



# Second Quarter 2018 Results



# Forward Looking Statements

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## Second Quarter Highlights

- Record sales of \$833 million
  - Revenue 13 percent higher than 2017
- Net earnings of \$0.66 per share
  - Increase of 25 percent over \$0.53 per share in 2017
- Cash returned to shareholders
  - Share repurchase totaled approximately \$70 million in the first half
  - 29 percent dividend increase in January, 2018; five year dividend CAGR is over 25 percent
- Board approved additional 2.5 million shares for repurchase
- Repatriated nearly \$240 million overseas cash



## Second Quarter Results

\$ in millions

	2018	2017	change	% chg.
Sales	\$ 833.3	\$ 738.2	\$ 95.1	13%
Net Earnings	\$ 114.5	\$ 92.4	\$ 22.1	24%
Earnings Per Share	\$ 0.66	\$ 0.53	\$ 0.13	25%



## Second Quarter Sales

\$ in millions

	2018	2017	change	% chg.
North America	\$ 534.2	\$ 470.7	\$ 63.5	13.5%
Rest of World	308.1	272.8	35.3	13.0%
Intersegment	<u>(9.0)</u>	<u>(5.3)</u>	<u>(3.7)</u>	
Total	<u>\$ 833.3</u>	<u>\$ 738.2</u>	<u>\$ 95.1</u>	13.0%

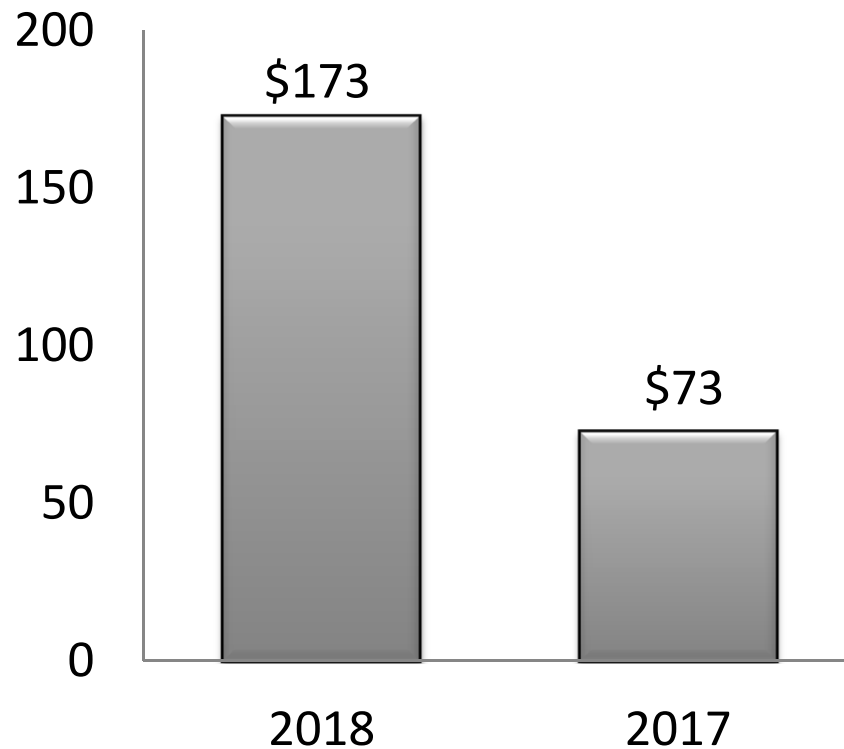
# Second Quarter Earnings

\$ in millions, except percentages

	2018	2017	change	% chg.
<u>Segment Earnings</u>				
North America	\$ 124.9	\$ 109.1	\$ 15.8	14.5%
Rest of World	<u>34.7</u>	<u>32.5</u>	<u>2.2</u>	7.0%
Total Segment Earnings	159.6	141.6	\$ 18.0	13.0%
Corporate	(11.2)	(11.1)	(0.1)	-1.0%
Interest Expense	<u>(2.3)</u>	<u>(2.5)</u>	<u>0.2</u>	
Pre-tax Earnings	146.1	128.0	18.1	14.0%
Tax Provision	<u>(31.6)</u>	<u>(35.6)</u>		
Net Earnings	\$ <u>114.5</u>	\$ <u>92.4</u>	\$ <u>21.9</u>	24.0%
<u>Segment Margin</u>				
North America	23.4%	23.2%		
Rest of World	11.3%	11.9%		

