

LENNOX

THIRD QUARTER 2023

EARNINGS RELEASE

OCT 26, 2023

FORWARD-LOOKING STATEMENTS & NON-GAAP FINANCIAL MEASURES

The statements in this presentation that are not historical statements, including statements regarding the 2023 full-year outlook and expected consolidated and segment financial results, as well as financial targets for future years, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on information currently available as well as management's assumptions and beliefs today. These statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the statements, and investors should not place undue reliance on them. Risks and uncertainties that could cause actual results to differ materially from such statements include risks that the North American unitary HVAC and refrigeration markets perform worse than current assumptions. Additional risks include but are not limited to the impact of higher raw material prices, availability and timely delivery of raw materials and other components, competition in the HVACR business, ability to meet customer demand, the impact of new or increased trade tariffs, LII's ability to successfully execute its business strategy including implementing price increases for its products and services, economic conditions in our markets, regulatory changes, the impact of unfavorable weather, and a decline in new construction activity and related demand for products and services. For information concerning these and other risks and uncertainties, see LII's publicly available filings with the Securities and Exchange Commission. LII disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

A reconciliation of non-GAAP financial measures appearing in this presentation to financial measures prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) are included in the Appendix of this presentation.

This presentation includes forward-looking statements regarding core revenue, segment profit, adjusted segment profit, adjusted net income, adjusted earnings per share, free cash flow and Debt to EBITDA, which are non-GAAP financial measures. These non-GAAP financial measures are derived by excluding certain amounts from the corresponding financial measures determined in accordance with GAAP. The determination of the amounts excluded is a matter of management judgment and depends upon, among other factors, the nature of the underlying expense or income amounts recognized in a given period and the high variability of certain amounts, such as unusual gains and losses, the ultimate outcome of pending litigation, fluctuations in foreign currency exchange rates, changes in environmental liabilities, the impact and timing of potential acquisitions and divestitures, future restructuring costs, and other structural changes or their probable significance. Core revenue, adjusted segment profit, and adjusted earnings per share exclude net sales and profit/(loss) from our European portfolio, which we plan to divest. We are unable to present a quantitative reconciliation of the aforementioned forward-looking non-GAAP financial measures to their most directly comparable forward-looking GAAP financial measures because such information is not available, and management cannot reliably predict the necessary components of such GAAP measures without unreasonable effort or expense. The unavailable information could have a significant impact on LII's full year GAAP financial results.

Q3 2023 HIGHLIGHTS

Announcing Record Earnings, CFO Transition and Bolt-on Acquisition



Raising 2023 Guidance

Core Revenue*
~+5%

Adjusted EPS*
\$17.25 - \$17.75

Free Cash Flow*
\$350M - \$400M

Core Revenue*

\$1.30B

+10% YoY

Adjusted Segment Profit*

\$251M

+33% YoY

Adjusted Segment Profit Margin*

19.3%

+334 bps YoY

Adjusted EPS*

\$5.37

+30% YoY

Operating Cash Flow

\$313M

+\$142M YoY

Return On Invested Capital*

43%

Down 4 pts YoY

CFO TRANSITION



Joe Reitmeier – Outgoing CFO

Electing to retire effective February 29, 2024, after 18 remarkable years with the company.

Mr. Reitmeier held various leadership roles at Lennox including Commercial Segment CFO before becoming the Chief Financial Officer in 2012. Since taking over as CFO, he has been instrumental in driving profitable growth. His unwavering commitment and skilled financial stewardship were critical to the 7x growth of the company's earnings per share and 12x growth in market capitalization during his tenure.



Michael Quenzer – Incoming CFO

Michael Quenzer will succeed Mr. Reitmeier as Executive Vice President and Chief Financial Officer effective January 1, 2024.

Mr. Quenzer joined Lennox in 2004 as a Treasury Analyst and has since held positions of increasing responsibility, including Commercial Segment CFO and most recently Vice President of Financial Planning & Analysis and Investor Relations. In each of these roles, he has delivered financial excellence, fostered talent, and contributed to the company's profitable growth.



