



Third Quarter 2022 Earnings Conference Call

October 27, 2022



FORWARD-LOOKING STATEMENTS

The statements in this presentation that are not historical statements, including statements regarding the 2022 full-year outlook and expected consolidated and segment financial results for 2022, 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, a decline in new construction activity and related demand for products and services, and any resurgence of the Covid-19 pandemic and its economic impact on the company and its employees and customers. 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

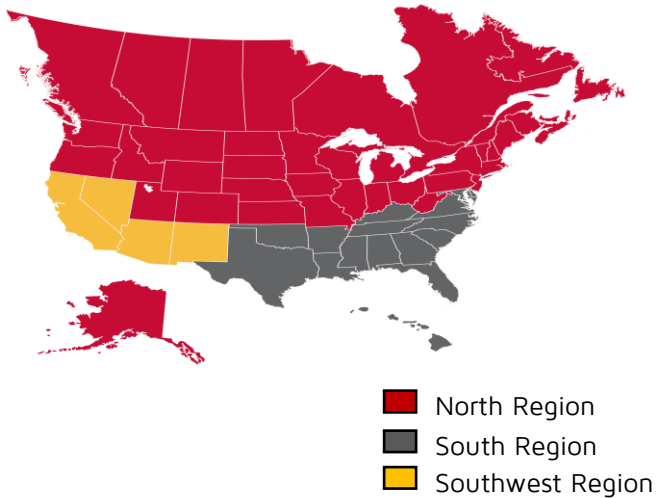
A reconciliation of non-GAAP financial measures appearing in this presentation to financial measures prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) are included in the Annex to this presentation and the company's SEC filings.

EXECUTIVE SUMMARY

Record Quarterly Results	Double-Digit Revenue Growth in All Three Businesses <ul style="list-style-type: none">• Third Quarter Record Revenue of \$1.24B, Up 17%• Record Third Quarter Adjusted EPS of \$4.10, Up 21%
Disciplined Capital Allocation	Building Supply Chain Resiliency <ul style="list-style-type: none">• Third Quarter Cash from Operations of \$171M• Inventory for Regulatory Changes & Supply Chain Resiliency
Strategic Priorities	Capitalizing on Market Opportunities <ul style="list-style-type: none">• Commercial Segment Profit Up 72% Q-Q and Up 31% Y-Y• New Commercial Factory \$125M - \$150M Investment over 2 Years
Full-Year Guidance	Updating 2022 Financial Guidance <ul style="list-style-type: none">• Revenue Growth of 12-15% vs. Prior Range of 10-15%• EPS of \$13.80 to \$14.20 vs. Prior Range of \$13.80 to \$14.50• Mix and Inefficiencies Resulting from Supply Chain Disruptions
Record Third Quarter Strong Growth Execution	

MINIMUM-EFFICIENCY REGULATORY CHANGE

Higher Minimum-Efficiency Standards Effective January 1, 2023



Product Lines Redesigned



AC



HP



Rooftop

- ✓ **On-track** with product transition plans
- ✓ **Competitive design** with single-stage compression, efficient aluminum coils, optimized footprint
- ✓ **Lennox solutions** achieve higher minimum-efficiency standards without changing indoor units

