

 **LENNOX**

FIRST QUARTER 2024

EARNINGS RELEASE

APR 24, 2024

FORWARD-LOOKING STATEMENTS & NON-GAAP FINANCIAL MEASURES

The statements in this presentation that are not historical statements, including statements regarding the 2024 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 competition in the HVACR business; our ability to successfully develop and market new products or execute our business strategy; our ability to meet and anticipate customer demands; our ability to continue to license or enforce our intellectual property rights; our ability to attract, motivate, develop, and retain our employees, as well as labor relations problems; a decline in new construction activity and related demand for our products and services; the impact of weather on our business; the impact of higher raw material prices and significant supply interruptions; changes in environmental and climate-related legislation or government regulations or policies; changes in tax legislation; the impact of new or increased trade tariffs; warranty, intellectual property infringement, product liability and other claims; litigation risks; general economic conditions in the United States and abroad; extraordinary events beyond our control; foreign currency fluctuations and changes in local government regulation associated with our international operations; cyber attacks and other disruptions or misuse of information systems; our ability to successfully realize, complete and integrate acquisitions; and impairment of the value of our goodwill. 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 document to financial measures prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) are included in the Annex to this document.

This document 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 was sold in 4Q 2023. 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.

Q1 2024 HIGHLIGHTS

Record Margins: Management Execution Continues Performance Momentum



**Raising Full Year
Profit Guidance**

**Adjusted
Earnings Per Share***
\$19.00 - \$20.00

Core Revenue*

\$1.0B

+6% YoY

**Adjusted Segment
Profit***

\$167M

+17% YoY

**Adjusted Segment
Profit Margin***

15.9%

+157 bps YoY

Adjusted EPS*

\$3.47

+23% YoY

**Operating
Cash Flow**

(\$23M)

+\$56M YoY

**Return On
Invested Capital***

46%

Up 4 pts YoY

REFRIGERANT TRANSITION UPDATE

2024

Transition Ready:
Design, Manufacturing,
And Contractor Training



- All elements of transition on-schedule
- Have begun to train and inform contractors and distributors

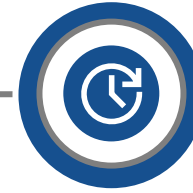
Launch New Product*
(Expect Minimal Residential Demand)



- Expect EPA clarity on repair components
- New product* priced >10% above R-410A products
- Manufacturing transition cost headwinds

2025

Demand Grows



- Expect 50% to 65% of end market / sell through demand for new low GWP products
- Adoption of low GWP products supports favorable mix

STRENGTHENING DISTRIBUTION NETWORK



Organization, Talent, Expertise and Culture

- Regional P&L with aligned sales and distribution
- Invest in field sales, revenue ops, pricing excellence
- Renewed parts and supplies P&L focus

Share & Margin



Distribution Network and Digital Processes

- Digital twin design to improve fill rate and costs
- End to end demand and deployment planning
- Offshore analytical and admin support

Growth Capacity



Building Customer Loyalty

- Net Promoter Score and customer segmentation
- Refresh and improve brand perception
- Customer charters to increase retention

