



# Winter 2021 Analyst Presentation

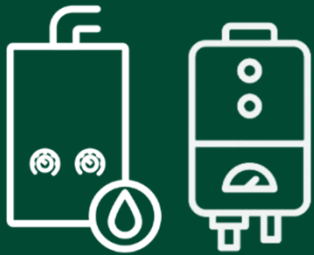
## Forward Looking Statements

---

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: 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.”

## Who We Are

---



**GLOBAL  
MANUFACTURER**  
of residential and commercial  
water heaters, boilers and  
water treatment products



**\$2.9B** Annual Sales



**13,900** Employees



**22** Manufacturing Facilities

**AOS**  
LISTED  
**NYSE**  
**S&P 500**

# Compelling Investment Thesis

---



Market leader



Stable U.S. replacement market; operating leverage from incremental new construction



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

## We Have Organic Revenue Growth Drivers Across our Portfolio

### Product Lines / Geographies

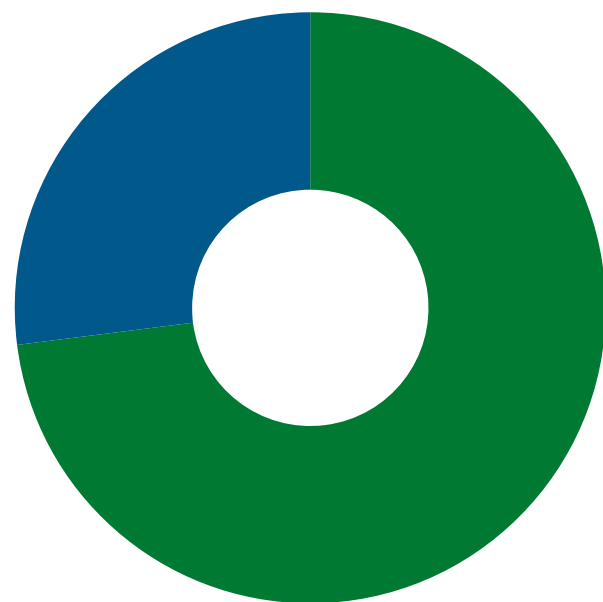
North America Water Heaters	Boilers	North America Water Treatment	China	India/ International
<ul style="list-style-type: none"> <li>• Innovative energy efficient products</li> <li>• Service leadership</li> <li>• Best in class virtual training</li> </ul>	<ul style="list-style-type: none"> <li>• Innovative energy efficient products</li> <li>• Best in class education and training</li> <li>• Service leadership</li> <li>• Customer-centric product development focus</li> </ul>	<ul style="list-style-type: none"> <li>• Best innovative products in marketplace</li> <li>• Direct-to-consumer &amp; E-commerce leadership</li> <li>• Leverage retail and wholesale opportunities</li> <li>• Expand dealer presence</li> <li>• Drive commercial specifications</li> </ul>	<ul style="list-style-type: none"> <li>• Product Innovation</li> <li>• Channel expansion in Tier 4 - 6 cities</li> <li>• Brand leveraging</li> <li>• E-commerce</li> <li>• New product categories</li> </ul>	<ul style="list-style-type: none"> <li>• Market expansion and penetration</li> <li>• E-commerce</li> <li>• Brand-building marketing efforts</li> <li>• Innovative, green products</li> </ul>

## Vision

To be a leading provider of innovative and energy-efficient products used to heat, treat and conserve water, providing value to our residential and commercial customers

