



First Quarter 2019 Results

April 30, 2019

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 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/>

First Quarter Results

Sales: \$748 Million

EPS: \$0.53

Share Repurchase: \$46 Million

Acquisition:



AOS Products and Channel Lifecycle

Whole Home Solution

- ✓ Total home water management
- ✓ Best contaminant removal available
- ✓ Dealer or wholesale sale & install
- ✓ POU and POE solutions



Family is growing

- ✓ Comfortable water for families
- ✓ Energy, appliance & soap savings
- ✓ Retail/Dealer sale - plumber install

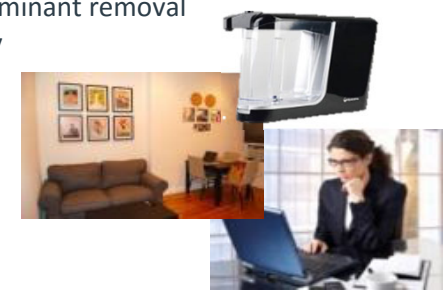
In School

- ✓ Portable pitcher
- ✓ Best contaminant removal in category



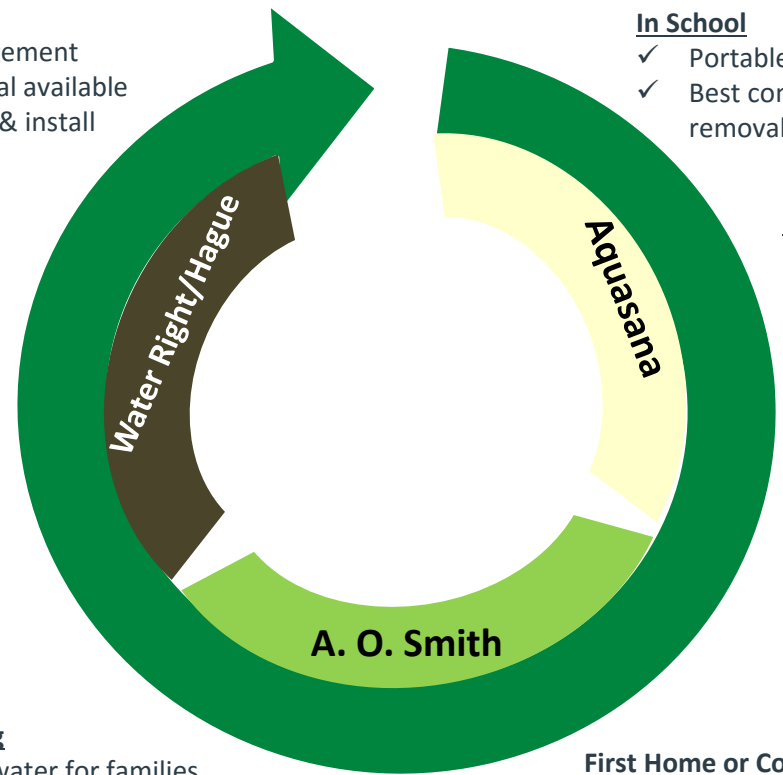
First Apartment

- ✓ Non - installed for multi-family homes
- ✓ Best contaminant removal in category
- ✓ DTC online



First Home or Condo

- ✓ More permanent installation
- ✓ Best contaminant removal in category
- ✓ Online sale or Retail



First Quarter Results

\$ in millions	2019	2018	change	% chg.
Sales	\$ 748.2	\$ 788.0	\$(39.8)	-5%
Net Earnings	89.3	98.8		
Restructuring and Impairment Expenses	<u>-</u>	<u>5.0</u>		
Adjusted Earnings	\$ <u>89.3</u>	\$ <u>103.8</u>	\$(14.5)	-14%

First Quarter Adjusted EPS

\$ in millions	2019	2018	change	% chg.
EPS	\$ 0.53	\$ 0.57		
Restructuring & Impairment Expenses	<u>-</u>	<u>0.03</u>		
Adjusted EPS	\$ <u>0.53</u>	\$ <u>0.60</u>	\$ <u>(0.07)</u>	-12%

