



## **A.O. Smith Reports 2000 Results**

MILWAUKEE, Jan. 22 --A.O. Smith Corporation (NYSE: AOS, Amex: SMCA) today announced 2000 earnings of \$1.76 per share from continuing operations. Fourth quarter earnings were \$.11 per share, in line with current estimates.

Sales for the fiscal year ended December 31 were \$1.2 billion, a 16 percent increase over 1999. This increase is primarily due to the inclusion of a full year's operations of the MagneTek motors business, acquired in August 1999.

Fiscal year continuing earnings were \$41.7 million or \$1.76 per share compared with \$50.3 million or \$2.11 per share in 1999. Earnings were negatively impacted by lower gross margins in electric motors and a full year's goodwill and interest expense on the borrowings related to the MagneTek acquisition. Gross margin reductions in the electric motors segment were primarily due to the mix of product sales and cost absorption issues related to a sharp decline in demand for motors in the air conditioning industry in the second half of the year.

"The air conditioning market faltered because of a major run-up in inventories of finished goods," according to Robert J. O'Toole, chairman and chief executive officer. "Orders for hermetic compressor motors and, to a lesser extent, fan and blower motors began to drop dramatically in the third quarter of 2000 and remained soft throughout the fourth quarter. In addition, the domestic housing market also weakened during the second half of the year.

"Although our plants reacted as quickly as possible to the drop in demand, we were unable to absorb all of the cost at the lower volume levels," he added. "We have since taken steps to bring our productive capacity in electric motors more in line with market demand."

During the second half of 2000, the company announced it would close three motor assembly plants and consolidate production in its existing operations. The company also announced plans to transfer manufacturing of integral horsepower motors from a facility in Lexington, Tenn., to other A.O. Smith motor operations.

### **Electric Motors**

Electric motor sales in 2000 increased more than \$161 million over the prior year to \$884.2 million. The increase was due principally to the contribution of \$190 million of additional sales from the former MagneTek motors operations in their first full year with A.O. Smith. Sales of pump motors for pools, spas, and related applications and garage door opener motors were slightly lower than the prior year. Following two years of record volume, sales of motors for air conditioning applications declined approximately seven percent in 2000.

Operating earnings declined approximately four percent due to the second-half slump in the HVAC industry and the related costs associated with the shortfall in revenue.

### **Water Systems**

Bolstered by record international performance, Water Systems Technologies increased sales more than three percent to a record \$326.5 million. Operating earnings also increased by more than three percent.

International sales in 2000 increased by approximately 35 percent, with volume from the company's operation in China doubling over the prior year. Higher sales outside of North America helped to offset a modest decline in the company's residential water heating business last year. Sales of standard and specialty commercial water heating equipment increased slightly over the prior year.

### **Divestitures Concluded**

On January 10, the company concluded the divestiture of its Storage & Fluid Handling Technologies platform, selling its Engineered Storage Products division to CST Industries, Inc. of Kansas City, Kan. The company sold its Smith Fiberglass Products unit to Varco Industries on December 8. The two sales transactions will result in net cash proceeds of \$62 million. An after-tax charge of \$14 million was taken in the fourth quarter related primarily to these discontinued operations.

### **Fourth Quarter**

Sales for the fourth quarter of 2000 were \$263 million, approximately eight percent lower than the comparable period in 1999. Net earnings from continuing operations were \$2.6 million or \$.11 per share compared with 1999 fourth quarter earnings of \$11.6 million or \$.49 per share. The profit decline was due to the sales volume shortfall, as well as the cost issues in the motor business.

## **2001 Outlook**

"While the HVAC industry has done a good job of reducing finished goods inventories going into the new year, it is still too early to know if market demand will materialize as the cooling season of 2001 begins," O'Toole indicated. "We also believe the slowing domestic economy and diminished consumer confidence may adversely affect motor sales to the ventilation and appliance markets as well as our residential water heating business.

"Consequently, we expect first-half sales and earnings in 2001 will not reach the record levels generated during the first half of last year. We are projecting first quarter earnings to range between \$.30 and \$.40 per share and still believe sales and earnings comparisons should improve during the second half of the year, enabling the company to exceed its 2000 results.