Seamless Transition: Robust Succession Planning

ACQUISITION TO EXPAND COMMERCIAL SERVICES



Revenue*

~ \$100M

Purchase Price

~ \$90M

Highlights

- ✓ EPS Accretive in 2024
- ✓ Attractive Synergies

Key Capabilities



Installation Services

Increases capacity for **National Account turn-key installations** and enhances **cross-selling**



Refrigerant Reclaim & Recycle Materials

Provides **new services** to facilitate product life cycle decommissioning



Replacement Accessories

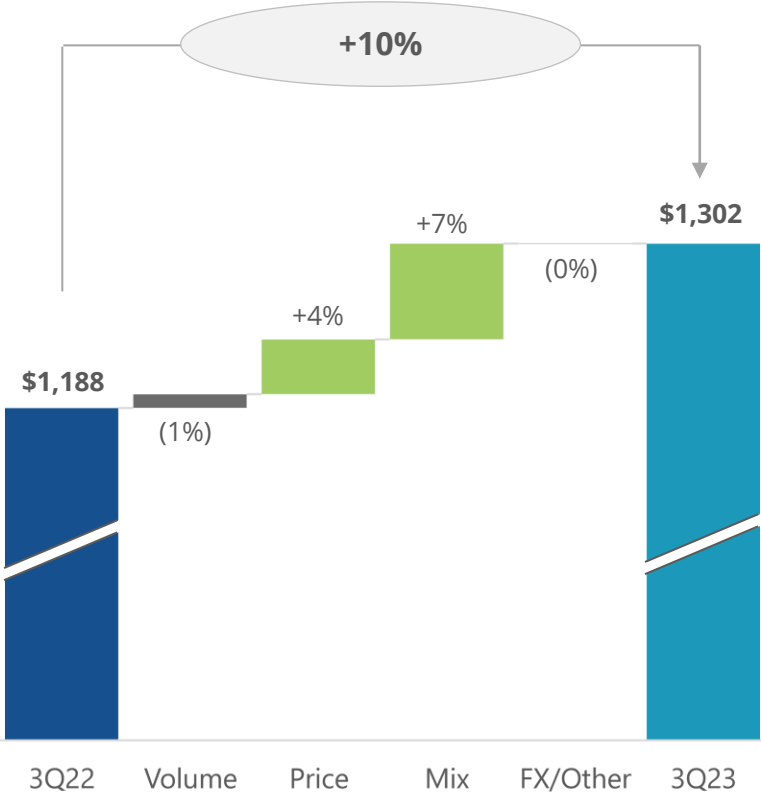
Vertically integrated **curb manufacturing** enables share gain and margin improvements

Strong Strategic Fit Consistent with our Bolt-On Acquisition Strategy

Q3 2023 LII RESULTS

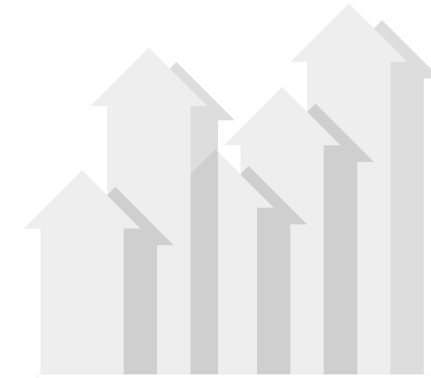
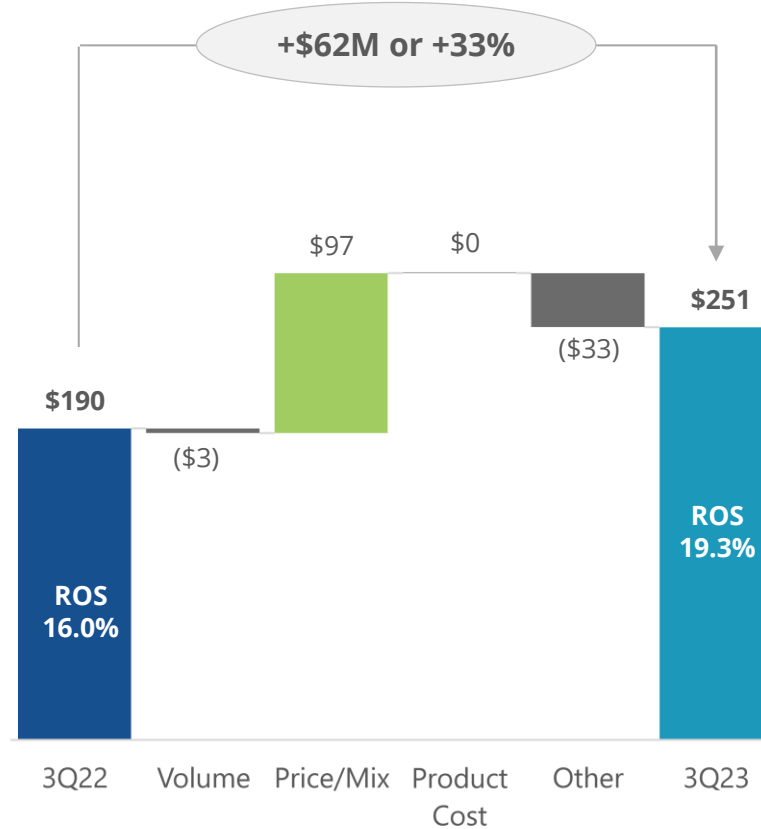
Core Revenue*

