



AO Smith[®]

First Quarter 2014 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”, “aspirations”, 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 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 of 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.) or “Non-GAAP” .



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

- ▶ Record first quarter sales of \$552 million
 - Revenue eight percent higher
 - China exceeded expectations; sales up 25 percent

- ▶ Adjusted earnings of \$.54 per share
 - Increase of 13 percent over \$.48 per share last year

- ▶ Cash returned to shareholders
 - 25 percent dividend increase in January
 - Share repurchase totaled \$21 million
 - Board authorizes 1.5 million additional share repurchases



First Quarter Results

	2014	2013	change	% chg.
Sales	\$ 552.2	\$ 509.6	\$ 42.6	8%
Net Earnings	46.7	39.0		
Non-operating Pension (after-tax)	3.0	3.0		
Other adjustments (see below)	-	2.7		
Adjusted Earnings	\$ 49.7	\$ 44.7	\$ 5.0	11%

Other adjustments (after-tax)
 2013: \$9.5 restructuring & impairment expenses & \$6.8 settlement income

(\$ in millions)



First Quarter Adjusted EPS

	2014	2013	change	% chg.
EPS	\$0.51	\$0.42		
Non-operating Pension	0.03	0.03		
Other adjustments (see below)	<u>-</u>	<u>0.03</u>		
Adjusted EPS	<u><u>\$0.54</u></u>	<u><u>\$0.48</u></u>	\$ 0.06	13%

Other adjustments:

2013: \$.10 per share restructuring & impairment expenses & \$.07 per share settlement income



First Quarter Sales

	2014	2013	change	% chg.
North America	\$ 388.5	\$ 378.7	\$ 9.8	3%
Rest of World	172.8	138.3	\$ 34.5	25%
Intersegment	<u>(9.1)</u>	<u>(7.4)</u>	<u>\$ (1.7)</u>	
Total	<u>\$ 552.2</u>	<u>\$ 509.6</u>	<u>\$ 42.6</u>	8%

(\$ in millions)



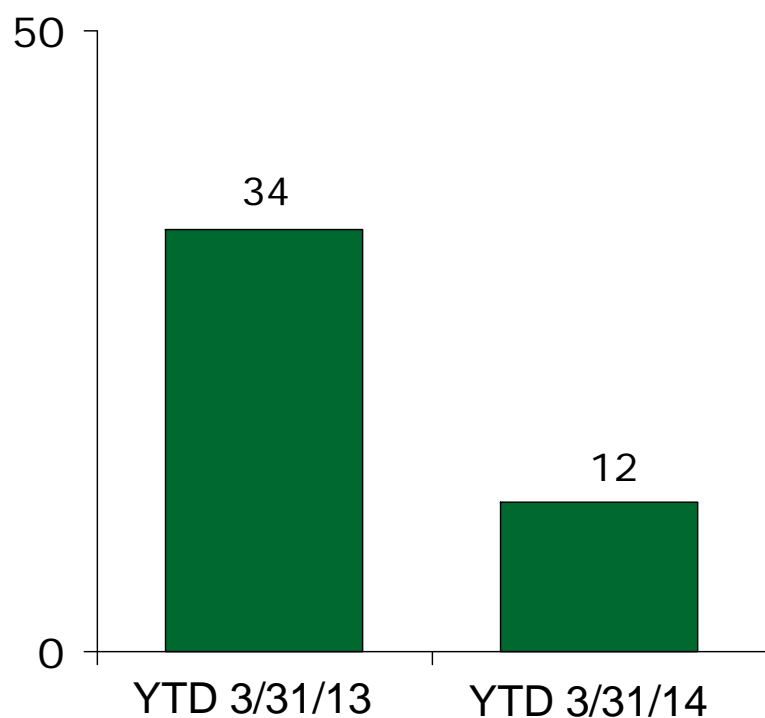
First Quarter Adjusted Earnings

	2014	2013	change	% chg.
North America	\$ 59.1	\$ 59.4	\$ (0.3)	nil
Rest of World	<u>25.1</u>	<u>18.2</u>	<u>6.9</u>	38%
Total Operating	84.2	77.6	6.6	9%
Adjusted Corporate	(13.1)	(12.5)	(0.6)	-5%
Interest Expense	<u>(1.4)</u>	<u>(1.5)</u>	<u>0.1</u>	7%
Adjusted Pre-tax Earnings	69.7	63.6	6.1	10%
Income Tax Expense	<u>(20.0)</u>	<u>(18.9)</u>	<u>(1.1)</u>	-6%
Adjusted Earnings	<u><u>\$ 49.7</u></u>	<u><u>\$ 44.7</u></u>	<u><u>\$ 5.0</u></u>	11%
<u>Adjusted Operating Margin</u>				
North America	15.2%	15.7%		
Rest of World	14.5%	13.2%		