"With the Storage & Fluid Handling divestiture concluded, the company has completed the transition begun in 1997 of making A.O. Smith into a more focused, consistently profitable business," O'Toole observed. "The company now consists of two very competitive business units, and we are confident we can continue to expand their size, scope, and profitability."

A.O. Smith Corporation will broadcast a live conference call this morning to discuss 2000 results. The call can be heard on the company's website, <http://www.aosmith.com> beginning at 10:00 a.m. (eastern time).

A.O. Smith Corporation, with headquarters in Milwaukee, Wis., is a leading marketer and manufacturer of electric motors and water heaters, serving customers world wide. It is one of North America's largest manufacturers of electric motors, with a comprehensive line of fractional horsepower, integral horsepower, and hermetic motors. The company also is North America's largest manufacturer of commercial water heating equipment and a leading supplier of residential water heaters and hydronic boilers. The company has facilities in the United States, Mexico, Canada, England, Ireland, Hungary, the Netherlands, and China and employs more than 15,000 people.

## **Forward-Looking Statements**

Certain statements in this report are "forward-looking statements." These forward-looking statements can generally be identified as such because the context of the statement will include words such as the company "believes," "anticipates," "estimates," "expects," "projects," or words of similar import.

Although the company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its business, there can be no assurance that the results expressed in forward-looking statements will be realized. Although a significant portion of the company's sales are derived from the replacement of previously installed product, and such sales are therefore less volatile, numerous factors may affect actual results and cause results to differ materially from those expressed in forward-looking statements made by, or on behalf of, the company. The company considers most important among such factors, the stability in its electric motor and water products markets, the timely and proper integration of the MagneTek motors acquisition, and the implementation of associated cost reduction programs.

All subsequent written and oral forward-looking statements attributable to the company, or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

A.O. SMITH CORPORATION AND SUBSIDIARIES  
(condensed consolidated financial statements -  
\$000 omitted except per share data)

Statement of Earnings

|   | Three Months ended |           | Year ended  |           |
|---|--------------------|-----------|-------------|-----------|
|   | December 31        |           | December 31 |           |
|   | 2000               | 1999      | 2000        | 1999      |
| Continuing Operations   |                    |           |             |           |
| Net Sales *   |                    |           |             |           |
| Electric Motor Technologies   | \$181,491          | \$206,731 | \$884,179   | \$722,879 |
| Water Systems Technologies  | 81,324             | 79,866    | 326,545     | 316,402   |
|   | 262,815            | 286,597   | 1,210,724   | 1,039,281 |
| Costs and Expenses  |                    |           |             |           |
| Cost of products sold *   | 221,908            | 229,803   | 987,075     | 832,369   |
| Selling, general and administrative   | 30,069             | 32,818    | 129,220     | 112,449   |
| Interest expense  | 5,343              | 4,970     | 22,102      | 12,821    |
| Amortization of intangibles   | 1,734              | 1,760     | 6,932       | 5,162     |
| Other (income) expense  | (247)              | (208)     | 307         | (612)     |
| Tax provision   | 1,443              | 5,831     | 23,432      | 26,822    |
| Total costs and expenses  | 260,250            | 274,974   | 1,169,068   | 989,011   |
| Earnings from Continuing Operations   | 2,565              | 11,623    | 41,656      | 50,270    |
| Discontinued operations less related income tax benefit<br>(2000-\$9,024 & \$7,772; 1999-\$4,495 & \$5,017) | (13,820)           | (6,884)   | (11,903)    | (7,848)   |
| Net Earnings (Loss)   | \$(11,255)         | \$4,739   | \$29,753    | \$42,422  |
| Net Earnings (Loss) Per Share of Common Stock (Diluted)   |                    |           |             |           |
| Continuing Operations   | \$0.11             | \$0.49    | \$1.76      | \$2.11    |
| Discontinued Operations   | \$(0.58)           | \$(0.29)  | \$(0.50)    | \$(0.33)  |
| Net Earnings (Loss)   | \$(0.47)           | \$0.20    | \$1.26      | \$1.78    |
| Average Common Shares Outstanding (000's omitted)   | 23,705             | 23,834    | 23,691      | 23,787    |

- Amounts have been presented on a basis consistent with historical practice.