(US\$ Millions)



Adjusted Segment Profit*

(US\$ Millions)



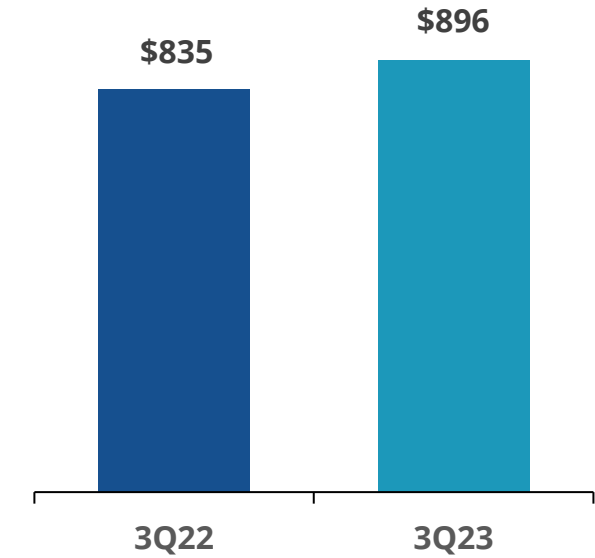
Adjusted
EPS*
+30% to
\$5.37

- **Price:** Normalizing margins
- **Mix:** SEER transition and premium products
- **Volume:** Industry destocking
- **Other Costs (SG&A):** Incentive compensation, wage inflation and sales force investments

Q3 2023 RESIDENTIAL RESULTS

Revenue

(US\$ Millions)

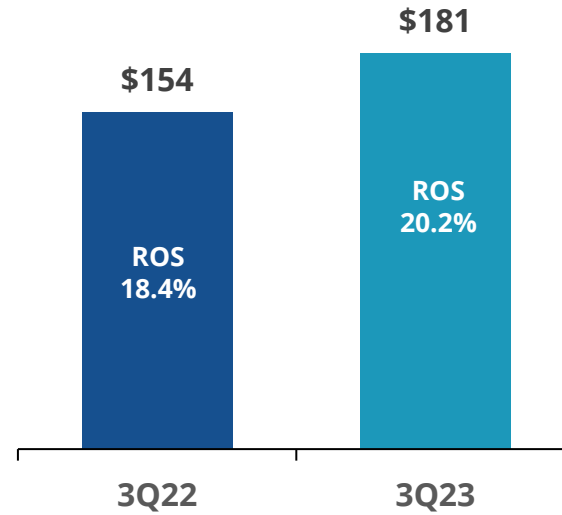


+ 7%

(2%)	+2%	+7%	flat
Volume	Price	Mix	FX/Other

Segment Profit

(US\$ Millions)



