



Spring 2019 Analyst Presentation

Forward Looking Statements

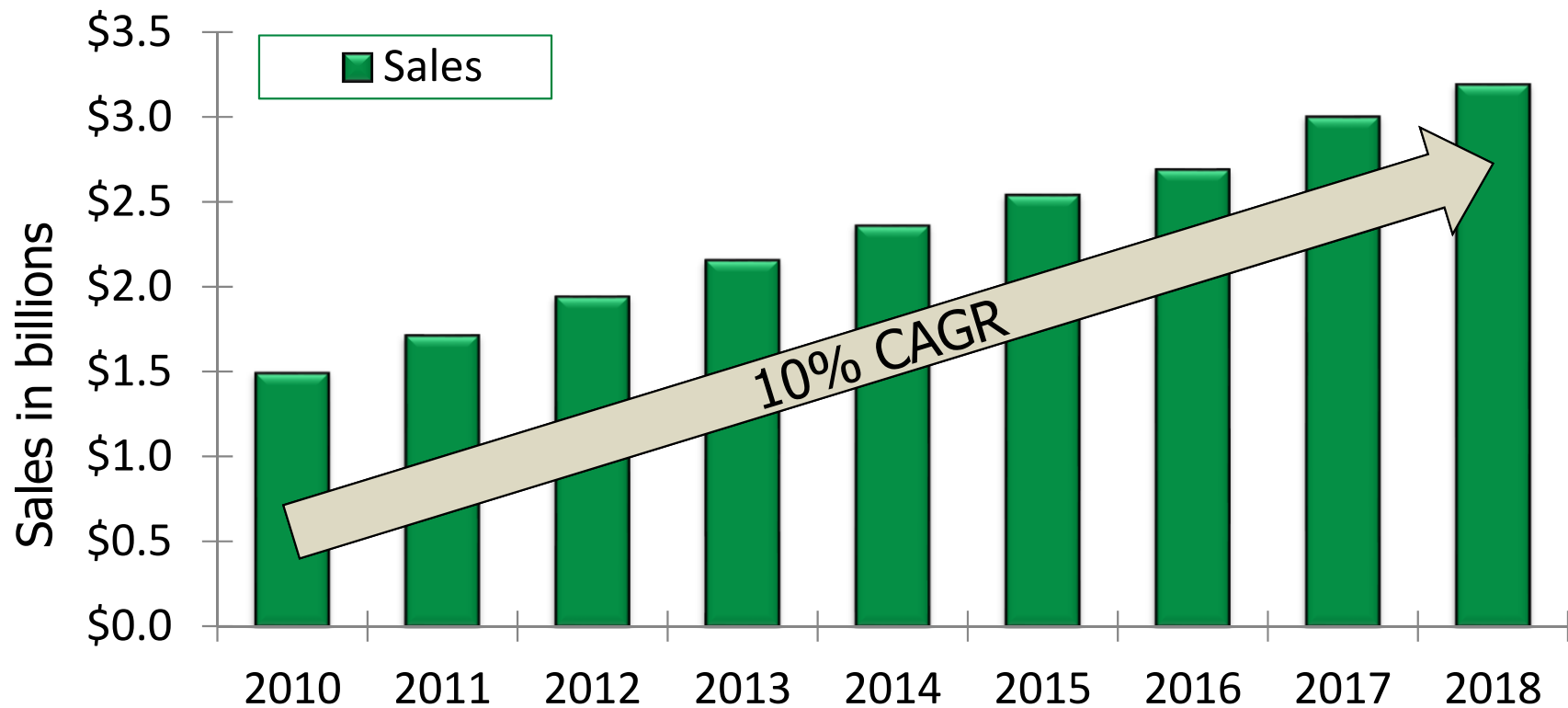
This presentation contains statements that we believe are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “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: a further weakening of the Chinese economy and/or a 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; potential weakening in the high efficiency boiler market segment in the U. S.; significant volatility in raw material 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” .

Investment Case

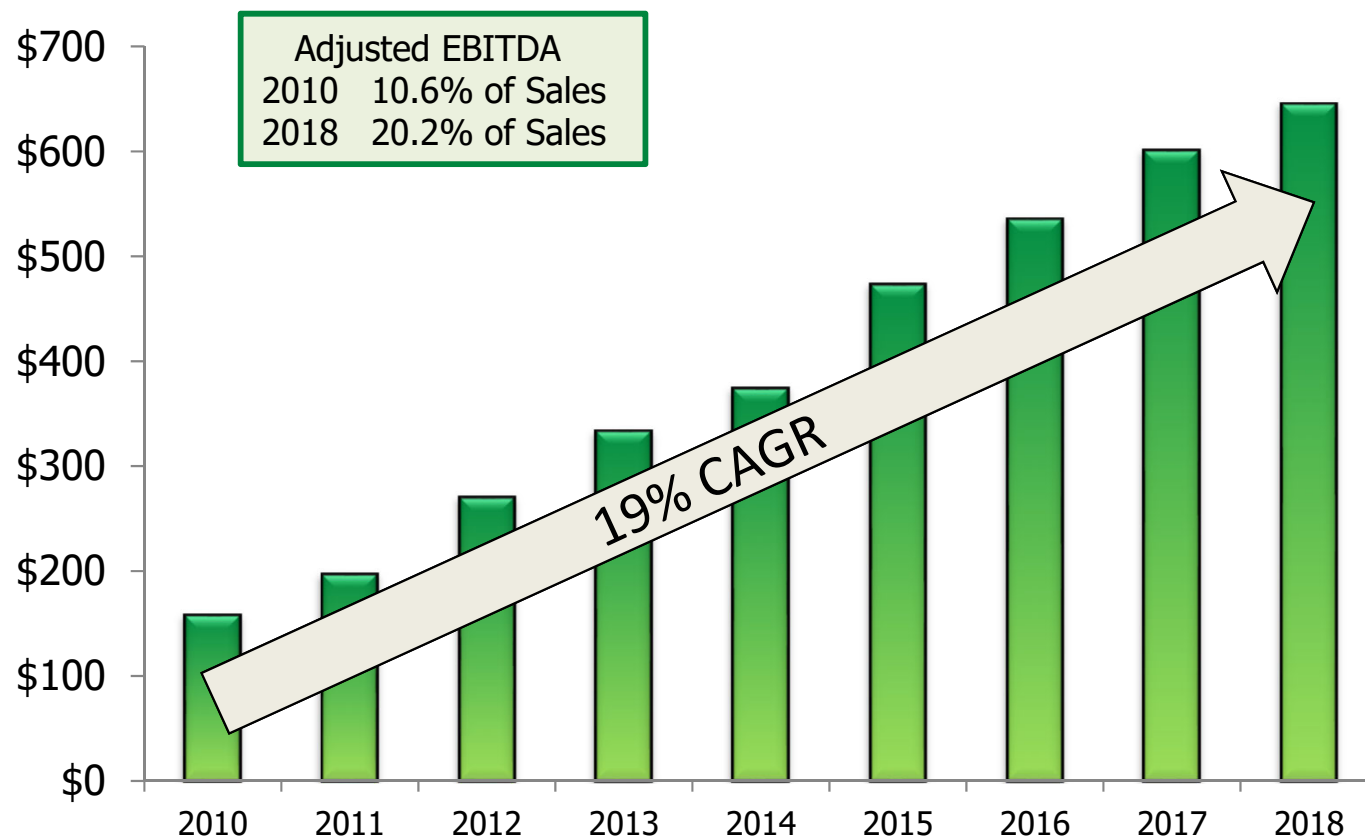
- Manufacturer of residential and commercial water heaters, boilers and water treatment products
- Market share leader in major product lines
- Stable/growing North American replacement market; operating leverage from incremental new construction and replacement
- Strong balance sheet and cash flow to support future growth, share repurchase and acquisitions
- Strength of our premium brand, distribution, manufacturing and innovation provide clear market advantage in China
- 85 percent replacement in water heater and boiler demand



Sales Growth: 10 Percent CAGR



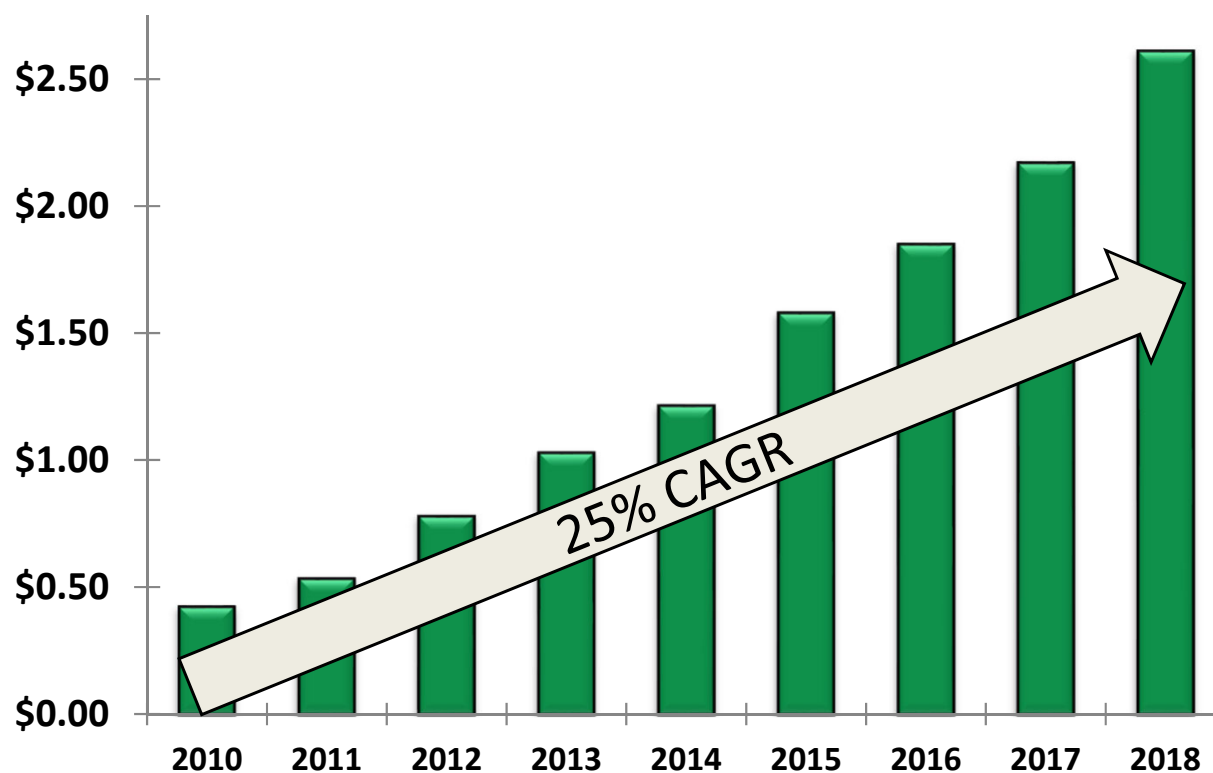
Adjusted EBITDA: 19 Percent CAGR



NOTE

2010 through 2014 adjusted for non-operating pension costs and certain non-recurring items

Adjusted Earnings Per Share: 25 Percent CAGR



NOTE

2010 through 2014
adjusted for non-operating
pension costs and certain
non-recurring items; 2017
adjusted for U.S. Tax
Reform expense; 2018
adjusted for restructuring
& impairment expenses

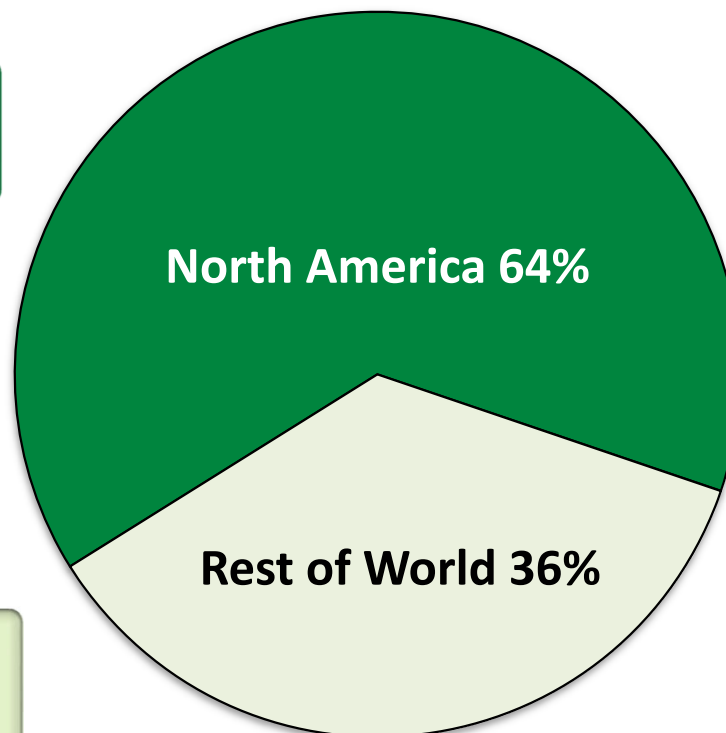
Segment Revenue

NA

- Boilers
- Water heaters
- Water treatment

ROW

- China/India = 94%
- Europe/Middle East = 6%



2018 full year

AC Smith

Lochinvar
HIGH EFFICIENCY BOILERS & WATER HEATERS

aquasana
Live Healthy

WATER CARE
Making water good for life.

Evolve
BETTER SCIENCE. BRILLIANT WATER.