(\$ in millions, except margins)



Operating Cash Flow



\$ in millions

First Quarter Highlights

- ▶ Cash flow of \$12 million
- ▶ Debt to capital ratio of 15%
- ▶ Cash balance: \$473 million
- ▶ Net cash position: \$246 million
- ▶ Stock repurchase: 450,000 shares totaling \$21 million



Adjusted 2014 EPS Guidance and Adjusted 2013 EPS

The following is a reconciliation of diluted EPS to adjusted EPS (non-GAAP) (all items are net of tax):

	2014 Guidance	2013
Diluted EPS (GAAP)	\$2.06 - \$2.21	\$ 1.83
Non-operating pension costs per diluted share	0.14	0.13
Settlement income per diluted share	-	(0.07)
Restructuring and impairment expenses per diluted share	-	0.17
Adjusted EPS	<u>\$2.20 - 2.35</u>	<u>\$ 2.06</u>

As of April 22, 2014

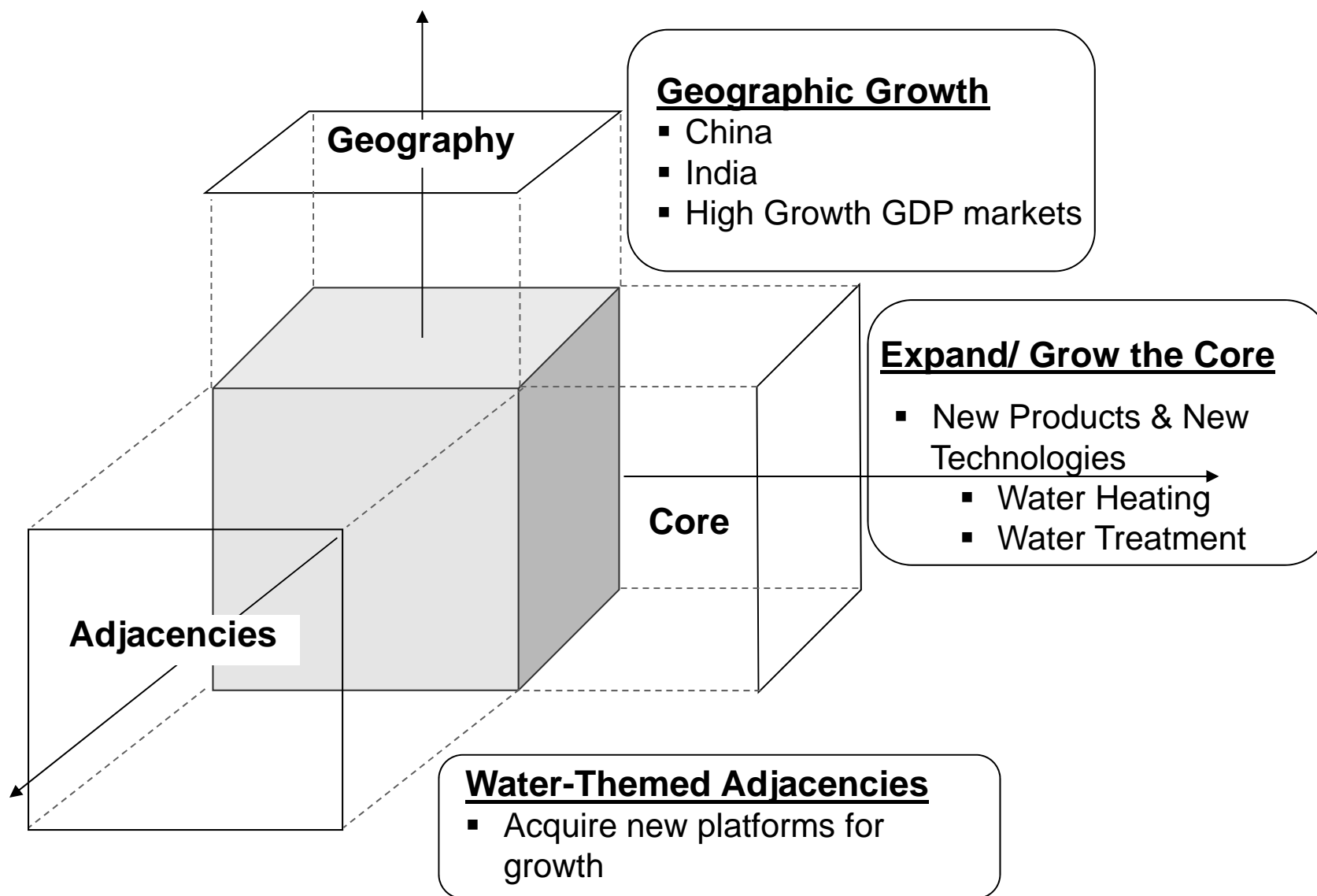


2014 Outlook: 140 year Anniversary

- ▶ China revenue grows at least two times China GDP
- ▶ Transition in North America to higher efficiency boilers continues
 - Lochinvar branded annual sales growth approximately 10 percent
- ▶ U. S. construction benefit
 - Residential water heater industry volumes approximately 9 million units, including tankless water heaters
 - Commercial water heater industry volumes at approximately 162,000 units
- ▶ Wholesale price increase effective May 1
- ▶ Incremental enterprise resources planning expense of \$10 million

As of April 22, 2014

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





Answers to your questions...





Appendix





Adjusted 2014 EPS Guidance and Adjusted 2013 EPS

The following is a reconciliation of diluted EPS to adjusted EPS (non-GAAP) (all items are net of tax):	2014 Guidance	2013
Diluted EPS (GAAP)	\$2.06 - \$2.21	\$ 1.83
Non-operating pension costs per diluted share	0.14	0.13
Restructuring and impairment expenses per diluted share	-	0.17
Settlement income per diluted share	-	(0.07)
