



Third Quarter 2013 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. 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: uncertain costs, savings and timeframes associated with the plant rationalization in Canada; 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 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”.

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://investor.shareholder.com/aosmith/>

Third Quarter Highlights

☐ Sales of \$536 million

- Revenue 16 percent higher
- China growing, up 35 percent

☐ Adjusted earnings of \$.54 per share

- Increase of 46 percent over \$.37 per share in same period last year
- Favorable margin impact from incremental global volumes

☐ Grand Opening of second water heater plant in China

- 50 percent increase in capacity when fully utilized

Third Quarter Results

	2013	2012	change	% chg.
Sales	\$ 536.2	\$ 462.2	\$ 74.0	16%
Net Earnings	46.2	37.0		
Non-operating Pension	3.2	0.8		
Other adjustments (see below)	<u>1.0</u>	<u>(3.7)</u>		
Adjusted Earnings	\$ 50.4	\$ 34.1	\$ 16.3	48%

Other adjustments:
 2013: \$1.0 million restructuring & impairment
 2012: (\$3.7) earn-out adjustment

(\$ in millions)

Third Quarter Adjusted EPS

	2013	2012	change	% chg.
EPS	\$ 0.50	\$ 0.40		
Non-operating Pension	0.03	0.01		
Other adjustments (see below)	<u>0.01</u>	<u>(0.04)</u>		
Adjusted EPS	\$ <u>0.54</u>	\$ <u>0.37</u>	\$0.17	46%

Other adjustments:
 2013: \$.01 restructuring & impairment
 2012: (\$.04) earn-out adjustment

Third Quarter Sales

	2013	2012	change	% chg.
North America	\$ 370.1	\$ 335.7	\$ 34.4	10%
Rest of World	175.2	133.8	\$ 41.4	31%
Intersegment	<u>(9.1)</u>	<u>(7.3)</u>	<u>\$ (1.8)</u>	
Total	<u>\$ 536.2</u>	<u>\$ 462.2</u>	<u>\$ 74.0</u>	16%

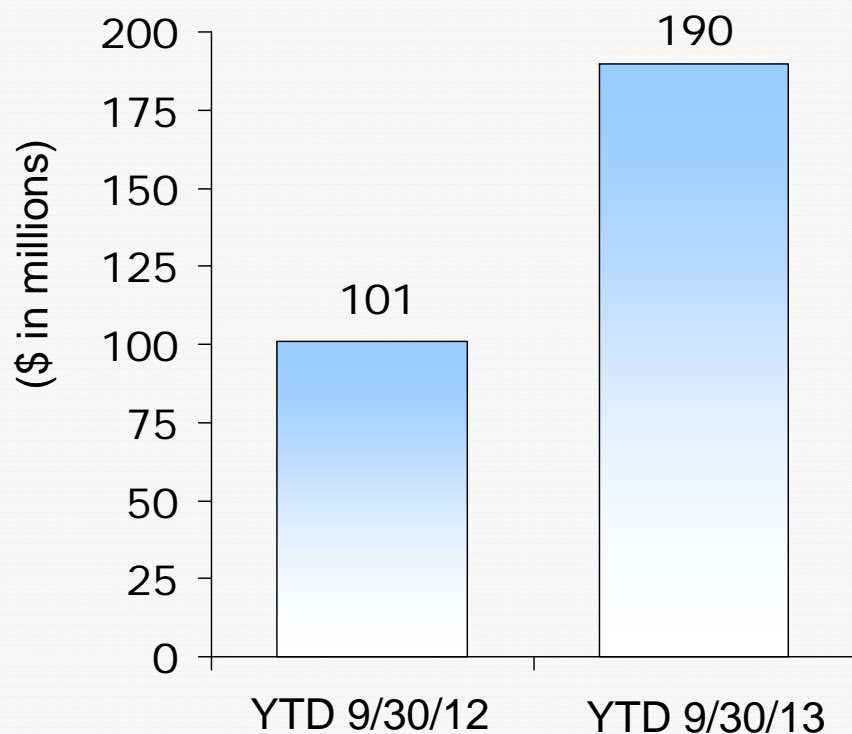
(\$ in millions)

Third Quarter Adjusted Operating Earnings

	2013	2012	change	% chg.
North America	\$ 56.7	\$ 45.5	\$ 11.2	25%
Rest of World	<u>26.9</u>	<u>12.7</u>	<u>14.2</u>	112%
Total Operating	83.6	58.2	25.4	44%
Adjusted Corporate	<u>(14.3)</u>	<u>(8.9)</u>	<u>(5.4)</u>	-61%
Adjusted Op Earnings	<u>\$ 69.3</u>	<u>\$ 49.3</u>	<u>\$ 20.0</u>	41%
<u>Adjusted Operating Margin</u>				
North America	15.3%	13.6%		
Rest of World	15.4%	9.5%		

(\$ in millions, except margins)

