



Autumn 2017 Analyst Presentation



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 further slowdown in the growth rate of the Chinese economy or a decline in the growth rate of consumer spending 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 in stability in our replacement markets; foreign currency fluctuations; inability to successfully integrate or achieve our strategic objectives resulting from future 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” .



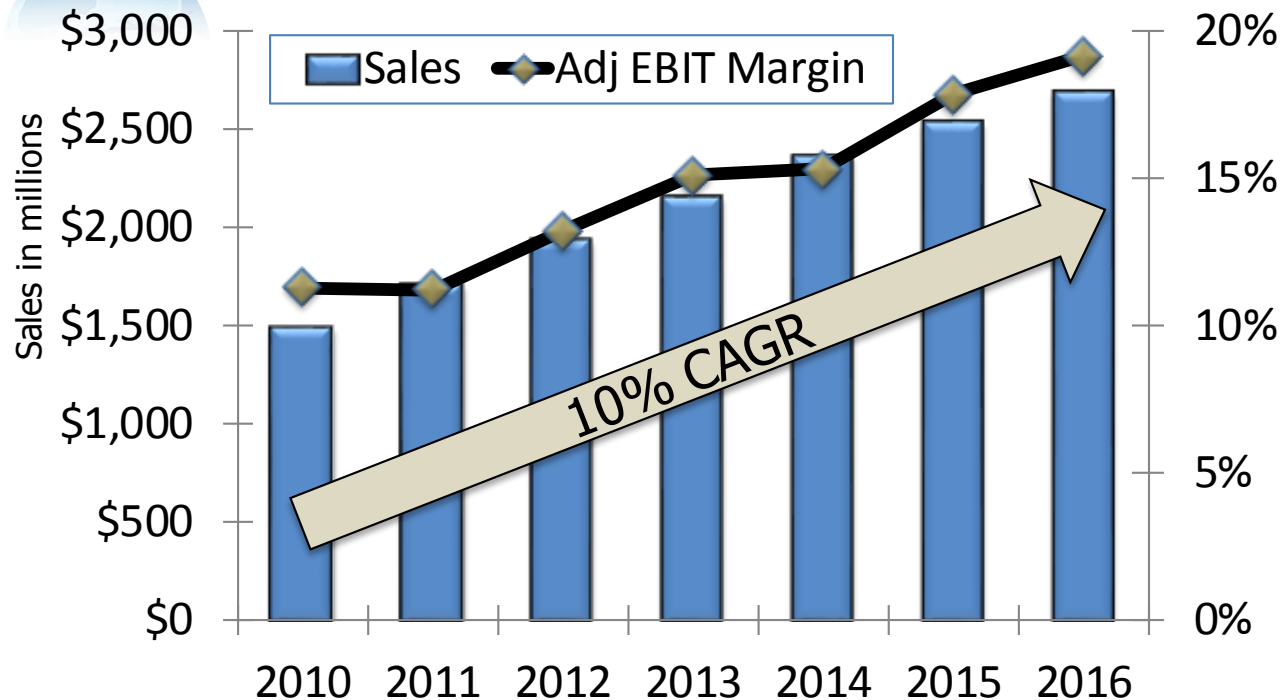
Investment Case

- Manufacturer of residential and commercial water heaters, boilers and water treatment products
- Market share leader in major businesses
- Stable/growing North American replacement market; operating leverage as new construction recovers
- Strong balance sheet and cash flow to support future growth & share repurchase
- Strength of our premium brand, distribution, manufacturing and innovation provide clear market advantage in China
- Organic growth of 8 percent (in local currency) for next several years





Sales & Adjusted Operating Margin*



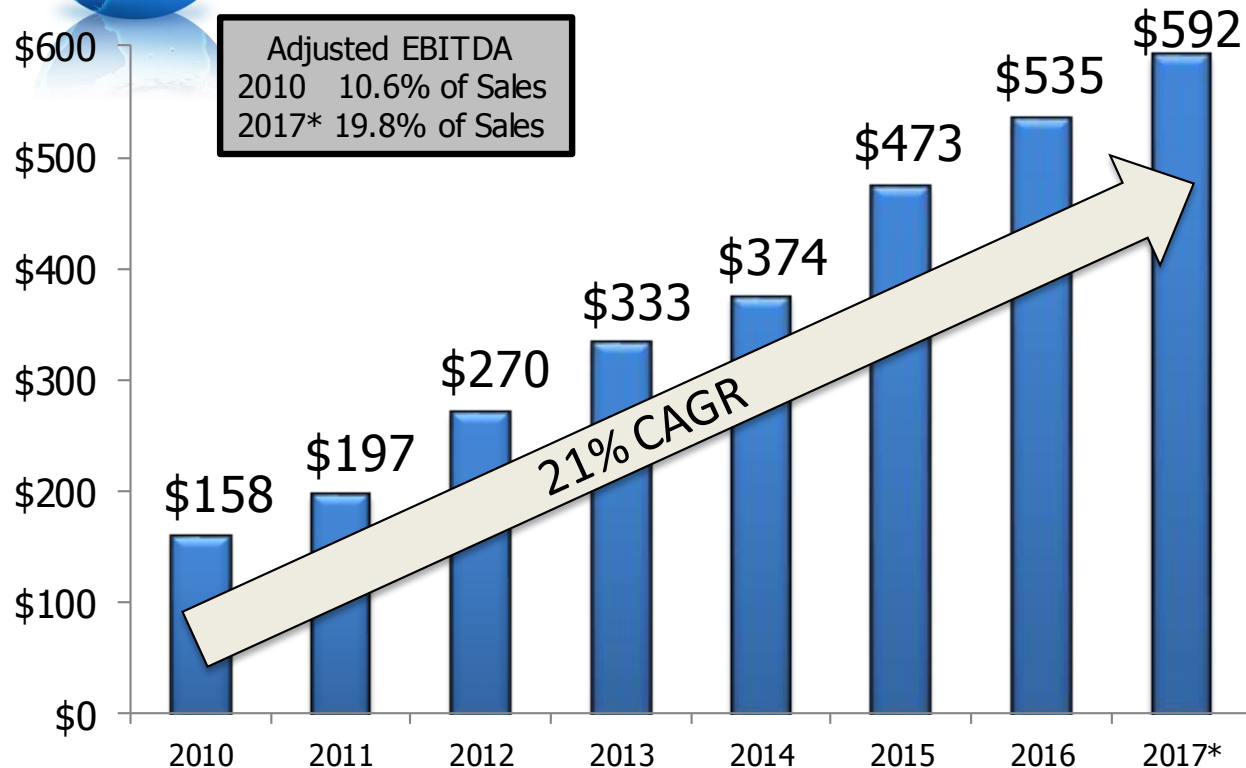
NOTE

2010 through 2014 adjusted for non-operating pension costs and certain non-recurring items

* excludes corporate expenses



Adjusted EBITDA Growth



NOTE

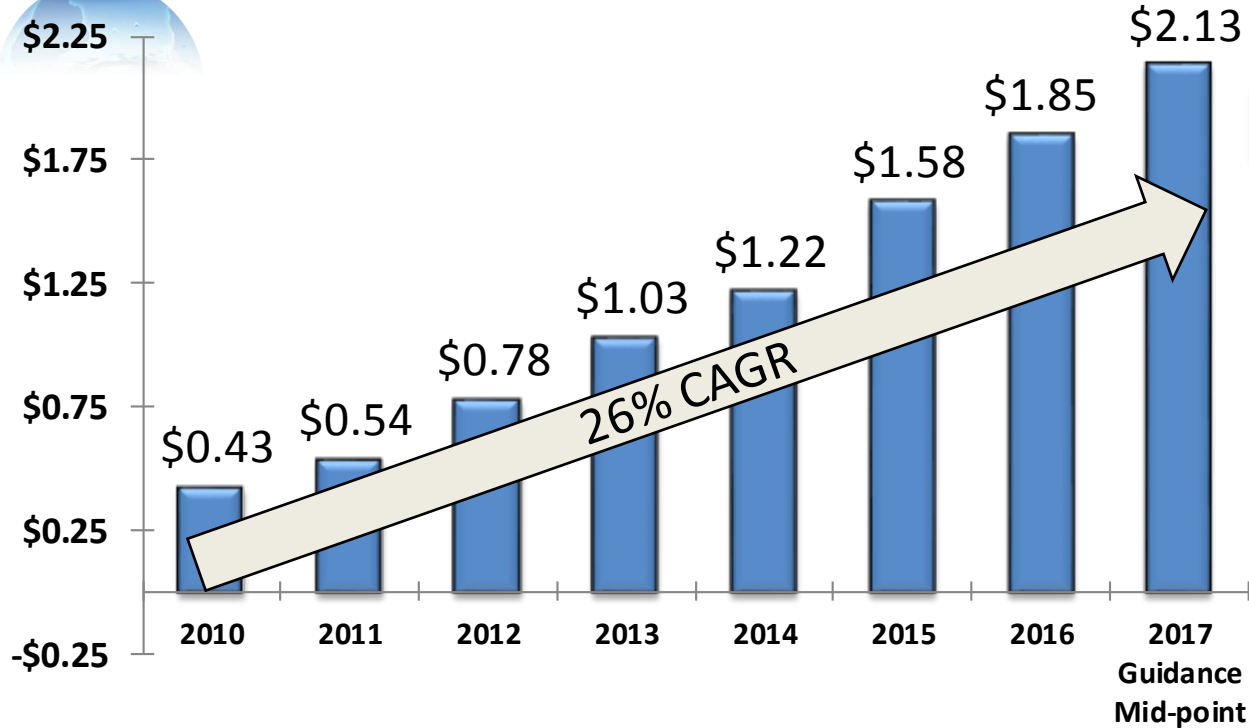
2010 through 2014 adjusted for non-operating pension costs and certain non-recurring items

* Analyst consensus

As of October 25, 2017



Adjusted Earnings Per Share



NOTE

2010 through 2014 adjusted for non-operating pension costs and certain non-recurring items

