



# Third Quarter 2021 Results

## Participants



**Kevin J. Wheeler**

Chairman and  
Chief Executive Officer



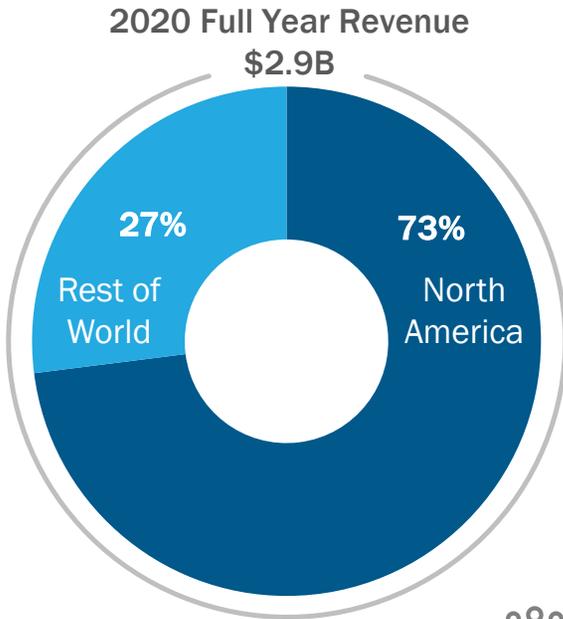
**Charles T. Lauber**

Executive Vice President  
and Chief Financial Officer

## 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: 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 products, particularly commercial products, and its operations and workforce, as a result of the severity and duration of the COVID-19 pandemic; 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 our businesses from international tariffs, trade disputes or geopolitical differences; potential weakening in the high efficiency boiler market segment in the U.S.; substantial defaults in payment material reduction in purchases by or the loss, bankruptcy or insolvency of a major customer; a 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.”

# Corporate Snapshot



**22** Manufacturing Facilities



**13,900** Employees

## Products

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

## Brands

### Water Heaters & Boilers



### Water Treatment



# Third Quarter Messages

Record sales of \$914.6M and record EPS of \$0.82

North America sales up 21% on pricing actions and robust demand

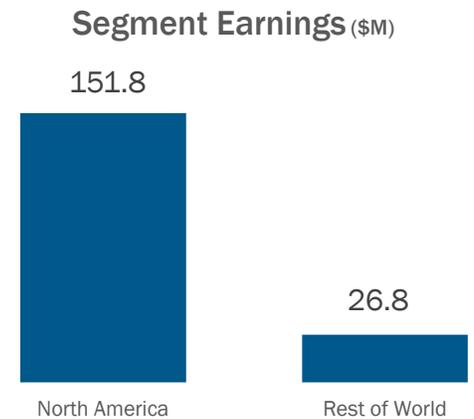
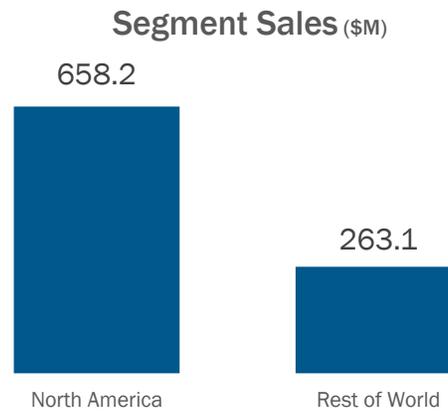
China operating margins of 10%

Effective operational execution while navigating macro challenges

Acquired Giant of Canada, which will be accretive to EPS in 2022

Raising full year outlook

# Q3 2021 Performance and Highlights



## Highlights

- Net sales +20 percent to \$914.6M
- EPS +26 percent to \$0.82

## North America

- Boilers/water heaters/water treatment sales +21 percent on price increases and higher volumes
- Estimated 85 percent of water heater & boiler demand is replacement

## Rest of World

- 19 percent sales growth was driven by each major product category in China, robust demand in India amid COVID recovery

# Acquisition of *Giant*

## Giant Overview



### Geographic Growth

- Only water heater manufacturer operating in Canada
- Two factories
- 300+ employees



### Adjacencies

- Brand leverage



### Expand / Grow the Core

- High replacement Canada market
- Sustainability enhancement
- Use of renewable energy sources

## Transaction Highlights



Accretive to earnings  
in the first year full  
\$0.06 - \$0.08 per  
share



ROIC in excess of cost  
of capital by second year

We continue to focus on strategic acquisitions of water heating / treating companies that meet our investment criteria.

