



First Quarter 2013 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 statements regarding 2015 aspirations are forward-looking statements. These 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: uncertain costs, savings and timeframes associated with the announced plant rationalization in Canada; potential weakening in the high efficiency boiler segment in the U.S.; the ability to execute our acquisition strategy; significant volatility in raw material prices; competitive pressures on the company’s businesses; inability to implement pricing actions; instability in the company’s replacement markets; strength or duration of any recoveries in U. S. residential or commercial construction; a further slowdown in the Chinese economy; foreign currency fluctuations and adverse general economic conditions and capital market deterioration.

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.), “Non-GAAP” or “Before Restructuring”.

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 section of A. O. Smith's website at <http://www.aosmith.com/investors/>

First Quarter Highlights

- ❑ Sales of \$510 million
 - Revenue nine percent higher
 - China growing, up 15 percent
- ❑ Adjusted earnings of \$.96 per share
 - Increase of 41 percent over \$.68 per share in same period last year
 - Favorable margin impact from incremental U.S. water heater volumes
- ❑ Dividend increase of 20 percent; two-for-one stock split

First Quarter Results

	2013	2012	change	% chg.
Sales	\$ 509.6	\$ 468.6	\$ 41.0	9%
Net Earnings	39.0	47.5		
Non-operating Pension	3.0	1.0		
Restructuring/Impairment Costs	9.5			
Settlement w/ Former Supplier	(6.8)			
Gain on RBC Shares		(16.8)		
Adjusted Earnings	\$ 44.7	\$ 31.7	\$ 13.0	41%

(in millions)

First Quarter Adjusted EPS

	2013	2012	change	% chg.
EPS	\$ 0.84	\$ 1.02		
Non-operating Pension	(0.06)	(0.02)		
Restructuring/Impairment Costs	(0.20)	-		
Settlement with a Former Supplier	0.14	-		
Gain on RBC shares	-	0.36		
Adjusted EPS	<u>\$ 0.96</u>	<u>\$ 0.68</u>	\$0.28	41%

First Quarter Sales

	2013	2012	change	% chg.
North America	\$ 378.7	\$ 353.3	\$ 25.4	7%
Rest of World	138.3	124.2	\$ 14.1	11%
Intersegment	<u>(7.4)</u>	<u>(8.9)</u>	<u>\$ 1.5</u>	
Total	509.6	468.6	\$ 41.0	9%

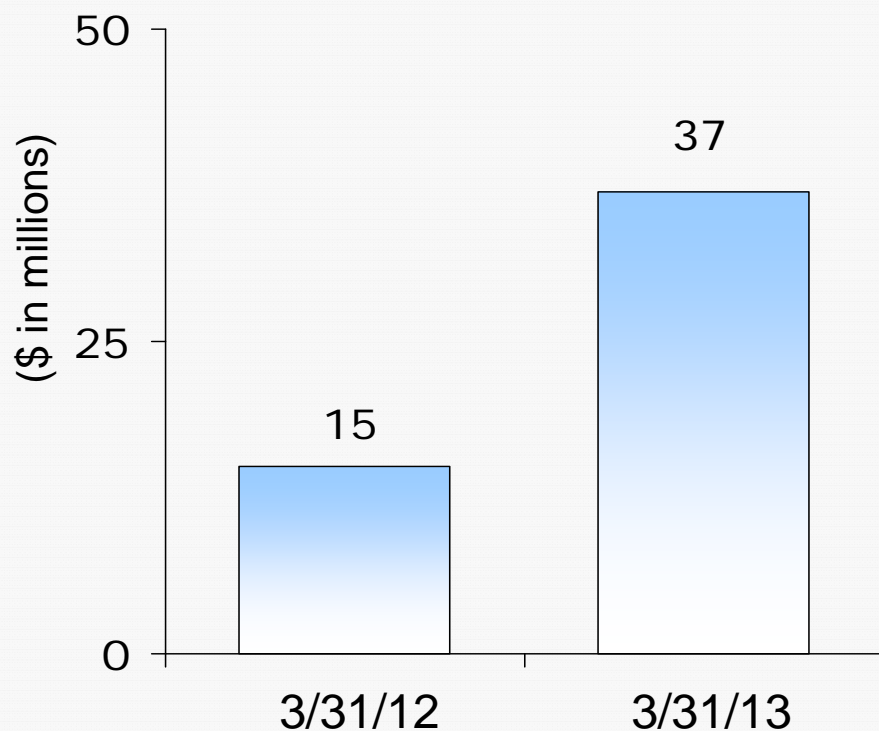
(in millions)

