

 **LENNOX**

SECOND QUARTER 2023

EARNINGS RELEASE

JULY 27, 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 excludes net sales 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

Q2 2023 HIGHLIGHTS



Raising Full Year Revenue and Profit Guidance

*Core Revenue**: +2% to +4%

EPS: \$15.50 - \$16.00

Core Revenue*

\$1.34B

+3% YoY

Adjusted Segment Profit*

\$281M

+22% YoY

Adjusted Segment Profit Margin*

20.9%

+320 bps YoY

Adjusted EPS*

\$6.15

+22% YoY

Operating Cash Flow

\$196M









+\$98M YoY

Return on Invested Capital*

43%

Down 4 pts YoY

BUSINESS CONDITIONS UPDATE

Key Indicators		
Residential 	<ul style="list-style-type: none"> Revise full year unit sales down HSD Destocking to continue into Q3 Q2 average cooling days down 25-30% 	
Commercial 	<ul style="list-style-type: none"> Full year Commercial sales up LDD Strong backlog continues but is lower YoY Lennox and Industry lead times improving 	
Price vs. Inflation 	<ul style="list-style-type: none"> Component and commodity cost outlook stable Industry pricing remains disciplined Lennox Mid-year residential price increase 	
Share Gain 	<ul style="list-style-type: none"> Improved service levels and inventory position Optimizing Go-to-Market with more feet on street Successful minimum efficiency transition 	



Cautiously Optimistic

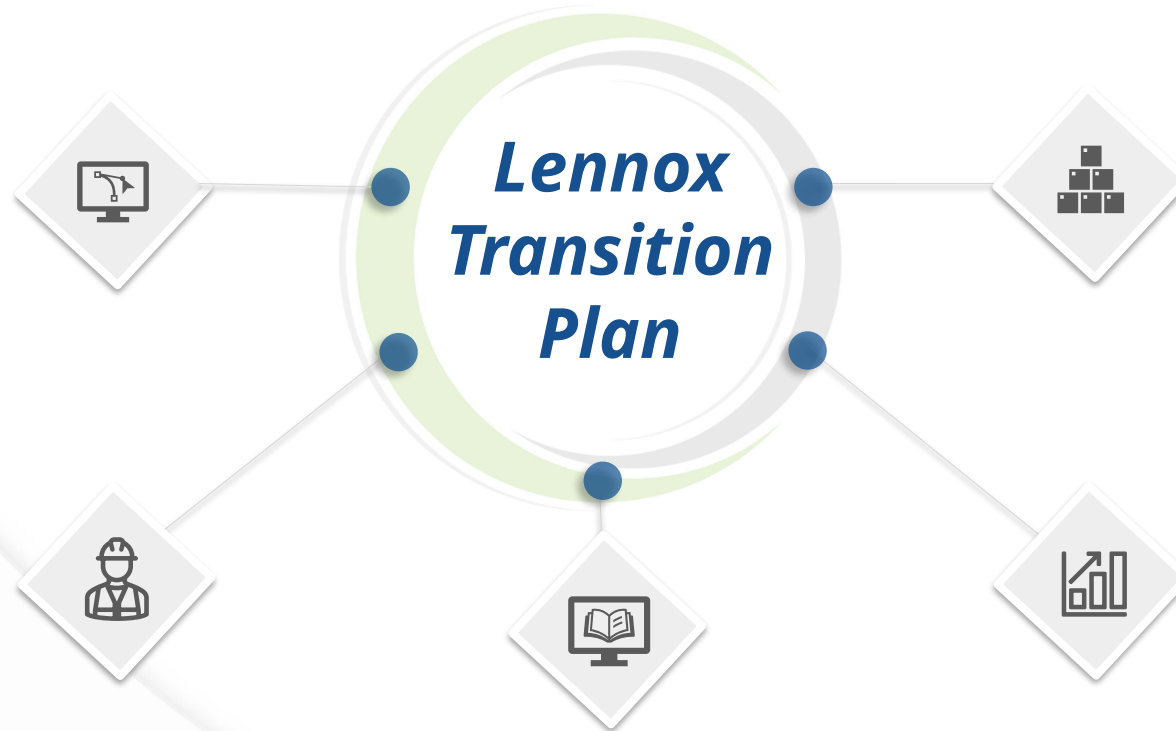
2025 REFRIGERANT CHANGE

Lennox will transition from R-410A to R-454B, a lower Global Warming Potential (GWP) refrigerant

Effective: January 1, 2025

Design & Testing is in progress. Initial product redesign is complete, and testing is well underway. Designs include new compressors, sensors to detect any potential leaks and controls algorithms to mitigate leaks when they occur.

