



# Third Quarter 2020 Results

## Forward Looking Statements

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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: negative impacts to our businesses, including demand for our products, particularly commercial products, operations and workforce dislocation and disruption, supply chain disruption and liquidity as a result of the severity and duration of the COVID-19 pandemic; a failure to recover or further weakening of the Chinese economy and/or a failure to recover or 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; a failure to recover or further weakening in the high efficiency boiler market segment in the U.S.; significant volatility in raw material availability and 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

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- 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/>

## Third Quarter Commentary

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NA Water Treatment grows 19 percent

US residential water heater demand positive YOY

NA commercial water heater and boiler demand down 9 - 10 percent

China consumer demand slightly positive YOY

Minimal operational disruptions

Restructuring carryover from second quarter

## Third Quarter Results

\$ in millions except per share data

	2020	2019	Change	% Change
Sales	\$ 760.0	\$ 728.2	\$ 31.8	4%
Net Earnings	\$ 105.4	\$ 87.3	\$ 18.1	21%
Severance and Restructuring Expenses	<u>1.3</u>	<u>-</u>		
Adjusted Earnings	\$ <u>106.7</u>	\$ <u>87.3</u>	\$ 19.4	22%
EPS	\$ 0.65	\$ 0.53	\$ 0.12	23%
Severance and Restructuring Expenses	<u>0.01</u>	<u>-</u>		
Adjusted EPS	\$ <u>0.66</u>	\$ <u>0.53</u>	\$ 0.13	25%

## Third Quarter Sales

\$ in millions

	2020	2019	Change	% Change
North America	\$ 544.0	\$ 514.6	\$ 29.4	6%
Rest of World	221.4	220.3	1.1	flat
Intersegment	<u>(5.4)</u>	<u>(6.7)</u>	<u>1.3</u>	
<b>Total</b>	<b>\$ <u>760.0</u></b>	<b>\$ <u>728.2</u></b>	<b>\$ <u>31.8</u></b>	<b>4%</b>

## Third Quarter Adjusted Earnings

\$ in millions

	2020	2019	Change	% Change
<b>Adjusted Segment Earnings</b>				
North America	\$ 133.6	\$ 121.6	\$ 12.0	10%
Rest of World	<u>17.8</u>	<u>4.1</u>	<u>13.7</u>	334%
<b>Total Adjusted Earnings</b>	<b>151.4</b>	<b>125.7</b>	<b>25.7</b>	<b>20%</b>
Corporate	(10.9)	(9.8)	(1.1)	-11%
Interest Expense	<u>(1.6)</u>	<u>(3.1)</u>	<u>1.5</u>	48%
Adjusted Pre-tax Earnings	138.9	112.8	26.1	23%
Adjusted Tax Provision	<u>(32.2)</u>	<u>(25.5)</u>	<u>(6.7)</u>	
Adjusted Earnings	\$ <u>106.7</u>	\$ <u>87.3</u>	\$ <u>19.4</u>	22%
<b>Adjusted Segment Margin</b>				
North America	24.6%	23.6 %		
Rest of World	8.0%	1.9 %		

Note: North America adjusted segment earnings and ROW adjusted segment earnings exclude \$0.5 million and \$1.1 million, respectively, of pre-tax severance and restructuring expenses.

## Strong Capital Position<sup>1</sup>

**\$330M**

Cash provided  
by operations

**6.1%**

Debt to  
capital ratio

**\$509M**

Cash balance<sup>2</sup>

**\$395M**

Net cash position

**~1.3M**

Stock repurchase;  
shares totaling ~\$57M

<sup>1</sup> as of September 30, 2020

<sup>2</sup> includes cash, cash equivalents and marketable securities

### Cash Flow from Operations

\$ in millions





## 2020 EPS Guidance and Assumptions

(\$ in millions)	2020 Projections
Adjusted EPS	\$1.95 to \$1.98 per share
Operating Cash Flow	Approximately \$400
Capital Expenditures	\$50 - \$55
Depreciation & Amortization	Approximately \$80
Corporate/Other Expense	Approximately \$50
Effective Adjusted Tax Rate	23 to 23.5 percent
Stock Repurchase	Approximately \$57
Share Count - Diluted	Approximately 162.5 million

