



Welcome to the A. O. Smith Analyst Day

Presentations will begin promptly at 12:30 p.m.

November 5, 2018

Waldorf Astoria - Chicago



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Ajita Rajendra

Executive Chairman



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 our key markets and/or a further 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 future acquisitions; competitive pressures on our businesses; the impact of potential information technology or data security breaches; changes in government regulations or regulatory requirements; the impact from U.S. Tax Reform and projections for effective tax rates and one-time 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” .

Agenda

November 5, 2018, 12:00 p.m. - 5:00 p.m.

	<u>Time (p.m.)</u>
▪ Ajita Rajendra, Executive Chairman	12:30 - 12:35
▪ Kevin Wheeler, Chief Executive Officer	12:35 - 1:00
▪ Dave Warren, President / General Manager - North America Water Heating	1:00 - 1:45
▪ Eddie Goodwin, President / General Manager - Lochinvar	1:45 - 2:15
▪ <i>BREAK</i>	2:15 - 2:30
▪ Sam Karge, President / General Manager - North America Water Treatment	2:30 - 3:15
▪ Wei Ding, President / General Manager - China	3:15 - 4:00
▪ Patricia Ackerman, Vice President, Investor Relations & Treasurer – CRS	4:00 - 4:10
▪ John Kita, EVP & Chief Financial Officer	4:10 - 4:20
▪ Kevin Wheeler - Wrap up	4:20 - 4:45
▪ <i>Q&A</i>	4:45 - 5:00



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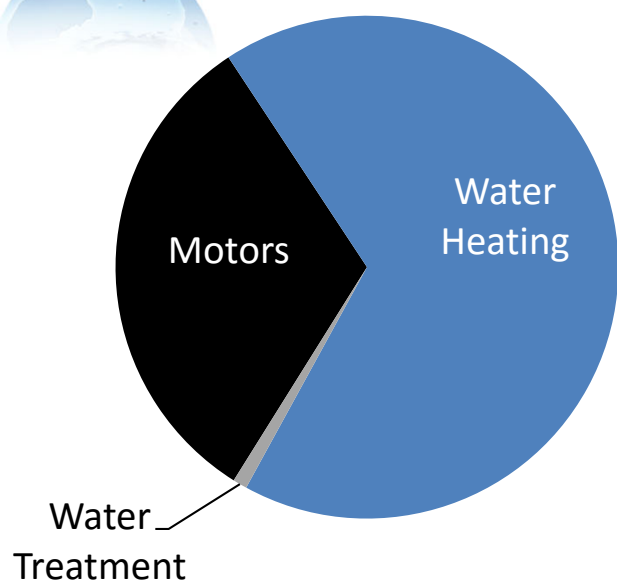
Kevin Wheeler – Opening Remarks