+ \$28

(\$4)	+\$51	+\$1	(\$20)
Volume	Price/Mix	Product Cost	Other

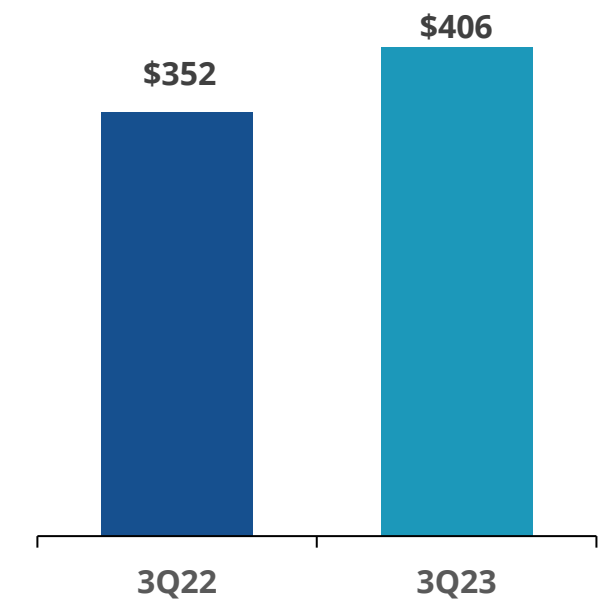


- **Volume:** Destocking decelerating and share gain
- **Price:** June price action delivering gains
- **Mix:** Benefitting from new minimum efficiency standards and richer mix of premium products
- **Other Cost:** SG&A Incentive compensation plus inflationary wage and distribution impacts

Q3 2023 COMMERCIAL RESULTS

Revenue

(US\$ Millions)

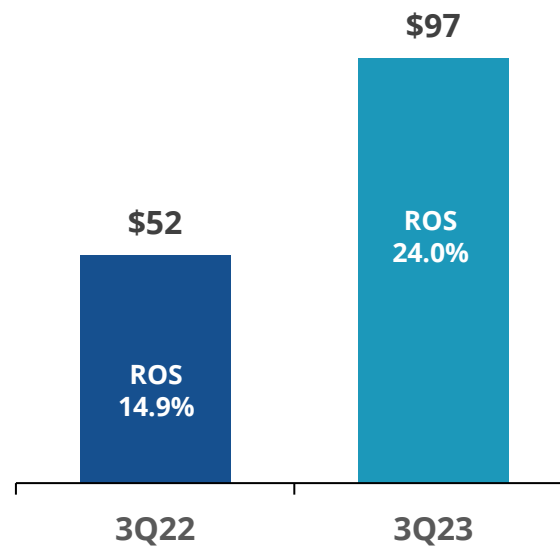


+ 15%

+2%	+10%	+3%	flat
Volume	Price	Mix	FX/Other

Segment Profit

(US\$ Millions)



+ \$45

+\$1	+\$47	(\$1)	(\$2)
Volume	Price/Mix	Product Cost	Other



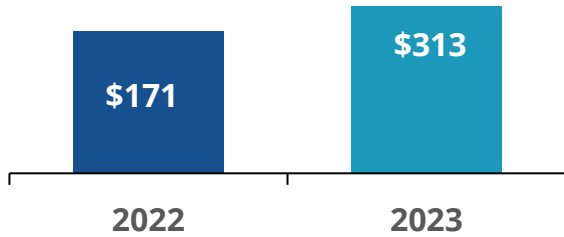
- **Price:** Yield of 10%
- **Volume:** Factory output remains constrained
- **Demand:** Lead times continue to normalize and order rates remain solid

CASH FLOW AND CAPITAL DEPLOYMENT

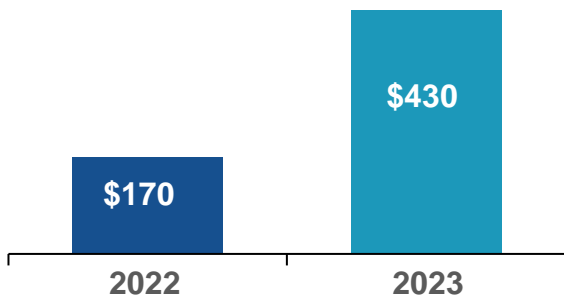
Operating Cash Flow

(US\$ Millions)

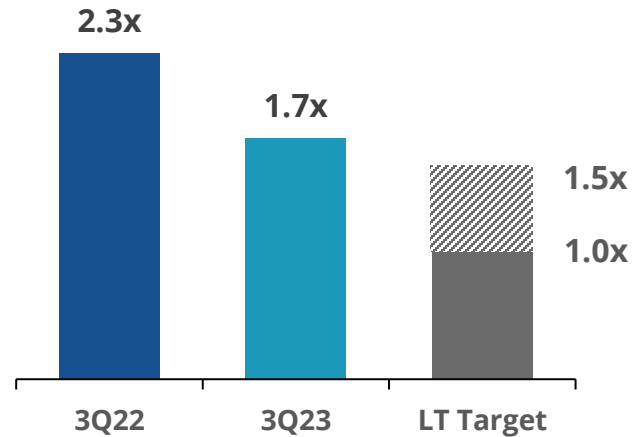
Third Quarter



September Year-to-Date



Net Debt to Adjusted EBITDA*



Disciplined Capital Deployment

- Invest in **organic growth**
- **Grow dividends** with earnings
- **Bolt-on M&A** opportunities
- **Share repurchases**

