



Second Quarter 2023 Results

Participants



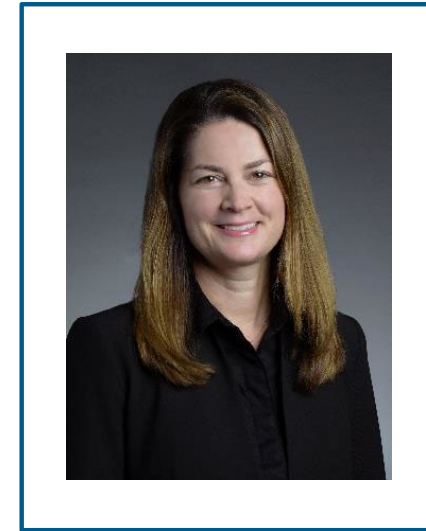
Kevin J. Wheeler

Chairman and
Chief Executive Officer



Charles T. Lauber

Executive Vice President
and Chief Financial Officer



Helen E. Gurholt

Vice President - Investor Relations,
Financial Planning & Analysis

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: further softening in U.S. residential water heater demand; negative impacts to the Company, particularly the demand for its products, resulting from global inflationary pressures or a potential recession in one or more of the markets in which the Company participates; the Company’s ability to continue to obtain commodities, components, parts and accessories on a timely basis through its supply chain and at expected costs; negative impacts to demand for the Company’s products, particularly commercial products, as a result of the severity and duration of the lingering effects of the COVID-19 pandemic; further weakening in U.S. residential or commercial construction or instability in the Company’s replacement markets; inability of the Company to implement or maintain pricing actions; inconsistent recovery of the Chinese economy or decline in the growth rate of consumer spending or housing sales in China; negative impact to the Company’s business in China as a result of future COVID-19-related disruptions there; negative impact to the Company’s businesses from international tariffs, trade disputes and geopolitical differences, including the conflict in Ukraine; potential further weakening in the high-efficiency gas boiler segment in the U.S.; substantial defaults in payment by, material reduction in purchases by or the loss, bankruptcy or insolvency of a major customer; foreign currency fluctuations; the Company’s inability to successfully integrate or achieve its strategic objectives resulting from acquisitions; competitive pressures on the Company’s businesses; the impact of potential information technology or data security breaches; changes in government regulations or regulatory requirements; the inability to respond to secular trends toward decarbonization and energy efficiency; and adverse developments in general economic, political and business conditions in key regions of the world. Forward-looking statements included in this news release are made only as of the date of this release, and the Company is under no obligation to update these statements to reflect subsequent events or circumstances. 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 Messages

Sales of \$961M
and record
adjusted EPS of
\$1.01

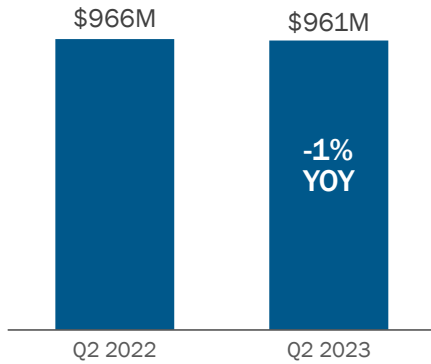
Higher North
America water
heater volumes
were offset by
lower boiler sales
and pricing

Record North
America margins
driven by lower
steel costs and
higher water
heater volumes

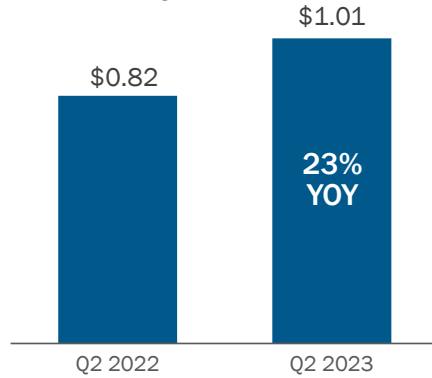
Sales in China and
India grew 15% in
local currency

