



2019 Results

January 28, 2020

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: a further weakening of the Chinese economy and/or a further decline in the growth rate of consumer spending or housing sales in China; negative impact to our businesses as a result of the coronavirus originating in China; negative impact to our businesses from international tariffs and trade disputes; 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.”

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/>

2019 Results

- North America sales up two percent
- Solid North America performance
- Water-Right acquisition
- Dividend increase of nine percent
- China channel inventory declines

2019 Results

\$ in millions	2019	2018	change	% chg.
Sales	\$2,992.7	\$3,187.9	\$ (195.2)	-6%
Net Earnings	370.0	444.2		
Restructuring and Impairment Expenses	<u>-</u>	<u>5.0</u>		
Adjusted Earnings	<u>\$ 370.0</u>	<u>\$ 449.2</u>	\$ (79.2)	-18%

2019 Adjusted EPS

	2019	2018	change	% chg.
EPS	\$ 2.22	\$ 2.58		
Restructuring & Impairment Expenses	<u>-</u>	<u>0.03</u>		
Adjusted EPS	<u>\$ 2.22</u>	<u>\$ 2.61</u>	<u>\$ (0.39)</u>	-15%

2019 Sales

\$ in millions	2019	2018	change	% chg.
North America	\$ 2,083.5	\$ 2,044.7	\$ 38.8	2%
Rest of World	935.8	1,173.6	(237.8)	-20%
Intersegment	<u>(26.6)</u>	<u>(30.4)</u>	<u>3.8</u>	
Total	<u>\$ 2,992.7</u>	<u>\$ 3,187.9</u>	<u>\$ (195.2)</u>	-6%

2019 Earnings

\$ in millions, except percentages	2019	2018	change	% chg.
North America, adjusted*	\$ 488.9	\$ 470.8	\$ 18.1	4%
Rest of World	<u>40.2</u>	<u>149.3</u>	<u>(109.1)</u>	-73%
Total Segment Earnings	529.1	620.1	\$ (91.0)	-15%
Corporate	(46.0)	(47.2)	1.2	-3%
Interest Expense	<u>(11.0)</u>	<u>(8.4)</u>	<u>(2.6)</u>	31%
Pre-tax Earnings	472.1	564.5	(92.4)	-16%
Tax Provision	<u>(102.1)</u>	<u>(115.3)</u>		
Adjusted Earnings	<u>\$ 370.0</u>	<u>\$ 449.1</u>	<u>\$ (79.1)</u>	-18%
<u>Adjusted Segment Margin*</u>				
North America	23.5%	23.0%		
Rest of World	4.3%	12.7%		

* 2018 excludes \$6.7 million pre-tax restructuring and impairment expense due to a plant closing

Fourth Quarter Results

\$ in millions, except per share data

	2019	2018	change	% chg.
Sales	\$750.9	\$812.5	\$ (61.6)	-8%
Net Earnings	91.3	126.3	(35.0)	-28%
Earnings Per Share	\$ 0.56	\$ 0.74	\$ (0.18)	-24%

Fourth Quarter Sales

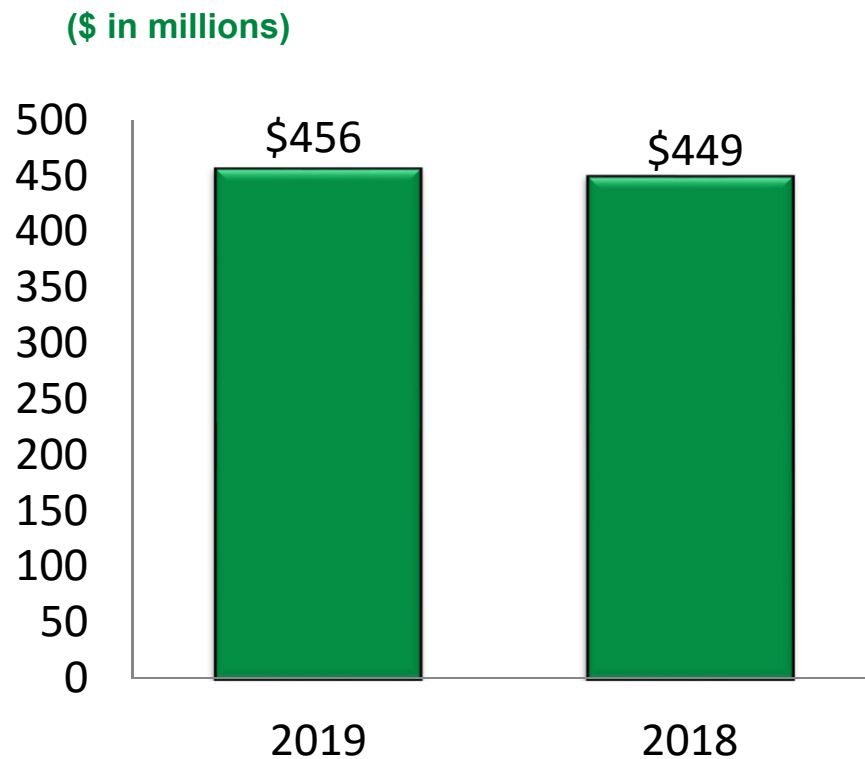
\$ in millions	2019	2018	change	% chg.
North America	\$ 523.1	\$ 521.9	\$ 1.2	- %
Rest of World	234.3	297.6	(63.3)	-21%
Intersegment	<u>(6.5)</u>	<u>(7.0)</u>	<u>0.5</u>	
Total	<u>\$ 750.9</u>	<u>\$ 812.5</u>	<u>\$(61.6)</u>	-8%

