



Second Quarter 2016 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; 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; uncertain costs, savings and timeframes associated with the implementation of our new enterprise resources planning system; foreign currency fluctuations; ability to execute our acquisition strategy; competitive pressures on our businesses; and adverse general economic conditions and capital market deterioration in the U. S., Canada and China.

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” .

Second Quarter Highlights



- ▶ Record sales of \$667 million
 - Revenue two percent higher; up four percent in local currency
- ▶ China sales up 16 percent in local currency
- ▶ Record net earnings of \$.98 per share
 - Increase of 24 percent over \$.79 per share last year
- ▶ Cash returned to shareholders
 - Share repurchase year to date totaled \$82 million; expect \$175 million share repurchase in 2016
 - 26 percent dividend increase in January

Second Quarter Results



(\$ in millions)

2016

2015

change

% chg.

Sales

\$ 667.0

\$ 653.5

\$ 13.5

2%

Net Earnings

\$ 87.1

\$ 71.1

\$ 16.0

23%

Earnings per Share

\$ 0.98

\$ 0.79

\$ 0.19

24%

Second Quarter Sales



(\$ in millions)	2016	2015	change	% chg.
North America	\$ 432.8	\$ 442.7	\$ (9.9)	-2%
Rest of World	239.8	221.3	\$ 18.5	8%
Intersegment	<u>(5.6)</u>	<u>(10.5)</u>	<u>\$ 4.9</u>	
Total	<u>\$ 667.0</u>	<u>\$ 653.5</u>	<u>\$ 13.5</u>	2%

Second Quarter Earnings

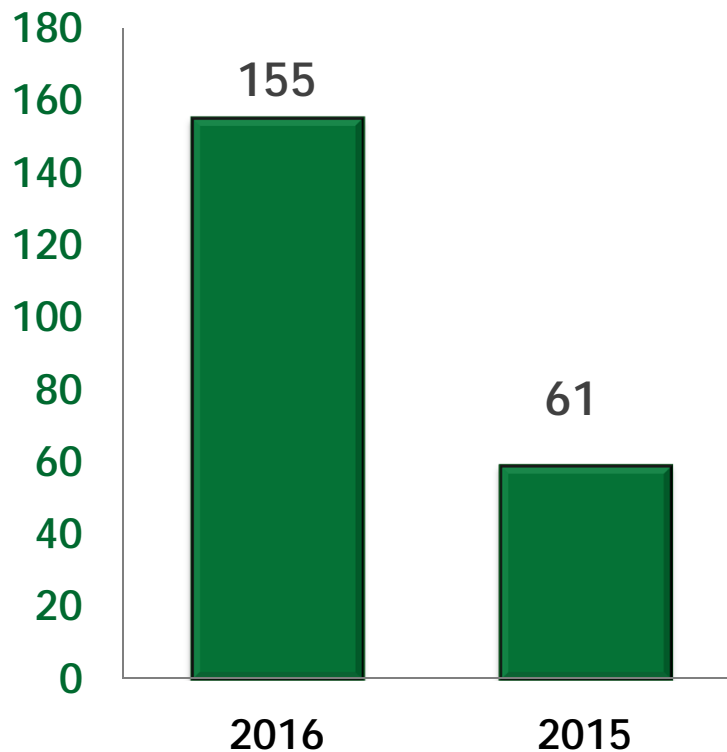


(\$ in millions, except percentages)	2016	2015	change	% chg.
North America	\$ 104.2	\$ 86.0	\$ 18.2	21%
Rest of World	<u>33.0</u>	<u>30.9</u>	<u>2.1</u>	7%
Total Operating	137.2	116.9	20.3	17%
Corporate	(11.2)	(11.2)	-	0%
Interest Expense	<u>(1.9)</u>	<u>(2.5)</u>	<u>0.6</u>	24%
Pre-tax Earnings	124.1	103.2	20.9	20%
Income Tax Expense	<u>(37.0)</u>	<u>(32.1)</u>	<u>(4.9)</u>	-15%
Earnings	<u>\$ 87.1</u>	<u>\$ 71.1</u>	<u>\$ 16.0</u>	23%
<u>Operating Margin</u>				
North America	24.1%	19.4%		
Rest of World	13.8%	14.0%		

