



Summer 2021 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,” “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: negative impacts to our businesses, including demand for our products, particularly commercial products, operations and workforce dislocation and disruption, supply chain disruption and liquidity as a result of the severity and duration of the COVID-19 pandemic; lengthening or deepening of supply chain bottlenecks; 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.; significant volatility in raw material availability and prices; our inability to implement or maintain pricing actions; a failure to recover or further 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.”

Who We Are



**GLOBAL
MANUFACTURER**
of residential and commercial
water heaters, boilers and
water treatment products



\$2.9B Annual Sales



13,900 Employees



22 Manufacturing Facilities

AOS
LISTED
NYSE
S&P 500

Compelling Investment Thesis



Market leader



Stable/growing U.S. replacement market; operating leverage from incremental new construction and replacement



Strength of premium brand, distribution, manufacturing and innovation provide clear market advantage in China



5-year dividend CAGR through 2020 = 22%

5-year cumulative cash returned to shareholders from dividends and shares repurchased = \$1.4 billion through 2020



Strong balance sheet and cash flow to support future growth, share repurchase and acquisitions

We Have Organic Revenue Growth Drivers Across our Portfolio

Product Lines / Geographies

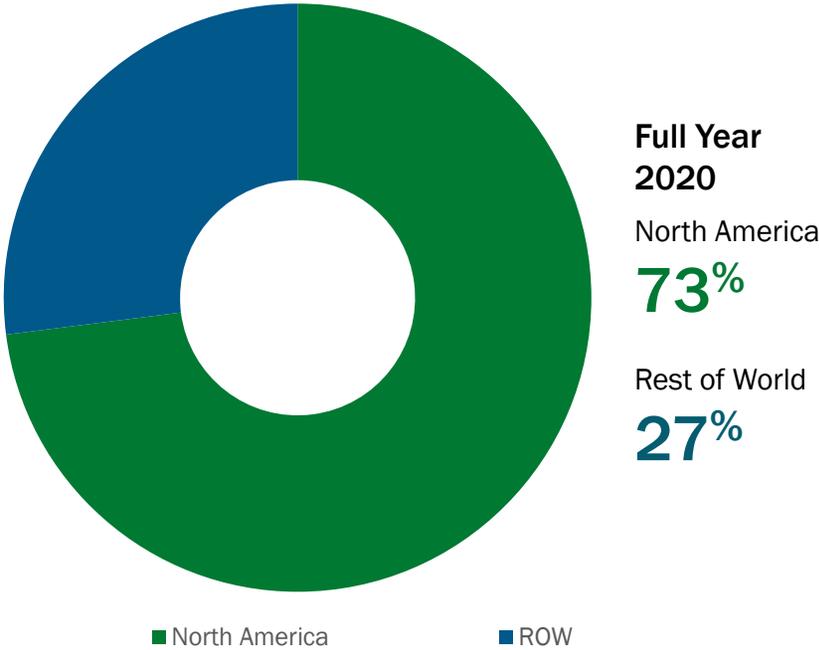
North America Water Heaters	Boilers	North America Water Treatment	China	India/ International
<ul style="list-style-type: none"> • Innovative energy efficient products • Service leadership • Best in class virtual training 	<ul style="list-style-type: none"> • Innovative energy efficient products • Best in class education and training • Service leadership • Customer-centric product development focus 	<ul style="list-style-type: none"> • Best innovative products in marketplace • Direct-to-consumer & E-commerce leadership • Leverage retail and wholesale opportunities • Expand dealer presence • Drive commercial specifications 	<ul style="list-style-type: none"> • Product Innovation • Channel expansion in Tier 4 - 6 cities • Brand leveraging • E-commerce • New product categories 	<ul style="list-style-type: none"> • Market expansion and penetration • E-commerce • Brand-building marketing efforts • Innovative, green products

Vision

To be a leading provider of innovative and energy-efficient products used to heat, treat and conserve water, providing value to our residential and commercial customers

Corporate Snapshot

Segment Revenue



Products

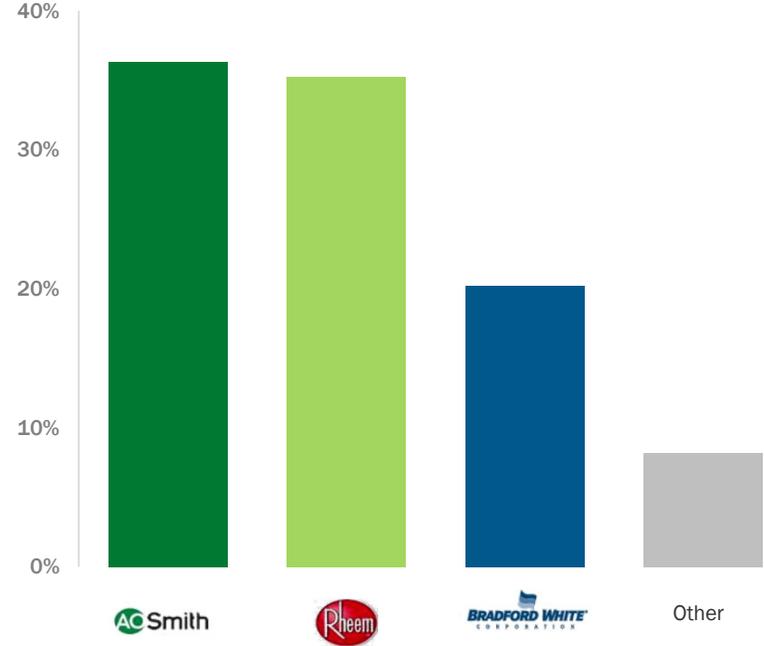
- Water Heaters
- Boilers
- Water Treatment