# Committed to Sustainability and ESG Efforts

## Case Study: A. O. SMITH CHINA A "MODEL ENTERPRISE" FOR ENVIRONMENTAL PROTECTION

Three government agencies for Jiangsu Province earlier this year jointly issued the first series of guidelines for measuring the impact of a company's environmental protection efforts. The group also defined a "model enterprise" — an organization that plays the role of environmental protection pacesetter, makes outstanding contributions to ecological environmental protection and has a positive influence on society's environmentalism.

After a rigorous five-month evaluation process across the province, A. O. Smith was the only company in Nanjing's Economic and Technological Development Zone to achieve the rating of "model enterprise." The Zone encompasses more than 200km<sup>2</sup> (77mi<sup>2</sup>) of industry, bonded warehouses, financial trade and comprehensive service businesses.

Reviewers scored the plants' performance each year since 2016 in the highest category possible and applauded A. O. Smith China for:

- Reduction of water pollutants by more than 20%
- Reduction of air pollutants by more than 20%
- Reduction of sludge by more than 50%
- 100% recycling of glassing powder
- 100% online monitoring of wastewater
- Zero environmental penalties

As a result of this significant honor, A. O. Smith has been placed in a special "green channel," which includes environmental protection subsidies, expedited approvals and priority treatment for administrative licensing.

\*Note: 2019 data revised May 2021 to include additional buildings and facilities not included in the data for 2017 and 2018 or in previous version of Report.



September 2021  
**A. O. SMITH WHITE PAPER:  
Electrification of Water and  
Space Heating in Buildings**

An A. O. Smith White Paper

9/22/2021

A pragmatic roadmap to reducing GHG emissions resulting from water and space heating in buildings.

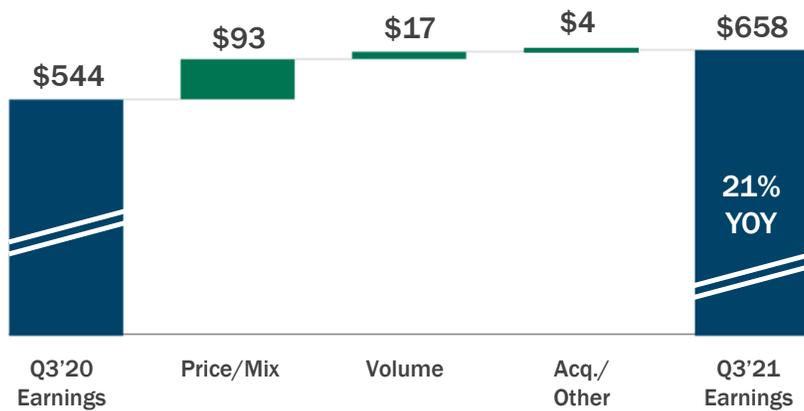
## Third Quarter Results

(\$M)<sup>1</sup>

	2021	2020	Change	% Change
<b>Net Sales</b>	\$ 914.6	\$ 760.0	\$ 154.6	20%
<b>Net Earnings</b>	\$ 131.6	\$ 105.4	\$ 26.2	25%
<b>Earnings Per Share</b>	\$ 0.82	\$ 0.65	\$ 0.17	26%

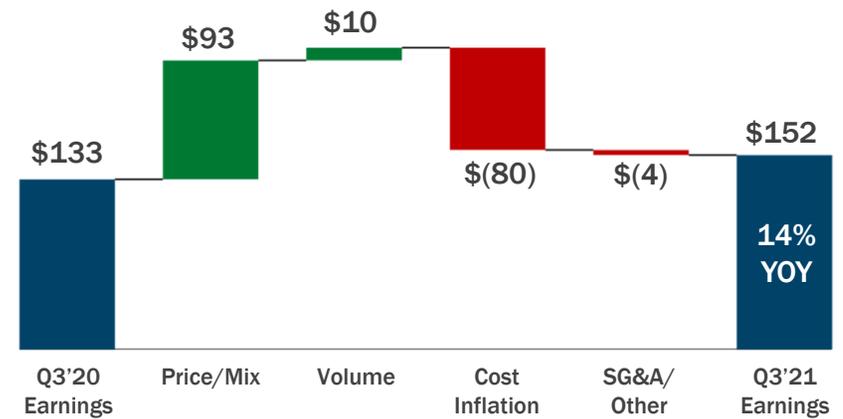
# North America Segment

Segment Sales (\$M)



