



First Quarter 2018 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 slowdown in the growth rate of the Chinese economy or our key markets and/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; negative impact to our businesses from international tariffs and trade disputes, the impact of potential information technology or data security breaches; changes in government regulations or regulatory requirements; the impact of U.S. tax reform and projections for effective tax rates and expenses under the new law 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/>



First Quarter Highlights

- Record sales of \$788 million
 - Revenue 6.5 percent higher than 2017
- Adjusted* net earnings of \$0.60 per share
 - Increase of 20 percent over \$0.50 per share in 2017
- Cash returned to shareholders
 - Share repurchase totaled approximately \$33 million
 - 29 percent dividend increase in January, 2018; five year dividend CAGR is over 25 percent
- Repatriated over \$210 million overseas cash
- Named primary water treatment supplier to Lowes

* Excludes \$0.03 per share of restructuring and impairment expenses related to plant closure



First Quarter Results

\$ in millions

	2018	2017	change	% chg.
Sales	\$ 788.0	\$ 740.1	\$ 47.9	6.5%
Net Earnings	98.8	87.7		
Restructuring & Impairment Expenses	<u>5.0</u>	<u>-</u>		
Adjusted Net Earnings	<u>\$ 103.8</u>	<u>\$ 87.7</u>	\$ 16.1	18%



First Quarter Adjusted EPS

\$ in millions

	2018	2017	change	% chg.
EPS	\$0.57	\$ 0.50		
Restructuring and Impairment Expenses	<u>0.03</u>	<u>-</u>		
Adjusted EPS	\$0.60	\$ 0.50	\$0.10	20%



First Quarter Sales

\$ in millions

	2018	2017	change	% chg.
North America	\$ 501.7	\$ 487.3	\$ 14.4	3%
Rest of World	293.8	259.5	34.3	13%
Intersegment	<u>(7.5)</u>	<u>(6.8)</u>	<u>(0.7)</u>	
Total	<u>\$ 788.0</u>	<u>\$ 740.0</u>	<u>\$ 48.0</u>	6.5%



First Quarter Adjusted Earnings

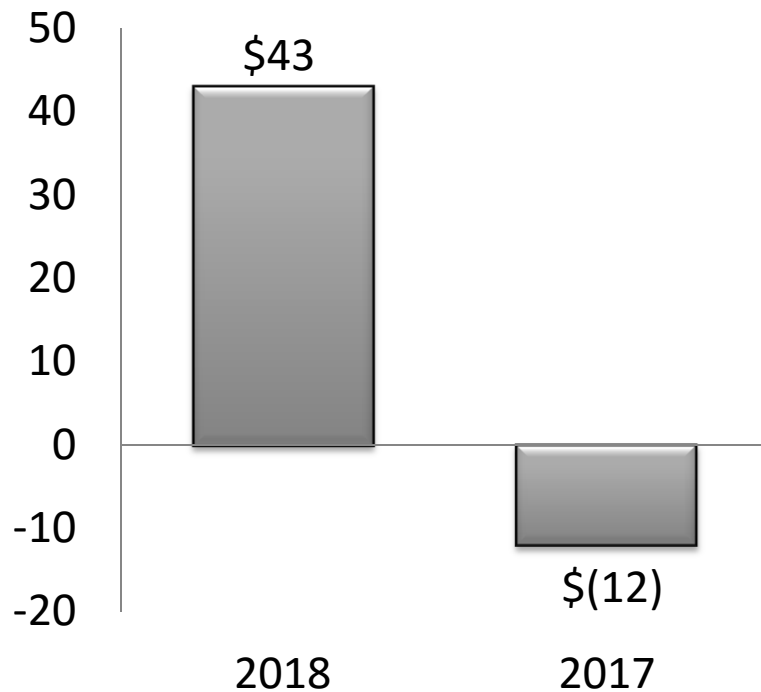
\$ in millions, except percentages	2018	2017	change	% chg.
<u>Adjusted Segment Earnings</u>				
North America	\$ 112.7	\$ 104.2	\$ 8.5	8%
Rest of World	<u>36.0</u>	<u>32.4</u>	<u>3.6</u>	11%
Total Adjusted Segment Earnings	148.7	136.6	\$ 12.1	9%
Corporate	(14.3)	(14.0)	(0.3)	-2%
Interest Expense	<u>(2.3)</u>	<u>(2.2)</u>	<u>(0.1)</u>	
Adjusted Pre-tax Earnings	132.1	120.4	11.7	10%
Tax Provision	<u>(28.3)</u>	<u>(32.7)</u>		
Adjusted Net Earnings	\$ <u>103.8</u>	\$ <u>87.7</u>	\$ <u>16.1</u>	18%
<u>Adjusted Segment Margin</u>				
North America	22.5%	21.4%		
Rest of World	12.3%	12.5%		

