



# 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. 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: 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://www.aosmith.com/investors/>



# 2013 Highlights

- ❑ Record sales of \$2.2 billion
  - Revenue 11 percent higher
  - China exceeded expectations; sales up 26 percent
- ❑ Record adjusted earnings of \$2.06 per share
  - Increase of 32 percent over \$1.56 per share 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
- ❑ Twenty percent dividend increase and 2 for 1 stock split announced in April 2013; additional 25 percent dividend increase announced this morning

# Full Year Results – Continuing Operations

	2013	2012	change	% chg.
Sales	\$2,153.8	\$1,939.3	\$214.5	11%
Net Earnings	169.7	162.6		
Non-operating Pension (after-tax)	11.9	4.2		
Other adjustments (see below)	9.6	(21.7)		
Adjusted Earnings	\$ 191.2	\$ 145.1	\$ 46.1	32%

## Other adjustments (after-tax)

2013: \$16.4 restructuring & impairment expenses & \$6.8 settlement income

2012: \$16.8 RBC share gain; \$2.9 settlement income; \$2.0 earn-out adjustment

(\$ in millions)



# Full Year Adjusted EPS – Continuing Operations

	2013	2012	change	% chg.
EPS	\$ 1.83	\$ 1.75		
Non-operating Pension	0.12	0.04		
Other adjustments (see below)	<u>0.11</u>	<u>(0.23)</u>		
Adjusted EPS	\$ <u>2.06</u>	\$ <u>1.56</u>	\$0.50	32%

## Other adjustments:

2013: \$.18 ps restructuring & impairment & \$.07 ps settlement income

2012: \$.18 ps RBC share gain; \$.03 ps settlement income; \$.02 ps earn-out adjustment

# Full Year Sales

	2013	2012	change	% chg.
North America	\$ 1,520.0	\$ 1,430.8	\$ 89.2	6%
Rest of World	668.0	542.5	\$ 125.5	23%
Intersegment	<u>(34.2)</u>	<u>(34.0)</u>	<u>\$ (0.2)</u>	
Total	<u>\$ 2,153.8</u>	<u>\$ 1,939.3</u>	<u>\$ 214.5</u>	11%

(\$ in millions)



# Full Year Adjusted Pre-tax Earnings – Continuing Operations

	2013	2012	change	% chg.
North America	\$ 237.7	\$ 197.0	\$ 40.7	21%
Rest of World	<u>88.0</u>	<u>59.6</u>	<u>28.4</u>	48%
Total Operating	325.7	256.6	69.1	27%
Adjusted Corporate	(52.9)	(41.2)	(11.7)	-28%
Interest Expense	<u>(5.7)</u>	<u>(9.2)</u>	<u>3.5</u>	38%
Adjusted Pre-tax Earnings	<u>\$ 267.1</u>	<u>\$ 206.2</u>	<u>\$ 60.9</u>	30%
<u>Adjusted Operating Margin</u>				
North America	15.6%	13.8%		
Rest of World	13.2%	11.0%		

(\$ in millions, except margins)



# Fourth Quarter Results – Continuing Operations

	2013	2012	change	% chg.
Sales	\$ 558.9	\$ 524.3	\$ 34.6	7%
Net Earnings	42.4	43.2		
Non-operating Pension (after-tax)	2.9	1.0		
Other adjustments (see below)	2.7	(1.0)		
Adjusted Earnings	\$ 48.0	\$ 43.2	\$ 4.8	11%

## Other adjustments (after-tax):

2013: \$2.7 restructuring & impairment expenses

2012: \$2.9 settlement income & (\$1.9) adjustment to earn-out

(\$ in millions)

## Fourth Quarter Adjusted EPS – Continuing Operations

	2013	2012	change	% chg.
EPS	\$ 0.46	\$ 0.46		
Non-operating Pension	0.02	0.01		
Other adjustments (see below)	<u>0.04</u>	<u>(0.01)</u>		
Adjusted EPS	\$ <u>0.52</u>	\$ <u>0.46</u>	\$0.06	13%

### Other adjustments:

2013: \$.04 ps restructuring & impairment expense

2012: \$.03 ps settlement income & (\$.02) ps earn-out adjustment



# Fourth Quarter Sales

	2013	2012	change	% chg.
North America	\$ 382.2	\$ 375.9	\$ 6.3	2%
Rest of World	185.0	157.2	\$ 27.8	18%
Intersegment	<u>(8.3)</u>	<u>(8.8)</u>	<u>\$ 0.5</u>	
Total	<u>\$ 558.9</u>	<u>\$ 524.3</u>	<u>\$ 34.6</u>	7%

(\$ in millions)

