



# Full Year 2020 Results

## Forward Looking Statements

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

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- 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/>

# 2020 Commentary

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NA Water Treatment grows 14 percent, organically

US residential industry water heater demand up eight percent setting industry record

U.S. commercial industry water heater demand down eight percent

China consumer demand progressively improved throughout the year

Employee safety top priority; Minimal operational disruptions

Restructuring charges of \$0.04 per share

2020 CRS report published, 2025 GHG emission reduction goal introduced

## Full Year Results

\$ in millions except per share data

	2020	2019	Change	% Change
Sales	\$2,895.3	\$2,992.7	\$ (97.4)	-3%
Net Earnings	\$ 344.9	\$ 370.0	\$ (25.1)	-7%
Severance and Restructuring Expenses	<u>6.3</u>	<u>-</u>		
Adjusted Earnings	\$ <u>351.2</u>	\$ <u>370.0</u>	\$ (18.8)	-5%
EPS	\$ 2.12	\$ 2.22	\$ (0.10)	-5%
Severance and Restructuring Expenses	<u>0.04</u>	<u>-</u>		
Adjusted EPS	\$ <u>2.16</u>	\$ <u>2.22</u>	\$ (0.06)	-3%

## Full Year Sales

\$ in millions

	2020	2019	Change	% Change
North America	\$2,118.3	\$2,083.5	\$ 34.8	2%
Rest of World	800.3	935.8	(135.5)	-14%
Intersegment	<u>(23.3)</u>	<u>(26.6)</u>	<u>3.3</u>	
<b>Total</b>	<b>\$<u>2,895.3</u></b>	<b>\$<u>2,992.7</u></b>	<b>\$ <u>(97.4)</u></b>	<b>-3%</b>

## Full Year Adjusted Earnings

\$ in millions

	2020	2019	Change	% Change
<b>Adjusted Segment Earnings</b>				
North America	\$ 506.2	\$ 488.9	\$ 17.3	4%
Rest of World	5.0	40.2	(35.2)	-88%
Intersegment	_(0.3)	-	_(0.3)	
<b>Total Segment Adjusted Earnings</b>	<b>510.9</b>	<b>529.1</b>	<b>(18.2)</b>	<b>-3%</b>
Corporate	(52.0)	(46.0)	(6.0)	-13%
Interest Expense	_(7.3)	_(11.0)	3.7	34%
Adjusted Pre-tax Earnings	451.6	472.1	(20.5)	-4%
Adjusted Tax Provision	_(100.4)	_(102.1)	1.7	
Adjusted Earnings	\$ <u>351.2</u>	\$ <u>370.0</u>	\$ <u>(18.8)</u>	-5%
<b>Adjusted Segment Margin</b>				
North America	23.9%	23.5 %		
Rest of World	0.6%	4.3 %		

Note: North America adjusted segment earnings and ROW adjusted segment earnings exclude \$2.7 million and \$5.0 million, respectively, of pre-tax severance and restructuring expenses.

## Fourth Quarter Results

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\$ in millions except per share data

	2020	2019	Change	% Change
<b>Sales</b>	\$ 834.5	\$ 750.9	\$ 83.6	11%
<b>Net Earnings</b>	\$ 120.0	\$ 91.3	\$ 28.7	31%
<b>EPS</b>	\$ 0.74	\$ 0.56	\$ 0.18	32%

## Fourth Quarter Sales

\$ in millions

	2020	2019	Change	% Change
North America	\$ 560.9	\$ 523.1	\$ 37.8	7%
Rest of World	279.0	234.3	44.7	19%
Intersegment	<u>(5.4)</u>	<u>(6.5)</u>	<u>1.1</u>	
<b>Total</b>	<b>\$ <u>834.5</u></b>	<b>\$ <u>750.9</u></b>	<b>\$ <u>83.6</u></b>	<b>11%</b>

## Fourth Quarter Earnings

\$ in millions

	2020	2019	Change	% Change
<b>Segment Earnings</b>				
North America	\$ 137.9	\$ 128.4	\$ 9.5	7%
Rest of World	<u>31.3</u>	<u>1.5</u>	<u>29.8</u>	significant
<b>Total Segment Earnings</b>	<b>169.2</b>	<b>129.9</b>	<b>39.3</b>	<b>30%</b>
Corporate	(16.3)	(11.9)	(4.4)	37%
Interest Expense	<u>(1.0)</u>	<u>(2.5)</u>	<u>1.5</u>	150%
Pre-tax Earnings	151.9	115.5	36.4	32%
Tax Provision	<u>(31.9)</u>	<u>(24.2)</u>	<u>(7.7)</u>	
Earnings	\$ <u>120.0</u>	\$ <u>91.3</u>	\$ <u>28.7</u>	31%
<b>Segment Margin</b>				
North America	24.6%	24.5 %		
Rest of World	11.2%	0.6 %		

