



Second Quarter 2015 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: uncertain costs, savings and timeframes associated with the implementation of the new enterprise resources planning system; 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 or maintain 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 growth rate of the Chinese economy; foreign currency fluctuations and adverse general economic conditions and capital market deterioration in the U. S., Canada and China.

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# Second Quarter Highlights

- ▶ Record sales of \$654 million
  - Revenue ten percent higher
  - China sales up 15 percent
  
- ▶ Record net earnings of \$.79 per share
  - Increase of 20 percent over \$.66\* per share last year
  
- ▶ Cash returned to shareholders
  - Share repurchase totaled \$27 million
  
- ▶ NAECA III transition complete

\* Excludes \$.03 per share non-operating pension costs



# Second Quarter Results

(\$ in millions)

	2015	2014	change	% chg.
Sales	\$ 653.5	\$ 595.4	\$ 58.1	10%
Net Earnings	71.1	57.3		
Non-operating Pension (after-tax)		3.0		
Adjusted Earnings	\$ 71.1	\$ 60.3	\$ 10.8	18%



## Second Quarter EPS

	2015	2014	change	% chg.
EPS	\$ 0.79	\$ 0.63		
Non-operating Pension	<u>      </u>	<u>0.03</u>		
Adjusted EPS	<u><u>\$ 0.79</u></u>	<u><u>\$ 0.66</u></u>	\$ 0.13	20%



# Second Quarter Sales

(\$ in millions)

	2015	2014	change	% chg.
North America	\$ 442.7	\$ 410.1	\$ 32.6	8%
Rest of World	221.3	193.6	\$ 27.7	14%
Intersegment	<u>(10.5)</u>	<u>(8.3)</u>	<u>\$ (2.2)</u>	
Total	<u>\$ 653.5</u>	<u>\$ 595.4</u>	<u>\$ 58.1</u>	10%



# Second Quarter Operating Earnings

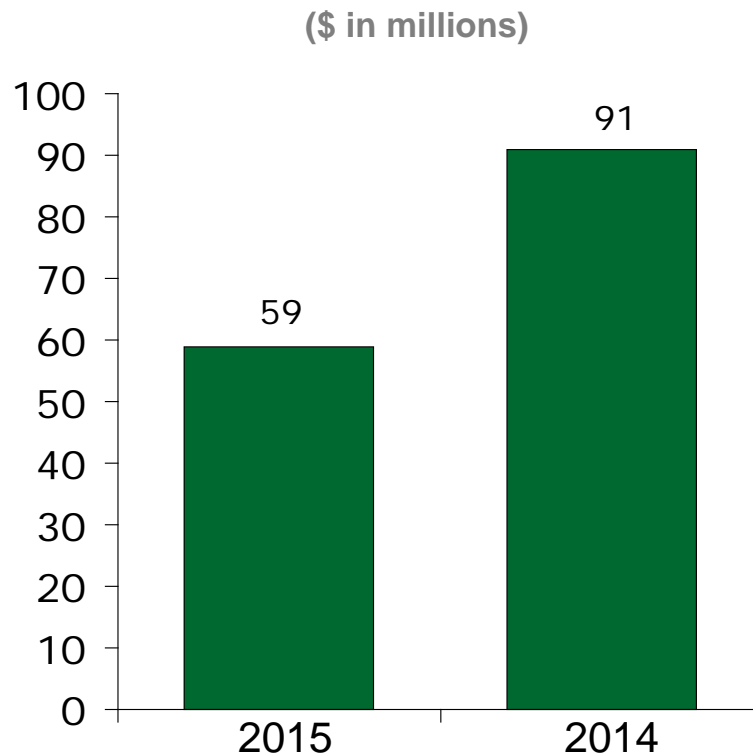
(\$ in millions, except margins)

	2015	2014	change	% chg.
North America	\$ 86.0	\$ 67.1 *	\$ 18.9	28%
Rest of World	<u>30.9</u>	<u>29.3</u>	<u>1.6</u>	5%
Total Operating	116.9	96.4	20.5	21%
Corporate	(11.2)	(11.4) **	0.2	2%
Interest Expense	<u>(2.5)</u>	<u>(1.4)</u>	<u>(1.1)</u>	-79%
Pre-tax Earnings	103.2	83.6	19.6	23%
Income Tax Expense	<u>(32.1)</u>	<u>(23.3)</u>	<u>(8.8)</u>	-38%
Earnings	<u><u>\$ 71.1</u></u>	<u><u>\$ 60.3</u></u>	<u><u>\$ 10.8</u></u>	18%
<u>Operating Margin</u>				
North America	19.4%	16.4% *		
Rest of World	14.0%	15.1%		

