



First Quarter 2023 Earnings Conference Call

April 27, 2023



FORWARD-LOOKING STATEMENTS



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, the impact of new or increased trade tariffs, LII's ability to implement 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.

Use of Non-GAAP Financial Measures

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 Annex to this presentation.

EXECUTIVE SUMMARY



Strong 1st Quarter	Record Revenue and Profit GAAP: Revenue: \$1.05B Operating Income: \$140M EPS: \$2.75 <ul style="list-style-type: none">• Core Revenue* grew 3% to \$990M driven by price and mix benefits• Adjusted Segment margin* expanded 210 bps• Adjusted EPS* of \$2.83 up 15%
Cash Flow	Committed to Long-term 90-100% Cash Conversion <ul style="list-style-type: none">• Improved free cash flow* (\$114M) vs. (\$123M) last year• Strong balance sheet with Debt/EBITDA* ratio of 2.1• Working capital optimization to improve free cash flow
2023 Full-Year Outlook	2023 Financial Outlook Unchanged <ul style="list-style-type: none">• Core revenue growth of flat to up 4%• EPS range of \$14.25 to \$15.25• Free cash flow of \$250M to \$350M• Short term investments to fund growth and capacity

Strong Start To 2023 | Maintaining FY Outlook

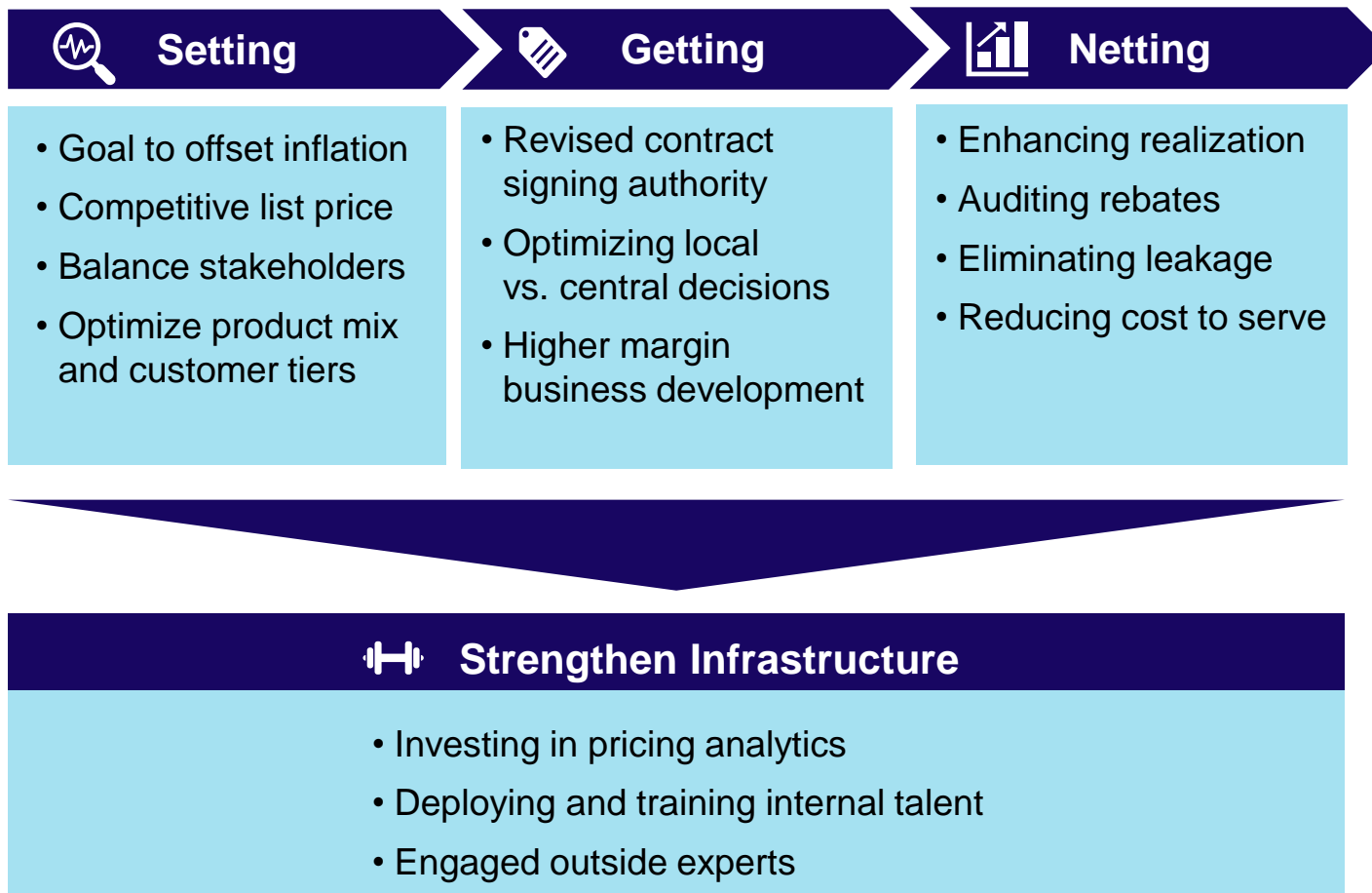
* See appendix for reconciliation to GAAP performance