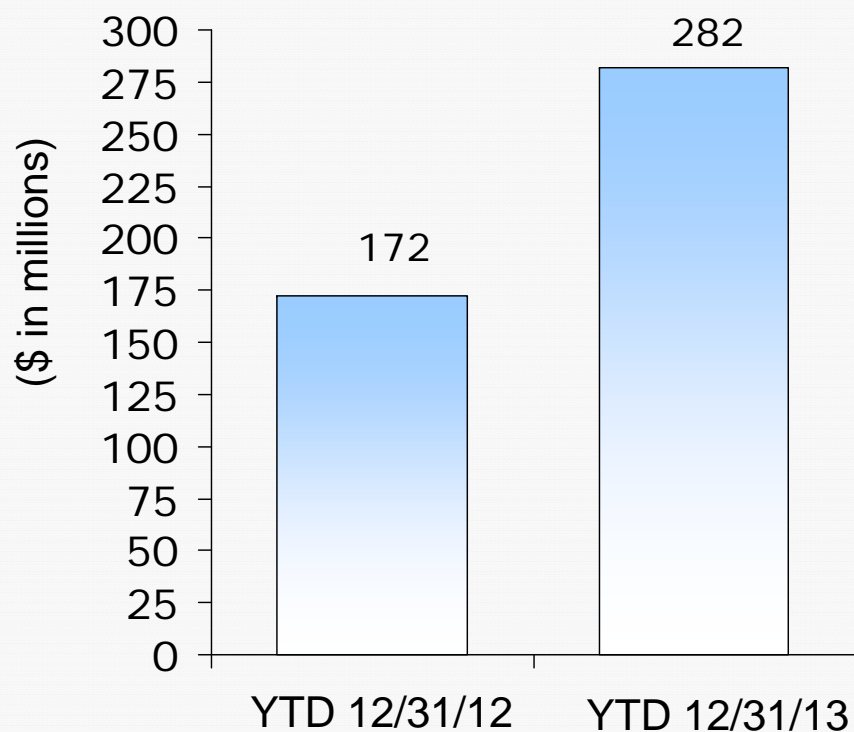
# Fourth Quarter Adjusted Per-tax Earnings – Continuing Operations

	2013	2012	change	% chg.
North America	\$ 58.8	\$ 56.0	\$ 2.8	5%
Rest of World	20.4	20.4	-	0%
Intersegment	<u>0.1</u>	<u>-</u>	<u>0.1</u>	
Total Operating	79.3	76.4	2.9	4%
Adjusted Corporate	(12.8)	(12.1)	(0.7)	-6%
Interest Expense	<u>(1.2)</u>	<u>(2.1)</u>	<u>0.9</u>	
Adjusted Pre-tax Earnings	<u>\$ 65.3</u>	<u>\$ 62.2</u>	<u>\$ 3.1</u>	5%
<u>Adjusted Operating Margin</u>				
North America	15.4%	14.9%		
Rest of World	11.0%	13.0%		

(\$ in millions, except margins)



# Operating Cash Flow: Continuing Operations



## Full Year Highlights

- ❑ Cash flow of \$282.2 million
- ❑ Debt to capital ratio of 13%
- ❑ Stock Repurchase: 1.8 million shares at \$41.62
- ❑ Cash balance: \$486 million
- ❑ Net Cash position: \$294 million

## Relevant Data Points

	2014 Projections	2013
Operating Cash Flow	\$235-\$245	\$ 282
Capital Expenditures	\$75 to \$85	\$ 98
Depreciation and Amortization	\$65	\$ 60
Tax Rate	30-31%	28.4 %
Adjusted Corporate/Other Exp*	\$49	\$ 53

\* excludes non-operating pension costs in both years

(in millions, except tax rate)



# Adjusted 2014 EPS Guidance and Adjusted 2013 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):

	2014 Guidance	2013
<b>Diluted EPS (GAAP)</b>	\$2.01 - \$2.16	\$ 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
<b>Adjusted EPS</b>	<u>\$2.15 - 2.30</u>	<u>\$ 2.06</u>

As of January 28, 2014

# 2014 Outlook: 140 year Anniversary

- ❑ China revenue grows at 2 times China GDP
- ❑ Transition in North America to higher efficiency boilers continues
  - Lochinvar branded sales growing approximately 10 percent
- ❑ U. S. construction benefit
  - Residential water heater industry volumes between 8.8 and 8.9 million including tankless water heaters
  - Commercial water heater industry volumes at 160,000 units
- ❑ Enterprise resources planning costs of \$15 million
- ❑ India water heater momentum and enter water treatment