Note: North America adjusted earnings exclude \$6.7 million of pre-tax charges for plant closing



Cash Flow from Operations

(\$ in millions)



Highlights

- Operating cash provided by operations of \$43 million
- Debt to capital ratio of 15%
- Cash balance: \$680 million
- Net cash position: \$387 million
- Stock repurchase: 520,000 shares totaling approximately \$33 million



2018 EPS Guidance and 2017 EPS

As of January 30, 2018



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

* 2017 excludes \$0.47 per share related to U.S. tax reform

* 2018 excludes \$0.03 per share related to plant closing



2018 Assumptions

(\$ in millions)	2018 Projections
Operating Cash Flow	approximately \$475
Capital Expenditures	approximately \$100
Depreciation and Amortization	approximately \$ 80
Corporate/Other Expense	approximately \$ 48
Effective Tax Rate	approximately 22%
Stock Repurchase	approximately \$135*
Share Count - Diluted	approximately 173 million

*subject to acquisitions, cash flow and working capital needs

As of April 25, 2018



2018 Outlook

■ Tailwinds

- U.S. residential water heater industry volumes increase 250,000 to 300,000 units, including tankless;
- Boiler revenue growth of approximately ten percent
- Announced 10% average price increase on U.S. wholesale water heaters related to steel and other cost inflation effective early June
- China currency translation benefits
- Smaller expected losses in India than in 2017

■ Headwinds

- Higher steel costs
- Air purification and pre-buy negatively impact China sales
- New China water treatment plant incremental costs of approximately \$5 million

