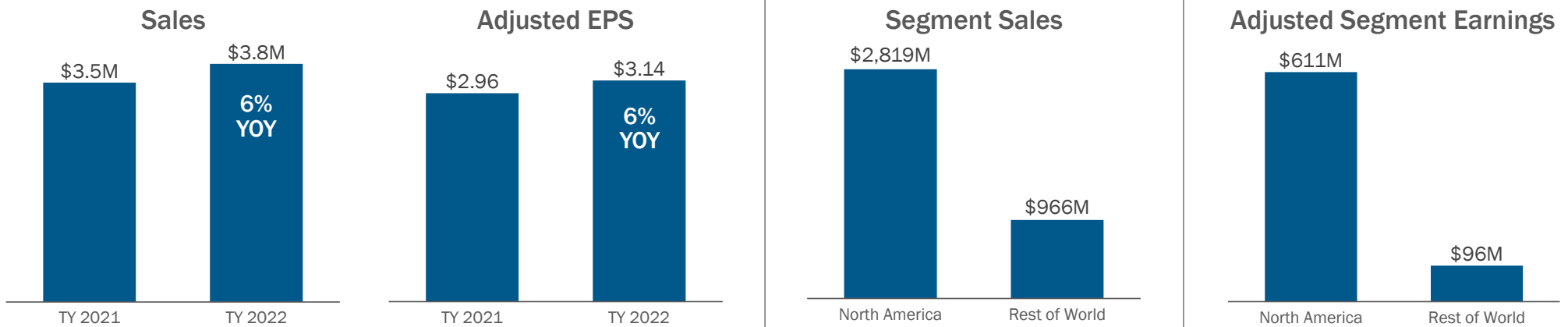
Higher North
America sales due
to pricing actions
partially offset by
lower residential
water heater
volumes

China achieved
higher operating
margins despite
continued Covid-
19-related
headwinds

Settled pension
liabilities resulting
in \$417M expense,
\$1.60 EPS

Returned \$581
million of capital to
shareholders
through share
repurchases and
dividends in 2022

Full Year Performance and Highlights



Highlights

- Net sales up 6 percent to \$3.8B
- Adjusted EPS up 6 percent to \$3.14

North America

- Sales up 11 percent as price increases partially offset by lower residential volumes
- Giant added \$94 million of incremental sales
- Estimated 80 to 85 percent of water heater and boiler demand is replacement

Rest of World

- 7 percent sales decrease due to Covid-19 related lockdowns in China
- India sales grew 28 percent in local currency
- Margin improved 120 bps over last year

2022 ESG Report



As a company with a global footprint, we have a responsibility to do our part to reduce our greenhouse gas emissions. In 2020, we proudly announced our first greenhouse gas emissions reduction goal:

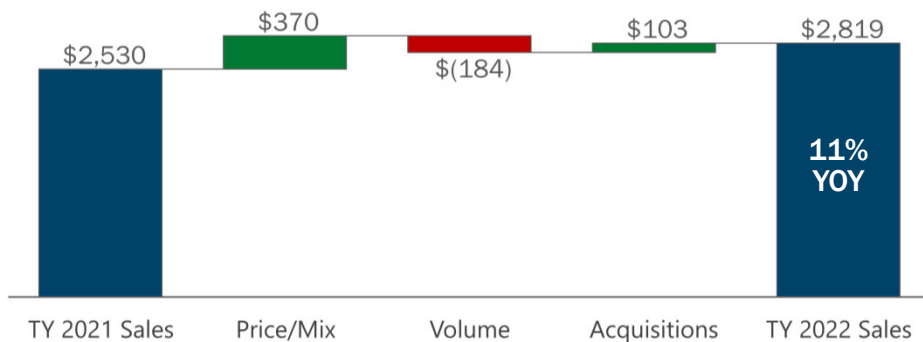
**10%
intensity
reduction by
2025**

Metric	Unit	2019	2020	2021
Greenhouse Gas Emissions Intensity	Metric Tons CO ₂ e/\$MM Revenue	54.22	54.62	44.80
Total Greenhouse Gas Emissions	Metric Tons CO ₂ e	162,270	158,133	158,538
Greenhouse Gas Avoidance from Water Heaters and Boilers	Metric Tons CO ₂ e	487,383	473,724	494,825

