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A.O. Smith: No SEC Investigation Found as of March 2019, But Risk is Higher Now

Independent Investment Research Focused on Public Company Interactions with the SEC.

Summary and Opinion: We believe the risk is now high that the SEC will investigate A.O. Smith. Activities in or related to China, along with company disclosures of the same, is the likely the starting point. If we are correct, expect that negative material that hit the shares last week will be closely examined.

Facts of Interest or Concern: On 16-May-2019, a negative analyst report was published on A.O. Smith by [J Capital Research's Anne Stevenson-Yang](#). The stock was down about 8% on the day the report came out. Short seller Spruce Point Capital added its own negative take on the company which was widely circulated. The negative material was heavily focused on company activities in China.

Note: This is an update to material previously sent to clients on Friday, 17-May-2019. As we were preparing it for broader release, the company issued a press release which is now reflected herein. - PR

By mid-afternoon on Friday, 17-May-2019, and still during the trading day, A.O. Smith put out a press release rebutting negative claims made against the company. See, "[A. O. Smith Sets the Record Straight on J Capital Research Report](#)." As we go to print with this update, there is no accompanying 8-K.

Our Take: We have no view on the merits of the negative material published or circulating on A.O. Smith. Nor do we have a view on the company's response, except to note such high visibility responses can further attract the attention of SEC enforcement officials. Based on our experience, there's enough here that we would be surprised if the SEC did not investigate.

Below are some of the items that can trigger, or be indicative of ongoing SEC investigative activity. We highlighted those that may now apply to A.O. Smith –

1. Restatements or **accounting problems.**
2. **Problems with disclosures.**
3. Departures / changes in key executive(s).
4. Delayed or amended filings.
5. Missing earnings expectations.
6. High stock price volatility.
7. Audit committee actions.
8. Change of auditor.
9. Cancels or stops having analyst events.
10. Dodges questions or only accepts via email.
11. **Controversy enough to draw attention.**
12. **Negative news stories or analyst reports.**
13. Registrations taking too long or pulled.
14. Larger-than-life CEO and/or senior executives.
15. Company does things inconsistent with economic reality.

From the Probes Reporter Database: We filed our first Freedom of Information Act (FOIA) request with the SEC on A.O. Smith in Aug-2015 and have researched the company five times since then. Every FOIA response we've received, from 18-Aug-2015 to 21-Mar-2019, showed no signs of recent SEC investigative activity. Our full research history appears below.

Clients are invited to contact us anytime to discuss, in total confidence, how to better assess the risks we identify here.

– John P. Gavin, CFA

From the Probes Reporter Database

If we alert you to the existence of an undisclosed SEC investigation – or any response from the SEC – that means we filed a FOIA request on the company in question and have a response, in black-and-white on government letterhead, that supports our statement.

Below is the SEC response history for this company:

18-Aug-2015	FOIA Response	No SEC investigative records found.
17-May-2016	FOIA Response	No SEC investigative records found.
26-May-2017	FOIA Response	No SEC investigative records found.
18-Apr-2018	FOIA Response	No SEC investigative records found.
21-Mar-2019	FOIA Response	No SEC investigative records found.

New SEC investigative activity could theoretically begin or end after the date covered by the latest information in this report, which would not be reflected here.

Documents Acquired Under the Freedom of Information Act

At this time, we have no investigative records in our library from closed SEC investigations of this company.

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Notes: The SEC reminds us that its assertion of the law enforcement exemption should not be construed as an indication by the Commission or its staff that any violations of law have occurred with respect to any person, entity, or security. New SEC investigative activity could theoretically begin or end after the date covered by the latest information in this report, which would not be reflected here. The SEC did not disclose the details on investigations referenced herein. All we know is that they somehow pertain to the conduct, transactions, and/or disclosures of the companies referenced above. Companies with undisclosed SEC investigations are maintained on our Watch List of companies with undisclosed SEC investigations.

To learn more about our research process, including how to best use this information in your own decision-making, [click here](#).

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