\* Excludes \$3.9 million non-operating pension costs in 2014

\*\* Excludes \$1.1 million non-operating pension costs in 2014

# Operating Cash Flow from Continuing Operations



## First Half 2015 Update

- ▶ Cash flow of \$59 million
- ▶ Debt to capital ratio of 16%
- ▶ Cash balance: \$552 million
- ▶ Net cash position: \$273 million
- ▶ Stock repurchase: 730,000 shares totaling \$47 million





# Relevant Data Points

(\$ in millions)

## 2015 Projections

Operating Cash Flow	\$300
Capital Expenditures	\$100 to \$110
Depreciation and Amortization	\$65
ERP Implementation Expense	\$19 to \$20
Tax Rate	30.5%
Corporate/Other Expense	\$45

*As of July 23, 2015*



# 2015 EPS Guidance and Adjusted 2014 EPS

The following is a reconciliation of diluted EPS to adjusted EPS (non-GAAP) (all items are net of tax):	2015 Guidance	2014
<b>Diluted EPS (GAAP)</b>	\$3.04- \$3.09	\$ 2.29
Non-operating pension costs per diluted share		<u>0.14</u>
<b>Adjusted EPS</b>		\$ <u>2.43</u>

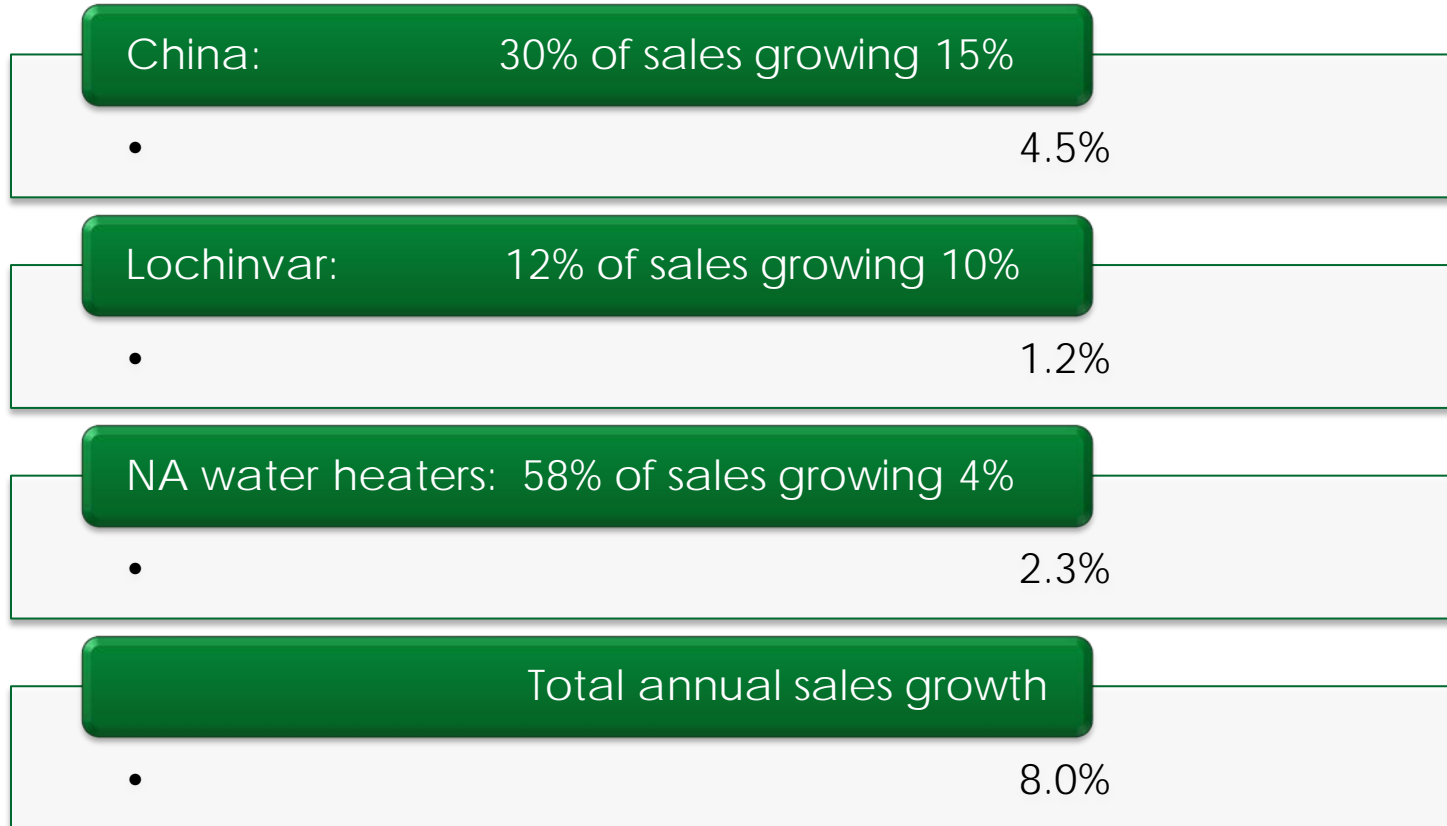
*As of July 23, 2015*

# 2015 Outlook

- ▶ China revenue grows at two times China GDP
- ▶ North America
  - ▶ Price increase effective in April
  - ▶ NAECA III transition complete
  - ▶ Residential and commercial water heater volumes improve year over year
- ▶ Lochinvar branded annual sales growth of 10 percent
  - Transition in North America to higher efficiency boilers continues
- ▶ Leverage brand and distribution in China
  - Introduce A. O. Smith air purifiers
- ▶ Continued commitment to India
  - Focused water treatment launch