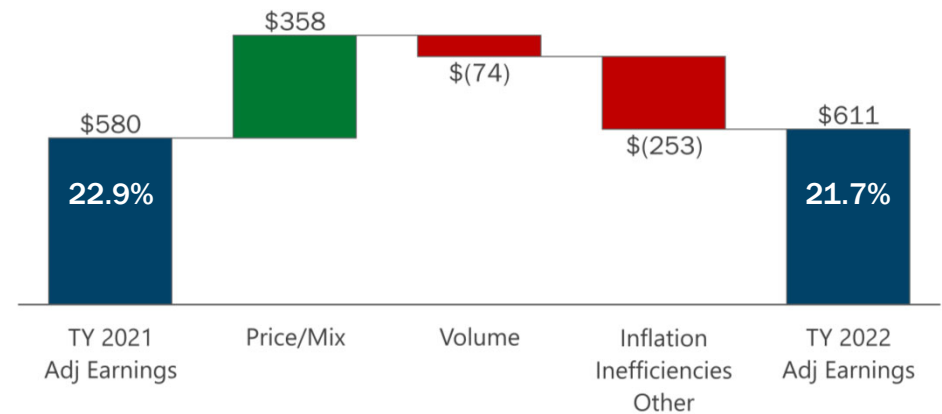


Full Year North America Segment

Segment Sales (\$M)



Adjusted Segment Operating Earnings (\$M)

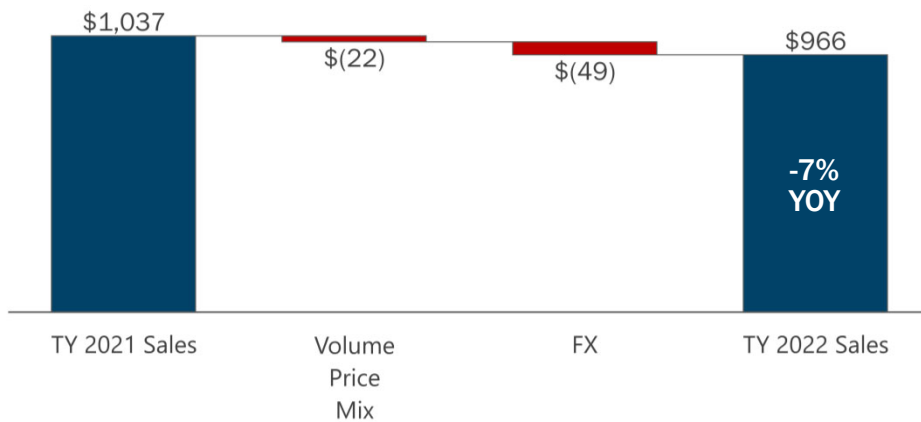


- Sales increase primarily due to pricing, partially offset by lower residential water heater volumes as industry lead times and channel inventories normalize
- 2022 also benefited from higher boiler and water treatment volumes
- Acquisitions added \$103 million of incremental sales

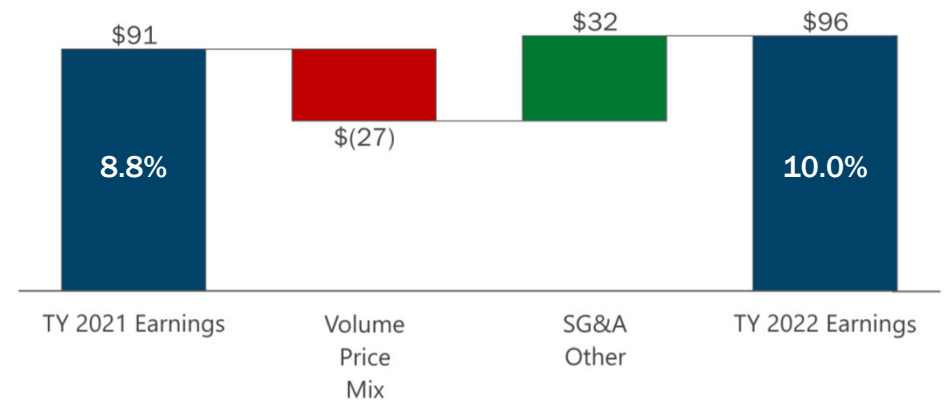
- Income lower as inflation-related pricing actions was offset by higher materials and freight costs and lower volumes of residential water heaters
- Acquisitions negatively impacted margin by 50 bps

Full Year Rest of World Segment

Segment Sales (\$M)