First Quarter Adjusted Operating Earnings

	2013	2012	change	% chg.
North America	\$ 59.4	\$ 43.2	\$ 16.2	38%
Rest of World	<u>\$ 18.2</u>	<u>\$ 14.2</u>	<u>\$ 4.0</u>	28%
Total Operating	\$ 77.6	\$ 57.4	\$ 20.2	35%
Adjusted Corporate	(12.5)	(10.1)	(2.4)	-24%
Adjusted EBIT	<u>\$ 65.1</u>	<u>\$ 47.3</u>	<u>\$ 17.8</u>	38%
<u>Adjusted Operating Margin</u>				
North America	15.7%	12.2%		
Rest of World	13.2%	11.4%		

(in millions, except margins)

Operating Cash Flow: Continuing Operations



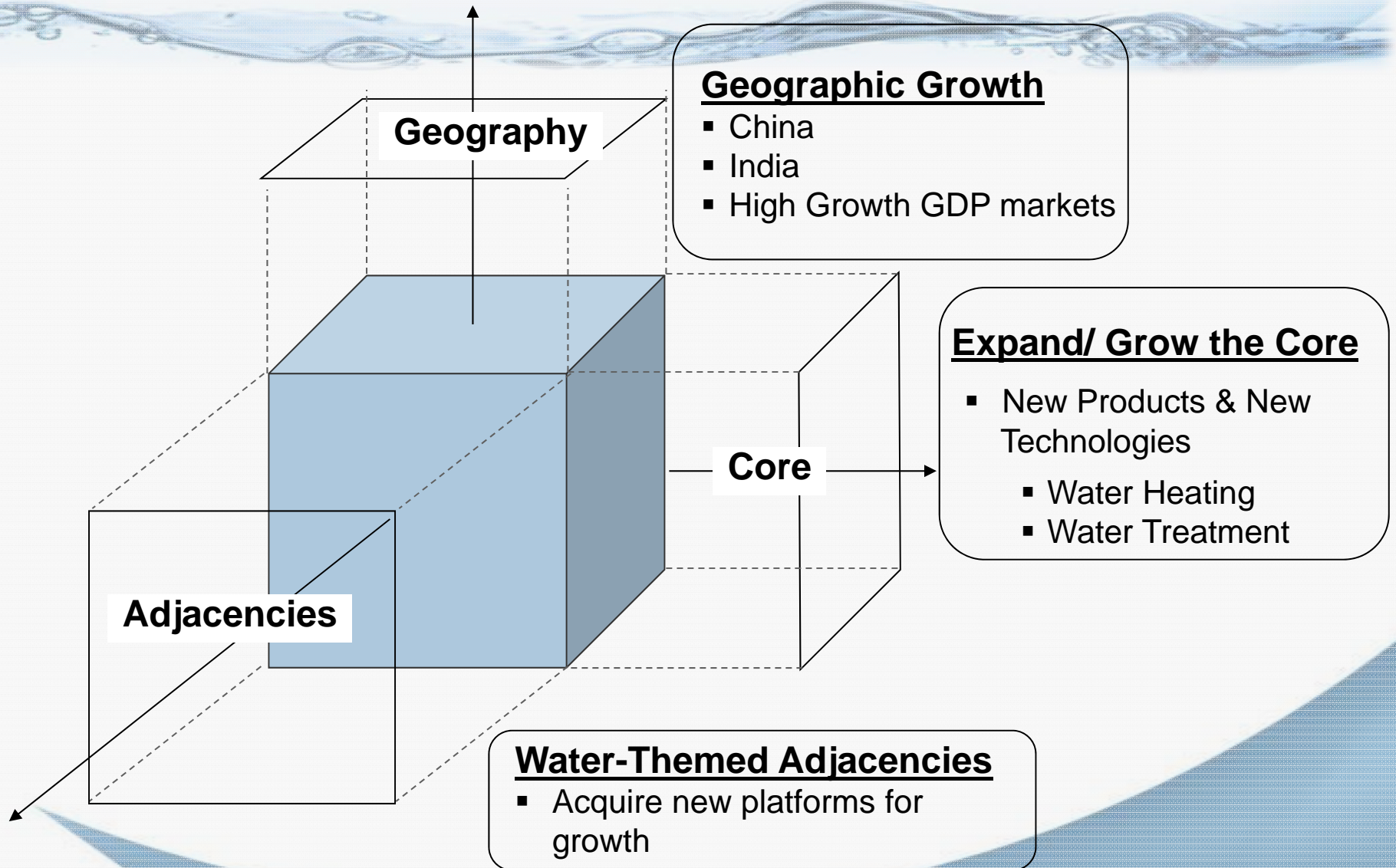
First Quarter Highlights

- ❑ Cash flow of \$37 million
- ❑ Debt to capital ratio of 16%
- ❑ Cash balance: \$451 million
- ❑ Net Cash position: \$222 million
- ❑ Full year 2013 forecast:
 - Cash flow: \$210 to \$230 million
 - CAPX: \$80 to \$90 million
 - D&A: \$55 to \$60 million