All comparisons are relative to same period of prior year unless otherwise noted

END-MARKET UPDATE

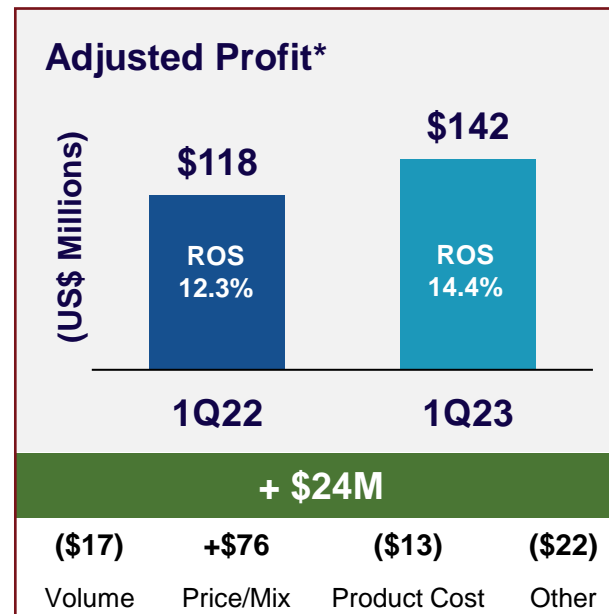
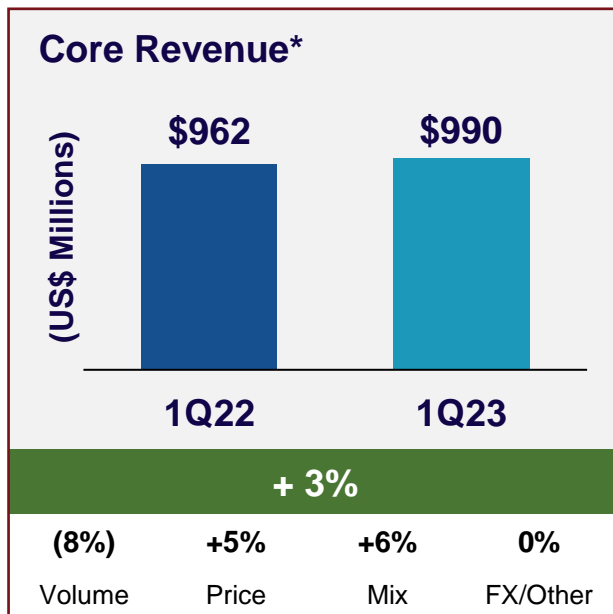
Factors	Key Indicators	
Residential	<ul style="list-style-type: none"> Reiterate full year unit sales down MSD Destocking has begun (AHRI units down) New construction starts better than expected Concern on future consumer confidence 	
Commercial	<ul style="list-style-type: none"> Reiterate full year Commercial sales up HSD Strong backlog continues Industry lead time remains extended 	
Price vs. Inflation	<ul style="list-style-type: none"> Commodities inflation resurfacing Component cost stable Industry pricing remains disciplined Implementing mid-year price increase 	
Share Gain	<ul style="list-style-type: none"> Successful minimum efficiency transition Improved service levels and inventory position Optimizing Go-to-Market with more feet on street 	