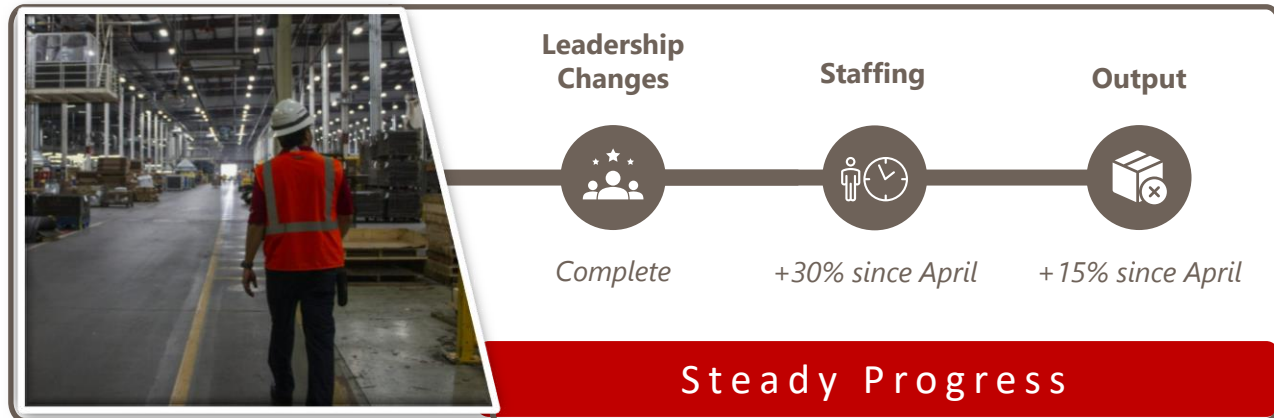
Fully Prepared to Support Customers

COMMERCIAL PROFIT RECOVERY

Commercial Recovery

- ✓ Hire/Retain Hourly Talent
- ✓ Improve Daily Output to Better Serve Key National Accounts
- ✓ Improve Manufacturing Efficiency at Stuttgart
- ✓ Build Mexico Factory to Increase Capacity
- ✓ Regain Lost Share, Especially in Emergency Replacement

Existing Manufacturing: Stuttgart, Arkansas



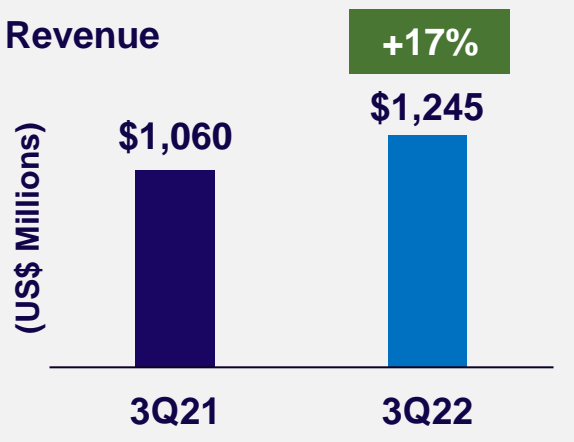
New Factory to be Built: Saltillo, Mexico