President & Chief Executive Officer

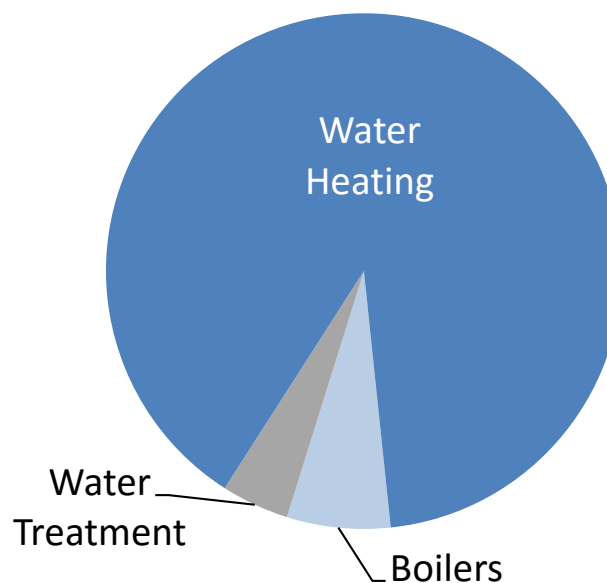


Evolution to Pure Play Water Company

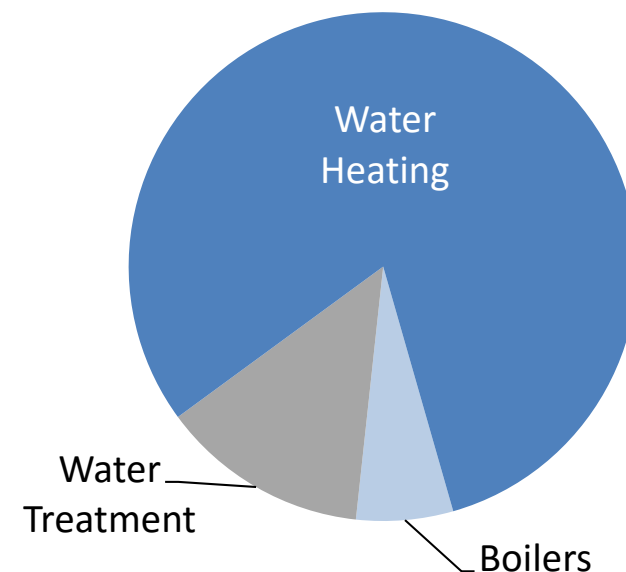
\$ in Millions



2010
\$2,200



2014
\$2,356



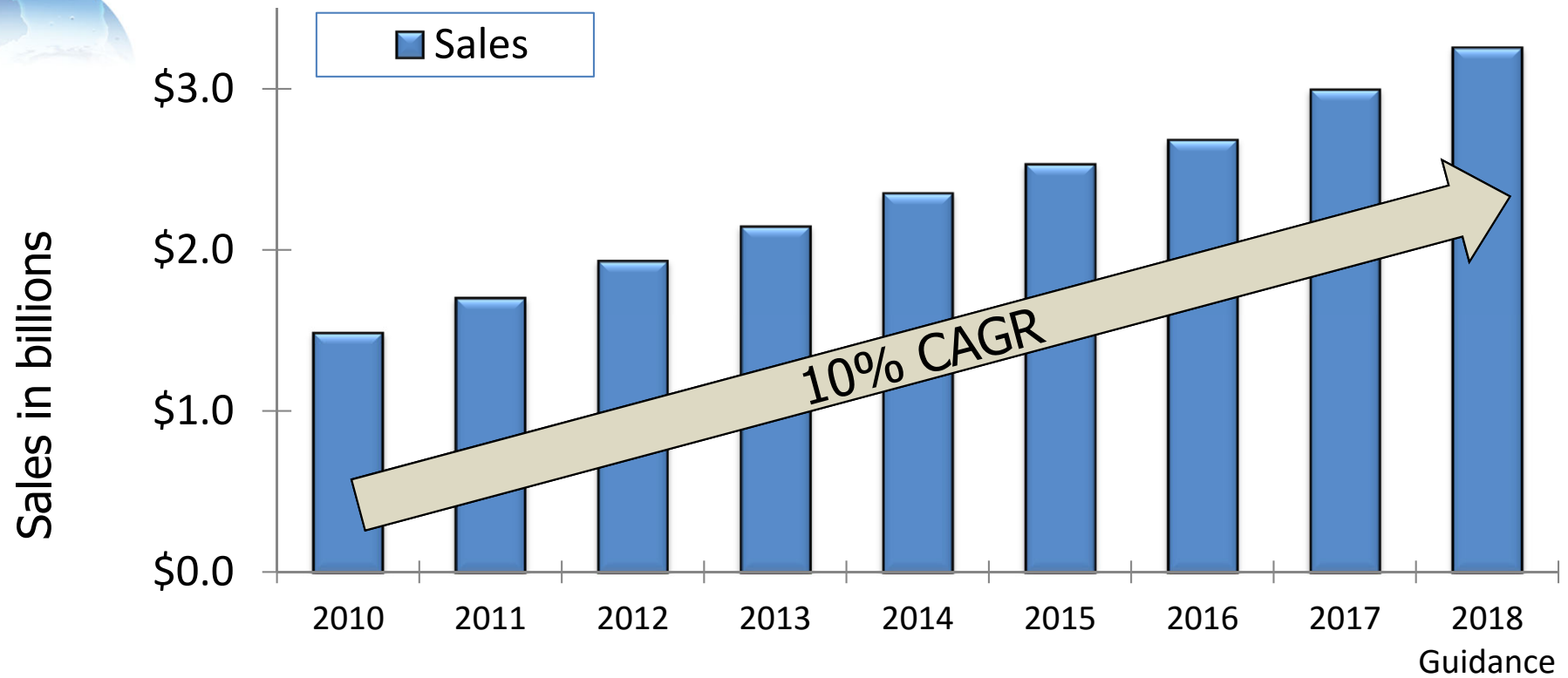
2018
\$3,207*

8% CAGR

*estimated 7% growth over 2017

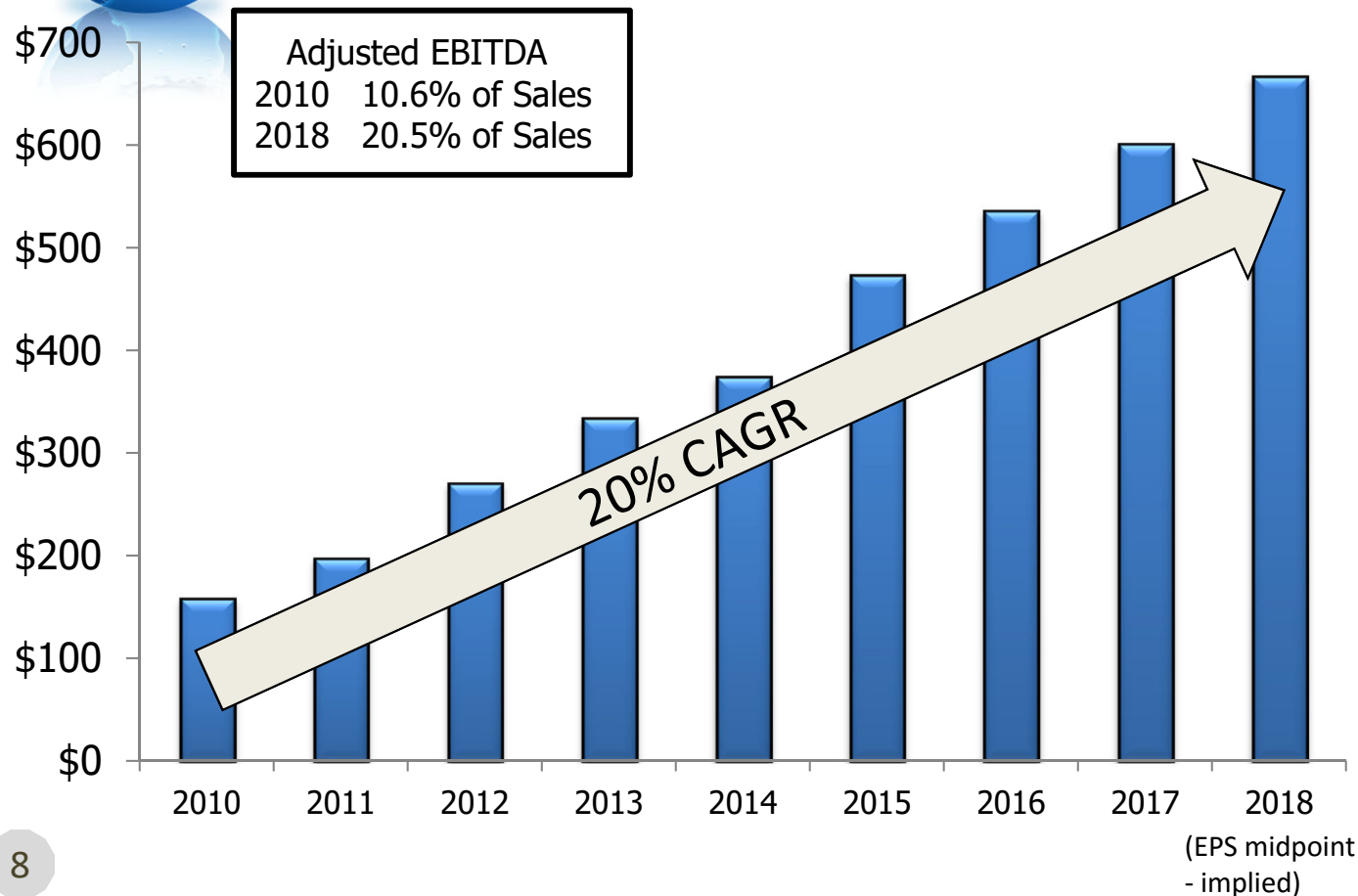


Sales Growth: Ten Percent CAGR





Adjusted EBITDA: 20 Percent CAGR

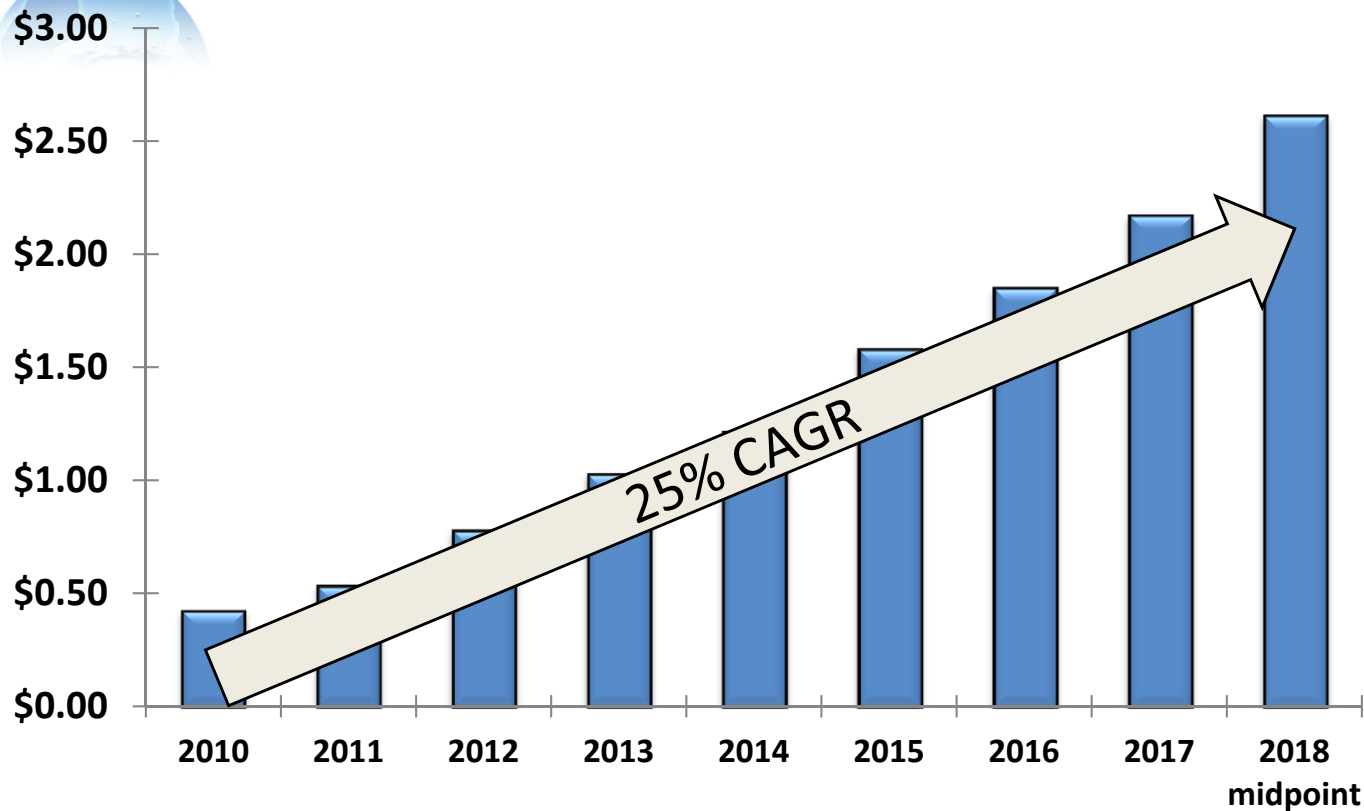


NOTE

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



Adjusted Earnings Per Share: 25 Percent CAGR



NOTE

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



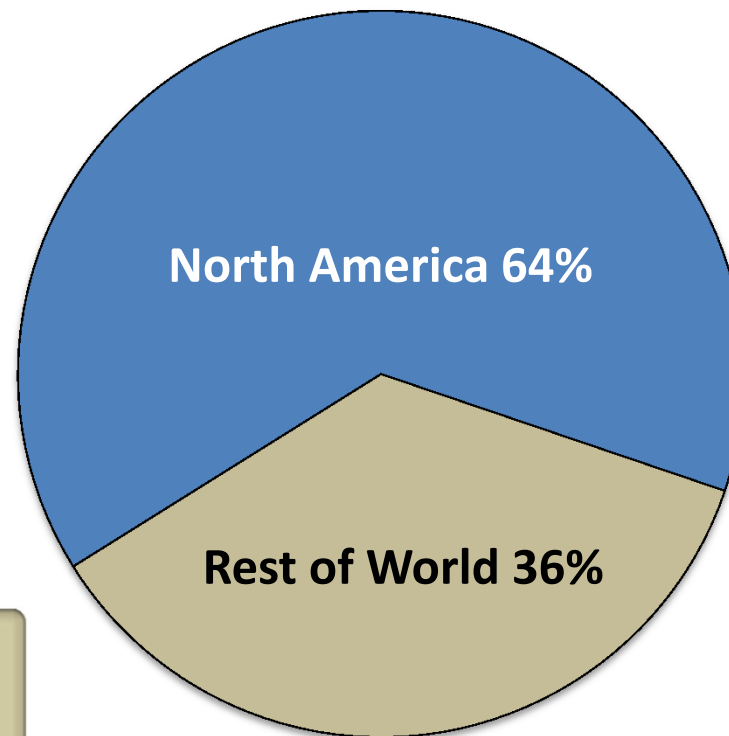
Segment Revenue

NA

- Boilers
- Water Heaters
- Water Treatment

ROW

- China/India = 95%
- Europe/Middle East = 5%



2017 full year

AC Smith

A.O. SMITH
史密斯

热水·净水·采暖·空气净化

AC Smith

India

Lochinvar
High Efficiency Water Heaters, Boilers and Pool Heaters

aquasana
Live Healthy

HAGUE
Quality Water®



Innovation in our DNA

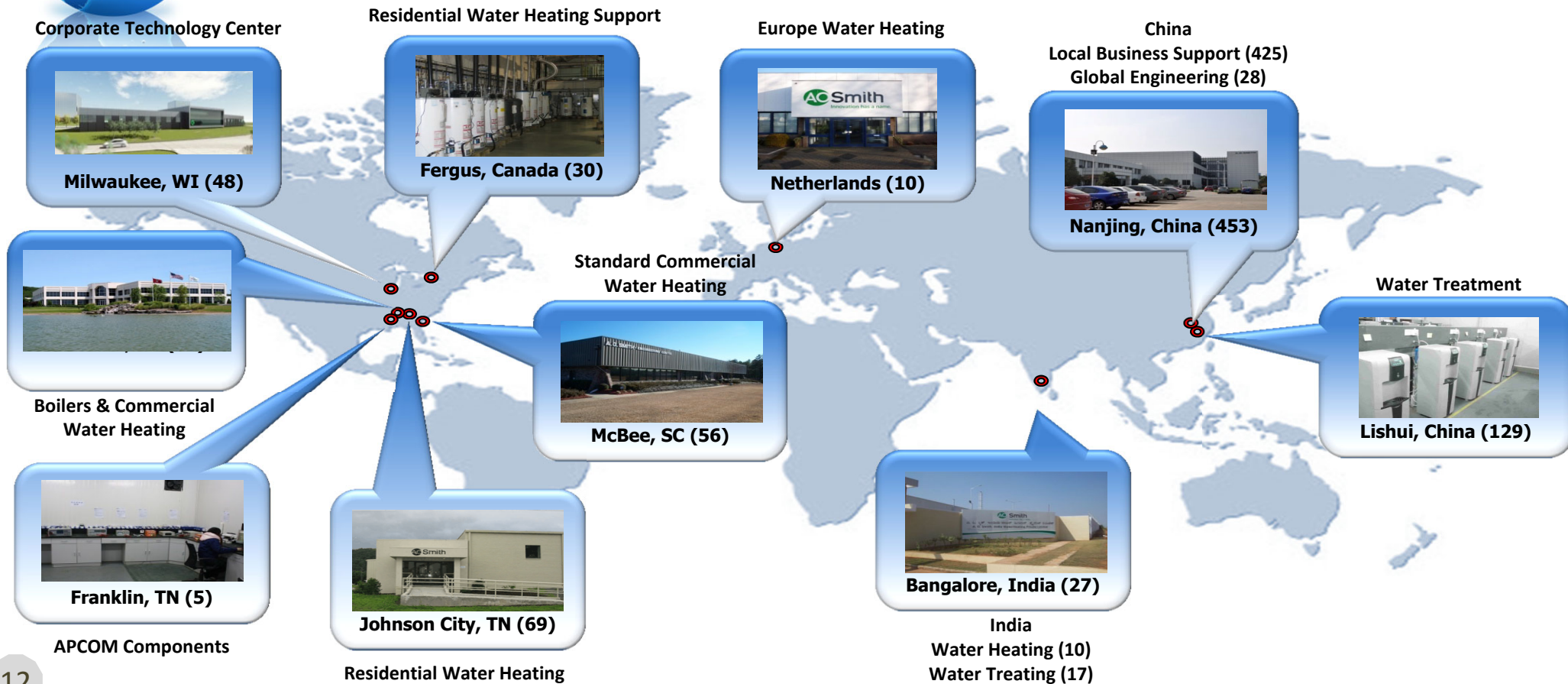
Engineering Commitment



zimmerman
ARCHITECTURAL STUDIOS, INC.



Product Engineering Centers (~887 People)





Innovation in our DNA

- Engineering commitment
- Focus on energy efficiency, electronic/sensors and IoT
- Manufacturing process: LEAN, automation & SAP
- Digital Marketing Investment
- New Corporate Technology Center in Milwaukee





A. O. Smith Analyst Day

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Dave Warren

President/General Manager - North America Water Heating



North America Water Heaters

Environment

MARKETS

Products

- Residential Gas
- Residential Electric
- Gas Tankless
- Electric Tankless
- Combi Boilers
- Hi-Efficiency Gas
- Heat Pump Electric
- Std. Commercial
- Storage Tanks
- Solar
- Pump Tanks
- Solar
- Parts

Channels

- Wholesale
- Retail
- Rental (Canada)
- Export

Geographic

- U.S.
- Canada
- Mexico
- Central & South America

TRENDS/TECHNOLOGY

Economy

- Improved Growth
- Rising Interest Rates
- Import Tariffs
- Logistic Costs/Regulation

Changing World

- Omni-Channel
- Blurring of the Channels
- Millennial Influence
- E-Commerce
- Internet of Things

Policies & Regulations

- Energy/Efficiency
- Utility Power Grid/Rebate Dollars

Talent Scarcity

- Low unemployment
- Aging Workforce
- Skilled Trade Shortage
- Driver Shortages

COMPETITORS

Residential / Commercial Water Heating

Tank-Type

- Bradford White
- Rheem

Tankless

- Navien
- Rheem
- Noritz
- Rinnai

Others

- HTP
- Intellihot
- Watts/PVI



Channels to Market - Blurring

Wholesale channel is “~55%” of the residential market

A. O. Smith's Customers

Wholesale

FERGUSON

Winsupply

Large Regional Distributors

CELEBRATING 150 YEARS
HAJOCA
PLUMBING • HEATING • INDUSTRIAL SUPPLIES
SERVICE, INTEGRITY, RELIABILITY

Retail

CELEBRATING 100 YEARS
LOWE'S
Improving Home Improvement

True Value.
START RIGHT. START HERE.™

Small Regional Distributors

Do it Best

ACE
Hardware

ORGILL
Worldwide Distribution & Retail Services

MENARDS

THE HOME DEPOT

Retail channel is “~45%” of the residential market

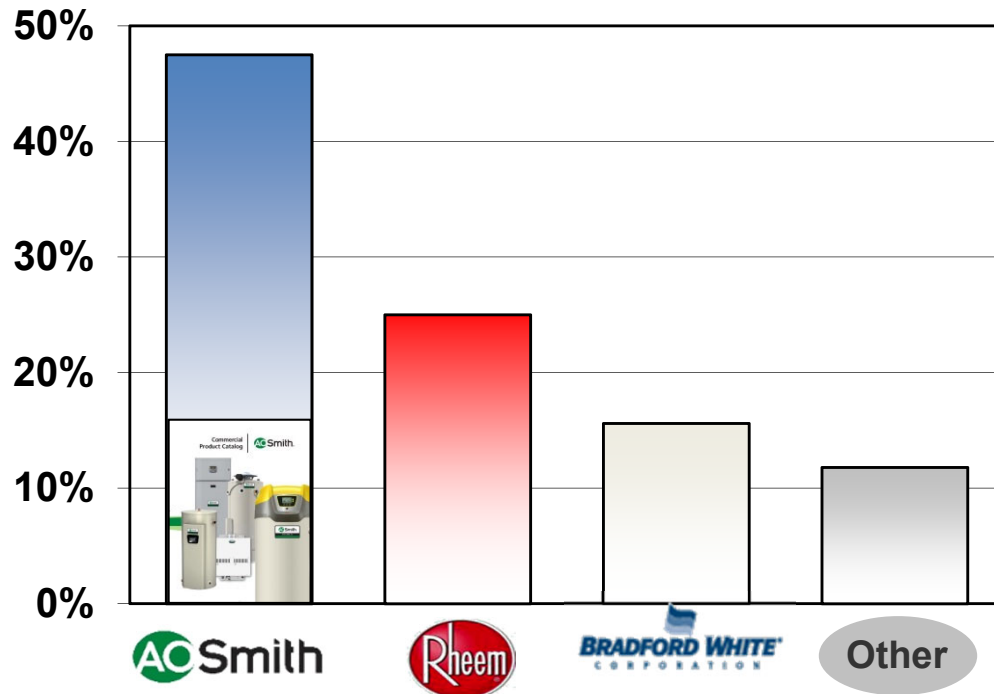
2017: ~9.2M residential units and ~246K commercial units



Commercial Market Leader

U.S. Commercial Market*

2017 market share data



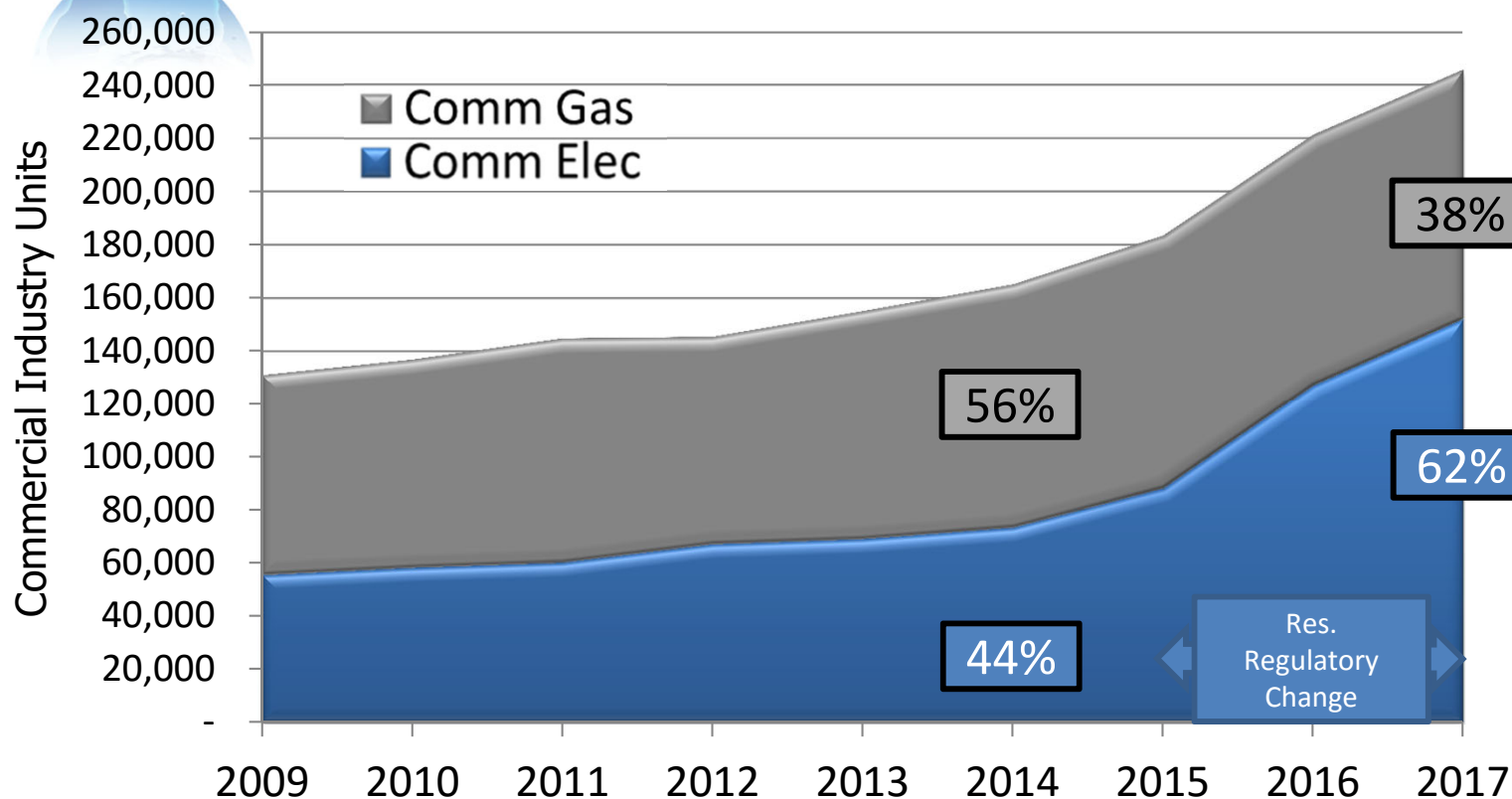
AHRI data:

AOS actual shipments and
AOS estimate of competitor'
shipments

* Commercial gas & electric segments as
defined by AHRI, total 2017 commercial
units as reported by AHRI = 246,000



Commercial Water Heater Industry



BRG forecast:

BRG predicts a CAGR of 4.4% from 2017 to 2021 for commercial electric & gas storage water heaters

Source: AHRI Industry Data, BRG North American Heating & Cooling Product Markets 2018 Edition



Supporting Commercial Growth

- Program/Services
 - National Accounts: Direct relationships...local inventory
 - 24/7 program: Local inventory / delivery capabilities
 - U.L. Certified commercial electric conversion programs
 - Engineer Specifications: Broad product range...all applications
- Products
 - New product development plans in place to deliver innovative solutions in 2019 and beyond
 - Connectivity standard on all Cyclone products





Cyclone – Innovation has a Name

- Game changing energy efficient commercial product launched in 1997 and upgraded six times
 - IoT / Wi-Fi enabled
- Up to 96% thermal efficiency dramatically lowers operating costs offering short payback
- Represents a significant percentage of commercial water heater revenues

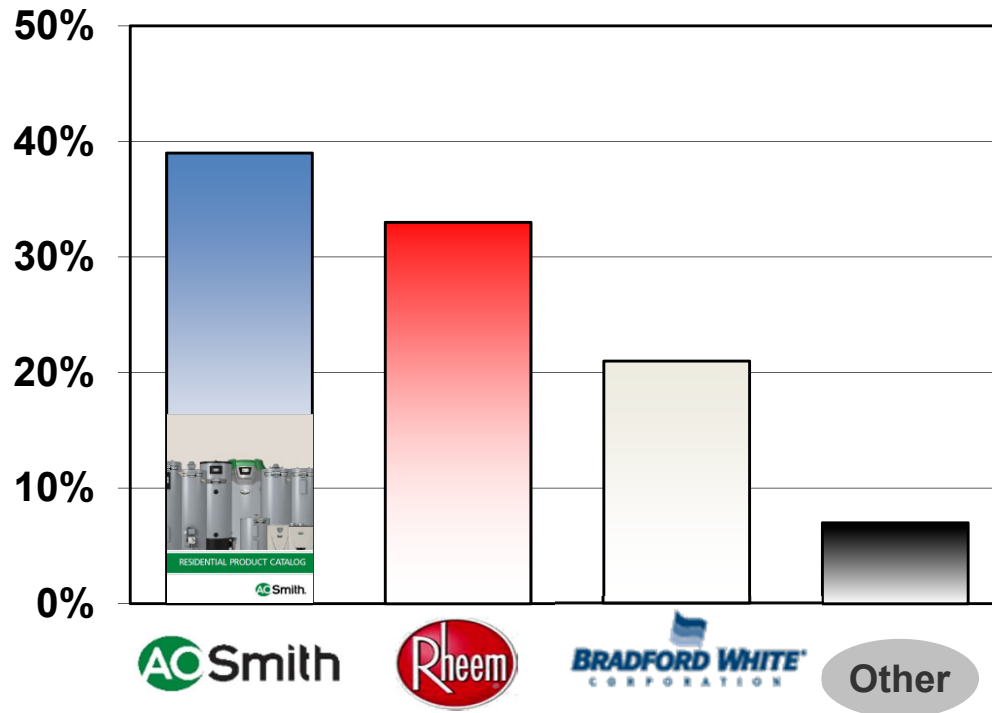


Innovation, training and 24/7 National account customer service drive market leadership



Residential Market Leader

U.S. Residential Market



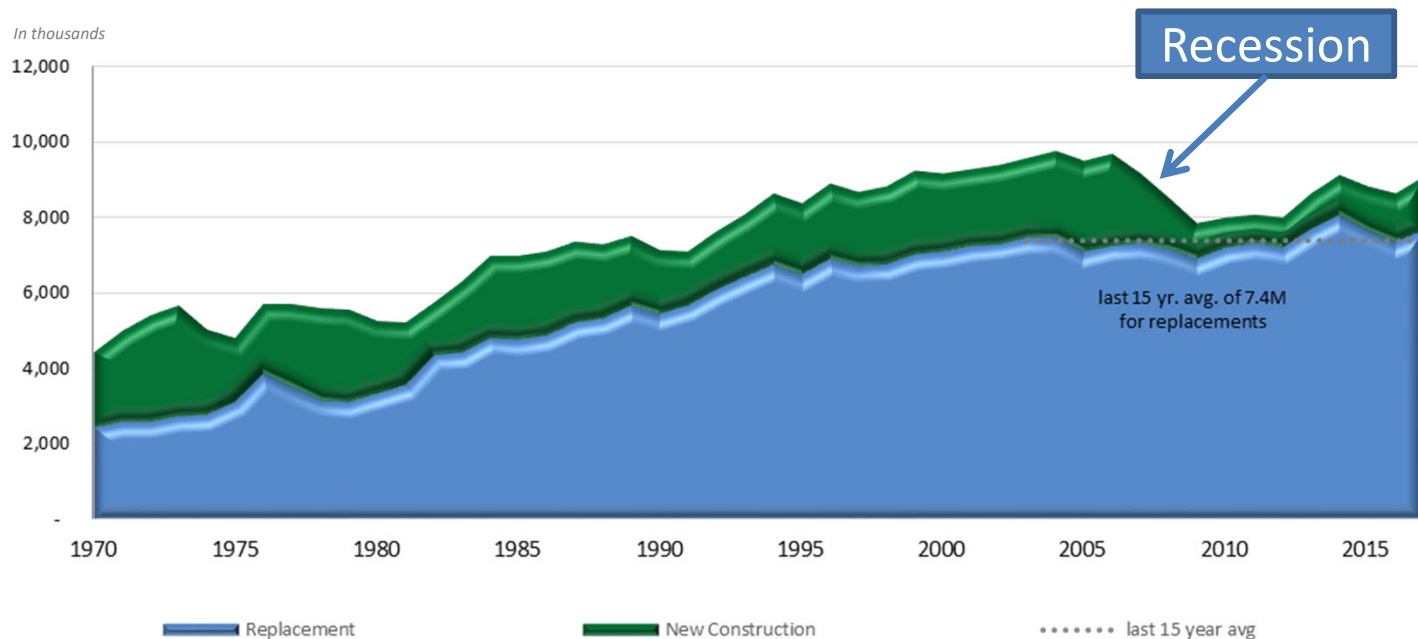
AHRI data:

AOS actual shipments and
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2017 market share data



