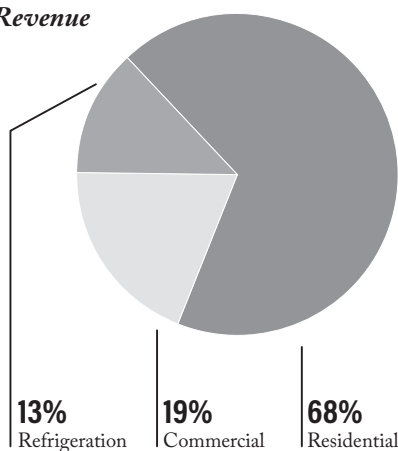


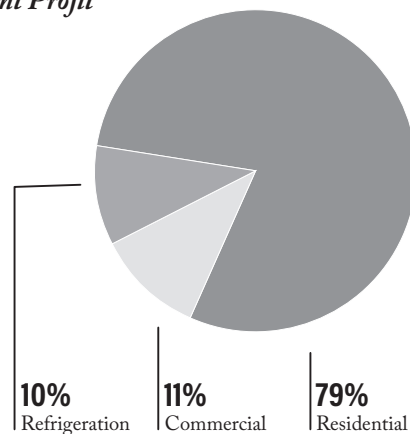
2022
Annual Report



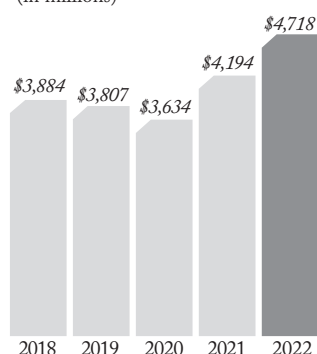
2022 | Revenue



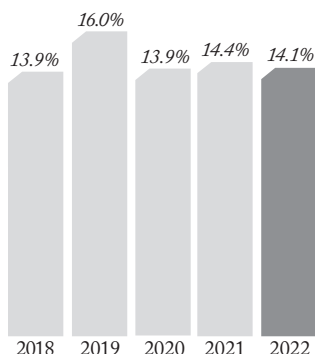
2022 | Segment Profit*



Revenue
(in millions)



Segment Profit Margin**



Share Price
(end of year)



FINANCIAL HIGHLIGHTS

(in millions, except per share data)

Statement of Operations Data

	2022	2021	2020	2019	2018
Revenue.....	\$4,718.4	\$4,194.1	\$3,634.1	\$3,807.2	\$3,883.9
Operating income.....	\$656.2	\$590.3	\$478.5	\$656.9	\$509.9
Income from continuing operations	\$497.1	\$464.0	\$357.1	\$408.8	\$360.3
Net income.....	\$497.1	\$464.0	\$356.3	\$408.7	\$359.0
Basic earnings per share from continuing operations.....	\$13.92	\$12.47	\$9.32	\$10.49	\$8.87
Diluted earnings per share from continuing operations.....	\$13.88	\$12.39	\$9.26	\$10.38	\$8.77
Cash dividends declared per share.....	\$4.10	\$3.53	\$3.08	\$2.95	\$2.43

Other Data

Capital expenditures.....	\$101.1	\$106.8	\$78.5	\$105.6	\$95.2
Research and development expenses	\$80.3	\$76.1	\$66.8	\$69.9	\$72.2

Balance Sheet Data at Period End

Total assets.....	\$2,567.6	\$2,171.9	\$2,032.5	\$2,034.9	\$1,817.2
Total debt.....	\$1,524.8	\$1,237.8	\$980.6	\$1,171.2	\$1,041.3
Stockholders' deficit equity.....	(\$203.1)	(\$269.0)	(\$17.1)	(\$170.2)	(\$149.6)

*Excludes eliminations and unallocated corporate expenses.

**Segment profit is total segment profit for all of our segments including eliminations. For further detail and a comparison of Segment Profit to Income from Continuing Operations before Income Taxes, see Note 3 in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2022, included herein.

TO OUR STOCKHOLDERS

In March of 2022, the company announced that I would be taking the helm as the new CEO of Lennox (NYSE: LII), effective May 9, 2022. I am honored to lead this great company as only its eighth Chief Executive Officer in the company's 128-year history. I came to the United States from India 30 years ago to attend graduate school in New Mexico with only a single piece of luggage and a few hundred dollars. At the time, I never imagined that I would have this incredible opportunity to lead a widely admired company with such a rich history of innovation and performance.

I bring 25 years of leadership experience in manufacturing and technology, most recently serving as the CEO of Luxfer Holdings PLC (NYSE: LXFR), an international company focused on advanced industrial materials. Prior to Luxfer, I held various leadership positions at Pentair, including serving as the President of business segments and prior leadership positions at both General Electric and McKinsey & Company.

To say that I am excited about this opportunity is an understatement. I am grateful to our Board of Directors for entrusting me with the responsibility of leading this great company. I would also like to thank my predecessor, Todd Bluedorn, for his service to Lennox as Chief Executive Officer and Chair for 15 years, during which the Lennox share price increased by ~9X. I also want to thank Todd Teske, our new Chair, for his service as interim CEO during the transition and his past service as Lead Independent Director since 2015 and as a Board Member since 2011.

Finally, I would like to thank the employees of this great company. Every day, they strive to provide our customers with the most innovative and environmentally friendly HVACR products. They have consistently delivered long-term performance while living our core values of integrity, respect and excellence. My goal for my tenure here is to leave this company in even better shape for the next generation. I am excited to join Lennox at a time when we are driving growth and profitability to maximize shareholder value.

As an industry leader, we recognize our vital sustainability role in contributing to a better world by designing and manufacturing the most efficient climate-control products. We develop products with less carbon impact through greater energy efficiency and are transitioning to refrigerants with a lower global warming potential (GWP). For example, in 2022, Lennox was the first manufacturer to complete the Department of Energy's Cold Climate Heat Pump Challenge and is an industry leader in innovative technology for electric heat pumps.

We continue to expand our diversity and inclusion efforts. As one of my first actions as CEO and continuing our commitment from previous Lennox leadership, I proudly joined the CEO Action for Diversity & Inclusion pledge to promote a more inclusive workplace. We support the Business Coalition for the Equality Act, a proposed legislation to address workplace fairness for LGBTQ+ employees.

The health and safety of our employees is our utmost priority. We are committed to a safe workplace and support our safety goals through planning, training, performance management and employee engagement. Year-over-year, we set highly ambitious goals for reductions based on the prior year's performance and aim for annual,

corporate-wide 20 percent reductions in the rate of year-over-year incidents.

We are committed to excellence and, in 2022, delivered another year of record revenues and earnings per share. Company revenue was \$4.7 billion for the year, up 13 percent, and operating income rose 11 percent to \$656 million. Total segment profit rose 10 percent to \$666 million, and total segment margin was 14.1 percent or 30 basis points below the prior year. GAAP earnings per share from continuing operations rose 12 percent to a record \$13.88. Adjusted earnings per share from continuing operations also rose 12 percent to a record \$14.07.

To accelerate our profitable growth, our investment priorities are to sustain industry-leading efficiency solutions, improve our customer experience with digital solutions, introduce new innovative technologies, expand manufacturing capacity and accomplish cost productivity initiatives. Execution of these priorities over the coming years will support market share gains, expand segment profit margins to 20 percent, and generate cash flows in line with net income. In addition to investing for growth, we will continue to efficiently return cash to shareholders with a steadily growing dividend coupled with share repurchases.

In 2022, supply chain component availability, manufacturing labor shortages and inflation were strong headwinds that disproportionately impacted our Commercial segment. We countered these headwinds with 10 percent price increases, made inventory investments to keep our product flowing and broke ground on a new Commercial manufacturing facility. The inventory investments reduced cash flows from operations but were necessary to replenish our stock to healthy levels and to transition to new regulatory requirements. We successfully upgraded our products to meet the new 2023 Department of Energy efficiency standards and are preparing for more regulatory changes related to refrigerants that will take effect in 2025.

In November 2022, we announced the decision to explore strategic alternatives for our European Commercial HVAC and Refrigeration businesses, which represent approximately 5 percent of our 2022 annual revenues. This decision will enhance management's focus on the North American markets and eliminate corporate cost redundancies. We will continue to invest in our North American Heatcraft Refrigeration business, which beginning in 2023, will become part of our Commercial segment.

Turning to the performance of our business segments, Residential set new records with four consecutive quarters of year-over-year revenue and profit growth. Revenue rose 15 percent to a record \$3.2 billion on strong growth in the replacement and new construction business. Despite in-year supply chain challenges and the complexity of the SEER transition, Residential segment profit rose 10 percent to a record \$597 million, and segment margin was down 80 basis points to 18.7 percent, impacted by cost inflation and manufacturing inefficiencies.

We appointed Gary Bedard to President of our Residential business segment effective January 1, 2023, to allow for a seamless transition before the retirement of Doug Young on June 30, 2023, who served

Lennox admirably for 24 years. Gary is a seasoned general manager with a proven record of success at Lennox. Gary joined Lennox in 1998 and has served as President of our Refrigeration business segment and as Vice President and General Manager of our Lennox Residential business. Under Gary's leadership, our Residential business segment is well-positioned to outperform our competitors and win in the marketplace.

We continue to bring innovative new products to market, gaining traction with existing and new accounts. Our leading residential products include the SL25 heat pump, the most efficient on the market, recognized with a 2022 GOOD DESIGN award. This product formed the foundation for our ability to be the first to meet the Department of Energy's Cold Climate Heat Pump Challenge.

Our research and development efforts go beyond product leadership. They also extend into the core of the product line to deliver cost-effective products that meet current and emerging regulatory needs. In 2023, new regional efficiency standards for air conditioners and national standards for heat pumps went into effect. Our new products are cost-optimized, using lower-cost components and existing indoor systems to ensure a smooth transition without burdening our customers, wholesalers, dealers and consumers. Regulatory changes present challenges and opportunities. Historically, Lennox has navigated regulatory transitions well, and we intend to gain share during the transition. We are preparing for the 2025 transition to more environmentally friendly refrigerants with the exceptional products and service our customers expect from us.

Our Residential business segment serves a desirable market that has compelling long-term trends. Lennox's unique go-to-market strategy, innovative product offering and attractive dealer value proposition position us to gain incremental share over an extended period while our operating and digital capabilities support growth and profitability.

Commercial business segment revenue was up four percent to \$901 million. Segment profit was down 27 percent to \$81 million, and segment margin was down 380 basis points to 9.0 percent.

We also appointed Joe Nassab, a 12-year veteran of Lennox, to President of our Commercial business segment in May of 2022. Joe previously served as our Allied Air business unit's Vice President and General Manager. Under Joe's leadership, Allied delivered exceptional growth and profitability over the last decade, with revenue growing 10 percent annually and earnings growing 23 percent annually. Joe is aggressively addressing the Commercial business segment's operating challenges and is positioning the segment for profitable growth.

In 2022, our Commercial business segment was plagued by production constraints in our sole commercial factory, severely impacting our ability to serve our customers. Industrywide, we saw lead times expand to unprecedented levels as key components remained in short supply and supply could not fulfill the market's demand for commercial rooftop units. This resulted in elevated backlogs entering 2023 and pent-up demand that was not fulfilled in 2022, which will benefit 2023.

We implemented near-term initiatives to simplify our company, streamline our portfolio and increase our margins. Our leadership team addressed the labor challenges and drove greater price realization. Additionally, we recently announced a \$150 million investment to add manufacturing capacity with the construction of a new Commercial factory in Saltillo, Mexico.

Our Lennox Commercial National Account Services (NAS) team installs, commissions and maintains equipment for key account customers. The core of this business is proactive preventive maintenance, but they also repair, replace and install commercial rooftop equipment when needed. Over 700 trained technicians operate out of 116 branches with a geographic footprint capable of serving over 97 percent of our customers' North American sites.

We continue to develop and deliver industry-leading commercial rooftop HVAC units that enable us to offer the most efficient products and services in the industry, providing our customers with optimal solutions for meeting their goals on sustainability and energy conservation. Our innovative solutions position us to seize market opportunities as our commercial customers seek environmentally friendly solutions that optimize their returns on investment. We have been, and continue to be, their best option.

The Refrigeration business segment revenue was up 12 percent to \$619 million and segment profit rose 60 percent to \$79 million, while the segment margin expanded 380 basis points to 12.7 percent. Our North American Heatcraft business sharply increased factory output to improve its position as the market leader in North American commercial refrigeration, while our European businesses showed modest improvement in profitability.

Our Refrigeration business segment provides climate-control solutions for the cold chain, keeping food fresh from harvest through distribution to grocery stores, restaurants and the kitchen table. We also provide climate-control solutions for other areas, including the pharmaceutical industry and data centers. These are essential applications that ensure healthy everyday living.

We face an increasingly complex regulatory environment, and our customers need to reduce their carbon intensity. Our product solutions are transitioning to lower GWP refrigerants such as CO₂ and R-32 and are combined with ever increasing efficiencies. The Intelligent controller delivers ease of use and assistance with installation and commissioning. It also helps provide business owners with the ability to lower operating costs (up to 30 percent) by better managing energy-intensive defrost cycles. We are focused on productivity initiatives to drive consistently higher performance, including investments in factory and logistics productivity, eTools and eDesign and sales and service automation.

In 2022, we overcame supply chain disruptions, productivity challenges, and cost pressures to deliver a record year. We overcame these challenges because of the commitment of our employees to our core values of integrity, respect and excellence and the guiding behaviors that define them.

For integrity, the guiding behaviors of trust, accountability and positive engagement make others want to do business with us.

For respect, the guiding behaviors of customer experience, talent and sustainability build our competitive advantage over others in the industry. And finally, for excellence, the guiding behaviors of quality, innovation and results are the key ingredients that enable us to sustain elevated performance and profitable growth over the long term.

We are implementing near-term initiatives to simplify our company, streamline our portfolio and increase our margins. We are establishing a robust growth operating system that will sustain elevated performance while building our competitive advantage. Our purposeful capital deployment strategy will continue to create significant shareholder value to continue working to generate robust free cash flow and maintain discipline in allocating that cash flow. We have a strong history of creating differentiated value for our shareholders, and we believe that our best days are ahead.

A handwritten signature in black ink, appearing to read "Alok Maskara". The signature is fluid and cursive, with a long horizontal stroke at the end.

Alok Maskara
Chief Executive Officer

BOARD OF DIRECTORS **AND MANAGEMENT TEAM**

BOARD OF DIRECTORS

Alok Maskara

Chief Executive Officer
Lennox International Inc.

Todd Teske

Chair of the Board
Former Interim Chief Executive Officer (2022-2023)
Lennox International Inc.
Former Chair, President and Chief Executive Officer
Briggs & Stratton Corporation
Committees: 1, 4

Sherry L. Buck

Chief Financial Officer
W.L. Gore & Associates
Committees: 1, 4

Janet K. Cooper

Former Senior Vice President and Treasurer
Qwest Communications International Inc.
Committees: 1, 2

John W. Norris, III

Co-Founder
Maine Network Partners
Committees: 3, 4

Karen H. Quintos

Former Executive Vice President
and Chief Customer Officer
Dell Technologies Inc.
Committees: 3, 4

Kim K.W. Rucker

Former Executive Vice President,
General Counsel and Secretary
Andeavor
Committees: 2, 3

Gregory T. Swienton

Former Chairman and Chief Executive Officer
Ryder System, Inc.
Committees: 1, 2

Shane D. Wall

Former Chief Technology Officer and Global Head
HP Labs of HP Inc.
Committees: 2, 3

MANAGEMENT TEAM

Alok Maskara

Chief Executive Officer

Joseph W. Reitmeier

Executive Vice President
and Chief Financial Officer

Prakash Bedapudi

Executive Vice President
and Chief Technology Officer

Gary S. Bedard

Executive Vice President and President
LII Residential Heating & Cooling

Mary Ellen Mondi

Vice President
Marketing and Communications

Joe Nassab

Executive Vice President and President
LII North America Commercial
Heating & Cooling

Daniel M. Sessa

Executive Vice President
and Chief Human Resources Officer

John D. Torres

Executive Vice President,
Chief Legal Officer and Secretary

Chris A. Kosel

Vice President,
Corporate Controller
and Chief Accounting Officer

Committee Legend (**bold** indicates chairperson)

1: Audit 2: Board Governance

3: Compensation & Human Resources 4: Public Policy

2022

FORM 10-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-15149

LENNOX INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

Delaware

42-0991521

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

2140 Lake Park Blvd. Richardson, Texas 75080

(Address of principal executive offices, including zip code)

(Registrant's telephone number, including area code): (972) 497-5000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.01 par value per share	LII	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2022, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$7 billion based on the closing price of the registrant's common stock on the New York Stock Exchange. As of February 3, 2023, there were 35,474,054 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 2022 Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the registrant's 2022 Annual Meeting of Stockholders to be held on May 18, 2023 are incorporated by reference into Part III of this report.

LENNOX INTERNATIONAL INC.
FORM 10-K
For the Fiscal Year Ended December 31, 2022

	<u>Page</u>
PART I	
ITEM 1. <u>Business</u>	<u>1</u>
ITEM 1A. <u>Risk Factors</u>	<u>8</u>
ITEM 1B. <u>Unresolved Staff Comments</u>	<u>14</u>
ITEM 2. <u>Properties</u>	<u>15</u>
ITEM 3. <u>Legal Proceedings</u>	<u>16</u>
ITEM 4. <u>Mine Safety Disclosures</u>	<u>16</u>
PART II	
ITEM 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>16</u>
ITEM 6. <u>Selected Financial Data</u>	<u>17</u>
ITEM 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
ITEM 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>30</u>
ITEM 8. <u>Financial Statements and Supplementary Data</u>	<u>31</u>
ITEM 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>73</u>
ITEM 9A. <u>Controls and Procedures</u>	<u>73</u>
ITEM 9B. <u>Other Information</u>	<u>73</u>
PART III	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>73</u>
ITEM 11. <u>Executive Compensation</u>	<u>73</u>
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>73</u>
ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>74</u>
ITEM 14. <u>Principal Accounting Fees and Services</u>	<u>74</u>
PART IV	
ITEM 15. <u>Exhibits and Financial Statement Schedules</u>	<u>74</u>
ITEM 16. <u>Form 10-K Summary</u>	<u>77</u>
<u>SIGNATURES</u>	<u>78</u>
<u>SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES</u>	<u>79</u>

PART I

Item 1. *Business*

References in this Annual Report on Form 10-K to “we,” “our,” “us,” “LII” or the “Company” refer to Lennox International Inc. and its subsidiaries, unless the context requires otherwise.

The Company

We are a global leader in energy-efficient climate-control solutions. We design, manufacture and market a broad range of products for the heating, ventilation, air conditioning and refrigeration (“HVACR”) markets. We have leveraged our expertise to become an industry leader known for innovation, quality and reliability. Our products and services are sold through multiple distribution channels under various brand names. The Company was founded in 1895, in Marshalltown, Iowa, by Dave Lennox, the owner of a machine repair business for railroads. He designed and patented a riveted steel coal-fired furnace, which led to numerous advancements in heating, cooling and climate control solutions.

Shown in the table below are our three business segments, the key products, services and well-known product and brand names within each segment and net sales in 2022 by segment. Segment financial data for 2022, 2021 and 2020, including financial information about foreign and domestic operations, is included in Note 3 of the Notes to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” and is incorporated herein by reference.

Segment	Products & Services	Product and Brand Names	2022 Net Sales (in millions)
Residential Heating & Cooling	Furnaces, air conditioners, heat pumps, packaged heating and cooling systems, indoor air quality equipment, comfort control products, replacement parts and supplies	Lennox, Dave Lennox Signature Collection, Armstrong Air, Ducane, AirEase, Concord, MagicPak, ADP Advanced Distributor Products, Allied, Elite Series, Merit Series, Comfort Sync, Healthy Climate, Healthy Climate Solutions, iComfort ComfortSense and Lennox Stores	\$ 3,198.3
Commercial Heating & Cooling	Unitary heating and air conditioning equipment, applied systems, controls, installation and service of commercial heating and cooling equipment, variable refrigerant flow commercial products	Lennox, Model L, CORE, Emergence, Prodigy, Strategos, Landmark, Raider, Lennox VRF, Lennox National Account Services, Allied Commercial, MagicPak	900.7
Refrigeration	Condensing units, unit coolers, fluid coolers, air cooled condensers, air handlers, process chillers, controls, compressorized racks.	Heatcraft Worldwide Refrigeration, Lennox (Europe HVAC), Bohn, MAGNA, Larkin, Climate Control, Chandler Refrigeration, Friga-Bohn, HK Refrigeration, Hyfra, IntelliGen and Interlink	619.4
Total			\$ 4,718.4

In November 2022, we announced the decision to explore strategic alternatives for our European commercial HVAC and refrigeration businesses, which represent approximately 5% of our annual revenues. We will continue to invest in our Heatcraft Worldwide Refrigeration business which will become part of the Commercial Heating & Cooling segment beginning in 2023 and the European portfolio will be presented with Corporate and Other beginning in 2023 until disposition. As we will manage the businesses in this manner beginning in 2023, we will present the financial results of the revised segments beginning in 2023.

Products and Services

Residential Heating & Cooling

Heating & Cooling Products. We manufacture and market a broad range of furnaces, air conditioners, heat pumps, packaged heating and cooling systems, equipment and accessories to improve indoor air quality, comfort control products, replacement parts and supplies and related products for both the residential replacement and new construction markets in North America. These products are available in a variety of designs and efficiency levels and at a range of price points, and are intended to provide a complete line of home comfort systems. We believe that by maintaining a broad product line marketed under multiple brand names, we can address different market segments and penetrate multiple distribution channels.

The “Lennox” business and brands (“Dave Lennox Signature Collection,” “Elite Series,” “Merit Series,” “iComfort,” “ComfortSense” and “Healthy Climate Solutions”) are sold directly to independent installing dealers, making us one of the largest wholesale distributors of residential heating, ventilation, and air conditioning products in North America. We continue to invest in our network of 245 Lennox Stores across the United States and Canada. These stores provide an easy access solution for contractors and independent dealers to obtain universal service and replacement parts, supplies, convenience items, tools, Lennox equipment and OEM parts.

The Allied Air Enterprise business and brands (“Armstrong Air,” “AirEase,” “Concord,” “Ducane,” “Allied,” and “MagicPak”) include a full line of heating, ventilation and air conditioning products and are sold through independent wholesale distributors in the U.S. and Canada. The Allied Air Enterprise business also sells a full line of heating, ventilation and cooling equipment through private label brands.

The Advanced Distributor Products (“ADP”) business and brand (“ADP Advanced Distributor Products”) sells evaporator coils, air handlers and unit heaters to independent HVAC wholesale distributors across the U.S. and Canada.

Commercial Heating & Cooling

North America. In North America, we manufacture and sell unitary heating and cooling equipment used in light commercial applications, such as low-rise office buildings, restaurants, retail centers, distribution, churches and schools. Our product offerings for these applications include rooftop units ranging from 2 to 50 tons of cooling capacity and split system/air handler combinations, which range from 1.5 to 20 tons of cooling capacity. These products are distributed primarily through commercial contractors and directly to national account customers. In 2021, we launched the Lennox Model L rooftop unit featuring the industry leading CORE control system and advanced variable-speed technology to maximize rebates and energy savings. In late 2022, we introduced the Enlight rooftop unit which features a high efficiency heat pump line perfectly positioned to help our customers reach their environmental and sustainability goals. We believe the success of our products is attributable to their efficiency, impact to the environment, design flexibility, total cost of ownership, ease of service, and advanced control technology.

National Account Services. National Account Service (“NAS”) provides installation, service and preventive maintenance for commercial HVAC national account customers in the United States and Canada.

Refrigeration

We manufacture and market equipment for the global commercial refrigeration markets under the Heatcraft Worldwide Refrigeration name. We sell these products to distributors, installing contractors, engineering design firms, original equipment manufacturers and end-users. Our global manufacturing, distribution, sales and marketing footprint serves customers in approximately 100 countries worldwide.

North America. Our commercial refrigeration products for the North American market include condensing units, unit coolers, fluid coolers, air-cooled condensers, air handlers and refrigeration rack systems. These products preserve food and other perishables in supermarkets, convenience stores, restaurants, warehouses and distribution centers. In addition, our products are used to cool a wide variety of industrial processes, including data centers, machine tooling, and other critical cooling applications. We routinely provide application engineering for consulting engineers, contractors, store planners, end customers and others to support the sale of commercial refrigeration products.

International. In Europe, we manufacture and sell unitary HVAC products, which range from 2 to 70 tons of cooling capacity, and applied systems with up to 200 tons of cooling capacity. Our European products consist of small package units, rooftop units, chillers, air handlers and fan coils that serve medium-rise commercial buildings, shopping malls, other retail and entertainment buildings, institutional applications and other field-engineered applications. We manufacture heating and cooling products in several locations in Europe and market these products through both direct and indirect distribution channels in Europe, the United Kingdom, Eastern Europe, Turkey, Africa, and the Middle East.

We also manufacture and market refrigeration products including condensing units, unit coolers, air-cooled condensers, fluid coolers, compressor racks and industrial process chillers. We have manufacturing locations in Germany, France and Spain. In addition, we own a 50% interest in a joint venture in Mexico that produces unit coolers, air-cooled condensers, condensing units, compressors and compressorized racks of the same design and quality as those manufactured by our U.S. business. This joint venture product line is complemented with imports from the U.S., which are sold through the joint

venture's distribution network.

Business Strategy

Lennox offers a full spectrum of cooling, heating, indoor air quality and refrigeration products to meet the energy-efficient climate-control needs of residential and commercial customers across North America. We are focused on expanding our market position primarily through organic growth while leveraging costs to drive margin expansion and higher profit. This strategy is supported by the following four strategic priorities:

Innovative Product and System Solutions. In all of our markets, we are building on our heritage of innovation by developing residential and commercial products that give families and business owners more precise control over more aspects of their indoor environments, while significantly lowering their energy costs.

Manufacturing and Sourcing Excellence. We maintain our commitment to manufacturing and sourcing excellence by maximizing factory efficiencies and leveraging our engineering capabilities, purchasing power and sourcing initiatives to expand the use of lower-cost materials and components that meet our high-quality standards.

Distribution Excellence. By investing resources in expanding our distribution network and capabilities, we are making products available to our customers in a timely, cost-efficient manner. Additionally, we provide enhanced dealer support through the use of technology, training, advertising and merchandising.

Expense Reduction. Through our cost management initiatives, we are optimizing operating, manufacturing and administrative costs.

Marketing and Distribution

We utilize multiple channels of distribution and offer different brands at various price points in order to better penetrate the HVACR markets. Our products and services are sold through a combination of direct sales, distributors and company-owned parts and supplies stores. Dedicated sales forces and manufacturers' representatives are deployed across our business segments and brands in a manner designed to maximize our ability to service each distribution channel. To optimize enterprise-wide effectiveness, we have active cross-functional and cross-organizational teams coordinating approaches to pricing, product design, distribution and national account customers.

