



Fourth Quarter 2022 Earnings Conference Call

January 31, 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, 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



Strong Q4 Results	Double-Digit Revenue and Earnings Growth <ul style="list-style-type: none">• Record Revenue of \$1.1B: up 13% with 9% price yield• Profit of \$132M: up 30% with profit margin up 150 bps• Adjusted EPS of \$2.63 up 12%
Record Full Year	Record Revenue, Record Profit, Record EPS <ul style="list-style-type: none">• Record Revenue of \$4.7B: up 13%• Record Profit of \$666M; up 10% with profit margin down 30 bps• Record adjusted EPS of \$14.07: up 12%
Strong Balance Sheet	Committed to long-term 90-100% Cash Conversion <ul style="list-style-type: none">• Strong balance sheet with YE Debt/EBITDA ratio of 2.1• 2022 free cash flow of \$203M impacted by Inventory replenishment and build for 2023 SEER change
2023 Full-Year Outlook	2023 Financial Outlook Unchanged <ul style="list-style-type: none">• Revenue Growth of flat to up 4%• EPS of \$14.25 to \$15.25

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

BUSINESS UPDATES



Dave Lennox
Signature
Collection
Heat Pump
Wins



- **2023 end markets outlook remains unchanged**
 - Direct dealer network reduces the impact of any channel destocking
 - Current order and sales trend consistent with expectation

S40 smart
thermostat
launches



- **2023 SEER change complete; 2025 Low GWP transition on-track**
 - New Lennox products launched as per schedule
 - Lennox design delivers competitive advantage

- **Commercial 2nd factory construction on schedule**
 - Land acquired; construction started
 - Production start-up in-time for 2025 low GWP transition

- **European Divestiture initiated; Segment consolidation complete**
 - Disciplined process kicked off with transaction expected in 2023
 - For 2023, European business results classified as non-core