# Corporate Snapshot

## Segment Revenue



■ North America

■ ROW

Full Year  
2020  
North America  
**73%**  
Rest of World  
**27%**

## Products

- Water Heaters
  - Boilers
- Water Treatment

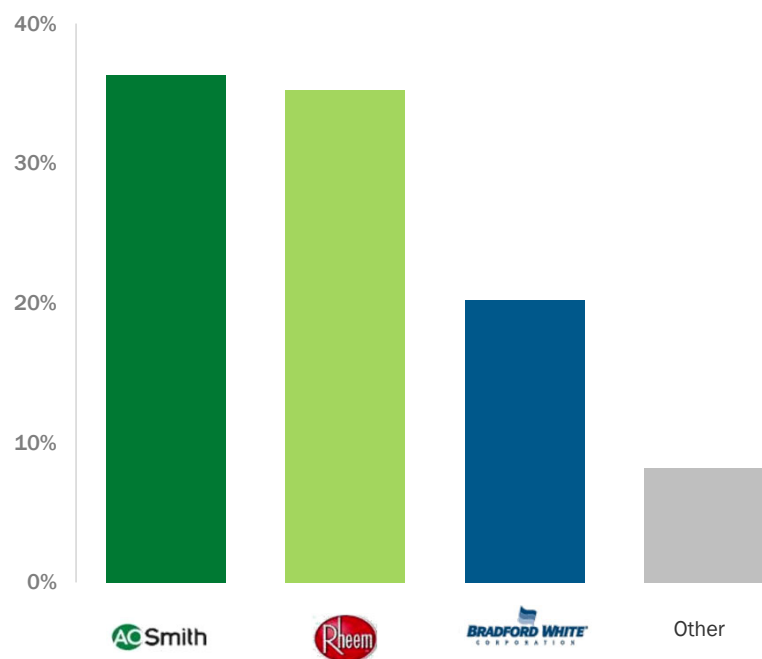
## Brands



# Leading Market Share in the U.S. Water Heater Market Segment<sup>1</sup>

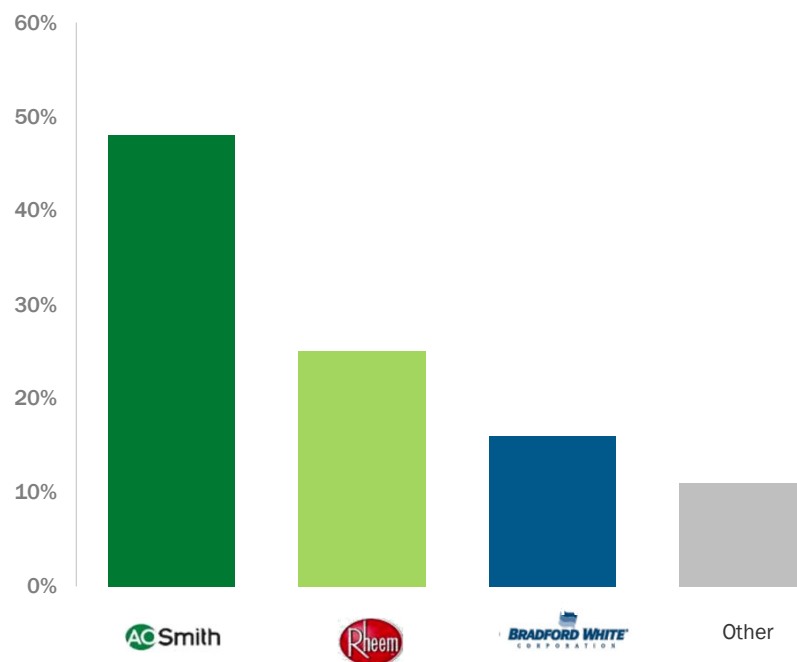
## Residential Market

2020 market share data (AHRI + Gas Tankless)



## Commercial Market<sup>2</sup>

2020 market share data (AHRI)



<sup>1</sup> AOS actual shipments and AOS estimates of competitors' shipments

<sup>2</sup> Commercial water heater segment as defined by AHRI, total 2020 commercial units as reported by AHRI = 221,000 units