Safety Requirements addressed. The new refrigerant is classified by ASHRAE as lowest toxicity and mild flammability. In compliance with safety codes, certain products will have leak detection sensors.



Inventory prebuild is unlikely to be significant given the anticipated quick transition from R-410A to the R-454B. Lennox is working with key suppliers to ensure supply chain readiness.

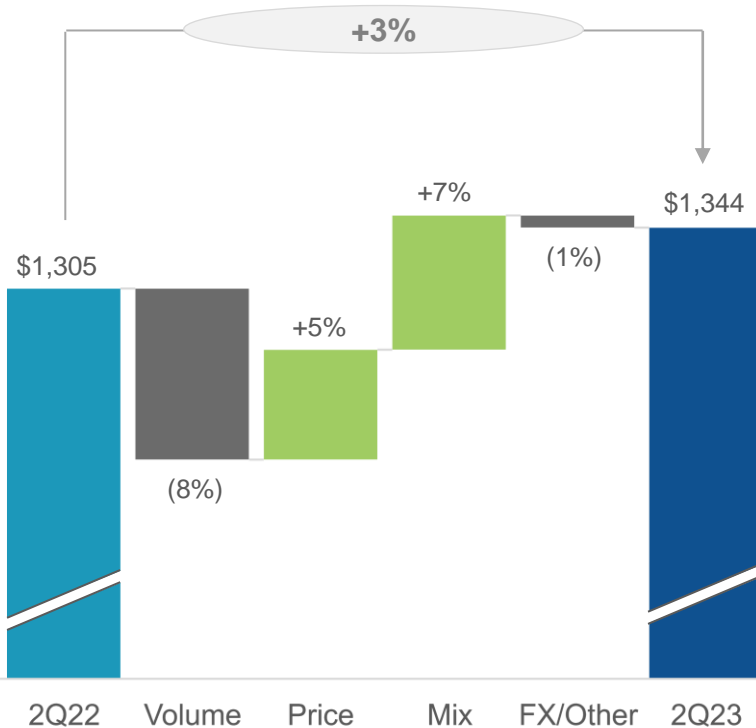
Financial Impact will be neutral to positive. Incremental costs will be covered with additional price to maintain margins.

Adoption & Training programs in 2024 will benefit Lennox due to direct to dealer sales model. The goal is to provide technical training to dealers and accurate information to consumers.

Q2 2023 LII RESULTS

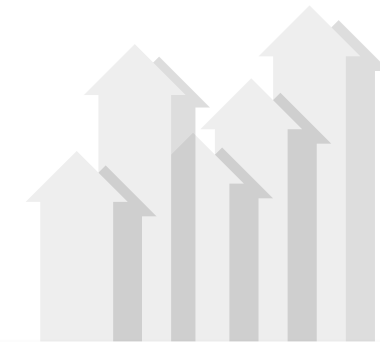
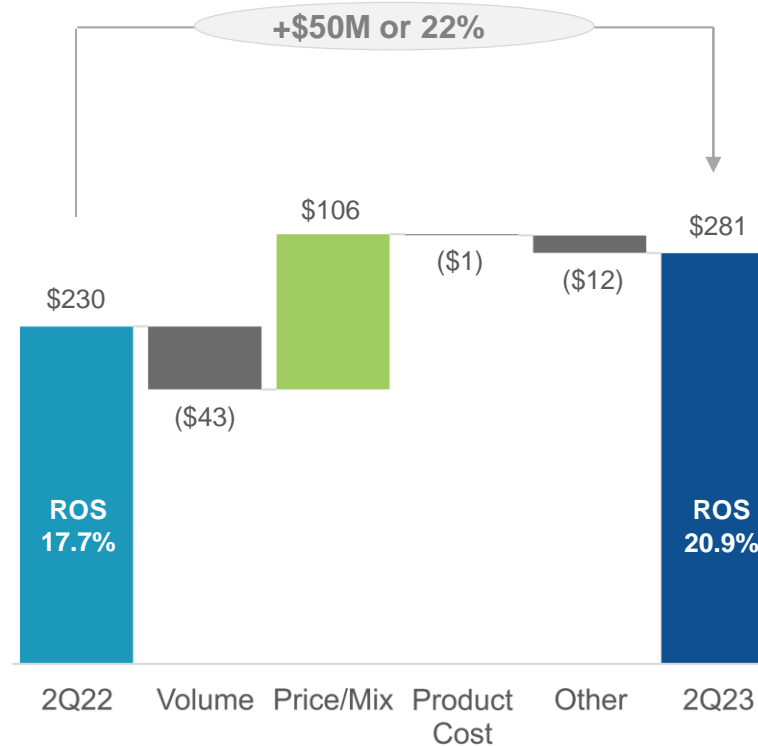
Core Revenue*