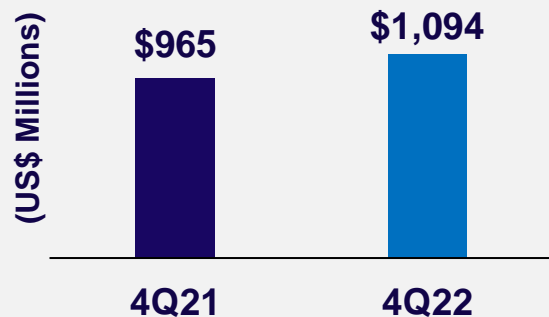
Solid Progress on Strategic Initiatives

4Q22 LII FINANCIAL RESULTS



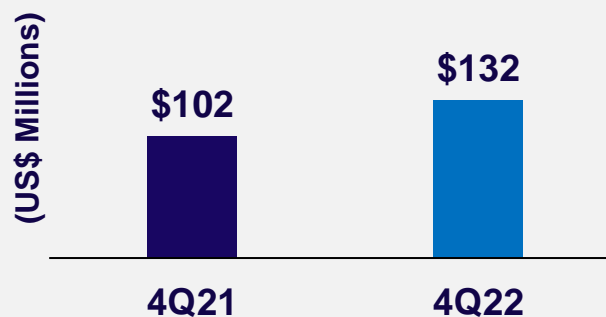
Revenue

+13%



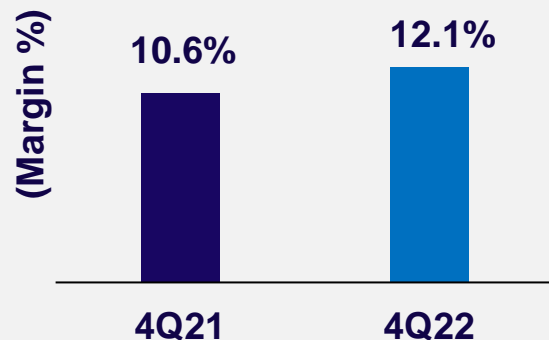
Profit

+30%



Profit Margin

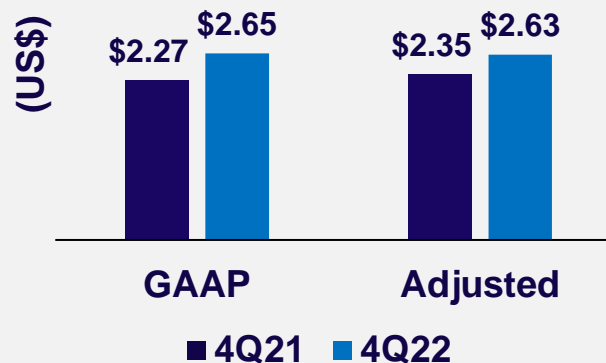
+150 bps



EPS

+17%

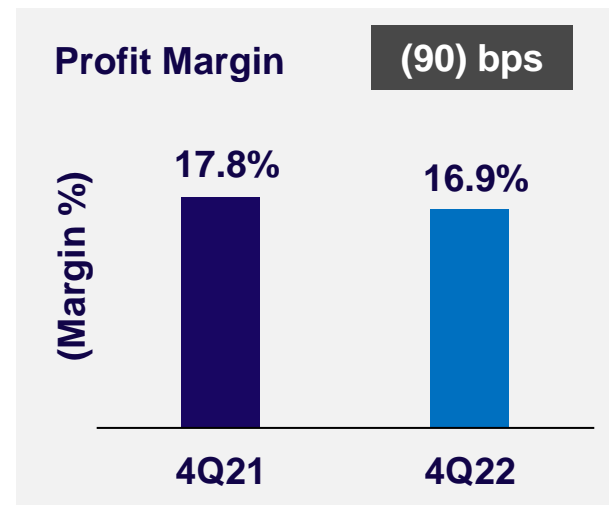
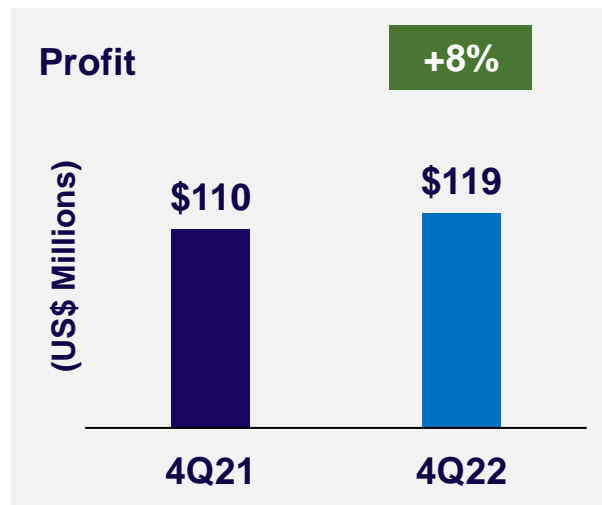
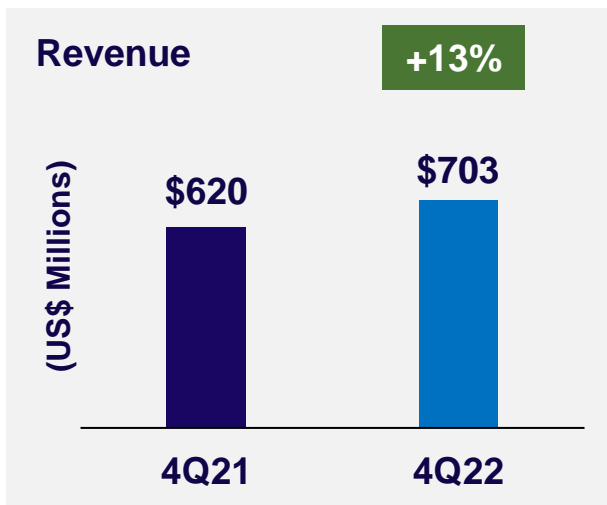
+12%



Key Points

- Record Revenue
- Strong profit growth and margin expansion
- All segments contributed to profit growth
- Price exceeds inflation