The North American residential heating and cooling market provides an example of the competitive strength of our marketing and distribution strategy. We use three distinct distribution approaches in this market: the company-owned distribution system, the independent distribution system and direct sales to end-users. We distribute our "Lennox" brands in a company-owned process directly to independent dealers that install these heating and cooling products. We distribute our "Armstrong Air," "Ducane," "Air-Ease," "Concord," "MagicPak" and "ADP Advanced Distributor Products" brands through the traditional independent distribution process pursuant to which we sell our products to distributors who, in turn, sell the products to installing contractors. We also sell our products through our Lennox Stores.

Manufacturing

We operate manufacturing facilities worldwide and utilize the best available manufacturing techniques based on the needs of our businesses, including the use of lean manufacturing and principles of Six Sigma, a disciplined, data-driven approach and methodology for improving quality. We use numerous metrics to track and manage annual efficiency improvements. Some facilities are impacted by seasonal production demand, and we manufacture both heating and cooling products in those facilities to balance production and maintain a relatively stable labor force. We may also hire temporary employees to meet changes in demand.

Strategic Sourcing

We rely on various suppliers to furnish the raw materials and components used in the manufacturing of our products. To maximize our buying effectiveness in the marketplace, we have a central strategic sourcing group that consolidates purchases of certain materials, components and indirect items across business segments. The goal of the strategic sourcing group is to develop global strategies for a given component group, concentrate purchases with three to five suppliers and develop long-term relationships with these vendors. By developing these strategies and relationships, we seek to leverage our material needs to reduce costs and improve financial and operating performance. Our strategic sourcing group also works with selected suppliers to reduce costs, improve quality and delivery performance by employing lean manufacturing and Six Sigma.

Compressors, motors and controls constitute our most significant component purchases, while steel, copper and aluminum account for the bulk of our raw material purchases. We own a minority equity interest in a joint venture that manufactures compressors. This joint venture provides us with compressors for our residential and commercial heating and cooling, and refrigeration businesses.

Research and Development and Technology

Research and development is a key pillar of our growth strategy. We operate a global engineering and technology organization that focuses on new technology invention, product development, product quality improvements and process enhancements, including our development of next-generation control systems as well as heating and cooling products that include some of the most efficient products in their respective categories. We leverage intellectual property and innovative designs across our businesses. We also leverage product development cycle time improvements and product data management systems to commercialize new products to market more rapidly. We use advanced, commercially available computer-aided design, computer-aided manufacturing, computational fluid dynamics and other sophisticated design tools to streamline the design and manufacturing processes. We use complex computer simulations and analyses in the conceptual design phase before functional prototypes are created. We also operate a full line of prototype machine equipment and advanced laboratories certified by applicable industry associations.

Seasonality

Our sales and related segment profit tend to be seasonally higher in the second and third quarters of the year because summer is the peak season for sales of air conditioning equipment and services in the U.S. and Canada. For the same reason, our working capital needs are generally greater in the first and second quarters, and we generally have higher operating cash inflows in the third and fourth quarters.

HVAC markets are driven by seasonal weather patterns. HVAC products and services are sold year round, but the volume and mix of product sales and service change significantly by season. The industry generally ships roughly twice as many units during June as it does in December. Overall, cooling equipment represents a substantial portion of the annual HVAC market. Between the heating season (roughly November through February) and cooling season (roughly May through August) are periods commonly referred to as “shoulder seasons” when the distribution channel transitions its buying patterns from one season to the next. These seasonal fluctuations in mix and volume drive our sales and related segment profit, resulting in somewhat higher sales in the second and third quarters due to the higher volume in the cooling season relative to the heating season.

Patents and Trademarks

We hold numerous patents that relate to the design and use of our products. We consider these patents important, but no single patent is material to the overall conduct of our business. We proactively obtain patents to further our strategic intellectual property objectives. We own or license several trademarks and service marks we consider important in the marketing of our products and services, and we protect our marks through national registrations and common law rights.

Competition

Substantially all markets in which we participate are competitive. The most significant competitive factors we face are availability, reliability, energy efficiency, product performance, service and price, with the relative importance of these factors varying among customer applications. The following are some of the companies we view as significant competitors in each of our three business segments, with relevant brand names, when different from the company name, shown in parentheses. The marks below may be the registered or unregistered trademarks or trade names of their respective owners.

- Residential Heating & Cooling - Carrier Global Corporation (Carrier, Bryant, Payne, Tempstar, Comfortmaker, Heil, Arcoaire, KeepRite, Day & Night); Trane Technologies plc (Trane, American Standard, Ameristar, Oxbox, RunTru); Paloma Industries, Inc. (Rheem, Ruud, Weather King); Johnson Controls, Inc. (York, Luxaire, Coleman); Daikin Industries, Ltd. (Daikin, Goodman, Amana, GMC); and Melrose Industries PLC (Maytag, Westinghouse, Frigidaire, Tappan, Philco, Kelvinator, Gibson, Broan, NuTone).
- Commercial Heating & Cooling - Carrier Global Corporation (Carrier, ICP Commercial); Trane Technologies plc (Trane); Paloma Industries, Inc. (Rheem, Ruud); Johnson Controls, Inc. (York); Daikin Industries, Ltd. (Goodman, McQuay); Melrose Industries PLC (Mammoth); and AAON, Inc.

- Refrigeration - Hussmann Corporation; Paloma Industries, Inc. (Rheem Manufacturing Company (Heat Transfer Products Group)); Emerson Electric Co. (Copeland); Carrier Global Corporation (Carrier); GEA Group (Kuba, Searle, Goedhart); Alfa Laval; Guntner GmbH; Kelvin - Profroid (Carrier); Panasonic Corp. (Sanyo); Technotrans; and Deltatherm.

Human Capital Management

Our success, in large part, relies on the character of our people. That character is reflected in our core values of integrity, respect and excellence. Our continued success depends on our ability to attract, motivate, develop and retain employees who embody our core values.

Management strives to maintain the right number of employees with the necessary skills to match the expected demand for the products we manufacture and distribute. As of December 31, 2022, we employed approximately 13,200 people. Of these employees, approximately 5,100 were salaried and 8,100 were hourly. The number of hourly workers varies in order to match our labor needs during periods of fluctuating demand.

Approximately 3,000 of our employees, including international locations, are represented by unions. We believe we have good relationships with our employees and with the unions representing them. On November 1, 2021, our Marshalltown, Iowa-based union ratified a five-year labor agreement. We currently do not anticipate any material adverse consequences resulting from negotiations to renew other collective bargaining agreements.

To succeed in an ever-changing and competitive labor market, we have identified priorities we believe are critical to our success in attracting, motivating, developing, and retaining employees. These include among other things: (1) providing competitive compensation and benefit programs, (2) providing career development programs, (3) promoting health and safety, and (4) championing a diverse and inclusive work environment. Further information is available in our Environmental Social and Governance (ESG) report available on our website. The information on our website, including the ESG Report, is not a part of, or incorporated by reference into, this Annual Report on Form 10-K.

Compensation and Benefit Programs. We are committed to providing our employees with a competitive compensation package that rewards performance and achievement of desired business results. Our compensation package consists of three primary benefits: pay (base pay and incentive programs), health and welfare benefits, and retirement contributions. We analyze our compensation and benefits programs annually to ensure we remain competitive and make changes as necessary.

Career Development Programs. To help our employees succeed in their roles and grow their careers at Lennox, we provide numerous training and development programs. One example is our “Career Journey” program which provides employees with engaging tools enabling them to reflect on skills and interests, and explore a variety of potential career paths. Career Journey allows employees to have more meaningful career development conversations with their manager. In addition to training and development programs we have a robust performance review and goal setting process for all employees. We believe this helps ensure that employees meet expectations throughout the year while continuing development of their long-term careers at Lennox.

Employee Health and Safety. As part of our effort to attract and retain a competitive workforce, we are committed to ensuring that every employee returns home safe at the end of each day. Safety is our top priority and our safety programs are succeeding to reduce risks across our operations. In response to the COVID-19 pandemic, we have taken extensive actions that are aligned with the World Health Organization and Centers for Disease Control and Prevention to protect the health and safety of our workers.

Diversity and Inclusion. We are committed to a diverse workforce built on a foundation of respect and value for people of different backgrounds, experiences, and perspectives. Our commitment to diversity and inclusion enables all employees to be creative, feel challenged, and thrive, which allows us to leverage the unique strengths of our employees to deliver innovative products and solutions for our customers.

Our senior managers, together with our human resources team, are devoted to promoting the above priorities to ensure we remain an employer of choice. We regularly conduct anonymous surveys to seek feedback from our employees on a variety of subjects, including safety, communications, diversity and inclusion, management support to succeed within our company, and career growth.

Despite these efforts, we have experienced, and could continue to experience, higher employee absenteeism, particularly in manufacturing and distribution locations. These concerns have decreased the pool of available qualified talent for certain functions. As a result, we have made and continue to make strong efforts to maintain and recruit qualified talent and are committed to being competitive to retain the best talent possible.

Environmental Regulation

Our operations are subject to evolving and often increasingly stringent international, federal, state and local laws and regulations concerning the environment. Environmental laws affect or could affect our operations. We believe we are in substantial compliance with such existing environmental laws and regulations.

Energy Efficiency. The U.S. Department of Energy has numerous active energy conservation rulemakings that impact residential and commercial heating, air conditioning and refrigeration equipment. We are actively involved in U.S. Department of Energy activities related to energy efficiency. We are prepared to have compliant products in place in advance of the effective dates of all such regulations being considered by the U.S. Department of Energy.

Refrigerants. The use of hydrofluorocarbons (“HFCs”) as refrigerants for air conditioning and refrigeration equipment is common practice in the HVACR industry and is regulated. We believe we have complied with applicable rules and regulations in various countries governing the use of HFCs. We are an active participant in the ongoing international and domestic dialogue on this subject and are well positioned to react in a timely manner to changes in the regulatory landscape.

Remediation Activity. In addition to affecting our ongoing operations, applicable environmental laws can impose obligations to remediate hazardous substances at our properties, at properties formerly owned or operated by us and at facilities to which we have sent or send waste for treatment or disposal. We are aware of contamination at some of our facilities; however, based on facts presently known, we do not believe that any future remediation costs at such facilities will be material to our results of operations. For more information, see Note 5 in the Notes to our Consolidated Financial Statements.

In the past, we have received notices that we are a potentially responsible party along with other potentially responsible parties in Superfund proceedings under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup of hazardous substances at certain sites to which the potentially responsible parties are alleged to have sent waste. Based on the facts presently known, we do not believe environmental cleanup costs associated with any Superfund sites about which we have received notice that we are a potentially responsible party will be material to our results of operations.

E-Waste and Related Compliance. Many countries around the world as well as many states in the U.S. have enacted directives, laws, and regulations directed at preventing electrical and electronic equipment waste by encouraging reuse and recycling as well as restricting the use of hazardous products in electrical and electronic equipment. All HVACR products and certain components of such products are potentially subject to these types of requirements. We are not uniquely affected as compared to other manufacturers. We actively monitor the development and evolution of such requirements and believe we are well positioned to comply with such directives in the required time frames.

Available Information

Our web site address is www.lennoxinternational.com. We make available, free of charge through our web site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, including exhibits, and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as soon as reasonably possible after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. The information on our web site is not a part of, or incorporated by reference into, this Annual Report on Form 10-K.

The Securities and Exchange Commission maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers, including Lennox International, that file electronically with the Securities and Exchange Commission.

Information about our Executive Officers

Our executive officers, their present positions and their ages are as follows as of February 3, 2023:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Alok Maskara	51	Chief Executive Officer
Joseph W. Reitmeier	58	Executive Vice President, Chief Financial Officer
Douglas L. Young	60	Executive Vice President
Gary S. Bedard	58	Executive Vice President & President LII Residential Heating & Cooling
Prakash Bedapudi	56	Executive Vice President, Chief Technology Officer
Daniel M. Sessa	58	Executive Vice President, Chief Human Resources Officer
John D. Torres	64	Executive Vice President, Chief Legal Officer and Secretary
Joe Nassab	55	Executive Vice President & President LII North America Commercial Heating & Cooling
Chris A. Kosel	55	Vice President, Chief Accounting Officer and Controller

Alok Maskara joined Lennox International Inc. as Chief Executive Officer on May 9, 2022. Most recently he served for five years as CEO of Luxfer Holdings PLC, an international industrial company focused on advanced materials. Mr. Maskara also served for nearly a decade as president of several global business units at Pentair PLC, a leading provider of water treatment and sustainable applications. Previously he held various leadership positions at General Electric Corporation and McKinsey & Company. Mr. Maskara also serves on the board of Franklin Electric (Nasdaq: FELE) a company focused on global water and fluid solutions. Mr. Maskara graduated with a bachelor of technology degree in chemical engineering from the Indian Institute of Technology in 1992 and a master's degree in chemical engineering from the University of New Mexico in 1994. In 2000, he earned an MBA from the Kellogg School of Management at Northwestern University.

Joseph W. Reitmeier was appointed Executive Vice President, Chief Financial Officer in July 2012. He had served as Vice President of Finance for the LII's Commercial Heating & Cooling segment since 2007 and as Director of Internal Audit from 2005 to 2007. Before joining the Company, he held financial leadership roles at Cummins Inc. and PolyOne Corporation. He is a director of Watts Water Technologies, Inc., a global provider of plumbing, heating and water quality solutions for residential, industrial, municipal and commercial settings. Mr. Reitmeier holds a bachelor's degree in accounting from the University of Akron and an MBA from Case Western Reserve University. He is also a Certified Public Accountant.

Douglas L. Young has served as an Executive Vice President since January 2023. Most recently he served as Executive Vice President, President and Chief Operating Officer of LII's Residential Heating & Cooling segment in October 2006. Mr. Young had previously served as Vice President and General Manager of North American Residential Products since 2003 and as Vice President and General Manager of Lennox North American Residential Sales, Marketing, and Distribution from 1999 to 2003. Prior to his career with LII, Mr. Young was employed in the Appliances division of GE, where he held various management positions before serving as General Manager of Marketing for GE Appliance division's retail group from 1997 to 1999 and as General Manager of Strategic Initiatives in 1999. He holds a BSBA from Creighton University and a master's of science in management from Purdue University. Mr. Young serves on the Board of Directors of Beacon Roofing Supply, a general building material distributor and is a past Chairman of the Board of Directors of AHRI (the Air-Conditioning, Heating, and Refrigeration Institute), the trade association for the HVACR and water heating equipment industries. In November 2022, Mr. Young advised leadership that he intended to retire effective June 30, 2023.

Gary S. Bedard was appointed Executive Vice President & President of LII's Residential Heating & Cooling business in January 2023. Most recently, he served as Executive Vice President & President of LII's Worldwide Refrigeration business, a position he held since October 2017. Prior to that, Mr. Bedard served as Vice President and General Manager, LII Residential Heating & Cooling for 12 years. He has also held the positions of Vice President, Residential Product Management, LII Worldwide Heating and Cooling, Director of Brand and Product Management, and District Manager for Lennox Industries' New York District. Before joining LII in 1998, Mr. Bedard spent eight years at York International in product management and sales leadership roles for commercial applied and unitary systems as well as residential systems. Mr. Bedard has a bachelor's degree in engineering management from the United States Military Academy at West Point. Mr. Bedard serves on the Board of Directors of the AHRI, the trade association for the HVACR and water heating equipment industries.

Prakash Bedapudi was appointed Executive Vice President, Chief Technology Officer in July 2008. He had previously served as Vice President, Global Engineering and Program Management for Trane Inc. Commercial Systems from 2006 through 2008, and as Vice President, Engineering and Technology for Trane's Residential Systems division from 2003 through 2006. Prior to his career at Trane, Mr. Bedapudi served in senior engineering leadership positions for GE Transportation Systems, a division of General Electric Company, and for Cummins Engine Company. He holds a bachelor of science in mechanical/automotive engineering from Karnataka University, India and a master's of science in mechanical/aeronautical engineering from the University of Cincinnati.

Daniel M. Sessa was appointed Executive Vice President, Chief Human Resources Officer in June 2007. He had previously served in numerous senior human resources and legal leadership positions for United Technologies Corporation since 1996, including Vice President, Human Resources for Otis Elevator Company - Americas from 2005 to 2007, Director, Employee Benefits and Human Resources Systems for United Technologies Corporation from 2004 to 2005, and Director, Human Resources for Pratt & Whitney from 2002 to 2004. He holds a bachelor of arts in law and society from the State University of New York at Binghamton and a juris doctor from the Hofstra University School of Law.

John D. Torres was appointed Executive Vice President, Chief Legal Officer and Secretary in December 2008. He had previously served as Senior Vice President, General Counsel and Secretary for Freescale Semiconductor, a semiconductor manufacturer that was originally part of Motorola. He joined Motorola's legal department as Senior Counsel in 1996 and was appointed Vice President, General Counsel of the company's semiconductor business in 2001. Prior to joining Motorola, Mr. Torres served 13 years in private practice in Phoenix, specializing in commercial law. He holds a bachelor of arts from Notre Dame and a juris doctor from the University of Chicago.

Joe Nassab was appointed Executive Vice President & President of our North America Commercial Heating & Cooling business on May 4, 2022. He joined LII in 2010 as Vice President and General Manager of Allied Air. Before joining LII, Joe worked for 20 years at General Electric Company in a variety of general management, product management, and marketing leadership roles. Joe has a bachelor's degree in finance from the University of Michigan.

Chris A. Kosel was appointed Vice President, Chief Accounting Officer and Controller in May 2017. He had previously served as Vice President, Business Analysis and Planning for the Company since 2016. He also had served as Vice President, Finance and Controller and Director of Finance for the Company's North America Commercial Business from 2015 to 2016 and Director, Financial Planning and Analysis for the Company's Residential Business Unit from 2014 to 2015. Prior to 2014 he had served as Director, Finance for the Company's Lennox Stores business and Director of the Company's Financial Shared Services function. Prior to joining Lennox, he worked for Ernst & Young. He holds a bachelor's degree in accounting from Texas A&M University. He is also a Certified Public Accountant.

Item 1A. Risk Factors

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act that are based on information currently available to management as well as management's assumptions and beliefs as of the date hereof. All statements, other than statements of historical fact, included in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the words "may," "will," "should," "plan," "predict," "anticipate," "believe," "intend," "estimate" and "expect" and similar expressions. Statements that are not historical should also be considered forward-looking statements. Such statements reflect our current views with respect to future events. Readers are cautioned not to place undue reliance on these forward-looking statements. We believe these statements are based on reasonable assumptions; however, such statements are inherently subject to risks and uncertainties, including but not limited to the specific uncertainties discussed elsewhere in this Annual Report on Form 10-K and the risk factors set forth in Item 1A. Risk Factors in this Annual Report on Form 10-K. These risks and uncertainties may affect our performance and results of operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. We disclaim any intention or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise unless required by law.

Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. We believe these are the principal material risks currently facing our business; however, additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the following risks or those disclosed in our other SEC filings occurs, our business, financial condition or results of operations could be materially adversely affected.

Business and Operational Risks

We May Not be Able to Compete Favorably in the Competitive HVACR Business.

Substantially all of the markets in which we operate are competitive. The most significant competitive factors we face are product reliability, product performance, reputation of our company and brands, service and price and global supply chain constraints, with the relative importance of these factors varying among our product lines. Other factors that affect competition in the HVACR market include the development and application of new technologies, an increasing emphasis on the development of more efficient HVACR products and new product introductions. We may not be able to adapt to market changes as quickly or effectively as our current and future competitors. Also, the establishment of manufacturing operations in low-cost countries could provide cost advantages to existing and emerging competitors. Some of our competitors may have greater financial resources than we have, allowing them to invest in more extensive research and development and/or marketing activity and making them better able to withstand adverse HVACR market conditions. Current and future competitive pressures may cause us to reduce our prices or lose market share, or could negatively affect our cash flow, all of which could have a material adverse effect on our results of operations.

If We Cannot Successfully Execute our Business Strategy, Our Results of Operations Could be Adversely Impacted.

Our future success depends on our continued investment in research and new product development as well as our ability to commercialize new HVACR technological advances in domestic and global markets. If we are unable to continue to timely and successfully develop and market new products, achieve technological advances, or extend our business model and technological advances into international markets, our business and results of operations could be adversely impacted.

We are engaged in various manufacturing rationalization actions designed to achieve our strategic priorities of manufacturing, sourcing, and distribution excellence and of lowering our cost structure. For example, we are continuing to reorganize our North American distribution network in order to better serve our customers' needs by deploying parts and equipment inventory closer to them and are expanding our sourcing activities outside of the U.S. In such case, our results of operations and profitability may be negatively impacted, making us less competitive and potentially causing us to lose market share.

Our Ability to Meet Customer Demand may be Limited by Our Single-Location Production Facilities, Reliance on Certain Key Suppliers and Unanticipated Significant Shifts in Customer Demand.

We manufacture many of our products at single-location production facilities. In certain instances, we heavily rely on suppliers who also may concentrate production in single locations or source unique, necessary products from only one supplier. Any significant interruptions in production at one or more of our facilities, or at a facility of one of our key suppliers, could negatively impact our ability to deliver our products to our customers, especially as we continue to experience disruptions in supply.

Further, even with all of our facilities running at full production, we could potentially be unable to fully meet demand during an unanticipated period of exceptionally high demand. Our inability to meet our customers' demand for our products could have a material adverse effect on our business, financial condition, and results of operations.

Our Results of Operations May Suffer if We Cannot Continue to License or Enforce the Intellectual Property Rights on Which Our Businesses Depend or if Third Parties Assert That We Violate Their Intellectual Property Rights.

We rely upon patent, copyright, trademark and trade secret laws and agreements to establish and maintain intellectual property rights in the products we sell. Our intellectual property rights could be challenged, invalidated, infringed, circumvented, or be insufficient to permit us to take advantage of current market trends or to otherwise provide competitive

advantages. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States.

Third parties may also claim that we are infringing upon their intellectual property rights. If we do not license infringed intellectual property or if we are required to substitute similar technology from another source, our operations could be adversely affected. Even if we believe that intellectual property claims are without merit, they can be time consuming, require significant resources and be costly to defend. Claims of intellectual property infringement also might require us to redesign affected products, pay costly damage awards, or face injunction prohibiting us from manufacturing, importing, marketing, or selling certain of our products. Even if we have agreements to indemnify us, indemnifying parties may be unable or unwilling to do so.

Our Operations Can Be Adversely Affected By Our Ability to Attract, Motivate, Develop, and Retain Our Employees, Labor Shortages and Work Stoppages, Turnover, Labor Cost Increases and Other Labor Relations Problems.

We are committed to attracting, motivating, developing, and retaining our employees to ensure we remain an employer of choice. Despite our efforts, we have experienced, and could continue to experience, higher employee turnover and absenteeism, particularly in manufacturing and distribution locations, as a result of COVID-19 related concerns and other factors. A number of factors may adversely affect the labor force available or increase labor costs, including high employment levels, related competition, and federal unemployment subsidies, such as unemployment benefits offered in response to the COVID-19 pandemic. These concerns have decreased the pool of available qualified talent for certain functions. In addition, as of December 31, 2022, approximately 23% of our workforce, including international locations, was unionized. Our Marshalltown, Iowa-based union ratified a five-year labor agreement on November 1, 2021; however, the results of future negotiations with unions are uncertain. If we are unsuccessful in meeting these challenges, our results of operations could be materially impacted.

Volatility in Capital Markets Could Necessitate Increased Cash Contributions by Us to Our Pension Plans to Maintain Required Levels of Funding.

Volatility in the capital markets may have a significant impact on the funding status of our defined benefit pension plans. If the performance of the capital markets depresses the value of our defined benefit pension plan assets or increases the liabilities, we would be required to make additional contributions to the pension plans. The amount of contributions we may be required to make to our pension plans in the future is uncertain and could be significant, which may have a material adverse effect on our results of operations.

Industry Risks

Our Financial Performance Is Affected by the Conditions and Performance of the U.S. Construction Industry.

Our business is affected by the performance of the U.S. construction industry. Our sales in the residential and commercial new construction markets correlate to the number of new homes and buildings that are built, which in turn is influenced by cyclical factors such as interest rates, inflation, availability of financing, consumer spending habits and confidence, employment rates and other macroeconomic factors over which we have no control. Our sales may not improve, or improvement may be limited or lower than expected.

Cooler than Normal Summers and Warmer than Normal Winters May Depress Our Sales.

Demand for our products and for our services is seasonal and strongly affected by the weather. Cooler than normal summers depress our sales of replacement air conditioning and refrigeration products and services. Similarly, warmer than normal winters have the same effect on our heating products and services. The effects of climate change, such as extreme weather conditions and events and water scarcity, may exacerbate fluctuations in typical weather patterns, creating financial risks to our business.

Price Volatility for Commodities and Components We Purchase or Significant Supply Interruptions Could Have an Adverse Effect on Our Cash Flow or Results of Operations.

We depend on raw materials, such as steel, copper and aluminum, and components purchased from third parties to manufacture our products. Some of these third-party suppliers are located outside of the United States. We generally

concentrate purchases for a given raw material or component with a small number of suppliers. If a supplier is unable or unwilling to meet our supply requirements, including suffering any disruptions at its facilities or in its supply chain, we could experience supply interruptions or cost increases, either of which could have an adverse effect on our results of operations. Similarly, suppliers of components that we purchase for use in our products may be affected by rising material costs and pass these increased costs on to us. Although we regularly pre-purchase a portion of our raw materials at fixed prices each year to hedge against price increases, an increase in raw materials prices not covered by our fixed price arrangements could significantly increase our cost of goods sold and negatively impact our margins if we are unable to effectively pass such price increases on to our customers. Alternatively, if we increase our prices in response to increases in the prices or quantities of raw materials or components or if we encounter significant supply interruptions, our competitive position could be adversely affected, which may result in depressed sales and profitability.

The ongoing COVID-19 pandemic has resulted in increased global supply chain constraints and disruption to the operations of certain of our suppliers and we cannot predict the duration or severity of current supply-chain issues, including increased input material costs and component shortages, delivery disruptions and delays, and inflation. Additionally, the effects of climate change, including extreme weather events, long-term changes in temperature levels, water availability, increased cost for decarbonizing process heating, supply costs impacted by increasing energy costs, or energy costs impacted by carbon prices or offsets may exacerbate supply chain constraints and disruption. Resulting supply chain constraints have required, and may continue to require, in certain instances, alternative delivery arrangements and increased costs and could have a material adverse effect on our business and operations.

In addition, we use derivatives to hedge price risk associated with forecasted purchases of certain raw materials. Our hedged prices could result in paying higher or lower prices for commodities as compared to the market prices for those commodities when purchased.

Legal, Tax and Regulatory Risks

Changes in Environmental and Climate-Related Legislation, Government Regulations, or Policies Could Have an Adverse Effect on Our Results of Operations.

The sales, gross margins, and profitability for each of our segments could be directly impacted by changes in legislation, government regulations, or policies (collectively, “LRPs”) relating to global climate change and other environmental initiatives and concerns. These LRPs, implemented under global, national, and sub-national climate objectives or policies, can include changes in environmental and energy efficiency standards and tend to target the global warming potential of refrigerants and hydrofluorocarbons, equipment energy efficiency, and combustion of fossil fuels as a heating source. Many of our products consume energy and use refrigerants and hydrofluorocarbons. LRPs that seek to reduce greenhouse gas emissions may require us to make increased capital expenditures to develop or market new products to meet new LRPs. Further, our customers and the markets we serve may impose emissions or other environmental standards through LRPs or consumer preferences that may require additional time, capital investment, or technological advancement. Our inability or delay in developing or marketing products that match customer demand while also meeting applicable LRPs may negatively impact our results.