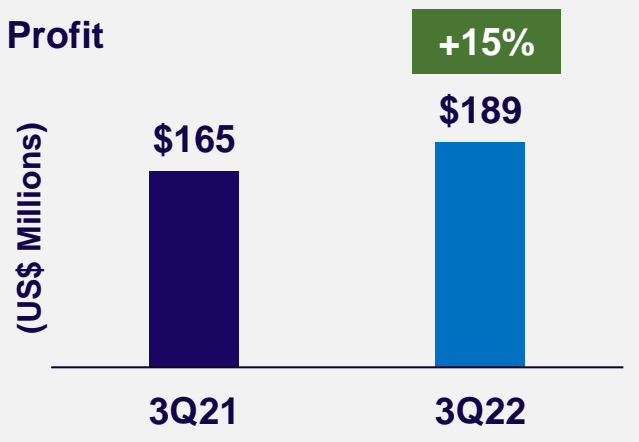
\$100M EBIT Improvement Opportunity

3Q22 LII FINANCIAL RESULTS

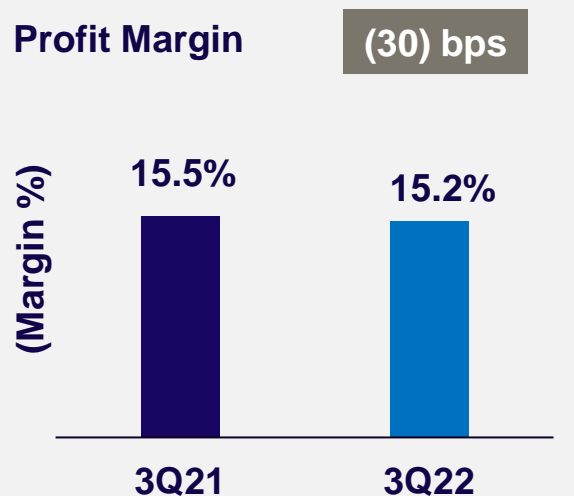
Revenue



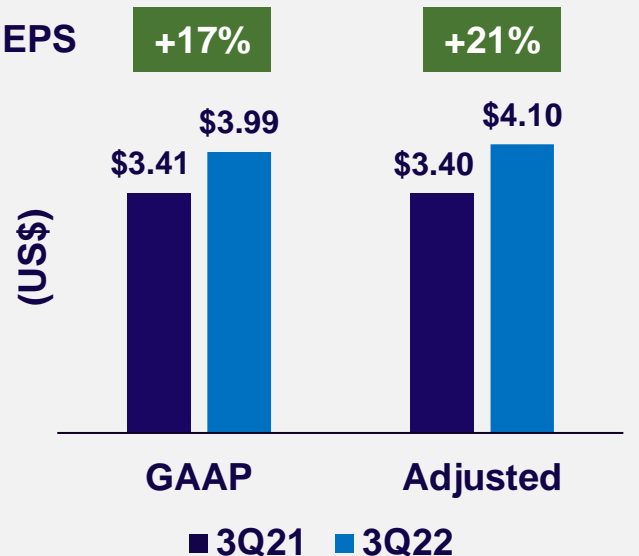
Profit



Profit Margin



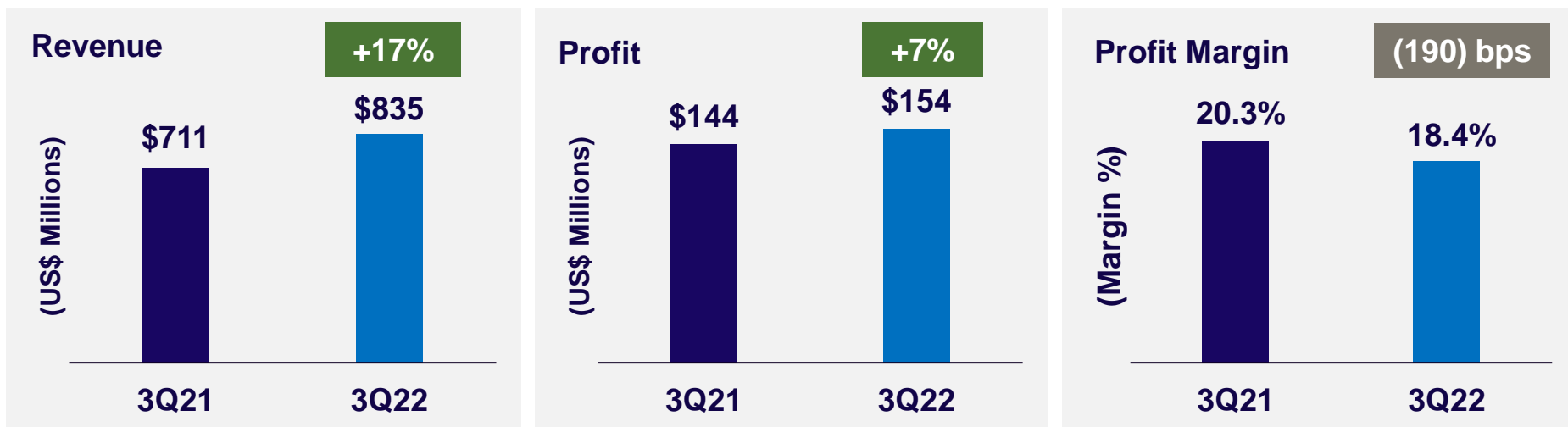
EPS



Key Points

- 3rd Quarter Record Revenue and Earnings
- Strong Price Yield of 11% Exceeded Inflation
- Margin Impacted by Supply Chain Inefficiencies and Mix Resulting from High-End Component Shortages
- Commercial Operational Recovery Progressing

