



First Quarter 2017 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: a further slowdown in the growth rate of the Chinese economy or a decline in the growth rate of consumer spending in China; 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 future 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” .



First Quarter Highlights

- **Record sales of \$740 million**
 - Revenue 16 percent higher; up 18 percent in local currency
- **China sales up 27 percent in local currency**
 - A. O. Smith branded water treatment grew over 50 percent in local currency
- **Record net earnings of \$0.50 per share**
 - Increase of 22 percent over \$0.41 per share last year
- **Cash returned to shareholders**
 - Share repurchase totaled approximately \$30 million
 - 17 percent dividend increase in January, 2017



First Quarter Results

\$ in millions

	2017	2016	change	% chg.
Sales	\$740.0	\$636.9	\$103.1	16%
Net Earnings	\$ 87.7	\$ 73.5	\$ 14.2	19%
Earnings per Share	\$ 0.50	\$ 0.41	\$ 0.09	22%



First Quarter Sales

\$ in millions

	2017	2016	change	% chg.
North America	\$ 487.3	\$ 423.9	\$ 63.4	15%
Rest of World	259.5	217.4	\$ 42.1	19%
Intersegment	<u>(6.8)</u>	<u>(4.4)</u>	<u>\$ (2.4)</u>	
Total	<u>\$ 740.0</u>	<u>\$ 636.9</u>	<u>\$ 103.1</u>	16%



First Quarter Earnings

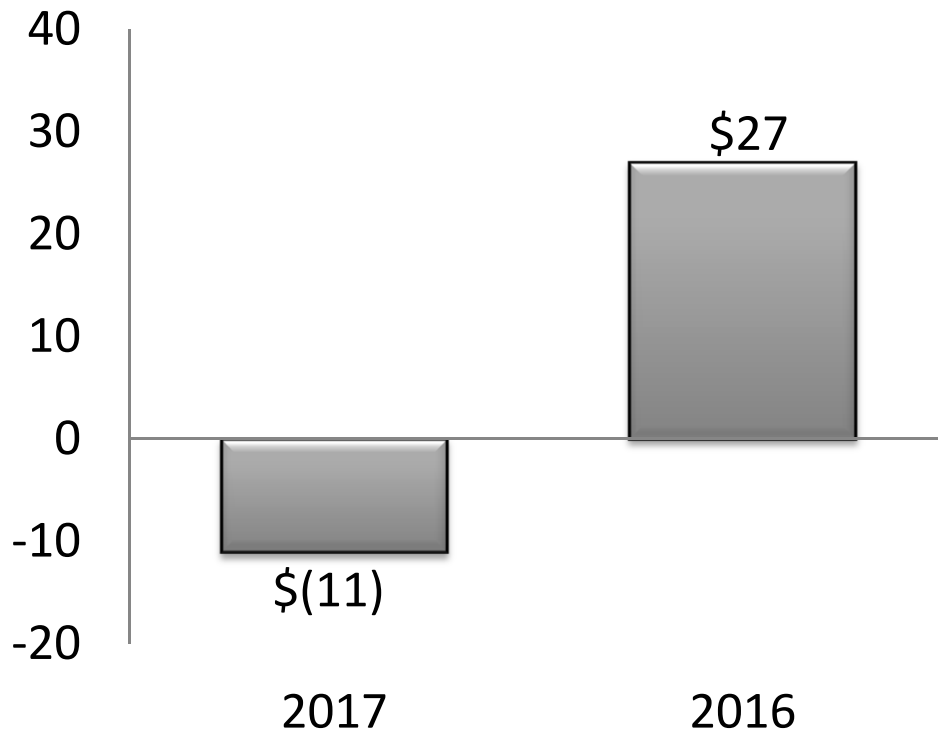
\$ in millions, except percentages

	2017	2016	change	% chg.
North America	\$ 104.2	\$ 91.9	\$ 12.3	13%
Rest of World	32.5	26.9	5.6	21%
Inter-segment	<u>(0.1)</u>	<u>(0.1)</u>	<u>-</u>	0%
Total Operating	136.6	118.7	17.9	15%
Corporate	(14.0)	(13.4)	(0.6)	-4%
Interest Expense	<u>(2.2)</u>	<u>(1.7)</u>	<u>(0.5)</u>	-29%
Pre-tax Earnings	120.4	103.6	16.8	16%
Income Tax Expense	<u>(32.7)</u>	<u>(30.1)</u>	<u>(2.6)</u>	-9%
Earnings	<u><u>\$ 87.7</u></u>	<u><u>\$ 73.5</u></u>	<u><u>\$ 14.2</u></u>	19%
<u>Operating Margin</u>				
North America	21.4%	21.7%		
Rest of World	12.5%	12.4%		