As of October 25, 2017



Segment Revenue

NA

- Water heaters growing
- Lochinvar brands growing 8%

ROW

- China/India = 94%
- Europe/Middle East = 6%

North America 65%

Rest of World 35%

2016 full year

AC Smith

Whirlpool

Kenmore

state
WATER HEATERS

Lochinvar
High Efficiency Water Heaters, Boilers and Pool Heaters

aquasana
Live Healthy

RELIANCE
WATER HEATER COMPANY

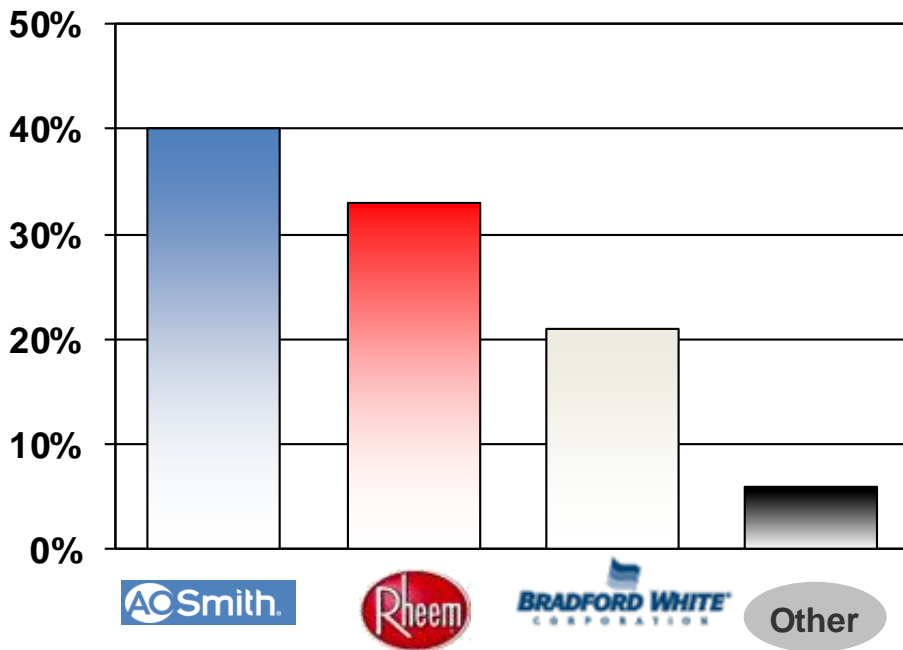
american
WATER HEATER COMPANY

GSW



U.S. Water Heater Market Segment

Residential Market

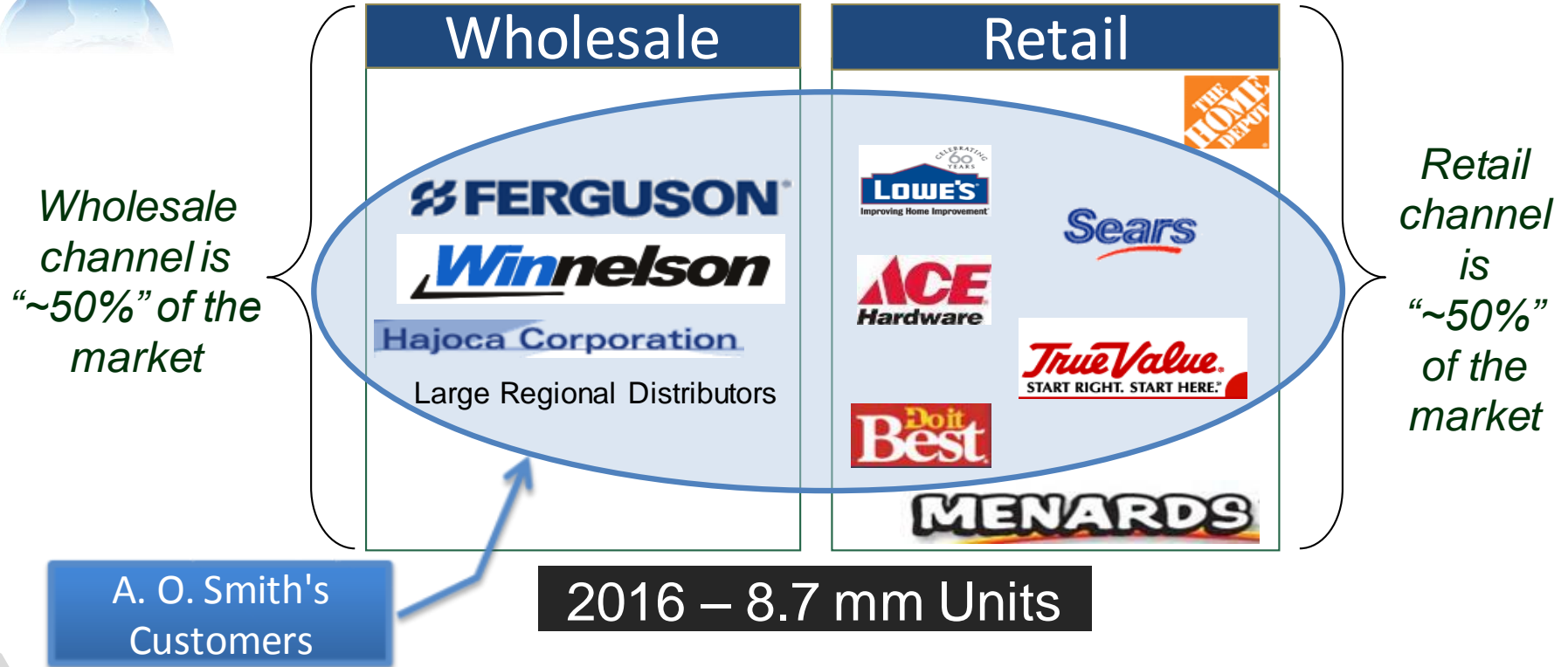


AHRI data + tankless:
AOS actual shipments
and AOS estimates of
competitors' shipments

2016 market share data



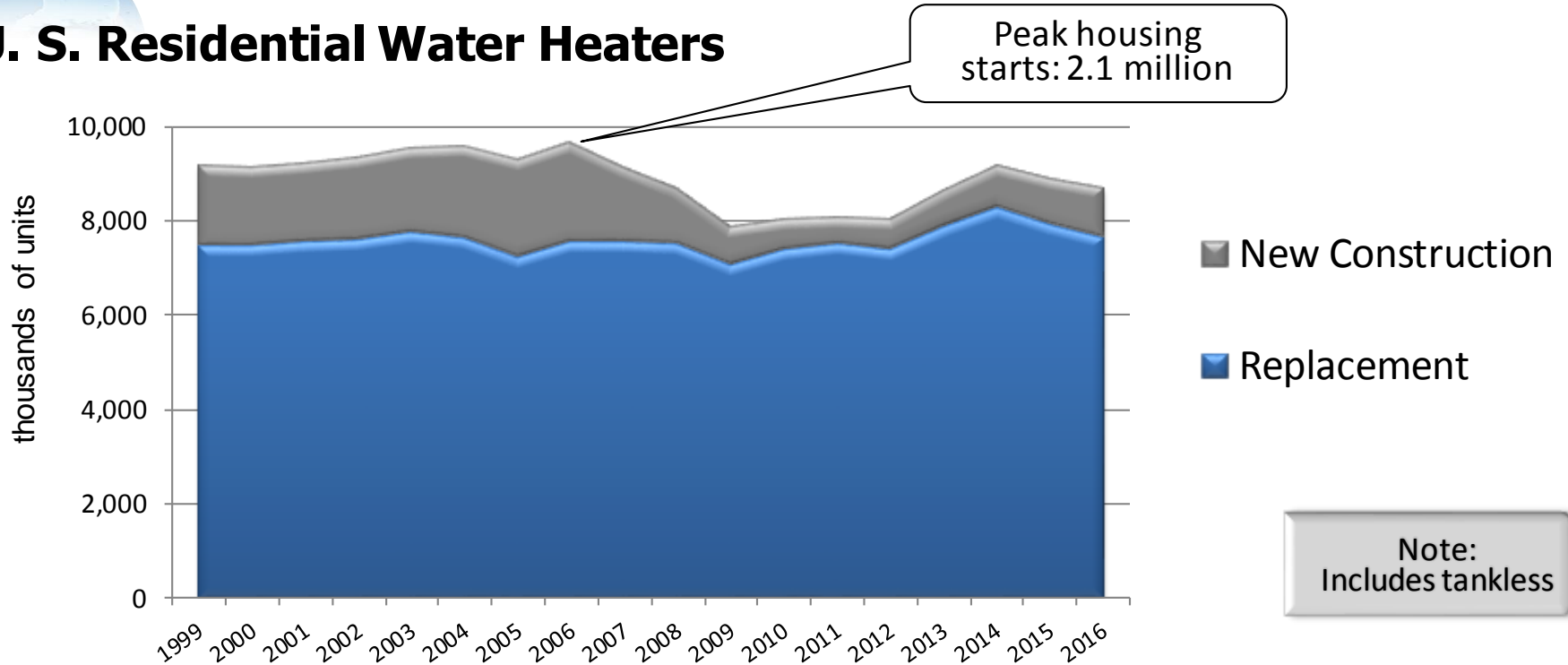
U.S. Residential Water Heater Market Segment





Water Heaters - Strong Replacement Sales

U. S. Residential Water Heaters

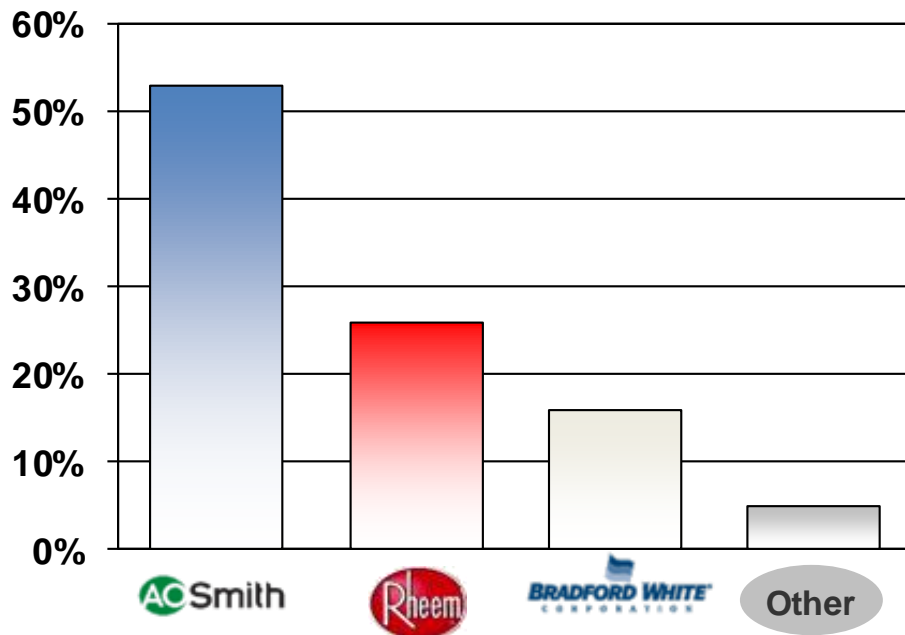




U.S. Water Heater Market Segment

Commercial Gas Market*

2016 market share data



AHRI data:

AOS actual shipments and
AOS estimate of competitors'
shipments

* Commercial gas water heater
segment as defined by AHRI,
total 2016 commercial units as
reported by AHRI = 97,000 units



Energy Efficient Cyclone

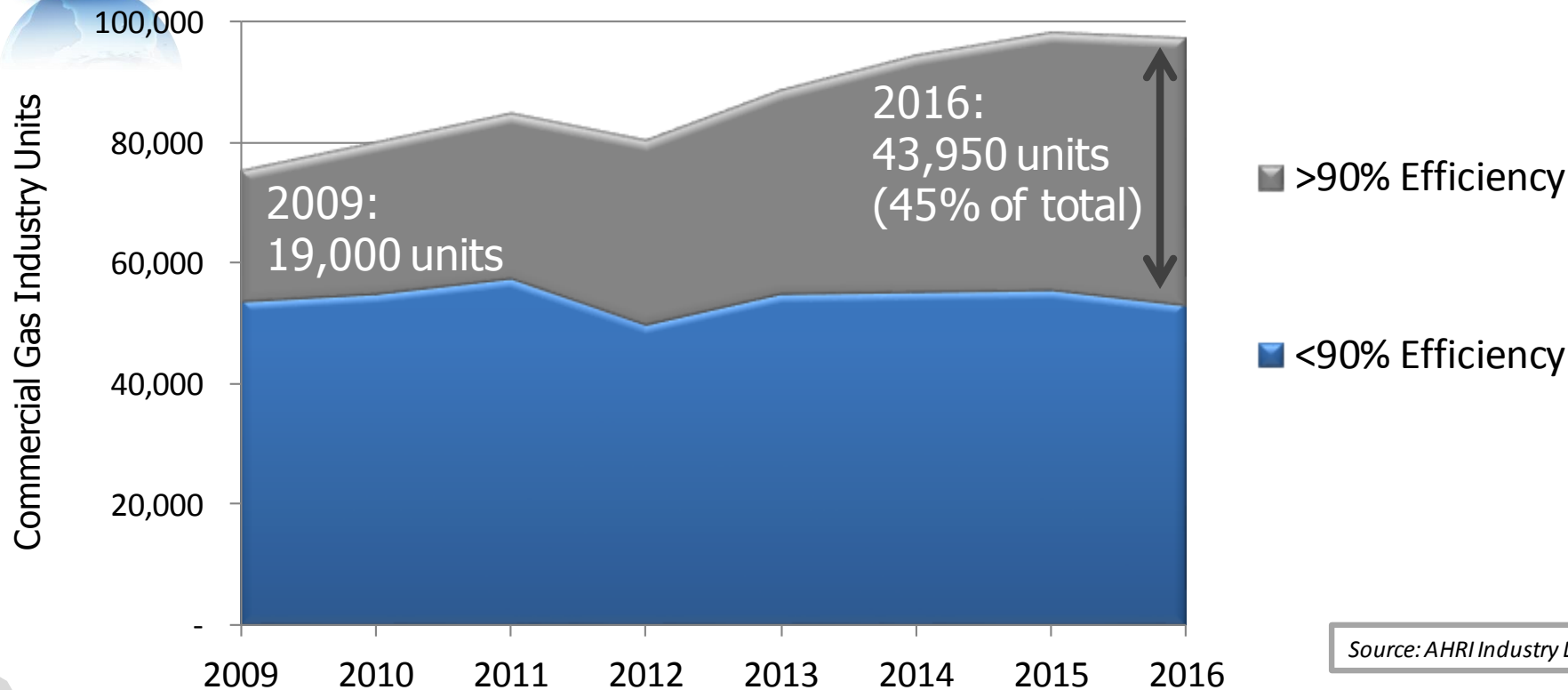
- Game changing energy efficient commercial product launched in 1997 and recently upgraded
- Up to 96% thermal efficiency dramatically lowers operating costs offering short payback
- Represents 47% of AOS commercial gas water heater revenues



