



Second Quarter 2020 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,” “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: negative impacts to our business, including demand for our products, operations and workforce dislocation and disruption, supply chain disruption and liquidity as a result of the severity and duration of the COVID-19 pandemic; a failure to recover or further weakening of the Chinese economy and/or a failure to recover or 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; a failure to recover or further weakening in the high efficiency boiler market segment in the U.S.; significant volatility in raw material availability and 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.”

Notice Regarding Financial Information

- This presentation contains non-GAAP financial information. Reconciliations from GAAP to non-GAAP measures are contained in the appendix of this presentation.
- All information should be read in conjunction with the historical financial statements and financial information contained in A. O. Smith's Annual Report on Form 10-K, periodic reports on Form 10-Q and Form 8-K, and public announcements of financial information.
- Copies of these reports are available on the Investor Relations sections of A. O. Smith's website at <http://www.aosmith.com/investors/>

Second Quarter Commentary

NA Water Treatment grows 19 percent organically

US residential water heater demand resilient

NA commercial water heater and boiler demand down 20 – 25 percent

China consumer demand flat to slightly positive YOY

Minimal operational disruptions

Restructuring to align business with current market conditions

Second Quarter Results

\$ in millions except per share data

	2020	2019	Change	% Change
Sales	\$ 663.9	\$ 765.4	\$(101.5)	-13%
Net Earnings	\$ 67.8	\$ 102.1	\$ (34.3)	-34%
Severance and Restructuring Expenses	<u>5.0</u>	<u>-</u>		
Adjusted Earnings	\$ <u>72.8</u>	\$ <u>102.1</u>		-29%
EPS	\$ 0.42	\$ 0.61	\$ (0.19)	-31%
Severance and Restructuring Expenses	<u>0.03</u>	<u>-</u>		
Adjusted EPS	\$ <u>0.45</u>	\$ <u>0.61</u>	\$ (0.16)	-26%

Second Quarter Sales

\$ in millions

	2020	2019	Change	% Change
North America	\$ 480.5	\$ 524.0	\$ (43.5)	-8%
Rest of World	189.7	249.1	(59.4)	-24%
Intersegment	<u>(6.3)</u>	<u>(7.7)</u>	<u>1.4</u>	
Total	\$ <u>663.9</u>	\$ <u>765.4</u>	\$ <u>(101.5)</u>	-13%

Second Quarter Adjusted Earnings (Loss)

\$ in millions, except percentages

	2020	2019	Change	% Change
Adjusted Segment Earnings				
North America	\$ 107.6	\$ 122.9	\$ (15.3)	-12%
Rest of World	(1.9)	22.4	(24.3)	-108%
Inter-segment	_(0.3)	_(0.1)	_(0.2)	
Total Adjusted Earnings	105.4	145.2	(39.8)	-27%
Corporate	(9.8)	(9.6)	(0.2)	-2%
Interest Expense	_(2.5)	_(3.4)	0.9	26%
Adjusted Pre-tax Earnings	93.1	132.2	(39.1)	-30%
Adjusted Tax Provision	_(20.3)	_(30.1)	9.8	
Adjusted Earnings	\$ 72.8	\$ 102.1	\$ (29.3)	-29%
Adjusted Segment Margin				
North America	22.4 %	23.5 %		
Rest of World	(1.0)%	9.0 %		

Note: North America adjusted segment earnings and ROW adjusted segment earnings exclude \$2.2 million and \$3.9 million, respectively, of pre-tax severance and restructuring expenses.

Strong Capital Position¹

\$179M

Cash provided
by operations

14.5%

Debt to
capital ratio

\$569M

Cash balance²

\$288M

Net cash position

~1.3M

Stock repurchase;
shares totaling ~\$57M

Cash Flow from Operations

\$ in millions



2020 EPS Guidance and Assumptions

(\$ in millions)	2020 Projections
Adjusted EPS	\$1.72 to \$1.86 per share
Operating Cash Flow	Approximately \$350
Capital Expenditures	\$60 - \$70
Depreciation & Amortization	Approximately \$80
Corporate/Other Expense	Approximately \$47
Effective Tax Rate	23 to 23.5 percent
Stock Repurchase	Approximately \$57
Share Count - Diluted	Approximately 162.5 million

