



2016 Results

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,” “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 slowdown in the growth rate of the Chinese economy or a decline in the growth rate of consumer spending in China; 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; uncertain costs, savings and timeframes associated with our new enterprise resources planning system; foreign currency fluctuations; ability to execute our acquisition strategy; 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” .

2016 Highlights



- ▶ Record sales of nearly \$2.7 billion
 - Revenue 6 percent higher; up 8 percent in local currency
- ▶ China sales up 19 percent in local currency
 - A. O. Smith branded water treatment grew over 40 percent in local currency
- ▶ Record net earnings of \$1.85 per share
 - Increase of 17 percent over \$1.58 per share last year
- ▶ Purchased Aquasana on August 8
 - A. O. Smith global water treatment product sales totaled \$194 million
- ▶ Cash returned to shareholders
 - Share repurchase totaled \$135 million
 - 17 percent dividend increase in January, 2017
- ▶ Stock Split effective October 6

Full Year Results



(\$ in millions)	2016	2015	change	% chg.
Sales	\$2,685.9	\$ 2,536.5	\$ 149.4	6%
Net Earnings	\$ 326.5	\$ 282.9	\$ 43.6	15%
Earnings per Share	\$ 1.85	\$ 1.58	\$ 0.27	17%

Full Year Sales



(\$ in millions)	2016	2015	change	% chg.
North America	\$ 1,743.2	\$ 1,703.0	\$ 40.2	2%
Rest of World	965.6	866.1	\$ 99.5	11%
Intersegment	<u>(22.9)</u>	<u>(32.6)</u>	<u>\$ 9.7</u>	
Total	<u>\$ 2,685.9</u>	<u>\$ 2,536.5</u>	<u>\$ 149.4</u>	6%

Full Year Earnings



(\$ in millions, except percentages)	2016	2015	change	% chg.
North America	\$ 385.9	\$ 339.9	\$ 46.0	14%
Rest of World	<u>129.1</u>	<u>113.0</u>	<u>16.1</u>	14%
Total Operating	515.0	452.9	62.1	14%
Corporate	(45.2)	(43.0)	(2.2)	-5%
Interest Expense	<u>(7.3)</u>	<u>(7.4)</u>	<u>0.1</u>	1%
Pre-tax Earnings	462.5	402.5	60.0	15%
Income Tax Expense	<u>(136.0)</u>	<u>(119.6)</u>	<u>(16.4)</u>	-14%
Earnings	<u>\$ 326.5</u>	<u>\$ 282.9</u>	<u>\$ 43.6</u>	15%
<u>Operating Margin</u>				
North America	22.1%	20.0%		
Rest of World	13.4%	13.0%		

Fourth Quarter Results



(\$ in millions)

2016

2015

change

% chg.

Sales

\$ 698.1

\$ 639.4

\$ 58.7

9%

Net Earnings

\$ 82.7

\$ 79.8

\$ 2.9

4%

Earnings per Share

\$ 0.47

\$ 0.45

\$ 0.02

4%

Fourth Quarter Sales



(\$ in millions)	2016	2015	change	% chg.
North America	\$ 435.6	\$ 413.7	\$ 21.9	5%
Rest of World	268.1	231.8	\$ 36.3	16%
Intersegment	<u>(5.6)</u>	<u>(6.1)</u>	<u>\$ 0.5</u>	
Total	<u>\$ 698.1</u>	<u>\$ 639.4</u>	<u>\$ 58.7</u>	9%

