



A.O. Smith Reports Third Quarter Earnings and Outlook

MILWAUKEE, Oct. 19 /PRNewswire/ -- A.O. Smith Corporation (NYSE: AOS - news; Amex: SMCA - news) today announced third quarter earnings from continuing operations of \$7.3 million or \$.31 per share. The earnings were in line with current estimates.

Influenced by lower demand in a number of key domestic markets, earnings were approximately 42 percent lower than the \$12.5 million or \$.52 per share earned in the third quarter of 1999. Sales for the quarter ended September 30 were \$282 million, \$5 million lower than the \$287 million of sales in the third quarter of 1999.

For the first nine months of 2000, A.O. Smith sales from continuing operations were \$948 million compared with sales of \$753 million for the same period of 1999. Nine-month earnings from continuing operations were \$39.1 million or \$1.65 per share compared with nine-month 1999 earnings of \$38.6 million or \$1.63 per share.

"Customers in the heating and air conditioning industry are reducing or postponing motor orders as they confront near-record inventory levels of finished product," Robert J. O'Toole, chairman and chief executive officer, observed. "Consequently, sales of motors to this market segment were 14 percent lower than last year's third quarter. We believe the inventory problem has the potential to persist into the fourth quarter and could have an adverse impact on motor sales for the remainder of 2000 and into early 2001."

"Some of the demand weakness has spilled over into other motor market segments, most notably ventilation/refrigeration and after-market sales," O'Toole noted. "Those markets appear to be most affected by softening in the housing industry. Reductions in new housing starts have also negatively impacted the residential water heater market."

Reflecting the overall weakness in its major markets, third quarter sales for Electric Motor Technologies, A.O. Smith's largest platform, were \$207 million, \$5 million lower than third quarter 1999 sales of \$212 million. Excluding the Magnetek motor acquisition, sales were 13 percent lower than in the third quarter of 1999. Operating profits declined approximately 23 percent compared with last year's third quarter due to the lower sales and resulting excess manufacturing costs.

The company is undertaking actions to reduce cost throughout the organization. During the third quarter, the company announced it would be closing assembly plants in Paoli, Ind.; Gordonsville, Tenn.; and Altavista, Va. With all three closings, production will be consolidated in existing A.O. Smith motor plants that assemble the same product lines.

Third quarter sales of \$75 million for the Water Systems Technologies platform were slightly lower than last year's third quarter. Weakness in the domestic residential water heating market overshadowed continued sales growth in China. Operating profits for the quarter declined three percent compared with the third quarter of 1999, as lower residential volumes more than offset the improved performance in China.

The company also indicated it was making progress in divesting the Storage & Fluid Handling Technologies platform. "The divestiture process is taking longer than we anticipated," O'Toole said, "but we are continuing to hold discussions with parties that are interested in A.O. Smith Engineered Storage Products Company and Smith Fiberglass Products Company. We remain confident that we can conclude these transactions before the end of the year."

Company discusses outlook

"We expect the fourth quarter to be extremely difficult, as customers significantly reduce production levels to lower their inventories," O'Toole indicated. "As a result, A.O. Smith will experience weak sales and excess manufacturing costs. Fourth quarter earnings are expected to range between \$.05 and \$.15 per share."

"Given current market conditions, we expect sales and earnings during the first and second quarters of 2001 to fall short of the record results generated during the first two quarters of this year. Once surplus inventories have been eliminated, sales and earnings comparisons should improve as the year progresses. For the full year, we expect 2001 earnings to exceed 2000 results."

The company will broadcast a live conference call today to discuss these results. The call can be heard on the company's website, www.aosmith.com, beginning at 10:00 a.m. (eastern time).

A.O. Smith Corporation, with headquarters in Milwaukee, Wis., is a leading marketer and manufacturer of electric motors and water heaters, serving customers world wide. It is one of North America's largest manufacturers of electric motors, with a

comprehensive line of fractional horsepower, integral horsepower, and hermetic motors. The company also is North America's largest manufacturer of commercial water heating equipment and a leading supplier of residential water heaters and hydronic boilers. The company has facilities in the United States, Mexico, Canada, England, Ireland, Hungary, the Netherlands, and China and employs more than 15,000 people.

Forward-Looking Statements

Certain statements in this report are "forward-looking statements." These forward-looking statements can generally be identified as such because the context of the statement will include words such as the company "believes," "anticipates," "estimates," "expects," "projects," or words of similar import. Although the company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its business, there can be no assurance that the results expressed in forward-looking statements will be realized. Although a significant portion of the company's sales are derived from the replacement of previously installed product, and such sales are therefore less volatile, numerous factors may affect actual results and cause results to differ materially from those expressed in forward-looking statements made by, or on behalf of, the company. The company considers most important among such factors, the stability in its electric motor and water products markets, the timely and proper integration of the MagneTek motors acquisition, and the implementation of associated cost reduction programs.