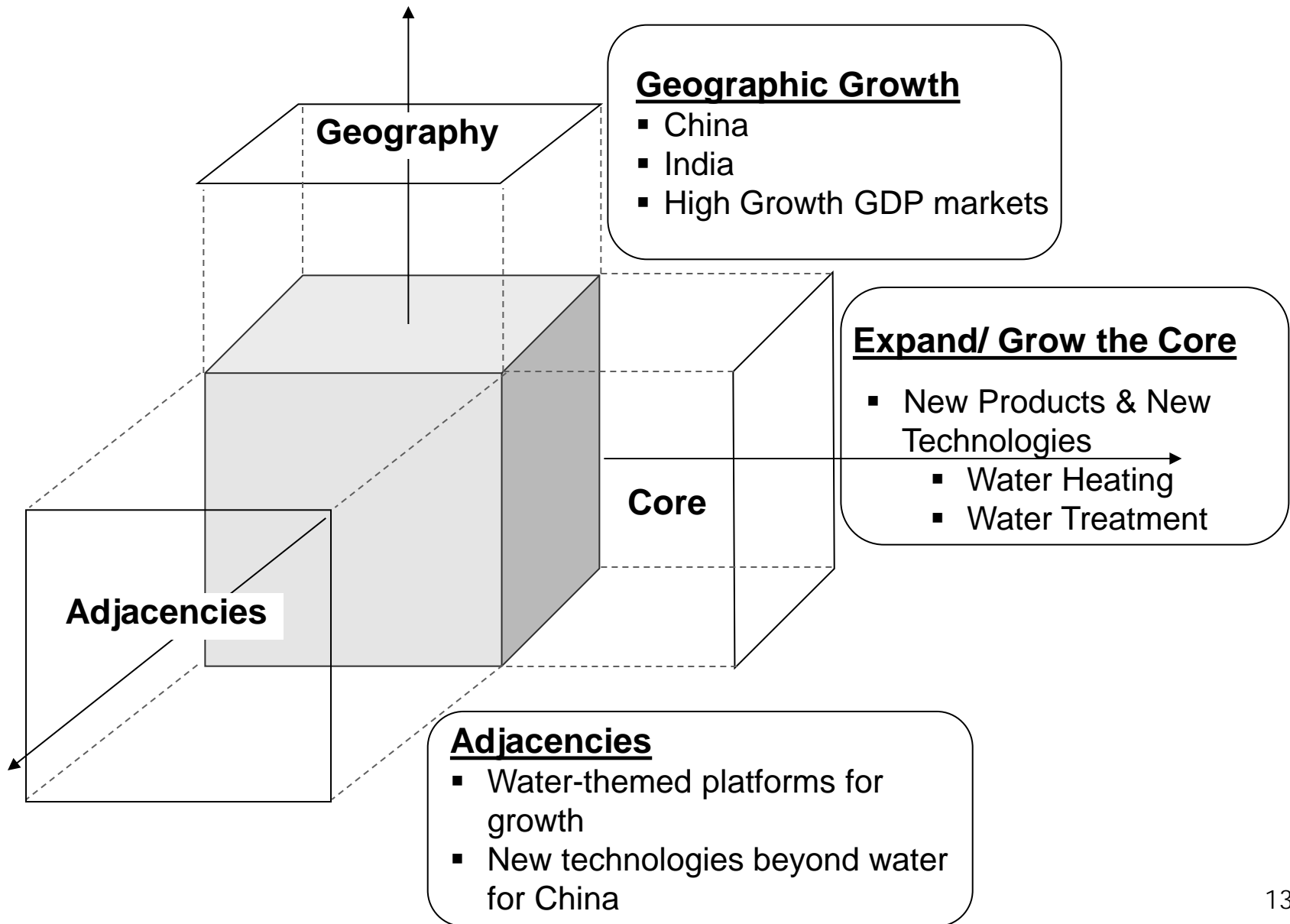
*July 23, 2015*

# Growth Strategy: Organic Growth



Note: NA water heater growth expected to exceed 4 percent in 2015, as a result of April 2015 pricing actions in the U. S. and Canada, and result in total company sales growth of approximately 11 percent in 2015

# Growth Strategy: Acquisitions



# 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 U. S. GDP
- ▶ Accretive to earnings in the first year





*Answers to your questions...*