Cautiously Optimistic



Offsetting Inflation with Price to Recover Margins

1Q23 LII RESULTS

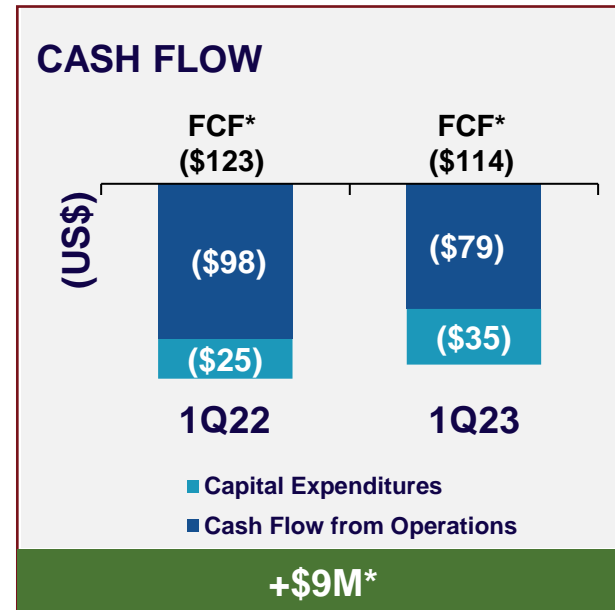
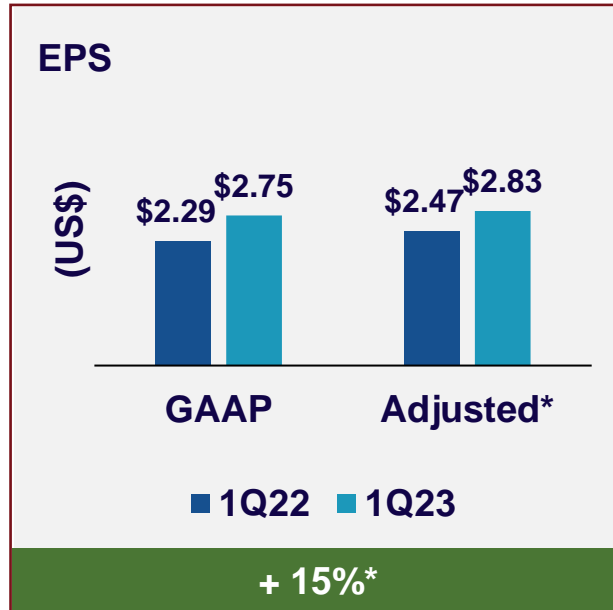


Key Points

- Residential: Flat revenue with volume decline of 8%, offset with price and mix
- Commercial Recovery: Initiatives on track with margin expansion continuing
- Price and Mix: Productivity driving 210 basis point margin expansion