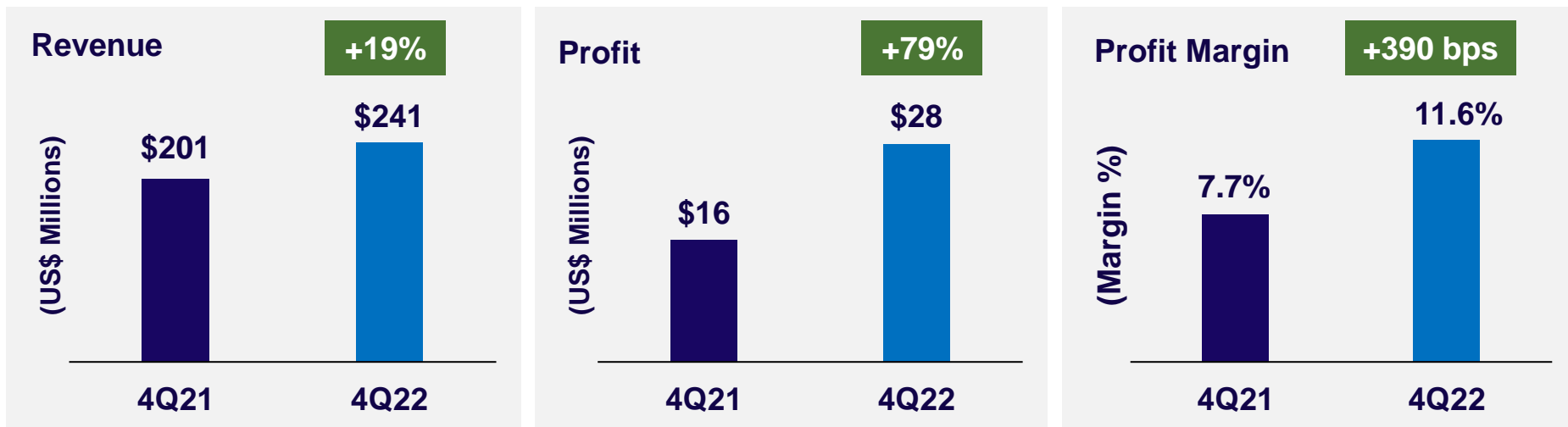
4Q22 RESIDENTIAL RESULTS



Key Points

- Growth Continues: Four Consecutive Quarters of YoY Revenue and Profit Growth
- Gaining Share: Volume Growth with the Market Down
- Price Discipline: Yield of 7%
- Supply Chain Challenges and Manufacturing SEER Transition Impacted Efficiencies

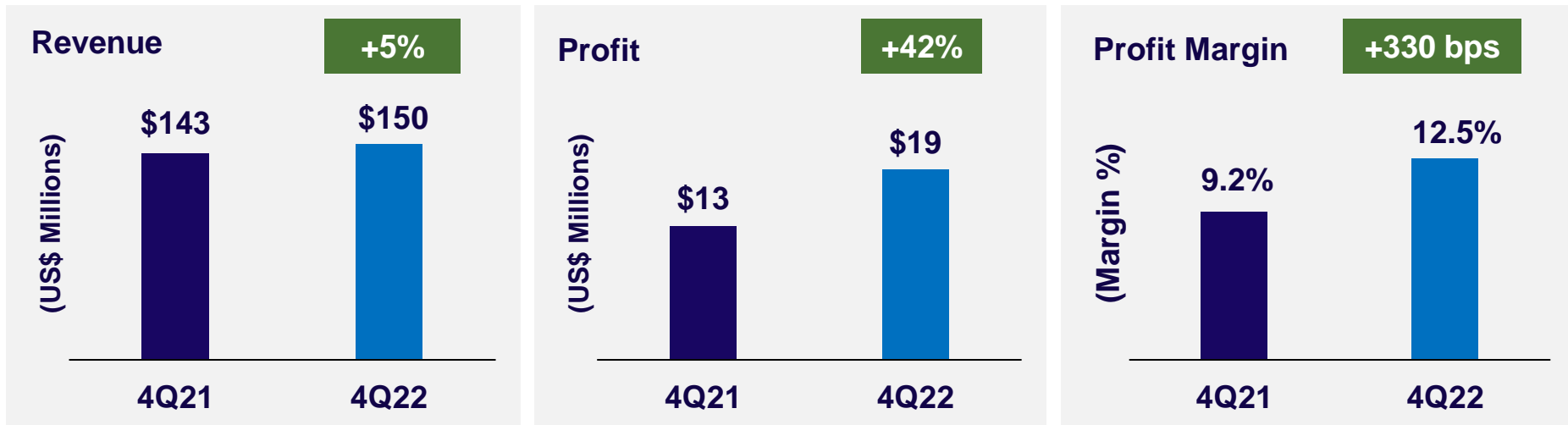
4Q22 COMMERCIAL RESULTS



Key Points

- Profit Recovery Advancing: Price, Mix and Volume Growth all Favorable
- Factory Output increasing but supply chain still constraining sales
- Cost Control: SG&A expense flat to prior year

4Q22 REFRIGERATION RESULTS



Key Points

- Price: Main driver of both Revenue and Profit margin expansion
- Europe: Revenue Up 9% as Reported and Up 22% at Constant Currency
- Markets: Refrigeration end markets remain healthy