First Quarter Sales

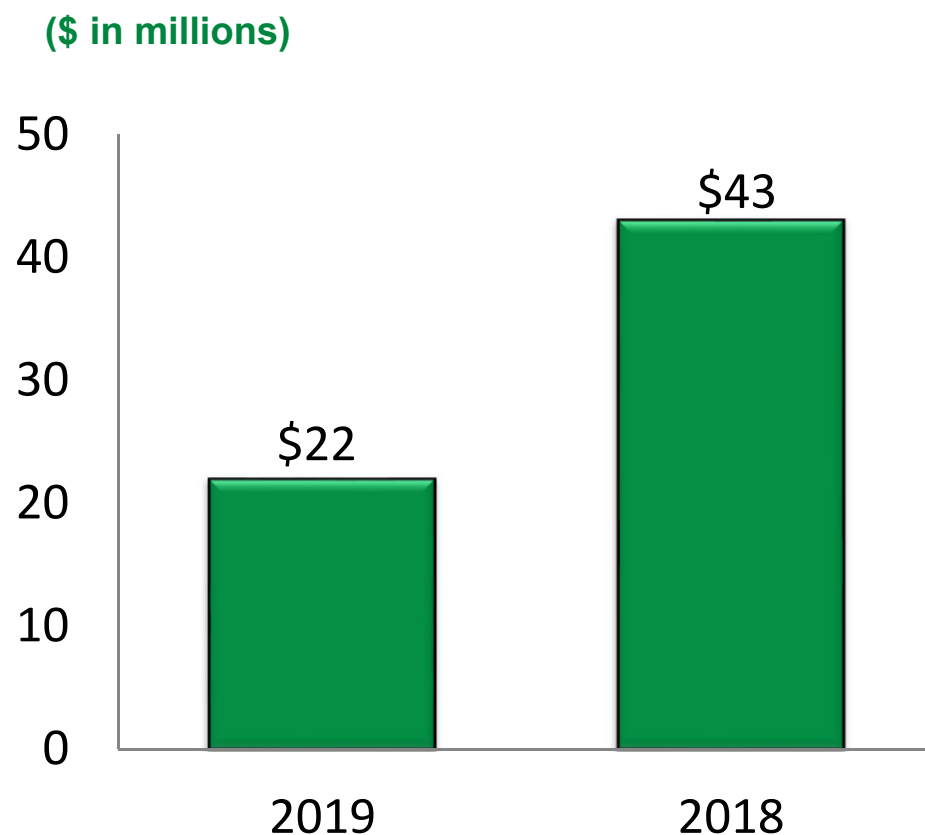
\$ in millions	2019	2018	change	% chg.
North America	\$ 521.8	\$ 501.7	\$ 20.1	4%
Rest of World	232.1	293.8	(61.7)	-21%
Intersegment	<u>(5.7)</u>	<u>(7.5)</u>	<u>1.8</u>	
Total	\$ <u>748.2</u>	\$ <u>788.0</u>	\$ <u>(39.8)</u>	-5%

First Quarter Earnings

\$ in millions, except percentages	2019	2018	change	% chg.
North America, adjusted*	\$ 116.0	\$ 112.7	\$ 3.3	3%
Rest of World	<u>12.3</u>	<u>36.0</u>	<u>(23.7)</u>	-66%
Total Segment Earnings	128.3	148.7	\$(20.4)	-14%
Corporate	(14.7)	(14.3)	(0.4)	-3%
Interest Expense	<u>(2.0)</u>	<u>(2.3)</u>	<u>0.3</u>	13%
Pre-tax Earnings	111.6	132.1	(20.5)	-16%
Tax Provision	<u>(22.3)</u>	<u>(28.3)</u>		
Adjusted Earnings	<u>\$ 89.3</u>	<u>\$ 103.8</u>	<u>\$(14.5)</u>	-14%
<u>Adjusted Segment Margin</u>				
North America	22.2%	22.5%		
Rest of World	5.3%	12.3%		