Innovation, training and 24/7 National account customer service drive market leadership



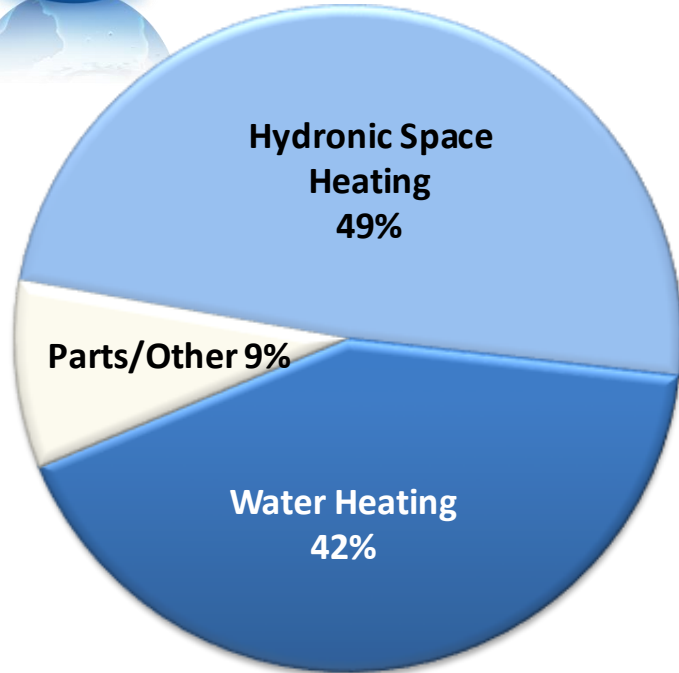
U.S. Commercial Gas Market: Energy Efficient Units more than Doubled in Six Years to 45 percent of units sold in 2016



Source: AHRI Industry Data



Lochinvar End Markets

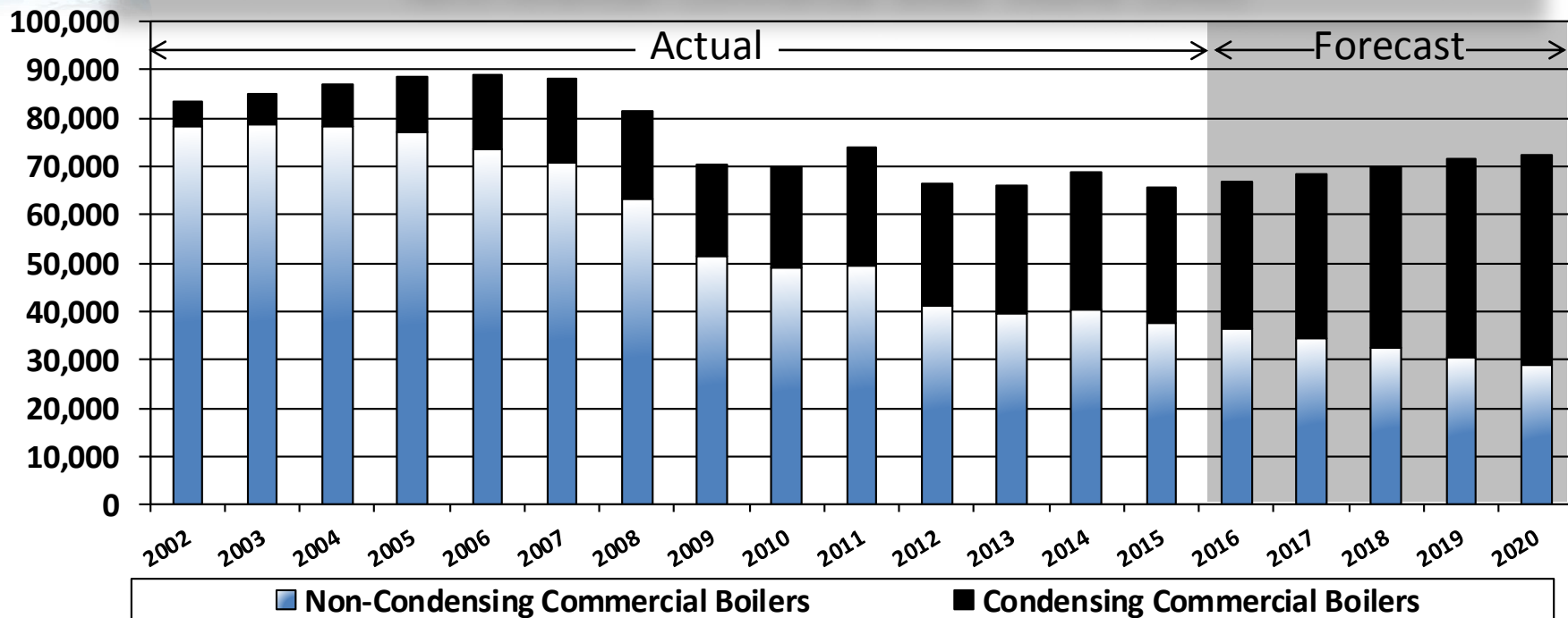


2/3 commercial end markets; 1/3 residential end markets



Trend to Higher Efficiency, Condensing Boilers – 43 percent of units sold in 2015

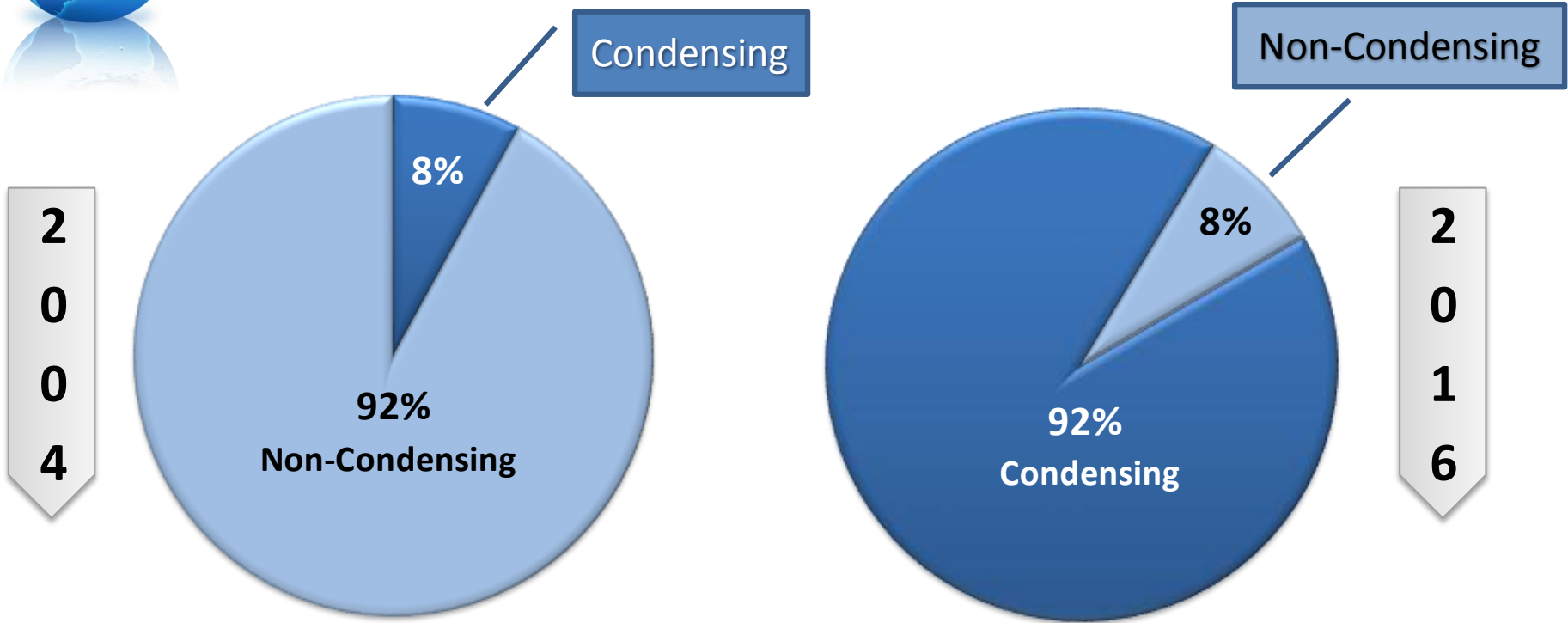
North American Commercial Boiler Volume (Units)



Source: BRG Building Solutions



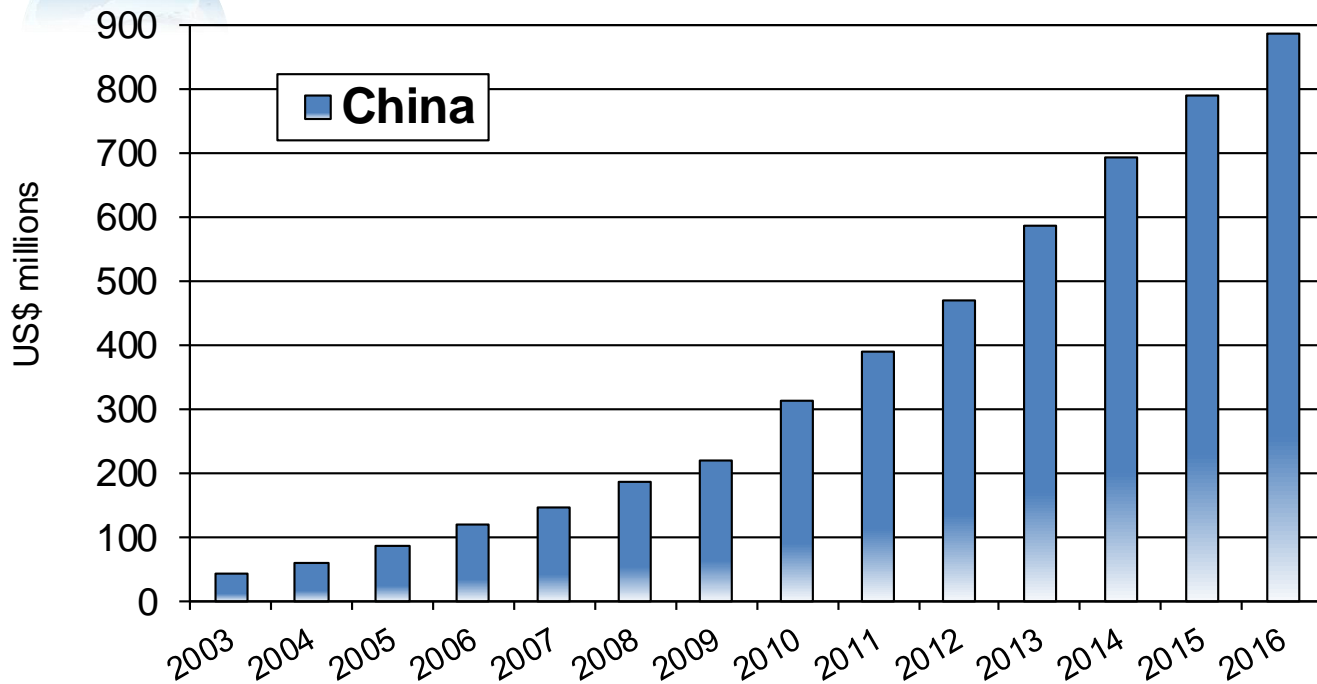
Lochinvar Branded Sales Dollars Condensing vs. Non-Condensing*