Adjusted EPS	<u>\$2.20 - 2.35</u>	<u>\$ 2.06</u>

As of April 22, 2014



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	
	2014	2013
Net Earnings (GAAP)	\$ 46.7	\$ 39.0
Non-operating pension costs, before tax	4.8	4.8
Tax effect of non-operating pension costs	(1.8)	(1.8)
Restructuring and impairment expenses, before tax	-	12.7
Tax effect of restructuring and impairment expenses	-	(3.2)
Settlement income, before tax	-	(11.0)
Tax effect of settlement income	-	4.2
Adjusted Earnings	<u>\$ 49.7</u>	<u>\$ 44.7</u>
Diluted EPS (GAAP)	\$ 0.51	\$ 0.42
Non-operating pension costs per diluted share, before tax	0.05	0.05
Tax effect of non-operating pension costs per diluted share	(0.02)	(0.02)
Restructuring and impairment expenses per diluted share, before tax	-	0.14
Tax effect of restructuring and impairment expenses per diluted share	-	(0.04)
Settlement income per diluted share, before tax	-	(0.12)
Tax effect of settlement income per diluted share	-	0.05
Adjusted EPS	<u>\$ 0.54</u>	<u>\$ 0.48</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)

	Three Months Ended March 31	
	2014	2013
North America	\$ 55.3	\$ 54.1
Rest of World	<u>25.1</u>	<u>18.2</u>
Total Segment Operating Earnings (GAAP)	\$ <u>80.4</u>	\$ <u>72.3</u>
Adjustments:		
North America	\$ 3.8	\$ 5.3
Rest of World	<u>-</u>	<u>-</u>
Total Adjustments	\$ <u>3.8</u>	\$ <u>5.3</u>
Adjusted Segment Operating Earnings		
North America	\$ 59.1	\$ 59.4
Rest of World	<u>25.1</u>	<u>18.2</u>
Total Adjusted Segment Operating Earnings	\$ <u>84.2</u>	\$ <u>77.6</u>

Additional Information:

Adjustments: North America Segment

	Three Months Ended March 31	
	2014	2013
Non-operating pension costs	\$ 3.8	\$ 3.6
Restructuring and impairment expenses	-	12.7
Settlement income	<u>-</u>	<u>(11.0)</u>
Total North America Segment Adjustments	\$ <u>3.8</u>	\$ <u>5.3</u>