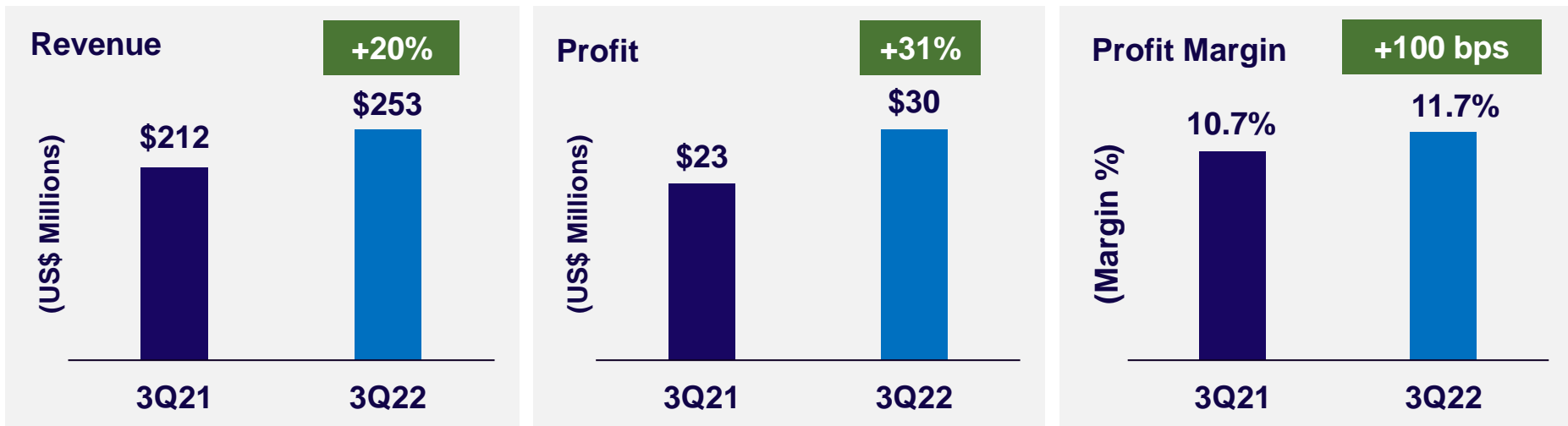
3Q22 RESIDENTIAL SEGMENT RESULTS



Key Points

- Record 3rd Quarter Revenue and Profit
- Residential Volume Up 7%
- Strong Price Yield of 10%
- Persistent Supply Chain Challenges Negatively Impacted Efficiencies and Product Mix as High-End Units Remained in Short Supply

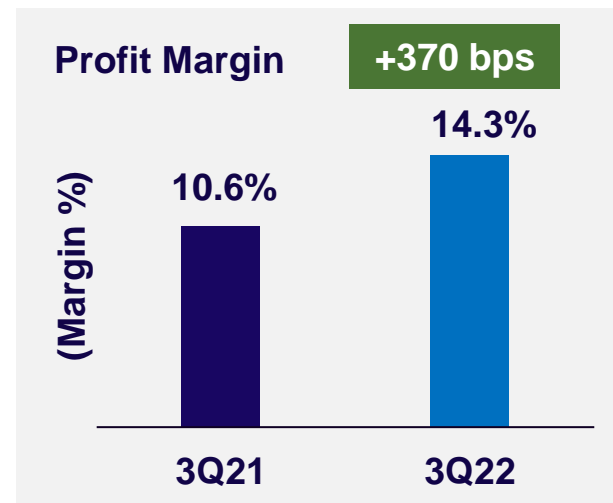
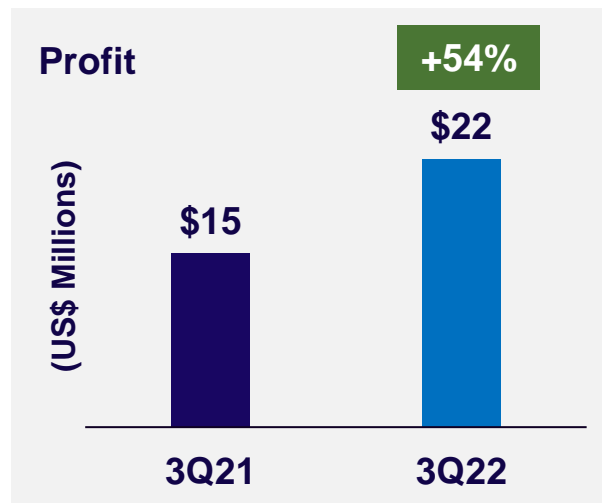
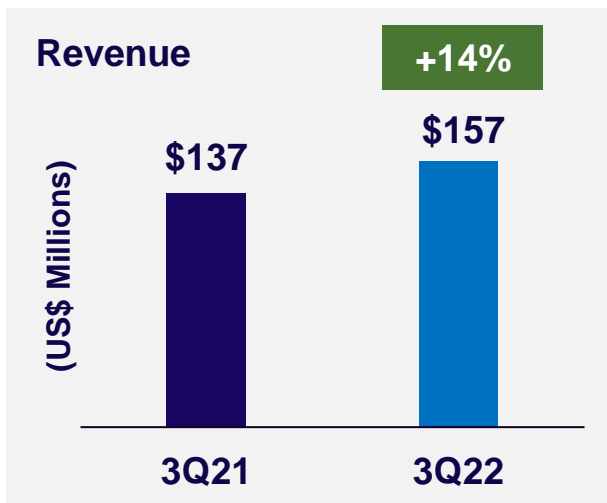
3Q22 COMMERCIAL SEGMENT RESULTS