Fourth Quarter Earnings



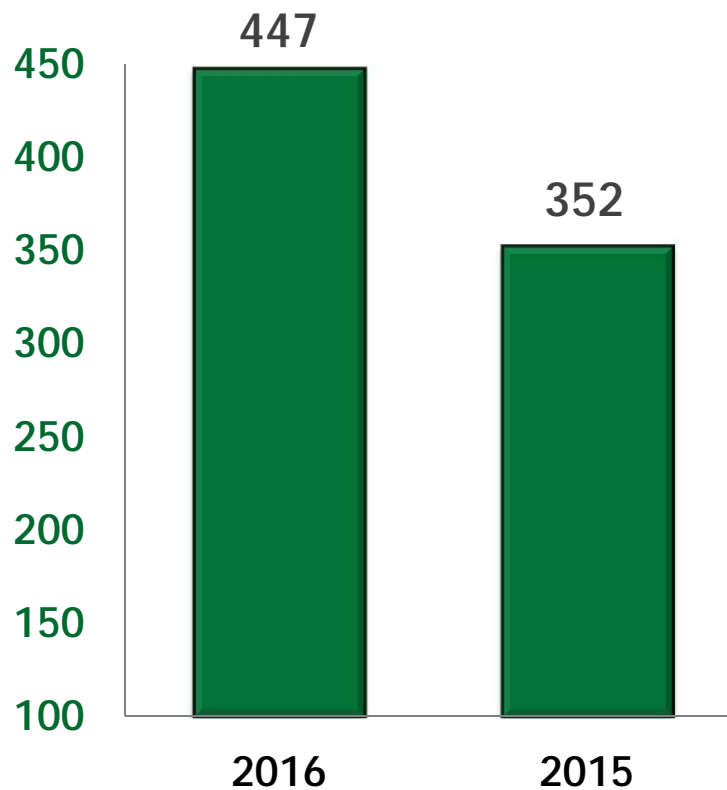
(\$ in millions, except percentages)

	2016	2015	change	% chg.
North America	\$ 89.4	\$ 92.1	\$(2.7)	-3%
Rest of World	<u>38.2</u>	<u>28.6</u>	<u>9.6</u>	34%
Total Operating	127.6	120.7	6.9	6%
Corporate	(9.6)	(10.0)	0.4	4%
Interest Expense	<u>(1.6)</u>	<u>(1.4)</u>	<u>(0.2)</u>	-14%
Pre-tax Earnings	116.4	109.3	7.1	6%
Income Tax Expense	<u>(33.7)</u>	<u>(29.5)</u>	<u>(4.2)</u>	-14%
Earnings	<u>\$ 82.7</u>	<u>\$ 79.8</u>	<u>\$ 2.9</u>	4%
<u>Operating Margin</u>				
North America	20.5%	22.3%		
Rest of World	14.2%	12.3%		