* See appendix for reconciliation to GAAP performance

1Q23 LII RESULTS

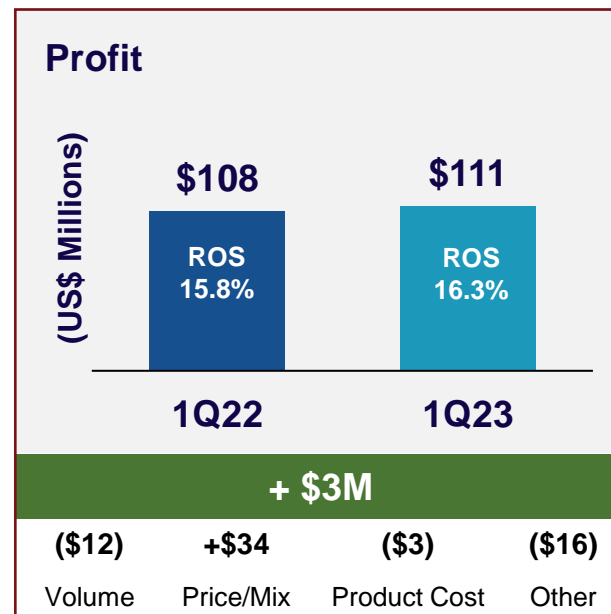
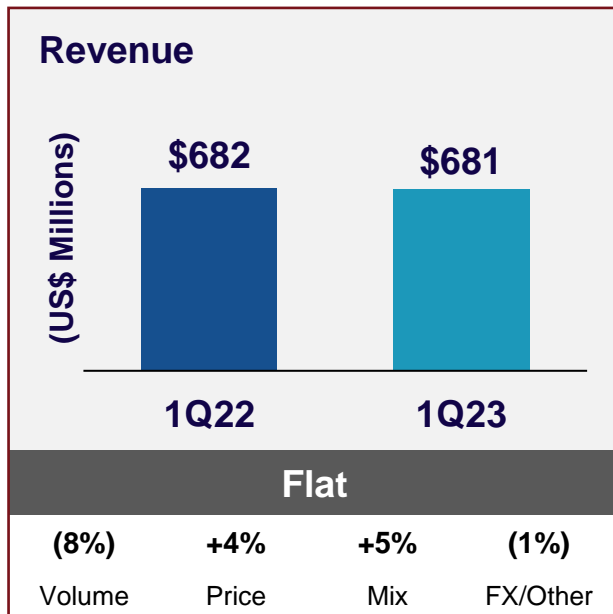


Key Points

- EPS: Record GAAP and Adjusted earnings
- Operating Cash Flow: Initiatives to optimize working capital on track
- Capital Expenditures: Increased business investment to fund growth and capacity

* See appendix for reconciliation to GAAP performance

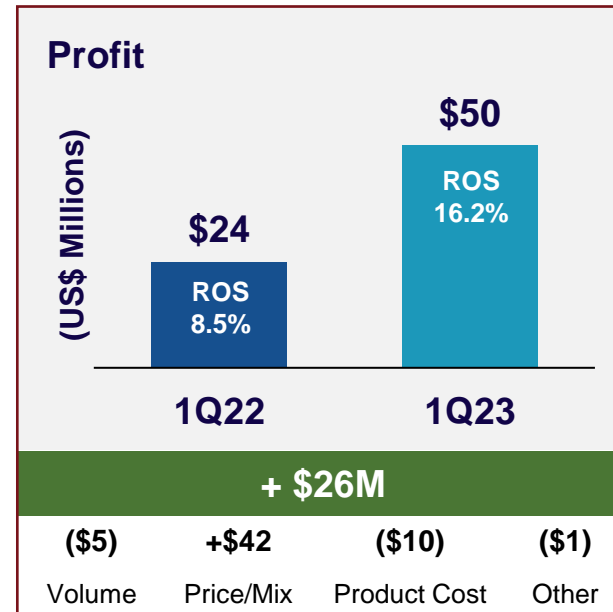
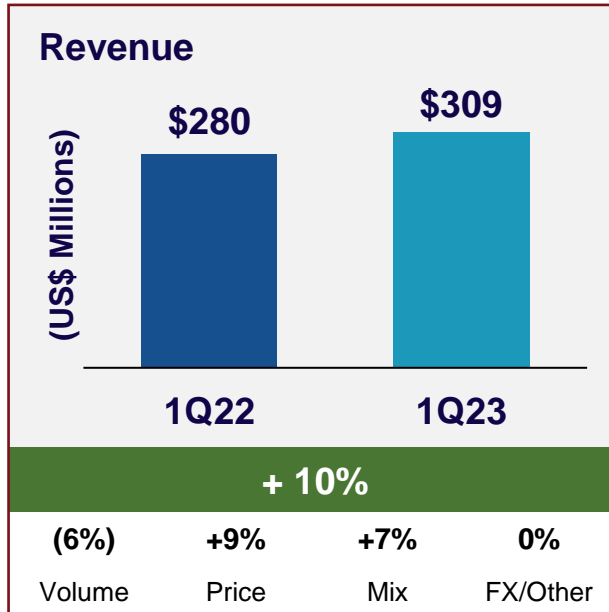
1Q23 RESIDENTIAL RESULTS



