



Third Quarter 2018 Results



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,” “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: a slowdown in the growth rate of the Chinese economy or our key markets and/or a decline in the growth rate of consumer spending or housing stock sold in China; potential weakening in the high efficiency boiler market segment in the U. S.; significant volatility in raw material 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; negative impact to our businesses from international tariffs and trade disputes, the impact of potential information technology or data security breaches; changes in government regulations or regulatory requirements; the impact of U.S. tax reform and projections for effective tax rates and expenses under the new law 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” .



Third Quarter Comments

- Sales of \$754 million
 - Revenue one percent higher than 2017
- Net earnings of \$0.61 per share
 - Increase of 13 percent over \$0.54 per share in 2017
- Cash returned to shareholders
 - Share repurchase totaled approximately \$106 million in the first nine months
 - 22 percent dividend increase in October, 2018; five year dividend CAGR is 30 percent
- Repatriated nearly \$300 million overseas cash
- Water treatment systems in 1,700 U.S. Lowe's locations



Third Quarter Results

\$ in millions

	2018	2017	change	% chg.
Sales	\$ 754.1	\$ 749.9	\$ 4.2	1%
Net Earnings	\$ 104.6	\$ 93.7	\$ 10.9	12%
Earnings Per Share	\$ 0.61	\$ 0.54	\$ 0.07	13%



Third Quarter Sales

\$ in millions

	2018	2017	change	% chg.
North America	\$ 486.9	\$ 486.0	\$ 0.9	Flat
Rest of World	274.1	270.1	4.0	1%
Intersegment	<u>(6.9)</u>	<u>(6.2)</u>	<u>(0.7)</u>	
Total	\$ <u>754.1</u>	\$ <u>749.9</u>	\$ <u>4.2</u>	1%



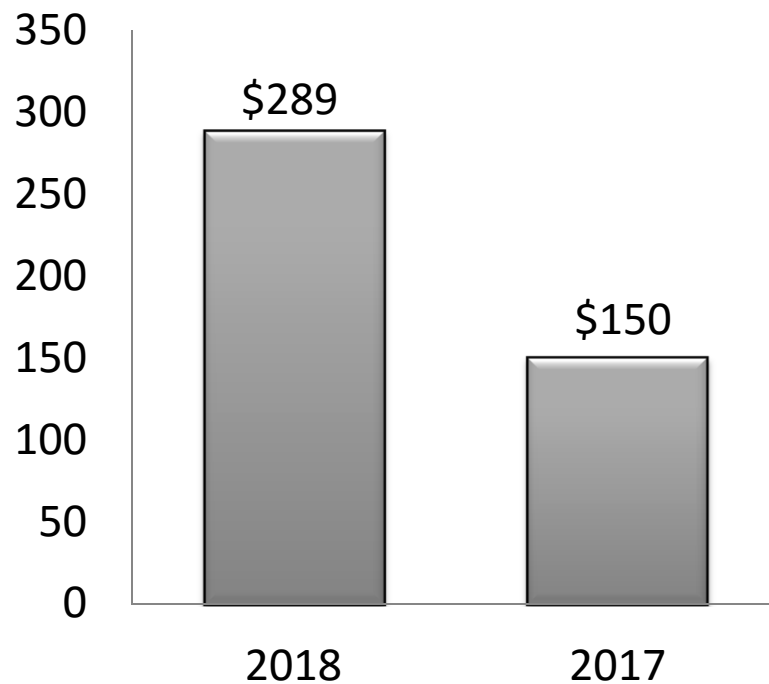
Third Quarter Earnings

	2018	2017	change	% chg.
\$ in millions, except percentages				
<u>Segment Earnings</u>				
North America	\$ 105.6	\$ 110.2	\$ (4.6)	-4%
Rest of World	<u>39.1</u>	<u>33.8</u>	<u>5.3</u>	16%
Total Segment Earnings	144.7	144.0	\$ 0.7	Flat
Corporate	(11.2)	(9.9)	(1.3)	-15%
Interest Expense	<u>(2.0)</u>	<u>(2.5)</u>	<u>0.5</u>	
Pre-tax Earnings	131.5	131.6	(0.1)	Flat
Tax Provision	<u>(26.9)</u>	<u>(38.0)</u>	<u>-</u>	
Net Earnings	<u>\$ 104.6</u>	<u>\$ 93.7</u>	<u>\$ 10.9</u>	12%
<u>Segment Margin</u>				
North America	21.7%	22.7%		
Rest of World	14.3%	12.5%		



Year-to-date Cash Flow from Operations

(\$ in millions)