*Residential Boilers & Commercial Boilers



China now 33% of Sales & Growing



China sales have grown 22% (CAGR) over the last 10 years



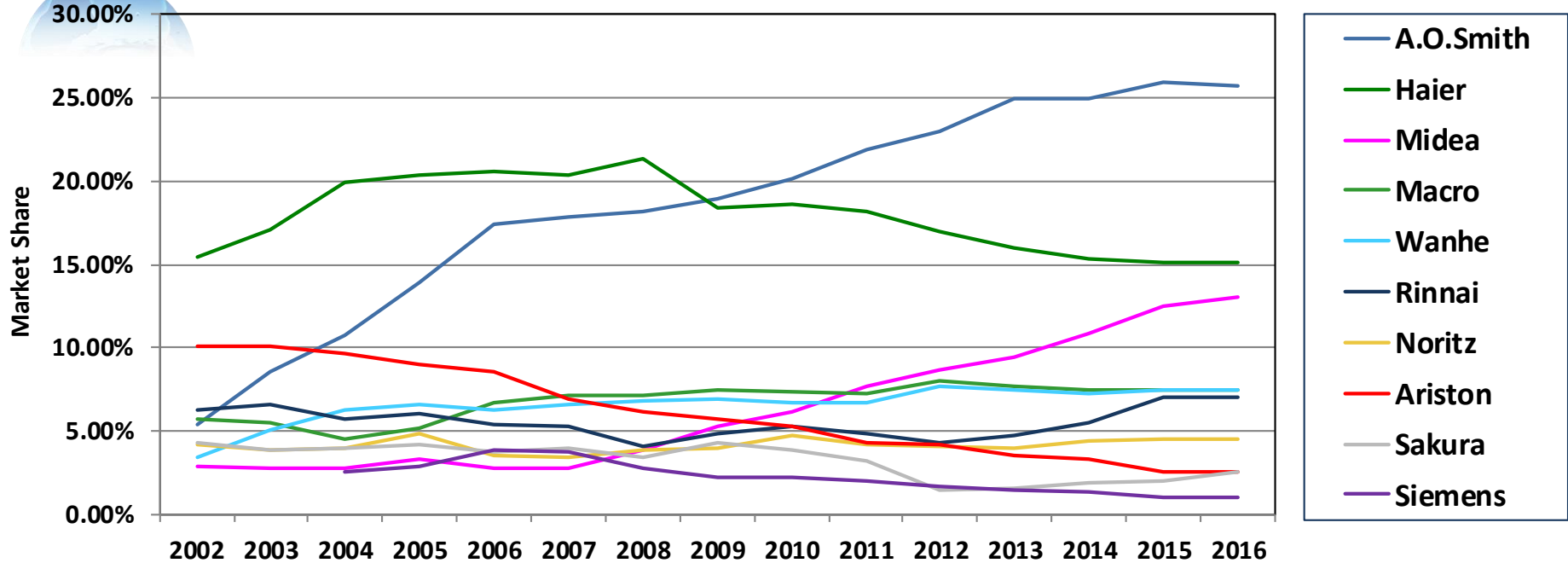
AOS China Built on:

- Premium Brand
- Extensive Distribution and Service Network
- Innovative New Products & World Class Manufacturing
- Local Management Team and Organizational Development





Ten-Year + Water Heater Market Share Trend

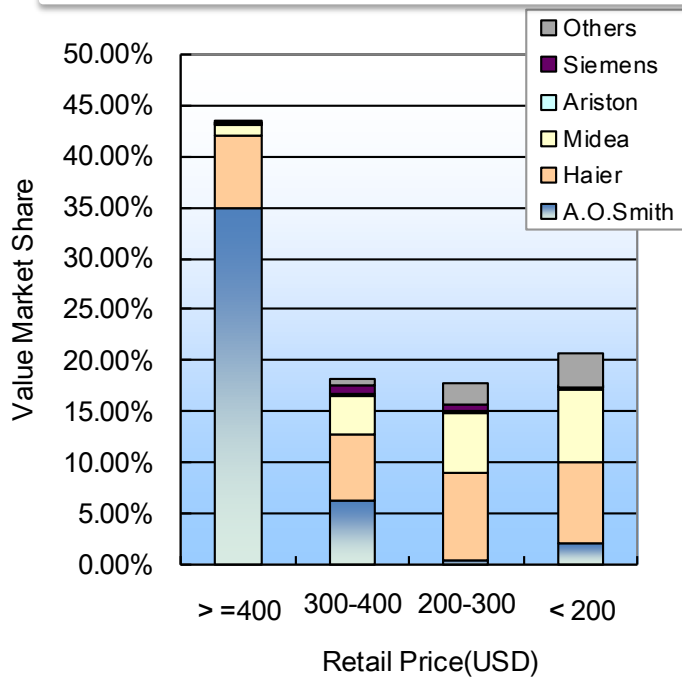


Leading residential brands measured in currency; Tier One Market: GFK - CMM data sampling several thousand largest retail stores, December 2016

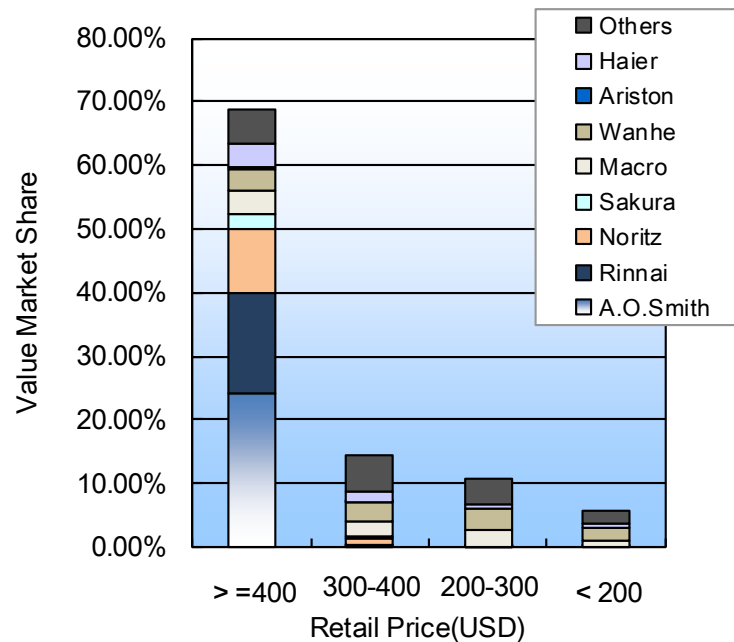


Market Share by Price Category

Electric Market Share



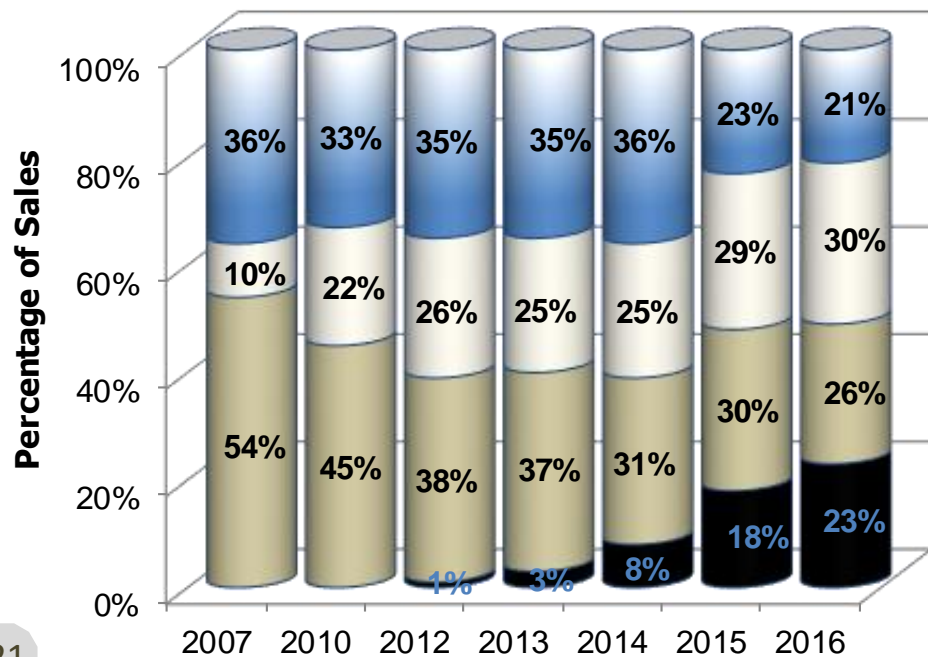
Gas Market Share





Broad Distribution Channel

- Over 9,000 outlets in China
- 30% of outlets in Tier 1 cities; 70% in Tier 2/3 cities