Commercial New Factory



First Production Mid-2024

- 2024**
 - Ramp up - P&L inefficiencies
 - Temporary working capital build
- 2025**
 - Fully ramped up by 2nd half
 - Realize cost productivity

2023 FY OUTLOOK

	Current	Prior
Core Revenue Growth	Up ~ 5%	Up 2% to 4%
Adjusted EPS	\$17.25 - \$17.75	\$15.50 - \$16.00
Free Cash Flow	\$350M - \$400M	\$300M - \$350M

Other Guidance Points

Capital Expenditures	~ \$250M	~ \$250M
Tax Rate*	~ 20%	19% - 20%
Corporate Expenses	~ \$100M	~ \$95M
Share Count	~ 35.5M	35M - 36M
Interest & Pension Expense	~ \$55M	\$55M - \$60M

Key Assumptions

- **Residential revenue** up ~2% with unit volume down ~6%
- **Commercial revenue** up ~15% with unit volume flat
- **Price/Mix** EBIT benefit of ~\$325M
- **Net material cost inflation** flat
- **SG&A inflation** and higher incentive compensation, partially offset by productivity
- **Investment in distribution** to support growth and drive productivity

FOCUSED PORTFOLIO AND SIMPLIFIED BALANCE SHEET

European Divestitures

Announced Divestiture Plan in Q4 2022

- ✓ Creates Focused North American Portfolio
- ✓ Complements Margin Expansion Strategy

Expecting deal closure in Q4 2023, consistent with prior timeline

Summary Transaction Economics

HVAC / Refrigeration Business

Exclusive agreement announced on 9/21

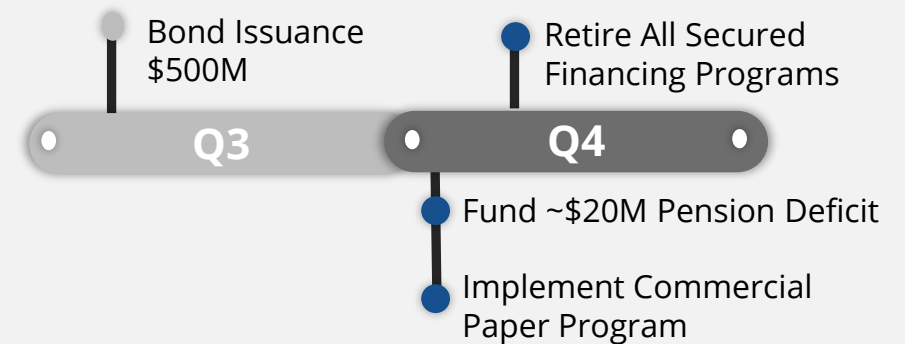
Non-cash impairment of \$63M recorded in Q3

Process Cooling Business

Exclusive agreement announced on 8/25

Regulatory approvals received

Financing Activities



Progress Update

- Successful \$500M bond issue to replace maturing \$350M bond
- Upsized revolver to support commercial paper program and retire secured financing programs
- Commercial paper program to lower financing costs while creating additional flexibility to optimize cash

2024 EXPECTED BUSINESS CONDITIONS

Industry Demand Drivers

- End of '23 channel destocking
- IRA, tax credits to favor replacement vs. repairs
- Commercial growth from pent-up demand
- Channel Inventory adjustments for refrigerant transition
- Election year / macro-economic uncertainty
- Changes in consumer confidence given geopolitical concerns
- Commercial new construction impacted by interest rates



Profit Drivers

- Volume growth with consistent incrementals
- Continued pricing excellence
- Mix and price benefit during refrigerant transition
- Manufacturing productivity (higher absorption)
- Ongoing inflation
- Ramp up costs at new Saltillo Mexico factory
- Transition costs for refrigerant change

