



Second Quarter 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 slowdown in the growth rate of the Chinese economy or our key markets and/or a 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 acquisitions; competitive pressures on our businesses; negative impact to our businesses from international tariffs and trade disputes, the impact of potential information technology or data security breaches; changes in government regulations or regulatory requirements; the impact of U.S. tax reform and projections for effective tax rates and 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” .



Second Quarter Highlights

- Record sales of \$833 million
 - Revenue 13 percent higher than 2017
- Net earnings of \$0.66 per share
 - Increase of 25 percent over \$0.53 per share in 2017
- Cash returned to shareholders
 - Share repurchase totaled approximately \$70 million in the first half
 - 29 percent dividend increase in January, 2018; five year dividend CAGR is over 25 percent
- Board approved additional 2.5 million shares for repurchase
- Repatriated nearly \$240 million overseas cash



Second Quarter Results

\$ in millions

	2018	2017	change	% chg.
Sales	\$ 833.3	\$ 738.2	\$ 95.1	13%
Net Earnings	\$ 114.5	\$ 92.4	\$ 22.1	24%
Earnings Per Share	\$ 0.66	\$ 0.53	\$ 0.13	25%



Second Quarter Sales

\$ in millions

	2018	2017	change	% chg.
North America	\$ 534.2	\$ 470.7	\$ 63.5	13.5%
Rest of World	308.1	272.8	35.3	13.0%
Intersegment	<u>(9.0)</u>	<u>(5.3)</u>	<u>(3.7)</u>	
Total	<u>\$ 833.3</u>	<u>\$ 738.2</u>	<u>\$ 95.1</u>	13.0%

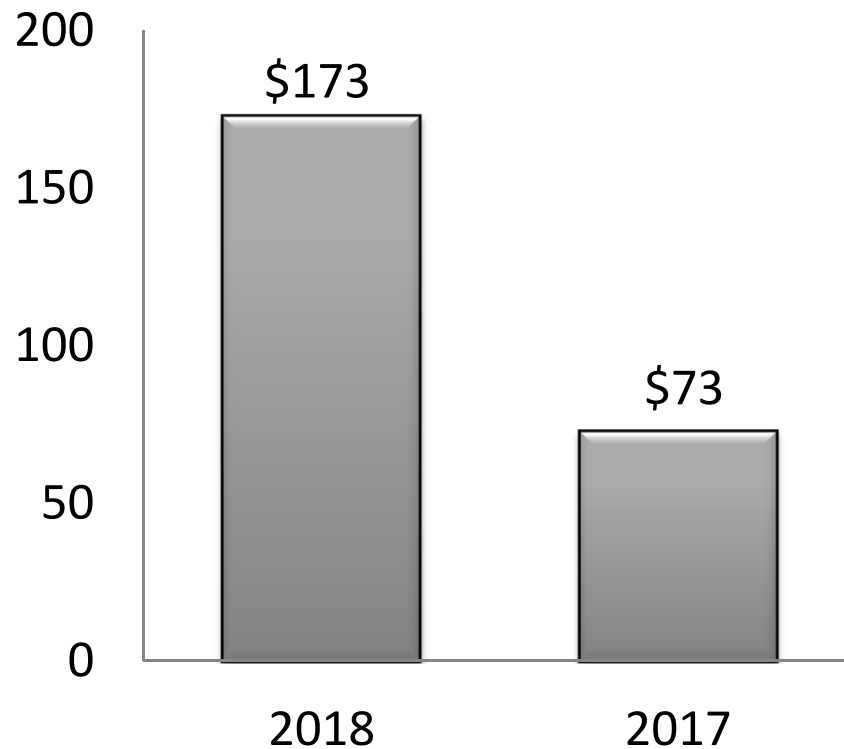
Second Quarter Earnings

\$ in millions, except percentages

	2018	2017	change	% chg.
<u>Segment Earnings</u>				
North America	\$ 124.9	\$ 109.1	\$ 15.8	14.5%
Rest of World	<u>34.7</u>	<u>32.5</u>	<u>2.2</u>	7.0%
Total Segment Earnings	159.6	141.6	\$ 18.0	13.0%
Corporate	(11.2)	(11.1)	(0.1)	-1.0%
Interest Expense	<u>(2.3)</u>	<u>(2.5)</u>	<u>0.2</u>	
Pre-tax Earnings	146.1	128.0	18.1	14.0%
Tax Provision	<u>(31.6)</u>	<u>(35.6)</u>		
Net Earnings	\$ <u>114.5</u>	\$ <u>92.4</u>	\$ <u>21.9</u>	24.0%
<u>Segment Margin</u>				
North America	23.4%	23.2%		
Rest of World	11.3%	11.9%		

Cash Flow from Operations

(\$ in millions)