Key Points

- Volume: Revenue through Distributors had larger declines (destocking)
- Price: Discipline continues to hold
- Mix: New minimum efficiency standards driving favorable mix
- Other Cost: Distribution investments and inflationary effects

1Q23 COMMERCIAL RESULTS



Key Points

- Price: Yield of 9%
- Favorable Mix: New minimum efficiency standards product
- Demand: Backlog is strong, order rates are solid and lead-times are shortening
- Volume: Constrained by the supply chain challenges

2023 Revenue & Earnings

Core Revenue Growth	Flat to Up 4%
GAAP and Adjusted EPS	\$14.25 - \$15.25

Financial Outlook

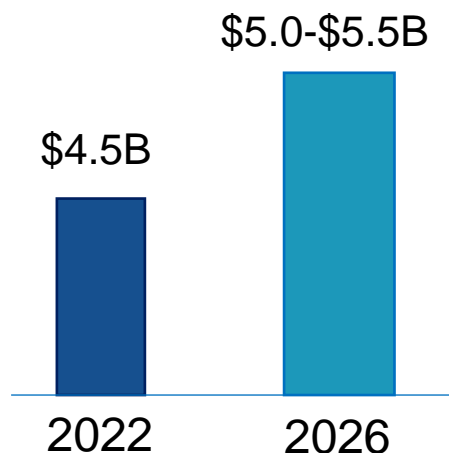
Free Cash Flow	\$250M - \$350M
Capital Expenditures	~ \$250M
Tax Rate	19% - 21%
Corporate Expenses	~ \$80M
Share Count	35M - 36M
Interest & Pension Expense	\$55M - \$60M

Key Assumptions

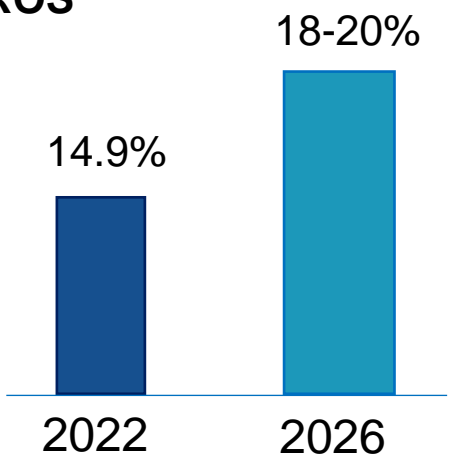
- Residential end-market unit volume down MSD with revenue flat to up LSD
- Commercial end markets up HSD with revenue up HSD/LDD
- Price/Mix EBIT benefit of \$175M
- Net material cost inflation (\$45M):
Components (\$100M)
Cost reduction \$30M + Commodity \$25M
- SG&A inflation partially offset by productivity
- Investment in distribution to support growth and drive productivity

CLEAR PATH TO ACHIEVE 2026 TARGETS

Revenue



ROS



Growth Acceleration

- Sales go-to-market effectiveness
- Brand customer experience to gain share
- Growth capacity investments



Resilient Margins

- Pricing excellence
- Commercial margin recovery
- Materials, Labor and SG&A Productivity



Execution Consistency

- Scorecard based operating system
- Dual sourced supply chain
- Digital processes (e.g., SIOP)