Operating Cash Flow: Continuing Operations



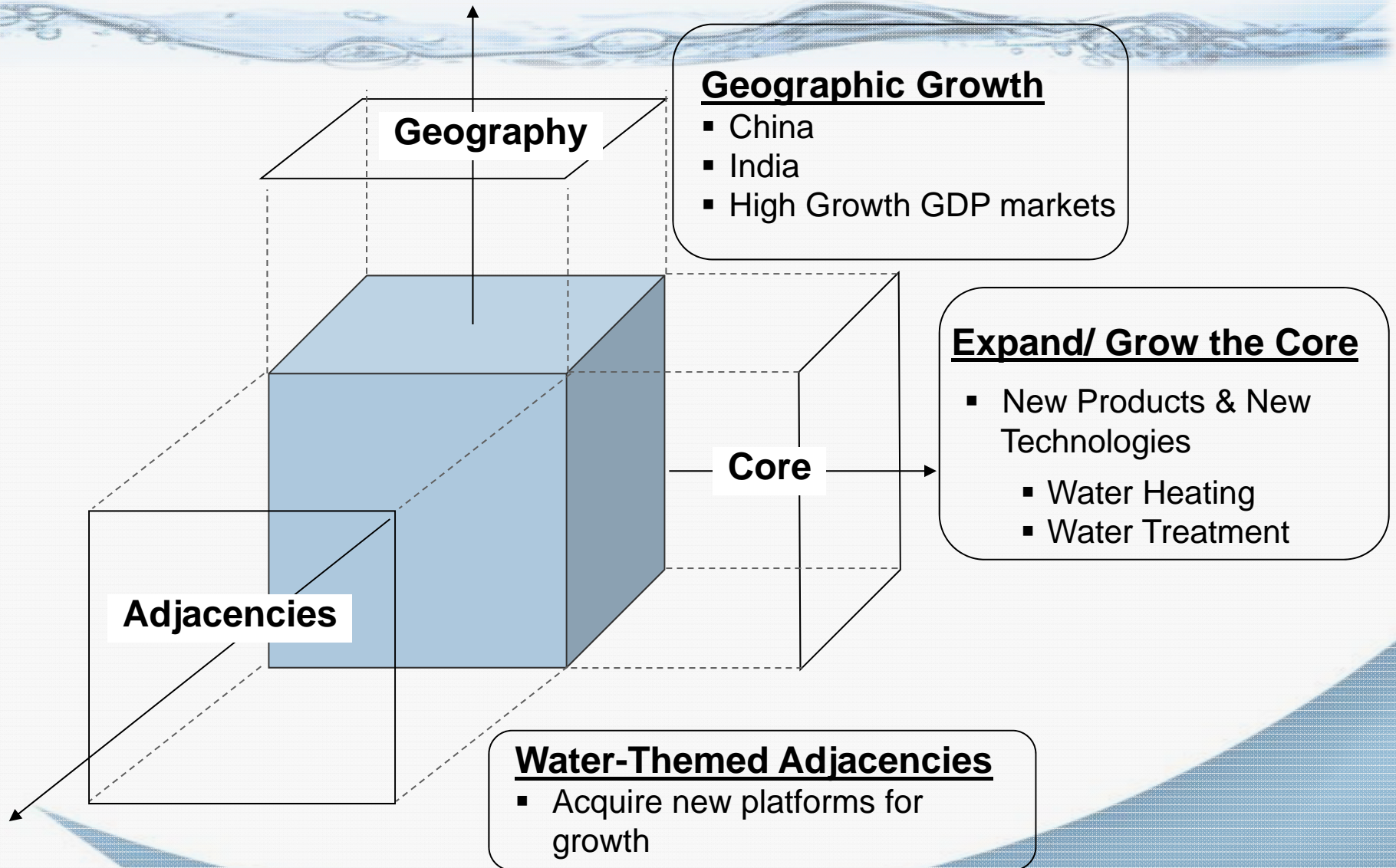
Third Quarter Highlights

- ❑ Cash flow of \$190 million
- ❑ Debt to capital ratio of 15%
- ❑ Stock Repurchase: 1.24 million shares at \$42.48
- ❑ Cash balance: \$477 million
- ❑ Net Cash position: \$249 million
- ❑ Full year 2013 forecast:
 - Cash flow: approx. \$250 million
 - CAPX: \$90 to \$100 million
 - D&A: \$55 to \$60 million

2013 Outlook

- ❑ China revenue up approximately \$100 million
- ❑ Transition in North America to higher efficiency boilers continues
 - Lochinvar branded sales growing at least 10 percent
- ❑ U. S. construction benefit
 - Residential water heater industry volumes up 6 percent
 - Commercial water heater industry volumes up 6 percent
- ❑ Increase adjusted EPS guidance to \$2.00 to \$2.04
 - Excludes restructuring & Impairment charges, settlement income, non-operating pension costs, and acquisitions

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 US GDP
- Accretive to earnings in the first year





Answers to your questions . . .