2013 Outlook

- ❑ China growth at two times China GDP
- ❑ Transition in North America to higher efficiency boilers continues
 - Lochinvar branded sales growing at 10 percent
 - Seasonality of boiler products for hydronic heating; second half benefit
- ❑ U. S. construction benefit
 - Residential water heater industry volumes up 2.5 percent
 - Commercial water heater industry volumes up slightly
- ❑ Increase adjusted EPS guidance to \$3.40 to \$3.56
 - Excludes restructuring charges, settlement, non-operating pension costs, and acquisitions

A. O. Smith Growth Strategy



Investment Criteria

- Value creation opportunities
- ROIC in excess of cost of capital by second or third year
- Meet risk adjusted IRR hurdle rates
- Margin accretion with growth rates higher than US GDP
- Accretive to earnings in the first year





Answers to your questions . . .



Appendix



Adjusted Earnings & 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,	
	2013	2012
Net Earnings (GAAP)	\$ 39.0	\$ 47.5
Non-operating pension costs	4.8	1.6
Tax effect of non-operating pension costs	(1.8)	(0.6)
Settlement income	(11.0)	-
Tax effect of settlement income	4.2	-
Restructuring and impairment expenses	12.7	-
Tax effect of restructuring and impairment expenses	(3.2)	-
Net gain on shares of stock	-	(27.2)
Tax effect of net gain on share of stock	-	<u>10.4</u>
Adjusted Earnings	<u>\$ 44.7</u>	<u>\$ 31.7</u>
Diluted EPS (GAAP)	\$0.84	\$ 1.02
Non-operating pension costs per diluted share, before tax	0.10	0.03
Tax effect of non-operating pension costs per diluted share	(0.04)	(0.01)
Settlement income per diluted share	(0.24)	-
Tax effect of settlement income per diluted share	0.10	-
Restructuring and impairment expenses per diluted share	0.27	-
Tax effect of restructuring and impairment expenses per diluted share	(0.07)	-
Net gain on shares of stock per diluted share	-	(0.58)
Tax effect of net gain on shares of stock per diluted share	-	<u>0.22</u>
Adjusted EPS	<u>\$ 0.96</u>	<u>\$ 0.68</u>

Adjusted Segment Operating Earnings

(dollars in millions)

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

Segment Operating Earnings (GAAP)

North America

\$ 54.1

\$ 42.2

Rest of World

18.2

14.2

Total Segment Operating Earnings (GAAP)

\$ **72.3**

\$ **56.4**

Adjustments:

North America

\$ 5.3

\$ 1.0

Rest of World

-

-

Total Adjustments

\$ **5.3**

\$ **1.0**

Adjusted Segment Operating Earnings

North America

\$ 59.4

\$ 43.2

Rest of World

18.2

14.2

Total Adjusted Segment Operating Earnings

\$ **77.6**

\$ **57.4**

Additional Information:

Adjustments: North America Segment

Non-operating pension costs

\$ 3.6

\$ 1.0

Settlement income

(11.0)

-

Restructuring and impairment expenses

12.7

-

Total North America Segment Adjustments

\$ **5.3**

\$ **1.0**

Three Months Ended March 31,
2013

2012

Three Months Ended March 31,
2013

2012

Adjusted EPS & Adjusted 2013 EPS Guidance

The following is a reconciliation of diluted EPS from continuing operations to adjusted EPS from continuing operations (non-GAAP):

	Guidance	2012
Diluted EPS (GAAP)	\$3.00 - 3.16	\$ 3.49
Non-operating pension costs per diluted share, net of tax	0.25	0.09
Settlement income per diluted share, net of tax	(0.14)	(0.06)
Restructuring and impairment expenses per diluted share, net of tax	0.29	-
Gain on shares of stock per diluted share, net of tax	-	(0.36)
Gain on contingent consideration adjustment per diluted share, net of tax	-	<u>(0.04)</u>
Adjusted EPS	<u>\$3.40 - 3.56</u>	<u>\$ 3.12</u>