



Third Quarter 2023 Results

Participants



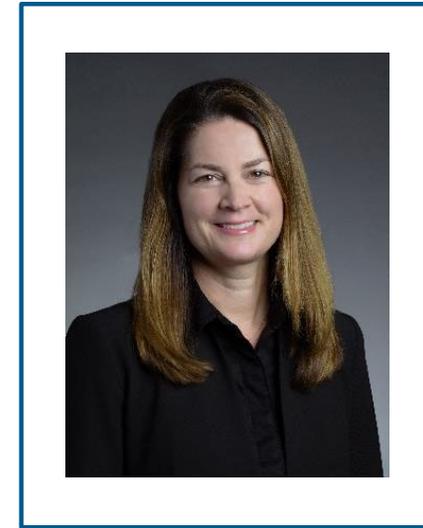
Kevin J. Wheeler

Chairman and
Chief Executive Officer



Charles T. Lauber

Executive Vice President
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Vice President - Investor Relations,
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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: softening in U.S. residential water heater demand; negative impacts to the Company, particularly the demand for its products, resulting from global inflationary pressures or a potential recession in one or more of the markets in which the Company participates; the Company’s ability to continue to obtain commodities, components, parts and accessories on a timely basis through its supply chain and at expected costs; negative impacts to demand for the Company’s products, particularly commercial products, as a result of the severity and duration of the lingering effects of the COVID-19 pandemic; further weakening in U.S. residential or commercial construction or instability in the Company’s replacement markets; inability of the Company to implement or maintain pricing actions; inconsistent recovery of the Chinese economy or further decline in the growth rate of consumer spending or housing sales in China; negative impact to the Company’s business in China as a result of future COVID-19-related disruptions there; negative impact to the Company’s businesses from international tariffs, trade disputes and geopolitical differences, including the conflicts in Ukraine, and the Middle East; potential further weakening in the high-efficiency gas boiler segment in the U.S.; substantial defaults in payment by, material reduction in purchases by or the loss, bankruptcy or insolvency of a major customer; foreign currency fluctuations; the Company’s inability to successfully integrate or achieve its strategic objectives resulting from acquisitions; competitive pressures on the Company’s businesses; the impact of potential information technology or data security breaches; changes in government regulations or regulatory requirements; the inability to respond to secular trends toward decarbonization and energy efficiency; and adverse developments in general economic, political and business conditions in key regions of the world. Forward-looking statements included in this news release are made only as of the date of this release, 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.

Third Quarter Messages

Sales of \$938M
and EPS of \$0.90

Higher North
America
residential water
heater volumes
were partially
offset by lower
boiler volumes

Strong North
America margins
driven by lower
material costs and
higher water
heater volumes

Sales in China
grew 9% in local
currency driven by
new product
introductions

Third Quarter Performance and Highlights



Highlights

- Net sales up 7 percent to \$938M
- EPS up 30 percent to \$0.90

North America

- Sales increased 9 percent due to higher residential water heater volumes, partially offset by lower boiler volumes
- Segment margin increased 350 bps to 23.9 percent

Rest of World

- 1 percent sales increase; sales up 6 percent in local currency
- China sales up 9 percent in local currency, driven by new product introductions
- India sales increased 13 percent in local currency

New High Efficiency SmartFlow® Reverse Osmosis Water Filtration System

REDUCES UP TO 99% OF 90 CONTAMINANTS

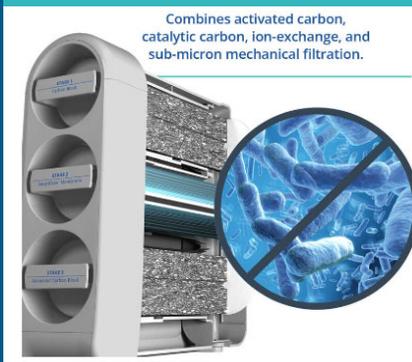
✓ Fluoride ✓ Lead ✓ Chlorine ✓ Arsenic ✓ Mercury ✓ Cysts ✓ Pesticides ✓ Pharmaceuticals ✓ Microplastics ✓ PFOA/PFOS



CLARYUM® + SMARTFLOW FILTRATION

REMOVES UP TO 99.99% OF 90 CONTAMINANTS

 CHLORINE, TASTE & ODOR, CHLORAMINES	 LEAD, MERCURY, ASBESTOS, PFOA & PFOS	 MICROPLASTICS, HERBICIDES, PESTICIDES, & PHARMACEUTICALS	 FLUORIDE, CHROMIUM+6, & TDS
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AC Smith.
Innovation has a name.