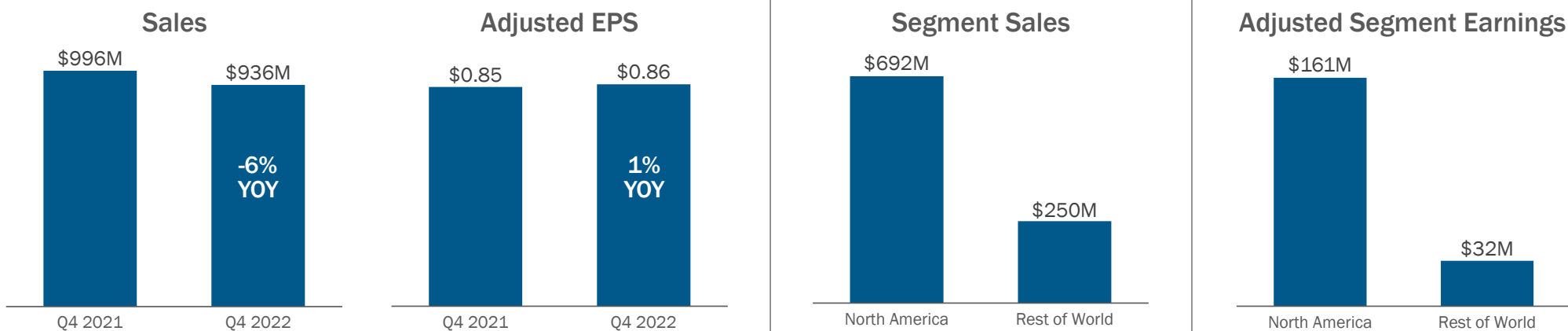
Adjusted Segment Operating Earnings (\$M)



- Lower volumes in China due to Covid-related restrictions
- Currency translation impacted segment sales by \$49 million, currency translation on China sales was \$36 million
- India sales increase ~28% in local currency due to robust demand

- Lower volumes in China more than offset by selling, advertising and incentive expenses
- Significant segment operating margin improvement due to structural cost reductions and improved management of discretionary spend in China

Fourth Quarter Performance and Highlights



Highlights

- Net sales down 6 percent to \$936M
- Adjusted EPS up 1 percent to \$0.86

North America

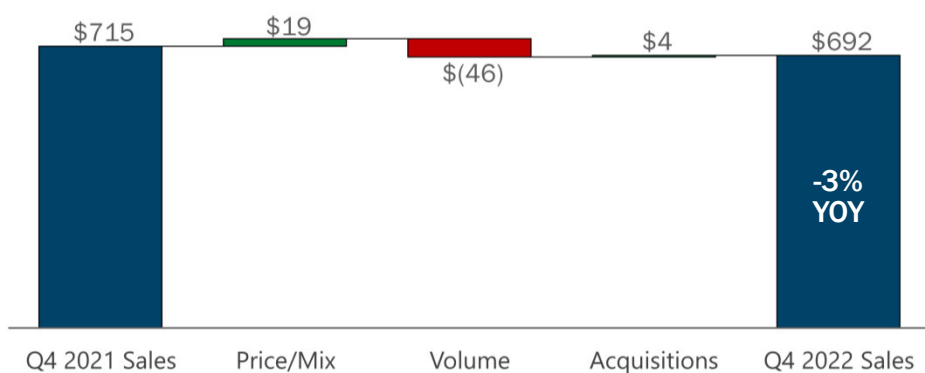
- Sales down 3 percent due to lower residential water heater volumes
- Boiler sales increased 38 percent
- Adjusted segment margin increased 30 bps to 23.3 percent

Rest of World

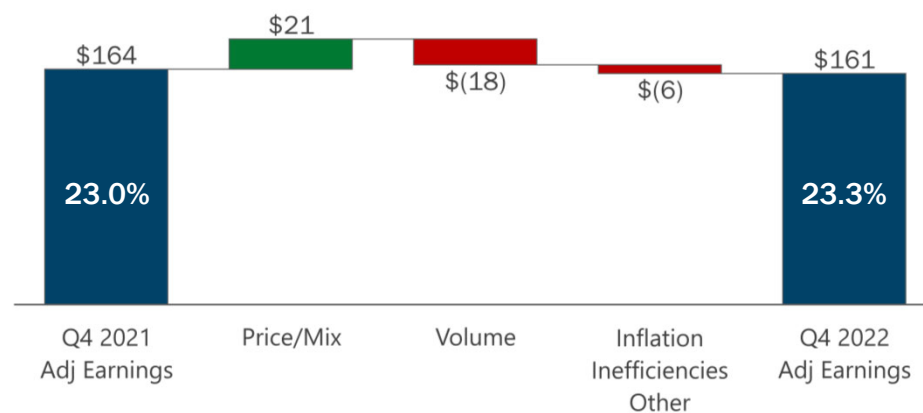
- 13 percent sales decrease due to Covid-19 related lockdowns in China; sales down 4 percent in local currency
- India sales increased 16 percent in local currency
- Segment margin improved 210 bps over last year