There continues to be a lack of consistent climate legislation and regulations, which creates economic and regulatory uncertainty. Such regulatory uncertainty could adversely impact the demand for energy efficient buildings and could increase costs of compliance. Additionally, the extensive and ever-changing legislation and regulations could impose increased liability for remediation costs and civil or criminal penalties in cases of non-compliance. Because these laws are subject to frequent change, we are unable to predict the future costs resulting from environmental compliance.

Changes in U.S. Trade Policy, Including the Imposition of Tariffs and the Resulting Consequences, Could Have an Adverse Effect on Our Results of Operations.

The U.S. government has made changes in U.S. trade policy over the past several years. These changes include renegotiating and terminating certain existing bilateral or multi-lateral trade agreements, such as the U.S.-Mexico-Canada Agreement, and initiating tariffs on certain foreign goods from a variety of countries and regions, most notably China. These changes in U.S. trade policy have resulted in, and may continue to result in, one or more foreign governments adopting responsive trade policies that make it more difficult or costly for us to do business in or import our products or components from those countries. The sales, gross margins, and profitability for each of our segments could be directly impacted by changes in tariffs and trade agreements.

We cannot predict the extent to which the U.S. or other countries will impose new or additional quotas, duties, tariffs, taxes or other similar restrictions upon the import or export of our products in the future, nor can we predict future trade policy or the terms of any renegotiated trade agreements and their impact on our business. The continuing adoption or expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies has the potential to adversely impact demand for our products, our costs, our customers, our suppliers, and the U.S. economy, which in turn could have a material adverse effect on our business, operating results, and financial condition.

We May Incur Substantial Costs as a Result of Claims Which Could Have an Adverse Effect on Our Results of Operations.

The development, manufacture, sale and use of our products involve warranty, intellectual property infringement, and product liability claims, and other liabilities and risks for the installation and service of our products. Our product liability insurance policies have limits that, if exceeded, may result in substantial costs that could have an adverse effect on our results of operations. In addition, warranty claims are not covered by our product liability insurance and certain product liability claims may also not be covered by our product liability insurance.

For some of our HVACR products, we provide warranty terms ranging from one to 20 years to customers for certain components such as compressors or heat exchangers. For certain limited products, we provided lifetime warranties. Warranties of such extended lengths pose a risk to us as actual future costs may exceed our current estimates of those costs. Warranty expense is recorded on the date that revenue is recognized and requires significant assumptions about what costs will be incurred in the future. We may be required to record material adjustments to accruals and expense in the future if actual costs for these warranties are different from our assumptions.

We are Subject to Claims, Lawsuits, and Other Litigation That Could Have an Adverse Effect on Our Results of Operations.

We are involved in various claims and lawsuits incidental to our business, including those involving product liability, labor relations, alleged exposure to asbestos-containing materials and environmental matters, some of which claim significant damages. Estimates related to our claims and lawsuits, including estimates for asbestos-related claims and related insurance recoveries, involve numerous uncertainties. Given the inherent uncertainty of litigation and estimates, we cannot be certain that existing claims or litigation or any future adverse legal developments will not have a material adverse impact on our financial condition.

General Risk Factors

Global General Business, Economic and Market Conditions Could Adversely Affect Our Financial Performance and Limit Our Access to the Capital Markets.

Disruptions in U.S. or global financial and credit markets or increases in the costs of capital might have an adverse impact on our business. The tightening, unavailability or increased cost of credit adversely affects the ability of our customers to obtain financing for significant purchases and operations, resulting in a decrease in sales of our products and services and may impact the ability of our customers to make payments to us. Similarly, tightening of available credit may adversely affect our supplier base and increase the potential for one or more of our suppliers to experience financial distress or bankruptcy. Our business may also be adversely affected by future decreases in the general level of economic activity and increases in borrowing costs, which may cause our customers to cancel, decrease or delay their purchases of our products and services.

If financial markets were to deteriorate, or costs of capital were to increase significantly due to a lowering of our credit ratings, prevailing industry conditions, the volatility of the capital markets or other factors, we may be unable to obtain new financing on acceptable terms, or at all. A deterioration in our financial performance could also limit our future ability to access amounts currently available under our Credit Agreement. In addition, availability under our asset securitization agreement may be adversely impacted by credit quality and performance of our customer accounts receivable. The availability under our asset securitization agreement is based on the amount of accounts receivable that meet the eligibility criteria of the asset securitization agreement. If receivable losses increase or credit quality deteriorates, the amount of eligible receivables could decline and, in turn, lower the availability under the asset securitization.

We cannot predict the likelihood, duration, or severity of any future disruption in financial markets or any adverse economic conditions in the U.S. and other countries.

The COVID-19 Pandemic Has Disrupted Our Business Operations and Results of Operations.

Since 2020, the spread of COVID-19 and the developments surrounding the global pandemic have disrupted our business operations and affected our results of operations. In 2022, the COVID-19 pandemic continued to create supply chain disruptions and higher employee absenteeism in our factories and distribution locations. We cannot predict whether any of our manufacturing, operational, or distribution facilities will experience any future disruptions, or how long such disruptions would last.

There remains uncertainty regarding how COVID-19 will impact the economy and our results in the future. The extent to which the COVID-19 pandemic impacts us will depend on numerous evolving factors and future developments that we are not able to predict, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; our ability to maintain sufficient qualified personnel due to employee illness, quarantine, willingness to return to work, vaccine and/or testing mandates, face-coverings and other safety requirements, general scarcity of employees, or travel and other restrictions; current global supply chain disruptions caused by the COVID-19 pandemic; and the impact on economic activity, including financial market instability.

Our International Operations Subject Us to Risks Including Foreign Currency Fluctuations, Regulations and Other Risks.

We earn revenue, pay expenses, own assets, and incur liabilities in countries using currencies other than the U.S. dollar including the Canadian dollar, the Mexican peso, and the Euro. Our Consolidated Financial Statements are presented in U.S. dollars and we translate revenue, income, expenses, assets, and liabilities into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, increases or decreases in the value of the U.S. dollar relative to other currencies may affect our net operating revenues, operating income and the value of balance sheet items denominated in foreign currencies. Because of the geographic diversity of our operations, weaknesses in some currencies might be offset by strengths in others over time. However, we cannot assure that fluctuations in foreign currency exchange rates, particularly the strengthening of the U.S. dollar against major currencies, would not materially affect our financial results.

In addition to the currency exchange risks inherent in operating in foreign countries, our international sales, and operations, including purchases of raw materials from international suppliers, are subject to risks associated with local government laws, regulations, and policies (including those related to tariffs and trade barriers, investments, taxation, exchange controls, employment regulations and changes in laws and regulations). Our international sales and operations are also sensitive to changes in foreign national priorities, including government budgets, as well as to geopolitical and economic instability. International transactions may involve increased financial and legal risks due to differing legal systems and customs in foreign countries, as well as compliance with anti-corruption laws such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. The ability to manage these risks could be difficult and may limit our operations and make the manufacture and sale of our products internationally more difficult, which could negatively affect our business and results of operations.

Conflicts, wars, natural disasters, climate change, infectious disease outbreaks or terrorist acts could also cause significant damage or disruption to our operations, employees, facilities, systems, suppliers, supply chain, distributors, resellers, or customers in the United States and internationally for extended periods of time and could also affect demand for our products.

Net sales outside of the United States comprised approximately 11% of our total net sales in 2022.

Security Breaches and Other Disruptions or Misuse of Information Systems We Rely Upon Could Affect Our Ability to Conduct Our Business Effectively.

Our information systems and those of our business partners are important to our business activities. We also outsource various information systems, including data management, to third-party service providers. Despite our security measures as well as those of our business partners and third-party service providers, the information systems we rely upon may be vulnerable to interruption or damage from computer hackings, computer viruses, worms or other destructive or disruptive software, process breakdowns, denial of service attacks, malicious social engineering or other malicious activities, or any combination thereof. Attempts have been made to attack our information systems, but we do not believe that material harm has resulted. While we have implemented controls and taken other preventative actions to strengthen these systems against future attacks, we can give no assurance that these controls and preventative actions will be effective. Any breach of data security could result in a disruption of our services or improper disclosure of personal data or confidential information, which could

harm our reputation, require us to expend resources to remedy such a security breach or defend against further attacks or subject us to liability under laws that protect personal data, resulting in increased operating costs or loss of revenue.

We May Not be Able to Successfully Integrate and Operate Businesses that We May Acquire nor Realize the Anticipated Benefits of Strategic Relationships We May Form.

From time to time, we may seek to complement or expand our businesses through strategic acquisitions, joint ventures, and strategic relationships. The success of these transactions will depend, in part, on our ability to timely identify those relationships, negotiate and close the transactions and then integrate, manage, and operate those businesses profitably. If we are unable to successfully do those things, we may not realize the anticipated benefits associated with such transactions, which could adversely affect our business and results of operations.

Any Future Determination that a Significant Impairment of the Value of Our Goodwill Intangible Asset Occurred Could Have an Adverse Effect on Our Results of Operations.

As of December 31, 2022, we had goodwill of \$186.3 million on our Consolidated Balance Sheet. Any future determination that an impairment of the value of goodwill occurred would require a write-down of the impaired portion of goodwill to fair value and would reduce our assets and stockholders' equity and could have a material adverse effect on our results of operations.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. Properties

The following chart lists our principal domestic and international manufacturing, distribution and office facilities as of December 31, 2022 and indicates the business segment that uses such facilities, the approximate size of such facilities and whether such facilities are owned or leased. Also included in the chart are large warehouses that hold significant inventory balances.

Location	Segment	Type or Use of Facility	Approx. Sq. Ft. (In thousands)	Owned/Leased
Saltillo, Mexico	Residential Heating & Cooling	Manufacturing & Distribution	1,081	Owned
Marshalltown, IA	Residential Heating & Cooling	Manufacturing & Distribution	1,000	Owned & Leased
Orangeburg, SC	Residential Heating & Cooling	Manufacturing & Distribution	900	Owned & Leased
Grenada, MS	Residential Heating & Cooling	Manufacturing & Distribution	395	Owned & Leased
Romeoville, IL	Residential Heating & Cooling	Distribution & Office	697	Leased
McDonough, GA	Residential Heating & Cooling	Distribution	254	Leased
Grove City, OH	Residential Heating & Cooling	Distribution	279	Leased
Concord, NC	Residential Heating & Cooling	Distribution	248	Leased
Pittston, PA	Residential Heating & Cooling	Distribution	144	Leased
Harahan, LA	Residential Heating & Cooling	Distribution & Office	83	Leased
North Kansas City, MO	Residential Heating & Cooling	Distribution & Office	59	Leased
West Columbia, SC	Residential Heating & Cooling	Research & Development	63	Leased
Eastvale, CA	Residential & Commercial Heating & Cooling	Distribution	377	Leased
Carrollton, TX	Residential & Commercial Heating & Cooling	Distribution	252	Leased
Brampton, Canada	Residential & Commercial Heating & Cooling	Distribution	251	Leased
Houston, TX	Residential & Commercial Heating & Cooling	Distribution	204	Leased
Orlando, FL	Residential & Commercial Heating & Cooling	Distribution	173	Leased
Middletown, PA	Residential & Commercial Heating & Cooling	Distribution	166	Leased
Lenexa, KS	Residential & Commercial Heating & Cooling	Distribution	147	Leased
East Fife, WA	Residential & Commercial Heating & Cooling	Distribution	112	Leased
Calgary, Canada	Residential & Commercial Heating & Cooling	Distribution	145	Leased
Stuttgart, AR	Commercial Heating & Cooling	Manufacturing	750	Owned
Jessup, PA	Commercial Heating & Cooling	Distribution	130	Leased
DFW Airport, TX	Commercial Heating & Cooling	Distribution	80	Leased
Indianapolis, IN	Commercial Heating & Cooling	Distribution	69	Leased
Medley, FL	Commercial Heating & Cooling	Distribution	70	Leased
Norcross, GA	Commercial Heating & Cooling	Distribution & Office	95	Leased
Longvic, France	Refrigeration	Manufacturing	142	Owned
Longvic, France	Refrigeration	Distribution	133	Owned
Burgos, Spain	Refrigeration	Manufacturing	140	Owned
Mions, France	Refrigeration	Research & Development	129	Owned
Genas, France	Refrigeration	Manufacturing, Distribution & Offices	111	Owned
Tifton, GA	Refrigeration	Manufacturing & Distribution	738	Owned & Leased
Stone Mountain, GA	Refrigeration	Manufacturing & Business Unit Headquarters	139	Owned
Richardson, TX	Corporate and other	Corporate Headquarters	356	Owned & Leased
Carrollton, TX	Corporate and other	Research & Development	294	Owned
Chennai, India	Corporate and other	Research & Development & Office	73	Leased

In addition to the properties described above, we lease numerous facilities in the U.S. and worldwide for use as sales offices, service offices, district and regional warehouses, and Lennox Stores. We routinely evaluate our facilities to ensure adequate capacity, effective cost structure, and consistency with our business strategy. We believe that our properties are in good condition, suitable and adequate for their present requirements and that our principal manufacturing plants are generally adequate to meet our production needs.

Item 3. *Legal Proceedings*

We are involved in a number of claims and lawsuits incident to the operation of our businesses. Insurance coverages are maintained and estimated costs are recorded for such claims and lawsuits. It is management's opinion that none of these claims or lawsuits will have a material adverse effect, individually or in the aggregate, on our financial position, results of operations or cash flows. For more information, see Note 5 in the Notes to the Consolidated Financial Statements.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information for Common Stock

Our common stock is listed for trading on the New York Stock Exchange under the symbol "LII."

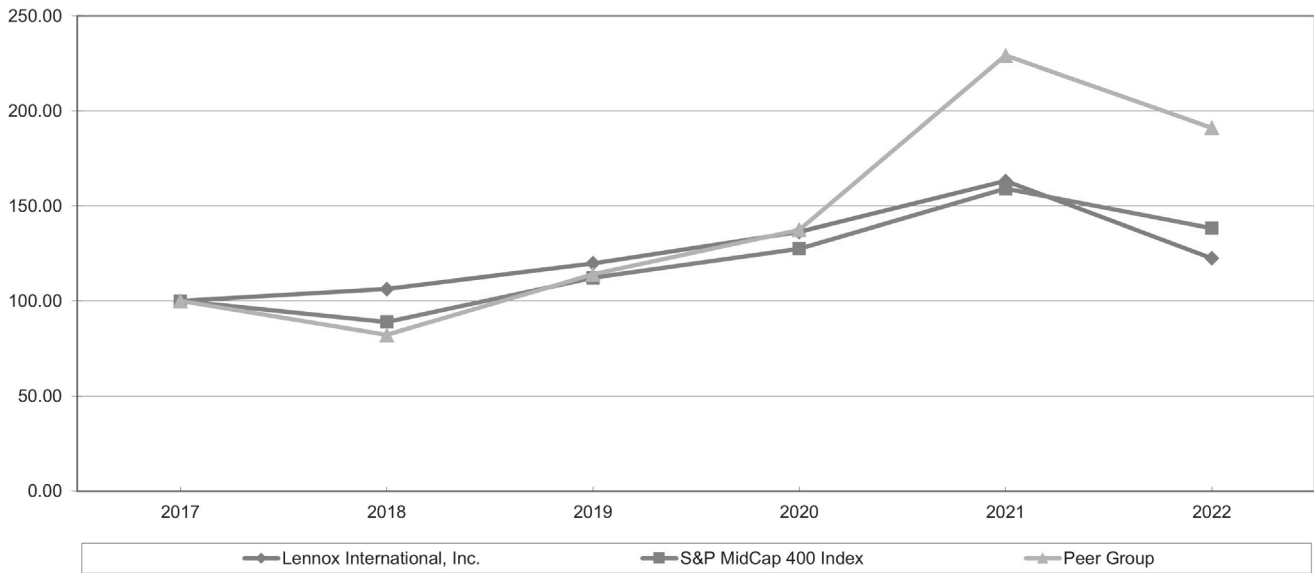
Holders of Common Stock

As of the close of business on February 3, 2023, approximately 544 holders of record held our common stock.

Comparison of Total Stockholder Return

The following graph compares the cumulative total returns of LII's common stock with the cumulative total returns of the Standards & Poor's Midcap 400 Index, a broad index of mid-size U.S. companies of which the Company is a part, and with a peer group of U.S. industrial manufacturing and service companies in the HVACR businesses. The graph assumes that \$100 was invested on December 31, 2017, with dividends reinvested. Our peer group includes AAON, Inc., Comfort Systems USA, Inc., Johnson Controls Inc., and Watsco, Inc.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of \$100
December 2022



This performance graph and other information furnished under this Comparison of Total Stockholder Return section shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act.

Our Purchases of Company Equity Securities

Our Board of Directors has authorized a total of \$4 billion to repurchase shares of our common stock (collectively referred to as the “Share Repurchase Plans”), including an incremental \$1.0 billion share repurchase authorization in July 2021. The Share Repurchase Plans authorize open market repurchase transactions and do not have a stated expiration date. As of December 31, 2022, \$546 million is available to repurchase shares under the Share Repurchase Plans.

In the fourth quarter of 2022, we purchased shares of our common stock as follows:

	Total Shares Purchased ⁽¹⁾	Average Price Paid per Share (including fees)	Shares Purchased As Part of Publicly Announced Plans	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans (in millions)
October 1 through October 31	56	\$ 233.04	—	546.0
November 1 through November 30	1,482	258.34	—	546.0
December 1 through December 31	8,910	267.95	—	546.0
	<u>10,448</u>		<u>—</u>	

⁽¹⁾ These shares of common stock were surrendered to LII to satisfy employee tax-withholding obligations in connection with the exercise of long-term incentive awards.

Item 6. Selected Financial Data

Not applicable

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the other sections of this report, including the Consolidated Financial Statements and related Notes to the Consolidated Financial Statements in Item 8, “Other Financial Statement Details,” of this Annual Report on Form 10-K.

Business Overview

We operate in three reportable business segments of the heating, ventilation, air conditioning and refrigeration (“HVACR”) industry. Our reportable segments are Residential Heating & Cooling, Commercial Heating & Cooling, and Refrigeration. For more detailed information regarding our reportable segments, see Note 3 in the Notes to the Consolidated Financial Statements.

We sell our products and services through a combination of direct sales, distributors and company-owned stores. The demand for our products and services is seasonal and significantly impacted by the weather. Warmer than normal summer temperatures generate demand for replacement air conditioning and refrigeration products and services, and colder than normal winter temperatures have a similar effect on heating products and services. Conversely, cooler than normal summers and warmer than normal winters depress the demand for HVACR products and services. In addition to weather, demand for our products and services is influenced by national and regional economic and demographic factors, such as interest rates, the availability of financing, regional population and employment trends, new construction, general economic conditions and consumer spending habits and confidence. A substantial portion of the sales in each of our business segments is attributable to replacement business, with the balance comprised of new construction business.

The principal elements of cost of goods sold are components, raw materials, factory overhead, labor, estimated costs of warranty expense and freight and distribution costs. The principal raw materials used in our manufacturing processes are steel, copper and aluminum. In recent years, pricing volatility for these commodities and related components has impacted us and the HVACR industry in general. We seek to mitigate the impact of commodity price volatility through a combination of pricing actions, vendor contracts, improved production efficiency and cost reduction initiatives. We also partially mitigate volatility in the prices of these commodities by entering into futures contracts and fixed forward contracts.

Impact of COVID-19 Pandemic

A novel strain of coronavirus (“COVID-19”) has surfaced and spread around the world. The COVID-19 pandemic is creating supply chain disruptions and higher employee absenteeism in our factories and distribution locations since 2020. We cannot predict whether any of our manufacturing, operational or distribution facilities will experience any future disruptions, or how long such disruptions would last. It also remains unclear how various national, state, and local governments will react if new variants of the virus spread. If the pandemic worsens or continues longer than presently expected, COVID-19 could impact our results of operations, financial position and cash flows.

Executive Leadership Transition

On March 23, 2022, the Board of Directors appointed Alok Maskara as Chief Executive Officer (“CEO”) effective May 9, 2022. Mr. Maskara succeeded Todd Bluedorn, who announced in July 2021 his plans to step down by mid-2022 as Chairman and CEO. Todd J. Teske was appointed Chairman of the Board and served as interim CEO until Mr. Maskara assumed the role on May 9, 2022.

Financial Highlights

- Net sales increased \$524 million, or 13%, to \$4,718 million in 2022 from \$4,194 million in 2021.
- Operating income in 2022 was \$656 million compared to \$590 million in 2021.
- Net income in 2022 increased to \$497 million from \$464 million in 2021.
- Diluted earnings per share from continuing operations were \$13.88 per share in 2022 compared to \$12.39 per share in 2021.
- We generated \$302 million of cash flow from operating activities in 2022 compared to \$516 million in 2021.
- In 2022, we returned \$142 million to shareholders through dividend payments and we used \$300 million to purchase 1.3 million shares of stock under our Share Repurchase Plans.

Overview of Results

The Residential Heating & Cooling segment performed well in 2022, with a 15% increase in net sales and a \$57 million increase in segment profit compared to 2021 primarily due to higher price and sales volumes. Our Commercial Heating & Cooling segment saw an increase in net sales of 4% and a \$30 million decrease in segment profit compared to 2021 primarily

due to increased product costs. Sales in our Refrigeration segment increased 12% and segment profit increased \$30 million compared to 2021 primarily due to higher price and sales volumes.

Results of Operations

The following table provides a summary of our financial results, including information presented as a percentage of net sales (dollars in millions):

	For the Years Ended December 31,					
	2022		2021		2020	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Net sales	\$4,718.4	100.0 %	\$4,194.1	100.0 %	\$3,634.1	100.0 %
Cost of goods sold	3,433.7	72.8 %	3,005.7	71.7 %	2,594.0	71.4 %
Gross profit	1,284.7	27.2 %	1,188.4	28.3 %	1,040.1	28.6 %
Selling, general and administrative expenses	627.2	13.3 %	598.9	14.3 %	555.9	15.3 %
Losses (gains) and other expenses, net	4.9	0.1 %	9.2	0.2 %	7.4	0.2 %
Restructuring charges	1.5	— %	1.8	— %	10.8	0.3 %
Loss from natural disasters, net of insurance recoveries	—	— %	—	— %	3.1	0.1 %
Income from equity method investments	(5.1)	(0.1)%	(11.8)	(0.3)%	(15.6)	(0.4)%
Operating income	\$ 656.2	13.9 %	\$ 590.3	14.1 %	\$ 478.5	13.2 %
Loss from discontinued operations	—	— %	—	— %	(0.8)	— %
Net income	\$ 497.1	10.5 %	\$ 464.0	11.1 %	\$ 356.3	9.8 %

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021 - Consolidated Results

Net Sales

Net sales increased 13% in 2022 compared to 2021, driven by higher price of 10%, product mix of 2%, and 2% higher sales volume. Partially offsetting these increases was 1% due to unfavorable foreign currency.

Gross Profit

Gross profit margins for 2022 declined 110 basis points (“bps”) to 27.2% compared to 28.3% in 2021. Gross profit margin decreased 240 bps from higher commodity costs, 170 bps from higher component costs, 140 bps from other product costs including LIFO, 90 bps from factory inefficiencies, 80 bps from higher freight and distribution costs, and 60 bps from product mix. Partially offsetting these margin decreases were 650 bps from favorable price and 20 bps from lower product warranty costs.

Selling, General and Administrative Expenses

SG&A expenses increased by \$28 million in 2022 compared to 2021. As a percentage of net sales, SG&A expenses decreased 100 bps from 14.3% to 13.3% in the same periods primarily due to lower discretionary expenditures.

Losses (Gains) and Other Expenses, Net

Losses (gains) and other expenses, net for 2022 and 2021 included the following (in millions):

	For the Years Ended December 31,	
	2022	2021
Realized losses (gains) on settled future contracts	\$ 0.1	\$ (1.2)
Foreign currency exchange gains	(1.3)	(2.2)
Loss (gain) on disposal of fixed assets	(1.0)	(0.2)
Other operating income	(1.0)	(1.5)
Net change in unrealized (gains) losses on unsettled futures contracts	0.4	—
Environmental liabilities and special litigation charges	7.5	9.6
Charges incurred related to COVID-19 pandemic	0.8	2.2
Other items, net	(0.6)	2.5
(Gains) losses and other expenses, net (pre-tax)	<u>\$ 4.9</u>	<u>\$ 9.2</u>

The net change in unrealized losses on unsettled futures contracts was due to changes in commodity prices relative to the unsettled futures contract prices. For more information on our derivatives, see Note 9 in the Notes to the Consolidated Financial Statements. Foreign currency exchange gains decreased in 2022 primarily due to changes in foreign exchange rates in our primary markets. Environmental liabilities and special legal contingency charges in 2022 relate to estimated remediation costs at some of our facilities and outstanding legal settlements including asbestos. Refer to Note 5 in the Notes to the Consolidated Financial Statements for more information on litigation, including the asbestos-related litigation, and the environmental liabilities. The charges incurred related to the COVID-19 pandemic related primarily to facility cleaning costs and sanitization supplies to ensure the health and safety of our employees.

Restructuring Charges

Restructuring charges were \$1.5 million in 2022 compared to \$1.8 million in 2021. Charges in 2022 were related to ongoing cost reduction actions taken in prior years. For more information on our restructuring activities, see Note 7 in the Notes to the Consolidated Financial Statements.

Goodwill

We performed a qualitative impairment analysis and noted no indicators of goodwill impairment for the year ended December 31, 2022. We did not record any goodwill impairments in 2022 or 2021. Refer to Note 9 in the Notes to the Consolidated Financial Statements for more information on goodwill.

Asset Impairments

We did not have any impairments of assets in 2022 or 2021.

Pension Settlement

We did not have significant pension buyout activity in 2022 and 2021. Refer to Note 10 in the Notes to the Consolidated Financial Statements for more information on pensions and employee benefit plans.

Income from Equity Method Investments

Investments over which we do not exercise control but have significant influence are accounted for using the equity method of accounting. Income from equity method investments was \$5 million in 2022 compared to \$12 million in 2021. The decrease is due to lower operating results at the investees due to higher material costs.

Interest Expense, net

Net interest expense of \$39 million in 2022 increased from \$25 million in 2021 primarily due to higher borrowing costs.

Income Taxes

The income tax provision was \$119 million in 2022 compared to \$96 million in 2021, and the effective tax rate was 19.3% in 2022 compared to 17.2% in 2021. The 2022 and 2021 effective tax rates differ from the statutory rate of 21% primarily due to foreign taxes. Refer to Note 12 in the Notes to the Consolidated Financial Statements for more information on income taxes.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021 - Results by Segment

Residential Heating & Cooling

The following table presents our Residential Heating & Cooling segment's net sales and profit for 2022 and 2021 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2022	2021		
Net sales	\$ 3,198.3	\$ 2,775.6	\$ 422.7	15%
Profit	\$ 596.9	\$ 540.3	\$ 56.6	10%
% of net sales	18.7 %	19.5 %		

Residential Heating & Cooling net sales increased 15% in 2022 compared to 2021 due to an increase in price of 11%, an increase in sales volume of 4%, and 1% from product mix. Partially offsetting these increases was 1% from unfavorable foreign currency.

