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

Sales in billions:

- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017
- 2018

Sales Growth: 10% CAGR
Adjusted EBITDA: 19 Percent CAGR

Adjusted EBITDA
2010 10.6% of Sales
2018 20.2% of Sales

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

North America 64%
Rest of World 36%

2018 full year

NA
- Boilers
- Water heaters
- Water treatment

ROW
- China/India = 94%
- Europe/Middle East = 6%
U.S. Water Heater Market Segment

Residential Market

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

2018 market share data
Wholesale channel is “~55%” of the market

Retail channel is “~45%” of the market

A. O. Smith's Customers

Wholesale channel: A. O. Smith's customers include Large Regional Distributors such as Ferguson, Winnelly, Hajoca Corporation, and Ace Hardware.

Retail channel: Retailers such as The Home Depot, Lowe's, True Value, and Do it Best are A. O. Smith's customers.

2018 – 9.5 mm Units
U. S. Residential Water Heaters

Peak housing starts: 2.1 million

New Construction
Replacement

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

2009:
19,000 units (29% of total)

2018:
43,688 units (46% of total)

Source: AHRI Industry Data
Lochinvar End Markets

- Boilers: 58%
- Water Heating: 42%

2/3 commercial end markets; 1/3 residential end markets
Trend to Higher Efficiency, Condensing Boilers – 53 percent of units sold in 2017

North American Commercial Boiler Volume (Units)

Source: BRG Building Solutions
Boiler Sales Dollars*  
Condensing vs. Non-Condensing

Condensing
- 8%
- 92% Non-Condensing

Non-Condensing
- 12%
- 88% Condensing

*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**

- Value Market Share by Retail Price (USD):
  - Others
  - Siemens
  - Ariston
  - Midea
  - Haier
  - A.O. Smith

- Price Categories:
  - > = 400
  - 300-400
  - 200-300
  - < 200

**Gas Market Share**

- Value Market Share by Retail Price (USD):
  - Others
  - Haier
  - Ariston
  - Wanhe
  - Macro
  - Sakura
  - Noritz
  - Rinnai
  - A.O. Smith

- Price Categories:
  - > = 400
  - 300-400
  - 200-300
  - < 200

*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
Product Line developed in China

- Residential & Commercial Heat Pump
- Pressurized Solar
- Combi Boiler
- Wall-hung Electric
- Gas & Electric Commercial
- Gas Tankless
- Air Purifier
- Water Purifier
Professional Team of Local Management
Mega Trends - China

Significant growth in AOS target demographic

<table>
<thead>
<tr>
<th>Year</th>
<th>Affluent (more than $34,000)</th>
<th>Mainstream ($16,000 - $34,000)</th>
<th>Value ($6,000 - $16,000)</th>
<th>Poor (less than $6,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>63</td>
<td>10</td>
<td>36</td>
<td>1</td>
</tr>
<tr>
<td>2010</td>
<td>226</td>
<td>82</td>
<td>43</td>
<td>2</td>
</tr>
<tr>
<td>2016</td>
<td>298</td>
<td>47</td>
<td>47</td>
<td>3</td>
</tr>
<tr>
<td>2020E</td>
<td>339</td>
<td>55</td>
<td>55</td>
<td>5</td>
</tr>
</tbody>
</table>

CAGR 2000-2020E, %
- Affluent: 18.8%
- Mainstream: 27.3%
- Value: 12%
- Poor: -4.6%

A. O. Smith customer demographic continues to grow rapidly

Growth of 10 times during this decade
- 2010: 18 mm households
- 2020: 200 mm households

**Different Water Treatment Technologies**

- **Rust Removal**
  - Pore Size: 5000 nm

- **Sediment & Colloids**
  - Pore Size: 1000 nm

- **Bacterium & Organics**
  - Pore Size: 50 nm

- **Heavy Metals, Virus & Salts**
  - Pore Size: 0.2 nm

**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


- Ultra Filtration
- Reverse Osmosis
- Carbon
- NanoFiltration
- Others

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

Bird’s Nest – Beijing:

A healthy day

PM 2.5
45

A very unhealthy day

PM 2.5
453
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

Income segment
Rupees thousand

Millions of households, percent, 2000 prices

SOURCE: India Urbanization Econometric Model Updated 2010
Building Distribution

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

Channel Brand

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

Sources:
• A. O. Smith Primary Quantitative, Market Segmentation Research, April 2017
• Water Quality Association 2017 Consumer Opinion Study
Comprehensive Product Offering

Point of Entry Products
- Whole Home Filtration
- Whole Home Softeners/Filters

Point of Use Products
- Whole Kitchen Filtration
- Tankless RO Systems

Non-Installed Products
- Clean Water Machine
- On-the-Go Filter Bottles

Image source: United States EPA Water Sense 2008
Evolution of Global Water Treatment

Revenue ($ in millions)

Incremental Revenue

Revenue


- Acquired Shanghai Water Treatment
- Purchased MIM, WT company in Turkey
- Launched AOS branded WT in India
- Purchased Hague
- Purchased Aquasana & launched AOS branded WT in Vietnam
- Launched AOS branded WT at Lowe's

37% CAGR

$20 $21 $35 $42 $69 $97 $135 $206 $312 $397 $480+

$0 $100 $200 $300 $400 $500

Revenue ($ in millions)

$206 $312 $397 $480+

37% CAGR
Acquisition Strategy
Growth Strategy: Acquisitions

Geographic Growth
- China
- India
- High Growth Markets

Expand/ Grow the Core
- New Products & New Technologies
  - Water Heating
  - Water Treatment

Adjacencies
- Water-themed platforms for growth
- New technologies beyond water for China
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
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