Fourth Quarter North America Segment

Segment Sales (\$M)



Adjusted Segment Operating Earnings (\$M)

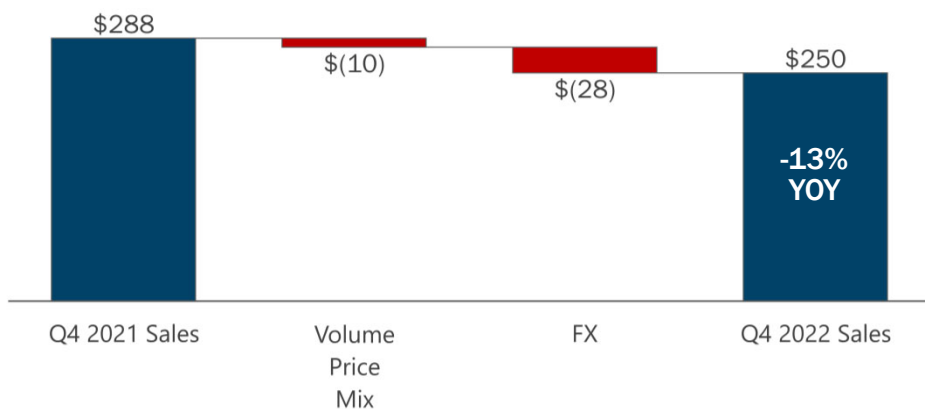


- Sales decreased primarily due to lower residential water heater volumes as industry demand normalize
- Boilers sales increased 36 percent

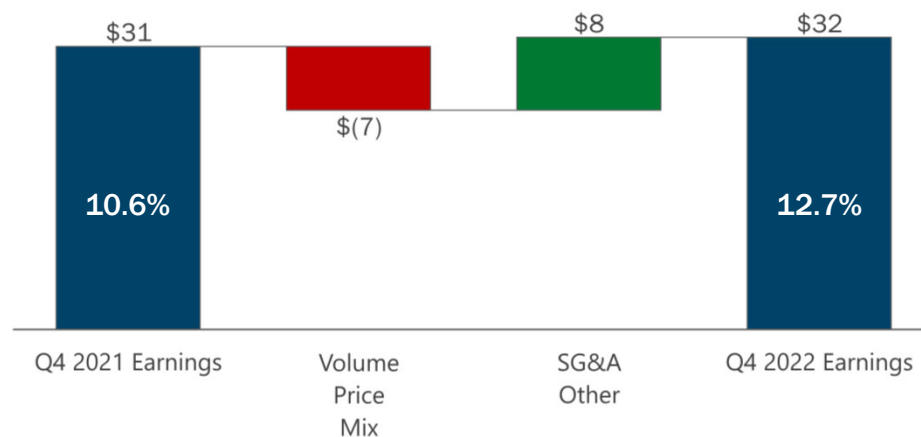
- Income was lower due to lower residential water heater volumes and higher input costs that more than offset inflation-related price increases
- Margin improvement driven by improved price/cost relationship
- Acquisitions negatively impacted margin by 50 bps

Fourth Quarter Rest of World Segment

Segment Sales (\$M)



Adjusted Segment Operating Earnings (\$M)



- Lower volumes in China due to Covid-related lockdowns; currency translation reduced sales by \$24 million
- India sales increase ~16% in local currency due to robust demand

- Income flat as lower selling, advertising and incentive expenses offsets lower volumes in China
- Higher operating margin driven by improvement cost management in China