HAGUE
Quality Water®

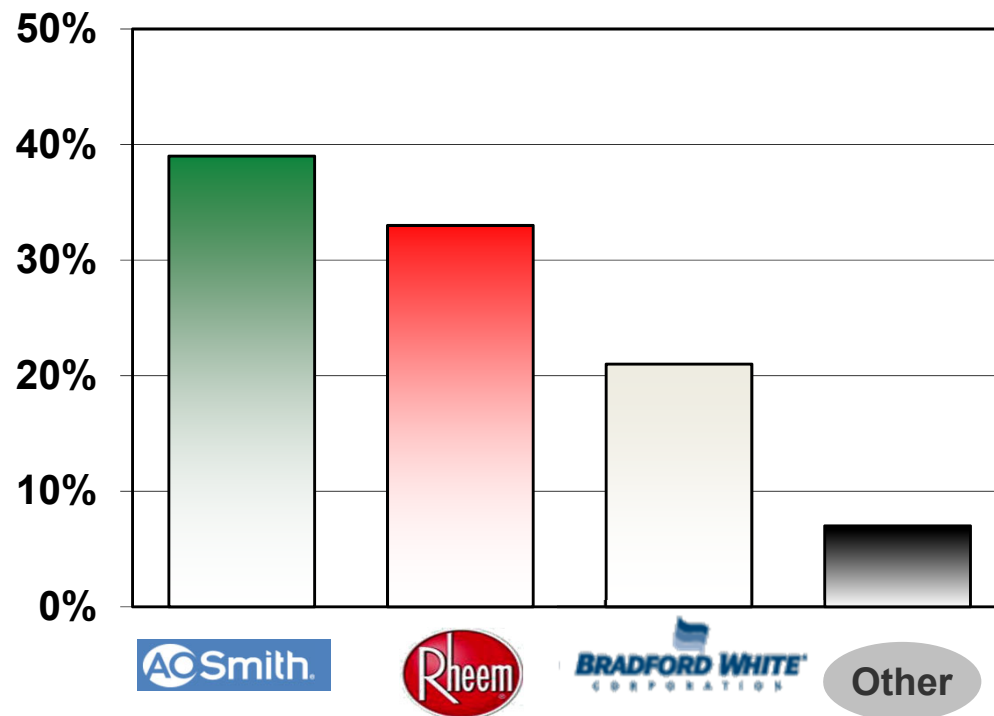
GSW **state**
WATER HEATERS

RELIANCE
WATER HEATER COMPANY

american
WATER HEATER COMPANY

U.S. Water Heater Market Segment

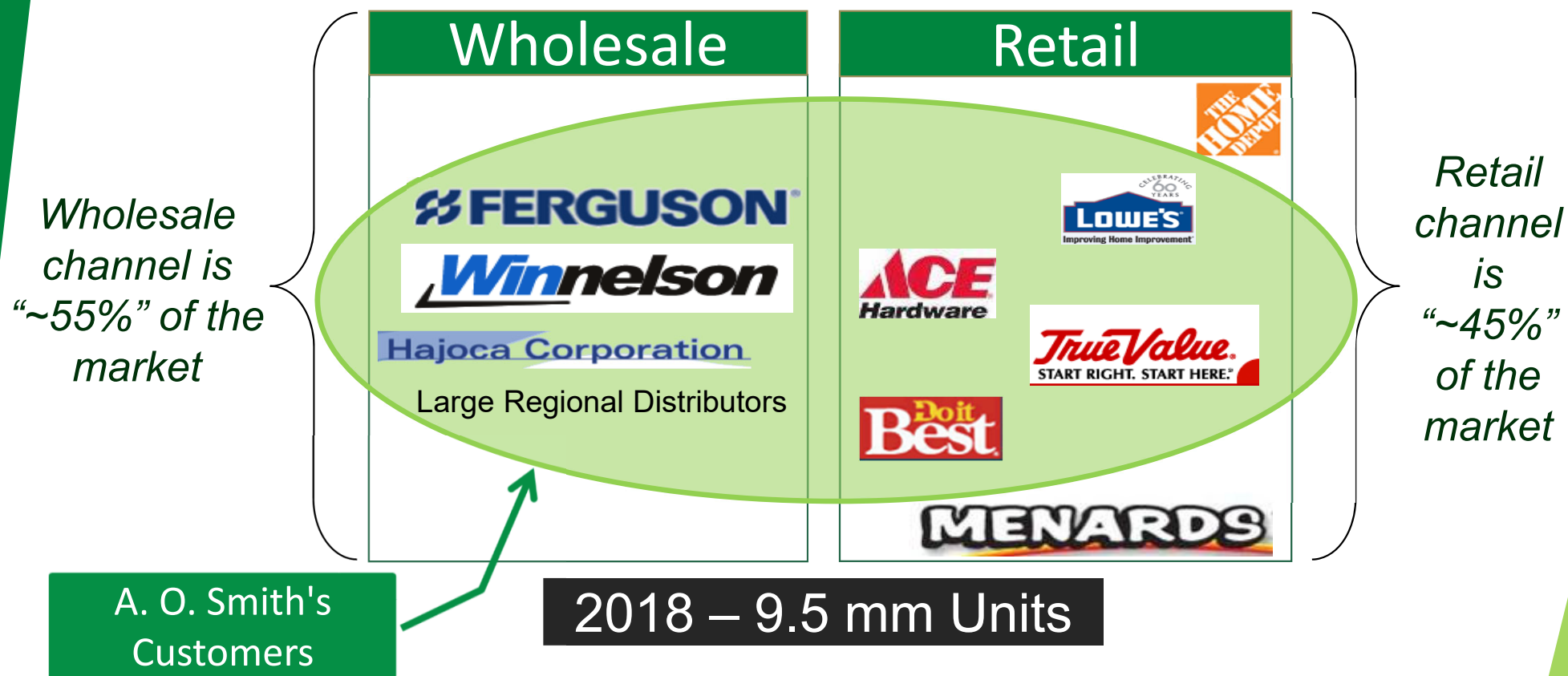
Residential Market



AHRI data + tankless:
AOS actual shipments
and AOS estimates of
competitors' shipments

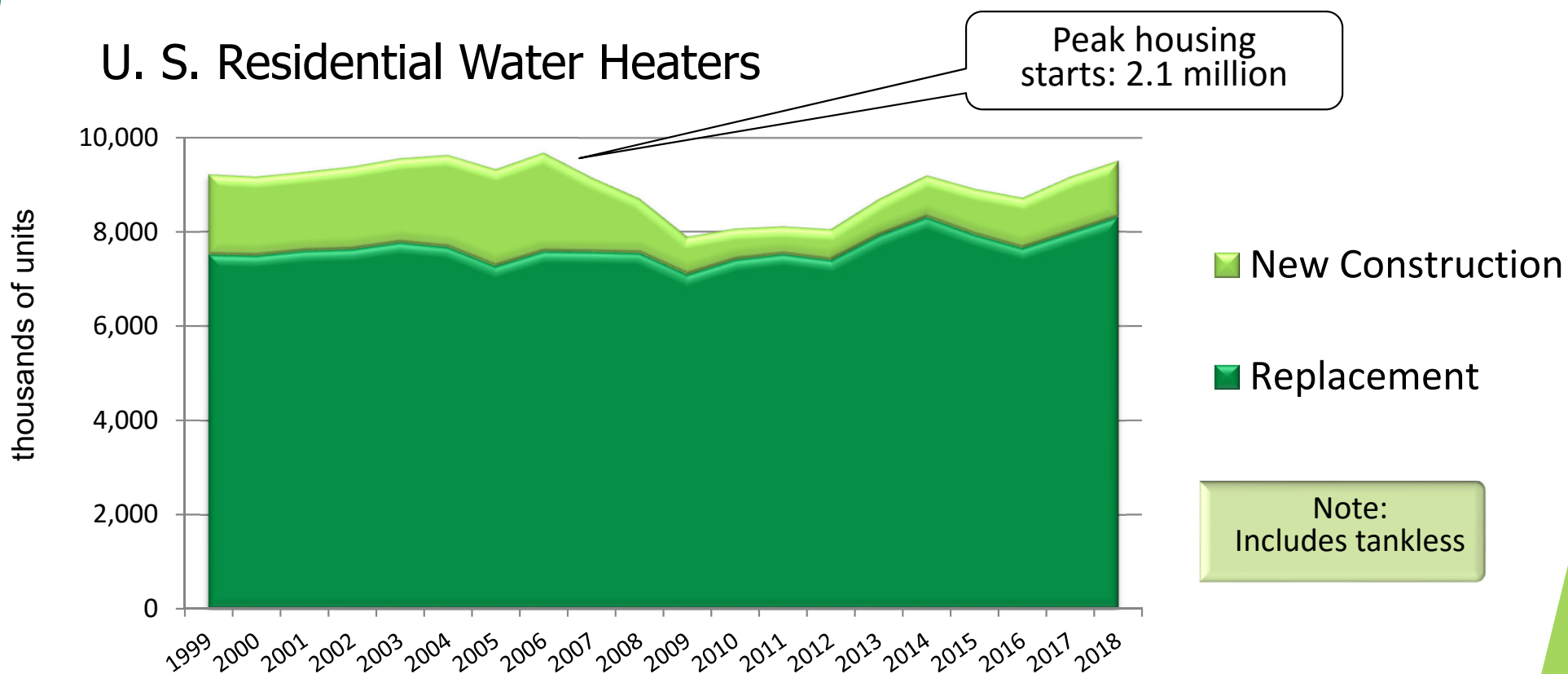
2018 market share data

U.S. Residential Water Heater Market Segment



Water Heaters - Strong Replacement Sales

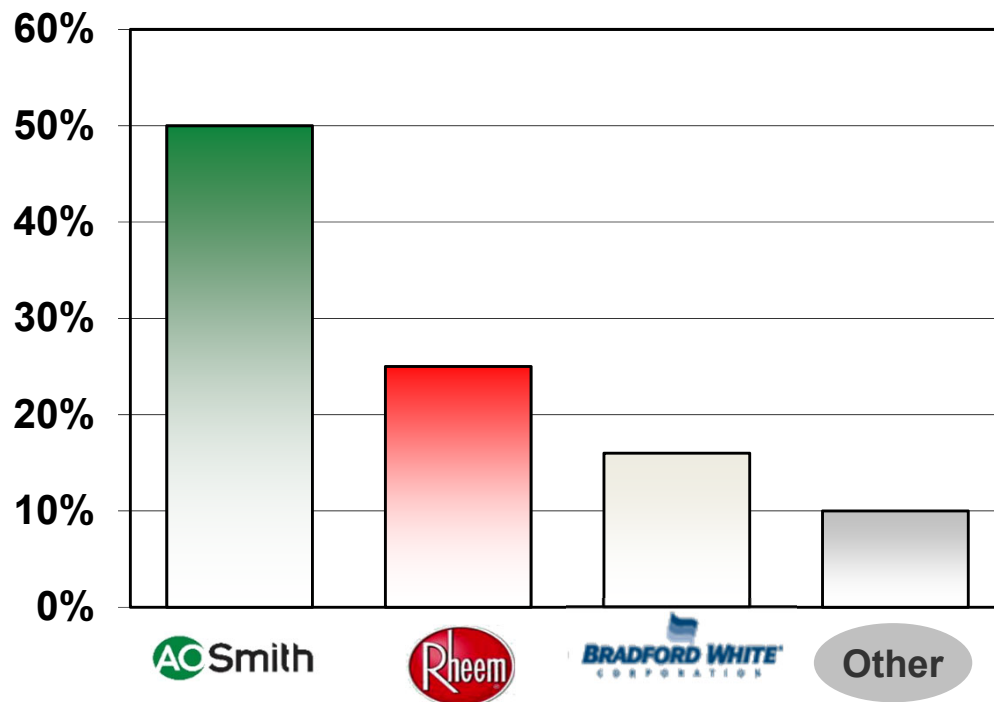
U. S. Residential Water Heaters



U.S. Water Heater Market Segment

Commercial Market*

2018 market share data



AHRI data:

AOS actual shipments and
AOS estimate of competitors'
shipments

* Commercial water heater
segment as defined by AHRI,
total 2018 commercial units as
reported by AHRI = 233,000 units

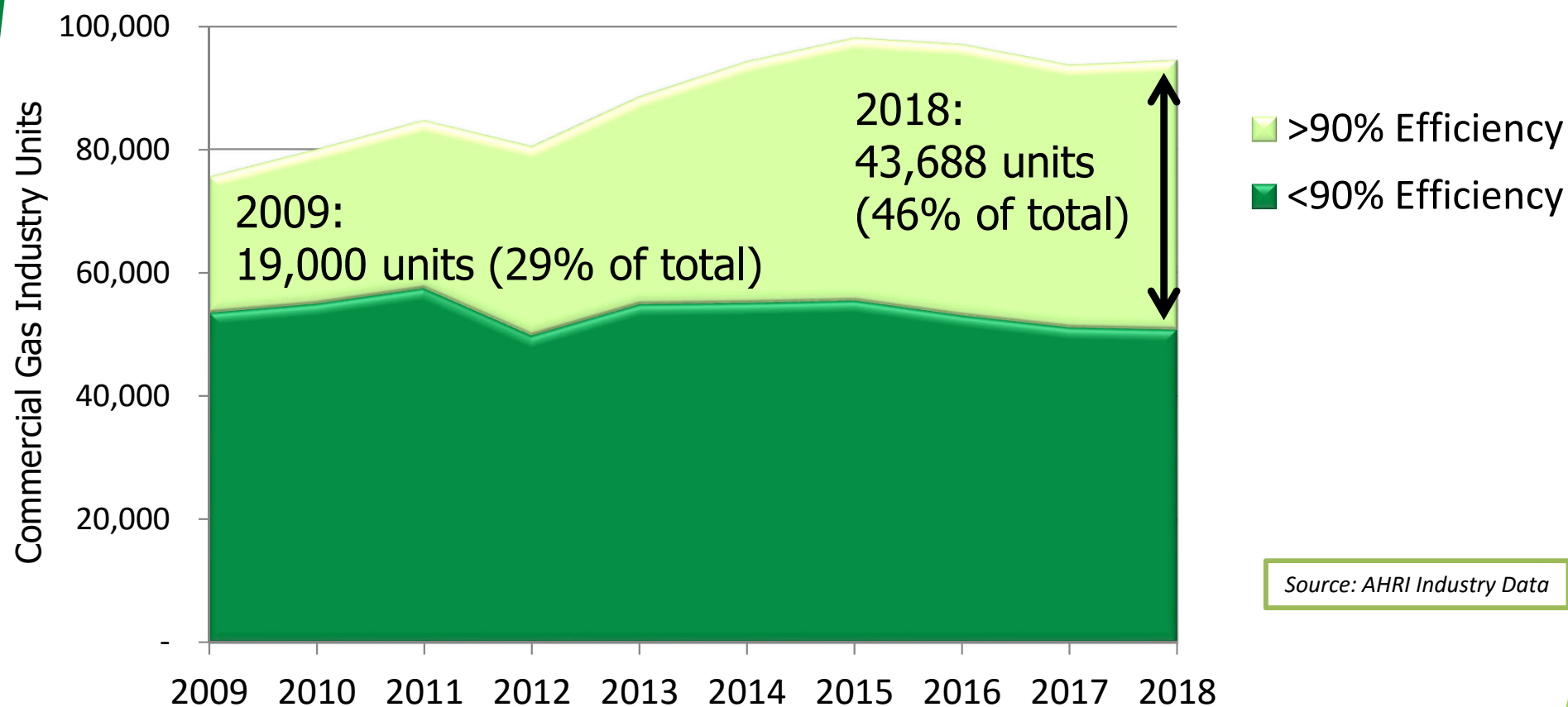
Energy Efficient Cyclone

- Game changing energy efficient commercial product launched in 1997 and recently upgraded
- Up to 96% thermal efficiency dramatically lowers operating costs offering short payback
- Represents 63% of AOS commercial gas water heater revenues