# Cash Flow from Operations

(\$ in millions)



## Highlights

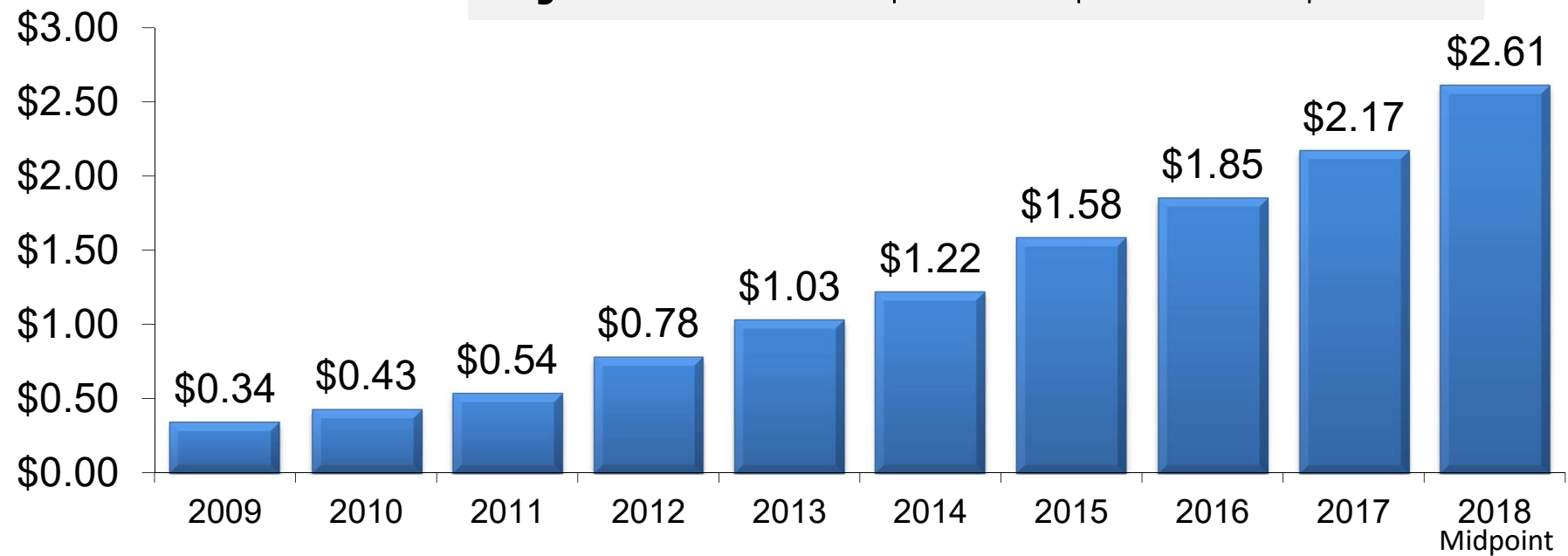
- Operating cash provided by operations of \$173 million
- Debt to capital ratio of 12.5%
- Cash balance: \$658 million
- Net cash position: \$410 million
- Stock repurchase: 1.1 million shares totaling approximately \$70 million

# 2018 EPS Guidance and 2017 EPS

As of July 25, 2018

	2018 Guidance	2017
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<b>Adjusted EPS</b>	\$2.59 to \$2.63	\$2.17
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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	21.50-22.0%
Stock Repurchase	approximately	\$ 135*
Share Count - Diluted	approximately	173 million

\*subject to acquisitions, cash flow and working capital needs

*As of July 25, 2018*

# 2018 Outlook

## ■ Tailwinds

- U.S. residential water heater industry volumes increase approximately 350,000 to 400,000 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
  - Lower China sales growth
- Primary water treatment supplier to Lowes



## 2018 Outlook - continued

- Revenue growth between 9.5 and 10 percent in USD
- Adjusted EPS between \$2.59 and \$2.63
- North America adjusted segment margin expected to be 22.25 to 22.50 percent
- Rest of World segment margin expected to be flat to slightly down from 2017

# Growth Strategy: Organic Growth

High Growth: 36% of sales growing 14%  
(China, India & NA water treatment)

• 5.0%

Boilers: 6% of sales growing 10%

• 0.6%

NA water heaters: 58% of sales growing ~4%

• 2.4%

Total annual sales growth

• 8.0%

# Questions