Highlights

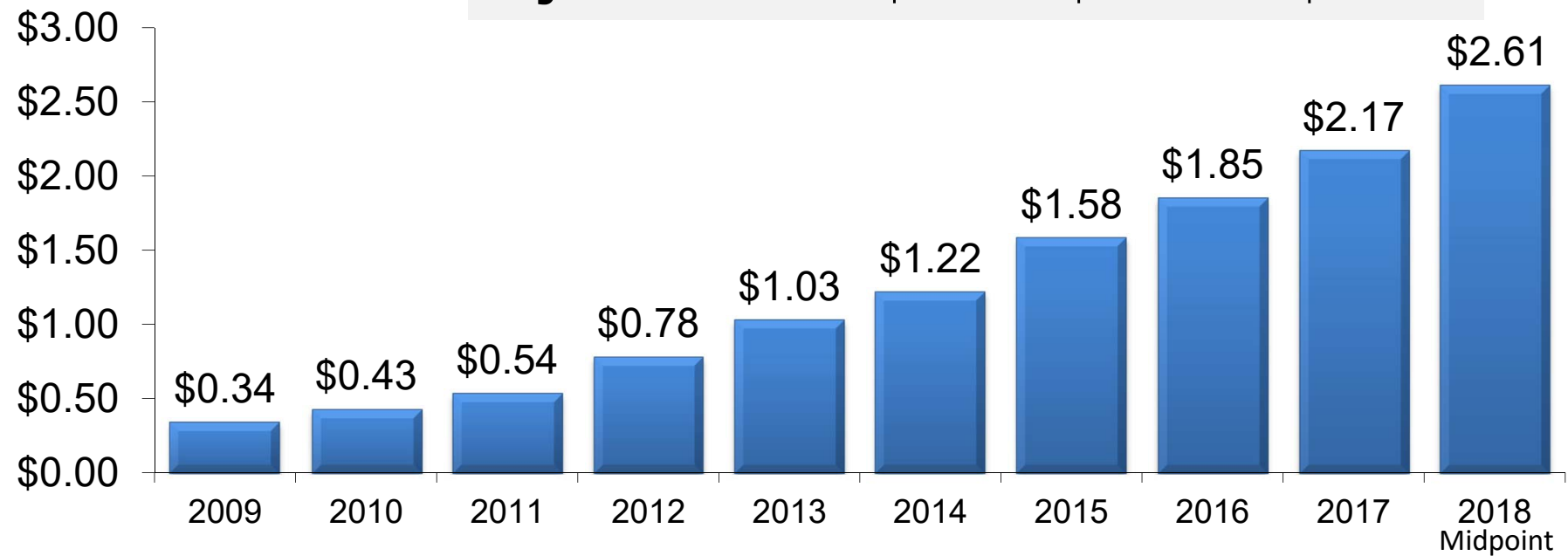
- Operating cash provided by operations of \$173 million
- Debt to capital ratio of 12.5%
- Cash balance: \$658 million
- Net cash position: \$410 million
- Stock repurchase: 1.1 million shares totaling approximately \$70 million

2018 EPS Guidance and 2017 EPS

As of July 25, 2018

	2018 Guidance	2017
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Adjusted EPS	\$2.59 to \$2.63	\$2.17
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Note: 2009 through 2014 and 2017 and 2018 are adjusted EPS and all years are adjusted for stock splits

- * 2017 excludes \$0.47 per share related to U.S. tax reform
- * 2018 excludes \$0.03 per share related to plant closing

2018 Assumptions

(\$ in millions)

2018 Projections

Operating Cash Flow	approximately \$ 475
Capital Expenditures	approximately \$ 100
Depreciation and Amortization	approximately \$ 80
Corporate/Other Expense	approximately \$ 48
Effective Tax Rate	approximately 21.50-22.0%
Stock Repurchase	approximately \$ 135*
Share Count - Diluted	approximately 173 million

*subject to acquisitions, cash flow and working capital needs

As of July 25, 2018

2018 Outlook

■ Tailwinds

- U.S. residential water heater industry volumes increase approximately 350,000 to 400,000 units, including tankless;
- Boiler revenue growth of approximately ten percent
- Announced 10% average price increase on U.S. wholesale water heaters related to steel and other cost inflation effective early June
- China currency translation benefits
- Smaller expected losses in India than in 2017

■ Headwinds

- Higher steel costs
 - Lower China sales growth
- Primary water treatment supplier to Lowes



2018 Outlook - continued

- Revenue growth between 9.5 and 10 percent in USD
- Adjusted EPS between \$2.59 and \$2.63
- North America adjusted segment margin expected to be 22.25 to 22.50 percent
- Rest of World segment margin expected to be flat to slightly down from 2017

Growth Strategy: Organic Growth

High Growth: 36% of sales growing 14%
(China, India & NA water treatment)

• 5.0%

Boilers: 6% of sales growing 10%

• 0.6%

NA water heaters: 58% of sales growing ~4%

• 2.4%

Total annual sales growth

• 8.0%

Questions