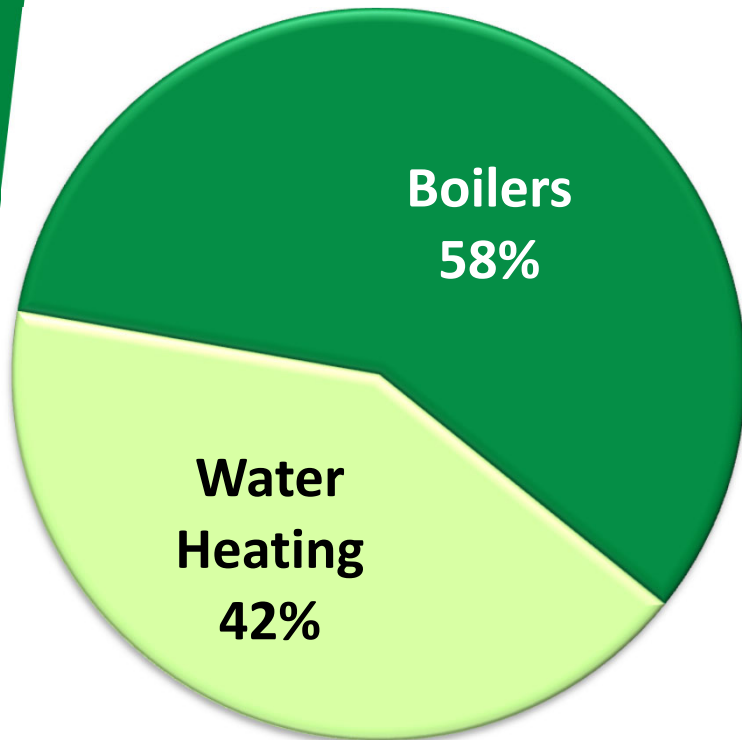


Innovation, training and 24/7 National account customer service drive market leadership

U.S. Commercial Gas Market: Energy Efficient Units more than Doubled in Eight Years to 45 percent of units sold in 2018

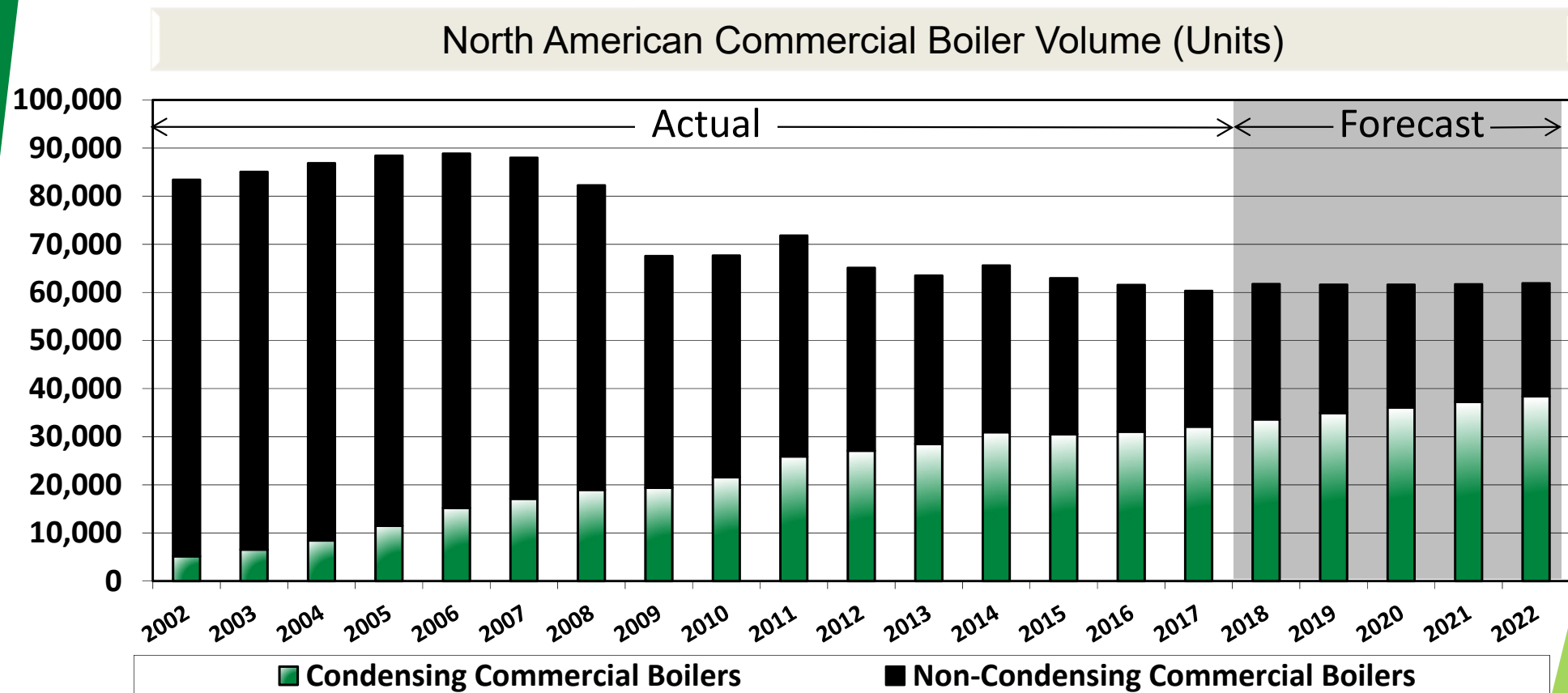


Lochinvar End Markets



2/3 commercial end markets; 1/3 residential end markets

Trend to Higher Efficiency, Condensing Boilers – 53 percent of units sold in 2017



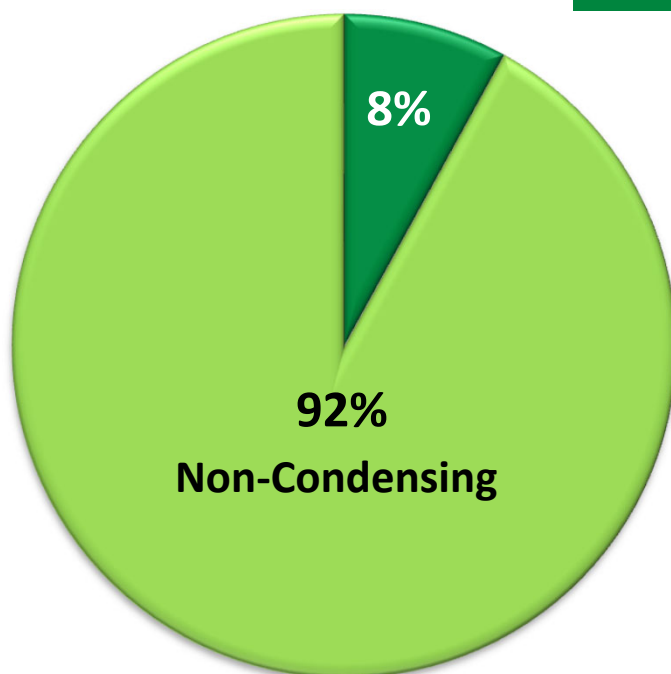
Source: BRG Building Solutions

Boiler Sales Dollars* Condensing vs. Non-Condensing

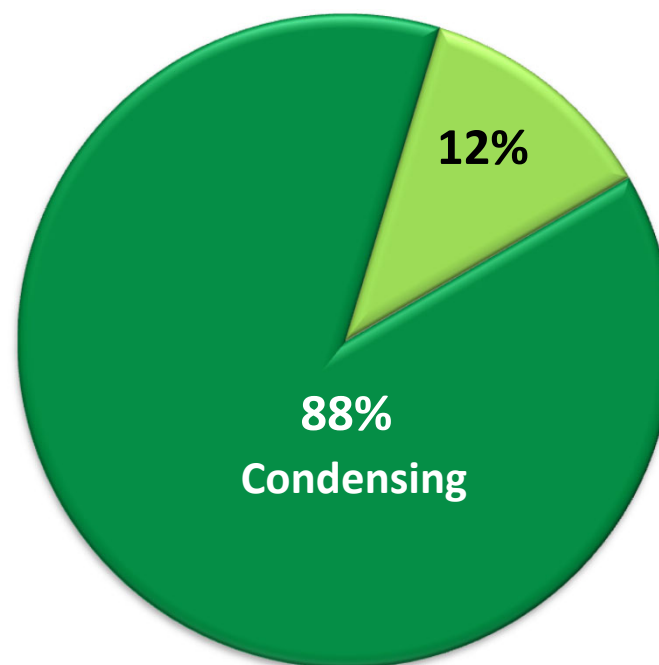
Condensing

Non-Condensing

2
0
0
4



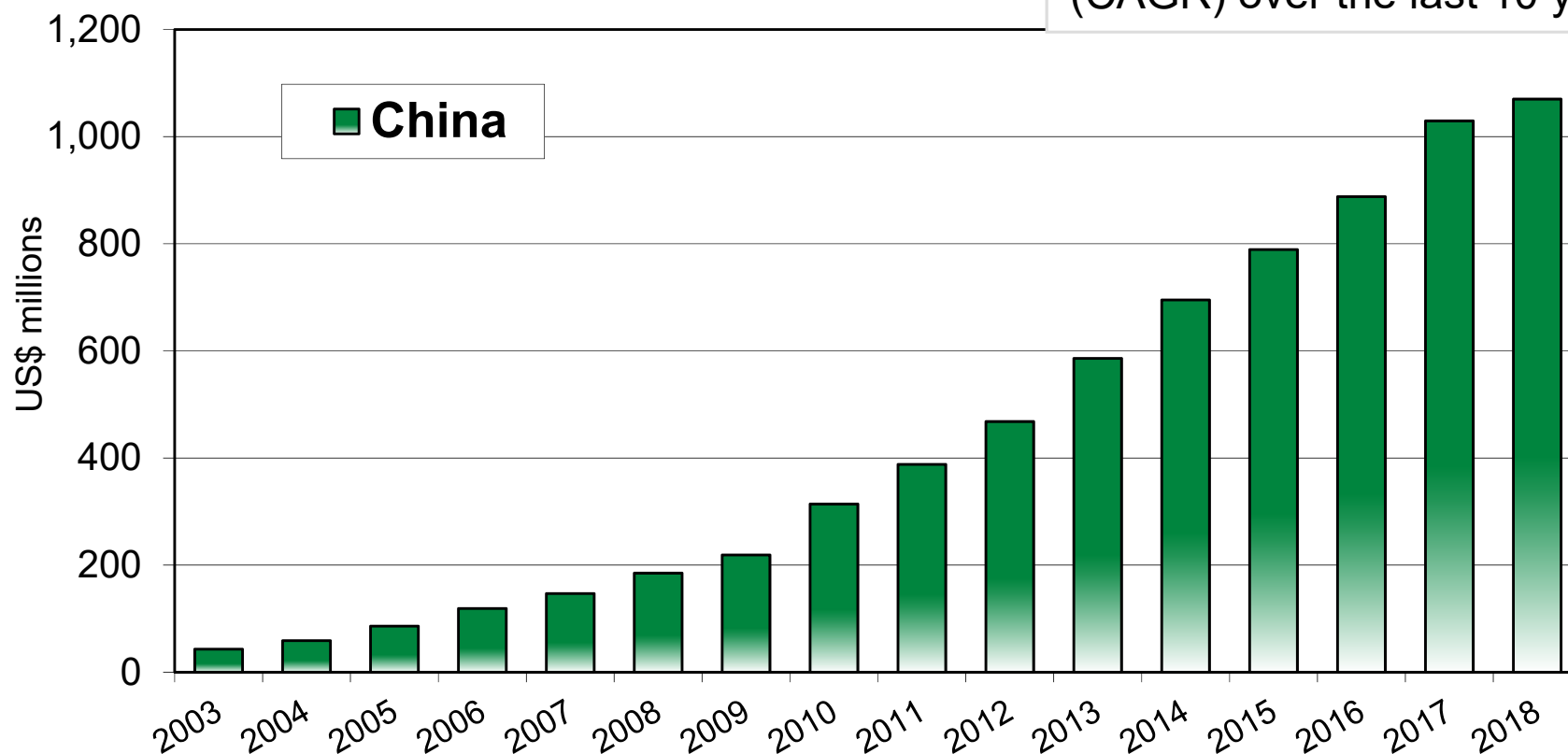
2
0
1
8



*Residential Boilers & Commercial Boilers

China Exceeds \$1 B; now 34% of Sales

China sales have grown 19% (CAGR) over the last 10 years

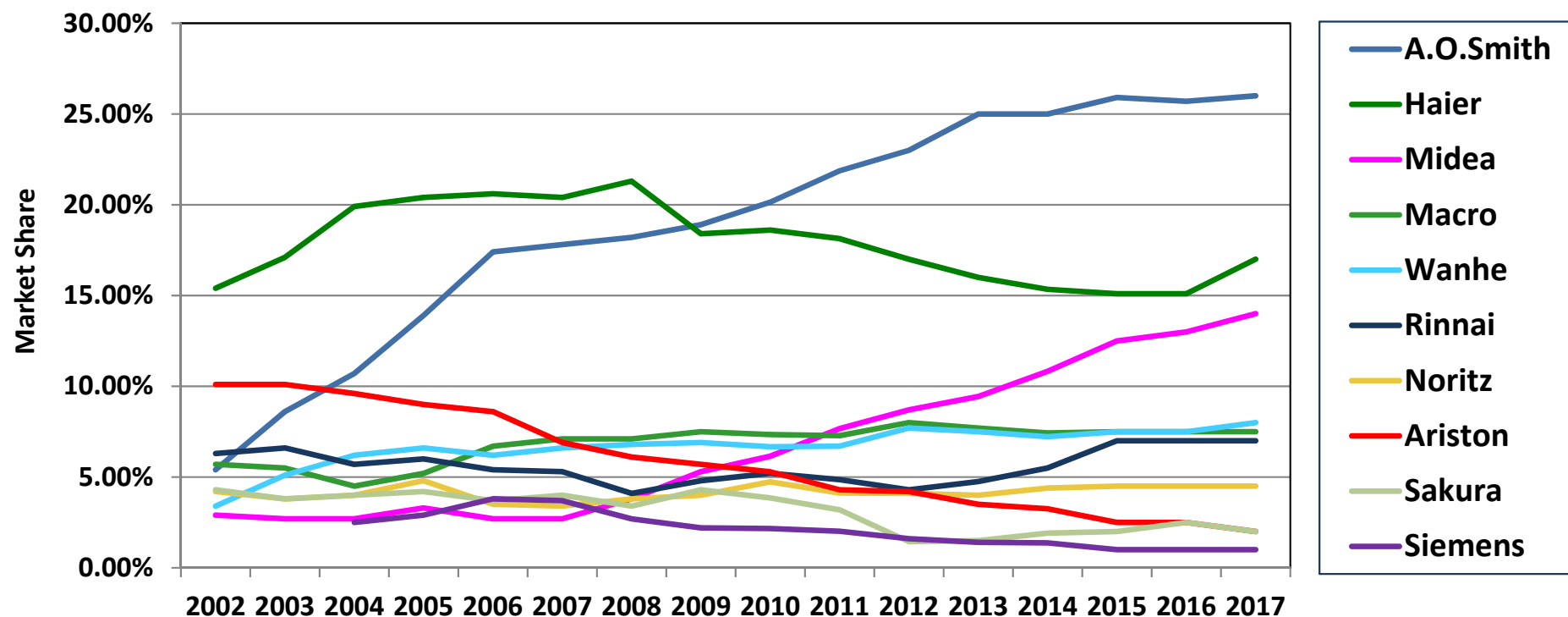


AOS China Built on:

