



# 2018 Results



# 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 weakening of the Chinese economy and/or a decline in the rate of consumer spending or housing sales in China; negative impact to our businesses from international tariffs and trade disputes; 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 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” .



## Notice Regarding Financial Information

- This presentation contains non-GAAP financial information. Reconciliations from GAAP to non-GAAP measures are contained in the appendix of this presentation.
- All information should be read in conjunction with the historical financial statements and financial information contained in A. O. Smith's Annual Report on Form 10-K, periodic reports on Form 10-Q and Form 8-K, and public announcements of financial information.
- Copies of these reports are available on the Investor Relations sections of A. O. Smith's website at <http://www.aosmith.com/investors/>



## 2018 Highlights

- Record sales of \$3.2 billion
  - Revenue six percent higher than 2017
- Record adjusted\* earnings of \$2.61 per share
  - Increase of 20 percent over \$2.17\* per share in 2017
- Global water treatment sales approximate \$400 million
- Exclusive supplier of Lowe’s U.S. water treatment products
- Cash returned to shareholders
  - Share repurchase totaled approximately \$203 million
  - Increased dividend two times; five year dividend CAGR is 30 percent
- Repatriated over \$300 million overseas cash

\*Excludes \$.47 per share of tax expenses related to the effects of U.S. tax reform in 2017 and \$0.03 per share of restructuring and impairment costs in 2018



## Full Year Results

\$ in millions

	2018	2017	change	% chg.
Sales	\$3,187.9	\$ 2,996.7	\$191.2	6%
Net Earnings	444.2	296.5		
Adjustments*	<u>5.0</u>	<u>81.8</u>		
Adjusted Net Earnings	\$ <u>449.2</u>	\$ <u>378.3</u>	\$ <u>70.9</u>	19%

\*after-tax restructuring and impairment costs in 2018; U.S. tax reform-related tax expense in 2017



## Full Year Adjusted EPS

\$ in millions

	2018	2017	change	% chg.
EPS	\$ 2.58	\$ 1.70		
Adjustments*	<u>0.03</u>	<u>0.47</u>		
Adjusted EPS	\$ <u>2.61</u>	\$ <u>2.17</u>	\$ <u>0.44</u>	20%

\*restructuring and impairment costs in 2018; U.S. tax reform-related tax expense in 2017



## Full Year Sales

\$ in millions

	2018	2017	change	% chg.
North America	\$ 2,044.7	\$ 1,904.8	\$139.9	7%
Rest of World	1,173.6	1,116.3	57.3	5%
Intersegment	<u>(30.4)</u>	<u>(24.4)</u>	<u>(6.0)</u>	
Total	<u>\$ 3,187.9</u>	<u>\$ 2,996.7</u>	<u>\$191.2</u>	6%



## Full Year Adjusted Earnings

\$ in millions, except percentages

	2018	2017	change	% chg.
<u>Adjusted Segment Earnings</u>				
North America	\$ 470.8	\$ 428.6	\$ 42.2	10%
Rest of World	<u>149.3</u>	<u>149.3</u>	<u>-</u>	flat
Total Adjusted Segment Earnings	620.1	577.9	\$ 42.2	7%
Corporate	(47.2)	(47.0)	(0.2)	flat
Interest Expense	<u>( 8.4)</u>	<u>(10.1)</u>	<u>1.7</u>	17%
Pre-tax Earnings	564.5	520.8	43.7	8%
Tax Provision	(115.3)	(224.3)		
U.S. tax reform related tax expense	<u>-</u>	<u>81.8</u>	<u>-</u>	
Adjusted Earnings	<u>\$ 449.2</u>	<u>\$ 378.3</u>	<u>\$ 70.9</u>	19%
<u>Adjusted Segment Margin</u>				
North America	23.0%	22.5%		
Rest of World	12.7%	13.4%		