# Comprehensive Residential and Commercial Water Heaters Product Offering

---

## Residential



Hybrid Electric Heat  
Pump Water Heater



Gas Tankless Water  
Heater



ProLine® 50-Gallon  
Electric Water  
Heater



ProLine® Master  
50-Gallon Gas  
Water Heater

## Commercial



Cyclone® Mxi



Commercial Tankless  
Rack System



Commercial Heat  
Pump Water Heater



## Industry Leading Partners in both the U.S. Residential Water Heater Channels<sup>1</sup>

### Wholesale Channel

**FERGUSON**

**Winsupply**  
THE WINSUPPLY FAMILY OF COMPANIES

CELEBRATING 150 YEARS  
**HAJOCA**  
PLUMBING • HEATING • INDUSTRIAL SUPPLIES  
SERVICE • INTEGRITY • RELIABILITY

Large Regional  
Distributors

A. O. Smith Customers

### Retail Channel

**LOWE'S**

*True Value*

**ACE**  
Hardware

**Do it  
Best**

### INDUSTRY



### WHOLESALE CHANNEL

**53%** of the market

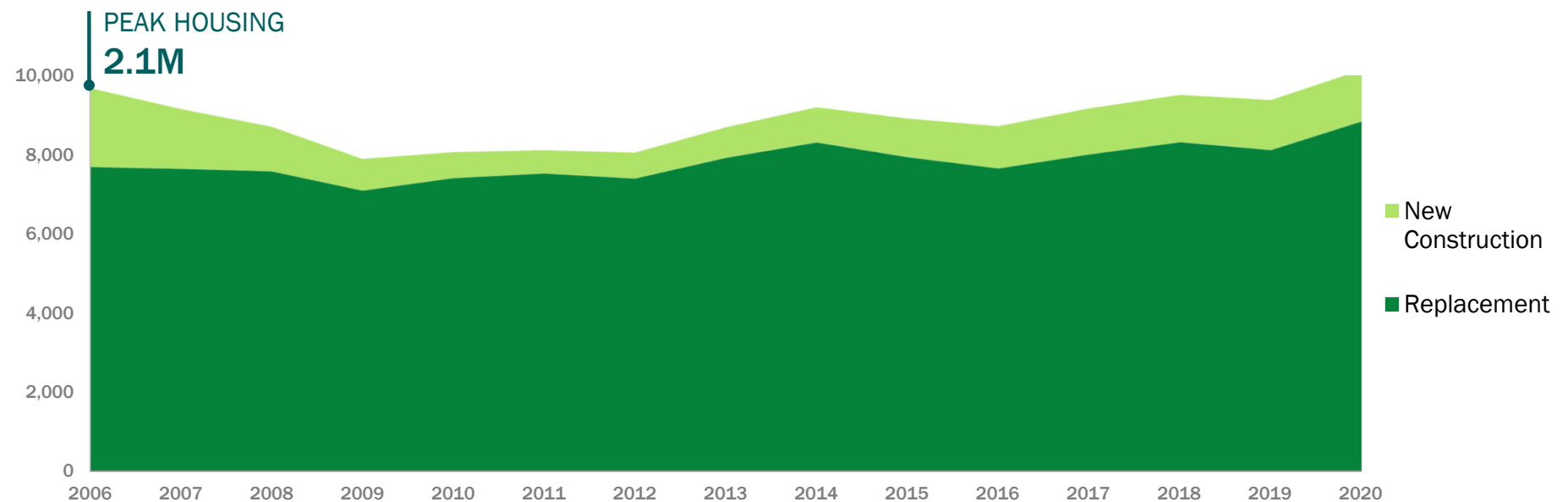
### RETAIL CHANNEL

**47%** of the market

# Stable Replacement Volumes to Temper Downcycles with Upside New Construction Optionality

## U. S. Residential Water Heaters<sup>1</sup>

Thousands of units



# Industry-Leading Energy Efficient Cyclone Condensing Commercial Water Heater

---



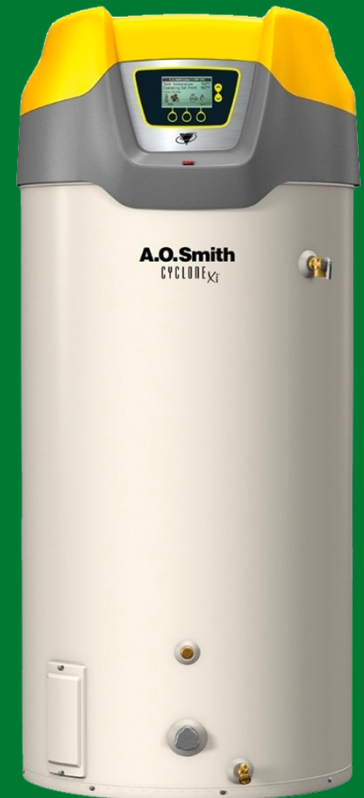
**Up to 96% thermal efficiency**  
dramatically lowers  
operating costs  
offering short  
payback



**Connectivity**  
built in

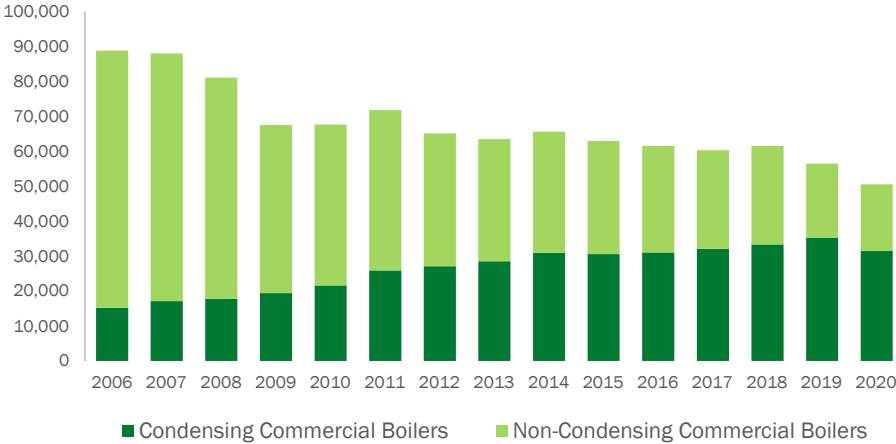


**Represents**  
**66%** of AOS  
commercial gas  
water heater  
revenues



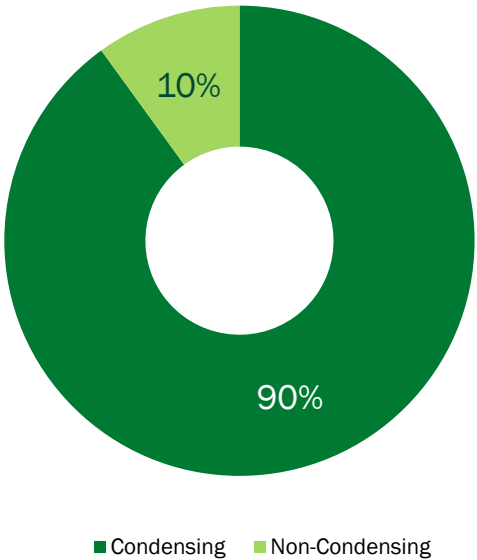
# Industry trending to Higher Efficiency Condensing Boilers Drives Past and Future Growth

NA Boiler Volumes



Source: 2006 to 2017: BRG Solutions; 2018-2020: AOS estimates

A. O. Smith Boiler Sales



# Comprehensive Boiler Product Offering Commercial & Residential

## Residential Condensing Boilers



(55mbh – 399mbh)  
(Indoor Rated)