- Premium Brand
- Extensive Distribution and Service Network
- Innovative New Products & World Class Manufacturing
- Local Management Team and Organizational Development



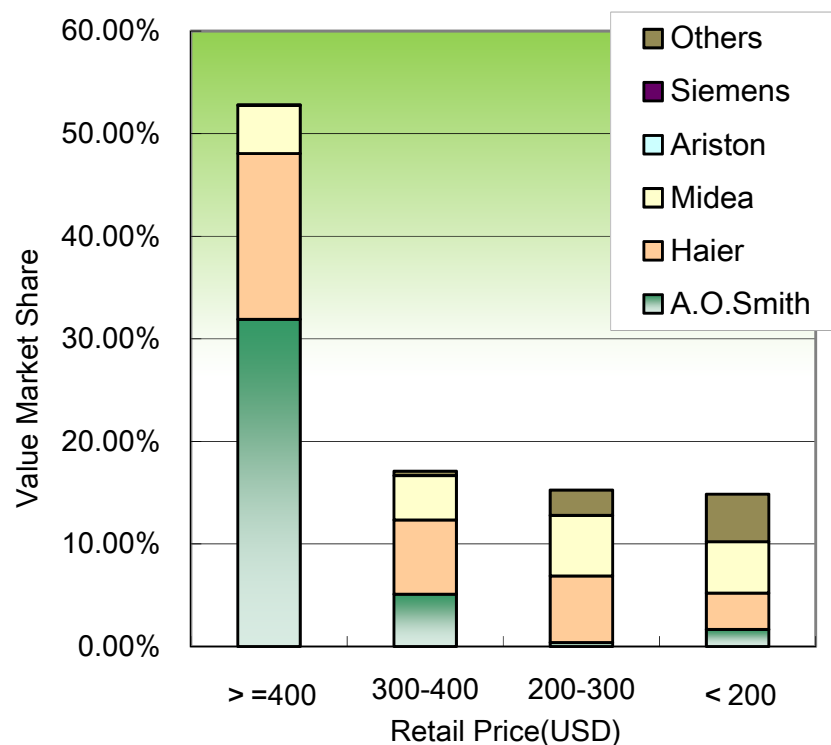
Sixteen Year Water Heater Market Share Trend



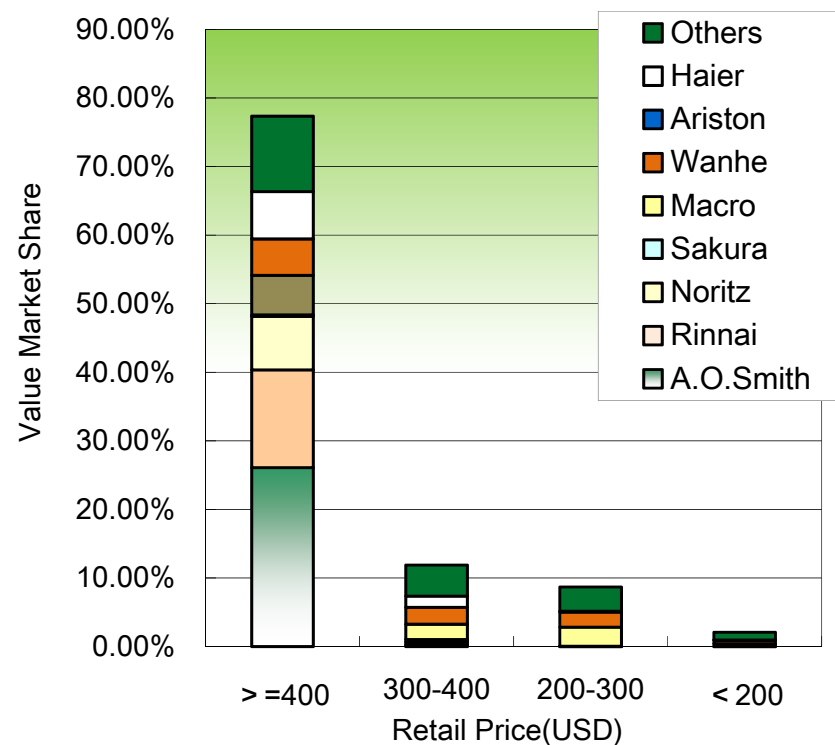
Leading residential brands measured in currency; Tier One Market: GFK - CMM data sampling several thousand largest retail stores, December 2018

Market Share by Price Category

Electric Market Share



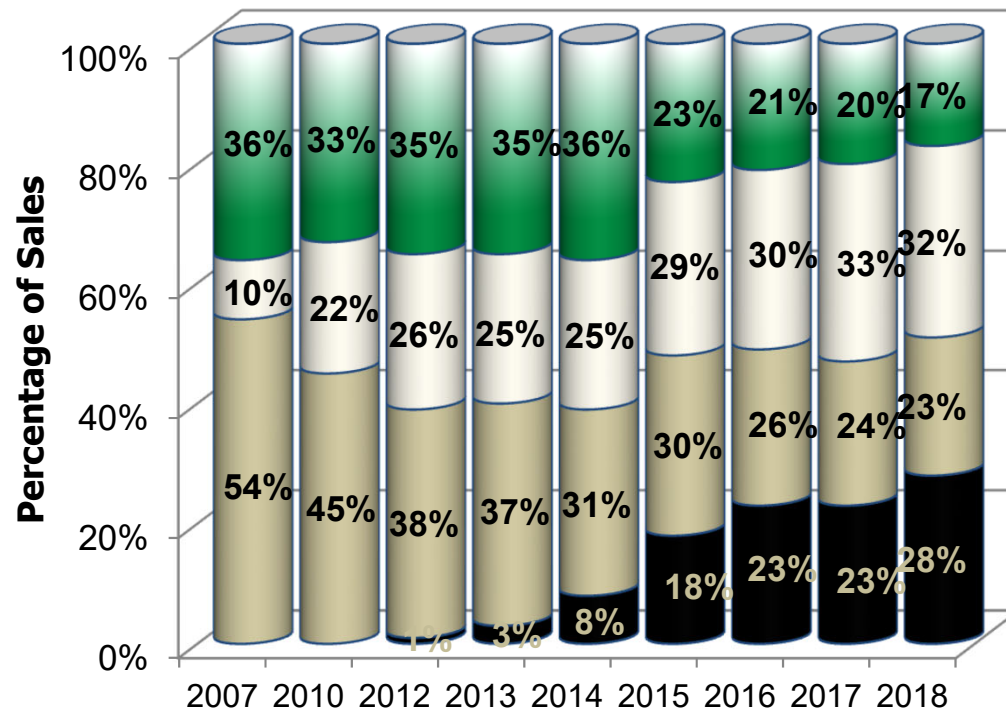
Gas Market Share



Data Source :CMM Retail Survey Dec 2018-150 Best Selling Models

Broad Distribution Channel

- Over 9,000 retail counters in China
- 30% of outlets in Tier 1 cities; 70% in Tier 2/3 cities



- Regional Stores
- AOS Specialty Stores
- Suning/Guomei
- E-Commerce

Product Line developed in China

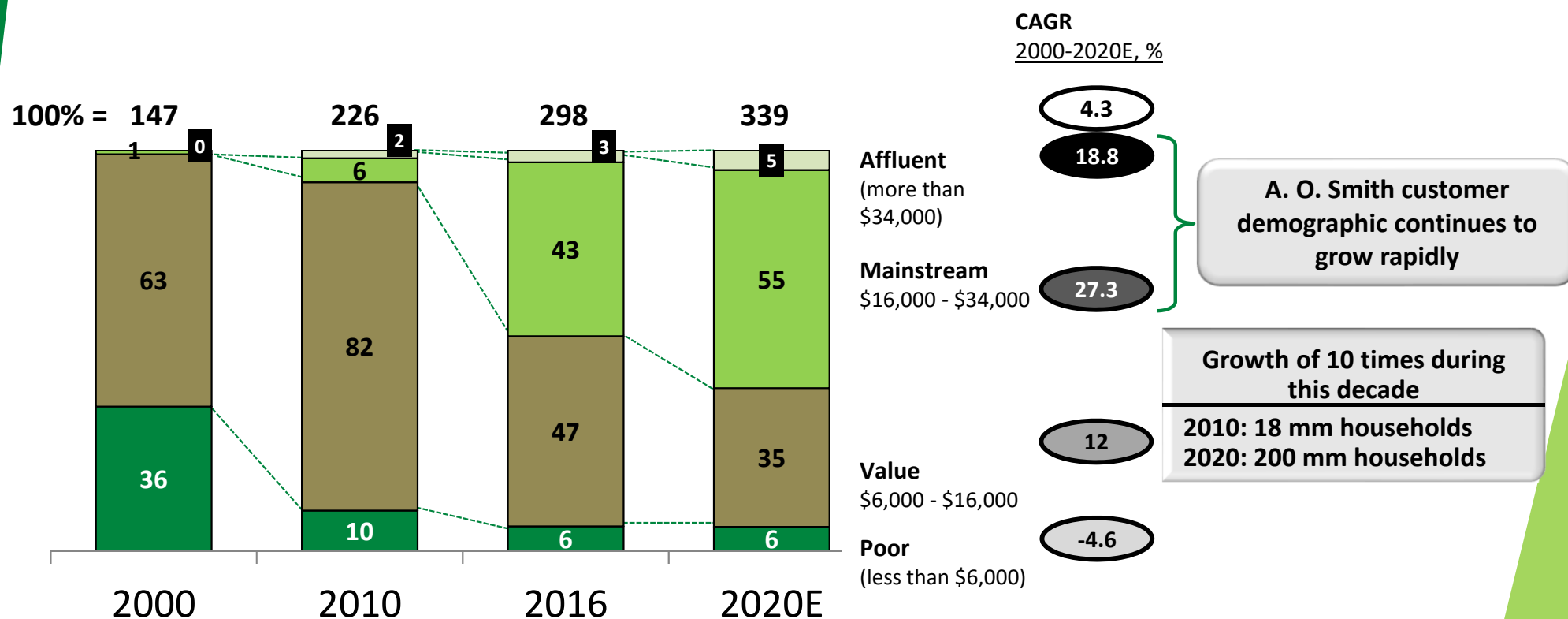


Professional Team of Local Management



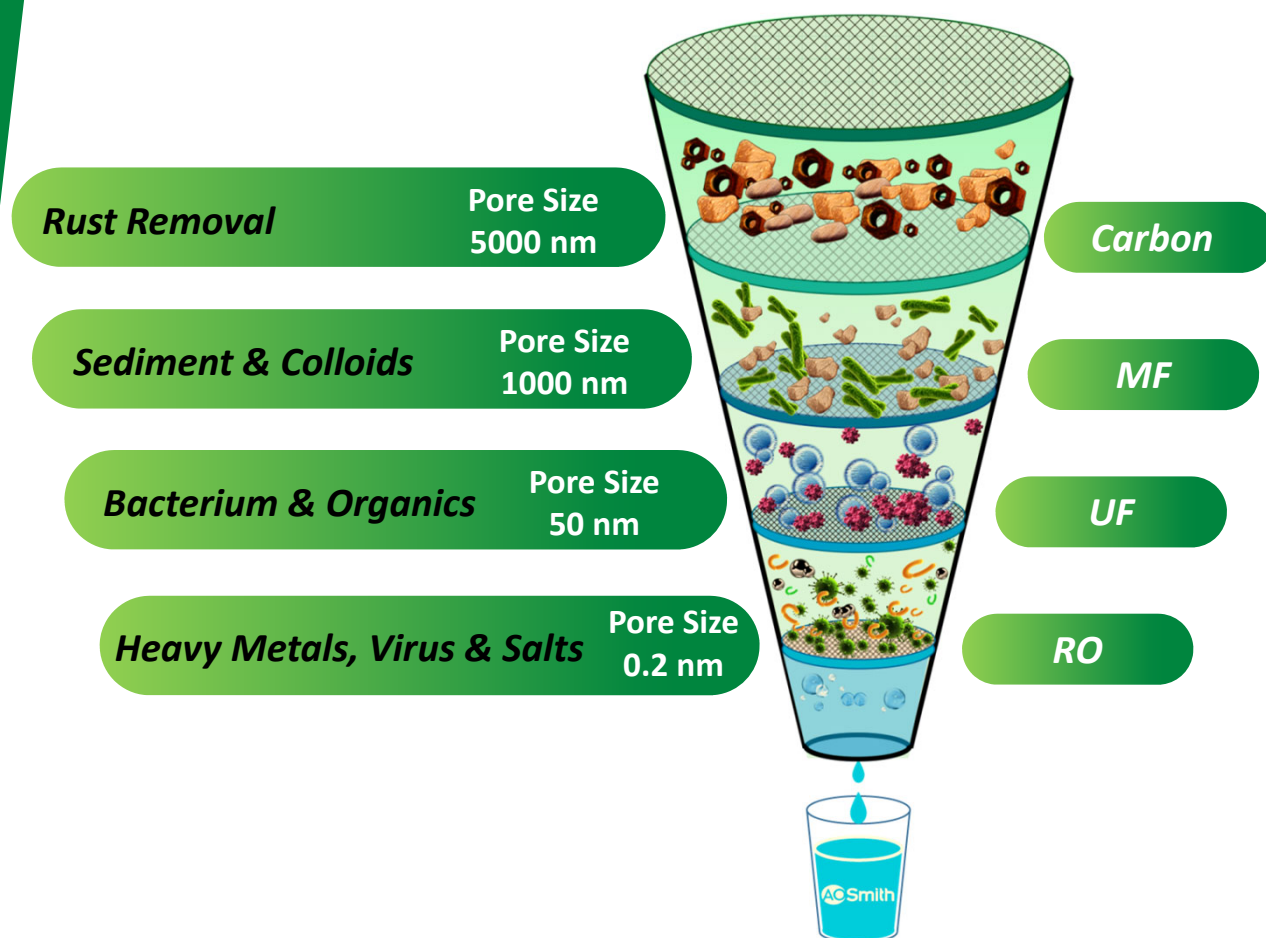
Mega Trends - China

Significant growth in AOS target demographic



SOURCE: McKinsey Insights China - December 2015

Different Water Treatment Technologies



Active Carbon - improves taste (for good incoming water areas as in the US and Europe)