Attractive Cash/Portfolio

- North American focus - Europe divestiture
- 90-100% cash conversion
- Building bolt-on M&A pipeline



Technology Leadership

- SEER change, low GWP Transition
- Cold climate heat pump
- Digital AI/ML penetration



Talent and Culture

- Core Values and guiding behaviors
- Succession planning
- Compensation aligned for value creation



LII: GROWTH POTENTIAL



High Growth
End Market
with Strong
Replacement
Demand



Innovative
Products with
Direct-to-Dealer
Network

Narrowly
Focused on
environmentally
friendly HVACR



Robust
Execution and
Disciplined
Capital
Deployment

We Believe LII is a Compelling Investment Opportunity



APPENDICES

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Q1 2023 Revenue and Segment Profit

\$ USD Millions

Net sales

	Q1 2023	Q1 2022	Volume	Price	Mix	FX & Other	Total
Residential	\$681	\$682	(8%)	4%	5%	(1%)	0%
Commercial	309	280	(6%)	9%	7%	0%	10%
Corporate and other (1)	60	52	8%	13%		(5%)	16%
Net sales, a GAAP measure	\$1,049	\$1,013	(7%)	6%	5%	(1%)	4%
Net sales from non-core business (1)	60	52	8%	13%		(5%)	16%
Core net sales, a non-GAAP measure	\$990	\$962	(8%)	5%	6%	0%	3%

Segment profit

	Q1 2023	Q1 2022	Volume	Price/Mix	Product Cost	FX & Other	Total
Residential	\$111	\$108	(\$12)	\$34	(\$3)	(\$16)	\$3
Commercial	50	24	(5)	42	(10)	(1)	26
Corporate and other (1)	(19)	(17)	1	7	(3)	(7)	(2)
Segment profit, a Non-GAAP measure	\$142	\$115	(\$16)	\$83	(\$16)	(\$24)	\$27
Profit from non-core business (1)	-	(3)	1	7	(3)	(2)	3
Adjusted segment profit, a non-GAAP measure	\$142	\$118	(\$17)	\$76	(\$13)	(\$22)	\$24
Profit from non-core business (1)	-	3					
Items in Losses (gains) and other expenses, net which are excluded from segment profit (2)	2	2					
Restructuring charges	-	1					
Operating income	\$140	\$112					

(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

Reconciliation of first quarter earnings per share – diluted, a GAAP measure, to Adjusted earnings per share – diluted, a non-GAAP measure

Reconciliation of Net income, a GAAP measure, to Adjusted Net income, a Non-GAAP measure

For the Three Months Ended March 31,
(Unaudited)

	2023			2022		
	Pre-Tax	Tax Impact (c)	After Tax	Pre-Tax	Tax Impact (c)	After Tax
Net income, a GAAP measure	\$ 125.1	\$ (27.1)	\$ 98.0	\$ 104.4	\$ (20.8)	\$ 83.6
Restructuring charges	—	—	—	0.5	(0.1)	0.4
Pension settlements	0.2	—	0.2	0.1	—	0.1
Items in Losses (gains) and other expenses, net which are excluded from segment profit (loss) (a)	2.2	(1.3)	0.9	2.2	(0.7)	1.5
Excess tax expense from share-based compensation (b)	—	—	—	—	0.5	0.5
Non-core business results (d)	0.4	1.0	1.4	3.5	0.3	3.8
Adjusted net income, a non-GAAP measure	\$ 127.9	\$ (27.4)	\$ 100.5	\$ 110.7	\$ (20.8)	\$ 89.9
Earnings per share - diluted, a GAAP measure			\$ 2.75			\$ 2.29
Restructuring charges			—			0.01
Pension settlements			0.01			—
Items in Losses (gains) and other expenses, net which are excluded from segment profit (loss) (a)			0.03			0.04
Excess tax expense from share-based compensation (b)			—			0.02
Non-core business results (d)			0.04			0.11
Adjusted earnings per share - diluted, a non-GAAP measure			\$ 2.83			\$ 2.47

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

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

(c) Tax impact based on the applicable tax rate relevant to the location and nature of the adjustment.