- Sales increased primarily as a result of water heater price increases
- Higher volume of \$15 million in water heaters and boilers was driven by strong replacement and new construction demand
- Acquisition added \$2 million to sales

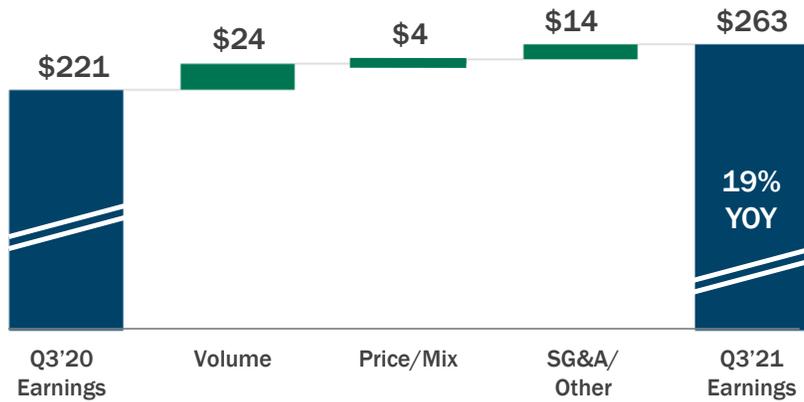
Segment Operating Earnings (\$M)



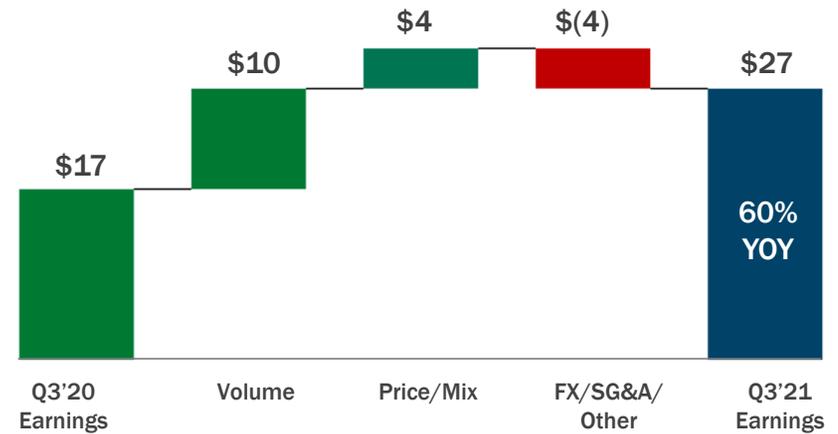
- Income was higher due to inflation-related price increases and volume, largely offset by higher materials and freight costs
- Segment operating margin declined to 23.1 percent from 24.5 percent
- Pricing actions lagging rapidly rising steel costs

# Rest of World Segment

Segment Sales (\$M)



Segment Operating Earnings (\$M)



- ~60 percent of the sales increase was due to higher volume
- China: Higher volume of \$19 million represented growth in all major product categories; currency translation added \$14 million
- India: Higher sales of \$4 million also contributed to the revenue increase

- Income was 60 percent higher due to higher volumes and prices
- China operating margins were 10 percent

