



## **A. O. Smith first quarter net earnings increase 13 percent; reaffirms 2003 forecast of \$2.05 to \$2.25 per share**

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Milwaukee, Wis.—First quarter 2003 net earnings for A. O. Smith Corporation (AOS-NYSE) increased 13 percent to \$13.7 million compared with the \$12.1 million earned during the same period in 2002.

While net earnings improved 13 percent, the \$.46 per share earnings in the first quarter fell below last year's \$.50 per share. This difference is due to the impact of the 4.8 million shares issued in the May 2002 stock offering. Both earnings and earnings per share were at the high end of the company's forecast.

Revenues for the quarter ended March 31 increased four percent to \$387.9 million compared with 2002 first quarter revenues of \$371.9 million.

"Earnings were positively influenced by improved operating performance in our Electrical Products business as well as lower interest expense," Robert J. O'Toole, chairman and chief executive officer, pointed out.

### **Electrical Products**

Electrical Products reported first quarter sales of \$213.1 million, nearly nine percent higher than first quarter sales in 2002. The sales increase was the result of the July 2002 acquisition of Athens Products, higher sales in the pump and after-market businesses, as well as additional sales from the company's recently acquired Chinese motor operations. Sales to the heating, ventilating, and air conditioning (HVAC) market were flat.

The higher volumes and improved operating expenses contributed to first quarter operating profit of \$17.7 million, a 16 percent increase compared with the first quarter of 2002. Electrical Products' cost reduction and product repositioning initiatives continue, and during the quarter, the company closed its Monticello, Ind., assembly facility. Production from that plant was transferred to company operations in Mexico.

### **Water Systems**

Water Systems' first quarter sales of \$174.8 million were essentially flat compared with the same period in 2002. A price increase to offset higher steel costs took effect in the last half of the quarter. This net cost increase coupled with lower unit sales, caused first quarter operating profit to decline to \$12.0 million from the \$13.6 million earned last year.

On July 1, new regulatory standards go into effect that impact gas-fired residential water heaters, and Water Systems remains on schedule with plans to introduce new products that comply with these standards. The new regulations mandate that gas residential water heaters resist accidentally igniting flammable vapors that may be caused by spilled gasoline or other flammable materials ill-advisedly taken into the home. The standards will be phased in over a two-year period, beginning with 30, 40, and 50-gallon products this year.

### **Company discusses outlook**

"Our customers remain very cautious due to weakening consumer demand and the general uncertainty in the U.S. economy," O'Toole commented. "In spite of these concerns, we remain comfortable with our 2003 forecast of earnings in the range of \$2.05 and \$2.25 per share."

"As we have stated before, lower pension income and cost increases in areas such as medical benefits, liability insurance, and steel will impact us during the full year, while the benefits of repositioning at Electrical Products, the integration of State Industries, and the introduction of new water heater products are weighted to the last half of the year.

Consequently, we expect year-over-year comparisons to improve in the last half of the year. For the second quarter of 2003, we estimate net income will be modestly better than last year, with earnings per share in a range of \$.64 to \$.68 per share."

A. O. Smith will broadcast a live conference call beginning at 1:30 p.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; a failure to comply with new flammable vapor prevention standards in the residential gas water heater industry; 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 17,000 people.

[Click here to download first quarter financial tables in excel format:](#)