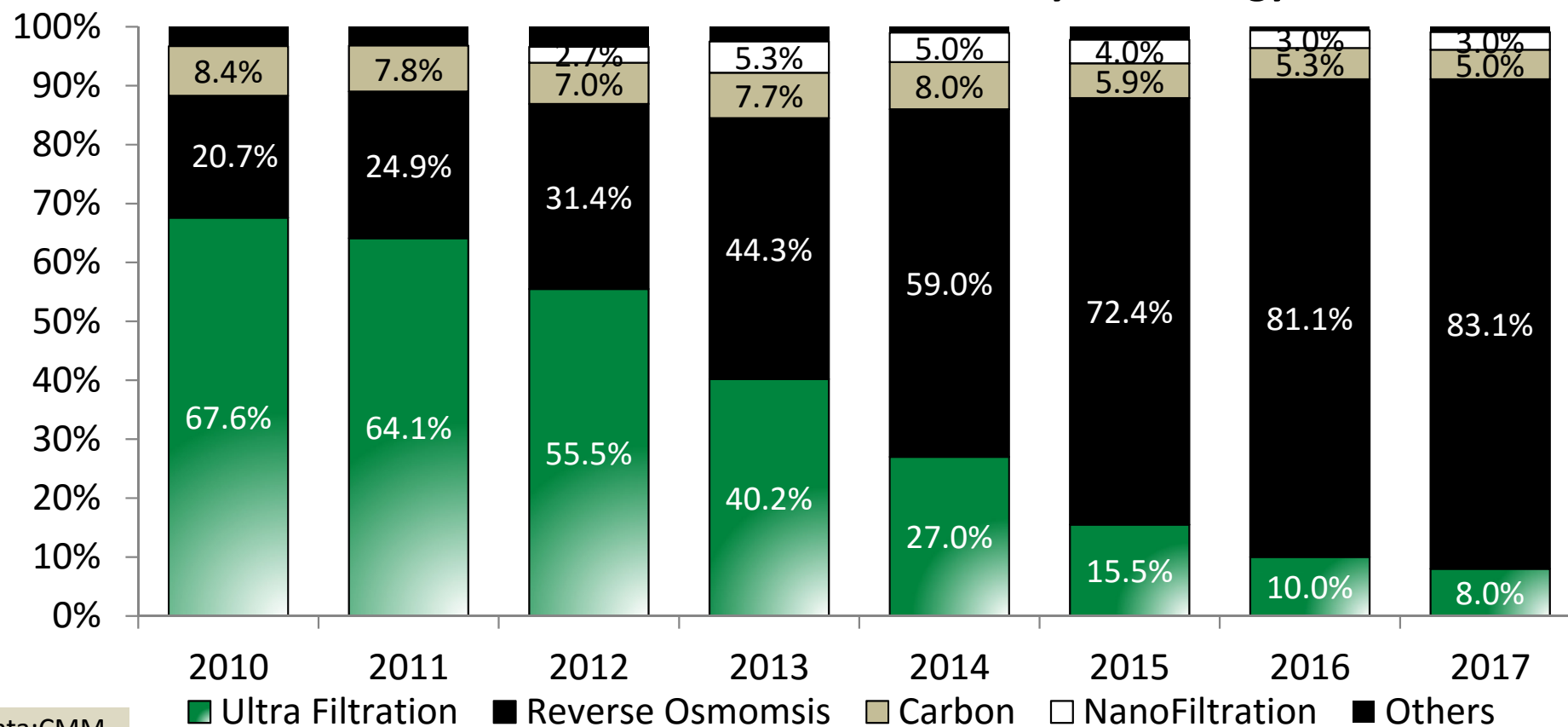
Micro-Filtration - removes sediment and colloids (can correct basic water pollution problem)

Ultra-Filtration - removes bacterium, large organics and other pollutants resulting from water transport)

Reverse Osmosis - the ultimate filtration technology; removes nearly all substances, particularly most heavy metals prevalent in China and India water supply

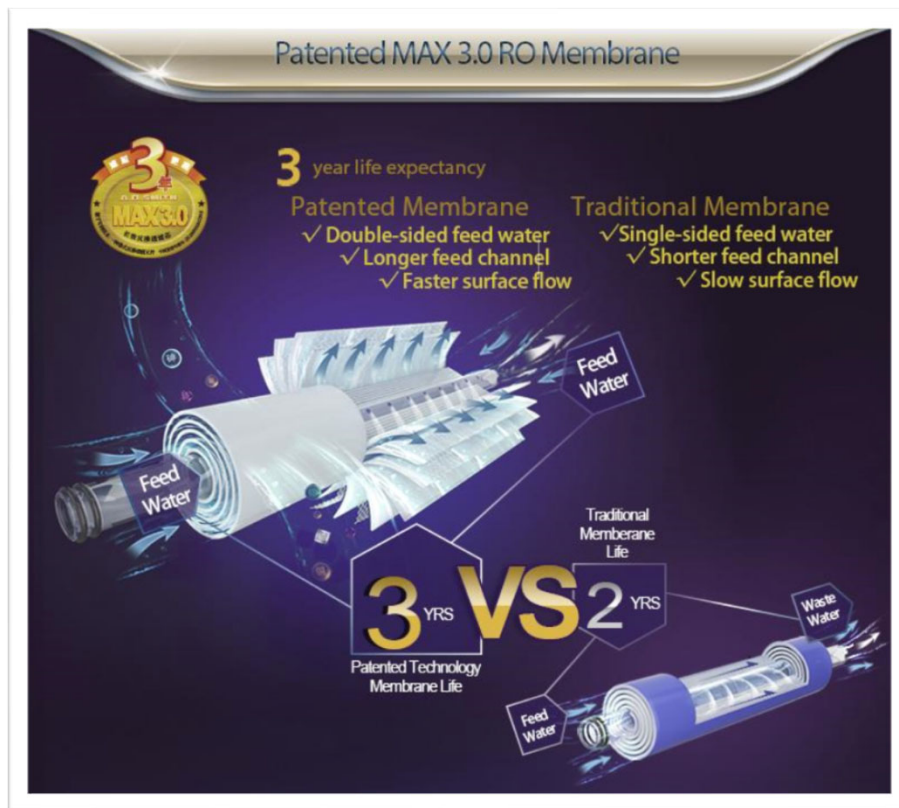
Reverse Osmosis Is Gaining Market Share

CMM Water Treatment Market by Technology



Data: CMM

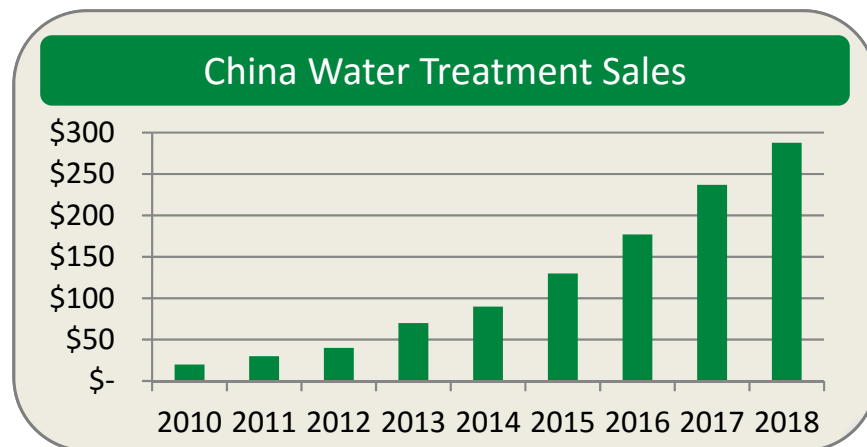
Side Stream Membrane Technology



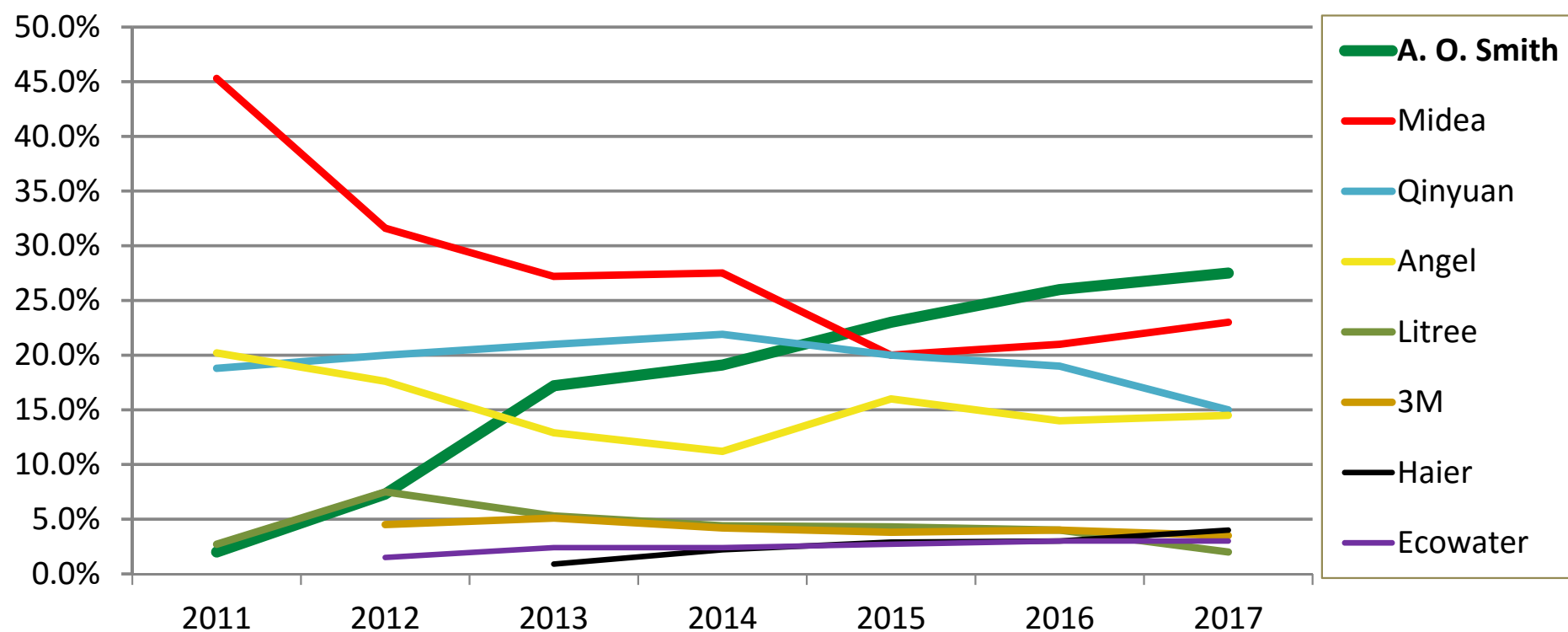
- Unique patented design
- Increases RO membrane life - industry leading three year life
- Reduces waste water up to 75% percent - 3 gallons clean to 1 gallon waste
- Provides market place differentiation

Tankless water treatment – enabled by side-stream membrane technology

- Provides immediate clean water
- Minimizes risk of post RO membrane contamination
 - No storage tank needed
- Leverages membrane rolling capabilities to produce hi-flow RO products
 - Constant flow rates up to 0.9 gallons per minute