Net Promoter Score

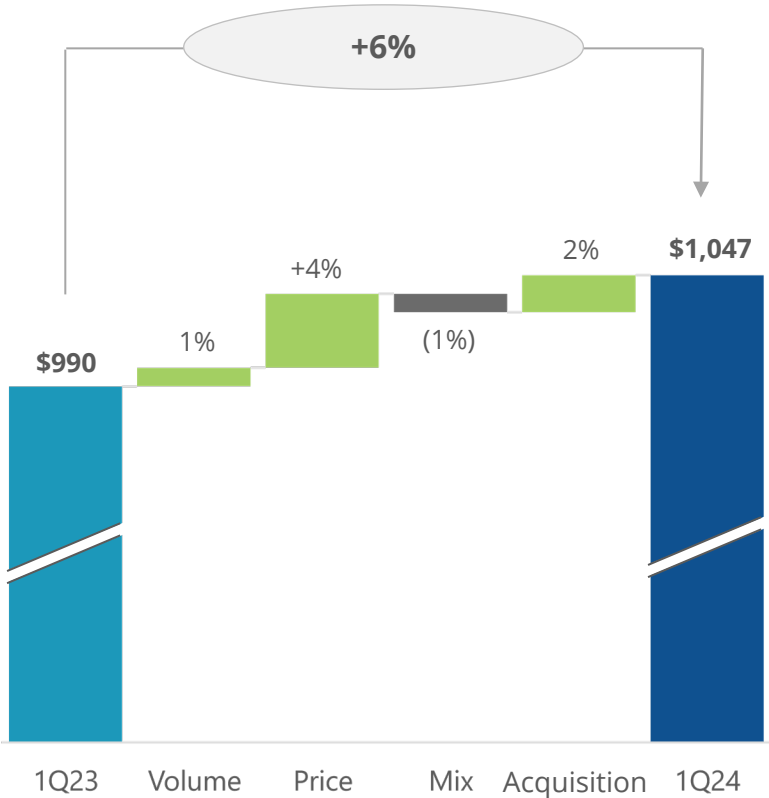


Enhancing Customer Experience

Q1 2024 LENNOX FINANCIAL RESULTS

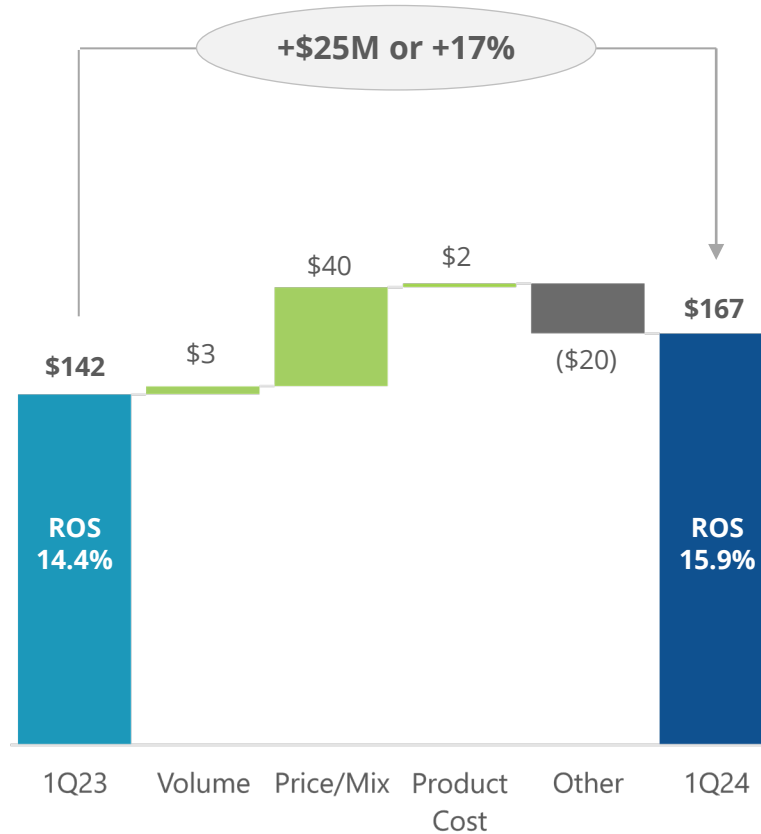
Core Revenue*

(US\$ Millions)



Adjusted Segment Profit*

(US\$ Millions)