Cash Flow from Operations



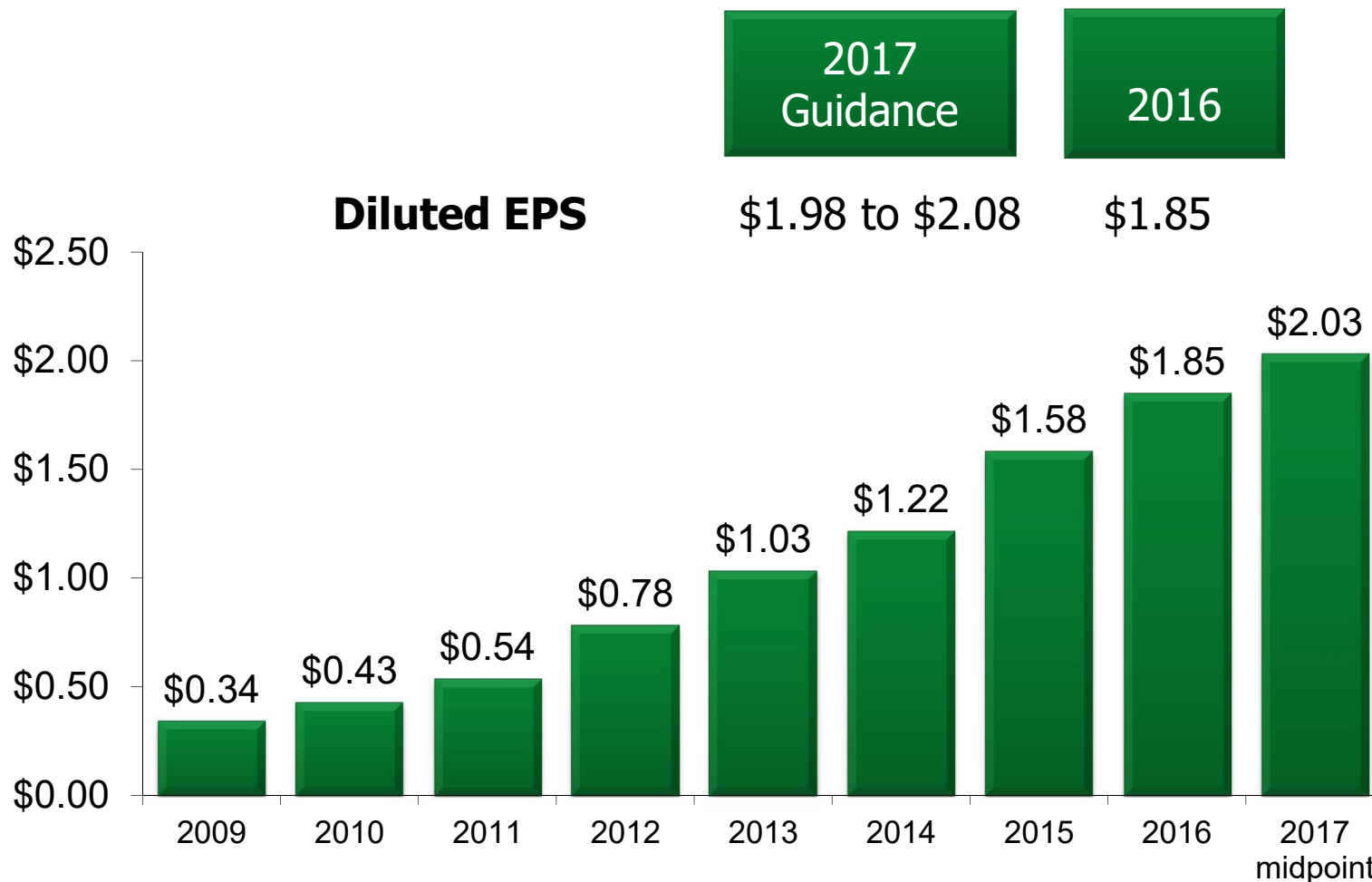
(\$ in millions)



Highlights

- ▶ Operating cash flow of \$447 million
- ▶ Debt to capital ratio of 18%
- ▶ Cash balance: \$755 million
- ▶ Net cash position: \$431 million
- ▶ Acquisitions: approximately \$91 million
- ▶ Voluntary contribution to pension plan of \$30 million
- ▶ Stock repurchase: 3.3 million shares totaling \$135 million

2017 EPS Guidance and 2016 EPS



Note: 2009 through 2014 are adjusted EPS and all years are adjusted for 2 for 1 stock split

As of February 2, 2017

2017 Assumptions



(\$ in millions)

2017 Projections

Operating Cash Flow	approx \$350
Capital Expenditures	\$90 to \$100
Depreciation and Amortization	approx \$70
Expenses related to ERP Implementation	approx \$17.5
Corporate/Other Expense	approx \$47
Effective Tax Rate	between 29.40 and 29.7%
Net Imports to the U.S.	approx \$75
Percentage of total profits in the U.S.	between 60 and 65%
Stock Repurchase	approx \$135 *
Share Count - Diluted	approx 174 million

