



Second Quarter 2017 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; 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” .



Second Quarter Highlights

- Sales of \$738 million
 - Revenue 11 percent higher; up over 12 percent in local currency
- China sales up 20 percent in local currency
 - A. O. Smith branded water treatment grew over 40 percent in local currency; air purification products quadrupled
- Record net earnings of \$0.53 per share
 - Increase of eight percent over \$0.49 per share last year
- Cash returned to shareholders
 - Share repurchase totaled approximately \$66 million through June 30
 - 17 percent dividend increase in January, 2017
- AOS joined S&P 500 index today



Second Quarter Results

\$ in millions

	2017	2016	change	% chg.
Sales	\$ 738.2	\$ 667.0	\$ 71.2	11%
Net Earnings	\$ 92.4	\$ 87.1	\$ 5.3	6%
Earnings per Share	\$ 0.53	\$ 0.49	\$ 0.04	8%



Second Quarter Sales

\$ in millions

	2017	2016	change	% chg.
North America	\$ 470.7	\$ 432.8	\$ 37.9	9%
Rest of World	272.8	239.8	\$ 33.0	14%
Intersegment	<u>(5.3)</u>	<u>(5.6)</u>	<u>\$ 0.3</u>	
Total	<u>\$ 738.2</u>	<u>\$ 667.0</u>	<u>\$ 71.2</u>	11%



Second Quarter Earnings

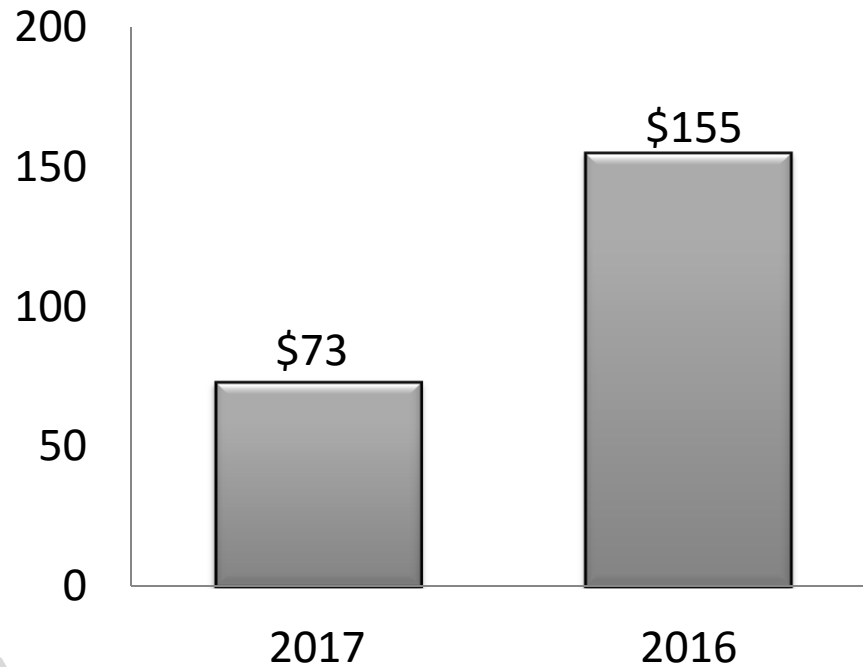
\$ in millions, except percentages

	2017	2016	change	% chg.
North America	\$ 109.2	\$ 104.2	\$ 5.0	5%
Rest of World	32.5	33.0	(0.5)	-2%
Inter-segment	(0.1)	-	(0.1)	
Total Segment Earnings	141.6	137.2	4.4	3%
Corporate	(11.1)	(11.2)	0.1	1%
Interest Expense	(2.5)	(1.9)	(0.6)	-32%
Pre-tax Earnings	128.0	124.1	3.9	3%
Income Tax Expense	(35.6)	(37.0)	1.4	4%
Earnings	\$ 92.4	\$ 87.1	\$ 5.3	6%
<u>Segment Margin</u>				
North America	23.2%	24.1%		
Rest of World	11.9%	13.8%		



Cash Flow from Operations

(\$ in millions)



Highlights

- Operating cash provided by operations of \$73 million
- Debt to capital ratio of 19%
- Cash balance: \$741 million
- Net cash position: \$366 million
- Stock repurchase: 1.3 million shares totaling approximately \$66 million



2017 EPS Guidance and 2016 EPS



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



2017 Assumptions

(\$ in millions)

2017 Projections

Operating Cash Flow	approx \$375
Capital Expenditures	approx \$100
Depreciation and Amortization	approx \$70
Expenses related to ERP Implementation	approx \$19
Corporate/Other Expense	approx \$48
Effective Tax Rate	approx 28.5%
Stock Repurchase	approx \$135 *
Share Count - Diluted	approx 174.5 million

*subject to acquisitions, cash flow and working capital needs

As of July 26, 2017



2017 Outlook

- Revenue growth between 11.5 and 12.5 percent in local currency terms; 10 to 11 percent in USD
 - Aquasana sales incrementally add nearly \$40 million
 - Depreciation assumed for the RMB against the USD, resulting in 4 percent headwind to average rate in 2016
- North America
 - U.S. residential water heater industry volumes increase approximately 300,000 units; U.S. commercial water heater industry volumes up five to seven percent
 - Lochinvar-branded product sales growth of 8 percent
 - Price increase of approximately four percent on majority of U. S. water heaters, effective late August; Steel prices remain volatile
 - Operating margin expected to be between 21.75 and 22 percent
- Rest of World
 - China nearing 17 percent local currency sales growth
 - Smaller expected losses in India than in 2016
 - Operating margin approximately 14 percent



Growth Strategy: Organic Growth

China:	32% of sales growing 15% in local currency
.	4.8%
Lochinvar brands:	11% of sales growing 8%
.	0.9%
NA water heaters:	57% of sales growing 4%
.	2.3%
Total annual sales growth	
.	8.0%



Answers to your questions...