Brands

Leading Market Share in the U.S. Water Heater Market Segment¹

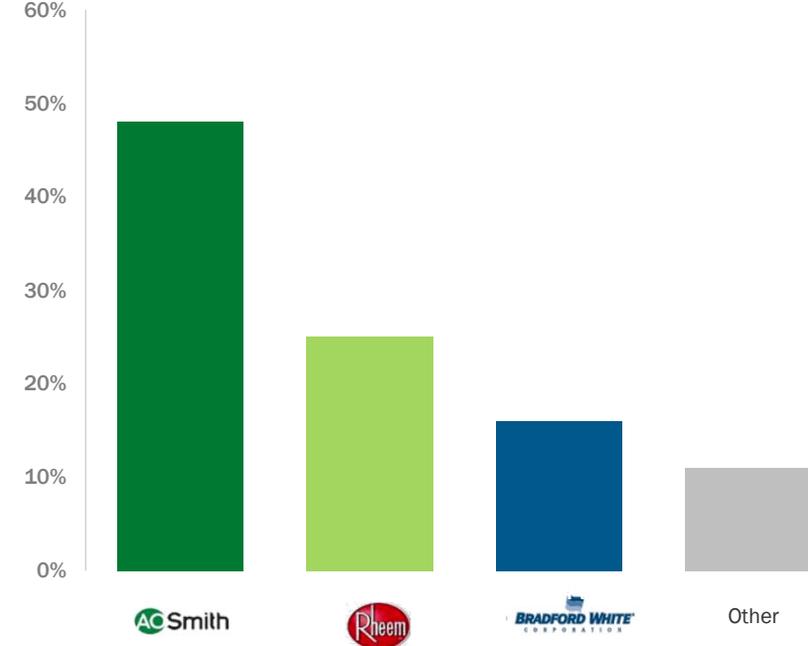
Residential Market

2020 market share data (AHRI + Gas Tankless)



Commercial Market²

2020 market share data (AHRI)



¹ AOS actual shipments and AOS estimates of competitors' shipments

² Commercial water heater segment as defined by AHRI, total 2020 commercial units as reported by AHRI = 221,000 units

Comprehensive Residential and Commercial Water Heaters Product Offering

Residential



Hybrid Electric Heat Pump Water Heater



Gas Tankless Water Heater



ProLine® 50-Gallon Electric Water Heater



ProLine® Master 50-Gallon Gas Water Heater

Commercial



Cyclone® Mxi



Commercial Tankless Rack System



Commercial Heat Pump Water Heater

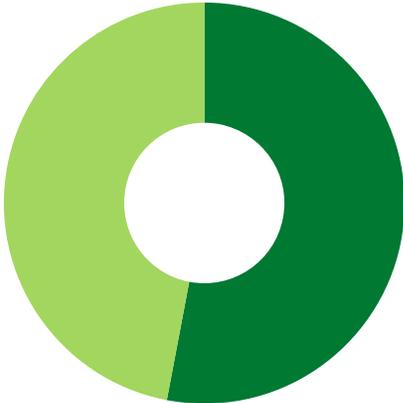
Industry Leading Partners in both the U.S. Residential Water Heater Channels¹

Wholesale Channel

Retail Channel

			
	<p>Large Regional Distributors</p>		
<p>A. O. Smith Customers</p>			

INDUSTRY



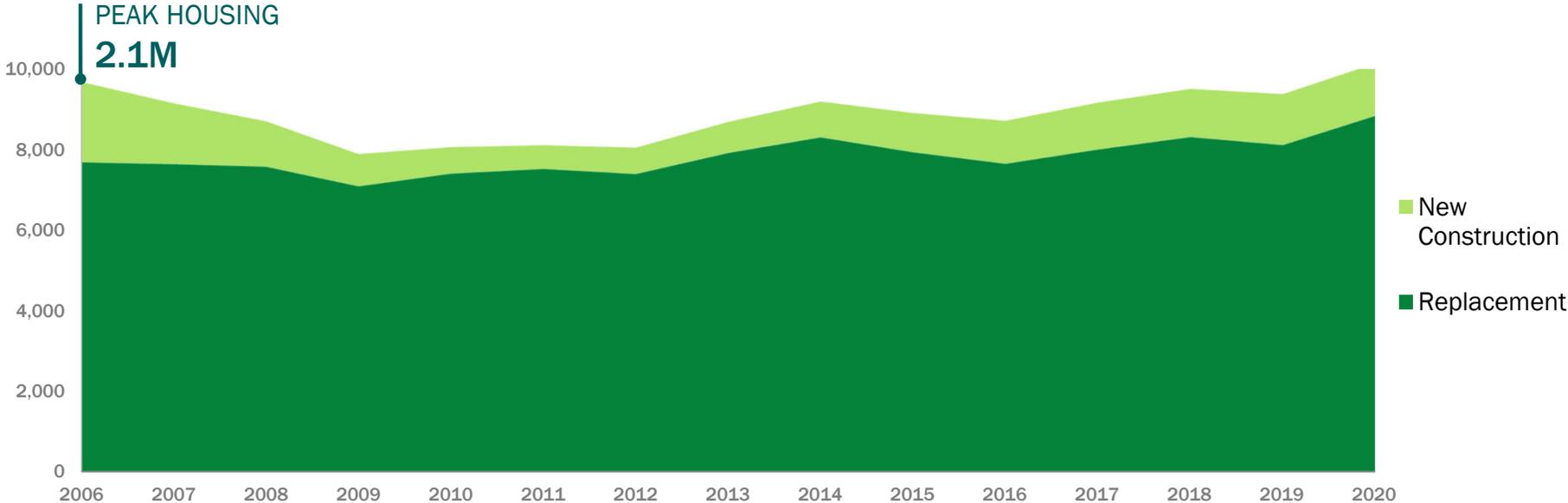
WHOLESALE CHANNEL
53% of the market

RETAIL CHANNEL
47% of the market

¹ Residential tank type water heaters only, excludes gas tankless

Stable Replacement Volumes to Temper Downcycles with Upside New Construction Optionality