Key Points

- Revenue Up 20% and Profit Increased 31% Driven by Strong Price and Mix
- Order Rates and Backlog Remain Strong
- Arkansas Factory Recovery Progressing
 - ✓ Sufficient Hourly Talent Recruited
 - ✓ Daily Output Increasing
 - ✓ Solid Progress on Improving Manufacturing Processes

3Q22 REFRIGERATION SEGMENT RESULTS



Key Points

- Revenue Up 14% on Strong Price and Volume Growth; Up 21% at Constant Currency
- North America Revenue Up More than 20%
- Europe Revenue Up 2% as Reported and Up 20% at Constant Currency
- Refrigeration Demand and Backlog Remain Strong

LII 2022 FULL-YEAR GUIDANCE UPDATE

2022 Revenue & Earnings

Revenue Growth

12% – 15%
(Prior 10-15%)

GAAP and Adjusted EPS

\$13.80 – \$14.20
(Prior \$13.80-\$14.50)

Other Guidance Points

Free Cash Flow

~ \$300M
(Prior ~ \$400M)

Capital Expenditures

~ \$125M

Tax Rate

~ 19%

Corporate Expenses

~ \$95M

FX Impact

Neutral

Share Repurchases

~ \$300M
(Prior ~ \$400M)

Share Count

~ 36M

Interest & Pension Expense

~ \$40M
(Prior ~ \$35M)

Full-Year Assumptions

- North American Residential HVAC End Market Growth +LSD%
- North American Commercial and Refrigeration End Market Growth +MSD%
- Price of \$425M, 10% Yield (Prior \$400M)
- Residential Mix \$45M Headwind (Prior \$25M)
- Component Inflation of \$120M (Prior \$100M)
- Commodity Inflation of \$120M (Prior \$130M)
- Supply Related Factory Disruptions \$25M Headwind (Prior \$15M)
- Freight Costs \$20M Headwind
- Inventory Built for Regulatory Changes and Supply Chain Resiliency

KEY DRIVERS OF 2023 OUTLOOK

HEADWINDS

- Potential 2023 Decline in Residential Unit Sales Due to New Construction Slowdown and Possible Impact on Replacement Units from Economic Slowdown
- Continued Component Inflation in the 1st Half of the Year
- Continued Supply Chain Constraints

TAILWINDS

- Mix/Price Benefit from Minimum Efficiency Regulatory Change
- Price Carryover and Price Increases
- Commercial Manufacturing Recovery to Positively Impact Revenue and EBIT
- Easing Commodity Costs and Material Cost Reduction Pipeline
- Easing of Supply Chain Inefficiencies
- Better Mix as High-End Availability Improves
- Share Gain Opportunities
- Strong Backlog in Commercial and Refrigeration

Expecting LII Revenue, Margin and EPS Growth in 2023

LII: FOUNDATION TO ENHANCE SHAREHOLDER VALUE

High Growth
End Market
with Strong
Replacement
Demand



LII is a Leader in
Delivering Energy
Efficient Climate
Control Solutions



Innovative
Products with
Direct-to-Dealer
Network

Narrowly
Focused on
HVACR with
ESG Value
Proposition



Robust
Execution and
Disciplined
Capital
Deployment

We Believe LII is a Compelling Investment Opportunity



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APPENDICES

Reconciliation of earnings per share – diluted, a GAAP measure, to adjusted earnings per share – diluted, a non-GAAP measure