AOS-HERO-CHR HIGH EFFICIENCY REVERSE OSMOSIS
with SmartFlow™ technology



-  **6 & 12 Month Filter Life**
365 Gallons
-  **4+ People Household Size**
-  **Reduces 99% of 90 Contaminants**
-  **WQA tested and certified to NSF/ANSI Standards 42, 53, 58, and 401**

Third Quarter North America Segment

Segment Sales (\$M)



Adjusted Segment Operating Earnings (\$M)



- Higher residential water heater volumes partially offset by lower boiler volumes
- Water Tec, an Arizona-based water treatment company, acquired in the third quarter

- Earnings increased primarily due to higher water heater volumes and lower material costs

Third Quarter Rest of World Segment

Segment Sales (\$M)



Segment Operating Earnings (\$M)



- China sales increased 9% primarily due to new product introductions
- India sales increase ~13% in local currency
- Currency translation reduced sales by \$11 million

- Income higher due to YOY volume growth and favorable mix in China
- Operating margin improved 40 basis points YOY

Cash Flow and Liquidity¹

\$342M

Cash balance²

6.4%

Debt to
capital ratio

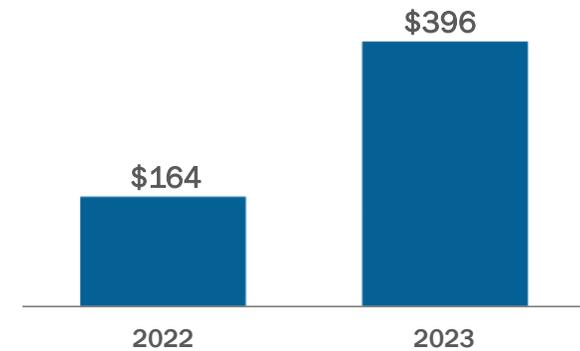
\$212M

Net cash
position

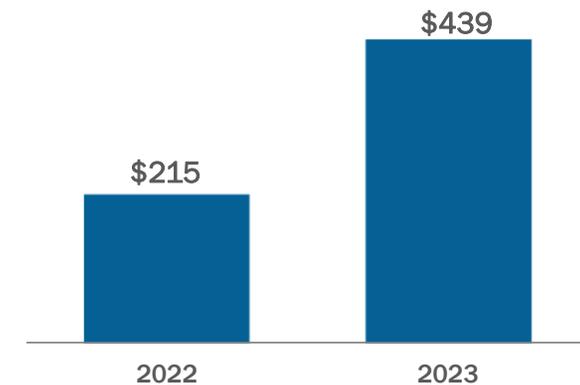
~2.4M

Shares repurchased
in YTD 2023
totaling ~\$161M

Free Cash Flow (\$M)



Cash Flow from Operations (\$M)



Capital Allocation Priorities

Priority	Comments
Organic Growth	<ul style="list-style-type: none">• Opportunities for organic growth in all our businesses and geographies
Acquisitions	<ul style="list-style-type: none">• Disciplined focus on transactions that enable geographic growth, expand/grow the core, establish adjacencies• Recent transactions include Water Tec and Atlantic Filter• Maintain active pipeline
Dividends <ul style="list-style-type: none">• Philosophy: growing, competitive sustainable dividend	<ul style="list-style-type: none">• Five-year CAGR of 10 percent• Over 30 consecutive years of dividend increases
Share Repurchase	<ul style="list-style-type: none">• \$161 million thru September 2023; \$300 million projected for the full year

2023 Outlook and Assumptions*

(\$M, except per share data)

Revenue Increase	~ 2%
U.S. Residential Water Heater Industry	+ ~4%
Commercial Water Heater Industry	+ Mid-teens
China Sales (Local Currency)	~3% to 5%
North American Boiler Sales Growth	- HSD
North American Water Treatment Growth	~5% to 7%
Free Cash Flow	\$575M to \$600M
Capital Expenditures	~\$65M
Depreciation & Amortization	~\$70M
Corporate/Other Expense	~\$60M
Effective Tax Rate	~24%
Share Repurchase	~\$300
Share Count – Diluted	~151M

- North American segment margin expected to be approximately 25%, excluding pension settlement income
- Rest of World segment margin expected to be approximately 10%, excluding impairment expense

	2023 Guidance*	2022
Diluted EPS (GAAP)	\$3.63-3.73	\$ 1.51
Impairment expense	0.10 ⁽¹⁾	-
Pension settlement (income) expense	(0.03) ⁽²⁾	1.60 ⁽³⁾
Pension expense	-	0.06 ⁽⁴⁾
Legal judgment income	-	(0.05)
Terminated acquisition-related expenses	-	0.02
Adjusted EPS (non-GAAP)	\$3.70-3.80	\$ 3.14

⁽¹⁾ Includes pre-tax impairment expense of \$12.5 million and \$3.1 million, within the Rest of World segment and Corporate expenses, respectively.