U. S. Residential Water Heaters¹
Thousands of units



¹ Includes gas tankless

Industry-Leading Energy Efficient Cyclone Condensing Commercial Water Heater



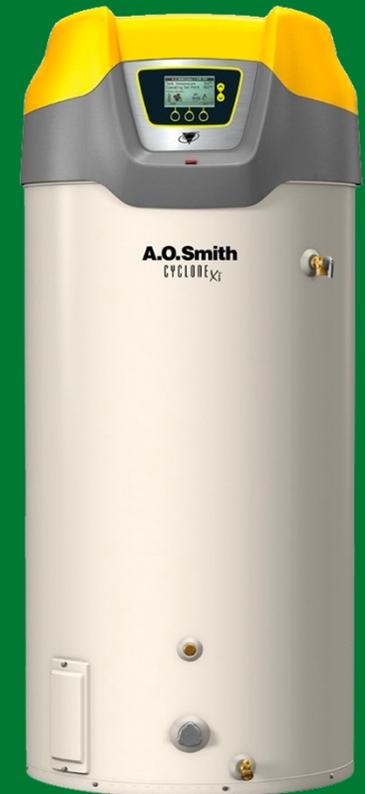
Up to 96% thermal efficiency
dramatically lowers
operating costs
offering short
payback



Connectivity
built in



Represents
66% of AOS
commercial gas
water heater
revenues



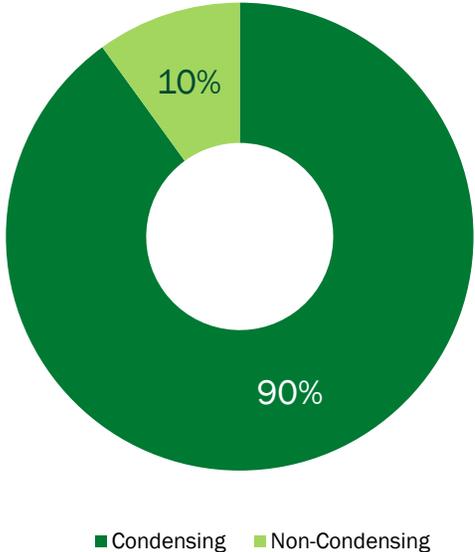
Industry trending to Higher Efficiency Condensing Boilers Drives Past and Future Growth

NA Boiler Volumes



Source: 2006 to 2017: BRG Solutions; 2018-2020: AOS estimates

A. O. Smith Boiler Sales



Comprehensive Boiler Product Offering Commercial & Residential

Residential Condensing Boilers

KNIGHT
FIRE TUBE BOILER
(55mbh - 399mbh)
(Indoor Rated)



Residential Combi-boilers



NOBLE[™]
FIRE TUBE COMBI
(110mbh - 199mbh)
(Indoor Rated)

Commercial Condensing Boilers



FTXL
FIRE TUBE BOILER
(400mbh - 850mbh)
(Indoor Rated)



KNIGHT
COMMERCIAL BOILER
XL
(400mbh - 1000mbh)
(Indoor & Outdoor Models)



CREST
CONDENSING BOILER
(750mbh - 6000mbh)
(Indoor & Outdoor Models)

Commercial Non-Condensing Boilers

POWER-fin[®]
(500mbh - 5000mbh)
(Indoor & Outdoor Rated)