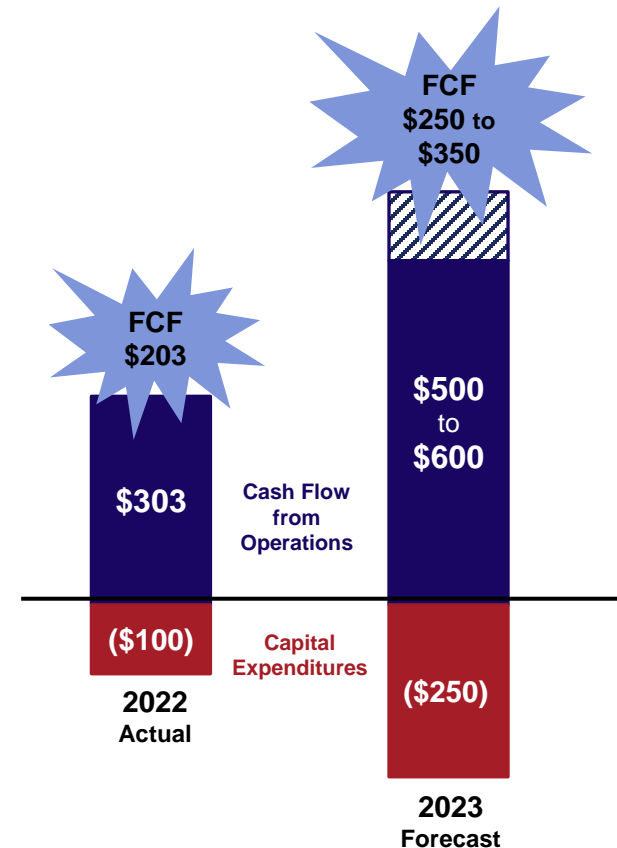
As previously announced, beginning in 2023 North American Refrigeration operations will be reported in the Commercial Segment and European operations will be classified as non-core and included in the Corporate and Other Segment until disposition.

FREE CASH FLOW

\$ USD Millions



- 2022 Free Cash Flow of \$203M
 - Inventory replenishment post COVID lows in 2021
 - Inventory build ahead for 2023 SEER change
 - Raw material investment to buffer supply chain
- No change to 2023 free cash flow guide of \$250-\$350M that includes \$250M for capital investment:
 - Investment for a second Commercial factory
 - Investment in Low GWP manufacturing and technology
- Enhancing internal processes to improve cash flow forecasting
- Driving working capital productivity
 - Prioritizing product availability to serve our customers
 - Maintain raw material safety stock until supply chain stabilizes
 - Optimize for 2023 SEER change and 2025 low GWP regulation



Committed to 90% - 100% Long-Term Cash Conversion

LII 2023 FULL-YEAR OUTLOOK



2023 Revenue & Earnings

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 \$150M-\$175M
- Net Material Cost Inflation (\$35M):
Components (\$100M)
Cost Reduction \$30M + Commodity \$35M
- SG&A inflation partially offset by productivity
- Investment in Distribution to Support Growth and drive productivity

2023 SUCCESS FACTORS

Factors	Key Indicators	
Industry Unit Shipments	<ul style="list-style-type: none">• New home construction rate• US consumer confidence impact on repair vs. replacement	
Price vs. Inflation	<ul style="list-style-type: none">• Commodity and component cost trends• Industry pricing discipline	
Commercial Recovery	<ul style="list-style-type: none">• Increased output from Stuttgart factory• Supply chain resiliency	
Share Gain	<ul style="list-style-type: none">• Improved lead time and availability• Sales excellence initiative	

Cautiously Optimistic

LII: GROWTH POTENTIAL



**High Growth
End Market
with Strong
Replacement
Demand**



**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



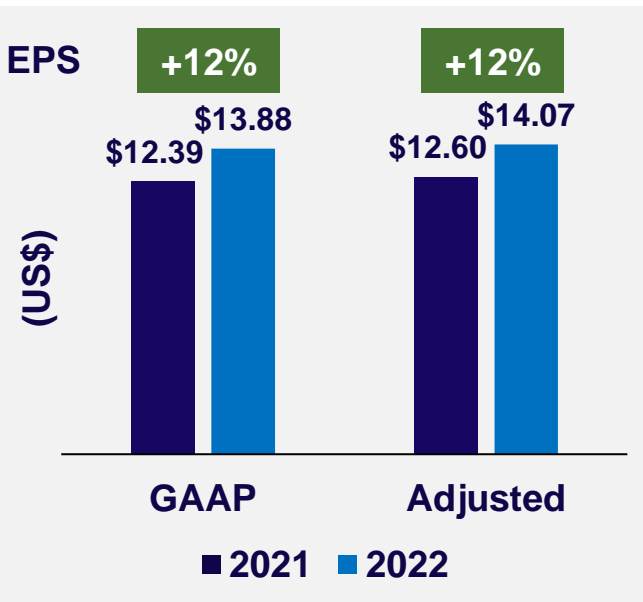
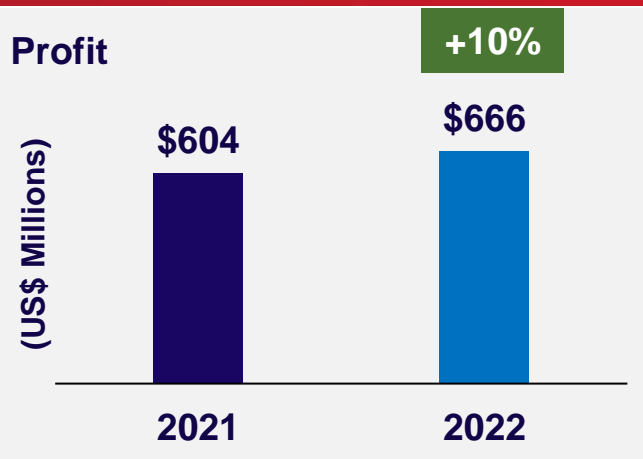
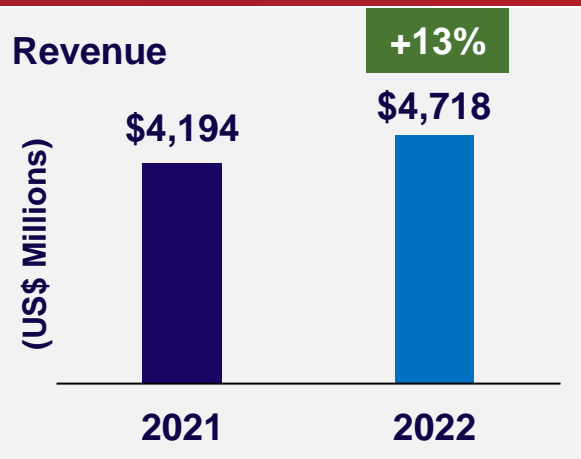
APPENDICES