As of January 28, 2014

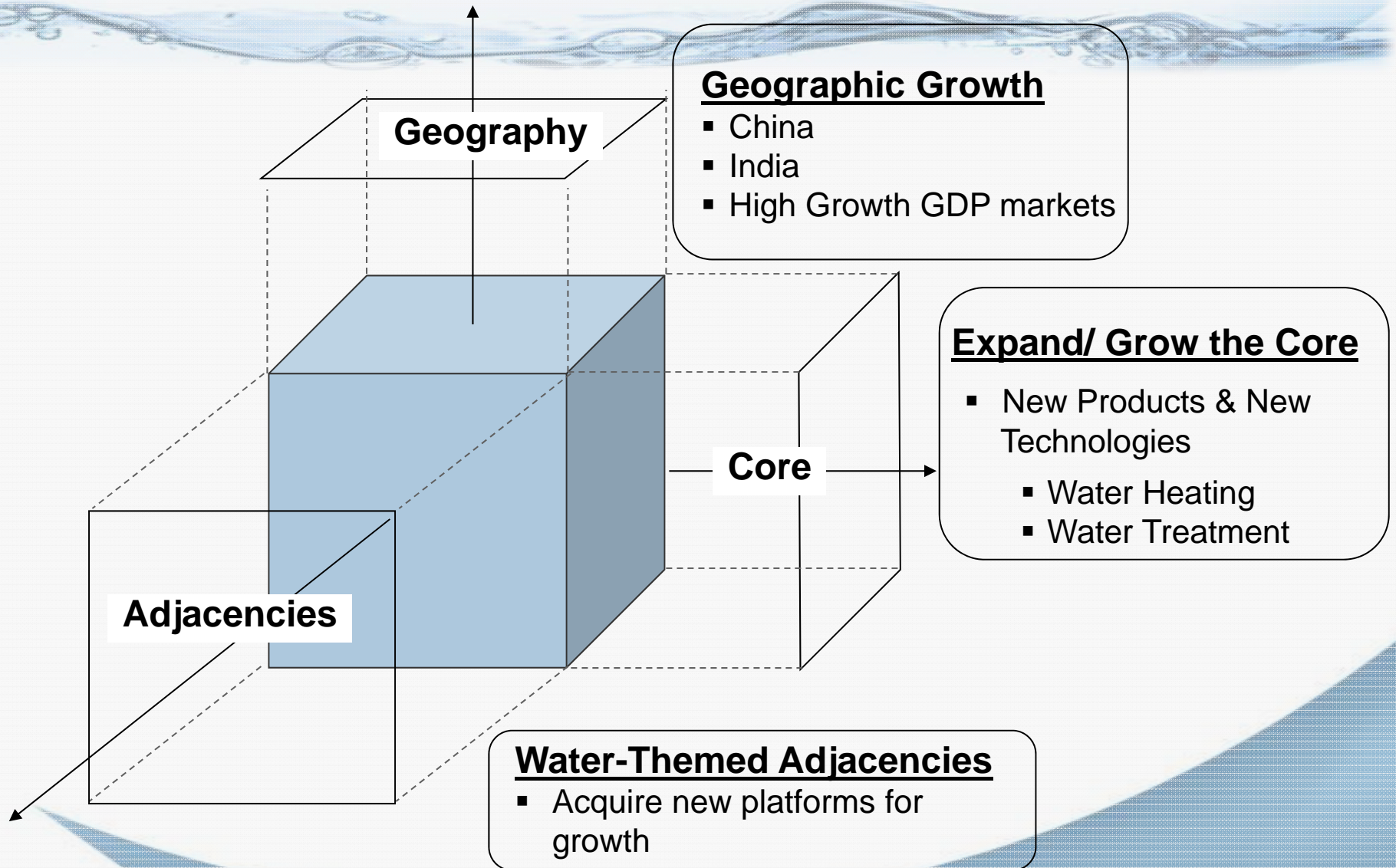


# Revision to 2015 Aspirations

- ❑ 2015 North America segment EBIT margins revised upward to 16.0% from 15.5%
- ❑ No change to Rest of World margins of 13%
- ❑ Organic revenue over \$2.5 billion in 2015
- ❑ 2015 Adjusted EPS from existing businesses revised upward to \$2.50 from \$2.25

As of January 28, 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 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 from continuing operations and diluted EPS from continuing operations to adjusted earnings (non-GAAP) and adjusted EPS (non-GAAP):