## Residential Combi-boilers



**NOBLE™**  
FIRE TUBE COMBI  
(110mbh – 199mbh)  
(Indoor Rated)

## Commercial Condensing Boilers



**FTXL™**  
FIRE TUBE BOILER  
(400mbh – 850mbh)  
(Indoor Rated)



**KNIGHT XL™**  
COMMERCIAL BOILER  
(400mbh – 1000mbh)  
(Indoor & Outdoor Models)



**CREST™**  
CONDENSING BOILER  
(750mbh – 6000mbh)  
(Indoor & Outdoor Models)

## Commercial Non-Condensing Boilers

**POWER-fin®**  
(500mbh – 5000mbh)  
(Indoor & Outdoor Rated)

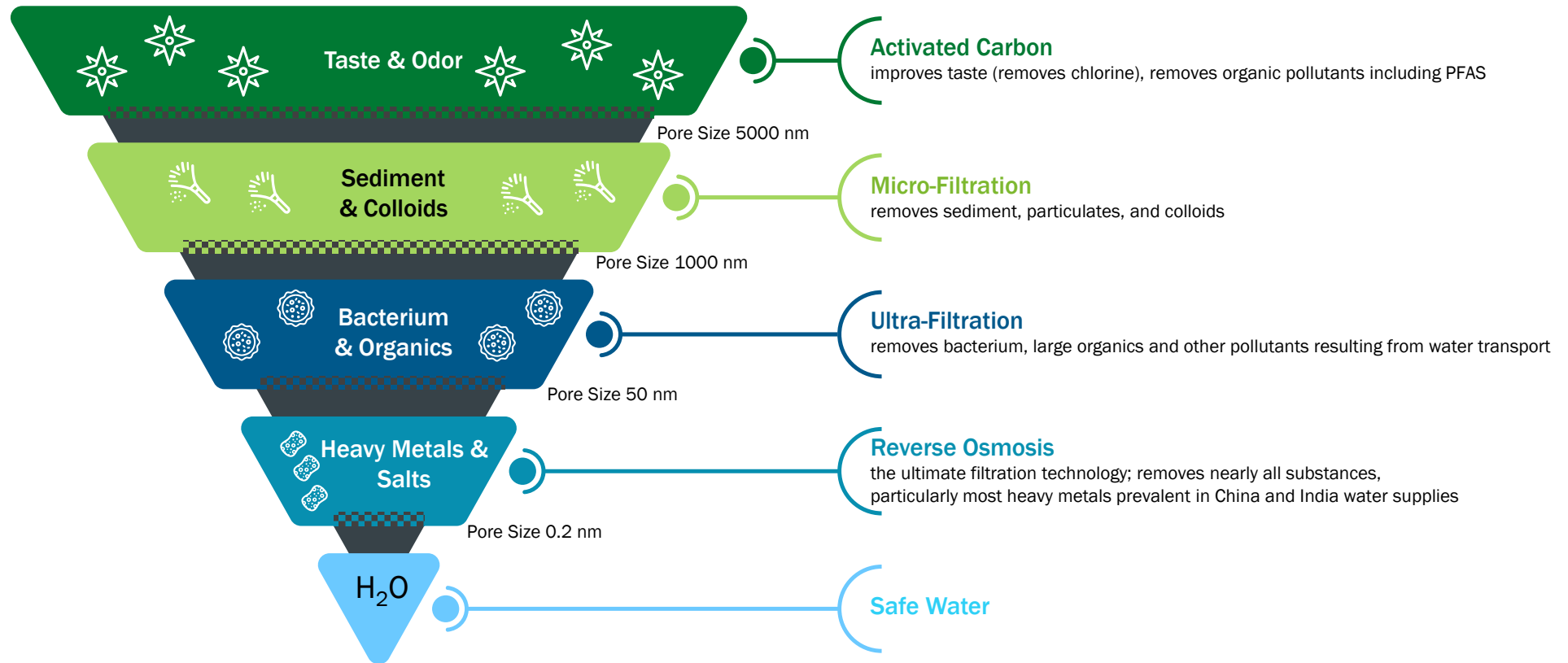


## Commercial Cogeneration

**XRGI 25**  
Micro  
Combined Heat & Power  
• 163,000 BTU/hr  