Adjusted
EPS*

+23% to
\$3.47

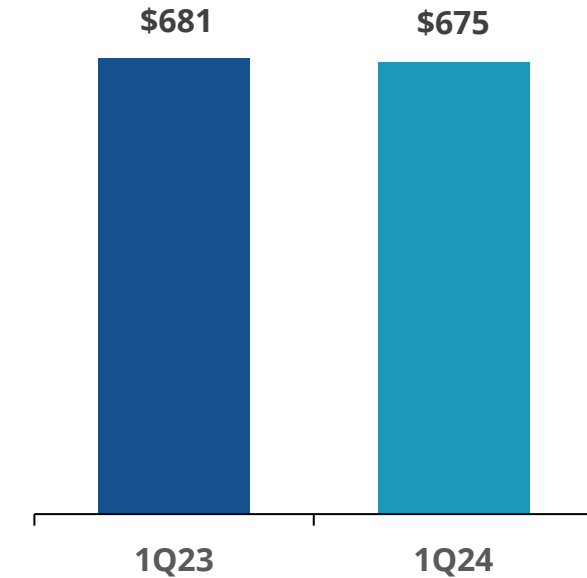


- **Volume:** Challenging HCS end markets, stable orders in BCS
- **Price:** Continued pricing excellence
- **Mix:** New Construction home starts rebounding

Q1 2024 HOME COMFORT SOLUTIONS

Revenue

(US\$ Millions)

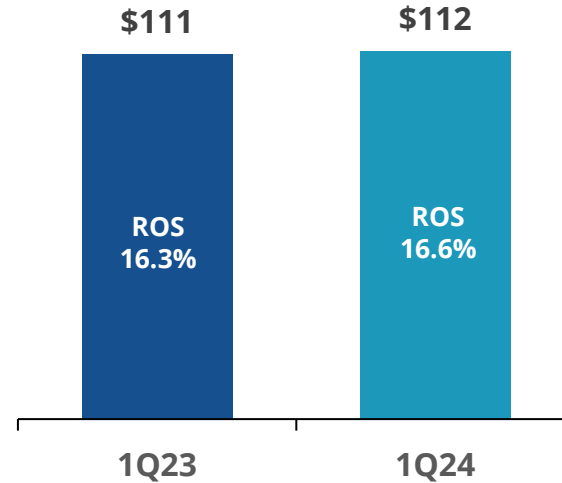


(1%)

(2%)	+3%	(2%)	flat
Volume	Price	Mix	Other

Segment Profit

(US\$ Millions)



+\$1

(\$4)	+\$20	flat	(\$15)
Volume	Price/Mix	Product Cost	Other

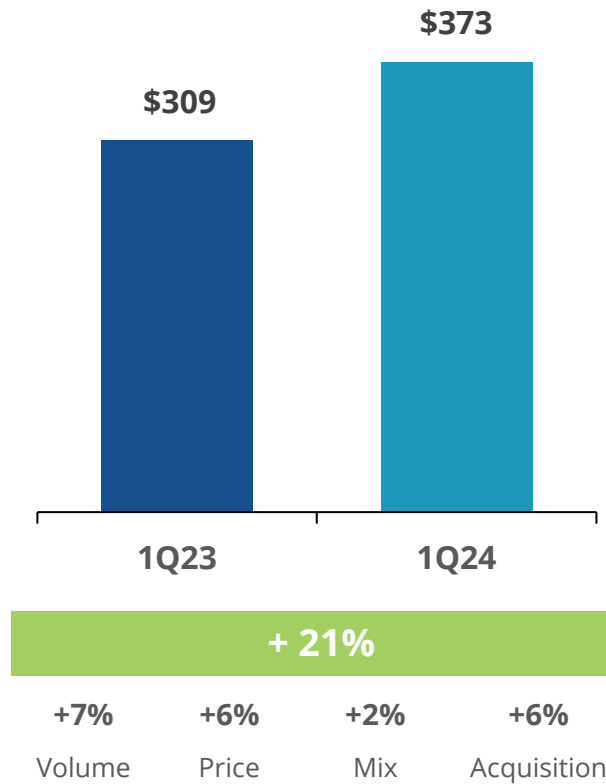


- **Volume:** Industry destocking is concluding
- **Price:** Pricing initiatives progressing well
- **Other Cost:** Wages, rent inflation, consulting and investments in distribution and selling