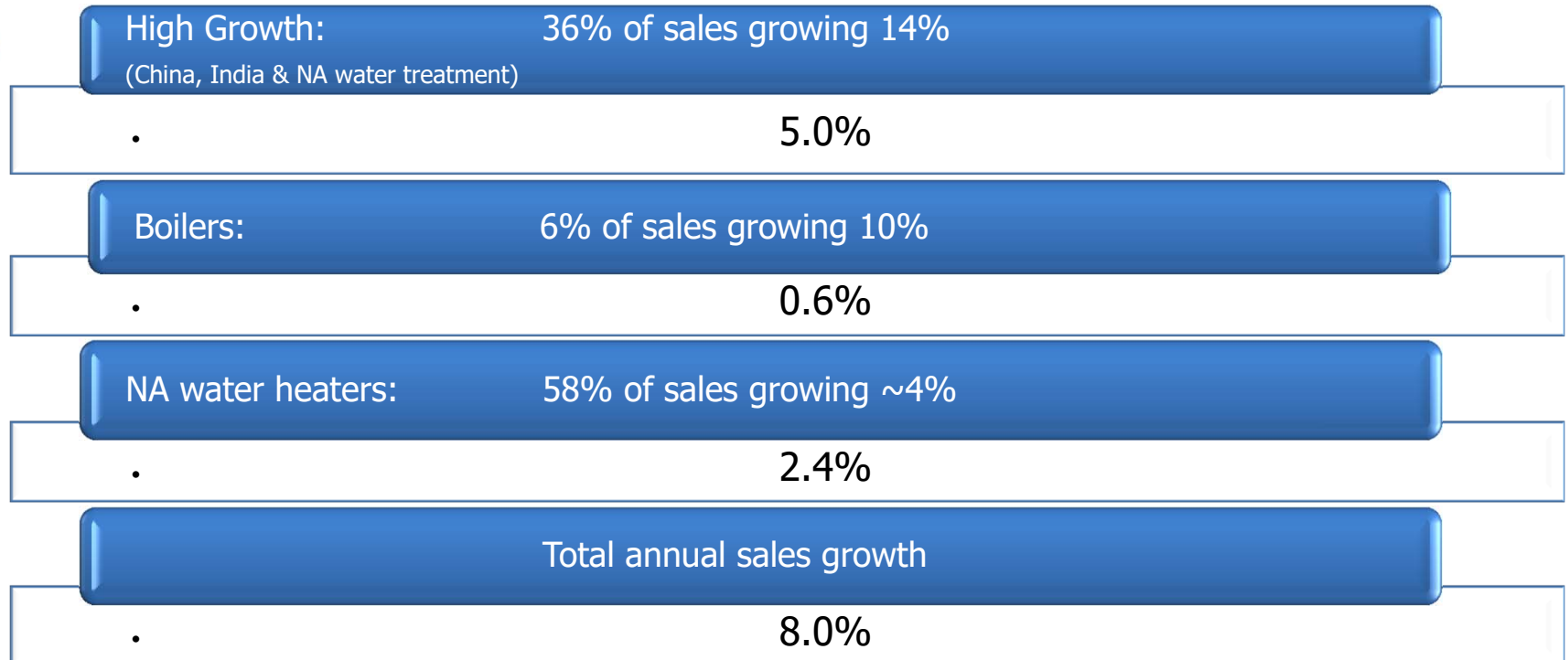


2018 Outlook - continued

- Revenue growth between 10 and 10.75 percent in USD
- Adjusted EPS between \$2.55 and \$2.61
- North America segment margin expected to be 21.75 to 22.25 percent
- Rest of World segment margin expected to expand at least 30 to 40 basis points from 2017



Growth Strategy: Organic Growth



Appendix



Adjusted Earnings and Adjusted EPS

(dollars 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 March 31,	
	2018	2017
Net Earnings (GAAP)	\$ 98.8	\$ 87.7
Restructuring and impairment expenses, before tax	6.7	-
Tax effect of restructuring and impairment expenses	<u>(1.7)</u>	<u>-</u>
Adjusted Earnings	<u>\$103.8</u>	<u>\$ 87.7</u>
Dilute EPS (GAAP)	\$ 0.57	\$ 0.50
Restructuring and impairment expenses per diluted share, before tax	0.04	-
Tax effect of restructuring and impairment expenses per diluted share	<u>(0.01)</u>	<u>-</u>
Adjusted EPS	<u>\$ 0.60</u>	<u>\$ 0.50</u>



Adjusted Segment Earnings

(dollars in millions)

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

Segment Earnings (GAAP)

North America
 Rest of World
 Inter-segment earnings elimination
Total Segment Earnings (GAAP)

Adjustments:

North America restructuring and impairment expenses
 Rest of World
 Inter-segment earnings elimination
Total Adjustments

Adjusted Segment Earnings

North America
 Rest of World
 Inter-segment earnings elimination
Total Adjusted Segment Earnings

Three Months Ended
 March 31,

	2018	2017
North America	\$106.0	\$ 104.2
Rest of World	36.1	32.5
Inter-segment earnings elimination	(0.1)	(0.1)
Total Segment Earnings (GAAP)	<u>\$142.0</u>	<u>\$ 136.6</u>
North America restructuring and impairment expenses	\$ 6.7	\$ -
Rest of World	-	-
Inter-segment earnings elimination	-	-
Total Adjustments	<u>\$ 6.7</u>	<u>\$ -</u>
North America	\$112.7	\$ 104.2
Rest of World	36.1	32.5
Inter-segment earnings elimination	(0.1)	(0.1)
Total Adjusted Segment Earnings	<u>\$148.7</u>	<u>\$ 136.6</u>



Adjusted 2018 EPS Guidance and Adjusted 2017 EPS

(unaudited)

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

	2018 Guidance	2017
Diluted EPS (GAAP)	\$2.52 - 2.58	\$ 1.70
Restructuring and impairment per diluted share	0.03	-
U.S. Tax Reform income tax expense per diluted share	<u>-</u>	<u>0.47</u>
Adjusted EPS	<u>\$2.55 - 2.61</u>	<u>\$ 2.17</u>