*As of October 29, 2020*

## 2020 Outlook

	% Revenue <sup>1</sup>	Q3 YOY sales	Full Year Assumptions
NA Water Heaters	58%	6.5%	U.S. residential water heater industry volumes up 4 percent; commercial water heater industry volumes down approximately ten percent
China	25%	+1%	China local currency sales decline 18 to 19 percent; mid single digit growth in Q4
NA Boilers	7%	-7.5%	NA Boiler revenue declines of mid single digits
NA Water Treatment	6%	+19%	Sales increase 22 to 24 percent (includes acquisition)
India/ROW	4%	-4%	India loss similar to 2019
Total	100%	+4%	

<sup>1</sup>Q3 2020

As of October 29, 2020

## 2020 Outlook

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- Revenue declines of 6 to 7 percent
- North America segment margin expected to be 23 to 23.5 percent
- Rest of World segment margin expected to be -1 to -2 percent

*As of October 29, 2020*

# Compelling Investment Thesis



Market leader



Stable/growing U.S. replacement market; operating leverage from incremental new construction and replacement



Strength of premium brand, distribution, manufacturing and innovation provide clear market advantage in China



5 year adjusted EPS CAGR through 2019 = 12.7%

5-year dividend CAGR through 2019 = 24.5%

5-year cumulative cash returned to shareholders from dividends and shares repurchased = \$1.4 billion through 2019



Strong balance sheet and cash flow to support future growth, share repurchase and acquisitions



## 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):

	(dollars in millions, except per share data)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Net Earnings (GAAP)</b>	\$ 105.4	\$ 87.3	\$ 224.9	\$ 278.7
Severance and restructuring expenses, before tax	1.6	-	7.7	-
Tax effect of severance and restructuring expenses	<u>(0.3)</u>	<u>-</u>	<u>(1.4)</u>	<u>-</u>
<b>Adjusted Earnings</b>	<b><u>\$ 106.7</u></b>	<b><u>\$ 87.3</u></b>	<b><u>\$ 231.2</u></b>	<b><u>\$ 278.7</u></b>
<b>Diluted EPS (GAAP)</b>	\$ 0.65	\$ 0.53	\$ 1.38	\$ 1.66
Severance and restructuring expenses per diluted share, before tax	0.01	-	0.05	-
Tax effect of severance and restructuring expenses per diluted share	<u>-</u>	<u>-</u>	<u>(0.01)</u>	<u>-</u>
<b>Adjusted EPS</b>	<b><u>\$ 0.66</u></b>	<b><u>\$ 0.53</u></b>	<b><u>\$ 1.42</u></b>	<b><u>\$ 1.66</u></b>

## Adjusted Segment Earnings

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

	(dollars in millions)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Segment Earnings (Losses) (GAAP)</b>				
North America	\$ 133.1	\$ 121.6	\$ 365.6	\$ 360.5
Rest of World	16.7	4.1	(31.3)	38.8
Inter-segment earnings elimination	<u>-</u>	<u>-</u>	<u>(0.3)</u>	<u>(0.1)</u>
Total Segment Earnings (GAAP)	<u>\$ 149.8</u>	<u>\$ 125.7</u>	<u>\$ 334.0</u>	<u>\$ 399.2</u>
<b>Adjustments:</b>				
North America severance and restructuring expenses	\$ 0.5	\$ -	\$ 2.7	\$ -
Rest of World severance and restructuring expenses	<u>1.1</u>	<u>-</u>	<u>5.0</u>	<u>-</u>
Total Adjustments	<u>\$ 1.6</u>	<u>\$ -</u>	<u>\$ 7.7</u>	<u>\$ -</u>
<b>Adjusted Segment Earnings (Losses)</b>				
North America	\$ 133.6	\$ 121.6	\$ 368.3	\$ 360.5
Rest of World	17.8	4.1	(26.3)	38.8
Inter-segment earnings elimination	<u>-</u>	<u>-</u>	<u>(0.3)</u>	<u>(0.1)</u>
Adjusted Segment Earnings	<u>\$ 151.4</u>	<u>\$ 125.7</u>	<u>\$ 341.7</u>	<u>\$ 399.2</u>

## 2020 Adjusted EPS Guidance and 2019 EPS

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

	2020 Guidance	2019
<b>Diluted EPS (GAAP)</b>	<b>\$1.91 – 1.94</b>	<b>\$ 2.22</b>
Severance and restructuring expenses, per diluted share	<u>0.04</u>	<u>-</u>
<b>Adjusted EPS</b>	<b><u>\$1.95 – 1.98</u></b>	<b><u>\$ 2.22</u></b>