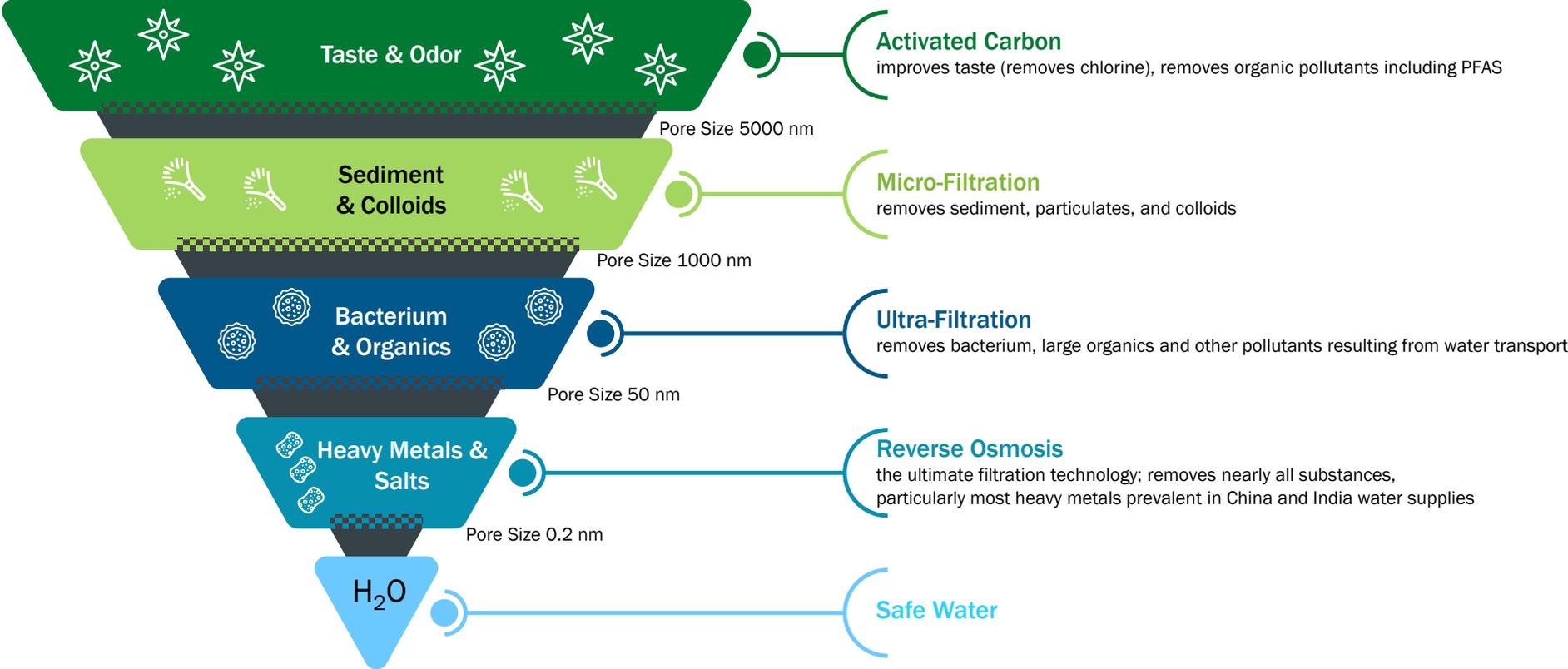


Commercial Cogeneration

XRGI 25
Micro
Combined Heat & Power
• 163,000 BTU/hr
• 24 kW of electricity
• 49 DB(A)



Our Focused Technology is Reverse Osmosis, a Leading Technology to Provide Safe Drinking Water



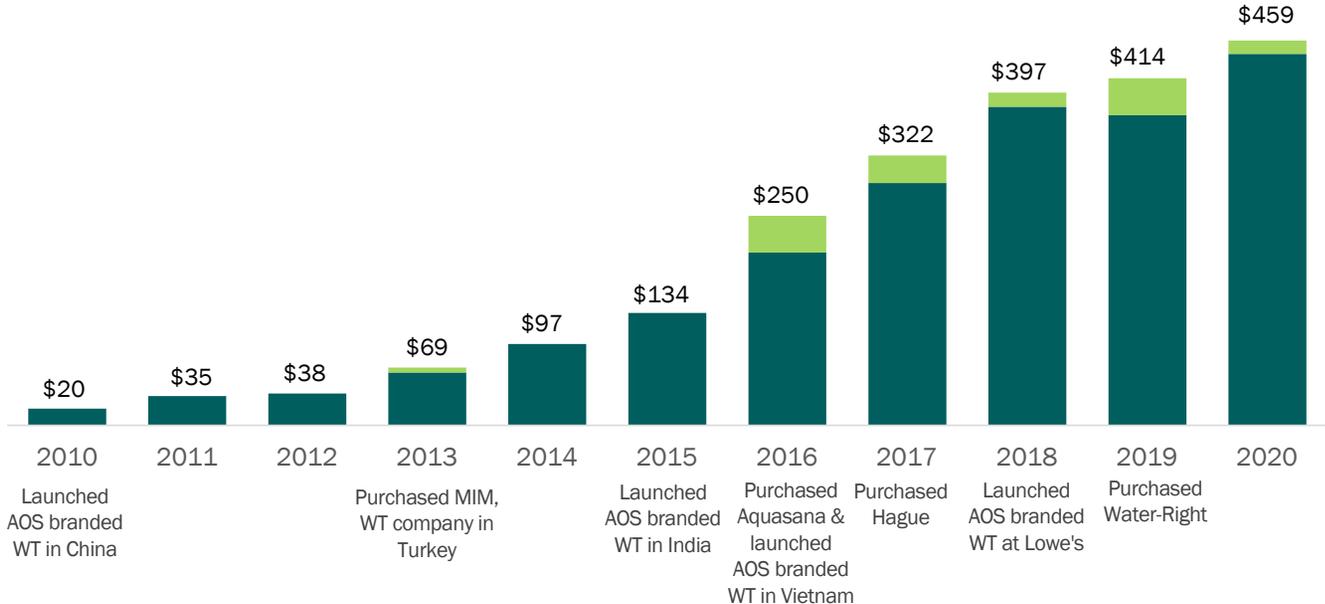
Evolution of AOS' Global Water Treatment Business