Fourth Quarter Earnings

\$ in millions, except percentages

	2019	2018	change	% chg.
North America	\$ 128.4	\$ 127.6	\$ 0.8	1%
Rest of World	<u>1.5</u>	<u>39.5</u>	<u>(38.0)</u>	-96%
Total Segment Earnings	129.9	167.1	\$(37.2)	-22%
Corporate	(11.9)	(10.5)	(1.4)	13%
Interest Expense	<u>(2.5)</u>	<u>(1.8)</u>	<u>(0.7)</u>	39%
Pre-tax Earnings	115.5	154.8	(39.3)	-25%
Tax Provision	<u>(24.2)</u>	<u>(28.5)</u>		
Earnings	<u>\$ 91.3</u>	<u>\$ 126.3</u>	<u>\$(35.0)</u>	-28%
<u>Segment Margin</u>				
North America	24.5%	24.5%		
Rest of World	0.6%	13.3%		

Cash Flow from Operations



2019 Highlights

- Cash provided by operations of \$456 million
- Debt to capital ratio of 15%
- Cash balance: \$551 million
- Net cash position: \$267 million
- Stock repurchase: ~6.1 million shares totaling approximately \$288 million

2020 Assumptions

(\$ in millions)

Operating Cash Flow

Capital Expenditures

Depreciation and Amortization

Corporate/Other Expense

Effective Tax Rate

Stock Repurchase

Share Count - Diluted

2020 Projections

\$475 to \$500

approximately \$ 80

approximately \$ 85

approximately \$ 50

21.5 to 22 percent

approximately \$200*

approximately 162 million

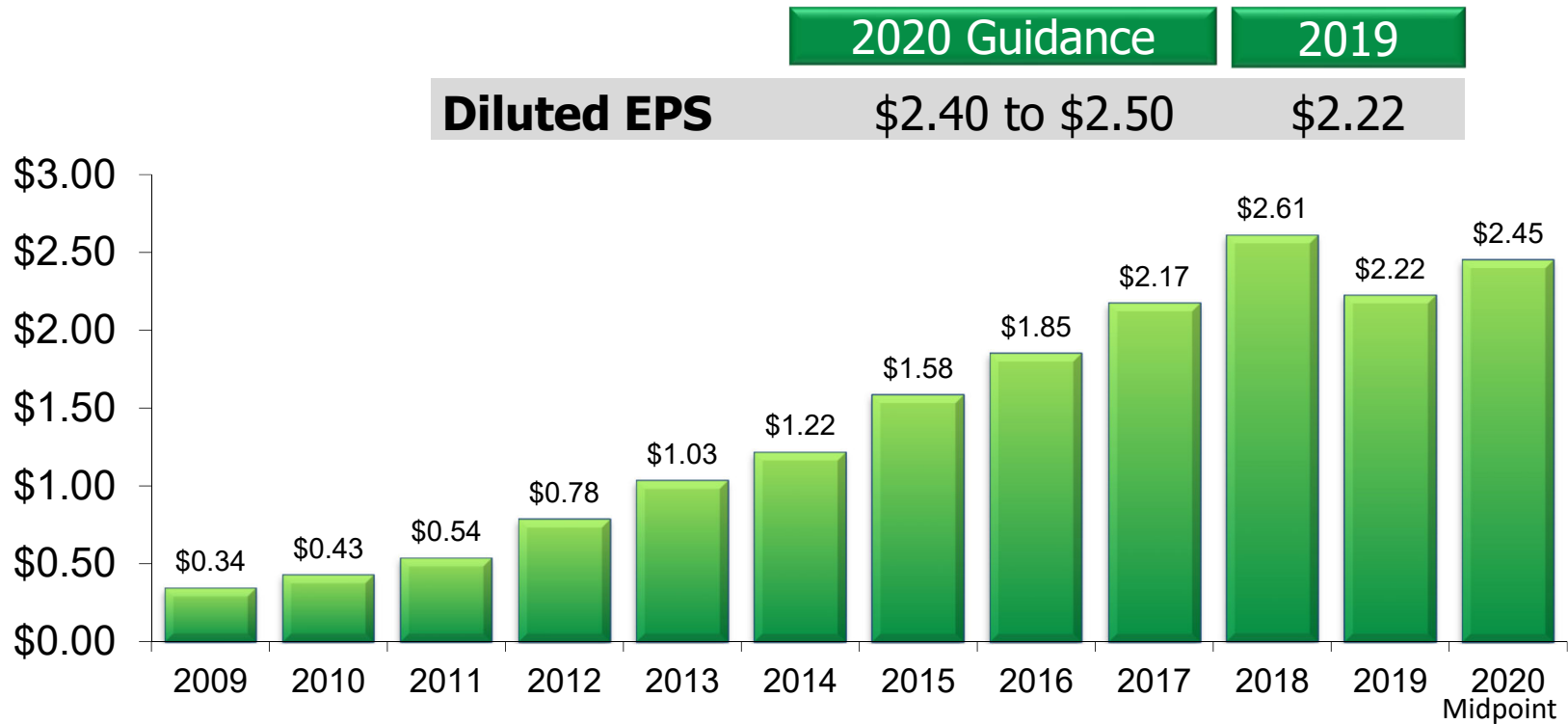
* Subject to acquisitions, cash flow and working capital needs