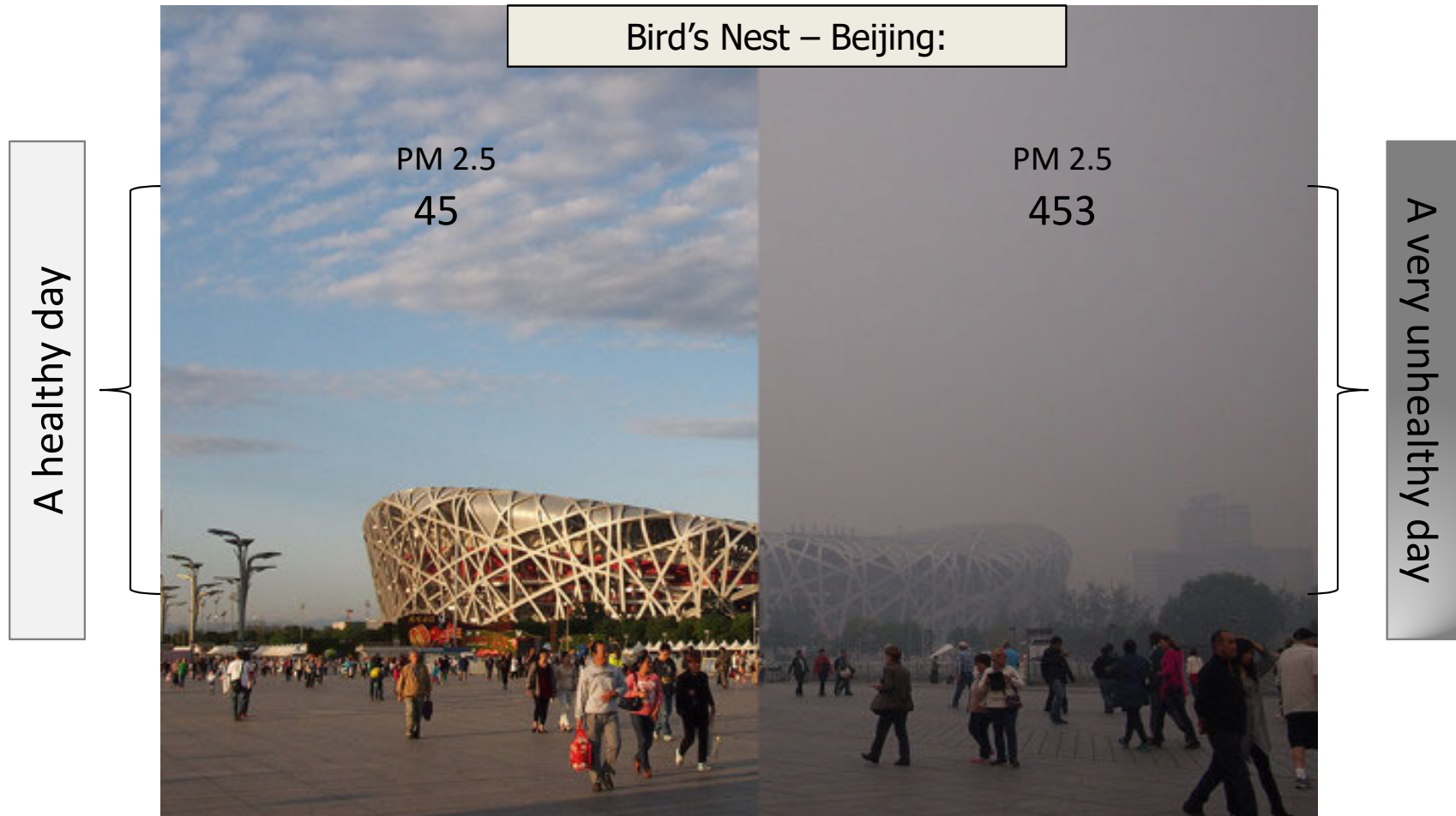


Major Brands CMM Market Share By Value Water Purifier



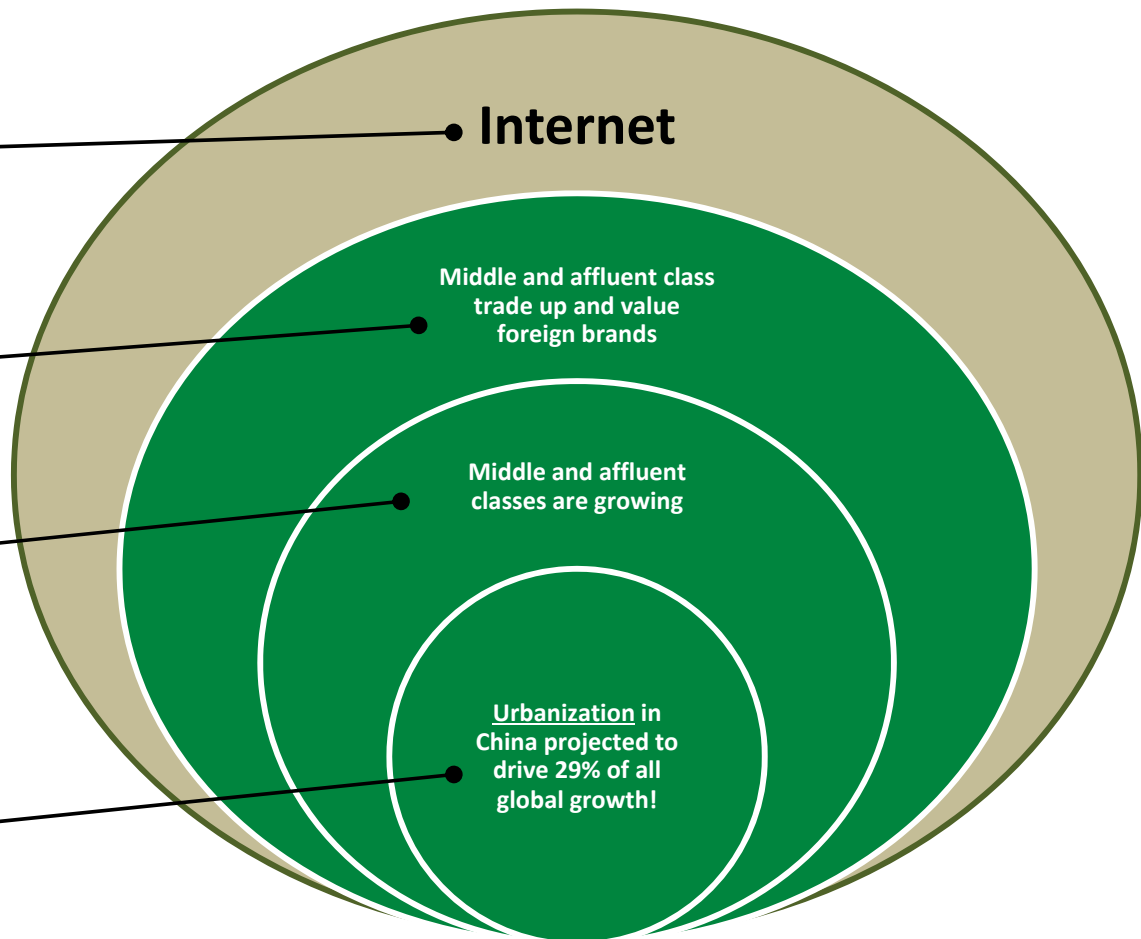
Data Source: CMM-GFK December -2017

Air purifiers - the market need is clearly visible



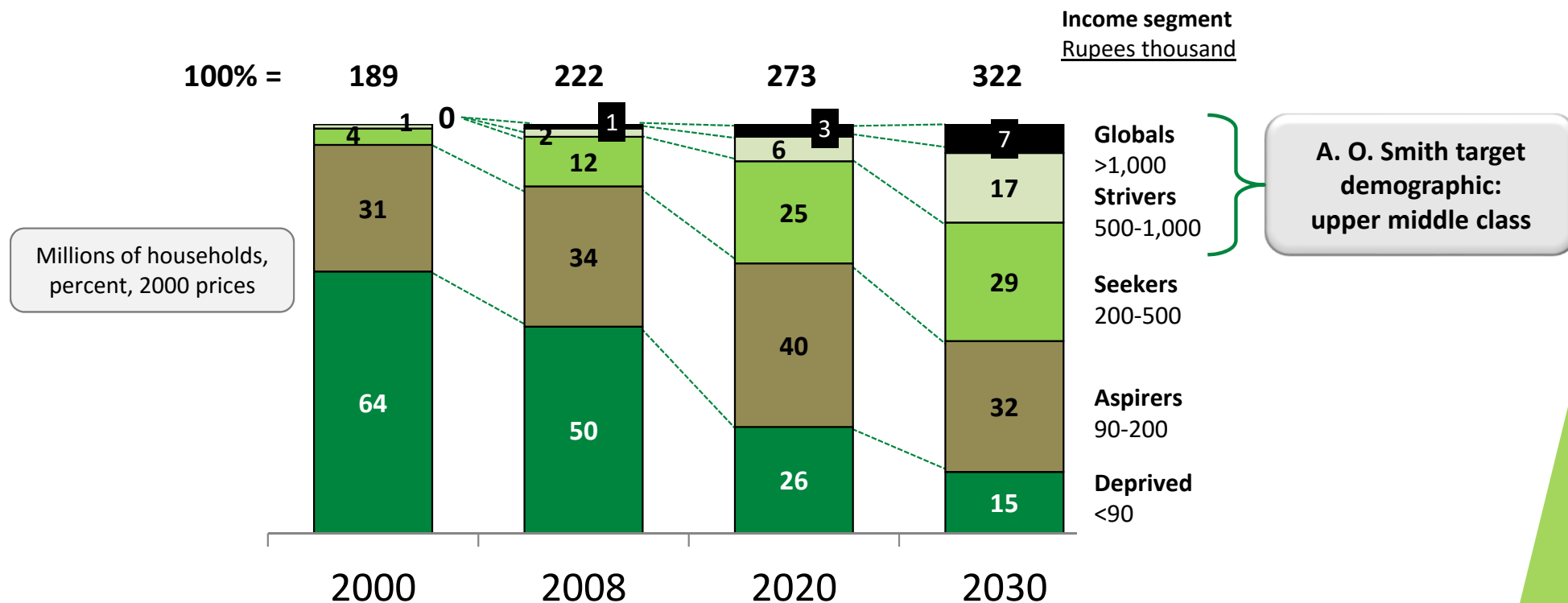
China Mega Trends Driving Growth

- We are positioned to reach consumers using the internet
- A. O. Smith is a strong foreign brand
- Our Premium Consumer brand is positioned for the middle and affluent classes
- A. O. Smith has manufacturing capacity and channel footprint to capitalize



Mega Trends - India

Significant growth in AOS target demographic



SOURCE: India Urbanization Econometric Model Updated 2010

Building Distribution



Headquarters and Manufacturing (Bengaluru)



Major Distribution Locations

- A cities (pop >1.5 Mn) Distribution in 25 out of 25 cities
- B Class cities (pop .5 to 1.5) Mn) Distribution in 63 of 68
- Class C cities (pop .1 to .5 Mn) Distribution 316 of 400

NATIONAL RETAILERS



REGIONAL RETAILERS



Business Model In India Similar to China

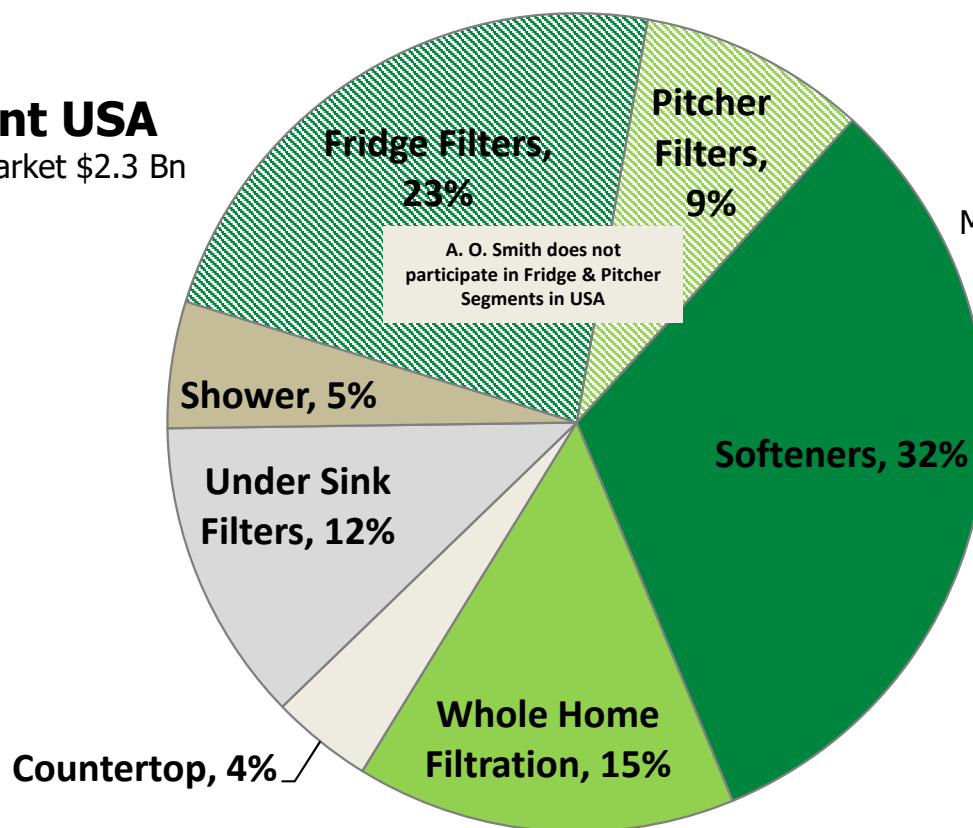
- Attractive Growth Demographics
- Leveraging Global Capabilities with Products Designed for the Indian Market
- Building Brand & Expanding our Distribution
- Introducing New Product Categories with Water Treatment
- Local Management