• 24 kW of electricity  
• 49 DB(A)



# Our Focused Technology is Reverse Osmosis, a Leading Technology to Provide Safe Drinking Water

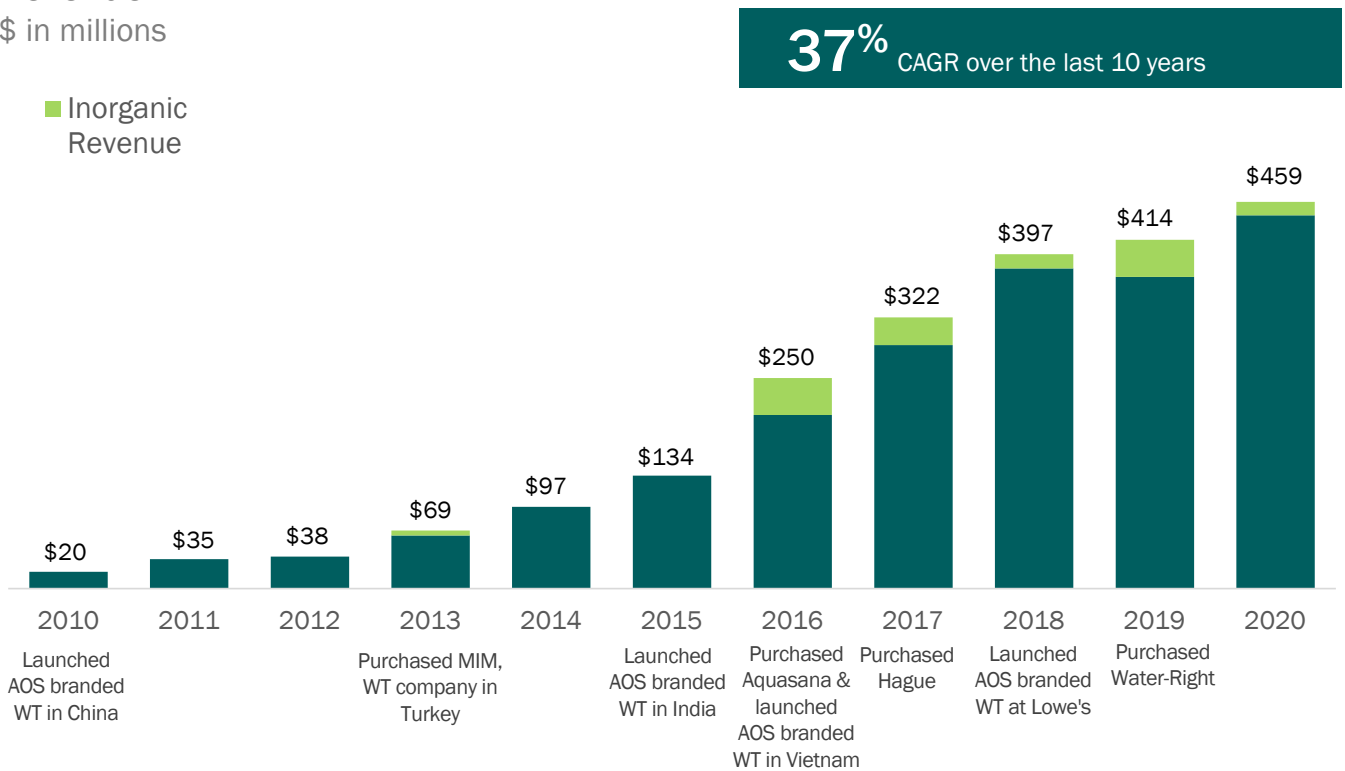


# Evolution of AOS' Global Water Treatment Business

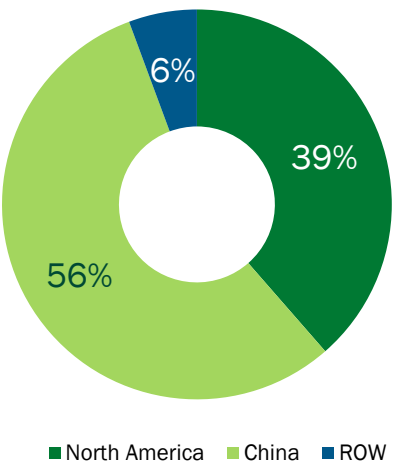
## Revenue

\$ in millions

■ Inorganic Revenue

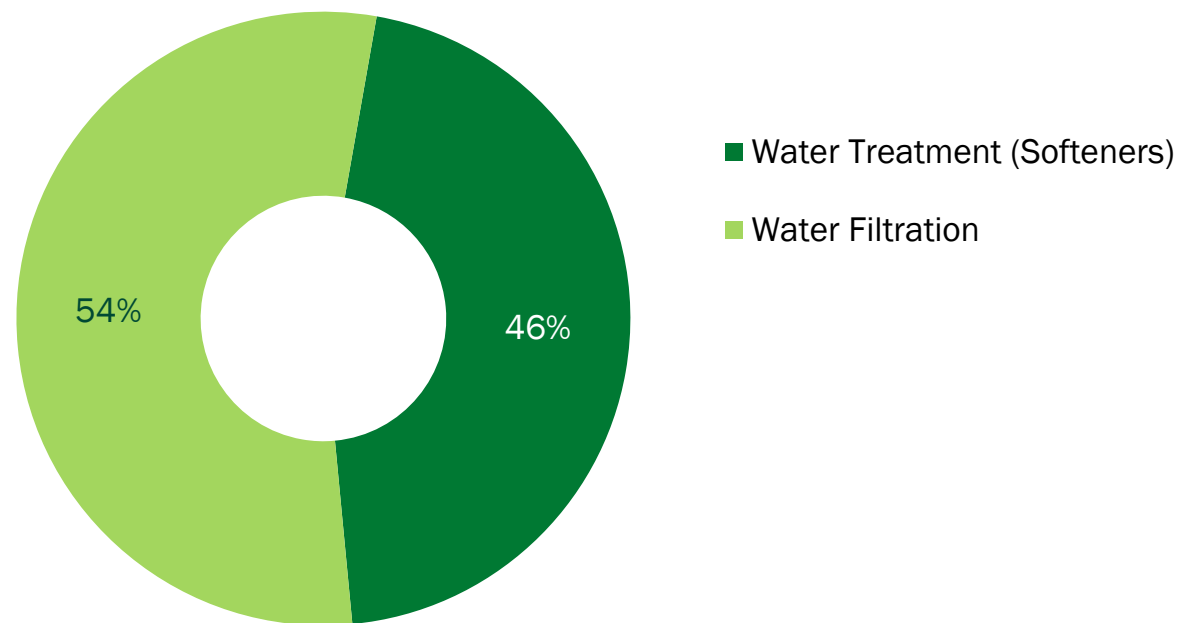


## 2020 Water Treatment Sales by Segment



# Large Addressable Market in U.S. Water Treatment

Addressable A. O. Smith Market: \$2.6 B



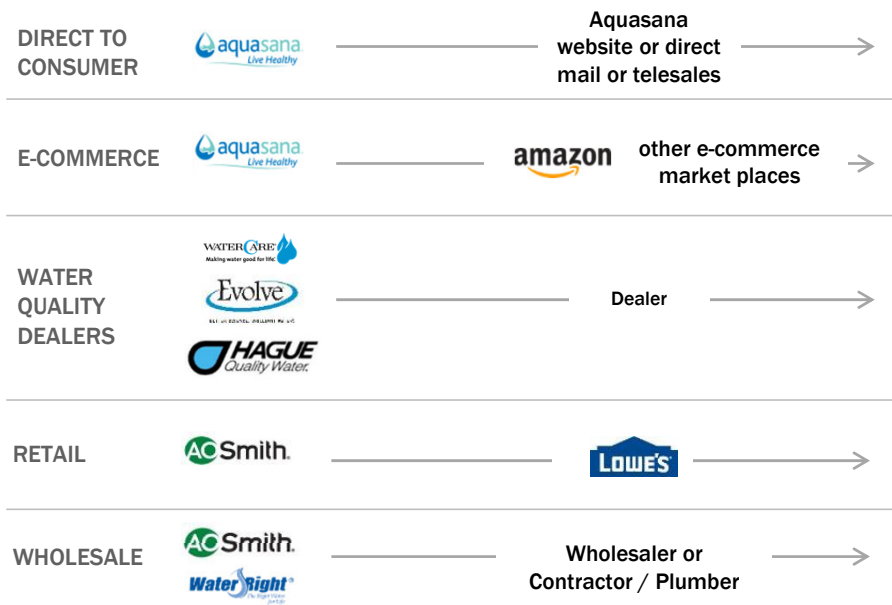
[This Photo](#) by Unknown Author is licensed under [CC BY-NC-ND](#)