Cash Flow from Operations



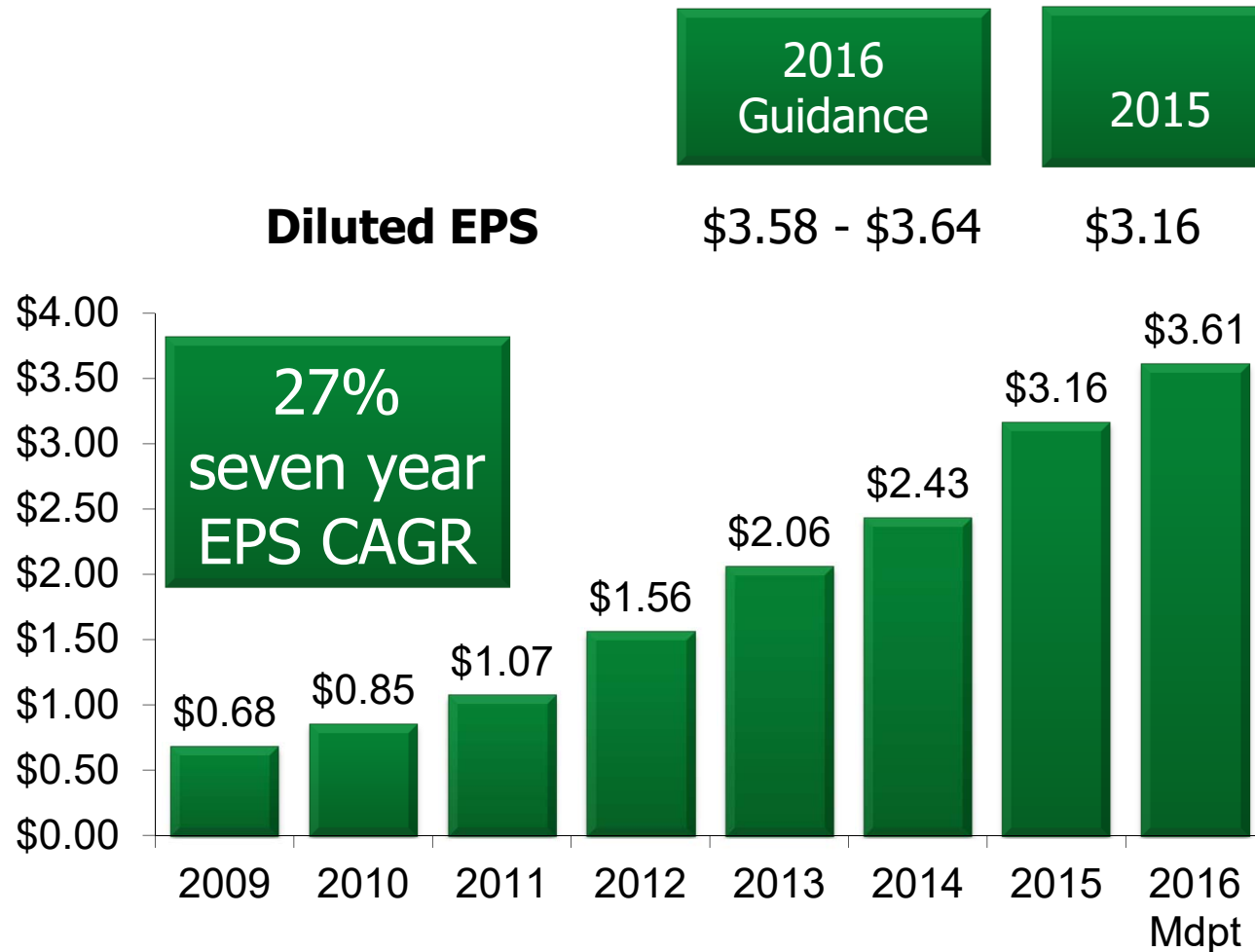
(\$ in millions)



First Half Highlights

- ▶ Operating cash flow of \$155 million
- ▶ Debt to capital ratio of 16%
- ▶ Cash balance: \$667 million
- ▶ Net cash position: \$385 million
- ▶ Stock repurchase: 1.1 million shares totaling \$82 million

2016 EPS Guidance and 2015 EPS



Note: 2009 through 2014 are adjusted EPS

As of July 26, 2016

2016 Assumptions



(\$ in millions)

2016 Projections

Capital Expenditures	\$105 to \$115
Stock Repurchase	approx \$175 *
Depreciation and Amortization	approx \$70
Costs related to ERP Implementation	approx \$25
Corporate/Other Expense	\$47
Effective Tax Rate	approx 30%
Share Count - Diluted	slightly over 88 million
Voluntary Pension Contribution	\$30

