



# Third 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 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” .



## Third Quarter Highlights

- Sales of \$750 million
  - Revenue 10 percent higher
- China sales up nearly 13 percent
  - A. O. Smith branded water treatment grew over 30 percent year to date; air purification products more than doubled
- Record net earnings of \$0.54 per share
  - Increase of 15 percent over \$0.47 per share last year
- Purchased Hague Quality Water on September 5
- Cash returned to shareholders
  - Share repurchase totaled approximately \$103 million through September 30
  - 17 percent dividend increase in January, 2017
- AOS joined S&P 500 index in July



## Third Quarter Results

\$ in millions

	2017	2016	change	% chg.
Sales	\$749.9	\$683.9	\$ 66.0	10%
Net Earnings	\$ 93.7	\$ 83.2	\$ 10.5	13%
Earnings per Share	\$ 0.54	\$ 0.47	\$ 0.07	15%



## Third Quarter Sales

\$ in millions

	2017	2016	change	% chg.
North America	\$ 486.0	\$ 450.8	\$ 35.2	8%
Rest of World	270.1	240.3	\$ 29.8	12%
Intersegment	<u>(6.2)</u>	<u>(7.2)</u>	<u>\$ 1.0</u>	
Total	<u>\$ 749.9</u>	<u>\$ 683.9</u>	<u>\$ 66.0</u>	10%



## Third Quarter Earnings

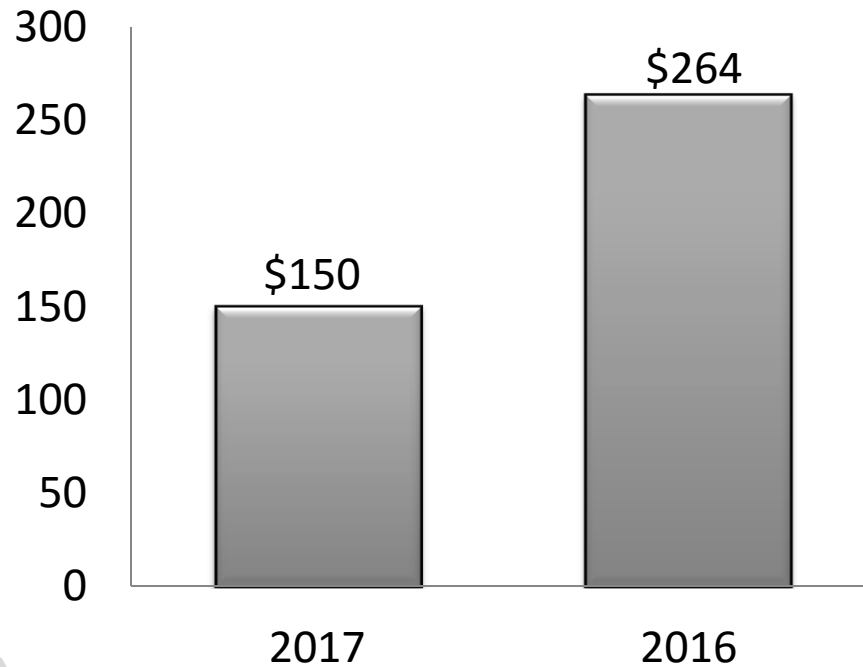
\$ in millions, except percentages

	2017	2016	change	% chg.
North America	\$ 110.3	\$ 100.5	\$ 9.8	10%
Rest of World	33.8	31.1	2.7	9%
Inter-segment earnings	(0.1)	-	(0.1)	
Total Segment Earnings	<u>144.0</u>	<u>131.6</u>	<u>12.4</u>	9%
Corporate	(9.9)	(11.1)	1.2	11%
Interest Expense	<u>(2.5)</u>	<u>(2.1)</u>	<u>(0.4)</u>	-19%
Pre-tax Earnings	131.6	118.4	13.2	11%
Income Tax Expense	<u>(37.9)</u>	<u>(35.2)</u>	<u>(2.7)</u>	-8%
Earnings	<u>\$ 93.7</u>	<u>\$ 83.2</u>	<u>\$ 10.5</u>	13%
<u>Segment Margin</u>				
North America	22.7%	22.3%		
Rest of World	12.5%	12.9%		



## Cash Flow from Operations

(\$ in millions)