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

Cash Flow from Operations

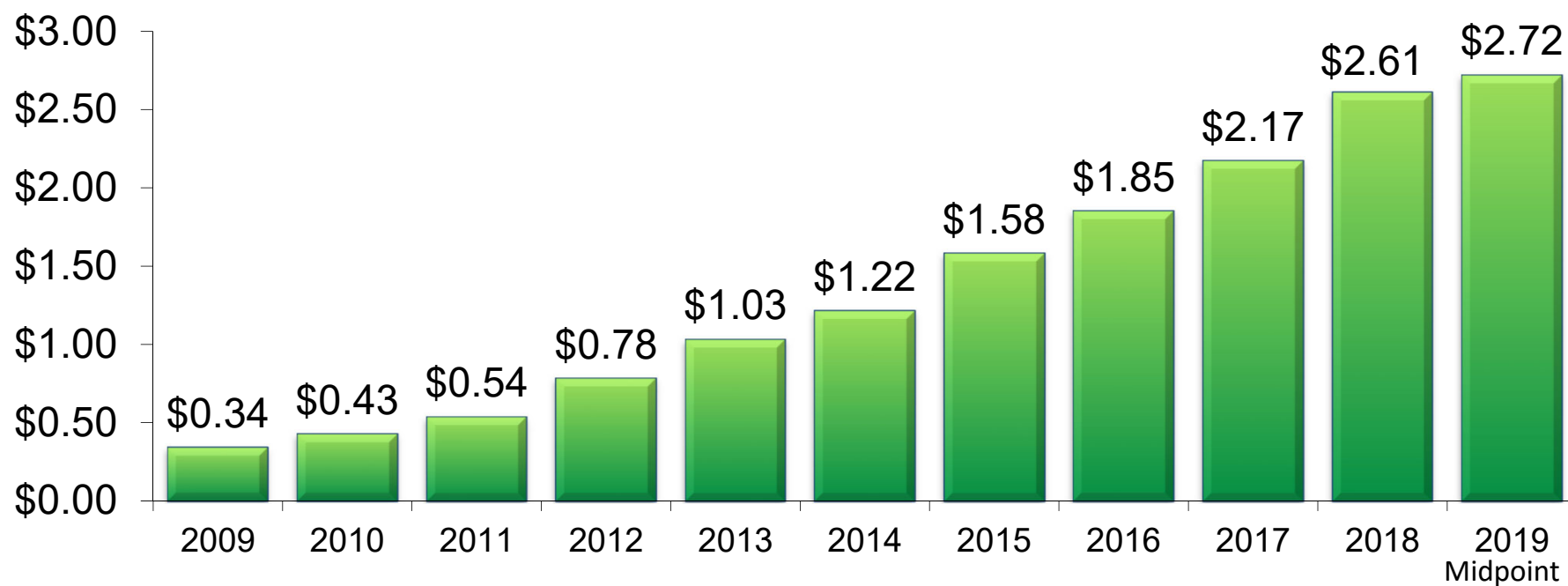


Highlights

- Operating cash provided by operations of \$22 million
- Debt to capital ratio of 14%
- Cash balance: \$633 million
- Net cash position: \$349 million
- Stock repurchase: ~900,000 shares totaling approximately \$46 million

2019 EPS Guidance and 2018 EPS

	2019 Guidance	2018
Diluted EPS	\$2.69 to \$2.75	\$2.61



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

As of April 30, 2019

2019 Assumptions

(\$ in millions)	2019 Projections
Operating Cash Flow	between \$500 and \$525
Capital Expenditures	approx \$85
Depreciation and Amortization	approx \$75
Corporate/Other Expense	approx \$49
Effective Tax Rate	approx 21.5%
Stock Repurchase	approx \$200*
Share Count - Diluted	approx 168 million

* subject to acquisitions, cash flow and working capital needs

As of April 30, 2019

2019 Outlook

- U.S. residential water heater industry volumes increase between 100,000 and 150,000 units, including tankless; commercial water heater industry volumes up 1%
- Boiler revenue growth of approximately ten percent
- Smaller expected losses in India than in 2018; water heater business to be slightly profitable
- China sales decline of approximately 6 to 8% in local currency, as economic weakness persists and FX translation is unfavorable by one percentage point

As of April 30, 2019

2019 Outlook - continued

- Revenue growth between 2.5 to 3.5 percent in USD; 3 to 4 percent in local currency
- EPS between \$2.69 and \$2.75
- North America segment margin expected to be 23 to 23.25 percent
- Rest of World segment margin expected to be 11.75 to 12 percent

Questions

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Appendix

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 March 31,	
2019	2018
\$ 89.3	\$ 98.8
-	6.7
<u>-</u>	<u>(1.7)</u>
\$ 89.3	\$103.8
\$ 0.53	\$ 0.57
-	0.04
<u>-</u>	<u>(0.01)</u>
<u>\$ 0.53</u>	<u>\$ 0.60</u>

Adjusted Segment Earnings

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

(dollars in millions)

Three Months Ended
March 31,

2019

2018

Segment Earnings (GAAP)

North America	\$ 116.0	\$ 106.0
Rest of World	12.3	36.1
Inter-segment earnings elimination	-	(0.1)
Total Segment Earnings (GAAP)	\$ <u>128.3</u>	\$ <u>142.0</u>

Adjustments:

North America	\$ -	\$ 6.7
Rest of World	-	-
Inter-segment earnings elimination	-	-
Total Adjustments	\$ <u>-</u>	\$ <u>6.7</u>

Diluted EPS (GAAP)

North America restructuring & impairment expenses	\$ 116.0	\$ 112.7
Rest of World	12.3	36.1
Inter-segment earnings elimination	-	(0.1)
Adjusted Segment Earnings	\$ <u>128.3</u>	\$ <u>148.7</u>