(US\$ Millions)



Adjusted Segment Profit*

(US\$ Millions)

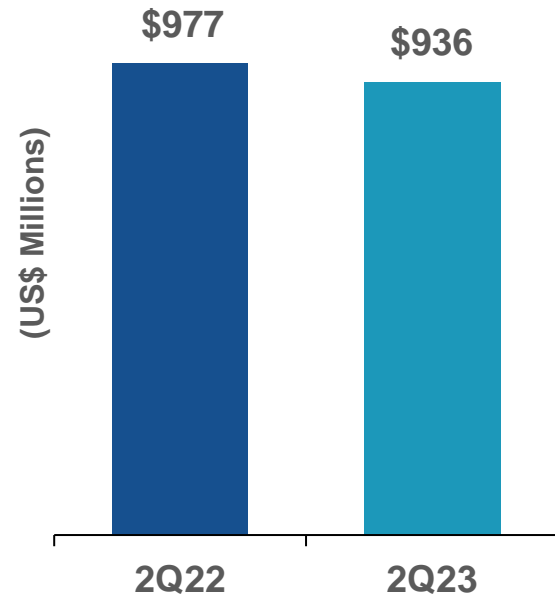


Adjusted
EPS*
+22% to
\$6.15

- **Residential:** Inventory destocking, cooler start to the summer but resilient price mix
- **Commercial Recovery:** Segment profit up \$120M since June 2022**
- **Return on Sales:** +320 bps improvement

Q2 2023 RESIDENTIAL RESULTS

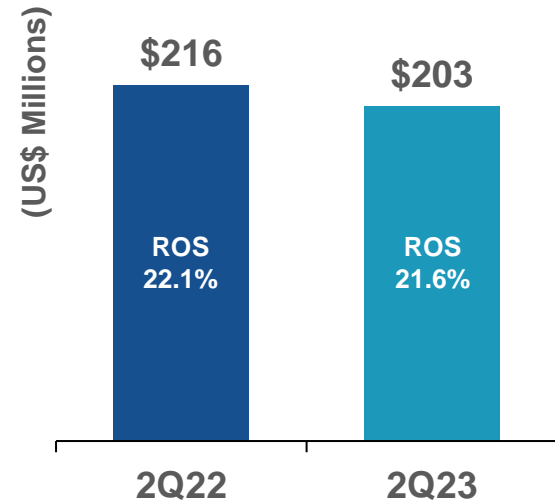
Revenue



(4%)

(12%)	+2%	+6%	0%
Volume	Price	Mix	FX/Other

Segment Profit*



(\$14M)

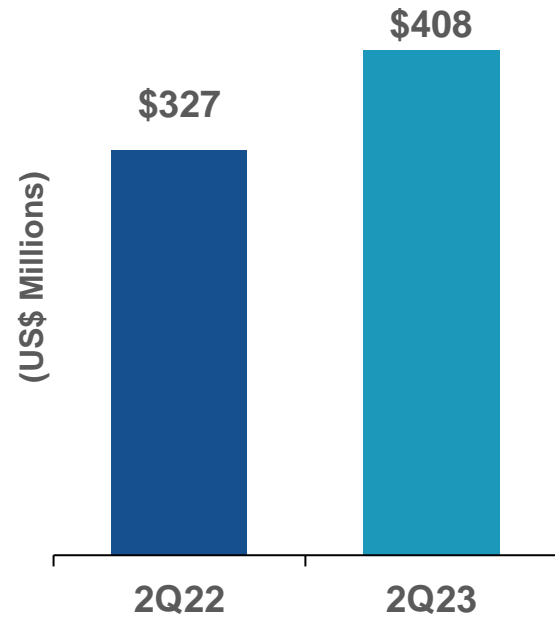
(\$46)	+\$40	+\$6	(\$14)
Volume	Price/Mix	Product Cost	Other



