



## **A. O. Smith finishes strong year with earnings of \$1.86 per share; reaffirms 2003 outlook; forecasts first quarter earnings of \$.41 to \$.45 per share**

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Milwaukee, Wis.—The positive effects of cost reduction actions in its electric motor business and the progress of the integration efforts in its water heater business contributed to significantly improved full year and fourth quarter earnings for A. O. Smith Corporation (AOS-NYSE).

The Milwaukee-based manufacturer today announced 2002 net earnings of \$51.3 million or \$1.86 per share, significantly more than the \$14.5 million or \$.61 per share earned in 2001. Sales for the same 12-month period increased 28 percent to \$1.47 billion compared with sales of \$1.15 billion in 2001, primarily due to the acquisition of State Industries in December 2001.

Net earnings for the quarter ended Dec. 31 were \$11.2 million or \$.38 per share, compared with a fourth quarter 2001 loss of \$5.1 million or \$.21 per share. Earnings for last year's fourth quarter and full year included a restructuring charge of \$6.1 million or \$.25 per share.

Fourth quarter sales of \$359 million reflected the positive impact of the State Industries acquisition, the July acquisition of hermetic motor manufacturer Athens Products, and higher sales in both electric motor and water heater businesses.

"Both of our operating units finished the year on a positive note compared with a weak fourth quarter last year," Chairman and Chief Executive Officer Robert J. O'Toole said. "More importantly, Electrical Products surpassed its cost-reduction objectives and Water Systems exceeded the cost-savings goals it set following the State acquisition."

### **Electrical Products**

Fourth quarter sales of \$178 million were approximately six percent higher than the corresponding quarter in 2001. Sales were positively influenced by the acquisition of Athens Products, a manufacturer of hermetic motors for residential air conditioning compressors, and strong demand in the pump and garage door opener markets. For the full year, motor sales declined approximately \$12 million to \$790 million.

Higher volumes, significantly reduced expenses, and the elimination of goodwill amortization resulted in an operating profit of \$11.7 million compared with a fourth quarter loss of \$2.2 million in 2001. For the full year, the unit's operating profit was \$57.6 million, twice the 2001 operating profit of \$28.9 million. Results for 2001 have been adjusted to exclude the impact of a fourth quarter restructuring charge of \$8.1 million pre-tax.

In December, the company announced it had acquired a second electric motor manufacturer in the People's Republic of China. It purchased the electric motor operations of Changheng Group, a manufacturer of air-moving motors for the Chinese air conditioning market with 2002 revenues of approximately \$14 million. While Changheng has an existing customer base in China, the primary purpose of the acquisition is to further expand A. O. Smith's ability to manufacture products for the U. S. market. The business is located 100 miles west of Shanghai and employs approximately 500 people.

### **Water Systems**

Fourth quarter sales of \$181 million reflected the impact of \$82 million in revenues from State Industries as well as a 14 percent sales increase in the base water heater business and higher sales in China. For the full year, Water Systems sales were \$679 million, \$330 million higher than the prior year. The State Industries acquisition represented approximately \$313 million of the sales increase.

Fourth quarter operating earnings of \$14.9 million were 40 percent higher than the 2001 fourth quarter. Increased volume, improved manufacturing performance, and cost reductions associated with the integration of State Industries contributed to the improved earnings. Full-year operating earnings were a record \$58.4 million, approximately \$19 million higher than 2001.

### **Pension Adjustment**

Recent declines in the U.S. equity market have resulted in a reduction in the fair value of the assets of the pension plans sponsored by the company. This asset value reduction, coupled with an increase in the present value of the obligations of the

pension plans due to declining interest rates, has resulted in accumulated pension benefit obligations exceeding the fair value of plan assets by \$89 million. Accordingly, the company has taken a non-cash charge to equity of \$115 million, representing the recording of this liability, the elimination of the prepaid pension asset and related deferred tax effects. This charge has no impact on cash flow or net income.

The pension plans continue to meet all funding requirements under ERISA regulations, and under current assumptions no significant minimum funding requirement is expected for several years.

The company lowered its 2003 actuarial return on assets assumption to 9.0 percent from 9.75 percent in 2002. The company generated \$17 million in pretax pension income in 2002. Primarily due to the lower return assumption, this figure will decline to approximately \$10 million in 2003.

### **Company discusses outlook**

"The company's overall cost structure has improved significantly over the last 12 months," O'Toole commented, "and our operating units will continue to aggressively manage cost in the new year. Consequently, we remain confident in our full-year 2003 earnings estimate of between \$2.05 and \$2.25 per share."

"While we are confident in the full-year estimate, earnings improvement will occur primarily in the last half of the year. Cost increases, including pension, employee medical costs, and liability insurance will impact us throughout the year. Operating improvements, however will build up incrementally during the year, and are weighted to the last half of the year. These improvements include the continued success of the motor repositioning programs, the ongoing impact of the State integration activities, and the introduction of new water heater products. For the first quarter of 2003, net earnings are projected to modestly surpass last year's \$12.1 million result. However, given the impact from our second quarter 2002 stock offering, our first quarter earnings forecast of \$.41 to \$.45 per share will fall short of last year's figure of \$.50 per share, O'Toole said."

A. O. Smith will broadcast a live conference call beginning at 10:00 a.m. (Eastern Time) today. The call can be heard on the company's web site, [www.aosmith.com](http://www.aosmith.com). An audio replay of the call will be available on the company's web site after the live event.

### **Forward-looking statements**

This release 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," or words of similar meaning. These 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 release. Factors that could cause such a variance include the following: instability in the company's electric motor and water products markets; inability to generate the synergistic cost savings from the acquisition of State Industries; the inability to implement cost-reduction programs; adverse changes in general economic conditions; significant increases in raw material prices; competitive pressures on the company's businesses; and the potential that assumptions on which the company based its expectations are inaccurate or will prove to be incorrect. Forward-looking statements included in this press 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 attributable to the company, or persons acting on its behalf, are qualified in their entirety by these cautionary statements.

A. O. Smith Corporation, with headquarters in Milwaukee, Wis., is one of North America's largest manufacturers of electric motors, with a comprehensive line of hermetic motors, fractional horsepower alternating current (AC) and direct current (DC) motors, and integral horsepower motors, as well as one of North America's largest manufacturers of residential and commercial water heating equipment. A. O. Smith Corporation has facilities in the United States, Mexico, Canada, England, Ireland, Hungary, the Netherlands, and China and employs approximately 15,000 people.

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