Cash Flow from Operations

(\$ in millions)

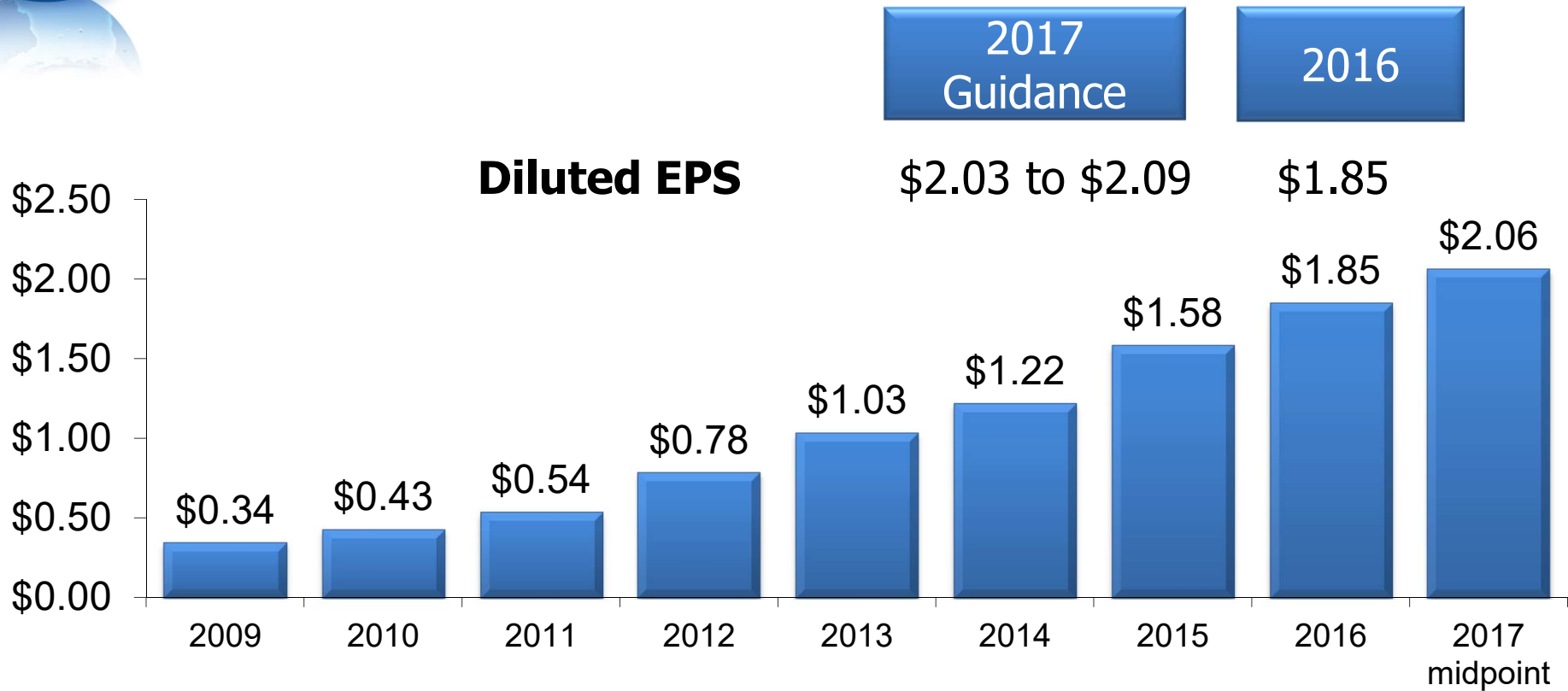


Highlights

- Operating cash used by operations of \$11 million
- Debt to capital ratio of 19%
- Cash balance: \$722 million
- Net cash position: \$353 million
- Stock repurchase: 606,850 shares totaling \$30 million



2017 EPS Guidance and 2016 EPS



Note: 2009 through 2014 are adjusted EPS and all years are adjusted for 2 for 1 stock split

As of April 27, 2017



2017 Assumptions

(\$ in millions)

2017 Projections

Operating Cash Flow	approx \$375
Capital Expenditures	approx \$100
Depreciation and Amortization	approx \$70
Expenses related to ERP Implementation	approx \$17.5
Corporate/Other Expense	approx \$47
Effective Tax Rate	28.75 to 29%
Stock Repurchase	approx \$135 *
Share Count - Diluted	approx 174.5 million