(d) Non-core business results represent activity related to our business operations in Europe not included elsewhere in the reconciliations

Reconciliation of cash provided by operating activities, a GAAP measure, to free cash flow, a non-GAAP measure

Net Cash Used in Operating Activities, a GAAP measure, to Free Cash Flow, a Non-GAAP measure (dollars in millions)

	For the Three Months Ended March 31,	
	2023	2022
Net cash used in operating activities, a GAAP measure	\$ (78.8)	\$ (97.9)
Purchases of property, plant and equipment	(35.4)	(25.8)
Proceeds from the disposal of property, plant and equipment	0.3	0.3
Free cash flow, a Non-GAAP measure	<u>\$ (113.9)</u>	<u>\$ (123.4)</u>

Calculation of Debt to EBITDA Ratio

Calculation of Debt to Adjusted EBITDA Ratio

	Trailing Twelve Months to March 31, 2023	
Income from continuing operations before taxes, a GAAP Measure	\$	636.5
Items in losses (gains) and other expenses, net before taxes		8.1
Restructuring charges, before tax		1.0
Interest expense, net		46.1
Pension settlements, before tax		(0.1)
Other expense (income), net before tax		1.3
Depreciation and amortization expense		76.4
Adjusted EBITDA, a non-GAAP measure	\$	769.3
Net Debt	\$	1,620.4
Net Debt to adjusted EBITDA ratio		2.1
Total Debt, a GAAP measure	\$	1,667.9
Less: Cash		(40.4)
Less: Short-term investments		(7.1)
Net Debt, a non-GAAP measure	\$	1,620.4

RECAST SEGMENT RESULTS

(\$US in Millions)

	Q1 2022		Q2 2022		Q3 2022		Q4 2022		Full Year 2022	
	As	As	As	As	As	As	As	As	As	
	Reported	Adjusted	Reported	Adjusted	Reported	Adjusted	Reported	Adjusted	Reported	Adjusted
Residential segment net sales	\$ 682.2	\$ 682.2	\$ 977.5	\$ 977.5	\$ 835.3	\$ 835.3	\$ 703.4	\$ 703.4	\$ 3,198.3	\$ 3,198.3
Residential segment profit	\$ 107.6	\$ 107.6	\$ 216.3	\$ 216.3	\$ 153.8	\$ 153.8	\$ 119.2	\$ 119.2	\$ 596.9	\$ 596.9
Commercial segment net sales	\$ 187.7	\$ 279.5	\$ 219.6	\$ 327.4	\$ 252.9	\$ 352.3	\$ 240.5	\$ 327.2	\$ 900.7	\$ 1,286.4
Commercial segment profit	\$ 6.3	\$ 23.8	\$ 17.2	\$ 41.2	\$ 29.6	\$ 52.4	\$ 27.9	\$ 45.6	\$ 80.9	\$ 163.0
Refrigeration segment net sales	\$ 143.5	\$ -	\$ 169.2	\$ -	\$ 156.7	\$ -	\$ 149.9	\$ -	\$ 619.4	\$ -
Refrigeration segment profit	\$ 14.1	\$ -	\$ 23.4	\$ -	\$ 22.4	\$ -	\$ 18.8	\$ -	\$ 78.8	\$ -
Corporate net sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net sales from European operations	\$ -	\$ 51.7	\$ -	\$ 61.4	\$ -	\$ 57.3	\$ -	\$ 63.2	\$ -	\$ 233.7
Corporate and other net sales	\$ -	\$ 51.7	\$ -	\$ 61.4	\$ -	\$ 57.3	\$ -	\$ 63.2	\$ -	\$ 233.6
Corporate costs	\$ (13.4)	\$ (13.4)	\$ (27.1)	\$ (27.1)	\$ (16.5)	\$ (16.5)	\$ (33.7)	\$ (33.7)	\$ (90.8)	\$ (90.8)
Segment profit from European operations	\$ -	\$ (3.4)	\$ -	\$ (0.5)	\$ -	\$ (0.4)	\$ -	\$ 1.1	\$ -	\$ (3.3)
Corporate and other segment profit	\$ (13.4)	\$ (16.8)	\$ (27.1)	\$ (27.6)	\$ (16.5)	\$ (16.9)	\$ (33.7)	\$ (32.6)	\$ (90.8)	\$ (94.1)
LII net sales	\$ 1,013.4	\$ 1,013.4	\$ 1,366.3	\$ 1,366.3	\$ 1,244.9	\$ 1,244.9	\$ 1,093.8	\$ 1,093.8	\$ 4,718.4	\$ 4,718.4
LII segment profit	\$ 114.6	\$ 114.6	\$ 229.8	\$ 229.9	\$ 189.3	\$ 189.3	\$ 132.2	\$ 132.2	\$ 665.8	\$ 665.8