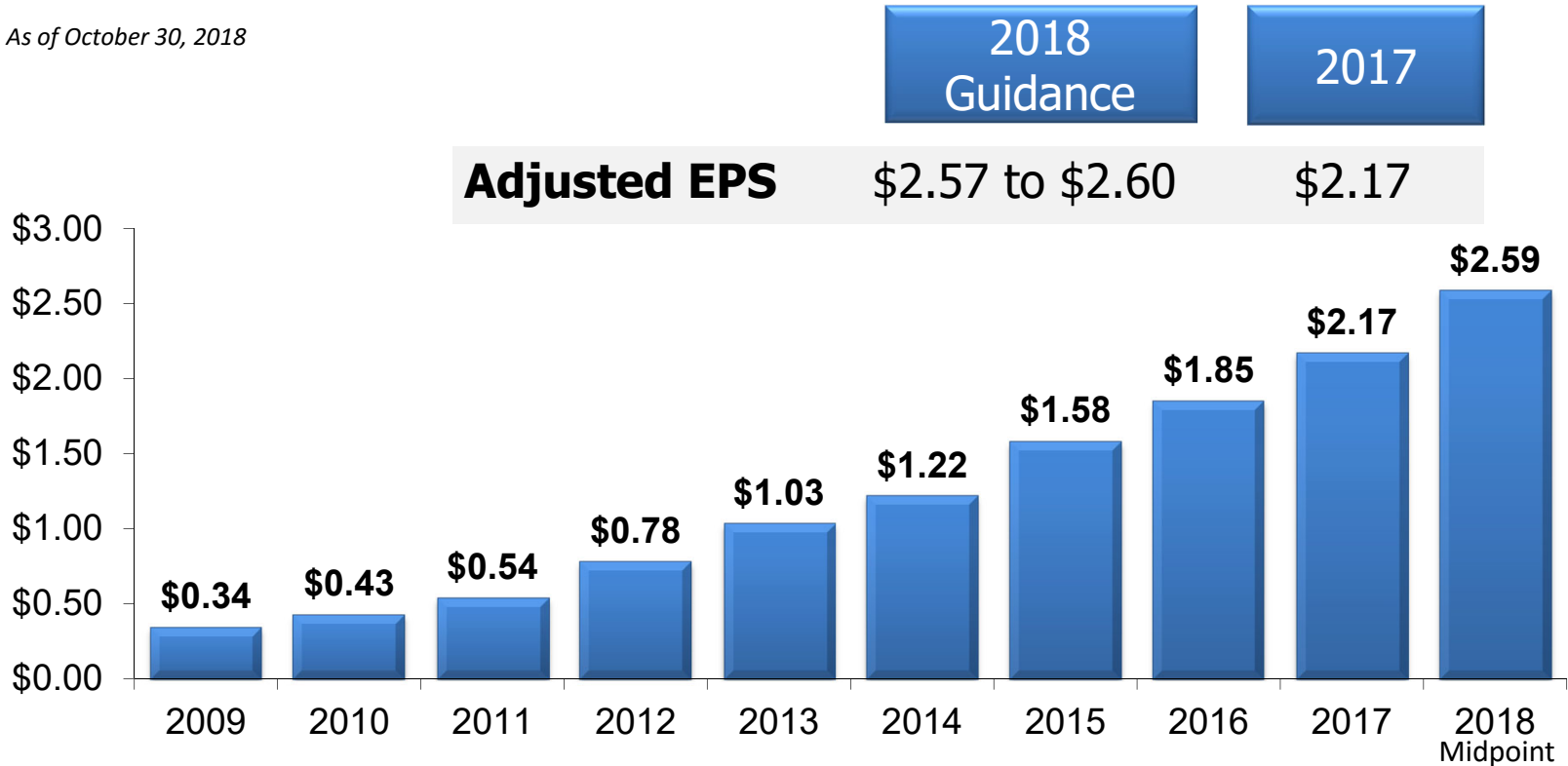
Highlights

- Operating cash provided by operations of \$289 million
- Debt to capital ratio of 10%
- Cash balance: \$618 million
- Net cash position: \$425 million
- Stock repurchase: 1.7 million shares totaling approximately \$106 million



2018 EPS Guidance and 2017 EPS

As of October 30, 2018



Note: 2009 through 2014 and 2017 and 2018 are adjusted EPS and all years are adjusted for stock splits

* 2017 excludes \$0.47 per share related to U.S. tax reform

* 2018 excludes \$0.03 per share related to plant closing



2018 Assumptions

(\$ in millions)	2018 Projections
Operating Cash Flow	approximately \$ 475
Capital Expenditures	approximately \$ 85
Depreciation and Amortization	approximately \$ 75
Corporate/Other Expense	approximately \$ 48
Effective Tax Rate	approximately 21%
Stock Repurchase	approximately \$ 200*
Share Count - Diluted	approximately 172.5 million

*subject to acquisitions, cash flow and working capital needs

As of October 30, 2018

2018 Outlook

- U.S. residential water heater industry volumes increase approximately 250,000 to 300,000 units, including tankless;
- U.S. commercial water heater volumes down approximately five percent
- Announced 10% average price increase on U.S. wholesale water heaters related to steel and other cost inflation effective early June
- Total year China currency translation benefits (\$12 million drag during Q4)
- Smaller expected losses in India than in 2017
- Lower China sales growth
- NA water treatment Lowe's launch



2018 Outlook - continued

- Revenue growth approximately seven percent in USD
- Adjusted EPS between \$2.57 and \$2.60
- North America adjusted segment margin expected to be approximately 22.50 percent
- Rest of World segment margin expected to be approximately 13 percent
- Preliminary 2019 revenue guidance: grow 5.5 to 7 percent in local currency and 4 to 5.5 percent in USD

Questions