Cash Flow Drivers

- Temporary working capital build
- CAPEX for Saltillo and regulatory transition

Cautiously Optimistic: 2024 targets shared with Q4 2023 earnings

LII: AN ATTRACTIVE INVESTMENT OPPORTUNITY



Growth End Market with Strong Replacement Demand



Resilient Margin business focused on sustainable HVACR



Execution Consistency and Disciplined Capital Deployment

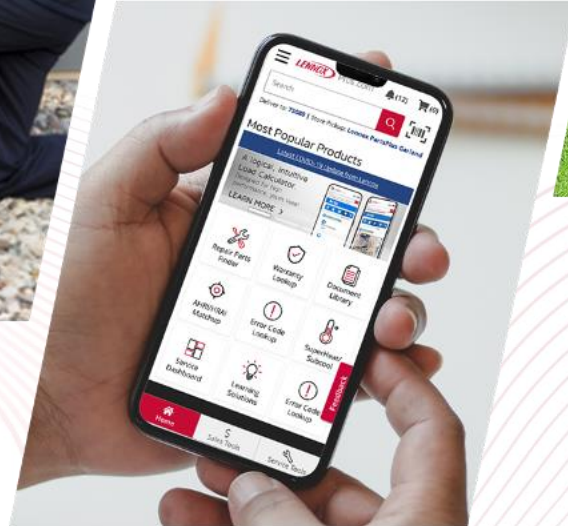


Advanced Technology Solutions with Direct-to-Dealer Network



Talent & Culture driven by Core Values, Guiding Behaviors and Pay-for-performance





LENNOX

THIRD QUARTER 2023

APPENDIX

OCT 26, 2023

CORE REVENUE AND ADJUSTED SEGMENT PROFIT

Net Sales			Change Year-over-Year							Change Year-over-Year				
	Q3 2023	Q3 2022	Volume	Price	Mix	FX & Other	Total	YTD 2023	YTD 2022	Volume	Price	Mix	FX & Other	Total
Residential	\$ 896	\$ 835	(2%)	2%	7%	-	7%	\$ 2,514	\$ 2,495	(8%)	2%	7%	0%	1%
Commercial	406	352	2%	10%	3%	0%	15%	1,122	959	0%	12%	6%	0%	18%
Corporate and other (1)	65	57	(1%)	5%	-	8%	12%	192	171	1%	9%	-	3%	13%
Net sales, a GAAP measure	\$ 1,366	\$ 1,245	0%	4%	6%	0%	10%	\$ 3,827	\$ 3,625	(5%)	5%	6%	0%	6%
Net sales from non-core business (1)	65	57	(1%)	4%	-	9%	12%	192	171	1%	9%	-	3%	13%
Core net sales, a non-GAAP measure	\$ 1,302	\$ 1,188	(1%)	4%	7%	0%	10%	\$ 3,635	\$ 3,454	(6%)	5%	6%	0%	5%
Segment Profit	Q3 2023	Q3 2022	Volume	Price/Mix	Product Cost	FX & Other	Total	YTD 2023	YTD 2022	Volume	Price/Mix	Product Cost	FX & Other	Total
Residential	\$ 181	\$ 154	\$ (4)	\$ 51	\$ 1	\$ (20)	\$ 28	\$ 495	\$ 478	\$ (62)	\$ 124	\$ 4	\$ (49)	\$ 17
Commercial	97	52	1	47	(1)	(2)	45	250	117	(0)	155	(18)	(3)	133
Corporate and other (1)	(23)	(17)	(0)	5	(1)	(11)	(7)	(65)	(61)	1	18	(5)	(18)	(4)
Segment profit, a Non-GAAP measure	\$ 255	\$ 189	\$ (3)	\$ 103	\$ (1)	\$ (33)	\$ 66	\$ 680.3	\$ 534	\$ (61)	\$ 297	\$ (19)	\$ (70)	\$ 147
Profit from non-core business (1)	4	(0)	(0)	5	(1)	(0)	4	\$ 6.1	(4)	1	18	(5)	(3)	10
Adjusted segment profit, a non-GAAP measure	\$ 251	\$ 190	\$ (3)	\$ 98	\$ -	\$ (33)	\$ 62	\$ 674.2	\$ 538	\$ (62)	\$ 279	\$ (14)	\$ (66)	\$ 136
Profit from non-core business (1)	(4)	0						(6)	4					
Impairment on assets held for sale	63	-						63	-					
Items in Losses (gains) and other expenses, net which are excluded from segment profit (2)	5	3						12	8					
Restructuring charges	0	0						0	1					
Operating income	\$ 187	\$ 186						\$ 605	\$ 525					