Second Quarter Performance and Highlights

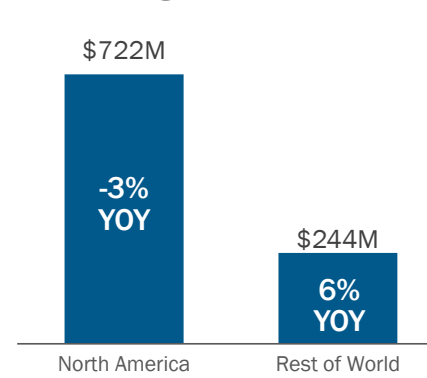
Sales



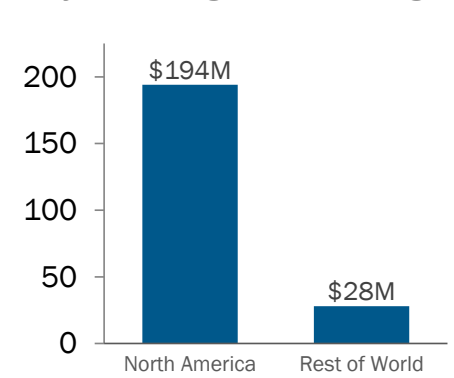
Adjusted EPS



Segment Sales



Adjusted Segment Earnings



Highlights

- Net sales down 1 percent to \$961M
- Adjusted EPS up 23 percent to a record \$1.01

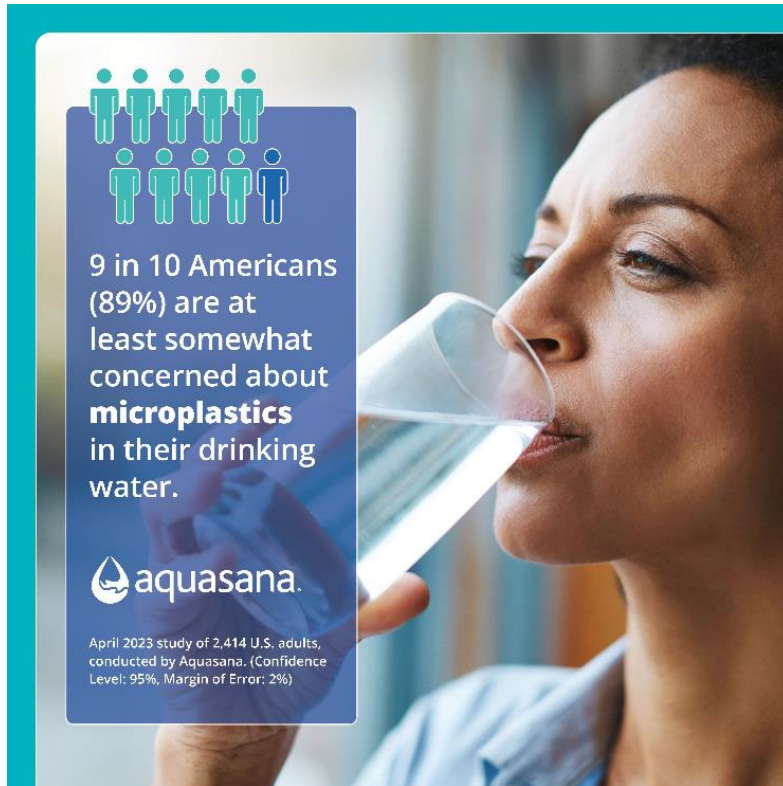
North America

- Sales down 3 percent due to lower boiler sales and pricing offsetting higher water heater volumes
- Adjusted segment margin increased 510 bps to 26.9 percent


Rest of World

- 6 percent sales increase driven by stronger consumer demand in China; sales up 12 percent in local currency
- India sales increased 15 percent in local currency

A. O. Smith Water Filtration Systems Certified to Filter Microplastics



9 in 10 Americans (89%) are at least somewhat concerned about **microplastics** in their drinking water.

 aquasana.

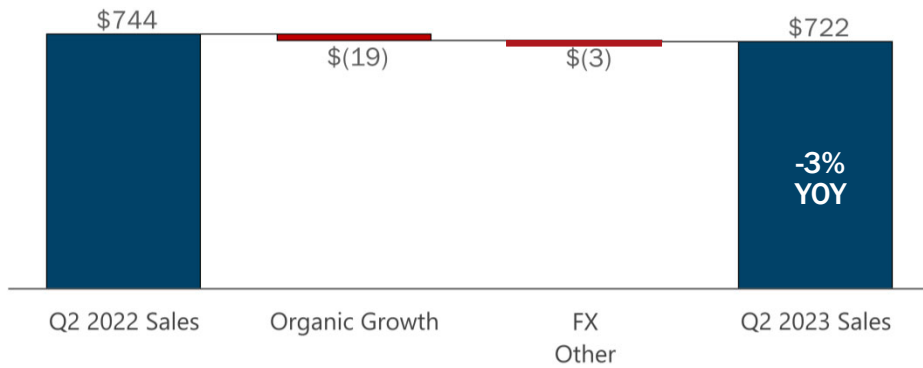
April 2023 study of 2,414 U.S. adults, conducted by Aquasana. (Confidence Level: 95%, Margin of Error: 2%)

- Aquasana's patented technology uses Claryum® filtration to remove up to 99.9% of 78 contaminants, up from just 77, which includes lead, microplastics, herbicides, pesticides and PFAS.