## Strong Capital Position<sup>1</sup>

**\$562M**

Cash provided  
by operations

**5.8%**

Debt to  
capital ratio

**\$690M**

Cash balance<sup>2</sup>

**\$576M**

Net cash position

**~1.3M**

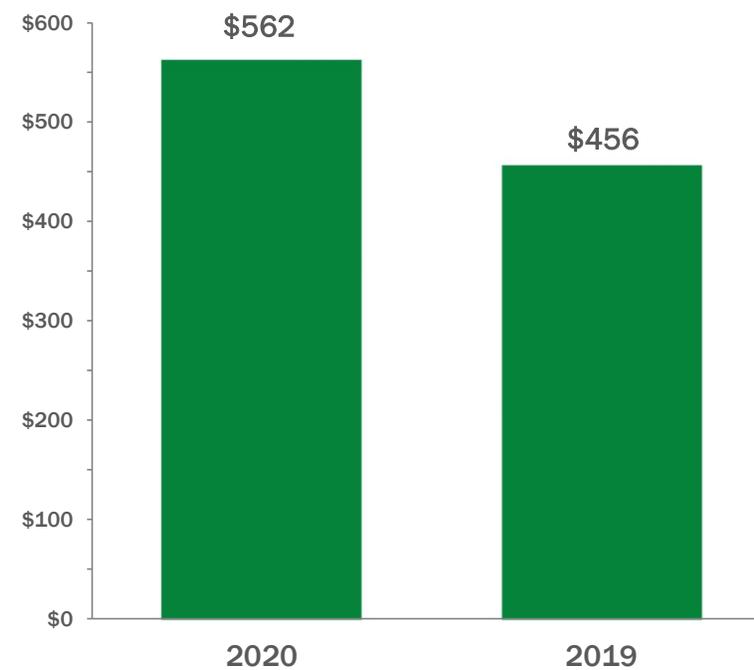
Shares repurchased  
totaling ~\$57M

<sup>1</sup> as of December 31, 2020

<sup>2</sup> includes cash, cash equivalents and marketable securities

### Cash Flow from Operations

\$ in millions



## 2021 EPS Guidance and Assumptions

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(\$ in millions)	2021 Projections
Adjusted EPS	\$2.40 to \$2.50 per share
Operating Cash Flow	\$450 - \$475
Capital Expenditures	\$85 - \$90
Depreciation & Amortization	Approximately \$80
Corporate/Other Expense	Approximately \$51
Effective Tax Rate	22.5 - 23 percent
Stock Repurchase	Approximately \$400
Share Count - Diluted	Approximately 160 million

*As of January 28, 2021*

## 2021 Outlook

	% Revenue <sup>1</sup>	2021 Assumptions
NA Water Heaters	60%	U.S. residential water heater industry volumes down approximately two percent, or 200,000 units; commercial water heater industry volumes down approximately four percent
China	24%	China sales increase 14 – 15 percent in local currency
NA Boilers	7%	NA Boiler revenue increase of mid-single digits
NA Water Treatment	6%	Sales increase 13 to 14 percent
India/ROW	3%	Sales increase of >20 percent; India loss \$1 – 2 million
Total	100%	

<sup>1</sup>2020

As of January 28, 2021

## 2021 Outlook

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- Revenue increased approximately 10 percent, including \$45 million China FX benefit
- North America segment margin expected to be between 23 to 23.5 percent
- Rest of World segment margin expected to be between seven and eight percent

*As of January 28, 2021*

# 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



## 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):

	(dollars in millions, except per share data)			
	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
<b>Net Earnings (GAAP)</b>	\$ 120.0	\$ 91.3	\$ 344.9	\$ 370.0
Severance and restructuring expenses, before tax	-	-	7.7	-
Tax effect of severance and restructuring expenses	-	-	(1.4)	-
<b>Adjusted Earnings</b>	<u>\$ 120.0</u>	<u>\$ 91.3</u>	<u>\$ 351.2</u>	<u>\$ 370.0</u>
<b>Diluted EPS (GAAP)</b>	\$ 0.74	\$ 0.56	\$ 2.12	\$ 2.22
Severance and restructuring expenses per diluted share, before tax	-	-	0.05	-
Tax effect of severance and restructuring expenses per diluted share	-	-	(0.01)	-
<b>Adjusted EPS</b>	<u>\$ 0.74</u>	<u>\$ 0.56</u>	<u>\$ 2.16</u>	<u>\$ 2.22</u>

## Adjusted Segment Earnings

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

	(dollars in millions)			
	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
<b>Segment Earnings (Losses) (GAAP)</b>				
North America	\$ 137.9	\$ 128.4	\$ 503.5	\$ 488.9
Rest of World	31.3	1.5	-	40.2
Inter-segment earnings elimination	-	-	(0.3)	-
Total Segment Earnings (GAAP)	<u>\$ 169.2</u>	<u>\$ 129.9</u>	<u>\$ 503.2</u>	<u>\$ 529.1</u>
<b>Adjustments:</b>				
North America severance and restructuring expenses	\$ -	\$ -	\$ 2.7	\$ -
Rest of World severance and restructuring expenses	-	-	5.0	-
Total Adjustments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7.7</u>	<u>\$ -</u>
<b>Adjusted Segment Earnings (Losses)</b>				
North America	\$ 137.9	\$ 128.4	\$ 506.2	\$ 488.9
Rest of World	31.3	1.5	5.0	40.2
Inter-segment earnings elimination	-	-	(0.3)	-
Adjusted Segment Earnings	<u>\$ 169.2</u>	<u>\$ 129.9</u>	<u>\$ 510.9</u>	<u>\$ 529.1</u>

## 2021 Adjusted EPS Guidance and 2020 EPS

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

	2021 Guidance	2020
<b>Diluted EPS (GAAP)</b>	<b>\$2.40 – 2.50</b>	<b>\$ 2.12</b>
Severance and restructuring expenses, per diluted share	-	<u>0.04</u>
<b>Adjusted EPS</b>	<b><u>\$2.40 – 2.50</u></b>	<b><u>\$ 2.16</u></b>