



William Blair 2022 Growth Stock Conference

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Safe Harbor

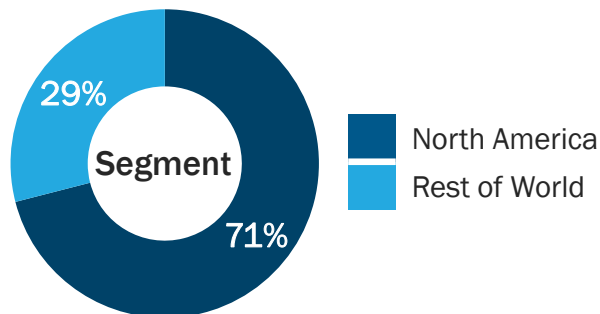
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A.O. Smith Snapshot

Global manufacturer of water heaters, boilers and water treatment products for residential and commercial customers

Headquarters	Milwaukee, WI
Global Employees	~13,700
Mfg. Facilities	25
Countries Served	~90
Sales CAGR ¹	6%
EPS CAGR ¹	10%
Gross Margin ²	37%
EBIT Margin ²	18%
Avg. 5-year FCF Conversion	102%

2021 Revenue Profile Breakdown ~\$3.5B



Products

- Water Heaters: Tank, Tankless, Heat Pump
- Boilers: Residential and Commercial
- Water Treatment: Water Softeners and Filtration

Leveraging 148 Years of Innovation to Continue Delivering Growth LEADING BRANDS

Water Heaters & Boilers



Water Treatment



¹ 2016 - 2021
² 2021

Stable and Profitable Core Business Supports Growth Opportunities

Our Core Business North America Water Heaters & Boilers

- **Largest manufacturer and marketer of water heaters and boilers** with leading share in both residential and commercial markets
- Significant reoccurring replacement cycle: **80% to 85% of water heater and boiler sales**
- Increased focus on energy efficiency and decarbonization provide additional **growth opportunities in both boilers and water heaters**

Executing Our Current Growth Opportunities

Focus on Global Water Treatment

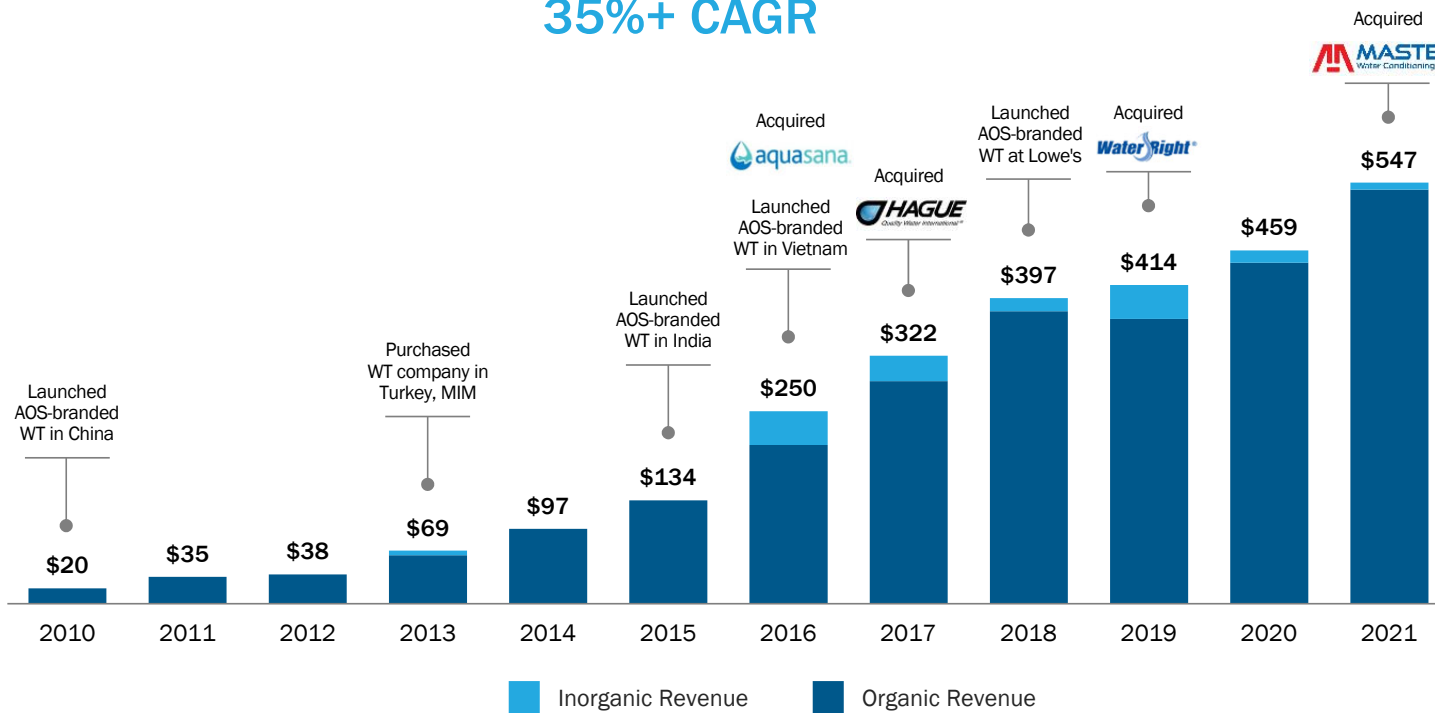
- Growing, fragmented global market with consolidation opportunities
- Omnichannel approach ensures broad market reach
- Global water treatment solutions growth supported by sustainability trend and quality of life issues