- **Volume:** Distributor destocking and cooler weather
- **Price:** Discipline remains intact
- **Mix:** Favorable mix driven by new minimum efficiency standards and other product mix
- **Other Cost:** Selling and Distribution investments and inflation

Q2 2023 COMMERCIAL RESULTS

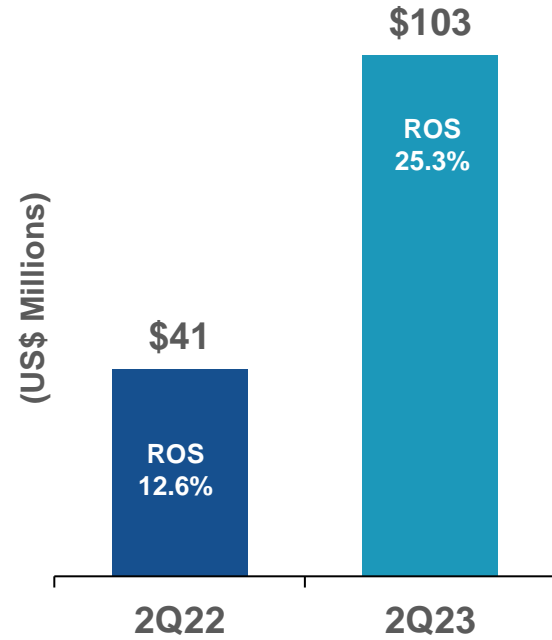
Revenue



+ 24%

+4%	+15%	+7%	(2%)
Volume	Price	Mix	FX/Other

Segment Profit*



+ \$62M

+\$3	+\$66	(\$7)	(\$0)
Volume	Price/Mix	Product Cost	Other



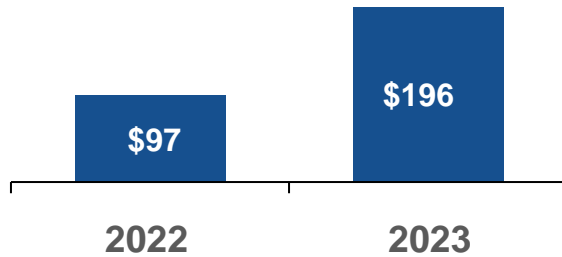
- **Price:** Yield of 15%
- **Favorable Mix:** New minimum efficiency standards product
- **Demand:** Backlog and order rates remain solid, and lead-times continue to shorten

CASH FLOW AND CAPITAL DEPLOYMENT

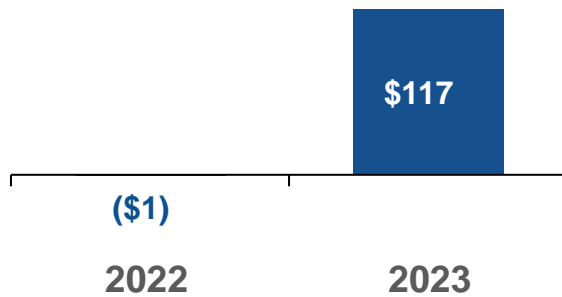
Operating Cash Flow

(US\$ Millions)

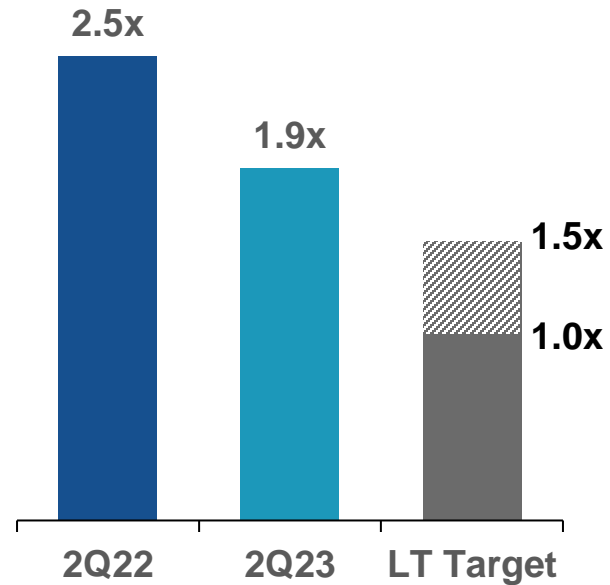
Second Quarter



June Year-to-Date



Total Debt to Adjusted EBITDA*



2nd Commercial Factory
Go Live late 2024

Long Term Target: convert **90% to 100%** of Net Income into Free Cash Flow and maintain Debt to EBITDA target of 1.0-1.5X