*subject to acquisitions, cash flow and working capital needs

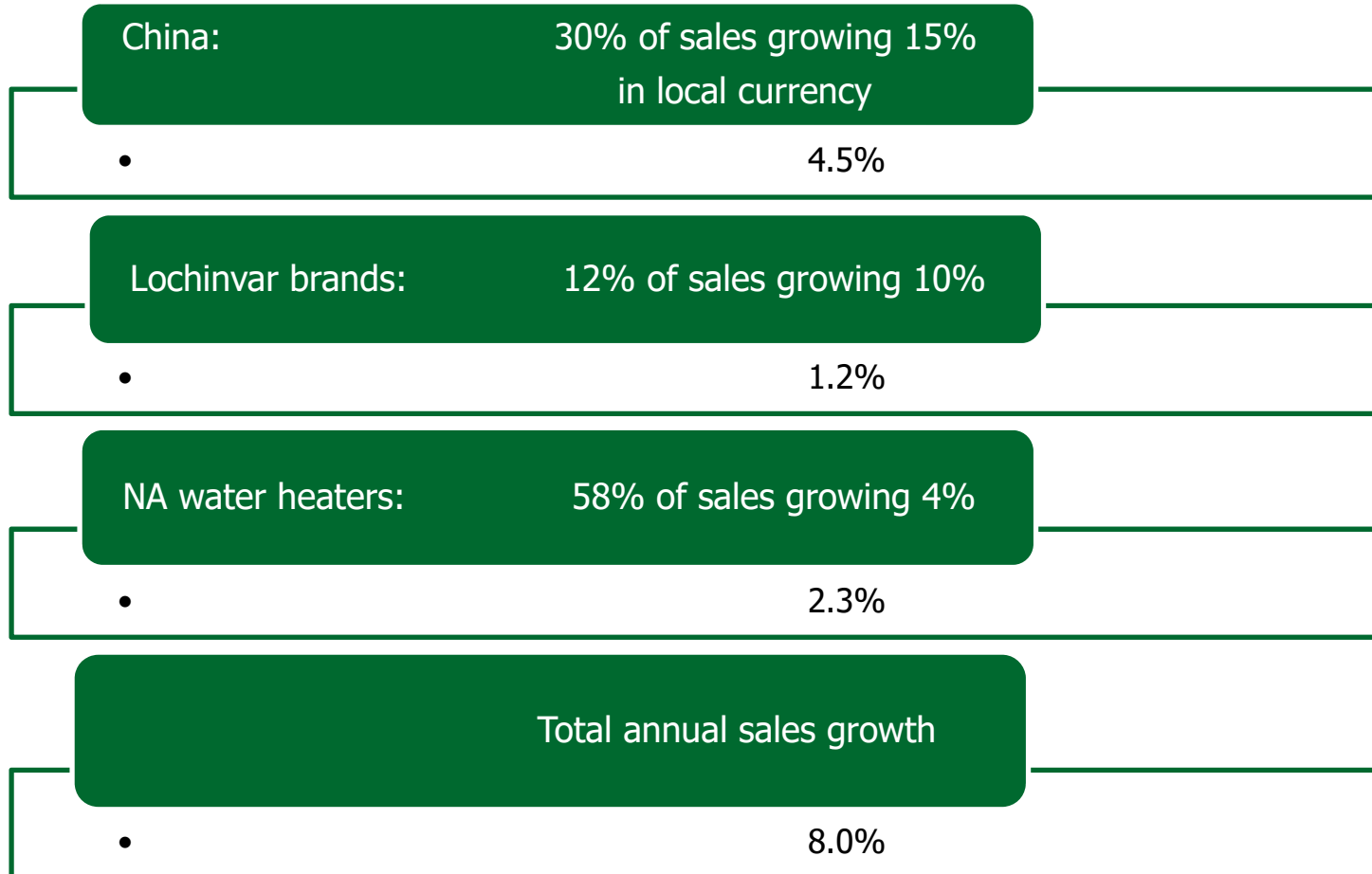
As of July 26, 2016

2016 Outlook



- ▶ Organic growth of approximately 8 to 8.5 percent in local currency; 6 to 6.5 percent in USD
- ▶ Currency assumptions at current rates, with continued depreciation assumed for CNY against the USD
- ▶ North America
 - ▶ U.S. wholesale pricing actions 5-8 percent, effective August 1
 - ▶ Steel prices remain firm
 - ▶ U.S. residential water heater volume 8.9 million units – similar to 2015; U.S. commercial volumes increase over 20 percent driven by increase in 55 to 90 gallon electric commercial water heaters
 - ▶ Lochinvar–branded product sales growth of six percent
 - ▶ Incremental ERP costs of \$9 million compared with 2015
 - ▶ Operating margin expected to be between 21.5 and 22 percent
- ▶ Rest of World
 - ▶ China sales growth model of 15 percent in local currency in tact
 - ▶ Operating margin expected to be 13 percent; similar to 2015

Growth Strategy: Organic Growth



Answers to your questions...