Expanding Organic Growth in China

- Market primarily wall-hung, tankless, combi-boilers and heat pumps
- A leading supplier of water heaters to residential market with 25+ years of experience
- Focused on the long-term, supported by demographic trends and growing footprint

Building a Strong Platform and Growing Scale in Water Treatment (WT) through Organic Growth Supplemented by Strategic Acquisitions

Revenue (\$M)
35%+ CAGR

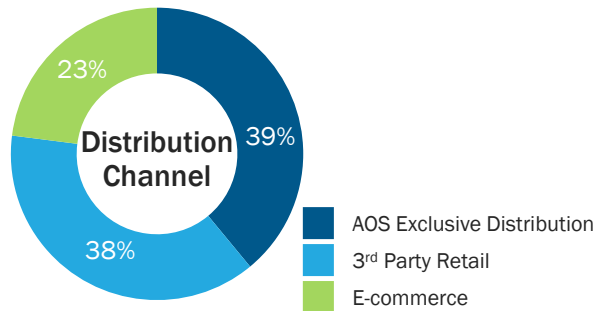
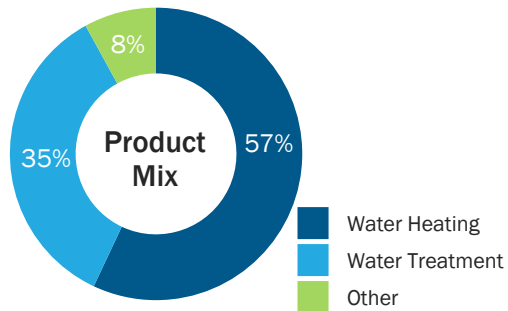


✓ **Product innovation** provides differentiation and pricing power in the marketplace

✓ **Growing scale** provides operating efficiency and leverage

✓ **Leveraging innovation and recurring revenue stream from consumable filters** drive margin improvement and stable growth

China Overview



Leading Brands



Strong Foundation

25+ years of experience operating in China with ability to scale

- Strong in-country leadership
- Operational improvements and organizational changes leading to margin recovery

Well-positioned to reach growing middle and affluent classes

- Premium brand with strong recognition
- Multiple distribution channels, including service network and increasing e-commerce

13,000+ points of sale across country

- ~5,500 exclusive AOS Specialty stores in Tier 1 – Tier 2 cities
- ~7,500 outlets in Tier 3 – Tier 6 cities

Continuous innovation around both new products and technology

Growing Product Portfolio Designed and Built in China for China

Water Heaters



Water Treatment



Combi-boiler



Range Hoods



Deep Focus Innovation Drives Significant Growth

Creating new, sustainable technologies in growing and emerging platforms such as heat pumps, condensing water heaters and boilers, and tankless water heaters to drive:

- Digitization
- Connectivity / IoT
- Gas Alternatives



2020 sales of systems and replacements in North America filtered ~180M gallons of drinking water, equivalent to **eliminating >1.4B plastic bottles of water**



One heat pump residential water heater saves 8.3MT of CO₂ over its life, equivalent to **taking 1.8 passenger cars off the road for a year**



Our patented RO membrane element technology **decreases the amount of wastewater** from water treatment products by **up to 200%**



High-efficiency, Water Max technology used mainly in our retail water softeners results in: **30% less water and more efficient salt consumption**



55% of the steel used to manufacture our water heaters and boilers is sourced from **recycled steel and is nearly 100% recyclable**



Our high-efficiency water heaters and boilers contribute to decarbonization and carbon neutrality goals by **reducing energy consumption and associated GHG emissions**

Received the 2021 ENERGY STAR® Sustained Excellence Award

Balanced Capital Allocation Priorities

Organic Growth

- Mix between Capex, NPD / R&D
- Invested \$75M in CAPEX in 2021 +21% YoY; ~\$75-80M in 2022
- R&D totaled \$94M in 2021

Acquisitions

- Clear strategic filters and financial criteria
- Maintain active pipeline

Dividends

- Conduct peer analysis and assess yield / payout ratio
- 5-year dividend rate per share CAGR of 17.2%
- 25 consecutive years of dividend increases

Share Buybacks

- Current Board authorization of 5.5M shares
- Target ~\$400M in FY 2022

A Strong Financial Position Enables Growth through **Strategic Acquisitions**

Strategic Filters

- Grow TAM
- Capitalize on megatrends (e.g., sustainability)
- Geographic expansion
- New water themed platforms
- Grow or leverage existing capabilities or technology
- New or complimentary technology or innovation
- Leverages existing brands

Financial Criteria

- Accretive to EPS in the first year
- ROIC above cost of capital by the third year
- Meet risk adjusted IRR hurdle rates
- Margin accretion with growth rates higher than U.S. GDP

Powerful Investment Thesis

1

Leading North American water heater and boiler producer

products in a market supported by stable and consistent replacement demand

2

Compelling brand awareness in emerging markets, with attractive growth and expansion opportunities

3

Driving technology leadership and culture of innovation for new product development to capitalize on technology adoption, decarbonization and sustainability trends

4

Leveraging strong brand recognition across growing market adjacencies, with acquisition opportunities

5

Strong balance sheet and free cash flow to drive organic and inorganic growth, plus, return of capital to shareholders