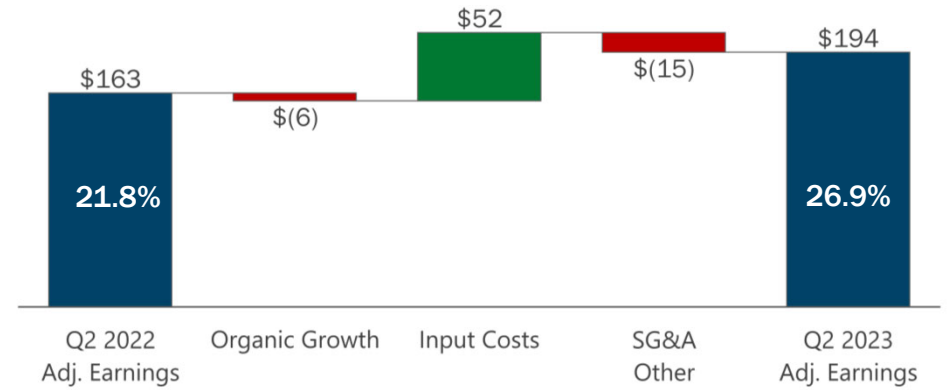


Second Quarter North America Segment

Segment Sales (\$M)



Adjusted Segment Operating Earnings (\$M)

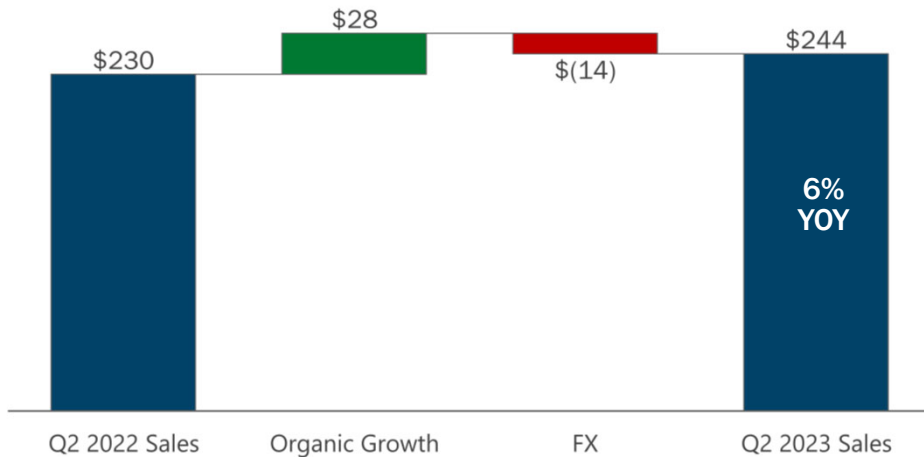


- Higher water heater volumes more than offset by lower boiler sales and pricing
- Lower volumes contributed approximately one-half of the reduction in organic growth

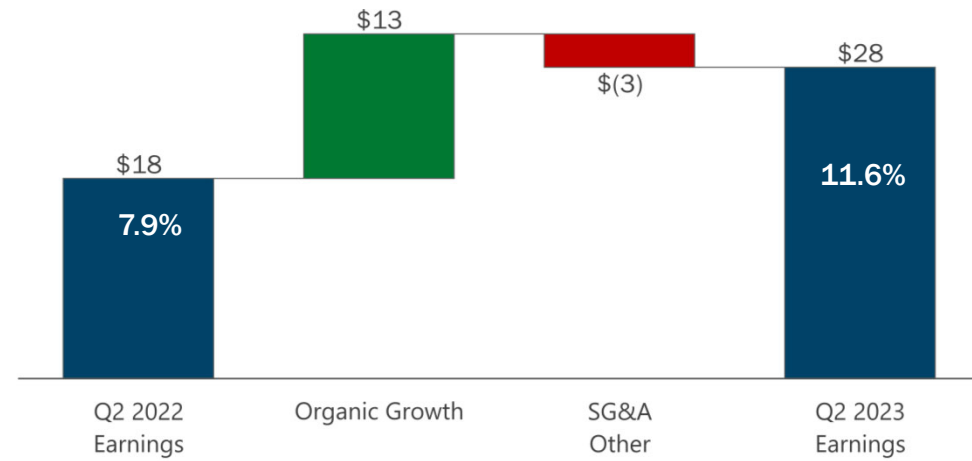
- Earnings increased primarily due to lower steel costs and higher water heater volumes
- Margin improvement driven by improved price/cost relationship