Segment profit in 2022 increased \$57 million compared to 2021 due to \$297 million from higher price, \$33 million from higher sales volume, and \$9 million from lower product warranty costs. Partially offsetting these increases were \$85 million from higher commodity costs, \$49 million from higher component costs, \$47 million higher other product costs including LIFO, unfavorable product mix of \$34 million, \$33 million from higher freight and distribution charges, \$20 million from higher SG&A costs, \$7 million from factory inefficiencies, \$5 million from unfavorable foreign currency, and \$2 million from miscellaneous other items.

Commercial Heating & Cooling

The following table presents our Commercial Heating & Cooling segment's net sales and profit for 2022 and 2021 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2022	2021		
Net sales	\$ 900.7	\$ 864.8	\$ 35.9	4 %
Profit	\$ 80.9	\$ 110.9	\$ (30.0)	(27)%
% of net sales	9.0 %	12.8 %		

Commercial Heating & Cooling net sales increased 4% in 2022 compared to 2021 due to an increase in price of 7% and 7% from product mix. Partially offsetting these increases were lower sales volume of 9% and unfavorable foreign currency of 1%.

Segment profit in 2022 decreased \$30 million compared to 2021 due to \$28 million from factory inefficiencies, \$25 million from lower sales volume, \$21 million from higher component costs, \$20 million from higher other product costs including LIFO, \$13 million from higher commodity costs, \$8 million from higher SG&A costs, and \$2 million from higher freight and distribution charges. Partially offsetting these decreases were \$61 million from higher price, \$24 million from favorable product mix, and \$2 million from lower product warranty costs.

Refrigeration

The following table presents our Refrigeration segment's net sales and profit for 2022 and 2021 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2022	2021		
Net sales	\$ 619.4	\$ 553.7	\$ 65.7	12 %
Profit	\$ 78.8	\$ 49.1	\$ 29.7	60 %
% of net sales	12.7 %	8.9 %		

Net sales increased 12% in 2022 compared to 2021 due to a 13% increase in price, 3% increase in sales volume, and 1% from product mix. Partially offsetting these increases was unfavorable foreign currency of 5%.

Segment profit in 2022 increased \$30 million compared to 2021 due to \$70 million from higher price, \$7 million from favorable product mix, and \$7 million from higher sales volume. Partially offsetting these increases were \$17 million from higher commodity costs, \$12 million from higher component costs, \$12 million from higher SG&A, \$7 million from factory inefficiencies, \$4 million from higher freight and distribution costs, and \$2 million from higher other product costs.

In November 2022, we announced the decision to explore strategic alternatives for our European commercial HVAC and refrigeration businesses. We will continue to invest in our Heatcraft Worldwide Refrigeration business which will become part of the Commercial Heating & Cooling segment beginning in 2023. The European portfolio will be presented with Corporate and Other beginning in 2023 until disposition. As we will manage the businesses in this manner beginning in 2023, we will present the financial results of the revised segments beginning in 2023. The European portfolio realized net sales of \$234 million in 2022 and \$230 million in 2021 and generated losses of \$3 million and \$5 million for 2022 and 2021, respectively.

Corporate and Other

Corporate and other expenses decreased by \$6 million in 2022 compared to 2021 primarily due to lower incentive compensation costs.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020 - Consolidated Results

Net Sales

Net sales increased 15% in 2021 compared to 2020, driven by higher sales volumes of 11% and an improved combined price and mix of 4%. The increases in volume, price and mix were due to strong demand across all three of our business segments.

Gross Profit

Gross profit margins for 2021 decreased 30 basis points ("bps") to 28.3% compared to 28.6% in 2020. Gross profit margin decreased 180 bps from higher commodity costs, 90 bps from other product costs, 20 bps from higher freight and distribution costs, and 10 bps for lower factory efficiency. Partially offsetting these cost increases was 270 bps from favorable combined price and mix.

Selling, General and Administrative Expenses

SG&A expenses increased by \$43 million in 2021 compared to 2020. As a percentage of net sales, SG&A expenses decreased 100 bps from 15.3% to 14.3% in the same periods primarily due to lower discretionary expenditures.

Losses (Gains) and Other Expenses, Net

Losses (gains) and other expenses, net for 2021 and 2020 included the following (in millions):

	For the Years Ended December 31,	
	2021	2020
Realized (gains) losses on settled futures contracts	\$ (1.2)	\$ 0.1
Foreign currency exchange gains	(2.2)	(3.6)
Gain on disposal of fixed assets	(0.2)	(0.2)
Other operating income	(1.5)	(2.2)
Net change in unrealized gains on unsettled futures contracts	—	(0.3)
Environmental liabilities and special litigation charges	9.6	5.3
Charges incurred related to COVID-19 pandemic	2.2	8.3
Other items, net	2.5	—
Losses (gains) and other expenses, net	<u>\$ 9.2</u>	<u>\$ 7.4</u>

The charges incurred related to the COVID-19 pandemic related primarily to facility cleaning costs and sanitization supplies to ensure the health and safety of our employees. The net change in unrealized losses on unsettled futures contracts was due to changes in commodity prices relative to the unsettled futures contract prices. For more information on our derivatives, see Note 10 in the Notes to the Consolidated Financial Statements.

Foreign currency exchange gains decreased in 2021 primarily due to weakening in foreign exchange rates in our primary markets. The special legal contingency charges in 2021 relate to outstanding legal settlements. The asbestos-related litigation relates to known and estimated future asbestos matters. The environmental liabilities relate to estimated remediation costs for contamination at some of our facilities. Refer to Note 5 in the Notes to the Consolidated Financial Statements for more information on litigation, including the asbestos-related litigation, and the environmental liabilities.

Restructuring Charges

Restructuring charges were \$1.8 million in 2021 compared to \$10.8 million in 2020. Charges in 2021 were related to ongoing cost reduction actions taken in prior years. The charges in 2020 related primarily to several cost reduction actions taken in response to the economic impact of the COVID-19 pandemic on our business. These actions consisted of employee terminations for positions that were no longer needed to support the business, selective facility closures, and cancellations of certain sales and marketing activities. For more information on our restructuring activities, see Note 7 in the Notes to the Consolidated Financial Statements.

Goodwill

We performed a qualitative impairment analysis and noted no indicators of goodwill impairment for the year ended December 31, 2021. We did not record any goodwill impairments in 2021 or 2020. Refer to Note 9 in the Notes to the Consolidated Financial Statements for more information on goodwill.

Asset Impairments

We did not have any impairments of assets in 2021 or 2020.

Pension Settlement

We did not have significant pension buyout activity in 2021 and 2020. Refer to Note 10 in the Notes to the Consolidated Financial Statements for more information on pensions and employee benefit plans.

Income from Equity Method Investments

Investments over which we do not exercise control but have significant influence are accounted for using the equity method of accounting. Income from equity method investments was \$12 million in 2021 compared to \$16 million in 2020. The decrease is due to rising production costs at the joint ventures.

Interest Expense, net

Net interest expense of \$25 million in 2021 decreased from \$28 million in 2020 primarily due to lower borrowing and lower borrowing costs.

Income Taxes

The income tax provision was \$96 million in 2021 compared to \$88 million in 2020, and the effective tax rate was 17.2% in 2021 compared to 19.8% in 2020. The 2021 and 2020 effective tax rates differ from the statutory rate of 21% primarily due to state and foreign taxes. Refer to Note 12 in the Notes to the Consolidated Financial Statements for more information on income taxes.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020 - Results by Segment

Residential Heating & Cooling

The following table presents our Residential Heating & Cooling segment's net sales and profit for 2021 and 2020 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2021	2020		
Net sales	\$ 2,775.6	\$ 2,361.5	\$ 414.1	18%
Profit	\$ 540.3	\$ 428.5	\$ 111.8	26%
% of net sales	19.5 %	18.1 %		

Residential Heating & Cooling net sales increased 18% in 2021 compared to 2020. Sales volume increased 13%, price increased 5% and favorable foreign currency exchange rates caused an increase of 1%. Partially offsetting these increases was a 1% reduction due to unfavorable product mix.

Segment profit in 2021 increased \$112 million compared to 2020 due to \$108 million from favorable pricing, \$91 million from higher sales volume, \$9 million from favorable foreign currency exchange, \$5 million from higher factory productivity, and \$2 million from sourcing and engineering-led cost reductions. Partially offsetting these increases were \$59 million from commodity costs, \$20 million from higher warranty and other product costs, \$14 million from higher SG&A, \$5 million from unfavorable product mix, and \$5 million from lower income from equity method investments.

Commercial Heating & Cooling

The following table presents our Commercial Heating & Cooling segment's net sales and profit for 2021 and 2020 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2021	2020		
Net sales	\$ 864.8	\$ 800.9	\$ 63.9	8 %
Profit	\$ 110.9	\$ 136.9	\$ (26.0)	(19)%
% of net sales	12.8 %	17.1 %		

Commercial Heating & Cooling net sales increased 8% in 2021 compared to 2020. Price and mix combined increased 4%, sales volume was 3% higher, and foreign currency improved 1%.

Segment profit in 2021 decreased \$26 million compared to 2020 due to \$17 million from higher other product costs, \$14 million from factory inefficiencies, \$6 million from sourcing and engineering-led cost increases, \$6 million from higher commodity costs, \$6 million from higher freight and distribution costs, \$4 million from higher SG&A costs, and \$1 million from unfavorable foreign currency. Partially offsetting these declines was a favorable increase in combined price and mix of \$19 million and \$9 million from higher sales volume.

Refrigeration

The following table presents our Refrigeration segment's net sales and profit for 2021 and 2020 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2021	2020		
Net sales	\$ 553.7	\$ 471.7	\$ 82.0	17 %
Profit	\$ 49.1	\$ 32.8	\$ 16.3	50 %
% of net sales	8.9 %	7.0 %		

Net sales increased 17% in 2021 compared to 2020. Sales volume increased 14%, price increased 3%, and foreign currency improved 1%. Partially offsetting these increases was a 1% reduction due to unfavorable mix.

Segment profit in 2021 increased \$16 million compared to 2020 due to \$23 million from higher sales volume, \$13 million from higher price, \$3 million from higher factory productivity, and \$1 million from higher income from equity method investments. Partially offsetting these increases were \$10 million from higher SG&A, \$8 million from higher commodity costs, \$2 million from higher other product costs, \$2 million from unfavorable product mix, and \$2 million from higher freight and distribution costs.

In November 2022, we announced the decision to explore strategic alternatives for our European commercial HVAC and refrigeration businesses. We will continue to invest in our Heatcraft Worldwide Refrigeration business which will become part of the Commercial Heating & Cooling segment beginning in 2023 and the European portfolio will be presented with Corporate and Other beginning in 2023 until disposition. As we will manage the businesses in this manner beginning in 2023, we will present the financial results of the revised segments beginning in 2023. The European portfolio realized net sales of \$230 million in 2021 and \$214 million in 2020 and generated losses of \$5 million for both 2021 and 2020.

Corporate and Other

Corporate and other expenses increased by \$5 million in 2021 compared to 2020 primarily due to increased headcount and increases in incentive compensation costs.

Accounting for Futures Contracts

Realized gains and losses on settled futures contracts are a component of segment profit (loss). Unrealized gains and losses on unsettled futures contracts are excluded from segment profit (loss) as they are subject to changes in fair value until their settlement date. Both realized and unrealized gains and losses on futures contracts are a component of Losses (gains) and other expenses, net in the accompanying Consolidated Statements of Operations. See Note 9 of the Notes to Consolidated Financial Statements for more information on our derivatives and Note 3 of the Notes to the Consolidated Financial Statements for more information on our segments and for a reconciliation of segment profit to operating income.

Liquidity and Capital Resources

Our working capital and capital expenditure requirements are generally met through internally generated funds, bank lines of credit and an asset securitization arrangement. Working capital needs are generally greater in the first and second quarters due to the seasonal nature of our business cycle.

Statement of Cash Flows

The following table summarizes our cash flow activity for the years ended December 31, 2022, 2021 and 2020 (in millions):

	2022	2021	2020
Net cash provided by operating activities	\$ 302.3	\$ 515.5	\$ 612.4
Net cash used in investing activities	(103.0)	(106.4)	(79.7)
Net cash used in financing activities	\$ (174.1)	\$ (498.7)	\$ (441.8)

Net Cash Provided By Operating Activities - Net cash provided by operating activities activities decreased \$214 million to \$302 million in 2022 compared to \$516 million in 2021. The decrease was primarily attributable to increases in working capital including a \$249 million increase in inventory due to investments to replenish finished goods ahead of the minimum-

efficiency regulatory changes and in raw material to increase supply chain resiliency and a \$112 million increase in accounts and notes receivable due to higher sales volume. Partially offsetting the increased working capital was an increase in net income.

Net Cash Used In Investing Activities - Net cash used in investing activities decreased \$3 million from 2021 to 2022 primarily due to lower capital expenditures. Capital expenditures were \$101 million, \$107 million and \$79 million in 2022, 2021 and 2020, respectively. Capital expenditures in 2022 were primarily related to the expansion of our manufacturing capacity including investments in our Commercial factory in Mexico, equipment, and investments in systems and software to support the overall enterprise.

Net Cash Used In Financing Activities - Net cash used in financing activities was \$174 million in 2022 and \$499 million in 2021. The decrease is primarily due to a decrease in share repurchases in 2022 which was partially offset by an increase in net borrowings and repayments on debt. During 2022 we repurchased \$300 million of shares compared to \$600 million of shares in 2021. We also returned \$142 million to shareholders through dividend payments in 2022. For additional information on share repurchases, refer to Note 6 in the Notes to the Consolidated Financial Statements.

Debt Position

The following table details our lines of credit and financing arrangements as of December 31, 2022 (in millions):

	Outstanding Borrowings
<i>Current maturities of long-term debt:</i>	
Asset securitization program ⁽¹⁾	\$ 350.0
Finance lease obligations	11.2
Senior unsecured notes	350.0
Debt issuance costs	(0.6)
Total current maturities of long-term debt	<u>\$ 710.6</u>
<i>Long-term debt:</i>	
Finance lease obligations	28.3
Credit agreement ⁽²⁾	192.0
Senior unsecured notes	600.0
Debt issuance costs	(6.1)
Total long-term debt	<u>814.2</u>
Total debt	<u><u>\$ 1,524.8</u></u>

⁽¹⁾ The maximum securitization amount ranges from \$300.0 million to \$450.0 million, depending on the period. The maximum capacity of the Asset Securitization Program (“ASP”) is the lesser of the maximum securitization amount or 100% of the net pool balance less reserves, as defined under the ASP. Refer to Note 13 in the Notes to the Consolidated Financial Statements for more details.

⁽²⁾ The total capacity on the facility is \$750.0 million. The amount available future borrowings on our Credit Agreement is \$556 million after being reduced by the outstanding borrowings and \$2 million in outstanding standby letters of credit as of December 31, 2022.

Both our Asset Securitization Program as well as our \$350.0 million 2023 Notes will mature in 2023. We are currently evaluating our options related to these obligations including refinancing and other alternatives. We do not believe that our options or alternatives will have any material impact on our results of operations or liquidity.

Credit Agreement

In July 2021, we entered into a new Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto, which refinanced and replaced the Seventh Amended and Restated Credit Facility.

The Credit Agreement provides for revolving credit commitments of \$750 million with sublimits for swingline loans of up to \$65 million, letters of credit up to \$100 million and revolving loans in certain non-U.S. currencies up to the U.S. dollar equivalent of \$40 million. The Credit Agreement will expire and outstanding loans will be required to be repaid in July 2026, unless maturity is extended by the lenders pursuant to two one-year extension options that we may request under the Credit Agreement. At our request and subject to certain conditions, the revolving credit commitments under the Credit Agreement may be increased by up to a total of \$350 million to the extent that existing or new lenders agree to provide additional commitments.

The Credit Agreement is guaranteed by certain of our subsidiaries and contains customary covenants applicable to us and our subsidiaries including limitations on indebtedness, liens, dividends, stock repurchases, mergers and sales of all or substantially all of its assets. In addition, the Credit Agreement contains a financial covenant requiring us to maintain, as of the last day of each fiscal quarter for the four prior fiscal quarters, a Total Net Leverage Ratio of no more than 3.50 to 1.00 (or, at our election, on up to two occasions following a material acquisition, 4.00 to 1.00). The Credit Agreement is subject to customary events of default, including non-payment of principal or other amounts under the Credit Agreement, material inaccuracy of representations and warranties, breach of covenants, cross-default to other indebtedness in excess of \$75 million, judgements in excess of \$75 million, certain voluntary and involuntary bankruptcy events, and the occurrence of a change of control. As of December 31, 2022, we believe we were in compliance with all covenant requirements.

Financial Leverage

We periodically review our capital structure, including our primary bank facility, to ensure the appropriate levels of liquidity and leverage and to take advantage of favorable interest rate environments or other market conditions. We consider various other financing alternatives and may, from time to time, access the capital markets.

We also evaluate our debt-to-capital and debt-to-EBITDA ratios to determine, among other considerations, the appropriate targets for capital expenditures and share repurchases under our Share Repurchase Plans. Our book value of debt-to-total-capital ratio decreased to 115% at December 31, 2022 compared to 128% at December 31, 2021.

As of December 31, 2022, our senior credit ratings were Baa2 with a stable outlook, and BBB with a stable outlook, by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Rating Group ("S&P"), respectively. The security ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating. Our goal is to maintain investment grade ratings from Moody's and S&P to help ensure the capital markets remain available to us.

Liquidity

We believe our cash and cash equivalents of \$53 million, future cash generated from operations and available future borrowings are sufficient to fund our operations, planned capital expenditures, future contractual obligations, share repurchases, anticipated dividends and other needs in the foreseeable future. Included in our cash and cash equivalents as of December 31, 2022 was \$23 million of cash held in foreign locations, although that amount can fluctuate significantly depending on the timing of cash receipts and payments. Our cash and cash equivalents held in foreign locations is generally available for use in our U.S. operations and could be subject to foreign withholding taxes and U.S. state taxes.

No contributions are required to be made to our U.S. defined benefit plans in 2023. We made \$22.5 million in total contributions to pension plans in 2022.

Dividend payments were \$142 million in 2022 compared to \$127 million in 2021. On May 19, 2022, our Board of Directors approved a 15% increase in our quarterly dividend on common stock from \$0.92 to \$1.06 per share effective with the July 2022 dividend payment.

We also continued to increase shareholder value through our Share Repurchase Plans. We returned \$300 million to our investors through share repurchases in 2022. Our Board of Directors authorized an incremental \$1.0 billion of share repurchases in July 2021, and we had \$546 million of repurchases available under the Share Repurchase Plans at December 31, 2022. We expect to repurchase \$200 million of shares in 2023.

We expect capital expenditures of approximately \$250 million in 2023.

Financial Covenants related to our Debt

Our Credit Agreement is guaranteed by certain of our subsidiaries and contains a financial covenant relating to leverage. Other covenants contained in the our Credit Agreement restrict, among other things, certain mergers, asset dispositions, guarantees, debt, liens, and affiliate transactions. The financial covenant requires us to maintain a defined Consolidated Indebtedness to Adjusted EBITDA Ratio of no greater than 3.5 : 1.0.

Our Credit Agreement contains customary events of default. These events of default include nonpayment of principal or other amounts, material inaccuracy of representations and warranties, breach of covenants, default on certain other indebtedness or receivables securitizations (cross default), certain voluntary and involuntary bankruptcy events and the occurrence of a change in control. A cross default under our credit facility could occur if:

- We fail to pay any principal or interest when due on any other indebtedness or receivables securitization exceeding \$75.0 million; or
- We are in default in the performance of, or compliance with any term of any other indebtedness or receivables securitization in an aggregate principal amount exceeding \$75.0 million, or any other condition exists which would give the holders the right to declare such indebtedness due and payable prior to its stated maturity.

Each of our major debt agreements contains provisions by which a default under one agreement causes a default in the others (a cross default). If a cross default under our Credit Agreement, our senior unsecured notes, or our ASP were to occur, it could have a wider impact on our liquidity than might otherwise occur from a default of a single debt instrument or lease commitment.

If any event of default occurs and is continuing, the administrative agent, or lenders with a majority of the aggregate commitments may require the administrative agent to, terminate our right to borrow under our Credit Agreement and accelerate amounts due under our Credit Agreement (except for a bankruptcy event of default, in which case such amounts will automatically become due and payable and the lenders' commitments will automatically terminate).

In the event of a credit rating downgrade below investment grade resulting from a change of control, holders of our senior unsecured notes will have the right to require us to repurchase all or a portion of the senior unsecured notes at a repurchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if any. The notes are guaranteed, on a senior unsecured basis, by each of our subsidiaries that guarantee payment by us of any indebtedness under our Credit Agreement. The indenture governing the notes contains covenants that, among other things, limit our ability and the ability of the subsidiary guarantors to: create or incur certain liens; enter into certain sale and leaseback transactions; enter into certain mergers, consolidations and transfers of substantially all of our assets; and transfer certain properties. The indenture also contains a cross default provision which is triggered if we default on other debt of at least \$75 million in principal which is then accelerated, and such acceleration is not rescinded within 30 days of the notice date.

As of December 31, 2022, we believe we were in compliance with all covenant requirements. Delaware law limits the ability to pay dividends to surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. In addition, stock repurchases can only be made out of surplus and only if our capital would not be impaired.

Leasing Commitments

Refer to Note 5 in the Notes to the Consolidated Financial Statements for more details on our leasing commitments.

Guarantees related to our Debt Obligations

Our senior unsecured notes were issued by Lennox International Inc. (the "Parent") and are unconditionally guaranteed by certain of our subsidiaries (the "Guarantor Subsidiaries") and are not secured by our other subsidiaries. The Guarantor Subsidiaries are 100% owned and consolidated, all guarantees are full and unconditional, and all guarantees are joint and several.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements that we believe may have a material current or future effect on our financial condition, liquidity or results of operations.

Contractual Obligations

Contractual obligations arise in the normal course of business and include debt and related interest payments, leases, purchase obligations, pension and post-retirement benefits and warranty liabilities. For additional information regarding our contractual obligations, see Note 5 of the Notes to the Consolidated Financial Statements. See Note 10 of the Notes to the Consolidated Financial Statements for more information on our pension and post-retirement benefits obligations. See Note 13 of the Notes to the Consolidated Financial Statements for more information on our debt obligations.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and requires consideration of our creditworthiness when valuing certain liabilities. Our framework for measuring fair value is based on a three-level hierarchy for fair value measurements.

The three-level fair value hierarchy for disclosure of fair value measurements is defined as follows:

- Level 1* - Quoted prices for *identical* instruments in active markets at the measurement date.
- Level 2* - Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are *observable* in active markets at the measurement date and for the anticipated term of the instrument.
- Level 3* - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable* inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Where available, the fair values were based upon quoted prices in active markets. However, if quoted prices were not available, then the fair values were based upon quoted prices for similar assets or liabilities or independently sourced market parameters, such as credit default swap spreads, yield curves, reported trades, broker/dealer quotes, interest rates and benchmark securities. For assets and liabilities without observable market activity, if any, the fair values were based upon discounted cash flow methodologies incorporating assumptions that, in our judgment, reflect the assumptions a marketplace participant would use. Valuation adjustments to reflect either party's creditworthiness and ability to pay were incorporated into our valuations, where appropriate, as of December 31, 2022 and 2021, the measurement dates. See Note 16 of the Notes to the Consolidated Financial Statements for more information on the assets and liabilities measured at fair value.

Market Risk

Commodity Price Risk

We enter into commodity futures contracts to stabilize prices expected to be paid for raw materials and parts containing high copper and aluminum content. These contracts are for quantities equal to or less than quantities expected to be consumed in future production. Fluctuations in metal commodity prices impact the value of the futures contracts that we hold. When metal commodity prices rise, the fair value of our futures contracts increases. Conversely, when commodity prices fall, the fair value of our futures contracts decreases. Information about our exposure to metal commodity price market risks and a sensitivity analysis related to our metal commodity hedges is presented below (in millions):

Notional amount (pounds of aluminum and copper)	56.6
Carrying amount and fair value of net asset	\$ (7.5)
Change in fair value from 10% change in forward prices	\$ 10.1

Refer to Note 9 of the Notes to the Consolidated Financial Statements for additional information regarding our commodity futures contracts.

Interest Rate Risk

Our results of operations can be affected by changes in interest rates due to variable rates of interest on our debt facilities, cash, cash equivalents and short-term investments. A 10% adverse movement in the levels of interest rates across the entire yield curve would have resulted in an increase to pre-tax interest expense of approximately \$1.7 million, \$0.4 million and \$1.3 million for the years ended December 31, 2022, 2021 and 2020, respectively.

From time to time, we may use an interest rate swap hedging strategy to eliminate the variability of cash flows in a portion of our interest payments. This strategy, when employed, allows us to fix a portion of our interest payments while also taking advantage of historically low interest rates. As of December 31, 2022 and 2021, no interest rate swaps were in effect.

Foreign Currency Exchange Rate Risk

Our results of operations are affected by changes in foreign currency exchange rates. Net sales and expenses in foreign currencies are translated into U.S. dollars for financial reporting purposes based on the average exchange rate for the period. Our primary exposure to foreign currencies are the Canadian dollar, Mexican Peso, and the Euro. During 2022, 2021 and 2020, net sales from outside the U.S. represented 11.4%, 13.1% and 13.0%, respectively, of our total net sales. For the years ended December 31, 2022, 2021, and 2020, foreign currency transaction gains and losses did not have a material impact to our results of operations. A 10% change in foreign exchange rates would have had an estimated \$3.5 million, \$2.7 million and \$0.6 million impact to net income for the years ended December 31, 2022, 2021 and 2020, respectively.

We seek to mitigate the impact of currency exchange rate movements on certain short-term transactions by periodically entering into foreign currency forward contracts. By entering into forward contracts, we lock in exchange rates that would otherwise cause losses should the U.S. dollar appreciate and gains should the U.S. dollar depreciate. Refer to Note 9 of the Notes to the Consolidated Financial Statements for additional information regarding our foreign currency forward contracts.

Critical Accounting Estimates

A critical accounting estimate is one that requires difficult, subjective or complex estimates and assessments and is fundamental to our results of operations and financial condition. The following describes our critical accounting estimate related to product warranties and product-related contingencies and how we develop our judgments, assumptions and estimates about future events and how such policies can impact our financial statements. This discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes in “Item 8. Financial Statements and Supplementary Data.”

Product Warranties and Product-Related Contingencies

The estimate of our liability for future warranty costs requires us to make assumptions about the amount, timing and nature of future product-related costs. Some of the warranties we issue extend 10 years or more in duration and a relatively small adjustment to an assumption may have a significant impact on our overall liability.

From time to time, we may also incur costs to repair or replace installed products experiencing quality issues in order to satisfy our customers and protect our brand. These product-related costs may not be covered under our warranties and are not covered by insurance.