Disciplined capital deployment

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

2023 FY OUTLOOK

	Current	Prior
Core Revenue Growth	Up 2% to 4%	Flat to up 4%
GAAP and Adjusted EPS	\$15.50 – \$16.00	\$14.25 – \$15.25
Free Cash Flow	\$300M - \$350M	\$250M - \$350M

Other Items

Capital Expenditures	~ \$250M	
Tax Rate	19% - 20%	19% - 21%
Corporate Expenses	~ \$95M	~ \$80M
Share Count	35M - 36M	
Interest & Pension Expense	\$55M - \$60M	

Key Assumptions

- **Residential end-market** unit volume down HSD with revenue flat to up LSD
- **Commercial revenue** up LDD
- **Price/Mix** EBIT benefit of \$250M
- **Net material cost inflation** (\$25M)
Components (\$90M)
Cost reduction \$30M + Commodity \$35M
- **SG&A inflation** and incentive compensation, partially offset by productivity
- **Investment in distribution** to support growth and drive productivity

LENNOX TRANSFORMATION PATH

2022 - 2024

2025 - 2026

2026 +

Self Help

Execution Consistency

- Portfolio and Organization Simplification
- Commercial Recovery
- Pricing Excellence
- Refresh Talent and Culture

Growth Acceleration

Advanced Technology and Sales


- Strengthen Dealer Network and Improve Customer Experience
- Win Regulatory Transition
- Cold Climate Heat Pump
- Digital Connected Products


Expansion


Distribution and Service Focus


- Expand Distribution Network
- Expand Commercial Service
- Expand Attachment Rate for Parts, Accessories, and Other Products Used by HVAC Dealers


LII: VALUE CREATION FRAMEWORK

 **Growth Acceleration** with strong focus on Sales go-to-market effectiveness, Brand customer experience and Growth capacity investments to address market demand

 **Resilient Margins** Expand Margins through Pricing excellence, Commercial margin recovery, Materials, Labor and SG&A Productivity

 **Execution Consistency** with Scorecard based operating system, Dual sourced supply chain and Digital processes (e.g., SIOP)

 **Advanced Technology Portfolio** in building sustainable innovative solutions to address megatrends and gain market share with 100% focus on North American end markets by divesting our European operations and exploring bolt-on M&A pipeline

 **Talent and Culture** built on strong Core Values and guiding behaviors, Succession planning, Compensation aligned for value creation

2026 TARGETS

Revenue
\$5.0B - \$5.5B

Segment Profit Margin
18 - 20%

Free Cash Flow
Committed to 90% - 100% cash conversion with disciplined capital deployment