* subject to acquisitions, cash flow and working capital needs

As of April 27, 2017

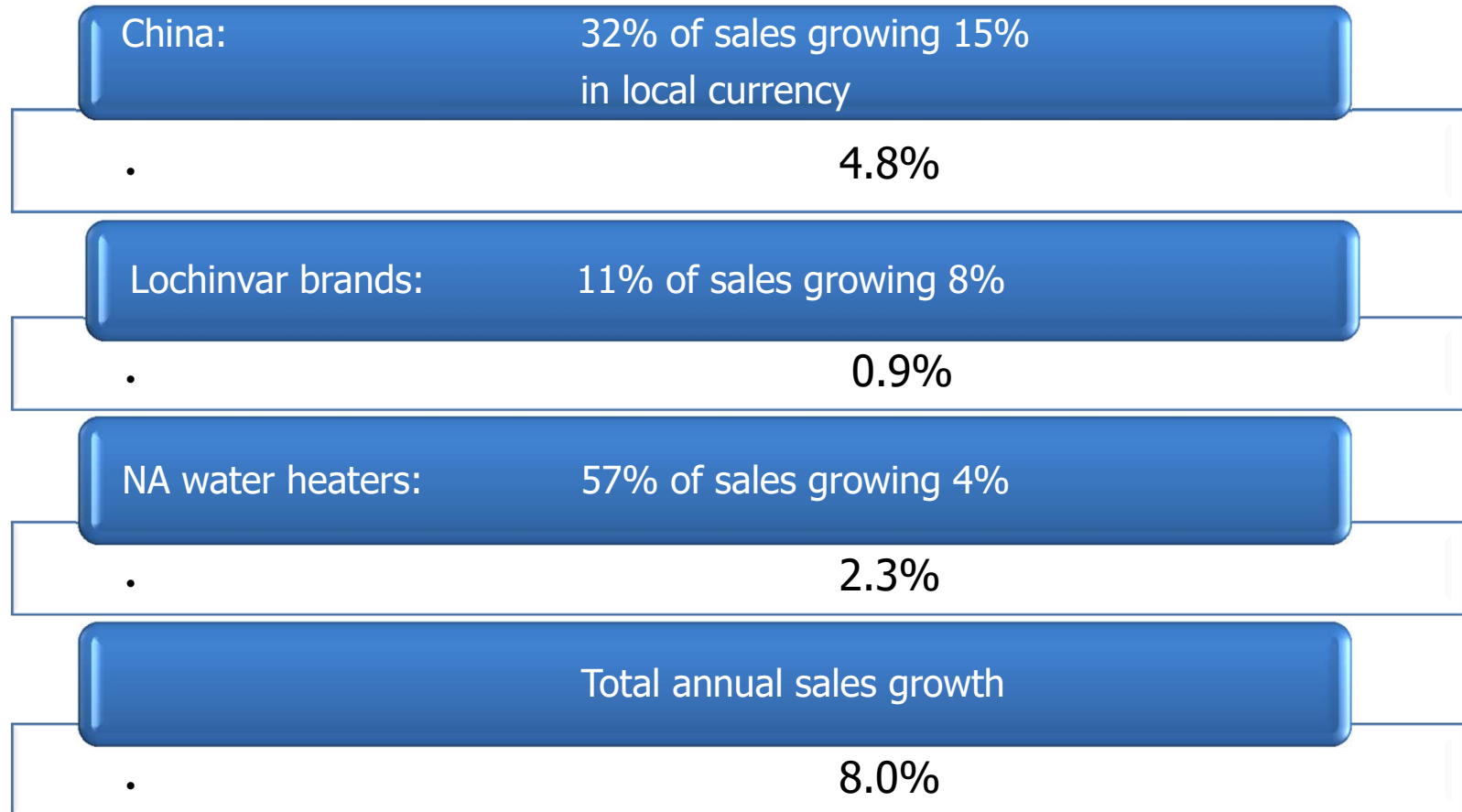


2017 Outlook

- Revenue growth between 10.5 to 11.5 percent in local currency terms; 9 to 10 percent in USD
 - Aquasana sales incrementally add nearly \$40 million
 - Depreciation assumed for the CNY against the USD, resulting in five percent headwind to average rate in 2016
- North America
 - U.S. residential water heater industry volumes increase approximately 200,000 units; U.S. commercial water heater industry volumes up modestly
 - Lochinvar-branded product sales growth of over 8 percent
 - Steel prices remain volatile
 - Operating margin expected to be between 21.50 and 22 percent
- Rest of World
 - China at least 15 percent local currency sales growth
 - Smaller losses in India than in 2016
 - Approaching breakeven of air purification products
 - Operating margin at least 14 percent



Growth Strategy: Organic Growth





Answers to your questions...