For the Three Months Ended September 30,
(Unaudited)

	2022			2021		
	Pre-Tax	Tax Impact (d)	After Tax	Pre-Tax	Tax Impact (d)	After Tax
Income from continuing operations, a GAAP measure	\$ 174.6	\$ (32.7)	\$ 141.9	\$ 154.8	\$ (28.5)	\$ 126.3
Restructuring charges	0.2	—	0.2	0.3	(0.1)	0.2
Pension settlements	—	—	—	0.3	(0.1)	0.2
Special product quality adjustments (a)	—	—	—	(1.1)	0.2	(0.9)
Items in Losses (gains) and other expenses, net which are excluded from segment profit (loss) (b)	3.3	(0.3)	3.0	2.9	(0.5)	2.4
Excess tax benefit from share-based compensation (c)	—	(0.2)	(0.2)	—	(2.7)	(2.7)
Other tax items, net (c)	—	0.7	0.7	—	0.3	0.3
Adjusted income from continuing operations, a non-GAAP measure	\$ 178.1	\$ (32.5)	\$ 145.6	\$ 157.2	\$ (31.4)	\$ 125.8

Earnings per share - diluted, a GAAP measure	\$ 3.99	\$ 3.41
Restructuring charges	—	0.01
Pension settlements	—	0.01
Special product quality adjustments (a)	—	(0.02)
Items in Losses (gains) and other expenses, net which are excluded from segment profit (loss) (b)	0.09	0.06
Excess tax benefit from share-based compensation (c)	—	(0.08)
Other tax items, net (c)	0.02	0.01
Adjusted earnings per share - diluted, a non-GAAP measure	\$ 4.10	\$ 3.40

(a) Recorded in Cost of goods sold in the Consolidated Statements of Operations

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

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

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

Reconciliation of segment profit (loss), a non-GAAP measure, to operating income, a GAAP measure

(Unaudited)

(Amounts in millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Net Sales				
Residential Heating & Cooling	\$ 835.3	\$ 711.0	\$ 2,494.9	\$ 2,155.3
Commercial Heating & Cooling	252.9	211.5	660.2	663.4
Refrigeration	156.7	137.4	469.5	410.6
	<u>\$ 1,244.9</u>	<u>\$ 1,059.9</u>	<u>\$ 3,624.6</u>	<u>\$ 3,229.3</u>
Segment Profit (Loss) ⁽¹⁾				
Residential Heating & Cooling	\$ 153.8	\$ 144.0	\$ 477.7	\$ 430.1
Commercial Heating & Cooling	29.6	22.6	53.1	95.3
Refrigeration	22.4	14.5	60.0	35.8
Corporate and other	(16.5)	(16.3)	(57.1)	(59.2)
Total segment profit	189.3	164.8	533.7	502.0
Reconciliation to Operating Income:				
Special product quality adjustments	—	(1.1)	—	(1.0)
Items in Losses (gains) and other expenses, net which are excluded from segment profit (loss) ⁽¹⁾	3.3	2.9	7.9	8.7
Restructuring charges	0.2	0.3	1.2	1.6
Operating income	<u>\$ 185.8</u>	<u>\$ 162.7</u>	<u>\$ 524.6</u>	<u>\$ 492.7</u>

⁽¹⁾ We define segment profit (loss) as a segment's operating income included in the accompanying Consolidated Statements of Operations, excluding:

- The following items in Losses (gains) and other expenses, net:
 - Net change in unrealized losses (gains) on unsettled futures contracts,
 - Environmental liabilities and special litigation charges,
 - Charges incurred related to COVID-19 pandemic; and
 - Other items, net,
- Special product quality adjustments; and
- Restructuring charges.

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

	<u>2022E</u>
Net cash provided by operating activities, a GAAP measure	~\$424
Proceeds from the disposal of property, plant and equipment	1
Purchase of property, plant and equipment	<u>(125)</u>
Free cash flow	~\$300