- Regional Stores
- AOS Specialty Stores
- Suning/Guomei
- E-Commerce



Product Line developed in China





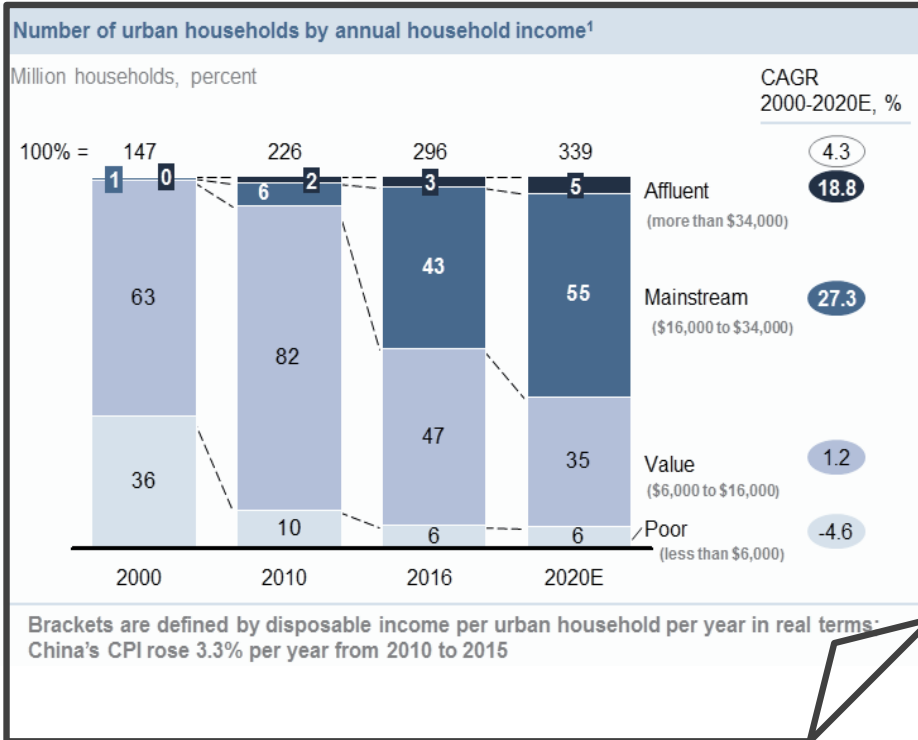
Professional Team of Local Management





Mega Trends - China

Significant growth in AOS target demographic



A. O. Smith customer demographic continues to grow rapidly

Growth of 10 times during this decade

- 2010: 18 mm households
- 2020: 200 mm households

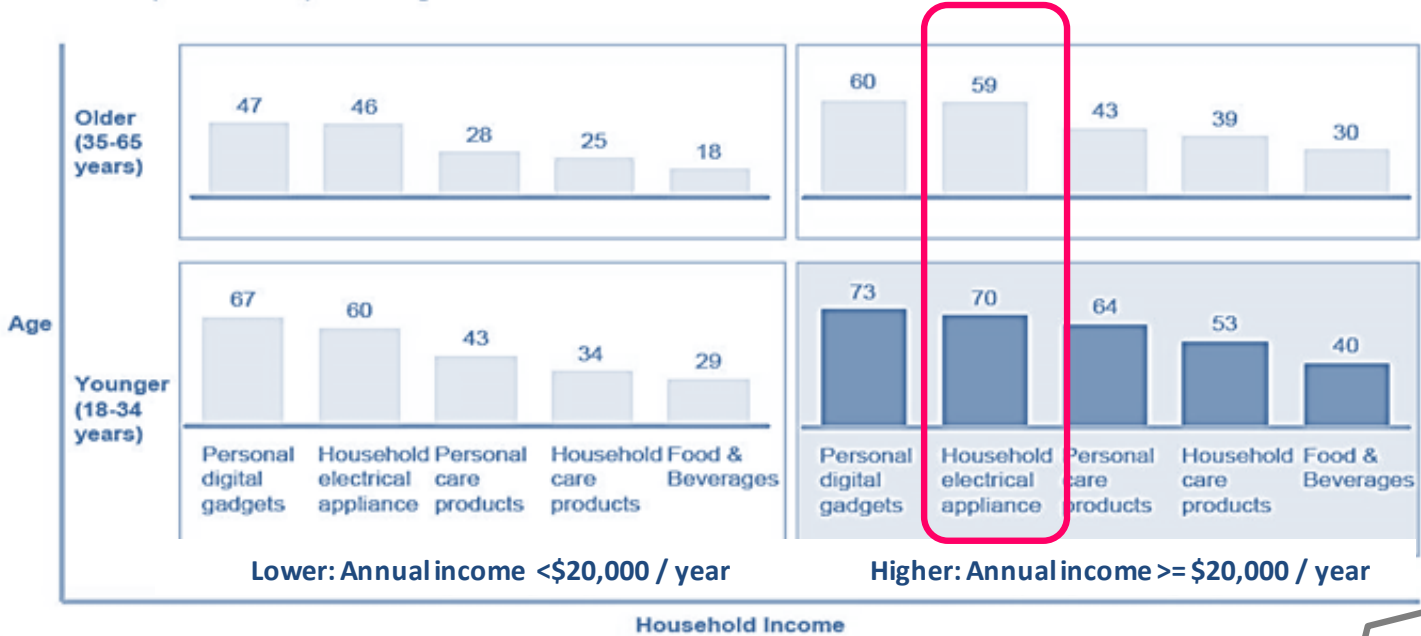
Source: McKinsey Insights China – December 2015



China Consumers Prefer Foreign Brands

Brand preference by segment

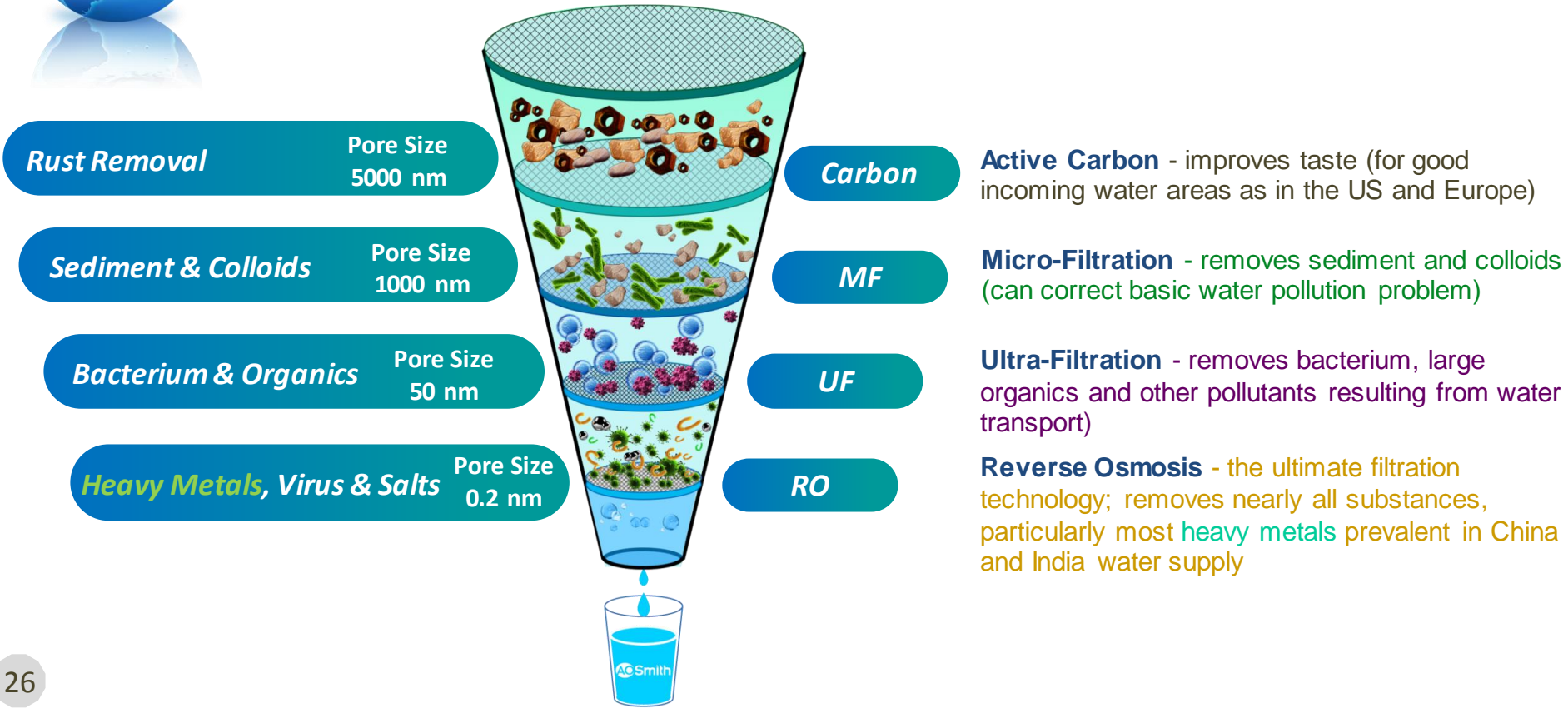
Percent of respondents who prefer foreign brands versus Chinese brands



SOURCE: McKinsey Annual Chinese Consumer Survey (2012)



Different Water Treatment Technologies



Rust Removal

Pore Size
5000 nm

Carbon

Active Carbon - improves taste (for good incoming water areas as in the US and Europe)

Sediment & Colloids

Pore Size
1000 nm

MF

Micro-Filtration - removes sediment and colloids (can correct basic water pollution problem)

Bacterium & Organics

Pore Size
50 nm

UF

Ultra-Filtration - removes bacterium, large organics and other pollutants resulting from water transport)

Heavy Metals, Virus & Salts

Pore Size
0.2 nm

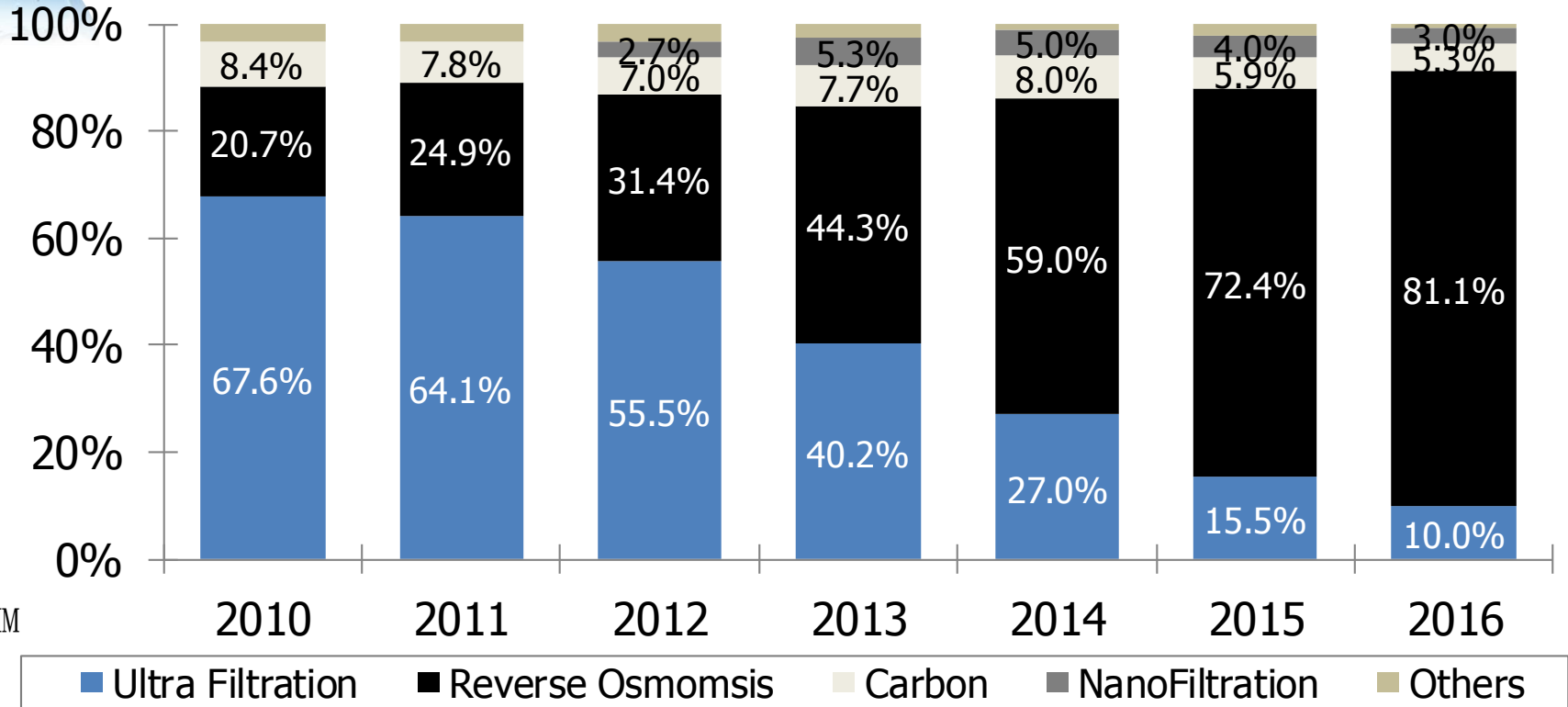
RO

Reverse Osmosis - the ultimate filtration technology; removes nearly all substances, particularly most heavy metals prevalent in China and India water supply