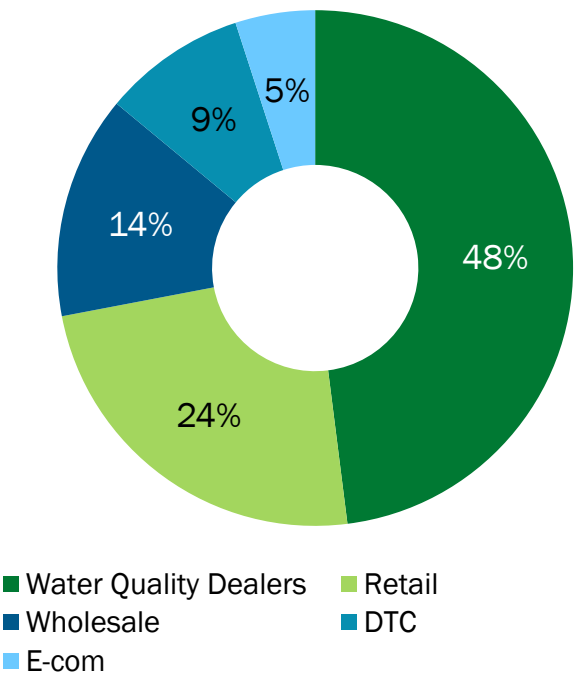
# Positioned to Grow Across all Water Treatment Channels

## North America Channel Brand

Our brands participate in all channels; most competitors operate in 1-2 of these channels



North America Industry Water Treatment Channels



\$2.6 Billion Addressable Market



Sources: 2020 comprehensive market interviews, SEAS Capital Primary Research 2017, WQA consumer study 2019, AOS customer research study 2017, WQA Valve and Tank Report 2020

# Comprehensive Water Treatment Product Offering for the Entire Home

---

## Point of Entry Products



Whole Home  
Filtration



Whole Home  
Softeners

## Point of Use Products



Whole Kitchen  
Filtration



Tankless RO  
Systems



Traditional RO  
Systems



Under Sink  
Filtration

## Non-Installed Products



Clean Water  
Machine



On-the-Go Filter  
Bottles

# AOS China Built On



Premium Brand



Extensive Distribution and Service Network



Innovative New Products and World Class Manufacturing



Local Management Team and Organizational Development



# Growing Product Portfolio Developed in China for China

## Electric & Gas Water Heaters



Electric  
Water  
Heaters



Gas Water  
Heater



## Water Treatment



Water  
Purifiers



## Other Categories

Combi-  
boiler

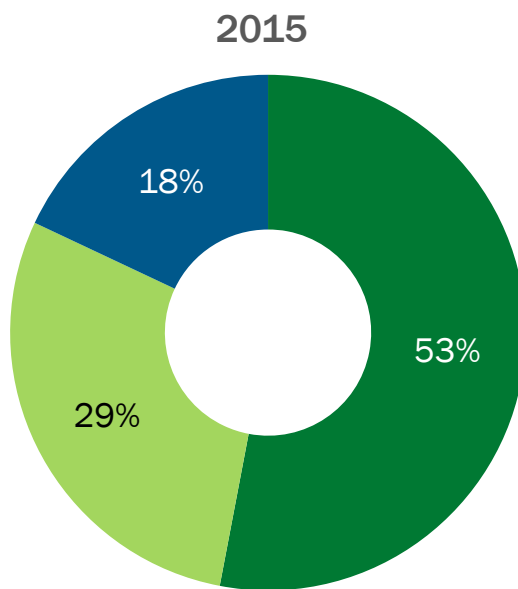


Range Hood

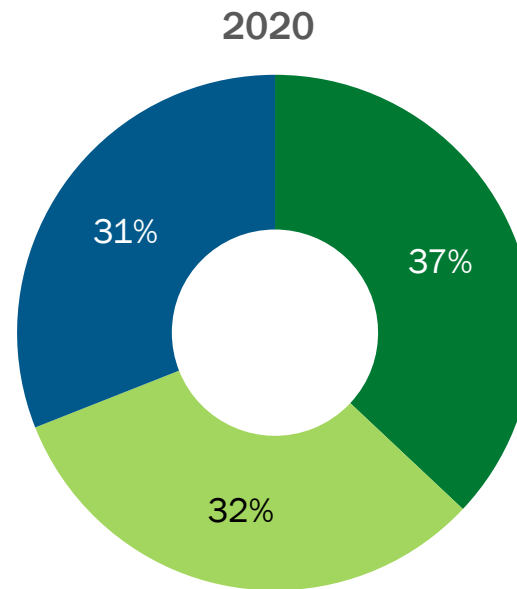


## China: Broad Distribution Channel

A.O. Smith China Sales by Channel



- 3rd Party Retail
- AOS Exclusive Distribution
- E-Commerce



- 3rd Party Retail
- AOS Exclusive Distribution
- E-Commerce



**+13,000**  
retail counters in China

**~50%**  
of outlets in Tier 1 and Tier 2 cities

**~50%**  
of outlets in Tier 3 – Tier 6 cities

# China: Mega Trends Driving Growth

## TRENDS



On-line shopping is growing in China



Middle and affluent classes are growing



Urbanization in China projected to drive 28%<sup>1</sup> of all global growth!



