



Third Quarter 2012 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: difficulties in achieving the disclosed global expansion opportunities related to the Lochinvar acquisition; 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; further weakening in U. S. residential and commercial construction; timing 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”.

Third Quarter Highlights

- ◆ Sales of \$462 million
 - ◆ 12 percent increase; \$63 million from Lochinvar
 - ◆ China branded sales still growing, up 22% to \$109 million
- ◆ Earnings of \$.71 per share; excluding gain related to Lochinvar earn-out adjustment
 - ◆ Lochinvar contributed as expected
 - ◆ Non-cash earn-out adjustment of \$.08 per share
- ◆ 2015 Growth Aspirations announced at our Analyst Day
- ◆ Ajita Rajendra named CEO effective Jan 1, 2013

Third Quarter Results: Continuing Operations

	2012	2011	change	% chg.
Sales	\$ 462.2	\$ 412.0	\$ 50.2	12%
Earnings	37.0	26.9		
EPS	\$ 0.79	\$ 0.58		
One-time items	<u>\$ (0.08)</u>	<u>\$ (0.19)</u>		
Adjusted EPS	\$ 0.71	\$ 0.39	\$ 0.32	82%

(in millions, except per share)

Third Quarter Sales: Continuing Operations

	2012	2011	change	% chg.
North America	\$ 335.7	\$ 310.2	\$ 25.5	8%
Rest of World	133.8	110.5	\$ 23.3	21%
Intersegment	<u>(7.3)</u>	<u>(8.7)</u>	<u>\$ 1.4</u>	
Total	462.2	412.0	\$ 50.2	12%

(in millions)

Third Quarter Operating Earnings:

Continuing Operations

	2012	2011	change	% chg.
North America	\$ 50.7	\$ 30.9		
Adjustment*	\$ (6.4)			
Adj North America	\$ 44.3	\$ 30.9	\$ 13.4	43%
Rest of World	\$ 12.7	\$ 9.0	\$ 3.7	41%
Total Operating	\$ 57.0	\$ 39.9	\$ 17.1	43%
Corporate/Other Adjustments*	(9.5)	2.4		
		(12.0)		
Adjusted Corporate	(9.5)	(9.6)	0.1	1%
Adjusted EBIT	\$ 47.5	\$ 30.3	\$ 17.2	57%

(in millions, except margins)

Adjusted Operating Margin

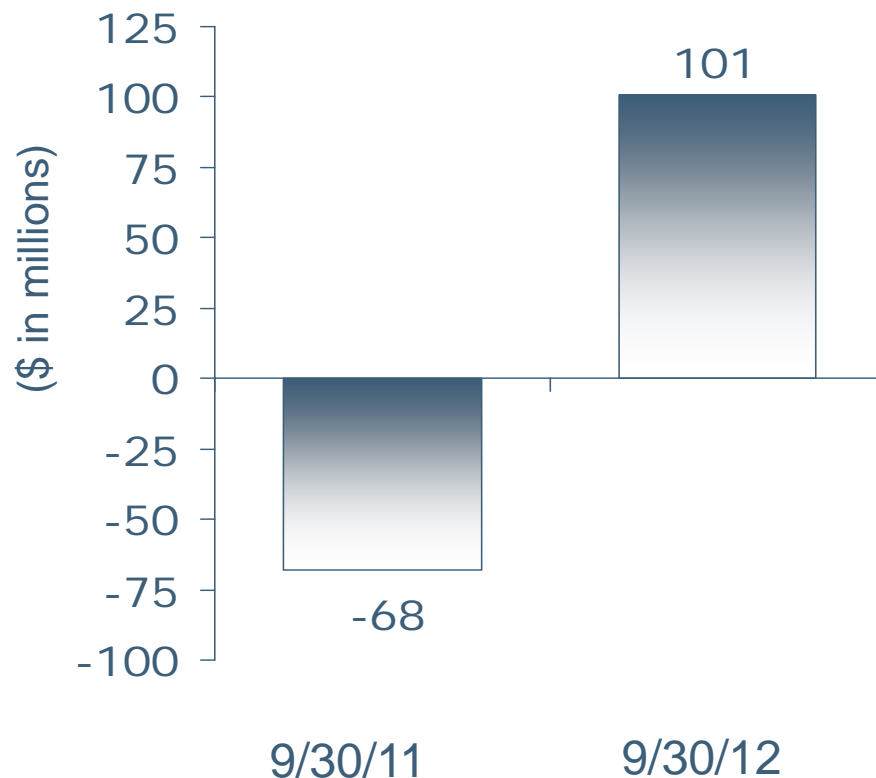
North America	13.2%	10.0%
Rest of World	9.5%	8.1%