Second Quarter Rest of World Segment

Segment Sales (\$M)



Segment Operating Earnings (\$M)



- Higher volumes in China due to stronger consumer demand; currency translation reduced sales by \$14 million
- India sales increase ~15% in local currency

- Income higher due to YOY volume growth and favorable mix in China
- Operating margin increased 370 basis points YOY

Cash Flow and Liquidity¹

\$410M

Cash balance²

9.8%

Debt to
capital ratio

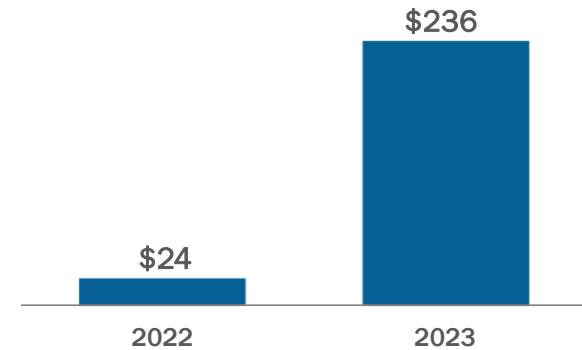
\$204M

Net cash
position

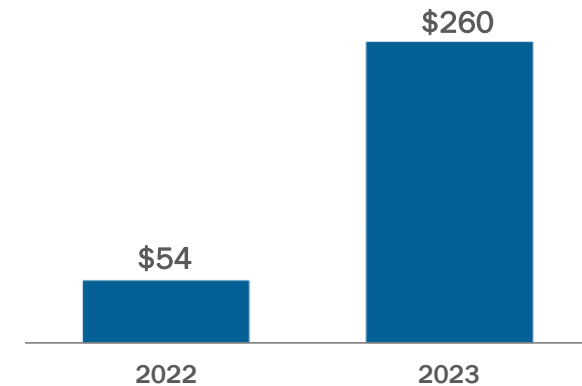
~1.1M

Shares repurchased
in YTD 2023
totaling ~\$70M

Free Cash Flow (\$M)



Cash Flow from Operations (\$M)



Capital Allocation Priorities

Priority	Comments
Organic Growth	<ul style="list-style-type: none">• Opportunities for organic growth in all our businesses and geographies
Acquisitions	<ul style="list-style-type: none">• Disciplined focus on transactions that enable geographic growth, expand/grow the core, establish adjacencies• Recent transactions include Atlantic Filter and Giant• Maintain active pipeline
Dividends <ul style="list-style-type: none">• Philosophy: growing, competitive sustainable dividend	<ul style="list-style-type: none">• Five-year CAGR of 12 percent• Over 30 consecutive years of dividend increases
Share Repurchase	<ul style="list-style-type: none">• \$70 million thru June 2023; \$300 million projected for the full year

2023 Outlook and Assumptions*

(\$M, except per share data)

Revenue Increase	Flat to + 2%
U.S. Residential Water Heater Industry	Flat to + 2%
Commercial Water Heater Industry	+ Mid-teens
China Sales (Local Currency)	~3% to 5%
North American Boiler Sales Growth	- HSD
North American Water Treatment Growth	~5% to 7%
Free Cash Flow	\$550M to \$600M
Capital Expenditures	~\$70M to \$75M
Depreciation & Amortization	~\$70M
Corporate/Other Expense	~\$55M
Effective Tax Rate	~24%
Share Repurchase	~\$300
Share Count – Diluted	~151M

- North American segment margin expected to be between 24% and 24.25%, excluding pension settlement income
- Rest of World segment margin expected to be approximately 10%, excluding impairment expense

	2023 Guidance*	2022
Diluted EPS (GAAP)	\$3.38-3.53	\$ 1.51
Impairment expense	0.10 ⁽¹⁾	-
Pension settlement (income) expense	(0.03) ⁽²⁾	1.60 ⁽³⁾
Pension expense	-	0.06 ⁽⁴⁾
Legal judgment income	-	(0.05)
Terminated acquisition-related expenses	-	0.02
Adjusted EPS (non-GAAP)	\$3.45-3.60	\$ 3.14

⁽¹⁾ Includes pre-tax impairment expense of \$12.5 million and \$3.1 million, within the Rest of World segment and Corporate expenses, respectively.