RECAST SEGMENT RESULTS

(\$US in Millions)

	Q1 2021		Q2 2021		Q3 2021		Q4 2021		Full Year 2021	
	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted
Residential segment net sales	\$ 606.3	\$ 606.3	\$ 838.0	\$ 838.0	\$ 711.0	\$ 711.0	\$ 620.3	\$ 620.3	\$ 2,775.6	\$ 2,775.6
Residential segment profit	\$ 96.4	\$ 96.4	\$ 189.7	\$ 189.7	\$ 144.0	\$ 144.0	\$ 110.3	\$ 110.3	\$ 540.3	\$ 540.3
Commercial segment net sales	\$ 199.2	\$ 274.8	\$ 252.8	\$ 335.0	\$ 211.5	\$ 292.7	\$ 201.4	\$ 286.3	\$ 864.8	\$ 1,188.8
Commercial segment profit	\$ 27.4	\$ 39.6	\$ 45.3	\$ 58.9	\$ 22.6	\$ 36.3	\$ 15.6	\$ 29.8	\$ 110.9	\$ 164.6
Refrigeration segment net sales	\$ 125.0	\$ -	\$ 148.2	\$ -	\$ 137.4	\$ -	\$ 143.1	\$ -	\$ 553.7	\$ -
Refrigeration segment profit	\$ 7.9	\$ -	\$ 13.5	\$ -	\$ 14.5	\$ -	\$ 13.2	\$ -	\$ 49.1	\$ -
Corporate net sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net sales from European operations	\$ -	\$ 49.4	\$ -	\$ 66.0	\$ -	\$ 56.2	\$ -	\$ 58.2	\$ -	\$ 229.7
Corporate and other net sales	\$ -	\$ 49.4	\$ -	\$ 66.0	\$ -	\$ 56.2	\$ -	\$ 58.2	\$ -	\$ 229.7
Corporate costs	\$ (16.0)	\$ (16.0)	\$ (26.9)	\$ (26.9)	\$ (16.3)	\$ (16.3)	\$ (37.2)	\$ (37.2)	\$ (96.4)	\$ (96.4)
Segment profit from European operations	\$ -	\$ (4.3)	\$ -	\$ (0.1)	\$ -	\$ 0.8	\$ -	\$ (1.0)	\$ -	\$ (4.6)
Corporate and other segment profit	\$ (16.0)	\$ (20.3)	\$ (26.9)	\$ (27.0)	\$ (16.3)	\$ (15.5)	\$ (37.2)	\$ (38.2)	\$ (96.4)	\$ (101.0)
LII net sales	\$ 930.5	\$ 930.5	\$ 1,239.0	\$ 1,239.0	\$ 1,059.9	\$ 1,059.9	\$ 964.8	\$ 964.8	\$ 4,194.1	\$ 4,194.1
LII segment profit	\$ 115.7	\$ 115.7	\$ 221.6	\$ 221.6	\$ 164.8	\$ 164.8	\$ 101.9	\$ 101.9	\$ 603.9	\$ 603.9