Residential Water Heater Industry

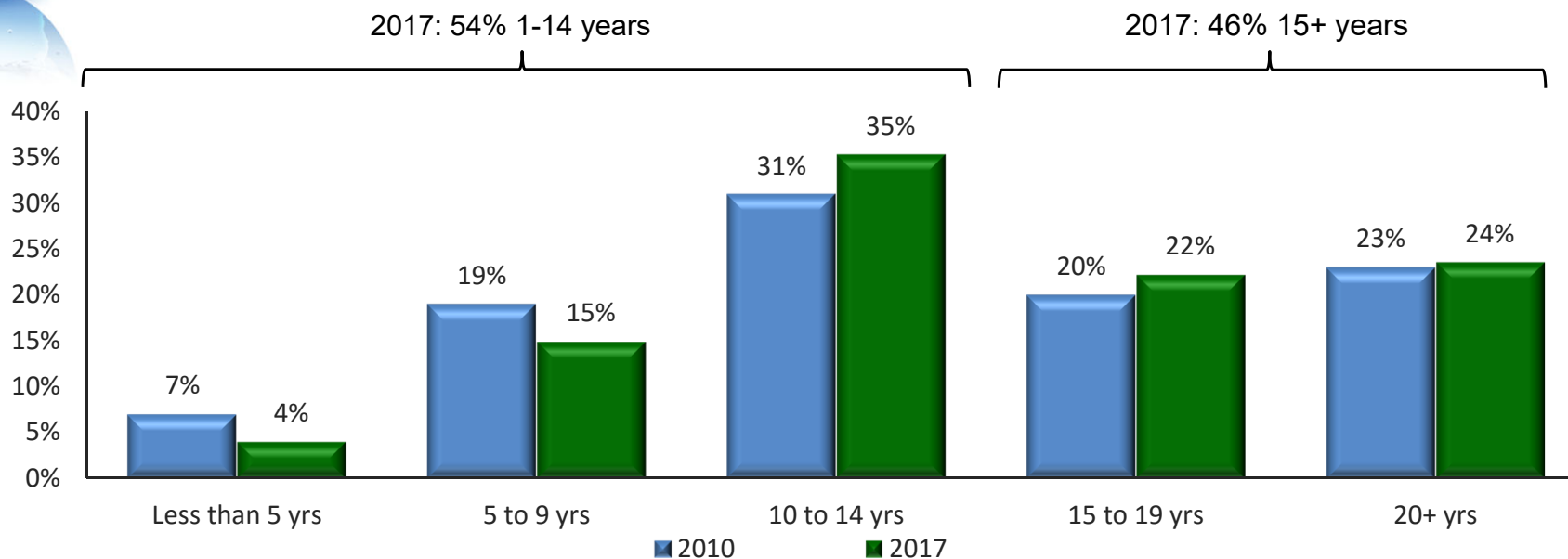


- New construction water heater installations...year over year growth since 2011
- New construction installations were approximately 14.5% of annual sales in 2017
- Replacement market has been steady over the past 15 years

Source: Census Bureau Housing Completions, AHRI Industry Data, Kestat Surveys from 2004-2017



Impact Muted by Replacement Cycle



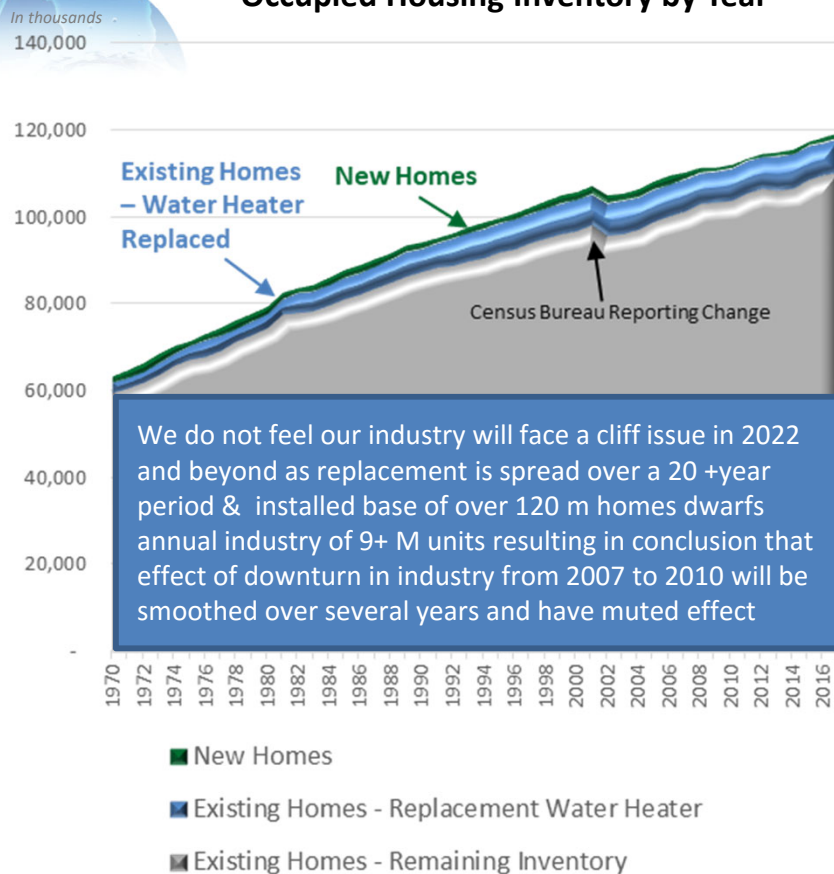
- Residential tank type water heaters have an average life ~14 years
- Almost 50% of residential water heaters are replaced after 15 years
- A 20+ year replacement cycle mutes short-term new construction fluctuations

Source: Census Bureau Housing Completions, AHRI Industry Data, Keystat Surveys from 2010, 2017



Residential Market – Growth / Stability

Occupied Housing Inventory by Year



- A stable replacement market is driven by a large occupied housing base in the U.S.
- Factors impacting growth in replacement market
 - Growth of the housing stock
 - Product Life-cycle
 - Disposable Income / Consumer Confidence
- Occupied housing is about 14x the size of the residential industry
- BRG forecasts a CAGR of 3.0% from 2017 to 2021 for the residential industry

Source: Census Bureau Current Population Survey/Housing Vacancy Survey, Census Bureau Housing Completions, AHRI Industry Data



Residential Growth Strategy

- Improve downstream demand creation by leveraging and expanding digital capabilities and tools
 - Repair and Replacement Contractors
 - Utilities
 - Builders
- Entering new product categories and showing leadership in emerging technologies
 - Tankless Electric and Heat Pump





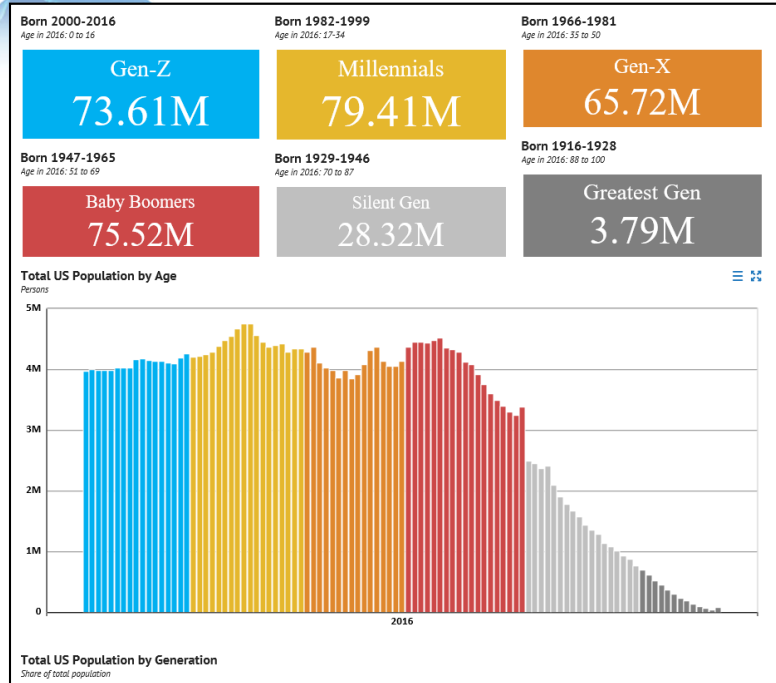
Tankless Strategy (Gas & Electric)

- Only ~8% of the total market today, but growing
- Improve market position with innovative products
- Superior customer support and a best-in-class training facility
- Leverage our infrastructure to support representatives and our existing footprint in both the wholesale and retail channels

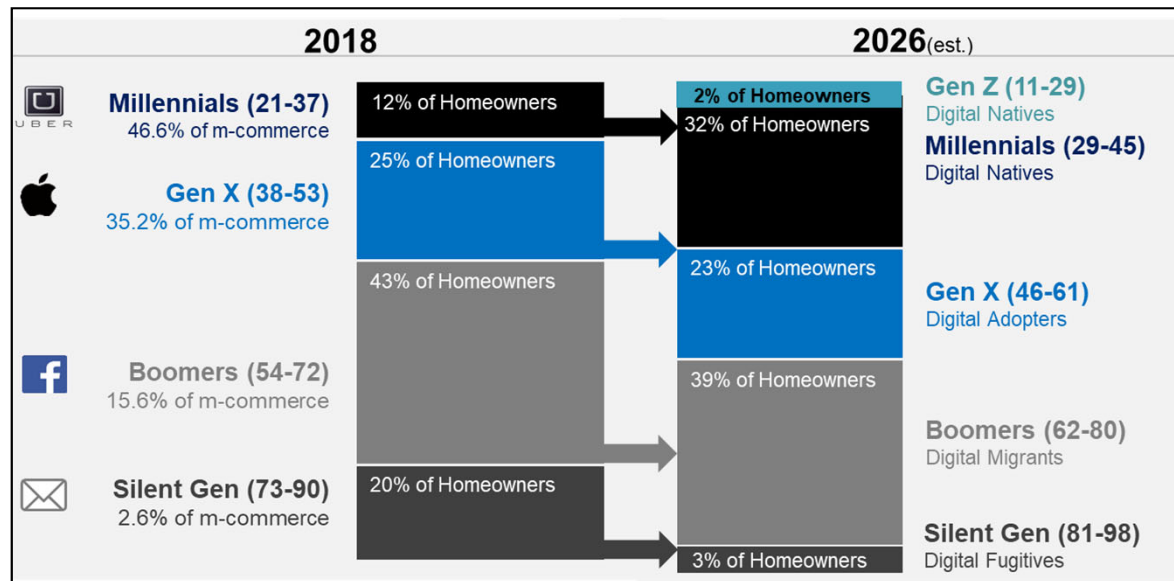




Millennials Driving Change



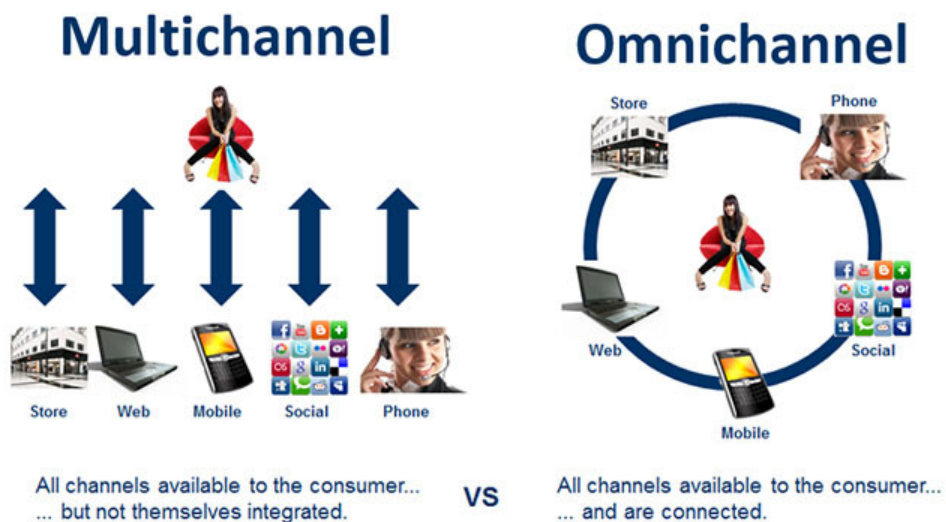
Millennials expectations Impacting the business environment....Seeking seamless transactions





Multi-Channel vs. Omni-Channel

- A move from Multi-channel capabilities to Omni-channel capabilities...the goal is a consistent and seamless experience for the customer to better engage and convert

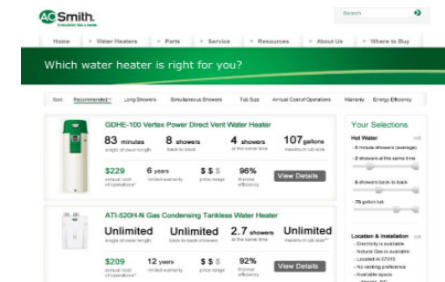
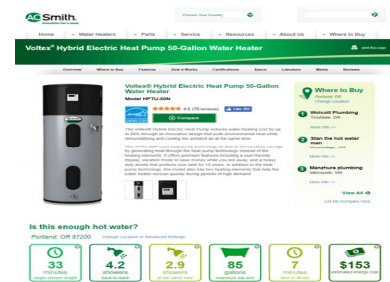


Implementing a
Product Information Management
tool to Manage Content

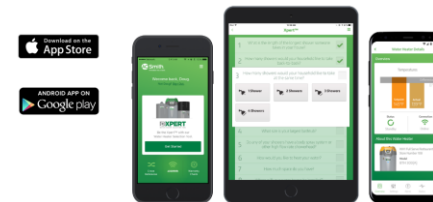
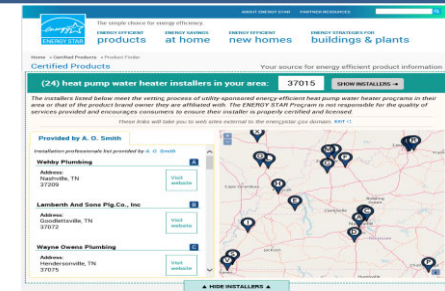
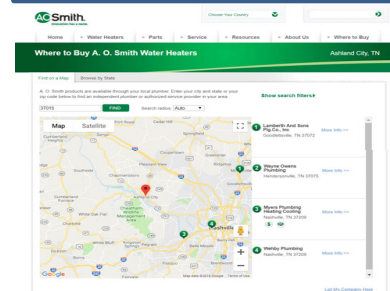


Expanding Digital Capabilities

- Product Selection Tools
 - Based on local inputs
 - Improve product mix
- Lead Generation
 - Driving channel loyalty
- Web/App capabilities
 - Contractor sales tool
 - Customized solutions



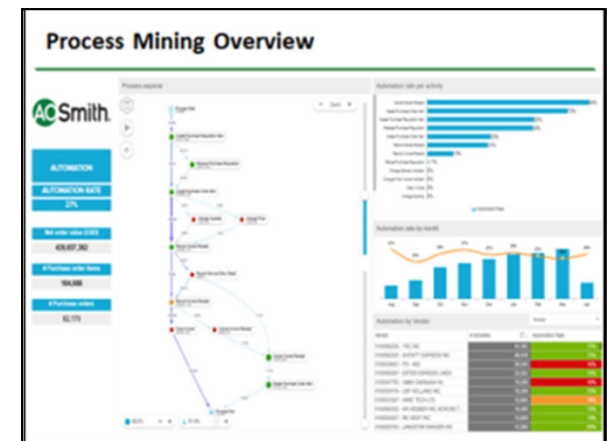
Downstream Demand Creation





Building Lean Capabilities and Tools

- Value stream mapping and improvement through management kaizen events
- Product information management to efficiently manage data/content
- Supervisory control and data acquisition (**SCADA**) driving operational efficiencies





Four Percent Total Growth

- Full year impact in 2019 from June 2018 price increase
- Commercial construction growth
- Continued transition to condensing water heaters (Cyclone)
- Growth opportunities with the new home construction recovery and as the U.S. housing stock grows
- Leverage technology to improve downstream demand



India



Environment

MARKET

Products

- Water Heaters
- Wall Hung Electric
- Instant Electric
- Gas Instantaneous
- Water Treatment
- Reverse Osmosis
- UV
- Under the Counter
- Gravity

Channels

- Direct Sales
- Appliance Dealers
- Sanitary Ware
- Electric Wholesale
- Modern Retail
- Developers
- E-Trailers

Geographic

- A, B & C Markets Drive Volume

Mega Trends

Economy

- GDP growth for last quarter came highest among last 6 quarters at 7.7%
- Inflation under pressure on account of oil and dollar pressure

Environmental

- Energy Efficiency
- Clean Water and Air
- Water Conservation

Digital Media

- Web/Social Media
- E-Commerce

COMPETITORS

Water Heating

- Racold
- Bajaj
- Venus
- Crompton Greaves
- V-Guard
- Haier

Water Treatment

- Eureka Forbes
- Kent
- HUL
- Livpure
- LG
- Whirlpool
- Panasonic



Business Model In India Similar to China

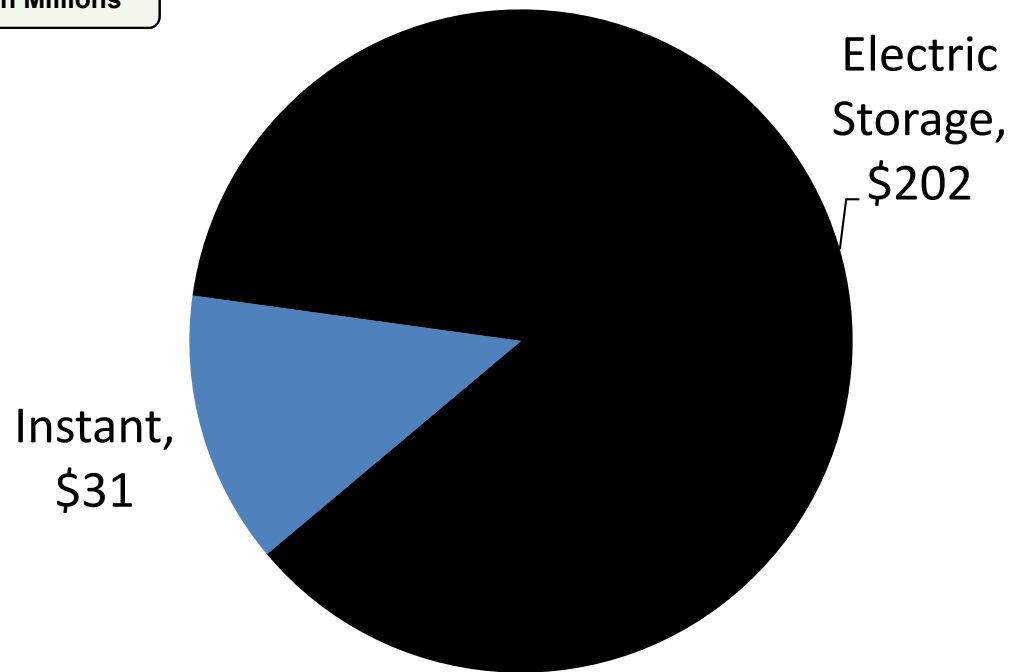
- Leveraging Global Capabilities with Products Designed for the Indian Market
- Building Premium Brand & Expanding our Distribution
- Local Management



