

A. O. Smith to acquire Lochinvar Corporation

July 19th, 2011 — Milwaukee, Wis.—A. O. Smith Corporation (NYSE:AOS) today announced it has signed a definitive agreement to acquire Lochinvar Corporation of Lebanon, Tenn., for \$418 million and will not assume Lochinvar's existing debt.

Privately held Lochinvar is a leading manufacturer of high-efficiency boilers used in commercial and residential hydronic heating and hot water applications. A. O. Smith expects the acquisition to be accretive to earnings per share in the amount of approximately \$.10 in the fourth quarter of 2011, excluding one-time purchase accounting charges and professional fees related to the acquisition, and in the range of \$.40 to \$.50 per share in 2012. The transaction is expected to close in the third quarter of 2011, subject to customary closing conditions and regulatory review.

"This acquisition fits squarely within our stated strategy to expand our core product offering with new technologies, which emphasize high-efficiency products that can be applied globally," Paul W. Jones, chairman and chief executive officer, observed. "This is a significant first step in growing our diversified global water heating platform and the beginning of the redeployment of the proceeds from the sale of our Electrical Products Company."

For the 12 months ended June 30, 2011, Lochinvar recorded sales of approximately \$200 million and adjusted EBITDA of approximately \$45 million. The purchase price represents an adjusted multiple of 7.5 times EBITDA when taking into account the estimated \$80 million of tax benefits that A. O. Smith will receive as a result of treating the transaction as a purchase of assets for tax purposes. In addition to the fixed purchase price, privately held Lochinvar's shareholders could earn up to an additional \$35 million if certain revenue objectives are achieved by November 2012. A.O. Smith expects to achieve approximately \$10 to \$15 million of annual synergies over the next few years from purchasing economies and potential global expansion opportunities.

"The addition of Lochinvar expands our product offering and gives us access to proven high-efficiency boiler technology," Ajita G. Rajendra, president of A. O. Smith Water Products Company, said. "The \$1.1 billion North American boiler industry is in the midst of a transition to the new high-efficiency condensing technology, which we believe is growing several times faster than GDP," he continued. "We expect high-efficiency boiler products to continue to grow at an accelerated rate for the foreseeable future."

"We also believe there are significant growth opportunities in regions outside of North America, especially in China, for Lochinvar's higher-efficiency boilers, as more commercial customers seek ways to save energy and reduce operating costs," Rajendra pointed out. "This opportunity becomes even more compelling when we couple Lochinvar's leading technology with A. O. Smith's many years of experience, strong water heater manufacturing platform and prominent brand in China."

"Lochinvar represents an excellent fit because of their complementary products and commitment to product engineering and technology leadership," Rajendra observed. "And, they share our commitment to the highest levels of product quality and customer satisfaction. The Lochinvar plant and technical facility in Lebanon, Tenn., are best-in-class operations, and we are excited about the future for this campus. Lochinvar has built a strong team internally and a strong group of sales representatives. We are enthused about their becoming part of the A. O. Smith team."



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William L. Vallett, Jr., chief executive officer and president of Lochinvar, commented, “We are extremely excited about the potential benefits of combining with such a logical partner like A. O. Smith and the future prospects for our employees, customers and suppliers.”

Highlights of the transaction:

- Access to higher growth, energy efficient technology and product line expansion: Pro forma A. O. Smith sales in 2010 increase 12 percent to approximately \$1.7 billion, based on Lochinvar’s sales of approximately \$180 million. Lochinvar’s sales have grown at a rate of eight percent for the last five years, and A. O. Smith’s management believes that this growth rate will continue for the foreseeable future. In the last year, approximately two-thirds of Lochinvar’s residential and commercial boiler revenues have come from its well known lines of high-efficiency, condensing products. In addition, the North American commercial boiler industry is currently split between hydronic heating applications and hot water applications, and A. O. Smith currently sells very few hydronic heating systems. Given its leading technology position and presence in this segment, Lochinvar will serve as the foundation for A. O. Smith’s global residential and commercial boiler platform.
- Value creation and synergy opportunities: A. O. Smith expects annual synergies from purchasing economies and potential global expansion opportunities to be \$10 to \$15 million in the next few years.
- Financing and financial targets: Management expects to fund the \$418 million purchase price with a combination of cash and debt, which it expects to borrow under its \$425 million revolving credit facility. A. O. Smith believes the transaction will achieve management’s financial targets by delivering full-year earnings accretion of \$.40 to \$.50 per share in 2012 and a return in excess of the company’s cost of capital in the first year after completing the acquisition.

Lochinvar’s product offerings are highly complementary to A. O. Smith’s and include: residential and commercial high-efficiency condensing and non-condensing boilers, residential and commercial water heaters, indirect water heaters, storage tanks, solar thermal commercial water heaters, and commercial and residential pool and spa heaters.

Lochinvar’s manufacturing and product engineering operations are located in Tennessee. The purchase also includes Lochinvar Ltd., the company’s United Kingdom-based subsidiary.

A. O. Smith Corporation, with 2010 sales of nearly \$1.5 billion, is one of the world’s leading manufacturers of residential and commercial water heating equipment, offering a comprehensive line featuring the best-known brands in North America and China, as well as water purification products for residential and light commercial applications. A. O. Smith, headquartered in Milwaukee, Wis., employs approximately 10,000 people at operations in the U. S., Canada, Mexico, India, China, and the Netherlands.

A. O. Smith will broadcast a live conference call at 10:00 a.m. (Eastern Daylight Time) Tuesday, July 19. The call can be heard on the company’s web site, www.aosmith.com. An audio replay of the call will be available on the company’s web site after the live event.

Forward-looking statements

This release contains statements that the company believes are “forward-looking statements” within the



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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,” “forecast,” “guidance” 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 release. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following: the failure to receive, on a timely basis or otherwise, the required approvals from the government or regulatory agencies (including the terms of such approvals) for the sale of Electrical Products Company or the Lochinvar acquisition; the risk that a condition to closing of the sale of Electrical Products Company or the purchase of Lochinvar may not be satisfied;; difficulties in integrating the Lochinvar acquisition or achieving the stated accretion, cost synergies and/or global expansion opportunities; weakening in the high efficiency boiler market or slowdown in the transition from non-condensing to condensing boilers; 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 water products markets; further weakening in housing construction; further weakening in commercial construction; timing of any recoveries in housing or commercial construction; a slowdown in the Chinese economy; adverse general economic conditions and capital market deterioration; and the impact of accounting for acquisitions on the company’s financial statements. Forward-looking statements included in this press release are made only as of the date of this release, 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.

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