⁽²⁾ Includes pre-tax pension settlement income of \$5.0 million and \$1.0 million, within the North America segment and Corporate expenses, respectively.

⁽³⁾ Includes pre-tax pension settlement expense of \$346.8 million and \$70.5 million, within the North America segment and Corporate expenses, respectively.

⁽⁴⁾ Includes pre-tax pension expense of \$9.7 million and \$2.0 million, within the North America segment and Corporate expenses, respectively.

Compelling Investment Thesis



Market Leader



Stable/growing U.S. replacement market; operating leverage from incremental new construction and replacement of approximately 80 - 85%



Strength of premium brand, distribution, manufacturing and innovation provide significant opportunity for growth

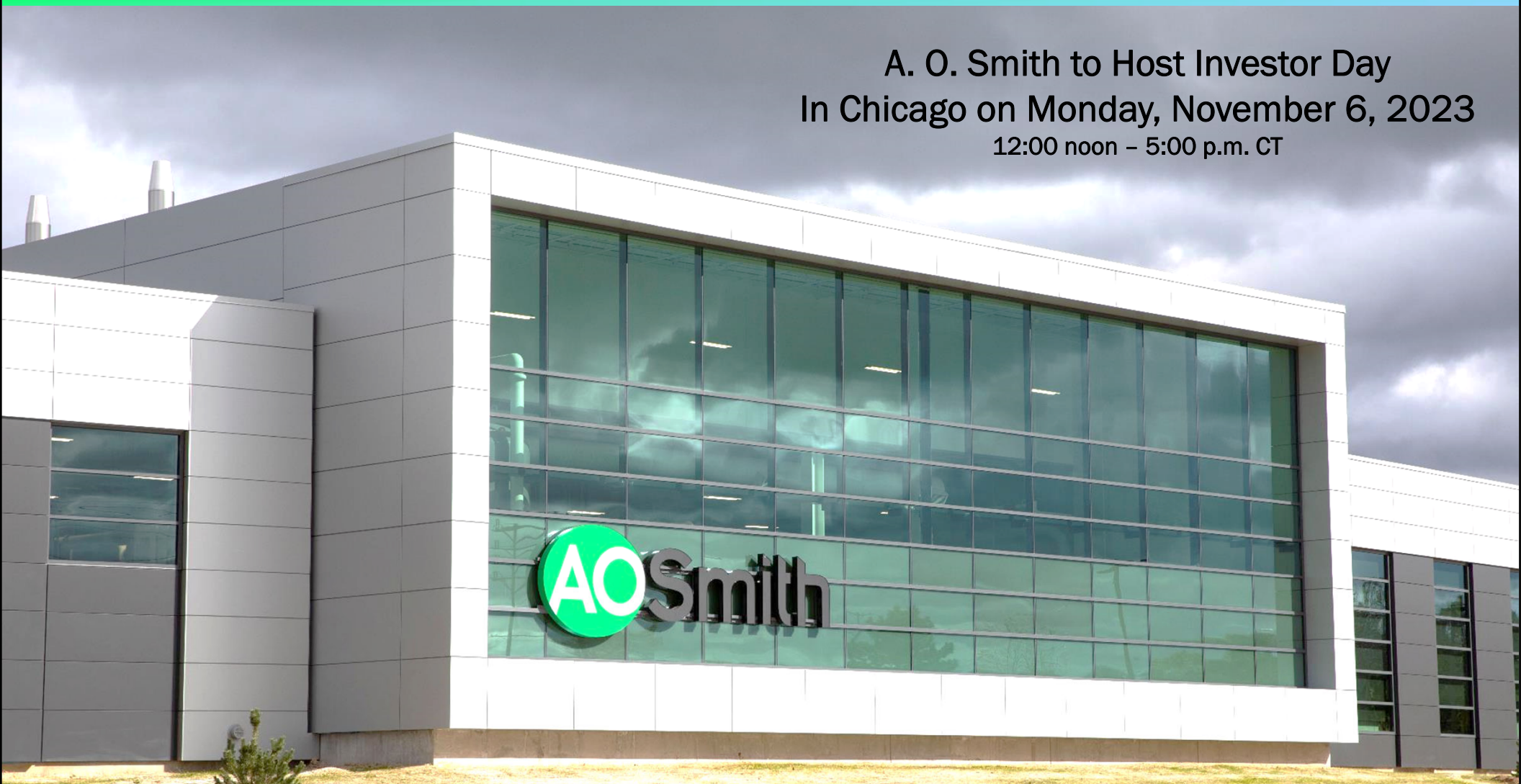


Strong balance sheet and cash flow to support future growth, share repurchase and acquisitions with demonstrated success in all economic cycles

Save The Date

A. O. Smith to Host Investor Day
In Chicago on Monday, November 6, 2023

12:00 noon – 5:00 p.m. CT





Adjusted Earnings and Adjusted EPS

(\$ in Millions, except per share data)

The following is a reconciliation of net earnings and diluted EPS to adjusted earnings (non-GAAP) and adjusted EPS (non-GAAP):

	Three Months Ended June 30,	
	2023	2022
Net Earnings (GAAP)	\$ 157.0	\$ 126.2
Pension settlement income, before tax	(6.0)	-
Pension expense, before tax	-	3.0
Tax effect on above items	<u>1.5</u>	<u>(0.7)</u>
Adjusted Earnings (non-GAAP)	\$ <u>152.5</u>	\$ <u>128.5</u>
Diluted EPS (GAAP)	\$ 1.04	\$ 0.81
Pension settlement income per diluted share, before tax	(0.04)	-
Pension expense per diluted share, before tax	-	0.02
Tax effect on above items per diluted share	<u>0.01</u>	<u>(0.01)</u>
Adjusted EPS (non-GAAP)	\$ <u>1.01</u>	\$ <u>0.82</u>

Adjusted Segment Earnings