Reverse Osmosis Is Gaining Market Share

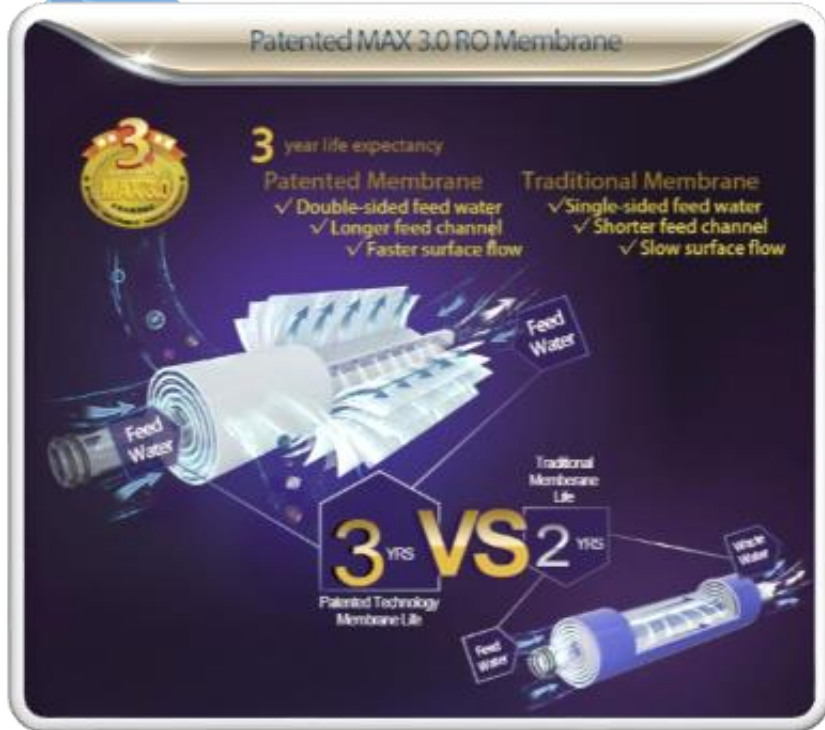
CMM Water Treatment Market by Technology



Data: CMM



Side Stream Membrane Technology



- Unique patented design
- Increases RO membrane life - industry leading three year life
- Reduces waste water up to 50 percent - 1 gallon clean to 1 gallon waste
- Provides market place differentiation

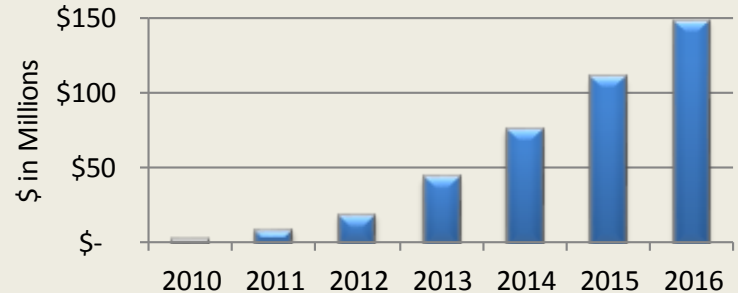
Tankless water treatment – enabled by side-stream membrane technology



- Provides immediate freshwater
- Minimizes risk of post RO membrane contamination
 - No storage tank needed
- Leverages membrane rolling capabilities to produce hi-flow RO products
 - Constant flow rates up to 0.9 gallons per minute

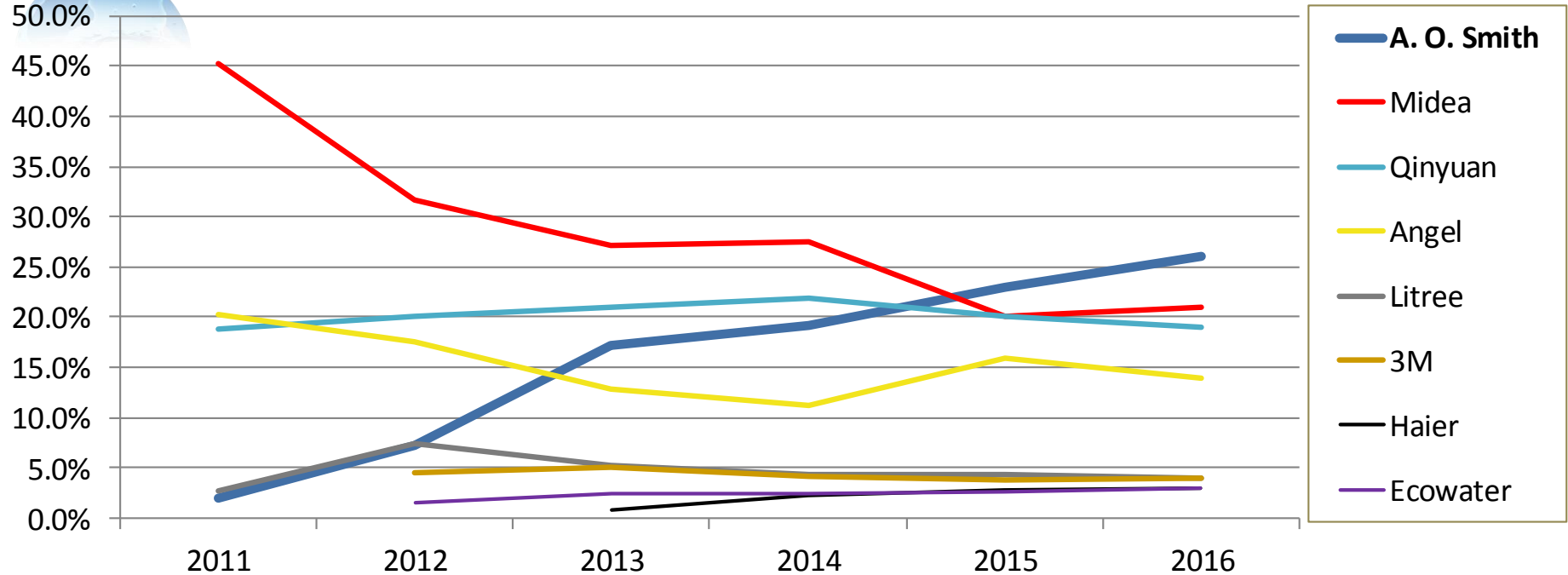


A. O. Smith Branded Water Treatment Sales





Major Brands CMM Market Share By Value Water Purifier



Data Source: CMM-GFK December-2016



Air purifiers - the market need is clearly visible

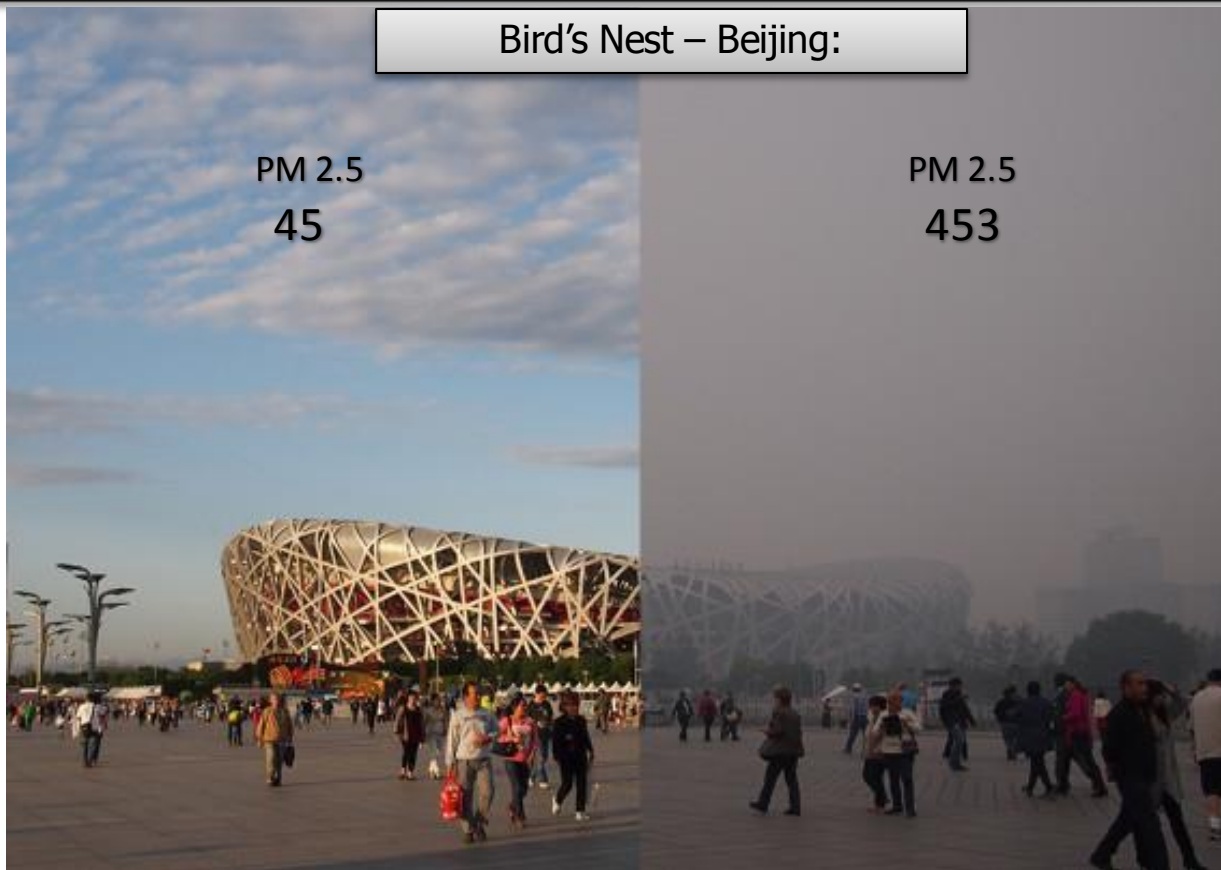
Bird's Nest – Beijing:

PM 2.5
45

PM 2.5
453

A healthy day

A very unhealthy day

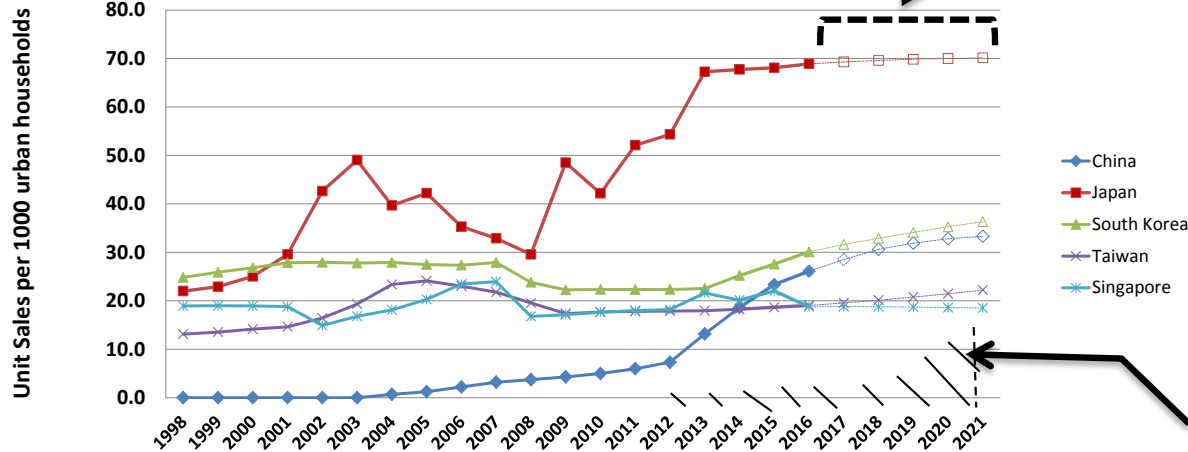




China Air Purifier Market Growth Opportunity

Unit sales per 1000 Urban Households for China and its neighbors

Annual Air Purifier Sales Volume
(units per 1000 Urban households)