## A. O. SMITH

We are positioned to reach consumers using the internet



Our Market Leading Premium Consumer brand is positioned for the middle and affluent classes



A. O. Smith has manufacturing capacity and channel footprint to capitalize on continued household formation

## Thesis in India Similar to China

---



Attractive Growth Demographics



Leveraging Global Capabilities with Products Designed for the Indian Market



Building Brand & Expanding Our Distribution



Introduced New Product Categories with Water Treatment



Local Management



**We are committed  
for the long-term  
opportunity**



# India: Geographic Presence Build out from 2008 through 2020

A Class Cities  
(pop >1.5 Mn)  
Distribution in  
25 out of 25 cities

B Class Cities  
(pop .5 to 1.5 Mn)  
Distribution in  
65 out of 68 cities

C Class Cities  
(pop .1 to .5 Mn)  
Distribution in  
326 out of 400 cities



## National Retailers

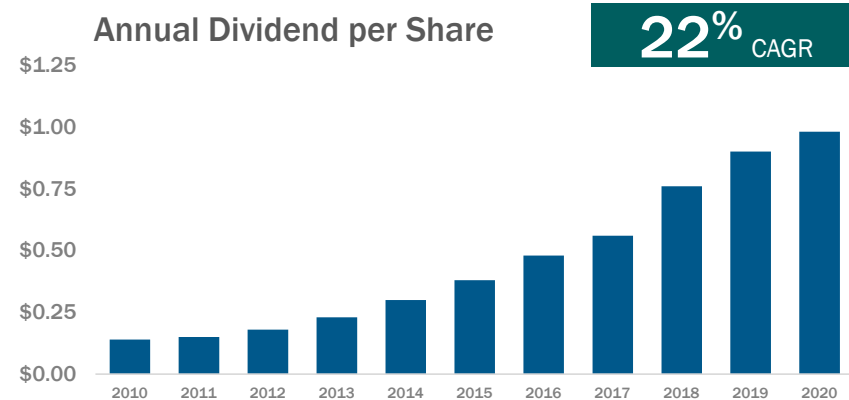
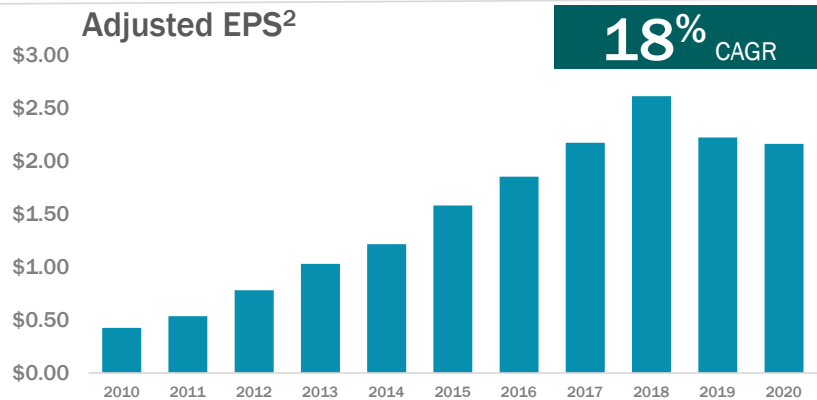
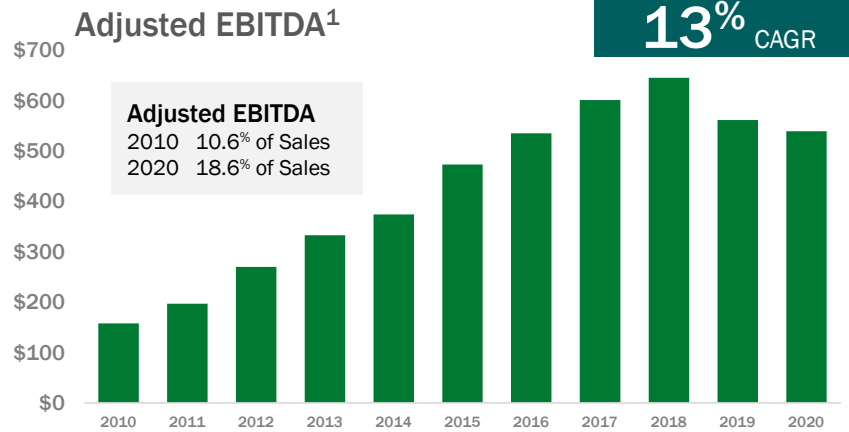


## Regional Retailers





# Driving Financial Performance and Delivering Significant Growth



# M&A Criteria and Focus



## Geographic Growth

- High Growth Markets



## Expand / Grow the Core

New Products &  
New Technologies

- Water Heating
- Water Treatment



## Adjacencies

- Water-themed platforms for growth
- Leverage channels and brands



Accretive to  
earnings in the  
first year



ROIC in excess of  
cost of capital by  
third year



Meet risk adjusted  
IRR hurdle rates



Margin accretion  
with growth rates  
higher than U.S.  
GDP



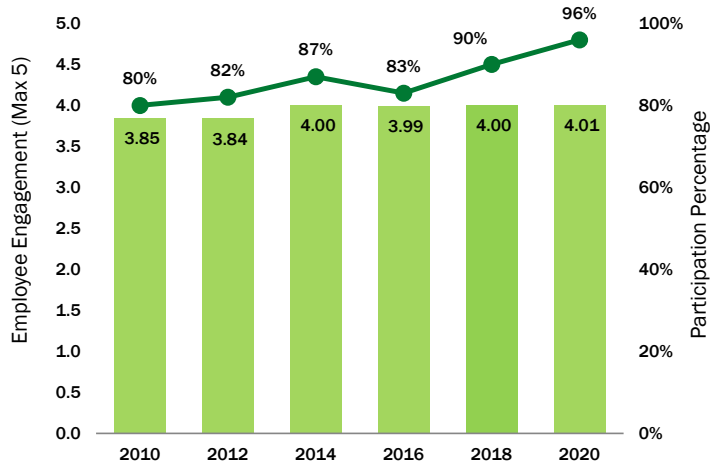
# ESG Accomplishments

Values-based Culture is highly regarded by our employees



- Ethics
- Integrity
- Value Recognition
- Supervisor Effectiveness
- Innovation
- Customer Focus

AOS is a Great Place to Work



Products Conserve Resources



**98%** Thermal Efficient

Cyclone Commercial Water Heater



**99%** Thermal Efficient

Crest Commercial Boiler

**511,900 tons**

of GHG emissions were offset by sales of high-efficiency water heaters and boilers in North America during 2019<sup>1</sup>



Our water heaters are consistently recognized as having the highest level of efficiency including Tier 1 status in China and BEE 5 status in India.