(1) Net sales and segment profit from our European portfolio are included in the Corporate and other segment and are considered non-core

(2) Recorded in Losses (gains) and other expenses, net in the Consolidated Statement of Operations

ADJUSTED EPS

	For the Three Months Ended September 30, (Unaudited)				For the Nine Months Ended September 30, (Unaudited)			
	2023		2022		2023		2022	
	After Tax Amount	Per Diluted Share	After Tax Amount	Per Diluted Share	After Tax Amount	Per Diluted Share	After Tax Amount	Per Diluted Share
Net income, a GAAP measure	\$ 130.4	\$ 3.65	\$ 141.9	\$ 3.99	\$ 445.6	\$ 12.51	\$ 402.7	\$ 11.22
Restructuring charges	0.3	0.01	0.2	-	0.2	0.01	1.0	0.03
Pension settlements	0.2	0.01	-	-	0.3	0.01	0.2	0.01
Items in Losses (gains) and other expenses, net which are excluded from segment profit (loss) (a)	4.3	0.11	3.0	0.09	9.6	0.26	6.7	0.18
Excess tax expense from share-based compensation (b)	(2.3)	(0.06)	(0.2)	-	(2.4)	(0.07)	0.3	0.01
Impairment on assets held for sale	62.0	1.74	-	-	62.0	1.74	-	-
Other tax items, net (b)	-	-	0.7	0.02	0.4	0.01	(0.8)	(0.02)
Non-core business results (c)	(3.3)	(0.09)	1.2	0.03	(4.8)	(0.13)	6.2	0.17
Adjusted net income, a non-GAAP measure	\$ 191.6	\$ 5.37	\$ 146.8	\$ 4.13	\$ 510.9	\$ 14.34	\$ 416.3	\$ 11.60

(a) Recorded in Losses (gains) and other expenses, net in the Consolidated Statement of Operations

(b) Recorded in Provision for income taxes in the Consolidated Statements of Operations

(c) Non-core business results represent activity related to our business operations in Europe non included elsewhere in the reconciliations

NET DEBT TO EBITDA

	Q4 2022	Q1 2023	Q2 2023	Q3 2023	LTM	Q4 2021	Q1 2022	Q2 2022	Q3 2022	LTM		
Income from continuing operations before taxes, a GAAP Measure	\$ 119.5	\$ 125.1	\$ 263.7	\$ 175.2	\$ 683.5	\$ 90.2	\$ 104.4	\$ 217.3	\$ 174.6	\$ 586.5		
Items in losses (gains) and other expenses, net before taxes	0.1	2.2	4.3	5.0	11.6	5.5	2.2	2.4	3.3	13.4		
Special product quality adjustments, before tax	-	-	-	-	-	(1.4)	-	-	-	(1.4)		
Restructuring charges, before tax	0.3	-	-	0.3	0.6	0.2	0.5	0.5	0.2	1.4		
Interest expense, net	12.7	14.2	15.0	11.2	53.1	6.2	6.8	8.7	10.5	32.2		
Pension settlements, before tax	(0.4)	0.2	0.1	0.3	0.2	0.1	0.1	0.2	-	0.4		
Other expense (income), net before tax	-	-	-	-	-	1.1	0.6	0.7	0.7	3.1		
Impairment on assets held for sale	-	-	-	63.2	63.2	-	-	-	-	-		
Depreciation and amortization expense	21.5	19.1	20.2	20.9	81.7	18.5	18.3	18.4	17.5	72.7		
Adjusted EBITDA, a non-GAAP measure	\$ 153.7	\$ 160.8	\$ 303.3	\$ 276.1	\$ 893.9	\$ 120.4	\$ 132.9	\$ 248.2	\$ 206.8	\$ 708.3		
Total Debt as of September 30, 2023						\$ 1,483.2						\$ 1,604.5
Less Cash:						132.0						40.7
Less Short-term investments						9.6						7.5
Net Debt, a non-GAAP measure						\$1,341.6						\$1,556.3
Debt to Adjusted EBITDA ratio						1.7						2.3

FREE CASH FLOW (FCF)