We periodically review the assumptions used to determine the liabilities for product warranties and product-related contingencies and we adjust our assumptions based upon factors such as actual failure rates and cost experience. Numerous factors could affect actual failure rates and cost experience, including the amount and timing of new product introductions, changes in manufacturing techniques or locations, components or suppliers used. Should actual costs differ from our estimates, we may be required to adjust the liabilities and to record expense in future periods. See Note 5 in the Notes to the Consolidated Financial Statements for more information on our product warranties and product-related contingencies.

Recent Accounting Pronouncements

See Note 2 in the Notes to the Consolidated Financial Statements for disclosure of recent accounting pronouncements and the potential impact on our financial statements and disclosures.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

The information required by this item is included under the caption “Market Risk” in Item 7 above.

Item 8. *Financial Statements and Supplementary Data*

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and Chief Financial Officer, has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management concluded that as of December 31, 2022, the Company's internal control over financial reporting was effective.

KPMG LLP, the independent registered public accounting firm that audited the Company's Consolidated Financial Statements, has issued an audit report including an opinion on the effectiveness of our internal control over financial reporting as of December 31, 2022, a copy of which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Lennox International Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Lennox International Inc. and subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive (loss) income, stockholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes and Schedule II – Valuation and Qualifying Accounts and Reserves (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of the product warranty liability

As discussed in Notes 2 and 5 to the consolidated financial statements, the Company provides a product warranty for certain of its products with the warranty period generally ranging from one to 20 years. The product warranty liability is estimated by product category based on the estimated future costs to repair or replace the products under warranty. The Company's product warranty liability was \$142.7 million as of December 31, 2022.

We identified the evaluation of the product warranty liability as a critical audit matter. Assessing the assumptions used to estimate the product warranty liability, specifically, the estimated failure rates by product category by year, and estimated cost per failure, involved subjective and complex auditor judgment.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's estimate of the future failure rates by product category and controls to estimate the cost of failures by product category for products subject to warranty. We assessed the estimated future failure rates by product category and the estimated cost per failure by product category used in the estimation of the product warranty liability by comparing them to the Company's underlying historical data. We tested a sample of the historical data used as the basis for these assumptions by comparing to the relevant underlying documentation.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Dallas, Texas
February 21, 2023

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In millions, except shares and par values)

	As of December 31,	
	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 52.6	\$ 31.0
Short-term investments	8.5	5.5
Accounts and notes receivable, net of allowances of \$15.5 and \$10.7 in 2022 and 2021, respectively	608.5	508.3
Inventories, net	753.0	510.9
Other assets	73.9	119.7
Total current assets	1,496.5	1,175.4
Property, plant and equipment, net of accumulated depreciation of \$920.8 and \$888.8 in 2022 and 2021, respectively	548.9	515.1
Right-of-use assets from operating leases	219.9	196.1
Goodwill	186.3	186.6
Deferred income taxes	27.5	11.3
Other assets, net	88.5	87.4
Total assets	\$ 2,567.6	\$ 2,171.9
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Current maturities of long-term debt	710.6	11.3
Current operating lease liabilities	63.3	54.8
Accounts payable	427.3	402.1
Accrued expenses	376.9	358.9
Income taxes payable	17.6	—
Total current liabilities	1,595.7	827.1
Long-term debt	814.2	1,226.5
Long-term operating lease liabilities	161.8	145.0
Pensions	40.1	83.3
Other liabilities	158.9	159.0
Total liabilities	2,770.7	2,440.9
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$0.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 87,170,197 shares issued	0.9	0.9
Additional paid-in capital	1,155.2	1,133.7
Retained earnings	3,070.6	2,719.3
Accumulated other comprehensive loss	(90.6)	(88.1)
Treasury stock, at cost, 51,700,260 shares and 50,536,125 shares for 2022 and 2021, respectively	(4,339.2)	(4,034.8)
Total stockholders' deficit	(203.1)	(269.0)
Total liabilities and stockholders' deficit	\$ 2,567.6	\$ 2,171.9

The accompanying notes are an integral part of these Consolidated Financial Statements.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	For the Years Ended December 31,		
	2022	2021	2020
Net sales	\$ 4,718.4	\$ 4,194.1	\$ 3,634.1
Cost of goods sold	3,433.7	3,005.7	2,594.0
Gross profit	1,284.7	1,188.4	1,040.1
Operating expenses:			
Selling, general and administrative expenses	627.2	598.9	555.9
Losses (gains) and other expenses, net	4.9	9.2	7.4
Restructuring charges	1.5	1.8	10.8
Loss from natural disasters, net of insurance recoveries	—	—	3.1
Income from equity method investments	(5.1)	(11.8)	(15.6)
Operating income	656.2	590.3	478.5
Pension settlements	(0.2)	1.2	0.6
Interest expense, net	38.7	25.0	28.3
Other expense (income), net	1.9	4.0	4.4
Income from continuing operations before income taxes	615.8	560.1	445.2
Provision for income taxes	118.7	96.1	88.1
Income from continuing operations	497.1	464.0	357.1
Discontinued operations:			
Loss from discontinued operations before income taxes	—	—	(1.5)
Income tax benefit	—	—	(0.7)
Loss from discontinued operations	—	—	(0.8)
Net income	\$ 497.1	\$ 464.0	\$ 356.3
Earnings per share – Basic:			
Income from continuing operations	\$ 13.92	\$ 12.47	\$ 9.32
Loss from discontinued operations	—	—	(0.02)
Net income	<u>\$ 13.92</u>	<u>\$ 12.47</u>	<u>\$ 9.30</u>
Earnings per share – Diluted:			
Income from continuing operations	\$ 13.88	\$ 12.39	\$ 9.26
Loss from discontinued operations	—	—	(0.02)
Net income	<u>\$ 13.88</u>	<u>\$ 12.39</u>	<u>\$ 9.24</u>
Weighted Average Number of Shares Outstanding - Basic	35.7	37.2	38.3
Weighted Average Number of Shares Outstanding - Diluted	35.8	37.5	38.6

The accompanying notes are an integral part of these Consolidated Financial Statements.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In millions)

	For the Years Ended December 31,		
	2022	2021	2020
Net income	\$ 497.1	\$ 464.0	\$ 356.3
Other comprehensive income (loss):			
Foreign currency translation adjustments	(10.2)	(7.3)	0.8
Net change in pension and post-retirement benefit liabilities	20.4	11.8	(8.7)
Net change in fair value of cash flow hedges	(9.9)	29.8	7.0
Reclassification of pension and post-retirement benefit losses into earnings	5.4	7.9	5.9
Pension settlements	(0.2)	1.2	0.6
Share of equity method investments other comprehensive income	0.7	—	(1.2)
Reclassification of cash flow hedge (gains) losses into earnings	(9.7)	(26.9)	3.7
Other comprehensive (income) loss before taxes	\$ (3.5)	\$ 16.5	\$ 8.1
Tax benefit (expense)	1.0	(7.4)	(1.5)
Other comprehensive (loss) income, net of tax	(2.5)	9.1	6.6
Comprehensive income	<u>\$ 494.6</u>	<u>\$ 473.1</u>	<u>\$ 362.9</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the Years Ended December 31, 2022, 2021 and 2020
(In millions, except per share data)

	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss		Treasury Stock at Cost		Total Stockholders' Deficit
				Shares	Amount	Shares	Amount	
Balance as of December 31, 2019	0.9	1,093.5	2,148.7	(103.8)		48.6	(3,309.5)	(170.2)
Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-13)	—	0	(1.3)	0		0	0	(1.3)
Net income	—	—	356.3	—		—	—	356.3
Dividends, \$3.08 per share	—	—	(117.9)	—		—	—	(117.9)
Foreign currency translation adjustments	—	—	—	0.8		—	—	0.8
Pension and post-retirement liability changes, net of tax expense of \$1.0	—	—	—	(1.2)		—	—	(1.2)
Share of equity method investments other comprehensive income	—	—	—	(1.2)		—	—	(1.2)
Stock-based compensation expense	—	24.3	—	—		—	—	24.3
Change in cash flow hedges, net of tax expense of \$2.5	—	—	—	8.2		—	—	8.2
Treasury shares reissued for common stock	—	(4.6)	—	—		(0.3)	7.6	3.0
Treasury stock purchases	—	—	—	—		0.5	(117.9)	(117.9)
Balance as of December 31, 2020	0.9	1,113.2	2,385.8	(97.2)		48.8	(3,419.8)	(171.1)
Net income	—	—	464.0	—		—	—	464.0
Dividends, \$3.53 per share	—	—	(130.5)	—		—	—	(130.5)
Foreign currency translation adjustments	—	—	—	(7.3)		—	—	(7.3)
Pension and post-retirement liability changes, net of tax expense of \$7.0	—	—	—	13.9		—	—	13.9
Stock-based compensation expense	—	24.3	—	—		—	—	24.3
Change in cash flow hedges, net of tax expense of \$0.4	—	—	—	2.5		—	—	2.5
Treasury shares reissued for common stock	—	(3.8)	—	—		(0.2)	7.1	3.3
Treasury stock purchases	—	—	—	—		1.9	(622.1)	(622.1)
Balance as of December 31, 2021	0.9	1,133.7	2,719.3	(88.1)		50.5	(4,034.8)	(269.0)
Net income	—	—	497.1	—		—	—	497.1
Dividends, \$4.10 per share	—	—	(145.8)	—		—	—	(145.8)
Foreign currency translation adjustments	—	—	—	(10.2)		—	—	(10.2)
Pension and post-retirement liability changes, net of tax expense of \$3.0	—	—	—	22.6		—	—	22.6
Share of equity method investments other comprehensive income	—	—	—	0.7		—	—	0.7
Stock-based compensation expense	—	21.8	—	—		—	—	21.8
Change in cash flow hedges, net of tax benefit of \$4.0	—	—	—	(15.6)		—	—	(15.6)
Treasury shares reissued for common stock	—	(0.3)	—	—		(0.1)	3.9	3.6
Treasury stock purchases	—	—	—	—		1.3	(308.3)	(308.3)
Balance as of December 31, 2022	0.9	1,155.2	3,070.6	(90.6)		51.7	(4,339.2)	(203.1)

The accompanying notes are an integral part of these Consolidated Financial Statements.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022, 2021 and 2020
(In millions)

	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 497.1	\$ 464.0	\$ 356.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from equity method investments	(5.1)	(11.8)	(15.6)
Dividends from affiliates	1.7	9.1	12.3
Restructuring charges, net of cash paid	1.0	1.1	3.4
Provision for credit losses	6.9	4.9	8.1
Unrealized losses (gains), net on derivative contracts	1.7	(0.6)	0.3
Stock-based compensation expense	21.8	24.3	24.3
Depreciation and amortization	77.9	72.4	72.6
Deferred income taxes	(15.2)	(5.4)	7.2
Pension expense	6.0	11.3	10.5
Pension contributions	(22.5)	(1.5)	(3.3)
Other items, net	(1.1)	0.3	0.2
Changes in assets and liabilities:			
Accounts and notes receivable	(112.4)	(68.8)	26.5
Inventories	(249.3)	(71.0)	110.3
Other current assets	(7.3)	(19.2)	5.3
Accounts payable	28.2	55.2	(31.7)
Accrued expenses	13.7	64.2	35.4
Income taxes payable and receivable, net	56.4	(26.5)	(5.7)
Leases, net	1.7	0.2	2.1
Other, net	1.1	13.3	(6.1)
Net cash provided by operating activities	302.3	515.5	612.4
Cash flows from investing activities:			
Proceeds from the disposal of property, plant and equipment	1.6	0.9	1.0
Purchases of property, plant and equipment	(101.1)	(106.8)	(78.5)
Purchases of short-term investments, net	(3.5)	(0.5)	(2.2)
Net cash used in investing activities	(103.0)	(106.4)	(79.7)
Cash flows from financing activities:			
Short-term debt payments	—	—	(4.6)
Short-term debt borrowings	—	—	4.6
Asset securitization borrowings	407.0	627.0	91.0
Asset securitization payments	(307.0)	(377.0)	(376.0)
Long-term debt payments	(12.9)	(12.3)	(10.8)
Long-term debt borrowings	—	—	600.0
Borrowings from credit facility	2,537.5	1,162.5	1,576.0
Payments on credit facility	(2,352.0)	(1,156.0)	(2,081.5)
Payments of deferred financing costs	—	2.4	(7.5)
Proceeds from employee stock purchases	3.6	3.3	3.0
Repurchases of common stock	(300.0)	(600.0)	(100.0)
Repurchases of common stock to satisfy employee withholding tax obligations	(8.3)	(22.1)	(17.9)
Cash dividends paid	(142.0)	(126.5)	(118.1)
Net cash used in financing activities	(174.1)	(498.7)	(441.8)
Increase (decrease) in cash and cash equivalents	25.2	(89.6)	90.9
Effect of exchange rates on cash and cash equivalents	(3.6)	(3.3)	(4.3)
Cash and cash equivalents, beginning of year	31.0	123.9	37.3
Cash and cash equivalents, end of year	\$ 52.6	\$ 31.0	\$ 123.9
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest paid	\$ 35.4	\$ 23.8	\$ 25.3
Income taxes paid (net of refunds)	\$ 77.2	\$ 128.5	\$ 90.3
Insurance recoveries received	\$ —	\$ 6.6	\$ —

The accompanying notes are an integral part of these Consolidated Financial Statements.

LENNOX INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations:

Lennox International Inc., a Delaware corporation, through its subsidiaries (referred to herein as “we,” “our,” “us,” “LII,” or the “Company”), is a leading global provider of climate control solutions. We design, manufacture, market and service a broad range of products for the heating, ventilation, air conditioning and refrigeration (“HVACR”) markets and sell our products and services through a combination of direct sales, distributors and company-owned parts and supplies stores. We operate in three reportable business segments: Residential Heating & Cooling, Commercial Heating & Cooling, and Refrigeration. See Note 3 for financial information regarding our reportable segments.

2. Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Lennox International Inc. and our majority-owned subsidiaries. All intercompany transactions, profits and balances have been eliminated.

Cash and Cash Equivalents

We consider all highly liquid temporary investments with original maturity dates of three months or less to be cash equivalents. Cash and cash equivalents consisted primarily of bank deposits.

Short term Investments

Short-term investments include all investments, exclusive of cash equivalents, with a stated maturity date of one year or less from the balance sheet date and are expected to be used in current operations.

Accounts and Notes Receivable

Accounts and notes receivable are shown in the accompanying Consolidated Balance Sheet, net of allowance for doubtful accounts. The allowance for doubtful accounts is generally established during the period in which receivables are recognized and is based on the age of the receivables and management’s judgment on our ability to collect. Management considers the historical trends of write-offs and recoveries of previously written-off accounts, the financial strength of customers and projected economic and market conditions. We determine the delinquency status of receivables predominantly based on contractual terms and we write-off uncollectible receivables after management’s review of our ability to collect, as noted above. We have no significant concentrations of credit risk within our accounts and notes receivable.

Inventories

Inventory costs include material, labor, and capitalized overhead. Inventories of \$465.5 million and \$302.2 million as of December 31, 2022 and 2021, respectively, were valued at the lower of cost or net realizable value using the last-in, first-out (“LIFO”) cost method. The remainder of inventory is valued at the lower of cost or net realizable value with cost determined primarily using either the first-in, first-out (“FIFO”) or average cost methods.

We elected to use the LIFO cost method for our domestic manufacturing companies in 1974 and continued to elect the LIFO cost method for new operations through the late 1980s. The types of inventory costs that use LIFO include raw materials, purchased components, work-in-process, repair parts and finished goods. Since the late 1990s, we have adopted the FIFO cost method for all new domestic manufacturing operations (primarily acquisitions). Our operating entities with a previous LIFO election continue to use the LIFO cost method. We use the FIFO cost method for our foreign-based manufacturing facilities. See Note 9 for more information on our inventories.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation. Expenditures that increase the utility or extend the useful lives of fixed assets are capitalized while expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements:	
Buildings and improvements	2 to 40 years
Leasehold improvements	1 to 39 years
Machinery and equipment:	
Computer hardware	3 to 5 years
Computer software	3 to 10 years
Factory machinery and equipment	1 to 15 years
Research and development equipment	3 to 5 years
Vehicles	3 to 10 years

We periodically review long-lived assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets might not be recoverable. To assess recoverability, we compare the estimated expected future undiscounted cash flows identified with each long-lived asset or related asset group to the carrying amount of such assets. If the expected future cash flows do not exceed the carrying value of the asset or assets being reviewed, an impairment loss is recognized based on the excess of the carrying amount of the impaired assets over their fair value. See Note 9 for additional information on our property, plant and equipment.

Goodwill

Goodwill represents the excess of cost over fair value of assets from acquired businesses. Goodwill is not amortized, but is reviewed for impairment annually during the third quarter and whenever events or changes in circumstances indicate the asset may be impaired. See Note 9 for additional information on our goodwill.

The provisions of the accounting standard for goodwill allow us to first assess qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. As part of our qualitative assessment, we monitor economic, legal, regulatory and other factors, industry trends, our market capitalization, recent and forecasted financial performance of our reporting units and the timing and nature of our restructuring activities for LII as a whole and for each reporting unit.

If a quantitative goodwill impairment test is determined to be necessary, we estimate reporting unit fair values using a combination of the discounted cash flow approach and a market approach. The discounted cash flows used to estimate fair value are based on assumptions regarding each reporting unit's estimated projected future cash flows and the estimated weighted-average cost of capital that a market participant would use in evaluating the reporting unit in a purchase transaction. The estimated weighted-average cost of capital is based on the risk-free interest rate and other factors such as equity risk premiums and the ratio of total debt to equity capital. In performing these impairment tests, we take steps to ensure that appropriate and reasonable cash flow projections and assumptions are used. We reconcile our estimated enterprise value to our market capitalization and determine the reasonableness of the cost of capital used by comparing to market data. We also perform sensitivity analyses on the key assumptions used, such as the weighted-average cost of capital and terminal growth rates. The market approach is based on objective evidence of market values.

Product Warranties

For some of our heating, ventilation and air conditioning ("HVAC") products, we provide warranty terms ranging from one to 20 years to customers for certain components such as compressors or heat exchangers. For select products, we also provide limited lifetime warranties. A liability for estimated warranty expense is recorded in cost of goods sold on the date that revenue is recognized. Our estimates of future warranty costs are determined by product category. The number of units we expect to repair or replace is determined by applying an estimated failure rate, which is generally based on historical experience, to the number of units that were sold and are still under warranty. In most cases, the estimated units to be repaired under warranty are multiplied by the estimated cost of replacement parts to determine the estimated future warranty cost. We do not discount product warranty liabilities as the amounts are not fixed and the timing of future cash payments is neither fixed nor reliably determinable. We also provide for specifically-identified warranty obligations. Estimated future warranty costs are subject to adjustment depending on changes in actual failure rate and cost experience. Subsequent costs incurred for warranty claims serve to reduce the accrued product warranty liability. See Note 5 for more information on our estimated future warranty costs.

Pensions and Post-retirement Benefits

We provide pension and post-retirement medical benefits to eligible domestic and foreign employees and we recognize pension and post-retirement benefit costs over the estimated service life or average life expectancy of those employees. We also recognize the funded status of our benefit plans, as measured at year-end by the difference between plan assets at fair value and the benefit obligation, in the Consolidated Balance Sheet. Changes in the funded status are recognized in the year in which the changes occur through Accumulated other comprehensive loss (“AOCL”). Actuarial gains or losses are amortized into net period benefit cost over the estimated service life of covered employees or average life expectancy of participants depending on the plan.

The benefit plan assets and liabilities reflect assumptions about the long-range performance of our benefit plans. Should actual results differ from management’s estimates, revisions to the benefit plan assets and liabilities would be required. See Note 10 for information regarding those estimates and additional disclosures on pension and post-retirement medical benefits.

Self-Insurance

Self-insurance expense and liabilities were actuarially determined based primarily on our historical claims information, industry factors, and trends. The self-insurance liabilities as of December 31, 2022 represent the best estimate of the future payments to be made on reported and unreported losses for 2022 and prior years. The amounts and timing of payments for claims reserved may vary depending on various factors, including the development and ultimate settlement of reported and unreported claims. To the extent actuarial assumptions change and claims experience rates differ from historical rates, our liabilities may change. See Note 5 for additional information on our self-insured risks and liabilities.

Derivatives

We use futures contracts, forward contracts and fixed forward contracts to mitigate our exposure to volatility in metal commodity prices and foreign exchange rates. We hedge only exposures in the ordinary course of business and do not hold or trade derivatives for profit. All derivatives are recognized in the Consolidated Balance Sheet at fair value and the classification of each derivative instrument is based upon whether the maturity of the instrument is less than or greater than 12 months. See Note 9 for more information on our derivatives.

Leases

We lease certain real and personal property under non-cancelable leases including real estate, IT equipment, fleet vehicles and manufacturing and distribution equipment. At inception of the lease, we determine a lease exists if the contract conveys the right to control an identified asset for a period of time in exchange for consideration. Control is considered to exist when the lessee has the right to obtain substantially all the economic benefits from the use of an identified asset as well as the right to direct the use of the asset. If a contract is considered to be a lease, we recognize a lease liability based on the present value of the future minimum lease payments and a right-of-use asset. For contracts that are 12 months or less, we do not to recognize a right-of-use asset or liability. We do not separate non-lease components from the lease components to which they relate and account for the combined lease and non-lease components as a single lease component.

Income Taxes

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Unrecognized tax benefits are accounted for as required by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 740. See Note 12 for more information related to income taxes.

Revenue Recognition

Our revenue recognition practices for the sale of goods depend upon the shipping terms for each transaction. Shipping terms are primarily FOB Shipping Point and, therefore, revenue is recognized for these transactions when products are shipped to customers and title and control passes. Certain customers in our smaller operations, primarily outside of North America, have shipping terms where risks and rewards of ownership do not transfer until the product is delivered to the customer. For these transactions, revenue is recognized on the date that the product is received and accepted by such customers. We experience

returns for miscellaneous reasons and record a reserve for these returns at the time we recognize revenue based on historical experience. Our historical rates of return are insignificant as a percentage of sales. We also recognize revenue net of sales taxes. We have elected to recognize the revenue and cost for freight and shipping when control over the sale of goods passes to our customers. See Note 8 for more information on our revenue recognition practices.

Cost of Goods Sold

The principal elements of cost of goods sold are components, raw materials, factory overhead, labor, estimated costs of warranty expense, and freight and distribution costs.

Selling, General and Administrative Expenses

SG&A expenses include payroll and benefit costs, advertising, commissions, research and development, information technology costs, and other selling, general and administrative related costs such as insurance, travel, non-production depreciation, and rent.

Stock-Based Compensation

We recognize compensation expense for stock-based arrangements over the required employee service periods. We measure stock-based compensation costs based on the estimated grant-date fair value of the stock-based awards that are expected to ultimately vest and we adjust expected vesting rates to actual rates as additional information becomes known. For stock-based arrangements with performance conditions, we periodically adjust performance achievement rates based on our best estimates of those rates at the end of the performance period. See Note 15 for more information.

Translation of Foreign Currencies

All assets and liabilities of foreign subsidiaries and joint ventures are translated into U.S. dollars using rates of exchange in effect at the balance sheet date. Revenue and expenses are translated at weighted average exchange rates during the year. Unrealized translation gains and losses are included in AOCL in the accompanying Consolidated Balance Sheets. Transaction gains and losses are included in Losses (gains) and other expenses, net in the accompanying Consolidated Statements of Operations.

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivable, inventories, goodwill, intangible assets and other long-lived assets, contingencies, product warranties, and assumptions used in the calculation of income taxes, pension and post-retirement medical benefits, and stock-based compensation among others. These estimates and assumptions are based on our best estimates and judgment.

We evaluate these estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. We believe these estimates and assumptions to be reasonable under the circumstances and will adjust such estimates and assumptions when facts and circumstances dictate. Volatile equity, foreign currency and commodity markets and uncertain future economic conditions combine to increase the uncertainty inherent in such estimates and assumptions. Future events and their effects cannot be determined with precision and actual results could differ significantly from these estimates. Changes in these estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Impact of COVID-19 Pandemic

A novel strain of coronavirus (“COVID-19”) has surfaced and spread around the world. The COVID-19 pandemic is creating supply chain disruptions and higher employee absenteeism in our factories and distribution locations since 2020. We cannot predict whether any of our manufacturing, operational or distribution facilities will experience any future disruptions, or how long such disruptions would last. It also remains unclear how various national, state, and local governments will react if new variants of the virus spread. If the pandemic worsens or continues longer than presently expected, COVID-19 could impact our results of operations, financial position and cash flows.

3. Reportable Business Segments:

Description of Segments

We operate in three reportable business segments of the HVACR industry. Our segments are organized primarily by the nature of the products and services we provide. The following table describes each segment:

<u>Segment</u>	<u>Products or Services</u>	<u>Markets Served</u>	<u>Geographic Areas</u>
<i>Residential Heating & Cooling</i>	Furnaces, air conditioners, heat pumps, packaged heating and cooling systems, indoor air quality equipment, comfort control products, replacement parts and supplies	Residential Replacement; Residential New Construction	United States Canada
<i>Commercial Heating & Cooling</i>	Unitary heating and air conditioning equipment, applied systems, controls, installation and service of commercial heating and cooling equipment, variable refrigerant flow commercial products	Light Commercial	United States Canada
<i>Refrigeration⁽¹⁾</i>	Condensing units, unit coolers, fluid coolers, air-cooled condensers, air handlers, process chillers, controls, and compressorized racks	Light Commercial; Food Preservation; Non-Food/Industrial	United States Canada Europe

⁽¹⁾ In November 2022, we announced the decision to explore strategic alternatives for our European commercial HVAC and refrigeration businesses. We will continue to invest in our Heatcraft Worldwide Refrigeration business which will become part of the Commercial Heating & Cooling segment beginning in 2023 and the European portfolio will be presented with Corporate and Other beginning in 2023 until disposition. As we will manage the businesses in this manner beginning in 2023, we will present the financial results of the revised segments beginning in 2023.

Segment Data

We use segment profit or loss as the primary measure of profitability to evaluate operating performance and to allocate capital resources. We define segment profit or loss as a segment's income or loss from continuing operations before income taxes included in the accompanying Consolidated Statements of Operations, excluding certain items. The reconciliation below details the items excluded.

Our corporate costs include those costs related to corporate functions such as legal, internal audit, treasury, human resources, tax compliance and senior executive staff. Corporate costs also include the long-term, share-based incentive awards provided to employees throughout our business. We recorded these share-based awards as Corporate costs because they are determined at the discretion of the Board of Directors and based on the historical practice of doing so for internal reporting purposes.

Any intercompany sales and associated profit (and any other intercompany items) are eliminated from segment results. There were no significant intercompany eliminations included in the results presented in the table below.