*subject to acquisitions, cash flow and working capital needs

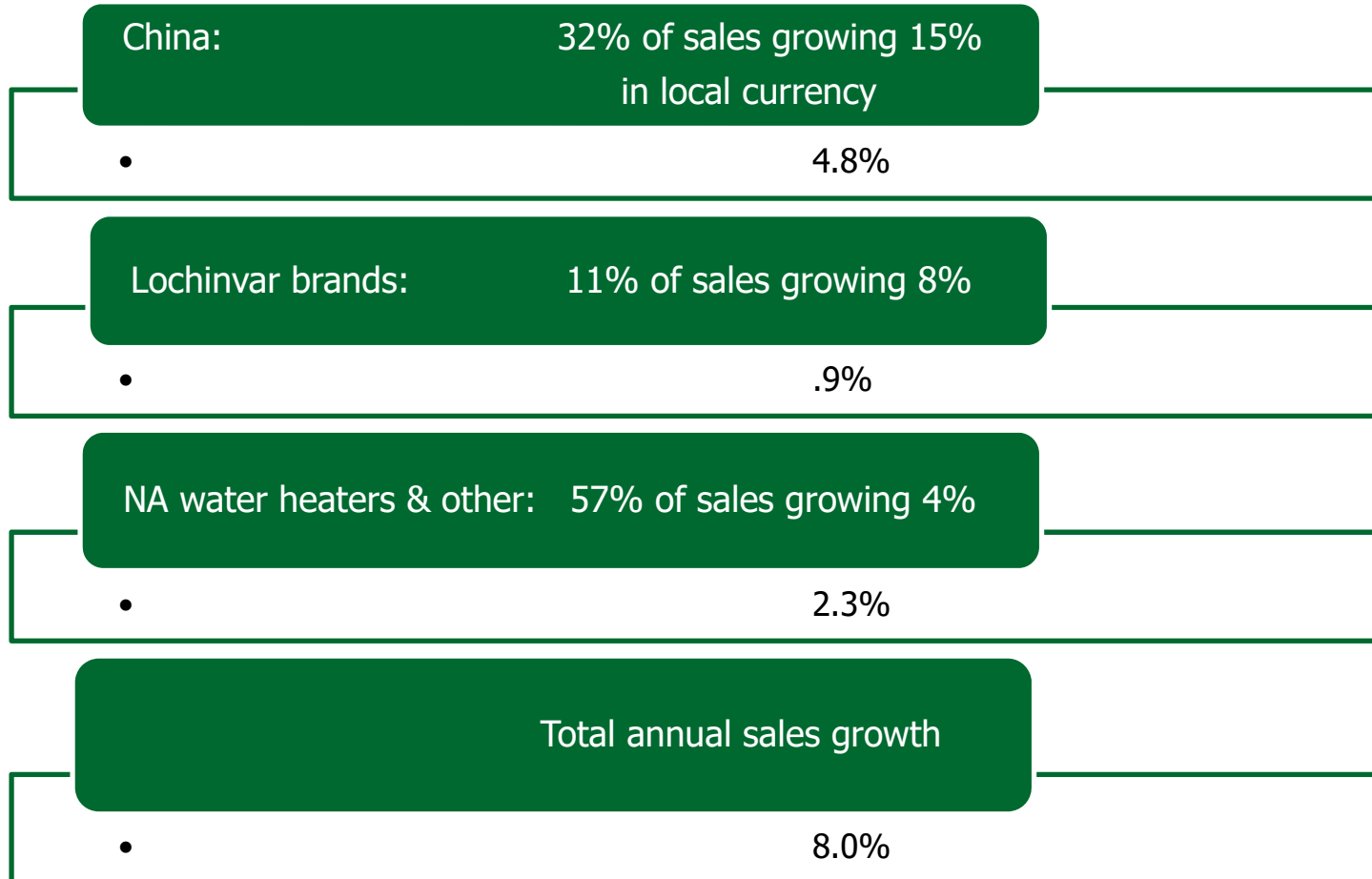
As of February 2, 2017

2017 Outlook



- ▶ Revenue growth between 9.50 to 11 percent in local currency terms; 8 to 9.50 percent in USD
 - Aquasana sales incrementally add nearly \$40 million
 - Depreciation assumed for the CNY against the USD, resulting in five percent headwind to average rate in 2016
 - Steel prices remain volatile
- ▶ North America
 - U.S. residential water heater volumes increase approximately 200,000 units; U.S. commercial volumes up modestly
 - Lochinvar-branded product sales growth of over 8 percent
 - Operating margin expected to be between 21.50 and 22.25 percent
- ▶ Rest of World
 - China 15 percent local currency sales growth
 - Smaller losses in India than in 2016
 - Approaching breakeven of air purification products
 - Operating margin at least 14 percent

Growth Strategy: Organic Growth



Answers to your questions...