India Water Heater Market

Market: \$233 million

\$ in Millions



Market share leader by value: ~15%

Market growth by value: 9%

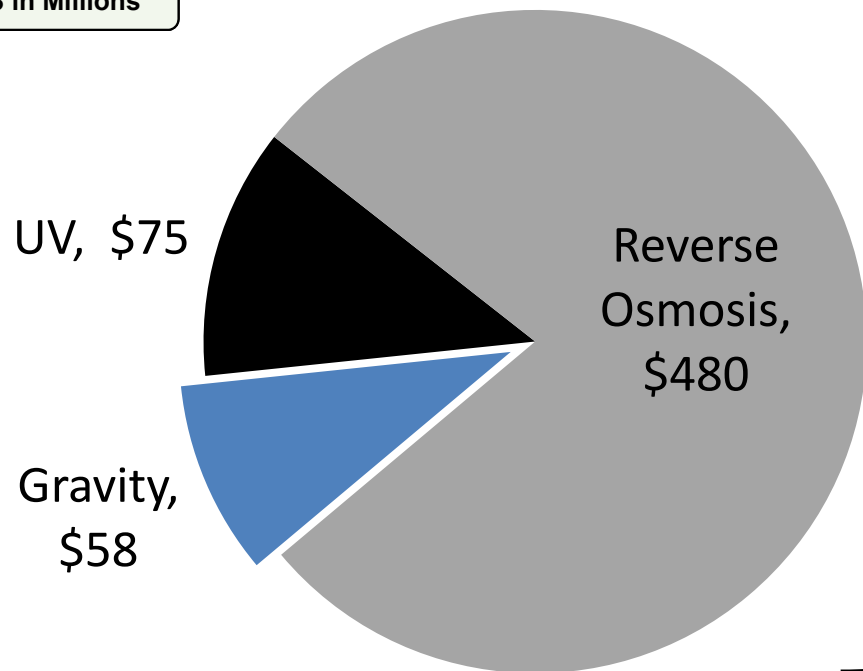
Source: GFK Retail (March 2018)



India Water Treatment Market

Market: \$613 million

\$ in Millions



AOS Focus: ~\$550 million

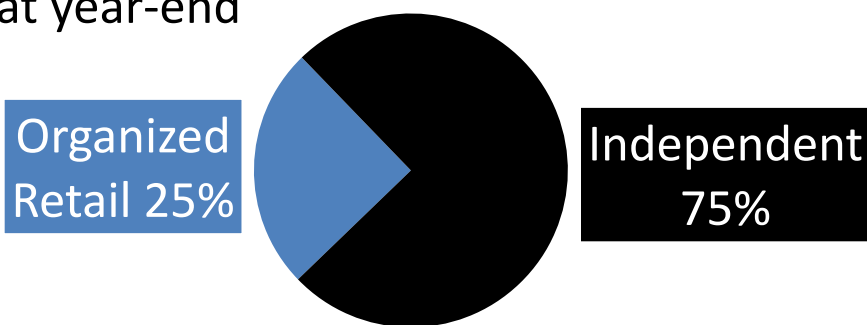
Market growth by value: 13%

Source: GFK Retail (March 2018)



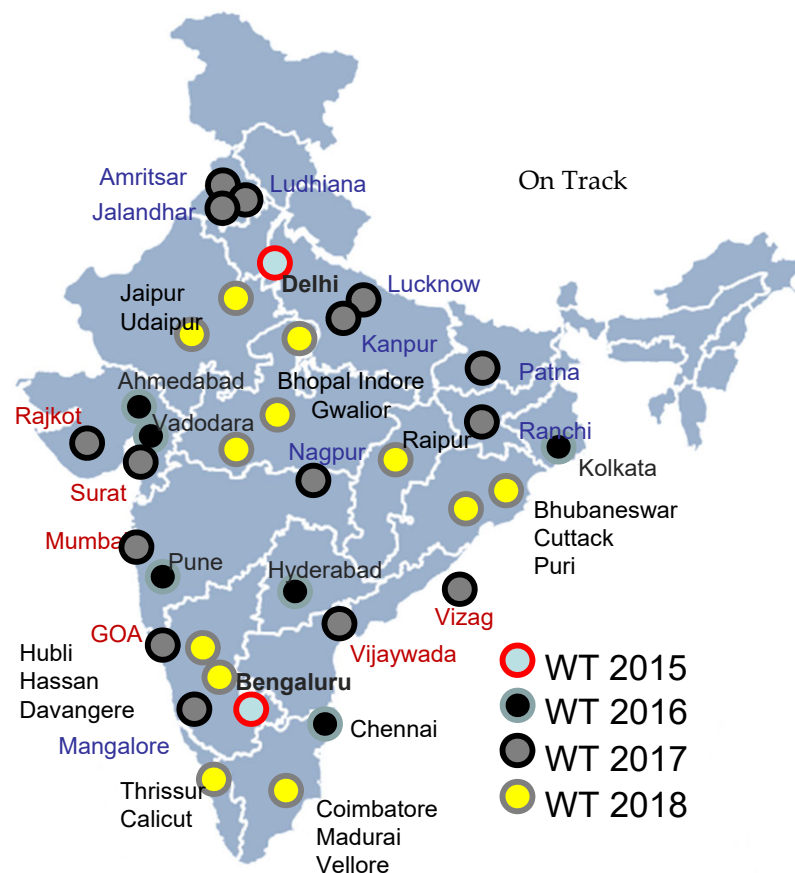
Water Treatment Distribution

- Pan India by end of 2018
 - Growing city presence form 35 to 46
 - Provide access to 75 percent of the market at year-end



India Water Treatment Markets Channels

- E-Commerce growing, <7 percent of market
- Direct sales (door to door) diminished in tier 1 cities; still present in tier 2 & 3 cities



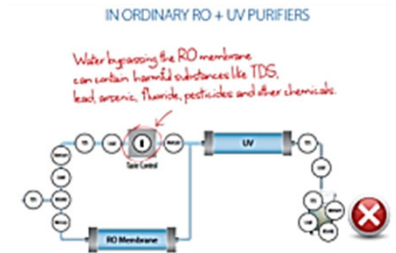
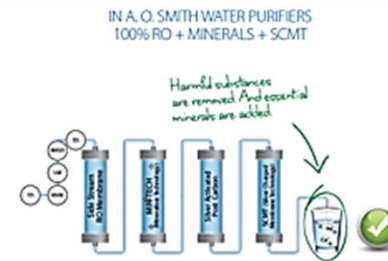


Water Treatment Brand Strategy

- “Raise the Bar” advertising campaign
 - Effie award in India
- Expand counter share
- New products

Always
Raising
The Bar

100% RO , Zero Compromise





New Product – Green RO Series

Z9



Z8



X8



X4+



HIGHLIGHTS



Saves 2X water
Hot & ambient temperature



1 year comprehensive warranty
Hot & ambient temperature



Double protection



Hot water for coffee/tea



High Growth Drivers

- Favorable demographics and growing middle class
- Market share leader in electric storage water heaters (by value)
- RO category growing in double digits
- Water Purifiers is a low penetrated category in India (7%)
- A. O. Smith innovating through new products: high recovery technology (Green RO series)
- Pan India roll out, providing us access to 75% of the market
- Investing in “digital medium” for most cost effective consumer reach

Projection: Breakeven in 2020



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Eddie Goodwin

President/General Manager - Lochinvar



North America Boilers

Environment

MARKETS

Commercial Boilers

- Copper
- Condensing

Commercial Water Heaters

- Copper
- Condensing
- Tank Type
- Custom

Residential Boilers

- Condensing
- Combi

Market Focus

- North America
- China

TRENDS/TECHNOLOGY

Energy Efficiency

- Low cost natural gas
- Government
- Price of Oil

Internet Connectivity

Declining Copper Market

Lack of Skilled Trade Labor

Reduced Footprint

Shift from non-condensing to condensing

COMPETITORS

Commercial Condensing Boilers

- Aerco
- Fulton
- Laars

Residential Condensing Boilers

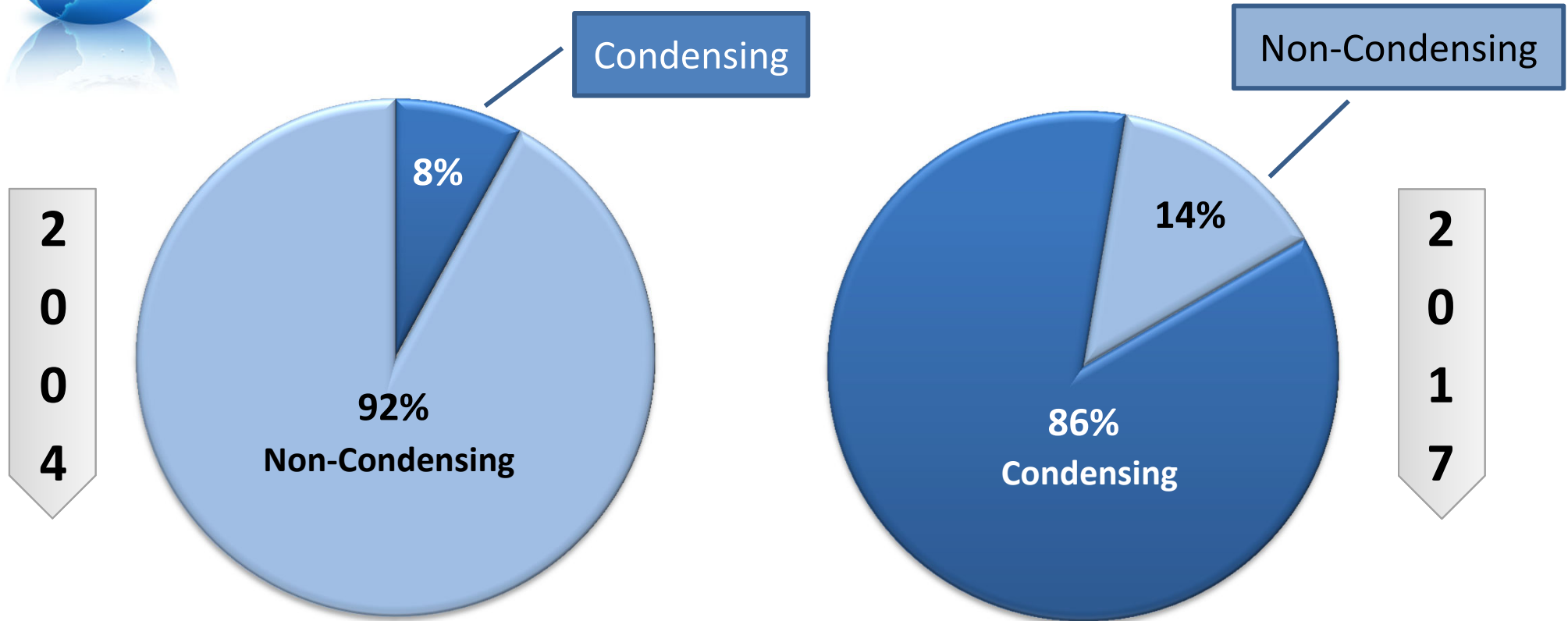
- HTP
- Triangle Tube

Residential Combi

- Navien
- Rinnai



AOS Boiler Sales Dollars* Condensing vs. Non-Condensing

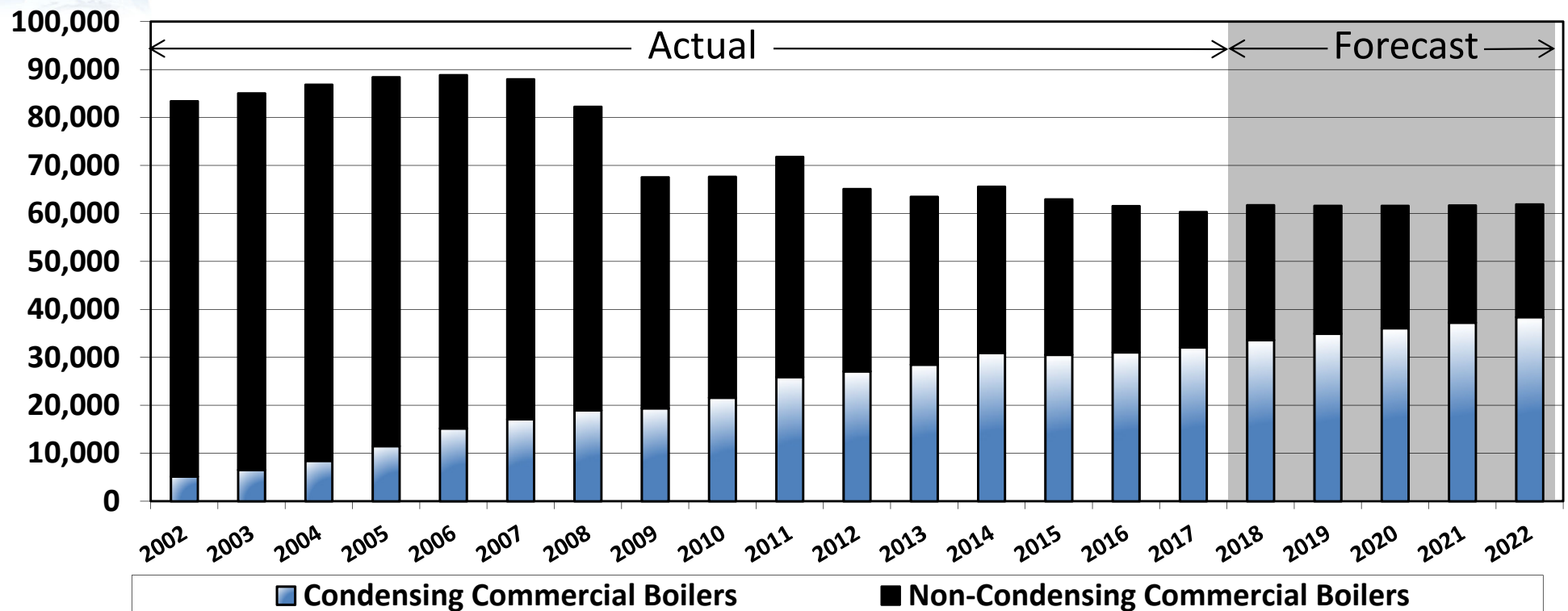


*Residential Boilers & Commercial Boilers



Trend to Higher Efficiency, Condensing Boilers – 53 percent of units sold in 2017

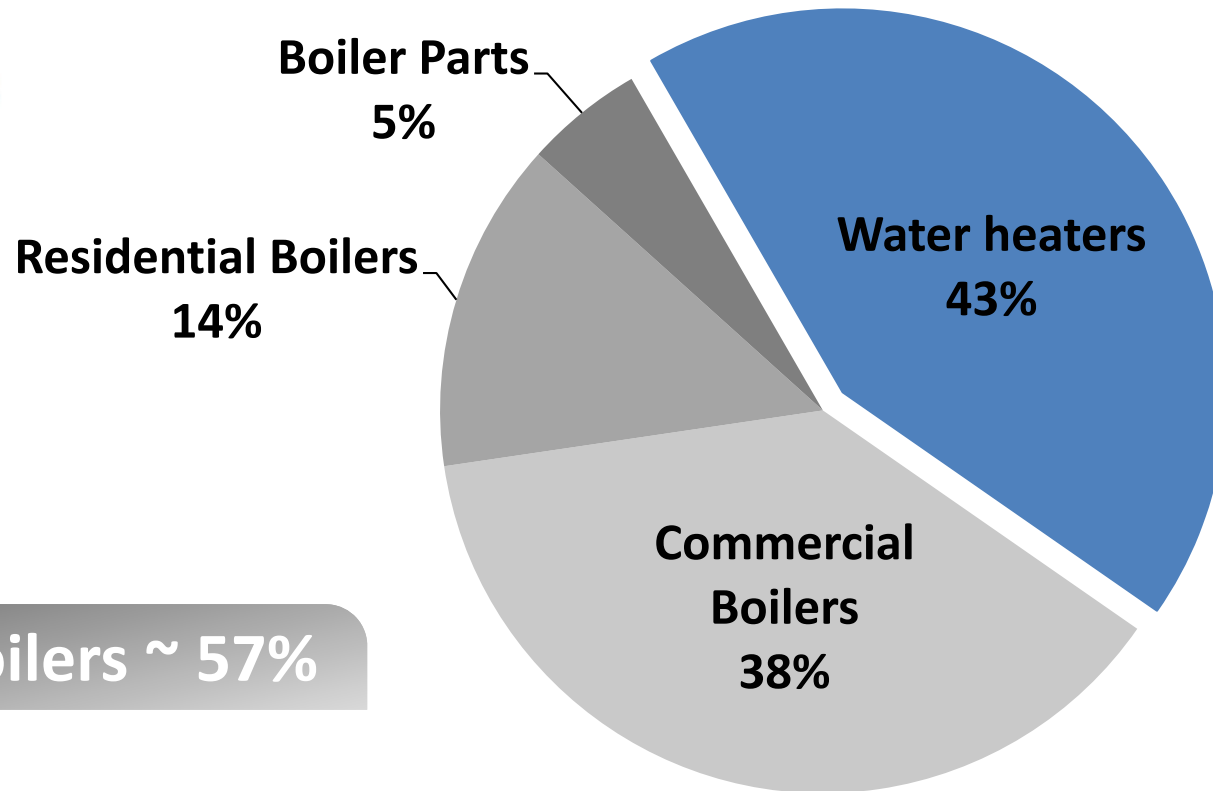
North American Commercial Boiler Volume (Units)



Source: BRG Building Solutions



Lochinvar Product Segments





Lochinvar Products by Sales Channel

- Manufacturers' Buy/Sell Reps:
 - Majority of commercial boilers
 - Majority of custom commercial water heaters
 - Portion of residential boilers

- Wholesale
 - Remainder of commercial boilers
 - Remainder of custom commercial water heaters
 - Majority of residential boilers



Buy/Sell Rep Advantages

- Instrumental in revenue growth of commercial product segments
- Investment in their business
 - Knowledgeable sales personnel
 - Inventory
 - Provide technical training
 - Start-up service, service support and warranty
 - Customer service support
- Engineering community engagement
 - Factory visits/Lochinvar experience
 - Specification strength



Attracting Best Reps

- Lochinvar attracts the best reps due to:
 - Breadth of Lochinvar product line
 - Quality of Lochinvar Products
 - Profitability opportunity
 - Continuous stream of new products
 - Support – Technical, Education and Training
- Industry leading rep roster throughout North America – provides Competitive advantage



Lochinvar Engineering Laboratory

- Industry leading product development and testing facility
- Test stations – 31 test stations totally over 100 million Btu/hr capacity



Research & Development Lab



Lochinvar University



Competitive Advantage: Educating and Training the Industry



Lochinvar New Product Development

- 62 people in our Engineering organization
- 26 degreed Engineers
- Some recently introduced products:



Residential Boiler



Knight Upgrade



Noble Combi Boiler



Commercial Water Heater



Armor

Connectivity - ConXus



Commercial Boiler



Crest Boiler Enhancement





Continue to Drive 10 Percent Boiler Growth

- Industry leading new product development
 - Market share gains
- Expand training/education
 - Lochinvar University
 - LochinvarU® (on-line)
- Explore new technologies/alternate energy
 - Commercial heat pump
 - Micro CHP (combined heat + power)
- Internet connectivity
 - Con•X•Us platform
- China
 - Commercial boilers
- Continued market transition to condensing