Net sales and segment profit (loss) by segment, along with a reconciliation of segment profit (loss) to Operating income, are shown below (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Net Sales ⁽¹⁾			
Residential Heating & Cooling	\$ 3,198.3	\$ 2,775.6	\$ 2,361.5
Commercial Heating & Cooling	900.7	864.8	800.9
Refrigeration	619.4	553.7	471.7
	<u>\$ 4,718.4</u>	<u>\$ 4,194.1</u>	<u>\$ 3,634.1</u>
Segment profit (loss) ⁽²⁾			
Residential Heating & Cooling	\$ 596.9	\$ 540.3	\$ 428.5
Commercial Heating & Cooling	80.9	110.9	136.9
Refrigeration	78.8	49.1	32.8
Corporate and other	(90.8)	(96.4)	(91.5)
Total segment profit	665.8	603.9	506.7
Reconciliation to Operating income:			
Special product quality adjustments	—	(2.5)	1.0
Loss from natural disasters, net of insurance recoveries	—	—	3.1
Items in Losses (gains) and other expenses, net that are excluded from segment profit (loss) ⁽²⁾	8.1	14.3	13.3
Restructuring charges	1.5	1.8	10.8
Operating income	<u>\$ 656.2</u>	<u>\$ 590.3</u>	<u>\$ 478.5</u>

⁽¹⁾ On a consolidated basis, no revenue from transactions with a single customer were 10% or greater of our consolidated net sales for any of the periods presented.

⁽²⁾ 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
- Loss from natural disasters, net of insurance recoveries
- Restructuring charges, and

Total assets by segment are shown below (in millions):

	As of December 31,		
	2022	2021	2020
Total Assets:			
Residential Heating & Cooling	\$ 1,456.4	\$ 1,149.7	\$ 1,034.6
Commercial Heating & Cooling	456.4	366.2	366.5
Refrigeration	443.6	426.6	387.9
Corporate and other	211.2	229.4	243.5
Total assets	<u>\$ 2,567.6</u>	<u>\$ 2,171.9</u>	<u>\$ 2,032.5</u>

The assets in the Corporate and other segment primarily consist of cash, short-term investments and deferred tax assets. Assets recorded in the operating segments represent those assets directly associated with those segments.

Total capital expenditures by segment are shown below (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Capital Expenditures:			
Residential Heating & Cooling	\$ 42.4	\$ 70.0	\$ 44.0
Commercial Heating & Cooling	21.5	4.3	5.9
Refrigeration	11.2	11.5	9.2
Corporate and other	26.0	21.0	19.4
Total capital expenditures	<u>\$ 101.1</u>	<u>\$ 106.8</u>	<u>\$ 78.5</u>

Depreciation and amortization expenses by segment are shown below (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Depreciation and Amortization:			
Residential Heating & Cooling	\$ 31.5	\$ 27.6	\$ 28.5
Commercial Heating & Cooling	12.9	13.2	13.5
Refrigeration	9.1	7.8	7.8
Corporate and other	24.4	23.8	22.8
Total depreciation and amortization	<u>\$ 77.9</u>	<u>\$ 72.4</u>	<u>\$ 72.6</u>

The equity method investments are shown below (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Income from Equity Method Investments:			
Residential Heating & Cooling	\$ 0.9	\$ 6.9	\$ 11.4
Commercial Heating & Cooling	0.2	1.2	2.3
Refrigeration	4.0	3.7	1.9
Total income from equity method investments	<u>\$ 5.1</u>	<u>\$ 11.8</u>	<u>\$ 15.6</u>

Geographic Information

Property, plant and equipment, net for each major geographic area in which we operate, based on the domicile of our operations, are shown below (in millions):

	As of December 31,		
	2022	2021	2020
Property, Plant and Equipment, net:			
United States	\$ 408.8	\$ 381.0	\$ 352.9
Mexico	110.9	102.7	79.2
Canada	2.1	2.1	2.2
Other international	27.1	29.3	30.0
Total Property, plant and equipment, net	<u>\$ 548.9</u>	<u>\$ 515.1</u>	<u>\$ 464.3</u>

4. Earnings Per Share:

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income by the sum of the weighted-average number of shares and the number of equivalent shares assumed outstanding, if dilutive, under our stock-based compensation plans.

The computations of basic and diluted earnings per share for Income from continuing operations were as follows (in millions, except per share data):

	For the Years Ended December 31,		
	2022	2021	2020
Net income	\$ 497.1	\$ 464.0	\$ 356.3
Add: Loss from discontinued operations	—	—	0.8
Income from continuing operations	<u>\$ 497.1</u>	<u>\$ 464.0</u>	<u>\$ 357.1</u>
Weighted-average shares outstanding – basic	35.7	37.2	38.3
Add: Potential effect of diluted securities attributable to stock-based payments	0.1	0.3	0.3
Weighted-average shares outstanding – diluted	<u>35.8</u>	<u>37.5</u>	<u>38.6</u>
Earnings per share - Basic:			
Income from continuing operations	\$ 13.92	\$ 12.47	\$ 9.32
Loss from discontinued operations	—	—	(0.02)
Net income	<u>\$ 13.92</u>	<u>\$ 12.47</u>	<u>\$ 9.30</u>
Earnings per share - Diluted:			
Income from continuing operations	\$ 13.88	\$ 12.39	\$ 9.26
Loss from discontinued operations	—	—	(0.02)
Net income	<u>\$ 13.88</u>	<u>\$ 12.39</u>	<u>\$ 9.24</u>

There were 0.3 million securities in 2022 that were outstanding but not included in the diluted earnings per share calculation as the assumed exercise of such rights would have been anti-dilutive.

5. Commitments and Contingencies:

Leases

We lease certain real and personal property under non-cancelable leases. Approximately 81% of our right-of-use assets and lease liabilities relate to our leases of real estate with the remaining amounts relating to our leases of IT equipment, fleet vehicles and manufacturing and distribution equipment.

The components of lease expense were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Finance lease cost:			
Amortization of right-of-use assets	\$ 13.2	\$ 11.9	\$ 10.3
Interest on lease liabilities	0.7	0.5	0.7
Operating lease cost	67.7	62.2	62.7
Short-term lease cost	5.0	3.8	4.0
Variable lease cost	24.5	21.6	20.3
Total lease cost	\$ 111.1	\$ 100.0	\$ 98.0

Other information

Cash paid for amounts included in the measurement lease liabilities:

Operating cash flows from operating leases	\$ 66.0	\$ 61.8	\$ 61.6
Financing cash flows from finance leases	\$ 13.6	\$ 12.3	\$ 10.8
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 14.4	\$ 14.6	\$ 15.4
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 98.8	\$ 61.8	\$ 67.6

	As of December 31,	
	2022	2021
Finance lease right-of-use assets ⁽¹⁾	\$ 33.3	\$ 34.5
Operating lease right-of-use assets	\$ 219.9	\$ 196.1
Finance lease liability, current ⁽²⁾	\$ 11.2	\$ 11.3
Finance lease liability, non-current ⁽³⁾	\$ 28.3	\$ 29.0
Operating lease liability, current	\$ 63.3	\$ 54.8
Operating lease liability, non-current	\$ 161.8	\$ 145.0
Weighted-average remaining lease term - finance leases	3.6 years	3.9 years
Weighted-average remaining lease term - operating leases	5.1 years	4.5 years
Weighted-average discount rate - finance leases	1.92 %	1.14 %
Weighted-average discount rate – operating leases	3.44 %	2.62 %

(1) Recorded in Property, plant and equipments in Consolidated Balance Sheet

(2) Recorded in Current maturities of long-term debt in Consolidated Balance Sheet

(3) Recorded in Long-term debt in Consolidated Balance Sheet

Future annual minimum lease payments and finance lease commitments as of December 31, 2022 were as follows (in millions):

	Operating Leases	Finance Leases
2023	\$ 70.0	\$ 11.6
2024	53.2	8.4
2025	36.9	5.8
2026	29.0	2.5
2027	18.9	0.3
Thereafter	40.1	11.7
Total minimum lease payments	\$ 248.1	\$ 40.3
Less imputed interest	(23.0)	(0.8)
Present value of minimum payments	<u>\$ 225.1</u>	<u>\$ 39.5</u>

On March 1, 2019, we entered into an agreement with a financial institution to renew the lease of our corporate headquarters in Richardson, Texas for a term of five years through March 1, 2024 (the “Lake Park Renewal”). The leased property consists of an office building of approximately 192,000 square feet, land and related improvements. During the lease term, we are obligated to pay base rent in quarterly installments, payable in arrears. At the end of the lease term, we must do one of the following: (i) purchase the property for \$41.2 million; (ii) vacate the property and return it in good condition; (iii) arrange for the sale of the leased property to a third party; or (iv) renew the lease under mutually agreeable terms. If we elect to sell the property to a third party and the sales proceeds are less than the lease balance of \$41.2 million, we must pay any such deficit to the financial institution. Any such deficit payment cannot exceed 87% of the lease balance. The headquarters lease is classified as an operating lease and its future annual minimum lease payments are included in the table above.

Our obligations under the Lake Park Renewal are secured by a pledge of our interest in the leased property. The Lake Park Renewal contains customary lease covenants and events of default as well as events of default if (i) indebtedness of \$75 million or more is not paid when due, (ii) there is a change of control or (iii) we fail to comply with certain covenants incorporated from our existing Credit Agreement. We believe we were in compliance with these financial covenants as of December 31, 2022.

Environmental

Environmental laws and regulations in the locations we operate can potentially impose obligations to remediate hazardous substances at our properties, properties formerly owned or operated by us, and facilities to which we have sent or send waste for treatment or disposal. We are aware of contamination at some facilities; however, we do not believe that any future remediation related to those facilities will be material to our results of operations. Total environmental accruals are included Accrued expenses and Other liabilities on the accompanying Consolidated Balance Sheets. Future environmental costs are estimates and may be subject to change due to changes in environmental remediation regulations, technology or site-specific requirements.

Product Warranties and Product Related Contingencies

We incur the risk of liability for claims related to the installation and service of heating and air conditioning products, and we maintain liabilities for those claims that we self-insure. We are involved in various claims and lawsuits related to our products. Our product liability insurance policies have limits that, if exceeded, may result in substantial costs that could have an adverse effect on our results of operations. In addition, warranty claims and certain product liability claims are not covered by our product liability insurance.

Total product warranty liabilities are included in the following captions on the accompanying Consolidated Balance Sheets (in millions):

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
Accrued expenses	\$ 41.3	\$ 37.2
Other liabilities	101.4	97.0
Total product warranty liabilities	<u>\$ 142.7</u>	<u>\$ 134.2</u>

The changes in product warranty liabilities related to continuing operations for the years ended December 31, 2022 and 2021 were as follows (in millions):

Total warranty liability as of December 31, 2020	\$ 119.8
Payments made in 2021	(31.6)
Changes resulting from issuance of new warranties	43.6
Changes in estimates associated with pre-existing liabilities	2.7
Changes in foreign currency translation rates and other	(0.3)
Total warranty liability as of December 31, 2021	\$ 134.2
Payments made in 2022	(36.3)
Changes resulting from issuance of new warranties	50.5
Changes in estimates associated with pre-existing liabilities	(4.7)
Changes in foreign currency translation rates and other	(1.0)
Total warranty liability as of December 31, 2022	\$ 142.7

We have incurred, and will likely continue to incur, product costs not covered by insurance or our suppliers' warranties, which are not included in the table above. Also, to satisfy our customers and protect our brands, we have repaired or replaced installed products experiencing quality-related issues, and will likely continue such repairs and replacements.

Self-Insurance

We use a combination of third-party insurance and self-insurance plans to provide protection against claims relating to workers' compensation/employers' liability, general liability, product liability, auto liability, auto physical damage and other exposures. We use large deductible insurance plans, written through third-party insurance providers, for workers' compensation/employers' liability, general liability, product liability and auto liability. We also carry umbrella or excess liability insurance for all third-party and self-insurance plans, except for directors' and officers' liability, property damage and certain other insurance programs. For directors' and officers' liability, property damage and certain other exposures, we use third-party insurance plans that may include per occurrence and annual aggregate limits. We believe the deductibles and liability limits for all of our insurance policies are appropriate for our business and are adequate for companies of our size in our industry.

We maintain safety and manufacturing programs that are designed to remove risk, improve the effectiveness of our business processes and reduce the likelihood and significance of our various retained and insured risks. In recent years, our actual claims experience has collectively trended favorably and, as a result, both self-insurance expense and the related liability have decreased.

Total self-insurance liabilities were included in the following captions on the accompanying Consolidated Balance Sheets (in millions):

	As of December 31,	
	2022	2021
Accrued expenses	\$ 3.0	\$ 3.2
Other liabilities	14.6	15.7
Total self-insurance liabilities	\$ 17.6	\$ 18.9

Litigation

We are involved in a number of claims and lawsuits incident to the operation of our businesses. Insurance coverages are maintained and estimated costs are recorded for such claims and lawsuits, including costs to settle claims and lawsuits, based on experience involving similar matters and specific facts known.

It is management's opinion that none of these claims or lawsuits or any threatened litigation will have a material adverse effect, individually or in the aggregate, on our financial condition, results of operations or cash flows. Claims and lawsuits, however, involve uncertainties and it is possible that their eventual outcome could adversely affect our results of operations in a future period.

6. Stock Repurchases:

Our Board of Directors have authorized a total of \$4 billion to repurchase shares of our common stock (collectively referred to as the "Share Repurchase Plans"), including a \$1.0 billion share repurchase authorization in July 2021. The Share Repurchase Plans allow us to repurchase shares from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The Share Repurchase Plans do not require the repurchase of a specific number of shares and may be terminated at any time. As of December 31, 2022, \$546 million of shares is available to repurchase shares under the Share Repurchase Plans.

We entered into multiple Fixed Dollar Accelerated Share Repurchase Transactions (the "ASR Agreements") to effect an accelerated stock buybacks of the Company's common stock in 2022. Under the ASR Agreements, we paid banks \$300.0 million and the banks delivered to us common stock representing approximately 86% of the shares expected to be purchased under the ASR Agreement. After the ASR Agreements were completed, the banks delivered the remaining shares under the arrangement. The banks delivered a total of 1.3 million shares of common stock repurchased under this ASR Agreement.

We also repurchased less than 0.1 million shares for \$8.3 million, 0.1 million shares for \$22.1 million, and 0.1 million shares for \$17.9 million for the years ended December 31, 2022, 2021, and 2020, respectively, from employees who tendered their shares to satisfy minimum tax withholding obligation upon the vesting of stock-based compensation awards.

7. Restructuring Charges:

We record restructuring charges associated with management-approved restructuring plans to reorganize or to remove duplicative headcount and infrastructure within our businesses. Restructuring charges include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, contract cancellation costs and other related activities. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a multi-year period. Restructuring charges are not included in our calculation of segment profit (loss), as more fully explained in Note 3.

We recorded \$1.5 million of restructuring charges in 2022, \$1.8 million 2021, and \$10.8 million in 2020 from actions initiated in prior years including the economic impact of COVID-19. There is not expected to be a material amount of costs expected to be incurred from existing restructuring actions in future periods.

Restructuring accruals are included in Accrued expenses in the accompanying Consolidated Balance Sheets.

8. Revenue Recognition:

The following table disaggregates our revenue by business segment by geography to provide information as to the major sources of revenue. See Note 3 for additional description of our reportable business segments and the products and services being sold in each segment.

	For the Year Ended December 31, 2022			
Primary Geographic Markets	Residential Heating & Cooling	Commercial Heating & Cooling	Refrigeration	Consolidated
United States	\$ 2,957.1	\$ 837.7	\$ 385.7	\$ 4,180.5
Canada	241.2	62.4	—	303.6
International	—	0.6	233.7	234.3
Total	\$ 3,198.3	\$ 900.7	\$ 619.4	\$ 4,718.4
	For the Year Ended December 31, 2021			
Primary Geographic Markets	Residential Heating & Cooling	Commercial Heating & Cooling	Refrigeration	Consolidated
United States	\$ 2,532.4	\$ 790.1	\$ 324.0	\$ 3,646.5
Canada	243.2	73.1	—	316.3
International	—	1.6	229.7	231.3
Total	\$ 2,775.6	\$ 864.8	\$ 553.7	\$ 4,194.1

For the Year Ended December 31, 2020

Primary Geographic Markets	Residential Heating & Cooling	Commercial Heating & Cooling	Refrigeration	Consolidated
United States	\$ 2,181.8	\$ 721.1	\$ 257.9	\$ 3,160.8
Canada	179.7	77.6	—	257.3
International	—	2.2	213.8	216.0
Total	\$ 2,361.5	\$ 800.9	\$ 471.7	\$ 3,634.1

Our revenue recognition practices for the sale of goods depend upon the shipping terms for each transaction. Shipping terms are primarily FOB Shipping Point and, therefore, revenue is recognized for these transactions when products are shipped to customers and title and control passes. Certain customers in our smaller operations, primarily outside of North America, have shipping terms where risks and rewards of ownership do not transfer until the product is delivered to the customer. For these transactions, revenue is recognized on the date that the product is received and accepted by such customers. We experience returns for miscellaneous reasons and record a reserve for these returns at the time we recognize revenue based on historical experience. Our historical rates of return are insignificant as a percentage of sales. We also recognize revenue net of sales taxes. We have elected to recognize the revenue and cost for freight and shipping when control over the sale of goods passes to our customers.

For our businesses that provide services, revenue is recognized at the time services are completed. Our Commercial Heating & Cooling segment also provides sales, installation, maintenance and repair services under fixed-price contracts. Revenue for services is recognized as the services are performed under the contract based on the relative fair value of the services provided. We allocate a portion of the revenue for extended labor warranty obligations and recognize the revenue over the term of the extended warranty. Revenue from extended warranties is insignificant. See Note 5 for more information on product warranties.

Residential Heating & Cooling - We manufacture and market a broad range of furnaces, air conditioners, heat pumps, packaged heating and cooling systems, equipment and accessories to improve indoor air quality, comfort control products, replacement parts and supplies and related products for both the residential replacement and new construction markets in North America. These products are sold under various brand names and are sold either through direct sales to a network of independent installing dealers, including through our network of Lennox stores or to independent distributors. For the years ended December 31, 2022, 2021 and 2020, direct sales represented 70%, 73% and 75% of revenues, respectively, and sales to independent distributors represented the remainder. Given the nature of our business, customer product orders are fulfilled at a point in time and not over a period of time.

Commercial Heating & Cooling - In North America, we manufacture and sell unitary heating and cooling equipment used in light commercial applications, such as low-rise office buildings, restaurants, retail centers, churches and schools. These products are distributed primarily through commercial contractors and directly to national account customers in the planned replacement, emergency replacement and new construction markets. Revenue for the products sold is recognized at a point in time when control transfers to the customer, which is generally at time of shipment. Lennox National Account Services provides installation, service and preventive maintenance for HVAC national account customers in the United States and Canada. Revenue related to service contracts is recognized as the services are performed under the contract based on the relative fair value of the services provided. For the years ended December 31, 2022, 2021 and 2020, equipment sales represented 82%, 82% and 85% of revenues, respectively, and the remainder of our revenue was generated from our service business.

Refrigeration - We manufacture and market equipment for the global commercial refrigeration markets under the Heatcraft Worldwide Refrigeration name. Our products are used in the food retail, food service, cold storage as well as non-food refrigeration markets. We sell these products to distributors, installing contractors, engineering design firms, original equipment manufacturers and end-users. In Europe, we also manufacture and sell unitary heating and cooling products and applied systems. Substantially all segment revenue was related to these types of equipment and systems and is recognized at a point in time when control transfers to the customer, which is generally at time of shipment. Approximately 1% of segment revenue relates to services for start-up and commissioning activities.

Variable Consideration - We engage in cooperative advertising, customer rebate, and other miscellaneous programs that result in payments or credits being issued to our customers. We record these customer discounts and incentives as a reduction of sales when the sales are recorded. For certain cooperative advertising programs, we also receive an identifiable benefit

(goods or services) in exchange for the consideration given, and, accordingly, record a ratable portion of the expenditure to SG&A expenses. All other advertising, promotions and marketing costs are expensed as incurred.

Other Judgments and Assumptions - We apply the practical expedient in ASC 606-10-50-14 and do not disclose information about remaining performance obligations that have original expected durations of one year or less. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less. These costs are included in SG&A expenses. ASC 606-10-32-18 allows us to not adjust the amount of consideration to be received in a contract for any significant financing component if we expect to receive payment within twelve months of transfer of control of goods or services. We have elected this expedient as we expect all consideration to be received in one year or less at contract inception. We have also elected not to provide the remaining performance obligations disclosures related to service contracts in accordance with the practical expedient in ASC 606-10-55-18. We recognize revenue in the amount to which the entity has a right to invoice and have adopted this election to not provide the remaining performance obligations related to service contracts.

Contract Assets - We do not have material amounts of contract assets since revenue is recognized as control of goods is transferred or as services are performed. There are a small number of installation services that may occur over a period of time, but that period of time is generally very short in duration and right of payment does not exist until the installation is completed. Any contract assets that may arise are recorded in Other assets in our Consolidated Balance Sheets.

Contract Liabilities - Our contract liabilities consist of advance payments and deferred revenue. Our contract liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. We classify advance payments and deferred revenue as current or noncurrent based on the timing of when we expect to recognize revenue. Generally all contract liabilities are expected to be recognized within one year and are included in Accrued expenses in our Consolidated Balance Sheet. The noncurrent portion of deferred revenue is included in Other liabilities in our Consolidated Balance Sheets.

Net contract assets (liabilities) consisted of the following:

	December 31, 2022	December 31, 2021
Contract liabilities - current	(9.6)	(10.2)
Contract liabilities - noncurrent	(6.4)	(5.5)
Total	<u>\$ (16.0)</u>	<u>\$ (15.7)</u>

For the years ended December 31, 2022, 2021, and 2020 we recognized revenue of \$10.1 million, \$3.6 million and \$7.2 million related to our contract liabilities at January 1, 2022, 2021 and 2020, respectively. Impairment losses recognized in our receivables and contract assets were de minimis in 2022, 2021 and 2020.

9. Other Financial Statement Details:

Inventories

The components of inventories are as follows (in millions):

	As of December 31,	
	2022	2021
Finished goods	\$ 534.6	\$ 310.8
Work in process	8.9	12.4
Raw materials and parts	328.7	262.1
Total	872.2	585.3
Excess of current cost over last-in, first-out cost	(119.2)	(74.4)
Total inventories, net	<u>\$ 753.0</u>	<u>\$ 510.9</u>

The Company recorded a pre-tax gain of \$0.7 million in 2020 from LIFO inventory liquidations. There were no pre-tax gains or losses in 2022 or 2021 from LIFO inventory liquidations. Reserves for obsolete and slow-moving inventories were \$34.9 million and \$26.5 million at December 31, 2022 and December 31, 2021, respectively.

Goodwill

The changes in the carrying amount of goodwill in 2022 and 2021, in total and by segment, are summarized in the table below (in millions):

Segment:	Balance at December 31, 2020 (1)	Changes in foreign currency translation rates	Balance at December 31, 2021	Changes in foreign currency translation rates	Balance at December 31, 2022
Residential Heating & Cooling	\$ 26.1	\$ —	\$ 26.1	\$ —	\$ 26.1
Commercial Heating & Cooling	61.1	—	61.1	—	61.1
Refrigeration	99.7	(0.3)	99.4	(0.3)	99.1
	<u>\$ 186.9</u>	<u>\$ (0.3)</u>	<u>\$ 186.6</u>	<u>\$ (0.3)</u>	<u>\$ 186.3</u>

⁽¹⁾ The goodwill balances in the table above are presented net of accumulated impairment charges of \$32.7 million, all of which relate to impairments in periods prior to 2020.

A qualitative review of impairment indicators was performed in 2022 for the Residential Heating & Cooling, the Commercial Heating & Cooling, and the Refrigeration segments. We did not record any goodwill impairments in 2022, 2021, or 2020.

Property, Plant and Equipment

Components of Property, plant and equipment, net were as follows (in millions):

	As of December 31,	
	2022	2021
Land	\$ 24.1	\$ 24.0
Buildings and improvements	321.6	285.9
Machinery and equipment	964.7	946.5
Finance leases	66.5	63.5
Construction in progress and equipment not yet in service	92.8	84.0
Total	<u>1,469.7</u>	<u>1,403.9</u>
Less accumulated depreciation	<u>(920.8)</u>	<u>(888.8)</u>
Property, plant and equipment, net	<u>\$ 548.9</u>	<u>\$ 515.1</u>

No impairment charges were recorded in 2022 or 2021.

Accrued Expenses

The significant components of Accrued expenses are presented below (in millions):

	As of December 31,	
	2022	2021
Accrued rebates and promotions	123.3	102.9
Accrued compensation and benefits	\$ 90.7	\$ 114.9
Accrued warranties	41.3	37.2
Other	33.8	32.0
Accrued sales, use, property and VAT taxes	26.8	26.9
Accrued Freight	19.0	12.0
Accrued asbestos reserves	14.3	13.1
Deferred income	9.6	10.2
Derivative contracts	9.0	1.0
Accrued interest	6.1	5.5
Self insurance reserves	3.0	3.2
Total Accrued expenses	<u>\$ 376.9</u>	<u>\$ 358.9</u>

Derivatives

Objectives and Strategies for Using Derivative Instruments

Commodity Price Risk. We utilize a cash flow hedging program to mitigate our exposure to volatility in the prices of metal commodities used in our production processes. Our hedging program includes the use of futures contracts to lock in prices, and as a result, we are subject to derivative losses should the metal commodity prices decrease and gains should the prices increase. We utilize a dollar cost averaging strategy so that a higher percentage of commodity price exposures are hedged near-term with lower percentages hedged at future dates. This strategy allows for protection against near-term price volatility while allowing us to adjust to market price movements over time.

Interest Rate Risk. A portion of our debt bears interest at variable interest rates, and as a result, we are subject to variability in the cash paid for interest. To mitigate a portion of that risk, we may choose to engage in an interest rate swap hedging strategy to eliminate the variability of interest payment cash flows. We are not currently hedged against interest rate risk.

Foreign Currency Risk. Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of assets and liabilities arising in foreign currencies. We seek to mitigate the impact of currency exchange rate movements on certain short-term transactions by periodically entering into foreign currency forward contracts.

Cash Flow Hedges

We have commodity futures contracts and foreign exchange forward contracts designated as cash flows hedges that are scheduled to mature through May 2024 and January 2024, respectively. We currently have cash flow hedge contracts with a notional amount of 54.5 million pounds of aluminum and copper. Unrealized gains or losses from our cash flow hedges are included in AOCL and are expected to be reclassified into earnings within the next 17 months based on the prices of the commodities and foreign currencies at the settlement dates.

We recorded the following amounts related to our cash flow hedges in AOCL (in millions):

	As of December 31,	
	2022	2021
Unrealized losses (gains), net on unsettled contracts	\$ 6.3	\$ (13.4)
Income tax (benefit) expense	(1.4)	2.7
Unrealized losses (gains) included in AOCL, net of tax ⁽¹⁾	<u>\$ 4.9</u>	<u>\$ (10.7)</u>

⁽¹⁾ Assuming commodity and foreign currency prices remain constant, we expect to reclassify \$5.0 million of derivative losses into earnings within the next 12 months.