Cash Flow and Liquidity¹

\$482M

Cash balance²

16.5%

Debt to
capital ratio

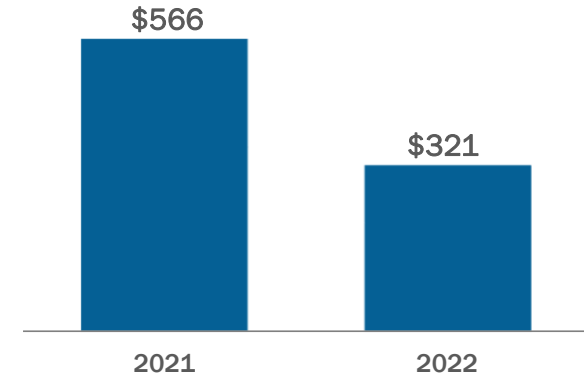
\$137M

Net cash
position

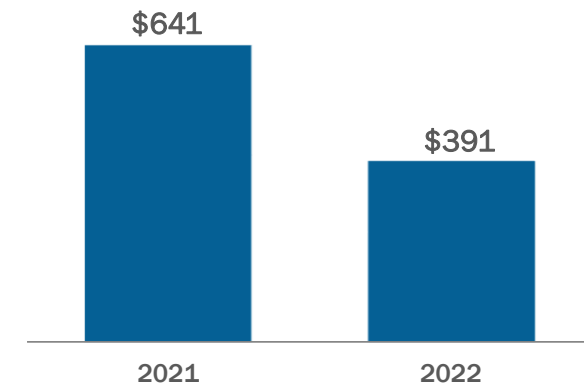
~6.6M

Shares repurchased
in 2022
totaling ~\$404M

Free Cash Flow (\$M)



Cash Flow from Operations (\$M)



Capital Allocation Priorities

Priority	Comments
Organic Growth	<ul style="list-style-type: none">• Opportunities for organic growth in all our businesses and geographies• Invested \$70 million in capital expenditures in 2022• R&D totaled \$89 million, versus \$94 million 2021
Acquisitions	<ul style="list-style-type: none">• Disciplined focus on transactions that enable geographic growth, expand/grow the core, establish adjacencies• Recent transactions include Atlantic Filter and Giant• Maintain active pipeline
Dividends <ul style="list-style-type: none">• Philosophy: growing, competitive sustainable dividend	<ul style="list-style-type: none">• Increased 7 percent in October• Five-year CAGR of 15 percent• 30 consecutive years of dividend increases
Share Repurchase	<ul style="list-style-type: none">• \$404 million in 2022

2023 Outlook and Assumptions*

(\$M, except per share data)

Revenue Increase	Flat +/-3%
U.S. Residential Water Heater Industry	~-2% to -5%
Commercial Water Heater Industry	Flat
China Sales (Local Currency)	~3% to 5%
North American Boiler Sales Growth	~10% to 12%
North American Water Treatment Growth	~5% to 7%
Free Cash Flow	\$550M to \$600M
Capital Expenditures	~\$70M to \$75M
Depreciation & Amortization	~\$70M
Corporate/Other Expense	~\$55M
Effective Tax Rate	~24%
Share Repurchase	~\$200
Share Count – Diluted	~150M

- North American segment margin expected to be approximately 23%
- Rest of World segment margin expected to be approximately 10%

	2023 Guidance*	2022
Diluted EPS (GAAP)	\$3.15-3.45	\$ 1.51
Pension settlement expense	-	1.60 ⁽¹⁾
Pension expense	-	0.06 ⁽²⁾
Legal judgment income	-	(0.05)
Terminated acquisition-related expenses	-	0.02
Adjusted EPS (non-GAAP)	\$3.15-3.45	\$ 3.14

⁽¹⁾ Includes pre-tax pension settlement expense of \$346.8 million and \$70.5 million, within the North America segment and Corporate expenses, respectively.

⁽²⁾ Includes pre-tax pension expense of \$9.7 million and \$2.0 million, within the North America segment and Corporate expenses, respectively.

Key Strategic Priorities

Expand and enhance
high efficiency product
portfolio

Invest in and expand
our global water
treatment capabilities

Strategic acquisitions
and deploying capital
effectively



Adjusted Earnings and Adjusted EPS

(\$ in Millions, except per share data)