As of January 28, 2020

Actions Taken in China

- Headcount reduction of nearly 20 percent
- Reduced SG&A
- Over 700 net retail store closures
- Aggressive manufacturing and product cost programs
- Working with customers on channel inventory reduction

2020 EPS Guidance and 2019 EPS



Note: 2009 through 2014, 2017 and 2018 are adjusted EPS and all years are adjusted for stock splits

As of January 28, 2020

2020 Outlook

- China sales increase approximately 2.5 percent in local currency, as economic weakness persists, and FX translation is unfavorable by one percentage point
- U.S. residential water heater industry volumes up 225,000 to 275,000 units; commercial water heater industry volumes up 2 - 3 percent
- NA Boiler revenue growth of approximately eight percent
- India breakeven

As of January 28, 2020

2020 Outlook - continued

- Revenue increases of between 4.5 to 5.5 percent
- EPS between \$2.40 and \$2.50
- North America segment margin expected to be 23.25 to 24.25 percent
- Rest of World segment margin expected to be approximately five percent

As of January 28, 2020

Questions

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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):

Net Earnings (GAAP)

Restructuring and impairment expenses, before tax

Tax effect of restructuring and impairment expenses

Adjusted Earnings

Diluted EPS (GAAP)

Restructuring and impairment expenses per diluted share, before tax

Tax effect of restructuring and impairment expenses per diluted share

Adjusted EPS

(dollars in millions, except per share data)

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Net Earnings (GAAP)	\$ 91.3	\$ 126.3	\$ 370.0	\$ 444.2
Restructuring and impairment expenses, before tax	-	-	-	6.7
Tax effect of restructuring and impairment expenses	-	-	-	(1.7)
Adjusted Earnings	\$ 91.3	\$ 126.3	\$ 370.0	\$ 449.2
Diluted EPS (GAAP)	\$ 0.56	\$ 0.74	\$ 2.22	\$ 2.58
Restructuring and impairment expenses per diluted share, before tax	-	-	-	0.04
Tax effect of restructuring and impairment expenses per diluted share	-	-	-	(0.01)
Adjusted EPS	\$ 0.56	\$ 0.74	\$ 2.22	\$ 2.61

Adjusted Segment Earnings

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

	(dollars in millions)			
	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Segment Earnings (GAAP)				
North America	\$ 128.4	\$ 127.6	\$ 488.9	\$ 464.1
Rest of World	<u>1.5</u>	<u>39.5</u>	<u>40.2</u>	<u>149.3</u>
Total Segment Earnings (GAAP)	<u>\$ 129.9</u>	<u>\$ 167.1</u>	<u>\$ 529.1</u>	<u>\$ 613.4</u>
Adjustments:				
North America restructuring & impairment expenses	\$ -	\$ -	\$ -	\$ 6.7
Rest of World	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Adjustments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6.7</u>
Adjusted Segment Earnings				
North America	\$ 128.4	\$ 127.6	\$ 488.9	\$ 470.8
Rest of World	<u>1.5</u>	<u>39.5</u>	<u>40.2</u>	<u>149.3</u>
Adjusted Segment Earnings	<u>\$ 129.9</u>	<u>\$ 167.1</u>	<u>\$ 529.1</u>	<u>\$ 620.1</u>