Q1 2024 BUILDING CLIMATE SOLUTIONS

Revenue

(US\$ Millions)



Segment Profit

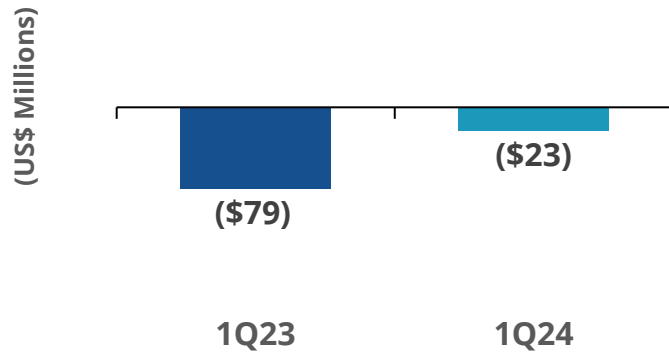
(US\$ Millions)



- **Volume:** Production challenged, but consistently improving
- **Product Cost:** Productivity offset by new factory ramp-up
- **Other:** SG&A investments and inflation offset with profit gain from AES acquisition

CASH FLOW AND CAPITAL DEPLOYMENT

Operating Cash Flow

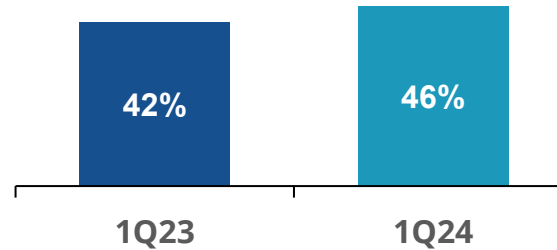


Cash conversion continues to improve

- Inventories
 - Temporary build in 2H
- Accounts receivable & Accounts Payable
 - Focused on efficiencies

Investing for Growth

ROIC*

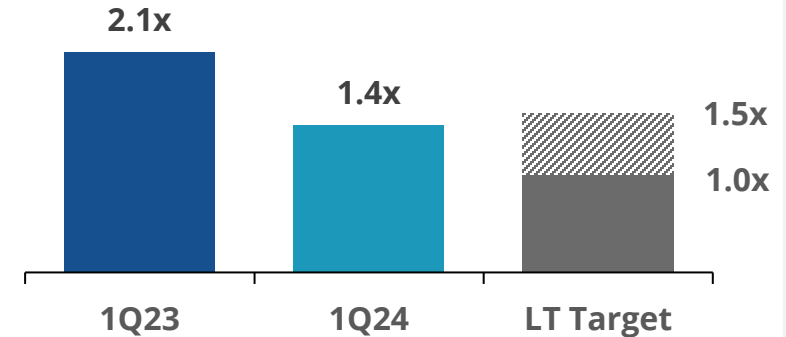


Industry leading ROIC

- New commercial factory will enable emergency replacement share gain
- A2L conversion investments on track
- M&A opportunities

Capital

Net Debt to Adjusted EBITDA*



Sustain a healthy balance sheet

- Grow dividends with earnings
- Share repurchases to offset dilution
- Maintain investment grade rating

2024 FINANCIAL GUIDANCE

Core Revenue

	Volume	Price / Mix	Acquisition	Total
Home Comfort Solutions	Flat	+ MSD		+ ~6%
Building Climate Solutions	+ LSD	+ MSD	+ MSD	+ ~10%
Total LII Revenue Growth	~ Flat	+ MSD	+ LSD	+ ~7%
Prior Guidance	~ Flat	+ MSD	+ LSD	+ ~7%
<i>Segment Profit Incrementals</i>	<i>~ 30%</i>	<i>~ 90%</i>	<i>~15%</i>	

Other Guidance Items

	Current	Prior
Adjusted EPS	\$19.00 - \$20.00	\$18.50 - \$20.00
Free Cash Flow	\$500M - \$600M	\$500M - \$600M