Fourth Quarter 2022 Earnings Conference Call

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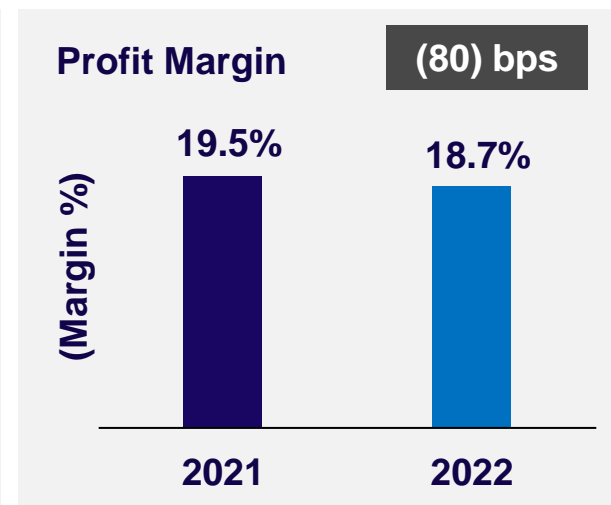
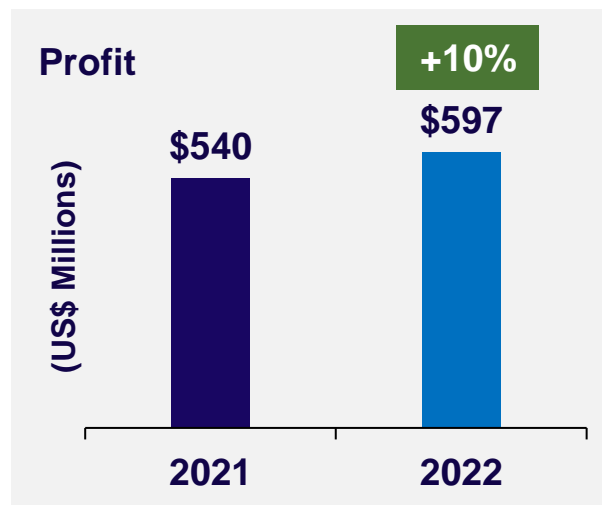
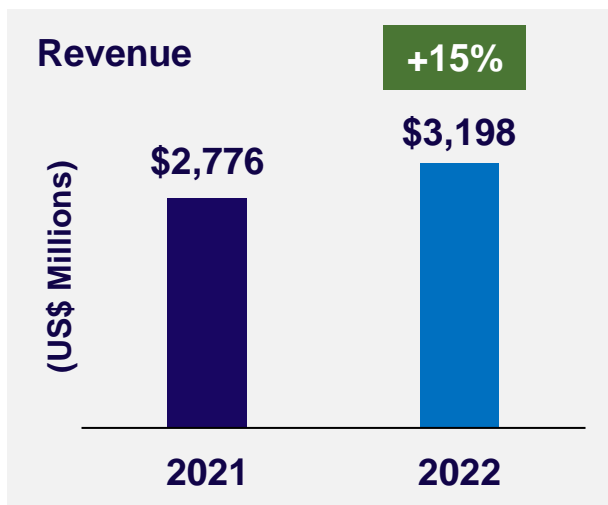
Full Year 2022 LII FINANCIAL RESULTS