China's air pollution may drive urban penetration closer to Japanese levels

6% household penetration overall;
21% penetration in top 23 ('first tier') cities

Source: Euromonitor, January 2016;
Note: For calculating penetration rate for China: assumed no replacement in the period



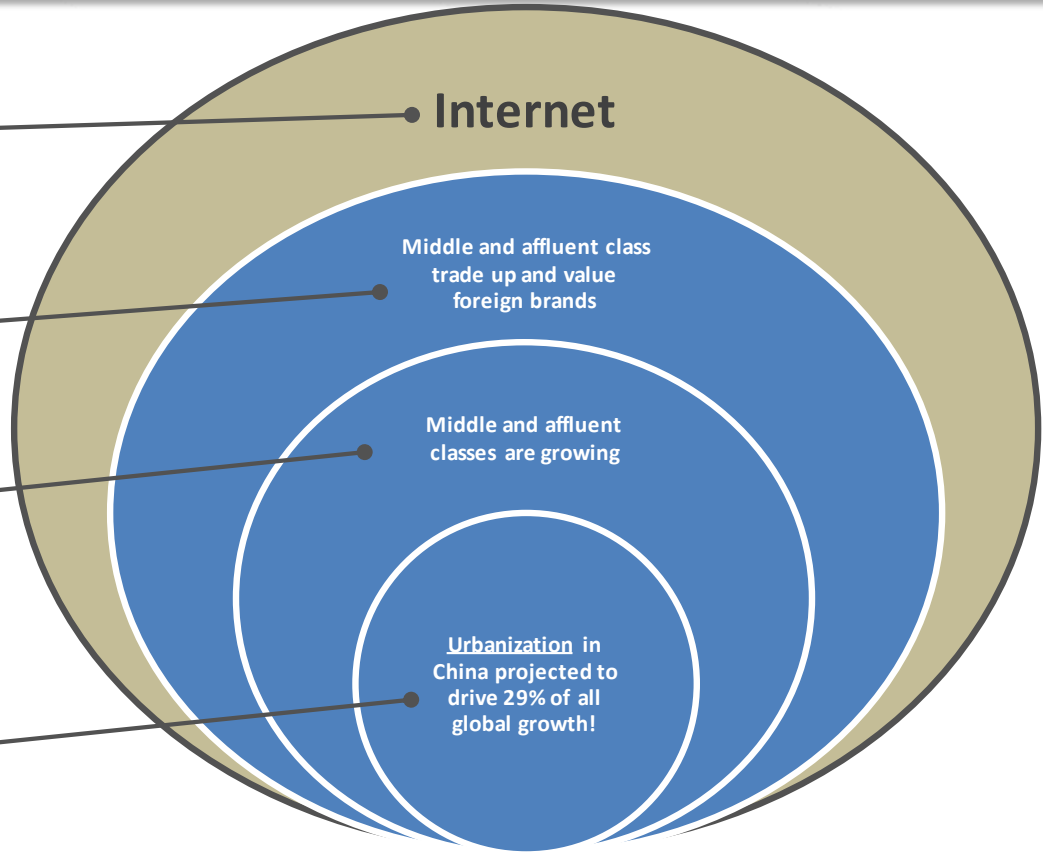
China Mega Trends Driving Growth

- We are positioned to reach consumers using the internet

- A. O. Smith is a strong foreign brand

- Our Premium Consumer brand is positioned for the middle and affluent classes

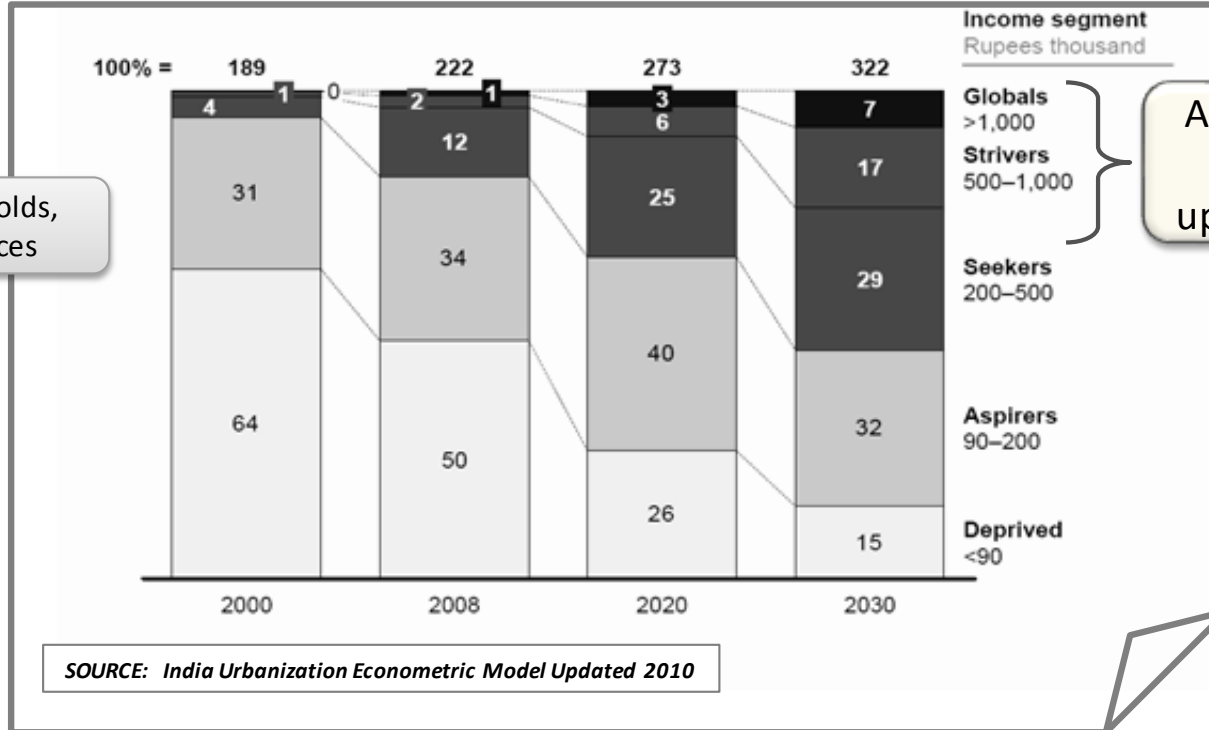
- A. O. Smith has manufacturing capacity and channel footprint to capitalize





Mega Trends - India

Significant growth in AOS target demographic



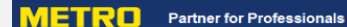


Building Distribution



- A cities (pop >1.5 Mn) Distribution in 25 out of 25 cities
- B Class cities (pop .5 to 1.5 Mn) Distribution in 63 of 68
- Class C cities (pop .1 to .5 Mn) Distribution 316 of 400

NATIONAL RETAILERS



REGIONAL RETAILERS



 Headquarters and Manufacturing (Bengaluru)

 Major Distribution Locations



Business Model In India Similar to China

- Attractive Growth Demographics
- Leveraging Global Capabilities with Products Designed for the Indian Market
- Building Brand & Expanding our Distribution
- Introducing New Product Categories with Water Treatment
- Local Management

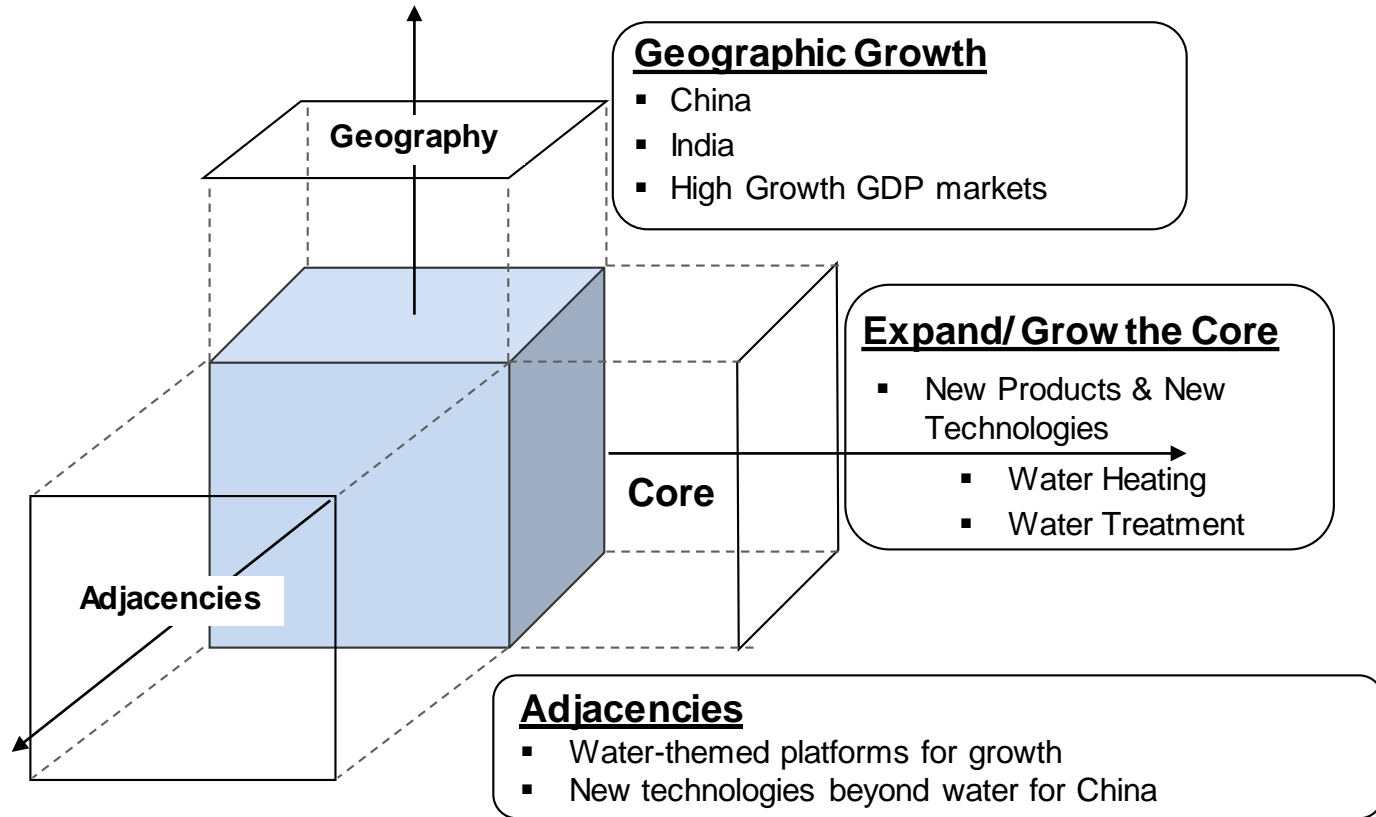


We are committed for the long term opportunity

Acquisition Strategy



Growth Strategy: Acquisitions





Investment Criteria

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

AOS

LISTED

NYSE



A. O. Smith's Capital Allocation Options

- Organic growth (capital expenditures)
- Acquisitions
 - \$318 million net cash
 - 21 percent leverage ratio (debt/total capital)
- Return cash to shareholders: \$230 million projected in 2017
 - Dividends
 - Increased 17 percent in first quarter 2017
 - Share repurchase
 - Expect to repurchase approximately \$135 million* in 2017 on a 10b5-1 plan