Expenses included in our Consolidated Statements of Operations

Below is information about expenses included in Selling, general and administrative expenses in our Consolidated Statements of Operations (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Research and development	\$ 80.3	\$ 76.1	\$ 66.8
Advertising, promotions and marketing ⁽¹⁾	32.4	26.9	26.5
Cooperative advertising expenditures	28.1	27.6	22.2

⁽¹⁾ Cooperative advertising expenditures were not included in these amounts.

Interest Expense, net

The components of Interest expense, net in our Consolidated Statements of Operations were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Interest expense, net of capitalized interest	\$ 39.8	\$ 26.0	\$ 29.7
Less: Interest income	1.1	1.0	1.4
Interest expense, net	<u>\$ 38.7</u>	<u>\$ 25.0</u>	<u>\$ 28.3</u>

Losses (Gains) and Other Expenses, net

Losses (gains) and other expenses, net in our Consolidated Statements of Operations were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Realized losses (gains) on settled future contracts	\$ 0.1	\$ (1.2)	\$ 0.1
Foreign currency exchange gains	(1.3)	(2.2)	(3.6)
Loss (gain) on disposal of fixed assets	(1.0)	(0.2)	(0.2)
Other operating income	(1.0)	(1.5)	(2.2)
Net change in unrealized (gains) losses on unsettled futures contracts	0.4	—	(0.3)
Environmental liabilities and special litigation charges	7.5	9.6	5.3
Charges incurred related to COVID-19 pandemic	0.8	2.2	8.3
Other items, net	(0.6)	2.5	—
(Gains) losses and other expenses, net (pre-tax)	<u>\$ 4.9</u>	<u>\$ 9.2</u>	<u>\$ 7.4</u>

10. Employee Benefit Plans:

Many of our defined benefit pension and profit sharing plans have been frozen and replaced with defined contribution plans. We have a liability for the benefits earned under these inactive plans prior to the date the benefits were frozen. We also have several active defined benefit plans that provide benefits based on years of service. Our defined contribution plans generally include both company and employee contributions which are based on predetermined percentages of compensation earned by the employee.

In addition to freezing the benefits of our defined benefit pension plans, we have also eliminated nearly all of our post-retirement medical benefits.

Defined Contribution Plans

We recorded the following contributions to the defined contribution plans (in millions):

For the Years Ended December 31,

	2022	2021	2020
Contributions to defined contribution plans	\$ 22.7	\$ 19.9	\$ 17.8

Pension and Post-retirement Benefit Plans

Benefit Obligations, Fair Value of Plan Assets, Funded Status, and Balance Sheet Position

The following tables set forth amounts recognized in our financial statements and the plans' funded status for our pension and post-retirement benefit plans (dollars in millions):

	Pension Benefits	
	2022	2021
Accumulated benefit obligation	\$ 171.6	\$ 266.1
Changes in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 269.2	\$ 276.2
Service cost	3.8	6.1
Interest cost	6.2	5.1
Actuarial (gain) loss	(74.6)	(11.2)
Effect of exchange rates	(3.4)	(0.7)
Settlements	(21.7)	(2.1)
Benefits paid	(5.2)	(4.2)
Benefit obligation at end of year	<u>\$ 174.3</u>	<u>\$ 269.2</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ 184.3	\$ 179.7
Actual return on plan assets	(45.4)	9.5
Employer contributions	22.5	1.5
Effect of exchange rates	(3.4)	(0.1)
Plan settlements	(21.7)	(2.1)
Benefits paid	(5.2)	(4.2)
Fair value of plan assets at end of year	<u>131.1</u>	<u>184.3</u>
Funded status / net amount recognized	<u>\$ (43.2)</u>	<u>\$ (84.9)</u>
Net amount recognized consists of:		
Non-current assets	\$ 2.7	\$ 6.5
Current liability	(5.8)	(8.1)
Non-current liability	(40.1)	(83.3)
Net amount recognized	<u>\$ (43.2)</u>	<u>\$ (84.9)</u>

Plans with Benefit Obligations in Excess of Plan Assets

	For the Years Ended December 31,	
	2022	2021
Pension plans with a benefit obligation in excess of plan assets:		
Projected benefit obligation	\$ 152.1	\$ 234.8
Accumulated benefit obligation	149.6	231.4
Fair value of plan assets	106.2	143.7

Net Periodic Benefit Cost

Our U.S.-based pension plans comprised approximately 84% of the projected benefit obligation and 81% of plan assets as of December 31, 2022.

	Pension Benefits		
	2022	2021	2020
Components of net periodic benefit cost as of December 31:			
Service cost	\$ 3.8	\$ 6.1	\$ 5.5
Interest cost	6.2	5.1	6.6
Expected return on plan assets	(9.1)	(8.6)	(8.2)
Amortization of prior service costs	0.1	0.2	0.2
Recognized actuarial loss	5.3	7.7	5.8
Settlements	(0.2)	1.2	0.6
Other	(0.1)	(0.4)	—
Net periodic benefit cost	<u>\$ 6.0</u>	<u>\$ 11.3</u>	<u>\$ 10.5</u>

Amounts recognized in AOCL and Other Comprehensive Income

The following table sets forth amounts recognized in AOCL and Other comprehensive income (loss) in our financial statements for 2022 and 2021 (in millions):

	Pension Benefits	
	2022	2021
Amounts recognized in AOCL:		
Prior service costs	\$ (0.4)	\$ (0.5)
Actuarial loss	(57.7)	(83.1)
Subtotal	(58.1)	(83.6)
Deferred taxes	15.8	18.6
Net amount recognized	<u>\$ (42.3)</u>	<u>\$ (65.0)</u>
Changes recognized in other comprehensive loss:		
Current year actuarial gain	(19.4)	(12.2)
Effect of exchange rates	(0.9)	—
Amortization of prior service costs	(0.1)	(0.2)
Amortization of actuarial loss, including settlements and other	(5.1)	(8.5)
Total recognized in other comprehensive income (loss)	<u>\$ (25.5)</u>	<u>\$ (20.9)</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ (19.5)</u>	<u>\$ (9.6)</u>

The estimated prior service costs and actuarial losses for pension benefits that will be amortized from AOCL in 2023 are \$0.1 million and \$1.2 million, respectively.

Assumptions

The following tables set forth the weighted-average assumptions used to determine Benefit obligations and Net periodic benefit cost for the U.S.-based plans in 2022 and 2021:

	Pension Benefits	
	2022	2021
Weighted-average assumptions used to determine benefit obligations as of December 31:		
Discount rate	5.50 %	2.69 %
Rate of compensation increase	4.02 %	4.1 %

	Pension Benefits		
	2022	2021	2020
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:			
Discount rate - service cost	2.53 %	1.85 %	2.89 %
Discount rate - interest cost	2.48 %	2.16 %	2.99 %
Expected long-term return on plan assets	6.50 %	6.50 %	6.50 %
Rate of compensation increase	4.13 %	4.13 %	4.23 %

The change in the discount rate for 2022 was the primary driver in the actuarial gain in the projected benefit obligation during the year.

The following tables set forth the weighted-average assumptions used to determine Benefit obligations and Net periodic benefit cost for the non-U.S.-based plans in 2022 and 2021:

	Pension Benefits	
	2022	2021
Weighted-average assumptions used to determine benefit obligations as of December 31:		
Discount rate	4.72 %	1.99 %
Rate of compensation increase	3.11 %	3.14 %

	Pension Benefits		
	2022	2021	2020
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:			
Discount rate - service cost	0.86 %	0.42 %	0.73 %
Discount rate - interest cost	2.07 %	1.51 %	2.3 %
Expected long-term return on plan assets	2.75 %	2.10 %	3.31 %
Rate of compensation increase	3.14 %	3.17 %	3.20 %

To develop the expected long-term rate of return on assets assumption for the U.S. plans, we considered the historical returns for each asset category, as well as the target asset allocation of the pension portfolio and the effect of periodic balancing. These results were adjusted for the payment of reasonable expenses of the plan from plan assets. This resulted in the selection of the 6.50% long-term rate of return on assets assumption. A similar process was followed for the non-U.S.-based plans.

To select a discount rate for the purpose of valuing the plan obligations for the U.S. plans, we performed an analysis in which the projected cash flows from defined benefit and retiree healthcare plans was matched with a yield curve based on the appropriate universe of high-quality corporate bonds that were available. We used the results of the yield curve analysis to select the discount rate for each plan. The analysis was completed separately for each U.S. pension and OPEB plan. A similar process was followed for the non-U.S.-based plans with sufficient corporate bond information. In other countries, the discount rate was selected based on the approximate duration of plan obligations.

Assumed health care cost trend rates have an effect on the amounts reported for our healthcare plan. The following table sets forth the healthcare trend rate assumptions used:

	2022	2021
Assumed health care cost trend rates as of December 31:		
Health care cost trend rate assumed for next year	6.50 %	6.00 %
Rate to which the cost rate is assumed to decline (the ultimate trend rate)	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	2029	2025

Expected future benefit payments are shown in the table below (in millions):

For the Years Ended December 31,

	2023	2024	2025	2026	2027	2028-2032
Pension benefits	\$ 11.1	\$ 11.9	\$ 7.6	\$ 8.8	\$ 22.9	\$ 56.4

Composition of Pension Plan Assets

We believe asset returns can be optimized at an acceptable level of risk by adequately diversifying the plan assets between equity and fixed income. The targeted allocation for fixed income and cash investments is 50% and the targeted allocation for equity investments is 50%. Our targeted exposure to International equity including emerging markets is 15% while our exposure to domestic equity is 35%. Our U.S. pension plan represents 81%, our Canadian pension plan 9%, and our United Kingdom (“U.K.”) pension plan 10% of the total fair value of our plan assets as of December 31, 2022.

Our U.S. pension plans’ weighted-average asset allocations as of December 31, 2022 and 2021, by asset category, were as follows:

Asset Category:	Plan Assets as of December 31,	
	2022	2021
U.S. equity	31.3 %	36.1 %
International equity	18.7 %	15.5 %
Fixed income	49.2 %	48.2 %
Money market/cash	0.8 %	0.2 %
Total	100.0 %	100.0 %

Our U.S. pension plans’ assets were invested according to the following targets:

Asset Category:	Target
U.S. equity	35.0 %
International equity	15.0 %
Fixed income	50.0 %

Our Canadian pension plans were invested in fixed income securities and equities. Our U.K. pension plan was invested in fixed income securities, including corporate and government bonds.

The fair values of our pension plan assets, by asset category, were as follows (in millions):

Fair Value Measurements as of December 31, 2022					
Asset Category:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	
Cash and cash equivalents	\$ 0.9	\$ —	\$ —	\$ 0.9	
Commingled pools / Collective Trusts:					
U.S. equity ⁽¹⁾	—	33.3	—	33.3	
International equity ⁽²⁾	—	19.8	—	19.8	
Fixed income ⁽³⁾	—	52.5	—	52.5	
Balanced pension trust: ⁽⁴⁾					
International equity	—	3.3	—	3.3	
Fixed income	—	8.3	—	8.3	
Pension fund:					
Fixed income ⁽⁶⁾	—	13.0	—	13.0	
Total	<u>\$ 0.9</u>	<u>\$ 130.2</u>	<u>\$ —</u>	<u>\$ 131.1</u>	

Fair Value Measurements as of December 31, 2021					
Asset Category:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	
Cash and cash equivalents	\$ 0.4	\$ —	\$ —	\$ 0.4	
Commingled pools / Collective Trusts:					
U.S. equity ⁽¹⁾	—	51.8	—	51.8	
International equity ⁽²⁾	—	22.2	—	22.2	
Fixed income ⁽³⁾	—	69.3	—	69.3	
Balanced pension trust: ⁽⁴⁾					
International equity	—	4.4	—	4.4	
Fixed income	—	12.6	—	12.6	
Pension fund:					
Fixed income ⁽⁵⁾	—	23.6	—	23.6	
Total	<u>\$ 0.4</u>	<u>\$ 183.9</u>	<u>\$ —</u>	<u>\$ 184.3</u>	

Additional information about assets measured at Net Asset Value (“NAV”) per share (in millions):

	As of December 31, 2022		
	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
Asset Category:			
Commingled pools / Collective Trusts:			
U.S. equity ⁽¹⁾	\$ 33.3	Daily	5 days
International equity ⁽²⁾	19.8	Daily	5 days
Fixed income ⁽³⁾	52.5	Daily	5 days
Balanced pension trust: ⁽⁴⁾			
International equity	3.3	Daily	3-5 days
Fixed income	8.3	Daily	3-5 days
Pension fund:			
Fixed income ⁽⁵⁾	13.0	Daily	1 - 3 days
Total	\$ 130.2		

	As of December 31, 2021		
	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
Asset Category:			
Commingled pools / Collective Trusts:			
U.S. equity ⁽¹⁾	\$ 51.8	Daily	5 days
International equity ⁽²⁾	22.2	Daily	5 days
Fixed income ⁽³⁾	69.3	Daily	5-15 days
Balanced pension trust: ⁽⁴⁾			
International equity	4.4	Daily	3-5 days
Fixed income	12.6	Daily	3-5 days
Pension fund:			
Fixed income ⁽⁵⁾	23.6	Daily	1 - 3 days
Total	\$ 183.9		

(1) This category includes investments primarily in U.S. equity securities that include large, mid and small capitalization companies.

(2) This category includes investments primarily in international equity securities that include large, mid and small capitalization companies in large developed markets as well as emerging markets equities.

(3) This category includes investments in U.S. investment grade and high yield fixed income securities, international fixed income securities and emerging markets fixed income securities.

(4) The investment objectives of the plan are to provide long-term capital growth and income by investing primarily in a well-diversified, balanced portfolio of Canadian common stocks, bonds and money market securities. The plan also holds a portion of its assets in international equities, a portion of which may be invested in U.S. securities.

(5) This category includes investments in U.K. government index-linked securities (index-linked gilts) that have maturity periods of 5 years or longer with a derivatives overlay and investment grade corporate bonds denominated in sterling. The plan also holds a portion of its assets in international instruments, a portion of which may be invested in U.S. securities.

The majority of our commingled pool/collective trusts, mutual funds, balanced pension trusts and pension funds are managed by professional investment advisors. The NAVs per share are furnished in monthly and/or quarterly statements received from the investment advisors and reflect valuations based upon their pricing policies. We assessed the fair value classification of these investments as Level 2 for commingled pool/collective trusts, balanced pension trusts and pension funds based on an examination of their pricing policies and the related controls and procedures. The fair values we report are based on the pool, trust or fund’s NAV per share. The NAVs per share are calculated periodically (daily or no less than one time per month) as the aggregate value of each pool or trust’s underlying assets divided by the number of units owned. See Note 16 for information about our fair value hierarchies and valuation techniques.

11. Joint Ventures and Other Equity Investments:

We participate in two joint ventures, the largest located in the U.S. and the other in Mexico, that are engaged in the manufacture and sale of compressors, unit coolers and condensing units. We exert significant influence over these affiliates based upon our respective 25% and 50% ownership, but do not control them due to venture partner participation. Accordingly, these joint ventures have been accounted for under the equity method and their financial position and results of operations are not consolidated.

The combined balance of equity method investments included in Other assets, net totaled (in millions):

	As of December 31,	
	2022	2021
Equity method investments	\$ 44.4	\$ 37.7

We purchase compressors from our U.S. joint venture for use in certain of our products. The amounts of purchases included in Cost of goods sold in the Consolidated Statements of Operations were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Purchases of compressors from joint venture	\$ 156.2	\$ 141.7	\$ 123.1

12. Income Taxes:

Our Provision for income taxes from continuing operations consisted of the following (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Current:			
Federal	\$ 104.0	\$ 72.0	\$ 61.7
State	21.6	17.0	14.1
Foreign	7.8	13.4	4.8
Total current	133.4	102.4	80.6
Deferred:			
Federal	(13.9)	(2.6)	(0.7)
State	(3.1)	(1.5)	1.1
Foreign	2.3	(2.2)	7.1
Total deferred	(14.7)	(6.3)	7.5
Total provision for income taxes	\$ 118.7	\$ 96.1	\$ 88.1

Income from continuing operations before income taxes was comprised of the following (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Domestic	\$ 340.2	\$ 307.8	\$ 268.4
Foreign	275.6	252.3	176.8
Total	\$ 615.8	\$ 560.1	\$ 445.2

The difference between the income tax provision from continuing operations computed at the statutory federal income tax rate and the financial statement Provision for income taxes is summarized as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Provision at the U.S. statutory rate of 21%	\$ 129.3	\$ 117.6	\$ 93.5
Increase (reduction) in tax expense resulting from:			
State income tax, net of federal income tax benefit	14.6	12.1	10.8
Tax credits, net of unrecognized tax benefits	(8.0)	(9.3)	(7.8)
Change in unrecognized tax benefits	0.2	0.2	0.2
Change in valuation allowance	—	—	7.8
Foreign taxes at rates other than U.S. statutory rate	(47.4)	(43.6)	(33.6)
Deemed inclusions	10.0	7.7	9.2
Global intangible low-taxed income	23.9	18.8	10.3
Change in rates from the Tax Act & other law changes	0.1	0.1	0.7
Excess tax benefits from stock-based compensation	(0.6)	(5.7)	(4.2)
Miscellaneous other	(3.4)	(1.8)	1.2
Total provision for income taxes	<u>\$ 118.7</u>	<u>\$ 96.1</u>	<u>\$ 88.1</u>

Deferred income taxes reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their financial reporting basis and depending on the classification of the asset or liability generating the deferred tax. The deferred tax provision for the periods shown represents the effect of changes in the amounts of temporary differences during those periods.

Deferred tax assets (liabilities) were comprised of the following (in millions):

	As of December 31,	
	2022	2021
Gross deferred tax assets:		
Warranties	\$ 34.9	\$ 32.9
Loss carryforwards (foreign, U.S. and state)	29.6	28.5
Post-retirement and pension benefits	10.2	15.6
Inventory reserves	9.3	7.1
Receivables allowance	6.0	4.5
Compensation liabilities	5.9	9.5
Legal reserves	10.5	12.1
Tax credits, net of federal effect	11.9	11.5
Research and development capitalization	17.9	—
Other	7.1	9.6
Total deferred tax assets	<u>143.3</u>	<u>131.3</u>
Valuation allowance	(37.9)	(37.3)
Total deferred tax assets, net of valuation allowance	105.4	94.0
Gross deferred tax liabilities:		
Depreciation	(58.9)	(58.7)
Intangibles	(15.6)	(15.5)
Insurance liabilities	(1.4)	(1.4)
Other	(2.0)	(7.1)
Total deferred tax liabilities	<u>(77.9)</u>	<u>(82.7)</u>
Net deferred tax assets	<u>\$ 27.5</u>	<u>\$ 11.3</u>

As of December 31, 2022 and 2021, we had \$21.5 million and \$20.3 million in tax-effected foreign net operating loss carryforwards, respectively. The deferred tax asset valuation allowance relates primarily to loss carryforwards. The remainder of the valuation allowance relates to state tax credits.

In assessing whether a deferred tax asset will be realized, we consider whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. We consider the reversal of existing taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, we believe it is more likely than not we will realize the benefits of these deductible differences, net of the existing valuation allowances, as of December 31, 2022.

No provision was made for income taxes which may become payable upon distribution of our foreign subsidiaries' earnings. An actual repatriation in the future from our non-U.S. subsidiaries could still be subject to foreign withholding taxes and U.S. state taxes, but we expect any amounts to be immaterial.

We are currently in the Bridge program for our U.S. federal income taxes under the Internal Revenue Service's Compliance Assurance Program for 2022 and 2021. As a result, our returns for those years will not be examined. However, we are subject to examination by numerous other taxing authorities in the U.S. and in foreign jurisdictions. We have no material uncertain tax provisions recorded as of December 31, 2022. We are generally no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by taxing authorities for years prior to 2015.

13. Lines of Credit and Financing Arrangements:

The following tables summarize our outstanding debt obligations and their classification in the accompanying Consolidated Balance Sheets (in millions):

	As of December 31,	
	2022	2021
Current maturities of long-term debt:		
Asset securitization program	\$ 350.0	\$ —
Finance lease obligations	11.2	11.3
Senior unsecured notes	350.0	—
Debt issuance costs	(0.6)	—
Total current maturities of long-term debt	\$ 710.6	\$ 11.3
Long-Term Debt:		
Asset securitization program	\$ —	\$ 250.0
Finance lease obligations	28.3	29.0
Credit agreement	192.0	6.5
Senior unsecured notes	600.0	950.0
Debt issuance costs	(6.1)	(9.0)
Total long-term debt	\$ 814.2	\$ 1,226.5
Total debt	\$ 1,524.8	\$ 1,237.8

As of December 31, 2022, the aggregate amounts of required principal payments on total debt excluding finance lease obligations (see Note 5) were as follows (in millions):

2023	\$ 700.0
2024	—
2025	300.0
2026	192.0
2027	300.0
Thereafter	—

Short-Term Debt

Foreign Obligations

Through several of our foreign subsidiaries, we have facilities available to assist in financing seasonal borrowing needs for our foreign locations. As of December 31, 2022 or 2021, we did not have any outstanding short-term foreign obligations. Proceeds and repayments from these facilities were \$0.0 million, \$0.0 million and \$4.6 million during the years ended December 31, 2022, 2021 and 2020, respectively.

Long-Term Debt

Asset Securitization Program

Under the Asset Securitization Program (“ASP”), we are eligible to sell beneficial interests in a portion of our trade accounts receivable to a financial institution for cash. The ASP contains a provision whereby we retain the right to repurchase all of the outstanding beneficial interests transferred. As a result of the repurchase right, the transfer of the receivables under the ASP is not accounted for as a sale. Accordingly, the cash received from the transfer of the beneficial interests in our trade accounts receivable is reflected as secured borrowings in the accompanying Consolidated Balance Sheet and proceeds received are included in Cash flows from financing activities in the accompanying Consolidated Statements of Cash Flows. Our continued involvement with the transferred assets includes servicing, collection and administration of the transferred beneficial interests. The accounts receivable securitized under the ASP are high-quality domestic customer accounts that have not aged significantly. The receivables represented by the retained interest that we service are exposed to the risk of loss for any uncollectible amounts in the pool of receivables transferred under the ASP.

We renewed the ASP in November 2021, extending its term to November 2023 and increasing the maximum securitization amount to a range from \$300.0 million to \$450.0 million, depending on the period. The maximum capacity under the ASP is the lesser of the maximum securitization amount or 100% of the net pool balance less allowances, as defined by the ASP. Eligibility for securitization is limited based on the amount and quality of the qualifying accounts receivable and is calculated monthly. The eligible amounts available and beneficial interests sold were as follows (in millions):

	As of December 31,	
	2022	2021
Eligible amount available under the ASP on qualified accounts receivable	\$ 350.0	\$ 335.6
Less: Beneficial interest transferred	(350.0)	(250.0)
Remaining amount available	\$ —	\$ 85.6

We pay certain discount fees to use the ASP and to have the facility available to us. These fees relate to both the used and unused portions of the securitization. The used fee is based on the beneficial interest sold and calculated on either the average LIBOR rate or floating commercial paper rate determined by the purchaser of the beneficial interest, plus a program fee of 0.70%. The average rates as of December 31, 2022 and 2021 were 5.17% and 0.82%, respectively. The unused fee is based on 101% of the maximum available amount less the beneficial interest transferred and is calculated at rate ranging between 0.25% and 0.35%, depending on available borrowings, throughout the term of the agreement. We recorded these fees in Interest expense, net in the accompanying Consolidated Statements of Operations.

The ASP contains certain restrictive covenants relating to the quality of our accounts receivable and cross-default provisions with our Credit Agreement (as defined below), senior unsecured notes and any other indebtedness we may have over \$75.0 million. The administrative agent under the ASP is also a participant in our Credit Agreement. The participating financial institutions have investment grade credit ratings. As of December 31, 2022, we believe we were in compliance with all covenant requirements.

Credit Agreement

In July 2021, we entered into a new Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto, which refinanced and replaced the Seventh Amended and Restated Credit Facility.

The Credit Agreement consists of a \$750.0 million unsecured revolving credit facility that matures in July 2026. We had outstanding borrowings of \$192.0 million as well as \$2.0 million committed to standby letters of credit as of December 31, 2022. Subject to covenant limitations, \$556.0 million was available for future borrowings. The revolving credit facility includes

a subfacility for swingline loans of up to \$65.0 million. The Credit Agreement will expire and outstanding loans will be required to be repaid in July 2026, unless maturity is extended by the lenders pursuant to two one-year extension options that we may request under the Credit Agreement.

Below is a summary of the weighted average interest rate for both December 31, 2022 and 2021:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
Weighted average borrowing rate	5.57 %	1.38 %

The Credit Agreement is guaranteed by certain of our subsidiaries and contains customary covenants applicable to us and its subsidiaries including limitations on indebtedness, liens, dividends, stock repurchases, mergers and sales of all or substantially all of its assets. In addition, the Credit Agreement contains a financial covenant requiring us to maintain, as of the last day of each fiscal quarter for the four prior fiscal quarters, a Total Net Leverage Ratio of no more than 3.50 to 1.00 (or, at our election, on up to two occasions following a material acquisition, 4.00 to 1.00).

The Credit Agreement contains customary events of default. These events of default include nonpayment of principal or interest, breach of covenants or other restrictions or requirements, default on certain other indebtedness or receivables securitizations (cross default), and bankruptcy. A cross default under our Credit Agreement could occur if:

- We fail to pay any principal or interest when due on any other indebtedness or receivables securitization exceeding \$75.0 million; or
- We are in default in the performance of, or compliance with any term of any other indebtedness or receivables securitization in an aggregate principal amount exceeding \$75.0 million or any other condition exists which would give the holders the right to declare such indebtedness due and payable prior to its stated maturity.

Each of our major debt agreements contains provisions by which a default under one agreement causes a default in the others (a "cross default"). If a cross default under the Credit Agreement, our senior unsecured notes, our lease of our corporate headquarters in Richardson, Texas (recorded as an operating lease), or our ASP were to occur, it could have a wider impact on our liquidity than might otherwise occur from a default of a single debt instrument or lease commitment.

If any event of default occurs and is continuing, the administrative agent, or lenders with a majority of the aggregate commitments may require the administrative agent to, terminate our right to borrow under our Credit Agreement and accelerate amounts due under our Credit Agreement (except for a bankruptcy event of default, in which case such amounts will automatically become due and payable and the lenders' commitments will automatically terminate). As of December 31, 2022, we believe we were in compliance with all covenant requirements.

Senior Unsecured Notes

We issued two series of senior unsecured notes on July 30, 2020 for \$300.0 million each, which will mature on August 1, 2025 (the "2025 Notes") and August 1, 2027 (the "2027 Notes") with interest being paid semi-annually on February and August at 1.35% and 1.70% respectively, per annum. We also issued \$350.0 million of senior unsecured notes in November 2016 (the "2023 Notes," and together with the 2025 Notes and the 2027 Notes, the "Notes") which will mature on November 15, 2023 with interest being paid semi-annually on May 15 and November 15 at 3.00% per annum.