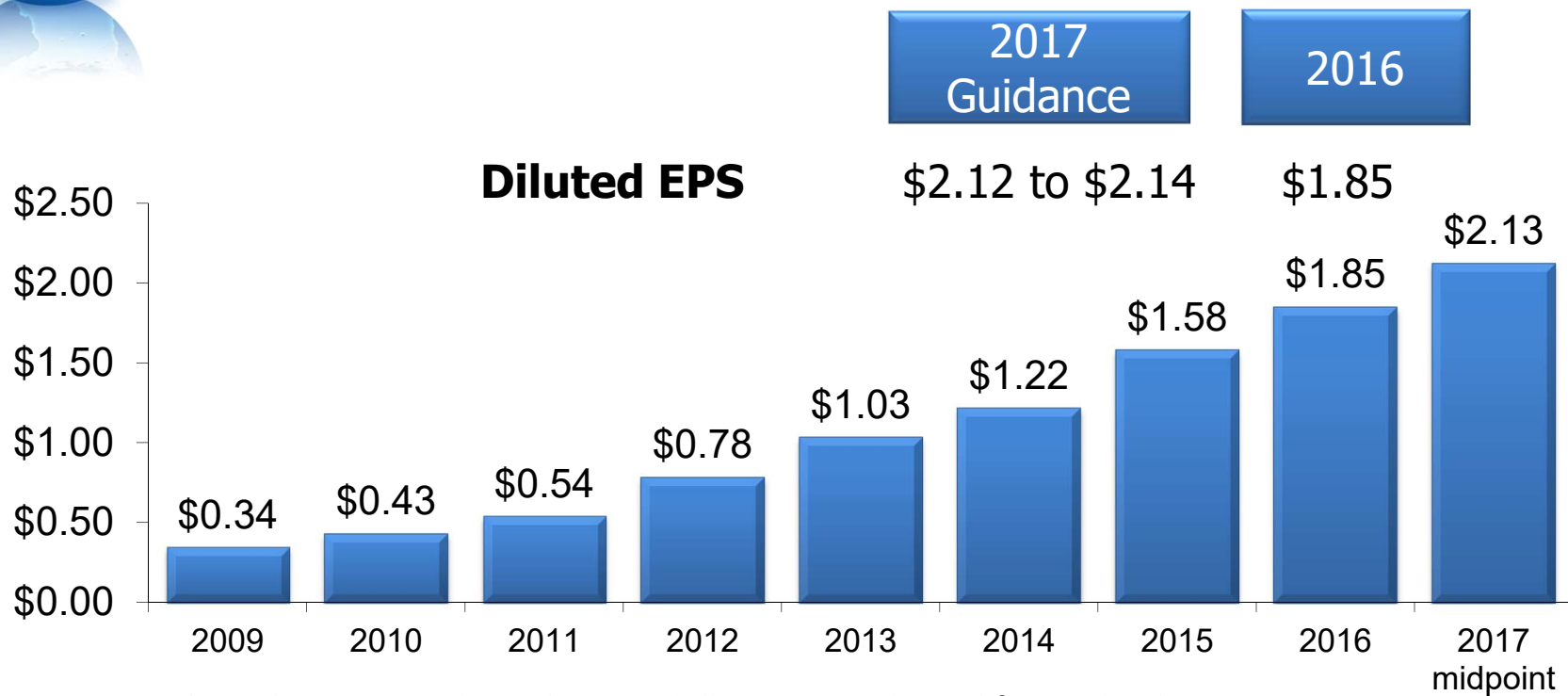


### Highlights

- Operating cash provided by operations of \$150 million
- Debt to capital ratio of 21%
- Cash balance: \$768 million
- Net cash position: \$318 million
- Acquisition: \$44.5 million
- Voluntary contribution to pension plan of \$30 million
- Stock repurchase: 1.9 million shares totaling approximately \$103 million



## 2017 EPS Guidance and 2016 EPS



Note: 2009 through 2014 are adjusted EPS and all years are adjusted for stock splits





## 2017 Assumptions

(\$ in millions)

2017 Projections

Operating Cash Flow	approx \$325
Capital Expenditures	approx \$100
Depreciation and Amortization	approx \$70
Expenses related to ERP Implementation	approx \$18
Corporate/Other Expense	approx \$47
Effective Tax Rate	approx 28.0%
Stock Repurchase	approx \$135 *
Share Count - Diluted	approx 174.6 million

\*subject to acquisitions, cash flow and working capital needs

*As of October 25, 2017*



## 2017 Outlook

- Revenue growth between 11 and 12 percent in USD
  - Aquasana and Hague sales incrementally add over \$40 million
  - Depreciation assumed for the RMB against the USD, resulting in two percent headwind to 2016 average rate
- North America
  - U.S. residential water heater industry volumes increase over 300,000 units, including tankless; U.S. commercial water heater industry volumes up approximately ten percent, driven by electric and price increase-related pre-buy
  - Lochinvar-branded product sales growth of over eight percent
  - Price increase of approximately four percent on majority of U. S. water heaters, effective late August
  - Operating margin expected to be similar to 2016
- Rest of World
  - China over 15 percent sales growth in local currency
  - Smaller expected losses in India than in 2016
  - Operating margin expected to be similar to 2016



## Growth Strategy: Organic Growth

China:	32% of sales growing 15% in local currency
.	4.8%
Lochinvar brands:	11% of sales growing 8%
.	0.9%
NA water heaters:	57% of sales growing 4%
.	2.3%
Total annual sales growth	
.	8.0%



## Answers to your questions...