All subsequent written and oral forward-looking statements attributable to the company, or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

A.O. SMITH CORPORATION AND SUBSIDIARIES
(condensed consolidated financial statements -
\$000 omitted except per share data)

Statement of Earnings

	Three Months ended		Nine Months ended	
	September 30		September 30	
Continuing Sales	2000	1999	2000	1999
Electric Motor Technologies	\$206,567	\$211,609	\$702,688	\$516,148
Water Systems Technologies	75,018	75,797	245,221	236,536
Net Sales	281,585	287,406	947,909	752,684
Costs and Expenses				
Cost of products sold	233,196	232,678	765,167	602,566
Selling, general and administrative	29,281	31,017	97,715	78,616
Interest expense	5,595	3,866	16,759	7,851
Interest income	(88)	(498)	(492)	(1,018)
Other expense	2,127	1,854	7,680	5,031
Tax provision	4,131	6,011	21,989	20,991
Total costs and expenses	274,242	274,928	908,818	714,037
Earnings from Continuing Operations	7,343	12,478	39,091	38,647
Discontinued Earnings (loss) from operations less related income tax (benefit)-(2000-\$977 & \$2051; 1999-\$ (34) & \$ (522))	1,493	(112)	3,139	(964)
Loss on disposition less related tax benefit of \$798	--	--	(1,222)	--
Net Earnings	\$8,836	\$12,366	\$41,008	\$37,683
Net Earnings (Loss)				

Per Share of Common Stock (Diluted)				
Continuing				
Operations	\$0.31	\$0.52	\$1.65	\$1.63
Discontinued				
Operations	\$0.06	\$ --	\$0.08	\$ (0.04)
Net Earnings	\$0.37	\$0.52	\$1.73	\$1.59
Average Common				
Shares Outstanding				
(000's omitted)	23,626	23,845	23,686	23,771

A.O. SMITH CORPORATION
Balance Sheet

	September 30 2000	December 31 1999
ASSETS:		
Cash and cash equivalents	\$8,496	\$14,761
Receivables	186,891	183,442
Inventories	171,547	163,443
Deferred income taxes	11,464	11,323
Other current assets	11,224	5,253
Net current assets-discontinued operations	21,576	10,405
Total Current Assets	411,198	388,627
Net property, plant and equipment	281,210	283,493
Goodwill and other intangibles	246,555	251,085
Other assets	104,346	88,990
Net long-term assets - discontinued operations	48,669	51,791
Total Assets	\$1,091,978	\$1,063,986
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Notes payable	\$ --	\$ --
Trade payables	97,986	81,221
Accrued payroll and benefits	31,952	32,272
Product warranty	11,665	10,847
Income taxes	580	7,170
Long-term debt due within one year	9,629	9,629
Other current liabilities	26,448	27,301
Total Current Liabilities	178,260	168,440
Long-term debt	321,662	351,251
Other liabilities	67,609	64,536
Deferred income taxes	62,596	48,675
Stockholders' equity	461,851	431,084
Total Liabilities and Stockholders' Equity	\$1,091,978	\$1,063,986

A.O. SMITH CORPORATION
STATEMENT OF CASH FLOWS

	Nine Months ended September 30	
	2000	1999
Operating Activities		
Continuing		
Net earnings	\$39,091	\$38,647
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation & amortization	34,148	26,164
Net change in current assets and liabilities	(82)	(7,551)
Net change in noncurrent assets and liabilities	(2,665)	(11,987)
Other	1,147	508
Cash Provided by Operating Activities	71,639	45,781
Investing Activities		
Capital expenditures	(30,114)	(22,198)
Capitalized purchased software costs	(762)	(1,141)
Acquisitions	--	(251,361)
Cash Used in Investing Activities	(30,876)	(274,700)
Cash Flow before Financing	40,763	(228,919)
Discontinued		
Cash Used in Discontinued Operations	(9,788)	(2,006)
Financing Activities		
Debt incurred	--	217,780
Debt retired	(29,589)	(4,629)
Purchase of treasury stock	--	(2,745)
Other stock transactions	1,010	1,296
Dividends paid	\$ (8,661)	\$ (8,364)
Cash Provided by (Used in) Financing Activities	(37,240)	203,338
Net decrease in cash and cash equivalents	(6,265)	(27,587)
Cash and cash equivalents - beginning of period	14,761	37,666
Cash and Cash Equivalents - End of Period	8,496	10,079

SOURCE: A.O. Smith Corporation