Revenue

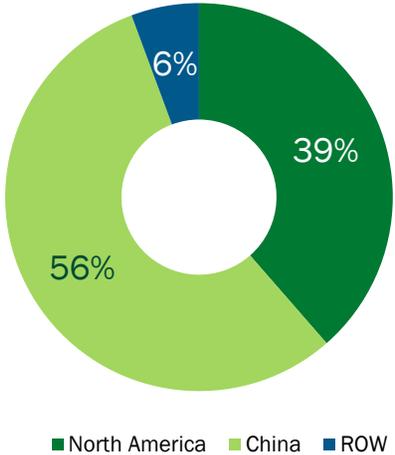
\$ in millions

■ Inorganic Revenue

37% CAGR over the last 10 years

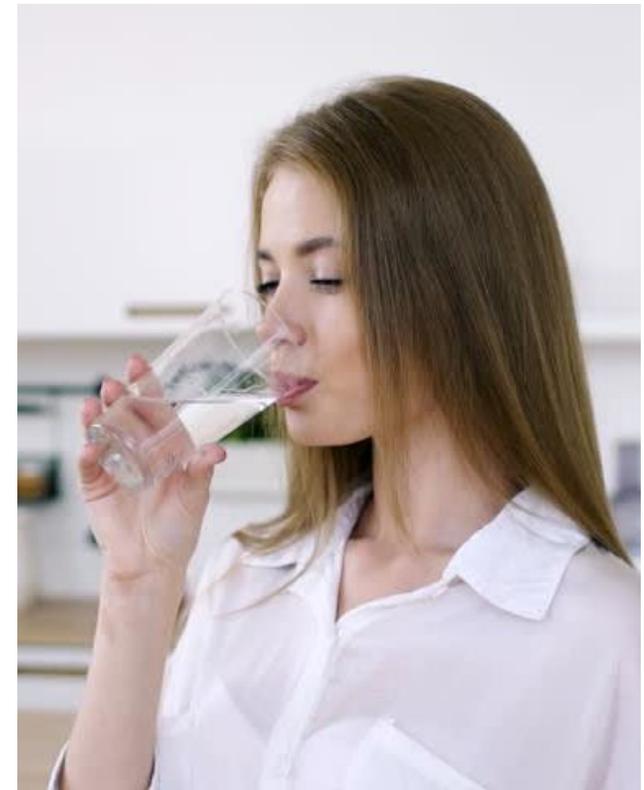
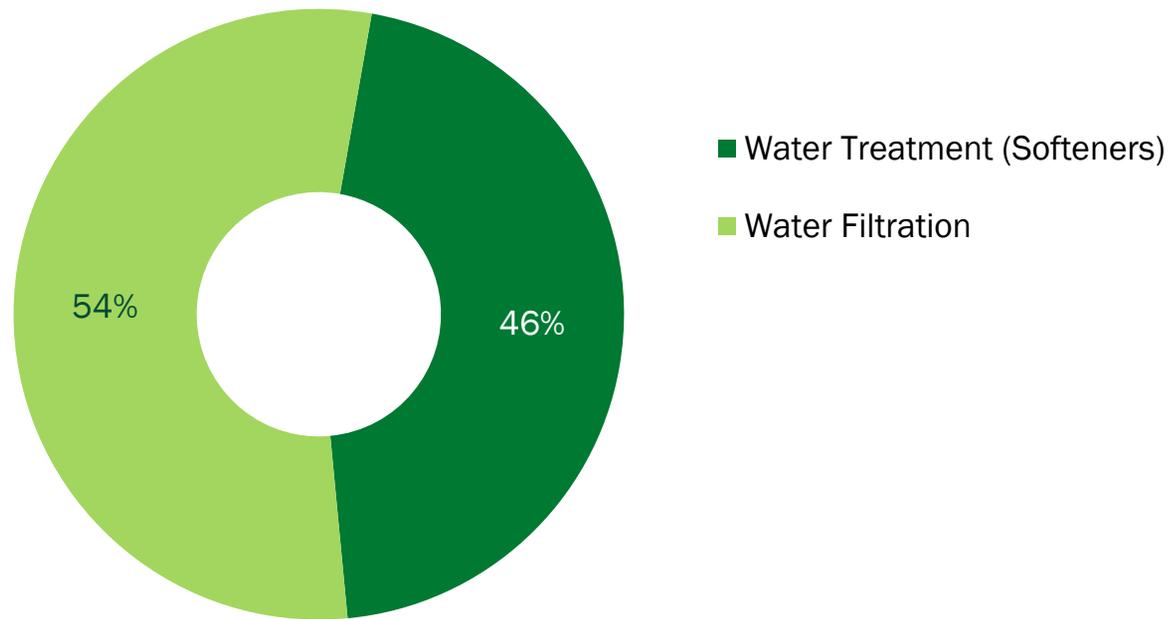


2020 Water Treatment Sales by Segment



Large Addressable Market in U.S. Water Treatment

Addressable A. O. Smith Market: \$2.6 B

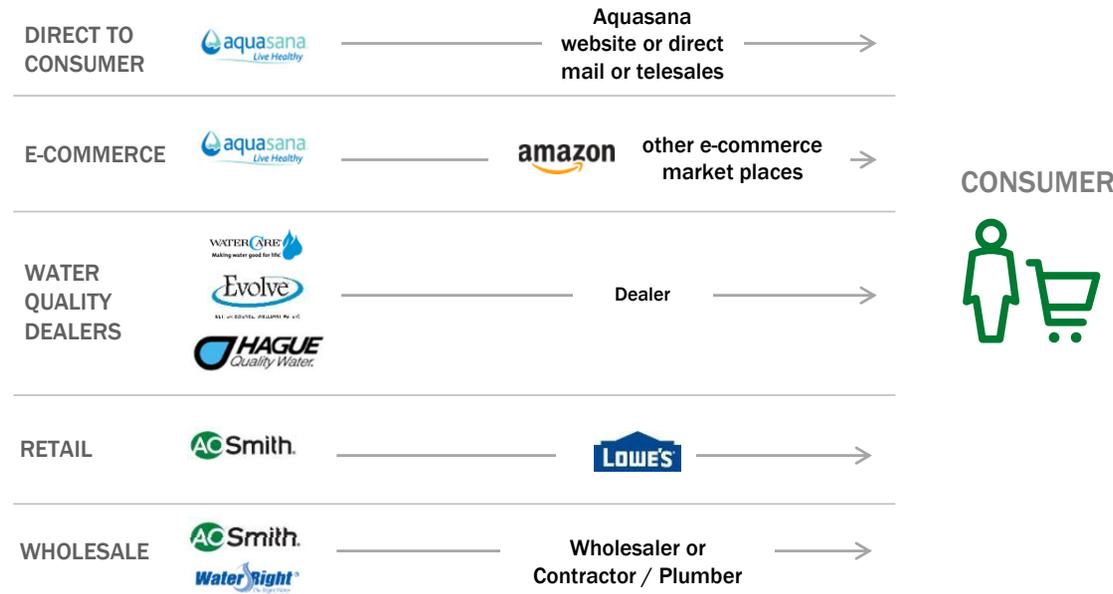


[This Photo](#) by Unknown Author is licensed under [CC BY-NC-ND](#)