Product & Other Cost Assumptions

- Component inflation up MSD with partial offset from material cost reduction programs
- Expect R410A refrigerant cost up significantly
- Commercial Factory ramp-up costs (~\$10M) & Residential A2L manufacturing inefficiencies (\$5-10M)
- Investments in information systems, distribution strengthening, customer experience initiatives, and inflation impact on SG&A
- Front end investments for sales and marketing excellence
- Interest Expense: ~\$50M / Tax Rate: ~20%
- Capital Expenditures: ~\$175M

DRIVERS OF 2024 BUSINESS SUCCESS



Home Comfort Solutions

End Market

- New construction growth recovery
- Uncertain repair vs replace trends
- Channel inventory levels near normal
- EPA rule creates inventory complexity
- 2024 mostly R-410A with limited R-454B

LII Share Opportunity

- Successful refrigerant transition
- Improving fulfillment rate
- Go-To-Market excellence

Building Climate Solutions

End Market

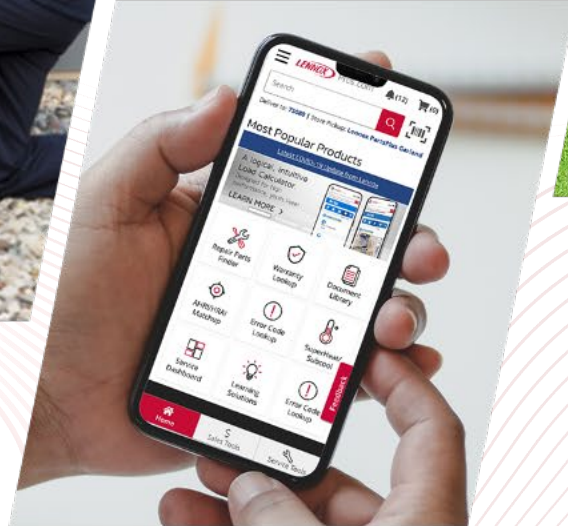
- Slowing new construction, project delays
- Order rates and backlog remain strong
- Pent up replacement demand
- National account full lifecycle demand

LII Share Opportunity

- On-track Mexico production
- Emergency replacement growth
- National account wins with AES

ATTRACTIVE INVESTMENT OPPORTUNITY





LENNOX

APPENDIX

APR 24, 2024

CORE REVENUE AND ADJUSTED SEGMENT PROFIT

	Q1 2024	Q1 2023	Change Year-over-Year				
			Volume	Price	Mix	Other	Total
Net Sales							
Home Comfort Solutions	\$ 675	\$ 681	(2%)	3%	(2%)	-	(1%)
Building Climate Solutions	373	309	7%	6%	2%	6%	21%
Corporate and other (1)	-	60	-	-	-	(100%)	(100%)
Net sales, a GAAP measure	\$ 1,047	\$ 1,049	1%	4%	(1%)	(4%)	0%
Net sales from non-core business (1)	-	60	-	-	-	100%	100%
Core net sales, a non-GAAP measure	\$ 1,047	\$ 990	1%	4%	(1%)	2%	6%
Segment Profit							
Home Comfort Solutions	\$ 112	\$ 111	\$ (4)	\$ 20	\$ 0	\$ (15)	\$ 1
Building Climate Solutions	78	\$ 50	7	20	1	-	28
Corporate and other (1)	(24)	\$ (19)	-	-	-	(5)	(5)
Segment profit, a Non-GAAP measure	\$ 167	\$ 142	\$ 3	\$ 40	\$ 2	\$ (20)	\$ 25
Profit from non-core business (1)	-	(0)	-	-	-	(0)	(0)
Adjusted segment profit, a non-GAAP measure	\$ 167	\$ 142	\$ 3	\$ 40	\$ 2	\$ (20)	\$ 25
Profit from non-core business (1)	-	0					
Items in Losses (gains) and other expenses, net which are excluded from segment profit (2)	-	2					
Operating income	\$ 167	\$ 140					

(1) Net sales and segment profit from our European portfolio are included in the Corporate and other segment and are considered non-core. European operations were divested in the fourth quarter of 2023.