*2012: adjustment to Lochinvar purchase accounting estimate; 2011: the impact from the RBC Shares was a \$16.4 mm gain and the Lochinvar acquisition professional fees were \$4.4 mm, which are included in corporate expense

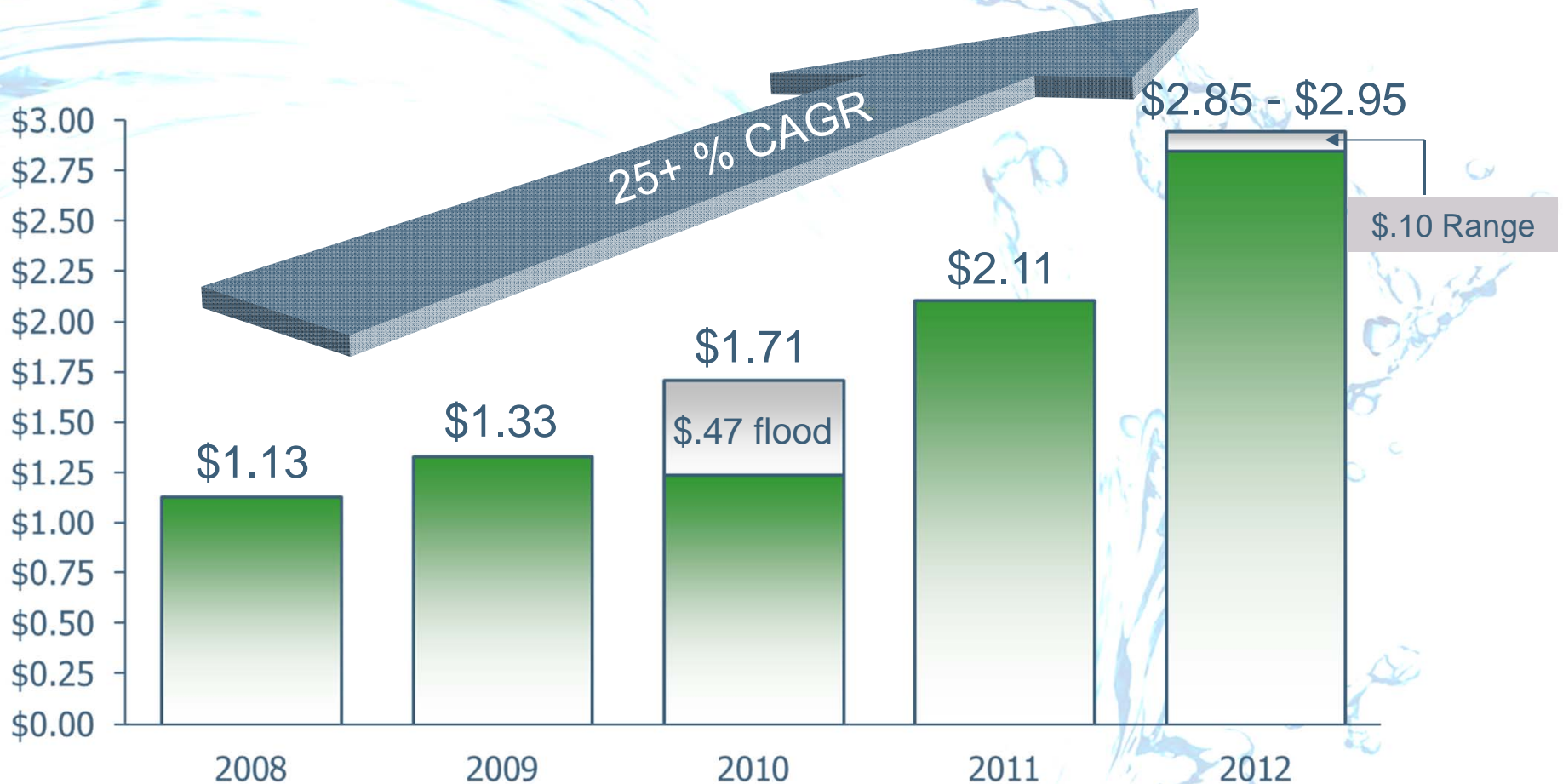
Operating Cash Flow: Continuing Operations