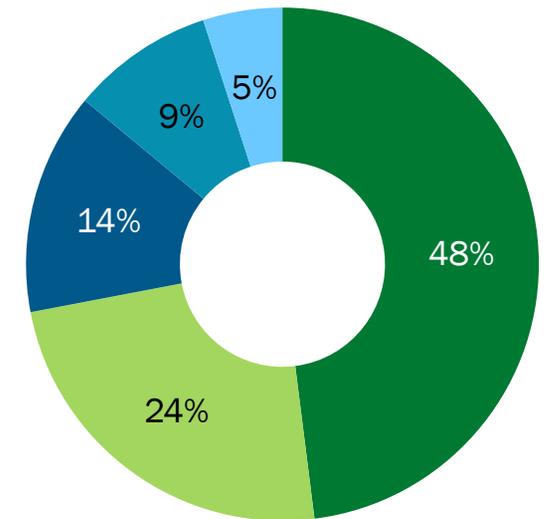
Positioned to Grow Across all Water Treatment Channels

North America Channel Brand

Our brands participate in all channels; most competitors operate in 1-2 of these channels



North America Industry Water Treatment Channels



- Water Quality Dealers
- Retail
- Wholesale
- DTC
- E-com

\$2.6 Billion Addressable Market

Comprehensive Water Treatment Product Offering for the Entire Home

Point of Entry Products



Whole Home Filtration



Whole Home Softeners

Point of Use Products



Whole Kitchen Filtration



Tankless RO Systems



Traditional RO Systems



Under Sink Filtration

Non-Installed Products



Clean Water Machine



On-the-Go Filter Bottles

AOS China Built On



Premium Brand



Extensive Distribution and Service Network



Innovative New Products and World Class Manufacturing



Local Management Team and Organizational Development



Growing Product Portfolio Developed in China for China

Electric & Gas Water Heaters



Electric Water Heaters



Gas Water Heater



Water Treatment



Water Purifiers



Other Categories

Combi-boiler

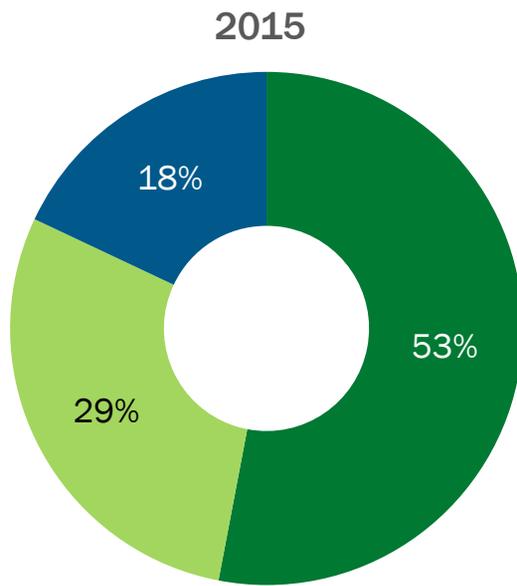


Range Hood

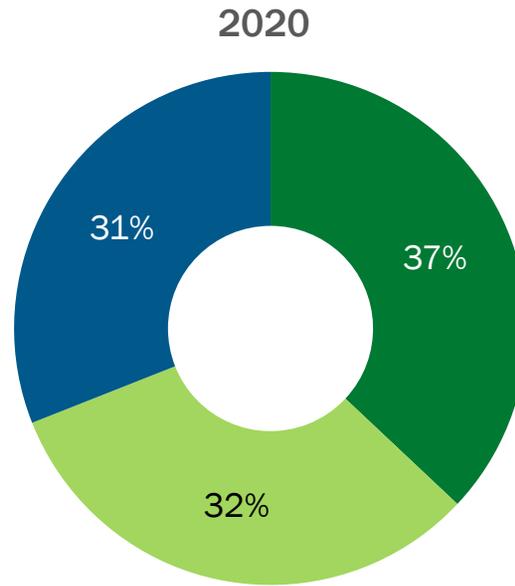


China: Broad Distribution Channel

A.O. Smith China Sales by Channel



- 3rd Party Retail
- AOS Exclusive Distribution
- E-Commerce



- 3rd Party Retail
- AOS Exclusive Distribution
- E-Commerce



+13,000
retail counters in China

~50%
of outlets in Tier 1 and Tier 2 cities

~50%
of outlets in Tier 3 – Tier 6 cities

China: Mega Trends Driving Growth

TRENDS

-  On-line shopping is growing in China >
-  Middle and affluent classes are growing >
-  Urbanization in China projected to drive 28%¹ of all global growth! >