|  |         |         |          |          |
|--|---------|---------|----------|----------|
| In our Form 10-K, Net Sales and Cost of Products Sold will be increased by the following amounts to reflect a reclassification of gross freight costs. | \$8,455 | \$9,267 | \$37,221 | \$31,059 |
|--|---------|---------|----------|----------|

A.O. SMITH CORPORATION  
Balance Sheet

|  | December 31<br>2000 | December 31<br>1999 |
|--|---------------------|---------------------|
| ASSETS:  |                     |                     |
| Cash and cash equivalents                      | \$15,287            | \$14,761            |
| Receivables                                    | 183,527             | 183,442             |
| Inventories                                    | 169,630             | 163,443             |
| Deferred income taxes                          | 7,215               | 11,323              |
| Other current assets                           | 7,789               | 5,253               |
| Net current assets-discontinued operations     | 22,651              | 10,405              |
| Total Current Assets                           | 406,099             | 388,627             |
| Net property, plant and equipment              | 282,835             | 283,493             |
| Goodwill and other intangibles                 | 244,821             | 251,085             |
| Other assets                                   | 107,928             | 88,990              |
| Net long-term assets - discontinued operations | 17,493              | 51,791              |
| Total Assets                                   | \$1,059,176         | \$1,063,986         |
| LIABILITIES AND STOCKHOLDERS' EQUITY:          |                     |                     |
| Trade payables                                 | \$81,380            | \$81,331            |

|  |             |             |
|--|-------------|-------------|
| Trade payables                             | \$21,700    | \$01,221    |
| Accrued payroll and benefits               | 27,388      | 32,272      |
| Product warranty                           | 11,574      | 10,847      |
| Income taxes                               | 1,695       | 7,170       |
| Long-term debt due within one year         | 11,129      | 9,629       |
| Other current liabilities                  | 26,865      | 27,301      |
| Total Current Liabilities                  | 170,431     | 168,440     |
| Long-term debt                             | 316,372     | 351,251     |
| Other liabilities                          | 61,856      | 64,536      |
| Deferred income taxes                      | 62,122      | 48,675      |
| Stockholders' equity                       | 448,395     | 431,084     |
| Total Liabilities and Stockholders' Equity | \$1,059,176 | \$1,063,986 |

A.O. SMITH CORPORATION  
STATEMENT OF CASH FLOWS

|   | Year ended<br>December 31 |           |
|---|---------------------------|-----------|
|   | 2000                      | 1999      |
| Operating Activities  |                           |           |
| Continuing  |                           |           |
| Net earnings  | \$41,656                  | \$50,270  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                           |           |
| Depreciation & amortization   | 45,059                    | 37,315    |
| Net change in current assets and liabilities  | (2,707)                   | (27,378)  |
| Net change in noncurrent assets and liabilities                                     | (9,073)                   | (11,481)  |
| Other   | 1,680                     | 856       |
| Cash Provided by Operating Activities   | 76,615                    | 49,582    |
| Investing Activities  |                           |           |
| Capital expenditures  | (40,516)                  | (32,807)  |
| Capitalized purchased software costs  | (1,439)                   | (1,767)   |
| Acquisitions  | --                        | (244,592) |
| Cash Used in Investing Activities   | (41,955)                  | (279,166) |
| Cash Flow before Financing  | 34,660                    | (229,584) |
| Financing Activities  |                           |           |
| Debt incurred   | --                        | 229,677   |
| Debt retired  | (33,379)                  | (4,629)   |
| Purchase of treasury stock  | --                        | (2,773)   |
| Other stock transactions  | 816                       | 1,149     |
| Dividends paid  | (11,720)                  | (11,172)  |
| Cash Provided by (Used in) Financing Activities                                     | (44,283)                  | 212,252   |
| Discontinued Operations   |                           |           |
| Cash Provided by (Used in) Discontinued Operations                                  | 10,149                    | (5,573)   |
| Net increase / (decrease) in cash and cash equivalents                              | 526                       | (22,905)  |
| Cash and cash equivalents - beginning of period                                     | 14,761                    | 37,666    |
| Cash and Cash Equivalents - End of Period   | \$15,287                  | \$14,761  |

SOURCE A.O. Smith Corporation

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