 **LENNOX**

SECOND QUARTER 2023

APPENDIX

JULY 27, 2023

CORE REVENUE AND ADJUSTED SEGMENT PROFIT

Net Sales	Q2 2023	Q2 2022	Change Year-over-Year					YTD 2023	YTD 2022	Change Year-over-Year				
			Volume	Price	Mix	FX & Other	Total			Volume	Price	Mix	FX & Other	Total
Residential	\$ 936	\$ 977	(12%)	2%	6%	-	(4%)	\$ 1,617	\$ 1,660	(11%)	3%	6%	(1%)	(3%)
Commercial	408	327	4%	15%	7%	(2%)	24%	716	607	(1%)	12%	7%	0%	18%
Corporate and other (1)	68	61	(2%)	9%	-	3%	10%	127	113	3%	11%	-	(1%)	13%
Net sales, a GAAP measure	\$ 1,411	\$ 1,366	(8%)	6%	6%	(1%)	3%	\$ 2,461	\$ 2,380	(8%)	6%	6%	(1%)	3%
Net sales from non-core business (1)	68	61	(2%)	9%	-	3%	10%	127	113	3%	11%	-	(1%)	13%
Core net sales, a non-GAAP measure	\$ 1,344	\$ 1,305	(8%)	5%	7%	(1%)	3%	\$ 2,333	\$ 2,267	(8%)	5%	6%	0%	3%
Segment Profit	Q2 2023	Q2 2022	Volume	Price/Mix	Product Cost	FX & Other	Total	YTD 2023	YTD 2022	Volume	Price/Mix	Product Cost	FX & Other	Total
Residential	\$ 203	\$ 216	\$ (46)	\$ 40	\$ 6	\$ (14)	\$ (14)	\$ 314	\$ 324	\$ (58)	\$ 74	\$ 2	\$ (29)	\$ (10)
Commercial	103	41	3	66	(7)	(0)	62	153	65	(2)	108	(17)	(1)	88
Corporate and other (1)	(23)	(28)	-	6	(1)	1	5	(42)	(45)	1	12	(4)	(7)	2
Segment profit, a Non-GAAP measure	\$ 283	\$ 230	\$ (43)	\$ 111	\$ (2)	\$ (13)	\$ 53	\$ 425	\$ 344	\$ (58)	\$ 194	\$ (19)	\$ (36)	\$ 80
Profit from non-core business (1)	2	(1)	-	6	(1)	(2)	3	2	(4)	1	12	(4)	(3)	6
Adjusted segment profit, a non-GAAP measure	\$ 281	\$ 230	\$ (43)	\$ 106	\$ (1)	\$ (12)	\$ 50	\$ 423	\$ 348	\$ (59)	\$ 181	\$ (14)	\$ (33)	\$ 75
Profit from non-core business (1)	(2)	1						(2)	4					
Items in Losses (gains) and other expenses, net which are excluded from segment profit (2)	4	2						6	5					
Restructuring charges	-	1						-	1					
Operating income	\$ 279	\$ 227						\$ 418	\$ 339					

(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 June 30, (Unaudited)				For the Six Months ended June 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	\$ 217.2	\$ 6.10	\$ 177.2	\$ 4.96	\$ 315.2	\$ 8.85	\$ 260.8	\$ 7.23
Restructuring charges	-	-	0.4	0.01	-	-	0.8	0.02
Pension settlements	0.1	-	0.1	-	0.3	0.01	0.2	0.01
Items in Losses (gains) and other expenses, net which are excluded from segment profit (loss) (a)	2.9	0.09	2.0	0.06	3.5	0.10	3.7	0.10
Excess tax expense from share-based compensation (b)	(0.1)	-	0.1	-	(0.1)	-	0.5	0.01
Other tax items, net (b)	0.1	-	(1.4)	(0.03)	0.4	0.01	(1.4)	(0.04)
Non-core business results (c)	(1.4)	(0.04)	1.2	0.03	-	-	4.9	0.14
Adjusted net income, a non-GAAP measure	\$ 218.8	\$ 6.15	\$ 179.6	\$ 5.03	\$ 319.3	\$ 8.97	\$ 269.5	\$ 7.47

(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

TOTAL DEBT TO EBITDA

	Q3 2022	Q4 2022	Q1 2023	Q2 2023	LTM	Q3 2021	Q4 2021	Q1 2022	Q2 2022	LTM		
Income from continuing operations before taxes, a GAAP Measure	\$ 174.6	\$ 119.5	\$ 125.1	\$ 263.7	\$ 682.9	\$ 154.8	\$ 90.2	\$ 104.4	\$ 217.3	\$ 566.6		
Items in losses (gains) and other expenses, net before taxes	3.3	0.1	2.2	4.3	9.9	2.9	5.5	2.2	2.4	12.9		
Special product quality adjustments, before tax	-	-	-	-	-	(1.1)	(1.4)	-	-	(2.5)		
Restructuring charges, before tax	0.2	0.3	-	-	0.5	0.3	0.2	0.5	0.5	1.5		
Interest expense, net	10.5	12.7	14.2	15.0	52.4	6.5	6.2	6.8	8.7	28.3		
Pension settlements, before tax	-	(0.4)	0.2	0.1	(0.1)	0.3	0.1	0.1	0.2	0.7		
Other expense (income), net before tax	0.7	-	-	-	0.7	1.1	1.1	0.6	0.7	3.3		
Depreciation and amortization expense	17.5	21.5	19.1	20.2	78.3	17.1	18.5	18.3	18.4	72.3		
Adjusted EBITDA, a non-GAAP measure	\$ 206.8	\$ 153.7	\$ 160.8	\$ 303.3	\$ 824.6	\$ 181.9	\$ 120.4	\$ 132.9	\$ 248.2	\$ 683.1		
Total Debt at June 30, 2023						\$ 1,579.0						\$ 1,693.3
Total Debt to adjusted EBITDA ratio						1.9						2.5