	For the Three Months Ended September 30, (Unaudited)		For the Nine Months Ended September 30, (Unaudited)	
	2023	2022	2023	2022
Net Cash provided by operating activities, a GAAP measure	\$ 313.2	\$ 170.9	\$ 429.9	\$ 170.1
Purchases of property, plant and equipment	(39.7)	(20.3)	(125.0)	(67.0)
Proceeds from the disposal of property, plant and equipment	0.1	0.7	1.6	1.2
Free cash flow, a Non-GAAP measure	\$ 273.6	\$ 151.3	\$ 306.5	\$ 104.3

RETURN ON INVESTED CAPITAL (ROIC)

	Q4 2022	Q1 2023	Q2 2023	Q3 2023	LTM 3Q23	Q4 2021	Q1 2022	Q2 2022	Q3 2022	LTM 3Q22
Operating income, a GAAP Measure	\$ 131.8	\$ 139.5	\$ 278.8	\$ 186.8	\$ 736.9	\$ 97.6	\$ 111.9	\$ 226.9	\$ 185.8	\$ 622.2
Restructuring Charges, before tax	0.3	-	-	0.3	0.6	0.2	0.5	0.5	0.2	1.4
Special product quality adjustments, before tax	-	-	-	-	-	(1.4)	-	-	-	(1.4)
Items in Losses (gains) and other expenses, net before taxes	0.1	2.2	4.3	5.0	11.6	5.5	2.2	2.4	3.3	13.4
Impairment on assets held for sale	-	-	-	63.2	63.2	-	-	-	-	-
Non-core business results, after tax	(1.0)	0.4	(2.4)	(3.9)	(6.9)	1.0	3.4	0.6	0.4	5.4
Adjusted Segment profit, a non-GAAP measure	\$ 131.2	\$ 142.1	\$ 280.7	\$ 251.4	\$ 805.4	\$ 102.9	\$ 118.0	\$ 230.4	\$ 189.7	\$ 641.0
Tax on adjusted Segment profit	29.9	30.4	49.5	65.1	174.9	6.5	22.2	43.2	33.8	105.6
Net operating profit after taxes, a non-GAAP measure	\$ 101.3	\$ 111.7	\$ 231.2	\$ 186.3	\$ 630.5	\$ 96.4	\$ 95.8	\$ 187.2	\$ 155.9	\$ 535.4

	Q4 2022	Q1 2023	Q2 2023	Q3 2023	4 Qtr Avg 2023	Q4 2021	Q1 2022	Q2 2022	Q3 2022	4 Qtr Avg 2022
Total assets, a GAAP measure	\$ 2,567.6	\$ 2,770.4	\$ 2,981.3	\$ 2,928.4	\$ 2,811.9	\$ 2,171.9	\$ 2,456.9	\$ 2,659.0	\$ 2,625.8	\$ 2,478.4
Less: Cash	52.6	40.4	51.4	132.0	69.1	31.0	34.3	57.4	40.7	40.9
Short-term investments	8.5	7.1	7.2	9.6	8.1	5.5	5.7	5.3	7.5	6.0
Accounts payable	427.3	445.0	470.1	345.8	422.1	402.1	457.3	485.6	430.5	443.9
Accrued expenses	376.9	341.7	425.5	408.7	388.2	358.9	325.1	384.8	409.6	369.6
Income taxes payable	17.6	18.4	21.8	9.0	16.7	-	6.4	26.0	19.2	12.9
Liabilities held for sale	-	-	-	69.7	17.4	-	-	-	-	-
Current operating lease liabilities	63.3	63.8	63.2	60.2	62.6	54.8	58.8	59.5	61.3	58.6
Long-term operating lease liabilities	161.8	159.3	159.6	162.5	160.8	145.0	157.4	149.7	143.6	148.9
Pensions	40.1	39.7	39.6	33.0	38.1	83.3	84.3	85.6	86.5	84.9
Other long-term liabilities	158.9	160.8	159.9	157.6	159.3	159.0	166.5	175.8	175.8	169.3
Invested capital, a non-GAAP measure	\$ 1,260.6	\$ 1,494.2	\$ 1,583.0	\$ 1,540.3	\$ 1,469.5	\$ 932.3	\$ 1,161.1	\$ 1,229.3	\$ 1,251.1	\$ 1,143.5

Net operating profit after taxes, a non-GAAP measure	\$ 101.3	\$ 111.7	\$ 231.2	\$ 186.3	\$ 630.5	\$ 96.4	\$ 95.8	\$ 187.2	\$ 155.9	\$ 535.4
Return on invested capital					43%					47%