(\$ in Millions)

The following is a reconciliation of earnings before provision for income taxes to total segment earnings (non-GAAP) and adjusted segment earnings (non-GAAP):

	Three Months Ended June 30,	
	2023	2022
Earnings Before Provision for Income Taxes (GAAP)	\$ 208.9	\$ 165.3
Add: Corporate expense ⁽¹⁾	14.0	10.6
Add: Interest expense	<u>4.5</u>	<u>2.1</u>
Total Segment Earnings (non-GAAP)	\$ <u>227.4</u>	\$ <u>178.0</u>
North America ⁽²⁾	\$ 199.1	\$ 159.9
Rest of World	<u>28.3</u>	<u>18.1</u>
Total Segment Earnings (non-GAAP)	\$ <u>227.4</u>	\$ <u>178.0</u>
Additional Information		
⁽¹⁾ Corporate Expense	\$ (14.0)	\$ (10.6)
Pension settlement income, before tax	(1.0)	-
Pension expense, before tax	<u>-</u>	<u>0.4</u>
Adjusted Corporate expense (non-GAAP)	\$ (15.0)	\$ (10.2)
⁽²⁾ North America	\$ 199.1	\$ 159.9
Pension settlement income, before tax	(5.0)	-
Pension expense, before tax	<u>-</u>	<u>2.6</u>
Adjusted North America (non-GAAP)	\$ 194.1	\$ <u>162.5</u>

Free Cash Flow

(\$ in Millions)

The following is a reconciliation of reported cash flow from operating activities to free cash flow (non-GAAP):

	Six Months Ended June 30,	
	2023	2022
Cash provided by operating activities (GAAP)	\$260.2	\$ 54.4
Less: Capital expenditures	<u>(24.2)</u>	<u>(30.7)</u>
Free cash flow (non-GAAP)	<u>\$236.0</u>	<u>\$ 23.7</u>

2023 Adjusted EPS Guidance and 2022 Adjusted EPS

(\$ in Millions, except per share data)

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

	2023 Guidance	2022
Diluted EPS (GAAP)	\$ 3.38 – 3.53	\$ 1.51
Impairment expense	0.10 ⁽¹⁾	-
Pension settlement (income) expense	(0.03) ⁽²⁾	1.60 ⁽³⁾
Pension expense	-	0.06 ⁽⁴⁾
Legal judgment income	-	(0.05)
Terminated acquisition-related expenses	-	<u>0.02</u>
Adjusted EPS (non-GAAP)	<u>\$ 3.45 – 3.60</u>	<u>\$ 3.14</u>

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