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2019</th>
<th>2018</th>
<th>change</th>
<th>% chg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$ 748.2</td>
<td>$ 788.0</td>
<td>$(39.8)</td>
<td>-5%</td>
</tr>
<tr>
<td>Net Earnings</td>
<td>89.3</td>
<td>98.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructuring and Impairment Expenses</td>
<td>-</td>
<td>5.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted Earnings</td>
<td>$ 89.3</td>
<td>$ 103.8</td>
<td>$(14.5)</td>
<td>-14%</td>
</tr>
</tbody>
</table>
# First Quarter Adjusted EPS

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2019</th>
<th>2018</th>
<th>change</th>
<th>% chg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>$0.53</td>
<td>$0.57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructuring &amp; Impairment Expenses</td>
<td>-</td>
<td>0.03</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted EPS</td>
<td>$0.53</td>
<td>$0.60</td>
<td>$(0.07)</td>
<td>-12%</td>
</tr>
</tbody>
</table>
## First Quarter Sales

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>change</th>
<th>% chg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>$521.8</td>
<td>$501.7</td>
<td>$20.1</td>
<td>4%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>232.1</td>
<td>293.8</td>
<td>(61.7)</td>
<td>-21%</td>
</tr>
<tr>
<td>Intersegment</td>
<td>(5.7)</td>
<td>(7.5)</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$748.2</td>
<td>$788.0</td>
<td>$(39.8)</td>
<td>-5%</td>
</tr>
</tbody>
</table>
## First Quarter Earnings

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>change</th>
<th>% chg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America, adjusted*</td>
<td>$116.0</td>
<td>$112.7</td>
<td>$ 3.3</td>
<td>3%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>12.3</td>
<td>36.0</td>
<td>(23.7)</td>
<td>-66%</td>
</tr>
<tr>
<td>Total Segment Earnings</td>
<td>128.3</td>
<td>148.7</td>
<td>$(20.4)</td>
<td>-14%</td>
</tr>
<tr>
<td>Corporate</td>
<td>(14.7)</td>
<td>(14.3)</td>
<td>(0.4)</td>
<td>-3%</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>(2.0)</td>
<td>(2.3)</td>
<td>0.3</td>
<td>13%</td>
</tr>
<tr>
<td>Pre-tax Earnings</td>
<td>111.6</td>
<td>132.1</td>
<td>(20.5)</td>
<td>-16%</td>
</tr>
<tr>
<td>Tax Provision</td>
<td>(22.3)</td>
<td>(28.3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted Earnings</td>
<td>$ 89.3</td>
<td>$103.8</td>
<td>$(14.5)</td>
<td>-14%</td>
</tr>
</tbody>
</table>

### Adjusted Segment Margin

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>22.2%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>5.3%</td>
<td>12.3%</td>
</tr>
</tbody>
</table>

*2018 excludes $6.7 million pre-tax restructuring and impairment expense due to a plant closing
Cash Flow from Operations

($ in millions)

2019: $22
2018: $43

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

Diluted EPS

2019 Guidance: $2.69 to $2.75
2018: $2.61

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

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

*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):

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Earnings (GAAP)</td>
<td>$89.3</td>
<td>$98.8</td>
</tr>
<tr>
<td>Restructuring and impairment expenses, before tax</td>
<td>-</td>
<td>6.7</td>
</tr>
<tr>
<td>Tax effect of restructuring and impairment expenses</td>
<td>-</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Adjusted Earnings</td>
<td>$89.3</td>
<td>$103.8</td>
</tr>
<tr>
<td>Diluted EPS (GAAP)</td>
<td>$0.53</td>
<td>$0.57</td>
</tr>
<tr>
<td>Restructuring and impairment expenses per diluted share, before tax</td>
<td>-</td>
<td>0.04</td>
</tr>
<tr>
<td>Tax effect of restructuring and impairment expenses per diluted share</td>
<td>-</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Adjusted EPS</td>
<td>$0.53</td>
<td>$0.60</td>
</tr>
</tbody>
</table>
Adjusted Segment Earnings

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

<table>
<thead>
<tr>
<th>Segment Earnings (GAAP)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(dollars in millions)</td>
<td></td>
</tr>
<tr>
<td><strong>North America</strong></td>
<td>$116.0</td>
<td>$106.0</td>
</tr>
<tr>
<td><strong>Rest of World</strong></td>
<td>12.3</td>
<td>36.1</td>
</tr>
<tr>
<td>Inter-segment earnings elimination</td>
<td>-</td>
<td>(0.1)</td>
</tr>
<tr>
<td><strong>Total Segment Earnings (GAAP)</strong></td>
<td>$128.3</td>
<td>$142.0</td>
</tr>
</tbody>
</table>

**Adjustments:**

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North America</strong></td>
<td>-</td>
<td>6.7</td>
</tr>
<tr>
<td><strong>Rest of World</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Inter-segment earnings elimination</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Adjustments</strong></td>
<td>-</td>
<td>6.7</td>
</tr>
</tbody>
</table>

**Diluted EPS (GAAP):**

<table>
<thead>
<tr>
<th></th>
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<th>2018</th>
</tr>
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<tr>
<td><strong>North America restructuring &amp; impairment expenses</strong></td>
<td>$116.0</td>
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<td><strong>Adjusted Segment Earnings</strong></td>
<td>$128.3</td>
<td>$148.7</td>
</tr>
</tbody>
</table>
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**

- Participation Percentage (right axis)
- U.S. Norm Average 3.62

- 2010: 3.85
- 2012: 3.84
- 2014: 4.00
- 2016: 3.99
- 2018: 4.00

- 80%, 82%, 87%, 83%, 90%