Growth Strategy: Organic Growth

China: 32% of sales growing 15%
in local currency

• 4.8%

Lochinvar brands: 11% of sales growing 8%

• 0.9%

NA water heaters: 57% of sales growing 4%

• 2.3%

Total annual sales growth

• 8.0%



China Growth Model





Growth and Stability

Offense

- Organic growth of 8%
 - China growing approximately 15 percent in local currency
 - Lochinvar branded products growing 8%
- Call option on NA new construction
- Significant cash and borrowing capacity for “value creating” acquisitions and share buyback

Defense

- NA water heaters and boilers ~85% replacement
- Market share leader in NA, China
- Strong balance sheet; net cash position approximately \$318 million
- Small exposure to Europe (\$50 million in revenues)

INVESTOR CONTACT

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Vice President, Investor Relations and Treasurer

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Email: packerman@aosmith.com

APPENDIX



Third Quarter Results

\$ in millions

	2017	2016	change	% chg.
Sales	\$ 749.9	\$ 683.9	\$ 66.0	10%
Net Earnings	\$ 93.7	\$ 83.2	\$ 10.5	13%
Earnings per Share	\$ 0.54	\$ 0.47	\$ 0.07	15%



Third Quarter Sales

\$ in millions

	2017	2016	change	% chg.
North America	\$ 486.0	\$ 450.8	\$ 35.2	8%
Rest of World	270.1	240.3	\$ 29.8	12%
Intersegment	<u>(6.2)</u>	<u>(7.2)</u>	<u>\$ 1.0</u>	
Total	<u>\$ 749.9</u>	<u>\$ 683.9</u>	<u>\$ 66.0</u>	10%



Third Quarter Earnings

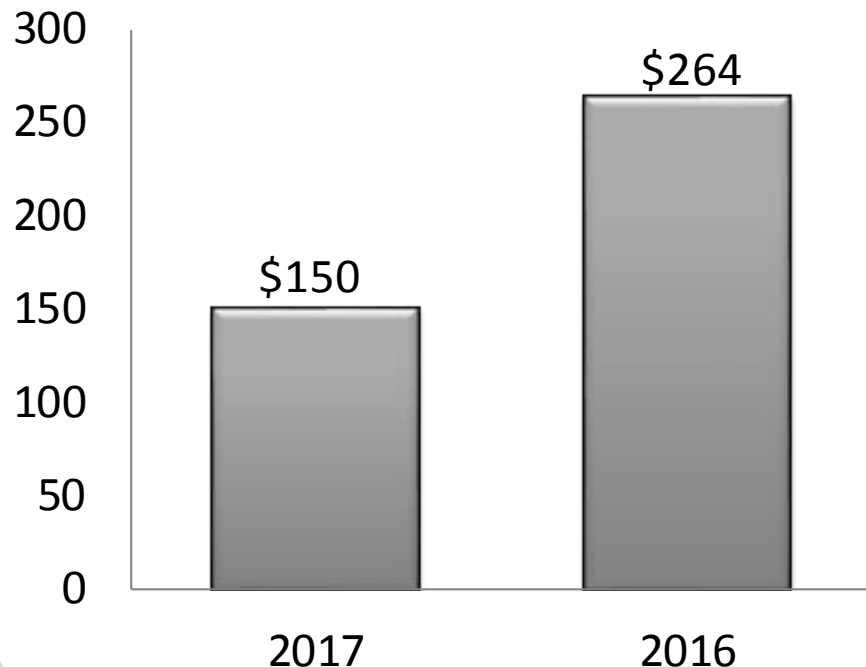
\$ in millions, except percentages

	2017	2016	change	% chg.
North America	\$ 110.3	\$ 100.5	\$ 9.8	10%
Rest of World	33.8	31.1	2.7	9%
Inter-segment earnings	(0.1)	-	(0.1)	
Total Segment Earnings	<u>144.0</u>	<u>131.6</u>	<u>12.4</u>	9%
Corporate	(9.9)	(11.1)	1.2	11%
Interest Expense	<u>(2.5)</u>	<u>(2.1)</u>	<u>(0.4)</u>	-19%
Pre-tax Earnings	131.6	118.4	13.2	11%
Income Tax Expense	<u>(37.9)</u>	<u>(35.2)</u>	<u>(2.7)</u>	-8%
Earnings	<u>\$ 93.7</u>	<u>\$ 83.2</u>	<u>\$ 10.5</u>	13%
<u>Segment Margin</u>				
North America	22.7%	22.3%		
Rest of World	12.5%	12.9%		



Cash Flow from Operations

(\$ in millions)

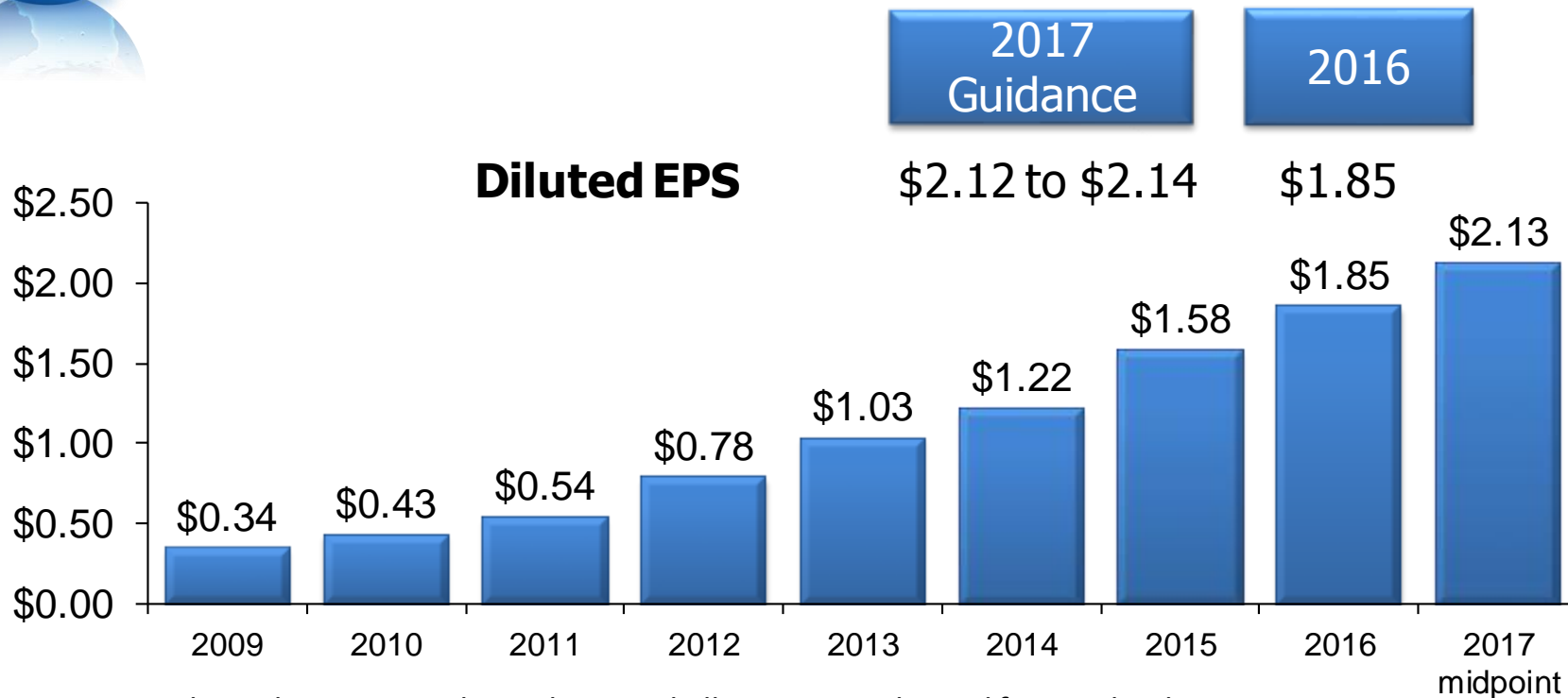


Highlights

- Operating cash provided by operations of \$150 million
- Debt to capital ratio of 21%
- Cash balance: \$768 million
- Net cash position: \$318 million
- Acquisition: \$44.5 million
- Voluntary contribution to pension plan of \$30 million
- Stock repurchase: 1.9 million shares totaling approximately \$103 million



2017 EPS Guidance and 2016 EPS



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

As of October 25, 2017



2017 Assumptions

(\$ in millions)

2017 Projections

Operating Cash Flow	approx \$325
Capital Expenditures	approx \$100
Depreciation and Amortization	approx \$70
Expenses related to ERP Implementation	approx \$18
Corporate/Other Expense	approx \$47
Effective Tax Rate	approx 28.0%
Stock Repurchase	approx \$135 *
Share Count - Diluted	approx 174.6 million

* subject to acquisitions, cash flow and working capital needs

As of October 25, 2017



2017 Outlook

- Revenue growth between 11 and 12 percent in USD
 - Aquasana and Hague sales incrementally add over \$40 million
 - Depreciation assumed for the RMB against the USD, resulting in two percent headwind to 2016 average rate
- North America
 - U.S. residential water heater industry volumes increase over 300,000 units, including tankless; U.S. commercial water heater industry volumes up approximately ten percent, driven by electric and price increase-related pre-buy
 - Lochinvar-branded product sales growth of over eight percent
 - Price increase of approximately four percent on majority of U. S. water heaters, effective late August
 - Operating margin expected to be similar to 2016
- Rest of World
 - China over 15 percent sales growth in local currency
 - Smaller expected losses in India than in 2016
 - Operating margin expected to be similar to 2016



Corporate Responsibility and Sustainability – Aligns with our Values

A. O. Smith will preserve its good name



Social Contribution



A. O. Smith will be a good citizen

Environmental Impacts



Ethics and Compliance
Fundamentals for Success



A. O. Smith will emphasize innovation



Diverse & Safe Workforce

A. O. Smith will be a good place to work



Product Responsibility





Products – Efficiency, Conservation and Innovation

Energy Efficiency

- We believe our global product portfolio is the most efficient in the industry
- Our electric residential water heaters achieve efficiency factors of .95 or above
- Our highly efficient Cyclone condensing commercial water heaters represent 24% of commercial units sold
- 83 percent of Lochinvar branded boilers achieve over 90 percent thermal efficiency
- 55 percent of our China products exceed government efficiency standards

Conservation

- Our patented Reverse Osmosis (RO) membrane wastes 50 percent less water than traditional RO and represents over 90 percent of A. O. Smith branded water treatment sales





Manufacturing Plants – Reducing Energy Usage, Water Consumption and Environmental Impacts

- Chairman's Green Star award established in 2009– annual competition given to the plant which demonstrates the largest social, economic and environmental benefit over a three year period
- Johnson City, TN - plant certified Leadership in Energy and Environmental Design (LEED) Silver since 2011 and certified Energy Star ®
- Ashland City, TN - largest water heater plant in the world – reduced electricity usage by 9 percent as a result of a plant-wide lighting project in 2011 and reduced water usage by 36 percent as a result of an enhanced parts washing process implemented in 2014
- Nanjing, China – implemented an innovative pre-treatment process as an alternative to phosphorus pre-treating, reducing chemical discharges and improving corrosion resistance of our water heater tanks





People – Doing Business Safely, with Integrity and Supporting Communities

- Established in 1954, the President's Safety Award annually recognizes the plant with best record for workplace safety
- Established in 1955, the A. O. Smith Foundation supports our communities
- Guiding Principles established in 1999 describes our code of conduct and values
- Values Recognition Program established in 1995 recognizes employee contributions to community involvement