All the Notes are guaranteed, on a senior unsecured basis, by certain of our subsidiaries that guarantee indebtedness under our Credit Agreement. The indenture governing the Notes contains covenants that, among other things, limit our ability and the ability of the subsidiary guarantors to: create or incur certain liens; enter into certain sale and leaseback transactions; and enter into certain mergers, consolidations and transfers of substantially all of our assets. The indenture also contains a cross default provision which is triggered if we default on other debt of at least \$75 million in principal which is then accelerated, and such acceleration is not rescinded within 30 days of the notice date. As of December 31, 2022, we believe we were in compliance with all covenant requirements.

14. Comprehensive Income:

The following table provides information on items not reclassified in their entirety from AOCL to Net Income in the accompanying Consolidated Statements of Operations (in millions):

AOCL Component	For the Years Ended December 31,		Affected Line Item(s) in the Consolidated Statements of Operations
	2022	2021	
Gains/(Losses) on cash flow hedges:			
Derivative contracts	\$ 9.7	\$ 26.9	Cost of goods sold and Losses (gains) and other expenses, net.
Income tax expense	(2.2)	(6.2)	Provision for income taxes
Net of tax	\$ 7.5	\$ 20.7	
Defined Benefit Plan Items:			
Pension and post-retirement benefits costs	\$ (5.4)	\$ (7.9)	Cost of goods sold; Selling, general, administrative expenses and Other (income) expense, net
Pension settlements	0.2	(1.2)	Pension settlements
Income tax benefit	1.3	2.2	Provision for income taxes
Net of tax	\$ (3.9)	\$ (6.9)	
Total reclassifications from AOCL	\$ 3.6	\$ 13.8	

The following tables provide information on changes in AOCL, by component (net of tax), for the years ended December 31, 2022 and 2021 (in millions):

	Gains (Loss) on Cash Flow Hedges	Share of equity method investments other comprehensive income	Defined Benefit Plan Items	Foreign Currency Translation Adjustments	Total AOCL
Balance as of December 31, 2021	\$ 10.7	\$ (1.2)	\$ (68.8)	\$ (28.8)	\$ (88.1)
Other comprehensive (loss) income before reclassifications	(8.1)	0.7	18.7	(10.2)	1.1
Amounts reclassified from AOCL	(7.5)	—	3.9	—	(3.6)
Net other comprehensive (loss) income	(15.6)	0.7	22.6	(10.2)	(2.5)
Balance as of December 31, 2022	\$ (4.9)	\$ (0.5)	\$ (46.2)	\$ (39.0)	\$ (90.6)

	Gains (Losses) on Cash Flow Hedges	Share of equity method investments other comprehensive income	Defined Benefit Plan Items	Foreign Currency Translation Adjustments	Total AOCL
Balance as of December 31, 2020	\$ 8.2	\$ (1.2)	\$ (82.7)	\$ (21.5)	\$ (97.2)
Other comprehensive income (loss) before reclassifications	23.2	—	7.0	(7.3)	22.9
Amounts reclassified from AOCL	(20.7)	—	6.9	—	(13.8)
Other comprehensive income (loss) before reclassifications	2.5	—	13.9	(7.3)	9.1
Balance as of December 31, 2021	\$ 10.7	\$ (1.2)	\$ (68.8)	\$ (28.8)	\$ (88.1)

15. Stock-Based Compensation:

Stock-based compensation expense related to continuing operations was included in Selling, general and administrative expenses in the accompanying Consolidated Statements of Operations as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Compensation expense ⁽¹⁾	\$ 21.8	\$ 24.3	\$ 24.3

⁽¹⁾ Stock-based compensation expense was recorded in our Corporate and other business segment.

Incentive Plan

Under the Lennox International Inc. 2019 Equity and Incentive Compensation Plan, we are authorized to issue awards for 1.7 million shares of common stock. The plan provides for various long-term incentive awards, including performance share units, restricted stock units and stock appreciation rights. A description of these long-term incentive awards and related activity within each award category is provided below. As of December 31, 2022, there were 1.5 million shares available for future issuance.

Performance Share Units

Performance share units are granted to certain employees at the discretion of the Board of Directors with a three-year performance period beginning January 1st of each year. Upon meeting the performance and vesting criteria, performance share units are converted to an equal number of shares of our common stock. Performance share units vest if, at the end of the three-year performance period, at least the threshold performance level has been attained. To the extent that the payout level attained is less than 100%, the difference between 100% and the units earned and distributed will be forfeited. Eligible participants may also earn additional units of our common stock, which would increase the potential payout up to 200% of the units granted, depending on LII's performance over the three-year performance period.

Performance share units are classified as equity awards. Compensation expense is recognized on an earnings curve over the period and is based on the expected number of units to be earned and the fair value of the stock at the date of grant. The fair value of units is calculated as the average of the high and low market price of the stock on the date of grant discounted by the expected dividend rate over the service period. The number of units expected to be earned will be adjusted in future periods as necessary to reflect changes in the estimated number of award to be issued and, upon vesting, the actual number of units awarded. Our practice is to issue new shares of common stock or utilize treasury stock to satisfy performance share unit distributions.

The following table provides information on our performance share units:

	For the Years Ended December 31,		
	2022	2021	2020
Compensation expense for performance share units (in millions)	\$ 6.9	\$ 10.8	\$ 8.9
Weighted-average fair value of grants, per share	\$ 237.68	\$ 314.27	\$ 265.96
Payout ratio for shares paid	126 %	100 %	133 %

A summary of the status of our undistributed performance share units as of December 31, 2022, and changes during the year then ended, is presented below (in thousands, except per share data):

	Shares	Weighted-Average Grant Date Fair Value per Share
Undistributed performance share units as of December 31, 2021	149.2	\$ 246.84
Granted	51.5	\$ 237.68
Adjustment to shares paid based on payout ratio	7.4	245.06
Distributed	(54.4)	\$ 204.64
Forfeited	(29.0)	\$ 262.82
Undistributed performance share units as of December 31, 2022 ⁽¹⁾	124.7	\$ 257.55

⁽¹⁾ Undistributed performance share units include approximately 93.9 thousand units with a weighted-average grant date fair value of \$261.65 per share that had not yet vested and 30.8 thousand units that have vested but were not yet distributed.

As of December 31, 2022, we had \$18.8 million of total unrecognized compensation cost related to non-vested performance share units that is expected to be recognized over a weighted-average period of 2.4 years. Our weighted-average estimated forfeiture rate for these performance share units was 10.9% as of December 31, 2022.

The total fair value of performance share units distributed and the resulting tax deductions to realized tax benefits were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Fair value of performance share units distributed	\$ 6.1	\$ 10.8	\$ 15.1
Realized tax benefits from tax deductions	\$ 1.5	\$ 2.7	\$ 0.7

Restricted Stock Units

Restricted stock units are issued to attract and retain key employees. Generally, at the end of a three-year retention period, the units will vest and be distributed in shares of our common stock to the participant. Our practice is to issue new shares of common stock or utilize treasury stock to satisfy restricted stock unit vestings. Restricted stock units are classified as equity awards. The fair value of units granted is the average of the high and low market price of the stock on the date of grant discounted by the expected dividend rate over the service period. Units are amortized to compensation expense ratably over the service period.

The following table provides information on our restricted stock units (in millions, except per share data):

	For the Years Ended December 31,		
	2022	2021	2020
Compensation expense for restricted stock units	\$ 11.0	\$ 8.7	\$ 10.4
Weighted-average fair value of grants, per share	\$ 240.87	\$ 315.70	\$ 265.96

A summary of our non-vested restricted stock units as of December 31, 2022 and changes during the year then ended is presented below (in thousands, except per share data):

	Shares	Weighted-Average Grant Date Fair Value per Share
Non-vested restricted stock units as of December 31, 2021	135.1	\$ 277.85
Granted	58.8	\$ 240.87
Vested	(37.3)	\$ 250.45
Forfeited	(25.6)	\$ 268.59
Non-vested restricted stock units as of December 31, 2022 ⁽¹⁾	131.0	\$ 270.86

⁽¹⁾ As of December 31, 2022, we had \$24.7 million of total unrecognized compensation cost related to non-vested restricted stock units that is expected to be recognized over a weighted-average period of 2.4 years. Our estimated forfeiture rate for restricted stock units was 13.3% as of December 31, 2022.

The total fair value of restricted stock units vested and the resulting tax deductions to realized tax benefits were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Fair value of restricted stock units vested	\$ 9.7	\$ 11.0	\$ 15.0
Realized tax benefits from tax deductions	2.4	2.7	2.7

Stock Appreciation Rights

Stock appreciation rights are issued to certain key employees. Each recipient is given the “right” to receive compensation, paid in shares of our common stock, equal to the future appreciation of our common stock price. Stock appreciation rights generally vest in one-third increments beginning on the first anniversary date after the grant date and expire after seven years. Our practice is to issue new shares of common stock or utilize treasury stock to satisfy the exercise of stock appreciation rights.

The following table provides information on our stock appreciation rights (in millions, except per share data):

	For the Years Ended December 31,		
	2022	2021	2020
Compensation expense for stock appreciation rights	\$ 3.9	\$ 4.8	\$ 5.0
Weighted-average fair value of grants, per share	\$ 64.54	\$ 70.50	\$ 55.21

Compensation expense for stock appreciation rights is based on the fair value on the date of grant, estimated using the Black-Scholes-Merton valuation model, and is recognized over the service period. We used historical stock price data to estimate the expected volatility. We determined that the recipients of stock appreciation rights can be combined into one employee group that has similar historical exercise behavior and we used our historical pattern of award exercises to estimate the expected life of the awards for the employee group. The risk-free interest rate was based on the zero-coupon U.S. Treasury yield curve with a maturity equal to the expected life of the awards at the time of grant.

The fair value of the stock appreciation rights granted in 2022, 2021 and 2020 were estimated on the date of grant using the following assumptions:

	2022	2021	2020
Expected dividend yield	2.01 %	1.69 %	1.64 %
Risk-free interest rate	3.88 %	0.88 %	0.27 %
Expected volatility	29.90 %	29.80 %	29.70 %
Expected life (in years)	4.18	4.35	3.95

A summary of our stock appreciation rights as of December 31, 2022, and changes during the year then ended, is presented below (in thousands, except per share data):

	Shares	Weighted-Average Exercise Price per Share
Outstanding stock appreciation rights as of December 31, 2021	478.3	\$ 241.61
Granted	98.1	\$ 259.56
Exercised	(42.7)	\$ 170.48
Forfeited	(45.8)	\$ 280.78
Outstanding stock appreciation rights as of December 31, 2022	487.9	\$ 247.77
Exercisable stock appreciation rights as of December 31, 2022	324.6	\$ 231.24

The following table summarizes information about stock appreciation rights outstanding as of December 31, 2022 (in millions, except per share data and years; shares in thousands):

Range of Exercise Prices	Stock Appreciation Rights Outstanding			Stock Appreciation Rights Exercisable		
	Shares	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value	Shares ⁽¹⁾	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
\$124.97 to \$214.63	175.7	2.12	\$ 7.7	175.7	2.12	\$ 7.7
\$257.08 to \$278.00	147.9	4.42	\$ —	126.9	4.33	\$ —
\$259.56 to \$328.65	164.3	6.59	\$ —	22.1	6.00	\$ —

⁽¹⁾ Share amounts are rounded but the balance accurately reflects the actual amount of exercisable stock appreciation rights as of December 31, 2022.

As of December 31, 2022, we had \$10.6 million of unrecognized compensation cost related to non-vested stock appreciation rights that is expected to be recognized over a weighted-average period of 2.8 years. Our estimated forfeiture rate for stock appreciation rights was 12.6% as of December 31, 2022.

The total intrinsic value of stock appreciation rights exercised and the resulting tax deductions to realize tax benefits were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Intrinsic value of stock appreciation rights exercised	\$ 3.5	\$ 31.2	\$ 26.7
Realized tax benefits from tax deductions	\$ 0.9	\$ 7.7	\$ 6.7

Employee Stock Purchase Plan

On May 24, 2022, the Company commenced a new Employee Stock Purchase Plan to succeed the prior agreement from 2012. Under the 2022 Employee Stock Purchase Plan (“ESPP”), all employees who meet certain service requirements are eligible to purchase our common stock through payroll deductions at the end of three month offering periods. The purchase price for such shares is 95% of the fair market value of the stock on the last day of the offering period. A maximum of 1.0 million shares is authorized for purchase until issuance of all shares available under the plan, unless terminated earlier at the discretion of the Board of Directors. Employees purchased approximately 16,100 shares under the ESPP during the year ended December 31, 2022. Approximately 0.8 million shares remain available for purchase under the ESPP as of December 31, 2022.

16. Fair Value Measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and requires consideration of our creditworthiness when valuing certain liabilities. Our framework for measuring fair value is based on the following three-level hierarchy for fair value measurements:

- Level 1* - Quoted prices for *identical* instruments in active markets at the measurement date.
- Level 2* - Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are *observable* in active markets at the measurement date and for the anticipated term of the instrument.
- Level 3* - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable* inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Where available, the fair values were based upon quoted prices in active markets. However, if quoted prices were not available, then the fair values were based upon quoted prices for similar assets or liabilities or independently sourced market parameters, such as credit default swap spreads, yield curves, reported trades, broker/dealer quotes, interest rates and benchmark securities. For assets and liabilities without observable market activity, if any, the fair values were based upon discounted cash flow methodologies incorporating assumptions that, in our judgment, reflect the assumptions a marketplace participant would use. Valuation adjustments to reflect either party’s creditworthiness and ability to pay were incorporated into our valuations, where appropriate, as of December 31, 2022 and 2021, the measurement dates.

The methodologies used to determine the fair value of our financial assets and liabilities as of December 31, 2022 were the same as those used as of December 31, 2021.

Fair values are estimates and are not necessarily indicative of amounts for which we could settle such instruments currently nor indicative of our intent or ability to dispose of or liquidate them.

Assets and Liabilities Carried at Fair Value on a Recurring Basis

Derivatives, classified as Level 2, were primarily valued using estimated future cash flows based on observed prices from exchange-traded derivatives. We also considered the counterparty’s creditworthiness, or our own creditworthiness, as appropriate. Adjustments were recorded to reflect the risk of credit default, but they were insignificant to the overall value of the derivatives. Refer to Note 9 for more information related to our derivative instruments. Refer to Note 10 for more information related to the fair value assumptions related to our pension assets and liabilities.

Other Fair Value Disclosures

The carrying amounts of Cash and cash equivalents, Short-term investments, Accounts and notes receivable, net, Accounts payable, Other current liabilities, and Short-term debt approximate fair value due to the short maturities of these instruments. The carrying amount of our Credit Agreement in Long-term debt also approximates fair value due to its variable-rate characteristics.

The fair value of our senior unsecured notes in Long-term debt was based on the amount of future cash flows using current market rates for debt instruments of similar maturities and credit risk. The following table presents the fair value for our senior unsecured notes in Long-term debt (in millions):

	As of December 31,	
	2022	2021
Quoted Prices in Active Markets for Similar Instruments (Level 2):		
Senior unsecured notes	\$ 878.0	\$ 959.2

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our current management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2022, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control Over Financial Reporting

See “Management’s Report on Internal Control Over Financial Reporting” included in Item 8 “Financial Statements and Supplementary Data.”

Attestation Report of the Independent Registered Public Accounting Firm

See “Report of Independent Registered Public Accounting Firm” included in Item 8 “Financial Statements and Supplementary Data.”

Changes in Internal Control Over Financial Reporting

There were no changes during the year ended December 31, 2022 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2022. Also, refer to Part I, Item 1 “Business - Information about our Executive Officers ” of this Annual Report on Form 10-K, which identifies our executive officers and is incorporated herein by reference.

Item 11. *Executive Compensation*

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2022.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2022. Also, refer to Note 15 in the Notes to the Consolidated Financial Statements for additional information about our equity compensation plans.

Item 13. *Certain Relationships and Related Transactions and Director Independence*

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2022.

Item 14. *Principal Accounting Fees and Services*

Our independent registered public accounting firm is KPMG LLP, Dallas, TX, Auditor Firm ID: 185.

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2022.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

Financial Statements

The following financial statements are included in Part II, Item 8 of the Annual Report on Form 10-K:

- Report of Independent Registered Public Accounting Firm (KPMG LLP, Dallas, TX, Auditor Firm ID: 185)
- Consolidated Balance Sheets as of December 31, 2022 and 2021
- Consolidated Statements of Operations for the Years Ended December 31, 2022, 2021 and 2020
- Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2022, 2021 and 2020
- Consolidated Statements of Stockholders' Deficit for the Years Ended December 31, 2022, 2021 and 2020
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2022, 2021 and 2020
- Notes to the Consolidated Financial Statements for the Years Ended December 31, 2022, 2021 and 2020

Financial Statement Schedules

The financial statement schedule included in this Annual Report on Form 10-K is Schedule II - Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 2022, 2021 and 2020 (see Schedule II immediately following the signature page of this Annual Report on Form 10-K).

Financial statement schedules not included in this Annual Report on Form 10-K have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

Exhibits

A list of the exhibits required to be filed or furnished as part of this Annual Report on Form 10-K is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

INDEX TO EXHIBITS

- 3.1 Restated Certificate of Incorporation of Lennox International Inc. (“LII”) (filed herewith).
- 3.2 Amended and Restated Bylaws of LII (filed herewith).
- 4.1 Indenture, dated as of May 3, 2010, between LII and U.S. Bank National Association, as trustee (filed as Exhibit 4.3 to LII’s Post-Effective Amendment No. 1 to Registration Statement on S-3 (Registration No. 333-155796) filed on May 3, 2010 and incorporated herein by reference).
- 4.2 Sixth Supplemental Indenture, dated as of November 3, 2016, among LII, each other existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee (filed as Exhibit 4.2 to LII’s Current Report on Form 8-K filed on November 3, 2016 and incorporated herein by reference).
- 4.3 Form of 3.000% Notes due 2023 (filed as Exhibit A in Exhibit 4.2 to LII’s Current Report on Form 8-K filed on November 3, 2016 and incorporated herein by reference).
- 4.4 Ninth Supplemental Indenture, dated as of July 30, 2020, among LII, each existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee (filed as Exhibit 4.2 to LII’s Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference).
- 4.5 Form of 1.350% Notes due 2025 (filed as Exhibit A in Exhibit 4.2 to LII’s Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference).
- 4.6 Form of 1.700% Notes due 2027 (filed as Exhibit B in Exhibit 4.2 to LII’s Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference).
- 4.7 Tenth Supplemental Indenture, dated as of July 14, 2021, among LII, each existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee (filed herewith).
- 4.8 Description of Securities (filed herewith).
- 10.1 Credit Agreement, dated as of July 14, 2021, among Lennox International Inc., a Delaware corporation, the Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.1 to LII’s Current Report on Form 8-K filed on July 15, 2021 and incorporated herein by reference).
- 10.2 Guaranty Agreement, dated as of July 14, 2021, among the guarantors party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.2 to LII’s Current Report on Form 8-K filed on July 15, 2021 and incorporated herein by reference).
- 10.3 Amendment No. 11 to Amended and Restated Receivables Purchase Agreement, dated as of November 12, 2021, among LPAC Corp., as the Seller, Lennox Industries Inc., as the Master Servicer, Lennox International Inc., Victory Receivables Corporation, as a Purchaser, MUFG Bank, Ltd., formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent for the Investors, the purchaser agent for the MUFG Purchaser Group and a MUFG Liquidity Bank, Wells Fargo Bank, N.A., as the purchaser agent for the WFB Purchaser Group and a WFB Liquidity Bank, and PNC Bank, N.A., as the purchaser agent for the PNC Purchaser Group and a PNC Liquidity Bank, including attachments (filed as Exhibit 10.1 to LII’s Current Report on Form 8-K filed on November 12, 2021 and incorporated herein by reference).
- 10.4* Lennox International Inc. 2019 Equity and Incentive Compensation Plan (filed as Exhibit 10.1 to LII’s Current Report on Form 8-K filed on May 24, 2019 and incorporated herein by reference).
- 10.5* Form of Long-Term Incentive Award Agreement for U.S. Employees - Vice President and Above (for use under the 2019 Incentive Plan) (filed as Exhibit 10.18 to LII’s Annual Report on Form 10-K filed on February 18, 2020 and incorporated herein by reference).
- 10.6* Form of Long-Term Incentive Award Agreement for Non-U.S. Employees - Vice President and Above (for use under the 2019 Incentive Plan) (filed as Exhibit 10.3 to LII’s Quarterly Report on Form 10-Q filed on October 25, 2021 and incorporated herein by reference).
- 10.7* Form of Restricted Stock Unit Award Agreement for Non-Employee Directors (for use under the 2019 Incentive Plan) (filed as Exhibit 10.19 to LII’s Annual Report on Form 10-K filed on February 18, 2020 and incorporated herein by reference).
- 10.8* Form of Short-Term Incentive Program for Lennox International Inc. and its Subsidiaries (filed as Exhibit 10.20 to LII’s Annual Report on Form 10-K filed on February 18, 2020 and incorporated herein by reference).
- 10.9* Lennox International Inc. Profit Sharing Restoration Plan, as amended and restated as of January 1, 2009 (filed as Exhibit 10.3 to LII’s Current Report on Form 8-K filed on December 17, 2008 and incorporated herein by reference).
- 10.10* Lennox International Inc. Supplemental Retirement Plan, as amended and restated as of January 1, 2009 (filed as Exhibit 10.2 to LII’s Current Report on Form 8-K filed on December 17, 2008 and incorporated herein by reference).

10.11*	<u>Amendment Number One to the Lennox International Inc. Supplemental Retirement Plan, as amended and restated as of January 1, 2009, dated December 28, 2018 (filed as Exhibit 10.23 to LII's Annual Report on Form 10-K filed on February 19, 2019 and incorporated herein by reference).</u>
10.12*	<u>Lennox International Inc. Supplemental Restoration Retirement Plan, effective as of January 1, 2019, dated December 28, 2018 (filed as Exhibit 10.24 to LII's Annual Report on Form 10-K filed on February 19, 2019 and incorporated herein by reference).</u>
10.13*	<u>Form of Indemnification Agreement entered into between LII and certain executive officers and directors of LII (filed as Exhibit 10.15 to LII's Registration Statement on Form S-1 (Registration No. 333-75725) filed on April 6, 1999 and incorporated herein by reference).</u>
10.14*	<u>Form of Employment Agreement entered into between LII and certain executive officers of LII (filed as Exhibit 10.30 to LII's Annual Report on Form 10-K filed on February 27, 2007 and incorporated herein by reference).</u>
10.15*	<u>Form of Amendment to Employment Agreement entered into between LII and certain executive officers of LII (filed as Exhibit 10.2 to LII's Current Report on Form 8-K filed on December 12, 2007 and incorporated herein by reference).</u>
10.16*	<u>Lennox International Inc. Directors' Retirement Plan (as Amended and Restated as of January 1, 2010) (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on December 16, 2009 and incorporated herein by reference).</u>
10.17*	<u>Retention Agreement, dated July 12, 2021, between Lennox International Inc. and Douglas L. Young (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on July 14, 2021 and incorporated herein by reference).</u>
10.18*	<u>Form of Award Agreement, dated December 10, 2021, between Lennox International Inc. and certain named executive officers (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on December 14, 2021 and incorporated herein by reference).</u>
10.19*	<u>Lennox International Inc. Change in Control Severance Plan (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on December 12, 2022 and incorporated herein by reference).</u>
21.1	<u>Subsidiaries of LII (filed herewith).</u>
22.1	<u>List of Guarantor Subsidiaries (filed herewith).</u>
23.1	<u>Consent of KPMG LLP (filed herewith).</u>
31.1	<u>Certification of the principal executive officer (filed herewith).</u>
31.2	<u>Certification of the principal financial officer (filed herewith).</u>
32.1	<u>Certification of the principal executive officer and the principal financial officer pursuant to 18 U.S.C. Section 1350 (furnished herewith).</u>
101	SCH Inline XBRL Taxonomy Extension Schema Document
101	CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
101	LAB Inline XBRL Taxonomy Extension Label Linkbase Document
101	PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
101	DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Management contract or compensatory plan or arrangement.

Item 16. *Form 10-K Summary*

None.

LENNOX INTERNATIONAL INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Years Ended December 31, 2022, 2021 and 2020

	(In millions)					
	Balance at beginning of year	Additions charged to cost and expenses	Write-offs	Recoveries	Other	Balance at end of year
2020						
Allowance for doubtful accounts	\$ 6.1	\$ 8.1	\$ (4.2)	\$ 1.2	\$ (1.6)	\$ 9.6
2021						
Allowance for doubtful accounts	\$ 9.6	\$ 0.3	\$ (0.4)	\$ 1.2	\$ —	\$ 10.7
2022						
Allowance for doubtful accounts	\$ 10.7	\$ 6.9	\$ (0.4)	\$ —	\$ (1.7)	\$ 15.5

CORPORATE INFORMATION

CORPORATE HEADQUARTERS

Lennox International Inc.
2140 Lake Park Blvd.
Richardson, Texas 75080
972-497-5000

For more information, on
Lennox International, visit:
www.lennoxinternational.com

ANNUAL MEETING

Our virtual Annual Meeting will be conducted on the internet via live webcast on May 18, 2023. Stockholders will be able to participate in the Annual Meeting online and submit your questions to the meeting by visiting www.proxydocs.com/LII.

If your shares are registered in your name, your control number will be found on your proxy card. If your shares are registered in the name of your broker, bank, or other agent, you are the “beneficial owner” of those shares, and your control number will be found on the voting instruction form received from your broker, bank, or other agent.

INVESTOR INQUIRIES

Investors and financial analysts interested in obtaining information about LII should contact:

Phone: 972-497-6670
Email: investor@lennoxintl.com

STOCK EXCHANGE

Lennox International’s trading symbol is “LII”. The common stock has traded on the New York Stock Exchange since July 29, 1999.

SEC FILINGS

A copy of LII’s Annual Report on Form 10-K for the year ended December 31, 2022 and other reports filed with the Securities and Exchange Commission are available through our corporate website at www.lennoxinternational.com or will be furnished, without charge, on written request to:

Lennox International Inc.
Investor Relations
P.O. Box 799900
Dallas, Texas 75379-9900

TRANSFER AGENT AND REGISTRAR

Computershare is LII’s Transfer Agent. Shareholder correspondence should be directed to:

Lennox International Inc.
c/o Computershare
P.O. Box 43006
Providence, RI 02940-3006

LII stockholders of record can access their account information via the internet at: www.computershare.com/investor or by calling 1-800-797-5603.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

KPMG LLP
Dallas, Texas

DIVIDEND INFORMATION

In recent years, LII has declared dividends four times a year. The amount and timing of dividend payments are determined by our board of directors.

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on information currently available to management as well as management’s assumptions and beliefs.

All statements, other than statements of historical fact, included in this Annual Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements identified by the words “may,” “will,” “should,” “plan,” “predict,” “anticipate,” “believe,” “intend,” “target,” “see,” “estimate,” “expect,” and similar expressions.

Such statements reflect LII’s current views with respect to future events, based on what LII believes are reasonable assumptions; however, such statements are subject to certain risks and uncertainties.

For information concerning these risks and uncertainties, see the information in Item 1A-Risk Factors in the Annual Report on 10-K for the year ended December 31, 2022 as well as other publicly available filings with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. LII disclaims any intentions or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise.



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www.lennoxinternational.com

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