Appendix



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 September 30,	
	2013	2012
Net Earnings (GAAP)	\$ 46.2	\$ 37.0
Non-operating pension costs, before tax	5.2	1.8
Tax effect of non-operating pension costs	(2.0)	(0.7)
Restructuring and impairment expenses, before tax	1.3	-
Tax effect of restructuring and impairment expense	(0.3)	-
Contingent consideration adjustment, before tax	-	(6.4)
Tax effect of contingent consideration adjustment	-	2.4
Adjusted Earnings	\$ 50.4	\$ 34.1
Diluted EPS (GAAP)	\$ 0.50	\$ 0.40
Non-operating pension costs per diluted share, before tax	0.06	0.02
Tax effect of non-operating pension costs per diluted share	(0.02)	(0.01)
Restructuring and impairment expenses per diluted share, before tax	0.01	-
Tax effect of restructuring and impairment expenses per diluted share	(0.01)	-
Contingent consideration adjustment per diluted share, before tax	-	(0.07)
Tax effect of contingent consideration adjustment per diluted share	-	0.03
Adjusted EPS	\$ 0.54	\$ 0.37

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):

	Nine Months Ended September 30,	
	2013	2012
Net Earnings (GAAP)	\$ 127.3	\$ 119.4
Non-operating pension costs, before tax	14.8	5.1
Tax effect of non-operating pension costs	(5.7)	(1.9)
Settlement income, before tax	(11.0)	-
Tax effect of settlement income	4.2	-
Restructuring and impairment expenses, before tax	18.2	-
Tax effect of restructuring and impairment expense	(4.9)	-
Contingent consideration adjustment, before tax	-	(6.4)
Tax effect of contingent consideration adjustment	-	2.4
Net gain on shares of Regal Beloit Corporation stock, before tax	-	(27.2)
Tax effect of net gain on share of Regal Beloit Corporation stock	-	10.4
Adjusted Earnings	\$ <u>142.9</u>	\$ <u>101.8</u>
Diluted EPS (GAAP)	\$ 1.37	\$ 1.28
Non-operating pension costs per diluted share, before tax	0.16	0.05
Tax effect of non-operating pension costs per diluted share	(0.06)	(0.02)
Settlement income per diluted share, before tax	(0.12)	-
Tax effect of settlement income per diluted share	0.05	-
Restructuring and impairment expenses per diluted share, before tax	0.19	-
Tax effect of restructuring and impairment expenses per diluted share	(0.05)	-
Contingent consideration adjustment per diluted share, before tax	-	(0.07)
Tax effect of contingent consideration adjustment per diluted share	-	0.03
Net gain on shares of Regal Beloit Corporation stock per diluted share, before tax	-	(0.29)
Tax effect of net gain on shares of Regal Beloit Corporation stock per diluted share	-	0.11
Adjusted EPS	\$ <u>1.54</u>	\$ <u>1.09</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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
North America	\$ 51.5	\$ 50.7	\$ 160.6	\$ 144.1
Rest of World	26.9	12.7	67.6	39.2
Inter-segment earnings	<u>(0.1)</u>	<u>-</u>	<u>(0.1)</u>	<u>-</u>
Total Segment Operating Earnings (GAAP)	\$ <u>78.3</u>	\$ <u>63.4</u>	\$ <u>228.1</u>	\$ <u>183.3</u>

Adjustments:

North America	\$ 5.2	\$ (5.2)	\$ 18.3	\$ (3.1)
Rest of World	-	-	-	-
Inter-segment earnings	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Adjustments	\$ <u>5.2</u>	\$ <u>(5.2)</u>	\$ <u>18.3</u>	\$ <u>(3.1)</u>

Adjusted Segment Operating Earnings

North America	\$ 56.7	\$ 45.5	\$ 178.9	\$ 141.0
Rest of World	26.9	12.7	67.6	39.2
Inter-segment earnings	<u>(0.1)</u>	<u>-</u>	<u>(0.1)</u>	<u>-</u>
Total Adjusted Segment Operating Earnings	\$ <u>83.5</u>	\$ <u>58.2</u>	\$ <u>246.4</u>	\$ <u>180.2</u>

Additional Information:

Adjustments: North America Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Non-operating pension costs	\$ 3.9	\$ 1.2	\$ 11.1	\$ 3.3
Settlement income	-	-	(11.0)	-
Restructuring and impairment expenses	1.3	-	18.2	-
Contingent consideration adjustment	<u>-</u>	<u>(6.4)</u>	<u>-</u>	<u>(6.4)</u>
Total North America Segment Adjustments	\$ <u>5.2</u>	\$ <u>(5.2)</u>	\$ <u>18.3</u>	\$ <u>(3.1)</u>

Adjusted 2013 EPS Guidance and Adjusted 2012 EPS

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

	2013 Guidance	2012
Diluted EPS (GAAP)	\$1.78 - 1.82	\$ 1.75
Non-operating pension costs per diluted share	0.13	0.04
Settlement income per diluted share	(0.07)	(0.03)
Restructuring and impairment expenses per diluted share	0.16	-
Net gain on shares of Regal Beloit Corporation stock per diluted share	-	(0.18)
Gain on contingent consideration adjustment per per diluted share	-	(0.02)
Adjusted EPS	<u>\$2.00 - 2.04</u>	<u>\$ 1.56</u>