As of July 30, 2020

2020 Outlook

	% Revenue ¹	Q2 YOY sales	Full Year Assumptions
NA Water Heaters	60%	-10%	U.S. residential water heater industry volumes flat; commercial water heater industry volumes down approximately ten percent
China	26%	-23%	China local currency sales decline 18 to 20 percent
NA Boilers	6%	-15%	NA Boiler revenue declines of approximately 10 percent
NA Water Treatment	6%	+15%	Sales increase 20 to 22 percent
India/ROW	2%	-32%	India similar loss to 2019
Total	100%	-13%	

¹Q2 2020

2020 Outlook

- Revenue declines of 7 to 8 percent
- North America segment margin expected to be 22.5 to 23 percent
- Rest of World segment margin expected to be -1 to -2.5 percent

As of July 30, 2019

Compelling Investment Thesis



Market leader



Stable/growing U.S. replacement market; operating leverage from incremental new construction and replacement



Strength of premium brand, distribution, manufacturing and innovation provide clear market advantage in China



5 year adjusted EPS CAGR through 2019 = 12.7%

5 year dividend CAGR through 2019 = 24.5%

5 year cumulative cash returned to shareholders from dividends and shares repurchased = \$1.4 billion



Strong balance sheet and cash flow to support future growth, share repurchase and acquisitions



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):

	(dollars in millions, except per share data)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net Earnings (GAAP)	\$ 67.8	\$102.1	\$119.5	\$191.4
Severance and restructuring expenses, before tax	6.1	-	6.1	-
Tax effect of severance and restructuring expenses	<u>(1.1)</u>	<u>-</u>	<u>(1.1)</u>	<u>-</u>
Adjusted Earnings	\$ <u>72.8</u>	\$ <u>102.1</u>	\$ <u>124.5</u>	\$ <u>191.4</u>
Diluted EPS (GAAP)	\$ 0.42	\$ 0.61	\$ 0.74	\$ 1.14
Severance and restructuring expenses per diluted share, before tax	0.04	-	0.04	-
Tax effect of severance and restructuring expenses per diluted share	<u>(0.01)</u>	<u>-</u>	<u>(0.01)</u>	<u>-</u>
Adjusted EPS	\$ <u>0.45</u>	\$ <u>0.61</u>	\$ <u>0.77</u>	\$ <u>1.14</u>

Adjusted Segment Earnings

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

	(dollars in millions)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Segment Earnings (Losses) (GAAP)				
North America	\$ 105.4	\$ 122.9	\$ 232.5	\$ 238.9
Rest of World	(5.8)	22.4	(48.0)	34.7
Inter-segment earnings elimination	<u>(0.3)</u>	<u>(0.1)</u>	<u>(0.3)</u>	<u>(0.1)</u>
Total Segment Earnings (GAAP)	<u>\$ 99.3</u>	<u>\$ 145.2</u>	<u>\$ 184.2</u>	<u>\$ 273.5</u>
Adjustments:				
North America severance and restructuring expenses	\$ 2.2	\$ -	\$ 2.2	\$ -
Rest of World severance and restructuring expenses	<u>3.9</u>	<u>-</u>	<u>3.9</u>	<u>-</u>
Total Adjustments	<u>\$ 6.1</u>	<u>\$ -</u>	<u>\$ 6.1</u>	<u>\$ -</u>
Adjusted Segment Earnings (Losses)				
North America	\$ 107.6	\$ 122.9	\$ 234.7	\$ 238.9
Rest of World	(1.9)	22.4	(44.1)	34.7
Inter-segment earnings elimination	<u>(0.3)</u>	<u>(0.1)</u>	<u>(0.3)</u>	<u>(0.1)</u>
Adjusted Segment Earnings	<u>\$ 105.4</u>	<u>\$ 145.2</u>	<u>\$ 190.3</u>	<u>\$ 273.5</u>

2020 Adjusted EPS Guidance and 2019 EPS

The following is a reconciliation of diluted EPS to adjusted EPS (non-GAAP)(all items are net of tax):

	2020 Guidance	2019
Diluted EPS (GAAP)	\$1.69 – 1.83	\$ 2.22
Severance and restructuring expenses, per diluted share	<u>0.03</u>	<u>-</u>
Adjusted EPS	<u>\$1.72 – 1.86</u>	<u>\$ 2.22</u>