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

* Totals above may not foot due to rounding

ADJUSTED EPS

	For the Three Months Ended March 31, (Unaudited)			
	2024		2023	
	After Tax Amount	Per Diluted Share	After Tax Amount	Per Diluted Share
Net income, a GAAP measure	\$ 124.3	\$ 3.47	\$ 98.0	\$ 2.75
Pension settlements	-	-	\$ 0.2	0.01
Items in Losses (gains) and other expenses, net which are excluded from segment profit (loss) (a)	-	-	\$ 0.9	0.03
Non-core business results (b)	-	-	\$ 1.4	0.04
Adjusted net income, a non-GAAP measure	\$ 124.3	\$ 3.47	\$ 100.5	\$ 2.83

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

(b) Non-core business results represent activity related to our business operations in Europe not included elsewhere in the reconciliations. European operations were divested in the fourth quarter of 2023.

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NET DEBT TO EBITDA

	Q2 2023	Q3 2023	Q4 2023	Q1 2024	LTM 2024	Q2 2022	Q3 2022	Q4 2022	Q1 2023	LTM 2023
Income before taxes, a GAAP Measure	\$ 263.7	\$ 175.2	\$ 173.4	\$ 154.2	\$ 766.5	\$ 217.3	\$ 174.6	\$ 119.5	\$ 125.1	\$ 636.5
Items in losses (gains) and other expenses, net before taxes	4.3	5.6	2.7	-	12.6	2.4	3.3	0.1	2.2	8.0
Restructuring charges, before tax	-	0.3	2.9	-	3.2	0.5	0.2	0.3	-	1.0
Interest expense, net	15.0	11.2	11.3	11.8	49.3	8.7	10.5	12.7	14.2	46.1
Pension settlements, before tax	0.1	0.3	0.2	-	0.6	0.2	-	(0.4)	0.2	-
Other expense (income), net before tax	-	-	0.4	0.8	1.2	0.7	0.7	-	-	1.4
Impairment on assets held for sale	-	63.2	-	-	63.2	-	-	-	-	-
Gain on sale of businesses	-	-	(14.1)	-	(14.1)	-	-	-	-	-
Depreciation and amortization expense	20.2	20.9	23.7	24.0	88.9	18.4	17.5	21.5	19.1	76.5
Adjusted EBITDA, a non-GAAP measure	\$ 303.3	\$ 276.7	\$ 200.5	\$ 190.8	\$ 971.4	\$ 248.2	\$ 206.8	\$ 153.7	\$ 160.8	\$ 769.5
Total Debt as of March 31, 2024					\$ 1,426.2					\$ 1,667.6
Less Cash					45.7					40.4
Less Short-term investments					11.9					7.1
Net Debt, a non-GAAP measure					\$ 1,368.6					\$ 1,620.1
Debt to Adjusted EBITDA ratio					1.4					2.1

FREE CASH FLOW (FCF)

	For the Three Months Ended March 31, (Unaudited)	
	2024	2023
Net Cash used by operating activities, a GAAP measure	\$ (22.8)	\$ (78.8)
Purchases of property, plant and equipment	(29.5)	(35.4)
Proceeds from the disposal of property, plant and equipment	0.5	0.3
Free cash flow, a Non-GAAP measure	\$ (51.8)	\$ (113.9)

* Totals above may not foot due to rounding

RETURN ON INVESTED CAPITAL (ROIC)