A. O. SMITH

We are positioned to reach consumers using the internet



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

A. O. Smith has manufacturing capacity and channel footprint to capitalize on continued household formation

¹Source: IMF 2019 to 2024, October 2019

Thesis in India Similar to China



Attractive Growth Demographics



Leveraging Global Capabilities with Products Designed for the Indian Market



Building Brand & Expanding Our Distribution



Introduced New Product Categories with Water Treatment



Local Management



**We are committed
for the long-term
opportunity**



India: Geographic Presence Build out from 2008 through 2020

A Class Cities
(pop >1.5 Mn)
Distribution in
25 out of 25 cities

B Class Cities
(pop .5 to 1.5 Mn)
Distribution in
65 out of 68 cities

C Class Cities
(pop .1 to .5 Mn)
Distribution in
326 out of 400 cities



National Retailers



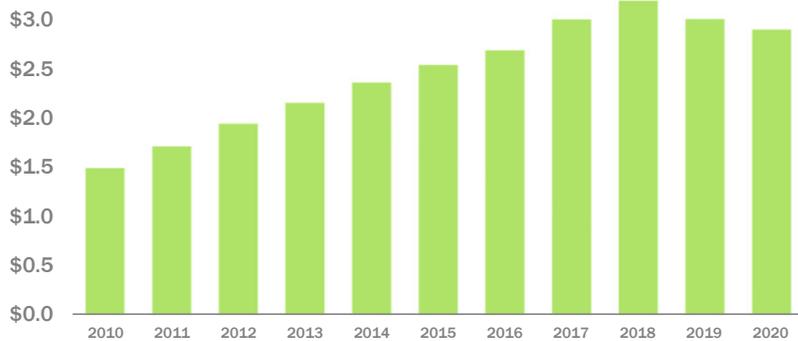
Regional Retailers



Driving Financial Performance and Delivering Significant Growth

Sales Growth

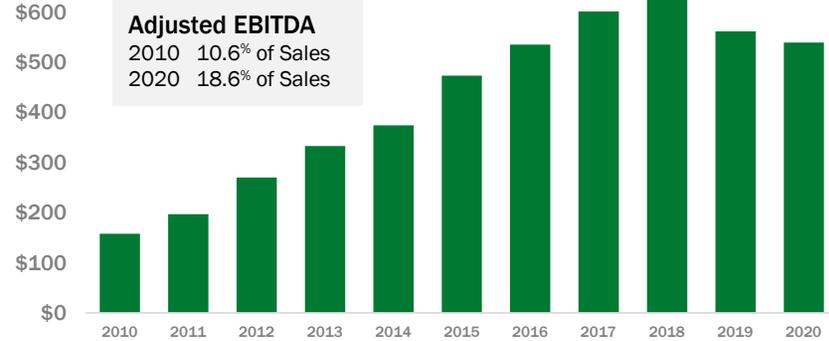
Sales in billions



7% CAGR

Adjusted EBITDA¹

\$700

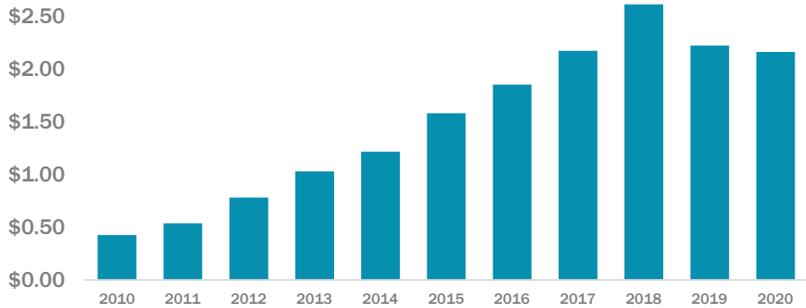


13% CAGR

Adjusted EBITDA
2010 10.6% of Sales
2020 18.6% of Sales

Adjusted EPS²

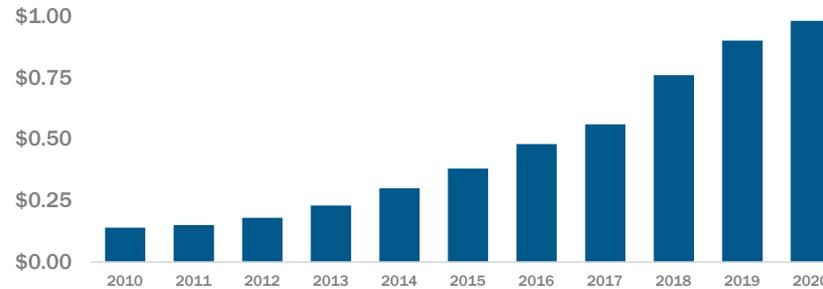
\$3.00



18% CAGR

Annual Dividend per Share

\$1.25



22% CAGR



¹ 2010 through 2014 adjusted for non-operating pension costs and certain non-recurring items

² 2010 through 2014 adjusted for non-operating pension costs and certain non-recurring items; 2017 adjusted for U.S. Tax Reform expense; 2018 adjusted for restructuring & impairment expenses

M&A Criteria and Focus



Geographic Growth

- High Growth Markets



Expand / Grow the Core

New Products &
New Technologies

- Water Heating
- Water Treatment



Adjacencies

- Water-themed platforms for growth
- Leverage channels and brands



Accretive to earnings in the first year



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



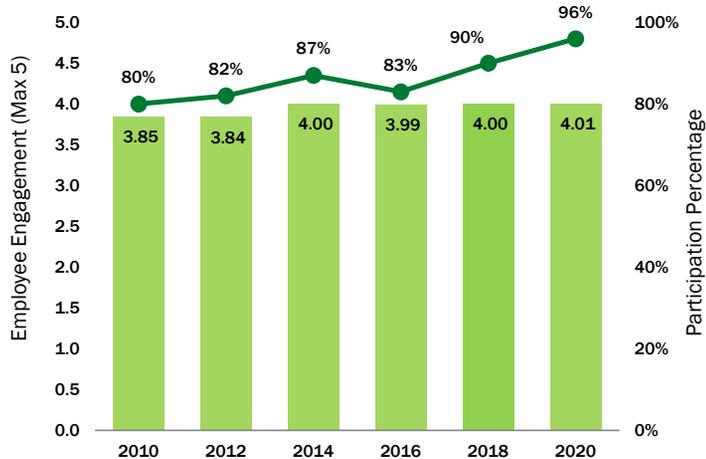
ESG Accomplishments

Values-based Culture is highly regarded by our employees



- Ethics
- Integrity
- Value Recognition
- Supervisor Effectiveness
- Innovation
- Customer Focus

AOS is a Great Place to Work



Products Conserve Resources



98% Thermal Efficient
Cyclone Commercial Water Heater



99% Thermal Efficient
Crest Commercial Boiler

511,900 tons

of GHG emissions were offset by sales of high-efficiency water heaters and boilers in North America during 2019¹



Our water heaters are consistently recognized as having the highest level of efficiency including Tier 1 status in China and BEE 5 status in India.

10% GHG Emissions Reduction Goal – 10% GHG Emissions Intensity Reduction by 2025²

Operations Are Safe & Conserve Resources



ISO 14001 standards for environment
ISO 45001 standards for safety



Chairman's Green Star Award
Established 2009

2019 Base Line Intensity²

GHG Emissions	Metric Ton CO2e/\$MM Revenue	46.3
Global Energy	MWh/\$MM Revenue	173.0
Global Water	Gallons/\$MM Revenue	70.1

[Link To CRS Report](#)

¹As reported in AOS 2020 CRS Report based on 2019 sales and data

²Note: Baseline is 2019 and scope 1&2 GHG emissions.