We are committed for the long term opportunity

USA Water Treatment Segments

Water Treatment USA
Addressable A. O. Smith Market \$2.3 Bn

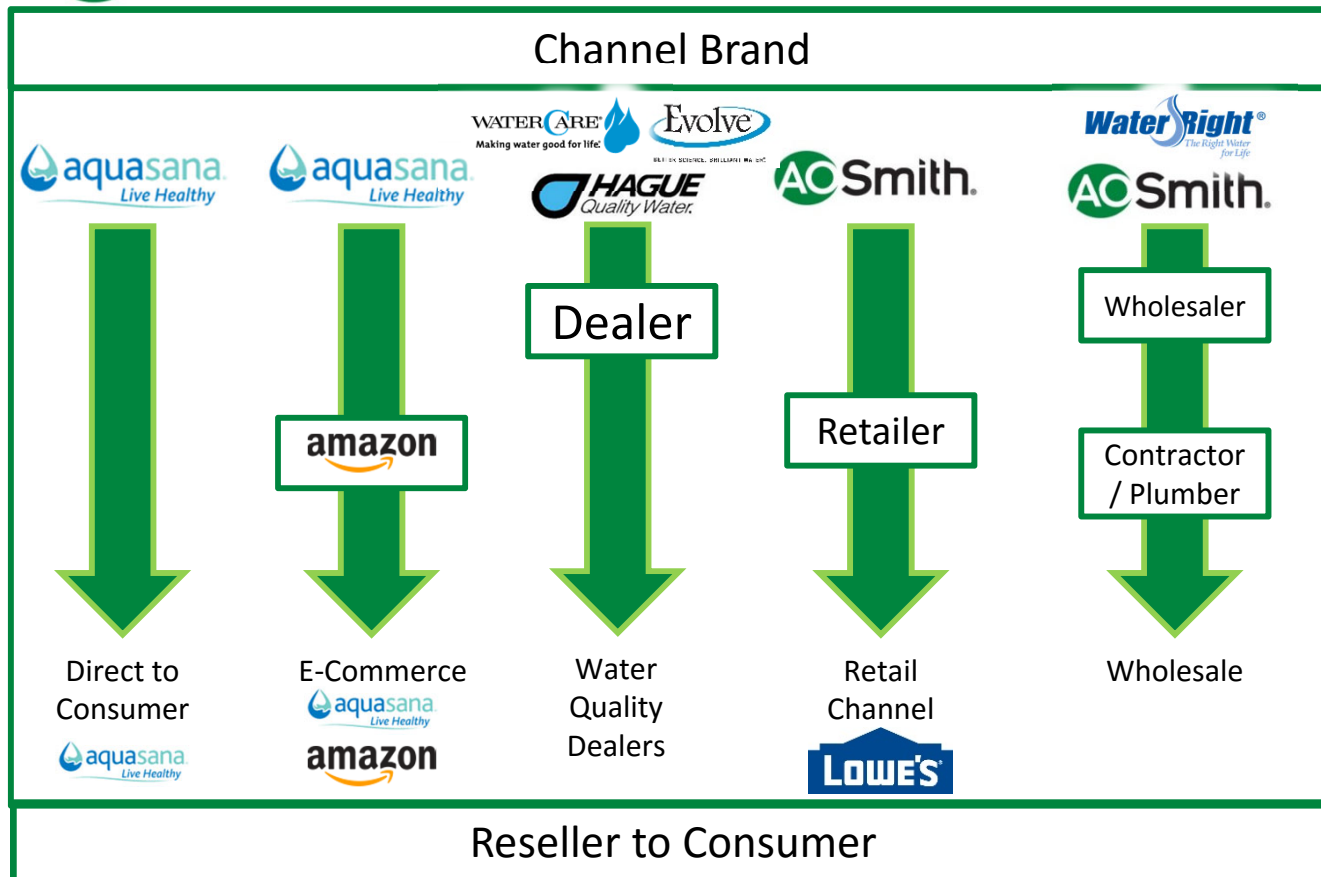


Estimated Total USA Market Size \$3.5 Bn*
Market size as by equipment sales value

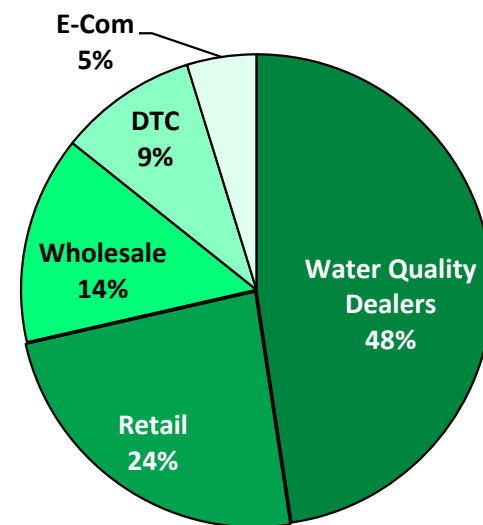
*A. O. Smith Primary Quantitative, Market Segmentation Research, April 2017

According to the WQA; Excluding fridge filters, water treatment is only penetrated in to about 23%** of USA Households

Complete Channel Strategy



Water Treatment Channels



Sources:

- A. O. Smith Primary Quantitative, Market Segmentation Research, April 2017
- Water Quality Association 2017 Consumer Opinion Study

A. O. Smith can participate in all channels; most competitors operate in 1-2 of these channels

Comprehensive Product Offering

Point of Entry Products



Whole Home Filtration



Whole Home Softeners/Filters

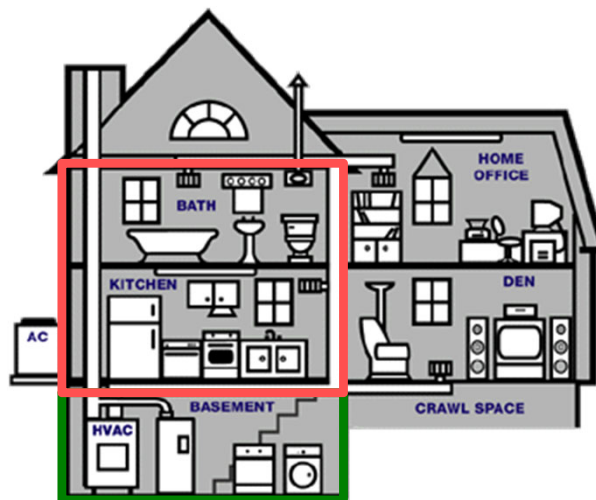


Image source: United States EPA Water Sense 2008

Non-Installed Products



Clean Water Machine



On-the-Go Filter Bottles

Point of Use Products



Whole Kitchen Filtration



Tankless RO Systems

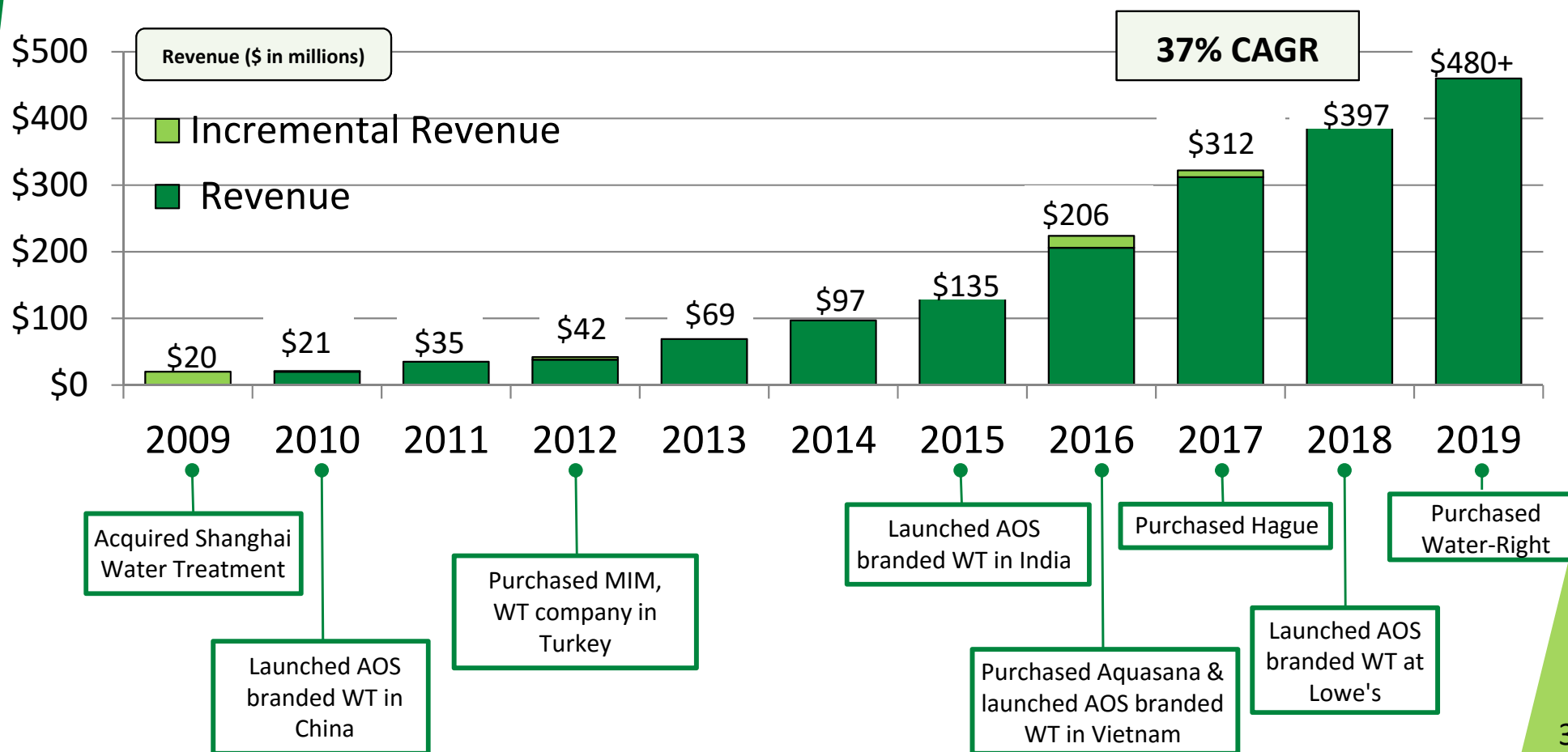


Traditional RO Systems



Under Sink Filtration

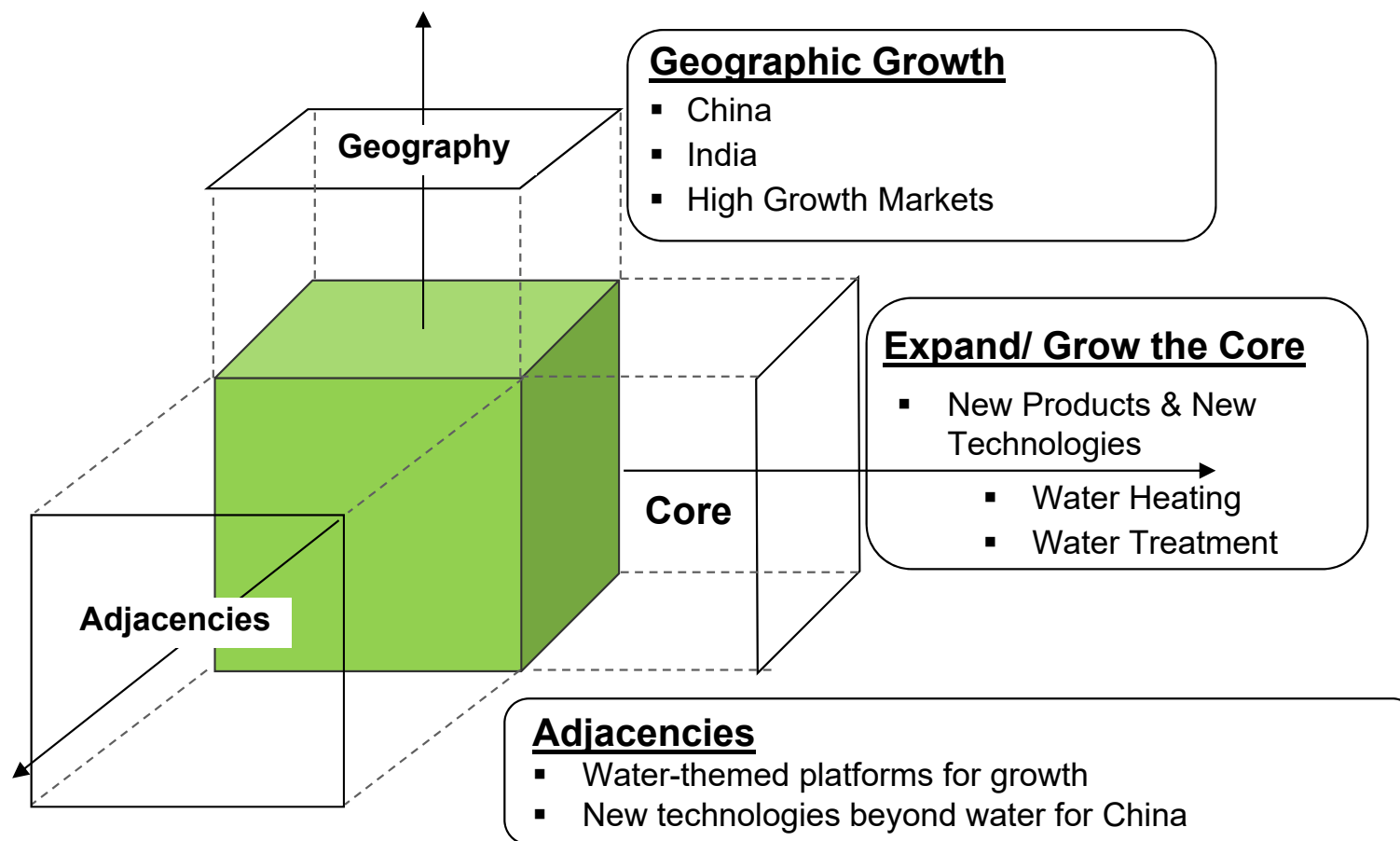
Evolution of Global Water Treatment



The background of the slide features two large triangles. A light green triangle is on the left, pointing downwards from the top-left corner. A dark green triangle is on the right, pointing upwards from the bottom-left corner. The two triangles meet at a point in the center of the slide, creating a white space where the text is located.