Third Quarter Highlights



- Cash flow of \$101 million;
- Debt to capital ratio of 19%
- Cash balance: \$482 million
- Net Cash position: over \$200 million
- Full year 2012 forecast:
 - ~ Cash flow: \$155 to 165 million
 - ~ CAPX: \$65 to \$75 million
 - ~ D&A: \$55 million

2012 EPS Forecast



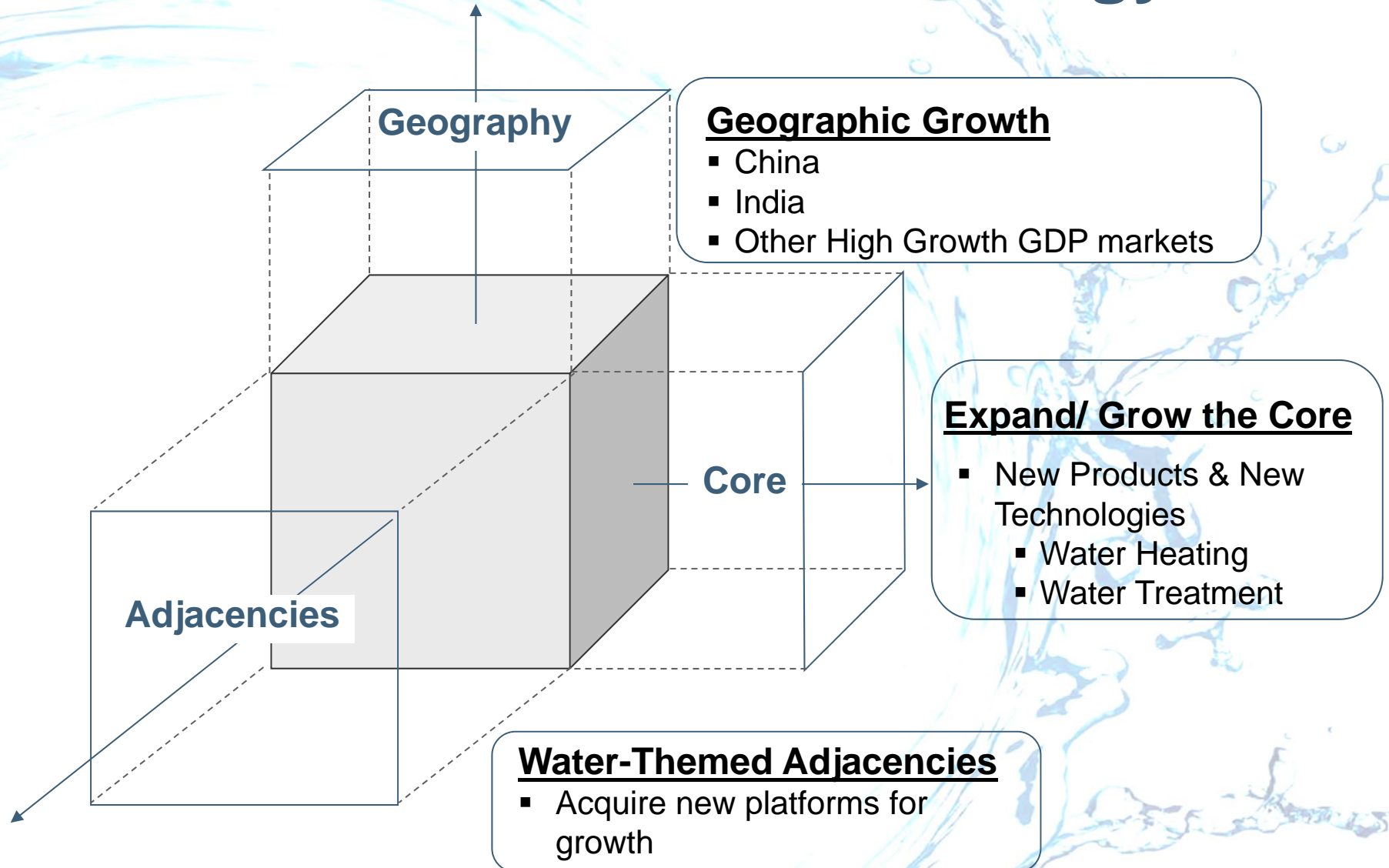
All periods are Continuing Operations Only and Non-GAAP

2011 excludes the impact from the second quarter one-time settlement and increase to the warranty reserve and the hedged RBC shares. 2012 excludes the impact from future acquisitions, the gain on the sale of RBC shares and the adjustment to the Lochinvar earn-out.