## Fourth Quarter Results

\$ in millions

	2018	2017	change	% chg.
Sales	\$ 812.5	\$ 768.6	\$ 43.9	6.0%
Net Earnings	154.8	140.8		
Tax Provision	(28.5)	(118.1)		
U.S. tax reform-related tax expense	<u>-</u>	<u>81.8</u>		
Adjusted Earnings	<u>\$ 126.3</u>	<u>\$ 104.5</u>	\$ 21.8	21.0%



## Fourth Quarter Adjusted EPS

\$ in millions

	2018	2017	change	% chg.
EPS	\$ 0.74	\$ 0.13		
U.S. tax reform-related tax expense	<u>0.00</u>	<u>0.47</u>		
Adjusted EPS	<u>\$ 0.74</u>	<u>\$ 0.60</u>	<u>\$ 0.14</u>	23%



## Fourth Quarter Sales

\$ in millions

	2018	2017	change	% chg.
North America	\$ 521.9	\$ 460.8	\$ 61.1	13%
Rest of World	297.6	313.8	(16.2)	-5%
Intersegment	<u>(7.0)</u>	<u>(6.0)</u>	<u>(1.0)</u>	
Total	<u>\$ 812.5</u>	<u>\$ 768.6</u>	<u>\$ 43.9</u>	6%



## Fourth Quarter Earnings

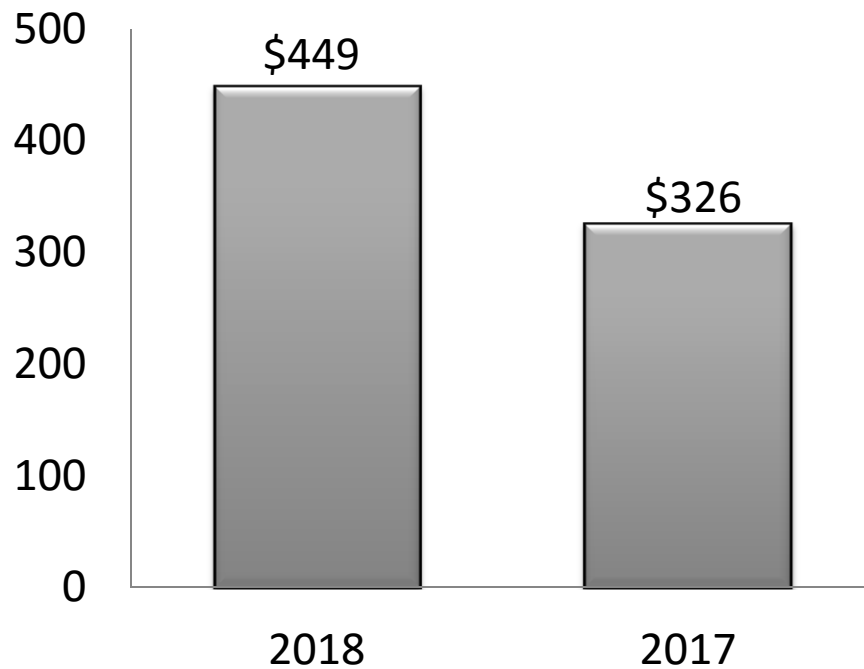
\$ in millions, except percentages

	2018	2017	change	% chg.
North America	\$ 127.6	\$ 104.9	\$ 22.7	22%
Rest of World	<u>39.5</u>	<u>50.8</u>	<u>(11.3)</u>	-22%
Total Segment Earnings	167.1	155.7	\$ 11.4	7%
Corporate	(10.5)	(12.0)	1.5	13%
Interest Expense	<u>(1.8)</u>	<u>(2.9)</u>	<u>1.1</u>	38%
Pre-tax Earnings	154.8	140.8	14.0	10%
Tax Provision	(28.5)	(118.1)		
U.S. tax reform related tax expense	<u>0.0</u>	<u>81.8</u>		
Adjusted Earnings	<u>\$ 126.3</u>	<u>\$ 104.5</u>	<u>\$ 21.8</u>	21%
<u>Segment Margin</u>				
North America	24.4%	22.8%		
Rest of World	13.3%	16.2%		