Acquisition Strategy

Growth Strategy: Acquisitions



Investment Criteria

- Value creation opportunities
- 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
- Accretive to earnings in the first year

AOS

LISTED

NYSE

A. O. Smith's Capital Allocation Options

- Organic growth (capital expenditures)
- Acquisitions
 - \$350 million net cash
 - 14 percent leverage ratio (debt/total capital)
- Return cash to shareholders: over \$350 million projected in 2019
 - Dividends
 - Increased dividend two times in 2018; over 30 percent CAGR over last five years
 - Share repurchase
 - Expect to repurchase approximately \$200 million* in 2019 using a combination of a 10b5-1 plan and opportunistic repurchase in the open market

* subject to price, alternative investments and working capital requirements



Investor Contact

Patricia Ackerman

Senior Vice President

Investor Relations, Treasurer and Corporate Responsibility & Sustainability

Direct: 414-359-4130 // Email: packerman@aosmith.com

First Quarter Results

\$ in millions	2019	2018	change	% chg.
Sales	\$ 748.2	\$ 788.0	\$(39.8)	-5%
Net Earnings	89.3	98.8		
Restructuring and Impairment Expenses	<u>-</u>	<u>5.0</u>		
Adjusted Earnings	\$ <u><u>89.3</u></u>	\$ <u><u>103.8</u></u>	\$(14.5)	-14%

First Quarter Adjusted EPS

\$ in millions	2019	2018	change	% chg.
EPS	\$ 0.53	\$ 0.57		
Restructuring & Impairment Expenses	<u>-</u>	<u>0.03</u>		
Adjusted EPS	\$ <u>0.53</u>	\$ <u>0.60</u>	\$ <u>(0.07)</u>	-12%

First Quarter Sales

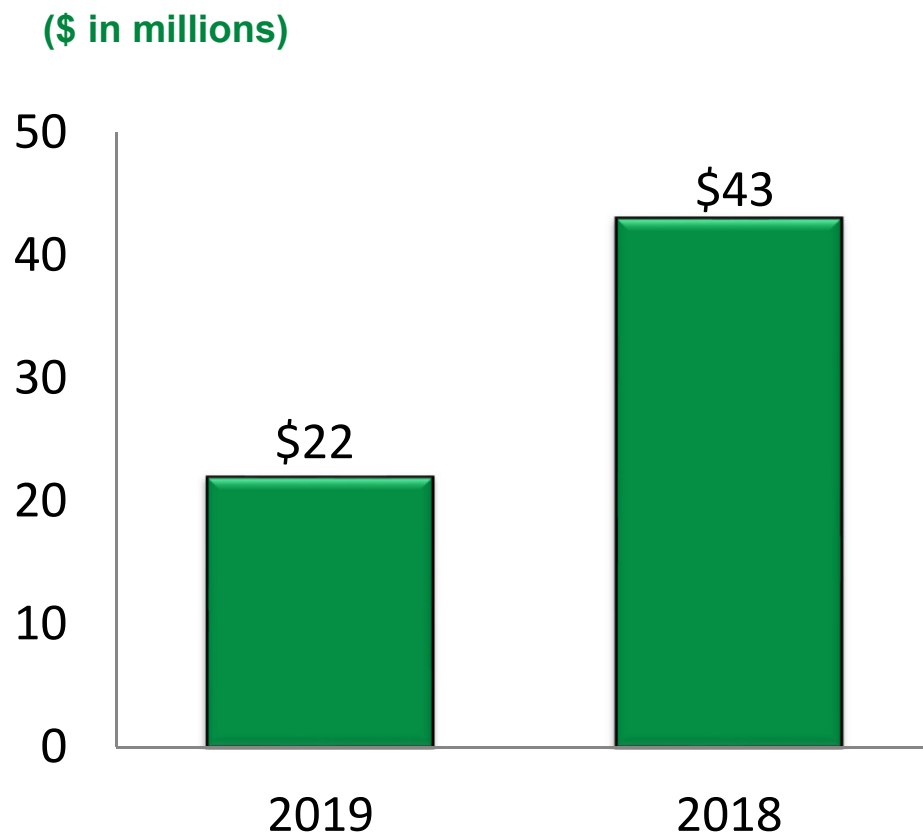
\$ in millions	2019	2018	change	% chg.
North America	\$ 521.8	\$ 501.7	\$ 20.1	4%
Rest of World	232.1	293.8	(61.7)	-21%
Intersegment	<u>(5.7)</u>	<u>(7.5)</u>	<u>1.8</u>	
Total	\$ <u>748.2</u>	\$ <u>788.0</u>	\$ <u>(39.8)</u>	-5%

First Quarter Earnings

\$ in millions, except percentages	2019	2018	change	% chg.
North America, adjusted*	\$ 116.0	\$ 112.7	\$ 3.3	3%
Rest of World	<u>12.3</u>	<u>36.0</u>	<u>(23.7)</u>	-66%
Total Segment Earnings	128.3	148.7	\$(20.4)	-14%
Corporate	(14.7)	(14.3)	(0.4)	-3%
Interest Expense	<u>(2.0)</u>	<u>(2.3)</u>	<u>0.3</u>	13%
Pre-tax Earnings	111.6	132.1	(20.5)	-16%
Tax Provision	<u>(22.3)</u>	<u>(28.3)</u>		
Adjusted Earnings	\$ <u>89.3</u>	\$ <u>103.8</u>	\$ <u>(14.5)</u>	-14%
<u>Adjusted Segment Margin</u>				
North America	22.2%	22.5%		
Rest of World	5.3%	12.3%		

* 2018 excludes \$6.7 million pre-tax restructuring and impairment expense due to a plant closing

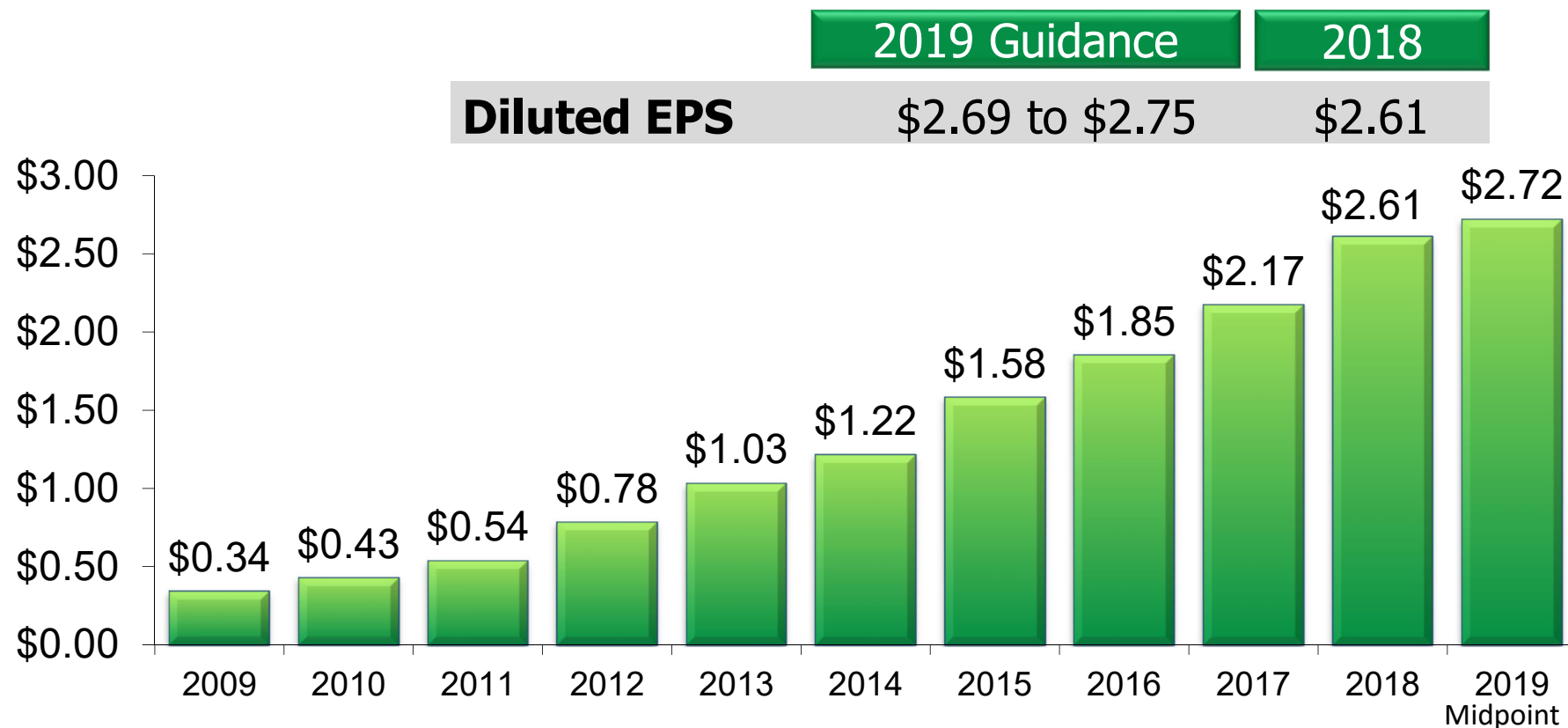
Cash Flow from Operations



Highlights

- Operating cash provided by operations of \$22 million
- Debt to capital ratio of 14%
- Cash balance: \$633 million
- Net cash position: \$349 million
- Stock repurchase: ~900,000 shares totaling approximately \$46 million

2019 EPS Guidance and 2018 EPS



Note: 2009 through 2014, 2017 and 2018 are adjusted EPS and all years are adjusted for stock splits

As of April 30, 2019

2019 Assumptions

(\$ in millions)	2019 Projections
Operating Cash Flow	between \$500 and \$525
Capital Expenditures	approx \$85
Depreciation and Amortization	approx \$75
Corporate/Other Expense	approx \$49
Effective Tax Rate	approx 21.5%
Stock Repurchase	approx \$200*
Share Count - Diluted	approx 168 million

* subject to acquisitions, cash flow and working capital needs

As of April 30, 2019

2019 Outlook

- U.S. residential water heater industry volumes increase between 100,000 and 150,000 units, including tankless; commercial water heater industry volumes up 1%
- Boiler revenue growth of approximately ten percent
- Smaller expected losses in India than in 2018; water heater business to be slightly profitable
- China sales decline of approximately 6 to 8% in local currency, as economic weakness persists and FX translation is unfavorable by one percentage point

As of April 30, 2019

2019 Outlook - continued

- Revenue growth between 2.5 to 3.5 percent in USD; 3 to 4 percent in local currency
- EPS between \$2.69 and \$2.75
- North America segment margin expected to be 23 to 23.25 percent
- Rest of World segment margin expected to be 11.75 to 12 percent

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):

Net Earnings (GAAP)

Restructuring and impairment expenses, before tax

Tax effect of restructuring and impairment expenses

Adjusted Earnings

Diluted EPS (GAAP)

Restructuring and impairment expenses per diluted share, before tax

Tax effect of restructuring and impairment expenses per diluted share

Adjusted EPS

(dollars in millions, except
per share data)

Three Months Ended
March 31,

2019

2018

\$ 89.3

\$ 98.8

-

6.7

-

(1.7)

\$ 89.3

\$103.8

\$ 0.53

\$ 0.57

-

0.04

-

(0.01)

\$ 0.53

\$ 0.60

Adjusted Segment Earnings

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

	(dollars in millions)	
	Three Months Ended March 31,	
	2019	2018
Segment Earnings (GAAP)		
North America	\$ 116.0	\$ 106.0
Rest of World	12.3	36.1
Inter-segment earnings elimination	-	(0.1)
Total Segment Earnings (GAAP)	\$ <u>128.3</u>	\$ <u>142.0</u>
Adjustments:		
North America	\$ -	\$ 6.7
Rest of World	-	-
Inter-segment earnings elimination	-	-
Total Adjustments	\$ <u>-</u>	\$ <u>6.7</u>
Diluted EPS (GAAP)		
North America restructuring & impairment expenses	\$ 116.0	\$ 112.7
Rest of World	12.3	36.1
Inter-segment earnings elimination	-	(0.1)
Adjusted Segment Earnings	\$ <u>128.3</u>	\$ <u>148.7</u>

Initial CRS Report Launched Last Month

Celebrating 144 years of innovation

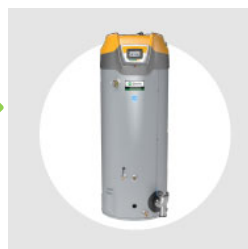


AOSMITH.COM/about/sustainability

Highlights: Our Products Conserve Resources

98%

Thermal Efficient



Cyclone Commercial Water Heater

- 1.6B cubic feet of natural gas saved*
- 100K tons of GHG avoided*

99%

Thermal Efficient

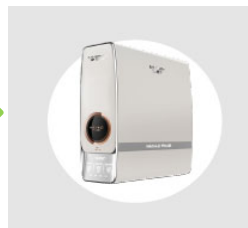


Crest Commercial Boiler

- 2.0B cubic feet of natural gas saved*
- 120K tons of GHG avoided*

75%

Water Conservation
Ratio



RO Max Series Water Treatment System

- 1.3 B gallons of water conserved in China*

**Annual Savings based on 2017 annual sales*

Highlights: Our Operations are Safe and Conserve Resources



President's Safety Award -
established 1955 (predates OSHA)



Chairman's Green Star Award - 2009

ISO 14001 for environment
ISO 45001 for safety

Expect to meet standards by 2019

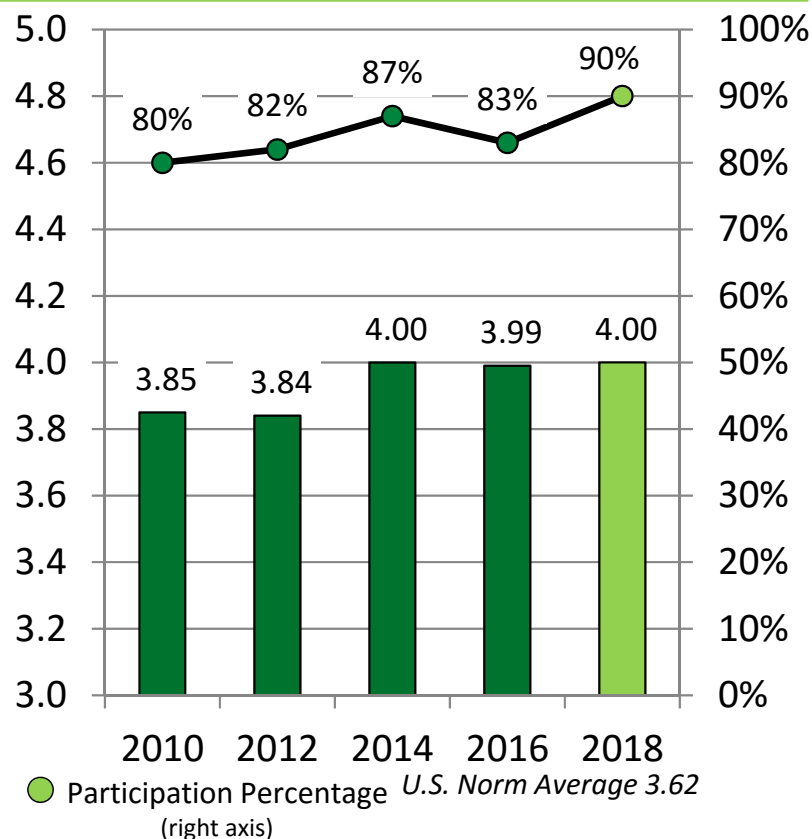
Highlights: We are a Good Place to Work

Ethics

Integrity

Value
Recognition

EMPLOYEE ENGAGEMENT SCORE



Supervisor
Effectiveness

Innovation

Customer Focus