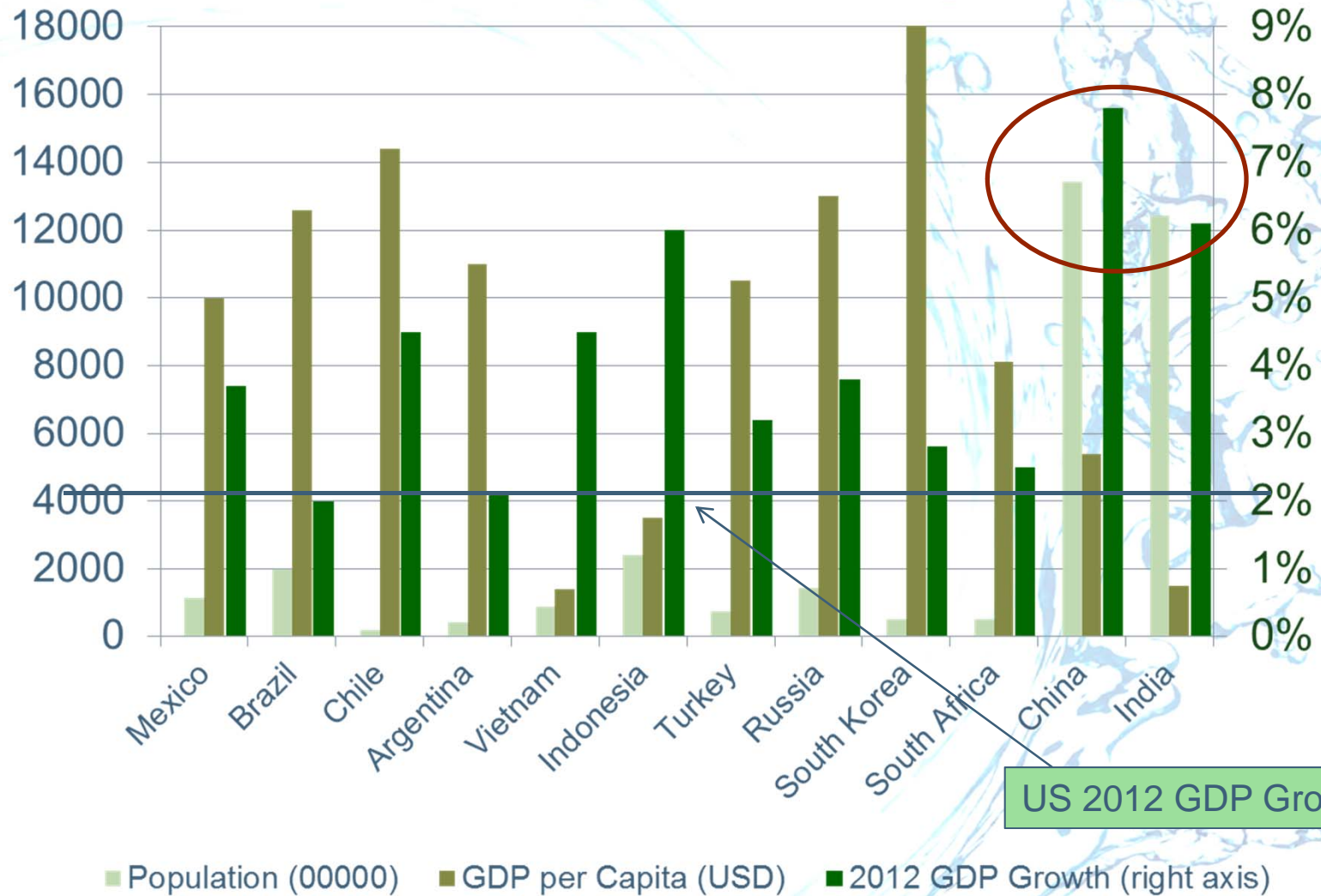
2012 Outlook

- ◆ China growth greater than 15%
- ◆ Transition in North America to higher efficiency boilers
 - ◆ Lochinvar will grow approximately 10%
- ◆ Stable North American replacement market
 - ◆ Commercial units similar to last year
 - ◆ Residential units down slightly year to date
- ◆ Minimal exposure to Europe

A. O. Smith Growth Strategy




Geographic Expansion: Higher Growth Regions



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**