# Cash Flow and Liquidity<sup>1</sup>

**\$685M**

Cash balance<sup>2</sup>

**5.3%**

Debt to capital ratio

**\$579M**

Net cash position

**~3.2M**

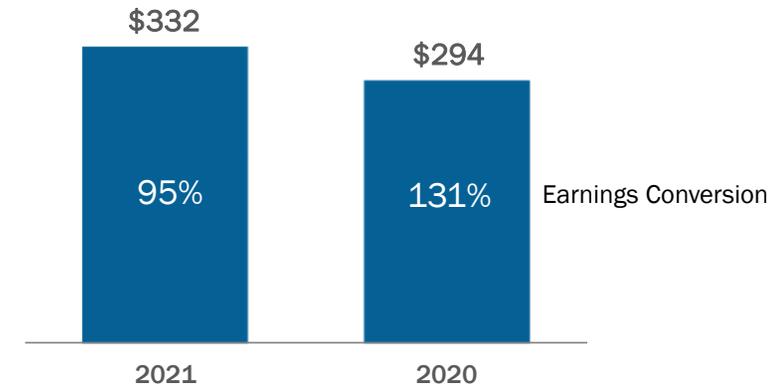
Shares repurchased through Sept. 30 totaling ~\$212M

**+8%**

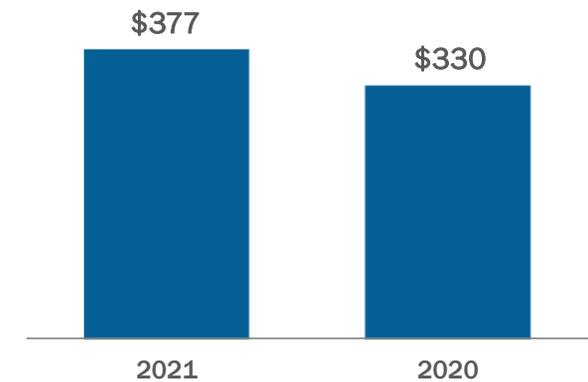
Dividend increase approved, to \$0.28 per share



## Free Cash Flow (\$M)



## Cash Flow from Operations (\$M)



# Capital Allocation Priorities

Priority	Comments
<b>Organic Growth</b> <ul style="list-style-type: none"><li>• CapEx</li><li>• New product development and R&amp;D</li></ul>	<ul style="list-style-type: none"><li>• Opportunities for organic growth in all our businesses and geographies</li><li>• Invested \$45 million in capital expenditures YTD</li><li>• R&amp;D totaled \$71 million YTD, versus \$81 million for full year 2020</li></ul>
<b>Acquisitions</b>	<ul style="list-style-type: none"><li>• Recent transactions include Giant and Master Water</li><li>• Disciplined focus on deals that enable geographic growth, expand/grow the core, build adjacencies which return cost of capital in third year</li><li>• Maintain active pipeline</li></ul>
<b>Dividends</b> <ul style="list-style-type: none"><li>• Philosophy: growing, competitive sustainable dividend</li></ul>	<ul style="list-style-type: none"><li>• Increased 8 percent in October</li><li>• Five-year CAGR of 17 percent</li><li>• 30 consecutive years of dividend increases</li></ul>
<b>Share Repurchase</b>	Committed to \$400 million in full year 2021

## 2021 Outlook Assumptions

(\$ in millions, except per share data)

Operating Cash Flow	\$550 to \$575
Capital Expenditures	\$70 to \$75
Depreciation & Amortization	Approximately \$80
Corporate/Other Expense	Approximately \$50
Effective Tax Rate	Approximately 22 percent
Stock Repurchase	Approximately \$400
Share Count – Diluted	Approximately 161 million

## 2021 Guidance

**Revenue increases of between 20 percent and 21 percent, including 2 percent growth from China foreign exchange benefit**

- U.S. residential industry water heater volumes to rise approximately 6 percent, commercial industry water heater volumes up approximately 10 percent
- China sales to increase 20 percent to 22 percent in local currency
- North America boiler sales to grow in the low double digits
- North American water treatment sales to increase low double digits percent

**EPS between \$2.86 and \$2.90 driven by higher sales**

Additional context:

- Full year results reflect the effects of five announced inflation-related price increases compounding to approximately 50 percent for water heaters as we exit 2021

North America segment margin expected to be between 22.75 percent and 23 percent

Rest of World segment margin expected to be approximately 8 percent

# Key Takeaways As We Prepare to Close Out 2021

Our robust Q3 positions the Company to achieve its current full year outlook

Strong operational execution in a challenging macro environment

Replacement demand provides a stable base and pricing environment in water heaters and boilers

North America water treatment is positioned for continued growth

Focus on executing the strategy and deploying capital effectively