**HOW WE HAVE
GROWN IS
HOW WE WILL
GROW**

BREAK

WE WILL RESUME SHORTLY



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Sam Karge

President / General Manager - North America Water Treatment



North America Water Treatment

Environment

MARKETS

Point of Entry

Conditioning & Filtration

- Whole Home Softening
- Whole Home Sediment Filtration
- Whole Home Lead Filtration

Drinking Water Filtration

- Under Sink Carbon Filtration
- Reverse Osmosis Filtration
- Pitcher & Counter Top Filtration
- Refrigerator Filtration

Market Focus

- USA and Canada

Market Channels

- Water Quality Dealer
- Big Box Retail
- Plumbers & Contractors/ Wholesale
- Direct To Consumer
- Amazon

TRENDS/TECHNOLOGY

Contaminant Concerns

- Lead (Flint)
- PFOA (Perfluorinated Organic Compounds)
- Nitrates, Chromium 6 & Arsenic
- Pharmaceuticals

Environmental

- Water Scarcity & Conservation
- Bottled Water Waste
- Deteriorating Infrastructure

Technologies

- Reverse Osmosis
- Ion-Exchange Water Conditioning
- Carbon Filtration
- Media Filtration
- Ultra-Violet Light
- Chlorine & Chemical Treatment
- Ultra-Filtration

- Pitcher Filtration
- Refrigerator Filtration

COMPETITORS

Point of Entry Systems

- Culligan
- EcoWater
- Pentair
- Kinetico
- Independent OEM's & Dealers

Point of Use Systems

- 3M/CUNO
- Watts
- Culligan
- EcoWater
- Kinetico
- Pentair
- Brita Pro

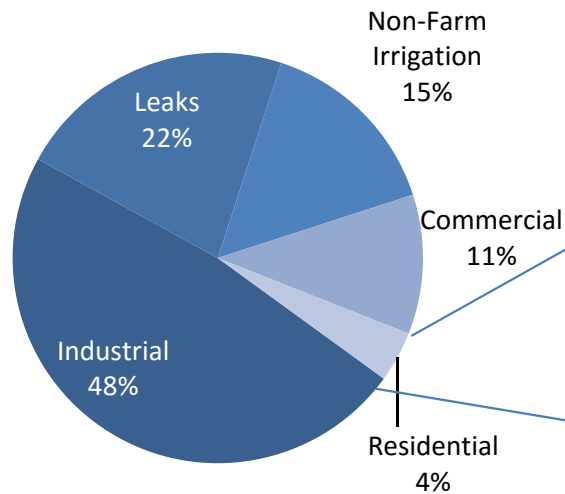
Direct To Consumer Players

- Pelican Water
- APEC/iSpring
- Waterfilters.com



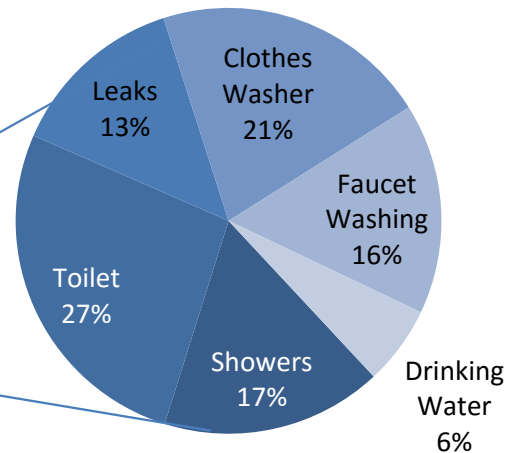
North America Water Treatment

USA Water Usage*



**42Bn gallons of water
used each day in the USA**

Domestic Use



**The average family of four
uses approximately 150-
200 gallons per day**



**Less than 1% of water
produced is actually
consumed by people**

Source: EPA Water Sense 2015

*Does not include Agriculture/Irrigation water use



Escalating Water Concerns

EPA United States Environmental Protection Agency

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Ground Water and Drinking Water

Ground Water and Drinking Water Home

Basic Information

Private Wells

Consumer Confidence Reports

Regulatory Requirements

Standards and Health Advisories

Safe Drinking Water Act

Information System

For Students and Teachers

Drinking Water Health Advisories for PFOA and PFOS

Latest Articles:

PFOS and PFOA: What You Need to Know About These Common Chemicals

Posted by Kayla Grossman

EYES ON MILWAUKEE

\$750 Million to Replace Lead Pipes

Solutions to city's lead laterals expensive and not simple, council members find.

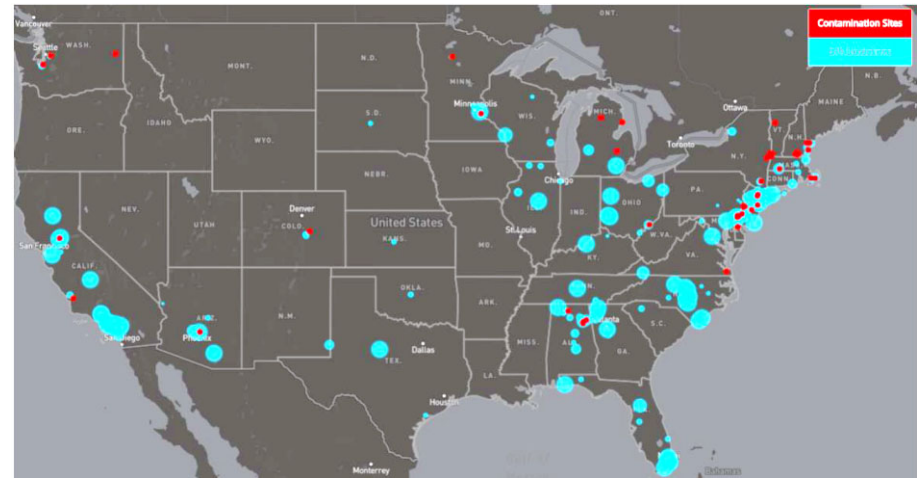
Chicago's drinking water is full of lead, report says

By Alex Lubben Apr 13, 2018

Over the past decade, cryptic acronyms PFOA and PFOS have worked their way into the corners of the globe. To humans and wildlife, they are invisible, but they are everywhere. How to avoid them and what to do about them is the question.

By Jeramie Jannone - Jan 2018

Sign-up for the Urban M



National Headlines on Water Quality

1. Lead crisis: Flint, Milwaukee, Chicago, NJ...
2. PFOA/PFOS & Chromium 6: Rural water across the country
3. Consumer awareness is now driven by contaminant concerns, not taste & odor



USA Water Treatment Segments

Under Sink Filters

Approximately 800K systems sold per year; Includes RO & Carbon Systems

Water Filter Change compliance is only 20%**

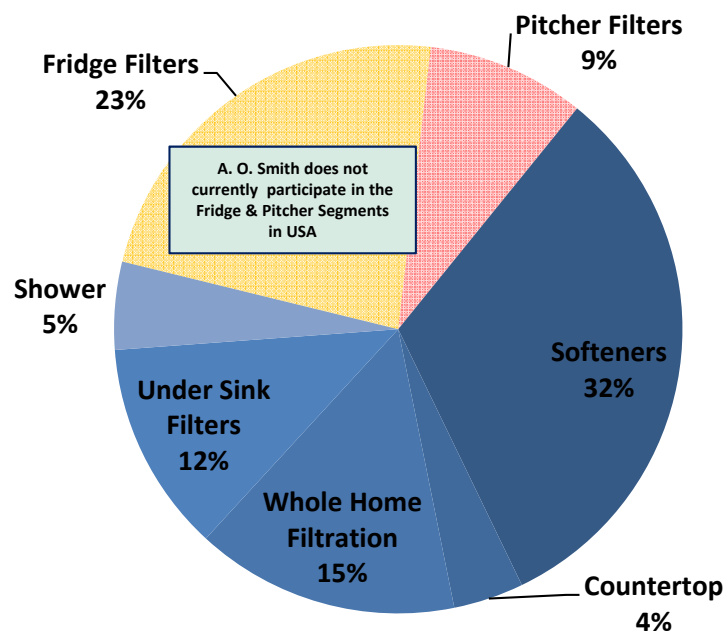
Whole Home Filters

Fastest growing market segment

Growing at "high teens" due to Water Quality issues

Water Treatment USA; Residential Channels

Addressable A. O. Smith Market \$2.3Bn



Estimated Total USA Market Size \$3.5 Bn*

Market size by equipment sales value

Water Softeners

Approximately 1M+ units expected to sell in 2018

Growth 2017-2018 tracking at nearly 10% YOY**

Water Softeners are penetrated in to 11% of US Households**

* A. O. Smith Primary Quantitative, Market Segmentation Research, April 2017

** Source Water Quality Association Consumer & Dealer Survey Reports

According to the WQA; Excluding fridge filters, water treatment is only penetrated in to about 23%** of USA Households



A. O. Smith Water Treatment Timeline

Strategy & Business Development

A. O. Smith North America consumer-driven strategy created



A. O. Smith consumer comprehensive research program executed



Water Quality Dealer channel development



A. O. Smith wholesale channel development

2010-2012

2013-2015

2016

2017

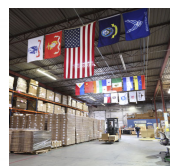
2018

2019

Acquisitions & Market Development

A. O. Smith Global Water Treatment Platform Developed:

- China – Chanitex Acquisition
- A. O. Smith Turkey
- A. O. Smith India
- A. O. Smith Vietnam





Consumer Research- 2017

Step 1:
Survey Gen
Pop topics =
filtration &
softening
categories

Step 2:
Segment the
market and
prioritize
based on
opportunity

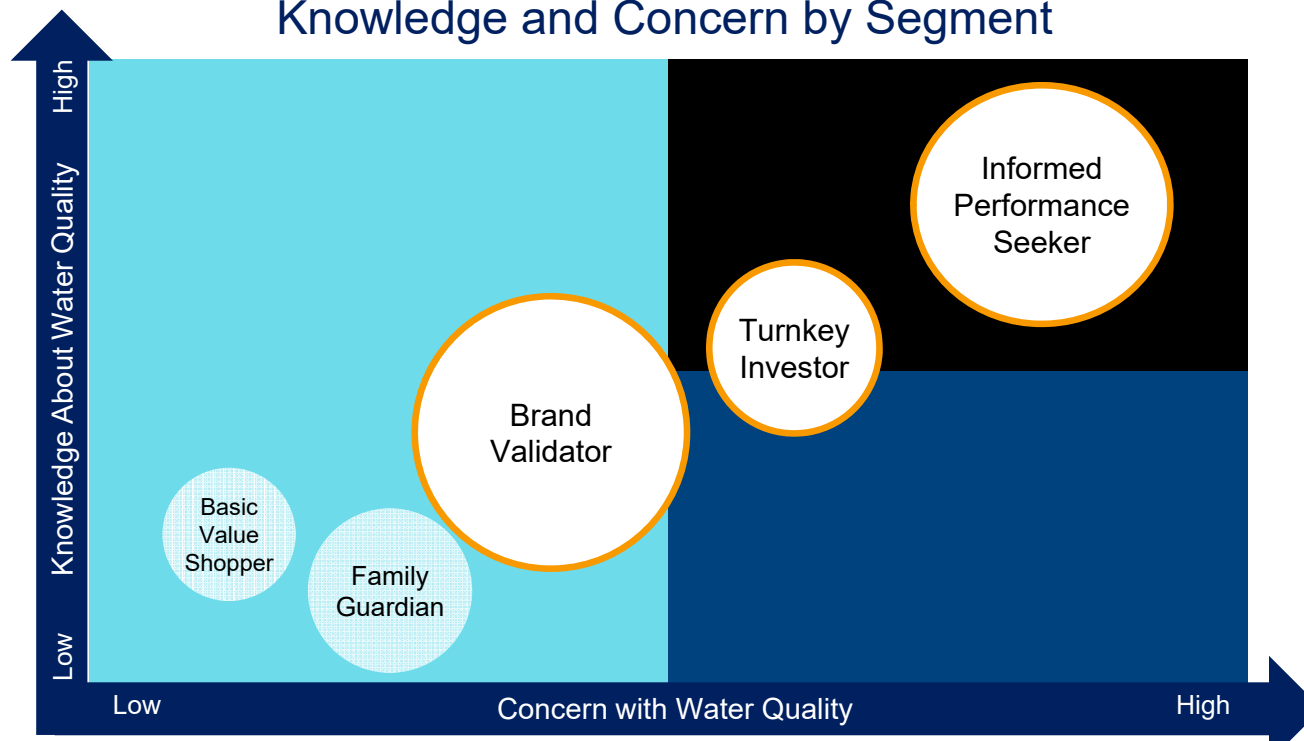
Step 3:
Gather deep
segment
knowledge via
journeys

Step 4:
Develop &
Test
Hypotheses
via Discrete
Choice
Modeling

Step 5:
Formulate a
Strategy

Comprehensive
study: over 3000
consumers
participated in study

Knowledge and Concern by Segment



Top Conclusions

1. Consumers driven by contaminants in water, not by aesthetics of their water
2. Consumers don't understand water quality; need coaching to find the right solution

Research Output

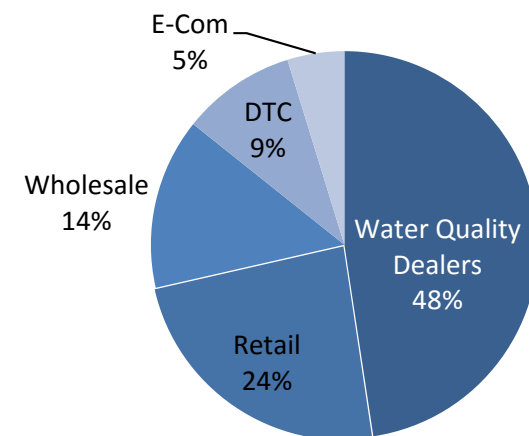
1. Lowe's merchandising strategy driven directly from research
2. Dealer product & growth strategy updated from research



Complete Channel Strategy



Water Treatment Market Channels



Sources:

- A. O. Smith Primary Quantitative, Market Segmentation Research, April 2017
- Water Quality Association 2017 Consumer Opinion Study





A. O. Smith Differentiated Technologies

MAX 4.0™ RO System

- Tankless RO with 4-year membrane life
- 4-to-1 water recovery
- SideStream™ element technology



Claryum™ Filter

- Certified to remove 77 contaminants
- Most certified carbon filter on the market



Reverse Osmosis

Carbon Filtration



A. O. Smith Technology Group:

- 275 Water Treatment Engineering professionals Globally
- New Corporate Technology Center Milwaukee
- Global Engineering Center- China
- Industry's best R&D facilities in the world

Advanced Carbon

Ion Exchange

Rhino™ Whole Home Filter

- Two chamber filter
- Reduces chlorine, taste, odor & chloramine
- No electricity required



WaterMax™ Conditioning Technology

- Highest efficiency water softener
- Integral whole home filtration technology
- Compact size with full flow performance



A. O. Smith has differentiated technologies; and continues to develop for the future



Comprehensive Product Offering

Point of Entry Products



Whole Home
Filtration



Whole Home
Softeners/Filters

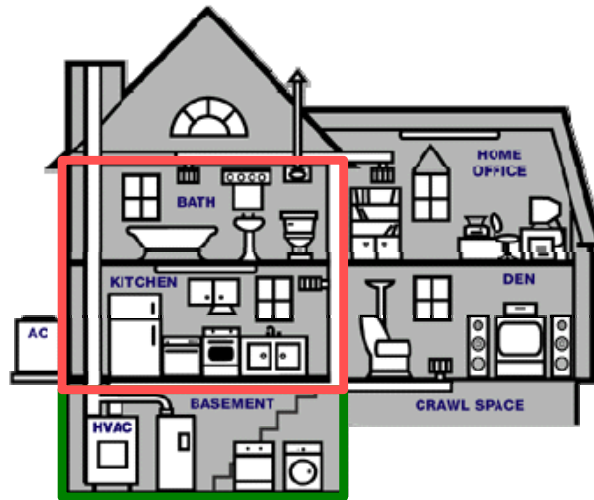


Image source: United States EPA Water Sense 2008

Non-Installed Products



Clean Water
Machine



On-the-Go Filter
Bottles

Point of Use Products



Whole Kitchen
Filtration



Tankless RO
Systems



Traditional RO
Systems

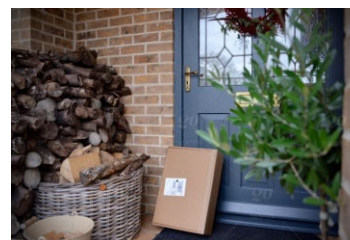


Under Sink
Filtration



Ensuring Optimal Filtration

Water For Life™ Program



- Automatic filter deliveries by subscription to consumer
- Arrive every 6 months
- Over 140,000 subscribers in Aquasana/A. O. Smith Program today
- Ensures filter change to maintain best quality water for consumer
- Ties to filter change reminders and online tools to ensure optimal filter performance
- Market-leading program; largest in the USA

Strong Financial Annuity Model for A. O. Smith



Consumer Research is Driving Strategy

1. Research Conclusion:
Consumers are concerned about
contaminants

A. O. Smith Solution:

1. Develop Lowe's display that drives a simple solution for each contaminant concern
2. Create a product line that doesn't make a consumer choose between two contaminant concerns – each solution adds on to the previous version



2. Research Conclusion:
Consumers don't want to be water
experts

Our Research says that 67%* of consumers
research their product purchases online
before they buy:

1. Create intuitive displays that lead consumers to the right solutions for their contaminant concerns
2. Integrate online selection tools that consumers can use at home or on their smartphone while at the store

AOSmithatlowes.com
www.Aquasana.com





Water Treatment Growth at 15+%

1. Strong Channel & Product Distribution Strategy; our ability to participate in all 5 channel segments
2. Complete product portfolio; which covers the entire home at the Point of Use and Point of Entry
3. Unique R&D capabilities in USA and China to develop market-leading new technologies and world-class product platforms
4. Strong megatrends supporting Water Treatment; aging infrastructure, plastic bottle backlash, escalating water concerns & healthy living millennial generation
5. Unparalleled consumer research to drive; channel, product and market development unlike anyone else in the industry



A. O. Smith Analyst Day

November 5, 2018
Waldorf Astoria - Chicago

Wei Ding

President/General Manager - China



Environment

MARKETS

Products

- Residential Gas
- Residential Electric
- Water Purifier
- Heat Pump
- Combi Boiler
- Water Softener
- Air Purifier
- Commercial Boiler
- Parts