**10%** GHG Emissions Reduction Goal – 10% GHG Emissions Intensity Reduction by 2025<sup>2</sup>

Operations Are Safe & Conserve Resources



ISO 14001 standards for environment

ISO 45001 standards for safety



Chairman's Green Star Award  
Established 2009

**2019 Base Line Intensity<sup>2</sup>**

GHG Emissions	Metric Ton CO2e/\$MM Revenue	46.3
Global Energy	MWh/\$MM Revenue	173.0
Global Water	Gallons/\$MM Revenue	70.1

[Link To CRS Report](#)



<sup>1</sup>As reported in AOS 2020 CRS Report based on 2019 sales and data

<sup>2</sup>Note: Baseline is 2019 and scope 1&2 GHG emissions.

## Compelling Investment Thesis

---



Market leader



Stable U.S.  
replacement market;  
operating leverage  
from incremental new  
construction



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

---

# 2020 Results and 2021 Outlook

## 2020 Commentary

---

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
<b>Sales</b>	\$2,895.3	\$2,992.7	\$ (97.4)	-3%
<b>Net Earnings</b>	\$ 344.9	\$ 370.0	\$ (25.1)	-7%
<b>Severance and Restructuring Expenses</b>	<u>6.3</u>	<u>-</u>		
<b>Adjusted Earnings</b>	\$ <u>351.2</u>	\$ <u>370.0</u>	\$ (18.8)	-5%
<b>EPS</b>	\$ 2.12	\$ 2.22	\$ (0.10)	-5%
<b>Severance and Restructuring Expenses</b>	<u>0.04</u>	<u>-</u>		
<b>Adjusted EPS</b>	\$ <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	<u>(0.3)</u>	<u>-</u>	<u>(0.3)</u>	
<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	<u>(7.3)</u>	<u>(11.0)</u>	<u>3.7</u>	34%
Adjusted Pre-tax Earnings	451.6	472.1	(20.5)	-4%
Adjusted Tax Provision	<u>(100.4)</u>	<u>(102.1)</u>	<u>1.7</u>	
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.

## 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**

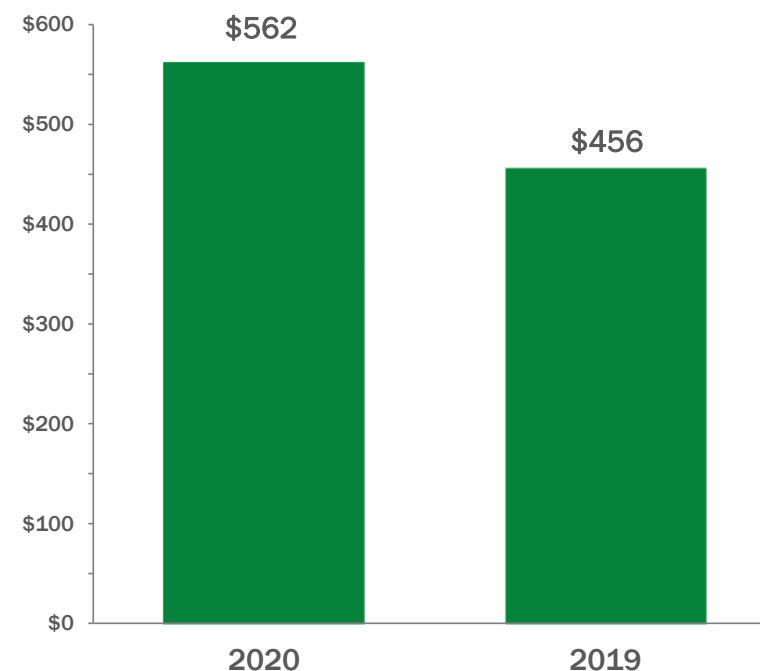
Shares repurchased  
totaling ~\$57M

<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

---

(\$ 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

---

- 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*

## 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>	<b>\$ 120.0</b>	<b>\$ 91.3</b>	<b>\$ 344.9</b>	<b>\$ 370.0</b>
Severance and restructuring expenses, before tax	-	-	7.7	-
Tax effect of severance and restructuring expenses	<u>-</u>	<u>-</u>	<u>(1.4)</u>	<u>-</u>
<b>Adjusted Earnings</b>	<b><u>\$ 120.0</u></b>	<b><u>\$ 9.3</u></b>	<b><u>\$ 351.2</u></b>	<b><u>\$ 370.0</u></b>
 <b>Diluted EPS (GAAP)</b>	 <b>\$ 0.74</b>	 <b>\$ 0.56</b>	 <b>\$ 2.12</b>	 <b>\$ 2.22</b>
Severance and restructuring expenses per diluted share, before tax	-	-	0.05	-
Tax effect of severance and restructuring expenses per diluted share	<u>-</u>	<u>-</u>	<u>(0.01)</u>	<u>-</u>
<b>Adjusted EPS</b>	<b><u>\$ 0.74</u></b>	<b><u>\$ 0.56</u></b>	<b><u>\$ 2.16</u></b>	<b><u>\$ 2.22</u></b>

## 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

---

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>-</u>	<u>0.04</u>
<b>Adjusted EPS</b>	<b><u>\$2.40 – 2.50</u></b>	<b><u>\$ 2.16</u></b>