Key Points

- Record Revenue and EPS
- 10% price yield
- Commercial manufacturing challenges

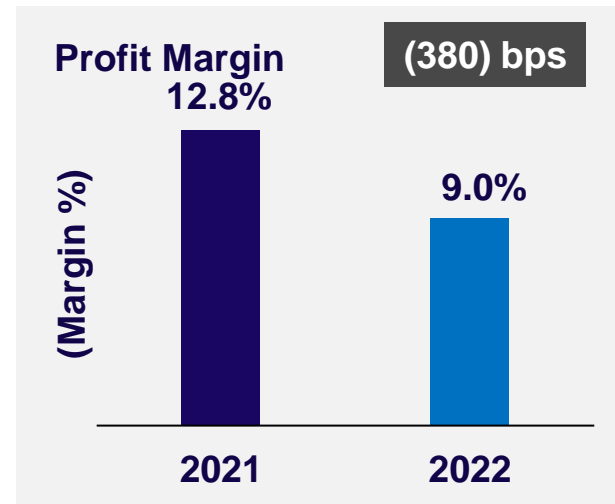
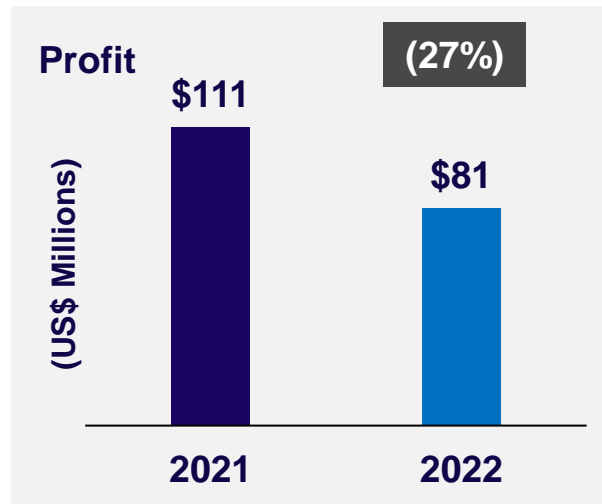
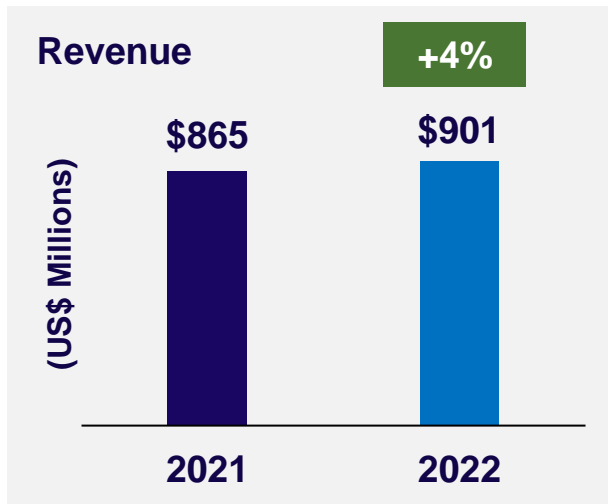
Full Year 2022 RESIDENTIAL SEGMENT RESULTS



Key Points

- Record Year: All Four Quarters were a Record Revenue and Profit.
- Gaining Share: Volume Growth up 4%
- Sticking Price: Yield of 11%
- Supply Chain Challenges: Negatively Impacted Efficiencies and Product Mix