Channels

- Retail
- Specialty AOS Stores
- E-Commerce
- Project

Geographic

- China
- Tier 1, 2, 3, 4 cities

TRENDS/TECHNOLOGY

Changing World

- Urbanization
- Expanding gas infrastructure
- Rising middle class consumers

Economy

- Slowing down
- Raising labor cost
- Housing affordability

Internet of Things

E-Commerce

Policies & Regulations

- Condensing efficiency
- Low NOx boiler standard

Talent Scarcity

COMPETITORS

Water Heating

- Haier
- Midea
- Rinnai
- Noritz

Water Purifier

- Haier
- Midea
- Qinyuan (Unilever)
- Angle
- 3M
- Xiaomi

Combi Boiler

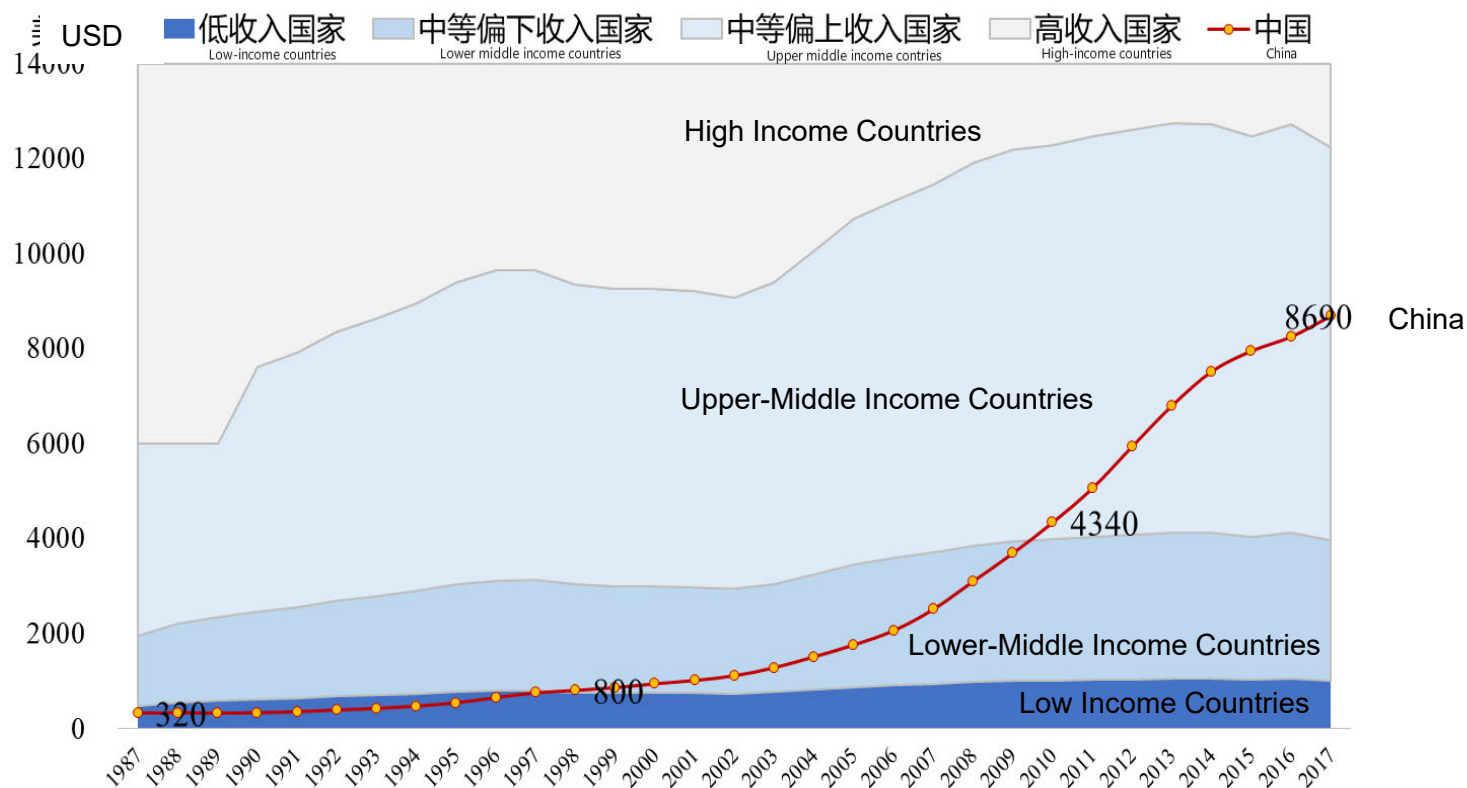
- Vaillant
- Viessmann
- Bosch
- Rinnai

Air Purifier

- BlueAir (Unilever)
- Phillips
- Panasonic



Rising Household Income





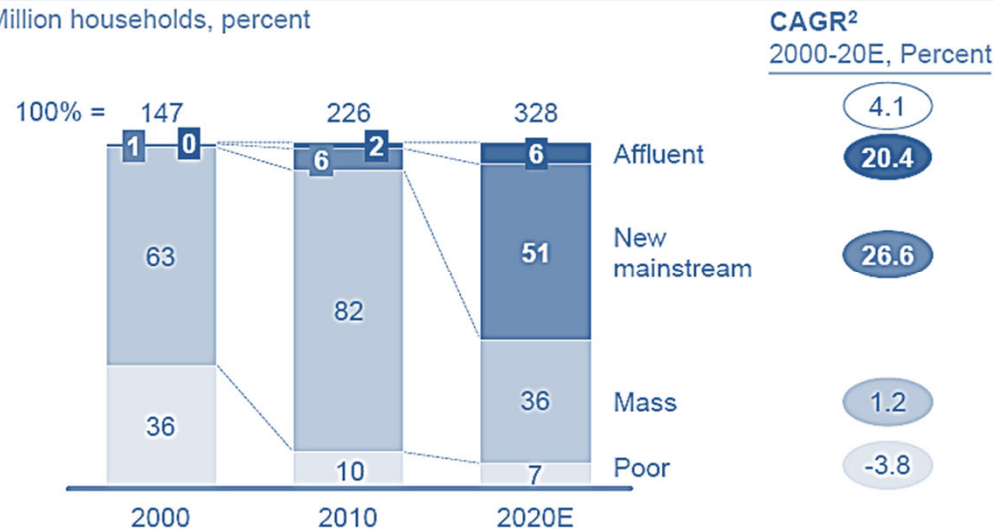
Rising Incomes Expand our Target Market

New mainstream consumers will comprise more than half of all urban residents by 2020

URBAN CHINA

Number of urban households by annual household income¹

Million households, percent



¹ Brackets are defined by disposable income per urban household per year, in 2010 real terms: affluent, more than RMB229,000 (equivalent to \$34,000); new mainstream, RMB106,000 to RMB229,000 (equivalent to \$16,000 to \$34,000); mass, RMB37,000 to RMB106,000 (equivalent to \$6,000 to \$16,000); poor, less than RMB37,000 (equivalent to \$6,000)

² Compound Annual Growth Rate

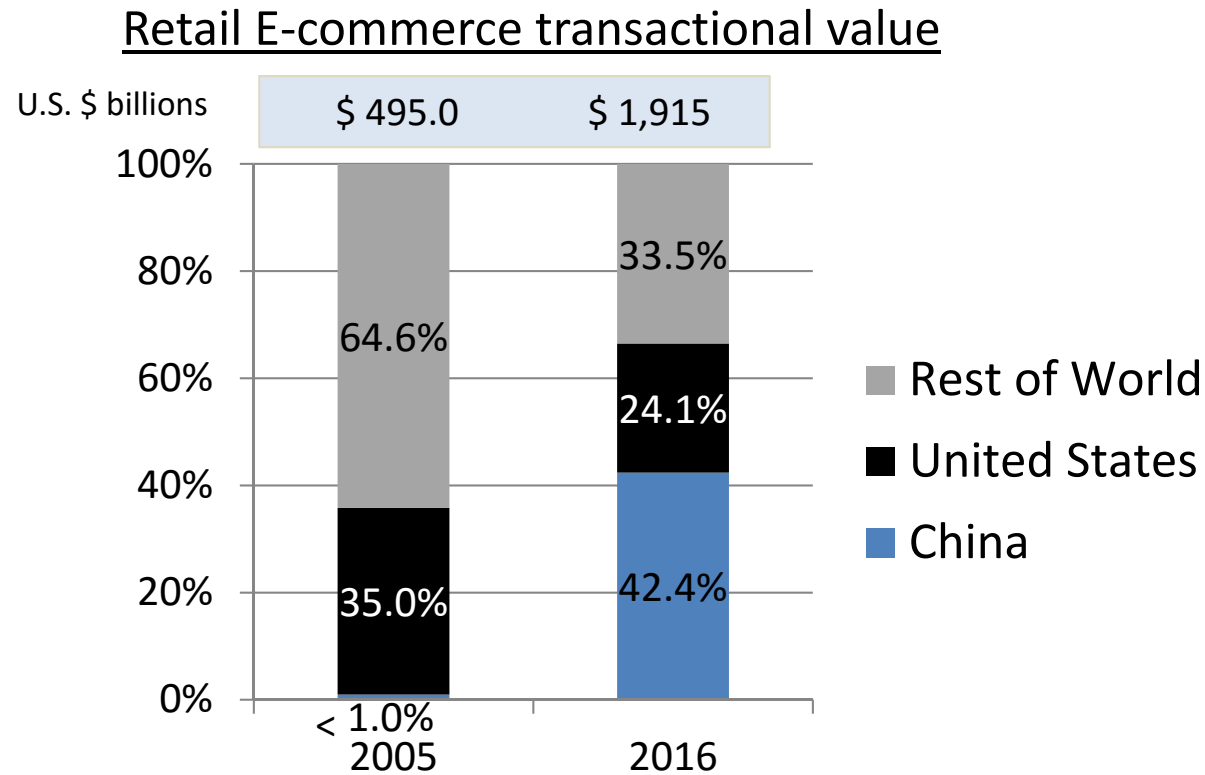
SOURCE: McKinsey Macroeconomic model update (Apr. 2012)

A. O. Smith customer demographic continues to grow rapidly; McKinsey forecast is 10 times in 10 years

Data: (McKinsey)



China E-commerce is Growing Rapidly and Faster than the Rest of the World



Source: Pitchbook, Dealogic, eMarketer, iResearch, TechCrunch CrunchBase Unicorn Leaderboard, McKinsey Global Institute analysis



Current Environment

- Weak consumer confidence and slow down in housing
- Actions:
 - Reduced SG&A
 - Freeze hiring
 - Closing non- productive stores
 - Introduced product in mid-price segments
- Product innovation is not being compromised



AOS China Built on:

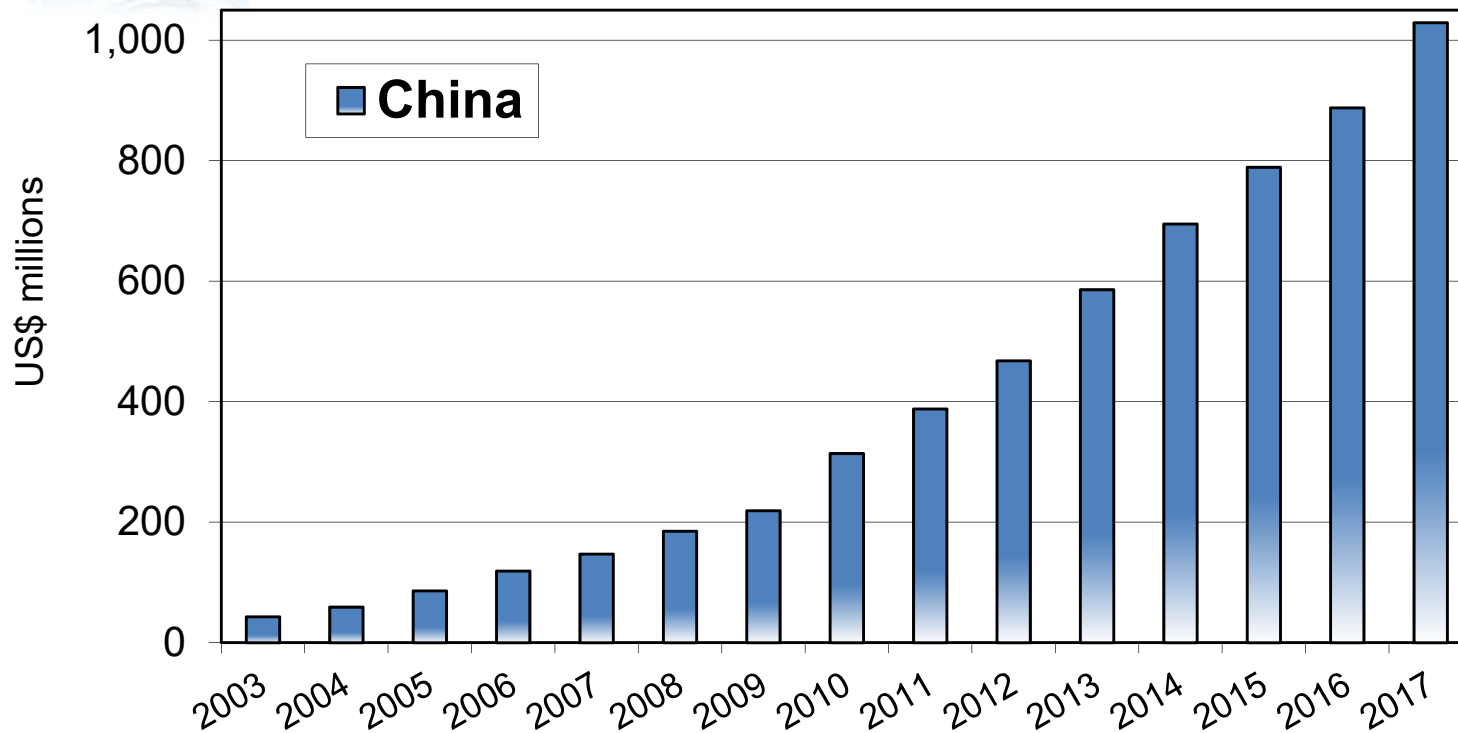
- Premium Brand
- Extensive Distribution and Service Network
- Innovative New Products & World Class Manufacturing
- Local Management Team and Organizational Development



China business model valid going forward



China Exceeds \$1 B; now 34% of Sales & Growing



China sales have grown 21% (CAGR) over the last 10 years



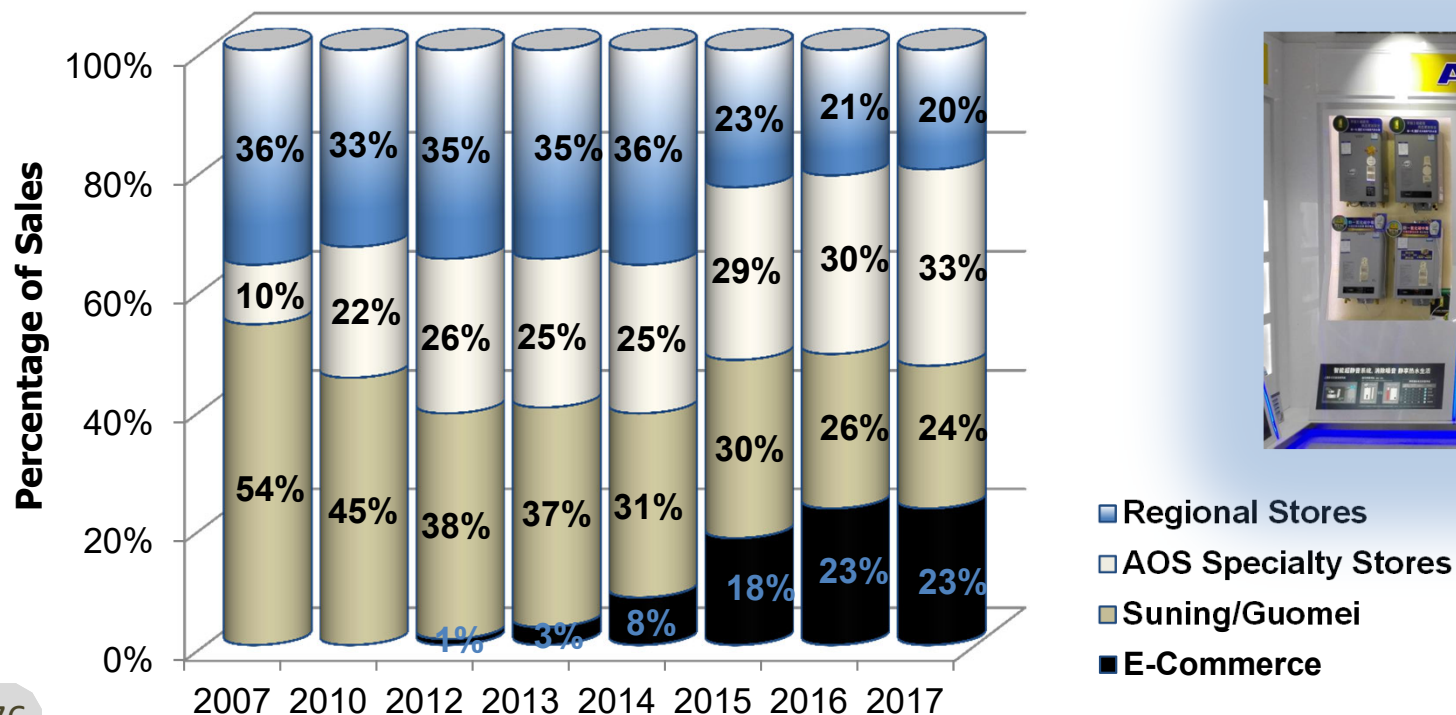
Professional Team of Local Management





Broad Distribution Channel

- Over 9,000 retail outlets in China, Water treatment product sold in over 7,000 of these outlets
- 30% of outlets in Tier 1 cities; 70% in Tier 2/3 cities





Our Unique Distributor Base Supports our Specialty Stores, Delivery and Installation

Brand exposure

Reinforces our Brand recognition and strength



Brand Recognition
& Positive Customer
Experience

Customer Experience

Interactive props to demonstrate the product innovation;



Specialty Stores



Market Leadership Through Innovation

550 Development Engineering Team

- **Lead The Industry With Innovation**

- We measure ourselves as the “industry leader” in the categories in which we participate. That requires us to continuously develop innovative solutions with perceived value for customers and end-users.