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Strength of premium brand, distribution, manufacturing and innovation provide clear market advantage in China



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5-year cumulative cash returned to shareholders from dividends and shares repurchased = \$1.4 billion through 2020



Strong balance sheet and cash flow to support future growth, share repurchase and acquisitions

Q2 2021 Results

Second Quarter Commentary

Record Q2
EPS of \$0.73

Boiler sales
grow 35
percent

NA Water
Treatment
grows 17
percent

U.S. Water
Heater
volumes
increase

Fourth 2021
water heater
price increase
effective
August 1

China sales
grow 26
percent in
local currency

Second Quarter Results

\$ in millions except per share data

	2021	2020	Change	% Change
Sales	\$ 859.8	\$ 663.9	\$ 195.9	30%
Net Earnings	\$ 118.2	\$ 67.8	\$ 50.4	74%
EPS	\$ 0.73	\$ 0.42	\$ 0.31	74%

Second Quarter Sales

\$ in millions

	2021	2020	Change	% Change
North America	\$ 603.6	\$ 480.5	\$ 123.1	26%
Rest of World	263.2	189.7	73.5	39%
Intersegment	<u>(7.0)</u>	<u>(6.3)</u>	<u>(0.7)</u>	
Total	\$ <u>859.8</u>	\$ <u>663.9</u>	\$ <u>195.9</u>	30%

Second Quarter Earnings (Loss)

\$ in millions

	2021	2020	Change	% Change
Segment Earnings (Loss)				
North America	\$ 141.7	\$ 105.4	\$ 36.3	34%
Rest of World	22.3	(5.8)	28.1	NA
Intersegment	—	(0.3)		
Total Segment Earnings	164.0	99.3	64.7	65%
Corporate	(11.8)	(9.8)	(2.0)	(20)%
Interest Expense	(0.9)	(2.5)	1.6	64%
Pre-tax Earnings	151.3	87.0	64.3	74%
Tax Provision	(33.1)	(19.2)	(13.9)	
Net Earnings	\$ <u>118.2</u>	\$ <u>67.8</u>	\$ <u>50.4</u>	74%
Segment Margin				
North America	23.5%	21.9 %		
Rest of World	8.5%	(3.1)%		

Strong Capital Position¹

\$196M

Cash provided
by operations

5.5%

Debt to
capital ratio

\$582M

Cash balance²

\$476M

Net cash position

~3.0M

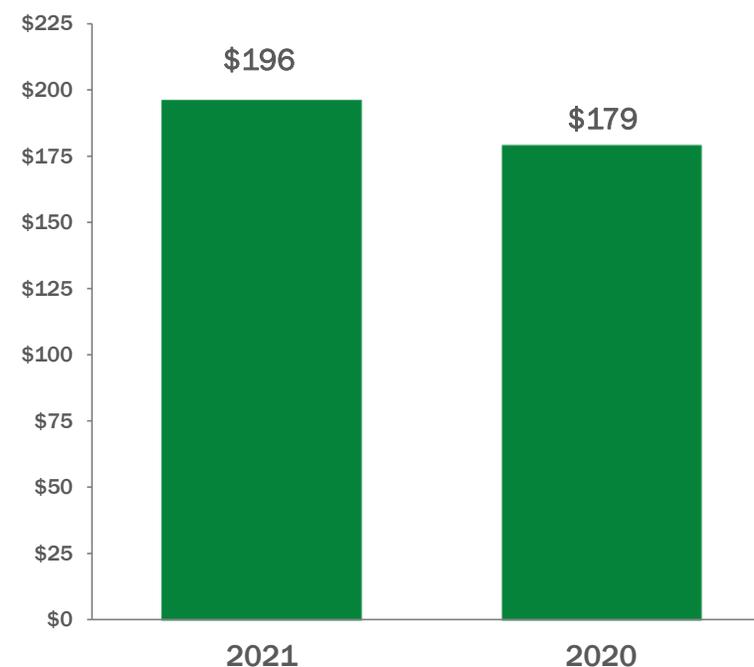
Shares repurchased
totaling **~\$198M**

¹ as of June 30, 2021

² includes cash, cash equivalents and marketable securities

Cash Flow from Operations

\$ in millions



2021 EPS Guidance and Assumptions

(\$ in millions)	2021 Projections
EPS	\$2.70 to \$2.76 per share
Operating Cash Flow	\$500 - \$525
Capital Expenditures	\$85 - \$90
Depreciation & Amortization	Approximately \$80
Corporate/Other Expense	Approximately \$50
Effective Tax Rate	Approximately 23 percent
Stock Repurchase	Approximately \$400
Share Count - Diluted	Approximately 160 million

As of July 29, 2021

2021 Outlook

- Revenue increases between 17 and 18 percent, including two percent growth from China FX benefit
 - U.S. residential water heater volumes up approximately three percent, commercial water heater industry volumes up approximately two percent
 - China sales increase 20 – 22% in local currency
 - NA boiler sales increase low double digits
 - NA water treatment sales increase 13 to 14 percent
 - Fourth water heater price increase of 10 to 12 percent effective August 1
- North America segment margin expected to be between 22.75 and 23 percent
- Rest of World segment margin expected to be approximately eight percent

As of July 29, 2021

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2021 EPS Guidance and 2020 Adjusted EPS

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

	2021 Guidance	2020
Diluted EPS (GAAP)	\$2.70 – 2.76	\$ 2.12
Severance and restructuring expenses, per diluted share	-	<u>0.04</u>
Adjusted EPS	<u>\$2.70 – 2.76</u>	<u>\$ 2.16</u>