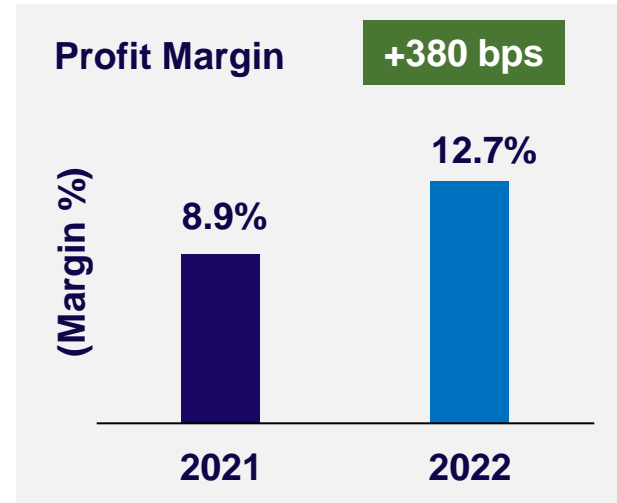
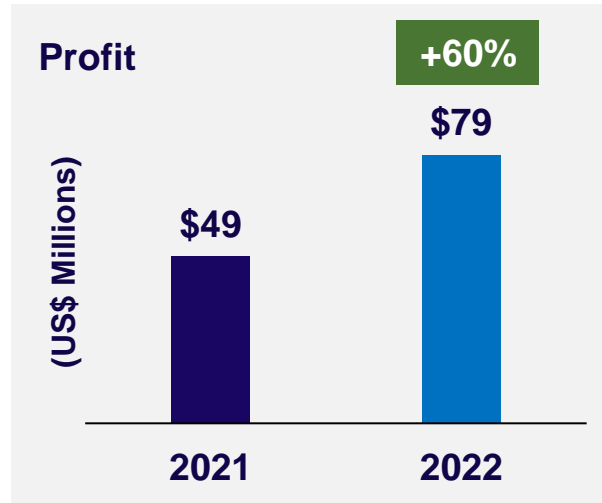
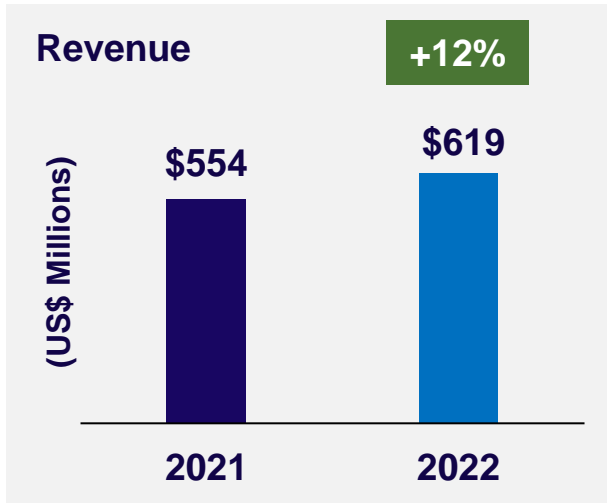
Full Year 2022 COMMERCIAL SEGMENT RESULTS



Key Points

- First Half: Sales down (10%) and profit down (68%)
- Second Half Recovery: Sales up 20% and profit up 50%
- Price/Mix: Revenue up 14%

Full Year 2022 REFRIGERATION SEGMENT RESULTS



Key Points

- Record: Record Revenue and Profit
- Price/Mix: Yield of 14%
- Europe: Revenue Up 2% as Reported and Up 15% at Constant Currency

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

For the Three Months Ended December 31,
(Unaudited)

	2022			2021		
	Pre-Tax	Tax Impact (d)	After Tax	Pre-Tax	Tax Impact (d)	After Tax
Income from continuing operations, a GAAP measure	\$ 119.5	\$ (25.1)	\$ 94.4	\$ 90.2	\$ (6.7)	\$ 83.5
Restructuring charges	0.3	(0.1)	0.2	0.2	—	0.2
Pension settlements	(0.4)	0.1	(0.3)	0.1	(0.1)	—
Special product quality adjustments (a)	—	—	—	(1.4)	0.4	(1.0)
Items in (Gains) losses and other expenses, net which are excluded from segment profit (loss) (b)	0.1	(0.1)	—	5.5	(2.2)	3.3
Excess tax (benefit) expense from share-based compensation (c)	—	(0.9)	(0.9)	—	0.7	0.7
Other tax items, net (c)	—	0.2	0.2	—	—	—
Adjusted income from continuing operations, a non-GAAP measure	\$ 119.5	\$ (25.9)	\$ 93.6	\$ 94.6	\$ (7.9)	\$ 86.7
Earnings per share - diluted, a GAAP measure			\$ 2.65			\$ 2.27
Restructuring charges			0.01			—
Pension settlements			(0.01)			—
Special product quality adjustments (a)			—			(0.03)
Items in (Gains) losses and other expenses, net which are excluded from segment profit (loss) (b)			—			0.09
Excess tax (benefit) expense from share-based compensation (c)			(0.03)			0.02
Other tax items, net (c)			0.01			—
Adjusted earnings per share - diluted, a non-GAAP measure			\$ 2.63			\$ 2.35

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

(b) Recorded in (Gains) losses 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 full year earnings per share – diluted, a GAAP measure, to adjusted earnings per share – diluted, a non-GAAP measure