- **Being Green**

- Our growth strategy is “being green” with particular focus in product development of gas condensing, heat pump, water treatment and air purifiers

- **Being Smart**

- Our growth strategy is “being smart” and IoT ready



Robert J. O'Toole
Global Engineering Center



E-Commerce and Digital Marketing Capabilities

Capabilities

■ Digital Reach

- Search Engine Marketing / Optimization
- A. O. Smith Branding
- Social Media (Wechat)

■ Digital Depth and Conversion

- Content Management
- Paid ads
- Digital Leaflets

Key Partners





Product Line developed in China





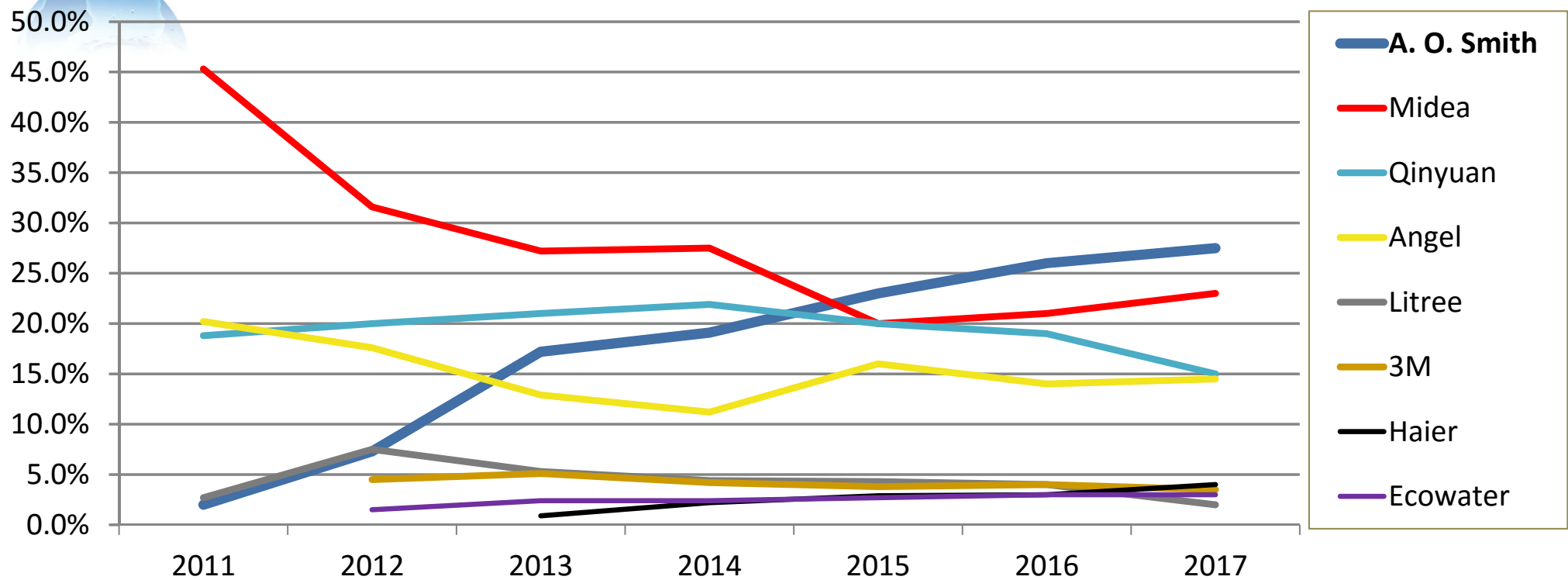
New State of the Art Water Treatment Facility Grand Opening in May 2018



- State of the Art testing and laboratories for research
- Build to NSF and Water Quality Association (WQA) standards in the United States
- Clean room membrane assembly
- In-house manufacturing of pumps, and integrated water-way injection molding
- 715,000 square feet



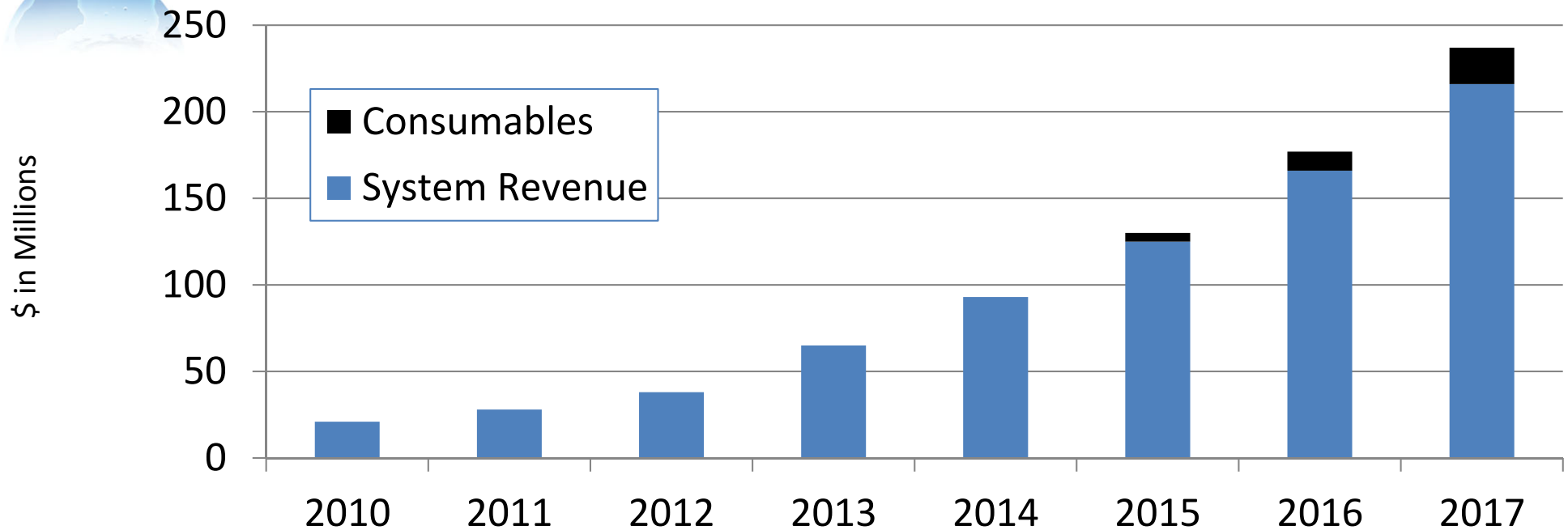
Major Brands CMM Market Share By Value Water Purifier



Data Source: CMM-GFK December -2017



AOS Water Treatment Revenue



CMM:

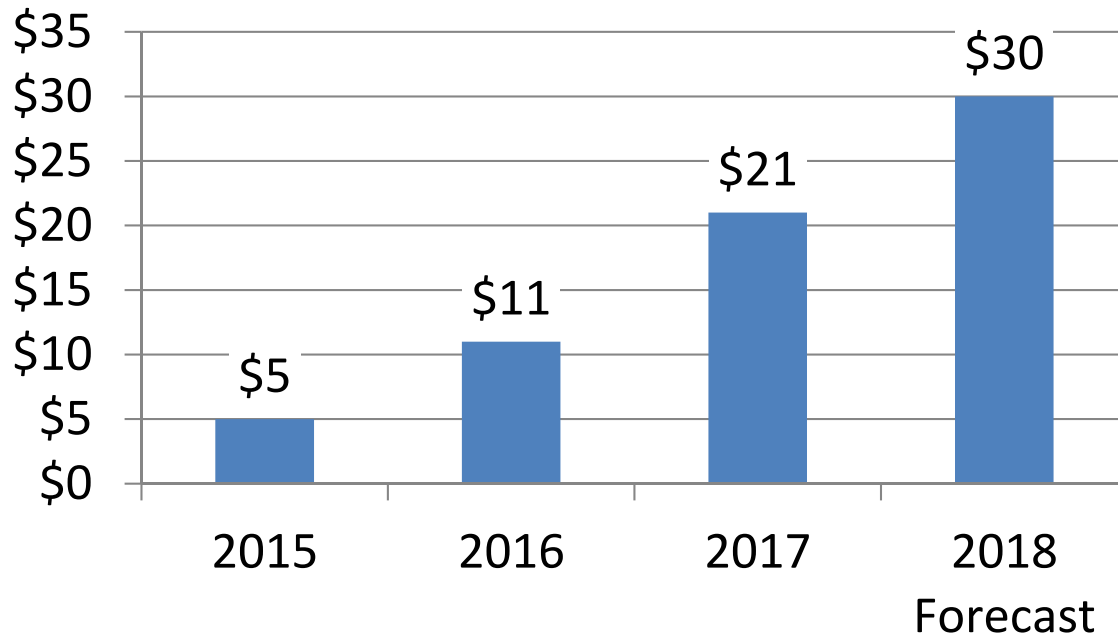
Penetration: <20 % of households in large cities

Industry growth: 20% CAGR over next three years



Water Treatment Consumables -Replacement Filters

Consumable Sales (\$ Millions)



- Razor/Razor blade business model
- RFID Technology
- 1st , 2nd and RO replacement rate at 87-90 percent replacement rate
- Solid margin profile

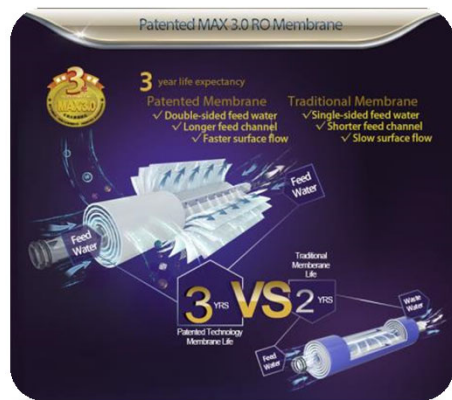


RFID Chip



Innovative Complementary New Products in Water Treatment

Side Stream Membrane Technology



- Unique Patent Design
- Increases RO membrane life- industry leading three year life
- Reduces waste water up to 75% - 3 gallons clean to 1 gallon waste
- Provides market place differentiation

Tankless Water Treatment – Enabled by Side Stream



- Provides on demand purified water
- Minimizes risk of post RO membrane contamination – no storage tank needed
- Leverages membrane rolling capabilities to produce hi-flow – constant flow rates up to 0.9 gallons per minute



Innovative Complementary New Products in Water Treatment

Boiling Water Residential Tap dispenser



- Cross sell and match with AOS RO product.
- High-end faucet with display and touch button control
- Four adjustable holding temperature with 98°C、90°C、80°C.
- Launched in August 2018

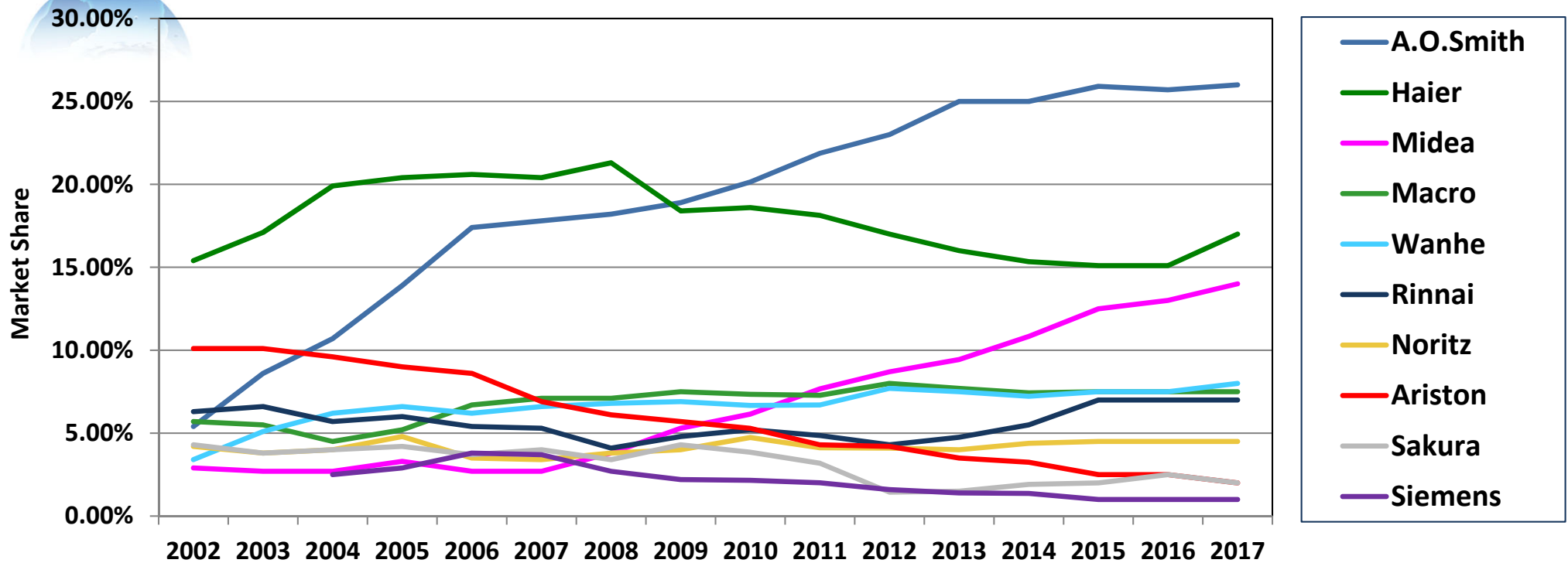
Shower Water Softener



- Cross sell and match with an electric or gas water heater
- Wide adaptation for installation, including decorated apartment.
- Automatic Regeneration
- Launched in October 2018



Brand Drives Water Heater Market Share Gains



Leading residential brands measured in currency; Tier One Market: GFK - CMM data sampling several thousand largest retail stores, December 2017



Innovative New Products in Water Heating

Electric Slim-line Dual Tank



- Dual tank slim design
- Vacuum panel insulation
- WiFi

Gas Tankless new Air-cooled platform



- Fan at the top design – better wind performance
- New curved-glass cover with anti-grease feature greatly enhance the outlook
- Launched in July 2018



Future Growth

- Our business model and megatrends (growth in middle class) are in our favor for longer-term growth
- Category Growth Drivers
 - E-commerce and on-line sales are growing and helping with penetration of 3rd and 4th tier cities
 - We continue launch new innovative products in all of our categories
 - Consumables and aftermarket parts are a key component of our growth
- Above average growth of water treatment: residential + commercial + consumables
- Operational excellence and cost reduction are important for levered growth
 - CRM Upgrade - Manufacturing Automation - Key component in-sourcing
- Operating margins historically at 14 - 15 percent



A. O. Smith Analyst Day

November 5, 2018
Waldorf Astoria - Chicago

Patricia Ackerman

Vice President - Investor Relations & Treasurer



Initial CRS Report Launched Last Month

Celebrating 144 years of innovation



AOSMITH.COM/about/sustainability



Highlights: Our Products Conserve Resources

98%
Thermal Efficient



Cyclone Commercial Water Heater

- 1.6B cubic feet of natural gas saved*
- 100K tons of GHG avoided*

99%
Thermal Efficient



Crest Commercial Boiler

- 2.0B cubic feet of natural gas saved*
- 120K tons of GHG avoided*

75%
Water Conservation
Ratio



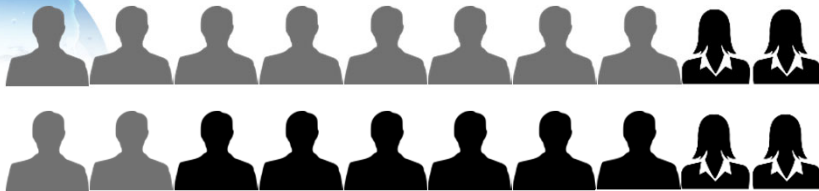
RO Max Series Water Treatment System

- 1.3 B gallons of water conserved in China*

**Annual Savings based on 2017 annual sales*



Highlights: Our Governance Reflects Best Practices



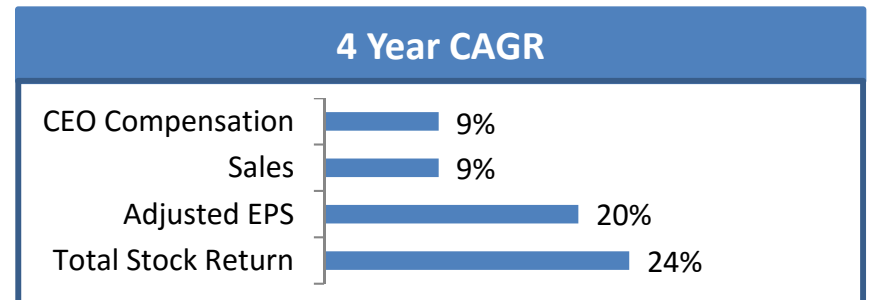
20% Female Directors

80% Independent Directors*

2, most recent CEOs promoted from within
>20 years average with AOS

**SUCCESSION
LEADERSHIP TENURE
CEO COMPENSATION**

**NYSE criteria*





Highlights: Our Operations are Safe and Conserve Resources



President's Safety Award -
established 1955 (predates OSHA)



Chairman's Green Star Award - 2009

ISO 14001 for environment
ISO 45001 for safety

Expect to meet standards by 2019



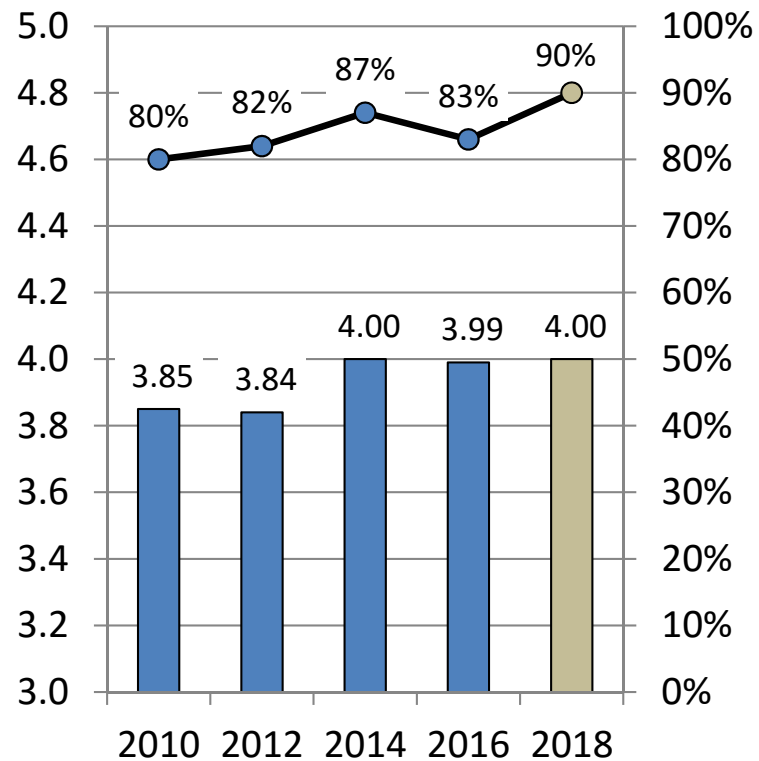
Highlights: We are a Good Place to Work

Ethics

Integrity

**Value
Recognition**

EMPLOYEE ENGAGEMENT SCORE



● Participation Percentage
(right axis)