## Cash Flow from Operations

(\$ in millions)

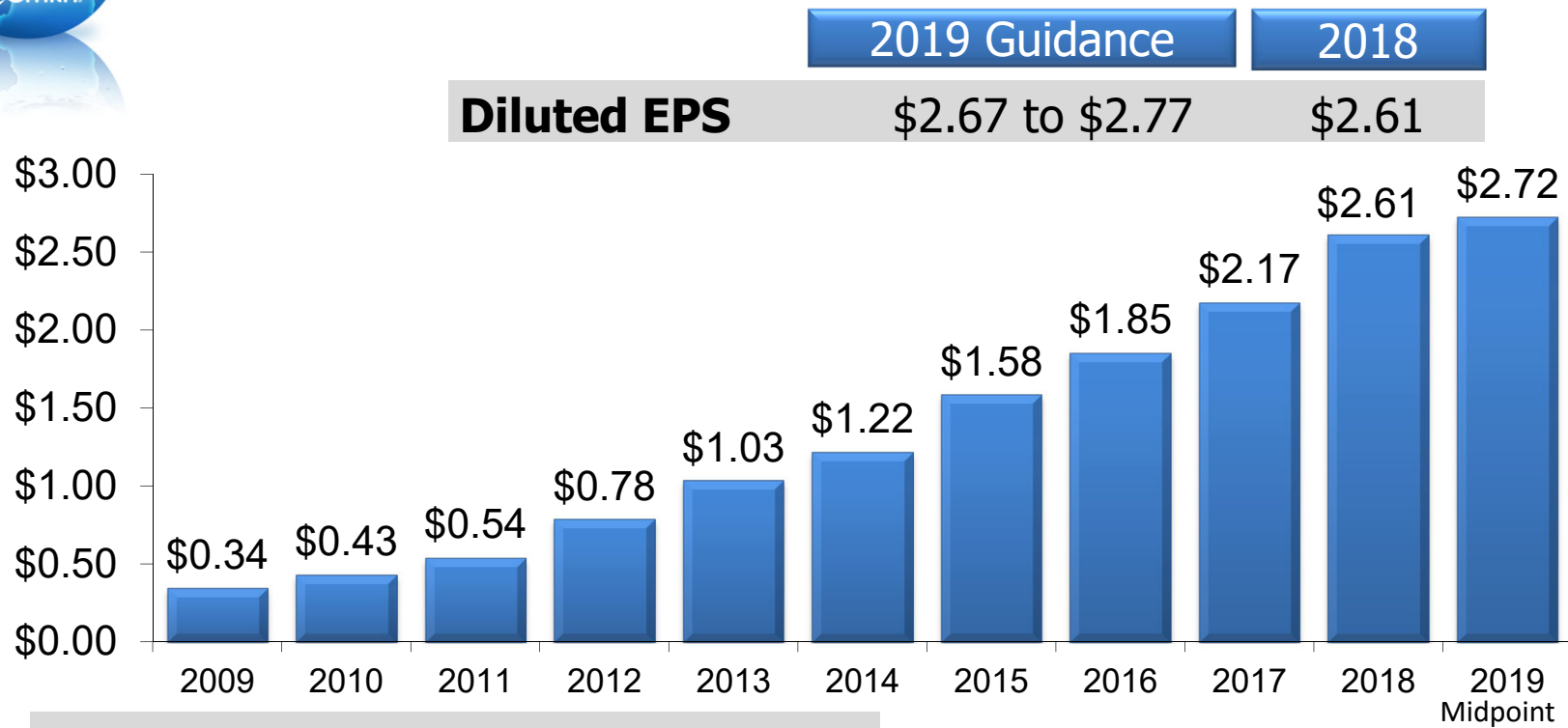


### Highlights

- Operating cash provided by operations of \$449 million
- Debt to capital ratio of 11%
- Cash balance: \$645 million
- Net cash position: \$424 million
- Stock repurchase: ~4 million shares totaling approximately \$203 million