	For the Years Ended December 31,					
	(Unaudited)					
	2022			2021		
	Pre-Tax	Tax Impact (d)	After Tax	Pre-Tax	Tax Impact (d)	After Tax
Income from continuing operations, a GAAP measure	\$ 615.8	\$ (118.7)	\$ 497.1	\$ 560.1	\$ (96.1)	\$ 464.0
Restructuring charges	1.5	(0.3)	1.2	1.8	(0.4)	1.4
Pension settlements	(0.2)	0.1	(0.1)	1.2	(0.3)	0.9
Special product quality adjustments (a)	—	—	—	(2.5)	0.7	(1.8)
Items in Losses (gains) and other expenses, net which are excluded from segment profit (loss) (b)	8.1	(1.5)	6.6	14.3	(3.8)	10.5
Excess tax benefit from share-based compensation (c)	—	(0.6)	(0.6)	—	(5.7)	(5.7)
Other tax items, net (c)	—	(0.5)	(0.5)	—	2.1	2.1
Adjusted income from continuing operations, a non-GAAP measure	\$ 625.2	\$ (121.5)	\$ 503.7	\$ 574.9	\$ (103.5)	\$ 471.4
Earnings per share from continuing operations - diluted, a GAAP measure			\$ 13.88			\$ 12.39
Restructuring charges			0.03			0.04
Pension settlements			—			0.02
Special product quality adjustments (a)			—			(0.05)
Items in Losses (gains) and other expenses, net which are excluded from segment profit (loss) (b)			0.19			0.29
Excess tax benefit from share-based compensation (c)			(0.02)			(0.15)
Other tax items, net (c)			(0.01)			0.06
Adjusted earnings per share from continuing operations - diluted, a non-GAAP measure			\$ 14.07			\$ 12.60
(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

(Amounts in millions)

	For the Three Months Ended December 31, (Unaudited)		For the Years Ended December 31,	
	2022	2021	2022	2021
Net Sales				
Residential Heating & Cooling	\$ 703.4	\$ 620.3	\$ 3,198.3	\$ 2,775.6
Commercial Heating & Cooling	240.5	201.4	900.7	864.8
Refrigeration	149.9	143.1	619.4	553.7
	<u>\$ 1,093.8</u>	<u>\$ 964.8</u>	<u>\$ 4,718.4</u>	<u>\$ 4,194.1</u>
Segment Profit (Loss) ⁽¹⁾				
Residential Heating & Cooling	\$ 119.2	\$ 110.3	\$ 596.9	\$ 540.3
Commercial Heating & Cooling	27.9	15.6	80.9	110.9
Refrigeration	18.8	13.2	78.8	49.1
Corporate and other	(33.7)	(37.2)	(90.8)	(96.4)
Total segment profit	132.2	101.9	665.8	603.9
Reconciliation to Operating Income:				
Special product quality adjustments	—	(1.4)	—	(2.5)
Items in (Gains) losses and other expenses, net which are excluded from segment profit (loss) ⁽¹⁾	0.1	\$ 5.5	8.1	14.3
Restructuring charges	0.3	0.2	1.5	1.8
Operating income	<u>\$ 131.8</u>	<u>\$ 97.6</u>	<u>\$ 656.2</u>	<u>\$ 590.3</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 (Gains) losses and other expenses, net:
 - Net change in unrealized (gains) losses 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

Reconciliation of Net Cash Provided By Operating Activities, a GAAP measure, to Free Cash Flow, a Non-GAAP measure (dollars in millions)

	For the Three Months Ended December 31,		For the Years Ended December 31,	
	2022	2021	2022	2021
Net cash provided by operating activities	\$ 132.2	\$ 119.2	\$ 302.3	\$ 515.5
Purchases of property, plant and equipment	(34.1)	(38.3)	(101.1)	(106.8)
Proceeds from the disposal of property, plant and equipment	0.4	0.2	1.6	0.9
Free cash flow, a Non-GAAP measure	\$ 98.5	\$ 81.1	\$ 202.8	\$ 409.6

RECAST SEGMENT RESULTS

(\$US in Millions)

	Q1 2022		Q2 2022		Q3 2022		Q4 2022		Full Year 2022	
	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted
Residential segment net sales	\$ 682.2	\$ 682.2	\$ 977.5	\$ 977.5	\$ 835.3	\$ 835.3	\$ 703.4	\$ 703.4	\$ 3,198.4	\$ 3,198.4
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	\$ -	\$ 619.3	\$ -
Refrigeration segment profit	\$ 14.1	\$ -	\$ 23.4	\$ -	\$ 22.4	\$ -	\$ 18.8	\$ -	\$ 78.8	\$ -
Corporate net sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net sales from divested businesses	\$ -	\$ 51.7	\$ -	\$ 61.4	\$ -	\$ 57.3	\$ -	\$ 63.2	\$ -	\$ 233.6
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 divested businesses	\$ -	\$ (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	\$ 164.7
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 divested businesses	\$ -	\$ 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 divested businesses	\$ -	\$ (4.4)	\$ -	\$ (0.1)	\$ -	\$ 0.8	\$ -	\$ (1.0)	\$ -	\$ (4.7)
Corporate and other segment profit	\$ (16.0)	\$ (20.4)	\$ (26.9)	\$ (27.0)	\$ (16.3)	\$ (15.5)	\$ (37.2)	\$ (38.2)	\$ (96.4)	\$ (101.1)
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	\$ 115.6	\$ 221.6	\$ 221.6	\$ 164.8	\$ 164.8	\$ 101.9	\$ 101.9	\$ 603.9	\$ 603.9