	Three Months Ended December 31,	
	2013	2012
<b>Net Earnings (GAAP)</b>	\$ 42.4	\$ 43.2
Non-operating pension costs, before tax	4.9	1.7
Tax effect of non-operating pension costs	(2.0)	(0.7)
Restructuring and impairment expenses, before tax	3.8	-
Tax effect of restructuring and impairment expenses	(1.1)	-
Settlement income, before tax	-	(3.9)
Tax effect of settlement income	-	1.0
Contingent consideration adjustment, before tax	-	(3.1)
Tax effect of contingent consideration adjustment	-	(1.2)
<b>Adjusted Earnings</b>	<b><u>\$ 48.0</u></b>	<b><u>\$ 43.2</u></b>
<b>Diluted EPS (GAAP)</b>	\$ 0.46	\$ 0.46
Non-operating pension costs per diluted share, before tax	0.05	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	0.04	-
Tax effect of restructuring and impairment expenses per diluted share	(0.01)	-
Settlement income per diluted share, before tax	-	(0.04)
Tax effect of settlement income per diluted share	-	0.01
Contingent consideration adjustment per diluted share, before tax	-	0.04
Tax effect of contingent consideration adjustment per diluted share	-	(0.02)
<b>Adjusted EPS</b>	<b><u>\$ 0.52</u></b>	<b><u>\$ 0.46</u></b>



# Adjusted Earnings & Adjusted EPS

(dollars in millions, except per share data)

The following is a reconciliation of net earnings from continuing operations and diluted EPS from continuing operations to adjusted earnings (non-GAAP) and adjusted EPS (non-GAAP):

	Year Ended December 31,	
	2013	2012
<b>Net Earnings (GAAP)</b>	\$ 169.7	\$ 162.6
Non-operating pension costs, before tax	19.7	6.8
Tax effect of non-operating pension costs	(7.8)	(2.6)
Restructuring and impairment expenses, before tax	22.0	-
Tax effect of restructuring and impairment expenses	(5.6)	-
Settlement income, before tax	(11.0)	(3.9)
Tax effect of settlement income	4.2	1.0
Contingent consideration adjustment, before tax	-	(3.3)
Tax effect of contingent consideration adjustment	-	1.3
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
<b>Adjusted Earnings</b>	<b>\$ 191.2</b>	<b>\$ 145.1</b>
<b>Diluted EPS (GAAP)</b>	\$ 1.83	\$ 1.75
Non-operating pension costs per diluted share, before tax	0.21	0.07
Tax effect of non-operating pension costs per diluted share	(0.08)	(0.03)
Restructuring and impairment expenses per diluted share, before tax	0.23	-
Tax effect of restructuring and impairment expenses per diluted share	(0.06)	-
Settlement income per diluted share, before tax	(0.12)	(0.04)
Tax effect of settlement income per diluted share	0.05	0.01
Contingent consideration adjustment per diluted share, before tax	-	(0.03)
Tax effect of contingent consideration adjustment per diluted share	-	0.01
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
<b>Adjusted EPS</b>	<b>\$ 2.06</b>	<b>\$ 1.56</b>

# 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 December 31,		Year Ended December 31,	
	2013	2012	2013	2012
North America	\$ 51.3	\$ 55.7	\$ 211.9	\$ 199.8
Rest of World	20.4	20.4	88.0	59.6
Inter-segment earnings	0.1	-	-	-
<b>Total Segment Operating Earnings (GAAP)</b>	<b>\$ <u>71.8</u></b>	<b>\$ <u>76.1</u></b>	<b>\$ <u>299.9</u></b>	<b>\$ <u>259.4</u></b>

## Adjustments:

North America	\$ 7.5	\$ 0.3	\$ 25.8	\$ (2.8)
Rest of World	-	-	-	-
Inter-segment earnings	-	-	-	-
<b>Total Adjustments</b>	<b>\$ <u>7.5</u></b>	<b>\$ <u>0.3</u></b>	<b>\$ <u>25.8</u></b>	<b>\$ <u>(2.8)</u></b>

## Adjusted Segment Operating Earnings

North America	\$ 58.8	\$ 56.0	\$ 237.7	\$ 197.0
Rest of World	20.4	20.4	88.0	59.6
Inter-segment earnings	0.1	-	-	-
<b>Total Adjusted Segment Operating Earnings</b>	<b>\$ <u>79.3</u></b>	<b>\$ <u>76.4</u></b>	<b>\$ <u>325.7</u></b>	<b>\$ <u>256.6</u></b>

## Additional Information:

### Adjustments: North America Segment

	Three Months Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012
Non-operating pension costs	\$ 3.7	\$ 1.1	\$ 14.8	\$ 4.4
Restructuring and impairment expenses	3.8	-	22.0	-
Settlement income	-	(3.9)	(11.0)	(3.9)
Contingent consideration adjustment	-	3.1	-	(3.3)
<b>Total North America Segment Adjustments</b>	<b>\$ <u>7.5</u></b>	<b>\$ <u>0.3</u></b>	<b>\$ <u>25.8</u></b>	<b>\$ <u>(2.8)</u></b>



# Adjusted 2014 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):

	2014 Guidance	2013
<b>Diluted EPS (GAAP)</b>	\$2.01- 2.16	\$ 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	<u>-</u>	<u>(0.07)</u>
<b>Adjusted EPS</b>	<u>\$2.15 - 2.30</u>	<u>\$ 2.06</u>