⁽²⁾ Includes pre-tax pension settlement income of \$5.0 million and \$1.0 million, within the North America segment and Corporate expenses, respectively.

⁽³⁾ Includes pre-tax pension settlement expense of \$346.8 million and \$70.5 million, within the North America segment and Corporate expenses, respectively.

⁽⁴⁾ Includes pre-tax pension expense of \$9.7 million and \$2.0 million, within the North America segment and Corporate expenses, respectively.

Compelling Investment Thesis



Market Leader



Stable/growing U.S. replacement market; operating leverage from incremental new construction and replacement of approximately 80 - 85%



Strength of premium brand, distribution, manufacturing and innovation provide significant opportunity for growth



Strong balance sheet and cash flow to support future growth, share repurchase and acquisitions with demonstrated success in all economic cycles



Adjusted Earnings and Adjusted EPS

(\$ in Millions, except per share data)

The following is a reconciliation of net earnings and diluted EPS to adjusted earnings (non-GAAP) and adjusted EPS (non-GAAP):

	Three Months Ended September 30,	
	2023	2022
Net Earnings (GAAP)	\$ 135.4	\$ 109.8
Pension expense, before tax	-	3.0
Legal judgment income, before tax	-	(11.5)
Terminated acquisition-related expenses, before tax	-	4.3
Tax effect on above items	-	1.0
Adjusted Earnings (non-GAAP)	\$ 135.4	\$ 106.6
Diluted EPS (GAAP)	\$ 0.90	\$ 0.71
Pension expense per diluted share, before tax	-	0.02
Legal judgment income per diluted share, before tax	-	(0.07)
Terminated acquisition-related expenses per diluted share, before tax	-	0.03
Tax effect on above items per diluted share	-	-
Adjusted EPS (non-GAAP)	\$ 0.90	\$ 0.69

Adjusted Segment Earnings

(\$ in Millions)

The following is a reconciliation of earnings before provision for income taxes to total segment earnings (non-GAAP) and adjusted segment earnings (non-GAAP):

	Three Months Ended September 30,	
	2023	2022
Earnings Before Provision for Income Taxes (GAAP)	\$ 176.4	\$ 144.7
Add: Corporate expense ⁽¹⁾	14.4	16.5
Add: Interest expense	<u>2.4</u>	<u>2.4</u>
Total Segment Earnings (non-GAAP)	\$ <u>193.2</u>	\$ <u>163.6</u>
North America ⁽²⁾	\$ 170.0	\$ 141.8
Rest of World	<u>23.2</u>	<u>21.8</u>
Total Segment Earnings (non-GAAP)	\$ <u>193.2</u>	\$ <u>163.6</u>
Additional Information		
⁽¹⁾ Corporate Expense	\$ (14.4)	\$ (16.5)
Pension expense, before tax	-	0.4
Terminated acquisition-related expenses, before tax	<u>-</u>	<u>0.3</u>
Adjusted Corporate expense (non-GAAP)	\$ <u>(14.4)</u>	\$ <u>(11.8)</u>
⁽²⁾ North America	\$ 170.0	\$ 141.8
Pension expense, before tax	-	2.6
Legal judgment income, before tax	<u>-</u>	<u>(11.5)</u>
Adjusted North America (non-GAAP)	\$ <u>170.0</u>	\$ <u>132.9</u>

Free Cash Flow

(\$ in Millions)

The following is a reconciliation of reported cash flow from operating activities to free cash flow (non-GAAP):

	Nine Months Ended September 30,	
	2023	2022
Cash provided by operating activities (GAAP)	\$439.0	\$ 214.7
Less: Capital expenditures	<u>(42.7)</u>	<u>(50.9)</u>
Free cash flow (non-GAAP)	<u>\$396.3</u>	<u>\$ 163.8</u>

2023 Adjusted EPS Guidance and 2022 Adjusted EPS

(\$ in Millions, except per share data)

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

	2023 Guidance	2022
Diluted EPS (GAAP)	\$ 3.63 – 3.73	\$ 1.51
Impairment expense	0.10 ⁽¹⁾	-
Pension settlement (income) expense	(0.03) ⁽²⁾	1.60 ⁽³⁾
Pension expense	-	0.06 ⁽⁴⁾
Legal judgment income	-	(0.05)
Terminated acquisition-related expenses	<u>-</u>	<u>0.02</u>
Adjusted EPS (non-GAAP)	\$ 3.70 – 3.80	\$ 3.14

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