	Q2 2023	Q3 2023	Q4 2023	Q1 2024	LTM 2024	Q2 2022	Q3 2022	Q4 2022	Q1 2023	LTM 2023
Operating income, a GAAP Measure	\$ 278.8	\$ 186.8	\$ 185.3	\$ 166.8	\$ 817.7	\$ 226.9	\$ 185.8	\$ 131.8	\$ 139.5	\$ 656.2
Restructuring Charges, before tax	-	0.3	2.9	-	3.2	0.5	0.2	0.3	-	1.0
Items in Losses (gains) and other expenses, net before taxes	4.3	5.6	2.7	-	12.6	2.4	3.3	0.1	2.2	8.1
Impairment on assets held for sale	-	63.2	-	-	63.2	-	-	-	-	-
Gain on sale of business	-	-	(14.1)	-	(14.1)	-	-	-	-	-
Non-core business results, after tax	(2.4)	(3.9)	(1.6)	-	(7.9)	0.6	0.4	(1.0)	0.4	3.3
Adjusted Segment profit, a non-GAAP measure	\$ 280.7	\$ 252.0	\$ 175.2	\$ 166.8	\$ 874.7	\$ 230.4	\$ 189.7	\$ 131.2	\$ 142.1	\$ 693.4
Tax on adjusted Segment profit	49.5	65.1	28.9	-	143.5	43.2	33.8	29.9	30.4	137.3
Net operating profit after taxes, a non-GAAP measure	\$ 231.2	\$ 186.9	\$ 146.3	\$ 166.8	\$ 731.2	\$ 187.2	\$ 155.9	\$ 101.3	\$ 111.7	\$ 556.1

	Q2 2023	Q3 2023	Q4 2023	Q1 2024	4 Qtr Avg 2024	Q2 2022	Q3 2022	Q4 2022	Q1 2023	4 Qtr Avg 2023
Total assets, a GAAP measure	\$ 2,981.3	\$ 2,928.4	\$ 2,798.3	\$ 2,985.4	\$ 2,923.4	\$ 2,659.0	\$ 2,625.8	\$ 2,567.6	\$ 2,770.4	\$ 2,655.7
Less: Cash	51.4	132.0	60.7	45.7	72.5	57.4	40.7	52.6	40.4	47.8
Short-term investments	7.2	9.6	8.4	11.9	9.3	5.3	7.5	8.5	7.1	7.1
Accounts payable	470.1	345.8	374.7	437.8	407.1	485.6	430.5	427.3	445.0	447.1
Accrued expenses	425.5	408.7	416.1	302.3	388.2	384.8	409.6	376.9	341.7	378.3
Income taxes payable	21.8	9.0	4.2	28.1	15.8	26.0	19.2	17.6	18.4	20.3
Liabilities held for sale	-	69.7	-	-	17.4	-	-	-	-	-
Current operating lease liabilities	63.2	60.2	57.5	56.7	59.4	59.5	61.3	63.3	63.8	62.0
Long-term operating lease liabilities	159.6	162.5	164.6	174.3	165.3	149.7	143.6	161.8	159.3	153.6
Pensions	39.6	33.0	22.5	17.5	28.2	85.6	86.5	40.1	39.7	63.0
Other long-term liabilities	159.9	157.6	168.2	173.7	164.9	175.8	175.8	158.9	160.8	167.8
Invested capital, a non-GAAP measure	\$ 1,583.0	\$ 1,540.3	\$ 1,521.4	\$ 1,737.4	\$ 1,595.5	\$ 1,229.3	\$ 1,251.1	\$ 1,260.6	\$ 1,494.2	\$ 1,308.8
Net operating profit after taxes, a non-GAAP measure	\$ 231.2	\$ 186.9	\$ 146.3	\$ 166.8	\$ 731.2	\$ 187.2	\$ 155.9	\$ 101.3	\$ 111.7	\$ 556.1
Adjusted Invested capital, a non-GAAP measure	\$ 1,583.0	\$ 1,540.3	\$ 1,521.4	\$ 1,737.4	\$ 1,595.5	\$ 1,229.3	\$ 1,251.1	\$ 1,260.6	\$ 1,494.2	\$ 1,308.8
Return on invested capital					46%					42%

* Totals above may not foot due to rounding