U.S. Norm Average 3.62

**Supervisor
Effectiveness**

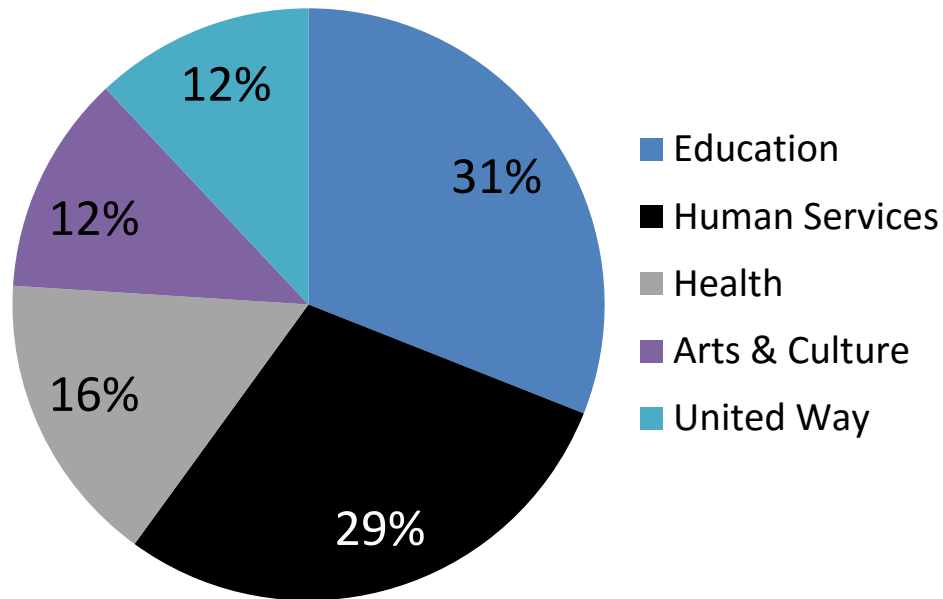
Innovation

Customer Focus



Highlights: We are a Good Citizen

A. O. Smith Foundation 2017 Contributions



\$42 million
contributed since 1955

> 60 years supporting communities within which we work



CRS Council will Drive Improvement

- Multi-functional council formed reporting to CEO
 - Collect baseline data
 - Recommend goals and priorities
 - Develop and recommend KPIs
- Report our progress in 2020



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John Kita

EVP & Chief Financial Officer



A. O. Smith's Capital Allocation Options

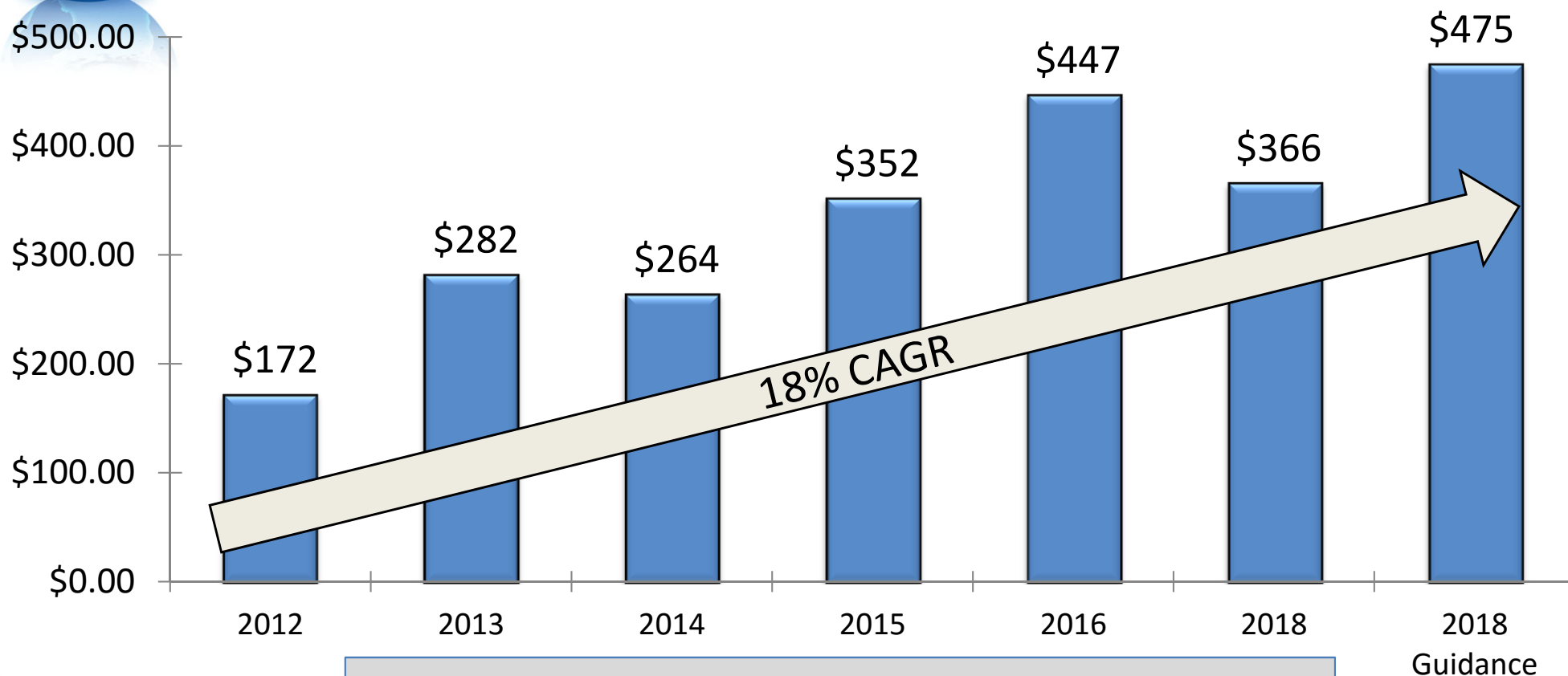
- Organic growth (capital expenditures)
- Acquisitions
 - \$425 million net cash
 - 10 percent leverage ratio (debt/total capital)
- Return cash to shareholders: over \$330 million projected in 2018*
 - Dividends
 - Increased dividend two times in 2018; over 30 percent CAGR over last five years
 - Share repurchase
 - Expect to repurchase approximately \$135 million** in 2018 on a 10b5-1 plan, in addition, plan to opportunistically repurchase \$65 million in the open market

* Since 2011, AOS has returned nearly \$1.4 billion to shareholders

** subject to price, alternative investments and working capital requirements



Operating Cash Flow CAGR 18 %; Provides Capital Allocation Flexibility



Tax Reform increases cash deployment availability



Valuation Metrics: Growth & Yield Above Peers

Peers	2019 Revenue Growth	Dividend Yield	P/E	2018 Valuation EV/EBITDA
PNR	4.0%	1.7%	16.4 times	12.4 times
WTS	3.6	1.0	18.3	10.2
S&P500	NA	1.8	17.2	N/A
FLS	4.7	1.4	26.6	14.3
BMI	6.2	1.5	41.6	17.0
IEX	5.2	1.1	23.8	15.1
FELE	4.9	1.3	17.3	N/A
MWA	4.9	1.7	18.4	9.2
XYL	6.1	1.0	22.8	13.8
LII	5.0	1.2	22.0	15.4
Avg. (excluded S&P 500)				
AOS	5.0%	1.3%	23.0 times	13.4 times
Midpoint:	4.75%*	2.0%	17.0 times	10.7 times
Other Attributes: strong balance sheet and low cyclicity				

Source: Factset, 10/24/2018

*5.5 to 7% local currency



Revenue Growth Guidance

2018

7 Percent USD
6.5 Percent local currency

2019

4 to 5.5 Percent USD
5.5 to 7 Percent local currency



Growth Strategy: Long-term Organic Growth

High Growth*: 38% of sales growing ~11%
(China, India & NA water treatment)

• 4.1%

Boilers: 7% of sales growing 10%

• 0.7%

NA water heaters: 55% of sales growing ~4%

• 2.2%

Total annual sales growth

• 7.0%



A. O. Smith Analyst Day

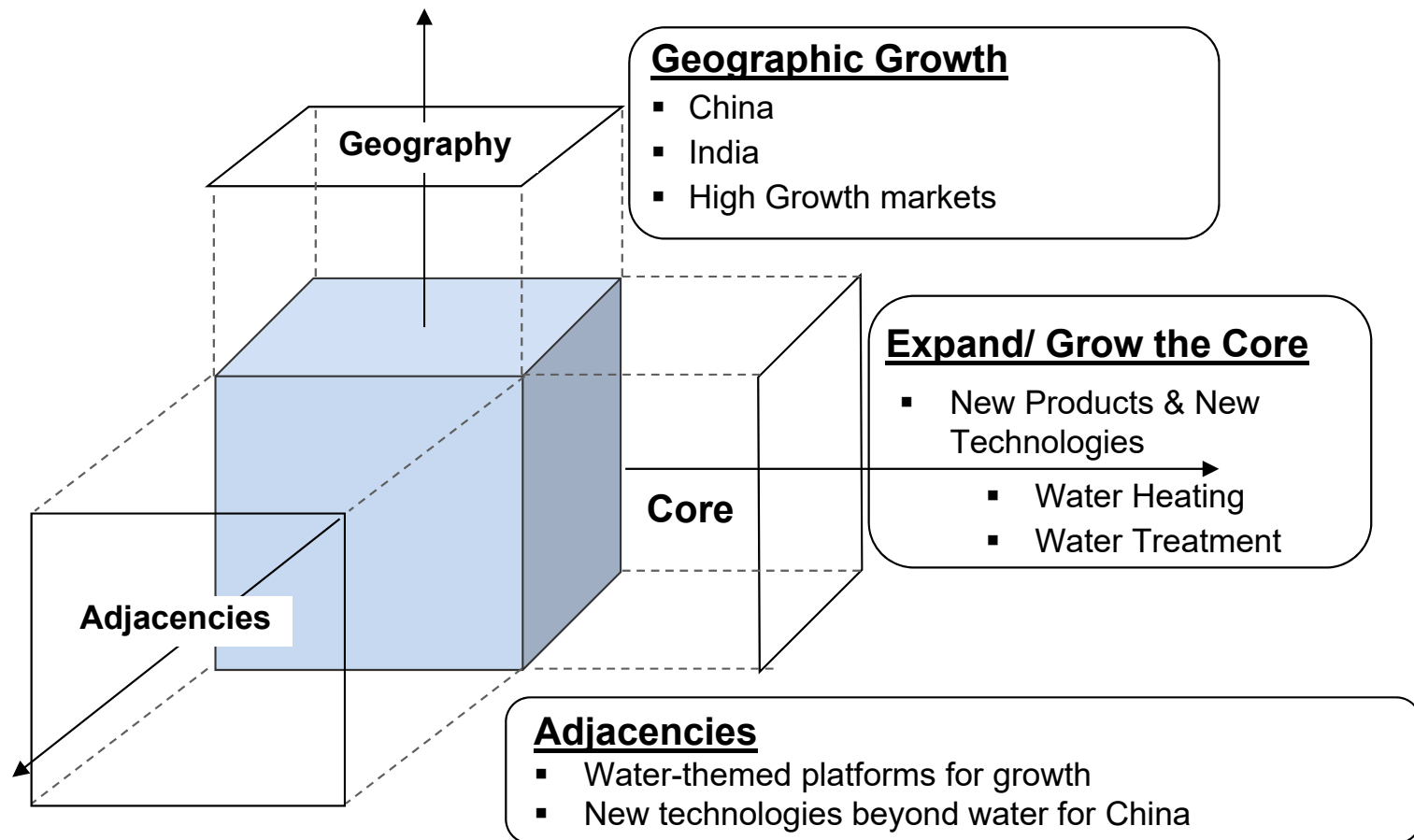
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Kevin Wheeler – Wrap Up Comments

President & Chief Executive Officer



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

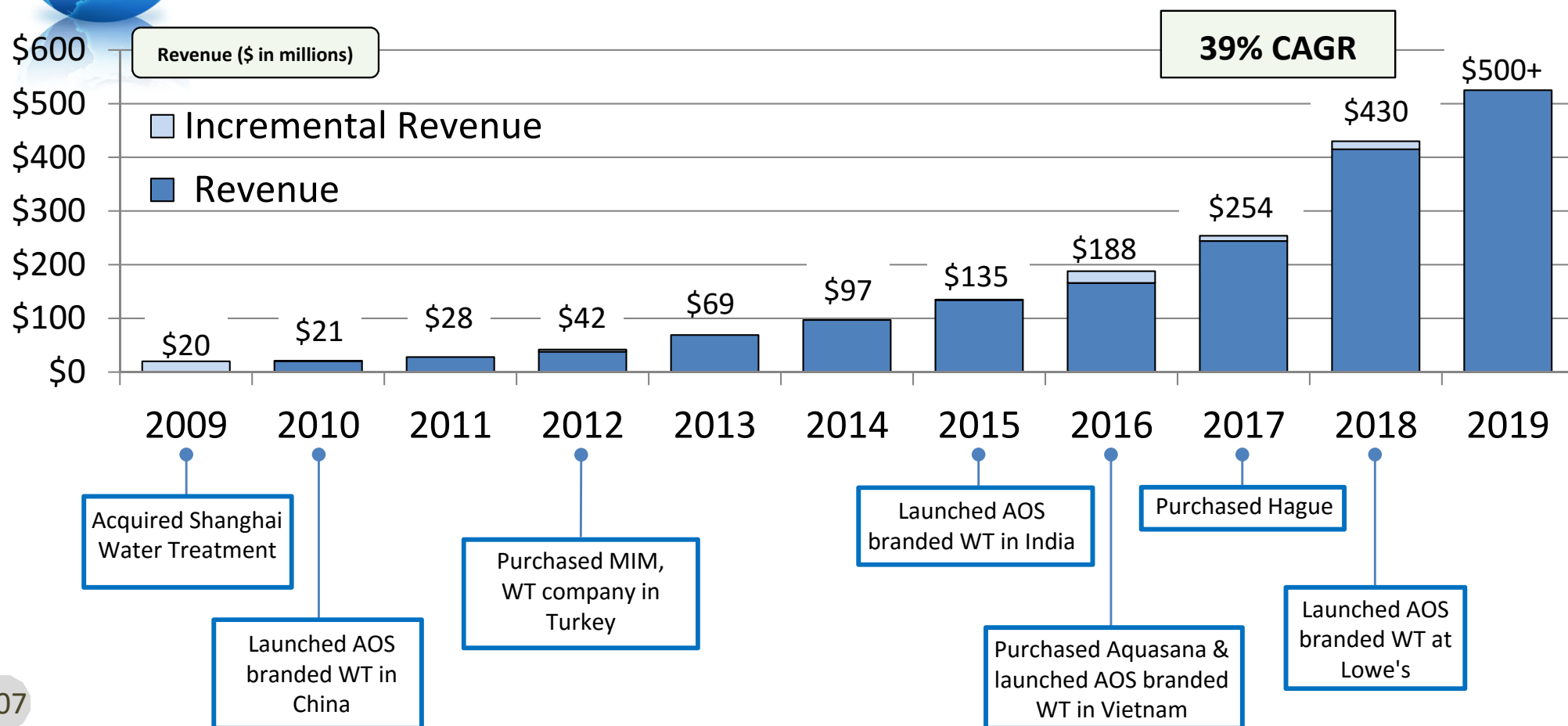
AOS

LISTED

NYSE

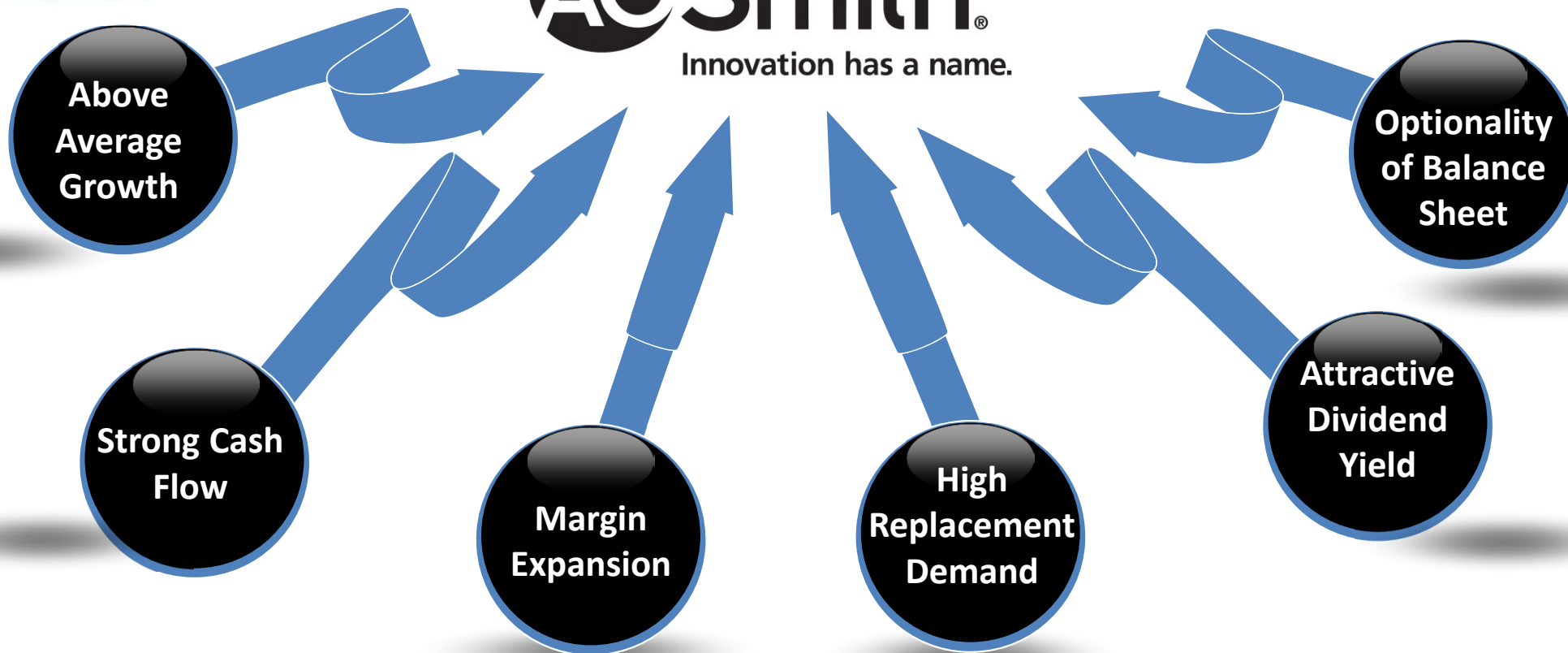


Evolution of Global Water Treatment





Investment Case: Growth and Stability



Q & A