FREE CASH FLOW (FCF)

	For the Three Months Ended June 30, (Unaudited)		For the Six Months Ended June 30, (Unaudited)	
	2023	2022	2023	2022
Net Cash used in operating activities, a GAAP measure	\$ 195.5	\$ 97.1	\$ 116.7	\$ (0.8)
Purchases of property, plant and equipment	(49.9)	(20.9)	(85.3)	(46.7)
Proceeds from the disposal of property, plant and equipment	1.2	0.2	1.5	0.5
Free cash flow, a Non-GAAP measure	\$ 146.8	\$ 76.4	\$ 32.9	\$ (47.0)

RETURN ON INVESTED CAPITAL (ROIC)

	Q3 2022	Q4 2022	Q1 2023	Q2 2023	LTM	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Full Year 2022
Operating income, a GAAP Measure	\$ 185.8	\$ 131.8	\$ 139.5	\$ 278.8	\$ 735.9	\$ 162.7	\$ 97.6	\$ 111.9	\$ 226.9	\$ 599.1
Restructuring Charges, before tax	0.2	0.3	-	-	0.5	0.3	0.2	0.5	0.5	1.5
Special product quality adjustments, before tax	-	-	-	-	-	(1.1)	(1.4)	-	-	(2.5)
Items in Losses (gains) and other expenses, net before taxes	3.3	0.1	2.2	4.3	9.9	2.9	5.5	2.2	2.4	13.0
Non-core business results, after tax	0.4	(1.0)	0.4	(2.4)	(2.6)	0.8	1.0	3.4	0.6	5.8
Adjusted Segment profit, a non-GAAP measure	\$ 189.7	\$ 131.2	\$ 142.1	\$ 280.7	\$ 743.7	\$ 165.6	\$ 102.9	\$ 118.0	\$ 230.4	\$ 616.9
Tax on adjusted Segment profit	33.8	29.9	30.4	49.5	143.7	32.6	6.5	22.2	43.2	104.4
Net operating profit after taxes, a non-GAAP measure	\$ 155.9	\$ 101.3	\$ 111.7	\$ 231.2	\$ 600.0	\$ 133.0	\$ 96.4	\$ 95.8	\$ 187.2	\$ 512.5

	Q3 2022	Q4 2022	Q1 2023	Q2 2023	4 Qtr Avg 2023	Q3 2021	Q4 2021	Q1 2022	Q2 2022	4 Qtr Avg 2022
Total assets, a GAAP measure	\$ 2,625.8	\$ 2,567.6	\$ 2,770.4	\$ 2,981.3	\$ 2,736.3	\$ 2,123.5	\$ 2,171.9	\$ 2,567.6	\$ 2,659.0	\$ 2,380.5
Less: Cash	40.7	52.6	40.4	51.4	46.3	39.4	31.0	52.6	57.4	45.1
Short-term investments	7.5	8.5	7.1	7.2	7.6	4.9	5.5	8.5	5.3	6.1
Accounts payable	430.5	427.3	445.0	470.1	443.2	401.6	402.1	427.3	485.6	429.2
Accrued expenses	409.6	376.9	341.7	425.5	388.4	344.0	358.9	376.9	384.8	366.2
Income taxes payable	19.2	17.6	18.4	21.8	19.3	-	-	17.6	26.0	10.9
Current operating lease liabilities	61.3	63.3	63.8	63.2	62.9	54.2	54.8	63.3	59.5	58.0
Long-term operating lease liabilities	143.6	161.8	159.3	159.6	156.1	126.2	145.0	161.8	149.7	145.7
Pensions	86.5	40.1	39.7	39.6	51.5	99.3	83.3	40.1	85.6	77.1
Other long-term liabilities	175.8	158.9	160.8	159.9	163.9	154.8	159.0	158.9	175.8	162.1
Invested capital, a non-GAAP measure	\$ 1,251.1	\$ 1,260.6	\$ 1,494.2	\$ 1,583.0	\$ 1,397.2	\$ 899.1	\$ 932.3	\$ 1,260.6	\$ 1,229.3	\$ 1,080.3

Net operating profit after taxes, a non-GAAP measure	\$ 155.9	\$ 101.3	\$ 111.7	\$ 231.2	\$ 600.0	\$ 133.0	\$ 96.4	\$ 95.8	\$ 187.2	\$ 512.5
Return on invested capital					43%					47%