## 2019 EPS Guidance and 2018 EPS



Note: 2009 through 2014, 2017 and 2018 are adjusted EPS and all years are adjusted for stock splits

As of January 29, 2019



## 2019 Assumptions

(\$ in millions)

2019 Projections

Operating Cash Flow	between \$500 and \$525
Capital Expenditures	approx \$85
Depreciation and Amortization	approx \$75
Corporate/Other Expense	approx \$50
Effective Tax Rate	approx 21.5%
Stock Repurchase	approx \$200*
Share Count - Diluted	approx 168.5 million

\*subject to acquisitions, cash flow and working capital needs



## 2019 Outlook

- U.S. residential water heater industry volumes increase between 100,000 and 150,000 units, including tankless; commercial water heater industry volumes up 1%
- Boiler revenue growth of approximately ten percent
- Smaller expected losses in India than in 2018; water heater business to be slightly profitable
- China sales decline of approximately 7 to 10% in USD, as economic weakness persists and FX translation is unfavorable by four percentage points
- First quarter headwinds

*As of January 29, 2019*





## 2019 Outlook - continued

- Revenue growth between 1 and 2.5 percent in USD; 2.5 to 4 percent in local currency
- EPS between \$2.67 and \$2.77
- North America segment margin expected to be 23 to 23.5 percent
- Rest of World segment margin expected to be 12 to 12.5 percent

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# Appendix



## Adjusted Earnings and Adjusted EPS

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

### Net Earnings (GAAP)

Restructuring and impairment expenses, before tax  
 Tax effect of restructuring and impairment expenses  
 U.S. Tax Reform income tax expense

### Adjusted Earnings

### Diluted EPS (GAAP)

Restructuring and impairment expenses per diluted share, before tax  
 Tax effect of restructuring and impairment expenses per diluted share  
 U.S. Tax Reform income tax expense

### Adjusted EPS

(dollars in millions, except per share data)			
Three Months Ended December 31,		Year Ended December 31,	
2018	2017	2018	2017
\$ 126.3	\$ 22.7	\$ 444.2	\$ 296.5
-	-	6.7	-
-	-	(1.7)	-
-	<u>81.8</u>	-	<u>81.8</u>
<u>\$ 126.3</u>	<u>\$ 104.5</u>	<u>\$ 449.2</u>	<u>\$ 378.3</u>
\$ 0.74	\$ 0.13	\$ 2.58	\$ 1.70
-	-	0.04	-
-	-	(0.01)	-
-	<u>0.47</u>	-	<u>0.47</u>
<u>\$ 0.74</u>	<u>\$ 0.60</u>	<u>\$ 2.61</u>	<u>\$ 2.17</u>



# Adjusted Segment Earnings

The following is a reconciliation reported segment earnings to adjusted segment earnings (non-GAAP):

## Segment Earnings (GAAP)

North America
Rest of World
Inter-segment earnings elimination
<b>Total Segment Earnings (GAAP)</b>

## Adjustments:

North America
Rest of World
Inter-segment earnings elimination
<b>Total Adjustments</b>

## Diluted EPS (GAAP)

North America restructuring & impairment expenses
Rest of World
Inter-segment earnings elimination
<b>Adjusted Segment Earnings</b>

(dollars in millions)

Three Months Ended December 31,

Year Ended December 31,

2018

2017

2018

2017

\$ 127.6	\$ 104.9	\$ 464.1	\$ 428.6
39.5	50.8	149.3	149.3
-	-	-	-
<u>\$ 167.1</u>	<u>\$ 155.7</u>	<u>\$ 613.4</u>	<u>\$ 577.9</u>
\$ -	\$ -	\$ 6.7	\$ -
-	-	-	-
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6.7</u>	<u>\$ -</u>
\$ 127.6	\$ 104.9	\$ 470.8	\$ 428.6
39.5	50.8	149.3	149.3
-	-	-	-
<u>\$ 167.1</u>	<u>\$ 155.7</u>	<u>\$ 620.1</u>	<u>\$ 577.9</u>