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2022	2021	2022	2021
Net (Loss) Earnings (GAAP)	\$(120.1)	\$ 139.6	\$ 235.7	\$ 487.1
Pension settlement expense, before tax	417.3	-	417.3	-
Pension expense (income), before tax	2.8	(3.6)	11.7	(13.1)
Legal judgment income, before tax	-	-	(11.5)	-
Terminated acquisition-related expenses, before tax	-	-	4.3	-
Tax effect on above items	<u>(168.4)</u>	<u>0.9</u>	<u>(168.8)</u>	<u>3.3</u>
Adjusted Earnings (non-GAAP)	\$ <u>131.6</u>	\$ <u>136.9</u>	\$ <u>488.7</u>	\$ <u>477.3</u>
Diluted (Loss) EPS (GAAP) ⁽¹⁾	\$ (0.78)	\$ 0.87	\$ 1.51	\$ 3.02
Pension settlement expense, before tax	2.72	-	2.68	-
Pension expense (income) per diluted share, before tax	0.02	(0.02)	0.08	(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>(1.10)</u>	<u>-</u>	<u>(1.09)</u>	<u>0.02</u>
Adjusted EPS (non-GAAP) ⁽¹⁾	\$ <u>0.86</u>	\$ <u>0.85</u>	\$ <u>3.14</u>	\$ <u>2.96</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 & Adjusted Corporate Expense

(\$ in Millions)

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2022	2021	2022	2021
Segment Earnings (GAAP)				
North America	\$ (187.5)	\$ 166.9	\$ 266.0	\$ 590.8
Rest of World	31.6	30.5	96.3	91.4
Inter-segment earnings elimination	(0.2)	(0.1)	(0.3)	(0.2)
Total Segment Earnings (GAAP)	\$ (156.1)	\$ 197.3	\$ 362.0	\$ 682.0
Adjustments:				
North America	\$ 348.7	\$ (2.7)	\$ 345.0	\$ (10.5)
Rest of World	-	-	-	-
Inter-segment earnings elimination	-	-	-	-
Total Adjustments	\$ 348.7	\$ (2.7)	\$ 345.0	\$ (10.5)
Adjusted Segment Earnings (non-GAAP)				
North America	\$ 161.2	\$ 164.2	\$ 611.0	\$ 580.3
Rest of World	31.6	30.5	96.3	91.4
Inter-segment earnings elimination	(0.2)	(0.1)	(0.3)	(0.2)
Total Adjusted Segment Earnings (non-GAAP)	\$ 192.6	\$ 194.6	\$ 707.0	\$ 671.5
Additional Information				
Adjustments: North America Segment				
Pension settlement expense, before tax	\$ 346.8	\$ -	\$ 346.8	\$ -
Pension expense (income), before tax	1.9	(2.7)	9.7	(10.5)
Legal judgment income, before tax	-	-	(11.5)	-
Total Adjustments	\$ 348.7	\$ (2.7)	\$ 345.0	\$ (10.5)
The following is a reconciliation of reported Corporate Expense to adjusted Corporate Expense (non-GAAP):				
Corporate Expense (GAAP):	\$ (83.4)	\$ (14.1)	\$ (128.9)	\$ (52.1)
Adjustments:				
Pension settlement expense	\$ 70.5	\$ -	\$ 70.5	\$ -
Corporate pension expense (income)	0.9	(0.9)	2.0	(2.6)
Terminated acquisition-related expenses	-	-	4.3	-
Corporate Expense (non-GAAP)	\$ (12.0)	\$ (15.0)	\$ (52.1)	\$ (54.7)

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,	
	2022	2021
Cash provided by operating activities (GAAP)	\$391.4	\$ 641.1
Less: Capital expenditures	<u>(70.3)</u>	<u>(75.1)</u>
Free cash flow (non-GAAP)	<u>\$321.1</u>	<u>\$ 566.0</u>

2023 EPS Guidance and 2022 Adjusted EPS

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

(\$ in Millions, except per share data)

	Twelve Months Ended December 31,	
	2023	2022
Diluted EPS (GAAP)	\$ 3.15 – 3.45	\$ 1.51
Pension settlement expense	-	1.60 ⁽¹⁾
Pension expense	-	0.06 ⁽²⁾
Legal judgment income	-	(0.05)
Terminated acquisition-related expenses	<u>-</u>	<u>0.02</u>
Adjusted EPS (non-GAAP)	\$ <u>3.15 – 3.45</u>	\$ <u>3.14</u>

⁽¹⁾ Includes pre-tax pension settlement expense of \$346.8 million and \$70.5 million, within the North America segment and Corporate expenses, respectively.

⁽²⁾ Includes pre-tax pension expense of \$9.7 million and \$2.0 million, within the North America segment and Corporate expenses, respectively.

Compelling Investment Thesis



Market Leader



Stable/growing U.S. replacement market; operating leverage from incremental new construction and replacement of approximately 80 - 85%



Strength of premium brand, distribution, manufacturing and innovation provide significant opportunity for growth



Strong balance sheet and cash flow to support future growth, share repurchase and acquisitions with demonstrated success in all economic cycles